New Developments in the Global Economy: Prospects for the Philippines*

AFTA Research Secretariat

The past few years have been difficult for the Philippines. A series of natural disasters and severe power shortages have slowed economic growth to a snail's pace in the last two years. While the Philippines is expected to respond effectively to these challenges on the road to development, it should not limit its concerns to domestic issues. Policy-makers and the business community must pay attention to the new conditions in the international economic arena that will also have a major impact on the Philippine growth prospects in coming years.

These new developments in the world economy are expected to have significant effects on Philippine export prospects and receipts of foreign direct investments (FDI). First, the trends towards economic integration in industrial countries, in the form of the European Community (EC) and the North American Free Trade (NAFTA) give rise to fears of trade and investment diversion. Second, the newly emerging economies of Asia, among them China and Vietnam, are becoming serious competitors for the Philippines in its overseas markets. Third, the dynamic East Asian economies, which are highly significant in this region as markets for exports and sources of FDI, may be rethinking their priorities and growth strategies in the light of this new economic environment. This paper will survey developments in each of these three arenas, providing an overview of Philippine export and FDI performance and prospects.

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*Originally titled "A Survey of Prospects for the Philippines in the Light of New Developments in the International Economy," this was released by the AFTA Research Secretariat last August 1993.

The Philippines in the Global Context

The following figures show some basic economic data and key indicators regarding the Philippines, its main competitors, key markets, and trade flows.

Figure 1

Population, 1992

(in millions)

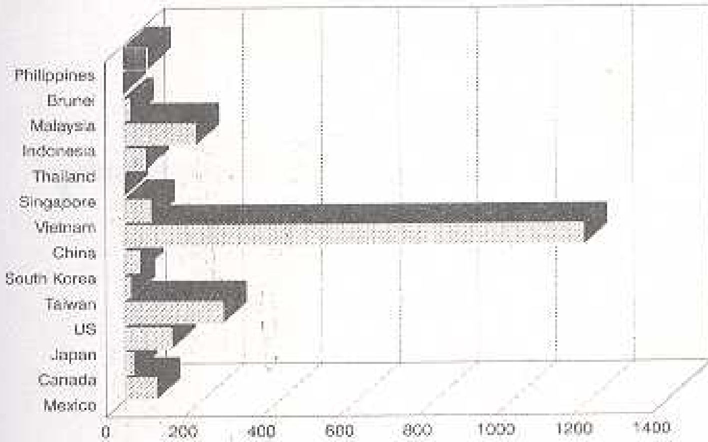


Figure 2

Gross National Product,1992

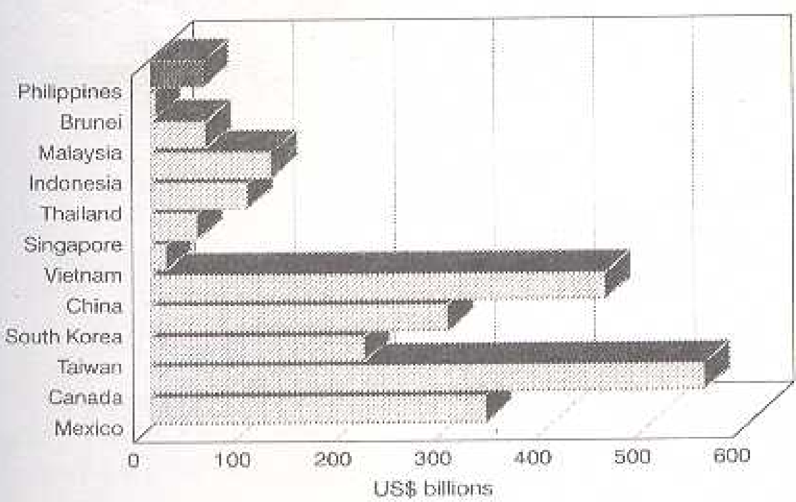


Figure 3

GNP Per Capita, 1992

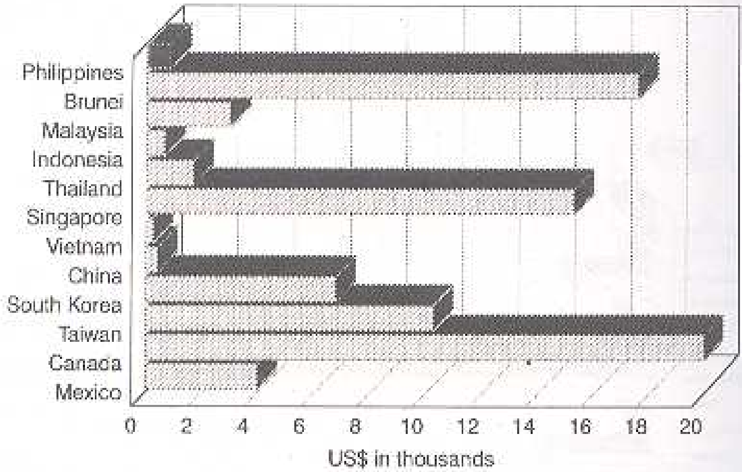
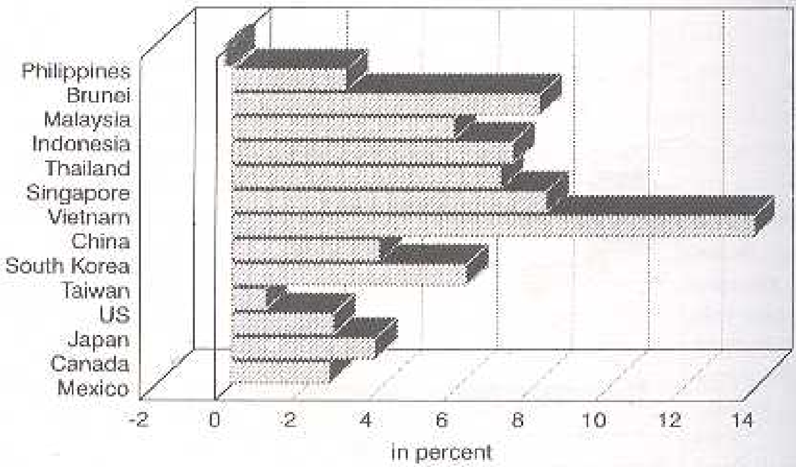


Figure 4

GDP Growth (1992)

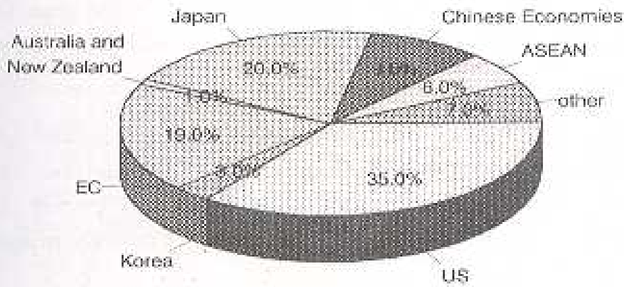


Source: *Asiaweek*, July 30, 1993.

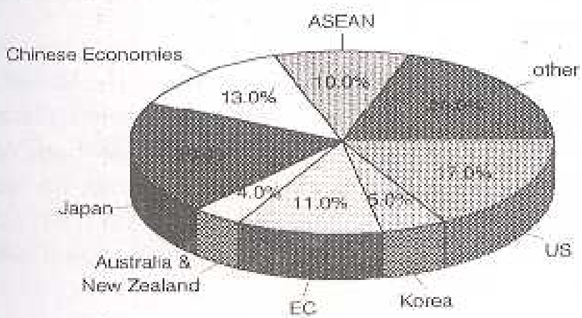
Figure 5

Philippine Trade Flows

(a) Destinations of Philippine Exports, 1992



(b) Sources of Philippine Imports, 1992



Source: *Asia-Pacific Profiles*, 1993

North American Free Trade Agreement

On December 17, 1992, the United States, Mexico, and Canada signed the North American Free Trade Agreement (NAFTA). While the agreement has yet to be ratified by the respective legislatures of the three countries, few doubt that the agreement will come into effect as scheduled on January 1, 1994. With a combined annual output of over US$6 billion and a population of over 360 million, NAFTA will be the world's largest and richest single market.

NAFTA is an ambitious effort to eliminate trade barriers to agricultural, manufacturing, and services sector; remove investment restrictions; and effectively protect intellectual property rights. All tariffs within the free trade area will be eliminated within ten years for most products, with the remainder to be phased out within a maximum of fifteen years.

On the one hand, the governments of Canada and US have announced that NAFTA does not signal a North American retreat to protectionism and, thus, should not be considered a threat to non-member countries. However, recent studies are not entirely in agreement with such observations.

Philippine-NAFTA Relations

The United States is the country's largest trading partner. Out of US$9.8 billion in Philippine merchandise exports in 1992, the US received US$3.5 billion or about 35.5% of total Philippine exports.[1] On the other hand, Canadian and Mexican Trade with the Philippines is negligible: the two countries accounted for only 1.5% and 0.1%, respectively, of Philippine exports in 1990.[2]

Between 1987 and 1991, Philippine exports to the United States grew by 53%. This growth rate, while positive, is below the average growth rate for ASEAN countries; exports to the US from ASEAN countries grew by 72% over the same period. Thailand, for example, posted an impressive export growth of 178% from 1987-1991. Mexico also overshadowed the Philippines in the 1987-1991 period, when its exports to the US grew by 118%.[3]

In terms of its share of total world exports to the US, the Philippines has also been falling behind. While ASEAN increased its share of world exports to the US from 5.12% to 6.15% between 1983 and 1991, the

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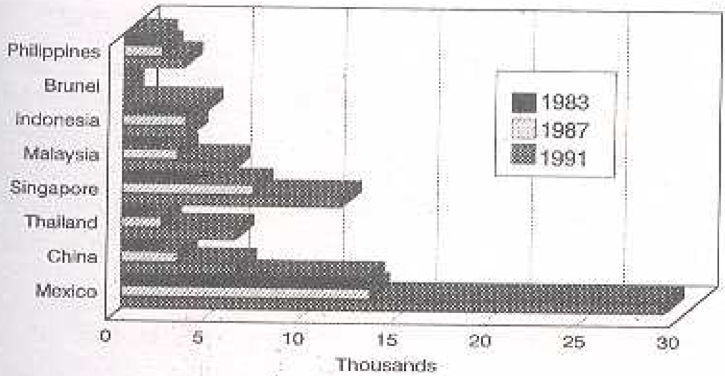
[1]Department of Trade and Industry, 1993; and *Asia-Pacific Profiles*, 1993.

[2]Han Soo Kim and Ann Weston, "A North American Free Trade Agreement and East Asian Developing Countries," *ASEAN Economic Bulletin* (Singapore: ISEAS, March 1993).

[3]IMF *Direction of Trade Statistics*, 1992.

Figure 6

Exports to the US (in millions of US$)



Philippines' share fell from 0.70% to 0.64%. Mexico, on the other hand, increased its share of world exports to the US from 5.09% to 5.90% over the same time period (Figure 6).[4]

The Philippines is a beneficiary of the Generalized System of Preferences (GSP) of the United States and the Canadian Generalized Preferential Tariff (GPT), which also allows certain Philippine goods to enter these countries at zero or discounted tariff rates. Fifty-three percent of Philippine exports to the United States enter duty-free, partly as a result of the GSP.[5] In the long run, however, Philippine exporters cannot completely rely on GSP privilege since it is subject to renewal on a regular basis.

Impact on the Philippines

NAFTA has the potential to adversely affect the Philippine economy through its impacts on trade and investment flows. Economists divide these effects into three kinds, namely, trade diversion, investment diversion, and non-tariff barriers to trade.

Trade Diversion

Trade diversion occurs when the formation of a free trade area (FTA) gives a producer within the FTA a price advantage over a producer outside

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[4] *Ibid.*

[5] "Implications of NAFTA on Philippine Exports to the United States," Department of Trade and Industry (Manila: Unpublished report, February 1993).

of it by reason of tariff rates that discriminate against a country's exports. For example, if NAFTA removed all tariffs on automobiles produced within North America, while maintaining tariffs on imports of cars from Japan, the US consumer would find Canadian automobiles more price competitive than Japanese autos.

The more similar Philippine exports to the US are to Mexican exports, the greater will be the probable trade diversion under NAFTA. Recent measures of trade overlap indicate that Mexico and the Philippines export very similar goods to the United States. Worse, the similarity index (the measure which estimates trade overlap) between the Philippines and Mexico has been increasing over the past few years, indicating that the two countries have similar patterns of export growth.[6]

These findings suggest that the Philippines would be more vulnerable to NAFTA than other countries. However, it must be noted that the Philippines and Mexico may not be exporting precisely the same goods within broad product classifications.

The Department of Trade and Industry (DTI), in a recent report, shed some more light on the potential harm to the Philippines of trade overlap with Mexico. It determined that Mexico would obtain a price advantage due to NAFTA *vis-a-vis* the Philippines in the following products: textiles and apparel; TV receivers and picture tubes; footwear; luggage, bags, and handbags; dress gloves; dolls (other than stuffed); and frozen pineapple concentrates.

The DTI notes, however, that the Philippines will remain competitive with Mexico in several important product lines, even with Mexico's preferential tariffs within NAFTA. For example, the Philippines retains a price advantage in the high-value portion of the apparel sector, including products such as men's cotton t-shirts, men's cotton knit golf shirts, men's blue jeans, women's polyester blouses, brassieres, and women's suit-type coats. In addition, should the Uruguay Round of the GATT succeed in lowering worldwide tariffs, the Mexican tariff advantage would be further eroded since Philippine goods would enter the US more cheaply.[7] Nonetheless, studies predict that NAFTA-induced diversion alone will reduce ASEAN exports to North America by up to 4%; this

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[6]Kim and Weston, *op cit.*, p. 297.

[7]*Op cit.*

does not even take into account ASEAN losses due to investment diversion or non-tariff barriers.[8]

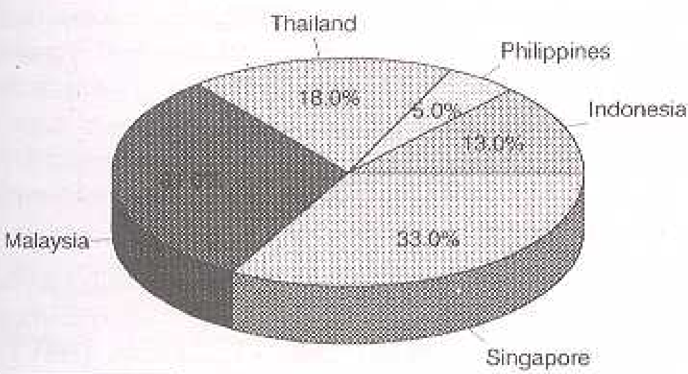
Investment Diversion

The Philippines must seriously consider the possibility that NAFTA will divert investment away from the Philippines. To a great extent, the phenomenal growth of the ASEAN region in recent years has been attributed to FDI aside from rapid export growth. From 1986 to 1989, FDI in the region rose by 650%. And yet, the indicators have not been good for the Philippines. In 1991, the five ASEAN nations received US$21.19 billion in investment, of which only 5% went to the Philippines; in contrast, Thailand, Indonesia, and Malaysia received 18%, 13%, and 31%, respectively (Figure 7).[9]

After Japan and Taiwan, the United States is the third largest Philippine source of FDI.[10] The trend from 1986 to 1990 seems to indicate that the Asian share of Philippine FDI is on the rise while the share of the US was at a five-year low in 1990 (Figure 8).[11]

Figure 7

Shares of 1991 FDI Flows into ASEAN



[8]Mordechai Kreinin and Michael Plummer, "Effects of Economic Integration in Industrial Countries on ASEAN and the Asian NIEs," *World Development*, Vol. 200, No. 9 (1992), pp. 1345-1366.

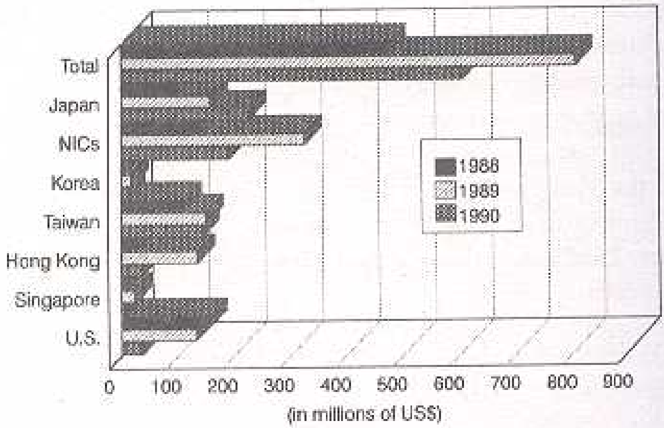
[9]Roberto Romulo, "Trade Blocs: The New World of Business," *Selected Readings* (Manila: Philippine Exporters Confederation, February 1993) p. 5.

[10]Yam Tan Kong, Toh Mun Heng, and Linda Low, "ASEAN and Pacific Economic Cooperation," *ASEAN Economic Bulletin* (Singapore: Institute of Southeast Asian Studies, March 1992).

[11]*Ibid.*

Figure 8

FDI Flows into the Philippines, 1988-1990



Under the NAFTA, Mexico will seem to be a more attractive destination for Canadian and US FDI. NAFTA investors will enjoy greater protection against expropriation, freedom of currency transfer, and liberal investment dispute settlement procedures.

Other investor nations will now see North America as a profitable investment destination, particularly, Mexico with its low labor costs and proximity to the US market. The creation of NAFTA, due to internal tariff elimination, will make possible new economies of scale in an enlarged North American market. Foreign firms have the incentive to set up production centers in North America in order to avoid the external tariffs that remain in place against the rest of the world.

While no empirical studies have been made of possible investment diversion due to NAFTA, the available evidence is not encouraging. A 1988 US Standard International Trade Classification (SITC) study reported that a great majority of 900 US firms surveyed felt that production in Mexico had improved their international competitiveness, and that they had, thus, avoided having to move their operations to Asia.[12] Indeed, investment in Mexico has been rising at a phenomenal rate. In 1989, FDI entering Mexico amounted to US $702 million. By

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[12] "On the Road to North American Free Trade," *Business America: The Magazine of International Trade*, Washington, D.C., April 6, 1991, p. 5.

1991, it had leaped to a phenomenal US$16 billion.[13] Between 1984 and 1990, Mexico tripled its share from 3% to 9% in total world FDI directed to developing countries. The largest investors in Mexico are the United States, with 63% share, and Germany, United Kingdom, and Japan, each with 5% share of Mexican FDI.[14]

With FDI flows to the Philippines being sluggish to begin with, the emergence of Mexico, through NAFTA, as a promising investment destination on the doorstep of the US consumer market, should arouse concern among Philippine policy-makers eager to bring FDI to the country.

Non-Tariff Barriers

Other disguised barriers in NAFTA may reduce Philippine trade and investment flows. While the effects of these are inherently difficult to measure, they could prove to be more threatening to Philippine interests than trade diversion or investment diversion alone. While a recent study concludes that losses due to trade diversion could amount to 4% of ASEAN exports to the NAFTA, the same study estimates that export losses due to non-tariff barriers could amount to several times that figure, *i.e.*, from 10% to 40% of ASEAN exports to NAFTA.[15]

Rules of Origin. US industry groups sought to make sure that third parties would not use assembly plants in Mexico to advance their products into the US market, leaping over existing trade barriers. Of particular interest to the Philippines are strict origin rules on textiles and apparel. Such products in order to avail of duty-free status in NAFTA, must satisfy the 'yarn-forward' rule, *i.e.*, the goods must be made of North American-produced yarn.[16] Such a requirement is much more restrictive than other origin requirements, like merely requiring that goods undergo a 'substantial transformation' within the country to move on to another tariff classification in order to avail for itself a duty-free status. A likely result of such restrictive rules of origin would be the dampening of North American imports of labor, yarn, and fiber from other countries as producers sourced such products locally. On the other hand, trade diversion would be lessened for apparel because it would be

[13]Romulo, *op cit.*, p. 4.

[14]Kim and Weston, *op cit.*, p. 297.

[15]Kreinin and Plummer, *op cit.*, p. 1352-1353.

[16]Kim and Weston, *op cit.*, p. 292.

more difficult to source locally all the way down the chain of intermediate inputs for these more processed items.

Safeguard clauses. NAFTA's safeguard clauses, intended as domestic protective measures against sudden import surges, are more difficult to enact against a NAFTA nation than one outside the trade bloc. There are stricter rules within NAFTA dictating when a member country can erect trade barriers with another member country. Since it is easier to enact escape clauses against non-NAFTA members than with NAFTA countries, the former group could suffer more than members of the trade bloc from such protective actions.

Dispute settlement provisions. Under NAFTA, dispute settlement on issues involving fair trade practices among members will be streamlined and made more efficient. This means that Mexico will be more protected from unilateral actions by the US or Canada restricting its imports through anti-dumping duties and the like. By making Mexico less vulnerable to US protection, these provisions could make Mexico an even more attractive site for investments intended to penetrate the US market.[17]

European Community

After a period of 'disintegration' in the 1970s and early 1980s came a period of renewed dynamism in the pursuit of European integration. 'Europessimism' thus turned into 'Europhoria' as the European Community (EC) inched its way into a single European Market in December 1992. This impetus was unleashed by the signing of the Single European Act (SEA) in 1986, which embodies the principal revisions of the Rome Treaty and strengthens the decision-making capacity of the EC.

The 1992 program of the SEA puts Europe into motion towards attaining a highly ambitious target: free movement of goods, people, money, and services within the region, making EC truly a market without frontiers. Encouraged by the successful completion of the internal market, the EC sets its sight on an even more ambitious goal of creating an Economic and Monetary Union (EMU) in Europe. This is the essence of the famous Maastricht Treaty which was drafted in January of 1993.

[17] *Ibid.*, p. 291.

However, the world has witnessed the tumultous ratification process of the same treaty and the monetary crisis that the EC has been experiencing in these recent years. In addition, the EC is facing an economy suffering from the ripple effects of German unification, persistent recession, and the ongoing war and strife among the Balkan states. One will therefore appreciate how very narrow and rocky the road the EC must traverse as it moves on towards further economic integration

Impact on the Philippines

The question of what impact the EC has or will have on the Philippines is usually asked with the notion of a 'Fortress Europe' in mind. The completion of the European Single Market in 1992 fueled speculation on possible adverse effects non-member countries will experience as EC further deepens and widens the scope of its integration.

In general, the impact of customs unions, such as the EC and the NAFTA, on the welfare of member and non-member countries is ambiguous. On one hand, economic integration within a region is a step towards greater liberalization, a general opening-up of markets. On the other hand, it is a discriminatory arrangement among member countries that will at times cause a shift of preference or demand from more efficient non-member producer countries to producers in member countries.

There is, therefore, a need to take a closer look at specific areas of trade, investments, and other forms of economic cooperation, in order to identify some of the significant indicators of positive and adverse effects EC-92 might have on EC-Philippine economic relations.

EC-Philippine Trade

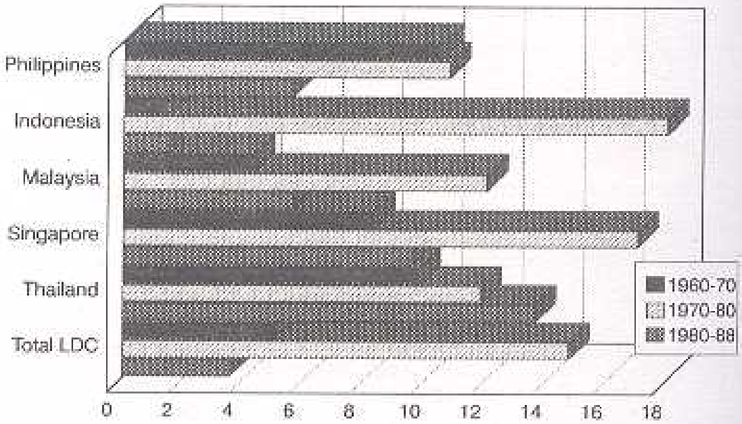
EC imports from the Philippines grew at a rate of 20.7% in the 1970s compared to 19.1% for all ASEAN countries, and 17.2% for EC's total imports from LDCs. The pace of growth was slower in the 1980s at 4.7%, although it could still be considered substantial given the negative growth of LDCs exports (1.5%) to the EC during the same period. (Figure 9)

Growth rates fell sharply by 20.9% in the period 1984-1986, with coconut oils suffering a particularly large drop in prices. This was due to a large increase in production partly caused by favorable climactic conditions, against a backdrop of weak international demand.

On the other hand, the growth rate of EC exports to the Philippines was lower than its imports, 10% from 1970-1980 against 16.9% for EC

Figure 9

Growth Rates of Exports to the EC, 1960-1988 (%)



exports to the rest of the developing countries. The growth in the 1980s further dropped due to the decline of 22.5% from 1982-1984.

Among the ASEAN countries, it was Singapore's exports that led the region in the 1970s with a high growth rate of 26%. During the 1980s, Thailand came out strong with its exports growing at a rate of 11%. In fact, in the latter part of the 1980s, it replaced Malaysia as the EC's major trading partner in the region.

The EC's exports, instead, found the Indonesian and Singaporean markets relatively more accessible, as shown by their growth rate of 18% and 17%, respectively. However, it was again Thailand that took the lead in the 1980s, with its imports growing even faster than its exports.

The EC has consistently been the third largest trading partner of the Philippines. Philippine trade is mainly directed to the United States, with Japan taking the second biggest share. The EC is largely an unexploited market as shown by the low volume of Philippine exports to the EC, accounting for only 18% of total exports compared to the 1970 shares of about 20%.

EC exports to the Philippines dropped from 17% of all Philippine imports in 1989 to 16.6% in 1991. The same goes for EC imports which declined by 2% from 1989 (11.2%) to 1991 (9.2%). (Table 1)

Table 1

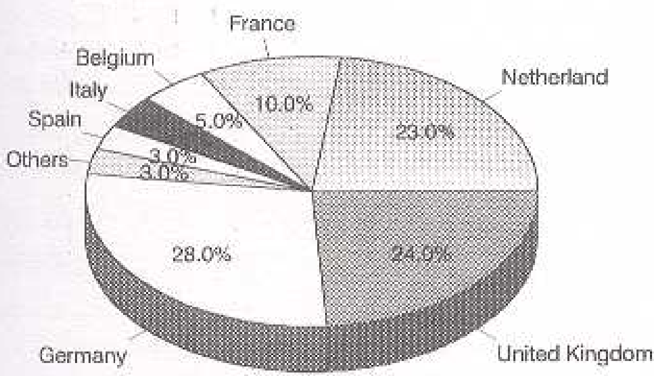
Shares of Philippine Exports and Imports Going to/Coming from the USA

	Exports from the Philippines (%)			Imports to the Philippines (%)		
	1989	1990	1991	1989	1990	1991
USA	37.8	38.0	37.2	19.1	19.5	20.2
Japan	20.4	19.9	20.0	19.5	18.4	19.4
EEC	17.0	17.7	16.6	11.2	10.0	9.2

Germany is the Philippines' main trading partner in the EC. From 1970 -1991, it consistently claimed an average of 37.8% and 27.7% of the Philippines total imports from and exports to the EC, respectively. Other major partners are the United Kingdom (16.8% of total Philippine imports and 23.7% of total exports to the EC), the Netherlands (13.7% of imports and 23.1% of exports), and France (12% of imports and 10.4% of exports). (Figure 10)

Figure 10

EC Imports from the Philippines, 1989-1991



Focusing on the EC market, one can note that the share of the Philippines never went beyond 12.2% of EC's trade with ASEAN. Among the ASEAN (excluding Brunei), the Philippines is the least oriented towards the EC. In 1991, the Philippine share dropped to 6.7% of total EC imports from ASEAN.

From 1989-1991, the Philippines accumulated a trade surplus of US$418.9 millions with the EC. Figures show that the large deficits of the Netherlands and the United Kingdom accounted for the EC's deficits. On the other hand, the largest deficit experienced by the Philippines is traced to its trade with Germany.

Structure and Trends of Philippine Trade

Although the relative importance of agricultural exports has declined since the beginning of the 1970s, commodity products still account for some 30% of total Philippine exports. The EC is a major market for six of the Philippines' top 10 agricultural exports, namely, coconut oil,.desiccated coconut, copra oil cake/meal, copra, tuna, and pineapple in syrup.

From 1988 to 1991, exports of coconut products comprised the bulk of the country's agricultural exports to the EC. Howeve, the market shares of copra sharply declined from 20.99% in 1988 to only 10% in 1991.

This reduction in market shares was due to the following factors:

- Prices of desiccated coconut was less competitive relative to world prices due to strong competition coming from Indonesia, Malaysia, and Sri Lanka.
- Prices of copra exports experienced a shortfall of 34.4% (from US$ 0.32 to US$ 0.2 per kilo) from 1989-1990, which in turn, reduced the country's foreign exchange earnings by 18.8%.
- The new restriction of the EC on the aflatoxin content of Philippine copra.

Exports in consumer and industrial manufactures take the biggest share in total Philippine exports, registering an average combined share of 61% from 1988 to 1990. (Table 2)

Table 2

Top Philippine Export Manufactures

	Shares (%)	Growth (%)(1988-90)
Garments	21.53	17.16
Electronics	21.49	19.57
Gifts/Toys/Houseware	5.48	45.12
Furniture	2.77	33.35
Footware	2.28	98.90
Construction Materials	1.99	53.03

Source: Philippine Trade Profiles, DTI, 1990.

Trade Diversion, Trade Overlap, and Intra-Industry Trade

Trade Diversion. In a study done on EC-ASEAN relations, some indicators of probable trade diversion were observed in 5 out of 19 SITC product groups that were analyzed.[18] The findings on trade diversion indicators for the specific product groups are shown in Table 3.

Table 3

Summary Findings on Trade Diversion Indicators

SITC	Product	Main EC Competitors
121	Tobacco unmanufactured: tobacco refuse	Greece/Italy
634	Veneers, plywood	Belgium/Denmark/ Portugal
842	Outer garments (men's and boy's) of textile fabrics	Belgium/Italy/ Portugal
843	Outer garments (women's, girl's, infant's)	France/Greece/ Portugal
844	Undergarments of textile fabrics	Portugal/Denmark

From 1968 to 1988, the Philippine trade pattern has been gradually shifting from the exports of commodities towards the export of manufactures. Theory would then lead one to predict a greater tendency towards trade diversion, as the Philippines moves into the more competitive sphere of its trade with the EC, and also as EC integration strengthens.

Intra-Industry Trade. The concept of intra-industry specialization and its capacity to promote acceleration of trade poses another issue in the present analysis. While traditional trade theory focuses on the exchange of different commodities, as in the case of the exchange of primary products for secondary ones, intra-industry trade offers the opportunity for mutual exchange of partly standardized, partly differentiated secondary products.

Thus, it could be said that the the greater is the share of intra-industry *vis-a-vis* inter-industry trade, the lesser would be the negative welfare effects that would be experienced by the Philippines.

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[18]Edylinda Balaoing, "EC-ASEAN Relations." (Unpublished M.A. Thesis) University of the Philippines, 1991.

Table 4

Intra-Industry Trade of Overlapping Commodities in EC-ASEAN Trade (1987)

NIMEXE SITC	Thailand	Malaysia	Indonesia	Singapore	Philippines	Brunei
09 (071)			0			
15 (424)		2.2	6.5		1.6	
24 (121)	7.0		2.0		14.7	
44 (634)	5.6	0.1	0.3	4.9	0.6	
60 (842)	2.3	6.4		24.8	7.7	
61 (843)	0.4			41.8	1.9	
71 (667)						28.2
84 (762)	17.8	25.8	3.8	93.7	52.3	
85 (776)	43.3	63.1	3.0	82.6	92.9	

Table 4 gives the extent of intra-industry trade of the overlapping commodities in EC-ASEAN trade for 1987. However, it should be maintained that measurement based on three digit SITC groups (which correspond to the two-digit Nimexe) tend to overestimate the extent of intra-industry trade. This is due to aggregation faults in the commodity level. However, according to Nobel (1981), if all values are equally biased, a reasonable interpretation is still possible.

In ASEAN, the measures of intra-industry trade for Indonesia turned out to be the lowest in almost all commodities under review. Singapore, on the other hand, showed the highest values in all the manufacturing sectors studied confirming the hypothesis that the extent of intra-industry trade depends on the level of per capita income (Linder, 1961).

In the case of the Philippines, while most of the indicators of trade diversion, and trade overlap register in the trade of manufactured products, one can note the high intra-industry trade index in these same products which points to the possibility of mutually beneficial trade between the Philippines and the EC.

Potential Opportunities and Problems

The prospects of an EC without borders present a vista of opportunities and challenges for the Philippines.

EC-92 offers significant advantages for Philippine traders. Among them are: creation of the biggest single market in the world; simplified set of rules; and greater market access, especially, in textiles and clothing, footwear, cars, and services.

There are likewise several challenges and problemsthat must be confronted — highly competitive market (both by insiders and third country's competitors); high quality preferences; high health, safety, and environmental standards; considerable diversities of tastes and customs; and possibility of new protectionist measures due to restructuring and recession.

Specific Trade Issues

Common Agricultural Policy

The Common Agricultural Policy (CAP) is highly restrictive in temperate-zone agricultural products except in grain substitutes (e.g., soya, tapioca, corn glutten feed), where the EC imports huge volumes. Its export subsidies will be curbed if the Uruguay Round is concluded. Its high grain price (a cause of much of the trouble) will be cut by 30 percent within the period 1993-1995.

However, market access will remain difficult. For tropical products, access is often (almost) free, but there are specific problems such as sugar protection (competition with beet sugar), coffee/tea (especially in Germany), bananas (a tariff quota for Carribean banana growers, traditional suppliers), and citrus fruits (competition in season is not allowed).

Multi-Fiber Agreement (MFA)

The MFA is an international agreement that allows an importing signatory country to apply quantitative restrictions on textile imports when it considers them necessary to prevent market disruption, even when such restrictions would be contrary to GATT rules. The EC's restrictiveness in application of the MFA has been varying over time. Member countries of the EC used to apply two sets of textile quotas: national and EC quotas (all the national quotas added up). The national quotas (several thousands) have been abolished due to the formation of a common market (EC-1992). The EC quotas are offered (in the Uruguay Round) to be gradually loosened and abolished over a ten-year, three-stage period.

Competition in textiles and clothing in the EC market comes from East Asia (China and Indonesia are likewise coming up), South Asia, Turkey and possibly, from Eastern Europe in a few years. Thus, although market access has improved and may further ease up with the Uruguay Round, the competition is hardly with EC firms anymore, except in fashion and high quality items.

Anti-Dumping

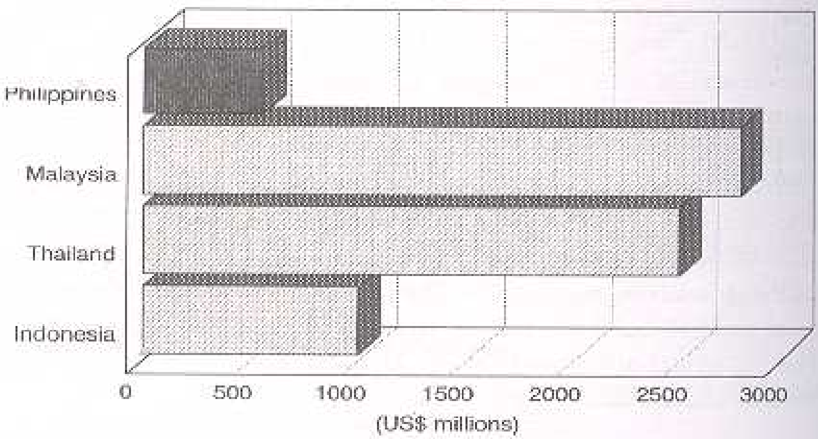
Although anti-dumping measures get considerable publicity, the Philippines was not hit by any EC anti-dumping sanctions since 1980. Other ASEAN countries were hit 19 times. Hence, the frequency of anti-dumping measures is low and the product scope is usually narrow. However, the EC procedures clearly have objectionable elements. Asian NIEs and Japan have been hit more often, especially in the 1980s.

Before any anti-dumping measures can be slapped against Philippine exports, injury must first be demonstrated by the receiving country. It must also be shown that the Philippine export drive must is successful, involving prices lower than those at home, and causing disruption in the EC market of the product.

EC Direct Investments

In 1991, the Philippines received the lowest share in total EC FDI that flowed into the ASEAN region. The principal destination of EC FDI was Malaysia, followed closely by Thailand. (Figure 11)

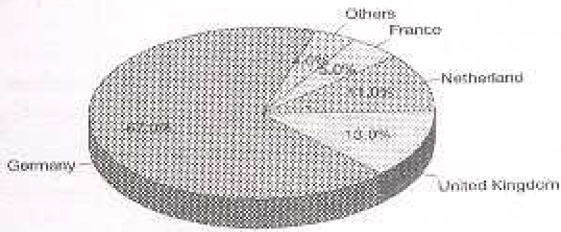
Figure 11
EC FDI IN ASEAN, 1991



From 1985-1988, Germany was the major EC investor in the Philippines, taking 67 percent of the total EC FDI in the country. The UK meanwhile, accounted for 13 percent and the Netherlands, an average of 11 percent. (Figure 12)

Figure 12.

Shares in Total EC Investments in the Philippines, 1986-1991



Aside from the more obvious reasons why the Philippines is currently not an attractive investment site, a couple of others have been cited:[19]

- Since almost half of the discount on Philippine debt papers benefit mostly the Government and not the investors, monetary facilities, such as the debt-to-equity swap, have discouraged rather than attracted long-term foreign investments.

- Investors need to see good implementing rules of the Foreign Investments Act.

Emerging Economies of Asia

People's Republic of China

After decades of economic lethargy, China, in recent years, has enjoyed phenomenal economic growth as a result of the market reforms instigated by Deng Xiaoping at the 11th Communist Party Congress in 1978. Some highlights of Chinese economic achievements in the years since then are as follows:

- Real GNP has grown nearly 9% per year;

- Analysts predict that China's economy will have multiplied four-fold between 1978 and 1994, a growth comparable to those of Japan, Taiwan, and South Korea in their periods of fastest growth;

[19] *Business World,* 1991.

- Between 1978 and 1991, Chinese nutrition levels skyrocketed: grain consumption went up by 20 percent, seafood consumption doubled, pork consumption increased by 250 percent, egg consumption increased three-fold, and poultry consumption, four-fold;
- Between 1981 and 1991 the number of televisions in every 100 households increased from one to 70; the number of washing machines from six to 80; the number of refrigerators from 0.2 to, almost 50; and,
- China's foreign trade grew from US$21 billion in 1978 to US $170 billion in 1992.[20]

Trade Developments

Exuberant Chinese Export Growth. China's 'open door policy' has brought rapid growth to China's trade with the outside world. In 1992, China had a trade surplus of US $5 billion, while it exported US $86 billion worth of goods. Much of this growth was attributable to the growth of manufactured exports, whose percentage of total exports increased from 47% in 1980 to 83% in 1991. Principal Chinese manufactured exports include clothing, textiles, toys, sporting goods, and footwear. China has been gearing up for technological advancement in orde to improve the quality of output and to heighten the technological exporsure and skills of its workforce. This is demonstrated by, among other things, the rapid growth of Chinese imports of electric and non-electric machinery and transport equipment.[21]

China's exports to all the major markets have been growing at a fast rate. From 1987 to 1991, growth of Chinese exports to the United States (104%) overshadowed that of total ASEAN exports (72%) and developing countries in general (37%). China's export growth rate was almost twice that of the Philippines which only saw its exports to the US rise by 53% in the same period.(Figure 13)

Growth of Market Share. Not only has China been increasing its absolute level of exports; it has also garnered a larger share of the major industrial country markets. In 1983, Chinese goods accounted for

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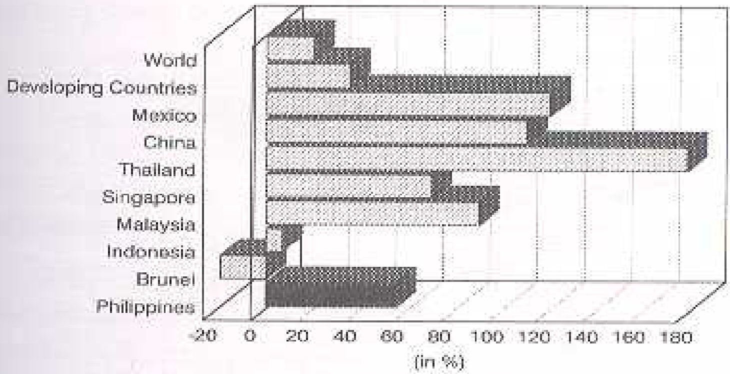
[20]Jim Rohwer, "When China Wakes," *The Economist*, November28, 1992, p. 63.

[21]*Asia-Pacific Profiles*, 1993.

Figure 13

Growth of Exports to the US, 1987-1991



0.67% of total US imports ; in 1991, the figure nearly redoubled to 1.26%. ASEAN as a whole increased its share of the US market less dramatically from 5.12% to 0.64% over the same time period.

China's phenomenal export growth should concern the Philippines, especially in areas where the Philippines and China export the same class classes of products. It is these areas where the two countries are likely to come into competition, where the more efficient producers will edge out the weaker ones. Initial studies of trade overlap suggest that the Philippine should expect keen competition in the sectors of clothing, footwear, and telecommunications equipment.

FDI Flows

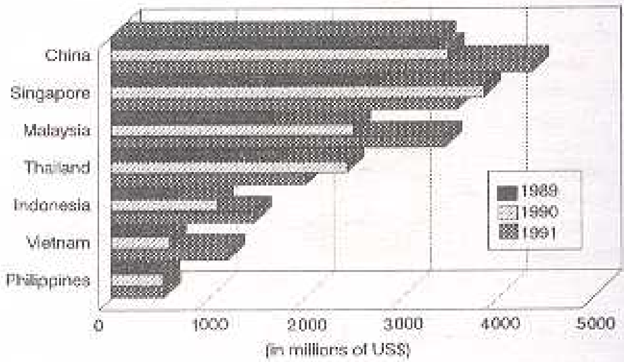
Chinese FDI in Asian Perspective. Foreign direct investment has come to dominate China's capital inflow. In fact, factors such as China's low labor costs and large market size have caused China's FDI to increase at a dramatic rate. FDI flows into China more than doubled between 1986 and 1991, from US$1.9 billion to US$4.4 billion, making it the largest Asian recipient of FDI (Figure 14).[22] For the first three months of 1993 alone, the People's Republic of China's Ministry of Foreign Trade and Economic Cooperation recorded 17,500 new foreign-funded projects worth a total of US$3 billion up to 167% from the same quarter last year. Today, there are about 84,000 joint ventures of foreign funded firms in China of which more than half, or 47,000 were registered just last year.[23]

[22]Asian Development Bank, *Asian Development Outlook, 1993* (Manila: Asian Development Bank, 1993).

[23]Yam, et al., *op cit.*, p. 23.

Figure 14

FDI in Asia, 1989-1991



Source: State Committee for Cooperation and Investment, Vietnam. *Asian Development Outlook*, 1993.

Sources of Chinese FDI. Foreign investments from both overseas Chinese billionaires, primarily from Hong Kong, Taiwan, and Southeast Asia, accounting for 80% of total foreign investments in the country, or US$50 billion, and Western multinationals, primarily from the US and UK, are slowly venturing into the once remote in-land provinces of mainland China, going beyond the more developed provinces like Guandong and Fujian. Since 1985, more than 1,000 Taiwanese firms, it is estimated, have invested in the Mainland China despite the apparent hazards of official bans on direct and indirect investment and political instability.

Investment Diversion to China. Asian economists are warning that China is a greater threat than the economic unions of the NAFTA or the European Economic Community. At present, China is the largest recipient of FDI among developing countries in Asia which was not the case only a few years ago. In 1990, Singapore benefited the largest with a total FDI of US$3.9 billion; China only received US$3.5 billion. Moreover, the growth of China is still expected to accelerate, as most are still banking on the potential of the countryside to catch up.

The Socialist Republic of Vietnam

As a result of war and socialist mismanagement for many years, Vietnam has been one of the poorest countries in the world. In recent years, however, the government has begun economic and political reforms that have started to unleash Vietnam's productive potential. GDP grew at 7.1% in 1989, 4.5% in 1990, and 3.8% in 1991.[24] Per capita income has been rising slowly, from US$310 in 1986 to US$390 in 1992.[25]

Trade Developments

Vietnamese exports grew from US$384 million in 1986 to US$2.45 billion in 1992. The country posed a US$70 million trade surplus in 1992.[26] Major exports include rice, coal, lumber, and oil. Mineral, marine, and processed farm products are also felt to have good export potential.[27]

While export figures for Vietnam are difficult to come by, figures at hand hint that the country has bright export prospects.[28] Vietnam's exports to Japan, its largest developed trading partner, between 1987 and 1991 grew over three and a half times (356%). By comparison, ASEAN exports to Japan grew a mere 70% and the Philippines' 81% over the same period. Vietnam's exports to industrialized countries grew 339% between 1987-1991, while the comparable figures were 84% for ASEAN and 72% for China. While Vietnamese merchandise as a share of total world exports to Japan remains small, it has shown a rapid 67% increase from 1989 to 1991. (Figure 15) No other country comes close to displaying such an increase in Japanese market share.

Vietnamese exports are mainly in raw or slightly processed materials and agricultural goods, and, thus, do not pose an immediate threat to the Philippines' important manufactured exports. However, the strong potential for the establishment of price-competitive labor-intensive industry should not be ignored.

FDI Flows

The change in the political situation has pushed Vietnam's economy into a good start. In 1986, Vietnam openly committed itself to economic renovation in all areas of the economy, resulting in large inflows of FDI. (Figure 16)

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[24] Asian Development Bank, *Asian Development Outlook, 1992* (Manila: Asian Development Bank, 1992).

[25] *Asia-Pacific Profiles*, 1993.

[26] *Ibid.*

[27] *Asian Development Outlook*, 1992.

[28] IMF, *op cit.*

Figure 15

Growth Rate of Shares of Japanese Imports,1989-1991

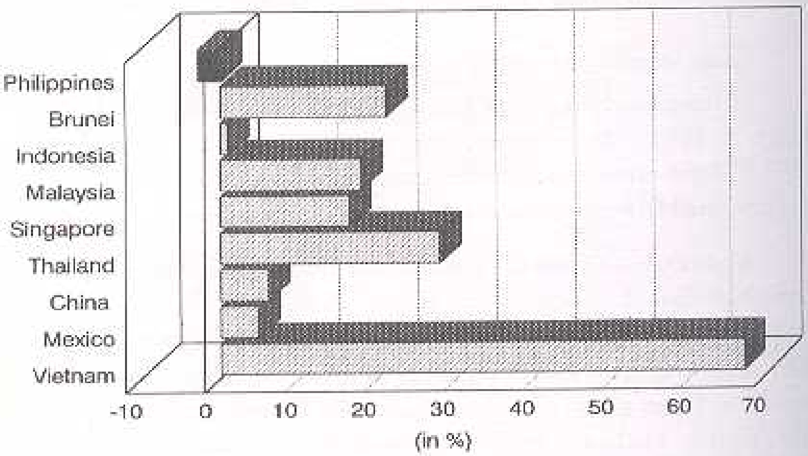
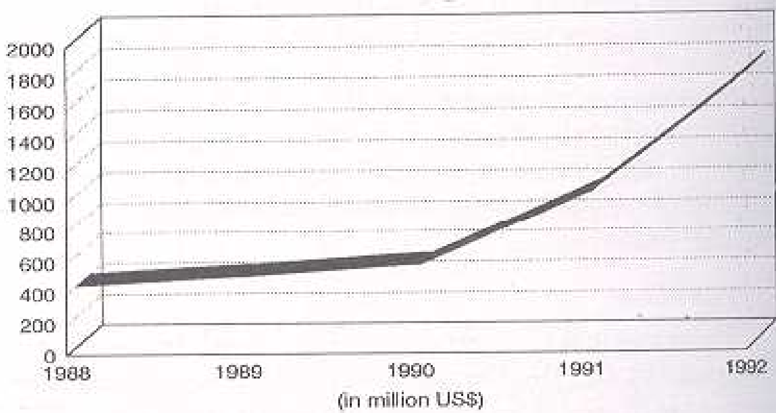


Figure 16

FDI in Vietnam, 1988-1992



Major investors since 1986 include:

Taiwan. Taiwanese companies, which received authorization by their government to invest in Vietnam only in October 1990, are now at the top of the list of foreign investors, with 50 joint venture projects committing a total of US$260 million in capital spending.

Hong Kong. The territory is presently the second largest investor, with its 116 projects of total capital investment valued at US$211 million. There have been expectations that large amounts of HK capital would be funnelled in Vietnam, as the colony draws nearer to its 1997 return to the mainland.

France. This sole active European investor in Vietnam has 31 investment projects approved in Vietnam with a US$166 million being committed.

Australia. It has 20 projects involving a total investment of US$144 million.

Moreover, a settlement on the Cambodian conflict in October 1991 has also improved investment prospects of other countries in Vietnam, namely, Japan, South Korea, Singapore, Malaysia, and China.[29]

United States. Nevertheless, the best times for Vietnam's foreign investment still lie ahead, when the US lifts its trade embargo (expected sometime in 1945). Seventy-two percent of 34 US firms surveyed with combined annual sales of over US$375 billion said that they would invest in Vietnam after the removal of the embargo In the same survey, Vietnam ranked fourth as an investment site in Asia, after China, Indonesia, and Thailand.[30] However, after the recent talks between the representatives of the most high-powered groups of American companies to visit since the Vietnam war met with Vietnamese leaders in Hanoi, the potential American investors concluded that the country had a lack of a track record for resolving commercial legal disputes. They were, therefore, hesitant to commit money to projects without adequate legal protection.[31]

Vietnam in an Asian Context

Overall, during the first quarter of this year, or five years after the country opened up, 41 countries poured in approximately US$5.3 billion in investments. Twelve of these countries granted Vietnam more than US$100 million each in investments by the end of 1992. Thus, compared with the other countries in the region, investment in Vietnam is not only doing fairly well. This country was even ahead of some developing

[29] H. N. Nguyen, "The Scope and Prospects of Foreign Investment in Vietnam," *Contemporary Southeast Asia*, Vol. 14, No. 3 (December 1992), p. 248.

[30] "US Firms Rate Vietnam as Investment Site in Asia," *Manila Bulletin*, July 29, 1993, p. B-3.

[31] "Vietnam Not Ready for US Capital," *Manila Bulletin*, August 3, 1993.

member countries of the Asian Development Bank in 1991, including South Korea and the Philippines for the same year only amounted to US$1.1 billion and US$525 million respectively.[32]

Developed Asian Economies

Japan

Philippine -Japan Trade

Trading Partner. Japan is a major trading partner not only of the Philippines, but all the ASEAN countries.[33] After the US, Japan is the Philippines' second largest trading partner, serving as the destination of 20.% of Filipino exports and the source of 20.6% of imports in 1992. With regard to the other ASEAN economies, Japan is the main destination of exports originating from Brunei (53% of total) and Indonesia (36.9%), and a major destination of Malaysia's (15.9%), Thailand's (18%) and Singapore's (7.6%) exports. Japan is also the prime source of imports for Indonesia (24.5%), Malaysia (26.1%), Singapore (21.1%), and Thailand (29%).[34]

Exports to Japan. The Philippines has fared reasonably well in relation to its competitors with regards to trends in the volume exports to Japan.From 1983 to 1987, total ASEAN exports to Japan fell by 7% an total developing countries' exports fell by 2% while the volume of Philippine exports to Japan stayed roughly the same (US$980 million). From 1987 to 1991, when ASEAN exports to Japan increased by 70% and total developing countries' exports increased by 61% Philippine exports increased by 81% to US$1.77 billion.

However, certain countries performed better than the Philippines in this respect:

Thailand's exports to Japan increased by 80% from 1983 to 1987, and then almost tripled to over US$5 billion between 1987 and 1991. Singapore's exports rose by 29% and 98% in those two respective periods, ending up at US$5.1 billion. Vietnam's exports increased by 281% and

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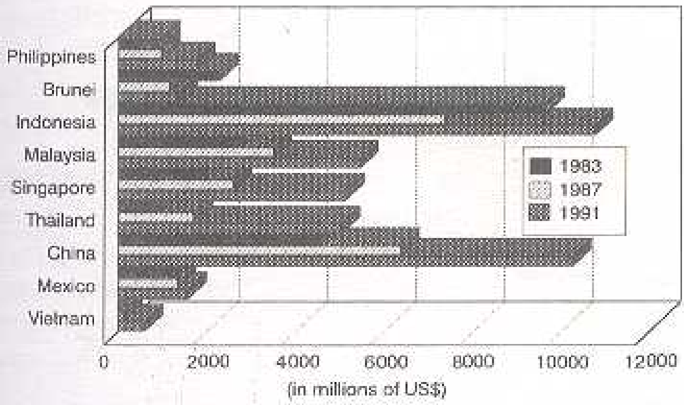
[32]M. Marasigan, "This is like the Olympics; It's a big game for everybody," *Business World Sixth Anniversary Report*, July 27, 1993, p. 1211.

[33]IMF, *op cit.*

[34]The Economist Intelligence Unit Unlimited, 1993.

Figure 17
Exports to Japan



then 356% in the respective periods for a 1991 total of US$602.1 million. (Figure 17)

Imports from Japan. The Philippines' imports from Japan have not grown as rapidly as those of its competitors. With regard to imports from Japan, the ASEAN total increased by 7% from 1983 to 1987, and by 147% from 1987 to 1991. The Philippines' imports decreased by 14% and then increased by 119% during the two respective periods, for a total of US$2.5 billion in 1991. From 1987 to 1991, Malaysia's imports from Japan increased by 248% Thailand's increased by 220%, and Mexico's increased by 237%.

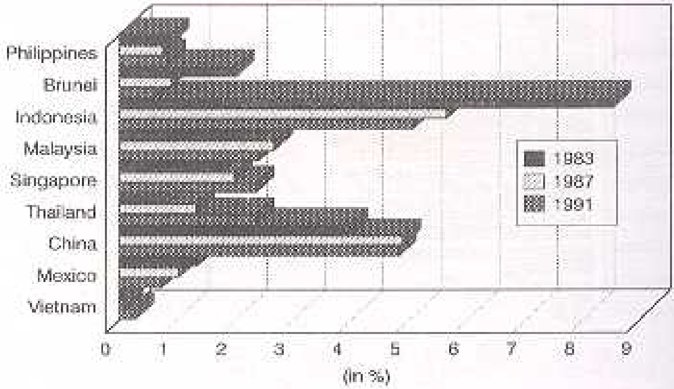
Market shares. The Philippines performed decently from 1983 to 1991 with respect to maintaining its share in Japanese market.[35] In 1983, the Philippines' exports accounted for 0.87% of all Japanese imports and the figure dipped slightly to 0.83% in 1991. In the same period, ASEAN's share as a whole fell from 16.46% to 13.86%, the developing world's market share fell from 60.59% to 51.26%. From 1983 to 1991, Indonesia's share fell from 8.52% to 5.05%, Brunei's fell from 2.01% to 0.64% and Mexico's share fell from 1.33% to 0.74%.

There were some notable exceptions to this trend. Singapore's share in the Japanese market rose during this period from 1.77% to 2.41%.

[35]IMF, *op cit.*

Figure 18

Shares of Developing Countries in Japan's Import Market



Thailand's increased from 0.85% to 2.36%. China's share increased from 3.98% to 4.82%. (Figure 18)

FDI Flows

In 1988, North America accounted for 47% of total Japanese FDI, the European Community for 19.4% and Asia for 17.1%. However, recent findings on investment trends reveal that ASEAN countries ranked first among the areas where Japanese companies planned to invest in 1992. It was likely that, among ASEAN nations, investment in Thailand and Malaysia, which were the main recipients of former investment, would decrease because of increasing wages, lack of skilled labor, and the delay of arranging social infrastructure. Investment in the Philippines and Indonesia were likely to increase due to their labor-intensive industries.[36] Japan also has recently overtaken Australia as the fourth largest investor in Vietnam, with its 29 projects amounting to US$310 million. In addition, each of Japan's top ten companies has a presence in Vietnam.[37]

Growing Economic Influence in Asia. Japan is quietly usurping the US as the dominant force in East Asia, the fastest growing region in the world at present. Asia is its largest partner in aid, trade, and FDI, but

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[36] "Research on 1992 Overseas Investment by Export-Import Bank of Japan," Export-Import Bank of Japan, 1993 (unofficial translation).

[37] State Committee for Cooperation and Investment, Vietnam.

lately this has expanded to include financial flows, economic policy advice and Official Development Assistance (ODA). Japan has been the top foreign investor in the Philippines, Indonesia, and Thailand and the second biggest investor in Singapore and Malaysia in the past two years. With the ASEAN in 1988, the percentage shares of direct investment of Japan are as follows: 5.6% in Indonesia, 25.1% in Malaysia, 20.3% in the Philippines and 48.7% in Thailand.[38] From 1951 to 1991, Japan has accounted for US$31 billion of accumulated FDI to the ASEAN region.[39]

Japan and the Philippines. Despite predictions of a relatively greater increase of investment in the Philippines than in other ASEAN countries, the disparity of FDI between the Philippines and her ASEAN neighbors still remains great. Although the Philippines has made moves to improve its investment incentives, a recent study showed contrary to popular perceptions, that:

> Investment incentives such as tax deductions, tax exemptions, and tax credits for investors do not have a significant effect on attracting FDI.
>
> The emphasis placed on research and development, the scientific preparedness of the economy, and the skill level of workers and technicians are the primary considerations of foreign investors.[40]

Figures 19 and 20 outline some of their evidence: the Philippines has invested less in research and development, and trained fewer students in the sciences, than other ASEAN countries. The Philippines' failure to attract significant Japanese FDI is probably due lack of investments in the 'social infrastructure' that improves the institutional environment within which technology can flourish.

South Korea

Philippine-South Korean Trade

South Korea as a Trading Partner. South Korea is not among the major trading partners of the Philippines, but it does have some importance. In 1992, it was the destination of 2.8% of Filipino exports, and it was the fifth largest source of the Philippines' imports (5.1%). It

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[38] Yam, et al., *op cit.*

[39] "Philippine-Japan Trade Relations," Bureau of International Trade Relations, Manila 1993.

[40] F. Alburo, C. C. Bautista, and M. S. H. Gochoco, "Pacific Direct Investment Flows into ASEAN," *ASEAN Economic Bulletin,* March 1992.

Figure 19

Research and Development Spending as Percentage of GNP, 1990

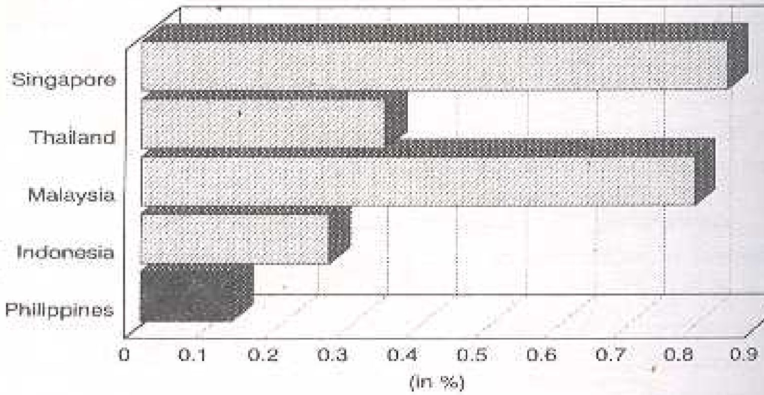
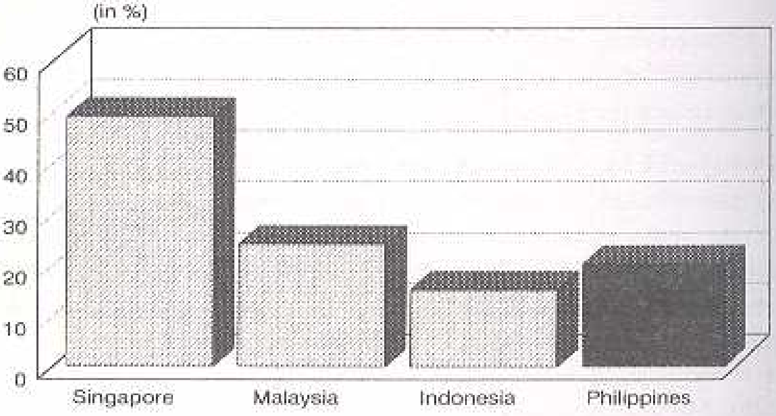


Figure 20

Percent of Tertiary Level Students Enrolled in Science Courses, 1990

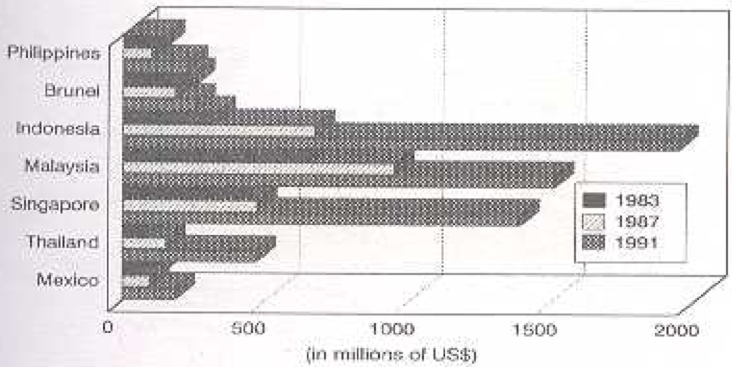


is a significantly moderately trading partner of the other ASEAN nations: it serves as the destination of 9% of Brunei's exports (3rd largest), 6.7% of Indonesia's (4th largest), 4.4% of Malaysia's (4th largest), and less than 4% of Singapore's and Thailand's. It is the source of 5.6% of Indonesia's imports 95th largest), but less than 5% of Thailand's, Singapore's, Brunei's, and Malaysia's.

Exports to South Korea from the developing world have been on the rise: from 1983 to 1987, they rose by 2%, and from 1987 to 1991, they rose by 178%. The total ASEAN figures for those two time periods are 31% and 129%, respectively. The Philippines held its ground during this

Figure 21

Exports to South Korea



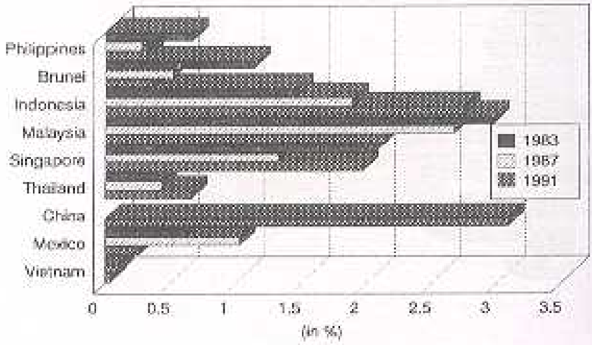
time, decreasing its exports from US$148.7 million in 1983 to US$98.3 million in 1987 (a drop of 34%), but increasing its exports by 132% between 1987 and 1991 to US$227.9 million. The trend in the figures for other ASEAN countries are generally consistent with the global trend for this time period. (Figure 21)

Imports from South Korea. Overall, ASEAN imports from South Korea have been growing in volume rising 37% to US$2-billion from 1983 to 1987, and then another 226% to US$6.52 billion in 1991. Trends in the Philippines' imports are consistent with these increases: rising 25% from 1983 to 1987 (from US$ 161.3 million to US$ 201 million and rising 218 percent to US$ 638.6 million by 1991. Most of the Philippines' competitor nations also have consistent figures for the two respective time periods. Perhaps, the most notable exception to this is Mexico, which saw a 25% increase in its import from South Korea in between 1983 and 1987 (from US$19 million to 28 million), and 2218% increase from 1987 to 1991, ending with a total of US$649 million.

Market Shares. The share of developing countries in the South Korean import market decreased from 1983 top 1987, falling from 31.51% to 20.14% on the whole: but increased from 1987 to 1991, rising to 28.23%. The Philippines' share was consistent with this trend: it dipped from 0.67% to 0.28% in 1987, then rose to 0.32% by 1991. The ASEAN share as a whole also followed this trend: falling from 8.72% in 1983 to 7.12% in 1987, and then rising to 7.30% by 1991. From 1983 to 1991, Malaysia's share fell from 2.97% to 2.14%, Singapore's fell from 2.06% to 1.97%, and Thailand's fell from 0.41% to 0.66%.

Figure 22

Developing Countries' Share in South Korea's Import Market



The notable exception to this trend was in Indonesia's share, which increased from 1.47% in 1983, to 1.89% in 1987 to 2.75% in 1991. (Figure 22)

FDI Flows

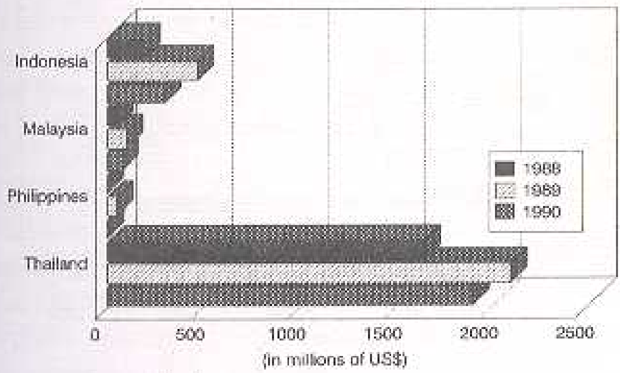
Since the 1980s, particularly after 1985, the economies of the newly industrialized economies (NIEs) which include Hong Kong, Taiwan, Singapore, and South Korea, have undergone significant restructuring. The NIEs, driven by rising wage costs, stronger exchange rates, scarcity of land, and environmental concern, have begun to relocate the labor-intensive industries into the ASEAN region. This resulted in the ASEAN economic boom between 1986-1990. The outflows have been so rapid that by 1990, the major foreign investors in the ASEAN countries were the NIES, displacing the US and Europe. At present, the NIEs as a group constitute the largest investors in Indonesia, Malaysia, Philippines, and Thailand.

Among NIEs, South Korea has been the most active investor in Thailand from 1986-1990 (investing US$2 billion in 1990), and the least active in the Philippines during the same period, with only US$10 million in 1990. Economic liberalization in China and Vietnam has also led South Korea to invest significantly in these areas. Placements to China topped its 1990 level three-fold, totalling US$137 million in 1991.[41] South Korea also has 17 projects amounting to US$150 million

[41] M. Maipid, "Foreign Direct Investments: It has been falling steadily," *Business World*, Sixth Anniversary Report, July 27, 1993.

Figure 23

Korean Investment in ASEAN



in Vietnam; all the big South Koran corporate names are already in the country, including Samsung, Daewoo, Hyundai, and Lucky Goldstar.[42] (Figure 23)

Taiwan

Philippine-Taiwan Trade

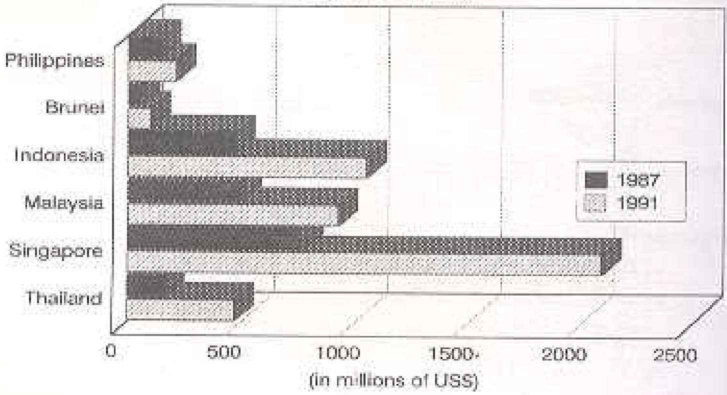
Trade Partner. Taiwan is not a major buyer of Philippine exports (it is the destination of only 2% of exported goods), but it is an important source of Philippine imports (6.6%, the third largest after the US and Japan). The same structure holds for Taiwan's trade relationship with the rest of the ASEAN. It is not a major destination of ASEAN's exports: the 3.6% of Indonesia is the largest share of any ASEAN nation's goods that are sent to Taiwan. However, it is the source of 5.4% of Malaysia's imports (4th largest), 5% of Thailand's (5th largest), 4% of Singapore's (5th largest), and 5.1% of Indonesia's (7th largest).

Exports to Taiwan. From 1987 to 1991, the value of ASEAN exports to Taiwan went up to 130% (US$2.12 billion to US$4.87 billion), and the total exports of developing countries increased by 133%. The Philippines did not do well in comparison, as its total exports only increased by 45% (US$144.2 million to US$209.7 million). Three ASEAN nations fared particularly well: Indonesia's exports to Taiwan increased by 123% (US$47774 million to US$1.05 billion), Singapore's

[42]Nguyen, *op cit.*, p. 249.

Figure 24

Exports to Taiwan

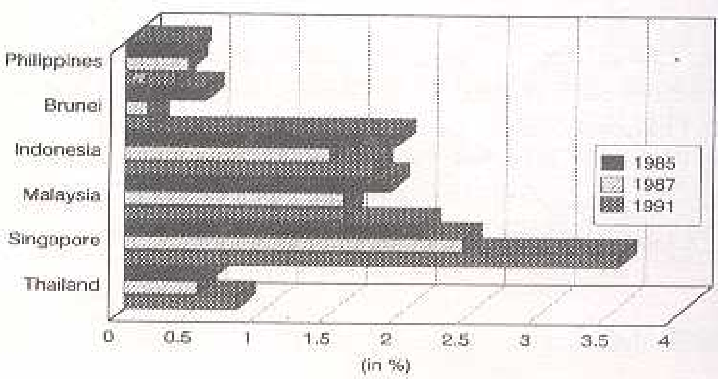


rose 169% (US$780 million to US$ 2.09 billion), and Thailand's increased by 183% (US$ 168 million to US$475.6 million). (Figure 24)

Imports from Taiwan. During the same period (1987 to 1991), the volume of imports of Taiwanese goods by ASEAN countries increased by 232%, from US$1.95 billion to US$6.48 billion. The amount of Philippine imports did not increase that rapidly in comparison, rising 130% from US$371.5 million to US$853.9 million. Malaysia's imports from Taiwan increased by 318%, from US$479 million to US$2 billion,and the quantity of Thailand's imports rose 291% from US$485.1 million to US$1.89 billion.

Figure 25

ASEAN Shares in Taiwan's Import Market



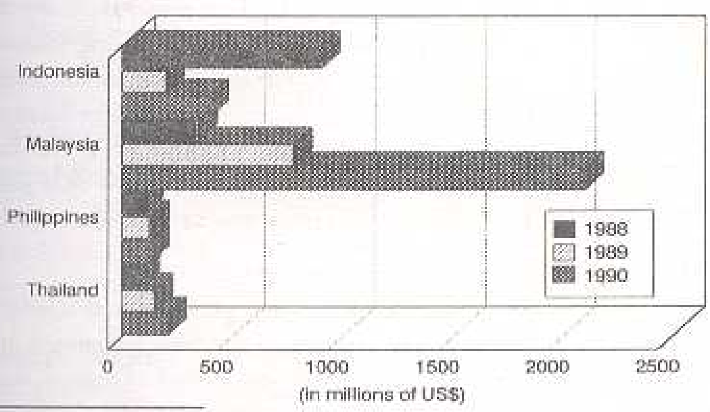
Market Shares. From 1987 to 1991, the share of ASEAN countries in the Taiwanese market increased (6.65% to 8.25%), as did the share of the developing world as a whole (22.3% to 28.1%). The Philippines did not fare well, and its market share fell during this time, from 0.45% to 0.36%. Other ASEAN nations performed well: Indonesia's share increased from 1.48% to 1.7 9%, Singapore' increased from 2.44% to 3.55%, and Thailand's increased from 0.53% to 0.81%. (Figure 25)

FDI Flows

FDI is an important contributor to changing comparative advantage and upgrading product quality in Taiwan. While FDI of primary investor countries like the US, Japan, and the EC have been on a decline in Taiwan due to global slowdown, escalating wages and tougher environmental controls imposed by the Taiwanese government, Taiwan has increased efforts into turning itself into an active investor country. Southeast Asian neighboring countries have benefited the most from Taiwan's investment ventures. Between 1986-1991, investment outflows of Taiwan were directed to Malaysia (43%), Thailand (30%) and Indonesia (24%).[43] Taiwan is already the second largest investor in the Philippines, Malaysia, Thailand, Indonesia and has a larger trade surplus with ASEAN than with the US. (Figure 26) Taiwanese investment in China (much of which is directed through Hong Kong and concentrated in Guangdong and Fujian) and Vietnam has also been growing recently.

Figure 26

Taiwanese Investment in ASEAN



[43]*Asia-Pacific Profiles*, 1993.