

Philippine president visits US amid rising regional tensions

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Philippine President Benigno ‘Noy’ Aquino travelled to the United States this week to participate in the UN General Assembly meeting and the second US-Association of South East Asian Nations (ASEAN) Leaders meeting. He will be seeking major investments by US corporations in Philippine infrastructure under the auspices of the Private Public Partnership (PPP) initiative.

Aquino has not travelled outside the Philippines for over a decade and this is his first trip abroad as president. In the course of the presidential election campaign, he did not elaborate a clear foreign policy, but he is connected to and backed by sections of the Philippine business community with close ties to the US.

Like the previous Arroyo administration and other countries throughout the region, Aquino is faced with balancing between his country’s growing economic dependence on China and its longstanding ties with the US, the former colonial power. The dilemma has only worsened over the past year as the Obama administration sharply increased its pressure on China and sought to undercut Chinese influence in South East Asia.

Aquino will play a key role at the US ASEAN dialogue summit as the Philippines is the country coordinator for negotiations for the period 2009 to 2011. The main concern at the summit this week is the South China Sea, which is a vital global trade route and a potential source of considerable mineral wealth. It is also an area where China has longstanding territorial disputes with neighbouring countries, including the Philippines, Vietnam and Malaysia.

Speaking in Hanoi in July, US Secretary of State Hillary Clinton pointedly called for multilateral negotiations over disputes in the South China Sea, with the United States working as mediator to insure continued free lanes of shipping and access to regional waters. China, which claims the right to control shipping in the South China Sea, has long advocated bilateral negotiations with the South East Asian countries involved.

By stepping into the dispute, the US has effectively backed ASEAN countries against China. A draft resolution prepared for this week’s US-ASEAN dialogue stressed the importance of freedom of navigation and unimpeded commerce in the South China Sea—a step that will only further inflame the issue. Chinese foreign ministry spokeswoman Jiang Yu warned the US this week not to interfere in the South China Sea, saying that China had “indisputable sovereign rights in the South China Sea islands and their adjacent waters”.

Tensions over control of key shipping lanes in the South China Sea are evident in the naval moves by both the US and China. The USS George Washington has been robustly asserting US navigation “rights” in the region. After recently entertaining Vietnamese officials off the coast of Vietnam, the huge aircraft carrier stopped in Manila Bay earlier this month on a “friendship visit”. The previous month, a Chinese naval flotilla docked in Manila Bay on a visit of “friendship” while returning from Vietnam.

Differences have already emerged in the Aquino administration over the issue. Responding to Clinton’s

remarks in July, Philippine Secretary of Foreign Affairs Alberto Romulo declared on August 9: “Southeast Asian nations do not need US help in solving territorial disputes with China over the potentially resource-rich South China Sea. Negotiations should be strictly between ASEAN and China, without the US or any other party.” It is not clear, however, that Aquino supported Romulo’s comments.

The Philippine Navy last week announced that it was beginning construction of tourist facilities on Pag-asa Island in the disputed Spratly island chain. China’s Ambassador to the Philippines quickly declared that this was not a welcome development. A confrontation between Philippine and Chinese naval vessels in July resulted in the firing of warning shots.

Relations between China and Philippines have also deteriorated following a hostage crisis in Manila on August 23 in which eight Hong Kong tourists were killed. The Chinese government has issued a travel alert against the Philippines and the Philippines has ceased promoting tourism in Hong Kong. In the latest twist, Aquino’s decision to send the findings of an investigation into the conduct of the Philippine police to Beijing for approval before its public release has provoked an outcry in the Philippine press.

The Aquino administration is attempting to pursue a perilous course between Washington and Beijing. It cannot afford to lurch too far one way or the other. The country’s economic reliance on China is evident in the latest figures from the National Statistics Office released September 8. Exports rose 36 percent in July, led primarily by the Chinese market. Bilateral trade between the Philippines and China grew by 52.5 percent in the first half of 2010, to \$US13.1 billion.

One purpose of Aquino’s trip is to try to attract more investment from the US. He is being accompanied by a large group of business people—a veritable who’s who of the Philippine corporate elite. In his departure statement, Aquino declared: “We have embarked on his journey to send a message to the world, and particularly to one of our largest trading partners, the United States of America: The Philippines is open for business.”

Central to Aquino’s economic strategy is his Private Public Partnerships Initiative, which aims to attract private investment into public infrastructure by licensing corporations to operate and charge for its use on completion. Aquino has slated 740 billion pesos (\$US16.9 billion) in infrastructure projects through PPP investment and is looking for US investment. Among the projects are airports, roads, railways, water supply, irrigation, school buildings, health facilities and solid waste management.

Similar initiatives under the Arroyo administration foundered over a lack of transparency in the negotiation process, bribery scandals, and court orders preventing private investors from imposing additional fees. To counteract the impact of these failures, the Aquino administration announced this week that it would offer insurance to guarantee the profits of private investors in PPP projects. Citigroup responded by announcing that it expected the Philippines credit rating to go up.

Aquino is unlikely to obtain all, or even most, of the proposed 740 billion pesos in PPP investment from US investors. In the past, American investors have been hesitant to invest in joint infrastructural projects with the Philippine government; the majority of previous infrastructure investment has come from East Asia, predominantly China. Chinese investors have already indicated an eagerness to participate in the new insured PPP projects.

Aquino faces pressure from both the United States and China in the coming week as he attempts to appease and maintain economic ties with the rival powers. The Philippine business community, including those travelling with Aquino, is split between those with strong ties to the United States and those with strong ties to China. Aquino will find it increasingly difficult to satisfy the demands of both.



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