

On the AIIB and the Maritime Silk Road

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Outline of the presentation

- Philippine-China trade and economic relations
- Changing landscape of development finance
- Infrastructure requirements
- AIIB and the Maritime Silk Road
- Implications; can the Philippines benefit?

A. Philippine-China trade and economic relations

- Historically, close economic, trade, cultural and personal ties between the Philippines and China
- China is the 3rd most important trading partner of the Philippines since 2012. In 2013, the main trading partners are Japan (28% of total exports and 11% of imports), U.S. (15% of exports and 11% of imports) and China (12% of exports and 11% of imports) [Israel, 2014].
- Trade with China has been increasing at high rates despite territorial issues in the South China Sea. In 2013, Philippine exports to China recorded a very high growth rate of 79.3% while Philippine imports increased by 5.3% [Israel, 2014].

Cultural and economic ties

- Fujian province- culturally linked to the Philippines
- Rizal from Jinjiang; Henry Sy from Xiamen
- Aquinos from Jiaomei, Longhai City
- Filipino-Chinese, 10th largest investors in Fujian
- 199 registered Fil-Chi enterprises
- Biggest investors: Sy, Tan, Gokongwei

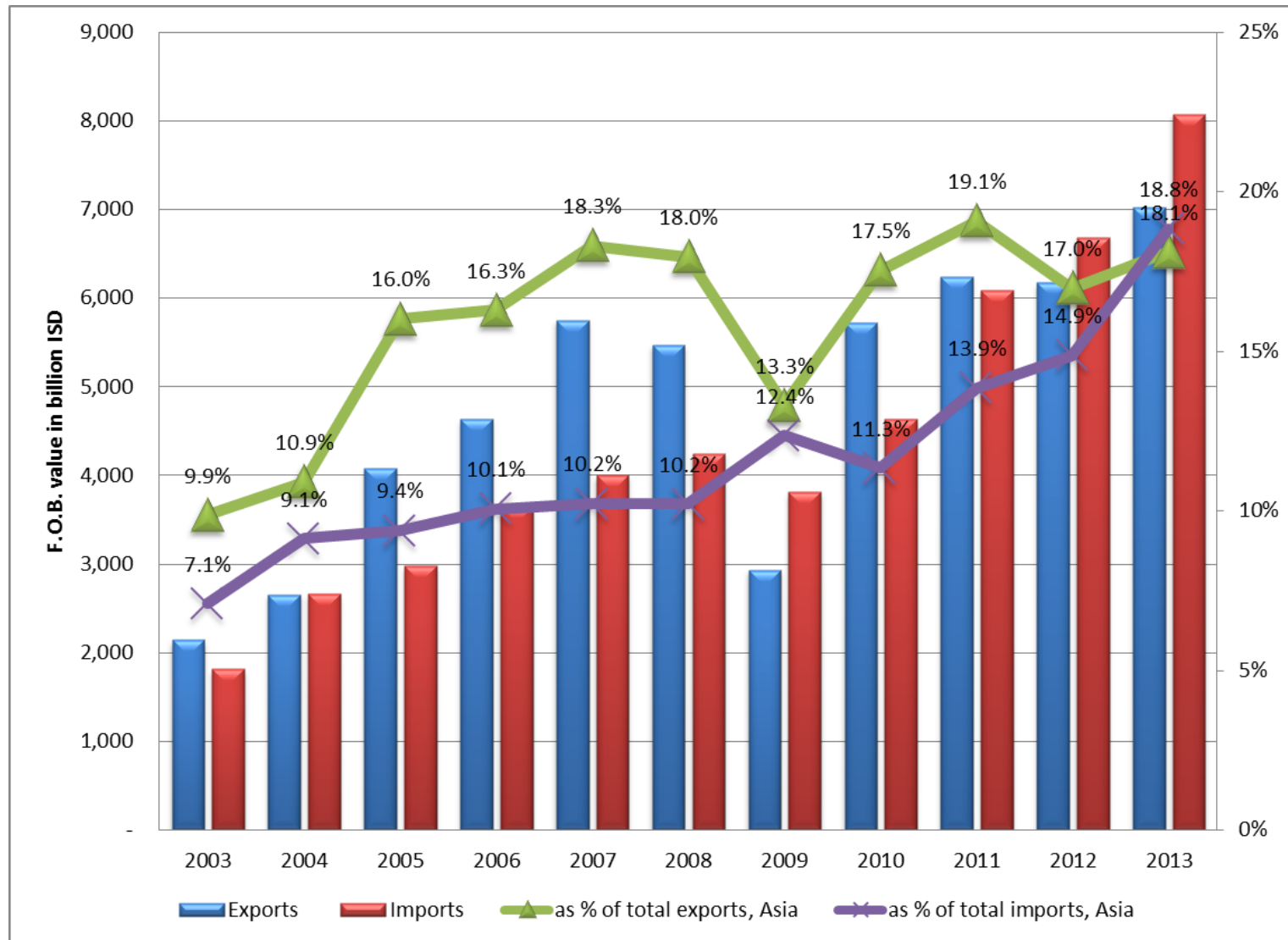
[Source: Siar, 2015]

- The first large loans from China [i] under **\$25 million** for the General Santos Fishing Port Complex Expansion in Mindanao and **\$35 million** for the Banaoang Pump Irrigation projects in Ilocos Sur in the mid-2000s.
- 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).

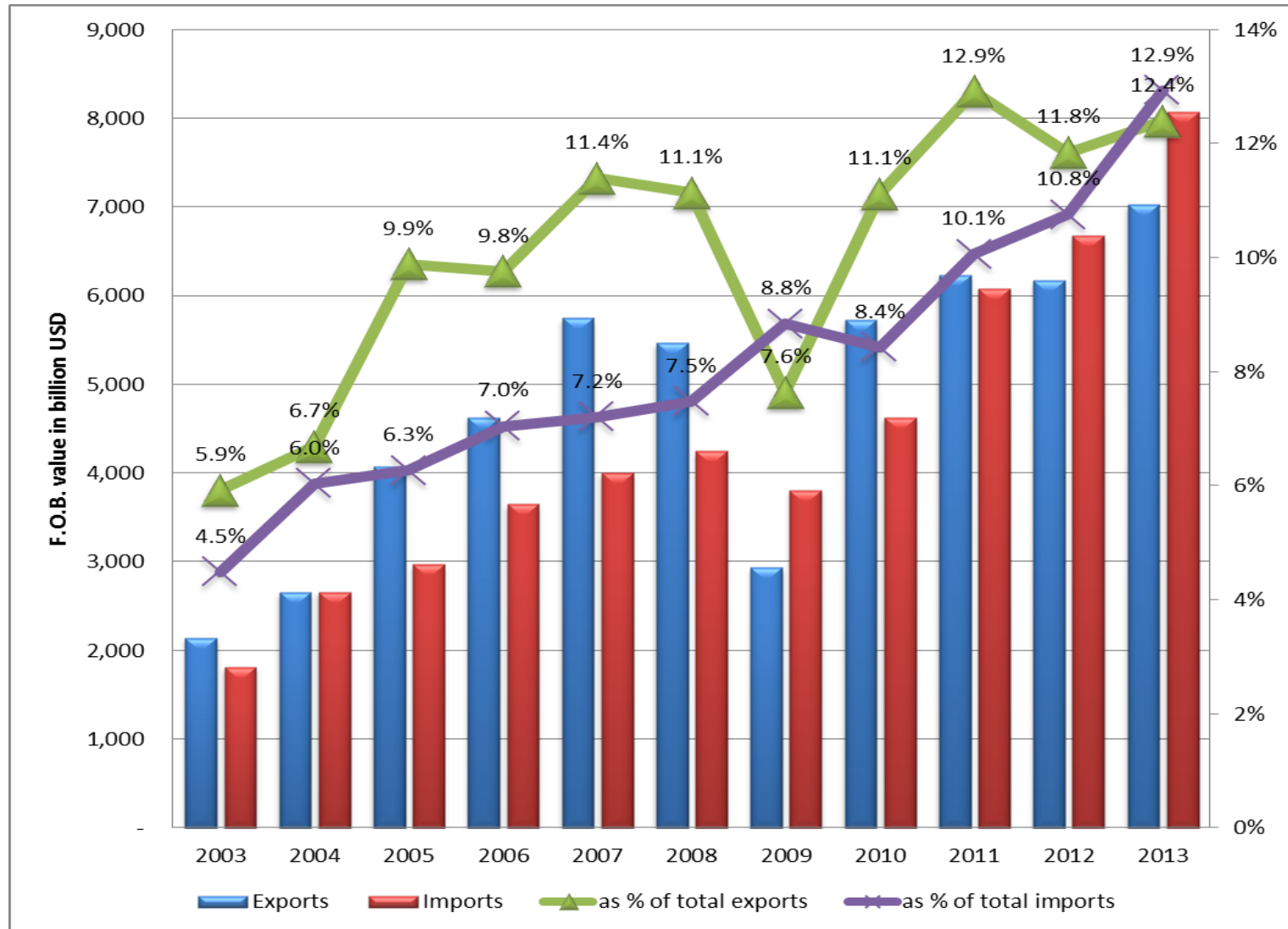
Table 1: Philippine Infrastructure Loan Amount, by Source Country/Institution, 2010-2012 (US\$ Million)

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

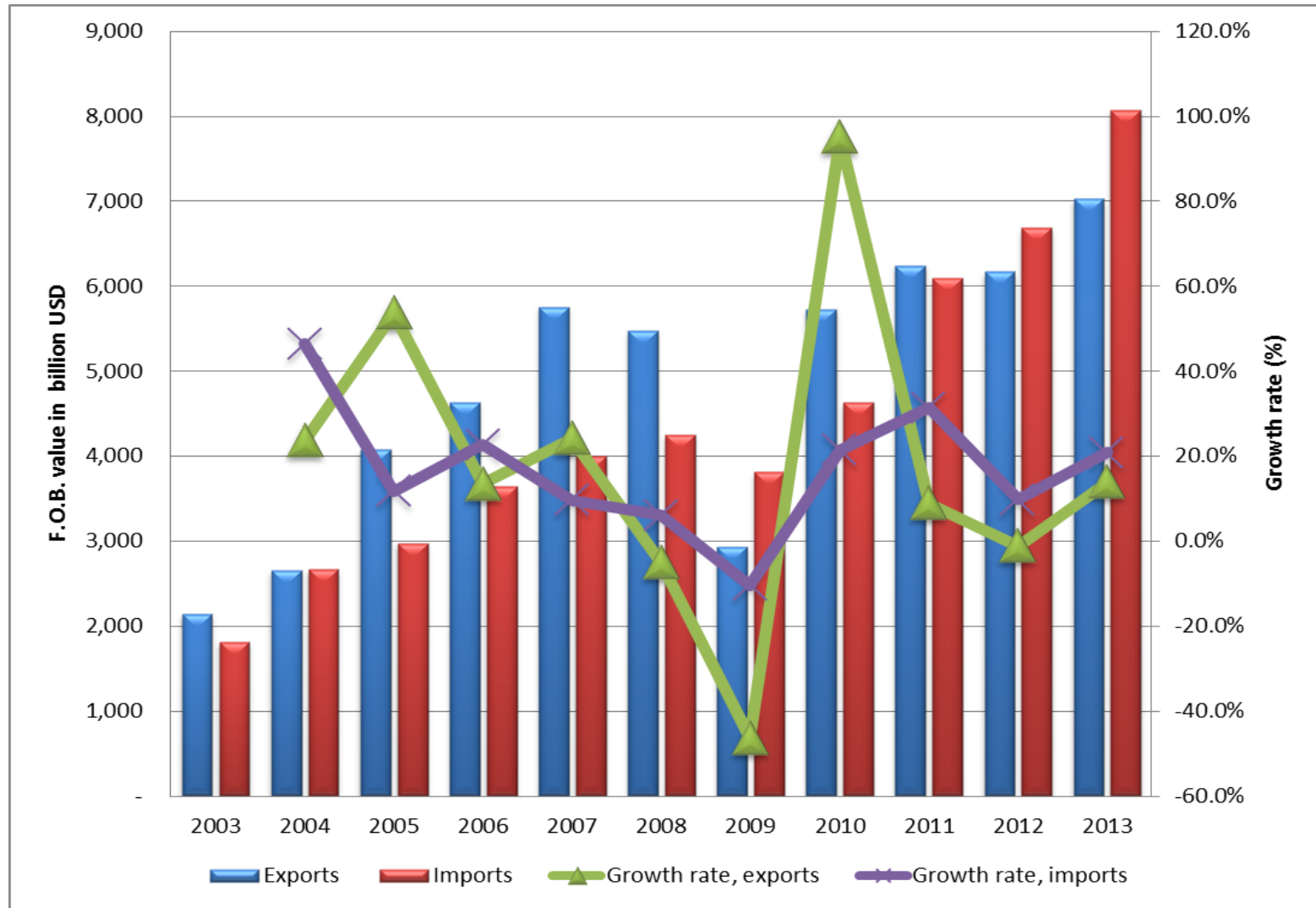
Philippines-China Bilateral Trade (1)



Philippines-China Bilateral Trade (2)



Philippines-China Bilateral Trade (3)



GDP Growth Rates in East and SE Asia

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
East Asia										
China	10.09	11.31	12.68	14.16	9.63	9.21	10.45	9.30	7.65	7.67
Hong Kong SAR, China	8.70	7.39	7.03	6.46	2.13	-2.46	6.77	4.79	1.55	2.93
Japan	2.36	1.30	1.69	2.19	-1.04	-5.53	4.65	-0.45	1.75	1.61
Macao SAR, China	26.88	8.56	14.42	14.33	3.39	1.71	27.50	21.29	9.14	11.89
Mongolia	10.63	7.25	8.56	10.25	8.90	-1.27	6.37	17.51	12.40	11.74
Korea, Rep.	4.90	3.92	5.18	5.46	2.83	0.71	6.50	3.68	2.29	2.97
Southeast Asia										
Brunei Darussalam	0.50	0.39	4.40	0.15	-1.94	-1.76	2.60	3.43	0.95	-1.75
Cambodia	10.34	13.25	10.77	10.21	6.69	0.09	5.96	7.07	7.31	7.41
Indonesia	5.03	5.69	5.50	6.35	6.01	4.63	6.22	6.49	6.26	5.78
Lao PDR	6.36	7.11	8.62	7.60	7.82	7.50	8.53	8.04	8.02	8.52
Malaysia	6.78	5.33	5.58	6.30	4.83	-1.51	7.43	5.19	5.64	4.73
Philippines	6.70	4.78	5.24	6.62	4.15	1.15	7.63	3.66	6.80	7.18
Singapore	9.55	7.49	8.86	9.11	1.79	-0.60	15.24	6.06	2.50	3.85
Thailand	6.34	4.60	5.09	5.04	2.48	-2.33	7.81	0.08	7.67	1.77
Vietnam	7.54	7.55	6.98	7.13	5.66	5.40	6.42	6.24	5.25	5.42

Note: No available data for Myanmar

Source: World Bank's World Development Indicators

ASEAN and China

- Exports to China grew at an average annual rate of **37 percent** from 1995 to end of 2000s, compared to **5.7 percent** for Philippine exports as a whole.
- **ASEAN-China free trade agreement (ACFTA)** covers trade in goods, services, and investments. It aims to facilitate greater cooperation in many areas including capacity building and technology transfer

ASEAN and China trade, 2013

Partner country/region	Value			Share to total ASEAN trade		
	Exports	Imports	Total trade	Exports	Imports	Total trade
ASEAN	330,318.1	278,240.2	608,558.3	26.0	22.4	24.2
Australia	45,526.1	22,531.4	68,057.5	3.6	1.8	2.7
Canada	7,247.4	6,219.0	13,466.3	0.6	0.5	0.5
China	152,545.5	197,962.8	350,508.4	12.0	16.0	14.0
EU 28 ^{1/}	124,434.1	121,794.1	246,228.3	9.8	9.8	9.8
India	41,935.2	25,926.7	67,861.9	3.3	2.1	2.7
Japan	122,863.2	117,903.9	240,767.1	9.7	9.5	9.6
Republic of Korea	52,823.0	82,139.6	134,962.6	4.2	6.6	5.4
New Zealand	5,684.1	4,101.3	9,785.4	0.4	0.3	0.4
Pakistan	5,274.3	864.2	6,138.5	0.4	0.1	0.2
Russia	5,243.5	14,706.0	19,949.6	0.4	1.2	0.8
US	114,509.7	92,345.7	206,855.4	9.0	7.4	8.2
Total selected	1,008,404.3	964,734.9	1,973,139.2	79.3	77.8	78.6
Others ^{2/}	262,723.8	275,653.5	538,377.3	20.7	22.2	21.4
Total ASEAN	1,271,128.1	1,240,388.4	2,511,516.5	100.0	100.0	100.0

Source: ASEAN Merchandise Trade Statistics Database (compiled/computed from data submission, publications and/or websites of ASEAN Member States' national ASEAN Free Trade Area (AFTA) units, national statistics offices, customs departments/agencies, or central banks)

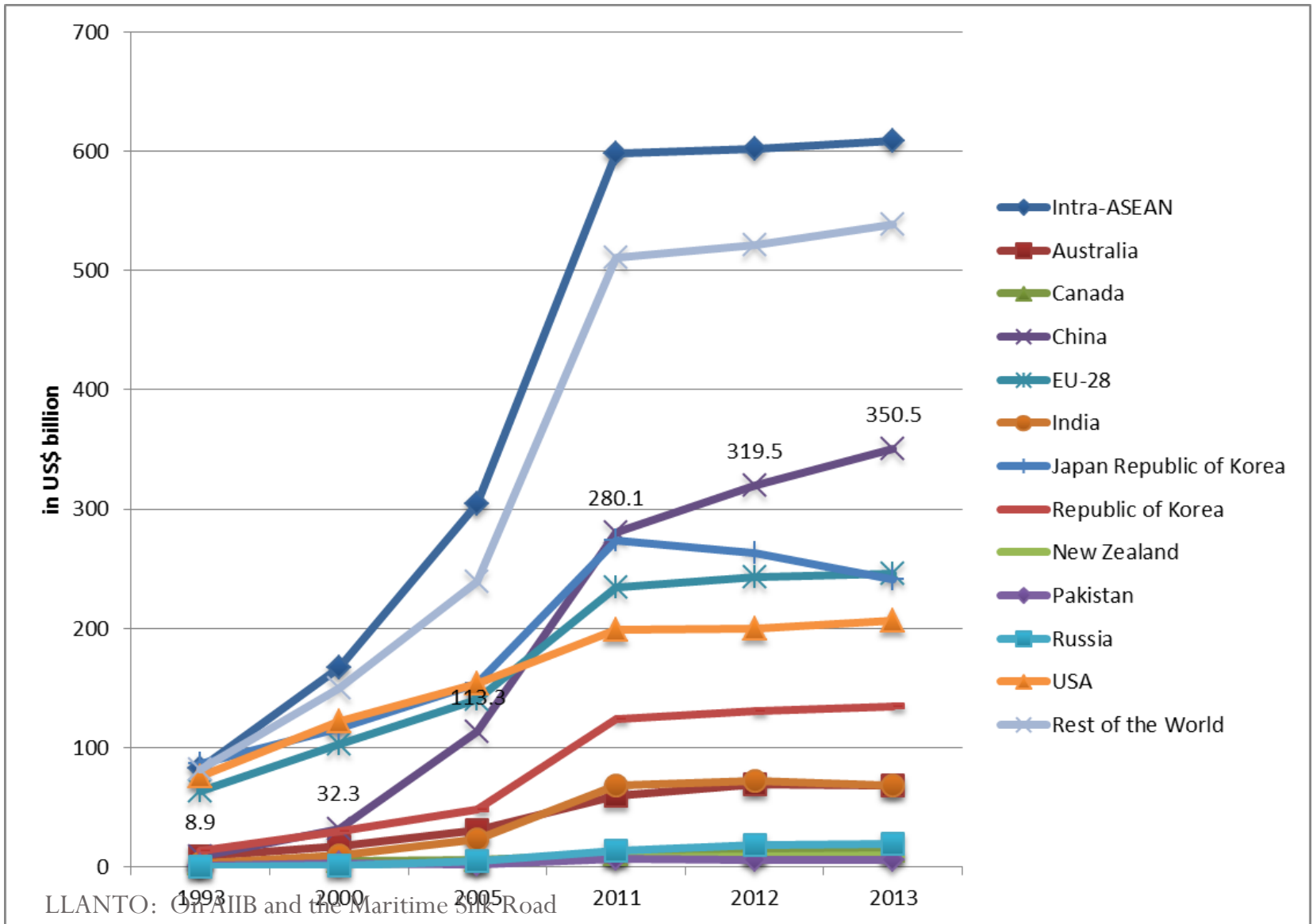
Trade with Selected Dialogue partners

(in US\$ billion)

	1993	2000	2005	2011	2012	2013	Rate of Growth 1993-2013	Ratio 2013/1993
Intra -ASEAN	82.4	166.8	304.8	598.4	602	608.6	10.5	7
Australia	9.1	17.6	31.2	59.7	69.5	68	10.6	7
Canada	3.5	4.8	6	10.8	12.3	13.5	7	4
China	8.9	32.3	113.3	280.1	319.5	350.5	20.2	40
EU-28	63.2	102.8	140.7	234.6	242.6	246.2	7	4
India	2.9	9.7	23	68.2	71.8	67.9	17	23
Japan	86.7	116.2	153.8	273.9	262.9	240.9	5.2	3
Republic of Korea	13.3	29.6	48	124.4	131	135	12.3	10
New Zealand	1.3	2.2	4.1	8.2	9.2	9.8	10.7	8
Pakistan	1	3.5	2.3	6.8	6.3	6.1	9.4	6
Russia	0.4	1.4	4.7	13.9	18.2	19.9	21.3	47
USA	75.7	122.2	153.9	198.8	200	206.9	5.2	3
Rest of the World	81.5	149.9	238.7	510.7	521	538.1	9.9	7
Total ASEAN	429.9	759.1	1,224.60	2,388.40	2,476.40	2,511.50	9.2	6

Source: ASEAN Trade Statistics Database, as of July 2014

Trade with Selected Dialogue partners



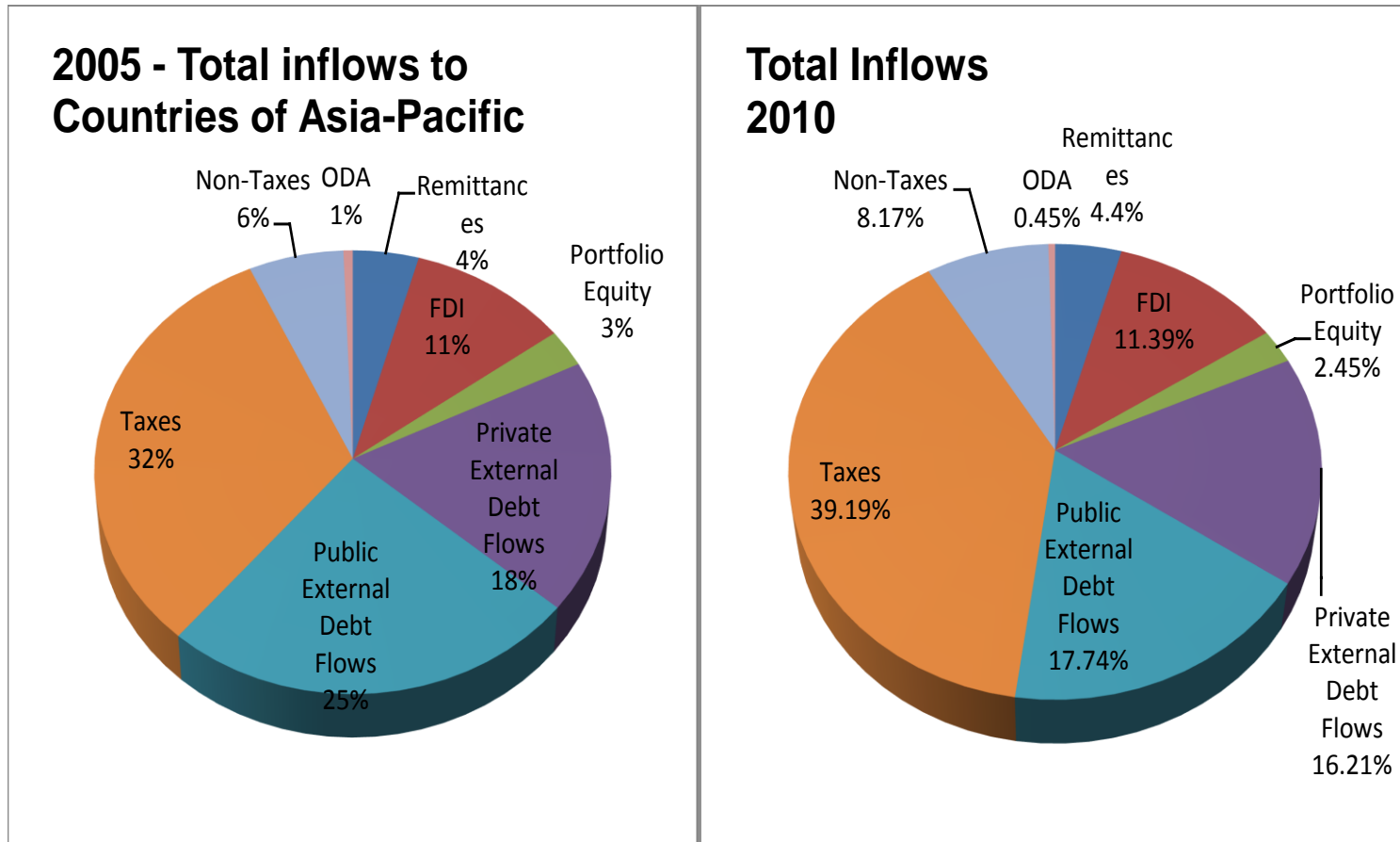
Share of Major Trade Partner in ASEAN trade, 2000 and 2013

	2000	2013	Change (% points)
Intra-ASEAN	22	24.2	2.20
ANZ	2.6	3.1	0.50
Canada	0.6	0.5	(0.10)
China	4.3	14	9.70
EU-28	13.5	9.8	(3.70)
India	1.3	2.7	1.40
Japan	15.3	9.6	(5.70)
Republic of Korea	3.9	5.4	1.50
Russia	0.2	0.8	0.60
USA	16.1	8.2	(7.90)
Pakistan	0.5	0.2	(0.30)
Others	19.7	21.4	1.70

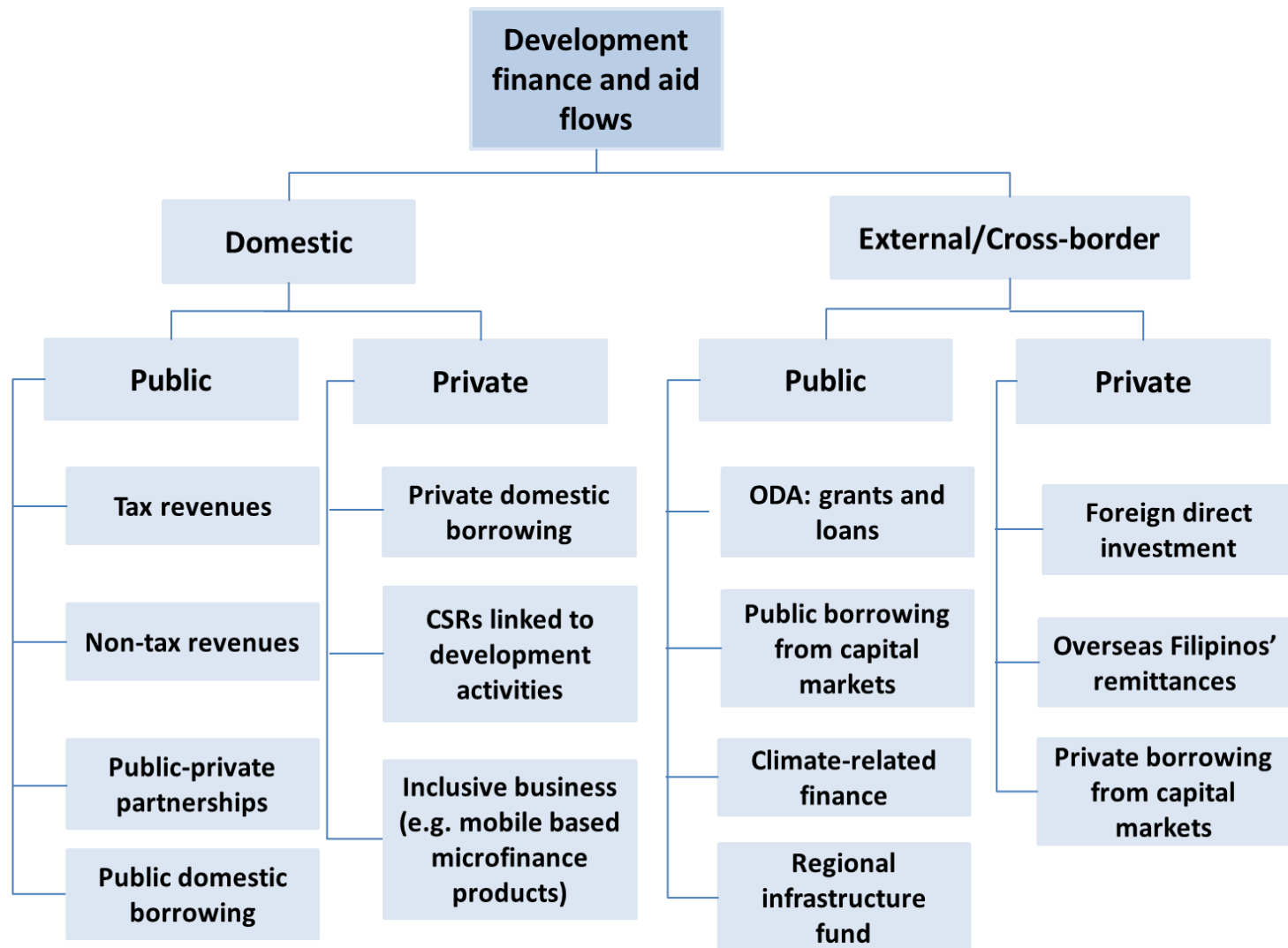
Source: ASEAN Trade Statistics Database, as of 24 July 2014

B. Changing landscape of development finance

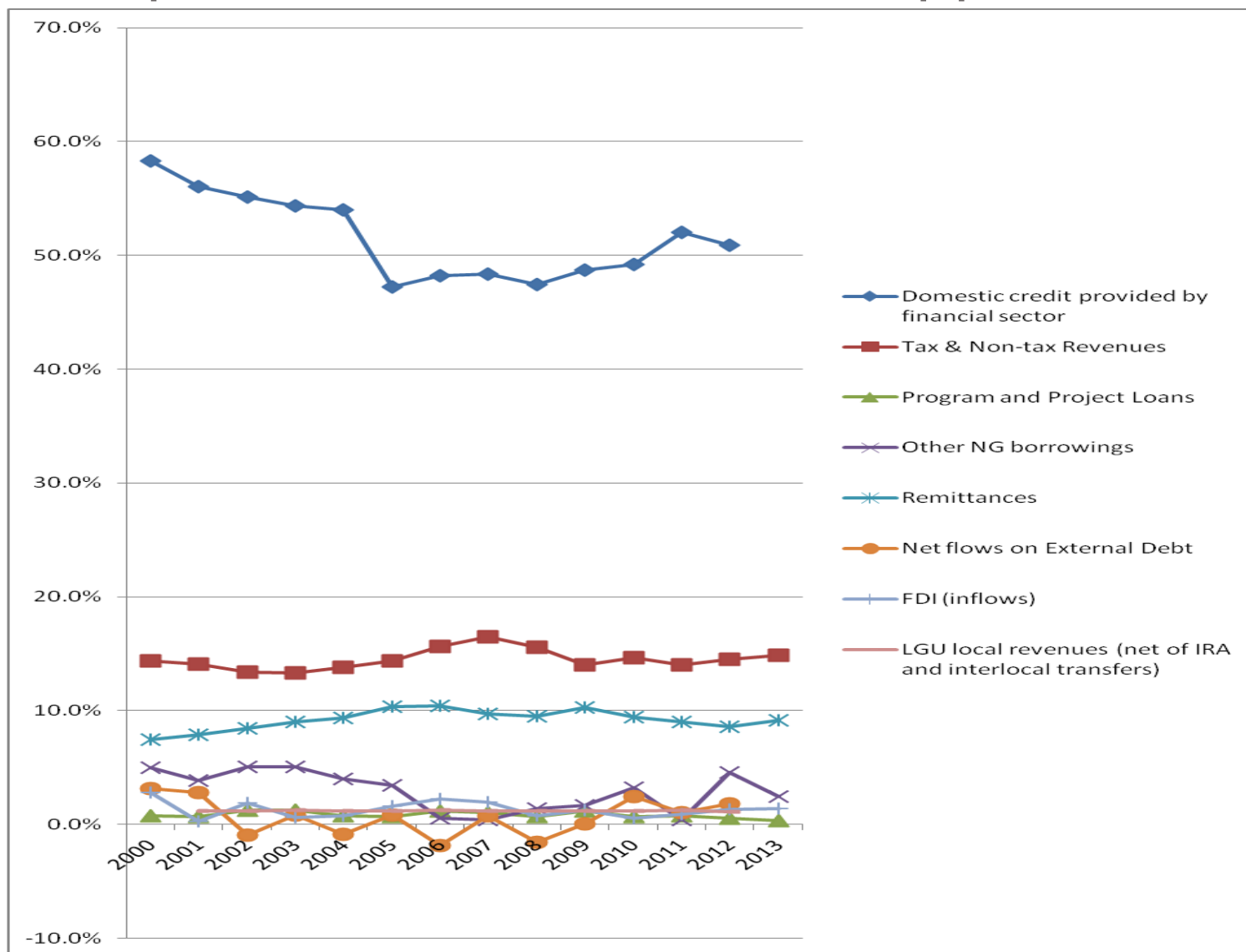
Figure 1. Asia-Pacific: Development Finance Landscape (2005 & 2010)



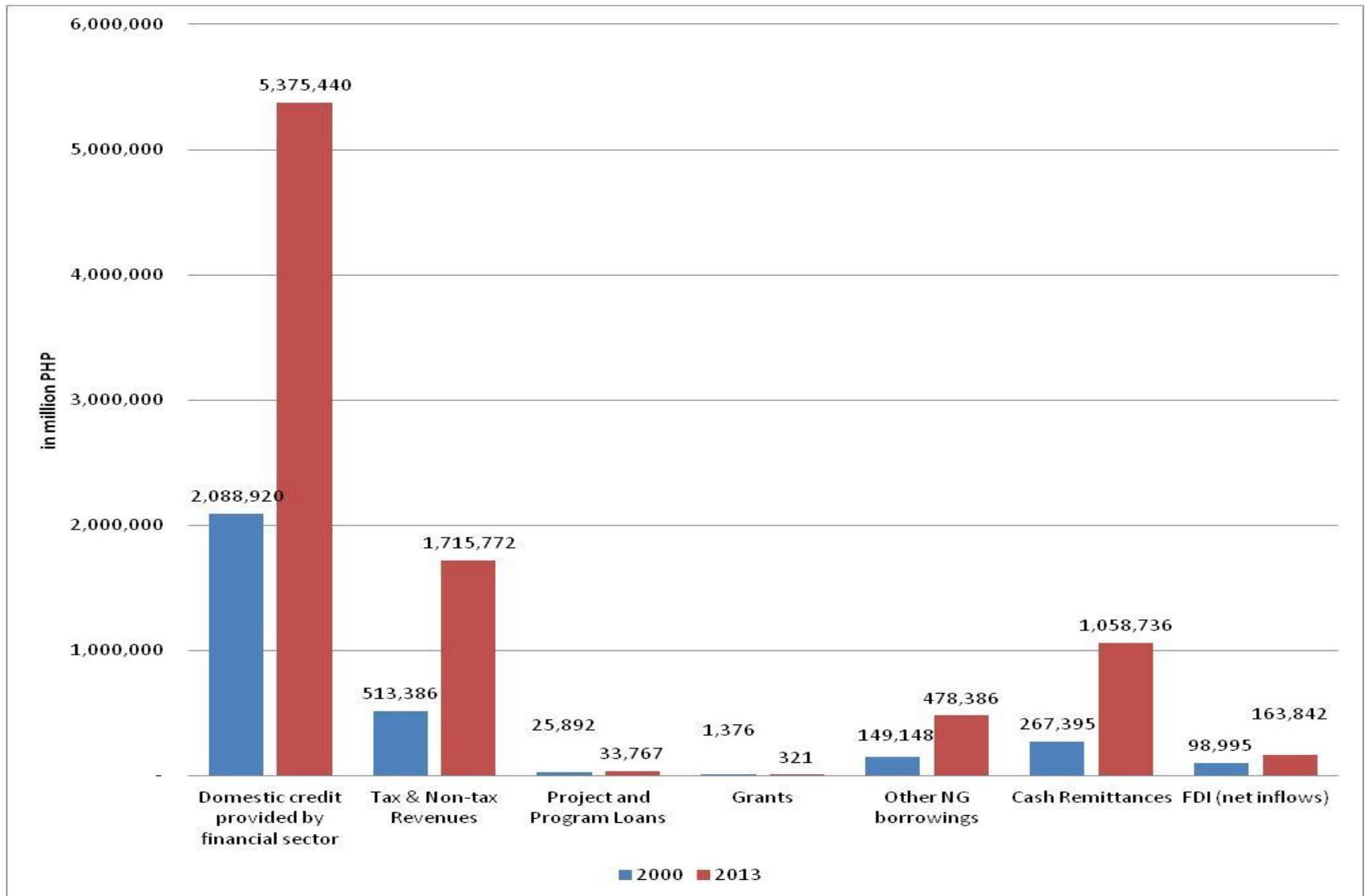
Development finance flows



Development finance flows: Philippines



Relative sizes of development finance Nominal figures (in million PHP)



Philippine development finance

- Improvement in fiscal space
- Improved budget policy and allocation
- Better aid coordination and harmonization
- Stable and liquid domestic financial markets
- PPPs; other private sector initiatives (CSRs, inclusive finance by for-profits)
- Credit rating upgrades, lower foreign borrowing cost, easier access to capital markets
- Rise of remittances
- Philanthropic contributions, e.g., humanitarian reasons

C. Asian infrastructure requirements

- Asia needs to raise an approximate amount of US\$8 trillion in overall national infrastructure for the period 2010 to 2020 or equivalent to US\$730 billion per year (68% for new capacity; 32% for maintaining and replacing existing infrastructure (Wignaraja 2013)).
- Asia needs an additional US\$290 billion for specific regional projects on transport and energy infrastructures (ADB and ADBI 2009).

Table 8. Top 10 Asian Countries' Infrastructure Investment Needs, 2010-2020

Countries	USD Billions
PRC	4,368
India	2,172
Indonesia	450
Malaysia	188
Pakistan	179
Thailand	173
Bangladesh	145
Philippines	127
Viet Nam	110
Kazakhstan	70

Source: Wignaraja (2013)

- According to UNESCAP (2013), infrastructure financing in Asia-Pacific region remains largely dependent on traditional sources of financing such as domestic tax revenues, external and domestic borrowings and donor grants.
- There seems to be a growing need for access to other innovative means of financing to augment the infrastructure gaps in the region.

D. AIIB and the Maritime Silk Road

- First, not much is known about the structure, corporate governance and operations of both AIIB and the Maritime Silk Road. China should provide relevant information to dispel speculations and doubts.
- Most information from Chinese sources and various foreign commentators.
- Our intention is to tease out the implications on the Philippine economy and how it can take advantage of an emerging opportunity.

AIIB

- Objective: to augment the financing resources of Asian countries for respective infrastructure projects.
- 21 countries formally launched the bank on October 24, 2014 in Beijing, China. They are Bangladesh, Brunei, Cambodia, China, India, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, the Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan and Vietnam.

AIIB

- The prime mover: China, with initial capitalization of US\$ 40 billion, [80% of the authorized capital of US\$ 50 billion]. Single biggest shareholder and could practically control voting rights and decisions in the bank.
- China's Ministry of Finance declared that any interested country that is committed to promoting regional development in Asia and global economic development may join the AIIB.

AIIB

- As of March 20, 2015, there are a total of 34 prospective founding members.
- The additional countries are: France, Germany, Hong Kong, Indonesia, Italy, Jordan, Luxembourg, Maldives, New Zealand, Saudi Arabia, Tajikistan, United Kingdom, and Switzerland.
- Negotiations for a mutually acceptable Articles of Agreement (AOA) are currently ongoing and the target is to complete the negotiations, and start banking operations within 2015.
- The target first loan: Pan-Asian Gas Pipeline, which is planned to connect a series of joint energy resource development areas in the South China Sea.

Maritime Silk Road

- Revival of China's Silk Road, ancient trade and cultural routes between China and Central and South Asia, Europe and the Middle East [Han Dynasty around AD 200].
- “New” Silk Road, an economic belt, focus on trade
- MSR- South and SE Asia
- Motivation: some analysts point to slow down in export-and-FDI-driven model; global economic crisis, domestic social problems requiring narrowing development gaps in coastal and less developed inland parts of China; stability and maritime security [in case of MSR].

Source: J Tatar, PISM Policy Paper

- Main elements: policy coordination, connectivity, trade and investment, people-to-people links, and financing development

Source: Chaturvedy, 2014

Maritime Silk Road

- “Silk Road Strategy in framework of geopolitical environment, to make China a great power in economy, trade and investment” while “countries along the Silk Road need trade and investment”
- Key principle claimed: “road of mutual prosperity”
- MSR faces geopolitical challenges- some Asian countries with conflicts in maritime sovereignty with China consider China as a threat.
- China must be patient enough to deal with these countries.

Source: Pan Beibu GulfThink Tank Summit Summary Report, 2014

- MSR, AIIB are channels for better use of China's huge stock of FX reserves; question of economic and financial returns
- Ostensibly to create better connectivity in the SEA region; Master Plan for ASEAN Connectivity
- But also the potential of using these for geo-political purposes, e.g., economic and political security, e.g., maritime issues in West Philippine Sea. MSR will be bilateral, [Chinese] government-directed. AIIB intended to be multilateral.

Maritime Silk Road: Is the Philippines part of it?



E. Implications; can the Philippines benefit?

- Huge financing requirements to develop infrastructure and other sectors.
- Recall DF flows diagram.
- PPPs as a mechanism; multi-lateral donors have cut down on infrastructure loans
- Remittances, high domestic liquidity

- Recent phenomenon in DF landscape: rise of alternative DFIs.
- AIIB, Maritime Silk Road, bankrolled by the Chinese government
- In the future, they could be principal sources of infrastructure financing for many countries in the region if properly structured and operated.

Some outstanding issues (1)

- Information asymmetry: China knows what it wants to get out of these initiatives, and how they will operate. Other parties face opaque information.
- In the absence of better information, will these DFIs complement efforts of other donors? Will they operate independently of those donors?

Converging interests?

- ASEAN states anxious over Chinese action on the ground that contradict stated intentions of goodwill and peaceful cooperation.
- Oil rig, artificial islands in disputed territories
- Trust deficit; China forgets that because of its size any move it makes that seems insignificant to it could have large implications for small neighbors.

[Sources: Noi, 2014; Chaturvedy, 2014]

Some outstanding issues (2)

- Challenge is to learn how to deal with China, the rising new economic and political power in Asia Pacific in order to tap this potentially huge source of infrastructure financing.
- Need trustbuilding efforts by China

Sources

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Maraming Salamat!