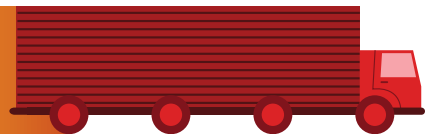


List of Acronyms

AI	Artificial Intelligence
ASEAN	Association of South East Asian Nation
BSP	Bangko Sentral ng Pilipinas
CAGR	Compound Annual Growth Rate
DTI	Department of Trade and Industry
EDC	Export Development Council
EU	European Union
FTA	Free Trade Agreement
IT-BPM	Information Technology – Business Process Management
MC	Memorandum Circular
NAFTA	North American Free Trade Agreement
PDP	Philippine Development Plan
PEDP	Philippine Export Development Plan
RA	Republic Act
US	United States

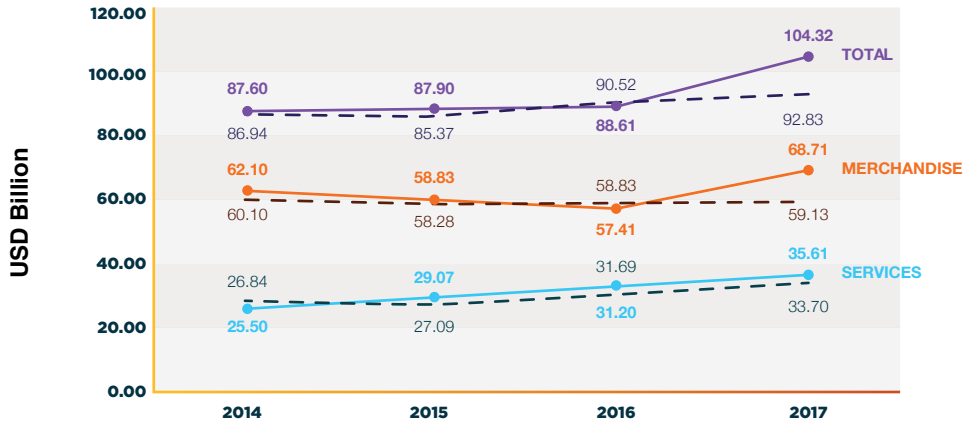
Review of PEDP 2015-17 Implementation

The Philippine Export Development Plan (PEDP) 2015-17 comprehensively analyzed the structure and performance of Philippine exports of goods and services utilizing various means of determining their comparative advantages and competitiveness. On the basis of these analytical assessments several detailed strategies were drawn up towards the realization of the export targets. Subsequently, the President issued Memorandum Circular (MC) 91 on February 4, 2016 approving the Plan and directing 14 government agencies to collectively work in facilitating the targeted exports. The agencies directed by the MC individually and collectively contributed to ensuring that exports of goods and services were supported despite some variation in performance. In the context of formulating a succeeding PEDP the actual progress of PEDP 2015-17 targets is compared with the overall export performance during the same period in the aggregates rather than the specific sectors or products involved. The contents of PEDP 2018-22 are broadly described consolidating 3 important parts in the context – the overall environment for international commerce in the medium-term and how it might shape Philippine exports; the scale of strategies to consider based on their reviews; and a preview of how PEDP 2018-22 will play out in the remainder of this plan.



Review of Past Performance

Actual VS Target



*Average of High and Low Targets PEDP 2015-17 Merchandise exports data based on FTS (PSA). Services exports data based on BPM6 (BSP).

The figure shows the PEDP targets (broken line) between 2014 (carried over from the earlier PEDP) and 2017 for goods (upper part) and services (lower part). It can be seen that the actual goods exports were achieved in 2015 but fell significantly below in 2016 before recovering and close to the target in 2017. Global exports were experiencing recession in late 2015 and in 2016. For services exports however actual exports were above targets for the 3-year plan. In short, total exports in 2017 exceeded their target and targets were exceeded in the last 3-year PEDP

Table 1. Actual Performance vs. PEDP Target (in US\$B)

	2014		2015		2016		2017	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
Total Exports	87.60	86.94	87.90	85.37	88.61	89.22	104.32	92.15
Merchandise	62.10	60.10	58.83	58.28	57.41	58.83	68.71	59.13
Services	25.50	26.84	29.07	27.09	31.20	31.69	35.61	33.70

Notes:

Numbers may not add up due to rounding. Merchandise exports data based on FTS (PSA). Services exports data based on BPM6 (BSP). Total exports targets averaged high and low values.





PEDP 2018-2022 & Ambisyon 2040

The starting point for PEDP 2018-22 is the Philippine Development Plan (PDP) 's (2017-2022) end-period target for exports of goods and services of US \$ 122 Billion to US \$ 130.8 Billion representing low and high ends of the target. The task for PEDP 2018-22 is determining the feasibility of the targets that would synchronize the PEDP with the 6-year program of the Duterte administration (the PEDP 2018-22 five-year timetable is to catch up with PDP). The exports targets are seen to significantly contribute to short to medium term development objectives in the PDP and in ensuring they are integral to the long-term vision of the country as Ambisyon 2040. Thus instead of the usual PEDP as 3-year rolling plan under the Export Development Act (RA 7844) the PEDP 2018-22 extends until the end-period of the PDP. This effectively makes the PEDP integral to the medium-term plan in PDP. As such the scan for its horizon should consider new developments in industry and services that may affect their trade either during the 5-year plan or beyond. In fact these developments become more critical if the PDP and PEDP are to effectively contribute to attaining the long-term vision in Ambisyon 2040

Export Trade Maps

Trade Maps provide a picture of the characteristics of Philippine exports in terms of their growth relative to world growth for similar products and in terms of their ability to raise, avoid declines, and keep their shares in world markets. A trade map was constructed in PEDP 2015-17 which essentially categorizes Philippine exports of goods and services into 4 groups demarcated by their growth relative to world growth (on the horizontal axis in a quadrant) and constant share in world market (vertical axis in a quadrant)



Champions

are export products and services which demand exceeds world demand and for which Philippine exports are increasing in market shares



Underachievers

are export products and services which demand is growing faster than average but for which Philippine exports are losing markets to others



Achievers

in adversity or winners in declining markets are export products and services which demand is slower than average but Philippine shares are increasing



Laggards

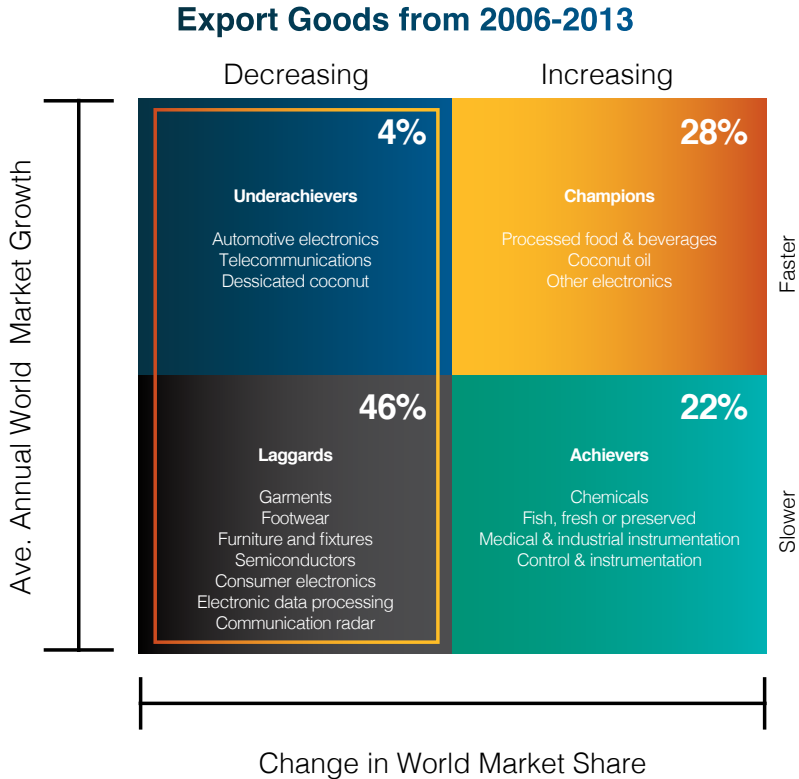
in declining markets are export products and services for which demand is slower than average and for which the Philippines lost market shares to others

Desired Change in Export Profile

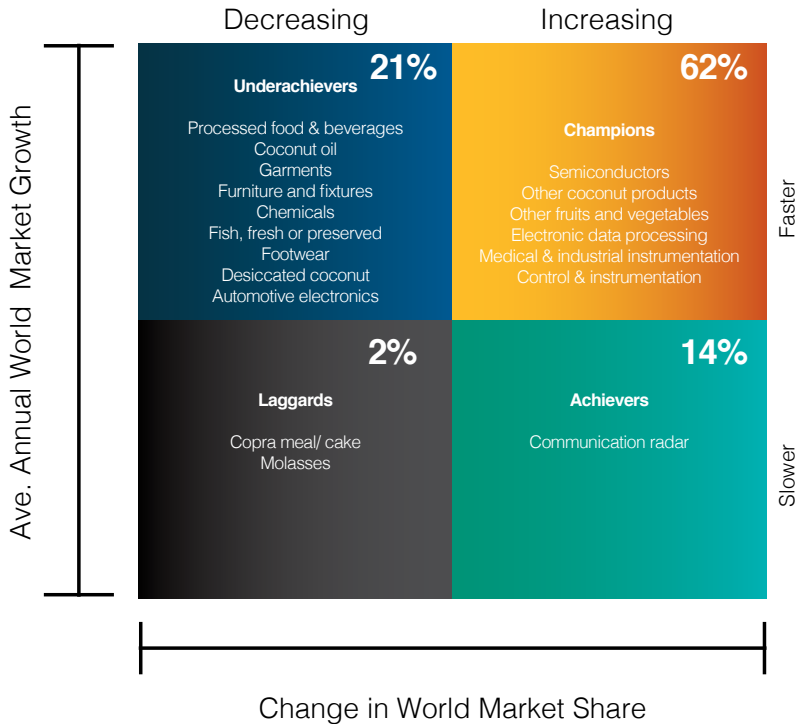


Goods Trade Maps

Exports products between the 2 periods shifted from being underachievers and laggards to champions or achievers



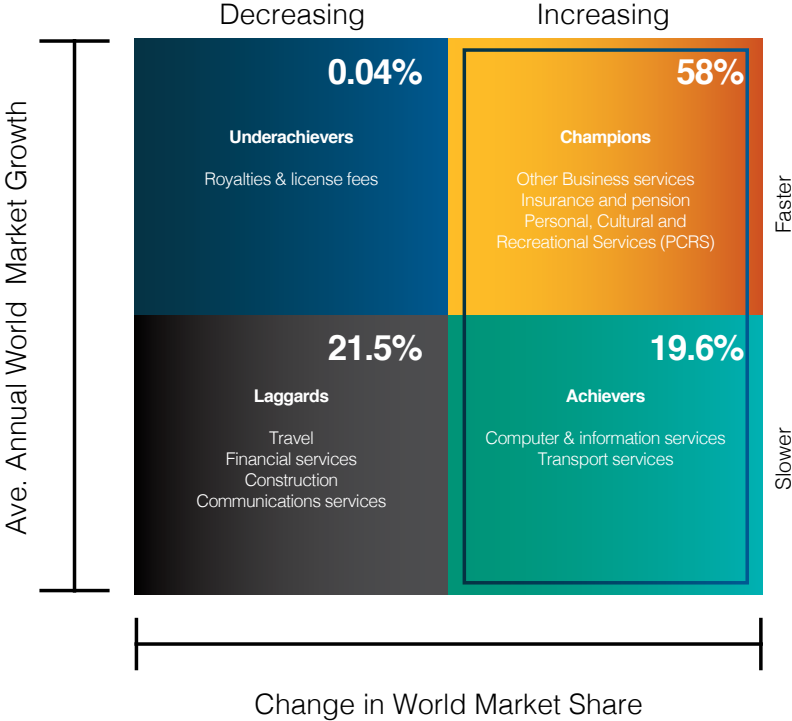
Export Goods from 2013-2016



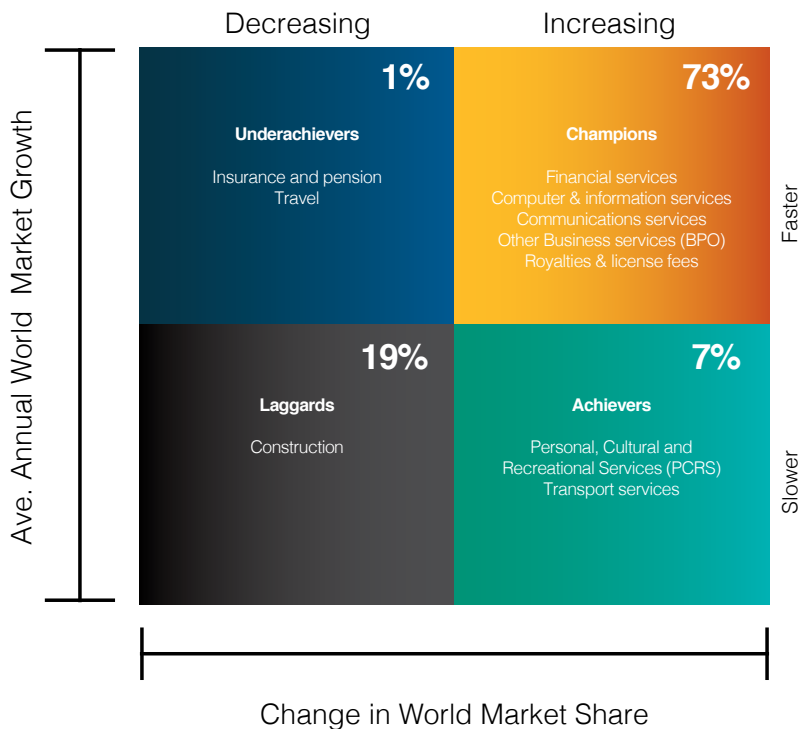
Services Trade Maps

Services exports show rising number becoming champions (more than 70%)



Export Services from 2006-2013

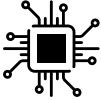



Export Services from 2013-2016





Export Performance Changes



Laggards  →  **Champions**



 **Semi-conductors**  **Financial Services**


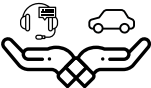
Achievers  →  **Champions**

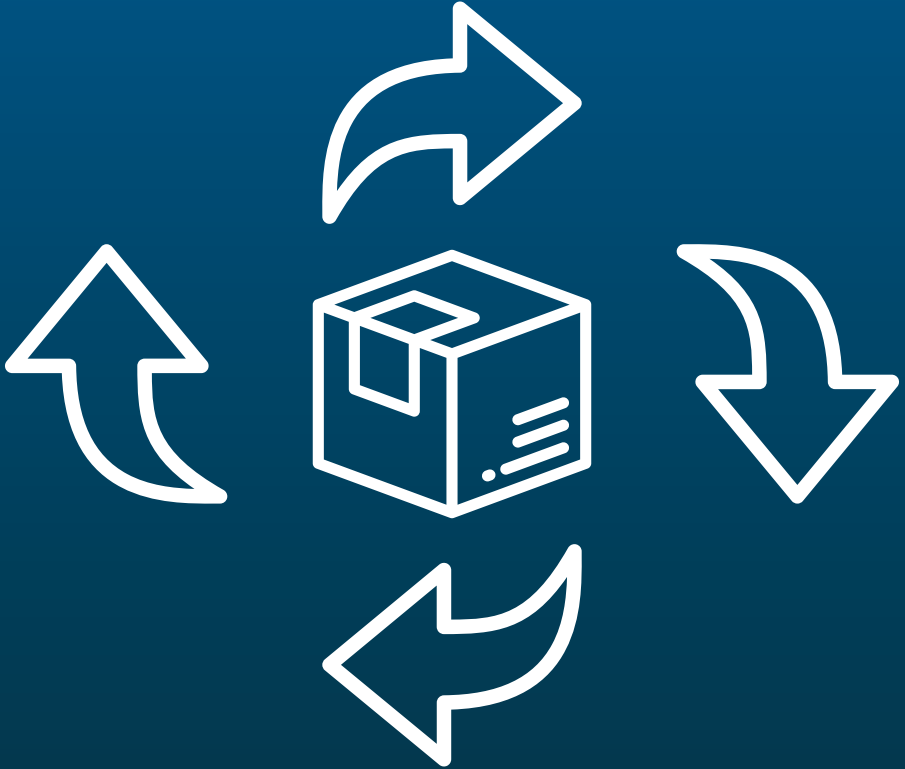
 **Control / Instrumentation**  **Computer Services**

Laggards  →  **Underachievers**

 **Garments**  **Travel Services**

Champions  →  **Champions**

 **Coconut Products & Travel Goods**  **BPO & Transportation Service**



Export Targets

Table 2. Export Targets in PEDP 2018-2022 (Using BPM6) Historical CAGR

Exports	Target Exports (US\$B)												Exports Using Historical CAGR (US\$B)	
	2017		2018		2019		2020		2021		2022		2006-16	2006-12
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
Goods (US\$B)	45.1	45.6	47.8	48.8	51.2	52.7	54.8	56.9	59.2	62.0	61.0	62.2	52.1	64.5
Services (US\$B)	34.5	34.9	38.3	39.0	42.6	43.7	47.2	49.0	52.4	55.3	61.0	68.6	58.3	57.8
Total (US\$B)	79.7	80.4	86.2	87.8	93.7	96.4	102.0	105.8	111.6	117.3	122.0	130.8	110.4	122.3

Using historical growth rates for 2006 to 2016 (10-year period) and a shorter historical period 2006-12 it can be seen in the PEDP 2018-22 Plan that the low end of 2022 targets are feasible using the historical growth rate during the period 2006-12 (defined as high target). The reason why the period 2006-12 is defined as high(feasibility) target is that it captures a period of export expansion. The period 2006-16 captures both the expansion period and the period 2012-16 of slowdown in world trade. Given that the world economy is seen to recover and expand in 2017 over the medium term, the historical period 2006-12 is the appropriate historical record to use in projecting the feasibility of meeting the end-period targets.



Thus the sub-period 2006-12 is of sufficient length to cover more stable behavior of exports. This is the growth rate used to assess the feasibility of meeting the end-period targets. Applying the 2006-16 period as the low growth track, and the 2006-12 as the high growth track, to the base period exports yields Table 3. Total exports, based on historical CAGR for 2006-12 is expected to reach US \$ 122.3 B meeting the low target exports by 2022. The high CAGR of the sub-period 2006-12 results in achieving the low end of the targets for end-period.

Table 3. Export Targets in PEDP 2018-2022 (Using BPM6) Required CAGR

	Exports 2016 (US\$B)	Target Exports 2022 (US\$B)	Required CAGR (Percent)
Goods	42.7	64.5	7.10
Services	31.3	57.8	10.17
Total	74.0	122.3	8.13

Table 4. Aggregate Exports: Actual and Targets (PDP 2017-2022 and PEDP 2018-22)

	2016 (Actual) US\$B		Targets (BMP6) US\$B (2022)		CAGR (%)	
	(BPM5)	(BPM6)	Low	High	Low	High
PDP						
Goods Exports Targets	57.4	42.7	61.0	62.2	6.2	6.6
Services Exports Targets	31.3	31.3	61.0	68.6	12.3	14.3
Total	88.7	74.0	122.0	130.8		
PEDP 2018-2022						
Achieving the Targets					2006-16	2006-12
Goods Exports			52.1	64.5	3.35	7.10
Services Exports			58.3	57.8	10.95	10.17
Total			110.4	122.3	5.88	8.13
Sources						
Selected Goods Exports (EDC)	33.1	24.5	37.0	45.0	7.1	10.6
Additional Goods Exports	9.5	7.1	10.7	13.0	7.1	10.6
Selected Services Exports (EDC)	26.1	26.1	46.5	50.7	10.2	11.7
Additional Service Exports	4.5	4.5	8.0	8.7	10.2	11.7
Total			102.2	117.4		
Difference						
Goods Exports Target			(-13.3)	(-6.5)		
Services Exports Target			(-6.5)	1.6		
Total			(-19.8)	(-4.9)		

Sources: PDP (2017), Post Session Report (2017)

Table 4 summarizes PEDP 2018-22. The difference between the revenues from sources and targets indicates what products and amounts have yet to be identified and targeted. If the low-estimate target is followed, using high historical CAGR and the high-estimate of sources, the incremental amount to be generated would be US \$ 4.9 Billion in the period 2018-22. This would not seem to be a tall order given the right conditions and strategies.



Risks and Challenges



I. Riskier Global Trade

The Philippines recovered strongly in 2017 after 2 years of weakness, with estimated real growth rate of 4.9% (WEO). This was also the character of growth and trade for most of the country's major markets particularly the US, EU, and China. The World Economic Outlook January 2018 update indicates a firmer and strengthened global recovery for the near term (2018 and 2019) but core inflation may dampen recovery which would raise export's production costs. Another risk to the expected expansion of trade would be the attraction for inward-looking policies as trading countries' external imbalances combined with skewed growth benefits generate calls for erecting trade barriers, which eventually spreads as either trade retaliation takes place or further protection imposed.



II. Policy Retreats in Major Markets

Some of the major markets for Philippine exports may face policy uncertainties (e.g., Trump policies, NAFTA, BREXIT negotiations, US Trade Wars) though more towards retreats from previous directions. Given the growing inter-dependence among markets there may always be interactions with the country's major markets and thus imminent policy retreats with seemingly marginal impact are risks as well. As crucial elections hover in 2018, creeping nationalism could be manifested in setting up protectionist barriers and inward-looking policies both of which give preference to domestic industries and domestic markets. There would also be implicit policy retreats from existing reforms as their initial impacts wear off with their consequences needing retreats, or the reforms are unable to achieve their timely impacts necessitating retreats.

III. Constraints to Regional and Multilateral Arrangements

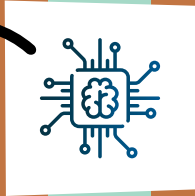
Hitches to the negotiation or implementation of provisions in bilateral and regional trading agreements risk and affect trade (i.e. Drag in regional arrangements – Regional Comprehensive Economic Partnership Agreement, surging ASEAN, reviving Trans Pacific Partnership Agreement). A weak global value chain linking the country to the rest of the world in merchandise trade is a risk because the barriers and hurdles in the country's integration would negatively affect trade and subsequent economic growth and rising prosperity. Sporadic tariff increases in major markets (US/EU) and existing agreements can also become real risks especially when they come from the more likely responses to their impositions as retaliatory tariffs. Delays in bilateral Free Trade Arrangements (FTA) negotiations and implementation also create further risks to the export development plan



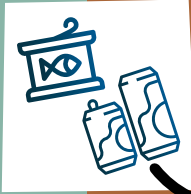
IV. Technological Breakthroughs

The break-neck speed of technological advances in the last few decades, in many ways, poses serious trade risks and challenges in the form of how the country is going to face them. Some of these technological breakthroughs have impinged on the manufacturing and services sectors which are the bases for much of international transactions. Several of the countries, excluding the Philippines, challenged by these breakthroughs have responded with considerable visibility at the highest levels (e.g. Thailand 4.0, South Korea's Smart Factory Division, Singapore's Smart Industry Readiness Index). As "best practices" change with technological breakthroughs the challenge to industry and services trade becomes more compelling. A number of the affected industries and services would be "locked in" with existing practices (e.g., car manufacturing, Business Process Outsourcing (BPO))





Electronics



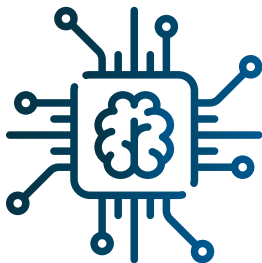
**Processed Food
& Beverages**



**IT-BPM
Tourism**

Key Export Sectors

Among all goods and services exports three of them seem to stand out – electronics, processed food, vegetables, and beverages, and information technology and tourism services. This does not mean 3 homogenous products or services since obviously each one can be further broken down to many sub-products and related services. A focus on 3 products and services reflects a sense of priorities.



Electronics

The PSA specifies 9 components comprising electronics products exports the largest of which is devices (semiconductors). Until their turnaround in 2017, their past slowdown (not entirely due to the Philippines) dragged the rest of the country's exports, these comprising more than a third in share and thus weight in both the “feast and famine” of trade. Indeed this sector has fruitful linkages with other exports products and services. But for so long electronics exports have thrived in basic assembly even as new challenges emerged. What may be needed is its systematic review and mapping. A prior direction will have to be addressed as well – whether to move upstream (e.g. wafer fabrication) or downstream (e.g. IC-design and associated products/ services). An expert-written road map has been completed which would be a good starting point for a focus export target. While electronics products exports have been recovering, accelerating developments in Industry and Services 4.0 point to an even higher demand for electronics products as they become embedded in different factory stages, in autonomous vehicles, in AI-powered services, in the Internet of Things and more.



Processed Food & Beverage

Consumers, world-wide, have seen changes in habit, consciousness, and preferences especially in terms of food consumption. Continued urbanization has increased demand for more accessible food services and a one-stop shop for all types of unprocessed and processed food. The latter is manifested by the emergence and growth of supermarkets, hypermarkets, convenience stores (standard and petrol/gas/service stations), independent food stores, and discounters. Consumers are looking for stronger links with farmers and food sources. Consumers are also more conscious of and recognize sustainable agriculture as alternative to conventional ways (e.g., more climate-friendly farming produce). This is apart from health-related consciousness through food products with low carbohydrate, low cholesterol, and low transfat, among others. Preferences have changed – less cereal, more horticulture, meat and oil crops, and significantly increasing shares of food expenditures on fruits and vegetables and bread across all income groups. The Philippines has comparative advantages in tropical-resource based products into different forms (fresh, canned, dried, processed and semi-processed, etc.) but to really obtain greater market foothold, the country needs to exploit these consumer changes from product differentiation to catering to packaging, safety, nutritional content, global standards, etc. In terms of dynamism many of these processed fruits and vegetables are champions in the trade maps and have retained these distinctions over time. And when the scope of processed food, beverage, and vegetable is expanded in consonance with these changing consumption characteristics potential revenues could be higher.



Information Technology- Business Process Management (IT-BPM) and Tourism

In the last several years the IT-BPM account has been the flagship of the country's service exports. Information technology (IT) includes "...other business services..." which compose of "research and development services", "professional and management consulting services", and "technical, trade-related and other business services". By far, the latter constitutes the largest share of other business services. . If IT-BPM is to be a focus export target, what would be its prospects towards the PDP end-period 2022? While the threat of Artificial-Intelligence (AI)-driven machines and robots substituting for BPM and related services is real, a lot would depend on how such tasks are further split up and how much would become the "personal" part of the exported services. In any case there may even be a surge of BPM services as prelude to their (partial) mechanization (or robotization). On the other hand, to the extent that the country is able to capitalize on the cumulative needs for computer services related to Industry and Services 4.0, the IT part of IT-BPM could see further increases in revenues. The relevance of making this a focused export is that of being able to identify where the potentials are, readying the sector for these, and updating its industry road map beyond PEDP 2018-22. In the same vein, it would make sense to add to this priority the export of tourism related services (transport and travel) given its recent spike in growth rate. This may appear distinct from IT-BPM focus thus providing different substantive services with potentially strong links with goods industries. On the other hand, where Services 4.0 shade into tourism, the industry links with IT.

Key Strategic Action Agenda



Strategy 1

Improve the overall climate for export development



Strategy 2

Exploit existing and prospective opportunities from trading arrangements



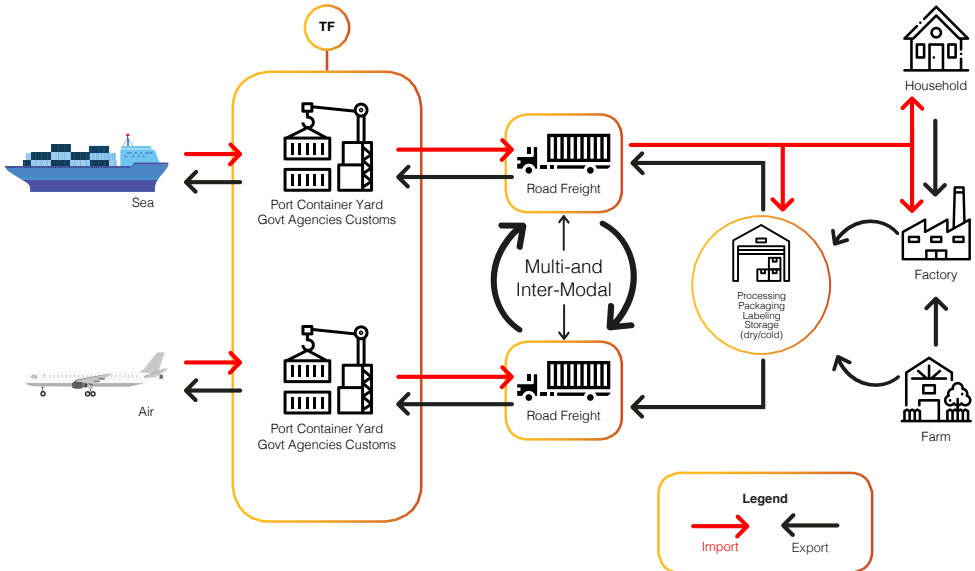
Strategy 3

Design comprehensive packages of support for selected products and services sectors



Strategy 1

Improve the overall climate for export development



Part of **Strategy 1** are other factors, even more crucial, that influence the overall climate. Movements of the real exchange rates and real interest rates are of special concerns to exporters along with other macroeconomic variables.

“Correct” macroeconomic policies may even be more effective than any direct intervention from both public and private sectors.

For instance, maintaining a market-oriented exchange rate tends to uniformly encourage exports, naturally protect and promote domestic-import-substituting industries, reduce trade deficits, and accumulate international reserves.



Strategy 2

Exploit existing and prospective opportunities from trading arrangements

Part of **Strategy 2** is to replicate the successful Department of Trade and Industry (DTI) program Doing Business with FTA illustrating how trading arrangements can be exploited

Viewed by traders, exporters, and other businesses as access points to specific markets

Dedicated program such as this can be vehicle for both advocacy and promotion in specific trading arrangements and markets

Ultimately these expand market access and diversify exports products through strategic trade partnerships in the process of bilateral, regional and global integration





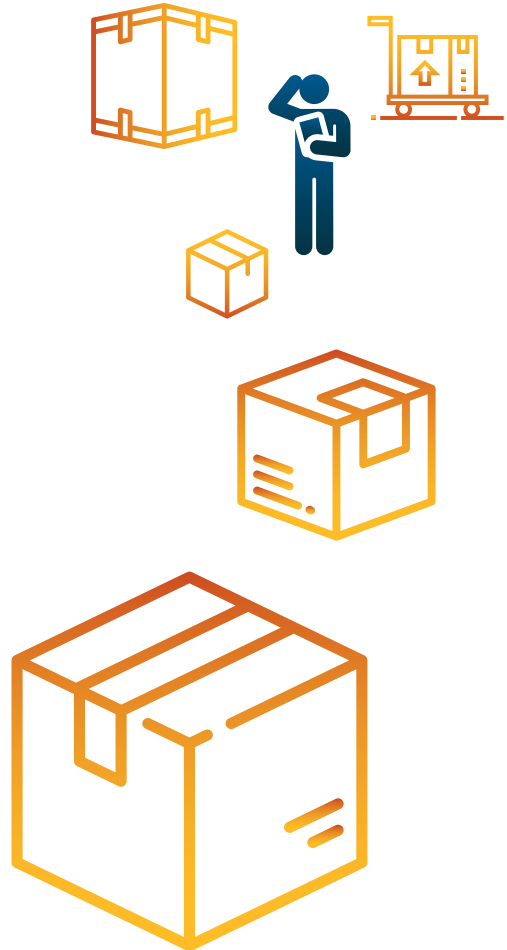
Strategy 3

Design comprehensive packages of support for selected products and services sectors


Part of PEDP 2018-22 **Strategy 3** recognizes the larger Inclusive Innovation Industrial Strategy (I³s) as foundation for integrated industrial development where inter-related industries feed on each other both in the domestic and international markets

The broad product groups have to be expanded into specific products to test the comparative advantage and competitiveness in their exports

These require ensuring sufficient supply capacities through domestic policies and programs and connectivity to global value chains.



Summary



PEDP 2018-22 takes off from the analytical foundation of PEDP 2015-17 which remains valid investigating the structural reasons for the weak performance of Philippine exports of goods and services. It looks at an array of goods and services exports as sources for achieving the exports targets, examines if their historical experiences give some assurance of promising exports revenues at the end of the planning period, and considers how recent developments in industry and services affect their path towards the targets achievement. Only aggregate growth rates are taken up along with updated trade maps. But more fully, behind these would be the results of the previous Plan's analytical exercises.

There are several useful enhancements to the PEDP 2018-22. One is to use some of the analytical results of PEDP 2015-17 in order to ensure exports targets are achievable. The measures of comparative advantage for specific products would put greater confidence on the sources for achieving the targets. It is also possible to generate estimates of employment and job creation for those products identified as sources for reaching the exports targets, aggregating them and extrapolating impacts on the labor force.

Another of enhancement is to develop a systematic monitoring and evaluation system for PEDP 2018-22 and subsequent PEDPs. Such a system will need to have analytical monitoring and subsequently their impacts, and a policy and regulatory monitoring of supporting policies and regulations affecting exports. While it seems straightforward to follow the progress of exports (and their distance from the targets set) through the regular statistical reports (e.g., PSA quarterly reports of exports) measuring inputs would face many challenges. On the one hand the definition and measurement of inputs have to be sorted out which may or may not lead to some solution. On the other hand to the extent that inputs can be considered as “strategies” in the context of PEDP 2018-22 this may require defining a strategy and generating indices of their implementation. The consolidation of several strategies into some collective groups – defined for example as 3 strategies – would make monitoring more tractable.

Finally, a more pro-active EDC – taking off from MC 27 which formally defines public and private agencies supporting PEDP – where it can organize its directed membership into “strategy groups” would clearly be a visible means to monitor. Targets set for these groups feed into the monitoring system. Ascribing attribution of exports progress (from targets) to either “strategy groups” or other inputs would be the optimal challenge for PEDP 2018-22.

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