

CHINA'S ECONOMIC DEVELOPMENT: IMPLICATIONS FOR THE PHILIPPINES

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Introduction

One of the most remarkable features of China's economy in the last few years has been the fact that it has been growing by an average of 9 to 12 percent while the developed world has been suffering from economic recession and even the "Four Tigers" in Asia have been experiencing downturns in their economic development. China's share of world trade has risen from less than 1 percent to more than 2 percent in recent times, indicating the rapidity with which she is being integrated into the world economy. According to reports, China is poised to join the General Agreement on Tariffs & Trade and is preparing herself for a more radical opening of her markets to foreign imports.

Particularly representative of the economic growth, accumulation of wealth, higher standards of living, as well as structural reforms that characterize China's recent development is Southern China which includes the provinces of Guangdong, Fujian and Guangxi. These provinces concern us not only because they are the fastest growing in terms of economic wealth but also because they are closest to the Philippines. Their rapid industrialization, the manner in which they have done so and their rapid socio-economic transformation ought to hold implications for how the Philippines will continue to relate to China.

Southern China's Economic Growth

Let us examine briefly the changes that have taken place in Guangdong and Fujian. Guangdong, with a population of 63 million registered an average annual growth rate of more than 12 percent (reaching a high of 22 percent according to some sources) and

accounted for 16.6 percent of China's exports. In 1991, 66 percent of its population enjoyed disposable income of 7,200 RMB (roughly \$1,200) or more.¹ Signs of prosperity include 3-storey tiled homes, neon-lit restaurants, 5-star hotels, white-washed factories, automated teller machines, digital phones and mushrooming flyovers. Equally remarkable has been the development of Fujian where Xiamen is located. In less than 10 years, the income of Fujian's population has doubled. Xiamen, a backwater that used to be a militarized zone on account of its proximity to Taiwan, is now planning to surpass Hong Kong and South Korea in the next 10 to 15 years.

Decentralization of the Economy

One of the factors that have contributed to this phenomenal economic growth has been the increasing degree of decentralization in administration that has taken place. To a large extent, provinces like Guangdong and Fujian today enjoy a high degree of financial autonomy. In 1990, Guangdong for instance, although it earned more than 12 billion RMB in revenues, only remitted 1 billion RMB to the central government.² The special economic zones such as Xiamen, Shantou, Shenzhen and Zhuhai, are not financially accountable to the provincial government. And more than 8,000 enterprises and firms from all over China can now deal directly with foreign enterprises and engage in foreign trade. During the first quarter of 1992, the non-state sector accounted for 45 percent of industrial output and \$46 billion in foreign exchange reserves.³

In other words, trade and other economic relations with China are no longer centralized and do not need to be conducted through the Ministry of Foreign Economic Relations and Trade (MOFERT). The door for more private initiatives in economic relations have been thrown open by economic liberalization in China. This may require a re-examination of some of the existing structures, rules and regulations that still govern Philippine-China trade, including the role of the Philippine International Trading Corporation (PITC).

One of the main points of contention of those who import from China is the PITC regulation that requires importers to ensure that the equivalent value is exported to China. While this has led to an improvement in the Philippines' trade balance with China, it has also dampened trade relations between the two countries. Its net effect has been to keep down imports from China rather than promote exports to China. Critics of the PITC regulations have pointed out that China only ranked number five in terms of its trade imbalance

with the Philippines while Taiwan ranked number one in 1990. In the same year, Taiwan enjoyed a trade surplus over the Philippines to the tune of \$596 million while China's trade surplus was only \$100.3 million. In 1991, China's trade surplus in relation to the Philippines went down to \$95.7 million while Taiwan's trade surplus increased to \$614.8 million. Thus, while Taiwan's trade imbalance with the Philippines is more than five times that of China, no regulations have been imposed on the import of goods from Taiwan. Little wonder then that the PITC's regulations have been deemed as having been politically motivated. Instead of placing the burden of devising an export program to China on importers, the government could instead undertake to promote exports to China through more intensive market research accompanied by an information campaign. It also means that in trade relations with China, private initiatives should be vigorously encouraged.

Exploring the China Market

In this respect, I do not think enough has been done to explore the China market in relation to Philippine exports. While China is a competitor in certain areas, its rapid development and increasing prosperity will imply changes in the nature of its imports and exports. The latest statistics indicate that China is importing more.

In 1992 Guangdong province alone imported \$10.64 billion worth of goods, an increase of 25 percent over 1991. China's total imports increased by 16 percent in 1991 over 1990 while her exports rose only by 6.1 percent. Imports which went up included grain, sugar, paper pulp, wool, medicine and fertilizer.⁴ It is interesting to note that raw materials and food comprised 17.2 percent of imports for 1990.⁵ This is relatively high considering that China has been one of the main exporters of food products in the region. In the past, 68 percent of ASEAN's canned meat came from China. With a changing economic profile, it is anticipated that Chinese food consumption will face a restructuring. Higher incomes will mean greater demand for protein-rich food products. There will be a higher demand for eggs, fish, milk, sugar, vegetable oil and meat. Supplies of livestock and poultry are expected to fall short of requirements. Demands for feed grains such as corn and soybean will also increase.

In addition, one should also note the increasing tourist market for food consumption in China. There were 24.5 million tourists who visited China in 1990. They all had to be fed! (I have noticed that many of the ASEAN countries, like Thailand, Singapore,

Indonesia and Malaysia, have been very active in the promotion of food products in China—many of the canned beverages and tetra packs come from these countries.)

In relation to food consumption patterns, it should be mentioned that there is considerable demand for fish and other seafoods. China has shown strong interest in cooperating in fishing with many countries to ensure an adequate supply. Given the fact that there have been more and more incursions of Chinese fisherfolks into Philippine fishing grounds, it may be useful for the Philippine government to explore various forms of cooperation—such as joint ventures or bilateral agreements—that could provide long-term solutions to increasing conflicts over fishing grounds between China and the Philippines, especially in the Spratlys. Following China and ASEAN's declarations about the need for the joint development of the Spratlys, one real area for cooperation would certainly be in relation to fishing grounds.

Linkages between Taiwan and China

The discussion on food merely serves to illustrate how China's increasing wealth will imply greater opportunities for Philippine exports. Another area that ought to be explored is to look at the Philippines as a point of linkage between China and Taiwan. When plans regarding the conversion of Subic and Clark were publicized, the Taiwanese indicated that they see the base areas as potential transshipment points to China.⁶ The Philippines could provide indirect sea and airlinks for Taiwan and China, especially after 1997 when Hong Kong reverts back to the mainland. In this respect, the Philippines has not done enough to capitalize on the heavy flow of Taiwanese tourists and businessmen to China. Out of 24.5 million tourists who visited China in 1990, 23 million were from Hong Kong, Macau and Taiwan.⁷ For Taiwanese visiting China, Manila could be an alternative stopover to Hong Kong.

China as Source of Investments

Apart from regarding China as a vast potential market, it is also time to look at China as a source of investments. In the last quarter of 1991, the growth rate of Southern China reached a high of 22 percent. Guangdong alone has investments in 13 countries.

Thus far, Thailand and Indonesia, among ASEAN countries, have been attracting much of mainland Chinese investments abroad.

However, there are signs of interest in investing more in the Philippines. It should be recalled that in the decade between 1975 and 1984, China was one of the top ten investors in the Philippines, investing a total of half a billion pesos in that period. Chinese investments in that period also grew by 46.6 percent per annum on the average. The apparent decline in Chinese investments seems to be less because of a lack of interest and more because of the lack of confidence in the country's political stability. Potential Chinese investors are giving two more years for the Philippine situation to improve.

Further constraints on greater levels of mainland Chinese investments stem from the lack of information on the Philippines. Unlike in Taiwan where its longstanding ties with the Philippines have led to more established economic linkages, most mainland enterprises that may have an interest in investing in the Philippines do not have the same level of access to data and information on the Philippine economy. Also, until very recently, it had not been easy for Chinese nationals to obtain Philippine visas for business visits.

Role of Local Governments and Township Enterprises

Last but not least, it would be important to point out the central role played by local governments and local enterprises in the industrialization and economic growth of China today. In 1991, township enterprises accounted for 25 percent of total output in China, 30 percent of industrial output and 60 percent of agricultural output value. Township enterprises have absorbed 100 million surplus laborers. The 18.2 million township enterprises have opened up factories and trading companies linking up agriculture and industry, as well as closing the gap between rural and urban areas in terms of economic, technical, cultural and living standards.⁸

A number of implications can be drawn from this:

1. Apart from the large corporations and state enterprises, greater efforts should be made to link up with local governments and local enterprises.
2. China can be a source of medium and small-scale technology suited for the development of rural industry in the Philippines. Instead of importing highly sophisticated technology that may not be appropriate at the local level, much may be gained by exploring the use and adaptation of appropriate and relatively cheap Chinese technology.

In the same way that the Chinese economy has increasingly become decentralized, Philippine relations with China should also be more decentralized.

Conclusion

Improved economic relations with China will be dependent on more Philippine efforts to diversify into non-traditional export products which in turn will require more intensive market research and information dissemination to support an effective marketing strategy. Government can help by encouraging efficient forms of information gathering in private industries and tapping the local Chinese community. Private initiatives will be important in identifying areas of further export and market penetration.

ENDNOTES

1. *Far Eastern Economic Review*, March 16, 1991. Shenzhen, one of the major special economic zones in Guangdong, is reported to have enjoyed an average of 500 percent growth a year over the last decade. (See *Far Eastern Economic Review*, May 16, 1991.)
2. *Far Eastern Economic Review*, April 4, 1991.
3. *Asian Wall Street Journal*, October 12, 1992.
4. *South China Morning Post*, December 2, 1991.
5. *Far Eastern Economic Review* 1991 Yearbook.
6. *Philippine Daily Inquirer*, March 6, 1992.
7. *Far Eastern Economic Review* 1991 Yearbook.
8. *Issues and Studies*, vol. 28, no. 2, February, 1992.

ANOTHER LOOK AT THE PHILIPPINES' "ONE-CHINA" POLICY

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Changes and Continuities in the International and Domestic Environments

This paper offers a fresh look at the Philippines' China policy. It describes the policy, reviews the rationale, background, and substantive merits, and examines the foreign policy process pertaining to the "one-China" policy.

A re-examination of the Philippines' China policy is an essential part of the on-going redefinition of the Philippines' worldview in the face of radical changes in the post-Cold War international environment most dramatically exemplified by the breakdown of the Soviet Union and sweeping democratization and civil strife in Eastern Europe.

Such a redefinition also takes into consideration parallel changes in the Philippines' post-Marcos domestic environment, among them:

1. *Return to democratic government*— any lingering uncertainties about the form and legitimacy of government were quashed by the results and conduct of the May 1992 general elections;
2. *Turnover in government*— there is a new administration in the Philippines. Thousands of new incumbents are at the helm of executive and legislative offices, many of which have direct foreign policy functions;
3. *Restructuring of Philippine-American "special" relations*— the termination of the military bases agreement ends almost a century of Philippine-American relations that has deeply influenced the conduct of Philippine foreign relations;
4. *Abatement of insurgency*— the rightist, communist, and secessionist insurgencies that had forced the Philippines to be inward-looking in the past two decades, and the rightist military coup threat during the Aquino administration, have significantly subsided.