




Foreign policy implications of trends in trade flows between the European Union and the Philippines: Prospects of enhancing economic partnership in driving long-term and sustainable economic recovery and growth

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# OUTLINE OF PRESENTATION

1. Brief Background and Rationale
2. Research Question and Objectives
3. Significance of the Study
4. Literature Review
5. Conceptual Framework
6. Research Design
7. Results
8. Conclusion
9. Recommendations

## Prospects of EU-PH Free Trade Agreement (FTA)

	
<b>PH-EU TRADE</b>	<b>EU AT A GLANCE</b>
<ul style="list-style-type: none"><li>• In 2019, EU is the PH's:<ul style="list-style-type: none"><li>○ 4th largest trading partner</li><li>○ 4th export market</li><li>○ 3rd import supplier</li></ul></li><li>• PH-EU Total trade (2019): USD 17.62 billion</li><li>• EU's share to total PH trade (2019): 9.66%</li></ul>	<ul style="list-style-type: none"><li>• 27 Member States</li><li>• GDP (2017): EUR 15.3 trillion</li><li>• Population: 446 million</li><li>• Land Area: 4 million km<sup>2</sup></li></ul>
	<b>PH-EU INVESTMENTS</b>
	<ul style="list-style-type: none"><li>• Total Approved Investments to PH (2019): USD 428.38 million</li></ul>

### Stalled negotiations



PH's Foreign Policy



EU's Foreign Policy

### Post-pandemic economic recovery



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**Opportune time** for the Philippines to secure a Philippine-EU Free Trade Agreement (FTA) to assist in its long-term economic recovery

# RESEARCH PROBLEM AND OBJECTIVES

We pose a *three-pronged* research question:



- (a) *What are the factors driving trade flows between the EU and the Philippines?*
- (b) *How do the economies of EU and the Philippines respond to shocks in these factors?*
- (c) *How do we factor in economic response in creating a foreign policy that aims to maximize mutual gains?*

In addressing these, we pose the following objectives:



1. To identify macroeconomic variables that would significantly impact trade flows between the EU and the Philippines;
2. To rationalize why there are macroeconomic variables that impact trade flows between the EU and the Philippines more than others;
3. To estimate the impact of selected macroeconomic indicators on trade flows between the EU and the Philippines;
4. To estimate the response of the EU and the Philippine economy to shocks coming from each other; and
5. To craft recommendations on designing relevant macroeconomic and institutional policies that will strengthen the economic relationship between the EU and the Philippines.

# SIGNIFICANCE OF THE STUDY

## KNOWLEDGE COMPONENT

-  Provide an updated scholarly discussion on the EU-Philippines economic partnership and cooperation
-  Provide a baseline to further deepen the discourse on how the EU and the Philippines can derive mutual gains from their economic partnership

## POLICY COMPONENT

-  Offer evidence in designing strategies and interventions to boost trade in goods, trade in services, and investment activities
-  Assist in crafting policy recommendations for the new Administration in 2022

# LITERATURE REVIEW AND GAPS

## Existing literature on EU-PH FTA

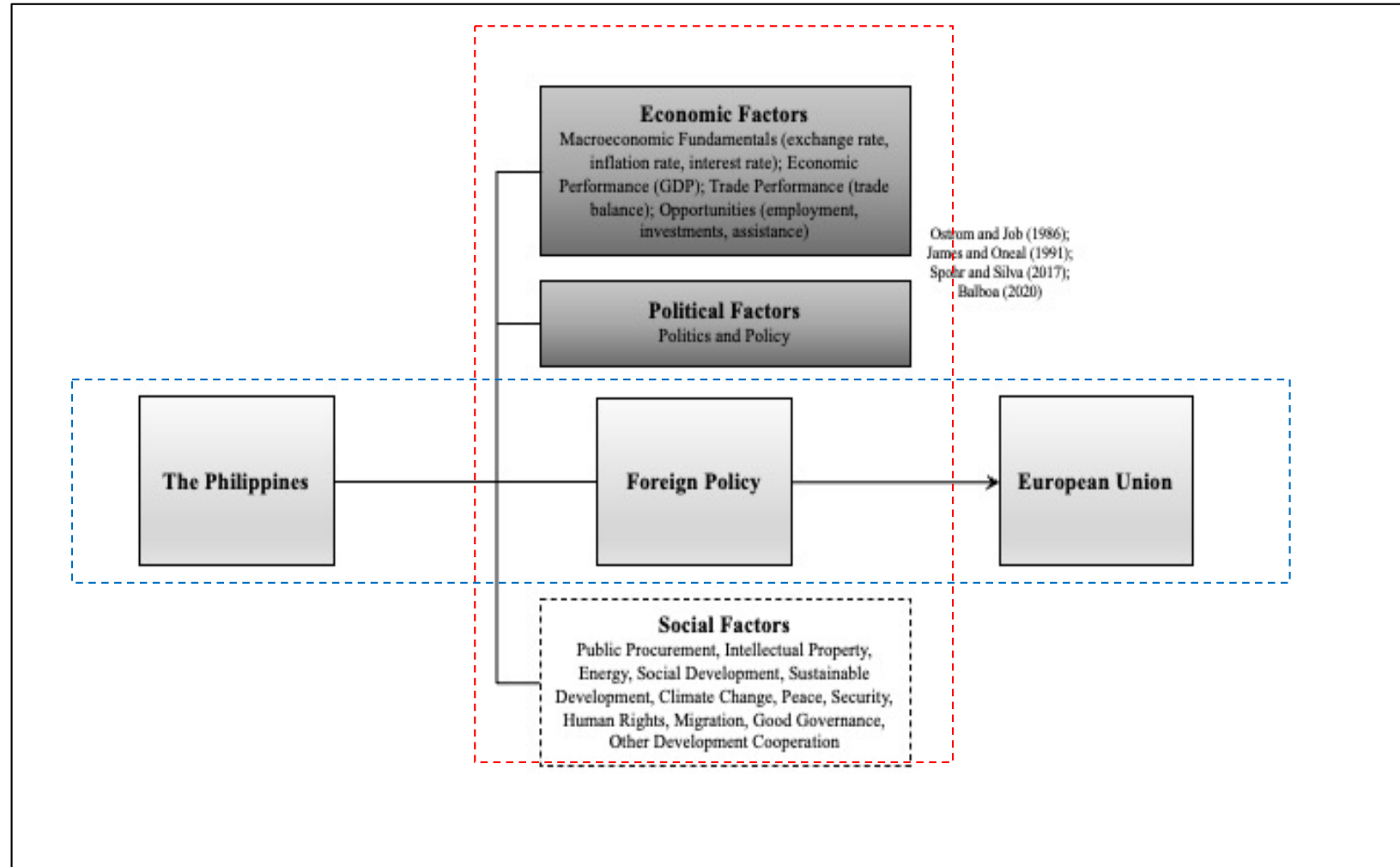
- Impact on bilateral tariffs reduction (Cororaton & Corong, 2012)
- Impact on the agricultural sector of the Philippines (Briones & Galang, 2014)
- Impact on the Philippines' fisheries industries (Israel, 2014)
- Examination of offensive and defensive interests of the Philippines in engaging with an FTA with the EU, specifically in the non-agriculture sector (Manzano, 2014)
- Impact on local employment (Lanzona, 2014)

## Research Gaps

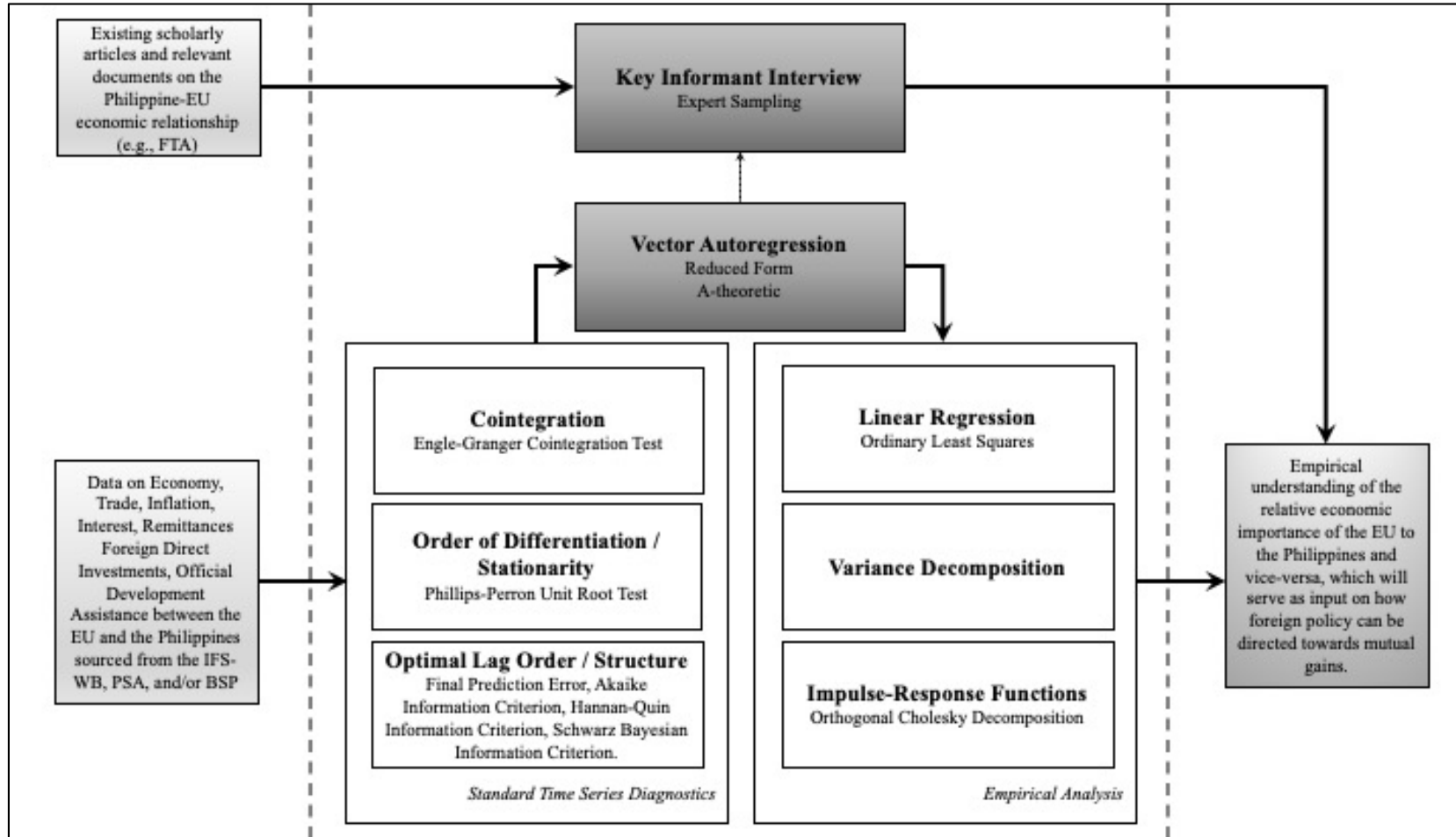
- 1 Examination on the impact of the possibility of an EU-Philippines FTA in relation to key current events: economic recovery from the pandemic and the 2022 national elections.
- 2 Use of mixed-methods approach to underscore the political-economic aspects and implications of an enhanced partnership between the Philippines and the EU through an FTA.

# CONCEPTUAL FRAMEWORK

“RE-THINK PHILIPPINES’ FOREIGN POLICY TOWARDS THE EUROPEAN UNION (EU)”






# METHODOLOGICAL FRAMEWORK






# MIXED-METHOD APPROACH




## Why Vector Autoregression?

-  Appropriate in analyzing the dynamic behavior of time series variables with a purpose for forecasting, structural inference, and policy analysis.
-  Able to examine the response of the EU's and the Philippines' economic fundamentals from impulses arising from each of them.
-  Can capture the directions, magnitudes, and persistence of the responses of variables to impulses in the system involving the EU and the Philippines.


## Data Requirements

-  Time series data on selected macroeconomic variables sourced from the World Bank's International Financial Statistics, Bangko Sentral ng Pilipinas, and Philippine Statistics Authority.

## Why Key Informant Interview?

-  Collect information from experts who have grassroots knowledge about the topic.
-  Provide insights on the possible issues and recommend solutions.
-  To some extent, validate empirical findings

## Data Requirements

-  Expert Sampling Technique to select key informants who can share their knowledge, expertise, and experience on the subject matter

# MIXED-METHOD APPROACH

## QUANTITATIVE

### Time Series Analysis

Complied with mandatory standard time series analysis pre-tests; Highlighted variations and responses of the EU and Philippine macroeconomic variables to shocks coming from each other

Secondary data on macroeconomic indicators were secured from the World Bank – International Financial Statistics

Post-VAR (Variance Decomposition and Impulse-Response) to assess whether each variable creates a short- or long-run shock to each other. That is, do our variables of interest react immediately after a shock in another variable, *ceteris paribus*.

**QUANTITATIVE ANALYSIS:** the difference in the magnitude of impact of an FTA to EU's economy relative to the Philippines

## QUALITATIVE

### Key Informant Interviews

Informants from **four (4) key institutions and/or organizations** were interviewed including: The Foreign Service Institute (FSI), Delegation of the European Union to the Philippines, Department of Trade and Industry (DTI), and the University of Asia and the Pacific (UA&P).

Informants were asked several questions covering the topics on **Philippine foreign policy and relations with EU, the EU-Philippines FTA, and the 2022 Philippine national elections and its implications to EU relations**

**QUALITATIVE ANALYSIS:** both parties may also benefit from indirect impacts of an FTA.

# RESULTS

Both the EU and the Philippines are expected to benefit from the materialization of an FTA.

## PH BENEFITS

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Possibility of GSP+ withdrawal will pose grave consequences to the existing beneficiary industries (e.g., agricultural, fisheries, MSMEs sector, among others)

Translates to greater access in bigger markets and sources, enhanced competitiveness, improved industrial and creative industries,

## EU BENEFITS

Beneficial to EU export products from the Philippines' market share (e.g. Creative industries, services such as telecommunications, retail trade, etc.)

Enhancing its trade relations with other AMS and the larger ASEAN bloc

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The Philippines is expected to benefit from the institutional and structural changes required to facilitate the FTA

May enhance Philippine's capacity to open its economy to trade and investment with other economic partners

The Philippines is still deemed critical given the relative importance of the country as ASEAN's designated coordinator

Furthering EU's aims to promote a rules-based system in navigating and trading in the waters of the Indo-Pacific and ASEAN region

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## CHALLENGES TO ENHANCED TRADE RELATIONS

Institutional gaps in facilitating trade and investment arguably signifies that the Philippines is not yet ready to receive foreign investment, nor is it open for trade relations to be developed with EU

Obstacles from domestic players need to be recognized (e.g. large established businesses, job security)

Promote competitiveness across industries in the country which may entail both institutional and structural changes ranging from improved transportation and communication infrastructures, to facilitating legislative forms relating to data protection, e-commerce, investment, among others.

# CONCLUSION

Our study provided a macroeconomic and political perspective on each economy's relative importance.

Evident that the EU has a significant impact on the Philippine economy in terms of trade, which must be maintained, strengthened, and nurtured

An FTA with EU should be a priority as it provides not only economic benefits, but also creates spillover effects on the socio-cultural and environmental aspects of the Philippine's development

# RECOMMENDATIONS

- 1 Issues relating to GSP+ conditionalities such as human rights, environmental conservation, among others must be addressed
- 2 Increased budget allocated to trade liaison officers (i.e., from Department of Foreign Affairs, Department of Trade and Industry, etc.) to support them in establishing the credibility of the country when negotiating with their counterparts.
- 3 Enhancement of EU's exposure to the Philippines—its culture and people need to be (e.g. investment roadshows, tourism, etc.)
- 4 Facilitate structural and legislative reforms that promote foreign trade and investment (e.g., Public Utilities Act, Data Protection policies, Competition policy, Investment Laws, digital infrastructure development, among others).

# THANK YOU

**SALAMAT**

Tagalog / Filipino

شكرا

Arabic

고맙습니다

Korean

धन्यवाद

Hindi

ขอขอบคุณ

Thai

ありがとう

Japanese

**TERIMA KASIH**

Malay / Indonesian

ຂອບໃຈ

Lao

谢谢

Chinese

