Sweden supports resumption of FTA talks between PHL, EU

THE Swedish government supports the resumption of free trade agreement (FTA) negotiations between the Philippines and the European Union (EU), a minister said.

Foreign Trade Minister Johan Forssell said at a roundtable in Makati City last week that negotiations should resume "when the time is right."

"There is great potential there for the Philippines but also from the EU, not having to pay all these tariffs, making it easier to export products and services in both directions. That must be the ultimate goal," Mr. Forssell said.

Negotiations for the Philippines-EU FTA started in 2016. The last round of negotiations took place in 2017.

"The Philippines is a really key market for us... So, it is important to come here," Mr. Forssell said.

Mr. Forssell said 40 Swedish companies operate in the Philippines.

He arrived in the Philippines on May 18 at the head of a trade mission.

"There is a growing interest from Sweden in investing in the Philippines. We're talking about the next year but also in the coming year. That is because of the possibilities that we see here, also the very strong underlying economic growth and the young population," Mr. Forssell said.

According to Mr. Forssell, some of the industries being studied for investment are renewable energy and energy transmission and infrastructure.

In the course of his visit he met with Trade Secretary Alfredo E. Pascual, Finance Secretary Benjamin E. Diokno, and Energy Secretary Raphael P.M. Lotilla.

Mr. Forssell also expressed support for negotiations on a new scheme to replace the expiring EU-Generalized System of Preferences Plus (GSP+), adding that Sweden has been a "strong supporter of free, open, and rules-based trade."

Set to expire by the end of 2023, the GSP+ is an incentive arrangement that allows the Philippines to ship its goods at zero tariff. The agreement covers 6,274 products consisting of 66% of all EU tariff lines.

The top Philippine exports qualified for EU-GSP+ are crude coconut oil, vacuum cleaners, prepared or preserved tuna, electro-thermic hair dressing apparatus, and prepared or preserved pineapple.

Participation in the GSP+ is conditioned on meeting commitments to 27 international conventions related to human rights, labor, good governance, and the environment.

In 2022, Swedish exports to the Philippines rose 10.5% to $152 million compared to 2019 levels while Swedish imports from the Philippines jumped 126.9% to $124 million relative to pre-pandemic levels.

Top Swedish exports to the Philippines include machinery, wood, and paper products, while top Swedish imports include machinery, fish and fruit. — **Revin Mikhael D. Ochave**

Toyota Philippines sees CARS extension keeping up auto industry employment levels

TOYOTA Motor Philippines Corp. (TMP) said the five-year extension of the Comprehensive Automotive Resurgence Strategy (CARS) program will maintain levels of employment in the auto and parts industries while boosting inbound investment.

"The CARS program is a significant government support as it helps the industry, among others, maintain and promote employment not only to the manufacturers but also parts suppliers and other allied industries," TMP First Vice-President for Corporate Affairs Rommel R. Gutierrez told *BusinessWorld* via Viber.

"The extension of the CARS program is a very welcome development. The auto industry expresses its appreciation to the current administration for continuing the government's strong support to the industry particularly the auto-manufacturing sector."

On May 19, the Private Sector Advisory Council (PSAC) said that President Ferdinand R. Marcos, Jr. approved its recommendation for a five-year extension of the CARS program, a scheme incentivizing domestic auto assembly operations.

According to the PSAC, the extension will continue to provide tax incentives and support car manufacturers that meet the requirements for investment, production, and technology development.

"CARS has demonstrated its effectiveness and value as a high-end manufacturing operation, which has greatly helped in the creation of jobs, transfer of technology and boosted global competitiveness by supporting domestic auto manufacturing and stimulating investment," the PSAC said.

Mr. Gutierrez said he expects more investment in automotive manufacturing with "continued industry-government collaboration" adding that the industry is a "significant contributor to the Philippine economy."

The P27-billion CARS program was introduced via Executive Order No. 182 in 2015, which required three participating car manufacturers to produce at least 200,000 units of a mass-market model in order to qualify for incentives.

Only TMP and Mitsubishi Motors Philippines Corp. (MMPC) enrolled in the program, with production beginning in 2018. Production of an enrolled model is eligible for P9 billion worth of fiscal support.

TMP produces the Vios sedan under the program while MMPC manufactures the Mirage hatchback and Mirage G4 sedan.

Prior to the five-year extension, MMPC was given until this year to meet the required production levels while TMP had until 2024.

Both companies had asked for additional time in meeting the required volumes, citing the effects of the coronavirus disease 2019 (COVID-19) pandemic.

Separately, MMPC First Vice-President Imelda M. Abadilla-Brown told *BusinessWorld* via Viber message that the car manufacturer cannot comment at the moment because it has yet to receive an official notice from the government on the five-year extension.

Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said the five-year extension will encourage further growth in the auto industry.

"Incentives will help the local sector better compete in terms of production costs and prices of vehicles compared to those produced in other nearby Asian countries, especially the Vios and Mirage models" Mr. Ricafort said.

"The extension will also encourage continued growth in the auto industry and other related businesses/industries in the supply chain, in terms of higher production, revenue, earnings, and employment," he added. — **Revin Mikhael D. Ochave**

Inflation seen as drag on retail industry recovery

THE retail recovery is being hindered by high inflation, which is causing consumers to carefully consider their purchases, an industry group said.

Paul A. Santos, Philippine Retailers Association chairman, told reporters on the sidelines of the Economist Impact's Global Anti-Illicit Trade Summit in Taguig City last week that consumers are keeping their spending in check.

"The biggest dampener to the economic recovery for the retail (sector) is inflation. We're seeing a lot of consumers... realizing that stuff is more expensive than it used to be and are now prioritizing what to spend, how much to spend," Mr. Santos said.

"Inflation puts a damper on the prospects of recovery and improvement in the retailing business," he added.

The inflation rate slowed to 6.6% in April from 7.6% in March, the Philippine Statistics Authority said in a preliminary report. Inflation remained higher than the year-earlier 4.9% and above the government's target range of 2% to 4%.

According to Mr. Santos, retailers are posting stronger sales following the reopening of the economy, but have yet to surpass pre-pandemic levels due to inflation.

"A lot of reports suggest that retailers have enjoyed an increase in sales but have yet to achieve sales levels matching that of 2019. Some forecast that they will be able to match sales by the yearend," Mr. Santos said.

Mr. Santos said retailers are responding by offering more promotions and are cutting costs.

"You go back to old tools to revive business. Some retailers will probably engage in more promotion throughout 2023 to attract lost business," Mr. Santos said.

"Some retailers will probably, to improve the bottom line, engage in cost reduction. Probably, in this case for most unprofitable stores, reduce operating hours or maybe reduce employees. That's the last option," he added. — **Revin Mikhael D. Ochave**

Marcos EO modifies some tariffs to harmonize with RCEP

AN executive order (EO) issued by the Palace this month brings Philippine tariff levels into line with its commitments under the Regional Comprehensive Economic Partnership (RCEP) trade deal.

President Ferdinand R. Marcos, Jr. issued EO 25 on May 7 to make the needed tariff adjustments in time for the RCEP's effectivity date of June 2.

"There is a need to modify the rates of import duty on certain imported articles in order to faithfully comply with the Philippine Schedule of Tariff Commitments under the RCEP Agreement," Mr. Marcos said in the EO.

In April, the Department of Trade and Industry (DTI) said the EO would serve as the basis for the tariffs to be implemented by the Bureau of Customs from RCEP source countries.

According to the EO, all goods originating from other RCEP countries are to be levied the prescribed rates of duty subject to the submission of a Proof of Origin and compliance with all applicable RCEP requirements.

The EO also authorizes the Tariff Commission to issue advance rulings on the tariff classification of goods to confirm the applicable tariff rates on goods under Republic Act No. 10863 or the Customs Modernization and Tariff Act.

The EO also allows the Philippines to permit importers to make claims for preferential tariffs at either the highest rate of customs duty that the Philippines applies to the same originating goods from other parties contributing originating materials used in the production of such goods, as long as the importer can prove the claim, or the highest rate of customs duty that the country applies to the same originating goods from any of the RCEP parties.

"The RCEP Agreement aims to establish a modern, comprehensive, high-quality, and mutually beneficial economic partnership framework; liberalize and facilitate trade in goods and services through the elimination of tariff and non-tariff barriers, as well as restrictions and discriminatory measures; and create a liberal, facilitative, and competitive investment environment," the EO said.

The Senate gave its concurrence to the RCEP on Feb. 21, more than a year after the trade deal entered into force for other members beginning Jan. 1, 2022.

RCEP members include the 10 ASEAN states, Australia, China, Japan, South Korea, and New Zealand. — **Revin Mikhael D. Ochave**

Privatization office targets P2 billion in asset disposals

THE Department of Finance (DoF) said its Privatization and Management Office (PMO) hopes to dispose of P2 billion worth of assets via auction this year.

The target, if achieved, represents a step up from the P501 million generated last year, Finance Undersecretary Catherine L. Fong said in a Viber message.

Finance Secretary Benjamin E. Diokno is aiming to increase the pace of privatization under the current government, noting that in the previous administration, the privatization council hardly met, she said.

Ms. Fong said privatizing the commercial operations of the Philippine Amusement and Gaming Corp. (PAGCOR) is expected to take some time despite support from its board, after the chairman requested a delay of one or two years in consideration of employees who might be affected.

The extension was also requested in order to increase the value of the casinos, Ms. Fong added.

The value of PAGCOR will lie mainly in its licenses, as it leases all its casino properties, she said.

The PMO is required to have P500 million worth of assets ready for auction every month.

She said appraisals are challenging, as the rules require two independent appraisals before an asset can be auctioned.

Last year's asset sale level could be exceeded with the sale of the government's stake in NLEX Corp., which Ms. Fong said could raise billions of pesos.

Ms. Fong told reporters on Friday that at least four copper and nickel mines are being readied for auction this year, noting possible foreign interest in Basay Mining Corp. in Negros Oriental.

Basay Mining auction preparations are nearing the final stages, she said, with the disposal to be structured as a joint venture.

The government has been looking to privatize Basay Mining since February 2022. The company has been inactive since 1983.

The mine is awaiting a valuation opinion to validate the worth of its remaining resource. — **Aaron Michael C. Sy**

OPINION

Rethinking value: The evolution of consumer spending

SUITS THE C-SUITE

MARIA KATHRINA S. MACAISA-PEÑA

(First of three parts)

Consumer spending serves as the cornerstone of the world economy and society, and both businesses and governments depend on it. It currently accounts for more than half (60%) of the world's GDP, according to the Global Economy, an online database that compiles over 500 indicators for more than 200 countries since 1960. In the Philippines, private consumption accounted for 75.4% of nominal GDP in December 2022.

When consumers spend, the economy grows; when they do not, the economy shrinks — showing us how the consumer is truly king. Even during a recession, consumers always manage to find a way to spend their way back to growth, with methods employed for recovery nearly always centering on getting consumers to spend more money by lowering debt payments and raising wages.

Two years of lockdowns in particular have left a lasting impression on consumer preferences. As much as 54% of consumers have noticed changes in their values and outlook on life, according to the **EY Future Consumer Index**, which surveys over 21,000 consumers in 27 countries. Many consumers have developed simpler, less consumerist values as a result of learning to live with less. An increasing number of reselling, renting, and repair services made possible by technological platforms and new business models also enable consumers to restrict their consumption without affecting their lives.

The pursuit of economic growth is also receiving more criticism, with questions raised about the potential social and environmental consequences of economic expansion. Consumption is under pressure due to current macroeconomic instability, rising interest rates and continuously higher than average inflation rates. This in turn is reducing the appetite for consumers to spend their way out of a crisis, possibly redefining the concept of growth and how to measure it.

CHANGING CONSUMER BEHAVIOR

For many years, encouraging people to consume more has been the source of growth. The introduction of new products, seasonal fashion, bigger portions, and an abundance of options have previously increased consumer spending. However, with increasing signs of consumption fatigue, brands must reevaluate their value proposition to motivate consumers to consume better instead of consuming more.

At the same time, consumption is not going anywhere; people still need to eat and drink, although they may purchase food and drink in various ways. Clothing and other necessities will still be in demand, though perhaps in less quantity. Even though consumer aspirations may be less centered on tangible objects, they will still have goals that depend on products and services.

The Future Consumer Index identified five drivers that could reshape consumption patterns:

Household evolution. With the increasing number of single-person and single-parent homes, household sizes are decreasing. According to a study funded by the World Health Organization and conducted by the Department of Health (DoH) and the University of the Philippines-National Institutes of Health, the number of solo parents in the Philippines is currently estimated at 14 million to 15 million. Longer life expectancies, falling fertility rates, and children staying at home longer also contribute to evolving household compositions, creating new consumption patterns in the types and volumes of products purchased.

Experiences over products. Spending on material things will reach a saturation point as consumption rises, lowering the value of tangible commodities. Instead, consumers will start to spend their discretionary income on activities that enrich their lifestyles through experiences.

Extended product lifecycles. Companies and customers are under increasing pressure to improve and repair items instead of replacing them. The frequency of new product introductions will decline as the concept of "planned obsolescence" gives way to the "right to repair," and repair or enhancement services will create new revenue streams.

Digital goods and services. With more time spent online, consumers find less need to own or use physical goods and services. While many essential needs will continue to be met physically, the growth of digital goods and services is expanding consumer spending and opening up new possibilities for innovation and value creation.

Impact transparency. Consumer awareness of the broader effects of the goods and services they use — on both people and the planet — will only continue to increase. More readily available product information will affect the decisions they make.

THE FUTURE OF CONSUMPTION PATTERNS

Significant changes in consumption patterns are predicted to occur over the next few years, according to learnings from the EY Future Consumer Index.

Consumption of physical goods as a percentage of total consumption will drop. Less tangible consumables are seeing an increase in consumer preference. In particular, the total amount of physical products will decline as a result of consumers choosing experiences, digital products, and longer product life cycles.

Asset-light lifestyles will change basket and product sizes. In a future world when being frugal is commended, less will be more. Everything will be available for rent or subscription, and fluctuating household sizes will determine how much people buy. Bulk purchasing will decline as the number of one-person homes rises, while the practice of purchasing better quality items instead of more and renting the remainder will increase as consumers reevaluate whether they really need certain products.

Simplicity and transparency will enable consumer choices. Consumers will be able to cut through complexity with the help of artificial intelligence (AI), enabling purchase decisions to be defined by seamless convenience as much as price. However, consumers will also make decisions that consider the impact of those decisions on their values. They might not give as much thought to daily essentials as long as the items meet expectations in terms of price and use, but consumers will prefer to invest their time and money in the goods and services they genuinely value.

In the second part of this article, we discuss the factors affecting drivers of growth and their implications for consumer companies.

This article is for general information only and is not a substitute for professional advice where the facts and circumstances warrant. The views and opinions expressed above are those of the author and do not necessarily represent the views of SGV & Co.

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