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TURNING POINT:

WHAT PHILIPPINES'
"POLITICAL-ECONOMIC SHIFT"
TO CHINA MEANS



TURNING POINT: WHAT PHILIPPINES' "POLITICAL-ECONOMIC SHIFT" TO CHINA MEANS

SHIFT TO CHINA

During the first state visit of President Duterte to China, he announced that the Philippines gained USD9 billion worth of ODA and USD15 billion worth of investment from business contracts. Since then, the Philippines has expanded relations to non-traditional partners like China to maximize opportunities of their high-potential markets. However, in reality, the "asymmetric" trade relations have not changed.

Two and a half years left in its political life, the Duterte administration has indeed made a dent in Philippine political history. By shifting or pivoting toward China, government has both strategically and tactically realigned its infrastructure programs and economic undertakings with the Belt and Road Initiative and Beijing's agenda. After three years of Chinese-sounding rhetoric and the imminent shelving of the UN arbitral award, the hyped 60-40 sharing agreement could finally conclude a chapter in the relations between the Philippines and China. Nonetheless, what needs to be seen is the economic impact of the political-economic shift and how it has affected infrastructure, trade and investments, tourism, official development assistance, and POGOs. With a description of such impact, more questions could be drawn to insinuate the utility or futility of the shift.

The paper is structured to discuss the performance of China against the backdrop of other leading partners when it comes to bilateral relations

with the Philippines. For the first section, trade and investment data and patterns will be presented as well as net foreign direct investment flows.

The second section will include a discussion on the sources and shares of official development assistance (ODA) loans and grants both from bilateral relations and multilateral organizations. It will also present data on foreign tourist arrivals to the Philippines. In turn, the fourth section discusses about POGOs.

The fifth section presents an analysis on the shift to China while also taking into account the outcome of the official state visits by President Duterte, specifically the fifth trip where there was a special mention on the Chico River Project and Kaliwa Dam.

The paper concludes with observable trends presented for each section.

Image Credit: bpr.berkeley.edu/2017/01/23/dutertes-unlikely-pivot-to-china

* THE VIEWS AND OPINIONS EXPRESSED IN THIS PAPER ARE THOSE OF THE AUTHOR AND DO NOT NECESSARILY REFLECT THOSE OF THE INSTITUTE.

TRADE AND INVESTMENT

For the past three years, the Philippine-China trade relations have consistently been imbalanced with a clear trade deficit. As illustrated in the graph below, the trade deficit has grown larger throughout the years. While exports remain below the USD1-billion mark, imports surpassed the USD2-billion mark. (Refer to Graph 1)

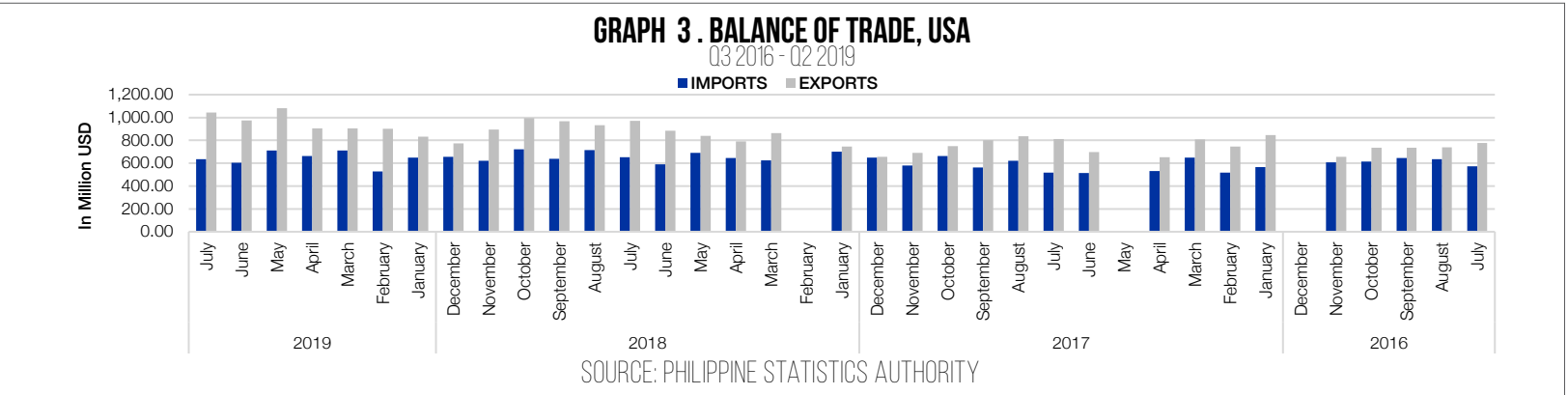
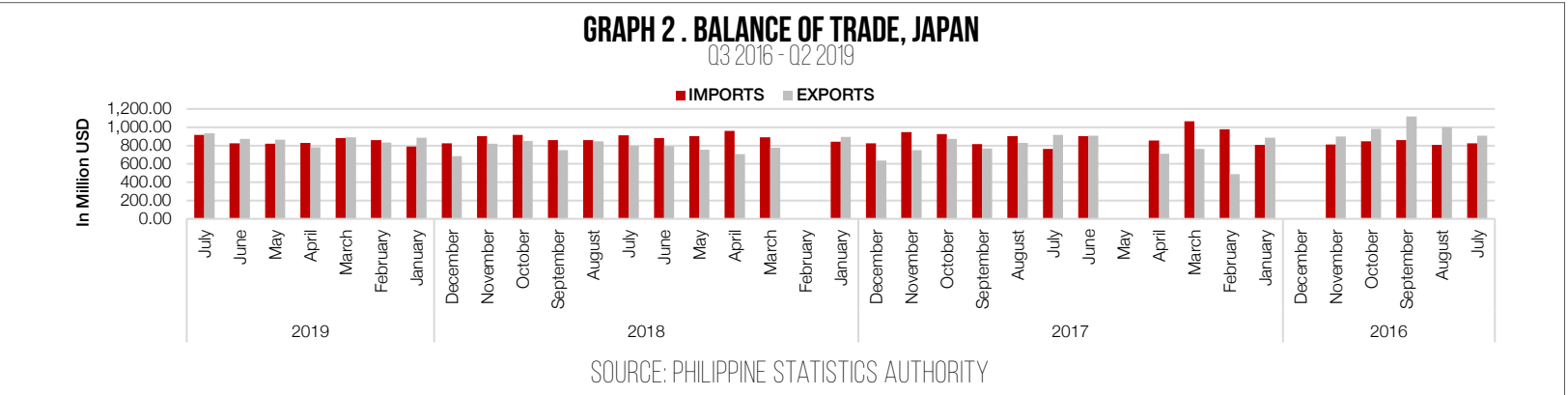
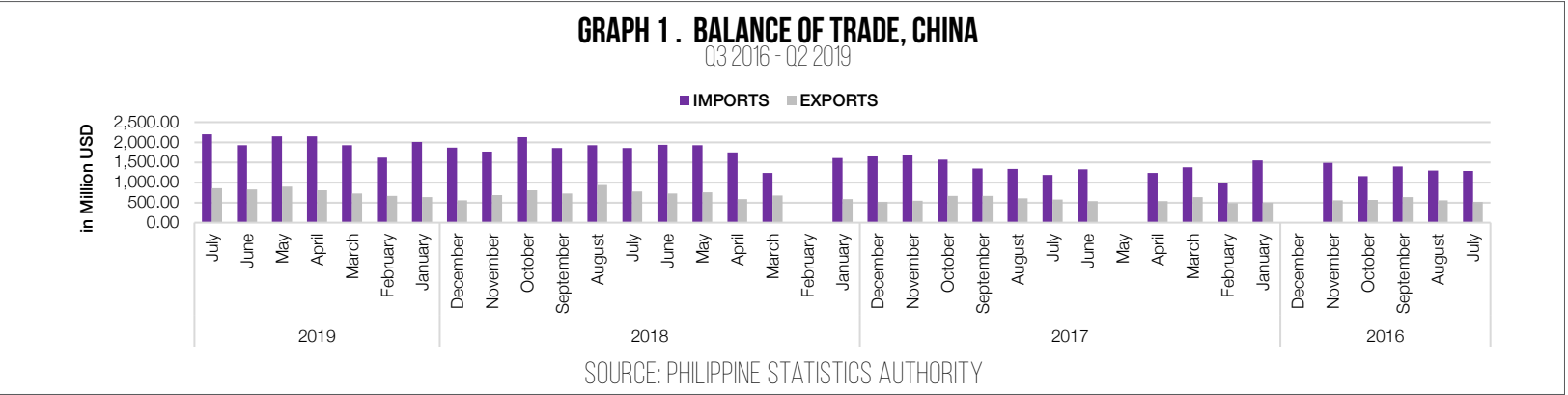
While trade with China has consistently been characterized by deficit, trade with Japan has registered trade surpluses. In the next graph, it could be seen how Philippine exports have the capability to compete with Japanese imports and demonstrate trade advantages. (Refer to Graph 2)

The trade relations of the Philippines and US has astoundingly been beneficial to the economy where exports overtook imports as shown in the graph. (Refer to Graph 3)

With Australia, trade relations have been a bit more challenging and could be improved by establishing better and more reliable relations, politically and economically. (Refer to Graph 4).

Similar to Australia, South Korea also posed some challenges with imports outpacing exports. However with an on-going negotiation on a PH-ROK Free Trade Agreement, as well as growing recognition of Philippines in Korea and vice versa, the trend could tip to a more positive and favorable outcome for the country. (Refer to Graph 5)

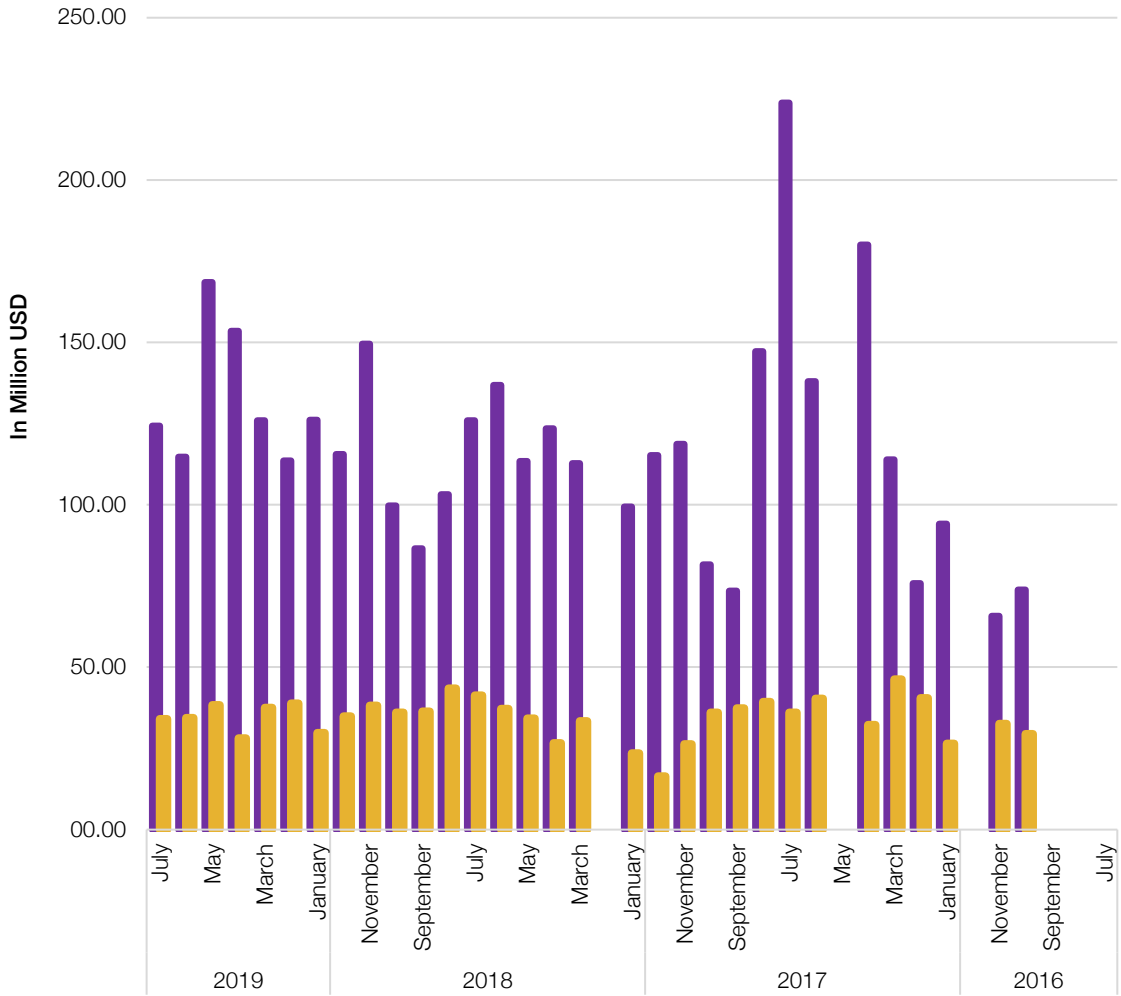
Aside from trade, net foreign direct investment (FDI) flows from China is the least noticeable when compared to Japan, US, EU and ASEAN. The graph illustrates a positively active investment trend for other countries while China contributes less than 10% of FDIs that have materialized.² (Refer to Graph 6)



GRAPH 4 . BALANCE OF TRADE, AUSTRALIA

Q3 2016 - Q2 2019

IMPORTS EXPORTS

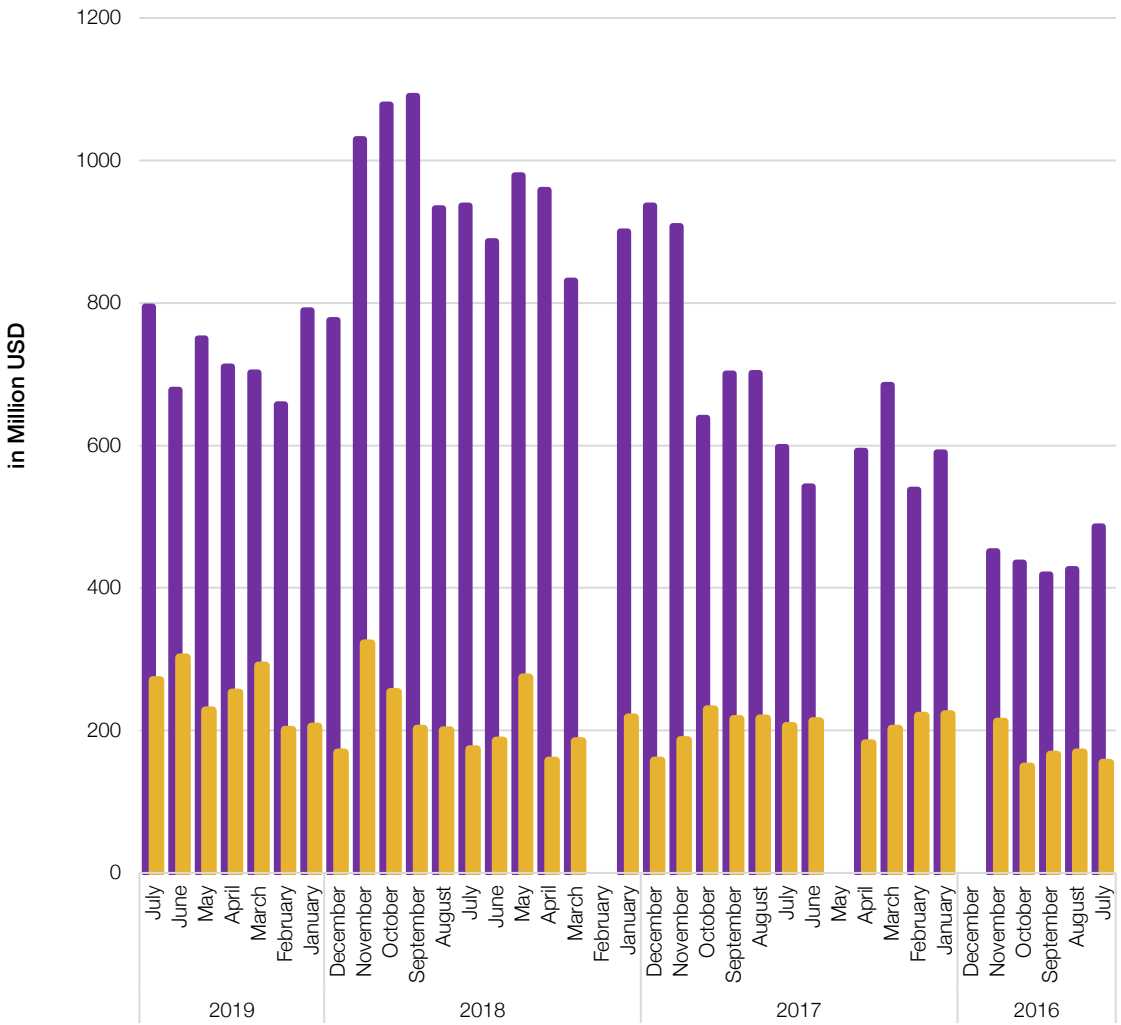


SOURCE: PHILIPPINE STATISTICS AUTHORITY

GRAPH 5 . BALANCE OF TRADE, SOUTH KOREA

Q3 2016 - Q2 2019

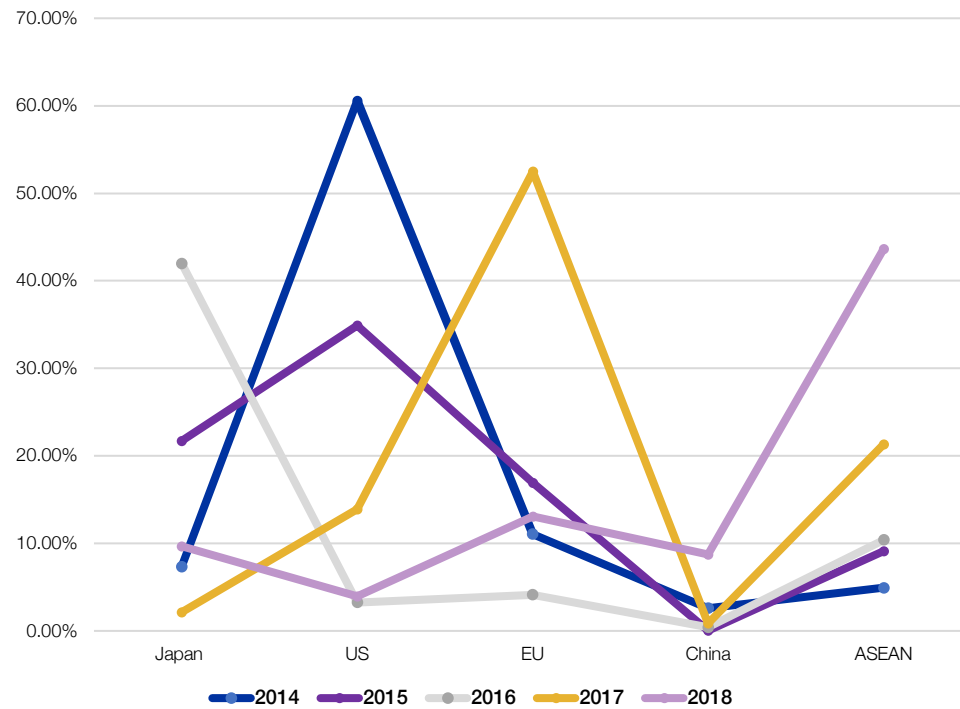
IMPORTS EXPORTS



SOURCE: PHILIPPINE STATISTICS AUTHORITY

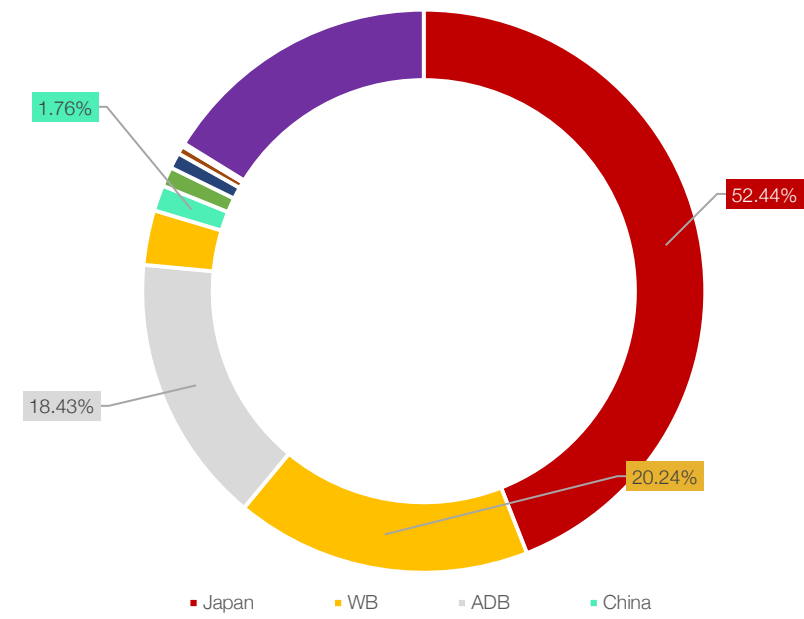
GRAPH 6 . NET FOREIGN DIRECT INVESTMENT FLOWS

2014 - 2018



SOURCE: BANGKO SENTRAL NG PILIPINAS

GRAPH 7 . NET LOANS, BY FUNDING SOURCE

ODA Loans, by Funding Source
as of March 2019

SOURCE: NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

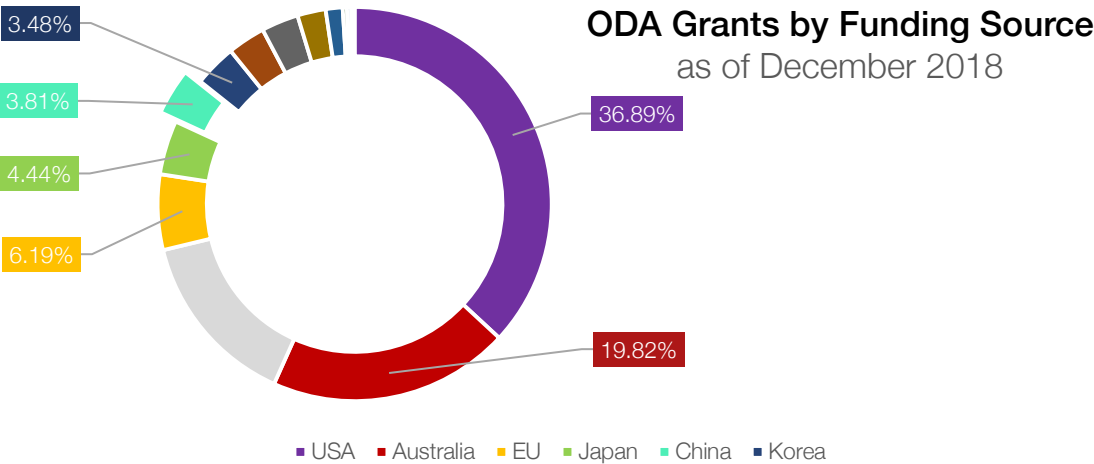
OFFICIAL DEVELOPMENT ASSISTANCE (ODA)³

“Official development assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries. Loans and credits for military purposes are excluded. Aid may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency such as the United Nations or the World Bank. Aid includes grants, “soft” loans and the provision of technical assistance. Soft loans are

those where the grant element is at least 25% of the total. The OECD maintains a list of developing countries and territories; only aid to these countries counts as ODA. The list is periodically updated and currently contains over 150 countries or territories with per capita incomes below USD 12 276 in 2010. Data on ODA flows are provided by the 29 OECD members of the Development Assistance Committee (DAC).”⁴

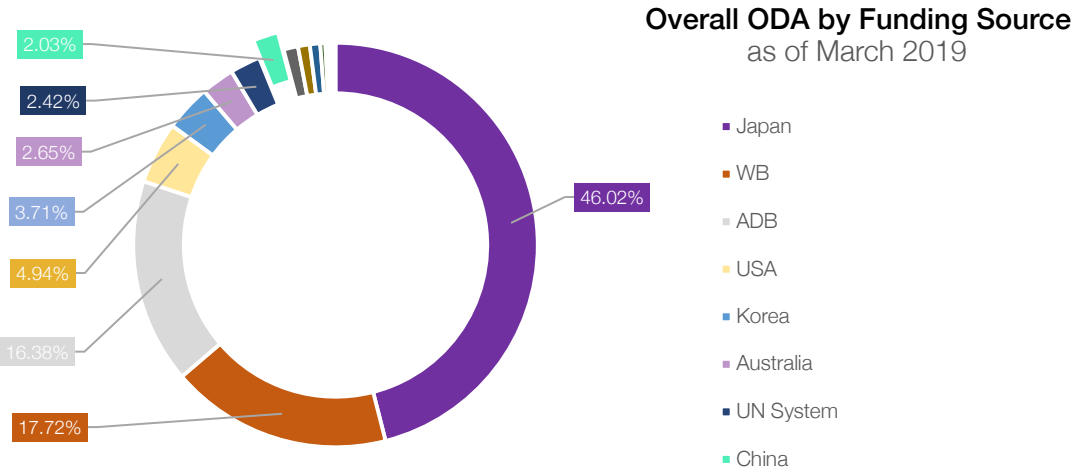
As of March 2019, loans from China remains minimal despite the highly sensationalized agreements the Philippines entered into. China’s share (1.76%) of ODA is very negligible in comparison to that of Japan (52.44%), World Bank (20.24%) and Asia Development Bank (18.43%). (Refer to Graph 7)

GRAPH 8 . NET GRANTS BY FUNDING SOURCE



SOURCE: NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

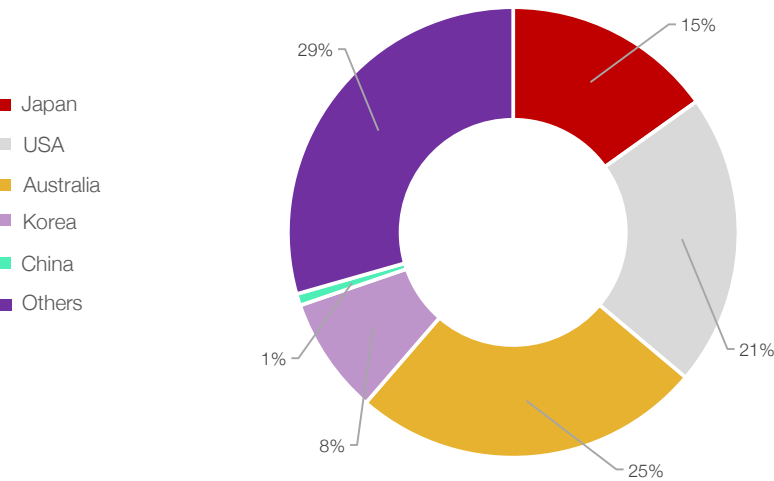
GRAPH 9 . OVERALL ACTIVE ODA BY FUNDING SOURCE



SOURCE: NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

GRAPH 10 . OVERALL ODA - BILATERAL 2017

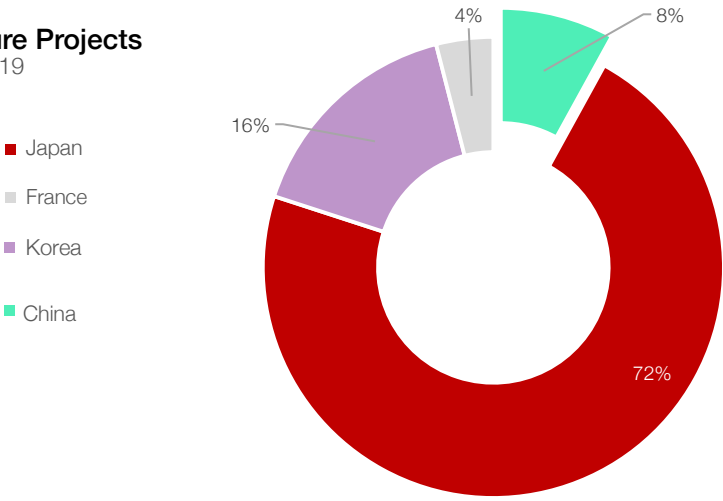
Overall ODA
Bilateral Assistance



SOURCE: NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

GRAPH 11 . ODA INFRASTRUCTURE PROJECTS⁵

ODA Infrastructure Projects
as of March 2019



SOURCE: NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY

Moreover, China’s share in ODA grants is also almost negligible when compared to that of the USA, Australia, and UN System. It is obviously less than that of the EU and that of Japan’s. (Refer to Graph 8)

Overall, according to 2019 data, Chinese ODA share stands at 2.03% and preceded by Japan (46.02%), WB (17.72%), ADB (16.38%), USA (4.94%), Korea (3.71%), Australia (2.65%) and UN System (2.42%). In comparison to 2017 data, China remains the same in terms of their contribution for development assistance. (Refer to Graph 9 and 10)

Specifically for infrastructure projects, China is superseded by Japan and Korea but preceded by France. (Refer to Graph 11)

TOURIST ARRIVAL⁶

In 2016, Chinese tourists accounted for 675,663. By 2018, arrivals increased by almost 200% from the 2016 figure. The given 2019 data is only the half-year data, almost the same figure as 2018 and will most likely surpass it. (Refer to Graph 12)

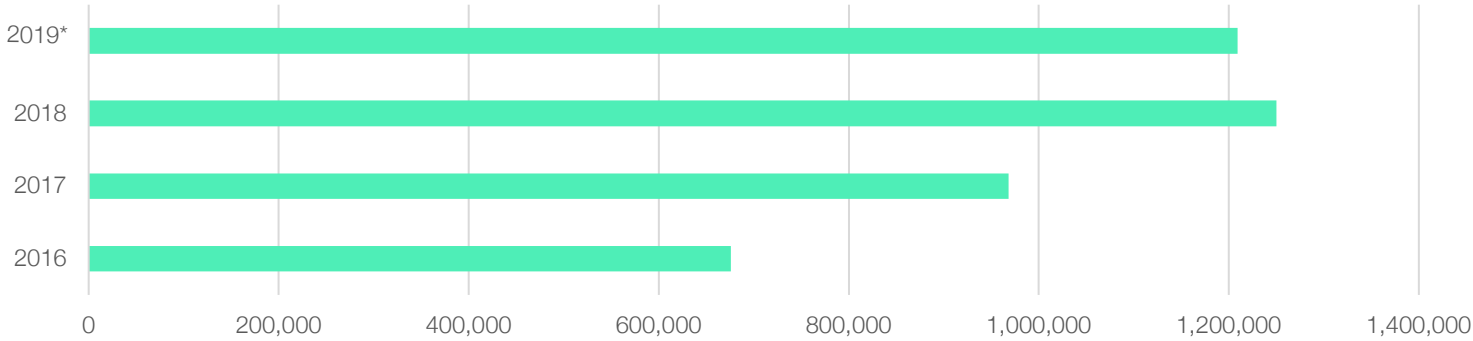
Compared with Japan, USA and Australia, the number of tourist arrivals from China and Korea has gone up to the charts with the Chinese registering at 1,209,312 while Koreans numbering at 1,298,608. (Refer to Graph 13)

POGOS

The only visible, concrete investment that China has brought into the country is the Philippine Offshore Gaming Operations (POGOs). These enterprises function as an exclusive online gambling platform made available only to authorized players outside the country.

GRAPH 12 . CHINESE TOURIST ARRIVALS

2016 - 2019*

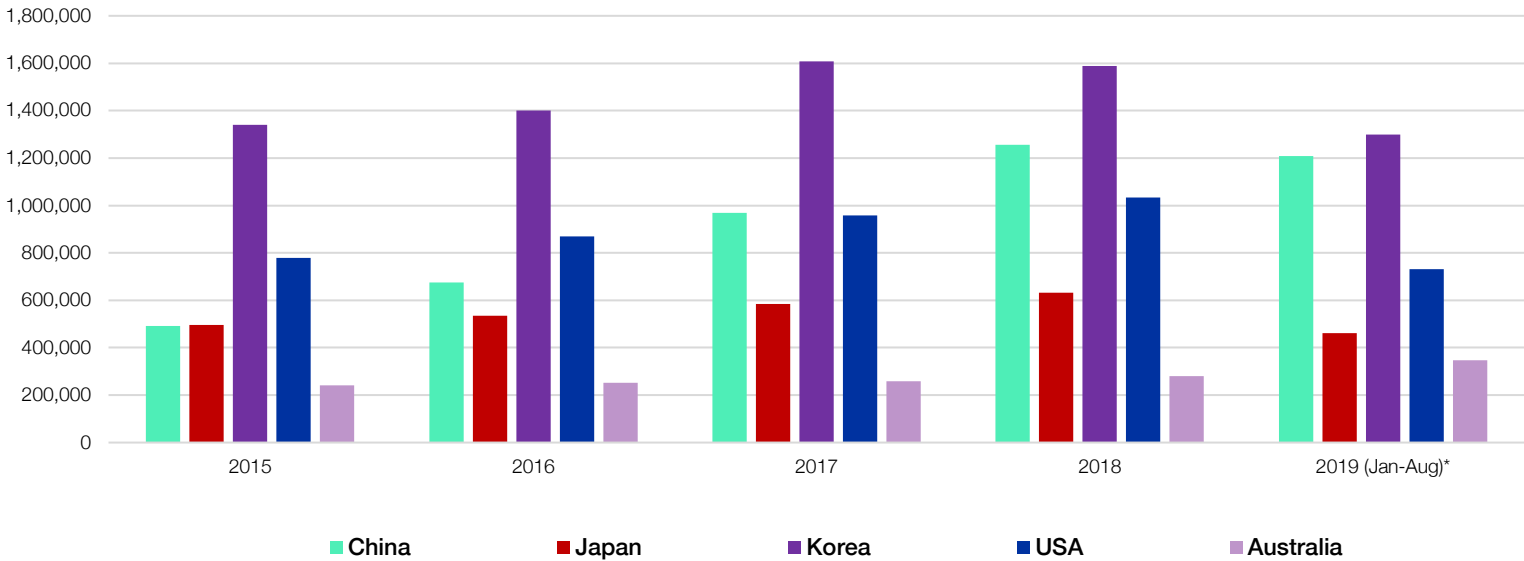


*January to August 2019

SOURCE: DEPARTMENT OF TOURISM

GRAPH 13 . FOREIGN TOURIST ARRIVALS

2015 - 2019*



SOURCE: DEPARTMENT OF TOURISM

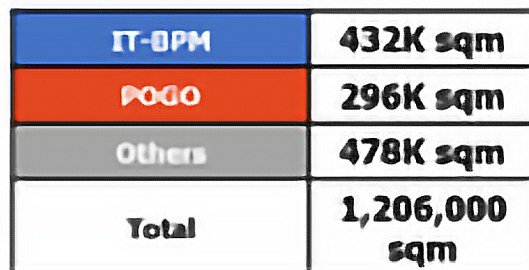
TABLE 1 . LIST OF APPROVED POGOS BY PAGCOR, AUGUST 2019

1	AG Interpacific Resources Limited	31	PT Transpacific Company Limited
2	BestBestNet Limited	32	Riesling Capital Limited
3	Cosmic Ace Holdings Ltd.	33	SA Dreamtech Group International
4	Defun Global Investments Ltd.	34	Saint Wealth Ltd.
5	Don Tencess Asian Services Solution Inc.	35	SC World Development Group Limited
6	Dynamic System Limited	36	Shaw Global Leisure Ltd.
7	Far Eastern Capital Limited	37	Smarc Group International Limited
8	Fortuneport Enterprises Limited	38	Smile World Global Limited
9	Full Strength Training Limited	39	Sohu Expert International Management Solution Inc.
10	Four Leaf Technology Inc.	40	Swanston Asia Inc.
11	Gentx Sports International Limited	41	Synchronzation Anywhere For You Inc.
12	Golden Dragon Empire Ltd.	42	Tech Innovation Management Limited
13	High Zone Capital Investment Group Limited	43	Vertex Digital Entertainment Technologies Inc.
14	Imperial Choice Limited	44	VIP Global Solutions Limited
15	Inner Strong Limited	45	Wanfang Technology Management Ltd.

16	King Rich International Group Limited	46	Wilshire Worldwide Company Ltd.
17	Kingwell International Group Limited	47	Winherld Entertainment Technologies Inc.
18	Kirschner Games International Inc.	48	Ximax Holdings Limited
19	Leading Reward Limited	49	Xionwei Technology Co. Ltd. Inc.
20	Lebo Limited	50	Golden Dreamer Holdings Limited
21	Marco Polo Enterprises Limited	51	Dragon Wealth System Inc.
22	MG Universal Link Limited	52	Philippine Cockfighting International Inc.
23	Micro Info Systems Ltd.	53	Great-Gaming International Corp.
24	Most Success International Group Limited	54	Giant Isle Group Limited
25	New Wave Infotech Limited	55	Benestar Co., Ltd.
26	Newlink Pacific Limited	56	Times Square Premier Management Group Limited
27	OG Global Access Limited	57	Infiniweb Technology Inc.
28	Oriental Game Limited	58	Blessed Dragon Limited
29	Prestige IOM Limited	59	Hk Felbai International Group Limited
30	Pride Fortune Limited	60	Full Advantage Investments Limited

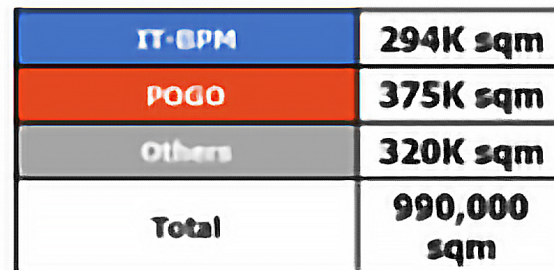
FY 2018

Metro Manila Demand Activity



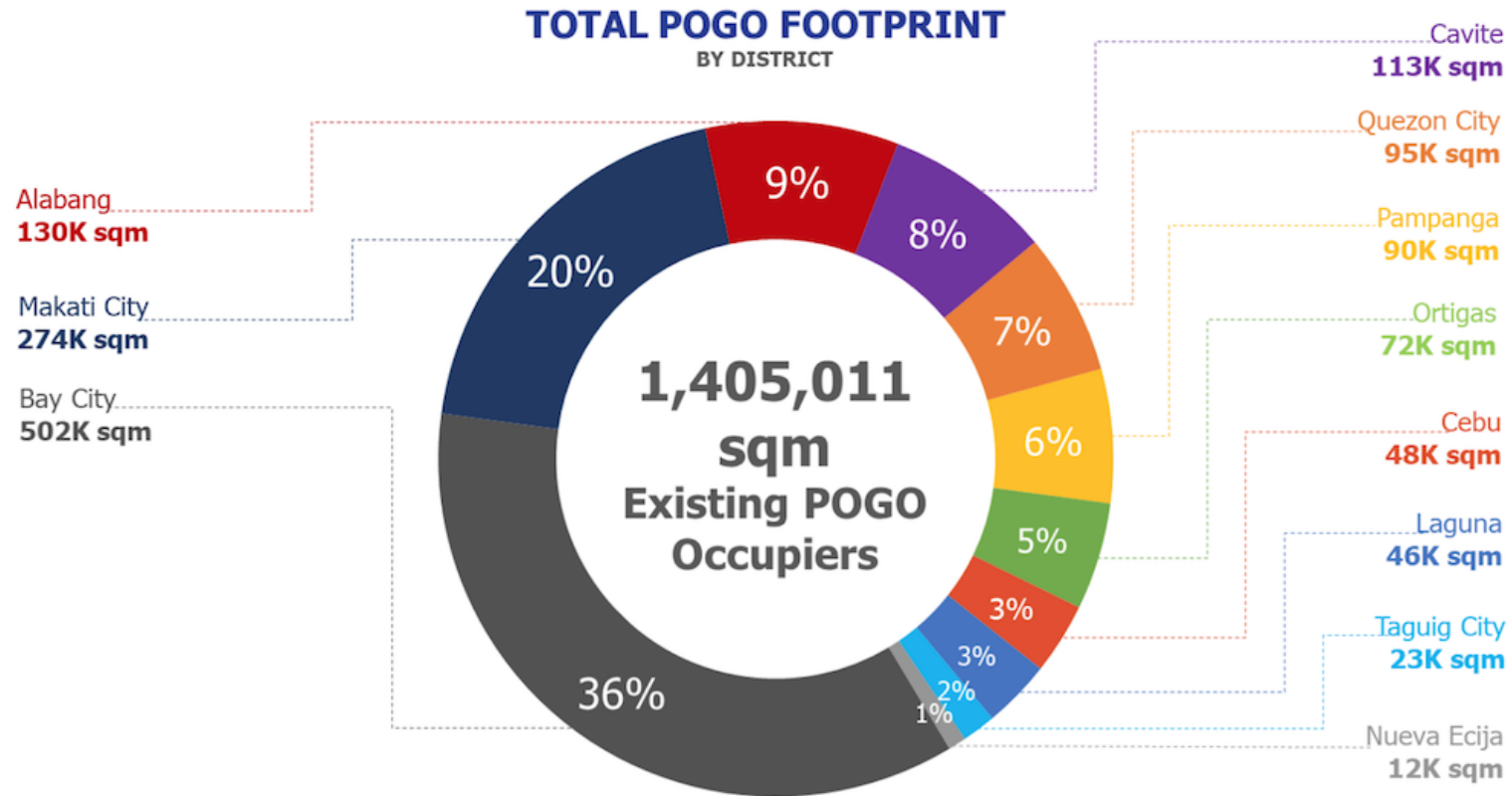
YTD 3Q 2019

Metro Manila Demand Activity



As of September 2019, the demand from POGOs in Metro Manila has surpassed the demand from BPOs. Even after the moratorium on new licenses, commitment for office space by POGOs has surged to 200,000 square meters. Current operations are aggressively expanding, scouting for more locations outside of the capital including Cebu and Clark. What stimulated the rapid growth of POGOs in recent weeks was the banning of gaming operations in Cambodia.

GRAPH 15 . REAL ESTATE FOOTPRINT



SOURCE: LEE CHIU PROPERTY CONSULTANTS

Lastly, there should be further discussion on POGOs as the policy paradox on offshore gaming between the Philippines and China looms. As these entities or operations are illegal in China, the Philippines continue to harbor and welcome them with open arms. It would be quite interesting to see how this would be resolved between the two governments amidst the South China Sea dispute and cultural clashes.

THE SHIFT AND THE TRIPS IN RETROSPECT⁷

With the shelving of the arbitral victory after being rejected by China, the Duterte administration still considered the fifth visit to China as “productive” and “fruitful”. In consolation, the Philippine delegation bagged the following bilateral cooperation deals including

but not limited to education, science and technology, finance, and customs, namely:

- 1) Memorandum of Understanding (MOU) on Higher Education Cooperation between the Commission on Higher Education (CHED) of the Philippines and Ministry of Education of China;

2) MOU on Science and Technology Cooperation between the Department of Science and Technology (DOST) of the Philippines and the Ministry of Science and Technology of China;

3) Cooperative Arrangement between the Bureau of Customs (BoC) of the Department of Finance (DOF) of the Philippines and the General Administration of Customs of China on the Implementation of the Intergovernmental Agreement Regarding Cooperation and Mutual Assistance in Customs Matters;

4) Implementation Contract on Project of China-Aid Container Inspection Equipment between the BoC and the Ministry of Commerce;

5) Exchange of Notes on Cooperation Procedure for the Availment and Utilization of Concessional Loan under a Renminbi-denominated Loan Facility between the DOF and China International Development Cooperation Agency; and the

6) Preferential Buyer's Credit Loan Agreement of Project Management Consultancy of the Philippine National Railways (PNR) South Long Haul Project between the DOF and the Export-Import Bank of China.

As for the utility infrastructure projects, the Department of Finance (DOF) publicized the content of the agreement for the Chico River Pump Irrigation Project and the New Centennial Water Source-Kaliwa Dam both funded by loans from China. These projects amounted to \$83.01 Million and \$231.59 Million, respectively, and with a total of \$273.3 million.

Looking back, during the first state visit of President Duterte to China, he announced that the Philippines gained USD9 billion worth of ODA and USD15 billion worth of investment from business contracts.

Since then, the Philippines has expanded relations to non-traditional partners like China to maximize opportunities of their high-potential markets. However, in reality, the “asymmetric” trade relations have not changed. In April 19, China was the country's biggest supplier of imported goods with 23.9% share to total imports. According to Philippine Statistics Authority (PSA), import payments from this country amounted to \$2.15 billion, manifesting a spike from \$1.83 billion in April 2018. Our exports to China, however, have only reached \$804.39 million in April 2019. The US on the other side remained to be our top export trading partner with \$906.9 million worth of exports in April 2019.

CONCLUSION

While much could be celebrated for the Chinese tourist inflow and the income earned from POGOs, there is much more cause for alarm to the trade and investment trend and for the ODA share. Despite the assurances of the Duterte administration, there is much to be seen because the concrete gains of the political-economic shift to China have yet to utterly materialize.

As for the country's traditional partners, the US continues to be a source of trade surplus. For Japan, trade continues to show prospects of growth and expansion. With Australia and South Korea, trade may be objectively more challenging as these countries continue to exhibit political, economic, and security support and cooperation.

ENDNOTES

¹ Philippine Statistics Authority (PSA), refer to <https://psa.gov.ph/statistics/foreign-trade/fts-table-id>

² Bangko Sentral ng Pilipinas (BSP), refer to http://www.bsp.gov.ph/statistics/spei_pub/Table%2048.pdf

³ National Economic Development Authority (NEDA), refer to <http://www.neda.gov.ph/official-development-assistance-page/>

⁴ OECD Library, refer to https://www.oecd-ilibrary.org/development/official-development-assistance-oda/indicator-group/english_5136f9ba-en

⁵ National Economic Development Authority (NEDA), refer to <http://www.neda.gov.ph/infrastructure-flagship-projects/>

⁶ Department of Tourism (DOT), refer to http://www.tourism.gov.ph/tourism_dem_sup_pub.aspx

⁷ STRABASE Brief, September 2019, “Philippine’s Pivot to China: Gaining or Losing Momentum”

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VOLUME



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