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INTERNATIONAL TRADE AND INVESTMENTS IN THE PHILIPPINES: SOME POLICY ISSUES AND IMPLICATIONS FOR FURTHER RESEARCH

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INTRODUCTION

The Philippines has embarked on domestic economic reforms and promotion of regional economic integration and multilateral trade liberalization with the purpose of strengthening international trade and investment. The National Economic and Development Authority (NEDA), in its Philippine Development Plan 2011-2016, has enunciated strategies that aim to improve the competitiveness of the domestic economy's industrial and services sectors and narrow the country's infrastructure gaps. In 2007, the Philippines, together with other Association of Southeast Asian Nation (ASEAN) countries adopted the ASEAN Economic Community (AEC) Blueprint, with the countries agreeing to accelerate the transformation of the region to an AEC—a region with a "single market and production base" and "with free movement of goods, services, investment, skilled labour, freer flow of capital"—by 2015. One of the reforms undertaken to support the establishment of AEC is the ASEAN Single Window. This was created in 2005 to provide consistent, efficient, simple, and transparent customs processes, transactions, and decisions to lower trade costs and improve trade facilitation in the region.

In addition, the Philippines has been participating in the formation and implementation of bilateral and plurilateral free trade agreements (FTAs), with 7 FTAs already in effect, and 6 more being proposed. It has also shown increased willingness to liberalize its services sector following its recent signing to the ASEAN-PRC Agreement on Trade in Services in 2007, as well as the General Agreement on Trade in Services (GATS) Protocols on basic telecommunication (in 2006) and financial services (in 2011).

At this juncture, however, the Philippines face major obstacles in its pursuit to promote freer trade and investment. The United States' (US) sluggish economic performance and the European Union's (EU) looming recession—which has been largely induced by the region's sovereign and banking crises—both have contributed to the moderation of Philippine exports, as these two are major export markets of the country. Moreover, structural weaknesses of its domestic economy have negatively impacted on foreign direct investment (FDI) inflows.

Against this backdrop, the Philippines ought to craft better trade and investment policies that will help overcome the challenges prevailing in the global economy and address the structural bottlenecks that are rampant in the domestic economy. This policy brief provides for a brief description of the nature and recent developments in preferential and multilateral trade liberalization, trade facilitation, and FDIs with emphasis on the Philippine setting. It also identifies some areas for policy action and for research work that this author thinks would be relevant in better understanding how to improve the economy's international trade and investment.

PREFERENTIAL AND MULTILATERAL TRADE LIBERALIZATION IN GOODS AND SERVICES

Bilateral and plurilateral FTAs have proliferated worldwide over the past two decades or so. The Asian Development Bank's (ADB) Asia Recovery Information Center (ARIC) reports that as of June 2012, a total of 250 FTAs have been introduced, of which about three-fourths are bilateral FTAs and the rest are plurilateral FTAs. The Philippines has been a member country of seven FTAs, and these are: i) ASEAN Free Trade Area (AFTA), ii) ASEAN-Australia and New Zealand FTA, iii) ASEAN-People's Republic of China (PRC) Comprehensive Economic Partnership, iv) ASEAN-Japan Comprehensive Economic Partnership, v) ASEAN-India Comprehensive Economic Partnership, vi) ASEAN-Korea Comprehensive Economic Partnership, and vii) Japan-Philippines Economic Partnership Agreement (JPEPA). So far, there were five FTAs that have been proposed for the Philippines, namely a) ASEAN-EU FTA, b) ASEAN-Pakistan FTA, c) Comprehensive Economic Partnership for East Asia, d) East Asia FTA, e) Pakistan-Philippines FTA, and f) United States-Philippines FTA. In addition, the Philippines signed in 2007 the Trade in Services Agreement under the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the PRC.

Meanwhile, the Philippines has embarked on multilateral trade liberalization through its accession to the World Trade Organization (WTO) beginning in 1995; enabling it to commit to WTO agreements and adhere to WTO principles, such as the granting of Most-Favored-Nation (MFN) treatment to its trading partners. As a result, the Philippine's simple average MFN tariff rate fell from more than 20% in the early 1990s to 9.7% in 1999 and down further to 6.4% in 2011. Recently, the Philippines became a signatory to the GATS Protocols in basic telecommunication in 2006, and in financial services in 2011.

Despite the country's trade reforms, the Philippines still faces various NTBs and NTMs together with technical barriers to trade (TBTs) and sanitary and phytosanitary (SPS) measures, with their use reportedly increasing in recent years. The Philippines also has numerous barriers to services trade as mandated by its 1987 Constitution and statutes. For example, foreigners are prohibited to work in 23 types of profession (ex. Accountancy, Medicine, etc.) while foreign ownership is prohibited in mass media (except recording), small-scale mining, and retail trade sectors. Also, foreign ownership of up to 20% are allowed in private radio communications, 25% for private recruitment, 30% for advertising, and 40% for private lands, natural resource exploration, and public utilities, among others, and 60% for financing companies and investment houses.

A Philippine-specific study (co-authored by this writer) that utilizes a computable general equilibrium (CGE) model has simulated that combined tariff reductions under AFTA's Common Effective Preferential Tariff (CEPT) and the WTO's MFN schemes, coupled with an appropriate direct income tax measure to offset tariff revenue losses, would result in an expansion in Philippine gross domestic product (GDP), increases in the production and exports of the manufacturing sector, higher household income and lower consumer prices, and reduction in poverty incidence at the national level (Corong & Taningco, 2010).

This writer suggests that similar CGE studies be pursued by academics and policymakers to identify the potential economy-wide and poverty impacts of other FTAs on the Philippines. Likewise, studies that will help simulate the reduction or elimination of foreign ownership restrictions on service sectors may be worthwhile. In addition, more research that will identify those NTBs, NTMs, TBTs, and SPS measures facing Philippine exporters and importers must be completed. Similarly, case studies that focus on Philippine SMEs may be useful in terms of gauging their familiarity (or lack of) of FTAs, along with the effects of these FTAs on their business operations.

TRADE FACILITATION

Trade facilitation has been defined by the Asian Development Bank (ADB) and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) as the "systematic rationalization of customs procedures and documents…" in its narrowest sense, and, in a broader sense, "covers all the measures that affect the movement of goods between buyers and sellers, along the entire international supply chain…" (ADB & ESCAP, 2009)

Several studies on trade facilitation in East Asia have been documented. One of these is a co-authored study of this writer that uses a gravity model to show that bilateral merchandise trade flows within the East Asian region are associated with certain trade facilitation measures—such as time delays in trade, quality of port infrastructure, telecommunications service, and depth of credit information (Hernandez & Taningco 2010). The same study also reveals that there is substantial variation of trade facilitation across product groups, with time delays being more influential in trade flows in food and beverages (due to its "perishability") and in transport equipment (as in this sector, there is production sharing and enforcement of just-in-time business practices).

Meanwhile, another study reveals that Philippine SME importers tend to encounter information and telecommunications technology (ICT)-related problems such as internet connectivity, system breakdowns, inadequate electronic lodgement, and costly ICT investments (De Dios, n.d.).

Thus, in order to improve trade facilitation and thereby promote freer trade in goods for the Philippines, policies must be geared towards improving the quality of infrastructures—such as roads, ports, telecommunications, and other ICT-related services—as well as towards financial sector development—in order to help mitigate information asymmetries between creditors and exporters/importers relying on trade financing. More policy research must be developed covering these"behind-the-border" and "at-the-border" trade facilitation measures, and that identifying some of these measures at the more disaggregated product category level would be important as well for policy-making purposes.

FOREIGN DIRECT INVESTMENTS

Meanwhile, Philippine FDIs remain relatively small, with the country being one of the laggards amongst Southeast Asian countries when it comes to attracting FDIs. Based on FDI statistics of the United Nations Conference on Trade and Development (UNCTAD), the Philippine inward FDI stock in 2010 amounted to US$24.9 billion, which is only the sixth-largest in the ASEAN region, and that the Philippines was the only country in ASEAN that registered an annual decline in inward FDI flow for the same year, whereas all other ASEAN countries recorded an increase in their respective FDI inflows between 2009 and 2010. The World Bank, in its latest quarterly update of the Philippines, reported that Philippine FDIs has underperformed in the last 15 years, and that the country's structural weaknesses have hampered the influx of FDIs (The World Bank, 2012). In addition, existing foreign ownership limits also contribute in preventing the acceleration of FDI inflows.

Unfortunately, there seems to be a paucity of research in Philippine FDIs, particularly in identifying those "structural weaknesses" that are reportedly influential in impeding long-term foreign capital from entering the country. Moreover, there appears to be a lack of research in pinpointing the potential economic benefits from attracting more FDIs into the domestic economy. One area that this author finds in studies focusing on other economies is that technology policy is a crucial ingredient for FDIs and that FDIs have positive spillover effects on domestic firms.

microeconomic determinants of FDIs into the Philippine economy, and also to demonstrate whether and how those positive spillover effects of FDIs would accrue to Philippine domestic firms. Furthermore, policy research must be conducted to strengthen the link between the country's "structural weaknesses"—such as but not limited to high business costs, poor governance, low government revenue—and FDIs in the Philippines, and also how public-private partnerships (PPPs) would contribute to improving the quality of physical infrastructure and attract greater FDIs into the Philippine economy.

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