The past decades saw the influx of new research issues encompassing international trade and investment. Among the related topics are in the areas of international trade in goods and services, trade policies, bilateral and regional free-trade agreements (FTAs), and multilateral trading arrangements, trade facilitation measures, and foreign direct investment (FDI) policies. These research themes may have emanated from the recent developments in the field of international trade and investment worldwide. Conducting inquiries on each of these is vital, especially for developing countries like the Philippines. This is because new knowledge generated from such studies could result in appropriate trade and investment policies for the country, allowing it to fully reap the benefits of globalization and attain inclusive growth and development.

In recent years, the world economy has witnessed the 1) proliferation of bilateral and regional FTAs; 2) increasing number of multilateral trade commitments; 3) increasing relevance of trade facilitation measures amid the persistence and, in certain cases, the rise of non-tariff measures (NTMs); 4) increasing bilateral FDI flows between developed and developing regions as well as between economies within developing regions; 5) growing
importance of trade in services, as evidenced by the strong remittance growth of overseas workers; and 6) better understanding of the potential role of international trade and investment in economic growth and development, including poverty reduction.

For the Philippines, this paper highlights that among the important research issues in relation to international trade and investment lie in the following:

1. a better understanding of the economic and developmental implications of actual and planned FTAs, as well as multilateral trade issues, in the Philippines;
2. identifying the major NTMs facing the country’s exporters and importers;
3. determining the key factors of and barriers to the country’s services trade;
4. knowing the importance of improving trade facilitation and addressing “behind-the-border” issues that hamper Philippine trade in goods and services; and
5. establishing to what extent macroeconomic factors, public institutions, business environment, and infrastructure development can influence FDIs and recognizing the spillover effects of these FDIs on Philippine-based firms.

Bilateral or Regional Free-Trade Agreements and Multilateral Trade Arrangements

Bilateral or Regional Free-Trade Agreements

FTAs at both the regional and bilateral levels have expanded worldwide over the past two decades. According to the Asian Development Bank (ADB, 2015), as of March 2015, there were 215 actual FTAs worldwide, a significant increase from 51 FTAs in 2000. Out of these FTAs, 72% were bilateral, and the rest were plurilateral. It has been argued that the Association of Southeast Asian Nations (ASEAN) is the leader when it comes to regional economic integration, given that it is the first to have committed (in 1992) to form an FTA, to establish a charter with legal rules (in 2008) for its member countries, and to develop a blueprint for establishing an ASEAN Economic Community (AEC) by 2015 (Asian Development Bank, 2010).

There has been extensive debate and literature on the pros and cons of FTAs to member and nonmember countries. Overall, FTAs can lead to static economic benefits, such as trade creation whereby member countries
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would be able to enhance their respective merchandise trade and trade in services amongst themselves and with the rest of the world. Additionally, the possible dynamic positive impacts of FTAs include economies of scale—taking advantage of expanding market share and resource pooling in order to boost production at minimal average costs—and attracting long-term foreign investments.

The potential cost of FTAs is trade diversion in which non-member countries would be adversely affected by the redirection of its trade to nonefficient producers, who are member countries, and may strain trade relations between member and non-member countries. Another potential negative impact of FTAs is the so-called spaghetti bowl or noodle bowl effect, which presents the intricate and sometimes inconsistent nature of rules of origin (ROOs), and is likely to hamper the free flow of goods and services.

The Asian Development Bank (2008) argued that the main drivers of FTAs in Asia were the 1) defensive response to the proliferation of FTAs in other regions, 2) promotion of structural reforms that are “beyond the border,” 3) urgent need to enhance productivity in light of the intensifying competition coming from the People’s Republic of China (PRC) and India, and 4) uncertainty over multilateral trade negotiations in the World Trade Organization (WTO).

Kawai and Wignaraja (2010) recommended that there ought to be a region-wide FTA for the Asia-Pacific region, that is, to consolidate FTAs in the region with the likely scenario of an initial FTA consisting of the People’s Republic of China–Japan–Republic of Korea FTA, combine it with an Association of Southeast Asian Nations (ASEAN)+1 FTA, and then include Australia, India, and New Zealand.

The Philippines has been involved in a number of FTAs, including the ASEAN Free Trade Area (AFTA), ASEAN–China Free Trade Agreement (ACFTA), and the Japan–Philippines Economic Partnership Agreement (JPEPA). Certain quantitative and qualitative studies have looked at the role of these FTAs in the Philippine economy. For instance, Corong, Reyes, and Taningco (2010) showed in their static computable general equilibrium (CGE) model for the Philippine economy that the combined Common Effective Preferential Treatment (CEPT) of AFTA and the WTO’s Most-Favored-Nation (MFN) tariff reductions—coupled with a direct income tax to offset tariff revenue losses—would 1) marginally raise national output, 2) improve the industrial sector while worsening the agricultural sector, 3) increase gross household income, 4) lower disposable income and consumer prices, and 5) reduce national poverty and, thus, benefit the poorest of the poor. However, amidst the potentially massive economic benefits of FTAs for the Philippines, there are still many local firms that lack familiarity with
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FTAs and, therefore, are not utilizing them. Indeed, Kawai and Wignaraja (2010) confirmed in an ADB book they edited that 70% of Philippine firms surveyed said that the biggest impediment to using FTAs was their lack of information on these FTAs.

Multilateral Trading Arrangements: The WTO and the Philippines

It has been argued that the WTO provides three key services in the multilateral trading system: 1) a venue for multilateral trade negotiations, 2) a tool for mediating trade disputes between its member countries, and 3) a source of information on member countries’ policy changes that affect commercial interests (Bown, 2010).

The Philippines formally entered the WTO as a member country in 1995. Since then, the country has made commitments that are consistent with the MFN principles and national treatment—for example, the country bound tariff lines at certain levels and enacted laws that are consistent with the spirit of the WTO rules. Among the reforms undertaken during the late 1990s were the 1) tariffication of quantitative restrictions on agricultural imports in 1996, 2) enactment of a law in 1998 calling for compliance to the WTO’s Trade-Related Aspects of Intellectual Property Rights agreement, and 3) promulgation of the Anti-Dumping Act of 1999 (World Trade Organization, 1999). Indeed, between 1992 and 1999, the country’s simple average applied MFN rate fell from 26% to 9.7%.

However, the pace of progress in multilateral trade reforms in the Philippines began to slow down in the early 2000s (World Trade Organization, 2005). The average applied MFN rate further fell to 5.8% in 2003 but climbed to 7.4% in 2004. It was learned that this MFN rate reversal was caused by tariff hikes enforced by the government to help ailing domestic industries. Nevertheless, new laws consistent with WTO rules were crafted during this period, such as the Safeguard Measures Act in 2000 and the 2003 law regulating government procurement. Meanwhile, the World Trade Organization (2012) stated that there were no major trade policy changes in the Philippines since 2005.

Since 1994, there have been a few instances wherein the Philippines became involved in a WTO dispute settlement with another country. The World Trade Organization (2011a) reported that in 2008, the Philippines filed a complaint against Thailand in the WTO alleging that Thailand violated the General Agreement on Tariffs and Trade (GATT) provisions with respect to its application of fiscal and customs measures on cigarettes coming from the Philippines. This case was handled by a panel, which was formed by the WTO’s Dispute Settlement Body in 2009. In 2010, the panel
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released its findings, which were upheld by the appellate body, showing that Thailand violated the related provisions in GATT.

Another dispute settlement case involved distilled spirits exports to the Philippines coming from the European Union (EU) and the United States (US) (World Trade Organization, 2011b). The EU and US governments consulted with the WTO in 2009 and 2010, respectively, claiming that the Philippines violated GATT provisions in applying import duties on their distilled spirits exports. In 2011, the WTO panel ruled in favor of the EU and the US.

**Policy Research Implications**

This study proposes that further research is needed to better understand the potential economic effects of certain bilateral and regional FTAs, as well as multilateral trade commitments, on the Philippines. Among the specific research topics this paper suggests are as follows:

1. a simulation study (i.e., CGE-microsimulation modeling) on the possible economic, sectoral, and/or poverty impacts of establishing an East Asian FTA (i.e., ASEAN+3 and ASEAN+6) on the Philippines;
2. a simulation study (i.e., CGE-microsimulation approach) on the potential economic, sectoral, and/or poverty impacts of having an Asian Economic Community (AEC) on the Philippines;
3. case studies on the actual economic effects of FTAs on Philippine firms, including small and medium enterprises (SMEs); and
4. a study of WTO-consistent regulatory reforms conducted by the Philippine government and its impact on the Philippine economy.

**Trade in Services**

The literature on trade in services has expanded in the past years, amid the increasing level of cross-border services flows. Indeed, the World Trade Organization (2008) documented that the growth in international trade in services has been more rapid than merchandise trade in recent years. Moreover, since the early 1990s, around 95 regional trading arrangements covering trade in services have been included in the WTO under General Agreement on Trade in Services’ (GATS) Article V by the end of June 2011 (Stephenson & Robert, 2011).

Studies on services trade that used gravity models, similar to the ones used in trade in goods, have found that the general determinants of services trade are economic size, distance, and cultural/historical factors (i.e., Kimura
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& Lee, 2006). Researches that examined the economic impact of services trade provided empirical evidence that a less restrictive policy on services trade and appropriate services trade liberalization can help promote human development (i.e., Shepherd & Pasadilla, 2011).

Various reforms on trade in services were made in the past years at the multilateral level. In January 1995, the WTO introduced the General Agreement on Trade in Services, which contained a set of multilateral rules governing international trade in services and encompassed four modes of services trade: 1) cross-border supply (Mode 1), 2) consumption abroad (Mode 2), 3) commercial presence (Mode 3), and 4) presence of natural persons (Mode 4) (World Trade Organization, 2013).

In December 1995, the ASEAN Framework Agreement on Services was signed by seven ASEAN member countries, namely, Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, with the objectives of liberalizing and enhancing cooperation in services as well as easing the restrictions on trade in services amongst member countries (Association of Southeast Asian Nations, 1995). This agreement was crafted by the ASEAN member countries to be consistent with GATS.

In July 2007, the ASEAN–China Agreement on Trade in Services (ACATS) took effect, enabling its member countries, including the Philippines, to commit to greater market access and improved national treatment for service providers in the region (Association of Southeast Asian Nations, 2007).

In the Philippines, there still exist barriers to services trade (Office of the President of the Republic of the Philippines, 2015). For example, foreign equity ownership is prohibited in mass media (except recording), up to 20% foreign equity is allowed in private radio networks, up to 30% foreign equity is permitted in advertising, and up to 40% is allowed in operations of public utilities, among others. Moreover, only Philippine citizens are licensed to practice certain professional services (i.e., criminology, forestry, law, pharmacy, radiologic and x-ray technology).

Against this backdrop, this study proposes the following research topics:

1. a comprehensive review of the existing barriers to services trade in the Philippines under each of the four modes in GATS; and
2. an empirical study to identify the determinants of Philippine services trade.

Tariff and Nontariff Measures, Trade Facilitation in the Philippine context

The recent years bore witness to a reduction in traditional trade barriers (i.e., import tariffs and quotas) but a proliferation of NTMs and other nontariff
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barriers were introduced in many countries around the world, including the Philippines. It is important to mention that the Philippine unilateral tariff liberalization reforms were helpful in providing various economic benefits to the country.

However, technical and other trade barriers and NTMs still remained and have in fact multiplied. Pasadilla and Liao (2006) have shown that NTMs imposed by the Philippines’ top agricultural export markets in East Asia—specifically the PRC, Japan, and South Korea—have made it difficult for Philippine agricultural exporters, especially the small- to medium-scale agricultural producers, to comply with the stringent NTM requirements in these countries, thereby hampering the Philippine’s agricultural exports. It has also been indicated that the Philippines’ nontariff policy-related trade costs have increased slightly between 1996 and 2007 (Duval & Utoktham 2011).

Trade facilitation has been defined by the ADB and UNESCAP (2009) as the “systematic rationalization of customs procedures and documents […] in its narrowest sense, and, in a broader sense, covers all the measures that affect the movement of goods between buyers and sellers, along the entire international supply chain” (p. 4).

There have been several studies on the topic of trade facilitation in East Asia (Hernandez & Taningco 2010; Shepherd & Wilson 2008; Duval & Utoktham 2009). For example, Hernandez and Taningco (2010) used a gravity model, with panel regression specification, over the 2005–2009 period for 10 East Asian economies, namely, the PRC, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The results revealed that bilateral merchandise trade flows within the East Asian region are associated with trade facilitation measures, particularly time delays in trade, quality of port infrastructure, telecommunications service, and depth of credit information. They also found that there is substantial variation of trade facilitation measures across product groups, with time delays being more influential in trade flows in food and beverages (due to their “perishability”) and in transport equipment (as in this sector, there is production sharing and enforcement of just-in-time business practices).

Meanwhile, Shepherd and Wilson (2008) utilized a standard gravity model framework and determined that bilateral merchandise trade flows within member countries of ASEAN, the PRC, Hong Kong, and Taiwan are 1) negatively associated with distance and tariffs and 2) positively associated with historic-cultural ties, transport infrastructure, and competition in the internet services sector. Also, Duval and Utoktham (2009) ascertained that a 5% reduction in the delivery cost for a good from the factory to the nearest
port could result in a 4% rise in merchandise exports and that improving credit information could increase merchandise exports by 16%. They also argued that the simplification of domestic contract enforcement procedures to the average level of the member countries in the Organisation for Economic Cooperation and Development (OECD) can boost merchandise exports by 27%.

Moreover, Duval and Utoktham (2011) established that improving port efficiency and easing access to information and communication technology (ICT) facilities are crucial in lowering trade costs in the Asia-Pacific region. They suggested that engaging in public–private partnerships (PPPs) may be needed in order to fast track the development of ICT and transport infrastructures. They added that prioritizing the improvement of the business environment may be more effective than developing soft infrastructure in implementing trade facilitation measures.

Grosso and Shepherd (2011) used a gravity model on Asia-Pacific economies and verified that a more liberal air transport policy is positively associated with bilateral merchandise trade, particularly in manufactured products, time-sensitive products, and parts and components.

Meanwhile, there are limited studies that focus on trade facilitation measures on the Philippines alone. For instance, De Dios (2010) looked at survey responses on the role of information technology (IT) in trade facilitation and small- and medium-sized enterprises. The results showed that the majority of the problems encountered by importers are IT related, specifically, 1) internet connectivity problems, 2) system breakdowns, 3) inadequate electronic lodgment, and 4) costly IT investments.

Overall, this study suggests the following topics merit further research:

1. the determinants of trade costs between the Philippines and the rest of the world using a gravity model approach;
2. “behind-the-border” measures affecting bilateral trade flows of the Philippines and the rest of the world using a gravity model approach;
3. identification of key NTMs facing Philippine exporters and importers;
4. role of infrastructure in Philippine international trade; and
5. financial sector development and merchandise trade of the Philippines (i.e., the case for trade finance).
Foreign Direct Investments: Implications for Philippine Research

There exist several new studies that looked at the determinants and effects of FDIs on Asian economies. Petri (2012) used bilateral FDI flow data of a set of 85 countries over the 1999–2003 period. Utilizing a gravity model approach, the study concluded that inward FDIs into Asia are attracted by technology policies and that bilateral FDI flows within Asia are significant between high-technology and low-technology economies. In the PRC, Xu and Sheng (2012) used firm-level data for the country’s manufacturing sector over the 2000–2003 period and found that FDIs have positive spillover effects on firm productivity in the same industry and that these spillover effects are regional in nature, suggesting that domestic firms will benefit more from the presence of foreign firms in the same sector in the same region. Cuyvers, Soeng, Plasmans, and Van Den Bulcke (2011) established that FDI inflows into Cambodia are positively associated with its gross domestic product (GDP), bilateral trade with the source country, and exchange rate and are negatively affected by its geographical distance with its investment partners. Takii (2011) revealed that multinational corporations from East Asian economies have positive spillover effects on the productivity of Indonesian manufacturing firms. In the case of Chinese manufacturing firms, Sun (2010) noted, however, that the FDI spillover effects on exports varies (and are heterogeneous), with some firms receiving positive effects while other firms incurring negative effects.

In the Philippines, the Bangko Sentral ng Pilipinas (2015a) reported that FDIs recorded net inflows totaling US$1.6 billion in the first five months of 2015, of which US$879 million were in debt instruments and the rest were in equity and investment fund shares. The continuing net FDI inflows into the economy are likely to be attributed to improvements in investor confidence and the country’s business environment. The Bangko Sentral ng Pilipinas (2015b) affirmed that business optimism remains strong in the Philippines with an overall confidence index of 49.2% in the second quarter of 2015, up from 45.2% in the first quarter 2015.

There is, however, paucity of empirical studies on FDIs in the Philippine context. Against this backdrop, this paper proposes the following areas for further research:

1. macroeconomic determinants of FDI inflows into the Philippines. This research aims to empirically identify the macroeconomic factors (i.e., GDP growth, inflation rate, real exchange rate, interest rate, government’s budget, etc.) affecting FDIs in the Philippines. This may be helpful for the incumbent administration in crafting
appropriate fiscal and monetary policies that are aligned with attracting more FDIs into the country;

2. the role of institutions in business environment and FDI inflows in the Philippines. There is anecdotal evidence that institutional bottlenecks and negative business sentiment in the Philippines tend to hamper FDI inflows. In particular, it has been gathered that endemic corruption and inefficiency in public-sector institutions result in low investor confidence, thereby negating FDI inflows. There is a need to verify this with an empirical study;

3. FDIs, public–private partnerships, and infrastructure development in the Philippines. One of the major thrusts of governments in developing Asia is infrastructure development in order to attain inclusive growth. However, as Asian governments undergo fiscal consolidation resulting from their pump-priming efforts during the 2008–2009 global economic and financial turmoil, there is now a greater need for more active private-sector participation. Thus, public–private partnerships (PPPs) have been revived to boost infrastructure financing. As the Philippine government embarks on infrastructure development through PPPs, there are calls for feasibility studies to pinpoint priority PPP projects. In this regard, there may be a need to formulate a rigorous study to determine the extent of infrastructure development and PPPs on FDIs in the Philippines; and

4. a firm-level study on FDI spillover effects across (or within) sector(s) and regions in the Philippines.

**Conclusions**

It is imperative to conduct more Philippine-specific studies on certain areas in international trade and investment in order to increase the volume and quality of policy-oriented research and, thereby, support the formulation of better and more appropriate Philippine trade and investment policies. Among the policy areas that this paper has identified that are in need of further research in the Philippine context are FTAs, trade in services, trade barriers and trade facilitation, and FDIs.

On FTAs, this paper has shown that Asia has been recording an increasing number of bilateral and regional FTAs in the past years, with more of these in the pipeline (i.e., currently under negotiation and/or being finalized). Despite such trend, there is limited research on the economic effects of such trading arrangements, especially with regard to its implications on the
Philippine economy. Accordingly, it is proposed that quantitative research using simulation models (i.e., CGE-microsimulation model) or case studies on local firms, including SMEs, be conducted in order to better understand the economic impact of bilateral and regional FTAs in the Philippine setting.

On trade in services, the Philippines still faces various barriers especially on each of the four modes of GATS. Against this backdrop, there is a need to conduct a comprehensive investigation of the current barriers to services trade facing the Philippines and to empirically identify the determinants of the country’s trade in services.

On trade barriers and trade facilitation, it can be gleaned that tariff rates and import quotas are on a downward trend around the world as well as in the Philippines, but NTMs and other nontariff barriers are proliferating. Regional studies on trade facilitation, particularly those covering the Asian region, do exist in the literature, but there is still a dearth of such related studies on the Philippines. Thus, domestic policymakers will be better guided by studies on the Philippines that aim to identify the 1) determinants of trade costs or “behind-the-border” measures using gravity modeling, 2) key NTMs facing Philippine exporters and importers, and 3) role of infrastructure development and trade finance in Philippine trade.

Finally, FDIs into the Philippines are growing in the past years thanks to improvements in investor confidence and the overall business environment, among others. Despite its increasing volume, there is still a lack of understanding as regards the determinants and impacts of FDIs into the country. Against this backdrop, this paper proposes that Philippine-specific studies be conducted to investigate the macroeconomic determinants of FDIs, the role of political institutions in influencing FDIs, the importance of PPPs in attracting FDIs, and the potential spillover effects of FDIs on domestic firms.

Notes

1 The ASEAN defined the AEC as a “highly competitive economic region” with “equitable economic development,” a “single market and production base,” which is highly integrated with the rest of the world. It encompasses certain areas of cooperation that include capacity building and human resource development, trade financing, connectivity in infrastructure and in information and communications technology, closer macroeconomic and financial policy coordination, and greater private sector involvement, among others. (See http://www.aseansec.org/18757.htm)

2 ASEAN+3 comprises of Brunei Darussalam, Cambodia, People’s Republic of China, Indonesia, Japan, Republic of Korea, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.
ASEAN+6 comprises of ASEAN+3 economies as well as Australia, India, and New Zealand.

References


