

Regional Connectivity and Financial Support: Perspectives from the Philippines

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I. Background of the Philippines

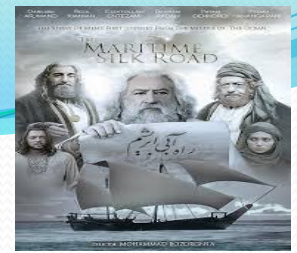
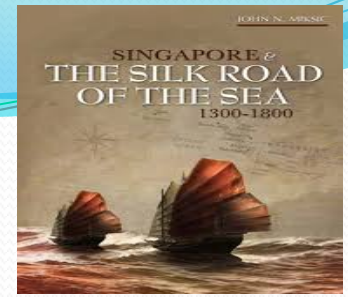


Table 1: Overview of the Philippine Economy

| | |
|---|-------------|
| Population (May 2010) | 92.34M |
| Inflation Rate (September 2014) | 4.40% |
| Average Family Income (2012) | P235,000 |
| Consumer Price Index with 2006=100 (2013) | 134.00 |
| Gross Domestic Product in constant 2000 prices (2013) | P6,764,963M |
| Gross National Income in constant 2000 prices (2013) | P8,047,720M |
| Total Exports (August 2014) | \$5.47B |
| Total Imports (August 2014) | \$5.49B |
| Balance of Trade (August 2014) | -\$16.63M |
| Employment Rate (July 2014) | 93.30% |
| Unemployment Rate (July 2014) | 6.70% |
| Labor Force Participation Rate (July 2014) | 64.40% |

Source of data: Philippine Statistics Authority



II. Background of Philippine Trade with China

- a) China is the **3rd most important trading partner** of the Philippines beginning in 2012. In 2013, the principal trading partners of the country were Japan, United States and China.

- b) Trade with China has been increasing at high growth rates. In 2013, Philippine exports to China recorded a very high growth rate of **79.3 percent** while Philippine imports increased by **5.3 percent**.

- c) Philippine trade with China has been growing despite the **territorial disputes** and other issues between the two countries which indicates trade can grow independent of politics.

Table 2: Top 5 Export Destinations of the Philippines, 2013

| Country | F.O.B. Value in Million USD | % of Total Exports |
|----------------|------------------------------------|---------------------------|
| Japan | 12,048 | 21.25 |
| USA | 8,324 | 14.68 |
| China | 7,025 | 12.39 |
| Hongkong | 4,541 | 8.01 |
| Singapore | 4,142 | 7.31 |

Source of data: Philippine Statistics Authority

Table 3: Top 5 Import Sources of the Philippines, 2013

| Country | F.O.B. Value in Million USD | % of Total Imports |
|-------------------|------------------------------------|---------------------------|
| China | 8,072 | 12.93 |
| USA | 7,020 | 11.25 |
| Japan | 5,224 | 8.37 |
| Taiwan | 4,883 | 7.82 |
| Republic of Korea | 4,882 | 7.73 |

Source of data: Philippine Statistics Authority

III. Philippine Regional Involvement and Connectivity

- a) The main regional involvements of the Philippines are with the **ASEAN** and the **BIMP-EAGA**.
- b) The **Association of Southeast Asian Nations (ASEAN)** was formed in 1967 to promote political and economic cooperation and regional stability in the region. It has a combined GDP of \$2.2 trillion and population of about 605 million.
- c) The **Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA)** sub-regional cooperation program was established in 1994 to address the socioeconomic development of less developed areas in the sub-region.
- d) In addition to the above groupings, the Philippines is connected to **other countries** (e.g. China) and **regional groups** (e.g. EU) through trade, bilateral and multilateral agreements, and other channels.

IV. The Maritime Silk Road (MSR)

- a) The MSR is the initiative first proposed by the new Chinese President Xi Jinping in **October 2013**. It is basically being created to cater to trade between China and South East Asian Countries.
- b) According to the **Chinese Foreign Ministry**, the MSR was proposed to explore the unique values and ideas of the ancient Silk Road, mutually learn from each other, and to add new content of the current era, thus achieving common development and common prosperity in the region (Chaturvedy 2014).
- c) The **main MSR emphasis** was placed on stronger economic cooperation, closer cooperation on joint infrastructure projects, the enhancement of security cooperation, and the strengthening of maritime economy, environment, technical and scientific cooperation.
- d) In addition, China is planning a program to promote **cultural cooperation** among countries along the ancient Silk Road. The program is aimed at improving cooperation in fields such as the entertainment business, tourism, protection of cultural heritage and sport.

Figure 1: Map of the Maritime Silk Road (MSR)



Figure 1 shows that MSR will begin in Fujian province, and will pass by Guangdong, Guangxi, and Hainan before heading south to the Malacca Strait. From Kuala Lumpur, the MSR heads to Kolkata, then crosses the rest of the Indian Ocean to Nairobi. From Nairobi, it goes north around the Horn of Africa and moves through the Red Sea into the Mediterranean, with a stop in Athens before meeting the land-based Silk Road in Venice (Chaturvedy 2014).

V. Potential Funding Support for Philippine Participation in MSR

a. Asian Infrastructure Investment Bank

- a) China aims to accelerate the establishment of an **Asian Infrastructure Investment Bank (AIIB)** which could provide a strong investment and financing platform for multimodal connectivity such as the building high-speed rail, ports, airports, within related countries
- b) The AIIB, with a registered capital of **US\$ 100 billion**, is seen as sizeable enough to compete with the Asian Development Bank (ADB), which runs on a capital of **US\$165 billion** and is dominated by Japan and the United States.
- c) There are reports that **twenty two countries** have so far shown interest in the AIIB. The bank, when it materializes, will be a potential loan source for participating countries including the Philippines if it becomes part of the MSR.



b. Bilateral Grants and Loans from China to the Philippines

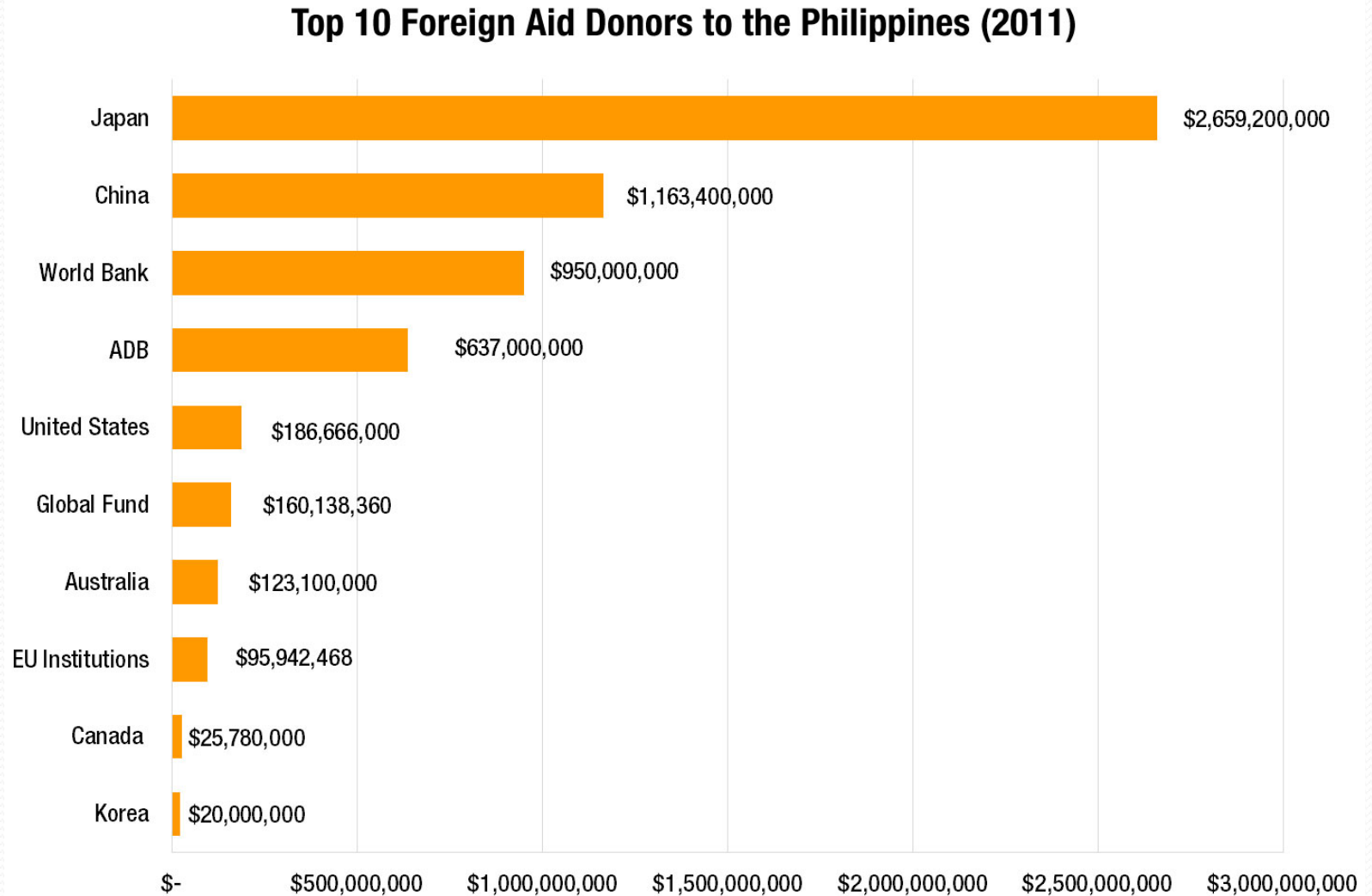
- a) From 2010 to 2012, China was the **third largest source** of infrastructure loan to the Philippines, behind Japan and France and ahead of the World Bank, Korea, Asian Development Bank and others (Table 1).
- b) The first large contributions from China were loans of just under **\$25 million** for the General Santos Fishing Port Complex Expansion in Mindanao and the Banaoang Pump Irrigation projects (**\$35 million**) in Ilocos Sur in the mid-2000s.
- c) China is the **second** major source of aid for the Philippines, with an estimated **\$1.16 billion** or 13.73 percent share of total ODA commitments in 2011. China's aid package includes development assistance, international trade, overseas investments, cultural influence, humanitarian aid, disaster relief, education, travel, and tourism.
- d) Chinese grants and aid could also be a source of funding for the Philippines if it becomes part of MSR.

Table 4: Philippine Infrastructure Loan Amount, by Source Country/Institution, 2010-2012 (US\$ Million)

| Country/ Institution | 2010 | 2011 | 2012 | Total |
|---------------------------------|-------------|-------------|-------------|--------------|
| Japan | 2,810.11 | 2,297.43 | 2,476.88 | 7,584.42 |
| France | 744.46 | 721.52 | 1,181.39 | 2,647.37 |
| China | 1,016.60 | 1,016.60 | 297.39 | 2,330.59 |
| WB | 496 | 485.56 | 761.99 | 1,743.55 |
| Korea | 206.33 | 219.62 | 237.66 | 663.61 |
| ADB | 31.1 | 31.1 | 93.1 | 155.3 |
| Others | 287.09 | 178.52 | 137.59 | 603.2 |

Source of data: Philippine Statistical Authority

Figure 2: Top Five Foreign Aid Donors to the Philippines, 2011 (US\$ Million)



Source: Devex Research

c. **Bilateral Agreements Between the Philippines and China**

- a) The Philippines and China has a **long history of bilateral agreements** for the promotion of economic, cultural, political and other aspects of development including in the area of maritime activities.
- b) For instance, **Grants Memorandum of Agreement** on the Provision of Small Mobile Ice Plant and Transport Facilities to Municipal Fishery Cooperatives and Associations was signed in Manila on 16 January 2007.
- c) **Memorandum of Agreement** on the Construction of Ship Yard, Establishment of a Cold Storage Facility and Upgrading/Rehabilitation of Certain Facilities at the Navotas Fish Port Complex (NFPC) was signed in Manila on 16 January 2007.
- d) **Joint Venture Agreement** on Fisheries was signed in Manila on 16 January 2007 and Agreement on Breeding and Culture of Abalone, Sea Cucumbers, Sea Urchins and Scallops was signed in Manila on 16 January 2007.
- e) **MSR-Related bilateral agreements** can be continued between the Philippines and China if the latter becomes a participant of the MSR.

Table 5: Number of China-Philippines Bilateral Agreements, by Sector, 1975-2011

| Sector | Number | % of Total |
|---------------------------|------------|------------|
| Political | 6 | 5.83 |
| Defense | 6 | 5.83 |
| Transnational Crime | 2 | 1.94 |
| Judicial | 1 | 0.97 |
| Energy Cooperation | 3 | 2.91 |
| Trade/Investments/Finance | 21 | 20.39 |
| Agriculture | 25 | 24.27 |
| Consular | 3 | 2.91 |
| Air Service | 3 | 2.91 |
| Infrastructure | 9 | 8.74 |
| Tourism | 5 | 4.85 |
| Scientific and Technical | 1 | 0.97 |
| Maritime | 1 | 0.97 |
| Education | 4 | 3.88 |
| Cultural | 3 | 2.91 |
| Health | 1 | 0.97 |
| Sports | 3 | 2.91 |
| Youth | 2 | 1.94 |
| Communications | 1 | 0.97 |
| Media and Information | 3 | 2.91 |
| TOTAL | 103 | 100 |

d. ASEAN-China Free Trade Agreement

- a) The **ASEAN-China free trade agreement** is an existing agreement that covers trade in goods, services, and investments. Furthermore, it aims to facilitate greater cooperation in many areas including capacity building and technology transfer.
- b) Specifically, the agreement strengthens **cooperation** in the areas of agriculture, information and communications technology, human resources development, investment, and the development of the Mekong River basin.
- c) **Cooperation** will also be extended to other areas such as banking, finance, tourism, industrial cooperation, transport, telecommunications, intellectual property rights, small and medium enterprises (SMEs), environment, biotechnology, fishery, forestry, and forestry products, mining, energy and sub-regional development.
- d) The ASEAN-CHINA Free Trade Agreement could be very useful to the countries involved in an **ASEAN-wide involvement in MSR.**



e. Other Potential Fund Sources for MSR

- a) The **Philippine government** itself can be a source of funding for MSR-related ports and other maritime infrastructure but local government funds have been inadequate.
- b) The **Asian Development Bank (ADB), World Bank (WB) and other international financial institutions** can also be a source of MSR-related projects but the Philippines is already debt-ridden.
- c) In the medium and long-term, Philippine, **ASEAN and other international private banks and financial institutions** can also be a source of funds particularly for privately-owned but MSR-related infrastructure projects although this option may be limited in the short-term.

V. Perceived Constraints to Philippine Participation in MSR

- a) In the case of the Philippines, in particular, **conflicting territorial claims** in the South China Sea (West Philippine Sea) may be an issue that can potentially limit involvement at present.
- b) There is apprehension in some government quarters that the MSY is a grand strategy of China not for mutual development but for **military, political and other self-serving purposes**.
- c) The perceived historical alignment of the Philippines with the West particularly the **United States** could hinder mutual trust and confidence with China, at least in the short run.
- d) The **concept of the MSY is not yet clear** to Philippine policy and decision-makers and there is the need to clearly inform them of the MSY and its benefits of MSY to the Philippine economy.

VI. Conclusions

- a) There are a number of existing and potential **funding sources** for the Philippines if it joins the MSY and some of these have been going on while others may be established in the future.
- b) There are **existing constraints** to Philippine participation in the MSY but these could be surmountable if both sides will meaningfully consider these with mutual trust and understanding.
- c) **Chinese investment is welcome in the Philippines, despite emerging bilateral tension over territorial disputes.** Furthermore, all new proposals including that related to the **MSR** should be provided the utmost serious consideration
- d) Finally, Since the Philippines can be expected to continue supporting the **ASEAN** as the main vehicle for the continuing engagement with China, this grouping can be the venue for further exploration of potential MSR involvement



THANK YOU VERY MUCH!