Towards a Deeper Partnership Between the Philippines and Japan

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KEYNOTE SPEECH

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There is no clearer proof of the strength of Philippines – Japan relations than the recent state visit to the Philippines of their majesties, Emperor Akihito and Empress Michiko. It was a historic moment in the special relations between our two countries.

It was our distinct honor and privilege to host your Emperor and Empress and we are grateful for that rare opportunity.

Mutual respect, the common interest in regional stability and security for economic growth and development, and shared principles based on democracy, human rights and the rule of law constitute the foundation of our relationship.

Philippines – Japan relations have been elevated to a strategic partnership. Our leaders and government have recognized that we have a shared interest: long term security and prosperity. We are invaluable partners in almost all aspects of bilateral ties — political, security, economic, and people-to-people.

In terms of trade and economic ties, the remarkable “turn around” of the Philippines from the “Sick Man of Asia” to “Asia’s Bright Spot” or “New Economic Tiger” provides the backdrop for a truly strategic economic partnership between the Philippines and Japan.

With such a strategic economic partnership, our two countries can work together to take advantage of the vast opportunities for growth in the ASEAN Economic Community as well as in other large markets to which the Philippines has gained, and intends to gain, wider, and deeper market access.

II.

The Philippines: Remarkable Growth

The Philippine economic turnaround story is complete. Our gross domestic product (GDP) grew by an average of 6.2 percent from 2010 to 2015, the highest in 40 years, making the Philippines among the top performing economies in Asia.

Improvement in the country's sovereign ratings continues unabated. The top three rating agencies — Fitch, Moody's and Standard & Poor's — have accorded the Philippines "investment grade" rating. In July last year, your own Japan Credit Rating Agency also upgraded the Philippines, from BBB to BBB+.

This congruence in ratings are reflective of the Philippines' improving fiscal situation, sound external position, political stability, increasing capital investments, and sustained economic growth.

On competitiveness, our government and the private sector continue to work together to create an enabling business environment and enhance regional competitiveness. Under President Benigno S. Aquino's administration, the Philippines improved its standing in several international competitiveness ratings:

- 53 places in the World Bank – International Finance Corporation's Ease of Doing Business rankings;
- 33 notches in the World Economic Forum's Global Competitiveness Report;

On labor relations, the Philippines has had industrial peace for the past decade. Last year, there were only two strikes, none in 2014, only one in 2013, and just two strikes or lock-outs in in 2012 and 2011. This is an excellent record compared to other countries in the region that are plagued by hundreds of strikes or lock-outs every year.

Anti-corruption and governance reforms have been successful and are becoming increasingly institutionalized. The government continues to pursue this goal. Indicative of our success are our improved ratings:

- 49 rungs up in Transparency International's Corruption Perception Index; and
- 33 steps in Heritage Foundation's Economic Freedom Index.

Key Political and Economic Reforms

Our commitment to transparency and good governance continues unabated and we have supported this with key political and economic reforms.

Liberalization of the Banking Industry — In 2014, RA 10641 (An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose RA 7721) was passed, further liberalizing the entry of foreign banks.

Our President was present at the ceremonial opening of Sumitomo Mitsui Banking Corporation (SMBC) held at Makati Shangri-La on January 11 2016. In his speech, President Aquino credited SMBC with suggesting legislation that eventually formed the basis for Republic Act 10641. The President noted that SMBC is the first foreign bank to gain entry under the law even more foreign banks are working to do so.

Competition through the introduction of new financial products and services will prepare the country's banking system for the ASEAN financial integration and help attract more FDIs.

Cabotage Reform — The Cabotage Act (RA 10668) enacted on 21 July 2015 now allows foreign vessels to transport and co-load foreign cargoes for domestic transshipment for the benefit of both importers and exporters.

Competition Act — On the same day, 21 July 2015, the Philippine Competition Act (RA 10667) was signed into law and firms can now operate on a more level playing field.

The new law will allow us to guard against economic concentration that controls production, distribution, trade, or industry. It penalizes all forms of unfair trade, anti-competitive conduct, and combinations in restraint of trade.

With these laws, a more competitive market environment will be established to buttress the open trade policy and regulatory reforms that the country has adopted. We expect the country and its partners to benefit from lower prices as well as enjoy the transparency and predictability that are brought about by open competition and heightened logistical efficiency.

Key Investments

However, it is not just the business policy and legal environment that the government is enhancing; the government is also investing in concrete and practical drivers for sustained economic growth.

Infrastructure — The budget for infrastructure has more than tripled from Php 165 billion in 2010 to Php 570 billion in 2015. Spending on infrastructure rose from 2.5 percent of GDP in 2010 to 5 percent in 2016. This is over and above the major projects being undertaken under our globally acclaimed Public Private Partnership (PPP) program.

Population dividend — The Philippines is poised to realize a population dividend. We are a country of more than 100 million with a median age of 23 years. Our young people are well educated, highly trainable, hardworking, loyal and English proficient.

They comprise a talent pool that has made possible the phenomenal growth of our Information Technology – Business Process Management Sector (IT-BPM). From a mere 5,000 workers in 2001 it has grown to more than a million workers last year, accounting for USD 18 billion in revenues in 2014. This year, we are targeting USD 25 billion in revenues. The Philippines has been number one in voice BPM since 2010 and is fast gaining ground in the non-voice sector.

Some 10 million Filipinos are also spread around the world working as doctors, nurses, architects, engineers, accountant, teachers, mechanics, seafarers, and all sorts of service staff, providing cash remittances in excess of USD 25 billion in 2014.

This is all proof of the skills, adaptability and quality of Filipino workers. With this population dividend, we expect to have a hardworking pool of top-notch workers over the next three decades when many of our neighbors will be experiencing an aging population.

Education – To realize demographic dividends from our young population, the Aquino Administration has been investing heavily on education. The budget for education practically doubled – from Php 173 billion in 2014 to Php 342 billion in 2015 – so that classroom, textbook and teacher shortages will be addressed resolutely. Two years have also been added to the Basic Education Program for a total of 12, aligning it with international standards.

In addition, steps have been taken to align course offerings in higher education and technical and vocational institutions to the needs and opportunities in the private sector. This thrust has been complemented by a significant increase in the budget for Technical-Vocational Education and Training, up 84 percent from Php 2.9 billion in 2010 to Php 5.3 billion in 2015.

With all these key reforms and initiatives, the Philippines is well positioned to seize opportunities in the region as well as in other markets.

III.

Philippines – Japan Economic Partnership

Against this backdrop, the Philippines – Japan economic partnership is poised to further prosper, create wealth and generate jobs for our mutual benefit.

Our enduring economic relationship was strengthened by the signing of the Philippines-Japan Economic Partnership Agreement (PJEPA).

A general review, as mandated by the agreement, is way overdue and both sides are currently working on resuming negotiations and concluding the review, hopefully, within the first half of 2016 before the end of the term of President Aquino.

Improved market access for Philippine exports especially for agricultural products and improvements on the deployment and working conditions of Filipino nurses and care-workers as well as the possible entry of additional categories of skilled workers and professionals such as English teachers and engineers remain among our top priorities.

Meanwhile, Japan's interests center on market access improvements for auto and iron and steel products as well as services and investments.

All told, the JPEPA has provided both our countries with immense opportunities for growth and expansion.

Japan continues to be a steadfast partner in our pursuit of inclusive growth. In 2014, Japan was the Philippines' principal source of investments, our top trading partner, top export market, and third largest import supplier.

Total bilateral trade in 2014 came to USD 19.15 billion, up 11 percent from USD 17.27 billion in 2013.

- Total trade has grown continuously over the 5-year period 2010 to 2014 by an average of 9.6 percent with the balance of trade in favor of the Philippines
- In 2014, Japan ranked first in IPA-approved investments with USD 803.24 million and accounts for the highest number of locators in our 300 economic zones (843 as of January 2015)

Bilateral Industrial Cooperation

The Philippines and Japan have also established the framework for enhancing bilateral industrial cooperation.

Former trade and industry Secretary Gregory Domingo and Minister Toshimitsu Motegi of the Ministry of Economy, Trade and Industry (METI) signed a Joint Statement on Industrial Cooperation in July 2014, which reaffirmed the cooperation of the two countries in multilateral and regional fronts.

The two parties welcomed the Industrial Cooperation Dialogue and agreed to tackle priority issues such as automobile industries, services and micro, small and medium industries (MSMEs), and improvement of the business environment

Both parties also agreed to develop an Action Plan to Enhance the Bilateral Industrial Cooperation and Japan expressed support for the Philippines' initiative to develop an industrial development roadmap and its aspiration to be a hub in the ASEAN for manufacturing and human resources development.

In July last year, the Action Plan stipulated in this Joint Statement was signed by Toshiyuki Sakamoto, as METI Deputy Director-General for Trade Policy and I, as DTI Undersecretary.

The Action Plan outlines broad initiatives in key areas of interest, including automobiles, manufacturing, MSMEs, services, and human resource development.

These initiatives are geared towards identifying and addressing supply chain gaps by providing technical and institutional capacity building to industry players in the Philippines. In the next few months, the DTI and METI will be working closely to develop specific programs to implement this Action Plan.

Official Development Assistance

Allow me to express our deep appreciation for Japan's commitment and participation in endeavors that aim to sustain the robust growth of the Philippine economy.

Over the course of the present administration, Japan has maintained its position as our number one source of development assistance, comprising 27.8 percent of total Official Development Assistance (ODA) from all our development partners from 2010 to September 2015. This amounts to a cumulative total of nearly USD 20 billion.

Japanese ODA continues to complement our robust bilateral trade and investment relations and has been instrumental in financing necessary government projects and programs.

It has helped us improve our business environment particularly in effectively addressing infrastructure development constraints. In fact, 17 of the 24 ODA-funded projects to upgrade our infrastructure, has received 74.4 percent share of the total ODA commitment of japan.

Japanese ODA has been tapped for priority infrastructure development projects of the Philippine government. One such venture is the North-South Rail Project, which is a critical part of the Metro Manila Dream Plan. At USD 2.0 billion, it is the largest ODA package ever granted by Japan and the largest ever received by the Philippines.

Studies and data collection are also underway for two proposed major infrastructure projects: the Mega-Manila Subway and the New Manila International Airport.

Japanese ODA has also provided much needed financing for projects in agriculture, natural resources, governance, institution-building, industry, trade, and tourism.

Apart from this, it has also promoted our people-to-people relationships as it has included invaluable humanitarian assistance for the victims of some of the most powerful typhoons to hit the country, such as Typhoons Yolanda, Pablo, and Ondoy.

Japanese ODA has also provided support for peace- and community-building in Muslim Mindanao through the Japan-Bangsamoro Initiatives for Reconstruction and Development or J-BIRD.

More recently, mutual security concerns have also been addressed. Through Japanese assistance and technology, the Philippines will also be able to produce ten 40-meter and two 94-meter Multi-Role and Response Vessels (MRRVs), which would augment the Philippine Coast Guard's ability to patrol our coastlines and territorial waters, including our Exclusive Economic Zones (EEZs). There has also been talk of leasing patrol planes from Japan to assist is this effort.

In summary, the Philippines and Japan are deeply committed to each other.

IV.

Ease of Doing Business

Looking ahead and beyond, we would like to assure our partners and friends in Japan that the Philippine growth story is sustainable in this decade and many more.

We will build on the successes of the major reforms undertaken. We will continue working with other government agencies to ensure that regulatory procedures are streamlined. We believe that integrating services, systems, and services of government in one electronic platform simplifies the procedures for enterprises to accomplish business requirements.

We are fully aware that reforms on the ease of doing business are vital in our efforts to improve the competitiveness of our economy and the readiness of our industries to seize the opportunities in the global market.

MSMEs

This year we will also put Micro Small Medium Enterprises (MSMEs) front and center of our economic reforms, especially in trade facilitation area to allow them to participate in international trade.

To support MSMEs we launched the E-commerce Roadmap last month and will push hard capacity building programs for e-commerce. We will also be addressing the logistics challenge in a more coordinated manner under the Logistics roadmap.

Manufacturing Resurgence Program

Further to achieving long-term inclusive growth through quality employment, the manufacturing resurgence that the economy has been experiencing will be sustained. Manufacturing has been growing at an average of 8.2 percent over the past five years.

Last year, the Manufacturing Resurgence Program (MRP) was institutionalized by the government as a key element in the overall thrust of Industrial Development and Promotion.

The MRP was allocated a budget of Php 239 billion in 2015 and Php 289 billion in 2016. This amount is spread across 17 industries that include the Departments of Public Works and Highways, Science and Technology, Labor and others.

At the core of the MRP is the Comprehensive Auto Resurgence Strategy (CARS) program that provides a comprehensive package of fiscal and non-fiscal incentives to qualified participants. Its objective is for the Philippines to capture a bigger share of the regional automotive manufacturing industry in the near future. The program covers the manufacture of automotive whole body, large plastic parts, and other strategic parts that are not currently produced locally.

The CARS Program may very well be a template for a more focused and targeted approach to industry development. For one, the automotive industry has an established multiplier effect across various industries, particularly for shipping and other labor intensive manufacturing operations such as footwear and textile related exports, which require very little training but will generate a decent number of jobs.

Thus, based on their roadmaps, we are looking at three to five other industries for which, together with the private sector, government can come up with similar comprehensive packages for growth and development.

Moreover, in building the supply chain capability of the Philippine automotive sector, we hope to attract Japan's Small and Medium Enterprises (SMEs) who will serve as accredited parts manufacturers to program participants, as well as technology, logistics, distribution, and sales partners to local players who need assistance in building capacity in order to compete in the regional and global market.

This, of course, directly relates to the goal of this seminar to explore areas where Kansai-based small- and medium-sized enterprises can develop businesses in Philippines.

Expanded Market Access

Talking about the regional and global markets, the Philippines is being primed to be Japan's Manufacturing Hub in ASEAN with the Philippines actively seeking trade preferences in key export markets.

The Philippines currently benefits from trade preferences from the world's largest importing countries such as the EU and the US, under their respective Generalized System of Preferences (GSP).

The Philippines became a beneficiary of EU's GSP+ in December 2014. This granted the Philippines duty-free access to two-thirds of EU's tariff lines (6,274 tariff lines). Furthermore, in June 2015, the US reauthorized its GSP grant to the Philippines providing duty-free access to 3,500 US tariff lines.

Exports to the EU grew by 27 percent in 2015. Among the duty-free product lines for export to the EU that have huge potential benefits are:

- Animal or vegetable fats and oils;
- Prepared foodstuffs;
- Textiles and garments;
- Footwear, headwear, umbrellas;
- Vehicles and transport.

We estimate that Philippine exports to EU will increase by over EU€ 600 million in the first two years of implementation and generate over 200,000 jobs.

Japanese firms were among the first to take advantage of these preferences to the EU. In 2015, Shimano, a renowned Japanese bicycle manufacturer invested JPY 3.5 billion to access the EU market through the Philippines.

By setting up manufacturing facilities in the Philippines, Japanese companies may avail of the duty-free market access to the EU and the US, including products which are key export interests of Japan.

Other products covered by EU GSP+ and US GSP being exported by Japan with significant tariff differentials if produced in the Philippines are ball bearings, motorcycles, gear boxes and pneumatic tires.

Along with these product categories, exporters of footwear and textile, preserved fruits, pineapple juice, jams and jellies, who are targeting the European market may find a wealth of opportunity in the Philippines' GSP status. We are, in fact, the only country in ASEAN to enjoy this preferential treatment.

The Philippines aims to lock in and expand our preferential trade advantage in these markets with our current efforts to engage EU and the US in FTAs.

This quarter, the Philippines intends to conclude its FTA with the European Free Trade Association (EFTA) composed of Switzerland, Norway, Iceland and Lichtenstein. By the second quarter, the Philippines and EU will be starting formal trade negotiations.

As for the Trans-Pacific Partnership (TPP) Agreement, we have been conducting technical consultations with its member states. We have held six of those last year and we intend to continue such consultations this year in preparation for our entry into the TPP.

Conclusion

Our success, as highlighted by our improved general performance in the latest survey of Japanese-affiliated companies in Asia and Oceania conducted by the Japanese External Trade Organization (JETRO), may be attributed to your continuing support.

We are especially encouraged by JETRO's findings that more than half of Japanese firms operating in the Philippines will expand their businesses over the next two years.

Thank you to Resona Foundation for Asia and Oceania for this opportunity to address the leaders of the business communities in Japan particularly in the Kansai region.

We look forward to an even stronger partnership and meaningful collaboration between our countries and our people.

Sukiyanen Osaka!