After the successful hosting of the Asia Pacific Economic Cooperation, what is next for Philippine economic diplomacy in 2016? The presidential election in May 2016 provides an opportunity for the country to assess and recalibrate its policies to achieve the national interest. In the Department of Foreign Affairs, one policy that has been emphasized and will continue to be important is the promotion of our economic security through economic diplomacy.

The Philippine economy in 2016

In his year-end media briefing, Secretary Arsenio Balisacan said that there is a possibility that the Philippines can gain higher middle-income economy status by the end of the next administration.” The National Economic Development Authority expects that the country’s high growth rate trajectory will continue; the Asian Development Bank forecasts the 2016 GDP growth rate to be at 6.3 percent. The International Monetary Fund pegs the growth rate at 6 percent; IMF Assistant Director for Asia Pacific Chikahisa Sumi remarked that "The economic outlook is favorable but subject to increased downside risks, including lower growth in China and the region, higher global financial volatility and capital outflows, and weather-related disruptions."

Further, Sumi reported that the Philippines can withstand some global economic instability, stating that "the Philippines’ capacity to respond if global risks materialize is substantial given its ample reserves and policy space, both monetary and fiscal.” The reports are generally upbeat on the economy’s performance; thus, the new administration coming in will be in a favorable position to make economic diplomacy a useful tool for development and progress.

Economic diplomacy

Economic diplomacy is one of the cornerstones of a country’s diplomacy. It refers to the use of a country’s economic power, institutions, actors, and conditions to advance its national interest. It is not just the drive to get foreign investments or finding new markets for export products; economic diplomacy is part of a country’s foreign policy toolkit. Given the soundness of the Philippines’ economic fundamentals, the government must use these to advance its agenda in the regional and global levels. The current interdependence brought about by globalization puts pressure on governments especially foreign, economic, and trade ministries. Two scholars, Dr. Raymond Saner and Dr. Lichia Yiu, noted that this pressure is due to two competing activities: while states must engage in fierce economic competition, they must still cooperate to shape global regulatory frameworks and institutions such as the WTO to their favor.

For the Philippines, it is imperative that it remains competitive both by having a strategic approach to the external economic environment and by having a productive and innovative domestic market.

Actions and gaps

What the Philippine government must do is to step up in being a proactive economic player by further enacting reforms and making sound regulations. Several policymakers and prominent members of society have pointed to the need to reform the economic aspects of the country’s constitution. One such reform is Executive Order 184 issued by President Benigno S. Aquino III. This policy removed foreign ownership restrictions on lending companies, investment houses, and financing firms. The
executive order also lessened the number of professions reserved only for Filipinos but as noted by FSI analyst Jovito Jose Katigbak, the 40 percent cap on ownership of private lands, natural resources, public utilities, media, advertising, and the reciprocal provision on foreign professionals have been retained. Further, former chief economic planner Cielito Habito noted that investments must fill infrastructure gaps which are critical to energy, transportation, and ICT.

Another issue for the Philippines is the restrictiveness of the investment environment. The OECD Foreign Direct Regulatory Restrictiveness Index 2014 reported that the Philippines is the most restrictive among its fellow ASEAN member-states. According to Philippine Institute for Development Studies (PIDS) experts Gilberto Llanto and Erlinda Medalla, the Philippines will remain behind its peers if it does not address a plethora of issues such as a lack of harmonized investment regime, an uncompetitive tax system, governance issues such as corruption at the national and local levels, and infrastructure problems such as slow internet, inefficient public transportation system and high cost of electricity.

Another area that needs to be examined is legal certainty; oftentimes, foreign investment projects and even government projects are subjected to legal scrutiny that, according to a study by Dr. Clarita Carlos, have “destroyed the reliability of contracts and predictability in the enforcement of obligations.” Foreign investors may need assurances that contracts will be honored; to increase the confidence of foreign investors, foreign law firms may need to be given permission to work with local law firms to assist these investors in navigating the Philippines’ legal system.

Next steps: proactive economic player in the global arena

Economic diplomacy must be given priority in the DFA’s future strategy. Among others, the Department must continue to improve its economic diplomacy agenda to attract good investments, safeguard trade interests, and find new markets for services and products. All of these will hinge on a Philippine economy that is strong and open to trade and investment. Part of this strategy is to continue capacity building on economic diplomacy particularly on business and finance. The DFA and FSI can further invest in training the officers and staff of the Department to complement the work of the Department of Trade and Industry’s trade attaches.

Foreign Service Posts must be proactive in coming up with projects and activities that will enhance business and trade interest in the Philippine market. This involves giving further focus on trade missions, tourism promotion, and cultural activities that promote the Philippines as an investment and tourist destination. At home, government agencies must be able to identify where the opportunities lie and extend trade missions regularly. Countries in Africa and Central and South America, while not seen as bright spots for Philippine products presently, will provide huge opportunities in the future. It will benefit the government to send trade or scoping missions to these areas to determine what opportunities will be available for Philippine business.

“For the Philippines, it is imperative that it remains competitive both by having a strategic approach to the external economic environment and by having a productive and innovative domestic market.”

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