

# Philippine hedging strategy from the perspective of neoclassical realism

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**Abstract.** As the main diplomatic strategy of the Philippines towards China, the hedging strategy has been practiced for a long time. In recent years, with the acceleration of Sino-American Geopolitical Competition, as well as the transfer of power in the Asia Pacific region, Southeast Asian countries are facing new strategic decision-making pressure. From the perspective of neoclassical realism, systemic pressure is transmitted through internal factors within a country, thereby determining diplomatic strategy. For the Philippines, the systemic pressure brought about by the Sino-U.S. competition serves as the independent variable, while the domestic security and economic development needs of the Philippines serve as intervention variables, jointly influencing diplomatic strategy. Through analysis, it can be seen that in the new stage of the Sino-U.S. competition, the hedging strategy of the Philippines has changed. During the Duterte period, the Philippines implemented a friendly strategy towards China of "military proximity to the United States and economic contact with China". After Marcos Jr. came to power, there was a trend of partial checks and balances in the Philippines' policy toward China. Overall, it still shows a major country balance orientation and will maintain this characteristic in the short term.

## 1 Introduction

Since the Philippines declared independence in 1946, the Sino-Philippine relationship has gone through a process from rigidity to gradual thawing, until China and the Philippines established diplomatic relations in 1975. Later, it continued to deteriorate due to the South China Sea issue. After Duterte took office, China and the Philippines entered a golden period, while Marcos Jr. partially reversed his friendly policy towards China. In short, the Philippines' policy towards China is constantly changing. Based on the above time points, from the establishment of China to the present day, the competition between major powers in Sino-American has become increasingly fierce. Among them, the "Indo-Pacific Strategy", which is an important strategy of the United States for the Asia Pacific region and China, has had a profound impact on the Sino-Philippine relationship and Philippine policies towards China.

As a theory of explaining diplomatic behavior, neoclassical realism combines two levels of factors, system, and unit, to analyze the formation of foreign policy. System pressure is transmitted and transformed through domestic factors, ultimately forming specific diplomatic strategies. This theoretical framework has been widely applied to the study of hedging strategies in the Philippines. It is also the theoretical basis for analyzing the changes in hedging strategies towards China during the Duterte and Marcos Jr. periods in this article.

In summary, there has been a comprehensive study in the academic community on the history and causes of hedging strategies before the Duterte period. However, there is still room for research on the analysis of strategy toward China during the Marcos Jr. period, especially regarding the issue of some checks and balances that emerged in strategy toward China during this time. This has certain research significance. Therefore, this article aims to analyze the changes and reasons for the Philippines' hedging strategy towards China during the Duterte and Marcos Jr. periods. The framework is neoclassical realism theory while the systematic background is the Sino-American Geopolitical Competition.

## 2 Literature review

### 2.1. A review of hedging strategies in Southeast Asian countries

Hedging strategies are often used in Southeast Asia to cope with the Sino-U.S. competition. Nie Wenjuan summarized the geopolitical competition between China and the United States in the Southeast Asian region after Biden took office, and proposed that the strategic choices adopted by Southeast Asian countries would exhibit the characteristic of "choosing sides but not standing in line" [1]. Evelyn Goh proposed that Southeast Asian countries tend to refer to China as a "challenge". Under the Sino-U.S. competition, most

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Southeast Asian countries will choose hedging strategies as a middle ground. They try to avoid "choosing sides" between these two countries, simultaneously engaging and balancing with China [2]. Liu Ruonan pointed out that the policy changes between China and countries in Southeast Asia increasingly reflect the pressure brought by the "Indo-Pacific Strategy", and both countries have made policy efforts to cope with the impact [3]. Denny Roy specifically proposed that the Philippines choose to maintain a low-intensity balance with China while engaging in defense cooperation with the United States to ensure that it is not at its disposal [4].

## **2.2 A review of research on the causes of hedging strategies in the Philippines**

Hedging strategies are often used in Southeast Asia. Since the independence of the Philippines in 1946, the Philippines-US alliance, the Sino-Philippine relationship, and the Philippines' hedging strategy towards China have undergone continuous changes. From the perspective of neoclassical realism, the systemic and domestic factors of the Sino-U.S. competition are the reasons that influence the formation and changes of the strategy. Lian Bo believes that the "balance of major powers" is gradually becoming the optimal choice for more Southeast Asian countries to maintain their strategic interests. He proposes four factors that affect strategic choices: territorial disputes, political systems, trade interdependence, and the availability of hegemonic allies [5]. Ma Bo focused on the Duterte administration's "balanced diplomacy" policy, pointing out the constraints of the South China Sea issue and U.S. intervention in the Sino-Philippine relationship [6]. Chen Qinghong elaborated on the hedging strategies of the Philippines towards China in different periods since the establishment of diplomatic relations between China and the Philippines. He also introduced two variables: threat perception and economic expectation to explain the reasons for the formation of the strategy. He pointed out that there is a close connection between economy and security, and Southeast Asian countries will adopt different policies towards China based on economic expectation and threat perception [7]. Liu Feng and Chen Zhirui both adopted a neoclassical realist framework, where system variables shape national behavior and domestic variables transmit the instructions of system variables. They also proposed a new model with system pressure and national strategic preferences as variables [8]. In addition, Cha Wen proposed individual factors of decision-makers as a supplement, and the ruling status of decision-makers reflects different tendencies due to different levels of public opinion interference in domestic society [9].

## **2.3 Research review**

From the above literature, it can be seen that the academic community has conducted comprehensive research on the situation and reasons for Southeast Asian countries choosing hedging strategies, and has also

developed a practical theoretical framework of neoclassical realism. However, there is still room for further research on the reasons for the resurgence of checks and balances in the Philippine strategy towards China after the 2022 Philippine election.

## **3 Hedging strategy and neoclassical realistic theory**

### **3.1. The concept of "hedging"**

The traditional view generally summarizes the methods of neighboring small countries in dealing with rising powers as balancing and bandwagoning. However, in recent practice, the traditional dichotomy is no longer applicable to the current international relations reality in Southeast Asia. Therefore, scholars have proposed the concept of "hedging", and the theoretical framework around this concept has gradually become the mainstream viewpoint.

Hedging is a concept introduced in the financial field, referring to an investment choice that reduces risk. Introducing it into the field of international relations" means maintaining more strategic choices regarding the possibility threats", with the core being that small countries adopt a neutral stance to avoid taking sides between two major powers. Evelyn Goh is the first scholar to apply a hedging strategy to the analysis of policies in Southeast Asian countries. She views hedging strategy as a set of strategic combinations, describing Southeast Asian countries' deep engagement with China while adopting soft balances to address the threat of China's rise, as well as the impact of U.S. withdrawal and unstable regional order [10]. Kuik Cheng-Chwee also believes that the hedging strategy is a strategic combination of balancing and bandwagoning. However, due to the different acceptance levels of small countries towards large countries in different periods, the proportion of balancing and bandwagoning in the strategy will also change. That is, when small countries have a high acceptance level towards large countries, they tend to follow, and vice versa, they adopt balancing [11]. In the usual sense, hedging strategy refers to a strategy where small countries choose to balance and follow among major powers simultaneously.

### **3.2 The theoretical framework of neoclassical realism**

Neoclassical realism is a cross-level analysis method that focuses on the construction path of foreign policy theory, combining system level and unit level, focusing on the diplomatic behavior of specific countries. The main components of its theoretical framework are the independent variables of system pressure and the intervention variables at the domestic level. From the perspective of neoclassical realism, the international system is in a vague state. System elements as independent variables that shape but do not determine the diplomatic behavior of a country. System elements

need to be transformed through internal intervention variables to have an impact on the country's foreign policy.

For the Philippines, the system elements as independent variables refer to the systemic pressure caused by the transfer of power in Southeast Asia under the competitive landscape between China and the United States, which shapes the overall direction of the Philippines' strategic choices. The intervention variables are mainly the comprehensive needs of domestic security and development. These needs respond to and transform systemic pressure, and determine the specific details of the Philippines' foreign strategy. The framework of neoclassical realism can be used to conduct a theoretical analysis of the changes and causes of China's strategy during the Duterte and Marcos Jr. period.

## **4 The Philippine hedging strategy and its causes from the perspective of neoclassical realism**

### **4.1 Philippine hedging strategy in the new era**

#### *4.1.1 The period of Duterte*

The increase in demand for economic development during the Duterte period was mainly due to China's relatively prosperous economy and high international reputation. In 2020, China and the Philippines officially signed the Regional Comprehensive Economic Partnership Agreement, which helped promote economic and trade cooperation between China and the Philippines. During this period, the Sino-Philippine relationship continued to be friendly, with economic contact and cooperation as the main focus, temporarily shelving the issue of territorial disputes.

After taking office, Duterte adjusted the Philippine foreign policy, restored a balanced and independent foreign policy, and actively launched friendly negotiations with China. The Philippines improved relations with China while maintaining the Philippines-US alliance. Although the Duterte government still regards the arbitration result of the South China Sea arbitration case as a victory, it has downplayed the result to ease the Sino-Philippine relationship, with a restrained attitude as the main focus. The Philippines has established a consultation body with China for peaceful negotiations and reached a consensus on the joint development of resources in the South China Sea. In terms of economic and trade cooperation, both parties have established a comprehensive cooperative partnership. Through the Duterte Economic Forum, both sides have enhanced economic exchanges. Duterte's participation in the second "the Belt and Road" International Cooperation Summit Forum and other initiatives reflect the efforts made by the two countries in the field of economic and trade cooperation.

#### *4.1.2 The period of Marcos Jr*

During the Marcos Jr. period, factors such as the implementation of the Indo-Pacific economic framework and the slowdown in China's economic development to some extent weakened the China Philippines Economic Relations. Also, due to the gradually tense situation in the Asia Pacific and South China Sea regions, the Philippines looks forward to strengthening ties with its only treaty partner, the United States, to cope with the complex geopolitical situation.

During this period, the high-level interaction between the United States and the Philippines resumed, with a renewed focus on the South China Sea issue and a focus on continuing to strengthen defense cooperation. The Philippines-US Alliance has resumed a high level of military exercises and launched the latest "shoulder to shoulder" military exercises in 2023. On April 11, 2023, U.S. Secretary of Defense Austin visited the Philippines and held the third 2+2 ministerial-level dialogue. At the joint press conference on the same day, the two sides proposed to maintain a close partnership under the Strengthening Defense Cooperation Agreement. Their goal was to ensure the high-level, high-impact, and high-value joint exercises and also proposed the applicability of the Common Defense Treaty in the South China Sea region. They also emphasized the consolidation of partnerships and the modernization of the Philippines-US alliance [12].

### **4.2 Analysis of the causes of hedging strategy from the perspective of neoclassical realism**

#### *4.2.1 System pressure brought by the Sino-U.S. Competition*

Compared with the previous "Asia Pacific Rebalance Strategy", the regional expansion of Sino-American Geopolitical Competition under the Indo-Pacific Strategy has made the Indo-Pacific region the primary focus of the U.S. global strategy. The main reason for this is to focus on addressing the "China Challenge", and Southeast Asia has become a battlefield for geopolitical competition between China and the United States. The United States proposes to cooperate with its allies and compete with China. The goal is to demonstrate its deterrence capabilities to China and shape a strategic environment that is in line with U.S. interests. Because of that, China can operate within this environment and the United States can achieve a balance of influence in the Indo-Pacific region.

However, it needs to be clarified that Sino-American competitions are not zero-sum games, as there is close cooperation in multiple fields such as economy and technology. The cooperation and competition between the two countries are mutually constrained. The differences and conflicts generated are mostly limited to specific issues and periods, and the possibility of long-term tense confrontation is low. The power pattern in the Indo-Pacific region is also difficult to change significantly in the short term.

The power transfer and geopolitical competition between China and the United States have played a

shaping role in the pattern of Southeast Asia. However, the confrontation level between China and the United States is relatively low compared to the historical confrontation between major powers, mainly because China's strength still lags behind that of the United States. Although there is a tendency to form a bipolar pattern in East Asia, it has not been achieved. In addition, China's rise in Southeast Asia still focuses on economic rise rather than comprehensive rise, and the interaction between Sino-American is also a situation where cooperation and competition coexist. Both China and the United States, are well aware of the importance of cooperation with each other, but at the same time, the United States sees China as a strategic threat and constantly puts pressure on China on bilateral and territorial sovereignty issues. China has also responded to this, showing a relatively strong attitude.

The conflict and friction between China and the United States have not affected the overall pattern of their diplomacy. China's policies have the characteristics of strengthening economic cooperation and maintaining restraint in security. Although the United States intervention in issues such as the South China Sea has intensified some conflicts, it has not changed the overall direction of regional interaction. Therefore, under the pressure of this system, neither country has strongly forced other countries to join its camp, and small and medium-sized countries have the foundation to implement balanced diplomacy between the two countries. For the Philippines, the relatively low level of confrontation in the system gives it more room for choice in diplomacy with two major powers, which is a favorable condition for implementing hedging strategies. Based on this, the Philippines has returned to the track of hedging.

#### *4.2.2 Comprehensive needs for domestic security and economic development*

The biggest issue between China and the Philippines is the South China Sea issue. After the 2012 Huangyan Island standoff, the Philippines not only failed to resolve the dispute reasonably but also called on neighboring countries to confront China together and demonstrate to China on the sovereignty issue of the South China Sea. Afterward, the Philippines made it a strategic core. With the support of the United States, unilaterally initiated the "South China Sea Arbitration Case" in 2013. They claimed that China had no historical rights over the South China Sea, further exacerbating the conflict between China and the Philippines. As the largest military aid country and ally of the Philippines, the United States promises to provide security guarantees for the Philippines. The United States can also use this issue to curb China's power growth in Southeast Asia. This is in line with the security needs of the Philippines, so it is inevitable for the Philippines to continue to approach the United States militarily. For the Philippine government, the United States has numerous military bases in the Philippines, and if there is a conflict between China and the United States, it is highly likely to be involved. The

degree of military dependence on the United States needs to be adjusted based on reality.

Due to the fact that the United States is already a mature economy and its economic growth rate is slowing down, there is less economic development space available. As a significant development force in the Asia Pacific region, China's economy is rapidly developing, and it has strong cooperation potential and is very willing to strengthen economic ties with Southeast Asian countries. At this time, if the Philippines does not seize the fast development of China's economy, it will once again miss the opportunity. Therefore, due to the urgent need for domestic economic development, the Philippines will temporarily shelve territorial disputes and enhance economic and trade cooperation with China. The economic and trade cooperation between China and the Philippines in the new era of competition between China and the United States has achieved certain results, which have played a certain role in easing the Sino-Philippine relationship.

The pursuit of national security has always been the primary focus of a country's diplomacy, but economic development is also an important influencing factor in a country's diplomatic behavior. Due to years of disputes in the South China Sea, the Philippines has security concerns about China's rise. At the same time, there are issues of poverty and economic inequality in the Philippines, and it is urgent to seize the opportunity to develop the domestic economy. In the new era of the Sino-U.S. competition, due to varying degrees of domestic needs for security and economic development, the Philippines' hedging strategy has undergone detailed changes. It changed from a friendly relationship with China during the Duterte period to a partial downward trend after Marcos Jr. took office, which means strengthening ties with the United States to some extent and showing a partial tendency to balance China.

## **5 Conclusion**

Since the release of the United States' Indo-Pacific strategy, the Sino-U.S. competition has gradually entered a new stage. The Sino-U.S. competition and cooperation in Southeast Asia have shaped the regional power pattern. However, the Sino-U.S. competition objectively exists, but it is not intense. It is not required for the Philippines to choose a clear camp, which has become the basis for the Philippines to implement a hedging strategy. At the same time, the varying degrees of pursuit of security and economic development in the Philippines were used as intervention variables, transforming the independent variable of systemic pressure brought about by the Sino-U.S. competition. Ultimately it formed a foreign policy orientation of "economic contact with China, military close to the United States" during the Duterte period. After Marcos Jr. took office, the Philippines' need for maintaining national security increased, while the demand for economic development was not as strong as during the previous presidency. Therefore, it chose to strengthen ties with the United States between China and the United States.

From the current reality in Southeast Asia, small and medium-sized countries such as the Philippines are still facing the evolution of the system structure. The Sino-US competition and cooperation are shaping the system, while the resulting system pressure will also change. In addition, as the demand for security and economic development changes within the Philippines, some details in the hedging strategy towards China will also be adjusted accordingly. Therefore, the future of the hedging strategy in the Philippines will be the result of the Sino-U.S. competition, as well as the transmission of changing system pressures through domestic demand.

Finally, due to the emphasis of neoclassical realism theory on the role of domestic political factors in systemic factors, and the numerous types of domestic political factors that are difficult to fully list and analyze. Factors such as leader characteristics, geographical location, historical and cultural influences have not been taken into account. Therefore, this article has certain limitations, and the impact of other domestic political factors still needs to be further studied and examined.

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