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China's WTO Entry: Effects on Its Economy and Implications for the Philippines

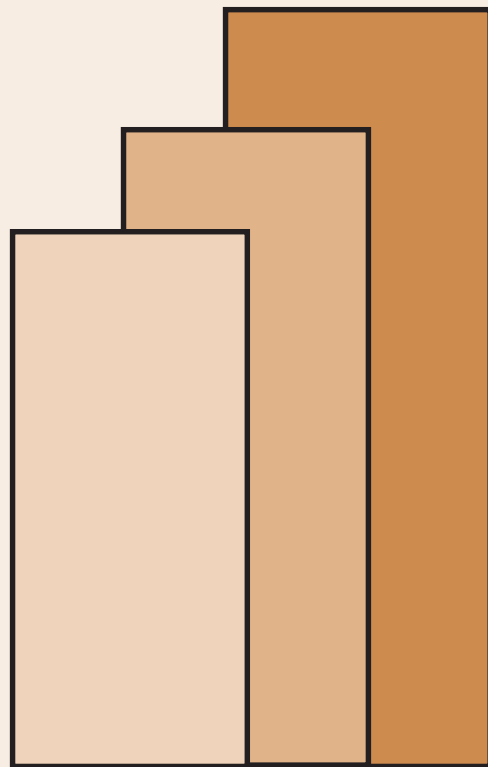
Ellen H. Palanca

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**CHINA'S WTO ENTRY:
EFFECTS ON ITS ECONOMY AND
IMPLICATIONS FOR THE PHILIPPINES**

By

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ABSTRACT

This paper investigates the implications of China's accession to the World Trade Organization in December of 2001 for the Philippines based on an analysis of Philippines-China bilateral trade structure, a presentation of the commitments made by China for its WTO accession, and a discussion of this significant event on China's own economy. The main commitments of China to WTO are market liberalization and the rule of law consistent with the legal framework of WTO. In the long run, China's competitiveness will increase and its economic growth will experience another surge. For the Philippines, the positive impact of such developments includes: greater market opportunities for merchandise and service trade, greater foreign direct investment flows to and from China, and better protection for Philippine business interests and professionals in China. However, reduction of trade barriers for China and the rise in its competitiveness imply that the Philippines will find it increasingly difficult to compete with China particularly in third-country markets. Moreover, China's rosy economy also makes competition for foreign direct investments difficult for the Philippines. This study includes recommendations for the Philippines so as to maximize the benefits from the available opportunities and minimize the negative impact of the unavoidable challenges.

Keywords: China, WTO entry, bilateral trade structure, competitiveness, foreign direct investments

EXECUTIVE SUMMARY

This paper investigates the implications of China's accession to the World Trade Organization in December of 2001 for the Philippines. The implications are concluded from an analysis of Philippines-China bilateral trade, a presentation of commitments made by China for its WTO accession, and a discussion of such a significant event on its economy.

PHILIPPINES-CHINA TRADE FROM 1980 TO 2002

The Philippines' bilateral trade with China has increased steadily since China adopted the open door policy in late 1979. The growth has been particularly rapid in the nineties when China focused its liberalization on foreign trade. For the period 1993 to 2002, the Philippines' trade with China has grown faster than its trade with the rest of the world—with exports to China growing faster than imports from there. A very significant surge was observed for 2002, when total Philippines-China trade for that year grew at 46 percent, with the Philippines' exports to China having grown at 70.7 percent and imports from China at 29.2 percent.¹ One can surmise that this sudden growth surge is due to China's greater trade liberalization brought about by its WTO accession.

The growth of Philippines-China bilateral trade is accompanied by changes in its structure. Its commodity trade has shifted from inter-industry exchanges to one having more intra-industry exchanges. The last five to six years also saw the marked shift of Philippine exports from resource-based products to industrial products. As recent as 1996 and 1997, more than 60 percent of Philippine exports to China were resource-based products. The share dropped to only 20 percent for 2001 and 15 percent in 2002. However, the share of industrial manufactures in the total rose from less than 10 percent for 1995 to a hefty 72 percent for 2002. Over half of the industrial exports are electronics products, which presumably are inputs in China's manufacturing of IT products. For Philippine imports from China, on the other hand, industrial manufactures and resource-based products have generally maintained their shares. The share of industrial manufactures remained almost at the same level of 55 percent for 1996 and 2001. Resource-based products dropped from 29 percent for 1996 to 21 percent for 2002, giving way to bigger shares for consumer manufactures and food products, which together rose from 16 to 25 percent from 1996 to 2000.

Among the exports of the Philippines to China that grew significantly between 2000 and 2002 are some consumer goods that have long been identified as items among China's manufactures. Examples are footwear and timepieces, toys, and men's and boys' wears. Their penetration into China's market is through specialization in products that fill certain market niches.² and differentiation in terms of designs, artistry and other marketing strategies, which make it possible for exchanges in the same product lines to take place.

¹In 2004, the DTI external trade data, the basis for these growth rates, were revised. Based on the revised data, the growth rates are 49 percent for total trade, 91 percent for exports, and 20 percent for imports.

² For example, the kind of footwear China imports from the Philippines is footwear for safety purpose.

The growing income and rising living standard of the Chinese people are also reflected in their demand for some Philippine products. This is seen in the significant increase in the demand for manufactures such as furniture and jewelry and other fashion accessories, cosmetics and personal care products, cut-flowers and ornamental plants; and many food products.

CHINA'S WTO ACCESSION COMMITMENTS

In its negotiations for entry to the WTO, China committed to rather liberal terms with the members of the WTO. The very comprehensive package of market liberalization, which was implemented immediately after its accession, is expected to be fulfilled in five years' time. For merchandise trade, liberalization means significant reduction of tariffs and abolition of almost all non-tariff quantitative restrictions on imports. Liberalization of trade in services means opening up of a wide range of sectors to international investments. The sectors that have received much attention are: financial services, wholesale and retail trade, logistics, tourism, transportation, telecommunication, audiovisual and professional services.

Implicitly, as a member of WTO, China is expected to follow the legal framework of this organization, adjusting its FDI policies to be consistent with the rules of this multilateral organization. Under the national treatment principle, equality is expected for foreign as well as Chinese domestic firms with state-owned enterprises. China is also expected to respect the intellectual property rights.

EFFECTS OF CHINA'S WTO MEMBERSHIP ON ITS ECONOMY

Since the nineties China has gradually prepared itself for its WTO entry. It has voluntarily lowered its tariffs for a number of goods since 1995 and opened up its service sectors since 1999. However, despite the fact that gradual changes had taken place even before its formal accession, China's main challenge is its institutional structure, which is still inadequate to promote the rule of law and the comprehensive changes mandated by its accession.

The short and medium term difficulty lies in balancing the adjustment measures against the social and political problems that are expected to arise. These problems will arise due to the displacement of workers in agriculture as well as the setback of some industrial sectors. Studies predicted GDP growth rate to slow down initially.³ The closing down of the inefficient state-owned enterprises will add to its unemployment and underemployment problem. The influx of rural migrant to the cities is expected to increase sharply as, in line with its liberalization policy, the government will further relax its residency (*hukou*) policy. The absence of protection will lead to the decline in production for some industries, notably, agriculture and beverages and tobacco. On the other hand, export of textiles and wearing apparel, which will no longer be subject to the Multi-fiber Arrangement on quantity restriction by 2004, is expected to grow substantially.

³ China still managed to grow at 8.0 and 9.2 percent for the years 2002 and 2003 respectively. For the first three quarters of 2004, the growth rate has been estimated to be 9.5 percent.

To adjust to the expected changes and address potential problems, China is focusing on at least two broad economic programs. One is the empowerment of the private sector which is expected to be the engine of growth for its economy and the other is the development of the less developed regions (Central and West) of the country. The latter program is deemed important as it addresses the problems of unemployment, poverty and inequality.

On balance, in the long run, the predictions of several studies show that China's historic milestone of WTO entry will have a strong positive impact on its GNP. China's GNP growth rate in the long run is estimated to increase by 0.5 to 2.2 percentage points per annum. This expectation will be realized due to the gains from trade and specialization, economic efficiency, improvement in technological capacity, the competitive pressure on the domestic industries, and increase in labor productivity.

IMPLICATIONS FOR THE PHILIPPINES

China's WTO entry has both positive and negative implications, i.e., benefits and challenges, for the Philippines.

Benefits

The most obvious benefit is the greater market opportunities China offers after its WTO entry. There are two compelling reasons for this. One is the comprehensive package of market liberalization China offered for its WTO accession. The other is the predicted increase in economic activities and purchasing power of its population. Its market, which is already massive due to its population size of 1.3 billion, is expected to be even more massive as Chinese economy experiences another growth surge. Access to this huge market is made easier with China's commitment to liberalize it.

This study identifies certain products that constitute possible export niches for the Philippines to fill in China's market. The products were identified based on the revealed comparative advantage indexes for the Philippines' and China's exports, and the new tariff rate schedule committed in the negotiations of China with the Philippines for its WTO membership. Electronics products and machines and equipment will benefit from the gradual reduction of tariff rates to zero. Certain food products such as fresh fruits, fresh fish, canned fish, coconut milk and vegetable oil, which are already among the Philippines' major traditional exports to China, are also subject to sharp tariff reduction.

A number of goods which are not yet among the Philippines' major exports to China merit attention not only because of the new tariff schedule for them and the relative comparative advantage the Philippines have in producing them, but also because of their income elasticity is generally high relative to China's present stage of development. These are marine products such as seafood, carrageenan and other seaweed products; manufactured food items such as biscuits, ice cream and confectionery, beverage items such as juices and beer and gin; and wood and wood products such as furniture.

By opening up the service industry, China allows foreign direct investments to set up

firms and provide the services there. Barriers for FDIs have been removed for many industries and in many locations. Moreover, while China used to restrict FDIs to export-oriented ones, restricting those that are market-oriented, with its commitment to opening its market, more market-oriented FDIs will have to be allowed. For the Philippines, one important area of opportunities in service trade is professional services. Because of the generally high level of English proficiency among Filipino professionals, they fit well into international corporations, which will increase when China becomes more integrated into the global economy. Since China has to adopt a WTO-consistent legal framework in dealing with foreign businesses, Philippine business interests and professionals in China can expect better legal protection. Tourism is another important service trade which the Philippines can benefit from. Given the growing personal income and the lifting of travel restriction in China, the number of Chinese tourists going abroad is growing very fast.

Another important positive impact of China's WTO entry to the Philippines is the prospect of greater foreign direct investments from China. With its huge foreign reserves, China's FDI outflow, which has been miniscule compared to its inflow, has been rising and is expected to grow very fast.

Challenges

China's new trade paradigm also poses challenges to the Philippines. These are competition challenges in trade and foreign direct investments. The Philippine domestic industries face very strong competitive pressure from Chinese goods. This problem has caused the decline of many industries in the last couple of decades. Following China's accession to the WTO, the problem is expected to worsen as China's exports are now subject to lower tariffs. This competition challenge is not just in the Philippines' domestic markets, but also in third-country markets such as the U.S., Japan, and Europe.

The other competition challenge is in the area of foreign direct investments. China is an attractive destination for foreign investments. With the opening up of more sectors, more foreign investments are expected to go to China. While the Philippines can expect greater capital inflow from China, there is a concern that China's greater liberalization and economic boom may divert FDI from coming to the Philippines. However, many multinational manufacturing firms now adopt the international segmented production process wherein China is generally a workshop where inputs from different countries are being assembled. With such a production practice, the growing FDI phenomenon in China can actually mean more investment in its neighboring countries as well. The challenge for the Philippines is the competition with these countries for such out-sourcing.

Recommendations

The new dynamic changes in China's economy present market niche opportunities for some industries but at the same time exert competitive pressure on others. The most important point to focus on for the Philippines in dealing with the opportunities and challenges of China's growth is to improve its competitiveness. Competitiveness is needed in vying for the niche markets in China with other countries, in competing with Chinese goods coming into the

Philippines, in competing with Chinese goods in third-country markets, in attracting Chinese capital into the country, and in competing with our neighboring countries for segments of international production process that generally ends in China. Another policy issue for the Philippines with regard to the looming China's economic boom is the restructuring of the country's industrial policies in order to focus on industries that the Philippines still has comparative advantage over China, at the same time letting go of industries in which it truly does not have a competitive edge. Philippines-China bilateral trade has thrived and grown with intra-industry exchanges. The sharp increase in Philippine exports to China has been possible because of the complementation Philippine goods provide in China's production of some manufactured goods, e.g., IT products. In the case of consumer goods, non-price competition such as differentiation can be a basis for Philippine goods to penetrate into the market in China, competing with Chinese domestic products.

Economic engagement with China can be enhanced with the forging of cooperation projects. Trade can be enhanced with cooperation projects such as joint research projects and trade missions. Joint research to help Philippine traders and service providers to explore and identify market and product niches while trade mission can provide information on products and procedures as well as opportunities for contacts with the people involved. Joint promotion and facilitation of tourism can be done for exchanges of information and marketing of tours. Investment cooperation projects need not be limited to private commercial investments. For several years now, the Chinese government has provided development assistance by investing in agricultural development and infrastructure projects. Joint projects to explore the Spratleys may prove beneficial to both China and the Philippines.

Lastly, the ASEAN-China FTA proposal is a good opportunity for the Philippines to work with the ASEAN as a group in relating to China. Through greater regional cooperation, bilateral cooperation can be strengthened to tap more efficiently the trade and investment opportunities presented by China's economic growth and WTO entry.

CHINA'S WTO ENTRY: EFFECTS ON ITS ECONOMY AND IMPLICATIONS FOR THE PHILIPPINES*

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I. Introduction

China became the 143rd member of the World Trade Organization on December 11, 2001. The ascent to this important multilateral trading system came after a long fifteen-year process of bilateral negotiations with the existing WTO members.¹ Although long anticipated, this new reality of China's full integration into the world economy continues to stimulate research and discussions on the possible impact it has on individual economies and on the world economy as a whole. The impact scenarios depend on the effect the accession will have on China itself and how China adjusts to the changes. While China has prepared its people for its WTO accession psychologically, market and other structural adjustments will take time to perfect.

The Chinese economy has grown at an average annual rate of close to 10 percent since 1979. Despite the very negative external economic environment it faced in the late nineties and the turn of the century,² China still managed to grow at annual rates of between 7 to 8 percent. Emerging from a virtually isolated economy, China is now the sixth largest trading country in the world. Developing countries are generally more concerned about such rapid development of China's economy than developed countries. With China's WTO entry, such concerns have intensified. The likelihood of developed countries gaining from China's emergence in world markets is more obvious. The developed countries are the largest importers of China's low-wage, labor-intensive manufactured products. In turn, China's imports of capital-, technology- and knowledge-intensive goods necessary for its economic development as well as those of high quality consumer goods, which are increasing very rapidly because of rising per capita income, are mostly from the developed countries. The developing countries on the other hand face competition from China for markets of similar labor-intensive manufactured exports and foreign direct investments.

Nevertheless, evidence in the last couple of decades shows that China's rapid economic growth, which was accompanied by liberalization in trade, presented much more economic opportunities to the Philippines than before. An empirical study (Palanca 2001) on China's trade

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¹ The long process was for the most part negotiations with the United States, and to some extent, the European Union.

² The Asian economic crisis started in mid-1997 and aggravated in 1998. The recovery from the crisis in 1999 was aborted by the sharp downturn of the U.S. economy in 2000.

with the ASEAN countries³ for the period 1980-1996 shows that the opportunities for trade were available between China and many ASEAN countries, most of which had similar level of development. The myriad of consumer and producer commodities that can be produced and manufactured gives rise to many trade opportunities. Merchandise trade of China with the Southeast Asian nations, most of which are in the developing stage, has increased rapidly since China opened up its economy. For the period 1980-1996, ASEAN-5's exports to China grew at an average annual growth rate of 17.82 percent while their imports from China grew at 13.31 percent. These growth rates were bigger than those of ASEAN's total trade, which, for the same period (1980-1996), were 10.51 percent for exports and 11.50 for imports. China served as a significant export market for the ASEAN countries during the prolonged recession in the United States and Europe in the eighties. Judging from the economic growth and export performance of countries in the Southeast Asian region during the eighties and nineties, the study concludes that the effect of China's economic growth on the ASEAN countries has not been negative. Instead China's dramatic economic performance in the past two decades provided a positive synergy effect in the region.

The Philippines' economic relations with China in the last two decades reflected the trend in ASEAN-China economic relations during the same period, although the case of the Philippines was not as robust compared to the others. For both trade and investment, the volume and growth rate of the Philippines' trade with China was the smallest among the ASEAN-5. Nevertheless, for the period 1980-1996, Philippine exports to China grew at an average annual rate of 13.22 percent, far surpassing its total exports growth rate of 8.20 percent. Philippine imports from China grew at 8.94 percent while the rate for its total imports was 9.24 percent for the same period. The structure of Philippines-China bilateral trade presented some degree of intra-industrial complementation despite the common focus of both countries on labor-intensive manufactured products. Investments on the other hand were such that, while in the early nineties there was a one-way flow to China, in the mid-nineties, when the Philippine economy recovered from instability, FDI from China started to flow into the Philippines. (Tan 2001)

Becoming a member of the WTO means that China has to open wider its market, both in terms of regions and industries. The greater liberalization resulting from its WTO entry is expected to have a positive effect on its economic growth, which will further expand its market. Such economic dynamism will no doubt have much impact on its aggregate demand. Moreover, China's market is highly segmented, due to the imbalance of its growth and development.⁴ The rise in per capita income plus the highly segmented market ensures an increasing consumer demand that covers a wide range of products and services. On the production side, industries in China span from low-tech, labor-intensive manufacturing to high-tech, knowledge-intensive industrial activities. Thus products and services needed to satisfy investment demand (such as machinery and equipment), production demand (such as resource-based raw materials), and professional service demand (such as services of managers and accountants) are also expected to soar both in quantity and variety. In addition, WTO accession will prompt more innovation in

³ ASEAN-5 countries refer to the original member countries: Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

⁴ The incomes of the population in the coastal region are many times more than those of the residents in the other regions.

production method, business organization economic structure, and social institutions. These changes will contribute to greater demand for professional services and high-tech goods.

China's membership in this world trade system also means that its competitiveness, which has already been a source of challenge for manufacturers all over the world in the past decade, will be further strengthened. The Philippines will face the negative impact of sharper competition from China in its (the Philippines') domestic market, in China's market, and also in third-country markets, such as the U.S.'s and Japan's. Another much-feared negative impact for the Philippines is China's attraction for foreign direct investments, which have spiraled because of China's accession commitment to greater liberalization and growing gigantic market. However, the effect of such capital inflow to China may not necessarily result in the hollowing out of economic activities in the developing countries. With the adoption of international segmented production process by transnational firms nowadays, countries close to China can stand to gain from the growing foreign investments going to China in that these countries are likely the sites for the production of parts needed in the production of goods assembled in China. Clearly, the Philippines can avail itself of the opportunities and rise to the challenges only if it promotes its competitiveness. This can happen at the firm level with more product differentiation and better marketing and management strategies. Simultaneously the government has to undertake the much delayed changes and reforms necessary to enhance efficiency. These include structural reforms, infrastructure development, and improvement in political stability and social peace and order.

II. Purpose and Outline of Paper

China's accession to WTO means further liberalization and growth of its economy. The accession is an event that is not just significant for China, but also for the global economy. What does it mean for the Philippine economy? This paper assesses the opportunities and challenges which the Philippines faces with China's full integration into the world economy. It offers some recommendations for the Philippines to cope with this change.

An analysis of the Philippines-China bilateral trade structure reveals that further China's economic growth can offer opportunities despite the competition challenges it poses. This study presents in the next section (Section III) a discussion of Philippines-China trade in the last couple of decades, the structure of which has changed significantly in the last decade as both countries shifted their exports to manufactured products and underwent greater trade liberalization. In this section it can be seen that, despite the general competitive nature of the two countries' exports, complementation of the bilateral trade is also present.

Section IV is a presentation of China's WTO commitments in general and those that resulted in its negotiation with the Philippines in particular.

For China to fulfill these commitments means that it has to undergo deeper reform and liberalization. What the implications of these changes will be for the Philippines depend on the effect this new trade paradigm on China itself and how it adjusts to the changes. Hence Section V of this paper analyzes the repercussions of China's accession to WTO on its economy. Section

VI presents an early assessment of China's initial compliance to its commitments; some existing impediments that pose as barriers to trade flows, e.g., foreign exchange rate, structural impediments and other non-tariff barriers; as well as the economic programs China is implementing in order to face the challenges of its new trade paradigm.

Given the necessary background, Section VII presents the main substance of the study. It examines the implications—benefits and challenges--of China's WTO entry for the Philippine economy. Finally, the paper ends with some recommendations, including specific areas of cooperation with China, for the Philippines to benefit from this new economic order (Section VIII).

III. Philippine-China Trade Structure

This section presents a general picture of the structure of Philippine-China trade from 1980 to 2002. It updates the author's earlier study (2001) on this bilateral trade for the period 1980-1996.

Table 1 shows the IMF statistics for the Philippines' bilateral trade with China from 1980 to 1996 while Table 2 presents the more recent data--1993 to 2002--based on statistics from the Department of Trade and Industry. Needless to say, there are discrepancies, although not significant, between the two sets of data. The Philippines-China merchandise trade has increased steadily since China adopted the open door policy in the late 1979. The growth has been particularly rapid in the nineties when China liberalized further its economy, this time focusing on the trade sector. However, due to the rapid increase in the trade volumes for both countries, the bilateral trade remains only a small percentage of the total trade of both countries—2 to 3 percent of Philippine trade and 1 to 2 percent of China's. These percentages paled very much when compared to those of the other Asian countries (See Table 3). These trade-oriented Asian countries have focused intensely on engaging China since it opened up its economy in 1979.

In the last decade the performance of the Philippines' trade with China improved significantly. Since 1993, the increase in the Philippines' trade with China has been faster than its trade with the rest of the world. Moreover, the growth has been generally faster for exports to China than for imports from there. China as a fast growing market for both consumer goods and intermediate goods has been very important for the Philippines' exports. The total bilateral trade grew further after the 1997 financial crisis, owing more to the increase in Philippine exports to China rather than its imports from there. Another very significant surge in the Philippines' trade with China is observed for 2002. Total bilateral trade for that year alone grew at 46.0 percent, with Philippine exports to China having grown at 70.7 percent and imports from China at 29.2 percent. It can be surmised that such trade growth is the initial effect on the Philippine economy of China's WTO commitment to increased trade liberalization.⁵

The development in RP-China commodity trade since the eighties has been the gradual shift from trade based on inter-industry exchanges to one having more intra-industry exchanges

⁵ Another event that could have contributed to the trade growth was the approval of the proposal for an ASEAN-China FTA in November 2001.

(Palanca 2001). In the eighties, imports from China were essentially mineral fuels in the form of crude petroleum products and in turn exports to China were food items, as well as crude and basic materials. For that period, complementation was also observed in the inter-industrial exchanges of Philippine resource-based products for China's industrial manufactures. By the nineties, industrial manufactures were among both the major export items and import items in the Philippines' trade with China. Such intra-industrial manufacturing trade was based on both specialization (which increases complementation) and differentiation (which enhances competitiveness).

The marked shift of Philippine exports from resource-based products to industrial products occurred only in the last five to six years. As recent as 1996 and 1997, Philippine exports to China were still mostly resource-based products, which made up more than 60 percent of the total (Table 4). The share dropped significantly in the last few years—to only 20 percent for 2001 and 15 percent for 2002. Resource-based products were overtaken by industrial manufactures, whose share in the total rose from less than 10 percent for 1995 to a hefty 72 percent for 2002.

For imports from China, on the other hand, industrial manufactures and resource-based products have generally maintained their shares in recent years (Table 5). In 2001, the share of industrial manufactures remained almost at the same level (55 percent) as for 1996, although there was a decline in between these years. Like exports, we observe a decline (although not as significant) in the share of resource-based products in total imports—from 29 percent for 1996 to 21 percent for 2002. This decline gave way to bigger shares of consumer manufactures and food products. Collectively, their share rose from 16 percent to 25 percent between 1996 and 2000.

The most significant change in Philippines' exports to China in the last 5-6 years is the shift to electronics products, which constitute the bulk of industrial manufactures exports.⁶ The increase in this export product line to China illustrates the complementation of manufactured exports, which provides opportunities for specialization. China is emerging as a major global player in information and communication technology and so its demand for inputs needed by this sector's products is rising rapidly. Electronics products involve thousands of items, parts, and accessories. The decline in the U.S. demand for electronics products due to the downturn of its economy in 2000 and 2001 was offset by the increase in demand for these products by China as its information and communication technology industry expanded significantly.

China as a market for Philippine products can be further illustrated with Tables 6 and 7 which show the lists of Philippine exports to China whose value grew significantly between 2000 and 2001 and between 2001 and 2002 respectively. These lists illustrate the principle of specialization and differentiation as the basis for Philippines-China trade. The demand for some products that are popular items among China's export products grew at fantastic rates. Examples are footwear and timepieces, both of which grew at more than a thousand percent from 2000 to 2001. Other such products are men's and boys' wears and toys and dolls. Differentiation in terms of designs and artistry has made it possible for exchanges in the same product lines to take place.

⁶ This reflects the structure of the Philippines' total exports wherein more than seventy percent are electronics products.

With its focus on industrialization, China has been losing its comparative advantage in agricultural products (Anderson 1990) and increasing its demand for industrial input products. Among the exports of the Philippines to China, two resource-based products, lumber and carrageenan, which are used as industrial inputs, surged significantly in 2001. Automotive parts are among the Philippine exports to China that have grown rapidly. This of course is due to the rapid growth in China's automotive industry, triggered by the high demand for automobiles.

The growing income and rising living standard of the Chinese people are also reflected in their demand for Philippine products. Tables 6 & 7 show that there has been a significant increase in the demand for manufactures such as furniture and jewelry (both precious and costume) and other fashion accessories, cosmetics and personal care products; cut-flowers and ornamental plants; and many food products. Among the products of food and food preparations, live seafood; preserved fruits and jams; nuts and coconut products; confectionery and honey, coffee and cocoa; and alcoholic beverages have been increasing significantly.

IV. China's WTO Accession Commitments

In the last quarter century the world witnessed China's economic development from an agricultural to an industrial economy and also from a rural to an urban society. Such transformation resulted from China's commitment to market reform and internationalization, and supported by the given economic base that had been built during the three-decade period (the fifties to the seventies) before the opening up. Market-oriented reforms since the opening up include privatization of agriculture, deregulation of industries, adoption of macroeconomic management, and trade liberalization. Since export-led growth strategy was adopted, exports expanded at exceedingly rapid rates. Imports also grew, but at slightly slower rates.

China's international orientation prepared it for its entry into the WTO. Economic reforms were however gradual and hence trade liberalization was rather limited. Imports were protected by tariff rates which were higher than those applied by most countries and other non-tariff barriers although exports enjoyed tax exemptions on the inputs used in their production. Many agricultural exports enjoyed subsidies. Since 1995, in preparation for its entry to WTO, more massive liberalization and restructuring have been undertaken. As a member of APEC, it voluntarily lowered its tariffs for a number of goods in 1995. However, despite the fact that changes have taken place, the mandated comprehensive changes since its accession will undoubtedly be overwhelming and will still involve many adjustments in the short and medium terms. Problems of the inefficient state-owned enterprises and inadequate institutional structures to promote the rule of law are the main obstacles to the smooth transition to being a member of WTO. It is expected that China will realize bountiful benefits from its WTO membership only in the long run (Fewsmith 2001).

In its negotiations for WTO entry, China committed to rather liberal trade terms with the members of WTO. The very comprehensive package of market liberalization, to be implemented immediately after its accession, is expected to be fulfilled in five years' time. For merchandise trade, liberalization means the reduction of tariffs and abolition of almost all non-

tariff quantitative restrictions on imports. Weighted average tariffs are expected to fall from the pre-entry rate of 19.8 percent to 16.2 percent by 2005. Manufactures exports will see greater reductions than raw materials, e.g., wood and paper, as the latter have lower tariffs to start with (World Bank 1997). Barriers for many highly protected industries, which are in general more capital intensive, such as steel, automobiles, heavy chemicals, and IT have been very much lowered. In fact, for IT products, all tariffs will be eliminated by 2003. The tariff rate for many food items, raw and processed, will be much lower after the accession. The most significantly affected sector is beer and tobacco, the protection for which will fall from 70 to 0 percent and 40 to 10 respectively. (Tariff reduction schedule for some Philippines exports is in Tables 8 and 9 and will be discussed in a following section.) For agricultural products, the average statutory tariff rate will be reduced from 22 percent to 14.5 percent and subsidies will be abolished. In addition, foreign companies will be granted trading rights, meaning the right to import and export, three years after China's accession. With all these changes, the prospect of greater marketization within China can be expected.

China's service sectors have generally been controlled by state-owned enterprises. Hence, compared to merchandise trade, China's trade in services has remained more closed. China, however, has started to liberalize most of the service sectors since 1999, in preparation for its entry to WTO.⁷ The implications of its liberalization of the service industry are significant for foreign investments going to China. The sectors that have received much attention are: financial services (banking, insurance, securities and fund management); wholesale and retail trade; tourism; transportation, including logistics service such as delivery; telecommunication; audio-visual; and professional services. China has committed to allow ownership by foreign investors: 33% from date of accession to 49% three years after accession for securities companies, 49% to 50% two years after accession for telecommunication providers, 49% for audio-visuals distribution firms, 50% for insurance firms, and 100% for trade and hotel businesses. Five years after accession foreign financial institution will be allowed to engage in local currency trade, and foreign business companies to set up solely-owned subsidiaries in China. Liberalization of service also allows the practice of a broad range of professional services that include management consultancy, legal, accountancy, medical, architecture, engineering, teaching, etc. This has strong implications for the Philippines, which exports many of such services abroad.

More significantly, the implicit understanding of being a member of rules-based multilateral trading system means that China is expected to play by the basic rules of this organization just as it can expect its trade and investment partners to abide by the same rules. (The WTO provides dispute settlement procedures and is the arena where disputes are settled.) This is an important challenge to China as it now has to make its domestic legal system consistent with the WTO rules. National treatment principle has to be followed too. The Chinese private business firms will enjoy greater equality with the state firms as the government implements reforms on the latter and withdraws favors bestowed on them. Equality under the national treatment principle has to be extended to foreign firms as well. Transparency of its examination and approval procedures for foreign funded businesses is also expected. The issue

⁷ Examples are AT&T's 25 percent share investment in a Shanghai telecommunications company, foreign investment in films and other audiovisuals, opening of the construction sector, retail sector, tourist industry, operations of foreign law firms. (Lardy 2002)

of intellectual property rights has to be addressed more seriously because of WTO provisions against infringement of such rights.

V. Effects of WTO Membership on China's Economy

Entry to the World Trade Organization is deemed one of the most important accomplishments of Jiang Zemin's government. With this achievement comes the prospect of more economic growth, which the Chinese Communist Party holds important for its political survival. The experience of the last 25 years has shown that trade liberalization plays an important part in its economic growth. Technical progress of the industrial countries has spread to China's domestic industries with foreign direct investments and the liberalization of intermediate and capital goods imports. Moreover, accession to WTO is also important to the Chinese government because it means that reforms are now locked in and can no longer be blocked by opposition forces.

However, as has been mentioned, the Chinese government expects a difficult time adjusting to the changes brought about by its WTO membership in the short and medium term. The difficulty lies in balancing the adjustment measures against the social and political problems that are expected to arise. These problems will arise due to the displacement of workers in agriculture as well as the setback of some industrial sectors. GDP growth rate is expected to slow down initially. The closing down of the more inefficient state-owned enterprises will cause greater unemployment and underemployment. The influx of rural migrant to the cities is expected to increase sharply as, in line with its liberalization policy, the government will further relax the residency policy. The absence of protection will lead to the decline in production for some industries, notably, many of them agricultural and some manufacturing, most significantly, beverages/tobacco. On the other hand, export of textiles and wearing apparel, which will no longer be subject to the Multi-Fiber Arrangement on quantity restriction by 2004, is expected to grow substantially (Ianchovichina, et al. 2000).

On balance, in the long run, the prediction of several studies shows that China's historic milestone of WTO entry will have a positive impact on its GNP. Growth rate in the long run is estimated to increase by 0.5 to 2.2 percentage points per annum (Newton and Subbaraman 2002). It has already been witnessed that China's external trade grew significantly⁸ during its first year as a member of the WTO. Provided the external conditions are not too unfavorable and the necessary structural adjustments are made, it is expected that, the Chinese economy will experience another wave of high growth following its WTO accession. This expectation is due to the following reasons:

- a. Gains from trade and specialization. These will be realized with the lowering of trade barriers and greater market access to all member countries of WTO. Greater liberalization will allow greater economies of scale in manufacturing production, particularly automobiles. The estimated welfare gains to China by 2005, if China honors its commitments and the industrial countries cancel the quota restrictions under

⁸ In 2002, China surpassed Japan in exports to the U.S. In the same year, China also surpassed the U.S. in exports to Japan and became for the first time, the top exporter to Japan.

the Multi-Fiber Arrangement, can be as high as US\$116 billion a year. On the other hand, the gains to the rest of the world can be twice the amount (World Bank 1997).

- b. Gains from economic efficiency. China's WTO membership will help its central government push forward with the reforms which had not been implemented due to their sensitivity. Also, given China's commitment to rule of law and fairplay, business enterprises can look forward to reduced operating costs, less red tape, and more transparency. Reductions in distortions and better allocation of resources will result from less variability of tariffs and greater transparency in trade rules (World Bank 1997). All these will help transform China's economic system to become more market-oriented than what it is now.
- c. Improvement in technological capacity. China can expect another surge in technological advancement resulting from the rapid increase in foreign investments and trade. With the expectation that more opportunities are in store from a more liberalized post-WTO entry business environment, inflow of foreign investments has grown even more rapidly in the last few years. In the first quarter of 2002, FDI inflow increased by 27.5 percent from the same period of the previous year. In the U.S., much of its high-technology electronics manufacturing has moved to China since the late nineties (*BusinessWeek* 2002b). Chinese companies also acquire businesses abroad for technologies and skills they need to survive in the increasingly competitive market at home (*BusinessWeek* 2002a). China's technological capacity is also enhanced with the increasing number of returned scientists who studied and worked in the West. Since 1978, 300,000 scholars have done graduate studies in the U.S. alone.
- d. Upgrading of China's domestic industries. Competition from imports and products of the multinational corporations is expected to exert a pressure for China to upgrade its own industries. Coupled with better technological know-how, this pressure to improve the local industries will result in China's products being more competitive. Their competitiveness will no longer be due only to the low labor cost China is known for but also to the improvement in the quality of its products.
- e. Increase in labor productivity. The structural reforms and market forces will result in labor moving from the agricultural sector to the industrial and service sectors, and from SOEs to the private sector—i.e., from sectors where marginal productivity is generally lower to sectors with higher productivity. Productivity of labor is also expected to increase as it is increasingly combined with more capital and better technology.

The above points on the effects of China's WTO entry on its economy all translate to the prospect of more dramatic economic growth for China and more rapid increase in the welfare of its consuming population. If the structural reform agenda can be implemented, China's economy will be able to achieve its goal of quadrupling its 2000 GDP by 2020 (from US\$1 trillion to US\$4 trillion), and will be the biggest in Asia.⁹ As consumers, the Chinese people will enjoy the benefits of competition, i.e., lower prices, more choices and better quality products.

⁹ This is based on the assumption that China's annual economic growth can be sustained at 7 percent and Japan's growth continues to be sluggish.

VI, Post-WTO Entry: Commitment Compliance and Trade Barriers, Challenges and Adjustment Programs

It has been almost two years since China gained accession to the WTO. This section presents 1) an assessment of China's compliance with respect to the WTO rules and its commitments to liberalization and 2) a discussion of the economic challenges China faces and the adjustment programs it has adopted in order to address them.

A. Compliance and Barriers

In general, trading partners consider China's compliance with respect to tariff reduction commitments good (*Far Eastern Economic Review* 2002). The good performance in this aspect of liberalization may be due to the fact that reduction of tariffs has also been beneficial to China. The domestic firms have become more dynamic as they now compete on a more even-level playing field. China's import-substitution industries now face competitive pressure from imports. On the other hand, the removal of protection for export-oriented firms (mostly transnational enterprises and firms in the Special Economic Zones) made it possible for domestic firms to supply raw materials and intermediate inputs to these joint ventures and foreign-owned firms as well as produce the goods the protected firms export, thus increasing the linkage between domestic firms and foreign-funded firms (Lardy 2002). Barriers in the form of trading rights and import restrictions are now less of a concern. In general, trading rights have been granted also to foreign firms while import restrictions have gradually been eliminated.

However, there are still forms of protection which yield unfair competition. One is the application of the value-added tax, which discriminates against imports. Another is subsidies enjoyed by Chinese firms in the use of energy and labor, which lower their production cost. This makes exports cheaper than if costs were to be based on market prices. For agricultural products, protection comes in different forms: non-tariff protection in the form of regulations on standards, inspection and certification; the administration of tariff-rate quota system for bulk commodities, which allows a set quantity of imports at low tariff rate and quantity beyond that level is imposed a higher tariff; and, in a few cases, plain agricultural subsidies, which were supposed to have been eliminated upon accession.

Improvement is more notable for the services, import of which had been very restricted in the first couple of decades of its open door policy. Opening up of many service industries, such as insurance, banking, retailing, telecommunications, audiovisuals, and operation of professional services, has been gradually implemented since the late nineties and 2000. However, for some service industries, huge capital requirement in many sectors poses a barrier to investors. For example, although the telecommunication sector has been liberalized, a minimum capital of \$100 million is the requirement for firms wanting to operate in this sector in China.

With respect to structural changes, China has made progress in reforming its legal and regulatory framework to be consistent with WTO rules. Recently laws intended to prevent software piracy have been passed. However, the regulations and laws necessary to improve the

sense of transparency and protect intellectual property in general are still very deficient. There is also the fear that the immature legal system may make the laws ineffective.

Another structural problem that needs to be addressed as soon as possible is the autonomy of local and provincial governments in setting their own business regulations.¹⁰ Trade barriers are imposed for businesses from other provinces. Not only does local protectionism defy the national treatment principle, it also discriminates against nationals outside of the provincial jurisdiction. Moreover, such structural barriers restrict foreign firms in their distribution of products and expansion of their business geographically.

Currently the foreign exchange rate of China's currency is considered a trade barrier by China's trade partners. Fixed at RMB8.28/US\$1 at present, the currency, *renminbi*, is considered undervalued by (mostly) the developed countries whose trade deficit with China is growing. The U.S. has made the most noise in this respect although the reason for it has been analyzed to be political rather than economic. The U.S. imports of Chinese goods are said to displace U.S. labor. But in reality, U.S. imports from China replace the U.S.'s imports from other developing countries, not so much its own products. On the other hand, many countries, even those whose exports compete with China's, are not in favor of China revaluating its currency. The argument against a revaluation of the *renminbi* is that such action might create instability, with expectations of further moves in the exchange rate. China, on its part, believes that a revaluation will lead to greater unemployment and further deterioration of the unstable position of its banking system. A slowing-down of China's economy is expected to slowdown also the global economy. Moreover, because China's banking system is unstable, a revaluation of its currency may even create a global economic crisis. This is because a big percentage of the bank debts are problematic, which means that revaluating the *yuan* (RMB) may reduce assets on which China's banks rely for financing debt (*International Herald Tribune* 2003). However, some economists warned of the possibility of an asset bubble-bursting phenomenon if China does not revalue its currency.

B. Challenges and Adjustment Programs

The major economic problems China faces now are: inefficiency of many state-owned enterprises, fiscal system instability, and the growing regional disparity within the country. Without structural reforms, these problems are expected to worsen by China's WTO entry.

Despite more than two decades of reform, China's greatest challenge remains the problem of its subsidized state-owned enterprises (SOEs). In the last few years, the Chinese government took a giant step by setting up asset management companies. However, the assessment on the situation is that only half of the necessary restructuring work on SOEs had been done at the time China joined WTO (Newton and Subbaraman 2002). Many government policies are still biased in favor of the SOEs. Deliberate slowing down of the restructuring process has been necessary to give space for the absorption of SOE laid-off labor into the private sector. This is because the consequences of the process on social and political stability are

¹⁰ China is made up of 27 provinces and 4 province-level autonomous cities. The problem is exacerbated by the fact that in its effort to fast-track economic reform, China has replaced national bureaucratic planning with local bureaucracy (*Far Eastern Economic Review* 2001a).

important considerations to the government. However, with increased competition from imports and products of multinational corporations expected from greater liberalization, the inefficient SOEs will find it more and more difficult to survive.

Related to the problem of the SOEs is the weak financial sector. This is because the four state-owned banks (SOBs) dominating the sector are saddled with non-performing loans extended to the SOEs. With the liberalization of the financial sector, the SOBs will have problem facing competition from foreign and other domestic banks. Moreover, with capital liberalization, a stable financial system is of utmost importance. With large amounts of private capital, particularly foreign direct investments, flowing in and out of the country, China is, to a great extent, already integrated into the world financial system. Financial reforms are therefore immediate concerns. An unstable financial system can contribute to the problem of fiscal deficit as the system has to be propped up by the government.

To adjust to the expected changes and address potential problems, China is focusing on at least two broad economic programs. One is the empowerment of the private sector and the other is the development of the less developed region of the country. Although these are two separate programs, interactive measures are engaged through the channeling of private investments to the development of Central and West China.

Reforms of state-owned enterprises will result in the closing down of many of these enterprises and the privatization of some of the small and medium ones. More than ever, the engine of growth for the economy will be the private sector, consisting of domestic and foreign firms as well as joint ventures. These firms will face competition from imports. Measures have been adopted to develop the private sector and provide the support system for it. This involves market access, property rights, trading rights, and financial facilities. In 2001 the China Securities Regulatory Commission adopted a new measure allowing private firms and joint ventures to list on the domestic stock market. The Commission also adopted regulations and enforcement mechanisms aimed at long run development of the stock market (Asian Development Bank 2002). President Jiang Zeming's Three Represents Principle¹¹ is also an attempt to give more legitimacy to the private business sector in the Chinese communist system. There are also plans by the Communist Party to safeguard private property through constitutional amendments. However, opposition of this plan is coming from the common people who feel that, aside from being against the basic principle of communism, such changes mean protection for the rich, many of whom have become owners of private business "through illegal appropriation of state assets." (*Far Eastern Economic Review* 2003b)¹²

Aside from the difficult challenge of supporting the growing domestic private business enterprises, China's new leadership also faces the great task of developing the countryside, i.e., giving more attention to the rural sector, which has not enjoyed much of the benefits that have

¹¹ The principle aims at expanding the Communist Party's support base beyond just workers, peasants and intellectuals. The three party represents are: Advanced Productive Forces (read capitalists), Advanced Culture (academics and others in the elite previously viewed as too westernized), and the Interests of the Majority of the People.

¹² The same article reveals that an official national survey of over 2 million private-business owners done in 2002 found that 25.8 percent of private firms were once state-owned.

stemmed from China's economic growth. The government has tried to balance development by injecting fiscal stimulus with expenditures on infrastructure development. Long-term adjustments involve solving economic problems of unemployment, poverty and regional disparity. The coastal region in eastern China has been growing much faster than the rest of the country. It has been the recipient of 85 percent of total FDI inflow to China (World Bank 1997). To develop also the other regions, most of which are rural, the Chinese government has adopted a strategic development policy for the long-term development of West and Central China. A formal launch was made in January 2000 of what is called the Great Development Strategy for the West (*Xibu Da Kaifa*) program. The region under this program involves 11 provinces where the per capita income is only 60 percent of the national average (Ogutcu and Taube 2002). This program necessitates infrastructure and human development investments, involving high expenditures and long gestation period. It aims to steer state investments, foreign capital and expertise, and other private resources to attract FDIs toward the development of infrastructure in the hinterlands. It is expected that once the essentials are in place, the potential of the region will attract private investments, foreign and domestic. The area possesses cheap resources, labor and land, 35% and 56% of the national total respectively, and a strong agricultural base. Aside from developing these backward provinces, this development strategy hopes to ease the problems of unemployment, poverty, and regional disparity, and further advance the country's economic development

VII. Implications for the Philippines

How will China's accession to the WTO impact on the Philippine economy? Based on the analysis of the effect the accession will do to China, we can expect that all the benefits and challenges posed by China's economic growth before its WTO entry will be accentuated with its entry. Trade liberalization and higher per capita income translate to greater demand for imports, which the Philippines can capitalize in. However, liberalization also means competition challenges, not just in our own market but also in third countries' markets. This section will discuss these and other benefits and challenges arising from China's accession to WTO, the main topic of the paper.

A. Opportunities

The prediction of a more rapid growth of China's economy and higher consumer spending of its population means that its market, which is already massive due to its population size of 1.3 billion, is expected to be even more massive. Hence, the Philippines can expect to gain market opportunities in both merchandise and service trade. With liberalization of the service trade, many service industries are now open to foreign investors. As China is expected to abide by the rules of WTO, Philippine investments in China and business transactions with the Chinese can now enjoy better protection than before. Moreover, with greater liberalization and huge foreign reserves, China's FDI outflow, which has been miniscule compared to its inflow, has been rising and is expected to grow.

A.1. Merchandise Trade Opportunities

The comprehensive package of market liberalization China offered for its WTO accession is expected to increase the opportunities of the Philippines' trade with China. Besides, greater demand for consumer products and services as well as raw materials and other production inputs is expected to result as the Chinese economy experiences another growth surge. One important opportunity for trade is in the area of agricultural and mineral-intensive products, where China has been losing its comparative advantage as it focuses more on labor-intensive export manufacturing. Continuing industrialization in China will also generate more demand for primary exports and resource-based products. As income increases, it is expected that the demand for quality consumer goods imports will increase. All these opportunities are present, but to know what the trade areas are and which niches we can fill requires conscientious exploration and identification.

China's market is highly segmented. This is due to the pattern of China's economic development, which, as discussed earlier, is very uneven. The eastern coastal region and the capital region are much more developed and so the people in these places are more cosmopolitan and have much higher income. On the other hand, people in the rural areas, the hinterlands, and the western part of the country are still quite backward and poor. Different markets need different products. Presently most exports go to China's southeast and the capital region. But with China's on-going effort at developing the northeast and the west, these areas should now be looked at as potential market--the needs and preferences of their people should be studied. The mushrooming of housing in recent years all over China also has implications on the demand for construction materials and home furnishings.

Despite the high degree of competitiveness between the Philippines' and China's exports, there are still quite a number of merchandise goods wherein the Philippines has comparative advantage over China. Based on the revealed comparative advantage figures for the Philippines' and China's exports found in Palanca (2001), and the new tariff rate schedule committed by China for its WTO membership, this paper lists two sets of products which can provide leads for what export niches the Philippines can fill in China's market. One set of such products refers to those which are already major Philippine exports to China, while the other set consists of potential products which were identified based not only on the comparative advantage consideration, but also the committed reduction in tariff rates and the expected rise in the income of Chinese consumers.

Table 8 presents a list of major Philippine exports to China in which the Philippines has higher comparative advantage over China and whose tariff rates have been significantly reduced in the negotiations of China with the Philippines for its entry to the WTO. Electronics products and machines and equipment will benefit from the gradual reduction of their tariff rates to zero. The tariff rates for several food products, many of which are among our major traditional exports to China, have declined. In particular, these are fresh fruits (bananas, pineapples, mangoes, guavas and mangosteen), fresh fish (eels, flatfish, and tuna), canned fish, coconut milk and vegetable oil. China provides an alternative market for the Philippines' canned tuna, which suffered a reduction in the import quota of Europe. Other Philippine major exports whose tariffs will be reduced significantly are garments items. Since China is also a major garment producer, the penetration of its market for such products will involve differentiation in designs and marketing strategy. Another major group of products in this list that merit continued focus is the

machines and equipment category. Elimination of tariffs is expected for electronic calculating machines, accounting machines, input or output units, sound recording tapes, videotapes, and magnetic discs by 2005.

Table 9 shows the list of products which are not among the Philippines' major exports to China as of the present, but are potential export products. These products, whose revealed comparative advantage indexes are higher for the Philippines than for China, are considered to have great potential as exports to China because of 1) the significant reduction in tariffs for them over the next five years, and/or 2) their high positive income elasticity for the Chinese consumers at this stage of development. Most of the items on the list are food products. The expected increase in the demand for some of products is due not only to the growing purchasing power, but also the expectation of greater exposure of the Chinese to foreign goods and western lifestyle.

From the two lists, it can be gleaned that one important group of products which the Philippines can export to China is marine products. This is due to the fondness of the Chinese people for fresh and live seafood. It is essential that the Philippines develop its production of marine products so as to keep the supply high and prices competitive. Manufactured food items such as biscuits, ice cream and confectionery, and beverage items such as juices and beer and gin are expected to rise due to lower tariffs for them as well as the expected emergence of middle-class consumers who desire better and more varied food items. (Note that tariff rate for beer will drop to 0 in 2004 from its initial rate of 70 percent, while that for gin and rum from 65 to 10 percent.)

The tariff rate for carrageenan and other seaweed products will be reduced by 20 to 10 percent three years after China's WTO accession. The demand for carrageenan, used as an industrial input, has been on the rise since 2000 (Tables 6 & 7). Wood and wood products such as furniture is another category of products the Philippines enjoys comparative advantage over China. To promote this, the Philippines can focus its attention on special designs and workmanship. Although figures show the Philippines to have comparative advantage in the production of television sets and refrigerators, it seems that recently China's manufacturers of these items have invaded its domestic market and have even started to establish the brand abroad. With changes occurring so rapidly in China, opportunities need to be grasped quickly as they may be very transitory.

A.2. Service Trade and FDI Opportunities

The second important effect on trade of China's WTO membership has to do with the opportunities in service trade. Market access has expanded in terms of service industries and geographical areas. The service markets which have opened include industries such as banking, insurance, securities, trade, audiovisual, transportation, telecommunication, and professional services (Lardy 2002). The opening up of service trade is perhaps more dramatic than liberalizing goods trade because liberalizing the service sector means allowing direct investments to set up firms so as to provide the services in China. The opening up of the service sector thus increases opportunities to invest in China. Barriers for capital flow have been removed for many industries and in many locations.

For the Philippines, one important area of opportunities in service trade is professional services. Professionals comprise a good part of Philippine labor exports. At present there are already many Filipino business professionals such as managers and accountants working for multinational corporations and joint ventures in China. Because of the generally high level of English proficiency among Filipino professionals, they fit well into international corporations. When China becomes more integrated into the world economy, not only will foreign professionals be allowed access to practice in China, the demand for them will also rise with the rise in the number of multinational companies. The Philippines can therefore expect job opportunities for professionals such as legal consultants, managers, architects, teachers, accountants, and bankers to increase. With the use of electronic facilities, some professional services such as accountancy and text editing can be provided without the professionals having to go to China. Here again the opportunities may gradually diminish as local Chinese professionals will be trained to undertake such careers.

Tourism is another important service trade that the Philippines can promote. Chinese tourists are growing by the millions every year. Many are traveling to Europe and East Asia. Here in Southeast Asia, the Philippines lags behind Thailand, Malaysia, and Singapore as a destination for the growing number of Chinese tourists. The Philippines, which in fact is closer to China than any of these countries and also has a lot of beautiful scenic spots and beaches to offer, should aim to attract the Chinese tourists.

A.3 Protection of Business Interests and Jobs

One important consequence of China's entry to the WTO is the protection of trade and investment interests in China. As a member of the global trade system, China is committed to being transparent in its policies and to adopting a WTO-consistent legal framework. With such commitments, Philippine exporters, professionals, and investors can now enjoy better protection for their businesses and jobs in China.

A.4 Foreign Direct Investments from China

Another positive prospect the Philippines can anticipate from China's WTO entry is FDIs from China. China's economic growth will increase its capacity for investments--both domestic and foreign. Investments from China have been very limited. However, in the last few years, China's investments in the Philippines have started to increase in value. (See Table 10.) In 1997, only 0.19% of our total FDI was from China. However, in 1998, at the height of the Asian economic crisis, when total capital inflow to the Philippines dipped significantly, inflow from China increased substantially, from US\$2 million to US\$72 million, reaching over 8% of the Philippines' total registered FDIs. The following year saw the amount to increase to US\$111 million. The figures have increased even more substantially since 2000. Like the overall investments in the Philippines, most of China's FDIs in the Philippines are in the trade sector.

B. Challenges

To the Philippines and other developing countries, with the market and investment

benefits that come with China's new trade paradigm also comes the challenge of competition. In fact the overwhelming opportunities in terms of exports and investments are also challenges in that the Philippines has to compete for market with other countries and most importantly, with China itself. With its WTO accession, China is expected to increase its competitiveness. Cheap imports from China have had very negative effect on Philippine manufacturing for some time. The increase in China's competitiveness will intensify the problem. Hence, the Philippines will face more difficulties in competing for trade and investments with China now that it is a member of the WTO than during its pre-accession period.

B.1. Trade Competition Challenges

The most critical challenge the Philippines faces is the pressure on domestic industries due to competition from Chinese goods, imported and smuggled. With the rapid economic liberalization program undertaken by the Philippine government since the early nineties, the performance of many of our industries has declined or stagnated. In particular, these industries find the competition from imports from China most difficult. Following its accession to the WTO, the situation will be even more difficult for the Philippines as it now faces less restriction for its exports.

The fundamental challenge for the Philippines is to address the basic issue of competitiveness. This involves a host of factors: infrastructure development, human development, improvement of the bureaucracy (streamlining it and ridding it of corruption), political stability, and social peace and order, etc. However, more specific and strategic aspects to increase competitiveness should also be considered on top of the basic structural and institutional aspects of competitiveness.

For merchandise trade competition, at the firm level, it has been noted that the Philippines has confronted China's economic growth since the late eighties with greater bilateral trade based on the principle of differentiation and specialization. Constituting a major part of the exchanges between the Philippines and China are manufactured goods (consumer and industrial) which, compared to agricultural products, can compete better on the basis of differentiation rather than price. The same principle should continue to be adapted to fill market niches in China, thus confronting the trade competition challenge. One important initial task for the Philippines is to find niche products and markets in which it can develop its competitive edge in terms of differentiation and specialization. Expanding geographical markets by exploring new ones westward and northward is a way to increase market opportunities.

China's increased competitiveness will also have a negative impact on the Philippines' export opportunities in third country markets, in particular, those of the U.S., Japan, and EU. Improvement in competitiveness of Philippine products is necessary not just for us to be able to sell to the China market but also for competition with Chinese products in third countries' markets. The WTO-enhanced market access for China will create not only the flooding of China-made goods in the Philippine market, but also for China to become a greater competitive force in the world market for many goods. The deflationary pressure exerted by China has been felt globally, more particularly in the U.S. The share of U.S. imports from China has been increasing at the expense of imports from the rest of Asia since 1993. Here again the Philippines should try

to mitigate the impact by aggressively finding niche areas to specialize in while at the same time addressing the basic issue of improving competitiveness. These areas of specialization should enable the Philippines to compete with China in the Philippines' own domestic market, in third-country markets, and even in China's market. The Philippines has been able to export to third countries as well as to China product lines wherein China has high comparative advantage by specializing in niche areas. For example, finding it difficult to compete with China in the export of garments, the Philippines has been specializing in higher-end apparel, focusing on quality and design, in which the Philippines has a greater comparative advantage.

B.2. Foreign Direct Investments Competition Challenge

One consequence of China's increased economic liberalization is the surge of capital to its shores. Hence while the Philippines can expect greater capital inflow from China, it is concerned that China's economic boom may divert FDI from coming to the Philippines. In the last decade or so, China's share of FDIs in Asia is a bit over one half. For many years it was the second largest recipient of FDIs in the world. In 2002, it surpassed the United States and became the number one recipient of FDIs. With its WTO-entry commitment to increase economic liberalization and improve its legal system and governance, China is expected to become even more attractive as a destination for foreign direct investments. Will the diversion of FDIs from the developed countries, NICs and emerging NICs to China result in the Philippines having a smaller share of the global FDI pie? Will such diversion crowd out the FDIs for the Philippines?

Figure 1 shows the trend of FDI inflow to China and the ASEAN countries. It is very obvious that China garners the lion's share of global investment in Asia. However, in relation to FDI going to ASEAN, a couple of points should be considered for a better perspective. First, some argue that data on FDI inflow to China might be bloated due to the round-tripping phenomenon, i.e., the transferring of funds by Chinese investors first to Hong Kong (or some other place) and then back to China in order to avail of the preferential treatment given to FDIs.

Second, the trend of FDI inflows to China and to ASEAN reveals that they are complementary, not competitive. The increases in FDI inflow to China from 1993 to 1997 was accompanied by increases for the rest of Asia as well. On the other hand, during the slowdown of flows into the ASEAN countries since 1997, direct investment flows into China also slowed down. This chart supports the finding of Tan's study (2000) on FDIs to China and the ASEAN countries for the pre-crisis years. For the period 1987 to 1996, when the share of China as a destination of global FDIs increased significantly, the share of FDI to each of the individual ASEAN countries did not decrease. In other words, China did not gain foreign direct investment at the expense of the rest of Asia. For this period, like China, the share of the ASEAN countries in the global FDI pie increased.

For the post-crisis years in Figure 1, the data for ASEAN do not include Indonesia, which, for the years 1998 to 2000, experienced divestment, instead of investment, of capital. Indonesia has not recovered from the instability provoked by the 1997 economic crisis. It seems that stability, both political and social, is more important than the advantage of low labor cost in the determination of FDI inflow.

The Philippines' geographical proximity to China is said to provide an advantage in garnering foreign investments as it is easier to reach the Chinese market from the Philippines. Moreover, with the production processes getting to be more and more segmented internationally, i.e., the production of one good is done in more than one country, it can be expected that the growing FDI phenomenon in China can mean more investment in China's neighboring countries as well. To compete for such investments, the Philippines should make sure that the necessary conditions for investments are in place, i.e., its investment environment is attractive.

VIII. Recommendations

A. Improve Competitiveness

With the integration of China into the global economy, the Philippines will face more competition for both its exports and FDIs inflow. The Philippines will also have to compete for the market access opportunities with countries that can offer similar products. The general level of competitiveness, which has been declining over the years, has to be given prime attention. Competitiveness for certain product lines can be enhanced by the principles of specialization and differentiation. These principles, which were the basis for our vibrant trade with China in the late eighties and nineties (Palanca 2001), should continue to be the basis for Philippines-China trade relations in the coming years. The integration of China, as well as the Philippines, into the world economy should offer more opportunities for intra-industry trade and specialization. Innovative and ingenious differentiation is important for the marketing of manufactured products, which now constitute most of the Philippines' exports to China. Differentiation focuses on certain aspects of production and sales such as quality, design and marketing techniques in which the Philippines possesses comparative advantage. Specialization, on the other hand, involves production of specific niche products used as inputs in the production of other goods or specific consumer products of certain product lines or for sale to certain geographical locations.

The challenge of competition with Chinese goods in third countries should also be tackled by focusing on specialization and innovative differentiation of products. It is through such product distinction that the Philippines has been able to export a number of the products, for which China's revealed comparative advantage index may be higher than the Philippines', not only to third countries, but also to China. Exporters of manufactured goods now compete more on the basis of quality and design rather than on price. It is important to identify niche markets. Instead of competing on price, differentiation through establishing brands, marketing of such brands and the quality attached to them can provide the competitive basis. For the Philippines ensuring the basic elements of its global competitiveness such as labor productivity, efficiency of the government bureaucracy and the country's infrastructure (both physical and human), peace and order, as well as in its exchange rate, is most essential. This also means the continuation of the liberalization process and institutional reforms.

Improving global competitiveness is also the means for attracting FDIs. In a study on foreign investments in the Philippines, the finding shows that the country's "attractiveness will no longer be based on a highly protected domestic market but on a combination of several factors which together foster efficiency, productivity and competitiveness in the international market."

(Austria 1998) The Philippines' experience in 2001 wherein political turmoil in the country reduced FDIs and shot up the exchange rate also demonstrates that the political stability and peace and order situation are extremely important factors for foreign investments to come in.

B. Engage in Cooperation Projects

Given the many opportunities to do business with China, it is important to work at identifying specific opportunities by linking up with the government and/or business enterprises in China. The Philippines will be competing with other countries for the increasing trade and investment opportunities arising from China's WTO accession. While developing competitiveness is a necessary condition for the Philippines to compete for these opportunities, engaging in specific cooperation projects with China can facilitate tapping the economic opportunities—identifying and exploring trade and investment niches. Through such cooperation, both countries will be able to maximize the benefit from China's further liberalization while minimizing the negative effects. Cooperation in the broad areas of merchandise and service trade, tourism, and investment and development cooperation can be undertaken.

- a) Commodity Trade Enhancement Cooperation. The market access opportunities arising from China's WTO accession are expectedly diverse and wide-range. A systematic identification of market access opportunities can provide information on the product and market niches for traders. This can be done through joint research projects and trade missions. Joint research with China will help Philippine traders explore and identify market and product niches. Exchanges of trade missions will also provide information on products and procedures as well as opportunities for contacts with people involved. Philippine trade with China is for the most part limited to the southern part of China. Attempts should be made to target the growing northeastern China, which will probably find Philippine tropical products scarce and thus have a higher demand for them.
- b) Service Export Cooperation. China's WTO entry will mean increased market access for professional services as well as increased need for them. The Philippines on the other hand is a leading exporter of professional services. Cooperation between the two countries in this respect can facilitate operations of the markets for professional services, as it means joining the demand and supply forces. One mode of operation to facilitate service export for the Philippines is to have service providers in the host country. Cooperation between the Philippines and China in this respect can be made through joint-venture service provider companies. These companies can more effectively identify China's needs and match them with the available supply in the Philippine labor market. Taking actual foothold on China can provide commercial presence and capture niches in the Chinese market for different fields of professional services. Such commercial presence is desirable not only for cross-border services, but also for services that can be performed in the Philippines but the consumption of which will be in China. For professionals who have to move to China, the two countries, through the service provider companies, can cooperate to make adjustment easier by preparing them with basic language skills and knowledge of the Chinese culture.

- c) Tourism Cooperation. One special service trade is tourism where service is not "exported" but instead its consumption is done in the country providing the service. Both the Philippines and China have many tourist spots to offer. They can cooperate to help promote each other's tourist attractions in their respective countries and facilitate the movement of tourists between them. The marketing of tours is best done where the consumers are. The Philippines' Department of Tourism can cooperate with China International Travel Service for exchanges of information and marketing of tours. The two sides can also cooperate to develop tourist spots and infrastructure needed to promote tourism. For the Philippines, to tap the Chinese market for its tourism, some factors to focus on are: competitive pricing, visa facilitation, and the social and political stability in the country.
- d) Investment and Development Cooperation. Since China opened up more than two decades ago, Filipino businesses have engaged in joint ventures and other forms of investment cooperation in China. China's WTO commitment to opening up of many service industries will mean more investment opportunities for Filipinos. Greater liberalization will mean increased opportunities for China's foreign direct investments, both inflow and outflow. Investment cooperation between the Philippines and China not only provides capital for the receiving country but also technology that may be more appropriate than those from the advanced countries. While both the Philippines and China are considered developing countries, their technology expertise seems to be complementary. China excels more in engineering and technical expertise while the Philippines has more expertise in the areas of accounting, management and marketing. Moreover, China's indigenous production techniques are less capital-intensive which the Philippines might find more suitable.

Investment cooperation need not be limited to commercial ventures. Investments may be in the form of development assistance in areas of environment protection, infrastructure, and agriculture. China has invested a few of such projects in the Philippines in the past few years. A joint project that may prove beneficial for both sides is the exploration of the Spratleys for oil. Such a project means of course that the two governments set aside the sovereignty issue.

C. Engage in Regional Cooperation

A strategic goal China is pursuing is the economic integration of East Asia, and eventually the whole of Asia. Hoping to be a key leader, China has started this process with the proposal of establishing a free trade agreement with ASEAN by 2010. This ASEAN-China FTA proposal was approved by leaders of all ASEAN countries on the eve of China's WTO entry in November 2001. This multilateral cooperation involves a giant trade bloc with a potential market of 1.8 billion consumers and a total of US\$2 trillion regional income. Establishing a closer economic relationship between ASEAN and China is important in getting a stronger foothold of the China market and ensuring ASEAN as a priority market for China's future investments abroad. Moreover, investors from other countries may be more interested in establishing a

presence in ASEAN in the hope of taking advantage of the proposed ASEAN-China FTA.

The ASEAN-China FTA proposal is a good opportunity for the Philippines to work with ASEAN as a group in relating to China. Through greater regional cooperation, bilateral cooperation can be strengthened to tap more efficiently the trade and investment opportunities presented by China's economic growth and WTO entry.

One feature of the ASEAN-China regional integration is pursuing early liberalization. To pursue the intent of the free-trade agreement with ASEAN, China has started to negotiate with individual ASEAN countries on an "early harvest," a program which liberalizes trade for three years some products, starting no later than January 2004. However the Philippine government and producers are not responding well to such early liberalization. The agricultural sector does not agree to the lowering of tariffs ahead of the WTO commitment schedule. Such non-reciprocity may jeopardize the Philippines' participation in the program and the realization of the ASEAN-China FTA by 2010.

Research has shown that for the last couple of decades ASEAN countries that engaged China economically benefited more from its phenomenal growth (Palanca 2001). This study has shown the expanded opportunities which China's accession to the largest multilateral trade organization offers. More than before, the Philippines has to take a more focused approach to engage China through active bilateral trade and investments. One important way to reinforce this engagement is via regional cooperation.

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Table 1. The Philippines' Bilateral Trade with China, 1980-1996
(In \$US million)

	Exports to China	% Share in Total Exports	Imports ¹ from China	% Share in Total Imports	Total Trade with China	% Share in Total Trade	Balance of Trade
1980	45	0.78	258	3.11	303	2.15	-213
1981	78	1.36	255	3.01	333	2.35	-177
1982	105	2.09	236	2.86	341	2.57	-131
1983	22	0.45	143	1.79	165	1.28	-121
1984	60	1.12	223	3.47	283	2.40	-163
1985	81	1.76	314	5.75	395	3.92	-233
1986	101	2.10	157	2.91	258	2.53	-56
1987	88	1.54	245	3.43	333	2.59	-157
1988	67	0.95	268	3.07	335	2.13	-201
1989	50	0.64	239	2.14	289	1.53	-189
1990	62	0.76	205	1.57	267	1.26	-143
1991	128	1.45	253	1.98	381	1.76	-125
1992	114	1.16	209	1.35	323	1.28	-95
1993	167	1.50	281	1.50	448	1.50	-114
1994	164	1.23	476	2.10	640	1.78	-312
1995	209	1.19	1030	3.63	1239	2.70	-821
1996	328	1.61	1015	2.97	1343	2.46	-687
Average							
Annual Growth							
1980-1988	5.10		0.48		1.26		
1988-1996	21.96		18.11		18.95		
1980-1996	13.22		8.94		9.75		

¹ Import values are in cif.

Source of data: *Direction of Trade Statistics*, International Monetary Fund, various issues.

Table 2. The Philippines' Total Trade and Bilateral Trade with China, 1993-2002.
(In \$US million, FOB)

	Exports to China	% Share in Total Exports	Imports from China	% Share in Total Imports	Total Trade with China	% Share in Total Trade	Total Exports	Total Imports	Total Trade
1993	173.87	1.53	180.66	1.03	354.54	1.22	11374.81	17597.40	28972.21
1994	164.48	1.22	294.27	1.38	458.75	1.32	13482.90	21332.57	34815.46
1995	213.97	1.23	578.62	2.18	792.58	1.80	17447.19	26537.48	43984.66
1996	327.92	1.60	684.20	2.07	1012.12	1.89	20542.55	33028.72	53571.27
1997	244.41	0.97	871.59	2.43	1116.00	1.82	25227.72	35933.82	61161.54
1998	343.68	1.17	1198.89	4.04	1542.57	2.61	29496.35	29659.88	59156.23
1999	574.81	1.64	1038.43	3.38	1613.24	2.45	35032.67	30723.14	65755.81
2000	663.26	1.74	767.67	2.45	1430.93	2.06	38077.95	31386.84	69464.79
2001	792.76	2.47	952.92	3.18	1745.68	2.83	32150.20	29550.81	61707.01
2002	1352.90	3.86	1231.19	3.68	2584.08	3.77	35066.02	33467.13	68533.15
Average									
Annual Growth	25.60		23.77		24.70		13.33	7.40	10.04

Source of data: Department of Trade and Industry, Republic of the Philippines.

Table 3. China's Trade with Selected Asian Countries, 2002.

Country	Total Trade with China (US\$ billion)	Exports to China (US\$ billion)	Imports from China (US\$ billion)	Trade with China as a % of total trade
Indonesia	4.0	2.2	1.8	4.6
South Korea	31.2	18.4	13.5	11.0
Malaysia	7.6	3.8	3.8	4.7
Philippines	1.7	0.8	1.0	2.8
Singapore	12.5	8.3	7.2	5.3
Taiwan	39.5	31.7	7.8	17.1
Hong Kong	157.6	76.5	87.5	40.3
India	3.5	1.5	2.1	3.8

Source: CLSA Emerging Markets (From *Far Eastern Economic Review*, March 20, 2003. P.28.)

Table 4. Merchandise Exports of the Philippines to China by Major Product Grouping, 1996-2002.
(In \$US million, FOB)

Major Product Grouping	1996		1997		1998		1999		2000		2001		2002	
	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share
Consumer Manufactures	8.30	2.53	8.23	3.37	7.72	2.25	16.59	2.89	18.81	2.84	17.15	2.16	13.72	1.01
Food and Food Preparations	38.29	11.68	28.21	11.54	41.22	11.99	27.30	4.75	51.11	7.71	45.51	5.74	42.71	3.16
Resource-Based Products	219.24	66.86	149.21	61.05	142.71	41.53	195.91	34.08	188.30	28.39	165.50	20.88	207.27	15.32
Industrial Manufactures	36.62	11.17	45.14	18.47	127.53	37.11	301.21	52.40	378.94	57.13	492.78	62.16	984.58	72.78
Special Transactions	25.47	7.77	13.62	5.57	24.49	7.13	33.79	5.88	26.11	3.94	71.83	9.06	104.61	7.73
Total Exports from China	327.92	100.00	244.41	100.00	343.68	100.00	574.81	100.00	663.26	100.00	792.76	100.00	1352.90	100.00

Source of basic data: Department of Trade and Industry, Republic of the Philippines.

Table 5. Merchandise Imports of the Philippines from China by Major Product Grouping, 1996-2002.
(In \$US million, FOB)

Major Product Grouping	1996		1997		1998		1999		2000		2001		2002	
	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share
Consumer Manufactures	49.49	7.23	77.03	8.84	72.10	6.01	123.00	11.84	102.89	13.40	99.31	10.42	129.41	10.51
Food and Food Preparations	60.44	8.83	132.76	15.23	423.42	35.32	153.34	14.77	88.76	11.56	85.37	8.96	112.10	9.10
Resource-Based Products	195.79	28.62	167.08	19.17	154.89	12.92	154.36	14.86	197.98	25.79	236.81	24.85	273.98	22.25
Industrial Manufactures	377.64	55.19	492.49	56.50	545.33	45.49	447.42	43.09	373.83	48.70	523.84	54.97	696.84	56.60
Special Transactions	0.84	0.12	2.23	0.26	3.15	0.26	160.32	15.44	4.21	0.55	7.60	0.80	18.86	1.53
Total Imports from China	684.20	100.00	871.59	100.00	1198.89	100.00	1038.43	100.00	767.67	100.00	952.92	100.00	1231.19	100.00

Source of data: Department of Trade and Industry, Republic of the Philippines.

Table 6. Philippine Exports to China: New Exports and Those Reflecting Positive Growth, 2000 and 2001.
(Values in US\$)

	2000 Value	2001 Value	% Growth
CONSUMER MANUFACTURES			
GARMENTS			
Men'S/Boy'S Wear	89,738	140,643	56.73
Articles Of Apparel, Nes	422,183	600,979	42.35
HOUSEWARES			
Shellcraft And Other Carving Materials	26,953	40,884	51.69
Woodcraft	860	13,322	1449.07
Other Housewares			
Lamp Bases And Shades	1,215	2,812	131.44
Other Housewares, Nes	7,064	36,931	422.81
TOYS AND DOLLS	96,014	181,952	89.51
FASHION ACCESSORIES			
Jewelry			
Costume Jewelry	12,935	302,465	2238.35
Precious Jewelry	2,985	24,672	726.53
Leathergoods			
Handbags And Belts	12,892	18,335	42.22
Leather And Non-Leather Gloves	91,408	100,562	10.01
Travelgoods	0	30,357	
Other Fashion Accessories	12,749	32,012	151.09
FURNITURE			
Rattan Furniture	27,212	40,391	48.43
Wood Furniture	282,134	312,305	10.69
WOOD PRODUCTS, NES	19,500	20,440	4.82
FOOTWEAR			
Non-Leather Footwear	0	6,488	
Slippers And Sandals	0	120	
Consigned Footwear	331	86,664	26082.48
OTHER CONSUMER MANUFACTURES			
Printing & Publishing Materials	14,415	27,530	90.98
Pharmaceutical Products	24,014	28,464	18.53
Medical Supplies	0	30,163	
Cosmetics And Personal Care	19,346	241,206	1146.80
Soaps And Detergents	350,616	671,099	91.41
Cutlery And Similar Items	0	2,946	
Timepieces	2,585	59,042	2184.02
Umbrellas And Sunshades	0	50	
Other Consumer Manufactures, Nes	66,944	87,120	30.14
FOOD AND FOOD PREPARATIONS			
PROCESSED FOODS			
Cereal And Flour Preparations	113,574	158,310	39.39
Processed Fruits			
Jams, Jellies, Marmalades And Prepared/Preserved Fruits	94,489	153,214	62.15
Coffee (Processed)	0	5,768	
Nuts And Coconut Products (Processed)	136,090	302,374	122.19
Animal Feeding Stuff	30,115	49,729	65.13
Confectionery And Honey	104,688	136,829	30.70
Miscellaneous Edible Preparations	66,099	140,898	113.16
FRESH FOODS			
Fresh Vegetables	0	44,449	
MARINE PRODUCTS			
Tuna			
Canned	998,766	1,148,825	15.02
Crustaceans			
Prepared/Preserved	0	96	
Mollusk			

Scallops	0	8,520
Fish Fillet (Fresh/Chilled/Frozen)	7,000	8,408
Other Fishes (Processed)	41,955	66,033
Dried/Salted Or In Brine	2,550	15,208
Prepared/Preserved	39,405	50,825
RESOURCE-BASED PRODUCTS		
COCONUT PRODUCTS		
Coconut Oil	14,192,418	15,620,175
FOREST PRODUCTS		
Lumber	9,376	683,741
Other Wood Products	61,082	169,934
TOBACCO		
Cigars/Cigarettes	48,019	207,042
CARRAGEENAN	2,956	350,426
MARBLE PRODUCTS	787,417	847,778
CUTFLOWERS/ORNAMENTAL PLANTS	1,440	16,425
NON-METALLIC MINERAL	77,839	579,773
OTHER RESOURCE-BASED COMMODITIES		
Natural Fibers	69,186	95,277
Natural Oils, Fats And Waxes	63,365	97,903
Leatherhides And Skins	10,675	14,398
Fertilizers	0	10,200
Others (Other Resource-Based)	78,476,643	92,377,086
INDUSTRIAL MANUFACTURES		
ELECTRONICS		
Components/Devices (Semiconductors)	263,617,220	358,851,356
Electronic Data Processing	62,671,631	74,505,460
Control And Instrumentation	4,832	13,862
Telecommunications	730,576	928,292
Consumer Electronics	4,297,598	8,089,883
MACHINERIES/TRANSPORT EQUIPMENT/APPARATUS AND PARTS		
Machineries/Equipment/Apparatus	2,923,076	5,535,233
Metal Machinery/Equipment/Apparatus Parts	1,917,445	2,665,731
Transport Equipment		
Automotive Parts		
Metal Automotive Parts	3,622,673	6,020,391
Other Automotive Parts	0	46,234
METAL MANUFACTURES		
Copper Manufactures	0	25,514
Other Metal Manufactures	394,191	567,325
CONSTRUCTION MATERIALS		
Clay And Ceramic Materials	5,753	32,628
Asbestos Materials	4,332	21,611
Other Construction Materials	141,159	207,777
CHEMICALS		
Organic Chemicals	324,429	637,797
Inorganic Chemicals	4,642,013	7,877,765
Oleochemicals	3,068,509	3,979,402
Petrochemicals		
Intermediate And Fabricated Products		
Plastic In Primary Forms	6,339,910	7,364,713
Other Chemical Materials And Products	1,345,927	1,682,788
OTHER INDUSTRIAL MANUFACTURES		
Packaging Products		
Plastic-Based	510,420	584,407
SPECIAL TRANSACTIONS	26,109,194	71,825,169

Source: Bureau of Export and Trade Promotions--Department of Trade and Industry

Note: The boldfaced and italicized products are new exports in 2001.

Table 7. Philippine Exports to China: New Exports and Those Reflecting Positive Growth, 2001 and 2002.
(Values in US\$)

	2001	2002	% Growth
CONSUMER MANUFACTURES			
GARMENTS			
Men'S/Boy'S Wear	140,643	511,209	263.48
Women'S/Girl'S Wear	1,731,965	2,547,503	47.09
HOUSEWARES			
Basketwork/Wickerwork	63,741	152,886	139.86
Woodcraft	13,322	29,570	121.96
Ceramics/Stoneware	144	15,967	10988.19
Metalware	107	305	185.05
Other Housewares	39,743	133,784	236.62
Other Housewares, Nes	36,931	131,594	256.32
HOLIDAY DECORATIONS	96,009	119,777	24.76
TOYS AND DOLLS	181,952	291,173	60.03
FASHION ACCESSORIES	510,140	838,019	64.27
Hats And Other Headgear	1,737	2,469	42.14
Leathergoods	149,254	485,975	225.60
Leather And Non-Leather Gloves	100,562	411,229	308.93
Travelgoods	30,357	58,887	93.98
Other Fashion Accessories	32,012	83,244	160.04
FURNITURE	485,631	974,903	100.75
Bamboo Furniture	0	5,842	
Metal Furniture	17,200	37,385	117.35
Parts Of Furniture	42,553	604,358	1320.25
Rattan Furniture	40,391	68,301	69.10
Stone Furniture	73,182	100,616	37.49
OTHER CONSUMER MANUFACTURES			
Printing & Publishing Materials	27,530	46,619	69.34
Pharmaceutical Products	28,464	34,586	21.51
Household Products, Nes	35,099	44,691	27.33
Sporting Goods	88,911	136,670	53.72
Cameras And Lenses	88,216	812,577	821.12
Other Consumer Manufactures, Nes	87,120	262,884	201.75
FOOD AND FOOD PREPARATIONS			
PROCESSED FOODS			
Dairy Products And Bird'S Eggs (Processed)	0	28,118	
Margarine, Shortening, Vegetable Fats And Oils	0	8,666	
Cereal And Flour Preparations	158,310	279,703	76.68
Processed Fruits			
Dried, Glazed, Crystallized Fruits	46,403	150,838	225.06
Jams, Jellies, Marmalades And Prepared/Preserved Fruits	153,214	379,304	147.56
Processed Vegetables			
Dried Vegetables	242	1,050	333.88
Prepared Or Preserved And Homogenized Vegetables	0	2,705	
Coffee (Processed)	5,768	6,105	5.84
Cocoa (Processed)	2,848	6,285	120.68
Beverages	2,444	67,200	2649.59
Alcoholic Beverages	0	67,200	
Sauces, Condiments, Spices, Mixes And Mfrs.	430,172	577,607	34.27
Confectionery And Honey	136,829	650,331	375.29
Live Fish	1,494	9,958	566.53
Shrimps And Prawns	96	43,766	45489.58
Lobsters	0	4,205	
Mollusk			
Scallops	8,520	10,920	28.17
Other Mollusk, Live, Fresh Or Chilled	0	56	
Other Mollusk, Dried, Salted Or In Brine	0	48,615	
Milkfish			
Fish Fillet (Fresh/Chilled/Frozen)	8,408	22,374	166.10

RESOURCE-BASED PRODUCTS			
COCONUT PRODUCTS			
Other Coconut Products	19,200	30,159	57.08
MINERAL PRODUCTS	11,836,187	11,898,505	
Chrome Ores	0	959,872	
Other Base Metal Ores And Concentrates	7,248,565	10,847,217	49.65
FOREST PRODUCTS			
Plywood And Veneer	10,108	84,703	737.98
Pulpwood	41,988	64,649	53.97
SEAWEEDES	2,028,468	2,771,075	36.61
CARRAGEENAN	350,426	535,940	52.94
MARBLE PRODUCTS	847,778	1,831,057	115.98
CUTFLOWERS/ORNAMENTAL PLANTS	16,425	18,000	9.59
TEXTILE YARNS, TWINE AND CORDAGES	1,539,036	3,785,042	145.94
PETROLEUM PRODUCTS	36,151,127	86,208,974	138.47
OTHER RESOURCE-BASED COMMODITIES			
Natural Oils, Fats And Waxes	97,903	237,508	142.60
Unmanufactured Abaca Fibers	0	44,200	
INDUSTRIAL MANUFACTURES			
ELECTRONICS			
Components/Devices (Semiconductors)	358,851,356	752,640,789	109.74
Electronic Data Processing	74,505,460	144,656,440	94.16
Office Equipment	2,722,213	8,765,964	222.02
Control And Instrumentation	13,862	477,094	3341.74
Communication And Radar	780,433	951,353	21.90
Telecommunications	928,292	1,884,638	103.02
Automotive Electronics	1,128,556	4,975,343	340.86
Consumer Electronics	8,089,883	14,614,458	80.65
MACHINERIES/TRANSPORT EQUIPMENT/APPARATUS AND PARTS			
Machineries/Equipment/Apparatus	5,535,233	8,469,644	53.01
Metal Machinery/Equipment/Apparatus Parts	2,665,731	3,102,954	16.40
Transport Equipment			
Automotive Parts			
Metal Automotive Parts	6,020,391	8,817,651	46.46
Other Automotive Parts	46,234	71,688	55.05
Motorcycle	0	1,920	
METAL MANUFACTURES			
Iron And Steel	9,887	43,070	335.62
Copper Manufactures	25,514	144,546	466.54
CONSTRUCTION MATERIALS	634,612	1,040,234	63.92
Construction Materials, Metal-Based	343,318	816,684	137.88
Sanitary Wares And Bathroom Fixtures	29,278	32,945	12.52
Clay And Ceramic Materials	32,628	104,721	220.95
CHEMICALS			
Fertilizers Manufactured (Other Than Those Of Subgroup 272)	0	3,613,150	
Oleochemicals	3,979,402	6,347,483	59.51
Petrochemicals			
Intermediate And Fabricated Products	9,687,511	11,154,690	15.15
Plastic In Primary Forms	7,364,713	10,450,967	41.91
Activated Carbon	106,597	121,292	13.79
Other Chemical Materials And Products	1,682,788	2,488,461	47.88
OTHER INDUSTRIAL MANUFACTURES			
Packaging Products			
Glass-Based	0	4,350	
Plastic-Based	584,407	2,376,915	306.72
SPECIAL TRANSACTIONS	71,825,169	104,605,196	45.64

Source: Bureau of Export and Trade Promotions--Department of Trade and Industry

Note: The boldfaced and italicized products are new exports in 2002.

Table 8. Reduced Tariff Rates of Major Philippine Exports to China

Goods	Base Rate of Duty	Bound Rate of Duty	Implementation Period
Bananas	25	10	Year 4
Pineapples	20	12	Year 4
Mangoes/Guavas/Mangosteen	25	15	Year 4
Mackarel	20	12	Year 3
Eels	20	12	Year 3
Flatfish	20	10	Year 4
Tuna			
-Albacore, Yellowfin	15	12	Year 1
-Skipjack and others	20	12	Year 3
Prepared or Preserved Tuna	25	5	2004
Coconut milk	35	20	Year 4
Vegetables Fats and Oils	40	25	Year 4
Garments			
-Of Wool or Fine Animal	35	16	Year 5
-Of Cotton or Bast Fibres	28	16	Year 4
-Of Man-made Fibres	35	17.5	Year 5
-Of Other Textile Materials	30	16	Year 4
Other Garments	35	16	Year 5
Other Men's or Boy's Garments	35	16	Year 5
Other Women's or Girl's Garments	35	16	Year 5
Electronic Calculating Machines	25	0	Year 5
Accounting Machines	15	0	Year 5
Input or Output Units	15	0	Year 3
Magnetic Tape Recorders and Other Sound Recording Apparatus			
-Dictating Machines not Capable of Operating Without an External Source	30	25	Year 2
-Other	35	25	Year 3
-Other Cassette-Type	35	30	Year 2
Sound recording tapes	35	0	Year 5
Video Tapes	35	0	Year 5
Magnetic discs	30	0	Year 5

Sources: Working Party on the Accession of China: Note to the Revised Consolidated Tariff Schedule, June 20, 2001 and DTI Negotiations for the Accession of the People's Republic of China to the WTO, February 16, 2001.

Table 9. Reduced Tariff Rates of Potential Philippine Exports to China

Goods	Base Rate of Duty	Bound Rate of Duty	Implementation Period
Fresh Seafoods:			
Octopus	25	12	Year 3
Sea Cucumber	30	10	Year 5
Shrimps and Prawns	25	5	Year 4
Jelly Fishes	25	15	Year 4
Mussels	30	14	Year 4
Prepared or Preserved:			
Crab, Lobster, Jelly Fish	25	15	2004
Shrimps and Prawns	25	5	2004
Molluscs and Other Aquatic Invertebrates, nes	25	15	2004
Frozen Seafoods:			
Lobsters and Shelled Shrimps	30	15	2004
Shrimps in Shell, Shelled Prawns and Prawns in Shell	30	10	2004
Coconuts (deseccated and fresh)	15	12	2004
Agar-agar (includes seaweeds and carrageenan)	20	10	Year 3
Live ornamental fish	40	17.5	2005
Beer	70	0	Year 4
Gin	65	10	Year 5
Rum and Tafia	65	10	2005
Tobacco	40	10	Year 4
-Flue-cured Tobacco	40	10	2005
-Cigars	65	65	2000
-Cigarettes containing Tobacco	65	25	2005
Sugar Confectionery (chocolate not containing cocoa, chewing gum and others)	15	12	Year 4
Biscuits	25	15	2005
Prepared and preserved fruits			
Other Jams, Fruit Jellies and Marmalades	30	10	2004
Other Prepared Nuts or Seeds	30	10	2004
Pineapples prepared			
nes, in airtight containers	30	25	2000
Other Single Fruit Juice, unfermented	35	20	2005
-Mixtures of fruit, prepared or preserved, nes	25	10	2004
-Other fruit, etc, prepared or preserved, nes	30	20	2005
Mixtures of Vegetable Juices, unfermented	35	20	2005
Tomato Ketchup and other			
Tomato Sauces	30	15	2004
Ice Cream and Other Edible Ice	45	19	Year 4
Dairy Spreads	50	35	2005
Roasted Coffee	35	30	2005
Ornamental Articles	20	10	Year 4
Gloves impregnated, coated or covered with plastic or rubber			
-Of Wool or Fine Animal	30	14	Year 4
-Of Cotton	26	14	Year 4
-Of Synthetic Fibres	33	16	Year 4
-Of Other Textile Materials	33	14	Year 5
Jewelry (Silver, Gold, Precious Metals)	40	35	2002
Tubes, pipes and hoses	14	4	Year 4
TV (Monochrome)	20	15	2002
Refrigerators	30	10	2005
Furniture	22	0	Year 5
Doll's Accessories and Garments	21	0	Year 5

**Table 10. Registered Inward Foreign Direct Equity Investments in the Philippines
(In Million US Dollars)**

	1997	1998	1999	2000
Registered Total	1053.38	884.71	1894.18	1398.20
People's Republic of China	1.97	72.06	111.41	48.49
Agriculture, Fishery & Forestry	0.00	0.08	0.45	0.30
Commerce	1.44	32.50	70.02	39.95
Construction	0.12	0.60	0.52	0.25
Financial Institutions	0.19	0.49	1.85	1.45
Manufacturing	0.22	2.24	4.09	0.55
Mining	0.00	0.00	0.09	0.00
Public Utility	0.00	0.18	0.53	0.15
Services	0.01	0.38	0.48	0.34
Others	0.00	35.61	33.38	10.50
% share of PROC's FDIs	0.19%	8.14%	5.88%	3.47%

Source: Bangko Sentral ng Pilipinas.

Figure 1. Foreign Direct Investments: China and ASEAN, 1990-2000.

