

## **The Economic Dimension in China's Foreign Relations: Reflections for China Studies in the Philippines<sup>+</sup>**

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### **Abstract**

This essay elucidates the economic dimension of China's foreign relations in aid of gleaning critical reflections on how China Studies in the Philippines can better consider China's development experience and the Philippines' economic engagement with China. Whether Philippines-China relations are tense or warm, the discourse on bilateral ties is dominated by interrogations from the vantage points of international relations, diplomacy, politics, and security analysis, which feature peripheral content on economic analysis even when improving economic linkages is invoked as a focal point of relations. Meanwhile, existing economic studies that touch on the bilateral relations do not have the interdisciplinary or area studies approach that must underpin the analysis. Employing a qualitative research design that involves content analysis, key informant interviews, and comparative reflection, the essay begins with an overview of how China's development strategy has shaped its foreign relations. The essay opens with a brief overview of

how China's development strategy evolved since 1978. The next section focuses on innovations in foreign relations and China's grand new initiatives. What follows is the section on China's need for further development, which consists of a discussion on inclusive development issues and resource demand. The fourth section underscores insights for China Studies in the Philippines. The essay ends with closing remarks.

**Keywords:** *Philippines-China, foreign economic relations, China Studies in the Philippines*

## **1. Introduction**

Ever since the beginning of the reform period, China has applied strong collective leadership in coordinating among the economic reform strategy, the power dynamic of actors in the decision-making process, and foreign economic relations (Shin, 2012; Lai and Kang, 2012). China was single-mindedly resolved that economic development is not only important in alleviating living standards, but it is also integral to strategic power (Harris, 2014). In aid of policy survival over a long period, economic reforms had to be institutionalized (Heilmann, 2010) and foreign policy had to be complementary in striving for foreign relations that would be conducive for China's development objectives. As the reform era proceeded, China re-introduced itself to the international community and cultivated friendly relations with neighbors and international institutions for economic governance (Kreisberg, 1989). China emphasized the Five Principles of Co-Existence,<sup>1</sup> which communicated consistency in the mutually beneficial and non-threatening desire for peace, stability, multipolar global political landscape and global development (Wang H.-J., 2013; Lu, 1999; Zhu Z., 2013). From 1989-1997, while China constructed the so-called socialist

market system, challenges to the pragmatic outlook rose amid an increasing economic liberalism. Central planning faced the challenges of consolidating decision-making on foreign trade and managing protectionist domestic sentiment while reaping the benefits of globalization and ensuring greater autonomy among enterprises. A balancing act was needed in attracting foreign finance and maintaining internal stability through gradualism in sociopolitical reforms, which were heavily scrutinized.<sup>2</sup> After the 1997 Asian Financial Crisis, China sought sustainable and peaceful development while globalization and regional integration became stronger in the global economy. Worries and skepticism about China's growth sustainability intensified and demand for critical resources increased considerably (Lai and Kang, 2012). China pushed its diplomacy with Association of Southeast Asian Nations (ASEAN) as it recognized the need for cooperative frameworks for exports, critical supply chains, and foreign direct investment inflows, as well as support for the One China policy (Zha, 2015; Lu, 1999; Zhu Z. , 2013). China recognized that ASEAN was an immediate neighborhood in which economic entrenchment would yield fruitful economic and political benefits.

## **2. Innovations and New Initiatives in Foreign Relations**

In terms of foreign policy decision-making, the party, the government, and the military remain to be the main players in China (Zhao, 2012). However the extent of flexibility is evident in instances of generational, institutional, and ideological innovations (Heilmann and Schmidt, 2014). For instance, China has pursued twinning arrangements between its cities and those of other nations in Southeast Asia. China's central government urges local units to pursue international economic exchanges (e.g. Guangdong with Southeast Asia; Fujian with Taiwan;

Yunnan with Myanmar and Laos; Guangxi with Vietnam). Local governments initiate foreign trade with cities, provinces, state-owned enterprises (SOEs), and transnational companies. Coastal governments are proactive in pushing their interests abroad. But when tensions over strategic issues boil over, foreign policy decision-making tends to be centralized and run by a few advisers. A considerable measure of secrecy still exists in foreign policy even among policy thinkers from academic circles (Lai, 2010). In critical industries with foreign policy implications such as energy, the restructuring of many SOEs, e.g. Chinese National Offshore Oil Corporation (CNOOC), has led to a large measure of autonomy, underscoring the notion of expanding plurality in decision-making processes (Jiang, 2010). The role of Chinese think tanks also deserves attention as a form of flexibility. These semi-academic organizations, that are largely attached to the government, have a larger space of participation in consultations, internal reports, and conferences (Zhao, 2012), despite doubts on the extent of their influence (Glaser, 2012). At any rate, Chinese think tanks function as public diplomacy conduits, engage in epistemic communities or aspire to be independent experts with the capacity to contribute to transforming foreign policy thinking (Rozman, 2012; Lanteigne, 2013). On top of these, it is noteworthy that the various institutes of think tanks help facilitate decentralized development across provinces while maintaining tight correspondence with the objectives of the Communist Party of China (CPC). Think tanks do not merely aggregate information for the central planner in Beijing. They are empowered enough in the provinces to even influence economic engagement with foreign nations (ZY, 2016).

Regarding China's new grand initiatives, the Chinese Dream is the newest incarnation and catchword for China's vision of its ascent. As a key informant posits, since it is no longer communist ideology that unites the party or ensures social cohesion, Xi Jinping needs to invoke

continuity from the sense of nationalism of Deng Xiaoping's leadership to the current effort of restoring China's greatness through the Chinese Dream. Part of the core interest of transforming China into a great power is the redemptive aspect of recovering territories that were lost when China was weak (CS, 2015). The Chinese Dream not only rises above the frenzy of reform slogans, but it embodies China's quest to produce a new era of economic superlatives.

While the Chinese Dream draws from preceding visions, it is distinct in its context, which is shaped by decades of remarkably high and sustained growth coupled with the present challenges of domestic development. China now sets its sights on The Four Comprehensives as the strategic blueprint for development intended to realize the Chinese Dream. The blueprint seeks to (1) build a moderately prosperous society, expressing continuity with Zhou Enlai's 1963 vision of the Four Modernizations (enacted by Deng Xiaoping in 1978); (2) deepen reforms, addressing the disparity between growth and social development outcomes; (3) implement the rule of law, addressing the inefficiencies of the public sector; and (4) strengthen party discipline and address the need to put a stop to corruption (Floracruz, 2015).

To operationalize these aspirations amid China's growth slowdown and strengthened attention on supply-side reforms, the One Belt One Road (OBOR) and the Asian Infrastructure Investment Bank (AIIB) have come into play as part of the most stupendous attempt to bring China's development and economic diplomacy onto a new plane. On one hand, these grand initiatives reinforce China's pronouncements on shared prosperity, regional stability, and a community of common destiny. On the other hand, China's increasing expression of its military and political muscle qualifies these aspirations. Key informants see that each province in China will maximize the Belt and Road, in aid of spurring new growth engines as well as addressing industrial

overcapacity. The investments are perceived to entail varying combinations of commercial and strategic objectives (CS, 2015; RL, 2015), the latter ranging from geopolitical harmony to technology transfer from foreign companies (Economy, 2010). The AIIB financially underpins the OBOR and takes advantage of the need for more infrastructure spending among developing economies. The Asian Development Bank, for instance, can only lend about 1.5% of USD 8 trillion for infrastructure needs of developing countries in 2010-2020. For its own utility, through the AIIB, China can improve its foreign exchange management leverage (Zha, 2015; JY, 2015), facilitate the internationalization of the renminbi, export Chinese labor in AIIB-funded contracts, and enforce discipline over China's own corporations operating abroad (Zha, 2015). As China goes towards more internationalization and global integration, it needs to be more transparent while still sensitive to the CPC and China's domestic publics (Godemont, 2012). In terms of international image building, the AIIB generates a positive reception among countries, contrasting with the flak from moves such as the large-scale land reclamation in the disputed maritime areas (Wan, 2016).

The OBOR tends to entrench China's geoeconomic leadership in the region, buying its military more time to increase capability (Miller, 2015). As economies partner with China in infrastructure deals that encourage trade, the likelihood of a more cooperative foreign policy increases, especially with states that China has tensions (Flores-Macías and Kreps, 2013). For some foreign relations experts, the initiative is a major iteration of China's use of economics in acquiring loyalties through a web of bilateral ties (CS, 2015). China's structural shift and increasing emphasis on non-trade aspects of international economic engagement affect the politics of multilateral trade agreements as well as bilateral infrastructure arrangements. Despite the rhetoric of how the

Trans-Pacific Partnership (TPP) was intended to contain China, the fact that there is much to learn from TPP as a so-called gold standard in Free Trade Agreements (FTAs), compared to the Regional Comprehensive Economic Partnership (RCEP), is not lost on China's thinkers despite the fact that TPP now is in shambles given the US withdrawal. Technically, China could have joined the TPP but the conditions for inclusion and invitation that other developing countries likewise face impede China's joining. China supports the RCEP but, as an expert informant posits, it also recognizes the lower relative gains from trade and other developing countries' difficulty in maximizing FTAs (HP, 2016). Before the decision by the Arbitral Tribunal that was constituted under Annex VII to the United Nations Convention on the Laws of the Sea,<sup>3</sup> some foreign relations experts in the Philippines saw these grand initiatives as harmless, only needing clarification that such engagement will not interfere with the Philippines' defense of its maritime claims (RL, 2015; CP, 2015). The reality is, China will continue efforts to create an international environment that favors its development mode while deriving the political benefits. Gains of partner economies will ultimately depend on how they define and shape their participation in such an environment (Hung, 2015).

### **3. China's Need for More Development**

Since 1978, the CPC has been negotiating political legitimacy by generating high economic growth and managing the rise of China's stature (Lai, 2010). China's unparalleled feat of high and sustained growth during the post-1978 reform era made it the country to watch for several decades (Zhu, 2012). Even with remarkable growth for more than three decades, making China the world's second largest economy, a continuing desire for high growth in the face of gaping development

needs raised the risk of overheating. Structural imbalances have challenged the optimism that buoyed the China model (Gilboy, 2011; Hou, 2014; Huang, 2011). Critics have repeatedly articulated the possibility of a hard crash landing but China has been deftly managing the slowdown, with public acceptance of slower growth as the New Normal – a natural progression rather than the picture of a declining economy. While there are notable reforms in research and development, innovation, and strategic industries, the matter of inclusive development remains to be a nagging question (Wang, 2014).

Within the second decade of China's reforms, the poor in the rural population was reduced from 600 million in 1995 to 80.5 million in 2007 while that of the urban population was reduced to 6.9 million. On the other hand, the middle class, comprising the lower, middle and upper-middle sub-categories in both rural and urban populations, ballooned. The result is a notable shift from a bottom-heavy income distribution, with the base being dominated by rural poverty, to an income distribution that has the middle-middle class posting the biggest increase in size among sub-categories (Asian Development Bank, 2010). Also, the purchasing power of the middle class was a boon to the world economy in the aftermath of the global financial crisis in 2008.

Spatial distribution of economic development within and across regions in China remains highly uneven. If social security transfers were taken into account, the urban-rural gap would have been wider (Li and Luo, 2010). Aggressive interventions are still needed in poorer regions involving instruments such as public services, fiscal transfers, taxation, and investment (Wei, 2014). Rebalancing should lead to an increase in household incomes as a share of GDP (Pettis, 2013), which would then support efforts to alleviate income disparities, especially between provinces in the interior and provinces in the coast that have relied on exports (Riskin, 2010). Poverty, measured by the proportion of the



population below USD 3.10 (PPP) a day, dropped from 67.2 per cent in 1999 to 11.1 per cent in 2013. However, the ratio between the highest 20 per cent and the lowest 20 per cent income groups is 10.1 while the Gini coefficient is 0.421, both based on 2010 figures (Asian Development Bank, 2016: 111-112). To make matters worse, alarming pollution levels exacerbate multi-dimensional poverty and inequality. Any advantage gained from competitiveness is posited to be entirely cancelled out by pollution-motivated social costs, such as health effects (Cáceres, 2014). It is noteworthy that aside from CO<sub>2</sub> emissions, which get reported the most, China has incomparable nitrous oxide emissions in the world. This dangerous greenhouse gas has an estimated 114-year atmospheric lifetime. Within a century, the emissions will have a per kilogram warming potential of 310 times that of carbon dioxide (Asian Development Bank, 2016). The implication of the state of environment on regime legitimacy is often overlooked while the deteriorating environmental picture challenges the government's ability to use deeper determinants in effecting development that is sustainable and inclusive.

Stellar growth on one hand and lagging social development on the other show that the quality of development poses several implications on China's foreign relations. First, even with an understanding of the New Normal and the need for structural reforms, China, as a high middle-income country, cannot stop growing as this is integral to poverty reduction and improving income redistribution. Second, more growth is also needed for further military strengthening and accumulation of strategic resources. These constitute old regime legitimacy issues. But new legitimacy issues have also come up. More growth satiates the new middle class – which is potentially destabilizing but is an undeniable driver for development – and provides a large leeway for economic inducements for neighbors. The need for growth in these contexts requires continued economic engagement with trade and investment

partners (e.g. United States, ASEAN) and new economic diplomacy initiatives such as the OBOR.

The drive for resources is another area where China's need for more development is felt. China's industrial growth has resulted in the drive for strategic resources, affecting foreign economies from which these are extracted (Economy and Levi, 2014). For China, it is costlier for legitimacy to alter the domestic economic mode by reducing demand for overseas strategic resources than to exercise grand initiatives in foreign relations to acquire these resources (Lai, 2010). The need for oil has led to China's pursuit of diversified supply markets, which has spawned alliance-building with oil-rich countries, and the strengthening of China's naval capabilities and presence in passageways and major sea-lanes (Cohen and Kirshner, 2012; Economy, 2010; Cáceres, 2014). Intense resource hunger is reflected in various efforts such as the use of Chinese aid and investment in exchange deals to ensure easy access to resources (RL, 2015) and to open a channel for absorbing China's excess labor supply.

China's outlook for energy use is not only concerned with exploiting and developing various energy resources (i.e. renewable, nuclear) to meet domestic demand but also addressing security concerns (Luo, 2014; Cáceres, 2014). China's energy use has been unprecedented and since the first few years of the 1990s, there was an observed improvement in energy policy creation and implementation in the oil sector as well as the management of national oil companies. China's mechanisms in managing energy resource exploitation have been considerably improving, evolving, and consolidating (Taylor, 2014; Feng, Hu, Hall and Wang, 2013). Indeed, innovation needs to play a greater role in cultivating the development of local technology. For instance, having the largest shale gas reserves can be revolutionary for China's energy security needs and can also help alleviate emissions

concerns. From the incipient stage of exploration where state-owned enterprises were testing the potential of exploitation (Yang and Cao, 2014), China has already become the third-largest producer of shale gas in 2017.

Critical resources also include marine resources, minerals, and industrial raw materials. The Chinese government is also pressured to not just extract and exploit but to also build sustainable industries. In the case of the marine industry, capitalizing on resources should lead to employment generation, which in turn is sought to increase domestic demand and ultimately contribute to social development. On this note, China crafted a long-term plan for marine science and technology development from 2010 to 2050 (Xiang, 2010). The strategic plan in itself is a staggering work that encourages a strong orientation towards the development of the maritime economy. Continued capacity building in scientific/technical expertise is necessary in advancing resource exploration and exploitation for commercial production. As a particular example, subset chemical oceanography, as an expertise, is important in analyzing the presence of chemicals in the water and how they relate to biological and ecological processes. This will then have an impact in upwelling and sardines production (GJ, 2015).

#### **4. Insights for China Studies in the Philippines**

This section applies the preceding analysis in aid of examining how the field of China Studies in the Philippines can be cultivated through further studies and research agenda.

##### ***4.1. The Meshing of Economic Strategy and Foreign Relations***

Further studies can interrogate the current extent that the development program drives China's foreign relations given the evolving *innenpolitik*

while not discounting the importance of looking at how foreign policy has affected China's development and state power. This considers that China's regime legitimacy draws from a greater dynamic among political, security, and economic actors (e.g. private enterprises, SOEs) four decades since the onset of reforms (Lai, 2010; Lai and Kang, 2012; Heilmann and Schmidt, 2014; Lanteigne, 2013). The deeper appreciation of existing domestic sensitivities should inform the Philippines' multi-layer messaging, a misreading of which forgoes opportunities among progressives and emboldens the hardliners. In addition, understanding internal nuances provides a better consideration of China's geoeconomic propensities (Leonard and Franke, 2016; Yung and McNutty, 2016). An example of an area of inquiry that relates to such propensities is the leeway that China has in restricting its imports from the Philippines during tensions, given the existing bounds of international agreements on trade, sectoral interests in the economy, and the structure of domestic trade in China. Furthermore, to bring greater perspective in analyzing the salience of the Philippine economy to China, it is important to apply meticulous attention in understanding how the Philippines fits in the locus of China's economic engagement with the rest of the world, in terms of trade, investment, and aid. Often times, more Chinese imports and investments in the Philippines are reported without contextualizing the magnitude relative to China's economic relations with other countries and regions. In addition, having in-depth studies on the correspondence of critical economic sectors in China and the Philippines, in terms of firm-level and spatial analysis for instance, can help evaluate the importance of Philippine sectors despite what statistics show as the Philippines' miniscule share in China's foreign economic relations. The fixation on the economic asymmetry that favors China, coupled with the perception that the Philippines has lagged in maximizing economic cooperation, tends to diminish attention on

exploring how the Philippines should alleviate its vulnerabilities in the context of overall strategic development and geoeconomic relations with China and beyond.

Regarding China's grand initiatives, the exclusion of the Philippines from the Maritime Silk Road (MSR) in initial reports was much publicized. China Studies in the Philippines must be able to fully consider that while the MSR emphasizes infrastructure development, it entails strong trade implications and expands China-initiated cooperative mechanisms (Li, 2015). For some, the MSR's fundamental objective is to facilitate free trade by complementing other efforts such as reducing trade barriers, improving trade facilitation, and connectivity through transport infrastructure efficiency (Tan and Zhou, 2015). The MSR is an important research area but accessing information has been difficult. Usually, commentaries would point out the infrastructure development needs of the Philippines juxtaposed with the potential financing from China. However, since more specific information is not available, a thorough analysis on what the Philippines can gain from cooperation remains unexplored. One area of study that can be considered is the comparative port development across ASEAN countries and the role that China has played in it and how, moving forward, MSR can advance it. Such an inquiry brings to light the readiness quotient that is required to realize the potential for economic cooperation. In particular, it is important to understand what Philippine participation in the MSR would entail, in terms of domestic institutional reforms, to generate desired economic results for the Philippines. Such institutional issues constitute a perennial sticking point in constraining the ability of the Philippines to make use of the potential from economic cooperation. It must be noted that the Philippines, compared to its neighbors, has not been able to maximize its participation in the ASEAN Economic Community due to inadequate reforms on the home front.

#### **4.2. China's Further Development and Resource Demand**

Given inclusive development pressures, further studies can consider in-depth case investigations on the impact of trade and investment from the Philippines on certain provinces in China. Regarding resource hunger, it is also important to study the changing structure of China's demand for resources (e.g. minerals, marine resources, energy), considering China's economic restructuring. Before the rave over new energy resources, China's active efforts in forging strategic relations with different regions noticeably exhibited the burgeoning desire for energy security. Where petroleum is concerned, China continues to stockpile strategic petroleum reserves (SPR) and maintains major oil refineries as well as teapot refineries – smaller ones that are not regulated (NB, 2015). A question that often comes up is if China's assertiveness in the West Philippine Sea is due to energy resources. While certainty is elusive owing to the absence of scientific verification, there is certainly strong interest from the international community regarding estimates. Energy stakeholders are monitoring the movements in the area and the factors to consider in exploiting speculated resources in the West Philippine Sea will ultimately be contingent on cost-effectiveness considering the availability of and access to other energy resources, infrastructure, technological capability, geological concerns, and international politics. Depressed oil prices coupled with the challenges in energy resource exploitation in the disputed area has impeded development the past. In May 2017, it was reported that China made great progress in extracting methane hydrates (*BBC News*, 2017) in the West Philippine Sea. While commercial potential is not forthcoming in the immediate horizon, the potential is again projected to be substantial. With this context and the warming of Philippines-China ties, does the joint development plan of the disputed area now face better possibilities in proceeding?

### **4.3. Intellectual Championship**

This essay utilizes the phrase “intellectual championship” to refer to the advocacy of perspectives or thinking. Part of the gradualism in managing reforms was the recognition that the implementation of policies needed to have coinciding changes in perspectives. Deng Xiaoping’s leadership had to nest the economic paradigm shift in the development narrative and communicate that pragmatism does not contradict Maoist ideals and any adopted Western know-how is only an instrument not a worldview. The instrumentality of education was also crucial. Economics courses provided intellectual accommodation of Deng’s reforms (Suharchuk, 1984). In these cases, practice and perspectives contributed to a broad buy-in from the public as well as the political elite. These notwithstanding, managing reforms in different sectors was challenging as they always involved political economy. For instance, efforts to improve the competitiveness of industries, such as those that were capital-intensive (Heilmann and Schmidt, 2014), were fraught with contentions. While this convergence between policy practice and perspectives is nearly a truism that need not be belabored, many developing countries, such as the Philippines, experience disconnects that result in strong critiques against the government’s adoption of policies without proper stakeholder consultation. Beyond public diplomacy in the domestic scene, China is an interesting study, regarding its use of intellectual championship or information operations (CP, 2015), aimed at shaping the narrative for key publics and influencers in prominent foreign policy institutes in the world as well as those in international governance institutions. Intellectual advocates come from government, think tanks, or academe.

Drawing from the previous insights, further studies can consider fundamental research on the impact of the China-related economic ideas

of Filipino public intellectuals according to the type of audience reached in the Philippines and abroad, and the nature of information dissemination across networks (e.g. local and international dialogues, institutes abroad, conferences). Previous work on a macro institutional mapping of China Studies in the Philippines has elucidated structural nuances of knowledge production while ongoing efforts to analyze the community of practice have brought to light the evolution of the knowledge of China watchers. These initiatives leave a large room for more work, particularly on investigating the discourse and intellectual history through published work. Certainly, such a study will contribute substantially to a critical survey of China Studies in the Philippines.

## **5. Closing Remarks**

This essay interrogated the economic dimension of China's foreign relations to give greater insight into how China Studies in the Philippines can better reflect on China's development experience and the economic engagement between the Philippines and China. These interrogations are in aid of cultivating the field of China Studies in the Philippines, considering that the contribution of economics or development studies lags behind that of other fields. Disciplinary orientation has much to do with the lack of economic studies on China from an area studies or interdisciplinary approach. Hence, more deliberate initiatives are needed to alleviate this dearth in scholarly production. Such initiatives can consider the involvement of the business sector in providing financial support for knowledge producers (e.g. academic fellowships, program funding). Another initiative can be in the form of institutional cooperative arrangements between universities and education or research-oriented units of government. Finally, better data access arrangements should be forged with key government units that



have gathering and repository of particular data within their purview. While it is understandable that no government agency aggregates particular data on China as a standard procedure, access to researchers would be vital in providing better analysis on bilateral economic engagement in China especially in specific and critical sectors in the Philippines that China is interested in.

## Notes

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1. The Five Principles of Co-Existence have been China's foreign policy bedrock since they were first laid down by Zhou Enlai in relation to China's talks with India about Tibet. The agreement was signed in 1954. The Principles are (1) mutual respect for each other's territorial integrity and sovereignty; (2) mutual non-aggression; (3) mutual non-interference in

- each other's internal affairs; (4) equality and mutual benefit, and (5) peaceful co-existence (United Nations, 1958: 70).
2. For instance, the presence of foreign banks in China – including Japanese banks and the Asian Development Bank – gave access to much needed loans especially that the World Bank reacted to the Tiananmen incident in 1989. The opening of new banks encouraged other banks to open as well (Huan, 1992).
  3. A copy of the decision can be found here: <<https://pca-cpa.org/wp-content/uploads/sites/175/2016/07/PH-CN-20160712-Award.pdf>>.

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