# Impact of China's WTO Entry on Sino-Philippine Economic Relations and on the Philippine Economy

SHEN HONG FANG

This paper examines the impact of China's WTO entry on trade, investment and services between the Philippines and China, as well as on Philippines economic growth and development. Section 1 introduces different analyses of China's WTO entry from the perspectives of Philippine official, academic as well as business circles. Section 2 discusses bilateral cooperation through trade, investments, and other forms of cooperation such as contracted projects, labor cooperation, air services agreement, and the development of agricultural technologies. Section 3 looks at the concerns of the Philippine government and the public with respect to China's accession to the WTO, reviewing the state of current relations and comparing this with China's relations with other Southeast Asian countries. Section 4 advances five issues pertaining to the rise of a Chinese "economic threat" following its entry into WTO. The paper concludes that China's WTO accession will help promote bilateral trade expansion, and bring about opportunities for Chinese private entrepreneurs to invest in the Philippines. However, China's WTO entry will also put added pressure on Philippine manufactures, further facilitating the flow of Chinese commodities, capital and personnel and aggravating the disputes that had already existed in the economic intercourse between the two countries prior to WTO admission.

## Conflicting Public and Official Views in the Philippines

China's entry into the World Trade Organization (WTO) is recognized as an important event for the global economy in the beginning of 21$^{st}$ century. It means that China could enjoy most-favored-nation treatment which is expected to greatly benefit its economic growth. At the same time, China has to assume its corresponding obligations as a member of the WTO, such as further opening up its market, increasing the transparency of trade policies, and abiding by international rules and the relevant codes these will no doubt help expand global investment and trade, and stimulate world economic growth with China's potential market of 1.3 billion people. The Chinese government and many other governments in the world expect that the outcome of China's WTO entry will be a "double win" for both China and its trade and investment partners.

However, upon closer examination of the implications of China's WTO entry on Sino-ASEAN economic relations, particularly Sino-Philippine economic relations, I find that the conclusions won't be as simple as the above expectations.

From a Philippine viewpoint, there are two schools of thought with regard to the impact of China's WTO entry on Sino-Philippine relations and Philippine economic growth. Some Filipinos hold that China's WTO entry is a threat and an encumbrance to Philippine economic recovery and sustained economic growth. The arguments in support of this are the following:

a) China's accession to the WTO will further facilitate competition by cheap Chinese commodities into the Philippine domestic market, as a result driving Philippine manufacturers out of business and depriving Filipinos of employment opportunities.
b) Cheap Chinese export commodities also compete with Philippine exports in the international market, thus the status of Philippine exports in their traditional export markets, particularly the United States, Japan and Europe will deteriorate.

c) With the facilitation of labor migration after China's acceptance to WTO, China's cheap labor migrants might compete with Filipino overseas laborers in Hongkong, and probably in Taiwan as well, resulting in negative effects on the Philippine economy.

However, a few Philippine officials, merchants and scholars are also inclined to consider China's WTO entry as a good thing for the Philippines. Mr. Manuel Roxas, Secretary of Philippine Department of Trade and Industry, believes that there are complementarities in trade between the Philippines and China from the angle of natural resources as the Philippines is a tropical country while China is not. China's reduction of customs duties for Philippine exports - one of its WTO pledges - will also benefit Philippine products, especially farm products, that wish to enter the huge China market. Roxas also points out that competition between Philippine and Chinese export goods for the US market has existed for years, even before WTO. However, if China could earlier afford to ignore Philippine accusations of unfair competition because the Philippines is a small country, now the formal mechanisms of trade dispute settlement under the framework of WTO will force Chinese merchants and investors to abandon unfair competition.[1]

While there are these conflicting views, the general perspective of the Philippine government and the public on the impact of China's WTO entry to the Philippine economy is that it is a threat more than an opportunity. The Philippine Daily Inquirer, for instance, reported that Philippine administration senators were bracing for the worst from China's WTO involvement because China's labor costs, cheap commercial inputs and resources would allow it to flood most countries with commodities that are cheaper than Philippine exports.[2] Although there may be opportunities for the Philippines to expand exports in the China market, these will depend on how efficiently the Philippine government is able to use the mechanisms of WTO dispute settlement. The dispute settlement mechanism provided by WTO might put pressure on the Chinese government to provide more favorable conditions for Philippine exporters to enlarge their access to the China market.

## Overview of Sino-Philippine Economic Cooperation

Are the anxieties of the Philippine government and public about China's growing "economic threat" since its WTO entry justified? A review of past relations may provide further answers.

China and the Philippines started formal development of economic cooperation following the establishment of official diplomatic relations between the two countries in June 1975. Recent years have witnessed greater diversification of cooperation from trade to capital investment, contracted projects and labor cooperation. However, the pattern of development has not been smooth.

### Bilateral Trade

Generally, bilateral trade of China and the Philippines has gone through three distinct periods.

The first period (1975-82) was characterized by rather stable and rapid growth. Under careful nurturing by the two governments, the total value of bilateral trade which was only US$ 65 million in 1975, rose to US$ 320 million in 1982, with an average annual growth rate of 33 percent.

During the second period (1983-1992), the total value of bilateral trade stagnated, fluctuating between US$ 200 million to US$ 400 million. This was mainly because the Philippine economy had gone into recession in the mid-1980s, and the annual average GDP growth was only 1.2 percent between 1980 and 1992 according to the World Bank, while foreign trade recorded only an 80 percent increase during this twelve year period. Trade between the two countries therefore came into a standstill. The other reason for the slow growth of bilateral trade was the "trade

**Table 1.** China - Philippines Bilateral Trade, 1986-2002
(in US$ hundred million)

| Year | Total Value | % Change | Export to Phil | Import from Phil | Trade Balance |
|---|---|---|---|---|---|
| 1985 | 4.05 | – | 3.11 | 0.94 | 2.17 |
| 1986 | 2.94 | -0.27 | 1.57 | 1.37 | 0.20 |
| 1987 | 3.85 | 0.31 | 2.45 | 1.40 | 1.05 |
| 1988 | 4.04 | 0.05 | 2.69 | 1.35 | 1.34 |
| 1989 | 3.39 | -0.16 | 2.56 | 0.83 | 1.73 |
| 1990 | 2.95 | -0.13 | 2.10 | 0.85 | 1.25 |
| 1991 | 3.83 | 0.30 | 2.53 | 1.30 | 1.23 |
| 1992 | 3.64 | -0.05 | 2.09 | 1.55 | 0.54 |
| 1993 | 4.95 | 0.36 | 2.81 | 2.14 | 0.67 |
| 1994 | 7.48 | 0.51 | 4.76 | 2.72 | 2.04 |
| 1995 | 13.06 | 0.75 | 10.30 | 2.76 | 7.54 |
| 1996 | 13.87 | 0.06 | 10.15 | 3.72 | 6.43 |
| 1997 | 16.67 | 0.20 | 13.39 | 3.28 | 10.11 |
| 1998 | 20.00 | 0.20 | 15.00 | 5.00 | 10.00 |
| 1999 | 22.87 | 0.13 | 13.79 | 9.08 | 4.71 |
| 2000 | 31.42 | 0.37 | 14.64 | 16.78 | -2.14 |
| 2001 | 35.65 | 0.14 | 16.20 | 19.45 | -3.25 |
| 2002 | 52.59 | 0.47 | 20.42 | 32.17 | -11.75 |

Source: China Customhouse, quoted from Economic and Commercial Section of Embassy of P.R.C. in R.P. <http://ph.moftec.gov.cn>

balancing program" instituted by the Philippine government in August 1989. The program was intended to remove the trade deficit on the Philippine side. It required that imports from China be matched by an equivalent amount of exports to China. In fact, this program did little to boost exports but succeeded in curbing imports from China. As a result, the bilateral trade target for 1988 to 1992 which was stipulated in a medium-term trade protocol, could not be reached.

The third period (1993-1999) witnessed a substantial expansion of bilateral trade when the Philippine government adopted major steps to reduce economic protectionism. While relaxing foreign exchange controls, the Philippine government through E.O. 244 abolished the trade balancing program and removed China from its list of communist or centrally-planned economies with whom trade was restricted. [3] Bilateral trade reached US$ 1.306 billion in 1995, an increase of 74.5 percent over the previous year and surpassing the target of US$1 billion set in the trade protocol. According to China's Customhouse, the figure further increased to US$ 2.287 billion in 1999, more than five-fold that in 1992. Simultaneously, however, the Philippines was experiencing a dramatic escalation of its trade deficit in relation to China. Table 1 shows that the deficit widened to US$ 1.011 billion in 1997 and US$ 1 billion in 1998. Philippine exports to China reached US$ 328 million and US$ 500 million in 1997 and 1998, according to Chinese data. This meant the Philippine deficit was more than twice the value of its exports to China in 1997 and 1998.

Since 2000, bilateral trade of the two countries has turned over a new leaf. The significant growth of Philippine exports to China from 2000 to 2002 helped to expand the trade turnover from US$3.365 billion in 2000 to US$5.259 billion in 2002, an annual increase of 33 percent. In addition, the Philippines enjoyed a favorable balance in a succession of three years, according to Customhouse, a reversal of the historical pattern of bilateral trade. It was also the first time for China to be listed in the Philippines Department of Trade and Industry (DTI) as one of the Philippines' top ten export markets, as Table 2 shows.

The improvement in bilateral trade between the two countries is attributed in part to the efforts of the two governments to adopt important confidence-building measures for facilitating the flow of commodities.

**Table 2.** Philippines' Top Ten Export Markets, June 2002 vs. June 2001
( FOB in US$ million)

| Industry Sector | June 2002 | June 2001 | % Change |
|---|---|---|---|
| 1. US | 749.12 | 768.23 | -2.49 |
| 2. Japan | 446.14 | 431.41 | 3.41 |
| 3. Netherlands | 295.29 | 207.19 | 42.52 |
| 4. Singapore | 195.11 | 180.89 | 7.86 |
| 5. Taiwan | 183.04 | 175.13 | 4.52 |
| 6. Hongkong | 163.96 | 126.64 | 29.47 |
| 7. Malaysia | 143.38 | 80.72 | 77.63 |
| 8. Germany | 117.12 | 92.53 | 26.58 |
| 9. S. Korea | 98.62 | 83.62 | 17.94 |
| 10. China | 91.07 | 63.05 | 44.44 |
| 11. Others | 411.27 | 368.75 | 11.53 |

Source: Department of Trade and Industry, Philippines <file://bak\June. htm>

These helped to diversify the structure of import and export commodities of both sides. Moreover, the commitments made by the Chinese government to lower its tariff on both agricultural and industrial products after entering WTO boosted the total turnover of the bilateral trade. According to Philippine sources, Philippine sales to China of farm products such as fresh foods and processed foods, as well as manufactures, particularly electronics, have greatly increased.

## Cross Investments

With the implementation of China's reform and open door policy, two-way investment of the two countries is also expanding. Chinese official data show that the direct investment (paid-up capital) of Filipino investors to China was US$ 1.08 million in 1986, representing 0.05 percent of

**Table 3.** Philippine Investments to China under Various Investment Incentive Laws, 1986-2002 (in US$ Million)

| Year | Number of Projects | Contract Amount | Utilized Amount |
|---|---|---|---|
| 1986 | 9 | 3.81 | 1.08 |
| 1987 | 10 | 30.39 | 3.80 |
| 1988 | 22 | 7.30 | 3.63 |
| 1989 | 12 | 4.71 | 1.52 |
| 1990 | 18 | 10.78 | 1.67 |
| 1991 | 30 | 17.44 | 58.50 |
| 1992 | 153 | 273.16 | 16.28 |
| 1993 | 302 | 630.63 | 122.50 |
| 1994 | 162 | 290.69 | 140.40 |
| 1995 | 125 | 213.15 | 105.78 |
| 1997 | 102 | 181.13 | 155.63 |
| 2000 | 132 | 361.53 | 111.12 |
| 2001 | ... | ... | 209.00 |
| 2002* | 142 | 416.00 | 175.00 |

* From January to November 2002.

Sources: Reconstructed by author, based on 1986 to 1997 data from various issues of *The Yearbook of China's External Economic Relations and Trade*, published by China Social Publishing House; 2000 data from *Almanac of China's Foreign Economic Relations and Trade 2001*,by China Foreign Economic Relations and Trade Publishing House, Sept.2001; data of 2001 and 2002 quoted from Economic and Commercial Section of Embassy of P.R.C. in R.P. <http://ph.moftec.gov.cn>

China's utilized amount of foreign direct investment of that year. The amount increased over 128-fold by 1994, reaching US$ 140.4 million or about 0.42 percent of China's utilized foreign direct investment. In 2001, Filipino merchants invested US$ 209 million in China, an increase of 49 percent over 1994. Nevertheless, the proportion was the same due to the big increase of total foreign investment in China that year.[4] There were 142 investment contracts worth a total amount of US$ 416 million signed by Filipino investors from January to November of 2002, while the amount of paid-up capital was US$ 175 million, a 32 percent increase over the same period in 2001.

The pattern of Philippine direct investments in China has been affected by both economic and non-economic factors, and can be roughly classified into five stages. The first stage (before 1980), was characterized as small scale largely because China had a very poor investment environment. During the second stage (mid-1980's), Chinese-Filipino merchants increased their investments in China, so as to avoid political unrest and increased incidence of kidnapping that targeted rich Chinese Filipinos back home. The paid-up capital of Philippine investors reached US$ 58.5 million in 1991, an unprecedented figure that may be attributed to the fact that the Aquino regime was repeatedly threatened by military coup attempts. The third stage showed a rapid increase of Philippine investment in China, spurred on the one hand by economic policies of the Ramos government such as freeing the economy from excessive state control, and on the other hand China's policies encouraging foreign investment. The fourth stage was again a low period for Philippine investments in China. The heightened bilateral disputes over sovereignty in the South China Sea since 1995, and later the Asian Financial Crisis, both had negative impact on the interest of Filipino investors. During the fifth stage, from 2001 onward, Filipino merchants expanded their investments following Philippine economic recovery and China's opening up of its western area to new foreign investment.

The Chinese have also invested in the Philippines since the re-establishment of official ties in 1975. In the absence of Philippine official data, there are conflicting estimates among earlier studies as to the extent of actual PRC investment in the Philippines. One source of confusion is that the Philippine Board of Investment (BOI) includes under its "Resident Chinese" category, both "Chinese nationals " or "foreign nationals of

**Table 4.** PROC's Investment Approved under Various Investment Incentive Laws 1989-1994

| Year | Total FDI (P'000) | PRC Investment (P'000) | PRC's Share to Total(percent) |
|---|---|---|---|
| 1989 | 17480366 | 13200 | 0.076 |
| 1990 | 23369835 | 236957 | 1.014 |
| 1991 | 21389349 | 2000 | 0.009 |
| 1992 | 7250386 | 8240 | 0.114 |
| 1993 | 14414648 | -- | -- |
| 1994 | 61765168 | 454579 | 0.736 |
| Total | 145669752 | 714976 | 0.500 |

Source: Philippine Board of Investments, cited by Eric Baltazar, "Chinese Investments in the Philippines", in *China Currents*, Vol.6, No.2, April-June 1995:18

**Table 5.** PROC's Registered Direct Equity Investment in the Philippines (in US$ million)

| | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| **Registered Total** | 1053.378 | 884.714 | 1894.174 | 1398.203 |
| **People's Republic of China** | 1.970 | 72.057 | 111.405 | 48.485 |
| Agriculture, Fishery & Forestry | 0.000 | 0.075 | 0.450 | 0.300 |
| Commerce | 1.440 | 32.497 | 70.023 | 34.948 |
| Construction | 0.115 | 0.597 | 0.524 | 0.253 |
| Financial Institutions | 0.187 | 0.492 | 1.849 | 1.447 |
| Manufacturing | 0.220 | 2.235 | 4.087 | 0.551 |
| Mining | 0.000 | 0.000 | 0.092 | 0.000 |
| Public Utility | 0.000 | 0.176 | 0.526 | 0.151 |
| Services | 0.008 | 0.379 | 0.478 | 0.335 |
| Others | 0.000 | 35.606 | 33.376 | 10.500 |
| **% share of PROC's FDIs** | **0.19%** | **8.14%** | **5.88%** | **3.47%** |

Source: Bangko Sentral ng Pilipinas.

Chinese descent". A study done by the Philippine-China Development Resource Center in 1995 concluded that some 3.35 billion pesos had been injected into investment projects since 1975 by resident Chinese, and that majority of such projects were done by "PRC nationals"[5], whereas it was not until 1989 that China's capital inflows became recorded by BOI of the Philippines.

Even though the figures provided in Tables 4 and 5 are in different currencies and come from different sources, they roughly show the situation of China's investments to the Philippines. There was an apparent growth in China's investments to the Philippines since 1992, the highlight being 1998 when they accounted for 8.14 percent of the total value of Philippine foreign investment. However, the amount of direct investment from mainland China in this specific period likely exceeds the figures reported by the Philippine Central Bank. First of all, direct equity investment by resident Chinese in the country is not calculated as China's investment even though they may come from China. Secondly, only foreign investors who use the channels of the Philippine Central Bank are required to register with the Central Bank. Therefore, the data supplied for 1997-2000 is likely incomplete, and the total amount may be bigger.

Filipino investments in China are mostly in the form of sole proprietorship and joint venture, and are concentrated in the areas of real estate, commerce, manufacturing, services, electronic assembly and financial institutions. On the other hand, China's investments in the Philippines are mostly joint ventures in the areas of commerce, manufacturing, financial institutions, services and public utilities.

## Other Forms of Economic Cooperation

The expansion of economic relations between the two countries can be seen not only with respect to trade and investment, but also in other forms including contracted projects, labor cooperation, air services, and the development of agricultural technologies.

According to Chinese official sources, between 1981 and 1994, Chinese construction projects in the Philippines were valued at US$492.86 million.[6] From 1995 onward, China actively took part in Philippine construction projects in the model of BOT (build-operate-transfer). By 2000, China had completed more than 400 such projects, involving highways, harbors, hydro-electric power plant, thermal power plant, power transmission lines, rural water supply, public markets, and others. For 2001, close to 37 contracts were signed by both sides with a total value of US$ 74 million, while in 2002 there were 21 newly-signed agreements with a total value of US$ 184 million. The completed turnover for 2002 was US$ 74 million.[7]

Cooperation in agricultural technologies has been the recent focus of bilateral economic relations of the two countries. In addition to sending Chinese technical personnel to the Philippines-based International Rice Research Institute to provide volunteer training program, the Chinese government has invested US$ 5 million to build the China Agricultural-Technology Center in the Philippines, which was completed in March 2003. An agricultural cooperation project involving a US$ 100 million loan from China is currently being carried out.

Some breakthroughs have also been achieved in financial cooperation. Metrobank, the Philippine's largest financial institution, opened a branch in Shanghai in July 2000, while the Bank of China also started operations in Manila in January 2001. With the expansion of financial cooperation of the two governments, traders of the two countries now carry out transactions without transiting through the banks of a third country.

## Features and Problems

In terms of comparing Sino-Philippine economic relations with that between China and other Southeast Asian countries, certain features and problems can be noted:

Firstly, China's trade with the Philippines grew slowly compared with its trade with Singapore, Malaysia, Thailand and Indonesia. As a result, the percentage of trade turnover of the two countries in China's total trade with core ASEAN member countries is always small, standing at less than ten percent, as Table 6 shows below. Taking the years of 1985 and 2000 as a base for comparison, the total value of China's trade with Malaysia increased by 22.6 times, with Thailand 24 times, with Brunei 28 times, but only 10.7 times with the Philippines. In 2000, China became the fifth largest trade partner of both Indonesia and Singapore.[8] Bilateral exports also occupied a small percentage of total export values of both sides. The export value of China and the Philippines in 1999 were 39.7 and 35.7 percent of their GNP respectively, whereas the value of bilateral export was only 0.38 and 2.6 percent of their total.[9] Total Sino-Philippine trade in 2000 was merely 29 percent of the trade between China and Singapore, 39 percent of trade between China and Malaysia, 42 percent of that between China and Indonesia, and 47 percent of that between China and Thailand.

Secondly, the trade structures of China and the Philippines have remained simple compared to China's diversifying trade with the other Southeast Asian states since the early 1980's. China's main exports to Southeast Asia have changed from predominantly agricultural products to various types of manufactured goods, while its imports also diversified from petroleum and traditional agro-products to industrial manufactures. Meanwhile, Philippine exports to China have been heavily concentrated in a few commodities, so that the ten major exports to China represented 74.4 percent of total exports to China in 1995. Of the Philippines' top ten exports, petroleum products took up 59.2 percent, with copper

**Table 6.** China's Trade with Southeast Asian Countries, 1985-2000
(in US$ million)

| | Phil. | Singapore | Malaysia | Thailand | Indonesia | Brunei | Total | Phil. (%) |
|---|---|---|---|---|---|---|---|---|
| 1985 | 268.55 | 2280.56 | 341.50 | 265.34 | 108.74 | 2.56 | 3267.19 | 7.0 |
| 1986 | 230.23 | 133.499 | 314.01 | 322.96 | 284.96 | 2.50 | 2489.65 | 9.2 |
| 1987 | 292.60 | 151.51 | 447.30 | 553.64 | 432.22 | 2.40 | 3243.32 | 9.0 |
| 1988 | 263.76 | 1679.89 | 528.74 | 820.51 | 522.70 | 2.62 | 3818.22 | 6.9 |
| 1989 | 207.00 | 2044.23 | 560.15 | 884.08 | 441.88 | 3.03 | 4140.37 | 5.0 |
| 1990 | 295.13 | 2832.17 | 1176.14 | 1193.75 | 1182.26 | 11.83 | 6691.28 | 4.4 |
| 1991 | 833.97 | 3076.73 | 1331.89 | 1269.47 | 1884.48 | 13.10 | 7959.64 | 4.8 |
| 1992 | 364.67 | 3266.86 | 1475.62 | 1319.35 | 2025.70 | 15.40 | 8467.60 | 4.3 |
| 1993 | 493.33 | 4890.85 | 1788.01 | 1351.92 | 2160.28 | 10.64 | 10695.03 | 4.6 |
| 1994 | 758.09 | 5040.44 | 2740.32 | 2023.67 | 2640.07 | 16.26 | 13208.85 | 5.7 |
| 1996 | 1387.31 | 7350.51 | 3614.13 | 3145.25 | 3708.43 | 38.88 | 19244.51 | 7.2 |
| 1997 | 1666.18 | 8783.56 | 4415.31 | 3514.76 | 4514.19 | 33.31 | 22927.31 | 7.3 |
| 1999 | 2286.92 | 8563.34 | 5279.40 | 4216.18 | 4829.83 | 8.10 | 25183.77 | 9.1 |
| 2000 | 3141.73 | 10820.97 | 8045.03 | 6624.22 | 7463.85 | 74.37 | 36170.17 | 8.7 |

Source: Constructed by author. For original data, see various issues of MOFTEC, *The Yearbook of China's External Economic Relations and Trade*, from 1986 to 2001, published by China Social Publishing House.

manufactures at 3 percent, while the rest were resource-based products (banana and coconut oil) accounting for only 17.8 percent.

The big bulk of Philippine exports – petroleum products and copper manufactures, were actually not traditional Philippine exports.[10] Chinese trade information also shows that between 1975 and 1992, Philippine imports were largely crude oil, which constituted more than half of all imports from China. However, since 1994, there has been a tremendous improvement in the trade diversification of the two countries, and the complementarity of the commodities from both sides is strengthening due to the sincerity showed by both governments in improving trade ties. The trade protocols signed in recent years have been much more concrete than the former ones, and have opened up more varieties of import commodities for both sides. To ensure the smooth implementation of trade protocols, officials from both sides meet in the middle of the year to examine the state of bilateral trade. As a result, the Philippine side has been able to expand the list of products that it can trade with China. Table 7 shows that manufactured goods have also dominated Philippine exports since 1999.

Thirdly, Sino-Philippine trade has been more favorable to China than to the Philippines (see Table 1). Sources from China's Customhouse showed that with the exception of 1975, 1977 and three years running from 2000 to 2002, the balance of trade has largely been in favor of China. The situation is completely different from the trade between China and other Southeast Asian countries. Malaysia, Indonesia and Thailand enjoy large surpluses in the course of trading with China.[11] There are different points of view with respect to the Philippine trade deficit with China. The official Philippine view is that there is a lack of complementarity in the country's products and those of China. China is seen not as a market for Philippine exports but instead as a rival for Philippine priority exports in the world market. The official view from China, on the other hand, holds that the burden falls largely on the Philippines to narrow the scale of its deficit by expanding exports to China. Whether the Philippines can meet China's needs for resource-based products of the required quality and of reasonable price are important factors. The yearly value of bilateral trade recorded by China is much bigger than that recorded by the Philippines. The data provided by DTI showed that the total values of trade between China and the Philippines from 1994 to 2000 were 0.459,

**Table 7.** Merchandise Exports of the Philippines to China by Major Product Grouping, 1997-2000 (FOB in US$ million)

| Major Product Grouping | | | 1998 | | 1999 | | 2000 | |
|---|---|---|---|---|---|---|---|---|
| | | | Exports to China | Imports from China | Exports to China | Imports from China | Exports to China | Imports from China |
| Consumer Manufactures | 8.23 | 77.03 | 7.72 | 72.10 | 16.59 | 123.00 | 18.81 | 102.89 |
| Food and Food Preparations | 28.21 | 132.76 | 41.22 | 423.42 | 27.30 | 153.34 | 51.11 | 88.76 |
| Resource-Based Products | 149.21 | 167.08 | 142.71 | 154.89 | 195.91 | 154.36 | 188.30 | 197.98 |
| Industrial Manufactures | 45.14 | 492.49 | 127.53 | 545.33 | 301.21 | 447.42 | 378.94 | 373.83 |
| Special Transactions | 13.62 | 2.23 | 24.49 | 3.15 | 33.79 | 160.12 | 26.11 | 4.21 |

Source: Philippine Department of Trade and Industry (DTI).

0.793, 1.101, 1.116, 1.543, 1.613 and 1.431 (in US$ billion) respectively. And yet Chinese official data appeared in the same period as 0.748, 1.306, 1.387, 1.667, 2.000, 2.287 and 3.142 (in US$ billion). The Chinese-recorded trade according to Chinese sources has been nearly double the official Philippine figures. It is believed that Philippine traders are partly responsible for the lower recorded volume of trade with China, as they attempt to evade payment of customs duties.

Fourthly, Philippine investments in China, whether in the form of contracted amount or utilized amount, is small compared with the other

**Table 8.** China's Utilization of Capital from Southeast Asian Countries (in US$ ten thousand )

| | 1997 | | 2000 | |
|---|---|---|---|---|
| | Contract Amount | Utilized Amount | Contract Amount | Utilized Amount |
| Philippines | 18113 | 15563 | 36153 | 11112 |
| Singapore | 447060 | 260641 | 203074 | 217220 |
| Malaysia | 49021 | 38183 | 38851 | 20288 |
| Thailand | 31662 | 19400 | 17061 | 20357 |
| Indonesia | 8562 | 7998 | 8561 | 14694 |

Sources: MOFTEC, *The Yearbook of China's External Economic Relations and Trade in 1997*, by China Social Publishing House, 1998:623,631; MOFTEC, *Almanac of China's Foreign Economic Relations and Trade 2001*, by China Foreign Economic Relations and Trade Publishing House, Sept.2001:765.

Southeast countries except for Indonesia, according to Chinese data. Although the contracted amount of Filipino investment was bigger than that of Indonesia the utilized amount (or the amount of paid-up capital) was the smallest among the ASEAN states in 2000. Besides, there is a wide gap between the contract amount and utilized amount of Filipino investment, particularly in 2000. While investment in the form of utilized amount from Singapore, Thailand, and Indonesia all surpassed that of the contracted amount, for the Philippines it was the reverse, that utilized amount only reaching 30.7 percent of the contracted amount.

Last but not the least; there are different viewpoints with regard to labor cooperation between the two countries. Labor cooperation used to be principally one-way, with China as the labor-exporting country. However, with the inclusion of almost 150,000 overseas Filipino workers in Hong Kong following the resumption of China's sovereignty over of Hong Kong in mid-1997, labor exchange has become two-way.

### China's WTO Entry: Opportunities and Challenges for Sino-Philippine Economic Relations and the Philippine Economy

The qualms of the Philippine side in reaction to China's WTO entry are engendered mostly by personal perceptions, although such perceptions are shaped also by problems and many unresolved issues in past experiences of economic cooperation.

The pessimistic perceptions by certain Philippine government officials and the public that the Chinese "economic threat" would become even more severe after China's accession to WTO, revolve around the following arguments:

- The trade deficits lead to Filipinos being deprived of jobs by the Chinese;
- That direct investments by Chinese Filipinos into their ancestral hometowns in Fujian province or other advanced areas of China demonstrate misplaced "loyalty to their native place". Moreover, it is an "improper way for the Chinese government to absorb foreign investment";
- Competition for all kinds of "China-made commodities" in the international market are a main reason for the shrinking of Philippine traditional and non-traditional markets abroad;
- The large amount of foreign investment flowing into China in recent years is one of the important causes for the dwindling of foreign investment in the Philippines; and
- The laborers in China are the rivals of overseas Filipino workers.

Having engaged in the study of Sino-Philippine economic relations for quite a long period of time, my own observation points to the coexistence of complementarity along with competition in the economic relations of the two countries. The diversification and expansion of economic exchanges since 2000, however, prove that there are more opportunities than challenges to the two countries' economic relations since China gained membership into the WTO.

### China's WTO Accession will lead to the Expansion of Bilateral Trade

As a member of the WTO, the Chinese government has to strictly abide by WTO rules and earnestly fulfill its pledges. Chinese traders must follow international rules and regulations in conducting international trade and commerce. Therefore, while further opening up the Chinese domestic market for the entry of foreign commodities, the Chinese government has to strengthen its transparency of market information and to provide a predictable environment for trade. A massive dismantling of trade protection is already taking place, according to the schedule pledged by China. The Chinese government's commitments with regard to its imports and exports include the following:

a) Its average tariffs on imported farm products will drop from 21 percent in 2001 to 15 percent or below five years later. There will be a period of protection for implementing the quota system on tariffs due to the weak competitiveness of China's agricultural products. However, the implementation of the concrete quota system will depend on the negotiation between China and relevant countries.
b) Its average tariffs on industrial goods will drop from 24 percent in 2001 to 8.9 percent or below five years later. Two thirds of the items must be in place by 2003, and the rest have to be in place in 2005. China's tariff for some specific products such as CMOS chips, or semiconductors have been lowered to zero, and China's average tariff for automobiles will be lowered from 80 percent in 2001 to 25 percent by July of 2006. The Chinese government has also pledged to lower the tariffs for various kinds of goods including paper pulp, leather, transformers, textiles and others.

It can be seen that commitments made by the Chinese government to lower the entry requirements of many farm products and industrial products are actually in accord with those Philippine exports, which can not but benefit Philippine export products. These include processed food, metal manufactures, furniture, jewelry, toys, lumber, paper pulp, plastic products, electronics, etc. As a matter of fact, many Philippine exports to China have already gained significant tariff reduction, including marine products, plant oil, coconut products, garments, electric computers, calculators, tape recorders, diskettes, paper and paper products, and electronic input and output fittings.[12] There is a phenomenal growth in bilateral trade since 2000, whether one uses the data by China or by the Philippines. The total value of Philippine exports to China from January to November 2002 has increased by 77 percent from that of the same period of 2001. That China has become one of the top ten export markets of the Philippines is also convincing evidence.

## China's WTO Entry Will Bring about Opportunities for Chinese Private Entrepreneurs to Invest in the Philippines

Approximately 1 million Filipinos, accounting for more than 1 percent of the total population of the Philippines, are of Chinese origin, mostly from Fujian province and some from Guangdong province in China. While playing a central role in the country's creation of wealth and jobs, they have had a very close relationship with their ancestral hometowns, especially since China opened to the outside world in the 1980's. Many Chinese-Filipino businessmen have gained from doing business with China. Meanwhile, the economic development of Southern China has also undergone rapid growth with an important role played by private entrepreneurs in partnership with overseas ethnic Chinese. With China having abandoned its policy of holding back its own private entrepreneurs from conducting international trade and foreign investment - another result of China's WTO accession – and having encouraged instead a "Go Out" strategy, not a few private companies, particularly from Fujian and

Guangdong provinces, intend to invest in the Philippines, where they could find many conveniences and business links. Recognizing the possibility of an increase in Chinese private capital, Philippine president Gloria Macapagal Arroyo instructed the Philippine Bureau of Immigration to relax the visa requirements for Chinese citizens who intend to conduct business in the Philippines. During her official visit to China after attending the APEC summit in Shanghai in October 2003, Arroyo said that she does not consider China's WTO accession a threat to Philippine economy. "In fact, we would prefer to look at it as a challenge. That will enable us to launch more businesses in Fujian Province in China, and invite more Chinese entrepreneurs to invest in the Philippines".[13] Meanwhile, Chinese investors are also looking forward to the improved stability of the political situation as well as social order in the Philippines.

## China's WTO Entry Will Put High Pressure on Philippine Manufacturers

Many China-made exports have at one time or another suffered the reputation of being "cheap in price, but inferior in quality". However, the situation is changing with more and more multinational corporations setting up bases in China. With the advent of foreign direct investments, the quality of China-made export products has greatly improved. Simultaneously, multinational corporations through their business networks, further opened up the global market for "China-made" products, thus further magnifying the supply of "Chinese-made" products in the Philippines. This can not but add pressure on the Philippine government and Filipino exporters to upgrade technology, improve the quality of manufactured products, and lower the prices of their export commodities in order to enhance the competitiveness of Philippine manufactures in the world market.

In addition, the competition between similar export products of the two countries in the world market will become even more severe with respect to textile products, electronics and manufactured goods. The export value of China's textile goods accounts for 1/5 of the total value of China's exports. Under WTO, the export quotas will be greatly reduced and access to other countries' markets will increase overall in 2008. China's exports of machinery - covering whole sets of equipment, home-use electronic appliances, electronic communication gadgets, electricity generation equipment and transportation equipment – will also expand, with only 8 percent tariff, according to the rules. Some of these products that China is striving to export are similar to exports of the Philippines. There will be strong competition in footwear, toys, boxes and bags, housewares and other labor-intensive products, as well as the swiftly growing software industry and the integrated circuit industry.

Concerned over the excessive entry of cheap Chinese and other foreign products and services into the Philippine market, the biggest business organization, the Federation of Filipino-Chinese Chamber of Commerce and Industry (FFCCCI) is taking the lead to initiate a "Buy Pinoy Movement" in association with some other big business groups. It states in their covenant that "continuing globalization and rampant smuggling pose yet the greatest challenges. Even as the Philippines hopes to gain better access to the global market, we also face the increased entry of foreign goods that are mass-produced at a price lower than what we can offer". With the purpose of protecting the home market for manufactured goods and services, the "Buy Pinoy" covenant called on Filipino consumers to patronize products and services that are made in the Philippines or made by factories that employ Filipinos, and emphasize that "Every peso spent on a Filipino product is a peso contribution to the national interest and to the preservation of jobs".[14] This action has gained the support of the Philippine government. However, it is very difficult to predict the success of such a movement. In my view, it is very difficult for the large population of Filipinos whose living standard is below the poverty line to spend more pesos to buy home-made goods. Some Filipino workers have satirized the "Buy Pinoy" Movement into a "Buy Penoy" ("Buy Duck's Egg") Movement.[15]

## The Greater Flow of Chinese Commodities, Capital and Labor Certainly Will Increase Disputes of the Two Countries

Even before China entered the WTO, some tensions had already existed, to wit:

a) Taking advantage of their natural linkages, some Chinese Filipino traders imported large quantities of cheap Chinese products which now dominate the Philippine domestic market. They have obtained sudden huge profits within a short period of time, thus arousing the envy of Filipino traders.

b) A handful of Chinese-Filipino traders colluded with some officials from China's Customs to import inferior Chinese products that were not in accord with the products prescribed in the customs declaration. Such behavior not only shatters the image of the People's Republic of China, but also unfairly affects local tradesmen.

c) Some China-based relatives or family dependents of Chinese Filipinos move to Manila. Many do not want to go back to China, and instead become illegal immigrants. They set up illegal vendor's stalls in Manila and elsewhere, entering into competition with small Filipino Binondo businesses and adversely affecting small- and middle-sized Philippine manufacturers.

d) Influenced by criminal gang (triads) of Hong Kong and Taiwan, quite a few illegal aliens from mainland China are engaged in illegal drug trafficking under the guise of doing business. Such behavior violates the laws of the Philippines, and leaves a terrible impression on the Philippine people.

WTO regulations with respect to relaxing the flow of goods, capital and labor services of the member countries will no doubt strengthen the exchanges between the two countries, not only because these two countries are geographically close, but also because many people have consanguinity on the other side. Because of the limited capacity of the Philippine market and the scarcity of job opportunities, however, the implications of Chinese small- and medium-sized capital as well as personnel moving to the Philippines are not always positive. Trade-related disputes will possibly increase. The main trade partners of the two countries are basically the same, and the Philippine government has vowed to use the mechanisms and procedures of WTO, including dispute settlement, to protect the interests of Filipino traders.

## Notes

1 "Philippines: We Need to Get Our Act Together," http://www.inquirer.net, October 16, 2001.

2 "China's entry to WTO seen as threat to RP," http://www.inquirer.net, November 25, 2001.

3 In 1977, Philippine former president Marcos ordered a decree to create Philippine International Trade Corporation (PITC) together with his instruction, embodied in Letter of Instruction (LOI) 444, that the PITC coordinate and facilitate trade with socialist and centrally planned economies.

4 Total values of China utilized foreign direct investment in 1986, 1994 and 2001 were US$ 2.244 billion, 33.767 billion and 49.7 billion respectively.

5 Eric Baltazar, "Chinese Investments in the Philippines," *China Currents*, Vol.6, No.2 April-June 1995:19.

6 MOFTEC, *Yearbook of China's Foreign Economic Relations and Trade in 1995*, by China Social Publishing House, 1995.

7 Data provided by China Ministry of Foreign Trade and Economic Cooperation, quoted from Economic and Commercial Consular of Embassy of P.R.C. in R.P. web site http://www.chinatrade.org.ph./cn.

8 Chinese customs data, quoted from China Ministry of Foreign Trade and Economic Cooperation, http://www.moftec.gov.cn.

9 World Bank data showed that total values of GNP of China and the Philippines in 1999 were US$ 9082 hundred million and US$ 980 hundred million respectively, while the values of exports for both sides were US$ 3606.5 hundred million and US$ 350.3 hundred million.

10 Source of basic data was from Philippine Department of Trade and Industry.

11 Malaysia, Indonesia enjoyed US$ 2.91 billion and US$ 1.34 billion surplus respectively in 2000, Thailand enjoyed US$ 2.375 billion surplus in 2001 when trading with China.

12 Ellen Palanca, "China's WTO Entry and Trade between the Philippines and China," *Around Southeast Asia*, No. 11, 2001.

13 Xiao Ding, "China-Philippine Relations Promising," *Beijing Review*, No.15, 2001, pp.8-9.

14 'Buy Pinoy'- A covenant for National Economic Survival and Prosperity, http://www.philonline.com.ph/dti/buypinoy.htm Feb.26, 2003.

15 Huang Xinyi, Buy Pinoy Movement, www.worldnews.com Dec.13, 2001.

## References


Department of Trade and Industry, Philippines; < http://www.dti.gov.ph>

Eric Baltazar, "Chinese Investments in the Philippines", in *China Currents,* Vol.6, No.2, April-June 1995.

Economic and Commercial Section of Embassy of P.R.C. in Republic of the Philippines, <http://www.chinatrade.org.ph./cn>

MOFTEC, *Almanac of China's Foreign Economic Relations and Trade 2001*, by China Foreign Economic Relations and Trade Publishing House, Sept.2001.

MOFTEC, Yearbook of China's Foreign Economic Cooperation and Trade, Various issues between 1987 and 1998, by China Social Publishing House.

Philippine Daily Inquirer <http://www.inquirer.net>

PDRC Forum on "Philippine-China Relations", in *China Currents,* Vol.6, No.2, April-June 1995.

Philippine Business Report, President Signs Anti-Dumping Act, Published by the Department of Trade and Industry Vol.10 No.9, September 1999.

PHILEXPORT, Philippine Export Development Plan 1999-2000, Approved by President Joseph Ejercito Estrada on May 7, 1999 at quarterly meeting with the Export Development Council as mandated by Republic Act No. 7844.

World News (a Philippine Chinese language daily); <http://www.worldnews.com.ph>

Raul V. Fabella, *The Great Dragon Effect: Whose Lunch is Mainland China Eating?* PASCN Discussion Paper No.99-05.

Shen Hongfang, "Inquiry Into the Impacts of China's WTO Entry on Sino-Philippine Economic Relations and Philippine Economy", *Southeast Asian Affairs,* No.1, 2002.

Shen Hongfang, "Sino-Philippine Bilateral Trade: Status Quo and Prediction", in *China Currents,* Vol.8, No.3, July-Sept., 1997.

Shen Hongfang, "China-Philippine Relations: History, Present Situation and Prospects", in *Prospects for the China-Southeast Asian Relations Around 2000*, by Zhongshan University Press 1991.

Shen Hongfang, "China and Philippine Relations: Glancing Back and Looking Forward" in Wangqin (ed) *China-ASEAN Economic and Trade Relations After China's Accession to the WTO*, Xiamen University Press, forthcoming.