

NCC Dialogues
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The ASEAN Economic Community and the Philippine Economy

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Development (TRADE) Project



Overview

- **Where are we now?**
 - Signs of a Break-out
- **Where are we headed?**
 - AEC: The Changing Ball Game
 - Business Prospects & Imperatives



Where Are We Now?

“PiTiK Test” on the Economy



The Essential Yardsticks (P-T-K):



Price Stability (*Presyo*)



Jobs (*Trabaho*)



Incomes (*Kita*)

The Economy In 2013

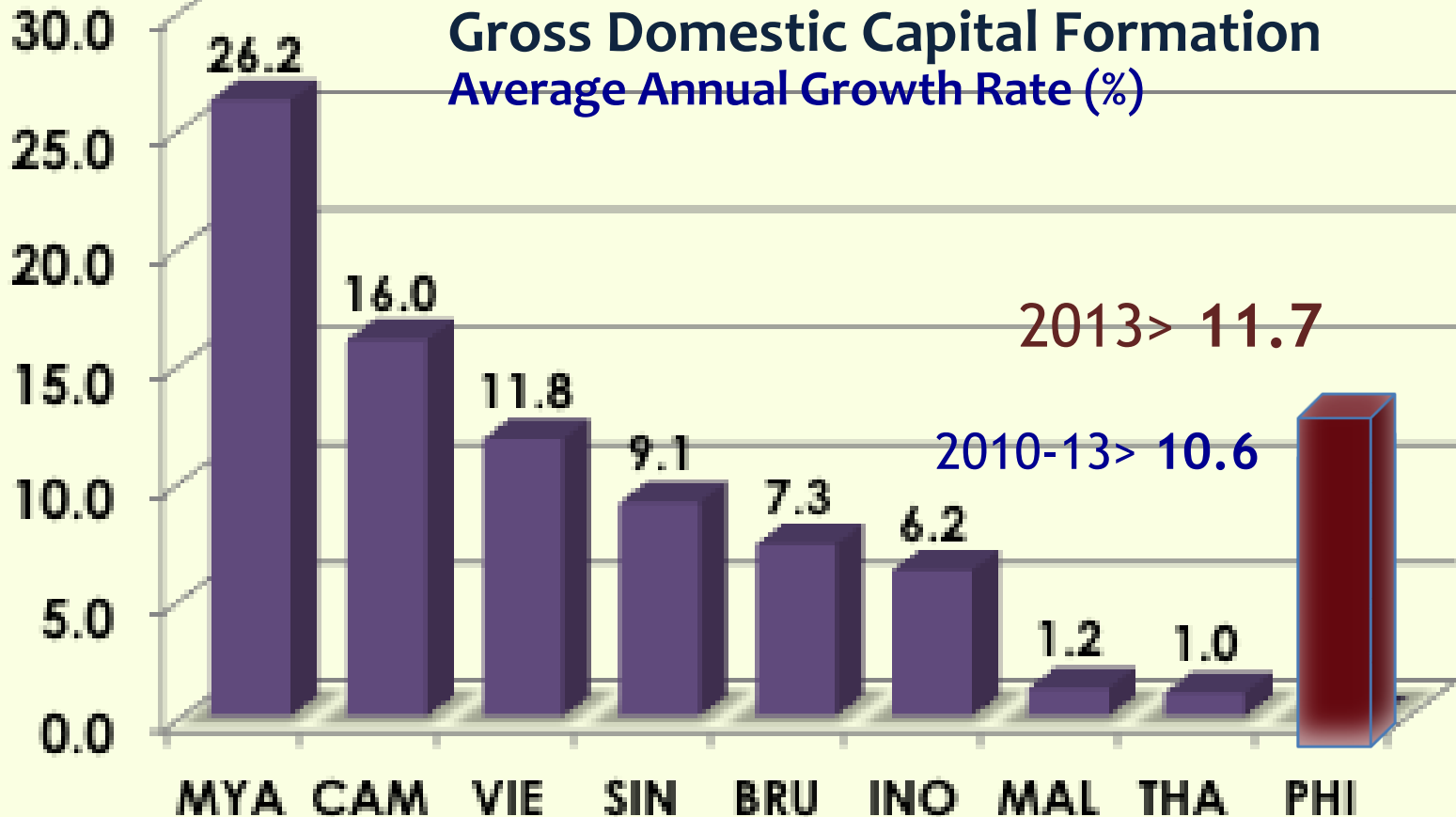
Good News: 2 out of 3



- **Prices:** More stable; inflation slowed to an average of only 2.8% (latest: 4.1%)
- **Jobs:** Job creation lags way behind output growth (0.17% vs. 7.2%!) *(Note: This text is green in the original image)*
- **Incomes/Output:** Second fastest GDP growth in SE Asia, 3rd fastest in Asia

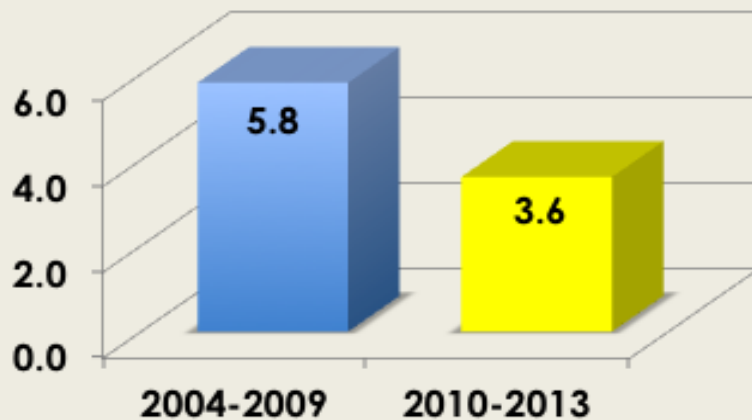
Annual Investment Growth Back in the League

Source: ADB, PSA

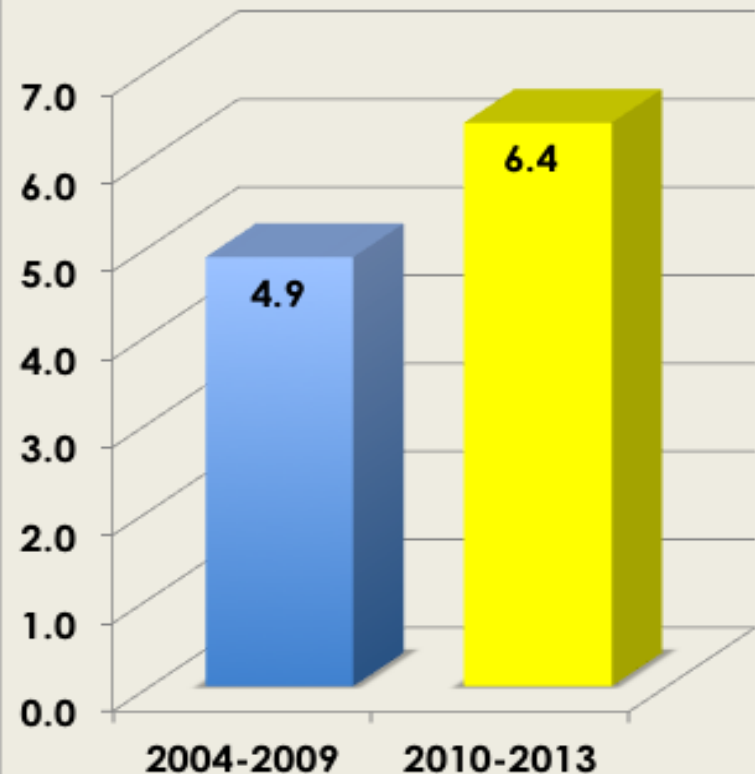


Signs of a Breakout Then and Now

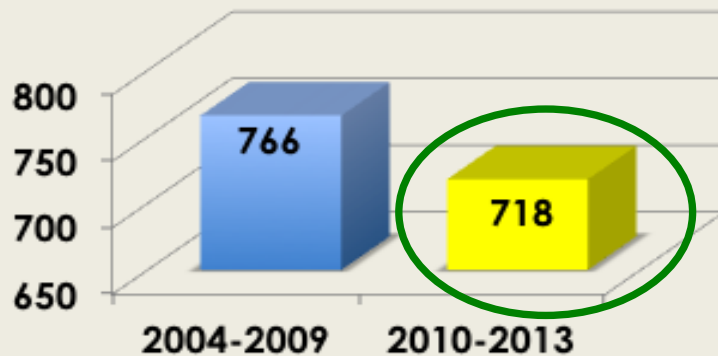
Ave. Annual Price Increase (%)



Ave. Annual GDP Growth (%)

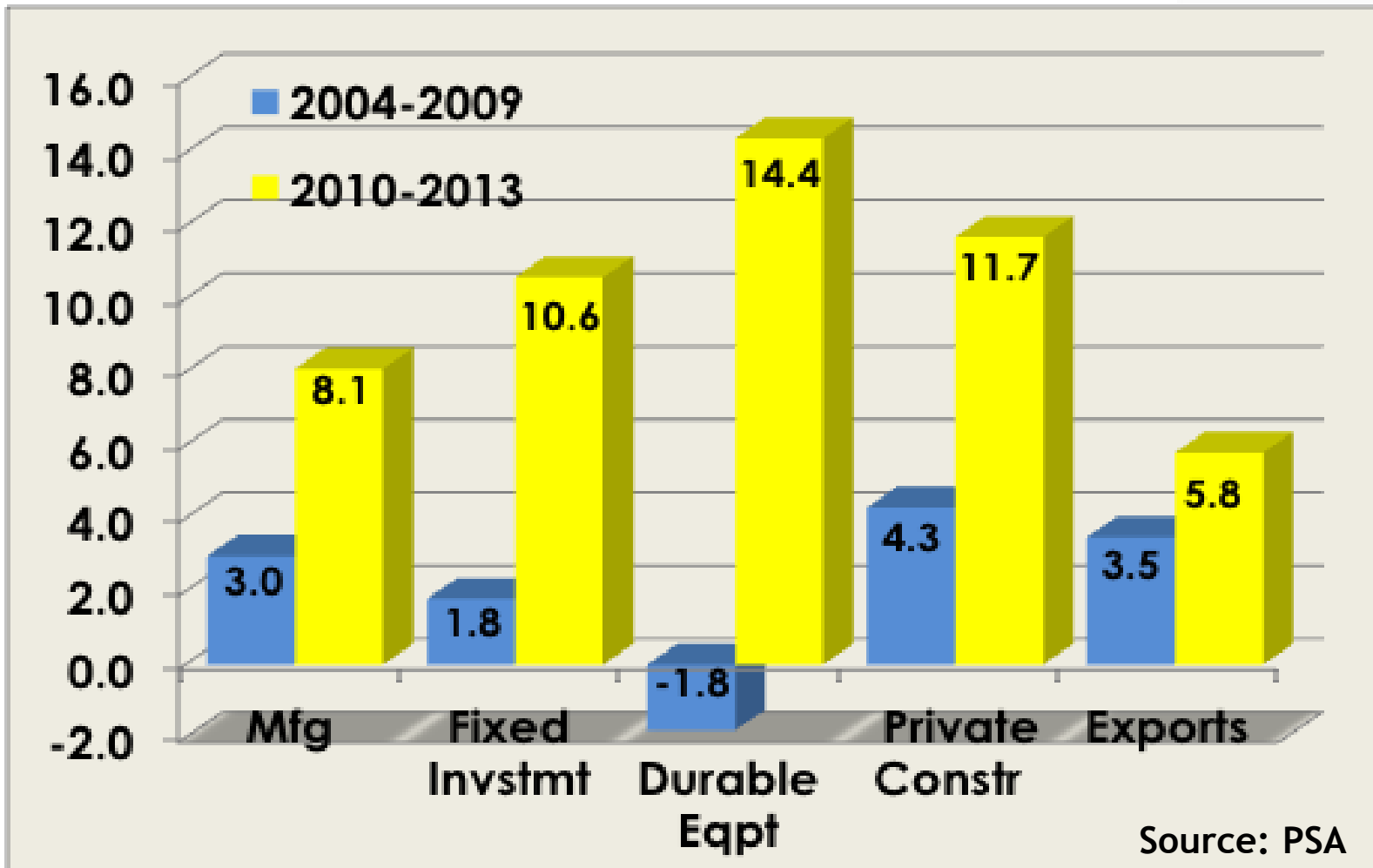


Net New Jobs/Year ('000)



Source: PSA

Breaking Out Where It Matters



Reality Check:

Non-inclusive Growth



- **Narrow:** Growth prominently driven by a few high-growth **services** industries (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

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



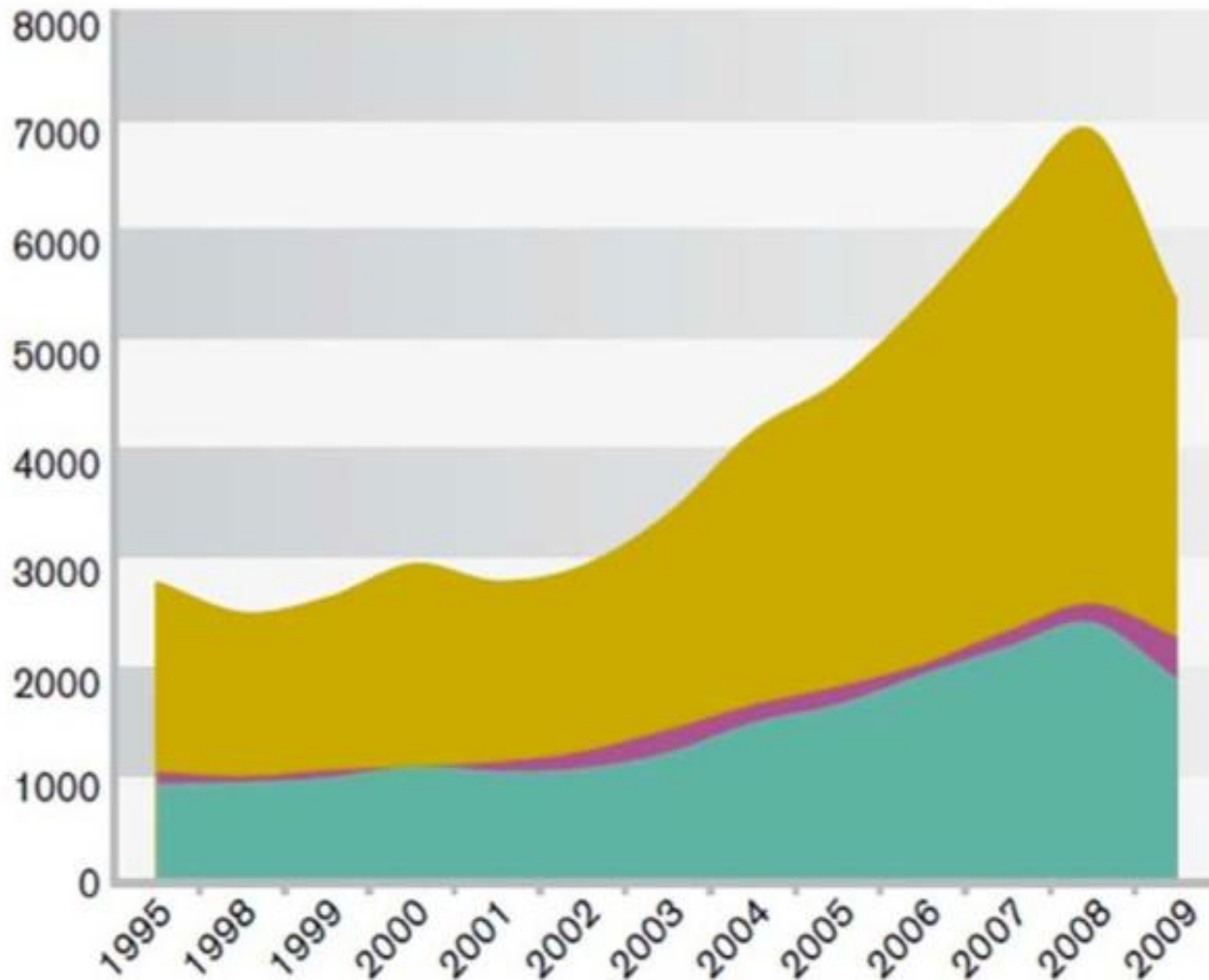
1. More complementation, less competition.
2. Overall benefits of integration outweigh the costs.
3. AEC is pushing us to (finally) do the right things.
4. AEC is not just “coming in 2016”; it’s mostly already here!

1. More complementation, less 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 global 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

Sources: Sherry Stephenson (2013); OECD



Philippine Trade with ASEAN Partners



■ Thailand

Top imports: Motor vehicles, electronics, petroleum and chemicals

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

■ Singapore

Top imports: Electronics, machinery and petroleum

Top exports: Electronics & electricals, machinery, and petroleum

■ 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
- PH already well positioned in cross-border value chains esp. with its prominence in business services



2. Overall benefits of integration outweigh the costs.

Economies of scale and stronger cohesion

AEC Upsides and Downsides



Upsides

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

Downsides

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



3. 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 (Have Been) Pushed to Do



- **Bring Down Trade and Investment Barriers** → Build inherent competitiveness; Widen scope for growth; Increase competition to the benefit of consumers
- **Improve Trade Facilitation** → Reduce business costs; Improve competitiveness for PH businesses
- **Open Our Skies** → Foster greater tourism jobs and earnings (with strong inter-industry linkages)
- **Open Up Key Service Industries** → Contestable markets diffuse monopolistic/oligopolistic power; lowers prices, improves quality, widens choices; achieves more inclusive growth

4. 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% 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% (ASEAN Secretariat's Scorecard)
- December 31, 2015 is not a day of reckoning, but a target deadline for 100% compliance
- No drastic changes will happen on January 1, 2016 (as with fabled Y2K bug!)

Business Prospects

Wider Options/Opportunities



ASEAN
BUSINESS ADVISORY COUNCIL

- Weigh expansion opportunities (wider consumer base) vs. wider competition;
(Pacific Traders & Mfg, SME Food Producers)
- Enhance efficiency via supply chain design & strategic location of various business functions & strategic deployment of skilled labor
- Access wider financing options from integrated regional capital markets

Source: KPMG

Toward AEC-Enabled SMEs

Government: AEC Game Plan



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

Toward AEC-Enabled SMEs

SMEs: Gear Up and Change Ways



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

LEs: 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
- Pursue the triple bottom line of **People, Planet and Profit** to help make **Inclusive Growth/ Development** a reality

Wanted: A Change in Mindset



ASEAN is not “they/them”;
ASEAN is we/us!