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## **The Economic Position of the Chinese in the Philippines**

ELLEN H. PALANCA \*

It is a well-known fact that the Chinese in the Southeast Asian countries occupy an important position in the economies of these countries. The Chinese in the Philippines are no exception. In fact their supposed economic dominance has caused much jealousy and animosity among Filipinos, many of whom feel that the Chinese have a stranglehold on their economy. There are, however, some who feel that the Chinese in the Philippines have contributed significantly to economic growth and progress.

In this paper we wish to see the extent of Chinese economic activities in the country as compared to those of Filipinos. The economic position of the Chinese in the Philippines may not be as strong as that in some other Asian countries like Malaysia, Indonesia, Thailand, Singapore, and South Vietnam (before the Communists took over), but it is by no definition weak.

There are various ways of defining "Chinese in the Philippines." Legally, the Chinese in the Philippines are the alien Chinese, Chinese by citizenship. However, in general, when we talk of Chinese in the Philippines we refer to a larger group which includes all ethnic Chinese. McCarthy defines an ethnic Chinese as "someone with a measure of Chinese immigrant parentage who is sufficiently influenced by Chinese culture, can use a Chinese language, and observes Chinese customs enough to rightly call himself, and to be regarded by his neighbors as Chinese."<sup>1</sup> Therefore ethnic Chinese includes all alien Chinese, plus those Chinese who are naturalized Filipinos or even natural-born Filipinos (those born of Chinese parents who are naturalized Filipinos) who conform to the definition.

Whether they be alien Chinese or Chinese with Philippine

\*The author wishes to thank Jose Tongzon for his research assistance.

1. Charles J. McCarthy, "The Chinese in the Philippines," in *Philippine-Chinese Profile*, ed. Charles J. McCarthy, (Manila: Pagkakaisa Sa Pag-unlad, 1974), p. 1.

citizenship, the present-day Chinese represent a unique identity. They are well-integrated into Philippine life. They retain many aspects of their original culture but at the same time have adopted some aspects of Philippine culture. They use the Chinese language although it is adulterated with Filipino words. While most of them are not fully assimilated, some degree of deculturation has taken place.

No one knows for sure how many ethnic Chinese there are. The estimates in the Philippines range from 500,000 to 800,000 – i.e., from 1.3 to 2 percent of the Philippine population. The percentage is quite small compared with those of other Southeast Asian countries. Chinese make up 30 to 40 percent of the population in Malaysia, 70 to 80 percent in Singapore and around 10 percent in Thailand. The number of registered alien Chinese is around 100,000. The liberalization of the naturalization process by recent presidential decrees will decrease it tremendously. McCarthy estimated the probable decrease to be around sixty percent.<sup>2</sup> For the purposes of this paper, we use the more realistic distinction and define the Philippine-Chinese to be all ethnic Chinese.

Unfortunately, the economic data pertaining to all culturally Chinese are hard to get. The income and investment figures classified under Chinese nationality correspond to income and investment of the alien Chinese. The figures pertaining to Chinese with Filipino citizenship are indiscriminately lumped together with those pertaining to ethnic and other Filipinos.

The economic power of the Chinese did not grow overnight. Looking back in history we see that the Chinese had been trading with the Philippines even before the Spaniards came. Many of the Chinese traders settled and others also came to supply their services and skills. Over the centuries, the vicissitudes of their circumstances here caused their numbers to fluctuate, but in general, it increased till the beginning of the twentieth century.

These traders and sellers of services worked hard, saved, accumulated, and invested. Many of them established businesses along their line – the blacksmiths and locksmiths went into the hardware business, weavers went into dry goods business, carpenters went into lumber business, etc. They saved and invested some more. When industrialization was on the upswing in the early 1950's,

2. Charles J. McCarthy, "The Chinese in the Philippines, Today and Tomorrow," *Fookien Times Yearbook*, 1975, p. 349.

coupled with the Retail Trade Nationalization Law of 1954, many went into manufacturing; again, most of them along their business line. So it is not unusual to find that the ancestors of the owners of Universal Textile Mills or Eastern Textile Mills, two big Chinese-owned textile mills, started in the textile trade; or that the great-grandfather of the present owners of the Yutivo Hardware Corporation started as a blacksmith in the 1860's. Looking at the wealth that the Chinese through the generations have amassed, in many cases what we see are lessons on thrift, industriousness, and business acumen or entrepreneurship.

### INCOME AND INCOME DISTRIBUTION

Most Chinese belong to the upper-middle income bracket. One indication is the data in table 1, taken from a study of college students from two schools in Cebu City made in 1968.<sup>3</sup> Though

**Table 1. Economic Status of Filipinos and Chinese**

Economic Class	Filipinos (N = 149)	Chinese (N = 46)
Lowest	0.0%	0.0%
Low	32.2	6.5
Middle	43.6	34.8
Upper	22.6	55.2
Highest	1.3	6.3

only a limited sample, of course, other indicators confirm this picture.

The only personal income figures classified by nationality available are those reported by individuals to the government for taxpaying purposes, which are shown in table 2. We know that these data are not accurate. Under-reporting of income for tax purposes is a fact. But we are interested only in the relative difference in income between the Filipinos and the Chinese and the percentage share of each group to the total. For this purpose, if we assume

3. Robert Tilman, "The Chinese in the Philippines: Between Scylla and Charybdis," *Solidarity* 5(November 1970): 38-46. Economic status was determined by asking questions about lifestyles.

**Table 2. Individual Income and Tax Due, 1973**

	No. of Returns	%	Gross Income (in ₱1000)	%	Ave. Gross Income	Tax Due (in ₱1000)	%
A. Taxable Individuals							
Filipinos	769,207	95.39	₱10,738,334	90.85	₱13,960	₱398,358	75.57
Chinese	31,684	3.92	798,047	6.75	25,188	55,190	10.47
Americans	2,149	0.27	136,401	1.15	63,472	38,098	7.23
Others	3,328	0.41	147,196	1.25	44,230	35,457	6.73
Total	806,368	100.00	11,819,978	100.00	14,658	527,103	100.00
	No. of Returns	%	Gross Income (in ₱1000)	%	Ave. Gross Income		
B. Exempted Individuals							
Filipinos	3,531,202	99.15	₱9,065,072	98.75	₱2,567		
Chinese	12,179	0.34	61,018	0.67	5,010		
Americans	1,758	0.05	15,911	0.17	9,051		
Others	16,173	0.45	37,585	0.41	2,324		
Total	3,561,312	100.00	9,179,586	100.00	2,578		

SOURCE: Bureau of Internal Revenue, Philippines.

that the extent of under-reporting is the same for all individuals, then the relative difference will be the same as when true figures are used. Actually, the greater problem in using these figures is that the income and tax figures classified under "Chinese" pertain only to alien Chinese.

The number of registered alien Chinese was 98,306 in 1972, with 70 to 80 percent in the urban regions, and only around 25 percent in the rural regions. The breakdown by residence is given in Table 3 (which also shows the percentage of other aliens to total registered aliens).

**Table 3. Registered Aliens by Nationality and Residence, 1972**

	Number	Percentage
Chinese	98,306	86.8
Manila	35,499	
Provinces	25,977	
Cities	20,325	
Ports & subports	16,505	
Americans	9,377	8.3
Other aliens	5,560	4.9
Total Registered Aliens	113,243	100.0

SOURCE: *Journal of Philippine Statistics* 25, 4(1974): 17.

The registered Chinese aliens represent one-fourth of one percent of the entire population. However from Table 2 we see that the number of alien Chinese filers of individual income tax returns make up one percent of the total. Also, average gross income is four-fold higher than the average Filipino's. Of course this comparison is only for those who receive cash income and file an income tax return. The locational distribution explains to some extent the large average income differential between the Chinese and the Filipinos. Most of the Chinese are concentrated in the urban regions, particularly in Metropolitan Manila. Urban-rural difference in income is substantial. In the urban regions, the standard of living is higher. Moreover, most business firms are formally organized and registered. Hence incomes paid to employees are recorded. In the rural areas, not only are businesses less

organized but also the degree of monetization is lower; in some areas, barter is still the dominant system. Income in this imputed sense is most likely unreported.

Let us include the Chinese-Filipinos in our analysis. The alien Chinese are in general economically poorer than the Chinese who are naturalized Filipinos. Prior to the liberalization of the naturalization process in 1975, most of them were not Filipino citizens, not because they wanted to retain loyalty to the Chinese government but because they could not afford the high cost of the naturalization process. Moreover, because they were not Filipino citizens, they had to face the anti-Chinese legislation which to a great extent restricted their economic activities. Therefore, although there are no figures to prove it, we can safely say that the average income of Chinese who are naturalized Filipinos is higher than that of the alien Chinese.

To be conservative then, we assume average income of the alien Chinese as that of all ethnic Chinese. We have seen that although the number of registered Chinese aliens is close to 100,000 in number, they, paying 10.5 percent of total individual income tax, represent 1 percent of total individual income taxpayers, and their total gross income is 4 percent of total reported income. Using these figures, by proportion, an estimate of 500,000 to 800,000 ethnic Chinese will mean that the total of Chinese taxpayers make up 5 to 8 percent of all income taxpayers. Moreover, they as a group earn 20 to 30 percent of reported total gross income and pay 50 to 80 percent of total individual income tax.

Compared to figures for the Americans, the disproportionality of population to tax paid or income earned is not as serious. There are less than 10,000 alien Americans (.02 percent of the population) and they make 0.7 percent of total gross income and pay 7 percent of individual income tax.

*Business Day* published a list of the country's 1000 top individual taxpayers for 1973 income. We can approximately identify the ethnic Chinese in the list on the basis of their names and our knowledge (many of them are prominent in both the Filipino and Chinese communities).<sup>4</sup> On this basis it is found that 227 out of

4. Of the 227 names identified as Chinese, 141 (62 percent) of them are Chinese either from the author's knowledge or from their non-Christian two-word first names (aside from the Chinese surnames). The other 38 percent are identified as Chinese merely by their Chinese surnames. It is of course recognized that due to intermarriages between Chinese and Filipinos for several generations, many Filipinos have Chinese surnames. On the other hand, however, some Chinese have also adopted Filipino or Spanish

the one thousand are Chinese and the tax paid by them is about 15 percent of what is paid by the 1000 top taxpayers. This ratio is smaller than the estimated ratio of tax paid by all Chinese to total national tax from individual income. This perhaps can shed some light on the difference in the income distribution of the Chinese from that of the rest. Few Chinese take the very top positions in the listing. The distribution of the income of the Chinese in the list is positively skewed. In fact, in the first hundred, there are only 16 Chinese but there are 32 of them in the last hundred. The rest of the Chinese (not in the list) have incomes very much higher than the average — their income distribution being negatively skewed. If we should combine the two distributions we expectedly see a very large concentration in the upper middle group. This is what gives some Filipinos the impression that the Philippine Chinese are “uniformly rich.”

### INVESTMENT

As has been mentioned, the exact economic position of the ethnic Chinese is impossible to determine, since statistics refer only to alien Chinese. We cannot infer from investment statistics of alien Chinese the investment pattern of all ethnic Chinese. The economic activities of alien Chinese are more restricted; therefore they participate only in areas that are allowed them. Nevertheless some interesting findings can be seen from the data. Tables 4 and 5 give us the corporate investment of alien Chinese and how it compares with Filipino and American investments.

How the Chinese firms are distributed among the eight economic sectors both in number and in capital value is shown by the column percentages in table 5. For example, 0.7 percent of these firms are engaged in agriculture, 41.2 percent in commerce, etc.; while 1.9 percent of the total capital of these corporations is invested in agriculture, 51.9 percent in commerce, etc.

On the other hand, the row percentages show the share of these Chinese corporations in each sector relative to the total registered corporations. For example, as regards number, 1.9 percent of the registered agricultural firms and 51.9 percent of all commercial

surnames when they were naturalized. At this point it is impossible to be precise in identification but there is a good probability that these two groups may offset each other in number and also in their relative positions in the listing.



Table 4. Registered Corporations of the Philippines from 1946 to 1966

Nature of Business	Total		Filipinos		Chinese		American		Others	
	No. of Firms	Capital (in ₱1000)	No. of Firms	Capital (in ₱1000)	No. of Firms	Capital (in ₱1000)	No. of Firms	Capital (in ₱1000)	No. of Firms	Capital (in ₱1000)
Agriculture	2,129	₱ 96,905	2,078	₱ 90,079	6	₱ 1,511	41	₱ 5,073	4	₱ 240
Commerce	9,677	659,469	8,957	572,987	361	40,897	277	24,521	82	11,032
Construction	617	37,361	597	35,325	4	534	15	1,392	1	220
Electricity	182	6,555	175	6,490	2	60	—	5	—	—
Manufacturing	3,657	339,301	3,004	260,250	411	31,769	181	29,279	61	8,617
Mining	673	32,474	611	19,981	26	703	35	11,564	1	227
Services	2,821	82,881	2,657	75,003	62	2,698	86	5,336	16	259
Transportation	1,330	61,729	1,288	56,495	4	632	35	1,386	3	106
Total	21,086	₱1,316,675	19,367	₱1,116,610	876	₱78,804	670	₱78,556	168	₱20,701

SOURCE: Securities and Exchange Commission, Philippines.

**Table 5.** Percentage Distribution of Chinese Corporations

Nature of Business	No. of Firms		Capital	
	Column %	Row %	Column %	Row %
Agriculture	0.7	0.3	1.9	1.6
Commerce	41.2	3.7	51.9	6.2
Construction	0.5	0.6	0.7	1.4
Electric	0.2	1.1	0.1	0.9
Manufacturing	46.9	11.2	40.3	9.4
Mining	3.0	3.9	0.9	2.2
Services	7.1	2.2	0.3	3.2
Transportation	0.5	0.3	0.8	1.0

SOURCE: Table 4.

firms are Chinese. With respect to the capital value, 1.6 percent and 6.2 percent of the capital invested in agriculture and commercial firms respectively are from the Chinese, etc.

We see that the alien Chinese have the largest number of firms in manufacturing but the biggest share of their capital is invested in the commercial sector. Although alien Chinese have been banned from retail trade since 1954, many directed their investments to wholesale trade or import and export trade. The Chinese are known to have their own commercial network in many goods for which they act as middlemen, and the Filipinos find it hard to compete with them. In general, wholesale and importing establishments involve bigger capital than retail firms.

There are very few registered corporations in agriculture, mining, construction, electricity, and transportation. The reason is that participation in these sectors is not allowed by law. The few corporations existing in these sectors probably got their permits in the 1940s when there were not yet too many restrictions on alien economic activities.

We can conclude from the row percentages for capital and number of Chinese firms that, in general, Chinese firms are comparatively larger in scale than the average firms in the respective sector, for sectors in which the row percentage for capital is bigger than its row percentage for number. This is true for agriculture,

commerce, construction, services, and transportation; Firms engaged in manufacturing, mining, and electricity are of smaller-than-average scale.

Because of the statistical difficulty involved in studying fully the economic position of the Chinese who have Filipino citizenship, we will simply make use of the data of 1968 arrived at by Kunio Yoshihara in his study of Philippine manufacturing corporations.<sup>5</sup>

Yoshihara went through the painstaking process of breaking down firms classified as owned or controlled by Filipinos into those controlled by Chinese Filipinos (Filipinos with Chinese ancestry) and those controlled by pure Filipinos and naturalized Filipinos not of Chinese ancestry. This was done by looking into the list of directors of each corporation and interviewing them.

What one can infer about the Chinese economic position from these data is very limited. For one thing, the data pertain only to manufacturing. Surely the Chinese have played an active role in the industrialization of the Philippines. However, since Chinese with Philippine citizenship have more economic freedom than alien Chinese, we expect that they play active roles not only in trade and commerce but perhaps also in the other sectors.

Another limitation in inferring Chinese economic position from these figures is that the study is only on the top 254 manufacturing corporations, the cut-off being sales of five million pesos in 1968. We know that, just as in the case of individuals and their income, the firms with the biggest investments in the country are not owned by Chinese. Most of the very large-scale manufacturing firms are owned by other foreigners like the Americans and Spaniards or by some rich Filipinos, while Chinese manufacturing firms are mostly medium and small in scale.

From table 6 we see that one-fourth of these top manufacturing corporations are Chinese-controlled. (This does not include those controlled by alien Chinese, if there are any.) The figures are, however, deficient in that they do not show the corresponding sales or asset values of the firms.

Looking at the proportion of the number of Chinese firms to the total for each industry, we see that the Chinese have an upper hand in the manufacture of tobacco, taking a share of 58 percent

5. Kunio Yoshihara, "A Study of Philippine Manufacturing Corporations," *The Developing Economies* 9 (September 1971): 268-89.

**Table 6.** Distribution of Corporations by Type of Ownership and Industry

Industry	Total		Foreign				Domestic			
			Subsidiary		Non-Subsidiary		Filipino		Chinese-Filipino	
	No.	%	No.	%	No.	%	No.	%	No.	%
A. Food, beverages & tobacco	80	100	16	20	11	14	32	40	21	26
1. Dairy products	4	100	3	75					1	25
2. Sugar	20	100			5	25	15	75		
3. Flour	6	100					4	67	2	33
4. Other foods	18	100	7	39			3	17	8	44
5. Beverages	4	100	3	75					1	25
6. Liquor	6	101			1	17	4	67	1	17
7. Tobacco	12	99	1	8	3	25	1	8	7	58
8. Copra	10	100	2	20	2	20	5	50	1	10
B. Textiles	34	100	2	6	3	9	16	47	13	38
1. Textiles [Non-industrial]	31	100	1	3	3	10	14	45	13	42
2. Industrial textiles	3	100	1	33			2	67		
C. Chemical	50	100	28	56	2	4	14	28	6	12
1. Petroleum	4	100	4	100						
2. Paint	6	100	1	17	2	33	2	33	1	17
3. Fertilizer	3	100					3	100		
4. Drugs	14	100	12	86			1	7	1	7
5. Soap & cosmetics	5	100	3	60					2	40
6. Batteries	3	100	1	33			2	67		
7. Matches	2	100	1	50			1	50		
8. Others	13	99	6	46			5	38	2	15

(Table 6 continued)

Industry	Total		Foreign				Domestic			
	No.	%	Subsidiary		Non-Subsidiary		Filipino		Chinese-Filipino	
			No.	%	No.	%	No.	%	No.	%
D. Metal fabrication	25	100	5	20	2	8	7	28	11	44
E. Household appliances	11	100	3	27	2	18	5	45	1	9
F. Machinery & equipment	17	100	6	35	1	6	7	41	3	18
1. General machinery & equipment	7	100	3	43	1	14	3	43		
2. Transport	10	100	3	30			4	40	3	30
G. Others	37	100	5	14	2	5	19	51	11	30
1. Paper & paper products	11	99	2	18			4	36	5	45
2. Rubber	7	100	3	43					4	57
3. Glass	3	99			1	33	1	33	1	33
4. Cement	9	100					9	100		
5. Construction materials (not classified elsewhere)	4	100			1	25	2	50	1	25
6. Animal feed	2	100					2	100		
7. Others	1	100					1	100		
Total	254	100	65	26	23	9	100	39	66	26

SOURCE: Kunio Yoshihara, "Philippine Manufacturing Corporation," p. 274.

of the total number of firms in this industry; in paper and paper products, 45 percent; in metal fabrication, 44 percent; in textiles, 42 percent; in soap and cosmetics, 40 percent; in glass, 33 percent; in transport machinery and equipment, 30 percent; and about 25 percent in the manufacture of construction materials and food and beverage products. Except for machinery and equipment, it is in light industries that Chinese are mostly engaged. In fact the pattern for the whole economy is the same — industries are light and most of them cater to final consumption.

While these Chinese-controlled domestic corporations reveal the extent of the participation of Chinese in the Philippine manufacturing sector, they should not be looked at as foreign investments like the investments of multinational corporations. Because of the political situation in their home country, the alien Chinese, not to mention those naturalized, are more permanently settled in the Philippines than any group of foreigners. They tend to reinvest the profits they earn in the Philippines or to hoard them in local banks if there are no better alternatives. This does not exclude the possibility of capital flight to Hong Kong and Taiwan when their economic freedom is very much restrained. In fact Hong Kong witnessed a very rapid increase in capital from overseas Chinese in 1955 due to the Philippine Retail Trade Nationalization Law. Also some Chinese send money to help out their relatives in mainland China regularly. But by and large, income received by Chinese is spent here and profits are invested here. The effect on domestic demand and employment is therefore different from that of other foreign investments, which are subsidiaries of mother companies abroad and the profits mostly repatriated. Even the investment of alien Chinese is less foreign in this sense.

## CONCLUDING REMARKS

From the above discussion we see that the Philippine Chinese play an important role in the Philippine economy and have quite a strong hold in the manufacturing and commerce sectors.

It is impossible to assess what the Philippine economy would be like if the Chinese had never come. From the economic point of view, their contributions are many: they have generated the much needed capital for industrialization and development, they have created many employment opportunities to absorb the surplus

labor from agriculture, they have filled in the entrepreneurial gap with their business interest and risk-taking capacity.

However, some fear that the economic position of the Chinese poses a threat to Filipinos, economically or politically. This fear is based on the conception that the economic power of the Chinese represents the power the Chinese community wields in the country. History has shown that this is not so. Even with stronger cohesion among the Chinese in the past, the Chinese community was not able to exercise enough power to prevent the passage of nationalization laws.<sup>6</sup> The Chinese have very little political power, and while their economic status is high, they do not enjoy a proportionally high social status in Philippine society. Furthermore, aside from being small in number, the Chinese community is gradually moving away from being an organized group. Political dissension among the Philippine Chinese themselves exists because of the two-China situation. Conflicts have become more open and grown more serious since the recognition of the People's Republic of China by the Philippine government. Actually, most Chinese businessmen now look to the Philippine government for "leadership."

Some Filipinos feel that the economic power gained by the Chinese has been through illegal and corrupt practices like bribery, hoarding, and tax evasion. However, these charges are true not only among Chinese businessmen but are equally true among Filipino businessmen and other aliens.<sup>7</sup>

What is the future of the Philippine Chinese?

Economic policies since the declaration of martial law (1972) encourage both foreign and domestic investments, and also promote manufacturing for export. The Chinese have benefited from the tax and credit incentives given by the government to such manufactures.

The family firms are still the most numerous. Many, however, are departing from the traditional pattern of economic life. The most educated and Western-oriented are adopting modern organizational and technical set-ups in their firms. And aside from following the traditional pattern of engaging only in business, many

6. James R. Blaker, "The Chinese in the Philippines: A Study of Power and Change" (Ph.D. dissertation, Ohio State University, 1970), p. 268.

7. George H. Weightman, "The Philippine Chinese: A Cultural History of a Marginal Trading Community" (Ph.D. dissertation, Cornell University, 1960).

have also found success and prominence by engaging in other professions. More and more are joining the professional ranks of doctors, engineers, accountants, and skilled managers. Alien Chinese, however, are not allowed to practice certain professions like engineering, architecture, and law.

The recent liberalization of the naturalization process will certainly make a difference in the Chinese participation in business and the professions in the next generation. This step taken by President Marcos will give the Chinese more security and permanence. Hopefully this will facilitate assimilation and make all Chinese in the Philippines an integral part of the Philippine community and economy. Only then can their capital be viewed as really indigenous, and it will become meaningless to separate Chinese Filipinos from Filipino Filipinos.