

3 AUGUST 2012

Honorable Senator Edgardo J. Angara,

Chairperson Patricia Licuanan, Commission on Higher Education

Members of the Diplomatic Corps

Dr. Emerlinda Roman, Chairman of the Board, Angara Centre,

Dr. John V.C. Nye, Executive Director, Angara Centre,

Guests, Ladies and Gentlemen,

A very Good morning to all of you.

It is a privilege to be invited to be here this morning.

The Angara Centre for Law and Economic Policy represents the culmination of the work and vision of one of the Philippines' most respected legislators and legal minds, Senator Ed Angara. It answers the question, "how can the development of law contribute to economic development?"

Several other young Filipino minds share Senator Angara's vision, bringing their technical expertise gained through graduate degrees in some of the best centers of learning in the world, and of course the basic foundation developed in the best schools in the Philippines.

The Angara Centre addresses what is now emerging as a gap in Philippine policy research and policy-making-the link between law and legal order and economics or the social order.

Among the areas the analysts and policy wonks at the Angara Centre would look at in the Philippines would include the law and economics discipline, competition policy and antitrust, trade and the redistributive role of government, evidence-based rule-making, and regulatory impact analysis, among others.

The Philippines in the "Sweet Spot"

As the Philippines' first-of-its-kind law and economics think-tank, the creation of the Angara Centre comes at an auspicious and precarious time for the Philippine economy.

The President himself reported in his SONA about the impressive Philippine economic recovery, as one of the bright spots in an otherwise bleak global economic outlook.

The Philippines continues to experience higher-than-expected economic growth. As the President announced to the nation this week, the Philippines' GDP grew by 6.4 percent in the first quarter of 2012-the highest growth in Southeast Asia and second only to China in the whole of Asia.

In three years, the Philippines has had eight positive credit rating actions, forty-four stock market highs, and has even pledged one billion US dollars to the International Monetary Fund. An investment-grade credit rating may not be far behind.

International financial institutions, investment houses, and economic commentators have begun taking notice of this Philippine economic miracle. The World Bank, the ADB, Bloomberg Business, Goldman Sachs, Morgan Stanley, HSBC, Foreign Policy magazine, have all shared the bullishness of some of the Philippines' own respected economic experts.

Investments in the Philippines are on the rise, and investors are increasingly confident of the Aquino administration's ability to deliver on its commitment to improve the business climate and infrastructure.

Recently, the ADB and three other financial institutions have pooled their finances into a \$625-million infrastructure fund to help finance Philippine infrastructure projects.

If there is one main factor in the expansion of the local economy, it is the general perception that there is governance and transparency in the way things are being run. Good governance is being translated to good economics. Moreover, the culture of impunity has been addressed head on.

Government spending is being spent wisely and where it matters most. Seeing these, local investors have invested more in Philippines. Domestic investors steadily infuse money into the local stock market. With improvements in business registration under the leadership of the DTI, entrepreneurship will be encouraged and more SMEs will be created.

Tourism arrivals are increasing, consumption spending is robust, government debt is shrinking, unemployment rate is declining steadily, and government spending remains manageable.

The Philippines has been given many labels: "breakout nation", "the NEXT-11", "in the economic sweet spot"-a testament to the growing confidence in the Philippine economy and its resilience.

There is more room for improvement, and the Philippines has a long way to go in making sure investments pledged today work for tomorrow, and that investments needed tomorrow are attracted today.

One label that the Philippines is happy to shed off is the "Sick Man of Asia." It is however a reminder that the bitter pill of fiscal and governance reform had to be ingested. It is a reminder that promised benefits from sustained reform and governance do not happen overnight, and that reforms in the way government runs the country had to be continuously instituted over time.

Globalization and the Rules-Based Trading system

One of the themes of this Inaugural Conference-globalization-is the reason why the global economy has reached unprecedented levels of growth and prosperity. It is also the reason why the global economy could be on the brink of another collapse.

Economic globalization has brought national economies ever closer together, a gradual integration of national economies into one borderless global economy. The result is an unprecedented increase in world trade, increasing the profitability of business entities and corporations, fueling global growth, global job creation, and global poverty reduction more than at any time in history. And the Philippines has certainly benefited from this.

The increased propensity to trade due to lowered tariff barriers is backed by an impressive and complex set of binding multilateral rules that prevent governments from raising tariffs and provide a level playing field among the trading economies. These rules-administered by the World Trade Organization-are in a process of evolution: multilaterally at the WTO, and bilaterally through preferential trade agreements, or FTAs and driven by the needs of business and the opportunities widened by innovation.

These rules now reach into areas of internal domestic governance unlike any other rules-based multilateral system. Areas such as product standards, labelling requirements, and excise taxation, including the domestic regulation of areas of the economy, are arguably no longer the sole and exclusive concern of the sovereign government. 21st century trade and investment

issues, such as financial market regulation, investment protection, labor standards, competition policy, and regulatory coherence, are now discussed at the negotiating table.

These developments pose interesting challenges and opportunities in a grim landscape for developing economies such as the Philippines.

The globalization of the financial economy has increased the inter-connectedness of markets, creating a variety of problems for governments and their regulators. The risk of financial contagion runs higher in economies that are more fully integrated into these systems. As governments struggle to find the right mix of policy options at its disposal to maintain its economic security, increased de-regulation could tie its hands and restrict policy space for poverty reduction and other distributional tools of the government.

To ensure that economic integration does not increase systemic risks and widen income inequality, the role of the so-called global governance institutions such as the G-20, the G-8, and the OECD must be strengthened and the participation of developing countries in global economic policy-making must be enhanced.

Trade continues to drive the global economy, but it is said that there are signs of rising protectionism. As the Doha Development Agenda negotiations grind to a standstill, bilateral and regional preferential trade has spiked, reducing tariffs, lowering non-tariff measures and regulations and increasing trade prospects between the preferential trading partners even more.

Preferential trade agreements promote economic integration, but heighten the risk of trade diversion for economies that, for one reason or the other, choose not to be fully engaged in preferential trade. These "de-coupled" economies, including the Philippines, are not as integrated and liberalized, but they are relatively spared from the effects of global economic crisis and are seemingly unaffected by economic slowdowns in the developed economies such as the US and the EU.

The downside is that greater market access of Philippine goods and services to the big market economies is lost out to countries already enjoying preferential access, potentially jeopardizing Philippine long-term economic security.

While the improved prospects of greater investments under the Aquino administration are certainly welcome, the potential for higher levels of foreign direct investment are significantly improved with a more liberalized and a truly open and level domestic economy. The Philippines, however, is constrained by Constitutional and statutory economic restrictions on foreign ownership, and has maintained a conservatively open investment milieu that is still restrictive by global standards. There may be a need to re-evaluate the existing statutory economic parameters as the Philippines further refines its international economic policy.

Towards Longer-Term Economic growth

Despite the Philippines' relative "disengagement" from the global economy compared to more globally-integrated economies such as Singapore or Ireland, the Philippines is enjoying some of the best reviews of its economic performance compared to the rest of the world. We have to resist the strong temptation to rest on these laurels and simply maintain the status quo. Governments and policy-makers of developing economies such as the Philippines should have at their disposal the analytical tools, global mindset, and an enlightened and far-reaching perspective on global economic issues, to boldly take on emerging challenges that impact its economic security.

The Philippines cannot and must not allow events to dictate its economic future. The Philippine government must take more steps to control the nation's economic destiny, and the Angara Centre can certainly provide the expertise and worldview necessary to achieve it.

Thank you very much indeed. -END