ASSESSING THE IMPACT OF GLOBAL ECONOMIC SLOWDOWN ON PHILIPPINE REGIONS AND THE SUBIC-CLARK-BATANGAS CORRIDOR
Executive Summary

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The global economy is going through a "perfect storm," with the global recession. Major economies like US, Japan, and EU are in simultaneous recession, with their economic output declining. The collapse of the investment banking and the resulting credit crunch led to the sharp decline in industrial production, commercial operations, and capital spending across the world. The World Bank (2009) has forecasted a 6.1% reduction in the volume of world trade in goods and services. The estimated growth for East Asia and the Pacific will ease at 5.3% in 2009, mainly because of weaker export demand. Roughly 6% of total containership fleet capacity has been laid up as of February 2009.

While the Philippine economy is not as badly affected by the crisis, some sectors have manifested certain levels of vulnerabilities. These sectors (automotive, electronics, tourism, mining, BPO) mostly operate in NCR, Regions III, IV-A, VI and VII (see Table 1. Since the exports of electronics products account for more than half of Philippine exports, the slowdown in production is manifested in lower growth projections for the same regions where the electronics manufactures operate (see Table 2). Initially, the impact of the global crisis on some of the special economic zones and freeport/s is summarized in Table 3.

TABLE 1. Gross Regional Domestic Product (2009)

REGION	2009 GRDP (f)	Share (%)
PHILIPPINES	**1,490**	**100%**
NCR	490	32.9%
IV A - CALABARZON	179	12.0 %
III - CENTRAL LUZON	122	8.2%
VI - WEST. VISAYAS	109	7.3%
VII - CENTRAL VIS.	107	7.2%
X - NO. MINDANAO	74	5.0%
XI - DAVAO REGION	65.6	4.5%
XII - SOCCSKSARGEN	51.1	3.4%
I - ILOCOS	43.9	3.0%
IV B - MIMAROPA	41.6	2.8%
V - BICOL	40.3	2.8%
IX - ZAMBOANGA PEN	37.2	2.6%
VIII - EAST.VISAYAS	32.7	2.1%
CAR	31.7	2.2%
II - CAGAYAN VAL.	28.5	1.9%
XIII - CARAGA	18.6	1.2%
ARMM	12.7	0.8%

SOURCE: CRC

Table 2. Projections of Regional Gross Domestic Product

REGION	2005-2006	2006-2007	2007-2008	2008-2009f
PHILIPPINES	**5.6**	**7.2**	**4.6**	**4.1**
NCR	7.5	7.8	7.8	5.8
CAR	3.8	7.2	7.2	4.2
I	5.5	5.8	5.8	4.8
II	8.0	6.6		4.0
III	4.9	6.1	6.1	3.3
IVA	4.3	5.5	5.5	3.6
IVB	1.6	9.4	9.4	6.1
V	2.8	7.7	7.7	4.3
VI	4.2	7.7	7.7	5.3
VII	5.1	8.7	8.7	5.4
VIII	4.6	3.2	3.2	4.5
IX	1.9	7.4	7.4	4.6
X	7.8	7.9	7.9	5.4
XI	3.6	6.7	6.7	5.1
XII	6.8	6.8	6.8	4.8
XIII	6.6	8.6	5.4	4.0
ARMM	3.7	5.4	8.6	3.4

Source: NSCB; UA&P-SEC

TABLE 3. Impact of Global Crisis

AREA	EFFECT OF FINANCIAL CRISIS
Subic	• 5,000 jobs lost in 2 electronics firms • Cancellation of ship orders (2) • The crisis also has positive benefits – i.e., ship lay-ups (more than 20 international ships are currently laid up in Subic bay. The government is also developing a lay up facility in Malalag, Davao)
Clark	• 2,000 jobs lost • Top electronics exporter operating at 30% capacity today; no lay-offs but shorter working days • Call center operations shrunk by 40%, but BPO presents opportunities (buying US companies, labor arbitrage)
CALABA	• 10,000 jobs lost in various industrial estates/special economic zone s in Southern Tagalog according to PEZA

SOURCE: CRC

Philippine Infrastructure Development

Infrastructure creates a direct impact on the country's economic growth and global competitiveness. Good roads and bridges expand market opportunities, lower the cost of goods and services, and enable countries to use their productivity. The impact of infrastructure on trade, tourism, industries and technology development, not forgetting poverty alleviation and reduction of income inequality, is remarkable in those Asian countries which adequately invested on infrastructure projects to attract foreign investments and to achieve global competitiveness.

TABLE 4. Completed Projects by Region as of December 2008) in Billion Pesos

REGION		Number of Projects Completed	Total Spending
NCR	METRO MANILA	-	-
CAR	CORDILLERA	1	0.01
I	ILOCOS	1	0.78
II	CAGAYAN VALLEY	-	-
III	CENTRAL LUZON	4	31.02
IVA	CALABARZON	4	8.57
IVB	MIMAROPA	1	0.03
V	BICOL	3	1.42
VI	WESTERN VISAYAS	4	13.06
VII	CENTRAL VISAYAS	5	2.38
VIII	EASTERN VISAYAS	3	0.16
IX	ZAMBOANGA PENINSULA	-	-
X	NORTHERN MINDANAO	4	18.71
XI	DAVAO REGION	1	0.42
XII	SOCCSKSARGEN	1	0.0015
ARMM	MUSLIM MINDANAO	-	-
XIII	CARAGA	-	-
TOTAL		**32**	**76.6**

Realizing the importance of investing on infrastructure, the government since 2006 has implemented a 5-year infrastructure development program. As of December 2008, 32 key infrastructure projects of different types (roads, airport, seaports, energy projects) were completed to the tune of Php76 billion (see Table 4). With higher spending and stricter monitoring of projects, the government is now bent on ensuring the timely and effective implementation of the remaining SONA commitments.

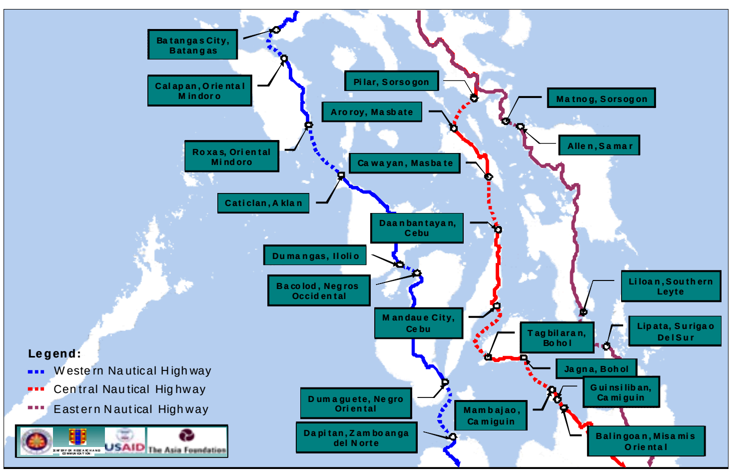
Sources: Office of the President (Presidential Management Staff) and CRC

The recently approved Php 1.4 trillion 2009 national budget carries with it a Php 330 billion Economic Stimulus Package (ESP) as part of its effort to lift the economy by 4% this year. This stimulus will be mainly spent on infrastructure projects as well as agriculture and health. The increase public spending on infrastructure will create more job opportunities and income that will provide insulation against the adverse effects of the global financial crisis.

Strong Republic Nautical Highway

An archipelagic country with fragmented island economies, the Philippines is invariably affected by accessibility and mobility for the transport of goods and people within its geographical boundaries. In 2003, the President laid down that will later become a major "legacy" program of the administration. Dubbed as the RO-RO Road Terminal System (RRTS) with its government-initiated marketing program *Strong Republic Nautical Highway (SRNH)*, the system is aimed at binding local economies more closely together and working for better domestic integration through Roll on-Roll off (RO-RO) vessels or "moving bridges." The RO-RO policy is embodied in Executive Order 170 which encourages private sector investments in the development of the RRTS.

Strong Republic Nautical Highway

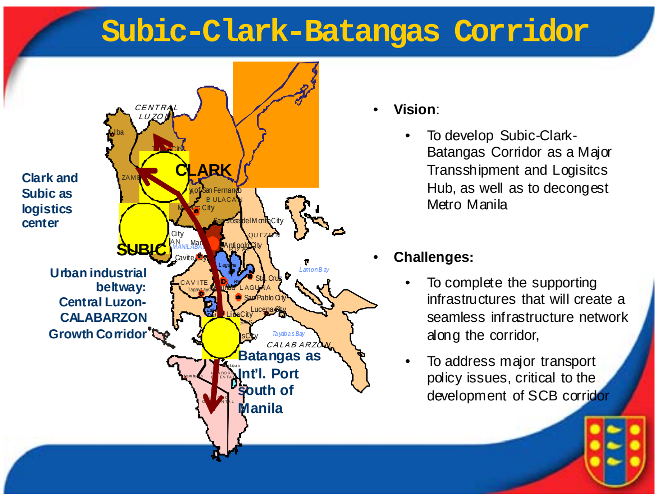


In sum, implementing the RRTS presented both market opportunities for business as well as infrastructure support facilities required to make the RRTS work. On the market side, the RRTS altered the way (a) tourism was promoted; (b) goods were transported and distributed; and (c) people mobility was enhanced. It also presented a new approach in countryside development and agriculture-fisheries sector modernization.

The Western and Central-Eastern Nautical Highways are complementary. Traffic in the Eastern seaboard did not decline (in fact it continued to grow) with the establishment of Western seaboard. What RO-RO operations affected was the direct long-haul Liner shipping operations from Manila to Iloilo, Dumaguete, and Cebu. This is the locus of competition. RO-RO also softened the impact of the Liner shipping crisis in June (2008). The grounding of the Sulpicio ships as a result of the Princess of the Stars tragedy reduced the supply of ships that would transport the goods and people within the country. It was RO-RO that provided the alternative mode of sea transport.

In general, transport costs increased in recent years due to the steep rise in fuel prices worldwide. The efficiency of RO-RO operations provided the countervailing force to mitigate the rising costs. Agricultural products passing through the SRNH include fruits and vegetables as well as fishery products coming all the way from General Santos and Davao. Mineral products such as nickel, chromite, silica and limestones are shipped out from Surigao. For some routes in the Central Nautical Highway as well as east-west lateral connections (e.g., Cebu-Tubigon, San Carlos-Toledo), palay, rice, copra, live animals, fishery products, fruits and vegetables top the list of major agricultural commodities that are transported by RO-RO. RO-RO likewise facilitates the movement of agri-fisheries products (largely marine, seaweeds and livestock) in the Southwestern Mindanao network. Tourism, particularly in Cebu, Boracay, Dapitan and Bohol benefitted much from RO-RO operations.

Subic-Clark-Batangas Corridor



In 2007, the President announced her vision to develop the Subic-Clark-Batangas (SCB) Development Corridor as a major Transshipment and Logistics Hub in the Asian region - a logistics area where value-adding services can be provided. The market, therefore, is not limited to the Philippine economy but considers the growing trade and investment in Asia. As more economic activities will spur and shift into the SCB corridor, the administration's objective of decongesting Metro Manila will be facilitated.

SUPPORT INFRASTRUCTURES

Continuous Highway from Clark to Metro Manila to Batangas Port

- NLEX rehab completed
- NLEX-SLEX Link or North Expressway to C-5 interconnection (on-going)
- C5 already connected with South Expressway
- Rehabilitation and Widening of Alabang-Calamba Section of SLEX (on-going)
- Extension of the SLEX to Sto. Tomas, Batangas (on-going)
- Sto. Tomas to Lipa (STAR 1) already completed
- STAR 2 connecting Lipa to Batangas City now passable (South Bound)
- C-6 Expressway to be alternative route that will connect NLEX & SLEX (proposed)

Metro Manila Infrastructure Projects

- Coastal Road to Bacoor (on-going)
- MRT and LRT interconnection from Monumento to North EDSA (ongoing)
- MRT-7 (civil works to start in January 2010)
- MRT-3 Capacity Extension
- LRT 1 South extension (to Bacoor)
- Common Terminal for MRT 3, MRT 7 and LRT 1

Major Railroad Projects

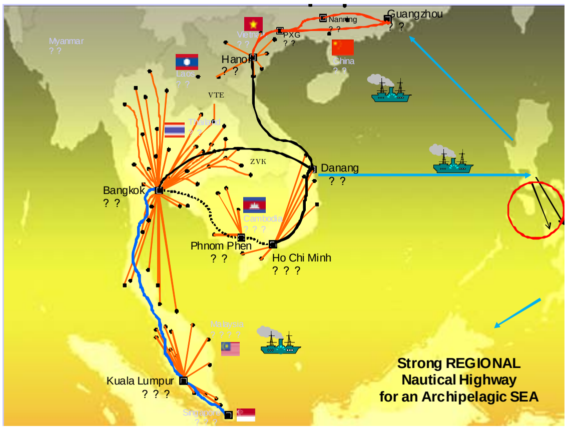
- Northrail Project (on-going) - Phase 1: Caloocan to Malolos; Phase 2: Malolos to Clark
- Northrail-Southrail Linkage Project (on-going) - Phase 1: Caloocan to Alabang; Phase 2: Alabang to Calamba
- On-going Southrail Project - Phase 1A - Calamba to Lucena; Phase 1B - Lucena to Bicol

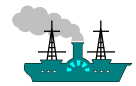
Challenge: Regional Connectivity

With the necessary infrastructures in place, the key to transforming the Philippines into a regional transshipment hub is the introduction of a "regional RO-RO system (Roll-on/Roll-off shipping) in Southeast Asia – one the will connect it with a network of key gateways. Mr. Paul Apthorp of TNT Logistics, speaking at an ADB Conference in November last year, wondered why RO-RO is extensively used in Europe (North Sea, Mediterranean) for a mode of sea transport and not is Southeast Asia. In the Philippines, RO-RO shipping is now extensively employed as an efficient means of sea transport for bridging the various islands of the Philippine archipelago. (RO-RO ships serve as "moving bridges").

Given the extensive road infrastructure development in the Greater Mekong Sub-Region (GMS), the inter-modal transport which RO-RO offers makes the system feasible for the archipelagic SEA region. The Philippines can attract mother ships (panamax vessels) to call at the Subic Port if it can ensure that a regional transshipment (i.e., feedering of cargoes) can be efficiently done through the "regional RO-RO system".

Instead of moving only the country's 2 million import-export cargoes, the Philippines can look and take greater share of the regional transshipment traffic in the East Asian region.





(The massive road infra development in the GMS supports the concept RORO operations in SEA)

This proposed strategy will not only enhance the country's competitiveness, but more importantly, will reduce the transport cost of Philippine exporters, decongest Metro Manila, and maximize the utilization of the infrastructure built recently. It will also significantly support the development of the Philippine regions in terms of providing opportunities for greater export activities, promote value-adding activities in the Clark-Subic Freeport areas that will generate more revenues and local employment. The current RO-RO system (western, central and eastern nautical highways) will serve as the domestic link. The government must cause the cargo shift from Manila to Subic-Batangas as the country's maritime gateway.

Next Steps

To address the necessary infrastructure requirements - both hard (physical) and soft (policies) – critical to the development of the corridor and realization of regional connectivity, we recommend the following actionable measures:

a) The National Competitive Council (NCC) initiative to develop a masterplan for the SCB Corridor must be immediately pursued. A major step towards this end is the conduct of an international study that would spell out the requirements of the region/ international market to guide relevant authorities in crafting strategies to respond effectively to existing/ potential market opportunities.

b) The policy on chassis-RORO service (EO 170-C) must be issued. Cha-Ro will expand the RORO service and becomes all the more a relevant policy reform to push, not only to reduce transport cost, but more importantly, in support of the regional RORO initiative

c) There is a current effort to craft a Philippine Merchant Shipping Law to address the flaws in existing policies and provide an environment conducive to the development and modernization of the maritime sector. The passage of this Act will hopefully improve our global competitiveness and "credibility" as a maritime centre – both in terms of administration and arbitration

d) There is a need to fast-track completion of relevant infrastructure projects along SCB Corridor – i.e., SLEX, North and South rail projects, North-South linkage project, and C-6 Expressway.

e) There is a need to promote Public-Private Partnership (PPP) projects in country through the: (1) implementation of PPP projects under the proposed Php 100 billion Infrastructure Fund, and (2) improvement / enhancement of existing infrastructure-related policies (Build-Operate-Transfer Law, Joint Venture Agreement).