

# UNIFICATION PROCESS OF CHINA AND ITS IMPLICATIONS FOR THE PHILIPPINES

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## THE PEACEFUL PROCESS

THE PEACEFUL UNIFICATION process of China may be traced back to as early as 1979 when the standing Committee of China's National People's Congress (NPC) issued the "Open Letter to Taiwan Compatriots," asking the Taiwanese to contribute to the efforts of unifying China. Thereafter, the document of "Nine Proposals" was advanced by Marshall Yeh Chien-yeng, President of the NPC. Among the proposals were: 1) the direct negotiation between the Chinese Communist Party and the Kuomintang, and 2) the exchange of mail, travels, and trade between the two sides. In 1982, Deng Xiaoping came up with his famous "one country, two systems" model, to be made applicable to the case of Taiwan.

On the other side of the strait, Taiwan's initial response was an adamant no; three no's, in fact—i.e., no contact, no negotiation and no surrender. The half-century old rallying cues of "fight the Communists so as to save the country" and the "Hans do not co-exist with the traitors" were still its official slogans.

The Twelfth Plenary Session of the Kuomintang held in March 1981 however modified it somehow, when it adopted the substitutive slogan of "let the Three Principles of the People unite China." In 1986, the late President Chiang Ching-kuo of Taiwan rendered his report on "The Peaceful Unification of China and the World's Situation," whereby travel

to the mainland was liberalized. He followed this up in 1987 with an announcement formally terminating the so-called "Anti-Sedition Period", and further relaxing the ban on academic exchanges and trade. In the same year, the Kuomintang held its thirteenth plenary session and adopted a resolution entitled "Present Policy Towards the Mainland," enunciating therein guiding principles in dealing with the mainland. The resolution was to become the embryo of the "Guiding Principles of Unification," which was later adopted by the Kuomintang and is valid up to the present. In 1990, Lee Teng-hui assumed the presidency upon the death of Chiang Ching-kuo. In his inaugural speech, he proposed to undertake constitutional reforms and promised to establish contact with the mainland under certain conditions. On September 2 that year, under his guidance, the National Unification Committee was established and a set of "Guiding Principles of Unification" was adopted. In February 1991, the Strait Foundation (*Haichi*), a supposedly private intermediary was organized for the sole purpose of dealing with "routinary, functional and low-level matters" involving mainland China.

#### TAIWANESE INVESTMENTS IN CHINA

Under the Guiding Principles, the unification process is divided into three stages, namely: the short, the medium and the long terms. The "short term" is defined as the phase of exchanges and reciprocity, the "medium term" as the phase of mutual trust and cooperation, and the "long term" as the phase of consultation and unification.

We have therefore a situation where contacts between the two sides of the strait are meant to be one-way and indirect in the first stage. During this period, (which we are still in), trade has to be conducted via Hong Kong; transport to be effected through a third country; and investment is outright illegal.

However, illegal as it may be, there is no scarcity of Taiwanese investment in China. Based on China's figures in 1989, investment of Taiwan in China was a US\$520 million, comprising 435 production lines. Two years later, it quickly sky-rocketed to US\$1.2 billion. In fact, the value of Taiwan's investment in China is second only to that of Hong Kong's.

Thus, China has become Taiwan's biggest overseas investment area. According to the statistics of Taiwan's Ministry of Economics, the mainland has 21.25% of Taiwan's total investments abroad. Next to the China is the U.S. with a share of 18.12%, followed by Thailand (14.63%), Malaysia (11.5%), Hong Kong (10.32%), and Indonesia (5.95%).

The Ministry further reported that among those who have shown their intention to invest abroad, 35.5% indicate the mainland as the preferred destination. This was followed by the U.S. (11.09%), Hong Kong (8.28%), and Thailand (7.54%).

From a survey conducted last year, the Chamber of Industries in Taiwan found that among the 2,500 registered investors with investments in China, 49% signified their intentions to upgrade their investment capital, while 14% said they have no such plan. Only 2.5% said they may decrease their investments, and 3% said they have plans withdrawing their investments.

On the heels of the Koo-Wang dialogue which we shall discuss later, the tempo of Taiwanese investments accelerated. Foremost is the case of Fuko Bank, the first Taiwanese bank to establish its subsidiary in Shenzhen, with capital of US\$30 million.

In the aftermath of Fuko Bank came the announcement of the Huaping Conglomerate headed by Wong Yin-hon, a presidential political consultant who has been dubbed as the "King of Kaoshiung" (a port city in southern Taiwan), that his group has decided to invest US\$30 million in China to manufacture cablewires and steel. He said that the worsening investment climate in Taiwan, its political bickerings, and the high cost of labor and land made it impossible for any manufacturer to take root in Taiwan.

Earlier on, Wei Chuan Food Manufacturing Co. and United Enterprises, both of which began to invest in China only last year, announced that their stockholders have approved plans for investing further in China. The former plans to increase equity by around US\$200 million within three years while the latter will increase investment by US\$100 million in two years time.

To top it all, the publicly-listed companies in Taiwan, numbering thirty, have authorized their respective board of directors to invest in the mainland. As per report of the *United Daily News*, these authorized investments amounted to about US\$80 million. Moreover, two of these companies, Chong Ting Engineering Co. and Chian Tai Cement Factory, are identified to be owned by the Kuomintang Party.

Heretofore, there were 33 listed companies doing business in mainland China. Among these, seven have individually invested in the scale of more than US\$10 million.

Will the wave of investment continue? A survey of 1,028 manufacturers conducted by the Office of Census and Statistics of the Executive Yuan this year provides the answer. Of those polled, as high as 72%, compared to 39% of the previous years, said that they are going to invest in the mainland in the next two years. To tackle the problems of high production cost in Taiwan and U.S. protectionism, the Asian Development Bank in its 1992 annual report said, "exodus of Taiwan manufacturers will continue."

#### TAIWAN'S DEPENDENCY ON TRADE WITH CHINA

The trade volume between Taiwan and China was US\$70 million in 1979, US\$1.5 billion in 1987, US\$2.5 billion in 1988, US\$5.8 billion in 1991, and US\$7.4 billion in 1992. (Taiwan's estimates were much higher-between US\$12 billion to US\$17 billion for these years.)

For this year, China-Taiwan trade volume is expected to swell to US\$10 billion, with US\$7 billion in Taiwan's favor. Data show that for the first semester alone, Taiwan's favorable balance bloated to \$8 billion, a 30 percent growth from the same period last year. In contrast, Taiwan's overall trade balance for the first six months of this year amounted to only US\$3 billion. Compared to the same period last year, it has decreased by 36 percent.

The decline in Taiwan's trade surplus was observed even earlier. For 1992, her trade balance was US\$5 billion, only half of what it was (US\$9.4 billion) in 1991 and the lowest for the past eight years. Thus, if Taiwan's trade with mainland China were reduced to zero, then her overall favorable balance would be completely wiped out.

Taiwan's declining trade balance is due very much to the changing balance of her trade with the U.S. and Japan. In her trade with the U.S., trade surplus has declined in the last few years. While it registered at US\$16 billion in 1987, it has decreased to US\$7.8 billion in 1992.

Trade with Japan also suffers from increasing deficit. It reached US\$13 billion last year, an increase of 23 percent from 1991. This year, the unfavorable balance is expected to run as high as US\$16 billion.

Based on her own estimates, Taiwan's exports to China now represent 13% of her total exports (US\$150 billion). This share is greater than Japan's share of 10 percent. The mainland has become Taiwan's second largest export area, next only to the U.S.

With 50 percent of her GNP derived from international trade, Taiwan has to trade, and trade she must with the mainland, if only to arrest her declining surplus.

#### KOO-WANG DIALOGUE

With the aforementioned trade and investment situation as background, the Koo-Wang Dialogue, described as "the historic meeting of the two sides of the Strait," took place in Singapore on April 26-28, 1993.

In their three-day meeting, Koo Chen-fu, chairman of Taiwan's Straits Exchange Foundation, and his mainland Chinese counterpart, Wang Tao-han, chairman of the Association for Relations Across the Taiwan Strait, concluded agreements on the usage and authentication of the civil registrar's certificates and on registered mail.

Obviously, all these agreements are trivial and insignificant. As correctly repeated by the Taiwan authority, the dialogue is nothing but a private, technical economic and functional discussion between the two organizations.

However, inspite of its shortcomings, both sides have but praises and paeans for the dialogue. Thus, while the dialogue did not have politics on its agenda, it is pregnant with political significance.

Ominously, PRC's 2,093-member Chinese People's Political Consultative Conference had undergone a thorough reorganization in the wake of the Dialogue. Previously a dumping site for the old, aged and "democrats", the conference is now headed by no less than a member of the Standing Committee of the Political Bureau (Li Suy-quan) and slots for vice-presidency are shared by the Director of Office of Taiwan Affairs, concurrent head of the Party's Department of United Front (Wong Chao-cuo) and a Vice-Premier, concurrent Head of the Party's Committee on Taiwan Affairs, (Wu Xuequian). Also, the Vice-Chairman of the *Haixia*, Tong Supe, was named to the Council's Standing Committee as a member.

The conference is obviously to be converted into a vehicle for united front efforts, thereby intensifying the dialectical relationship between economics and politics, which is true to Marxist teachings.

This can be clearly seen in the explanation of Yuan Mu, the spokesman of PRC's State Council, in a press conference held on July 6, 1988 for the just-promulgated "Regulations on the Investment of Taiwan Compatriots." He said, "The basic principles behind the regulations are: 1) one

nation, two systems, 2) equality and benefits to both sides, and 3) freedom of mobility.

"Taiwan is a part of China. But their systems are different. To peacefully unify China in accordance with the concept of one nation, two systems is the most practical and logical thing to do. All the policies of China toward Taiwan, including the recently promulgated Regulations, have to enhance the guidelines of one nation, two systems, for the purpose of peacefully unifying the motherland. This is the constant, long term and unalterable basic policy of our government."

#### IMPLICATIONS FOR THE PHILIPPINES

With the process of economic integration and political unification so much intertwined, China is well on her way to modernization. To the Philippines, what are the implications of her modernization? Is it boon or bane? The answer is: both.

It is boon, because first, the process increases her demand for imports from all over the world. In 1992, China, while enjoying a favorable balance of trade of US\$5 billion, imported US\$64 billion worth of goods (a 28% increase from the previous year). For the first semester this year, her imports amounted to US\$40 billion or a 23% increase from the same period last year. Furthermore, in preparation to her joining the GATT (General Agreement on Tariffs and Trade), China has in the recent past reduced the tariffs on some 3,371 producers' items from 40% to between 15% to 20%, thus giving impetus to further increasing her imports.

Her imports of gold last year, for example, was a hefty 350 tons, surpassing the United States to become the foremost gold importing country. Her importation of copper is likewise expected to spur to 2% of world consumption this year, as against 0.9% in the last decade.

In another example, Cuba's declaration of *force majeure* for sugar will force China to obtain the supplier's shortfall in the open market. Among our export products, China is also reportedly interested in buying copra, fertilizer, chromite and banana.

In general, "Indonesia and China are good markets for Philippine products," Bernardo Villegas, vice President of the Center for Research and Communication was quoted as saying. Professor Lawrence Krause of the University of California, San Diego, who has accurately forecast economic trends in the past, said that "China's growth is having a huge impact on the region such that Chinese imports from Pacific Rim countries are growing at 15 percent a year."

Regrettably, the Philippines is obviously excluded from the list of countries benefited by the growth of China's imports, due to either sheer ignorance or prejudice against China. In the much ballyhooed Medium-Term Philippines Export Development Plan, for example, the government selected fourteen products said to be "export winners" for promotion and competition in the international market. The target areas were U.S., Japan and Europe - in that order. China was totally excluded from the list as it was not in the minds of the economic planners. Later, as an afterthought, China was included with South Korea to form a category which was incorrectly called "Greater China."

Constitutive of our second economic opportunity is China's capital export. Contrary to common belief and orthodoxy, China is exporting capital at this early stage of the game. For the year 1991, China's total capital export amounted to US\$30 billion. As per the records of the Board of Investment (BOI), China investment amount of 972 million pesos for the first quarter this year in the Philippines, outranking the U.S.'s 397 million pesos, Holland's 120 million pesos, and Taiwan's 30 million pesos.

Table 1 presents China's investments as approved by the BOI for the period of 1989-1992.

Table 1 CHINA'S INVESTMENTS AS APPROVED BY THE BOARD OF INVESTMENTS, 1989-1992

Name of firm	Product/Activity	Amount of Investments (in P1000)
1989		
Luzon Spinning Mills, Inc.	Spun yarn	13,200
1990		
Chinese Filipino Friendship New Philippine-China Group Development Corp.	Public utility (Bus category) Tourist accommodation facilities (hotel)	9,259
China National Import and Export	Service	210,000
1991		
Jenn Woei Securities, Inc.	Stock broker	1,130
1992		
New Age Multi-Products Corp.	Fluorescent ballast	2,000
Southland Mining Corp.	Gold	6,240

Table 2 CHINA'S INVESTMENTS IN THE PHILIPPINES, 1975-1992

Year	Investment Value (in P1000)
1975	26,260
1976	27,515
1977	25,935
1978	9,178
1979	41,191
1980	37,995
1981	41,677
1982	36,033
1983	17,879
1984	43,255
1985	111,895
1986	38,236
1987	169,425
1988	556,665
1989	740,485
1990	441,497
1991	563,598

Source: Data collected by Hai-yin Zhang in China for his dissertation on China's foreign investments in Southeast Asia. Mr Zhang is pursuing his Ph.D. degree at the University of Antwerp, Belgium.

A Chinese scholar, based on figures gathered in China, revealed that China's foreign investments in the Philippines are more substantial than what our official records show. (See Table 2)

In addition, according to Trade Secretary Rizalino Navarro, China is committed to invest US\$1 billion in the areas of power, steel, food stuffs, construction, cement and land development.

Of late, a Chinese company, Chang Jiang Electric Corporation, was reported to have entered into an agreement with the National Power Corporation for dredging and rehabilitation of the 100 megawatt Binga hydroelectric plant which had not been operating since last year because of siltation. Also, China's sixth biggest steel company Maan Mountain Steel Co., was reported to have decided to put up a steel company in Cebu City, in tandem with its local partners.

China's economic development policy includes investing abroad. This is confirmed by Li Tieying, Minister of the State Commission for Economic Restructuring of PRC. In his visit to Manila two months ago, he categorically said:

"Since we began our economic restructuring, the Chinese government has encouraged our businessmen to form trade alliances abroad and to invest in the Philippines which we share a long history of friendship and economic cooperation."

Chinese businessmen are indeed seeking to explore investment possibilities in agriculture, machineries, textile, garments, construction and the building of power plants.

Another area which provides many opportunities for investment in China is the service sector. In this connection, there have been some developments. For example, four of our banking institutions have succeeded in establishing branches or offices in Xiamen and Shanghai. Also, a group of Chinese-Filipinos has joined hands with Xiamen University in putting up a bilingual elementary and high school in Xiamen and another group has established an interior design outfit in Beijing. The International Container Terminal Services is said to be eyeing the operation management and development of Tian Jin Container Terminal, the biggest of China's 26 ports.

Another very attractive area is the potential of China as a source of our inbound tourists. For the year 1992, her total out-going tourists were 2.9 million. It is estimated that the number will easily increase to 3.5 million this year.

In this respect, Mr. Co Chin-lu, a mogul of Taiwan's tourism industry, exuding optimism said that within a period of two years, China's tourists will equal that of Taiwan in number. The former will be the much sought-after customers the world over.

Mr. Ong Bon-kiat, another of Taiwan's tourism bigwigs, said that there are 200 or 400 million Chinese living in the coastal cities of the mainland. He expects that the rapid improvement of this group's standard of living will make them potential travellers and tourists.

China's modernization proves also to be bane, however. Without Chinese competition, one may argue, chances of foreign capital, particularly Taiwanese funds, coming to our shores are better. The Taiwanese Investment Commission was quoted recently as saying that Southeast Asia as a whole was losing its appeal to Taiwan businessmen as the most popular overseas investment site, giving way to China.

To boot, it is an open secret that every Tom, Dick and Harry in the local community has one way or the other transferred some funds to the mainland for either hedging against uncertainties here or as outright investments, forming part of what Frederic Clairmont called the "Diaspora Provenance". He said, "A synergistic relationship prevails between the Diaspora (including Taiwanese), and Beijing, one that compounds Beijing's muscles and enriches the Diaspora." Sad to say, the hemorrhage, both in

terms of capital and manpower, is still going on unabated. What then is to be done? How then to reconcile the apparent conflict? The answer to this question could not have been better supplied by ex-Finance Secretary Estanislao, when he said, "The open door policy of the Chinese should be seen in a positive light. The trend towards greater competition between China and other developing countries in Asia is inevitable. The Philippines must learn to live with it. Instead of focusing on China as a threat, the Philippines should look upon her as a country offering a multitude of opportunities."

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# FILIPINO REACTIONS TO PHILIPPINE CHINESE INVESTMENTS IN CHINA: AN EXPLORATORY SURVEY\*

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## W INTRODUCTION

WHEN CHINA'S SENIOR leader Deng Xiaoping junked Mao Zedong's inward-looking economic policy in favor of his export-oriented, reform-based, blueprint of "Four Modernizations"<sup>1</sup> and "opening up" upon his assumption of the country's premier leadership position in 1978, the overseas Chinese began figuring prominently in Beijing's economic plans.

Aiming to attract overseas Chinese capital and utilize it as an alternative to investments from Japan, the United States, and Western Europe, Beijing exhorted ethnic Chinese living abroad to "strengthen and consolidate patriotic unity, [and] support the cause of construction."<sup>2</sup> To this end, village enterprises and investment companies were refurbished, relaxation of customs duties and enhance interest rates were introduced, and special economic zones (SEZs) near the provinces of origin of the majority of overseas Chinese were established. (There are a total of five SEZs in Southern China: the Shenzhen, Zhuhai, and Shantou SEZs in

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