China pivot yields results

Stronger bilateral ties help the Philippines achieve economic goals as it works to usher in a 'golden age of infrastructure'

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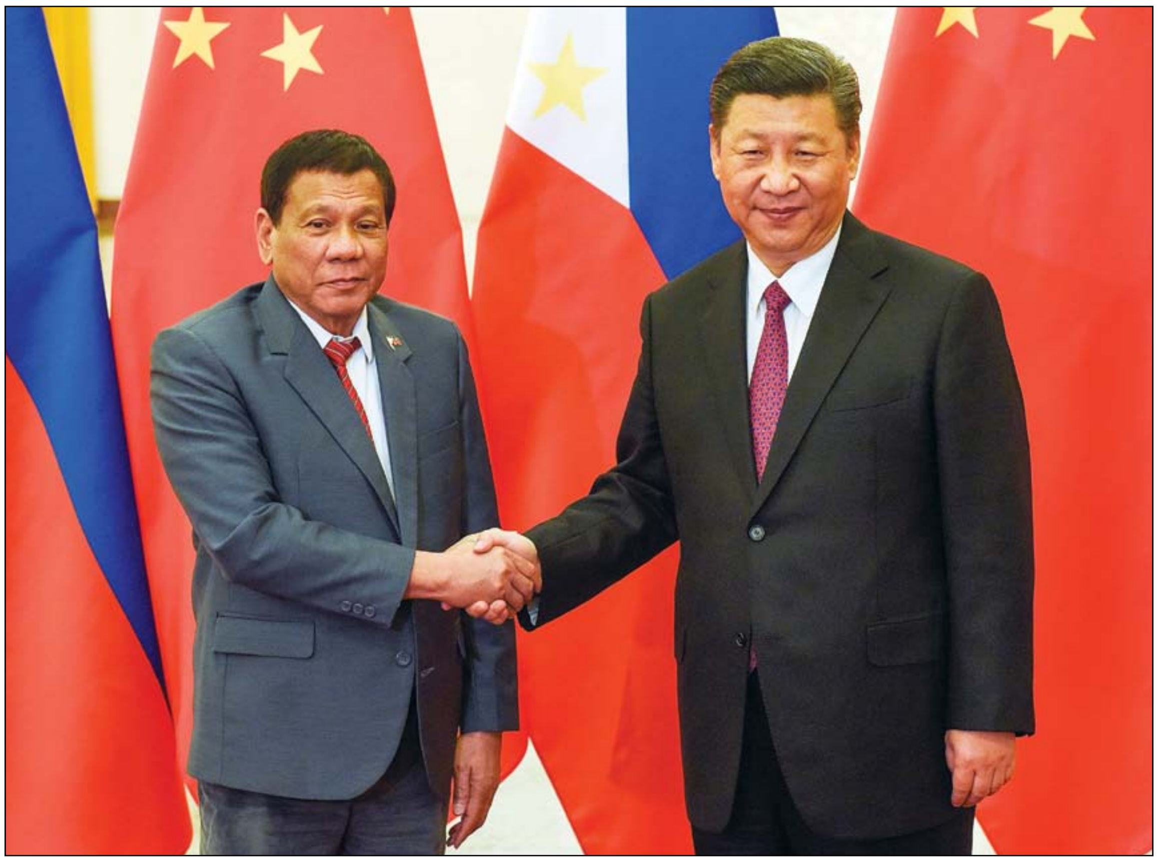
For China Daily Asia Weekly



Chinese President Xi Jinping (right) shakes hands with Philippine President Rodrigo Duterte prior to their meeting during the Belt and Road Forum for International Cooperation in Beijing on May 15. As this year's ASEAN chairman, Duterte has also encouraged other ASEAN member countries to support China's initiatives. AFP

Philippine President Rodrigo Duterte's pivot to China is expected to bring economic gains to the developing Southeast Asian economy.

Analysts said deepening trade and diplomatic relations with China dovetail with the Philippine Development Plan — an economic program that aims to make the Philippines an upper middle income economy by 2022.

The goal involves massive infrastructure spending — 3.6 trillion pesos ($70 billion) over the next three years — and aims to reduce the poverty rate from the current 21.6 percent to 14 percent by 2022.

Apart from a friendlier bilateral relationship, the Philippines' ambitious economic goals are set to benefit from its part in China-led global initiatives.

Such plans include the Belt and Road Initiative, which aims to improve connectivity in countries along the historical Silk Road; the Asian Infrastructure Investment Bank (AIIB), which funds projects around the region; and the Regional Comprehensive Economic Partnership (RCEP), a proposed free trade pact between the Association of Southeast Asian Nations (ASEAN) and China, Australia, India, New Zealand, Japan and South Korea.

"The Duterte administration's foreign policy pivot toward China gives a big push to its own Philippine Development Plan as it puts together plans, reforms, policies, and targets to build a more sustainable economy. This sends strong signals to businesses in both nations that the Philippines is now a promising participant in China's grants, trade and infrastructure plan," said Jose Arnulfo Veloso, president and CEO of HSBC Philippines, in a recent statement.

Duterte's diplomatic policy toward China contrasts with that of his predecessor, Benigno Aquino III, who was in office from 2010 to 2016. The South China Sea dispute strained bilateral ties during the Aquino regime.

But Duterte's presidency has proved it is possible to decouple maritime issues from broader diplomatic and trade relations between the two countries.

According to Aaron Jed Rabena, an associate fellow at the Philippine Council for Foreign Relations, Duterte's policy of greater engagement with China has sidelined contentious issues like the maritime dispute.

"No one issue should define the sum of Philippine-China relations. (Duterte's policy on China) shows that this bilateral relationship is multidimensional," Rabena told *China Daily Asia Weekly*.

As this year's ASEAN chairman, Duterte not only emphasized the Philippines' stronger relationship with China; he also encouraged other ASEAN member countries to support China's initiatives.

In August, at the closing ceremony of the ASEAN Foreign Ministers' Meeting in Manila, the Philippine capital, Duterte urged ASEAN to reject protectionism and support the RCEP. ASEAN has a "bigger stake than any other part of the world in standing up against protectionism", he said, asking for the swift conclusion of RCEP negotiations.

Since very early in his presidency, Duterte has been clear about forming closer ties with China. In October 2016, just months after winning the presidential election, he declared the Philippines' "separation" from its long-standing ally the United States, during a four-day state visit to Beijing.

In a speech, Duterte said: "I announce my separation from the United States, both in military but economics also." Duterte met with Chinese President Xi Jinping, with the latter emphasizing the friendship between the two "neighbors across the sea".

"China and the Philippines have had foundation for friendship for generations and no reason for hostility or confrontation. Both sides should spare no efforts to promote neighborly relations," Xi said, according to Xinhua News Agency.

Xi noted that China is willing to help the Philippines develop its infrastructure and encourages Chinese businesses to invest more in the archipelago.

The visit concluded with Xi committing more than $9 billion in low-interest loans, according to the Philippines' Presidential Communications Office. China's Foreign Ministry spokeswoman Hua Chunying said the "extensive" and "amicable" official talks led to the signing of 13 bilateral deals.

Rabena from the Philippine Council for Foreign Relations said the Philippines' diplomatic pivot to China has yielded economic dividends.

These include the reinstitution of the Philippines-China Trade and Investment Forum and the Joint Commission on Economic and Trade Cooperation; China's lifting of restrictions on the import of Philippine agricultural products; and securing $24 billion worth of financial assistance and investment pledges, including a $3 billion poverty relief credit access that will benefit Philippine micro, small and medium enterprises.

But the biggest beneficiary is set to be Duterte's key infrastructure program, known as Build, Build, Build. The program is touted to usher in a "golden age of infrastructure" in the Philippines, with 3.6 trillion pesos being invested from 2018 to 2020 in projects focused on areas like transportation, water resources management, sewerage and sanitation, and information communications technology.

HSBC's Veloso said AIIB membership can support the Philippines' infrastructure plans.

"The Philippines signed on to the bank that aims to fund infrastructure development and stimulate economic growth in Asia. This allows the Philippine economy to gain from its participation in the bank," he said.

The AIIB is serving as an additional credit facility for the Build, Build, Build program. Finance Secretary Carlos Dominguez III said in December that the AIIB will cofinance the Metro Manila Flood Management project and EDSA Bus Rapid Transit system with other multilateral lending institutions.

Dominguez led an economic mission to Beijing in January to submit a loan proposal for priority infrastructure projects worth $3.4 billion.

These are the Chico River Pump Irrigation Project in the provinces of Cagayan and Kalinga with an estimated total cost of $53.6 million; the New Centennial Water Source-Kaliwa Dam Project in Quezon province, $374 million; and the South Line of the North-South Railway Project running from Metro Manila to Legazpi City, Albay, $3 billion.

These priority projects, Dominguez said, aim to boost farm productivity, improve transportation and logistics services in underserved areas of Luzon, the largest of the Philippine group of islands, and ensure a steady water supply to Metro Manila.

The delegation also submitted proposals for feasibility study support for $1 billion to link the main islands of Visayas and Mindanao, increase tourism, build a flood control system, and ensure a steady power source in Mindanao.

But the huge funds required for Build, Build, Build and the Philippine government's decision to tap Chinese loans have raised concerns that these plans could lead to a debt trap.

Dominguez said that fiscal prudence, local borrowing and tax reforms will ensure the infrastructure buildup will not weigh on the country's finances.

"The government will take advantage of the excess liquidity in the domestic market by borrowing 80 percent from banks and other financial institutions here (in the Philippines), while tapping only 20 percent of its loans from overseas lenders," Dominguez said in a statement.

He added that the Duterte administration will ensure the comprehensive tax reform program will raise enough revenue to bankroll infrastructure development.

Dominguez said the first package of the program — which will cut personal income tax rates while raising taxes on fuel and cars — would serve as the cornerstone of funding for the Build, Build, Build program. The finance department had earlier estimated that this measure alone would bring in 157 million pesos in revenue.

Alvin Ang, economics professor at the Ateneo de Manila University, said that having an investment-grade status — affirmed this year by credit rating agencies — ensures that the Philippines will enjoy better terms for borrowing.

"While the Philippine government has expressed its preference for Chinese funding, it is unlikely that the rates agreed upon will be higher than the investment-grade rates the Philippines should be getting from the financial markets," Ang said in a column he wrote for local newspaper *Business Mirror*.

Speaking to *China Daily Asia Weekly*, Ang said he is confident that the government's economic team will remain fiscally prudent.

"The economic team already capped (the fiscal deficit) at 3 percent of GDP so it will stay that way, particularly as it will impact the (country's) investment-grade status," he said.