

Country Report **13**

The Philippines Country Report

Josef T. Yap

Philippine Institute for Development Studies

March 2008

This chapter should be cited as

Yap, J. T. (2008), 'The Philippines Country Report', in Soesastro, H. (ed.), *Developing Roadmap toward East Asian Economic Integration*, ERIA Research Project Report 2007-1-1, Chiba: IDE-JETRO, pp.128-130.

THE PHILIPPINES

Josef T. Yap

Philippine Institute for Development Studies

Problems and action

Over the past 25 years, the Philippines has achieved considerable success in integrating with the global economy. Trade, fiscal, and financial reforms were undertaken to strengthen the economy. Among the specific reforms undertaken were (1) a comprehensive reform program to unilaterally liberalize the trade regime; (2) accession to WTO and various trade agreements; (3) financial reforms that included the rehabilitation of the Central Bank, liberalization of foreign bank entry, liberalization of foreign exchange market, and adoption of an inflation-targeting framework; and (4) fiscal consolidation achieved in the early 1990s and legislative measures to reform the tax policy of the country.

However, there is still much to be done in consolidating the gains from these reforms. Trade and industrial reforms have been inadequate in fueling faster GDP, and allowing employment growth and economic transformation in the Philippines.

The structure of domestic manufacturing value added and manufactured exports is quite revealing. The Philippines has the highest share of medium- or high-technology products in manufactured exports among these countries in 2002. However, it also has the lowest share in terms of domestic manufacturing value added in the medium- or high-technology sectors. The variance indicates a dichotomy between the domestic manufacturing sector and export sector.

Meanwhile, it has been observed that under the tariff-restructuring regime, aggregate exports expanded dramatically, overtaking aggregate imports, but growth occurred in only a few sectors, particularly in electronics. In other sectors such as raw materials and animal and vegetable oils, performance has remained stagnant or has even declined. Per-capita income has hardly changed and there is mixed evidence as to whether these reforms really helped in alleviating poverty and in improving income distribution in the country.

The Philippine experience shows that economic openness and global integration per se will not automatically result to economic development. It is important that efforts

are concurrently placed in strengthening economic structures and good governance. Among the factors and policy shortcomings that prevented the Philippines from maximizing its gains from globalization are (1) the lack of an effective infrastructure program; (2) lack of political will to implement a sustained and credible fiscal reform program; (3) lack of a coherent industrial policy; (4) high transaction costs; and (5) low priority given to basic social services.

There were also gaps in the implementation of reforms and this is related to the failure to address issues in good governance. This focuses on anti-corruption initiatives and institutionalization of acceptable corporate governance practices.

Comprehensive roadmap toward economic integration

East Asian economic integration is very challenging, especially since the countries have a large disparity in levels of economic development, varying political systems and structures, and are culturally heterogeneous. While it is argued that differences can give rise to complementarities and comparative advantage, it is also known that differences can be a major hindrance in integration.

To integrate the economies of East Asia, it is important that development gaps are addressed, financial market and monetary systems are integrated, and that political structures comply with principles of good governance.

Lack of formal leadership in ASEAN and East Asia has proven to be another major obstacle. The EU and NAFTA experiences show the critical role of strong leadership to facilitate integration. The leader should mirror the economic and political strength of the United States or Germany and France in the East Asian region to catalyze integration. This role can be taken by either Japan or China.

The noodle bowl syndrome has hindered economic integration in ASEAN. Too many PTAs being formed by members complicate harmonization of rules and guidelines on economic integration. This also extends to the area of dispute settlement as the externalities of disputes can potentially redound to partner countries not party to the dispute resolution process.

As the need to prove ASEAN origin results in an increase in transaction costs and complexity in administrative procedures, this leads many exporters to use most-favored-nation (MFN) rates instead of the CEPT rates. The rules-of-origin issue creates setbacks in the tariff liberalization progress.

East Asia should aim for a single market without any binding timetable. Countries should identify concrete steps that would improve economic and political relations in the medium term.

Countries could declare that narrowing the development gap is a primary objective that will eventually lead to a proposal to establish the East Asia Regional Development Fund, modeled after its EU counterpart.

To overcome political and noneconomic obstacles, East Asian countries need to deepen mutual understanding at all levels, from top leaders to young people, to increase the awareness on the importance of an integrated regional market, and regional political and social stability. Leaders' meetings should be held regularly and policymakers should establish close communication links. Beijing and Tokyo should develop mechanisms for regular high-level exchanges on issues of bilateral concern.

To secure political gains of closer integration and cooperation, there should be less emphasis on sub-regional FTAs.

The newly established ERIA will definitely provide a boost to efforts for closer economic integration in the region. The six current research projects are quite comprehensive and relevant. The Philippines can benefit from these studies in two ways: One, the recommendations arising from the studies will provide policymakers with additional leverage in the process of domestic economic reform; and two, the studies will provide roadmaps to the domestic reform process in support of economic integration. The experience of other countries will be quite useful in this regard.