

**CHINA, TAIWAN,
AND THE
ETHNIC CHINESE
IN THE
PHILIPPINE ECONOMY**

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INTRODUCTION

THIS BOOK PUTS TOGETHER the papers presented at the conference on "China, Taiwan, and the Ethnic Chinese in the Philippine Economy" held on 16 September 1993 at the Ateneo de Manila University. This conference was jointly organized by the Philippine Association for Chinese Studies and the Chinese Studies Program of the Ateneo de Manila University.

When the conference was held in 1993, the Philippines had been suffering from years of economic crises and depressions of the last two decades, while East Asia was booming and our neighboring Southeast Asian countries were clearly heading towards NIChood. Although optimism and growth were present in the period after the EDSA Revolution (from 1987 to 1989), they were doused by political instability and several natural calamities. From 1991 to 1993, the growth rate hovered just over the zero level. During this period, the business environment was adversely affected by the severe power outages and the spate of kidnappings for ransom, the victims of which were mostly scions of Chinese businessmen. The country lagged farther and farther behind its neighbors in terms of economic growth and prosperity. Today, the majority of its population continues to suffer abject poverty. The business and investment environment was made highly unfavorable by the internal problems of political instability, lack of peace and order, and natural disasters. Not only were we bypassed by countries with capital to invest, the internal problems also diverted national attention from quickly understanding changes in the economic and political configurations occurring on international fronts.

In the economic arena abroad, the biggest change in recent years was the rapid economic growth of China, made more vibrant by its integration with Taiwan and Hong Kong. This economic integration, popularly called Greater China, is affecting significantly the economic order in this region and in the rest of the world. Although Greater China has

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several meanings as to geographical coverage, it most often refers to the economic cooperation between Taiwan and southern China, with Hong Kong providing the linkage.

For the last 15 years, we witnessed China opening up its frontiers, undertaking economic reform, and causing its economy to grow at phenomenal rates (an annual average of over 12 percent for the last decade). It is now the fastest growing economy in the world. Based on gross domestic product figures adjusted for purchasing power parity, it is now the third largest economy in the world, next only to the U.S. and Japan. The economy has quadrupled since 1979, despite periods of overheating and inflation, and the rising problem of corruption. This stupendous growth, brought about essentially by China's open door policy, has attracted businesses all over the world. Expecting to tap its cheap labor and land resources and large expanding markets, many have hastened to do business with China. It is not difficult to imagine the effect of China's growth on its demand for materials, technical services, and technology. The market for consumer products and services is just as attractive, considering the increasing personal incomes of the Chinese and the country's population size of 1.2 billion.

However, while many countries, developed and developing, caught the "China fever", the Philippines, despite its geographical proximity, seemed virtually immune to it. Trade and investment volumes with China have been small — relative to those of China's other trading partners as well as our transactions with other countries. Although intra-regional trade within Asia has expanded more rapidly than Asia's trade with the rest of the world, our major economic partners have continued to be the U.S., Japan and Europe.

Since its open door strategy in 1978, China has worked hard at building political and economic relations with almost every country in the world. It has more actively pursued reunification with Taiwan. Although political reunification is something difficult to see at present, informal economic unification is evident. Through Hong Kong, Taiwan has been able to make massive investments in China. The law of comparative advantage is most explicitly illustrated in such cooperation. China, Taiwan, and Hong Kong have different resource endowments, due to their level of development. Taiwan and Hong Kong are more similar, possessing industrial facilities, technical know-how and financial capital, but suffer from shortages of labor and land. China, on the other hand, lacks capital and technology but is abundant in both labor and land resources.

The cooperation between China on the one hand, and Taiwan and Hong Kong on the other, has significant implications for Philippine trade and investment prospects.

The papers in this volume explore the prospects for the Philippines given China's economic boom and Taiwan's propensity for outward investment. The conference also probed the roles of the ethnic Chinese in the domestic economy. This minority group faced the changes in the region and at the same time was confronted with deteriorating economic and social conditions in the country. Each of these units — China, Taiwan and the ethnic Chinese — has had a long history of ties with the Philippines, influencing our economy each in its own way. The new economic relationships among the three entities have been developing in closer and more dynamic fashion ever since China adopted the open-door strategy. Recent developments in the region and the economic conditions in the country call for an assessment of the prospects and challenges, which the papers in this volume try to address.

The Philippines recognized the People's Republic of China in 1975. While we maintain friendly diplomatic ties with China, our economic cooperation has been far from satisfactory. With the new developments, the prospects seem to dim. Theresa Cariño, however, believes that despite competition from Taiwan, there are still potential benefits in the area of services, particularly tourism, transportation and communication, which the Philippines can derive from the new developments.

The One-China policy prohibits any official contact between the Philippines and Taiwan, but allows non-official relations in the areas of trade, investments, and cultural exchange. Economic development has been very rapid for Taiwan since it embarked on an export promotion policy in the seventies. From resource-based exports, it has progressed to export of labor-intensive manufactures and, now, to capital-intensive and high-tech products. With an average income growth rate of 10 percent in the last two decades and unparalleled export performance, its per capita income reached over US\$6000 in 1992. Taiwan also boasts of having the highest foreign reserves in the world. Since the mid-eighties, Taiwan has aggressively invested abroad, particularly in the ASEAN region. Volumes surged upwards since 1990, with investments in China (made through Hong Kong), and Vietnam taking prominence.

Unfortunately, despite conspicuous and frequent news items on Taiwanese investments in the Philippines, statistics show that Taiwan's direct equity investments in the Philippines are small. Until 1989, Tai-

wan's cumulative FDIs — actual capital inflows as shown by Central Bank figures — never exceeded one-fifth of one percent of total foreign investments. In 1989, they increased by more than three hundred percent. Despite this substantial increase, they made up, for that year, just six-tenths of one percent of the total. In the last few years (1991-1993), the share had maintained at around nine-tenths of a percent. Taiwan's foreign direct investments in the Philippines are nevertheless important, given the high complementarity between the two economies. This complementarity arises, Wang Heh-Song explains in his article "Taiwan's Investments in the Philippines," because the two countries are in different stages of development. Taiwan faces high labor and land costs and now finds comparative advantage in the production of capital-intensive and high-tech manufacturers. Other reasons for Taiwan's flow of investments outward include the strict pollution laws in Taiwan, the tax incentives and resources offered by receiving countries, and the business opportunities present in these countries. It is clear that China is a competitor as far as direct investment is concerned, since the economic cooperation between China and Taiwan's is also based on the same complementarity which exists between the Philippines and Taiwan.

The competition with China is discussed by Florencio Mallare in his article on the process of China-Taiwan political unification, and its implications for the Philippines. The process, which started since the beginning of China's economic reform in 1979, has been peaceful. Although it initially reacted in a very negative manner, Taiwan gradually became more tolerant about having contacts with the Chinese mainland. There soon developed a phenomenal increase in ties, particularly economic ones. Trade and investments (made through Hong Kong) have reached such levels that the Taiwan's economy now depends heavily on its trade with China, something which was practically nonexistent less than a decade ago.

On the issue of the ethnic Chinese, the papers presented at this conference considered their economic position, their reactions to the Philippines political and economic crises in the early eighties, their reactions to the kidnapping spate which targeted them, the extent of their social and political integration, and their role in the changing economic order in the region. Where are they in the economy? How different are they compared to the other non-Chinese Filipinos and the foreign business groups? How has their economic position changed over time? How integrated are they politically? How much social and political strength do they have? Given

their cultural affinities and level of integration with the mainstream society, what role can they play to help promote national development?

The issue of the ethnic Chinese had not been at the forefront of debate since the liberalization of naturalization in 1975. Most Chinese in the Philippines are second, third or fourth generation descendants. However, it again became a sensitive issue at the time of the conference for two reasons. First of all, the kidnapping spate which involved mostly ethnic Chinese victims had caused bitter feelings among the Chinese. Secondly, the heavy investments of the ethnic Chinese in China has caused resentful feelings among some Filipinos who considered these as capital flight. The occurrences of kidnappings and investments abroad are, of course, closely linked. Although massive investments in China could be a reaction by the ethnic Chinese to the attractive investment opportunities present in China, Go Bon Juan's paper shows that a marked decline in bank deposits and assets of Chinese-owned banks during the period of kidnapping spate is evident. Aside from the peace and order problem, the country was also beset with problems of power shortages and natural calamities. Willy Laohoo presents his survey of reactions of Filipinos to the heavy investments by the ethnic Chinese in China. In general, the respondents sampled felt that these investments pose a detriment to the Philippine economy, although most do not believe that they are the main cause of the country's economic problems.

The current incidence of kidnappings seems to have had a more serious impact on business and investment decisions of the Chinese Filipinos than the political instability which upset the economy from 1980 to 1986. The top Chinese businesses, Ellen Palanca found, were less affected by the political instability during those crisis years than the non-Chinese Filipinos. In fact, the Chinese businesses in the country remained deep-rooted, coming out of the serious economic crisis in the early eighties stronger and more stable. Among the top corporations, the sales volume share of the Chinese-Filipino business firms increased slightly from 1980 to 1990 while that of the non-Chinese Filipino firms decreased.

For centuries, the economic strength of the Chinese seemed to work against them, as manifested by extortions and kidnappings. In the past, their marginalized social status did not allow them to do much about this discrimination. In the recent kidnap for ransom spate, the Chinese took the usual passive approach. They then realized that they did not have any organized entity to address this problem and that, despite their economic position, have not gained much political strength. As narrated

by Teresita Ang See, it was only when the situation worsened that the community willingly heeded the call of *Kaisa Para Sa Kaunlaran*, a civic organization headed by young Chinese Filipinos working for the integration of the Chinese in Philippine society, to take more positive and aggressive steps. They resorted to mass actions, and were even able to garner the support of other Filipino cause-oriented groups in a mass rally against such crimes. They successfully called for the government to tackle this wide-scale crime problem as a national peace and order issue and not simply as a problem peculiar to the Chinese ethnic group. This newfound ability to assert themselves indicates their integration and potential strength, both social and political.

Aileen Baviera's research on the political attitudes and behavior of the present-day Chinese in Metro Manila confirms this. In a survey of Metro Manila Chinese, Baviera asks questions which attempt to measure cosmopolitanism, awareness towards political issues, and their sense of political efficacy and political participation. The degree of integration varies positively with educational attainment, economic standing, and attendance at Chinese-Filipino schools. The study, however, did not show the results of the same survey for the Filipino counterparts. Hence, one cannot conclude if the attitudes of the Chinese toward politics are at par with the national norm or not.

Indeed, the potency and will of the Chinese minority as a force in national development has never been greater at any point of time in history. Aside from having financial resources, they are much better educated and more assimilated than their ancestors. In other Southeast Asian countries, they have proved to be a driving force in their host countries' economic growth. No less than President Ramos realized this capability. When he visited China in 1993, six prominent Chinese-Filipino businessmen were part of his entourage and they, competitors as they were in business, subsequently formed a corporation that is to undertake investment for infrastructure development. The contemporary national and global economic situation which the ethnic Chinese face presents many challenges. In her address, Ms. Elena Coyiuto posed challenges to the present generation of young Chinese-Filipino entrepreneurs. She admonishes them to not only pursue the old values of hard work and trustworthiness, but at the same time play a more aggressive role in national development. Their focus should not only be in the area of business, but also in the areas of politics, social justice, and environmental protection. On the international front, she believes that the Chinese-Filipinos should provide a linkage between China and the Philippines.

The conference gave us a better perspective of China's economic growth, her relationship with Taiwan, and our ethnic Chinese. It provided an awareness and understanding of the opportunities, challenges, and problems which result from these developments. What surfaced was that given the degree of their assimilation and integration, the reason for the investment flow of the Chinese-Filipinos to China is due less to loyalty in the land of their ancestors, than to the profitability stimulus of the contrasting economic vibrance in China and economic depression in the Philippines. While other Filipinos responded to the same profit signals, investing in China was easier and more attractive for the Chinese because of the linguistic and culture familiarity. This shows that the presence of basic social and infrastructure structures is needed for the viability of investments, both domestic and foreign. With the improvement in economic and social conditions in the Philippines, we can expect to see a reflow of capital into the country.

Moreover, we cannot deny the reality of the growing trend of globalization. Our national economy cannot go far without being active in the world economy. The Philippines is situated in the active Pacific Rim, which at present is dominated by the booming East and Southeast Asian economies. Off-shore investments are very much a part of many businesses. Technological advancements in telecommunications have facilitated resource mobility.

Peoples have been brought closer together. We see more and more cooperation transcending borders, race distinctions, and even political differences. Our reforms towards more economic liberalization are adjusting us to the growing global environment. Competition, both within the country and with the rest of the world, is gradually increasing. In the light of all these, it is more important that we seek to understand our neighboring countries and the ways by which our futures are intertwined.

Ellen H. Palanca

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