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Trade war: a boon for PH electronics?

The additional 25 percent tariff imposed by the Trump administration on about $50 billion worth of Chinese products, as reported by the Office of the United States Trade Representative, is causing a shakeup in the Mainland's semiconductor supply chain amidst fears of future export restrictions from the U.S. This may soon push China to turn its gaze to more viable sources of much-needed manufacturing components—an opportunity the Philippines could take advantage of to bolster its own semiconductor industry.

In a 2016 report by the International Trade Administration, China was the top export destination for semiconductors, while the U.S. held the majority of production at almost 50 percent. The report identified the market share of manufacturers and importers in the global semiconductor industry.

The ongoing Sino-U.S. trade war is already disrupting the supply chain to the Mainland. Chinese smartphone manufacturer ZTE was among the casualties after being banned from purchasing Qualcomm chips due to what the U.S. deemed as trade violations. Possible future trade barriers may worsen the outlook for China's information technology and manufacturing sectors that rely heavily on imports.

On the other hand, the Philippines continues to be a ready source of electronic parts for the expanding Asian market, with semiconductors accounting for 39 percent of its total exports in mid-2016 according to the Philippine Statistical Authority (PSA). According to Ernesto Pernia, Director-General of the National Economic and Development Authority, electronic products accounted for about 50 percent of the country's exports to China in 2017.

"The Philippines has been a valuable trade partner of China, and the warmer relations are opening many doors for both countries to contribute to each other's economic development," Deng Jun, Country Head of Bank of China Manila, said. "By nurturing this partnership, local enterprises can further expand their market as part of the global value chain."

Creating a more favorable environment for trade may encourage Chinese importers to do more business with local chip manufacturers. One key to realizing this is by settling cross-border trade using the Chinese currency—the renminbi (RMB).

New Currency, New Deals

Also known as Chinese yuan, RMB has grown in strength as foreign exchange currency thanks to internationalization efforts by China and its partner offshore banks. When used to settle cross-border deals with the Mainland, traders can enjoy several benefits.

First, trade parties won't have to bridge transactions using the U.S. dollar. The majority of cross-border deals in the meantime are made in USD. This doubles the foreign exchange process from peso to dollar, and then from dollar to RMB. In turn, conversion fees double. Converting currencies twice also increases hedging costs to mitigate foreign exchange risks. "With direct PHP-RMB conversion, trading partners can save from one to two percent on foreign exchange fees," Mr. Deng explained. "The shared savings may help grow business between parties, opening key financial and relationship advantages."

These benefits will help establish the Philippines as an ideal alternative source of semiconductors once the trade war makes it too expensive for China to purchase from the U.S.

Stronger Bilateral Trade

Increased exports with China also contribute to the larger effort of balancing bilateral trade. The Mainland currently benefits as the Philippine's top source of imports, amounting to $16.83 billion against $6.91 billion worth of shipments to China in 2017 based on PSA data.

Department of Trade and Industry Secretary Ramon Lopez projected during the March 2018 visit of Chinese Ambassador Zhao Jianhua that bilateral trade will balance out in three to four years as long as the relationship between Beijing and Manila remains cooperative.

The Mainland is already considering higher exports from the Philippines to meet the demand of more than 1.42 billion people. "Adopting RMB to settle cross-border transactions can encourage more Chinese importers to do business with counterparts abroad. This is also a win for China as it helps provide for the country's fast-growing market," Mr. Deng said.

Not only will this benefit local semiconductor manufacturers, but also other industries that offer raw and finished products—goods the Mainland may also need. Ultimately, this aligns with Beijing's goal to increase imports from the Philippines and close the trade gap.

RMB FX Services

Several banks offer RMB foreign exchange services to assist Philippine firms in cross-border transactions with Chinese traders. Bank of China Manila, an RMB specialty bank, leads by lending expertise on the Chinese experience and how it relates to the local market.

The bank is currently working to form partnerships with 14 other financial institutions to greatly ease the RMB exchange and transfer to local firms. These include the following: Asia United Bank, BDO Unibank, Inc., Bank of the Philippine Islands, China Banking Corporation, East West Banking Corporation, Metropolitan Bank & Trust Company, Philippine Bank of Communications, Philippine National Bank, Philippine Business Bank, Rizal Commercial Banking Corporation, Sterling Bank of Asia, Security Bank Corporation, UnionBank of the Philippines, and Bank of Commerce.

Bank of China hopes that these partnerships can ensure a ready supply of RMB to facilitate the exchange from Philippine peso and vice versa in the near future.

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