



## THE LIMITS OF DUTERTE'S CHINA POLICY

BY JEFFREY ORDANIEL AND ALVIN CAMBA

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Xi Jinping's recent state visit to the Philippines, the first in more than a decade, drew both applause and criticism. Some argued that the visit would bolster economic growth, strengthen Philippine-China relations, and help Duterte pursue a more "independent" foreign policy, which is allegedly more in line with Manila's interest. Critics posit that the numerous maritime and economic concessions will harm the Philippines' long-term national interest – avoiding debt traps, strengthening the alliance with the United States, and promoting rule of law in the South China Sea. While both arguments have merit, the fact is persistent economic and security constraints are likely to limit Duterte's ability to accommodate China's policy preferences.

On the economic front, all foreign aid and investment deals made during Xi's visit were simply memoranda of understanding (MOUs), which means they are only starting points for future negotiations. While Philippine Budget Secretary Benjamin Diokno [blames](#) the bureaucracy in China for the apparent delay in rolling out Beijing-funded projects, his statements are only partially true. The Duterte administration faces the same economic and political constraints that have historically affected foreign aid and investment projects in the Philippines: contestation from multiple veto players with their own political and local agendas as well as opposition mobilization.

A case in point is China's overseas development assistance (ODA) to finance the Southern Rail Project in Bicol, which has been the poster child in the [media's narrative](#) that Beijing failed to deliver in the Philippines. Documents from the National Economic Development Authority (NEDA) show that the project was only submitted to China for financing in [April 2018](#). Between the end of 2016 until then, the project was [in the hands](#) of the Philippine bureaucracy, which needed to conduct due diligence, including feasibility studies, stakeholder consultations, and environmental impact assessments. [Additional precautions](#) were taken to ensure that the risks of a debt trap and graft were at a minimum. Irregularities that may come out of any audit once Duterte is out of power or possible politicking by the next administration are a concern, and leadership in the current bureaucracy can be held accountable. Compounding the delay are numerous other factors: the Philippines' [lack of experience](#) in railroad technology, the contestation among regional-local elites for train stops, and the negotiation to settle key differences between Manila and Beijing on [co-financing options](#), Renminbi usage, and [labor sourcing](#) requirements – the same issues that any future China-funded projects are likely to face.

Other China-funded projects have been constrained by opposition mobilization. For instance, the [Binondo Bridge](#) was delayed by a local association of Filipino and Chinese-Filipino building owners. The Rockwell Bridge was hindered by the need to relocate informal settlers, which the local government was initially [reluctant to assist](#). In a recent case, China Telecom won the telecommunications bid with Udenna Group. However, this victory appears tenuous as the defense establishment and opposition elites point out the [security implications](#) of the deal. The Philippine media continues to harp on this problem. However, they are also downplaying the enormous cost of telecom investment in the Philippines, which discouraged German and Australian companies from continuing their bids. Perception of a security threat will outweigh the question of breaking up the telecom duopoly in the country, which means that this deal will be subject to opposition mobilization before and after the midterm elections, or even the next administration. As a result, China Telecom may never enter the Philippines.

There are obvious constraints on the security front. At the heart of Duterte's security wishlist are joint exploration with Beijing in the South China Sea and closer cooperation between the People's Liberation

Army (PLA) and the Armed Forces of the Philippines (AFP). However, Manila's 2016 legal victory against Beijing in The Hague, the economic provisions of the 1987 Philippine Constitution, and the strategic culture of the largely pro-US AFP, will keep Duterte's accommodation of China's policy preferences in check.

During Xi's visit, there were efforts to conclude a framework agreement on joint exploration in the South China Sea. The signed MOU shows many ambiguities, revealing that despite the intent, institutional and legal constraints prevent Duterte from fully embracing China's concept of joint development. Any deal with China within the Philippines' exclusive economic zone (EEZ) cannot circumvent the Philippine Constitution's Article XII, Section 2, which mandates that the exploration, development, and utilization of natural resources "be under the full control and supervision of the State" and that at least 60 percent of the final profit go to Filipinos. Nevertheless, the Philippines has the so-called service-contract (SC) mechanism for large-scale exploration that allows for the participation of foreign entities as contractors governed by Philippine law and thus exempt from the 60-40 rule. As both mechanisms recognize the sovereign economic rights of the Philippines, neither is the ideal "joint development" that Beijing has envisioned Manila to pursue. A face-saving compromise would be to repackage service-contracting as "joint development" for Xi's domestic audience, especially if the [MOU](#) is operationalized on West Calamian Oil Block (Block 58), inside the nine-dash line, with CNOOC as service-contractor. Is Beijing amenable to such an arrangement? It is unlikely, but not impossible.

The MOU also made sure that the UN Convention on the Law of the Sea (UNCLOS), the international legal instrument that governs the world's oceans and seas, is referenced. While this is a way to safeguard the Philippines' legitimate entitlements under international law, inclusion showed that Duterte could not fully sideline the favorable 2016 Arbitral Tribunal ruling and exempt the South China Sea from UNCLOS just to accommodate Beijing's concept of joint exploration. Indeed, doing so would invite even stronger domestic political and bureaucratic backlash.

When it comes to the South China Sea, the Philippines has a serious dilemma. While the US wants the Philippines to more assertively defend the rule of law, Washington is unwilling to commit officially to Manila's defense in maritime spaces based on Article V of the US-Philippines Mutual Defense Treaty.

Meanwhile, China wants the Philippines to be less deferential to the US and decrease its defense reliance on the West. Yet, despite Duterte repeatedly doing just that, Beijing has yet to show firm indication that it is open to compromise on the South China Sea issue.

Despite the announcement during Xi's visit that Philippine-China relations would be upgraded to "comprehensive, strategic cooperation," none of the [29 MOUs](#) promote closer cooperation between the PLA and the AFP. This reveals another important constraint on Duterte's so-called pivot to China. The AFP has been training with the US military for decades to increase interoperability – not just of systems like equipment, intelligence, navigation, and communications, but also of doctrines and strategic thinking. The institutionalized strategic alignment of the AFP is constraining whatever military-to-military cooperation that Duterte may prefer with the Chinese. When Filipino soldiers were struggling in the Marawi siege in 2017, Beijing [transferred](#) 6,000 assault rifles, along with 9 million rounds of ammunition to the AFP. Duterte himself even [attended](#) one of the transfer ceremonies. But these weapons were eventually given to the Philippine National Police as soldiers were not familiar with how to use them and showed little interest in having them.

Most Filipino generals remain pro-American while Duterte and those who want to remain in Malacanang's good graces embrace China. As the Duterte Cabinet was ironing out MOUs and editing talking points on the eve of Xi's arrival, high-ranking US and Philippine generals were [conferring](#) with each other. The AFP and the DND are also increasing the number and scope of the Philippines' joint military exercises with the US in 2019.

For better or for worse, these constraints are likely to persist through Duterte's term and beyond, limiting Manila's embrace of China's policy preferences.

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