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Correction

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**The South China Sea Issue: A Critical Appraisal of China's
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by Romi Jain

The graph source on page 28 is corrected to read:



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The South China Sea Issue: A Critical Appraisal of China's Geo-economic Strategy

Romi Jain*

Abstract

With its growing economic clout, China is vigorously practicing economic statecraft in achieving its foreign policy goals. No exception to its application is the South China Sea. This article critically examines China's geo-economic strategy vis-à-vis Vietnam and the Philippines, the major contenders, in mellowing their assertions over the South China Sea issue and in guarding Beijing's exclusive claim. The other Southeast Asian claimants figure in occasional references in the article. The organization is as follows. While the first part discusses the geo-economics theory, the second part assesses the strength of China's geo-economic diplomacy and illustrates the success areas and promising moves. The third part identifies the weak spots and challenges to geo-economics. The final part concludes.

Keywords: Geo-economics, China, South China Sea, Vietnam, the Philippines

Introduction

China's "reemergence" as an influential economic power from the ashes of history has shifted "the world economy's centre of gravity to East Asia."¹ Key facts illustrate this. Over the 2005- 2018 period, China's worldwide investments and construction activities amounted to US \$ 1.87 trillion, marking an uptick from US \$548.69 billion and US \$1321.9 billion in 2005-2011 and 2012- 2018 respectively.² China no longer enjoys a double-digit economic growth rate, which it did in the 2000s, and has rather embraced the 'new normal' approach of sustainable growth. However, it is the world's second largest economy and its gross domestic product (GDP), valued at US \$ 14.17 trillion in 2019, accounts for 16 percent of the global economy.³ Moreover, China ranks first in economic relationships and second in economic resources (economic size, international leverage, technology, and connectivity) in the Asia Power Index, which measures national power of countries, including the United States, in the Asia-Pacific region.⁴ Economic relationships measure the "ability to wield influence through economic outreach and interdependencies" such as China's trade and investment relations with and development assistance to the Asia-Pacific region. Notably,

* Faculty of Management, University of British Columbia-Okanagan, BC, Canada

East Asia, including Southeast Asia, is considered China-led, following the “first wave” of the Japan-centric region, inasmuch as the Chinese economy fuels East Asia’s growth engine and because China has emerged as a regional ‘integrator’ through its global and regional production networks.⁵

With its growing economic clout, China is vigorously practicing economic statecraft in achieving its foreign policy goals. No exception to its application is the South China Sea, a resource-rich region of 3.5 million-square-kilometer waterway, extending from the Strait of Malacca to the Strait of Taiwan.⁶ The map below shows the expansive nine-dash area,” claimed by China, while competing claims have been put forth by Vietnam, Malaysia, the Philippines, Brunei, Indonesia, Singapore and Taiwan.



Source: *Financial Times*, November 22, 2018

It may be clarified that China has not abjured military means. This is evident from its regular deployment of maritime “military militia,”⁷ militarization of the Spratly Islands, as well as such belligerent episodes as the Johnson South Reef skirmish with Vietnam in the Spratly Islands in 1988, the 1995 occupation of the Mischief Reef within the Philippines’s Exclusive Economic Zone (EEZ), and the 2012 Scarborough Shoal Standoff with the Philippines. Moreover, Beijing has built artificial islands in the Paracel and Spratly Island chains, carrying radar facilities and airstrips.⁸ Hence, the rationale of economic instruments in China’s foreign policy toolkit is to complement military measures. It advances national interests through a slew of tools,

inclusive of trade and investment-driven networks, and turning rivals into partners and dependents, thereby blunting their opposition and eliciting cooperation on contentious issues.

In keeping with the above background, this article critically examines China's geo-economic strategy vis-à-vis Vietnam and the Philippines, the major contenders, in mellowing their assertions over the South China Sea issue and in guarding Beijing's exclusive claim. The other Southeast Asian claimants figure in occasional references in the article. The organization is as follows. While the first part discusses the geo-economics theory, the second part assesses the strength of China's geo-economic diplomacy and illustrates the success areas and promising moves. The third part identifies the weak spots and challenges to geo-economics. The final part concludes.

The Geo-Economics Theory

Owing perhaps to sheer ascendancy of economics in the post-Cold War international politics, scholars and policy makers have latched on to geo-economics as a convenient nomenclature. But they hold varied notions of this elastic phrase and have failed to differentiate between "geo-economics and geopolitics" and explain "the 'geo' in geo-economics."⁹ In their threadbare analysis, therefore, Scholvin and Wigell (2018) condense geo-economics to both statecraft and an analytical approach.¹⁰ The first entails the use of economic tools in achieving "geo-strategic objectives" or "geopolitical results,"¹¹ whereas as an analytical prism, geo-economics has both realist and liberal underpinnings.

From the realist perspective, Luttwak (1990) reasons that states have "to act 'geo-economically' simply because of what they are: spatially-defined entities structured to outdo each other on the world scene' that employs 'the logic of war in the grammar of commerce.'¹² Similarly, Gilpin opines that "realism today necessarily means neo-mercantilism."¹³ In the same vein, in the context of rising mercantilism world-wide, resulting in subordination of fair international trade to national economic policies, Malmgren wrote in *Foreign Policy* as early as 1970, "Economics [is going to be] powerful politics. Neo-mercantilism will be its scourge, driving nations into international conflicts, as have ideologies and military imbalances in the past."¹⁴ In other words, this viewpoint situates power struggle predominantly in the economic domain, with trade wars being its characteristic manifestation. The ongoing US-China trade war serves as its prime example, though geo-

economics will fit in this picture if the tussle is located in a geographically significant context.

From the liberalist perspective, geo-economics involves win-win propositions in the age of interdependence, reflecting inter-state cooperation in the spirit of shared gains. For instance, under the banner of the Belt and Road Initiative (BRI) China has couched its scientific collaborations in this framework: whether it be the 16+1 group (Cooperation between China and Central and East European Countries), or the China-Pakistan Economic Corridor, stated to be both uplifting for China's western regions and critical for Pakistan's economic development.

Given that China as an emerging world power employs motley of approaches in its foreign policy, its geo-economic policy is not restricted to an exclusive frame of realism or liberalism. Its practices reflect two distinct though mutually reinforcing layers of geo-economics. First, *geo-economics in service to geopolitics*: as statecraft, it is the exercise of economic diplomacy toward rival claimants of the South China Sea in vindicating its exclusive claim to the South China Sea. Second, *military means in service to geo-economics*: given the salience of the South China Sea for its oil and natural gas wealth, China has simultaneously utilized muscular means¹⁵ to ward off the other claimants. For example, on account of China's military threats, Vietnam suspended oil projects awarded to Repso, a foreign firm, for operations in the South China Sea.¹⁶ The second layer is the realist geo-economics undergirded by zero-sum economic gains. The first layer is actually the geo-economic strategy or statecraft, which constitutes the focus of this article.

Strengths of China's Geo-Economic Strategy

China's prestige as an economic power has had a multiplier effect, including among claimants to the South China Sea. With the launch of the mega project, the Belt and Road Initiative (BRI), economic relationship with China has become all the more alluring even though the controversy over the host countries ending up in a "debt trap" has surfaced. Harnessing its economic position, China has attempted to "foster asymmetrical economic dependence on China...and once that is achieved to shape their foreign policies in ways congenial to China's national interests."¹⁷ The prospect of prosperity is what China has stimulated through trade and investments. On the flip side, economic coercion is at work to curb the practices inimical to China's national interest.

Torrecampo (2019) articulates the long-term implications for the South China Sea dispute, “allowing China, through its associates, to participate in investments on critical industries and infrastructure hands them a clear leverage in any dispute or conflict that may arise between China and the Philippines. The economic clout built carefully by Beijing can be used as a tool to push the Philippines into submission even before conflict erupts or to prevent the latter from countering the former.”¹⁸ Similarly, Tran (2015) concludes that Vietnam’s economic dependency on China will make it factor in economic considerations more than the “sovereignty concern” in its response to China’s threat.¹⁹ Be that as it may, it is worth examining what China has accomplished so far, and what threats and challenges lie ahead on its geo-economic path.

Economic Incentives and the Philippines’ ‘Appeasement’ Policy

In July 2016, the Philippines and the United States scored a momentous victory in international arbitration that ruled out the legal basis of China’s historical rights over the nine-dash line resources. Yet Philippine President Rodrigo Roa Duterte was reluctant to antagonize China by enforcing the ruling and distanced away from the United States instead. Later, in April 2018, under Beijing’s pressure, phrased as “friendly” advice, he revoked his decision to unfurl the Philippine flag in the Sea. Interestingly, his regime is equally applying the geo-economic approach toward China in order to stave off skirmishes and armed conflict in the South China Sea. Hinting at the significance of trade and commercial ties with China, therefore, Hermogenes Esperon, Duterte’s main security adviser, stated: “[O]ur relations (with China) are not only about the South China Sea or the West Philippine Sea. There are many other aspects.”²⁰

Commenting on the power of purse, Renato De Cruz Castro, a professor in the international studies department of De La Salle University, Manila, attributes President Duterte’s “appeasement policy” toward China to the allure of the BRI. He observes, “Duterte and his economic advisers saw how Chinese investments boosted infrastructure development in Myanmar, Laos and Cambodia...Duterte was afraid that the Philippines would not be able to avail of the BRI’s economic benefits if it challenges China’s expansionist agenda in the South China Sea.”²¹ Furthermore, at the Boao Forum for Asia Annual Convention, held in Hainan on March 26 -29, 2019, House Speaker Gloria Macapagal-Arroyo glorified the Chinese development model:

China has given us the lesson that there is just not one path for development. Prior to China's experience, it was thought that the only way to development is the Western-Style model of Jeffersonian democracy coupled with a free market... But China has shown the world that you can have your own model of development using your own historical experience.²²

Moreover, Philippine Foreign Affairs Secretary Teodoro Locsin stated that the prospect of a strategic partnership with China was "more attractive than the current offer of the U.S. of strategic confusion" and stressed that Manila's defense treaty with the United States did not "preclude" economic ties with China. In fact, Locsin expressed concern that the Philippines had woefully lagged behind other countries in integrating with the Chinese economy.²³ But he added a caveat that Manila would not give up its claim to the South China Sea since "surrender is never an option."²⁴

In the latest developments in June 2019, tensions ratcheted up over China's sinking of a Philippine fishing boat in the South China Sea. China refuted the Philippine claim that it was intentional. It is speculated that if it were purposive, it could be the result of China's reaction to the recent spurt in Manila's bonhomie with Tokyo and the United States or it could be Beijing's strategy to assess the level of Philippines' reaction and counter-measures. In any case, the initial infuriation-coated statements of President Duterte ebbed within a month when he "played down" the ramming, saying it was "a maritime incident...there was no confrontation...there was no bloody violence."²⁵

'Build, Build, Build' and Other Deals

In fact, a chronicle of events demonstrates Philippines's inclination toward China. At the invitation of President Duterte, Chinese President Xi Jinping paid a state visit to the Philippines in November 2018. According to the Joint Statement released on November 21, 2018, "both sides reaffirmed that contentious issues are not the sum total of China-Philippines bilateral relations" as well as affirming "the importance of the Bilateral Consultation Mechanism on the South China Sea and the Maritime Cooperation Joint Committee between the two Coast Guards."²⁶ The statement was supplemented by as many as 29 MoUs and agreements for bilateral cooperation on the BRI and in fields of oil and gas development, economic and technical cooperation, infrastructure, industrial parks, China Aid Bridge and Road Project, and other areas.²⁷ During his visit, President Xi also assured President Duterte with financing the infrastructural program "Build,

Build, Build Initiative” which is considered a decisive factor in nudging Duterte to toe the China line, for instance, acquiescing in to not raising the Philippines flag in the South China Sea. Accordingly, China is a key funder to the Philippines’ project of transforming the Clark base, a former American military base, into a city.²⁸ Timothy McLaughlin comments in *The Atlantic* in this context, “This redevelopment of a former symbol of American might here in Clark by a Chinese developer may be the best example of the shift under way in Southeast Asia, as a more assertive Beijing courts traditional American allies in a part of the world where Washington’s power long went unchallenged.”

In April 2019, President Duterte visited Beijing to attend the second Belt and Road Forum. His business delegation signed as many as 19 business deals with Chinese firms amounting to P633 billion (\$12.16 billion) mainly in “energy, infrastructure, food, telecommunications, tourism, and economic zone development”, expecting to “generate over 21,000 jobs²⁹”; for example: an \$800-million contract agreement for the proposed 250MW South Pulangi Hydroelectric Power Plant Project; a framework agreement for thermal, hydro, and renewable power plants worth at least \$1.5 billion; and memoranda of understanding related to a petrochemical refinery processing plant complex, construction of the Light Rail Transit, construction of infrastructure for nationwide Wi-Fi Internet connectivity, and the development of the economic zone; and a purchase framework agreement for the supply of \$40 million worth of pineapples to Beijing.³⁰ It is speculated that the BBB program could be another case of the alleged “debt trap” policy of China? This diplomacy involves enticing poorer countries with reasonable loans for infrastructure development, and extracting concessions or gains “in exchange for debt relief.”³¹ The case of Sri Lanka’s handover of the Hambantota Port to China because of its inability to repay the debt is a frequently cited instance.

Coercive Economic Measures

Indeed, the turnaround in the Philippines’ relations with China is characteristic of the Duterte presidency. Beijing’s use of coercive economic tools was prominent in Manila’s preceding regime.³² Let us consider, for example, the developments following the Philippines-China standoff over the Scarborough Shoal, a “cluster of islands” around 220 km off the coast of the Philippines. China blacklisted as many as 27 Filipino fruit exporters, imposing in May 2012 a ban on bananas’ exports from the Philippines for whom China was a critical market. Nearly 200,000 people faced the prospect of losing jobs as a

result. Moreover, Pilipino Banana Growers and Exporters Association (PBGEA) member companies reported that “six to seven million boxes per year or 20 to 25 percent of their total production was lost due to suspension order...before the suspension order sometime in 2010 to 2012, exports to China grew by 20 to 30 percent per annum.”³³ Though officially, discovery of pests in imports was cited as a justification for the quarantine, its timing suggested retribution.³⁴ Scholars like Ba and Storey (2016) dispute its connection with the South China Sea dispute by pointing out that phytosanitary measures were indeed the concern of the Chinese government. However, given that “coercive economic diplomacy” is not new to Chinese foreign policy practices³⁵, linkages with the South China Sea issue cannot be completely ruled out.

In addition, it may be recalled that the Chinese government had issued in 2012 an “advisory” to its citizens against traveling to the Philippines, which was lifted during President Duterte’s visit to China in October 2016 that was aimed to mend the ruptured ties over the Sea dispute. Notably, the Philippine government has been aggressively harnessing the country’s sterling strength in tourism to drive economic growth. According to the Philippine Statistics Authority (PSA), in 2017, the tourism sector contributed 12.2 percent to the country’s GDP and directly accounted for 13.1 percent of the country’s employment.³⁶ Furthermore, the government’s long-term vision for development and prosperity, known as AmBisyon Natin 2040, envisages a significant role of tourism and allied services. Notably, China ranks second to South Korea as a source of the Philippines-bound tourists: according to the Philippine Department of Tourism, “a total of 463,804 Chinese tourists visited the Philippines from January to March [2019], or 24.87 percent more than the 371,429 recorded in the first three months of 2018.”³⁷ Basically, tourism and fruit exports have had been subjected to China’s restrictions as part of its coercive³⁸ geo-economic strategy toward the Philippines, though the Duterte regime has been offered more of inducements and incentives for being accommodative.

Trade Dependence

A predominant share of Vietnam’s exports sustains on the Chinese market, while many Vietnamese industries, including textile and footwear exporters, rely on imports of Chinese raw materials and equipment for manufacturing.³⁹ According to the General Statistics Office of Vietnam, the preliminary exports and imports in 2017 amounted to US\$ 35.46 billion and US\$ 52.54 billion

respectively, going up from US \$ 41.27 billion and US \$ 65.44 billion respectively. The volume of exports and imports in 2019, January through April, was US\$ 10.47 billion and US\$ 22.77 billion respectively. Given Sino-Vietnam trade picture, Blackwill and Harris (2016) make the following observation, “China’s economic hold over Vietnam is such that Hanoi remains more vulnerable than Manila to Chinese coercion: Vietnam is highly dependent upon the PRC [People’s Republic of China] for rubber, and major Chinese imports are used in the goods Vietnam ultimately exports. Unlike the Philippines, Vietnam does not enjoy a mutual defense treaty with the United States. Perhaps not coincidentally, China’s claims in the South China Sea are particularly aggressive toward Vietnam, threatening 70 percent of Vietnam’s exclusive economic zone— not particularly auspicious for a country so reliant on fishing as a food source.”⁴⁰

Indeed, Vietnam protested China’s annual fishing ban, in force from May through August 2019, in the South China Sea on the grounds that it violates Hanoi’s sovereignty over the Paracel Islands.⁴¹ In fact, this unilateral practice of Beijing has been in place since 1999, whose purported aim is to protect the ocean ecosystem and biodiversity but which also reinforces Beijing’s exclusive jurisdiction over the Sea.

Picking the Low-Hanging Fruits

Among the claimants to the South China Sea, Brunei, with a claim only to a 200-nautical mile exclusive economic zone (EEZ), has been passive and quiet. It is conjectured that its “silence” is the price for the expected lucrative returns. Breaking a gap of 13 years, Chinese President Xi Jinping was the first Chinese head of state to pay a state visit to Brunei in November 2018. Aiming to consolidate cordial ties, Xi welcomed expansion of its exports to China and affirmed the latter’s willingness to strengthen bilateral cooperation in areas of infrastructure, agriculture, fishery and energy.⁴² President Xi reiterated China’s appreciation for Brunei’s “dual track approach” to the South China Sea dispute. Further, a bilateral protocol agreement was signed between the two countries in June 2019 for wild aquatic food’s export to China. Notably, 34 percent of Brunei’s aquatic products were exported to China in 2018. Importantly, it may be noted that China is a “dominant partner” in implementing Brunei’s economic restructuring plan, *Brunei Vision 2035* (or *Wawasan 2035*), funding infrastructure projects such as the oil refinery and petrochemical complex currently.⁴³ With their ties lifted to the “strategic

cooperative partnership” plane, both sides are aligning the synergies of the BRI project and Vision 2035.

It is an open truth that Malaysia’s previous embraced a “bandwagoning”⁴⁴ approach on the dispute, attributable to China’s sterling influence in both military and economic terms. But compared to Brunei, Malaysia is less pliable on the issue, especially under the leadership of Prime Minister Mahathis Mohamad. For instance, Kuala Lumpur has reiterated its demand for non-militarization of the Sea, the freedom of navigation,⁴⁵ and for an ASEAN-centric solution rather than a bilateral one. Nevertheless, Malaysia recognizes the significance of economic tie-up with China which is not only its largest trading partner but is also an enticing investor. The Malaysia-China Kuantan Industrial Park (MCKIP) is gaining in momentum and is likely to attract nearly 20 billion ringgit (US\$4.8 billion) in investments.⁴⁶ Further, Malaysian Economic Affairs Minister Azmin Ali stated at the China Conference in Kuala Lumpur, October 2018, “Today we expect China to provide global leadership not just in the economic sphere but in soft power by advancing universal values such as freedom of conscience, mutual respect, and justice.”

Energy Diplomacy

China clinched a major strategic gain when during his visits to Brunei and the Philippines in November 2018, President Xi signed with each country the memorandum of understanding for joint oil and gas exploration and development in the South China Sea.⁴⁷ Beijing and Manila are at work on finalizing the related framework.

The Philippines’s massive need for the South China Sea’s oil and gas resources is considered to be driving the joint exploration decision, given that its key gas deposit at Malampaya, off Palawan Island, is expected to deplete by 2030. Also, its prospects for exploring Reed Bank in the South China Sea have been thwarted under China’s duress.⁴⁸ Defending the MoU, Philippine Ambassador to China Jose Santiago Sta. Roman stated: “our bilateral relations basically consist of two general areas—the disputes and the areas where there are no disputes. The disputes do not define everything. They’re only a part of the overall picture. So where there are no disputes, like trade, economics, science, culture, we’re able to fast-track..Where there are disputes, we discuss through diplomatic channels or through the bilateral consultative mechanism.”⁴⁹ Notwithstanding Manila’s imperative need for energy security, opposition parties in the Philippines have reprobated the MoU on the grounds

that it is tantamount to recognizing the “unlawful ‘co-ownership’ with China of the West Philippine Sea [or the South China Sea].”⁵⁰ However, the ruling Philippine government considers it both pragmatic and necessary to partner with China for both energy security and for not being totally pushed out of the South China Sea zone by antagonizing the militarily powerful Beijing. However, it is the final agreement that will likely to clarify what specific “outcomes” of exploration are intended for both parties, which is not clear from the current MoU. On its part, Beijing uses energy cooperation as an instrument of reward to less vocal claimants to the South China Sea as well as a means to “demonstrate the efficacy of bilateral arrangements.”⁵¹

Regulations on the Development of Uninhabited Islands

Hainan Province’s Department of Ocean and Fisheries issued a regulation in July 2018 on development of uninhabited islands, requiring interested entities or individuals to submit applications and plans to ocean administration authorities. According to *ChinaDaily*, July 5, 2018, the regulation specified durations —15 years for cultivation, 25 years for tourism and entertainment, 30 years for salt and mining industries, and 40 years for public welfare purposes.⁵² By wielding the power to sanction development, it is a strategic move to legitimize China’s jurisdiction.⁵³ In fact, Chen Xiangmiao, a research fellow at the state-supported National Institute for the South China Sea, unambiguously stated, “The development on uninhabited islands will maintain stability of (the) South China Sea and dispel other countries’ attempts to invade and occupy our territorial sovereignty.”⁵⁴

Challenges and Weak Spots

Several constraints such as economic diversification, the US role, the BRI image, and the domestic factors affect the efficacy of China’s geo-economic diplomacy.

Trade and Investment Diversification

The Philippines’s economic dependency on China is not as high as that of Vietnam and Malaysia. China is neither its “top direct investor” nor a top export market.⁵⁵ As for the BBB program, if China were to be the sole participant or financier, Manila would have been running the risk of being caught in the debt and dependency web. But in view of Japan’s involvement in the project and its increased trade and investment cooperation with Manila, the latter is clearly abstaining from putting all eggs in one basket. Similarly,

efforts are underway in Vietnam in getting away from dependency. In fact, in the aftermath of the US-China trade war, Vietnam's economy has received a boost as foreign manufacturing operations are shifting from China to Vietnam. Other than that, Vietnam's low labor wages make it an appealing manufacturing base. In addition, Vietnam is proactively diversifying trade and economic cooperation, signing the free trade agreement with the European Union in June 2019, apart from clinching high-tech defense deals with Washington. For example, it has ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), primarily in order to diminish reliance on China.⁵⁶ Bennett Murray makes an apt observation in *Foreign Policy*:

...with China likely to remain a rival to the West for the foreseeable future, Vietnam's willingness to get along with power centers in North America and Europe provides a political advantage that's unlikely to vanish, and its growing strategic partnership with the Pentagon links the U.S. bilateral economic relationship with defense. Already climbing the ladder of the global supply chain and willing to make reforms to accommodate free trade agreements, Vietnam has become not just a cheaper but also a friendlier alternative to China in the Trump era.⁵⁷

Moreover, in view of perceived security threat from China as well as to prevent dependence on Chinese technology, Vietnam's Viettel has opted for 5G without involving Huawei and develop its own "5G chips and core network infrastructure."⁵⁸ However, the Philippines's Global Telecoms launched the 5G broadband service with the equipment such as modems provided by Huawei. Hence, there is no coordinated counter-response to China's attempts at intensifying its economic penetration into Southeast Asian economies for strategic purposes.

Maligned Image of the BRI

Even though the Philippines has welcomed Chinese investment in its infrastructure projects, the image of the BRI as a debt entanglement could make Manila or any other claimant countries turn cynical in committing to a future project with China, should more debt trap stories come to the fore. Ironically, in order to impart strength to economic diplomacy, China needs to prove its professed belief in win-win outcomes, while at the same time, extracting geopolitical concessions through manipulative economic practices

could be the aim of its investment diplomacy. Thus, Beijing would find it challenging to walk this tightrope.

The US Factor

The first quarter of 2019 witnessed a modicum of enhanced assertiveness in President Duterte's postures, mainly on account of the Trump administration's defense assurance as well as its diplomatic pressure. As China scaled up dispatch of vessels near "Philippines-occupied Thitu Island" (or Pag-asa Island), President Duterte firmly stated that both parties needed to demonstrate "mutual respect for sovereignty." Encouraged by Secretary of State Mike Pence's clarification that in the event of attack on the Philippines, the United States would resort to the Mutual Defense Treaty, the Philippines conducted drills along with the United States, India and Japan in the South China Sea in May 2019. Also, in view of the domestic elections, strong statements on the sovereignty issue poured in from President Duterte,⁵⁹ such as "I will not plead or beg, but I am just telling you that lay off the Pag-asa because I have soldiers there. If you touch it, that's another story. Then I will tell my soldiers 'prepare for suicide missions.'"⁶⁰

Domestic Forces

The domestic constituencies in Vietnam and the Philippines countervail the drift into China's orb. In June 2019, the Philippines high court directed the Philippine Navy, police and the Coast Guard to protect reefs and marine life in Scarborough Shoal, Second Thomas Shoal and Mischief Reef.⁶¹ Similarly, Antonio Carpio, a Supreme Court justice and a South China Sea expert, has prodded the Philippines government to take the fishing boat incident seriously, stating that it was "a quantum escalation of China's aggressive acts."⁶² Further, owing to the lack of trust in China's intentions, the Philippine Senate disapproved the proposal for Chinese supplies for the Department of the Interior and Local Government's surveillance systems.⁶³

Similarly, nationalistic sentiments are seething in Vietnam. As Ravindram observes, "The ruling elite in Vietnam would have to consider the domestic cost of compliance with sanctions initiated by China. In other words, the incentive for the political class to comply with targeted sanctions against them would most likely be offset by nationalistic sentiments in Vietnam."⁶⁴ This is corroborated by the Vietnamese government's botched attempt to enact the law to create three special economic zones (SEZs) in Van Don, North Van Phong and Phu Quoc. Government advisor Võ Trí Thành stated that the

proposed law's purpose was "to create a leading edge for the country's growth in the face of a scarcity of resources, and political and social complexities."⁶⁵ However, the Vietnamese public opposed the move, apprehending neo-colonialism taking shape with Chinese economic intervention. Also, many Vietnamese economists argue that Chinese investors' primary interest is in "casinos and resorts",⁶⁶ as the example of Cambodia suggests, whereas Vietnam needs hi-tech investment. As a result, the proposal is hanging in the air. It may be added that in terms of investment, China accounts for only 5.8 % of total foreign direct investment in Vietnam, ranking behind South Korea, Japan and Singapore. With SEZs, China's position in Vietnam could become more strategic. Regardless of the domestic pressures, however, the Philippine government led by President Duterte has had a more placating approach toward China barring sporadic assertive postures.

Conclusion

Based on the foregoing examination, key upshots may be outlined. First, from time to time, China has utilized seductive, ingenuous, and coercive economic mechanisms to vindicate its claim to the nine-dash area in the South China Sea. It is not to suggest that the geo-economic diplomacy is potent enough to drive Vietnam and the Philippines to part with their claims to the South China Sea, since doing so would require an imperative *raison d'être* for the latter. However, economic considerations have certainly impacted the tone and tenor of their reactions to issues and incidents involving the South China Sea. For example, despite the acrimonious moment in the China-Philippines relations over the boat sinking issue, Manila was discreet enough not to let it impair the blossoming economic ties. In justification, Presidential Spokesman Salvador Panelo stated that President Duterte was "making his enemies friends so that both sides will mutually gain benefit from whatever they have."⁶⁷ In fact, Duterte threatened to imprison his critics, castigating him for his soft approach, should they attempted to impeach him.

Second, a determining factor for the geo-economic strategy to succeed would be the level of economic dependence of the claimant countries on China. From this perspective, China encounters several challenges such as Vietnam's efforts to neutralize China's economic leverage through trade diversification as well as anti-China sentiments flaring up in pockets of Manila and Hanoi. Nevertheless, Vietnam and the Philippines are faced with hard choices, facing a trade-off between the enticing Chinese investments and their strategic necessity to shake off any deepening dependency. Moreover,

Vietnam will need to address its “labor and skills shortage” as it prepares to become a prominent global manufacturing platform.

Third, geo-economics is essentially tied to a “larger geopolitical agenda.” It might not deliver immediate results but, over time as the economies of the claimant states intertwine with China’s (or as the “asymmetrical dependence” sharpens), China would expect to reap the strategic benefits. Importantly, Beijing has made long-term canny moves to fortify its exclusive claims to the South China Sea: its offer of joint oil and gas exploration to pliant claimants, annual fishing moratoriums, and regulations for development of uninhabited islands signify spiraling of allocative authority at the vortex of Beijing’s leadership.

Endnotes

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