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Trade, liberalization, and foreign investment in the Philippines

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Abstract: *The Philippines is currently in 35 Bilateral Investment Treatises, wherein most of those are either unutilized to the fullest or unutilized at all. This is due mainly to the lack of resources and researcher on trade and investment in the Philippines to help policy makers in deciding and forging sounds strategies. Another is because of the country characteristics (infrastructure, laws, etc.) that are unable to aid the country in achieving the full benefit of international agreements and regional memberships. This research recounts some notable trade agreements of the Philippines, explain the determinants of trade and foreign direct investments (FDI), try to pinpoint the impacts of these FDI in the country, and comment on some patches current studies have that should be furthered.*

Key words: *Philippines, trade, liberalization, FDI, foreign investment*

I. INTRODUCTION

This study investigates a sample of studies on trade and investment in setting as the Philippines. The first part reviews the related literature on trade in the Philippines, putting importance to how the country's trade policy has evolved in the long run. Consequently, it discusses the relevance that blossomed on particular sectors and different aspects of the economy. The second part extrapolates past studies done on policies of FDI in the Philippines, alongside with it, the determinants of FDI and consequently, the effects of FDI on the economy. The third part examines literature on economic integration due to liberalization in the Philippines through trade. The fourth part determines what the literature lacks and other suggestions for future research endeavors.

II. EVOLUTION OF THE PHILIPPINE TRADE POLICY

Although a bit outdated, there is sufficient literature covering the developments in the Philippines' policies on trade. Appendix 1 further summarizes the researches that reported the Philippines' outlook on trade in different times.

There were a lot of modifications in the trade policy in the Philippines throughout the years. Starting in the 1950s up until the 1970s, the Philippine government has already taken measures on improving the trade and import-substitution in the Philippines. There were high protective tariffs as the government grew strict on foreign exchange control measures. There were also capital market interventions undertaken. After the

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government realized how the said implementation of measures was also limited, the government altered the country's trade policy by implementing different liberalization packages.

In the first half of the 1980, the Tariff Reform Program (TRP) was introduced to liberalize the quantitative restrictions, narrow the rate range of the tariff rate structure, and reduce tariff protection. This then led to the implementation of the TRP II and TRP III, two more tariff reform programs in the 1990s to extend the extend the existing Tariff Reform Program and make it more attuned to the needs of the time. In 1991, the TRP II executed was to extend the original program introduced in the 1980s. Because of the TRP-II, the tariff structure included phase-in period and transition rates (Cororaton, 1998). In 1994, TRP-III was promulgated to due to the demand of the private sector to increase competitiveness, tariffs on capital and goods but see raw materials needed to be decreased (Menardo, 2004).

In 1995, the Philippines joined the World Trade Organization (WTO). This accession to the WTO required the country to implement a new set of policies on liberalization to act in accordance with the rules imposed by WTO. The government was committed to imposing market-friendly regulations in support entering the WTO (Menardo, 2004). These are the following: (1) removing taxes on several specific industrial and informational technology products, (2) creating a four-tier schedule, (3) abolishing restrictions on import on some agricultural products. To further liberalization, more amendments on the trade policies were introduced in the 2000s. The Japan-Philippines Economic Partnership Agreement (JPEPA) was started in 2008 and is the Philippines' first bilateral free trade agreement since the 1946 agreement of the Philippines with the United States. Duties were abolished in 99% of those which are in the Inclusion List of the Common Effective Preferential Tarrif (CEPT) scheme of the ASEAN Free Trade Area (AFTA) by 2010 (Palbyab, Nestor, n.d.).

Table I. Studies on the Philippines' Trade regimes

Author	*Year*	*Account of the Philippines Trade Regime*
Austria & Medalla	1996	The overall industrial policy of the Philippines was trade and investment to the point that there was inefficient allocation of resources. The trade policy has made importing more favorable and consumer goods rather than capital or intermediate goods. Thus, manufacturing was tried to pushed forward.
Cororaton	1998	Trade reforms by the government to make goods more competitive showed that there was progressive effect on income distribution
Balboa & Medalla	2006	Poor policies has lead to the deteriorating economy. FDI easily flows in countries that have little to no restrictions to ownership and access. Firm policies and proper implementation are needed to effect change.

The Philippines after trade liberalization

Trade liberalization in the Philippines was driven in part by the unsuccessful trade policies in the past. Before, the Philippines was a believer of protectionism and import substitution strategies. By entering the WTO, the Philippines entered trade liberalization. This move would supposedly be of great help in allocating resources and bringing domestic prices closer to that price of the world. Through this, sustained economic growth and development would have been expected. The answer to whether liberalization can indeed help a country increase productivity and economic growth is still vague. The experience is varied country per country. There is still debate whether trade liberalization can help decrease inequality in income and exterminate poverty in developing countries.

Productivity

Liberalization of trade affects behavior of the producer (Urata, 1994). Competition brought in by liberalizing trade causes domestic firms to increase productivity so they can survive. Domestic firms are also caused by trade liberalization to employ machinery, raw materials, machinery components, other high quality imported parts at lower prices. This leads to improved productivity.

Urata (1994) made a cross-study including the Philippines, Indonesia, Malaysia, Thailand, Taiwan, Korea, and India from 1970 to 1991 to check the impact of trade liberalization on a country's total factor productivity (TFP). The researchers found out that trade liberalization, although not statistically significant, had a positive impact on growth on TFP for most of the countries in the sample. Urata (1994) compared the volume of exports and imports on tariff rates to investigate trade liberalization effects.

Austria (1998a) and Cororaton & Abdula (1999) also tried to measure the effects of trade on TFP on the Philippines from the years 1960 to 1996 and 1958 to 1991, respectively. While Austria (1998a) observed that exports had a significantly positive effect on TFP, Cororaton &Abdula (1999) saw that exports only had an incremental impact on TFP. The two studies showed a negative coefficient for imports.

In terms of productivity, there is a lack in the Philippines' manpower for know-how in operating imported machineries and equipment from abroad (Austria, 1998a). This contributed to declining productivity. Linking the technology utilized by the businesses and the company to forward and backward linkages of the economy proved unsuccessful (Cororaton & Abdula, 1999). Tariff rates have an insignificant effect on a country's TFP (Austria, 1998; Abdula, 1999). Thus, trade liberalization in the Philippines has a little to no impact on labor productivity in the economy.

Economic growth

Trade is also said to affect economic growth. The effect is supposedly from the efficiency of production, improved allocation of resources, and increases in competitiveness of local manufacturing because of liberalization and through exchange of resources from other countries.

Cororaton (1996) used the Agricultural Policy Experiments (APEX) Model to investigate changes in industry-wise nominal and implicit tariff rates in affecting economic growth. They gathered data from 1988 to 1992. Changes in nominal tariff rate lead to an increase in annual real GDP by 0.47 percent on average. They used a financial computable general equilibrium (FCGE) model of the Philippine economy. While Cororaton (1997) held another set of simulations concerning tariff changes of fixed and flexible exchange rates. The flexible exchange rate regime has the more beneficial impact on output.

Yap (1997) replicated the changed in tariff from 1993 to 1996 using the PIDS macroeconometric model to investigate the impact on aggregate and sectoral economic output. Collective economic output is improved because of the decline in average tariff rate. Also, major improvement in output was seen in all major sectors although the effects differ across these major sectors. The industry sector is the one most benefited by this while the agricultural sector was the one that benefitted the least. Yap (1997), in another smaller scale macroeconomic model, investigate the effects of an across-the-board uniform tariff of five percent on the impact in the economy. This said uniform tariff policy was seen to lead to a greater demand for imports and a worsening of the trade deficit. Reduction in the tariff rate was not compensated by the increased volume of imports. This results to the aggravation of fiscal balance. It is then implied that reduction in tariff restricts macroeconomic constraints, which then leads to the vague decline in investments and in turn, to a decrease growth rate.

Table II. A Summary of the studies of the effects of trade on productivity.

Author	***Year***	***Results***
Urata	1994	Productivity: Trade liberalization has a positive effect on the increase in Total Factor Productivity (TFP)
Cororaton	1996	Economic Growth: Changes in nominal tariff rate increases GDP
Yap	1997	Economic Growth: Collective economic output is increased because of a decline tariff rate
Tan	1997	Economic Growth: Positive growth rate in manufacturing while negative growth in industrial because of lower uniform tariffs
Austria	1998	Productivity: Exports have a positive effect on TFP; imports are indifferent.
Cororaton & Abdula	1999	Productivity: Exports only have marginal impact on TFP: imports are indifferent.
Cororaton & Cuenca	2000	Economic Growth: Real GDP improved because of lower tariffs; Labor: Tariff reductions lead to beneficial effects on employment
Orbeta	2002	Labor: Increase in employment because of the need for unskilled workers in exporting
Amoranto et al	2010	Labor: Service liberalization increases wages for male skilled workers

Tan (1997), meanwhile uses a partial equilibrium trade model based on the input-output framework. The study found beneficial results with the five percent uniform tariff. Improvement in the resource allocation in the tradable sector can increase output and this can be done through lowering the uniform tariff. It was observed that the growth rate for the manufacturing sector is the highest while there is negative growth in the agricultural industry.

Using a 50-sector CGE model of the Philippine economy, Cororaton & Cuenca (2000) found that from the periods 1995-2000, real GDP has improved. There is a difference in effects per sector depending on trade reforms.

The labor market

The Labor market is always analyzed for impact of trade liberalization. Employment and wage effects have important welfare implications on the economy.

1995-2000 tariff reductions led to generally beneficial effects on employment (Cororaton & Cuenca, 2000). There are apparent gainers and losers depending on the sectors. Tariff reductions can lead to an increase in industry employment although decreases in agriculture and services. Labor demand increases with a greater propensity to export and import (Orbeta 2002). Greater export propensity has a favorable effect on demand for labor while import propensity has a marginal effect on demand for labor. This is especially true for the manufacturing sub-industry. As a whole, trade liberalization has little effect on the increased in women employed but on a manufacturing sub-industry level, the increased tendency to export is beneficial for women. There is an increase in the demand for unskilled workers because of the increase in exports (Orbeta, 2002).

Trade liberalization has little impact on employment in the Philippines as well as relative industry wages (Hasan & Chen, 2003). However, this is not true for all sectors and types of workers. Because of trade liberalization, unskilled workers in capital-intensive industries tended to have worked longer hours while those skilled workers in capital-intensive industries, suffered a loss in industry wage premiums. There was marginal increase in returns to higher education and wage inequality in the production sector has declined.

Only a handful of study has been conducted on measuring the effects of liberalization in trade in services on the economy as most researches are on the impact of trade liberalization on trade in goods. Amoranto et al's (2010) study tried to look into the effects of trade in services in the Philippines economy. The focus was on liberalization in banking, telecommunications, and distribution on employment and wages in the Philippines in a span of 13 years. Liberalization of services has little effect on employment in stable jobs for both females and males. On the other hand, a decline in wages for full-time employment for females and conversely an increase wages for full-time employment in males. In distribution services, however, there was an increase in wages for both skilled and unskilled workers, except those only with primary school education and lower. Service liberalization favors the higher skilled workers, particularly the males (Amoranto et al, 2010).

Income distribution & poverty

Trade liberalization is expected to have income distribution effects according to trade theories. The Heckscher-Ohlin (HO) model states that liberalization in trade causes a decrease in income inequality in countries abundant in unskilled or less skilled workers, normally in developing countries. Empirical literature proves that the prediction may not be so accurate.

From 1993 to 1996, Yap in a 1997 study, captured the income distribution of changes in tariff change across sectors. The industrial sector has the highest positive response, the agricultural sector had the lowest increase. All sectors had a positive increase. In the lower income brackets, most of the households are still dependent on the agricultural sector. This lower growth of output in the sector of agriculture creates less than favorable distribution effects in terms of income. Cororaton (1996) used the APEX model to investigate the income distribution effect of changes of tariff from the years 1988 to 1992. There is then some progressivity in the tariff change in the period. The lowest-income-bracket homes had the highest increase in income in comparison to the highest income bracket.

The rate for unskilled labor has the highest increase in flexible and fixed tariffs. The poorest segment of the population usually belongs to the unskilled labor. It was also found out that the price of capital has risen faster than the price of labor. There then is a substitution effect that is in favor of labor. This implies that there are constructive income distribution effects.

The effects of reforms on tariff and income distribution are generally positive according to Cororaton (1998) and Cororaton & Cuenca (2000). The effects of the tarrif reforms on the distribution of income is positive, especially in the second half of the 1990s (Cororaton, 1998). All income groups have benefitted from an increase in income because of the reforms in tariff. The impacts are varied across varied income groups. The lowest increase is in the household with the lowest income. There is a also a change seen in resource allocation. It was seen that a movement from agriculture and construction to manufacturing and utilities was observed. In 1995 to 2000, the lowest income households have the highest raise in the salaries in comparison to other households.

Inequality in income is not affected by reforms in trade (Hasan & Jandoc, 2010). The impact of trade liberalization on wage inequality in the Philippines was examined for the periods 1994 to 2000. Multiple regression methods and wage decomposition techniques were used to examine these. 1994-2000 was the period when there was a decrease in trade protection that inequality has increased during this period. Trade liberalization has little contribution to inequality in the country. Trade-induced effects on industry wage premium and industry-specific skill premium account has an increased effect on wage inequality. Changes in economy-wide returns to education and changes in industry membership are important drivers of inequality in wages. Trade-induced employment reallocation effects liberalization on inequality of wages. Employment shift to more protected sectors was caused by a decline in trade protection. This is true for services where inequality in wages have been high in the beginning. The free trade and the Doha agreements were examined closely using a detailed CGE analysis on poverty in the Philippines (Cororaton et al, 2005). The effects were varied. It was found that the Doha Agreements slightly increase poverty. The agricultural self/un-employed and rural households are affected unfavorably because of the decrease in world prices in addition to the decrease in demand for agricultural exports in the Philippines. Full trade liberalization, on the other hand, causes a minor decline in the incidence of poverty. Thus, free world trade adds to industrial exports and due to the increase in the cost of competing agricultural imports, the agricultural sector is benefited.

Standards in labor and the environment

The current society is also interested in the relationship between trade liberalization and the standards of labor and the environment in the country. The lower the labor and the environmental standards, the lower the production costs, the more competitive the firm is internationally. However, the increase knowledge on current international practices on standards and the pressure from other competitor firms pledging to a higher standard. Trading with other countries also requires meeting certain standards. Exported goods should also undergo tests. Examples include sanitation and phytosanitary (SPS) standards, ISO certification, and eco-labels. In the Philippines there is a lack on studies on these.

Trade liberalization promotes competition and efficiency while still maintaining the general well-being of the environment (Aldaba & Cororaton, 2001). Big-scale export-oriented companies are the pioneers of environmental management systems in their in their processes and actually endorse responsibility environmental management. Technology has a role to play in diminishing the environmentally hazardous waste. Trade reforms that eventually lead to the introduction of new pollution-diminishing technology, leads to progress in the environment.

Because of social clauses, trade liberalization promotes improvement in working conditions and veers away from by incorporating International Labor Organization-set international labor standards (Edralin, 2000). The immproved working circumstances in turn improves workers productivity and thus increases their competitiveness in the market (Edralin, 2000). Higher labor standards, however, may be more costly, and firms adapting to these standards could lose their labor cost advantage. Despite of this, Edralin (2000) showed how employees from the management level to the union are favor of the said social clause. Those companies in favor of the labor and environmental standards are in the chemical products sub-sector, owned by Filipinos as single proprietorship, They have a large employment size, had average profit. The business has medium capitalization and has been operating for 2-10 years. Firms that are against are usually those in textile and apparel; wood furniture products, and other intensive-labor industries. They are small business and are aware of the comparative advantage of costs in other countries like Vietnam and China. To guarantee competitiveness for the long-run, however, reforms on labor and environmental standards as current exploitation practices dehumanizes globalization.

III. OREIGN DIRECT INVESTMENTS

One prominent feature of the work economy in recent times, in particular the markets of developing countries, has been the utilization of foreign direct investment (FDI) as a source of capital. Generally, FDI are the net inflows of investment from a foreign investor to acquire a lasting management interest in local business enterprise. This global strategy is critical for emerging market countries because of the funding and expertise multinational companies have to offer to expand sales internationally. Aside from additional investible resources and capital formation FDI brings to developing nations, it also an avenue of devolving production technology, skills, and know-hows, and superior managerial practices amongst nations; likewise of opening international marketing networks. Thus emerging nations, the Philippines included, are progressively formulating the best strategic policies towards FDI.

The evolution of Philippine FDI policy

Investing in the Philippines has changed considerably over time beginning in the 1980s. Beginning in the 1980s, one of the most significant phases undertaken to globalize investment practices was the enactment of the Omnibus Investment Code (OIC) of 1987 (Aldaba, 2006).

Two important incentives were provided by the OIC of 1987. These were (1) income tax holidays for enterprises that are involved in preferred areas of investment and (2) taxable income deductions in skilled and unskilled worker wages for so long as the BOI requirements are satisfied. There are also other incentives that the

OIC has provided like duty exceptions on capital equipment and accompanying parts, hiring of foreign workers for technical, advisory, and supervisory positions, more simple processes at customs, and exemptions from duty and tax on some capital equipment.

Reforms in the investment policies continued in the 1990s with the passage of the Foreign Investment Act (FIA) of 1991, the fundamental legislation that governs foreign investments in the country. Republic Act 7042 as amended by RA 8179 is considered a milestone in country's financial laws because it liberalized the admission of foreign investments into the Philippines. Under this regulation, companies engaged in almost all types of business activities are permitted to acquire up to 100% investment equity from foreign investors, which is subject to certain restrictions as prescribed in the Foreign Investments Negative List (FINL). The FINL is a list of investment areas or activities which may be reserved to Filipino citizens and/or accessed by foreign investors. The shortlist gradually reduced, over time.

A new law passed in 1994, provided for the further entry and operations of foreign banks in the country. Foreign banks are allowed to obtain up to 60% of the voting stock of existing domestic banks. With the predominantly lenient act, some foreign exchange controls were removed and the capital market was modified starting from the surrender requirement for export proceeds. Moreover, Bangko Sentral ng Pilipinas (BSP) approved forex transactions and capital repatriation further opening our market internationally.

In February 1995, Philippines Economic Zone Authority was created through the enactment of Republic Act 7916. The passage exempted foreign investors from payment of local and nation taxes thus allowed a better participation in development and management of the country from the private sector. This focused in the operation and coordination of the country's special economic zones. The new changes such as integrated policies, streamlined procedures and physical infrastructure presented by the economic zones bring about positive economic impact for the country, as stated by World Bank (1997). By the 2000s, additional efforts to improve FDI were commenced. The General Banking Law states that foreign banks may own up to 100 percent of one locally-incorporated commercial or thrift bank given a window of seven-years. Similarly, the Retail Trade Liberalization was passed that allowed foreign investors to have 100 percent ownership of retail businesses.

Nevertheless, limitations and barriers still exist on forms of businesses for the foreign investors. For example, foreign companies remain barred from ownership of enterprises engaged in public utilities, domestic air transport, employee recruitment, education, pawnshop ownership, and many more. Also due to constitutional constrictions, investments from foreign companies are not allowed in certain industries such as mass media, mining, private security agencies, the manufacture of pyrotechnic devices, among others.

Determinants of FDI

Despite the countless efforts to improve FDI policies and regulations, the country has lagged behind adjacent nations in appealing FDI inflows. According to data, Philippines experiences unstable growth in possible FDI. Given this situation, the question whether the Philippines has necessary condition and a conducive environment for attracting and maintaining investments, is brought to light.

Austria (1998b) recognized factors that explain the volatile FDI experience in the 1990s in the country. FDI flourished in the 1990s because of the country'sstrong macroeconomic fundamental, economic recovery and political stability and government's general policy of openness. On the other hand, issues such as inadequate technical and vocational skills of the country's labor force, the relatively higher cost of labor compared to neighboring country such as China and Indonesia, low worker productivity and the poor infrastructure hinders the entry of FDI and foreign businesses.

The outcomes of the regression analysis exhibited that inflows from FDI is positively associated with the stock of public investment, real GDP and effective exchange rate (Aldaba 1994). Conversely it is negatively associated with political instability. Changing in investment incentives were also displayed to have no connection or influence on FDI inflows.

Three categories of government policies affect FDI inflows in a country. These are (1) overall economic policy, (2) national FDI policies, and (3) international FDI policies affecting FDI inflows in a country (Balboa & Medalla, 2006, Banga 2003). The first is on investment on infrastructure, environmental and urban management, industrial power supply, labor productivity. The second, national FDI policies, has robustness (or the lack of) tax structure and administration (transparency and compliance), fiscal incentives, foreign investments, land ownership. It is said that countries with stricter rules on foreign investment have higher tendencies for corruption. The third one, is on bilateral agreements and economic collaborations.

It was however, unstated which policies impacts the most on FDI inflows. Reside (2006a, 2006b) has proven that fiscal incentives do little to attract FDI and regional investments in the country. Education and infrastructure has better chances of attracting these investments (Reside, 2006a, 2006b).

Impacts of FDI

There are differing degrees of two-way causality FDI has depending on the country (Dhakal et al, 2007). According to Dhakal et al (2007), in the case of the Philippines, it was found out that FDI causes growth in the economy while FDI causes economic growth and economic growth in turn causes FDI. There is then a "two-way causality." Thus, there is greater trade openness, more limited rule of law, lower receipts of aid. Growth-to-FDI causality is strengthened by more vast political rights, a more limited rule of law, and a more restricted rule of law.

Economic growth and FDI volatility are negatively correlated in the ASEAN+5 although it is insignificant for Singapore (Choong & Liew, 2009). According to Choong & Liew (2009), the Philippines' economic growth is the one unaffected much by the FDI volatility. A reason for this is that the Philippines' economy is relatively small in comparison to the other countries' economy, and thus the impact observed may have appeared to be small.

In the short-run, there is significant crowding in the effects for Thailand and the Philippines when it comes to the impact of FDI on domestic private investment (Benede-Nabende & Slater, 2003). FDI in developing countries "crowd in domestic investments in less developed countries, but crowd out in more developed ones" (Benede-Nabende & Slater, 2003).

Empirical research on the effects of FDI on the economy is rare. One of these rare studies was done by Agbola (2007) and found that FDI has an impact on the Philippines' economic growth in the periods of 1970 to 2006. FDI has a positive effect on the growth of the economy in the country. According to Agbola (2007), FDI may be deemed more important than private local investments for enhancing economic growth, although Bende-Nabende & Slater (2003) says otherwise. Both studies, however, agree that FDI enhances growth in the economy by developing human capital and infrastructure. The researchers are unable to pinpoint the reasons for such results and circumstances might be different as time progresses.

IV. ECONOMIC INTEGRATION

Trade & Investment liberalization have caused economic integration. Restructuring of trade laws in the 1980s to the 1990s have made domestic firms that were products of protectionist policies before and are more efficient. The competitiveness of the country has become better that local businesses are adept to engage in international trade agreements.

The main drivers of economic integration are found to be private sector-led process, market-led process, and institution-led process. Private sector-led process is from economic zones in prime locations in the country. Market-led process, meanwhile, is from trade and investment flows from sharing production networks with other countries. Institution-led process, lastly, is the process from free trade agreements.

Production Sharing Internationally

International production sharing is when a body having one or more parties located in different countries, share the profit of participating. It is seen when countries maximize the economies of scale of other countries to manufacture different components of a good in different places. The Philippines has grown in terms of integrating economically with its neighbors in the 21st century. There is an increasing intra-industry trade in produced goods between the Philippines and the APEC countries. A notable example is in semi-conductors and electrical machineries (Austria, 2002). In the years between 1990 and 1999, pairs of ASEAN country economies have at least started if not increased trade in goods (Austria, 2003). In 1971 to 2001, the intra-industry trade of the Philippines and the ASEAN increased in a lot of sectors and countries in the neighboring countries (Austria, 2004). Integration, however, is still considered inadequate which is because of the difference in speed of integration and the level of development of the countries involved. China, being a rising economic power, also served as a great competition of the ASEAN member countries and the Philippines (Austria, 2004).

Even as the Philippines has participated in the global supply chain of electronics, but even so, the country is still in the stage of assembly and testing (Austria 2008). This is the business process that has the lowest added value to electronic products. The lack of infrastructure, slow logistics, inevitably costly and unreliable electricity and power, sub-par quality, high cost of low-skilled workers, scarce local supplier industries, and inefficient technological capabilities limiting the innovation of current technologies – essentially a deficiency of local support structure in the country.

Trade Partnerships

Unilateral and bilateral elimination of trade barriers has made way to greater economic integration among economies. The move of the Philippines to join many agreements has committed to liberalizing its trade and investment. A lot of researches have tried to measure the effects of the Philippines joining trade agreements. The ASEAN Free Trade Area (AFTA) in 1992 became the first of the Philippines' handful of trade agreements. The main goal of this trade agreement was to make ASEAN more competitive as a manufacturing powerhouse for the the international community. This was done by bringing down tarrifs from 5% to 0% in 15 years through the Common Effective Preferential Tarrif (CEPT). In the Philippines, the groups that that the largely CEPT benefited were the net-exporting industries to the ASEAN (Pineda, 1997). It was also found out that tradable agricultural and food sectors in the Philippines equally had potential to gain from the CEPT (Todsadee & Kameyama, 2010), although the size of the impact in the Philippines is unclear. AFTA served as the ASEAN's big door to the world and vice versa the through creating of a large, interconnected, and efficient market, which the Philippines has actively benefitted from (Karim & Othman, 2005). China's accession to the WTO, meanwhile, has affected the ASEAN countries. In 1989, the Asia-Pacific Economic Cooperation (APEC) was inaugurated among 12 countries, the Philippines included, to promote open trade and investment in the Asia-Pacific region. Joining the treaty requires little to no trade and law reforms binding obligations to the members making it difficult to quantify the benefits of the APEC per se (Drysdale & Armstrong, 2009). Through the APEC, the Philippines has acquired economic relationships and networks which opened up the country to more investment from APEC members at the same time polish trade facilitation in the country in terms of trade standards and conformance, customs procedure, intellectual property rights, good governance and transparency, and mobility of business people (Austria, 2001; Medalla et al, 2009). The Philippines' human resource development, energy, Small and Medium Enterprises, agriculture, environment, services, finance, and others have been found to have improved as well (Austria, 2001; Medalla et al, 2009).

In 2008, the first ever bilateral free trade agreement entered into by the Philippines with another country, was inaugurated by way of the Japan-Philippines Economic Partnership Agreement (JPEPA). Entering JPEPA has increased the Philippines GDP (Medalla et al, 2010). The sectors benefitted were mostly information, communications, and technology (ICT), medical services, and tourism and agriculture. The sectors that suffered were cement, motor parts, and vehicle components, except if the company is already linked to some existing Japanese production networks. The agricultural sector, however, was still indifferent as the technology and the standards were crucial in exporting through JPEPA (Medalla et al, 2010).

According to Austria (2001), for the Philippines joining the World Trade Organization (WTO) 1995 should be coupled with forming alliances with neighboring countries through regional trade agreements. In this way, there is an additional avenue to opening up trade boundaries that are unachievable just by the WTO (Austria, 2001). In addition, competitiveness is increased and that local, regional, and intercontinental barriers are overcome.

V. SCOPE, LIMITATIONS, & RECOMMENDATIONS

Studies on investment, trade, and liberalization in the Philippines have been more than a handful. However, there are still a lot of areas that have been uncharted. Many questions are unanswered and still plenty are in need of expansion. The following are suggested for further research.

A study quantifying and measuring the empirical effects of the trade liberalization effects of ASEAN countries and China in the trade and investment in the Philippines would be significant. Due to globalization, it is inevitable to have overflow effects to geographical neighbors. Several studies have been done to investigate the effects of the world economic powers' large participation in the international import-export to the competitiveness of the Philippines local products, services, and labor, in the Philippines (Kandilov, 2010) as there will be substitutes for local products and services. It is important to note if the workers have experienced the same relocation effects that the workers in the United States of America experienced. Such empirical observations are important in forging policy reforms, especially on inequality and poverty in the country.

Further studies on liberalization in services would also aid policy makers in assessing future actions for the country especially that the Philippines has been a hub for business process outsourcing and retail trade (Amoranto et al, 2010). The impact of liberalization in goods and services intra-industry and extra-industry trade and the flow of skilled and unskilled labor need to be closely examined. The possibility of two-way spill-over effects due to liberalization of trade in goods can happen not only in employment in the manufacturing industry but also in the service sectors as well (Clemens et al 2003) and vice-versa. This is true in the ASEAN-5. An extension of the said research would be to focus on the Philippines.

Another variable to note is the relationship of increase on trade and standards. While there are a handful of researches on the said topic, it would be in the interest of future researchers to pinpoint which industries in the Philippines are constrained and which ones are promising when following the standards of other countries' export markets. Should conforming to international standards open up new previously untapped markets, then policies to help these companies meet economies of scale and standards would be beneficial. Competitiveness in the long-run will be improved.

The type of FDI inflows in the country should also be taken into consideration and if it has changed in the most recent decade. Identifying the contribution of FDI per sector would do researchers good. Examining the contribution of FDI to national, sectoral, and regional employment and productivity should be analyzed as well. Previous researches that delved on this topic has used simple estimation strategies and might have failed to consider some important econometric issues (Aldaba, 1995and Alburo 1998). Re-estimating determinants of inward FDI through other econometric techniques should make for a worthwhile effort. Furthermore, a closer look on current government policies and their cost, effectiveness, and efficiency in encouraging the inflow of inward FDI may need to be investigated.

The Philippines currently has 35 Bilateral Investment Treatises, however, it is unclear whether these agreements have been effectively utilized by the country to forward its economic goals. No study has been done yet to empirically to measure the effects of these so there is huge opportunity for quantifying the effects of FDI on the Philippine economy and as to which sector or industry in particular. It would be worthwhile to note if FDI has the same effect on both domestic public and private investments. It is noted by some researchers (Oman, 2000) that a certain government's policies on increasing FDI and further pressure from Multinational Corporations in the country may encourage the said country to spend on public investments. It would be important which types of FDI causes for what types of economic gains for the country. Intra- and inter-industry in addition to forward and backward linkages should be separated and identified to categorize the FDI move that will generate the most gains because the impact of FDI is largely dependent on the type of business (Amdt et al, 2010). FDI on the manufacturing and services sector are affected differently mostly because the manufacturing capacity of the Philippines is limited while the service sector is utilized in almost all industries (Fernandes & Paunov 2008).

Lastly, the effects of FDI on prices deserve close examination (Lipsey & Sjoholm, 2005) and the labor market and third country effects of being in geographical proximity with other countries that are equally abundant in unskilled labor. The negative and positive effects of FDI on the labor market in the Philippines should then be investigated. Some of the possible variables to be observed are the average wage level in any industry, foreign firm wage premium, wage differences of foreign and domestic firms, and income inequality in the long run as a result of these salary variations. So far, researches that identifies the characteristics that the Philippines should have and the approaches that should be espoused to efficiently take a full advantage of country gains from FDI.

VI. CONCLUSION

The fast-changing world makes it for trade liberalization to be inevitable. With this knowledge is the needed plan to ascertain the circumstances in maximizing the economic benefits of being in international partnerships and agreements. Greater economic integration comes increased total factor productivity, lessen income inequality, and eliminate poverty and make way to increase the status of this developing country.

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