

THE DISPUTES OVER THE SPRATLYS: FOCUS ON PHILIPPINES-JAPAN RELATIONS

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The Philippine claim to Kalayaan Islands is an international problem that has greater implications on Philippine territorial and economic security than on other claimants. Japan, on the surface, prefers to leave the resolution of the disputes to the parties directly involved. Nonetheless, due to geographical and historical ties to Southeast Asia, Japanese interest in any form of resolution to the conflict cannot be totally discounted. The Philippines has difficulty competing with its Southeast Asian neighbors for Japanese trade, investment and official development assistance. Resolution of the Kalayaan Islands disputes, wherein the Philippines would participate in their development, could give the Philippines oil and marine resources that could make it more competitive and attractive to Japanese aid and investment. Even though the Philippine claim to Kalayaan Islands is full of uncertainties, a peaceful solution offers great possibilities for economic development.

KEY WORDS

Spratlys, Philippines, Japan, ASEAN, competitiveness, US-Japan defense alliance

INTRODUCTION

Much of the discussion on the Asia-Pacific, whether it be about the specific issue of security or the broader issue of peace and international cooperation, centers on the Association of Southeast Asian Nations (ASEAN) and the role of the external powers, namely, the United States, Russia, China and Japan. When the discussion focuses on the particular issue of the conflicting claims of China, Vietnam, Taiwan, Malaysia, Brunei and the Philippines over all or part of the Spratlys, the focus naturally shifts to China and ASEAN. The US, still the recognized military power in the region, and having navigational and economic interests in it, naturally enters the picture. Otherwise, it is often out of it. Japan, due to its dependence for its trade and oil supply on the South China Sea route, is naturally mentioned. Otherwise, it is rarely spoken of. When the discussion is further narrowed down to the Philippines' claims over Kalayaan or Freedom Islands, bilateral relations between China and the Philippines, Vietnam and the Philippines, and Malaysia and the Philippines tend to monopolize the center stage. Of course, when multilateral efforts to solve the dispute are mentioned, ASEAN gets included.

This paper will attempt to contribute to the existing literature on the Philippine claim to Kalayaan Islands by focusing on the role of Japan. This is an aspect of the dispute hitherto often relegated to the periphery of the discussion (Khoo 1995).¹ This paper will argue that a military solution would theoretically, but not actually, involve Japan. It will further argue that Japan's involvement would be more certain if the solution were a peaceful one.

Marginal mention of the United States in connection with Kalayaan Islands and the Philippine claim is partly due to the present perception that the US is gradually unburdening itself of involvement in Asian affairs in general, and in the affairs of its former colony, the Philippines, in particular. It is also partly due to the desire of ASEAN to take care of its own problems and to solve them the "ASEAN way."

Borderline inclusion of Japan in the discussion is mainly due to its historical refusal to get entangled in a military way in any part of the world, including, and most especially, Southeast Asia. In Southeast Asia, any hint of an enlarged military role for Japan still brings back memories of World War II. While Japan has usually overshadowed the US since the 1980s in playing an economic role in

Southeast Asia, it has maintained its policy of refusing to play a military role. Japan is afraid that a projection of military power might revive wartime animosities. However, solutions to the dispute, especially the peaceful formulas, would greatly involve economic, technological and financial considerations. And here is where Japan may be more relevant than the US.

THE PHILIPPINE CLAIM AND ITS INTERNATIONAL DIMENSION

The Kalayaan Islands being claimed by the Philippines include 51 to 60 islets, sand cays, sand bars, shoals and coral reefs. The count would vary according to the rise and ebb of the tide. The Philippines occupies seven islets, namely, Nanshan (Lawak), Flat Island (Patag), West York Island (Likas), Northeast Cay (Parola), Thitu Island (Pag-asa), Lankiam Cay (Panata) and Loaita Island (Kota). The largest of these is Thitu Island (Valencia, Van Dyke, and Ludwig 1999: 34-35; Lim 1998: 54).

A basis of the Philippine claim to Kalayaan Islands is geographical proximity. The Spratly group of islands is only 100 kilometers west of Palawan, while it is 650 kilometers east of Vietnam's coast, 1,000 kilometers from China's Hainan island, and 160 kilometers from Sarawak, Malaysia (Lim 1998:53). Geographical basis may be reinforced by the archipelagic principle that the Philippines has incorporated in its Constitution. Of all the claimants, only the Philippines qualifies under the Law of the Sea Convention as an archipelagic state (Valencia, Van Dyke, and Ludwig 1999: 46-47). "If the lines connecting the main Philippine islands to the Spratly islets meet the additional criterion in Article 47(2) that the archipelagic baselines must not exceed 100 nautical miles in length ... then the entire collection of islands – big and small- could qualify as an archipelago, enclosing archipelagic waters (Ibid.). The Philippines, however, has not formally put forward the archipelagic principle as a basis of its claim.

Another basis of the claim is discovery and occupation. In 1947 Tomas Cloma, a Filipino businessman and lawyer, "discovered" and "occupied" some of the islands in the Spratlys. In 1956, when he announced his discovery, he mentioned and claimed protectorate over 33 islands, sand cays, sand bars and coral reefs, and called this group of islands Kalayaan (Lim 1998: 54; Valencia, Van Dyke, and Ludwig 1999: 34-35).

A third basis is that the claimed territory is vital to the country's security and economic survival. In fact, prior to Cloma's "discovery," the Philippine secretary of foreign affairs in 1947 had asked the Allied Powers to give to the Philippines the "New Southern Islands" which were occupied by Japan during World War II. The demand, which was not seriously pursued, was made on account of security, considering that Japan had utilized the strategic location of Itu Aba, one of the islands, and now occupied by Taiwan, during World War II (Yorac: 69; Lim 1998: 55). With regard to economic survival, it is believed that the claimed territory is a source of rich natural resources, but most importantly, it is believed that it contains oil deposits. In the 1970s and 1980s, the Philippine government granted concessions to AMOCO, Salen, and Philippine Oil Development Co., Inc. to drill wells on the Reed Bank (Valencia, Van Dyke, and Ludwig 1999: 11). In the late 1980s, it signed a contract with the Kirkland Oil Company for the survey and exploration of about 6,000 square miles, including most of the Reed Bank (Ibid.).

The Philippine claims conflict with those of Malaysia, China, Vietnam and Taiwan. Among the features claimed by Malaysia is Commodore Reef, at present occupied by the Philippines (Ibid.:36). Vietnamese claims overlap with the area covered by Kalayaan Islands. China's claim, although ambiguous, is that it has sovereign rights over the waters and resources of the South China Sea. It, therefore, conflicts with the claims of all the claimant states, including the Philippines. In 1995 China occupied Mischief Reef, a part of the Kalayaan Islands being claimed by the Philippines. Taiwanese claims more or less coincide with those of China, which is not surprising, considering that Taiwan has historically considered itself as the legitimate government of all of China. In spite of the serious question about its eventual return to the mainland, Taiwan has been mainly supportive of China's activities in the Spratlys (Ibid.:30). To the Philippines, therefore, Taiwan is a rival claimant, at least theoretically.

The discovery of the structures built by China on Mischief Reef in February 1995 was significant for several reasons. First, in spite of China's claim that the structures were for the protection of fishermen, their construction was perceived as an aggressive act against a member of ASEAN—the first time in the history of China-ASEAN interaction. Second, China built the structures in 1992 after the ASEAN had issued a declaration calling on all parties to the Spratlys disputes to use peaceful means, exercise restraint and explore cooperation in resolving all issues. Last but not least, any open conflict that might ensue from the Mischief Reef incident would affect the territorial and economic security of the Philippines. The reef is only 130 nautical miles away from Palawan. As a matter of fact, any dispute over the Spratlys is particularly crucial to the security of the Philippines, it being the closest among the claimants to the contested area.

China is the major player in the disputes over the Spratlys. Its behavior will largely determine whether the present sporadic arrests of fishermen, the sightings and chase of patrol boats, the verbal spats between China and the claimants, and diplomatic protests will escalate into a military conflict, which could be one that would involve the whole Spratlys, or a specific one with a specific claimant. If this happens, the US and Japan would naturally be drawn into the battle. So would Singapore, a nonclaimant, as can be read in an interview with former prime minister Lee Kuan Yew: "Singapore has no interest in [the Spratlys]... But if ownership of [the Spratlys] means territorial waters and more archipelagic waters with 200 kilometers from the outermost atoll for economic zones, then there will be no more open seas. . . This is a big issue in which Singapore as a major seaport has a vital interest." (*The Asian Wall Street Journal*, 3 May 1995) Even if an armed conflict is avoided, any settlement or arrangement that would result in blockage of sea lanes would inevitably invite protests from the US, Japan, and Singapore.

It is clear that while the Philippine claim to Kalayaan Islands can be considered as a bilateral problem, as China would like to insist, it is, in many terms and practical implication, an international problem that may involve not only the rival claimants but also Singapore, Japan and the US. The claims overlap. The area is strategically located for international shipping. Some of the islands had been used for military purposes, as in the case of Itu Aba in World War II. During the Cold War, the Soviet Union used Macclesfield Bank as a mid-sea anchorage for its naval vessels in transit to Southeast Asian operations (Khoo 1995: 183). Last but not least, it is believed to be rich in oil and gas deposits and marine resources.

US, JAPAN, AND THE SPRATLYS

On 10 May 1995, a few months after the incident on Mischief Reef, the United States issued a policy statement. It opposed the use of force and called upon the claimants to intensify their diplomatic efforts. It did not take any position on the claims to any of the islands, but emphasized that maintaining the freedom of navigation was of a fundamental interest to it (Buss 1997). What, then, was the U.S. position with regard to the dispute between China and the Philippines over Mischief Reef?

In 1951, during the Cold War, the Philippines signed a mutual defense treaty with the US. One interpretation of the scope of this treaty with regard to the US obligation toward the Philippines was that an attack on the Philippine armed forces would be considered as falling under the definition of "Pacific area" in Article V of the treaty, even if it did not occur within the metropolitan territory of the Philippines or island territories under its jurisdiction in the Pacific. This was contained in a letter of then US Secretary of State Cyrus Vance to the Philippine foreign minister in January 1979 (Niksch 1995: 6). It must be remembered, however, that the background of this treaty was the Cold War and the domino theory: when a country fell to communism, its neighbor would fall next.

The question, of course, is: now that the Cold War is over, would the US recognize Mischief Reef, or all of the Kalayaan Islands, as Philippine territories in the Pacific? Obviously not, for it has consistently refused to come to the aid of the Philippines on this matter. In late 1988, during the Sino-Vietnamese clash over the Spratlys, the US refused to get involved (Khoo 1995: 201). In October 1991 Admiral Charles Larson, commander in chief of US Pacific Command, was quoted as

saying that the conflict over the Spratlys was a “regional issue” and, therefore, the US would not interfere in it (*The Straits Times*, 23 October 1991: 207n). Again, following events on Mischief Reef, Stanley Roth of the US National Security Council was quoted as expressing support for the Philippines’ efforts to stop “Chinese intrusions.” American officials reportedly looked for ways to bolster security ties with Japan (*Far Eastern Economic Review*, 28 September 1995: 32).

The US neutrality in the dispute was consistent with its policy of supporting the Southeast Asian countries’ efforts to stand on their own and to lessen dependence on the US. For as long as conflict over Mischief Reef does not endanger freedom of navigation and no American lives or interests are directly involved, the US would not go beyond issuing calls for the need for peaceful settlement, and giving moral support to Philippine efforts to stop Chinese “intrusions.”

American involvement, if ever it happens, could also mean Japanese involvement. The US has had opportunities to refuse suggestions of involvement in the Spratlys because it has been asked. But Japan has not issued any refusal because it has never been asked. The main reason for this is the lingering memory of Japanese atrocities during World War II. Much of the Japanese statements about the Spratlys have been limited to those given in academic conferences. Nevertheless, because of the US-Japan security alliance, the US expects Japan to support it in its foreign military activities.

After the fall of the Berlin Wall and the disintegration of the Soviet Union, Japan and the US agreed to review their defense cooperation and to anchor it on the post-Cold War situation. At the end of the review, Japan and the US formulated the new guidelines for defense cooperation. Approved by the US and Japanese Security Consultative Committee in the autumn of 1997, the new guidelines supersede those of 1978.

China suspects that the new guidelines were prompted by its determination to incorporate Taiwan under one Chinese flag. To date, much of the criticism, coupled with apprehensions about the new guidelines, comes from China. There may be some truth to the Chinese perception, but it is also a fact that there are remaining problems with Russia over the Northern Territories, and the uncertainties regarding North Korea. Moreover, the disputes over the Spratlys may not be discounted as another factor.

Furthermore, it may be theorized that the review was prompted by the American perception that Japan might be trying to develop its defense capabilities independent of the US. Prior to the review, the Japanese government had come out with the “National Defense Program Outline (NDPO) For and After 1996.” Adopted by the Security Council and the Cabinet on 28 November 1995, the NDPO replaced the 20-year-old 1976 outline (*Defense of Japan* 1997:116, 290 – 297). The Japanese government diligently follows developments in the growing Chinese economy and modernization of its military, and consistently complains about the lack of transparency on the part of China. Furthermore, considering that the Chinese built structures on Mischief Reef in February 1995, it is tempting to speculate that this incident was not totally unconnected with the Japanese decision to revise its old defense program outline. According to a newspaper report, the incident at Mischief Reef drew a warning from Japanese officials, especially in terms of Japanese anxiety to keep the sea lanes in the region open (*International Herald Tribune*, 4 April 1995).

The 1995 NDPO adheres to the concept that an independent country should possess the minimum defense capability so that it can act immediately to meet an indirect aggression or illegal military action, and control the situation as soon as possible (*Defense of Japan* 1997: 116-119). Attention has to be called to the terms “defense capability,” “indirect aggression” and “illegal military action,” for these concepts signify a giant step away from the original spirit of the US-Japan mutual defense treaty.

The original intent of the security arrangements between Japan and the US was for Japan to be passive when it came to national security and defense policies. In “The Modality of the Security and Defense Capability of Japan: The Outlook for the 21st Century,” a recommendation was made to then Prime Minister Hosokawa to abandon this passive stance. To quote: “Japan should extricate itself from its security policy of the past that was, if anything, passive, and henceforth play an active role in shaping such a role... Consequently, pursuing an active and constructive security policy and

making efforts in this direction is not only Japan's contribution to the international community but also its responsibility to the Japanese people now and in the future." (Cronin and Green 1994: 30)

The US too, had not been satisfied with what it perceived as a fundamentally limited defense policy of Japan, a policy that was concerned only with self-defense. Some American security experts were not happy about what, to them, was Japanese indifference toward the Korean peninsula, for example (*East Asian Strategic Review* 1997).

The 1995 NDPO has changed this passive posture to an active one. It states that Japan has the right to have a minimum defense capability that should enable it to act immediately to counteract an indirect aggression or an illegal military action and to control the situation as soon as possible. In other words, the Japan Self Defense Forces (JSDF) may be used to thwart any perceived threat to Japan even before it becomes real.

The New Guidelines for United States-Japan Defense Cooperation embodies the United States' attempts at restructuring defense and security arrangements in the Asia-Pacific. As had been indicated in a monograph published by the Institute for National Strategic Studies in Washington, D.C., the alliance was necessary for the "forward presence" of the US and the preservation of the balance of power in Asia. The monograph emphasizes that the US would like Japan to play a more active role in meeting new threats to the security of the Asia-Pacific, not by itself but in partnership with the US (Ibid.: 14). The authors were reacting to what they perceived to be shaky ground for the US-Japan security alliance, and the commitment of the Japanese elites to "stronger independent capabilities as means of hedging against possible US withdrawal or fatigue." (Cronin and Green 1994: 2)

The New Guidelines is neither a step toward American withdrawal from the Asia-Pacific, nor a preparation for its replacement by Japan. In 1992 the report "East Asia Security Issues" recommended a phased reduction of American forces in the Pacific to about 80,000. The recommendation was made in view of the end of the Cold War. The United States Department of Defense did not heed the recommendation. On the contrary, in the *East Asian Strategic Review* of 1995, the US "emphasized the importance of maintaining a strong security relationship with Japan and the significance of a U.S. military presence in the Asia-Pacific region." (*East Asian Strategic Review* 1997)

On the part of Japan, the New Guidelines embodies its public decision not only to maintain but also to deepen its commitments to the military alliance with the US.² The US and Japan consider the restructuring as necessitated by the "potential for instability and uncertainty in the Asia-Pacific region" in the post-Cold War period (USIS, 29 September 1997: 1).

The aim of the Guidelines is to construct in more concrete terms the areas of cooperation between Japan and the US. It spells out the terms under three cases: normal circumstances, in case of an armed attack against Japan, and in case of situations in areas surrounding Japan that will have an effect on Japan's peace and security.

The first case, called "normal circumstances," refers to the minimum defense capability of Japan defined in the NDPO. It is emphasized that in spite of the end of the Cold War, during which it was clear that the Soviet Union was a threat to Japan and the whole of Asia-Pacific, this minimum defense capability has to be maintained because possibilities of instability have not totally disappeared.

In the second case, an armed attack against Japan, "Japan will have primary responsibility immediately to take action and to repel the aggressor. The United States will provide appropriate support to Japan." (Ibid.: 6)

The third case refers to hypothetical disturbances or conflicts that may arise in areas surrounding Japan and deemed as having the potential to adversely affect that country's peace and security. "The two governments will make every effort, including diplomatic efforts, to prevent such situations from occurring." (Ibid.: 9)

According to standard interpretation, "areas surrounding Japan" covers Japan, Taiwan, South Korea, and the areas north of the Philippines (*East Asian Strategic Review* 2000: 127). In order to clarify the scope of the area and the nature of the situation mentioned in the New Guidelines, the Japanese Diet passed on 25 August 1999 an enabling law, "The Law Concerning Measures to Ensure

the Peace and Security of Japan in Situations in Areas Surrounding Japan” (hereafter Law on Situations and Areas). Deliberations in the Diet on this law, however, indicated the present tendency of the Japanese government to be vague about the geographical area and nature of the situation that may have a bearing on the peace and security of Japan. The Law on Situations and Areas included the phrase “such as those situations including the one that, if left as what it is, has a potential to develop into a direct armed attack against Japan.” (Ibid.: 128) The National Institute for Defense Studies, a policy research arm of the Defense Agency of Japan, believes that it is “impossible to define the geographical areas or the form of such a situation.” (Ibid.: 129)

The ambiguity may be attributed to the desire of Japan to erase the standard interpretation that “areas surrounding Japan” includes Taiwan. Such measure may have been taken in order to remove any ground for Chinese protest that the guidelines might be used by the US and Japan against China in case it takes aggressive action toward Taiwan.

On the other hand, if indeed the cooperation is “situational,” then it may apply to a larger area, for theoretically, conflicts or disturbances may arise anywhere around Japan. It may cover at least up to the Straits of Malacca, the South China Sea and the waters around Indonesia and the Philippines. Therefore, disputes over the Spratlys may be considered as falling under the “situations in areas surrounding Japan.”

THE STAKES OF JAPAN

It is already established that Japan, just like the United States and any maritime nation, has a stake in the preservation of freedom of navigation in the South China Sea through which 90 percent of Japan’s oil passes (Khoo 1995:183). It is forecasted that its oil needs would increase (Table 1). During World War II, Japan used Itu Aba for military purposes. It has, however, more interests that have not been explicitated in direct connection with the disputes over the Spratlys.

Table 1: Japanese Energy Demand Forecasts to 2015 in Million Metric Tons of Oil

	1995	Projected - 2015		
		Low	Base	High
<i>Consuming Sector</i> _____		1.50%	2.50%	3.50%
Residential and Commercial	74.7	156.1	161.4	165.3
Transportation	85.9	131.3	145.6	160.5
Industrial and Other	170.6	177.2	174.1	179
Total Final Consumption	331.2	464.6	481	504.8

Source: Culled from <http://www.rice.edu/projects/baker/Pubs/Baker> Pub/publications/jescgem/mainstudy.html, 1 January 1998, p. 7

The importance of Japan’s trade with, investments in, and official development assistance (ODA) to Southeast Asia in general, and with the claimant countries in particular, are of general knowledge. It is here emphasized that should disputes in the Spratlys escalate into an open conflict, trade, investments and ODA would naturally be affected. Given the comprehensive approach of the Japanese government to security, it is not impossible for it to interpret disputes in the Spratlys as situations affecting its economic interests in Southeast Asia and, as a consequence, having a bearing on its peace and security. After all, history is witness to Japan’s concept that Southeast Asia is part of its lifeline.

If the US and Japan have to “go to war” over the Spratlys, and if they have to choose sides among the Southeast Asian claimants, the Philippines can no longer bank on the so-called “special relationship” with the United States. The Philippines had a special relationship with the US only for as long as Japan was an enemy. Since the Cold War, however, Japan has been an ally, and the US-Philippines special relationship has remained only in the imagination of Filipino leaders. If Japan and the US had to choose sides, they would do so on the basis of economic and military factors. Making the Philippines attractive to Japan and the US is a responsibility of the Philippine government.

Stopping, or at least minimizing, piracy in the waters of Southeast Asia may be another incentive for Japan to play an active military role in this area. And a dispute in the Spratlys could just offer an opening for the Japanese Coast Guard to cooperate more than it does now with the navies of Southeast Asian countries, especially the Philippines and Indonesia, along whose coasts much of the piracy takes place (*East Asian Strategic Review* 2000: 107-111).

Another stake of Japan is in fishery. As early as the 1970s and 1980s, during the United Nations Conference on the Law of the Sea (UNCLOS), Japan had made it known to the whole world that any limitation on its freedom to fish would adversely affect its food supply. Between 1971 and 1975, an average of 51 percent of the Japanese intake of animal protein came from fish and fish products (Oda 1959: 73). Japanese do fish as far as the coasts of Australia, New Zealand, Mexico, Russia and Canada. Japan has agreed to the territorial limits and economic zones set by the UNCLOS, but the importance to it of fish and other marine resources has not changed. It will always look for areas to fish or territorial waters that it can jointly develop and exploit. The Spratlys offer such an opportunity.

Nevertheless, while Japan may have a number of stakes in Southeast Asia and the Spratlys, and while it may be theoretically possible to include it under “situations in areas surrounding Japan” clause of the U.S.-Japan Defense Guidelines and The Law Concerning Measures to Ensure the Peace and Security of Japan in Situations in Areas Surrounding Japan, it does not necessarily follow that Japan would easily get itself involved in an armed conflict in or over the Spratlys.

EVEN IF CONFLICT ESCALATES

China has promised to respect the freedom of navigation and has not shown strong signs or capability of blocking the sea lanes. Moreover, China’s gains from the present peace and order situation in the Pacific are too great to risk losing. If China acts rationally, it would not destroy the peace. Neither would it relinquish its claims to the waters and resources of the South China Sea, nor demolish the structures on Mischief Reef. It would maintain the claim and might even build more structures now and then, here and there, but it would not go as far as provoking an open armed conflict.

By contrast, China is not entirely free from self-delusion of power. Neither does it absolutely avoid irrational actions and adventurism. Its costly and unsuccessful invasion of Vietnam in 1979 is an example. A month of heavy fighting brought the Chinese tens of thousands of casualties and the humiliation of withdrawal in the face of the battle-hardened Vietnamese army. China might decide to get more aggressive. Or, an accident in the South China Sea might lead to an armed confrontation.

But even if conflict escalates, it would be next to impossible to close all the passages to Japan (<http://www.rice.edu/>, 1 January 1998: 23-24). Japan, Korea, China, Taiwan and the Philippines use the sea lanes off the Spratly Islands, and Japan and South Korea utilize sea lanes beyond the Bashi Channel. Should these passages be closed, Japan could bypass the Bashi Channel by using the Lombok Strait, or bypass the entire South China Sea by going around Australia. Unless the high cost that the alternative routes would entail become unbearable for Japan, it would more likely suffer the cost than get involved in an armed conflict.

Involvement by the US and Japan in the disputes in the Spratlys, therefore, seems remote. First, it is highly unlikely that any country would deliberately break the peace. Second, even if an armed conflict happens, it is highly unlikely that any country would be able to close the whole of the South China Sea, thus, removing the reason for US and Japanese involvement.

RELEVANCE OF KALAYAAN ISLANDS TO PHILIPPINES-JAPAN RELATIONS

Statistics on trade, investments and official development assistance (ODA) clearly show that the Philippines is almost at the bottom of Japanese priority (Table 2). It had the lowest average share of total Japanese imports and exports between 1988 and 1993. There are many reasons for this, one of them being the peace and order situation in the Philippines, but the other reason, which has more far-ranging impact, is the overlapping nature of the economies of these countries. Many of the agricultural products that the Philippines can sell to Japan can be bought from other Southeast Asian countries.

In short, there is no export product that only the Philippines can supply Japan. Therefore, the Philippines has to compete with its Southeast Asian neighbors for the Japanese market. Since trade and investment are closely intertwined, at least as far as Japanese economic policy is concerned, the Philippines is also low in the priority of Japanese investors. In the electronics sector the Philippines is more competitive than other Southeast Asian countries, but this is because of the trainability of Filipino laborers and their ability to communicate in English (Tecson 2001: 58-76). Since many Japanese can speak English, they prefer to invest in the Philippines, where they do not have to learn a new Southeast Asian language. However, since it is only a matter of time before other Southeast Asian laborers learn English, or even Japanese, the Philippines cannot be sure to retain this advantage for a long time. In the 1998 disbursements of Japanese ODA for 1998, the Philippines came third after Indonesia and Thailand. If the Philippines continues to be unattractive for Japanese trade and investment, it might not be long before it occupies the bottom of the list of Japanese ODA recipients in Southeast Asia.

Table 2: Japanese Investments in, ODA to and Trade with, Selected ASEAN Countries

Countries	Investment FY 1951-90	ODA Shares in Japan's Trade 1998 Average, 1988-1993		
	US\$Million Exports	US\$Million Imports	%of total	%of total
Indonesia	11,540	828.47	1.6	5.3
Malaysia	3,231	179.1	2	2.7
Philippines	1,580	297.55	1.1	1
Singapore	6,555	2.27	3.8	1.4
Thailand	4,422	558.42	2.8	2.1

Sources: For investment: Japan Ministry of Finance, *Monthly Statistics of Governmental Finance and Money*, No. 452, 19 December 1989 (Cronin 1992: 11); for ODA: http://www.mofa.go.jp/policy/oda/region/e_asia; for trade: Philippine Department of Trade and Industry (Palanca-Tan 1999: 137).

If it is true that Kalayaan Islands are rich in oil deposits, Philippine participation in its development could give the Philippines a product that can be truly competitive. Oil from this region could offer Japan an alternative to that imported from the Middle East.

A study about Japan's energy needs has recommended that as a hedge against risks of accidents in the Asian sea-lanes as well as the growing problem of piracy, "Japan and its neighbors would benefit from establishing a multilateral safety commission that could serve as a forum for ensuring the security and environment protection of these key waterways. Such an institution, through the thoughtful mediation of trusted regional players, such as Singapore or Indonesia, could play an important role in discussing and resolving multinational issues such as territorial disputes and the control of piracy (<http://www.rice.edu/>, 1 January 1998: 24). This recommendation, although not directly related to the Kalayaan Islands disputes, stresses the importance of oil to Japan and the need

to assure it of a steady supply. If there is oil in Kalayaan Islands, Japan could import it. The islands are closer to Japan than it is to the Middle East.

Even if there is no oil, or very little of it, the rich marine resources of the islands can give the Philippines marine products that would be competitive in the world market. Tuna, it is believed, abounds there, and it is common knowledge that the Japanese are big tuna consumers. Moreover, the growing popularity of Japanese cuisine in the world, including the Philippines, means more demand for sushi and sashimi not only in mainland Japan but in other countries as well.

It may be argued that one does not have to bring the Japanese into the picture, because oil can be domestically used by the Philippines for its energy needs and industrialization. Likewise, marine resources can be consumed domestically. This is not, however, a realistic picture for three reasons. First, foreign capital is needed to develop and exploit these oil and marine resources. Second, foreign capital is hardly given if the donor cannot share in the profit. Third, for its economy to grow, the Philippines has to think beyond economic consumption.

INCHING TOWARD PEACEFUL SOLUTIONS

Letting the present volatile situation last a long time is risky, for it might be disturbed by an accidental outbreak of hostilities. Furthermore, it is disadvantageous to the Philippines, whose economy and military are the weakest in ASEAN. Committed to democracy, the country cannot easily prioritize foreign policy and military modernization over social problems such as education and poverty. Minor skirmishes over the Spratlys can distract it from its socio-economic domestic programs. The earlier a peaceful solution is found, the better it would be for the Philippines and all concerned.

The “Joint Statement on PRC-RP Consultations on the South China Sea and Other Areas of Cooperation,” issued in Manila on 10 August 1995, whereby the Philippines and China agreed to abide by a code of conduct on the South China Sea, only validates the status quo. Settlement of the dispute will come through several means: consultations, refraining from the use of force, building confidence and trust, the gradual and progressive process of cooperation, protection and conservation of the marine resources of the South China Sea, as well as the preservation of the freedom of navigation in the South China Sea.

In turn, the fifth principle in the eight-principle code of conduct is a significant step forward, for here China agreed to “keep an open-minded attitude on the constructive initiatives and proposals of regional states to pursue multilateral cooperation in the South China Sea at the appropriate time.” (Cariño 1998: 110-111) This is an improvement over China’s insistence on bilateral negotiation to settle the dispute (*Japan Times*, 24 March 1995: 4). Moreover, the sixth principle lists the areas of cooperation that “the two sides agree to promote.” These are protection of the marine environment, safety of navigation, prevention of piracy, marine scientific research, disaster mitigation and control, search and rescue operations, meteorology, and maritime pollution control. “They also agree that on some of the above-mentioned issues, multilateral cooperation could eventually be conducted.” (Cariño 1998: 110-111) The code of conduct, therefore, could be a good starting point for more concrete steps toward a peaceful resolution of the issue.

Dozens of solutions have been proposed by academicians, politicians, technocrats and scientists.³ On the whole, these proposals stress research, protection and joint management (bilateral or multilateral) of marine life, oil reserves and other natural resources in the Spratlys. The majority propose involvement of the claimants only.

It does not mean, however, that Japan will be totally out of the picture. The need of the claimant countries for capital and technical know-how would be intensified by any arrangement for joint development of the natural resources of the Spratlys.

If the Philippines and China were to agree on a bilateral joint development of Kalayaan Islands, how would this affect Philippines-Japan relations? Unless strict rules were agreed upon with regard to equity, and unless the capabilities of China and the Philippines were equalized, bilateral joint development could in practice be competitive rather than cooperative. Moreover, if China were to

retain theoretical sovereignty over the area, it would treat joint investments as foreign investments. China and the Philippines would both try to augment their resources with foreign financial and technical aid and investments. Japan, the biggest economic power in Asia, would be happy to be tapped. Bilateral joint development, whether under Chinese sovereignty or not, would certainly be a new field of investment and aid for Japan.

Assuming that China and Japan are natural rivals in the Asia-Pacific, and that Japan fears a militarized China, Japan might prefer to give more aid to the Philippines than to China. Fear that a robust Chinese economy might only help China speed up its modernization plan for its military might make Japan think twice about giving it more aid.

Still, China's large market and rich natural resources have always been an attraction to Japanese investors. If China democratizes and if it heeds the Japanese call for transparency in its defense white paper, Japan would no longer be afraid to put more aid and investment to China. In this scenario, would the Philippines be able to compete with China for more aid?

The Philippines prefers a multilateral negotiation (*Business World*, 16 May 1995: 11). It may be assumed that it also prefers a multilateral joint development arrangement. The form this multilateral development would take is still vague. Assuming that Kalayaan Islands could be isolated from the disputes over the whole Spratlys, and assuming that only the Philippines, China, Taiwan, Vietnam and Malaysia would be involved in the joint endeavor, how would Japan react? Japan would still give aid and invest, because it would not be able to afford to let this opportunity for a new field of economic involvement pass. In case of competition for Japanese aid, how would the Philippines fare?

Answers to the questions posed above call for an examination of several factors - economic, cultural and political - as well as conditions of peace and order. That would be beyond the scope of this paper, but it is clear that the Philippines cannot merely work for a peaceful settlement of its claim to Kalayaan Islands. The more important task is to prepare itself for any kind of settlement, so that if it comes, the Philippines would be in an advantageous position to bargain for favorable investment and financial assistance from Japan or any other aid-granting country.

CONCLUSION

The Philippine claim to Kalayaan Islands is an international problem that has greater implications on Philippine territorial and economic security than on other claimants. The US and Japan prefer to leave the resolution of the disputes to the countries involved, but both have issued statements of involvement should the freedom of navigation be violated. By virtue of the New Guidelines for US-Japan Defense Cooperation and the ambiguity of the geographical area from where threats to Japanese peace and security might be considered to be arising, the South China Sea can, in theory, fall within the scope of US-Japan defense alliance. Furthermore, Japan has high stakes in Southeast Asia and the waters around it.

Nevertheless, an outbreak of open conflict is a remote possibility, because China itself has shown indications of avoiding it; even if armed conflict occurs, US and Japanese direct involvement would be remote because it would be impossible to totally block passage through the South China Sea. Trade and navigation would still be possible through alternative passages, without passing through the South China Sea.

At present, the Philippines has difficulty competing with its Southeast Asian neighbors for Japanese trade, investment and official development assistance. Resolution of the Kalayaan Islands disputes that would allow the Philippines to participate in its development would give the country oil and marine resources that could make it more competitive and attractive to Japanese aid and investment.

If a decision were made toward joint development, whether bilateral or multilateral, opportunities for new field of investment and aid would be opened to Japan. The Philippines might have to compete with China, Taiwan, Vietnam and Malaysia for Japanese attention.

The Philippine claim to Kalayaan Islands is full of uncertainties, but a peaceful solution offers great possibilities for economic development. Even though the shape of a peaceful solution is still hazy and

may remain so for some time, the Philippine government could serve the national interest better if it takes measures that would make it more competitive with its co-claimants.

ENDNOTES

¹ Khoo How San discusses the involvement of Japan, the United States, Russia, China, India in the disputes in the South China Sea. With regard to Japanese involvement, he mentions Japan's arms build-up and the fear among Southeast Asian countries that its target may not be only Russia, as Japan would like the world to believe. Khoo warns that Sino-Japanese conflict over the Senkaku or Diaoyutai for the Chinese might escalate. If China is forced to take a hardline over this island, he argues, it might take the same stubborn posture regarding its claims to the South China Sea. He points out that Japan gives financial aid to Indonesia, Malaysia and Singapore, which cooperate in the management of the Malacca Straits Traffic Separation Scheme, a civilian endeavor. He then suggests that an international conference be organized to discuss the South China Sea problem and how to avoid conflict from arising there. See pp. 202 – 203.

² As to what the present Japanese leadership is really thinking concerning its alliance with the United States is anybody's guess. While there are public pronouncements and actions indicating a closer relationship with the United States, there are also indications of getting closer to China, or even to Russia, two neighbors with rich natural resources, including oil. There are also indications that some Japanese desire to go it alone in developing its defense capabilities, such as in the case of TMD. For a similar view, see Vatikiotis (1991).

³ Valencia, Van Dyke, and Ludwig so far, is the most comprehensive discussion of these proposals.

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