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# CONTENTIOUS CAPITAL: THE POLITICAL ECONOMY OF CHINESE INVESTMENTS IN THE PHILIPPINES

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# CONTENTIOUS CAPITAL: THE POLITICAL ECONOMY OF CHINESE INVESTMENTS IN THE PHILIPPINES


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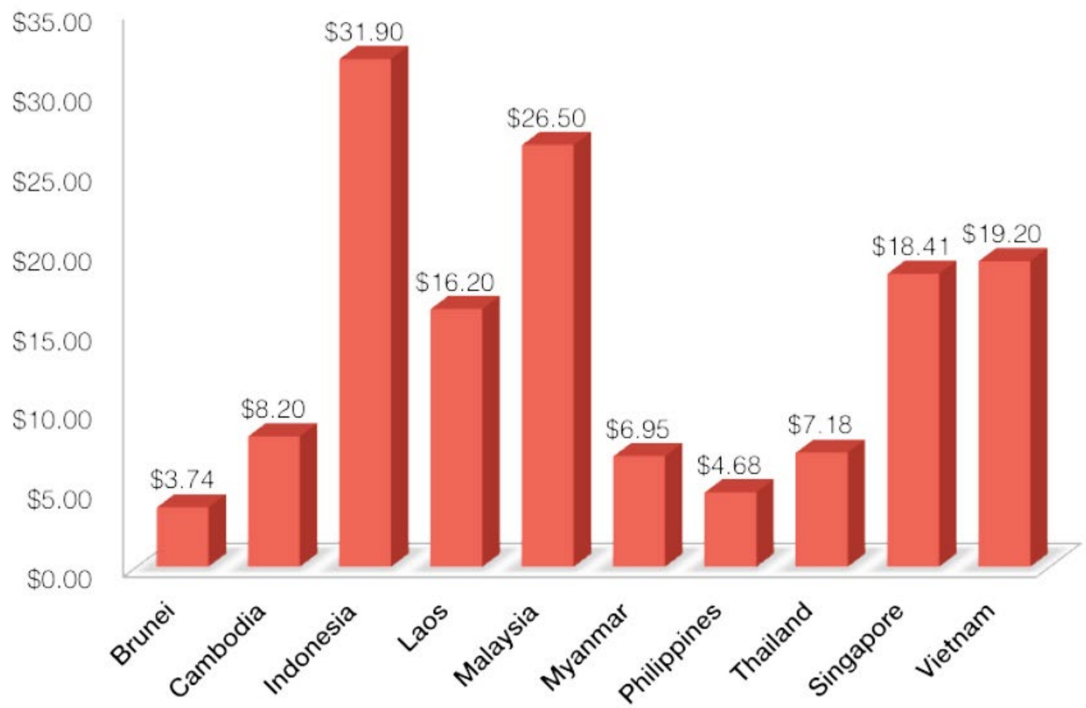
THE PHILIPPINES AND CHINA
Contradicting the recent pattern that weak institutions tend to attract higher levels of Chinese outward FDI, the Philippines has one of the lowest levels of Chinese investment yet in Southeast Asia

## THE PUZZLE: CHINESE OUTWARD FDI AND WEAK INSTITUTIONS[1]

A dominant strain in the political economy literature argues that countries with high levels of rule of law, a predictable business environment, and political stability tend to attract foreign direct investments (Acemoglu & Robinson 2012, Amsden 2007, Frieden 2006, Rodrik 2008). The literature in development economics, comparative politics, and economic sociology has repeated these points, influencing and shaping state policies across the world. However, recent literature in organizational and business studies suggests that in the developing world, Chinese outward foreign direct investments (FDI) gravitate toward countries with poorer institutions, higher levels of corruption, and weaker civil society organizations (Cheung & Qian 2009, Duanmu 2012, Kang & Jiang 2012, Kolstad & Wiig 2012).[2]

To demonstrate these claims qualitatively, Daniel O'Neill finds that Chinese FDI in Cambodia and

**FIGURE 1: CHINESE OVERSEAS FDI IN SOUTHEAST ASIA, SECOND QUARTER OF 2016 (AMOUNT IN BILLIONS OF USD)**[3]




SOURCE: AUTHOR'S MODIFICATION BASED ON DATA FROM CHINA GLOBAL INVESTMENT TRACKER (2016)

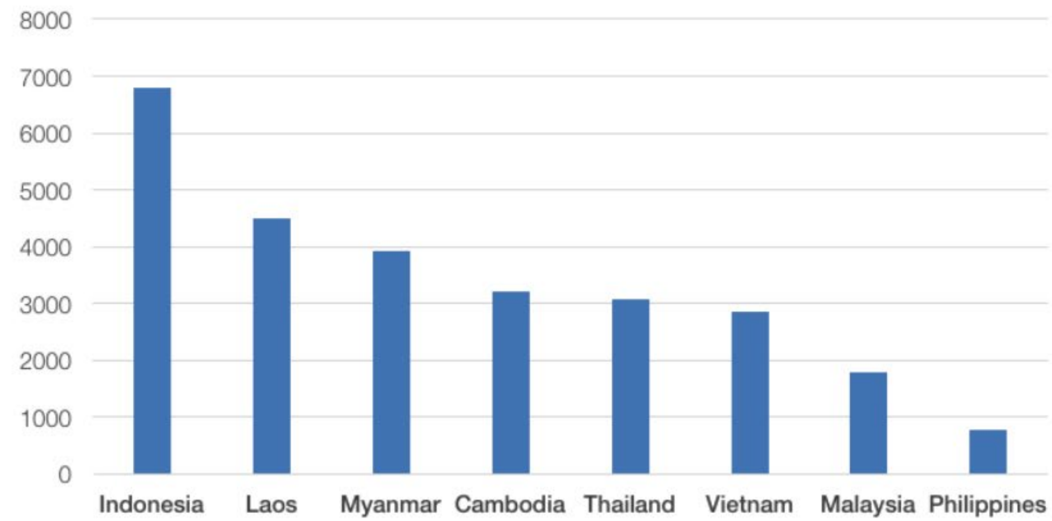
Kazakhstan have increased despite widespread corruption and the persistent risk of political instability (O'Neill 2014a, 2014b). He explains that Chinese outward FDI in both states has its foundation in the need to establish a foothold in Southeast Asia and secure limited energy supplies. Similarly, in much of Deborah Bräutigam's work, she shows the link between Chinese outward FDI and the People's Republic of China's (PRC) overseas development aid (ODA) (see Bräutigam 2009; 2014). Illustrative of this point, Sub-Saharan Africa has the highest levels of Chinese ODA and outward FDI in the world (Bräutigam 2011).

In light of these theoretical and empirical findings, I examine Chinese investments in the Philippines. Contradicting the recent pattern that weak institutions tend to attract higher levels of Chinese outward FDI, the Philippines has one of the lowest levels of Chinese investment yet in Southeast Asia. Chinese FDI, currently sitting at $4.6 billion in the second quarter of 2016 (see figure 1), has been consistently low despite the seemingly favorable conditions. Data from China's Ministry of Commerce, which looks at FDI stock or the estimate market value of Chinese enterprises through their fixed capital, reserve liquidities, and the liabilities of their subsidiaries, presents a similarly low amount in the Philippines vis-à-vis other ASEAN states (see figure 2). Comparing China's data with host country sources, data from the Philippine government shows an analogous amount (see figure 3).

In the early 2000s, the Philippines became the first country to welcome Chinese ODA and outward foreign ODI in Southeast Asia, a decision that ultimately culminated in the Chinese Export-Import Bank (EXIM) $1.2 billion loan earmarked for the North Luzon Rail project and the highly controversial Zhongxing Semiconductor Co. (ZTE) scandal (Landingin 2010). While the Aquino administration (2010-2016) stabilized the fiscal capacity of state institutions (see Nem Singh & Camba 2016), many observers bemoaned the Philippines' weak institutions, broken electoral democracy, and malleable state capacity (Camba 2016, Kleibert & Kippers 2016). According to the logic that high levels of corruption and weak institutions attract more Chinese outward FDI, the Philippines, a country that has been called the "sick man of Asia" for decades (Camba 2015, Noland 2000), should have pulled in higher yields of Chinese investments. As such, why have investments been so low? The Philippines represents a "deviant" case that could test the scope and conditions of the existing cross-case relationship between Chinese outward FDI and weak institutions (Seawright & Gerring 2008).

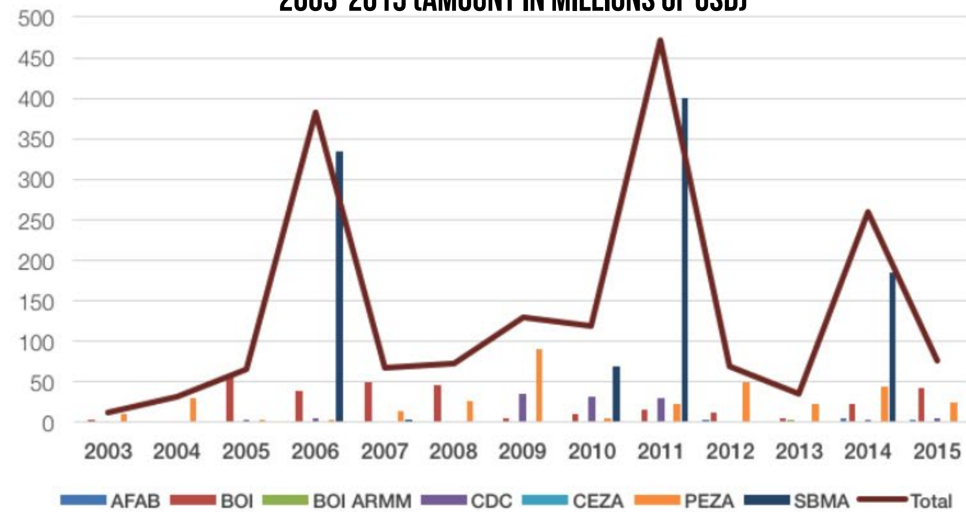
Moreover, the Philippines, as a lower middle-income country that relies on domestic consumption, needs foreign direct investments to bolster information technology, construct infrastructure, and maintain manufacturing. But, ironically, the most strategic sectors in the country have been protected by constitutional requirements, capping foreign ownership at 40%. Despite the limitations over foreign ownership, some Chinese investments have

**FIGURE 2: CHINESE FDI STOCK IN 8 ASEAN STATES IN 2014 (AMOUNT IN MILLIONS OF USD)**




SOURCE: AUTHOR'S MODIFICATION OF THE STATISTICAL BULLETIN OF CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT 2014 (2014)[4]

**FIGURE 3: CHINESE FDI IN THE PHILIPPINE INVESTMENT PROMOTION AGENCIES (IPAS), 2003-2015 (AMOUNT IN MILLIONS OF USD)[5]**




SOURCE: AUTHOR'S MODIFICATION OF THE CHINESE FDI IN DIFFERENT IPAS (2016)[6] successfully built businesses and partnerships in several strategic sectors (Camba 2015). There is variation among the successful Chinese companies, pointing to asset specificity, sectoral distribution, and the size of investments, illustrating a well-known finding that there is no single Chinese investor, but instead a multiplicity of national and regional state oriented enterprises (SOE), provincial entrepreneurs, and private investors (Bräutigam 2009, Lee 2009, 2014). Thus, what accounts for these particular success and failures across sectors?

I argue that the pattern of contentious politics within the country explains the success and failure of Chinese outward FDI. Contentious politics, operationalized by elite competition and class tensions, differ from one administration to another, structuring the nature of the partnership, the degree of success, and regime of accumulation of Chinese outward FDI in the Philippines. When both elite competition and class tensions stay muted, Chinese outward FDI succeeds, which we can currently observe under Philippines under Rodrigo Duterte. By contrast, when both elite competition and class tensions erupt, Chinese investments fail, as shown in the case of the former President Gloria Macapagal Arroyo's (GMA) second term (2005-2008). Yet again, when elite competition occurs but class tensions remain muted, the impact on Chinese outward FDI depends on the type of investment pathway, as demonstrated in former President Benigno Aquino's administration (2009-2016). Though I develop a broader theoretical framework that looks how the type of investment pathway interacts with the conditions set by contentious politics, for this version of the paper, I only analyze state-to-state loans based on the nature of the partnership, the regime of accumulation, and the likelihood of success.[7]

## THE CONTENTIOUS POLITICS OF CAPITAL

The framework begins with the literature of contentious politics (Slater, Tilly 2010). A high degree of elite competition takes place when the members of the dominant political party defect, corruption cases against the executive increase, and opposition efforts to government programs across all branches intensify (see Doner & Ramsay 1997). Class tensions increase when the wealth gap between the rich and the poor grow, anti-poor policies proliferate, and when the growth of GDP per capita stagnates (Donner et al. 2005). While elites generally monopolize the means of accumulating wealth and access to different forms of political power, their control remains vulnerable to competition from each other.

Contentious politics can explain the extents of success and failure of investments, but it does not situate the politics of opposition from a global perspective. Combining contentious politics with Nicos Poulantzas' (1969) work on the internationalization of the state, elite factions form partnerships with elites from other states and transnational actors, such as multinational companies from the West, to cement their power as gatekeepers of capital. However, when competing elite factions create alliances with elites from other states, inter-elite competition at the international level occurs in the national context. While the resources, networks, and power of both groups have international dimensions, their competition in the national context shapes foreign policy, development strategy, and investment decisions. Competing elites and their new allies try to upend the power of previous elites through controlling important sectors of the economy. Competing foreign investments in these particularly important sectors become the proxy of elite control and power, limiting the access of and means for the other group to accumulate capital. In the model, elite competition proxies for the multiple influences of elite factions abroad.

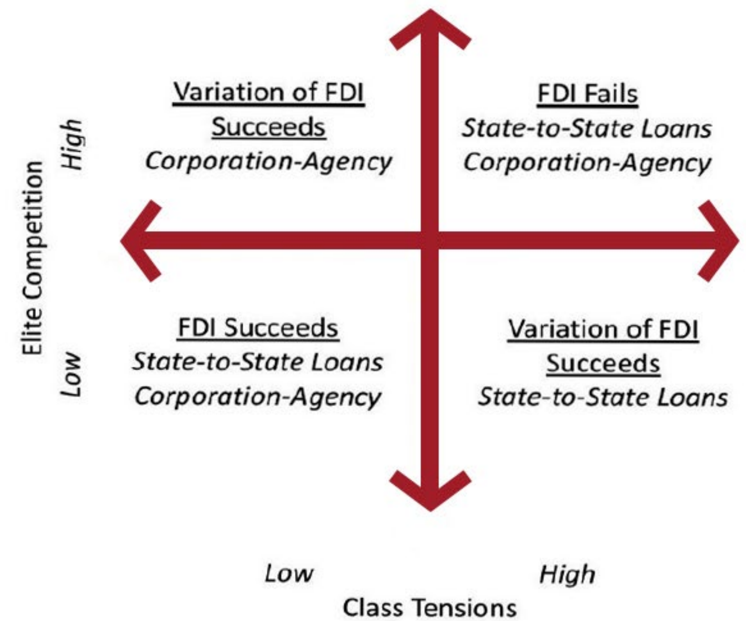
The other important factor that decides the outcome of competing investments is the intensification of class tensions from non-elite groups towards elites. Non-elite groups have an interest in decreasing the wealth gap, but since they are unable to acquire political power outside conventions of electoral democracy, these groups sit on the sidelines except in certain conditions. These crucial conditions, such as the increasing wealth gap, the anti-poor policies, and the stagnating GDP per capita, embolden social movements and people's organizations to agitate, mobilize, and fight. When these conditions coincide with renewed elite competition, the competing elite group and non-elite organizations come together to limit and target the ruling and conventional elites.[8] However, non-elite organizations can also mobilize against the state and the entire elite class regardless of inter-elite competition. However, their capacity to influence investment decisions will be limited.

Using the framework of the contentious politics of capital, I analyze two pathways of Chinese outward FDI as the outcome variable: (1) State-to-State loans; (2) Corporation-to-Government Ventures. In state-to-state loans, the People's Republic of China (PRC) and the host government agree on a framework to build infrastructure and mega facilities through overseas development aid (ODA) and bank loans. Chinese state-oriented enterprises (SOEs), through the loans agreed upon by the bilateral partnership, spearhead the development of the project. Since the PRC already provides the funds, the host government simply needs to adjust to the framework and setup from the PRC.

In the second type of investment pathway, the corporation-to-government ventures comprise private Chinese investors working with existing state agencies of the host government. Though I omit this particular type of investment in this version of the paper, this pathway shows that state bureaucrats and local business groups facilitate economic arrangements with private Chinese companies. As such, Chinese investments work within the rules and structures in the Philippines, reversing the relationship found in state-to-state loans. Because these particular arrangements are smaller and occur mostly in non-strategic sectors, they can be successful even in the presence of heightened elite competition. However, they depend on the stability of class relations to ensure a predictable business environment.

I devise four combinations to explain the extents of success and failure of Chinese outward FDI in the Philippines. In the first outcome, elite competition and class tensions erupt, leading the failure of Chinese FDI, or low investment outcomes relative to other states, in both investment pathways. Conversely, the second outcome belies that both kinds of investment pathway will succeed when elite competition and class tensions stay muted. The third variant hypothesizes that state-to-state loans fail but corporation-to-government ventures succeed when class tensions remain muted even in the presence of heightened elite competition. State departments and host country business partners could still draw on the institutional rules for investments, work with local entrepreneurs, and maintain business predictability. By contrast, in the final variant, where elite competition remains low but class tensions erupt, state-to-state loans succeed but corporation-to-government ventures fail. Growing class tensions hinder state departments from developing a good business environment, emboldening local movements to agitate, mobilize, and resist. However, state-to-state loans could still succeed due to a unified elite class. To summarize the framework, figure 4 shows how contentious politics explain the success or failure of Chinese outward FDI.

FIGURE 4: THE CONTENTIOUS POLITICS OF CAPITAL




## STATE-TO-STATE LOANS

NATURE OF THE AGREEMENT

As an investment pathway, state-to-state loans occur among state actors as juridical, sovereign entities that agree on a set of institutional rules, vote on international issues, and decide on territorial disputes. Empirically, the nature of the partnership requires China and the Philippines to set their differences aside, work together, and task Chinese SOEs to build agreed upon projects. Usually worth billions of U.S. dollars, these projects comprise infrastructures and mega-facilities that need close coordination and planning between Chinese and Philippine actors. With the amount of money required to build the projects, Chinese banks and their rules set the framework of financing and construction, which the host country needs to accept. China's position in the global economy, particularly in accumulating trade surplus and the need to export capital, funds these loans through the transfer of excess liquidity from the national treasury into the China Export-Import (EXIM) and Chinese Development Bank (CDM). EXIM and CDB, then, convert the excess liquidity into different kinds of monetary packages. While these packages vary to a large degree across geographies, only some of them are counted as overseas development assistance (ODA): "concessionality and includes grants, zero interest loans and 'concessional' (low, fixed interest) loans" (Bräutigam 2011, 755). Many others external packages, such as venture investments with Chinese companies, special state loans and external military assistance, do not figure in the ODA budget.

Empirically, past examples can be found in the Chinese loan to the Philippines during the GMA administration (2001-2009). Former Secretary Leandro Mendoza of the Philippine Department of Transportation and Communication (DOTC) agreed on a contract with ZTE Vice President Yu Yong (Landingin, 2010). The investment, worth $329.5 million, was supposed to upgrade the National Broadcasting Authority's infrastructure and communications technology (Landingin, 2010). In another deal, the Philippines and China agreed upon a $503 million deal to build a 32-kilometer railway in 2004, linking Metro Manila to seaports and resource production facilities in the Northern provinces (Landingin 2010). Numerous national scandals erupted as elites reacted to the attempt of Chinese SOEs to establish an economic footing in the Philippines. Political opposition argued that officials of the GMA administration used both projects to acquire personal wealth. Coincidentally, these investments occurred alongside the decreasing quality of life under GMA, emboldening social movements to mobilize against the alleged rent-seeking practices.

In this paper, both loans were funded concessionally through generous repayment schemes and generous interest rates. As Deborah Bräutigam (2011) argues, Chinese concessional loans can sometimes be more generous than the Western loans, but they are often misunderstood due to China's lack of transparency. China's approach towards ODA and concessional loans reflects how Western states conducted development aid in the 1960s. The PRC and the Chinese SOEs depend on the national government to push the project forward with little regard to the mandated bidding processes, various governmental requirements, and the national political pulse. As the processes of both projects bypassed the traditional check-and-balance mechanisms, the political opposition and social movements mobilized heavily to derail both projects.

As a separate but related point to the nature of the partnership, state-to-state loans also occur multilaterally within Track II diplomacy conducted between China and ASEAN for fostering constructive engagement and mutual growth. In case of ASEAN, the semi-institutionalized Nanning and Boao Platforms become a forum to link the various Chinese frameworks, such as the Chinese One Belt and One Road (OBOR) Initiative and the Asian Infrastructure Investment Bank (AIIB), and individual bilateral agreements with ASEAN states. The Nanning Boao Platforms, thus, may transfer the negotiation and decision of these projects from the state level into a multilateral forum, effectively wresting away local and national forums and empowering the state actors. We may therefore likely see a growing link between the Chinese OBOR and/or AIIB engagement of ASEAN via the Nanning and Boao Platforms and overseas direct investments (economic impact) directed to ASEAN or Southeast Asian states.

## REGIME OF ACCUMULATION

Recent work argues that Chinese SOEs depart from the conventional idea of profit, and instead focuses on the political and social influence that China acquires from facilitating these transactions. As Ching Kwan Lee (2014) finds in her study of Zambia, "between profit optimization and profit maximization lies the space for achieving other types of return—political influence and access to raw materials." Aid packages by EXIM are usually tied to political and diplomatic objectives managed by the Ministry of Commerce, which draws in "Chinese state capital, as defined above, serving national interests identified by Beijing." An example would be China's need to acquire energy resources. In the case of Angola, China Exim bank has provided more than $10 billion of concessional loans between 2003 and 2010. As Angola guaranteed the deal with oil priced at a certain time, these loans had more generous repayment rates, longer grace periods, and interest rates lower than Western credits.

During the 9th APEC Economic Leaders Meeting in Shanghai, Arroyo conducted bilateral talks with President Jiang, which yielded stronger ties between the Philippines and China. Apart from the numerous high-level exchange between state leaders, Arroyo attended the Boao Forum for Asia in 2007, which was a forum held between high level leaders of East-Southeast Asia to talk about the most important issues in the region (Storey & Izzuddin 2016). Arroyo's policies reflect many of Ramos and Joseph Estrada's (1998-2001) previous commitments. In particular, the 1996 agreement on shelving the disputes for joint economic development in the South China Sea. Arroyo oversaw the passage of the Agreement on Strengthening Cooperation in Agriculture and Related Fields in 1999 (Lim 1999), where she served as Vice President during Estrada's administration. Most importantly, the South China Sea disputes were sidestepped in favor of an economic relationship. In particular, she agreed to a Joint Maritime Seismic Undertaking (JMSU) to conduct hydrocarbon exploration with China and Vietnam. The JMSU allowed China to explore the water bodies within 200 mile exclusive economic zone boundaries of the Philippines. As 65 other bilateral agreements were signed during her time, commentators saw a strong political relationship between the Philippines and China.

However, this focus on political returns should go along with the dynamics of Chinese external aid, finance, and investments (Pettis 2014). Chinese banks, as a sign of overaccumulation, have always faced the pressure of rising renminbi liquidity (Hung 2009). As the renminbi is facing constant reevaluation, the liquidity sitting in the Chinese banks could eventually lose potential value. The imperative, therefore, is to reinvest excess liquidity somewhere else (Hung & Camba, forthcoming). While excess renminbi could purchase U.S. treasury bonds, these transactions must be balanced properly with the overall export strategy (Hung 2015). Excess purchase could not only over devalue the renminbi, but also face numerous resistance from actors in the U.S. that could derail the next purchase. In this case, the rising liquidity of the renminbi in Chinese banks must be exported outside the country as a loan or investments (Hung 2013).

While the Chinese state focuses on the political returns, the regime of accumulation of Chinese companies aim to maximize profit and escape the PRC's stagnating conditions. China staved off the 2009 financial crisis by injecting an extraordinary amount capital. But in doing so the Chinese state created a gigantic debt bubble. Between 2008 and early 2015, outstanding debt in China skyrocketed from 148% of GDP to 282%, exceeding the level in U.S. and most of the developing world. While the expansion of exchange reserves could mitigate the debt, the growth of China's foreign exchange reserve ended and started to shrink in 2014 (Pettis 2014). To make matters worse for the Chinese state, the escalation of peasant resistance and labor unrest since the 1990s has forced the party-state to make concessions through improving rural economic arrangements and labor conditions in manufacturing, finally curtailing flow of rural migrant workers to the coastal export sectors (Andreas & Zhan 2015). These concessions have not only increased the wage levels, but also placed additional pressure on the profitability of foreign and Chinese capital across the whole economy. Thus, manufacturing capacity, infrastructure construction, and the natural resource industry, sectors that expanded during the "boom" time and 2008 rebound, reached excess capacity with falling rates of profit (Hung 2015).

These conditions lead China into a typical overaccumulation crisis epitomized by the many ghost towns and shut-down factories across the country. As Marx (1867) diagnosed long ago in Capital Volume III, overaccumulation crisis is as old as capitalism itself. China's overaccumulation crisis drives capitalists to escape the mainland's slowly faltering domestic conditions by exporting capital overseas in search of places with higher profit rates. The same crisis motivated the relocation of manufacturing capital from the West into China in the 1980s. With the unsustainability of fixed-asset investments and malleability of renminbi devaluation, Chinese capitalists have begun exporting their capital somewhere else, transforming the context of development across the world. Stock of China's outward FDI jumped from

$28 billion in 2000 to $298 billion in 2012 (see Hung 2015: Table 5.4). Though it is still small in comparison with smaller advanced capitalist economies, some estimate Chinese investments at 1.6 trillion.[9]

THE POLITICAL CAPACITY OF THE RULING GOVERNMENT TO BUTTRESS OPPOSITION PARTIES AND SOCIAL MOVEMENTS BECOME CENTRAL TO THE PROJECT'S CONTINUATION, TO EFFECTIVELY CONSTRAIN THE POLITICIZATION,CONTAIN THE COLLATERAL DAMAGE, AND GENERATE THE POSITIVE NEWS REGARDING CHINESE INVESTMENTS.

## THE LIKELIHOOD OF SUCCESS

The success of Chinese FDI depends on the degree of contentious politics that cohere into elite competition and class tensions. In theory, the sheer amount of money in state-to-state loans remain vulnerable to national scandals, opposition from political elites, and social movement mobilization. The political capacity of the ruling government to buttress opposition parties and social movements become central to the project's continuation, to effectively constrain the politicization, contain the collateral damage, and generate the positive news regarding Chinese investments. But when class tensions erupt, seen in the rising wealth gap between the poor and the rich, proliferation of anti-poor policies, and the stagnation of the economy, it becomes easier for the political opposition to mobilize with social movements in order to effectively target the potential investments. In other words, elite competition and social tensions need to stay muted in order for Chinese outward FDI to succeed.

When elite competition and class tensions erupt, Chinese FDI in state-to-state loans fail. In the second half of GMA's term (2003-2009), the stagnation of the economy and rising inequality continue unabated. Elite and class tensions erupted against the ZTE and Northrail contracts, contesting and undermining state-to-state loans at step of the way. In Northrail, commentators of the issue reported that the project was abandoned due to the absence of a bidding process and corruption reports (Landingin 2010). The Chinese government was tied ZTE scandal, one of the biggest corruption scandals during Arroyo's tenure, which eroded her dwindling legitimacy and effectively hindered Northrail's continuation. Amsterdam Holdings, a rival transnational company for the project, lobbied heavily with the political opposition against the ZTE. Partly due to pressure, Arroyo herself announced the project's cancellation in 2009 (De Castro 2010). The ostensible link between Chinese investments and corruption scandals strengthened Aquino's electoral campaign. In 2010, the China National Machinery and Equipment Group (CNMEG), the company that tasked to build the Northrail, had only completed 15 per cent of the project, leading the Aquino government's to cancel the project (Chaplin 2016). In 2015, Aquino acquired a $2 billion loan from the Japanese government to continue the project without Chinese help.

While Chinese investments acquired 40% of the National Grid Corporation of the Philippines (NGCP) during Aquino's time, the agreement was obtained during the Arroyo administration. In late 2007, the State Grid Corporation of China, a national SOE funded by the PBOC, created a consortium with Calaca High Power Corporation (CHP) and the Monte Oro Grid Resources Corporation (MORC) to bid against San Miguel Energy, the Dutch TPG Aurora BV, and the Malaysian TNB Prai Bhd (Pacudan 2014). These two consortiums represent two different factions of elites in the Philippines, competing for control of and access to a captured market.

In this vein, foreign policy becomes a byproduct or outcome of elite competition. While GMA cooperated with China in natural resource development agreements in the South China Sea, Aquino rescinded the agreements in 2010 (Kagan 2014). Despite China's economic and political threats in government statements, the Philippines affirmed the Visiting Forces Agreement (VFA) with the United States in 2014 (De Castro 2014, Percival 2007), conducted joint military exercises with the US and Japan, bought billions of dollars' worth of military arms from Australia, called for numerous UN resolutions in the dispute, and criticized the Chinese publicly on numerous occasions (De Castro 2014).

To add insult to 'injury', the Philippine government during Aquino started printing its own version of the Asia Pacific map, naming the South China Sea the West Philippine Sea. The Philippines presented an international arbitration appeal over South China Sea disputes to the United Nations (UN) (Ministry of Foreign Affairs 2014). China rejected the appeal of the Philippines and stated that the "unilateral initiation of the present arbitration by the Philippines will not change the history and fact of China's sovereignty over the South China Sea Islands and the adjacent waters" (Ministry of Foreign Affairs 2014). Most recently, The Hague Arbitration declared that the West Philippine Sea belongs to the jurisdiction of the Philippines. Beijing unilaterally refused to recognize the ruling.

With Aquino's crucial (perceived) mistakes in the Disbursement Allocations Program (DAP), Yolanda habitation, and Mampasano clash, numerous ruling factions took advantage of the situation that saliently heightened elite competition. Even before the elections, opposition forces popularized the following issues: Former Secretary Florencio Abad buying political patronage through the DAP, Former Secretary Manuel Roxas' inability to manage the nationally urgent situation, and Aquino's collusion with U.S. military forces in Mindanao. Chinese state-to-state loans were hindered not only because of Aquino's stance in the South China Sea, but also due to muted class tensions. Though rising inequality occur, a growing economy expanded GDP per capita from 2009 to 2015 and a million Filipinos were lifted out of the poverty line (Camba 2015, 2016). Muting class tensions pushed forward corporation-to-government ventures because of the predictability and strengthened fiscal capacity during Aquino's time.

However, class tensions begun to rupture at the end of Aquino's time—rising gap between the poor and rich, a narrow focus on gross GDP growth, and the inability to deal with urban concerns (Changco 2016, Juliano 2016). In this case, Duterte's recent victory changed the course of Chinese investments. With his popularity among the middle, working, and precarious classes, many of Aquino's former party members joined Duterte to form a supermajority. Duterte's popular consensus has effectively muted the rising class tensions at the end of Aquino's term, refocusing the battle instead on the duplicity of human rights, the war on drugs, and Western "neocolonial powers." Duterte reappointed several of former President Gloria Macapagal Arroyo's (2001-2010) officials involved in the controversial deals with China. While opposition forces still persist, elite competition has largely been silent. As a result, Chinese outward FDI appears to be successful so far, culminating in Duterte's recent visit to Beijing and an agreement earmarked for $24 billion (Ranada 2016a).

As many other observers pointed out, Philippine and China relations recently made a complete reversal: passed 24 agreements during the state visit to China; signed memoranda of agreement worth $24 billion; and the slow restoration of political relations (Ranada 2016a). But as this paper points out, it is the complete reversal of GMA's time rather than a return. While the Chinese and Philippine governments seem to be continuing what the Arroyo government started in 2001, the majority of the elites and the population, in this instance, appear to be united under his presidency. Elite competition and class tension challenge and hinder the arrival of new, competitive players in an economy conventionally dominated by few foreign investors. While the literature on foreign capital has pointed out that developing countries with few foreign investors tend to lose out, the case of Chinese outward FDI in the Philippines explains fear of a new powerful actors in an economy. Specifically, the case shows competing foreign and domestic actors over economic matters that impact, or perhaps even come from, foreign policy. With the impressive levels of human capital and continuing growth in the services industry, the potential opening of the Philippines to Chinese capital makes analyst look at might be the impact of Chinese investments.

## POLICY RECOMMENDATIONS

First, as many studies have pointed out (e.g., Kentor and Boswell 2003), the economic and political subjugation of developing states to the West was not caused by foreign investment and trade. Instead, it was a result of developing countries mainly depending on the West for foreign investment and trade, fostering monopolistic conditions and limiting national bargaining power. With states across the world competing for investments from and market access to developed countries, developing states lose out due to the absence of competition among foreign investors. As these conditions render developing states incapable of resisting demands from developed countries in bilateral or multilateral settings.

With the rising prevalence of China as a new major trade partner and source of investment alternative to the US and Europe, many developing countries are finally able to reduce their one-sided reliance on the West for investments and markets, improving their bargaining position in bilateral and multilateral negotiations. However, this step must be taken cautiously due to the complexity of China's own political economy. While the national Chinese state does set the overall investment framework, the effectiveness and impact of investments depend on the type of Chinese actor. Even though good empirical evidence states that Chinese investments can be developmental under certain conditions (Bräutigam 2009), other sources suggest that they have also been destructive (Bond 2013).

The second recommendation springs directly from the first. That is, the developmental impact of Chinese investments depends on state capacity, the quality of political institutions, and the type of Chinese actor. While China's rise as an alternative investor, as a whole, has created more favorable conditions to developing states, the PRC has its own geopolitical and territorial ambitions. Developing states should empower their departments, strengthen their capacity, and limit the elite's manipulation of policies. State institutions with rule-abiding bureaucrats are not only central to redirecting revenues to social expenditures, but also to screening out unprofitable and exploitative foreign investments. As the literature on the developmental state shows (see Amsden 2007), it is central to have bureaucrats and state institutions that could mitigate the potential rent-seeking activities of colluding international and domestic actors. As the impact of investments depend on many other external and important factors, it is central to improve the power of state actors over political preferences in order to facilitate economic growth and fund social expenditure.

## ENDNOTES

1 I presented a more thorough and complete version of the paper at "Chinese Resource and Infrastructure Investments in Southeast Asia: Opportunities, Challenges, and Dilemmas," a workshop held at the Shanghai Institutes for International Studies (SIIS) on November 21, 2016. Parts of the paper have been reused in another piece that will be submitted to Palgrave Communications: Special Issue in China in the Global South, Editor, Ho-Fung Hung. This project has also been funded by Southeast Asian Research Group's inaugural pre-dissertation fellowship, and support from other institutions at Johns Hopkins University (JHU): The Arrighi Center for Global Studies, Sociology Department, and the East Asian Studies Program. Special thanks to Shirley M. Lung. For conversations on the themes of the paper, I would like to thank Ho-Fung Hung, Amy H. Liu, Leslie Gates, Kimberly Hoang, Kenneth Cardenas, Jewellord Nem Singh, Angelica Mangahas, and Aaron Chan. I also appreciate the comments from emerging network of scholars on Chinese outward FDI in Southeast Asia, who were also the participants of the SIIS workshop: Pál Nyíri, Jason Morris-Jung, Ana Alves, Juliet Lu, Cecilia Han Springer, Youyi Zhang, and Jessica Liao. I also acknowledge the help of different Philippine government agencies.

2 One exception is Morck et al. (2008). The authors find no evidence of China's preference for weak institutions in Europe. While their finding is valuable, the study was done with data prior to the 2009 financial crisis and China's renewed efforts to send out outward FDI.

3 Data from the China Global Investment Tracker (CGIT) focuses on ongoing and committed investments from various internet sources. Since most investments that get announced have substantial size and amount, it excludes smaller sums from the sample. While the CGIT cannot verify if the investments occurred, it is a good indicator for FDI interests, potential transactions, and ongoing activities. The 2016 data ended prior to Duterte's term.

4 Data from the China's Ministry of Commerce (MOC) focuses on FDI stock that includes the capital, reserves, and indebtedness of Chinese enterprises. I excluded Singapore and Brunei from the list because of their more advanced level of development. Some scholars have also expressed doubts on the MOC's data.

5 Scholars in the field of Chinese outward FDI in the Global South do not or rarely use host country sources. Since international and Chinese data have been doubted, the paper attempts to do something different by using data generated "from the ground up." I argue that these numbers are more credible than international and Chinese data. Furthermore, the numbers can be verified by qualitative research.

6 Documents from the IPAs have been triangulated with data from the Philippine Statistical Office, Board of Investments in the Philippines, and the Central Bank of the Philippines. Triangulation could have been done further by examining bank deposits made by Chinese companies to the Philippine government institutions, but it is impossible to acquire data from these transactions. Though not in exact figures, the data is consistent across these different Philippine institutions. The data neither calculates stock, includes committed investments, nor aggregates the overall amount, but it shows the actual money that entered the Philippines in specific years. It is the best source to see the geographic diffusion of Chinese outward FDI across the country.

7 Apart from state-to-state loans, the second type of investment pathway occurs in Investment Promotion Agencies (IPAs). Export processing zones, or the major IPAs in the Philippines, drew in Chinese investments: Board of Investments (BOI), Board of Investments ARMM (BOI ARMM), Cagayan Development Corporation (CDC), Subic Bay Metropolitan Authority (SBMA), Cavite Economic Zone Authority (CEZA), Philippine Economic Zone Authority (PEZA), and the Authority of the Freeport of Bataan (AFAB).

8 I operationalized these indicators using proxies from several datasets. However, in this version of the paper, I omitted the quantitative analysis and results of these indicators.

9 See CGIT dataset

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## ABOUT

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