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China's WTO Entry: Effects on its Economy and Implications for the Philippines*

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China became the 143rd member of the World Trade Organization (WTO) on December 11, 2001. The ascent to this important multilateral trading system came after a long 15-year process of bilateral negotiations with the existing WTO members.[1] Although long anticipated, this new reality of China's full integration into the world economy continues to stimulate research and discussions on the possible impact it has on individual economies and on the world economy as a whole. The impact scenarios depend on the effect the accession will have on China itself and how China adjusts to the changes. While China has prepared its people for its WTO accession psychologically, market and structural adjustments will take time to perfect.

The Chinese economy has grown at an average annual rate of close to ten percent since 1979. Despite the very negative external economic environment it faced in the late nineties and the turn of the century, China still managed to grow at annual rates of between seven to eight percent.[2] In the last couple of years, the growth rate again exceeded nine percent. Emerging from a virtually isolated economy, China is now the sixth largest trading country in the world. Developing countries are generally more concerned about such rapid development of China's

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[1] The long process included, for the most part, negotiations with the United States and, to some extent, the European Union.
[2] The Asian economic crisis started in mid-1997 and aggravated in 1998. Its recovery in 1999 was aborted by the sharp downturn of the US economy in 2000.

economy. And with China's WTO entry, such concerns have intensified. The likelihood of developed countries gaining from China's emergence in world markets is more obvious. Developed countries are the largest importers of China's low-wage, labor-intensive manufactured products. In turn, China's imports of capital-, technology- and knowledge-intensive goods necessary for its economic development as well as those of high quality consumer goods, which are increasing very rapidly because of rising population income, are mostly from the developed countries. The developing countries, on the other hand, face competition from China for markets of similar labor-intensive manufactured exports and foreign direct investments (FDIs).

Nevertheless, evidence in the last couple of decades shows that China's rapid economic growth, which was accompanied by liberalization in trade, presented more economic opportunities to the Philippines than before. An empirical study (Palanca 2001) on China's trade with the ASEAN countries for the period 1980–1996 shows that the opportunities for trade are available even between countries with similar level of development.[3] The myriad of consumer and producer commodities that can be produced and manufactured gives rise to many trade opportunities. Merchandise trade of China with the Southeast Asian nations, most of which are in the developing stage, has increased rapidly since China opened up its economy. For the period 1980–1996, ASEAN–5's exports to China grew at an average annual growth rate of 17.82 percent while their imports from China grew at 13.31 percent. These growth rates are bigger than those of ASEAN's total trade which, for the same period were 10.51 percent for exports and 11.50 for imports. China served as a significant export market for the ASEAN countries during the prolonged recession in the United States and Europe in the eighties. Judging from the economic growth and export performance of countries in the Southeast Asian region during the eighties and nineties, the study concludes that the effect of China's economic growth on the ASEAN countries has not been negative. In fact, China's dramatic economic performance in the past two decades has provided a positive synergy effect in the region.

The Philippines' economic relations with China in the last two decades reflected the trend in ASEAN-China economic relations during the same period. Although the case of the Philippines was less robust compared to the other ASEAN countries. For both trade and investment, the volume and growth rate of the Philippines' trade with China have been the smallest among the ASEAN-5. Nevertheless, Philippine exports to China grew at an average annual rate of 13.22 percent, far surpassing its total exports growth rate of 8.20 percent. Philippine imports

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[3] ASEAN-5 countries refer to the original member countries of ASEAN: Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

from China grew at 8.94 percent while the rate for its total imports was 9.24 percent for the same period. The structure of the Philippine-China bilateral trade presents some intra-industrial complementarities despite the common focus of both countries on labor-intensive manufactured products. Investments on the other hand have been such that, while in the early nineties there was a one-way flow to China, now the Philippines is witnessing increasing inflows from China.

Becoming a member of the WTO means that China has to open its market wider, both in terms of regions and industries. The greater liberalization resulting from its WTO entry is expected to have a positive effect on its economic growth, which will further expand its market. Such economic dynamism will no doubt have much impact on its aggregate demand. Moreover, China's market is very segmented due to the imbalance of its growth and development. The rise in per capita income plus the highly segmented market ensure an increasing consumer demand that covers a wide range of products and services.[4] On the production side, industries in China span from low-tech, labor-intensive manufacturing to high-tech, knowledge-intensive industrial activities. Thus, products and services needed to satisfy investment demand, production demand (such as resource-based raw materials) and demand for professional services are also expected to soar both in quantity and variety. In addition, WTO accession will prompt more innovation in production method, business organization economic structure and social institutions. These changes to be undertaken to improve competitiveness will result in greater demand for professional services and high-tech goods.

It is evident that China's WTO accession presents opportunities in the area of product and market niches for developing countries like the Philippines. However, China's membership in this world trade system also means that its competitiveness, which has already been a source of challenge for manufacturers all over the world in the past decade, will be further strengthened. The Philippines will face the negative impact of sharper competition from China in the former's domestic market, in China's market, and also in third markets like the US' and Japan's. Another much-feared negative impact for the Philippines is China's attraction for foreign direct investments, which have spiraled because of China's accession commitment to greater capital liberalization and its growing gigantic market. However, the effect of such capital inflow to China may not necessarily result in the hollowing out of economic activities in the developing countries. With the adoption of international segmented production process by transnational firms nowadays, countries close to China can stand to gain from the growing foreign investments going to China in that these countries are likely the sites for the production

[4] The incomes of the population in the coastal region are many times more than those of the residents in the other regions.

of parts needed in the production of goods assembled in China. Clearly, the Philippines can avail itself of the opportunities and rise to the challenges only if it promotes its competitiveness. This can happen at the firm level with more product differentiation and better marketing and management strategies. Simultaneously, the government has to undertake the much delayed changes and reforms necessary to enhance efficiency. These include structural reforms, infrastructure development, and improvement in political stability and social peace and order.

PURPOSE AND OUTLINE OF PAPER

China's accession to WTO means further liberalization of its economy. What does it mean for the Philippine economy? Competitiveness has been increasing for China and is expected to grow even more rapidly with its WTO accession. Does it mean a lessening of trade opportunities? Does this mean hollowing out of business activities and foreign investments for the Philippines? Countries all over are adjusting to this new reality of China with different mechanisms. Many multinationals are moving to China. Exports to China from all over the world are expected to grow faster than before. This paper will assess the opportunities and challenges which the Philippines faces with China now a member of the WTO and how it should react. Based on the Philippine-China bilateral trade structure and other economic relations background, it can be expected that further China's economic growth can offer opportunities despite the competition challenges it poses. To discuss these, it is necessary to know the effect of China's entry to WTO on its own economy. China's post-accession scenarios provide the basis for the strategies and adjustments to be adopted by the Philippines in order to maximize the positive and minimize the negative post-WTO impact. In fact, given the dynamism of this new reality about China, its post-accession development, which will be reflected in its demand and supply structure, will change very rapidly. This means that the need to assess the situation should be made frequently.

The next section will present a discussion of Philippine-China trade in the last couple of decades, the structure of which has changed significantly in the last decade as both countries shifted their exports to manufactured products and underwent greater trade liberalization. This section will also illustrate that despite the general competitive nature of the two countries' exports, complementarities in the bilateral trade can be found. The fourth section will be a presentation of China's WTO commitments in general and those that resulted in its negotiation with Philippines in particular. For China to fulfill these commitments, it has to undergo intensive reform and liberalization. The implications for the Philippines will depend on the effect this new trade paradigm will have on China itself and how it will adjust to the changes. Hence, the fifth section of this paper will then analyze the repercussions of China's accession to WTO on its economy. The sixth section presents an early assessment of China's initial compliance to its WTO commitments. This will include some of the existing impediments that pose as barriers to trade flows, e.g., foreign exchange rate, structural impediments and other nontariff barriers; as well as the economic programs China is implementing in order to face the challenges of its new trade paradigm.

With the necessary understanding of the potential effects China's WTO entry will have on its economy and what it plans to do to adjust to this milestone change, the seventh section will then examine the implications—benefits and challenges—of China's WTO entry for the Philippine economy. Finally, the last section of this paper will provide some recommendations, including specific areas of cooperation with China, for the Philippines to benefit from this new economic order.

PHILIPPINE-CHINA TRADE STRUCTURE

This section will present a general picture of the structure of Philippine-China trade from 1980 to 2002 with an update of the study made by Palanca (2001) which provides data up to 1996.

Table 1 shows the IMF statistics for the Philippines' bilateral trade with China from 1980 to 1996 while Table 2 presents the more recent data—1993 to 2002—based on statistics from the Department of Trade and Industry. Although there are discrepancies between the two sets of data, these are not significant. The Philippine-China merchandise trade has increased steadily since China adopted the open door policy in the late 1979. The growth has been particularly rapid in the nineties when China liberalized further, this time focusing on its trade sector. However, even with the rapid increase in the trade volumes for both countries, bilateral trade remains only a small percentage of the total trade of both countries—two to three percent of Philippine trade and one to two percent of China's. These percentages paled very much compared to those of the other Asian countries (Table 3). Most trade-oriented countries have focused intensely on engaging China since it opened up its economy.

In the last decade, the performance of the Philippines' trade with China improved significantly. Since 1993, the Philippines has been trading with China more than with the rest of the world. Moreover, growth has been generally faster for exports to China than for imports from there. China, as a fast growing market for both consumer goods and intermediate goods, has been very important for the Philippines' exports. The total bilateral trade grew further after the 1997 financial crisis owing more to the increase in Philippine exports to China rather than its imports from there. Another very significant surge in the Philippines' trade with China is observed in 2002. Total bilateral trade for that year alone grew at 46.0 percent with Philippine exports to China having grown at 70.7 percent and im-

Table 1. The Philippines' bilateral trade with China, 1980-1996

	Exports to China	% Share in Total Exports	Imports[1] from China	% Share in Total Imports	Total Trade with China	% Share in Total Trade	Balance of Trade
1980	45	0.78	258	3.11	303	2.15	-213
1981	78	1.36	255	3.01	333	2.35	-177
1982	105	2.09	236	2.86	341	2.57	-131
1983	22	0.45	143	1.79	165	1.28	-121
1984	60	1.12	223	3.47	283	2.40	-163
1985	81	1.76	314	5.75	395	3.92	-233
1986	101	2.10	157	2.91	258	2.53	-56
1987	88	1.54	245	3.43	333	2.59	-157
1988	67	0.95	268	3.07	335	2.13	-201
1989	50	0.64	239	2.14	289	1.53	-189
1990	62	0.76	205	1.57	267	1.26	-143
1991	128	1.45	253	1.98	381	1.76	-125
1992	114	1.16	209	1.35	323	1.28	-95
1993	167	1.50	281	1.50	448	1.50	-114
1994	164	1.23	476	2.10	640	1.78	-312
1995	209	1.19	1030	3.63	1239	2.70	-821
1996	328	1.61	1015	2.97	1343	2.46	-687
Average Annual Growth							
1980-1988	5.10		0.48		1.26		
1988-1996	21.96		18.11		18.95		
1980-1996	13.22		8.94		9.75		

[1] Import values are in cif.
Source of data: *Direction of Trade Statistics*, International Monetary Fund, various issues.

Table 2. The Philippines' total trade and bilateral trade with China, 1993-2002

	Exports to China	% Share in Total Exports	Imports from China	% Share in Total Imports	Total Trade with China	% Share in Total Trade	Total Exports	Total Imports	Total Trade
1993	173.87	1.53	180.66	1.03	354.54	1.22	11374.81	17597.40	28972.21
1994	164.48	1.22	294.27	1.38	458.75	1.32	13482.90	21332.57	34815.46
1995	213.97	1.23	578.62	2.18	792.58	1.80	17447.19	26537.48	43984.66
1996	327.92	1.60	684.20	2.07	1012.12	1.89	20542.55	33028.72	53571.27
1997	244.41	0.97	871.59	2.43	1116.00	1.82	25227.72	35933.82	61161.54
1998	343.68	1.17	1198.89	4.04	1542.57	2.61	29496.35	29659.88	59156.23
1999	574.81	1.64	1038.43	3.38	1613.24	2.45	35032.67	30723.14	65755.81
2000	663.26	1.74	767.67	2.45	1430.93	2.06	38077.95	31386.84	69464.79
2001	792.76	2.47	952.92	3.16	1745.68	2.83	32150.20	29550.81	61707.01
2002	1352.90	3.86	1231.19	3.68	2584.08	3.77	35066.02	33467.13	68533.15
Average Annual Growth	25.60		23.77		24.70		13.33	7.40	10.04

Source of data: Department of Trade and Industry, Republic of the Philippines.

Table 3. China's trade with selected Asian countries, 2002

Country	Total trade with China (US$ billion)	Exports to China (US$ billion)	Imports from China (US$ billion)	Trade with China as a % of total trade
Indonesia	4.0	2.2	1.8	4.6
South Korea	31.2	18.4	13.5	11.0
Malaysia	7.6	3.8	3.8	4.7
Philippines	1.7	0.8	1.0	2.8
Singapore	12.5	8.3	7.2	5.3
Taiwan	39.5	31.7	7.8	17.1
Hong Kong	157.6	76.5	87.5	40.3
India	3.5	1.5	2.1	3.8

Source: CLSA emerging markets from *Far Eastern Economic Review,* March 20, 2003

ports from China at 29.2 percent. It can be surmised that such trade growth is the initial effect on the Philippine economy of China's WTO commitment to increased trade liberalization.

The development in Philippine-China commodity trade since the eighties has been the gradual shift from trade based on interindustry exchanges to one having more intra-industry exchanges (Palanca 2001). In the eighties, imports from China were essentially mineral fuels in the form of crude petroleum products and, in turn, exports to China were food items as well as crude and basic materials. For that period, complementation was also observed in the interindustrial exchanges of Philippine resource-based products for China's industrial manufactures. By the nineties, industrial manufactures were among both the major export items and import items in the Philippines' trade with China. Such intra-industrial manufacturing trade was based on both specialization (which increases complementation) and differentiation (which enhances competitiveness).

The marked shift of Philippine exports from resource-based products to industrial products occurred only in the last five to six years. As recent as 1996 and 1997, Philippine exports to China were still mostly resource-based products, which made up more than 60 percent of the total (Table 4). The share dropped significantly in the last few years—to only 21 percent for 2001 and 15 percent for 2002. Resource-based products were overtaken by industrial manufactures whose share in the total rose from 11 percent for 1996 to a hefty 73 percent for 2002.

For imports from China, on the other hand, industrial manufactures and resource-based products have generally maintained their shares in recent years (Table 5). In 2001, the share of industrial manufactures remained almost at the same level (55 percent) as 1996, although there was a decline from 1998 to 2000. Like exports, there was a decline (although not as significant) in the share of

Table 4. Merchandise exports of the Philippines to China by major product grouping, 1996-2002

Major Product Grouping	1996		1997		1998		1999		2000		2001		2002	
	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share
Consumer Manufactures	8.30	2.53	8.23	3.37	7.72	2.25	16.59	2.89	18.81	2.84	17.15	2.16	13.72	1.01
Food and Food Preparations	38.29	11.68	28.21	11.54	41.22	11.99	27.30	4.75	51.11	7.71	45.51	5.74	42.71	3.16
Resource-Based Products	219.24	66.86	149.21	61.05	142.71	41.53	195.91	34.08	188.30	28.39	165.50	20.88	207.27	15.32
Industrial Manufactures	36.62	11.17	45.14	18.47	127.53	37.11	301.21	52.40	378.94	57.13	492.78	62.16	984.58	72.78
Special Transactions	25.47	7.77	13.62	5.57	24.49	7.13	33.79	5.88	26.11	3.94	71.83	9.06	104.61	7.73
Total Exports from China	327.92	100.00	244.41	100.00	343.68	100.00	574.81	100.00	663.26	100.00	792.76	100.00	1352.90	100.00

Source of basic data: Department of Trade and Industry, Republic of the Philippines.

Table 5. Merchandise imports of the Philippines from China by major product grouping, 1996-2002

Major Product Grouping	1996		1997		1998		1999		2000		2001		2002	
	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share
Consumer Manufactures	49.49	7.23	77.03	8.84	72.10	6.01	123.00	11.84	102.89	13.40	99.31	10.42	129.41	10.51
Food and Food Preparations	60.44	8.83	132.76	15.23	423.42	35.32	153.34	14.77	88.76	11.56	85.37	8.96	112.10	9.10
Resource-Based Products	195.79	28.62	167.08	19.17	154.89	12.92	154.36	14.86	197.98	25.79	236.81	24.85	273.98	22.25
Industrial Manufactures	377.64	55.19	492.49	56.50	545.33	45.49	447.42	43.09	373.83	48.70	523.84	54.97	696.84	56.60
Special Transactions	0.84	0.12	2.23	0.26	3.15	0.26	160.32	15.44	4.21	0.55	7.60	0.80	18.86	1.53
Total Imports from China	684.20	100.00	871.59	100.00	1198.89	100.00	1038.43	100.00	767.67	100.00	952.92	100.00	1231.19	100.00

Source of data: Department of Trade and Industry, Republic of the Philippines.

resource-based products in total imports—from 29 percent for 1996 to 22 percent for 2002. The products that posted bigger shares were consumer manufactures and food products. Collectively, their share rose from 16 percent in 1996 to almost 30 percent in 2000.

The most significant change in Philippines' exports to China in the last five to six years is the shift to electronics products, which constitute the bulk of industrial manufactures exports.[5] The increase in this export product line to China illustrates the complementation of manufactured exports, which provides opportunities for specialization. China is emerging as a major global player in information and communication technology, therefore, its demand for inputs needed by this sector's products is rising rapidly. Electronics products involve thousands of items, parts and accessories. With the downturn in the US economy and the growing role of China in the information and communication technology industry, China's demand for electronics inputs has been able to offset some of the decline in the US demand.

Tables 6 and 7 show the lists of Philippine exports to China whose value grew significantly between 2000 and 2001 and between 2001 and 2002, respectively. These lists further illustrate the principle of specialization and differentiation as the basis for Philippine-China trade. The demand for some products that are popular items among China's export products grew at fantastic rates. Examples are footwear, costume jewelry and timepieces, all of which grew at more than a thousand percent from 2000 to 2001. Other such products are men's and boys' wears and toys and dolls. Differentiation in terms of designs and artistry has made it possible for exchanges in the same product lines to take place.

With its focus on industrialization, China has been losing its comparative advantage in agricultural products (Anderson 1990) and increasing its demand for industrial input products. Among the exports of the Philippines to China, two resource-based products used as industrial inputs (lumber and carrageenan) surged significantly in 2001. The lists also show that the demand for automotive parts from the Philippines is also on the rise. This, of course, is due to the rapid growth in China's automotive industry.

The growing income and rising living standard of the Chinese people are also reflected in their demand for Philippine products. The lists show that there has been a significant increase in demand for manufactures such as furniture; jewelry (both precious and costume) and other fashion accessories; cosmetics and personal care products; cutflowers and ornamental plants; and many food products. Among the products of food and food preparations—live seafood; preserved

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[5] This reflects the structure of the Philippines' total exports wherein more than 70 percent are electronics products.

Table 6. Philippine exports to China: new exports and those reflecting positive growth, 2000 and 2001

	2000 Value	2001 Value	% Growth
CONSUMER MANUFACTURES			
GARMENTS			
Men’s/Boy’s Wear 89,738	140,643	56.73	
Articles of Apparel, nes	422,183	600,979	42.35
HOUSEWARES			
Shellcraft and Other Carving Materials	26,953	40,884	51.69
Woodcraft 860	13,322	1,449.07	
Other Housewares			
Lamp Bases and Shades	1,215	2,812	131.44
Other Housewares, Nes	7,064	36,931	422.81
TOYS AND DOLLS 96,014	181,952	89.51	
FASHION ACCESSORIES			
Jewelry			
Costume Jewelry	12,935	302,465	2,238.35
Precious Jewelry	2,985	24,672	726.53
Leathergoods			
Handbags and Belts	12,892	18,335	42.22
Leather and Nonleather Gloves	91,408	100,562	10.01
Travelgoods	*0*	*30,357*	
Other Fashion Accessories	12,749	32,012	151.09
FURNITURE			
Rattan Furniture 27,212	40,391	48.43	
Wood Furniture 282,134	312,305	10.69	
WOOD PRODUCTS, NES	19,500	20,440	4.82
FOOTWEAR			
Nonleather Footwear	*0*	*6,488*	
Slippers and Sandals	*0*	*120*	
Consigned Footwear	331	86,664	26,082.48
OTHER CONSUMER MANUFACTURES			
Printing and Publishing Materials	14,415	27,530	90.98
Pharmaceutical Products	24,014	28,464	18.53
Medical Supplies	*0*	*30,163*	
Cosmetics and Personal Care	19,346	241,206	1,146.80
Soaps and Detergents	350,616	671,099	91.41
Cutlery and Similar Items	*0*	*2,946*	
Timepieces 2,585	59,042	2,184.02	
Umbrellas and Sunshades	*0*	*50*	
Other Consumer Manufacturers, Nes	66,944	87,120	30.14
FOOD AND FOOD PREPARATIONS			
PROCESSED FOODS			
Cereal and Flour Preparations	113,574	158,310	39.39
Processed Fruits (Jams, Jellies, Marmalades and Prepared/Preserved Fruits	94,489	153,214	62.15
Coffee (Processed)	*0*	*5,768*	
Nuts and Coconut Products (Processed)	136,090	302,374	122.19
Animal Feeding Stuff	30,115	49,729	65.13
Confectionery and Honey	104,688	136,829	30.70
Miscellaneous Edible Preparations	66,099	140,898	113.16
FRESH FOODS			
Fresh Vegetables	*0*	*44,449*	
MARINE PRODUCTS			
Tuna			
Canned	998,766	1,148,825	15.02
Crustaceans			
Prepared/Preserved	*0*	*96*	
Mollusk			
Scallops	*0*	*8,520*	

Table 6 continued

	2000 Value	2001 Value	% Growth
Fish Fillet (Fresh/Chilled/Frozen)	7,000	8,408	20.11
Other Fishes (Processed)	41,955	66,033	57.39
Dried/Salted or in Brine	2,550	15,208	496.39
Prepared/Preserved	39,405	50,825	28.98
RESOURCE-BASED PRODUCTS			
COCONUT PRODUCTS			
Coconut Oil	14,192,418	15,620,175	10.06
FOREST PRODUCTS			
Lumber	9,376	683,741	7,192.46
Other Wood Products	61,082	169,934	178.21
TOBACCO			
Cigars/Cigarettes	48,019	207,042	331.17
CARRAGEENAN	2,956	350,426	11,754.74
MARBLE PRODUCTS	787,417	847,778	7.67
CUTFLOWERS/ORNAMENTAL PLANTS	1,440	16,425	1,040.63
NONMETALLIC MINERAL	77,839	579,773	644.84
OTHER RESOURCE-BASED COMMODITIES			
Natural Fibers	69,186	95,277	37.71
Natural Oils, Fats and Waxes	63,365	97,903	54.51
Leatherhides and Skins	10,675	14,398	34.88
Fertilizers	***0***	***10,200***	
Others (Other Resource-Based)	78,476,643	92,377,086	17.71
INDUSTRIAL MANUFACTURERS			
ELECTRONICS			
Components/Devices (Semiconductors)	263,617,220	358,851,356	36.13
Electronic Data Processing	62,671,631	74,505,460	18.88
Control and Instrumentation	4,832	13,862	186.88
Telecommunications	730,576	928,292	27.06
Consumer Electronics	4,297,598	8,089,883	88.24
MACHINERIES/TRANSPORT EQUIPMENT/APPARATUS AND PARTS			
Machineries/Eqipment/Apparatus	2,923,076	5,535,233	89.36
Metal Machinery/Equipment/Apparatus Parts	1,917,445	2,665,731	39.03
Transport Equipment			
Automotive Parts			
Metal Automotive Parts	3,622,673	6,020,391	66.19
Other Automotive Parts	***0***	***46,234***	
METAL MANUFACTURES			
Copper Manufactures	***0***	***25,514***	
Other Metal Manufactures	394,191	567,325	43.92
CONSTRUCTION MATERIALS			
Clay and Ceramic Materials	5,753	32,628	467.15
Asbestos Materials	4,332	21,611	398.87
Other Construction Materials	141,159	207,777	47.19
CHEMICALS			
Organic Chemicals	324,429	637,797	96.59
Inorganic Chemicals	4,642,013	7,877,765	69.71
Oleochemicals	3,068,509	3,979,402	29.69
Petrochemicals			
Intermediate and Fabricated Products			
Plastic in Primary Forms	6,339,910	7,364,713	16.16
Other Chemical Materials and Products	1,345,927	1,682,788	25.03
OTHER INDUSTRIAL MANUFACTURES			
Packaging Products			
Plastic-Based	510,420	584,407	14.50
SPECIAL TRANSACTIONS	26,109,194	71,825,169	175.10

Note The boldfaced and italicized products are new exports in 2001
Source Bureau of Export and Trade Promotions, Department of Trade and Industry

Table 7. Philippine exports to China: new exports and those reflecting positive growth, 2001 and 2002 (Value in US$)

	2000 Value	2001 Value	% Growth
CONSUMER MANUFACTURES			
GARMENTS			
Men'S/Boy'S Wear	140,643	511,209	263.48
Women'S/Girl'S Wear	1,731,965	2,547,503	47.09
HOUSEWARES			
Basketwork/Wickerwork	63,741	152,886	139.86
Woodcraft	13,322	29,570	121.96
Ceramics/Stoneware	144	15,967	10,988.19
Metalware	107	305	185.05
Other Houseawares	39,743	133,784	236.62
Other Housewares, Nes	36,931	131,594	256.32
HOLIDAY DECORATIONS	96,009	119,777	24.76
TOYS AND DOLLS	181,952	291,173	60.03
FASHION ACCESSORIES	510,140	838,019	64.27
Hats and other Headgear	1,737	2,469	42.14
Leathergoods	149,254	485,975	225.60
Leather and Nonleather Gloves	100,562	411,229	308.93
Travelgoods	30,357	58,887	93.98
Other Fashion Accessories	32,012	83,244	160.04
FURNITURE	485,631	974,903	100.75
Bamboo Furniture	*0*	*5,842*	
Metal Furniture	17,200	37,385	117.35
Parts of Furniture	42,553	604,358	1,320.25
Rattan Furniture	40,391	68,301	69.10
Stone Furniture	73,182	100,616	37.49
OTHER CONSUMER MANUFACTURES			
Printing & Publishing Materials	27,530	46,619	69.34
Pharmaceutical Products	28,464	34,586	21.51
Household Products, Nes	35,099	44,691	27.33
Sporting Goods	88,911	136,670	53.72
Cameras and Lenses	88,216	812,577	821.12
Other Consumer Manufacturers, Nes	87,120	262,884	201.75
FOOD AND FOOD PREPARATIONS			
PROCESSED FOODS			
Dairy Products and Bird'S Eggs (Processed)	*0*	*28,118*	
Margarine, Shortening, Vegetable Fats and Oils	*0*	*8,666*	
Cereal and Flour Preparations	158,310	279,703	76.68
Processed Fruits			
Dried, Glazed, Crystalized Fruits	46,403	150,838	225.06
Jams, Jellies, Marmalades and Prepared/Preserved Fruits	153,214	379,304	147.56
Processed Vegetables			
Dried Vegetables	242	1,050	333.88
Prepared or Preserved and Homogenized Vegetables	*0*	*2,705*	
Coffee (Processed)	5,768	6,105	5.84
Cocoa (Processed)	2,848	6,285	120.68
Beverages	2,444	67,200	2,649.59
Alcoholic Beverages	*0*	*67,200*	
Sauces, Condiments, Spices, Mixes and Mftrs.	430,172	577,607	34.27
Confectionery and Honey	136,829	650,331	375.29
Live Fish	1,494	9,958	566.53
Shrimps and Prawns	96	43,766	45,489.58
Lobsters	*0*	*4,205*	
Mollusk			
Scallops	8,520	10,920	28.17
Other Mollusk, Live, Fresh or Chilled	*0*	*56*	
Other Mollusk, Dried, Salted or in Brine	*0*	*48,615*	
Milkfish			
Fish Fillet (Fresh/Chilled/Frozen)	8,408	22,374	166.10

Table 7 continued

	2000 Value	2001 Value	% Growth
RESOURCE-BASED PRODUCTS			
COCONUT PRODUCTS			
Other Coconut Products	19,200	30,159	57.08
MINERAL PRODUCTS	11,836,187	11,898,505	0.53
Chrome Ores	*0*	*959,872*	
Other Base Metal Ores and Concentrates	7,248,565	10,847,217	49.65
FOREST PRODUCTS			
Plywood and Venner	10,108	84,703	737.98
Pulpwood	41,988	64,649	53.97
SEAWEEDS	2,028,468	2,771,075	36.61
CARRAGEENAN	350,426	535,940	52.94
MARBLE PRODUCTS	847,778	1,831,057	115.98
CUTFLOWERS/ORNAMENTAL PLANTS	16,425	18,000	9.59
TEXTILE YARNS, TWINE AND CORDAGES	1,539,036	3,785,042	145.94
PETROLEUM PRODUCTS	36,151,127	86,208,974	138.47
OTHER RESOURCE-BASED COMMODITIES			
Natural Oils, Fats and Waxes	97,903	237,508	142.60
Unmanufactured Abaca Fibers	*0*	*44,200*	
INDUSTRIAL MANUFACTURERS			
ELECTRONICS			
Components/Devices (Semiconductors)	358,851,356	752,640,789	109.74
Electronic Data Processing	74,505,460	144,656,440	94.16
Office Equipemnt	2,722,213	8,765,964	222.02
Control and Instrumentation	13,862	477,094	3,341.74
Communication and Radar	780,433	951,353	21.90
Telecommunications	928,292	1,884,638	103.02
Automotive Electronics	1,128,556	4,975,343	340.86
Consumer Electronics	8,089,883	14,614,458	80.65
MACHINERIES/TRANSPORT EQUIPMENT/APPARATUS AND PARTS			
Machineries/Eqipment/Apparatus	5,535,233	8,469,644	53.01
Metal Machinery/Equipment/Apparatus Parts	2,665,731	3,102,954	16.40
Transport Equipment			
Automotive Parts			
Metal Automotive Parts	6,020,391	8,817,651	46.46
Other Automotive Parts	46,234	71,688	55.05
Motorcycle	*0*	*1,920*	
METAL MANUFACTURES			
Iron and Steel	9,887	43,070	335.62
Copper Manufactures	25,514	144,546	466.54
CONSTRUCTION MATERIALS	634,612	1,040,234	63.92
Construction Materials, Metal-Based	343,318	816,684	137.88
Sanitary Wares and Bathroom Fixtures	29,278	32,945	12.52
Clay and Ceramic Materials	32,628	104,721	220.95
CHEMICALS			
Fertilizers Manufactured (Other than those of Subgroup 272)	*0*	*3,613,150*	
Oleochemicals	3,979,402	6,347,483	59.51
Petrochemicals			
Intermediate and Fabricated Products	9,687,511	11,154,690	15.15
Plastic in Primary Forms	7,364,713	10,450,967	41.91
Activated Carbon	106,597	121,292	13.79
Other Chemical Materials and Products	1,682,788	2,488,461	47.88
OTHER INDUSTRIAL MANUFACTURES			
Packaging Products			
Glass-Based	*0*	*4,350*	
Plastic-Based	584,407	2,376,915	306.72
SPECIAL TRANSACTIONS	71,825,169	104,605,196	45.64

Note The boldfaced and italicized products are new exports in 2001
Source Bureau of Export and Trade Promotions, Department of Trade and Industry

fruits and jams; nuts and coconut products; confectionery and honey, coffee and cocoa; and alcoholic beverages—have been increasing significantly.

CHINA'S WTO ACCESSION COMMITMENTS

In the last quarter century, the world witnessed China's economic development from an agricultural to an industrial economy and from a rural to an urban society. Such transformation resulted from China's commitment to market reform and internationalization, and supported by the given economic base that had been built during the three-decade period (the '50s to the '70s) before China's opening up to world trade. Market-oriented reforms since the opening up include privatization of agriculture, deregulation of industries, adoption of macroeconomic management and trade liberalization. Since export-led growth strategy was adopted, exports expanded at exceedingly rapid rates. Imports also grew but at a slightly slower rate.

China's international orientation has prepared it for entry into the WTO. Economic reforms were, however, gradual. Hence, trade liberalization was rather limited. Imports were protected by tariff rates which were higher than those applied by most countries and other nontariff barriers while exports enjoyed tax exemptions on the inputs used in their production. Many agricultural exports enjoyed subsidies. However, in preparation for its entry to WTO, China undertook massive liberalization and restructuring since 1995. As a member of APEC, it voluntarily lowered its tariffs for a number of goods since 1995. However, despite the fact that gradual changes have taken place, the mandated comprehensive changes since its accession will undoubtedly be overwhelming and will still involve many adjustments in the short and medium terms. Problems of the inefficient state-owned enterprises and inadequate institutional structures to promote the rule of law are the main obstacles to the smooth transition to being a member of WTO. It is expected that China will realize bountiful benefits from its WTO membership only in the long run (Fewsmith 2001).

In its negotiations for WTO entry, China committed to rather liberal trade terms with the members of WTO. The very comprehensive package of market liberalization, to be implemented immediately after its accession, is expected to be fulfilled in five years' time. For merchandise trade, liberalization means the reduction of tariffs and abolition of almost all nontariff quantitative restrictions on imports. Weighted average tariffs are expected to fall from the pre-entry rate of 19.8 percent to 16.2 percent by 2005. Manufactures exports will see greater reductions than raw materials, e.g., wood and paper, as the latter have lower tariffs to start with (World Bank 1997). Barriers for many highly protected industries, which are in general more capital intensive such as steel, automobiles, heavy chemicals and information technology (IT) products, have been very much lowered. In fact, all tariffs for IT products will be eliminated by 2003. The tariff rate for many food items, raw and processed, will be much lower after the accession. The most significantly affected sector is beer and tobacco, the protection of which will fall from 70 to zero percent and 40 to10, respectively. (Tariff reduction schedule for some Philippines exports is in Tables 8 and 9 and will be discussed in a following section.) For agricultural products, the average statutory tariff rate will be reduced from 22 percent to 14.5 percent and subsidies will be abolished. In addition, foreign companies will be granted trading rights—meaning the right to import and export—three years after China's accession. With all these changes, the prospect of greater marketization within China can be expected.

China's service sectors have generally been controlled by state-owned enterprises (SOEs). Hence, compared to merchandise trade, China's trade in services has remained more closed. China, however, has started to liberalize most of the service sectors since 1999 in preparation for its entry to WTO. The implications of its liberalization of the service industry are significant for foreign investments going to China. The sectors that have received much attention are: financial services (banking, insurance, securities and fund management); wholesale and retail trade; tourism; transportation [including logistics service such as delivery]; telecommunication; audiovisual; and professional services.[6] China has also committed to allow ownership of service-oriented companies by foreign investors. For securities companies, 33 percent from date of accession to 49 percent three years after accession; 49 to 50 percent two years after accession for telecommunication providers; 49 percent for audiovisuals distribution firms; 50 percent for insurance firms; and 100 percent for trade and hotel businesses. Five years after accession, foreign financial institution will be allowed to engage in local currency trade and foreign business companies can set up solely-owned subsidiaries in China. Liberalization of service also allows the practice of a broad range of professional services that include management consultancy, legal, accountancy, medical, architecture, engineering, teaching, etc. This has strong implications for Philippine labor, which exports many of such services abroad.

More significantly, the implicit understanding of being a member of rules-based multilateral trading system means that China is expected to play by the basic rules of this organization just as it can expect its trade and investment partners to abide by the same rules. (The WTO provides trade dispute settlement procedures and is the arena where these disputes are settled.) This is an important challenge to China as it now has the task of making its domestic legal system

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[6] Examples are AT&T's 25 percent share investment in a Shanghai telecommunications company, foreign investment in films and other audiovisuals, opening of the construction sector, retail sector, tourist industry, and operations of foreign law firms (Lardy 2002).

consistent with the WTO rules. National treatment principle has to be followed, too. The Chinese private business firms will enjoy greater equality with the state firms as the government implements reforms on the latter and withdraws favors bestowed on them. Equality under the national treatment principle has to be extended to foreign firms as well. Transparency of its examination and approval procedures for foreign-funded businesses is also expected. The issue of intellectual property rights has to be addressed more seriously because of WTO provisions against infringement of such rights.

EFFECTS OF WTO MEMBERSHIP ON CHINA'S ECONOMY

Entry to the World Trade Organization is deemed one of the most important accomplishments of President Jiang Zemin's government. With this achievement comes the prospect of more economic growth, which the Chinese Communist Party holds important for its political survival. The experience of the last 25 years has shown that trade liberalization plays an important part in its economic growth. Technical progress of industrial countries has spread to the domestic industries with foreign direct investments and the liberalization of intermediate and capital goods imports. Moreover, accession to WTO is also important to the Chinese government because it means that reforms are now locked in and can no longer be blocked by opposition forces.

However, as has been mentioned, the Chinese government expects a difficult time adjusting to the changes brought about by its WTO membership in the short- and medium-term. The difficulty lies in balancing the adjustment measures against the social and political problems that are expected to arise due to the displacement of workers in agriculture and setback of some industrial sectors. The growth rate for gross domestic product (GDP) is expected to slow down initially. The closing down of the more inefficient SOEs will cause greater unemployment and underemployment. The influx of rural migrant to the cities is expected to increase sharply as, in line with its liberalization policy, the government will further relax the residency policy. The absence of protection will lead to the decline in production for some industries, notably automotive and beverages/tobacco. On the other hand, export of textiles and wearing apparel, which will no longer be subject to the Multifiber Arrangement on quantity restriction by 2004, is expected to grow substantially (Ianchovichina et al. 2000).

To balance, several studies predict that, in the long run, China's historic milestone of WTO entry will have a positive impact on its gross national product. Growth in the long run is estimated to be from 0.5 to 2.2 percentage points per annum (Newton and Subbaraman 2002). It has already been witnessed that China's external trade grew significantly during its first year as a member of the WTO.[7] Provided the external conditions are not too unfavorable and if the necessary structural adjustments can be made, the Chinese economy is expected to experience another wave of high growth following its WTO accession. This expectation is due to the following reasons:

- ✦ **Gains from trade and specialization.** These will be realized with the lowering of trade barriers and greater market access to all member countries of WTO. Greater liberalization will allow greater economies of scale in manufacturing production, particularly automobiles. Assuming China honors its commitments and the industrial countries cancel the quota restrictions under the Multifiber Arrangement, the estimated welfare gains to China by 2005 could be as high as US$116 billion a year. On the other hand, the gains to the rest of the world could be twice that amount (World Bank 1997).
- ✦ **Gains from economic efficiency.** China's WTO membership will help its central government push forward with some of its more sensitive reforms. Given China's commitment to rule of law and fairplay, business enterprises can look forward to reduced operating costs, less red tape and more transparency. Reductions in distortions and better allocation of resources will result from less variability of tariffs and greater transparency in trade rules (World Bank 1997). All these will help transform China's economic system to become more market-oriented than what it is now.
- ✦ **Improvement in technological capacity**. China can expect another surge in technological advancement resulting from the rapid increase in foreign investments and trade. With the expectation that more opportunities are in store from a more liberalized post-WTO entry business environment, inflow of foreign investments has grown even more rapidly in the last few years. In the first quarter of 2002, FDI inflow increased by 27.5 percent from the same period of the previous year. In the US, much of its high-technology electronics manufacturing has moved to China since the late nineties. Chinese companies also acquire businesses abroad for technologies and skills they need to survive in the increasingly competitive market at home (Einhorn et al. 2002). China's technological capacity is also enhanced with the increasing number of scientists who returned after studying and working in the West. Since 1978, 300,000 Chinese scholars have done graduate studies in the US alone.

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[7] In 2002, China surpassed Japan in exports to the US. In the same year, China also surpassed the US in exports to Japan and became, for the first time, the top exporter to Japan.

- Upgrading of China's domestic industries. Competition from imports and products of the multinational corporations is expected to exert a pressure for China to upgrade its own industries. Coupled with better technological knowhow, this pressure to improve the local industries will result in China's products being more competitive. Their competitiveness will no longer be due only to the low labor cost China is known for but also to the improvement in the quality of its products.
- Increase in labor productivity. The structural reforms and market forces will result in labor moving from the agricultural sector to the industrial and service sectors, and from SOEs to the private sector—i.e., from sectors where marginal productivity is generally lower to sectors with higher productivity. Productivity of labor is also expected to increase as it is increasingly combined with more capital and better technology.

The above points on the effects of China's WTO entry on its economy all translate to the prospect of more dramatic economic growth for China and more rapid increase in the welfare of its consuming population. If the structural reform agenda can be implemented, China's economy will be able to achieve its goal of quadrupling its 2000 GDP by 2020 (from US$1 trillion to US$4 trillion) to become the biggest in Asia.[8] As consumers, the Chinese people will enjoy the benefits of competition, i.e., lower prices, more choices and better quality products.

POST-WTO ENTRY: COMMITMENT COMPLIANCE AND TRADE BARRIERS, CHALLENGES AND ADJUSTMENT PROGRAMS

It has been almost two years since China gained accession to the WTO. This section presents 1) an assessment of China's compliance with respect to the WTO rules and its commitments to liberalization and 2) a discussion of the economic challenges China faces and the adjustment programs it has adopted in order to address them.

Compliance and barriers

In general, trading partners consider China's compliance with respect to tariff reduction commitments good (Far Eastern Economic Review 2002a). The good performance in this aspect of liberalization may be due to the fact that reduction of tariffs has also been beneficial to China. The domestic firms have become more dynamic as they now compete on a more even-level playing field. China's import-

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[8] This is based on the assumption that China's annual economic growth can be sustained at seven percent and Japan's growth continues to be sluggish.

substitution industries now face competitive pressure from imports. On the other hand, the removal of protection for export-oriented firms (mostly transnational enterprises and firms in the Special Economic Zones) made it possible for domestic firms to supply raw materials and intermediate inputs to these joint ventures and foreign-owned firms as well as produce the goods the protected firms export. The result is an increase in the linkage between domestic firms and foreign-funded firms (Lardy 2002). Barriers in the form of trading rights and import restrictions are now less of a concern. In general, trading rights have been granted also to foreign firms while import restrictions have gradually been eliminated.

However, there are still forms of protection which yield unfair competition. One is the application of the value-added tax, which discriminates against imports, and another are the subsidies enjoyed by Chinese firms in the use of energy and labor which lower their production cost. This makes exports cheaper than if costs were to be based on market prices. For agricultural products, protection comes in different forms:

- nontariff protection in the form of regulations on standards, inspection and certification;
- the administration of tariff-rate quota system for bulk commodities which allows a set quantity of imports at low tariff rate and quantity beyond that level is imposed a higher tariff; and, in a few cases,
- plain agricultural subsidies which were supposed to have been eliminated upon accession.

Improvement is more notable for the services, the import of which had been very restricted in the first couple of decades of its open door policy. Liberalization of many service industries (such as insurance, banking, retailing, telecommunications, audiovisuals, and operation of professional services) has been gradually implemented since the late 1990sand 2000. However, for some service industries, huge capital requirement in many sectors poses a barrier to investors. For example, although the telecommunication sector has been liberalized, a minimum capital of US$100 million is required for firms wanting to operate in this sector in China.

With respect to structural changes, China has made progress in the reforms made in its legal and regulatory framework to be consistent with WTO rules. Recently, laws intended to prevent software piracy have been passed. However, the regulations and laws necessary to improve the sense of transparency and protect intellectual property in general are still very deficient. There is also the fear that the immature legal system may make the laws ineffective.

Another structural problem that needs to be addressed as soon as possible is the autonomy of local and provincial governments in setting trade barriers with their own business regulations.[9] Not only does local protectionism defies the national treatment principle, it also discriminates against nationals outside of the provincial jurisdiction. Moreover, such structural barrier restricts foreign firms in their distribution of products and expansion of their business geographically.

Currently, the most talked-about barrier is the foreign exchange rate of China's currency. Fixed at RMB8.28/US$1 at present, the currency, renminbi, is considered undervalued by (mostly) the developed countries whose trade deficit with China is growing. The US has made the most noise in this respect although the reason for it has been analyzed to be political rather than economic. The US imports of Chinese goods are said to displace US labor. But in reality, US imports from China replace the former's imports from other developing countries. On the other hand, for countries whose exports compete with China's, the arguments against a revaluation of the renminbi is that such action might create instability, with expectations of further moves in the exchange rate. China, on its part, believes that a revaluation will lead to greater unemployment and further deterioration of the unstable position of its banking system. Due to its shaky banking system, a revaluation of China's currency may even create a global economic crisis. This is because a big percentage of the bank debts are problematic, which means that revaluating the yuan (RMB) may reduce assets on which China's banks rely for financing debt (International Herald Tribune 2003). However, some economists warned of the possibility of an asset bubble-bursting phenomenon if China does not revalue.

Challenges and adjustment programs

The major economic problems China faces now are: inefficiency of many state-owned enterprises; fiscal system instability; and the growing regional disparity within the country. Without structural reforms, these problems are expected to worsen because of China's WTO entry.

Despite more than two decades of reform, China's greatest challenge remains the problem of its SOEs. In the last few years, there has been great improvement with the set up of asset management companies. However, the assessment on the situation is that only half of the necessary restructuring work on SOEs had been done at the time China joined WTO (Newton and Subbaraman 2002). Many government policies are still biased in favor of the SOEs. Deliberate slowing down of the restructuring process has been necessary to give space for the absorption of SOE laid-off labor into the private sector. This is because the consequences of the

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[9] China is made up of 27 provinces and four province-level autonomous cities. The problem is exacerbated by the fact that in its effort to fasttrack economic reform, China has replaced national bureaucratic planning with local bureaucracy (Far Eastern Economic Review 2001).

process on social and political stability are important considerations to the government. However, with increased competition from imports and products of multinational corporations expected from greater liberalization, these SOEs will find it more and more difficult to survive.

Related to the problem of the SOEs is the weak financial sector. This is because the four state-owned banks (SOBs) dominating the sector are saddled with non-performing loans extended to the SOEs. With the liberalization of the financial sector, the SOBs will have problem facing competition from foreign and other domestic banks. China needs a stable financial system. With large amounts of private capital, particularly foreign direct investment, flowing in and out of the country, it is already integrated into the world financial system. Financial reforms are, therefore, immediate concerns. An unstable financial system can contribute to the problem of fiscal deficit as the system has to be propped up by the government.

To adjust to the expected changes and address potential problems, China is focusing on at least two broad economic programs. One is the empowerment of the private sector and the other is the development of the less developed region of the country. Although these are two separate programs, interactive measures are engaged through the channeling of private investments to the development of Central and West China.

Reforms of SOEs will result in the closing down of many of these enterprises and the privatization of some of the small and medium ones. More than ever, the engine of growth for the economy will be the private sector, consisting of domestic and foreign firms as well as joint ventures. These firms will face competition from imports. Measures have been adopted to develop the private sector and provide the support system for it. This involves market access, property rights, trading rights, and financial facilities. In 2001, the China Securities Regulatory Commission adopted a new measure allowing private firms and joint ventures to list on the domestic stock market. The Commission also adopted regulations and enforcement mechanisms aimed at long-run development of the stock market (Asian Development Bank 2002). President Jiang Zemin's Three Represents Principle is also an attempt to give more legitimacy to the private business sector in the Chinese communist system.[10] There are also plans by the Communist Party to safeguard private property through constitutional amendments. However, opposition of this plan is coming from the common people who feel that, aside from being against the basic principle of communism, such changes mean protection for the

[10] The principle aims at expanding the Communist Party's support base beyond just workers, peasants and intellectuals. The three party represents are Advanced Productive Forces (read capitalists), Advanced Culture (academics and others in the elite previously viewed as too westernized), and the Interests of the Majority of the People.

rich, many of whom have become owners of private business "through illegal appropriation of state assets" (Far Eastern Economic Review 2003d).[11]

Aside from the difficult challenge of supporting the growing domestic private business enterprises, China's new leadership also faces the great task of developing the countryside, i.e., giving more attention to the rural sector which has not enjoyed much of the benefits that have resulted from China's economic growth. The government has tried to balance development by injecting fiscal stimulus with expenditures on infrastructure development. Long-term adjustments involve solving economic problems of unemployment, poverty and regional disparity. The coastal region in eastern China has been growing much faster than the rest of the country. It has been the recipient of 85 percent of total FDI inflow to China (World Bank 1997). To develop also the other regions, most of which are rural, the Chinese government has adopted a strategic development policy for the long-term development of West and Central China. A formal launch was made in January 2000 of what is called the Great Development Strategy for the West (Xibu Da Kaifa) program. The region under this program involves 11 provinces where the per capita income is only 60 percent of the national average (Ogutcu and Taube 2002). This program necessitates infrastructure and human development investments involving high expenditures and long gestation period. It aims to steer state investments, foreign capital and expertise, and other private resources to attract FDIs toward the development of infrastructure in the hinterlands. It is expected that once the essentials are in place, the potential of the region will attract private investments, foreign and domestic. The area possesses cheap resources, labor and land (35 and 56 percent of the national total land area, respectively) and a strong agricultural base. Aside from developing these backward provinces, this development strategy hopes to ease the problems of unemployment, poverty, and regional disparity, and further advance the country's economic development.

IMPLICATIONS FOR THE PHILIPPINES

How will China's accession to the WTO impact on the Philippine economy? Based on the analysis of the effect the accession will do to China, it can expected that all the benefits and challenges posed by China's economic growth before its WTO entry will be accentuated with its entry. Trade liberalization and higher per capita income translate to greater demand for imports, which the Philippines can capitalize in. However, liberalization also means competition challenges not just in the Philippine market but also in third countries' markets. This section will discuss

[11] The same article reveals that an official national survey of over two million private-business owners done in 2002 found that 25.8 percent of private firms were once state-owned.

these and other benefits and challenges arising from China's accession to WTO—the main topic of this paper.

Opportunities

The prediction of a more rapid growth of China's economy and higher consumer spending of its population means that its internal market, which is already massive due to its population size of 1.3 billion, is expected to be even more massive. Hence, the Philippines can expect to gain market opportunities in both merchandise and service trade. With liberalization of the service trade, many service industries have become open for access by foreign investors. As China is expected to abide by the rules of WTO, Philippine investments in China and business transactions with the Chinese can now enjoy better protection than before. Moreover, with capital liberalization, China's FDI outflow, which has been miniscule compared to its inflow, has been rising and is expected to continue growing.

Merchandise trade opportunities

The comprehensive package of market liberalization China offered for its WTO accession is expected to increase the opportunities of the Philippines' trade with China. Besides, greater demand for consumer products and services as well as raw materials and other production inputs is expected to result as the Chinese economy experiences another growth surge. One important opportunity for trade is in the area of agricultural and mineral-intensive products, where China has been losing its comparative advantage as it focuses more on labor-intensive export manufacturing. Continuing industrialization in China will also generate more demand for primary exports and resource-based products. As income increases, it is expected that the demand for quality consumer goods imports will increase. All these opportunities are present. To know what are the trade areas and which niches the Philippines can fill requires conscientious exploration and identification.

China's market is very segmented. This is due to the pattern of China's economic development, which, as discussed earlier, is very uneven. The eastern coastal region and the capital region are much more developed and so the people in these places are more sophisticated and have much higher income. On the other hand, people in the rural areas, the hinterlands, and the western part of the country are still quite backward and poor. Different markets need different products. Presently, most exports go to China's southeast and the capital region. But with China's ongoing effort at developing the northeast and the west, these areas should now be regarded as potential market—the needs and preferences of their people should be studied.

Despite the high degree of competitiveness between the Philippines' and China's exports, there are still quite a number of merchandise goods wherein the

Philippines has comparative advantage over China. Based on the revealed comparative advantage figures for the Philippines' and China's exports (Palanca 2001) and the new tariff rate schedule committed by China for its WTO membership, this paper lists two sets of products which can provide leads for what export niches the Philippines can fill in China's market. One set of such products refers to those which are already major Philippine exports to China. The other set consists of potential products which were identified based on the substantial degree of tariff rate reduction, greater comparative advantage and, for some products, high income elasticity.

Table 8 presents a list of major Philippine exports to China in which the Philippines has higher comparative advantage over China. The tariff rates for these products have been reduced in the negotiations of China with the Philippines for its entry to the WTO. Electronics products and machines and equipment will benefit from the gradual reduction of tariff rates to zero. The tariff rates for several food products, many of which are among our major traditional exports to China, have declined. In particular, these are fresh fruits (bananas, pineapples, mangoes, guavas and mangosteen), fresh fish (eels, flatfish, and tuna), canned fish, coconut milk and vegetable oil. China provides an alternative market for the Philippines' canned tuna, which suffered a reduction in the Europe's import quota. Other major exports of the Philippines whose tariffs will be reduced significantly are garments items. Since China is also a major garment producer, the penetration of its market for such products will involve differentiation in designs and marketing strategy. Another major group of products in this list that merit continued focus is the machines and equipment category. Elimination of tariffs is expected for electronic calculating machines, accounting machines, input or output units, sound recording tapes, videotapes, and magnetic discs by 2005.

Table 9 shows the list of products which are not among the Philippines' major exports to China as of the present but whose revealed comparative advantage indexes are higher for the Philippines than for China. This paper identifies them as potential products based on 1) the significant reduction in tariffs for these products over the next five years and/or 2) their high positive income elasticity for the Chinese consumers at this stage of development. Most of the items on the list are food products. The expected increase in the demand for some of these products is due not only to the growing purchasing power but also the expectation of greater exposure of the Chinese to foreign goods and western lifestyle.

From the two lists, it can be gleaned that one important group of products which the Philippines can export to China is marine products. This is due to the fondness of the Chinese people for fresh and live seafood. It is essential that the Philippines develops its production of marine products so as to keep the supply

Table 8. Reduced tariff rates of major Philippine exports to China

Goods	Base Rate of Duty	Bound Rate of Duty	Implementation Period
Bananas	25	10	Year 4
Pineapples	20	12	Year 4
Mangoes/Guavas/Mangosteen	25	15	Year 4
Mackarel	20	12	Year 3
Eels	20	12	Year 3
Flatfish	20	10	Year 4
Tuna			
-Albacore, Yellowfin	15	12	Year 1
-Skipjack and others	20	12	Year 3
Prepared or Preserved Tuna	25	5	2004
Coconut milk	35	20	Year 4
Vegetables Fats and Oils	40	25	Year 4
Garments			
-Of Wool or Fine Animal	35	16	Year 5
-Of Cotton or Bast Fibres	28	16	Year 4
-Of Man-made Fibres	35	17.5	Year 5
-Of Other Textile Materials	30	16	Year 4
Other Garments	35	16	Year 5
Other Men's or Boy's Garments	35	16	Year 5
Other Women's or Girl's Garments	35	16	Year 5
Electronic Calculating Machines	25	0	Year 5
Accounting Machines	15	0	Year 5
Input or Output Units	15	0	Year 3
Magnetic Tape Recorders and Other Sound Recording Apparatus			
-Dictating Machines not Capable of Operating Without an External Source	30	25	Year 2
-Other	35	25	Year 3
-Other Cassette-Type	35	30	Year 2
Sound recording tapes	35	0	Year 5
Video Tapes	35	0	Year 5
Magnetic discs	30	0	Year 5

Sources: Working Party on the Accession of China: Note to the Revised Consolidated Tariff Schedule, June 20, 2001 and DTI Negotiations for the Accession of the People's Republic of China to the WTO, February 16, 2001.

high and prices competitive. Manufactured food items such as biscuits, ice cream and confectionery, and beverage items such as juices and beer and gin are expected to rise due to lower tariffs for such items as well as the expected emergence of middle-class consumers who desire better and more varied food items. (Note that tariff rate for beer will drop to zero in 2004 from its initial rate of 70 percent while that for gin and rum will be from 65 to 10 percent.)

The tariff rate for carrageenan and other seaweed products will be reduced by 20 to 10 percent in three years' time. The demand for carrageenan, used as an industrial input, has been on the rise since 2000 (Tables 6 and 7). Wood and wood products, such as furniture, is another category of products the Philippines enjoys comparative advantage over China. To promote this, the Philippines can focus its

Table 9. Reduced tariff rates of potential Philippine exports to China

Goods	Base Rate of Duty	Bound Rate of Duty	Implemen-tation Period
Fresh Seafoods			
Octopus	25	12	Year 3
Sea Cucumber	30	10	Year 5
Shrimps and Prawns	25	5	Year 4
Jelly Fishes	25	15	Year 4
Mussels	30	14	Year 4
Prepared or Preserved			
Carb, Lobster, Jelly Fish	25	15	2004
Shrimps and Prawns	25	5	2004
Mollusc and Other Aquatic Invertebrates, Nes	25	15	2004
Frozen Seafoods			
Lobster and Shelled Shrimps	30	15	2004
Shrimps in Shell, Shelled Prawns & Prawns in Shell	30	10	2004
Coconuts (dessicated and fresh)	15	12	2004
Agar-agar (includes seaweeds and carrageenan)	20	10	Year 3
Live ornamental fish	40	17.5	2005
Beer	70	0	Year 4
Gin	65	10	Year 5
Rum and Tafia	65	10	2005
Tobacco	40	10	Year 4
Flue-cured Tobacco	40	10	2005
Cigars	65	65	2000
Cigarrettes containing Tobacco	65	25	2005
Sugar Confectionery (chocolate not containing cocoa, chewing gum and others)	15	12	Year 4
Biscuits	25	15	2005
Prepared and preserved fruits			
Other Jams, Fruit Jellies and Marmalades	30	10	2004
Other Prepared Nuts or Seeds	30	10	2004
Pineapples prepared in airtight containers, Nes	30	25	2000
Other Single Fruit Juice, unfermented	35	20	2005
Mixtures of fruit, prepared or preserved, nes	25	10	2004
Other fruit, etc, prepared or preserved, nes	30	20	2005

Table 9 continued

Goods	Base Rate of Duty	Bound Rate of Duty	Implementation Period
Mixtures of Vegetable Juices, unfermented	35	20	2005
Tomato Ketchup and other Tomato Sauces	30	15	2004
Ice Cream and Other Edible Ice	45	19	Year 4
Dairy Spreads	50	35	2005
Roasted Coffee	35	30	2005
Ornamental Articles	20	10	Year 5
Gloves impregnated, coated or covered with plastic or rubber			
Of Wool of Fine Animal	30	14	Year 4
Of Cotton	26	14	Year 4
Of Synthetic Fibres	33	16	Year 4
Of Other Textile Materials	33	14	Year 5
Jewlery (Silver, Gold, Precious Metals)	40	35	2002
Tubes, pipes and hoses	14	4	Year 4
TV (Monochrome)	20	15	2002
Refrigerators	30	10	2005
Furniture	22	0	Year 5
Doll's Accessories and Garments	21	0	Year 5

attention on special designs and workmanship. Although figures show the Philippines to have comparative advantage in the production of television sets and refrigerators, it seems that, recently, China's manufacturers of these items have invaded its domestic market and have even started to establish the brand abroad. With changes occurring so rapidly in China, opportunities need to be grasped quickly as they may be very transitory.

Service trade and FDI opportunities

The second important effect on trade of China's WTO membership has to do with the opportunities in service trade. Market access has expanded in terms of service industries and geographical areas. The service markets access open include industries such as banking, insurance, securities, trade, audiovisual, transportation, telecommunication and professional services (Lardy 2002). The opening up of service trade is perhaps more dramatic than liberalizing goods trade. Liberalizing the service sector means allowing direct investments to set up firms and provide the services in China. The opening up of the service sector thus increases opportunities to invest in China. Barriers for capital flow have been removed for many industries and in many locations.

For the Philippines, one important area of opportunities in service trade is professional services. Professionals comprise a good part of Philippine labor exports. At present, there are already many Filipino business professionals such as managers and accountants working for multinational corporations and joint ventures in China. Because of the generally high level of English proficiency among Philippine professionals, they fit well into international corporations. When China becomes more integrated into the world economy, not only will foreign professionals be allowed access to practice in China, the demand for them will also rise with the rise in the number of multinational companies. The Philippines can, therefore, expect job opportunities for professionals such as legal consultants, managers, architects, teachers, accountants and bankers to increase. With the use of electronic facilities, some professional services such as accountancy and editing can be provided without the professionals having to go to China. Here, again, the opportunities may gradually diminish as the Chinese start to develop local professionals to undertake such careers.

Tourism is another important service trade that the Philippines can promote. Chinese tourists are growing by the millions every year. Many are traveling to Europe and East Asia. Here in Southeast Asia, the Philippines lags behind Thailand, Malaysia and Singapore as a destination for the growing number of Chinese tourists. The Philippines, which is closer to China than any of these countries with a lot of beautiful scenic spots and beaches to offer, should aim to attract the growing number of Chinese tourists.

Protection of business interests and jobs

One important consequence of China's entry to the WTO is the protection of trade and investment interests in China. As a member of the global trade system, China is committed to being transparent in its policies and to adopting a WTO-consistent legal framework. With such commitments, Philippine exporters, professionals and investors will enjoy better protection of their businesses and jobs in China.

Foreign direct investments from China

Another positive prospect the Philippines can anticipate from China's growth and liberalization is the increase in FDIs from China. China's economic growth will also increase its capacity for investments—both domestic and foreign. FDI outflow from China is expected to increase not only because of the predicted economic growth, which will mean more income and foreign reserves for investments, but also because of the liberalization of capital outflow its accession to the WTO implies. Investments from China have been very limited. However, in the last few years, China's investments in the Philippines started to increase in value

(Table 10). In 1997, only 0.19 percent of our total FDI was from China. However, in 1998, at the height of the Asian economic crisis when total capital inflow to the Philippines dipped significantly, inflow from China increased substantially, from US$2 million to US$72 million, reaching over eight percent of the Philippines' total registered FDIs. The following year, the amount to increased to US$111 million. The figures have increased even more substantially since 2000. Like the overall investments in the Philippines, most of China's FDIs in the Philippines are in the trade sector.

Challenges

China's new trade paradigm also poses challenges to developing countries like the Philippines. The biggest challenge is in the area of competition. Even the overwhelming opportunities in terms of exports and investments are challenges in that the Philippines has to compete for the market with other countries and, most importantly, with China. With its WTO accession, China is expected to increase its competitiveness. Cheap imports from China have had a very negative effect on Philippine manufacturing for some time. The increase in China's competitiveness will intensify the problem. Hence, the Philippines will face more difficulties in competing for trade and investments with China now that it is a member of the WTO than during its pre-accession period.

Table 10. Registered inward foreign direct equity investments in the Philippines (in US$ million)

	1997	1998	199	2000
Registered Total	1,053.38	884.71	1,894.18	1,398.20
People's Republic of Cina	1.97	72.06	111.41	48.49
Agriculture, Fishery and Forestry	0.00	0.08	0.45	0.30
Commerce	1.44	32.50	70.02	39.95
Construction	0.12	0.60	0.52	0.25
Financial Institutions	0.19	0.49	1.85	1.45
Manufacturing	0.22	2.24	4.09	0.55
Mining	0.00	0.00	0.09	0.00
Public Utility	0.00	0.18	0.53	0.15
Services	0.01	0.38	0.48	0.34
Others	0.00	35.61	33.38	10.50
% share of PROC's FDIs	0.19%	8.14%	5.88%	3.47%

Source: Bangko Sentral ng Pilipinas

Trade competition challenges

The most critical challenge the Philippines faces is the pressure on domestic industries due to competition from Chinese goods, imported and smuggled. With the rapid economic liberalization program undertaken by the Philippine government since the early nineties, the performance of many of our industries has declined or stagnated. In particular, these industries find the competition from imports from China most difficult. Following its accession to the WTO, the situation will be even more difficult as China now faces less restriction for its exports.

The Philippines has confronted China's economic growth since the late '80s with greater bilateral trade guided by the principle of differentiation and specialization. Constituting a major part of the exchanges between the Philippines and China are manufactured goods (consumer and industrial) which, compared to agricultural products, compete more on the basis of differentiation rather than price. The same principle of differentiation and specialization to fill market niches in China should continue to be the basis of our strategy in confronting the trade competition challenge that has resulted from China's increasing competitiveness. One important initial task for the Philippines is to find niche products and markets in which it can develop its competitive edge in terms of differentiation and specialization. Expanding geographical markets by exploring new ones westward and northward is a way to increase market opportunities. These more specific considerations should be addressed on top of the fundamental challenge of addressing the basic issue of competitiveness.

China's increased competitiveness will also have a negative impact on the Philippines' export opportunities in third country markets, in particular, those of the US, Japan, and European Union. The WTO-enhanced market access for China will create not only the flooding of China-made goods in the Philippine market but also for China to become a greater competitive force in the world market for many goods. The deflationary pressure exerted by China has been felt globally, more particularly in the US. The share of US imports from China has been increasing at the expense of imports from the rest of Asia since 1993. Here, again, the Philippines should try to mitigate the impact by aggressively finding niche areas to specialize in while at the same time addressing the basic issue of improving competitiveness. These areas of specialization should enable the Philippines to compete with China in the Philippines' internal market, in third markets, and even in China's market. Through the principles of product differentiation and specialization, the Philippines has been able to export to third countries as well as China product lines wherein China has high comparative advantage. For example, finding it difficult to compete with China in the export of garments, the Philippines has been specializing in higher-end apparel focusing on quality and design in which the Philippines has a greater comparative advantage.

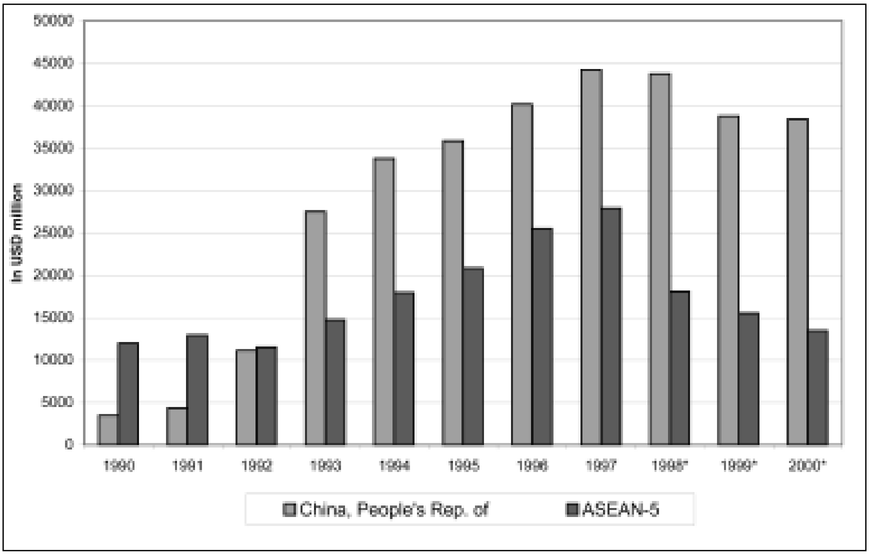
Foreign direct investments competition challenge

One consequence of China's increased economic liberalization is the surge of capital to its shores. Hence, while the Philippines can expect greater capital inflow from China, it is concerned that China's economic boom may divert FDI from coming to the Philippines because of the attractiveness China provides. In the last decade or so, China's share of FDIs in Asia is a bit over 50 percent. For many years, it was the second largest recipient of FDIs in the world, after the United States. In 2002, it surpassed the United States and became the number one recipient of FDIs. With its WTO-entry commitment to increase economic liberalization and improve its legal system and governance, China is expected to become even more attractive as a destination for foreign equity capital. Will the diversion of FDIs from the developed countries, newly industrialized countries (NICs) and emerging NICs to China result in the Philippines having a smaller share of the global FDI pie? Will such diversion crowd out the FDIs for the Philippines?

Figure 1 shows the trend of FDI inflow to China and to ASEAN countries. It is very obvious that China garners the lion's share of global investment in Asia. However, in relation to FDI going to ASEAN, a couple of points should be considered for a better perspective.

First, some argue that data on FDI inflow to China might be bloated due to the round-tripping phenomenon, i.e., some Chinese investors transfer their capital to Hong Kong or some other places and then transfer it back to China in order to avail themselves of the preferential treatment given to FDIs.

Figure 1. Foreign direct investments: China and ASEAN, 1990-2000



Second, the trend of FDI inflows to China and to ASEAN reveals that they are complementary, not competitive. China's great FDI surge during the first half of the nineties was accompanied by increase for the rest of Asia. And, during the slowdown of flows into the ASEAN countries since 1997, direct investment flows into China also slowed down.

Third, a study (Tan 2001) on FDIs to China and the ASEAN countries reveals that in the precrisis years when FDI inflows to China increased very rapidly, the share of FDI to each of the individual ASEAN countries did not decrease. In other words, China did not gain foreign direct investment at the expense of the rest of Asia. The study concludes that for the '80s and '90s (up to 1996) when inflow to China increased very rapidly, it did not displace the FDIs for the individual ASEAN-5 countries. Like China, the share of the ASEAN countries in the global FDI pie increased.

For the postcrisis years in Figure 1, the data for ASEAN do not include Indonesia, which, for the years 1998 to 2000, experienced divestment instead of investment, of capital. Indonesia has not recovered from the instability provoked by the 1997 economic crisis. It seems that stability, both political and social, is more important than the advantage of low labor cost in the determination of FDI inflow.

The Philippines' geographical proximity to China is said to provide an advantage in garnering foreign investments as it is easier to reach China's market from the Philippines. Moreover, with the production processes getting to be more and more segmented internationally, i.e., the production of one good is done in more than one country, it can be expected that the growing FDI phenomenon in China can mean more investment in China's neighboring countries as well. To compete for such investments, the Philippines should make sure that the necessary conditions for investments are in place, i.e., its investment environment is attractive.

RECOMMENDATIONS

Improve competitiveness

The global integration of China is expected to create more competition for both exports and FDIs. The Philippines will also have to compete for the market access opportunities with countries that can offer similar products. Competitiveness can be enhanced by the principles of specialization and differentiation. These principles, which were the basis for our vibrant trade with China in the late '80s and '90s (Palanca 2001), should continue to be the basis for Philippine-China trade relations in the coming years. The integration of China, as well as the Philippines, into the world economy should offer more opportunities for intra-industry trade and specialization. Innovative and ingenious differentiation is important for the marketing of manufactured products, which now constitute most of the Philippines' exports to China. Differentiation focuses on certain aspects of production and sales such as quality, design and marketing techniques in which the Philippines possesses a comparative advantage. Specialization, on the other hand, involves production of specific niche products used as inputs in the production of other goods or to satisfy specific consumer wants.

Specialization and innovative differentiation should also be the approach taken for the Philippines to be able to face the challenge of competition with Chinese goods. It is through such product distinction that the Philippines has been able to export a number of the products for which China's revealed comparative advantage index may be higher than the Philippines' not only to third countries but also to China. Exporters of manufactured goods now compete more on the basis of quality and design rather than on price. It is important to identify niche markets. Instead of competing on price, differentiation through establishing brands, marketing of such brands and the quality attached to them can provide the competitive basis. For the Philippines, ensuring the basic elements of its global competitiveness such as labor productivity, efficiency of the government bureaucracy and the country's infrastructure (both physical and human), peace and order, as well as in its exchange rate, is most essential. This also means the continuation of the liberalization process and institutional reforms.

Improving global competitiveness is also the means for attracting FDIs. In a study on foreign investments in the Philippines, the finding shows that the country's "attractiveness will no longer be based on a highly protected domestic market but on a combination of several factors which together foster efficiency, productivity and competitiveness in the international market" (Austria 1998). The Philippines' experience in 2001 wherein political turmoil in the country reduced FDIs and shot up the exchange rate also demonstrates that political stability and peace and order situation are extremely important factors for foreign investments to come in.

Engage in cooperation projects

Given the many opportunities to do business with China, it is important to work at identifying specific opportunities by linking up with Chinese business. The Philippines will be competing with other countries for the trade and investment opportunities expected from China's WTO accession. While developing competitiveness is a necessary condition for the Philippines to compete for these opportunities, engaging in specific cooperation projects with China can facilitate tapping the increasing economic opportunities. Trade and investment niches can be more easily identified and explored. Through such cooperation, both countries will be able to maximize the benefit from China's further liberalization while minimizing the negative effects. Some broad areas of possible cooperation are: merchandise and service trade, tourism, and investment and development cooperation.

Commodity trade enhancement cooperation

The market access opportunities arising from China's WTO accession are expectedly diverse and wide-range. A systematic identification of market access opportunities can provide information on the product and market niches for traders. This can be done through joint research projects and trade missions. Joint research with China will help Philippine traders explore and identify market and product niches. Exchanges of trade missions will also provide information on products and procedures as well as opportunities for contacts with the people involved. Philippine trade with China is for the most part limited to the southern part of China. Attempts should be made to target the growing northeastern China, which will probably find Philippine tropical products scarce and thus have a higher demand for them.

Service export cooperation

China's WTO entry will mean increased market access for professional services as well as increased need for them. The Philippines, on the other hand, is a leading exporter of professional services. Cooperation between the two countries in this respect can facilitate operations of the markets for professional services, i.e., joining the demand and supply forces. One mode of operation to facilitate service export for the Philippines is to have service providers in the host country. Cooperation between the Philippines and China in this respect can be made through joint-venture service provider companies. These companies can more effectively identify China's needs and match them with the available supply in the Philippine labor market. Taking actual foothold on China can provide commercial presence and capture niches in the Chinese market for different fields of professional services. Such commercial presence is desirable not only for crossborder services but also for services that can be performed in the Philippines, the consumption of which will be in China. For professionals who have to move to China, the two countries (through the service provider companies) can cooperate to make adjustment easier by preparing them with basic language skills and knowledge of the Chinese culture.

Tourism cooperation

One special service trade is tourism where service is not "exported" but instead its consumption is done in the country providing the service. Both the Philippines and China have many tourist spots to offer. Joint promotion and facilitation of movement of tourists between them should be an area of cooperation. The marketing of tours available in a country however is best done where the consumers are. The Philippines' Department of Tourism can cooperate with China International Travel Service for exchanges of information and marketing of tours. The two sides can also cooperate to develop tourist spots and infrastructure needed to promote tourism. For the Philippines to tap the Chinese market for its tourism, some of the factors to focus on are: competitive pricing, visa facilitation, and social and political stability in the country.

Investment and development cooperation

Joint ventures and other forms of investment cooperation have been going on since China opened up two decades ago. Strengthening such cooperation is now more essential than before since greater liberalization will mean increased opportunities for China's foreign direct investments, both inflow and outflow. Investment cooperation between the Philippines and China not only provides capital for the receiving country but also technology that may be more appropriate than those from the advanced countries. While both the Philippines and China are considered developing countries, their technology expertise seems to be complementary. China excels more in engineering and technical expertise while the Philippines has more experts in the areas of accounting, management and marketing. Moreover, China generally adopts less capital-intensive indigenous production techniques which developing countries such as the Philippines will find suitable.

Investment cooperation need not be limited to commercial ventures. Investments may be in the form of development assistance in areas of environment protection, infrastructure and agriculture. The Philippines has had a few of such projects with China in the past few years.

Engage in regional cooperation

A strategic economic goal China is pursuing is the integration of East Asia and, eventually, the whole of Asia. Hoping to be a key leader, China has started this process with the proposal of establishing a free trade agreement (FTA) with ASEAN by 2010. This ASEAN-China FTA proposal was approved by leaders of all ASEAN countries on the eve of China's WTO entry in November 2001. This multilateral cooperation involves a giant trade bloc with a potential market of 1.8 billion consumers and a total of US$2 trillion regional income. Establishing a closer economic relationship between ASEAN and China is important in getting a stronger foothold of China's market and ensuring ASEAN as a priority market for China's future investments abroad. Moreover, investors from other countries may be more interested in establishing a presence in ASEAN in the hope of taking advantage of the proposed ASEAN-China FTA.

The ASEAN-China FTA proposal is a good opportunity for the Philippines to work with ASEAN as a group in relating to China. Through greater regional cooperation, bilateral cooperation can be strengthened to tap more efficiently the trade and investment opportunities presented by China's economic growth and WTO entry.

One feature of the ASEAN-China regional integration is pursuing early liberalization. To pursue the intent of the free trade agreement with ASEAN, China has started to negotiate with individual ASEAN countries on an "early harvest," a program which liberalizes trade for three years for some products starting no later than January 2004. However, early liberalization does not sit well with the Philippine government and producers. The agricultural sector does not agree to the lowering of tariffs ahead of the WTO commitment schedule. Such nonreciprocity may jeopardize the Philippines' participation in the program and the realization of the ASEAN-China FTA by 2010.

It is important to realize that many of the challenges of globalization can be addressed by regionalism. Moreover, research has shown that ASEAN countries that have engaged China economically benefited from its phenomenal growth (Palanca 2001). With China now a member of WTO and all the changes that are expected to happen with it, the Philippines should be active in engaging China through active bilateral trade and investments. One important way to reinforce this engagement is via regional cooperation.

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