President's Report

Export Growth Opportunities and Challenges

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3rd Quarter General Membership Meeting

Philippine Exporters Confederation, Inc.
Sept. 19, 2017 * 1:00 pm – 5:00 pm * New World Bay Hotel

Our distinguished resource persons and partners who will be formally introduced later; my colleagues in the PHILEXPORT Board; officers and members of our Chapters and affiliate industry associations; other members; friends and partners from government, ladies and gentlemen:

Amidst some global and national economic and political uncertainties, one might find comfort that the macroeconomic economic numbers are sound: GDP growth of 6.5% is robust and is even ahead of ASEAN in the second quarter; the peso is trending to the favor of dollar-generating sectors like exports; and the industry performance has been on a winning streak for the eighth straight month in July following nearly two years of losses.

This gives us a positive signal that demand is recovering. In fact, July's 13.8% growth brought year-to-date merchandise receipts to $36.569 billion. If this trend is sustained, we can be more confident of a double-digit growth. But still, we have a lot of catching up to do given the impressive performance from some Asian economies particularly South Korea with 31.8%; Malaysia, 31.6%; Hong Kong, 26.2%; Thailand, 24.2%; and Vietnam, 16.4% in July.

Meanwhile in its World Statistical Trade Review for 2017, data from the Switzerland-based World Trade Organization or WTO ranked the Philippines 30th in terms of merchandise exports and 24th in terms of merchandise imports.

The PSA data also showed that five major commodities contributed to the increase. Electronic products, which made up around 52.2% of the export total; machinery and transport equipment, mineral products, agri-based shipments, woodcrafts and furniture, and ignition and wiring sets.

Japan remained the Philippines' top export market, although at a lower volume; followed by the United States and Hong Kong.

Market Trends

Following these developments, let me highlight some emerging trends that will further help boost the export performance and guide policymakers.

First, Trade and Industry Secretary Ramon M. Lopez has sought the doubling of the government budget for international product promotions to be able to compete with other countries in marketing products and services of micro, small and medium enterprises. PHILEXPORT has long advocated for increased export promotion support, noting that our neighboring competitors are enjoying hefty subsidies that are giving them the competitive edge.

Second, recent business surveys and industrial production data point to a firming up of the recovery in the United States and Europe, with the US economy showing renewed strength into next year. However, Mr. Pascal Lamy, former WTO director-general, projected that developing countries are expected to grow three times faster than advanced economies as they engage in a massive "catching up." The middle class in developing economies will spur this growth. It would more than double in size, from two billion to roughly five billion by 2030. Asia will take the lead, followed by Latin America and Africa. By 2020, South-South trade, or trade between developing countries, is seen to reach one-third of world trade.

Third, the aggressive adoption of the robotic process automation or RPA in Asia continues to grow. RPA uses software robots with artificial intelligence or AI algorithms capable of performing highly structured and routine tasks, is fast becoming an affordable and indispensable tool to solve business challenges and identify market opportunities through effective collection and analysis of data.

Fourth, the BRICS bloc or Brazil, Russia, India, China and South Africa is betting more on "blue ocean" for development, given their abundant resources and strong growth momentum. With a long coastline, BRICS members enjoy rich natural resources as well as great economic potential provided by the vast ocean. Closer cooperation and trade on offshore oil and gas, port construction, and logistics on the sea are expected among its member-economies and partners.

Fifth, the One Belt, One Road initiative by China is now stretching its reaches to the African continent. Two weeks ago in a conference, China pledged tens of billions of dollars in infrastructure financing and development aid, and elicited support from many countries to promote economic integration and free global trade under this initiative. So far, nearly 70 countries have signed agreements with China to participate.

Sixth, the EU is resuming the process of a region-to-region FTA with ASEAN and a series of bilateral FTAs amidst growing concerns of protectionism. This as some of its main competitors such as Japan, China, Korea have inked ASEAN agreements already. This complements the result of a recent survey among European firms which showed that they are bullish on the Philippines and are ready to expand their businesses here.

Finally, for the agri-based sector which is given more focused government attention, the Philippines has pushed for greater market access for tropical fruit exports – pineapple, bananas and mangoes – to Japan, Australia and South Korea. Halal exports are also seen to grow its share in the $3T global Halal market because of the approved Halal law and Council.

Weaknesses and threats

Even as these developments are unfolding, we are mindful of threats that can negate the gains from these opportunities.

For one, there had been concerns about the AI wiping out thousands of jobs. A Country Brief released by the International Labor Organization in June showed that 49% of jobs in the country are at high automation risk, particularly those in the construction, hospitality, business process outsourcing and electronics and engineering sectors.   In contrast, mid-skill and high-skill jobs such as contact-center skills, IT, health informatics, game development, animation and shared services—will double or triple in the next six years.

Second, the chief of the International Monetary Fund warned that ageing populations in key Asian economies would drag on their growth, urging policymakers to step up their response to shifting demographics. Rapidly ageing countries including China, Japan, Korea and Thailand "will have smaller workforces in the future and potentially lower productivity growth", according to IMF managing director Christine Lagarde.

Third, following the United Nation's sanctions on North Korea for pursuing its nuclear tests, the Philippines is suspending its trade relations with the country, affecting products such as computers, integrated circuited boards, bananas and women's undergarments which were the biggest exports in 2015. Please note that North Korea is our fifth largest trade partner, with bilateral trade from January to June this year worth $28.8 million, according to the state-run Korea Trade-Investment Promotion Agency. On an annual basis, North Korea imported $28.8 million worth of products from the Philippines in 2016, an increase of 80 percent from the previous year, while Manila's imports from Pyongyang surged 170 percent to $16.1 million.

Fourth, the declining tariffs as a result of FTAs are being replaced by a deluge of non-tariff measures or NTMs both from our foreign markets and sadly, even our regulators. Fortunately, Trade ministers from the 10-member countries of Association of Southeast Asian Nations (ASEAN) are moving towards an agreement to develop certain criteria to reduce NTMs, though not entirely to eliminate the NTMs that are legitimate and important to a member country.

Fifth is that on MSME financing. A 2016 report from the Bangko Sentral ng Pilipinas showed that the total outstanding loans of banks to the micro and small enterprises amounting to P199.2 billion resulted to a compliance ratio of only 3.96 percent instead of the required eight percent in accordance with the Magna Carta for MSMEs — the law which mandates banks to set aside eight percent of their total loan portfolio for micro and small enterprises and two percent for medium enterprises. The amount was short of the P402.22 billion required loans for micro and small enterprises from January to June that year. The BSP attributed the credit gap still to the reluctance of banks, particularly the universal and commercial banks, to lend to these sectors, including the farmers. PHILEXPORT and EDC are currently working with Congress to amend the Law and make it more responsive to MSME financing needs.

Sixth, red tape has remained in the list of export issues. To help lessen or minimize this, new Bureau of Customs Commissioner Isidro Lapeña reiterated his appeal to customs stakeholders to exclude *tara* or grease money from their payment computations. To help facilitate its services, Commissioner Lapeña had asked for Congress's help to get back the P650 million in computerization fund that was reverted to the National Treasury. The fund was supposed to be for the Integrated Enhanced Customs Processing System (IECPS) and National Single Window (NSW) Phase 2 project, a cancelled project that has been embroiled in a court case since 2015.

Finally, if the attached current version of the Comprehensive Tax Reform Program (CTRP) or HB 5636 will be passed, there will be no more zero rating privilege for indirect exporters. Instead, only direct exporters may refund their input VAT. The Senate is still conducting deliberations on this bill, but its Ways and Means Committee expects to finalize its version within the month. As a compromise, the DOF agreed to the status quo until a "timely, electronic- and cash-based system", a PHILEXPORT position, is put in place. Under this, processing time is up to 15 days for electronic processing and 45 days if manual based on the Thailand model of VAT refunds.

Please note that PHILEXPORT argued our position to retain the zero rating for indirect exporters, particularly as assistance to the local manufacturing industry. However, the Department of Finance (DOF), which is pushing the CTRP, believes that shifting the refund to exporters will simplify its administration of the system. We have yet to see proof of this claim.

Target: Jobs and inclusive growth

What do all these mean for us in the export industry?

Besieged with such and other challenges, there is need to maintain and implement policies that can reverse the situation and support higher export growth. As part of our contribution to these programs, PHILEXPORT remains steadfast in the delivery of our services that have impact not only on our members but the export industry in general. We have firmed up our executive and legislative advocacy agenda addressing issues including streamlined business processes, lower cost of power and transportation, better financing access, among others. We have increased the regional support funds mainly to help strengthen the Chapter's capacity to assist their members. Other frontline services such as advisory, facilitation, import and export documentation and accreditation, capacity building and technical assistance are extended to individual members, affiliated industry associations and PHILEXPORT Chapters. PHILEXPORT is also into building internal capacity for efficient delivery of these services and programs.

Conclusion

In all the areas mentioned earlier, it is fair to say that some progress has already been made. However, the pace of reform, and the elements that promote stronger inclusiveness in economic outcomes can definitely be further improved. We also need an industrial policy blueprint that will spur the "big push" that our economy needs to compete, including generating roughly one million new jobs per year for at least the next two decades.

Overall, the good news lies in the brisk growth in the manufacturing sector, as it tends to bring better, long-term and quality jobs. But we need to do much more work on agriculture. As we try to broaden the sectoral composition of our growth, we need to ask not just where the growth is coming from, but more importantly, who benefits from that growth. Let us not miss this opportunity again.

On this note, I end my remarks with wishes for a productive meeting ahead.

Thank you and good afternoon.