

TRADE WITH SOCIALIST COUNTRIES:  
An Evaluation of Past Experiences  
And Recommendations for the Future

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The search for profits transcends political boundaries. Socio-political colors are simply additional conditions and should not be considered as major problem blocks in international commerce. The need to satisfy growing demands of citizens and the realities of global markets would not help xenophobic countries who opt to remain insular and isolated. Even the pilots of capitalism have found it anachronistic to ignore the vast market opportunities of socialist countries. Against protestations from North Korea, the Eastern European nations are lining up to open relations with South Korea. South Korea is opening relations with Hungary. Trade between the People's Republic of China and Taiwan is estimated to reach \$2B by the end of 1988. Thus, the reticence of the West to encourage their satellites and developing nations to trade with the East could merely be an international trade strategy to corner and partake of the huge market potential of socialist countries.

SIZE OF THE PIE

The Centrally Planned Economies of Europe, including the Soviet Union and China, have a collective trade amounting to US \$447B in 1986 (see Table 1), half of which represents imports. Their combined population of at least 1,500 million is beginning to enjoy goods imported from the West. Of total imports of US \$225B, 55% represent intratrade among Eastern bloc nations. Viewed differently, it means 48% of imports come from outside of their political fence. Alternatively, 46% of their exports went to the West.

Table 2 shows Western goods have been making inroads to socialist consumers at the rate of US \$1000 million a year. Although trade with developed economies is much bigger than trade with developing countries, the latter is fast catching up. Imports from developing countries grew more than double at 24.8% compared to 10.3% during the 1980-86 period. While the East took in 44% from

developing nations compared to developed economies, this share has surpassed the 50% level by 1986.

TABLE 1. EXTERNAL TRADE OF COUNTRIES WITH CENTRALLY-PLANNED ECONOMIES, 1986 (FOB US\$ BILLION)

	<i>Imports</i>	<i>% of Total</i>	<i>Exports</i>	<i>% Total</i>
<i>Total World Trade</i>	₱224.9	100.0%	₱222.4	100.0%
Developed Market Economies	71.8	31.9%	55.1	24.8%
Developing Market Economies	36.0	16.0%	48.0	21.6%
Centrally-Planned Economies	117.0	52.0%	119.3	53.6%

Source: U.N. Statistical Yearbook

TABLE 2. IMPORTS OF COUNTRIES WITH CENTRALLY-PLANNED ECONOMIES, 1980 AND 1986 (FOB US\$ BILLION)

	<i>1980</i>	<i>1986</i>	<i>% Change</i>
<i>Total World Trade</i>	\$178.0	224.9	26.3%
Developed Market Economies	65.1	71.8	10.3%
Developing Market Economies	28.8	36.0	24.8%
Centrally-Planned Economies	83.7	117.0	39.8%

Source: U.N. Statistical Yearbook.

The foregoing trend is also reflected in exports to developing countries. In 1980, exports amounted to US \$37B; by 1986, this had grown to US \$48B or a healthy 30% growth compared to a moribund 0.1% for developed countries (see Table 3).

#### WHO'S GOBBLING THE PIE?

Following the Cold War of the 1950's, trade between the socialist countries and the free world could be described as anemic, forcing the former to confine international commerce among themselves. The Philippines in the absence of US encouragement never ventured to open relations with the socialists. When then President Marcos initiated diplomatic ties with the USSR, his purpose was perceived to be less economic than political: the need for alternative sources of oil and a political leverage with the US vis-a-vis the US

military bases. Thus, trade with the USSR has drastically declined to about US \$30M in 1987 from about US \$134M in 1977. Other nations, however, did the reverse.

Unknown to the people of the Third World, the economic and political leaders of capitalist countries never lost sight of the vast potentials of the Eastern bloc nations. Unheralded and doggedly pursued, trade with the socialists was being expanded. Woe to those who wake up late.

The United Nations offers revealing facts about our Western models on how they have gone ahead of others in breaking bread with the socialists. Of six leading trading partners (sans the Soviet Union, which dominates all others) half are from the West (see Table 4). Japan, which always sees through all gambits, has beaten everybody to the pie with much gusto.

Of total imports from six leading trading partners in 1985, Japan has cornered more than one-fourth: 26.6%. From US \$9.079B in 1980, Japan more than doubled its exports to US \$18.7B in 1985. Not even East Germany which ranked first in 1980 could keep pace with the kamikaze run.

In fact, nobody among the remaining five could come up with a decent contest to Japan. West Germany, the next leading capitalist nation, suffered deceleration. Although its balance of trade in 1985 was big by any standard, it was just a bit over half of Japan's surplus of US \$11.1B.

The U.S.A. was sixth, selling some US \$8.7B worth of merchandise and importing, in turn, US \$3.9B for a favorable trade balance of US\$4.8B in 1985. Collectively, therefore, those three Western economies exported US \$37.4B, getting more than half of the pie relative to others.

TABLE 3. EXPORTS OF COUNTRIES WITH CENTRALLY-PLANNED ECONOMIES, 1980 AND 1986  
(FOB US\$ BILLION)

	1980	1986	% Of Change
<i>Total World Trade</i>	\$177.2	\$222.4	25.5%
Developed Market Economies	55.0	55.1	0.1%
Developing Market Economies	37.0	48.0	29.4%
Centrally-Planned Economies	84.4	119.3	41.3%

Source: U.N. Statistical Yearbook.

TABLE 4. EXTERNAL TRADE OF COUNTRIES WITH CENTRALLY-PLANNED ECONOMIES, TOP SIX PARTNERS \* (FOB US\$ MILLION)

Country	Imports From			Exports to			Countries' Balance
	1980	1985	% Change	1980	1985	% Change	of Trade (m-x) 1985
Japan	\$9079	\$18769	106.7%	\$ 5975	\$ 7671	28.4%	\$11098
Germany, Federal Republic	10538	9869	(6.3%)	5103	3756	(26.4%)	6113
U.S.A.	8303	8765	5.6%	2304	3920	70.1%	4845
Germany, Democratic Republic	11638	13315	14.4%	12052	13067	8.4%	248
Czechoslo- vakia	8068	10110	25.3%	8287	10485	26.5%	(375)
Poland	8101	9781	20.7%	9303	10692	14.9%	(911)

\* except USSR

Source: U.N. Trade Statistical Yearbook, 1986

#### TRADE WITH ASEAN: Better Than Nothing

In 1985, centrally-planned economies' imports from ASEAN member nations amounted to US\$2.0B, only 2.9% of the US \$70.6B registered by the six leading trading countries discussed earlier (see Table 5). Since 1980, imports have been stagnant, registering next to nil growth. In contrast, exports nearly doubled to US \$3.09B from US \$1.7B, a hefty growth of 80%. Thus, by 1985, the trade balance was to the ASEAN's disadvantage: US \$1.1B.

On an individual country basis, Malaysia ranked first in 1980, selling some US \$700M and importing US \$236M. By 1985, Singapore and Indonesia had wrested the lead from Malaysia, with imports amounting to US \$521M each. Growing by a robust pace of 200% from 1980 to 1985, Indonesia should tow in Singapore in the succeeding years. In fact, Indonesia has the most favorable trade balance among the member nations.

Singapore has the biggest trade deficit at US \$1.7B. Although it has managed to increase its exports by 18.4%, this was offset largely by absorbing almost US \$12.2B worth of exports by the socialist countries.

#### HOW DID RP FARE?

After 14 years of diplomatic relations with socialist countries, economic trade has remained insignificant and unfavorable to us.

Marcos' 'development policy to broaden our ties to include socialist countries' heralding a 'new Filipino foreign policy' in 1974 was nothing but a superficial relation consisting of minimal trade which benefited only Marcos relatives and cronies according to Roland Simbulan, a political economy professor.

In 1977, total trade with centrally-planned economies amounted to US \$341M, or less than 5% of total Philippine trade (see Table 6). Ten years after, it has gone down further to 3%. Exports declined by more than 50% from US \$254M to US \$118M. Sadly, imports climbed from US \$87.5M to US \$257M, a 200% increase.

Our exports steadily deteriorated from 8.1% of total exports in 1977 to 2.1% in 1987. Imports inched from 2.2% of total to 3.8% last year.

After a modest trade surplus of US \$166M in 1977, imports overtook exports in 1985. As of 1987, imports were more than double exports, registering a trade deficit of US \$139M.

TABLE 5. EXTERNAL TRADE WITH ASEAN COUNTRIES OF CENTRALLY-PLANNED ECONOMIES, 1980 AND 1985 (FOB US\$ MILLION)

COUNTRIES	IMPORTS			EXPORTS			Trade Balance (M-X) 1985
	1980	1985	% Change	1980	1985	% Change	
Total ASEAN	\$2010	\$2013	0.1%	\$1712	\$3090	80.5%	(\$1077)
Singapore	440	521	(18.4%)	513	2198	328.5%	(1677)
Philippines	278	145	(47.8%)	251	336	(33.9%)	(191)
Thailand	419	356	(15.0%)	492	197	(60.0%)	159
Malaysia	700	470	(32.9%)	236	217	(8.1%)	253
Indonesia	173	521	201.2%	220	142	(35.5%)	379

Source: RP Foreign Trade Statistics.

TABLE 6. PHILIPPINE TRADE WITH CENTRALLY-PLANNED ECONOMIES AS % OF TOTAL RP TRADE (FOB US\$ MILLION)

Year	RP Total Trade	RP Trade With Centrally-Planned Economies			RP Trade With Centrally-Planned Economies as % of		
		Exports	Imports	Balance of Trade	Total Trade	Total Exports	Total Imports
1977	\$7066	\$253.7	\$ 87.5	\$166.2	4.8%	8.1%	2.2%
1982	2688	233.4	232.5	.9	3.7%	4.6%	3.0%
1985	9740	124.5	300.9	(176.4)	4.4%	2.7%	5.9%
1986	9885	125.0	134.4	( 9.4)	2.6%	2.6%	2.7%
1987	12457	117.8	257.0	(139.2)	3.0%	2.1%	3.8%

Source: RP Foreign Trade Statistics.

Of the eleven socialist countries we did business with, only USSR and Vietnam was traded in our favor (see Table 7). China, which accounted for 75% of our exports with this group, has gotten the most from us. All the rest have trade balances to their credit. The Soviet Union, which absorbed more than US \$130M of our exports in 1977 managed to take in only US \$27M last year, a decline of about 80%. Moscow exports fertilizers, alcohol, plastics, machineries and chemicals to Maniia, which, in turn, exports coconut oil, sugar and pineapple. Recent reports indicate Moscow's willingness to go beyond formal commerce by offering economic assistance package to the Philippines consisting of loans, grants and technical aid. Among these are a) coal-fired 420MW thermal plant in Isabela; b) cement plant in Semirara; c) a US \$10M annual maintenance service contract for the Soviet merchant fleet.

During the past decade, Philippine trade with the Soviet Union as a whole deteriorated. Where there was a trade surplus of more than US \$5M in 1977, this was to become negative ten years later. Still, the possibility of reversing the trend could be realized. One needs to examine where the comparative advantages lie on a per product basis in order to formulate a trade strategy towards the socialist bloc.

At this point, it should be reiterated that trading with socialist countries does not make a weaker foreign policy. On the contrary, it strengthens our standing in the world, not only in the economic sphere but also in the cultural and political arena. Thus, *our problem is not whether to trade or not but rather who to trade with* — a question of selection and prioritization.

#### SELECTIVE TRADE INTENSIFICATION: Surveying Scheme

Based on the assumption that the Philippines must maximize economic benefit and minimize political risks, the following guidelines can be adopted and applied:

- 1) Expansion of commercial relations need not be accompanied by upgrading of diplomatic relations.
- 2) Expansion of relations should focus more on trade and technical cooperation. "Expansion of relations" would be almost synonymous with "trade intensifications."
- 3) Selective, rather than blanket expansion of relations with socialist countries should therefore be undertaken.

TABLE 7. PHILIPPINE TRADE  
WITH CENTRALLY-PLANNED ECONOMIES (US\$000 FOB)

Countries	Exports			Imports			Trade
	1977	1982	1987	1977	1982	1987	Balance
TOTAL	253682	233367	117757	87525	232498	256961	(139204)
China	108020	105205	87950	78352	206327	205562	(117612)
Germany, D.R.	333	—	265	245	2180	11573	( 11308)
Rumania	5882	50	—	1518	4810	8246	( 8246)
Korea, D.R.	1665	5653	—	247	39	4785	( 4785)
Hungary	—	2893	51	47	630	4227	( 4176)
Czechoslovakia	1052	497	308	1740	3126	3785	( 3477)
Bulgaria	—	734	182	140	2258	1796	( 1614)
Poland	401	536	110	314	1771	1387	( 1277)
Yugoslavia	5396	381	502	154	227	1526	( 1024)
Soviet Union	130080	115159	26700	3697	11130	13759	12941
Vietnam	853	2259	1689	1071	—	315	1374

Source: RP Foreign Trade Statistics

The next step is to formulate an initial framework and technique for selecting or screening which country to intensify trade with. The screening scheme proposed here is ranking based on a set of weighted criteria. Such numerical analysis provides relative importance to individual markets, and hopefully could provide policy insights to interested parties.

Given the time constraints and paucity of data, a number of socialist countries were taken as samples. Future research could include a bigger sample size, and further technique refinements. The weights adopted here are arbitrary. They only serve to illustrate the screening procedure rather than to be a basis for government policy. If this approach is accepted, the government agency concerned can choose the weights which reflect its policies and priorities.

For simplicity, we initially limited the criteria for selective trade intensification to three factors:

1. Cultural/Religious Human Rights Factor
2. National Security Risk Factor
3. Economic Factor

#### CULTURAL, RELIGIOUS, AND HUMAN RIGHTS FACTOR

Under the first factor, there were four basic considerations. One is the degree of Christianization of the country. The assump-

tion is that there are inherent advantages in trading with a fellow sect rather than with a completely opposite religious denomination. The more Christian the population, the more desirable it is for the Philippines.

Anent to the first is the country's record in human rights. Inasmuch as individual country violations to human rights principles as declared by the United Nations cannot be accurately determined, the status of international instruments as of 1 September 1987 which reports UN member country signatures to human rights resolutions is adopted as an index of a nation's commitment to its principles. Future research can adopt reports of Amnesty International and other organizations for factual records of violations/adherence.

An index of democratization showing the degree of citizens' participation in the electoral process of a country is likewise used as a gauge for present and possible future democratic leanings of that country. Some degree of conversion towards democracy is implied in the measure.

Race, religion and language are bases for national identity and cohesiveness. The stability and unity of a country, politically and culturally can then be gleaned from ethnic unity. Civil unrest and ultimately wars of modern era have graver ethnic undercurrents vis-a-vis political overtones. A homogeneity index developed by the USSR Academy of Sciences in Moscow as modified in the New Book of World Rankings is adopted *in toto* as an indicator of political stability and cultural cohesiveness. The assumption is that trade should be an on-going concern that should be insulated from destabilizing factors. A more homogeneous trading partner is, therefore, preferable to a heterogeneous one.

In Table 8, the factor was given a weight of 20%, while each of the basic areas of concern was equally assigned a 5% weight factor. The weight assignment is purely subjective and may be changed.

The exercise shows Hungary, East Germany and Poland occupying the first three top positions. Due to the absence of citizens' participation in the electoral process, China ranked nearly last while the Soviet Union was in 10th.

#### NATIONAL SECURITY RISK FACTOR

Owing to the multi-dimensional aspects of national security, the quantification process has to be simplified. The concept of na-

tional security can be broken down into external and internal components. The internal components would refer to the preservation and expansion of domestic interests. Threats in the form of political and economic subversion are deemed at present to be locally controllable. The vulnerability of the nation arises from external forces which make possible the sustenance and growth of internal problems.

In this regard, trade with socialist countries should be undertaken insofar as contacts between countries do not allow internal security to be jeopardized. The focus of analysis is military in nature. The ability of a foreign country to lend aid in whatever form to the enemies of the state is a threat that must be neutralized. Mention need not be made of the ability of socialist states to send military arms, advisers and finance to so-called liberation movements.

TABLE 8. CULTURAL, RELIGIOUS, HUMAN RIGHTS FACTOR (20%)

COUNTRIES	HOMOGENEITY (%) 1960-65	CHRISTIANS AS % OF POPULATION 1981	DEMOCRATIZATION INDEX (% PARTI- CIPATION, 1970-79	UN CONVENTIONS ON HUMAN RIGHTS RATIFIED (1987)	CRH FACTOR (%)	RANK
Hungary	90	83.2	71.0	72.7	15.84	1
Germany, D.R.	98	60.0	70.6	72.7	15.06	2
Poland	97	90.4	66.6	59.1	14.66	3
Rumania	75	82.4	69.3	63.6	14.52	4
Nicaragua	82	99.3	25.3	72.7	13.97	5
Bulgaria	78	64.5	72.1	63.6	13.91	6
Czechoslovakia	51	79.1	70.7	63.6	13.22	7
Yugoslavia	25	72.9	22.7	81.8	10.12	8
Cuba	96	42.1	0.0	59.1	9.86	9
USSR	33	36.1	63.9	63.6	9.83	10
Albania	91	5.4	49.6	31.9	8.89	11
Vietnam	81	7.4	45.1	31.8	8.26	12
Mongolia	62	0.2	46.3	45.4	7.70	13
Korea, D.R.	100	0.9	49.0	--	7.50	14
China	88	0.2	0.0	27.3	5.78	15
Afghanistan	34	0.0	1.3	59.1	4.72	16

Source: New Book of World Rankings.

The question at hand is: what constitutes ability to fuel internal subversion? Here we limit ourselves to a question of financial ability. Under this assumption the ability of a foreign country to subvert the Philippines can be gleaned from:

1. Overall military power
2. Defense expenditure per soldier
3. Defense expenditure as % of GNP

In World Power Assessment, Prof. Ray Cline devised a scale that incorporates key aspects of military power into internationally comparable estimates. These aspects include manpower, manpower quality, weapon effectiveness, infrastructure and logistics, and organizational quality. An index of relative military power is thus derived using USSR = 100%. This measure is given a weight of 20%.

The ability of a country to finance insurgency abroad can be seen by how much of its income as measured by its Gross National Product is expended for defense. The level of sophistication of its arms and gadgetry will be shown by the amount of defense expenditure per soldier. These latter measures are assigned 5% weight each. National security is thus given a total weight of 30%. This weight may, of course, be increased, depending on one's perception of degree of importance.

A country which has a 100% risk factor ceases to be a risk, its ability to aid internal subversives is conclusive. The bigger the value of the risk, the graver the threat and the less desirable trade becomes. Thus, for purposes of coming out with a direct proportion measure, we take the inverse of risk as a gauge of trade intensification. The higher the value of the risk inverse, the less risk there is to trade.

Based on the measures, countries which pose the least risk to us are Afghanistan, Rumania and Hungary (see Table 9). Nicaragua, Albania, and Mongolia are not to be considered as they are not rated for overall military power.

It should be noted that a fourth criterion, to account for geographical proximity to the Philippines and known tendencies to support insurgency movement abroad, could enhance approximation of risk. Cuba and Nicaragua should thus receive a lower ranking than shown in Table 9.

## ECONOMIC FACTOR

Trade with socialist countries should be viewed in two ways. The first is from the point of being able to export more Philippine products, and the second, in terms of importing goods that help improve our future competitiveness. That is, we should evaluate a market's potential in terms of its capacity to absorb our exports and the amount of new technology that it could impart to us.

TABLE 9. NATIONAL SECURITY RISK FACTOR (30%)

Countries	Overall Military		Risk Factor	Risk Inverse (30%-RWF)	Rank	
	Power, USSR=100% 20%	Defense Expenditure Per Soldier (USSR= 100%)				As % of GNP (USSR= 100%)
Afghanistan	0.7	2.3	15.9	1.05	28.95	1
Rumania	3.0	25.2	16.8	2.70	27.30	2
Nicaragua	—	21.7	33.6	2.76	27.24	3
Hungary	2.6	31.5	23.4	3.26	26.74	4
Cuba	2.1	13.2	52.3	3.70	26.30	5
Czechoslovakia	4.3	37.2	26.1	4.02	25.98	6
Yugoslavia	4.4	26.6	38.3	4.12	25.88	7
Albania	—	13.4	74.8	4.41	25.59	8
Poland	6.1	39.4	27.1	4.54	25.45	9
Korea, DR	8.4	5.9	57.9	4.87	25.13	10
Vietnam	10.1	2.8	99.1	5.10	24.90	11
Mongolia	—	13.9	95.3	5.46	24.54	12
Germany, DR	5.7	79.3	34.6	6.84	23.16	13
Bulgaria	3.0	20.1	27.1	9.74	20.26	14
China	42.8	23.5	62.6	12.86	17.14	15
USSR	100.00	100.00	100.00	30.00	0.00	16

Source: New Book of World Rankings.

Macro measures of market size are used in this exercise. Population, given a 20% weight, is the best measure of level of consumer demand. Gross National Product is a common indicator of market strengths. Due to time constraint, we used electricity consumption as a proxy to GNP. To some extent electric power consumption is a gauge of a nation's industrialization and together

with a steel consumption could be an indicator of technological advancement.

A country's attractiveness should be related to its policy to open its doors to foreign trade. Mere size of population or strength of market would not mean anything to us if the country chose to close its doors to trade. A level of import intensity as exhibited by a growth of imports over a certain period can be used to gauge a market's openness.

It would be near ideal if some measure of strength of currency can be incorporated in the analysis. Further research along this line is recommended vis-a-vis our foreign exchange reserves mixed policy.

Table 10 shows the ranking of countries as far as economic factors are concerned. The Soviet Union and China are preferred mainly due to the size of its market and level of industrialization. The Eastern European nations comprise the next attractive group. Albania and Mongolia are the least desirable.

Table 11 shows summary rankings of all countries according to all and individual factors. Overall, China, Rumania, Hungary, Czechoslovakia and East Germany rank in order of trade preference to us. Mongolia, North Korea, Vietnam, Albania and Afghanistan are countries that should preoccupy us least.

It is interesting to note that the Soviet Union is ranked 10th only overall. This is borne out of the fact that, as far as national security is concerned, the Soviet Union is the most risky to us. From the standpoint of economic factors, the Soviet Union is the second most attractive socialist state to trade with.

China, by its sheer size, is the country most attractive to us. Though the element of risk, as far as national security is concerned is strong, its openness to trade, size of economy and level of technology relative to the other countries could outweigh such consideration.

TABLE 10. ECONOMIC FACTOR

COUNTRIES	POPULATION		IMPORT INTENSITY		ELEC. CONSUMPTION		STEEL CONSUMPTION		ECONOMIC FACTOR Z	RANK
	1985	INDEX (CHINA =100%)	GROWTH 1975-85	INDEX (CHINA =100%)	1980 (BILLION KWH)	INDEX (USSR =100%)	1980 (THOUSAND MT)	INDEX (USSR =100%)		
China	1,059,000	100.0	18.1	100.0	282.0	22.7	42,706	29.33	35.2	1
USSR	278,618	26.3	9.7	53.6	1240.0	100.0	145,617	100.00	30.6	2
Bulgaria	9,071	0.8	10.4	57.5	32.5	2.6	2,443	1.68	6.3	3
Germany	16,766	1.6	17.9	43.6	99.0	8.0	10,137	6.96	6.2	4
Czechoslovakia	15,759	1.5	6.7	37.0	67.9	5.5	11,450	7.86	5.3	5
Afghanistan	16,519	1.6	8.5	47.0	0.9	0.1	19	0.01	5.0	6
Cuba	10,038	0.9	8.5	47.0	9.4	0.8	471	0.32	5.0	7
Rumania	23,017	2.1	4.8	26.5	64.9	5.2	11,531	7.92	4.4	8
Yugoslavia	23,153	2.2	5.2	28.7	55.0	4.4	5,399	3.67	4.1	9
Hungary	10,697	1.0	3.0	16.6	24.5	2.0	4,029	2.77	2.3	10
Vietnam	59,713	5.6	-	-	3.6	0.3	518	0.36	1.2	11
Poland	37,187	3.5	(3.6)	(19.9)	117.5	9.5	19,654	13.50	1.0	12
Korea	20,385	1.9	-	-	33.0	2.7	3,233	2.22	0.9	13
Mongolia	1,908	0.2	-	-	1.2	0.1	-	-	0.2	14
Nicaragua	3,358	0.3	-	-	1.2	0.1	50	0.03	0.2	15
Albania	3,050	0.2	-	-	2.4	0.2	119	0.08	0.1	16

Sources: 1. New Book of World Rankings  
 2. UNCTAD, Handbook of International Trade & Development Statistics, 1986

TABLE 11. SUMMARY RANKINGS

<i>Countries</i>	<i>All Factors</i>		<i>Economic</i>	<i>National</i>	
	<i>Rank</i>	<i>%</i>		<i>Security</i>	<i>Cultural</i>
China	1	58.1	1	15	15
Rumania	2	46.2	8	2	4
Hungary	3	44.9	10	4	1
Czechoslovakia	4	44.5	5	6	7
Germany	5	44.4	4	13	2
Nicaragua	6	41.4	15	3	5
Cuba	7	41.2	7	5	9
Poland	8	41.1	12	9	3
Bulgaria	9	40.5	3	14	6
Soviet Union	10	40.4	2	16	10
Yugoslavia	11	40.1	9	7	8
Afghanistan	12	38.7	6	1	16
Albania	13	34.6	16	8	11
Vietnam	14	34.4	11	11	12
Korea	15	33.5	13	10	14
Mongolia	16	32.4	14	12	13

Rumania and Hungary probably represent the more progressive-minded countries among the less powerful socialist nations. Against North Korea's protestation, Hungary recently initiated trade with South Korea. Such move probably mirrors similar designs in Southeast Asia. Rumania had diplomatic ties with a number of countries and probably leads other east bloc countries in terms of political and economic initiatives.

#### *Trade Prospects With The Soviet Union*

The Kremlin's policy of *glasnost and perestroika* should be seen not in the light of an internal expansion of democratic space in the Soviet Union but a long term positioning in her international competitiveness. Gorbachev's recent moves are an affirmation that the pent up potentials for growth of the Soviet economy has long been held in choke. To release such potentials, the following economic measures were enacted<sup>1</sup>:

1. Law on individual enterprises of Nov. 9, 1986 which opened up manufacturing activities in the crafts and in the service sector *to individual and family enterprise.*

2. Law on joint ventures of Jan. 13, 1987 which allowed joint ventures between Soviet enterprises and those of fraternal socialist countries and *with business firms of capitalist countries*.
3. Law on state enterprises of Jan. 1, 1988 which allowed state enterprises to organize as *autonomous corporations* with juridical status, enabling them to *enter into contracts with local and foreign firms, to operate on a self-finance basis, to grant compensation to their employees and to compete against each other* (Underscoring supplied).
4. The setting up of the new Ministry for Foreign Economic Relations and the Soviet National Committee for Asian-Pacific Economic Cooperation.

The above measures are manifestations of a radical shift from the socialist dogma of state control of the factors of production. Individual initiatives and entrepreneurs are overtly encouraged and contacts with the capitalist centers sanctioned. Visits of exploratory trade delegations have likewise begun. Shipping and airline landing and overfly rights and other trade infrastructure supports are expected to be negotiated and granted. These measures in tandem with the political realignment in the Kremlin, are geared towards strategic international competitiveness.

The changes then being effected by Gorbachev should be viewed by Malacañang as opportunities that should be taken advantage of, albeit after careful examination of other factors, notably national security, in diversification of our trade and economic relations with other countries of the world. The Soviet Union recognizes that Asia-Pacific will be the economic growth area from now into the next century as evidenced by its political and diplomatic moves with Asian countries, including China. Such initiatives must result in a genuine mutual advantage founded on healthy and realistic economic ties between countries. The Philippines, struggling to recover from the nadir of depredation must not lose sight of such opportunity.

Trade with the Soviet Union is nothing new to the Philippines. Commercial transactions date back to the 19th century when the Philippines was still a colony of Spain. The Soviet Union then maintained a consulate in Manila. Records show that the Soviet Union was the seventh biggest import trade partner of the Philippines in 1895 with transactions amounting to US \$271,000<sup>2</sup> (see Table 12).

Somewhere along the way the Philippines lost that commercial foothold. Diplomatic ties were severed and only in 1976 was full normalization began. Commercial transactions started picking up since then, reaching its peak in 1980 when Philippine exports rose to \$189.3M against imports of \$23.5M. From then on, however, trade decelerated (see Table 13). By 1986, trade was reversed against our favor with exports barely \$15M against imports of \$16.4M. Last year, Philippine exports amounted to \$26.8M against imports of US \$19.2M.<sup>3</sup>

Among various product categories, garment and crude coconut oil have been consistently exported to the Soviet Union, the latter dominating (90%) exports. Sugar, which used to account for more than 50% in 1983 has understandably become absent in the Soviet's market (see Table 14). Unless we come up with other products, garments and coconut oil would anchor our exports drive to the USSR.

From the Soviet Union, we get part of our supplies of whiskeys (bourbon, vodka), urea, potassium chloride, chemicals, plastics, coal, machinery and parts (see Table 15). In 1986, the bulk of our imports were composed of coal, when we should be getting oil, machineries and other four products: urea, anhydrous ammonia, polyethylene and technologically imbued goods.

TABLE 12. RP PRE-AMERICAN TRADE  
WITH MAJOR TRADING COUNTRIES (\$000) [a]

<i>Countries</i>	<i>Annual Average</i> (1892 - 1896)		<i>Countries</i>	<i>Imports</i> (1895)
	<i>Exports</i>	<i>Imports</i>		
United Kingdom	8844	3106	Spain	4647
United States	6053	135	United Kingdom	2753
Spain	3855	5174	China [c]	2126
Canada	1174	[b]	Germany	984
France	986	207	United States	517
Japan	617	89	Switzerland	498
Straits			Russia	274
Settlements [d]	345	418	France	271
Germany	201	748	Straits Settlements [d]	170
Australia	107	120		

[a] originally valued in pesos but converted to dollars at the rate of 2 Spanish pesos for 2 American dollars.

[b] negligible

[c] includes Hongkong and Amoy

[d] includes Singapore, Penang and Malacca

Source: Report of Philippine Commission to the (US) President, Vol. IV; Washington: Government Printing Office, 1901, p. 59-73.

TABLE 13. RP-USSR MERCHANDISE TRADE, 1975-85

<i>Years</i>	<i>Exports</i>	<i>% Change</i>	<i>Imports</i>	<i>% Change</i>	<i>Balance</i>
1975	10.3	—	0.2	—	10.1
1980	189.3	—	23.5	—	165.8
1981	171.0	( 9.7)	2.0	(91.5)	169.0
1982	115.2	(32.6)	13.2	660.0	102.0
1983	86.1	(25.3)	17.3	31.1	68.8
1984	54.4	(36.8)	4.1	(76.3)	50.1
1985	32.7	(39.9)	13.1	319.5	19.6
1986	15.0	(54.1)	16.4	25.2	(1.4)
Average annual growth rate		(33.1)		144.7	

Source: NCSO, Foreign Trade Statistics.  
IMF, Direction of Trade Statistics, 1981 to April 1987 issue.

TABLE 14. PHILIPPINE MERCHANDISE EXPORTS  
TO THE USSR, 1983-86

Category	86994	54402	32706	15414
Total	1983	1984	1985	1986
<b>Food</b>				
Centrifugal Sugar	47338	12176		
Crude Coconut Oil	36000	41661	31641	14198
Copra	2943			
<b>Textile</b>				
Abaca & Hemp ropes & twine		48		9
<b>Wearing Apparel</b>				
Cotton trousers & breeches for men & boys	243		1	
Cotton jackets & blazers for men & boys				
Man-made fibers jacket & blazers for men & boys				41
Other outer garments of cotton				5
Cotton coats and jackets for ladies & infants		153	324	
Man-made fibers				20
Synthetic fibers & other outer garments & clothing accessories				230
Cotton polo & sports shirts, knitted or crocheted				12
Synthetic fibers polo & sport shirts, knitted or crocheted				93
Brassieres		389	24	
Brassieres from imported materials on consignment		330		
Women's wear from imported materials on consignment				303
<b>Machinery</b>				
Industrial sewing machines				0.4
Printing machinery				3
<b>Others</b>				
Bunker oil for international deliveries	35			
Diesel oil for international deliveries	20	7	84	103
Greases and lubricants for international deliveries			3	
Personal & household effects of travelers	8	2	0.1	0.1
Samples	0.1	0.1		

Source: NCSO, Foreign Trade Statistics.

*What Products To Push . . .*

Given the historical experience between Moscow and Manila, the following products should be revived and promoted: sugar, coconut products, garments, leather goods, furniture and home decors, footwear, handicrafts, abaca hemp.

Among food items, fresh tropical fruits, fruit juices and concentrates, preserves, nuts, prawns and shrimps and other aquaculture products stand a good chance of making inroads.

As the Soviet Union reshapes her economy and develops her frontiers, construction activity will flourish. Our construction companies with appropriate government backing and highly skilled and cheap manpower must be able to compete with the others: US, South Korea, etc. Our experience in the Middle East should be a testimony of our expertise and capability.

Hopefully, as trade normalizes, tourism would be an added bonus. There should be no reason to surpass the recorded 1,400 Soviet visitors in 1984.<sup>4</sup>

The private sectors in the medium term should be able to identify products we should get from the Soviet Union. Exploratory trade missions as initially spearheaded by the government will have to be further expanded in order that comparative advantages can be pinpointed.

Modes of trade in the face of the rubles' unacceptability outside the Soviet Union, will probably gravitate towards countertrade. Here, some advantage in the form of foreign exchange conservation accrue to us. At the same time, a longer time effectivity of trade transactions could be advantageous for commodities with erratic price fluctuations. This advantage, of course, could go either way, but trade continuity, at least in the medium term, could be assured.

At any rate, our imports should shift from bourbon and vodkas to machinery and high-tech goods. At this point, we do not have a full view of the array of goods the Soviet Union is best in. In time we will know.

TABLE 15. PHILIPPINE MERCHANDISE IMPORTS  
FROM THE USSR 1982 - 86

PRODUCTS	1982	1983	1984	1985	1986
Total	11130	15811	3348	11363	14559
Beverage					
Whiskey (bourbon, vodkas)	32	59	16	103	41
Textile					
Cotton not carded or combed			25		
Footwear					
Rubber shoes	3				
Industrial Chemical					
Urea	9996	8121		1639	5154
Potassium Chloride	472	686	326		844
Other Chemicals					12
Selenium, Tellurium, Phosphorous, Boron Silicon & Arsenic				454	420
Anhydrous Ammonia				7108	2542
Other inorganic acids & oxygen Cyanides & complex cyanides		20	20		
Medicinal teas & sodium chloride as ampoules		43			
Other carboxylic acids with alcohol		2			
Petroleum Refineries					
Bunker fuel		6769			
Plastic					
Polyethylene in forms					
Polypropylene in primary forms	0.1		5	312	2815
Other non-metallic mineral products				399	134
other coals, pulverized or not					
Retort carbon			725	2979	2070
Iron and Steel					429
Other sheets & plates, rolled, over 4.75 mm in thickness other than of high carbon alloy steel					
Non-ferrous Metal					
Aluminum ingots & pigs	321				
Machinery					
Rubber processing & rubber pro- ducts mfg. machinery					63
Metal working machinery parts	4	4	4		4
Paper cutting machines & other machinery for making up paper pulp, paper or paperboard					
Printing machinery		48			
Shearing, punching or notching machines	11	9			
Ball bearings	185	49			
Roller bearings	70				
Transport Equipment Passenger Cars					7
Others					
Emery and Corundum wheels					21
Plants, seeds, flowers & parts of plants for pharmacy or for simi- lar uses					
Other commodities	2			1	
Gifts and donations for educational, scientific, relief & charitable pur- poses					

Source: NCSO, Foreign Trade Statistics.

*Trade With China*

“Judging by China’s experience, I advise you not to adopt socialism.”

The above advice of Deng Xiaoping to President Joaquin Chissano of Mozambique in May 1988<sup>5</sup> reflects the radical transformation of China’s economic approaches to development. Such turnaround from the pure lines of Maoist socialism to Deng’s basic pragmatism is not merely an exercise in intellectual gymnastics but is in fact carried through from the operational workings of the politburo to the day-to-day commercial transactions of the aborning entrepreneurs. Note the following policy changes:<sup>6</sup>

1. Land ownership is now legitimized albeit through a euphemistic land-use right. Businessmen can now bid openly in the free market for the right to use land for longer periods.
2. Small farm size lots are losing favor to large agricultural tracts for economies of scale.
3. Recognition of the private sector in the Constitution.
4. Passing of State-Owned Industrial Enterprise Law.

*Gongkai*, the Chinese version of *glasnost* had its debut during the 26 March 1988 National People’s Congress. The proceeding was not only open to the international press but delegates too, were open to each other.<sup>7</sup>

The reforms brought success to the economy. Economic growth had averaged 11.1% during the past five years and present wages had gone up by 8.6% a year in real terms. Urban dwellers had had 6.3% more to spend each year. Production and investments were up. Despite an officially reported inflation of 7.2% and a budget deficit of \$2.15B, the accomplishments are impressive.

As China awakens to the mechanism of capitalism, her inherent strength will be felt in the economic centers of the world. For a country like the Philippines, now is the time to enter the trade door which has been kept open to us in the first place. The momentum of President Aquino’s visit should be followed through while the goodwill is still warm. Past trade relations dating centuries back need resuscitation. The seed has long been sown. The harvest is overdue.

*A Look At Our Exports*

Table 16 shows Philippine major exports to China in 1987. Fertilizers, coconut oil and copper concentrates accounted for more than 80% of all products sold. Modest shipments of fresh bananas, sugar, gold from copper concentrates and fabricated materials contributed another 15%. All in all, shipments amounted to US \$87.9M.

Efforts must be made to push mangoes, fruit juices, nuts and abaca pulp among other products that we produce. So are abaca, tobacco and castor beans which have already gained foothold.

The emphasis placed on agricultural development should be an obvious cue for market opportunities for seeds, fertilizers, pesticides, and other agricultural inputs.

The growth areas of China will be the coastal cities where a new Hong Kong will surely evolve. Shishi, some 60 kilometers off Xianien and just across Taiwan is fast developing into a brisk capitalist center.<sup>8</sup> This so-called "gold coast" scheme, a forward development strategy of Vice Chairman Zhao Ziyang, must bear watching especially to our construction industry.

Table 17 shows major imports of the Philippines from China amounting to \$205.5M. More than half of our imports were energy related. Interestingly, some \$45M worth of soya products were sourced from China.

From almost nothing, China today is the world's largest producer and exporter of textile and garments.<sup>9</sup> In 1987, we imported textile materials amounting to US \$7.3M and another \$8.7M on consignment for garments manufacture. As China becomes more adept to the ways of capitalist factory system, garments, among other products, will pose a formidable challenge to all competitors. Our exporters must now prepare for this eventuality.

If one were to base trade prioritization with socialist countries on economic factors alone, then China and the Soviet Union stand out as the most attractive markets. Although national security must play an important part in the decision-making process, the need to expand our commercial horizon against a backdrop of serious domestic problems probably weigh more than other considerations. That is, there may not be another opportunity in the future as is being opened by these two giants now.

Their gradual turnaround from the restrictive mode of total state control on commerce to the capitalist scheme of free enterprise is just the right timing for any serious trade players to cast their ante. The Philippines in a position of geographical proximity, endowed with natural and human resource cannot afford to pass up such opportunity. To do so in the fact of a major race of the pilots and satellites of capitalism, to partake of such huge markets is not only impractical and unrealistic—it is terminal.

TABLE 16. RP'S MAJOR EXPORTS TO CHINA, 1987  
(FOB US\$)

<i>Item</i>	<i>Qty. (MT)</i>	<i>Value</i>	<i>% of Total</i>
Coconut oil, Crude	23649	9489.8	10.8
Bananas, Fresh	5228.7	1206.6	1.4
Sugar, Centrifugal	15900	2915.2	3.3
Tobacco	298.3	701.1	0.8
Copper concentrates	27607	10039.7	11.4
Gold from Copper Ores & concentrates	5.4	2309.9	2.6
Liquefied petroleum gas	800	136.3	0.2
Phtalic Anhydrides	281.7	161.3	0.2
Surface active prep.	738.2	615.6	0.7
Mineral or chemical fertilizers, phosphatic, nes	162.666	27591.7	31.4
Fertilizers, nes npk	88932.6	13865.2	15.8
Fertilizers, nes nk	69366.0	10557.9	12.0
Yarns, others	39.2	127.7	0.1
Fabricated materials, iron or steel	8696.4	7143.9	8.1
Aviation fuel	837149 ltrs	113.7	0.1

Source: RP Foreign Trade Statistics.

TABLE 17. RP'S MAJOR IMPORTS FROM CHINA, 1987  
(FOB US\$ 000)

<i>Items</i>	\$ (000)	% of <i>Total</i>
Oil Cake, residues of soya beans	44976.1	21.9%
Groundnuts, soya beans	2080.0	1.0%
Cottons, fibers	2764.6	1.3%
Salt, Magnesium Carbonates, Clay, etc.	1943.5	0.9%
Other Coal, lignite	3024.8	1.5%
Petroleum oils, Gas, Diesel, Mineral oil	107542.9	52.3%
Toluene, Sodium Benzoate, other chemicals	1677.3	0.8%
Selenium, Sodium Sulfate, etc.	4298.8	2.1%
Textile fabrics, cotton yarn, ramie, etc.	7287.3	3.5%
Pig iron sheets, plates, etc.	3533.3	1.7%
Ingots, slabs, refined lead, etc.	3964.4	1.9%
Fabrics on consignment	8701.5	4.2%
	<hr/> 205561.1	<hr/> 100%

Source: RP Foreign Trade Statistics.

## NOTES

<sup>1</sup> Val Abelgas, "Dateline: Moscow, Where the Philippines Fits In" *Manila Standard*, 15 Sept. 1988, p. 1, 13.

<sup>2</sup> Thomas Aquino, "Scenarios for Future RP-USSR Economic Relations," CRC 1988.

<sup>3</sup> *Ibid.*

<sup>4</sup> "In Business, Politics Count," *Asiaweek* 23 Sept. 1988, p. 60.

<sup>5</sup> "Red Sunset," *Asiaweek*, 1 July 1988, p. 6.

<sup>6</sup> *Far Eastern Economic Review*, 28 Sept. 1988, p. 75.

<sup>7</sup> "Li Peng Takes Center Stage," *Asiaweek*, 8 April 1988, pp. 12-13.

<sup>8</sup> "Poised for the Jump," *Asiaweek*, 1 July 1988, p. 19.

<sup>9</sup> Robert Delfs, "Growing Troublesome," *Far Eastern Economic Review*, 18 February 1988, p. 67.