

Economic Prospects of ASEAN Economic Integration

RBAP 56TH CHARTER ANNIVERSARY SYMPOSIUM

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Monetary Board Member



BANGKO SENTRAL NG PILIPINAS

ASEAN COMMUNITY (AEC) BLUEPRINT TARGETS FREER FLOW OF:

GOODS

SERVICES

INVESTMENT

CAPITAL

SKILLED LABOR



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WILL AEC CREATE TRADE OR JUST DIVERT TRADE?

ASEAN Tariff Rates

	Year	Ave. Tariff	Food, Beverage, Tobacco	Animal, Fish, Vegetable Products	Textiles, Wood Pulp	Machinery, Transportation	Chemicals Plastics
Singapore	2009	0%	0%	0%	0%	0%	0%
Brunei	2011	1%	0%	0%	0%	4%	1%
Malaysia	2010	1%	5%	1%	6%	5%	5%
Indonesia	2011	6%	7%	5%	8%	5%	5%
Myanmar	2008	6%	14%	6%	8%	2%	3%
Philippines	2011	7%	11%	8%	8%	4%	4%
Cambodia	2011	11%	19%	12%	6%	15%	10%
Lao PDR	2008	11%	19%	16%	8%	9%	8%
Thailand	2011	12%	28%	19%	9%	8%	6%
Viet Nam	2009	12%	31%	13%	10%	8%	7%



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PHILIPPINE MFN TARIFF RATES

(COEFFICIENT OF VARIATION IN SMALLER FONT)

	1996	1998	2000	2002	2004
All Industries	25.5	11.32	8.47	6.45	6.82
CV	1.02	0.96	0.99	1.17	1.07
Agriculture	29	15.9	11.5	10.4	11.3
CV	0.81	1.07	1.3	1.31	1.17
Fishing & forestry	22	9.4	6.7	5.8	6
CV	0.95	0.63	0.66	0.45	0.57
Manufacturing	28	11.38	8.5	6.39	6.76
CV	0.97	0.93	0.95	1.13	1.03



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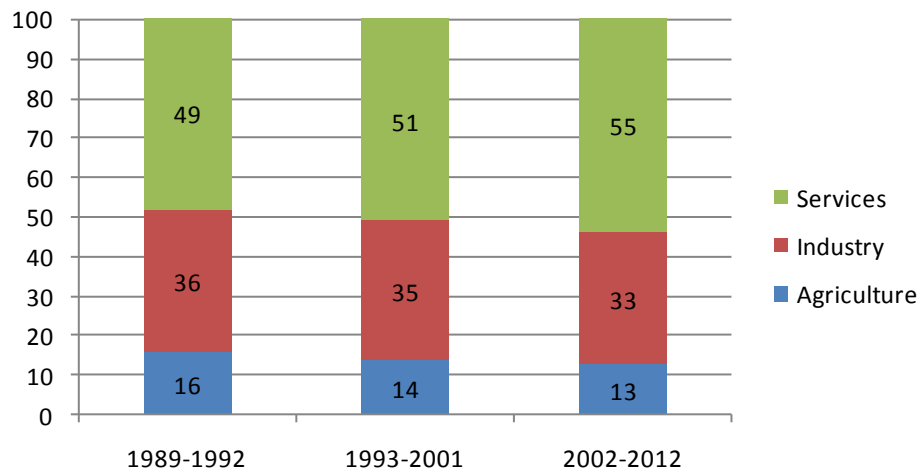
EXPORT GDP RATIOS (AT CURRENT PRICES) OF 5 ASEAN COUNTRIES

	1990	1995	2000	2005	2007	2009
Indonesia	22.4	22.5	37.6	30	26.4	22.1
Malaysia	66.9	83.2	104.7	102.2	94.6	82.3
Philippines	18.5	23.5	50.2	41.7	35	23.9
Thailand	27	33.6	56.3	62.6	61.7	57.8
Vietnam	37.1	26.3	46.5	61.3	68.4	61.3

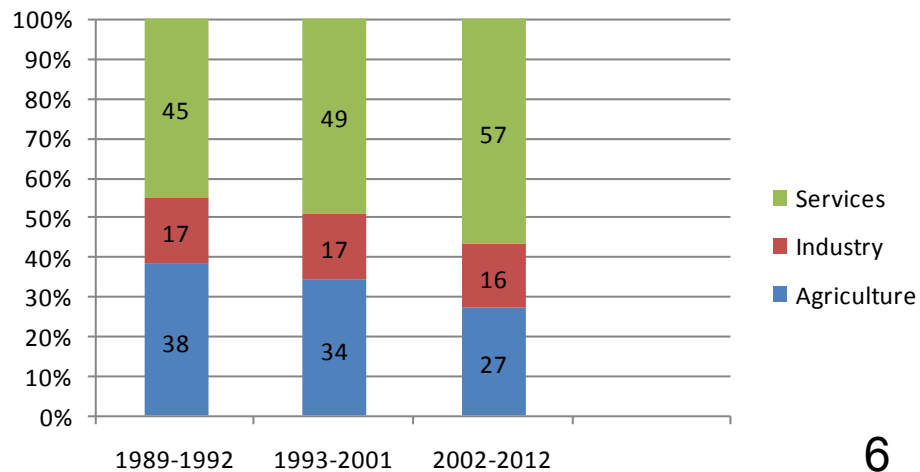


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Share of Sectoral Output to GDP (in %)

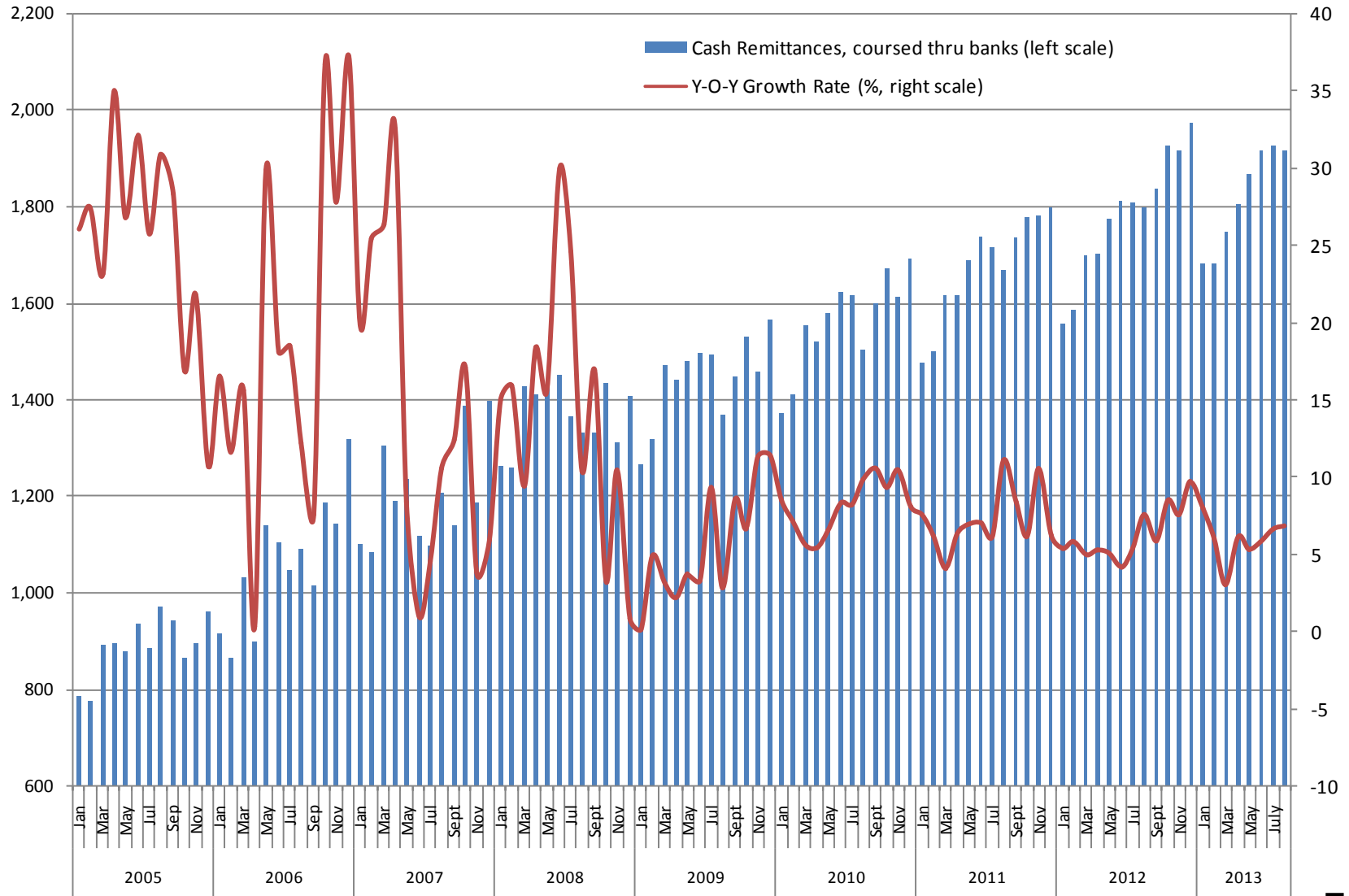


Sectoral Share of Total Employment (NEMPSTE)



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Overseas Filipinos' Remittances, Levels in US\$ M and y-o-y growth in %



IT-BPAP OFFICIAL 2012 PERFORMANCE

	FTEs*	Revenue (US\$M)	Growth (%) Change from 2011
Voice BPO	497,000	8,697	18.0%
Non-voice BPO/KPO	154,380	2,470	20.0%
ITO	57,078	1,160	17.0%
Health and Info Mgt &Care	45,000	460	66.0%
Engineering Services	10,836	206	20.0%
Animation	9,000	132	3.0%
Game Developments	3,500	50	251.0%
Total FTEs	776,794	13,174	19.0%

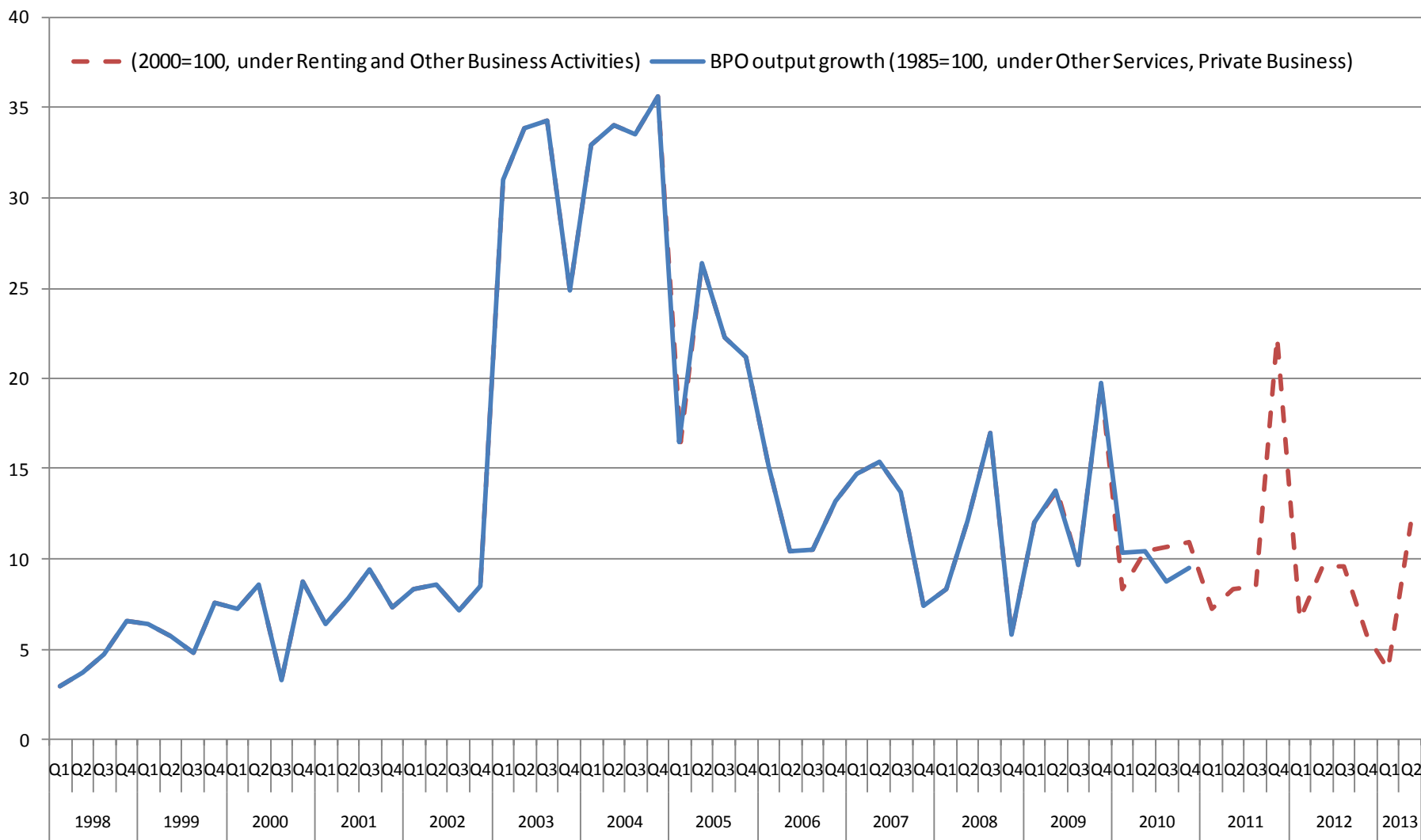
BPAP - Business Process Association of the Philippines

*FTE: Full-Time Equivalent

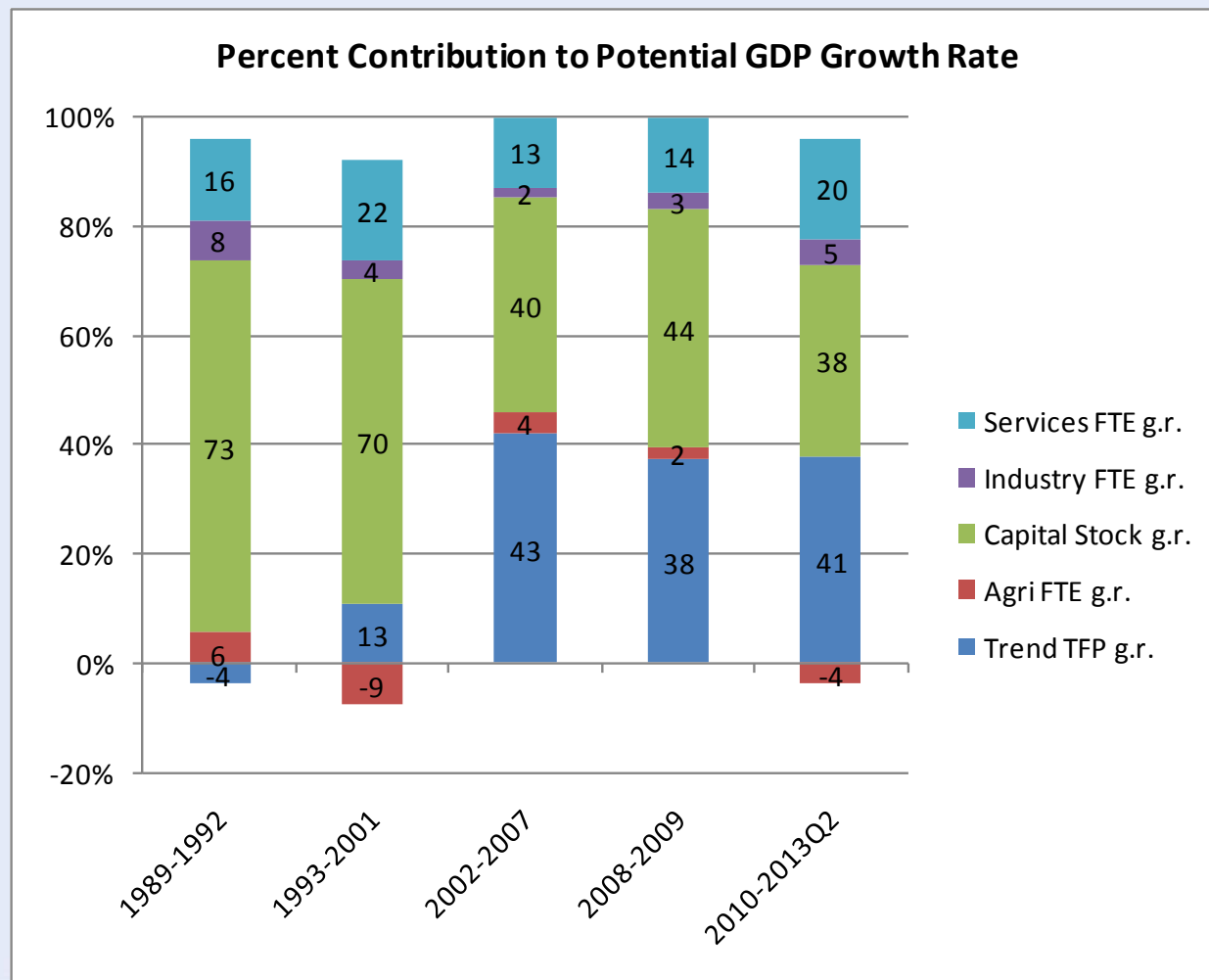


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BPO output growth, year-on-year changes in %



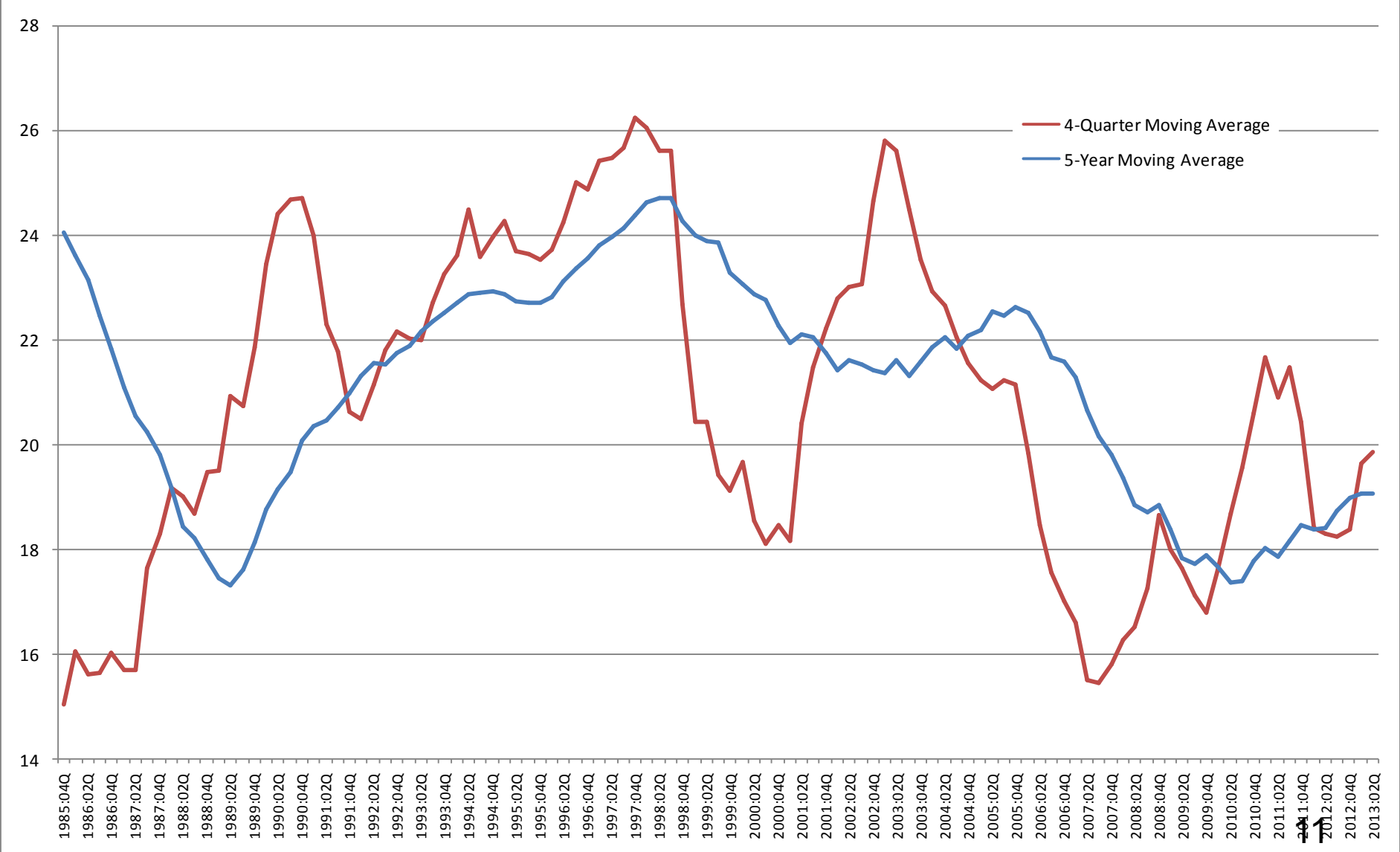
Philippine Total Factor Productivity growth (which used to be zero) now accounts for 40% of economic growth



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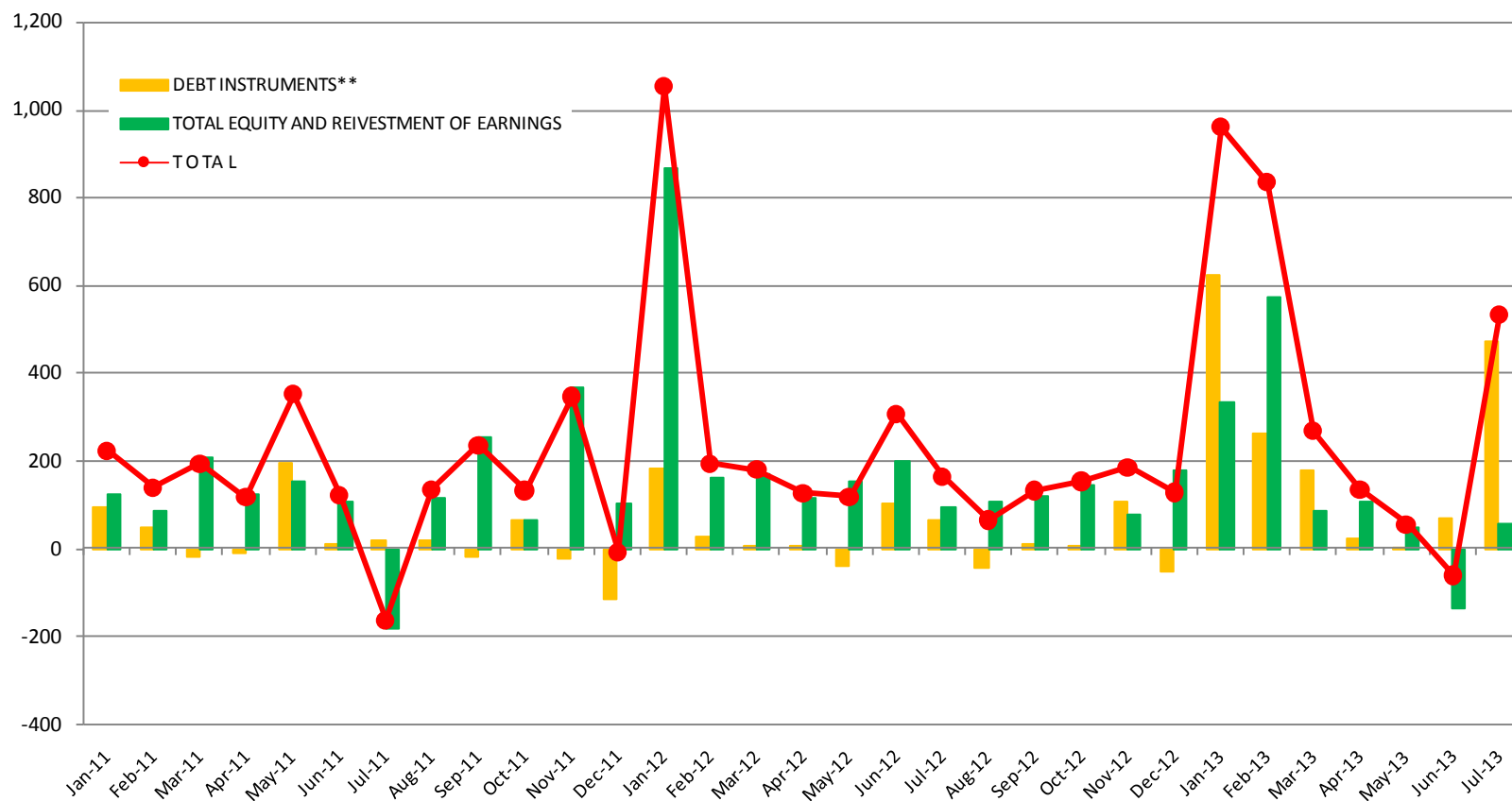
Low Investment Rate

Gross Capital Formation as a % of GDP, 2000=100, 1985-2013Q2



Source of data: Bangko Sentral ng Pilipinas website: www.bsp.gov.ph, the National Income Accounts (NIA), NSCB.

Net Foreign Direct Investments (BPM6)* in Million USD, Jan 2011 to Jul 2013

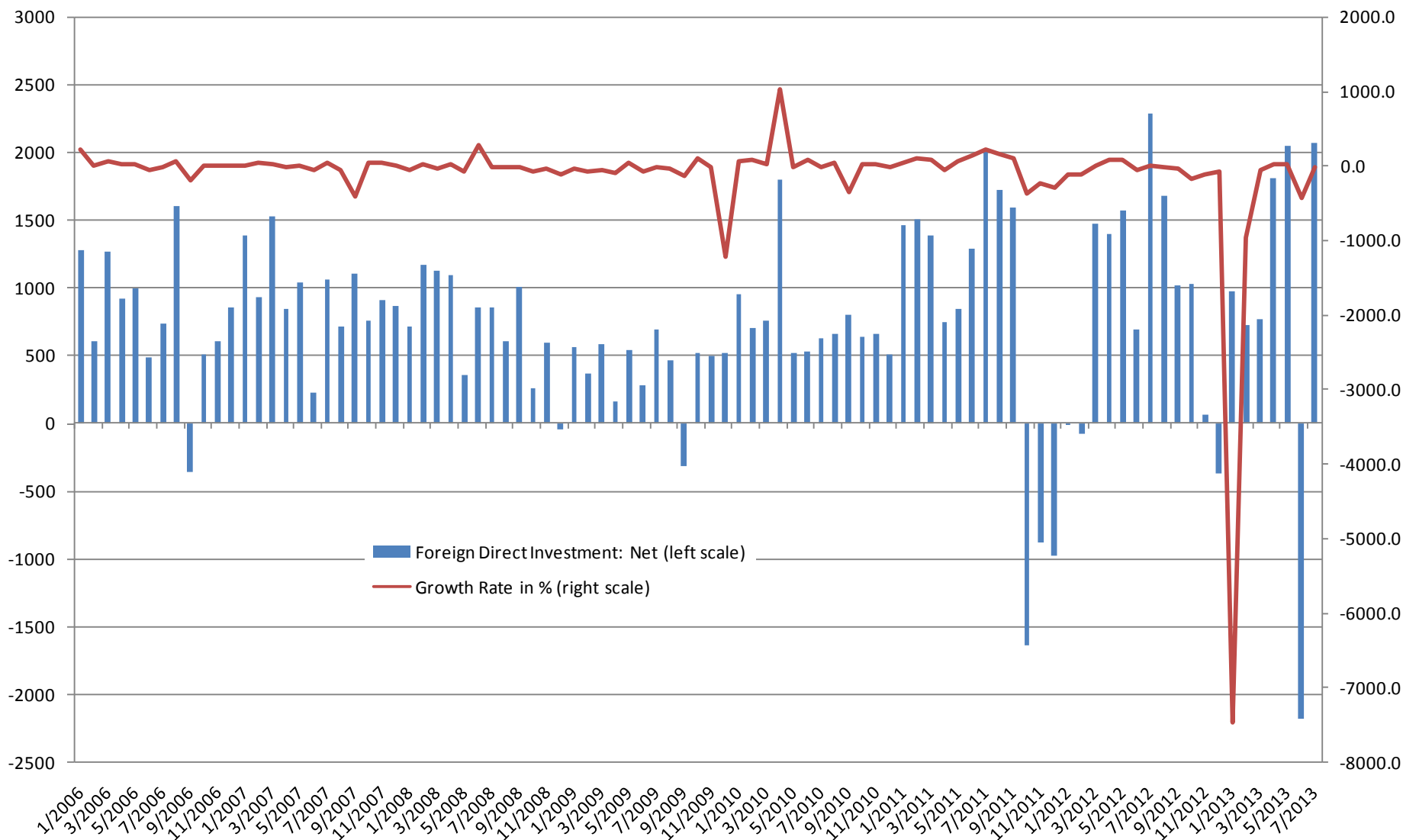


* The BSP adopted the Balance of Payments, 6th edition (BPM6) compilation framework effective 22 March 2013 with the release of the full-year 2012 and revised 2011 BOP statistics.

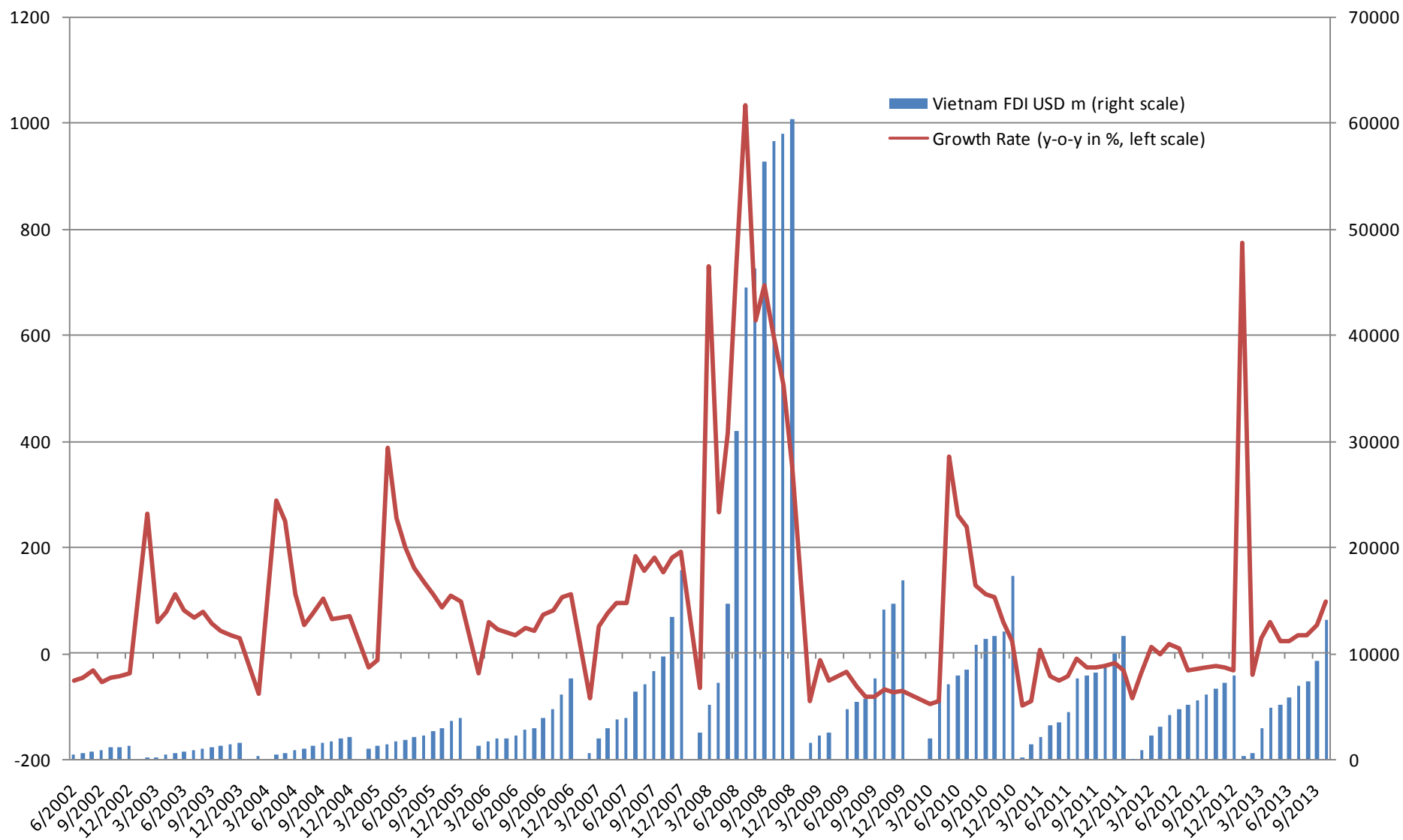
The major change in FDI compilation is the adoption of the asset and liability principle, where claims of non-resident direct investment enterprises from resident direct investors are now presented as reverse investment under net incurrence of liabilities/non-residents' investments in the Philippines (previously presented in the Balance of Payments Manual, 5th edition (BPM5) as negative entry under assets/residents' investments abroad). Conversely, claims of resident direct investment enterprises from foreign direct investors are now presented as reverse investment under net acquisition of financial assets/residents' investments abroad (previously presented as negative entry under liabilities/non-residents' investments in the Philippines).

** BSP statistics on FDI covers actual investment inflows, which could be in the form of equity capital, reinvestment of earnings, and borrowings between affiliates. In contrast to investment data from other government sources, the BSP's FDI data include investments where ownership by the foreign enterprise is at least 10 percent. Meanwhile, FDI data of Investment Promotion Agencies (IPAs) do not make use of the 10 percent threshold and include borrowings from foreign sources that are non-affiliates of the domestic company. Furthermore, the BSP's FDI data are presented in net terms (i.e., equity capital placements less withdrawals), while the IPAs' FDI do not account for equity withdrawals.

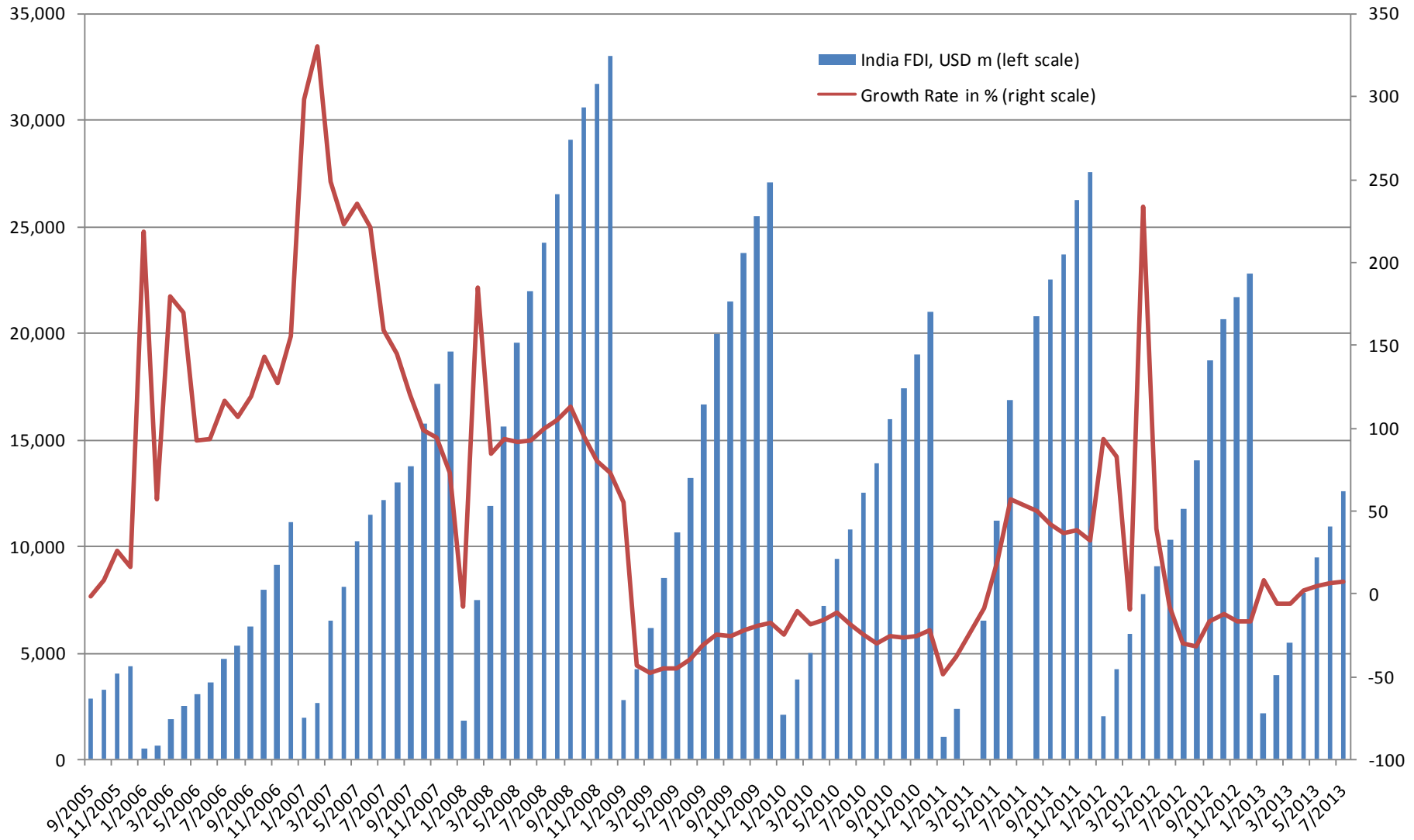
Thailand: Net Foreign Direct Investment



Vietnam: Foreign Direct Investment



India: Foreign Direct Investment



Government's Macroeconomic Outlook 2013

	Actual		Projections
	2012	2013	2013
GDP Growth (% , 2000=100)	6.8	7.6 (H1)	6.0 - 7.0 ^{a/}
Headline Inflation (% , 2006=100)	3.2	2.8 (Jan-Aug)	3.0 - 5.0 ^{a/}
Exports Growth (%)			
Based on the BPM6 concept	20.9	7.9 (Q1)	11.0 ^{a/}
Based on NSO data	7.9	-3.4 (Jan-Jul)	
Imports Growth (%)			
Based on the BPM6 concept	11.3	-8.2 (Q1)	13.0 ^{a/}
Based on NSO data	2.7	-3.8 (Jan-Jun)	
OF Remittances ^{1/}			
Amount (US\$ Bn)	21.4	10.7 (Jan-Jun)	22.5 ^{b/}
Growth Rate	6.3	5.6	5.0 ^{b/}
Current Account (US\$ Bn)	7.1	3.4 (Q1)	7.0 ^{b/}
Balance of Payment (US\$ Bn)	9.2	3.7 (Jan-Jun)	4.4 ^{b/}
GIR (US\$ Bn)	83.8	83.2 (end-Aug)	87.0 ^{p/}

^{a/} Based on projections adopted by the Development Budget Coordinating Committee (DBCC) on 3 July 2013

^{b/} Based on BSP projections presented during the Monetary Board meeting on 16 May 2013

^{1/} Cash remittances coursed through banks

^{p/} revised



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2012 and Sem1 2013 Philippine GDP stats look good, not just in the aggregate, but in terms of its components as well.

	2011		2012		H1 2012		H1 2013	
GDP Growth	3.6		6.8		6.4		7.6	
<i>By Industrial Origin</i>	Share to GDP	Growth Rate	Share to GDP	Growth Rate	Share to GDP	Growth Rate	Share to GDP	Growth Rate
Agriculture, Hunting, Forestry & Fishing	11.5	2.6	11.1	2.8	10.9	0.9	10.2	1.4
Industry	32.0	1.8	32.0	6.8	32.1	5.6	33.0	10.6
Of which: Manufacturing	22.4	4.7	22.1	5.4	22.1	4.1	22.6	9.9
Services	56.5	4.9	56.9	7.6	57.1	8.0	26.8	7.1
<i>By Expenditure</i>								
Household Final Consumption	70.6	5.7	70.4	6.6	69.1	6.7	67.7	5.3
Government Final Consumption	9.9	2.1	10.3	12.2	11.5	13.2	12.3	15.3
Capital Formation	20.4	2.0	18.5	(3.2)	15.6	(15.7)	18.5	27.3
Of which: Fixed Capital	19.6	(2.0)	20.3	10.4	19.8	5.6	20.8	12.7
Of which: Public Construction	1.5	1.5	1.8	29.8	1.9	50.2	2.4	36.2
Private Construction	6.1	6.1	6.4	11.5	5.6	(4.9)	6.2	17.4
Durable Equipment	9.9	2.7	10.0	8.0	10.2	6.2	10.2	7.9
Exports	47.5	(2.8)	48.4	8.9	53.0	10.3	45.8	(7.0)
Imports	48.3	(1.0)	47.6	5.3	49.0	3.3	45.2	(0.7)

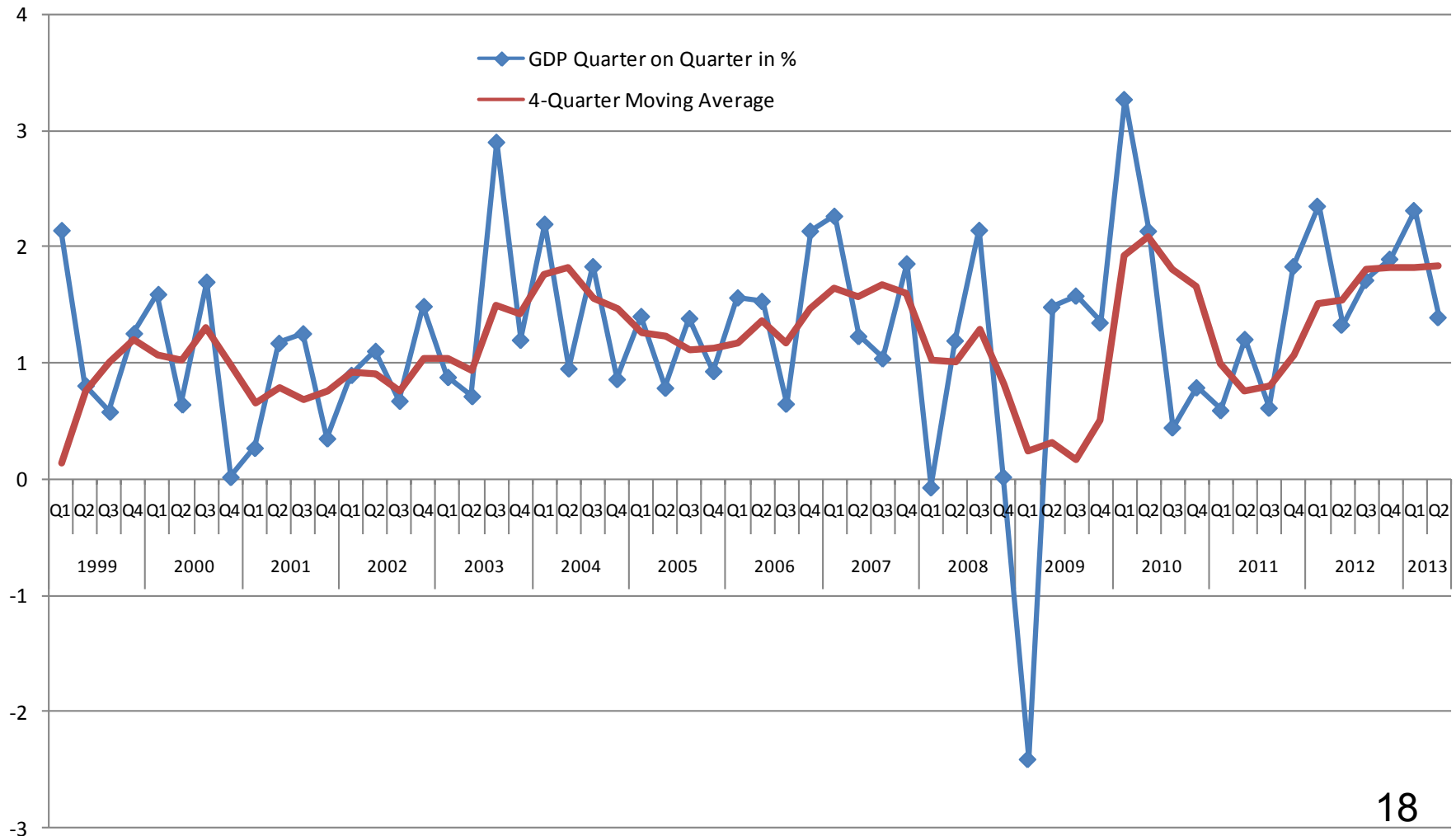
Source: NSCB



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In spite of sluggish global economic growth, seasonally-adjusted Philippine GDP Quarter-on-Quarter Growth are consistent with 6.0% growth.

Seasonally-Adjusted GDP Growth, in %



Growth projections are backed by infrastructure spending.

Medium-Term Fiscal Program, FY 2012-2016					
Infrastructure spending to grow from 2.5% of GDP in 2013 to 5% in 2016					
Particulars Levels (PHP Bn)	2012 Actual	2013 Adjusted	2014 Proposed	2015 Projection ^{1/}	2016 Projection ^{1/}
REVENUES	<u>1,534.9</u>	<u>1,745.9</u>	<u>2,018.1</u>	<u>2,388.4</u>	<u>2,814.0</u>
% of GDP	14.5	14.7	15.1	16.1	16.9
Growth Rate	12.9	13.7	15.6	18.4	17.8
DISBURSEMENTS	<u>1,777.8</u>	<u>1,983.9</u>	<u>2,284.3</u>	<u>2,685.4</u>	<u>3,146.1</u>
% of GDP	16.8	16.7	17.1	18.1	18.9
Growth Rate	14.1	11.6	15.1	17.6	17.2
Current Operating Expenditures	1,393.0	1,558.5	1,736.5	1,895.6	2,060.1
Of which:					
Interest Payments	312.8	332.2	352.7	383.6	421.1
Capital Outlays	357.3	410.9	522.9	766.5	1,062.7
Of which:					
Infrastructure Outlays ^{2/}	237.3	299.4	418.2	601.5	834.5
% of GDP	2.3	2.5	3.1	4.0	5.0
Growth Rate	23.4	26.1	39.7	43.8	38.7
Net Lending	27.4	14.5	25.0	23.3	23.3
Deficit	(242.8)	(238.0)	(266.2)	(297.0)	(332.1)
% of GDP	(2.3)	(2.0)	(2.0)	(2.0)	(2.0)



Doing Business Report 2014, The World Bank and IFC

Philippines

✓ **Dealing with construction permits**

The Philippines made dealing with construction permits easier by eliminating the requirement to obtain a health certificate.

✓ **Getting credit**

The Philippines improved access to credit information by beginning to distribute both positive and negative information and by enacting a data privacy act that guarantees borrowers' right to access their data.

✓ **Paying taxes**

The Philippines made paying taxes easier for companies by introducing an electronic filing and payment system for social security contributions.

- The Philippines made the biggest improvement in the efficiency of insolvency proceedings in the past year.

In many cases effects of reforms are not immediately evident, and it may take several years before they can be quantified. An absence of instant results should not discourage economies from adopting further reforms and continuing to improve the insolvency framework. A good example is the Philippines, the economy that made the biggest improvement in the efficiency of insolvency proceedings in 2012/13. The new insolvency law that led to this improvement—the Financial Rehabilitation and Insolvency Act of 2010—was adopted in July 2010, but its impact was felt in the resolving insolvency indicators only in 2012/13.



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TABLE 1.3 The 10 economies improving the most across 3 or more areas measured by *Doing Business* in 2012/13

		Ease of doing business rank	Reforms making it easier to do business									
			Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
1	Ukraine	112	√	√	√	√	√		√	√		√
2	Rwanda	32	√	√		√	√	√	√	√		√
3	Russian Federation	92	√	√	√	√				√		
4	Philippines	108		√			√		√			
5	Kosovo	86	√	√		√						
6	Djibouti	160	√				√					√
7	Côte d'Ivoire	167	√	√		√					√	
8	Burundi	140	√	√	√	√			√	√		
9	Macedonia, FYR	25		√	√	√	√	√	√			
10	Guatemala	79	√	√					√			



TABLE 14.2 Who improved the sharing of credit information in 2012/13—and what did they do?

Feature	Economies	Some highlights
Improved regulatory framework for sharing credit information	Australia; Bhutan; Georgia; Indonesia; Jamaica; Latvia; Tanzania; Vietnam	Tanzania adopted regulations that provide for the licensing of credit bureaus and specify the functions and purposes of their databases.
Expanded set of information collected and distributed by credit registry or bureau	Bahrain; Mauritius; Ukraine; Uzbekistan; Venezuela, RB	Bahrain's credit bureau started distributing payment histories from retailers.
Created a credit registry or bureau	Brunei Darussalam; Tajikistan; Tonga; Vanuatu	Brunei Darussalam established a credit registry that retrieves and provides information from private commercial banks and finance corporations.
Guaranteed by law borrowers' right to access data	Bhutan; China; Philippines; Singapore	In China the new Credit Information Industry Regulations guarantee borrowers' right to access their data in the credit registry free of charge twice a year.

Source: *Doing Business* database.



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PHILIPPINES

Ease of doing business (rank)	108	Lower middle income		Population (m)	96.7
Starting a business (rank)	170	Registering property (rank)	121	Trading across borders (rank)	42
Procedures (number)	15	Procedures (number)	8	Documents to export (number)	6
Time (days)	35	Time (days)	39	Time to export (days)	15
Cost (% of income per capita)	18.7	Cost (% of property value)	4.8	Cost to export (US\$ per container)	585
Minimum capital (% of income per capita)	4.6			Documents to import (number)	7
		✓ Getting credit (rank)	86	Time to import (days)	14
✓ Dealing with construction permits (rank)	99	Strength of legal rights index (0–10)	4	Cost to import (US\$ per container)	660
Procedures (number)	25	Depth of credit information index (0–6)	5		
Time (days)	77	Public registry coverage (% of adults)	0.0	Enforcing contracts (rank)	114
Cost (% of income per capita)	79.4	Private bureau coverage (% of adults)	9.3	Procedures (number)	37
				Time (days)	842
Getting electricity (rank)	33	Protecting investors (rank)	128	Cost (% of claim)	26.0
Procedures (number)	5	Extent of disclosure index (0–10)	2		
Time (days)	42	Extent of director liability index (0–10)	3	Resolving insolvency (rank)	100
Cost (% of income per capita)	118.2	Ease of shareholder suits index (0–10)	8	Time (years)	2.7
		Strength of investor protection index (0–10)	4.3	Cost (% of estate)	22
				Recovery rate (cents on the dollar)	29.9
		✓ Paying taxes (rank)	131		
		Payments (number per year)	36		
		Time (hours per year)	193		
		Total tax rate (% of profit)	44.5		



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Global Competitiveness Index Ranking			
	2013-2014	2012-2013	2011-2012
Singapore	2	2	2
Malaysia	24	25	21
Brunei	26	28	28
Thailand	37	38	39
Indonesia	38	50	46
Philippines	59	65	75
Vietnam	70	75	65
Cambodia	88	85	97

Source: GCI Report 2013, 2012, and 2011, World Economic Forum



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Why there might be a (mini or maxi?) renaissance of manufacturing

Yokohama is investing USD650m to expand capacity at its Clark facility by 140% from 21,000 tires per day to 50,000 by 2017. Initial expansion will be operational this year.

Pilipinas Kao Inc (PKI) is increasing its fatty alcohols production capacity by 40% which is expected to be operational by August 2013, with an estimated JPY3bn investment. In Misamis Oriental in Northern Mindanao.

Murata is investing JPY3bn investment in a factory in Laguna to produce laminated ceramic capacitors, components used for smartphones and tablets. The target for completion is October 2013.

Terumo Medical Products is expanding its existing capacity in Laguna, producing disposable syringes, blood bags, coronary stents, and other medical equipment, which is expected to be operational in the first quarter of this year.

Epson opened its second factory in Lipa, Batangas, investing USD110m, to increase capacity for 3LCD projectors and inkjet printers.

Austal an Australian company which produces military and civilian boats recently purchased a USD8ms shipyard in Cebu which will be used as the future global manufacturing hub for highspeed catamarans and trimarans.

Canon Business Machines (Philippines) is building two plants in Batangas to produce laser printers, accessories and parts. Total investment is at JPY18bn, with operations slated for 2Q13.

Brother is investing of USD54m in a 13- hectare manufacturing facility in Batangas. Production of ink cartridges is expected to start by 2Q13 with inkjet printers by 2014.

Furukawa Electric ignition is putting up a new P1.3bn plant in Batangas for the manufacture of automotive ignition wire harnesses.

Fujifilm optical is investing P673m in a plant in Laguna to manufacture high-performance lenses for digital cameras, projectors and CCTV cameras. It aims to produce 18m lenses per year by 2015.

Bandai , which is known for its Power Rangers, Gundam and Ben 10 toys and model kits plans to open a P400m manufacturing plant in Batangas.

Cirtek Philippines will mass produce LEDs for US-based Light Engines at in its Laguna plant. Production is slated to begin in 4Q12.

British firm **B/E Aerospace** is investing P700m (in addition to the more than P1billion it has already invested) to increase its manufacturing capacity for aircraft galleys for Airbus in Batangas.

Source:Deutsche Bank, “Manufacturing: A New Growth Driver?” Sept. 24, 2012

Decline in population growth rate is largely focused in the younger age groups. Moreover, the younger the age group, the larger the decline in the growth rate.

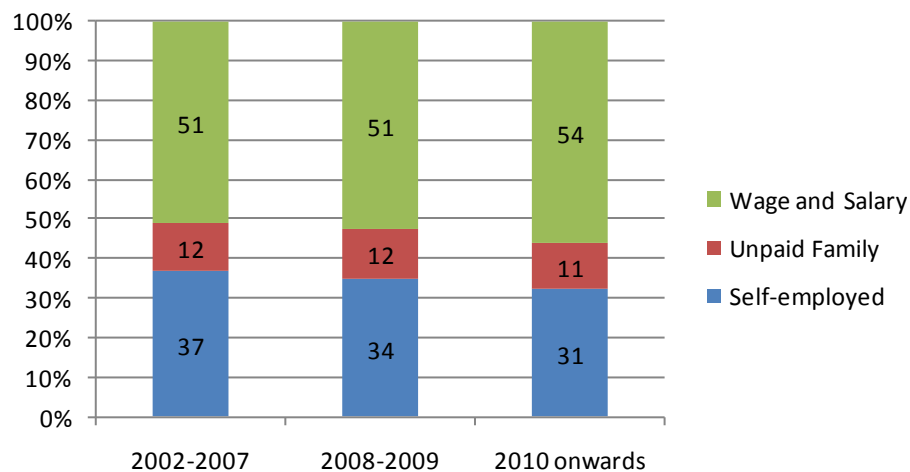
Philippine Population and Compounded Annual Growth Rate (CAGR) by Age Groups

Age Group	Population (in millions)				Compounded Annual Growth Rate			Drop in CAGR (CAGR 1960 to 2000 minus CAGR 2007 to 2010)
	1960	2000	2007	2010	1960 to 2000	2000 to 2010	2007 to 2010	
Less than 10	8.9	19.4	21.2	20.5	2.0%	0.6%	-1.0%	3.0%
10 to 19	6.2	17.0	19.5	19.8	2.5%	1.6%	0.5%	2.0%
20 to 24	2.5	7.1	7.8	8.4	2.7%	1.7%	2.4%	0.2%
25 to 64	8.7	30.2	36.4	39.3	3.2%	2.7%	2.7%	0.5%
65 or older	0.7	2.9	3.7	4.0	3.5%	3.2%	3.0%	0.5%

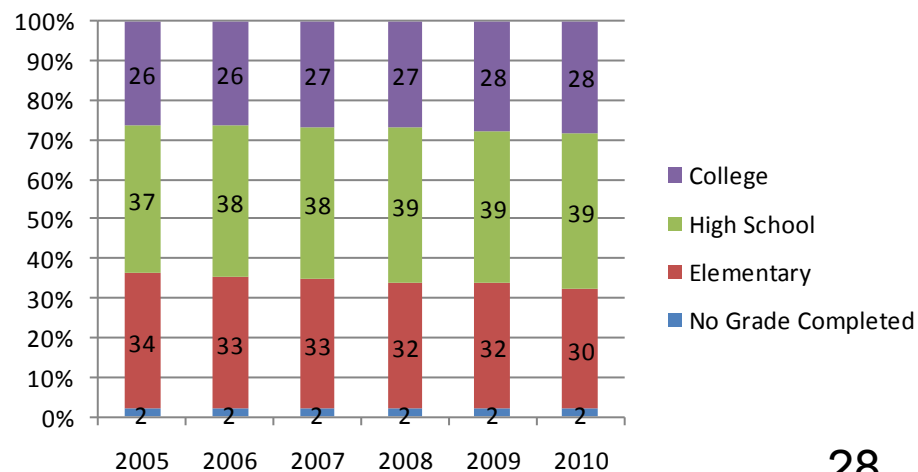


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Employment, by class of workers



Employment, by educational attainment



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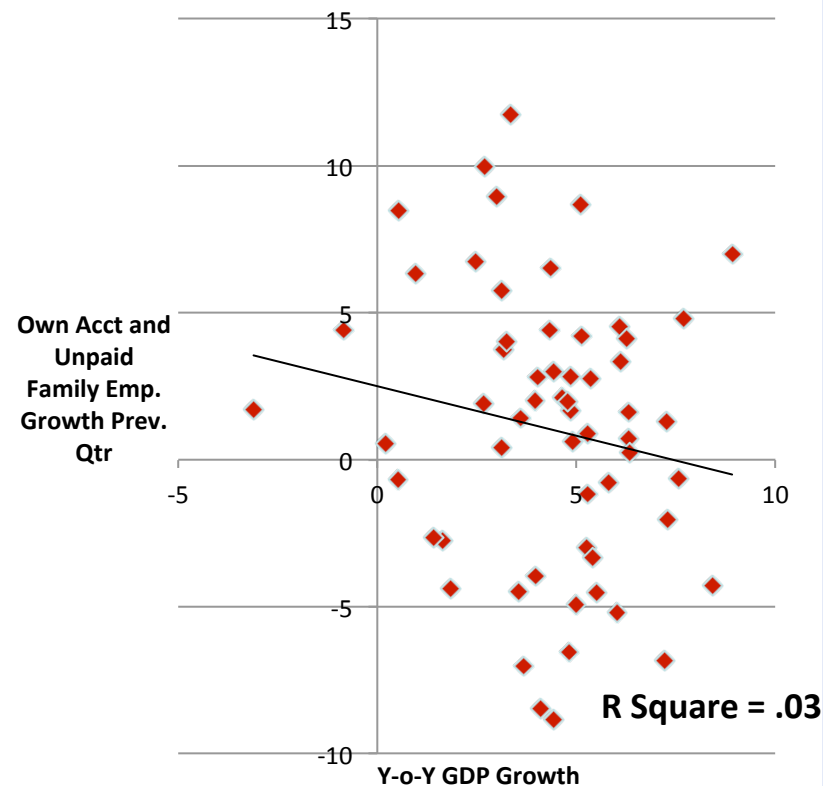
Large Share of Unproductive Employment

Wage & Salary Emp. and GDP Growth Rate



Correlation Coefficient	0.370
t-statistic	3.009
Probability	0.004

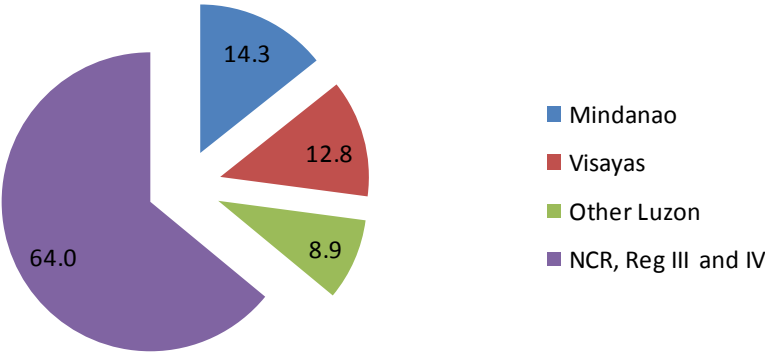
Own Acct. and Unpaid Family Emp. and GDP Growth Rate



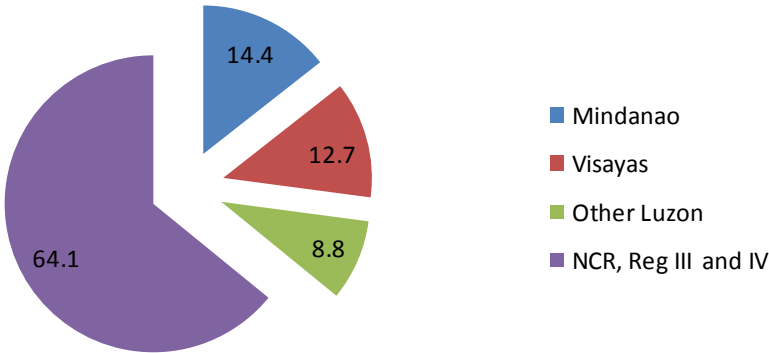
Correlation Coefficient	-0.121
t-statistic	-0.921
Probability	0.361

Poverty Incidence Among Population by Region

2011



2012



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Fertility rates among well-off and better educated mothers are now not much higher than replacement rate. But those of poor and less educated mothers are significantly higher than their desired fertility and are nearly twice replacement rates.

ACTUAL VS WANTED FERTILITY (No. Of Children)			
By Wealth Quintile and Mother's Education			
	ACTUAL	WANTED	DIFFERENCE
WEALTH QUINTILE			
Lowest	5.9	3.8	2.1
Second	4.6	3.1	1.5
Middle	3.5	2.6	0.9
Fourth	2.8	2.2	0.6
Highest	2	1.7	0.3
MOTHER'S EDUCATION			
No education	5.3	4.1	1.2
Elementary	5	3.3	1.7
High school	3.5	2.5	1
College or higher	2.7	2.2	0.5

Parents with large number of children invest less in the education and health of their children.

Table 3: Mean Education and Health Expenditures by Family Size, 2002

Family Size	Mean Education Expenditure per Student	Mean Health Expenditure per Sick Member	Mean Health Expenditure per Capita
1	5,558	2,437	1,700
2	3,135	1,969	922
3	2,243	2,124	802
4	1,787	1,464	438
5	1,558	1,454	336
6	1,090	1,311	299
7	858	940	206
8	1,081	744	166
9 or more	682	756	150
Total	1,369	1,400	466

Source: Orbeta (2004) based on Family Income and Expenditure Surveys, 1985-2000.



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Percent Not Attending School: 2004 and 2008 Annual Poverty Incidence Survey

Age Group	All Income Groups		Poorest 30%	
	2004 APIS	2008 APIS	2004 APIS	2008 APIS
6 to 9	7.2%	5.8%	11.7%	9.4%
10 to 12	4.2%	3.3%	6.6%	5.2%
13 to 14	11.5%	10.1%	18.3%	15.9%
15 to 16	23.2%	24.0%	34.2%	33.6%
17 to 19	51.6%	53.1%	68.4%	67.4%



Percentage Distribution of Employed Persons by Highest Grade/Degree Not Completed, Age Group: Labor Force Survey July 2009

	Not Finished Elementary	Not Finished High School	Not Finished College
Total	17.8%	47.1%	85.6%
15 - 24	14.6%	46.6%	90.8%
25 - 34	11.6%	34.8%	79.3%
35 - 44	15.8%	44.4%	85.9%
45 - 54	20.2%	52.6%	86.0%
55 - 64	28.9%	63.5%	87.8%
65 and over	47.0%	82.1%	94.5%





BANGKO SENTRAL NG PILIPINAS



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