



# The ASEAN Economic Community and the Philippine Economy: Gearing Up Philippine Business



Trade-Related Assistance for  
Development (TRADE) Project

# AEC 2015: The Four Pillars



## **SINGLE MARKET & PRODUCTION BASE**

Free flow of  
goods

Free flow of  
(professional)  
services

Freer flow of  
skilled labor

Free flow of  
investment

Freer  
movement of  
capital

## **COMPETITIVE ECONOMIC REGION**

Competition  
policy

Consumer  
protection

Intellectual  
property rights

Infrastructure  
development

Taxation

E-commerce

## **EQUITABLE ECONOMIC DEVELOPMENT**

SME  
development

Initiative for  
ASEAN  
integration (IAI):  
Assistance to  
less-developed  
member states

## **INTEGRATION INTO GLOBAL ECONOMY**

Coherent  
approach  
toward  
external  
economic  
relations

Enhanced  
participation in  
global value  
chains

# AEC & Philippine Economy: Six Key Observations



1. PH is now strongly positioned for AEC.
2. AEC is not just “coming in 2016”; it is here!
3. AEC is more about complementation, less of competition.
4. Overall benefits of AEC outweigh the costs.
5. AEC is pushing us to do the right things.
6. We need to do the homework.



**1. The Philippines is now in a strong position for AEC.**

The economy is in a “break-out” mode.

# Where Are We Now?

## “PiTiK Test” on the Economy



### The Essential Yardsticks (P-T-K):



Price Stability (*Presyo*)



Jobs (*Trabaho*)



Incomes (*Kita*)



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# The Economy In 2014

## Good News on All 3 Counts

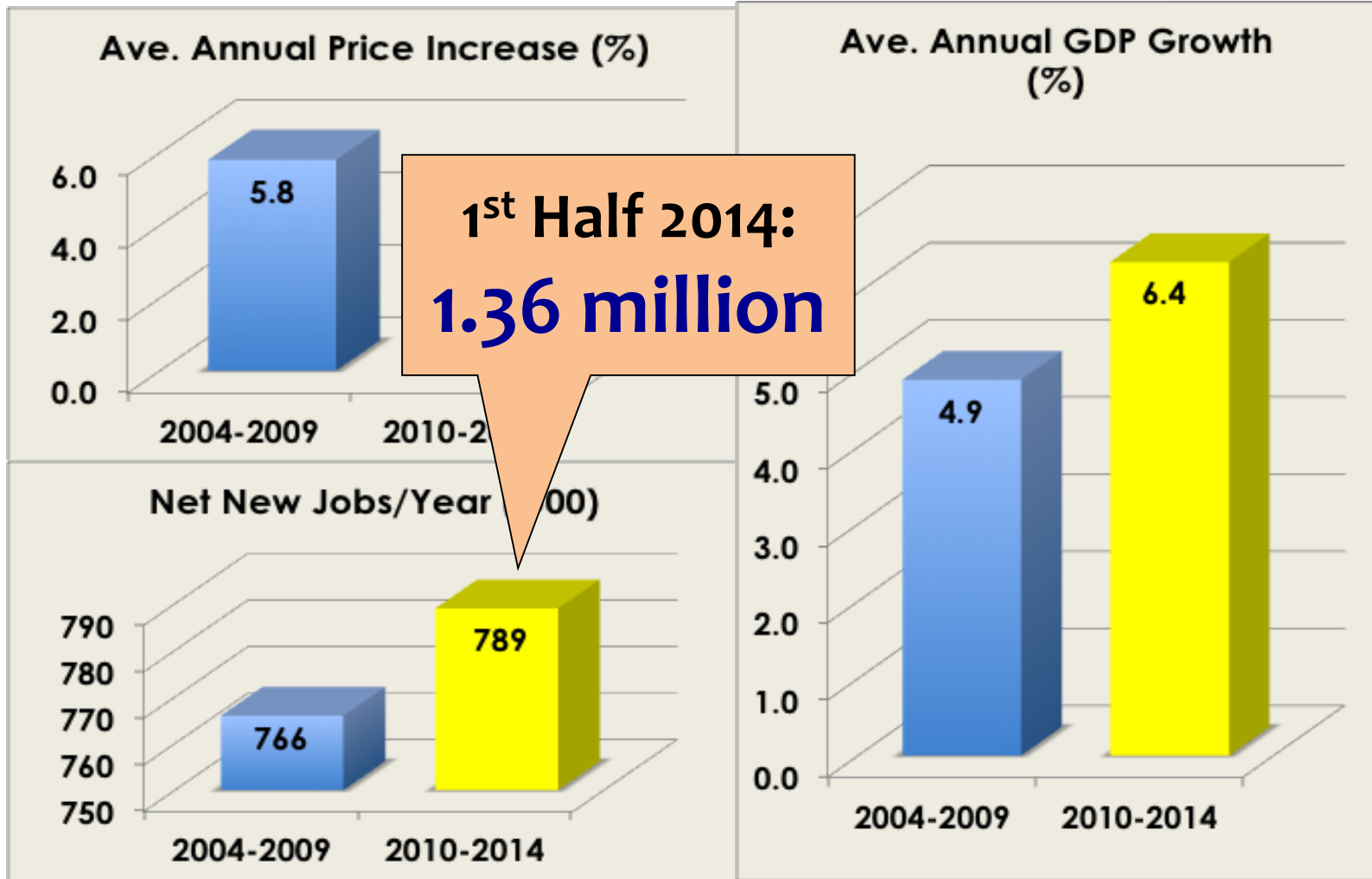


- **Prices:** Inflation is within government target of 4-5% (Oct 2014: 4.3%)
- **Jobs:** Unemployment rate falls to 6.7% (July 2014); 1.36M net new jobs created
- **Incomes/Output:** Q2 growth of 6.4% among fastest in SE Asia and Asia



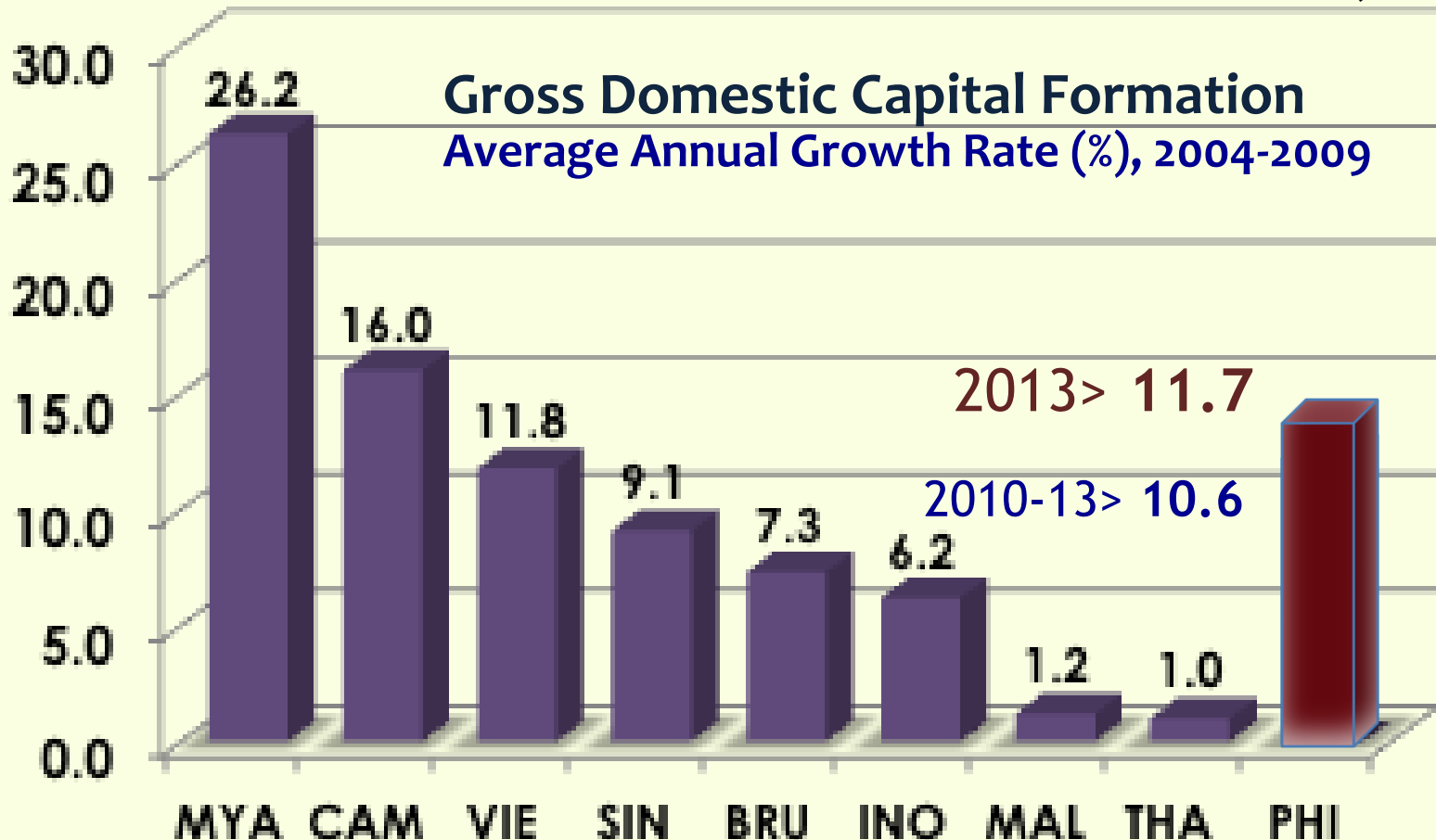
# Signs of a Breakout

## Then (2004-2009) & Now (2010-14)



# Annual Investment Growth We Have Bounced Back

Source: ADB, PSA



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# Mindanao's Edge in ASEAN



- Vast investment opportunities for ASEAN investors: huge areas of untapped agricultural lands, large labor pool (agribusiness, manufacturing)
- ASEAN is mostly an Islamic market (Muslims comprise majority in SE Asia, even as they are minority in Philippines and Mindanao)
- Halal industries are projected to see rapid market growth worldwide
- Gateway to BIMP-EAGA

## 2. AEC is not just “coming in 2016”; it’s mostly already here!

No “tsunami” of ASEAN goods will happen in 2016.



# Where is AEC Now?



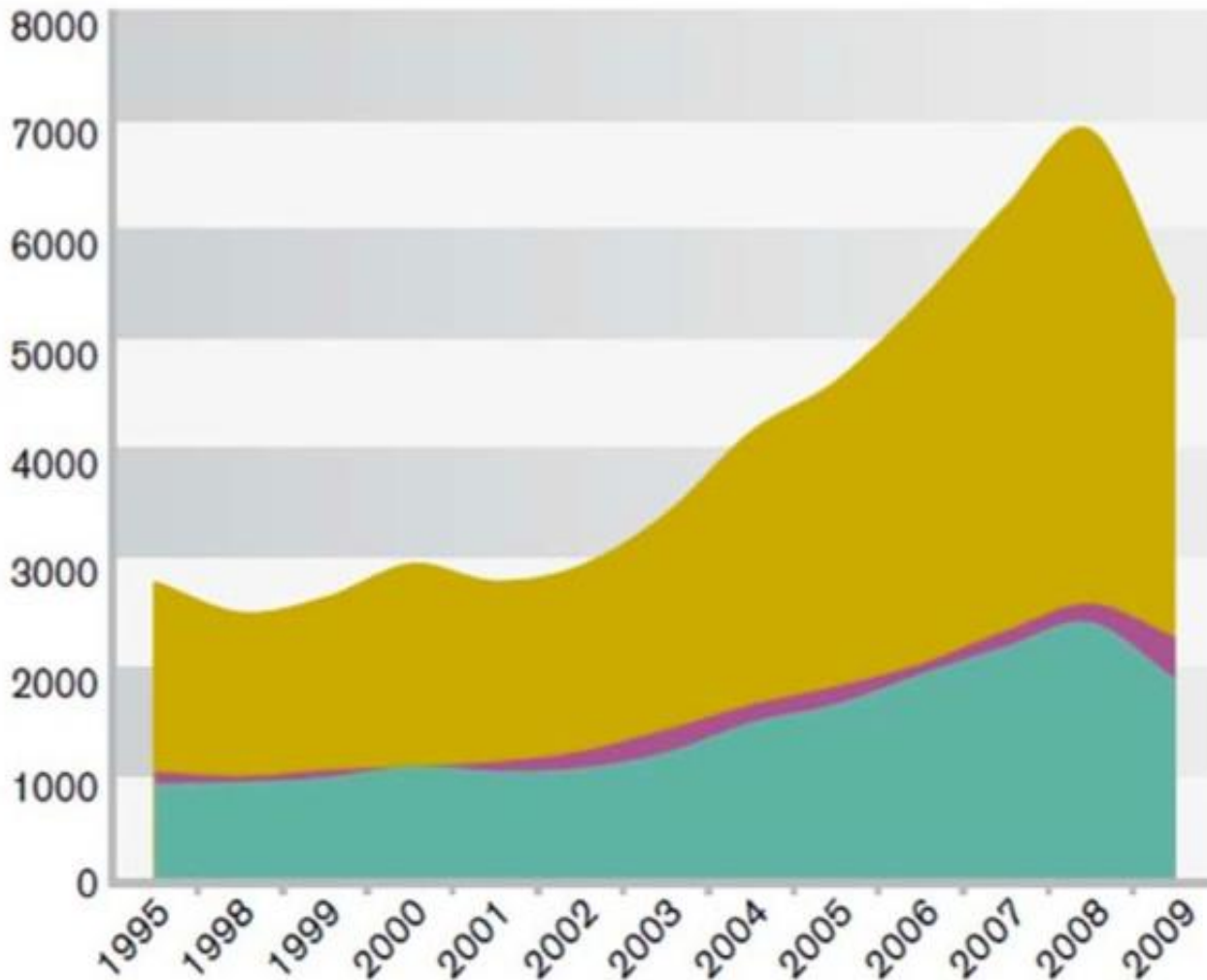
- 99.6% of all tariff lines were already brought down to zero since 2010
- Of 400+ agreed AEC Blueprint commitments, ASEAN members have complied with 84-89% (PH: 87+%) (ASEAN Secretariat's Scorecard)
- December 31, 2015 is not 'doomsday', but a merely a target for 100% compliance
- No drastic changes will happen on January 1, 2016 (as with fabled Y2K bug!)

### 3. More complementation, less of competition

More trade in products within the same industries (intra-industry trade)



# The Changing Shape of Global Trade



**Dramatic growth of trade in intermediate goods, with the development of cross-border value chains**

- Intermediate goods
- Consumption goods
- Capital goods

Source:  
Sherry Stephenson (2013)

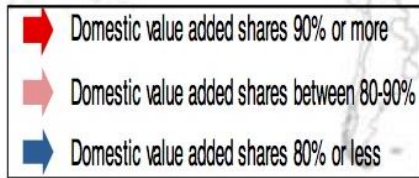
# Changing Trade Patterns

**Before (1995):**  
Goods with almost 100% domestic content

Value chains cross national boundaries:  
Boeing jets,  
iPhones/iPads are  
“Made in the World”  
(not ‘Made in USA’ or  
‘Made in China’)

**Now (2005):**

**1. Goods with lower domestic content**



**2. More intra-regional trade within Asia especially South East Asia**





# Philippine Trade with ASEAN Partners



## ■ With Thailand

**Top imports:** Motor vehicles, electronics, petroleum and chemicals

**Top exports:** Motor vehicle parts, electronics & electricals, and minerals

## ■ With Singapore

**Top imports:** Electronics, machinery and petroleum

**Top exports:** Electronics & electricals, machinery, and petroleum

## ■ With Malaysia

**Top imports:** Electronics, petroleum and chemicals

**Top exports:** Electronics, coconut oil, petroleum



# Trade in ASEAN/AEC

## Features



- Largely *intra-industry* in nature (trade in products within the same industries, e.g. electronics, vehicles, chemicals)
- Trade relationships are increasingly complementary rather than competitive; ***trade protection can be self-penalizing***
- Opportunities lie in regional and global production networks or value chains



#### **4. Overall benefits of integration outweigh the costs.**

Economies of scale, lower costs and stronger cohesion

# AEC Upsides and Downsides



## Upsides

- Economies of scale → Lower unit costs
- Technology sharing → Greater efficiency (e.g., Manila Catering) → Lower costs & prices for all
- Higher productivity → Higher incomes
- Stronger interdependence → Greater regional cohesion, harmony and peace

## Downsides

- Vulnerability to supply chain disruptions
- Differential gains/benefits; inequitable growth



**5. AEC 2015 is pushing us to (finally) do the right things.**

Political will is induced by the group's collective commitment

# “Right Things” We Are Being (or Have Been) Led to Do



- **Bring Down Trade & Investment Barriers** → Builds inherent competitiveness, widens scope for growth, and increased competition makes all consumers better off
- **Open Our Skies** → Fosters tourism jobs & earnings (strong inter-industry linkages & multiplier effects)
- **Improve Trade Facilitation** → Reduces business costs; improve competitiveness for PH businesses
- **Adopt Strong Competition Policy** → Diffuses market power and monopolistic/oligopolistic behavior, levels the field for SMEs, and achieves more inclusive growth



## **6. We need to do the homework.**

Business & government have work to do for successful AEC engagement.

# Doing Our Homework



- Policy & Institutional reforms
  - Ease outdated investment restrictions
  - Enact Competition Law, CMTA, other bills
  - Address non-tariff barriers
  - Strengthen industry associations & clusters
- Public Investments
  - Fix energy, transport, ICT infrastructure gaps
  - Strengthen education & HRD
  - Support for SMEs (Access to Finance, Technology, Raw Materials, Markets)



# Toward AEC-Enabled SMEs

## SMEs Must Gear Up & Change Their Ways



- Strengthen & professionalize financial and overall business management
- Study AEC opportunities & requisites for availment (e.g., attend DBFTA forums)
- Shun “*kanya-kanya*” attitude; embrace clustering & “coopetition”

# Toward AEC-Enabled SMEs

## PH AEC Game Plan



- Clustering Initiatives & Shared Service Facilities (DTI)
- Industry Road Maps (BOI)
- Doing Business in FTAs Forums (DTI)
- Inclusive Finance Program (BSP)
- Competition Law (Congress)
- Halal Industry Support (Bangsamoro, DTI)
- Trade Facilitation for SMEs (Customs) ++

# The Right Way Forward



- Find strategic positioning in cross-border value chains/production networks (**Moog Inc.**)
- Shift business model to inclusive value chains (**a la Jolibee, Nestle**) vs. vertical integration, as deliberate contribution to inclusive growth
- Team up (e.g. into coops), cluster and unite to gain larger market opportunities
- Pursue the triple bottom line of **People, Planet** and **Profit** to help make **Inclusive Growth & Sustainable Development** a reality

# Wanted: A Change in Mindset



From *fearing threats*

*to seizing opportunities*

From *creating ghosts*

*to finding gold mines*