

Presentation for the
Forum on Industry Roadmaps & the AEC Game Plan:
Regional Localization for Competitiveness
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The ASEAN Economic Community and the Philippine Economy: Gearing Up Philippine Business



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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: Seven Key Observations



1. PH is strongly positioned for AEC.
2. More complementation, less competition.
3. Overall benefits of AEC outweigh the costs.
4. There's more to AEC than ASEAN itself.
5. AEC is not just “coming in 2016”; it is here!
6. AEC is pushing us to do the right things.
7. There's much homework still to be done.



USAID TRADE

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FROM THE AMERICAN PEOPLE



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

The economy is in a “break-out” mode.

How is the Economy Doing?

“PiTiK Test”



The Essential Yardsticks (P-T-K):



Price Stability (*Presyo*)



Jobs (*Trabaho*)



Incomes (*Kita*)

The Economy In 2014

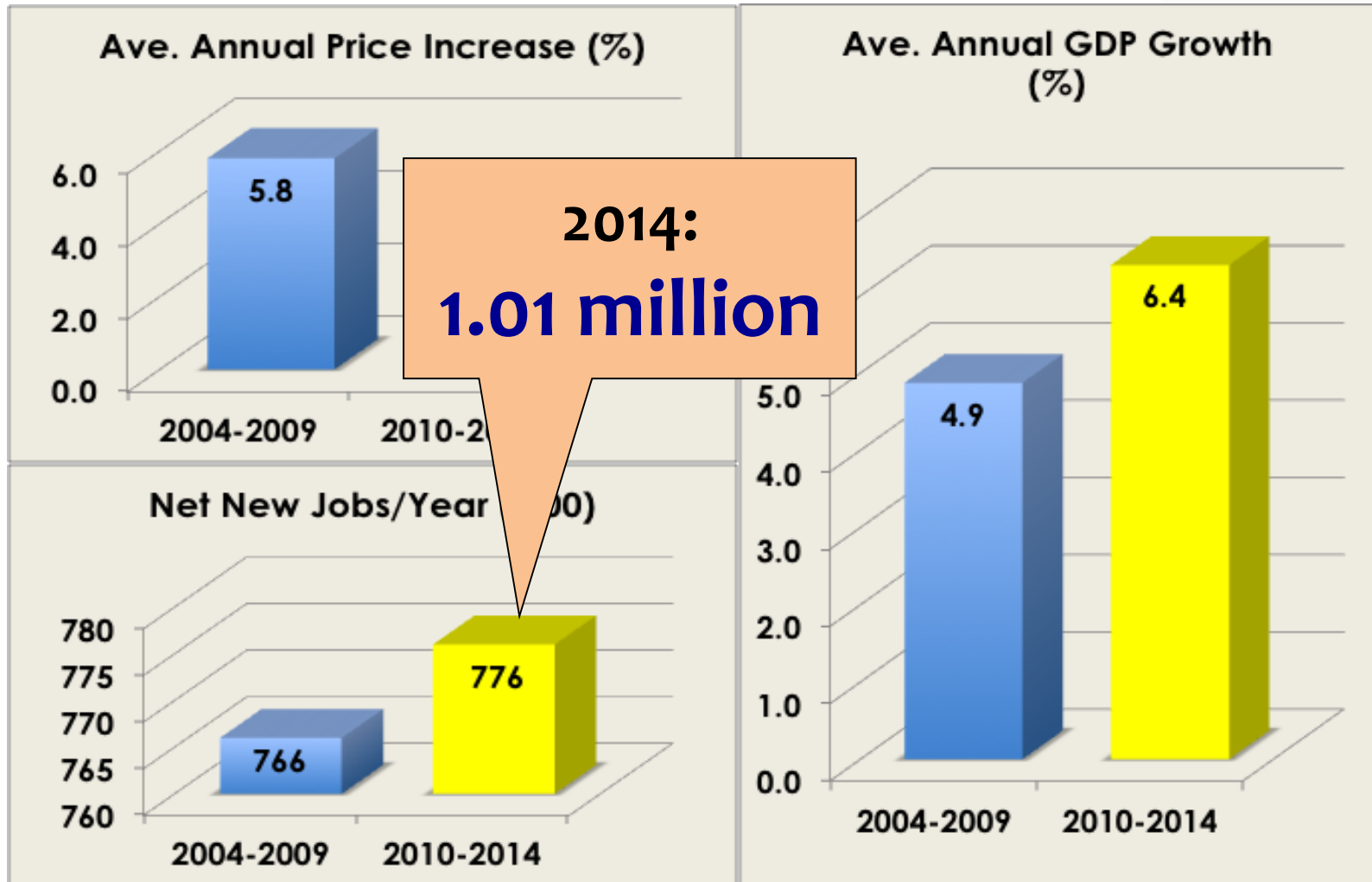
Good News on All 3 Counts



- **Prices:** Inflation has tapered after disaster-induced uptick (Apr '15: 2.2%)
- **Jobs:** Unemployment down to 6%; 1.05M net new jobs created in past year (October 2014 Labor Force Survey)
- **Incomes/Output:** 2014 GDP growth of 6.1% was fastest in ASEAN, 2nd globally

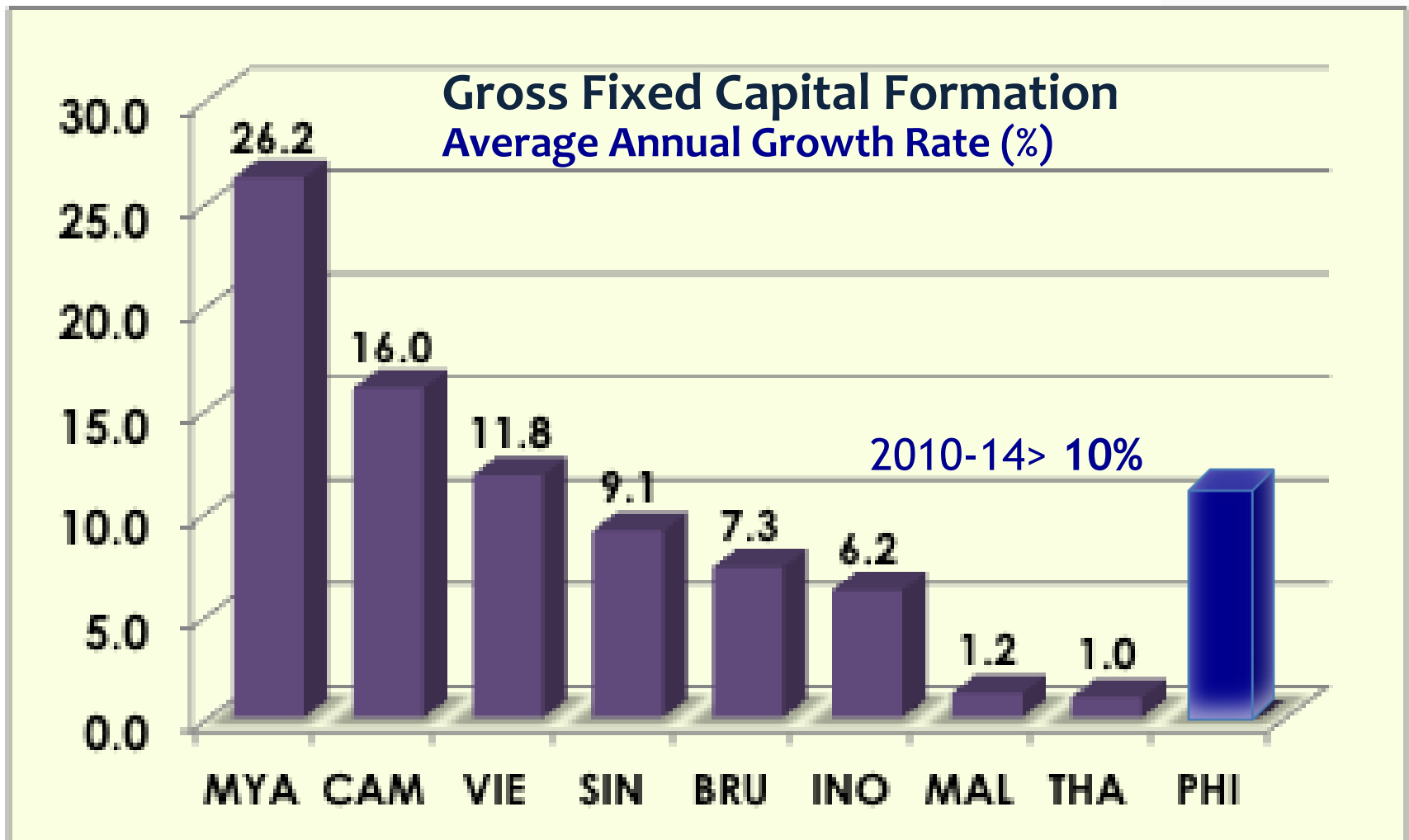
Signs of a Breakout

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



Investment Growth

Then (2004-2009) and Now (2010-2014)



Cordillera Administrative Region Economic Drivers



- Agribusiness (Coffee, Veggies)
- Eco-tourism
- Education services
- Electronics
- Financial Services
- Healthcare and Wellness
- IT & IT-enabled Services
- Mining

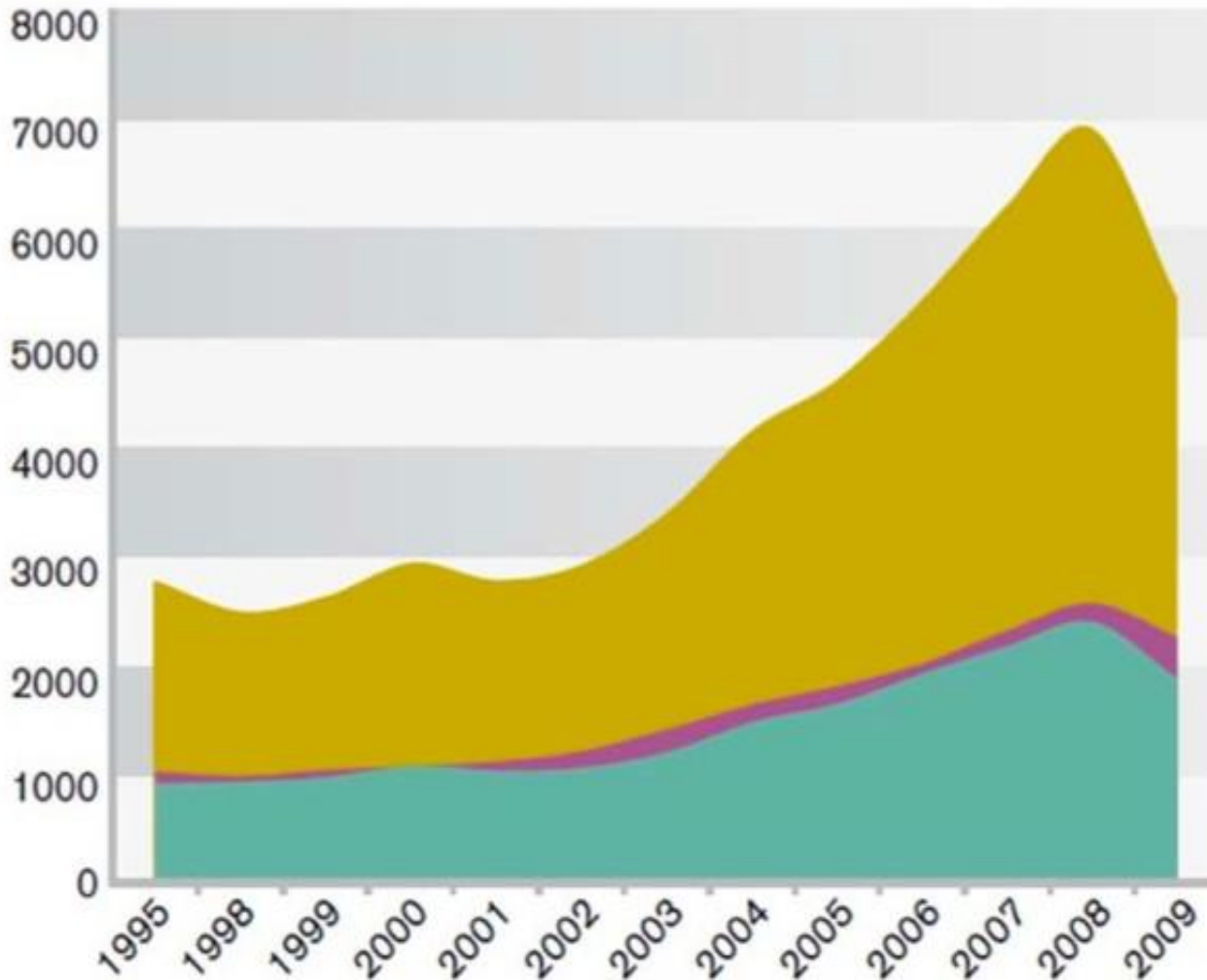
CAR is a relatively industrialized region, with industry contributing half of GRDP, mainly from Baguio EZ

2. More 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 (2005):

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





3. 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



4. 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)
- Regional Comprehensive Economic Partnership (RCEP) - to combine the above, negotiations ongoing
- Trans Pacific Partnership (12 members, 3 of which are ASEAN: Brunei, Malaysia, 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%)



5. 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
- 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!)



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

Political will induced by the group's collective commitment

“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
- **Open Skies** → Fosters tourism jobs & earnings (strong inter-industry linkages & multiplier effects)
- **Competition Law** → Curbs monopolistic & oligopolistic behavior, levels the field for SMEs toward more inclusive growth



7. There's much homework still to be done.

The remaining homework could well be the hardest.

Our Remaining Homework



Legal/Policy Reforms

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

Administrative Reforms

- Streamline Customs procedures
- Remove unnecessary import clearances and permits (e.g., Toblerone bars)
- Strengthen and expand role of SMEs

Our Remaining Homework



Public Investments

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

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)
- Avoid “*kanya-kanya*” attitude; embrace clustering & “**coopetition**”

Toward AEC-Enabled SMEs

AEC Game Plan



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

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