

REPORT ON TRADE FOR SEPTEMBER 2020

SUMMARY

- Total merchandise trade expanded by 10.3 percent in September 2020 against the previous month's levels as quarantine measures were relaxed. On year-on-year basis, the contraction in merchandise trade (-9.2%), is lower compared to the -17.9 percent recorded in August, reflecting continued improvement.
- Exports expanded by 2.2 percent compared to September 2019. This breaks six months of consecutive declines, on the back of higher shipments of manufactures and mineral products. Month-on-month growth of exports was 13.1 percent in September 2020, up from -3.3 percent in August.
- Month-on-month recovery of merchandise imports in September 2020 reflected increased business activities, with higher shipments of capital goods, raw materials and intermediated goods, and consumer goods. On a year-on-year basis, imports contracted at a slower rate (-16.5%) compared to -21.3 percent in August.
- Merchandise exports to China posted double-digit growth in September 2020, a significant turnaround from the previous month's downturn, while exports to Japan was sustained. Inbound shipments from the country's major markets continue to exhibit lower contractions.
- Among the monitored economies in Asia, only the Philippines, China, India and Malaysia posted positive export growths in September, while imports for all countries contracted except for China and Vietnam.
- Improved export performance in September placed the country at a better trade balance position with the trade deficit at USD1.71 billion, which is slower than the previous month's deficit of USD1.83 billion.

1. Total merchandise trade picked up in September 2020 against the previous month's levels as relaxation of quarantine measures led to an expansion in trade activities.

The country's total merchandise trade growth performance is on track for recovery after a slight set back in the previous month as month on month levels was higher by 10.3 percent in September 2020. While total trade is still lower by 9.2 percent than the previous year's levels in the reference month, the decline is less severe compared to the downturn posted in August 2020 on a year on year basis. The gradual improvements in the country's trade performance since June suggests that the country's approach to gradually open businesses and areas with the strict observance of health protocols resulted in the resumption of economic activity.

Table 1. Merchandise Trade September 2020^p

	2019		2020		2019		2020	
	Sept ^{r/}		Aug ^{r/}		Sept ^{r/}		Aug ^{r/}	
	Total Trade				Trade Balance			
Monthly value (USD Mn)	15,568.4	12,822.7	14,140.3	(3,408.8)	(1,830.8)	(1,707.7)		
Year-on-year growth (%)	(3.5%)	(17.9%)	(9.2%)	15.3%	39.1%	49.9%		
Month-on-month growth	(0.3%)	(3.0%)	10.3%	(13.4%)	(1.6%)	(6.7%)		
	Total Exports				Total Imports			
Monthly value (USD Mn)	6,079.8	5,495.9	6,216.3	9,488.6	7,326.7	7,924.0		
Year-on-year growth (%)	0.4%	(12.8%)	2.2%	(5.8%)	(21.3%)	(16.5%)		
Month-on-month growth	(3.5%)	(3.3%)	13.1%	1.9%	(2.8%)	8.2%		

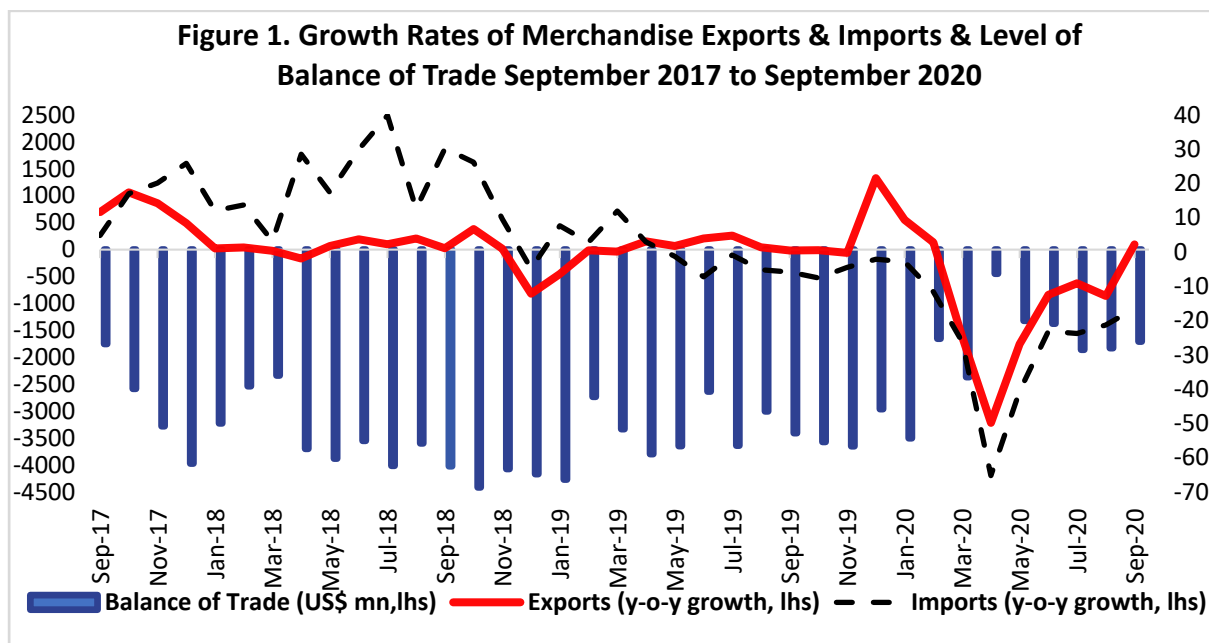
Source: Philippine Statistics Authority; r – revised; p – preliminary

From a negative 3.3 percent month-on-month growth in August, merchandise exports recorded double-digit growth in September, to reach USD 6.2 billion from the previous month's level of USD 5.5 billion. Year-on-year, exports performance recorded a reversal of its six-month long decline to post a 2.2 percent growth in September 2020. Manufactured goods which account for about 83 percent of total exports pulled the sector's performance as major subgroups such as electronic products, other electronics, machinery and transport equipment all increased relative to the levels recorded both in the previous month and the previous year.

On a month-on-month basis, merchandise imports were up by 8.2 percent against August levels, as business activities continued to resume with almost all major groupings posting gains, particularly capital goods and raw materials, and intermediate goods. However, year-on-year growth performance remains in the negative territory in the reference month, dragged down by capital goods, raw materials and intermediate goods, mineral fuels, and consumer goods.

Improved export performance in September placed the country at a better trade balance position with the country's trade deficit at USD 1.71 billion from the previous month's deficit of USD1.83 billion. In comparison, the current deficit level is lower by around 6.7 percent or USD123.09 million against August 2020 levels and down by 49.9 percent or USD 1.7 billion from the levels recorded in the previous year. In the first nine months until September 2020, total merchandise trade deficit was lower by 47.3 percent relative to the same period in 2019.

Figure 1. Growth Rates of Merchandise Exports and Imports and Level of Balance of Trade September 2017 to September 2020



Source: Philippine Statistics Authority (PSA)

2. From a negative growth in August 2020, merchandise exports reversed its growth performance as outward shipments stabilize.

Table 2. Philippine merchandise exports by major commodity group: Sept. 2020

Commodity Group	Aug. 2020 (USD mn)	Sept. 2020 (USD mn)	August (Y-o-Y growth)		September (Y-o-Y growth)		Jan – Sep 2020 (USD mn)	Jan - Sep (Y-o-Y growth)	
			2019	2020	2019	2020		2019	2020
Total Merch. Exports	5,495.9	6,216.3	1.4	(12.8)	0.4	2.2	45,874.4	1.1	(13.8)
Total Agro-based	358.2	367.7	5.4	(11.3)	17.6	(17.1)	3,551.6	14.3	(9.5)
Coconut Products	112.5	103.3	(8.1)	5.2	(25.5)	16.0	860.6	(14.1)	(12.8)
Sugar & Products	1.0	0.8	6.5	70.1	90.3	85.5	63.7	(13.3)	(2.1)
Fruits & Vegetables	177.6	199.4	17.2	(14.3)	65.9	(28.7)	1,990.7	47.0	(7.3)
Forest products	29.3	29.9	129.5	(26.6)	2.2	(6.5)	206.6	45.6	(24.3)
Mineral products	396.0	518.6	(2.9)	(8.7)	19.4	41.3	3,769.2	12.9	1.8
Copper Metal	62.7	120.9	(39.2)	(38.2)	(28.1)	133.9	1,032.3	0.1	6.6
Gold	86.5	72.3	906.8	0.9	32.2	7.7	648.2	78.7	(14.5)
Petroleum products	0.3	0.3	(36.5)	(99.4)	(99.9)	359.6	162.7	(62.9)	16.2
Manufactured Prod.	4,603.2	5,187.4	1.2	(11.6)	(1.0)	1.6	37,364.3	(0.4)	(14.9)
Electronic Products	3,176.4	3,627.1	6.7	(13.3)	4.0	0.8	26,244.4	2.0	(11.4)
Textile, Yarns, Fabrics	26.4	30.1	(35.1)	100.8	22.7	70.0	226.5	(6.3)	46.6
Chemicals	118.6	105.8	(15.4)	(5.2)	(21.8)	20.6	908.5	(4.1)	(21.8)
Machinery & Transport Eqpt.	311.0	396.5	(9.2)	(5.4)	(21.6)	7.4	2,478.1	(12.5)	(23.1)
Processed Foods & Beverage	119.5	112.6	(12.7)	11.4	(8.1)	10.1	863.8	(2.1)	(11.2)

Source: PSA

Agro-based and other agro-based products. Export revenues from agro-based products posted modest growth at 2.6 percent on a month-on-month basis, reversing the contractions in the previous two months. Year-on-year performance, however, continued to struggle as the country recorded lower shipments of fruits and vegetables despite higher earnings from sugar and coconut products. The sugar crop year started on a high note as exports continued its upward trajectory in September 2020. The Sugar Regulatory Administration (SRA) raised its supply allocation to the United States from 5 to 7 percent due to higher production and carry-over stock.¹ The adjustments are expected to support future sugar exports and to relieve the forecasted oversupply. Coconut exports

¹ <https://www.philstar.com/business/2020/09/03/2039632/philippines-export-more-sugar-us>

accelerated, recording its highest level since the lockdown in March. The Philippine Coconut Authority embarked on a replanting project to assist coconut farmers whose incomes were affected by the pandemic.² The project incentivizes farmers to plant coconuts which take at least three years to mature.

Banana exports expanded against August levels by 16.3 percent but sustaining this growth is a concern. The Department of Agriculture (DA) reported that the commodity recorded its largest contraction on a year-on-year basis since December 2017 by 32.9 percent in September 2020. In response, the DA is allotting PHP262.7 million to support development initiatives to increase the production of quality bananas for domestic and export markets.³ From the total amount, PHP100 million is earmarked under the Bayanihan 2 or the Bayanihan to Recover as One Act to rehabilitate plantations in Mindanao which were affected by the fusarium wilt or Panama disease.

Pineapple exports continue to decelerate in September despite increasing demand since June. The South Bukidnon Fresh Trading Inc., an affiliate of the Del Monte group, permanently shut down operations due to the adverse impact of the pandemic.⁴ The company exported fresh pineapples to the Middle East worth around PHP60 million annually.⁵ Meanwhile, exports of abaca fibers continued its strong performance fueled by growing demand from manufacturers of masks and personal protective equipment (PPE).⁶ Export revenues from the cash crop more than doubled as the easing of travel restrictions allowed farmers to harvest crops and suppliers to deliver raw materials.

Forest products. Earnings from forest products continued to decline but improved on a month-on-month basis. Plywood exports increased albeit at a slower pace while revenues from lumber and other forest products fell. Exports to its main market, Japan, remained dismal despite its active construction market. Philippine exporters may need to explore alternative markets as Japanese domestic production improves and competition from Indonesia increases.⁷ Japan accounts

² <https://mb.com.ph/2020/09/11/philippine-coconut-authority-encourages-coconut-farming-to-earn-more/>

³ <https://www.da.gov.ph/da-allots-p262m-for-banana-r-increase-production-exports/>

⁴ <https://mb.com.ph/2020/09/07/2-mindanao-export-firms-on-permanent-shutdown/>

⁵ https://malaya.com.ph/index.php/news_business/del-monte-unit-shuts-down/

⁶ <https://business.inquirer.net/307844/covid-19-restrictions-impede-abaca-industry-growth-during-pandemic>

⁷ <https://getfea.com/international-markets/malaysian-plywood-manufacturers-dealing-with-multiple-competitive-issues>

for more than 90 percent of the country's exports of forest products followed by China with 8.1 percent.

Mineral and petroleum products. Export receipts from minerals products stabilized as it recorded its highest level since May 2014. Copper metal exports led the strong performance of the commodity group reversing its contraction in the previous month. Shipments of copper metal to China more than doubled as the recovery in industrial and construction activity drove the country's copper imports to its second-highest level on record.⁸ Similarly, exports of iron ore agglomerates to Japan tripled as Japanese steel mills fulfill more orders for construction steel.⁹

Export revenues from petroleum products surged in September as Petron Corporation re-opened its refinery in Bataan after being shut down in May for reported maintenance and economic reasons.¹⁰

Manufactured products. Outward shipments of manufactured goods recovered in September posting its highest level in 2020. Semiconductors, the country's top export commodity, drove the expansion in exports of electronic products. The Semiconductor and Electronics Industry in the Philippines (SEIPI) announced that some of its members are expecting full-year sales to decline more slowly as bulk orders from overseas clients began to pick up.¹¹ A group of electronics exporters expect sales to contract by 16 percent instead of the initial forecast of 20 percent. On the other hand, orders of office equipment continued to decline due to lower shipments to its top markets. Earnings from Japan (-39.8%), United States (-15.7%), and Netherlands (-8.4%) decreased as continued precautionary measures led companies to retain work-from-home arrangements amid easing quarantine measures. Exports of travel goods and handbags remained in the negative as travel restrictions continued to dampen demand. Meanwhile, export of wood manufactures to Japan also declined, dragged down by the performance of forest products.

⁸ <https://www.reuters.com/article/us-china-economy-trade-copper-idUSKBN26Y0CR>

⁹ <https://www.argusmedia.com/en/news/2155732-japans-scrap-exports-make-gains-in-september>

¹⁰ <https://manilastandard.net/mobile/article/333408>

¹¹ <https://manilastandard.net/business/economy-trade/334683/electronics-exporters-revise-sales-forecast-as-bulk-orders-from-foreign-clients-pick-up.html>

On a positive note, exports of processed food and beverages continued to climb while shipments of textile, yarns, and fabrics posted its 13th consecutive month of growth on a year-on-year basis. The Department of Trade and Industry (DTI) is evaluating the export market for textiles and other food products within the European Free Trade Association (EFTA)¹² to bolster export performance in the region. The study will gather information on trade regulations and market access requirements which may guide exporters in maximizing benefits as a result of the EFTA.

3. Merchandise imports expanded against previous month signaling expansion in business activities. On a year-on-year basis, imports contracted at a slower rate of 16.5 percent compared to -21.3 percent in August.

Table 3. Philippine Merchandise Imports by Major Commodity Group: Sept. 2020

Commodity Group	Aug 2020 (USD mn)	Sep 2020 (USD mn)	August (Y-o-Y growth)		September (Y-o-Y growth)		Jan-Sep 2020 (USD mn)	Jan-Sep (Y-o-Y growth)	
			2019	2020	2019	2020		2019	2020
Total Merch. Imports	7,326.7	7,924.0	(5.2)	(21.3)	(5.8)	(16.5)	61,946.5	0.2	(26.0)
Capital Goods	2,346.1	2,582.9	1.4	(27.2)	6.5	(17.0)	20,272.5	7.4	(27.0)
Raw Mats. & Intermediated Goods	2,992.0	3,211.2	(14.0)	(7.5)	(17.7)	(6.0)	25,054.9	(8.0)	(18.8)
<i>Of which:</i>									
Unprocessed Raw Materials	270.9	322.2	(27.8)	(11.5)	(36.8)	1.9	2,244.8	(22.3)	(17.9)
Chemical	768.6	865.1	1.4	(12.8)	(4.4)	(7.2)	6,737.4	1.7	(17.5)
Manufactured goods	930.6	978.0	(18.5)	(11.6)	(21.5)	(10.3)	7,567.0	(9.6)	(28.0)
Materials/Accessories for the Manufacture of Electrical Equipment	806.5	811.6	(15.0)	0.2	(16.8)	(4.2)	6,836.1	(9.7)	(8.4)
Mineral Fuels, Lubricants & Related Materials	603.5	558.8	(9.1)	(43.9)	(9.9)	(51.4)	5,470.6	(2.3)	(45.5)
<i>o/w:</i>									
Petroleum crude	-	-	(64.7)	(100)	(30.1)	(100)	967.1	(37.3)	(57.8)
Consumer Goods	1,305.0	1,487.0	3.5	(23.2)	3.0	(13.8)	10,549.0	7.4	(26.3)
<i>o/w:</i> Durable	585.6	714.5	2.7	(36.8)	6.0	(20.9)	4,673.9	2.7	(37.7)
Non-Durable	719.4	772.5	4.4	(6.9)	(0.2)	(6.1)	5,875.1	13.2	(13.8)

Source: PSA

¹² <https://www.bworldonline.com/trade-dept-conducting-efia-market-study-for-food-textile-exports/>

Capital Goods. Inward shipments of capital goods picked up by 10.1 percent against the previous month's level as all sub-groupings posted expansions given the resumption of business activity. Office and EDP machines continued to post gains on a month-on-month basis as the demand for gadgets and office equipment increased, partly due to alternative work arrangements and the adoption of online classes for private and public schools. Likewise, easing of quarantine limitations on land travel and productive activities increased demand for land transport and power-generating and specialized machines. On the other hand, inward shipments of aircraft, ship and boats recorded the highest drop with limited domestic and international air travel.

Raw materials and intermediated goods. Purchases of raw materials and intermediate goods was at a better standpoint compared to the previous month as inward shipments of metalliferous ores was up by 399.1 percent compared to the 81.5 percent decline recorded in August. This surge in imports can be attributed to the active importation of the top rebar producers in the Philippines, Steel Asia and Pag-asa Steel Works, to cater to heavy construction projects by both the government and private sector.¹³

Meanwhile, the lower price of imported wheat and corn increased demand from feed millers, resulting in an expansion of the commodity's import levels. The Philippine Association of Feed Millers Inc. (PAFMI) agreed to purchase more corn locally as higher corn and wheat importations dragged corn prices. Traders are quoting at PHP17 to 17.50 per kilogram (kg) while the farmgate price of yellow corn is only PHP12.77/kg. Stakeholders in the agricultural sector estimate that domestic corn prices may go down further if feed wheat imports continue to increase in the fourth quarter, coinciding with the cropping season's harvest. The DA is considering the alternative of exporting local corn to help farmers cope with declining farmgate prices.^{14,15,16}

¹³ <https://www.spglobal.com/platts/en/market-insights/latest-news/metals/092320-chinese-importers-halt-billet-purchases-philippine-imports-stable>

¹⁴ <https://mb.com.ph/2020/09/01/feed-wheat-imports-dragging-corn-prices-to-the-detriment-of-farmers/>

¹⁵ <https://businessmirror.com.ph/2020/09/15/da-eyeing-exports-of-corn-to-halt-farm-gate-price-slide/>

¹⁶ <https://mb.com.ph/2020/09/17/feed-millers-agree-to-buy-more-corn-from-local-farmers/>

Mineral fuels and lubricants. Mineral fuels and lubricants importation remained in negative territory due to lower orders for coal and coke and other mineral fuels and lubricant. The remaining local refinery, Petron Corp., has resumed operations after being shut down for maintenance and economic reasons. The company reported that their domestic sales volume dropped by 28 percent due to reduced consumption, particularly in aviation and retail, with the implementation of stricter quarantine protocols in the previous months.¹⁷

Consumer goods. Orders for consumer goods continued to post expansions against the previous month's levels with stronger demand for both durable and non-durable goods. Imports of passenger cars and motorized cycle expanded by 28.8 percent as auto industry sales picked up by 37 percent in September, according to a joint report by the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI) and Truck Manufacturers Association (TMA). However, yearly imports and sales data has remained below pre-pandemic levels due to the evident shift in consumer preference toward essential goods and services.¹⁸

Rice imports posted higher levels in September 2020 compared to the previous month. This is less than half of the expansion in August 2020 due to increases in domestic production.¹⁹ Higher production in September was in part attributed to the DA's flagship Plant, Plant, Plant program which aimed to expand production areas, improve yields, and ensure rice availability in the country.²⁰

Meanwhile, inward orders of home appliances continued to expand at 8.2 percent with buyers taking on home projects and select businesses started re-opening. For instance, one company, *All Home*, reported that 40 percent of its total sales in the second quarter account for appliances sale. Spending more time at home with reduced demand for travel and non-essential entertainment may have contributed to more spending on home renovations and other projects at home.²¹

¹⁷ <https://manilastandard.net/mobile/article/333408>

¹⁸ <https://mb.com.ph/2020/10/13/us-gives-ph-213-m-new-grant/>

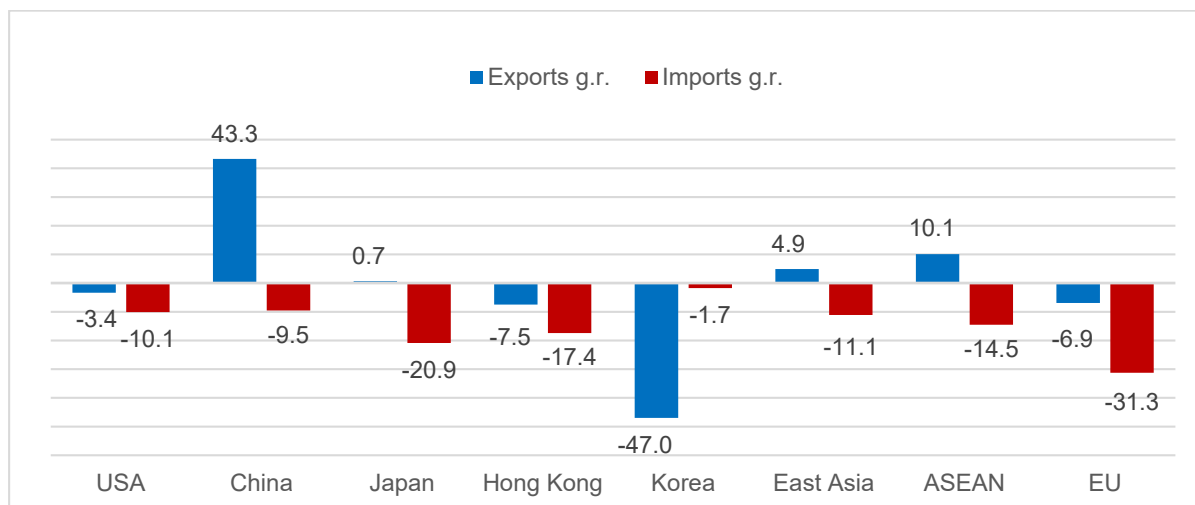
¹⁹ <https://businessmirror.com.ph/2020/09/28/phl-to-cut-rice-imports-due-to-higher-output/>

²⁰ <https://www.philstar.com/business/2020/09/11/2041495/rice-imports-drop-24-local-production-ramps-up>

²¹ <https://www.philstar.com/business/2020/09/14/2042184/appliances-account-40-allhomes-sales-q2>

4. Merchandise exports to China posted double-digit growth in September 2020, a huge turnaround from the previous month's downturn while exports to Japan was sustained. Inbound shipments from the country's major markets continue to exhibit slower deceleration.

Figure 2. Growth rate of Exports to and Imports from Major Markets, September 2020 (% change)



Source: PSA

Exports to China made a hefty turn around with a 43.3 percent growth after a substantial downturn in the previous month at -23.6 percent. The increase in exports may be attributed to China's relatively accelerated return to full production after the mobility restrictions due to the pandemic.²² The Philippine Trade and Investment Center (PTIC) in Shanghai expects China to remain as one of the Philippines' top export market and investment source due to a strong interest and huge potential of Chinese-led trade and investments in the country. These efforts are strongly aligned with China's Belt and Road Initiative which aims to plot long-term bilateral ties between the two countries. The DTI, through the PTIC Shanghai took part in the China International Fair for Investment and Trade (CIFIT) Roadshow in the beginning of the 3rd quarter to promote bilateral and multilateral economic and trade exchanges and partnerships.²³

²² <https://www.bloomberg.com/news/articles/2020-10-13/china-exports-up-imports-surge-in-september-on-global-recovery>

²³ http://www.xinhuanet.com/english/2020-07/23/c_139234489.htm

Outward shipments to Japan remained positive despite a slower pace at 0.7 percent in September from its 1.4 percent growth in August. This slight growth may be reflected in the revival of okra exports to Japan, at initially two tons which is forecasted to increase to five tons daily. This is expected to increase to about 13 to 15 tons daily during the peak season. The Philippines is also looking at exporting *edamame* to help boost the country's agriculture sector and diversify products to the Japanese market. The increase in exports of okra to Japan may have negated the decline in the market share of banana, which have been affected by tight competition, higher tariffs and low output²⁴.

²⁴ <https://www.cnn.ph/business/2020/9/30/ph-export-okra-to-japan.html>

5. Among the monitored economies in Asia, the Vietnam, Malaysia, China, India, and Philippines posted positive export growths while imports growth across Asian economies declined except for China and Vietnam.

Table 4. Merchandise Trade in Selected Asian Countries

Country	September 2020							
	Total Trade		Exports		Imports		Trade Balance	
	USD bn	Y-o-Y Growth	USD bn	Y-o-Y Growth	USD bn	Y-o-Y Growth	USD bn	Y-o-Y Growth
China	442.5	11.6	239.8	9.9	202.8	13.6	37.0	-6.7
India	57.9	-8.0	27.6	6.0	30.3	-17.8	-2.7	-74.9
Indonesia	25.5	-10.0	14.0	-1.0	11.6	-18.9	2.39	-1,589.4
Malaysia	37.6	6.9	21.4	15.4	16.1	-2.7	5.3	165.7
Philippines ^{1/}	14.1	-9.2	6.2	2.2	7.9	-16.5	-1.7	-49.9
Singapore	59.6	-1.0	31.2	-1.2	28.4	-0.8	2.8	-5.5
Thailand	36.9	-7.0	19.4	-5.1	17.5	-9.0	2.0	54.5
Vietnam	51.4	14.4	27.2	21.3	24.2	7.6	3.0	-3,059.0
Country	Jan-Sept 2020							
	Total Trade		Exports		Imports		Trade Balance	
	USD bn	Y-o-Y Growth	USD bn	Y-o-Y Growth	USD bn	Y-o-Y Growth	USD bn	Y-o-Y Growth
China	3,296.0	-1.6	1,810.9	-0.8	1,485.1	-2.6	325.8	8.1
India	458.8	-24.8	200.3	-18.3	258.5	-29.2	-58.2	-51.4
Indonesia	220.8	-11.8	117.1	-5.6	103.7	-17.9	13.5	-749.4
Malaysia	306.3	-6.7	168.0	-4.7	138.3	-8.9	29.7	21.8
Philippines ^{1/}	107.8	-21.2	45.9	-13.8	61.9	-26.0	-16.1	-47.3
Singapore	507.4	-8.7	265.0	-8.5	242.4	-9.0	22.6	-2.1
Thailand	323.5	-11.6	170.9	-8.4	152.6	-14.9	18.3	148.4
Vietnam	388.1	1.5	202.4	4.4	185.8	-1.5	16.6	215.0

Source: CEIC; ^{1/}PSA.

The Philippines, together with majority of selected Asian countries, recorded improved trade performance in September 2020, with Vietnam posting the highest growth at 21.3 percent followed by Malaysia and China. While the Philippines' expansion is more modest at 2.2 percent against the same period in the previous year, month-on-month export growth reflects the country posting double digit growth rates at 13.1 percent.

Thailand's international trade has seen some improvements since July 2020 in line with the gradual recovery of the global economy and easing of COVID-19 control measures in Thailand and abroad. Products with export expansions in September 2020 include food products, products related to work at home arrangements and home appliances and COVID-19 related products such as rubber gloves and pharmaceutical products. Thailand has also accelerated its promotion of local products through Cross Border E-commerce and organized business matching activities through online channels.²⁵

Vietnam expects higher trade turnovers but remains cautious of the revisions in its legal framework following the implementation of its latest free trade agreement under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA). Trade turnover between Vietnam and the 10 CPTPP member economies increased by almost 4 percent year-on-year, which resulted in Vietnam's trade surplus with countries in the CPTPP. With the implementation of the EV-FTA, Vietnam will be able to expand its market base for products such as footwear, seafood, plastic and plastic products, coffee, textile, bags, suitcases, vegetables, rattan, bamboo and knitting products, among others.²⁶

²⁵ <https://www.thaikorbiz.com/news/thailand-international-trade-%E2%80%93-september-2020>

²⁶ <http://hanoitimes.vn/vietnam-trade-minister-highlights-preliminary-successes-from-evfta-cptpp-314295.html>

6. Outlook and policy implications

Like most economies, the Philippines experienced a sharp downturn at the beginning of the 2nd quarter with the imposition of strict lockdowns as a response to the spread of COVID-19. However, the country's trade level has shown signs of gradual recovery going into the tail end of the 2nd quarter as month-on-month inward and outward shipments since May 2020 has been recording positive growth rates. Third quarter levels suffered a temporary setback as stricter quarantine measures led to decreased performance in August. However, September 2020 performance is back on track across the board with positive growth rates against August levels. While Philippine trade may continue to be hampered by the general downtrend in global trade for the 4th quarter, estimated by UNCTAD to reach -7.0 percent for full year 2020, the country's performance suggests a positive trend given the efforts to gradually restart the economy and improve business confidence.

Improving welfare with structural reforms

As the government continues to open the economy and implement measures against COVID-19, support to businesses and consumers in Bayanihan 2 may help the economy recover faster. Moving towards ensuring the medium to long term growth trajectory of the trade sector, it is important that structural reforms are put in place that may help shape the landscape of the country's economic environment.

Among the legislative reforms that the National Economic and Development Authority (NEDA) continues to support are amendments to the Public Service Act (PSA), the Foreign Investment Act (FIA), and the Retail Trade Liberalization Act. Likewise, NEDA also urges Congress for the passage of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill.

The proposed amendments to the PSA (Commonwealth Act No. 146) seek to provide for a clear statutory definition of public utility. If passed into law, a narrower set of services, including electricity distribution, electricity transmission, and water pipeline distribution or sewerage pipeline system, will be subject to the 40 percent foreign equity ownership cap imposed on public utilities under the 1987 Constitution. This is expected to open opportunities to spur investments in

critical infrastructure that can increase the productivity and competitiveness of exporters. For instance, opening up investment in telecommunications will allow fast, reliable, and cheap internet services especially given the increase use of online platforms for businesses and government services. This could also be instrumental in improving the Filipino's access to innovative financial services and enable farmers, micro, small and medium enterprises (MSME) access to markets and services provided by government, as well as new technologies such as online businesses, telecommuting, and online procurement.

Amendments to the FIA may encourage knowledge transfer, improve innovation, upgrade production facilities as well as increase access to international marketing networks. Studies have shown that countries that have implemented a range of reforms to relax foreign ownership and the tax system were able to bring in foreign direct investment (FDI) and improve the country's economic standing. In this regard, the NEDA remains committed in urging Congress for the enactment of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which will ensure the grant of tax incentives that are performance-based, time-bound, targeted, and transparent. This would in turn allow businesses to operate in an investment climate that puts a premium on economic activities that fuel economic dynamism particularly for small and medium enterprises (SMEs) and provide more job opportunities for Filipinos.

The amendments to the RTL Act will not only attract investments to the sector and improve consumer choices but country experiences suggest that the access to FDI in the retailing and distribution sector has assisted in improving backward and forward linkages with upstream and downstream sectors.

[Comprehensive package of support to complement reforms](#)

As the government strives to put these foundations in place, efforts may likewise be directed at providing comprehensive support measures focusing on product development, marketing assistance, and financial support to hasten recovery, increase value-added and improve response to product demand shifts for the long-term. These support measures will target the recalibration of production process and conduct of research and development on innovative products. This may help ease the transition to automation through innovative and alternative business processes.

These efforts on top of the aforementioned reforms in trade will be complemented with ongoing initiatives to strengthen partnerships with trade partners. This is to ensure access to markets while allowing for the free flow of goods. Overall, these partnerships may help diversify products and markets and improve the production supply chain.

Sustaining the gains through a gradual and calibrated re-opening of the economy

It is important to sustain the gradual and calibrated opening of the economy that will allow businesses to operate while also ensuring health and safety standards for the mobility of workers. Worker mobility is one of the critical elements that will sustain the gradual resumption of economic activity but it must be supported by safe and sufficient public transportation. In addition, an efficient service contracting subsidy mechanism may be warranted to ensure income for transport owners and operators, and encourage them to go out and provide services, despite a reduced passenger load.