



REWARDS AND RISKS IN PHILIPPINES' CHINA GAMBIT

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Renewed ties between the Philippines and China are bearing fruit, but questions about the sustainability of this policy, especially after 2022, linger. Notwithstanding delays in agreed infrastructure projects, the upswing in relations spurred trade, tourism, investments and other functional areas of cooperation, including law enforcement. China can have a transformative impact on the Philippine economy. The challenge is ensuring such engagement does not diminish the country's foreign policy independence and harm its interests in the West Philippine Sea. Manila is not alone in this dilemma: it is also debated in other Southeast Asian capitals. While good-neighbor relations are critical, a diversified trade and security portfolio remain effective cushions against coercive economic statecraft.

Underrated gains outside infrastructure

President Xi Jinping's Nov. 20-21 visit to Manila reaffirmed the commitment of both countries to manage disputes, build confidence, and expand economic cooperation. Twenty-four of the [29 cooperation documents](#) signed during Xi's visit implement seven of the 13 agreements signed during President Duterte's [October 2016](#) state visit to China. Plainly, both sides are working to [sustain the momentum](#) in relations. The leadership of both countries is under pressure to deliver gains from better relations. China seems to have responded well to the call.

Infrastructure is an insufficient yardstick to assess Philippine gains from improved ties. Project delays

are attributable largely to domestic factors, such as poor absorptive capacity, administrative bottlenecks, and difficulties in procuring right-of-way. These problems are not endemic to China-backed projects but hinder most infrastructure projects regardless of funder or builder. The Metro Rail Transit System Line 7 project awarded to a Filipino-Korean consortium in 2008 did not reach financial closure until 2016 and did not break ground until 2017. Moreover, [right-of-way](#) issues on the planned depot in Bulacan may delay project completion to 2020.

Recognizing these hurdles, a 2016 Memorandum of Understanding (MOU) between the Philippines' Finance Department (DOF) and China's Ministry of Commerce Supporting the Conduct of Feasibility Studies for Major Projects was signed. A similar MOU was inked between DOF and China's newly-established International Development Cooperation Agency during Xi's visit. Two feasibility study implementation agreements for the Panay-Guimaras-Negros Island Bridge and the Davao City Expressway Project were also signed.

The windfall from warmer ties is evident in other areas. China became the Philippines' [largest trade partner](#) in 2016, its [second largest source of tourists](#) in 2017 and, in August this year, the country's [top export market](#). Chinese tourists recorded the fastest growth with a 34.9 percent yearly increase. In the first three quarters of 2018, over [972,000](#) Chinese visitors arrived and the total is forecast to reach [1.5 million](#) by year's end. Exports of Philippine tropical fruits increased by [50 percent](#) in 2017. Filipino companies bagged [\\$124 million](#) worth of sales in China's first international import expo held in Shanghai last month. Chinese company 51Talk already employs 15,000 Filipinos teaching English to Chinese students online and plans to hire [100,000](#) more in the next five years. Given the huge China market, this promises to be a sunrise industry for the world's third largest English-speaking nation. China also intends to hire [10,000](#) Filipino household workers with salary offers higher than those in Hong Kong on direct government-to-government arrangements that can ensure greater protection for workers.

China has become the major driver of the Philippines' real estate boom. Mainland buyers account for [half](#) the international sales of local real estate companies Ayala Land and DMCI. Construction and tourism have a strong trickle-down effect on local and informal economies, creating jobs and opportunities in food, transport, retail, services, and hospitality sectors.

Chinese investments, while still lagging others, registered a [67 percent annual increase](#). While the first major wave of Chinese investments since the improvement of ties largely focused on the gaming sector, there is great potential to diversify and scale-up. Technical vocational education and training exchanges can help upgrade Filipino skills. A signed MOU on Basic Education can facilitate this. With the first batch of K-12 students graduating this year, some of whom are already looking for work opportunities, skills training and incoming investments are welcome.

Mitigating risks, measured responses

Apart from bureaucratic impediments to infrastructure projects, other challenges beset reinvigorated ties. They include debt sustainability, corruption and institutional vulnerability, and concerns about China's increasing military footprint in the West Philippine Sea (WPS). Despite bilateral and regional dialogues and confidence-building measures, the public remains wary of China's presence in waters close to home. A joint oil and gas exploration project may revive upstream activities suspended since tensions erupted in 2012, but the agreement still has to pass constitutional scrutiny.

Meanwhile, responding to hyped fears of a debt trap, Secretary of Finance Dominguez reassured the public that soft loans from China for the Philippines' Build, Build, Build program will only constitute [0.65 percent](#) of government debt this year and will increase to just 4.5 percent by 2022. Such debt is in fact lower than Japanese concessional loans, which will grow from [8.9 percent](#) this year to 9.5 percent by 2022. He also said that government will not seek funding for projects that will not pay off.

The surge in Chinese workers in the Philippines also triggered a Senate probe. [Estimates](#) of 50,000 to 115,000 alien employment permits were issued to Chinese nationals from 2015 to 2017. While many work in the online gaming sector that caters to the Chinese market, which requires Chinese language proficiency, there were reports that they were also working in construction, giving rise to charges of stealing jobs from locals. However, efforts to crack down on foreigners violating immigration and labor laws should be done with caution to ensure they do not scare legitimate investors and tourists – in other words, the majority of Chinese people flows to the country. President Duterte also said that rash actions may [trigger](#) a backlash against the estimated [200,000](#) Filipinos illegally working in China, mostly as household workers and tutors.

The involvement of Chinese nationals in criminal activities, such as the drug trade, illegal online gambling, and financial fraud largely targeting their fellow Chinese back home increases the salience of bilateral law enforcement cooperation. A tip-off from Xiamen Customs authorities, for instance, resulted in the [biggest drug bust](#) in Philippine history last year.

Chinese criminals may ride the wave of warmer ties to migrate illegal activities, thinking they can bribe their way out of the local justice system. To this end, both sides are fast-tracking discussions for an agreement on the Transfer of Sentenced Persons. This was taken up in the Joint Statement issued during Xi's visit. While it may not be foolproof, harsher penalties and strict enforcement may deter Chinese nationals from engaging in crimes while in the Philippines. The PRC claim for custody even over Taiwanese may present irritants in Manila's relations with Taipei, especially given souring cross-strait ties.

In sum, economic convergence is driving relations between the Philippines and China closer. Both sides realize the value of cooperation in addressing issues of mutual concern. It remains a challenge, however, to translate that top-level understanding to bureaucracies and to reassure the public.

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