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Role of Trade Promotion Organizations and Their Contribution in Creating Linkages: The Philippine Case

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Role of Trade Promotion Agencies

Information asymmetry is a major constraint in cross-border trade activities. However, firm-level information-gathering to identify and assess potential trade partners as well as trade-related standardization requirements entails significant costs. To overcome this information barrier, governments set up offices abroad such as diplomatic representations and trade promotion organizations (TPOs) to disseminate information on domestic products and inform foreign markets. In general, these TPOs provide the following services: (1) promote country image; (2) provide support, such as capacity building and regulatory compliance; (3) set up marketing events; and (4) undertake market research. The International Organization for Standardization (ISO) outlined the broad categories of TPOs commonly present in each country, as follows:

General	- Trade promotion organizations - Ministries (with an interest in export development) - Chambers of commerce and industry - Economic development agencies (with export focus) - Foreign trade representatives/attaches/offices - Regional economic groupings (with export focus)
Sector specific	- Exports' associations - Trade associations - Chambers (agriculture and other sector specific) - Sector-based (industry and services) bodies
Function specific	- Export credit and financing bodies - Standard and quality agencies - Export packaging institutes - International purchasing and supply chain management bodies - Training institutions - Trade law and arbitration bodies

Source: International Organization for Standardization and International Trade Centre; "Building Linkages for Export Success"; Switzerland, 2010.

The positive externalities created by TPOs have been established in literature. In their 2010 study,[2] Lederman et al. found that, on average, a 10 percent increase in the budget of TPOs lead to about 1 percent increase in exports. The study also suggests that TPOs with a large share of the executive board in the hands of the private sector, but a large share of public sector funding, are associated with higher national exports. In addition, the study emphasized strong diminishing returns of TPOs, thus, a single but strong unit is more effective than a proliferation of small agencies within the country.

Creating Multinational Corporations (MNCs) and Small and Medium Enterprises (SMEs) Linkages in the Philippines

Agencies/offices responsible

In the Philippines, the Department of Trade and Industry (DTI) is tasked to support the creation of business linkages between MNCs and local SMEs/exporters, to expand trade, industries, and investments in the country. The DTI's mechanisms for promoting linkages are represented by the buyers-suppliers matchmaking events, aimed at creating procurement opportunities for local industries, increasing the awareness of MNCs regarding local linkage prospects and helping foreign firms to identify and select potential suppliers.[3] Additionally, the DTI organizes annual trade events and disseminates information on potential suppliers.

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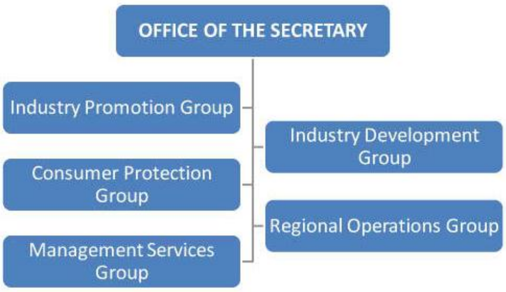
[2] Lederman, D., Olarreaga, M. and Payton L., 2010, "Export Promotion Agencies: What Works and What Doesn't?"

[3] Source: Department of Trade and Industry website (www.dti.gov.ph)

Figure 1. Organizational Set-Up of the Department of Trade and Industry



The efforts related to promoting domestic and international trade and commerce is spearheaded by the Industry Promotion Group (IPG), supported by 7 bureaus:

1. Bureau of Domestic Trade Promotion (BDTP) – promotes efficient marketing and distribution of local products and services.
2. Export Marketing Bureau (EMB)[4] – delivers timely and relevant information and assistance to exporters to enhance their capabilities and global competitiveness as suppliers of quality goods and services to international markets.
3. Center for International Trade Exposition and Missions (CITEM) – assists exporters by developing their core competencies in the areas of marketing, promotion, and capability building through professionally managed and well selected programs and activities such as organizing international fairs. CITEM is committed to develop and nurture globally competitive Philippine SMEs, exporters, designers, and manufacturers by implementing an integrated approach to export marketing in partnership with other government and private entities. This sub-group spearheads two signature events that serve as platform to promote key sectors, such as the "Manila FAME"[5] and International Food Exhibition[6] (IFEX) Philippines.
4. Design Center of the Philippines (DCP) – promotes industrial design as a tool for providing the quality and competitive Philippine products.
5. Foreign Trade Corps (FTC) Promo Posts – promotes Philippine exports and investments through various marketing activities and commercial intelligence works. At present the FTC is present in 34 posts in 23 countries in Europe,[7] the Middle East,[8] North America,[9] and the Asia Pacific.[10]
6. Philippine International Trading Corporation (PITC) – provides trade and trade-related services to the private sector and is also engaged in the importation of various commodities and products to stabilize supply and prices in the domestic market; and
7. Philippine Trade Training Center (PTTC) – designs and implements training programs on export marketing and management, entrepreneurial management, quality management and productivity, and trade exhibition management and participation.

To further intensify the country's trade promotion and provide further direction to the country's exports policy, the Export Development Council (EDC) was formed.[11] The agency is composed of public- and private-sector representatives and is geared toward strengthening and institutionalizing the national export drive that will enable the country's products to compete in the international market. The EDC oversees the implementation of the Philippine Export Development Plan (PEDP) as well as advocate for policy reforms that will facilitate and enhance Philippine exports.[12]

[4] Formerly known as the Bureau of Export and Trade Promotion (BETP).
[5] Manila FAME is a design and lifestyle event that serves as trade platform for exports and design, providing opportunities for small and medium scale entrepreneurs to showcase their products in the world market. Manila FAME is one of the longest running trade shows in the Asia-Pacific featuring the latest Philippine-made creations from artisans and manufacturers and is the only trade event in the country approved by "Union des Fiones Internationales" (UFI), the global association of the exhibition industry.
[6] Asia's Ethnic Food and Ingredients Show is a biennial event organized by DTI through CITEM, in partnership with the Philippine Department of Agriculture-Agribusiness Marketing Assistance Service (DA-AMAS). It is a global showcase of Asia's tropical food and a platform for the country's fresh, processed, Halal-certified, and organic food sectors in the Philippines. It is considered the premier international sourcing hub for the finest ethnic Asian food, ingredients and raw materials in the country.
[7] Europe posts include: (1) Brussels, Belgium; (2) Paris, France; (3) Madrid, Spain; (4) Berlin, Germany; (5) London, United Kingdom; (6) Rome, Italy; (7) Rotterdam, Netherlands; (8) Stockholm, Sweden; and (9) Geneva, Switzerland.
[8] Middle East posts include: (1) Jeddah, Saudi Arabia; (2) Dubai, United Arab Emirates; and (3) Abu Dhabi, United Arab Emirates.
[9] North American posts include: (1) Washington, DC; (2) New York; (3) Silicon Valley; (4) Chicago; and (5) Los Angeles.
[10] Asia Pacific posts include: (1) Beijing, People's Republic of China; (2) Shanghai, People's Republic of China; (3) Guangzhou, People's Republic of China; (4) Nanning, People's Republic of China; (5) Hong Kong; (6) Jakarta, Indonesia; (7) Kuala Lumpur, Malaysia; (8) Singapore, Singapore; (9) Taipei, Taiwan; (10) Bangkok, Thailand; (11) New Delhi, India; (12) Sydney, Australia; (13) Tokyo, Japan; and (14) Osaka, Japan.
[11] Established by virtue of Republic Act No. 7844, otherwise known as the Export Development Act of 1994.
[12] The Bangko Sentral ng Pilipinas Governor is a member of the EDC Council together with seven other members from the Government, which include the secretaries of the Department of Finance (DOF), DTI (as Chairman), National Economic and Development Authority (NEDA), Department of Science and Technology (DOST), Department of Agriculture (DA), Department of Foreign Affairs (DFA), and Department of Labor and Employment (DOLE). The EDC Council is also represented by 9 members from the private sector, one of which sits as the Vice-Chair of the Council. The Vice-Chairman is also the head of the Philippine Export Confederation Inc. (PHILEXPORT) – an umbrella organization of Philippine exporters.

Strategies pursued

In creating linkages between MNCs and SMEs, the DTI through the EMB and Export Assistance Network (EXPONET)[13] helps exporters and prospective exporters gain access to information and resolves specific problems related to exporting. The network consists of over 128 agencies, including the Bureau of Customs, the BSP, and other export-related agencies such as those represented at the One-Stop Export Documentation Center. Export marketing bureau advisers are stationed in all DTI regional and provincial offices.[14]

Meanwhile, the EXPONET provides information on exports seminar schedules, exports organizing, export procedures and documentation, import facilities for exporters, buyer linkages, export financing and incentives, product raw material sourcing, and statistical information for surveillance. The agency also assists exporters in export-related problems/trade complaints.

The EDC prepares the Philippine Export Development Plan (PEDP)[15] every three years which contains core strategies designed to achieve target revenues. The PEDP is a framework to strengthen national brand and identity/awareness by raising competitiveness of industries through improvement of business environment, raising productivity and efficiency and inculcating quality consciousness among manufacturers and producers to offer quality goods and services comparable with global brands.

The core product strategies are:
1. Move up the value chain.
2. Capture higher-value processes in the global supply chain.
3. Develop product linkages for natural, organic and certification-enabled products.

The core market strategies are:
1. Maximize benefits of Free Trade Agreements.
2. Target high-growth emerging markets.
3. Attract the migration of supply chain nodes to the Philippines.

The key export promotion strategy is integrating tourism, services and merchandise trade not only to maximize returns on promotional spending but also to achieve market share growth and the capacity to sustain it.

Priority sectors

Currently, the priority sectors of the government are as follows:[16]

1. Information Technology (IT) and IT-Enabled Services – the Philippines remains among the top choice locations of American and European companies for outsourcing and offshoring.
2. Automotive - the country also offers a wealth of opportunities in the manufacture and assembly of motor vehicles such as passenger cars, commercial vehicles (CVs), and motorcycles, as well as parts and components. The industry is composed mainly of assemblers and parts manufacturers.
3. Electronics - the electronics sector is a major driving force of the Philippine economy. The country is preferred by various electronics and semi-conductor components and finished products both as an Original Design Manufacturer (ODM) and Original Equipment Manufacturer (OEM).
4. Mining - worldwide, the Philippines ranks third in gold, fourth in copper, fifth in nickel and sixth in chromite deposits. It has the potential to be the fifth largest mining power in the world. The country's mineral deposits are spread across 9 million hectares of mineralized land, which presents a huge potential mineral wealth estimated at US$840 billion or ₱47 trillion.[17]
5. Healthcare and Wellness - with its status as a growing destination for medical travel, there is great potential to invest in the country's medical infrastructure.
6. Tourism - the Philippines, with its 7,100 islands, has plenty of astonishing natural wonders and a tropical paradise destination in itself. The growing number of tourist arrivals also presents opportunities for investments in hotels/room accommodations and other tourist facilities. Likewise, opportunities abound in air and ground transport systems - low cost carriers - to bring tourists to the Philippines.

[13] EXPONET provides assistance through a network of agencies and professional service providers.
[14] Source: Department of Trade and Industry website (www.dti.gov.ph)
[15] Philippine Export Development Plan, 2011-2013.
[16] Source: DTI website
[17] Source: Ibid

7. Energy - as an archipelago with abundant resources of geothermal, wind, solar, and hydropower, the Philippines presents significant dividends in investments in power generation and energy supply. This is in line with the government's thrust to shift to new and renewable energy (RE) sources investments in hydropower, solar, and wind energy.
8. Food and marine products - the Philippines supplies the world with its famed mangoes, bananas, and coconuts. Either as food commodities or as processed quality edibles, the Philippines food and agricultural sector offers a feast of agricultural and marine products for the whole world.
9. Home furnishings, giftware, holiday decors, and wearables - combining its greatest asset of design ingenuity with its abundant supply of materials both indigenous and unconventional, Philippine creativity is best expressed in the exquisite craftsmanship of its home furnishings, giftware, holiday decors, and wearables.

Promotional activities

In 2012, the DTI was able to conduct promotional activities with a working budget of ₱3.2 billion, of which ₱88.5 million went to promotional activities such as those handled by CITEM. DTI's export promotional activities in 2012 are detailed in Figure 2.

Figure 2. DTI Export Promotion Activities

Type of Activity	Number of Activities	Export Sales (in US$ million)	Companies Assisted	Trade Inquiries /Buyers
Signature Events	2	49.87	570	7,503
Overseas Trade Fair	9	134.09	136	3,912
Outbound Business Matching	17	58.60	61	130
Inbound Business Matching	11	26.73	20	7
International Commitments	9	1.68	37	3,377
TOTAL	**48**	**270.97**	**824**	**14,929**

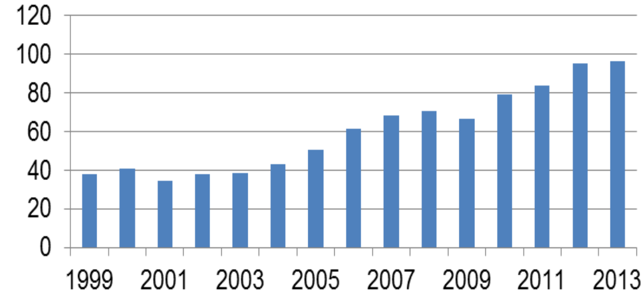
Source: 2012 Annual Report, DTI

Based on the DTI's annual report in 2012, CITEM was able to assist 743 companies, handled 14,929 buyers/trade inquiries, and generated US$184.8 million exports orders.

Industry performance

Figure 3.

Exports of goods and services (1999-2013, in billion US$)[1]



[1]Data refers to Philippines as reporter and World as partner, using Balance of Payment Manual (BPM) 5 Concept for data from 1999-2004 and BPM6 Concept for 2005-onwards.
Source: Bangko Sentral ng Pilipinas

Figure 4.

Philippine Exports: Share to Total by Country/Region (in percent)

	2010	2011	2012	2013	Jan-Jun '14
ASEAN	22.4	18.0	18.8	15.6	16.2
Europe	14.8	13.2	12.4	12.3	11.9
Japan	15.2	18.4	19.0	21.3	23.5
US	14.7	14.7	14.2	14.7	14.1
China	11.1	12.9	11.8	12.4	13.2

Figures for the last 15 years have showed that exports in goods and services increased from US$37.7 billion to US$96.5 billion in 2013.

Other Enabling Factors: Conducive Policy Frameworks and the Role of Foreign Direct Investment

Trade liberalization policies and other reforms

The United Nations Conference on Trade and Development (UNCTAD) stressed that linkage promotion programs can only succeed in the presence of a conducive policy environment.[18] The development of Philippine international trade policy has been marked by a series of reforms toward mass liberalization and globalization. From adherence to an imports substitution phase and a restrictive trade policy regime in the earlier years, the Philippines

[18]UNCTAD; "Creating Business Linkages: A Policy Perspective," United Nations, New York and Geneva; 2010.

pursued a gradual reduction in tariffs, accession to the World Trade Organization (WTO), participation in the Asia-Pacific Economic Cooperation (APEC), and strengthening of its regional cooperation commitments under the Association of Southeast Asian Nations (ASEAN) Free Trade Agreement (FTA) in the 1990s. These trade policy reforms have provided the Philippines the opportunity to expand its link with the global economy, accelerate industrialization and structural transformation as well as secure the Philippines a role in decision making for various trade issues.

In the early 1990s, alongside trade reforms, major investment reforms were also undertaken in the Philippines, including the enactment of the Foreign Investment Liberalization Act and the Special Economic Zone Act. These reforms attracted substantial foreign direct investments in manufacturing and underscored the contribution of MNCs in increasing output as well as in linking the Philippines to global and regional production networks (Wignaraja, et al., 2010).[19,20] This also coincided with the country's objective of establishing the Philippines as a production base (particularly in the automotive and electronics sectors), which resulted to its participation in both the ASEAN Industrial Cooperation (AICO)[21] scheme and the Information Technology Agreement (ITA) through the WTO.

The period 1990s was also marked by the establishment of a new central bank.[22] Among the important reforms pursued by the BSP was the lifting of foreign exchange (FX) restrictions on current account transactions. Under the liberalized current account environment, the mandatory surrender requirement on all FX receipts and on inward remittance of all FX receipts from exporters was removed. At the same time, the BSP liberalized selected transactions in the capital account. In particular, the rules applied to local banks on FX lending were relaxed to facilitate exporters' access to foreign currency loans. A liberalized market on the entry and operation of foreign banks was also put in place following the passage of R.A. No. 7721 (or "An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for Other Purposes") on 15 May 1994, which was further amended on 15 July 2014 with the passage of R.A. No. 10641 (otherwise known as "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose R.A. No. 7721"). The BSP's charter also provided the establishment of a rediscounting facility, which authorizes the BSP to extend loans to banking institutions using the eligible papers of its borrowers as collaterals (i.e., credit instruments resulting from the importation, exportation, etc.).

Challenges

De Dios (2013), however, pointed out that the country's slow industrial transformation as against the other Asian economies can be explained by the poor political stability and property rights assurances throughout 1984-2010 that hampered the entrance of significant foreign investment.[23] Austria (2008) also argued that like the NIEs, factors such as (1) reduction of barriers to trade and investments in the region (i.e., tariff, and restrictions to investment); (2) systematic efficiencies (infrastructures and logistics management such as ports, container terminals, among others); (3) technological capability (i.e., investing in research and development); (4) industrial upgrading to higher value-added products; and (5) human resource development, are necessary to be able to successfully integrate to the growth of the global production network.

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[19] Wignaraja, G., Lazaro, D., and De Guzman, G.; "FTA and Philippine Business: Evidence from Transport, Food, and Electronics Firms;" Asian Development Bank Institute Working Paper Series No. 185; January, 2010.

[20] A study by Duenas-Caparas (2006) found that the influence of multinational companies (MNC) have positively improved Philippine exports performance particularly in sectors such as food and food processing; electronics and electrical machinery; and garments and textiles. Foreign affiliation appeared to be the primary source of knowledge and technology for local firms and technical skills that improved the quality of production, making local commodities more attractive to foreign market. These represent one of the best ways for small and medium-sized enterprises (SMEs) to enhance their competitiveness and acquire critical missing assets such as access to international markets, finance, technology, management skills and specialized knowledge.

[21] The AICO scheme is ASEAN's industrial cooperation program to promote joint manufacturing industry activities between ASEAN-based companies. Large companies, such as Honda Cars Philippines; Toyota Motor Philippines; Philippine Auto Components, Inc.; and Ford Motor Company, have entered into several AICO arrangements and have received special preferential rates of 0–5 percent.

[22] The Philippines also established in 1993 the Bangko Sentral ng Pilipinas (BSP), which replaced the old central bank. It may be noted that the old central bank incurred substantial losses as it performed fiscal functions by lending at a subsidized rate to what the government considered priority sectors (Lamberte, 2002). The BSP was tasked with a clearer mandate of maintaining price and financial stability. The fiscal and administrative autonomy of the BSP provided the monetary authorities adequate flexibility to pursue its mandate. Likewise, the BSP was established with the objective of maintaining a central monetary authority which functions and operates as an independent and accountable corporate body with mandated responsibilities concerning money, banking and credit. Along with the creation of the BSP were the initiation of further and bolder reforms to deregulate the country's foreign exchange (FX), trade, and payment systems.

[23] De Dios, E., and Williamson, J.; "Deviant Behavior: A Century of Philippine Industrialization;" University of the Philippines School of Economics Discussion Paper No. 2013-03; April 2013.

Policy implications

National commitment to create an environment conducive to economic growth and development is essential when engaging in expanding the country's global trade. Toward this end, the DTI has been working on product diversification to integrate domestic exports into the global supply chain networks. To further strengthen trade capacities to become more complementary with the Asian region, the DTI has also been capitalizing on complementary trade opportunities and creating partnerships for innovation and competitiveness.

Market access, high transportation costs, and weak small and medium enterprises have been identified as major obstacles that have been given adequate attention in order to strengthen the partnership with other regions. Trade facilitation initiatives such as trade promotion activities have also been given equal importance. The government has also been working on improving maritime and air transportation systems, focusing specifically on how to bring down freight costs.[24] The government has strengthened it efforts in helping small and medium enterprises and trade associations to achieve scale economies.

Finally, the government's infrastructure program is expected to address a broad range of issues such as logistics and competitiveness that would eventually strengthen trade and investment linkages.[25]

The government has also been active in information exchange and policy dialogue, particularly in areas leading to more market opportunities, market access, and investments. FTAs have been pursued on bilateral, sub-regional and regional levels to facilitate trade. Existing interregional forums have served as platform to advance cooperation between the Philippines and other economies.

For its part, the BSP remains supportive of efforts toward further liberalization, particularly on financial services. Moreover, the BSP continues to further implement liberalization in the FX market to keep the FX regulatory framework responsive to and attuned with current economic conditions, facilitate FX transactions and improve the overall investment climate in the country.

[24] The Philippines joined other ASEAN nations in the multilateral air transport agreement under the both the "ASEAN Multilateral Agreement on Air Services" and "ASEAN Multilateral Agreement on Full Liberalization of Air Freight Services," which were approved on 20 May 2009 in Manila Philippines. These two agreements, which took effect in 1 January 2010, call for a calibrated and gradual implementation of liberalization of rules and regulation in the aviation industry in order to create free- market environment for the airline industry (Source: ASEAN website: http://www.asean.org/communities/asean-economic-community/item/asean-multilateral-agreement-on-the-full-liberalisation-of-air-freight-services-manila-20-may-2009; http://www.asean.org/communities/asean-economic-community/item/asean-multilateral-agreement-on-air-services-manila-20-may-2009-2).

[25] In 2010, the Philippines government launched its public-private partnership program to bridge private resources for the purpose of financing infrastructure development in the country. (Source: Public-Private Partnership website: http://ppp.gov.ph/?page_id=8).

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