NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

JUNE 2023

Philippines economy: Steady as she goes

MARKET INTELLIGENCE REPORT

Summary

- Bilateral trade between the Philippines and New Zealand is returning to pre-pandemic levels. The rate of economic growth for the Philippines continues to exceed predictions, but nonetheless is expected to face significant slowdown as the year unfolds, due to global conditions. The coming into force of the Regional Comprehensive Economic Partnership (RCEP), together with the new legislation and the foreign visits of President Marcos Jr, are expected to increase Foreign Direct Investment into the country.

- The areas of significant potential in the Philippines for New Zealand business are in renewable energy, enhancing economic, environmental and social deliverables, and in back office support and skilled labour.

- The geo-strategic contest in the region is more starkly impacting on trade and supply chain resilience. China remains the dominant market, and the Association of South East Asian Nations (ASEAN) is now its primary source of imports.

Report

Bilateral Trade – rising towards pre-pandemic levels

In the year to March 2023, New Zealand exported NZD1 billion of total goods and services to the Philippines and imported NZD0.36 billion, for a total trade value of NZD1.36 billion. This is a significant increase from the NZD0.78 billion and NZD0.21 billion respectively in the same period for 2022, and almost back to the peak of NZD1.38 billion total trade for the same period in 2019.

Dairy remains New Zealand's biggest export commodity to the Philippines, while Travel is its biggest export service.The value of major New Zealand merchandise exports to the Philippines such as dairy, meat and wood is returning to pre-pandemic levels. Dairy exports were valued at NZD656 million in 2022 from NZD489 million in 2021.

The Philippines' Economy is looking pretty good...

The Philippines' GDP grew by 6.4 percent in the first quarter of 2023, thus far maintaining the government's targeted growth of 6-7 percent for 2023. While this is slower than 8.2 percent growth in the same quarter 2022, it is still better than predicted by analysts. Acknowledging the Philippines has out-performed predictions, the Economist Intelligence Unit is still predicting an annual growth for 2023 of 4.8 percent. The slow-down coming will be due to slowing global growth, sustained inflationary pressures, and the impacts of monetary tightening. Nonetheless, the Philippines is expected to be in the top three ASEAN performers this year.

April was the third consecutive month of slowing inflation, down to 6.6 percent. The inflation rate averaged across the first four months of 2023 was 7.88 percent. This trend has seen the Central Bank of the Philippines pause monetary tightening, with the intention to continue holding as long as there is no new supply shock or rise in inflation. Most analysts here expect at least another 25 basis points increase before the tightening cycle concludes.

The rate differential between Philippine and US bonds continues to see Peso depreciate, reaching a four month low in April, which remains a concern to the Central bank. However, the Philippines' debt-to-GDP ratio increased by only 0.1 percent over the first quarter of 2023, indicating the government's efforts at fiscal consolidation have been successful. The Philippines' balance of payments hit a USD1.27-billion surplus in March, with the gross international reserves at nine-month highs at USD101.5 billion, so overall the Philippines' fiscal settings look in good shape.

Unemployment continues to trend marginally downward, while the underemployment rate improved to an 18-year low of 11.2 percent. The principal growth areas were construction, transportation, mining and manufacturing. Manufacturing activities in particular are expected to continue expanding due to increased demand. Wholesale and retail trade, vehicle repairs, accommodation and food services, agriculture and forestry, and fishing and aquaculture saw the greatest tightening in the job market, despite overall growth in these sectors.

...and RCEP is expected to encourage more FDI

National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan continues to call for major liberalising reforms to establish a better business environment. One of these reforms was announced by Department of Trade and Industry (DTI) Secretary Alfredo Pascual, with the Regional Comprehensive Economic Partnership (RCEP) entering into force in the Philippines on 2 June. The Philippines was the last of the 15 countries to ratify the agreement, doing so in February 2023, but the President has approved an Executive Order to implement the tariff rates agreed in RCEP. RCEP is expected to entice more foreign direct investment into the Philippines.

Media reports PHP172.7 billion (NZD4.9 billion) in foreign investment pledges so far this year as the Marcos administration works hard to promote Foreign Direct Investment into the Philippines. Structural and legislative reforms begun by former President Duterte and continued under President Marcos Jr appear to be yielding results. These include the passing of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, and amendments to the Retail Trade Liberalisation Act, Public Service Act and Foreign Investment Act.

Renewable energy – attracting strong global interest

Renewable Energy (RE) remains at the forefront of Philippine government energy priorities. To achieve the country's goal of transitioning to a carbon-free future, the Department of Energy issued a policy increasing the percentage of the utilization of renewable energy for on-grid areas from 1% to 2.52%. This increase, which took effect this year, prescribes the adjusted annual percentage increment and provides a guaranteed market for renewable energy.

The Department of Energy is adopting a whole-of-government approach to expedite processing of permits and requirements for offshore wind (OSW) energy projects. Under the Philippine Offshore Wind Roadmap, the Philippines has an estimated potential capacity of 178 GW from OSW resources. This is expected to help the country reach its aim of increasing the share of renewables to 35% by 2030 and 50% by 2040. Several large global offshore wind operators have already announced new projects they will undertake in the Philippines. New Zealand's contribution is primarily within the geothermal sector, although producing green hydrogen is another area being explored.

NZ Businesses in the Philippines – growing their presence

NZTE Philippines has experienced a surge in interest from New Zealand companies in the Information & Technology, Manufacturing, and Food & Beverage sectors looking to set up back offices in the Philippines, given the competitive labour rates and the highly skilled and English-speaking talent pool. Several NZ companies are currently pursuing negotiations to outsource their IT and software development-related work to the Philippines. New Zealand companies struggling to meet their labour needs recognise the Philippines' ability to meet that demand, with the Philippines being the number one country for New Zealand work visa applications in the past year.

Regional geo-politics – casting its shadow over trade

In our meeting with Economist Intelligence Unit Lead for Global Trade Nick Marro here in Manila, he noted that the past few years have seen some significant changes for trade in the region. Firstly, geo-politics and trade are no longer separate, and secondly that the Association of South East Asian Nations (ASEAN) is now the largest source of imports for China. He observed that the US is pushing nations to "choose sides" through demanding compliance with its export controls, something to which the Philippines is particularly exposed, but China is offering easier trade access. The US has a significant FDI footprint in the Philippines, but China dominates trade flows here. Unfortunately China's economic rebound post-pandemic has been primarily internal, rather than "spilling into the region". Nonetheless, it remains the largest market for exporters in the region.

More info

More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

If you would like to request a topic for reporting please email exports@mfat.net

To get email alerts when new reports are published, go to our subscription page.

To learn more about exporting to this market, New Zealand Trade & Enterprise's comprehensive market guides cover export regulations, business culture, market-entry strategies and more.

To contact the Export Helpdesk

email exports@mfat.net

call 0800 824 605

visit Tradebarriers.govt.nz