

ASEAN ECONOMIC COMMUNITY: Advances and Challenges for the Philippines

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Outline

- ASEAN FTA and AEC Introduction
- Broad Status of Philippine AEC Commitments
- Advances and Opportunities
- Challenges and Threats
- Final Thoughts

ASEAN FTA

- The ASEAN FTA is a trade bloc agreement of the Association of Southeast Asian Nations (ASEAN) supporting local manufacturing in all ASEAN countries.
- The Philippines is among those founding members of the ASEAN (together with Indonesia, Malaysia, Singapore, Thailand and Brunei).

ASEAN Economic Community (AEC)

- In 2015, ASEAN Economic Community (AEC) was established.
- The AEC envisioned to establish the ASEAN as (i) a single ASEAN market; (ii) a highly competitive economic region; (iii) foster an equitable economic development and (iv) fully integrated into the world economy.

Part 1. Broad status of our commitments

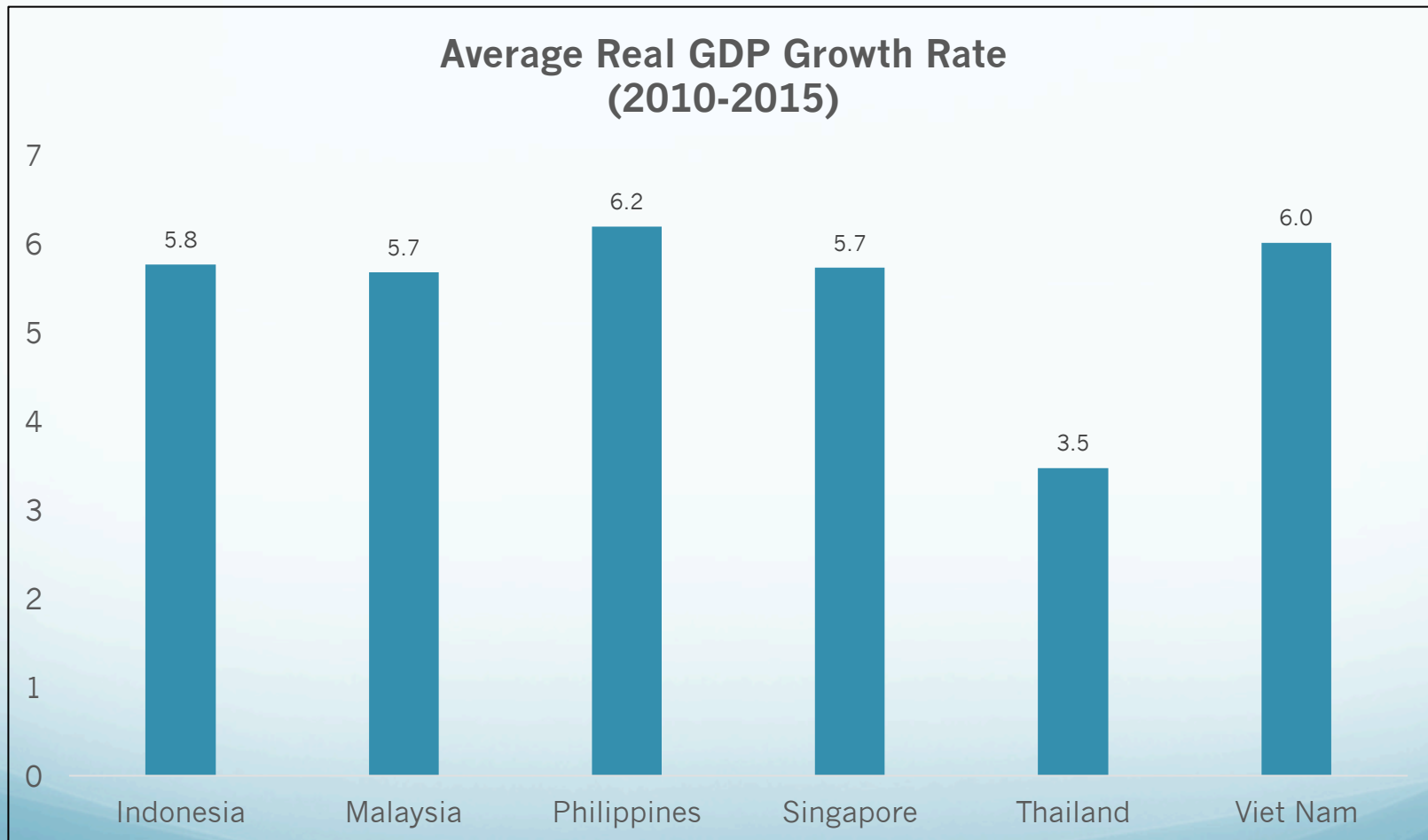
Free flow	Status	Notes
Goods	advanced	EO 850 (Dec.'09) 0% tariff in '10, range: 0-5%; rice, sugar >5% tariff; 2010 ASEAN share: 22% (exports); 28% (imports)
Investment	commenced	4 IPAs: investment promotion & facilitation remaining foreign equity restrictions due to Constitutional limitations
Skilled labor	commenced	RA 8981 allows foreigners subject to foreign reciprocity provisions Accounting: bilateral negotiations commenced; PRC & DOLE facilitate MRA implementation, DOLE positive list
Services	behind	Ph has lowest level of commitment in ASEAN Many sectors unbound under Modes 3 & 4 Foreign equity restrictions due to Constitutional limitations

Foreign Equity Restrictions

LIST A	Sector
No foreign equity	Mass Media except recording; Practice of all professions; Retail trade enterprises with paid-up capital < US\$2,500,000
Up to 20%	Private radio communications network
Up to 25%	Private recruitment; Contracts for construction & repair of locally-funded public works & defense-related structures
Up to 30%	Advertising
Up to 40%	Exploration, development and utilization of natural resources; Land ownership; Operation & management of public utilities; Ownership/establishment & administration of educational institutions; Culture, production, milling, processing, trading excepting retailing, of rice & corn; Contracts for supply of materials, goods & commodities to GOCCs or municipal corporations; BOT requiring public utilities franchise; Operation of deep sea commercial fishing vessels

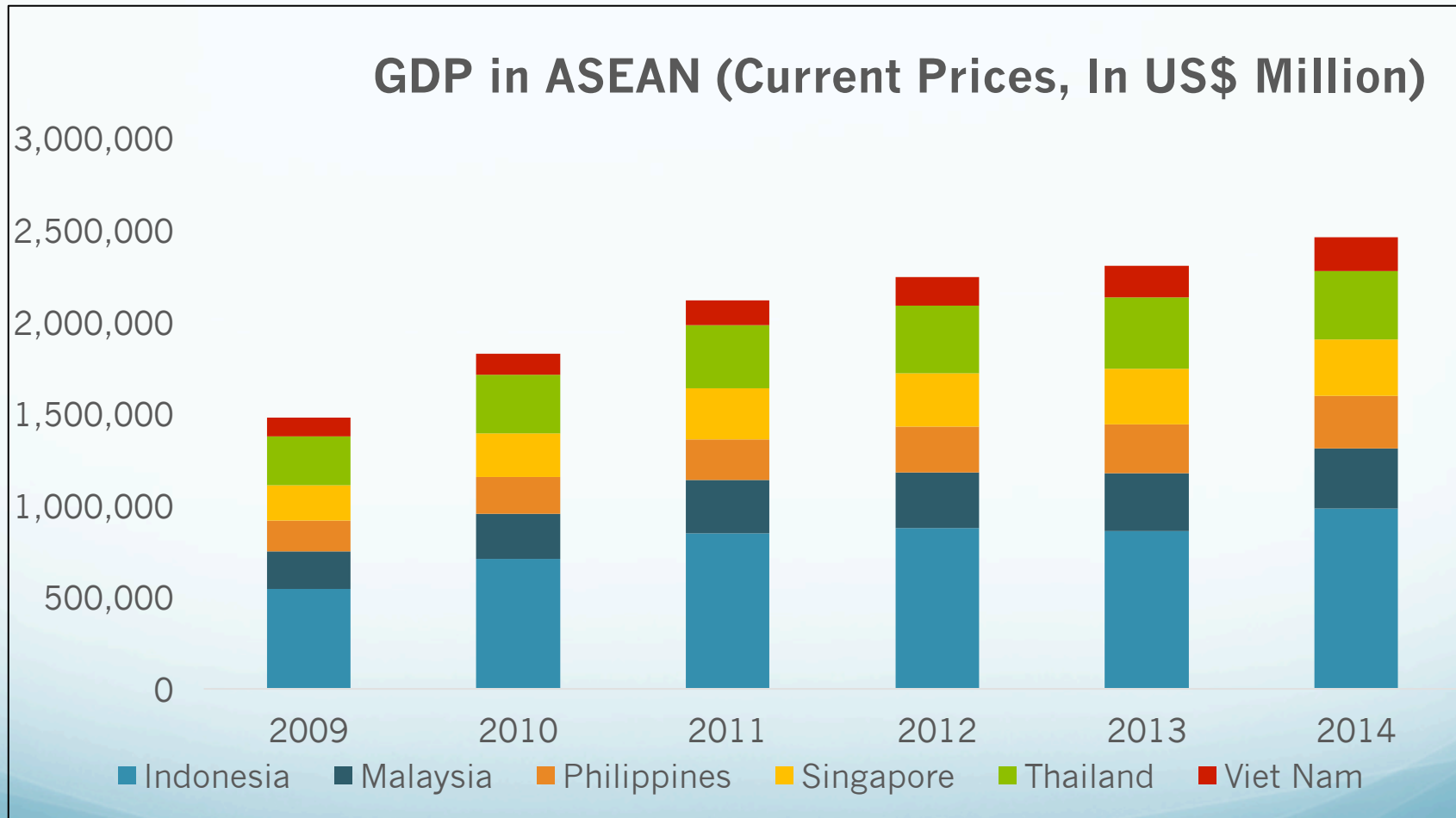
Part 2. Advances and Opportunities

The Philippines is one of the fastest growing economies in the region.



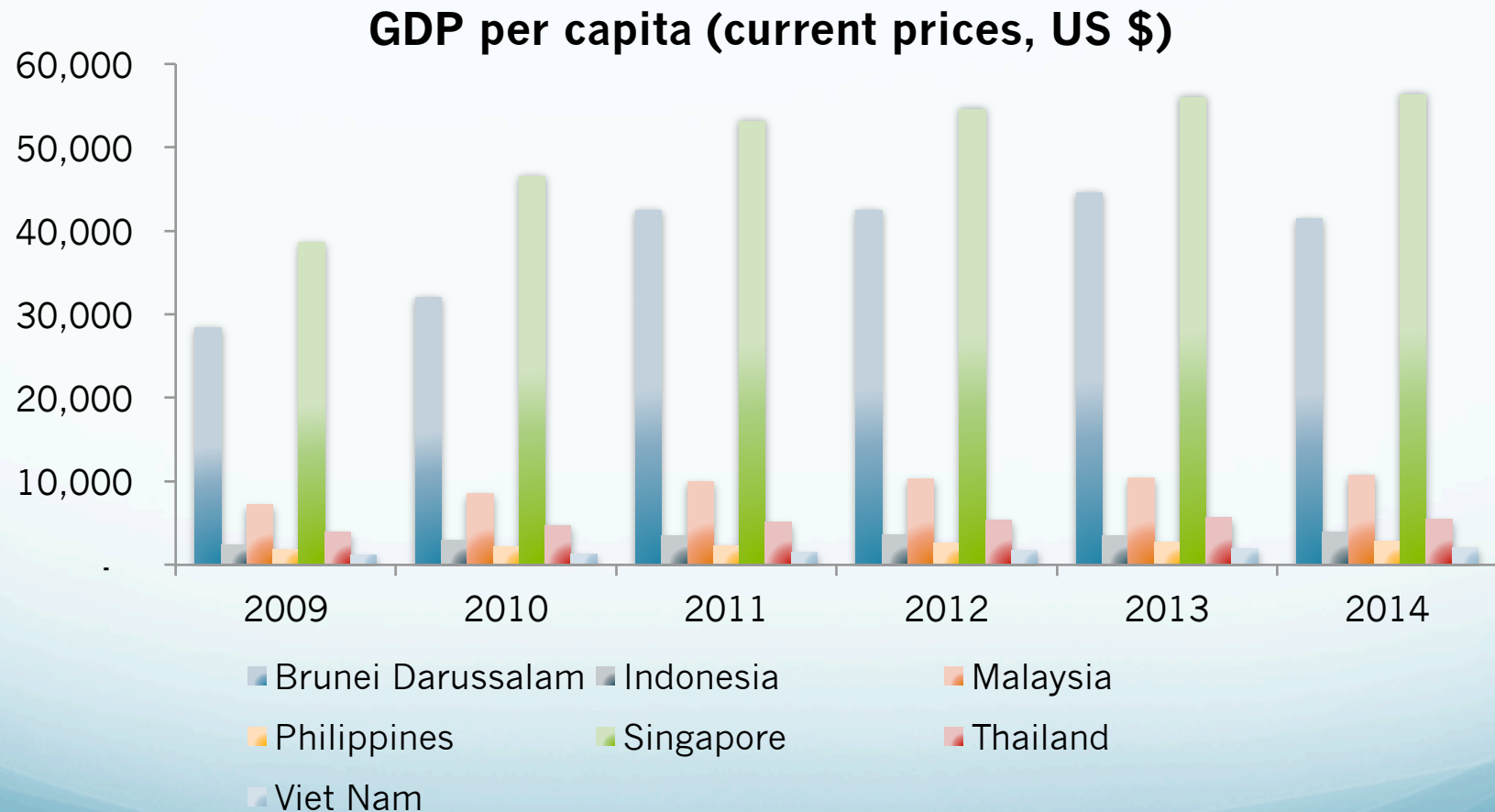
Source: www.asean.org, Asian Development Bank (ADB)

The Philippines is the 5th largest economy in the ASEAN.



Source: www.asean.org, Asian Development Bank (ADB)

Per capita GDP is ranked 6th in the ASEAN



Source: www.asean.org

Since 2008, there is a growing trend in FDI in the region

Net Inflows of FDI (Level and % Share)



Source: www.asean.org.

High competitiveness products

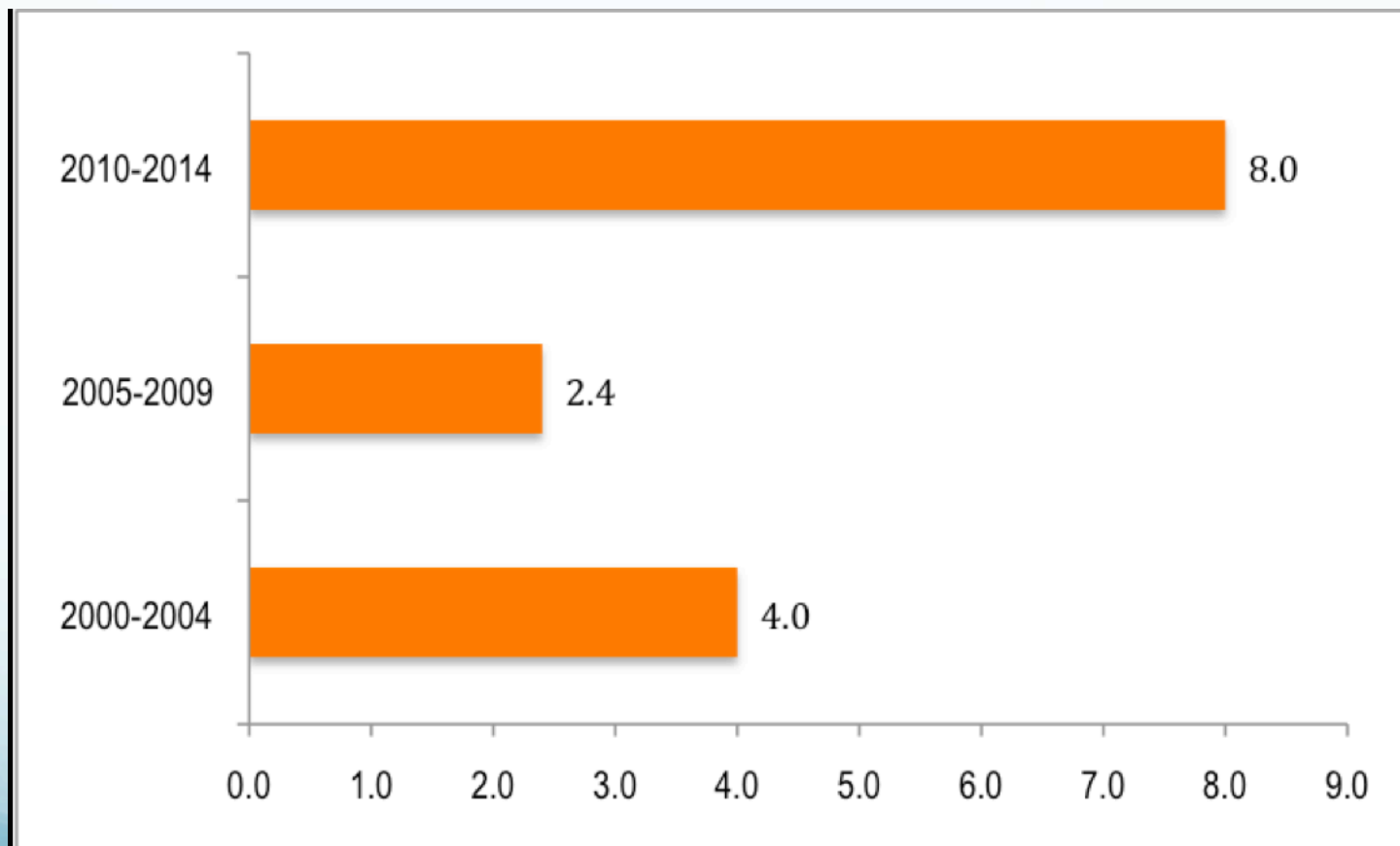
Product Group	Sub-Group
Minerals	copper ores & copper
Raw materials	fuel wood, wood charcoal
Cereal, etc	Unmanufactured tobacco & vegetable textile fibers
Labor-intensive	Knitted men's, boys clothing; knitted women, girl clothing; other textile apparel
Capital-intensive	tulle, lace, embroidery
Machinery	electric distribution equipment; radio broadcast receiver; transistors, valves
Chemicals	alcohol, phenol

Emerging champions or potentially competitive products

Product Group	Sub-group
Animal products	milk & cream
Cereals, etc	tobacco manufactured cereal preparations*, edible prod.*
Machinery	electric power machinery, parts; electric machinery apparatus; parts for tractors & motor vehicles ship, boat, float structures* cycles, motorcycles; aircraft, associated equipment; medical instruments; arms/ammunitions
Labor-intensive	glass
Chemicals	metal salts, inorganic acid soap, cleaners, polish, etc
Forest	Pulp & paper*
Capital-intensive	furskins, tanned, dressed

Manufacturing Renaissance

Average Growth Rate of Philippine Manufacturing (in %)



Opportunities for Filipino firms to expand

- Labor mobility
- Market access
- Transport & logistics, trade facilitation, product standardization & conformance: lower transaction costs
- Improved administrative processes (customs, mutual recognition arrangements)
- Easier/less costly movement goods

Opportunities for Filipino firms to expand

- Investment liberalization
 - Can own 100% of companies in other ASEAN countries
 - Should be treated equally as local companies/people
 - Should be able to own 70% (maybe more) of services companies
 - Access to capital markets, repatriation of profits & dividends
 - Likely to be many non-ASEAN companies looking for entry

Opportunities for the Filipino people

- Employment creation
- Higher & faster growth
- Larger FDI flows
- Improved competitiveness & productivity through efficient resource allocation, scale economies & fragmented production
- Larger market access, lower input costs, lower transaction costs, lower trade related costs & easier trade operations
- Investors: stronger investment rights
- Better standard of living

Part 3. Challenges and Threats

Competition from new foreign entrants to the market

- Bigger with more financial capability
- Better technical products/service systems
- May get support from home countries
- More experience competing already

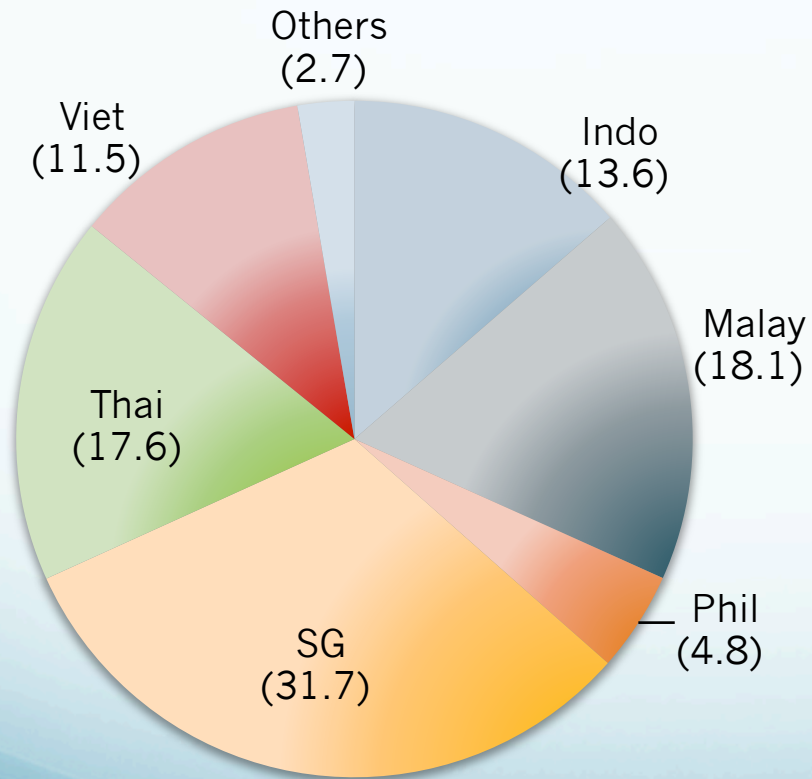
Products at risk

Product Group	Sub-group
Forest products	veneers, plywood
Tropical agriculture	sugars, molasses, honey; cocoa; natural rubber
Animal products	fish(fresh, chilled, frozen); animal, vegetable fats, oils, nes
Labor-intensive	pottery; furniture, cushions, etc; trunks, suitcases, bags; clothing accessories, fabric; footwear; baby carriage, toys, games; gold, silverware jewellery,

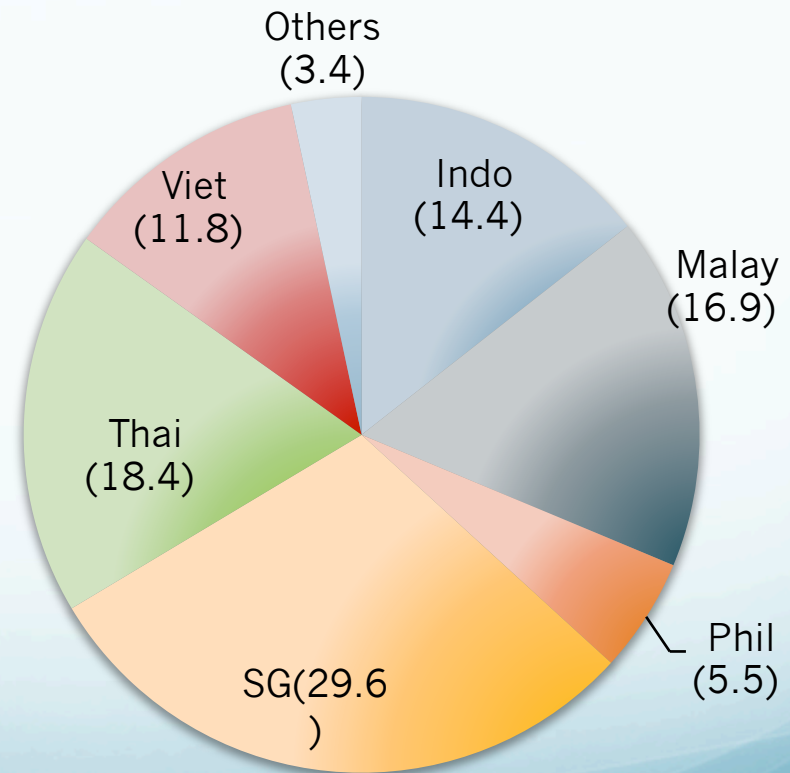
Trade

ASEAN Export and Import of Goods (Share to Total)

Export



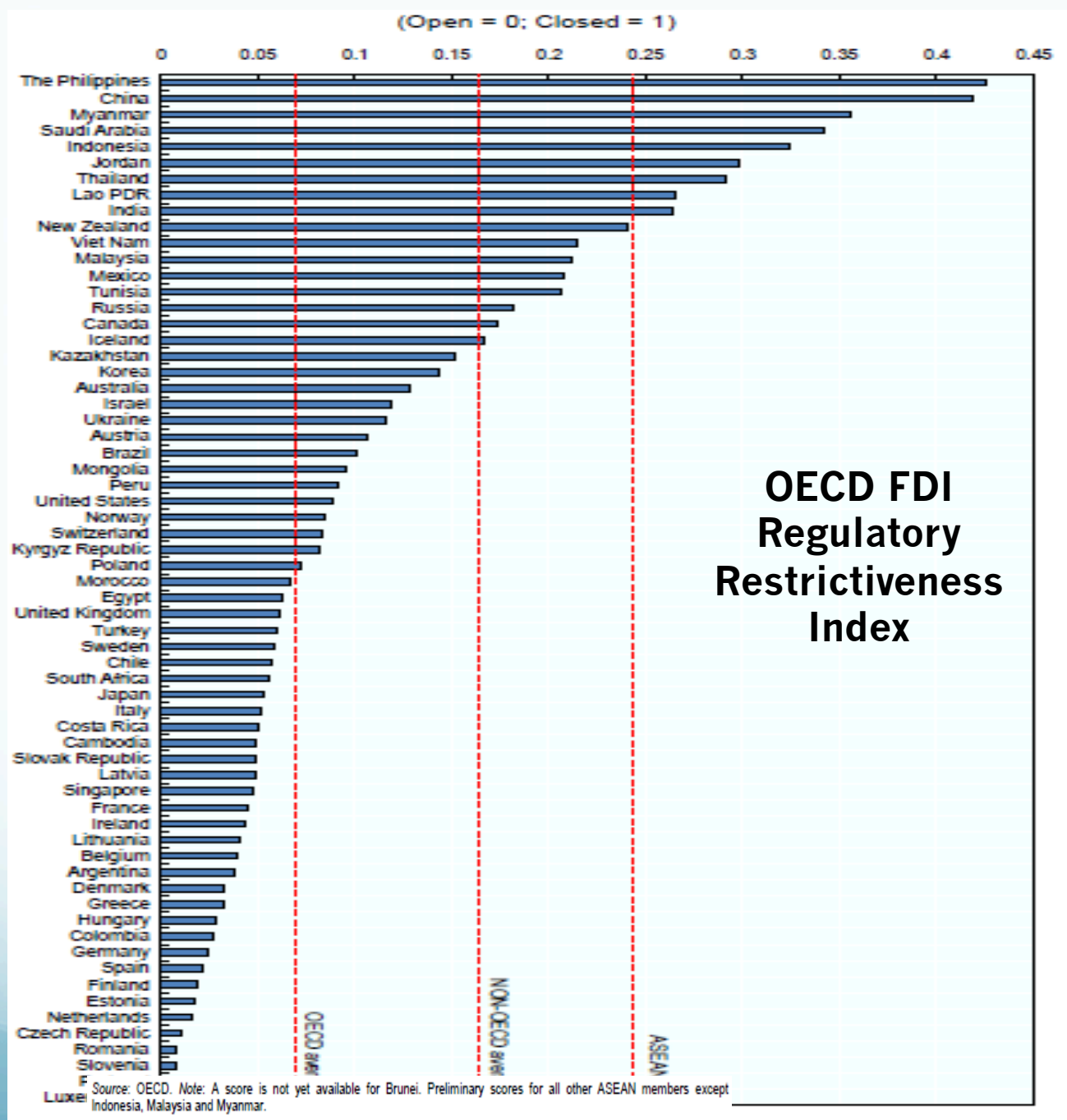
Import



The Investing Across Sectors indicators

Region/Economy	Mining, Oil & Gas	Agriculture & Forestry	Telecom	Transport	Media
East Asia & Pacific	78.4	82.9	64.9	66.0	36.1
Indonesia	97.5	72.0	57.0	49.0	5.0
Malaysia	70.0	85.0	39.5	100.0	65.0
Philippines	40.0	40.0	40.0	40.0	0.0
Thailand	49.0	49.0	49.0	49.0	27.5
Vietnam	50.0	100.0	50.0	69.4	0.0

The World Bank Group (2010)

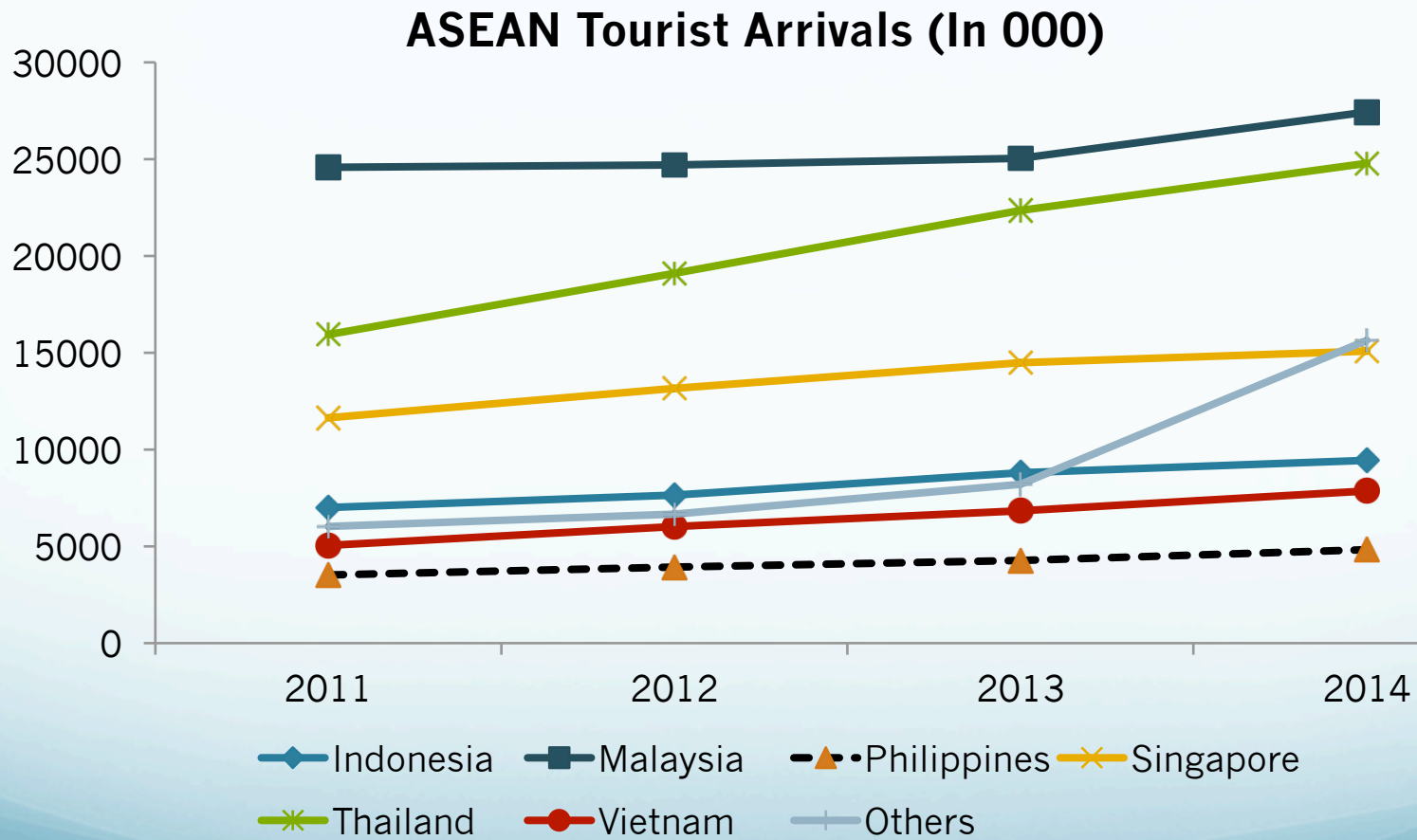


Manufacturing Value-added

	MVA per capita (2005 \$)	Manufactured Exports per capita (current \$)
Indonesia	451.3	438.8
Malaysia	1,717.0	6,201.9
Philippines	353.4	495.6
Singapore	9,700.0	32,285.9
Thailand	1,168.4	2,998.6
Vietnam	235.6	1,128.9

Source: Industrial Development Report, UN Industrial Development Organization (UNIDO)

Tourism

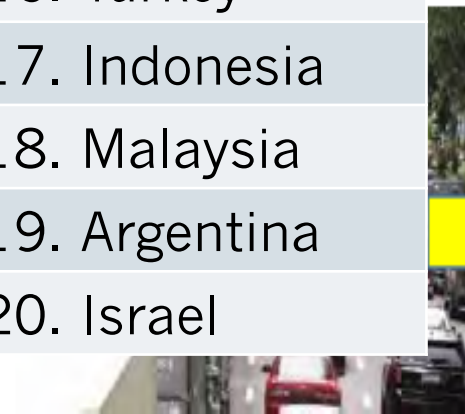


Congestion Everywhere!



Top 20 Countries with the Worst Traffic

1. Kenya	11. Brazil
2. Egypt	12. Russia
3. Bangladesh	13. India
4. Bolivia	14. Japan
5. Nigeria	15. Ecuador
6. Jordan	16. Turkey
7. Iran	17. Indonesia
8. South Africa	18. Malaysia
9. Philippines	19. Argentina
10. Thailand	20. Israel



Inadequate Infrastructure

**Philippines Global Competitiveness Ranking
Selected Indicators From Global Competitiveness Report**

	Infrastructure	Institutions	Macroeconomic Environment
2010	104	125	68
2011	105	117	54
2012	98	94	36
2013	96	79	40
2014	91	67	26
2015	90	77	24

Source: World Economic Forum (WEF), various years

Inadequate Infrastructure

**Global Infrastructure Competitiveness Ranking
Selected Asian Countries**

	2011	2012	2013	2014	2015
Cambodia	107	104	101	107	101
Indonesia	76	78	61	56	62
Lao PDR	NA	NA	84	94	98
Malaysia	26	32	29	25	24
Philippines	105	98	96	91	90
Thailand	42	46	47	48	44
Vietnam	90	95	82	81	76

Source: World Economic Forum (WEF), various years

Inadequate Infrastructure

Philippine Global Infrastructure Competitiveness Ranking vs ASEAN (2015-2016)

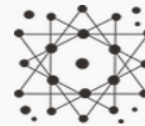
	Overall Ranking	Quality of Infra	Quality of Roads	Quality of Railroads	Quality of Ports	Quality of Air Transport
Cambodia	101	102	94	100	83	100
Indonesia	62	81	80	43	82	66
Malaysia	24	16	15	13	16	21
Myanmar	134	135	136	96	123	132
Philippines	90	106	97	84	103	98
Thailand	44	71	51	78	52	38
Vietnam	76	99	93	48	76	75

Source: WEF

High cost of doing business

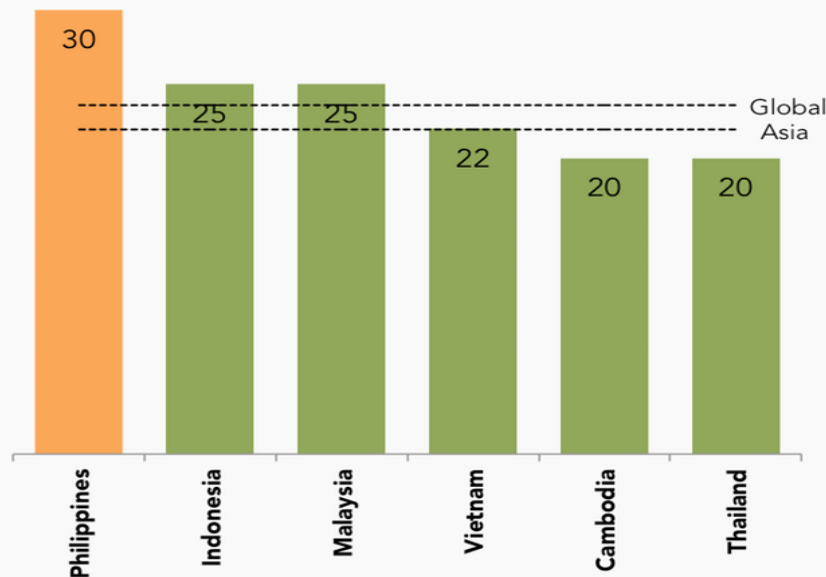
CAN'T GET A BREAK

Comparison of VAT and Corporation Tax Rates, ASEAN, 2013
Data Source: KPMG Tax Database

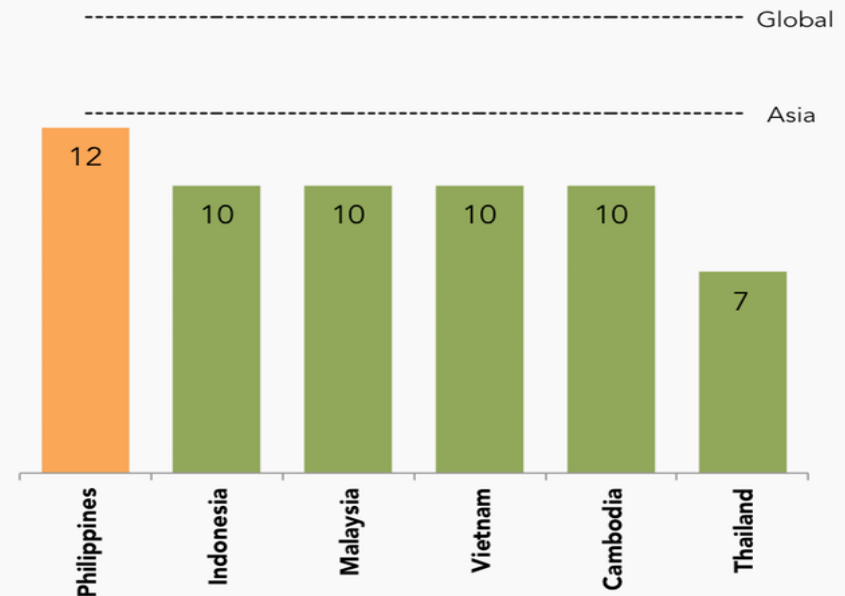


Jumbo Dumbo Thoughts
<http://www.jumbodumbthoughts.com>

Corporation Tax



Value Added Tax



NOTES: 1. The tax base may differ across countries due to varying definitions of sales, receipts, and income, as well as allowable deductions.
2. VAT rates may vary depending on the type of business (export sales usually receive preferential rates) and vendee (sales to government).
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Poor Quality of Power Supply

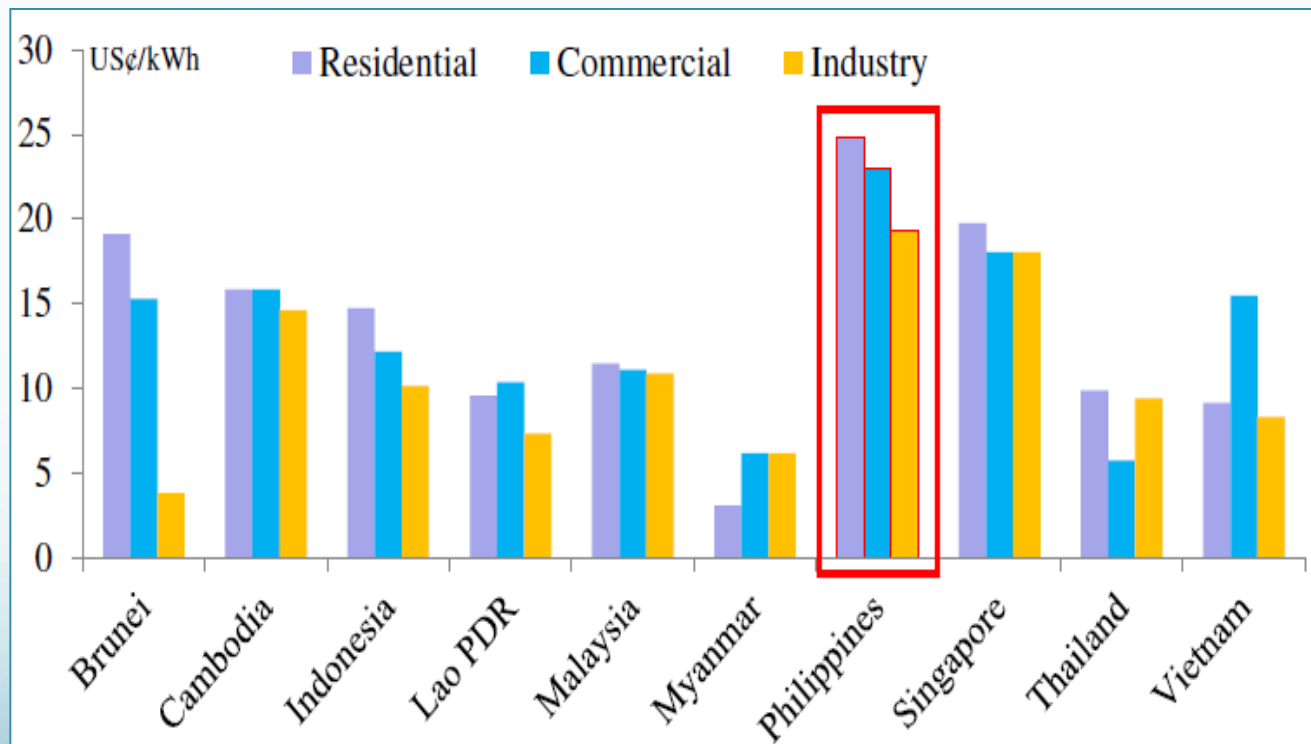
Comparative Quality of Electricity Supply Based on Global Competitiveness Survey (Ranking)

	2007-2008	2009-2010	2011-2012	2013-2014	2015-2016
Cambodia	117	112	105	110	108
Indonesia	92	97	93	84	86
Malaysia	31	40	35	39	36
Philippines	82	101	98	87	89
Thailand	43	42	44	58	56
Vietnam	104	98	112	88	87

Source: WEF

High Cost of Power

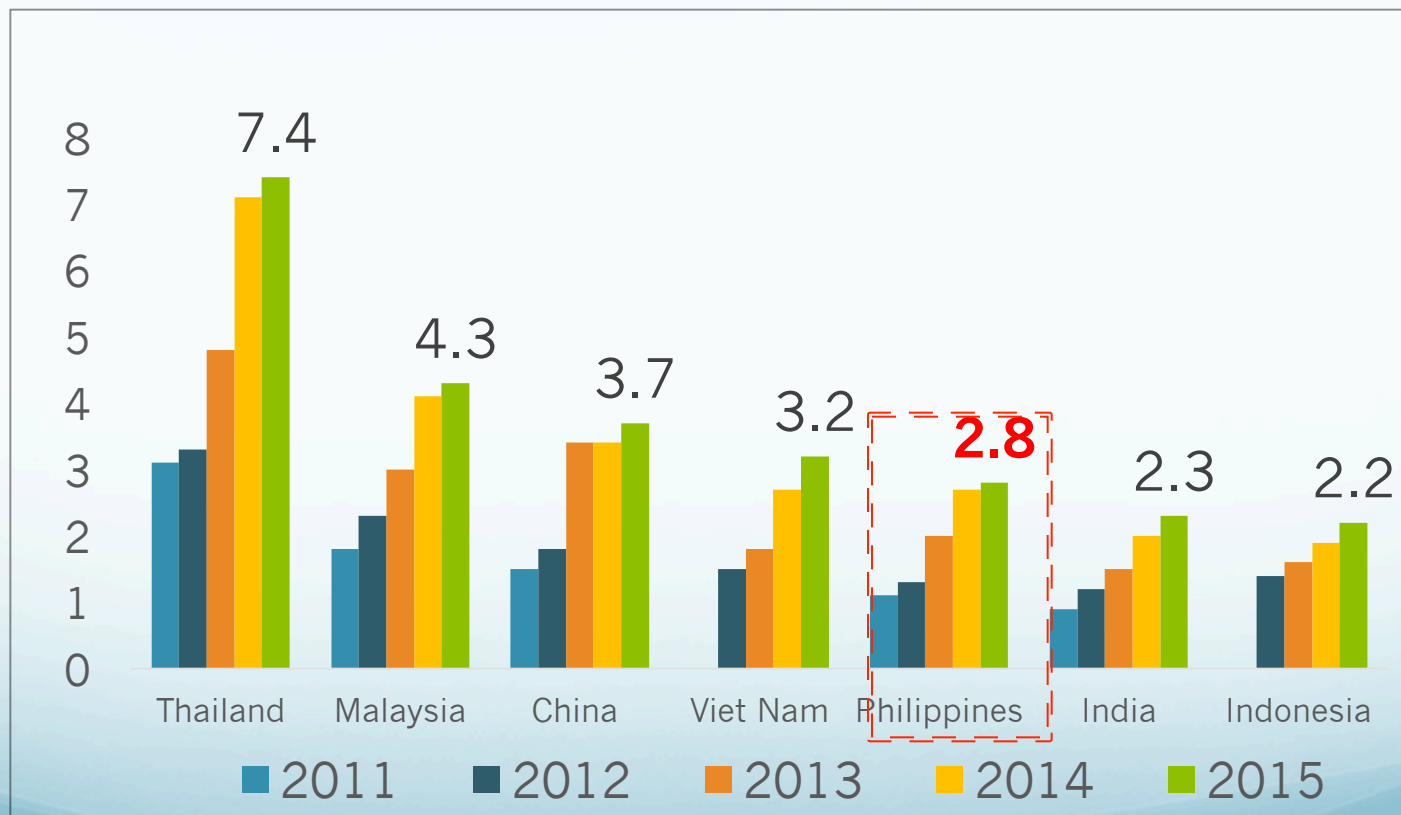
Comparative Electricity Prices (In US cents/kwh) Selected ASEAN



Source: Cited by Prof. Waldo del Mundo in his presentation entitled "Competition and Security in the Philippine Electricity Market during the EPDP Conference 2016"

Poor quality of ICT services

Asia-Pacific Average Internet Speed (mpbs)



Source: Akamai Q12011-2015) as cited by Mirandilla-Santos (2016) during the Broadband Policy Brief during the Arangkada Philippines

5. Final Thoughts

- Much still needs to be done for the Philippines to catch up with its counterparts in the ASEAN and maximize the gains of regional economic integration.
- The country's ability to attract a critical mass of investments is particularly important in achieving sustainable economic growth over the long term.
- Notwithstanding some gains, the Philippines performed very poorly in some areas of economic competitiveness, especially in infrastructure and the cost of doing business.

5. Final Thoughts

- There is a need to strengthen institutional and regulatory environment to provide better services in a liberalized economy
- Existing industries must move up the value chain in order to take full advantage of regional integration
 - Industry upgrading & restructuring:
move up the value chain