Industry Roadmaps and the AEC Game Plan:
Roadmap Localization for Competitiveness
Naga City
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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

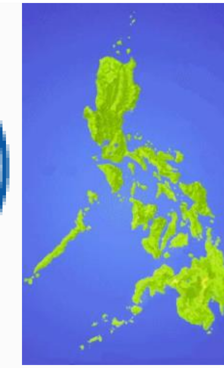
EQUITABLE ECONOMIC DEVELOPMENT

- 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. PH firms are already AEC-engaged.
5. We have an AEC Game Plan in place.

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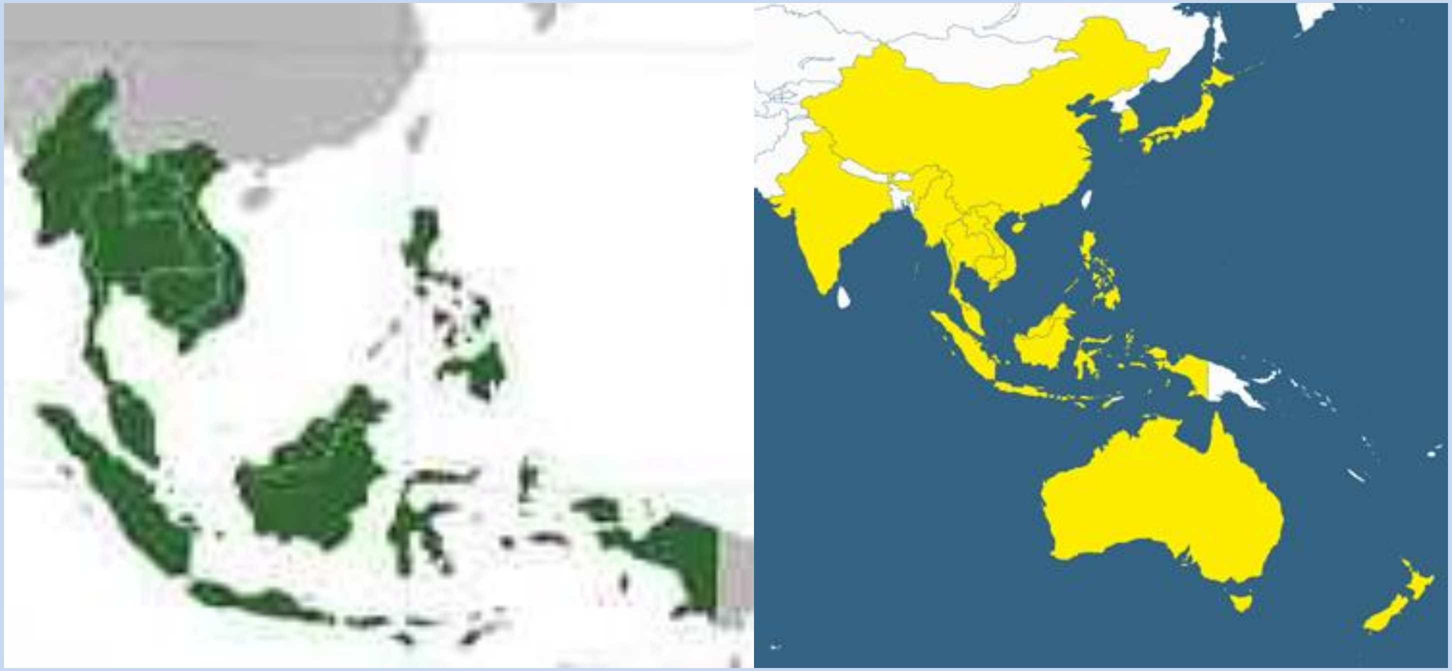
1. AEC is not just "coming in 2016"; it's already here!

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 600+ agreed AEC Blueprint commitments, ASEAN members have complied with >90% (ASEAN Secretariat's Latest Scorecard)
- December 31, 2015 is not 'doomsday', but a merely a target date 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

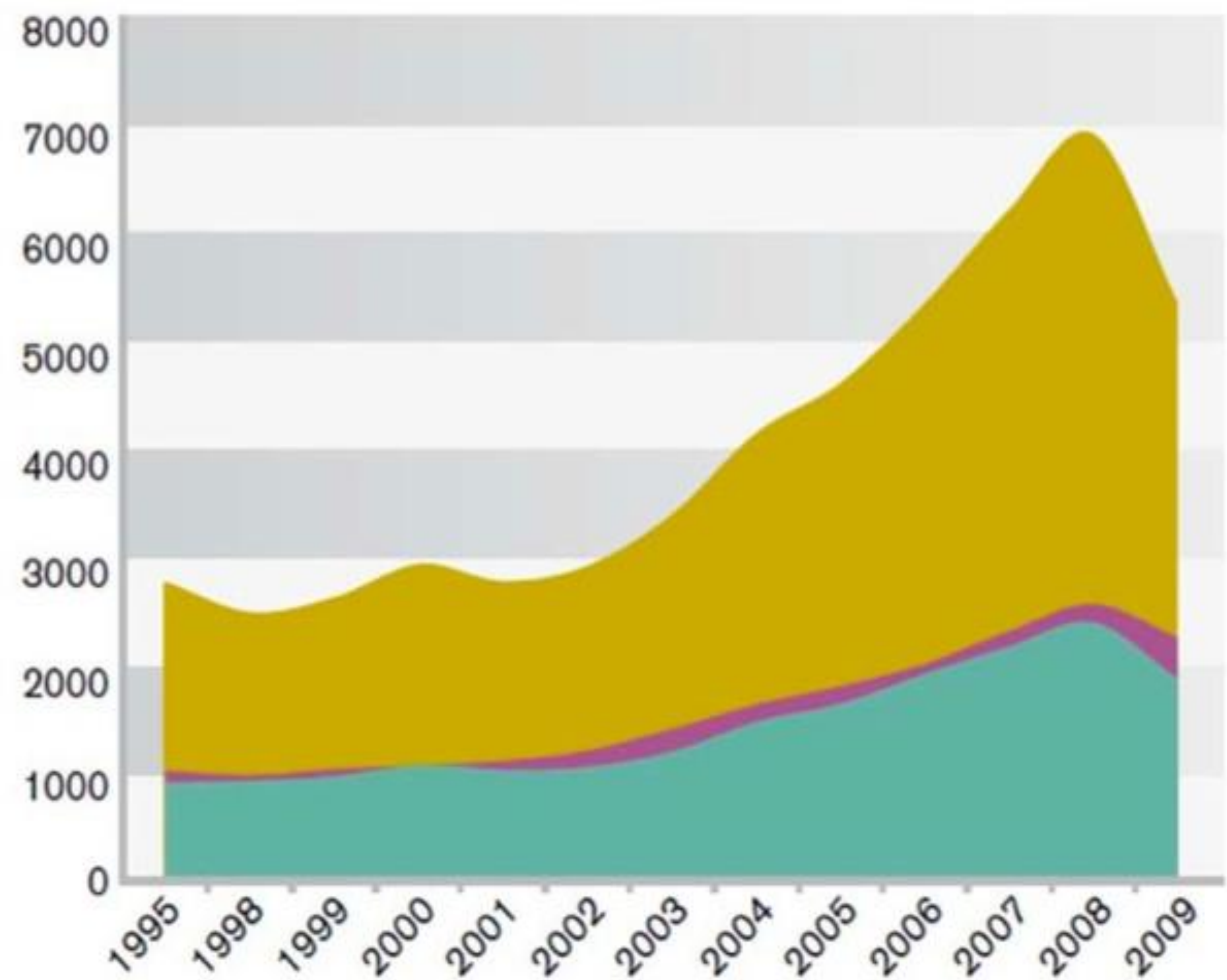
- ASEAN combined market = 600 million; ASEAN+6 combined market = 3.45 billion (half of world population)

- 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

Source: Sherry Stephenson (2013)

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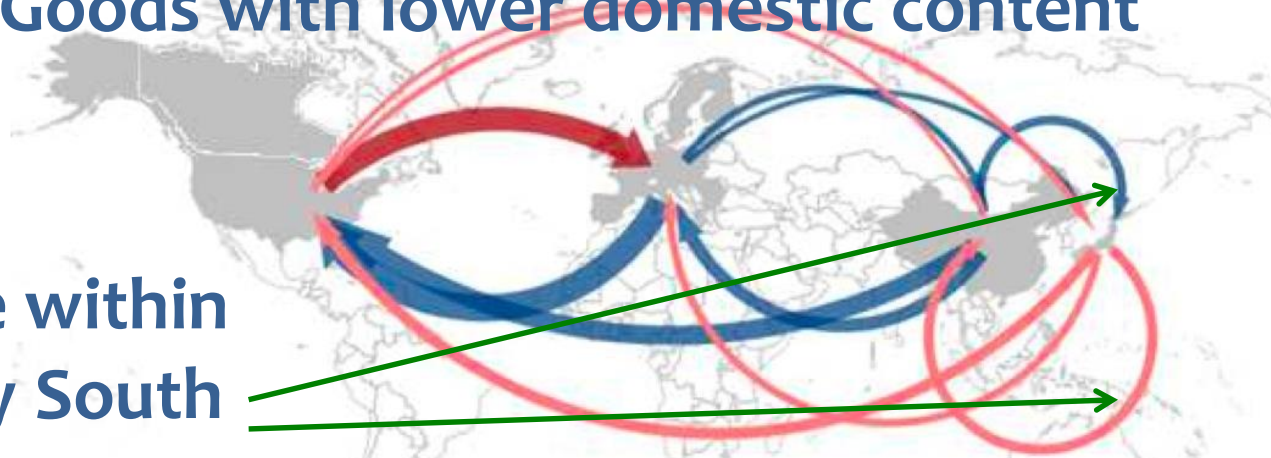
Trade Patterns Have Changed

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

Sources: Sherry Stephenson (2013); OECD

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***

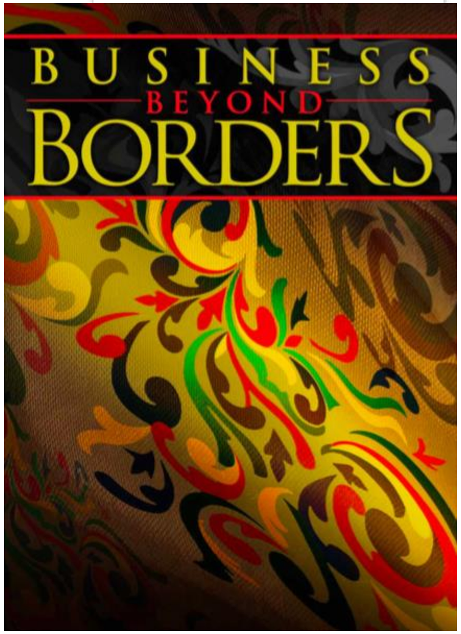
- Opportunities lie in regional and global production networks or value chains

4. Many PH businesses are already AEC-engaged.

Large, medium and small PH firms are already showing the way.

PH firms have done it!

- **Large:** Jollibee, Oishi (Liwayway), Golden ABC (Penshoppe), ICTSI, URC, Mama Sita, KLT Fruits, Pointwest, Splash, many more

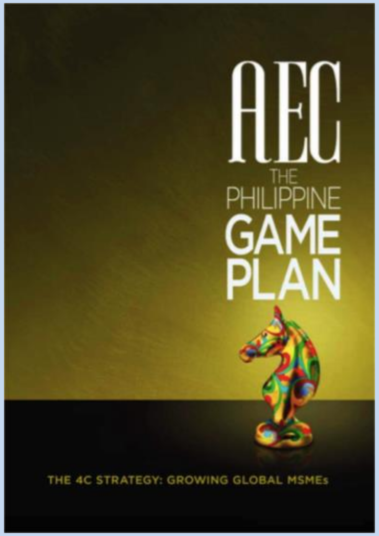


- **Medium:** Fountainhead, Manila Catering
- **Small:** Human Nature, Great Women
- **Micro:** Tubigon Loomweavers

→ *Common Thread:* ***Proactive****, not* ***Defensive***

5. We have an AEC Game Plan in place.

SMEs must reap the benefits toward inclusive growth.

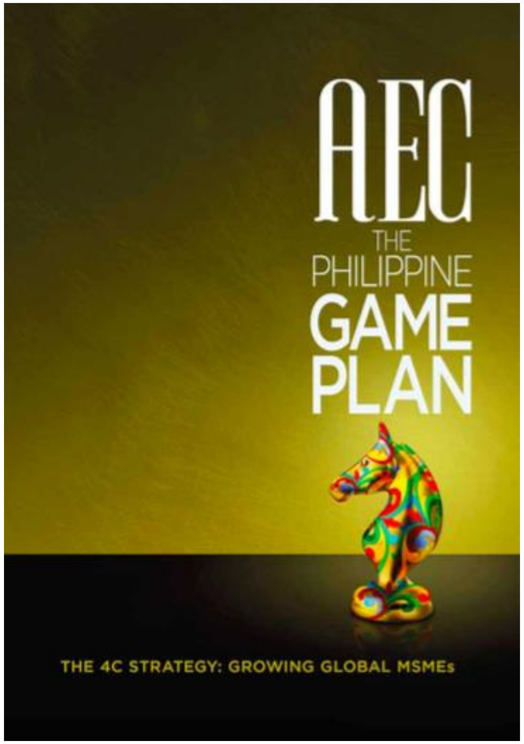


4C Strategy

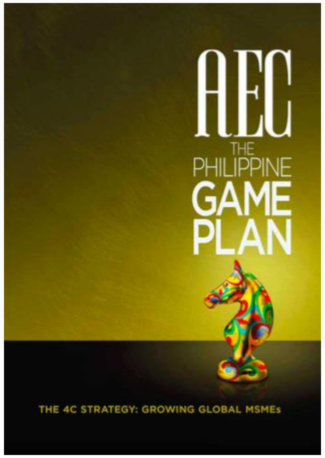
The Philippine AEC Game Plan

Built on a Four C's Strategy

- Competitiveness
- Compliance
- Collaboration
- Communication



Toward AEC-Enabled Enterprises



Competitiveness Agenda

- PPP Infrastructure Program
- Industry Road Maps (BOI)
- Clustering Initiatives; Shared Service Facilities; Roving Academy (DTI, DOST)
- Financial Inclusion Agenda (BSP)
- Competition Law, CMTA (Congress)
- Halal Industry Support (DTI, Bangsamoro)
- Trade Facilitation Measures (Customs)
- Climate Change & Disaster Resilience ++

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Toward the Right Reforms for Stronger Competitiveness

Compliance Agenda

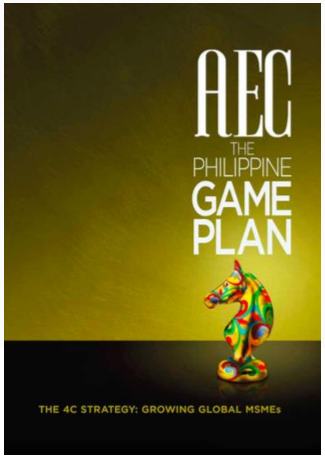
Legal/Policy Reforms

- 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 True Community



Collaboration Agenda

- Inter-agency coordination thru CAEC, PCRC
- Multisectoral partnership at various levels (Government, Business, Civil Society) – local, national and regional
- Cross-border business partnerships – regional production networks (value chains)

Toward Proactive (vs. Defensive) Positioning

Communication Agenda

- Spreading the Good News: 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; DTI Roving Academy
- Industry Roadmap/AEC Gameplan Localization Forums

Persistent Challenges:
High Poverty, Unusual Inequality

- Poverty rose anew in 2014 (24.6→25.8%)
- Richest 1% control 60% of GDP
- Income of richest 20% is **8.4x** that of poorest 20% - vs.
  Thailand **(6.9x)**
  Vietnam **(6.0x)**
  Sri Lanka **(5.8x)**

BrainTrust Inc.
Knowledge and Options for Sustainable Development

Inclusive Growth Drivers
SME Development

Need government-wide concerted effort to:

- Expand MSME access to finance (financial inclusion)
- Strengthen technology assistance thru public R&D, shared service facilities
- Foster MSME clustering and "coopetition," inclusive value chains
- Improve market access (infrastructure, e-commerce, development diplomacy, etc.)

Toward an SME-Powered Inclusive Growth
SME Development Imperatives

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.)

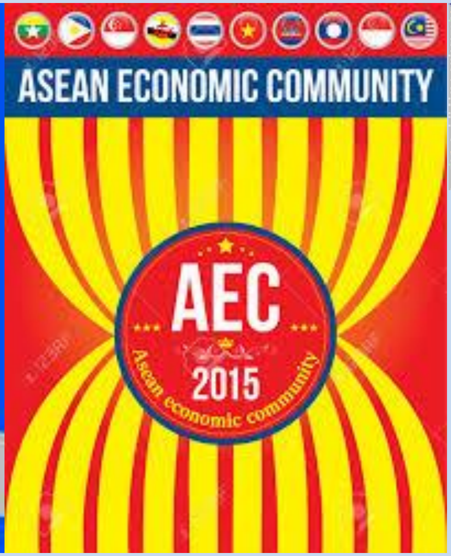
Toward AEC-Enabled SMEs
SMEs' Own Homework

- 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**"

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***