

Amando Tetangco: Advancing cooperation in an increasingly non-cooperative world

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the EU-ASEAN Business Summit, Manila, 10 March 2017.

* * *

For over 250 years, Manila was the port of the Galleon Trade that fostered two-way trade between Asia and Europe via Mexico. And this year, the 50th anniversary of ASEAN, marks the Philippines' assumption as Chair of the ASEAN, with the responsibility to promote activities related to our regional goals. It is fitting therefore that Manila is hosting this year's ASEAN-EU business summit, the objective of which is to promote trade and further strengthen our economic relations.

A strong history of friendship

A strong history of friendship for 40 years now, binds the ASEAN and the EU.

This partnership has established many milestones in terms of economic cooperation, enabling us to enjoy the benefits of robust and dynamic trade and investments , with the accompanying positive effects on overall growth.

Today, the EU is ASEAN's second largest trading partner, while ASEAN is the EU's third largest trading partner outside Europe. In 2016, total trade between ASEAN and EU reached over EUR 200 billion (EUR207.89 billion), having been on a consistent uptrend for the past four years.

Opportunities beyond trade

The opportunities for stronger economic relations between the EU and ASEAN abound. Amb. Jessen and ECCP President Taus mentioned a number of important areas of cooperation. I will add the following for further cooperation:

The first is on the development of micro, small and medium enterprises (MSME) as a platform for promoting inclusive and sustainable growth. Both ASEAN and EU give primacy and importance to MSMEs – in ASEAN, they account from 88 to 99 percent of total establishments, with the large majority of member countries at high 90%, while in the EU they represent 99% of establishments. Closer cooperation can expand market access for both our MSMEs, which is crucial for generating employment and ensuring a competitive and dynamic business environment. We need to support their integration into the supply and value-chain. On the policy level, we need to double our efforts to expand their access to finance and other support services.

The second opportunity for cooperation is the development of the digital economy, which has been tagged as the Fourth Industrial Revolution. We see how digital trends such as social media and cloud computing are radically changing the business landscape.

With an estimated value of USD19 trillion over the next decade, digitization has the power to enable countries to boost GDP growth, job creation, and innovation. Through enhanced transfer of knowledge and technology sharing, the EU and the ASEAN could potentially be transformed into full-blown digital economies.

The third area for stronger cooperation is human resource development. With EU's population of 510 million and ASEAN's over 625 million people, we have the potential to develop formidable pools of talent and productivity. We can harness these through policies that support healthy exchange and flow of talent, as well as the development of appropriate education and skills.

Ladies and gentlemen, to me these are imperatives for cooperation to make growth in ASEAN and EU both sustainable and inclusive – the development of MSMEs, the development of a digital economy and advancing human resource development. This is particularly relevant today when the global environment remains confronted with certain challenges.

One major risk we face is the growing tendency towards protectionism and populism. Brexit and the potential shift in US economic policies are manifestations of this trend. If these inward-oriented sentiments continue to gain traction, this will undermine cooperation and potentially shrink global trade. This could, in turn, derail the global economy's already protracted path to recovery.

Another challenge is the re-emergence of monetary policy divergence. In particular, the US Fed is signaling a continuation of its normalization path through policy rate increases while other central banks in major economies remain accommodative by keeping a lid on interest rates. This divergence can result in volatility in financial markets and possibly dampen credit activities in the near-term and growth in the longer-term.

Given, all these, the challenge is how to achieve economic resilience.

In the Philippines, our thrust over the years has been to focus on ensuring sound macroeconomic fundamentals and building these as homegrown sources of resilience. Such focus has yielded considerable gains for us. We have registered 72 consecutive quarters of uninterrupted GDP growth, propelled by broad-based economic drivers, well-managed inflation environment, sound external sector dynamics, and a stable banking system.

Headline inflation of 1.8 percent for 2016 reflected the prevailing manageable environment of low and stable prices. Average inflation for the first 2 months of the year is at 3 percent, exactly at the midpoint of the government's target range. This is consistent with our expectation that inflation will settle within the target range of 2–4 percent in 2017 and 2018.

This environment gives us a sound basis to be optimistic about the Philippine economic outlook. We believe that the economy can attain its GDP growth target of 6.5–7.5 percent for the year, and remain a source of strength for the ASEAN region. Moving forward, our fundamentals will serve as the spring of resilience in the economy amidst the external headwinds. In addition, our young and dynamic work force is teeming with potential as a source of labor productivity and quality.

Both our fiscal and monetary sectors also have ample policy space to respond to the materialization of exogenous shocks. We have room to accelerate government spending to build needed infrastructure, generate jobs and support economic growth. At the same time, the monetary authorities have the flexibility to adjust policy, if needed, to sustain price and financial stability without sacrificing economic activity. In other words, investors can expect not only sources of value but also anchors of stability in investing in the Philippines. Thus, our country will continue to provide a conducive business environment and outstanding value to investors.

Conclusion

Ladies and gentlemen, in this time of uncertainty, better and stronger global cooperation is the best way forward. It is up to us to calibrate, adjust and evolve the means by which we connect our shores and advance our exchanges.

I hope therefore that through this summit, the partnership between the EU and ASEAN will work toward achieving collective resilience and renewed growth, amidst diversity and asymmetry in economic conditions.

I wish you all a successful and productive summit. Thank you and Mabuhay!