Senate Economic Planning Office

Economic Report

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2005 Full-Year Economic Report: Rethinking Exports

The Philippine economy grew by 5.1 percent in 2005. While it is slightly lower than the government's 5.3 percent target, it exceeded the expectations of multilateral institutions and other private financial institution.[1] The full-year gross domestic product (GDP) growth was pulled up by the hefty 6.1- percent expansion of the economy in the last quarter of the year making it the highest fourth quarter GDP since 1989. The manufacturing, mining and finance sectors were the main growth drivers.

The gross national product (GNP) growth rate of 5.7 percent surpassed expectations as well. Supported by strong inflows from Overseas Filipino Workers (OFWs), net factor income from abroad (NFIA) grew by 13.8 percent, way above the annual average of 9.36 percent in the last four years. OFW remittances increased by 23.3 percent, reaching US$10.9 billion compared to US$8.8 billion a year ago.

Table 1. GNP by Industrial Origin , at Constant 1985 Prices (Annual percent change)

Items	FY 2004	Q4 2005	FY 2005	DBCC Target
GROSS NATIONAL PRODUCT	**6.2**	**7.0**	**5.7**	**5.5**
GROSS DOMESTIC PRODUCT	**6.0**	**6.1**	**5.1**	5.3
Net factor income from abroad	**8.5**	**20.0**	**13.8**	8.6
AGRI.FISHERY,FORESTRY	4.9	4.0	2.0	3.0
Agriculture & Fishery	4.8	4.0	2.2	-
Forestry	29.8	-36.4	-36.5	-
INDUSTRY SECTOR	5.2	6.5	5.3	4.7
Mining & Quarrying	2.6	24.8	9.3	6.1
Manufacturing	5.1	5.8	5.6	4.8
Construction	7.4	7.3	4.3	4.7
Elect,Gas and Water	4.2	2.8	2.5	3.1
SERVICE SECTOR	7.1	6.7	6.3	6.6
Transport., Comm., Stor.	11.2	6.6	7.1	10.1
Trade	6.8	6.2	5.8	5.9
Finance	8.4	18.4	15.4	9.5
O. Dwellings & R. Estate	5.3	5.5	5.0	6.0
Private Services	6.7	4.9	4.5	5.7
Government Services	2.2	0.1	1.3	1.5

Source: NSCB and DBCC

[1] Multilateral institutions such as World Bank, IMF and ADB predicted the 2005 GDP growth to be 4.8%, 5% and 4.7%, respectively while banks UBS, RCBC and Citigroup placed it at 5%,4.7% and 4.5%, respectively.

Sources of Growth

Production side

On the supply side, the robust growth of the industry sector compensated for the slow growth of agriculture and services. Industry proved to be the most resilient sector last year, growing higher by 5.3 percent for the year and contributing 1.76 percentage points to growth. Its main growth propellers were mining and quarrying, and manufacturing. Mining and quarrying surpassed its projected growth of 6.1 percent, boosted by new investments in the mining sector and higher prices of metals brought about by strong local and global demand.

Table 2. Gross Value Added in Manufacturing, by Industry Group (growth rates at constant prices)

INDUSTRY/INDUSTRY GROUP	2004	2005
Food manufactures	8.8	6.0
Beverage industries	9.7	-1.6
Tobacco manufactures	-11.3	-6.0
Textile manufactures	7.3	10.1
Footwear wearing apparel	-5.9	-6.0
Wood and cork products	-5.7	42.3
Furniture and fixtures	18.2	30.9
Paper and paper products	1.8	-1.1
Publishing and printing	19.1	-7.8
Leather and leather prod.	-46.4	-0.2
Rubber products	20.5	3.6
Chemical & chemical prod.	7.2	20.9
Products of petroleum & coal	-11.7	23.2
Non-metallic mineral prod.	9.3	-9.8
Basic metal industries	3.7	-6.6
Metal industries	6.1	-1.6
Machinery except electrical	6.9	-37.9
Electrical machinery	13.6	3.0
Transport equipment	10.8	8.4
Miscellaneous manufactures	2.0	4.6
GROSS VALUE ADDED IN MANUFACTURING	5.1	5.6

Source: NSCB

Manufacturing grew from 5.1 percent in 2004 to 5.6 percent in 2005, driven by the growth in the production of furniture and fixtures, chemical and chemical products and products of petroleum and coal. Many of the other industries in the manufacturing sector posted lower growth rates in 2005 compared to 2004, primarily because of the higher production costs, which weighed down on profits.

Services, while remaining to be the biggest contributor to growth failed to meet its output target of 6.6 percent. It grew by only 6.3% from 7.1% in 2004, with all of its subsectors, except Finance, decelerating. Higher oil prices severely affected the transport, communication and storage sector which posted a 7.1 percent growth from 11.2 percent in 2004. The communications industry boosted the growth of this sector as it continued to post a double-digit growth of 14.8 percent. Trade, which comprised one third of the services sector declined, although not as marked, missing its target by only 0.1 percentage point. In the last quarter, trade sector grew by 6.2 percent surpassing its growth for the same period in 2004, indicating that demand during the Christmas season remained robust despite earlier reports that alleged otherwise.

The saving grace of the services sector was the commendable 15.4 percent growth of Finance which was fueled largely by the positive performance of banks. Banks almost tripled its growth, from 8.4 percent in 2004 to 21.3 percent last year. Significant improvements in asset quality, as well as the strong earnings performance of commercial banks propped up the sector's growth. The non-performing loans (NPL) ratio eased from 12.7 percent in 2004 to 8.5 percent while revenues of major banks grew over 20 percent during the year (Banking Report, BW. Feb 9, 2006).

The agricultural sector performance was dismal in 2005, expanding by merely two percent, compared to its growth in 2004 of 4.9 percent. The adverse effect of the dry spell lingered until the third quarter of the year, tempering the output growth of major crops such as palay and corn. The drastic decline in forestry output from 29.8 percent to -36.5 further dragged down agricultural growth.

Table 3. Gross Value of Agriculture (growth rates at constant 1985 prices)

Items	2004	2005
AFF	4.9	2.0
Palay	7.4	0.7
Corn	17.3	-2.9
Coconut/copra	0.4	3.1
Sugarcane	7.9	-7.3
Banana	5.0	11.6
Other crops	-0.7	1.3
Livestock	-0.4	2.0
Poultry	4.3	1.5
Fishery	8.5	6.0
Forestry	29.8	-36.5

Source: NSCB

Demand side

On the expenditure side, only government consumption posted an acceleration from the previous year's growth rate. The faster pace was brought about by increased spending on maintenance and other operating expenses due to higher cost utilities and other incidental expenses. Allotments to LGUs likewise rose. (NEDA, Second Quarter 2005 Economic Performance).

The record-high OFW remittance level apparently did not spur an upsurge in spending such that personal consumption grew by only 4.9 percent compared to 5.8 percent in 2004. The decline was mainly attributed to higher oil and commodity prices as inflation rose to 7.6 percent in 2005 from six percent in 2004. There were marked decreases in spending on beverage, clothing and footwear, and utilities. Nonetheless, consumer spending remains the highest contributor to growth on the demand side, contributing 3.9 percentage points to the 5.1 percent GDP growth.

Table 4. GNP, by Expenditure Accounts (growth rates at constant 1985 prices)

Items	FY 2004	Q4 2005	FY 2005	DBCC 2005 Target
Personal Consumption	5.8	5.2	4.9	5.2
Government Consumption	0.0	-4.2	2.7	3.5
Capital Formation	9.5	-2.8	-4.3	2.1
Fixed Capital	4.2	-1.4	-3.0	3.3
Construction	3.0	4.9	2.2	6.3
Public	0.0	18.7	2.6	5.4
Private	4.8	-2.7	2.0	6.0
Durable Equipment	5.8	-7.8	-7.9	0.9
Breeding Stock & Orchard Dev't	0.8	2.0	1.7	-29.3
Exports	14.1	0.4	2.3	7.4
Merchandise Exports	12.9	-0.5	2.0	6.0
Non-Factor Services	23.1	6.1	4.8	16.6
Less : Imports	5.9	1.2	1.8	2.9
Merchandise Imports	5.9	1.0	1.7	2.6
Non-Factor Services	6.1	3.8	3.0	8.3

Source: NSCB

The sharp rise in fuel prices, aggravated by political uncertainties, resulted in a reversal in investments as capital formation shrunk from a positive growth of 9.5 percent in 2004 to negative 4.3 percent in 2005. This development further reduced the country's fixed capital formation-to-GDP ratio from 16.5 percent in 2004 to 15.5 percent in 2005.

Table 5. Personal Consumption Expenditure by Purpose, 2004-2005 (growth rates at constant prices)

Items	2004	2005
Personal Consumption	5.8	4.9
Food	5.7	5.3
Beverage	4.7	-1.0
Tobacco	2.5	1.6
Clothing and Footwear	4.9	0.7
Fuel, Light and Water	2.8	-1.2
Household Furnishing	3.4	-0.2
Household Operations	2.9	2.9
Transport and Communications	14.2	14.2
Miscellaneous	6.1	5.0

Source: NSCB

This does not augur well for the country's long term growth prospects as the low investment-to-GDP ratio is one of the most important constraints to economic growth.

Weak global demand for electronics, the country's major export product, figured significantly in the dramatic decline in the performance of exports from 14.1 percent in 2004 to 2.3 percent in 2005. Income from electronics exports[2] grew by only 2.2 percent, substantially lower than the 10.2 percent annual increase posted in 2004. Weak prices and lower demand due to high oil prices accounted for the sharp deceleration in electronic exports. A significant decline was also observed in many agricultural exports like shrimps and prawns, as well as in exports of centrifugal sugar, and prepared tuna. Exports of metal, on the other hand, benefited from high world demand with copper concentrates showing substantial growth in 2005.

Exports of non-factor services also registered a lower growth rate, from 23.1 percent in 2004 to 4.8 percent in 2005, on account of weakened transportation and insurance services, and a substantial reduction in international travel.

The growth in imports of goods and services likewise decelerated to 1.8% from 5.9% as domestic demand waned with high oil prices. Because of the slump in exports, imports of electrical machinery and imports on consignment which

Table 6. Merchandise Exports, by Commodity Type (growth rates at constant prices)

Items	2004	2005
TOTAL MERCHANDISE EXPORTS	**12.9**	**2.0**
A. MONETIZATION OF GOLD	93.1	-10.2
B. MERCHANDISE EXPORTS	11.1	2.4
Principal Merchandise Exports	5.3	10.3
1. Garments	-4.1	3.4
2. Semiconductors and electronic microcircuits	14.4	6.3
3. Finished elect'l machinery	20.0	53.8
4. Other prods. manufactured	-3.1	-4.9
5. Ignition wiring sets	37.0	-3.0
6. Crude coconut oil	-10.5	0.1
7. Bars, rods of copper	38.1	-20.1
8. Shrimps and prawns	-10.5	-13.8
9. Gold from copper ores	-63.7	-28.8
10. Banana and plantains	-0.9	15.4
11. Transmission apparatus	97.8	-51.6
12. Copper concentrates	-24.7	158.2
13. Canned pineapple	8.0	-1.4
14. Dessicated coconut	1.6	16.3
15. Centrifugal sugar	43.8	-25.9
16. Liquefied petroleum gas	-42.7	66.0
17. Petroleum naphtha	-43.4	-8.3
18. Baskets, basketwares	8.2	-14.5
19. Prepared tuna	-11.3	-43.5
20. Iron agglomerates	17.6	1.9
21. Copra oil, cake & meal	-29.4	-11.4
22. Tennis, gym & sports shoes	-14.8	-8.5
OTHERS	16.2	-3.8

Source: NSCB

[2] Electronics include electronic data processing, office equipment, consumer electronics, telecommunication, other communication/ radar/, control and instrumentation, medical and industrial instrumentation, automotive electronics and other components and devices.

Table 7. Exports of Non-Factor Services (growth rates at constant prices)

Items	2004	2005
NON-FACTOR SERVICES	23.1	4.8
1. Other transportation	14.2	-10.7
2. Insurance	11.3	-7.6
3. Travel	36.0	7.0
4. Government	-	-
5. Miscellaneous services	16.9	26.2

Source: NSCB

include most of the raw material inputs for the manufacture of semiconductor devices and electronic components also dropped by -9.4 percent and -0.7 percent, respectively.

Prospects for 2006

The higher than expected growth of the economy in 2005, despite external and domestic threats, is another testament to the resiliency of the economy. Much of the production sector of the economy felt the brunt of higher oil prices, resulting in higher inflation and subdued consumption and investment. The economy was held up by the strong communications sector, the upturn in mining and the positive developments in the financial sector.

While the government projects a higher growth in 2006, forecasts by multilateral institutions and private analysts expect the economy to continue its current growth path, though at a slower pace.

The National Economic and Development Authority(NEDA) projects growth to be between 5.7 to 6.3 percent this year, owing mainly to the expected recovery of agriculture, increased investments in the mining sector, continued strong performance of finance and higher growth of exports due to the rebound in the global electronics market. The government is also slated to pump prime the economy with major infrastructure projects in 2006.

In contrast, the IMF, World Bank, ADB and EIU predict that the Philippine economy is not likely to grow higher than five percent in 2006 because of the lingering threats of the higher oil prices, higher inflation exacerbated by the two-percentage point increase in the value-added tax (VAT) and the uncertainty that continues to loom in the political landscape.

Identified as one of the most important potential risks to growth is the impact of high fuel prices. Though easing lately, oil prices are expected to stay high, as the threat of supply disruption remains. The implementation of the two-percentage hike in the VAT this February is also anticipated to dampen consumption. While it is expected to boost the government's fiscal position, its impact on the economy will not likely manifest itself in the short term. Only when interest rates decline and investment picks up will the benefits of the VAT be realized.

Doubts, however, were expressed on whether the government's pump priming strategy this year will boost growth. Former NEDA Secretary Cielito Habito pointed out that with the current high deficit-to-GDP ratio, pump priming which will bring about more borrowings, will only "isolate investors from their sources of funding." It might also lead to higher inflation, which in turn, may trigger an increase in interest rates and a further reduction in consumption.

And while El Niño may not be a problem this year, the possible occurrence of La Niña[3] may cut short the expected recovery of agriculture. According to the Department of

Table 8. GDP Growth Forecast for 2006

Institution	Growth Rate (in %)
NEDA-DBCC	5.7 – 6.3
PIDS	5.4
World Bank	5
IMF	4.5
ADB	4.8
EIU	4.7

Agriculture, La Niña is likely to benefit rice yield but will adversely affect corn production (*Businessworld*, February 15, 2006).

The recent appreciation of the peso to P52.6 to the dollar in January 2006 from P 56.16:$1 five months ago, may also dampen expenditures as families of OFWs have less pesos to spend. Moreover, if the peso continues to strengthen, this will make the country's exports less competitive, prompting some analysts to predict a slowdown in exports this year. Philippine exporters, particularly in the electronics sector, are already burdened with the risk of increased competition, as higher production costs relative to other countries weaken their competitiveness.

Rethinking exports: Are there good prospects in the exports sector?

The country's exports sector took a beating in 2005 as it posted the slowest growth since its contraction in 2001. A major reason for its poor performance is the weak demand for semiconductors, adversely affecting our electronics exports which accounts for 67 percent of the country's merchandise exports. This high dependence on electronics exports makes the country very vulnerable to changes in demand and economic conditions of major export markets. However, these are not the only factors that contribute to our exports performance, as growing competition from other countries particularly China, may be eating into our market. This section of the report looks at trends and prospects for the export sector.

Philippine export trends

Since 1996, Philippine merchandise exports have been growing at an annual average of 8.6 percent with only 2001 registering negative growth (DTI). The decline was due to a global slowdown of growth, compounded by a cyclical downswing in the demand for electronic products, the country's top export product. But last year, it grew by 3.9 percent.

[3] "La Niña is an oceanographic and meteorological phenomenon characterized by extreme climatic variability such as devastating rains and winds."

Export products

Electronic products comprise 69.1 percent of the country's exports . In recent years, export growth was supported mainly by electronics trade. Figure 1 shows that the share of electronics grew from 49 percent in 1996 to 69 percent in 2005, primarily accounting for the increase in exports.

Table 9. Philippine Exports*
(growth rates, at current prices)

Year	Growth Rate
1997	22.8
1998	16.9
1999	18.8
2000	8.7
2001	-15.6
2002	9.5
2003	2.9
2004	9.5
2005	3.9

Source: DTI, NSO

** computed based on dollar terms*

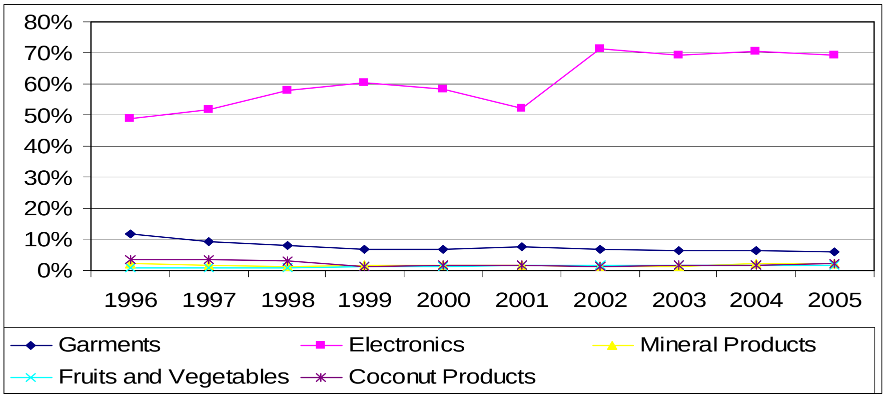
Other merchandise exports such as garments are all on a steady decline. Garments almost halved its share from 11.8 percent in 1996 to 5.9 percent in 2005 while all other product lines declined or retained its share.

Major markets

The main destinations of Philippine exports and their relative importance have significantly changed. The importance of U.S. has been on a declining trend as the country's top export destination for the past 10 years except in 2004 while Japan and China have been becoming more important during the past years. (Figure 2)

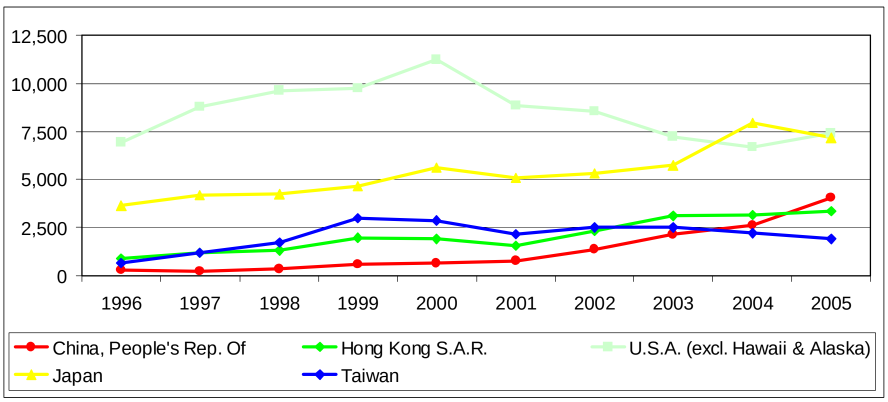
The decline in the importance of the US as an export destination is also apparent in the drop in its share of total exports from 33.9 percent in 1996 to 17.8 percent in 2005. The slack is primarily covered for by the increases in the share of Japan and China.

Figure1. Shares of Selected Major Commodity Exports to Total Exports, 1996-2004 (in percent)



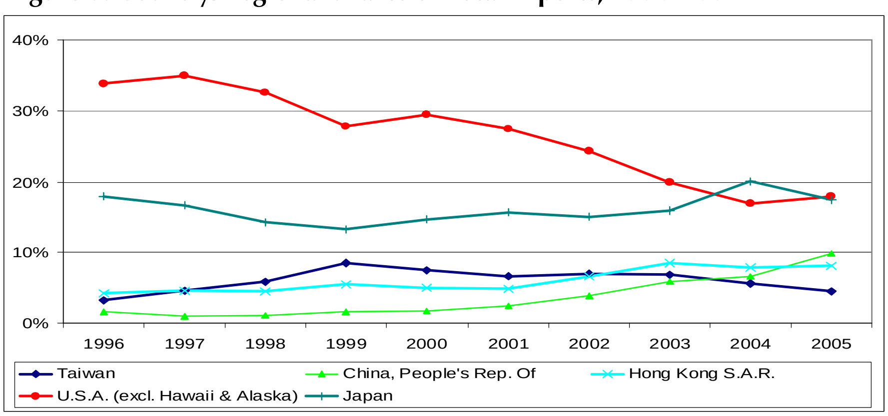
Source: Tradeline Philippines, DTI

Figure 2. Export Trends by Country/Region of Destination, 1996-2004 (in million USD)



Sources: Tradeline Philippines, DTI, NSO.

Figure 3. Country/Regional Shares of Total Exports, 1996-2004



Source: Tradeline Philippines, DTI.
Note: 2005 share data as of November

Global electronics trade trends

According to the World Semiconductor Trade Statistics (WSTS), the world semiconductor market is expected to reach US$227 billion in 2005, an increase of 6.3 percent in 2004.

However, there is indication that the Philippines is losing its share in total world exports of office and telecom equipment as its share declined from 2.6 percent in 2000 to 2.1 percent in 2004. Most of the top 15 exporters of this product line have lost market share, which China gained as it increased its share almost three-fold from 4.5 percent in 2000 to 15.2 percent in 2004. This places China second to the European Union 25 as the top exporters of office and telecom equipment.

With the declining share in electronics trade, it is important to rethink Philippine strategy for the export sector.

Table 10. Forecast on World Semiconductor Market Forecast

Countries	Amounts in US$M				Year on Year Growth in %			
	2004	2005	2006	2007	2004	2005	2006	2007
Americas	39,065	38,528	39,050	42,373	20.8	-1.4	1.4	8.5
Europe	39,424	41,461	43,443	47,630	22.0	5.2	4.8	9.6
Japan	45,757	47,261	49,331	53,753	17.5	3.3	4.4	9.0
Asia Pacific	88,781	99,284	106,408	119,568	41.3	11.8	7.2	12.4
Total World	213,027	226,284	238,232	263,324	28.0	6.3	5.2	10.5

Source: World Semiconductor Trade Statistics

Table 11. Share of Office & Telecom Equipment in World Exports

Exporter	Share in World Exports 2000	Share in World Exports 2004
European Union (25)	29.2	27.9
China	4.5	15.2
United States	15.9	10.7
Japan	11.2	9.0
Hong Kong	0.4	0.2
Singapore	7.7	7.6
Korea	6.1	7.3
Taipei	6.0	5.0
Malaysia	5.4	5.0
Mexico	3.5	3.2
Philippines	2.6	2.1
Thailand	1.9	1.9
Canada	2.1	1.0
Indonesia	0.8	0.6
Israel	0.7	0.5

Source: WTO International Trade Statistics, 2005

Policy Prescriptions

1. **Improve global competitiveness.** According to the 2005 World Competitiveness Report 2005, the Philippines' overall global competitiveness improved this year from #52 in 2004 to #49 in 2005. This report ranks the country along with 60 other countries across the globe based on four broad categories: economic performance, government efficiency, business efficiency and infrastructure.

   However, compared with other Asian countries included in the survey, the Philippines ranked second to the last in terms of overall competitiveness, government efficiency and infrastructure. Based on the World Bank's study, the country should increase its spending in infrastructure development from the current level of less than 3 percent of GDP to at least 5 percent of GDP (2005).

2. **Increase value-added for the electronics sector.** Elecronics, the country's major export product, surged from less than half of total exports to more than two-thirds of total exports during the past decade. Our increasing dependence on electronics has both been a boon and a bane. During upturns of global demand for electronics, the country enjoys a slush of earnings as electronics commodity prices peak and demand swells. However, as seen in 2001, cyclical downturns do happen thus hurting our export earnings. Also, about 90 to 95 percent of electronics exports are made up of imported goods, implying a mere 5 to 10 percent value-added in the said sector. The international division of labor in the production of electronic goods assigned testing and assembly to the Philippines, R&D and other higher value-added tasks are assigned to more industrialized countries. If the goal is to increase national income from trade, it would be prudent to pursue the same path but the country should target moving up the value chain. To increase the country's value-added in exported electronic goods, a skill-intensive commodity, resources will have to be poured

Table 12. 2005 Competitiveness Ranking, Asian Countries

	Overall Competitiveness	Economic Performance	Government Efficiency	Business Efficiency	Infrastructure
Taiwan	11	18	19	6	18
Thailand	27	7	14	28	47
Malaysia	28	8	26	25	34
Korea	29	43	31	30	23
China	31	3	21	50	42
India	39	12	39	23	54
Philippines	49	41	47	38	55
Indonesia	59	60	53	59	60

Source: World Competitiveness Report, 2005 into the education sector particularly in science and technology education.

3. **Diversify exports.** The Department of Trade and Industry (DTI) identified 10 priority export sectors in an effort to increase the country's exports. Some have clear export potentials that have yet to be maximized like home furnishings, food, marine products, wearables and construction materials. What follows are selected comments on IT and IT-enabled services and medical tourism.

Table 13: 10 Priority Export Products

Construction Materials
Electronics
Food
Giftware and Holiday Decor
Home Furnishings
IT & IT-Enabled Services
Marine Products
Motor Vehicle Parts and Components
Organic and Natural Products
Wearables

source: DTI

- ***IT and IT-enabled services.*** Commercial services, of which IT and IT-enabled services are but a part, remains to be a small part of the country's total export averaging 8.7 percent of total exports in the past 5 years.

Nonetheless, the opportunities in this area are huge. DTI assumes 50 percent growth in investments based on a global study of the offshoring trends of McKinsey. It also estimates that employment in Business Process Outsourcing (BPO) by the end of 2005 would be around 100,000. Indeed, the country has much to gain in riding the current offshoring wave.

Table 14. Dynamism Ranking for IT-enabled Services

Rank	Service Line	Share 2002	Share 2010	Growth Rate of Shares
1	HR Services	3.5	28	700
2	Engineering & Design	0.8	3	275
3	Market Research	2.1	3	42.9
4	Website Services	3.5	4	14.3
5	Finance & Accounting Services	10.6	11	3.8
6	Customer Interaction Services	23.4	24	2.6
7	Remote Education	12.7	11	(13.4)
8	Translation, Transcription & Localization	1.4	1	(28.6)
9	Networking Consulting & Mgt.	10.4	4	(61.5)
10	Data Search, Integration & Mgt.	31.2	11	(64.7)

Source: Canlas, 2005, using NASSCOM McKinsey Study – India IT Strategies, as cited by DTI (2003).
** Ranking is author's own.*

The McKinsey Global study on the offshoring phenomenon points to the need to restrategize to adapt to the growth of the global outsourcing market (Canlas, 2005a). The table below shows that the country's positioning for customer interaction centers (call centers) is good given that it will remain to be a dynamic segment of the BPO market. It is expected to be the sixth most dynamic segment growing marginally from 23.4 percent to 24 percent of all IT-enabled services. However, there are faster growing service segments like human relations and engineering design. The country has substantive capabilities for success in these segments. The Philippines has a good quality labor force with a large number of college graduates aligned towards the top five of the most dynamic segments of the BPO market. The government's role is to disseminate this information and facilitate local-foreign partnerships to take advantage of these new opportunities.

- ***Medical Tourism.*** The Philippines is taking steps to cash in on the growing trend in medical tourism wherein citizens of wealthier nations travel to developing countries not only for healthcare services but for leisure purposes as well. The recent worldwide growth of medical tourism is a result of the rising cost of health care in the West coupled with improved medical technology and human resources in third world countries.

The Philippines has several comparative advantages in this sector in terms of human resources (well-trained medical professionals, fluent in English with reputations for being competent, compassionate and caring), economics (a favorable exchange rate, significant price differential and a competitive market) and a vibrant tourism industry.

Other ASEAN countries have already capitalized on this trend with Thailand leading the way in 2004 with approximately 800,000 foreign patients, Singapore with around 175,000 foreign patients and Malaysia with 122,000. In terms of export revenues from medical tourism, Singapore recorded USD 915million in 2004, Thailand had USD 470 million while Malaysia had USD 9.4 million. The Philippines' medical tourism program was launched only in January and with the increased promotion and policy focus brought about by the program the 17 participating medical institutions estimate that they will service 125,232 foreign patients in 2006 bringing in a conservatively estimated USD 125M in revenues.

4. **Pursue greater integration within the region.** A study by the Asian Development Bank (ADB) shows that Asian countries would be trading more with each other than with the rest of the world. This will happen even without policy reforms in the future to pursue greater regional or global trade integration.

Regional integration is estimated to increase the Philippines' real exports by an additional 0.9 percent even if no new policy reforms are implemented. But an annual three percent reduction in intra-Asian trade costs such as a reduction in transport cost and provision of more efficient logistic networks may result in an increase of 72.6 percent in exports. This the importance of non-trade policies in affecting trade. Particularly in the case of the Philippines, the barriers to trade seem to be the high transaction costs.

Given the increasing importance of the ASEAN as an export destination and source of imports, it would be prudent to look into increasing the country's integration in the region. Further, the ASEAN provides a platform upon which the Philippines can negotiate with bigger economies like China and Japan which will be beneficial to the country.

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