The Philippine Export Development Plan 2015-2017

EXECUTIVE SUMMARY

MALACAÑAN PALACE
MANILA

BY THE PRESIDENT OF THE PHILIPPINES

MEMORANDUM CIRCULAR NO. 91

APPROVING THE 2015-2017 PHILIPPINE EXPORT DEVELOPMENT PLAN AND DIRECTING THE CONCERNED AGENCIES TO REVIEW ALL RELEVANT POLICIES TO ENSURE THE IMPLEMENTATION THEREOF

Pursuant to the provisions of Article II of Republic Act (RA) No. 7844, otherwise known as the "Export Development Act of 1994," the attached 2015-2017 Philippine Export Development Plan (PEDP) is hereby **APPROVED**.

The following government agencies and entities are hereby directed to collectively work and review all relevant policies to facilitate exports and eliminate those that hamper its free flow:

1. Department of Trade and Industry (Lead Agency);
2. Department of Agriculture;
3. Department of Energy;
4. Department of Environment and Natural Resources;
5. Department of Finance;
6. Department of Foreign Affairs;
7. Department of Health;
8. Department of the Interior and Local Government;
9. Department of Labor and Employment;
10. Department of Public Works and Highways;
11. Department of Science and Technology;
12. Department of Transportation and Communications;
13. Bangko Sentral ng Pilipinas; and
14. National Economic and Development Authority.

The Export Development Council (EDC) shall oversee the implementation of the PEDP and coordinate the formulation and implementation of policy

reforms and promotion strategies. Further, the EDC shall ensure the biannual validation and updating of the PEDP pursuant to the provisions of RA No. 7844.

The foregoing agencies shall submit to the EDC and to the Office of the President, through the Executive Secretary, the inventory of relevant policies and action plans within sixty (60) days from the issuance of this Circular.

DONE, in the City of Manila, this 4th day of February, in the year of Our Lord, Two Thousand and Sixteen.

By the President:

PAQUITO N. OCHOA, JR.
Executive Secretary

Executive Summary

After a sharp fall in 2009 instigated by the global financial crisis, Philippine exports have made a significant recovery in the past four years. With the threat of another global recession receding and demand in traditional markets increasing, there is optimism that the growth momentum could be carried forward. However, such optimism is guarded in light of concerns of possible economic slowdown in China and slower than expected recovery in the United States, compounded by domestic supply bottlenecks.

Like many others caught in the middle-income trap, exports would need more than a few years of sterling performance in order to have real impact. Economic growth stimulated by trade should be robust and sustained over an extended period to have a perceptible contribution in creating high quality jobs and reducing poverty. But the challenges of catapulting exports on a stable growth path remain formidable.

This document lays out a three-year plan of providing a business environment supportive of trade, growth and innovation that would enable domestic industries to establish their niches in regional and global markets, in turn, raising the status of the Philippines in the global value chain.

Exports of goods and services recorded an **8.6% increase** in 2014, reaching **US$86.9 billion**. This is the third consecutive year of positive growth. Goods constituted nearly four-fifths of total revenues, although it was the growth in services that kept the sector buoyed amid volatilities in global demand.

Manufactures dominated goods exports having a **share of 83%.** Increasing export of minerals has fairly reduced this share from 93% in 2000. But the real dent in the share of manufacturing was caused by the slump in electronics. Since the 1980s, electronics constituted the bulk of manufactured exports and dictated the performance of the export sector. In recent years, however, demand for electronics in the global market has been faltering and dragging the overall growth of exports. To be sure, there are significant improvements in exports of chemical products, wood manufactures and processed food and beverages, but these are largely overshadowed by the decline in revenues from electronics.

In contrast, the phenomenal growth of IT-BPM (Information Technology-Business Process Management) that began in early 2000 has yet to be matched by other services sectors. In 2014, exports of computer and information services and other business services – technical and trade-related, collectively labelled here as IT-BPM, amounted to US$17.3 billion or 70% of total services exports. The only other services with substantial shares are travel (19%) and transport (7%). Export revenues from telecommunication services have been fluctuating but generally declining due to new technologies and market liberalization.

By most measures, the Philippines lags behind its neighbors in export performance. In 2013, the country's export volume is just over a quarter of Thailand's, half of Vietnam's and a third of Indonesia's. Between 2006 and 2013, Philippine exports grew slower than its neighbors at 4.6% annually, compared to 17.9% of Vietnam, 9% of Indonesia and 9.2% of Thailand. Moreover, Philippine exports contributed much less to national income than exports of other ASEAN economies to their respective national incomes.

Table I.1 Philippine Exports of Merchandise and Services (in billion US dollars; percent)

	2011	2012	2013	2014	CAGR	
					2006-14	2010-14
Goods	48.04	52.99	56.70	62.10	3.4	4.8
Services	18.88	20.44	23.33	24.84	10.6	8.7
Total	66.92	72.43	80.03	86.94	5.1	5.8

Source of basic data: Philippine Statistical Authority (PSA) and Bangko Sentral ng Pilipinas (BSP)

Table I.9 Philippine Exports Compared to Selected ASEAN Countries (in billion US dollars; percent

	PHL	IDN	MYS	THA	VNM
Exports, 2013					
Goods	56.7	182.6	228.3	228.5	132.0
Services	23.3	22.3	39.9	59.0	10.5
Total	80.0	204.9	268.2	287.5	142.5
CAGR, 2006-13					
Goods	2.6	8.9	5.1	8.3	18.7
Services	11.2	9.9	9.1	13.3	10.9
Total	4.6	9.0	5.7	9.2	17.9

source: COMTRADE

Constraints to Export Growth

Several factors account for the weaker performance of Philippine exports. One factor is the concentration of revenues in few goods and services, which exposes the sector to shocks in demand and supply of these products. More than two-thirds of goods exports are accounted for by the top 10 products which include semiconductor, electronic data processing, machinery and transport equipment, woodcrafts and furniture and chemicals. Yet this is already an improvement from 2006 when the top 10 represented 77% of revenues. There is even more lack of diversification in services exports. The share of IT-BPM has been steadily increasing from 51% in 2006 to 70% in 2014 as revenues from this industry more than tripled from US$5.7 to US$17 billion in the same period.

The sector is also dependent on a few markets. The top five destinations of Philippine exports, namely Japan, U.S., China, Hong Kong and Singapore delivered nearly half of the export revenues in 2014. Trading with other ASEAN economies, except Thailand and Malaysia, is still limited despite growing regional integration.

Apart from limited diversification in products and markets, the growth of exports is also hampered by competitiveness issues. A trade competitiveness mapping of 2014 exports reveals that the global demand for two-thirds of Philippine goods has either grown slower than overall world trade or contracted. The products for which the country has comparative advantage are among those with slow growing or declining demand in the global market. In the few products where global market demand is growing fast, Philippine producers have not kept pace with other producers and as result, lost some of their market share. The problems of weak demand and loss of competitiveness afflict almost half of total Philippine exports.

The loss of competitiveness can be traced to a host of domestic problems, including unnecessary and trade-impeding domestic regulations and government policies; high costs and deficient infrastructure; limited export financing especially for small and medium-scaled exporters; unstable supply of raw materials; shortage of domestic skills that match industry requirements; weak system of innovation in products and processes; and fragmented and poorly funded domestic institutions that regulate product quality and industry standards. These problems stifle the ability of local producers to link up with the global value chain.

Table II.1 Top 10 Philippine Goods Export, 2006 and 2014 (US$ MILLION)

2006			2014		
Rank	Country	Value	Rank	Country	Value
1	Semiconductors	22,318	1	Semiconductors	18,587
2	Electronic data processing	5,745	2	Electronic data processing	5,805
3	Articles of apparel	1,770	3	Mach & transport eqpt	3,978
4	Mach & transport eqpt	1,231	4	Woodcrafts and f urniture	3,334
5	Copper cathodes	962	5	Chemicals	2,603
6	Woodcrafts and furniture	926	6	Ignition wiring sets	2,050
7	Petroleum prod-ucts	918	7	Articles of apparel	1,833
8	Garments	877	8	Metal components	1,377
9	Ignition wiring sets	788	9	Coconut oil	1,203
10	Chemicals	635	10	Bananas (fresh)	1,130
	Share of top 10 to total	77.04		Share of top 10 to total	67.47

Source: PSA

To address the current woes of the export sector, a development plan should direct the sector towards: (1) diversifying into new markets and products; (ii) identifying and developing export capabilities in products where global market demand is fast growing; (iii) addressing bottlenecks that undermine the competitiveness of exports; and (iv) harnessing the potential of goods and services where the Philippines can be competitive but have yet to attain comparative advantage.

The long-term vision of this plan is to fully integrate the Philippine economy into the global production network. It is recognized that the essential role of the government with regard to this goal is the provision of a domestic business environment that facilitates trade, promotes competition, delivers on social infrastructures, opens up access to public goods, and promotes innovation. With a supportive market environment in the background, domestic producers could thrive, find their niche, and take advantage of scale and scope economies in the global value chain. Small and medium enterprises (SMEs) may need special attention, not only because they require more support, but also because their progress directly contributes to the attainment of inclusive growth.

To achieve export competitiveness, intervention has to be at two fronts – sectoral and macro. The first provides comprehensive support to selected sectors, while the latter works on lowering the common hurdles and costs faced by all producers.

Sector-focused Intervention

The Philippine Development Plan (PDP) advocates intervention for sectors that contribute significantly to exports, have high growth potential, and for which the country is competitive and has comparative advantage. It is difficult to find such sectors meeting all these characteristics, especially since the global demand for many products where the country has comparative advantage is either weak or stagnant. Hence, many products exported in significant volumes have low growth potential, while exports of products with high growth potentials are still nascent and therefore relatively small.

To align PEDP with the PDP, some sectors have been selected to leverage on the country's comparative advantage, while others are chosen to exploit the opportunities presented by fast growing markets. Thus, the intervention in the next three years would be focused on two groups: key sectors or those which the Philippines has comparative advantage and thus exports in significant volume, and emerging sectors or those that have high growth potential, the demand for which the country could supply competitively in the global market.

Six are designated key exports, namely: electronics, processed food and beverage, coconut oil, motor vehicle parts, and computer and information services and other business services – technical and trade-related (both are under IT-BPM), while exports of activated carbon, chemicals, metal components, and fresh and preserved fish are considered emerging.

Since intervention has been proven more effective when focused and comprehensive, the first strategy under the present plan provides for a package of comprehensive support to each of the key and emerging sectors. Such package consists of thorough and in-depth analysis of sector-specific global value chain, investment and marketing promotion, business matching, training and capacity building, financing options, and support for innovation, product development and design.

Learning from the lessons of past PEDP cycles, the interventions for the selected sectors must be accompanied by an organized system of monitoring and evaluation. Activities and support provided to these sectors will be monitored, periodically assessed, and if necessary, continually adjusted for effectiveness. The Department of Trade and Industry shall take the lead in this initiative.

Next, attention would be given to removing domestic regulations that unnecessarily raise the costs of production and market delivery. The measures include: (i) accelerating and completing reforms and modernization in the Bureau of Customs by urgently passing the proposed Customs Modernization and Tariff Act, and automating Customs procedures; (ii) full implementation of the new Cabotage Law allowing co-loading of foreign cargoes by foreign vessels; (iii) streamlining compliance procedures and regulatory requirements imposed by various agencies on traded goods; and (iii) coordination and harmonization of public policies particularly those that have significant impact on traded goods.

Third, uncompetitive cost and quality of services (energy, transport, communications and logistics) and inflexibilities in the labor market will be addressed by the following measures: (i) regulatory reform and promotion of market competition; (ii) tightening the link between pay and productivity through enterprise-based wage setting and implementation of productivity-based pay schemes; and (iii) promoting flexible yet legitimate work arrangements, such as flexible work schedules, telecommuting, job sharing and subcontracting.

Fourth, the quality of export goods and services will be continuously upgraded so as to deepen penetration in existing markets and diversify into new ones. Critical to this endeavor is promoting quality consciousness among local producers and establishing a strong national quality infrastructure (NQI). This would require, among others: increasing the resources of regulatory agencies for standards writing; setting up systems for voluntary labeling and certification; encouraging private sector to support NQI institutions and policies; and, delegating conformity assessment and voluntary standardization to independent and recognized institutions. Product quality would be promoted also by: (i) institutionalizing a supply chain group that would focus on key and emerging export sectors to accelerate export development; (ii) strengthening government training centers to ensure matching of available skills and industry requirements; (iii) encouraging the private sector to establish industry-led testing centers and skills development/training centers that will cater to the operational requirements of export-oriented firms; and (iv) broadening access of domestic producers to technologies and innovations, particularly those emerging from government programs and initiatives such as those of the Department of Science and Technology.

Fifth, exporters should be given more access to finance for market prospection, product development and market diversification. A quick fix to the long-standing problem of export financing is the full implementation of the Magna Carta for MSMEs, specifically the mandatory allocation of credit resources to the target beneficiaries of the law. Government institutions tasked to assist exporters in their financing requirements should step up in extending credit guarantees. In addition, new sources of credit should be explored such as tapping Aid-for-Trade for this purpose.

Sixth, to address the concentration of exports on few products and markets, the different government agencies and private sector should act in concert to exploit the opportunities offered by the ASEAN economic integration and other preferential trading arrangements. The government should engage more actively in information gathering and dissemination (including market intelligence), and capacity building of exporters. Through diplomatic efforts, the Philippine image as gateway of the US and EU to the ASEAN Economic Community should be bolstered. Simultaneously, the government should identify and assess the gains that the country may realistically obtain from its participation in various trading arrangements. It should also earnestly work on concluding mutual recognition arrangements (MRAs) on certification-enabled products, particularly Halal and organic products. Past initiatives to develop the country's export services capability, e.g., health information management, software development, medical tourism, retirement and education services, must be reviewed and revived when viable.

Seventh, a well-coordinated and sufficiently funded export and investment promotion campaign is needed to exploit the nexus of foreign direct investment (FDI) and export activity. Hitherto export and investment promotion have been managed as separate initiatives. A joint campaign entails aggressive build-up of the country's image as an attractive site for production and investment, as well as rationalizing and linking investment and export incentives. The Philippines should also be able to match, if not surpass, the visibility of other ASEAN countries in trade fairs and significantly increase the frequency of exporters' and importers' business missions. For this, alternative sources of funding would have to be tapped to augment traditional sources and sustain the campaign.

Finally, sufficient attention will be given to nurturing and harnessing a national innovation system to enhance the innovative capacity of domestic producers. Concretely, this will involve unlocking the flow of knowledge and information among industries, universities and public research institutions; addressing systemic failures that undermine the capacity of industries to innovate; resolving mis-matches between basic research in the public sector and academia and more applied research in the industry; raising the effectiveness of technology transfer institutions; and providing incentives for collaborative research and technology development among firms and with public research institutions.

Successful implementation of the strategies laid out in this plan would help exports shrug off its uneven performance in past years, move towards a stable growth path, and attain the elusive US$100-billion target by the end of the cycle. These could be achieved if exports would grow between 6.6 and 8.8 percent in 2016, and between 7.7 and 10.6 percent in 2017, to offset the projected contraction of about 1.2 percent in 2015. The growth targets translate to additional export revenues of US$5.2 to US$8.8 billion in 2016 and US$8.5 to US$15.5 billion in 2017.

A robust and sustained increase in exports would spur economic growth, create employment, and draw majority of the population into the social and economic mainstream. Ultimately, export-driven growth has the potential to help reduce poverty. Concretely, the export sector may be able to deliver between 800,000 and 1.4 million job opportunities in 2016, and between 1.2 and 2.3 million in 2017, to compensate for job losses in 2015 as a result of projected export decline. In all, the projected additional employment opportunities over the life of the plan, is between 500,000 and 2.8 million. This should help the country catch up with its neighbors and the rest of the world in trade and economic development.

Table IV.2 Target Export Revenues, 2015-17

	2015[a/]		2016[b/]		2017	
	LOW	HIGH	LOW	HIGH	LOW	HIGH
(in US$ million)						
Goods	57,531	59,081	62,297	63,836	66,452	70,206
Services	26,729	27,415	29,894	30,232	32,868	33,861
Total Export	84,261	86,496	92,191	94,068	99,320	104,067
YoY Growth rate						
Goods	(7.4)	(4.9)	5.4	8.0	6.7	10.0
Services	4.9	7.6	9.0	10.3	9.9	12.0
Total Exports	(3.8)	(1.2)	6.6	8.8	7.7	10.6

[a/]*Based on actual exports of goods from January to November and of services from January to September.*
[b/]*Calculated using the high estimate of 2015 exports as base.*

EMB EXPORT MARKETING BUREAU

EXPORT DEVELOPMENT COUNCIL

PHILEXPORT

dti DEPARTMENT OF TRADE & INDUSTRY PHILIPPINES

EUROPEAN UNION

TRADE RELATED TECHNICAL ASSISTANCE PROJECT 3

A project supported by the European Union

We inspire each other