Philippines[1]

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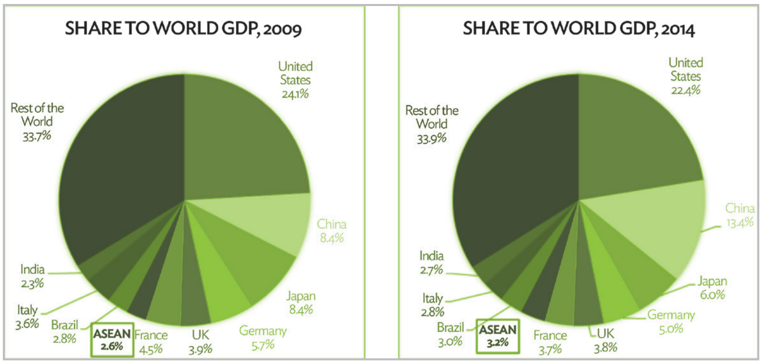
Introduction

The establishment of the Association of Southeast Asian Nations (ASEAN) on 8 August 1967 ushered a new development era for the region. Fifty years since its establishment, the ASEAN development journey shows remarkable achievements and economic structural transformations in the 10 Member States. Despite the 1997 Asian financial crisis and the recent global financial crisis, ASEAN occupies centre stage in the global community with its relative share of world gross domestic product (GDP) expanding from 2.6% in 2009 to 3.2% in 2014 (Figure 1). It has achieved a pronounced reduction in poverty and the poverty gap, and significant improvements in health outcomes and literacy (Intal et al., 2014).

Figure 1. Share of ASEAN GDP to World GDP, 2009 and 2014



Source: World Bank World Development Indicators (for 2009); ASEAN Secretariat (for 2014).

[1] This is an essay commissioned by and written for the Economic Research Institute for ASEAN and East Asia (ERIA), Jakarta for its ASEAN at 50 publication (volume 3). Permission has been granted by ERIA through Dr Ponciano Intal, Jr., Project Director, to share this essay with the National Economic and Development Authority and the Department of Foreign Affairs.

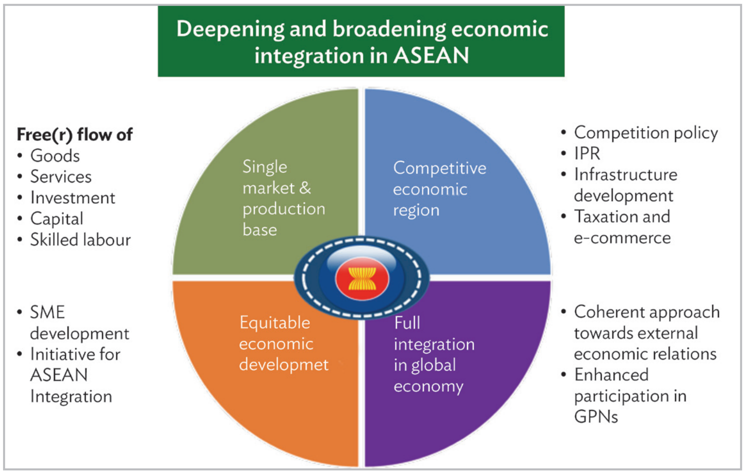
ASEAN has metamorphosed into a regional bloc moving towards economic integration that finds substance in the establishment of the ASEAN Economic Community (AEC) in December 2015. ASEAN has three pillars: (i) the ASEAN political-security community, (ii) the ASEAN socio-cultural community, and (iii) the ASEAN economic community. The agreement to develop an ASEAN Socio-Cultural Community Blueprint was made on 20 November 2007 at the 13th ASEAN Summit in Singapore (ASEAN Secretariat, 2015b). Philippine advocacies in this area include the following: migrant workers' protection, social protection, disaster management, climate change, and biodiversity conservation (Philippine ASCC Secretariat, 2015). The third pillar relates to the establishment of a cohesive political-security community. Compared with the other two pillars of the ASEAN Community – the ASEAN economic community and the ASEAN socio-cultural community – this goal may be the most difficult to attain (Baviera, 2013). This will be a long work in progress, but it is important to underscore that political security is the most critical element of any community because it concerns peace and order in local communities as well as stability in the national and regional order. Political instability will chase away and put at risk any gains made in building a regional economic and socio-cultural community. Notwithstanding many difficulties, ASEAN has become an important institution for regional security, peace, solidarity, and communication over potentially disruptive political issues, such as terrorism and border disputes.
This paper focuses on the third pillar, more specifically, the impact of ASEAN on Philippine policies and strategies. It examines the challenges and provides some policy recommendations on embedding ASEAN in Philippine policies and strategies.

ASEAN and Philippine Policies and Programmes

Since the founding of ASEAN, the region has undergone critical economic structural transformation. The AEC blueprint has four interrelated goals serving as a foundation for the region's economic integration (Figure 2): (i) a single market and production base, (ii) a competitive economic region, (iii) equitable economic development, and (iv) integration into the global economy. Various agreements that are geared for economic integration have driven the ASEAN Member States' (AMSs) policies, regulations, and strategic thrusts. The AMSs have committed to adjust and harmonise existing policies and regulations, formulate new ones, and revoke policies and regulations that hinder economic integration. The AMSs' responsiveness depends on their respective socio-economic and political conditions and political commitment to the AEC vision.

The ASEAN Preferential Trade Agreement was signed in 1977 and by the late 1990s economic integration initiatives had emerged (ASEAN Secretariat, 2015a). In 1993, the ASEAN Free Trade Area (AFTA) came into effect, while the ASEAN Framework Agreement on Services (AFAS) was signed in 1995. This was followed by the ASEAN Vision 2020 in 2003 that guided the crafting of the overall objective of the Bali Concord II, the establishment of the ASEAN Community. Major agreements include the ASEAN Investment Guarantee Agreement, the Framework Agreement on ASEAN Investment Area, the ASEAN Trade in Goods Agreement in 2010, and the ASEAN Comprehensive Investment Agreement implemented in 2012 (ASEAN Secretariat, 2015a).

Figure 2. The ASEAN Economic Community's Interrelated Goals



GPN = global production network, IPR = intellectual property rights, SMEs = small and medium-sized enterprises.

Source: Joint Foreign Chambers of Commerce in Thailand (JFCCT) (2012), 'AEC 2015 Threats and Opportunities for the Businessman in Thailand', a PowerPoint Presentation. JFCCT AEC Committee in March 2012 as cited in Aldaba (2014).

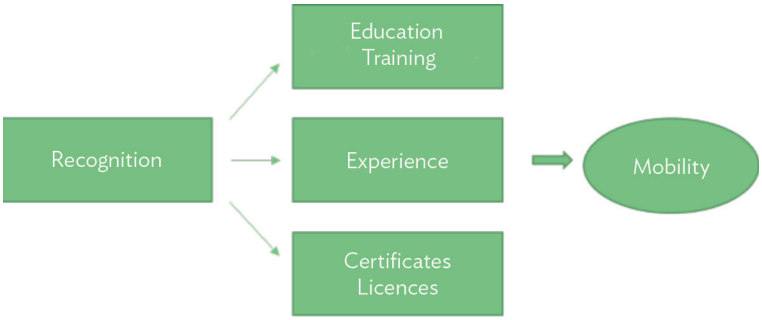
The ASEAN Trade in Goods Agreement governs AFTA for intra-ASEAN trade in goods. It covers the elimination of tariff barriers under a tariff reduction program, the elimination of quantity restrictions and non-tariff barriers, and rules of origin wherein only ASEAN products directly produced within the region qualify for benefits of AFTA. As of now, 99% of ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Thailand, Singapore, and the Philippines) tariffs are zero.[2]

Under AFAS, qualified service professionals will have greater mobility within the region, governed by common professional standards based on mutual recognition arrangements

[2] Only 68% of tariffs of Cambodia, the Lao PDR, Myanmar, and Viet Nam are zero, but most of these will be zero in 2018.

(MRAs). MRAs seek the mutual recognition of the education, training, licences, and experiences of the region's professionals and skilled workers. Ratification and signing of protocols are necessary to make the MRAs a useful instrument for skilled workers' mobility across the region (Figure 3). Under AFAS Article V: Recognition, AMSs should recognise the education or experience obtained, requirements met, and licences or certifications granted in other AMSs for the licensing or certification of service suppliers. In 2011, the ASEAN Central Bank Governors adopted the ASEAN Financial Integration Framework as a general approach to the integration initiatives under the AEC. The ASEAN Financial Integration Framework aims to have a semi-integrated financial market by 2020.

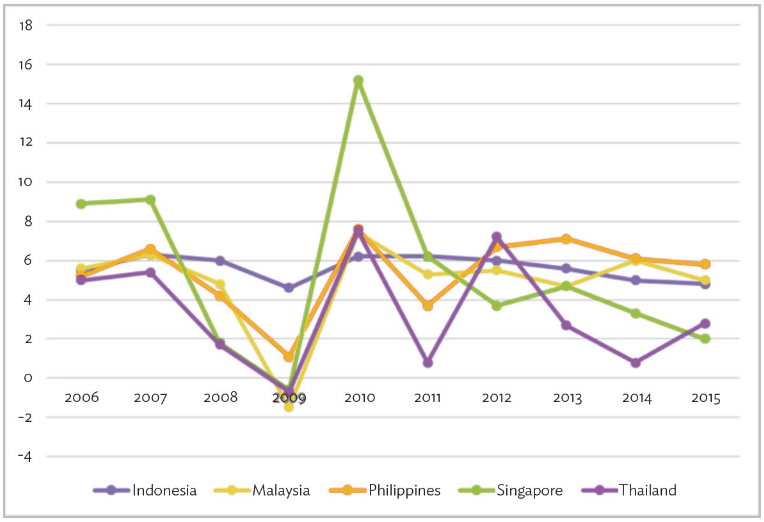
Figure 3. ASEAN Mutual Recognition Arrangements



Source: Manzala (2013a).

The Philippine experience shows how a country equipped with the right economic policy and institutional reforms can literally rise from the ashes like a proverbial phoenix. Once dubbed the 'sick man of Asia', the Philippines has now outperformed other ASEAN countries (Figure 4). It has leveraged the policy and institutional reforms that have been instituted over the years to achieve substantial economic gains by the start of the third millennium. Table 1 summarises the dramatic economic recovery of the Philippines from the severe trauma of the lost decade of the 1980s, principally brought about by authoritarian rule, to its remarkable performance in the 2000s, even as the global economy was reeling from the impact of the global financial crisis.

Figure 4. GDP Growth Rate of ASEAN-5, 2006–2015 (%)



Source: World Bank's World Development Indicators.

Table 1. Growth and Employment in the Philippines, 1980–2015

	Value Added						Employment		
	Average Growth			Average Share			Average Share		
	1980s	1990s	2000s	1980s	1990s	2000s	1980s	1990s	2000s
GDP	1.7	3.0	5.1	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	1.1	1.8	2.5	23.9	20.8	12.4	49.6	43.2	34.4
Industry	0.3	3.0	5.1	38.0	34.1	32.9	14.5	16.0	15.5
Manufacturing	*0.9*	*2.5*	*4.9*	*26.3*	*24.3*	*23.2*	*9.9*	*10.0*	*11.0*
Services	3.3	3.6	5.7	40.4	42.4	54.7	35.9	40.9	50.2

Note: 2000s statistics cover data from 2000 up to 2015 (updated by the author).

Source: Philippine Statistics Authority.

The economic turnaround was underpinned by strong economic fundamentals: (i) improvements in the fiscal space (fiscal deficit at 0.9% of GDP in 2015) (Bureau of the Treasury, 2016a); (ii) manageable inflation (1.4%) (Bangko Sentral ng Pilipinas, 2016a); (iii) a reduction in debt (44.7% of GDP in 2015; the average ratio for the period 2005–2014 was 54.3%); (iv) a growing stock of foreign exchange reserves (US$85.9 billion, equivalent to 10 months' imports and payments of income and services[3]); (v) investment grade ratings (BBB by Standard and Poor's, April 2015; Baa2 by Moody's, December 2015; and BBB+ by Fitch, September 2015); and (vi) political stability (strong democratic governance). Strong consumption and public and private investments, a revitalising manufacturing sector, a surging services sector led by the information and business process management industry[4], and substantial remittances from overseas Filipino workers[5] (Bangko Sentral ng Pilipinas, 2016b) continue to power the economy. With a young and relatively well-educated labour force, the Philippines can use its demographic dividends and continuing policy and institutional reforms for stronger growth. At the beginning of the third millennium, the Philippines is a rising economic star amidst a raft of economies facing deep political and economic challenges and wide-ranging global risks and uncertainties.[6]

From the 1950s to the 1970s, the Government of the Philippines adopted import substitution policy as its primary vehicle towards industrialisation. The inward-looking import substitution strategy initially worked for the economy, but the protectionist policies and foreign exchange controls eventually took a toll on the economy. A balance of payments crisis in the mid-1980s, large external debt, inefficient manufacturing industries, and an export industry with weak backward linkages eventually stymied growth (Aldaba, 1994; Austria, 2002).

3 As of September 2016. The stock of foreign reserves is six times the short-term external debt based on original maturity, a better ratio than those of other countries in East Asia and ASEAN.

4 The Philippine Information Technology and Business Process Management (IT-BPM) Roadmap 2012–2016 suggests that the annual revenues for the IT-BPM industry could more than double from US$9 billion in 2010 to US$25 billion in 2016 – equivalent to a 10% share of the global market. The industry expects to employ up to 1.3 million Filipinos and account for 9% of GDP (IT and Business Process Association of the Philippines, 2016).

5 US$30.7 billion during January–July 2016.

6 The 10-point economic agenda of the current administration implies a continuation of the market-oriented economic policy reforms pursued by former President Benigno Aquino III. Rodrigo Duterte, elected president on May 2016, will serve a 6-year term with no re-election as stipulated in the 1987 Philippine Constitution. The economy seems to be on a sustained growth path but faces the challenge of making growth more inclusive.

After the trauma of martial rule in the 1970s and 1980s, the Philippine economy recovered slowly at first but picked up with strong growth momentum later. Behind this performance were policy reforms, a transition to a more open economy, and improved governance that boosted economic performance. Trade and industrial policies were geared towards openness, trade liberalisation, privatisation, and deregulation (Llanto and Ortiz, 2015). Medalla (2002) categorised the trade policy reforms into five stages: (i) a pre-reform era of a highly restrictive trade and protectionist policy regime in the post-war period up to the 1970s; (ii) the first major trade reform era during the first half of the 1980s; (iii) a major import liberalisation period during 1986–1988; (iv) the second phase of the Tariff Reform Program, which narrowed the tariff range to mostly within 30%; and (v) the third phase of the Tariff Reform Program under Executive Order 264, which was implemented from 1996 to 2000. In the 1980s, the Philippines undertook initial efforts to reduce tariffs as part of a broader-based industrial restructuring programme (Medalla et al., 1996; Canlas, 2007).

ASEAN's main point of entry to Philippine policies, regulations, and strategies was the trade sector. The Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for AFTA was signed in Singapore on 28 January 1992. It did not require ratification and entered into force on the same date. AFTA is the primary trade agreement for the Philippines and it has significantly motivated tariff reduction, but other factors have also played an important role in trade liberalisation. Azarcon (1997) noted that shifts in tariff policy in ASEAN have responded to developments on three fronts: (i) multilateral trade negotiations, which resulted in the General Agreement on Tariffs and Trade/World Trade Organization Agreement; (ii) unilateral tariff reforms undertaken by most AMSs; and (iii) the accelerated pace in intra-ASEAN trade liberalisation under the CEPT.

Thus, while the Philippines unilaterally reduced tariffs, it also adhered to commitments to reduce CEPT rates in tandem with the reduction in most-favoured-nation rates. The story of the Philippine Tariff Reforms of 1995 and the subsequent tariff reduction is one of a confluence of unilateral action under the General Agreement on Tariffs and Trade/World Trade Organization Agreement and compliance to the ASEAN-led tariff reduction within the AFTA framework. As Azarcon (1997) puts it, consensus was building within ASEAN towards the adoption of a free trade area as envisioned under the AFTA Agreement in 1992.

Since the trade liberalisation programme of the 1980s and 1990s, ASEAN has informed and strongly influenced the Philippines' policies, strategies, and regulations. The Philippines has ratified important protocols. Some of those protocols are being implemented, while others, such as consultations, are in the preparation stage for ratification (Aldaba et al., 2013). The Philippines has ratified the ASEAN Framework Agreement on Multimodal Transport and ASEAN Framework Agreement on the Facilitation of the Inter-State Transport, which are currently being implemented (ASEAN Secretariat, 2015a). On 13 January 2016, former President Aquino ratified Protocol 7 of the ASEAN Customs Transit System of the ASEAN Framework Agreement on Facilitation of Goods in Transit, which was signed on 17 February 2015 in Bangkok, Thailand.

Being part of ASEAN has helped keep the country open, especially when the tendency to waver became intense following the 1997 Asian financial crisis (Aldaba et al., 2013). Executive Order 850 (December 2009) reduced tariffs on imports from ASEAN to zero in 2010, except for a short list of sensitive products. The Philippines CEPT rates are now zero except for sugar at 5%, and rice at 35%.[7]

Philippine trade has shifted away from the United States and the European Union to Asia in the past 30 years. The share of Philippine imports from ASEAN has grown from 15.5% in 2001 to 21.7% in 2013, and 25.3% in 2015, while exports to ASEAN have been at around 15%, with export trade shifting overall to East Asia (Table 2). The country's main imports from Thailand are motor vehicles, electronics, petroleum products, and chemicals, whereas its main exports consist of motor vehicle parts, electronics and electrical machinery, and minerals. With Singapore, the Philippines' main imports are electronics, machinery, and petroleum products, while its main exports are electronics and electrical machinery and petroleum products. The top imports from Malaysia are electronics, petroleum, and chemicals, while the top exports are electronics, coconut oil, and petroleum products. Growing intra-industry trade with AMSs is due mainly to the rise of regional production networks, which has shaped the production and distribution of goods and services in the region. Intra-industry trade in ASEAN is complementary rather than competitive, with trade in intermediate goods dominating as AMSs participate in regional value chains that exploit economies of scale, specialisation, and coordination to produce goods and services of higher value (Stephenson, 2013).

[7] Certain products are permanently excluded from the free trade area for reasons of protection of national security; public morals; human, animal, or plant life; and health and articles of artistic, historic, and archaeological value.

Table 2. **Direction of Philippine Trade, Exports and Imports (%)**

	2001	2003	2005	2007	2009	2011	2013	2015
Imports								
Asia	63.7	63.1	66.8	70.5	71.5	72.5	68.6	73.9
ASEAN	15.5	39.3	18.7	23.2	25.5	23.7	21.7	25.3
East Asia	39.3	39.3	39.7	36.7	38.6	37.6	38.9	42.5
South Asia	0.8	0.8	0.8	1	1.3	1.3	1.3	1.6
Middle East	8.1	6.2	7.6	9.5	6.1	10	6.7	4.5
America	20.9	23.7	20.8	15.9	14	12.6	13.1	12.2
Europe	10.3	9.6	9.1	9.9	8.4	10.2	12.4	10.1
Oceania	2.8	2	1.9	2.1	2.9	3	2.6	2.0
Africa	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.1
Others	2.1	1.4	1.3	1.5	3	1.4	3.2	27.0
Total	100	100	100	100	100	100	100	100
Exports								
	2001	2003	2005	2007	2009	2011	2013	2015
Asia	49.3	60	61.7	62.2	57.4	67.7	68.4	66.5
ASEAN	15.5	18.2	17.3	15.9	15.2	18	15.6	14.9
East Asia	33	40.9	43.4	44.8	40.3	47.7	51.1	49.8
South Asia	0.3	0.4	0.4	0.6	0.7	1	0.6	0.8
Middle East	0.6	0.5	0.6	0.9	1.1	0.9	1	0.9
America	29.5	21.3	19.2	18.1	19	16.8	16.5	17.4
Europe	19.5	16.4	16.6	16.8	20.7	12.2	11.6	11.5
Oceania	0.8	1.3	1.3	1.3	0.9	1	1.1	0.9
Africa	0.1	0.2	0.1	0.3	0.3	0.4	0.5	0.3
Others	0.7	0.9	1.1	1.3	1.8	2	1.9	3.4
Total	100	100	100	100	100	100	100	100

Source: Philippine Statistical Yearbook (various years).

The Philippines has been working to have a fully functional national single window (NSW) that will be part of the ASEAN single window.[8] This is a critical measure for effective trade facilitation. The number of government agencies connected to the NSW portal has risen significantly (from 10 to 26 agencies providing electronic licences, permits, and certificates) in the last 5 years. Government agencies also use the system to standardise their processes and decentralise operations, thus improving customer service throughout the Philippines. Electronic viewing and tagging of cargo import/export permits and clearances were initially rolled out in the Manila International Container Port and Port of Manila (Llanto et al., 2015). The recent enactment into law of the Customs Modernization and Tariff Act will strengthen trade facilitation efforts. Its goal is to modernise customs laws, rules, and administration in accordance with the mandatory standards of the Revised Kyoto Convention (Tamayo, 2016)[9] and international agreements.

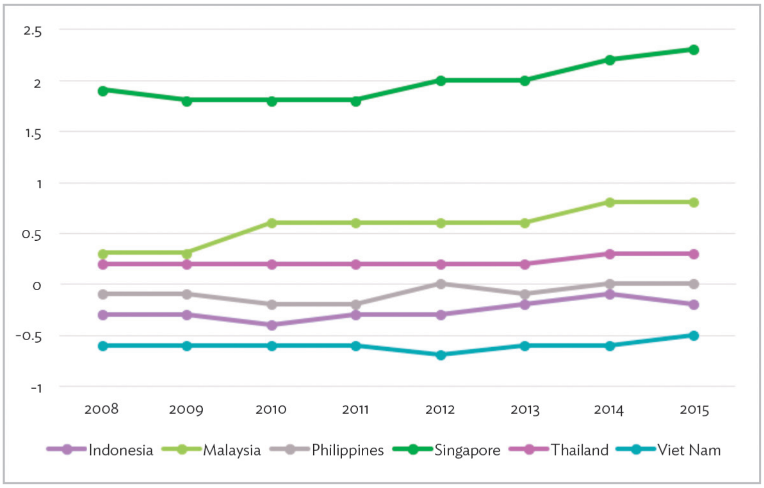
With respect to the free flow of investments, the Philippines established a National Competitiveness Council composed of key government agencies and private representatives that oversee efforts to reduce the cost of doing business through regulatory reform and improvement in governance. The National Competitiveness Council has recently unveiled Project Repeal, which seeks to revoke regulations that cause an unnecessary burden on private firms. Project Repeal has been motivated by ASEAN-wide efforts to reduce regulatory burden on private businesses. The AMSs are committed to aligning and harmonising regulatory frameworks and fundamentally to reducing regulatory burden and improving regulatory quality and coherence (Llanto, 2015).

Regulatory quality and coherence are critical in stimulating investments and improving the overall investment climate in the region. Regulatory reform has largely been a government effort, but with ample democratic space in the Philippines, dialogues and consultations with private businesses and civil society have now become an indispensable process in regulatory reform. The enormous challenge in regulatory reform in the Philippines is illustrated in Figure 5.

[8] The NSW was implemented under EO No. 482. The executive order created the NSW Task Force 14 for Cargo Clearance on 27 December 2005 to ensure an effective formulation, coordination, implementation, and monitoring of the NSW.

[9] The Revised Kyoto Convention is the blueprint for modern and efficient customs procedures of the World Customs Organization, to which the Philippines is a signatory.

Figure 5. Regulatory Quality in the Philippines, 2008–2013
(governance score, –2.5 to +2.5)



Source: World Bank's Worldwide Governance Indicators project.

In the agriculture sector, the government has aligned the quarantine and inspection procedures of Philippine fisheries to ASEAN and international standards (Clarete and Villamil, 2015). In the case of sanitary and phytosanitary requirements, the country has passed a food safety law (Republic Act 10611). The Department of Agriculture implements regulations in line with the requirements set for the AEC.[10] For example, the regulation of harmful chemicals for aquaculture and the use of environmentally safe chemicals and pesticides are in accordance with regional standards. Overall, the country's fisheries sector has been compliant with the AEC blueprint except for the application of quality and safety standards for small firms and establishing networks and linkages between fisheries cooperatives.

The Philippines is signatory to the AFAS, which seeks to provide market access and national treatment to ASEAN services suppliers. With respect to skilled labour, Republic Act 8981 already allows the entry of foreigners, e.g. ASEAN nationals, subject to foreign reciprocity provisions. In the case of MRAs, the Philippine Professional Regulation Commission (PRC) has developed roadmaps for medicine, dentistry, and nursing (Manzala, 2013b.). During 2005–2009, the Philippines signed seven MRAs for engineering, nursing, architecture, land surveying, medical practice, dental practice, and accountancy. The Philippines has a Qualifications Framework (PQF) that the PRC will harmonise with the ASEAN Qualifications Reference Framework (AQRF), which is presently being done by an ASEAN team chaired by the PRC.

[10] Through the Bureau of Fisheries and Aquatic Resources, Bureau of Plant Industry, Bureau of Agriculture and Fisheries Product Standards, and Bureau of Animal Industries.

Manzala (2013a) described the AQRF as a common reference framework that functions as a translation device in comparing qualifications across participating AMSs. It addresses the education and training sectors and incorporates informal, non-formal, and formal learning. Formal learning includes post-compulsory schooling, adult and community education, technical and vocational training, higher education, and lifelong learning. Developing and harmonising the PQF with the AQRF is a long process. The AQRF is still a work in progress. But the important thing is that the PRC and its regional counterparts are conducting regular consultations to prepare their respective qualifications framework and that a regional team headed by the PRC is working on the AQRF.

With respect to financial services, the Philippines enacted Republic Act No. 10641 on 15 July 2015 to liberalise the entry of foreign banks into the country. This is part of its commitment to make the financial and banking industry more competitive and able to address the varying financial services needs of a growing economy. It is a significant step towards financial integration. Bangko Sentral ng Pilipinas (or the Central Bank of the Philippines) and the Department of Finance, the main agencies involved in financial integration, focus on the following: (i) financial services liberalisation, (ii) capital account liberalisation, and (iii) capital market development. They work with their ASEAN counterparts to formulate consistent rules and regulations that conform to the requirements of financial integration and international financial standards.

Among the recent accomplishments of the working group for financial integration are (i) the harmonisation of prospectuses for cross-border primary offerings of securities under the ASEAN Equity Disclosure Standards and ASEAN Debt Disclosure Standards ('ASEAN Disclosure Standards'), where issuers offering equity and plain debt securities in multiple jurisdictions within ASEAN will only need to comply with ASEAN Disclosure Standards; (ii) completion of framework to reduce the review time frame of secondary listing application; and (iii) launching of the ASEAN Corporate Governance Scorecard and development of the Bond Market Development Scorecard (Bangko Sentral ng Pilipinas, 2016c). The disclosure standards for Philippine corporations will be important for improving corporate governance and public trust in those corporations. The bond development scorecard tracks gaps or barriers to ASEAN bond market development to help widen and deepen ASEAN financial and capital markets. More recently, Bangko Sentral ng Pilipinas relaxed its rules on foreign exchange to facilitate access to foreign exchange by corporates and individuals for legitimate non-trade current account transactions (Bangko Sentral ng Pilipinas, 2016d).

Challenges

Table 3 shows the broad status of Philippine commitments to the free flow of goods, investment, skilled labour, and services. In the case of trade in goods, the main remaining issues are trade facilitation measures and non-tariff measures that can act as barriers to trade. Non-tariff measures, such as technical, sanitary, and phytosanitary requirements, are imposed for reasons of health, safety, and environmental protection. To address this type of barrier to trade, the Philippines must work with other AMSs to harmonise procedures and make their administration transparent. For a more efficient NSW, the Philippines should work further on manifest processing, declaration processing, simplification, and harmonisation, and have all concerned government agencies prioritise the establishment of a fully functional NSW. Ibrahim (2011) notes that implementation of the NSW has been hampered by turf issues among government agencies, a lack of understanding of stakeholders of the value of NSW, and disjointed supply chains. A fully functional NSW should include computerised risk management and documents clearance with post-audit as a tool for trade facilitation (Banomyong, Cook, and Kent, 2008).

Table 3. Broad Status of Philippine Commitments

Free Flow Type	Status	Remarks
Goods	Advanced	0% tariff by 2010 except sugar, 5%; rice, 35%
Investment	Commenced	Review case of having four investment promotion agencies; investment promotion and facilitation; foreign equity restrictions due to constitutional limitations
Skilled labour	Commenced	Republic Act No. 8981 allows foreign skilled workers subject to foreign reciprocity provisions; accounting; bilateral negotiations commenced; PRC and DOLE facilitate MRA implementation
Services	Behind	Philippines has the lowest level of commitment; many sectors unbound under Modes 3 and 4; foreign equity restrictions due to constitutional limitations

DOLE = Department of Labor and Employment, MRA = mutual recognition arrangement, PRC = Philippine Professional Regulation Commission.

Source: Aldaba (2014); author.

With respect to the free flow of investments, while substantial progress has been made in liberalising the country's foreign direct investment policy, certain significant barriers to foreign direct investment entry remain. The sectors with foreign ownership restriction include mass media (no foreign equity), land ownership (foreign ownership limited to 40%), natural resources, firms that supply to government-owned corporations or agencies (40%), public utilities (40%), and build-operate-transfer projects (40%) (Aldaba, 2012). The Philippines must work on lifting constitutional restrictions limiting foreign equity participation to 40%. A window of opportunity now exists in the current congress, which has expressed interest in improving the economic governance framework to attract investments and create jobs.

While the Philippines has made significant progress in embedding ASEAN into policies and regulations in the goods sector, it seems to face the biggest challenge in services. The Philippines is behind in its services commitments due to foreign equity restrictions under the 1987 Constitution. In an examination of the services restrictiveness index covering the AFAS and ASEAN+1 free trade agreements, Ishido and Fukunaga (2012) show that AMSs have relatively low levels of commitment. The ASEAN average for the AFAS Seventh Package was 0.36, with Thailand at 0.50, Cambodia at 0.41, Indonesia at 0.36, and the Philippines at only 0.33.

With respect to MRAs, there is a need to (i) develop research capabilities in developing labour market information that will guide the development of qualifications and core competencies, and (ii) improve the governance of higher educational institutions through the PQF and AQRF that will increase the transparency and readability of PQF vis-à-vis higher education institutions in ASEAN (Manzala, 2013a).

The government must address the remaining restrictive regulations in the services sector that affect domestic and interregional connectivity. A recent amendment to the cabotage law, Republic Act No. 10668 (21 July 2105), augurs well for full liberalisation of shipping in the future. Before this amendment, only domestic shipping companies could engage in coastwise trade. Now, foreign-flagged vessels are allowed to call at Philippine ports, which enables importers and exporters to load cargoes in foreign ships going in and out of the country. The AEC is about allowing the free movement of goods, services, and people across the region.

Conclusion and Policy Recommendations

The Philippines and ASEAN have a mutually beneficial, symbiotic relationship. ASEAN has influenced and provided impetus to the crafting of better policies, programmes, and regulations. The Philippines has contributed as well to shape ASEAN policies that have led to deeper economic integration among the AMSs, and it has acted in solidarity with other AMSs to achieve the goals of ASEAN. This has been demonstrated in policies, programmes, and regulations that uphold ASEAN's vision, mission, and goals.

Fully embedding the ASEAN framework into the country's policies, programmes, and regulations faces certain challenges. It will be to the Philippines' advantage to address these challenges to have an economic policy and regulatory framework that is coherent, consistent, and harmonised with those of other AMSs in the emerging AEC. With each AMS participating in the policy and regulatory reform journey, at the end, the overall regional benefit from a more cohesive and consistent economic framework will be greater than the sum of the benefits accruing to individual Member States.

In addressing the challenges enumerated in this paper, the Philippines must undertake certain complementary actions: (i) improve industry competitiveness, (ii) address binding constraints to services trade and investment liberalisation, (iii) invest in physical infrastructure and efficient telecommunications systems, and (iv) reduce the cost of power.

In this light, the following are recommended:

- Review the regulatory framework affecting investments, skilled labour, and services to identify and revoke the rules and regulations that impede full implementation of signed ASEAN agreements and protocols.
- Address the constitutional limitations in terms of foreign ownership of land, and the ownership and operation of public utilities and services, which tend to constrain foreign direct investments.
- Continue with efforts to improve governance, such as judicial reform, and elimination and control of corruption, for an environment that is more conducive for business.
- Reduce the cost of doing business through investments in physical infrastructure, power, and logistics. Increase local government investment in infrastructure, especially all-weather roads, bridges, and ports.
- Continue with investment and trade reforms in line with the ASEAN Comprehensive Investment Agreement together with reforming 'behind-the-border' policies and regulations, such as economic regulations, corporate governance, and labour laws.

- Review non-tariff measures to revoke those that hinder the free flow of goods and services, and work for the full implementation of the NSW.
- Assess the costs and benefits of embedding ASEAN agreements in domestic policies and regulations and disseminate the information to concerned stakeholders.
- Continue with reforms in basic and higher education as well as in technical-vocational education and training programmes with a view to implement MRAs and facilitate the mobility of professionals and skilled labour across ASEAN.

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