Global Financial Crisis, Export-Led Growth and Aid for Trade:
Focus on the ASEAN Experience

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Session 3: The Global Financial Crisis, Implications and Responses

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Good morning to everyone. I hope that we all have had a pleasant trip to Siem Reap.

I wish to thank the Cambodian Government for hosting this important meeting here in historical Siem Reap. I also wish to express my gratitude to the WTO and the ADB for organizing this event, especially in light of the forthcoming 2nd Global Review of Aid for Trade in July in Geneva.

For this session, I was asked by Dr. Ganeshan Wignaraja to talk about the impact of the global financial crisis on ASEAN and the kind of policy responses from the region, with particular focus on the Philippines. I will try to do that in order to contribute to the flow of ideas in this third session.

The Global Financial Crisis and ASEAN

The world faces a very serious financial and economic crisis, which has severely tested our resolve and resources to see our industries through this crisis emerge as stronger and more competitive economic agents of growth and development.

DG Pascal Lamy projects that the current economic crisis will bring about a contraction in world trade by around 9%, perhaps unprecedented in the history of the multilateral trading system. Both the World Bank and the OECD project a drop in world economic output of about 3% this year.

I cannot overemphasize the serious impact this will have on investment flows, tourism, remittances from people working abroad, as well as on commodity prices.

The ADB has downgraded its forecast for the Asia-Pacific region from 5.6% to 3.4% in 2009. The World Bank meanwhile also forecasted a decline of as much as 5% for ASEAN countries like Malaysia, Singapore and Thailand, all particularly vulnerable to recession fears. The Philippines might show very little growth this year, if not remain flat.

ASEAN trade with the world had already contracted by 40% last year, and the trend persists. The Philippines, too, feels the weaknesses in the region with our total annual trade[1] with all other ASEAN countries of roughly USD20 billion difficult to maintain.

The hardest hit sectors in ASEAN are of course electronics, garments, and furniture, although processed food seems to be holding up.

ASEAN Responses

Data available from some of our neighbors in ASEAN[2] appear to show that the policy responses the crisis have more or less revolved around increases in infrastructure spending, improved assistance to businesses and investors, measures to boost domestic consumption and more support to rural areas. There have also been noticeable efforts to provide assistance in the area of job security, promotion and other welfare activities.

There have been a variety of measures implemented to meet these 5 broad areas of policy responses covering, for example:

- trade financing
- waived import duties
- reductions in value added taxes
- deferred income tax payments
- rebates on property taxes
- improvements in public transport
- reduced social security contributions
- re-training programs and skill-upgrading
- support for education in terms of software and hardware
- lower borrowing rates

All told, our ASEAN neighbors are foregoing billions of US dollars in fiscal resources to implement these measures. The data available to me, however, does not allow me to comment on whether or not they will be incurring huge fiscal deficits as a result of such measures.

At the same time, however, ASEAN has not been immune from protectionist temptations.

At least one ASEAN member has put in place new import regulations that affect a diverse range of products that include sugar, electronics, home appliances, textiles and apparel, footwear, toys, and food and beverages. These measures have

[1] About USD8 billion in exports, and USD12.9 billion in imports in 2007.
[2] Indonesia, Malaysia, Singapore, Thailand, and Viet Nam.

already been brought by other concerned WTO Members to the relevant WTO Committee for discussion.[3]

Other ASEAN countries have mulled various measures as well, which would include:

- raising applied tariffs to the bound level
- restricting imports through non-automatic import licensing
- imposing stricter registration and approval processes, including in technical standards
- delaying recognition of documentations at the border
- and of course, favoring the consumption of domestic goods over imported ones.

I am pleased to inform the meeting, nonetheless, that ASEAN Economic Ministers, at their Retreat earlier this month here in Siem Reap, resolved to refrain from succumbing to protectionists pressures and clearly instructed officials to forge ahead with the CEPT-AFTA commitments to bring most if not all tariffs to zero by 2010. Ministers even devised a *scorecard* in order to monitor this very important part of the ASEAN Trade in Goods Agreement and integral component of the ASEAN Economic Community.

The Philippines

By and large, the Philippines has not been spared by the global financial and economic crisis. Our trade numbers also show declines in both exports and imports, which has slid by more than 30% compared to last year, although an improvement of about 16% in exports was observed in March this year. Agricultural and industrial growth rates are at best mediocre. Tourism, which had been a growing industry, will certainly decline in 2009 with reductions in tourism arrivals of anywhere from 1% to 5% depending on the country-origin of tourists, and may likely remain flat in 2010.

On the bright side, however, overseas remittances from Filipino workers, still remain strong despite a slight drop thus far this year. Deployment of workers has grown by 27% this year.

The business processes outsourcing industry also remains strong with annualized growth of about 40% from 2004 to 2008. BPO workers number around 372,000 today, compared to 100,000 in 2004; and revenues have grown from USD1.5 billion to USD6.0 billion during that period.

There are also pockets of optimism in certain sectors, such as the mining sector, which is forecasted to receive additional investments of more than USD11 billion up to 2013. This sector, nevertheless, faces challenges in the form of credit scarcity and possible softening in world prices, which are beyond the control of the Philippines.

[3] The WTO Committee on Import Licensing Procedures.

Our Response

Government has undertaken a number of measures to mitigate the negative effects of the crisis. We have undertaken livelihood and employment emergency programs to assist particular sectors most vulnerable to economic difficulties.

We have packaged a stimulus program costing about 300 billion pesos, which many economists also refer to as a economic resiliency plan because the expenditures do not seem to be in the category of deliberate fiscal deficits in order to offset the shortfall in private demand.

While protectionist tendencies are stoked by incessant clamor from domestic industries for trade policy-based assistance, the Philippine government has thus far resisted the temptations to turn inward. Pronouncements from the highest level have strengthened our resolve to resist protectionism because this is not the solution for the Philippines in the face of the global financial crisis.

The crisis has also begun a serious, and closer look into the need to drastically improve on the competitiveness of Philippine industries. We are a relatively small player in the global market, and thus the lack of demand in the global market does not seem to be *the* problem.

Today, more than ever, we are looking at ways to address the apparent lack of confidence in the private sector to bet on the nation's economic future. We are fully aware of the dire need to arrest and reverse the deteriorating competitiveness of the export sector. And we also have to find ways to pick up from the slow pace of job creation that has accompanied growth in recent years.

A Strong Case for Aid for Trade

Given the experience of ASEAN and the Philippines in the face of the global financial and economic crisis, a strong case for Aid for Trade is obvious.

First and foremost, Aid for Trade's role in trade financing is clear. Forward-looking trade policy and an open, transparent, and effective regulatory capacity are needed if the region is to emerge intact and in fighting form from this crisis. The importance of building productive capacity and economic infrastructure, as well as strong and timely support for structural adjustment cannot be overemphasized.

I will stop here as I indicated earlier, and to respect the flow of session 3 envisaged by Ganeshan.

I thank you all for your attention, and will now listen carefully to what my fellow speakers have to contribute.