

De La Salle University  
The Angelo King Institute

# International Trade & Investment in the Philippines: Some Policy Issues & Research Implications

Prof. Angelo B. Taningco  
School of Economics, De La Salle University  
June 29, 2012

# Recent Efforts to Promote Freer Trade & Investment

- Signed the ASEAN Economic Community (AEC) Blueprint in 2007, agreeing to transform ASEAN into an AEC—a region “with a single market and production base” and “with free movement of goods, services, investment, skilled labour, free flow of capital”—by 2015.
- Entered into 7 free trade agreements (FTAs) with 15 countries as preferential trading partners.
- Simplified the tariff structure, which now has 8,299 lines at the Harmonized System (HS) 8-digit level, from 10,688 lines in 2004.
- Created a National Single Window—which is under the ASEAN Single Window—in 2005, in order to improve trade facilitation.
- Drafted the *Philippine Development Plan 2011-2016*, which provides strategies to improve the productivity and efficiency of agriculture, industrial and services sectors, as well as to narrow infrastructure gaps.

# World Growth Decelerating...

## Real GDP Growth Rate (%)

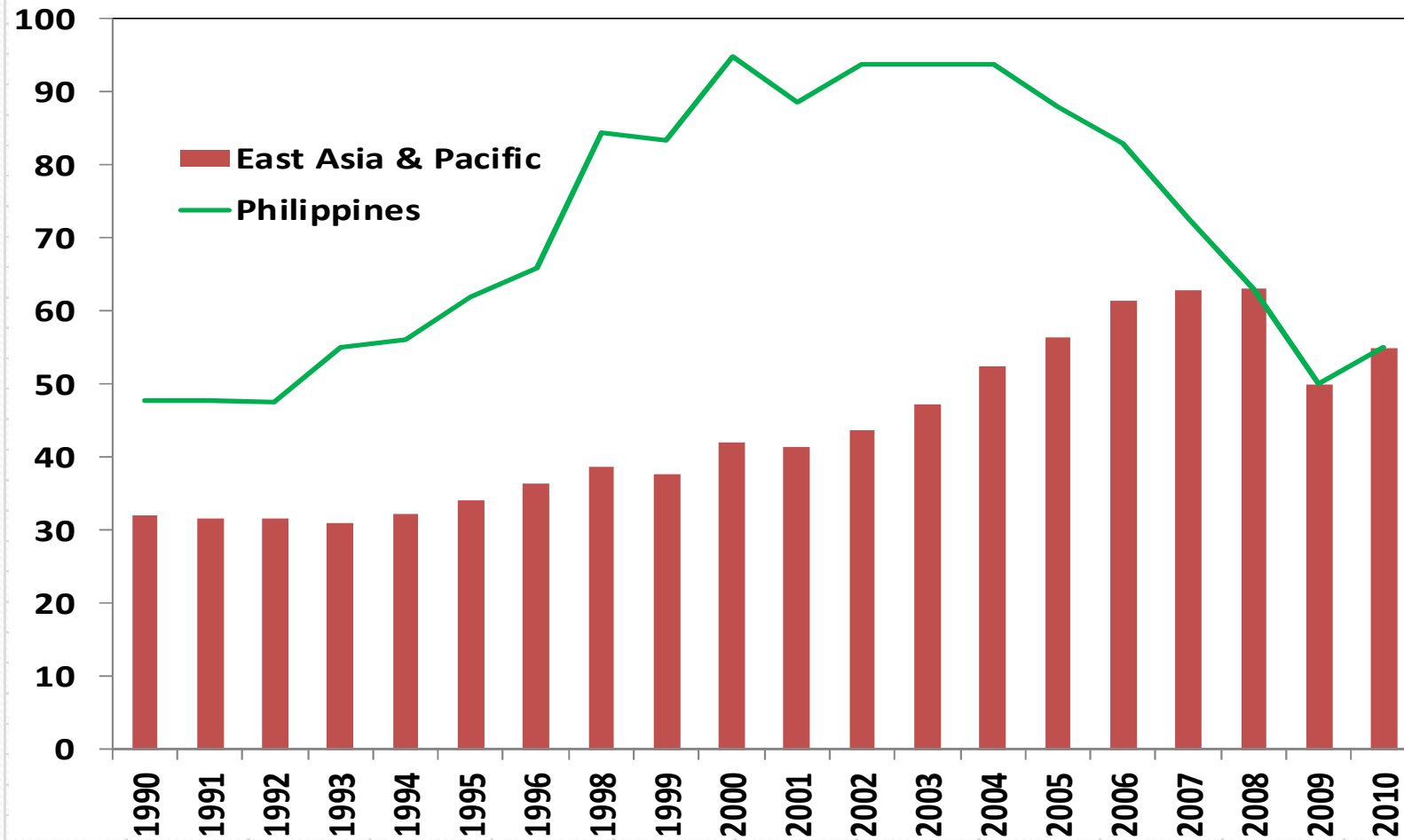
	2008	2009	2010	2011	2012f
<b>Advanced Economies</b>	0.0	-3.6	3.2	1.6	1.4
US	-0.3	-3.5	3.0	1.7	2.1
Euro Area	0.4	-4.3	1.9	1.4	-0.3
Japan	-1.0	-5.5	4.4	-0.7	2.0
<b>Emerging &amp; Developing Economies</b>	6.0	2.8	7.5	6.2	5.7
Developing Asia	7.8	7.1	9.7	7.8	7.3
<i>Philippines</i>	4.2	1.1	7.6	3.7	4.2
<b>World</b>	<b>2.8</b>	<b>-0.6</b>	<b>5.3</b>	<b>3.9</b>	<b>3.5</b>

f = forecast.

Source: International Monetary Fund's World Economic Outlook (April 2012)

# Trend in Philippine Merchandise Trade

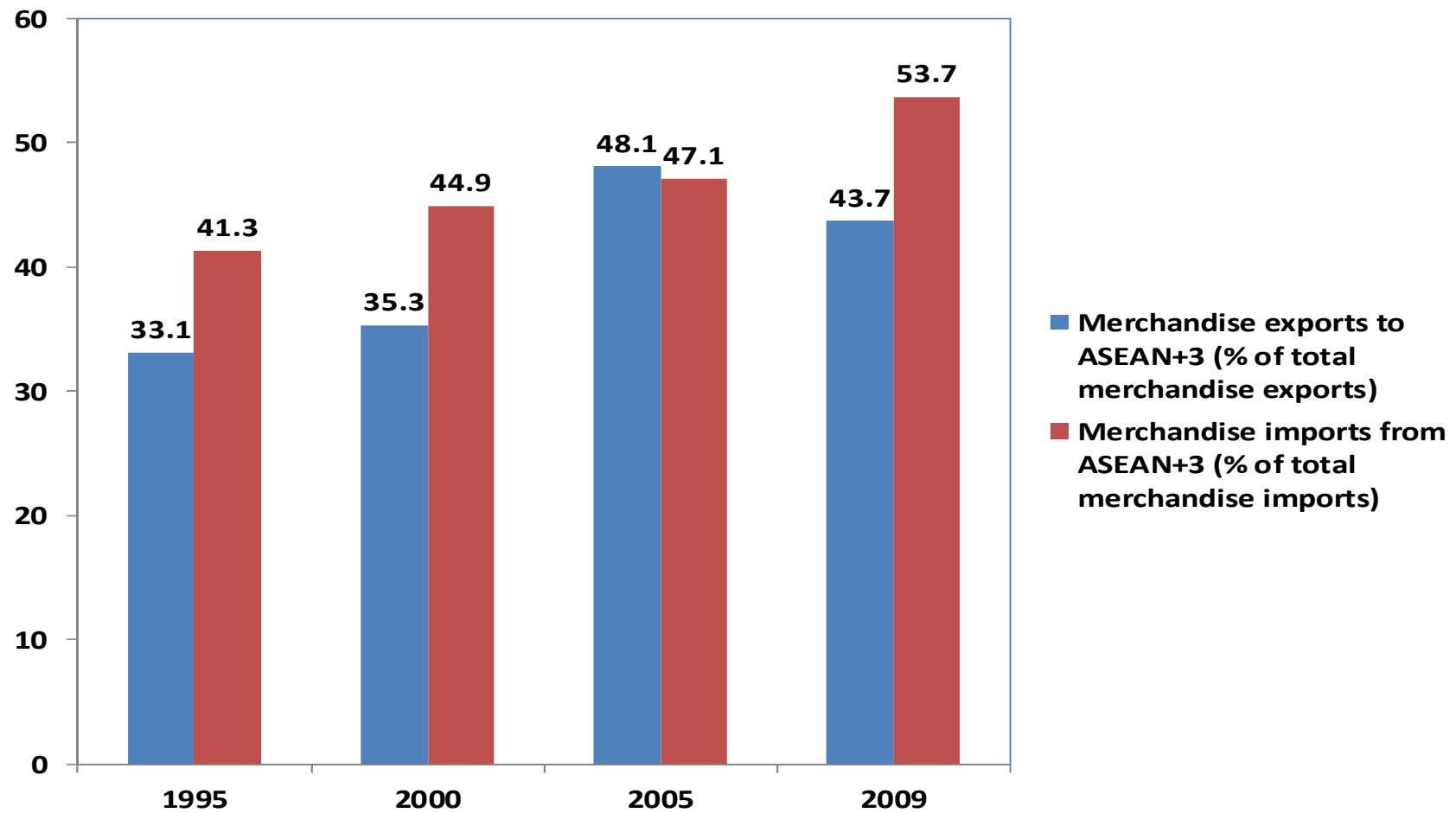
Merchandise Trade (% of GDP)



Note: Merchandise trade is the sum of merchandise exports and merchandise imports.

Source: The World Bank's World Development Indicators.

# Philippine Intra-Regional Trade



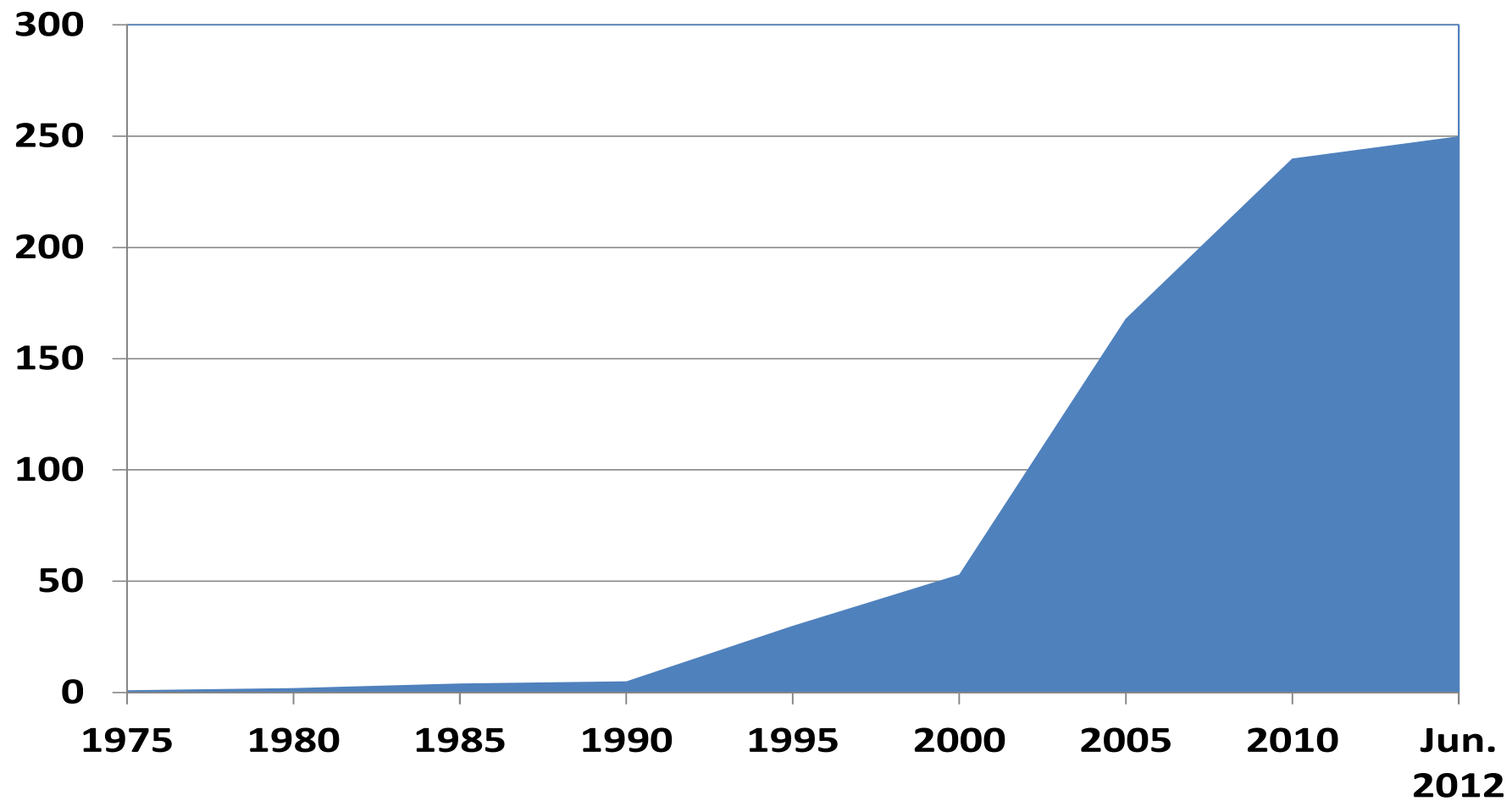
Source: UNESCAP.



# Policy Issues

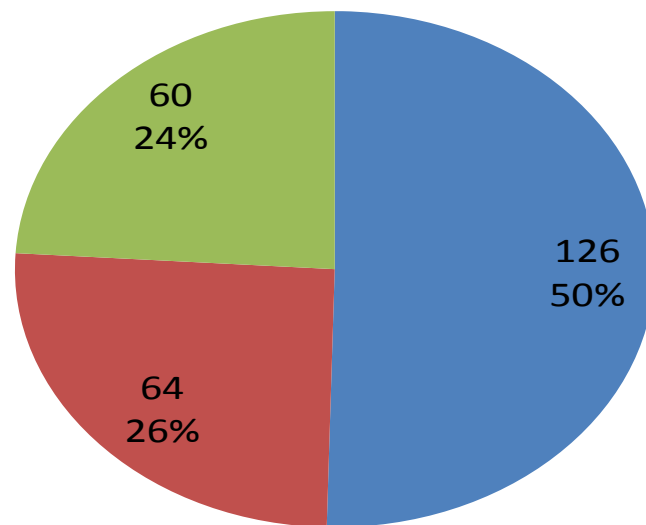
- Preferential and Multilateral Trade liberalization
- Trade Facilitation
- Foreign Direct Investment (FDIs)

# Number of FTAs in the World

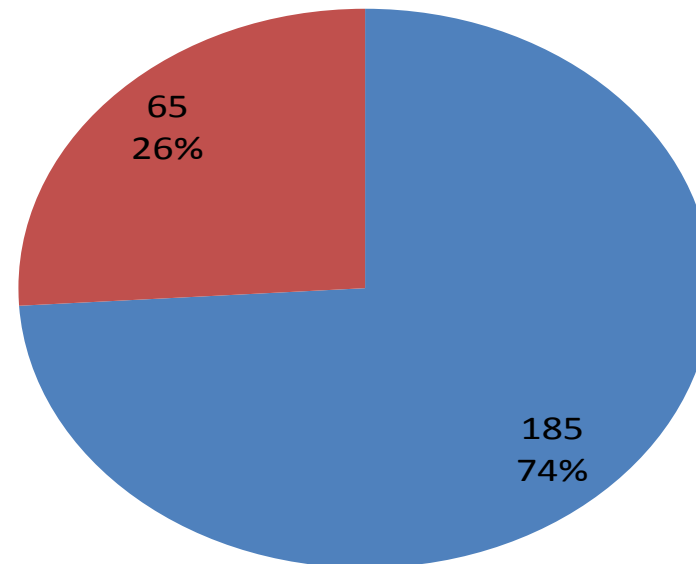


Source of basic data: ADB's Asia Recovery Information Center ([www.aric.adb.org](http://www.aric.adb.org))

# FTAs by Status & Scope (Jun. 2012)



■ Concluded  
■ Under negotiation  
■ Proposed

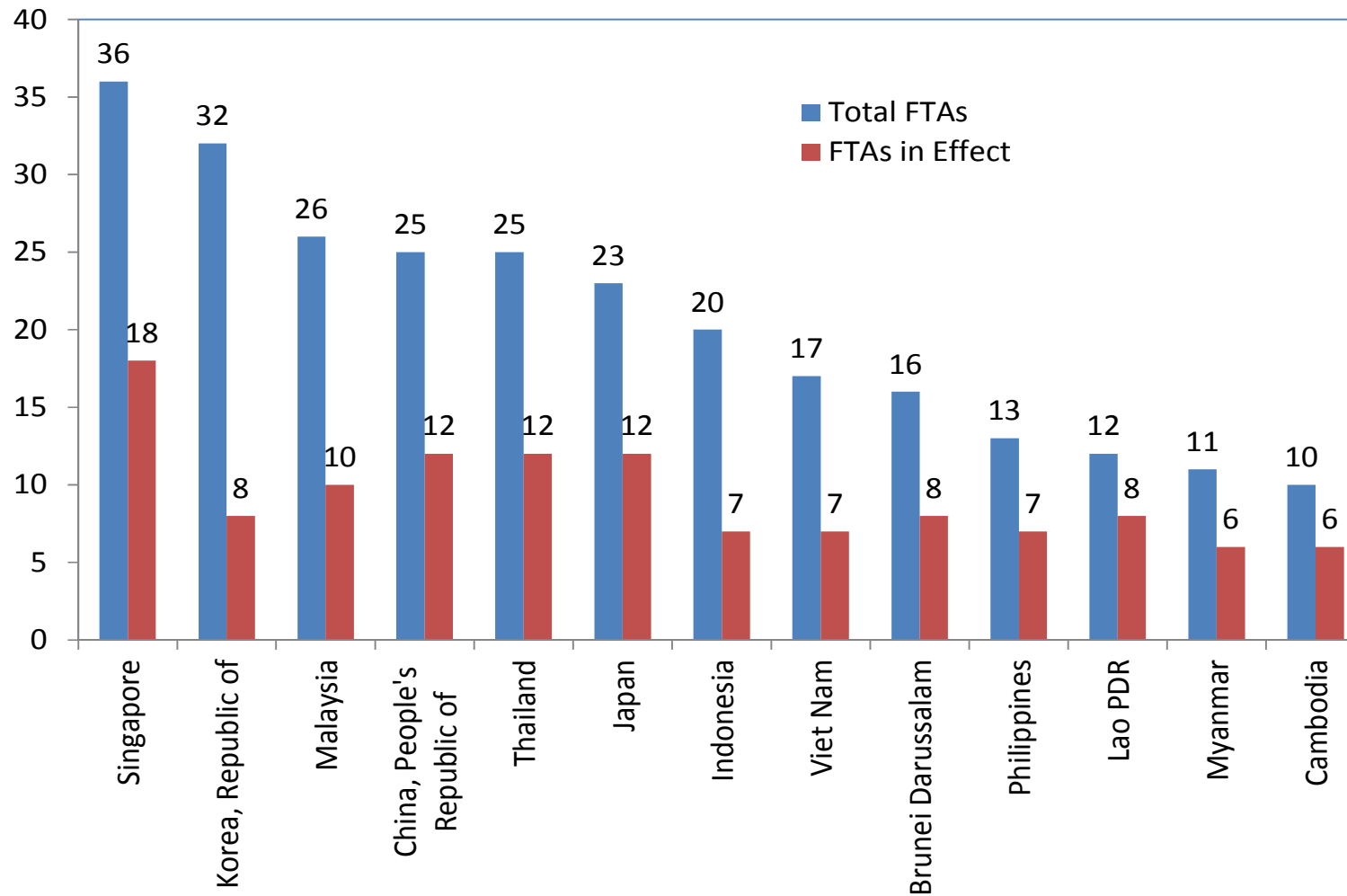


■ Bilateral  
■ Plurilateral

Source of basic data: ADB's Asia Recovery Information Center ([www.aric.adb.org](http://www.aric.adb.org))



# FTAs in ASEAN+3 Region, Jun. 2012



Source of basic data: ADB's Asia Recovery Information Center ([www.aric.adb.org](http://www.aric.adb.org))

# Philippine FTAs in Effect

- ASEAN FTA (AFTA)
- ASEAN-Australia and New Zealand FTA
- ASEAN-People's Republic of China (PRC) Comprehensive Economic Partnership
- ASEAN-India Comprehensive Economic Partnership
- ASEAN-Korea Comprehensive Economic Partnership
- Japan-Philippines Economic Partnership Agreement (JPEPA)

# Proposed FTAs for Philippines

- ASEAN-European Union FTA
- ASEAN-Pakistan FTA
- East Asia FTA (EAFTA)
- Comprehensive Economic Partnership for East Asia (CEPEA)
- Pakistan-Philippines FTA
- United States (US)-Philippines FTA





# Multilateral Trade Liberalization

- The simple average Most-Favored-Nation (MFN) tariff rate for the Philippines fell from above 20% in the early 1990s to 9.7% in 1999 and down further to 6.4% in 2011.
- Philippine government ratified the GATS Protocols in basic telecommunication in 2006 and in financial services in 2011.
- Rice import quota to be phased out by 30 June 2012.

# Empirical Evidence on FTAs

- Various studies covering different countries or regions offer mixed results:
  - FTAs are trade-augmenting and welfare-enhancing;
  - Multilateral trade liberalization is a better alternative than FTAs as the latter leads to trade diversion, terms-of-trade deterioration, lower labor demand, and lower production, among other negative effects.
- Limited evidence on the Philippines!



**Corong, E., R. Reyes, and A. Tangingco. 2010. "Poverty Impacts of Preferential and Multilateral Trade Liberalization on the Philippines: A Computable General Equilibrium Approach" *MPIA Working Paper 2010-06, Poverty & Economic Policy Research Network*. March.**

- This study utilizes a Philippine computable general equilibrium (CGE) model and show that reductions in both AFTA's Common Effective Preferential Tariff (CEPT) and MFN tariff rates, coupled with direct taxes to offset tariff revenue losses, would result in:
  - Higher export and import volumes;
  - Higher national output;
  - Higher wage rate;
  - Lower consumer prices; and
  - Lower poverty levels.

# Non-Tariff Measures (NTMs)/Non-Tariff Barriers (NTBs) a Major Challenge for ASEAN

- Para-Tariff Measures
- Price Control Measures
- Finance Measures
- Monopolistic Measures
- Technical Measures



# What is Trade Facilitation?

- ADB and UN ESCAP define trade facilitation as:
  - “...systematic rationalization of customs procedures and documents” (Narrow definition); and
  - “...all measures that affect the movement of goods between buyers and sellers.” (Broad definition)
- Some benefits of better trade facilitation:
  - More foreign direct investment (FDIs).
  - Better international competitiveness position.
  - Greater participation by small and medium-sized enterprises (SMEs) in international trade.

# Trade Facilitation Measures in East Asia, 2011

	No. of export-related documents	No. of days to export	Export cost (US\$ per container)	No. of import-related documents	No. of days to import	Import cost (US\$ per container)
Brunei Darussalam	6	19	680	6	15	745
Cambodia	9	22	732	10	26	872
China, People's Rep. of	8	21	500	5	24	545
Hong Kong, China	4	5	575	4	5	565
Indonesia	4	17	644	7	27	660
Japan	3	10	880	5	11	970
Korea, Rep. of	3	7	680	3	7	695
Lao PDR	9	44	1,880	10	46	2,035
Malaysia	6	17	450	7	14	435
Philippines	7	15	630	8	14	730
Singapore	4	5	456	4	4	439
Taipei, China	6	12	655	6	12	720
Thailand	5	14	625	5	13	750
Viet Nam	6	22	580	8	21	670
<b>East Asia</b>	<b>6</b>	<b>16</b>	<b>712</b>	<b>6</b>	<b>17</b>	<b>774</b>

Note: Data for Myanmar is not available.

Source: The World Bank's Doing Business Database ([www.doingbusiness.org](http://www.doingbusiness.org))

# Country Rank of Quality of Overall Infrastructure & Transport Infrastructure in East Asia, 2011

	Quality of Overall Infrastructure	Quality of Roads	Quality of Railroad Infrastructure	Quality of Port Infrastructure	Quality of Air Transport Infrastructure
Brunei Darussalam	56	33	85	60	62
Cambodia	107	66	96	76	84
China, People's Rep. of	44	54	21	56	72
Hong Kong, China	1	9	3	3	2
Indonesia	76	83	52	103	80
Japan	15	16	2	33	50
Korea, Rep. of	9	17	8	25	28
Malaysia	26	18	18	15	20
Philippines	105	100	101	123	115
Singapore	3	2	7	1	1
Taipei,China	20	25	12	35	51
Thailand	42	37	63	47	32
Viet Nam	90	123	71	111	95

Note: Data for Lao PDR and Myanmar are not available.

Source: World Economic Forum's Global Competitiveness Report 2011-2012



# Country Rank of Quality of Utility Infrastructure in East Asia, 2011

	<b>Quality of Electricity Supply</b>	<b>No. of Active Fixed Telephone Lines (per 100 population)</b>	<b>Mobile Cellular Telephone Subscriptions (per 100 population)</b>
Brunei Darussalam	53	65	56
Cambodia	103	117	120
China, People's Rep. of	49	55	113
Hong Kong, China	7	3	1
Indonesia	98	79	82
Japan	17	36	77
Korea, Rep. of	23	5	62
Malaysia	38	78	40
Philippines	104	103	92
Singapore	4	27	15
Taipei,China	25	1	43
Thailand	50	94	70
Viet Nam	109	70	5

Note: Data for Lao PDR and Myanmar are not available.

Source: World Economic Forum's Global Competitiveness Report 2011-2012

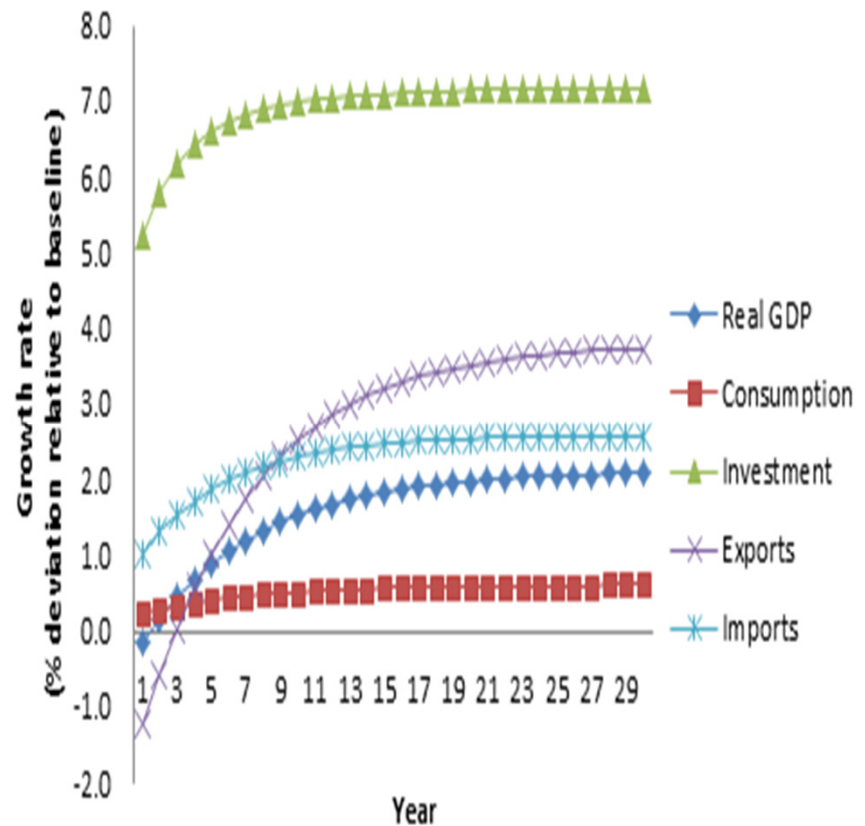


**Hernandez, J. and A. Taningco. 2010. “Behind-the Border Determinants of Bilateral Trade Flows in East Asia” *Asia-Pacific Research and Training Network on Trade Working Paper Series No. 80, May.***

- This study utilizes a gravity model with fixed-effects panel regression estimation on factors affecting bilateral trade flows between East Asian countries—including the Philippines—and found that:
  - Bilateral trade is negatively associated with distance;
  - Greater time delays in trade are associated with less bilateral trade;
  - High (low) quality of port infrastructure is related with large (small) bilateral trade flows;
  - Countries with a common language tend to trade more with each other;
  - Bilateral trade is positively associated with quality of competition in the internet service providers (ISPs) industry; and
  - Better quality of credit information is associated with larger bilateral trade.

## Corong, E., L. Dacuycuy, R. Reyes, and A. Taningco. 2012. “The Growth and Distributive Impacts of Public Infrastructure in the Philippines” *Partnership and Economic Policy Working Paper* (forthcoming)

- This study uses a dynamic CGE-microsimulation model linked to Philippine economic structure.
- Simulates the short- and long-run impacts of a 25% increase in Philippine public investment-to-GDP ratio (having 2 scenarios: one with production taxes and the other with foreign borrowing)
- With production taxes, short-run effects include a 1.2% drop in exports (due to higher production costs) and a 1.0% increase in imports on the back of greater demand for imported capital goods.
- In the long-run, public investments lead to better productivity, enabling domestic firms to gain more profits and inducing them to invest more. Thus, their competitiveness position improves thereby accelerating export growth.





## Inward FDI Stock in East Asia (US\$ billion)

	1980	1990	2000	2005	2010
Brunei Darussalam	0.0	0.0	3.9	9.4	11.2
Cambodia	0.0	0.0	1.6	2.5	6.0
China, People's Rep. of	1.1	20.7	193.3	272.1	578.8
Hong Kong, China	177.8	201.7	455.5	523.2	1,097.6
Indonesia	—	—	—	41.2	121.5
Japan	3.3	9.9	50.3	100.9	214.9
Korea, Rep. of	1.1	5.2	43.7	104.9	127.0
Lao PDR	0.0	0.0	0.6	0.7	2.1
Malaysia	5.2	10.3	52.7	44.5	101.3
Myanmar	0.0	0.3	3.2	4.7	8.3
Philippines	0.9	4.5	18.2	15.0	24.9
Singapore	5.4	30.5	110.6	194.6	469.9
Taipei,China	2.4	9.7	19.5	43.2	64.3
Thailand	1.0	8.2	29.9	60.4	127.3
Viet Nam	1.4	1.7	20.6	31.1	65.6

— = data not available.

Source: United Nations Conference on Trade and Development (UNCTAD)

# Some Barriers to Service Trade and FDIs

- Foreigners are prohibited from working in 23 professions in the Philippines (ex. Accountancy, Medicine, etc.)
- Foreign ownership is prohibited in mass media, small-scale mining, and retail trade sectors.
- Foreign ownership of up to 20% are allowed in private radio communications, 25% in private recruitment, 30% in advertising, 40% in private lands, natural exploration, and public utilities, 60% for financing companies and investment houses.
- 70% of total assets of banking sector must be held by domestic banks that are majority Filipino-owned.



# Policy Implications

- Philippine government must need to be more active in promoting preferential and multilateral trade liberalization.
- Government needs to engage in heavy public infrastructure investment to improve the quality of infrastructure—such as in transportation—and ensure that it “crowds-in” private sector investment.
- Government needs to improve on other trade facilitation measures—like reducing time delays in trade, promoting a better competitive environment for telecommunications, and expanding access to trade financing.

# Areas for Further Policy Research

- Potential/actual economic impacts of other Philippine FTAs that are already in effect or those that are being proposed.
- NTBs and NTMs facing Philippine exporters and importers.
- Trade facilitation measures on goods at a more disaggregated product category level.
- Potential benefits of FDIs on Philippine economy (ex. Spillover effects).

The image features a solid blue background with a gradient that is darker at the bottom and lighter at the top. The top edge is decorated with several overlapping, wavy lines in various shades of blue and cyan, creating a sense of movement and depth. In the center of the image, the words "Thank You!" are written in a clean, white, sans-serif font. The text is centered both horizontally and vertically, making it the focal point of the slide.

**Thank You!**