

Presentation for the
Industry Roadmaps and the AEC Game Plan:
Roadmap Localization for Competitiveness
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Closer Regional Economic Integration: Implications, Imperatives and the AEC Gameplan

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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: Four Key Observations



1. AEC is not just “coming in 2016”; it is already here!
2. There’s much more to AEC than ASEAN itself.
3. It’s more about complementation, less of competition.
4. AEC is leading us to do the right things.

1. AEC is not just “coming in 2016”; it’s 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 (exceptions: rice, sugar)
- 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!)



2. There's much more to AEC than ASEAN itself.

Integration opens much wider trade opportunities beyond the 10 members.

ASEAN PTAs

- ASEAN Free Trade Area (1992)
- ASEAN – Korea FTA (2007)
- ASEAN – Japan FTA (2008)
- ASEAN – Australia+New Zealand FTA (2009)
- ASEAN – China FTA (2010)
- ASEAN – India FTA (2010)
- *Coming:* **Regional Comprehensive Economic Partnership (RCEP)** - to combine the above; negotiations ongoing
- *Coming:* **Trans Pacific Partnership (TPP)** – So far 12 members, with 4 from ASEAN: Brunei, Malaysia, Singapore & Viet Nam

ASEAN + 6:

A Much Wider Regional Market

- Access to ASEAN also means easier access to Australia, China, India, Japan, Korea and New Zealand
- ASEAN combined market = 600 million;
ASEAN+6 combined market = 3.45 billion
(half of world population)
- With ASEAN-China FTA in 2010, Philippine exports to China rose from \$5.7B to \$7B by 2013 (23%)

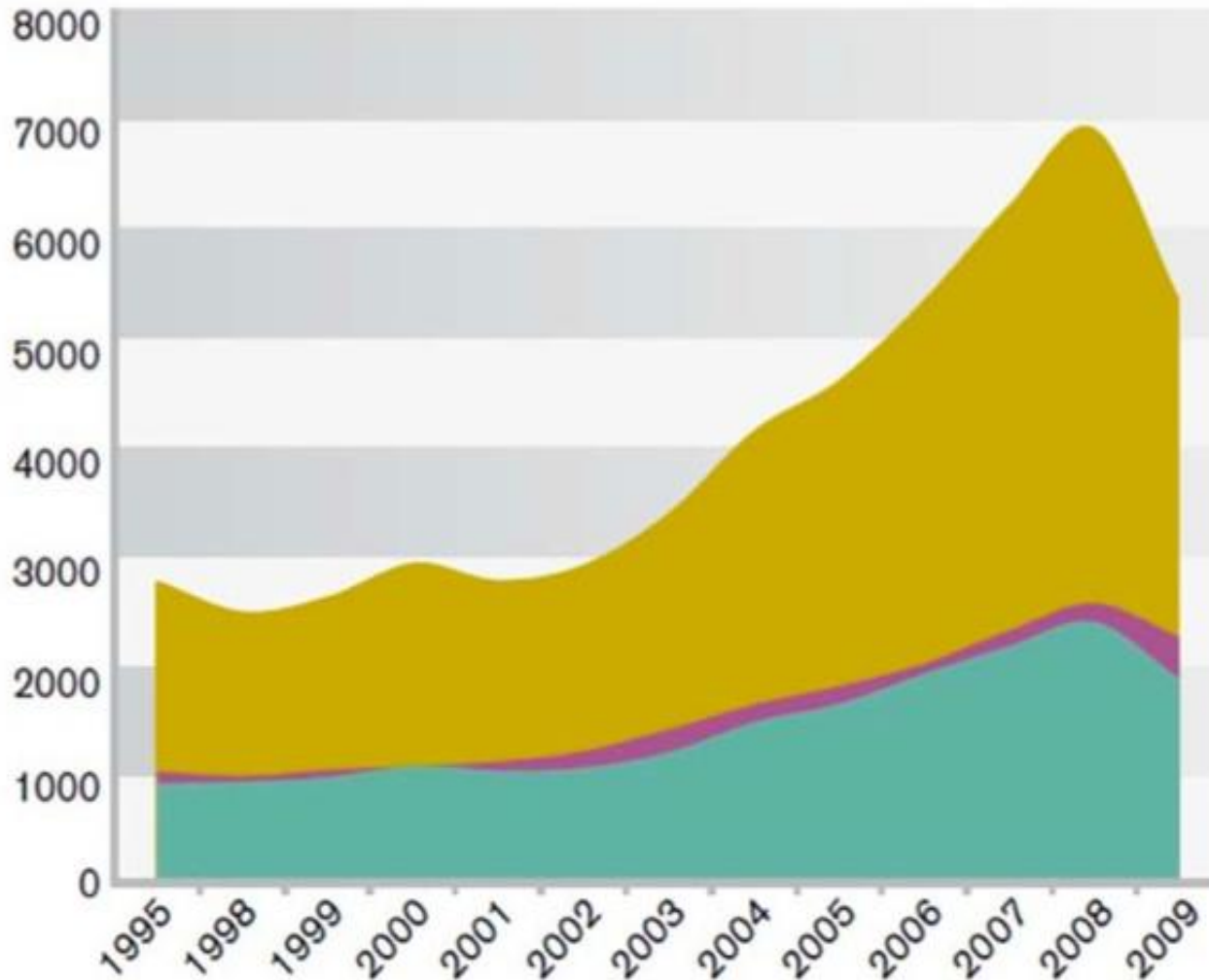


3. More about complementation, less of competition

Regional value chains have led to more trade in products within same industries



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)

Trade Patterns Have Changed

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:

1. Goods with lower domestic content

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





What Do We Trade with our 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 (we 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. AEC 2015 is pushing us to (finally) do the right things.

We have a national AEC Game Plan.

“Right Things” We Have Been/ Are Being Led to Do



- **Trade & Investment Liberalization** → Builds inherent competitiveness, widens scope for growth, and increased competition makes all consumers better off
- **Competition Law** → To curb monopolistic & oligopolistic behavior, level the field for SMEs → **More inclusive growth**
- **Open Skies** → Fosters tourism jobs & earnings; strong inter-industry linkages & multiplier effects

Persisting Challenge:

Non-inclusive Growth



- **Narrow:** Growth is driven by a few high-growth sectors (BPOs, telecoms, real estate) & geographic areas (NCR, III & IV)
- **Shallow:** Bulk of exports from low domestic value added sectors with little linkage to rest of economy
- **Hollow:** “Jobless growth”; jobs growth lags far behind economic growth

Key Instrument for Inclusive Growth: Empower SMEs

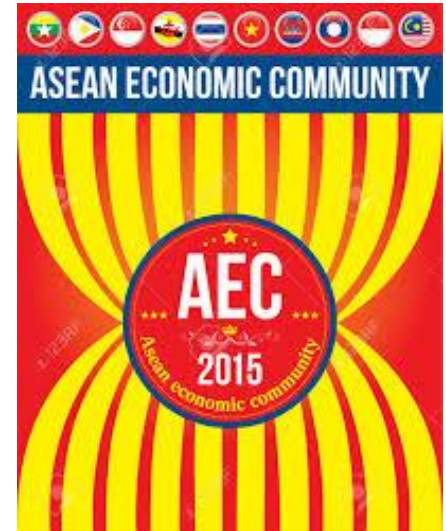


SME Development: Government-wide coordinated support needed to:

- Expand SME financing mechanisms
- Strengthen technology assistance thru public R&D
- Promote & assist SME clustering
- Improve market access (infrastructure, development diplomacy, etc.)

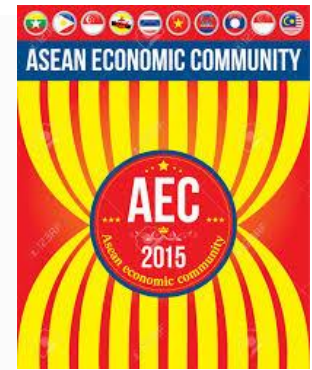
Philippine AEC Game Plan

- Built on a Four C's Strategy
 - Competitiveness
 - Compliance
 - Collaboration
 - Communication
- Enable SMEs for the regional and global markets for more inclusive growth



Toward AEC-Enabled PH Enterprises (esp. SMEs)

Competitiveness Agenda



- Industry Road Maps (BOI)
- Clustering Initiatives; Shared Service Facilities (e.g. Bohol FabLab)
- Financial Inclusion Program (BSP)
- Competition Law, CMTA (Congress)
- Halal Industry Support (Bangsamoro, DTI)
- Trade Facilitation for SMEs (Customs) ++

Competitiveness Agenda

Public Investments

- Infrastructure Gaps
 - Energy
 - Transport
 - ICT
- Strengthened health, education & HRD
 - Education for entrepreneurship
- Climate change & disaster resilience



Toward AEC-Enabled SMEs SMEs' Own Homework



ASEAN
BUSINESS ADVISORY COUNCIL

- 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**”



USAID TRADE

Trade-Related
Assistance for
Development

Toward Greater Competitiveness

More Right Things To Do:

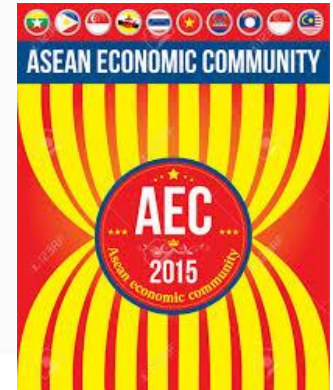
Compliance Agenda

Legal/Policy Reforms

- Outdated foreign investment restrictions
- Competition (Antitrust) Law
- Customs Modernization & Tariff Act

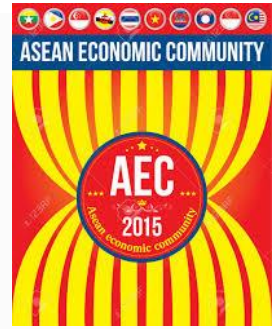
Administrative Reforms

- Remove unnecessary & duplicating import clearances and permits (e.g., Toblerone)
- Streamline customs processes



Toward a Proactive (vs. Defensive) Posture

Communication Agenda



- Spreading the Good News: Numerous PH businesses are already AEC-engaged
 - Jollibee, Oishi, Golden ABC, Moog Inc.
 - Tubigon Loomweavers, Great Women, Manila Catering
- DTI's Doing Business in FTAs (DBFTA) Forums
- Industry Roadmap/AEC Gameplan Localization Forums

The Way Forward



- Find strategic positioning in cross-border value chains/production networks (**Moog Inc.**)
- Shift business model to inclusive value chains (**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*