中国銀行 馬尼拉分行
BANK OF CHINA MANILA BRANCH

Press Release

September 2018

Finding Opportunity in the Trade War

The US and China, two of the world's largest economies, are in the midst of a major trade war as the two nations impose tariffs on goods traded by the other. While this has caused apprehension among Filipinos, pundits believe its impact on the country will be minimal. In fact, the Department of Trade and Industry (DTI) have stated that the ongoing trade war between the two countries would not have a major impact on the Philippines.

Many industry experts also see opportunity. Mr. Sergio R. Ortiz-Luis Jr., President & CEO of Philippine Exporters Confederation, Inc. (PhilExport), talked about the business opportunity given the trade war. "Right now, we don't see a major impact yet. We aren't that big a player to be of consequence in the trade war. But we do see some benefits. As orders from China to the US could be cut, the logical substitute will be the Philippines," he said.

PH's No. 1 trade partner
For the second year in a row, China remains the Philippines' top bilateral trading partner, with total bilateral trade valued at $23.82 billion, an increase from $21.9 billion in 2016. This was brought about by the growth of imports averaging 20.7 percent from 2010 to 2017 according to the National Economic and Development Authority (NEDA).

The positive relationship between President Duterte and President Xi Jinping continues to open up huge market opportunities for local products to enter the Chinese market. As both nations plan to balance bilateral trade in three to four years, China is also looking to surpass Japan as the top importer of Philippine products, surpassing Japan

Japan, US, and Hong Kong were the largest export destinations of Philippine products last year. But Philippine exports to China are slowly increasing (9.73 percent in 2017), and China is poised to be the country's number one trading partner, for both imports and exports, in the near future.

This presents a positive outlook for Filipino businesses that trade with China as several industries could see an uptick with the trade war. "In ASEAN, we have similar non-electronics products — agricultural, forest-based, and mines. These are things we should be pushing. And China will be the most logical market," added Mr. Ortiz-Luiz Jr.

According to the United Nations COMTRADE Database, the top Philippine exports to China in 2017 were electrical components and electronic equipment ($2.54 billion); machinery and parts ($1.98 billion); ores, slag, and ash ($522.19 million); and mineral fuels, oil, and distillation products ($329.74 million).

The RMB opportunity
Given the massive trade volumes between China and the Philippines, there is huge potential for cost savings. "If you look at the amount of trading being done, our importation is huge. And it's dealing with an intermediate currency — the USD. Using RMB for countries trading with China would eliminate the volatility of having an intermediate currency that you play with," said George Barcelon, Chairman of the Philippine Chamber of Commerce and Industry (PCCI).

The advantage of settling direct to the currency is saving on the exchanges. "What's happening now is two exchanges. You get charged twice, and you expose yourself to risk twice," said Mr. Ortiz-Luiz Jr.

According to Mr. Ortiz-Luiz Jr., an industry that benefits most from direct RMB settling is electronics. The Philippines is both an importer and exporter of electronic parts from China and direct RMB transactions lowers costs for both sides of the trading spectrum.

Currency can also be used as a differentiator for Filipino businesses according to Mr. Barcelon. "Our currency mirrors closer to the RMB. Let's say you were an exporting country, currency can become a factor. If you have a lower exchange rate compared to another peer, just on the currency alone can make you more competitive," he said.

###