

The Manila Hostage Crisis and Diplomacy

A Note on Economic Diplomacy by Beijing PE¹

In the morning of August 23, 2010, dismissed former senior inspector Rolando Mendoza of the Manila Police District (MPD) hijacked a tourist bus carrying 20 Chinese tourists from Hong Kong, a foreign tour guide and four Filipinos, in an attempt to get his job back. Ten hours later, Mendoza and eight of the Chinese tourist-hostages were killed and one tourist critically wounded and six others suffered various injuries.

The tragic incident involving the MPD's failed rescue attempt and 90-minute gun-battle with the hijacker was viewed by millions of people worldwide live on television and the internet.

This incident may be viewed as an isolated event, an unfortunate episode that regrettably included tourists. But the ripples that it created goes beyond that single fateful day and the “handling” of this incident inevitably reflects on the “quality” of diplomacy established by the foreign service posts in China and Hong Kong.

The Aftermath of the Crisis

The crisis created tensions on the political and economic relations of the Philippine and Hong Kong and Chinese governments and even between the citizens of both countries. Is the fall-out from the crisis severe enough to strain the economic relations of the countries?

¹ This caselet was written by Brenda B. Furagganan, MDM under the supervision of Prof. Federico M. Macaranas and was commissioned by the Department of Budget and Management (DBM) as part of the study on the Zero-Based Budget (ZBB) for the Department of Foreign Affairs focusing on the operations of the Posts.

Negative Travel Advisories

The Hong Kong Regional Government issued its highest level of travel warnings in the aftermath of the killings, urging all residents to avoid traveling to the Philippines and enjoining all its residents in the Philippines to leave the country at once. The *South China Morning Post*, Hong Kong's English-language daily, expressed the HK people's outrage with the headline "*Fury in HK over Manila Bloodbath*".²

In Beijing, the Chinese government also issued travel warnings for the Philippines and announced it will send "working teams" to the Philippines to conduct their own investigation on the tragic incident. In addition to Hong Kong and China, several other governments have issued travel warnings for the Philippines.

Fall-Out on Tourism Industry

The fall-out from the Manila hostage crisis or Rizal Park hostage-taking incident was immediately felt by the Philippine tourism industry. Tourists from mainland China comprise the fourth largest group of tourist arrivals in the Philippines (187,446 tourists) while tourists from Hong Kong comprise the sixth largest (133,746 tourists).³

According to the Philippine Airlines (PAL), two days after the incident, two groups of at least 20 Hong Kong residents canceled their PAL flights to the Philippines. It also estimated that at least 558 Manila-bound bookings were canceled. The other airline, Cebu Pacific, also received considerable rebooking and cancellation requests from passengers with Hong Kong routes. On the other hand, several Hong Kong and Macau-bound Filipino tourists also opted to change their destinations in view of the brewing animosity of Chinese on Filipinos.⁴

The Department of Tourism also reported the cancellation of travel plans to the Philippines of more than 1,000 tour groups from the Chinese mainland and Hong Kong. Within four days from the incident, 351 cancellations in hotel bookings and reservations were reported, which was estimated to amount to revenue losses of P7.439 million (room costs only). The estimate would reach P20 million to 30 million if other tourists' expenses are added such as meals and transportation.⁵

² CNN World. "Gunman in the Philippines ends standoff by killing 8, wounding 7", August 23, 2010, http://articles.cnn.com/2010-08-23/world/philippines.bus.hostages_1_tour-guide-manila-police-tourist-bus?_s=PM:WORLD

³ Based on 2011 DFA Report to Sen. Drilon.

⁴ GMA News. "RP tourism bears brunt of Manila hostage-taking", August 26, 2010 8:54pm, <http://www.gmanetwork.com/news/story/199512/economy/rp-tourism-bears-brunt-of-manila-hostage-taking>

⁵ ABS CBN News. "Tourist destinations reel from hostage crisis' impact", August 27, 2010, <http://www.abs-cbnnews.com/business/08/27/10/tourist-destinations-reel-hostage-crisis%E2%80%99-impact>

Effect on Trade

Despite the rhetoric of the governments of China and Hong Kong, there were no threats of trade sanctions or actual trade withdrawals although the effect on trade might be more difficult to ascertain in the short term. In addition, there have been other incidents that have had political and economic repercussions.

Prior to the Manila hostage crisis, Chinese netizens reacted negatively to the passage of the Philippine Baseline Law in March 2009 prompting about 10,000 angry blogs denouncing the “invasion” of the Philippines on Chinese territory. They also referred to the Philippines as “a monkey that needs to be scared by the People’s Liberation Army from conducting aggression in the Spratlys.”⁶

Likewise, the maritime controversy on the Panatag Islands (international name Scarborough Shoals) in early 2012 has been a thorn in the Philippines – China relations for some time. The recent incident prompted cyber attacks by Chinese hackers on Philippine government websites, although negative trade impacts have not occurred.

The Philippines – China Economic Relations

The economic significance among Hong Kong, China and the Philippines is undeniable.

Trade

The Philippine trade with China is the country’s 4th largest in terms of value (US\$) while trade with Hong Kong generates the 6th largest value (Table 1). More importantly, trade with both economies generates positive balance of trade for the Philippines.

Table 1. Trade Statistics of Philippines with China and Hong Kong

| | Total Philippine Exports in US\$ | Total Imports in US\$ | Balance of Trade | Total Trade in US\$ |
|------------------|---|------------------------------|-------------------------|----------------------------|
| China (mainland) | 5,726,391,195 | 4,627,559,937 | 1,098,831,258 | 10,353,951,132 |
| Hong Kong SAR | 4,335,689,006 | 1,469,677,161 | 2,866,011,845 | 5,805,366,167 |

Source: DFA document titled Annex I, 2011

However, the US\$10 bn trade in 2011 is already a big decline from the level of trade with China in 2009, which stood at US\$18.17 bn. The significance of the Philippines as a trading partner of China has also been outranked by other ASEAN countries particularly Malaysia, Singapore, Thailand and Indonesia in the past few years. The Philippine Ambassador to Beijing has in fact

⁶ Beijing PE, 2009 Annual Report

predicted two years ago that, “While the Philippines still posts surplus in its trade relationship with China, the onset of the ACFTA⁷ could change this dynamic in the following years”.⁸

OFWs in China and Hong Kong

Although the number of OFWs in mainland China is low compared to other countries, the number of OFWs in Hong Kong is significantly large (Table 2). Only less than 5% of the OFWs in Hong Kong are professionals. Majority are domestic helpers.

Table 2. Population of OFWs in Hong Kong and China

| | 2006 | 2009 | 2010 | 2011 |
|------------------|---------|---------|---------|---------|
| China (Mainland) | 16,897 | 26,080 | 24,938 | 28,271 |
| Hong Kong SAR | 134,115 | 154,887 | 159,765 | 162,467 |

Source: DFA Reports to Congress, various years

In contrast, only 16% of OFWs in mainland China are domestic helpers or nannies. About 25% are considered under the category Employees/Consultants/Managers and 15% are under the category Musicians/Entertainers. The rest of the OFWs in China comprise of technicians, teachers, doctors, nurses and students.

Investments

In terms of Foreign Direct Investments (FDI), Hong Kong has low FDI in the country – only about Php59 million investments in 2011. However, China is a key investor in the country with about Php 5.7 billion invested in the economy particularly in mining, agriculture and energy.

In the case of China, Philippine investment in China is equally significant. At the end of 2009, the Philippine investments in China are even higher than Chinese investments in the Philippines. For instance, 39 Philippines companies invested a total of US\$111 million in China while Chinese investments in the Philippines totaled only US\$42.7 million.⁹

Actors in Furthering Economic Diplomacy

Economic diplomacy, one of the three pillars of foreign policy undertaken by Foreign Service Posts (FSPs). In its various accomplishment reports, FSPs include the following activities under Economic Diplomacy: Trade, Investments, Official Development Assistance (ODA), Tourism, signing of bilateral agreements, among others. However the outputs of these activities are often attributed to other government agencies. For instance, tourism arrivals are usually recorded as accomplishments of the Department of Tourism (DOT), agricultural cooperation or agreements are posted as achievements of the Department of Agriculture (DA) while trade and investments fall under the success of the Board of Investments (BOI) and the Department of Trade and

⁷ ASEAN – China Free Trade Area (ACFTA), began in January 1, 2010

⁸ Beijing PE, 2009 Annual Report

⁹ Beijing PE, 2009 Annual Report

Industry (DTI). If this is the case, what then is the value addition of the Beijing PE in realizing economic benefits for the Philippines?

The Philippines actively conducts investment road shows and investment fora to entice the Chinese business community to invest in the Philippines. These activities are often spearheaded by the Board of Investments team of the Department of Trade and Industry during the actual investment road shows and fora. But even before the actual activities, the Embassy undertakes various intelligence gathering (such as collecting information on which companies to engage) and legwork (such as coordination and logistics). In other words, the Post serves as a “doorman” that seeks paths and opens doors so that other agencies (such as the DTI, DOT or DA) can enter to explore the different economic opportunities.

In addition to opening doors, the Philippine Embassy also takes over the task of promoting the Philippines as an investment site through participation in trade and investment fairs, in the absence of a Philippine delegation. Embassy personnel are stationed in trade fair booths to answer inquiries on Philippine-made products such as furniture, house furnishing, food products, garments, among other goods.

The Embassy also acts as “broker” i.e. it facilitates and endorses the visits of Chinese business owners to the Philippines.

In terms of tourism, the Philippine Embassy acts as “marketer” as it participates in various Tourism Fairs with or without a Tourism Attaché. The Beijing PE also organizes various image-building activities to promote Philippine culture and to counter the negative perception of the Philippines and Filipinos in China. The Embassy reaches out to the Chinese people by joining international festivals in China and bringing Philippine culture and arts into their awareness.

Further, the Beijing PE assists in organizing high level visits with economic themes as well as in forging agreements between two governments or between members of the private sector. Examples of these agreements are the: Travel Cooperation Agreement between the Philippine Tourism Authority and Tianjin Tourism Bureau; Sports Exchange Agreement between the Philippine Sports Commission and Tianjin Sports Bureau; and Cooperation Agreement between the Philippine Chamber of Commerce and Industry and the China Chamber of International Commerce/China Council for the Promotion of International Trade

Repairing the Damage Created by the Manila Hostage Crisis

The Department of Tourism (DOT) remains optimistic that the impact of the Manila hostage crisis will not last. One Filipino economist also remains even more optimistic predicting that the negative impact on foreign tourist arrivals will be very short-lived primarily because people have different experiences. Also, the fear of a big drop in the deployment of OFWs will not happen because OFWs are prized workers among employers in Hong Kong and China.

However, both underscore the need to be proactive in marketing Philippine attractions and winning over the sentiments of the Chinese people. The DOT notes that hotel and resort owners in the country should mount massive promotional activities in China and Hong Kong to recapture the lost market. The economist added that leaders of OFW associations in Hong Kong should enjoin their members to counteract the temporary disillusionment of their employers with the Philippine government officials.

While it is obvious that the role of the Department of Tourism in countering the stained image of the Philippines is important, the roles of the Beijing Philippine Embassy and Hong Kong SAR Philippine Consulate General are more critical. This is because establishing diplomacy is not a one-time activity nor is it a short term engagement. Promoting people-to-people ties is sometimes a more important pillar in improving bilateral ties. Strong people-to-people ties, in fact, prevent the overflow of negative emotions during situations such as the Manila hostage crisis.

The work of the Posts in strengthening people-to-people ties between Filipinos and Chinese maybe unquantifiable, but it is clear that these form the basis for bilateral agreements, acts as foundation for handshake deals among business people and tempers wayward emotions when crisis occurs.