

Regional Connectivity and the Philippine Economy

International Conference on “Towards a Connected ASEAN+3: A
Master Plan for East Asian Connectivity”

Beijing, China

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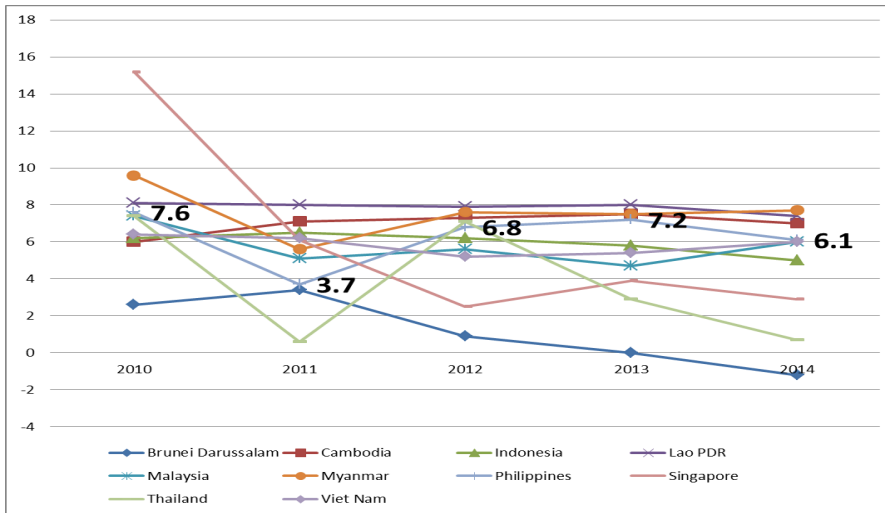
The objectives of the presentation are to present the following:

- I. Overview of the Philippine Economy;
- II. Brief on trade between Philippines and China;
- III. Philippine regional involvement;
- IV. Philippine Infrastructure and Connectivity;
- V. Impact of Connectivity and Infrastructure;
- VI. Challenges in Improving Infrastructure and Connectivity; and
- VII. Conclusion and Policy Suggestions

The presentation is based on the following sources:

- I. Paper on “Philippine Infrastructure and Connectivity: Challenges and reforms” (Llanto 2015)
- II. Powerpoint Presentation in Tokyo, Japan on “Philippine Infrastructure and Connectivity: Challenger and Issues” (Llanto 2015)
- III. Powerpoint Presentation in Nanning, China on “Regional Connectivity and Financial Support: Perspectives from the Philippines (Israel 2014)

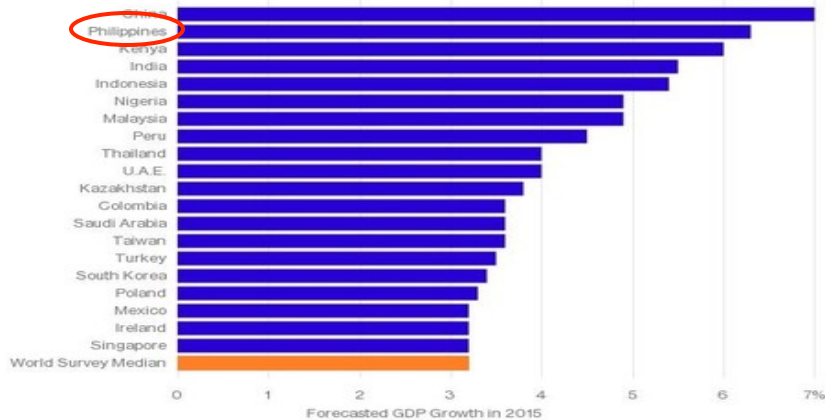
I. An Overview of the Philippine Economy (1)



- ✓ Strong economic performance after years of boom-bust cycle
- ✓ 2014 GDP growth – 6.1%
- ✓ 2015 GDP growth forecast – **5.7%** despite prolonged weaknesses in the global economy, slowdown in exports, and volatility in capital markets

This Year's All-Stars of the Global Economy

Emerging Asia and Africa seen dominating global growth in 2015, economists say



II. Brief on trade between Philippines and China

- China is the 3rd most important trading partner of the Philippines beginning in 2012. In 2013, the principal trading partners of the country were Japan, United States and China.
- Trade with China has been increasing at high growth rates. In 2013, Philippine exports to China recorded a very high growth rate of 79.3 percent while Philippine imports from China increased by 5.3 percent.
- Philippine trade with China has been growing despite the territorial disputes and other issues between the two countries which indicates trade can grow independent of politics.

III. Philippine Regional Involvement

- The main regional involvements of the Philippines are with the ASEAN and the BIMP-EAGA.
- The Association of Southeast Asian Nations (ASEAN) was formed in 1967 to promote political and economic cooperation and regional stability in the region.
- The Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) sub-regional cooperation program was established in 1994.
- In addition to the above, the Philippines is connected to other countries (e.g. China) and regional groups (e.g. EU) through trade, bilateral and multilateral agreements, and other channels.

IV. Philippine Infrastructure and Connectivity (1)

Indicator	PHL	IND	MYS	MMR	THA	VNM
ENERGY						
Percentage of population with access to electricity network, 2012	87.5	96.0	100.0	52.4	100.0	99.0
Percentage of households reporting access to electricity, 1998/1997	71.3 (1998)	80.3 (1997)	-	-	-	78.4 (1997)
WATER SUPPLY						
Percentage of population with access to improved water sources, 2012	91.2	93.0	100.0	94.8	96.7	98.2
SANITATION						
Percentage of population with access to improved sanitation facilities, 2015	73.9	60.8	96.0	79.6	93.0	78.0

IV. Philippine Infrastructure and Connectivity (2)

Indicator	PHL	IND	MYS	MMR	THA	VNM
ROADS						
Total length of road (thousand km.), 2012	31.6	504.2	182.7	151.3	231.6	326.0
Road density, 2011 (km of road per 100 sq. km of land area)	10.5	26.1	47.0	5.6	-	-
Total length of expressways (in km.)	400	949	1,969	589	209	120
Percentage of total roads paved, 2014	86.0	56.7	79.0	51.6	83.2 (2013)	66.3 (2012)

IV. Philippine Infrastructure and Connectivity (3)

Indicator	PHL	IND	MYS	MMR	THA	VNM
TELECOMMUNICATION						
Fixed-broadband subscribers per 100 inhabitants, 2014	23.2	1.2	10.1	0.3	8.2	6.5
Percentage of individuals using the Internet, 2014	39.7	17.1	67.5	2.1	34.9	48.3
Fixed-telephone subscriptions per 100 inhabitants, 2014	3.1	11.7	14.6	1.0	8.5	6.0
Mobile-cellular telephone subscriptions per 100 inhabitants, 2014	111.2	126.2	148.8	49.5	144.4	147.1
GDP per capita, 2014, current US\$ ¹	2,843	3,515	10,830	1,198	5,561	2,052

IV. Philippine Infrastructure and Connectivity (4)

Country	Overall		Road		Port		Air Transport		Railroad		Electricity Supply	
	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value
CHN	64	4.4	49	4.6	53	4.3	58	4.7	17	4.8	56	5.2
JPN	9	6.2	10	5.9	26	5.3	27	5.5	1	6.7	25	6.3
KOR	23	5.5	18	5.6	27	5.3	31	5.4	10	5.6	44	5.5
IND	72	4.2	72	3.9	77	4	64	4.5	41	3.7	84	4.3
MYS	20	5.6	19	5.6	19	5.6	19	5.7	12	5	39	5.7
THA	76	4.1	50	4.5	54	4.5	37	5.3	74	2.4	58	5.1
VNM	112	3.3	104	3.2	88	3.7	87	4	52	3	88	4.2
PHL	95	3.7	87	3.6	101	3.5	108	3.6	80	2.3	87	4.2
P H L ' s rank	7th of 8		7th of 8		8th of 8		8th of 8		8th of 8		7th of 8	

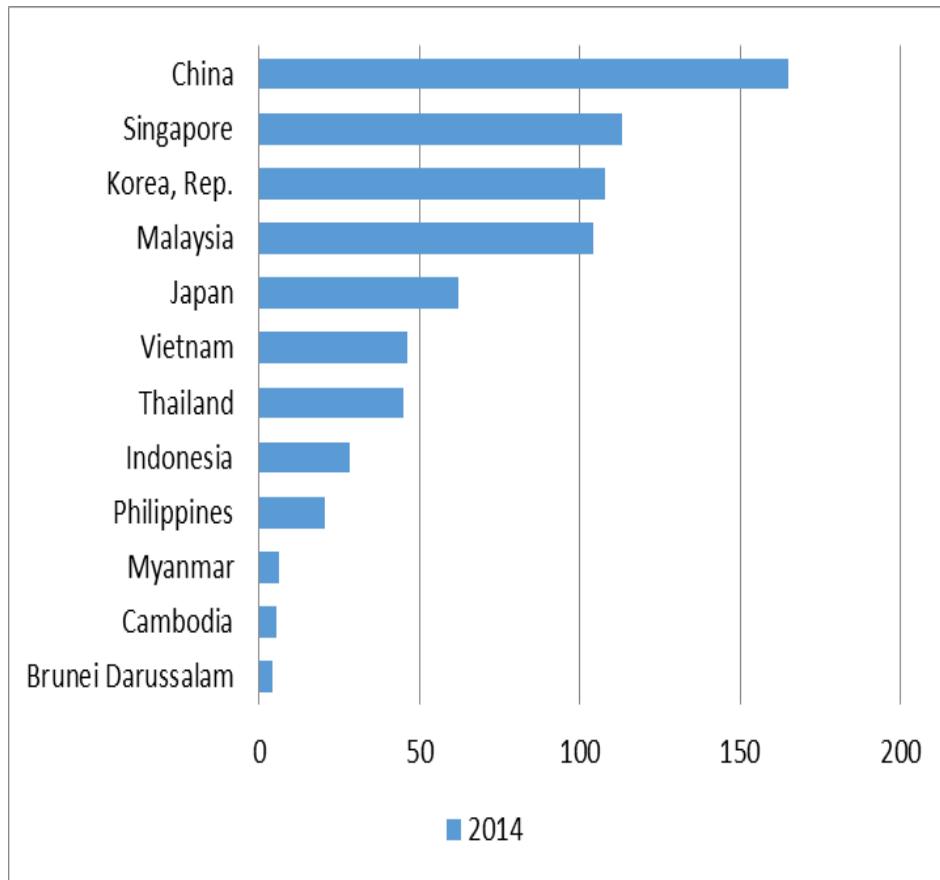
*Infrastructure Rankings out of 144 economies
in the Global Competitiveness Report, 2014*

Note: 1 = poorly developed and inefficient, 7 = extensive and efficient or among the best in the world.

Source: World Economic Forum, Global Competitiveness Report, 2014-2015.

IV. Philippine Infrastructure and Connectivity (5)

Liner Shipping Connectivity Index (maximum value in 2004=100)



- Based on five components of the maritime sector: 1) number of ships; 2) their container-carrying capacity; 3) maximum vessel size; 4) number of services; 5) number of companies
- Philippines falls behind Thailand, Indonesia, and Vietnam with a score of **3.5**
- Currently, inter-island connectivity is achieved through a network of small municipal ports, relatively old domestic ships and the recently established Road-Roll-On Roll-Off Terminal System (RRTS).

IV. Philippine Infrastructure and Connectivity (6)

On Philippine ICT Development:

Indicators, Annual Average Growth Rate (%)	Asia-Pacific	Philippines
Mobile cellular density (per 100 people)	100.25	104.5
Fixed broadband Internet subscribers (per 100 people)	36.4	37
Telephone lines (per 100 people)	17.69	3.2

Source: World Development Indicators - World Bank

- Shift from basic landline telephone to mobile telephony and broadband internet
- Telecom industry liberalization in the 90s created an enabling environment that have resulted in a substantial role and *significant investments by the private sector*

IV. Philippine Infrastructure and Connectivity (7)

IT-BPO Outsourcing Industry Revenue in ASEAN and India

Economy	IT-BPO Industry Revenue (\$ billion, 2008)	IT-BPO Industry Revenue (% of GDP, 2008)	IT-BPO Industry Revenue (\$ per Capita, 2008)	Global IDI Ranking (2010)
Indonesia	1.8	0.4	7.7	101
Malaysia	2.7	1.2	98.2	58
Philippines	6.1	3.5	67.6	92
Thailand	2.6	1	38.1	89
Viet Nam	0.6	0.7	7.1	81
India	51.5	4.2	43.2	116

- Export revenues in 2012 amounted to US\$12.5 billion; Total direct employment reached around 770,000 in 2012, up from 680,000 in 2011
- To grow between 12-15% annually and cover at least 20% of the projected US\$250 billion global outsourcing industry by 2020, assuming consistent support from the government

V. Impact of Connectivity and Infrastructure (1)

- Macro level: there is an 85% correlation between GDP and total infrastructure spending in the Philippines in 1985 to 2002.
- Inter-island movement: logistics costs, including transportation costs, account for as much as one-third of the total cost of producing high-value vegetables.
- Poor inter-island connectivity has created poor incentives for increasing production and investments in some island provinces.

V. Impact of Connectivity and Infrastructure (2)

- The Road-Roll-On-Roll-Off Terminal System (RRTS) is an inter-modal transport system which is a combined road-nautical highway appropriate for an archipelagic country such as the Philippines
- 2010 ADB study: RRTS stimulated the growth of local businesses, and increased local production and domestic tourism
- Meanwhile, De los Reyes et al. (2011): inadequate volume of roll on-roll-off (RORO) ship hauls and the inappropriate design of such RORO ships for transport of agricultural products have led to *cost inefficiencies* and *large postharvest losses*



V. Impact of Connectivity and Infrastructure (3)

- Llanto (2007): significant impact of infrastructure on regional GDP growth
- Basilio & Gundaya (1997), Manasan & Mercado, 1999; Llanto (2007): differences in the regional growth → differences in the availability of infrastructure
- Cuenca (2004): infrastructure is an importance variable in regional convergences
- Manasan and Chatterjee (2003): better allocation of infrastructure investments across regions help lagging regions to catch up and increase growth potential

V. Impact of Connectivity and Infrastructure (4)

- Evenson & Quizon (1991): significant impact of roads in increasing local outputs
- Teruel & Kuroda (2004): higher agricultural productivity growth driven by public infrastructure
- Teruel (2005): subsequent decline in agricultural productivity due to a reduction in rural infrastructure
- Llanto (2013): access to electricity and paved roads have positive impacts on agricultural labor productivity

V. Impact of Connectivity and Infrastructure (5)

- Manalili & Gonzales (2009): Higher transport costs due to poor rural roads increase the cost of urea fertilizer
- Olsson (2008): Improved road connectivity → positive changes in production, employment, transport services in a fishing community and a stronger linkage between a resource area (fishing community) and urban markets
- Balisacan & Pernia (2002): Roads complemented by schooling investments have positive significant impacts on the welfare of the poor

VI. Challenges in Improving Infrastructure and Connectivity (1)

Philippine Actual Public Infrastructure Expenditure (in billion pesos)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 ¹	2015 ²
Expenditure	0.1	99.9	138.5	168.0	156.6	136.5	182.5	229.0	262.6	328.0
Annual GDP (current prices)	6,271	6,893	7,721	8,026	9,004	9,708	10,567	11,548	12,634	-
As % of GDP	1.24%	1.45%	1.79%	2.09%	1.74%	1.41%	1.73%	1.98%	2.08%	

¹Preliminary figures

²Proposed

Source: Department of Budget and Management's Budget of Expenditures and Sources of Financing (various years)

- The public sector has traditionally financed and provided infrastructure services
- Need to attract private sector expertise and finance

VI. Challenges in Improving Infrastructure and Connectivity (2)

Strengthening Public-Private Partnership

- Public-Private Partnership (PPP) Center recently announced the award of contracts with indicative project cost of around PHP 189 billion to ten PPP projects
- There are more than 40 more PPP projects in the pipeline in various stages of preparation for tendering
- The modest successes in implementing PPP infrastructure projects has freed up resources that could be used by the government for other development spending (e.g. DPWH saved PHP 300 billion worth of infrastructure costs which have been shouldered by the private sector through PPP).

VI. Challenges in Improving Infrastructure and Connectivity (3)

- Expanding fiscal space
 - Need for more vigorous tax collection effort
 - undertake a comprehensive, not a piecemeal, reform of tax policy and tax administration
- Improving governance of infrastructure provision
 - Need for greater transparency and competency in the tendering and award process to avoid any perception that tendering is tilted in favor of particular groups
- Improving public-private partnerships
- Improving policy coordination and absorptive capacity
- Building disaster-resilient infrastructure

VII. Conclusion and Policy Suggestions

- The Philippines is slowly gaining ground in filling the infrastructure gaps but it is obvious that much more substantial effort should be done.
- It needs to substantially increase its tax effort and avoid revenue-eroding tax measures, given its large spending priorities in social and physical infrastructure.
- There has been some improvement in the governance of infrastructure provision and using PPPs as an instrument to procure infrastructure services.
- It has to continuously improve various elements of the governance framework especially the stability and predictability of policies and regulations.
- Better coordination among a diverse set of governmental bodies involved in infrastructure and also between government and the private sector is needed to address bottlenecks especially in complex PPP arrangements

Thank You!