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STRENGTHENING ECONOMIC TIES AMIDST THE MARITIME DISPUTE BETWEEN THE PHILIPPINES AND CHINA

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ABSTRACT

The Sino-Philippines relations underwent many challenges and changes for over two decades. It is characterized as a “fighting and cooperating” relationship in various domains, specifically in the context of their long-standing dispute over the South China Sea (SCS). The two countries have established diplomatic ties since 1975, and although the relationship between the Philippines and China has gone a long way in forging economic relations with regard to conducting a more conducive, progressive, and fair-trade partnership, China is still perceived as a significant threat to the national security of the Philippines. The Philippine government has lodged numerous

complaints with international bodies about China's violation of the law of the sea, particularly the UNCLOS. However, the regional environment and China's phenomenal rise in becoming an economic super power, and in particular the positive outcome resulting from the establishment of the ASEAN Economic Community (AEC), have all aided in developing the economic cooperation between the Philippines and China. Against the backdrop of these developments, the present article has focused on analyzing the two countries' relations in terms of the financial impacts from the surging waves of disagreements over the two countries' maritime belt areas in the South China Sea. It is also an empirical review of the literature on the myriad recommendations of international organizations, international courts, experts, jurists, and researchers, which seek to find solutions by providing legal viewpoints and political opinions on the issue of the maritime conflict between the Philippines and China. These are ongoing attempts for a peaceful solution to the maritime disputes between the two countries, as well as for the benefit of the rest of the ASEAN member nations.

Keywords: Philippines, China, economic trade and cooperation, investment, maritime jurisdiction, belt and road initiative, build program.

INTRODUCTION

The development of science and technology, the process of globalization and regionalization, and the changing international and regional situation at the beginning of the twenty-first century have forced countries to prioritize economic development and integration, and actively strengthen international cooperation. These factors have influenced and provided favorable conditions for the Philippines-China relationship to flourish in all areas of development. China is vigorously supporting reform and its country's opening as it enters the twenty-first century and seeks to accomplish its goal of becoming a superpower. China has increased its diplomatic connections with most Asia-Pacific countries in order to assume leadership in the area. China's growth began in 2010 when it surpassed Japan to become the world's second-largest economy after the United States (Liff & Ikenberry, 2014). This has piqued the interest of countries in the region seeking development possibilities from China. Furthermore, to accomplish its geopolitical ambitions of becoming a great power in the twenty-first century, China has established clear objectives, with the

economy serving as the driving force behind its growth efforts. In the context of globalization and regionalization, the Philippines wants to expand multilateral cooperation, diversify international relations, and seek integration with the region and the world, but first and foremost, with the region's neighboring countries, especially China, for its own development and raising their position. Furthermore, the Philippines' stance toward China is shifting toward closer coordination to boost economic cooperation between the two countries. Faced with this situation, the Philippines and China perceive the benefits that must be strengthened in collaboration with all fields, particularly commerce and investment for mutual development, to benefit both countries.

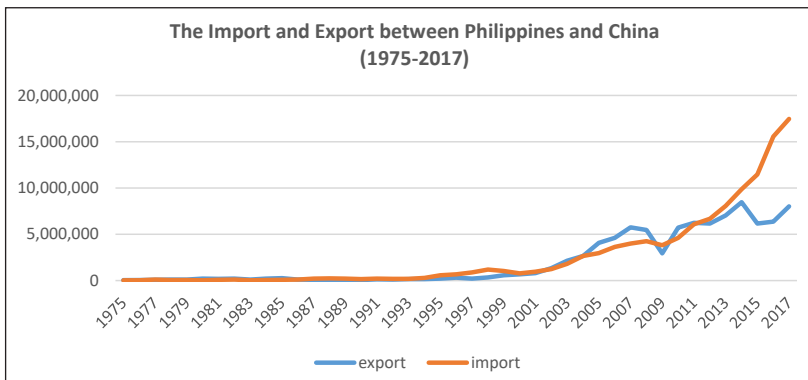
Background on the Economic and Maritime Relations of the Philippines and China

Much archaeological evidence shows that the Philippines and China had a very early trading relationship. Dating back to the Ming Dynasty, many cargo ships sailed from Fujian to Southeast Asia, and their first stop at sea was the Philippines. The Maritime Silk Road has promoted trade and cultural exchanges and closely linked the two countries and peoples (Chinese Embassy in the Philippines, 2021). Since 1975, the two countries have signed nearly 100 bilateral agreements in a variety of fields, including politics, defense, trade and investment, energy cooperation, infrastructure development, services aviation, transnational crime cooperation, consular cooperation, tourism, culture, sports, media exchanges, agriculture, science and technology, sister cities, and people exchanges. Despite the efforts of both countries, the economic relations between the Philippines and China remained almost "frozen" from 1975 to 2001 due to several significant political factors. Presidents of the Philippines, from Ferdinand Marcos through Corazon Aquino to Fidel V. Ramos to Joseph Estrada, have all made efforts to improve bilateral relations. Trade and investment, on the other hand, are still at a relatively low level. Political tensions, particularly China's annexation of Mischief Reef from the Philippines in February 1995 and the replacement of its existing structures with a three-story concrete stronghold in November 1998, created decades of economic stagnation between the two countries. The Philippines, on the other hand, has enjoyed a strong trading relationship with the United States for more than a century, culminating in the signing of the 1989 Bilateral Trade and Investment Framework Agreement (TIFA). The US and the Philippines then signed customs administration and trade facilitation agreements in 2010, putting the Philippines' minimum access obligations into effect (1998).

These agreements signaling the bilateral commercial cooperation between the Philippines and China showed that the partnership was driven not only by political reasons, but also by the EU and the US providing economic benefits to the Philippines under the Priority System general treaty.

Figure 1

Trade between the Philippines and China (Import and Export, 1975-2017) (Unit: Thousand USD)



Note. Philippines Statistics Authority (2018).

Figure 1 shows how the two nations' economic relationship strengthened as they entered the initial stages of the twenty-first century. This was when the Philippines began to recognize and value China as a major powerhouse and one of the world's most important trading partners. China was seen as a significant economic engine that could assist the Philippines in breaking out of its decades of stagnation. Moreover, the trade statistics is reflective of the growth in the import and export activities between the Philippines and China, thus signaling the strengthening of the trading relationship between the two countries prior to the pandemic outbreak. However, a slight decrease in exports occurred in 2009 and 2015 respectively.

The Philippines Economy and the Need for Chinese Cooperation

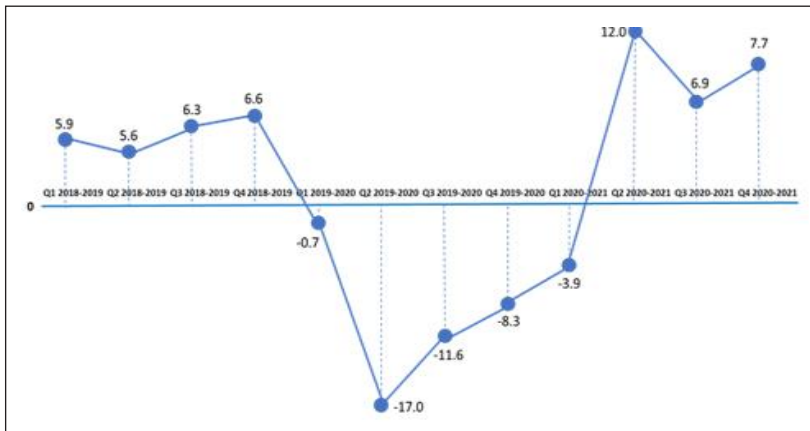
The Philippines' economic development improved steadily after the Asian financial crisis. The Philippine economy grew at a rate of 5.8 percent from 2003 to 2007, peaking at 7.1 percent in 2007. However, by 2008, it had dropped to 3.8 percent, and due to the global financial

crisis, economic growth in 2009 slowed to only 0.9 percent. Industry and services, in particular, are considered the foundation for the country's economic development; the service industry, in particular, had the most significant growth rate of 8.1 percent in 2007 and had significantly contributed to the economy. The manufacturing industry experienced a comparatively strong growth rate of nearly 5 percent between 2004 and 2006.

The Aquino administration (2010-2016) saw the GDP rise by an average of 6 percent from 2011 to 2015, while the unemployment rate fell but remained high at around 6.5 percent. Nearly 20 percent of the population were unemployed, while more than 40 percent of the people work in the informal sector. From March to April 2020, when the Covid-19 epidemic officially broke out globally, the most severe embargo imposed had the most severe economic implications. In Q4 2020, the Philippines' gross domestic product (GDP) fell to -8.3 percent, resulting in a year-over-year growth rate of -9.5 percent (see Figure 2). In the fourth quarter of 2020, the main economic sectors of agriculture, forestry, and fishing (NLTS) dropped to -2.5 percent, while services and industry fell even more, -8.4 percent and -9.9 percent respectively.

Figure 2

Gross Domestic products from Q1 2018 -2019 to Q4 2020-2021



Note. Source is the Philippine Statistics Authority

The world economy, in general, and the Philippine economy in particular, eventually recovered due to the Covid-19 vaccination

program implemented across the country. The Philippines' gross domestic product (GDP) increased by 7.7 percent in Q4 2021 (see Figure 2), resulting in a 5.6 percent growth for the year. Production (7.2%), wholesale and retail trade (7.3%), motor vehicle and motorcycle maintenance (7.3%), and construction (18.5%) are the major contributors to growth in the fourth quarter of 2021. Agriculture, Forestry, Fisheries, Industry, and Services all experienced good growth in the fourth quarter, with 1.4 percent, 9.5 percent, and 7.9 percent, respectively. Annually, Industry and Services grew by 8.2 percent and 5.3 percent, respectively. Agriculture, Forestry, and Fisheries, on the other hand, fell by -0.3 percent. Spending on Household Final Consumption (HFCE) grew by 7.5 percent in Q4 2021 on the demand side. Government Final Consumption Spending (GFCE) increased by 7.4 percent, the Total Capital Formation (GCF) increased by 12.6 percent, Exports increased by 8.3 percent, and Imports increased by 13.7 percent. The HFCE climbed 4.2 percent year over year, the GFCE 7.0 percent, the GCF 19.0 percent, Exports 7.8 percent, and Imports 12.9 percent. As a result, one can conclude that the Philippine economy remains in a bright spot in both the global and regional economies. Key results, for example, the Philippines' GDP before and post-pandemic era would suggest that there is great potential for economic integration between China and the Philippines.

However, the Philippines continues to face several obstacles and challenges. Although the country's inflation rate is still modest, price, and supply and demand destabilization risks must be monitored. Alternatively, an imbalance between growth-producing industries will adversely affect the economy on the aggregate supply side. The development of science and technology, the process of globalization and regionalization, and the changing international and regional geopolitics at the beginning of the twenty-first-century have all forced countries to prioritize economic development and integration, and actively strengthen international cooperation. These factors have influenced and improved the Philippines' ability to enhance cooperation with China. Apart from traditional allies like the United States, the Philippines wants to expand multilateral cooperation, diversify international relations, and integrate with the region and the world. Naturally, the first superpower neighbor China, was the obvious choice to be an ally for the sake of development and economic enhancement. Faced with this window of opportunity, the

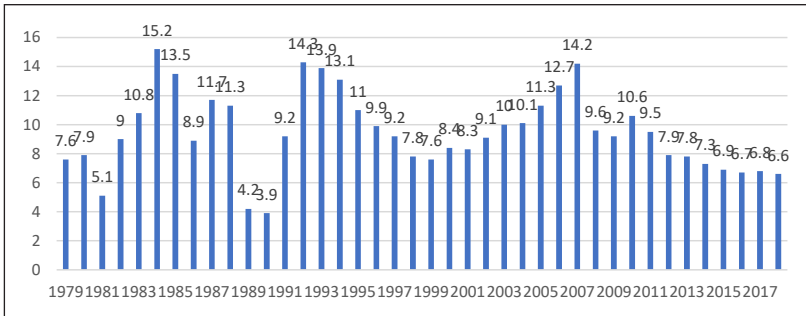
Philippines and China perceive the benefits that could be reaped if ties were strengthened to promote cooperation in all fields, particularly commerce and investment for mutual development, for the well-being of both countries.

The Economic Situation in China and the Need for Cooperation with the Philippines

China introduced a package of reforms and opened up in all directions at the start of the twenty-first century. According to the *China Daily*, an English-language daily newspaper, China's economy achieved the highest growth rate in 2000 as its GDP increased by 8.2 percent in the first six months of the same year, 1.2 percent more than the previous year. The huge total capital mobilized for investment is the reason why China's economy continues to grow at a rapid pace. It climbed by 8.5 percent to \$27 billion in the first quarter of 2000, while the FDI increased by 24.6 percent to \$24.17 billion. Machinery utilization rate reached 90 to 95 percent, resulting in a 10.7 percent increase in industrial output over the same period in 1999. In 2001, the total import-export turnover was \$509.77 billion USD; in 2002, it was \$620.8 billion USD, up 21.8 percent; in 2003, it was 851.2 billion USD, up 37.1 percent; in 2004, it was 1,154.7 billion USD, up 35.7 percent from 2003; in 2005, it was 1,325.57 billion USD; and in 2006, it was 1,758 billion USD (World Bank). On the other hand, China's WTO membership makes it easier for its service market to open up, particularly for export services (Ciuriak, 2002). China has had several advantages in exporting to the global market since 2001. The deepening reform of the Chinese economy has achieved tremendous achievements in accelerating the creation of the socialist market economy institution (2002-2012), with the GDP of the following year was always higher than that of the preceding year. The per capita income has increased significantly. China is regarded as one of the world's fastest-growing countries. Despite a recession in 2008 and 2009 (9.6% - 9.2%) due to the global economic crisis, China's economic growth rate was always in double digits (10.5%), most notably in 2007 (14.2%). In 2001, the per capita income was only 1,053 dollars per person, but by 2010, it had risen to 3,832 dollars per person. With such a strong growth rate, China surpassed Japan in 2010 to become the world's second-largest economy after the United States (Anderlini & Hornby, 2014).

Figure 3

China's Economic Growth from 1979-2018



Note. Source is the IMF and National Bureau of Statistics of China

From a 10.6 percent GDP growth rate in 2010, the GDP growth rates in 2011, 2012, 2013, and 2014 were 9.5 percent, 7.97 percent, 8 percent, and 7.3 percent respectively (see Figure 3). Despite the Chinese government's efforts to reduce the GDP growth objective, the 12th Five-Year Socio-Economic Development Plan (2011-2015) calls for an increase. Because institutional reform is required, an average annual growth of 7 percent is needed, but achieving that aim is complex and usually always subject to risk pressure¹. The socio-economic situation of China, as assessed by the 18th National Congress of the Communist Party of China (2012), is "in and will be for a long time in the early stage of socialism; the main social contradiction is the contradiction between the increasing material and cultural needs of the people and the backward social production that has not changed." The first year of institutional economic reform in the spirit of the 3rd Central Resolution of the Communist Party of China's 18th Central Committee has yielded preliminary results. The Government report presented by Prime Minister Li Keqiang to the National Assembly on March 5, 2015, declared that in 2014, China achieved the main goals of socio-economic development, a favorable opening for comprehensive, in-depth reform: the GDP increased by 7.4percent (later amended to 7.3%), resulting in the creation of 13.2 percent new employment in the city, a 2 percent increase in consumer prices, and an improvement in the economic structure; the proportion of consumption in economic growth climbed by 3 percent, reaching

51.2 percent ; the added value of the service industry increased from 46.9 percent to 48.2 percent, the rate of economic growth in the Central and West was higher than in the East, the quality of growth improved, the budget revenue increased by 8.6 percent, research and development budget reaches over 2 percent of GDP; the energy consumption rate is reduced to 4.8 percent, people's living standards improve by one step, and rural residents' income increases by 9.2 percent (Keqiang, 2015).

In 2019, the country's GDP growth was 6 percent (adjusted yearly). Per capita, disposable income in 2020 had been estimated at 32,189 yuan (\$4,966), double the 2010 figure. China's robust economic recovery has been driven by capital availability, significant infrastructure and real estate investments, an export boom in medical supplies and electronic products, and a steady rise in domestic consumer spending. In the first quarter of 2020, China's GDP growth witnessed a record deep decline of -6.8 percent when the country implemented a mass blockade of provinces to control the Covid-19 epidemic. However, since the second quarter, after reopening the economy, China's GDP rose rapidly with a growth rate of 3.2 percent in the second quarter, 4.9 percent in the third and sixth quarters, and 5 percent in the fourth quarter of 2020. Overall, China's GDP increased by 2.3 percent in 2020, reaching 101.6 trillion yuan (\$ 15.68 trillion), making it the only major global economy to grow positively amid the pandemic (Keqiang, 2015).

Before China's economic rise, the country's industry developed mainly on labor-intensive and natural-resource-consuming technologies, not on brain-intensive technologies. Therefore, China desperately needs resources from outside because domestic resources have been exhausted. Southeast Asia is a region rich in natural resources, especially raw minerals, and is geographically close to China. As China's economy grows, so has the desire for international investment. Southeast Asia is an appealing investment destination because it is transitioning from a development strategy that relies heavily on FDI. Because of the low level of economic growth in Southeast Asia, particularly in the Philippines, Chinese technology is readily accepted, and investment in the region is in line with Chinese entrepreneurs' investment ability. Furthermore, Southeast Asian countries are politically stable and have positive relations with China. Many ASEAN countries (Thailand, Philippines, etc.) have an

extensive Chinese business community that is well-versed in the local market and has solid contacts with the host government, stabilizing the economic aspects. This is a highly advantageous situation for China when doing business in Southeast Asia. The development of China's economic cooperation and integration with ASEAN offers ideal conditions for China to enter the ASEAN financial market more efficiently, including the Philippines.

In terms of trade ties during the incumbency of President Gloria Arroyo, the Philippines and China's commercial cooperation partnership between 2001 and 2010 made considerable progress in terms of its scale and nature as compared to the previous period. The critical point of this development is that both countries find common ground and can enjoy the mutual benefits in globalization, integration, and world economic development. President Arroyo promotes comprehensive, varied, and far-sighted economic and trade development with great powers through high-level visits, and signs bilateral economic, cultural, and social cooperation agreements. During her presidency, trade relations between the Philippines and China grew steadily. Despite many disagreements, the Philippines has changed its foreign policy towards China due to its economic needs and interests. Under President G. Arroyo the two countries' cordial relations have brought about the "golden age of partnership".

In terms of imports and exports, commencing the twenty-first century, the Philippines and China have strengthened their trade ties. With increasing flexibility, the two nations began to perceive their relationship as entering a "golden age." President Arroyo was the first president in Philippine history to understand that China plays a critical and vital role in global economic development. Many high-level visits took place during the President's first term, including visiting the 9th APEC economic meeting in Shanghai, China, and holding bilateral talks with President Jiang Zemin. From October 29 to October 31, 2001, President Arroyo paid an official state visit to China. In addition, President Arroyo attended a series of ceremonies hosted by the Philippine and Chinese Ministries of Foreign Affairs in 2002 (Shan, 2012). Consequently, the increased and more flexible engagement with China has given the two countries' economies a "new wind." The two countries' trade ties have made numerous notable achievements, particularly in terms of their imports and exports.

Table 1

Trade between the Philippines and China from 2001 to 2010 (Unit: Billion USD)

Year	Export	Import	Bilateral Trade Balance	Total Trade Turnover
2001	792	975	-183	1,767
2002	1,355	1,251	104	2,606
2003	2,144	1,797	347	3,941
2004	2,653	2,659	-6	5,312
2005	4,076	2,972	1,104	7,048
2006	4,627	3,647	980	8,274
2007	5,749	4,001	1748	9,750
2008	5,466	4,245	1221	9,711
2009	2,933	3,807	-874	6,740
2010	5,724	4,627	1097	10,351

Note. Data is from the Philippines Statistical Yearbook (PSY) (2005) and the Philippines Statistical Yearbook (PSY) (2011)

Exporting Philippine products to China is becoming increasingly promising. Exports from the Philippines to China reached 792 billion dollars in 2001, then swiftly climbed to 5,749 billion dollars in 2007, the highest figure during President Arroyo's two terms. (See Table 1).

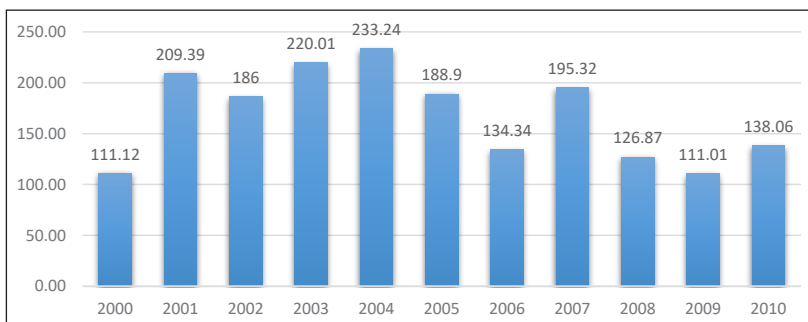
China has also invested heavily in the agricultural and mining sectors of the Philippines. China sponsors the US\$8.75 million Philippine-China Agricultural Technology Center in the Nueva Ecija province, the rice bowl of the Philippines. China also supports the Philippine-Fuhua Sterling Agricultural Technology Development Corporation. In 2005, China spent \$450 million to renovate the Northern Luzon Railway System (Xinhua News Agency, 2005a). The Philippines had made numerous efforts to develop bilateral relations with China, most notably when Philippine Vice President Noli de Castro visited China in June 2006. President Arroyo visited Zhongqing and Chengdu (China) a year later, in June 2007, to expand trade and attract Chinese investment in the Philippines. President Macapagal Arroyo conducted an official visit to China four months later, in October 2007, and met with President Hu Jintao. The two countries have agreed on a comprehensive plan to foster complete, substantive, and practical economic cooperation. However, during the global economic crisis

of 2008 and 2009, imports and exports between the Philippines and China decreased. Exports only totaled \$2.933 billion that fiscal year.

In terms of the trade of goods structure, the Philippines exports to China products such as food, foodstuffs, fruits (banana, coconut), crude oil, and agricultural products; and imported from China main items such as information technology equipment, semiconductor equipment, computers, telephones, transmitters, and railway traffic, road construction, restaurant, and hotel equipment. The import situation of the Philippines also improved significantly: in 2001, the Philippines' imports from China amounted to 975 billion USD; by the end of the President's term, this amount was five times higher, reaching 4.627 billion USD. Except for the 2009 financial year, due to the strong impact of the global financial crisis, for the most part from 2001-2010, the import level of the Philippines was consistently lower than that of its exports. The balance of deficit tends to favor the Philippines. In general, the Philippines-China economy has benefited during Arroyo's presidency, with the overall trade turnover increasing from 1.767 billion USD in 2001 to 10,351 billion USD in 2010, a 485.8 percent rise.

Figure 4

FDI from China to the Philippines from 2000-2010 (Unit: Million USD)



Note. Data is a Summary from the China Statistical Yearbook (CSY)

Overall, the FDI inflows from China into the Philippines have also been increasing; the FDI inflows from China into the Philippines totaled \$209.39 million in 2001, and at the end of President Arroyo's first term, this sum had climbed by 11.27 percent (2004). However,

during President Arroyo's second term, China's FDI inflows into the Philippines plummeted, totaling only \$134.34 million, a 28 percent drop from the previous year. China's fall in FDI inflows is blamed on the opposition parties and social movements.

China's ODA to the Philippines has risen since 2001. China provides interest-free or low-interest loans to the Philippines to help the latter implement various socio-economic development initiatives. Infrastructure building, transportation, information technology, processing, ancillary industries, assembly, real estate, restaurants, hotels, and tourism are some of China's most heavily invested enterprises in the Philippines. In addition, there were also investments in project construction, the upgrading the railway transport system at several key places, Philippine e-government construction information technology supply project, and so on. China supported a project in Luzon, a strategically significant economic and political area in the Philippines, in 2003. Following that, China continues to invest in an 84-mile railway upgrading project between the Albay and Sorsogon provinces. The project's entire capital investment was 932 million dollars, with Chinese imported items accounting for 95 percent of that amount. In 2004, the Philippines and China agreed to spend \$503 million to create a 32-kilometer rail route connecting Metro Manila, Luzon's northern cities, and major seaports. The railway, which included a 20-year loan with a 3 percent annual interest rate, was dubbed "China's largest project in Southeast Asia" at the time (Landingin, 2010).

The Philippines and China collaborated on a project to develop a statewide broadband system to support e-government in the Philippines as their next major project. This project was aimed at linking 2,295 federal offices and 23,549 city and local offices, allowing the government to undertake administrative work across the country via the Internet. The two nations signed the project agreement on the margins of the "Boao Forum" in Hainan (China) in April 2007. The project's overall auction value might reach as much as 329.5 million USD. China is helping the Philippines realize the project by providing a 20-year priority loan with a 3percent interest rate. The condition is that the China Telecommunications Equipment Corporation of China be a partner in delivering the Application Equipment Elements for the project's implementation.

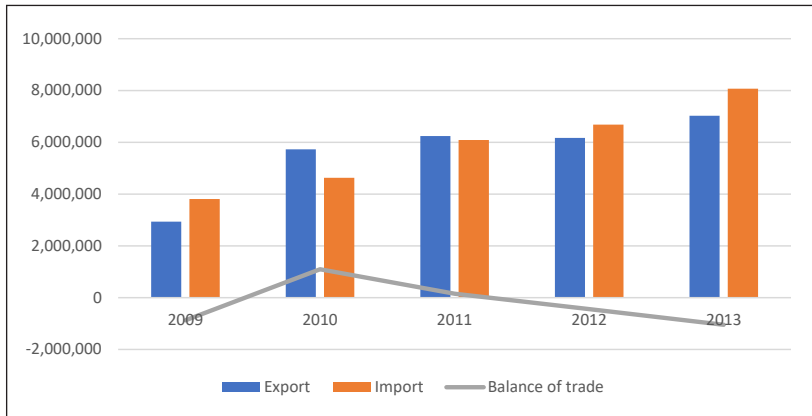
However, despite all the above projects, Chinese investment in the Philippines is still considered minimal. China's direct investment in the Philippines was \$33.6 million in 2008. Chinese direct investment in the Philippines only peaked in late 2008. Agriculture, mining, textiles, electromechanical processing, and other sectors had also attracted Chinese investment in the Philippines. In 2008, Chinese firms signed 61 new project contracts, labor service cooperation contracts, and design consultancy contracts in the Philippines, totaling 394.87 million USD, including 361 million USD in technical contract value. The revenue in 2008 was \$398 million, with a turnover of \$395 million in technical contracts.

According to figures from China's Ministry of Commerce, the Philippines participated in 2,657 projects in China by the end of 2008, with a total investment capital of 2,532 billion USD. Filipino enterprises invested primarily in banking, real estate, shopping malls, and retail in China. The latter has conducted surveys and invested in the Philippines in the context of investment cooperation between the two nations. Infrastructure, transportation, mining, electronics, information technology, agriculture, restaurants, and hotels were among the Philippines' most common Chinese investment projects. China's investment projects were moderately developed and scaled; no massive projects existed. However, China has expanded grants and official development assistance (ODA) to expand markets and deepen economic relations between the two nations.

When President Benigno Aquino III took office, his visits to China became more frequent in order to promote a more stable, long-term, and sustainable development of China-Philippines cooperation relations. A Joint Action Plan on Strategic Cooperation between China and the Philippines, was signed on October 29, 2009, which was considered a testament to this promising China-Philippines cross-border partnership. Since 2010, the two-way trade turnover has continuously increased rapidly. However, before this, the global economic crisis had affected both the Philippines and China, causing trade relations between the two sides to decrease significantly. Overcoming these difficulties, bilateral trade turnover in 2010 reached 27.7 billion USD, which was up 35 percent compared to 2009, and China became the third-largest trading partner of the Philippines (Embassy of the People's Republic of China in the United Kingdom of Great Britain and Northern Ireland, 2011).

Figure 5

Philippine-China Trade (2009-2013) (Unit: Billion USD)



Note. Compiled from Philippine Statistical Yearbook (PSY) (2014)

The growth of bilateral trade between the two countries increased continuously from 2010-2013, specifically increasing by 53 percent in 2010, 19 percent in 2011 and 4.27 percent in 2012, and 17.4 percent in 2013. However, the bilateral trade deficit between the Philippines and China started to increase, from \$0.873 billion in 2010 to \$1.047 billion in 2013. Nevertheless, the situation became complicated in January 2013; the Philippines officially confronted China's expansionist claims in the sea by applying to the Arbitral Tribunal of the United Nations Convention on the Law of the Sea (UNCLOS). As a result, the bilateral trade cooperation between the two countries began to slow down, and imports and export have decreased since July 2013. Specifically, exports began to fall, from US\$7,025 billion in 2013 to US\$6.372 billion in 2016. The deficit level was getting higher and higher. For example, at the end of 2016, the total trade turnover between the two countries, according to the Philippine Bureau of Statistics, was \$21.937 billion (See Table 2), an increase of 45 percent compared to 2013. The trade balance shows that the trade deficit was growing, from -1.047 billion USD in 2013 to 9.193 billion USD in 2016, a 9-fold increase over the same period in 2013.

Table 2

Philippine-China Trade from 2013 to 2016 (Unit: Billion USD)

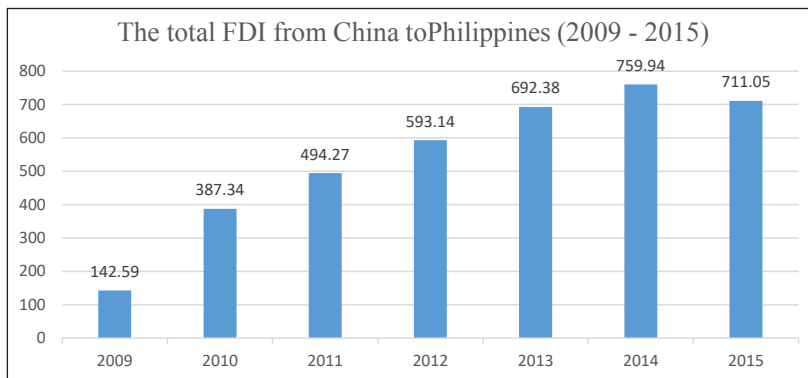
Year	Total Trade Turnover	Export	Import	Bilateral Trade Balance
2013	15,097	7,025	8,072	-1,047
2014	18,336	8,467	9,869	-1,402
2015	17,644	6,174	11,470	-5,296
2016	21,937	6,372	15,565	-9,193

Note. Source is the Philippine Statistical Yearbook (PSY) (2017)

Although the Philippines’ relationship with China under President Aquino was not as good as that of his predecessor, Arroyo, the Philippines became a vital partner due to China’s “going out” policy. Chinese FDI inflows into the Philippines nearly quadrupled between 2009 and 2015, from \$387.34 million in 2010 to \$759.94 million in 2014 (See Figure 6). Between 2011 and 2015, this significant investment trend helped the Philippine economy rebound, with a GDP growth of 3.86 percent in 2011 and 6.35 percent in 2015 (World Integrated Trade Solution, 2015).

Figure 6

Total FDI from China to the Philippines (2009 – 2015) (Unit: million USD)



Note. Total FDI stock from China to the Philippines, C. Textor, November 28, 2022

However, the amount of Chinese investment in the Philippines decreased after the tense confrontation in the South China Sea between

the two sides in April 2012 and the Philippines' lawsuit against China in January 2013. Total Chinese FDI into the Philippines fell to \$711.05 million in 2015 (see Figure 6). During President Aquino III's presidency, economic cooperation between the Philippines and China shifted dramatically. Bilateral trade increased in the early phases, but the situation deteriorated after the Scarborough Shoal dispute. However, the economic benefits of cooperation between the two sides continue to be significant. Both China and the Philippines have always tried to reach an agreement that will allow their trade relations to strengthen and flourish.

Unlike his predecessor, President R. Duterte since coming into power, has shifted his administration's strict foreign policy with China to a more flexible one. For example, unlike the Aquino Administration, which challenged China's expansionism in the South China Sea, the Duterte Administration kept silent about the dispute in exchange for concessions on trade, aid, and investment from China.

President Duterte had fostered closer economic and diplomatic ties with China; he sought China's support to build structures in Mindanao and even purchased Chinese-made weapons for the Armed Forces of the Philippines (AFP) (De Castro, 2017). As a result, commercial and investment ties between the Philippines and China have accelerated. The Chinese side too, has said that the two countries had entered a "golden period" in bilateral commercial relations. As a result, it can be stated that the political issues and tensions in the East Sea has not impeded economic cooperation between the two nations.

Regarding trade, with the government policy of "pivoting" toward China after taking office as president in mid-June 2016, economic relations between the two countries were promoted, and economic cooperation agreements between the two sides were signed. During the 28th Conference of the China-Philippines Joint Committee on Economic and Trade Cooperation (JCETC), the two sides discussed many economic cooperation, trade, and investment issues. In addition, the two countries also discussed the 6-year development program for Economic and Trade Cooperation. This has been regarded as the overall cooperation framework for the economic relations of the two countries during the period 2017-2022.

These statistics did not include the 25 cooperation agreements between the two nations in 2019, which reached a total value of roughly 15

billion dollars. These agreements were signed under President Aquino III's six-year presidency. With \$21.937 billion of total trade in 2016, China became the Philippines' leading trading partner, accounting for 15.5 percent of the overall trade in the same year. China's exports totaled \$5,372 billion, while expenditures for imported products totaled \$15,565 billion, resulting in a \$9.192 billion trade imbalance (see Table 3).

Table 3

Major Trading Partners of the Philippines in 2016 (Unit: billion USD)

Country	Export	Country	Import
Japan	11.57028	China	15.5649
US	8.85133	Japan	9.88177
HongKong	5.5157	US	7.57582
China	5.37252	Thai	6.57822
Singapore	3.82399	Korea	5.56789
Germany	2.32927	Singapore	5.45413
Thai	2.18385	Taiwan	5.18477
Korea	2.18182	Indonesia	4.50759
Taiwan	2.12557	Malaysia	3.89999
Netherlands	1.74332	HongKong	2.49183
Other	9.50636	Others	17.80093

Note. Source from the Foreign Trade Statistics of the Philippines (2016)

In terms of the Philippines export products, electronic items accounted for the most sales, totaling 3.804 billion USD and accounting for 59.7 percent of the country's exports to China. Other export items came in second with \$521.87 million in sales, up 8.2 percent. Electronic devices worth \$3.299 billion were among the imported commodities from China, contributing to 21.2 percent of the country's overall import income. Iron and steel came in next, with an import value of 2.332 billion USD, accounting for 15.0 percent of all imports.

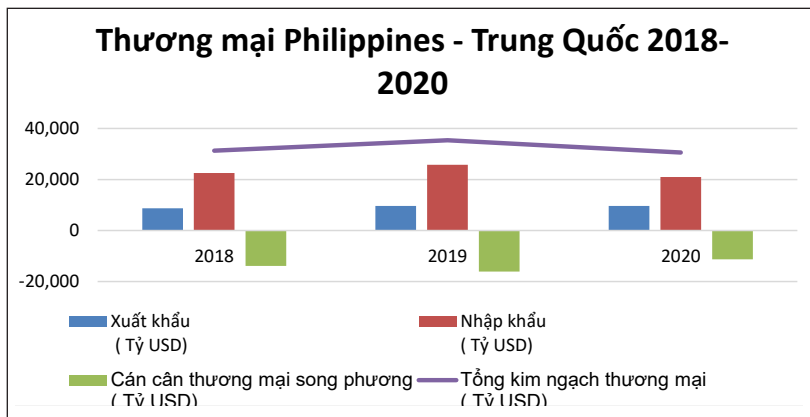
From 2016 to 2018, China has consistently been the Philippines' most important commercial partner. The Philippines-China bilateral turnover market share in the Philippines' total annual trade is high and holds a significant position. At the same time, the value of commodities

imported and exported in the Philippines has progressively expanded over time, partially due to policies to develop external relationships and the benefits of affordable pricing and abundant sources of goods and services. In several sectors, numerous incentives have been provided in the Philippines. Despite good signs, the bilateral trade imbalance between the two countries remains considerable. The deficit contributed to a drop in the export sales of four of the top ten items, notably machinery and transport equipment, coconut oil, electronic products, and other manufactured goods. Furthermore, the negative growth of the leading import items, such as: transportation equipment, other manufactured products, mineral fuels, lubricants, and related materials, telecommunications equipment and electrical machinery, food and other live animals, and electronic products, has triggered the decline.

The Philippines' commercial and economic standing with China has swiftly improved during the 2018-2019 period. However, there are still numerous unsolved concerns between the two nations, particularly maritime conflicts. Also, in 2018, significant developments in the Philippines-China relationship emerged, particularly the Philippines' support for and direct involvement in China's "Belt and Road" initiatives.

Figure 7

Philippines-China Trade (2018-2020)



Note. Data from the Philippine Statistical Yearbook (PSY) (2019) and the Philippine Statistics Authority (PSA)

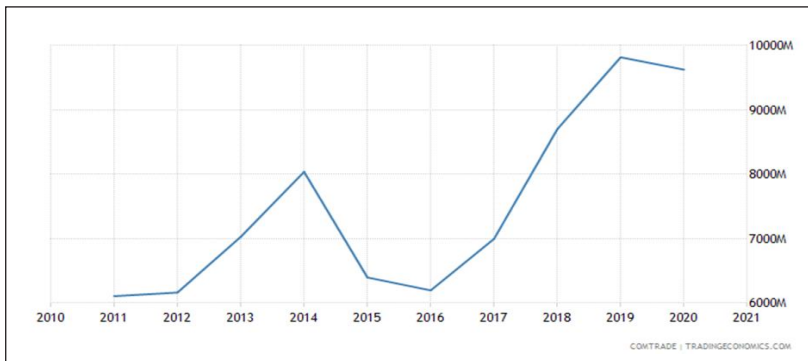
According to the Philippine Board of Investments, China in 2019 was the Philippines' top trading partner, in terms of export market, and import source. Bilateral commerce between the Philippines and China has surpassed \$50 billion, with an average annual growth rate of 17percent in the last five years.

Exports to China climbed by 16.02 percent in 2019, from 18.4 billion USD in 2018 to 19.5 billion USD in 2019. The main exports were electronics, minerals, fresh foods, power, chemicals, equipment, fashion accessories, transportation, and other industrial items. China permitted the import of fresh young coconuts and Hass avocados from the Philippines in 2019, expanding the Philippines' new fruit export basket to China. According to the United Nations COMTRADE database on international commerce, the Philippines' exports to China in 2020 would have totaled \$9.62 billion. President R. Duterte has thus far, achieved numerous positive accomplishments in increasing commercial cooperation between the two nations during his four years in office.

Despite the hurdles, Huang Xilian, the Chinese Ambassador to the Philippines stated on January 19, 2021, that economic and commercial cooperation between the Philippines and China “had achieved obvious successes” in 2020, despite the pandemic challenges posed by the COVID-19 virus.

Figure 8

Philippines Exports to China (2010-2020)



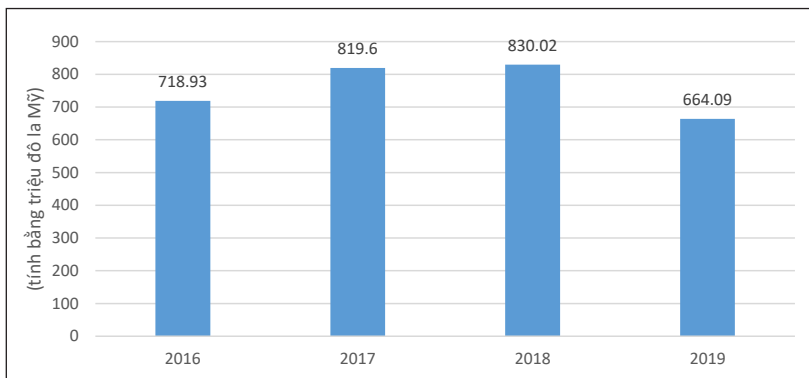
Note. Source is Trading Economics: Philippines Exports to China

Regarding investment, the increase in economic contact between the two countries is through the efforts expanded by the two sides efforts to promote bilateral economic cooperation within the framework of “One Belt, One Road.” The financial mechanism for this strategy is the Asian Infrastructure Investment Bank (AIIB), which has helped the Philippines attract investment capital from China. In 2018, China ranked first in foreign investment in the Philippines, amounting to 819.6 million USD, up 2,072 percent from 718.93 million USD in 2017 (see Figure 9). Businesses and corporations in information and communication technology, food production, real estate, and power are driving this expansion. With US\$830.02 million, China was placed second after Singapore as the second-largest source of investment in the Philippines in 2019, accounting for 32 percent of overall foreign investment in the Philippines.

The most significant initiative was a joint venture with China Telecom to create a third telecommunications operator. This investment has attracted related telecommunications, infrastructure, and services projects. C&U Group Ltd., New Hope Liuhe, Azure Gaming (Hongkong) Ltd., Suzhou Boamax Technologies Group Co., Ltd., and JTK Technology (Suzhou) Co., Ltd. were some of the other significant Chinese investors in the Philippines. These companies have promised to invest a substantial amount of money in the Philippines in due course.

Figure 9

Total FDI from China to the Philippines (2016-2019)



Note. Source is the Total FDI stock from China to the Philippines, Published by C. Textor, November 28, 2022

It should be noted that commercial ties between the Philippines and China have swiftly increased under President R. Duterte's administration. The two sides have made good progress by focusing on the economy and their growing trade relations. Despite the constraints of border conflicts, these successes have motivated both nations to continue to deepen economic cooperation. However, after more than two decades of trade and investment cooperation between the Philippines and China, it can be argued that the development of the security-political situation has also impacted bilateral cooperation. China's commercial investment has fallen short of the Philippines' demands and growth objectives. Environmental concerns have received little consideration in the pursuit of long-term development. To date, there were 16 massive projects already completed, and the remaining 20 big projects would be continued under the incoming Marcos leadership, whose first term of office would be from 2022 to 2028. The foreign policy of the new administration of Bong Bong Marcos will be the same as that laid down by the Duterte administration.

FINDINGS AND DISCUSSIONS

Philippines and China Maritime Dispute

The Philippines and China dispute is just one of the unresolved South China sea differences other peripheral nations in the region have with China. As early as 2010, China had to maintain a balance environment where peaceful relations be sustained with the US, Japan and India (Yamazaki & Osawa, 2021). With the installation of the late President Benigno Aquino III after the Philippine presidential election in 2010, the country looked for ways to strengthen alliance with the United States under the US–Philippines Mutual Defense Treaty of 1951. The Philippines while trying to defend itself against China's offensive measures also sought a cordial relationship by the president visit China to fortify the mutual ties particularly in commerce and trade (Landingin, 2011; Office of the Spokesperson, 2011).

Furthermore, local executives in Manila filed a lawsuit against China after the Scarborough Shoal incident which occurred on April 8, 2012, wherein the Philippine Navy seized eight Chinese fishermen close to the shoal (International Crisis Group, 2015). This incident

has aggravated the tension between the Philippines and China, resulting in a dispute over sovereignty issues. The dispute had caused the Philippine government to file a lawsuit as the country had faced consecutive incitements by the Chinese authorities. China, however, strongly condemned the lawsuit filed by the Philippines, saying that they would neither participate nor accept the case filed against them (The Ministry of Foreign Affairs, China, 2013). Nevertheless, on the part of the Philippines, which showed eagerness and confidence to pursue with the legal battle, won the case after three years of deliberations, in July 2016. But the battle continues outside the court when China considered the decision as null and void and accused the Philippines as a puppet of the US (Pompeo, 2020b; The Ministry of Foreign Affairs-China, 2016).

The year 2016 marked the installation of the new president Duterte and also the year when bilateral ties between the Philippines and China were restored. China was the first overseas visit by the new president. The new administration has lifted the moratorium on oil exploration in the South China sea and open the doors for future development in joint natural energy projects. To summarize, the asymmetrical relationship between the Philippines and China regarding the South China sea disputes has resulted in tendencies which could complicate future bilateral relations between the two countries.

In the study by Abd Rahman (2022), it was found that China's persistent claim of the South China Sea has intensified the growing misunderstanding with its neighboring countries like the Philippines, Vietnam, Malaysia, and Brunei. Moreover, the trade war between China and the United States, as well as the jostling for domination in the region has further compounded the situation in the current SCS disputes (Lee & Zulkefli, 2021).

Resolutions to End the Philippine–China Maritime Dispute

Five years ago, the Arbitral Tribunal finally gave its ruling after it was presented with facts and evidence by government representatives and lawyers from China and the Philippines. The said international tribunal under the 1982 Law of the Sea Convention came up with a unanimous decision, it rejected China's expansive undertakings in the SCS maritime claims as having no legal basis in international law. The tribunal's final decision favored the Philippines, ruling that the

Philippines have jurisdiction over the West Philippine Sea, which was claimed by China as part of their maritime belt area or jurisdiction.

Professor Batongbacal of the University of the Philippines provided the following recommendations to solve the said conflict as follows:

- (a) All parties should follow and commit to the freedom of navigation in the SCS by merely claiming their maritime jurisdiction within the 12 nautical miles' measurement starting in each country's baseline or seashore as a point of reference.
- (b) The parties should not create any arbitrary and expansive military zones within the SCS around their occupied features.
- (c) All parties should openly and expressly commit to the freedom to install and repair submarine cables and pipelines.
- (d) All parties must take action to stop activities that cause damage to marine living resources and habitats and cooperate.
- (e) The parties should create means of direct channels of communication between operational commanders of military and law enforcement units at sea that may be used during incidents and potential crisis events.

The Emma Kingdom 2015 asserted that "Arbitration under Annex VII of the United Nations Convention on the Law of the Sea (UNCLOS) would be the most effective resolution method and would lead to the most favorable outcome for the Philippines in its dispute against China in the South China Sea (SCS). The Philippines will likely not pursue adjudication in the International Court of Justice (ICJ) because the court would likely grant sovereignty over any islands to China, thus legitimizing China's aggressive actions in the SCS." Professor Batongbacal further argued that renegotiation is not a viable measure in this case.

Ian James Storey (1999) vehemently described the military weaknesses of the Philippines against China; to avoid a military confrontation between the two countries, the Philippines has no other option but to use and pursue diplomacy with China by simply employing bilateral and multilateral agreements as the best possible solution to

the maritime conflict. This was because China did not recognize the decision of the International Tribunal declaring that the Philippines has the legal and historic right over the West Philippine Sea by the UNCLOS Law of the Sea.

Recommendations

Firstly, the Philippines needs to adjust its foreign policy appropriately and adapt more flexibly to the rise of China. In light of the huge amount of economic benefits China presents to the Philippines, balancing economic cooperation with China is one of the significant challenges for the Philippine government. When resources are limited, the level of development is still disproportionate, and the policies and views between the two countries are still in conflict, flexible adjustment and adaptation is now more than ever, the essential stance that the Philippine government must take in order to ensure territorial security and increase economic cooperation with China.

Second, the Philippines must increase its competitiveness, deepen its ties with ASEAN nations, and build domestic capability to fulfill its economic reform pledges more readily. The competition between China and the United States is getting increasingly intense, particularly in the current context. The presidents of ASEAN nations, including the Philippines and China, signed the “China-ASEAN Comprehensive Economic Cooperation Framework Agreement” and the Free Trade Area as early as November 2002. The ASEAN-China Association Agreement went into effect on January 1, 2010, providing a chance for the Philippines to increase its exports of products to China, such as natural rubber, coffee, tea, pepper, cashew, rice, electric wire and cable, footwear, seafood, textiles, vegetables, wood, plastic, animal - vegetable oil, cassava slices, starch, confectionery and cereal products, and so on. There are also other natural resources and minerals that China needs to import regularly.

Third, the Philippines must undertake a significant power balancing policy, pursue economic diplomacy centered on China, and rely on the United States for security. Recent times has seen swift and rapid changes in Philippine-China ties, particularly under President Duterte, who had impacted the internal situation in the nation and the region through his implementation of a balancing strategy. The

Philippines will gradually lose its role as a playground for huge countries, particularly the United States and China. However, putting a balanced policy in place needs flexibility and innovation; changing too rapidly will result in shortcomings and the loss of supporters. President Duterte's hasty execution of a pro-China policy and his early approach to China may put the Philippines at risk of economic dependency on China. Since then, debt traps and China's involvement in territorial disputes, particularly the East Sea dispute, have become unavoidable.

Fourth, the senior leaders of the Philippines and China will exchange views and visit each other more frequently to gradually build a "comprehensive strategic cooperation partnership." Mutual visits make an essential contribution to the timely settlement of problems, and lead to the comprehensive development of bilateral relations, especially in the area of economic and trade cooperation.

Fifth, in the trade relationship between the two countries, the Philippines' most significant challenge is the trade balance deficit. The Philippines' considerable trade deficit with China is only worsening. Raw materials for manufacturing (chemicals, iron, steel, etc.), machinery and equipment, and industrial consumer items have been imported from China. Exports from the Philippines to China have remained unchanged. Furthermore, international commercial operations are insecure, and smuggling, counterfeit products, and low-quality commodities are widespread problems. In general, Philippine producers would face significant challenges if inexpensive Chinese goods were to flood the domestic market via border commerce. As a result, in terms of economic cooperation and political security, the Philippines must be careful of China. Expanding and boosting economic and commercial cooperation with China is unavoidable as globalization and worldwide economic integration increase. However, for collaboration to benefit both nations, the Philippines must make every effort to avoid being adversely affected.

The Belt and Road Initiative of President Xi Jinping of China has facilitated the connectivity of Asia to Europe. This has strengthened the synergy and dramatically enhanced the relations between China and the Philippines. Under President Xi and President Duterte, around 12 projects from China currently ongoing in Philippine soil have made good progress. The two countries' economic and trade relations

have been excellent despite the impact of COVID-19. The so-called bilateral trade between the two countries reached USD 61.15 billion, with an annual increase of 0.3 percent. China's non-financial direct investment in the Philippines hit USD 140 million, 1.36 times greater than in 2019. During the first quarter of this year, the bilateral trade reached USD 16.49 billion, and China's non-financial direct investment in the Philippines was USD 27.36 million, increasing by 34.7 percent and 85.2 percent, respectively. China remains the largest trading partner, the largest source of imports, the third-largest export market, and the second-largest foreign investor in the Philippines. Tropical fruits from the Philippines, such as bananas and avocados, have been served on the dining tables of more and more Chinese families.

The China-Philippines friendship is best exemplified during our joint fight against the scourge of COVID-19. Last year, at the height of China's battle with COVID-19, the Philippine government, and people from all walks of life provided valued support and assistance to China. Considering the pandemic situation in the Philippines, China has also extended every help and support to the Philippines to the best of its ability. China had promptly provided well-needed medical supplies to the Philippines, shared its hard-earned experience, and dispatched an anti-pandemic medical expert team to the Philippines. Together the two countries have achieved many memorable "Firsts". China was the first country to donate test kits, the first and the only country to dispatch an anti-pandemic medical expert team to the Philippines, and the first country to issue a special permit for the Philippine military air crafts and vessels to land and dock in China for the transportation of medical supplies. China's Sinovac was the first Covid-19 vaccine to arrive in the Philippines through a government-to-government donation and commercial procurement. It now tops the list of the most welcomed and trusted Covid-19 vaccines among Filipinos.

CONCLUSION

Generally, the Philippines and China have stable financial connections based on the advantages of the two countries, and the two nations have addressed each other's requirements to benefit the two peoples. When entering the second decade of the twenty-first century, the Philippines fully uses its domestic and external resources

to enhance and solidify partnerships with other nations. However, the Philippines-China relationship is no longer as developed as it was under President Arroyo. However, due to the efforts of both parties, economic relations between the two nations have seen some progress. Political tensions between China and the Philippines over the South China Sea have hampered political-diplomatic ties between the two nations under President Benigno Aquino III. However, statistics reveal that these disagreements have had little influence on bilateral trade growth between the two countries. Nevertheless, two-way investment has been reduced dramatically. The Philippines-China relationship has gradually improved under President Duterte's leadership. After approximately four years of shifting foreign policy toward "independence," China's commerce, investment, and finance have improved significantly. Furthermore, the Philippines maintains territorial sovereignty and domestic stability to sustain its economic progress. Furthermore, the Philippines has improved its position and role in relations with the two superpowers, increasing relations with China while also improving ties with the United States more substantially and in a balanced manner. Although problems in the South China Sea continue under President Duterte's leadership, he also stated that political conflicts should not impact investment and economic relations between the two nations. Aside from rapid economic development, the Philippines faces significant obstacles when attracting investment capital and investors from China. These same issues have forced the Philippines to change its diplomatic approach regularly throughout President Rodrigo Duterte's four years in power. Numerous unfavorable views have recently been expressed regarding the Philippines-China relationship, owing to the growing discord between the two nations, which would surely lead to competitiveness and violence. However, changes in both sides' policies and reliance on international and regional forces have had a significant impact on this relationship, compelling both nations to prioritize peace and security. Regional security is steadier. Furthermore, because the Philippines and China's main common strategic objectives are drawn from their bilateral economic connection, there is reason to assume that the bilateral relationship will continue to expand in the future.

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