



**ASSEMBLEA: An Online Journal of Political Science**  
**Volume 3 Issue No. 1**  
**2022**

## **One Belt One Road: An analysis on the Philippines' Official Development Assistance pivot to China**

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### **ABSTRACT**

*With the rising tension from the disputed islands in the South China Sea or the West Philippine Sea, it is unexpected that bilateral agreements with China would propagate under the Duterte administration. The use of Public-Private Partnerships (PPP) shifted into the use of Official Development Assistance (ODA) since the Duterte administration's goal of a closer relationship with China to help the administration attain its goal of the "Golden Age" of infrastructure development in the Philippines. China's foreign aid has been emphasized through China's Belt and Road Initiative program that aims to connect Asia, Africa, and Europe to increase trade and stimulate economic growth. This article then presents an in-depth study of the financial resource system in the Philippines, given the existing tension in the Philippine-China Relations, especially in its participation in the BRI, which garnered controversial instances where participating states failed to repay debts, and surrendered sovereignty rights. A thematic and document analysis has been applied on why the Duterte administration pivots to China and how the Philippines could manage its financial resources to negate the possibility of a debt trap. This study focuses on how the Philippines manages its Official Development Assistance from China's Belt and Road Initiative by displaying the effects of the relationship with the conclusion that the resulting agreements are disadvantageous for the Philippines but is still unlikely that it would lead to a debt trap in the Philippines' current economy.*

**Keywords:** *Official Development Assistance, Chinese Belt and Road Initiative, Duterte Administration, Philippine Perspective on China*

### **Recommended Citation:**

*del Prado, Y.P., Macaspac, N.P., Sison, A.S. (2022). One Belt One Road: An Analysis on the Philippines' Official Development Assistance Pivot to China. Assemblea, Vol. 3, No. 1, pp. 1-26*

## **INTRODUCTION**

The Duterte administration rose to the Philippine presidency in 2016 with an overwhelming margin of votes, which presented a decisive mandate to pursue major programs to boost the country's economy. The driving "Build Build Build" program aims at an extensive amount of funding for the large-scale infrastructure development in the country to reduce traffic issues for the overall ease of transportation (Ito, 2019; Kreuzer, 2018). As an answer, the administration modified the financial resources by seeking Official Development Assistance (ODA) from neighboring countries as the former Public-Private Partnership (PPP) caused delays in the bidding processes and weaknesses in public decision-making (Ito, 2019).

The Belt and Road Initiative (BRI), as described by Cook (2019), is not limited to the accomplishment of infrastructure development projects. It is also known for its foreign loans and grants that enable these projects through the Asian Infrastructure Investment Bank (AIIB). According to Heydarian (2017), the Duterte administration has opened an alliance with China by shifting the Philippines' foreign policy toward China. With the participation of the Philippines in the Belt and Road Initiative, it is possible to generate a similar conclusion as with the Hambantota Ports of Sri Lanka, where its unmanageable debts resulted in the yielding of sovereignty for funds (Herr, 2019; Samanarayake, 2019; Tonchev, 2018). With the rising tension between

the Philippines and China, from the recent maritime disputes and adding the controversial statements of the Duterte administration in favor of China, biases may form that any deal with the rising power is counterproductive. This study then explores how the Philippines manage its Official Development Assistance from China. The objective specifies identifying the effects of the Philippines pivoting to China and describing how it pays its debts to China.

## **Official Development Assistance**

In the Philippines, the PPP system is widely known as it is an established major financial resource in terms of economic development (Ito, 2019). The country has formulated the Build-Operate-Transfer Law, the first in Asia-Pacific, indicating the assistance for building and development projects by encouraging foreign investors and coordinating with them (Ito, 2019). The first PPP projects were launched during Benigno Aquino III's Administration as they have made crucial changes in the development policy (Ito, 2019). Nevertheless, the PPP system in the country continuously progresses; changing into the inclination to ODA during the Duterte Administration after it launched its Dutertenomics in 2016, which focuses on a large-scale development plan in the country that accumulates at an estimated Eight-Trillion Philippine Pesos (Ito, 2019). As the project's cost expensively and need much tuning for their development, ODAs have been made an official financial resource (de Castro, 2019). This

paper then aims to determine the effects of the shift from the former financial resource system, the PPP, towards ODA, particularly the Chinese financial assistance for the Duterte administration's development plan.

### **Duterte Administration's Pivot to China**

The relationship between the Philippines and China has not been stable, especially in more recent events. The territorial dispute in the South China Sea/West Philippine Sea started the *shift* where the Duterte administration established diplomatic relations with China by giving up part of the disputed islands, yielding to China's Nine-Dash-Line (De Castro, 2019; Domingo-Almase, 2017). The implication of the Arbitral Tribunal Award has been overlooked as the Duterte administration is forming a friendly affiliation with China for economic development and the improvement of his foreign policy; the administration believes that relying upon the Arbitral Tribunal would only provide diplomatic inconvenience (Hsu, 2016; Roberts, 2017). Officially sacrificing sovereignty on the disputed islands indicates that the bilateral agreement between the Philippines and China bears heavier weight than the arbitral tribunal's award (De Castro, 2020).

The Duterte administration first sought China's trust by venturing financial assistance and investments to develop rehabilitation centers for drug dependents and the country's

construction of railways and roads. The "Build! Build! Build!" program of the administration focused on boosting the economy through large-scale infrastructure programs that aim to alleviate road congestion and provide alternatives for accessibility in transportation, then is a match for China's financial aid. Moreover, the program seeks to ensure the sustainability of the country's waterworks, from dams to drainage systems. With the ambitious goal, the cost of construction is sure to be high. Thus, the construction of large-scale infrastructure led to the Duterte administration's reliance on other sources of funds. The increase of tax from everyday consumer products was one of the solutions presented by Dutertenomics and has since been passed by Congress in 2017. This aids in alleviating the high expenditure of the BBB program by generating more revenue (Ito, 2019). Moreover, the Duterte administration also declared the shift of foreign policy using ODA to open an alliance with the rising power, China, concerning business, trade, and commerce (Heydarian, 2017).

Chinese investment firms were rewarded with the partnership of building major infrastructures in the Philippines such as the New Centennial Water Source of Kaliwa Dam Project and soon North to South Railway Project; it is a clear sign that China has included the Philippines in its Belt and Road Initiative which debts are backed with collaterals such as property rights (Kreuzer, 2018). According to Ito (2019), although the inclination towards ODA

could secure longer-term maturity and concessional terms, this also presents risks unfavorable for the Philippines.

### **The Chinese Belt and Road Initiative**

The promotion of the Chinese Belt and Road Initiative was to build connections among various nations; the Philippines during Duterte's regime perceived it as the primary instrument for economic development and stability (de Castro, 2019). The administration also affirmed that the BRI's goal of interconnectivity would result in free trade and market access in the global arena with mutual benefits on hand. The administration officially sought Chinese assistance as they have recognized the improvements in infrastructures brought by the BRI in its neighboring countries with the additional finance from the enacted Tax Reform for Acceleration and Inclusion act to aid in paying for necessary finances in the BBB program (de Castro, 2019; Katigbak, 2018). The changes in the financial resource system introduced from the administration of President Benigno Aquino III to the Duterte administration which now moves in the direction of leaning towards foreign investment dependency, specifically to China - creating an effect on the public and to the Philippine economy due to the growth of foreign debt and consequently, subjugation through China's debt-trap diplomacy.

### **Philippine Perspective on China**

Perception of China in the Philippines does not necessarily uphold a positive outlook. Based on the Pulse Survey

Report, the Filipinos have shown skepticism toward China with a score of 60% to 76% in a distrust rating. The negative controversies of the Philippines' possibility of falling under a debt trap came along with the Duterte administration's softer relationship with China, which its intentions of loaning from the superpower (Camba, 2019). Moreover, with enough debts, China could utilize the amounts as leverage over the Philippines on its territorial disputes in the South China Sea (Malinao, 2018). Hence, there are concerns about China utilizing the BRI in achieving its self-interest goals to further its economic and geopolitical power. By shaping trade routes and seizing the patrimonial assets- or the alienable and disposable lands that are referred to be owned by public domain and declared as unessential for present use, points for the transportation of natural resources and goods exclusively for the benefit of China (Trinidad, 2019; The Public Land Act 1936 s 8. (Phl.).

In the case of Sri Lanka and its ports Colombo Port City and and the port of Hambantota, wherein both of which were funded by China's investments, promises to help lower prices as well as improve supply chains that ensures trade volume growth (Samanarayake, 2019; Tonchev, 2018). The unmanageable debt resulted in the arbitrary ruling of the wavering of the \$1.1 billion debt in exchange of China having major control over the Hambantota project which concluded in the turnover of the southern seaport of the completed Hambantota port to China on a 99-year lease, as well as a

large part of the Colombo Port City with the same predetermined course; China's debt trap diplomacy which cedes sovereignty in exchange of funds (Herr, 2019; Samanarayake, 2019; Tonchev, 2018). However, Camba (2019) emphasized that most reports from the Philippines overlooked the conditions of Chinese financial loans, already presuming high-interest rates. Additionally, the decentralization of the Philippines contributed to maintaining the unlikelihood of a debt trap. The local government, civil society, and elite groups have had significant roles in balancing the proliferation of Chinese influence and Chinese-funded projects since they have the power to oppose the establishment of the project in their constituency. This indicates that despite the friendly relationship between the Duterte Administration and China, state actors such as elite groups and local governments could still challenge China-supported initiatives (Camba, 2019). For instance, the initiative of establishing PNR railway has been halted due to the disagreement between the municipal leaders in Quezon and Bicol regions as many constituents would be affected by its construction. Local conflict has risen as self-interest also influenced their decisions since they have competed for train stations for economic capital and revenue (Camba, 2019).

## **METHODOLOGY**

### **Analytical Framework**

Institutional Theory is centralized on the idea that organizations and relations are often influenced by various factors, such

as political decisions, economic conditions, cultural background, and historical events (Nguyen, 2009). According to North (1991), institutions are necessary to administer the state towards economic progress. These institutions constitute both formal and informal rules that regulate individuals' social structure and activities for stability and development. Furthermore, the theory elaborates these institutions, mainly the state, as it is the only institution capable of establishing cooperation for economic growth, often utilizes mechanisms that have lower transaction costs as a high degree of transaction costs result in insecurity of property rights (Nguyen, 2009). Additionally, in cooperation with other institutions, similarity in goals is being considered for mutual benefits and to refrain the occurrence of inferiority and domination. Nonetheless, a state could still build projects despite its high transaction cost through power bargaining. The institution can provide privileges to a particular group, organization, or other state institution by giving huge benefits and institutional control in return for their financial assistance (North, 1991). However, conflict may persist as property rights become collateral, which may impede the state's economic development (Nguyen, 2009). The framework then became the pattern of institutions in planning and producing projects for economic development; risks are present, and so are benefits (Nguyen, 2009).

Correspondingly, the nature of transition would be the economic



standing of the Philippines being a developing country in the context of its relationship with China, particularly its cooperation in Build Build Build projects under the Belt and Road Initiative. Its politics is defined with the Duterte administration's goal of coinciding with China's economic growth through its infrastructure development. Given the history of the people-to-people exchange between the Filipinos and the Chinese, it is of tantamount importance to include the recent history of its territorial disputes in the South China Sea. It is beyond reasonable doubt that both parties have negatively impacted their fundamental values and beliefs through this history of clash. The financial loan agreements could then be considered the formal rules that were made to achieve compromise driven by informal norms

the possible outcomes of said agreements, as the firm's internal structure could be perceived through its informal norms.

This research requires the narratives of the foreign policy shift of the Duterte Administration towards China and its relation to China's Belt and Road Initiative; thus, primary and secondary data such as documents and key-informant interviews for validation were gathered. The documents such as Agreements on Economic and Technical Cooperation between the Government of the Republic of the Philippines and the Government of the People's Republic of China through its state-owned banks, Implementation Agreement of Two China-Aid Bridges Project, Contract Agreement for Civil Works (Two China Aid Bridges Project),

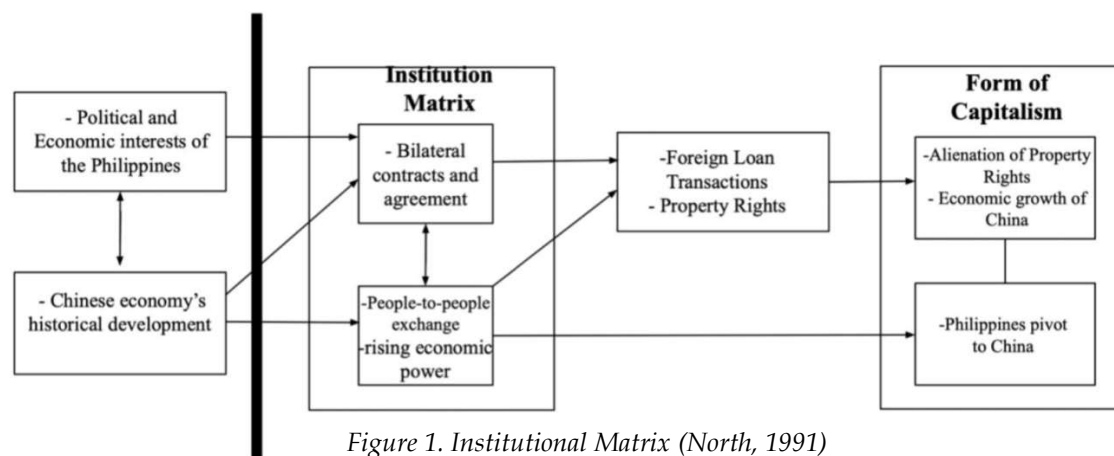


Figure 1. Institutional Matrix (North, 1991)

conceived by the motives of rational actors in government positions. Written loan agreements were formulated to ratify final negotiations concerning matters such as transaction costs and property rights that both parties have agreed upon. Conclusively, patterns of firms could then be deduced through

Loan Agreement on the Chico River Pump Irrigation Project, Loan Agreement on The New Centennial Water-Source Kaliwa Dam Project, and Feasibility Study for 12 Bridges on Pasig-Marikina River were collected through the coordination of the Department of Public Works and

Highways, and looking into the official website of the Philippine Department of Finance. Document analysis has then been utilized to examine and interpret the gathered contracts and agreements, which aids in the formulation of an empirical understanding of the Duterte administration's pivot to China as it serves as documentary evidence. Correspondingly, key-informant interviews were also utilized in the study through data triangulation. Data methods were integrated for a more empirical analysis that prevented the presence of potential biases as it established credibility (Bowen, 2009). As the study focuses on Philippine economic development, specifically in the ODA programs, the researchers selected specific experts for their knowledge on particular research objectives. For this study, the researchers purposely invited personnel from the Chinese Embassy in the Philippines, Office of Asia & Pacific Affairs, Department of Foreign Affairs (DFA), Academic experts in the field of Philippine-China Relations, the Bilateral Division in the Department of Finance (DOF), and representatives from the National Economic and Development Authority (NEDA).

Each expert has been provided with a different set of questions depending on their expertise. For instance, the questions for the Chinese Embassy centralized on their diplomatic relations with the Philippines. On the other hand, the questions given to the DFA were heavily focused on the Bilateral relations between the Philippines and China;

hence, the data gathered contributed to the narrative analysis of the importance of the Philippine-China relations and China's BRI in the Duterte Administration's BBB program. Conversely, the DOF was given a set of questions centralized on China's role in funding the BBB projects and their effect on planning and implementation. Their response then has been categorized and analyzed to fulfill the study's main research objective, defining the success of the Chinese-funded BBB projects. Representatives from the NEDA have also been purposely interviewed since the department solely holds the country's economic growth plans. The data collected from their answers were significant as it contributed to identifying the possibility of the Philippines falling into a debt trap as in the case of Sri Lanka. People in the academe with interests in the Philippine-China relations were also interviewed for their expertise and knowledge about the benefits and challenges of China's ODA and its Belt and Road Initiative program in the Philippines. All the data contributed by the invited respondents were validated through narrative analysis, in which identification of the themes, categorization of the main ideas, and formulation of codes was executed to answer the research question of the changes in the ODA and its effects after the Philippine's Pivot to China with the latter's program of Belt and Road Initiative during the Duterte Administration.

## RESULTS AND DISCUSSION

Exemplary Quotes	Subordinating Theme	Categorical Theme
<p>".... the Belt and Road Initiative that is in line with the government's "Build, Build, Build" Program embodied in the Philippine Development Plan 2017-2022, proves to be of strategic timing and importance."</p> <p><b>Chinese Embassy</b></p>	Mutual Interests	<p><b>Philippines' Diplomacy pivot to China</b></p>
<p>"When the Chinese side determines its ODAs in the Philippines, it attaches great importance to the Philippine development plan and pays high attention to the Philippines' needs and to improve people's livelihood.... for example, the China-aid Estrella-Pantaleon Bridge."</p> <p><b>Chinese Embassy</b></p>	China's assistance in accordance with the Philippine Development Plan	
<p>"Increasing financial cooperation to build a sound framework for investment, financing, and credit services in Asia.... strengthening the role of the Asian Infrastructure Investment Bank, and the Silk Road Fund."</p> <p><b>Chinese Embassy</b></p>	Financial Integration	<p><b>The Effects of Bilateral Agreements Between China and the Philippines</b></p>
<p>"The progress of the government-to-government projects between China and the Philippines will contribute to achieving Duterte administration's goal and bring.... benefits to the Filipinos."</p> <p><b>Chinese Embassy</b></p>	Opportunity for the Philippines' economic development	



<p>"The Philippine government has sufficient safeguards to ensure that.... the processing of projects will be done properly and transparently... The Philippine government's projected debt exposure to China is only 1.67% of total debt."</p> <p><b>DFA</b></p>	<p>Philippine national security</p>	<p><b>The Effects of Bilateral Agreements Between China and the Philippines</b></p>
<p>"Under Constitution and laws, ODA-funded projects cannot allow appropriation or takeover of assets in the event of default which, in the first place, is unlikely."</p> <p><b>DFA</b></p>	<p>Philippine sovereignty rights</p>	
<p>"..these projects are driven by the demand for financing by the Philippine Government, not the availability of financing from China."</p> <p><b>DOF</b></p>	<p>Duterte Administration's reliance on financial assistance</p>	<p><b>Philippine Financial Agreements with China in BBB Projects</b></p>
<p>"With China's comparative advantage in terms of technology, equipment and materials, and human resources, it is considered an attractive partner for the Philippines."</p> <p><b>NEDA</b></p>	<p>China as significant development partner</p>	<p><b>Philippines' Diplomacy pivot to China</b></p>
<p>"The Chinese government does not explicitly state during consultations that these forms of assistance are part of BRI."</p> <p><b>NEDA</b></p>	<p>Infrastructure Development Assistance</p>	
<p>"Main motivation of China is to capitalize on different political temperatures and to increase their influence in the Philippines."</p> <p><b>Informant 1</b></p>	<p>Characteristic of Chinese ODAs</p>	

<p>“We shouldn't just depend so much or overly rely on anyone's country so This is why diversification is very important..... if you're dependent on them, you're making yourself vulnerable to economic sanctions.” <b>Informant 1</b></p>	<p>Risks of making diplomatic relations with China</p>	<p><b>The Effects of Bilateral Agreements Between China and the Philippines</b></p>
<p>“China's economic statecraft is also for commercial profit... this economic statecraft does not only reflect its projection of soft power” <b>Informant 2</b></p>	<p>Main motivation of China in joining ODA program</p>	<p><b>Philippines' Diplomacy pivot to China</b></p>
<p>“If you compare, China still has lower interest rates compared to other countries.” <b>Informant 2</b></p>	<p>Lower interest rate</p>	<p><b>Philippine Financial Agreements with China in BBB Projects</b></p>

**Table 1: Thematic Analysis of Key-Informant Interviews**

Table 1 presents the thematic analysis of the gathered data from key-informant interviews which further describe the Philippine - China relationship through its diplomacy and the effects of its bilateral negotiations. These key-informants range from the Philippine government departments that are directly involved in the management of the PH - China relationship to international relations experts in the academe. Three themes were identified from both the document analysis and key-informant interviews that answer the research objectives; these are (1) the Philippines' diplomacy pivot to China, (2) the Philippine financial agreements with China in Build Build Build projects, and (3) the effects of bilateral agreements between China and the Philippines through the Belt and Road Initiative.

The Department of Foreign Affairs and the Department of Finance affirm the unlikelihood of the Philippines to suffer from a debt trap with the provision of data. They have also disclosed its effects of increased employment rates that aided in the lessening of poverty from 2015-2019 as an advantage of infrastructure development in the country during the implementation of the Build Build Build projects in general, not particular to the bilateral projects with China. Concerning the national sovereignty and security of the country, it is assured that there are enough safeguards as well as the proper management and transparency in the implementation of these projects. Moreover, the Chinese embassy narrates the relationship with the Philippine government's demand for financing, with China contributing financial

assistance for the country's economic development.

Informants from the academe compliment the data given by the different government departments through their expert analysis describing

the perception of the Duterte administration to China as a source of economic opportunity as well as the possible motivation of China in the engagement of bilateral agreements with the Philippines.

Statement in Loan and Grant Agreements	Basic Theme	Categorical Theme
<p><b>Art. 2.2 Chico River Pump Irrigation Project and The New Centennial Water Source-Kaliwa Dam Project</b></p> <p><b>"Interest rate</b> The rate of interest applicable to the Loan shall be two percent (2%) per annum."</p>	Loan Interests	<p><b>Philippine Financial Agreements with China in BBB Projects</b></p>
<p><b>7.2c Chico River Pump Irrigation Project and The New Centennial Water Source-Kaliwa Dam Project.</b></p> <p>"...declare all the principal of and accrued interest in accordance with this Agreement and all other sums payable hereunder to be, whereupon the same shall become, immediately due and payable by the Borrower without further demand, notice, or other legal formality of any kind."</p>	Consequence of noncompliance	
<p><b>Art. 8.1 Waiver of Immunity</b> "...the Borrower does not waive any immunity of its assets which are (i) used by a diplomatic or consular mission of the Republic of the Philippines, (ii) of a military character and under control of a military authority of defence agency of the Republic of the Philippines, or (iii) located in the Philippines and dedicated to a public or governmental use. (as distinguished from patrimonial assets and assets dedicated to commercial use)."</p>	The Philippines' sovereignty rights	<p><b>The Effects of Bilateral Agreements Between China and the Philippines</b></p>
<p><b>Art.8.4 Governing Law</b> "This agreement as well as the rights and obligations of the parties hereunder shall be governed by and construed</p>	Rules and Regulation	<p><b>Philippines' Diplomacy pivot to China</b></p>

in accordance with the laws of China.”		
<p><b>Art. 8.5 Chico River Pump Project and The New Centennial Water Source-Kaliwa Dam Project</b> “... If no settlement can be reached through such consultation, each party shall have the right to submit such a dispute to the China International Economic and Trade Arbitration Commission (CIETAC) for arbitration. The arbitration shall be conducted in accordance with the CIETAC’s arbitration rules in effect at the time of applying for arbitration. The arbitral award shall be final and binding upon both Parties. The arbitration shall take place in Beijing.” or the “...Hong Kong International Arbitration Centre (HKIAC)- for The New Centennial Water Source-Kaliwa Dam Project for arbitration. The arbitration shall be conducted in accordance with the HKIAC arbitration rules in effect at the time of applying for arbitration. The arbitral award shall be final and binding upon both Parties. The seat of arbitration shall be in Hong Kong.”</p>	Arbitration process	<b>Philippines’ Diplomacy pivot to China</b>
<p><b>Art. 8.8 Chico River Pump Project and The New Centennial Water Source-Kaliwa Dam Project</b> “ the borrower shall keep all the terms, conditions, and standard of fees hereunder or in connection with this Agreement strictly confidential. Without the prior written consent of the Lender, the Borrower shall not disclose any information hereunder or in connection with this Agreement to any third party unless required to be disclosed by the Borrower to any courts of competent jurisdiction, relevant regulatory bodies, or any government institution...of the Borrower in accordance with any applicable Philippine law.”</p>	Confidentiality	<b>The Effects of Bilateral Agreements Between China and the Philippines</b>
<b>Art. 1:Agreement on Economic and Technical Cooperation Between the Government of the</b>	Financial	<b>Philippine Financial</b>

<p><b>Philippines and the Government of the People's Republic of China</b> The government of the People's Republic of China agrees to provide the Government of the Republic of the Philippines with a grant of Five Hundred Million Renminbi Yuan (RMB Yuan 500,000,000), of which Two Hundred Sixty-Four Million Eight Hundred Thousand Renminbi Yuan (RMB Yuan 264,800,000) shall be used to partially finance the expenses of the Binondo-Intramuros Bridge and Estrella-Pantaleon Bridge in Manila. The balance of the grant shall be disbursed to finance other projects to be mutually agreed by the two sides. The funds will be given through China Development Bank.</p>	<p>Assistance</p> <p>Financial Assistance</p>	<p><b>Agreements with China in BBB Projects</b></p>
<p><b>Article 11: Contract for the implementation of civil works, The China-Aid Bridges project in Manila, Philippines Binondo-Intramuros Bridge and Estrella-Pantaleon Bridge)</b> "In terms of ownership. The Project, including all assets and other improvements constructed therein or otherwise contributed or introduced and all additional or enhancement works as well as the intellectual property rights over contract documents... shall remain with the Republic of the Philippines."</p>	<p>The Philippines' sovereignty rights</p>	<p><b>The Effects of Bilateral Agreements Between China and the Philippines</b></p>

**Table 2: Document Analysis**

Table 2 then shows the document analysis from the gathered loan and grant agreements for the BBB projects of the Duterte Administration, which specifies the description of the projects, financial assistance of China, and consequences of non-compliance assuming that the Philippines defaulted. The analysis indicates the preferential buyer's credit loan agreement which explains the partnership between the

Philippine Government and the Government of the People's Republic of China in the implementation of the CRPIP and the Kaliwa Dam. China, through its Export-Import Bank, lends the sum of USD 62,086,837.82 to the Philippines for CRPIP's construction which has been considered as the first flagship project that is financed by China under the BBB program and is implemented by the China CAMC



Engineering Company, Ltd. On the other hand, the agreed upon loan lent by China in the administration of the Kaliwa Dam project is at the amount of USD 211,214,646.54 and still, will be implemented under the same Chinese contractor. As per the signed contracts, both of the projects will be funded through China's Export-Import Bank and will have a loan interest of two percent (2%) per annum. Sovereignty rights and obligations of each party are also defined in the document; the Philippines has been given diplomatic immunity rights, except for the country's declared patrimonial assets, while the loan agreements shall be governed in accordance with the laws of China.

The study has also analyzed the grants given by China through its implementation and contract agreements whereas presented in table 4.1, China has granted the Philippines with RMB Yuan 500,000,000 or USD 78,077,400.00, which RMB Yuan 264,800,000 or USD 41,349,791.04 will be used to finance the Binondo-Intramuros Bridge and Estrella-Pantaleon Bridge in Manila, Philippines. The remaining balance or financial assistance by China will be used to finance other projects that the parties mutually agreed to. The funds will be given through China Development Bank; different from the financial sources stated in the loan agreements. The sovereignty rights of the Philippines in the China-aid projects are also different as the ownership of the infrastructure projects-alongside with its assets and property rights, will remain in the Philippines.

### **Philippines' diplomacy pivot to China**

Developing countries form international alliances for interdependence to grow national development and achieve national interests, as is what the Philippine government expects with its relationship with China (Trinidad, 2019). As presented in the conceptual framework of this study, state institutions normally establish relationships with others on the basis of similarity of goals- which in this case is economic development. The Duterte administration had established a closer tie with China with its economic development plans through infrastructures and improved foreign policies, considering China in various development cooperation in the form of grants and loans, as well as capacity support and technical assistance. These forms of development cooperation are in addition to commercial bonds in the international markets and other economic deals and investments with private investors, including Public-Private Partnerships. However, in contrast to the past administrations, the stronger relationship between the Duterte administration and China resulted in a shift in the country's foreign policy by opening bilateral agreements concerning business, trade, and commerce, which improved political relations and increased economic projects development assistance from China. The stronger relations garnered the Official Development Assistance of China financing the Duterte Administration's critical infrastructure and development

projects under its 2017-2022 Philippine Development Plan.

During the State Visit of President Xi Jinping to the Philippines in November 2018, the Philippines and China signed the Memorandum of Understanding on the cooperation and participation of the Philippines in the Belt and Road Initiative. The MOU commits cooperation in the policy dialogue and communication, infrastructure development and connectivity, cooperation in trade and investment; financial cooperation; and socio-cultural exchanges. Alongside this, China also provided grants to support the implementation of select activities in the Philippines, technical assistance for conducting feasibility studies for the projects, and short-term training programs. China sees the BRI to be in line with the administration's BBB program to be of strategic timing giving great importance to the Philippines' development plan for its economic development. The Estrella - Pantaleon Bridge and the Binondo - Intramuros Bridge under the JICA-Assisted Pasig-Marikina River Channel Improvement Project, Phase III, are examples of grants financed by China to support this notion. An informant affirms that the Philippines also benefited from its diplomatic relations with China as the Duterte administration- through its balancing act, could still assert their rights when the agreement was disadvantageous for the Philippines and at the same time engage when there are opportunities like financial assistance. In a simplified manner, the administration seeks China for its

financial support while also trying to secure its national interests.

Nonetheless, the claim of the Philippines pivoting to China has been determined, in which the Philippines has accepted non-negotiable terms and conditions of the CRPIP and the Kaliwa Dam Project loan agreements which irrevocably centralizes on the interests of China. In applying North's theory of institutions, whereas the state provides privileges of institutional control in return of financial assistance, the Duterte Administration- with its goal of economic development, nonetheless, agreed upon the demands of China with loan agreements confined to its national interests without considering the possibility of China's dominance and control over the developing infrastructure as collateral in cases in which payments could not be made. It could be seen through foreign loan agreements under the BRI, that the CRPIP and the Kaliwa Dam Project, both of which are upscale, vital projects and are not grants from China (de Castro, 2019; Kreuzer, 2018). Both projects feature, under its MOU, that all agreements, rights, and obligations of both parties follow the laws of China. China also selected contractors for the projects, whereas China CAMC Engineering Company, Ltd. was selected for the CRPIP. At the same time, China Energy Engineering Corporation, Ltd. was chosen to execute the Kaliwa Dam Project.

Further, suppose a dispute concerning loan agreement emerges between the involved parties. In that case, it is

indicated in Article 8, section 5, of both the CRPIP and the Kaliwa Dam Project loan agreements that if any unsolvable disputes arise in connection to the agreement, the parties concerned have the right to voice their concerns. Only, they should submit said concerns to the China International Economic and Trade Arbitration Commission (CIETAC) for the CRPIP and Hong Kong International Arbitration Centre (HKIAC) for the Kaliwa Dam Project. The arbitration would be conducted in accordance with the CIETAC and HKIAC arbitration rules in effect during the time of the arbitration, taking place in its respective countries, under China's territory. This potentially demonstrates bias in the decision-making process of the arbitration and the resolving of its issues. Factors within the clauses of the agreements manifest a favorable inclination toward China in most aspects as it endangers the property rights of the Philippines.

The DOF justifies that the Duterte Administration prioritizes economic and infrastructure initiatives to assist the progress of growth of the Philippines, as it already is one of the fastest-growing emerging economies in Asia. Informants from the academe affirm that the Duterte Administration perceives China as a source of economic opportunities, particularly in infrastructure projects which is one of the primary platforms of the BRI. China's primary motivation was also described as capitalizing on different political temperatures and increasing its influence in the Philippines and for commercial profit. The Philippine

government should only have to balance and manage the relationship with China properly to benefit from it.

### **Philippine financial agreements with China in Build Build Build projects**

The Philippines' shift from Public-Private Partnership to Official Development Assistance is a mark of Duterteonomics that aims at relying more on foreign financial aids as a source to achieve the country's economic goals of infrastructure development (Ito, 2019; Trinidad, 2019). Hence, a portion but major BBB projects introduced by the Duterte Administration have confided to China's ODAs; The CRPIP and the Kaliwa Dam Project. Based on the discussions of the DOF and NEDA, Chinese ODAs are more attractive in financing the implementation of the BBB projects because of its technology, equipment and materials, and human resources advantage. This was because the terms are substantially more generous than market loans and interest rates, which are considered lower than other countries part of the ODA program. Also, the loans provided for establishing the CRPIP and the Kaliwa Dam project are considered under the Preferential Buyer's Credit Loan, which could cover about 85 percent of the projects' costs. The maturity period given for the facility is about twenty (20) years-seven (7) years of a grace period, and thirteen (13) years of the repayment period, which provides the Philippines ample time to repay its loans. Additionally, China generously provided a grant worth RMB Yuan 500,000,000 or USD 78, 077,400.00, in

which RMB Yuan 264,800,000 or USD 41,349,791.04 will be utilized for the construction of the Binondo-Intramuros Bridge and Estrella-Pantaleon Bridge.

NEDA affirms that the loan and grant agreements then describe that the Duterte administration primarily seeks China as a financial source of economic opportunity rather than China looking for developing nations that need loans. The administration believed that the Official Development Assistance from China has an advantage for the Philippines' economic development as the loans were under concessional financing or its interest rates were below the market value. One of the Informants explains that this ODA results from the President's China-friendly policy, which aims to improve political relations and increase economic projects or development assistance from the Chinese. The administration's closer ties with China and prioritization of infrastructure development then resulted in an increase in the country's Gross Domestic Product as the average of 3% in 2011-2016 increased to over 5% during the year of 2018 to 2019. Moreover, it should be noted that Chinese ODAs only ranked 6th on the overall ODA partners of the Philippines as Japan is still the leading ODA partner; this indicates that China consumes only about 2.02% of the entire loans and grants in the country. Nonetheless, as mentioned by the DOF, national interests are still significant in making economic decisions since the administration has taken principal considerations in securing ODAs from China, in which all laws in the

Philippines, rules, and regulations on the environment, right of way, and social safeguards should comply during the projects' implementation.

To explain China's motivation in providing financial assistance to the Philippines, the informant illustrated the internal aspect of China over the years since that China's history affects its formulation of foreign policies. During the 1900s, after the Chinese civil war, China remained a poor and undeveloped country due to its economic decline. The undeveloped country inspired and motivated the prominent leaders of China to establish an economic reform that would improve their economy; in the form of development aid or now known as the ODAs. China then utilized their economy to pursue certain goals from developing countries, which in this case is the Philippines. It has also been stated that the goal of China in providing ODA changes depending on what they need thus, it is then arguable that Chinese ODAs in the Philippines could be an operation to dismiss the arbitral ruling and claims of the Philippines in the South China Sea.

However, bilateral agreements that resulted from the exchange between the Government of the Philippines through the DOF and the Government of the People's Republic of China through the Ministry of Commerce had settled to an unfavorable agreement for the Philippines. Interest rates according to Article 2, sect. 2 of the CRPIP and The Kaliwa Dam Project's preferential buyer's credit loan agreement proves to



be a hefty amount for a developing country like the Philippines, considering the costly major projects that averages at USD 137 million, which guarantees the accumulation of pricey interest rates no matter the initial rate agreed upon. To add, in the event of a default in the agreement, actions to remedy the situation benefit the Lender, China, most. With that, the possibility of a debt trap could still be perceived through the means of a huge amount of loan and its interests. Additionally, this kind of financial agreement which gives China the utmost advantage could become the standard/template for future agreements with them thus, making the Philippines more economically vulnerable. Nevertheless, the DOF emphasized that these projects are driven by the demand for financing by the Philippine Government.

### **The effects of bilateral agreements between China and the Philippines through the Belt and Road Initiative**

The claim of the debt trap emanates from the basis of “China-centric” loan agreements as a lender to high-cost major infrastructure projects. With the trend of China’s BRI in its acquisition of property rights as collateral for the inability to pay debts, the Philippines, through the CRPIP and the Kaliwa Dam, would be at risk of falling under the debt trap (Magcamit, 2019). The CRPIP and the Kaliwa Dam Project could be considered strategic infrastructures, similar to the Hambantota ports, where China controls Sri Lanka’s seaports due to its inability to pay debts. For instance,

Article 8, section 1 of the loan agreement is deemed problematic as it indicates that the Borrower- the Philippines- has consented to surrender its patrimonial assets or properties that would be dedicated for commercial use should it be enforced in an arbitration award. Even more problematic would be article 8.8 of the loan agreement wherein it stated that the terms and contents of the agreements shall remain *strictly confidential*, which secrecy in itself is a questionable trait. According to section 8 of *The Public Land Act of 1936*, only the President has the capacity to declare an alienated land of public domain as a patrimonial asset, which will be subjected to an arbitration process in case of the occurrence of dispute or any event of default that is enumerated in the loan agreement. Thus, the Lender could attain its complete control over a natural resource that would be considered as a patrimonial asset without violating the binding agreement.

Conversely, the DFA affirmed that the Duterte administration has been prudent in its borrowings and debt management policy which secures the country from falling into a debt trap. The occurrence of a debt trap is inconceivable in the Philippines as it is under the constitution that ODA-funded projects cannot be appropriated and seized in the event of default. It is supported by Article 11 of the Contract for implementing civil works, which explains that projects under the Philippine-China contract agreements and all of its assets should remain in the Philippines. With high regards to



people-to-people exchange and their history, China utilizes the strategy of economic statecraft, which implies the use of the Chinese economy through its ODAs for commercial profit; if the financial resources were transferred from China Export-Import Bank, China would then gain profit through its interest rates. The increase of financial cooperation for financing, investment, and credit services in the continent strengthens the role of the Asian Infrastructure Investment Bank (AIIB), as well as its Silk Road Fund. Therefore, this economic statecraft justifies the Philippine-China diplomatic relations, wherein the Philippines have chosen China as its Lender with its claim of lower interest rates and reasonable conditions. Moreover, almost all of the infrastructure development under the Chinese-funded BBB program of the Duterte Administration has contributed to the Philippine economy with an increase of employment rate; this is the reason why they are very optimistic in supporting the BRI activities and its initiatives in the country. In general, the informants' answers pointed to the understanding that the country is in better economic standing than Sri Lanka; the notion of a debt trap in the Philippines had only been conceived due to the South China Sea dispute.

However, the characteristics of China's Belt and Road Initiative are still open for the possibility of a debt trap since the informants asserted the potential risks of agreeing with China. Still, the informants' responses still concluded that joining the BRI program can lose the country's national character by

defaulting and not paying the loans. It is duly because China has a condition to let go of the arbitration ruling of the South China Sea, which indicates that the Philippines would drop its claims over the island. Rampant corruption in the country could also contribute to a debt trap if the financial resources cannot be maximized as the loans will remain unpaid should there be an economic decline. Even so, the informants remained optimistic about the BRI because of its economic benefits in the Philippines so far. Thus, they otherwise recommended that diversification and other factors which do not rely upon sacrificing the South China Sea and other properties as collaterals should be alternatively considered in agreeing with China- to prevent falling into a debt trap and losing sovereignty rights.

### **Understanding China's motivation in funding the BBB projects**

Naturally, loans benefit the lender more than the borrower, as the latter needs more from the former. In the case of the Philippines' loan to China in flagship projects, the Philippines approached China for financing, which resulted in "China-centric" agreements. Conveying the NEDA's answer, the Duterte administration has sought to establish diplomatic relations with China. They perceived that China would be a significant partner for the infrastructure development of some of the BBB projects. They stated that selecting the Chinese government as an ODA partner is beneficial for the Philippines as it opens more opportunities for

developing the BBB projects, which would optimistically affect the country's economic development. Therefore, the Duterte administration pivoted toward China for its development assistance that was deemed to boost its economy.

Moreover, the data presents that the Belt and Road Initiative complements the Build Build Build program with its focus on infrastructure projects. Thus, credit services under the BRI have been implemented in the Philippines to fund infrastructure projects. It is then perceived that both countries would mutually benefit from the partnership with the Kaliwa Dam Project and the CRPIP as its pioneers, should the rates remain manageable. The success of the Chinese-funded BBB projects could be seen through the BRI, which secures a higher ground for China in its funded BBB projects by safeguarding its interests through its loan agreements. However, despite the assurance from the Chinese Embassy, NEDA, the Department of Foreign Affairs, the Department of Finance, and experts from the academe- which exclaimed that China would not influence infrastructure development programs in the country, the fact remains the same; most agree that there is still a possibility of a debt trap.

As illustrated in the conceptual framework, the loan agreements of the flagship projects portray to be leaning toward China, which guarantees the success of Chinese-funded BBB projects, whether the Philippine government would be able to pay or not. Despite the cooperative gestures shown by China

with its diplomatic relations with the Philippines, foreign loan agreements were perceived to contain non-negotiable terms that were more beneficial for China than the Philippines. Any outcome would be beneficial for the lender as even in the event of a default, patrimonial assets of the Philippines could be seized in place of monetary repayment. In contrast, the completion of repayment garners profit for China from the loans' interest rates. Still, the Philippines accepted the non-negotiable terms in the contract for China's Official Development Assistance, notwithstanding the possibility of alienating the country's property rights.

As explained, patrimonial assets are the lands owned by the Philippine government that would be disposed of due to their uselessness for government projects or national parks. The issue then is that the President, currently President Rodrigo Duterte, has the power to declare which land would be open for disposition or concession. Although the flagship projects would be safe from being used as collateral, other patrimonial assets could be targeted depending on the arbitration ruling to be discussed by both parties. China's dominance is furthered by the agreement that all arbitrations concerning the projects would be held in China's territories and supervised under its rulings, proving to be onerous for the Philippine side. The arbitration also allows bias against the Philippines as said arbitration would be administered under Chinese laws, thus potentially leaning toward its interests. Even if the

loans are manageable and the chances of falling under a debt trap are unlikely during the Duterte administration, the CRPIP and the Kaliwa Dam loan agreements could still serve as a template for later cooperation with China. This enables a standard of accepting loans and agreements that risks sovereignty rights which could prove problematic over time. Even if the Philippines' economy could manage its debts during the Duterte administration, it is not guaranteed that it would happen in future administrations; thus, the risk of a debt trap could still remain.

Nonetheless, the debt trap of the Philippines would not be entirely similar to the case of Sri Lanka. As mentioned, it would be improbable as it is unconstitutional should the Philippines surrender its sovereignty rights of the Kaliwa Dam and the CRPIP. Both projects are considered vital and therefore not considered patrimonial assets. This is such the case because the projects aim at meeting the demands of water resources with the provision of an additional 600 million Liters per day to the water supply of Metro Manila, which aims at irrigating 7,530 hectares in Cagayan and 1,170 hectares in Pinukpuk, Kalinga that would benefit the agriculture in the region, respectively. However, what China could acquire under its loan agreements are other patrimonial assets, such as territories in the South-China Sea/West-Philippine Sea, which are heavily contested due to its geopolitical location and the abundance of undiscovered natural resources in the area. Although China assured that the

Code of Conduct between the Philippines and China concerning the South China Sea dispute is going steadily, it is not guaranteed that China will finally abandon its interest in the island. In addition, according to the Philippine Public Land Act of 1936, section 6, the President, upon the recommendation of the Secretary of Agriculture and Commerce, shall decide upon and classify which lands of the public domain shall be considered as "alienable or disposable, timber, and mineral lands" wherein section 10, defines alienable and disposable lands as patrimonial assets. Problems would ensue should unexplored lands be classified as alienable or disposable but has since then been proved to be abundant in natural resources.

## **CONCLUSION AND RECOMMENDATIONS**

The analysis of data required the responses from academic experts in the field of international relations, government agencies that handle the financial resources of the Build Build Build projects, and documents that would define the financial assistance of China. The data collected was analyzed using thematic and document analysis to answer the study's objective, which was to explore how the Philippines manages its Official Development Assistance from China's Belt and Road Initiative. Three themes were identified in both of the analyses; these are (1) the Philippines' diplomacy pivot to China, (2) the Philippine financial agreements with China in BBB projects, and lastly, (3) the effects of bilateral agreements

between China and the Philippines through the Belt and Road Initiative. The findings in the first and second theme show that the Duterte administration was able to establish a closer relationship with China to finance some of the major infrastructure projects in its Build Build Build Program through ODA, particularly the Chico River Pump Irrigation Project and the New Centennial Water Source Kaliwa Dam. The administration primarily sought China as a financial source of economic opportunity due to its lower interest rates than its competitors that also belong to the ODA program. However, the idea of a debt trap emerged in the third theme as one of the possible effects of the bilateral agreements with China and its Belt and Road Initiative program should the Philippines default in its agreements. Still, it is arguable that the occurrence of a debt trap is highly improbable in the current state of the Philippine economy as the data shows that the debt exposure to China is only at 1.67% of the total debt.

Therefore, the study concludes that the Philippines, under the Duterte Administration, pivots to China due to the need for financial resources to fund the BBB projects, which resulted in the balancing of its interests with China. Nonetheless, the Philippines had accepted the terms and conditions of the loan agreements, which centralizes the interests of China, a risk the Duterte administration took to secure finance for economic development through infrastructure projects. Either way, China preeminently benefits from the

Philippine-China diplomatic relations. Its ODA could either help its economy prosper from its profits or seize patrimonial assets of the Philippines as a collateral obligation. Nonetheless, China's Belt and Road Initiative program is continuously deemed to be beneficial for the country's economic development; thus, the Duterte administration remained optimistic with its relationship with China.

In connection to the suggestions provided by experts from the academe, the research recommends that the Philippine-China diplomatic relations attain a more mutual understanding, which does not rely on sacrificing property owned by the Philippines and revoking its sovereignty rights. Diversification must also be considered in seeking financial resources to prevent the occurrence of a debt trap. Moreover, a thorough exploration of the Philippine-China relations in accordance with its contentious and non-contentious aspects should be performed to resolve the constant dispute in the South China Sea and mitigate the misconceptions about China and its goal of hegemonic power.

To address the issue presented in the paper, there are four ideal conditions that could prevent and/or at least lessen the complications of misconceptions and the possibility of falling into debt traps. Firstly, focusing on the misconceptions, more Philippine-based research and academic studies on ODAs should be published to prove arguments rather than relying on opinion-based disagreements. The prevention of

misconception could optimistically improve diplomatic relations between the two countries. Secondly, before acquiring more projects, the Philippine government should prioritize paying its outstanding balances and prevent its falling into debt trap by improving the efficiency of existing projects to generate more income for the country to balance its cost-revenue ratio. It is recommended that the Philippines government should provide a more comprehensive payment plan for projects that are not confidential (anything not military-related) before entering into loan agreements to be available for public viewing as to determine the standard by which the government would operate. This payment plan should be institutionalized, wherein the Philippine Congress would utilize a finance committee that will discuss and oversee the debt strategies of the executive branch; this will ensure the security of the resources in the country and avoid its falling into debt-trap diplomacy. Lastly, in regard to its pivoting towards China, the Philippine government should be resilient in participating in dealings to avoid non-negotiable terms such as the alienation of property rights in the country. Exploring other options for ODAs are recommended especially in instances where sovereignty is at risk. The Philippines should continue to not rely solely on diplomatic relations with China, in which financial resources for infrastructure development and its processes are heavily dependent and beneficial to the Chinese ODA. However, the study's recommendations are not limited to the Philippines'

diplomatic relations with China but to the entirety of its foreign diplomacy to refrain from falling into a debt trap or having economic unfavourability which is detrimental to the Philippine economy.



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