

DEVELOPMENT AND PRESENT STATUS OF ECONOMIC RELATIONS BETWEEN CHINA AND THE PHILIPPINES

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China and the Philippines relations have been considered as one of the oldest and longest in history, spanning from the Philippines pre-colonial era until the present-day era. Many interactions have taken place between the Chinese and the Filipinos varying from trade to political¹ exchanges. But over the course of their interaction one thing has been established China and Philippines is one of the most well-established connections in the world today. However just like any other relationship it has been subject to numerous debacles but setting these aside, this paper will try to look deeper into the relations between China and the Philippines, specifically the development of its economic relations.

Keywords: Philippines, China, Economic Relations

Beginning of an Economic Relation

Many written accounts would point that relation between China and the Philippines dates back even before the Spaniards came to the Philippines. “Chinese written records indicate that Filipinos had gone to China as early as 982, when Ma-yi (Mindoro) traders appeared on the coast of Guangzhou, and in 1001 when the first recorded Philippine tribute mission came, apparently from Butuan. At the end of the twelfth century, Visayan pirates were raiding Fujian from bases in the Pescadores².” There are other proofs such as archaeological finding that points “to Chinese traders visiting the islands of the South Seas before the tenth century, presumably including islands that now belong to the Philippines.³” In addition written records have also stated that by 1206 Mindoro, Palawan, Basilan and other nearby islands were known to

¹ These would include the ideas/ideals and beliefs.

² William Hemy Scott, *Filipinos in China before 1500* (Manila: De La Salle University China Studies Program, 1989), pp. 1-2.

³ Aileen San Pablo-Baviera, *PHILIPPINES-CHINA RELATIONS IN THE 20TH CENTURY: HISTORY VERSUS STRATEGY* (Quezon: University of the Philippines Asian Studies Vol. XXXVI No. 2, 2000) pp. 51-68.

China⁴, which further proves the fact that there have already been relations between the Chinese and the Filipinos even before the arrival of the Spaniards.

Written accounts of the earlier relations between China and the Philippines is said to be very colourful and rich. "Economic exchanges with the southern countries were so lucrative and extensive that in 972 the first emperor of Sung Dynasty established offices of maritime trade in Kwangchow, Hangchow, and Minchow with separate superintendents to deal with all Arab, Achen, Java, Borneo, Ma-i (Mindoro), and Srivijaya "barbarians".⁵"

Spaniards and the Chinese

The arrival of Magellan in the Philippines marked the beginning of the Spanish ear in the Philippines. As stated in most of historical accounts, when Magellan and his fleet arrived in the Philippines there had been regular trade and cultural contacts between China and the Philippines. However, the arrival marked a decline in the flourishing trade between Chinese and Filipinos during the 16th and 17th century. The primary reason for the decline was due to the different restrictions⁶ imposed by the Spaniards on the Chinese merchants in the Philippines. "In the process, the Spaniards took over much of Philippines-China trade to the exclusion of the native Filipino traders and merchants. Moreover, whereas before several Philippine ports were active in the international trade, the Spaniards closed all other ports and concentrated trade in their fortress city of Manila."⁷ Here we can see how the Spaniards are trying to limit the participation of the Chinese in Philippine trade and economy because they wanted to have a monopoly of trade in the Philippines. The Chinese presence was another thing that was controlled by the Spaniards. "The immigrant Chinese and their descendants came to play an important role in the colonial economy for the next three centuries, especially as traders. With the growth in their numbers and economic wealth, they also became a source of

⁴ William Hemy Scott, *Filipinos in China before 1500* (Manila: De La Salle University China Studies Program, 1989), pp. 1-2.

⁵ William Henry Scott, "Filipinos in China Before 1500," *Asian Studies*, April, August, December, 1983, pp.1-19.

⁶ The Spaniards imposed these restrictions on Philippine-China trade, because they intend to monopolize and

capture for themselves trade and commerce, and to direct it towards her colonies in the Americas and to Spain in what is known as the Manila-Acapulco or Galleon trade.

⁷ Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999.

taxation income for the colonial bureaucracy.⁸” The growth in the number of Chinese immigrant was not a pleasant image for the Spanish colonizers for they fear that the Chinese loyalty will not be with them. As a result, the Spaniards tried to control the Chinese presence and influence by creating an enclosed quarter in the north-eastern part of Manila, where all newly arriving Chinese would live together.” This enclosed quarter was known as the Parian.⁹

Aside from being secluded, the Chinese also experienced massacres from the Spanish soldiers. The Chinese survived these massacres by intermarrying with the Catholic *indios* and convert into Christianity. Despite such iniquitous and harsh conditions the population of the Chinese still grew. “In 1570, there were about 140 Chinese in Manila, twenty years later, the number increased to 4,000. By 1600 there were over 26,000. In 1603 when the Chinese staged an insurrection, about 24,000 Chinese were slaughtered and only 1,500 were left. During the second Chinese insurrection in 1639, another 23,000 were killed. Ten years after, the population in the *Parian* rose to 15,000¹⁰.” Here we can see how the Chinese despite such persecutions were able to increase their size in the Philippines during the Spanish era. Amidst all of these predicaments there remained very strong and rich economic relations between China and the Philippines.

Americans and the Chinese

The Spanish discriminatory policies on the Chinese were further tightened when the American took control of the Philippines by virtue of the Treaty of Paris of 1898. This was manifested with the first proclamation created that is the Exclusion Law¹¹. Further denigrations that the Chinese experienced was the removal of certain position such as the *Gremio de Chinos* as well as the positions of the *cabecillas* and *governadorcillos*. These were positions given to the Chinese by Spanish authorities to help the Spanish colonial government in

⁸ Aileen San Pablo-Baviera, *PHILIPPINES-CHINA RELATIONS IN THE 20TH CENTURY: HISTORY VERSUS STRATEGY* (Quezon: University of the Philippines Asian Studies Vol. XXXVI No. 2, 2000) pp. 51-68.

⁹ Ch'en Ching-ho, *The Chinese Community in the Sixteenth Century Philippines* (Tokyo: Centre for East Asian Cultural Studies, 1968), p. 67. The Parian was meant in part to facilitate tax collection and control of trade. It was also to keep Chinese pirates from intermingling with merchants, following persistent attacks on the islands by the pirate Limahong.

¹⁰ Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999.

¹¹ The law which prohibited Chinese immigration to the Philippines was intended mainly to regulate Chinese economic role in the Philippines and hence Philippines-China trade relations. This law was initially applied to Chinese in America and eventually extended to the Philippines in 1902.

collecting taxes from their fellow Chinese. These positions were given by the Spaniards so as to have control over the Chinese. When the Exclusion law was extended to the Philippines its main goal was to regulate the number and entry of Chinese immigrants in the Philippines. The Americans wanted to regulate the economic role of the Chinese because they saw how the Chinese population and has become a threat to their colony. All of these things point to the fact that the Americans wanted to make the Philippines an exclusive market, thus creating a decline for the Sino-Philippines economic relations. The Exclusion law didn't reduce the number of Chinese immigrant instead it increased by threefold¹². The increase in the number of Chinese was due to the American colonial government's need for both coolie and skilled labour; these new immigrants eventually became middle men of American imports and traders¹³.

Overall during the Spanish and American occupation the Chinese were persecuted and continuously regulated their influx in to the Philippines however amidst all of these things they incessantly increase their number here in the Philippines. The Chinese also had an important role in society for the Chinese became the link of the colonizers to the locals through their trade relations¹⁴.

Trade was a constant occurrence between China and the Philippines up until the eruption of WWII. The trade relations between these two countries resumed in 1945 and the trade figure for 1945-1946 was \$40 million¹⁵.

As stated by B. Lim we can see in the "Philippine colonial history has shown that the Philippines-China commercial relations survived and flourished despite a hostile colonial government and intermittent rebellions by Chinese traders and workers when conditions became unbearable." These periodic uprisings were caused by a "combination of discriminatory immigration laws, excessive tax and labour levies imposed by the colonial government and extraction of exorbitant bribes by rank and file colonial bureaucrats¹⁶."

¹² Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999.p 7.

¹³ *Ibid*, p.8.

¹⁴ The total Chinese investments in the Philippines in 1939 reached \$100 million, second only to US investment of US \$331 million. That same year, the Chinese government opened a branch of the Bank of Communications in Manila. The bank financed many of Chinese mercantile and industrial activities in Manila as well as in the remotest places in the Philippines.

¹⁵ Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999.p 8.

¹⁶ Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999.p 8.

Post-Colonial Economic Relations

Aside from WWII another incident that halted the trade relation between China and the Philippines was when the Chinese Communist Party captured political power in China on October 1, 1949¹⁷. During this time countries surrounding China had one common fear, the spread of communism. Due to this fear the Philippines instituted anti-Communist policies¹⁸ in the same year. During this time, as well the Philippines entered into agreement with the US in the form of the Laurel-Langley agreement¹⁹.

The economic relations between these two countries resumed when President Ferdinand Marcos came to power. During this time the Laurel-Langley agreement is about to expire, and one of the main programs of President Marcos was to review and restart Philippine Foreign Policy. Coupled with the above-mentioned situations and the oil crisis of 1973 President Marcos already saw the great potential of the socialist countries as a new market and wider scope of economic possibilities. To further enunciate this move he in 1966 President Marcos lifted the travel ban on Philippine citizens to socialist countries. He argued before Congress that the lifting of the travel ban would make some of our countrymen who travelled to Russia and China, “a bit wiser”:

We adopted a liberal view on travel to communist countries. This gave some of our countrymen a chance to see for themselves what economists call the Russian and Chinese models. These travelers returned, I think, a bit wiser, and they are probably much wiser because of recent developments in the Chinese mainland.

He again reiterated his point of establishing a greater relation with China in his state of the nation address to Congress by saying:

We, in Asia must strive toward a modus vivendi²⁰ with Red China. I reiterate this need, which is becoming more urgent each day. Before long, Communist China will have increased its striking power a thousand-fold with a

¹⁷ *Ibid.*

¹⁸ Anti-Communist Policies isolated China from the rest of the “free world,” and prohibited Chinese immigration and banned travel to or from China.

¹⁹ The Laurel–Langley Agreement was a trade agreement between the Philippines and the United States which was signed in 1955 and expired in 1974. Although it proved deficient, the final agreement satisfied nearly all of the diverse Filipino economic interests. While some have seen the Laurel-Langley agreement as a continuation of the 1946 trade act, Senator Laurel and other Philippine leaders recognized that the agreement substantially gave the country greater freedom to industrialize while continuing to receive privileged access to US markets.

²⁰ Is an arrangement that helps people, groups, or countries work together peacefully even though they do not agree with each other.

*sophisticated delivery system for its nuclear weapons. We must prepare for that day. We must prepare to co-exist peacefully with Communist China*²¹.

The looming worldwide monetary crisis, coupled with worsening domestic economic difficulties as a consequence of deteriorating trade with the US and other industrialized nations, led President Marcos to announce a new policy which was to normalize commercial relations with the socialist states²². The Philippine government had to do a preliminary establishment of ties which eventually led to the creation and establishment of consulates and embassies. The relations with the socialist countries further strengthened and by March 1974, trade relations with these countries, as well as with China and the Soviet Union reached \$80,398,309.00, with exports totaling \$46,376,372.00, and imports \$34,021,936.00²³; from which 49% of the overall trade with the socialist countries was with China²⁴.

Trade relations between China and the Philippines further deepened as time progressed. The PRC government had already demonstrated their willingness to help ease the economic difficulties of the Philippines brought about by the steep increase of oil prices. On September 25, 1974, an agreement was signed for China to sell high quality petroleum to the Philippines and in turn buy Philippine products such as coconut oil, lumber, sugar, copper ore, and other metals²⁵.

²¹ Ferdinand E. Marcos, "New Filipinism: The Turning Point," State of the Nation Message to the

Congress of the Philippines, January 27, 1969.

²² Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999.p 10.

²³ "RP-Red Trade Surplus: \$12.3 M," *Philippine Daily Express*, September 21, 1974.

²⁴ Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999.p 10.

²⁵ Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999.p 11. October of that same year an initial shipment of 125,000 barrels of crude oil was delivered as part of this agreement signed.

Table 1. Foreign Trade of the Philippines with China*
(F.O.B. value in US Dollars)

| Year | Total | Imports | Exports |
|------|-------------|-------------|-------------|
| 1971 | 1,408,195 | 1,006,390 | 401,805 |
| 1972 | 6,312,859 | 5,530,309 | 782,550 |
| 1973 | 27,889,132 | 21,924,670 | 6,571,480 |
| 1974 | 37,231,327 | 23,924,670 | 13,306,657 |
| 1975 | 72,251,804 | 47,036,027 | 25,215,777 |
| 1976 | 93,344,544 | 53,792,649 | 39,551,895 |
| 1977 | 186,372,229 | 78,351,890 | 108,020,339 |
| 1978 | 159,085,110 | 111,627,098 | 47,458,012 |
| 1979 | 172,417,464 | 120,953,005 | 51,464,459 |
| 1980 | 250,691,740 | 205,705,312 | 44,986,428 |
| 1981 | 272,742,410 | 194,516,918 | 78,225,492 |
| 1982 | 311,531,991 | 206,327,132 | 105,204,859 |
| 1983 | 151,542,102 | 122,150,595 | 29,391,507 |
| 1984 | 280,441,795 | 220,255,977 | 60,185,818 |
| 1985 | 355,877,664 | 276,084,896 | 79,792,768 |

*Source: Foreign Trade Statistics of the Philippines

Trade relations during the Marcos administration indeed flourished as can be seen from the Table 1, however uncertainty in his administration created the demise of his great political run and was eventually removed from office.

After President Marcos was removed from power he was succeeded by the wife of the assassinated Senator Benigno Aquino Sr, Corazon Aquino. Under his administration, President Aquino restored democracy and civil rights in the Philippines. However just like any other transitional government her administration was beset by enormous economic, political and social problems²⁶. With these problems looming, she had no liberty to formulate a coherent foreign policy and foreign trade. But the PRC made the first move to continue its good relations with the Philippines that was started during the Marcos' administration²⁷. The Chinese initiative was believed to be a step towards further solidifying the trade relations established during the Marcos' regime. But these expectations were proven wrong; the Aquino administration's foreign policy was directed at Taiwan and not mainland China. Indeed, from the start of the Aquino administration, several "unofficial" trips

²⁶ Government was bankrupt, there was double digit inflation, unemployment rose, strikes and demonstrations by farmers, laborers, and students were staged regularly. There were assassinations and counter-assassinations between the adherents of left and right ideologies. In general, the government suffered from disorder and confusion even within the highest administrative echelons.

²⁷ China was the one who took the initiative to revitalize its relations with the Philippines. One month after EDSA, the Chinese Minister of Culture came Manila to sign a Cultural Agreement Executive program. In May of the same year the Chinese agreed to: (1) restructure payment of \$11.2 million dollars in rice import credit given to the Marcos administration in 1985, and (2) renew a credit line for \$20 million dollars given to the Philippines by the Bank of China.

were made to Taiwan by Aquino officials at all levels. Cabinet members, legislators, provincial, city and even municipal officials travelled to Taiwan, presumably, to observe Taiwan's land reform program and other development projects²⁸. These acts of the Aquino administration caught the attention of the Chinese Embassy in the Philippines. As a result, the China had to file democratic protests but these were simply ignored.

Over her administration trade relations with Taiwan provided helped but in the near end of Aquino's term, Taiwan withdrew several of their so called mega-industrial investment projects slated in the Philippines, including the controversial Luzon Petrochemical Plant²⁹. It has been very interesting to note that despite her Chinese roots President Aquino choose to ignore the Chinese and instead directed her programs towards Taiwan.

As soon as President Ramos assumed power he took immediate steps to mollify the Chinese. As proof President Ramos made a state visit to China from April 26 to May 1, 1993. In this state visit the agenda ranged from the expansion of commercial relations with China to the resolution of the Spratlys dispute. To further emphasize this agenda, President Ramos not only ordered the termination of the trade balancing program but brought with him six top Filipino Chinese tycoons to China. These tycoons are considered to be the owners of big businesses in the Philippines.

The new trade protocol encompassed pledges of best-efforts on the part of the Philippines to buy Chinese power plants, transmission lines and towers, transformers, metal manufacturing and road building equipment, electrical products, coal, textiles, steel billets, mineral products, chemicals, cotton, foodstuff and other consumer items. For China's part, it will buy Philippine phosphate and compound fertilizers, chromite ores, copper cathodes and concentrates, tin plates, cold-rolled steel, manganese, coconut oil, fatty acid and alcohol, bananas, coffee beans, and shelled cashew³⁰.

Furthermore, during the state visit President Ramos' delegation also signed fourteen joint venture agreements. Under these joint venture agreements China offered a \$25 million energy loan for the construction of mini-hydroelectric plants and the commercial credit for two coal-fired power plants. At the same time, President Jiang Zemin donated \$434,000 to victims of Mt. Pinatubo. During the meeting between Presidents Ramos and Jiang Zemin, the Chinese host assured President Ramos that China does not have any

²⁸ Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999.p 15.

²⁹ Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999.p 19.

³⁰ *Ibid*.p 20.

expansionist ambition and that its arms build-up was part of its modernization program. The Chinese emphasized the importance of shelving the sovereignty issue over the Spratlys while President Ramos reiterated the importance of abiding with ASEAN's Manila Joint Declaration to settle differences peacefully. President Ramos reassured the Chinese that his administration will adhere to the one-China policy despite his meeting with Lee Teng Hui at Subic³¹.

But in 1995, it was feared that friendly relations between China and the Philippines would deteriorate after Chinese occupation of the Mischief Reef. In fact, most observers linked Chinese occupation of the Mischief reefs with commercial and trade issues. They argued that commercial relations would only improve if and when the Chinese occupation of the Mischief Reef was resolved. Several Filipino political leaders demanded that the Chinese leave Mischief Reef as a precondition to improved Philippine-China relations. Indeed, over the past decade there has been a tendency by many observers to associate political developments with economic performance. For instance, some quarters have claimed that rampant kidnapping of ethnic Chinese in the Philippines have led to flight of their capital to China. There is also talk that the tension in the Mischief Reef could only exacerbate our commercial relations with China³².

From an international relations perspective and particularly from a political standpoint security concerns that are given primary importance as in the case of Chinese occupation of the Mischief, would reduce trade activities. But amidst these expectations and perspectives a review of trade statistics from 1995 to 1998 appears to prove these observers wrong. It appears that despite the China's construction of a structure over the Mischief Reef in 1995 and with the controversy it has spawned since then, trade volumes between the two countries have increased dramatically over the same four-year period. Trade volume increased from \$456.7 in 1994 to \$1306 in 1995 or an increase of 65 percent. Indeed, the trade volume increased more markedly in 1997 when the Mischief Reef controversy became more pronounced and the Asian financial crisis occurred. More striking perhaps is the fact that while the trade volume between China and the Philippines increased during the 1997 financial crisis, China's trade volume with other ASEAN countries plummeted significantly.

³¹ Lim, Benito. "The Political Economy of the Philippines-China Relations." *PASCN Discussion Paper No. 99-16*, 1999, p 20.

³² *Ibid*, p 21.

Table 4. Philippine Trade with China (in Million US\$)

| Year | Total | Exports | Imports |
|------|---------|---------|---------|
| 1998 | 2013.00 | 512.00 | 1501.00 |
| 1997 | 1666.00 | 327.00 | 1339.00 |
| 1996 | 1387.00 | 372.00 | 1015.00 |
| 1995 | 1306.00 | 275.00 | 1030.00 |
| 1994 | 456.97 | 163.94 | 293.03 |
| 1993 | 354.53 | 173.87 | 180.66 |
| 1992 | 297.64 | 113.9 | 183.74 |
| 1991 | 351.27 | 127.77 | 223.5 |
| 1990 | 223.86 | 61.76 | 162.1 |
| 1989 | 271.33 | 50.23 | 221.1 |
| 1988 | 309.08 | 66.8 | 242.28 |
| 1987 | 293.51 | 87.95 | 205.96 |
| 1986 | 215.38 | 104.69 | 110.69 |

As can be seen from the table above we can see that there is a continuous increase in the trade volume between the Philippines and China. It is also interesting to look at the increase from 1997 to 1998 where in the Asian Financial Crisis that struck most of the ASEAN countries despite that there is still an increase in trade relations between China and the Philippines.

Overall, during the Ramos government (1992-1998), Taiwan remained a sensitive issue in the Philippines' diplomacy with China. In its first year, the issue was aggravated with the meeting Ramos had with Taiwan President Lee Teng-Hui in Subic in February 1993, which the Chinese considered a violation of the One-China policy. A state visit to China by Ramos in 1993 and a return visit by Jiang in 1996 softened the cold diplomatic situation. Notwithstanding these visits, the Spratlys issue provoked much national reaction from the Departments of Defense and Foreign Affairs of the Philippines. China's occupation of the Mischief Reef in 1995 and later the attempted occupation of the Scarborough shoal was considered by the Philippines as threats to Philippine security.

Despite the tense and cold diplomatic relations between the Philippines and China since the Spratlys issue in 1995, economic relations have been relatively vibrant in 1995 and 1996. Contrary to expectations, trade and investment activities between the Philippines and China increased sharply. The basis for such increase in economic relations can be traced to economic policies taken by both governments. These policies provided better trade and investment opportunities for business people. Traders and investors from both sides respond to market signals and government policies. The lifting of the trade balance policy by Ramos shortly after he took office in 1992 was a positive factor in stimulating Philippines-China trade. China, on the other hand, further adopted market liberalization program for its foreign trade system in 1994. Policies that increased investments include the liberalization of foreign

exchange in the Philippines and China's improved incentive program for foreign investment. Attracted by the incentives, Filipinos, particularly the ethnic Chinese, responded by investing in China. However, the biggest Philippine investment in China has been by San Miguel Corporation, a non-ethnic Chinese business. The investments of the Philippine Chinese were mostly small and medium scale, low-tech enterprises in manufacturing, services, and real estate development³³.

Throughout most of the 1980s, the Philippines was beset by political instability and economic malaise, and was in dispute with China over the South China Sea. Therefore, it was not in a position to take advantage of China's economic liberalization. The country fell behind most of its ASEAN neighbors, whose trade and investment ties with China expanded remarkably during the period³⁴.

The situation did not change until 2000 when former Philippine President Estrada visited China, signing a joint declaration on the Framework of Bilateral Cooperation in the 21st Century. Since then, China-Philippines trade has risen tremendously and in 2002 China became the 10th largest trade partner of the Philippines for the first time, with bilateral trade value accounting for 4% of the Philippines' total trade. From 2003-2011, bilateral trade rose steadily from US\$9.4 billion to \$32.3 billion, an increase of 244%, making China the Philippines' third largest trading partner after the US and Japan³⁵.

Amidst all of these uncertainties and irregularities economic ties have continued to improve, the degree of wariness toward this major power has increased as the tension on South China Sea grew. In the Philippines, there is fear that the asymmetrical economic interdependence between these two countries could spell trouble for the Philippine economy. According to Manila's point of view, "Beijing's main motive for developing economic relations with the Philippines is to wean it away from Washington, while isolating the US politically and diplomatically to the maximum possible extent"³⁶.

Thus, in contrast to other ASEAN countries, the Philippines has not been very active in negotiating FTAs with China and other countries. Manila did not have clear strategies or policies towards the ASEAN-China FTA and

³³ Palanca, Ellen. "China's Economic Growth: Implications to the ASEAN (An Integrative Report)". PASCN Discussion Paper No. 2001-01. Ateneo University. p 13-15.

³⁴ Lim, Ben. "China-Filipino Relations under the Aquino Regime: So Far". *Center for People Empowerment in Governance*. Roundtable Discussion July 24, 2012. UP Manila. p 3.

³⁵ *China's Customs Statistics Yearbook*, 2011.

³⁶ Renato Cruz De Castro, "Balancing Gambits in Twenty-First Century Philippine Foreign Policy Gains and Possible Demise?", in *Southeast Asian Affairs 2011*, p. 240.

has largely been a follower of the trade negotiations in ASEAN³⁷. Consequently, compared with other Southeast Asian countries, the growth in Philippines' trade with China has been much slower. In 2011, Philippines' trade with China was lowest among ASEAN-5, reaching only about one third that of Malaysia's trade with China.

In bilateral investment, although the Philippines was one of the earliest foreign investors in China, its FDI value in China is insignificant when compared with that of other ASEAN countries. For example, in 2010 the value of Philippine FDI in China was US\$138.1 million; accounting for only 2.2% of ASEAN-6's total value of FDI in China.¹⁶ China's overall investment in the Philippines also remains comparatively small. In 2011, China's total outward FDI reached US\$74.7 billion, while its FDI in ASEAN reached US\$5.9 billion, a 63.3% increase from that of the previous year; China's FDI in the Philippines on the other hand was US\$294 million, accounting for only 4.5% of China's total FDI in ASEAN³⁸.

Bilateral Trade Relations between China and the Philippines

Throughout its history, China had attached special importance to developing closer relations with its neighbors. In these relations, moreover, China has exhibited varied behavioral traits, adopted different poses, and enunciated dissimilar objectives from time to time, thereby sending mixed signals³⁹.

Traditionalism has always been an integral part of the Chinese culture. From worshipping dead ancestors to foot binding, it is the very core of China itself. Contrary to what others might believe, the Chinese have always prioritized developing closer ties with its neighbors.

As a testament to this China have continuously forged relations with ASEAN (Association of South East Asian Nations) given the proximity of these two. As ASEAN continues to rise as an economic powerhouse with 600 million people and a combined GDP of 2.1 trillion USD, it will become one of the world's fastest growing consumer economic regions in the succeeding two decades. Trade volumes increased significantly from 1980 to the present, particularly for Singapore and Indonesia, and much of it was due to increases in China's imports from ASEAN rather than the other way around. In terms of

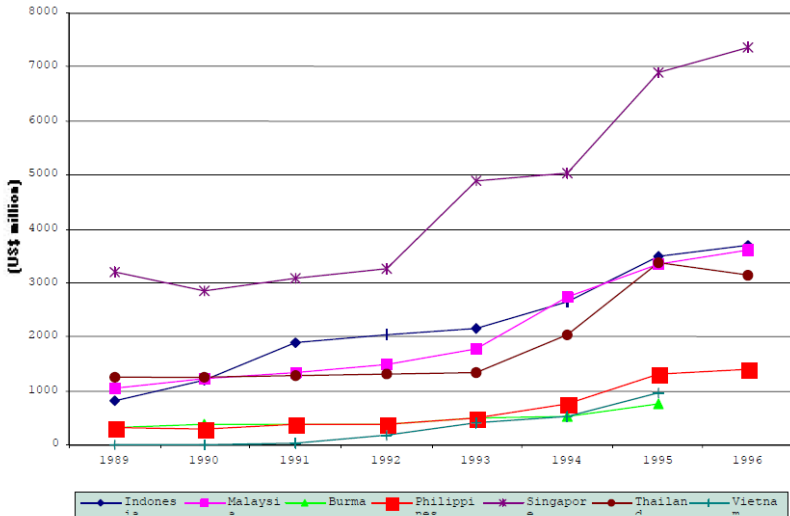
³⁷ Jose L. Tongzon, "Trade Policy in the Philippines: Treading a Cautious Path", *ASEAN Economic Bulletin*, VL 22, no.1, 2005.

³⁸ Ministry of Commerce of China, *2011 Statistical Bulletin of China's Outward FDI*.

³⁹ Scalapino, Robert. "China's Relations with Its Neighbours". *Proceedings of the Academy of Political Science*, Vol. 38, No. 2, *The China Challenge: American Policies in East Asia* (1991), pp. 63-74.

percentage of total trade of either China or the ASEAN 5, these volumes are very small if compared to the conceivable trade potential, given the (pre-financial crisis) robustness of their economies and their advantages of proximity and even ethnic Chinese linkages. The share of mutual trade in total trade volumes of each side as of 1993 was only 5-6% in China's case and 2-3%⁴⁰ for the ASEAN countries⁴¹.

Fig 1a. China's Trade with Southeast Asia (US\$ million) (1988-1996)

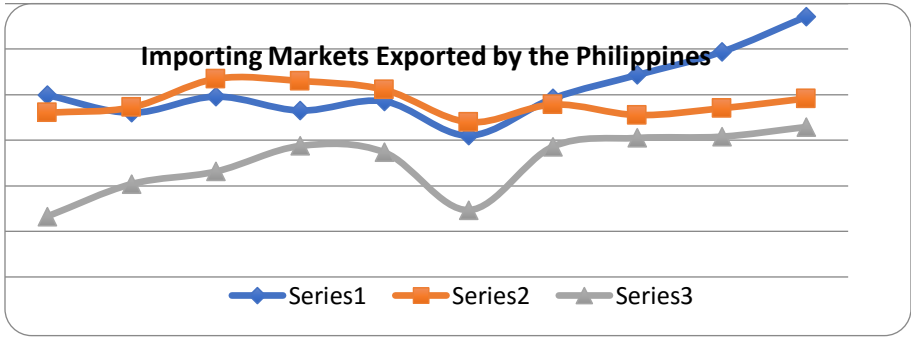


The table in the previous page would show China's trade with Southeast Asia as of 1996, from highest to lowest are with: Singapore, followed at a

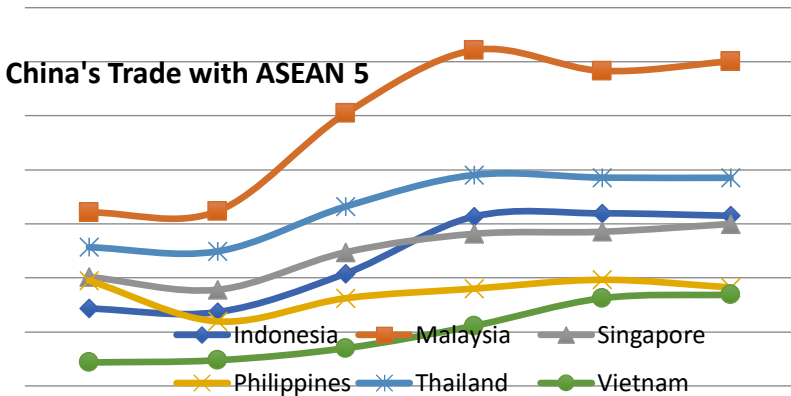
⁴⁰ Richard L. Grant, "China's Domestic and Foreign Policies: An Overview," in *China and Southeast Asia: Into the 21st Century* (Washington, D.C.: Center for Strategic and International Studies, 1993), p. 25.

⁴¹ Baviera, Aileen. "China's Relations with Southeast Asia: Political Security and Economic Interests". PASCN Discussion Paper No. 99-17. p 1-37.

distance by Indonesia, Malaysia, and Thailand, then trailing far behind are the Philippines, Vietnam and Burma.



Source: ITC calculations based on UN COMTRADE statistics (2013).

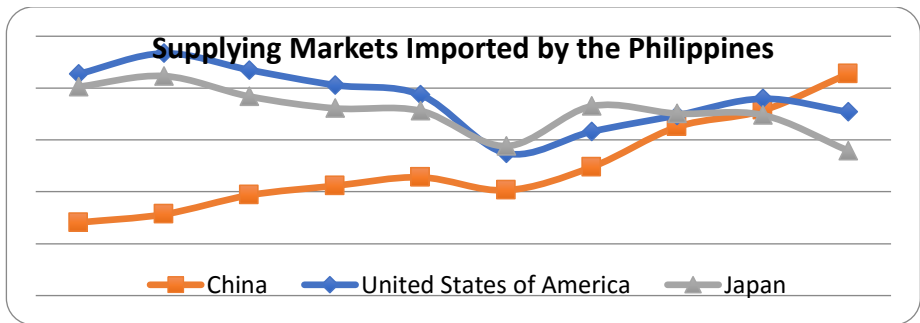


Source: ITC calculations based on UN COMTRADE statistics.

From this table we can see that Malaysia has overtaken Singapore as the main trading partner of China followed by Thailand, then closely followed by Singapore and Indonesia. It is very interesting that from the previous graph we can see that Singapore used to be the primary trading partner of China but in this graph we can see that Malaysia has overtaken Singapore. however the main point here is to show you that from the early times up until the current

time China has indeed maintained a tightly knit trade relations with its neighbors as is seen with the ASEAN 5. The tables above would also affirm the fact that China recognizes the great potential of ASEAN in becoming a single market by continuously forging a strong economic relations with this group.

In addition China has continuously taken care of its relations with the individual members of ASEAN, one of which is the Philippines. China has reiterated that the existing dispute between China and the Philippines should not hamper the long withstanding trade relations that have been there since the pre-colonial time.

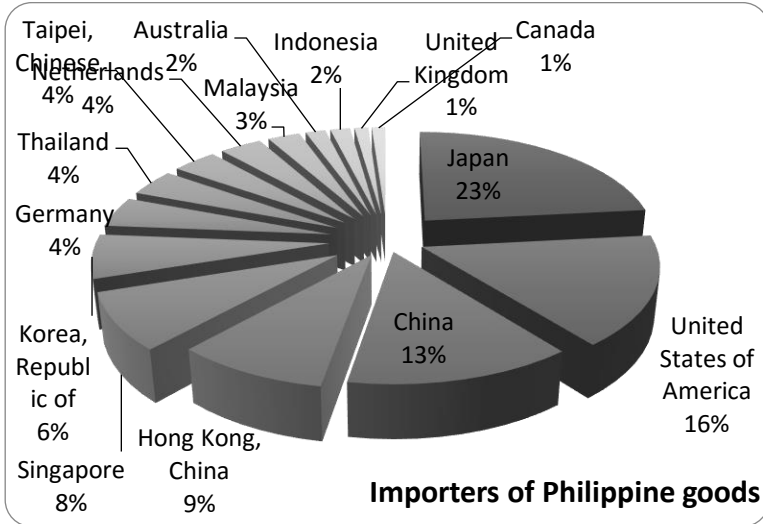


Source: ITC calculations based on UN COMTRADE statistics⁴².

The charts above would show us how China has been taking care of its relations with the Philippines over the last decade. The table would also show us that in terms of the Philippines’ import, the United States used to be its top supplier but by 2012 China has overtaken the US and by 2013 has emerged as the top supplier of good to the Philippines. Graph on the imported goods of the Philippines we can see that China has continuously increased its exported goods to the Philippines this is surprisingly done despite the growing tumult between China and the Philippines.

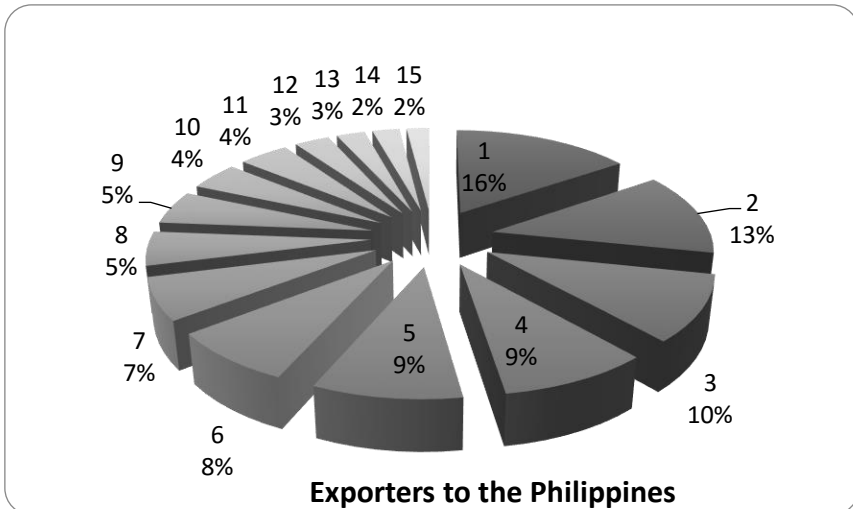
In terms of the countries that are trading partner of the Philippines we can see that China remains to be one of the major partners of the Philippines.

⁴² Both of these graphs are simulated by the author and have limited it only to the top 3 suppliers and importers to the Philippines. The complete list of suppliers and importers can be provided by the author upon request.



Source: ITC calculations based on UN COMTRADE statistics (2013).

Though Japan remains to be the top importer of the Philippines, China is not far as the 3rd trading partner of the Philippines in terms importing Philippine goods. China has been importing 13% of the total exports of the Philippines. This amounts to \$6,582,557,000 USD. In terms of the trend China’s import from the Philippines has increased from 2004-2013, this can be seen from the earlier chart. It is also interesting to note from the chart on the



importers of Philippine goods is that among the top importers are Asian

countries and are neighbors of the Philippines. This would prove that the Asian region is becoming a big market that there is no need to further look outside this region for potential market. The chart above can also be a great start for ASEAN because it can prove the fact that by becoming a unified market, they can be of assistance⁴³ to their neighboring countries.

On the other hand, China is now the top exporter to the Philippines with \$8,554,077,000 USD which is about 16% of the total imports of the Philippines from the world market.

As the top exporter to the Philippines we can see again how China values and gives importance to its neighbors in the international setting. Aside from this China can also reiterate with this chart that despite the tension arising between China and the Philippines trade can still be a flourishing concept. The chart above can also affirm the fact that the Chinese goods has provided good competition with other goods from other countries and has given consumers more options thus lowering market prices. This is a product of economic globalization. As defined by Theodore Levitt (from an economic point of view): it is the reduction in transport costs, as well as the proliferation of commodities, services capital and technical know-how in fields of production expenditure and investment. In this definition, we can see that the increase in Chinese goods would be the proliferation of commodities thus allowing more competition and more choices for consumers in the international market.

The chart above would also show us that China still values smaller markets just like the Philippines. Because being the top economy some might simply ignore small markets such as the Philippines but China is doing otherwise. China has continuously proved many expectations against them and this would show the international community that they are ready to take on the role of being a world superpower.

In terms of the trend, the chart on Supplying Markets Imported by the Philippines would show that even the Philippines is now more inclined to trading with Asian Nations for it is far cheaper since the proximity is closer than with countries from the west. Again, this is a product of globalization, under globalization there is increase integration among nations. The trend would show that ever since there has been the solidification of ASEAN-China

⁴³ This would mean that they can provide an avenue where their neighbouring countries can earn more and gain from the opportunities that are presented to them.

FTA⁴⁴ came into effect there is now an increasing trend in the supplying of goods by China to the Philippines.

Globalization has made the world a smaller but also a more complex place, as especially since the 1970s nation-states have gradually transferred certain sovereign rights to global, regional, sub-state regional and local authorities and institutions in order to deal with challenges like interdependence, security threats, migration or environmental problems. States and international organizations, however, are not the sole actors in international politics anymore: Both transnational corporations (TNCs) and non-governmental organizations (NGOs) act increasingly across national borders too, engaging with each other and governmental actors alike⁴⁵. Because of globalization nations now have become more integrated and have increased its potential for linking and connecting each other's economy. This phenomenon has greatly impacted the world economy today it has integrated many regions all across the world and as a result made the world smaller because of the connected it has made among nations.

Globalization is not the only reason for the growth of interdependence among neighboring countries in Asia but also Regionalism. Regional cooperation and integration, also labelled "regionalism", can lead to the creation of regional organizations and regimes, i.e. a system of regional governance. Interlinking different territorial levels, such a system delegates and disperses political decision-making power to state, sub state and nonpublic actors alike. Although the policy outcome might be more efficient, the new modes of governance applied in this complex network, such as private - public or public semipublic partnerships, do also raise crucial questions of democratic legitimacy and responsibility⁴⁶.

These two concepts have made great impact not only to the relations between and among countries, but to the entire world economy. The concepts also enabled different countries to properly incorporate other economies of other nations to help their own development.

It is also important in looking at the bilateral trade relation, the export and import component. In this section, we will first look at the export

⁴⁴ The ASEAN-China Free Trade Pact on trade in goods came into effect in July 2005.

⁴⁵ Giddens, Anthony (1999): "Globalization." BBC Reith Lectures 1999. ([//news.bbc.co.uk/1/hi/english/sta-tic/events/reith_99/default.htm](http://news.bbc.co.uk/1/hi/english/sta-tic/events/reith_99/default.htm), retrieved 20.8.2014.

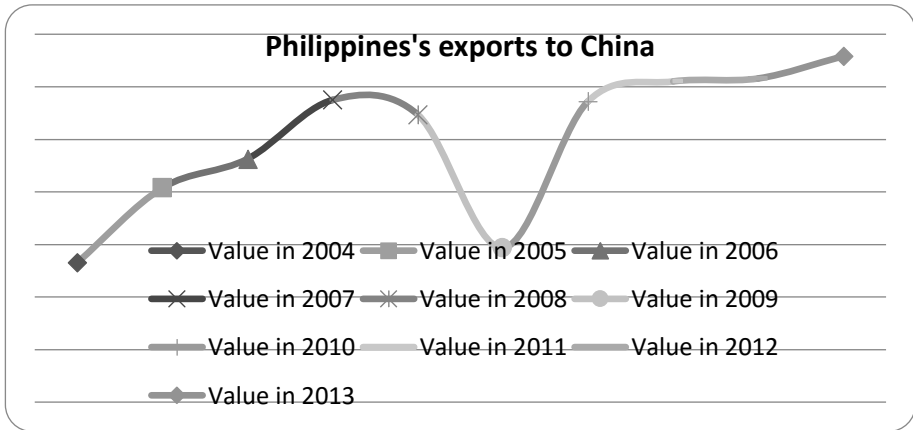
⁴⁶ Gerstl, Alfred (2004): .External and Internal Driving Forces in Integration Processes – The Case of East Asia. July, Master thesis, Master of International Relations, Macquarie University Sydney. — (2002): Governance – neue Anforderungen an "neues Regieren". (Research project; final report for the Austrian Federal Ministry for Science and Culture). Vienna.

component of trade between china and the Philippines. Followed by the imports and then the list of products commonly imported and exported by the Philippines and China.

In terms of the exports from the table and the chart below we can clearly see that the overall trend if that there is an increasing trend in the development of exports from the Philippines to China. The table would show us that from 2004 to 2013 there is a 148% increase in terms of the value exported by the Philippines to China. Though in 2008-2009 there is a decline in the value exported to China there is still an overall increase in terms of the value exported.

| Philippines's exports to China | | | | | | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Value in 2004 | Value in 2005 | Value in 2006 | Value in 2007 | Value in 2008 | Value in 2009 | Value in 2010 | Value in 2011 | Value in 2012 | Value in 2013 |
| 2653036 | 4076996 | 4627660 | 5749864 | 5469186 | 2933923 | 5724467 | 6102252 | 6159106 | 6582557 |

Source: ITC calculations based on UN COMTRADE statistics.

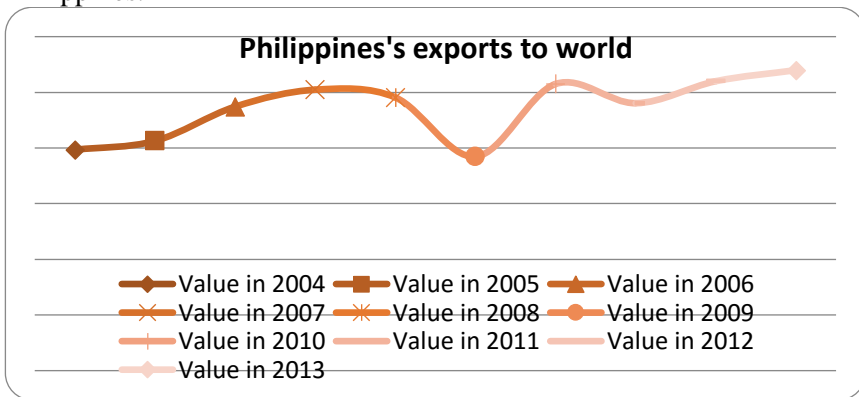


Source: ITC calculations based on UN COMTRADE statistics

On the other hand, the sudden increase again the value of exported goods to China in 2010 can be attributed to the ASEAN-China FTA. FTA (Free trade Areas) has also become a tool for countries to constantly improve relations towards another country and even creating a more conducive environment for other countries to have economic relations. “Despite increasing the amount of intra-regional trade in East Asia, it was only after the

Asian financial crisis that East Asian governments began to actively seek preferential trade agreements. East Asia’s major economic powers, which have prospered continuously from their successful exports to the rest of the world, have been staunch supporters of the multilateral General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) regime⁴⁷.” We can see from here the importance of the FTA in the development of world economy that nations have seen the importance of having FTA’s after they got hit by a financial crisis that left many nations devastated.

In terms of the Philippines exports to the world we can see that it is also increasing but the percent change is not as big as the percent change in the exports of the Philippines to China. From 2004-2013 the Philippines exports to the world increased by about 36% which has a 112% difference compared to the Philippines exports to China. The trend is almost the same wherein there is a sudden decrease during the 2009 values; this is primarily attributed to the typhoon “Ondoy” that brought about the greatest amount of rain in the Philippines.



Source: ITC calculations based on UN COMTRADE statistics

This typhoon flooded most of the NCR regions and also big cities in Metro Manila thus creating a paralysis in the Philippine economy.

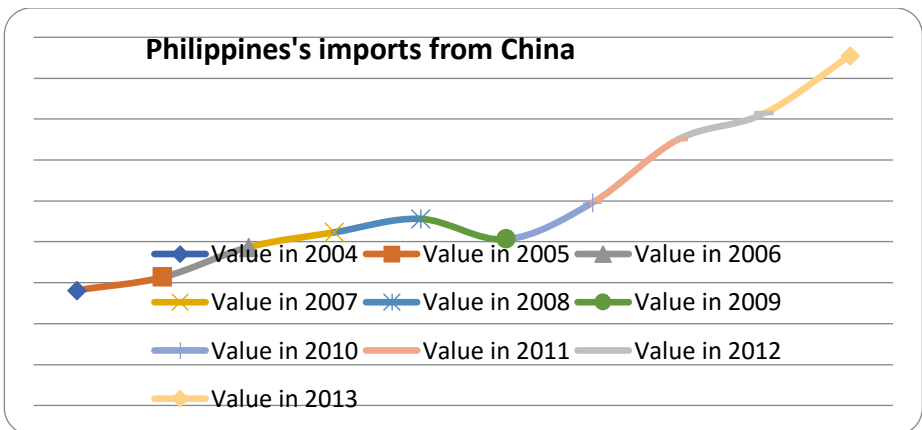
In relation to the import component of the economic relations between the Philippines and China the table and the chart would show us that there is a continuous increase in the values of goods imported from China. This would again prove that the Chinese are paying more attention to improving economic relations with the Philippines, because from their mantra: that having good

⁴⁷ Katada, S. N. 2009. Political Economy of East Asian Regional Integration and Cooperation. ADBI Working Paper 170. Tokyo: Asian Development Bank Institute.

economic relations can eventually be helpful in all aspects of relations with another country. The Chinese would also be reiterating here one big point that the trade relations between their country and the Philippines will not be affected by the dispute on territorial claims.

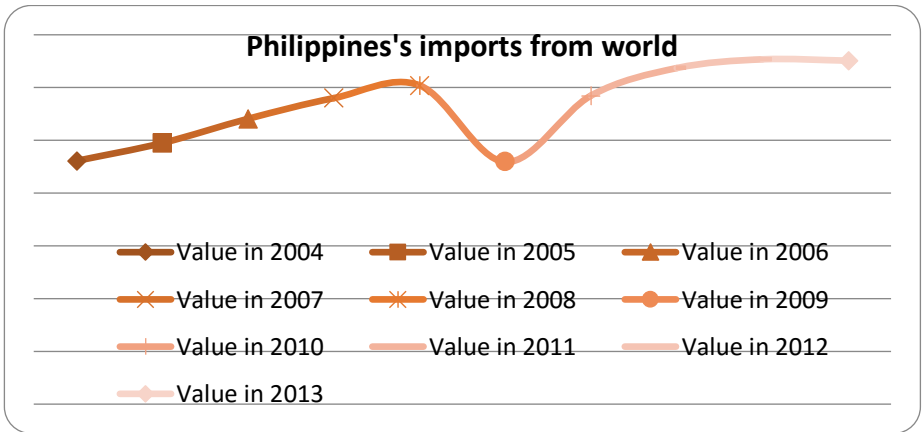
| Philippines's imports from China | | | | | | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Value in 2004 | Value in 2005 | Value in 2006 | Value in 2007 | Value in 2008 | Value in 2009 | Value in 2010 | Value in 2011 | Value in 2012 | Value in 2013 |
| 2816822 | 3134145 | 3869393 | 4232895 | 4561087 | 4060394 | 4954295 | 6504583 | 7136410 | 8554077 |

Source: ITC calculations based on UN COMTRADE statistics



Source: ITC calculations based on UN COMTRADE statistics

The table above would generate a a whopping 204% change of values imported from China from 2004-2013. This figure would prove a lot of things and can also debunk a lot of negative criticisms thrown towards the Chinese. These values has clearly shown that the Chinese are indeed very true to their vow that the economic relations with the Filipinos will remain and even flourish amidst the ongoing conflict between these two countries.



Source: ITC calculations based on UN COMTRADE statistics

On the other hand, if we are to compare the Philippine imports from the world we can see that the imports of the Philippines from the world is also increasing but the percent change from 2004-2013 is just 41% compared to the Philippine imports from China. This again would reaffirm the previous thesis that this paper has been stating in the previous graphs.

LIST OF PRODUCTS
Philippine Exports to China

| PRODUCT | Value in 2013 (USD thousand) |
|--|---|
| 1. Electrical, electronic equipment | 1895029 |
| 2. Machinery, nuclear reactors, boilers, etc. | 1644309 |
| 3. Ores, slag and ash | 1011187 |
| 4. Copper and articles thereof | 394877 |
| 5. Mineral fuels, oils, distillation products, etc. | 261853 |
| 6. Miscellaneous chemical products | 214488 |
| 7. Optical, photo, technical, medical, etc. apparatus | 199992 |
| 8. Edible fruit, nuts, peel of citrus fruit, melons | 158919 |
| 9. Tanning, dyeing extracts, tannins, derivatives, pigments etc. | 117824 |
| 10. Vehicles other than railway, tramway | 116611 |
| 11. Wood and articles of wood, wood charcoal | 72923 |
| 12. Organic chemicals | 60501 |
| 13. Plastics and articles thereof | 53308 |
| 14. Fish, crustaceans, mollusks, aquatic invertebrates | 48663 |
| 15. Animal, vegetable fats and oils, cleavage products, etc. | 41365 |
| 16. Residues, wastes of food industry, animal fodder | 28351 |
| 17. Vegetable, fruit, nut, etc. food preparations | 27148 |
| 18. Articles of iron or steel | 22060 |
| 19. Articles of apparel, accessories, not knit or crochet | 17341 |
| 20. Rubber and articles thereof | 15253 |

Looking at the list of the top 20 products exported by the Philippines we can see that the highest are electrical and electronic equipment. This can be proven with the prevalence of goods with tags that are made in China. This is followed by machinery, nuclear reactors, boilers, etc. From the table above it is very interesting to note that the top exports that the Philippines sends are those

that pertain to electronics and chemicals even if the Philippines by nature is not an industrial producing country. The table above would also show that the Philippines is a country that is endowed with natural resources for most of the exported goods are from natural resources that the Philippines is rich in.

The agricultural goods (Fruits and Vegetables) which are expected from the Philippines are rank 8th and 17th respectively. This phenomenon can be attributed to the growth of FTA between countries. This can also be explained by the Noodle Bowl Syndrome. Under this phenomenon, it is said that the countries that are producing industrial goods are now looking at other countries to produce the smaller parts of the goods they produce. This can also be known as subcontract, wherein the smaller and less develop countries are benefitting.

This creates the “Factory Asia” East Asian corporations set up “Factory Asia” and they are running it now. Following the analogy, corporations are Factory Asia’s “mid-level managers” and middle management is doing a marvelous job, keeping things running smoothly and profitably, solving any number of big and small problems along the way⁴⁸.

Another reason for this is the reduced cost of moving goods and ideas. Information technology advances and the falling costs of transportation, especially air freight, facilitated and accelerated the development of the Asian Manufacturing Matrix by making complex production structures easier and cheaper to manage while at the same time making them more flexible and more reliable. In addition, China’s opening up and domestic pro-market reforms brought something like a half billion low-wage/low-productivity workers to the gates of “Factory Asia”. This accelerated the erosion of the HQ nations’ comparative advantage in labor-intensive production processes while simultaneously expanding the attractiveness of the off-shoring solution. In short, China added a pull-factor to push-factors and this quickened the hollowing out of the HQ economies (Japan, Korea, Taiwan, Singapore and Hong Kong)⁴⁹.

⁴⁸ Baldwin, Richard. 2007. *Managing the Noodle Bowl: The Fragility of East Asian Regionalism*. Geneva: Graduate Institute of International Studies. p 1.

⁴⁹ *Ibid*.p 7.

Philippine Imports from China

| PRODUCTS | Value in 2013 (USD thousand) |
|--|---|
| 1. Electrical, electronic equipment | 1519640 |
| 2. Machinery, nuclear reactors, boilers, etc. | 1317188 |
| 3. Mineral fuels, oils, distillation products, etc. | 860017 |
| 4. Iron and steel | 463410 |
| 5. Plastics and articles thereof | 412711 |
| 6. Vehicles other than railway, tramway | 275098 |
| 7. Articles of iron or steel | 253358 |
| 8. Fertilizers | 238523 |
| 9. Paper and paperboard, articles of pulp, paper and board | 233240 |
| 10. Ceramic products | 193362 |
| 11. Inorganic chemicals, precious metal compound, isotopes | 168289 |
| 12. Organic chemicals | 155632 |
| 13. Furniture, lighting, signs, prefabricated buildings | 145969 |
| 14. Edible fruit, nuts, peel of citrus fruit, melons | 143010 |
| 15. Footwear, gaiters and the like, parts thereof | 108811 |
| 16. Sugars and sugar confectionery | 108132 |
| 17. Miscellaneous chemical products | 106780 |
| 18. Aluminum and articles thereof | 103823 |
| 19. Glass and glassware | 91937 |
| 20. Miscellaneous edible preparations | 91413 |

Philippines-China Trade Figures 2007-2013 (in US\$1,000)

| | Total Trade | | | | | | | Year-on-year %age difference (2012 - 2013) |
|------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | |
| January | 2,073, 709 | 2,559,7 81 | 1,165,0 96 | 1,945,9 17 | 2,508, 215 | 2,494, 959 | 2,785,5 31 | - 10.32 % |
| February | 2,009, 538 | 2,321,4 72 | 1,180,3 70 | 1,696,9 50 | 1,600, 020 | 2,475, 623 | 2,121,0 27 | - 23.86 % |
| March | 2,517, 206 | 2,776,9 24 | 1,591,5 85 | 2,317,2 11 | 2,518, 494 | 3,217, 741 | 3,027,1 46 | 42.72 % |
| April | 2,468, 592 | 2,752,5 25 | 1,580,4 37 | 2,288,2 26 | 2,660, 096 | 2,748, 021 | 3,333,2 50 | 10.11 % |
| May | 2,417, 275 | 2,605,6 59 | 1,482,1 21 | 2,361,8 47 | 2,671, 705 | 3,192, 678 | 3,382,1 30 | 1.47 % |
| June | 2,442, 647 | 2,722,3 21 | 1,621,1 43 | 2,514,6 82 | 2,647, 008 | 3,213, 712 | 3,119,6 06 | - 2.93 % |
| July | 2,700, 553 | 2,679,9 00 | 1,783,6 27 | 2,364,0 07 | 2,741, 965 | 3,138, 328 | 3,264,0 49 | 4.01 % |
| August | 2,725, 825 | 2,499,9 37 | 1,755,2 11 | 2,470,7 48 | 3,068, 285 | 3,040, 232 | 3,239,5 74 | - 0.75 % |
| September | 3,020, 800 | 2,390,5 76 | 2,260,1 27 | 2,476,6 69 | 2,899, 842 | 3,440, 162 | 3,435,8 90 | - 0.12 % |
| October | 2,597, 933 | 1,996,8 77 | 1,731,3 70 | 2,246,5 41 | 2,774, 434 | 3,078, 874 | 3,175,6 41 | 3.14 % |
| November | 2,776, 693 | 1,662,8 25 | 2,008,1 79 | 2,565,5 59 | 3,085, 822 | 3,303, 441 | 3,604,7 10 | 9.12 % |
| December | 2,883, 586 | 1,627,5 48 | 2,366,8 18 | 2,516,0 27 | 3,078, 785 | 3,106, 063 | 3,552,3 50 | 14.37 % |
| TOTAL | 30,634 ,357 | 28,596, 345 | 20,526, 084 | 27,764, 384 | 32,254 ,671 | 36,44 9,834 | 38,040, 904 | |

The table on the China-Philippine Trade figures would show that indeed trade relations between these two countries has developed and will continuously develop amidst the conflicts that might arise.

Conclusion

The Philippines and China have long endured good economic relations over the past years and will continuously grow despite the the differences and conflicts that might arise. The trade relations between China and the Philippines is the best example that political relations can be a separate entity from the economic relations and that good economic relations can help ease the tension that might arise between two nations in conflict. Globalization has brought about new and innovative ways where different nations can be connected and further deepen their relations with another country. In addition a closer relations with neighbouring countries can further enhance the effects of globalization and can facilitate a more adhesive repercussion for nations across the world. Formation of FTA's or Free Trade Areas can also be a tool for countries to gain more as oppose to the belief that it can bring no good to countries.

Overall we can see that the China-Philippines economic relations has not showed any adverse effect of the tension that is taking place between them instead has proven many speculations wrong that trade relations between them will continue to flourish and grow amidst the conflict between them. This example of the China-Philippines Economic Relations may serve as a concrete example for other countries with diifferences that such conflicts must not be a hindrance to further deepen and enhance trade relations between and among nations across the world.

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