Political and Economic Relationships Between China and the Philippines Under the OBOR Initiative

Wan-Ping Tai & Yang-Fu Huang


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The “One Belt One Road” (OBOR) initiative is both an anticipated opportunity and a potential threat that has led Southeast Asian countries to adopt disparate policies for China. In this study, the history of economic development in the Philippines and the Philippines’ needs for foreign capital are described briefly from both political and economic perspectives. Next, the political and economic risk that OBOR poses to the Philippines is analyzed. The assertion of this study is that future advancement OBOR will be impacted by internal Filipino politics as well as Philippines–United States and Japan–United States relations. How China and the Philippines decrease the perceived threat of the South China Sea issue and improve economic expectations will depend on the interactions between the two countries.

Keywords: China and the Philippines, OBOR, political economy, Rodrigo Duterte

INTRODUCTION

“One Belt One Road” (OBOR) is the abridged name for the Silk Road Economic Belt and the 21st Century Maritime Silk Road. It is both a conceptual framework and an initiative for cooperation and development, and it is dependent on existing bilateral or multilateral regional cooperation platforms between China and other countries. Historically, OBOR was a primary channel of economic and cultural exchange between China and Central Asia, Southeast Asia, South Asia, West Asia, East Africa, and Europe. This corridor traversed Eurasia, connecting the Asian-Pacific economic circle to the east and the European economic circle to the west.

In the past, China has recruited foreign investments, welcoming other to “come in” and invest the country. By contrast, OBOR represents China’s decision to “go out,” or to engage in trading and economic activities with other countries. Currently, “one belt” involves three pathways: (1) traversing Central Asia and Russia to reach Europe; (2) traversing Central and West Asia to reach the Persian Gulf and the Mediterranean Sea; and (3) traversing Southeast Asia, South Asia, and the Indian Ocean. “One road” pertains to following the Maritime Silk Road to develop economic cooperation between China and countries in Southeast Asia, South Asia, the Middle East, North Africa, and Europe (Tai & Soong, 2014, pp. 23–39). Of these
regions, Southeast Asia is the intersection between “one belt” and “one road” and the residence
of the greatest number of overseas ethnic Chinese. To many ethnic Chinese businesses, OBOR
represents a substantial business opportunity. Furthermore, Fujian, which is the native home of
many overseas ethnic Chinese in Southeast Asia, is a core area of the Maritime Silk Road.

For centuries, ethnic Chinese have been at the forefront of economic development in the
Philippines, particularly in the import of foreign technology, capital, and manufacturing equip-
ment and in the initial establishment of the agricultural and handicraft industries. China is the
Philippines’ third largest export partner, representing 11.8% of all Filipino exports. China is
also the Philippines’ second largest import partner, representing 10.8% of all Filipino imports.
Chinese-Filipinos envision that the Silk Road Economic Belt and the Maritime Silk Road
initiatives will spur investment and trade development in the Philippines, particularly in infra-
structure projects such as highways and harbors. In 2015, the Filipino government announced
that it was abandoning its attempts to join the Transatlantic Partnership in favor of joining the
Asian Infrastructure Investment Bank (AIIB). This decision represented Filipino recognition of
China’s economic influence.

OBOR has filled both countries with anticipation regarding their economic cooperation.
From a political perspective, however, their prospects for cooperation are not favorable. Rapid
advances in economic and trade relations between China and the Philippines have not promoted
concurrent advances in their political and security relations. The dispute in the South China Sea
is undoubtedly the most prominent factor in this conflict. In particular, territorial disputes in the
2016 South China Sea Arbitration have caused tensions between the two countries. This
dispute over sovereignty resulted in a decline in bilateral economic and trade relations.

In 2016, Rodrigo Duterte became the 16th president of the Philippines. His opinion regarding
the South China Sea dispute seemed to differ from that of his predecessor, Benigno Aquino.
During the election, Duterte emphasized on multiple occasions that he was open to bilateral
negotiations and had no interest in going to war with China in the South China Sea. He also
publicly expressed the hope that China would participate in infrastructure construction in the
Philippines. Thus, the OBOR investment proposition can provide room for reconciliation in
the tense relationship over territory.

From a theoretical analysis perspective, the OBOR initiative is both an anticipated
opportunity and a potential threat that has led countries to adopt disparate policies for China.
In this study, the history of economic development in the Philippines and its need for foreign
capital are described briefly from both political and economic perspectives. Next, the political
and economic risk that OBOR poses to the Philippines is analyzed. The assertion of this study is
that future advancement of OBOR will be impacted by internal Filipino politics as well as
Philippines–United States and Japanese–United States relations. How China and the Philippines
decrease the perceived threat of the South China Sea issue and improve economic expectations
will depend on the interactions between the two countries.

HISTORY OF ECONOMIC DEVELOPMENT IN THE PHILIPPINES

In the post–World War II period from the 1950s to the 1970s, the Philippines, Japan, and
Myanmar were the richest countries in Asia. The Philippines was an emerging industrial nation
and one of the world’s emerging markets. After the 1960s, the Philippines adopted an open policy
and actively pursued foreign investments. This resulted in significantly improved economic development. On July 4, 1946, the Philippines gained their independence from American colonial rule. Each president, from Roxas, Quirino, Magsaysay, Garcia, and Macapagal to Ferdinand E. Marcos in 1965, adopted a policy of import substitution to increase the country’s industrial standards and decrease its reliance on imports. With the promotion of this policy, Philippines in the 1950s enjoyed the highest rate of economic growth in Southeast Asia. The policy created early success for Filipino industries (Rivera, 1994, pp. 157–177; Abinales & Amoroso, 2005).

Theoretically, when the domestic market was saturated, the Philippines should have made a timely and decisive switch from the import substitution policy to an export-oriented policy, as other Southeast Asian countries have done. The Philippines’ inability to industrialize is the result of the domination of political and economic structures by local capitals. This is similar to the conflict in Latin America between large landowners and other social strata that has caused political instability and obstructed economic development (Magno, 1992, pp. 79–96). In the 1980s, the Philippines lagged behind other members of the Association of Southeast Asian Nations (ASEAN) in manufacturing sector performance (Table 1; Rivera, 1994).

The traditional feudal land ownership systems in other Asian countries and regions were dismantled or eliminated by the war in Korea, revolution in China, or reform in Japan or Taiwan. The accompanying social interest structure also disappeared or was dismantled, allowing subsequent industrialization to create new social conditions in which social status was based on relative equality, and the restrictions and barriers of social status and position were eliminated. However, all Filipino industrial policies were dominated by the political and economic structures of large landowners, and government organizations were unable to advance these policies.

After Marcos’ regime was overthrown, several subsequent governments claimed to be a national or nonpartisan government, but the power supporting these structures was still dependent on large landowner families (Hernandez, 1988, pp. 229–241). Issues such as the monopoly on government positions, Congress’s resistance to land reform programs, and frequent military coups are all symbolic of the fragility of Filipino development and economics (Riedinger, 1995, pp. 125–130).8

FOREIGN INVESTMENTS AND THE FILIPINO ECONOMY

Developing countries that lack capital and technology must depend on the power of foreign capital to drive economic transformation (Gilpin, 1975). Evans (1979) proposed the triple

<table>
<thead>
<tr>
<th>Country</th>
<th>1960</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>8</td>
<td>22</td>
</tr>
<tr>
<td>Malaysia</td>
<td>9</td>
<td>30</td>
</tr>
<tr>
<td>Philippines</td>
<td>20</td>
<td>23</td>
</tr>
<tr>
<td>Thailand</td>
<td>13</td>
<td>28</td>
</tr>
</tbody>
</table>

alliance concept, in which trilateral cooperation among government agencies, domestic capitals, and foreign capitals produces commercial benefits for businesses and allows the nation to achieve its goal of industrialization. For developing countries, foreign investments are used for more than establishing industrial operations. More important, foreign investment involves using foreign technology to transform cheap, low-technology labor into professional, high-technology labor. This allows the country to join the global economy and to observe how industrial division of labor has affected industrial upgrades in less developed countries. Key government officials, the industrial elite, and entrepreneurs, regardless of their race or ethnicity or social origin, all depend on the country and government to construct and cultivate a “growth alliance” to maintain industrial growth and development. After this growth alliance is constructed, support and cooperation from citizens and society will strengthen the country’s power and autonomy (Evans, 1979, pp. 32–54; Kelly, 2008, p. 322).

Prior to Filipino independence, agricultural development in the Philippines was supported by the official American policy because of the principle of international division of labor during the colonial period. The American policy of supporting Filipino agriculture provided the United States with access to Filipino raw materials. It also eliminated industrial competition from the Philippines and provided an export market for American industrial goods. The industrial division of labor between America and its colonies was based on establishing a complementary relationship between agriculture and industry. As a result, the Philippines primarily concentrated on agricultural exports to the United States. This later produced the situation in which agriculture was valued and industry was neglected.

After Marcos took power, he attempted to develop the national economy by using foreign resources. Accordingly, borrowing from international organizations, particularly the World Bank and the Asian Development Bank, became an important means to consolidate power. Although the Philippines formed the Board of Investment to attract foreign investments, the primary goal of foreign investments was still to fund local capitalists. Instead of achieving industrialization goals through the triple alliance in dependent development theory, the ultimate goal of Macros was rapid industrial growth through domestic capital while preventing multinational corporations from entering and monopolizing Filipino industry. Marcos often purchased and nationalized major corporations in the name of national development. These behaviors further deterred foreign investments.

Late during Marcos’ rule, the United States adopted market-tightening policies and lacked internal savings. As a result, the Philippines relied on foreign loans to fill the domestic funding gap. However, this foreign capital became “hereditary booty” in a system of crony capitalism. Foreign loans were used to fund nationalized companies for personal gain (Bello et al., 2004). The intense pressure to repay massive levels of foreign debt made it impossible for the Filipino government to invest in domestic basic industries.

In the 1980s, when other Asian countries were undergoing industrial transformations, the Philippines received much less foreign investment than did other ASEAN members. The capital inflow to production sectors, which was far less than in neighboring Southeast Asian countries in this same time period, was too limited to drive industrialization in the Philippines.

At the start of the 21st century, the Philippines increased agricultural and infrastructure investments to expand its economic development. By increasing domestic demand and exports, the Philippines improved its balance of payments slightly. When Gloria Arroyo was elected in 2001, she saw how the Philippines benefited from China’s membership in the World Trade
Organization and understood that China as a regional engine of growth would help drive economic development in the Philippines. Thus, she expanded the relationship with China (Storey, 2011, p. 159). In 2010, during Benigno Aquino’s term, the Filipino government launched the Investment Priorities Plan to direct foreign capital to specific industries. The Public–Private Partnership became a key economic strategy during Aquino’s term; it attracted both foreign and domestic private investors to invest in major public works projects and revitalize the Filipino economy.

Statistics show that all developing countries face funding issues during the industrialization process. The Philippines has long lacked the capital required for advancing industrialization and particularly needs the support of foreign investments, but among all ASEAN members, the Philippines attracts the lowest proportion of foreign investments. Foreign businesses operating in the Philippines widely believe that investing in the Philippines is highly risky and unsafe and that it is better to avoid these risks by engaging in trading activities only.

This lack of investments resulted in inadequate job creation, which in turn caused the Philippines to have one of the world’s greatest wealth inequalities. Faced with global free trade, countries worldwide have begun to define their own places in the worldwide division of labor, which has exacerbated the problems for Filipino development prospects. This explains why the Filipino government signed the Articles of Agreement of the AIIB on December 30, 2015, before the deadline, in hopes of receiving China’s support in infrastructure construction and expanding industrialization, thereby increasing employment opportunities to reverse the difficulties of Filipino economic development.

**OBOR: ITS NICHE AND OPPORTUNITIES FOR THE PHILIPPINES**

Prior to the South China Sea dispute, China and the Philippines had a close economic relationship. According to statistics from the Economic and Commercial Counselor’s Office of the Embassy of the People’s Republic of China in the Republic of Philippines, formal economic agreements between the two countries include:


An agreement regarding early harvests to lower agricultural trade barriers between the two countries, also in 2007.

In addition to economic agreements, the Chinese government extended “credit” to the Filipino government to support infrastructure projects in the Philippines. The design and construction of these projects were contracted to nationalized companies. In August of 2003, the Chinese government gave the Filipino government US$400 million to support a joint effort between the China National Machinery Industry Corporation and the North Luzon Railways Corporation to construct the Northrail project. In April of 2005, the Chinese government decided to extend another US$500 million line of credit to the Filipino government for Filipino infrastructure construction. In January of 2007, China provided yet another US$500 million in preferential export buyer’s credit for the Southrail project and a water supply construction project. At the end of 2009, the State Grid Corporation of China won the exclusive right to operate the National Grid Corporation of the Philippines for 25 years (Yuan, 2010, pp. 67–72). Although the economic and trade relationship between China and the Philippines seemed to develop quickly, the level of cooperation lags behind China’s relationships with Indonesia, Malaysia, Thailand, and Singapore. Among all ASEAN members, bilateral trade growth between the Philippines and China has been the slowest.

Foreign investments can create employability. In addition, by joining the AIIB and China’s OBOR initiative, the Philippines could solve its problem of severely lagging infrastructure. According to statistics, infrastructure costs in the Philippines are expected to reach US$127 billion between 2010 and 2020, which is equivalent to 6% of the gross domestic product. In 2014, however, the Filipino government spent only 3% of the gross domestic product on infrastructure (Satake, 2016). Capital solely from the World Bank and the Asian Development Bank is not enough to cover infrastructure construction costs in a fast-developing economy.

Because of inadequate infrastructure such as railroads and subways, the Filipino capital Manila suffers severe traffic jams that are estimated to cost 1.2 billion pesos daily (Satake, 2016). To resolve this problem, President Duterte has proposed the construction of three key railways, namely, the Mindanao Railway, the Manila–Bicol Railway, and the Manila–Bataan Railway, to stimulate the local economy and alleviate ground transportation problems. Financing for these projects was expected to come from agreements with China (Paddock, 2016).

In addition, the Philippines’ National Economic and Development Authority has plans to inject foreign capital into the Mindanao Railway System project. This project, which comprises 2000 km of railroads to connect Mindanao with other major cities, will assist with local development. Both China and Japan have shown great interest in this project (Rappler, 2016). These are all substantive cooperative projects that can be carried out under the OBOR plan.

Economic and trade opportunities between China and the Philippines may depend on Chinese-Filipinos. The ethnic Chinese will be an important driving force behind the OBOR initiative; this is something that the United States and Japan lack. For centuries, ethnic Chinese
have been at the forefront of economic development in the Philippines, particularly in the import of foreign technology, capital, and manufacturing equipment and in the initial establishment of agricultural and handicraft industries. In recent years, the growth of Chinese manufacturers in Taiwan, Hong Kong, and Southeast Asia and their accumulation of investment capital have raised the level of industry in the Philippines and helped to successfully promote Filipino products in a global market. In addition, Chinese businesses in manufacturing, real estate, and finances have expanded their influences in and contributions to the Philippines through stock market operations, acquisitions, and forming business conglomerates. Chinese businesses constitute one-third of the 500 largest Filipino companies. They are particularly prevalent in the industries of textiles and clothing, dyes, steel, metal, sugar, plastics, wood processing, building materials, general merchandise, and finances. The industries involved in OBOR are often saturated by Chinese-Filipinos. One Chinese business owner stated, “‘One Belt, One Road’ and the AIIB can help improve Filipino infrastructure and Chinese businesses should take advantage of this opportunity” (China Review News Agency, 2015).

OBSTACLES TO PROMOTING OBOR IN THE PHILIPPINES

Impact of the Political System on Foreign Policies

The Filipino political system allows the president to influence foreign policy formulation; hence, the changes in leadership greatly affect the relationship between China and the Philippines. The unstable political situation in the Philippines makes it difficult to predict the future of its foreign policy. When new political actors or parties come into power, major policy adjustments invariably follow. In addition, because of the short terms of office and the strong influence of opposition parties in the Philippines, numerous political, economic, and social problems that impact people’s livelihoods have remained unsolved for long periods of time. Even if an agreement is reached temporarily, the plan is likely to collapse because it cannot be executed. Changes in the Filipino political arena are key factors that influence the future of China–Philippines relations. Foreign policy implementation is largely dependent on the president in power. For example, Gloria Arroyo’s term of office was considered the golden age of China–Philippines relations (Chen, 2015), whereas Benigno Aquino preferred closer ties with the United States. His inflexible stance during the South China Sea dispute resulted in a nadir of China–Philippines relations. In contrast, Duterte has agreed to bilateral negotiations to resolve the territorial dispute in the South China Sea and has stated a wish for improved relations with China (Si, 2016).

Different presidents also had different opinions regarding the value of economic cooperation between China and the Philippines. For example, in June 2015, President Aquino claimed that the Philippines received large amounts of preferential loans from China during Arroyo’s term but that the Philippines did not benefit from these loans (Chen, 2015). By contrast, when China proposed the Maritime Silk Road in 2013, former President Ramos stated that the North China Sea dispute had led many Filipinos to worry that they would be excluded from the 21st Century Maritime Silk Road initiative and that they would stand on the sidelines as China invests generously in other Southeast Asian countries. This seemed to indicate that the Philippines is highly interested in economic and trade cooperation with China.
When the Philippine President Duterte visited China in November 2016, in the “China-Africa Economic Forum,” Duterte claimed to have parted ways with the United States, escape the Philippines and China due to the South China Sea disputes caused by tensions. According to his thoughts, The Philippines will get proficient in infrastructure construction, hydroelectric power plants, steel companies, and port development business speculation project, totaling about $24 billion. (Huang, 2016, pp. 34–40). Even he jokes: “If you want, just make us a province, like Fujian,” on February 2018. (Rappler 2008). Through OBOR, the Philippines will benefit from access to China, thereby stabilizing the Duterte regime.

Anti-China Sentiment in the Philippines

The intensification of conflict over the South China Sea in recent years has led to a decline in China–Philippines relations and contributed to anti-China sentiments among the Filipino public. More important, it has decreased the safety of investments in the Philippines. Chinese enterprises that make investments in the Philippines must be vigilant of anti-Chinese movements that may arise from the North China Sea dispute and cause political risk (Apple Daily, 2016).

Because of the anti-Chinese sentiment, Chinese investments in the Philippines are often met with suspicion. In 2007, the National Broadband Network project, which was contracted to Chinese firm ZTE, was attacked by opposition parties and civil and business organizations as overpriced and corrupt. These charges forced the Filipino government to cancel the project.14 Following this, both the Northrail and Southrail projects, which were contracted to Chinese companies, were suspended.15 At the same time, some Filipino scholars feared that China has hidden strategic purposes for their economic cooperation with the Philippines. These scholars believed that China’s goal was to encourage greater separation between the Philippines and the United States (Yap, 2013).

Mitigation of these political risks is dependent on Chinese-Filipinos acting as mediators. Because Chinese-Filipinos have a long history in the Philippines, they have abundant local social relationships, business and political networks, and media resources. They can only decrease misunderstandings and reduce hostility toward China by transmitting an improved image of China to the Filipinos.

Corruption and Bureaucracy

According to a report by Transparency International, the Philippines’ corruption perception index score is 35. It is ranked 95th out of the 175 countries in the world, which places it in a lower-middle tier. The country’s political and business environments are poor.16 Just as the deterioration of the overall political and business environment caused by the combination of corruption, bureaucracy, and administrative inefficiency has continuously provoked public discontent with the government, the issues of corruption and bureaucracy have impacted business investments to a certain degree.17

The biggest difference between the Philippines and Japan, Korea, Taiwan, and even Indonesia and Thailand is that in the early stages of industrialization, the existent Filipino social structures were not reformed, causing the speed and degree of policy implementation to remain highly uncertain. Therefore, foreign investors must deliberate about various key indicators such
as the expected timeline of public works projects, how legislators respond to tax changes, and how the World Bank rates the business environment (Curran, 2016).

Monopolization of Resources by Families

Observing the actual political structure of the Philippines revealed that the Filipino political system mainly pertains to dynastic politics or “democracy for large landowners.” Although formally the Philippines involves a western-style democratic system, all political power is actually in the hands of a few powerful elite families. Locally, large landowner dynasties control and influence local economic and social affairs including commercial and civil matters. They even have their own armed forces. Through alliances or marriages, these families unite with other elite families to continually expand their domestic power. They control numerous local governments. Thus, these intertwined powerful families form the ruling class in the Philippines (Ning, Xu, & Guo, 2015). As a result, these families pursue their own family interests, which eventually leads to rampant corruption and the continued deterioration of the investment environment. Stagnation in land reforms and industrialization and defects in the economic structure are all consequences of dynastic politics.

Unstable Social Order

Because wealth disparity and social stratification continue to grow in the Philippines, public discontent toward the government is often manifested in demonstrations. This continual agitation exacerbates the already tenuous social order; more important, it has fomented various criminal organizations. Some civil organizations have become the voice for socially vulnerable groups. Because of dynastic politics, the Filipino government does not have the ability or the desire to satisfy the demands of these groups. As a result, organizational violence and social movements are common.

In addition, because of corruption and inefficiency, the Filipino police are often unable to properly handle emergencies. As a result, law and order issues cannot be eradicated. The Rizal Park hostage incident is a classic example.

Separatist and Terrorist Activities

The Philippines has a long history of conflicts between the government and separatist or terrorist organizations. Current major separatist groups include the Moro National Liberation Front, the Moro Islamic Liberation Front, and the Abu Sayyaf terrorist organization, the most notorious group. Although their area of operations is limited to southern Philippines, they often engage in terrorist activities including kidnapping, assassination, and bombing.

Economic Competition from the United States and Japan

The OBOR strategy faces competition from the United States and Japan. Statistics show that American and Japanese investments in ASEAN countries exceed Chinese investments (Table 4).
In particular, the United States and Japan have always been the primary sources of foreign investments in the Philippines. In recent years, the United States has begun to emphasize the financial aspect of its Asian strategy (Li, 2014). In 2016, after the first U.S.–ASEAN Summit held in the United States, the U.S. government announced the U.S.–ASEAN Connect initiative in response to Japan’s and China’s engagement in official development assistance programs and the AIIB, respectively. Following the U.S.–ASEAN Expanded Economic Engagement in 2012 and the Trans-Pacific Partnership, the joint initiative was the third and final act taken by Obama, prior to the end of his eight-year term, to conclude his “pivot to Asia” strategy that targeted competition with China in the economic arena (Yeh, 2016).

Japan’s presence can be found in the bidding and implementation processes for major infrastructure projects throughout Asia. In 2015, the Japanese government provided loans worth approximately 240 billion yen for a railroad construction project in Manila. This was a strategic loan based on Japanese Premier Shinzo Abe’s March 2015 plan to invest in quality infrastructure in Asia. Japan adjusted its existing aid strategies because of concern over China’s

### TABLE 2

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Foreign Investments (Million USD)</th>
<th>Percentage of Total Investments(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>761.1</td>
<td>0.71</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3034.2</td>
<td>1.92</td>
</tr>
<tr>
<td>Thailand</td>
<td>2338.1</td>
<td>2.65</td>
</tr>
<tr>
<td>Malaysia</td>
<td>9311.8</td>
<td>13.17</td>
</tr>
</tbody>
</table>


### TABLE 3

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Net Inflow (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei Darussalam</td>
<td>0.1</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>13.4</td>
</tr>
<tr>
<td>Laos</td>
<td>0.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>9.4</td>
</tr>
<tr>
<td>Myanmar</td>
<td>2.4</td>
</tr>
<tr>
<td>Philippines</td>
<td>4.8</td>
</tr>
<tr>
<td>Singapore</td>
<td>51.1</td>
</tr>
<tr>
<td>Thailand</td>
<td>6.7</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>9.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>


ASEAN = Association of Southeast Asian Nations.
ever-expanding economic circle (Satake, 2016). Japan’s assistance with the Manila railway was just the beginning; it has also increased cooperation with Thailand, Vietnam, and Myanmar in railroad construction projects. These aid programs involve massive sums of money as well as an emphasis on sustainability and long-term growth. Thus, they were clearly designed as countermeasures to China and the OBOR policy (Satake, 2015).

**CONCLUSIONS**

After Benigno Aquino took office, the Philippines has begun an economic transformation. According to economic statistics, the Philippines’ gross domestic product increased by 6.9% in the first season of 2016. This was the highest growth among all Asian countries. The Philippines has a population of 100 million; in Southeast Asia, this population is second only to Indonesia, which has a population of 250 million. The average age in the Philippines is only 23. Therefore, the potential for Filipino economic development is unlimited. To unleash this potential for continued growth, there must be steady improvements to infrastructure and recruitment of foreign investments. Thus, the Filipino government will increase their investments in infrastructure. International investment bank Goldman Sachs sees the powerful Duterte as a boon to the future economy (Curran, 2016). This is also an important opportunity for China to promote OBOR in the Philippines.

However, the assertion of this study is that successful advancement of OBOR is highly dependent on the domestic political situation. Many countries in the OBOR area have the same concerns: Internationally, they are embroiled in power struggles among powerful nations; domestically, they face issues such as changes in leadership, democratization, and ethnic conflicts. Therefore, political risk has become the greatest risk that the Chinese government

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**TABLE 4**

<table>
<thead>
<tr>
<th>Partner Country/Region</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>18.5</td>
</tr>
<tr>
<td>Australia</td>
<td>4.3</td>
</tr>
<tr>
<td>Canada</td>
<td>0.7</td>
</tr>
<tr>
<td>China</td>
<td>6.8</td>
</tr>
<tr>
<td>European Union 28 (EU28)</td>
<td>16.4</td>
</tr>
<tr>
<td>India</td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>14.5</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1.9</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>4.7</td>
</tr>
<tr>
<td>USA</td>
<td>10.2</td>
</tr>
<tr>
<td>Total selected partner countries/regions</td>
<td>79</td>
</tr>
<tr>
<td>Others</td>
<td>21</td>
</tr>
<tr>
<td>Total FDI inflow to ASEAN</td>
<td>100</td>
</tr>
</tbody>
</table>


ASEAN = Association of Southeast Asian Nations.
faces in its promotion of a national strategy and that Chinese businesses face in their international expansion. In other words, future advancement of OBOR is highly uncertain because it will be impacted by internal Filipino politics as well as American–Filipino and American–Japanese relations.

From a theoretical analysis, the OBOR initiative is both an anticipated opportunity and a potential threat that has led countries to adopt disparate policies for China (Soong, 2016). If the perceived risk is high and the economic forecast is unpromising, countries may tend to oppose China. If the perceived risk is low and the economic forecast is prosperous, countries may tend to cater to China. Take the Philippines, for example: The country has a certain economic expectation of China because of its own requirements for economic development and safety; however, it has also been, historically and currently, affected by American policies deeply. The Chinese threat to the Philippines is also affected by external factors such as relations with the United States and Japan.

In general, because of a historical lack of foreign investments in infrastructure construction in the Philippines, China’s proposed Silk Road Economic Belt and Maritime Silk Road under the OBOR structure will spur additional infrastructure construction projects in the country, including highways and harbors, and will benefit Filipino economic development. Nevertheless, how China and the Philippines decrease the perceived threat of the South China Sea issue and improve economic expectations will depend on interactions between the two countries.

NOTES

1. In September and October of 2013, Chinese President Xi Jinping consecutively announced the Silk Road Economic Belt and the 21st Century Maritime Silk Road initiatives during visits to Central and Southeast Asia. Both announcements received international attention.

2. The multilateral organizations that are affected by OBOR include Shanghai Cooperation Organization, China-ASEAN, Asia-Pacific Economic Cooperation, Asia-Europe Meeting, Asia Cooperation Dialogue, Conference on Interaction and Confidence-Building Measures in Asia, China-Arab States Cooperation Forum, China-Gulf Cooperation Council Strategic Dialogue, Greater Mekong Subregion Economic Cooperation, and Central Asia Regional Economic Group.

3. The historical Maritime Silk Road passed through the Philippines. The National Museum of the Philippines has collected numerous porcelain pottery pieces salvaged from the seas around the Philippines.


6. On July 12, 2016, the Permanent Court of Arbitration issued a ruling regarding the South China Sea dispute. All five members of the court unanimously agreed that under the United Nations Convention on the Law of the Sea, China does not have “historic rights” to the resources of the South China Sea. The court also ruled and requested that the Chinese government cease its actions in the South China Sea.

7. In June of 2015, the Philippines attended the signing ceremony for the Articles of Agreement of the AIIB in Beijing but refrained from signing because of rising tensions over the South China Sea situation. Another reason was that Filipino allies, namely the United States and Japan, had refused to join the AIIB. However, the Philippines signed the articles before the deadline.

8. Jeffrey M. Riedinger analyzed the proposal, development, and implementation of agrarian reforms during Marcos’ term. He concluded that the agrarian reform policies were, at best, inflammatory political rhetoric to soothe traditional landowner elites.

9. Most industries limit foreign investments to 40% of ownership.
10. At that time, a health movement was becoming popular in the United States. Americans reduced their sugar intake by approximately 40%, which reduced Filipino exports to the United States.


12. The Gini index is an indicator that measures income distribution and disparity. A Gini score of 0.4 is often considered the cutoff for high wealth inequality. According to data from the World Bank, the Philippines’ Gini score is 0.43; this is close to the highest score in Asia (http://data.worldbank.org/indicator/SI.POV.GINI).

13. Although the economic and trade relationship between China and the Philippines developed quickly, the level of cooperation lags behind China’s relationships with Indonesia, Malaysia, Thailand, and Singapore. Among five ASEAN members (Indonesia, Malaysia, Philippines, Thailand, and Singapore), bilateral trade growth between the Philippines and China has been the slowest. Investment amounts are even more insignificant.


17. Key methods include soliciting bribes from illegal gambling organizations, embezzling government revenues, and conducting illegal business through affiliates. Scandals plagued the presidency of Gloria Arroyo, who has a prestigious lineage. After she left office, she and her husband were arrested on charges of electoral fraud and corruption.

18. On August 23, 2010, a former senior inspector who was dismissed from the Philippine National Police forcefully boarded a tour bus operated by Hong Kong company Kong Thai Travel Services. He took the 25 people on board hostage, seeking reinstatement of his position. Approximately 10 hours later, a gunfight broke out between the assailant and the SWAT team. This crisis resulted in the deaths of 8 of the 25 hostages. This incident increased tensions between the Philippines and Hong Kong and China.


REFERENCES


