Clearing the Runway for Intra-Asia Trade

Summary of Insights: Philippines

The Philippines is positioning itself as a key Asian manufacturing hub and stands to reap significant benefits in the coming decade, potentially tripling its trade value with 11 other top Asian markets from USD113 billion in 2020 to USD393 billion by 2030

This market summary provides an overview of some of the main insights on intra-Asia trade for the Philippines as part of a larger study commissioned by UPS and developed by AlphaBeta entitled: "Clearing the Runway for Intra-Asia Trade: Key insights for unleashing the potential for intra-Asia trade by 2030." The 12 markets (i.e., "Asia-12") covered in this report are Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The purpose of this research is to offer key critical insights on the rise of intra-Asia trade and prospects for future growth through 2030, in the context of Asia's continuing economic growth and against the backdrop of increasing volatility in global trade relationships today. The findings from this research showcase the potential for intra-Asia trade to continue its rapid growth over the coming decade, and support governments and businesses in identifying key enablers for this opportunity and steps to capture the potential. This summary is without prejudice to the status of or sovereignty over any territory or boundary. In cases where China is referred, it predominantly refers to mainland China. For the full set of insights, including data sources and methodology, please refer to the full report at: https://about.ups.com/sg/en/home.html

Top 3 insights on intra-Asia trade prospects for the Philippines

1. **The Philippines is positioning itself as a key manufacturing hub in Asia and this could strengthen its trade position in the coming decade.** Its trade with Asian markets has grown rapidly at 4.3% annually between 2011 and 2020, the second fastest in the region, largely driven by manufactured goods. Trade between the Philippines and 11 other Asian markets (together, the "Asia-12") could more than triple from 2020 levels to USD393 billion by 2030.

2. **Trade in four key product segments is expected to drive the Philippines' trade growth with the rest of the Asia-12, particularly the high-tech segment**. These segments are retail, industrial manufacturing and automotive (IM&A), high-tech, and healthcare, and they account for 75% of the Philippines' trade with the rest of Asia-12. The high-tech segment, which accounts for 41% alone, could double in value by 2030, while the IM&A segment could more than treble to overtake the high-tech segment as the largest in value by 2030.

3. **Businesses in the Philippines can capture the intra-Asia trade opportunity through three areas of multistakeholder action that could address major barriers to regional trade.** There are three main areas for multistakeholder action: (1) Negotiate comprehensive regional trade deals; (2) Build resilience into supply chains; (3) Collaborate on harmonising product standards across the region.

Top 3 takeaways for businesses in the Philippines

1. **Plan for both headwinds and opportunities by diversifying supply chains.** This includes exploring resilient trade routes, such as with East Asian economies, and targeting high-value and high-growth trade routes, such as with China and other ASEAN markets. Diversifying supply chains is critical to building resilience in trade flows.

2. **Digitalise operations end-to-end.** Filipino firms could leverage digital technologies to improve their operations and mitigate potential supply chain risks. Businesses can look to cloud technologies to mitigate technical disruptions and adopt digital tools such as smart tracking that provide real-time supply chain visibility to improve productivity.

3. **Advocate for trade-supportive policies.** Business must engage collectively with governments and multilateral organisations that negotiate ambitious trade deals such as the Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to ensure their interests are adequately represented while ensuring greater trade can be facilitated.

The Philippines could establish itself as a key manufacturing hub in Asia and potentially triple intra-Asia trade by 2030

Asia is a critical component of global trade. Over the past half century, Asia has developed into the world's largest manufacturing hub, with economies like the Philippines contributing ever-greater exports of machinery, electronics, and agricultural goods to global markets. As the Philippines and other Asian markets become the global epicentre for new consumer demand, building off a sustained period of economic growth and improvements in standards of living, trade lanes within Asia will gain importance. Already, intra-Asia trade accounts for two-thirds of the region's trade with the world.

The Philippines is positioning itself as a key manufacturing hub in Asia and this could strengthen its trade position by 2030. The Philippines Department of Trade and Industry aims to create a world-class manufacturing industry with links across the production value chain to serve as a global and regional hub for automotive, electronics, and garments sectors, supported by well-managed supply chains.[1] The Philippines' trade with Asian markets has already benefited from supportive policies, growing at the second-fastest rate in the region between 2011 and 2020 at 4.3% annually. Looking ahead, the Philippines' trade with 11 other major markets (together, the "Asia-12") could more than triple from USD113 billion in 2020 to USD393 billion by 2030 (Exhibit 1). A wealthier and more urbanised Asia-12 will provide the growth in demand that Filipino industries could satisfy. In just the Asia-12, 567 million new entrants will be added to the middle class between 2020 and 2030, with the region's consuming class touching 1.5 billion at the end of this period. 35 million people are expected to join the Philippines' middle class population by 2030, together with over 11 million new urban residents.

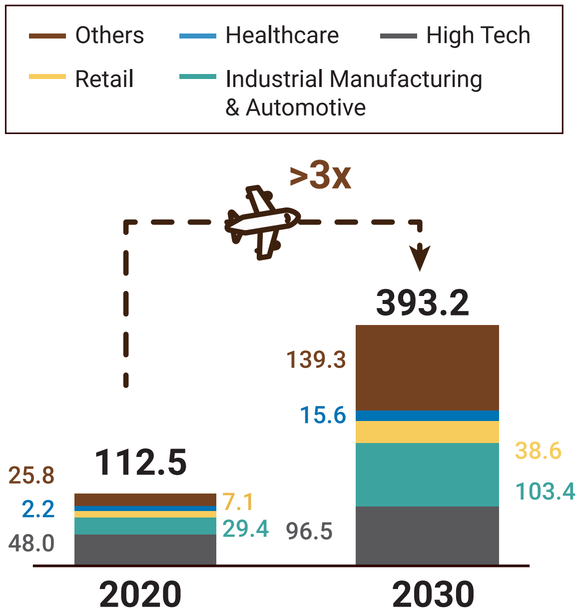
Trade in four product segments is expected to drive this growth: (1) retail; (2) industrial manufacturing and automotive (IM&A); (3) high-tech; (4) healthcare – which together constitute 75% of the Philippines' trade with the rest of Asia-12. Key trade lanes will facilitate this growth in trade. For instance, trade in these four key segments between China and the Philippines has seen tremendous growth in the past decade, having grown at more than 8.4% annually in value between 2011 and 2020. The IM&A segment will be the largest by value in 2030, more than trebling in value from 2020 levels to USD103 billion. Trade in the high-tech segment, which constituted 41% of its intra-Asia trade in 2020, could more than double in value, riding Asia's wave of digitalisation which will create significant demand in this segment. Asia-12 economies are already more digitalised than the global average while also advancing on digital adoption metrics at a faster rate.[2] Nearly 700 million people in Asia Pacific will join its Internet population by 2025, creating a new generation of e-commerce consumers.[3] Key trade lanes will be particularly important in driving this growth, including between the Philippines and Vietnam. The high-tech segment between both markets outpaced growth across the other three segments, expanding rapidly by 16.5% annually over the same period, higher than the 12.8% overall segment growth.

Exhibit 1

Philippines' trade with the Asia-12 is set to triple by 2030

Philippines's trade with the rest of Asia-12

USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

Increased investment in supply chain innovation and high-quality infrastructure could also contribute to long-term resilience. Investment in much-needed supply chain infrastructure remains at the top of the Philippine government's national agenda, as seen through its Logistics Industry Roadmap in 2016 which outlines key investment strategies in its national transport infrastructure, particularly in roads and ports outside the capital of Manila.[4] The e-commerce Philippines 2022 Roadmap is also expected to boost investment in digital supply chain innovation, including modernising the national Philippine Postal Corporation as well as promoting investments in private sector logistics infrastructure.[5]

Intensifying geopolitical tensions and lags in infrastructure development could restrict this growth

Despite the significant potential that intra-Asia trade holds for the Philippines, there exist a range of barriers to greater trade today that may intensify over the coming decade. Filipino businesses surveyed for this study indicated tariffs and other punitive measures as the top barrier to trade, among five other barriers identified (Exhibit 2). These six barriers remain largely unaddressed by policy and business action due to trade tensions, supply chain shifts, and uneven investment and engagement of micro-, small-, and medium-sized enterprises (MSMEs) in supply chains.

If these barriers intensify, the Philippines may not be able to achieve its full trade potential with the Asia-12 by 2030. Trade could total USD233 billion in this "Deglobalisation" scenario – roughly doubling as opposed to tripling as in the previous scenario (Exhibit 3).

Intensifying geopolitical tensions contribute significantly to these trade barriers. Geopolitical risks such as territorial, economic, and political disputes between other economies have proven detrimental to trade in the past, particularly in the high-tech and retail segments. ASEAN's consensus-building and decision-making norms further stymie economic progress and cooperation – despite deeper economic integration over the past few decades, trade remains hindered by ASEAN members' reluctance to harmonise their standards and practices. Such geopolitical tensions that create strict or restrictive trade policies in ASEAN and across Asia could damage the Philippines' long-term trade prospects.

Investment in logistics infrastructure in the Philippines has been historically insufficient and could remain so, restricting its ability to serve centres of demand around the region. The Philippines spends the least on infrastructure per capita among the ASEAN markets covered in this study, and past infrastructure programs such as "Build Build Build" have failed to attract the domestic and foreign funding needed.[6] Traffic slowdowns on Manila's roads cost USD20 billion a year due to diminished productivity and health costs attributed to air pollution.[7] There is also significant room to digitalise the Philippines' logistics network – many companies still rely on costly and time-consuming paper-based processes.[8]

Finally, pressures caused by the COVID-19 pandemic, and rapid advances in robotics and automation constrain the flow of trade. These trends could expose a shortage of labour, skills, and shorten supply chains due to shifting cost competitiveness, preventing the Philippines from scaling up and lifting its trade potential. Two-thirds of Asian businesses surveyed by the Asian Development Bank (ADB) in 2021 stated that they planned to source more goods locally in the coming years – constraining the potential for the Philippines to trade more intensively with markets more distant from home.[9]

Exhibit 2

Businesses in the Philippines face six barriers to regional trade

Top barriers to trade in the Philippines

Ranking based on respondents conducting trade in the Philippines

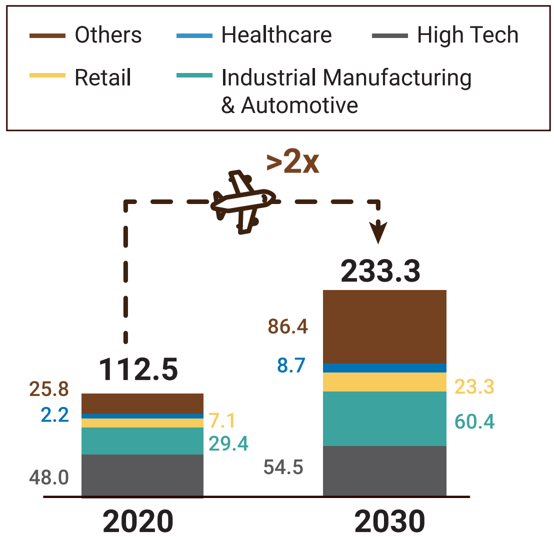
SOURCE: Industry survey of 198 businesses that conduct trade in the Asia-12 economies; AlphaBeta analysis

Exhibit 3

Headwinds could cause the Philippines' trade with the Asia-12 to not reach its full potential

The Philippines' trade with the rest of Asia-12

USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.
SOURCE: ITC; AlphaBeta analysis

Governments and businesses must proactively mitigate these risks to capitalise on the intra-Asia trade opportunity

Multistakeholder action is required to reduce impediments to trade and harness the opportunities to steer intra-Asia trade towards take-off. Action by businesses or government alone is not enough to address the key barriers to trade – active involvement by all stakeholders across the supply chain is key. There are three main areas for multistakeholder action in the Philippines: (1) Negotiate comprehensive regional trade deals that remove remaining tariffs, harmonise standards, simplify customs, promote MSME competitiveness, and ensure cooperation and diplomacy in the event of geopolitical disputes; (2) Build resilience into supply chains via supportive public-private investment; (3) Collaborate on harmonising product standards, by creating meaningful partnerships between business leaders, trade associations, certification bodies, and regulators.

Businesses with trade interests in the Philippines and those in the logistics sector must proactively account for both opportunities from intra-Asia trade and build resilience against potential headwinds. Three key actions that can be taken by businesses include diversifying supply chains, digitalising completely, and advocating for trade-supportive policies.

01

Diversify supply chains

Plan for both headwinds and opportunities by diversifying supply chains into resilient trade routes and targeting high-value and high-growth trade routes. The COVID-19 pandemic has made diversifying supply chains an important strategy in building resilience in trade flows. Many trade routes offer opportunities for resilient growth with the Philippines (Exhibit 4). These include IM&A, healthcare, and retail trade with East Asian economies such as China and Japan, as well in the high-tech segment with Hong Kong and Vietnam. The healthcare and retail segments are expected to be highly resilient, supported by foreign investment into the economy's medical device manufacturing capabilities and relaxation of restrictions in retail trade investment by foreign enterprises.[10] On the other hand, in the scenario where trade triples, a range of high-value and high-growth trade routes could be available for Filipino businesses (Exhibit 5). Trade routes with other East Asian economies such as China, Japan, and Taiwan are expected to remain the largest in value for the Philippines in the coming decade, similar to today. In addition, other Asian markets are expected to provide high growth opportunities, including Australia, Indonesia, and Thailand. As businesses in both the Philippines and other Asian markets invest in e-commerce platforms and logistics capabilities that better facilitate trade, they will be able to access an increasingly wider range of investment and export destinations.

02

Digitalise comprehensively

Digitalise operations end-to-end. While the COVID-19 pandemic accelerated adoption of digital technologies within the Philippines, the adoption of digital payments and digital supply chain tools has fallen behind.[11] The pandemic further stymied progress – for instance, 70% of Filipino executives surveyed by TransUnion indicated that digital transactions experienced glitches attributed to pandemic-related problems, hampering trust and underscoring the need for better payments integration.[12] Businesses can utilise cloud technologies or look to biometric identification for payments, both of which provide cybersecurity protection and can mitigate technical problems.[13] By minimising disruptions, businesses can be better prepared to capture overseas orders and customers without fear of technical bottlenecks. Adoption of supply chain tools that provide real-time visibility or automate processes can also improve their productivity and ability to meet demand. For example, MSMEs can adopt customised digital platforms to scale up operations by enabling remote tracking of deliveries and conducting digital warehouse and fulfilment management, saving time on manual or routine procedures.[14] Artificial intelligence (AI)-enabled tools that can analyse and identify tariff codes or automatically input customs data could also smoothen regulatory import-export procedures for businesses, making trade simpler and more efficient. UPS uses AI to learn individual shipping patterns and behaviour to simplify shipping processes and make it much easier for small businesses to ship their goods. A range of plug-and-play application programming interfaces (APIs) allow businesses to get estimated duties, taxes, and brokerage fees for cross-border shipments to prevent unforeseen delays in payments and processes or additional costs to business.

03

Advocate for trade-supportive policies

Advocate for trade-supportive policies. As of August 2022, the Filipino government is evaluating the feasibility of joining the CPTPP and has paused ratification of the RCEP due to perceived unfavourable trade provisions for its stakeholders.[15] Business must engage collectively with governments and multilateral organisations that facilitate such ambitious trade deals to ensure their interests are adequately represented and to promote greater trade. Chambers of commerce and trade associations are examples of platforms where the industry can discuss the latest provisions, trends and bottlenecks with policymakers. The Joint Foreign Chambers, which represents a coalition of trade chambers within the Philippines, and Federation of Free Farmers, an industry association representing the agricultural industry, are examples of platforms that can negotiate and advocate for fair trade provisions in the interest of local stakeholders.[16] Businesses can use consultancy tools like UPS's Trade Assist™ to look at ways to reconfigure their supply chains to reap the benefits such free trade agreements offer. At the same time, businesses can receive trade compliance guidance that ensure effective management of shipment movements, prevent risks, and optimise supply chains.

Exhibit 4

Firms can invest in resilient trade routes within each segment to hedge against supply chain shocks

Share of the Philippines' trade with the Asia-12 sensitive to geopolitical shocks, by segments[1]
Share of each priority segment trade value in 2020 (%)

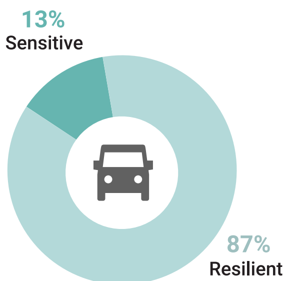
Top resilient trade partners by value today

China
Japan
South Korea
Singapore
Indonesia

Healthcare

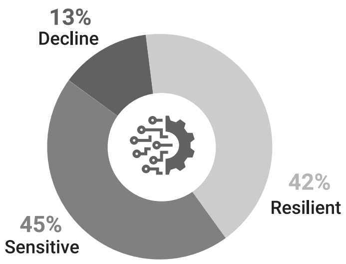
China
Hong Kong
Japan
South Korea
Vietnam

Retail



China
Japan
Indonesia
Hong Kong
Singapore

Industrial manufacturing & automotive



Hong Kong
South Korea
Taiwan
Thailand
Vietnam

High-tech

1. Each figure represents a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either worst-case or optimistic scenarios, while sensitive trade refers to trade routes that may see positive growth only within the optimistic scenario. Declining trade refers to trade routes that may see slight contractions regardless of either.

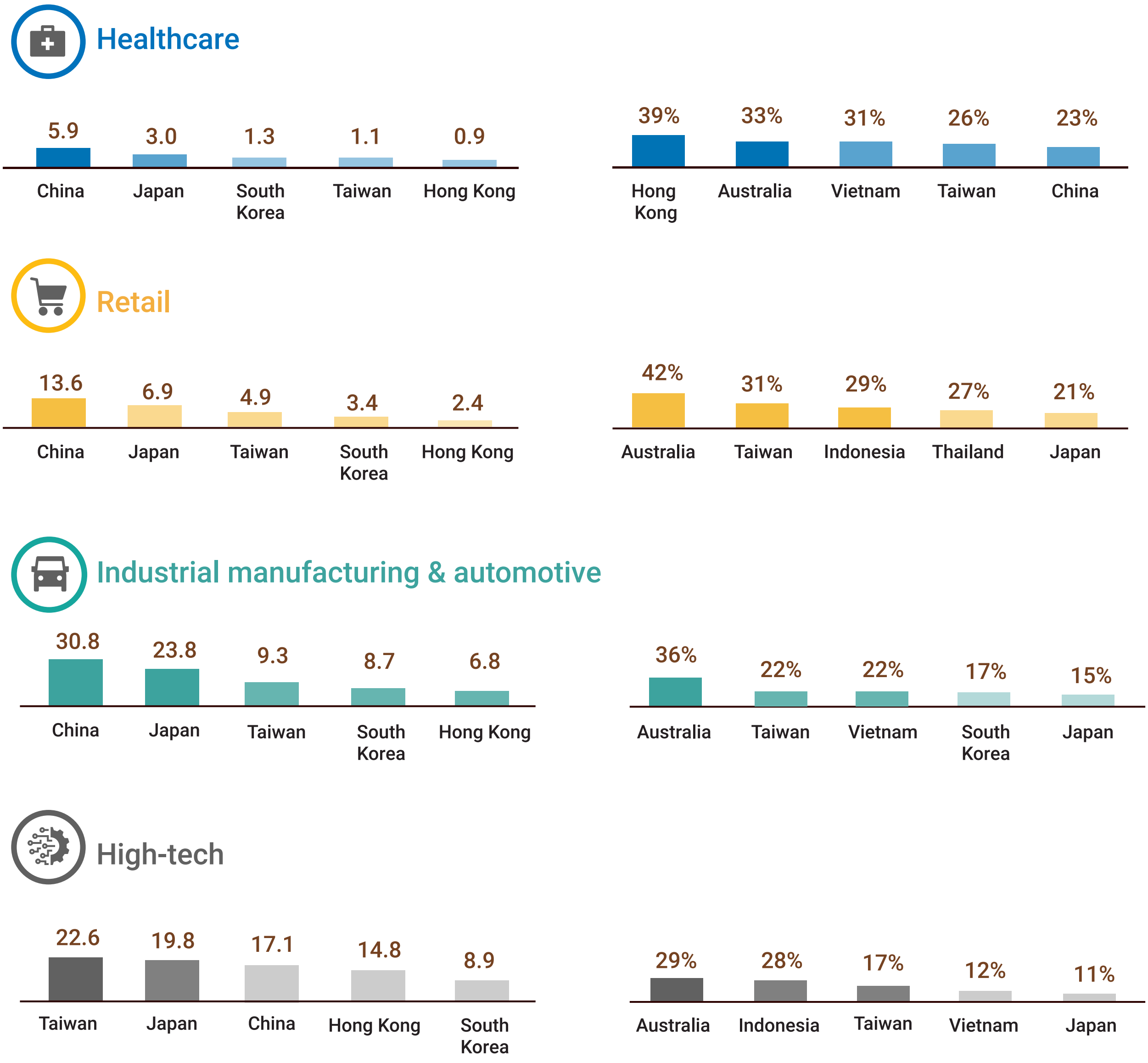
SOURCE: ITC; AlphaBeta analysis

Exhibit 5

Other East Asian economies will remain key trade partners across all segments, while ASEAN markets offer growth opportunities

Top 5 projected trade routes in 2030 by value, USD bn[1]

Top 5 projected trade route partners, by growth rate till 2030, %[1]



1. Projections are based on an optimistic scenario of Asia's trade environment, as outlined in Chapter 1 of the main report, where intra-Asia trade will take off and be driven by trends such as regional trade agreements, supply chain innovations, and a rise in digitalisation. These projections should be taken as an ideal outcome rather than guidance.

SOURCE: ITC; AlphaBeta analysis

Endnotes

1. Department of Trade and Industry (2022), “Manufacturing” Available at: https://industry.gov.ph/category/manufacturing/
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