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ARTICLES

COMMENTS

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Comment on "How might China-US industrial policies affect the Philippines?: a quantitative exercise"

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I read "How might China-US industrial policies affect the Philippines?: a quantitative exercise" with great interest. The study has valuable insights into the implications of third party industrial policy on the Philippines, as well as on the interaction of those industrial policies with Philippines' own industrial policy decisions. I commend the paper for its structured approach. It effectively helps organize thinking around complex international trade dynamics. Let me share a few specific observations about the model and its results.

First, the model attributed substantial importance to the scaling channel relative to price effects, particularly through the intermediate goods channel. Is the model sufficiently capturing the dynamics of international production networks, especially the productivity gains from "learning by importing" that arise when tariffs on intermediates and capital equipment are lowered? Empirical evidence points to the relevance of that channel, and it is often presented as one of the key gains from trade liberalization (e.g., Amiti and Konings [2007]; Lovo and Varela [2022]; and others). If the model doesn't account for these dynamics, it might underestimate the productivity or price effects, overestimating instead the relative importance of the scale benefits. China's subsidies affecting upstream sectors, could reduce prices of intermediate goods and subsequently lower production costs in the Philippines; it could also increase available varieties domestically, altogether contributing to productivity gains that could be better represented in a dynamic model.

Another relevant angle to explore is whether scale effects are mediated by features of comparative advantage in products targeted by US and China's industrial policy. An important reference in this area is the work by Freund et al. [2024] on the impacts of US-China decoupling that shows how various countries gain or lose market share due to shifting trade patterns. While countries like Mexico and Vietnam gain, the Philippines does not appear to benefit. Examining the composition of Philippine exports relative to the products that China previously supplied to the US can help understand if the presence or absence of revealed comparative advantages in targeted products is affecting the extent to which Philippines could benefit or lose out of these policies. This similarity

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in exports, or lack thereof, could help clarify the scale effect’s magnitude by assessing how closely the Philippine production profile aligns with that of China in specific sectors.

In terms of Philippines' industrial policies this study is highly relevant, particularly considering current discussions around “Tatak Pinoy”, a national industrial policy initiative. The potential role of deep trade agreements in mitigating the negative effects of industrial policies imposed by trade partners is another area worth examining further. Barattieri et al. [2024], for example, point out that agreements with provisions on subsidies can potentially shield countries from adverse impacts or even lead to gains from industrial policy implemented by trading partners. Considering such agreements as potential “shields” for the Philippines then becomes important.

Another area requiring follow up research relates to the types of industrial policy the Philippines might adopt. Evaluating different policy options, such as subsidies or infrastructure investments may be required. Investments in infrastructure, which could address coordination failures for sectors prioritized by the Department of Trade and Industry (DTI), could act as implicit subsidies, possibly aligning with the government’s upcoming reforms. The DTI’s initiative known as “Tatak Pinoy” might benefit from academic input on prioritizing these policy strategies, whether through coordination-focused infrastructure or targeted tax expenditures.

I would encourage researchers to go beyond the focus on DTI’s priority sectors, and provide alternative simulations that concentrate on sectors with high production similarity to China’s or to the US. By providing subsidies to these high-potential sectors, the Philippines could gain a greater competitive advantage and enhance scale effects more effectively in this current geopolitical context.

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