

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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Guandong; the Xiamen SEZs in Fujian; and the Hainan SEZs off the coast of Guandong.) In these SEZs, preferential taxes and import duties were offered, local authorities were given considerable autonomous economic decision-making power, and heavy investments in infrastructure facilities were made. The Chinese government also began the process of bringing Chinese laws on patents, liability, trademarks, repatriation of profits, and intellectual property rights in line with international standard.

Because of its investor-friendly policies, Beijing's strategy of attracting overseas Chinese capital was immediately successful. Response from Southeast Asian Chinese capitalists and entrepreneurs was particularly enthusiastic. According to Suryadinata in his book titled "China and the ASEAN States: The Ethnic Chinese Dimension," remittance from the region since the late 1970s to the mid-1980s amounted to one to two billion US dollars per year.<sup>3</sup> The inflow of foreign funds have rocketed since. From January 1992 to June 1993, major deals in the People's Republic involving ethnic Chinese capitalists from Indonesia, Thailand, Malaysia, and Singapore totalled a whopping US\$15.9 billion spread over 22 projects (see Appendix 1).

This massive outflow of domestic capital from Southeast Asia, however, is being viewed with a great degree of wariness by many of the regions' politicians and bureaucrats. For instance, Indonesian State Minister for Investment Promotion Sanyoto Sastrowardoyo, during an interview with reporters in March 31, 1993, expressed concern that rather than re-investing, Indonesian Chinese were exporting capital to China.<sup>4</sup> In Kuala Lumpur, opposition leader Tengku Razaleigh Hamzah opined that if the trend of Malay Chinese investments in China continued, their loyalty could be put to question.<sup>5</sup> Similar concern was aired by Mohammad Sadli, a former economic adviser of President Suharto.<sup>6</sup> In Manila — where the Chinese exported an estimated US\$125 million of capital to the Mainland between June 1992-1993<sup>7</sup> — no less than President Fidel Ramos himself called upon six of the country's top Chinese capitalists known to have substantial interests in China to concentrate their investments in the Philippines instead.<sup>8</sup>

Far more important than the opinions and reactions of Sastrowardoyo, Hamzah, Sadli, and Ramos, however, is the popular opinion in the region. How do Southeast Asians perceive the export of capital by overseas Chinese to the People's Republic? Is political loyalty or the pursuit of profit seen as the primary motivation for investments in China? Is this activity being viewed as beneficial or detrimental to the economic

well-being of Southeast Asian nations? Researches to find answers to these questions are few and far between. To encourage more interest on the topic, I started an exploratory survey five months ago among Filipinos to elicit their responses to the northward flow of Philippine Chinese capital. This paper presents a summary of my findings.

Before proceeding to the survey results, however, I shall first present an overview of the role played by the ethnic Chinese in Philippine economy. This is to be followed by a discussion on the extent of this minority group's economic involvements in the People's Republic of China.

### ECONOMIC POSITION OF THE CHINESE IN THE PHILIPPINES

The Chinese in the Philippines have large interests in manufacturing, commerce, finance, inter-island shipping, agriculture, and agriculture-related activities.<sup>9</sup> Their presence are also increasingly being felt in mining, publishing, and real property. Formerly highly concentrated in the retailing business, the Chinese were forced to move into manufacturing, wholesale trading, and the import-export business as a result of a 1954 law banning them from retail trade. The liberal naturalization law introduced by former president Ferdinand Marcos in 1975 also allowed the Chinese into sectors of the economy previously off limits to them. The end result was that the Chinese were able to diversify their investments and ventured into other sectors of the Philippine economy.

How wealthy are the Chinese and how much of the country's economic resources are in their command? Two sources of data can be used as indicators: income taxes filed and bank holdings. A research, published 16 years ago, reported that in fiscal year 1973 the average gross income declared by the Chinese was 25,188 pesos; while that reported by the Filipinos was only 13,960 pesos.<sup>10</sup> Based on these data, the average income of the Chinese was 80% higher than that of the Filipinos. It was also revealed, that, as a group, the Chinese comprised only five to eight percent of all income taxpayers in the country; however, they were earning 20% to 30% of reported gross income.<sup>11</sup>

Another measure of the economic position of the Chinese-Filipinos is through the extent of their participation in banking. In 1977, the Chinese owned nine (or approximately 35%) of the country's 26 private commercial banks.<sup>12</sup> These Chinese-owned banks had total assets of 16.5 billion pesos, comprising 39% of the total 42 billion pesos in assets in all private commercial banks.<sup>13</sup> An update this year reported that the same

number of ethnic Chinese banks are holding combined assets of 187.4 billion pesos (see Appendix 2), representing 38.8% of the total assets of private commercial banks. The figures may yet increase as two of Manila's prominent Chinese capitalists, Leonardo Ty and Andrew Gotianun, have signified their respective desires to invest in this sector.

Based on the above statistics, one can say with a good degree of certainty that the Philippine Chinese control a considerable amount of the country's economic resources. Data further supporting this observation are provided by researches indicating that during the early 1990s: (1) of the country's top 1,000 corporations, approximately 340 are Chinese-owned;<sup>14</sup> and (2) that the Chinese controlled US\$4.2 billion foreign exchange — more than the credit balance of hard currency held by the Central Bank of the Philippines.<sup>15</sup>

With a good amount of capital at their disposal, more and more Chinese-Filipinos are finding the domestic economy too limiting for their economic expansion and are looking elsewhere to export their surplus capital. China, with the generous package it offers to overseas investors and its gargantuan consumer market estimated to be worth US\$200 billion a year, naturally becomes an irresistible destination.

#### PHILIPPINE CHINESE INVESTMENTS IN CHINA

The earliest Chinese-Filipino investments in China were made during the onset of the 1980s. But because the mainland Chinese economy then was not developed enough as to be able to offer superior return of investment, the few who invested during that period did so out of emotional attachment to their former homeland. Substantial transfer of funds to China (estimated to be at US\$100 million to US\$150 million annually)<sup>16</sup> did not occur until about six years ago when Dengist reforms began trickling down to the level of the ordinary people, creating a boom in consumption as well as housing. Majority of these investments were made through subsidiaries registered in Hong Kong to avoid Philippine government scrutiny.

Among those who joined the bandwagon into the People's Republic towards the end of the 1980s — whose involvements are public knowledge — are:<sup>17</sup>

- *Leonardo Ty.* Ty, the franchise owner of the Ajinomoto brand of monosodium glutamate in the Philippines, operates a MSG plant and paper factory in undisclosed locations in the Mainland.

- *Go Tong (Gotesco) Group.* The group is heavily involved in the construction of residential condominiums in Xiamen.
- *Lucio Tan.* The cigarette and airline magnate signed a memorandum of agreement last year to develop several hectares of prime property in Xiamen. He also set up a branch of his Allied Banking Corporation in the same city with the purpose of cashing-in on the growing import-export business being conducted by fellow Chinese-Filipinos with southern China.
- *John Ng.* Ng operates a steel mill in Fuzhou (the provincial capital of Fujian) and is building an appartelle in Xiamen.
- *Henry Sy.* The retail magnate is building an over-100-hectare industrial-commercial-residential complex in Xiamen where he also owns a department store.
- *The Tanyu Group.* This Taiwan-based Philippine Chinese business group acquired land-use rights in Xiamen.
- *John Gokongwei.* Gokongwei has interests in several Xiamen infrastructure projects. He is also said to be eyeing a coffee manufacturing venture.
- *George Ty.* His company, the Metropolitan Bank and Trust Company, recently inked an agreement with the Agricultural Bank of China for the establishment of a joint venture bank in Shanghai.
- *Jose Yao Campos.* Campos, the owner of one of the largest drug companies in the Philippines, is currently building a pharmaceutical factory in Guangdong.

The above-mentioned names are taipans whose massive scale projects cannot escape the eye public. There are also less well-known entrepreneurs whose interests in the Chinese mainland are well-kept secrets. Based on my private compilation of 17 Chinese-Filipino capitalists involved in 28 mainland Chinese projects, a profile of their investments in China shows that:

- 1.) 71.4% (or 20) of the total number of projects belong to the service and other sectors, while only 28.6% (or eight) belong to the manufacturing sector. Of the projects which

fall under the former, activities having to do with real estate and property development account for 50%.

- 2.) 50% (or 14) of the projects are located in Fujian, 17.9% (or five) have unknown locations, 10.7% (or three) in Beijing, 10.7% in Shanghai, 7.1% (or two) in Guangdong, and 3.6% (or one) in Yunnan.

Based on this profile, a number of observations can be made of Chinese-Filipino investments in China. First, a huge number of funds are being poured into the service and other sectors, specifically in the real property business. This is hardly surprising considering that the People's Republic is currently enjoying an unprecedented construction and housing boom — thus making property ventures very lucrative indeed. To cite statistics, in 1992, China's real property business enjoyed a 117% growth over the previous year as US\$9.2 billion was invested into the industry to develop a total floor area of more than 190 million square meters.<sup>18</sup> Total turnover of companies involved amounted to US\$6.6 billion last year, an increase of 87% over that of 1991.<sup>19</sup> Second, a majority of the projects are located in the high-growth coastal areas of Fujian, Guangdong, and Shanghai. Third, among the three areas mentioned, Fujian — the province where 80% of Chinese in the Philippines trace their ancestral roots — is the most popular destination for Chinese-Filipino money. This over-concentration of investments in Fujian makes the Chinese vulnerable to the accusations that loyalty, rather than profit, is the primary motivation for their China ventures.

Do Filipinos feel that Chinese who invested in China are disloyal to the Philippines? This and other related questions will be tackled in the presentation of the survey findings.

#### LIMITATIONS OF THE SURVEY

This exploratory survey was conducted on Filipinos in selected areas in the Philippines. About 66 respondents were interviewed, of which a majority were from the Metropolitan Manila area. [The sample was distributed as follows: Metro Manila - 28; Dumaguete City (Visayas) - 19; Davao City (Mindanao) - 19]. A survey questionnaire consisting of 10 closed-ended questions was administered. The target groups were businessmen, employees, students, professionals, and housewives.

It should be obvious from the above that this survey is exploratory and represents only possible reactions of Filipinos to ethnic Chinese investments in China. Several flaws in the study account for its exploratory

character. First, the questionnaire was prepared without consultation with academics familiar with methods of social research. Second, the sample size is too small to be representative of the country's indigenous populace. Third, random sampling — which should be conducted throughout the archipelago — was not employed because of the lack of resources. The following is the summary of the findings of the exploratory survey.

#### SURVEY FINDINGS

Half of the sample said they were conscious of the fact that a growing number of Philippine Chinese are currently investing in China (see Table 1). Only 6.6% of the sample believed otherwise. However, the don't know responses were relatively high (43.94%). This may possibly be attributed to the sensitive nature of Chinese-Filipino involvements in the mainland economy. To avoid accusations of capital flight, Chinese investors usually keep a low profile on their Mainland activities and shy away from publicity, thus accounting for the substantial number among the sample who do not know that an increasing number of Chinese are investing in China.

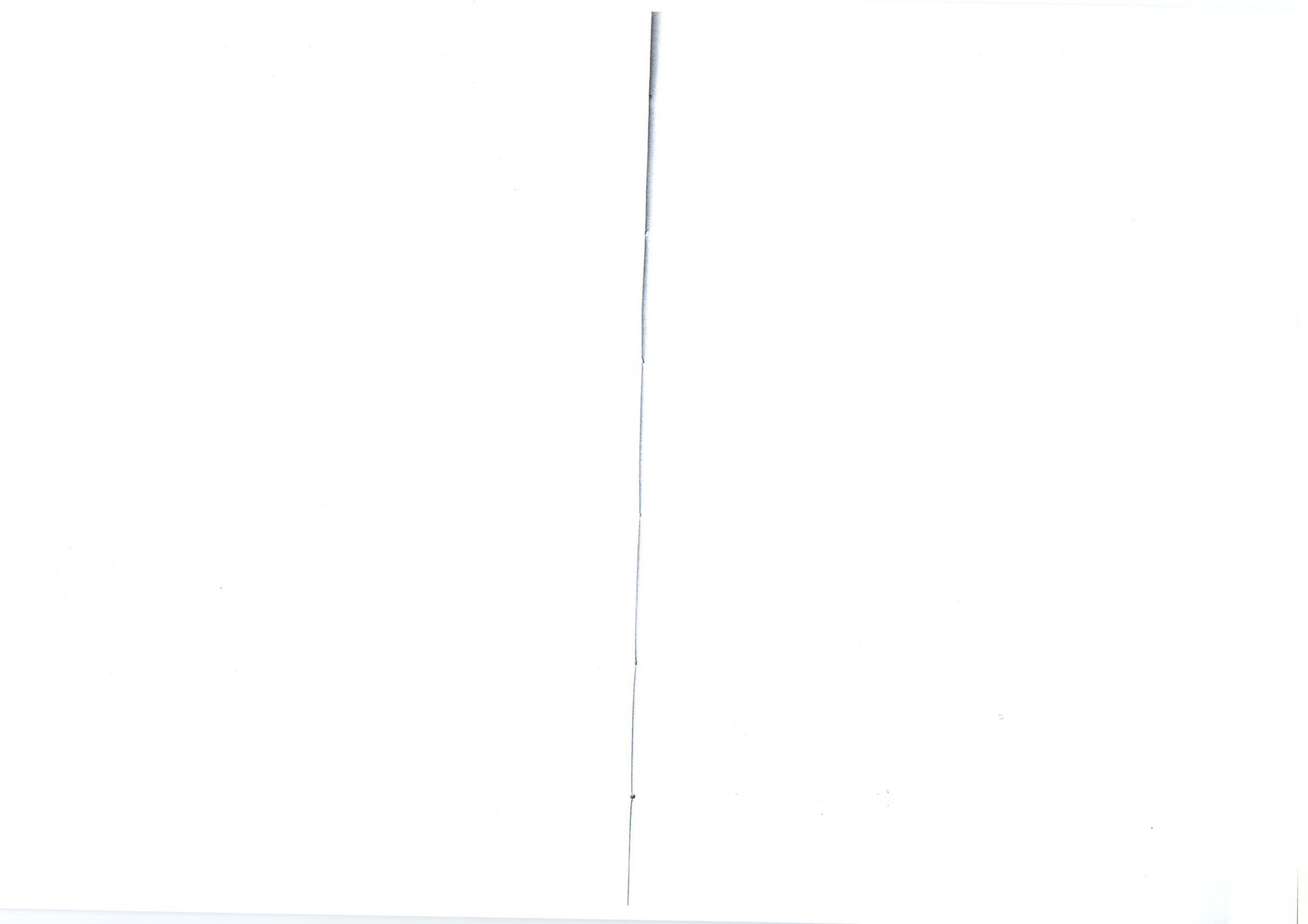
Table 1 A GROWING NUMBER OF PHILIPPINE CHINESE BUSINESSMEN ARE INVESTING IN CHINA (N=66)

Response	No.	Percent
Agree	33	50.00
Disagree	4	6.06
Don't know	29	43.94

Fifty percent of the respondents expressed their belief that loyalty or attachment to their birthplace is the primary factor behind the northward flow of ethnic Chinese money, while 18.18% believed otherwise and 31.82% registered a don't know response (see Table 2). As a follow-up, the respondents were asked whether they believe that profit motive, instead, is the reason for this outward capital flow. Table 3 revealed that more respondents (63.64% as opposed to 50% in Table 2 who believed loyalty to be the driving force behind the northward flow of Chinese capital) were

Table 2 EMOTIONAL ATTACHMENT TO THEIR FORMER HOMELAND IS THE PRIMARY REASON WHY ETHNIC CHINESE ARE INVESTING IN CHINA (N=66)

Response	No.	Percent
Agree	33	50.00
Disagree	12	18.18
Don't know	21	31.82



towards the minority Chinese who — as a community activist observed — have for a long time been a convenient scapegoat for the Filipinos “whenever any [economic] crisis... occurs”.<sup>23</sup>

The change in attitude can also be observed in the sample’s response to the statement of Table 8 which said that the Chinese community should be coerced into stopping its northward export of capital through legislation. An overwhelming 63.64% disagreed with the proposal, with only 19.7% expressing agreement.

Though not in favor of using the coercive apparatus of the state to stem the outward flow of Chinese funds, a majority (56.06%) of the sample nonetheless believed that the Chinese should be discouraged from pouring their funds into China and be encouraged to re-invest in the Philippines (see Table 9). This response was in part a re-affirmation of their earlier views that the Chinese minority’s investments in China are undesirable to Philippine development (Table 5 and 6).

Moreover, despite their misgivings that the Philippine Chinese are investing in China, 62.12% of the sample were still open-minded enough to see that there are huge economic benefits—i.e., the opening of the 1.15 billion-strong mainland Chinese market to Philippine-

**Table 7 ETHNIC CHINESE INVESTMENTS IN CHINA ARE TO BLAME FOR THE PHILIPPINES’ CURRENT ECONOMIC WOES (N=66)**

Response	No.	Percent
Agree	23	34.85
Disagree	27	40.91
Don’t know	16	24.24

**Table 8 THERE SHOULD BE A LAW PROHIBITING THE ETHNIC CHINESE FROM INVESTING IN CHINA (N=66)**

Response	No.	Percent
Agree	13	19.70
Disagree	42	63.64
Don’t know	8	12.12

**Table 9 THE ETHNIC CHINESE SHOULD BE DISCOURAGED FROM INVESTING IN CHINA; INSTEAD, THEY SHOULD BE ENCOURAGED TO INVEST IN THE PHILIPPINES (N=66)**

Response	No.	Percent
Agree	37	56.06
Disagree	25	37.88
Don’t know	4	6.06

made products — to be accrued from this minority’s involvements in the People’s Republic (see Table 10). This belief of the majority of the respondents seemed to be well founded. During an interview with a community insider, I was informed that a number of Chinese Filipino investors in China have of late started

Philippine-made machineries for use in their Mainland operations.<sup>24</sup> This, he said, is particularly true for those involved in the fruit processing business.<sup>25</sup>

#### CONCLUSION

To sum up, though not believing that Chinese-Filipino investments in China are totally detrimental to the Philippines, my respondents nonetheless expressed concern that such activities may be contrary to Manila’s developmental interest. Judging from the economic rut that the Filipinos currently find themselves in and their desperation for investments, foreign or otherwise, it might not be too presumptuous for me to say that more or less the same results may be obtained if a more scientific survey is to be conducted on the same issue. Because of this possibility, it is imperative that the following points, as was made in an editorial of a Filipino China-watching magazine, be noted by both the ethnic Chinese investing in China and the leadership of the People’s Republic:

*To the Chinese-Filipinos: You are Filipinos now, and your first loyalty should be to this country and to its people. Your cultural affinity and economic linkages with...[China] are a natural resource that the Filipino nation takes cognizance of and intends to utilize for the national interest.*

*To the leaders in Beijing: We expect the political allegiance of our Chinese-Filipinos. Any efforts on your part to attract overseas Chinese investments must be sensitive not only to the economic needs of the host country but to conditions requisite for political sovereignty as well as efforts at national integration.<sup>26</sup>*

**Table 10 ETHNIC CHINESE INVOLVEMENT IN THE PEOPLE’S REPUBLIC IS NOT ALL BAD AS IT OPENS THE MAINLAND CHINESE MARKET TO PHILIPPINE EXPORTS (N=66)**

Response	No.	Percent
Agree	41	62.12
Disagree	17	25.76
Don’t know	8	12.12

## APPENDIX 1

## MAJOR DEALS IN CHINA INVOLVING SOUTHEAST ASIAN CHINESE CAPITALISTS (JAN. 1992-JUNE 1993)

Name of Investor(s) (Country of Origin)	Nature of Investment(s) Amount of Investment(s)	Location of Investment(s)
1. Robert Kuok (Malaysia)	petrochemicals** (US\$2.6 billion)	China's Southeastern coast
	property development (US\$1 billion)	Shanghai
	property development** (US\$995 million)	Beijing/Shanghai/ Liaoning
2. Lee Ming Tee (Malaysia)	property development** (US\$13.5 million)	Liaoning
	property development** (US\$12.9 million)	Shandong
3. Lim Kim Hong (Malaysia)	power generation** (US\$2.9 million)	not known
4. Tan Chee Yioun (Malaysia)	property development/ lotteries** (US\$100 million)	various
5. Dhanin Chearavonont (Thailand)	motor vehicle manufacturing* (US\$12 million)^	Henan
	petrochemicals** (US\$2.1 billion)	Zhejiang
6. Kitti Dumnernchanwanit (Thailand)	paper products (US\$1 billion)	Guangdong
7. Anant Kanjanapas (Thailand)	property development** (US\$1.05 billion)	Beijing
8. Wong Chong-po (Thailand)	property development** (US\$1.4 billion)	Beijing
	property development** (US\$4 billion)	Guangdong
9. Oei Hong Leong (Indonesia)	various (US\$260 million)	Fujian/Zhejiang Liaoning/Shanxi
10. Mochtar Riady (Indonesia)	infrastructure development (US\$130 million)^	Fujian
	property development** (US\$40 million)^	Fujian

11. Herman Tanihaha (Indonesia)	property development** (US\$260 million)	Fujian
12. Hong LWY Holdings (Indonesia)	property development** (US\$210 million)	various
13. Jia Tong Group (Singapore)	property development** (US\$500 million)	Fujian
14. Nat Steel/Straits Steamship Land (Singapore)	property development** (US\$15.6 million)^	Shandong
15. Singapore-led Consortium	infrastructure development** (US\$187.5 million)	Fujian
16. Tiger Medicals/ Economic Development Board (Singapore)	biotechnology (US\$100,000)	not known

Sources: Various 1992-1993 issues of *Asian Wall Street Journal* and *South China Morning Post*; April 1993 issue of *Asian Business*.

\* manufacturing

\*\* services and other industries

^ initial investment

^^ additional investment

## APPENDIX 2

## TOTAL ASSETS OF ETHNIC CHINESE BANKS (SECOND QUARTER, 1993)

Bank Name	Amount (in P1000)
Allied Banking Corp.	25,229,496
China Banking Corp.	19,550,424
Equitable Banking Corp.	22,359,219
Metropolitan Bank and Trust Co.	60,028,178
Philippine Bank of Communications	10,641,396
Philippine Banking Co.p.	6,448,392
Philippine Trust Co.	8,612,970
Producers Bank of the Philippines	3,340,335
Rizal Commercial Banking Corp.	31,209,923
Total	187,420,333

Sources: *World News*, August 8, 1993; *The Manila Chronicle*, June 30, 1993.