

## Toward Regional Cooperation for the Sustainable Development of the East Asian Seas\*

Atty. Raphael P.M. Lotilla\*\*

I WISH TO CONGRATULATE the East Asian Development Network for this long-standing initiative of encouraging research and scholarly exchange, and thank PIDS President Dr. Gilberto Llanto for the invitation to share some thoughts with you relating to our region. This morning, let me focus on the sustainable development of one of the geographical realities that unite us, the seas of East Asia.

### The enclosed and semi-enclosed seas of East Asia

The Seas of East Asia cover several enclosed or semi-enclosed seas, each constituting a “large marine ecosystem” (LME), among them: the Yellow Sea, the East China Sea, the South China Sea (SCS), the Gulf of Thailand, the Sulu-Celebes Seas, and



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### Editor's Notes

In an era where development issues concerning human security, health, and the environment transcend national boundaries, international cooperation has become more crucial than ever. Our newest *Development Research News* issue explores this theme in which various facets of collaboration in addressing transnational and local concerns are presented, particularly in the areas of resource management, research, and policy development.

Cooperation is an ideal strategy, but obviously is difficult to do and accomplish. Countries are made of people who are, by nature, inherently selfish. They are rationally motivated to pursue things or choose an option that serves their interest, sometimes at the expense of public welfare.

But as the banner article underscores, the price of noncooperation is high, as the case of a common geographical area like

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\* Keynote address at the opening ceremony of the East Asia Development Network (EADN) Annual Forum 2014-2015, 28 May 2015, Makati Diamond Residences, Makati City.

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the Indonesian Seas. LMEs are regions of ocean space encompassing coastal areas from river basins and estuaries to the seaward boundaries of continental shelves and the outer margin of the major current systems. Characterized by distinct bathymetry, hydrography, productivity, and trophically-dependent populations, LMEs and their contributing freshwater basins are recommended by the Global Environment Facility as the geographic area for integrating changes in sectoral economic activities (Sherman and Hempel 2008). The East Asian Seas region is home to a significant part of the world's coral reefs and mangroves and also produces about 40 percent of the world's fish catch and more than 80 percent of aquaculture. The human pressure on marine and coastal resources is very high with approximately 2 billion people living in the region (Tengberg and Cabanban 2010).

The SCS is the largest among the East Asian Seas—covering 5.6 million square kilometers, and containing 15.15 percent of the world's coral reefs and 2.9 percent of the world's sea mounts (Sea Around Us Project, n.d.). Some 125 rivers drain a catchment area of around 2.5 million square kilometers (sq. km) into the SCS. The Gulf of Thailand is a separate LME with an area of 0.39 sq. km and 0.6 percent of the world's coral reefs, but due to the close interrelationship between the two, they are usually treated together. The SCS LME's total population was estimated at 350 million in 2005.

A checkered history, varying political and economic systems, divergent sociocultural traditions, and uneven levels of economic development of the states in the region—together with unresolved territorial disputes and overlapping maritime zones—complicate efforts to find a cooperative regional marine architecture.

But since the contribution of the marine sector to the different national economies is significantly higher in the East Asian Seas as compared to countries in other regions, the urgency of cooperation cannot be stressed enough (PEMSEA 2009.)

### **Toward a cooperative oceans framework**

The 1982 UN Convention on the Law of the Sea (UNCLOS) provides a cooperative oceans framework. In particular, Part IX of UNCLOS is devoted to the regime of enclosed and semi-enclosed seas, which cover “a gulf, basin or sea surrounded by two or more States and connected to another sea or the ocean by a narrow outlet or consisting entirely or primarily of the territorial seas and exclusive economic zones of two or more coastal states” (UNCLOS, Article 122).

The special regime recognizes that enclosed and semi-enclosed seas are “discrete ecosystems, often threatened precisely because their waters are ‘trapped’ between the littoral land-masses”, with scientists agreeing that they “require special treatment since many are under threats which more open marine areas do not face” (Schofield and Townsend-Gault 2012). Illustrating this point further, the authors state:

“For present purposes, let suppose that the primary issues at stake here are fish and water-borne pollutants. The most obvious difference between these two and hydrocarbons is that they are not spatially confined. Both can migrate from one state's zone of jurisdiction to another. Further, if the states concerned are littorals of an enclosed or semi-enclosed sea, the water and everything swimming or suspended in them are “trapped” there and the exchange with the oceans is severely limited. Recognition of this reality

led the drafters of 1982 Convention to create special rules applicable to enclosed and semi-enclosed...”

Consequently, UNCLOS Article 123 provides:

“States bordering an enclosed or semi-enclosed sea should co-operate with each other in the exercise of their rights and in the performance of their duties under this Convention. To this end, they shall endeavour, directly or through an appropriate regional organization: (a) to coordinate the management, conservation, exploration and exploitation of the living resources of the sea, (b) to co-ordinate the implementation of their rights and duties with respect to the protection and preservation of the marine environment, (c) to co-ordinate their scientific research policies and undertake where appropriate joint programmes of scientific research in the area, and (d) to invite, as appropriate, other interested States or international organizations to co-operate with them in furtherance of the provisions of this article.”

Notwithstanding the abovedescribed existing global legal framework for cooperation, the level of trust among the states of the enclosed and semi-enclosed East Asian Seas region still needs to be raised through concrete efforts in the three interrelated specific areas identified in UNCLOS: marine living resources, marine environment, marine scientific research.

### **Protecting the marine environment**

In the last Global International Waters Assessment of the South China Sea (Wilkinson et al. 2005), the priority



Atty. Raphael Lotilla, member of the PIDS Board of Trustees, delivers his keynote address at the opening ceremony of the East Asia Development Network Annual Forum 2014-2015, 28 May 2015, Makati Diamond Residences, Makati City. (Photo by Jigs Tenorio / PIDS)

environmental and socioeconomic concerns identified in the area were unsustainable exploitation of fish, and habitat loss and modification.

Previously, these concerns were limited to coastal areas of the surrounding coastal states. More recently, a disturbing development involves the large-scale dredging and reclamation activity on or near uninhabited coral reefs or atolls in the middle of the SCS leading to the degradation of the marine environment. These can result in a significant decline in ecosystem services, even if these reefs or atolls are found some considerable distance away from inhabited areas. The exact extent of the adverse impact of the activities undertaken so far has not been ascertained but certainly there is a net loss of spawning areas for fish and other living resources that eventually migrate to the coastal areas surrounding the SCS or into the Pacific Ocean. Perhaps, reclamation

is one type of activity with adverse environmental impact that surrounding or claimant states can agree not to undertake to protect the SCS marine environment and its resources, or at least a transparent environmental impact assessment process can be conducted with the participation of other littoral states.

Pollution, including oil spills, was a secondary environmental and socioeconomic concern in the area. In the SCS, the GIWA 2005 report (p. 33) found that oil spills have had moderate environmental impact, and that there are episodic discharges from shipping and occasional spills from oil exploration and production. Some steps have been taken in oil spill contingency planning, but oil spill control equipment is constrained and the implementation of emergency procedures is not well developed. The presence of productive oil and natural gas fields in the SCS periphery and the busy oil-tanker traffic in the area may make a regional oil spill contingency effort feasible.

However, because oil spills are currently less pervasive concerns, countries may find themselves better able to cooperate on matters like developing oil spill contingency plans and their implementation, while building a stronger basis for regional cooperation on other more intractable issues. This has been the case in the Gulf of Thailand where Cambodia, Thailand, and Viet Nam, supported by the Global Environment Fund, the United Nations Development Programme, and PEMSEA agreed in 2006 on a Joint Statement on Partnership in Oil Spill Preparedness and Response Cooperation in the Gulf of Thailand. The joint statement contains a tripartite intergovernmental agreement, which commits participating countries to mutual support and assistance in combating oil spills in the Gulf of Thailand region.

The joint statement also endorsed a Framework Programme for Joint Oil Spill Preparedness and Response in the Gulf of Thailand, specifying obligations and responsibilities of the participating countries, as well as coordinating mechanisms and arrangements for the implementation of the framework programme. The framework programme integrates the implementation of the Oil Pollution Preparedness, Response and Co-operation Convention, the 1971 Fund Convention, and the 1969 Civil Liability Convention as related to damage compensation, and serves as a working model for integrated implementation of the relevant international instruments at the subregional level.

### *Marine living resources*

Fisheries would have been an ideal area for cooperation since the tragedy of the commons afflicts the SCS region, and the socioeconomic and environmental impact of fisheries is well recognized. For instance, among the poor in the Philippines, Malaysia, and Indonesia, estimates are that fisheries contribute approximately 65 percent of the animal protein consumed.

A frequently quoted fisheries status and prognosis for the SCS since 1999, states:

“In the South China Sea, the fisheries situation resembles a malignant and incongruent problem. Fishing fleets of individual countries are depleting the common resources of the sea, thereby causing long-term costs (loss of future fishing opportunities) to all, and reaping short-term benefits at the cost of others. Although there are unilateral attempts at improving the current situation (e.g. China’s fishing ban), regulation of fisheries is dependent on a regional approach to the problem where all littoral states



have to commit themselves to agree upon a limit to annual catches. The long-term effect of this development might lead to the breakdown of the ecosystem” (Naess 1999).

In that context, it is significant that Chapter 17 of Agenda 21, paragraphs 58 and 88 on the sustainable use and conservation of marine living resources, on the high seas as well as under national jurisdiction, respectively, provide that “States should, where and as appropriate, ensure adequate coordination and cooperation in enclosed and semi-enclosed seas and between subregional, regional and global intergovernmental fisheries bodies.” Agenda 21 recognizes that an enclosed or semi-enclosed sea may consist of waters entirely under the national jurisdiction of several states, or, alternatively, it may in addition include a high sea area beyond national jurisdiction. In either case, however, it is in the interest, and the legal obligation, of all the states bordering an enclosed or semi-enclosed sea to come together and cooperate over the region’s marine living resources. As Tengberg and Cabanban (2010) pointed out, the average per capita consumption of fish in the SCS region is about 30 kilograms (kg) per year and this could increase to 50 kg per year. With increasing demand and population growth, there will be greater pressure to expand exploitation of natural fish stocks or increase aquaculture production.

Unfortunately, in the SCS, a collective response to this common challenge continues to be elusive 12 years after Rio+10, and long after the states of the region ratified the UNCLOS.

Several recent developments add urgency toward attaining cooperation on the management and utilization of marine living resources and on marine environmental protection. For

one, the denial or hindrance of access by fishermen from marginal coastal communities to their habitual fishing grounds and the corresponding decline of their income derived from fishing activities may lead to undesirable unintended consequences. The shift by fishermen to piracy in Somalia is instructive: the emergence of a failed state aside, the effective denial to traditional fishermen of their opportunity to conduct economically rewarding fishing activities in nearby coastal areas can be a strong push factor (*Wall Street Journal* 2009; Diaz and Dubner 2010). Coastal state governments may not always be in a position to control desperate individuals or groups from carrying out illegal activities that would threaten not only fishing but also shipping and other legitimate activities in coastal and adjacent waters. The enormous international effort required to stem piracy in the Somalian coast need not be repeated where fishing areas that have never been closed to fishing communities throughout human history remain so. But, in addition, more is needed: common policies and rules appropriate for the SCS as a closed or semi-enclosed sea on the management of living aquatic resources and on the monitoring of fishing activities have to be agreed upon to ensure the sustainability of marine resources and of human activities dependent on them.

#### *Marine scientific research*

Marine scientific research is the third pillar of cooperative efforts in enclosed and semi-enclosed seas. It is an indispensable activity for informed policy and management decisions relating to living marine resources and the marine environment. As the mapping exercise in the Gulf of Thailand illustrates, scientific data are absolutely necessary

in coming up with workable tools for implementation in the subregional sea. The reluctance, if any, of countries in the SCS to the sharing of marine scientific research data may be more related to their sensitivity in tackling fisheries issues. Significant efforts are needed to generate more accurate and reliable fisheries data in the SCS accompanied by a more concerted push for marine scientific research in support of regional management objectives.

#### **The 1982 Convention on the Law of the Sea and Regional Cooperation**

State actors in the SCS will recall that the drafting of the 1982 UNCLOS was the first global opportunity for developing states, many having emerged from the colonization process only decades before, to reshape the world’s modern “constitution for the oceans”. This is clearly articulated in the preambular paragraphs of the UNCLOS, which, in part, states: “Bearing in mind that the achievement of these goals will contribute to the realization of a just and equitable international economic order which takes into account the interests and needs of mankind as a whole and, in particular, the special interests and needs of developing countries, whether coastal or land-locked.” Despite differences on specific issues, and the failure of some countries to obtain all of their desired goals, the developing states of Southeast Asia were one in recognizing the value of the new set of rules establishing “a legal order for the seas and oceans which will facilitate international communication, and will promote peaceful uses of the seas and oceans, the equitable and efficient utilization of their resources, the conservation of their living resources, and the study, protection and preservation of the maritime environment” (1982 UNCLOS, Preamble).



The duty to cooperate among states that are found in the different parts of the UNCLOS, including the protection and preservation of the marine environment and marine scientific research, are clearly arising from the North-South dimensions of negotiations leading to the adoption of UNCLOS. In semi-enclosed seas like the SCS that is bounded entirely by developing states, there is greater reason that the duty to cooperate is realized more effectively as a manifestation of South-South solidarity and in order to insure that all the developing states of the region realize the benefits under the extended maritime jurisdiction accorded under UNCLOS.

Cooperation in the SCS under the UNCLOS is consistent with the corollary concepts of comprehensive, common, and cooperative security. Common security is multilateral, inclusive, and aims at increasing mutual security by reducing the risks of inadvertent conflict and by stressing “non-provocative” defense strategies (Mack 1993). The concept implies “that security should and can be achieved through a web of interdependence, including cooperation in economic development and scientific research and a general enhancement of human interactions” (Valencia 2008). Common and comprehensive security are related to cooperative security that is based on three main ideas: (1) security with one’s neighbors as opposed to security against them; (2) a broad interpretation of security threats to include, among others, environmental degradation and resource access; and (3) an emphasis on multilateral institutions and processes for managing regional issues and promoting habits of dialogue and cooperation (Dewitt and Hernandez 1995 as cited by Valencia 2008).

The comprehensiveness of the envisioned security arrangement requires that we

examine not only political and military security but also the marine environment and sustainable development for building blocks that can lead to enhanced trust and a clearer perception of common interests.

Where cooperation among all states in the SCS is not feasible at this time, one need not wait for the buy-in of each and every state bordering the SCS. A number of SCS littoral countries are members of Association of Southeast Asian Nations (ASEAN), and an ASEAN-x approach to common policies and rules relating to the marine environment, their respective exclusive economic zones and continental shelves as well as to the utilization of living resources in the SCS can be a healthy start.

There may also be areas within the SCS where the concerns regarding the marine environment and living resources are appropriately handled at a bilateral or sub-regional level. A prominent international marine scientist from the Philippines has suggested, for example, a bilaterally-agreed marine park in Scarborough Shoal to ensure the sustainability of giant marine clams and allow regulated fishing outside the shoal.<sup>1</sup> This would allow, to some extent, a restoration of the *status quo ante* in the area while protecting the marine environment and its resources.

### Concluding Remarks

The SCS region can benefit from confidence-building measures not only in the area of political and military security, but also in environmental security and sustainable development. Perhaps, a functional approach toward realizing the internationally accepted cooperative mandate among states bordering enclosed and semi-enclosed sea under UNCLOS

would be among the more acceptable options. The example cited in this paper, of building up a cooperative regime for oil spill response in the Gulf of Thailand, may find wider application in the SCS and in the Seas of East Asia considering the importance of the navigational routes throughout the region and the heavy traffic that they bear, and the corresponding risks of oil spills from accidents at sea, as well as oil and gas rigs and pipelines.

Where opportunities arise, more intractable issues such as those relating to fisheries and the marine environment, particularly the isolated midsea reefs and atolls, should also be addressed.

The building blocks for cooperation for sustainable development in the SCS must be explored wherever possible. The challenge to those of us who deal with the marine environment and sustainable development cannot be anything less than to contribute positively to the realization of that goal.

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<sup>1</sup> Personal communication with Prof. E. Gomez, University of the Philippines Marine Science Institute, November 2014.

# New research projects featured in EADN forum

THE EAST ASIAN DEVELOPMENT NETWORK (EADN) staged its annual forum on May 28 and 29, giving the podium to its young research grantees to present their individual research projects. The Philippine Institute for Development Studies (PIDS), on its fifth year as EADN Secretariat, welcomed research grantees and mentors from all over Asia, including Indonesia, Thailand, China, and Malaysia.

The focus of the new research studies spanned diverse development issues, among them agriculture, migration, human capital formation, and finance. This diversity, according to the welcome remarks of PIDS President and EADN Chairman and Regional Coordinator Dr. Gilberto Llanto, “proves that there is still much to be explored in the field of development”.

At the threshold of regional economic integration, what cuts across these development issues is the opportunity for regional cooperation. Llanto added that EADN plays a “crucial role” in enabling the creation of well-informed policymaking. Atty. Raphael Perpetuo Lotilla, a member of the PIDS Board of Trustees and a fellow-in-residence at the Philippine Center for Economic Development, University of the Philippines School of Economics, delivered a timely keynote address that demonstrates the value of research in various areas of development.

Lotilla, who is also the regional program director for the East Asian Seas project



The EADN enables young researchers like Vanxay Sayavong of Lao PDR to examine how his country's rice productivity can be improved. (Photo by: Edwin Huffman / World Bank Photo Collection)

of the Global Environment Facility implemented by the United Nations Development Programme, highlighted the need to cooperate for the sustainable development of the marine resources of East Asia, with opportunities ranging from management, exploration, and exploitation of resources; preservation of the environment; and coordination in science and research.

Everyone, he said, has a stake in protecting and promoting sustainable development of marine resources in the region. (See the banner story for the complete text of his keynote address.)

The list of research studies presented at the forum evoked the theme of Lotilla's speech,

with each one looking into development policy areas critical to the respective countries of the researchers. Each research grantee was assigned a discussant to mentor them and provide guidance to mold their framework, improve their methodologies, whittle the scope, and enhance their research writeup.

Country coordinators Dr. Carunia Firdausy, Dr. Sun Xuegong, and Dr. Siew Yean Tham, facilitated the sessions. Dr. Mohamed Ariff, EADN representative to the Global Development Network Board of Directors, was also in attendance to provide further guidance to the grantees.

Firdausy of the University of Tarumanagara, Indonesia, chaired the

first session. Ms. Pham Thi Nhung and Mr. Vanxay Sayavong of Viet Nam's Hue University of Agriculture and Forestry and Lao PDR's National Economic and Research Institute, respectively, presented their research proposals.

In "Loss and gain of hydropower development: Assessing the real situation of the re-forestation and resettlement projects associated with hydropower development, and its impacts on affected people in the climate change context (Case study in Gia Lai Province, Vietnam)", Pham explores the progress of reforestation in Gia Lai Province, its social and environmental impacts, and the policy gaps that need to be addressed.

Meanwhile, Sayavong is examining how to improve rice productivity based on the technical inefficiency model, in his research paper titled "Productivity and Technical inefficiency of rice production in Laos: A case study of farming household survey". Despite improvements in rice production in Laos, the country continues to lag behind its neighbors in overall rice productivity.

Chaired by Dr. Srawooth Paitoonpong of the Thailand Development Research Institute, the second session explored the theme of internal and regional migration, and the reflexive impact on both the receiving and sending countries.

From Brawijaya University, Dr. Devanto Pratomo's research proposal, "Can migrants escape from the poverty? Evidences from four Indonesian cities", looks at the implications of rural-urban migration on the welfare of migrants.

Meanwhile, the topic of Dr. Gaik Cheng Khoo of the University of Nottingham, Malaysia, is gastrodiploamacy. Her research project titled "Gastrodiploamacy

and the globalizing *hansik* campaign in Malaysia" explores the impact of promoting *hansik* or South Korean cuisine in fostering cross-cultural social interaction between Malays and South Korean immigrants and in enhancing South Korea's soft power overseas.

The last presenter for the session was Dr. Sun Sanbai from the Chinese Academy of Social Sciences. In his paper, "Migration, Welfare Improvement and Urban Development in China", Sun is studying the relationship between migration and welfare. His initial findings show that obtaining the *hukou*, a household registration system in China, improves immigrants' welfare.

The last session for the day was chaired by Dr. Sun Xuegong of the National Development and Reform Commission in China. The research proposals of Mr. Christopher James Cabuay from De La Salle University-Manila and Dr. Pregamol Rutchanagul from Thammasat

University in Thailand focus on labor and welfare issues.

Cabuay's paper titled "Do Remittances Encourage Participation in School and in the Labor Force?" illustrates the effect of remittances on school and labor force participation using propensity score matching.

Meanwhile, Rutchanagul's paper aims to investigate the profile of street adolescents in Thailand. Existing studies on sexual and reproductive health status focus on general adolescents and their access. Through her paper, "Sexual and reproductive health status, service needs and perceived barriers on sexual and reproductive health services of Thai street adolescents", the author hopes to contribute to the literature by studying street adolescents to provide more specific policy recommendations for this group.

Dr. Tham Siew Yean of the Institute of Malaysian and International Studies



EADN country coordinators, research grantees, and secretariat staff during the East Asia Development Network 2014-2015 Annual Forum, 28-29 May 2015, Makati Diamond Residences, Makati City. (Photo by Jigs Tenorio / PIDS)

chaired the final session on the second day, which had three presenters. Through her paper, “The Influence of Monetary Policy on Economic Growth and Inequality: A Case Study of Indonesia”, Ms. Audrey Soedjito of the Center for Strategic and International Studies, Indonesia, aims to establish and measure the impact of monetary policy on the variation of output growth and income distribution.

Meanwhile, Ms. Nguyen Thi Thuy Trang of the National Center for Socio-Economic Information and Forecast presented her study on the “Impact of Foreign Direct Investment (FDI) on Income Inequality in Viet Nam: Empirical Analysis”. Her motivation is Viet Nam’s rapid economic growth resulting from the economic reforms implemented in the 1980s. FDI has steadily flowed in the country since then and she wants to know its impact on the economy.

Ms. Nguyen Thi Diu from the Law and Policy for Sustainable Development Research Center, Viet Nam, closed the session with her research proposal on “Regional Legal Framework for Good Mekong Cooperation”, which aims to analyze the nature of relations among Mekong countries, and the influence of those relationships in the cooperation for and compliance to existing legal frameworks, such as the Mekong Agreement.

Described by Llanto as “a venue for promising researchers to learn from and be guided closely by experts and senior scholars through the mentoring scheme in the research grants process”, the EADN has funded more than a hundred individual and regional research projects in the social sciences through the Global Development Network funding.

Founded in 1998, the EADN remains committed to its vision of developing the research capacity of developing countries in the region by capacitating research

institutions and individual researchers, honing their abilities to help their home countries make development-focused and evidence-based policies. *MHB, CMGS*

**Table 1. EADN Member-Institutions**

*China*

Institute of Sociology, Chinese Academy of Social Sciences  
Unirule Institute of Economics  
Institute of International Economics, Henan University

*Hong Kong*

Hong Kong Policy Research Institute  
Center of Asian Studies, University of Hong Kong

*Cambodia*

Cambodia Development Resource Institute  
Cambodian Institute for Cooperation and Peace

*Indonesia*

Institute for Economic and Social Research, University of Indonesia  
Center for Industry, SME and Business Competition Studies, University of Trisakti  
Faculty of Economics, Padjadjaran University  
Center for Asia and Pacific Studies, Gadjah Mada University  
Demographic Institute, Faculty of Economics, University of Indonesia  
Center for Policy and Implementation Studies  
Center for Strategic and International Studies

*Lao PDR*

National Economic Research Institute

*Malaysia*

Institute of Malaysian and International Studies, Universiti Kebangsaan Malaysia  
Malaysian Institute of Economic Research  
Institute of Strategic and International Studies

*Myanmar*

Yangon University of Economics

*Philippines*

Philippine Institute for Development Studies  
Economic Research Center, University of the Philippines  
Institute for Strategic and Development Studies

*Singapore*

Institute of Southeast Asian Studies  
Singapore Institute of International Affairs

*South Korea*

Korea Development Institute  
Korea Institute for International Economic Policy

*Thailand*

Thailand Development Research Institute  
Institute of East Asian Studies, Thammasat University  
National Institute of Development Administration

*Viet Nam*

Institute of World Economics and Politics  
Institute for Southeast Asian Studies (Viet Nam)  
Central Institute for Economic Management

# APEC research conference underscores issues hampering inclusive growth

DESPITE MODEST ECONOMIC GROWTH, countries around the globe are still burdened with poverty and inequality, and more recently, disasters and catastrophes caused by climate change. Research thus plays a critical role in raising awareness and facilitating discussions on achieving inclusive and sustainable economies in Asia and the Pacific and supporting the goals of the Asia-Pacific Economic Cooperation (APEC).

As part of the Second Senior Officials Meeting (SOM2) and Related Meetings of APEC, researchers from across the Asia-Pacific region gathered at the APEC Study Centers Consortium (ASCC) Conference 2015 to share their analyses and insights on APEC issues. The conference held on 12-13 May in Boracay Island zeroed in on the APEC 2015 theme of “Building Inclusive Economies, Building a Better World”.

The Philippine APEC Study Center Network (PASCN), which is being led by the Philippine Institute for Development Studies (PIDS), is one of the 20 APEC Study Centers (ASCs) in APEC member-economies. ASCs undertake research, disseminate information, and facilitate discussions on APEC-related issues to support the attainment of APEC’s vision and goals. The outcomes of the ASCC Conference may serve as inputs to the different APEC working group discussions and may be integrated in the APEC Leaders’ statement.



Participants of the 2015 APEC Study Centers Consortium Conference were all smiles during the event's photo session. The two-day gathering of APEC researchers was held on 12-13 May 2015 at Boracay Regency, Boracay Island, Aklan Province. (Photo by: Gizelle Manuel / PIDS)

In his keynote address at the opening of the two-day conference, Deputy Director-General Rolando G. Tungapalan of the National Economic and Development Authority noted that the ASCs have been instrumental in fostering regional cooperation among tertiary and research institutes in the APEC region through the promotion of increased academic collaboration on key regional economic challenges.

According to Tungapalan, the analytical work that the ASCs put in will be valuable in sharpening the policymakers’ tools for addressing cross-cutting

issues especially on services, trade and investments, supply chain connectivity, and enhancing regional economic integration through the Free Trade Area of the Asia-Pacific (FTAAP).

He added that “through careful analysis of these issues, APEC will have a better chance at putting ideas and plans into action, and will be able to craft more effective solutions and anticipate problems before they occur.”

Meanwhile, Dr. Fernando Aldaba, dean of the School of Sciences of the Ateneo De Manila University (ADMU), stressed

that inputs and discussions on the APEC subthemes are critical ingredients in the formulation of truly inclusive and sustainable economies in the Asia-Pacific region.

APEC Secretariat Executive Director Alan Bollard, represented by Dr. Akmad Bayhaqi, said the 2015 priorities of APEC reflects the strong emphasis it gives to development issues within the framework of regional economic integration. He added that the global economic outlook for this year shows ample opportunities. However, the International Labour Organization noted that global unemployment increased by 5 million in 2013 and is reaching 200 million because of uneven economic recovery and modest growth.

For his part, Dr. Bokhwan Yu, deputy dean of the Asian Development Bank Institute (ADBI), emphasized that for growth to be truly inclusive in the APEC region, governments and private sector, together with academe and civil society, should work together.

Yu added that one solution to solve poverty and achieve inclusiveness is through the development of small and medium enterprises (SMEs), which have the potential to provide jobs to people. SMEs, however, must be able to participate in global value chains to benefit more from greater integration.

“Achieving inclusive growth in the region is hampered by various issues and there is no single solution to solve all these problems,” Yu stated. The ASCC Conference, he said, provides an opportunity for researchers in the region to share knowledge and find solution to make growth more inclusive. Meanwhile, Dr. Erlinda Medalla, vice-chair of the ASCC Conference 2015 and project director of the PASCN, highlighted the important role that ASCs



SMEs like this leather glove manufacturing company in Muntinlupa City, Metro Manila, account for more than 97 percent of all enterprises in the APEC region and employ more than half of the workforce in the region. Strengthening SMEs is one of the key priorities of APEC 2015 discussed in the ASCC Conference. (Photo by Joaquin Bobot Go / International Labour Organization)

and their academic researchers play in analyzing key APEC issues in order to assist APEC officials in formulating effective policies.

In addition, Undersecretary Ferdinand Cui, Jr., APEC 2015 SOM vice-chair, presented and discussed the four APEC 2015 priority areas: enhancing the regional economic integration agenda; investing in human capital development; fostering SMEs’ participation in the regional and global economy; and building sustainable and resilient communities.

According to Cui, the Bogor goals of free and open trade and investment remain at the core of the APEC agenda. However, he noted that while gains from open trade remain fundamental, the issues of how the benefits of economic growth are distributed and how different economies and various economic agents are able to participate in regional and global processes have become more complex with the changing global environment.

The academics discussions that followed the opening ceremony were divided into several sessions whose themes were based on the four priority areas of the 2015 APEC agenda. A total of 24 papers were presented covering a wide range of issues.

One of the highlights of the conference is the session on possible pathways to the FTAAP. The FTAAP is at the top of the APEC agenda and has a big potential to boost economic growth in the Asia-Pacific region. To date, there are three proposed pathways: the United States-led Trans-Pacific Partnership, the ASEAN-based Regional Comprehensive Economic Partnership (RCEP) process, and the Pacific Alliance, which involves Colombia and three other economies. The different pathways leading to the FTAAP are interdependent. Whatever pathway is chosen, researchers present during the conference were all in agreement that APEC’s role is to serve as incubator of innovative approaches to economic cooperation and as breeding ground and mechanism for

communication, exchange of best practices, and capacity building.

Some presenters focused on the ways to enhance regional economic integration through a more integrated services sector in the region. Their studies reveal that the services sector played an important role in the growth and evolution of APEC economies in recent years.

Efficiency in services, particularly those embodied in goods or manufacturing-related services, has increasingly become associated with higher labor productivity and competitiveness in manufacturing. Services are also widely recognized as both the glue and the facilitator of global value chains particularly in the logistics chain. To better appreciate the interconnection between manufacturing and services, and to build confidence over the associated need for regulatory reforms among economies, the issue of knowledge sharing and the development of a knowledge community have become even more important. This is an obvious task for APEC in its role as incubator of innovative approaches to economic cooperation. Presumably, this proposal also addresses the need to accentuate how growth in manufacturing could increase the derived demand for services.

Another important issue tackled at the ASCC Conference was supply chain connectivity, which is vital for the efficient flow of trade among APEC economies. Supply chain connectivity allows firms to source materials from any part of the world and to deliver products and services to consumers anywhere in the world. It covers trade facilitation, physical infrastructure, and people-to-people exchanges and networks. Coordination and collaboration among producers, suppliers, consumers, and third-party service providers are crucial in supply chain management.

The gains from regional integration—and how extensive the scope of these gains will be—largely depend on the volume and quality of trade and investment patterns, infrastructure, and connectivity in the APEC region. Supply chain barriers can cause higher operating and capital expenses, increased risks, and lower trade volume.

Also at the heart of the discussions was how SMEs can participate in the regional and global economy. At present, SMEs account for more than 97 percent of all enterprises in the APEC region and employ more than half of the workforce in the region. But the sector's share in the gross domestic product of most APEC economies ranges from only 20 percent to 50 percent.

Access to credit brought about by the absence of credit data and the perceived risks in lending to SMEs are among the common problems that small businesses encounter. A useful model is now being used in Japan wherein 52 credit guarantee corporations from the government collect data from Japanese SMEs (see article on p. 19 for details). A similar system could be established in other parts of Asia to accumulate and analyze credit risk data and to measure each SME's credit risk accurately. This way, banks and other financial institutions could use the information to categorize SME customers based on their financial health. SMEs would also benefit as they could both raise funds from the banks more easily and gain access to the debt market by securitizing their claims. Strengthening SMEs' access to financing and overseas markets will result in increased exports and more jobs for local workers.

Another problem that most SMEs face is their poor capacity to recover from disasters. It is estimated that only 25

percent of SMEs re-open following a severe disaster. As trade continues to be increasingly integrated and interlinked by production and supply chains, disaster-related disruptions can wreak serious havoc on SMEs in the Asia-Pacific region. APEC member-economies are prone to intense natural disasters, but in many instances, disaster risk reduction and management frameworks are not translated into local and concrete sectoral or business plans.

Investing in human capital development was also discussed at the conference. Researchers present agreed that education and training, and, on the whole, human resource development, are crucial investments, which, like other forms of investment, can raise the output and productivity of workers. The success of SMEs, particularly in promoting economic growth through the participation in global value chains, would be limited in the absence of capable people. The need to have comparability of skills for greater intrafirm connectivity within the region was also emphasized. Among the suggested recommendations is the establishment of the APEC Reference Qualification Framework, which can serve as a benchmark in comparing the training, qualifications, skills, and competencies of various skilled workers.

Discussions on the second day focused on the importance of having sustainable and resilient communities. Father Jose Ramon Villarin, president of the Ateneo De Manila University, discussed the issue of climate change. His key message centered on the need to “strengthen the supervision of change” by capacitating leaders and adopting an integrated approach given the multilevel and wide-ranging

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# PH's bright prospects in 2015 highlighted in economic forum

THE PHILIPPINES CAN EXPECT A LOT OF POSITIVE GROWTH in the next 24 months. PIDS Officer-in-Charge (OIC) Vice-President Adoracion Navarro and Philippine Stock Exchange (PSE) President and Chief Executive Officer Hans Sicat came to this optimistic conclusion at the PIDS Philippine Business and Economic Outlook seminar held on May 19 in Makati City. Both agreed, however, that the risk of overlooking important opportunities remain if both the government and the private sector fail to address the challenges and issues hindering a truly inclusive growth.

Sicat said the PSE is anticipating a “robust” 24 months ahead, in terms of infrastructure build, consumer spending, and, in particular, the financial sector.

In the same positive vein, Navarro posited a 6.8-percent growth of the national economy for 2015.

## Performance

Sicat painted an image of accomplishments and ripe growth opportunities ahead for the Philippine financial sector.

“We are trading around 11 billion pesos on any given day. It means that the market is growing faster.”

Upon measuring the behavior of publicly listed firms and their ability to generate revenues and net income for the past three

years, figures reveal that publicly listed firms have grown faster than the economy since 2011. This means, assuming the belief that stock markets significantly represent the growth of the economy, the financial market has outperformed the growth statistics of the real economy.

Sicat considered the level of participation of the market relative to the size of the economy as an indicator that differentiates developed and developing markets. Considering this indicator, the Philippines is no longer in the underdeveloped market bracket, Sicat said.

Out of all the sectors, mining and oil posted dismal numbers. The government's choice to focus solely on the green side of things, overlooking the business and employment generation of the sector, contributed to its laggard growth, he said. Sicat claimed that if the country can pull itself together, take advantage of the low oil prices, and help optimize mining operations, the sector could contribute one percent to the country's gross domestic product.

In other matters, Sicat soothed fears about bubbles in the burgeoning property sector. The Banko Sentral ng Pilipinas had put macro policy measures in place, and none of the banking institutions have so far hit any of the warning indicators.

Navarro attested to the same views about the country's recent performance. “The

Philippines is generally in sync with the vibrant expansion of our neighbors,” she noted.

On the demand side, the primary growth drivers in 2014 were household consumption and net exports. Net exports include miscellaneous services, which constituted 79 percent of the total export services last year. On the supply side, the services sector contributed the most. Meanwhile, manufacturing contributed the most to overall growth, a trend that has consistently progressed following the revival of the sector in 2013.

The country's total revenues have stayed high, buoyed by expanding of economic activities and broadening of tax base.

## Opportunities

The PSE is looking forward to major improvements in the financial sector's penetration rate. In the Philippines, only 31 percent of the population have some kind of banking account. The huge untapped potential demand for banking and corporate expansion adds to Sicat's optimistic view for the sector's growth.

Currently, actors in the financial sector are trying to enable the environment for a more diverse, easier, and more lucrative trading and securities exchange. The PSE is encouraging more mergers and the consolidation of bank payment systems. It is also reaching out to the top universities to promote financial market



Dr. Adora Navarro, OIC Vice-President of PIDS, said the Philippines must mobilize long-term capital and optimize investments in infrastructure, research and development, and innovation. The government and the private sector should work together to narrow down the savings-investment gap, she added. (Photo by Jonathan Ernst / World Bank Photo Collection)

education, using online courses as a tool, among other means. The launching of new ASEAN indices, PSE hopes, will help improve trading standards.

In addition, Sicat outlined the opportunities for other sectors. He predicted that manufacturing firms and the energy sector will do well. The services and tourism sectors will likewise prosper. The gaming and casino industry's integrated resort and malls are massive operation. "One thing they've done that the government hasn't is spend USD 3 billion in building infrastructure. This is actually one of the bright spots and has been a great employment-generating activity," says Sicat.

Navarro reminded everyone that apart from generating revenue, the country must mobilize long-term capital and optimize investments in infrastructure, research and development, and innovation. The government and the private sector should

work together to narrow down the savings-investment gap, she said.

The public-private partnership (PPP) model has proven dynamic and successful. But Navarro stressed that the PPP model needs to be replicated in other economic activities. There must also be "a dynamic pipeline for the public sector and a dynamic potential investment portfolio for banks and infrastructure" for project development activities to evolve. There should be massive and continuous market research and project development activities in infrastructure and agribusiness, she added.

### Challenges

The road blocks to achieving these potentials, however, are plenty.

"We used to worry about political change, but it's low on our list now; we are more worried about cybersecurity," notes Sicat.

This demonstrates that challenges evolve with the times. But he also pointed out old issues like fickle tax policies that undermine the country's credibility and reputation of good governance.

Navarro criticized the slow development of national infrastructure. She also stressed the impact of the lack of quality and certification measures in manufacturing, and underscored the importance of prioritizing investor protection.

The issue of rising underemployment was also discussed at the seminar's open forum. PIDS President Dr. Gilberto Llanto rued the fact that the public sector often gave the private sector a pass in playing their role in creating quality jobs. Llanto underscored that underemployment may not be a question of capital, but a question of talent.

"I want to relate underemployment to the inability of educated Filipinos to do product development, to conceptualize business activities, to innovate. If we do not strive to quickly adjust to market changes, then we will have to stare at underemployment for a long time," warns Llanto.

All of these challenges and issues will affect not only the future performance of the Philippine economy but also how the country will size up in the ASEAN economic integration. In terms of competitiveness, the country is far from generating the enabling infrastructure to be at least a major player in the ASEAN. Furthermore, the policymaking environment and the implementing agencies are inconsistent, thus disabling an otherwise healthy business environment.

"2015, it is looking good. Beyond 2015, it is still looking good according to

⇒ p. 17

# PIDS and UNICEF study finds decreasing numbers of out-of-school children

“OUT-OF-SCHOOL CHILDREN PREVALENCE has declined in almost all regions of the country,” according to a joint study of PIDS and the United Nations Children’s Fund (UNICEF). The numbers are indicative of achievements and further challenges for basic education as a whole.

PIDS Senior Fellow Jose Ramon Albert and Assistant Professor Clarissa David of UP Diliman College of Mass Communication delivered their collaborative report at the PIDS-UNICEF joint seminar on May 26. The results of the country report are summarized in a

policy note released by PIDS titled “How has basic education in the Philippines fared and what else needs to be done?”

According to the report, the number of children who have reached the final grade in primary schools has increased since 2008. This serves as an important indicator of the decline of out-of-school children (OOSC) incidence.

The rate of OOSC to the total number of children in the 5- to 15-year-old bracket has declined by half between 2008 and 2012, from 11.7 percent to 5.2 percent. The rate of preprimary students rose from

35 percent to 48 percent between 2008 and 2011. On a closer inspection, the sharpest increase belongs to households headed by poorly educated individuals. This affirms that policies like mandatory and universal kindergarten have benefited the poor the most.

The difference in the rates of children going to preschool between the upper middle-income and the poorest has shrunk from 34.9 to 5 percent. Greater access to free kindergarten and other early childhood care and development programs, according to Albert and David, have acted as an ‘equalizing’ force, helping reduce wealth and social class inequalities. In particular, they identified three interrelated factors: the mandatory kindergarten, the rise in the Department of Education’s (DepEd) budget with the implementation of the K-12, and the expansion of the conditional cash transfer program (the *Patawid Pamilyang Pilipino* Program or 4Ps).

Still, they emphasized the need to understand the nuances underneath. They recommended that further research must be taken to generate more comprehensive policies and program, particularly where secondary schools and gender disparity are concerned.

Current measures are in place, but there have only been modest improvements at the secondary level where maintaining school participation is more challenging. There are plenty of factors at play, with gender adding a complicated layer.



According to the PIDS-UNICEF report, the number of children who have reached the final grade in primary schools has increased since 2008. This serves as an important indicator of the decline of out-of-school children (OOSC) incidence in almost all regions of the country. (Photo by: Jerome Ascano / World Bank Photo Collection)



“Primary school attendance would rise from 90 percent to 98 percent should all children aged six to seven go to school,” says report co-author and PIDS Senior Research Fellow Jose Ramon Albert at the PIDS-UNICEF seminar on “Out-of-School-Children in the Philippines”, 26 May 2015, Makati City. (Photo by: Gizelle Manuel /PIDS)

Boys have higher dropout rates, especially in high schools that have high student-teacher ratios. The explanation for this phenomenon is rooted in prevailing cultural and socioeconomic mindsets.

According to David, for the poorest families who can only support the education of one child, they often prioritize the girls. The emphasis on the girls could be linked to the fact that many of the jobs that people think will get them out of poverty, such as nursing which is in-demand overseas, are dominated by women. Females are thus perceived to be more likely to send more money home than their male counterparts in the same industries. Another possible reason, also reflecting a strong female bias, is that educators and parents alike believe that young girls are much easier to educate, more likely to

finish, more likely to excel, and less likely to get distracted.

The disparity in the tertiary level is even worse. David notes, “It’s an issue that is so multifactorial that we really need to carefully study the problem.”

Albert and David segregated the 42 recommendations stated in the OOSC Country Report into five area categories, namely: getting more children in the three- to five-year-old bracket enrolled in preschool; improving the quality of teaching and curricula; addressing the gender disparity in performance; bringing education to older OOSC; and supporting management efficiencies and effectiveness.

“Now that shortages are no longer the main story in basic education, the DepEd can get out of its cycle of just trying to keep up with the growing demand,” say Albert and David.

The authors hope that the country can now focus on improving quality in a strategic manner and achieve the goals set in the K-12 law.

They also underscored the importance of strengthening data systems, commending the institutionalization of the Learner Information System. More initiatives to do research to generate evidence-based policies are needed, on top of performance-based budgeting, school-based management, and systematic evaluation of special programs things that are not for the DepEd alone to accomplish.

“It’s a common dream for all of us: aim for a nation where there is no out-of-school youth. We’re almost there. We just need one big push,” remarks DepEd Secretary Br. Armin Luistro at the seminar’s forum, emphasizing that basic education needs above all, “community effort”. **MHB**

### Regional cooperation . . . from p. 5

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# Philippines' financial sector lagging behind in ASEAN

THE PHILIPPINES' FINANCIAL SECTOR has a lot of catching to do to improve its competitiveness and be at par with the frontrunners of the Association of Southeast Asian Nations (ASEAN). Improved financial education and financial literacy, and reform policies to strengthen financial inclusion of small and medium enterprises (SMEs) should be at the heart of policy reforms to achieve the critical improvements necessary to gear up for the ASEAN Economic Community.

These were expressed by former PIDS President, Dr. Mario B. Lamberte, and his research associate, Ms. Ammielou Q. Gaduena, in their report on the country's financial system titled "Enhancing Access to Financial Services through a More Competitive Financial System", a component study of the Advancing Philippine Competitiveness (COMPETE) project funded by the United States Agency for International Development. The authors presented the study in a PIDS Pulong Saliksikan held on June 17 in Makati City.

Their research examined the role and contribution of banking, insurance, and capital markets to the economy. It also gauged the competitiveness of the country's financial system compared with that of its neighboring ASEAN countries. In many of the indicators they used, the Philippines' performance proved mediocre, if not dismal.

## Lagging Behind

The authors forewarned that if the country is unable to render its financial sector with the proper reforms and policies to become more competitive, the Philippines will be disadvantaged when it becomes financially integrated with the rest of the ASEAN.

Foreign equity or the participation of foreign players in the financial sector is part of the country's commitments to the ASEAN Financial Agreement on Services. Although the Philippine's

foreign equity cap is not yet reflected in the commitments compliance report, Lamberte and Gaduena nonetheless noted that the banks of other ASEAN member-states (AMS) have a lot of room to "expand their presence in the Philippines in the near term, while it remains a big challenge for Philippine banks to penetrate the banking markets in other AMS."

In the capital markets, the Philippines has the most restrictive commitments in terms of foreign equity cap for investment houses, requiring that the board of directors must be 51 percent Filipino nationals. Philippine



"Liberalization policy should be combined with a strong merger and consolidation policy," says Dr. Mario B. Lamberte, team leader of Component 3 of the COMPETE Project of the USAID and former PIDS president, at the Pulong Saliksikan on "Enhancing Access to Financial Services through a More Competitive Financial System", 17 June, Makati City. (Photo by: Gizelle Manuel /PIDS)

banks also show a consistency in coming second to the last when it comes to cost and profit efficiency.

### Access to Credit

Access to credit in the country is much more restricted compared with that of its neighbors. Out of nine countries, the Philippines is only ahead of Myanmar, currently at the bottom of the list. Meanwhile, Malaysia, Thailand, Viet Nam, and Singapore consecutively sit at the top of at the nine ASEAN nations' ranking. Basically, this means the Philippine banks are not turning the money deposited by their customers into actual loans. The authors hypothesized that Philippine banks are discouraged from looking for qualified borrowers, especially among SMEs, because of high intermediation tax and high reserve requirements on deposits.

Established in 2012, the COMPETE project was created to help the Philippines improve its level of competitiveness by providing relevant sectors with technical assistance. The project covers strengthening public-private partnership programs in the infrastructure sector and supporting reforms that would promote the ease of doing business. In the aspect of financial services, COMPETE's priorities are in helping SMEs access credit by improving the credit information system and strengthening the entrepreneurs' borrowing capacity.

Lamberte explained that SMEs are disadvantaged from acquiring or accessing credit because of many restrictive laws that discourage both the SMEs and the banks or lending institutions. COMPETE helps small businesses overcome these hurdles. But Lamberte underscored that the key goal is to use the newly established

credit information system to that end. A comprehensive and centralized credit information system will benefit SMEs by providing them with concrete know-how to access credit. At the same time, it will provide banks with profiles of viable business investments in SMEs across the country.

### Recommendations

The authors believe that reducing intermediation taxes or reserve ratios will incentivize and enable the banking system to perform its financial intermediation function much better. Implementing policy reforms to encourage opening up to foreign players especially in the insurance and capital markets would facilitate further liberalization. Supporting a stronger merger and consolidation policy would also help.

But more importantly, support for increasing the competitiveness of SMEs should be duly realized. SMEs make up 90 percent of the country's business sector. It is difficult for them to gain capital in general and they often rely on informal sources.

A handful of experts and professionals from the sector who were in attendance agreed that a stronger financial support for guarantee institutions would incentivize banks to get more involved in broadening credit access for SMEs.

Lamberte advised that this must coincide with the complete removal of special deposit accounts (SDAs). He said that most banks are not aware that there are many viable enterprises around, but they have no incentive to find out. If the Bangko Sentral ng Pilipinas shuts down the SDAs, this might cure the general complacency of banks and encourage them to reach out to SMEs more.

Ambassador Jesus Tambunting, chair of the Small Business Guarantee and Finance Corporation, underscored the need to increase support for government-owned financial institutions that issue guarantees to enable them to do what they can for SMEs.

It is important to address the limitations of the financial sector. The government and the financial sector must work together to bridge services to reach those who will benefit the most. The financial sector, not only the SMEs, stands to gain from the circulation of money by granting access to those who need it the most.

Financial services should reflect this agenda. The system should be able to reach out to people who are traditionally unserved and underserved. These are things that the country should aspire for so that growth will become truly inclusive. **MHB**

### *bright prospects... from p. 13*

our analysts. That's the good news. But to realize our growth potential and make it all the more inclusive, both the government and private sector have to work together," concludes Llanto.

The country must invest in its human capital. At the same time, it must strengthen its institutions, make its policies more coherent and cohesive, and optimize its social capital to enable a good business environment.

Coordination and cooperation between the government and the private sector, and between individuals and firms, are necessary to empower a thriving business environment. The Philippines must figure out how everyone can collaborate to achieve inclusive growth. **MHB**

## Research Digests

Policy Notes 2015-09

### **Performance of APEC Economies in Ease of Doing Business**

by *Ronald U. Mendoza, Tristan A. Canare, and Alvin P. Ang*

The World Bank ranks almost 200 countries in terms of their ease of doing business (EoDB) to underscore the importance of a thriving private sector in promoting high and inclusive growth. Its *Doing Business Report* uses several criteria in scoring and ranking EoDB. In the *2015 Report*, which is discussed in this *Policy Note*, Singapore is once again on top, a place that it has maintained since 2007, followed by New Zealand and Hong Kong, both APEC economies. The Philippines registered moderate to impressive gain in its ranking, from 108th to 95th. There is obviously a wide variation in the performance of the APEC member-economies. As the ASEAN Economic Community progresses, and as the Philippines takes a crucial role in this year's APEC 2015 Summit, comparing the EoDB metrics of the ASEAN countries becomes highly important. With their diverse economic conditions, APEC member-economies that are performing well in EoDB can share their expertise with the ASEAN and other developing country members. Better-performing economies can support lower-ranked ones through the sharing of best practices.

Policy Notes 2015-10

### **Mainstreaming SMEs through Social Enterprises**

by *Leonardo A. Lanzona, Jr.*

Social enterprises (SEs) are crucial both for the development of small and medium enterprises (SMEs) and labor generation. In the Philippines, SEs are linked to social entrepreneurship as a process of creating spaces and transforming markets toward the goal of poverty reduction and sustainable development. This *Policy Note* discusses the findings of a study that explored the key policy variables necessary to support SE and SME development. The

study also examined the extent to which nongovernmental organizations, as well as international trade arrangements, such as the Asia-Pacific Economic Cooperation, can improve the business environment for SEs and SMEs. Results indicate that the business environment affects the revenues and incomes of these enterprises. To support SEs, it is crucial to link them to global value chains and to provide them with the necessary global public goods that can help address poverty directly.

Discussion Paper 2015-25

### **Assessment of the Bottom-Up Budgeting Process for FY 2015**

by *Rosario G. Manasan*

The bottom-up budgeting (BUB) process is one of the major reform initiatives of the Aquino administration, which is seen, among others, as a component of its budget reform thrusts that are aimed at making the national government budgeting process more responsive to local needs. This paper assesses the conduct of the FY 2015 round of the BUB in 12 municipalities in the provinces of Agusan del Norte, Camarines Sur, Negros Occidental, and Quezon. Specifically, it aims to (1) examine how the key steps in the planning and prioritization of projects under the BUB for the FY 2015 cycle are implemented on the ground in terms of extent of participation, LGU-CSO engagement, and integration of BUB process in local planning process; (2) report on the progress and identify bottlenecks in the implementation of subprojects identified during the FY 2013 BUB process; and (3) provide insights on areas for further improvement for the subsequent rounds. In this sense, this assessment focuses on the process rather than on the outcomes of the BUB.

Discussion Paper 2015-29

### **Toward an Enabling Set of Rules of Origin for the Regional Comprehensive Economic Partnership**

by *Erlinda M. Medalla*

With overlapping, multiple free trade agreements (FTAs), such as the case of the Association of Southeast Asian Nations (ASEAN) and the various ASEAN+1 FTAs, complications that run counter to the economic integration objectives of the East Asian region could arise. Forging the Regional Comprehensive Economic Partnership (RCEP) among ASEAN and its FTA partners is a next logical step. How facilitative the rules of origin (ROO) provisions are could prove crucial in maximizing the potential benefits. This paper revisits the nature of ROOs in ASEAN and the various ASEAN+1 FTAs to examine the surrounding constraints and issues, as well as to provide recommendations on the beneficial set of ROOs for the RCEP and serve as inputs for policymakers and negotiators.

Discussion Paper 2015-32

### **Toward an Effective Regulatory Management System: Philippines**

by *Gilberto M. Llanto*

In the emerging ASEAN Economic Community, regulatory quality and coherence will be critical in stimulating investments and improving the overall business and investment climate. The different countries in the region are concerned not only with aligning and harmonizing regulatory frameworks, but also first and more fundamentally, with reducing regulatory burden and improving regulatory quality and coherence. To achieve these objectives, the literature suggests the establishment of an efficient and effective regulatory management system. The paper examines the case for a regulatory management system for the Philippines and recommends specific measures for its establishment in Philippine policy space. It describes the overall experience of the country in regulatory reform, highlights the challenges in its journey toward regulatory quality and coherence, and identifies steps in constructing a responsive regulatory management system.



**Editor's Notes... from p. 1**

the South China Sea shows. Unless a coherent “cooperative regional marine architecture” is in place, the unsustainable and illegal exploitation of rich natural gas and marine resources in the South China Sea will continue. This is obviously tied to the still-unresolved territorial disputes. Yet, with or without a dispute, sustainable development should remain both a national and an international goal. It may still be decades before resource exploitation in the South China Sea reaches a tipping point, but hopefully, countries have learned from the lessons of climate change. Years prior to the onset of its devastating effects, nobody cared (even policymakers) despite warnings from the scientific community. Imagine the damage to human lives, the environment, and the economy that could have been avoided if only people listened and took action early on.

A good example of mutual cooperation in development is regional cooperation in research and capacity building as exemplified by the East Asia Development Network (EADN) and the APEC Study Centers Network Consortium (ASCC). The EADN funds research projects that have practical application to policy development in the developing countries of East Asia. Meanwhile, the ASCC promotes the conduct of research and knowledge exchange on development challenges confronting the Asia-Pacific region. Regional research platforms like the EADN and ASCC are important to continuously inform policymaking. Calls for global and regional action on key development issues need to be backed by research evidence to gain both the policymakers' and the public's attention and to ensure the use of the right set of interventions.

In the national front, intersectoral collaboration is a critical ingredient to

achieve a nation's goals. For the Philippines, the ASEAN Economic Community beckons the need for serious and sustained efforts to improve the competitiveness of the country's various sectors, including financial services, agriculture, infrastructure, science and technology, and education, to name a few—a goal that the government cannot pursue on its own. Analysts at a PIDS economic forum presented an auspicious outlook for the Philippines in the next two years while authors of a country report on the status of basic education in the Philippines found a significant decline in the number of out-of-school children. These should serve as an impetus for the country to further move forward. The government and the private sector, together with civil society and the international community, should work together in addressing the binding constraints to economic growth and inclusive development.

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