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# How Indo-Pacific Geopolitics Affects Foreign Policy: The Case of the Philippines, 2010-2017

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## Abstract

This article examines how two Philippine presidents took into account the ongoing geo-strategic competition between the U.S. and China. At the start of his six-year term, President Benigno Aquino III became concerned that China's maritime expansion threatened the Philippines' territorial rights over its Exclusive Economic Zone (EEZ) in the South China Sea. He then pursued a balancing policy towards China's maritime expansion into this area. Aquino pursued this policy as a reaction to China's naval expansion but also considered the Obama Administration's strategic rebalancing to Asia. President Rodrigo Duterte, however, is unraveling his predecessor's geopolitical agenda in the South China Sea. Duterte has pursued an appeasement policy on China to take advantage of Beijing's One Belt, One Road (OBOR) initiative. Strategically, President Duterte has shown a sensitivity to Chinese security interests. In conclusion, both Filipino presidents, in crafting their respective foreign policies, have taken into account the geopolitical developments in the Indo-Pacific region in terms of the prospect of losing either territorial rights or economic gains.

## Keywords

Philippine Foreign Policy, Appeasement, Balancing, Prospect Theory, Foreign Policy of Small Powers, One Belt, One Road

## Introduction

At the early part of his term in 2011, former President Benigno Aquino III pursued a balancing policy on China's expansive claim in the South China Sea. He challenged Chinese maritime expansion by shifting the Armed Forces of the Philippines' (AFP) focus away from domestic security to territorial defense, bolstering closer Philippine-U.S. security relations; acquiring American military equipment; seeking from Washington an explicit security guarantee under the 1951 Mutual Defense Treaty (MDT); and promoting a strategic partnership with Japan. In

late April 2014, the Philippines signed the 2014 Enhanced Defense Cooperation Agreement (EDCA) with its strategic ally – the U.S. Designed to constrain Chinese maritime expansion in the South China Sea, the agreement allowed American forces a strategic footprint in Southeast Asia through a rotational presence in Philippine territory. By strengthening the country's security relations with the U.S. and Japan, the Philippines got involved again in a traditional geo-political game among the great powers in East Asia.

Despite having the weakest military in Southeast Asia, then President Aquino challenged China's expansion in the South China Sea. This was because he took into account his country's alliance with the U.S. in the light of the Obama Administration's strategic rebalancing to Asia, which was announced in mid-November 2011. The policy entailed a gradual shift from the U.S. military counter-insurgency campaigns in Iraq and Afghanistan to a deeper strategic involvement in the Asia-Pacific region. It was prompted by the fact that the Asia-Pacific had become "a key driver of global politics" and "the rebalancing [was] a means for a sustained and coherent U.S. long-term strategy toward the region" (Smith, Brattberg, & Rizzo 2016, p. 2.). The rebalancing to Asia was a forceful rhetoric that signified the reassertion of America's leadership in Asia and determination to counter-balance China's pervasive regional influence (Indyk, Lieberthal, & O'Hanlon 2012, p. 33). The rebalancing strategy also reflected the Obama Administration's decision to follow the middle road between containment and appeasement after the "constraint" policy on China via the diplomatic route failed. It signaled as well a shift from the policy of constructive engagement with China to an outright commitment to strategically constrain this emergent power (Friedberg 2012, p. 2).

President Rodrigo Roa Duterte is undoing former President Aquino's geo-political agenda in the South China Sea. Less than three months in office and after the 12 July 2016 Permanent Court of Arbitration (PCA) landmark award to the Philippines in its territorial row with China in the South China Sea, President Duterte launched a charm offensive to earn Chinese goodwill. He downplayed the South China Sea dispute in the Association of Southeast Asian Nations (ASEAN) summit meeting in Laos. He also declared that he wanted to distance the Philippines from the United States, a move that will not only alter the region's strategic balance but mark a dramatic departure from his country's long-standing policy of maintaining close security ties with its only strategic ally. After this trip to Laos, he announced that the Philippine Navy (PN) would stop joining the U.S. Navy in patrolling the South China Sea to avoid upsetting Beijing. He also said that he wanted American Special Forces supporting the AFP in counter-terrorism operations in Mindanao to withdraw from the island.

President Duterte's goal is to foster closer economic and diplomatic relations with

China while strategically distancing the Philippines from the U.S. He has sought Chinese assistance for the construction of drug rehabilitation centers for Filipino drug dependents, soft loans for the constructions of railways in Mindanao, and even the acquisition of Chinese-made weapons for the Philippine military and police. He has also transformed the Philippines' approach in the South China Sea dispute from challenging Chinese expansion to an outright appeasement of this emergent regional power. His departure from the Philippines' long-standing policy of maintaining close security ties with its traditional and only strategic ally – the U.S. – has also effectively altered the regional balance of power in favor of China. President Duterte's foreign policy is based on his belief that the U.S. would not go war against China because of the Philippines; and because of this, the only option for his country is to foster economic interdependence with China. This move would likely reduce the chances of an armed confrontation between these two claimant states in the South China Sea dispute.

Several academics have examined the dramatic change in Philippine foreign policy effected by President Duterte. Baviera (2016, pp. 204-205) predicted that Duterte would revert to a "hedging strategy against China in contrast to his predecessor who had edged too close to a balancing/containment policy." Tehankee and Thompson (2016, p. 131) reached a similar conclusion arguing that Duterte's election would usher to change in the Philippines's confrontational policy toward China. They also observed (Ibid, p. 132) that Duterte reacted cautiously to the 12 July 2016 PCA ruling on the South China Sea and had expressed doubts about the Philippines' reliance on the U.S., questioning its willingness to defend the Philippines in any armed engagement over territorial disputes in the South China Sea. Elsewhere, Thompson (2016, pp. 224-225) has also raised the prospect of change in Philippine foreign policy under the Duterte Administration. He noted that President Duterte stated that he wants to alter the Philippines' confrontational policy toward Beijing as he doubts American willingness to back the Philippine militarily in any future confrontation with China and given his neo-authoritarian tendencies. Cook (2017, p. 272) examined and discussed the pattern of Philippines-China relations characterized by cooperative measures, presidential enthusiasm, and push back from the AFP against President Duterte's efforts to effect a rapprochement with China.

These studies provide descriptive analyses of the changes in Philippines foreign policy without providing any theoretical explanation for this phenomenon. Using "Prospect Theory," this article, however, offers a theoretical explanation for the changes in Philippines foreign policy between the Aquino and Duterte administrations. It goes on to argue that key Philippine decision-makers examined geopolitical dynamics in the Indo-Pacific region in terms of anxiety or fear over possible loss in either territorial rights or economic gains as they formulate their

respective foreign policies. In doing so, it tackles the main problem: How do Filipino presidents take into account key geopolitical developments in the Indo-Pacific in crafting their respective foreign policies? It also addresses the following corollary questions: (1) what are the key geopolitical developments in the Indo-Pacific region since 2010? And (2) how important are these external developments in the formulation of Philippine foreign policy?

### **Responding to Geopolitical Developments**

How do decision-makers take into account geopolitical developments in formulating their country's foreign policy? And in the face of challenges emanating from the external environment, how do they choose their course of actions? These are conundrums of interest not just to foreign policy analysts but to all social scientists (Brihi and Hill, 2012). These problems confront key decision-makers on a daily basis as they scan the world beyond their national borders and project (and protect) their country's interests and power abroad. This is made all the more difficult because the external environment is a complex system made up of diverse actors, both state and non-state actors, each with their own set of vested interests, objectives, priorities, and capabilities – often or not, they are in competition, or sometimes, in conflict with one another. Moreover, decision-makers are often aware that they are bound to encounter resistance as they pursue their state's interests. They also accept the reality that their state will face more powerful state actors that can manipulate the environment and, consequently, will be confronted by a disadvantageous asymmetric situation vis-à-vis its more powerful competitors in the international system.

This is true for a small power since the range of opportunities for independent, dynamic and self-interested behavior is more limited than that of the more powerful states. Consequently, the capabilities of a small power to pursue its goals are contingent on the opportunities present in the international system, and the willingness of their key decision-makers to take advantage of these opportunities (Neack 2013, p. 158). A small power is boxed by the virtue of its relative weakness vis-à-vis other powerful states. Thus, key decision-makers in a small state make decision not based primarily on rationality, but on calculations about the relative utility of gains versus losses (Beach 2012, p. 121). Described as “Prospect Theory,” this theory argues that in evaluating the utility of gains and losses, leaders tend to give more weight to losses than comparable gains, measured relative to some reference point (Barberis 2013, p. 175). Often, it is the loss itself that is more important than the actual magnitude of the loss (Beach, p. 121). Originally a theory in economics, it emphasizes the idea of loss aversion, the notion that people are much more focused on losses, even small losses than to gains in the same magnitude (Barberis 2013, p. 175). This theory has been used to examine decision-making in a diverse set of foreign policy dilemmas, ranging from the

Iranian hostage crisis (McDermott 1998), to North Korea's nuclear brinkmanship (Kim and Choy 2011, pp. 461-489), through to Germany's limited participation in the 1999 Kosovo War (Brummer 2012, pp. 272-291). Related to foreign policy, the theory can be summarized into three main points:

- a. In evaluating the utility of gains and losses, decision-makers tend to be more risk-averse with respect to gains, whereas they are more risk-acceptant with respect to losses;
- b. Once gains are made, they are accepted as a new status quo very quickly, creating what is termed as endowment effect; and
- c. Losses are not accepted as quickly, and actors will often cling to the old status quo (prior to loss) as the reference point.

In formulating their respective foreign policies, the Aquino and the Duterte Administrations came from different reference points. On the one hand, confronted by China's maritime expansion and encouraged by the Obama Administration's strategic rebalancing to Asia, the Aquino Administration adopted a balancing policy on China as it became apprehensive about Chinese intrusion into the country's exclusive economic zone (EEZ) and the risks this generated as to the country's strategic advantages as a maritime state. On the other hand, aware of the Obama Administration's ambiguous position on the South China Sea dispute and enticed by China's OBOR initiative, the Duterte Administration pursued an appeasement policy to prevent possible losses in terms of economic gains because of a strained relation with China. However, while the two Filipino presidents pursued different foreign policy approaches, both gave greater weight to possible losses than comparable gains as they assessed the Sino-U.S. competition in the Indo-Pacific region.

### **From China's Naval Expansion to U.S. Strategic Rebalancing**

The emergence of China as the manufacturing hub of the global economy and as a major power in world politics is perhaps the most significant strategic development in the second decade of the 21st century. China's phenomenal economic prosperity during the first decade of the 21st century has transformed it into an engine of growth in East Asia and, indeed, the wider world. With its Gross Domestic Product (GDP) surpassing Japan in 2010, it has become the second largest economy in the world next only to the U.S. Its rapid economic progress has not only made the country more confident and assertive in foreign affairs but also heightened its military prowess (National Institute for Defense Studies 2015, p. 2). Furthermore, China has had an annual double-digit increase in defense spending since 2006. At the start of the twenty-first century, the Chinese government increased its defense budget by 13 per cent to boost the People's Liberation

Army Navy's (PLAN) capability to accomplish a wide range of military functions including winning local wars under information-age conditions. Since the early years of the new millennium, the PLAN has acquired a fleet of Russian-made diesel-electric Kilo-class submarines and *Sovremenny*-class destroyers, along with several types of indigenously built destroyers, frigates, and nuclear-powered attack submarines. Regular naval exercises feature modern surface combatants and even submarines (National Institute for Defense Studies 2011, pp. 14-21).

Arguably, China's aggressive pursuit of its territorial claim over the South China Sea has increased in tandem with the expansion of its navy (Dutton 2011, p. 6). Its actions concretize China's intention to unilaterally and militarily resolve the maritime issue, flaunt its naval capabilities, and impress upon the other claimant states its "de facto" ownership of the disputed territories (International Institute for Strategic Studies 2011, p. 196). In the long run, China's naval capabilities will be directed not only to expand its maritime domain but to deny foreign navies – especially that of the U.S. – access to the South China and East China Seas. In time, it will be capable of depriving the U.S. Seventh Fleet's access to the Western Pacific inside of the so-called "first island chain" (Kato 2010, p. 19). Hence, China's aspiration to project its naval power not only to the near seas but to the far seas – the sea adjacent to the outer rim of the first island chain and those of the north Pacific – is no longer a remote possibility (Sharman 2015, p. 6).

In 2015, China fortified its expansive maritime claim in the South China Sea by constructing artificial islands over the eight reefs it occupied in the Spratlys. Based on the satellite images provided by the *IHS Janes Defense Weekly*, China has seemingly created new artificial islands at Hughes, Johnson, Gaven, Fiery Cross, and Mischief Reefs (Glasser and Vitello 2015, p. 5). On 9 April 2015, the Chinese foreign ministry acknowledged China's massive artificial island constructions in the Spratlys. It justified this effort as a means of "satisfying necessary military defense requirements" while at the same time saying it provided "civilian facilities such as typhoon shelters, fishing services, and civil administration offices" for China, its neighbors, and international vessels sailing in the South China Sea" (Glasser and Vitello 2015, p. 7). Despite President Xi Jinping's statement to then President Barack Obama that China "does not intend to pursue militarization" of the Spratly Islands, China has continued its construction of airstrips and other facilities for military requirements on these disputed land features.

In November and December 2015, the PLAN conducted two massive naval exercises in the South China Sea involving guided missile destroyers, frigates, submarines, early warning aircraft and fighter jets (Sutter and Chin-hao 2016, p. 4). These exercises demonstrated China's ability to have the strategic advantage in conflicts over territorial sovereignty and maritime rights and interests in the South and East China Sea. What is more, the PLAN is expected to develop naval

capabilities needed to gain control of both sea and air in wartime, while strengthening its presence in peacetime (National Institute for Defense Studies 2016, p. 16). Clearly, with its rapid economic development and consequent increase in defense spending particularly in the domains that the U.S. is most concerned about – air, sea, and space – China has become an unprecedented and present security challenge for the U.S (Cohen 2016, p. 102).

On November 11, 2016, speaking before the Australian Parliament in Canberra apropos American presence in Asia, then President Barack Obama declared: “Reduction in U.S. spending will not – I repeat, will not – come at the expense of the Asia-Pacific. We will preserve our unique ability to project power and preserve peace [in East Asia]” (Simon 2012, p. 1). He affirmed that maintaining U.S. forward deployed forces in the Asia-Pacific remained his top priority despite cuts in U.S. defense spending. The rebalancing strategy which sought to rectify the high cost and wanton use of U.S. resources and troops in Iraq and Afghanistan gave some leeway for the Obama Administration to end its military commitments in these countries (Pempel 2013, p. 170). It also acknowledged that the previous Bush Administration wasted enormous resources, attention, and precious time on the War on Terror in the Middle East. In effect, the rebalancing allowed the Obama Administration to formulate a comprehensive strategy in the Asia-Pacific. Without pressing commitments in other parts of the world, the U.S. could reposition additional naval and air forces in East Asia and fortify its alliance system to confront the China challenge, preserve the freedom of navigation, and ensure American primacy in the Western Pacific. This was a significant change in American strategic priority in the 21st century as the U.S. reduces its focus on continental (low-intensity) conflicts to level up its air and naval power in East Asia while simultaneously helping small and militarily weak countries to secure their maritime and air spaces (Simon 2012, pp. 7-8).

Fundamentally, the rebalancing required reinforcing the Seventh Fleet to expand the American strategic footprint from Northeast Asia to Southeast Asia and to build-up the capacities of the small states around China to protect their maritime and air spaces. The first component involved shifting 60 per cent of the U.S. Navy’s ships to the Asia-Pacific, primarily its six aircraft carriers, cruisers, destroyers, and submarines. As part of this effort, the Pentagon replaced the *U.S.S. George Washington* with the newer *U.S.S. Ronald Reagan*. It would also position its most modern air-operations-oriented amphibious assault ship to the region by 2020; deploy two additional Aegis-capable destroyers to Japan; and home-port all three of its newest class of stealth destroyers, the DDG-1000, with the Pacific Fleet (Department of Defense 2015, p. 20). The Pentagon also plans to station the latest F-35 aircraft and two additional Virginia class attack submarines in the Pacific (Department of Defense 2015, p. 20). Likewise, it will utilize the F-22, P-8A

Poseidon maritime reconnaissance planes, V-22 Ospreys, B-2 bombers, advanced undersea drones, the new B-21 long-range strike bomber, and state-of-the-art tools for cyberspace, electronic warfare, and space (Carter 2016, p. 68).

Interestingly, the Pentagon has allowed the U.S. Third Fleet greater latitude to operate west of the International Date Line. This enables the San Diego-based Third Fleet to send more ships to East Asia which is outside its normal theater of operations and to sail alongside the Japan-based Seventh Fleet (Ali and Brunnstrom 2016, p. 1). In April 2016, the Third Fleet deployed three Arleigh Burke-class destroyers to operate in the West Pacific as a surface-action group under the Third Fleet Forward Initiative (Olson 2016, pp. 1-2). In the future, more Third Fleet ships will be deployed in East Asia to conduct various maritime operations (Ali and Brunnstro 2016, p. 1). This massive deployment of air and naval assets in the Western Pacific will allow the U.S. forces to “offset advanced A2/AD weapon systems proliferating in maritime Asia” (Department of Defense 2015, p. 22). It will also ensure U.S. military primacy in the Western Pacific by reducing the effectiveness of Chinese A2/AD capabilities. This thrust clearly pursues the deterrent/defensive role of U.S. forward deployed forces in East Asia since the beginning of the 20th century – to prevent the rise of a hegemon that could constrain America’s political, economic, and security interests in the Pacific (Simon 2015, p. 772).

### **The Aquino Administration: Fear over the Loss of Territorial Rights**

Initially, President Aquino tried to curry favor with an affluent and confident China. In late 2010, the Philippines joined a 19-state coalition led by China that did not send any representative to the awarding ceremony for Chinese dissident and Nobel Peace Prize winner, Liu Xiaobo, which was held in Oslo, Norway. In February 2011, the Philippines figured in a serious diplomatic row with Taiwan after it extradited 14 Taiwanese citizens to China where they were accused by Beijing of committing electronic fraud against Chinese nationals.

On March 2, 2011, however, two Chinese patrol boats harassed a survey ship commissioned by the Philippine Department of Energy (DOE) to conduct natural gas exploration in the Reed Bank (also called Recto Bank). The Reed Bank lies 150 kilometers east of the Spratly Islands and 250 kilometers west of the Philippine island of Palawan. Stunned by this maritime encounter which happened within the Philippines’ EEZ, the Aquino Administration filed a protest with the Chinese embassy in Manila. Brushing aside the Philippine complaint, a Chinese embassy official insisted that China has indisputable sovereignty over the Nansha (Spratlys) Islands and their adjacent territory. Beijing then went on to demand that Manila first seek Chinese permission before it could conduct oil exploration activities even within the Philippines’ EEZ. Furthermore, China badgered the



Philippines and other claimant states into recognizing China's sovereign claim over the South China Sea.

With these incidents, the Aquino Administration hastened to develop the AFP's territorial defense capabilities. The Philippines' territorial defense goal is to establish a modest but "comprehensive border protection program." This task is anchored on the surveillance, deterrence, and border patrol capabilities of the Philippine Army (PA), the Philippine Navy (PN), and the Philippine Coast Guard (PSG) that extend from the country's territorial waters to its contiguous and exclusive economic zone (EEZ) (National Security Council 2011, p. 39). This objective requires enhancing the AFP's capabilities, prioritizing its needs, and gradually restructuring its forces for territorial defense. The long-term goal, according to the 2011 *AFP's Strategic Intent*, is to maintain a "credible deterrent posture against foreign intrusion or external aggression, and other illegal activities while allowing free navigation to prosper (Office of the Deputy Chief-of-Staff 2011, p. 27)." In building up the country's territorial defense capabilities, the Aquino administration sunk its teeth into challenging China's expansive claims in the South China Sea as the latter directly encroaches into the country's EEZ. The Philippines' territorial defense goal is very modest: it aspires to build a credible and sizeable force capable of defending the country's interests and the land features it occupies in the South China Sea (Secretary of National Defense 2013, p. 4). The Philippines' aspire to build a credible and sizeable force capable of defending the country's interests and the land features it occupies in the South China Sea (Secretary of National Defense 2013, p. 4).

Because of the AFP is militarily weak and underfunded, Manila has persistently asked for unequivocal U.S. commitment to Philippine defense and security as provided for in the 1951 Mutual Defense Treaty (MDT). Since June 2011 and thereafter, the Philippines has sought American naval/air support in the Spratlys. Philippine officials contend that an armed attack on Philippine metropolitan territory and forces anywhere in the Pacific, including the South China Sea, should trigger a U.S. armed response. However, the 1951 MDT does not entail any automatic response from either the Philippines or the U.S. It merely obligates the allies to consult each other and determine what military action, if any, both would take. Fortunately for the Philippines, however, an increasing number of U.S. policy-makers have begun to share the Philippines' view that the archipelago is a strategic bellwether of China's maritime expansion in the West Pacific and, at the same time, the natural barrier to check China's expansionism (Greitens 2014, p. 144). Hence, it is logical and strategic for the U.S. to help the Philippines develop its military naval capabilities to counter China's efforts at power-projection in the Asia-Pacific (Greitens 2014, p. 144). In reality, the U.S.'s ability to guarantee the Philippines' external defense depends on whether American forces are physically

prepositioned to provide immediate response. The U.S. can defend its ally only if it has access to facilities near the South China Sea from where it can quickly react during an armed confrontation.

In January 2012, the Philippine-U.S. Bilateral Security Dialogue was held in Washington D.C. where Philippine foreign and defense officials discussed the expanded U.S. military presence in the country (Whaley 2012, p. 1 and 2.). This need was proposed particularly in conjunction with China's increased naval activities in East Asia, and the new defense policy announced by the Obama Administration. The 2012 Defense Strategy Guidance or DSG provides for a rebalancing of the U.S. force structure and investments to meet persistent and potential threats in the Asia-Pacific, and the Middle East, and to advance capabilities for maintaining access and projecting power globally (Pellerin 2012, p. 2). Dubbed the "U.S. pivot to the Asia-Pacific," it also calls for stronger U.S. military presence in the region that is "geographically distributed, operationally resilient and politically sustainable" (Saunders 2013, p. 7). In contrast to prevailing practices during the Cold War era, the Pentagon, this time, does not want any permanent bases in relocating its air and naval assets to the Asia-Pacific region. Rather, it prefers access arrangements and rotational deployments enabling American forces to conduct military exercises and operations demonstrative of U.S. commitment to assist its allies and security partners (Saunders 2013, p. 9).

On 28 April 2014, former Defense Secretary Gazmin and U.S. Ambassador to the Philippines Philip Goldberg signed the Enhanced Defense Cooperation Agreement (EDCA) a few hours before then President Barack Obama arrived in Manila for his first state visit to the Philippines. Actually, EDCA is not a new security pact; it is merely an updated version of the 1951 Mutual Defense Treaty (Philippine News Agency 2014, p. 1). This executive agreement serves as a framework by which the Philippines and the U.S. can develop their individual and collective defense capabilities. This goal would be accomplished through the rotational deployment of American forces in Philippine bases (Garamone 2014, p. 1). Although EDCA allows American forces to utilize AFP-owned-and-controlled facilities, the Philippine base commander has unhampered access to these locations. Likewise, American-built or -improved infrastructure inside these installations can be used by the AFP. Furthermore, any construction and other activities within in the Philippine bases requires the consent of the host country. More importantly, EDCA is designed to minimize domestic opposition to U.S. military presence in the country by explicitly affirming Philippine sovereignty and providing a legal framework for increased American rotational presence rather than the maintenance of permanent bases (Greitens 2014, p. 134). In the process, EDCA facilitated the deployment of American troops and equipment on a rotational basis while skirting the sensitive issue of re-establishing U.S. bases in the country.

Interestingly, the EDCA proved advantageous to the AFP. With its small and obsolete naval force and an almost non-existent air force, the Philippine military benefited from the regular, and short-term visits of U.S. forces conducting military training as well as humanitarian and disaster response operations. Logistically the U.S. construction of vital military facilities, infrastructure upgrades (such as hangars, air defense surveillance radar system, ground based air defense system, and naval operating bases), and the storage and prepositioning of defense equipment in agreed locations lowered the cost of the modernization program since these buildings and equipment were earmarked to be shared and utilized jointly by American and Philippine armed forces (Nepomuceno 2014, p. 2). More significantly, the Philippines hedged on the notion that an effective yet rotational U.S. deterrent force in its territory can minimize the potential for armed confrontation in the South China Sea. All this was only be made possible through the EDCA.

### **Thwarting the Strategic Rebalancing through the OBOR**

The deployment of more American forward-deployed forces so far has not deterred China from its expansionist moves. From China's perspective, this course of action is worth pursuing since the U.S. is not willing to risk war despite the growing Chinese strategic challenge faced by the U.S. Seventh Fleet and American allies. For China, territorial expansion is vital to its interests even to the extent of using force. For the U.S., the credibility of its defense commitments to its allies is important but not necessarily crucial since Chinese aggression does not directly threaten American interests. Though building up its forces in East Asia, however, the U.S. has not convinced China that it is serious in waging a war with the determined Chinese who seem bent on pursuing their strategic goal of maritime expansion. China's assertiveness in the South China Sea is based on its assessment of its growing military capacity, along with a strong conviction among its key decision-makers that the U.S. will not use its hard power to counter Chinese actions (Forum Staff 2016, p. 55). This stems from the fact that China is one of America's most important trading partners. In the past two decades, the U.S. and China have established deeply rooted economic interdependence because of trade and investment. Applying an outright deterrence strategy to China became extremely difficult for the Obama Administration. As one American academic commented:

*The high level of bilateral economic interdependence will complicate the decision-making calculus in Washington in the event that the People's Liberation Army threatens the security or sovereignty of an American ally or strategic partner in East Asia. Washington's motivation to come to the defense of a threatened ally or partner will be attenuated to the degree that the prospective intervention places the health of the U.S. economy in serious jeopardy (Resnik 2015, p. 8).*

More significantly, as the world's traditional and leading practitioner of economic statecraft or geo-economics, China uses its massive wealth to advance its geopolitical goal of blunting the Obama Administration rebalancing strategy to Asia (Blackwell and Harris 2016, p. 128). China's rapid economic growth and massive foreign exchange reserve have enabled it to reshape regional trade and investment patterns, and to influence geo-strategic developments in East Asia. China has relied on its economic power as an assurance measure and inducement to neighboring states to cooperate with it, but also used coercive economic measures like trade sanctions to punish countries opposing its policies (Blackwell and Harris 2016, pp. 129-151). Confronted by the growing American naval presence in the Western Pacific, China subsequently pursued its maritime expansion by outflanking and blunting the U.S. rebalancing policy in the Asia-Pacific region through its huge foreign aid disbursements and several infrastructure projects under the umbrella of OBOR.

The OBOR involved the building of comprehensive connectivity with countries and regions through infrastructure such as roads, railways, and ports as well as communications and energy projects (The National Institute for Defense Studies 2017, p. 79). It plans to connect the following regions and countries: (1) a route stretching from Central Asia west through Russia to the Baltic; (2) a historical route starting from Central Asia turning towards Western Asia, passing through the Persian Gulf on its way to the Mediterranean Ocean; and (3) a route that passes through Southern China into Southeast Asia then leads through South Asia into the Indian Ocean (National Institute for Defense Studies 2016, pp. 119-129). To realize OBOR's goal of greater connectivity, President Xi made the following proposals (The National Institute for Defense Studies 2017, p. 77): (1) China will provide more international public goods through connectivity development to its Asian neighbors; (2) economic cooperation would be provided to both land and maritime projects; (3) cooperation would be promoted regarding infrastructure development; and (4) China would commit US\$40 billion to establish a Silk Road Fund.

The OBOR is a two-edge geo-political sword. On the one hand, it expands China's influence into Eurasian sub-continent away from the Pacific. On the other hand, it also projects Chinese influence into to the east becoming China's 21st century Marshall Plan to blunt the U.S. strategic rebalancing to the Western Pacific (The National Institute for Defense Studies 2017, p. 18). This is because it provides China with an effective tool to drive a wedge between countries and within countries that it sees as having an impact on its core interests, such as Taiwan, Tibet, and the South China Sea. Or against any coalition of states that is challenging its expansionist agenda in East Asia. Furthermore, the OBOR also strengthens China's hand in undermining existing military alliances and the cur-

rent regional order while empowering it to create new power relationships and arrangements that exclude the U.S. Relevant to the South China Sea dispute, the OBOR has enabled China to foster greater stability in its bilateral relations with the disputant countries. This became evident as China was able to influence Philippine domestic politics in 2016, to sway the country away from its main strategic ally, the U.S., and to alter its balancing policy on China's expansionist agenda in the South China Sea.

### **The Duterte Administration: Fear over the Loss of Chinese Economic largesse**

Duterte won the 2016 presidential election largely because of the Aquino Administration's failings. Despite Aquino's promise to improve infrastructure, public-private partnership projects languished, public transportation was neglected, and the traffic in the urban centers worsened (Thompson 2016, p. 22). During his term, it was observed that the seaport in Manila got congested, brownouts occurred in the rural areas, and internet service was poor. Consequently, in his last year in office, former President Aquino found it necessary to increase the budget for infrastructure to five percent of the GDP for building projects that would facilitate the inflow of foreign direct investment to the country (Asia News Monitor 2016, p. 2).

In the face of the Aquino Administration's failure to implement a substantial reform agenda, presidential candidate Duterte called for "*Tunay na Pagbabago*" (a real change). His economic policy stressed the neo-liberal agenda of macro-economic stability, fiscal restraint, market-oriented reforms, easing restriction on foreign investments and most importantly, massive infrastructure development to promote agricultural productivity and industrialization. Investments in several infrastructure projects all over the Philippines would come from China if he could improve the country's diplomatic relations with this economic powerhouse. The Duterte Administration declared it wanted to transform the Philippines' confrontational foreign policy on China. Key administration officials observed that China has already helped build infrastructure in the poor regions of Southeast Asia, committing US\$6 billion railway in Laos and to Cambodia's first oil refinery. They were also aware that the Philippines struggled against its more prosperous Southeast Asian neighbors to compete for foreign investments primarily because of the country's lack of infrastructure. President Duterte and his economic advisers saw how Chinese investments boosted infrastructure development in Myanmar, Laos, and Cambodia (Asia News Monitor 2016, p. 2). They also observed that the OBOR plans for increased connectivity among Southeast Asian countries through roads, railways, sea routes, airways, and the internet to promote unimpeded trade, policy-coordination, and financial integration (Delizo 2016, p. 2). Indeed, President Duterte noted:

*[...] developing countries like the Philippines need connectivity with other nations in the region to develop a healthy economy and inclusive growth. I understand that the Belt and Road initiative is primarily an economic undertaking that will build these connections among countries, and result in mutual benefits that includes trade and market access (Valente 2017, p. 1).*

The Duterte Administration's plan to effect a rapprochement with China became apparent during its handling of the July 2016 Permanent Court of Arbitration (PCA) ruling on the South China Sea dispute. In January 2013, the Philippines directly confronted Chinese expansive claim in the South China Sea by filing a statement of claim against China in the Arbitral Tribunal of the United Nations Convention on the Law of the Sea. In its Notification and Statement of Claim, the Philippines asked the arbitral tribunal to determine the country's legal entitlements under the UN Convention on the Law of the Sea (USCLOS) to the Spratly Islands, Scarborough Shoal, Mischief Reef, and other land features within its 200-mile EEZ. These entitlements are based on the provisions of the UNCLOS specifically to its rights to a Territorial Sea and Contiguous Zone under Part II, to an Exclusive Economic Zone under Part V, and to a Continental Shelf under Part VI (Department of Affairs 2013, pp. 12-14). After a three-year wait, the PCA at The Hague in the Netherlands decided on the maritime dispute between the Philippines and China on 12 July 2016. The five-judge PCA unanimously ruled in favor of the Philippines on almost all of its claims against China. It determined that China's claim to historic rights through its nine-dash line in the South China Sea is contrary to international law (Permanent Court of Arbitration 2016, p. 1). The court noted that none of the Spratlys are legally islands because they cannot sustain a stable human community or independent economic life (Permanent Court of Arbitration July 2016, p.1). Finally, it found China guilty of damaging the marine environment by building artificial islands, and of illegally preventing Filipinos from fishing and conducting oil explorations in the Philippines' EEZ (Permanent Court of Arbitration July 2016, p.1).

Consequently, despite the Philippines' overwhelming legal triumph over China, the Duterte Administration met the eagerly anticipated decision with a sober, cautious, and even muted reaction. Its response was ultra-low key as it neither flaunted the victory nor taunted China with the favorable ruling. Although the domestic reaction was overwhelmingly positive and jubilant, then Foreign Secretary Perfecto Yasay merely said that he welcomed the ruling and called on the Filipinos to exercise restraint and sobriety. During the ASEAN Foreign Ministers Meeting in Laos, former Secretary Yasay withdrew the country's motion to include the PCA decision in the ASEAN Joint Communique after Cambodia objected to its inclusion. Designated as the country's special envoy to China, former President Fidel Ramos, suggested that the PCA award be set aside whilst the

Duterte Administration pursues bilateral negotiations with China. Clearly, the government is adopting an appeasement policy towards China despite the PCA award favorable to the Philippines.

In September 2016, President Duterte effected his rebalancing of Philippine foreign policy away from the country's traditional ally, the U.S., to China in an effort to generate a windfall of Chinese economic assistance for the development of the country's infrastructure. On 12 September 2016, President Duterte suddenly announced that U.S. Special Operations Forces in Mindanao must leave the country. He argued that there could be no peace in this southern Philippine island as long as American troops were operating there (Cagahastian 2016, p. 3). The following day, he announced that the Philippine Navy (PN) would terminate joint patrols with the U.S. Navy in the Philippines' EEZ to avoid upsetting China (Moss 2016, p. 1). Former Foreign Secretary Yasay explained that "the inadequately armed Philippine military cannot fight China in any battle, thus, President Duterte ordered the Navy not to conduct joint patrols in the South China Sea with the U.S. Navy" (Katigbak 2016, p. 1). He commented that Philippine-U.S. patrols in the South China Sea could be perceived by China as a provocative act, making it more difficult to peacefully resolve the two countries' territorial dispute (Katigbak 2016, p.1).

While creating a wide diplomatic and strategic cleavage between the Philippines and the U.S., President Duterte conducts a calibrated foreign policy characterized by gravitating to China. He declared that he is open to direct bilateral negotiations with China. In contrast, former President Aquino brought the South China Sea dispute for international arbitration at the PCA. To earn China's confidence, President Duterte declared that the PCA award to the Philippines was purely a bilateral issue between the Philippines and China, and is not a concern of the ASEAN, echoing the Chinese position on this matter (Oxford Daily Briefing Service 2016, p. 2). Then Foreign Secretary Yasay even declared "that the relationship between the two countries (China and the Philippines) was not limited to the maritime dispute. There were other areas of concern in such fields as investment, trade, and tourism and discussing them could open the doors for talks on the maritime issues" (Morales and Lema 2016, p. 1).

Accompanied by 250 Filipino businessmen, President Duterte visited China on 20-21 October 2016 to seek a new partnership at a time when tension between the Philippines and the U.S. were mounting (Morales and Lema 2016, p. 1). His foreign policy agenda has involved developing and maintaining an independent and pro-active posture so he can adroitly balance the major powers in East Asia. This is aimed at creating a more positive and conducive atmosphere in Philippine-China bilateral relations that can allow both sides to embark on major infrastructure and investment projects, as well as other forms of cooperation to restore



mutual trust and confidence (Baviera 2016, p. 205). During their first meeting, President Xi advised President Duterte about the need to promote practical bilateral cooperation between the two disputing countries. He advised his Filipino counterpart that the Philippines and China must thoroughly coordinate their development strategies and cooperate with each other within the framework of the OBOR (National Institute for Defense Studies 2017, p. 87).

After their meeting, President Duterte and President Xi issued a joint communique that laid down areas for comprehensive cooperation and signed memorandums of cooperation in 13 areas including economics and trade, investment, financing, and construction of infrastructure (National Institute for Defense Studies 2017, p. 88). Accordingly, the total amount of money committed by China to boost economic cooperation between the two countries amounted to US\$13.5 billion, of which US\$9 billion was allocated for infrastructure development in the Philippines (National Institute for Defense Studies 2017, p. 88). Consequently, instead of rectifying the perceived imbalance in the Philippines' relations with the two major powers, President Duterte began replacing the U.S. with China as the Philippines' most important bilateral partner. Not surprisingly, President Duterte is alarmingly resigned to heightened Chinese island-building activities in the South China Sea. Clearly, he has been lured by the Chinese promise of trade concessions, grants, loans, and investment. Consequently, his administration has adopted Beijing's official line "that after several years of disruption caused mainly by non-regional countries (Japan and the U.S.), the South China Sea has calmed with China and Southeast Asian countries agreeing to peacefully resolve [their] disputes" (Sutter and Chin-Hao 2017, p. 43).

By early 2017, President Duterte's efforts to appease China began to bear fruit. In February 2017, the vice-governor of the state-owned China Development Bank visited one of Manila's main terminal facilities to look at the prospect of investing in Manila, Cebu, and Davao. The visit aimed to look into new port infrastructure investments in the Philippines as China seeks to advance its OBOR initiative in the light of positive signals from Manila that it will not challenge moves to expand Chinese influence in the South China Sea (Mooney 2017, p. 1). Manila has been trying to interest the China National Technical Import and Export Corporation to expand the Manila Harbor Center Port Terminal that involved the construction of an additional 20 hectares (49 acres) of handling, and storage space and 1,000 meters (3,280 feet) of new berthing space (Mooney 2017, p. 2). On the one hand, from China's perspective, proximity to the South China Sea makes Philippine ports attractive to Chinese capital. On the other hand, the Philippines urgently needs investments and expertise to improve the economy's seaborne trade network (Mooney 2017, p. 2).

In mid-May 2017, Duterte and his cabinet went to China for the second time



in less than a year to attend the OBOR Forum for International Cooperation. They all recited the mantra “that the OBOR initiative complements the administration’s Build-Build-Build Infrastructure Plan” (Asia News Monitor 2017, pp. 1-2). The plan provides for the building of nationwide infrastructure network that will connect the Philippines’ seven thousand, one hundred islands into one cohesive and dynamic national economy that will become one of Asia’s tiger economies (MENA Report 2017, p.1). High-ranking Philippine officials believed that OBOR could provide the necessary capital for the Philippines to improve its infrastructure and connectivity, and thus provide the international context for the infrastructure plans of the Duterte Administration (Xinhua News Agency 2017, p. 1). They accepted without question Beijing’s official line that China has surplus capital, and has rich experience in infrastructure construction. This means that it has the resources (financial and engineering) to assist developing countries, like the Philippines, in their infrastructure development. They also deemed that the OBOR is more than just an infrastructure connectivity scheme as it will also expand the regional market, diversify financing scheme, and reinforce people-to-people connectivity.

The Duterte Administration believes the chief reason the Philippines has fallen behind its neighbors in Southeast Asia is because of the country’s poor infrastructure (MENA Report 2017, p. 1). Infrastructure development is seen as everything since “it will create employment, vitalize the regions, and reduce inequality, and poverty” (MENA Report 2017, p. 2). From its perspective, the Philippines will therefore benefit from the OBOR initiative particularly in the revival of the maritime silk route, as it dovetails with the Philippine government’s massive infrastructure build-up scheme (MENA Report 2017, p. 1). Accordingly, the Duterte Administration’s current economic strategy of sustained economic and inclusive economic growth is anchored on an unprecedented infrastructure program that will require Php 8.4 trillion (estimated US\$17 billion) over the next five years. For President Duterte, China through its OBOR initiative would be the primary source of financing for his administration’s expensive and massive infrastructure building program.

### **Conclusion: The Power of Fear**

From 2011 to 2016, the Aquino Administration pursued a balancing policy towards China as it promoted closer security cooperation with the U.S. This policy could be traced back to 2011 when President Aquino stood up to China’s expansive claim and heavy-handed behavior in the South China Sea. He redirected the AFP’s focus from domestic security to territorial defense, fostered deeper Philippine-U.S. security arrangements; acquired American military equipment; and sought from Washington an unequivocal security guarantee under the 1951 MDT. The most salient component of this foreign policy is the signing of the

EDCA, which provides American forward-deployed forces strategic rotational presence in Philippine territory, as well as extensive access to Philippine military facilities. The agreement has been forged to strategically constrain China, which has stepped up its territorial foothold in the South China Sea. The Aquino Administration also filed a claim against China on the PCA.

President Duterte has been undoing President Aquino's geopolitical agenda of balancing China's expansive claim in the South China Sea. He has distanced his country from its long-standing treaty ally, while moving closer to a regional power bent on effecting a territorial revision in the East Asia. He has also set aside the 2016 UNCLOS decision on the South China Sea dispute. His maritime security policy is aimed at appeasing China, in contrast to then President Aquino's balancing strategy. The Duterte Administration believes that its appeasement policy on China is worth pursuing because it makes the country a beneficiary of the latter's emergence as a global economic power.

The difference between these two administrations' foreign policies stems from how President Aquino and President Duterte examined the major geopolitical developments in the Indo-Pacific region. The two presidents started from two different reference points. On the one hand, then President Aquino was concerned about the Chinese threat to the country's EEZ and strategic leverage as a maritime nation in the light of China's naval expansion. The Obama Administration's strategic rebalancing to Asia encouraged him to pursue a balancing policy on China based on the build-up of the Philippine military's territorial defense capabilities and enhanced security relations with the U.S. On the other hand, President Duterte took note that despite the strategic rebalancing to Asia, the Obama Administration maintained an ambiguous position in the South China Sea dispute in particular, and China's emergence as a major power in general. He took into account China's launching of the OBOR initiative. He was afraid that if the Philippines continued to pursue a balancing policy towards China, the country would be unable to avail itself of Chinese investment and aid from the OBOR. This drove him to pursue an appeasement policy characterized by strategically distancing the Philippines from the U.S. and gravitating closer to China.

The Duterte Administration is convinced that its appeasement policy towards China is worth pursuing because it makes the country a beneficiary of Beijing's emergence as a global economic power. By appeasing an expansionist power, however, the Duterte Administration is becoming complicit to China's long-term strategy of maritime expansion aimed to push the U.S. out of East Asia. This will upset the current balance of power in the region. Furthermore, by facilitating China's efforts to project its maritime power in the Western Pacific, the current administration is oblivious to the fact that if China gains control of the regional maritime power in the Western Pacific, this will adversely affect the Philippines'

territorial, strategic, and economic interests as an archipelagic state in the Indo-Pacific region.

### **Bio**

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Professor De Castro has conducted several courses on International Relations and Security Studies in the National Defense College and Foreign Service Institute. He has written over 90 articles on international relations and security that have been published in a number of scholarly journals and edited works in the Philippines, Japan, South Korea, Canada, Malaysia, France, Singapore, Taiwan, Germany, the United Kingdom, Australia, and the United States.

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