

# PHILIPPINE EXPORT DEVELOPMENT PLAN 2018-2022

## Executive Summary

The starting point for PEDP 2018-22 is the 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*.

To ascertain the feasibility of the exports target the required CAGRs between the base year 2016 and end-period 2022 are examined if in the recent past experience exports of goods and services have had these annual growth rates. Upon review and assessment the historical growth rate between 2006 and 2012 appears to achieve the low end of the exports targets. For one, it had the higher annual growth rate for both goods and services exports with the highest growth rate for goods exports. For another the mid-years between 2006 and 2016 show a slowdown not only for the Philippines but for world trade in general. Finally while services exports continued their upswing into 2014 their growth rates in 2006-12 remained robust.

The assessment that PDP exports targets are feasible requires identifying their possible sources and their likelihood in realizing the targets. In preparation for PEDP 2018-22, the EDC convened stakeholders from various export sectors, the government agencies involved in export development, and others to collectively map out an array of goods and services product groups seen to propel

the realization of the targets by end-period 2022. Some 13 of goods exports are part of the sources for increased revenues during the PDP. These exports have a total share of all goods exports in 2016 at 57.2%. The individual exports products' revenue by 2022 were reviewed in the EDC with the results that these are expected to grow annually at 7% well within the past experience.

Another potential source of goods exports to contribute to attaining end-period targets comes from collating specific product groups found in the International Trade Center trade map. Combined with data on annual growth rates for imports of these products, shares to world exports, and concentration ratios of importing countries, among others, the sum of these exports in 2016 is US \$ 22.5 Billion, or US \$ 9.53 Billion when integrated circuits are netted out. What would be the target revenues for these exports products is not indicated in the collected data but a simple assumption would be to follow the consideration in the EDC list and in the historical annual growth rates.

The Trade Map created for PEDP 2015-17 provided 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. What the exercise revealed is the limitations of Philippine exports – between 2006 and 2013 more than half of these lost market shares and more than two-thirds were annually growing slowly than the rest of the world. Consequently it is difficult to imagine their prospects reckoned in terms of reaching some targets.

The analogous Trade Map created for PEDP 2018-22 for the period 2013-16 reveals a different picture. Many exports of goods show annual growth rates higher than peers in world markets but have also gained market shares – some 62% of the 57-plus product clusters are champions. Notable among them are fruits and vegetables (fresh, preserved, canned) and electronics (components and devices, control and instrumentation, electronic data processing, office equipment), many having kept their characteristics. Only a small number of exports (2% or 10 product groups) are laggards where market shares are declining and annual growth rates below similar products. In short, better conditions suggesting better prospects and expanding opportunities.

The more important observation from the 2 trade maps is the implied dynamic changes among exports products over time. Many exports which were laggards had managed to move up to becoming champions indicating a promise of revival – for example, footwear and textile yarns and fabrics as well as garments (from laggard to underachiever) and consumer electronics. The shift from laggards to other characterization (achiever and underachiever) reveals that targets have more chances of being reached and attained.

The EDC also carried out a similar exercise for services exports which procedure was followed to establish the feasibility of meeting 2022 targets. The number of selected services exports targeted into 2022 is less than those identified for goods exports but occupy a larger share of total services exports – in 2016, 82.9% were evaluated for their end-period revenues.

Four other services which were not considered in the EDC deliberations were added as sources for reaching targets for the export of services – manufacturing services on physical inputs owned by others, transportation services, financial services, and personal, cultural, and recreational services. The first comes from the use of BOP Manual 6 which shifts significant export revenues from goods exports to services exports. These are products assembled from imported components on consignment (hence owned by others). The second to the fourth items are increasingly traded and assuming some importance to overall services exports. These 4 other services earned US\$ 4.5 Billion in 2016 and can be counted upon in reaching 2022 targets.

The Trade Map for services exports in PEDP 2015-17 depicts more upbeat characterizations. Majority of these exports have increased their market shares between 2006 and 2013 and over half have had annual growth rates better than world averages. An inherent bias in the distribution of services exports comes from the weight exerted by other business services which unduly tilt in whatever direction these services move. Thus of the 58% of services exports which are champions, a large part of these are in other business services despite there being 2 other services (personal, cultural, and recreational services, and insurance and pensions). The laggards of these services exports are travel and tourism services, financial services and construction services, meaning exports of these services have lost market shares and have annual growth rates below world averages. Though based only on its growth rate in 2016-17, travel i.e., tourism-related

services exports surged at 35% twice that of BPO (though at a low-base) suggesting a hard look at putting some emphases on this services potential.

The services exports' Trade Map for PEDP 2018-22 has about the same distribution as in the previous period's Trade Map. The dynamic shifts however are as prominent as those in the goods exports. The share of services exports that are champions further increased from 58% to 73% while those which were achievers dramatically falls from 20% of all services exports to 7%. The number of services exports which are laggards have remained about the same at 21% in PEDP 2015-17 to 19% in PEDP 2018-22 i.e., between 2006-13 and 2013-16. This suggests better confidence in achieving the targets set for services exports at end-period 2022.

These sources of increases in goods and services exports towards reaching the targets set in the PDP fall short because the identified exports products and services do not exhaust all those traded in 2016. This is particularly true for goods exports. There is therefore a gap that needs to be further specified ranging from US \$ 4.9 Billion to US \$ 19.8 Billion. The analysis – how these targeted exports have behaved, their apparent dynamism reflected in the comparative trade maps, and the recovering international markets – augur well that not only those identified exports may exceed their targets but new ones that are yet to evolve can eventually fill up the gaps and achieve the planned exports.

Since PEDP 2018-22 is in synch with PDP more as medium-term plan it is necessary to scan a longer (than the usual 3-year PEDP) horizon of industry and services that may influence their trade. What seems to be a looming disruption is Industry and Services 4.0 which lately has accelerated in applications and likely to affect industry and services. In few words, the seminal Industry 4.0 is the use of combinations of digital technologies that results in more efficient manufacturing processes, optimal use of resources, and interconnected outside the factory premises. Around 10 of these (in combination) appear to be critical for transforming manufacturing into a cohesive smart factory utilizing real-time data for production decision-making, using robots to assist in floor operations, vertical and horizontal systems integration, simulations to test and optimize machines in plants, and additive manufacturing – all these aimed at higher productivity, speed, and precision leading to better competitiveness and profitability. The numerous applications that have evolved out of the many combinations in using

the technology enablers are really what is driving Industry 4.0 and extended into Services 4.0.

Industry 2.0 is characterized as assembly, mass production for more or less homogeneous consumers. New technology (e.g., 3-D printing) moves towards mass customization for specific consumers in terms of what they want, how they want, and when they want. In the past this meant firms had to be large to acquire economies of scale and a factory of sufficient size for line assembly. These required massive investments requiring massive volumes of production with costs amortized over a long period of time. Instead of mass production Industry 4.0 may see batch production. Inventories may be out-of-style as the Internet-of-Things and supply chain synchronization optimize production. There are already consumer products which have moved towards customization such as footwear which can be manufactured “in-store” custom-built in size, style, and design for a specific customer in a short period of time (e.g., 60 minutes) i.e., “while-you-wait” unlike being part of a line assembly. Even products which have long been the staple of the manufacturing sector in industry are being encroached by technology-driven changes in materials and processes. Motor vehicle production, manufacturing’s weather vane for assembly-line, is being eroded by 3-D metal printing, lighter materials, and mechanical robots (moving into AI-robots). Since it branches out to numerous other industries and services’ including motor vehicle parts the Philippines is exporting, these of necessity will be affected when manufacturing re-boots. As motor vehicle manufacturing becomes more technology-enabled, the magnitude of the electronics products they will require further escalate and displace those mechanical parts the country has comparative advantages into controlling and related other software needed.

As the services industries embrace all of the enabling technologies, significant transformation ultimately takes place. Services considered to be widely personal may become even more automated displacing substantial employment. Services trade has considerably expanded (in some Asian economies at faster clip than goods trade) and it goes without saying that patterns may change and reliance on specific sources such as BPO and computer and communication services may be threatened arising from the applications of technology enablers.

The dominant part of services exports, for many developing countries, is the delivery of business services in part due to advances in telecommunications with their declining costs and obviously the lower labor costs giving them advantage in this type of services trade. These business services have been outsourced for some time. Services 4.0 directly threaten the core foundation of these types of services exports. As machine costs go down and other technology enablers are able to mimic predictable human behavior some of these business services exports begin to lose advantages.

Despite the assertion that policy and regulatory interventions ought to be neutral in intent, the PEDP 2015-17 strategies identified key export sectors and emerging export sectors as focused products and services to be given sets of packages of support – 13 products and services groups (which actually spawns more than this number). The government's new industrial policy, *Inclusive, Innovation Industrial Strategy (I<sup>3</sup>S)*, focuses on 12 sub-sectors, using their individual road maps, as foundation for industrial development and realizing exports potentials. On the other hand, for PEDP 2018-22 it is suggested to focus on fewer number of products and services groups – 3 of them (which actually spawns more than this number) which are part of the I<sup>3</sup>S. More explicit criteria are advanced for the selection of these few products and services groups as focus for strategy and intervention. There are many other reasons to focus on selected products and services for support aside from the ones suggested in PEDP 2018-22 – distortions in their value chain, potential externalities that cannot be realized without support, market problems, among others. It is critical to be aware that such selection does not exhaust practically all products and services (in which case all are priorities and markets in the end decide values and rankings) and, more importantly, does not inordinately claim the limited resources for support. This is why it makes sense to be neutral in support and at the same time incrementally focus on few products and services groups.

There are no clear reasons for abandoning any of the strategies in PEDP 2015-17 and it would be equally appropriate to take them into PEDP 2018-22 with greater sense of being fully grounded given their progress. It would be useful then to start with these strategies and consolidate them into more effective groups of strategies. In addition would be the implied strategies that come from the FGD in preparation for the Plan. The bases for consolidation of strategies are the seeming common goal among them, the reinforcement effects if they are taken together,

and a clearer outcome. Three strategies would emerge from this consolidation: (1) *Improve the Overall Climate for Export Development*; (2) *Exploit Existing and Prospective Opportunities from Trading Arrangements*; and (3) *Design Comprehensive Packages of Support for Selected Products and Services Sectors*.

(1) Improve the overall climate for export development – These include five which were flagged down in PEDP 2015-17 i.e., removing unnecessary regulatory impediments, raising productivity and competitiveness of Philippine enterprises, upgrading exports quality and standards, improving access to trade finance, and enhancing export sectors’ innovative capacities. There 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 e.g., foreign direct investments flows, inflation rates, and public investments. Often these have stronger effects on exports than the factors that directly impinge on them. Indeed “correct” macroeconomic policies may even be more effective than any direct intervention from both public and private sectors. And these tend to cut both ways. 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.

2) Exploit existing and prospective opportunities from trading arrangements – The number of existing and prospective bilateral, regional, and multilateral trading agreements the country can use to access markets seem to be growing. In the region the AEC and APEC are ripe with trade options. Bilaterally, the EFTA-PH FTA, looming EU-PH FTA, ASEAN-based bilateral trade pacts and others in the pipeline can be tapped for specific products market access. The usual special and differential treatment in multilateral trade (e.g., GSP-Plus) continues to be beneficial to the Philippines. This strategy is self-explanatory but how it is organized in order to optimize exports growth may have to be examined more carefully so that products and services are the departure points irrespective of the modality or geographic identity. The apparent successes of the DTI program on Doing Business with FTA is illustrative of how trading arrangements can be exploited which is viewed by traders, exporters, and other businesses as access points to specific markets. A dedicated program such as this can be an effective vehicle for both advocacy and promotion.

(3) Design comprehensive packages of support for selected products and services sectors – Part II.4 explains the underlying reasons for focusing export targets and the selection of 3 exports products and services as focal 3 (electronics, processed food, vegetables, and beverages, and information technology and tourism-related services). The more essential issue is whether there is a rationale for designing a separate support package for these 3 as a focal strategy as well. After all, these 3 are already covered in the identified sources for achieving 2022 exports targets and thus are part of the first 2 strategies elaborated above. Apart from aiming for these 3 together with the rest of the exports products and services, they could very well drive the achievement of overall exports beyond the targets set for the end-plan period. In other words, what incremental strategies warrant for these 3 focus exports targets?

Across the 3 exports targets and given emerging challenges in increasing Philippine market shares partly due to disruptions from Industry and Services 4.0, these would need continuous products and services road map updates derived from deliberate and careful analysis at more disaggregated groups. A pro-active design of such comprehensive packages for focus exports targets is needed. The ultimate goal is to place these exports targets ahead of the curve as Industry and Services 4.0 takes a firmer hold on the patterns of trade along with their underlying investments and technologies.

An agenda to rev up the country for Industry and Services 4.0 suggests special attention to them. For example, it is necessary to build up a robust atmosphere for “start-ups” as a way to encourage innovations in industry and services noting that countries with favorable conditions for them attract many bold entrepreneurs; to promote, if not actually institute incentives, for venture capital and investments into risky but promising initiatives while fully aware of the high rate of failure in many of them; to bring to bear on many of the enablers and their applications the appropriate regulatory framework to ensure that consumer safety and protection will always be of primordial government responsibility without necessarily stifling the applications. Indeed it would probably make sense to launch an advocacy program to gear up for Industry and Services 4.0.

In anticipation of PEDP 2018-22, MC 27 was issued on October 6, 2017 directing concerned government agencies to “...collectively work, review, institute reforms, and implement all relevant policies in harmony with the PEDP and the



Philippine Development Plan to boost export growth...” This new MC significantly differs from the previous MC 91 in many respects. MC 27 now explicitly connects PEDP with PDP further supporting their closer synchronization and strengthening time frames and targets. Both MC 91 and MC 27 identify the concerned government agencies involved in PEDP but leave it to the EDC to oversee the implementation. This means the agencies MC 27 directs to be part of the PEDP need to be organized in ways that would effectively apply the strategies enumerated here to achieve the targets set in PEDP 2018-22. Where there are roles for the private sector, technical and research institutions, and academe, they will likewise need to be embedded in how the various actors in the strategies are to be organized. Since the EDC (under RA 7844) includes representatives from the private sector as members of the Council, any organization for PEDP strategy implementation can be readily arranged.

There are several useful enhancements to the PEDP 2018-22 for consideration. One is to use some of the analytical results of PEDP 2015-17 in order to strengthen the results that the 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.

A second area 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 measures of inputs and outputs principally and then subsequently on their impacts. 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 in Part IV.2 – would make monitoring more tractable. Again this route is equally challenging but may have better prospect given the last enhancement (below).

Finally, a more pro-active EDC – taking off from MC 27 – 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.