Key Findings on Philippine Trade and Investments in the
Asia-Pacific Trade and Investment Report 2013

*Florian A.Alburo*

Let me first of all congratulate the UN ESCAP for coming up with the Asia-Pacific Trade and Investment Report (APTIR) 2013. This, I believe, is the 5th in the series since 2009 that reviews trade and investment trends in the region from an analytical perspective, among the not-so-many regional reviews including ADB's Asia Economic Outlook, Key Indicators theme, and other UNESCAP regular reviews such as the Economic and Social Survey of Asia and the Pacific. These regular reviews are awaited by scholars and professionals as they are closer to our region and become more relevant diminishing in turn the erstwhile WDR. What I propose to do in this short discussion is immediately highlight some of the APTIR findings relative to the Philippines. After this I will advance some qualifications and implications of these findings and their larger meaning. I will end by going back to the main theme of the APTIR and argue that such theme has been elusively pursued by the Philippines for some time – the year of the horse might be the age when the outcomes of our economic direction and the concerns of the APTIR 2013 shall converge.

## I. Summary of Key Findings

True to the regional findings, the Philippines experienced a decline in exports in the aftermath of the global financial crisis in 2008-2009. In 2012 however our export growth was above the average for the region. Imports had a growth that was close to the regional average. The composition of our exports has likewise remained the same but with notable product-specific expansion and resurgence – for example, woodcrafts and furniture have seen dramatic increases between 2011-2012 and especially between 2012 and 2013 (August-to-August) of 23.9 percent and 68.7 percent, respectively; ignition wiring sets, and traditional bananas. Overall however, the connectedness index of the country tracked by the 2012 DHL Global Connectedness Index is yet to reach its previous peak in 2007 with a trough in 2010.

While services trade in the region has also slowed down it has still performed better than the world. And the Philippines has continued to experience more dynamism than in the goods sector particularly the expansion of computer information services and other business services (where the BPO belongs) – and despite the decline in the share of travel services (where tourism receipts belong) their absolute values continue to rise. In short this part of overall trade has been more resilient relative to merchandise trade and relative to the region as a whole.

Bucking the decline into the region, FDI inflows into the Philippines increased from less than USD 2B in 2011 to close to USD 3B in 2012. This is still a paltry number compared to the inflows into the other countries in the region (with ASEAN in particular except Brunei, Cambodia, Lao PDR and Myanmar) and the report notes that we can still absorb more FDI. And then we are now contending with our own FDI outflows into the region which saw a surge in 2012.

The APTIR reports that while trade had indeed slowed down there are large gaps to fill that are due to weaknesses in trade facilitation. Here the report introduces innovative concepts and measures useful to consider and extract for the Philippines. First is the tracking of what is called trade costs excluding tariff – these are composed of, among others, transport costs, border-related trade barriers, wholesale and retail distribution costs, and entry barriers. These trade costs are high (which are in tariff-equivalent terms) between sectors within the country (manufacturing and agriculture), between different trading partners, and over a period of time. The numbers in the APTIR support the common knowledge that trading between the US and, say, South Asia, the Pacific Islands and marginally North and Central Asia would be cheaper than trading among themselves. This is in part due to the items mentioned above. For the Philippines, trade costs (between 2006 and 2012) have fallen with East and Northeast Asia, but have risen for the other major trading areas (the EU3- Germany, France and UK; Southeast Asia, North and Central Asia). When we relate this to the major trade partners (Japan [increase], US [increase], China [increase], Singapore, Germany [increase], Korea [decrease], France [decrease]), our trade costs are far higher than the EU-3 average or the intra-ASEAN 4 (Indonesia, Malaysia, Philippines, Thailand) average. Moreover when trade costs between manufacturing and agriculture are considered, trade costs for agriculture goods are far higher than in manufacturing for our actual and potential trade partners – Korea, Japan, China, US, Germany, France, and UK compared to their average trade costs in the 2 sectors. What do these mean? We are unable to effectively compete with those high trade costs.

Second, the APTIR introduces an International Supply Chain Connectivity Index (ISCC) which is an amalgam of 3 indicators – export facilitation (trading across border indicators of number of documents, time and cost of exporting), import facilitation (same indicators for trading across border but for imports), and Liner Shipping Connectivity Index (a measure of shipping capacity of the country). Numerically, while our ISCC Index has risen between 2006 and 2012 (meaning improved our connectivity), our trading partners indices have raised faster (Korea, France) aside from the wide difference in absolute values to begin with. What do these mean? We are unable to effectively compete with our weak ISCC.

The other important part of the APTIR is the exhortation that we start to move (in theory and in policy) towards inclusive trade and investment for 2 reasons – trade seems to have been associated with worsening inequality, and limited access to economic opportunities especially for disadvantaged groups, women, and the poor. The call is not to abandon trade as an engine of growth but to strengthen and enrich it with more focused attention to a growth outcome more inclusive and participatory. It suggests 3 directions – complementary policies, national policies, and regional coordination mechanisms. While there has been a significant decline in poverty rates across the region, recent empirical experiences show a nasty record of employment associated with expanding trade.

## II. Qualifications and Implications

I leave to our distinguished panelists to raise implications of the APTIR that are critical to the Philippines as the country strives to integrate with the global economy. Let me concentrate briefly on several aspects of the report which would qualify it at least for the Philippines.

The trade facilitation chapter begins with a selection of WTO-TF related measures and how the region has fared with respect to their implementation – publication of regulations, appeal mechanisms, advance notification, risk management, post-clearance audit, advanced ruling, among others. Then the rest of the chapter goes into the innovations that I briefly described earlier. It is important to distinguish what may be termed as “pure trade facilitation” from these other new measures and placed under the general rubric of TF. For example, the OECD Trade Facilitation Indicators for the Philippines shows the country ranks low relative to lower middle income countries and Asia in information availability, advanced rulings, appeal procedures, and just on par for formalities (procedures, documents, automation). These indicators speak a lot about what can be done within the purview of the Bureau of Customs and related agencies with border functions. And once we expand this aspect of changes into the broader impacts the results are interesting. A 2013 review of the empirical exercises indicate that while removing tariffs and some kinds of non-tariff barriers would increase global output by 0.1 – 0.5 percent of world GDP (stalled Doha versus complete liberalization), adding trade facilitation (in pure sense) would raise global GDP by 1 percent. And when dynamics of merchandise trade liberalization and services trade are included the increment to global GDP would rise to 4 percent (Ghemawat 2013). This sounds more interesting than what CGE is able to tell us even without criticizing its assumptions (full employment in particular given what the APTIR is advocating).

The use of trade costs is another interesting aspect of APTIR. Yet without the benefit or reading some of its seminal work one is led to believe that its notion of trade costs is really the cost of engaging in international trade. If one goes back to the more elaborate papers this does not seem to be the case. The point is that one cannot imagine a policy prescription zeroing in on trade costs and expect the policy establishment to respond on the basis of increasing trade. After all, improving transport infrastructure must be neutral as long as it is efficient in moving goods whether they are destined for the town market or the international market (of course the road to the port cannot be to the town market). In addition without being able to actually attribute specific policy indicators it would be difficult to find concrete levers. We know for example that policy regimes, including the Philippines, are fragmented. Our Tourism Secretary can only argue (and plead) before the Public Works and Transport/Communications secretaries on the urgency of infrastructure but in the end decided by a different ministry (and maybe different criteria).

Finally, in the case of the International Supply Chain Connectivity (ISCC) Index for the Philippines the low values for the Liner Shipping Connectivity Index derives from the components of the index (number of ships, total container carrying capacity of ships, maximum vessel size, number of services, number of companies deploying container ships) which in turn explains its overall low values. Given that more than half of the Philippines trade are in electronics with low-weight-high-value characteristics which are shipped by air, one wonders what would be the ISCC if an air connectivity index were instead used (this is mentioned in the papers related to trade costs). Though it is true that 80 percent of regional trade are by sea, in the case of the Philippines this may have different results.

## III. The Philippines and APTIR 2013 Theme: Encore

The theme espoused by the APTIR is not only appropriate – it is necessary and timely if not a bit late. If the recent report of a marginal increase in the unemployment rate of the Philippines for 2013 in the face of a respectable growth rate is any indication it is more pressing now as the traditional exhaust for the unemployed is dwindling. It is therefore imperative that the policy establishment take some of the knowledge in Part 2 of the report in any design for an inclusive trade and investment strategy.

Fortunately, this is not new to the Philippines. A generation ago (yes, a generation) policy insights were drawn up to direct the country’s economy towards what are the APTIR’s key words – participation, jobs, and inclusiveness. In 1974 Gustav Ranis led a team in drawing up a report entitled *Sharing in Development: A Program of Employment, Equity and Growth in the Philippines*. Five years later, the government through the BOI requested the World Bank to undertake a study on *Industrial Strategy and Policies*. The latter was even more precise in defining the criteria for industrial strategy – high employment, regional dispersal, and SME participation. There was then none of the buzz words we have today but there is no mistaking that they hew APTIR's key words.

I do not believe this is the right place to start the process of responding positively to the theme that we are discussing today. But let us not forget that while trade costs may be high and connectivity indices low for the Philippines, we must go back farther in the value chain at the point where the private sector acquires the capacities to scan the environment, the public sector is able to improve that environment, and both are able to engage in mutually beneficial trade (both domestic and international) transactions. For example, one can think of encouraging (through appropriate incentives) our local governments to spearhead a *"one town, one factory"* program which will surely dent the huge magnitude of unemployment, disperse industries, and encompass SMEs. As it is, we seem to be faster in building malls than building factories and quicker in constructing condominiums than constructing farm-to-market roads. Indeed the theme of *My City, My SM* is ringing more bells whether it is Christmas or not.

Thank you for your kind attention and I wish us a fruitful discussion.