# PHILIPPINE TRADE POTENTIAL: AN ANALYSIS USING DYNAMIC GRAVITY APPROACH

THESIS

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## ABSTRACT

**BAUTISTA, CATHERINE N., SATUNA, CENCEN F., Philippine Trade Potential: An Analysis Using Dynamic Gravity Approach.** Undergraduate Thesis. Bachelor of Science in Economics. Cavite State University, Indang, Cavite. June 2019. Adviser: Ms. Jenny Beb F. Ebo.

The Philippine trade potential to its top fifteen partner countries namely Japan, United States of America (USA), Hong Kong, China, South Korea, Singapore, Thailand, Germany, Netherlands, Malaysia, Viet Nam, France, Indonesia, Malta, and United Arab Emirates (UAE) was analyzed using the dynamic gravity model of trade. The model explained the effect of exogenous variables such as gross domestic product, distance, population, exchange rate, exports, imports and annual trade.

With the use of panel corrected standard errors (PCSE) regression analysis, results showed that the exogenous variables yielded significant effects to exports and annual trade. However, in the case of imports, only the population of Philippines and the partner country, gross domestic product of partner countries, and distance had significant effects. Furthermore, the negative relationship of distance to exports, imports, and annual trade confirmed the assumption of Gravity Model that the closer the distance of the economy, the more it trades.

In terms of trade potential, Philippines had the highest potential to exports with France and imports with Malta. On the other hand, trade was overtraded to Japan, Hongkong, China, Netherlands and Indonesia because of over exports. Likewise, results revealed that there was trade divergence in Japan, Hong Kong, China, Singapore, Thailand, Germany, Netherlands, Indonesia, and UAE because of over imports.

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## INTRODUCTION

Over the past years, the merchandise trade balance of the Philippines continues to decline. In 2017, the negative trade balance of the Philippines posted the highest since 1996 which amounted to US$ 33.18 billion as reported by the World Bank. Exports contracted for the first time in more than a year and imports posted double-digit growth. The decline in exports may be primarily due to the weak global demand and an increase in competition among countries.

On the contrary, the Philippines continued to be one of the fastest-growing economies in Asia, training closely to China's 6.9 percent and Viet Nam's 6.8 percent. The Philippine economy created a solid performance as real Gross Domestic Product increased by 6.7 percent. Export was the main growth driver on the demand side which grew by 19.2 percent in 2017 from 10.7 percent a year ago. Growth in exports of goods robust at 20.7 percent due to the recovery in international trade, making up for the slowdown in exports of services at 13.6 percent which was weighed down by the performance of the business processing outsourcing industry (Philippine Statistics Authority, 2018).