

**China's Indirect Rule in the Great Power  
Competition: Economic Measures Towards the  
Philippines and Taiwan**



by

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# **1. Introduction**

## **1.1. China in the Great Power Competition and Indirect Rule**

China is intensively competing against the United States in multiple domains, and the Indo-Pacific region becomes the main battlefield between the two great powers. Seeking to secure its status in the competition, China utilizes various approaches – from general foreign policies to indirect rule – to expand its sphere of influence. China's ambition to challenge the current global order also becomes evident as it ascends to the international stage with stronger power in economy and military. After its marketization reform, China becomes the second largest economy of the world, following the United States (Hu & Khan, 1997; Barboza, 2010). Thanks to its military modernization, China obtains the status of global military power with large military force and defense budget (Chen & Torode, 2025; Heginbotham, et al., 2015). As a result, China is able to further extend political influence by actively engaging with international actors. In the past few decades, China's ambition has grown along with its power and global influence. It exhibits stronger interest to challenge the current international order that centers the United States' hegemony.

China utilizes various strategies in attempt to obtain the status and influence of a superpower. China seeks to acquire preferred policy outcomes from its subordinate countries by targeting them on the state level. It implements foreign policies ranging from economic statecraft, military coercion, to propaganda. In addition, foreign policies that treat domestic actors in targeted countries unfairly are also available to China. China swiftly makes use of various foreign policy on different levels, aiming to win the subordinate countries over to compete against the United States.

## 1.2. Research Question and Organization

In this thesis, I attempt to analyze China's behaviors in the great power competition with the theory of indirect rule. How does China respond to the threats undermining its status in the competition? What approaches does China utilize to expand its spheres of influence? To answer these questions, the research will discuss China's strategies to intervene political balance within the targets amid regional tension. Instead of joining the conventional conversation of foreign policy, I will approach the questions using the framework of indirect rule. In contrast to general foreign policy that does not differentiate domestic targets, indirect rule conceptualizes a dominant country's attempts to obtain favored policy outcomes by influencing domestic politics. I assess if the strategy that supports the favored groups and marginalizes the opponents in the targeted countries is one of China's options to address external threats.

The thesis compares hypotheses on how China targets the subordinate countries to ensure the survival in the great power rivalry. Out of multiple measures, I will specifically investigate economic measures, including trade, investments, and import restrictions. The Philippines and Taiwan will serve as case studies in this research given their geopolitical locations and frequent interactions with China. On one hand, China has shown great ambition in the South China Sea and its resources when it interacts with the Philippines. China's Taiwan policy, on the other hand, centers the goal of unification. Moreover, both Indo-Pacific countries are divided by domestic views on foreign policy, allowing clear observation on treatments targeting different domestic actors. The thesis first analyzes the long-term trend of trade and investments between China and the Philippines or Taiwan, as they represent the pattern of foreign policy targeting a country as a whole. The thesis then utilizes process tracing in symbolic cases of China's trade bans. Strategic contexts, such as regional tensions or improved relations between the United States and the

subordinate countries, are incorporated to explain the implementation of the trade bans. The thesis test the indirect rule by investigating the domestic players who were involved in the economic coercion. With the qualitative analysis on China's long-term and short-term economic measures towards the Philippines and Taiwan, the thesis concludes how China expands spheres of influence in response to changing temperature in the great power struggles

## **2. Literature Review**

Political scientists have long discussed strategies that China utilizes in competing against the United States. While China's foreign policy varies, they can generally be categorized as economic statecraft and military, and diplomatic coercion, exclusive economic zones, and propaganda. China makes use of different approaches to either induce to the whole country to oblige or punish for not following its policy preference.

### **2.1. Economic statecraft**

Existing literature extensively focuses on China's frequent use of economic statecraft. Economic statecraft, according to David A. Baldwin, is an economic tool that allows a country to achieve foreign policy goal to influence targets' behaviors (1985). Economic statecraft can be exercised in two ways – inducement and coercion. The Belt and Road Initiative (BRI) is one of the most prominent examples of China's economic influence. Participating countries receive funding and assistance for infrastructures, like railroads, ports, and phone networks (McBride, Berman, & Chatzky, 2023). While the Chinese Communist Party (CCP) claims its benign intentions to facilitate economic growth, some argue that China designed the inducement to obtain desirable foreign policies and expand political influence in participating countries (Kastner & Pearson, 2021). Experts have also observed China's use of economic coercion in the Indo-Pacific region. Chinese trade restrictions against the Philippines have been speculated to be



punishment regarding the South China Sea disputes (Hanson, Currey, & Beattie, 2020; Lai, 2018; Corr & Tacujan, 2013). Similarly, scholars also claim that China frequently uses economic instruments to impose costs on the Taiwanese government seeking for unification (Wang 2023).

## **2.2. Military and diplomatic coercion**

Besides economic statecraft, China also turns to military and diplomatic measures. Scholars have observed China's military actions, especially naval and airspace interventions, in the South China Sea and Taiwan strait. Experts have also discussed China's behaviors to flex diplomatic muscle. For example, it disrupts Taiwan's international engagement and diplomatic activities to isolate the island (Murphy, 2017).

## **2.3. Exclusive economic zones**

Exclusive economic zones (EEZs) are also the battlefield of great power competition. Great powers take advantages of their international influence to attract subordinate countries to create economic integration zones, aiming to exclude the other while preventing themselves from being blocked out of economic privileges. Through EEZs, one is able to partially benefit its business and investors while discriminating those from its competitor. The fear of exclusion drives the cycle of establishing and expanding economic zones, enlarging the competition between the powers (Lake, 2018). The United States and China have respectively expanded their economic influence, controlling different regions. China mainly focuses on politically vulnerable areas with relatively little Western involvement, such as Africa, South Asia, and central Asia. The BRI serves as not only economic statecraft, as discussed previously, but also an experiment of EEZs where only Chinese business can participate (Lake, 2018). Besides the theory of EEZs as a tool of economic competition, Washington has also been aware of China's attempts to blur the fine lines of economic activities and military involvements in EEZs. Some argue that the CCP

exploited the integrative nature of EEZs by claiming sovereignty over uninhabitable islands in the South China Sea as well as East China Sea (O'Rourke, 2014). EEZs have become an important instrument for China to not only strategically keep the US-based economic activities out but also create military opportunities, furthering their goal to surpass its competitor.

## **2.4. Propaganda**

The CCP also expands its international presence and counters the United States using foreign propaganda. The CCP has prioritized advertising China's peaceful image and rich culture. Xi Jinping, the president of China, personally instructed that the propaganda should portray China as a country that "enjoys economic prosperity and social stability, advocates peaceful development and mutual growth, safeguards international justice, and makes a positive contribution to humanity" (CPC News, 2014). In addition to state-owned media outlets, including newspaper, radio, and television, the CCP also utilizes other approaches to boost positive impression on China. The Confucius Institutes have been found to be a tool of CCP propaganda around the world. State-sponsored think tanks also aim to shape foreign policymakers and support Chinese foreign policy goals (Brady, 2015). With its frequent use of foreign propaganda, China successfully broadens its global influence by asserting its peaceful and prosperous image to the world.

## **2.5. From General Foreign Policy to Indirect Rule Instruments**

It is undoubtedly that China rewards states for their preferred action and punishes for their unwanted behaviors with various foreign policy. Yet, most scholarly discussions on foreign policy focus on the implementation on the national level. This thesis explores the indirect rule theory, which emphasizes the policy's non-state level implementation instead of dictating policy types, to analyze the different possibilities of China's strategies. Under the model of indirect rule,

instruments like economic statecraft, coercion, and propaganda can also be designed to support the allied groups or discriminate against the oppositions, shaking the subordinates' balance of political dynamic by

### **3. Hypotheses and Theory**

#### **3.1. Indirect Rule**

##### **3.1.1. The Theory of Indirect Rule**

The theory of indirect rule argues that a dominant state intervenes the domestic politics within a subordinate state to ensure the implementation of preferred policy by supporting the allied group and repress the opposition. Generally, the dominant country categorizes the political factions in the subordinate country into two groups – the allied group and the opposition. The dominant country treats the faction that shares similar interests and close policy goals as the allied group. In contrast, the subordinate group which holds policy preferences farther than that of the dominant country is labeled as the opposition. Attempting to deliver its favored policy goals, the dominant state ensures the allied group's survival in its domestic political competition. In addition to guaranteeing the political survival, the dominant state's protection also incentivizes the allied group to constantly enforce the policy preferred by the dominant country. Meanwhile, the dominant country strives to prevent the opposition from seizing power. Furthermore, the dominant state examines the costs to rule and the value of specific assets – the two factors that significantly shape its interests – to determine how and what indirect rule to deploy (Lake, 2023)

Having policy interests and specific assets in the subordinate country, the dominant country meddles in the domestic politics with the consideration of governance costs and potential

opportunism. In order to have the preferred policy enacted in the subordinate country, the dominant country provides the allied group with resources sufficient to survive the power struggles. Economic benefits and foreign aid are typical instruments of indirect rule. The dominant can offer tariff concessions, aid for development, and foreign investment to attract voters' political support, allowing the allied group to stay in office. In addition, the dominant state may intervene in subordinate's domestic politics by developing a new political structure that grants the allied group more power in policy-making. Security force assistance, on the other hand, may be provided to the allied group for opposition suppression in autocratic states. The assistance could also include approaches that undermining the opposition. Dominant country could create barriers to voting for or contributing to more negative image of the opposition in democratic countries (Lake, 2023).

Any form of assistance – support to the allied groups or impairment of the opposition – is costly. As a result, the dominant state must consider the governance costs of indirect rule, including material and financial resources, human capital, time, and domestic public opinion. The dominant country also calculates the value of specific assets in the subordinate country. The presence of foreign investments, military bases, plantation agriculture, supply of natural resources, and even geopolitical importance can all alter the decision of the dominant state. After considering the value brought by preferred policy, the value of specific assets, and governance costs, the dominant country assesses how much it can gain or lose from becoming involved in the subordinate's political affairs. Thus, lower the governance costs and higher values of specific assets lead to higher probability to impose indirect rule toward a subordinate country (Lake, 2023).

Apart from conventional bargaining model, the dominant power and the alliance act out of self-interests as they are both better off with the indirect rule. The dominant country gains more when having its policy goals achieved despite the governance costs; the allied camp in the subordinate state also benefits from international intervention as it receives resources to win their domestic support. The mutual-benefiting model drives the sustainable cycle of indirect rule. The dominant power provides assistance to the allied group, hoping to secure preferred policy goals. The benefits incentivize the allied camp to fulfill its promise of policy implementation. The dominant state then continues aiding the allied group to ensure the continuation of desired political outcomes (Lake, 2023).

### **3.1.2. Indirect Rule in Contemporary Great Power Competition**

The model of indirect rule provides an insight on how political dynamics within the subordinate countries can also influence the policy making. While political scientists have recognized domestic politics, including bureaucracies, political dynamics, and public opinions, play a huge role in the making of foreign policy, most discussions overlook how the recipients' domestic dynamics also influence the design of foreign policy (Fearon, 1998; Kaarbo, 2015). The theory of indirect rule fills in the gap as a unique framework that takes the recipient countries' domestic politics and public opinions into account (Lake, 2023).

Most conversation on the indirect rule theory is limited in the context of modern great power competition. One, indirect rule is oftentimes deemed as an old strategy from colonial era. Some argue that the countries are more likely to choose direct rule over indirect as international politics evolve (Naseemullah & Staniland, 2016). However, great powers such as the United States and Russia still rely on indirect rule to maintain its influence overseas. The United States carries on its indirect rule in the Caribbean and Central America. Former Soviet republics are

still heavily intertwined with Russian politics (Lake, 2023). International hierarchy which allows dominant state to step into subordinate's politics has persisted. Additionally, new forms of indirect rule, such as informational propaganda influencing public opinions, emerge and complicate international politics as technology advances over time. Thus, indirect rule is still a useful analytic tool as it has not been limited by time and changes of international politics.

Second, conventional discussions on indirect rule overly focus on single country's strategies. Indirect rule has been, in fact, a major strategy responding to regional tension in the context of great power competition. A dominant state attempts to expand its sphere of influence by inducing the allied group to maintain close relations and implement preferred policy. By sustaining the survival of its own allied group while sabotaging the other side, dominant countries on the both sides compete to win the subordinate to its side. In the great power competition, a dominant state could feel threatened as the subordinate states drift away from itself and toward its competitor. Regional hostility as well as the improved relations between the subordinates and the competitor affect the security of a dominant state, which could provoke indirect rule on the larger scale. Indirect rule, which uplifts the allied group, becomes a useful instrument for a dominant state to pull back the subordinate countries and secure its status in the great power competition.

### **3.2. Hypotheses**

**H1: *Main hypothesis.* Facing heightened regional tensions under the great power competition, China utilizes foreign policy to not only influence the subordinate countries as a whole but also intervene their domestic politics.** China designs foreign policies targeting its subordinate on various levels to prevent itself from losing control over the region that drifts toward the Western camp. The theory of indirect rule highlights the significance of subordinate

countries' domestic environment to foreign strategies in both the decision-making and implementation (Lake, 2023). In the main hypothesis, China indirectly rules the subordinate states and influences their domestic politics in addition to foreign policy focusing on the national level. China exercises instruments of foreign policy, targeting certain parties, regions, industries, or actors. In order to ensure it gets preferred policy outcomes, China strives to incentivize the allied groups with political survival and keep the opposition away from decision-making power.

**H2: *Alternative hypothesis.* Facing the challenges against its power status, China utilizes foreign policies that exclusively target the subordinate countries on the national level.** China's strategies to challenge the United States' hegemony are limited to the conventional discussion on foreign policy instruments. It employs approaches like economic statecraft, coercion, and propaganda, attempting to influence the entire subordinate countries and shift their behaviors. In other word, a subordinate state is deemed as a unitary actor induced or coerced into adopting certain policies by China.

**H3: *Null hypothesis.* China does not apply additional attraction or pressure on its subordinate countries in response to the great power competition or the temperature of geopolitics.** China's participation in the great power competition does not lead to policy that appeals or coerces the subordinate countries. Its interests in natural resources, territory, and historical mission of annexation never vanish and have remained constant. China considers its pursuit of interests separated from the competition against the United States. As a result, China does not change its course of foreign policy even if it is threatened in the power structure.

## **4. Research Design**

### **4.1. Case Studies: The Philippines and Taiwan**

The thesis examines the Philippines and Taiwan as case studies to discuss China's indirect rule in the great power rivalry. By investigating the heavy involvement in the great power struggles and unique domestic political dynamics in the Philippines and Taiwan, the case studies intend to highlight China's economic influence to survive in the competition.

Both the Philippines and Taiwan have established deep connections with the two great powers. The Philippines maintains strong economic relations with China (China Briefing News, 2024). The two countries interact frequently to fight over territories and natural resources in the South China Sea (Center for Preventive Action, 2024). The Philippines also engages with China's competitors. The United States and the Philippines continue security partnership by expanding military bases, conducting bilateral exercise, and transferring (Arabia, Dolven, & Lum, 2022). China and Taiwan are intertwined with not only trade relations but also historical debate on sovereignty. China deems Taiwan as part of its territory and never gives up its mission of unification (Lawrence, 2024). Taiwan and the United States also carry on deep relations and defense cooperation despite of absence of formal diplomatic relations (Hass, 2024)

Diplomatic policy towards China has been a contested issue for the Philippines and Taiwan. The Philippines has experienced different administrations with diverse views in China's ambition in the South China Sea. While Benigno Aquino III and Ferdinand R. Marcos Jr took a tough stance on China's intervention, Rodrigo Duterte maintained close and cooperative relations with China. Despite the fact that Taiwan has elected the pro-U.S. party since 2016, the island still debates its strategies to navigate security challenges. The pro-China views still pervades in the Taiwanese politics.



## **4.2. Economic Measures as a Tool of Indirect Rule**

The thesis specifically focuses on China's economic measures over other approaches. Due to its capability to be exercised versatily, discussion on economic measures can produce a more detailed analysis China's influence over the subordinate on both the national and the sub-national levels. General trends on trade and investments offer insights on China's use of economic statecraft that targets the subordinate countries as a whole. Then, the thesis explores symbolic cases on importation bans on certain products. Selective trade bans that target certain industries, allows investigation in the impact on local regions and actors. The process-tracing analysis on the bans and their context responds to the hypotheses and discusses if China exploits the domestic politics within the subordinate states to obtain favorable policy outcomes.

## **5. Case Studies: China's Indirect Rule towards the Philippines**

### **5.1. Domestic Politics in the Philippines**

Parties are less influential in the Philippines politics compared to candidates' personalities, charisma, or family prestige. Instead of advocating for certain ideologies or policy, parties in the Philippines serve as a platform that seeks population support to presidential candidates (Wong, 2022; Bello, 2024). The personality- and patron-driven political system empowers the incumbent president and informal actors to direct national policies.

The Philippines has experienced presidency with different positions toward China. During Aquino's term from 2010 to 2016, the relations between the Philippines and China deteriorated due to his tough stance toward China's activities in the South China Sea. Besides constantly expressing concerns and opposition, Aquino also maintained close relations with the United States by being committed to the MDT (Hernández, 2016). The Philippines and China

experienced the peak of the hostility as the Scarborough Shoal stand-off erupted. In response, Aquino filed an arbitration case against China to reclaim the Philippines' sovereignty over the water (Cook, 2019). The Philippines' relations with China improved as Duterte came into office in 2016. Duterte's strong pro-China position was evident as he recurrently expressed his agreement with Xi and visited China multiple times. In contrast to Aquino, Duterte promised that the Philippines would not resort to military approaches over the South China Sea. He actively reached out to China and pushed for economic cooperation rather than focusing on sovereignty (Chao, 2023). Marcos Jr, the current Philippine president who was elected in 2022, adopts position similar to Aquino and takes strong position regarding China's illegal activities. Marcos Jr further shows his resolution in securing maritime sovereignty against China's aggression by returning to the military cooperation with the United States, which was terminated by Duterte (Poling & Quitzon, 2024; Judson, 2024).

In addition to presidents' personal attitudes toward China, formal and informal individuals also have considerable influence over the political environment in the Philippines. Some politicians and industrial actors advocate for deeper engagement with China due to their interests related to China. For example, the Philippines' former Speaker of the House of Representatives, was heavily involved with the Chinese leadership and investment plans. He drove the Philippines' policy toward China by actively promoting cooperation with China on investment projects. Industrial players also greatly shape the Philippines' foreign policy. The former president of the Philippine National Oil Company, who held immense amount of trust of Chinese partners, pushed for the Joint Maritime Seismic Understanding (JMSU) that advanced cooperation on energy with China (Baviera, 2012). Similarly, the Federation of Filipino-Chinese

Chambers of Commerce and Industry promotes “positive relations with China” and plays a huge role in national policy (Manahan, 2023).

## **5.2. The Philippines’ Security Challenge**

### **5.2.1. US-Philippines Relations**

The Philippines have long engaged with the two countries in the great power competition. The Philippines is an important defensive ally of the United States as their relations are built significantly on military cooperation. In 1951, the US-Philippine alliance was established by the Mutual Defense Treaty (MDT). The MDT set the foundation of military cooperation and mutual commitment as the United States promised to protect the Indo-Pacific should the region gets attacked. The United States has assisted the Philippines in the domains of defense modernization, defense capabilities, bilateral exercises, and information-sharing access under the MDT (U.S. Department of Defense, 2023). In 2014, the United States and the Philippines signed the Enhanced Defense Cooperation Agreement (EDCA) to further solidify military alliance. The EDCA authorized the U.S. forces to conduct exercises and joint trainings in certain Philippines military bases. Today, the two countries cooperate on nine bases under the EDCA project, extending United States’ efforts to defend the security of Indo-Pacific region (U.S. Department of State, 2025).

### **5.2.2. China-Philippines Relations**

China’s ambition in the South China Sea and broader Indo-Pacific region has been the main security challenge faced by the Philippines. China shows great interests in the lucrative oil, natural gas, and fishery in the South China Sea (Center for Preventive Action, 2024). To assert its dominance in the region, the China Coast Guard and maritime militia frequently harass the Philippines’ fishing activities within the Philippines’ exclusive economic zones. China further

tries to expand its control by building infrastructures, creating artificial islands, and militarizing islands in the South China Sea (Hernández, 2016). The relations between China and the Philippines dropped drastically when the Philippines filed an arbitration case to the UN Convention on the Law of the Sea (UNCLOS) against China's aggression in the South China Sea. In 2016, the court ruled in favored of the Philippines, despite China's refusal to accept the ruling or any settlements (Lai, 2018; Murphy, 2017).

China's ambition in the South China Sea severely threatens regional security and significantly shapes the domestic politics in the Philippines. Starting from 2011, the Philippines has taken proactive actions against China's naval incursions in the territories it claimed. In June 2011, Manila called back its Chinese envoys amid the tensions in objection to China's multiple incursions around Spratly Islands and the Amy Douglas Bank. In October 2011, the Philippines even renamed the water to the West Philippine Sea, asserting its position over the South China Sea affairs (Council on Foreign Relations)

### **5.3. Trend of China-Philippines Trade**

The Philippines has been economically dependent on China as it has been a major trading partner (China Briefing News, 2024). Specifically, the trade between the Philippines and China has generally grown from Aquino's to Marcos Jr's presidencies. The Philippines exported more than 6 billion US dollars' worth products to China each year from 2012 to 2015. In 2016, the Philippines' exportation to China dropped to the lowest point in value, although the Philippines elected a pro-China president. Starting from 2017, China started to buy more from the Philippines. Throughout Duterte's presidency, the Philippines' annual income from exportations increased for more than 2 billion US dollars from 2017 to 2022. The Philippines' exports to China continued to thrive as Marcos Jr got inaugurated in 2022. While China imported less from

the Philippines compared to the previous year, it still paid over ten billion US dollar for Philippines' products (UN Comtrade).



**Figure 1:** The total values of the Philippines' exports to China annually from 2012 to 2023. (Source: UN Comtrade, <https://comtradeplus.un.org/TradeFlow>)

In addition to being a crucial trading partner, China is also a huge finance investor of the Philippines' infrastructure and development. 2016 marks not only the victory of the pro-China president in the election but also the highest values of Chinese finance projects to the Philippines. During Duterte's visit to Beijing, the two countries signed investment and business agreements that were worth around 24 billion US dollars. China also pledged to economically assist the Philippines' projects through the Asian Infrastructure Investment Bank, which the Philippines joined in the same year. In 2017 and 2018, China continues supporting by inviting the Philippines to join the BRI and sign a memorandum of understanding, which incorporates

various strategic sectors (McBride, Berman, & Chatzky, 2023; China Briefing News, 2024). Nevertheless, China does not always invest in or provide financial support to the Philippines, especially during the tenures of presidents with tough postures in the South China Sea disputes. Aquino's administration received little to none financial assistance from China (Custer, Burgess, Solis, Srith, & Mathew, 2024)



**Figure 2:** The total values of Chinese official finance projects to the Philippines annually from 2012 to 2022. (Source: Custer, S., Burgess, B., Solis, J., Sritharan, N. and D. Mathew. (2024). Beijing's Big Bet on the Philippines: Decoding two decades of China's financing for development. Williamsburg, VA: AidData at William & Mary.)

## 5.4. China's Banana Ban Against the Philippines, 2012

### 5.4.1. Context: the Scarborough Shoal Stand-off

On April 10, 2012, a Philippines warship arrested Chinese fishing boats for illegally entering and dropping anchor near the Scarborough Shoal, which locates in the exclusive economic zone of the Philippines. The two countries clashed as Chinese surveillance ships stepped in. The coast guard vessels from both sides carried out the military stand-off that lasted

for two months. While the Philippines resort to international court for adjudication, China declined the request of settlement (Reynolds & Goodman, 2023).

#### **5.4.2. The Banana Restriction**

In May, 2012, China imposed import restriction on Philippines bananas, alleging that mealybugs were found in the produce. On May 10<sup>th</sup>, 1,200 containers of the Philippines' bananas were left rotting in Chinese port after China turned them down. China later extended the restriction to other Philippines fruits like papayas, pineapples, mangoes, and coconuts (Priyandita, 2023; Reynolds & Goodman, 2023). China doubled down the coercion by enacting travel restriction along with the bans on agricultural products. The Chinese embassy announced travel advisory to discourage Chinese from visiting the country. China's International Travel Service also suspended tours to the Philippines (Lai, 2018; Reynolds & Goodman, 2023).

As the relations between China and the Philippines improved as Duterte came into office, China loosened the economic coercion. Duterte shifted the Philippines' diplomatic focus from securing maritime sovereignty to easing tension with China and pursuing economic cooperation (Chao, 2023). Therefore, during Duterte's first visit in October 2016, China announced to terminate the banana restrictions and expand the importation of other Philippines fruits (Simeon, 2016). Travel restriction was also lifted, bringing back the Chinese tourists. Moreover, China promised to invest in the Philippines' infrastructure and development as the two countries signed multiple bilateral agreements (Reynolds & Goodman, 2023).

Both the banana ban and the travel restriction stroke the Philippines' economy significantly. The banana industry has been a strong hold of Philippines agriculture, as its export contributes to the country's income for around 380 million U.S. dollars each year. Specifically, out of all the trading partners, China was the largest buyer of the Pilipino bananas with its

importation comprised of around 30% of banana production (Priyandita, 2023). The ban further impacted the Philippines' economy as more than 200,000 farmers were estimated to lose jobs due to the restriction (West, 2012). China's travel restriction also led to economic loss to the Philippines' tourism industry, as Chinese tourists consisted of almost 10% of international travelers to the country (Priyandita, 2023).

#### **5.4.3. The Banana Ban and the Philippines' Actors**

The banana restriction came into effect during Aquino's presidency, who is known for his opposition against China's expansion of sphere of influence in the South China Sea. The relations between the Philippines and China deteriorated as Aquino had frequently expressed his concerns and oppositions regarding Chinese aggression (Cook, 2019). The arbitration case filed to the Permanent Court of Arbitration further signals Aquino's strong dissent towards China's activities in the South China Sea (Peterson-Ward, 2016).

Chinese banana ban impacted the farmers and businessmen in the banana industry significantly. Banana farmers, the main victims of the ban, lost considerably as their livelihood mainly depends on exports to China (Reynolds & Goodman, 2023). Businessmen based in Mindanao, a politically influential region where the banana industry is concentrated, were also vocal about the restriction. Mindanao businessmen blamed the Aquino administration for triggering China with the reckless actions during the Scarborough Shoal stand-off. The chairman of the Mindanao Business Council argued that the banana farmers would not suffer from restriction had Aquino seen the stand-off "as a simple poaching problem and not a sovereignty issue" (Avendaño & Lacorte, 2012). Additionally, the Federation of Filipino-Chinese Chambers of Commerce and Industry, which was also involved in the banana export industry, plays a huge role in influencing the politics (Corr & Tacujan, 2013). Businessmen and organizations in the



banana industry lobbied the administration to reconcile with China over the territorial disputes, hoping the banana ban would be lifted (Reynolds & Goodman, 2023).

Several Philippines Senators also took similar stance, urging Aquino to take a more friendly stance when handling the regional conflicts. Senator Antonio Trillanes IV, who was accused of involving in Chinese intelligence affairs, pressured the Aquino administration to appease Beijing along with the banana exporters. Other politicians, such as Senator Jinggoy Estrada and Senator Ralph Recto, also expressed their softer position towards China for the maritime conflicts amid the economic restrictions (Corr & Tacujan, 2013).

### **5.5. China's Indirect Rule in the Philippines**

Despite the efforts to dismiss the link between regional conflicts and economic restrictions, some Chinese officials provided some hints of strategic purpose. China deliberately denied the political intention behind both banana ban and travel restriction. It constantly claimed that sanitary issues were the only cause to the restrictions. However, Aquino expressed confusion that he confessed “we don’t understand some of the messages sometimes.” In contrast to how most Chinese officials responded to the restrictions, China’s Ambassador to the ASEAN warned the Philippines that “bilateral ties, including the trade relationship, will surely be affected” if the regional tension continued to grow. China’s vice minister of foreign affairs also accused the Philippines of worsening the relationship between the two countries (Lai, 2018).

China selectively provided development finance according to diplomatic attitudes. It rewards the Philippines with financial assistance on development, signaling the country of their preferred policy outcome. In contrast, the Philippines’ overall exportations to China from 2012 to 2023 do not reflect the regional turbulence. Regardless of maritime hostility between the two countries and the diplomatic transition conducted by the presidents, the trading relations

improved stably as the values increase over time. The evidence indicates that China does not always expand its influence with foreign policy targeting the national level.

China's manipulation of the banana ban makes it evident that the restriction was designed to influence Philippines' domestic politics and realize its policy goal. As the Scarborough Shoal conflicts broke out, China reacted immediately by announcing the import restriction. The importation ban lasted when Aquino's pro-U.S. administration was in the office. China responsively cancelled the quarantine as soon as the Philippines changed its administration and shifted its diplomatic course. As Duterte's foreign policy significantly swung away from the U.S. alliance and moving towards China, the CCP awarded him by reopening Chinese market for banana, along with multiple economic cooperation agreements. The banana restriction against the Philippines proves that China treats economic statecraft as a strategic tool to expand its sphere of influence.

The ban further confirms that China designs economic measure to indirectly rule the targeted countries. China established a set of mechanism to influence the domestic politics by target selection. Banana industry was targeted due to the region and demographics that were involved. Mindanao, where a majority of the Philippines banana are produced, has been politically active, making the island a good target for the ban. Banana farmers who are incentivized by bringing their market back, actively lobbied the pro-U.S. administration to ease the tension in the South China Sea. The heavy involvement of Filipino-Chinese in business also explains why China targeted this industry. Filipino-Chinese have played a huge role in the Philippines' business, and their involvement in turn provided them with considerable influence over Philippines' politics. China successfully predicted that their ethnic backgrounds and business interests would drive them to lobby for appeasing China over territorial disputes. China

also exploited the division of Philippines' domestic politics as it imposed the restriction. While the president's administration was tough towards China, some politicians on different levels held different views. The economic coercion against banana effectively spurred debates on how the Philippines should approach the military stand-off among politicians on different levels. Some politicians sought the attention and political support as they voiced concern over how diplomatic conflicts threatened the livelihood of banana farmers and exporters, challenging the legitimacy of Aquino's policy.

While the import restriction did not severely impact the Philippines' economy, it provoked the involved actors – farmers, Filipino-Chinese businessmen, and politicians – who then created strong domestic pressure. Understanding the nature of a democratic country, China manipulated mounting pressures to challenge the political survival of the pro-U.S. administration, attempting to get the preferred policy outcomes regarding regional tensions.

## **6. Case Studies: China's Indirect Rule towards Taiwan**

### **6.1. Taiwan's Domestic Politics**

The division on China affairs between the two parties – the Kuomintang (KMT) and the Democratic Progressive Party (DPP) – have dominated Taiwan's domestic politics. Despite its previous anti-communism position, the KMT strongly opposes any attempts to pursue independence and maintains close relations with China. The KMT's endorsement of the "1992 Consensus", of which China interprets as an agreement that "the two sides belong to one China and would work together on reunification," significantly reflects its standpoint on the cross-strait relations (Maizland & Fong, 2025). The DPP, in contrast, rejects China's claim over Taiwan's sovereignty and acknowledges the de facto independence under the status quo (Barss, 2022; Gordon, Mullen, & Sacks, 2023). In terms of diplomatic direction, the DPP seeks to reduce

reliance on China and pursue more global engagement (European Values Center, 2024). The political affiliation in Taiwan is strongly regional-divided. The support base of the KMT is mainly concentrated in Taiwan's eastern part and its outlying islands. The pro-China party has also appealed more supporters in the northern districts in recent presidential and congressional elections. On the other hand, the DPP receives exclusive support from the southern districts in almost every election in the last two decades (Taiwan's Central Election Commission)

Ma Ying-jeou, a former Taiwan president from the KMT who came into office in 2008 until 2016, holds pro-China position and has expressed his preference of eventual unification. He reclaimed his adoption of the 1992 Consensus and accepted China's claims of "One China, Two Systems" (Grossman, 2020). Besides signing multiple trade agreements, Ma furthered Taiwan's relations with China by meeting Xi, marking the historic encounter after the meeting between Chiang Kai-shek and Mao Zedong in 1945 (Bush, 2015; Barss, 2022). In 2016, Tsai Ing-wen got elected with her pragmatic position on de facto independence. Known for her pro-Western diplomatic attitude, Tsai refused to accept the 1992 Consensus and strengthened relations with Western allies (European Values Center, 2024; Maizland & Fong, 2025). Moreover, her administration invited Nancy Pelosi, former Speaker of the House, to Taiwan in 2022. In the next year, she transited through the United States and personally met with the then Speaker Kevin McCarthy (Lin, Hart, Lu, Price, & Slade, 2023). Lai Ching-te, the current president also from the DPP, continues Tsai's pro-US stance and rejects China's claim over Taiwan's sovereignty. Similar to Tsai's visit to the United States, Lai demonstrates pro-US attitudes by stopping by Hawaii on his way to visit Taiwan's diplomatic allies (Cooney, 2024).

## **6.2. Taiwan's Security Challenge**

### **6.2.1. US-Taiwan Relations**

With its geopolitical importance and historical complexity, Taiwan has been greatly entangled in the great power competition. Since United States terminated diplomatic relations with Taiwan in 1979 Taiwan, they have maintained unofficial ties under the Taiwan Relations Act (TRA) (Gordon, Mullen, & Sacks, 2023). The TRA requires the United States to fulfill the defense commitment by offering Taiwan with defensive weapons enough to defend itself from “force or other forms of coercion that would jeopardize the security, or social or economic system, of the people of Taiwan” (Congress, 1979). Moreover, the One China Policy, which only acknowledges China's claim over Taiwan in contrast of China's One China Principle, directs the United States' Taiwan policy by sustaining strategic ambiguity and avoiding provoking China. (Hass, 2024). Under the framework of the TRA and the One China Policy, Taiwan and the United States have extensively cooperated in strategies, economy, and technology with the United States (U.S. Department of State, 2025).

### **6.2.2. China-Taiwan Relations**

China considers Taiwan as a part of its territory and has been in long pursuit of annexation. While China's ambition of annexing Taiwan has always been apparent, the threat becomes credible as China ascend in power. China has taken various approaches to pressure or persuade Taiwan without excluding the possibility of using force (Hass, 2024). Taiwan has been isolated internationally as China actively stops Taiwan from accessing global organizations or maintain diplomatic relations with allies. (Gordon, Mullen, & Sacks, 2023). China also adopts more grey zone tactics coercing Taiwan into submission. Taiwan frequently experiences Chinese incursion in its territorial water and Air Defense Identification Zone (ADIZ). China further escalates the

grey zone tactics with large-scale military drills around Taiwan (Gordon, Mullen, & Sacks, 2023; Solmaz, 2024).

### **6.3. China-Taiwan Trade and Chinese Investment to Taiwan**

China has long been the largest buyer of Taiwan's exportations. From 2012 to 2014, Taiwan's exportation to China remained stable and did not increase significantly despite Ma's pro-China efforts. In 2015 and 2016, which were the last two years of Ma's administration, China's importation of Taiwan's products even dropped. Regardless of Tsai's refusal of the 1992 Consensus, Taiwan's exports to China grew significantly as Tsai came into office. In 2017, the total values of exportation started to surpass that during Ma's presidency. China's import from Taiwan reached the peak in 2021, a year before Tsai's re-election in 2022. It is evident that China's total purchase of Taiwan's products does not shift along with the incumbent's diplomatic position or the temperature of cross-strait relations (Taiwan's Ministry of Finance).



**Figure 3:** The total values of Taiwan’s exports to China annually from 2012 to 2023. (Source: Trade Statistics Database by Taiwan’s Ministry of Finance, <https://web02.mof.gov.tw/njswww/webMain.aspx?sys=100&funid=edefjsptgl>)

## **6.4. China’s Restrictions on Fish, Fruits, and Pastry against Taiwan, 2022**

### **6.4.1. Context: Pelosi’ Visit**

In August, 2022, Speaker Pelosi visited Taiwan and met Tsai, claiming that the United States “would not abandon the island” (Tan & Molloy, 2022). Her trip symbolized the United States’ deep commitment to the region’s security as well as Taiwan’s democracy (Pelosi, 2023). While Taiwan and the United States reached another milestone of unofficial alliance, China’s hostility against Taiwan marked the highest point as Pelosi landed in Taipei. Not only economic restrictions, Pelosi’s visit also provoked the Fourth Taiwan Strait Crisis. After Pelosi departed from the island, the People’s Liberation Army (PLA) immediately carried out large-scale joint exercises around Taiwan’s waters and ADIZ. Operations included incursions of Chinese naval

vessels and aircrafts, ballistic missile tests, and even blockade simulations (China Power Team, 2023; Shattuck, 2023).

#### **6.4.2. The Importation Restriction**

Two months before Pelosi's trip, China announced that it would stop all the imports of grouper fish from Taiwan starting on the 13<sup>th</sup> due to concerns over prohibited chemicals. China claimed that besides the banned chemicals malachite green and crystal violet, excessive oxytetracycline was also found in the imported grouper fish (Yo, 2022). On the next day of Pelosi's arrival in Taiwan, more fishery products and citrus fruits from Taiwan were prohibited by China. China stated that it found excess pesticide and planococcus minor, a Pacific mealybug in Taiwan's citrus. Chilled beltfish and horse mackerel were stopped from entering Chinese market due to the alleged positive testing of Covid-19 on packages (Yang & Ma, 2022). In addition to the restrictions on agricultural products, China further terminated the import of Taiwan's pastry due to the "incompletion of registration information" (Hong & Chen, 2022).

Notified of the one-sided trade restriction, Taiwan accused China for not obliging international regulations. Taiwan claimed that its grouper fish was tested safe with strict international standards in 2021 and dismissed the accusation of Covid-19 virus on fishery packages as international organizations, including the World Health Organization, could not prove that virus can be transmitted by food or packages (Taiwan's Ministry of Agriculture, 2022; Yang & Ma, 2022). Facing Taiwan's speculation on the legitimacy of multiple trade bans, nevertheless, China never provided actual inspection reports or scientific conditions for import termination (Yo, 2022). It is also apparent that China discriminated Taiwan exporters as it requires much stricter registration process compared to other international applications (Hong & Chen, 2022).



However, in March 2023, China changed its course of action and cancelled the import restriction on chilled beltfish and horse mackerel. China announced to resume the imports as it loosens up the Covid-19 prevention protocols (Taipei Times, 2023). In December 2023, which was right before Taiwan's 2024 presidential election, China opened its market for Taiwan's grouper export. Yet, the access was not universal as China only accepted the products from a few firms who obtained China's registration and approval (Wu, 2023). In April 2024, which was three months after Taiwan's presidential and congressional election, China promised to buy Taiwan's citrus that "passed the quarantine requirements". The announcement was made during the visit of the head of KMT's congressional caucus to the General Administration of Customs of China in Beijing (Lin & Sun, 2024).

Because of the heavy dependence on Chinese market, the trade bans significantly affected Taiwan's fishery and fruit industries. Taiwan grouper farmers had considerably benefited from the lucrative export to China thanks to the Economic Cooperation Framework Agreement (ECFA), a free trade agreement between Taiwan and China (Lu, 2022). Before the trade restriction was enacted, around 18,700 tons of grouper fish were sold to China, accounted for more than 90% of total export (Taiwan's Ministry of Agriculture, 2022). Chilled beltfish and horse mackerel were also dependent on Chinese market since their exports to China made up of 79% and 13% of total production in 2022 (Yang & Ma, 2022). The citrus community was heavily stroke by the restriction as well, with more than half of citrus exports were to be sent to China (Taiwan's Ministry of Agriculture, 2022).

#### **6.4.3. China's Import Bans and Taiwan's Domestic Actors**

China's large-scaled trade restriction went into effect during Tsai's efforts to solidify the US-Taiwan relations. During her tenure, Tsai shifted Taiwan's diplomatic and economic focus

away from China and stood up for Chinese ambition on annexing Taiwan. She actively rebuilt relations with the U.S. by establishing economic cooperation and facilitating high-level visit from both sides. Tsai also reassured the United States' concern on Taiwan's defense ability by reforming the ground forces and increasing defense spending (Wingfield-Hayes, 2024). China responded to Taiwan's diplomatic shifts with frequent military coercion and economic restrictions, showing strong dissent towards Tsai's administration.

Facing the trade ban that directly threatened their livelihood, some grouper exporters cooperated with government, politicians, and foundations to navigate the challenge. While the incumbent DPP government swiftly addressed the grouper restriction by expanding domestic markets and establishing foreign markets beyond China, KMT, was also actively involved in the event (Taiwan's Ministry of Agriculture, 2022). The vice CEO of the KMT policy as well as the CEO of Foundation of Cross-strait Fishery Exchange, Development, and Investment assisted some grouper farmers to obtain China's importation registration. These farmers, while they were based in southern Taiwan which usually elect pro-U.S. party mayors, coordinated with the KMT and got listed first in the ban lifting exporters (Lin, Sun, & Lin, 2023; Yu, 2023)

Citrus farmers are also mostly based in southern regions where the DPP receives overwhelming support. Tainan, a prefecture that produces the majority of Taiwan's pomelo, has elected DPP mayors for almost three decades. With their heavy dependence on exportation to China, pomelo farmers expressed their desperation regarding the trade bans, accusing China for manipulating agriculture as a political tool. Similar to the grouper case, the KMT also played a role in ban cancellation. A group of 17 KMT congressmen led by the head of KMT's congressional caucus visited Beijing after the party obtained Congress majority in 2024. The trip

of indicating pro-China stance in the Congress resulted in the resume of importation on Taiwan's agricultural products as well as China-Taiwan technological exchange (Lin & Sun, 2024).

### **6.5. China's Indirect Rule in Taiwan**

The pattern of Taiwan's export to China shows that the cross-strait trade relations were prosperous with little impact of diplomatic relations. China's importation of Taiwan's products does not align with Taiwan's pro-US or pro-China policy. Ma's efforts to maintain close ties with China did not contribute to higher exportations compared to other periods. China did not reduce transaction due to the heated relations during Pelosi's visit or Tsai's pro-U.S. position either. Thus, it is apparent that the state-level economic measure is absent when the cross-strait relations shift. China does not exclusively depend on inducement or coercion targeting the entire country to survive in the great power competition.

The extensive importation bans against certain Taiwanese industries, however, reflects China's attempts to shape the great competition and deter Taiwan's international engagement. Grouper fish and citrus are mainly produced in Taiwan's southern prefectures, which have been stably supporting the DPP in national and regional elections. By shutting down the exporting market for these agricultural products, China punished the region and attempted to shift their political affiliation. China also selectively lifted the restrictions to promote the positive image of KMT. Prior to the presidential election, China deprived the neutral or pro-DPP grouper farmers with equal opportunities and instead privileged those who coordinated with KMT. The conditioned cancellations of grouper ban were designed to produce unequal treatments and undermine the long pro-DPP prefectures with economic interests at stake. The decision to terminate the citrus ban also framed KMT as a peacemaker and signals China's preferred choice.

China announced to terminate the restrictions before and after Taiwan's election with the intention of influencing Taiwan's domestic politics. It attempted to manipulate the election result by economically benefiting limited farmers in the southern prefectures. While Taiwan continued to elect a DPP president, KMT obtained the majority in Congress and gained balancing power during the election in 2024. Thus, the citrus ban cancellation after the election could be China's contentment regarding Taiwan's choice of KMT, or even a signal to convince Taiwan for continuous support to the pro-China party.

## **7. Discussion**

Incidents threatening China's status do not always provoke foreign policy that target subordinate countries on the state level. Chinese development finance to the Philippines shows that Chinese financial assistance on national projects was affected by regional tensions. This suggests that China does employ traditional foreign policy that treats subordinate states as unitary actor to shake the international power structure. However, the value of Chinese importations from the Philippines and Taiwan have increase quite steadily, even in the period when the China-subordinate relations deteriorated. General trends of trading in the two cases refute the alternative hypothesis that China exclusively utilizes foreign policy to influence the entire subordinate countries when it is challenged in the great power competition.

The research confirms the main hypothesis and rejects the alternative hypothesis. Encountering regional tensions or improved relations between the subordinate countries and the competitor, China responds by utilizing economic measures as a tool of indirect rule. Rather than undermining a country's economic stronghold, China intentionally chooses industries that could create political pressure domestically. By threatening the livelihood of certain industries, the political selection allows China to exploit the industries' political influence, attempting to

undermine the pro-U.S. politicians and empower the pro-China camp. China has also been careful with its economic measures as it is never intending to dismantle the country's economy nor to harm the overall trade relations between the two. None of China's selective coercion would massively affect economy in the two subordinate countries. China's goal was, instead, to advance its diplomatic goal by inflicting the right amount of pain. Strategies to target the subordinate countries as a whole are not the only option to respond to challenges; indirect rule offers China the opportunity to manipulate the balance of domestic politics within the targeted countries.

## **8. Conclusion**

### **8.1. Conclusion**

This thesis explores the possibilities where indirect rule becomes a practical tactics to expand influence in the great power rivalry. To evaluate China's foreign policy aiming to strengthen its footing challenging the United States, this research conducts two case studies focusing on the Philippines and Taiwan. While the investment trends reflect the ups and downs of bilateral relations, the analysis on trading patterns reveals that the general economic relations on the state-level differ from political temperature. This suggests that China does not exclusively rely on strategies that treat the targeted countries as unitary actors.

I further test the main hypothesis with the process-tracing analysis on symbolic importation bans. The research discovers the purpose of non-state-level trade restrictions to create rhetoric supporting China's allied group and dissent against the opposition. This finding supports the theory of indirect rule as China attempts to realize its preferred policy goals using biased foreign policy that targets certain domestic actors within the subordinate states. As a dominant country, China delivers policy that secures the political survival of the allied groups

and marginalizes the opposition. China manipulates public opinions within the political divisions to fasten the effect of indirect rule.

Additionally, this thesis extends the discussion of indirect rule to the great power competition. The research considers the context of the rivalry between China and the United States, revealing that approaches to expand spheres of influence include not only state-level foreign policy but also biased policy imposed differently on certain actors. By empowering the allied groups and undermines the support of the opposition within its subordinates, China appeals or coerces countries into its camp, challenging the United States' global power.

## **8.2. Limitation**

This research may be subject to some limitations as I only assess China's economic actions targeting the two most-likely cases – the Philippines and Taiwan. The Philippines and Taiwan are both heavily involved in the great power competition thanks to their economic and defensive connections with the two great powers. Moreover, the public debates on diplomatic position within the two countries make them the perfect fits for analyzing the indirect rule theory. The existence of the allied groups and the opposition provides China with the opportunities to employ non-state-level foreign policy. However, not all China's subordinate countries have conditions that ideally fit the model of indirect rule. For example, China may have different strategy influencing Australia as its Western-leaning foreign policy is broadly supported by the public. Thus, the analysis in the thesis may only reflect part of China's non-state level foreign policy, leading to incorrect interpretation or over-estimation of China's indirect rule.

## **8.3. Policy Implication and Future Research**

This research attempts to explore not only the new type of strategy to compete in the international politics but also the true intention behind China's behaviors. While conventional

discussion on foreign policy does consider the role of domestic politics, the political dynamics within the recipient countries is often overlooked in the scholarly conversation. By recognizing the effect of domestic environment in the Philippines and Taiwan, this thesis aims to start the dialogues of how the political conditions in recipient countries can influence the policy-making process and the implementation levels.

Moreover, I hope to dispute the rhetoric that subordinate countries should act accordingly to dominant countries' preferences in exchange of beneficial foreign policy. By analyzing the model of indirect rule, I aim to convey the idea that seemingly beneficial or coercive treatments are a road to, instead of the ultimate goal of, the dominant country's grand strategy. It is essential for subordinate countries to recognize that it is the dominant country's strategic intentions that determine the delivery of inducive or coercive policies.

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