

II. International Economic Relations

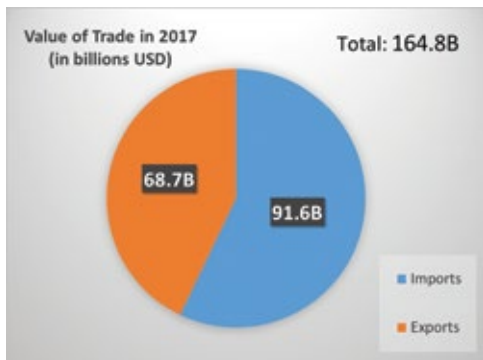
II.A TRADE

II.A.1 KEY CONCEPTS

Trade

- Change in ownership of material resources and services between one economy and another.
- Allows for (1) specialization of economies, (2) reduced prices through increased competition, (3) access to goods and services that otherwise are not locally available, and (4) innovation and technology transfer.
- Importance of trade to growth and development has been proven in theory, practice and research.

Philippine Trade in Numbers



Trade as % of GDP (Trade-to-GDP ratio) is the most widely used measure of trade activity for an economy. The higher the ratio, the higher the share of trade in an economy.

Philippine Development Plan **Export Revenue Target: USD 130.8 billion by 2022**

The Philippine Export Development Plan 2015 to 2017

The PEDP, spearheaded by the Department of Trade and Industry (DTI), lays out a three-year multi-stakeholder plan to develop the competitiveness of the Philippine exports. PEDP focuses primarily on capacitating local export industries (the supply side of exports). Relevant portions for Philippine government agents based abroad: key and emerging sectors section. This section can provide focus for economic diplomacy and trade promotion activities (demand side of exports) so that initiatives for export supply and demand are synchronized.¹The DTI will be releasing the new 2018 to 2022 PEDP in the near future.

<p>Key Export Sectors:</p> <ol style="list-style-type: none"> 1. Electronics 2. Processed food and beverage 3. Coconut oil 4. Motor vehicle parts 5 Computer and information related services 6. Technical and trade related business services (both under Information Technology-Business Process Management) 	<p>Emerging Export Sectors:</p> <ol style="list-style-type: none"> 1. Activated carbon 2. Chemicals 3. Metal components 4. Fresh and preserved fish <p>Definition⁵⁹ Key Exports: “have one or more of the following features: US\$1 billion export revenues in 2014; (ii) substantial adverse impact on local employment if the sector falters; and (iii) high growth potential /performance.”</p> <p>Emerging Exports: “Products for which global demand has been increasing and for which Philippine export has been growing faster than world demand since 2006.”</p>
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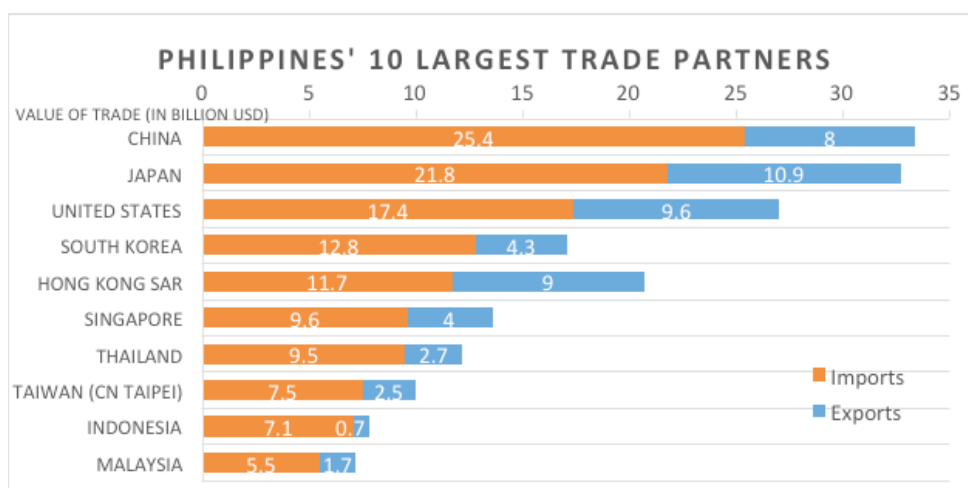
⁵⁶ OECD (2018), Trade in goods and services (indicator). doi: 10.1787/0fe445d9-en (Accessed on 25 November 2018)
⁵⁷ World Trade Organization. (2017). The WTO and the multilateral trading system. WTO Ecampus Learning.
⁵⁸ Department of Trade and Industry. Philippine Export Development Plan 2015-2017.

II.A.2 TRADE IN GOODS AND SERVICES

Two commonly used classifications of trade are (1) trade in goods (tangible products) and (2) trade in services (intangible products).

II.A.2.1 TRADE IN GOODS

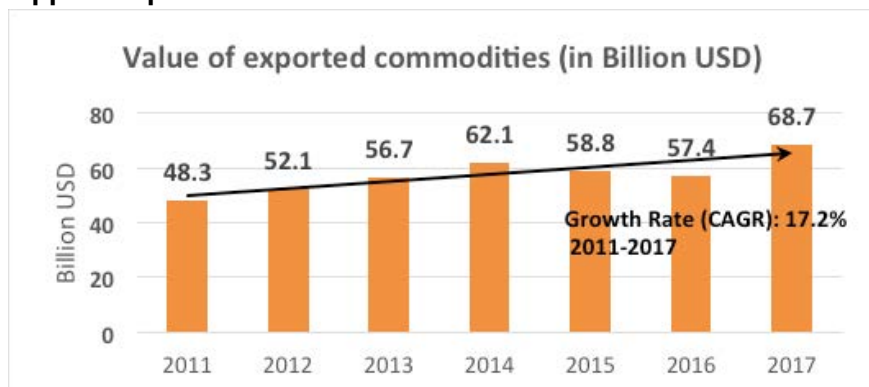
10 Largest Trade Partners in 2017



Top Trading Partner: **China** (USD 25.4 billion)
 The top export destination: **Japan**, (USD 10.9 billion)
 Top import source: **China** (USD 17.5 billion)

Note:
 10 largest trading partners account for **USD 128 billion or 78.9%** of total trade.

Philippine Export Growth



- Philippine exports continue to rise.
- From USD 48.3(2011) to USD 68.7 billion (2017),
- 17.2% growth over a 6-year period.

Largest Traded Commodities by Value

Top **export**: **digital monolithic integrated circuits**, (USD12.4 billion or 18% of total exports).

Top **import**: **petroleum oil products**, (USD 6.4 billion or 6.7% of total imports).

2017 trade balance: -27.4B (deficit)

Total Trade Value: 164.8 B		Total Trade Value: 164.8 B	
Value of Exports: 68.7 B		Value of Imports: 96.1 B	
Top Exports	Value (% of total)	Top Imports	Value (% of total)
1. Digital monolithic integrated circuits	12.4B(18%)	1.Petroleum oils	6.4B(6.7%)
2. Semiconductors	4.7B(7%)	2.Digital monolithic integrated circuits	5.3B(5.6%)
3. Storage Units	3.3B(5%)	3. Materials and supplies for manufacture of semiconductors	4.0B(4.1%)
4. Electrical and Electronic Machinery	1.3B(2%)	4. Materials and supplies for manufacture of electrical equipment and machinery	2.3B(2.4%)
5. Joinery and carpentry of wood	1.1B(2%)	5. Light petroleum oils	2.2B(2.3%)

⁵⁹ Department of Trade and Industry, Philippine Export Development Plan 2015-2017.

⁶⁰ World Trade Organization. (2017). The WTO and the multilateral trading system. WTO ECampus Learning.

⁶¹ Department of Trade and Industry. (2018). Tradeline Merchandise Balance. Retrieved from: <http://www.tradelinephilippines.dti.gov.ph/web/tradeline-portal/merchandise-balance>

⁶² Department of Trade and Industry. (2018). Tradeline Merchandise Balance. Retrieved from: <http://www.tradelinephilippines.dti.gov.ph/web/tradeline-portal/merchandise-balance>

Global trends to watch out for:⁶³

Good for PH Exports	Bad for PH Exports
Emergence of new supply chains resulting from trade tensions between US and China	Cyclical softening of global demand for electronics (major PH export)
Raising of Interest Rates by US Federal Reserve (Depreciation of Peso=More competitive PH exports)	Financial Contagion
Increase in labor productivity and resurgence of PH manufacturing	Natural Disasters and Calamities

II.A.2.2 TRADE IN SERVICES

The concept of trade in services is less straightforward than trade in goods since the pertained product is intangible and consumption may not always be done at the destination country. There are four (4) modes of trade in services :

Mode 1: Cross Border Trade - Service supplied from one country to another (e.g. call centers)	Mode 3: Commercial Presence - foreign company setting up subsidiaries/branches to provide services in another country (e.g. bank with overseas branch)
Mode 2: Consumption Abroad – consumers(individuals or firms) traveling overseas to “consume” services (e.g. medical tourists)	Mode 4: Presence of Natural Persons – individuals traveling overseas to supply services (e.g. IT consultant)

Largest Traded Services by Value in 2017⁶⁵

Top services **export: *Business services** (USD 35.9 billion).

Top services **import: Travel** (USD 12.2 billion).

The Philippines remains one of the largest exporters of services in the world.

Exports	Value	Imports	Value
Total	35.9B	Total	26.6B
*Business services	16.3B	Travel	12.2B
Travel	7.0B	Transport	5.0B
Telecommunications, computer and information	5.8B	*Business services	5.1B
Manufacturing services on physical inputs	3.5B	Insurance and pension	1.5B
Transport	2.3B	Telecommunications, computer and information	0.9B
Financial Services	0.5B	Charges for intellectual property use	0.8B
Personal, cultural, recreational	0.2B	Financial Services	0.5B
Insurance and pension	85.3M	Government goods and services	0.3B
Maintenance and repair	80.3M	Personal, cultural, and recreational	0.2B
Construction	57.3M	Maintenance and repair	0.1B
Others	36.1M	Others	63.4M

***Business services** – 3 categories (Research and Development, Professional management and consulting services, technical, trade-related, and other business services)

II.A.3 NOTABLE PHILIPPINE TRADE/ECONOMIC AGREEMENTS

The Philippines is a party to a number of bilateral and multilateral trade and/or economic agreements. Below are some of the more substantial ones:

Philippines-European Free Trade Association Free Trade Agreement (PH-EFTA FTA)	ASEAN-Japan Free Trade Agreement (AJCEPA)
Philippines-Japan Economic Partnership Agreement (PJEPA)	ASEAN-Korea Free Trade Agreement (AKFTA)
ASEAN-China Free Trade Agreement (ACFTA)	ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)
ASEAN-India Free Trade Agreement (AIFTA)	ASEAN Free Trade Area (AFTA)
	ASEAN Trade in Goods Agreement (ATIGA)

⁶³The World Bank. (2018). Growth and Productivity in the Philippines: Winning the Future

⁶⁴World Trade Organization. (2015). Trade in services. Retrieved from: https://www.wto.org/english/thewto_e/20y_e/services_brochure2015_e.pdf

⁶⁵Department of Trade and Industry. Trade in Services. Retrieved from: https://drive.google.com/file/d/1VvwepOnwjFVnNr7-vhvcwzmzDIQH_b9U/view

II.B. FOREIGN INVESTMENTS

II.B.1 KEY CONCEPTS

The two most widely used categories of cross-border investments are Portfolio (transactions involving debt or equity) and Direct (transactions which are not only monetary in nature, and wherein investors retain significant control over their investments). This report will focus more on the latter type.⁶⁷

Growth of Foreign Direct Investment in the Philippines

Net foreign direct investment flows increased from +USD 3.7 billion in 2013 to +USD 10.1 billion in 2017, registering a significant growth (CAGR) of 28.5% over a four (4) year period.



II.B.2 LARGEST SOURCES OF FOREIGN DIRECT INVESTMENTS

The largest source of foreign direct investment in 2017 is **The Netherlands** with approximately USD 1.6 billion of net investment flows. The **United States** follows with USD 472.6 million.

Country	Net Investment flow (in millions USD)	% Share of total
The Netherlands	1,566.69	15.6%
USA	472.63	4.7%
Kuwait	60.02	0.6%
Germany	44.38	0.4%
Luxembourg	41.57	0.4%
China	28.79	0.3%
Switzerland	13.09	0.1%
France	9.41	0.1%
UK	9.40	0.1%
India	8.81	0.1%
Total	10,057	

II.B.3 LARGEST FOREIGN INVESTMENTS INFLOWS (BY SECTOR)

Sectors which received largest Foreign Direct investment flows in 2017

Electricity, gas, steam, and air conditioning supply received the largest net investment flow, amounting to USD 1.4 billion (13.8% share of total). This was closely followed by manufacturing, receiving a total of USD 1.2 billion net investment flows (11.6% of total).

Industry/Sector	Net Investment Flow	Share of total
Electricity, gas, steam and air conditioning supply	1,383.71	13.8%
Manufacturing	1,166.02	11.6%
Real estate activities	247.82	2.5%
Construction	162.38	1.6%
Financial and insurance activities	134.38	1.3%
Professional, scientific and technical activities	65.83	0.7%
Transportation and storage	49.49	0.5%
Information and communication	37.77	0.4%
Arts, entertainment and recreation	27.85	0.3%
Human health and social work activities	21.30	0.2%

⁶⁶ Eurostat. EU international trade in other business services. Retrieved from: https://ec.europa.eu/eurostat/statistics-explained/index.php/EU_international_trade_in_other_business_services#R.26D_services.2C_professional_and_management_consulting.2C_technical.2C_trade-related_and_other_business_services

⁶⁷ International Monetary Fund. (2014). BPM6 compilation guide. Retrieved from: <https://www.imf.org/external/pubs/ft/bop/2014/pdf/GuideFinal.pdf>

⁶⁸ Bangko Sentral ng Pilipinas. (2018). Net foreign direct investments. Retrieved from: http://www.bsp.gov.ph/statistics/efs_bop2.asp

⁶⁹ Bangko Sentral ng Pilipinas. (2018). Net foreign direct investments. Retrieved from: http://www.bsp.gov.ph/statistics/efs_bop2.asp

II.B.4 2017 Philippine Investment Priorities Plan (IPP)

The government has identified preferred investment activities in line with the President’s 10-point socioeconomic agenda, Ambisyon Natin 2040, and the Philippine Development Plan 2017-2022. These are enumerated in an annual listing of priority investment areas, titled, the Philippine Investment Priorities Plan (IPP). Below are the identified priority areas for investment.

Preferred Investment Activities

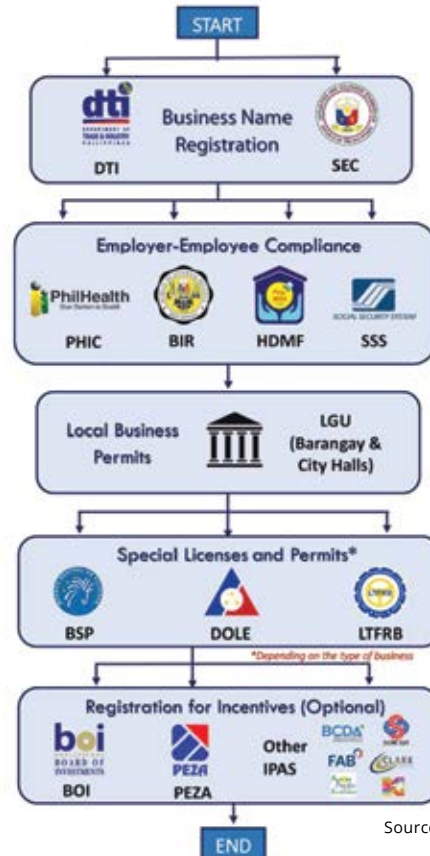
1. Agro Processing and Agriculture
2. Strategic Services such as IT, telecommunications, digital technologies
3. Healthcare Services
4. Mass housing
5. Infrastructure Projects
6. Innovation drivers such as Research and Development and inclusive business models
7. Environment and energy

Notes:

1. More on the IPP can be found on the listed reference.
2. Not all sectors allow foreign investments. Some sectors prohibit or limit. (See *Foreign Investment Negative List link on last page*)⁷²

The figure below highlights key stages in starting a business in the Philippines.

GENERAL BUSINESS PROCEDURES



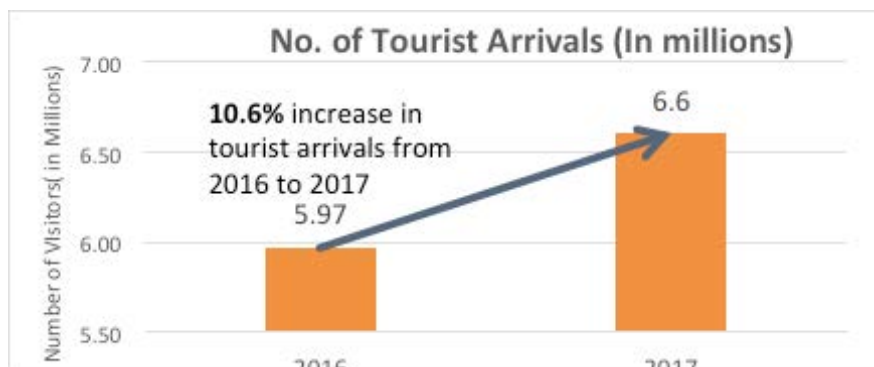
Source: DTI-BOI (2018)

II.C TOURISM

II.C.1 THE GROWING TOURISM SECTOR

Tourism is another bright spot in the economy. The Department of Tourism has reported 6.62 million inbound visitors in 2017, surpassing its target of 6.5 million and up by 10.6% from 5.96 million in 2016.

For 2017, earnings generated from tourism activities amounted to USD 6.7 billion. Receipts rose by 45.8% from the estimated expenditure of USD 4.9 billion in 2016. Target no. of arrivals for 2018 is 7.4 million.



⁷⁰ Bangko Sentral ng Pilipinas. (2018). Net foreign direct investments. Retrieved from: http://www.bsp.gov.ph/statistics/efs_bop2.asp

⁷¹ 2017 Philippine Investment Priorities Plan. Retrieved from: <http://boi.gov.ph/uFAQs/boi-investment-priorities-plan/>

⁷² Executive Order. (2018). 11th Regular Foreign Negative Investment list. Retrieved from: <http://www.officialgazette.gov.ph/downloads/2018/10oct/20181029-EO-65-RRD.pdf>

II.C.2 10 LARGEST TOURISM MARKETS IN 2017 (by number of tourist arrivals)

South Korea remains the top source of foreign tourist arrivals in 2017, followed by China, USA, Japan and Australia, respectively. Seven of the top ten sources come from the Asia-Pacific region, with a combined number of 3.97 million visitors or 60% of the total number of foreign visitors in 2017.⁷³



II.D Foreign Aid (Official Development Assistance [ODA])

Indicative Total ODA (Loans and Grants) Ranking by Fund Source in millions USD

Japan is the Philippines' biggest donor, providing around USD 6.1 billion in total ODA.

Fund Source	Loan Amount*	Grant Amount	Total ODA	% Share	Rank
Japan	5,962.62	141.33	6,103.94	40.26	1
World Bank	3,094.21	33.43	3,127.64	20.63	2
ADB	2,604.65	74.64	2,679.28	17.67	3
USA	-	806.76	806.76	5.32	4
Korea	480.74	77.96	558.70	3.68	5
Australia	-	467.72	648.70	4.18	6
United Nations System	112.12	254.77	389.79	2.51	7
France	306.52	9.27	315.79	2.08	8
AIIB	207.60	-	207.60	1.37	9
EU	-	167.39	167.39	1.10	10
China	62.09	62.28	124.37	0.82	11
Germany	-	76.04	76.04	0.50	12
OFID	51.61	-	51.61	0.34	13
Italy	31.23	5.44	36.68	0.24	14
Canada	-	30.31	30.31	0.20	15
Austria	24.44	-	24.44	0.16	16
Spain	-	9.30	9.30	0.06	17
New Zealand	-	7.97	7.97	0.05	18
TOTAL	12,937.82	2,224.60	15,162.42	100.00	

*Loan amounts of non-USD denominated loans based on Q2 2018 average

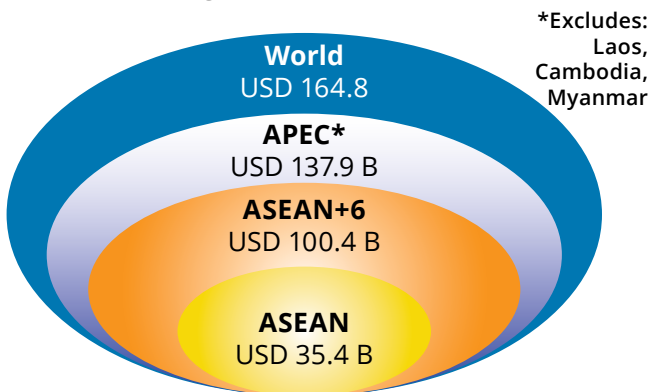
II.E Economic Relations with Selected Regional Organizations

Asia Pacific Economic Cooperation (APEC)

The Asia-Pacific Economic Cooperation (APEC) is a regional economic forum established in 1989 with 21-member economies from the Asia-Pacific region. APEC is considered the most successful economic cooperation platform in the world, due to its non-binding nature and serves as an incubator for new ideas for economic development. APEC 2019 will be hosted by Chile and will have the theme, "Connecting People and Building the Future", focusing on (1) Services and Digital Economy, (2) Connectivity for Inclusive Trade, and (3) Women and Economic Growth.⁷⁴

⁷³ Department of Tourism. (2018). Industry performance for travel and tourism. Retrieved from: http://www.tourism.gov.ph/industry_performance_dec_2017.aspx
⁷⁴ Yanez, R. (2018). APEC Chile 2019: Connecting people, building the future. Retrieved from: <https://www.direcon.gob.cl/wp-content/uploads/2018/08/APEC-Chile-2019-English-17.08.2018.pdf>

The Philippines' Value of Traded Goods with Selected Trading Blocks (2017)



As of 2017, APEC economies are responsible for 84% of the total trade of the Philippines worldwide. The APEC region is responsible for 60% of the global GDP, and covers 49% of world population. Total Philippine exports to APEC stood at USD 56.3 billion or 82% of total exports worldwide. Total imports from APEC economies was at USD 81.7 billion or 85% of total imports from Philippine trade partners.

APEC economies are responsible for 15% of total investments into the Philippines at USD 1.5 Billion (Net FDI flows as of 2017), and comprise 5,466,540 out of 6,620,908 (83%) of tourist arrivals in 2017.

Outlook for the Asia-Pacific Region and APEC

Asia Pacific Region Expected Growth
2018: 3.9% 2019: 3.7%

Risks to Growth

1. Increased Protectionism and trade tensions
2. Possible Slowdown in world trade growth
3. Slowdown in Chinese economy
4. Lack of political leadership
5. Corruption

Asia Pacific economies projected to grow the fastest: Chile, Peru, Australia, Colombia, Mexico, Colombia Brunei (latter 3 are commodity rich economies)

The Bogor Goals⁷⁶

Set of Goals for realizing free and open trade in the Asia Pacific agreed by APEC member economies in Bogor, Indonesia in 1994.

Notable Progress:

1. Tariff Reduction –from average of 16.9%(1989) to 5.3%(2017)
2. Intellectual Property Rights improvement
3. Average days to start a business – 37 (2006) to 12.4 (2017) in APEC economies
4. Total Regional Trade Agreements signed:175(2017) from <10 (1989)

Stagnant/worse off areas:

1. Prevalence of Foreign Ownership 5.3%(2008) to 4.9%(2017)

Mixed results:

1. Services Liberalization

APEC is ending 2018 as a year where differing views on the region resulted in a lack of consensus to adopt a Leaders' Declaration and Ministerial Statement – the first time no consensus was achieved among Economic Leaders. Nevertheless, lack of consensus need not overshadow work that continues to be done in the forum. The Philippines highlighted its support for the multilateral trading system, advocacy for inclusive globalization and preparations for the digital economy, in alignment with the APEC Internet and Digital Economy Roadmap (AIDER). The Philippines continues to champion the regional market access of Philippine MSMEs under the Boracay Action Agenda (BAA) adopted in 2015.

Meanwhile, work on formulating a new vision for APEC beyond the year 2020 is underway. The work of the APEC Post 2020 Vision Group (APEC AVG) started in Port Moresby in 2018. Each economy has appointed an expert to constitute the group that is tasked to recommend a new vision for APEC that continues the work under the Bogor Goals and incorporating other aspects in furtherance of regional economic cooperation – taking in consideration the impact of the fourth industrial revolution and the third unbundling of globalization.

⁷⁵ Pedrosa, E. et al. (2018). State of the Region 2018-2019. Pacific Economic Cooperation Council

⁷⁶ APEC Policy Support Unit. (2018). APEC's Bogor Goals Progress Report. Retrieved from: <https://www.apec.org/Publications/2018/11/APEC-Bogor-Goals-Progress-Report>

Feature APEC Discussion Topic: 3rd Unbundling of Globalization – The Digital Economy

The next wave that can reduce the cost of moving (1) goods, (2) ideas, and (3) people.

Key Components of the Digital Economy (“4 Horsemen”)

Blockchain⁷⁷ Arose from Bitcoin; Incorruptible digital public record of transactions populated by network members (.e.g. google spreadsheets)	Big Data⁷⁸ “The collection, storage, management, analysis and visualization of extensive, heterogenous datasets.”	Artificial Intelligence⁷⁹ “Building machines which are capable of thinking like humans.”	Internet of Things “The concept of connecting any device with an on and off switch to the internet (or to each other)” ⁴
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II.F European Union (EU)

Trade Statistics (In billion USD)

Trade between the Philippines and the European Union grew by 5.3% over the last 5 years. This was mainly due to the increase in trade with **vessels for transfer of goods and services** and **storage units**, especially for exports.

Year	Total Trade	PH Exports	PH Imports	Balance of Trade
2013	12.8	6.6	6.2	0.3
2014	14.3	6.7	7.6	-0.9
2015	13.8	7.2	6.7	0.5
2016	13.7	7.0	6.7	0.2
*2017	15.7	9.3	6.4	2.9
Growth	5.3%	9.2%	0.8%	
*Preliminary data.		Figures in billion USD		

Top Traded Commodities

Top Export: Digital monolithic integrated circuits

Top Import: Aeroplanes and other aircraft

Trade Balance: 2.9B (surplus)

Trade with World:	164.8 B	Total Trade with EU	15.7 Billion	Exports	9.3B	Imports	6.4B
Top Exports		Value (% of total)	Top Imports		Value (% of total)		
1. Digital monolithic integrated circuits	1.1B(15.6%)	1. Aeroplanes and other aircraft	0.6B(9.5%)				
2. Semiconductor devices manufactured from materials on consignment basis	0.8B(11.7%)	2. Materials and supplies for manufacture of semiconductors	0.6B(8.3%)				
3. Coconut (copra) oil, crude	0.5B(7.8%)	3. Medicaments consisting or mixed or unmixed products for therapeutic or prophylactic uses	0.3B(4.5%)				
4. Vessels for the transport of goods and persons	0.3B(4.2%)	4. accessories and supplies for manufacture of semiconductors	0.3B(3.8)				
5. Input or output units, whether or not containing storage units in the same housing	0.2B(2.7%)	5. Other parts of aeroplanes and helicopters	0.2B(2.6%)				

Generalized System of Preferences (GSP)

<ul style="list-style-type: none"> A preferential tariff system that gives certified countries such as the Philippines tariff-free access to the EU market for over 6,000 product lines. The Philippines is the only ASEAN country with GSP+ status and has benefitted from GSP+ since 2014. ¹ 	Benefits for the PH Total trade between Philippines and EU grew by 13.7% since 2015. Philippine exports to the EU grew by 36% (year-on-year) making the EU, collectively, the second largest export destination. ²
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⁷⁷ Blockgeeks. (2018). What is Blockchain Technology? A Step-by-Step Guide For Beginners. Retrieved from: <https://blockgeeks.com/guides/what-is-blockchain-technology/>

⁷⁸ International Telecommunications Union. (2015). ITU members agree international standard for Big Data. Retrieved from: http://www.itu.int/net/pressoffice/press_releases/2015/66.aspx#.XAt4JmZzNO.

⁷⁹ Marr, B. (2017). The Complete Beginners' Guide to Artificial Intelligence. Retrieved from: <https://www.forbes.com/sites/bernardmarr/2017/04/25/the-complete-beginners-guide-to-artificial-intelligence/#4751928e4a83>

⁸⁰ Morgan, J. (2018). A Simple Explanation Of 'The Internet Of Things'. Retrieved from: <https://www.forbes.com/sites/jacobmorgan/2014/05/13/simple-explanation-internet-things-that-anyone-can-understand/#6784fb981d09>

⁸¹ Department of Trade and Industry. (2018). Market Profile: European Union. Retrieved from: <http://tradelinophilippines.dti.gov.ph/web/tradeline-portal/market-profile>

⁸² Board of Investments, Department of Trade and Industry (2018). Investment climate and business opportunities in the Philippines

⁸³ EU-Philippines Business Network (2017). Advocacy papers. The EU and the Philippines: Partnering for progress and prosperity. EU-Philippines Business Network, Makati City, Philippines.

⁸⁴ Department of Trade and Industry. “Philippines-European Free Trade Association (EFTA) Free Trade Agreement (FTA)”. Retrieved from <https://www.dti.gov.ph/international-commitments/bilateral-engagements/efta-fta>

II.G Philippines-European Free Trade Association Free Trade Agreement (PH-EFTA FTA)

Agreement entered into force in 01 June 2018. The Philippines ratified its free trade agreement with the European Free Trade Association EFTA, that includes the Switzerland Confederation, the Kingdom of Norway, the Republic of Iceland and the Principality of Liechtenstein.

Key Benefits of PH-EFTA FTA

Through PH-EFTA FTA, the Philippines...

- Is provided duty free market access for all industrial and fisheries tariff lines.*
- Is secured tariff concessions on substantially all Philippine agriculture exports to EFTA.*
- may qualify for zero tariffs for preparations of meat/fish, even if they are imported.*

Will have entry and temporary presence of intra-corporate transferees (covering executives/managers and specialists) and business visitors allowed.




EFTA

- Total GDP: USD 1.1 Trillion
- Total Population: 13 Million
- Ave. GDP Per Capita: USD 73,630
- PH-EFTA Total Trade (2015): USD 620 Million
- EFTA Approved Investments in PH (2015): USD 25.68 Million

States have a network of 28 FTAs with a total of 39 partners outside the European Union.

PH-EFTA Trade Relations in Numbers

	Top PH Exports		Top PH Imports	
		Value (%)		Value (%)
<p>Between 2012 and 2017 Merchandise trade between PH and EFTA States increased by 2% -PH exports to EFTA states increased by 45% Total value of trade in 2017: USD 900 million</p>	Total Value	516	Total Value	384
	Precious metals	266(52%)	Pharmaceuticals	128(33%)
	Electrical machinery	114(22%)	Clocks and watches	51(13%)
	Machinery and mechanical appliances	27(5%)	Machinery and mechanical appliances	30(8%)
	Optical, surgical or medical instruments	27(5%)	Electrical machinery	29(8%)
	Seafood	12(2%)	Seafood	18(5%)

*All value of commodities in million USD

⁸⁵ Reith, S. & Stauffer, N. (2018). EFTA and the Philippines hold trade promotion seminars. Retrieved from: <http://www.efta.int/Free-Trade/news/EFTA-and-Philippines-hold-trade-promotion-seminars-510701>

⁸⁶ Department of Trade and Industry. "Philippines-European Free Trade Association (EFTA) Free Trade Agreement (FTA)". Retrieved from <https://www.dti.gov.ph/international-commitments/bilateral-engagements/fta-fta>

⁸⁷ Boumphrey, S.(2014). Succeed in emerging markets: Selection, strategy and first steps. Euromonitor International. Retrieved from: <https://go.euromonitor.com/succeed-emerging-markets-selection-strategy-first-steps.html>

⁸⁸ Department of Trade and Industry. (2018). Summary Reports. DTI Tradeline. Retrieved from: <http://www.tradelinphilippines.dti.gov.ph/web/tradeline-portal/summary-reports>

⁸⁹ Boumphrey, S.(2014). Succeed in emerging markets: Selection, strategy and first steps. Euromonitor International. Retrieved from: <https://go.euromonitor.com/succeed-emerging-markets-selection-strategy-first-steps.html>

III. Emerging Economic Relations

III. KEY CONCEPTS

The Philippines, as of 2018, has trading activities with **more than 200 economies**.⁸⁸ In an attempt to streamline and focus discussions into a manageable number of high potential markets, the authors of this publication attempted to identify select countries and trading blocs based on certain evidence-based parameters.

“An emerging market strategy is a long term one, and step one on the path to success is to choose wisely.”⁸⁷

III. A Emerging Bilateral Trade Partners

Analysis of selected emerging market indicators recommended by Boumphrey (2014) revealed the following 10 emerging trade partners, and corresponding data for each criterion used.

Market	Merchandise Trade with PH Value in 2016*	Trade Growth with PH (2011 to 2016)	Trade Value with Selected ASEAN Neighbor*	Openness to trade (trade as % of GDP)	GDP **	GDP Growth (2014 to 2017)	Population Size (in million)
Fiji	32.9	>1,000%	29.1	66.8%	5.1	8.2%	0.9
Iraq	14.1	>1,000%	91.2	43.9%	197.7	4.9%	38.3
Ukraine	232.7	>1,000%	872.6	82.6%	112.2	-5.4%	44.8
Kuwait	1,050.0	>1,000%	414.8	74.3%	120.1	1.2%	4.1
Malta	182.0	>1,000%	41.5	66.4%	12.5	22.8%	0.4
Paraguay	7.9	906%	81.8	69.1%	29.7	7.9%	6.8
Cambodia	38.1	246%	450.7	117.0%	22.2	22.3%	16.0
Bulgaria	118.2	170%	119.9	112.8%	56.8	11.5%	7.1
Nigeria	31.6	181%	1,598.8	24.5%	375.8	0.6%	190.8
Romania	39.1	142%	134.6	74%	211.8	73.7%	19.6

*In million USD, **In billion USD.

Total PH Trade in 2016: USD 141.5 billion

Data Source: Department of Trade and Industry, World Bank, Philippine Statistics Authority

Foremost consideration is the country's trade growth and value of traded merchandise with the Philippines.

Most of the criteria displayed are straightforward, with the exception of “Trade Value with Selected ASEAN neighbor”, which uses trade data of an ASEAN country with slightly similar products offered with the Philippines. This aims to serve as a proxy to indicate the accessibility of goods from one source to another.

When selecting an emerging market, Boumphrey (2014) recommends looking at 4 major indicator categories:

1. Market
2. Population
3. Access
4. Business Environment

*Entire report can be found through the link in section V

III.B Africa

Top PH trading partner in Africa is the Southern Region. This encompasses mostly South African Development Community (SADC) members among which are some of Africa's largest economies (e.g. South Africa).

African Market Characteristics:

- Region as a whole estimated to be World's second fastest growing economy by African Development Bank (projected to grow by 4.1% in 2019)
- Has several Regional Economic Communities (RECs)

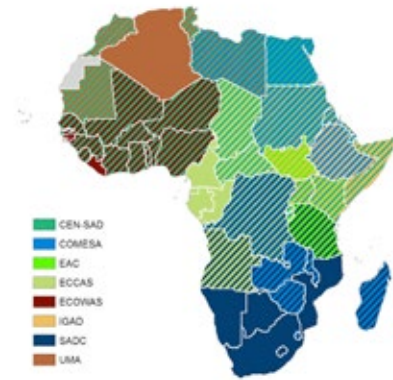
PH Trade with Different African Regions	2016		2017	
	PH Exports	PH Imports	PH Exports	PH Imports
Total	268.3	130.0	195.7	174.9
Central	0.0	0.1	0.0	0.0
Eastern	15.4	33.0	22.5	23.3
Middle	3.4	7.1	4.1	20.5
Northern	30.4	25.4	32.6	69.9
Southern	119.5	41.0	119.4	56.6
Western	99.6	23.4	17.1	4.6

⁹⁰United Nations Economic Commission for Africa. (n.d.) Regional Economic Communities. Retrieved from: <https://www.uneca.org/oria/pages/regional-economic-communities>

⁹¹Mutambara, T. (2013). Africa-Asia trade versus Africa's trade with the North: Trends and trajectories. Retrieved from: <https://www.ajol.info/index.php/aref/article/view/91063/80497>

Recent Developments

- Trade between Africa and Asia (mainly China, Japan, Korea), is growing faster than the former's trade with Europe, its traditional trading partner.
- Intra-African trade is growing the fastest. In 2018, the Continental Free Trade Agreement was signed by 44 African Nations. Commitment to cut tariffs on 90% of goods traded within the continent.
- Trade between Africa and the Philippines has generally decreased from USD 771 million (2013) to USD 370 (2017). This decrease warrants further study as Africa has a sizeable untapped market that could provide ample business opportunities.



Source: United Nations Economic Commission for Africa. (n.d.)

III.C South Asia

Selected South Asian Markets Trade Data

	2016		2017	
	PH Exports	PH Imports	PH Exports	PH Imports
Total	268.3	1,643.2	195.7	1,930.8
Bangladesh	15.4	32.3	22.5	38.2
India	3.4	1,064.5	4.1	1,482.8
Pakistan	30.4	110.3	32.6	211.5
Sri Lanka	119.5	17.5	119.4	16.7

Figures in million USD

Scandinavian Markets and Trade Data¹

	2016		2017	
	PH Exports	PH Imports	PH Exports	PH Imports
Sweden	22.1	122.0	36.3	135.5
Norway	5.5	54.5	6.5	45.1
Denmark	36.7	128.3	36.0	149.7
Finland	27.1	291.8	41.9	183.4

Figures in million USD

Trade between South Asia as a whole and the Philippines grew by 22% from USD 1.1 billion in 2013 to USD 2.6 billion in 2017. Most of this growth is due to import sourcing from South Asia. The table on the right further illustrates the breakdown of trade using the region's 4 largest economies.

III.D Scandinavia

- Scandinavia forms a cluster of some of the largest economies in Europe.
- There is already increased access between the Philippines, and Norway and Sweden's markets, through the PH-EFTA FTA.
- Region expected to grow 4% in 2018 and 2019

Comparison of Top PH Exports to Scandinavia with Other ASEAN Countries

Sweden

Top Imports from PH	Value	Benchmark
Consumer Goods	12.9	Vietnam (264.7)
Capital Goods	8.3	Vietnam (684.2)
Machinery and Electronics	33.1	Vietnam (681.1)

Norway

Top Imports from PH	Value	Benchmark
Consumer Goods	18.6	Vietnam (304.9)
Machinery and Electronics	16.0	Malaysia (167.5)
Capital Goods	15.0	Thailand (126.5)

Denmark

Top Imports from PH	Value	Benchmark
Consumer Goods	21.4	Vietnam (268.4)
Capital Goods	17.3	—
Machinery and Electronics	14.7	Indonesia (57.2)

Figures on selected Scandinavian countries' imports from the Philippines and the corresponding benchmark (highest import source from ASEAN in 2016) ASEAN country in 2016.

All figures are in million USD.

Recommended Areas of Research for Economic Diplomacy Practitioners in Emerging Markets

1. Nature of existing goods and services traded
2. Potential of other goods and services (match covered country's top imports with Philippine's top exports which have low market presence)
3. Presence of Philippine companies
4. Shipment cost to and from the Philippines
5. Flight routes
6. Culture, especially presence of Creatives (See Part I.8.C)
7. Growth of consumer size, particularly the middle class
8. Regulation, business registration processes, and incentives

⁹² Department of Trade and Industry. (2018). Summary Reports. DTI Tradeline. Retrieved from: <http://www.tradelinephilippines.dti.gov.ph/web/tradeline-portal/summary-reports>

⁹³ Department of Trade and Industry. (2018). Summary Reports. DTI Tradeline. Retrieved from: <http://www.tradelinephilippines.dti.gov.ph/web/tradeline-portal/summary-reports>

IV. Special Topics on International Economics

IV.1 THE MULTILATERAL TRADING SYSTEM (MTS)

IV.A The World Trade Organization (WTO)

The WTO is the sole organization overseeing the multilateral trading system. “Essentially, the WTO is a place where member governments go, to try to sort out trade problems they face with each other. At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations.”

MAIN FUNCTIONS

Policy Setting – In general, the WTO aims to reduce tariffs and promote fair and open trade worldwide through agreements. WTO agreements are binding to all members.

Special Assistance for Least Developed Members – Provides Technical Assistance and flexibility on agreements for least developed members

Dispute Resolution – The WTO provides for a legal mechanism for members to settle trade disputes with one another (Only member governments can take part either as parties or as third parties).

Monitoring and Secretarial – Conducts trade policy review and regular monitoring of commitments, provides secretariat

KEY PRINCIPLES

1. Trade without Discrimination:

- a.) Most Favored Nation (MFN): Countries cannot normally discriminate between their trading partners. Grant someone a special favor (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members, with some exceptions: Regional Trade Agreements, special access to developing countries, and “unfairly” traded products.
- b.) National treatment: Treating foreigners and locals equally. Imported and locally-produced goods and services should be treated equally (mostly, in terms of price and regulation) — at least after they have entered the market. This is the same with copyrights and patents.

2. Free Trade, gradually, through negotiation

3. Predictability, through binding and transparency

4. Fair competition, by discouraging unfair practices

5. Beneficial for less developed countries by giving more time to adjust, greater flexibility, and special privileges

Current Situation of the WTO and Outlook on the MTS Global Trade Outlook

The WTO indicator suggests that trade growth is likely to slow by the end of 2018.

11th Ministerial Conference, December 2017, Buenos Aires

At the most recent WTO Ministerial Conference (MC), the WTO’s highest-level policy formulation body, the WTO saw limited policy outcomes due to members’ differing positions.

Drivers of trade		
	Level of Index	Direction of change
Merchandise trade volume (Q2)	101.5	↔
Export orders	96.6	↓
International air freight (IATA)	100.0	↘
Container port throughput	101.2	↘
Automobile production and sales	96.9	↓
Electronic components	93.9	↓
Agricultural raw materials	97.2	↓

KEY AREAS FOR DISCUSSION IN 2019:

- Prohibition on certain fisheries subsidies
- Continue working on the program on small economies
- South Sudan Accession

- Continue discussions on modalities for Intellectual Property Complaints
- Possible imposition of customs duties on E-commerce discussions



OFFICE OF INTERNATIONAL ECONOMIC RELATIONS
DEPARTMENT OF FOREIGN AFFAIRS

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