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PHL unlikely to benefit from shifting trade routes amid tariff war

April 21, 2025 | Luisa Maria Jacinta C. Jocson | BusinessWorld

A US FLAG and a "tariffs" label are seen in this illustration taken on April 10, 2025. — REUTERS/ DADO RUVIC/ILLUSTRATION

SHIFTING TRADE ROUTES amid tit-for-tat tariffs would likely occur within Southeast Asia, Oxford Economics said, though this may not necessarily benefit the Philippines due to its poor logistics sector.

"The Philippines and Malaysia might also be able to capture some of the diverted trade flows looking to avoid ports with higher tariffs. They have the next two lowest tariff rates in the region, which are also below the global average of 27%," it said at a research briefing.

"That said, the Philippines will probably not gain much from re-routing given its less developed trade logistics sector."

In early April, US President Donald J. Trump announced higher reciprocal tariffs on most of its trading partners.

Southeast Asia was hit with some of the highest duties, though the Philippines was slapped with a 17% tariff, the second lowest in the region, just after Singapore.

However, Mr. Trump suspended the reciprocal tariffs for 90 days starting April 9 but implemented the 10% baseline tariff for all. The suspension would be lifted in July.

Oxford Economics said that the Association of Southeast Asian Nations (ASEAN) will likely undergo a "reordering of shipping routes" within the region.

"The 'Liberation Day' tariffs announced by US President Trump have been postponed. But they will have significant consequences for ASEAN if they are eventually implemented."

"Given the extreme uncertainty, high fixed-asset investment costs, and the region's strong labor cost advantages, we doubt ASEAN supply chains can adjust quickly," it added.

Some businesses could opt to soften the impact of the higher tariffs by shifting production to locations slapped with lower tariffs.

"But not all businesses have diversified production bases and relocation costs are enormous. Also damaging is the hit from extreme trade policy uncertainty, which will lower business investment even if tariff hikes are eventually reduced or scrapped."

"Lower-tariffed economies with transshipment capabilities could benefit. That said, a key risk is the potential for disruption to supply chains. A supply glut may arise as orders are canceled, while transportation capacity could also be strained."

In the region, countries with the higher tariffs include Cambodia, Laos, Myanmar and Vietnam. Meanwhile, those that are "moderately exposed" to the US are Malaysia and Thailand.

"The relatively larger size of domestic spending in the Philippines buffers its economy against external volatility from an almost 20% export exposure to the US," it added.

In 2024, the US was the top destination for Philippine exports, accounting for 17% of the total.

"Tariff rate differential considerations are key to production decisions. Companies with facilities in different economies could tap existing and available capacity in lower-tariff economies to fulfill production orders." *[Cont. page 2]*

PHL unlikely to benefit from shifting trade routes amid tariff war

[Cont. from page 1]

However, the global economic advisory firm noted that not all companies have diversified production bases.

"Relocating or setting up new facilities typically involves significant fixed investment, even to lower-tariffed economies. The time needed to set up in new locations could stretch over several years, especially in sectors that require more complex facilities."

Oxford Economics said the region's "comparative advantage in the production of these goods should persist even with higher tariff rates."

"This is particularly the case for lower value-added, labor-intensive manufacturing processes, such as the assembly of electricals or cut-and-trim processes for textiles, which some ASEAN economies dominate."

"Given the labor-intensive nature of these processes, the large wage differential between the US and ASEAN economies is a core driver of the region's competitive edge."

In the medium term, Oxford Economics said it is unlikely that companies in ASEAN will reshore to the United States.

"Labor costs in the US are prohibitively high for the labor-intensive processes dominant in ASEAN. The region also benefits from economies of scales as an existing production hub."

To cushion the impact of tariff hikes, ASEAN economies could consider lowering trade barriers on US goods.

"However, given the already low effective tariff on US goods relative to those imposed by the US, it's unclear by how much these reciprocal tariffs will be lowered."

ASEAN countries can also seek to ramp up US imports, it said.

"This was a method employed by China when Trump raised tariffs during his first term. However, it's unlikely ASEAN will manage to do so in a manner that significantly reduces the US trade deficit."

"The ASEAN consumer market is far smaller than that of the US given the sheer difference in income. This is also why we think the removal of what the US administration considers to be non-trade barriers isn't likely to change much."

Economies in the region can also invest more in the United States, it added.

"This approach is taken by Northeast Asian economies like South Korea. and Japan. But it's probably not viable for ASEAN since most producers are foreign owned."

Source: https://www.bworldonline.com/top-stories/2025/04/21/666662/phl-unlikely-to-benefit-from-shifting-trade-routes-amid-tariff-war/

Philippines seen to have posted solid 6% growth in Q1

Robust expansion expected to perk up stocks, lower bond yields

April 22, 2025 | Ian Nicolas P. Cigaral | Philippine Daily Inquirer

Despite headwinds, the Philippine economy was expected to have grown by 6 percent in the first quarter. Photo by Ted ALJIBE / AFP

MANILA, Philippines – The Philippine economy might have posted a 6-percent growth in the first quarter, a performance that could help local equities go into upswing while local bond yields are expected to drop as the central bank stays dovish.

In their monthly "The Market Call" report, economists at University of Asia and the Pacific (UA&P) explained that the latest tariff actions of US President Donald Trump had set off a kind of "uncertainty" that can "mildly" impact the local economy.

That said, UA&P trimmed its gross domestic product (GDP) forecast for the first quarter by 0.2 percentage points to 6 percent, which might prompt the Bangko Sentral ng Pilipinas (BSP) to further cut interest rates to defend the economy from tariff-induced external headwinds. *[Cont. page 3]*

Philippines seen to have posted solid 6% growth in Q1

Robust expansion expected to perk up stocks, lower bond yields

The ongoing easing cycle, in turn, could push down local bond yields, which had been rising since Trump announced his sweeping tariffs on the rest of the world. Recall that Trump had unveiled a 17-percent "reciprocal tariff" on Filipino goods coming to America, albeit the second lowest in Southeast Asia.

More rate cuts

Economists at UA&P said the BSP might slash the key rate again in June by another quarter point. That decision would likely come regardless of what the US Federal Reserve does, they added.

"While the peso will keep a slight appreciation bias until May, the BSP move and its efforts to rebuild dollar reserves should reverse the situation in June," they said.

"With local real 10-yields at 4.53 percent, a 14-year high, Philippine bonds look undervalued and should retrace [their] downward moves as the market perceives another rate cut by BSP in its June meeting," it added.

At its April 10 meeting, the central bank had resumed its easing cycle with a quarter point cut to the policy rate to 5.5 percent.

The decision—which was made in the wake of Trump's flip-flopping on his "Liberation Day" tariffs— was meant to support growth amid tame inflation, with Governor Eli Remolona Jr. hinting at "further cuts" and the end of the easing cycle this year.

'Safe-haven' market

In a separate report, analysts at Swiss banking giant UBS said three more rate cuts are likely on the table of the BSP this year, which could be a "boon" to a market that's relatively safe from the tariff onslaught and the global recession that it may bring.

"This market (Philippines) may be considered a relative safe haven in the face of the ongoing trade war and global recessionary risks," they said.

Indeed, UA&P said a 6-percent GDP growth in the first quarter may help the local stock market post gains, especially if accompanied by "good" corporate earnings and "neutral to positive" midterm election results.

"The volatility created by Trump's to-and-fro tariffs have pervaded the financial markets in the U.S. and will likely continue to impact the Philippine equities market," they said.

Source: https://business.inquirer.net/520916/ph-seen-to-have-posted-solid-6-growth-in-q1

March BOP Swings to $1.97B Deficit from Feb $3B Surplus

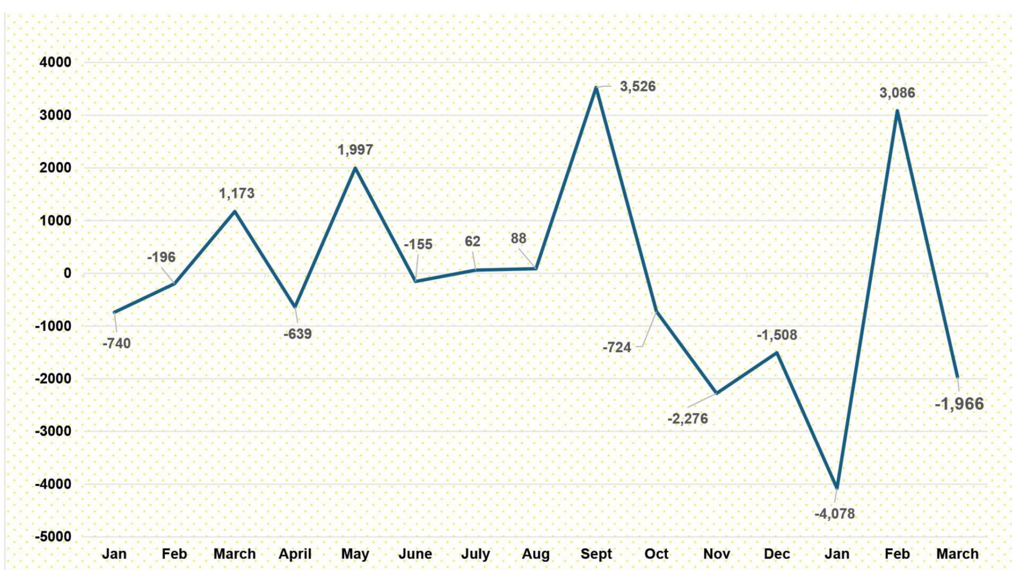
April 22, 2025 | Jimmy Calapati | Malaya Business Insight

THE country's balance of payments (BOP) position swung to a $1.966 billion deficit in March from a $3.09 billion surplus in February, the Bangko Sentral ng Pilipinas (BSP) said yesterday.

In a statement issued April 21, the central bank said the deficit was brought about by a reduction in the national government's foreign currency deposits under the country's gross international reserves (GIR) to meet its external debt obligations.

The BSP also had to dip into its foreign reserves to fund its operations in the foreign exchange market.

[Cont. page 4]



March BOP Swings to $1.97B Deficit from Feb $3B Surplus

[Cont. from page 3]

Preliminary data also showed the year-to-date deficit reflected mainly the country's widening trade in goods deficit.

"This decline was partly muted, however, by the continued net inflows from personal remittances, foreign direct investments and foreign borrowings by the national government," the BSP said.

The March deficit was also in contrast to the $1.17 billion surplus recorded in March 2024. It also brought the three-month cumulative gap to $2.96 billion, a reversal from the $238 million surplus in January to March 2024.

The BOP is a summary of the country's economic transactions with the rest of the world in a specific period.

Lower reserves

The central bank said the payments deficit in March mirrors a decrease in the final GIR to $106.7 billion from $107.4 billion as of the end of the preceding month of February.

Still, the latest GIR level provides a strong external liquidity buffer equivalent to 7.4 months worth of imports of goods and payments of services and primary income, it said, adding that it also covers about 3.6 times the country's short-term external debt based on residual maturity.

The GIR consists of Philippine investments abroad, gold and foreign exchange holdings, as well as the country's reserve position in the IMF and its special drawing rights.

Moderating receipts

Philippine Institute for Development Studies senior research fellow John Paolo Rivera, explaining other factors that caused the deficit, said earlier inflows such as borrowings, remittances, or investment-related receipts, possibly moderated in March.

The deficit emphasizes the sensitivity of the country's external position to global market movements and domestic financing needs, he said.

"Moving forward, careful management of external debt and trade competitiveness will be crucial to maintaining external stability," Rivera added.

Contributing factors

Michael Ricafort, RCBC's chief economist, cited as contributing factors to the BOP deficit in March the country's persistent trade deficit and the monthly declines in foreign investments because of US President Donald Trump's reciprocal tariffs.

The latest BOP and GIR data could have been supported by continued growth in the country's structural US dollar inflows, such as OFW remittances, BPO revenues, exports, foreign investments, and foreign tourism revenues, he said.

"In the coming months, the BOP data could still improve with the continued increase in the country's structural inflows in terms of the continued year-on-year growth of OFW remittances, BPO revenues, export revenues and foreign tourism receipts though offset by the country's continued trade deficit," Ricafort added.

For RCBC, the Philippine economy is still expected to have one of the fastest growth rates in the region.

Source: https://malaya.com.ph/business/business-news/march-bop-swings-to-1-97b-deficit-from-feb-3b-surplus/

Amid global recession risks, Philippines ' a relatively safe haven'

April 22, 2025 | Keisha Ta-Asan | The Philippine Star

MANILA, Philippines — The Philippine economy remains one of the most resilient in the region amid escalating global recessionary risks and heightened trade tensions, according to banks.

Bank of the Philippine Islands president and CEO Jose Teodoro Limcaoco said the country remains relatively insulated from global recession risks due to its strong domestic consumption and controlled inflation. *[Cont. page 5]*

Amid global recession risks, Philippines ' a relatively safe haven'

[Cont. from page 4]

Bank of the Philippine Islands president and CEO Jose Teodoro Limcaoco said the country remains relatively insulated from global recession risks due to its strong domestic consumption and controlled inflation.

Jun Acculador / CC BY-ND

While global uncertainties, particularly the threat of a recession, should not be ignored, Limcaoco noted that the Philippines is in a better position than many of its peers.

The Philippines may even find opportunities amid the broad tariff policies, given its comparatively favorable exposure.

"Our economy is primarily a service economy and it is consumption-driven, making our country in some ways better positioned to weather the negative impacts of the new trade restrictions," Limcaoco said.

While institutional investments could feel some impact from global trade tensions, Limcaoco said the bank's non-institutional portfolio is likely to remain resilient throughout the year.

"Philippine banks should also continue to do well through this as domestic inflation remains well under control thanks to food prices remaining relatively low," he added.

In its latest economic outlook, UBS maintained a positive stance on the Philippines, citing minimal exposure to global trade disruptions and the likelihood of further monetary policy easing.

"We maintain our view that the Philippines' direct and indirect exposure to trade and global GDP (gross domestic product) growth remains negligible," Grace Lim, senior ASEAN and Asia economist at UBS, said.

"This market may be considered a relatively safe haven in the face of the ongoing trade war and global recessionary risks," Lim said.

The optimism comes as the Trump administration announced sweeping trade measures, including a 10-percent minimum tariff on most of the United States' trading partners. Among the 29 countries subject to reciprocal tariffs, the Philippines faces a 17-percent tariff, which is the second lowest in ASEAN after Singapore.

While UBS economists project a global growth drag of 50 to 100 basis points and a 30 to 120-basis-point hit across Asia due to trade tensions, they expect the Philippines to be one of the least affected, with only a 30-basis-point downside. That resilience is largely due to the domestic-oriented structure of the economy.

The Philippines' goods exports to the US account for just two percent of GDP, making it one of the least exposed in the region.

However, UBS noted that the country's overall trade-to-GDP ratio remains significant at around 66 percent, suggesting vulnerability in the event of a broader global slowdown.

Low inflation and further rate cuts are also seen as tailwinds. UBS forecasts the Bangko Sentral ng Pilipinas (BSP) to slash rates three more times this year — in August, October and December. This would mirror the US Federal Reserve's projected path.

Inflation is expected to remain low at 2.4 percent, providing ample space for monetary easing.

Meanwhile, Moody's senior director Choon Hong Chua warned that the wider Asia-Pacific region might feel more of the strain from rising trade barriers.

He noted that US tariffs are fueling concerns over global supply chain disruptions and potential increases in consumer prices.

Exporters in the region are now grappling with higher costs and heightened uncertainty as they bring goods to the US market.

"Exporters could face a decline in US demand, loss of competitive edge, and shrinking market share should they increase consumer costs to cushion the impact of tariffs," he said.

To manage these risks, Chua emphasized the importance of improving supply chain visibility and agility.

"Businesses that adapt quickly to changing trade landscapes and mitigate risks will better navigate uncertain times," he said.

Source: https://www.philstar.com/business/2025/04/22/2437348/amid-global-recession-risks-philippines-a-relatively-safe-haven

Tariff pause seen as window to attract relocating manufacturers

April 21, 2025 | Justine Irish D. Tabile | BusinessWorld


RAUL JOSEPH A. CONCEPCION — FACEBOOK.COM/ RAULJOSEPHCONCEPCION

THE PHILIPPINES should take advantage of the 90-day pause before the higher US tariffs set in to attract manufacturers relocating from heavily tariffed China, an industrialist said.

Concepcion Industrial Corp. Chairman and President Raul Joseph A. Concepcion called the 90-day pause a strategic opportunity as "many countries and companies (look), because of the tariff differentials, to move away and to deleverage against China," he said on the *Money Talks with Cathy Yang* program on One News.

"As a result of that, then you will see, I think, an opportunity for the Philippines to invite manufacturers to come in, and this is the time. I think we have that small timeframe to ask people to come into the Philippines," he added.

The Philippines was assigned a 17% tariff, the second lowest in the Association of Southeast Asian Nations (ASEAN) after Singapore's baseline rate of 10%.

ASEAN member countries are facing some of the highest duties. Cambodia was assigned a 49% tariff, followed by Laos (48%), Vietnam (46%), Myanmar (44%), Thailand (36%), Indonesia (32%), Malaysia (24%), and Brunei (24%).

US President Donald J. Trump has since announced a 90-day pause on the tariffs, leaving only the blanket 10% duty on most trading partners until July.

Asked how the tariffs have been affecting businesses, Mr. Concepcion said companies in the last two weeks have received calls inquiring whether they can manufacture products for export to the US.

"That opportunity is available to us today, and the ability to do that now is very important for us. We just have to work smarter. Right now the government, together with the private sector, has to look for those opportunities and then obviously focus and pursue those," he said.

"We've got to look at making the Philippines a destination. We have to broadcast that and market that and really put up the support services that help companies that are willing to transfer here," he added.

However, he said that a free trade agreement may not be beneficial for the Philippines in the long term.

"It is good if it helps. But at the end of the day, I do not think that that is something that is sustainable in the long term. Companies do not come in and invest just because of trade deals," he said.

He added that more than a trade deal, the Philippines should ready its infrastructure, logistics, downstream industries, and workforce.

Ateneo de Manila Professor Luis F. Dumlao said that the Philippines should articulate to the US that the two economies are complementary.

"We do have a deficit in electronics, but what we export to them are parts that the US can complete as manufactured end-user products, which they can export around the world, including the Philippines," he said.

"We should sit down basically as partners, not as trade competitors," he added.

Meanwhile, Mr. Dumlao said that he does not think that a free trade deal is possible between the Philippines and the US.

"The US, for political reasons, will never get rid of its subsidy on agricultural products. So we have to rely on second best," he said.

"That is why we have to sit down together and get to something that is as close to free trade as possible. Knowing that we should not be naive that absolute free trade is possible," he added.

Further, he said that there is a need for the Philippines to market its second-lowest tariff in ASEAN.

"We should try to take advantage of the fact that others will be diversifying instead of putting all their eggs on China in terms of manufacturing. We are not going to get them all, but it is just an opportunity to get a piece of the action," he added.

Source: https://www.bworldonline.com/economy/2025/04/21/667071/tariff-pause-seen-as-window-to-attract-relocating-manufacturers/

UPCOMING EVENT

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