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## Managing the ASEAN Economic Integration Process in the Philippines: An Assessment of Progress in Trade Liberalization and Facilitation

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**Philippine Institute for Development Studies**  
*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

**Managing the ASEAN Economic  
Integration Process in the Philippines:  
An Assessment of Progress in Trade  
Liberalization and Facilitation**

*Erlinda M. Medalla*

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# **Managing the ASEAN Economic Integration Process in the Philippines: An Assessment of Progress in Trade Liberalization and Facilitation**

## **Abstract:**

This paper is part of the Philippine study for the ERIA project on the Mid-Term Review (MTR) of the ASEAN Economic Community (AEC) Blueprint. A milestone in ASEAN Economic Cooperation is the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015 during the 12th ASEAN summit in 2007, and subsequently the passing of the ASEAN Charter. A midterm review of where the member countries are in moving toward the ASEAN Economic Community is thus timely. At the core of ASEAN integration is free flow of trade in goods. An essential part of the midterm review is an assessment of progress in the area of trade liberalization and facilitation. Toward this end two sets of surveys are undertaken by the study: (1) a Mid Term Review (MTR) Questionnaire for Government Officials, and (2) Firm MTR Survey on Import/Export and Customs Clearance. The questionnaire for government officials aims to gather information on aspects of ASEAN customs development and integration and the implementation of the National Single Window (NSW) and ASEAN Single Window. The survey of firms will provide the view from users by getting their experience on customs clearance and permit release process in other government agencies. Recommendations of the ways forward are then suggested.

**Keywords:** ASEAN, economic integration, trade liberalization, trade facilitation, National Single Window (NSW), ASEAN Single Window (ASW)

# **Managing the ASEAN Economic Integration Process in the Philippines: An Assessment of Progress in Trade Liberalization and Facilitation\***

*Erlinda M. Medalla*<sup>1</sup>

Achieving the ASEAN vision of an economic community would not only benefit the member countries of ASEAN but would make ASEAN, as a whole, a more effective center of gravity and building bloc for the wider East Asian region. A milestone in ASEAN Economic Cooperation is the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015 during the 12th ASEAN summit in 2007, and subsequently the passing of the ASEAN Charter. A midterm review of where the member countries are in moving toward the ASEAN Economic Community is thus timely. At the core of ASEAN integration is free flow of trade in goods. An essential part of the midterm review is an assessment of progress in the area of trade liberalization and facilitation.

Toward this end two sets of surveys are undertaken by the study: (1) a Mid Term Review (MTR) Questionnaire for Government Officials, and (2) Firm MTR Survey on Import/Export and Customs Clearance. The questionnaire for government officials aims to gather information on aspects of ASEAN customs development and integration and the implementation of the National Single Window (NSW) and ASEAN Single Window. The survey of firms will provide the view from users by getting their experience on customs clearance and permit release process in other government agencies. The paper starts with an overview of Philippine trade liberalization and facilitation, followed by some trade indicators to provide the setting for discussion. The key findings from the two sets of questionnaires are presented and recommendations for the ways forward are then suggested in the succeeding sections.

## **Brief Overview of Philippine Trade Policy**

Coming from more than three decades of protectionism, the Philippines started to undertake comprehensive, unilateral trade reforms starting in the 1980s that significantly

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\* This paper is part of the Philippine Country Report on *The Mid Term Review (MTR) of the Implementation of the ASEAN Economic Community (AEC) Blueprint*, a study supported by the Economic Research Institute for ASEAN and East Asia (ERIA).

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opened up the economy. First was the Tariff Reform Program I (TRP I) implemented from 1981 to 1985 which narrowed down the tariff band from 10%-100% down to 10-50%. This was followed by an extensive removal of import restrictions (mainly in the form of import ban or import license requirement) for a host of products. Unilateral trade reforms continued in 1991 with the passing of Tariff Reform Program II (TRP II). A third phase of the Tariff Reform Program (TRP III) was staged for another five years from 1996 to 2000, mainly replacing the quantitative restrictions in agriculture with tariffs.

In 1998, the Tariff Commission was tasked to review and evaluate the impact of the pace of tariff reductions on the ability of local industries to compete, especially in the light of the Asian financial crisis. This resulted in some ‘tariff recalibration’ wherein a 3%-5%-7%-10%-15%-20%-25%-30% structure was put in place of the 3%-10%-20%-30% structure, though retaining most of the liberalization already in place.

A fourth phase of the Tariff Reform Program (TRP IV) was subsequently scheduled in 2001, which would have reduced the tariff band further to 0% - 5% by 2004 (except for a limited range of sensitive agricultural products with a 2004 tariff rate of 30%). However, implementation was frozen during the Arroyo administration. Furthermore, a tariff relief for industries was implemented, with tariff rollback for a number of selected products. (See Box 1)

<b>Box 1. Philippine Trade Policy Timeline</b>		
Postwar- 1970s	Import substitution (1950s-1970s) Export Promotion starting in 1973	Period of import controls and high tariffs
1980 -1985	Tariff Reform Program I (TRP 1) • Brought down tariff band to 10-50%.	Start of unilateral trade liberalization
1983 -1986	Economic Crisis in 1983 and change in government in 1986	Trade reform interruption
1986-1988	Comprehensive Removal of Import License Requirements	Continuation of unilateral trade liberalization
1991-1995	Tariff Reform Program II (TRP 2) • Brought down tariff band to 0-30% AFTA-CEPT in 1993 Accession to WTO in 1995	
1996-2000	Tariff Reform Program III (TRP 3) • Further reduction in tariffs and QRs in agriculture replaced by tariffs, except for ‘sensitive’ products APEC membership (1996)	
2001-2004	Tariff Reform Program IV (TRP 4)- • E.O. 334 (January 1, 2001) ○ provided for the implementation of a tariff band of 0% - 5% by 2004 ○ Implementation frozen then shelved • Selective increases in tariff rates (up to 1998 levels) in 2002	Stalling of unilateral trade reforms and ‘tariff re-adjustment’
2000s	Preferential Trading Agreements: AFTA and	Regional and preferential

	ASEAN+ 1 FTAs Philippine-Japan Economic Partnership Agreement (December 2008)	trade agreements
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The series of Tariff Reform Programs, despite the interruption in the mid 1980s and the stalling in the 2000s, brought down the average (MFN applied) tariff rate from 42% in 1980 to only around 7% in 2012. Some fluctuation in tariff levels arose during the ‘tariff re-adjustment’ period in early 2000s, but the average tariff level remained relatively low, as the tariff increases were capped not to exceed the 1998 levels. (See Table 1)

**Table 1. Philippine Average Nominal Tariff, 1981-2010**

	Simple Average Nominal Tariff			
Year	Agriculture	Mining	Manufacturing	Overall
1981	43.23	16.46	33.74	34.6
1985	34.61	15.34	27.09	27.6
1990	34.77	13.97	27.49	27.84
1995	27.99	6.31	13.96	15.87
2000	14.4	3.27	6.91	7.95
2005	11.85	2.47	7.29	7.81
2010	11.94	2.28	6.18	7.02

*Source: Philippine Tariff Commission*

The MFN tariff structure has remained basically unchanged during the past decade. In effect, trade liberalization proceeded as part of the country’s commitments in its various trade agreements. The ASEAN Free Trade Agreement (AFTA) is the primary trade agreement for the Philippines. The Philippine engagement in preferential agreement has mainly been as member of ASEAN, with Japan as its lone bilateral FTA partner. Being part of ASEAN has helped keep the country open, especially at the time when the tendency to waver became intense following the 1997 Asian financial crisis.

As part of its commitments to ASEAN, EO 850 was passed in December 2009 which brought down tariffs on imports from ASEAN, to 0 % in 2010, except for a short ‘sensitive’ list of products. The Philippine sensitive list includes swine, poultry, cassava, sweet potatoes, corn, grain sorghum, and sugar. Rice is the only item in the highly sensitive list. Even within the sensitive list, the CEPT rates are down to 5 percent for most products (e. g. poultry and swine). The few remaining products with rates higher than 5 % cover rice and sugar. (See Table 2)

**Table 2. Remaining products with PH-CEPT tariffs > 5%**

AHTN	Product description	2010 CEPT (%)
1006.10.00	Rice in husk- suitable for sowing	40
1006.20.10	Husked brown rice- Thai Hom Mali rice	40
1006.20.90	--- other	40
1006.30.15	Fragrant rice- Thai Hom Mali	40
1006.30.19	Other semi or wholly milled rice	40
1006.30.20	Parboiled rice	40
1006.30.30	Glutinous rice	40
1006.30.90	--other	40
1006.40.00	Broken rice	40
1701.11.00	Cane sugar	38
1701.12.00	Beet sugar	38
1701.99.11	- - - - - Containing over 65% by dry weight of sugar	38
1701.99.19	- - - - - Containing over 65% by dry weight of sugar	38
1701.99.90	- - - - other	38

*Source: Philippine Tariff Commission*

Perhaps even more significant in liberalizing trade was the substantial removal of quantitative restrictions after 1986, especially within the two years that followed. Prior to reforms, import prohibitions and import licensing requirements used to be imposed on more than 23 % of total (Philippine Standard Commodity Classification) PSCC lines. In the two years from 1986, the percentage was more than halved. The percentage was trimmed down further to less than 3 percent by 1996 (De Dios 2002). (See Table 3.) Existing quantitative restrictions are mainly on weapons and arms and a few ‘sensitive’ goods (e.g. rice and sugar), possibly constituting less than 1% of total number of similar PSCC lines.

**Table 3. Number of Regulated Commodities, 1980-1996**

Year	No. of PSCC lines subject to Import restrictions	% Regulated (as to Total PSCC lines)
Total # of PSCC lines	5632	100
1970	1307	23.2
1980	1820	32.3
1985	1802	32
1986	827	14.7
1987	653	11.6
1988	598	10.6
1989	470	8.3
1990	463	8.2
1991	439	7.8
1992	160	2.8

1993	253	4.5
1994	246	4.4
1995	222	3.9
1996	161	2.9

*Source: De Dios (1994) and Medalla (1998)*

Of course, as in other countries, there are non-tariff measures imposed for health and safety (including environmental protection) reasons. The main NTMs are in the form of TBTs (Technical Barriers to Trade) and SPS (Sanitary and Phytosanitary) requirements. In this regard, trade facilitation efforts become the crucial element of reforms. The challenge is how related procedures and administration could be facilitated, and how ASEAN member countries could put in place a more transparent and harmonized system.

## **Brief Review of Trade Facilitation Measures<sup>2</sup>**

Reforms and modernization efforts in the customs administration system date back to as early as the 1970s, with the installation of a mainframe computer system for the purpose of capturing transactions data and generating databases of customs bonds, orders of payment, and customs declarations. It was during the period of 1992 to 1998 where a genuine Customs Reform and Modernization Program was achieved (Parayno 2004). Its success has earned praises and recognition from local and foreign organizations including the World Customs Organization (WCO), the United Nations (UN), the Integrated Monetary Fund (IMF), and foreign visitors from all over the world.<sup>3</sup>

Continuous modernization efforts are being introduced to sustain these improvements. In 2005, a computerization improvement program was introduced with 33 major components that include software upgrades such as the Automated System for Customs Data (ASYCUDA-World). ASYCUDA-World is an internet-based lodgment system of customs information that integrates all the agencies processes. The components are import and assessment system, automated export documentation system (AEDS), automated bonds management system (ABMS), raw materials liquidation system (RMLS), import and export support system, BOC Portal, exports processing system, funds monitoring system, and resource and operations management system. The bureau also initiated the Electronic to Mobile (e2m) Customs Project in 2005. It is an initiative supported by a P500 Million e-government Presidential budget. e2m Customs aims for the development of a dynamic and faster end-to-end cargo clearance process eventually through the use of mobile broadcasting and internet/electronic data interchange connectivity. It makes use of advanced technology including electronic signatures to provide government officials, specifically customs administrators with new tools in better

<sup>2</sup> Drawn heavily from Chapter 3 of Aldaba et al (2010), with portions directly lifted

<sup>3</sup> A UN report stated “the Review team was greatly impressed with the progress achieved in modernizing the cargo clearance operations”. While an UNCTAD Audit Team said that, “among the developing countries, you rank no. 1 in computerization.” (Maniego 1999).



implementing security, trade efficiency and fight against corruption (see Box 1 for the e2m Customs features). It is expected to support the implementation of the National and ASEAN Single Windows. Some major changes effected by the e2m Customs to allow import processing within 30 minutes (ASEAN target) are:

<b>Process</b>	<b>e2m Customs Target Improvement</b>
Accreditation/Registration	from paper to electronic
Manifest submission	from 5 days after arrival to 12 hours before arrival of vessel/shipment
Assessment	from self-assessment by importer to final-assessment by BOC appraiser
Lodgement	from filing at BOC to internet filing
Import Processing	from disjointed subsystems to a seamless system
Payment	from cash and checks to electronic debit only
Risk management/Selectivity	from transaction-based to account/company rating-based
Entry track-and-trace	from manual to internet or cellphone-based
Information	Online resource access through BOC website on issuances, processes, policies, guidelines and other related information

*Source: Philippine Bureau of Customs*

Other trade-related agencies contribute to the just-in-time and cost effective movement of goods. These include, notably: (1) One-Stop Shop Export Documentation Center (OSEDCC), and (2) reforms and automation in Economic Zones. For example, the BOC and the Philippine Economic Zone Authority (PEZA) introduced Automated import cargo transfer system (AICTS), electronic import permit system, and Automated export documentation system (AEDS). Compared with manual processing, AEDS has reduced clearing time and lowered the cost of business (e.g., PEZA and customs overtime charges and filing fees) by 83 percent and 78 percent, respectively. Several similar initiatives are being introduced in other economic zones not covered by PEZA. These include trade automation and facilitation system (TAFS) implemented by the Subic Bay Metropolitan Authority (SBMA), and the electronic transit admission permit system (e-TAPS; which is like the PEZA e-IPS) and enhanced automated cargo transfer system (E-ACTS) implemented by both the SBMA and Clark Development Corporation (CDC).

BOC is also engaged in other initiatives albeit at a very early stage— including development and adoption of a customs transit system, authorized economic operators and the establishment of one-stop customs-immigration-quarantine-security agencies (CIQS) facilities at the BIMP-EAGA border crossings. Then there is the BOC-led National Single Window (NSW) project.

To implement NSW in the Philippines, President Arroyo issued on December 27, 2005 Executive Order No. 482 which created the National Single Window Task Force for Cargo Clearance. This aims to ensure a coherent and effective formulation, coordination,

implementation and monitoring of NSW. The members of the Task Force are the relevant national government agencies, which have the direct mandate to regulate internationally traded goods. The Task Force has a Steering Committee (SC) directing and ensuring the effective implementation of the Plan to Establish the NSW, and the Technical Working Group (TWG) which attends to the day to day implementation of the Plan.<sup>4</sup> The Bureau of Customs chairs both levels of the Task Force. The government departments and agencies involved in the cargo clearance release are mandated to cooperate with each other in order to provide the BOC with automated electronic system required for the establishment, implementation, and operation of the NSW, and eventually link with the ASW. Also, the Philippines NSW is developed in line with recognized international standards to enable interoperability while ensuring seamless integration with the NSWs of other countries and the ASW.

Implementation of the NSW is planned in 2 Phases. Phase 1 initially targets 10 agencies, selected on the basis of the occurrences of permits and when combined account for around 70-80 percent of all import permits. The NSW application at the ten agencies will cover a single set of licenses, permit, or clearances per agency. It features electronic submission of application form, status of application viewable in the dash board, notification via email of application status, and final approval via electronic means. Agencies included in Phase 1 are Sugar Regulatory Administration, Bureau of Animals Industry, Bureau of Plant Industry, National Food Authority, Bureau of Internal Revenue, Bureau of Foods and Drugs, Philippine Economic Zone Authority, Bureau of Customs, Board of Investments, and Bureau of Product Standards. The Philippines is now in its second phase of implementation of the NSW. Aside from the 10 core agencies, 27 OGAs are now covered.

As of the moment, there are no changes in paper document forms as each agency will process applications according to its existing procedures. Documents may be printed for review and circulation for approvals. Such documents will be identical to existing forms, with the addition of a printed bar code to easily identify the document and treat it as a unique application. The agency, upon completion of its review, returns to the NSW to record its required response. This may include the capture of limited data and the registering of either approval or denial of the application. The document barcode can be scanned to recall the electronic entry thereby simplifying the identification of a document that has been processed. Documentation can be scanned and attached to the electronic folder for any application. The agency's decisions are to be transmitted to the trader simultaneously with its transmittal to the BOC e2m system (BOC 2010b). The basic approach is to have 2 independent but integrated systems (i.e., NSW and e2m customs) working simultaneously and exchanging information electronically.

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<sup>4</sup> An orientation and workshop planning for the Philippine NSW was conducted to discuss and formulate the National Work Plan for NSW (Clarete and Brucal 2007).

## Some Trade Performance Indicators

Amidst this setting and global developments, trade in proportion to GDP has grown steadily over the years, although it is trailing behind many of its ASEAN neighbors. Exports to GDP ratio peaked in 2000, rising from 18.5 percent in 1990 to 50%, and thereafter falling to around 24 % in 2009, which is still considerably higher than the ratio in 1990. On the other hand, imports to GDP ratio peaked in 2005, thereafter falling to around 28%, close to its level in 1990. The trade intensity is similar to Indonesia, but much lower compared to Thailand, Malaysia and Vietnam. (See Table 4)

**Table 4. Trade/GDP ratio of selected countries**

	1990	1995	2000	2005	2006	2007	2008	2009
<b>Export/GDP (at current prices) Ratio</b>								
Indonesia	22.4	22.5	37.6	30.0	27.6	26.4	27.3	22.1
Malaysia	66.9	83.2	104.7	102.2	102.5	94.6	90.1	82.3
<b>Philippines</b>	<b>18.5</b>	<b>23.5</b>	<b>50.2</b>	<b>41.7</b>	<b>40.3</b>	<b>35.0</b>	<b>29.3</b>	<b>23.9</b>
Thailand	27.0	33.6	56.3	62.6	63.0	61.7	65.3	57.8
Vietnam	37.1	26.3	46.5	61.3	65.4	68.4	69.2	61.3
China	15.9	20.4	20.8	34.1	36.5	36.0	32.4	24.1
Japan	9.4	8.4	10.3	13.1	14.8	16.3	16.0	11.5
Korea	24.6	24.2	32.3	33.7	34.2	35.4	45.3	43.7
<b>Import/GDP (at current prices) Ratio</b>								
Indonesia	19.1	20.1	20.3	20.2	16.8	17.2	24.9	16.7
Malaysia	66.4	87.4	87.4	83.1	83.7	78.9	70.9	64.7
<b>Philippines</b>	<b>29.4</b>	<b>38.4</b>	<b>44.5</b>	<b>50.1</b>	<b>46.0</b>	<b>40.3</b>	<b>36.1</b>	<b>28.6</b>
Thailand	38.7	42.1	50.7	67.0	63.0	57.3	65.8	50.7
Vietnam	42.5	39.3	50.2	69.5	73.7	88.4	89.0	75.1
China	13.7	18.1	18.8	29.5	29.8	28.3	25.6	20.2
Japan	7.7	6.4	8.1	11.4	13.3	14.2	15.6	10.9
Korea	26.5	26.1	30.1	30.9	32.5	34.0	46.7	38.8

Source of basic data: 1990-2007- ADB Key Indicators 2009

2008-2009- Statistical Yearbook of Asia and the Pacific 2011

(only minor differences noted in 2008 from the 2 sources)

The direction of Philippine trade has shifted away from the US and EU to Asia during the past 30 years. In particular, the share of Philippine trade with ASEAN has increased very significantly. The share of Philippine exports going to ASEAN has grown dramatically from only 2.7 % in 1975 to almost ten times at 22.4% in 2010. A similar trend is observed for imports, with the share increasing from 5% to 28% over the same period for imports from ASEAN. (See Table 5)

**Table 5. Philippine Direction of Trade**

<b>EXPORTS-DIRECTION OF TRADE</b>									
<i>Share to Total Exports</i>									
Philippine Exports by destination									
<b>Country</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2009</b>	<b>2010</b>
<b>TOTAL</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NORTH									
AMERICA	28.9	27.4	35.7	37.8	36.7	31.5	18.9	18.6	15.8
USA	28.9	27.4	35.7	37.8	35.3	29.8	18.0	17.7	14.7
EUROPE	16.6	20.3	14.3	17.9	18.0	18.4	17.3	21.1	14.8
ASIA	45.2	41.5	38.5	34.8	41.3	48.1	61.1	56.3	66.0
ASEAN	2.7	6.6	11.5	7.1	13.6	15.7	17.3	15.2	22.4
Japan	37.7	26.5	18.9	19.7	15.7	14.7	17.5	16.2	15.2
OCEANIA	1.4	1.8	2.1	1.3	1.0	0.9	1.3	1.7	1.2
MIDDLE EAST	2.2	2.0	1.5	1.6	1.3	0.5	0.7	1.2	1.1
OTHERS	5.6	7.0	7.9	6.6	1.7	0.7	0.7	1.1	1.0
<b>IMPORTS-DIRECTION OF TRADE</b>									
<i>Share to Total Imports</i>									
Philippine Imports by country source									
<b>Country</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2009</b>	<b>2010</b>
<b>TOTAL</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NORTH									
AMERICA	21.8	23.1	25.1	19.4	19.5	19.3	19.7	12.2	12.3
USA	21.8	23.1	25.1	19.4	18.4	18.6	19.2	11.6	11.4
EUROPE	12.5	11.0	8.6	11.5	13.3	10.8	9.5	9.1	9.4
ASIA	37.4	34.2	42.7	40.2	52.9	55.4	59.2	63.9	71.1
ASEAN	5.0	7.0	14.8	9.7	11.9	15.5	18.7	25.4	28.2
Japan	27.9	19.8	14.4	18.3	22.6	18.9	17.0	12.1	13.1
OCEANIA	4.6	3.8	3.6	3.7	3.7	3.0	2.0	2.9	3.0
MIDDLE EAST	17.5	21.1	12.4	11.5	8.5	10.5	8.2	7.5	9.0
OTHERS	6.2	6.8	7.5	13.7	2.1	1.0	1.4	2.1	1.7

Source of basic data: 1990-2007- ADB Key Indicators 2009

2009-2010- Statistical Yearbook of Asia and the Pacific 2011

(only minor differences noted in 2008 from the 2 sources)

Hence, AFTA appears to have had a positive impact in the Philippines' direction of trade. This is also indicated by the available information on the number of Certificate of Origin (CO) issued from 2008-2010. (See Table 6) These trends highlight the importance of AEC measures promoting trade liberalization and facilitation.

**Table 6. Philippines' Certificate of Origin (CO) Issuance: 2008-2010**

CO Form	Number of COs issued		
	2008	2009	2010
<b>ASEAN Form D</b>	13650	12749	15117
<b>ACFTA Form E</b>	678	972	2633
<b>JPEPA Form JP</b>	0	7382	8214
<b>AKFTA Form AK</b>	1970	2082	2415
<b>AANZFTA Form AANZ</b>	0	0	2559

*Source of basic data: Export Division, Port of Manila: based on Atty. Adviento's Powerpoint presentation*

## Ways Forward for the Philippines and ASEAN

### Summary of findings

With respect to tariffs, the Philippines has delivered its AFTA commitment to bring down tariffs on imports from ASEAN to 0 % in 2010 except for a short sensitive list. Even for goods in the sensitive list, the CEPT rates are down to 5 percent for most products (e. g. poultry and swine). The only remaining items with rates higher than 5 % are in rice and sugar.

Core NTMs (in some form of quantitative restrictions) are also down to a few commodities, covering mainly weapons and arms and a few ‘sensitive’ goods (e.g. rice and sugar). As in the case of most countries, there are non-tariff measures imposed for health and safety (including environmental protection) reasons, which are deemed to be WTO consistent. These NTMs are mainly in the form of TBTs and SPS requirements. (Pasadilla, 2009) Thus, in the case of NTMs, the crucial areas for reforms would be in trade facilitation measures. In particular, these measures should address transparency, standardization and harmonization, and electronic processing. Indeed, these are embedded features in customs modernization (e-customs) and the implementation of the NSW.

Last year, the ERIA study on AEC Scorecard Monitoring System and Mechanism (Phase II)<sup>5</sup> developed a scoring system to assess the status of member countries in core measures for ASEAN integration including trade facilitation. The Philippines scored high at 88

<sup>5</sup> Philippine Country Report: Toward a More Effective ASEAN Economic Community Scorecard Monitoring System and Mechanism (ERIA Phase II Study). (2011).

percent in Customs modernization and integration based on the formulated scoring system. This reflects the reforms the Philippines has been undertaking in customs administration during the past decades. The major gaps for improvement are found in the post-clearance system, Authorized Economic Operator (AEO) management, Cargo profiling and tracking system.

The Philippines also scored well with regards to the Philippine National Single Window (NSW), at 82 percent. Phase 1 of the NSW has been completed, including NSW system implementation for core government agencies featuring: electronic submission of application form, status of application viewable in the dashboard, notification via email of application status, and final approval via electronic means. Nonetheless, the benefits, while substantial, are still severely limited by unresolved issues in the relationship between the BOC, NSW and the Value Added Service Providers (VASPs). In particular, the link between the e2m process of the BOC linked with the NSW is not yet established.

This midterm review in the area of trade facilitation takes another (and updated) look at government processes involved and gets feedback from the firms themselves. Toward this end two sets of surveys are undertaken by the study: (1) a Mid Term Review (MTR) Questionnaire for Government Officials, and (2) Firm MTR Survey on Import/Export and Customs Clearance. The questionnaire for government officials aims to gather information on aspects of ASEAN customs development and integration and the implementation of NSW and ASW. The survey of firms will provide the view from users by getting their experience on customs clearance and permit release process in other government agencies.

E-customs (where major customs-related processes are automated and submissions and verifications are done electronically) is at the core of customs modernization. Responses of BOC officials to the questionnaire on customs modernization reveal that the Philippines has implemented electronic transactions in most key customs processes. The exceptions are in electronic export declarations and electronic certificate of origin. Electronic transactions in these processes are expected to be ready within this year. (See Table 7 below)

**Table 7. Availability of E-customs Processes**

E-customs processes	Availability
Electronic import declarations	Y
Electronic export declarations	in 2012
Electronic submission of manifests	Y
Electronic payment	Y
Electronic certificate of origin	in 1st half of 2012

Automated import license issuance	Y
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The responses also indicate that Philippine BOC has implemented e-customs for all the major seaports and airports and targets coverage of all by 2015. Around 80 percent of its basic customs operation is now electronic, covering around 95 percent of imports, at least 25 % of exports and 75% of firms. Full coverage is targeted by 2015.

In the case of NSW implementation, based on BOC response, there are currently 26 government agencies in the NSW implementing electronic licenses, permits and certificates. They are connected to the NSW portal where people can submit applications and necessary papers, verify status online on the NSW dashboard, and get decisions regarding their transaction.

Examples of clearance services done through the NSW portal include:

- trader registration
- submission of application for permits, licenses, clearance
- approval processes/workflow by agencies
- transmission of approved permits, licenses, clearances
- information-sharing, reporting, statistics
- e-payment of fees

According to BOC, the NSW portal is now implemented in the major seaports and airports and coverage for all is targeted by 2015. Currently, there are 38 other government agencies (OGAs) linked to the NSW. A total of 50 OGAs are envisioned by BOC to be linked to the NSW by 2015. Registration is a requirement to lodge customs declaration (whether manual or electronic). Of around 10,000 registered, around 25 % use the NSW portal. In sum, the customs reforms are being undertaken toward achieving the ASEAN target of 30 minute turn around time in customs processing.

To help assess the progress made in trade facilitation efforts of the government, the MTR also included a survey of private sector firms to determine if they have perceived improvements in customs procedures and processes. A total of 34 responses were collected, which represented 16 large firms and 18 micro, small and medium sized firms. Twenty of the respondent firms are fully domestic owned; 9 are fully owned multinationals; 2 are fully foreign owned; and 3 are joint venture firms. All the firms in the survey have dealings with customs, either as exporter/importer, or brokerage/forwarder. Majority of the firms across size have trade with ASEAN. Overall, customs reforms were validated by the results of the survey.

Perception of customs procedures becoming fully automated rose by more than 50 percent for all customs procedures in 2011 compared with the previous year for main customs processes. The highest perception is in payments of taxes and duties (22 out of

28 who answered), followed by import declarations (16 out of 34). Highest perception of non-automation is in support documentations (14 out of 33 who answered), followed by export declarations (13 out of 25 who answered). (See Table 8) These responses are consistent with the findings from the questionnaires for government officials which indicated the same areas of limitations.

**Table 8. Perception of degree of automation of procedures: All respondents**

Procedures	2011			% increase over 2010	
	Not automated	Partly automated	Fully automated	Fully automated	Not automated
a. Import declarations	8	10	16	68.8%	-62.5%
b. Export declarations	13	6	6	66.7%	-30.8%
c. Export consignments	10	4	4	75.0%	-20.0%
d. Support documentations (Packing List, Bill of Lading, Manifest, Airway Bill, Invoice)	14	15	4	50.0%	-14.3%
e. Certificates of Origin	9	15	3	100.0%	-33.3%
f. Payment of customs duties / taxes	2	4	22	72.7%	-500.0%

It is also interesting to note that while the perception of improvements in automation rose for all firms, the perceived improvement in automation is higher for small and medium sized firms. (See Table 9) It appears that automation reforms have larger significance to SMEs. Past customs modernization efforts could cover mainly the larger firms with more advanced electronic systems. With technological change, more recent customs modernization efforts, especially in the automation of key procedures, are now more applicable and of greater assistance to smaller firms.

**Table 9. Perception of degree of automation of procedures: Large, Medium and Small Firms**

Procedures	2011			% increase over 2010	
	Not automated	Partly automated	Fully automated	Fully automated	Not automated
<b>Large Firms</b>					
a. Import declarations	2	3	11	54.5%	-100.0%
b. Export declarations	7	1	5	60.0%	-42.9%
c. Export consignments	5		3	66.7%	-20.0%
d. Support	7	6	3	33.3%	0.0%



documentations (Packing List, Bill of Lading, Manifest, Airway Bill, Invoice)					
e. Certificates of Origin	7	2	2	100.0%	-14.3%
f. Payment of customs duties / taxes	2	2	8	75.0%	-150.0%
<b>Medium sized firms</b>					
a. Import declarations	5	2	2	100.0%	-60.0%
b. Export declarations	5	2			-40.0%
c. Export consignments	4	2			-50.0%
d. Support documentations (Packing List, Bill of Lading, Manifest, Airway Bill, Invoice)	4	2	2	100.0%	-75.0%
e. Certificates of Origin		8	1	100.0%	
f. Payment of customs duties / taxes			9	88.9%	
<b>Small firms</b>					
a. Import declarations	1	5	3	100.0%	-100.0%
b. Export declarations	1	4	1	100.0%	0.0%
c. Export consignments	1	3	1	100.0%	0.0%
d. Support documentations (Packing List, Bill of Lading, Manifest, Airway Bill, Invoice)	2	7			-50.0%
e. Certificates of Origin	2	6			-100.0%
f. Payment of customs duties / taxes		2	6	66.7%	

Overall, the survey results indicated that there are positive developments in trade facilitation, but there is still a lot of room for improvements, as can be gleaned from the firm survey responses.

- With respect to certificates, permits and licenses from other government agencies (OGAs), lack of progress for the procedures in OGAs is evident from the responses. This reflects the problem encountered in efforts to link the BOC and OGAs to the NSW. This could also be a lack of information dissemination and training in the use of the NSW portals. Although there were government efforts in this regard, these might not be enough.

- On firms' perception of degree of improvement in procedures, 14 firms reported substantial improvement in submission of forms for clearance in 2011 compared to 2009. Most of the firms reported minor improvements in other procedures.
- Majority of respondents rated specified features (e. g. ability to track and trace customs clearance electronically, electronic payment, ability to download forms, etc.) in local import and customs systems or National Single Window to be very important if not critical. The results also indicated a significant increase in the availability of these features in 2011 compared to 2010. This is especially remarkable in 'electronic payment on customs duties/taxes,' where the yes/no response greatly improved from 9/19 in 2010 to 29/2 in 2011.
- There is also some degree of satisfaction in most imports and customs services. However, most dissatisfaction is registered in 'inspection and release of goods,' 'customs valuation' and 'tariff classification,' which are key elements of customs and imports services.

### **Lessons learned from the Philippine experience**

The basic approach taken by the Philippines is to have 2 independent but integrated systems (i.e., NSW and e2m customs) working simultaneously and exchanging information electronically. This made embarking on the NSW program more feasible and doable for the Philippines. This could be a model for other countries that have difficulties in launching its NSW system. At the same time, a potential problem in this approach is that it could later on become a major stumbling bloc toward full and more efficient implementation of a NSW. Such problem is now becoming more apparent in the latter stages of the NSW implementation, where migration to a full-blown single window is hampered by rigidities in transition (e. g. transfer of data base, software IPRs). Hopefully, a critical mass in NSW utilization and demonstration effects of a working system would eventually resolve remaining issues of coordination and linkages within the whole NSW system.

The underlying problem is also manifested in the problems encountered in the green lane system of the BOC, whereby those importations which do not require import licenses and permits should be able to pass through the green lane without inspection, except in cases where random checks are applied. There are anecdotal reports that some importers would rather 'pay' to be excluded in the green lane as the resulting 'random' checks could be more costly. They would prefer the predictable inspection system. The green lane system is hampered by lack of coordination, information and efficient risk management system.

From the responses in both the government questionnaire and firm survey, while import declaration is now filed electronically, export declaration is still done manually. It appears that export declaration was not prioritized in the customs modernization and NSW reforms. This might have been an oversight, as trade facilitation is not just for

importers. A major objective in joining regional partnerships is to enable exporters to take advantage of the bigger regional market. Hopefully, the targeted inclusion of exports would push through sooner than later.

### **Ways forward**

The ideal scenario is for customs and related processes and stages to be fully automated. After the lodgment of import or export entry, several processes are involved (including verification of manifest, valuation, and processing of permit or certificate requirements), after which payment of duties can be made. Then, customs clearance is sent to port operator/contractor and port authority, and cargo is finally released.

As noted above, there are still large gaps in many important areas, notably, in export declaration, support documentations (Packing List, Bill of Lading, Manifest, Airway Bill, Invoice), and inspection and release of goods

In bridging this gap, there is a key role for an efficient risk management system. Such a system would spare legitimate exporters and importers from undue procedures and potential harassment. An improved system of selection process for inspection would have large impact on speeding up the process, limiting corruption and limiting transactions costs in general. A major requirement in establishing such a system would be access to necessary information. This means that key offices of the BOC (e. g. the assessment and operations office, and the IT department) should coordinate, provide the necessary inputs to the risk management system. It is important for the risk management department to develop not just the software but good data warehouse, directly linked with key departments of the BOC, particularly its Assessment and Operation and IT departments. This office should also be directly under the Commissioner's office, for transparency and accountability.

Even in the most advanced systems, certain segments (including technical difficulties) could still require some interruption in automation. This could arise, especially, in problems related to classification, valuation, and inspection procedures. Again, an efficient risk management system integrated in e-customs and NSW would help minimize such interruption.

In addition to improving and strengthening the Risk Management System that links directly with the information and database of the NSW and BOC, more needs to be done in the following areas to implement a seamless and sustainable NSW, which were also identified in the ERIA Scorecard project.

- (i) The automation and harmonization efforts of some OGAs well ahead or at the same time as the NSW initiative, should merge with the implementation of NSW. The experience of these OGAs (e.g., first wave of customs modernization efforts, DTI's one-stop shop export documentation center, or PEZA's electronic permit and automated export documentation systems) which combined the use of ICT and implementation of business process reforms could serve as benchmark of good practices. However, it is crucial to have systems compatibility and avoid duplicate or multiple lodging of trade-related transactions which could defeat the very purpose of NSW. Follow-up technical consultation in terms of the procedure and specific data requirements or forms of agencies (e.g., DTI's conditional release) could be considered in the NSW enhancement.
- (ii) While other agencies have achieved modernization and computerization, some are still lagging behind. As the success of NSW relies on the speed of the slowest agency involved, government funds must be allocated to the agencies lacking physical infrastructure as well as technical staff.
- (iii) The step-by-step procedure in the use of NSW must be disseminated to all concerned stakeholders in the soonest possible time. The agencies involved or at least the members of NSW Steering Committee should immediately issue joint agencies implementing rules and regulations. Posting of implementing rules must be done electronically and physically. Furthermore, each agency must disseminate agency-specific information (through FAQs and changes of procedures if any) to all potential users.
- (iv) While the Philippines' centralized funding of NSW assures implementation of this project for its first two years of implementation, the succeeding plans to sustain the project is unclear particularly among OGAs. The government needs to address this sustainability issue.
- (v) Ownership and leadership is the key to successful implementation of the Philippine government's NSW program. The plan must be more than beating the deadline for implementation of NSW and towards long-term and serious reforms in business processes and change management. NSW project must be implemented as part of good governance and not a mere ICT project.
- (vi) In addition, the e2m process of the BOC is not yet electronically linked with the NSW. This represents a significant hurdle that needs to be overcome.
- (vii) The NSW system or any trade facilitation initiatives should be adaptable to changes in legislation and developments. Effective implementation of trade facilitation initiatives and other pipeline measures must also be supported and implemented. This includes legislation to comply with the country's commitment to the Revised Kyoto Conventions, updating of some protocols for imports in some commodities, immediate implementation of Customs Transit System or multi-purpose declaration within Clark to Subic, and provision of modern facilities and port laboratories for

testing and adequate technical staff. At the very least, well-informed help desk officers in the customs service and other agencies must be designated and continuously trained.

Finally, on the preparedness of the Philippines for ASEAN Customs and ASEAN Single Window (ASW), the Philippine BOC appears close to setting up the necessary elements for consistency with an ASW. In particular, further steps are needed for (1) manifest processing, (2) declaration processing, and (3) simplification and harmonization, all of which are expected to be in place this year. The Philippines is still not able to exchange data with another ASEAN country but there is on-going preparation for a pilot test. It hopes to establish the exchange within the year. (See Table 10)

**Table 10. Preparedness for ASEAN Customs Integration**

ASEAN Cargo Processing Model?	Y
ASEAN Customs Declaration Document?	Y
ASEAN Customs transit system?	Y
ASEAN Customs System dealing with Temporary Admission?	Y
ASEAN Customs System dealing with Outward and Inward Processing?	N
AEO Mutual Recognition with other ASEAN Member States?	N
Manifest Processing consistent with ASEAN Single Window (ASW)?	N, in 2012
Declaration processing consistent with ASEAN Single Window?	N, in 2012
Rationalization, Simplification and Harmonization consistent with ASW?	N, in 2012

The remaining preparatory tasks for ASEAN customs integration require joint action from all member countries dealing with outward and inward processing, and AEO Mutual Recognition.

Another area for cooperation is in Electronic Certificate of Origin (e-CO). AFTA preferential trade is predicated on the compliance with a certificate of origin. With all countries making improvements toward electronic certificate of origin, a logical next step, even before the ASW is implemented, is to build a coordinated system where e-COs are issued and received, checked and verified electronically among member countries.

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