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The ASEAN Economic Community and the Philippines: Implementation, Outcomes, Impacts, and Ways Forward (Full Report)

PIDS Discussion Paper Series, No. 2013-01

Provided in Cooperation with:
Philippine Institute for Development Studies (PIDS), Philippines

Suggested Citation: Israel, Danilo C. et al. (2013) : The ASEAN Economic Community and the Philippines: Implementation, Outcomes, Impacts, and Ways Forward (Full Report), PIDS Discussion Paper Series, No. 2013-01, Philippine Institute for Development Studies (PIDS), Makati City

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

The ASEAN Economic Community and the Philippines: Implementation, Outcomes, Impacts, and Ways Forward (Full Report)

Rafaelita M. Aldaba et al.

DISCUSSION PAPER SERIES NO. 2013-01

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January 2013

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ERIA Research Project:
ASEAN Economic Community (AEC) Blueprint
Mid-Term Review

Philippines Country Study:

"The ASEAN Economic Community and the Philippines: Implementation, Outcomes, Impacts, and Ways Forward"

(Final Draft)

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14 July 2012

Philippine Institute for Development Studies

ERIA

Abstract

As 2015 draws near, assessing ASEAN's progress toward the ASEAN Economic Community (AEC) defined by the AEC Blueprint is necessary and instructive. This paper constitutes the Mid-Term Review (MTR) of the ASEAN Economic Community (AEC) Blueprint for the Philippines. The Philippines Country Report presents the results of the surveys related to the MTR on areas including trade liberalization and facilitation, services and investment liberalization, labor mobility, and agriculture. In assessing the progress of implementation of the country's commitments under the AEC, a scorecard mechanism is applied. The report also covers two case studies as well as discussions on the role of the private sector and SMEs, and concludes with recommendations to raise the implementation rate of the AEC measures in the country**.** Overall, the survey results demonstrate how the AEC and the AEC Blueprint could address some of the issues that have constrained private-sector response to the opportunities provided by greater openness in the Philippines, particularly the complex and inefficient administrative processes and procedures, and lack of effective competition in key sectors of the economy. While the Philippines has demonstrated its commitment to the AEC and the AEC Blueprint, key measures still need to be realized, particularly those that relate to services liberalization, customs integration, and ratification of transport protocols and agreements. The analyses of the study have demonstrated the benefits of the accomplishment of AEC measures in the Philippines, particularly those that addressed precisely the key institutional weaknesses faced by the private sector. Further delays in implementation could be costly for the country.

Keywords: Philippines, ASEAN economic integration, AEC scorecard, investment facilitation, services liberalization, standards and conformance, labor mobility, agriculture

Acknowledgement

This study benefited from the cooperation of many government agencies, industry associations, and private firms. They granted requests for interviews and endorsement of the study, and responded to survey questionnaires. The authors are most grateful for all their help. Special acknowledgment is due to the following:

Dr. Carmencita Abaquin, Chairman, Professional Regulatory Board of Nursing, PRC
Ms. Sally Alvareda, Crown Agents for Oversea Governments and Administrations Ltd.
Dr. Noel Barut, Interim Deputy Executive Director, NFRDI
Mr. Roberto Batungbacal, Federation of Philippine Industries
Hon. Rozzano Rufino Biazon, Commissioner, Bureau of Customs, DOF
Ms. Angelina Bondad, Director, BAFPS
Ms. Vina Liza Ruth Cabrera, Bureau Director, Management Information Service, IPOPHL
Mr. Enrique Castillo, President and COO, Fast Cargo Logistics
Arch. Angeline Chua Chiaco, Member, Professional Regulatory Board of Architecture, PRC
Ms. Jesusa Joyce Cirunay, Chief, Regulation Division II GMP Inspectorate, FDA
Mr. Roberto Cristobal, President, Philippine National Committee of the IEC
Mr. Dominador de Guzman President, Port Users Confederation, Inc.
Ms. Estela de Guzman, Director, Industry and Trade Statistics Department, NSO
Hon. Lilia de Lima, Director-General, PEZA
Ms. Malou Demata, OIC, BPI
Mr. Apollo Enriquez, Chairman, Professional Regulatory Board of Engineering, PRC
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Ms. Pilar Fontelar, Chief, Fisheries Industry Development Support Division, BFAR
Dr. Melinda Garcia, Chairman, Professional Regulatory Board of Dentistry, PRC
Ms. Ginna Go, Senior trade and industry specialist, BMSMED, DTI
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Mr. Vic Guiam, Assistant Head, Institutional Development Department, BAR
Mr. Elmer Hernandez, Former DTI Undersecretary & Managing Head of BOI
Ms. Lourdes Homecillo, NCR Regional Director, NSO
Hon. Ramon Kabigting, Assistant Secretary, Department of Trade and Industry
Dr. Suzette Lazo, Chief, Food and Drug Administration, Department of Health
Ms. Rhodora Leano, Director, BMSMED, Department of Trade and Industry
Ms. Ma. Flordeliza Leong, Philippine Exporters Confederation, Inc
Mr. Erich Lingad, Chairman, Federation of Forwarders' Association in the Philippines, Inc.
Dr. Nelson Lopez, Chief, Inland Fisheries & Aquaculture Division, BFAR
Engr. Gerardo Maglalang, Manager, Bureau of Product Standards Testing Center, DTI
Ms. Carmencita Magno, Director, Bureau of Product Standards, DTI
Mr. Sammy Malvas, OIC, Fisheries Policy and Economics Division, BFAR
Ms. Rhoda Laine Manaloto, Food and Drug Regulation Officer IV, FDA
Ma. Caridad Manarang, Deputy Commissioner, Bureau of Customs, DOF
Atty. Teresita Manzala, Chairman, PRC
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Atty. Rufino Margate, Jr., Federation of Philippine Industries
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Mr. Marlon Mina, Philippine Chamber of Commerce and Industry
Engr. Benjamin Mindajao, Chairman, Professional Regulatory Board of Land Surveying, PRC
Ms. Pinky Padronia, Associate Director, Bankers Association of the Philippines
Dr. Mildred Pareja, Member ,Professional Regulatory Board of Medicine, PRC
Ms. Lorna Pimentel, OIC, Fisheries Post Harvest Technology Division, BFAR
Mr. Giovanni Platero, Deputy Executive Director, Cooperative Development Authority
Mr. Porvenir Porciuncula, Deputy Executive Director, CAB
Ms. Dolores Pua, Head, International Cooperation Desk, DOTC
Atty. Leny Raz, Director, Bureau of Trademarks, IPOPHL
Mr. Romeo Recide, Director, Bureau of Agricultural Statistics
Ms. Dulce Regala, Chief, Industry Statistics Division, NSO
Ms. Mariz Regis, Vice President, Airspeed
Dr. Prudencio Reyes, Jr., Deputy Commissioner, Bureau of Customs, DOF
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Ms Joie Villanueva, Executive Director, Philippine Software Industry Association
Atty. Titus Villanueva, Former Commissioner, Bureau of Customs, Department of Finance
Ms. Annaliza A. Vitug, Chief, Fisheries Regulatory and Quarantine Division, BFAR
Mr. Ronnie Yambao, Manager/Business & Investment Group, SBMA

The authors would also like to acknowledge the excellent assistance provided by the following PIDS staff: Melalyn Mantaring, Susan Pizarro, Mildred Belizario, Emma Cinco, Maureen Rosellon, Donald Yasay, Jocelyn Almeda, Reinier de Guzman, Larraine Zafe, Jasmine Egana, Merle Galvan, Katrina Gonzales, Christine Salazar, Juanita Tolentino, and Leilani Bolong.

Finally, the authors would like to thank colleagues at the Economic Research Institute for ASEAN and East Asia (ERIA), fellow members of the Research Institute Network (RIN), and participants to the AEC Blueprint Mid Term Review (MTR) Project Technical Workshops.

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List of Acronyms

ABMS	Automated Bonds Management System
ACCSQ	ASEAN Consultative Committee for Standards and Quality
ACD	ASEAN Cosmetic Directive
ACFCR	ASEAN Common Food Control Requirements
ACIA	ASEAN Comprehensive Investment Agreement
ACTD	ASEAN Common Technical Dossier
ADB	Asian Development Bank
ADR	Alternative Dispute Resolution System
AEC	ASEAN Economic Community
AEDS	Automated Export Documentation System
AEO	Authorized Economic Operator
AEP	Alien Employment Permit
AFAFGIT	ASEAN Framework Agreement on the Facilitation of Goods in Transit
AFAFIST	ASEAN Framework Agreement on the Facilitation of Inter-State Transport
AFAIST	ASEAN Framework Agreement on Inter-State Transport
AFAMT	ASEAN Framework Agreement on Multimodal Transport
AFAS	ASEAN Framework Agreement on Services
AFMA	Agriculture and Fisheries Modernization Act
AFTA	ASEAN Free Trade Agreement
AIA	ASEAN Investment Area
AICO	ASEAN Industrial Cooperation
AICTS	Automated Import Cargo Transfer System
AIJV	ASEAN Industrial Joint Venture
AJCCD	ASEAN Joint Coordinating Committee on Dental Practitioners
AJCCN	ASEAN Join Coordinating Committee on Nursing
AMS	ASEAN Member States
AO	Administrative Order
APBSD	ASEAN Policy Blueprint for SME Development
APG	ASEAN Power Grid
APLAC	Asia Pacific Laboratory Accreditation Cooperation
ASEAN	Association of Southeast Asian Nations
ASEAN EE MRA	ASEAN Electrical and Electronic Mutual Recognition Arrangement
ASW	ASEAN Single Window
ASYCUDA	Automated System for Custom Data
ATIGA	ASEAN Trade in Goods Agreement
AVRDC	Asian Vegetable Research and Development Center
BAFPS	Bureau of Agriculture and Fisheries Product Standards
BAI	Bureau of Animal Industry
BAPs	Best Aquaculture Practices
BAR	Bureau of Agricultural Research
BCDA	Bases Conversion and Development Authority
BCP	Bangus Council of the Philippines

BETP	Bureau of Export Trade Promotion
BFAD	Bureau of Food and Drugs
BFAR	Bureau of Fisheries and Aquatic Resources
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BIR	Bureau of Internal Revenue
BLA	Bureau of Legal Affairs
BMBE	Barangay Micro Business Enterprises
BMSMED	Bureau of Micro, Small and Medium Enterprises Development
BOC	Bureau of Customs
BOI	Board of Investments
BOT	Build-Operate-Transfer
BPI	Bureau of Plant Industry
BPS	Bureau of Public Standards
CAAP	Civil Aviation Authority of the Philippines
CABs	Conformity Assessment Bodies
CBU	Completely Built-up Unit
CDA	Cooperative Development Authority
CDC	Clark Development Corporation
CDP	Car Development Program
CDRRHR	Center for Device Regulation, Radiation Health, and Research
CEPT	Common Effective Preferential Treatment
CEZA	Cagayan Economic Zone Authority
CFO	Commission on Filipinos Overseas
CFZ	Clark Freeport Zone
CIQS	Customs-Immigration-Quarantine-Security Agencies
CITEM	Center for International Trade Expositions
CKD	Complete Knock-Down
CLMV	Cambodia, Lao PDR, Myanmar, Viet Nam
CO	Certificate of Origin
CVDP	Commercial Vehicle Development Program
DA	Department of Agriculture
DENR	Department of Environment and Natural Resources
DILG	Department of Interior and Local Government
DMIA	Diosdado Macapagal International Airport
DOF	Department of Finance
DOH	Department of Health
DOJ	Department of Justice
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DTI	Department of Trade and Industry
E-ACTS	Enhanced Automated Cargo Transfer System
e-CO	Electronic Certificate of Origin
EDB	Economic Development Board
EE	Electronic Equipment

EEE	Electrical and Electronic Equivalent
EO	Executive Order
EPIRA	Electric Power Industry Reform Act
ERIA	Economic Research Institute for ASEAN and East Asia
e-TAPS	Electronic Transit Admission Permit System
EU	European Union
FAA	Federal Aviation Administration
FAO	Food and Agriculture Organization
FAQ	Frequently Asked Questions
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FF	Facilitating Factors
FIA	Foreign Investment Act
FINL	Foreign Investment Negative List
FTAs	Free Trade Agreements
GAHP	Good Animal Husbandry Practices
GAP	Good Agriculture Practices
GAqP	Good Aquaculture Practices
GATS	General Agreement in Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFSME	Guarantee Fund for Small and Medium Enterprises
GHP	Good Hygiene Practices
GMOs	Genetically Modified Organisms
GMP	Good Manufacturing Process
GPN	Global Production Networks
GPS	Global Positioning System
HACCP	Hazard Analysis and Critical Control Points
HB	House Bill
HS	Harmonized System
IARRCS	International Agricultural Research Centers
ICAO	International Civil Aviation Organization
ICS	International Classification for Standards
ICT	Information and Communications Technology
IEC	International Electrotechnical Commission
IGA	Investment Guarantee Agreement
ILAC	International Laboratory Accreditation Cooperation
IMF	International Monetary Fund
IP	Intellectual Property
IPA	Investment Promotion Agency
IPAS	Industrial Property Automation System
IPC	Inter Pares Case
IPOPHL	Intellectual Property Office of the Philippines
IPP	Investment Priorities Plan

IPR	Intellectual Property Rights
IPV	Intellectual Property Violations
IRI	International Roughness Index
IRRI	International Rice Research Institute
ITH	Income Tax Holiday
JPEPA	Japan-Philippines Economic Partnership Agreement
KPIs	Key Performance Indicators
LGUs	Local Government Units
LMT	Labor Market Test
LTFRB	Land Transportation Franchising and Regulatory Board
LTO	License to Operate
MA	Market Access
MAAS	ASEAN Multilateral Agreement on the Air Services
MAFLAFS	ASEAN Multilateral Agreement on Full Liberalization of Air Freight Services
MAFLPAS	ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services
MARINA	Maritime Industry Authority
MC	Monitoring Committee
MFN	Most Favored Nation
MIAA	Manila International Airport Authority
MNCs	Multinational Corporations
MOA	Memorandum of Agreement
MRA	Mutual Recognition Agreement
MRLs	Maximum Residue Limits
MSMEs	Micro, Small and Medium Enterprises
MTPDP	Medium Term Philippine Development Plan
MTR	Mid-Term Review
MVDP	Motor Vehicle Development Program
NACA	National Aquaculture Centers for Asia
NAIA	Ninoy Aquino International Airport
NBDB	National Book Development Board
NBI	National Bureau of Investigation
NCIPR	National Committee on Intellectual Property Rights
NCR	National Capital Region
NEDAC	Network for the Development of Agricultural Cooperatives
NERBAC	National Economic Research and Business Action Center
NFRDI	National Fisheries Research and Development Institute
NMIS	National Meat Inspection Services
NSO	National Statistics Office
NSW	National Single Window
NTC	National Telecommunications Commission
NTF	National Trade Fair
NTMs	Non-Tariff Measures
OBUs	Offshore Banking Units

ODA	Official Development Assistance
OEM	Original Equipment Manufacturer
OGAs	Other Government Agencies
OIC	Omnibus Investment Code
OMB	Optical Media Board
OSAC	One Stop Action Center
OSEDC	One-Stop Shop Export Documentation Center
OSETC	Office of the Special Envoy on Transnational Crime
OSS	One Stop Shop
OTOP	One Town-One Product
PAIA	Philippine Appliance Industry Association
PAL	Philippine Airlines
PCAFI	Philippine Chamber of Agriculture and Food, Inc.
PCARRD	Philippine Council for Agriculture, Aquatic, and Natural Resources Research and Development
PCMP	Progressive Car Manufacturing Program
PCT	Patent Cooperation Treaty
PDDC	Products Development and Design Center
PESA	Federation of Electrical and Electronics Suppliers and Manufacturers Association of the Philippines
PEWMA	Philippine Wire Manufacturing Association
PEZA	Philippine Economic Zone Authority
PIA	Phividec Industrial Authority
PIC/S	Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme
PIF	Product Information File
PIPA	Philippine Investment Promotions Administration
PIPP	Philippine Investments Promotions Plan
PIS	Priority Investment Sectors
PITC	Philippine International Trading Corporation
PLIA	Philippine Lighting Industry Association
PMMP	Progressive Motorcycle manufacturing Program
PNG	Philippine Natural Grade
PNP	Philippine National Police
PNS	Philippine National Standards
PRB	Professional Regulatory Board
PRC	Professional Regulation Commission
PTI	Philippine Tilapia, Incorporated
PTMP	Progressive Truck Manufacturing Program
PTTC	Philippines Trade Training Center
RA	Republic Act
RCCRF	Regional Code of Conduct for Responsible Fisheries
RHQ	Regional Headquarters
RMLS	Raw Materials Liquidation System
ROHQ	Regional Operating Headquarters

ROOs	Rules of Origin
RORO	Roll-on Roll-off
RRTS	Roll-on, Roll-off Terminal System
RVC	Regional Value Content
S&C	Standards and Conformance
SARP	Standards and Recommended Practices
SB	Senate Bill
SBC	Small Business Corporation
SBFZ	Subic Bay Freeport Zone
SBGFC	Small Business Guarantee and Financial Corporation
SBMA	Subic Bay Metropolitan Authority
SC	Steering Committee
SEAFDEC	Southeast Asian Fisheries Development Center
SEAFDEC AQD	SEAFDEC Aquaculture Department
SEAir	Southeast Asian Airlines
SEALS	Scientific, Environmental Analytical Laboratory and Services Incorporate
SET-UP	Small Enterprises Technology Upgrading Program
SFFAAI	Federation of Fishing Associations and Allied Industries of the Philippines
SIAP	Seaweed Industry Association of the Philippines
SIPR	Survey on Intellectual Property Rights
SME	Small and Medium Enterprise
SMED	Small and Medium Enterprise Development
SPS	Sanitary and Phytosanitary
SRNH	Strong Republic Nautical Highway
SULONG	SME Unified Lending Opportunities for National Growth
SUVs	Sports Utility Vehicle
TAFS	Trade Automation and Facilitation System
TAGP	Trans- ASEAN Gas Pipeline
TBT	Technical Barriers to Trade
TEU	Twenty-foot equivalent units
TQM	Total Quality Management
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TRP	Tariff Reform Program
TWG	Technical Working Group
UN	United Nations
USPTO	United States Patent and Trademark Office
VASPs	Value Added Service Providers
WCO	World Customs Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
WTO-TBT	World Trade Organization's Technical Barriers to Trade
ZEZA	Zamboanga Economic Zone Authority

I. Introduction[1]

I.A. An Overview of the AEC and the AEC Measures

Since its inception in Bangkok in 1967, ASEAN has steadily evolved from being a loose forum for exchanging official views to an organization with stronger bonds and a distinct identity underpinned by the unique "ASEAN" way. Despite the limitations of the nonconfrontational and "consensual" nature of ASEAN, it has moved forward on many issues, particularly regional security. One benefit of the "ASEAN way" has been the cohesion and solidarity developed among the Member States. In this context, it is but logical that ASEAN leaders also looked to establish an ASEAN community (Yap and Medalla 2008).

Thus, at the Bali Summit held in October 2003, the ASEAN Leaders decided to establish the ASEAN Community by 2020, including the ASEAN Economic Community (AEC), under the Declaration of ASEAN Concord II. At the 12th ASEAN Summit held in January 2007, the ASEAN Leaders committed to accelerate the establishment of the ASEAN Community, including its AEC pillar, to 2015. They then adopted the AEC Blueprint at the 13th ASEAN Summit held later that year, to serve as the master plan to guide the establishment of the AEC. The aim was to "transform ASEAN into a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy." In addition to presenting the vision of an AEC, the AEC Blueprint also identified work plans and strategic schedules to guide the establishment of the AEC. Box 1 shows the key characteristics/pillars of the AEC Blueprint. Each characteristic/ pillar consists of several core elements, with each core element having its own objectives, action plans and strategic schedules. The end goal of economic integration by 2015 is to be accomplished in 4 stages: 2008-2009, 2010-2011, 2012-2013, and 2014-2015.

Box 1. Four key characteristics/pillars and core elements of the AEC Blueprint

A. Single Market and Production Base
- A1. Free flow of goods (9 Strategic approaches)
- A2. Free flow of services (3 strategic approaches)
- A3.Free flow of investment (5 strategic approaches)
- A4. Freer flow of capital (7 strategic approaches)
- A5. Free flow of skilled labor
- A6. Priority integration sectors
- A7. Food, agriculture and forestry

B. Competitive Economic Region
- B1. Competition policy
- B2. Consumer protection
- B3. Intellectual priority rights
- B4. Infrastructure development (10 strategic approaches)
- B5. Taxation
- B6. E-commerce

C. Equitable Economic Development
- C1. SME development
- C2. Initiative for ASEAN Integration

D. Integration into the Global Economy
- D1.Coherent approach toward external economic relations
- D2. Enhanced participation in global supply networks

Source: Table 2, p. 6 in Urata and Okabe (2009).

[1] Unless otherwise indicated, this chapter was drafted by Dr. Melanie Milo, Research Consultant at PIDS.

The momentum for deeper economic cooperation and integration in ASEAN has definitely gathered pace particularly in recent years. That economic integration has become a major objective for ASEAN is especially significant considering that it was not an original goal in the Bangkok Declaration of 1967. That being said, ASEAN is still very much a newcomer with respect to regional economic integration, particularly when compared to Europe. Thus, assessing ASEAN's progress toward the AEC in 2015 as defined by the AEC Blueprint is necessary and instructive. Thus, this Mid-Term Review (MTR) of the AEC Blueprint is being undertaken for the Philippines, as part of a bigger research project under the Economic Research Institute for ASEAN and East Asia (ERIA). It also incorporates key results of earlier ERIA studies on how to further improve the AEC Scorecard (Aldaba et al. 2010; Medalla et al. 2011).

The Philippines Country Report has five chapters. Following the overview of the AEC and the AEC measures, the next section of this first chapter discusses the role of the private sector in regional integration and the nature of the private sector in the Philippines. The latter is especially important in explaining why the private sector in the Philippines is deemed not to have lived up to its potential in terms of responding to the opportunities provided by greater openness in the Philippines and leading the country into economic development. Chapter II then briefly describes the implementation of AEC measures in the Philippines as summarized in its AEC Scorecard for the first two stages.

Section A of Chapter III presents the results of the surveys and questionnaires that were administered to the private sector and government as part of the MTR. In particular, the section covers the major elements under the first three key characteristics of the AEC Blueprint. Section B then presents two case studies - a case study of the automotive sector for goods, and a case study of logistics for services. Chapter IV discusses the trends, evolution of policy and role of the AEC measures, and the ways forward for ASEAN economic integration in the Philippines. The first five sections of Chapter IV correspond to five main elements under Single Market and Production Base; Section F discusses key three elements of a Competitive Economic Region; while the last section discusses SME development in the Philippines, which is under Equitable Economic Development. Finally, Chapter V presents some concluding remarks and specific recommendations on how to increase the implementation rate of AEC measures in the Philippines.

I.B. Relative Importance of the AEC Measures: Private Sector Perspective

I.B.1. The Role of the Private Sector in Regional Economic Integration[2]

The private sector is the driver of economic growth in most ASEAN member countries. The ASEAN business community, primarily through its investments, promotes economic growth thereby supplying revenue to the economy, creating jobs, and bringing in technology and innovation. Government's main role is to provide a conducive business environment to encourage investment.

The same roles are played out in the process of global and regional economic integration. The member states implement measures to provide a good investment climate, which includes elimination of behind-the-border, at-the-border, and across-the-border constraints to business; and to ensure a more liberalized regional market. The progress of the integration process initially comes from the cooperation between governments and to a lesser extent the private

[2] This section is extracted from Rosellon and Yap (2010).

sector. Later on, the business community provides recommendations and direction for policy making. Collaboration with the government also involves helping develop infrastructure, where private sector support is much needed. This would indicate an increasingly significant role for the private sector in the process of economic integration. For ASEAN economic integration to progress, public and private sector consultations should continue and the operation of businesses should incorporate the private sector's commitment to support economic integration in the ASEAN region.

One of the areas of cooperation is enhancing private sector involvement for the building of the AEC. In the AEC Blueprint, participation of the private sector is identified in certain elements of the AEC:

- Under free flow of goods: Harmonization of standards, technical regulations and conformity assessment procedures will be implemented through the ASEAN Policy Guideline on Standards and Conformance, where the ASEAN calls for active participation (in terms of feedback) from the private sector.
- Under free flow of investment: The ASEAN Comprehensive Investment Agreement is a buildup of the Framework Agreement on the ASEAN Investment Area (AIA), which implemented investment cooperation; and the ASEAN Investment Guarantee Agreement (IGA) which implemented investment promotion and protection. In one of its pillars - facilitation and cooperation - one of the actions is consultation with ASEAN private sectors to facilitate investment.
- Under the priority integration sectors: The priority sectors are expected to be the catalyst for ASEAN economic integration and where resources will be initially focused. The task involves identification of sector-specific projects or initiatives, which would result from regular dialogue or consultation with stakeholders, the private sector in particular.
- Under Food, agriculture and forestry: To enhance intra- and extra-ASEAN trade and long term competitiveness in these products, ASEAN encourages cooperation, joint approaches, collaborative research and technology transfer among ASEAN member countries, organizations and the private sector. Specifically, the recommendation is to use strategic alliances and joint approaches with the private sector to promote food safety, investment and joint-ventures, as well as promote agricultural products and market access.
- Under Infrastructure development: The private sector is one resource to tap in energy and in mining cooperation. One plan of action is to increasingly involve the private sector in the ASEAN Power Grid (APG) and the Trans-ASEAN Gas Pipeline (TAGP) projects which aim at optimizing and securing the region's energy source. Likewise in mining, the private sector is encouraged to participate in mineral development. As greater investment is needed in developing regional infrastructure, ASEAN encourages the private sector, as well as international organizations, to increase involvement in financing regional infrastructure projects such as the APG, TAGP and ASEAN Highway Network.
- On Implementation: Successful implementation of the programs and measures in the integration process include partnership arrangements with the private sector, i.e. business community and industry associations, at both national and regional levels, and effectively, the participation of all stakeholders.

The role of the private sector in ASEAN economic integration is clear-cut. The question is, to what extent has the private sector lived up to its role? The usage of AFTA would partly reflect this. The capacity of the private sector in the Philippines also needs to be assessed.

Finally, critical development constraints that limit private sector investment and entrepreneurship would also play a role.

Private sector usage of FTAs

Free trade agreements (FTAs) appear as a fundamental step toward regional integration. Arrangements in free trade agreements (FTAs) such as the elimination of tariff and other barriers are intended for the benefit of business to trade within the region with more ease and less risks and costs. By using these arrangements, the private sector demonstrates its involvement and commitment to the process of economic integration.

For the Philippines, usage of AFTA ranges from 15-17 percent depending on the measure that is applied. Avila and Manzano (2007; in Wignaraja et al. 2010), using computations based on the amount indicated in certificates of origin over value of trade, reported an overall utilization rate of 15 percent for Philippine exporters, with users mostly in the transport sector. Meanwhile, based on certificates of origin issued and used by Philippine exporters, data in 2007 revealed 17 percent usage of the certificate of origin for CEPT out of the total certificates of origin (Medalla and Balboa 2009).

In a survey of Japanese-affiliated firms operating in the ASEAN, Hiratsuka et al. (2009) found that the level of usage of FTA in the Philippines, measured as the percentage of firms in the country using FTAs, is relatively low. In terms of exporting firms, usage remained at around 15 percent in 2006-2007, and declined to 11.8 percent in 2008 but was hypothesized to be part of the business cycle (Medalla and Balboa 2009). Together with Viet Nam, the Philippines posted the lowest utilization rates in 2008 compared to the rest of the ASEAN, in terms of both export and import operations. Overall AFTA utilization rate for ASEAN's export operations in 2006-2008 are 19.7 percent, 19.3 percent, 23.0 percent, respectively. The low utilization rate has been attributed to high administrative costs of using AFTA as a result of complex and inefficient administrative procedures, which could particularly explain the low AFTA utilization rate in the Philippines.

Other major reasons for low utilization or non-usage of AFTA are related to costs and delays associated with rules of origin compliance and AFTA's low margin of preference, which falls below 5 percent for most of ASEAN and overall margin of preference far-off the 5 percent threshold (Medalla and Balboa 2009).

Assessment of the private sector in the Philippines

The private sector has dominated the Philippine economy, contributing on average about 95 percent of GDP and employing around 92 percent of the workforce (ADB 2005). However, it has not lived up to its potential. Unlike other economies in East Asia, the Philippines did not experience the anticipated private sector participation and economic transformation that typically accompany the openness model of development. This is highlighted by the consistent fall in the investment rate from 2000 to 2009. ADB (2005) attributed this to the deteriorating investment climate in the Philippines, characterized by growing fiscal deficits, vested interests that appear to increasingly influence both legislative and judicial proceedings, and the weakness of the public sector in creating and enforcing freely competitive and/or regulated markets.

Another ADB study identified the following as critical constraints to private investment and entrepreneurship (ADB 2007): (i) tight fiscal situation; (ii) inadequate infrastructure, particularly in electricity and transportation; (iii) weak investor confidence due to governance

concerns, in particular corruption and political instability; and (iv) inability to address market failures leading to a small and narrow industrial base.

The Philippines' relatively weak private sector response to the opportunities provided by greater openness and deepening regional economic integration is due to structural supply-side constraints and institutional weaknesses. Some of the institutional factors are extraneous to the private sector, but some emanate from the behavior of the private sector itself[3].

In particular, a critical factor is the nature of the private sector in the Philippines that has been characterized as an oligarchy (De Dios and Hutchcroft 2003). Hence, even if wide-ranging reforms have been implemented, the response from the private sector has been mixed. More recent analysis points to the role of the oligarchy in compromising institutions (De Dios 2008; Human Development Network 2009).

According to Bocchi (2008), who analyzed why investment in the Philippines did not respond to higher economic growth in 2005-2007, one major reason was the dominance of corporate conglomerates in strategic sectors such as agriculture, maritime and air transport, power, cement, and banking. These corporate conglomerates do not have an incentive to invest and expand their operations since their main source of profitability is a captured market. In turn the resulting higher costs in these sectors discourage investment in sectors that have strong backward and forward linkages with them, particularly in manufacturing. The analysis of Bocchi dovetails with the finding of Felipe and Lanzona (2006) that even at the height of trade liberalization, the degree of monopolization of the economy was increasing. As evidence they point to an increasing trend in the price-markup ratio between 1980 and 2003. These results corroborate what is well known about the Philippines, that is, the country is characterized by a lack of "culture of competition". Monopolies and cartels are accepted as a part of doing business, an attitude that can be readily explained by institutional factors.

A critical issue is whether the AEC and the AEC Blueprint have been able to help address some of the problems that have constrained private-sector response to the opportunities provided by greater openness in the Philippines. The AEC is a direct offshoot of the openness model of development. Thus, for the most part, these constraints would prevent the private sector from participating actively in the AEC and will limit the benefits to the Philippines. Hence, policy measures that will increase utilization of ASEAN agreements and other FTAs directly flow from the above list of critical constraints (e.g. measures to expand fiscal space and improve physical infrastructure).

I.B.2. Private Sector Perspective of AEC Measures

In early 2011, a survey of private sector firms in the Philippines was undertaken as part of the "ERIA Study to Develop an Effective AEC Scorecard Monitoring System and Mechanism." The objective of the survey was to seek the private sector's views on measures stipulated in the AEC Blueprint in terms of: (i) which measures are considered critical in order for the private sector to benefit well from the realization of the AEC by 2015; and (ii) the degree of support or opposition in the private sector to the implementation of the integration measures given political economy considerations. In particular, the survey covered measures under the First (Single market and production base" and Second (Competitive economic region) Pillars of the AEC Blueprint, including: (i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) freer flow of capital; (v) free flow of skilled labor; (vi)

[3] See Rosellon and Yap (2010) for a fuller discussion of the institutional constraints.

competitiveness-related measures; and (vii) measures on infrastructure development (transport, ICT and energy facilitation).

A total of 33 firms were surveyed, of which 29 exported their product (although only 15 exported to other ASEAN Member States or AMS) and 28 imported their inputs/materials (with 17 importing from other AMS). Only 6 firms were local owned, with 15 foreign-owned and 12 joint ventures firms. The key results of the ERIA Survey of Core Measures (2011) are summarized below.

Free flow of goods. More than half of the firms surveyed still considered tariff, and quantitative import restrictions and import licensing as serious barriers to trade among AMS. More so are standards, technical regulations and other technical barriers to trade. On the other hand, rules of origin (ROOs) and import/customs procedures were considered as neutral or easy factors for intra-ASEAN trade, although further improvements in both were considered as urgent and beneficial by around 70-80 percent of firms. In particular, greater use of ICT in import/customs procedures, and the linking of customs clearance systems in ASEAN were considered as urgent and beneficial in facilitating the flow of goods within the region by around 80 percent of the firms surveyed. Furthermore, differing technical regulations and product standards in AMS were considered as posing serious problems to business and restrict intra-ASEAN trade by almost all firms. Thus, there is an urgent need to harmonize product standards and technical regulations under the AEC, as well as with international standards to further enhance product competitiveness in global trade.

Free flow of services. Almost all firms indicated that current restrictions on trade in services among AMS are serious barriers. With respect to liberalized logistics services and allowing the entry of ASEAN shippers in local waters, again almost all firms considered them as beneficial and urgent to the private sector toward the effective implementation of the AEC by 2015.

Free flow of investment. Most firms (around 65 percent) agreed that allowing at least 70 percent foreign equity in all industries except for a minimal number of areas deemed as highly sensitive in ASEAN countries is a beneficial and urgent measure. More firms (around 70-75 percent of firms) indicated that treating foreign investors no less favorably than domestic investors in AMS is an urgent and beneficial measure. Finally, investment promotion and facilitation measures in AMS were considered as beneficial by around 80-85 percent of firms, and urgent by at least 70 percent of firms. These measures include: (i) adopting and implementing international best practices to attract, retain and add value to investment flowing into the region; (ii) compiling and disseminating timely and relevant information on investment policies, regulations and statistics to facilitate prospective investors' decision making process; and (iii) organizing joint investment events regularly to brief prospective investors on opportunities arising from the region's integration process.

Freer flow of capital. Measures for freer capital flows in AMS were considered as at least beneficial by around 80-85 percent of firms, and urgent by at least 70 percent of firms. These measures include: (i) strengthening capital market development and integration through measures such as harmonization of capital market standards and taxation, as well as mutual recognition agreements on financial market professionals; (ii) substantially removing restrictions to liberalize financial services including insurance, banking and capital market sub-sectors; and (iii) imposing adequate safeguards against macroeconomic and systemic risks from liberalized capital movements with the establishment of AEC.

Free flow of skilled labor and professionals. According to 29 of the 33 firms, government regulations in recruiting skilled labor from AMS were a neutral, even easy factor. That said, almost all of them rated the following as urgent and beneficial: (i) develop standards for core competencies for skills required in selected sectors to enhance the region's competitiveness; (ii) develop mechanism to mutually recognize education and professional qualifications to facilitate the flow of skilled labor within the region; and (iii) allow free movement of skilled labor and professionals within the region.

Competitiveness-related measures. According to most of the firms (around 80 percent), strengthening and implementing effective pro-competition rules and regulations and intellectual property rights (IPR) rules and regulations are both beneficial and urgent measures.

Measures on infrastructure development: transport, ICT and energy facilitation. Around 75 percent of firms surveyed indicated that inadequate infrastructure and border barriers to movement of transport across countries in AMS are serious barriers to ASEAN's efforts in establishing AEC by 2015. Thus, operationalizing the ASEAN framework agreements to facilitate the movement of goods in transit, inter-state and multimodal transport; and implementing the ASEAN open skies agreements to liberalizing air freight services and passenger air services to facilitate the movement of people and cargoes within the region are deemed as beneficial and urgent measures by 70-75 percent of firms. With respect to ICT, most firms agreed that putting in place requisite infrastructure and regulatory framework to ensure ICT services are accessible and affordable within the region is both beneficial (85 percent of firms) and urgent (75 percent of firms). Finally, harmonizing rules, regulations, and common technical standards for cross-border power and interconnection within the region is deemed as beneficial and urgent by 26 and 24 firms, respectively.

Prioritization of integration areas and measures. Of the measures discussed above, tariff elimination, and elimination of import quotas and non-automatic import licenses were deemed as the most important that should be operational by 2015 (according to 25 firms). Second most important (according to 24 firms) in terms of being operational by 2015 were measures to improve business processes and procedures, such as: expediting granting of certificate of origin; streamlining and expediting import and customs procedures, documents, etc.; improving import and customs administration, efficiency and integrity; and streamlining procedures for conformity assessment and certification regarding standards. Measures to liberalize movement of skilled labor/professionals, capital flows, and logistics services were third most important (according to 23 firms) in terms of being operational by 2015. These were followed by investment promotion and facilitation measures (streamlining procedures for permits, licenses, etc. for investments in starting business; and accelerating investment promotion on ASEAN investment opportunities), transport liberalization measures, and competitiveness-related measures. Interestingly, allowing at least 70 percent foreign equity in industries except for a very limited number of sensitive industries was not among the measures deemed as most important to be operational by 2015.

In terms of the degree of support or opposition in the private sector to the implementation of the integration measures, most firms (around 50-60 percent) were neutral to the implementation of most of the measures. Only around 30-40 percent expressed some support for the measures. In particular, strongest support was expressed for: (1) liberalization of air freight and passenger services within ASEAN (42 percent); (2) elimination of import quotas and non-automatic import licenses, and allowing entry of ASEAN shippers in domestic waters (39 percent); and (3) various measures for standardization and harmonization

(technical and product standards, capital market and taxation), liberalization (tariff, logistics), and improvement of customs procedures and administration (36 percent).

Overall, the results of survey demonstrate how the AEC and the AEC Blueprint could address some of the issues that have constrained private-sector response to the opportunities provided by greater openness in the Philippines, particularly the complex and inefficient administrative processes and procedures, and lack of effective competition in key sectors of the economy. These are discussed further in chapters III and IV, in the context of the Philippine economy's major sectors and policy areas.

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II. Implementation of the AEC Measures: Performance and Factors[4]

The AEC Scorecard is the mechanism developed to track the implementation of the various measures under the AEC Blueprint and its strategic schedules. To ensure that the timelines and targets of AEC are met, the AEC Blueprint is monitored in four phases: 2008-09; 2010-11; 2012-13; and 2014-15.

Under Phase I (2008-2009) of the AEC Scorecard, a total of 105 measures were targeted for implementation in ASEAN. As of July 2011, 88 measures have been fully implemented. This translated to an implementation rate of 84 percent, which is better than the implementation rate of 74 percent reported in the first AEC Scorecard Report released in March 2010. The key measures implemented included the ratification/entry into force of nine agreements/protocols on trade in goods (ASEAN Agreement on Trade in Goods), services (7th Package of AFAS and 4th Package of Commitments on Financial Services), transport (Protocols 3, 5 and 8), and free trade arrangements with Australia, New Zealand, Japan and India. The National Single Windows on customs has also been operationalized in ASEAN-6, although most of them missed the original deadline of end of 2008 and instead operationalized (albeit not fully) their NSW in 2010. Standards and conformance were also further enhanced with the implementation of key initiatives such as the ASEAN Common Technical Dossier and ASEAN Harmonized Common Technical Requirement.

The 17 measures that remain to be completed as of July 2011 included one measure on investment (the ratification of ASEAN Comprehensive Investment Agreement or ACIA)[5]; three services liberalization measures; and 13 measures on ratification of transport protocols under three transport agreements: ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT), ASEAN Multilateral Agreement on Full Liberalization of Air Freight Services (MAAFS), and ASEAN Multilateral Agreement on the Air Services (MAAS).

The Philippines' overall score for Phase I of the AEC Scorecard as of July 2011 was 95 percent. The score represented 104 measures that the Philippines had fully implemented, with 6 measures still to be fully implemented to date. Three of these measures, which are under various stages of implementation, are under first pillar (Single Market and Production Base) of the AEC Blueprint, particularly for free flow of services: (i) Schedule at least 51% of foreign equity in the 4 priority integration sectors for services (air travel, e-ASEAN, health care, and tourism); (ii) Schedule maximum 2 types of non-equity MA Limitations for all 29 subsectors of 4 priority integration sectors for services; and (iii) Schedule maximum 3 types of non-equity MA Limitations for all nine logistics subsectors. The other three are under the second pillar (Competitive Economic Region), specifically transport cooperation under the infrastructure development (ratification of protocols 2 and 7 of AFAGIT, and protocol 5 of MAAS).

Under Phase II (2010-2011) of the AEC Scorecard, the Philippines' overall score for measures that have been fully implemented from January 2010 up to July 2011 was 73 percent, representing 96 measures out of a total of 131 measures. Of the 96 measures that have been fully implemented by July 2011, 24 were fully implemented ahead of schedule. On the other hand, there were 35 measures that were due for implementation by July 2011 that

[4] This chapter was drafted by Dr. Melanie Milo, Research Consultant at PIDS. It draws on various documents obtained from the ASEAN Secretariat.
[5] ACIA was only recently ratified in March 2012.

have not yet been fully implemented. An additional 48 measures are due for implementation by the end of 2011. The key measures implemented to date include tariff and non-tariff reduction (e.g., entry into force of the ASEAN Trade in Goods Agreement on 17 May 2010); implementation of mutual recognition arrangements for medical, dental and nursing services; and conclusion of 5th round of negotiations for financial services.

Most of the measures that are due for implementation but have not been fully implemented by July 2011 are under Pillar 1, particularly for free flow of goods (19 out of 23 measures, especially those related to customs integration); 10 measures are under Pillar 2, with 5 competitiveness-related measures and 5 measures on ratification of transport protocols and agreements; and 2 measures are under Pillar 4 (Integration into the Global Economy).

In particular, measures critical for customs integration include the establishment of pre-clearance arrival for customs clearance and cargo release, development of advance ruling systems for tariff classification and value assessment, implementation of ASEAN Customs Declaration Document, implementation of cargo processing model, and finalization and implementation of Protocols 2 and 7 under the ASEAN Framework on the Facilitation of Goods in Transit. Standard and conformance measures still to be implemented relate to the development and implementation of standard MRAs as well as harmonized regulatory regimes for certain products. For transport, the priority is to finalize the pending protocols and agreements under ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services (MAFLPAS), AFAFGIT, and MAAS.

Overall, the Philippines has demonstrated its commitment to the AEC and the AEC Blueprint, as indicated in the measures that have been implemented over 2008-2011. That said, key measures remain due for implementation, particularly those that relate to services liberalization, customs integration, and ratification of transport protocols and agreements. Liberalization measures in particular require changing Philippine laws, or even specific provisions in the Constitution, and hence are expectedly most difficult to undertake given the country's political economy constraints as discussed in the previous chapter. Others relate to changes in bureaucratic/administrative processes and procedures.

As Balboa et al. (2010)[6] argued for instance, a critical area that the Philippines needs to address is customs procedure. By middle-income country standards, the Philippines is perceived as having among the most inefficient, corrupt and costly customs service in East Asia. Full operation of the National Single Window (NSW) has a very strong potential in addressing this problem. In fact the NSW is a very good example of a domestic reform effort that resulted directly from the Philippines' ASEAN commitments.

They also argue that the Philippines is seriously lagging in infrastructure and logistics compared with other East Asian economies. Infrastructure and logistics are critical areas because they affect the country's attractiveness as an investment destination. They also point out that the Philippine AEC Scorecard did not include actions to strengthen SMEs. As the biggest employer in the country and source of employment of the poor, SME is a critical sector for growth and development and therefore needs full support in terms access to financing and product and skills development to enable them to compete with domestic and international players. SME development should be considered a top priority and its progress should be closely tracked at both the domestic and regional levels. The next two chapters discuss these and other key aspects of the AEC Blueprint for the Philippines in greater detail.

[6] Balboa, J., del Prado, F. and Yap, J. (2010). Achieving the ASEAN Economic Community by 2015: Challenges for the Philippines, PIDS Discussion Paper Series No. 2010-20, Makati City.

On the AEC Scorecard itself, it is recognized that the AEC Scorecard is a compliance tool and not for impact assessment. That is, it tracks the implementation of measures and achievement of milestones under the AEC Strategic Schedule. Hence, there is a need to undertake deeper assessment to determine the impact of the measures implemented under the AEC Blueprint on the ground. The ERIA studies to further improve the ASEAN Scorecard Phases 1 and 2 (Aldaba et al. 2010; Medalla et al. 2011) were undertaken precisely for this purpose. The results are also integrated in the succeeding analyses. Again, a good example is the NSW. Based on the AEC Scorecard, operationalizing the NSW has been implemented in the Philippines although not according to schedule. The analysis in the succeeding chapter indicates that it has yielded benefits to firms that have dealings with customs. But the NSW is still not fully operational and there is still room for further improvements, which the Scorecard is not able to capture.

III. Outcomes and Impacts

The first subsection discusses the results of the survey of private firms and/or questionnaires administered to relevant government officials for this mid-term review, which were undertaken during the period November 2011 – March 2012. In particular, they cover the following core elements of the AEC Blueprint: (i) free flows of goods (trade facilitation, and standards and conformance); (ii) free flows of services; (iii) free flows of investment; (iv) free flows of skilled labor; (v) agriculture; (vi) intellectual property rights; and (vii) SME development. The second subsection presents a case study of a goods sector (automotive) and a services sector (logistics) to explore more fully the impacts of the AEC measures relating to these two sectors on their performance.

III.A. Outcomes by Measures

III.A.1. Trade Facilitation: NSW and ASW[7]

During the 12th ASEAN summit in 2007, the ASEAN leaders issued the Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015 and subsequently passed the ASEAN Charter to help achieve that vision. A midterm review of where the member countries are in moving toward the ASEAN Economic Community (AEC) is thus timely.

An essential part of the midterm review is an assessment of progress in the area of trade liberalization and facilitation. In terms of tariffs, the Philippines has stayed within its commitments to ASEAN. EO 850 was passed in December 2009 to deliver its AFTA commitment to bring down tariffs on imports from ASEAN (except for a short sensitive list)[8] to 0 % in 2010.

Reduction in nominal tariffs would have minimal impact if customs procedures pose serious impediments to trade. It is necessary to gauge how much has each country achieved in terms of customs modernization and establishment of a National Single Window (NSW) which would then pave the way for an ASEAN Single Window (ASW) for trade transactions.

Last year, the ERIA study on AEC Scorecard monitoring system 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 percent in Customs modernization and integration based on the proposed scoring system. This reflects the reforms the Philippines has been undertaking in customs administration during the past decades. The Bureau of Customs (BOC) continues to introduce modernization efforts, including initiatives like the GPS transit cargo tracking system. Nevertheless, there is still a lot of room for improvement especially in the post-clearance system, Authorized Economic Operator (AEO) management and mutual recognition, Cargo profiling and tracking system, among the areas covered by the survey questionnaire.

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

[7] This subsection was drafted by Dr Erlinda Medalla, Senior Fellow at PIDS.
[8] 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.

form, status of application viewable in the dashboard, notification via email of application status, and final approval via electronic means. Planned activities include: ASW integration including manifest processing, declaration processing, and rationalization, simplification & harmonization. Important remaining issues include what would be the relationship between the BOC, NSW and the Value Added Service Providers (VASPs).

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.

World Bank Doing Business Indicators for 2012 noted an improvement in the Philippines performance, moving up 3 places in ranking in the area of 'Trading Across Borders." The results of the two sets surveys/questionnaires are consistent with this assessment.

Mid Term Review (MTR) Questionnaire for Government Officials

The research team is grateful for the support of Commissioner Rufus Biazon of the Bureau of Customs (BOC) and his staff. As the content of the questionnaire is wide ranging, it was distributed to the four Deputy Commissioners of the Bureau with his endorsement. Some portions are left unanswered by respondents, depending on their area of expertise and responsibility. The discussion below consolidates the responses. There are a few questions with different answers for which, in general, the answer of the government official more directly in charge of the area covered by the question is used.[9]

The questionnaire has four main parts:

(i) Preparedness for ASEAN Customs Integration and ASEAN Single Window;
(ii) Implementation of Customs Modernization;
(iii) Implementation of National Single window; and
(iv) Customs Processes.

(i) Preparedness for ASEAN Customs Integration and ASEAN Single Window

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 (Table 1.1).

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.

[9] Or where more appropriate, where quantities are asked, an average value is computed.

Table 1.1. Preparedness for ASEAN customs integration and ASEAN Single Window (ASW)

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

(ii) Implementation of Customs Modernization

To gauge the level of customs modernization, the study gathers information on customs process simplification, transparency, availability of electronic systems for transactions, and risk management. Only one respondent answered the question on the number of documents needed to be submitted (Table 1.2).

Table 1.2. Number of documents needed to be submitted

	Import Shipments	Export Shipments
2009	4	3
2010	4	3
2011	4	3

The numbers are different from the count of 8 and 7 respectively for imports and exports derived from the World Bank Doing Business Indicators for 2012 (Table 1.5). This could arise from a difference in interpretation by the respondent of 'documents required' as the electronic filing system and the National Single window could be seen as eliminating the need for a number of 'paper' documents. (Also, cargo release order could be interpreted as an output of the customs process and would not count in the number of documents required — at least in lodging the import declaration). What is consistent is that there has been no improvement in the number of documents required. In addition, in the World Bank study, the Philippines has the most number of documents to export/import among the ASEAN countries included (Table 1.3).

In terms of transparency through the availability and accessibility of information, majority of customs laws, rules, regulations and procedures are available online, but customs forms are not downloadable and draft changes (if there are any) in laws and rules and regulations are not as readily available in official websites.

Table 1.3. Documents to export/import

Documents to export	Documents to import
Bill of lading	Bill of lading
Customs export declaration	Cargo release order
Commercial Invoice	Certificate of origin
Certificate of origin	Commercial invoice
Packing List	Customs import declaration
Technical standard/health certificate	Packing list
Terminal handling receipts	Technical standard/health certificate
	Terminal handling receipts

Source: World Bank Doing Business Indicators, 2012

E-customs (where major customs-related processes are automated and submissions and verifications are done electronically) is at the core of customs modernization. In this regard, 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 (Table 1.4).

Table 1.4. Implementation of electronic transactions

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

The 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.

The Customs reforms are in line with achieving the ASEAN target of 30 minute turnaround time in customs processing. The World Bank 2012 Doing Business Indicator indicates that customs processing time for exports or imports takes around two days. Improvements have been noted during the past years but substantial work still lays ahead to bridge the gap. Nonetheless, a 30 minute turnaround time remains the target for 2012.

This could well be realized with a successful completion of the implementation of the National Single Window.

(iii) Implementation of National Single Window (NSW)

Currently, there are 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. (see Annex Table for list of agencies and type of permits, licenses and certification involved).

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

The NSW portal is now implemented in the major seaports and airports and coverage for all is targeted by 2015. Currently, there are 38 OGAs linked to the NSW. A total of 50 OGAs are envisioned to be linked to the NSW by 2015. In terms of reach, the NSW covers around 95% of imports, 25 % of exports, and 75 percent of enterprises. Complete coverage is targeted by 2015.

(iv) Customs Processes

Finally, the questionnaire draws information on customs processes, starting with registration up to customs clearance and cargo release.

Registration is a requirement to lodge customs declaration (whether manual or electronic). Of around 10,000 registered, around 25 % use the NSW portal. After the lodgement 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/cotracator and port authority and cargo is finally released.

The ideal scenario is for all these processes and stages to be fully automated. There are however, problems (including technical difficulties) that could still require some interruption in automation, even for the most advanced systems. This could arise, especially, from classification and valuation problems.

At the early stage of automation, the processes may not be seamlessly connected. According to the World Bank Doing Business study, the lead time needed from customs declaration to cargo release from the port could take up to 13 days (Table 1.5). Reforms and modernization and full implementation of the NSW could drastically cut the lead time. Full implementation of the NSW would require harmonization and standardization, and linkage among all the agencies involved.

Table 1.5. Time (days) needed for procedures

Procedures to export	Time (days)
Documents preparation	8
Customs clearance and technical control	2
Ports and terminal handling	3
Total	13
Procedures to import	**Time (days)**
Documents preparation	8
Customs clearance and technical control	2
Ports and terminal handling	3
Total	13

Source : World Bank Doing Business Indicators, 2012
Note: Inland transportation and handling is excluded.

Mid Term Review (MTR) Survey of Firms on Import/Export and Customs Clearance

To help assess the progress made in trade facilitation efforts of government, the firm survey asks the following:

1. The degree of usage by the company of the specified customs procedures (e. g. import declaration, export declaration, certificate of origin, duties payment etc.).
2. Perception of the degree of automation of specified customs processes (as in question 1).
3. Perception of the degree of improvement in performance in the following processes (e. g., submission of forms, obtaining certificates, payments of duties and taxes, etc.).
4. The degree of importance and availability of 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.
5. The degree of satisfaction on import and customs services provided in the country.
6. The degree of opinion (whether agree or not) on the following statements:
   - An affective advance ruling system is in place, which allows the importer, in advance of trade, to obtain binding rules in certain specific areas (e.g., tariff classification, custom valuation, origin).
   - Documentation requirements for import/export are excessive and time consuming.
   - On average, fees and charges levied on export and import are reasonable (i.e., are limited to the cost of services rendered by the authorities).
   - Irregular and arbitrary payments are often required to expedite release of goods from customs.
   - It is easy to submit required trade documentation to trade/customs authorities for approval.
   - Computerization and automation of customs and trade procedures have noticeably reduced average time of clearance.
   - The treatment of goods and vehicles in transit is non-discriminatory (i.e., imported goods are not discriminated based on origin and/or destination).
   - Goods in transit are subject to unreasonable transit duties or transit charges.
   - Regulation and procedures for goods in transit are clearly defined and widely available.
   - Vehicle in transit are allowed to use the most convenient routes to their destination.

(i) Profile of respondents

The questionnaire was sent out to as many firms as the research team was able to contact. A total of 34 responses have been collected. By type of products, 7 firms are in industrial and building automation products,[10] 9 in production/packaging machineries, 3 in chemical products, 8 in various intermediate products, and 4 in final products (2 in food and 2 in garments). The remaining 3 firms are in customs brokerage and/or forwarding business (Table 1.6).

[10] Most of the additional responses came from this industry. The role of automation industry in the global economy is increasingly gaining importance. Its interest in ASEAN indicated by its participation in the survey is noteworthy.

Table 1.6. Number of respondents by type of product

Type of Product	No. of Respondents
Production/Industrial Machineries	7
Industrial Automation products	7
Misc intermediate products	5
Packaging Machinery	2
Chemical Products	3
Customs Brokerage/Forwarder	3
Food	2
Electronics and Semiconductor	2
Garments	2
Utilities	1
Total Number of Firm Respondents	**34**

Sixteen (16) of the firms are considered large establishments with more than 100 employees, fifteen (15) are SMEs and three (3) are micro establishments. The micro firms include one in food ingredients, one customs broker, one in fashion accessories. Though small, they all had dealings with customs, with the last able to export to an ASEAN country.

Majority of the respondents (25 of 34) have been in operation for more than 10 years. The small and micro firms are generally younger, with 4 out of 9 small and micro respondents operating for less than 5 years, and 3 firms for 6-10 years. 20 out of the 34 firms are fully-owned domestic firms while 9 are multinational firms. Fully owned multinationals and foreign-domestic joint ventures have been in operation for more than 10 years (Tables 1.7-1.9).

Table 1.7. Type of establishments

Type of establishment	**Number of respondents**
Micro (1-4)	3
Small (5-19)	6
Medium (20-99)	9
Large (=>100)	16
Total number of respondents	34

Table 1.8. Distribution of firms by size and number of years in operation

Number of years in operation	**ALL**	**Large**	**Medium**	**Small/Micro**
< 1 years	1			1
1 - 5 years	3			3
6 - 10 years	5	1	1	3
11 - 20 years	12	6	5	1
> 20 years	13	9	3	1
Total number of respondents	**34**	**16**	**9**	**9**

Table 1.9. Distribution of firms by type of ownership and years of operation

		Years in operation				
	ALL	**> 20**	**11-20**	**6-10**	**1-5**	**< 1**
Fully Owned Multinational	9	5	4			
Fully Owned Domestic Firm	20	6	7	4	2	1
Fully Owned Foreign Firm	2			1	1	
Foreign-domestic Joint Venture Firm	3	2	1			
Total number of respondents	**34**	**13**	**12**	**5**	**3**	**1**

All the firms in the survey have dealings with customs, either as exporter/importer, or brokerage/forwarder. Majority of the firms have trade with ASEAN, across sizes (Table 1.10).

Table 1.10. Number of respondents by trading activity

	Yes	No	No response	Total number of respondents
All firms				
Exporter?	12	14	8	34
Exporting to ASEAN?	11	15	8	34
Importing from ASEAN?	28	4	2	34
Importing from rest of the world?	27	5	2	34
Large Firms				
Exporter?	9	5	2	16
Exporting to ASEAN?	9	5	2	16
Importing from ASEAN?	15	1		16
Importing from rest of the world?	15	1		16
Medium-sized Firms				
Exporter?	2	4	3	9
Exporting to ASEAN?	1	5	3	9
Importing from ASEAN?	7	1	1	9
Importing from rest of the world?	8	1		9
Small Firms				
Exporter?	1	4	4	9
Exporting to ASEAN?	1	4	4	9
Importing from ASEAN?	6	2	1	9
Importing from rest of the world?	4	3	2	9

(ii) Perception of the degree of automation

Customs reforms are validated by the responses. 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 declaration (16 out of 34). Highest perception of non-automation is in support documentation (14 out of 33 who answered), followed by export declarations (13 out of 25 who answered) (Table 1.11). These responses are consistent with the findings from the questionnaires for government officials which indicated the same areas of limitations.

Table 1.11. 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 (e.g., CEPT Form D)	9	15	3	100.0%	-33.3%
f. Payment of customs duties / taxes	2	4	22	72.7%	-500.0%

The perception of improvements in automation is similar for all firms. However, the percentage improvement in automation is lower for larger firms (Tables 1.12a – 1.12c). This could be explained by the greater access of large firms to the automated processes in the earlier phase of implementation. This also means that the automation has had a wider reach in terms of size of customs clients.

Table 1.12a. Perception of degree of automation of procedures: Large firms

Procedures	2011			% increase over 2010	
	Not automated	Partly automated	Fully automated	Fully automated	Not automated
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 documentations (Packing List, Bill of Lading, Manifest, Airway Bill, Invoice)	7	6	3	33.3%	0.0%
e. Certificates of Origin (e.g., CEPT Form D)	7	2	2	100.0%	-14.3%
f. Payment of customs duties / taxes	2	2	8	75.0%	-150.0%

Table 1.12b Perception of degree of automation of procedures: Medium-sized firms

Procedures	2011			% increase over 2010	
	Not automated	Partly automated	Fully automated	Fully automated	Not automated
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 (e.g., CEPT Form D)		8	1	100.0%	
f. Payment of customs duties / taxes			9	88.9%	

Table 1.12c. Perception of degree of automation of procedures: Small firms

Procedures	2011			% increase over 2010	
	Not automated	Partly automated	Fully automated	Fully automated	Not automated
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 (e.g., CEPT Form D)	2	6			-100.0%
f. Payment of customs duties / taxes		2	6	66.7%	

More details are presented in the next table (Table 1.13) with respect to certificates, permits and licenses from other government agencies (OGAs). Lack of progress for the procedures in OGAs is evident from the response. 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. Trainings in the use of the NSW portals, but the efforts might not be enough.

Table 1.13. Perception of degree of automation of OGA procedures: All respondents

Procedures	2011		
	Not automated	Partly automated	Fully automated
Certificates, permits, licenses from:			
Agriculture (Sanitary / Phytosanitary, etc)	14	7	1
Health	3	6	
Others (Please Indicate)		2	
DOF Clearance	2		
Bureau of Fisheries Cert.		1	
BIR		2	
BOC			1
Bureau of Plants Industry	1	1	
BFAD	1		
DENR	1		
DOH			
SRA Clearance		1	
NTC		1	
h. Warehousing	12	8	2
i. Free Zones	11	7	1
j. Bonded Warehouses	14	7	
k. Duty Drawback / Temporary Admission	15	6	
l. Transit	13	6	
m. Transshipment	12	11	
n. Port Operations	10	13	4

While some progress in automation is often perceived, most still consider these to be minor improvements. Nonetheless, improvements are perceived, with only one response of 'worse' perception (Table 1.14).

Majority of respondents rate 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 (Table 1.15).

Table 1.14. Perception of degree of improvements in procedures

PROCEDURES	Number of Respondents			
	2011 Relative to 2009			
	Worse	*No Change*	*Minor*	*Substantial Improvement*
a. Submission of Forms for Clearance (e.g., import/export declarations; supporting documents)	1	4	15	14
b. Express consignments		5	9	7
c. Obtaining Certificates of Origin (e.g.,CEPT Form D)	1	12	14	1
d. Payment of customs duties / taxes	1	7	11	10
e. Obtaining Certificates, permits, licenses from:				
Agriculture (Sanitary / Phytosanitary, etc)		8	8	
Health		11	4	
Others (Please Indicate)		4		
DOF Clearance		1		1
DOH		1		
DENR		2		
BIR		1	1	
Bureau of Plants Industry		1	1	
BFAD		1		

PROCEDURES	Number of Respondents 2011 Relative to 2009			
	Worse	*No Change*	*Minor*	*Substantial Improvement*
BOC				**1**
SRA Clearance			1	
NTC			1	
f. Customs valuation	1	14	14	2
g. Tariff classification		10	18	4
h. Inspection and release of goods		16	13	2
i. Post clearance audit system		15	11	1
j. Free Trade Zones	1	8	5	4
k. Bonded Warehouses		3	13	1
l. Obtaining Duty Drawback	1	3	12	1
m. Transit	I	3	16	1
n. Transshipment	1	4	17	1
o. Port Operations	1	4	19	2

Table 1.15. Degree of importance of specified features in customs systems or NSW

	Ratings				
	Not Important	Somewhat Important	Important	Very Important	Critical
a. Ability to track and trace clearance status electronically			12	15	6
b. Ability to electronically look up tariffs and regulations			6	21	7
c. Ability to compute tariffs on imports		1	5	20	8
d. Ability to download forms		2	5	21	5
e. Ability to electronically submit forms and supporting documents			7	19	8
f. Electronic payment on customs duties / taxes			2	21	9
g. Ability to receive decisions electronically through one portal		7	9	10	5
h. No need to submit paper documents	2	6	6	9	8
i. 24 hour a day, 7 day a week service		1	4	22	6
j. Online help			4	23	6
k. Secure guarantee / surety bond	1	8	5	10	4

There was also a significant increase in the availability of these features. 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 (Table 1.16).

Table 1.16. Availability of specified features in customs systems or NSW

	Availability			
	2011		2009	
	Yes	No	Yes	No
a. Ability to track and trace clearance status electronically	14	15	6	21
b. Ability to electronically look up tariffs and regulations	14	18	10	20
c. Ability to compute tariffs on imports	16	15	13	16
d. Ability to download forms	23	8	9	19
e. Ability to electronically submit forms and supporting documents	22	8	6	21
f. Electronic payment on customs duties / taxes	29	2	9	19
g. Ability to receive decisions electronically through one portal	12	19	3	24

	Availability			
	2011		2009	
	Yes	No	Yes	No
h. No need to submit paper documents	9	18	4	21
i. 24 hour a day, 7 day a week service	12	16	6	20
j. Online help	9	19	2	24
k. Secure guarantee / surety bond	18	8	5	17

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 (Table 1.17).

Table 1.17. The degree of satisfaction on the following import and customs services

	Number of respondents			
	Not Satisfied	Satisfied	Highly Satisfied	Not Applicable
a. Submission of documents for clearance (import / export declarations; supporting documents)	3	28	2	1
b. Express consignments	2	9	1	21
c. Obtaining Certificates of Origin (e.g., CEPT Form D)	8	16		8
d. Payment of customs duties / taxes	8	11	10	3
e. Obtaining certificates, permits, licenses from:				
f. Agriculture (Sanitary / Phytosanitary, etc)	2	9		15
g. Health	2	5		6
h. Others (Please Indicate)		2	2	3
DOF Clearance		1		
DOH	1			
DENR	1	1		
BIR	1	1		
Bureau of Plants Industry		2		
BFAD		1		
BOC		1		
SRA Clearance			1	
NTC		1		
i. Getting Duty Drawback/Temporary Admission	3	3		20
j. Tariff Classification	9	16	3	5
k. Customs Valuation	12	15	1	4
l. Inspection and Release of Goods	12	18	2	1
m. Port Operations	3	19	1	9
n. Transit Procedures	1	15	2	13

Finally, whether the respondents agree or disagree with statements about customs processes is presented below. The opinions are mixed, indicating that although there are positive developments in trade facilitation, there is still a lot of room for improvements (Table 1.18).

Table 1.18. Degree of agreement/disagreement with statements about customs processes

	Number of respondents						
	Strongly Disagree	Disagree	Slightly Disagree	No Opinion	Slightly Agree	Agree	Strongly Agree
a. An affective advance ruling system is in place, which allows the importer, in advance of trade, to obtain binding rules in certain specific areas (e.g., tariff classification, custom valuation, origin)	1	2		4	3	11	13
b. Documentation requirements for import/export are excessive and time consuming	1	4	4	1	12	6	6
c. On average, fees and charges levied on export and import are reasonable (i.e., are limited to the cost of services rendered by the authorities)	1	3	10	2	8	9	1
d. Irregular and arbitrary payments are often required to expedite release of goods from customs	2	9		6	7	8	2
e. It is easy to submit required trade documentation to trade/customs authorities for approval	1	3	3	1	18	7	1
f. Computerization and automation of customs and trade procedures have noticeably reduced average time of clearance		1		1	15	12	5
g. The treatment of goods and vehicles in transit is non-discriminatory (i.e., imported goods are not discriminated based on origin and/or destination)				6	9	15	2
Goods in transit are subject to unreasonable transit duties or transit charges		5	9	11	2	6	1
Regulation and procedures for goods in transit are clearly defined and widely available	1		1	8	12	10	2
Vehicle in transit are allowed to use the most convenient routes to their destination			2	7	8	14	3

On the whole, **the results from both the questionnaire for government officials and the firm survey show improvements in trade facilitation in terms of customs modernization and reforms to implement the National Single Window.** There are improvements in the degree of automation of procedures, especially in import declaration as lodgment of import entries are now done electronically, and similarly for payments of taxes and duties. However, there are still large gaps in many important areas, notably, in export declaration and support documentations (Packing List, Bill of Lading, Manifest, Airway Bill, and Invoice).

III.A.2. Standards and Conformance[11]

Introduction

Trade facilitation is a key component of the economic integration agenda of the ASEAN. The realization of the vision of an ASEAN Economic Community involves member States working together to achieve a regional free market of goods through the removal of both tariff and non-tariff barriers to trade.

Countries impose national standards and technical regulations on domestically produced and imported products to ensure the public's interest for safety and quality. However, excessive national product standards or a very strict application of these standards can impede the flow of trade in goods. The ASEAN established the ASEAN Consultative Committee for Standards and Quality (ACCSQ) in 1992 to reduce and, if possible, eliminate these Technical Barriers to Trade (TBT).

The standards and conformance initiatives of the ACCSQ are focused on four main activities:

(i) Harmonization of national standards with international standards, practices and guides, thereby eliminating conflict among national standards that are a restriction to trade.

(ii) Harmonization of mandatory technical requirements that include registration and pre-market approval requirements to ensure free movement of goods.

(iii) Harmonization of conformity assessment procedures which include accreditation, certification, testing and inspection, and mutual recognition of test reports and certification to save transaction time and to avoid high cost through multiple testing requirements.

(iv) Harmonization of technical regulations for national adoption.

The dismantling of the national borders represented by standards, technical regulations and conformity assessment procedures is necessary for achieving connectivity among similar regulatory institutions in the region and facilitating trade.

The Philippines supports the standards and conformance agenda of the ASEAN and is an active member and leader in the various regional working groups. This year, the country is the chair for the working groups in the cosmetics and electrical and electronic equipment (EE) sectors. In the context of the country's full cooperation and willingness to fulfill its obligations, this paper will give an overview of standards and conformance in the Philippines.

The next subsection introduces the main government agencies in charge of standards that are relevant to the standards and conformance initiatives of the ASEAN. A summary of the Philippines scorecard for standards and conformance based on surveys conducted in the ERIA Phase Two Study is featured in the third subsection, while the fourth subsection discusses the results of the ERIA Mid Term Review surveys for the cosmetics and electrical and electronic equipment sectors. Conclusions and recommendations for the way forward for standards and conformance in the Philippines, specifically for these two sectors, are discussed in the last subsection.

[11] This subsection was drafted by Ms Veredigna Ledda, Research Associate at PIDS.

Philippine Government Agencies In Charge of Standards

The Bureau of Product Standards (BPS) is the agency of the Department of Trade and Industry (DTI) designated as the National Standards Body of the Philippines. The BPS was established by Republic Act (RA) No. 4109, also known as the Philippine Standardization Law, and Executive Order (EO) No. 133.

As the National Standards Body, BPS is mandated to develop, implement, and coordinate standardization activities in the Philippines. It is primarily involved in standards development, product certification, and standards implementation/promotion to raise the quality and global competitiveness of Philippine products. It also aims to protect the interests of consumers and businesses. The BPS is the World Trade Organization's Technical Barriers to Trade (WTO-TBT) Enquiry Point for the country.

The BPS approves and implements the Philippine National Standards (PNS) that are established by consensus through technical committees composed of representatives from the industry, trade associations, government, academe and consumer groups. The BPS maintains a Standards and Conformance (S&C) Portal that features standards, regulations and conformity assessment activities in the Philippines and provides a complete listing of published PNS, classified both by ICS (International Classification for Standards) and HS (Harmonized System).

The Food and Drug Administration (FDA) is the agency of the Department of Health (DOH) that formulate rules, regulations and standards for licensing and accreditation of processed foods, drugs and other related products, conducts licensing and accreditation as well as monitors, evaluates and ensures compliance of manufacturers, distributors, advertisers and retailers of to these standards. The FDA was created in 1963 by Republic Act (R.A.) No. 3720, also known as the Food, Drug and Cosmetic Act. In 1982, it was renamed as the Bureau of Food and Drugs and on its 46th year, its name was reverted back to the Food and Drug Administration with the enactment of RA 9711.

The FDA is currently organized into five process-focused divisions. Two Regulation Divisions conduct inspection and the issuance of licenses for establishments that manufacture, import, export, and distribute processed foods, drugs, medical devices, in vitro reagents, cosmetics and household hazardous substances. The Product Services Division formulates standards and guidelines as well as evaluates the applications for the registration of these health-related products while Laboratory Services conducts lab tests on both packaging materials and finished products. The Policy, Planning and Advocacy Division develops regulatory policies and performs customer-facing functions such as the provision of technical information and assistance. The current transitioning of the FDA into its new organizational set up will be discussed in Part IV of this report.

With reference to the eight ASEAN Priority Investment Sectors (PIS) covered in the ERIA Phase Two Study, the BPS directly oversees the Automotive, Rubber-Based Products and Electrical and Electronic Equipment sectors. The FDA is responsible for the Cosmetics, Medical Devices, Pharmaceutical Products, Prepared Foodstuff and Traditional Medicine and Health Supplements sectors.

Results of the ERIA Phase Two Study: Standards and Conformance Scorecard of the Philippines

Overall, the Philippines is making good progress in the ASEAN standards and conformance roadmap defined for the eight Priority Investment Sectors. The results of the Standards and Conformance scorecard in the ERIA Phase Two Study generally show a high degree of conformance of national standards with international benchmarks across the surveyed sectors and openness to conformity assessment procedures and harmonized technical regulations.

All eight sectors obtained high scores for National Obligations for Standards (Table 2.1). The processes of review and revision of national standards or technical requirements to ensure alignment with agreed international standards and benchmarks identified for harmonization at the regional level are either ongoing or have been completed for all sectors. The cosmetics and electrical and electronic equipment led all sectors in obtaining high scores for the equivalence of national with international standards. The Philippines has fully adopted the ASEAN Cosmetic Directive (ACD) implemented in 2008. The national standards for electrical and electronic equipment (EEE) are 98% compliant with the identified international benchmarks, covering 51 out of 52 mandatory electrical products. In addition, the respective regulators of all eight PIS are diligent in soliciting comments from stakeholders on the revised national standards prior to their publication.

Table 2.1. Summary of Philippine scorecard for the implementation of standards and conformance measures: National obligations for standards

TECHNICAL BARRIERS TO TRADE	SPECIFIC ACTIVITIES	WEIGHT	AUTOMOTIVE	COSMETIC	ELECTRICAL & ELECTRONIC EQUIPMENT	MEDICAL DEVICES	PHARMACEUTICAL PRODUCTS	PREPARED FOODSTUFF	RUBBER-BASED PRODUCTS	TRADITIONAL MEDICINE & HEALTH SUPPPLEMENTS
1. STANDARDS										
The process flow covers the activities to be carried out to address national standards as non-tariff barriers to trade. Within ASEAN this is based on the approach to harmonise national standards with agreed international standards or international benchmarks.	**NATIONAL OBLIGATIONS**									
	Review of equivalence of corresponding national standards or technical requirements with agreed international standards or international benchmarks identified for harmonization at the regional level.	5%	5%	5%	5%	5%	5%	5%	5%	5%
	Revision of national standards or technical requirements to ensure alignment with agreed international standards or international benchmarks identified for harmonization at the regional level.	30%	30%	30%	30%	30%	30%	30%	30%	30%
	Public comments on the revised national standard sought among stakeholders prior to publication of the standard.	10%	10%	10%	10%	10%	10%	10%	10%	10%

The Philippines has a mixed scorecard for National Obligations for Conformity Assessment Procedures (Table 2.2). The pharmaceutical and electrical and electronic equipment sectors led all others in the ratification of the relevant MRAs, the transposition of MRA provisions into applicable national laws and regulations, the identification and implementation of capacity building programs to enhance the capability of ASEAN Conformity Assessment Bodies (CABs) to meet the requirements under the MRA. The automotive, medical devices, prepared foodstuff and traditional medicine and health supplements sectors need to have key processes in place to cover national obligations for conformity assessment procedures.

Table 2.2. Summary of Philippine scorecard for the implementation of standards and conformance measures: National obligations for conformity assessment procedures

TECHNICAL BARRIERS TO TRADE	SPECIFIC ACTIVITIES	WEIGHT	AUTOMOTIVE	COSMETIC	ELECTRICAL & ELECTRONIC EQUIPMENT	MEDICAL DEVICES	PHARMACEUTICAL PRODUCTS	PREPARED FOODSTUFF	RUBBER-BASED PRODUCTS	TRADITIONAL MEDICINE & HEALTH SUPPPLEMENTS
2. CONFORMITY ASSESSMENT PROCEDURES										
The process flow covers the activities to be carried out to address conformity assessment procedures as non-tariff barriers to trade. Within ASEAN the approach taken is to establish Mutual Recognition Arrangements as a means to facilitate the acceptance or recognition of results of conformity assessment procedures, produced by the Conformity Assessment Bodies among AMS.	**NATIONAL OBLIGATIONS**									
	Ratification of the MRA by AMS.	10%	0	0	10	0	10	0	x	0
	Transposition of MRA provisions into applicable national laws, legislations or regulations.	20%	0	0	20	0	20	0	x	0
	Availability of equivalent standards and technical requirements to support the implementation of the MRA or conformity assessment of products.	10%	0	10	10	0	10	0	x	0
	Evaluation and assessment of proposals for listing of the Conformity Assessment Bodies submitted through the AMS to the Joint Sectoral Committee for these bodies to be approved for listing under the MRA or under regional harmonized technical regulation.	10%	0	10	10	0	10	0	x	0
	Regular audit or assessment of Listed Conformity Assessment Bodies by the respective AMS.	5%	0	5	5	0	5	0	x	0
	Identification and implementation of capacity building programmes to enhance the capability of ASEAN Conformity Assessment Bodies to meet the requirements under the MRA.	5%	0	5	5	0	5	0	x	0

Scores again varied widely among sectors in the Philippine scorecard measuring National Obligations for Technical Regulations (Table 2.3). Cosmetics and pharmaceutical products led all sectors in obtaining high scores with the processes of ratification of the regional agreement and the transposition of regional agreement provisions into applicable national laws among others, already in place. Implementation scores remain very low for the prepared foodstuff and traditional medicine and health supplements sectors.

Table 2.3. Summary of Philippine scorecard for the implementation of standards and conformance measures: National obligations for technical regulations

TECHNICAL BARRIERS TO TRADE	SPECIFIC ACTIVITIES	WEIGHT	AUTOMOTIVE	COSMETIC	ELECTRICAL & ELECTRONIC EQUIPMENT	MEDICAL DEVICES	PHARMACEUTICAL PRODUCTS	PREPARED FOODSTUFF	RUBBER-BASED PRODUCTS	TRADITIONAL MEDICINE & HEALTH SUPPPLEMENTS
3. TECHNICAL REGULATIONS										
The process flow covers the activities to be carried out to address national standards as non-tariff barriers to trade. Within ASEAN this is based on the approach to harmonise national standards with agreed international standards or international benchmarks.	**NATIONAL OBLIGATIONS**									
	Ratification of the regional agreement (harmonized technical regulation) by AMS.	10%	x	10	0	0	10	0	x	0
	Transposition of regional agreement (harmonized technical regulation) provisions into applicable national laws, legislations or regulations.	20%	x	20	20	20	20	0	x	0
	Actions taken for the interpretation of the regional agreement (harmonized technical regulation), including adoption of the regional guidelines for national implementation.	10%	x	10	10	10	10	0	x	0
	Availability of harmonized standards and technical requirements to support the implementation of the regional agreement (harmonizes technical regulation).	10%	x	10	10	10	10	0	x	10
	Availability of technical infrastructure such as competent Conformity Assessment Bodies to support the implementation of the regional agreement (harmonized technical regulation).	10%	x	10	10	10	10	0	x	0
	Post Market Alert Systems established for linking with the AMS to strengthen regional post market surveillance efforts.	10%	x	10	10	10	10	10	x	10

A summary of the overall position of the Philippines for each sector is provided.

Automotive Sector. The Philippines is a net importer of products related to the automotive sector. There is competence for testing, however, the country's regulatory agency needs to build up the necessary capability to test and confirm that a particular imported product is compliant with the international standards. Identification and implementation of capacity building programs and market surveillance and market monitoring activities will also raise the implementation scores in this sector.

Cosmetics Sector. The current, published national standards of the cosmetics sector are aligned with international standards. The Philippines has fully adopted the ASEAN Cosmetic Directive (ACD) that was implemented in 2008. With the signing of the administrative orders to implement the ACD, the standards of the Philippines' Cosmetics sector are now 100% compliant with international benchmarks. Capacity building especially in post-market surveillance will further strengthen regulatory powers to ensure quality products in the market.

Electrical and Electronic Equipment Sector. In 2008, the Philippines issued Department Administrative Order 3 on Rules and Regulations concerning the Safety of Low Voltage Equipment (LVE) to comply with the ASEAN MRA. However, because of the additional concerns and agreements discussed at subsequent Working Group meetings, the regulator has seen the need to revise the document in order to accommodate expanded provisions. The transposition of MRA provisions into applicable legislation revisions was expected to be completed last November 2011. The testing of domestically-produced electrical and electronic equipment for export to other ASEAN Member States is more efficient at present with the inclusion of three Listed Test Laboratories and Certification Bodies. It is important to note that the Philippines is a net importer of these products, similar to the automotive sector, and has the view that compliance with MRAs may bring limited benefit at present in terms of enhancing the exporting capabilities of local manufacturing firms.

Medical Devices Sector. The Philippines does not have its own national standard for medical devices. The Food and Drug Administration (FDA) through the Center for Device Regulation, Radiation Health, and Research (CDRRHR) continually reviews and directly adopts available international standards. At present, there are 85 international standards for medical devices that have been adopted as the national standards.

The implementation score for the Philippines is expected to rise with the approval of the FDA Republic Act (R.A.) 9711 which will harmonize technical requirements for use in the registration of medical device products in the Philippines. At present, the FDA is formulating new regulatory guidelines in line with the passage of this law.

Another factor that may impact the pace of implementation is the ongoing reorganization at the FDA that will be discussed later in the report. The enhanced mandate of the regulator will make possible the creation of new positions for additional personnel for CDRRHR though a timeline of five years. This transition to a new regulatory system will also make possible the implementation in phases of increasing coverage of the medical devices for mandatory registration until 2016.

Rubber-Based Products Sector. Similar to the automotive sector, the rubber-based products sector is still unprepared in terms of technical infrastructure or capability compared to the other ASEAN member states that may have a larger manufacturing industry. Market monitoring and market surveillance activities for rubber-based products need to be

strengthened. In addition, the country's regulatory agencies need to increase their capability to test and confirm compliance of imported products with international standards.

Pharmaceutical Products Sector. The implementation scores for the pharmaceutical products sector are expected to increase with the recently issued DOH Administrative Order no. 2012-0008 dated June 25, 2012- Adoption of PIC/S GMP Guide for Medicinal Products. The FDA will now implement this new GMP (Good Manufacturing Processes) guide superseding AO 43 s. 1999 - cGMP for Drugs which is in line with the FDA's accession to be a member of PIC/S (Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme). This will also be the legal basis for the issuance of GMP certificate and License to Operate classified as Drug Manufacturer/ Drug Trader.

The Food and Drug Administration (FDA) is preparing for the PIC/S inspection and the MRA circle in 2012. The FDA is also working on the harmonization of the GMP and preparedness programs for its regional Listed Inspection Services. Accreditation in these entities, especially in the PIC/S, is perceived to be beneficial both for the national regulator and the industry players. Currently the Philippines has 25% share of the ASEAN market for pharmaceuticals and membership with PIC/S is expected to facilitate the entry of these products into the ASEAN and global markets.

Prepared Foodstuff Sector. The national standards for the prepared foodstuff sector are aligned in principle with the international benchmark CODEX, although the Food and Drug Administration (FDA) does not use exactly the same terminology. The discussions on harmonization of standards are still ongoing at the regional level, and the Philippines continues to seek clarification on a number of important issues, including Conformity Assessment Bodies and the ratification of the ACFCR before implementation. The Philippines has adopted the provisions of the ACFCR in principle.

Traditional Medicine and Health Supplements Sector. At present, 80% of the national standards for both Traditional Medicine and Health Supplement are compliant with international standards. Of the 20% that are still non-equivalent, some national standards are more stringent than the proposed regional benchmarks, for example, the arsenic limit in traditional medicine. The Philippines is being requested to review these.

In order to raise implementation rates for traditional medicine, the Philippines needs to formulate and implement specific guidelines for products from other countries that do not conform to the categories of herbal medicine that constitute traditional medicine in the Philippines. For example, Chinese medicine and Ayurvedic medicine need to be accommodated in new regulation.

A further concern for the Philippines regarding GMP compliance, one that it shares with other ASEAN countries, is the capability of SMEs to meet the standard. The Food and Drug Administration (FDA) needs to build a nationwide database of SMEs as a first step to enforce registration and implement capacity building activities.

<u>ERIA Mid-Term Review Survey Results</u>

(i) Cosmetics Sector

Profile of survey respondents

The MTR Questionnaire on the Status of Implementation of the ASEAN Cosmetic Directive (ACD) was administered to seven respondents - five multinational companies and one small /

medium enterprise (SME) - and the regulator, the FDA. Of the six firms, half are distributors while the other three, all multinationals, engage in manufacturing activities. Manufacturing activity is diverse for these firms, one does 100% local toll manufacturing while the other two export 10 % to 20% of their output.

Survey responses

Awareness on the entry into force of the ACD. The cosmetics sector in the Philippines is highly aware of the implementation of the ACD. Survey respondents unanimously affirmed that the industry was given sufficient notice of its implementation and correctly identified the FDA as the regulatory authority overseeing its implementation. Awareness seminars and industry dialogues are the mechanisms employed by the FDA to inform firms about the ACD's implementation, with all respondents rating these measures as effective. This may be due to the frequency of the employment of these measures: the regulator launched its regular awareness programs even before the implementation of the ACD and continues to accommodate requests for related programs from stakeholders. The FDA hosts awareness seminars around five times a year in different parts of the country with 80-100 industry representatives in attendance at every gathering. Industry dialogues are held on a similar frequency in coordination with industry associations, especially on the topic of compliance. In addition, there are multinational firms that regularly attend the regional meetings together with the regulator. Some Philippine cosmetic industry associations are members of the ASEAN Cosmetic Association, which means they can participate in the discussions at the regional level.

Notification of cosmetic products. The surveyed representatives of the cosmetics industry appear to have a high awareness and understanding of the requirements and system for the notification of cosmetic products. All respondents affirmed that the process, beginning with the acknowledgement of notification of cosmetic products by the FDA until the products are available in the market, takes about two to three weeks on average. The regulatory authority conducts trainings on the notification process and requirements, and the respondents acknowledged that in cases where the notification is rejected, the FDA issues a notification of deficiency explaining the reasons for the denial and provides guidance. In addition, none of the exporter firms reported having had its cosmetics products rejected, prohibited or restricted in any of the ASEAN Member States. All respondents cited the reduced time for the placement of cosmetic products and the increase in the volume of these products in the market as the most important benefits gained from the implementation of the notification of cosmetic products. The simplification of requirements means faster releasing time and a shorter wait for products to reach the market.

Harmonized technical requirements. Updated information on the harmonized technical requirements for product safety and quality are readily available to the cosmetic industry in the Philippines. All respondent firms confirmed the availability of the following documents from the FDA: ASEAN Definition of Cosmetics and Illustrative List by Category of Cosmetic Products, ASEAN Cosmetic Ingredient Listings, ASEAN Cosmetic Labelling Requirements, ASEAN Cosmetic Claims Guidelines, ASEAN Cosmetic Product Registration Requirements, ASEAN Cosmetic Import/Export Requirements, ASEAN Guidelines for Cosmetic Good Manufacturing Practice. The regulator pointed out that while available, the document ASEAN Cosmetic Product Registration Requirements has actually been phased out already with the implementation of the notification system. Revised and updated versions of these documents are also available with the regulator as well as the harmonized cosmetic test methods implemented at the regional level. High awareness of the harmonized technical

requirements translates to high compliance: All surveyed firms reported that 100% of the cosmetics products they manufacture or distribute meet these technical requirements.

Technical infrastructure. The Philippine cosmetic industry registered high awareness of the accredited conformity assessment bodies (CABs) for the testing of cosmetic products. All survey respondents reported that the regulator accepts conformity assessment results issued by accredited CABs and that their companies obtain reports for the notified cosmetic products from local CABs as well as those located outside the country. An importer and distributor of European-sourced cosmetic products said a smooth process is ensured when one trades with quality products since reputable manufacturers in developed countries pass compliance with accredited CABs.

Post market surveillance. Survey respondents coming from private firms reported that all parts of the Product Information File (PIF) are readily available to the regulatory authorities. The regulator clarified that some companies find it difficult to comply with Part IV so they are referred to industry associations who guide them on the topic of safety assessment. The FDA requests for the PIF during Good Manufacturing Practice (GMP) audit, and during the renewal of the License to Operate (LTO) which is valid for two years. The regulator also conducts surprise PIF reviews of high-risk companies and those with high-risk products, as well as those with significant volume or number of products.

Technical assistance. The regulatory authority in the Philippines gives adequate support to the industry to ensure the effective implementation of the ACD. The FDA makes available on its website the guidelines for the understanding and interpretation of the technical documents and carries out training sessions for the industry's guidance. All the respondent firms reported having a thorough understanding of the ACD's provisions.

Facilitating Factors and Deterring Factors or Barriers. The respondents unanimously rated the following as facilitating factors (FF) towards the implementation of the ACD: awareness on the entry into force of the ACD, notification of cosmetic products, harmonized technical requirements, technical infrastructure, post market surveillance, and technical assistance. Rated very important were the first four factors, namely, awareness of ACD, product notification, technical requirements and infrastructure. Respondents were clearly aware that non-compliance with the regulation meant no market access and that faster notification and release of the product in the market were considerable advantages.

Rated as important facilitating factors were post market surveillance and technical assistance, but respondents clarified that these were less important than the previously cited factors only because there was not enough government budget at present to improve capability in these areas. Some respondents from multinational companies pointed out that it is mainly the small and medium companies that are actually helped by the regulator, given its current resources. This issue will be further discussed in the section Conclusion and Recommendations. The respondents said they were highly aware of the importance of product safety and how post market surveillance improves the overall quality of the products on the market, and stressed the responsibility for self-regulation.

Analysis of survey results

The Philippines is progressing well in the implementation of the ASEAN Cosmetic Directive. Participating firms showed high awareness and understanding of the entry into force of the ACD and the process of notification of cosmetic products. The harmonized technical requirements are readily available to the industry and both manufacturers and distributors

appear to register high compliance with the essential requirements for product safety and quality. The technical infrastructure, consisting of accredited conformity assessment bodies, is acknowledged by the surveyed firms who source test reports for notified cosmetic products from both local and foreign CABs recognized by the regulatory authority. In addition, post market surveillance is being executed through the availability of the Production Information File to the FDA. There is a system in place that includes routine audits, technical courses held in cooperation with industry associations and a feedback mechanism on corrective actions in case of non-compliance. Lastly, technical assistance from the regulator appears adequate as surveyed firms reported a thorough understanding of the ACD's provisions and the availability of support mechanisms including training sessions and guidelines for understanding technical documents available on the FDA website.

Nonetheless, there is room for improvement. Addressing the unavailability of online notification of cosmetic products and augmenting the technical expertise of the regulator are the main suggestions offered by the surveyed firms to facilitate the faster and smoother implementation of the ACD. Some survey respondents would welcome greater technical expertise from the regulator in the area of post-market surveillance in order to make Philippine cosmetic products more competitive. From the point of view of the regulator, information dissemination regarding technical requirements can still be enhanced. Some product recalls in the local market still happen mainly due to non-notified release of products, rather than defects in product quality, labeling or packaging. These can be addressed by information campaigns.

The reorganization of the Food and Drug Administration will be the key to addressing many of the concerns expressed by respondents. This important milestone for the regulator will be discussed in the last section of this report.

(ii) Electrical and Electronic Equipment Sector

Profile of survey respondents

The ERIA MTR Questionnaire on the Status of Implementation of the ASEAN Sectoral Mutual Recognition Arrangement for Electrical and Electronic Equipment was administered to three respondents - a representative of an industry association actively involved in standards setting, an official of the Bureau of Product Standards and an executive from a testing laboratory. All the respondents have been working in the field for several years and have attended regional technical working committee meetings.

Survey responses

Awareness on the entry into force of the ASEAN EE MRA. In general, firms engaged in the electrical and electronic equipment industry in the Philippines are highly aware of the implementation of the ASEAN EE MRA. Survey respondents correctly identified the BPS as the regulatory authority in charge of its implementation. The regulator updates them about the implementation of the ASEAN EE MRA through government circulars, awareness seminars and industry dialogues with respondents rating these measures as effective. Advertisement is not an option given the limited funds of the regulator. The awareness mechanisms are frequently employed, starting in the period before actual implementation and sustained through regular information seminars convened by the regulator and other dialogues organized by industry associations.

A number of industry associations and organizations cooperate with the BPS in disseminating information regarding the ASEAN EE MRA including the Philippine National Committee of the IEC, the Philippine Appliance Industry Association (PAIA), the Philippine Lighting Industry Association (PLIA), the Philippine Electric Wires Manufacturing Association (PEWMA), and the Federation of Electrical and Electronics Suppliers and Manufacturers Association of the Philippines (PESA).

The BPS is currently focused on the preparations for the next phase of the implementation of the ASEAN EE MRA in the Philippines that is the implementation of the acceptance of certification starting in 2013. The regulator has given notice to the industry that anticipates and welcomes this phase. The formal launch of the awareness campaign is scheduled for mid-2012 leading to the full implementation.

Harmonized technical requirements. The national standards for the scope of the electrical and electronic equipment within the MRA are aligned to the ISO/IEC standards. The list of standards that have been aligned to the identified benchmarks are made available by the regulator on its website. The BPS regularly updates this list. Survey respondents said ASEAN Member States accept national standards or technical requirements that are identical to the ISO/IEC standards in the case of a local company exporting to an ASEAN Member State. The respondents also agreed that the application of common standards for the EE sector has contributed to the trade facilitation objectives in ASEAN through the use of the same or equivalent standards. However, since the Philippines is a net importer of these products, the implementation of the ASEAN EE MRA is particularly important for the protection of Filipino consumers who are assured that the products available in the domestic market comply with international standards.

Technical infrastructure. There are three accredited, private testing laboratories in the Philippines listed under the ASEAN EE MRA, namely, the Scientific, Environmental Analytical Laboratory and Services Incorporate (SEALS), Solid Laguna Corporation Testing Laboratory and TUV Rheinland Inc. (TUVRI). The accreditation of the fourth testing laboratory, the BPS Testing Center operated by the regulator, has been listed as a testing laboratory under ASEAN EE MRA effective March 6, 2102 until July 14, 2013. The regulatory authorities do not accept test reports and certifications issued by Laboratories and Certification Bodies not listed under the ASEAN EE MRA. The respondents also agreed that although the BPS accepts test reports issued by a CAB that is a signatory to the APLAC/ILAC MRA, there are national regulations and additional requirements that EE products seeking to enter the Philippine market need to comply with. In the Philippines, the updated information on Listed Laboratories and Certification Bodies is made available by the regulator to firms in the EE industry.

Respondents stated the benefits gained from the implementation of the ASEAN EE MRA with the acceptance of test reports and/or certification from Listed CABS as shorter time for placement of EE products in the market and increase in the volume of these products placed in the market. Other reasons will be discussed further in the section on analysis of survey results.

Technical assistance. Respondents responded affirmatively to all the questions in the section on Technical assistance. The Frequently Asked Questions (FAQ) of the ASEAN EE MRA is made available by the BPS through a link on its website to the ASEAN website. The regulator conducted training sessions on the provisions of the ASEAN EE MRA and the

respondents are confident that their organizations have a thorough understanding of the document.

Facilitating factors and deterring factors or barriers. The respondents unanimously rated the following as facilitating factors (FF) towards the implementation of the ASEAN EE MRA: awareness on the entry into force of the ASEAN EE MRA, harmonized technical requirements, technical infrastructure, and technical assistance. These factors were rated as very important. Respondents said knowledge of the ASEAN EE MRA was crucial to compliance and they perceive the regional agreement as facilitating trade and increasing the time to market of EE in the country. Both the regulator and respondents from the private sector agree that given the limited funding from the national government, technical assistance from dialogue partners, Official Development Assistance (ODA) donors, and even mechanism within ASEAN would yield benefits in terms of increased technical competence and the purchase of adequate and up-to-date testing equipment.

Analysis of survey results

The implementation of the ASEAN EE MRA in the Philippines is on track. There are three private laboratories listed under the ASEAN EE MRA with the regulator's own testing laboratory expecting accreditation within the year. The preparations are in place for the implementation of the acceptance of certification also this year. Industry associations appear to work closely with the regulator in the dissemination of relevant information. Survey respondents have a favorable view of the ASEAN EE MRA citing the advantages of faster time to market. They particularly refer to the cost advantages enjoyed by EE importers in possession of a testing report and certification compliant with the standards and regulatory requirements. Doing away with re-testing and re-certifying in the Philippines, importers can cut storage costs as goods do not need to stay in warehouses while products wait in line to be tested. This also means quicker response time to market conditions, for example, restocking is faster as shipment of goods is facilitated.

Room for improvement for the EE industry in the Philippines lies in taking advantage of the ASEAN EE MRA to export to ASEAN member states through the globally accepted testing and certification process. However, at present locally-produced EE are not competitive in terms of price. These products fulfill the technical standards given the adequate information on standards provided by the regulator and the availability of local testing laboratories listed under the ASEAN EE MRA. However, high manufacturing costs associated with electricity and labor continue to prevent domestic firms from embarking on a sustained, outbound initiative.

The regulator will also benefit greatly from increased resources to adequately fulfill its role in implementing the ASEAN EE MRA. Currently the BPS implements and monitors compliance for 50 of the 133 standards harmonized under the ASEAN EE MRA. To increase coverage and implementation of the remaining standards would require fiscal support. A full complement of personnel would ensure documents of EE firms are processed faster, translating to lower costs for firms and faster entry into the market. Adequate equipment to test new kinds of products would also be attainable given a bigger budget allotment and a mechanism for the BPS to retain its income.

Conclusions and Recommendations on the Way Forward

The standards and conformance initiatives of the ASEAN have influenced and continue to drive change in the policies on standards in the Philippines. The Philippines has been

developing national standards for the majority of the Priority Integration Sectors covered in the ERIA Phase Two Study and Mid Term Review. A number of national standards across sectors were already equivalent to international standards, but the commitment of the Philippines to the ASEAN standards and conformance initiatives has served to further focus the efforts of the competent regulatory bodies to work at harmonizing standards with international benchmarks. The initiatives for alignment by the Philippines have extended to the amendment of the relevant laws and regulations. An administrative order was signed by the Secretary of the Department of Health to implement the ASEAN Cosmetic Directive. This move has enabled the standards of the cosmetics sector of the Philippines to be 100% compliant with international benchmarks. For the pharmaceutical products sector, the approval of Administrative Order (A.O.) 43 also by the Secretary of the Department of Health completed the legal basis for the implementation of the ASEAN Common Technical Dossier (ACTD) in the Philippines.

The ASEAN initiatives in standards and conformance are also instrumental in creating new regulation. This is the case for the traditional medicine and health supplements sector. The Philippines needs to formulate and implement specific guidelines for products from other countries that do not conform to the categories of herbal medicine that constitute traditional medicine in the Philippines. Chinese medicine and Ayurvedic medicine are examples of foreign types of traditional medicine that need to be accommodated in new regulation.

The way forward for standards and conformance in the Philippines lies in capacity building and institution development. The signing into law of the Food and Drugs Administration Act in 2009 and the ensuing, ongoing reorganization at the Department of Health is a positive step in obtaining adequate support and recognition for regulatory bodies. It is significant that apart from protecting and promoting the right to health of the Filipino people, the other, stated objective of the reorganization is to establish and maintain an effective health products regulatory system.

Three years ago, Republic Act (RA) 3720 was amended with the passage of a new law, RA 9711 also known as The Food and Drug Administration (FDA) Act of 2009. RA 9711 confers two important powers on FDA: expanded quasi-juridical power with regulatory functions over food, drugs, medical devices, cosmetics, household hazardous substances and radiation devices and facilities, and the power to retain and use its income to support operations, expand personnel complement, and upgrade and augment laboratory facilities and equipment. The quasi-juridical power means the FDA has the power to immediately recall, ban, or withdraw the health-related products within its mandate when these do not pass safety standards or are found to be hazardous. The agency is also authorized to conduct inspection of facilities for compliance and seize health-related products deemed unsafe. The power to retain its income will enable the FDA to spend on much needed resources to support its functions.

The FDA Act of 2009 mandates the creation of four separate centers within the FDA focused on major product categories: Center for Food Regulation and Research, Center for Drug Regulation and Research, Center for Cosmetics Regulation and Research, and the Center for Device Regulation, Radiation Health and Research. The focus on product will mean greater efficiency in processes and areas of specialization that should translate to faster transaction time and cost benefits for firms. It can be noted that the product categories are closely aligned to key Priority Investment Sectors of the ASEAN.

The Bureau of Product Standards would do well to have a similar arrangement. Income retention appears to be the key to addressing concerns regarding the lack of personnel and testing facilities for electrical and electronic equipment. This would require a change in legislation similar to the creation of the new FDA. BPS is currently preparing the draft amendment of RA 4109 which is a step in this direction.

Finding solutions for strengthening the technical infrastructure and increasing the technical expertise of the country's regulatory agencies will facilitate the compliance of the Philippines with its standards and conformance obligations on the regional level. Domestic firms engaged in manufacturing, trade and distribution as well as foreign companies seeking to enter the local market will benefit from administrative and procedural efficiencies in terms of lower costs and faster speed to market. Last but not least, fully equipped and well-functioning regulatory agencies will raise public awareness of the importance of product safety and quality, and generate greater appreciation and understanding of the importance of standards in daily living and the practical utility of the standards and conformance initiatives of the ASEAN.

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III.A.3. Services Liberalization[12]

A total of 27 services firms in NCR were surveyed to determine barriers to trade in services in ASEAN.

Profile of Respondent Firms

Table 3.1 shows the distribution of the firms surveyed according to size. In particular, most of sample firms are large. Most of them are also well-established firms, having been in operation for more than 20 years (Table 3.2).

Table 3.1 Distribution of firms by size

type	Number of respondents
Small (5-19)	4
Medium (20-99)	8
Large (=>100)	13
Total no. of respondents	25
No response	2

Table 3.2 Distribution by years of operation

Number of years in operation	Number of respondents
< 1 years	1
1 - 5 years	1
6 - 10 years	1
11 - 20 years	9
> 20 years	14
Total no. of respondents	26
No response	1

In terms of ownership, most are fully owned domestic firms (20), with 1 fully owned foreign firm and 6 foreign-domestic joint venture firms. The firms surveyed were predominantly engaged in logistics and financial services (Table 3.3)

Table 3.3 Distribution of firms by ownership and type of services provided

	Number of respondents	Fully Domestic Owned Firm	Fully Foreign Owned Firm	Domestic-foreign joint venture firm
Business Services	4	2		2
Communication Services	1	1		
Financial Services	8	3	1	4
Tourism & Travel Related Services	3	3		
Transport Services	1	1		
Logistics Services	10	10		
Total number of respondents	27	20	1	6

Barriers to Trade in Services

When delivering services to other ASEAN Member States (AMS), most firms (12) surveyed do so directly from the country. Nine firms utilize a subsidiary, sister company or local agent, while three firms utilize both methods. One financial services firm entered into partnership or tie-up, while another only catered to the domestic market (Table 3.4a). None of the firms surveyed dispatched a sales team to other AMS to deliver services. Table 3.4b presents the results by type of service provided.

[12] This subsection was drafted by Dr Melanie Milo, Research Consultant at PIDS.

Table 3.4a Method of delivery of services to other ASEAN Member States by type of ownership

	Number of respondents	Fully Domestic Owned Firm	Fully Foreign Owned Firm	Domestic-foreign joint venture firm
Directly from your country	12	8		4
Through subsidiary, sister company or local agent	9	7	1	1
Directly from your country **AND** Through subsidiary, sister company or local agent	3	3		
Others	2	1		1

Table 3.4b Method of delivery of services to other ASEAN Member States by type of service

	Number of respondents	Directly from your country (1)	Through subsidiary, sister company or local agent (2)	(1) And (2)
Business Services	4	3	1	
Communication Services	1		1	
Financial Services	6	3	2	1
Tourism & Travel Related Services	3	2	1	
Transport Services	1	1		
Logistics Services	9	3	4	2
Total number of respondents	24	12	9	3

When asked what kind of barriers the firms face in delivering services to other ASEAN countries without setting up local operations, 19 identified the need to engage a local agent as very important, while 16 said the need to address discriminatory taxes on services delivered across border. The next very important barrier was the need to meet restrictive local labor legislation in absence of mutual recognition arrangement for professional qualifications (according to 11 firms), followed by the need to meet specific financial criteria (according to 10 firms, with 13 saying it was a somewhat important barrier. The same number of firms said that the need to register with local professional body somewhat important or very important (Table 3.5).

Table 3.5 Barriers faced in delivering services without setting up local operations in other ASEAN Member States

Barrier(s)	Not Important	Somewhat Important	Very Important	No response
Need to register with local professional body	5	9	9	4
Need to engage local agent	2	5	19	1
Need to meet specific financial criteria	1	13	10	3
Need to meet restrictive local labor legislation in absence of mutual recognition arrangement for professional qualifications	6	6	11	4
Need to address discriminatory taxes on services delivered across border	4	4	16	3

Broken down according to type of service, logistics (8 and 7 out of 10, respectively) and financial services (5 and 4 out of 8, respectively) firms in particular identified the need to engage local agent and the need to address discriminatory taxes as very important barriers to delivering services to other ASEAN countries without setting up local operations.

On the sort of barriers faced by firms in setting up local operations to deliver services in other ASEAN countries (Table 3.6), most firms who responded (19) identified the need to meet minimum capital requirements; the need to adhere to administrative/legal regulations in setting up a partnership; and the need to meet restrictive local labor employment regulations as very important barriers. Most of the other factors were also identified as very important by more than half of the respondents.

Table 3.6 Barriers faced in setting up local operation to deliver services in other ASEAN Member States

Barrier(s)	Not Important	Somewhat Important	Very Important	No response
Need to obtain license from local professional body	2	5	17	3
Need to meet minimum capital requirements	1	5	19	2
Need to address distinct requirements for branch operations	1	7	15	4
Need to adhere to administrative/legal regulations in setting up a partnership	1	5	19	2
Need to meet restrictive local labor employment regulations	1	5	19	2
Need to overcome restrictive access to finance for foreign owned firms	5	5	15	2
Need to train local labor to provide services	3	10	12	2
Need to manage escalating cost due to inadequate supporting infrastructure	2	6	15	4

With respect to other barriers faced by firms in selling services once they have established their operations in other ASEAN countries, the most important barriers across all ASEAN Member States were: (i) the need to manage delays in payment (e.g., banking practices, regulations), according to around 71-88 percent of firms that rated this particular barrier in the nine other ASEAN Member States; (ii) the need to adhere to restrictive legal systems and contracting procedures, according to 72-83 percent of firms that rated this particular barrier; and (iii) the need to manage lack of transparency, inconsistencies and/or confusion in regulations, according to 50-67 percent of firms that rated this particular barrier.

Also, of the firms that answered this particular question:

- 50 percent or more identified the need to work in the local language as a very important barrier in Cambodia (10 out of 20 firms), Indonesia (12 out of 22 firms), Laos (9 out of 18 firms), and Myanmar (10 out of 18 firms);
- 12 out of 21 firms identified the need to account for differences in commercial practices as a very important barrier in Indonesia;
- 50 percent (8 out of 16 firms) identified the need to have local track record to compete with local services providers as a very important barrier in Laos and Myanmar; and
- 50 percent or more identified the need to find creative solution to address inadequate protection of IPR in Cambodia (9 out of 18 firms); Laos (9 out of 17 firms); and Myanmar (9 out of 17 firms).

Restrictions on the type of legal entities; lack of information; and discrimination taxes on trade in services were considered as very important barriers that deterred around 13-14 of the companies surveyed from pursuing trade in services with other ASEAN countries earlier on (Table 3.7). Removing these barriers would have significant positive effects on firms' pursuit of trade in services in ASEAN (Table 3.8)

Table 3.7 Barriers that had deterred companies from pursuing trade in services in ASEAN earlier on

Barrier(s)	Not Important	Somewhat Important	Very Important	No response
Lack of information on opportunities	1	12	13	1
Restrictions on the type of legal entities	2	11	14	0
Restrictions on the number of services operations	4	13	9	1
Restrictions on the number of persons supplying services	4	11	10	2
Discrimination in favor of local services providers	4	11	11	1
Discrimination taxes on trade in services	2	10	13	1

Table 3.8 Potential impact for companies if the barriers identified in Table 4.7 are removed

Potential Impact	Somewhat Important	Very Important	No response
Improve the quality and delivery of services	4	22	1
Improve competitiveness through internal restructuring	3	22	2
Enhance linkages with local services production network	5	20	2
Increase the utilization of information technology for services delivery	6	20	1
Increase in investment to develop new services, markets, and/or delivery methods	5	21	1

Services Cooperation

For most of the respondent firms, ensuring effective regulation to deal with market failures (efficiency) and enhancing competition/contestability of markets are considered as the desirable goals of reforming trade in services (Table 3.9). Addressing these goals through market access negotiations (through the conclusion of trade agreements) and regulatory cooperation would be the most appropriate mechanisms for most of the firms surveyed (Table 3.10).

Table 3.9 Desirable goals for reforming trade in services

Desirable goal	Not Important	Somewhat Important	Very Important	No response
Enhancing competition/contestability of markets	0	9	16	2
Ensuring effective regulation to deal with market failures (efficiency)	1	5	18	3
Attaining social/noneconomic objectives (equity)	3	8	12	4

Table 3.10 Appropriate mechanisms to address the goals identified in Table 4.9

Barrier(s)	Not Important	Somewhat Important	Very Important	No response
Unilateral reform	1	10	11	5
Market access negotiations (through the conclusion of trade agreements)	1	5	20	1
Regulatory cooperation	0	6	19	2

On the areas of focus under regional cooperation: (i) enhancing collaboration between regulators to expand market access opportunities (e.g., mode 4 – movement of natural person) was considered very important by 19 respondent firms; (ii) reviewing national/regional prevailing policies (or the lack of it), the effects/impacts of their implementation, and developing appropriate strategies for their reform was considered very important by 17 respondent firms; and (iii) improving the efficiency and competitiveness of ASEAN services was considered very important by 19 respondent firms.

Finally, most firms said that the activities identified in Table 3.11 should be undertaken under regional cooperation.

Table 3.11 Activities that should be undertaken under regional cooperation

Activity	Not Important	Somewhat Important	Very Important
Compile information on services policies and its performance	0	6	17
Develop appropriate standards for professional services	0	2	21
Establish framework for the recognition of licenses and professional/educational qualifications	1	5	18
Enhance knowledge of regulatory experiences and impacts in other countries	1	6	17
Disseminate information on underlying factors for successful expansion of trade in services	1	6	17
Generate information on complementary policies which could be used to address market failures	1	6	17
Organize forum to bring together officials, regulators and service providers to discuss ways of addressing political economy constraints that impede trade in services	1	4	18

III.A.4. Investment Promotion and Facilitation[13]

To provide a better understanding of the issues surrounding the current investment facilitation environment in the country, a survey-interview was conducted to elicit information among firms (both local and foreign) located in the Philippines. The survey highlights the factors affecting the firms' decision to invest in the country as well as their perceptions on the effectiveness of the IPA's investment facilitation and promotion tools/activities.

A total of 31 firms from the electronics, automotive, chemicals, plastics and wood manufacturing industries responded to the survey. In terms of ownership, 37% of the firms are fully-owned foreign firms, 30% are fully-owned multinationals, 10% are joint ventures and 23% are fully-owned domestic firms. The sample is dominated by large firms with more than 100 workers accounting for a share of 61%; 35% are medium-sized firms with workers ranging from 20 to 99. The average number of workers is 356. In terms of years of operation, a great majority of the firms have been operating between 11 to more than 20 years. The firms are mostly old with average age of about 20 years. 87% of the respondents are exporters with 22 firms exporting to and 21 firms importing from ASEAN (see Table 4.1).

Table 4.1: Profile of respondent firms

Firm Type	No.	Size by no. of workers	No.	Number of years in operation	No.	Firm's trading activities in ASEAN	No.
Fully Owned Multinational	9	Micro (1-4)	0	1 - 5 years	3	Number of exporters	27
Folly Owned Foreign Firm	11	Small (5-19)	1	6 - 10 years	3	No. of firms exporting to ASEAN	22
Fully Owned Domestic Firm	7	Medium (20-99)	11	11 - 20 years	12	No. of firms importing from ASEAN	28
Foreign - Domestic Joint Venture Firm	3	Big (=>100)	19	> 20 years	13	No. of firms importing from row	21
Total	30	Total	31	Total	31	Total	31

Firms' Perception of Factors Affecting Investment Decision

The major factors affecting firms' decision to invest in the country are investment incentives; low tax rate/total tax liability; time/cost of starting a new business; transparent government policy; strategic location; and low corruption. These are followed by very good infrastructure, available domestic supplier, and protection of intellectual property (Figure 4.1).

Comparing the firms' perception of the factors that affected their investment decision now and two years ago, the overall results show no change in their perception of the various factors (see Table 4.2). In the case of political stability and level of corruption, the results show improvement in the perception of firms with 48% of the respondents indicating that political stability and level of corruption are both better now than two years ago.

[13] This subsection was drafted by Dr Rafaelita Aldaba, Senior Fellow at PIDS.

Figure 4.1: Critical factors affecting investment decision

Table 4.2: Factors affecting firms' decision to invest

Factors	Number of Respondents							
	Much Worse	Worse	Same	Better	Much Better	NA/ Don't Know	No response	Total
Labor Cost	0	10	16	4	0	1	0	31
Human Capital	0	4	15	9	1	2	0	31
Infrastructure	1	2	15	12	0	1	0	31
Macro Stability	0	7	14	6	2	2	0	31
Foreign Exchange Restrictions	0	2	20	7	0	2	0	31
Availability of domestic suppliers / support industries	0	4	17	8	1	1	0	31
Political Stability	1	2	9	15	3	1	0	31
Level of Corruption	1	4	9	15	1	1	0	31
Incidence of Labor Strife	2	1	14	9	3	2	0	31
Government Support for Land Clearance for Plant Sites	1	1	18	3	0	8	0	31
Tax Rates & Tax Burden	0	4	25	1	0	1	0	31
Transparency of Government Policy Making	1	0	20	7	1	2	0	31
Legal Framework for Dispute Resolution	1	0	24	4	0	2	0	31
Equal Treatment of Investors	0	0	24	5	0	2	0	31
Time and Cost of Starting a New Business	1	4	15	3	0	7	1	30
Quality of IPA	0	4	18	5	0	3	1	30
Quality of Government Institutions & Bureaucracy	0	4	17	8	0	0	2	29
Protection of Intellectual Property	0	2	19	4	0	4	2	29

In terms of expectation of their continued presence in the Philippines, 72% indicate that they would expand while 21% indicate that they would stay the same. Regarding the role of ASEAN, 60% of the respondents indicate that the ASEAN market is a significant factor in their investment decision. 23% indicate that the ASEAN market played a marginal role in their decision to invest. With respect to the importance of the ASEAN market in the firm's present and future operations, 63% indicate that ASEAN is significant in their current operations while 23% indicate that ASEAN would be an important factor in their future operations.

Investment Promotion and Facilitation

A great majority of the firms view the paper processing and approval/permit process implemented by various government agencies as alright (refer to Table 4.3). The process includes IPA for investment incentives, firm incorporation, tax concessions, local government permits, and environmental impact assessment, among others. Note that only a small proportion of firms indicated that they were assisted by IPAs in fulfilling these various activities. Mostly, IPA assistance was reported in firm incorporation, tax concessions, customs duty waiver, work permits of foreign staff, and environmental impact assessment.

Table 4.3: Government Paper Processing and Approval/Permit Process

Activities	Very Slow	Slow	Alright	Quick	IPA Assisted		Number of Respondents
					Yes	No	
IPA for investment incentives	0	5	17	2			24
Firm incorporation	1	6	17	4	5	12	28
Tax concessions	0	9	20	1	6	11	30
Customs duty waivers	0	12	18	0	7	10	30
Work permits of foreign staff	0	3	22	2	6	10	27
Social security	0	3	24	1	2	14	28
Utilities connection	0	4	22	2	4	13	28
Local government permits	1	11	16	1	4	13	29
Foreign exchange regulations	0	2	23	1	3	10	26
Leasing land for business	0	3	22	1	4	10	26
Environmental impact assessment	1	7	18	2	7	9	28

With respect to the firms' perception of various factors affecting their investment decision, a great majority of the firms indicate that these factors have remained the same (Table 4.4). It is important to note that for computerization and streamlining of government procedures, a substantial proportion of the respondents (39%) indicate improvement in this area. The same proportion of respondents indicated that performance of the investment one-stop shop is better. A quite significant proportion of the respondents (35%) also indicated improvements in responsiveness and response quality of IPA to investor inquiries, while 32% perceived better availability and contactibility of IPA personnel to investor inquiries, as well as improved overall investment climate of the country.

Regarding rate of information on investment laws, policies, regulations, rules and procedures, a great majority of the respondents provided a satisfactory rating (Table 4.5). This is based on the following criteria: clarity and understandability, completeness, up to date and availability/accessibility on line. Note that in terms of on-line availability and accessibility of information, 39% of the respondents gave a non satisfactory rating.

Table 4.4: Firms' perception compared to two years ago

Factors	Number of Respondents					Total
	Much Worse	Worse	Same	Better	Much Better	
Cost and time required for approvals for investment incentives	1	2	16	8	0	31
Cost and time required for approvals for firm incorporation	0	0	18	7	0	31
Cost and time required for approval for tax concessions	0	2	20	5	0	31
Cost and time required for approval for customs duty waivers	0	3	19	5	0	31
Cost and time required for approval for work permits of foreign staff	0	2	17	5	0	30
Cost and time required for approval for public utilities connection	0	1	19	8	0	31
Cost and time required for local government permits to start business	0	3	14	5	0	31
Cost and time required for approvals to lease land	0	0	17	5	1	31
Cost and time required for approval for environmental impact assessment	0	3	18	6	0	31
Computerization and streamlining of government procedures	0	9	8	12	0	31
Availability and contactability of IPA personnel to investor inquiries	0	2	9	8	2	31
Responsiveness and response quality of IPA to investor inquiries	0	1	10	9	2	31
Performance of the investment OSS	0	2	11	9	3	31
Transparency, fairness and objectivity of the investment process and assessment of investment proposals	0	1	17	8	1	31
Intra-government cooperation to ease cost of doing business	0	5	21	1	1	31
Private sector representation in councils and programs to ease cost of doing business	0	2	17	6	1	30
Clearer focus on sectors and regions in investment promotion strategies	0	3	16	6	1	31
Presence of effective mechanism for dispute settlement between investors and domestic authorities	0	2	13	6	1	30
Investment protection climate in the country	0	4	17	5	0	30
Overall effectiveness of investment facilitation of the country	0	2	17	8	0	30
Overall investment climate of the country	0	3	14	8	2	30

Table 4.5: Information on investment laws, policies, regulations, procedures and rules

Factors	Number of Respondents				
	Not Satisfactory	Satisfactory	Very Good	No response	Total
Clarity and understandability	6	25	0	0	31
Completeness	7	23	1	0	31
Up to date	9	21	1	0	31
Availability / Accessibility on line	12	17	2	0	31

Table 4.6 shows that in terms of information on investment laws, policies regulations, rules and procedures in setting up business, majority of the respondents also provide a satisfactory rating.

Table 4.6: Information on investment laws, policies, regulations, procedures and rules in setting-up business

Factors	Number of Respondents				
	Not Satisfactory	Satisfactory	Very Good	No response	Total
Clarity and understandability	6	25	0	0	31
Completeness	7	24	0	0	31
Up to date	8	23	0	0	31
Availability / Accessibility on line	9	21	0	1	30

In terms of providing information to public and investors, an average of 64.7% of the respondent firms provided a satisfactory rating to IPAs. This covered information on the country, economy and investment priority industries. On the average, 29.4% expressed some dissatisfaction particularly in terms of providing information on area/industry cluster, success stories highlighting key aspect of country's competitiveness, and how IPA helps investors make a project happen (see Table 4.7).

Table 4.7: Information provided by IPAs to the public and investors

IPA's Information	Number of Respondents				
	Not Satisfactory	Satisfactory	Very Good	No response	Total
Adequate information on the country and its economy	5	18	1	7	24
Substantive information on investment priority industries	6	15	2	8	23
Information on area / industry clusters	8	15	1	7	24
Success stories highlighting key aspect of country's competitiveness	8	15	1	7	24
How agency helps investors make a project happen	8	14	2	7	24

In terms of IPAs' response to firms' or potential investors' inquiries during the start-up phase of the company, the respondents indicate that IPAs gave satisfactory information, responded quickly and competently, made convincing investment case for the country, made follow ups on initial inquiries and facilitated contact with other government agencies and domestic private sector. Although in case of the latter, 26% of the respondents perceived that the IPAs did not facilitate contact with other government agencies and domestic private sector. 22% indicated that the IPAs did not make follow ups on initial inquiries (see Table 4.8).

Table 4.8: IPAs' response to firms or potential investors' inquiries during the start-up phase of the company

IPA's Response	Number of Respondents			
	Yes	No	No response	Number
Gave satisfactory information needed by investor	25	0	6	25
Responded quickly and competently	21	2	8	23
Made convincing investment case for country	20	4	7	24
Made follow ups on initial inquiries	18	5	8	23
Facilitated contact with other government agencies	17	6	8	23
Facilitated contact with domestic private sector	17	6	8	23

On the average, 35% of the respondents perceive that whenever there are changes in investment rules, regulations, and policies, the government and its agencies usually notify stakeholders, ask for written comments, hold face to face consultations with narrow selection of stakeholders and consult with all stakeholders. On average, 10% of the respondents viewed that the government and its agencies often do these. However, an average of 31% of the respondents indicated that the government and its agencies seldom do these (see Table 4.9).

Table 4.9: Government and its Agencies on changes in investment laws, regulations and policies

Government Action	Number of Respondents						
	No	Seldom	Usually	Often	Always	No response	Total
Notify Stakeholders	3	7	14	2	3	2	29
Ask for written comments	3	14	7	2	3	2	29
Hold face to face consultations with narrow selection of stakeholders	6	7	9	3	3	3	28
Consult with all stakeholders (incl. foreign investors, NGOs)	5	7	10	4	2	3	28

Table 4.10 tabulates the results on the assessment of the administration of registration, authorization, and permit formalities by the government and its agencies. An average of 56% of the respondents viewed the process as transparent, uniform and impartial and speedy. An average of 44% however perceived the opposite.

Table 4.10: Government and its Agencies on the administration of registration, authorization and permit formalities

Government Response	Number of Respondents			
	Yes	No	No response	Total
Transparent	20	10	1	30
Uniform and impartial	18	12	1	30
Speedy	12	18	1	30

In terms of IPAs' response to investors' inquiries or requests for assistance in addressing problems with other government agencies, the results indicated that 37.5% of the firms expressed that IPAs usually provide help competently, expeditiously, and proactively (refer to Table 4.11). 36% indicated that IPAs often provide competent, expeditious, and proactive assistance.

Table 4.11: IPAs' response to investors' inquiries or requests for help in solving problems faced with other Government Agencies

IPA's Response	Number of Respondents						
	No	Seldom	Usually	Often	Always	No response	Total
Competently	1	3	9	8	3	7	24
Expeditiously	1	4	9	9	1	7	24
Proactively	2	3	9	9	1	7	24

With respect to top problematic procedures, permits, or licenses in business establishment, the firms indicated government red tape, too many paper works and corruption. They cited the following as problematic procedures:

- BIR registration
- LGU permits
- Obtaining income tax holiday
- Bureau of Customs regarding the taxation of domestic sales
- Application for increase in authorized capital stock
- Environmental permits (Laguna Lake Development Authority)

The respondents also cited the different incentives granted by different IPAs leading to confusion.

With respect to the top problems in business operations, the firms cited the following:

- Importation permits
- Unstable operations at the Bureau of Customs in releasing imports
- Changes in Bureau of Internal Revenue (BIR) regulations
- Registration of foreign denominated loans and movement of foreign funds other than for payment of goods and services
- Contradictory policy of PEZA and BIR on taxation issues.

Other problematic areas reported by the respondents include: high cost of electricity, high logistics costs, difficulties in finding good technical staff, and lack of support of the national government for locally made products.

Finally, to improve the country's investment facilitation environment and overall investment climate, the respondents put suggested the following:

- Elimination of bureaucratic red tape and corruption in government
- Strengthen tax rules applicable to all locations
- Clear, consistent and investor-friendly laws that would not be repealed for at least 15 years, except if amendment would benefit the investors

- Improvement of infrastructure (road and traffic conditions) within and outside special economic zones
- Allow foreigners to own land and buildings for commercial and industrial use
- Develop support industries to electronics and semiconductor industry to improve the competitiveness of the country in this sector
- Improve security and peace and order condition in the country.

Integrating Current Results with Previous ERIA Investment Surveys

The ERIA Study to Further Improve the AEC Scorecard: Philippine Country Report (2010) also surveyed private firms to gather information on their experiences of investment facilitation and promotion in the country. The Report highlighted the same problematic procedures, permits, or licenses that firms face in establishing a business including bureaucracy & too much red tape, lengthy procedures, delayed issuance of permits due to slow processing, lack of transparency in the guidelines and procedures, and corruption. The firms also cited the non-uniformity of investment incentives among government IPAs (see Table 4.12 for details).

Table 4.12: Problematic procedures in establishing a business

Area of concern	Government Agency	Problems/Comments
Certification	• Department of Environment and Natural Resources (DENR) • Bureau of Customs (BOC)	• Bureaucracy & too much red tape • Lengthy procedures that take up too much time • Too many signatories • Too many agencies needed to secure permits • Delayed issuance of permits due to slow processing • Lack of transparency in the guidelines & procedures • Corruption • Local ordinance fees, local business permits • Some requirements are impractical such as employment of full-time doctor & dentist
Registration	• Bureau of Internal Revenue (BIR) • Board of Investments (BOI)	
Permits	• Local Government Units (LGU) • Laguna Lake Development Authority (LLDA) • Philippine Economic Zone Authority (PEZA occupancy permit)	
Visa	• Department of Foreign Affairs (DFA) • Bureau of Immigration (BI)	
Land acquisition, leasing, conversion from agricultural to industrial	• Department of Agrarian Reform (DAR)	
Incentives		• Qualification requirements to avail of incentives are difficult • Non-uniformity in investment incentives among economic zones & IPAs

Table 4.13 presents a summary of problems faced by firms in operating a business in the country. These are grouped into five covering infrastructure and logistics: high utilities' costs, poor infrastructure; tariffs and taxes: tax assessment & refund; labor: lengthy & non-transparent procedure; raw material supply and size of domestic market: lack of parts and components industries, regulatory and policy environment: bureaucracy & red tape, policy inconsistency and security and peace and order condition. Recommendations for the overall improvement of the country's investment climate include lower costs of doing business, simplify rules & policies, improve automation, more stable policy, increase collaboration between national agencies & LGUs, develop support industries, and unify investment incentives.

Table 4.13: Problems faced by firms and recommendations

Concern area	Problems and General Comments	Recommendations
Infrastructure & logistics	• High cost & unpredictability of power supply • High cost of other utilities • Congestion in Manila airport resulting in delays in shipment of goods • High cost of domestic shipping (sea)	• Improve roads, airports, telecommunications services & other infrastructure • Pursue an open skies policy • Maximize use of Subic port to save trucking cost from Manila Port to Subic • Privatize facilities
Tariffs & taxes	• BIR tax assessments and refund • Slow processing of tax incentives under Japan-Philippines Economic Partnership Agreement (JPEPA) • High taxes • Confusing government charges • BOC evaluation and refund • Inconsistent tariff and non-tariff barriers	• Review tax scheme • Design capacity building programs for BOC & BIR personnel • Simplify rules & policies • Improve automation in business transactions • Pursue a level playing field • More stable policies on tax & other charges & implement these effectively
Labor	• Lengthy & non-transparent process in dealing with labor issues • Minimum wages are too high to makes us competitive internationally • Competent & highly skilled workers are difficult to find	• Relax Labor Code rules on outsourcing & contractual workers • Formulate education & training reforms to match what the country needs
Raw material supply & domestic market size	• Absence of downstream industries in parts and related components • High cost of raw materials (chemicals and machineries) • Small domestic market	• Develop support industries particularly in electronics to improve competitiveness
Regulatory environment	• Corruption • Bureaucracy & red tape: too many government agencies such as Department of Finance (DOF), BOC, DENR, BIR, Securities & Exchange Commission (SEC), etc • Lack of streamlining of interrelated business procedures handled by different government agencies such as BOC, BIR, & Land Transportation Office (LTO) • Clarity & stability of regulatory environment • Lack of clarity in implementation of importation procedures by BOC • Inconsistent regulatory policies & weak enforcement (used vehicle importation) • Changes in government policies & necessary information are not effectively disseminated • Incentives among government IPAs are not unified • Lack of comprehensive effort for country promotion	• Integrity & consistency among government officials • Stable, transparent, & reliable government agencies • Consistent & stable policies needed by firms for long-term planning • Simplify rules, procedures, & polices • Automation of business processes to reduce cost • Streamline interrelated government procedures • Arrange periodic sessions with investors on how they can help in improving investment & regulatory policies • Unify investment incentives • Adopt a more comprehensive & effective marketing program • More collaboration among national government agencies & LGUs
Investor After care	• After care program for investors is missing/weak	• Government agencies, IPAs & park administrators should be actively involved in support programs for locators
Security, peace & order	• Increasing incidence of hijacking of shipped goods	• Improve peace & order condition

Additional recommendations included speedy processing of permits, simplify procedures in starting a business, improve automation of business procedures in government agencies, synchronize efforts of the national government and local government units (LGUs) in promoting the country and implementing our investment plan, increase collaboration among government agencies in assisting prospective investors as well as existing investors in securing necessary permits and licenses in business operations, adopt more effective marketing tools both in print and on-line should be made available and updated regularly, improve BOI's website to include updated and timely business news, aggressively promote that foreigners can own land under certain special arrangements, and unify investment incentives among the IPAs.

In the ERIA Phase Two Study Toward a More Effective AEC Scorecard Monitoring System and Mechanism Philippine Report (Medalla et al. 2011), a scorecard for investment facilitation and promotion was calculated based on survey-interview of major IPAs in the country (Table 4.14). The score was calculated based on the following criteria: improving Investment Promotion Agency (IPA) quality, investment promotion & strategy, investment generation, servicing and policy. The Philippines obtained an overall weighted score of 71%. As earlier indicated, the country's major IPAs, BOI and PEZA, have one-stop shops and investment aftercare departments. They focus more on investment promotion activities such as providing information assistance and investment facilitation.

Table 4.14: Philippine scorecard for investment promotion and facilitation

Component/Area	Weight	Score	BOI&PEZA (weighted)
I. Quality of IPA (10%)	0.1	0.8625	0.08625
II. Investment Promotion & Facilitation Strategy (10%)	0.1	0.8	0.08
III. Investment Generation (5%)	0.05	1	0.05
IV. Investor Servicing (40%)	0.4	0.895	0.358
V. Investment policy (15%)	0.15	0.92	0.138
Total Score	0.8		0.71225

Among the five investment promotion and facilitation components being evaluated, the Philippines received a quite modest score in investment promotion and facilitation strategy. The Philippines started to formulate its investment and facilitation strategy only recently. As earlier noted, the coordinating mechanism between the DTI and the various IPAs for the formulation of the country's first investment promotion was established only in late 2009. There is no central body coordinating and monitoring the different investment promotion and administration of investment incentives (this is, however, one of the planned measures). There is no strategy in place regarding details of human resource needs and financial requirements as well as a time table for comprehensive review of the plan.

The weighted average for investor servicing is quite high due to PEZA's score perfect score in the operations of its one stop shop (OSS). However, the same does not hold for BOI due to some challenges that its OSS currently faces, in particular, the difficulties in obtaining licenses and permits from local government units and some national agencies. These difficulties are attributed to the following factors: absence of standardized operational procedures, too many documentary requirements for the issuance of permits and licenses, lack of skills and know-how among local government units (LGUs) in promoting investments, and absence of information materials. Apart from the difficulties in obtaining licenses and permits in establishing a business, other problematic permits involved the

issuance of environmental clearance certificate, building permits, tree cutting permits, and environmental pollution control.

It is also important to note that in the ERIA Survey of Core Measures (2011) which conducted a survey to identify the priority investment measures to be operational by 2015, the surveyed firms highlighted the need for streamlined procedures for permits and licenses. As Figure 4.2 shows, the bulk of the firms surveyed (61 percent) indicated the need for streamlined procedures for permits and licenses for investments in starting business as the most important measure to be operational by 2015. This is followed by measures allowing at least 70 percent foreign equity in industries with some exemptions (58 percent). Around 55 percent of the respondents considered the acceleration of the adoption of investment promotion measures as the third most important followed by measures focusing on the adoption of international best practices in facilitation.

Figure 4.2: Operational measures by 2015: A prioritization

Source: ERIA Survey of Core Measures (2011).

III.A.5. MRAs on Professional Services[14]

Engineering

There are separate legislations for each engineering field in the country. These consist of the Philippine Agricultural Engineering Act of 1998; Republic Act No. 544 (as amended by R.A. 1582) An Act to Regulate the Practice of Civil Engineering in the Philippines; Presidential Decree No. 1570 Regulating the Practice of Aeronautical Engineering in the Philippines; Republic Act No. 318 An Act to Regulate the Practice of Chemical Engineering in the Philippines, and for other purposes; Republic Act No. 7920 (New Electrical Engineering Law) An Act Providing for a More Responsive and Comprehensive Regulation for the Practice, Licensing, and Registration of Electrical Engineers and Electricians; Republic Act No. 8495 An Act Regulating the Practice of Mechanical Engineering in the Philippines; Presidential Decree No. 1536 Metallurgical Engineering Law; Republic Act No. 4565 An Act to Regulate the Practice of Naval Architecture and Marine Engineering in the Philippines; and Republic Act No. 1364 An Act to Regulate the Practice of Sanitary Engineering in the Philippines.

Table 5.1 discusses the facilitating and deterring factors affecting implementation rates in engineering.

Table 5.1: Engineering

	Facilitating	Deterring
Regulatory environment at national level	-The Philippines has different fields of engineering specialization and each has its own regulations; more focus in each field	-Each field of engineering trade has its own distinct and separate interests, however this sometimes lead to conflicts & overlaps in practices
Implementation process at national level	Same as above	Same as above
Implementation process at regional level		-Clear guidelines necessary to come up with a seamless process, system & mechanism at regional level

As indicated in the survey, while these many specialized regulations for each engineering field provide more focus and efficient implementation, they have also acted as a deterring factor due to the many conflicting interests in each field arising from overlapping scope of services defined in different regulations. Given the difficulties of arriving at a common interpretation process, court cases are sometimes filed to resolve the issue and interpret the regulatory laws in question. Hence, this leads to slowdown the process of MRA implementation. Unless clear guidelines are defined and formulated at the domestic level, it would be difficult to implement the MRA and link it with the process at the regional level.

Architecture

At the national level, the law allows the issuance of a temporary special permit to foreign architects to practice in the Philippines is seen as a facilitating factor in MRA implementation. This is consistent with regulations in other ASEAN Member States where a foreign architect is also required to work in collaboration with a locally registered architect. The deterring factors identified include the absence of a comprehensive program that is

[14] This subsection was drafted by Dr Rafaelita Aldaba, Senior Fellow at PIDS.

needed to implement the MRA; absence of procedures and guidelines in reciprocity; and though a temporary special permit is allowed, the law still needs to be revised to enable complete borderless practice by foreign architects.

In terms of implementation at the national level, one facilitating factor identified is the submission of the Assessment Statement; although it still needs to be revised (Table 5.2). A deterring factor is some problems concerning the composition of the Monitoring Committee. With respect to the implementation process at the regional level, one facilitating factor is the gathering of information on licensing and registration requirements in each ASEAN Member country. Several deterring factors have been identified such as the different levels of competencies among the ASEAN Member countries due to differences in curriculum; different requirements for licensure examination; and language barrier especially in Thailand, Cambodia, and Lao PDR where English is not the medium of instruction and where drawings use the vernacular text.

Table 5.2: Architecture

	Facilitating	Deterring
Regulatory environment at national level	-Temporary Special Permit to foreign architects which is consistent with other AMSs; all foreign architects must work in collaboration with a local registered architect	-comprehensive program needed to address MRA implementation -Reciprocity: absence of procedures/guidelines -Temporary special permit: law needs to be revised for complete borderless practice
Implementation process at national level	-Assessment Statement: submitted but needs to be revised	-problems in the composition of the Monitoring Committee
Implementation process at regional level	-Surveys conducted to compare licensing & registration requirements in each AMS	-Different levels of competencies among AMSs -Different requirements for licensures -Language is biggest barrier

Accountancy

The practice of accountancy in the Philippines is covered under Republic Act 9298, also known as the Philippine Accountancy Act of 2004. The Act contains a provision on foreign reciprocity allowing citizens of foreign countries to practice accountancy in the Philippines in accordance with the provisions of existing laws, international treaty obligations including mutual recognition agreement entered into by the Philippine government with other countries. The Act limits the practice of accountancy to Filipino citizens and shall not allow a person who is not a citizen of the Philippines unless he/she can prove that specific provision of law in the country of which he/she is a citizen admits citizens of the Philippines to the practice of the same profession without restriction. A special or temporary permit may be issued by the Professional Regulatory Board of Accountancy subject to the approval of the Professional Regulation Commission to the following persons:

- A foreign certified public accountant called for consultation or for specific purpose which, in the judgment of the Board, is essential for the development of the country: Provided, That his/her practice shall be limited only for the particular work that he/she is being engaged: Provided, further, That there is no Filipino certified public accountant qualified for such consultation or specific purposes;

- A foreign certified public accountant engaged as professor, lecturer or critic in fields essential to accountancy education in the Philippines and his/her engagement is confined to teaching only; and
- A foreign certified public accountant who is an internationally recognized expert or with specialization in any branch of accountancy and his/her service is essential for the advancement of accountancy in the Philippines.

As indicated in the provisions above, the law allows reciprocity but at the same time limits the practice to Filipino citizens only; as such, the Philippine Accountancy Act of 2004 is seen both as facilitating and deterring factor.

Another deterring factor identified is the piecemeal approach of national government agencies that leads to the absence of a comprehensive framework and operational direction (Table 5.3). Other factors cited include the disconnect between national government agencies involved in negotiations and professional regulatory bodies and weak coordination among national government agencies in policy making, information gathering, dissemination and advocacy efforts. On the part of professional groups, there is no initiative to include MRAs as a priority area among professional organizations. One facilitating factor at the national level identified is the inclusion of MRA implementation in the national government agenda.

At the regional level, the limited opportunities for professional regulatory boards to interact with foreign counterparts are mentioned as one deterring factor affecting implementation rate. Lack of information and insufficient knowledge about the progress of MRA implementation in other countries tend to slow down the process. More networking activities can help promote knowledge sharing among the different countries in the region.

Table 5.3: Accountancy

	Facilitating	Deterring
Regulatory environment at national level	-Foreign Reciprocity provision in the Philippine Accountancy Act of 2004 (Republic Act 9298)	-Limitations in the practice of profession of persons who are not citizens of the Philippines as provided for in the Foreign Reciprocity section of the Accountancy Act -Piece-meal approach of national government agencies leading the establishment of national systems & mechanism -Disconnect between national government agencies involved in negotiations & professional regulatory bodies in charge of the technical attributes of the profession -Disconnect among national government agencies themselves in policy making, information gathering, dissemination, & advocacy efforts -Top management laden policies in national government agencies
Implementation process at national level	-Inclusion in the national government agenda or thrust	-Lack of initiatives among professional groups, MRA not a priority of professional sectors
Implementation process at regional level		-Limited opportunities for professional regulatory boards & professional organizations & associations to interact with foreign counterparts

Surveying

In the Philippines, surveying is under the practice of geodetic engineering. One deterring factor identified in terms of regulatory environment at the national level is the current Philippine legislation that limits the exercise of profession to Filipino citizens. This is embodied under the 1987 Constitution as well as Republic Act 8560 (An Act Regulating the Practice of Geodetic Engineering in the Philippines) as amended. RA 8560 governs the practice of geodetic engineering profession. It also provides foreign reciprocity but only to a country that also allows Filipino geodetic engineers to practice within its territory. RA 8560 (Section 26, Article V) states: "No foreign Geodetic Engineer shall be issued a temporary license to practice the Geodetic Engineering profession or consultancy thereof or be entitled to any of the rights and privileges under this Act unless the country of which he is a subject or citizen specifically permits Filipino Geodetic Engineers to practice within its territorial limits on the same basis as the subjects or citizens of such foreign state or country".

In terms of deterring factors affecting the implementation process at the national level, the survey results cited differences in curriculum and training among the AMSs and only the Indonesian system is similar to the Philippine system (Table 5.4). This implies that only Indonesian geodetic engineers maybe recognized on the ground of reciprocity as provided for in RA 8560 as amended.

Table 5.4: Surveying Qualifications

	Facilitating	Deterring
Regulatory environment at national level		-Existing Philippine laws limit the exercise of profession to Filipino citizens: 1987 Constitution; RA 8560 as amended
Implementation process at national level		-Differences in curriculum and training, Indonesian system is the only one similar to the Philippines

Medical

At the national level, one facilitating factor identified in the survey is the presence of pending bills at the House of Representatives and the Senate to amend the Medical Act of 1959 which covers the practice of medical profession in the Philippines. The Board of Medicine has proposed the inclusion of a provision that would allow foreign citizens to practice in the Philippines for as long as there is an MRA entered into by the Philippines and the country of origin. However, a deterring factor is the very long process of the deliberations at the House and the Senate. The bills have been pending since year 2000.

Table 5.5: Medical

	Facilitating	Deterring
Regulatory environment at national level	-Bills pending at the House & Senate to amend the Medical Act of 1959	-Bills have been pending since 2000
Implementation process at national level	-National Regulatory Body & medical organizations make implementation orderly	-Absence of a coordinating body that would provide information on what the MRA is, objectives, mechanics, implications
Implementation process at regional level		-Currently, no existing mechanism aimed at MRA implementation -Lack of knowledge on the part of practicing medical doctors

In terms of implementation at the national level, the survey indicates one facilitating factor in the presence of the National Regulatory Body and medical organizations that make implementation process more orderly. However, one deterring factor is the absence of a coordinating body that would provide the necessary information on what the MRA is, what are its objectives, mechanics involved and its implications not only to the sector but to the economy and the country in general.

In terms of implementation at the regional level, some deterring factors cited include the absence of an existing mechanism aimed at the implementation of the MRA and lack of knowledge among medical practitioners on the MRA which may delay its implementation.

Dental

One facilitating factor in terms of regulatory environment at the national level is the submission of requirements such as qualifications, domestic laws and regulations, core competencies, and list of recognized training institutions were already submitted. A deterring factor identified is the need to revise existing regulations for full conformity with the regional agreement and this may take quite some time to accomplish.

Table 5.6: Dental

	Facilitating	Deterring
Regulatory environment at national level	- Requirements for the preparation process of regulations submitted	-Regulations must be revised for full conformity with the regional agreement & this may take some time
Implementation process at national level	-Awareness programs, -Meetings on MRA conducted by government	-AJCCD Secretariat not yet set up -MRA mechanisms & procedures not yet discussed -Meetings on MRA not done regularly -Representatives AJCCD change every year -Inadequate funding
Implementation process at regional level	-Criteria on roadmap for implementation of ASEAN MRA on healthcare MRAs	-No updates on ASEAN MRA -AJCCD Secretariat not yet set up -mechanism & procedure not yet discussed -AJCCD meeting on September 2011 cancelled

In terms of implementation at the national level, the conduct of awareness programs to disseminate information, lectures, and seminars along with MRA meetings with government agencies was cited as facilitating factor. Some deterring factors mentioned include the following: ASEAN Joint Coordinating Committee on Dental Practitioners (AJCCD) Secretariat has not yet been set-up, website has not yet been created; MRA mechanisms and procedures have not yet been discussed; MRA meetings are not done on a regular basis; AJCCD representatives change every year; and inadequate funding for MRA activities.

In terms of implementation at the regional level, one facilitating factor is the preparation of the criteria on roadmap for implementation of ASEAN MRA on healthcare MRAs. Deterring factors identified are the following: absence of regular updates on the ASEAN MRA coming from the ASEAN Secretariat as well as from the AJCCD Chairman; AJCCD Secretariat at the regional level has not been established yet; and MRA mechanism and procedure to mutually recognize and accept foreign dentists have not yet been discussed.

Nursing

In terms of regulatory environment at national level, facilitating factors include support provided by government agencies like the Professional Regulation Commission (PRC), Department of Labor and Employment (DOLE) and Department of Health (DOH) to facilitate understanding and dissemination of MRA information and the construction of the Board of Nursing website linked to the ASEAN Secretariat containing all the necessary information such as domestic laws and processes. Deterring factors include absence of a comprehensive nursing database and research studies on best practices on nursing education and service as well as on review of reciprocity agreements; limited funds for conducting capacity building of personnel and research studies.

Table 5.7: Nursing

	Facilitating	Deterring
Regulatory environment at national level	-Support from government: PRC, DOLE, DOH to facilitate understanding & dissemination of the MRA -Website linked to ASEAN Secretariat provides all necessary information	-Lack of comprehensive nursing database, research studies on best practices & review of reciprocity agreements -Limited funds for capacity building of personnel & carrying out of research studies
Implementation process at national level	-Board of Nursing carrying out various projects to facilitate improvement in the quality of nursing practice	-Issues concerning nursing standards in education & services: declining performance in licensure examination, hiring of nurses based on contractual & job order scheme, decline in enrollment due to limited job opportunities, proliferation of nursing schools
Implementation process at regional level	-Willingness of some AMSs like Philippines to share best practices -Mechanisms in place for coordination among the AMSs in the AJCCN -Many AMSs have identified permanent representatives to AJCCN	-Slow response & lack of commitment of some AMSs to AJCCN agreements -Limited resources for capacity building & study tours -Differences in basic nursing programs & competencies -Weak regulatory process to maintain or enforce standards as agreed in the AJCCN

In terms of implementation process at the national level, one facilitating factor cited is the carrying out of various projects by the Board of Nursing to facilitate improvements in the quality of nursing practice. These projects include activities to ensure quality, integrity and credibility of the Nurse Licensure examination; revision of the Philippine Nursing Law incorporating provisions to facilitate the implementation of the MRA; revision of the nursing core competency standards; continuing professional education for nurses fully functional and operational; and the Nursing Profession Roadmap. Meanwhile, deterring factors include issues affecting nursing standards in education and services such as declining performance in licensure examination, hiring of nurses based on contractual and job order scheme, decline in enrollment due to limited job opportunities and proliferation of nursing schools.

In terms of implementation process at the regional level, facilitating factors include willingness of some AMSs like the Philippines to share best practices; mechanisms in place

for coordination among the AMSs in the ASEAN Joint Coordinating Committee on Nursing (AJCCN); and many AMSs have identified permanent representatives to the AJCCN. Deterring factors are the slow response and lack of commitment of some AMSs to AJCCN agreements, limited resources for capacity building, differences in basic nursing programs and competencies, and weak regulatory process to maintain or enforce standards as agreed in the AJCCN.

III.A.6. Agriculture[15]

The implementation of the AEC Blueprint for agriculture is primarily under the Department of Agriculture (DA) and its attached offices, and other government agencies, as follows:

- Bureau of Plant Industry (BPI), DA
- Bureau of Animal Industry (BAI), DA
- Bureau of Fisheries and Aquatic Resources (BFAR), DA
- National Meat Inspection Service (NMIS)
- Bureau of Agriculture and Fisheries Product Standards (BAFPS), DA
- Bureau of Agricultural Research (BAR), DA
- Cooperative Development Authority (CDA)

Interviews were conducted one-on-one, though on one occasion the respondents met with the interviewer as focus group. Due to the comprehensiveness of the questionnaire many items were skipped in any single interview session, with the respondent(s) deferring to officers whose function was more directly involved with the skipped item. Their interpretation and explanation of responses was also captured, and is incorporated into the discussion below. Another clarification referred to the scope of impact and cost being assessed. Most of the respondents assessed impact and cost *in terms of affected stakeholders*, not in terms of universe of stakeholders in the Philippines.

Implementation Framework

(i) Fisheries

Based on modal responses (Table 6.1), the Philippines has been pursuing all of the items in the AEC blueprint, except for two items, namely: application of quality and safety standards for small enterprises; and networks and linkages between (fisheries) cooperatives. The major initiative is HACCP. The Federation of Fishing Associations and Allied Industries of the Philippines (SFFAAI) formally adopted in 2004 the HACCP system for the local fishing industry to ensure the competitiveness of locally-produced tuna in the world market. BFAR has been recognized by the European Union (EU) as the competent Certification Authority to ensure safety of fish and fishery products exported from the Philippines to EU member countries. Meanwhile, the HACCP program in aquaculture in the Philippines constitute mainly of the National Residue Monitoring Program. Recently an information and education campaign has been conducted for fisheries technicians, planning officers, aquaculture centers, extension officers and health/quarantine officers as prospective farm inspectors.

All importation of fishery products satisfies the Permit to Import and Sanitary and Phytosanitary (SPS) requirements as provided under Section 67 of Republic Act No. 8550, the Hazard Analysis and Critical Control Points (HACCP) Standards. Fish and fishery/aquatic products must meet the consumer product quality and safety standards imposed under the Consumer Act (1992).

[15] This subsection was drafted by Dr Roehlano Briones, Dr Danilo Israel, and Ms Ivory Myka Galang (Senior Fellows and Research Analyst at PIDS, respectively).

Table 6.1: Modal responses for AEC blueprint initiatives for fisheries

Item	Modal response
HAACP Certification (implementation, validation, verification)	Yes
Quality and safety management for small enterprises	No
Quarantine and inspection procedures	Yes
Maximum residue limits for fishery products[a]	Yes
Good Aquaculture Practices/Good Manufacturing Practices	Continuing
Aquaculture chemicals	Yes
Technical cooperation	Many
Private sector cooperation:	
Food safety	Strong
Joint venture	Fair
Promotion and market access	Strong
Combating illegal fishing	Major progress
R&D cooperation	Continuing
Alliances between cooperatives	No
Linkages between cooperatives	No

[a]Question 4 was rephrased in terms of "aquaculture products" in lieu of "crops".
Source: Authors' data.

The quarantine and inspection/sampling procedures of the Philippines is harmonized with ASEAN and international standards. Upon arrival, the consignment shall be subjected to the following inspection requirements:

a. The importer shall submit the original copy of the import permit, photocopies of the pro-forma invoice, packing list and airway bill (bill of lading) to the BFAR Fisheries Quarantine Officer for low, medium and high risk species. In the case of medium and high risk species, a copy of the health certificate shall accompany each consignment/shipment. This shall also apply to hand carried shipments. Consignments not accompanied by import permit and/or health certificate shall be confiscated and destroyed.

b. The Fisheries Quarantine Officer shall check the species identify and conduct visual inspection. If the fish is clearly unhealthy, he shall require the consignee to treat the shipment in the importer's holding facility under the supervision of a fish health officer or if the unhealthy fish poses high risk of contaminating healthy stocks, the shipment shall be confiscated and destroyed. A laboratory examination of the shipment shall be conducted by the BFAR Fish Health Officer at the expense of the importer.

One exception for fisheries is the application of quality and safety standards for small enterprises. In general, small scale fisheries enterprises cater only to the domestic market and do not have to adopt HACCP and other international quality and safety management systems beyond what are required by the local authorities. Nevertheless authorities recognize that quality and safety are concerns that are important to both producers and consumers in the local market.

(ii) Crops and livestock

In the case of crops and livestock, the trade-related requirements (quarantine, good practices, MRL) have all been harmonized (Table 6.2). This may need to be qualified though with respect to quarantine: according to one officer, the same protocols are followed and ideally the same procedures; however owing to high cost, lack of equipment, and lack of staff, some

of the more involved technical sampling and testing procedures are not being implemented. In fact the government invests heavily in product sampling and testing for some out-bound export commodities to meet certification requirements in Japan, US, and other discriminating yet lucrative markets (i.e. for mango, and selected vegetables). Among ASEAN countries, SPS are similarly strict for Singapore – however owing to low import volume requirements of that country, fruit and vegetable exporters are much less active in the city-state market.

Table 6.2: Modal responses for AEC blueprint initiatives for crops and livestock

Item	Modal response
Quarantine and sampling procedures	
Crops	Yes
Livestock	Yes
Processed food	Yes
GAP, GAHP, GMP, GHP	Yes
Maximum Residue Limits (crops)	Yes
Technical cooperation	Seldom
Private sector cooperation:	
Food safety	Strong/Fair
Joint venture	None/fair
Promotion and market access	Strong/fair
R&D cooperation	Sporadic
Alliances between cooperatives	Yes, multilateral
Linkages between cooperatives	No

Note: where two responses are tied for highest frequency, both are reflected above.
Source: Authors' data.

Meanwhile cooperation in the area of technology transfer, R&D, private sector linkages, and cooperative linkages, are much more mixed. In the case of the private sector for instance, one major constraint is lack of interest among the major players to convene and engage with government and other private sector entities, preferring their own networking. In the area of technical cooperation and R&D, participation is limited to the ASEAN TWG on Agriculture R&D, which has convened annually since 2004. This TWG is concerned mostly with information exchange, though it is preparing some joint research projects for the region, such as on climate change. Most countries in the region prefer to cooperate with broader R&D networks linked to the IARCS, e.g. IRRI, AVRDC, etc. The last bilateral activity was with Thailand, but stopped short of formalization due to some bureaucratic tangles.

For cooperatives, participation is limited to NEDAC (Network for the Development of Agricultural Cooperatives), whose membership is Asia-wide, and which include other ASEAN member countries. The NEDAC is meets annually and mainly devoted to information exchange and technical cooperation among cooperatives. Networking however has not matured to the level of international business linkages among or between cooperatives.

Impact and Cost: Fisheries

With respect to fisheries, on average impacts are assessed to range from “Substantial” to “Much”; likewise costs are assessed to lie within the same range on average (Table 6.3). Respondents' explanation of impact and costs is as follows:

Table 6.3: Impacts and cost of AEC blueprint implementation for fisheries, average over actual responses

	HACCP	Quarantine	Maximum residue limits	Good Aquaculture Practices	Aquaculture chemical	Technical cooperation	Private sector linkages	Illegal fishing	R & D cooperation
Impacts	**3**	**4**	**4**	**3**	**4**	**4**	**4**	**3**	**4**
Producers	3	3	3	3	4	4	4	3	4
Processors	3	4	4	4	4	4	4	3	4
Traders	3	4	4	3	3	4	4	3	4
Competitiveness	4	4	5	3	4	4	4	3	4
Consumers	3	4	5	4	4	4	4	3	4
Costs	**4**	**3**	**3**	**3**	**3**	**2**	**3**	**3**	**3**
Producers	4	2	3	3	3	2	3	3	3
Processors	5	3	3	4	3	3	3	3	3
Traders	3	3	3	3	3	2	3	3	3
Competitiveness	4	3	3	3	3	3	3	3	3
Consumers	3	3	3	4	2	2	3	3	3

Note: scale of benefit and cost are as follows: 1 – None; 2 – Minor; 3 – Substantial; 4 – Much; 5 – Very much. Averages are rounded off to the nearest whole number
Source: Authors' data

(i) HACCP

The fish processing industry members who meet the standards benefit from the higher export prices brought about by improved product quality. At the start however, some processors did not meet the standard and thus lost money. Over time, more and more processors have been able to comply and subsequently benefit. The fish traders who were able to have their products pass through benefit with the higher export prices even more than the processors since they do not have to invest in HACCP as fish traders unlike the processors who have to put up real HACCP investment. Over time, the export competitiveness of the fisheries industry has improved since they have to meet HACCP standards or perish in the international market. Early on, fish consumers benefit from the low class and rejected fish export products that end up in the local market. Otherwise, since HACCP is not required locally, then the effect is not much. Foreign consumers definitely benefit from improved quality and safety even though they have to pay higher prices.

Costs to fish producers and processors go up because of the investment while cost to traders do not increase so much. Costs also rise with product competitiveness. Local consumers do not have to endure rising costs due to HACCP but foreign consumers have to.

(ii) Quarantine

Fish producers, processors, traders, product competitiveness and fish consumers all benefit from improved quality of fish imports. However, there are shipments that pass through the backdoor of the country as smuggled shipments and do not pass through quarantine and inspection. There is also the possibility that pertinent quarantine and inspection personnel are bribed allowing unwanted unsafe and unhealthy fishery shipment to come in. There are also reports that low quality shrimp products from China pass through the Philippines as transshipment, repackaged as Philippine products and then brought to international markets. Since the products are of low quality they are eventually rejected in foreign markets. Since they are packaged as Philippine products and not as Chinese products, they put the Philippines in a bad light as exporter of shrimp and fishery products.

The cost of quarantine and inspection as part of overall fisheries trade administration is not just borne my participants in the fisheries industry but society in general. However, some of the cost can be passed to fisher consumers in the form of higher prices of imported fish commodities and thus fish consumers may bear some of the costs in this case.

(iii) Maximum residue limits (MRLs)

MRLs for fish products have been harmonized in accordance with international standards/guidelines. With the ASEAN community blueprint developed for the possible establishment of an ASEAN Economic Community in 2015, the MRL is just one of the standards harmonized among ASEAN countries. In the case of tuna, The EU submitted a notification that they will be reducing the MRL of lead in tuna from the 0.5 ppm limit outlined by the internationally accepted Codex Alimentarius to 0.2 ppm. The reason was the negative effect of excessive lead on children's Intelligence Quotient (IQ). As much as 35.12 percent of Philippine tuna exports go to the EU. Hence, this stringent directive alarmed the Philippines. Since the EU was unable to present strong scientific basis for the proposal, the Philippines submitted a formal position paper claiming that the prevailing standards (Codex) is sufficient to address EU's concern. The canned tuna industry admits that an MRL of 0.2 ppm will force some exporting companies out of the trade business since natural conditions in

the quality of Philippine waters would prevent them from attaining a lower level of lead content.

Lower levels of MRL will be difficult to comply with. For instance, if Philippine tuna is found to have a higher level content, then it will not be exportable. This will not benefit all sectors in the fisheries industry except the local consumers who will have a lot more supply of rejected tuna at lower prices. The MRL however will improve the competitiveness of Philippine fisheries products once they pass the grade and gets exported.

Costs to participants in fisheries will also increase when they try to meet the MRL and more particularly when their products get rejected because they have not met the standard. The cost to the local consumer in terms of consuming rejected fish will go down. The cost to the foreign consumer will go up since products that pass the MRL will carry in their prices the additional costs of meeting the standard.

(iv) Aquaculture

The Philippines as a matter of policy, follows a general rules in complying with both the domestic and foreign product requirements in terms of quality and bio-safety procedures which are outlined and prescribed in guidelines under the Fisheries Administrative Order (FAO) No. 214, otherwise known as the Code of Practice for Aquaculture. The Code lays down the generic guidelines in adapting the Best Aquaculture Practices (BAPs) in the country which also serves as reference point to Total Quality Management (TQM) in aquaculture farming practices. The BAPs concept as provided for in this Code of Practice was equivocally and derived mainly from the provisions of the FAO Code of Conduct for Responsible Fisheries as interpreted and unanimously adapted under the Regional Code of Conduct for Responsible Fisheries (RCCRF in Aquaculture) by the SEAFDEC member countries in 2002.

Implementation of this code in the local industry, however, takes a hard time due to arbitrary issues and claims that the code is not equitably designed for pro-poor but for those commercial operators who are engaged in the export trade who could afford to redesign and meet the international demand of the industrialized countries. In fact formal certification is still in process, as work on ASEAN Harmonization for Good Aquaculture Practices is still pending (Bondad, 2012).

Good aquaculture practices should benefit all participants but will also increase their costs. The local and foreign consumers will benefit from higher quality and safer fish products but will also have to pay higher prices if the good aquaculture prices require higher production costs.

Government policies regulating or prohibiting the use of certain chemicals for aquaculture have helped curtail the destructive consequences. Moreover, research institutions have geared their studies towards discovering environmentally safe drugs and other alternatives to disease control. Organic aquaculture has been promoted. For instance, the use of tobacco dust instead of chemical pesticides has been tried. Tobacco dust also serves as fertilizer in fishponds.

The elimination of the use of chemicals should benefit all sectors in aquaculture except the traders of chemicals and pesticides. The cost of production will actually decrease since organic pesticides cost a lot less.

(v) Illegal fishing

The authorities have made real efforts to crack down on illegal fishing by both Filipino fishers and foreign fishers (mainly Chinese), at the national and regional levels in the country. Problems faced by the authorities include persistent cyanide fishing, corruption by local officials, and links to serious crime, which have resulted in a number of murders of those enforcing the laws. However, some regions have seen dramatic falls in illegal fishing activities as a result of tighter controls. Coral reef ecosystems are a major victim of illegal fishing through the use of obnoxious substance called sodium cyanide, explosives, and illegal fine-meshed nets with weighted scare-lines called muro-ami.

The new BFAR director pronounced that the annual budget for fisheries enforcement has been increased from P5million to P100 million. This will allow the recruitment of more enforcement personnel and the acquisition of equipment. At present, BFAR only has 4 personnel nationwide who are directly involved in enforcement.

There is not much progress in efforts to curb illegal fishing and the costs and benefits are not so apparent. Consumers gain when illegally caught fish are priced less in the market but the fish can be harmful if caught by dynamites. Illegally caught fish are not competitive internationally and not acceptable for exports. Illegal fishermen when caught are imprisoned only if they have no connections but the big time illegal fishers buy their way out of imprisonment. The financial penalties are also low and do not discourage violators.

(vi) Technical and R&D cooperation

Through the Southeast Asian fisheries Development Center-Aquaculture Department (SEAFDEC AQD) and the National Aquaculture Centers for Asia (NACA) and the various national fisheries and aquaculture research and development institutions, the Philippines have undertaken R&D with all ASEAN countries and most if not all Asian countries. R&D cooperation covers all areas from production, processing, marketing, research, extension, technology transfer and other related areas.-Benefits should be high for all fisheries subsectors while costs are low since these are borne commonly by the international organizations, countries involved, and society in general.

(vii) Business and cooperative linkages

There are four strong group of private sector national organizations representing the major commercial commodities produced from the aquaculture industry. The Bangus Council of the Philippines (BCP) which is a recent alliance of the Bangus Association of the Philippines represents the coalition of eight major stakeholders of milkfish producers in the country composed of the hatchery subsector, fry gatherers and importers, freshwater fishpen producers, mariculture subsector, brackishwater subsector, feed millers/suppliers subsector and the processing subsector.

The tilapia sector on the other hand has organized themselves into one association known as the Philippine Tilapia, Incorporated (PTI) mostly composed of small-medium and large-scale producers of tilapia including the hatchery and post-harvest processing sectors. Among the major coalition members in the association is the GIFT Foundation and the GENOMAR producers together with the GET-Excel BFAR accredited operators.

The tiger shrimp producers in the country has on its own the PHILSHRIMP allied with the SHRIMPEX and PHILFRY respectively representing the monodon growout farm producers, the shrimp exporters and the fry hatchery operators. On the seaweeds commodity

counterpart, the Seaweed Industry Association of the Philippines (SIAP) has organized themselves into a farm-producers group, the traders subsector and the processors who are also the major exporters of the Philippine Natural Grade (PNG) carageenan products. There are also members of the Philippine Chamber of Agriculture and Food, Inc. (PCAFI) representing various sub-sectors of the fisheries industry. PCAFI indicated its support to the resource conservation approach to increasing fish production, strengthening of R & D capability, and restoration of degraded coastal waters.

On the other hand, fishery cooperatives lack in government support in the past years. Unlike other sectors such as small farmers, transport, market vendors, consumers, and credit, the fishery coops were generally not provided systematic and continuing education and training, sustained financing, skills/capability building or marketing/processing assistance program. Problems of fisheries cooperatives include the proliferation of small and very small-scale weak cooperative organizations with narrow activity and membership base, lack of government funding support, and the absence of a centralized coordinating or integrating institution on capacity building and continuing education and training as well as promotion of integrated cooperative marketing and production systems. Other problems include lack of education and training, lack of capital, inadequate volume of business, lack of loyal membership support, vested interest and graft and corruption among coop leaders and weak leadership and mismanagement.

Impact and Cost: Crops and Livestock

With respect to the trade harmonization measures, the impact ranges from “Substantial” to “Much”. Meanwhile costs (where they could be evaluated) lie within the same range. For quarantine and MRL, benefits and costs tend to be borne equally across stakeholders; however, gains for competitiveness and costs for producers are rated as “Much” (Table 6.4).

Table 6.4: Impacts and cost of AEC blueprint implementation for crops and livestock, average over actual responses

	Quarantine	MRL	GAP, GAHP, GHP, GMP	Private sector linkages	R&D	Coop-eratives
Impacts	3	3	4	3	--	--
Producers	3	3	4	3	5	5
Processors	3	3	4	3	na	na
Producers	3	3	4	3	na	na
Competitiveness	3	4	4	3	na	na
Consumers	3	4	4	3	na	na
Costs	--	3	4	3	--	--
Producers	1	4	4	3	2	2
Processors	na	3	4	3	na	na
Producers	na	3	4	3	na	na
Competitiveness	3	3	4	3	na	na
Consumers	3	3	2	3	na	na

Note: scale of benefit and cost are as follows: 1 – None; 2 – Minor; 3 – Substantial; 4 – Much; 5 – Very much
Source: Authors' data

Benefits for good-practice measures are Much, but so are the costs (except for consumers). Bondad (2012) observes that three are GAP-certified, namely Basic Necessities (lettuce), Del Monte (pineapple), and TADECO (banana). These tend to be high value/large-scale

operations. Currently a few small farms are under evaluation. For GAHP there is one certified farm (in Southern Philippines) and 32 farms under evaluation. Clearly certification coverage is very small, but expected to grow over time. Smallholders can certainly be certified, but most likely under some collective arrangement, i.e. as a cooperative following identical farming or animal husbandry practices.

For the cooperation measures, private sector cooperation provides substantial benefits but commensurate cost – which may account for low levels of participation of private sector players. With respect to technology transfer and R&D, engagement with other ASEAN member countries is on a multilateral basis. There is ASEAN Technical Working Group (TWG) on Agriculture R&D. The TWG meets annually, mostly to exchange information status, trends, breakthroughs. The focus has recently been on rice, soybean, and corn, though certainly all major agricultural commodities in the region are of interest. The TWG is considering region-wide research on climate change for ASEAN under the lead of Indonesia.

Bilateral initiatives with other ASEAN countries have been sporadic. In 2008 there was a technical exchange on rice with Brunei as both countries were seeking to raise their respective self-sufficiency targets owing to a volatile international market. The Philippines also engaged Thailand with information and germplasm exchange in the 1990s, but this was mired in a bureaucratic tangle and was ultimately shelved.

Lastly, for cooperatives, Filipino cooperatives in NEDAC have benefited Very much from their participation, particularly in terms of information and building capacity through observing good governance practices in other successful organizations. Costs are minimal as these can be shared over a large cooperative membership; the CDA also funds the Network by hosting (on rotation basis) the NEDAC annual meeting (at government expense).

III.A.7. Intellectual Property Rights (IPR): Trademarks[16]

A key component under the AEC Blueprint's competitiveness-related measures is Intellectual Property Rights (IPR). IPR protection is the foundation for building innovative and competitive economic environment. At the same time, IP system is traditionally a sovereign system and thus can be a challenge for trade in goods associated with high technology, technological trade, and hence regional economic integration in general. To overcome this challenge, several regional blocs (Europe, Andean Community and MERCOSUR) have a common system for IPR examination, and/or common IPR rules. The ASEAN Intellectual Property Right Action Plan 2004-2010, and the recent 2011-2015 Action Plan provide the framework and work program for the advancement of IPR regimes in ASEAN. To this end, ASEAN has taken regional cooperative measures with several targets including developing a framework for simplification, harmonization, registration and protection of IPRs.

The MTR thus included a survey of private sector firms on IPR. In particular, the survey aimed to generate knowledge from actual users of intellectual property systems, particularly of trademarks, on their perception on the administration of patent offices, as well as their international applications.

In the Philippines, Intellectual Property Rights (IPR) is administered by the Intellectual Property Office of the Philippines (IPOPHL) by virtue of Republic Act (R.A.) no. 8293 enacted in 1998, otherwise known as the Intellectual Property Code of the Philippines. The office is composed of six bureaus: Bureau of Patents; Bureau of Trademarks; Bureau of Legal Affairs; Documentation, Information and Technology Transfer Bureau; Management Information System and EDP Bureau; and Administrative, Financial and Personnel Services Bureau. Its main office is located in Taguig City, and it has 8 satellite offices throughout the country. IPOPHIL is a separate, independent agency under the Department of Trade and Industry (DTI). Previously, the IP system in the Philippines was administered by DTI's Bureau of Trademarks, Patents and Technology Transfer.

Profile of Firms

The 2012 Survey on Intellectual Property Rights (SIPR) was undertaken by the National Statistics Office. The SIPR covered manufacturing and services establishments located in the National Capital Region (NCR), which applied for trademarks with Intellectual Property Office of the Philippines (IPOPHIL) during the period 2001-2011. The total number of respondent firms for the SIPR is 30 firms.

Table 7.1 shows the distribution of the respondent firms according to size. In particular, most of respondent firms are classified as large based on number of employees. Most of them are also well-established firms, having been in operation for more than 20 years (Table 7.2).

In terms of ownership, most are fully owned domestic firms (19), with 5 fully owned multinational firms, 2 fully owned foreign firms, and 4 foreign-domestic joint venture firms.

[16] This subsection was drafted by Dr Melanie Milo, Research Consultant at PIDS.

Table 7.1 Distribution of firms by size

Type of firm by size (No. of employees)	Number of respondents
Micro (1-4)	1
Small (5-19)	1
Medium (20-99)	6
Large (=>100)	22
Total number of respondents	30

Table 7.2 Numbers of years in operation

Number of years in operation	Number of respondents
< 1 years	**0**
1 - 5 years	1
6 - 10 years	1
11 - 20 years	4
> 20 years	24
Total number of respondents	30

Table 7.3 shows the total number of trademarks registrations by ownership of firms from 2002 to 2011. In particular, there was a significant increase in registration of trademarks beginning in 2004. Also, despite the small number of fully owned multinational firms in the sample, they accounted for a significant proportion of trademark registrations until 2008, when fully owned domestic firms began to register more trademarks especially in recent years. The years when trademark registration significantly increased coincided with the early years of IPOPHIL, which sought to modernize the administration of intellectual property in the Philippines particularly through computerization beginning in the early 2000s, and took on a more active role in promoting the IP system of the country beginning in 2005 by undertaking a developmental approach to intellectual property.

Table 7.3 Total number of trademark registrations by ownership of firms, 2002-2011

Year	Total Number of Trademark Registration	By Fully Owned Multinational	By Fully Owned Foreign Firm	By Fully Owned Domestic Firm	By Foreign-Domestic Joint Venture Firm
2002	71	40	10	21	0
2003	39	16	1	20	2
2004	157	67	5	75	10
2005	181	85	4	80	12
2006	250	124	7	115	4
2007	457	241	22	181	13
2008	230	117	8	96	9
2009	211	65	34	102	10
2010	350	75	29	235	11
2011	181	30	19	131	1

On the average length of time it took from the filing of their recent trademark application to trademark registration, or from filing of trademark application to initial notice of rejection/objection/opposition to the application, Table 7.4 shows that most respondent firms reported that the whole process took them an average of 7-9 months, with more firms (11) reporting longer periods of up to two years or more.

Table 7.4 Average length of time it took from filing to registration (or from to the *initial* notice of rejection/objection/opposition, in case of rejected/objected/opposed application) of firm's recently registered trademarks

Period	Number of Firms	Fully Owned Multinational	Fully Owned Foreign Firm	Fully Owned Domestic Firm	Foreign - Domestic Joint Venture Firm
1-3 months	3	0	0	3	0
4-6 months	4	0	0	3	1
7-9 months	**8**	**2**	**0**	**6**	**0**
10-12 months	3	0	0	3	0
13-24 months	5	0	1	2	2
2 years or longer	3	1	0	2	0

Tables 7.5 and 7.6 relate to firms' perception on the improvement of administration in recent years compared to 4-7 years ago, with respect to the following: (i) turnaround time (from filing to registration); (ii) communication with applicants during application processes; (iii) access to IPR related information (such as trademark register); and smooth enforcement against counterfeits. Most firms reported improved or substantially improved administration in these key areas. In particular, turnaround time in recent years is deemed to have substantially improved. This could account for the dramatic increase in trademark registrations in recent years. The most number of firms also deemed access to IPR related information and communication with applicants to have improved in recent years.

Table 7.5 Firms' perception on the improvement of administration (2011 compared to 2007, or 2010 compared to 2006)

	Firms' Perception on the Improvement of Administration (No. of Firms)					
	Substantially Improved	Improved	Not Improved	Worsened	Not Applicable	No response
Turnaround time (from filing to registration)	10	14	2	0	3	1
Communication with applicants during application processes	7	13	5	0	4	1
Access to IPR related information (such as trademark register)	6	18	2	0	3	1
Smooth enforcement against counterfeits	6	14	4	0	5	1

Table 7.6 Firms' perception on the improvement of administration (2011 compared to 2004, or 2010 compared to 2003)

	Firms Perception on the Improvement of Administration (Number of Firms)					
	Substantially Improved	Improved	Not Improved	Worsened	Not Applicable	No response
Turnaround time (from filing to registration)	14	10	2	0	3	1
Communication with applicants during application processes	8	16	1	0	4	1
Access to IPR related information (such as trademark register)	11	14	1	0	3	1
Smooth enforcement against counterfeits	8	14	1	0	6	1

On whether the eight firms classified as micro, small or medium size firms use special procedures for small and medium enterprises (in the case of the Philippines, a 50 percent reduction in application/registration fee), only one firm reported that it always used special procedure. Two firms reported using special procedure sometimes, while three firms reported they never did. Interestingly, two said there was no special treatment in the country, indicating that the information may not be filtering through.

More significantly, NSO reported that in the course of administering the survey questionnaire, several firms reported that they have outsourced the activity of securing trademarks, patents, and other IP-related procedures to law firms. This could indicate that the Philippines' IP system may not yet be very user-friendly despite recent improvements. This also has important implications for SMEs' use of the country's IP system.

When asked whether the firms applied for foreign trademark registration, Table 7.7 shows that around half of the firms that replied never applied for foreign trademark registration either in other ASEAN or non-ASEAN countries. Those that did were mostly fully domestic owned firms.

Table 7.7 Frequency of application for foreign trademark registration

Frequency	Foreign Trademark Registration Application (*No. of Firms*)	
	ASEAN Countries	Non-ASEAN Countries
Always (80 - 100 %)	2	2
More than Half	4	5
Less than Half	8	6
Never	13	15

Finally, the firms were asked which aspects of IPR policies should be prioritized. The results indicate that almost all firms consider assistance in smooth registration and smooth enforcement as the most important, followed by assistance in creation of trademark. This result ties in with the still fairly long time that it takes to register a trademark. In fact, according to several firms approached by NSO for the survey, they outsource the activity of securing trademarks, patents, and other IP-related procedures to law firms, which indicates that the Philippines IP system may not yet be very user-friendly despite recent improvements.

Table 7.8 Perception of importance of key aspects of IPR policies

IPR policies relating to:	Perception of IPR Policies (*Number of Firms*)				
	Most Important	Very Important	Moderately Important	Not Important	Not applicable/No response
Creation (Assistance in creation)	9	11	7	0	3
Smooth registration	14	11	3	0	2
Smooth enforcement	13	11	4	0	2
Utilization enhancement	4	12	11	0	3

III.A.8. SME Development[17]

Four SMEs and one government-member of the SME Working Group were surveyed in order to evaluate the current status of the Philippine implementation of the ASEAN Strategic Action Plan for SME Development and the ASEAN Policy Blueprint for SME Development for SME Development. The results of the survey on the status and effectiveness of the ASEAN Strategic Action Plan for SME Development and the ASEAN Policy Blueprint for SME Development for SME Development are summarized in the following subsections.

ASEAN Strategic Action Plan for SME Development

(i) Access to Financing

According to 3 of the respondents, the following were implemented: establishment of SME financial facility; feasibility study of SME credit systems for enhancing SME access to bank lending and loan guarantees in ASEAN; and innovative financing support systems. On the average, their implementation did not have or have little identifiable impacts. Only 2 said that the ASEAN SME Web Portal; virtual ASEAN agencies linking up all SME-related agencies; SME service provider; and ASEAN Credit Bureau were implemented without any concrete identifiable impacts. 4 of the respondents indicated that financing such as improved financial products, developing regional capital market for SMEs; expanding mutual SME investment; improving SME access to finance; getting SMEs listed in growing stock market and national and regional SME credit guarantee scheme were implemented with some moderate identifiable impacts. 3 indicated that SME investment like improving SME access to finance; getting SMEs listed in growing stock market; and national and regional SME credit guarantee scheme were implemented but with no or little identifiable impacts.

(ii) Facilitation

4 of the respondents said that the following were implemented but with no or little identifiable impacts: improving technology transfers and licensing within the SME sector; dissemination of information on regional and international opportunities. According to 3 of the respondents, improving the operation of the National Service Desk and Framework for the ASEAN SME Service Center at National and Regional Level were implemented but with no or little impacts. Only 2 said that the development of a multi-media self-reliant system toolkit and feasibility study for the establishment of the SME Service Center was implemented without concrete identifiable impacts.

(iii) Technology Development

4 of the respondents said that sharing of information on technology availability for SMEs and development of technology incubators were implemented with moderate impacts. Meanwhile, only 2 said that developing KPIs on SME innovation were implemented with no or little any concrete impacts.

[17] This subsection was drafted by Dr Rafaelita Aldaba, Senior Fellow at PIDS.

(iv) Promotion

4 of the respondents indicated that promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts. 3 said that the ASEAN SME Innovation Awards was implemented with no or little impacts. Only 2 indicated that identification of the Directory of Outstanding ASEAN SMEs was implemented but without concrete impacts.

(v) Human Resource Development

2 of the respondents indicated that a regional program for the promotion of internship scheme for staff exchanges and visits for skills training was implemented without concrete impacts. Only 1 indicated that a common curriculum for entrepreneurship in ASEAN was implemented but without concrete impacts. In terms of other regional SME initiatives, 3 respondents said that the establishment of the ASEAN SME Advisory Board was implemented with no or little impacts. 2 said that the establishment of the expert panel on ASEAN SME access to finance was implemented without concrete impacts. For the rest of the initiatives, only 1 said that these were implemented without concrete impacts.

ASEAN Policy Blueprint for SME Development

(i) Human Resource Development and Capacity Building.

According to 1-3 survey respondents, the implementation of entrepreneurship development program; enhancing SME-sector skills in management and organization on a self-reliant basis; fostering SME capabilities for inter-firm networking; and tracking and benchmarking SME capabilities, dynamism, and competitiveness had average effectiveness scores ranging from without to no or little concrete impacts.

(ii) Enhancing SME Marketing Capabilities

According to 2-3 survey respondents, the implementation of regional and sub-regional networks of interlinked, online clearing points, or trading houses for SME businesses as well as programs enhancing SME capabilities in and reliance on ICT and e-commerce and tracking and benchmarking SME readiness as subcontractors had average effectiveness scores that ranged from without to nor or little concrete impacts.

(iii) Access to Financing

Based on 3 respondents, the implementation of capacity building for improved SME access to financing and financial institutional capacity building for improved SME financing had average effectiveness score of no or little concrete impacts. Meanwhile, only 1 of the respondents said that widening and deepening SME access to credit was implemented without concrete impacts.

(iv) Access to Technology

According to 2-3 survey respondents, the implementation of SME technology upgrading and transfer of innovative technologies had average effectiveness scores that ranged from without to no or little concrete impacts.

(v) Creating Conducive Policy Environment

Based on 3-4 survey respondents, the implementation of simplification, streamlining and rationalization of the procedures for SME registration, and the process for SME support services had no or little concrete impacts. With respect to the implementation of fine-tune policy and regulatory frameworks for SME development, the average effectiveness scores ranged from without to no or little concrete impacts based on 1-3 respondents. In terms of promotion of public-private synergies and partnership for SME development and integration, the implementation had an average effectiveness score that ranged from without to no or little concrete impacts based on 2-3 respondents.

Overall, the assessment of the ASEAN Strategic Action Plan for SME Development showed low average effectiveness scores that ranged from without to no or little concrete impacts on the implementation of various programs covering access to financing, facilitation, technology development, promotion, human resource development and other regional SME initiatives. However, it is important to note that according to 4 respondents, financing such as improved financial products, developing regional capital market for SMEs; expanding mutual SME investment; improving SME access to finance; getting SMEs listed in growing stock market and national and regional SME credit guarantee scheme were implemented with some moderate identifiable impacts. 4 of the respondents indicated that promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts. 4 of the respondents also indicated that promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts.

In general, the assessment of the ASEAN Policy Blueprint for SME Development for SME Development also indicated low average effectiveness scores that ranged from without to no or little concrete impacts on the implementation of various programs on human resource development and capacity building, enhancing SME marketing capabilities, access to financing, access to technology, and creating conducive policy environment.

III.B. Outcomes: Industry Analyses

III.B.1. Goods Sector: Automotive Industry[18]

The rise in global production networks (GPNs) is a major factor motivating regional FTAs. FTAs are seen to help countries participate in the production chain more fully by easing access to both markets and technologies and thus creating more opportunities for both the local and multinational producers. This is deemed to be the case for the automotive sector which has among the most advanced global production networks, especially in the East Asian region. However, while the regional FTAs are seen to benefit GPNs on the whole, impacts are bound to differ across and within countries. This paper is a case study for the Philippines which aims to examine how AFTA has indeed affected the automotive industry.

The automotive sector in the Philippines is relatively small in number of players and vehicle sales especially if compared to its ASEAN neighbors such as Thailand, Malaysia and Indonesia. The sector contributed around 4 percent to gross value added in manufacturing in 2008, and 1 percent of total employment in the manufacturing sector in 2008-2009. Exports of machinery and transport equipment composed, on average,4.3 percent of total Philippine exports in 2004-2010.[19]

Despite the relatively small size, the automotive industry has received continued support from government through policies that aim to increase the size and improve the competitiveness of the industry.[20] With the sector's potential for deep forward and backward linkages, it is envisioned by government to provide a strong industrial base for the Philippines.

In addition, the automotive industry is part of the production network not only in ASEAN but also the East Asia region, as well as trade linkages with some parts of Europe and America. In this regard, aside from policies to improve competitiveness, trade facilitation initiatives and strategies are significant in policy making. Trade facilitation measures have been implemented in the Philippines not only as part of the national development plan but also as part of its commitment to ASEAN economic community building.

The automotive sector is one of the priority integration sectors of the ASEAN. Member countries of the ASEAN have therefore been implementing measures to strengthen their own competitiveness and to improve facilitation of trade. To determine the status of trade facilitation in this sector in the Philippines, this section looks in particular at the impact and issues, including a profile of industry performance and overview of government policies.

Industry profile

The Philippine automotive sector has two sub-sectors consisting of 308 industry players (excluding authorized dealers). One sub-sector is the vehicle assemblers (passenger cars, commercial vehicles[21] and motorcycles) accounting for about 17 percent of the total industry

[18] This case study was drafted by Ms Maureen Rosellon and Dr Erlinda Medalla (Research Associate and Senior Fellow at PIDS, respectively).
[19] Source of statistics: Annual Survey of Philippine Business and Industry, Labor Force Survey and Philippine Statistical Yearbook, National Statistics Office (NSO).
[20] Aldaba (2007) discussed a number of policies dating back from 1970s all focusing on improving the sector.
[21] Refer to utility vehicles; sports utility vehicles; Asian utility vehicles; Philippine utility vehicles; pick-ups; commuter vans; light, medium and heavy trucks and buses; and special purpose vehicles.

players. The other sub-sector is the parts and components manufacturers which account for more than 80 percent of the firms in the automotive sector.

Automotive Assemblers: Of the 52 manufacturers of passenger cars, commercial vehicles and motorcycles in the industry, 14 are car assemblers. Five Japanese companies dominate vehicle assembly, namely, in order of market share – Toyota, Mitsubishi, Honda, Isuzu and Nissan. Two other international companies have been increasing their market share in recent years, namely, Ford (American) and Hyundai (Korean).

Toyota remains the industry leader in the automotive sector, with about 35 percent of the market share in 2009. In the last decade, the company achieved its highest share of the market at 38 percent in 2006-07. Among vehicle assemblers, following Toyota's lead is Mitsubishi, with Honda at third position.

Automotive Parts and Components: The sector is composed of 256 firms that manufacture auto parts and components, of which: 124 are first-tier suppliers of the domestic automotive assemblers; and 132 are second- and third-tier suppliers of the first-tier manufacturers, mostly small and medium enterprises (Aldaba, 2008). The firms are engaged in metalworking, rubber, seats and trims, plastics, and electrical systems for automotives. The products they manufacture include:[22]

- suspension: tires, steel rims, aluminum wheels, leaf and coil springs
- interior: carpets and seats
- electrical system: wiring harnesses, batteries, lamps and relays
- pressed components: mufflers, radiators, seats, frames, seat adjusters, oil and air filters, pedals
- rubber and plastic components: fan belts, rubber hoses and small plastic parts
- mechanical parts: transmission, engine parts, etc.
- cast and forged components: gear blanks, brake disks, brake drums.

The auto parts and components manufacturers consist of 100 percent Filipino-owned firms; small and medium enterprises (SMEs) which are mostly Filipino firms; and firms that are affiliated with or subsidiaries of MNCs. Major auto parts and components manufacturers include: Yazaki-Torres Manufacturing Corp. (wiring harness), United Technologies Automotive Phils. (wiring harness), Temic Automotive (Phils.) Inc. (anti-brake lock system), Honda Engine Manufacturing Phils., Inc. (engines), Asian Transmission Corp. (automotive transmissions), Toyota Autoparts Phils. (automotive transmission), Fujitsu Ten Corp. of the Phils. (car stereos) and Aichi Forging Co., Inc. (forged parts) (source: Aldaba, 2007).

***Participation in the Global Production Network*:** The Philippines is involved in a regional flow of automotive parts and components and vehicles in the ASEAN, as well as East Asia. The ASEAN Free Trade Agreement (AFTA) is said to have changed the firm's business strategy, such that there is exchange of models and engine parts between markets (Raymundo, 2004).

Toyota Motor Corp. has two companies operating in the Philippines – Toyota Motor and Toyota Auto Parts. The Toyota Motor plant assembles Innova and Vios, while Toyota Auto Parts manufactures transmissions and constant velocity joints which are exported to Indonesia, Malaysia and Thailand. These two manufacturing firms are part of the many manufacturing companies of Toyota Motor Corporation (Japan) overseas. In terms of parts

[22] Aldaba (2007); Raymundo (2004).

and components manufacture in Asia, the Japanese corporation operates plants in China, Taiwan, India, Indonesia, Malaysia, Philippines, Thailand, and Singapore which handles sales support for marketing in Asia. In the ASEAN region, the Philippines is the only supplier of transmissions.

Another MNC located in the Philippines is the Ford Motor Company. Ford Motor is the Philippines' only exporter of CBU (completely built-up unit) vehicles to ASEAN countries. Within the AFTA framework, the company exports the Ford Focus, Ford Escape, Mazda Tribute, and Mazda 3 sports utility vehicles (SUVs) to Thailand and Indonesia. Ford Motor Philippines previously joined the ASEAN Industrial Cooperation (AICO) scheme[23] but they terminated their involvement in this with their use of the AFTA. Ford launched its export programmer in 2002. Under this programmer, the company produced 15,000 units,[24] of which 10,000 units were exported. The programmer also involves sourcing more parts and components from local suppliers. In Asia, Ford Motor operates with both assembly and engine plants in China and India; assembly in the Philippines, Thailand and Vietnam; and transmission plants in Japan.

Overview of Government Policies in the Automotive Industry[25]

In earlier decades, from 1916 to 1950, automobiles in the Philippines were mainly imported from the US. There was no production activity in the sector and merely distributors and dealers of imported CBU units existed. However, the government had to eventually prohibit the commercial scale importation of CBU vehicles because of depleting foreign reserves. The Import Control Law of 1950 was then amended to prioritize the allocation of foreign currency for imports; and particularly for the automotive sector, importation of CKD car components was only allowed for automotive assemblers that were given foreign currency allocation.

Subsequently, formal policies and legislations were implemented that helped shape the Philippine automotive industry (Table 1.1). The first formal programs were implemented in 1973: the Progressive Car Manufacturing Program (PCMP), Progressing Truck Manufacturing Program (PTMP), and the Progressive Motorcycle Manufacturing Program (PMMP). These programs prohibited the importation of CBU vehicles and allowed the government to address the need to rationalize the industry by limiting the number of car assemblers (to 5 firms) by way of requiring local content for domestically assembled cars.

Implementation of these programs resulted in expansion in the automotive manufacturing industry, with the government recognizing the industry's potential to stimulate growth. However, the political crisis that hit the country affected the economy in the mid-1980s. To revitalize the industry, the government replaced the PCMP program with the Car Development Program (CDP) and the PTMP with the Commercial Vehicle Development Program (CVDP) in 1987. The government had more pronouncedly aimed to increase local content of assembled vehicles, earn and save foreign exchange, generate employment, and develop a viable automotive parts manufacturing industry. The programs that followed were basically amendments that provided for inclusion of new car categories, as well entry of new

[23] The AICO scheme is an industrial cooperation program of ASEAN to promote joint manufacturing industrial activities between ASEAN-based companies. The major privilege of this scheme is that approved AICO products, output of an AICO arrangement, shall enjoy preferential tariff rates of 0-5 percent. (www.aseansec.org)
[24] This is about 40 percent of the plant's optimum capacity (36,000 units a year).
[25] This section draws from Aldaba (2007), Raymundo (2004), and Quimba and Rosellon (2010).

assemblers which allowed Malaysia's Proton to come in with a joint-venture with a Filipino firm (Autocorp Group), under the ASEAN Industrial Joint Venture (AIJV) Scheme.

Table 1.1. Government Programs and Policies on the Philippine Automotive Industry

Year	Program/ Policy	Objectives
1973	• Progressive Car Manufacturing Program (PCMP) • Progressive Truck Manufacturing Program (PTMP)	- increase local assemblers domestic content from 10 percent in 1973 to 60 percent in 1976 - promote horizontal integration in the industry by the creation of new manufacturing activities among small and medium scale enterprises through subcontracting and transfer of technology - build up exports of manufactured products in a regional (ASEAN) automotive complementation program
1987	• Car Development Program (CDP) • Commercial Vehicle Development Program (CVDP)	- increase local assemblers domestic content from 32.26 percent in 1988 to 40 percent in 1990 - develop a viable automotive parts manufacturing industry - facilitate technology transfer and development - generate employment, make available reasonably priced passenger cars, and earn and save foreign exchange for the country
1990	• People's Car Program (PCP)	- include the assembly of smaller cars, named as people's car, or passenger cars with gasoline engine displacement of not more than 1200cc - meet the minimum local content usage from 35% in 1991 to 51% in 1993
1992	• Luxury Car Program	- allow the entry of high end passenger cars defined as passenger cars with engine displacement greater than 2800 cc
1994	• ASEAN Industrial Joint Venture (AIJV) Scheme	- allow the entry of new assemblers under the ASEAN Industrial Joint Venture (AIJV) Scheme
1996	• Memorandum Order Number 346 • Car Development Program • Commercial Vehicle Development Program	- open up the closed vehicle categories to new participants and removed restrictions on the number of models and variants - terminate the foreign exchange and local content requirements under the CDP and CVDP in the year 2003
2002	• New Motor Vehicle Development Program (EO 156)	- ban the importation of all types of used motor vehicles and parts and components, except those that may be allowed under certain conditions - restructure the Most Favored Nation (MFN) tariff rates for motor vehicles and their raw materials and parts and components at such rates that will encourage the development of the Philippine motor vehicle industry. - restructure the current excise tax system for motor vehicles with the end view of creating a simple, fair and stable tax structure - continue the application of AICO scheme as maybe adopted by the Association of Southeast Asian Nations (ASEAN) - give incentives to assemblers and parts and components makers for the export of CBUs and parts and components
2003	• EO 262 • EO 244	- modify the tariff rates on motor vehicle parts and components - provide special incentives to certain CBU exports
2004	• EO 312	- modify EO 244 to expand coverage of CBU exports and provide special incentives for the export of certain CBUs

Source: Table 1A in Aldaba (2007).

Then, MO 346 was issued in 1996 that liberated the motor vehicle development programs. This memorandum order removed restrictions on the number of models and variants. In addition, with the Philippines' commitment to the Trade-related Investment Measures (TRIMs) in the WTO, the government terminated the foreign exchange and local content requirement in 2003.

In 2002, the government legislated EO 156 or the Motor Vehicle Development Program (MVDP) to provide comprehensive industrial policy and development direction to the industry. Under this executive order, the production and/or assembly of motor vehicles and other vehicle assemblies covered under the MVDP shall be in knocked down condition only. And, only brand-new Original Equipment Manufacturer (OEM) of knocked down parts and components for assembly purposes shall be eligible for importation under the program. The EO likewise expounded on requirements for new participants and declared relaxing of limitations on the number of models and variants. And, recognizing the continuing trade liberalization and intensifying competitive environment, the government enhanced EO 156 with the issuance of EO 877-A of 2010 or the Comprehensive Motor Vehicle Development Program. This Program aims to address the need to strengthen the used vehicle importation prohibition under EO 156; to take advantage of tariff reduction schemes in ASEAN; to promote maximum scale integration of the production of motor vehicles, parts and components; and enhance privileges and benefits for the industry, among others.

Moreover, with the country's trade building up, the motor vehicle development programs that started under EO 156 incorporated provisions related to tariff rates. The government initially imposed very high tariffs combined with import restrictions[26] in order to promote parts and components manufacturers and to protect local assemblers. But since the Philippines' trade commitments in WTO and AFTA-CEPT, tariff rates have gone down.

For instance, MFN tariff rate for motor vehicles was reduced from 50 percent in 1990 to 30 percent at present, while the AFTA-CEPT rate has been reduced to 0 percent. At some point in the past, the government had to postpone or reschedule reduction in tariffs for reasons such as clamor from the affected industry or changes in industrial policies. Such as in the case when MFN rate for CKD parts for motor vehicles had a big drop from 30 percent to 3 percent in 1996-1997. This meant that imported parts became cheaper than locally-procured parts, thereby alarming domestic parts manufacturers especially the SMEs. The government then increased the tariff rate to 7 percent in 1998 and 10 percent in 2000-2003, but later on had to be reduced to 3 percent in 2004 (the AFTA-CEPT rate then was also 3 percent).

As for automotive parts and components, MFN rates range from 0-30 percent. While most product lines under this category have rates less than 20, specific products such as ignition wiring sets, seat belts, gear boxes, radiators have 30 percent MFN tariff rate.

At home, taxes imposed on motor vehicles increased from 10 percent to 12 percent in 2006. Excise taxes[27] are levied on imported and domestically assembles vehicles. In 2003, another law to rationalize the excise tax scheme was enacted that imposed an ad valorem tax on automobiles based on the manufacturer's/importer's selling price, net of excise and value-added taxes.

[26] There are currently no existing import quotas on CBU and CKD vehicles. There is, however, prohibition on the importation of used cars, except if for returning residents or diplomats. Importation of used trucks, buses and special purpose vehicles is also allowed but is subject to approval by the Bureau of Import Services.
[27] Internal tax imposed on the manufacture, sale or consumption of a commodity within the country.

Trade Performance

Exports of machinery and transport equipment, which automotive is under, composed an average of 4.3 percent of total Philippine exports from 2004 to 2010 (Figure 1). In the same period, machinery and transport exports had an annual average increase of 9 percent, which included a negative growth of 7 percent in 2006 and 2009.

Figure 1.1. Exports in Automotive and Total Manufacturing, 2004-2010

Source: National Statistics Office
Note: p - preliminary

Among commodity groups in the automotive industry, motor vehicle parts exports dominated the exports of automotive products. These exports had an average share of 95 percent of total automotive exports from 2006 to 2010, and an annual average increase of about 22 percent, except in 2009 (Table 1.2). Though there was decline by 25 percent in 2009, exports picked up in 2010.

Presented as well in Table 1.2 are automotive imports. The data indicate that the Philippines has been exporting more automotive parts than it has been importing. As had been written in previous studies, the Philippines has relatively low production as well as exportation of vehicles. In recent years the country has been increasing importation of vehicles.

Data on production and importation of vehicles indicate importation by domestic firms increased from 4 percent to 51 percent of total sales in the recent decade (Table 1.3). Implementation of tariff schemes in the ASEAN, such as the Common Effective Preferential Treatment (CEPT) under the ASEAN Free Trade Agreements (AFTA) is said to have facilitated importation. Meanwhile, domestically assembled vehicles (CKD) dropped since after 1997. Production picked up towards 2003 with 92 percent of total sales, but again dropped to 49 percent towards 2009.

Table 1.2. Automotive Imports and Exports by Commodity (US$ million FOB)

		2006	2007	2008	2009	2010
Motor vehicle parts	Exports	2,439	2,981	3,502	2,605	3,319
	%	*93.9*	*95.6*	*95.6*	*94.7*	*94.5*
	Imports	527	441	462	429	578
	%	*32.1*	*23.1*	*21.5*	*20.2*	*19.5*
Motor vehicles	Exports	92	64	96	96	128
	%	*3.5*	*2.1*	*2.6*	*3.5*	*3.6*
	Imports	666	1,011	1,256	1,270	2,000
	%	*40.5*	*53.0*	*58.6*	*60.0*	*67.6*
Motorcycles and parts	Exports	30	29	33	26	33
	%	*1.2*	*0.9*	*0.9*	*0.9*	*0.9*
	Imports	336	411	387	378	319
	%	*20.5*	*21.6*	*18.1*	*17.9*	*10.8*
Trailers/Trucks/etc. and parts	Exports	7	6	6	5	6
	%	*0.3*	*0.2*	*0.2*	*0.2*	*0.2*
	Imports	98	19	23	25	37
	%	*5.9*	*1.0*	*1.1*	*1.2*	*1.2*
Bicycles/Carriages and parts	Exports	29	38	26	18	26
	%	*1.1*	*1.2*	*0.7*	*0.7*	*0.7*
	Imports	16	25	16	16	26
	%	*1.0*	*1.3*	*0.7*	*0.7*	*0.9*
Total	Exports	2,596	3,118	3,664	2,750	3,511
	Imports	1,642	1,906	2,144	2,117	2,960

Source: National Statistics Office; Department of Trade and Industry; Authors' calculations.

Note: '%' pertain to share to total automotive exports or imports

Table 1.3. Production and importation of vehicles in the Philippines

Year	Sales	Production/ CKD Sales	New CBU Imports	CBU Imports as % of total Sales	CKD Sales as% of total Sales
1991	47,949	47,008	941	2	98
1992	60,360	58,899	1,461	2	98
1993	83,811	82,202	1,609	2	98
1994	103,471	99,346	4,125	4	96
1995	128,162	127,016	1,146	1	99
1996	162,095	137,365	24,730	15	85
1997	144,435	120,488	23,947	17	83
1998	80,231	67,903	12,328	15	85
1999	74,414	64,635	9,779	13	87
2000	74,000	70,851	3,149	4	96
2001	76,670	65,202	11,468	15	85
2002	85,587	74,734	10,853	13	87
2003	92,336	85,388	6,948	8	92
2004	88,068	58,822	29,246	33	67
2005	97,063	58,566	38,497	40	60
2006	99,541	56,050	43,491	44	56
2007	117,903	61,128	56,775	48	52
2008	124,449	61,513	62,936	51	49
2009	132,444	64,498	67,946	51	49

Source: Table 1 in Aldaba 2008, update by the same author.

The Philippines exports passenger cars – mostly those with spark ignition combustion engine exceeding 1500 cc but not more than 3000 cc – sent to Thailand and Indonesia, under the ASEAN Industrial Cooperation Scheme or AICO. Aldaba (2008) reported that the sector experienced an increase in exports from 12,367 units in 2003 to 14,417 units in 2005, then a drop to 6,730 units in 2006. There is one firm, Ford Motors, which exports volume CBU. Major automotive players have expressed that, even if with incentives, it is difficult for them to export locally-assembled CBUs. Apparently, the exports market has become difficult to enter because of AFTA as well as JPEPA. This suggests that at this point, improving competitiveness needs further attention than provision of incentives. [28]

As for destination of exports and source of imports, Japan was the Philippines' top export destination (23 percent of automotive exports) and top source of inputs (42 percent of automotive imports) in 2009. Other top five export destinations were from ASEAN, namely, Thailand, Indonesia and Malaysia. From ASEAN, Thailand and Indonesia aside from Singapore were top suppliers. The data suggest that the Philippines has strong intra-industry trade with Japan, Thailand and Indonesia.

Trade Facilitation Issues and Challenges in the Automotive Industry

Improvements in customs computerization, one-stop shop export documentation centers, and Philippine National Single Window[29] have been implemented in the aim of facilitating trade. However, some glitches in the implementation of these initiatives confront the stakeholders, such as exporters, importers, other private sector (e.g. customs brokers, forwarders), and government.

This section discusses trade facilitation problems and issues that are faced by the automotive industry. We look at FTA utilization of firms, customs procedures, rules of origin and other issues.

(i) An Overview of FTA Utilization in the Automotive Sector

Elimination of tariffs and other barriers in free trade agreements (FTAs) such as the AFTA are expected to facilitate the flow of goods, services and investment within the partner countries as trade occurs with more ease, less risk and less costs.

A recent survey by Wignaraja et al. (2010) covering 155 Philippine firms from the transport, electronics and food sectors found that 20 percent of these firms used the AFTA. Findings further revealed high AFTA utilization rates in the transport sector, in the domestic firms, and in the large firms.

In the said survey, 39 percent of firms that use AFTA were from the transport sector, followed by food (18.6 percent) and electronics (11.8 percent). The high margin of preference, i.e. the margin between the MFN tariffs and the FTA preferential tariffs (5-43 percent) in transport products, and successful implementation of the AICO scheme are said to a factor leading to high AFTA utilization in the transport sector. In the ASEAN Industrial Cooperation (AICO) scheme, firms can receive special preferential rates of 0-5 percent. In the survey, the transport

[28] Cahiles-Magkilat, Bernie, 2011, "PH assemblers find exporting CBUs hard," Manila Bulletin Newspaper Online, January 1, 2011. <http://www.mb.com.ph/articles/295936/ph-assemblers-find-exporting-CBUs-hard>, accessed January 5, 2011.

[29] A comprehensive discussion of trade facilitation initiatives in the Philippines can be found in Chapter 3 of Aldaba et al. (2010).

firms claimed that AFTA's preferential rates allowed them to import cheaper raw materials and components, hence reducing production costs.

Previous studies that looked at AFTA utilization of ASEAN firms found that the Philippines has relatively low usage (from 15 to 20 percent). For most firms, reasons for low utilization or non-usage of AFTA, aside from low margin of preference, are related to costs and delays associated with customs and origin administration.

(ii) Rules of Origin (ROOs)

ROOs accompany FTAs, such that compliance to such rules is required to avail of preferential tariff rates within the free trade area. In a study by Wignaraja et al. (2010), an area of concern is the arbitrary classification of origins, which comes from differences in tariff classification among countries caused by slow adoption of harmonized tariff classification. If this would happen, then origin and duty determination will be in question.

With the many FTAs joined by the Philippines (on its own and as part of ASEAN), one other concern is that multiple FTAs mean multiple ROO regimes. The forms used to apply for the certificate of origin (CO) differ depending on the FTA. For instance, Form D is used for the ASEAN Trade in Goods Agreement (ATIGA), Form JP for the Philippines-Japan Economic Partnership Agreement, Form AK for ASEAN-Korea FTA, Form E for ASEAN-China FTA, and Form AANZ for the ASEAN-Australia-New Zealand FTA. In a previous interview of automotive firms, the firms admit that they already know what forms to use because of frequent shipments, but they wish for harmonization which they reckon would be easy as the forms ask for almost the same information.

Not only in CO forms but harmonization in the ROOs, for instance in ASEAN+1 FTAs, would be ideal. To reach this end, Medalla and Rosellon (2011) suggest that the move should be toward more liberal ROOs and best practices in origin application and certification procedures. The automotive sector is one of the priority integration sectors in the ASEAN and is seen as having potential for reform and liberalization of ROOs. Two automotive MNCs suggest a regional value content (RVC) rule for all, with a lower RVC content, would be most preferred. Although firms are able to comply with the 40 percent RVC, a lower percentage is still favorable.

(iii) Customs Procedures

Up till now, costs and delays related to administrative procedures are one of the issues faced most especially by exporting firms. And though trade facilitation measures such as electronic filing of selected documents has been introduced, system breakdowns that are not immediately addressed have been one of many challenges to customs administration.

For some, especially small firms, the amount of paperwork can be burdensome. In Rosellon and Medalla (2011), the solution of a small automotive firm was to hire a broker to take of customs transactions. This small firm is a long time exporter such that it is able to complete documents required to obtain necessary documents or certificates for its shipments. But going through the procedures, for instance obtaining CO, would mean going through the bureaucracy which is associated with 'facilitation fees'. On the other hand, large firms that are big and long-time exporters are able to handle customs documentation requirements better as they have designated staff that take care such tasks (as in the case of automotive MNCs interviewed). But unlike the small firm, these large enterprises do not feel the significant impact on expenses that come from additional payments for facilitation fees.

In the same interviews of automotive firms by Rosellon and Medalla (2011), it was found that firms were aware of the implementation of an electronic filing system to facilitate the filing of documents. For instance, some documents may be sent electronically, and after evaluation a Certificate of Origin (CO) may be issued. However, the interviewed firms shared that they would experience breakdown in the system quite often. And that troubleshooting could not be made immediately as the customs personnel concerned were not very knowledgeable of the system.

Such lapses in the system or in customs procedures in general cause delay in the release of important documents that are required in shipping goods in time; hence, affecting export/import operations and ultimately hampering trade.

(iv) Logistics

A smooth movement of goods– transshipped or in-transit – is one goal of trade facilitation. In the Philippines, the administrators of economic zones facilitate the receiving or transport of goods especially when these goods enter the zone. But outside the zone, there have been cases of hi-jacking of delivery trucks in highways as goods are transported between the seaport/airport and the economic zone or where the manufacturing plant is located. Though these cases do not happen on a daily basis, security of goods in transit should be of great concern to the local government and the police force in cooperation with the economic zone administrator or the appropriate government authority.

Delivery of goods has also been affected by the congestion in the ports. In Rosellon and Medalla (2011), interviewed automotive firms shared that the port system and infrastructure, and the rate of improvement in the ports are not on level with the demands of the industry.

(v) Local automotive suppliers

As much as automotive firms, e.g. vehicle assemblers or first-tier firms, wish to procure materials locally, the Philippines is lacking in local suppliers – not only in terms of numbers but also in terms of quality that is acceptable to customers.

Past government policies for the automotive sector were not able to encourage establishment of a good number of vehicle assemblers and suppliers (parts manufacturers) in the country, in comparison with neighbors such as Thailand which currently has a large supply base. Car development programmers in the Philippines that had started and evolved since the 1970s seemed to have only encouraged the entry of MNCs to establish assembling facilities in the country and have missed out on developing a fine base of domestic suppliers.

As there are not enough suppliers in the domestic market, firms have no choice but to import from other countries. In Rosellon and Medalla (2011), the vehicle assembler interviewed shared that procuring from a supplier abroad makes the cost of inputs more expensive than if they were sourced from a local supplier, because locally there would be no freight costs and other costs related to importing. The firm added that this is part of the reason why producing cars is more expensive in the Philippines than in Thailand, with a margin of about US$1,500-2,000 per unit.

Conclusion

As mentioned previously, the automotive sector is one of the priority integration sectors of the ASEAN agreements. For the Philippines, the challenge is to emulate the success of Thailand which has managed to find a niche in global automotive production and develop

industrial clusters and auxiliary local supply system. The advantage of Thailand (and Indonesia) is the larger domestic market. Nonetheless, the Philippines would have its own advantages (e. g. a highly trainable supply of labor) and appropriate measures and reforms are continually being sought. And most certainly, part of government's policy measures and initiatives in this sector is toward trade facilitation. The Philippine government has initiated measures in this regard (not only for automotive but in other industries as well). Though implementation may not always be perfect, what has become important is the immediate action on problems that occur. For instance, lack of capability and responsibility in troubleshooting ICT systems and in port system operations need further attention. This not only rests on the shoulder of the government, but feedback and input from the private sector would be an important factor.

Moreover, the industry likewise has to work on strengthening its competitiveness especially because imports will be relatively cheaper with the reduction/elimination of intra-regional tariffs. The Philippines is characterized by weak local supply base in the automotive sector, but if local suppliers will be strengthened, then this could help support the industry.

On a wider scope, reforms encompassing the ASEAN region such as in terms of harmonizing and liberalizing ROOs are of importance to facilitate trade. Undertaking other reforms such one toward adoption of best practices in origin application and certification procedures will be very important in facilitating trade in the region.

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III.B.1. Services Sector: Logistics[30]

The ASEAN Economic Community Blueprint targets an ASEAN single market in 2015. This is an ambitious reform agenda that seeks to ensure the free flow of services, investment, and skilled labor, along with the free flow of goods and the freer flow of capital in the ASEAN region. For logistics services, the target is to be achieved by 2013 (Dee 2008)[31]. What this means is that by 2015, there should be substantially no restriction to ASEAN services suppliers in providing services and in establishing companies across national borders within the region, subject to domestic regulations (Dee 2012)[32].

The target date for the establishment of the ASEAN single market is literally just "around the corner" and at this juncture, it will be instructive to examine the current status of the logistics industry in the Philippines and find out how the opening of the economy to global markets through trade and service liberalization and now, ASEAN economic integration whose culmination is the ASEAN Economic Community in 2015 impacts on the structure, conduct and performance of the logistics industry.

The concern about how trade liberalization and economic integration affect the logistics industry is well-founded. Logistics services are an important infrastructure of efficient global and regional trade of goods and services. It is now well known that efficient logistics matter to efforts directed at tapping into global markets for increased trade and growth. Arvis and others (2010) observed that based on the 2007 Logistics Performance Index computed at the World Bank, better logistics performance is strongly associated with trade expansion, export diversification, ability to attract foreign direct investments, and economic growth. As pointed out by Nesathurai (2003)[33] the benefits of logistic excellence in terms of maintaining the cost competitiveness of business, attracting foreign direct investors to establish importing, production, and distribution facilities, thereby increasing employment opportunities, and minimizing import and export prices, and inflation are enormous. An economy characterized by logistics excellence has a tremendous edge in an increasingly competitive world. Liberalizing logistics services markets, for example, can encourage local service providers to increase quality and price competitively. This is particularly important in sectors such as trucking and customs brokerage that are considered essential to efficient service delivery by international forwarders (Arvis, et al 2010).

This subsection presents a case study of the impact of services liberalization and economic integration on logistics services industry performance, e.g., output, employment, growth of firms, and productivity. The underlying objectives are first, to understand how the logistics services industry has responded to a liberalized logistics market, and second, to identify the barriers to services liberalization and economic integration. We limit the discussion to the maritime transport and freight forwarders due to time and data limitations. The choice of these components of the logistics services industry is not arbitrary because maritime transport and freight forwarding are critical components of logistics services especially in archipelagic economies such as the Philippines and Indonesia. The envisaged ASEAN Economic Community in the near future (2015) will witness an ever growing role of maritime transport and freight forwarding businesses in regional and global trade, and strong competition but also possibly collaboration among logistics service providers as they realize the advantages of

[30] This subsection was drafted by Dr Gilberto Llanto and Dr Adoracion Navarro (Senior Fellows at PIDS).
[31] Dee, Philippa (2008) "Services Liberalization toward the ASEAN Economic Community"
[32] Dee, Philippa (2012) "ASEAN Economic Community Mid-Term Review—Services", January.
[33] Nesathurai, A. (2003) "Key players in the logistics chain," unpublished paper. www://mima.gov.my (date accessed March 10, 2012).

economies of scale and scope, and of tapping into common resources and organizational and technical skills to provide competitively-priced services. This underscores the importance of examining how they have responded to trade liberalization and economic integration. The removal of barriers to competition, elimination of discrimination against foreign service providers, and fostering various modes of service delivery, e.g., commercial presence in other ASEAN countries other than one's own country will work for more efficient regional logistics services.

In this respect, we examine how services trade liberalization and the on-going process toward economic integration have influenced or affected the performance of maritime transport and freight forwarders in a rapidly changing and dynamic region. We do this in two ways, first through an analysis of secondary data on the maritime transport supplemented by expert opinion, and secondly, through an analysis of interviews made with four freight forwarders on the facilitating factors and barriers to services liberalization in the ASEAN region. The responses of our limited cases of freight forwarders are also presented in terms of size of company and years of operation.

The importance of the logistics industry to different players in the supply chain consists in the efficient and timely movement of goods and the provision of competitive services between or among players. Production, distribution, and marketing costs will be high or low depending on how logistics firms are able to efficiently do their part in the supply chain. **Inefficiencies in the transport and logistics service industry contribute to the high costs of doing business.** At the onset, our case study should have included an analysis of the impact of logistics efficiency/costs on small and medium enterprises, which are users of logistics services. ASEAN economies are characterized by the existence of hundreds of thousands of small and medium enterprises, which contribute to significant value addition and employment in the economy. However, time and data limitations prevented the inclusion of SMEs in this case study. A future study should address this lack because of the important role played by SMEs in ASEAN economies.

The subsection is organized as follows: the next sub-subsection provides a brief overview of the logistics industry in the Philippines based on available secondary data. It also looks at the structure of the industry and describes what has happened in the period from the 1990s to 2010. Sub-subsection 2 discusses the impact of liberalization and economic integration measures, and domestic regulations and policies on the industry. It is noted that most of the AEC measures have not yet been ratified. The domestic policies and impacts assessed are those that are relevant or pertinent to the logistics industry, on the maritime transport and freight forwarding in terms of changes in output, employment, growth of firms, and productivity.[34] Sub-subsection 3 provides a summary of the results of the survey on facilitating factors and barriers to service liberalization in freight forwarding. It basically covers the opinions of freight forwarders to facilitating factors and barriers service liberalization in the ASEAN region. The last sub-subsection gives the concluding remarks and policy implication.

[34] Because of time and resource constraints, the authors only reviewed the export and import aspects of logistics. A more comprehensive study should review the pricing and costs of logistics services or logistics costs faced by small and medium enterprises. A future study can look into these items that the current paper could not cover.

The Logistics Industry in the Philippines

Following Porter (1998)'s value chain analysis, logistics in the value chain framework encompass specific activities under "inbound logistics" and "outbound logistics". Inbound logistics cover activities like receiving, storing and inventory control of inputs. Outbound logistics include the activities needed to deliver the final product to the customers such as warehousing, transportation and distribution management. The discussion here focuses only on outbound logistics due to time and data constraints although both "inbound logistics" and 4"outbound logistics" will be profoundly affected by liberalization of trade in services. In the single market envisaged under the AEC logistics providers will be able to exploit efficiencies provided by any of the four modes of service delivery because of a liberalized and market-oriented trading environment. Cross border provision of logistics services following the removal of barriers to cross-border trade can be done through different modes of supply depending on their business models, relationship with logistics users, synergy with other logistics providers in other ASEAN countries.

There is currently no comprehensive profiling of the Philippine logistics industry in academic papers or in the statistical system. As far as we know, the treatment of logistics in Philippine developmental research is usually focused on a sub-category of the whole logistics industry, such as inter-island transportation, or in relation to an economic sector, such as logistics in the agriculture sector. Market research reports are available but these are usually for private viewing only and designed to meet the demand of commercial firms for market and industry assessment. Nevertheless, Philippine statistics on different industries that can be considered part of the logistics supply chain are available and, thus, this case study grouped them together to create a comprehensive profile. The shares of each of these industries in terms of number of firms and sales in the overall logistics industry are depicted in Figures 2.1 and 2.2, respectively.

Figure 2.1 shows that as of 2008, freight forwarding services have the most number of establishments, having 39 percent or 517 establishments of the total 1,336 establishments. The second biggest category in terms of number of establishments is the operation of freight transport by road, having 36 percent or 479 of the total.

Figure 2.1. Shares of sub-industries in terms of number of establishments in the logistics industry, 2008

Source: 2008 *Annual Survey of Philippine Business and Industry*, National Statistics Office

In terms of sales or revenues, Figure 2.2 shows that sea and coastal water transport establishments and freight forwarding services establishments are the biggest players in the logistics market. In 2008, sea and coastal water transport earned 50 percent or 26.58 billion pesos out of the total 53.16 billion pesos logistics industry revenues, whereas freight forwarding services establishments earned 33 percent or 17.35 billion pesos out of the total earnings in the industry (values are in real terms using 2000 prices).

Figure 2.2. Shares of sub-industries in terms of sales in the logistics industry, 2008

Source: 2008 *Annual Survey of Philippine Business and Industry*, National Statistics Office

The fact that these two industries, maritime transport[35] and freight forwarding services, have the biggest market share in the overall logistics industry makes the focus of this case study on these two industries more relevant.

(i) Maritime transport

Maritime transport significantly links the Philippines to international trade. The Maritime Industry Authority (MARINA), the industry regulator, classifies the domestic maritime transport routes as follows: (i) primary routes that connect major ports of the country and handle domestic volume of national significance; (ii) secondary routes that are linked to ports of lesser throughputs than major ports and handle domestic volume of regional significance (region in this case refers to administrative region in the Philippines); (iii) tertiary routes that serve as feeder routes and handle cargoes destined for primary and secondary ports; and (iv) developmental routes or "missionary routes" that do not yet have existing shipping operators but have potential to support economic sectors.

Most of the maritime transport routes were highly monopolized before the 1990s. Given this structure, the development of many domestic shipping routes, especially the "missionary routes" or developmental routes, was slow and rates were highly regulated by the Maritime Industry Authority (MARINA) to prevent market power abuse. The objectives of past regulation were, for route entry, to bring capacity and demand into balance and to protect the investment of operators by preventing ruinous competition, and for shipping rates, to protect the public from indiscriminate charging by shipping companies (Austria 2003).

[35] Strictly speaking, maritime transport in the Philippines include inland water transport or navigation in rivers and streams, but this case study looks only at the "sea and coastal water transport" category given that the former has only 0.2 percent market share, as shown by the 2008 *Annual Survey of Philippine Business and Industry*.

Consistent with the theme of liberalizing and deregulating industries that were considered monopolized or cartelized during the Marcos regime, the Aquino (Cory) administration started issuing rules aimed to liberalize and deregulate the industry. The succeeding administrations continued this effort, with the Ramos administration passing the most number of rules that significantly changed the market structure in the industry. These rules are discussed in Section 2 below.

(ii) Freight forwarding

Freight forwarders[36] are specialized firms in the logistics chain, which are classified into "ocean freight forwarders" and "air forwarders." The services that they offer have evolved over time. In the beginning, freight forwarders provide clearing and forwarding services as an agent of the shipper. At the intermediate level, they make available the following services: cargo consolidation, road haulage, and customs clearance. At the final stage, they can also provide door-to-door services as multimodal transport operators. Freight forwarders offer all or a limited range of services depending on their size, number of personnel, and number of branches. Giving advice on booking space in shipping companies and airlines is a task common to them. Many freight forwarders handle both exports and imports, and may also act as customs brokers. The specific services are as follows:

- Advising on the best routes and relative shipping costs
- Booking the necessary space with shipping or airline company
- Arranging with the exporter for packing and marking of the goods to be exported
- Consolidating shipment from different exporters
- Handling customs clearance abroad
- Arranging marine insurance for the shipment
- Preparing export documentation
- Translating foreign language correspondence
- Scrutinizing and advising on ability to comply with letter of credit.

Viewed in this light, the services offered by freight forwarders in trade facilitation are crucial to the tradable sector. It is noted that there are also freight forwarders operating only domestically, providing services only within the economy. **However, the advent of an ASEAN Economic Community, which will give due course to commercial presence of foreign logistics providers will force domestic freight forwarders to exert efforts to become more efficient and competitive.** Some of those domestic freight forwarders may decide to expand their operations to include not only the domestic economy but the larger ASEAN economic community. They may enter into joint venture agreements with foreign freight forwarders, make investments in foreign freight forwarder companies, or accept equity investments from foreign investors, etc. The inefficient domestic freight forwarder companies may simply fold up in the face of stiff competition from more efficient domestic and foreign companies in a liberalized service environment.

[36] This description of freight forwarders by Nesathurai (2003) applies to Philippine freight forwarders.

Impact of Liberalization and Economic Integration Measures

(i) The liberalization and economic integration measures in maritime transport

The AEC Blueprint target for services trade liberalization is to substantially remove by 2015 the restrictions on ASEAN services suppliers in providing services and in establishing companies across national borders within the region, subject to domestic regulations. This target is to be achieved earlier for the logistics services, that is, by 2013. The specific AEC measures to achieve this are not yet ratified. The ASEAN Framework Agreement on Multimodal Transport (AFAMT) was signed on November 17, 2005 in Vientiane, Laos to facilitate regional trade through the development of an efficient multi-modal transport system. However, only three countries, namely Cambodia, the Philippines and Thailand have ratified the agreement. On the other hand, the ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST) was signed in Manila, Philippines on December 10, 2009. It seeks to facilitate inter-state transport of goods in support of the ASEAN Free Trade Area, to simplify and harmonize transport, trade and customs regulation, and to establish an effective, efficient, and integrated regional transport system. This framework agreement is still currently under discussion and has yet to be ratified by the ASEAN member countries.

Despite the slow progress in the ratification of agreements, and in crafting and implementing the necessary rules, regulations and performance standards affecting transport and logistics, the Philippines already has a history of continuing liberalization and deregulation in transport logistics, including maritime transport. Moreover, in general, the Philippines is relatively open and attuned to the changes in the region towards a freer competition. In particular, Republic Act 9295 or the Domestic Shipping Development Act of 2004 provides the policy framework for the domestic shipping industry. It provides incentives to domestic shipping operators such as exemption from value-added tax on importation and local purchase of passenger and/or cargo vessels and equipment relating to safety and security of passengers and crew. For investments in overseas shipping, Republic Act 7471 (An act to promote the development of Philippine overseas shipping) provides exemption from import duties and taxes imposed on importation of ocean going vessels. More recently, the government issued Executive Order 170 (series of 2003) to lay down the policy for roll-on roll-off (RORO) shipping. Executive Order 170 eliminated the payment of cargo handling charges and wharfage dues by users of RORO vessels.

In response to calls for liberalization and deregulation, the Maritime Industry Authority (MARINA) and the executive branch of government issued several rules aimed to (i) liberalize route entry or exit and (ii) deregulate shipping rates. It was hoped that the liberalization and deregulation rules would foster a favorable climate for increased investments. Table 2.1 below details these rules.

Meanwhile, the issue on lifting cabotage still remains. The cabotage principle refers to reserving the right to navigate coastal waters between two ports within a national territory only to vessels registered in that country. This is perceived by players in the logistics supply chain, especially exporters and shippers as a barrier to freer trade because they could not avail of cheaper shipping rates, which they believe international vessels may be able to provide. The cabotage principle is contained under sections 810, 902, 903, and 1009 of the Tariff and Customs Code of the Philippines. Republic Act 9295 likewise confines domestic coastwise shipping to domestic shipping operators and restricts the domestic operation of foreign shipping companies. The MARINA Domestic shippers oppose liberalizing the cabotage rule

because the expectation of lower shipping rates may not be realized if the vessels were to operate within the same playing field as domestic vessels and be confronted with the same obstacles to competitiveness. They perceive that the issue of lowering shipping rates is an issue of removing the barriers to domestic competitiveness and not simply an issue of opening domestic shipping markets to foreign competition.

Table 2.1 Domestic Shipping Liberalization and Deregulation Rules

Route Entry/Exit Liberalization	Shipping Rates Deregulation
MARINA Memorandum Circular (MC) No. 71 (22 October 1992) • Entry of new/ additional operators in established routes/links allowed if - cost-effective, competitive or superior service is provided - improved quality of service and/ or innovative/ technologically advanced shipping service is introduced • No limit on vessel replacement capacities • Flexibility provided for cargo liner operation to alter frequencies, ports of call and swap/substitute vessels **MARINA MC No. 80** (08 November 1993) • liberalized further the control of entry into and exit out of the industry by prescribing that - any route shall have a minimum of two operators in order to provide competition - all routes served by only one operator shall be open for entry by additional operator(s) - to encourage entry into developmental routes, an operator who pioneers in the provision of service in such route shall be authorized to charge market-accepted rates for five years, after which the continued authorization of such rates shall be evaluated by MARINA **Executive Order (EO) No. 185** (28 June 1994) • reiterated the MC 80 policy of opening up all routes and encouraging entry to developmental routes • in addition to monopolized routes, cartelized routes are included in the category of routes that shall be open for entry by additional operators **MARINA MC No. 106** (06 April 1995) • reiterated the policy of minimum two operators in any route and made easier the entry in routes served for at least five years • newly-acquired vessels granted flexibility of entry into any route, subject to certain conditions • entry into developmental routes encouraged by way of rates incentives • liberalized vessel rerouting, amendment of frequencies/schedules, vessel swapping/ substitution	**MARINA MC No. 46** (19 May 1989) • abolition of ad valorem rates / adoption of 3/10% valuation surcharge to cover insurance premiums • reclassification/upgrading of basic commodities class • deregulation of second class passage rates **MARINA MC No. 57** (25 October 1990) • deregulation of reefer, transit and livestock rates • abolition of 3/10% valuation surcharge • adoption of fork tariff system, initially set at +/-5% **MARINA MC No. 67** (06 May 1992) • institution of automatic fuel adjustment mechanism • widening of fork tariff range to +10% / -15% **EO No. 213** (28 November 1994) • further deregulation of passage rates for all passenger-carrying vessels • exemption of vessels catering to tourism from the requirement of allocating 50% of passenger capacity for third class accommodation • deregulation of cargo shipping or freight **MARINA MC No. 117** (2 October 1996) • deregulation of all commodities class except for non-containerized basic commodities exempting Department of Tourism-accredited vessels from allocating 50% of their passenger capacities to 3rd class accommodations deregulation of passage rates for DOT-accredited vessels serving tourist destinations **EO No. 170 (22 January 2003)** • reduced transport cost roll-on-roll-off (RORO) vessel transport through - elimination of cargo handling charges - elimination of wharfage fees - shift from commodity classification to lane meter in determining freight charges • defines a policy for RORO-road terminal integration system **Republic Act 9295, "Domestic Shipping Development Act" (May 2004)** • The law categorically stated what previous executive issuances instructed, that domestic ship operators are authorized to establish their own domestic shipping rates provided that effective competition is fostered and public interest is served.

The debate about whether or not to lift the cabotage rule has brought to the surface various issues such as alleged cut throat competition, the survival of domestic shipping firms that would be unable to muster enough financial muscle to stay in business, and the specter of mass unemployment arising from closure or weakening of domestic shipping and allied business activities. What seems to be ignored is that lifting the cabotage rule will create incentives for domestic shipping companies to become more competitive, which will bring down the cost of doing business in the country, generate more business activities and lead to more employment. Lifting that rule will also create downward pressure on shipping rates, benefiting businesses and improving the level of general welfare. It is noted that the domestic shipping industry has been dominated by a few, large firms, some of which are politically well-connected. The concentration of the industry in the hands of a few players with weak incentives to modernize and become competitive has been one of the factors responsible for the failure of the domestic shipping industry to modernize and meet the standards and quality required of 21st century ocean-going vessels. Philippine experience shows how hard it is to introduce policy reforms in an industry that is dominated by a few firms, which exhibit oligarchic behavior, and where there are institutional weaknesses, e.g., weak or captured regulator. In a recent paper, Rosellon and Yap (2010) pointed out that structural supply-side constraints and institutional weaknesses are behind the weak private sector response to the opportunities provided by greater openness and deepening regional economic integration. They explained that some of these factors are extraneous to the private sector but some emanate from the behavior of the private sector.

We submit that this behavior has to do with the unwillingness of domestic firms that have been used to the protection provided by certain government policies to face up to competitive pressures emanating from a liberalized and deregulated business environment. It seems that the business environment in the country is characterized by a lack of a "culture of competition" (Rosellon and Yap 2010) such that the presence of monopolies and cartels is "accepted as a part of doing business" (*ibid.*) in the country. **However, the political commitment of the Philippine government to liberalize trade in services as ASEAN countries move in tandem toward greater liberalization as a preparation for the AEC community in 2015 is an important step toward the development of a competitive domestic shipping industry.** The movement toward a more outward-looking economy, more specifically toward a liberalized and deregulated environment where growth and sustainability of firms derive from competitiveness and not from government protection or political connection will reduce the rent-generating capacity of domestic monopolies and oligopolies. The immediate result will be a reduction in cost of doing business and greater competition among firms to provide the most efficient service.

Despite fears that foreign shipping vessels will dominate the local shipping market, this may not necessarily happen because foreign shipping firms will have to contend with limitations of market size, lack of familiarity with domestic markets, and a host of other physical and institutional limitations, and thus, may not necessarily be engaged in all of the regular coast-wise trade, at least initially. Meanwhile this buys time for domestic shipping companies to make more investments and become more competitive. On the other hand, the liberalization of shipping routes will make the market contestable, which puts pressure on domestic shipping firms to become more efficient and to offer more competitively-priced services.

There was an attempt to go around the cabotage rule under Section 6 of RA 9295. Section 6 states:

"Section 6. Foreign Vessels Engaged in Trade and Commerce in Philippine Territorial Waters. – No foreign vessels shall be allowed to transport passengers or cargo between ports or places within the Philippine territorial waters, except upon the grant of Special Permit by the MARINA when no domestic vessel is available or suitable to provide the needed shipping service and public interest warrants the same."

The fundamental objective of the law is to modernize the domestic shipping fleet but it also grants an exception to cabotage in cases where there is a public need for efficient shipping service between Philippine ports and no domestic vessel is available or suitable to meet that need.

Strong lobby groups have raised resistance to the implementation of this provision of the law. In particular, local shipping associations found MARINA's discretion on issuing special permits to foreign vessels questionable. In 2010, the Philippine Liners Shipping Association and the Philippine Petroleum Sea Transport Association argued that MARINA should not have given special permits to foreign flag carriers because there was a surplus of Philippine-flag vessels in the country.[37]

Two issues are faced by policy makers at this juncture. One is how to educate and convince domestic oppositors that the liberalization of domestic shipping markets will be more beneficial to the country in terms of improving business and investment climate in the country, introducing greater efficiencies (and more profitable opportunities) to the domestic maritime transport industry, and raising the level of welfare in the economy. It is noted that the liberalization of trade in services, including maritime transport services is being done in the face of past experience with trade liberalization. While the overall benefits of trade liberalization far exceed the costs, time and again domestic oppositors to freer trade and deregulated markets raise arguments blaming trade liberalization and globalization for the closure of domestic firms and the hollowing out of the manufacturing sector and the consequent shedding of jobs, and in the case of the agriculture sector, pointing to the failure to improve the lot of small farmers and fishers despite government promises that trade liberalization will lead to the modernization of the sector, an improvement of agricultural productivity, and ultimately to increased incomes for those small players.

Second, while an exception to the cabotage principle was allowed in 2004 through a law on domestic shipping development, Republic Act 9295, the conditions attendant to that exception effectively dampen the intent to liberalize domestic shipping routes. In this particular case, the element of discretion gives bureaucrats the power to promote and support the liberalization of trade in maritime transport services, and also to frustrate the policy of creating a freer and more liberal trading environment as envisaged in the AEC of the future in response to political pressures, whether from lobbyists or vote-seeking politicians. This is a tougher hurdle because the exceptional policy is enunciated through legislation and future amendments to make the law more disposed toward liberalization and freer markets have to go through the proverbial legislative mill. Given that it may be difficult to amend the law the challenge is to transform MARINA into an institution that is pre-disposed to promote a liberalized and deregulated maritime transport market.

(ii) State of liberalization in the freight forwarding business

With respect to freight forwarding, the issue is not high regulation or monopoly but barriers to achieving an effective competition. There seems to be no need to liberalize entry to and

[37] The News Today. "Improve port conditions, ship groups urge" July 27, 2010. Iloilo City.

exit from the freight forwarding business because of the absence of regulatory barriers and the lack of natural monopoly elements in this type of business. Nevertheless, it seems that the ease of entry and exit has not resulted in a proliferation of freight forwarding companies. This may be due to the fact that setting up a freight forwarding business requires (i) substantial resources, (ii) specialized skills, which may not be easily obtained except through professional training, and previous exposure to and familiarity with the different components of the business, e.g., dealing with requirements of ports and customs, and (iii) a network of contacts with different users of logistics services. For example, handling cargo in thousands or even millions of twenty-foot equivalent units (TEUs) from the point of origin to the point of destination and ensuring that they reach the intended party is not an easy task. Behind the seemingly simple task of moving goods from source to destination is a myriad of interrelated tasks, some simple, others not-so-simple, that require efficient coordination, good information, and efficient management. Freight forwarders intending to engage in international forwarding need a good grasp of global export and import markets and a wide array of contacts and access to necessary information to facilitate transshipment of goods. Nesathurai (2003) sees logistics as dealing with geography, time and value. It is not just a matter of moving goods safely to their point of destination but also doing it in a timely fashion that brings value addition to the transported commodities. The process of moving commodities across boundaries from point of origin to point of destination is a complex task and has a number of stages involving many different types of people: purchasing managers, transportation managers, customs brokers, shippers and receivers.

(iii) Impacts of the measures: Maritime transport

Llanto et al (2005) describe that one of the immediate impacts of liberalization and deregulation on maritime transport is that the quality of passenger service in the primary and secondary routes in the early 2000s dramatically improved. The improvements were marked in the introduction of new amenities and facilities on board vessels, easier passenger accommodation and ticketing, and the enjoyment of fast craft ferries.

More recently, however, maritime transport performance indicators show that the number of firms decreased between 1999 and 2008 (Table 2.2). Total employment also decreased but productivity increased from Php1.09 million sales per employee to Php2.16 sales per employee. It may be the case that the number of firms decreased but at the same time labor productivity improved because the competitive pressure brought about by liberalization and deregulation drove away the inefficient firms.

Table 2.2. Selected indicators in the sea and coastal water transport industry (value in thousand pesos)

	1999	**2006**	**2008**
Number of Establishments	799	97	105
Total Employment	20,967	11,751	12,286
Sales	22,893,879	26,087,495	26,578,677
Sales/Employee	1,091.90	2,220.02	2,163.33
Cost	13,866,792	20,173,333	19,481,965
Sales/Cost	1.65	1.29	1.36
Gross Additions to Fixed Assets (GAFA)	875,026	765,182	3,328,571
GAFA/Establishment	1,095.15	7,888.47	31,700.68

Note: Details may not add up to totals due to rounding; peso values are in real terms using 2000 prices.
n.a. – not available

Sources: 2000 and 2006 *Census of Philippine Business and Industry.*
2008 *Annual Survey of Philippine Business and Industry.*

Profitability also decreased, given that sales-cost ratio in 1999 was 1.65 whereas it was 1.36 in 2008. This happened despite the increase in average fixed investments per firm, from Php1.10 million in 1999 to Php31.70 million in 2008 (in real terms, 2000 prices).

It is difficult to attribute all of these changes as effects of the implementation of liberalization and deregulation measures. The profitability has declined despite the increase in fixed investment per firm and an increase in labor productivity. It is noted that an increase in labor productivity indicates increased efficiency in maritime transport. The recent decline in profitability probably captures the negative impacts of the oil price hikes in 2007-2008 and the global financial crisis in 2008. The domestic maritime transport industry is dependent on fossil fuel and has no alternative source of energy at the moment. Access to the capital markets to finance new investments and expansion of market share has also been constrained by the volatility in the financial markets brought about by the global financial crisis. Those firms in the domestic maritime transport industry that have learned how to deal with the ill effects of oil price hikes and volatility in the loan markets can take advantage of the increased fixed investments (capital investments) and improvements in labor productivity to grow their business amidst a more liberalized industry.

These exogenous shocks also impact on the restructuring of the market in response to a freer services liberalization environment and deregulation. What is notable at this point is that the maritime transport industry seems to be exerting great effort in making the necessary adjustment to stay competitive in a changing market.

Trends on the frequency of ship calls at Philippine ports and the volume of cargo handled at these ports suggest an overall positive impact on trade, but at the same time hints at slow growth in the domestic cargo. Figure 2.3 below shows that the number of ship calls by domestically registered vessels steadily increased from 1995 to 2010. The number of ship calls by foreign vessels, however, remained almost constant, probably because the Philippines is not a major destination of foreign vessels in the same way that Port Klang in Malaysia and the Port of Singapore are major transshipment hub for ASEAN. These two ASEAN ports also provide direct services to areas outside the ASEAN.

Figure 2.3. Ship calls (at berth), 1995-2010

Source: 2006-2010 *Philippine Statistical Yearbook.*

Figure 2.4 below shows that total cargo throughput handled at Philippine ports generally increased from 1995 to 2010, with foreign cargo showing an uptrend in 2009-2010. However,

domestic cargo throughput increased only slightly during the period; the 2010 volume was only 2.5 percent higher relative to the 1995 volume. Given the growing population and demand for domestically traded goods, this data should be interpreted with caution and should not be readily interpreted as an indication of slow growth in the domestic trade volume. More research should be done to uncover the reasons for this, but one possible explanation is that the burgeoning inter-island trade via roll-on-roll-off (RORO) ferries may have resulted in some cargoes escaping measurement by the port authorities, especially those no longer unloaded and handled by port stevedoring services but merely allowed to pass through via the trucks, buses or jeepneys carrying them. The measurement difficulty may have arisen from the fact that the shipping charges for these RORO cargoes primarily depend on the space (i.e., lane meters) they occupy in vessels rather than their weight.

Figure 2.4. Cargo shipping volume, 1995-2010

Source: 2006-2010 *Philippine Statistical Yearbook.*

Of the foreign cargo throughput handled at Philippine ports, imports exceeded exports in all the years 1995-2010 (see Figure 2.5). Both components show an uptrend in 2009-2010, with exports showing a higher growth. It seems that despite the weakening in the economies of the country's traditional trading partners, e.g. U.S., Japan, the economy has been able to exploit on the other hand the growing intra-ASEAN trade and trade with China.

Figure 2.5. Exports and imports shipping volume, 1995-2010 (In million metric tons)

Source: 2006-2010 *Philippine Statistical Yearbook.*

Modernization policies were also implemented together with liberalization policies and thus the impact on safety and standards should also be examined. The 2004 Domestic Shipping Development Act or RA 9295 mandated a re-fleeting program but the MARINA had a difficult time implementing this. MARINA attempted to phase out wooden hulled vessels but this move was met by resistance by the industry and the regulator realized that the phase out could only be implemented if domestic shipping firms find it easy to replace their wooden hulled vessels. Firms could not immediately shift to vessels with fiberglass or steel hulls, which are considered more safe and seaworthy, simply because domestic shipyards are not making them, and the cost of foreign steel hulled vessels could be prohibitive for the smaller domestic shipping firms. Thus, the modernization of the domestic fleet did not progress as planned, as partly indicated by the ageing merchant fleet from 11.6 years in 1995 to 15.2 years in 2010.

As a sort of compromise, in the 2009 revised implementing rules and regulations of RA 9295 or the 2004 Domestic Shipping Development Act, MARINA did not ban per se the wooden hulled ships and instead, made it a policy that the retirement of wooden hulled vessels is to take place by instituting a maximum allowable age of 20 years. Then in 2011, MARINA issued Circular No. 2011-01 that sets standards on ship construction and aims to control the quality of wooden hulled ships and boats. This gives time to domestic shipping firms to make the necessary investments and adjust to a higher standard of safety imposed by the regulator.

(iv) Impacts of the measures: Freight forwarding

Philippine freight forwarders have a lengthy experience in the business. Over time, they have developed the expertise and sophistication in carrying out the multifarious tasks behind the logistics flow. As of 1999, there are 593 freight forwarding establishments with total employment of 16,104 (see Table 2.3). Over time, the inefficient firms exited from the industry for several reasons, e.g., inability to cope with the competition, impact of the 2008 global financial crisis, uncertainty brought about by volatile oil prices and other exogenous shocks. They are also affected by exogenous shocks and the uncertainty in trading markets brought about by a rather volatile environment in the late 2000s.

Table 2.3. Selected indicators in the freight forwarding industry (value in thousand pesos)

	1999	**2008**
Number of Establishments	593	517
Total Employment	16,104	17,563
Sales	14,021,117	17,350,305
Sales/Employee	870.66	987.89
Cost	10,686,888	12,118,088
Sales/Cost	1.31	1.43
Gross Additions to Fixed Assets (GAFA)	456,662	344,382
GAFA/Establishment	770.09	666.12

Note: Details may not add up to totals due to rounding; peso values are in real terms using 2000 prices.
n.a. – not available
Sources: 2000 *Census of Philippine Business and Industry.*
2008 *Annual Survey of Philippine Business and Industry.*

As of 2008, there are 517 freight forwarders with total employment of 17,563. Sales volume has increased from Php14.02 million to Php17.35 million in real terms (2000 prices). Productivity has also increased from Php870,660 sales per employee in 1999 to Php987,890

sales per employee in 2008. Profitability also slightly increased: sales-cost ratio increased from 1.31 in 1999 to 1.43 in 2008. Average investments per establishment, however, slightly decreased--gross additions to fixed assets per establishment in 1999 were Php770,090 whereas in 2008, the figure is Php666,120. Although services liberalization and facilitation may be one of the reasons for the productivity and profitability improvements observed in the freight forwarding industry, this case study acknowledges that there are factors affecting their conduct and performance. With limited information and data on freight forwarding, we make the same conclusions as we did for maritime transport. It is difficult at this time to make a one-to-one correspondence between services trade liberalization and performance of freight forwarders in view of other determining factors. However, it cannot be denied that freight forwarders, which are well-informed about what is happening in domestic and foreign markets, respond to on-going changes in a dynamic market, including services trade liberalization. Making the necessary adjustments in industry structure, striving to improve performance and productivity, and developing appropriate strategies in a market that is becoming freer and more open are some of the impacts currently observed among freight forwarders.

Private sector perspective. The MTR survey of services firms included four freight forwarders, which are all fully domestic owned. Three are classified as medium sized firms, with number of employees ranging from 25-85. The fourth firm is classified as large, with 250 employees. All are fairly well established firms, the youngest firm having been in operations for 15 years and the large firm for 46 years. Two firms provide service delivery to other AMS directly from the Philippines but can also operate through an agent. The other two provide service only through a subsidiary, sister company or agent. Their responses are as follows[38]:

- Without setting up a local operation in other ASEAN countries, the freight forwarders identified the following barriers in delivering services as very important: (i) finding and engaging the appropriate local agent; (ii) need to meet specific financial criteria; and (iii) need to address discriminatory taxes on services delivered across the border.
- When queried about setting up a local operation in other ASEAN countries, all freight forwarders identified the following as very important barriers: (a) need to obtain license from a professional body, (b) need to meet minimum capital requirements, (c) need to adhere to administrative and legal regulations in setting up a partnership, and (d) need to meet restrictive local labor employment regulations.
- The next set of barriers is those encountered in selling services once operation has been established in other ASEAN countries. The very important ones for all four firms were: (i) need to account for differences in commercial practices; (ii) need to adhere to restrictive legal systems and contracting procedures; (iii) need to manage lack of transparency, inconsistencies and/or confusion in regulations; and (iv) need to manage delays in payment, e.g., banking practices and regulations. Not surprisingly, all four firms also identified ensuring effective regulation to deal with market failures (efficiency) as a very important goal for reforming trade in services, which should be addressed through market access negotiations (through the conclusion of trade agreements).
- On which areas of focus under regional cooperation should be considered as very important, the respondent firms were unanimous in identifying the following: (i) review of national and regional policies, their impacts, and appropriate strategies for reform; and (ii) improvement of the efficiency and competitiveness of ASEAN services. Finally, (i) the

[38] Please see the full report, which presents a more extensive discussion as well as tables of the survey results.

development of appropriate standards for professional services; and (ii) the organization of forums to bring together officials, regulators and service providers to discuss ways of addressing political economy constraints that impede trade in services were identified as very important activities to be undertaken under regional cooperation.

Concluding Remarks and Policy Implication

Liberalization and deregulation efforts in the Philippine maritime transport industry are already heading into the direction of greater participation in ASEAN economic integration even though the AEC measures have not yet been formally sanctioned by all members. The concrete steps taken by the Philippines in this regard are remarkable given that the Philippine maritime transport industry has a history of monopoly in maritime routes, strong lobby by pressure groups, and highly regulated shipping rates behind it. Since the late 1980s the government has seen the need to give domestic consumers better and safe maritime transport services by introducing competition, that is, by liberalizing shipping route entry and exit and letting the market determine passenger and freight rates. However, it is noted that the modernization of the domestic shipping fleet has been slow in coming, while the implementation of safety standards on ageing ships has to be strengthened and properly executed. A key factor in failure to accelerate the development of a more competitive and modern domestic shipping industry is the continuing dominance of a few large firms. This is largely explained by the lack of effective competition from other potential providers. The cabotage principle has only served as a protectionist instrument to support an industry that exhibits oligarchic behavior.

With very limited data, the paper tried to trace the impacts of the liberalization and deregulation in the maritime transport industry and corresponding impact on other players in the logistics supply chain. It is worth noting that the industry is responding to the changes in a positive way notwithstanding its characterization as a concentrated industry dominated by a few domestic firms. Firms have become more innovative in offering quality service to consumers such as better passenger accommodation, improved ticketing system and availability of fast craft ferries. The productivity of firms also increased despite the difficulties posed by external shocks such as the oil price shocks of 2007-2008 and the financial crisis in the late 2000s. A more definitive understanding of impacts is desired but this (future) undertaking has to first procure much better and more detailed data, e.g., a survey of shipping firms, and other players in the logistics supply chain.

The same thing can be said of the freight forwarding industry: even though the AEC measures are not yet fully sanctioned, freight forwarders also seem to respond positively to a more competitive environment in the sense that productivity and profitability increased despite the exogenous shocks. Freight forwarders seem to be engaged in a growth sector with lots of value addition to users of the service, and also generation of employment.

Moreover, freight forwarders, at least those surveyed for this study, equip themselves with information on how to adjust to a more liberalized and integrated environment. They are aware of the changes to be brought about by the AEC measures when they are fully implemented and they also have a good idea of the challenges they will face when they decide to locate in an ASEAN member-country, e.g., differences in commercial practices, legal systems and contracting procedures. They also understand the adjustments that they have to make to enable them to deliver service without the need to locate in an ASEAN member-country, e.g., the need to engage a local agent, address discriminatory taxes, and meet specific local financial criteria.

In terms of policy implication, these positive industry developments point to a stronger support to services trade liberalization and economic integration in the ASEAN and a sense of urgency to approve and implement AEC measures, but of course with the usual caveat that local laws and rules should be considered. Moreover, assuming that the productivity and efficiency improvements in the maritime transport and freight forwarding services are passed on to consumers in the form of better services, the ability to choose suppliers and reasonable and market-based pricing, the positive response by the industry players would have positive consumer welfare effects. There is as yet no reason to suppose otherwise since most of the time, consumers welcome the innovations, greater freedom of choice and market-based pricing that competition brings.

The way forward involves continuing the market-oriented reforms especially liberalization of trade in services, while ensuring a healthy balancing of domestic industry interests with the requirements of economic regional integration. In the case of the issue of lifting cabotage, for example, no definitive study has yet established that the enforcement of cabotage in the Philippines is constraining the competitiveness of the domestic maritime transport industry and raises the cost of doing business in the country. A study of this kind may soften the stance of industry players who oppose the lifting of the cabotage rule. The enforcement of safety and high standards of performance are key issues for the modernization and competitiveness of the maritime transport industry. Policymakers have to solve a seeming puzzle presented by this industry. Despite the array of investment incentives provided by the 2004 Domestic Shipping Development Act, and the availability of long-term financing with government financial institutions, the domestic shipping industry has not kept pace with the demands of modernization. Part of the solution may lie in greater political commitment to the AEC requirement of more liberalization and deregulation in this sector, which will compel domestic action.

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IV. Managing the ASEAN Economic Integration Process in the Philippines: Liberalization, Facilitation, Cooperation and the Ways Forward

This section discusses the trends and evolution of policies in the Philippines in most of the key sectors/core elements covered by the AEC Blueprint measures. In particular, the role or contribution (if any) of the AEC measures, which the country has implemented, is incorporated in the policy discussions. The ways forward for the Philippines in these areas are then discussed, again highlighting the role of the AEC measures. Results from previous ERIA studies on how to further improve the AEC Scorecard (Aldaba et al. 2010; Medalla et al. 2011) are also incorporated into the analysis.

The economic sectors/core elements discussed are arranged as follows: Under Pillar 1 (Single Market and Production Base), trade liberalization and facilitation, services, investment liberalization and facilitation, labor mobility, and agriculture are discussed in the first five subsections. The sixth subsection discusses key three elements under Pillar 2 (Competitive Economic Region) – competition policy, IPR, and transport cooperation. The last subsection discusses SME development in the Philippines, which is under Pillar 3 (Equitable Economic Development) of the AEC Blueprint.

IV.A. Trade Liberalization and Facilitation[39]

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 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.

IV.A.1. 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 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

[39] This section was drafted by Dr Erlinda Medalla, Senior Fellow at PIDS.

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)

Box 1. Philippine Trade Policy Timeline		
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) o provided for the implementation of a tariff band of 0% - 5% by 2004 o 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 ASEAN+ 1 FTAs Philippine-Japan Economic Partnership Agreement (December 2008)	Regional and preferential trade agreements

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.[40] 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 A.1).

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. Philippine engagement in preferential agreement has mainly been as Member

[40] A fourth phase of the Tariff Reform Program (TRP IV) was scheduled in 2001 which would have implemented a tariff band of 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.

State 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.

Table A.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

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 A.2).

Table A.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 A.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 A.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.

IV.A.2. Brief Review of Trade Facilitation Measures[41]

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 when 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.[42]

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

[41] Lifted from the AEC Scorecard Report.

[42] 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).

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 implementing security, trade efficiency and fight against corruption (see Box 2 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:

Box 2	
Process	**e2m Customs Target Improvement**
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: BOC.

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 (OSEDC), 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 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.[43] 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.

IV.A.3. 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 A.4).

[43] 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).

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

	1990	1995	2000	2005	2006	2007	2008	2009
Export/GDP (at current prices) Ratio								
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
Philippines	18.5	23.5	50.2	41.7	40.3	35.0	29.3	23.9
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
Import/GDP (at current prices) Ratio								
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
Philippines	29.4	38.4	44.5	50.1	46.0	40.3	36.1	28.6
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

Sources 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 A.5).

Table A.5. Philippine direction of trade

PHILIPPINE EXPORTS BY DESTINATION (Share to Total Exports)									
Country	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2009**	**2010**
TOTAL	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
PHILIPPINE IMPORTS BY COUNTRY SOURCE(Share to Total Imports)									
Country	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2005**	**2009**	**2010**
TOTAL	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
PHILIPPINE IMPORTS BY COUNTRY SOURCE(Share to Total Imports)									
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

Sources of basic data: 1990-2007: ADB Key Indicators 2009; 2009-2010: Statistical Yearbook of Asia. (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 A.6). These trends highlight the importance of AEC measures promoting trade liberalization and facilitation.

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

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

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

IV.A.4. Ways Forward for the Philippines and ASEAN

Summary of Findings from the MTR Survey

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 (Medalla et al. 2011) 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 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).

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 A.7 below).

Table A.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

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; and 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 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 turnaround 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, which can be summarized as follows[44]:

- 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). These responses are consistent with the findings from the questionnaires for government officials which indicated the same areas of limitations.
- 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. **It appears that automation reforms have larger significance to SMEs**. Past customs modernization efforts would have covered mainly the larger firms with more advanced electronic systems. With rapid 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.

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 following 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.

[44] See Chapter III.A.1, page 12-24 for the full discussion of the survey results.

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 block 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, e-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 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) 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 A.8).

Table A.8. 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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IV.B. Services Liberalization[45]

IV.B.1. Current State of the Philippine Services Sector

Since the 1980s, the services sector has been a major source of economic growth for the Philippines. On the average, the growth rate of the sector increased continuously particularly in the last two decades as its growth increased from 4% in the 1990s to 5.3% in the 2000s. Broad growth took place in the sector as most of its sub-sectors registered consistently rising growth rates during the same periods. In contrast, both agriculture and industry, experienced sluggish growth in the 1980s and 1990s with modest gains registered in the current period (see Table B.1).

Table B.1. Average growth rates by sector (in %, at constant 1985 prices)

Year	1981-90	1991-00	2001-10
Gross Domestic Product	1.8	3.1	4.7
1. Agriculture, Fishery, Forestry	1.2	1.9	3.0
• Agriculture industry	2.0	2.2	3.0
• Forestry	-9.1	-16.7	-1.0
2. Industry Sector	1.1	2.5	4.6
• Mining & Quarrying	2.5	-0.1	13.5
• Manufacturing	1.1	2.6	4.1
3. Service Sector	**2.5**	**4.0**	**5.3**
• Construction	-0.8	5.0	2.8
• Electricity, Gas and Water	4.7	5.8	4.1
• Transport, Communication & Storage	3.5	5.2	6.6
• Trade	3.0	3.9	5.7
• Finance	3.1	4.7	7.3
• Dwellings & Real Estate	2.4	1.9	4.0
• Private Services	5.3	3.7	7.2
• Government Services	3.7	2.9	2.7

Source of basic data: National Accounts of the Philippines, National Statistical Coordination Board

Within the services sector, the transportation, communication, and storage as well as finance and private services sub-sectors have registered continuously rising growth rates since the 1980s. In the current period, finance posted the highest average growth rate of 7.3 percent together with private services with an average growth rate of 7.2 percent. Transportation, communication, and storage followed with an average growth of 6.6 percent.

It is evident from Table B.2 that the Philippine economy's output structure is characterized by a relatively large services sector. The share of the services sector's share continued to increase from an average of 49 percent in the 1980s, 52 percent in the 1990s and to 56 percent in the most recent period. Trade constituted the bulk of the services sector followed by transportation, communication, and storage and private services sub-sectors. Since the 1980s, all services sub-sectors except for government services experienced rising shares. Meanwhile, both agriculture and manufacturing experienced a declining trend in their value added shares.

In terms of employment contribution, the services sector has become the largest provider of employment in the most recent period (Table B.3). In the 2000s, it registered a share of about

[45] This section was drafted by Dr Rafaelita Aldaba, Senior Fellow at PIDS.

56% of the total. The share of the labor force employed in the sector consistently increased from around 49 percent in the 1980s to 52 percent in the 1990s to 56 percent in the 2000s. The share of industry to total employment has been almost stagnant and declining from 27% in the 1980s, 26 percent in the 1990s and 25 percent in the most recent period under review.

Table B.2. Value added structure by major economic sector

Year	**1981-90**	**1991-00**	**2001-10**
Agriculture, Fishery, Forestry	23.4	21.3	18.9
Agriculture industry	22.1	20.5	18.8
Forestry	1.8	0.3	0.1
Industry Sector	27.4	26.3	25.4
Mining & Quarrying	1.7	1.3	1.7
Manufacturing	25.7	25.0	23.7
Service Sector	**49.2**	**52.4**	**55.7**
Construction	7.1	5.6	4.5
Electricity, Gas and Water	2.6	3.1	3.2
Transportation, Communication & Storage	5.4	6.2	8.4
Trade	14.0	15.4	16.8
Finance	3.5	4.5	5.4
Private Services	6.5	7.0	8.3
Government Services	4.7	5.2	4.4

Source of basic data: National Accounts of the Philippines, National Statistical Coordination Board

Table B.3. Structure of employment (in percent)

Major Sector	1980-89	1990-99	2000-10
• Agriculture, Fishery and Forestry	48.9	42.0	36.2
Industry	10.5	10.6	9.5
• Mining and Quarrying	0.6	0.4	0.4
• Manufacturing	9.8	10.2	9.1
Services	**40.6**	**47.3**	**54.3**
• Electricity, Gas and Water	0.4	0.4	0.4
• Construction	3.6	5.1	5.2
• Wholesale and Retail Trade	12.9	14.8	18.7
• Transportation, Storage & Communication	4.5	6.1	7.5
• Financing, Insurance, Real Estate & Business Services	1.8	2.3	3.5
• Community, Social & Personal Services	17.4	18.6	19.0
Industry not Elsewhere Classified	0.02	0.05	0.00

Sources: Yearbook of Labor Statistics (1980-2000) and Current Labor Statistics (2001-2002), Bureau of Labor and Employment Statistics, Department of Labor and Employment and Employed Persons by Major Industry Group, National Statistics Office Labor Force Survey (2003-2010).

Based on the Philippine balance of payments accounts, services average exports growth increased substantially from 5% during the years 2000-2005 to 25% during the 2006-2010 period. Net services trade balance shifted from continuous deficits during the first half of the 2000s to surpluses during the last five years. As Table B.4 shows, a change in the structure of services exports is evident as exports of travel, transportation, and communication services declined in importance towards increases in the average shares of computer and information and other business services. Business process outsourcing, an important source of services export receipts, is under other business services.

Table B.4. Trade in services (in million US dollars)

Indicator/Year	2000	2005	2006	2007	2008	2009	2010	2000-2005	2006-2010
Services	-1870	-1340	137	2249	1438	2114	1946	-1873	1577
EXPORTS	3377	4525	6444	9766	10194	11014	13243	5%*	25%*
IMPORTS	5247	5865	6307	7517	8756	8900	11297	2%*	14%*
Transportation	-1588	-2163	-2301	-2521	-2887	-2508	-3578		
Exports	464	962	1151	1323	1368	1153	1351	22%	13%
Imports	2052	3125	3452	3844	4255	3661	4929		
Travel	514	986	2269	3270	2175	-368	-606		
Exports	2156	2265	3501	4933	4388	2330	2783	53%	38%
Imports	1642	1279	1232	1663	2213	2698	3389		
Communication	121	407	477	418	257	231	151		
Exports	182	522	575	517	404	354	305	11%	5%
Imports	61	115	98	99	147	123	154		
Construction	-27	59	54	92	57	58	100		
Exports	97	66	69	113	90	78	121	2%	1%
Imports	124	7	15	21	33	20	21		
Insurance	-143	-186	-209	-229	-241	-176	-234		
Exports	12	17	21	22	18	59	77	0	0
Imports	155	203	230	251	259	235	311		
Financial	47	-40	-24	-123	-23	-55	-36		
Exports	80	53	101	87	59	70	38	1%	1%
Imports	33	93	125	210	82	125	74		
Computer & Information	-23	27	28	243	320	1657	2042		
Exports	76	89	95	305	400	1748	2151	1%	8%
Imports	99	62	67	62	80	91	109		
Royalties & License Fees	-190	-259	-343	-380	-382	-419	-441		
Exports	7	6	6	5		2	4	0	0
Imports	197	265	349	385	382	421	445		
Other Business Services	-495	-114	263	1605	2376	3923	4797		
Exports	285	525	898	2439	3446	5186	6372	9%	34%
Imports	780	639	635	834	1070	1263	1575		
Personal, Cultural & Recreational Services	-14	11	19		-5	-8	-18		
Exports	18	20	27	22	21	34	41	0	0
Imports	32	9	8	22	26	42	59		
Government Services	-72	-68	-96	-126	-209	-221	-231		
Exports						0	0	0	0
Imports	72	68	96	126	209	221	231		

Source: PIDS and Bangko Sentral ng Pilipinas (Balance of Payments Accounts).
Note: numbers with * represent % change, otherwise these refer to average shares.

Overseas workers' remittances are another major source of services export receipts. After China, India, and Mexico, the Philippines is the fourth largest remitting country in the world. From 2006 to 2008, the deployment of overseas workers breached the 1.2 million mark (see Figure B.1). A recent estimate by the Commission on Filipinos Overseas (CFO) on the stock of overseas Filipinos shows that around 8.7 million are working abroad. About 47.36% or

4.13 million are temporary workers while permanent residents account for 42.31% or 3.69 million. Irregular[46] workers meanwhile comprise 10.32% of the total or 0.9 million. These workers are scattered across all continents. Remittances have also been rising rapidly from US$10.7 billion in 2005 to US$16 billion in 2008 (see Figure B.2). More recently, remittances have reached US$ 18.8 billion in 2010 and US$ 20 billion in 2011. Note that remittances records do not distinguish between remittances from Filipino workers abroad and emigrants.

Figure B.1. Overseas Filipino Workers (OFW) deployment by destination

Figure B.2. Remittances in US$ (1985-2011)

Source: Bangko Sentral ng Pilipinas.

IV.B.2. Services Liberalization

Unilateral Liberalization

Unlike goods, services are generally intangible and their imports do not have tariffs. Instead, service industries are characterized by government-imposed restrictions such as the regulation of both market access and the nature and scope of operations of service providers.

[46] These are workers without valid visas or those who entered host countries illegally.

Considerations relating to consumer protection, high fixed (sunk) costs (increasing returns to scale), prudential supervision, and regulatory oversight, often induce governments to put in place measures that regulate the cross-border trade in services, require domestic establishment by foreign providers in certain service sectors, or reserve activities for government-owned or controlled entities (Hoekman 2006).

In general, barriers to trade in services are classified in terms of whether they restrict market access in general (e.g., a policy that limits the number of service providers) or specifically affect foreign services suppliers by refusing them national treatment (e.g., a policy that limits foreign equity ownership). Regulatory restrictions can reduce competition and efficiency in the services sector. Entry barriers reduce competition and allow incumbent firms to engage in rent-seeking behavior.

In the Philippines, the first wave of unilateral reforms in the services sector took place in 1987 with the opening up of generation under the power sector. This abolished the monopoly of the government-owned National Power Corporation by allowing private sector to invest and participate in augmenting generation capacity. In 1990, the first build-operate-transfer (BOT) in Asia was passed. In 2001, the Electric Power Industry Reform Act (EPIRA) was legislated. It restructured the industry by allowing competition in generation and supply and regulating transmission and distribution. Another wave of reforms occurred in the early 1990s with the liberalization of the telecommunications industry which was dominated by a private monopoly for more than half a century. The shipping industry was also liberalized with the deregulation of first and second class passage rates. Subsequently, surcharges for insurance premiums were abolished while freight rates for cargoes were deregulated.

In the mid-1990s, the air transport industry was also deregulated thus challenging the supremacy of the country's only designated flag carrier, Philippine Airlines. Restrictions on domestic routes and frequencies and government controls on rates and charges were eliminated. In the late 1990s, the water sector was privatized through competitive bidding won by two firms which were granted concessions to bill and collect water and sewerage services in two separate areas for 25 years.

As early as the 1980s, the financial sector was undergoing reforms through the liberalization of interest rates and the easing of restrictions on the operations of financial institutions. In the mid-1990s, Republic Act 7721 (1994 Foreign Bank Liberalization) allowed the establishment of ten new foreign banks in the Philippines. With the legislation of Republic Act 8791 (General Banking Law) in 2000, a seven-year window was provided allowing foreign banks to own up to 100 percent of one locally-incorporated commercial or thrift bank (with no obligation to divest later).

In March 2000, Republic Act 8762 (Retail Trade Liberalization Law) allowed foreign investors to enter the retail business and 100% ownership as long as they put up a minimum of US$7.5 million equity[47]. A lower minimum capitalization threshold of US$250,000 is allowed to foreigners seeking full ownership of firms engaged in high-end or luxury products. R.A. 8762 also allowed foreign companies to engage in rice and corn trade.

In general, these reforms were crucial in introducing competition in these sectors as well as in disciplining incumbent monopolies. In assessing the impact of financial reforms on competition in the banking sector, Pasadilla and Milo (2004) found that firms were behaving competitively with the entry of foreign and domestic banks increasing banking competition.

[47] Singapore and Hong Kong have no minimum capital requirement while Thailand sets it at US$250,000.

Another study by Manlangit and Lamberte (2005) found that small banks seemed to be more profit- and cost- efficient than large banks. They also found that foreign banks were more profit and cost efficient than domestic banks with the gap between domestic and foreign banks declining after the reforms.

The initial efforts to liberalize the airline industry allowed the entry of new airlines in the industry which was dominated by only one airline, Philippine Airlines, for 22 years. Austria (2002) noted that with greater competition on the major routes, domestic travel has grown rapidly after deregulation. Competition arising from promotional and discount fares has continued to open the air industry to travelers who could not afford to travel by air prior to deregulation. Competition has intensified resulting in lower airfare, improvement in the quality of service and overall efficiency in the industry.

In 2003, the Strong Republic Nautical Highway (SRNH) program was inaugurated through Executive Order (EO) 170 which aimed to improve existing ports to facilitate a road-roll-on, roll-off (Ro-Ro) terminal system (RRTS). Combining roads, ports and shipping routes to create a highway through the sea using RORO ferry terminals and vessels, the SRNH would link the islands of Luzon, Visayas and Mindanao. Along with other legislations, the RRTS would be integrated into the national highway system. The Ro-Ro facilities have reduced handling time and stevedoring costs leading to faster transport of goods. The development of the RRTS enabled firms to cut down their transportation and logistics costs with savings of up to 50% compared to traditional liner shipping costs (Basilio 2008).

Generally, in sectors such as telecommunications, power, ports, and shipping, the absence of clear rules and appropriate regulatory framework as well as efficient regulators has limited the impact of reforms on competition. In telecommunications, interconnection still remains a regulatory challenge and strengthening the National Telecommunications Commission as an independent regulatory body would be crucial. In air transport, reforms need to be deepened through a complete open skies policy. In ports, a regulatory framework that would separate Philippine Ports Authority's regulatory responsibilities from its development and operations functions. In shipping, strengthening MARINA is necessary so that it can effectively implement the competitive reforms provided by the law. In both ports and shipping, institution building is important to promote greater competition and effective regulation. This would entail developing new skills, institutional capabilities and practices in regulating unfair or anticompetitive practices.

Moreover, **there are domestic legal barriers to entry and investment in these sectors that must be addressed particularly constitutional restrictions limiting foreign equity participation to 40 percent.** Table B.5 summarizes government restrictions and regulations affecting the services sectors. Cabotage, for instance, prevents foreign firms from competing with domestic shipping firms in providing shipping services since they are only allowed to directly transport passengers or cargo to designated international ports like Manila International Container Port, Manila South Harbor, Batangas, Limay and Davao. Foreigners are also not allowed to own land but can lease for a maximum of 75 years.

The country's liberalization experience has highlighted the importance of unilateral reform initiatives in promoting domestic policies that foster domestic efficiency. This is seen as a necessary condition in preparation for the country's participation in regional and multilateral agreements. With the collapse of the Doha round and the impasse in most WTO initiatives, the Philippines was compelled to be part of these regional and bilateral free trade agreements (FTAs) especially those involving the ASEAN. The government considered regional and

bilateral FTAs as essential building blocks. **As it participates in regional economic integration, there are many challenges confronting the country. These include not only improving industry competitiveness and attracting investment flows but also addressing binding constraints to services trade and investment liberalization as well as pursuing large infrastructure investments to promote an efficient transportation network and telecommunications systems and reduce utilities cost particularly power.**

Table B.5. Government restrictions and regulations in the services sector

Sector	Government Restrictions/Regulations
Wholesale and retail trade	• Foreigners are not allowed to own land but can lease for a maximum of 75 years. • Foreign investment is not allowed in certain categories such as retail trade enterprises with paid-up capital of less than US$2.5 million or less than $250,000 or retailers of luxury goods. Full foreign participation is allowed for retail trade enterprises with paid-up capital above these levels. • Foreign investors are required to comply with performance requirements: the Retail Trade Liberalization Act 2000 requires foreign retailers, for ten years after the bill's enactment, to source at least 30% (for retail enterprises capitalized at no less than US$2.5 million) or 10% (for those specializing in luxury goods) of their inventory, by value, in the Philippines.
Telecommunications	• The Philippine Constitution limits foreign ownership to 40% • Foreigners are restricted from serving as executives or managers of telecommunications companies • The proportion of foreign directors in telecommunications companies may not exceed that of the foreign component of a company's capital stock • Foreign equity in private radio communications networks is constitutionally limited to 20% • Operation of cable television and other forms of broadcasting and media are also reserved for Philippine nationals.
Maritime	• Foreign equity limits to 40% • Monopolistic structure of public ports controlled by the Philippine Ports Authority
Air Transport	• Foreign equity limits to 40%
Road	• Foreign equity limits to 40%
Electricity	• Foreign equity limits to 40%
Water	• Foreign equity limits to 40%
Health services	• Foreign equity ownership limited to 40% for hospitals (full foreign ownership allowed for HMOs)
Postal services	• Government monopoly
Education	• Foreign equity limits to 40%

Regional Liberalization through AFAS

Since 1997, ASEAN has emphasized the need to liberalize services trade through the adoption of the ASEAN Framework Agreement on Services (AFAS). The AFAS aims to substantially eliminate trade restrictions in services among member countries and promote efficiency and competitiveness of ASEAN service suppliers. Aside from the main obligations of market access and national treatment, AFAS establishes general guidelines for mutual recognition, denial of benefits, dispute settlement, institutional mechanism and other areas of cooperation in the services sector. Similar to the GATS, the AFAS adopts a "positive list or bottom-up" approach in service trade liberalization such that only those sectors which they are ready to liberalize are listed by Member Countries. For each sector or sub-sector on the positive list, commitments are made for market access and national treatment across each of

the 4 modes[48] of supply. Trade in services liberalization under AFAS is directed towards achieving commitments beyond Member Countries' commitments under GATS. Presently, ASEAN has concluded eight Packages of Commitments.

The Philippines has also signed seven Mutual Recognition Agreements (MRA) in the following professional services: Engineering services (9 December 2005), Nursing Services (08 December 2006), Architecture (19 November 2007), Land Surveying (19 November 2007), Medical Practice (26 February 2009), Dental Practice (26 February 2009), and Accountancy (26 Feb 2009) (See the section on MRAs for a more detailed discussion).

Table B.6 lists the various sectors included in the commitments that the Philippines made from the 1997 first package up to the 2009 seventh package. There has been an expansion in the services sectors covered particularly from 2006 to 2009. With only two sectors covered in its maiden package in 1997 i.e. business services and tourism, the Philippines has expanded its offered sectors starting the second package in 1998 to include air transport, maritime transport, construction, financial services and telecommunications. It further widened sector coverage in the fifth package of 2006 which included all transport and auxiliary services, computer services, distribution, rental and leasing, environmental, health related and social services. The sixth package added research and development, real estate, services related to energy and power generation, audiovisual services, recreational, cultural and sporting services. The seventh package of 2009 added more sub-sectors plus religious services. However, upon examining the seventh package, many of the sub-sectors are still unbound in terms of modes 3 and 4. Furthermore, there are limitations on market access and national treatment for many of the sub-sectors especially for modes 3 and 4 (Aldaba, F. and R. Aldaba, 2011).

Table B.6: Philippine AFAS Commitments[49]

AFAS Package	Sectors Covered
First Package (1997)	• Business Services • Tourism
Second Package (1998)	• Air Transport • Business/Professional Services • Construction • Financial services • Maritime Transport • Telecommunications • Tourism
Third Package (2001)	• Transport Services
Fourth Package (2004)	• Transport Services • Maritime Services

[48] Mode 1: Cross-Border Supply, where services cross border independent of the suppliers or consumer
Mode 2: Consumption Abroad, where consumers cross border to consume services
Mode 3: Commercial Presence, where suppliers and capitals cross borders to establish local offices or subsidiaries and Mode 4: Movement of Natural Persons, where the suppliers are physically present in a country on a temporary basis.

[49] Eight packages were already signed; however there are still no details on the Eighth Package.

AFAS Package	Sectors Covered
Fifth Package (2006)	• Business Services • Computer Services • Rental/Leasing Services without operators • Telecommunication Services • Construction and Engineering Related Services • Distribution Services • Environmental Services • Health Related and Social Services • Tourism and Travel related Services • Maritime Transport • Rail Transport Services • Road Transport Services • Services auxiliary to all modes of transport
Sixth Package (2007)	• Business Services • Computer Related Services • Research and development services • Real estate services • Rental Leasing Without Operators • Other Business Services • Services Related to the supply of energy • Services Related to Power generation • Communication Services • Telecommunication Services • Audiovisual services • Construction and Engineering Related Services • Distribution Services • Environmental Services • Health Related and Social Services • Tourism and Travel related Services • Recreational, Cultural and Sporting Services • Maritime Transport • Rail Transport Services • Road Transport Services • Services auxiliary to all modes of transport
Seventh Package (2009)	• Business Services • Computer Related Services • Research and development services • Real estate services • Rental Leasing Without Operators • Other Business Services • Communication Services • Telecommunication Services • Audiovisual services • Construction and Engineering Related Services • Distribution Services • Retailing Services • Environmental Services • Health Related and Social Services • Tourism and Travel related Services • Recreational, Cultural and Sporting Services • Maritime Transport • Rail Transport Services • Road Transport Services • Pipeline Transport • Services auxiliary to all modes of transport • Services Related to the supply of energy • Services Related to Power generation • Religious Services

Source: Aldaba, F. and R. Aldaba (2011).

In an examination of the services restrictiveness index covering AFAS and ASEAN +1 FTAs, Ishido and Fukunaga (2012) showed that the Philippines has the lowest level of commitment relative to other ASEAN countries based on the calculated Hoekman Indices[50]. Note that the ASEAN average for the AFAS Seventh Package was also low at 0.36 with Thailand at 0.50, Cambodia at 0.41, Indonesia 0.36 and Philippines with only 0.33.

Previous AFAS assessment studies concluded that the various rounds of negotiations that took place so far have not produced substantive preferential liberalization as the Philippines AFAS commitments rarely go beyond what the Philippines bound in its GATS Schedule of Specific Commitments at the end of the Uruguay Round. Comparing the Philippine commitments under the GATS and AFAS, the coverage and depth of the two frameworks is substantially similar, with the AFAS only minimally going beyond what the Philippines bound at the multilateral framework. (Poretti et al 2009 and Trin Tanh and Bartlett 2005).

The services sector has become an important and continuously expanding provider of both output and employment. Developing a more efficient services sector would have both direct and indirect effects on economic growth. A shift towards services could lead to an increase in aggregate productivity. An efficient services sector also has indirect consequences for economic growth through the efficiency of other sectors in the economy. For instance, high quality services in sectors like transport or telecommunications could affect the production costs and competitiveness of firms in all sectors of the economy (Aldaba and Pasadilla, 2010). Note however that, **though the Philippines has implemented unilateral liberalization in the sector since the late 1980s, the country still remains protective of the services sector.** Discriminatory and market access barriers still characterize services in general. Remaining restrictions include foreign equity limitations, economic needs tests along with domestic regulations affecting business operations.

Trade in services is an important component of the country's development strategy and to transform the sector as a major source of growth, a lot would depend on a more competitive and efficient services sector. **Introducing competition through services liberalization under the ASEAN Economic Community 2015 might serve as a catalyst to foster the sector's competitiveness.** The empirical literature on the linkages between services liberalization and economic growth shows, policy reforms that increase competition and improve regulatory oversight result in improved performance of the sector concerned. As earlier pointed out, an efficient services sector has indirect consequences for economic growth. For instance, a competitive and efficient services market will result in a more competitive and efficient manufacturing sector. Moreover, high-quality services could also result in increasing the attractiveness of a location for foreign direct investment. To realize these, a sustained process of domestic policy reforms and changes in the regulatory environment aligned with our regional and multilateral liberalization commitments would be crucial.

[50] The Hoekman Index is a measure of the GATS-style degree of commitment in the services sector. The method assigns values to each of 8 cells (4 modes and 2 aspects, market access or national treatment as follows: a value of 1 is assigned when the sector is fully liberalized; 0.5 when limited but bound; and 0 when unbound (government has not committed to liberalize). See Ishido and Fukunaga (2012).

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IV.C. Investment Liberalization and Facilitation[51]

IV.C.1. Introduction

The principal investment cooperation program of the AEC has been the ASEAN Investment Area which has been expanded to the ASEAN Comprehensive Investment Agreement (ACIA). One major initiative of the AEC Blueprint is the enhancement of the existing ASEAN Investment Area (AIA) into a more thorough and improved ASEAN Comprehensive Investment Agreement (ACIA) that will take into account international best practices and will be based on the following four pillars of the AIA: liberalization, protection, facilitation, and promotion.

Liberalization: There will be progressive liberalization of member countries' investment regimes to achieve free and open investment by 2015. ASEAN member countries are committed to (i) extend non-discriminatory treatment, including national treatment and most favoured treatment, to investors in ASEAN with limited exceptions; minimize and where possible, remove such exceptions; (ii) reduce and where possible, remove restrictions to entry for investments in the Priority Integration Sectors covering goods; and (iii) reduce and where possible, remove restrictive investment measures and other impediments, including performance requirements.

Protection: Unlike the AIA, the ACIA will provide enhanced protection to all investors and their investments. The ACIA provisions will be strengthened to include provisions on investor-state dispute settlement mechanisms; transfer and repatriation of capital, profits, dividends, etc; transparent coverage on the expropriation and compensation; full protection and security; and treatment of compensation for losses resulting from strife.

Investment Facilitation: The ACIA will provide more transparent, consistent and predictable investment rules, regulations, policies and procedures. ASEAN member countries will commit to harmonize, where possible, investment policies to achieve industrial complementation and economic integration; streamline and simplify procedures for investment applications and approvals; promote dissemination of investment information: rules, regulations, policies and procedures, including a one-stop investment center or investment promotion board; strengthen databases on all forms of investments covering goods and services to facilitate policy formulation; strengthen coordination among government ministries and agencies concerned; consultation with ASEAN private sectors to facilitate investment; and identify and work towards areas of complementation ASEAN-wide as well as bilateral economic integration.

Promotion: The AEC also commits ASEAN member countries to promote ASEAN as an integrated investment area and production network through specific actions to create the necessary environment to promote all forms of investment and new growth areas into ASEAN; promote intra-ASEAN investments, particularly investments from ASEAN 6 to CLMV; promote the growth and development of SMEs and MNEs; promote industrial complementation and production networks among MNCs in ASEAN; promote joint investment missions that focus on regional clusters and production networks; and work towards establishing an effective network of bilateral agreements on avoidance of double taxation among ASEAN countries.

[51] This section was drafted by Dr Rafaelita Aldaba, Senior Fellow at PIDS.

The AEC Blueprint recognizes the importance of creating an integrated production base to capture investment into the region as well as increasing the region's competitive edge as a manufacturing base that is globally-oriented. Aldaba, Yap and Petri (2009) noted that though the net potential impact of the investment features and provisions is expected to be positive, the ACIA needs to be strengthened to be more effective through the adoption of a collective approach and common time frame of trade and investment liberalization; transferring mode 3 of services (commercial presence) from the ASEAN Framework Agreement on Services (AFAS) to the ACIA; and consolidating the ACIA, the 1987 Agreement for the Promotion and Protection of Investments, and appropriate provisions of bilateral investment treaties.

Aldaba et al further argued that the ACIA by itself does not guarantee that FDI would flow automatically to the region. Individual ASEAN countries are facing the huge challenge of improving their competitiveness. For the AEC implementation to be successful, it has to be accompanied by complementary policies and programs especially at the national level. Member Countries should continue to implement their investment and trade reforms in line with the ACIA and improve their domestic business environment, including economic regulations, corporate governance, and labor laws. Member Countries should also develop their logistics infrastructure and stable legal and economic systems to increase FDI inflows. ASEAN Member Countries need to come up with, unilaterally and collectively, structural adjustment and reform assistance and capacity building measures to help those that would be adversely affected by the reforms.

Within this context, the objectives of the paper are twofold: first, examine the state of investment liberalization and facilitation in the Philippines and second, suggest policy measures to enable it not only to comply with its AEC commitments, but most importantly, help the country in facing the challenges and opportunities arising from the AEC. A survey-interview of private sector companies was conducted to gather information on their investment facilitation and promotion experiences and assess whether there are any gaps between actual and committed targets. The paper is divided into five parts: after the introduction, part II looks at the government's FDI liberalization policy as well as the investment promotion and facilitation initiatives. Part III provides an analysis of the FDI performance of the country. Part IV presents the survey results and part V summarizes the findings and implications of the results.

IV.C.2. Philippine Foreign Direct Investment Policy

Liberalization

Beginning in the 1990s, Philippine foreign direct investment policy has changed considerably from a restrictive and complicated regulatory system towards a more open one (see Table C.1). Given the need to expand exports and the potential economic contribution of FDI through the transfer of knowledge and experience, the Philippines adopted more open and flexible policies toward FDI. This was carried out simultaneously with the country's market-oriented reforms in the 1990s. In June 1991, the country accelerated the FDI liberalization process through the legislation of Republic Act 7042 or the Foreign Investment Act (FIA).

Table C.1: A chronology of FDI policy reforms and major legislations

Year	Legislation	Description
1987	Omnibus Investment Code	• simplified and consolidated previous investment laws
1991	Foreign Investment Act [RA 7042]	• liberalized existing regulations & allowed foreign equity participation up to 100% in all areas not specified in the Foreign Investment Negative List (FINL)
1992	Bases Conversion and Development Act (RA 7227)	• created the Bases Conversion and Development Authority (BCDA) and the Subic Bay Metropolitan Authority (SBMA) to adopt, prepare and implement a comprehensive development program for the conversion of the Clark and Subic military reservations into special economic zones
1993	Executive Order 8	• established the Clark Development Corporation (CDC), as the implementing arm of the BCDA for the Clark Special Economic Zone
1994	Foreign Bank Liberalization	• allowed the establishment of ten new foreign banks
1995	Special Economic Zone Act [RA 7916]	• created the Philippine Economic Zone Authority (PEZA) to manage and operate government-owned zones and administer incentives to special economic zones
1996	Republic Act 8179	• further liberalized foreign investments & allowed greater foreign participation in areas that were previously restricted
2000	Retail Trade Liberalization Act [RA 8762]	• allowed foreign investors to enter the retail business and own them 100% as long as they put up a minimum of US$7.5 million equity
2000	General Banking Law [RA 8791]	• allowed foreign banks to own up to 100% of one locally-incorporated commercial or thrift bank during a 7-year window
2005	Supreme Court Decision	• Supreme Court revoked the incentives for Clark Special Economic Zone under RA 7227, stating that RA 7227 did not grant privileges to locators operating in Clark
2006	Presidential Proclamation 1035	• declared the Clark Special Economic Zone as a PEZA Special Economic Zone
2007	Amendment to RA 7227 [RA 9399]	• provided a one time tax amnesty on all applicable tax and duty liabilities incurred by the zone enterprises
2007	Amendment to RA 7227 [RA 9400]	• restored the fiscal incentives and privileges enjoyed by the affected zones

Source: Aldaba 2007.

The FIA considerably liberalized the existing regulations by allowing foreign equity participation up to 100% in all areas not specified in the Foreign Investment Negative List (or FINL, which originally consisted of three component lists: A, B, and C)[52]. Prior to this, 100% eligibility for foreign investment was subject to the approval of the Board of Investments. The FIA was expected to provide transparency by disclosing in advance, through the FINL, the areas where foreign investment is allowed or restricted. It also reduced the bureaucratic discretion arising from the need to obtain prior government approval whenever foreign participation exceeded 40%.

Over time, the negative list has been reduced significantly. In March 1996, RA 7042 was amended through the legislation of RA 8179 which further liberalized foreign investments

[52]List A: consists of areas reserved for Filipino nationals by virtue of the Constitution or specific legislations like mass media, cooperatives or small-scale mining.
List B: consists of areas reserved for Filipino nationals by virtue of defense, risk to health and moral, and protection of small and medium scale industries.
List C: consists of areas in which there already exists an adequate number of establishments to serve the needs of the economy and further foreign investments are no longer necessary.

allowing greater foreign participation in areas that were previously restricted. This abolished List C which limited foreign ownership in "adequately served" sectors. Currently, the FIA has two component lists (A and B) covering sectors where foreign investment is restricted below 100% under the Constitution or those with restrictions mandated under various laws.

In the mid-1990s, Republic Act 7721 (1994 Foreign Bank Liberalization) allowed the establishment of ten new foreign banks in the Philippines. With the legislation of Republic Act 8791 (General Banking Law) in 2000, a seven-year window was provided allowing foreign banks to own up to 100 percent of one locally-incorporated commercial or thrift bank (with no obligation to divest later).

In March 2000, Republic Act 8762 (Retail Trade Liberalization Law) allowed foreign investors to enter the retail business and 100% ownership as long as they put up a minimum of US$7.5 million equity[53]. A lower minimum capitalization threshold of US$250,000 is allowed to foreigners seeking full ownership of firms engaged in high-end or luxury products. R.A. 8762 also allowed foreign companies to engage in rice and corn trade.

To develop international financial center operations in the Philippines and facilitate the flow of international capital into the country, foreign banks have been allowed to establish offshore banking units (OBUs). OBUs are subject to virtually no exchange control on their offshore operations and are not subject to tax on income they source from outside the Philippines. Only income from foreign currency transactions with local banks, including branches of foreign banks that are authorised by the *Bangko Sentral ng Pilipinas* to transact business with OBUs and Philippine residents is subject to a final tax of 10%. Non-residents are exempt from income tax on income they derive from transactions with OBUs.

Incentives have also been offered to multinationals that establish regional headquarters (RHQ) or a regional operating headquarters (ROHQ) in the Philippines. Both RHQs and ROHQs are entitled to the following incentives: exemption from all taxes, fees, or charges imposed by a local government unit except real property tax on land improvements and equipment; tax and duty free importation of training materials and equipment; and direct importation of new motor vehicles, subject to the payment of the corresponding taxes and duties.

While substantial progress has been made in liberalizing the country's FDI policy, certain significant barriers to FDI entry still remain (see Table C.2). The sectors with foreign ownership restriction include mass media (no foreign equity), land ownership (foreign ownership is limited to 40%), natural resources, firms that supply to government-owned corporations or agencies (40%), public utilities (40%), and Build-Operate-Transfer (BOT) projects (40%). Constitutional change is necessary to remove these barriers.

[53] Singapore and Hong Kong have no minimum capital requirement while Thailand sets it at US$250,000.

Table C.2: Remaining FDI barriers

List A	Sector
No foreign equity	1. Mass Media except recording 2. Practice of all professions 3. Retail trade enterprises with paid-up capital of less than US$2,500,000 4. Cooperatives 5. Private Security 6. Small-scale Mining 7. Utilization of Marine Resources in archipelagic waters, territorial sea, and exclusive economic zone as well as small- scale utilization of natural resources in rivers, lakes, bays, and lagoons 8. Ownership, operation and management of cockpits 9. Manufacture, repair, stockpiling and/or distribution of nuclear weapons 10. Manufacture, repair, stockpiling and/or distribution of biological, chemical and radiological weapons and anti-personnel mines 11. Manufacture of firecrackers and other pyrotechnic devices
Up to 20% Foreign equity	12. Private radio communications network
Up to 25% foreign equity	13. Private recruitment, whether for local or overseas employment 14. Contracts for the construction and repair of locally-funded public works 15. Contracts for the construction of defense-related structures
Up to 30%	16. Advertising
Up to 40%	17. Exploration, development and utilization of natural resources 18. Ownership of private lands 19. Operation and management of public utilities 20. Ownership/establishment and administration of educational institutions 21. Culture, production, milling, processing, trading excepting retailing, of rice and corn and acquiring, by barter, purchase or otherwise, rice and corn and the by- products 22. Contracts for the supply of materials, goods and commodities to government- owned or controlled corporation, company, agency or municipal corporation 23. Project Proponent and Facility Operator of a BOT project requiring a public utilities franchise 24. Operation of deep sea commercial fishing vessels 25. Adjustment Companies 26. Ownership of condominium units where the common areas in the condominium project are co-owned by the owners of the separate units or owned by a corporation
Up to 60%	27. Financing companies regulated by the Securities and Exchange Commission (SEC) 28. Investment houses regulated by the SEC
List B	
Up to 40%	1. Manufacture, repair, storage, and/or distribution of products and/or ingredients requiring Philippine National Police (PNP) clearance: 2. Manufacture, repair, storage and/or distribution of products requiring Department of National Defense (DND) clearance: 3. Manufacture and distribution of dangerous drugs 4. Sauna and steam bathhouses, massage clinics and other like activities regulated by law because of risks posed to public health and morals 5. All forms of gambling, except those covered by investment agreements with PAGCOR and operating within PEZA zones 6. Domestic market enterprises with paid-in equity capital of less than the equivalent of US$200,000 7. Domestic market enterprises which involve advanced technology or employ at least fifty (50) direct employees with paid-in- equity capital of less than the equivalent of US$100,000

Source: Executive Order 858 (8th Regular Foreign Investment Negative List, Feb. 5, 2010)

The 8th Foreign Investment Negative List which was issued in February 2010 did not differ substantially from the previous List (7th issued in December 2006). The recent List allowed entry of foreign investors in the local gaming sector provided they are covered by investment agreements with the Philippine Amusement and Gaming Corporation (PAGCOR) and are situated within zones administered by the PEZA.

Based on the FDI policy of ASEAN countries covering foreign ownership or market access, national treatment, screening and approval procedure, board of directors and management composition, movement of investors, and performance requirement, Urata and Ando (2010) calculated FDI restrictiveness indices. Their results showed that with an overall score of

0.237, the Philippines is generally considered as relatively open. However, the country received a score of 0.257 for market access and 0.279 for national treatment indicating the presence of FDI restrictions in these areas. Barriers are particularly high in the services sector consisting of professional, scientific, and technical activities, transportation and storage, real estate activities, public administration and defense, compulsory social security, and education. Some barriers are also present in the agriculture, forestry and fishing, mining and quarrying, as well as in administrative and support activities. The study also found restrictions on board of directors and management composition as rather severe for the Philippines. The study also indicated the imposition of performance requirements to receive incentives.

Investment Promotion and Facilitation

(i) Investment Promotion Agencies

As the Philippines shifted its orientation from import-substitution towards export promotion, the country implemented trade and investment liberalization and pursued changes in its overall investment and investment incentive policies. Incentives along with simplified registration procedures have become the centerpiece of the country's investment promotion strategy. Fiscal and non-fiscal incentives have been conferred to preferred activities under the Omnibus Investments Code (OIC) and export-oriented enterprises in economic zones. The Board of Investments (BOI) offers incentives to firms located outside economic or free port zones. The major economic zones are supervised by the Philippine Economic Zone Authority (PEZA), Subic Bay Metropolitan Authority (SBMA), and Clark Development Corporation (CDC).

The Board of Investments (BOI), the country's lead agency tasked with investment promotion, administers the incentives under the OIC including the registration and monitoring of enterprises. Every year, the BOI identifies preferred activities in its Investment Priorities Plan (IPP). If the areas of investment are not listed in the IPP, enterprises may still be entitled to incentives, provided: (i) at least 50% of production is for exports, for Filipino-owned enterprises; and (ii) at least 70% of production is for export, for majority foreign-owned enterprises (more than 40% of foreign equity). In 1987, a new Omnibus Investments Code was legislated which simplified and consolidated previous investment laws. It also established a One Stop Action Center (OSAC) and streamlined the approval process.

To promote export-oriented investment, several other legislations containing investment incentive packages to outward-oriented FDI were legislated. The most important are RA 7227 known as the Bases Conversion and Development Act of 1992 and RA 7916 or the Special Economic Zone Act of 1995. RA 7227 created two separate administrative bodies, the Bases Conversion and Development Authority (BCDA) and the Subic Bay Metropolitan Authority (SBMA), tasked with adopting, preparing and implementing a comprehensive development program for the conversion of the Clark and Subic military reservations into special economic zones. The BCDA is mandated to oversee and implement the conversion and development of Clark and other military stations; while the SBMA is mandated to oversee the implementation of the development programs of the Subic Bay Naval Station and surrounding communities. BCDA administered zones cover Clark, John Hay Special Economic Zone, Poro Point Freeport Zone, and Bataan Technology Park.

Republic Act 7916 created the Philippine Economic Zone Authority (PEZA) to manage and operate government-owned zones and administer incentives to special economic zones. RA 7916 allowed greater private sector participation in zone development and management and

allowed zone developers to supply utilities to tenants by treating them as indirect exporters. Activities permitted within the economic zones have also been expanded.

The Philippine Medium Term Development Plan (MTPDP) 2004-2010 recognizes the importance of investment promotion and facilitation in attracting investment to the country. The Plan focuses on competitive incentive packages for selected sectors covering information technology and IT-enabled services, automotive, electronics, mining, healthcare and wellness, tourism, shipbuilding, fashion garments, jewelry, and agribusiness. It also directs efforts to further simplify registration procedures through the reduction of documentary requirements, processing times, steps and fees and issuances of various certifications and the implementation of a nationwide on-line registration and monitoring of investments.

In line with the investment objectives and strategies of the MTPDP, the country's major IPAs have been initiating measures to apply international best practices and streamline business procedures. In 2008, BOI reorganized its structure to focus more on investment promotions by providing information assistance and investment facilitation of investors' transactions, investment advice, investment matching and business linkages services. BOI's OSAC was transformed into the National Economic Research and Business Action Center (NERBAC) which gathers together under one roof representatives from various government agencies to answer investor queries and process investors' business registration. BOI also created the Investments Aftercare Department to encourage investors to locate and retain their investments by providing assistance to address investors' issues and concerns after they have set up their business in the country.

PEZA has a one-stop and non-stop shop operating 24/7. It issues building and occupancy permits as well as import and export permits. Special non-immigrant visa processing is done in PEZA along with other required processes such as issuance of environmental clearance. PEZA locators are exempted from local government business permits. The Clark Development Corporation (CDC) also has a One Stop Action Center (OSAC) that facilitates evaluation and approval of investment projects within a 30-day period.

Figure C.1a presents the total approved domestic and foreign investments for the four agencies from 2000 to 2009. Total approved investments increased to P464.2 billion in 2008 from P231 billion in 2005. In 2009, the total dropped to P314 billion. On the average, for the period 2000-2009 BOI leads as it accounted for 53 percent of the total while PEZA registered a share of 38 percent. SBMA and CDC cornered 6 and 3 percent of the total, respectively.

Figure C.1b shows the approved foreign investments for the four agencies from 2000 to 2009. Total approved investments increased to P214 billion in 2007 from P174 billion in 2004. In 2008 and 2009, the total dropped to P183 billion and 122 billion, respectively. This went up to P196.1 billion in 2010. On the average, for the period 2000-2010 PEZA accounted for the bulk of the total approved FDI with a share of 54 percent. Next is BOI with a share of 34 percent while SBMA and CDC registered almost equal shares of 6 percent each.

Figure C.1a: Total Approved Foreign & Domestic Investments (in million pesos)

Source of basic data: BOI

Figure C.1b: Total Approved Foreign Direct Investments (in million pesos)

Source of basic data: BOI

With the apparent success of PEZA, SBMA and CDC in attracting foreign direct investment flows, the government has become more aggressive in its creation of more economic zones. This includes the Cagayan Economic Zone Authority (CEZA), Phividec Industrial Authority (PIA), and Zamboanga Economic Zone Authority (ZEZA) which have been mandated to establish, maintain, and manage special economic or free port zones.

(ii) IPA Coordination and Crafting of the First Philippine Investment Plan

Currently, the investment promotion regime is characterized by different investment regimes administered by different government bodies. The various laws governing investment promotion and administration of investment incentives have led to a complex system and in the absence of a central body coordinating and monitoring the different investment promotion agencies, there seems to be a lack of a coherent and integrated approach in the administration and monitoring of investment incentives.

Table C.3 shows a comparison of the major incentives provided by the different investment incentive-giving bodies. BOI-registered enterprises are allowed income tax holiday (ITH) up to eight years, tax and duty free importation of spare parts, and tax credit on raw materials. After the lapse of the income tax holiday, the regular corporate tax rate of 30% of gross income will apply to BOI enterprises. PEZA grants the most generous incentives covering income tax holiday, basic income tax rate of 5% of gross income, and tax and duty free importation of capital equipment, spare parts, and raw material inputs. Except for the income tax holiday, Clark and Subic enterprises enjoy the same incentives available to PEZA enterprises.

Table C.3: Incentives offered by different IPAs in the Philippines

	IPA	BOI OIC	PEZA	SBMA	CDC
Incentives	Income	4-8 years ITH	4-8 years ITH	No ITH	No ITH
	Others	After ITH, payment of the regular corporate tax	After ITH, special rate of 5% tax on gross income in lieu of national & local taxes	5% tax on gross income in lieu of all local & national taxes	5% tax on gross income in lieu of all local & national taxes
	Raw materials & supplies	Tax credit	Tax & duty exemption	Tax & duty exemption	Tax & duty exemption
	Breeding stocks & genetic materials	Tax exemption within 10 years from registration	Tax & duty exemption	Tax & duty exemption	Tax & duty exemption
	Capital equipment, spare parts, materials & supplies	Tax & duty exemption on spare parts (duty & tax free importation of capital equipment expired in 1997 but were restored in 2004)[54]	Tax & duty exemption	Tax & duty exemption	Tax & duty exemption

Source: Aldaba 2007

In the absence of a single uniform legislation on the granting of investment incentives, legal issues have emerged affecting the certainty of investments in the country. In October 2004 and July 2005 the Supreme Court nullified the fiscal incentives at the four special economic zones under BCDA (Clark, John Hay, Poro Point, and Bataan) and ruled that RA 7227 granted incentives only to Subic locators (see Table C.1). With the decision, all the affected locators would be subject to back taxes and duties. In March 2006, Presidential Proclamation 1035 was signed declaring the Clark Special Economic Zone as a PEZA Special Economic Zone. In April 2007, two legislations were passed, RA 9339 and 9400, which provided a onetime tax amnesty on all applicable tax and duty liabilities incurred by the zone enterprises during the period that the incentives were rendered ineffective and restored the fiscal incentives and privileges enjoyed by the affected zones, respectively.

In recent years, several legislative bills have been filed to create a single body that will coordinate the activities of IPAs. In the 12th Congress, Senate Bill 2411 would merge BOI and PEZA to create the Philippine Investments Promotions Administration (PIPA) and rationalize the country's fiscal incentive package. Under the 13th Congress, Senate Bill 1104 would also create a single body that will monitor the activities of IPAs, rationalize the

[54] Executive Order 313 (2004) restored these incentives.

investment incentive system, and craft more uniform incentives across the different IPAs. In the 14th Congress, Senate Bill 1640, which would also merge BOI and PEZA to establish PIPA, remained pending.

In November 2009, the Department of Trade and Industry formed a steering committee consisting of DTI and eleven (11) IPAs[55] to formulate the first Philippine Investments Promotions Plan (PIPP). The PIPP would serve as guide to harmonize policy-making, planning and promotional strategies, programs and projects of the various IPAs. Among the steps that have been identified is the creation of a comprehensive investment portal that will integrate information on all IPAs in the country. This would combine the websites of all IPAs and list of their registered companies allowing data sharing among IPAs. Another important measure is the plan to create an interagency body to oversee the implementation and monitoring of investment programs, activities and projects. A list of target sources of investments have also been drafted along with measures to benchmark with competing countries in providing investment facilitation services.

Recently, the IPAs announced that investment efforts will target a doubling of FDI inflows in five years, i.e., by 2014. The agencies will focus on ten opportunity sectors covering agro-industry, food processing, electronics and chip manufacturing, business process outsourcing and information technology, energy, mining, logistics, aviation, shipbuilding, and tourism. Each agency will be assigned sectors where its competency lies and will adopt the same sectoral strategies applied by all IPAs. The IPAs will use the same set of information and promotional materials to eliminate confusion among prospective investors especially in terms of investment sites and procedures.

Meanwhile, the Joint Foreign Chambers identified similar sectors that could bring in substantial investments to the Philippines but sought much higher investment targets. The Foreign Chambers list covers seven big winners, high growth sectors consisting of agri-industry, business process outsourcing, creative industries, infrastructure and logistics, manufacturing, mining, and tourism (including medical travel and retirement). On the whole, the Foreign Chambers believe that the country has very high potential to join the group of high growth economies provided it adopts the following strategies: exploit and integrate with the world economy, maintain macroeconomic stability, increase rates of saving and investment, allow market competition to work, and instill a committed, credible and capable government (J. Forbes 2010).

IV.C.3. FDI Performance: Trends, Patterns, Distribution and Sources

Figure C.2 presents the inward FDI flows in the Philippines from the 1970s to 2008. FDI inflows from the 1970s to the 1980s were small and erratic, due mainly to the political and economic instability that characterized the country in these decades. As a result, it failed to take advantage of the rapid growth of Japanese FDI in the mid-1980s following the 1985 Plaza Accord. In the 1990s, overall FDI inflows improved substantially as well as in the 2000s. However, competition has become much fiercer especially given China's growing

[55] BOI, Philippine Economic Zone Authority (PEZA), Clark Development Authority (CDA), Subic Bay Metropolitan Authority (SBMA), Bases Conversion Development Authority (BCDA), Philippine Retirement Authority (PRA), Cagayan Economic Zone Authority (CEZA), Zamboanga City Special Economic Zone Authority and Freeport (ZCSEZAF), Regional Board of Investments of Autonomous Region in Muslim Mindanao (RBIARMM), Phividec Industrial Authority (PRA) and Aurora Special Economic Zone Authority (ASEZA).

share. FDI as percentage of gross domestic product (GDP) reached almost 3% in 2000, and about 2.5% in 2006, however, the ratio dropped to 0.9% in 2008 primarily due to the global economic crisis; but increased to 1.2% in 2009.

Figure C.2: FDI Performance, 1995-2009

Figure C.3 presents a sectoral breakdown of FDI[56] for the three periods 1980-1989, 1990-1999, and 2000-2009. As Figure 3 shows, manufacturing FDI dominated total FDI inflows with its share of 46 percent during the 1980s and the 1990s. This increased to about 48 percent in the 2000s. The share of the financial sector rose from 8 percent in the 1980s to 18 percent in the 1990s but declined to about 10 percent in the recent period 2000-2009. Transport, storage and communication sector also witnessed an increase in its share from 1 percent to 17 percent between the 1980s and the 1990s, but this declined to 5 percent in the current period. The share of mining and quarrying was reduced from 34 percent in the 1980s to 4 percent in the 1990s. This went up slightly to 5 percent during the 2000s. Wholesale and retail witnessed a slight increase in share from 3 percent to 4 percent between the 1980s and the 1990s, but this was reduced to 1 percent in the 2000s.

[56] The total FDI does not include "Others, Not Elsewhere Specified" defined as non-residents' equity capital investments in non-banks sourced from the cross-border transactions survey and in local banks, no sectoral breakdown is available.

Figure C.3: FDI by sector

Source of basic data: Bangko Sentral ng Pilipinas. (Note that this does not include "Others not elsewhere classified" which could not be broken down by sector).

Electricity, gas and water registered a share of 13 percent in the most recent period. Construction share also rose from less than 1 percent in the 1980s to 4 percent during the 1990s and the 2000s. Real estate, renting and business services' share went up from 6 percent in the 1980s to 7 percent in the 1990s and to 8 percent in the 2000s.

Within manufacturing, FDI inflows have been dominated by the food and beverage sector increasing substantially from a share of 27 percent in the 1990s to 57 percent during the 2000-2009 period (see Figure C.4). The share of basic metals and chemical products which dominated manufacturing in the 1980s fell from 47 percent to 14 percent in the 1990s to 11 percent in the 2000s. The share of coke, refined petroleum, and other fuel products rose from 7 percent in the 1980s to 20 percent in the 1990s but this dropped to only 7 percent in the 2000s. Similarly; FDI inflows in machinery, apparatus and supplies and radio, tv, and communications equipment increased from zero to 21 percent between the 1980s and the 1990s but this dropped to 12 percent in the 2000s. There is also a decline in the share of transport equipment and motor vehicles from 10% in the 1980s to 6% in the 1990s to 3% in the 2000s.

Up to the 1980s, the US was the country's largest source of FDI inflows with a cumulative share of 56 percent (see Figure C.5). However, this dropped significantly to only 13 percent in the 1990s but increased to 24 percent in the 2000s. US dominance has been substantially diluted by the increasing presence of Japan, UK, and Singapore.

Japan's share increased from 14 percent in the 1980s to 24 percent in the 1990s, although this fell to 22 percent in the 2000s. Singapore increased its share from less than one percent during the 1980s to four percent in the 1990s and to 5 percent in the recent period. The share of the Netherlands rose from seven percent to 14 percent, but declined to 5 percent in the 2000s. The share of the UK went up from 3 percent in the 1980s to 4 percent in the 1990s and to 8 percent in the present period.

Figure C.4: Distribution of Manufacturing FDI (in %)

Source of basic data: Bangko Sentral ng Pilipinas (BSP)

Figure C.5: FDI by source country (in %)

Source: Bangko Sentral ng Pilipinas (BSP).

While the investment policy reforms and opening up of more sectors to foreign investors in the past decade resulted in improvements in FDI inflows to the country, on the overall, FDI inflows to the Philippines have been limited; hence the country's performance has lagged behind its neighbors in Southeast Asia. Figure C.6 compares FDI inflows to the Philippines with inflows to Singapore, Thailand, Malaysia, Indonesia, and Vietnam from the mid-1990s up to 2010. The figure implies huge differences in FDI inflows to the ASEAN countries with the Philippines (1.51%) and Indonesia (1.75%) receiving the lowest average FDI inflows as % of GDP throughout the 1990s up to the 2000s.

Figure C.6: FDI Inflows to ASEAN (% of GDP)

Ave FDI as % of GDP per period	CAM	INDON	LAO	MAL	PHIL	THAI	SING	VN
1995-1999	5.70	0.74	3.71	3.50	1.58	3.40	14.03	6.24
2000-2004	6.61	1.09	5.19	4.56	2.00	3.32	12.91	7.53
2005-2010	3.09	-0.81	1.03	2.75	1.25	3.41	14.57	3.87
1995-2010	7.11	1.75	4.72	3.23	1.51	3.45	14.52	7.15

Source: World Bank, World Development Indicators.

Figure C.7 presents the FDI stock in the ASEAN countries. In 1990, cumulative FDI inflows to the Philippines amounted to US$ 4.5 billion while Vietnam registered a total of US$ 1.65 billion. In 2000, Vietnam surpassed the Philippines total of US$18.2 billion as its total FDI reached US$20.6 billion. In 2008, Vietnam soared to US$48 billion while the Philippine total barely increased at US$21.5 billion. The same is observed in 2009 as Vietnam increased to US$52.8 billion, the Philippines to only US$23.6 billion.

Figure C. 7: FDI Stock in ASEAN 6 (in million US$)

Source: UNCTAD FDI Indicators (World Investment Report 2010)

Table C.4 presents three sets of competitiveness indicators: growth competitiveness, macro environment, and public institutions indices along with the rankings of the Philippines and other Southeast Asian countries out of a total of 102 countries and 134 countries for the years

2004 and 2010, respectively. The macro environment index is based on macroeconomic stability, country credit risk, and wastage in government expenditures while the public institutions index is based on measures of the enforcement of contracts and law and degree of competition. The results show that the Philippines performed substantially poorly than Malaysia, Thailand, and Indonesia in 2004, 2010 and 2011. While the Philippine ranking for global competitiveness worsened from 66 in 2004 to 87 in 2010, it slightly improved to 85 in 2011. Its macroeconomic stability index ranking also improved from 76 in 2010 to 68 in 2011. However, its public institution index continued to deteriorate from 85 in 2004 to 113 in 2010 and 125 in 2011.

Table C.4: Competitiveness indicators rankings for selected Southeast Asian countries

Country	Growth Competitiveness Index			Macro Environment Index			Public Institution Index		
Year	2004	2010	2011	2004	2010	2011	2004	2010	2011
Malaysia	29	24	26	27	42	41	34	43	42
Thailand	32	36	38	26	22	46	37	60	64
Philippines	66	87	85	60	76	68	85	113	125
Indonesia	72	54	44	64	52	35	76	58	61

Source: World Economic Forum, Global Competitiveness Report, 2003-2004, 2009-2010, and 2010-1011.

Based on the World Bank's cost of doing business, Table C.5 shows a comparison of the business costs indicators for the Philippines and its East Asian neighbors. The table reveals that in general, the Philippines along with Indonesia, performed significantly below the other East Asian countries especially in corruption-related indicators such number of start-up procedures, cost to register business, and time to enforce contract. Between 2004 and 2011, improvements were observed for time to start a business, cost to register business and time to enforce a contract for the Philippines. Overall, however, Philippine ranking worsened from 134 in 2010 to 136 in 2011.

Table C.5: Cost of doing business indicators for selected East Asian countries

Country	Number of start-up procedures			Time to start a business (days)			Cost to register business (% of GNI pc)			Procedures to enforce a contract			Time to enforce a contract (days)			Rigidity of employment index	
Year	04	09	11	04	09	11	04	09	11	04	09	11	04	09	11	04	09
Phils	15	15	15	60	52	35	25.4	28.2	19.1	37	37	37	862	842	842	29	29
China	13	14	14	48	37	38	15.9	4.9	3.5	35	34	34	406	406	406	28	31
Mal	9	9	4	30	11	6	25.1	11.9	16.4	30	30	29	600	585	425	10	10
HK	5	3	3	11	6	3	3.4	1.8	1.9	24	24	26	211	280	280	0	0
Indon	12	9	8	151	60	45	131	26	17.9	39	39	40	570	570	570	40	40
Korea	10	8	5	17	14	7	15.7	14.7	14.6	35	35	33	230	230	230	27	38
Sin	7	3	3	8	3	3	1	0.7	0.7	21	21	21	120	150	150	0	0
Thai	8	7	5	33	32	29	6.7	6.3	6.2	35	35	36	479	479	479	11	11
Viet	11	11	9	56	50	44	30.6	13.3	10.6	34	34	34	356	295	295	33	21

Note: Rigidity of employment ranges from 0 (less rigid) to 100 (very rigid)
Source: World Bank, Doing Business (http://www.doingbusiness.org)

Table C.6 shows a comparison of the number of the documents needed, time, and cost to import and export in the same group of countries. Between 2005 and 2011, except for number of documents to export (which has remained the same), there are improvements in the trading across borders indicators for the Philippines. However, the country ($730) together with

Thailand ($750), Korea ($695), Vietnam ($670), and Indonesia ($660) are the highest in terms of cost to import. In terms of number of documents needed to import, the Philippines (8) and Vietnam (8) are the highest. In terms of documents to export, the Philippines (7) and China (8) are the highest. In terms of cost to export, the Philippines ($630) is also included among the high cost countries together with Korea ($680), Indonesia ($644), and Thailand ($625).

Table C.6: Trading across borders indicators for selected East Asian countries

Country	Documents to export (number)			Time to export (days)			Cost to export (US$ per container)			Documents to import (number)			Time to import (days)			Cost to import (US$ per container)		
Year	05	09	11	05	09	11	05	09	11	05	09	11	05	09	11	05	09	11
Phils	8	8	7	17	16	15	800	816	630	8	8	8	18	16	14	800	819	730
China	6	7	8	18	21	21	390	500	500	11	5	5	24	24	24	430	545	545
Mal	7	7	6	18	18	17	432	450	450	7	7	7	14	14	14	385	450	435
HK	6	4	4	13	6	5	525	625	575	8	4	4	17	5	5	525	583	565
Indon	7	5	4	25	21	17	546	704	644	9	6	7	30	27	27	675	660	660
Korea	5	3	3	12	8	7	780	742	680	8	3	3	12	8	7	1040	742	695
Sin	4	4	4	5	5	5	416	456	456	4	4	4	3	3	4	367	439	439
Thai	9	4	5	24	14	14	848	625	625	12	3	5	22	13	13	1042	795	750
Viet	6	6	6	24	22	22	669	756	580	8	8	8	23	21	21	881	940	670

Source: World Bank, Doing Business 2006, 2010, and 2011 (http://www.doingbusiness.org).

Tables C.7 and C.8 present infrastructure indicators measured by utility and real estate costs. Electricity and land acquisition costs in the Philippines are the highest in the region. The country is also among the highest in terms of internet and telecommunications costs as well as in facilities lease.

Table C.7: Utility Costs for selected East Asian countries

Country	Electricity (US$/KwH)	Water (US$/cubic meter)	Sewer (US$/cubic meter)	Telecom (US$/minute to the US)	Internet (US$/mo. T1 line equiv)
PRChina	0.08	0.21	0.18	0.25	5452
Indonesia	0.07	0.59	0.80	1.00	4863
Malaysia	0.07	0.51	0.66	0.24	4388
Philippines	0.10	0.21	0.19	0.30	5452
Thailand	0.06	0.31	0.17	0.56	4283
Vietnam	0.07	0.25	-	1.30	7497

Source: MIGA and World Bank, Benchmarking FDI Competitiveness in Asia, 2004.

Table C.8: Real Estate Costs for selected East Asian countries

Country	Land acquisition costs (US$/square meter)	Building Construction Costs (US$/square meter)	Facilities Lease (US$/square meter gross/mo.)	Office Lease (US%/square meter gross/mo)
PRChina	35	97	-	25
Indonesia	66	221	7	11
Malaysia	60	282	-	12
Philippines	61	1022	5	7
Thailand	52	329	2	5
Vietnam	-	-	3	12

Source: MIGA and World Bank, Benchmarking FDI Competitiveness in Asia, 2004.

IV.C.4. Summary of Insights, Lessons Learned, and Recommendations on the Way Forward

Summary of Findings

Through a survey of firms from various industries, the report gathered the experiences, perceptions, and self-assessment of the state of investment facilitation and promotion in the Philippines. The present survey highlights the following results:

Investment incentives, low tax rates and time/cost of starting a business are critical factors affecting the firms' decision to invest in the Philippines. The results also show that compared to 2 year ago, there is no change in their perception of the different factors affecting their decision to invest. However, the respondents note significant improvements in political stability and level of corruption in the Philippines, two problematic factors which always dragged down the country's image in international surveys such as the World Bank's Cost of Doing Business. The election of a popular President and his continued reforms to reduce corruption and strengthen institutions bode well for the country's efforts to increase investment flows and to expand the investments of those who are already operating in the country. As the survey shows, a great majority of the firms indicate that they would expand their operations. Similarly, a great majority of the firms view the ASEAN market as a significant factor in their investment decision.

In terms of the firms' assessment of government agencies' investment facilitation and promotion, the results indicated the following:

- A great majority of the firms gave a rating of "alright" for the paper processing and approval and permit process implemented by various government agencies.
- Compared to two years ago, a great majority of the firms perceived that the various factors affecting investment decision remained the same. Note that for computerization and streamlining of government procedures, an improvement was indicated by a substantial proportion of the respondents (48%). A quite substantial proportion of the respondents (29%) also indicated improvements in the availability and contactability of IPA personnel to investor inquiries; performance of investment one-stop shop; and responsiveness and response quality of IPA to investor inquiries.
- A great majority of the respondents gave a "satisfactory" rating for the rate of information on investment laws, policies regulations, rules and procedures. Note that in terms of on-line availability and accessibility of information, 47% of the respondents gave a non satisfactory rating.
- In terms of information on investment laws, policies regulations, rules and procedures in setting up business, majority of the respondents also gave a "satisfactory" rating.
- In terms of providing information to the public and investors, the respondent firms provided a "satisfactory" rating to IPAs. A quite significant share (35%) of the respondents were not satisfied in terms of how IPA helps investors make a project happen, although the results showed that 53% are satisfied.
- In terms of IPAs' response to firms' or potential investors' inquiries during the start-up phase of the company, the respondents indicate that IPAs gave satisfactory responses.
- On the average, 33% of the respondents perceive that whenever there are changes in investment rules, regulations, and policies; the government and its agencies "usually" notify stakeholders, ask for written comments, hold face to face consultations with

narrow selection of stakeholders and consult with all stakeholders. On average, 15% of the respondents viewed that the government and its agencies "often" do these.

- Regarding the administration of registration, authorization, and permit formalities by the government and its agencies, an average of 59% of the respondents viewed the process as transparent, uniform and impartial and speedy.

From the perspective of firms, the most problematic issues indicated are bureaucracy and too much red tape and delayed and slow processing of permits. The firms pointed out the lack of transparency in guidelines and procedures, corruption, and the non-uniformity of investment incentives given by the four IPAs.

In operating a business in the country, the firms cited high cost and unpredictability of power supply, high cost of other utilities and domestic shipping, high taxes, confusing government charges, lengthy and non-transparent process in labor disputes, lack of highly skilled workers, and absence of support in the parts and components sectors. Problems in the regulatory environment were also indicated such as policy inconsistency, lack of streamlining of interrelated government procedures handled by different agencies, and ineffective dissemination of policy changes. The lack of comprehensive effort in government to promote the country was also cited.

The IPAs indicated that the most problematic procedures that investors typically face in establishing a foreign business in the Philippines are (i) permits from Local Government Units (LGUs), (ii) environmental compliance certificate from the DENR-Mines and Geosciences Bureau, as well as (iii) visa from the Bureau of Immigration. Other problematic procedures include costly and lengthy inspection for fire clearance application, product registration from 90 to 120 days with the Food and Drug Administration, and other permits from the Department of Environment and Natural Resources. Note that the same problems were reiterated by their OSS in facilitating investors establishing a business: absence of standardized operational procedures and too many documentary requirements for the issuance of permits and licenses, lack of skills and know-how among LGUs in promoting investments, and absence of advocacy information materials. Other problematic permits involved the issuance of environmental clearance certificate, building permits, tree cutting permits, and environmental pollution control.

It is important to note that amid these problems and weaknesses in the system, PEZA's experience in effectively streamlining its procedures is worth emulating. To address the slow processing of environmental certificates, PEZA signed a Memorandum of Agreement (MOA) with the Department of Environment and Natural Resources allowing it to issue environmental certificates for its locators. With the MOA, PEZA has trained personnel and created its own environmental unit that handles the pre-processing of environmental clearance applications. PEZA also has an agreement with the Bureau of Immigration which allows visa processing in PEZA within 20 to 30 days. PEZA takes care of local government clearance requirements along with revenue payments and local government fees. Note also that companies inside PEZA are exempted from Local Government Business Permits. Building and occupancy permits are also issued by PEZA.

Regarding customs documentation, import and export permits are issued by PEZA. The issuance of import permits is already automated and electronic payment is also in place. Starting March 2012, export permits will also be automated. In fact, PEZA has been the model of single window in the country. PEZA works closely not only with government agencies such as the Bureau of Customs, Bureau of Immigration but also with local

government units in order to make the registration process and other documentary requirements and procedures for the operations of firm-locators as easy as possible. Registration requirements have been simplified, registration forms made simple, and approval has been made easy. There has been no reported case of graft and corruption in PEZA. All PEZA zones are manned by PEZA officers and staff to immediately respond to locators' needs and concerns. Complaints and queries are always acted upon within 24 hours. PEZA is a full service agency and is on call 24/7. They also noted that their focus is always on investment promotion rather than regulation of incentives.

Given these good practices in PEZA, it is important for other IPAs to learn and adopt the "PEZA way" in dealing with issues particularly the slow processing of environmental, LGU, and other government clearances and permits. It is also important to note that Clark and Subic have implemented measures to harmonize their customs and other business regulations. They are also coordinating to unify their rates and fees.

Note that early this year, the Department of Trade and Industry (DTI) launched the Philippine Business Registry (PBR), a web-based business registration system that will allow entrepreneurs to start their businesses quicker and at the least cost. The PBR is a one-stop shop for entrepreneurs who need to transact with the DTI (business name certificate number), Bureau of internal Revenue (taxpayer identification number), Social Security System (employer's registration number), Home Development Mutual Fund (employer's registration number), Philippine Health and Insurance Corporation (employer's registration number) and the Securities and Exchange Commission. Among local government units, Quezon City has already connected with the PBR system. Mandaluyong and Caloocan are expected to connect with the system soon.

The DTI and the Department of Interior and Local Government (DILG) are implementing the Business Permits and Licensing Systems (BPLS) in cities and municipalities to speed up the issuance of business permits and licenses though the adoption of a unified application form, standard steps, standard processing time and standard signatories to permits. As a result, the issuance of business permit at the LGU level has been reduced to five days from the usual ten days and one day for the release of business of business renewal permit.

To improve the country's investment facilitation environment and overall investment climate, the respondents suggested the following:

- Elimination of bureaucratic red tape and corruption in government
- Strengthen tax rules applicable to all locations
- Clear, consistent and investor-friendly laws that would not be repealed for at least 15 years, except if amendment would benefit the investors
- Improvement of infrastructure (road and traffic conditions) within and outside special economic zones
- Allow foreigners to own land and buildings for commercial and industrial use
- Develop support industries to electronics and semiconductor industry to improve the competitiveness of the country in this sector
- Improve security and peace and order condition in the country.

Lessons from Philippine Experience

In the last two decades, the Philippines has implemented substantial market-oriented reforms covering liberalization, privatization, and deregulation in both the manufacturing and services sectors. Economic growth, however, has been characterized by a boom-bust cycle which placed the Philippines significantly behind its neighbors. The shift from a highly protectionist, inward oriented strategy to a more open economy requires not only changes in laws and policies but also efficient institutions and good infrastructure that will support growth and the new economic environment. While the Philippines has done a lot of market-oriented reforms; much remains to be done in terms of creating efficient institutions and regulatory mechanisms (Aldaba, 2005). As the foregoing discussions on investment facilitation illustrate; there exists a large gap between policy and practice; coordination among government agencies has remained ineffective; governance has been weak; poor infrastructure continues to hamper efficient business operations; and many processes such as registration and applications for permits and licenses remained complex, problematic, and costly. It is important to note, however, that one government institution, the Philippine Economic Zone Authority, has made a strong impact due to its efficient operation and management. The DTI and the DILG are also intensifying their efforts to improve the business permit and licensing system.

On the overall, **one important lesson that can be drawn from Philippine experience is that market-oriented economic reforms need to be accompanied by good infrastructure and efficient institutions to support the new economic environment**. To effectively implement economic reforms, the government must substantially increase its investment spending and strengthen its weak institutional and regulatory environment. Many complementary policies and institutions that are necessary to support the reforms and generate supply-side responses leading to employment and growth are missing. This is one of the important factors for our disappointing growth. If market reforms are to have their intended effects, "behind the border" complementary policies that define the business environment must be addressed including investment in human capital, infrastructure, and the quality of governance in the country (ibid). Note, however, that Constitutional restrictions still limit foreign participation to 40% in sectors such as public utilities, Build-Operate-Transfer (BOT) projects, and similar private sector-led infrastructure arrangements.

Ways Forward

All these pose a great challenge to the Aquino Administration. In view of the deepening regional economic integration via the implementation of country's commitments to the AEC Blueprint, the paper puts forward policy recommendations which are necessary in order to reduce the gap between policy and implementation, improve the investment climate, and boost the country's competitiveness to enable us to catch up with our neighbors and take advantage of the opportunities offered by the AEC. The Aquino government should make full use of its popularity and wide support from broad sectors in society to carry out these badly needed institutional and regulatory reforms together with huge infrastructure spending.

Building on the recommendations highlighted not only in the present survey but also in the other investment surveys covering both IPAs and firms, the following recommendations are proposed:

1) Unify and centralize the investment promotion and facilitation efforts by all IPAs under one agency with strong leadership. The IPAs were created by different legislations

administered by different government bodies without an overall coherent and integrated investment promotion and facilitation strategy that would guide IPA activities. Each IPA individually coordinates with national agencies and LGUs. In the absence of standard procedures and processes for all IPAs, different arrangements emerged with some IPAs facing more difficulties than others. It is important to establish a single mechanism to coordinate the business registration and investment promotion and facilitation policies with the national and local governments including standard procedures for granting of tax incentives and exemptions to investors. The case of Singapore's Economic Development Board (EDB) shows how a one-stop and lead agency for investment promotion has played a crucial role in Singapore's continued economic success. The crafting and passing of a legislation to centralize investment promotion and facilitation activities under a single agency should therefore be prioritized.

2) Strengthen the current efforts of the PIPP inter-agency committee to coordinate the various IPAs' actions and plans. This may be viewed as a transitional arrangement while a lead agency for investment promotion and facilitation is yet to be created. IPAs should synchronize their efforts in promoting the country, image-building activities, providing after sales service to investors and implementing the country's investment plan. They should update information regularly and make these easily available on-line. To be effective, IPAs should have sufficient resources.

3) Other IPAs in the country should learn and adopt the "PEZA way" in dealing with operational issues such as slow processing of permits and other clearances required by national agencies and local government units. As studies by Akinci (2008) and Booz Allen Hamilton (2008) showed, PEZA has successfully combined regulation and promotion. Its one-stop shop is very efficient and effective and has reduced the cost of doing business leading to increased competitiveness of firms.

4) To improve the operational environment and investment climate, IPAs should closely collaborate with national agencies and local government units particularly in the following areas:

   - Automation of business procedures in national government agencies, procedures and guidelines should be transparent
   - Streamlining interrelated procedures handled by different national government agencies
   - Implementing clear and consistent policies, any policy changes should be communicated effectively
   - Providing assistance to prospective investors as well as in promoting the country.

5) To review the existing investment incentives towards a more comprehensive and harmonized set of incentives governing all the IPAs. IPAs cannot and should not compete on the basis of fiscal incentives, but rather differentiate themselves in terms of facilities, services, and most importantly through streamlined procedures (FIAS 2008). As the survey results showed, most of the firms used IPAs primarily to get fiscal incentives. Currently, investment incentives have also widely differed from each other. PEZA offers income tax holiday (ITH) and a 5% income tax rate after; BOI has ITH but no 5% tax rate while both Subic and Clark have only a 5% tax rate but no ITH.

As the survey results showed, AEC 2015 is seen by most firms as offering both challenges and opportunities. To take advantage of the opportunities, the above suggested reforms must be accompanied by the following:

6) Increase infrastructure investment in physical infrastructure, power and logistics in particular, to reduce the cost of doing business in the country. Modern and efficient air, land, and sea infrastructure should be built fast enough.

7) Review the Constitutional limitations on foreign equity particularly the 60-40 rule. While limitations on foreign equity in these sectors cannot still be directly addressed, the government has to continue implementing measures to promote competition and strengthening institutional and regulatory framework particularly in public utilities. The Philippines is already considered as relatively open vis-à-vis its ASEAN neighbors. Foreign entry remains restricted in a substantial number of important economic sectors.

8) Improve institutional infrastructure by addressing corruption, which together with poor infrastructure, has severely weaken our competitiveness.

Note that although a large domestic market remains a powerful market for investors, multinational companies serving global markets increasingly look for world-class infrastructure, skilled and productive workers, innovative capabilities, and an agglomeration of efficient suppliers, competitors, support institutions and services (UNCTAD 1999). At the regional level, individual ASEAN countries are facing the huge challenge of improving their competitiveness. To be successful, the AEC must be accompanied by complementary policies and programs especially at the national level (Aldaba, Yap and Petri 2009). Member States should continue to implement their investment and trade reforms in line with the ACIA simultaneous with reforms to improve their domestic business environment, including economic regulations, corporate governance, and labor laws. Member Countries should also develop their logistics infrastructure and create stable legal and economic systems to increase FDI inflows. At the same time, ASEAN Member Countries need to come up with, unilaterally and collectively, structural adjustment and reform assistance and capacity building measures to help those sectors that would be adversely affected by the reforms.

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IV.D. Labor Mobility and MRAs on Professional Services[57]

IV.D.1. Introduction

Since 1997, ASEAN has emphasized the need to liberalize services trade through the adoption of the ASEAN Framework on The Trade in Services (AFAS). The AFAS aims to substantially eliminate trade restrictions in services among member countries and promote efficiency and competitiveness of ASEAN service suppliers. Aside from the main obligations of market access and national treatment, AFAS establishes general guidelines for mutual recognition, denial of benefits, dispute settlement, institutional mechanism and other areas of cooperation in the services sector. Similar to the GATS, the AFAS adopts a "positive list or bottom-up" approach in service trade liberalization such that only those sectors which they are ready to liberalize are listed by Member Countries. For each sector or sub-sector on the positive list, commitments are made for market access and national treatment across each of the 4 modes[58] of supply. Under the AFAS, ASEAN Member States (AMS) may recognize the education or experience obtained, requirements met, and licenses or certifications granted in other AMS, for the purpose of licensing or certification of services suppliers.

Mutual Recognition Arrangement (MRA) is one of the more recent developments in ASEAN cooperation on trade in services. MRAs enable the qualifications of professional services suppliers to be mutually recognized by signatory Member States; hence facilitating the movement of professional services providers in the ASEAN region. Currently, the Philippines has signed seven Mutual Recognition Agreements in the following professional services concluded under the ASEAN:

- Engineering services (9 December 2005)
- Nursing Services (08 December 2006)
- Architecture (19 November 2007)
- Land Surveying (19 November 2007)
- Medical Practice (26 February 2009)
- Dental Practice (26 February 2009)
- Accountancy (26 Feb 2009)

There are many challenges facing the MRA implementation in the country. Domestic laws and regulations need to be changed in order to align and support the specific MRAs. The lack of budgetary support by lead stakeholders and inadequate collaboration among the public and private sectors have also been cited as another constraint. Some professional organizations like the accountants have commenced bilateral negotiations with counterpart bodies, taking into account the various differences in educational system, legal framework, institutional mechanism and socio-economic conditions. Both the Professional Regulatory Commission (PRC) and the Department of Labor and Employment (DOLE) are also in the process of putting policy measures in place to facilitate MRA implementation in the country.

[57] This section was drafted by Dr Rafaelita Aldaba, Senior Fellow at PIDS.

[58] Mode 1: Cross-Border Supply, where services cross border independent of the suppliers or consumer
Mode 2: Consumption Abroad, where consumers cross border to consume services
Mode 3: Commercial Presence, where suppliers and capitals cross borders to establish local offices or subsidiaries.
Mode 4: Movement of Natural Persons, where the suppliers are physically present in a country on a temporary basis.

The paper aims to identify the facilitating and deterring factors affecting the implementation rate of MRAs. A survey was initially conducted among the seven professional bodies along with a focus group discussion in cooperation with members of the PRC and DOLE. After the introduction, Part II discusses the legal framework on the practice of professions in the Philippines. Part III reviews the current status of MRA implementation in the five professions covering engineering, nursing, architecture, medical practice, and dental practice. Part IV presents the results of the survey and Part V summarizes the main findings and recommendations.

IV.D.2. Regulatory Environment

The Philippine Constitution and other legislations restrict the practice of professions to Filipino nationals. Article XII, Sec. 14 of the Constitution states that the practice of all professions in the Philippines shall be limited to Filipino citizens, save in cases prescribed by law. Republic Act 5181 requires permanent residence (at least three years) and reciprocity[59] to qualify for any examination or registration for the practice of any profession in the Philippines; provided that the practice of said professions is not limited by law to Filipino citizens.

Republic Act 7041 (Foreign Investment Act of 1991 as amended by RA 8179) restricts the following professions to Filipino citizens: engineering, medicine and allied professions, accountancy, architecture, criminology, chemistry, customs brokerage, environmental planning, forestry, geology, interior design, landscape architecture, and law.

Professionals are regulated and screened by the Professional Regulatory Commission (PRC). Republic Act 8981 (PRC Modernization Act of 2000) allows exceptions by allowing foreign professionals to work in the Philippines pursuant to foreign reciprocity provisions. Section 7J of RA 8981 states that upon recommendation of the concerned Professional Regulatory Board (PRB), the PRC may approve registration of and authorize issuance of certificate of registration/ license and professional identification card with or without examination to a foreigner who is registered under the laws of his state/country and whose certificate of registration issued therein has not been suspended/ revoked: provided,

a) Requirements for registration/ licensing in said foreign state/ country are substantially the same as those required/ contemplated by laws of the Philippines and that the laws of such foreign state/country allow citizens of the Philippines to practice the profession on the same basis and grant the same privileges as those enjoyed by subjects or citizens of such foreign country/state;

b) That the Commission may, upon recommendation of the Board concerned, authorise the issuance of a certification/ license or special temporary permit to:

   - Foreign professionals who desire to practice their professions in the country under reciprocity and other international agreements.
   - Consultants in foreign funded, joint-venture or foreign assisted projects of the government
   - Employees of Philippine/ foreign private firms/ institutions pursuant to law, or health professionals engaged in humanitarian mission for a limited period of time

[59] For foreigners, the country of which he is a subject or citizen permits Filipinos to practice their respective professions within its territories.

c) Agencies/organisations/ individuals whether public or private, who secure the services of a foreign professional for reasons aforementioned shall be responsible for securing a special permit from the PRC.

Currently, the Professional Regulation Commission is in the process of preparing the guidelines for the exceptions.

Non-resident aliens may be admitted to the Philippines for employment purposes after a determination of the non-availability of Filipino citizen who is competent, able and willing at the time of application to perform the services for which the alien is desired. As stipulated in Article 40 of the Labor Code, the labor market test (LMT) is a prerequisite for legitimate alien employment in the country. Through this, the Department of Labor and Employment regulates the inflow of foreign workers in the country. The DOLE is in charge of alien employment registration and certification. In an interview with a DOLE official, it was pointed out that in practice, the LMT is liberally implemented. After the DOLE announces the application for Alien Employment Certification[60] in newspapers of general circulation and there are no contestations, the alien is granted a permit to work. Around 12,000 permits are granted each year and mostly, these are for managerial positions.

Since 2001, the DOLE has been implementing measures for the simplification of requirements and procedures in the issuance of alien employment permits (AEPs). With the issuance of DOLE Department Order No. 12, series of 2001, rigid requirements like the understudy training program and endorsements from other government agencies were removed from the requirements and process cycle time was reduced to 7 working days. On 29 February 2012, Department Order No. 120-12 was issued, amending Department Order No 97-09, to further remove rigidities in the application for AEP, i.e. ocular and verification inspections were removed in the guidelines, copy of AEP as a requirement in the application for renewal was deleted, derogatory record as basis for denial and cancellation of AEP was changed to conviction of a criminal offense or fugitive from justice, notarization of application form is not anymore required, among others. Process cycle time was further reduced to one day in case of renewal and three days for new application. Documentary requirements were reduced to only four, which include: 1. application form, 2. Contract of employment or Appointment or Corporate Secretary's certificate of election, whichever is applicable, 3. Mayor's permit, and 4. Copy of passport with visa.

For all professions, the issue of enacting new rules and/or regulations has been difficult due to the Constitutional and other restrictions earlier discussed. To help facilitate our commitment under the ASEAN MRAs. the Department of Labor and Employment is currently in the process of preparing a positive list and identifying skills shortages. The positive list will contain a list of occupations that are hard to fill; this implies that there are no available or only a few applicants for the said position. The DOLE indicated that the positive list may include two professions from each of the priority areas of the ASEAN and serve as signal for those occupations/sectors where labor market test will not apply. The proposed positive list is based on the studies and consultations conducted by DOLE such as the 2010

[60] The Alien Employment Permit (AEP) is a permit issued to a non-resident alien or foreign national seeking admission to the Philippines for employment purposes after a determination of the non-availability of Filipino citizen who is competent, able and willing at the time of application to perform the services for which the alien is desired.

Project JobsFit[61]. The list of occupations with the qualification standards will be finalized after a consultation with the stakeholders within the year.

IV.D.3. MRA Implementation Status[62]

It is important to note that the ASEAN MRA for each professional service has its own characteristics and uniqueness. The seven professional services can be grouped into three main categories based on patterns and mechanisms of MRA implementation. The first group consists of architecture and engineering services; the second group covers accounting and surveying; while the third group comprises of medical, dental, and nursing services. Given these differences in features and characteristics, the professional services have different MRA implementation mechanisms.

MRA implementation for the first group is more transparent with the registration mechanism handled by both the country of origin and the host country. The approval process to become an ASEAN Architect/Engineer is determined by an ASEAN level Council. For the second group, the approval has only passed in the MRA framework and another stage is still required to come up with an agreement, both for the bilateral and multilateral ones. For the third group, the MRA implementation mechanism (a registration mechanism) is relatively less systematic than the first group due to the absence of an approval process set by an ASEAN level Council and which eventually hinders the progress of its MRA implementation.

Table D.1 summarizes the scores measuring the progress of MRA implementation for each of the five professions covered by the survey. The scores are weighted based on the stages of MRA implementation in the country including the preparation of MRA implementation institutions and regulatory environment. The scoring system does not include accounting and surveying because the agreement of both services is limited to the Framework of the MRA.

Table D.1: Philippine Scorecard for MRAs on Architecture, Engineering, Medical, Dental, and Nursing Professions

Architecture	Score	Weight	Weighted Score
MRA Implementation ASEAN Member State Level	0.55	0.4	0.22
Regulatory Environment	0.5	0.4	0.20
Overall National			**0.42**
Engineering	Score	Weight	Weighted Score
MRA Implementation ASEAN Member State Level	0.55	0.4	0.22
Regulatory Environment	0.1	0.4	0.04
Overall National			**0.26**
Medical	Score	Weight	Weighted Score
Regulatory Environment	0.45	0.5	0.225
Overall National			**0.225**
Dental	Score	Weight	Weighted Score
Regulatory Environment	0.4	0.5	0.2
Overall National			**0.2**
Nursing	Score	Weight	Weighted Score
Regulatory Environment	0.5	0.5	0.25

[61] Project JobsFit: The DOLE 2020 Vision is a nationwide research study that involved environmental scanning, information gathering, consultation, and 'signaling' activities aimed at identifying local and global industries that would drive employment growth, including the corresponding skills requirements, for the next ten years.

[62] Based on the MRA Scoring System and MRA Survey Questionnaire used for the ASEAN MRA Scorecard: Philippines, a project of the ERIA in 2011.

Overall National			**0.25**

Overall, the implementation of Mutual Recognition Agreements (MRAs) in the country has been rather slow. Architecture and engineering are at the same level with both having complied with the submission of official notification of participation. Some slight differences are noted in terms of the progress of setting-up a Monitoring Committee (MC). In engineering, the MC has already been set-up, however, in architecture, the process is still ongoing. In terms of the Assessment Statement preparation, submission and approval; in architecture, the Assessment Statement has already been submitted and waiting for approval. In engineering, the Assessment Statement is still being prepared.

In terms of regulatory environment preparation, the professions are almost at the same stage, except in engineering which has been lagging relative to the rest. For all professions, the issue of enacting new rules and/or regulations has been difficult due to the Constitutional and other restrictions. Most have collected and reviewed rules and regulations, carried out public information dissemination activities, translated domestic regulations in English and developed websites for MRA related information. In engineering, only the translation of domestic regulations in English has been implemented so far.

IV.D.4. Recommendations

The Philippines has signed seven Mutual Recognition Agreements (MRAs) in engineering, nursing, architecture, surveying, medical, dental practice, and accountancy. Due to the fundamental legal constraints in the Philippine Constitution, the practice of professions is restricted to Filipino nationals. However, exceptions are allowed in cases of foreign reciprocity. But despite this, for all professions, the issue of enacting new rules and/or regulations has been difficult due to the Constitutional and other restrictions. In terms of reciprocity provision, there are no clear procedures and guidelines in place and in the case of temporary special permits, the law still needs to be revised to allow complete borderless practice. The initial ERIA survey under the AEC Scorecard Project showed the slow progress of MRA implementation in the Philippines.

The present survey further examines the facilitating and deterring factors affecting the implementation rate. At the national level, facilitating factors cited include MRA implementation as part of the national government agenda, awareness programs, close coordination with the government, and projects to facilitate improvements in the quality of practice and address sector issues. Deterring factors include absence of a comprehensive program to implement the MRA, absence of comprehensive databases, research studies on best practices and review of foreign reciprocity, absence of a coordinating body that would provide the necessary information on what the MRA is, its objectives and mechanics involved as well as its implications, weak coordination between national government agencies involved in negotiations and professional regulatory bodies and among national government agencies in policy making, information gathering, dissemination and advocacy efforts.

At the regional level, facilitating factors include willingness to share best practices among the AMSs and the presence of mechanisms for coordination among AMSs. Several deterring factors have been identified such as the different levels of competencies among the ASEAN Member countries due to differences in curriculum; different requirements for licensure examination; and language barrier, limited resources for capacity building, and weak regulatory process to maintain or enforce agreed standards.

To move the implementation of the MRAs forward, the following measures are recommended:

- Continue to implement measures to improve the process and create clear criteria for the LMT and the skill shortage list or positive list of occupations that are difficult to fill. The positive list is important because it provides not only information on skill shortages to help the government in its education and training policy; but also the list of occupational shortages can serve as input to policy discussion in AFAS (C. Stahl 2011).
- At the regional level, pursue the development of a common list of occupations and/or sectors where LMTs can be abandoned.
- Formulate clear rules and guidelines in implementing the foreign reciprocity provision.
- Address sectoral concerns particularly the conflicting regulations in engineering and standards and quality issues in nursing.
- Strengthen the capacity of PRC as the central body coordinating the different MRA activities to enable it to effectively perform its policy making, information gathering, dissemination and advocacy efforts.
- Formulate a comprehensive and strategic framework on MRA implementation containing in depth analyses of the impact of MRA implementation by sector (cost and benefit analyses); package of policy reforms and programs to facilitate the MRA implementation process; strategy for information dissemination, constituency building, networking and advocacy; adjustment alternatives and capacity building initiatives in the transition period; and strategy for resource mobilization to finance adjustments during the transition.
- Conduct more research impact studies on the implications of the MRA implementation.
- Conduct more information dissemination and awareness campaigns on MRAs.
- Conduct more capacity building and trainings both for the government and sector representatives.
- Increase funding for capacity building, coordination and networking and grants for conducting studies and generating consistent and readily available statistics for the government and the private sector.
- Encourage sustained sharing of best practices in basic education, core competency development, and implementation of code of ethics through collaborative conferences, research and exchange visits.
- At the regional level, it is important to develop a common formula for determining competencies and credentials among ASEAN Member States and adoption of the same by the AMS.

IV.E. Agriculture[63]

IV.E.1. Introduction

The ASEAN is moving towards a single economic community based on an ASEAN Economic Community blueprint (AEC), which calls for a single market and production base. Among the priorities foci for integration are enhancement of trade among ASEAN member countries, and long-term competitiveness of their food and agriculture products. By harmonizing their standards and quality and by standardizing their trade certifications, their agricultural products are expected to become more competitive in the global market.

ASEAN is moving towards standardizing practices and food safety systems such as adoption of Good Agriculture Practices (GAP), Good Aquaculture Practices (GAqP), Good Animal Husbandry Practices (GAHP), Good Hygiene Practices (GHP), Good Manufacturing Practices (GMP), and Hazard Analysis Critical Control Point (HACCP)-based systems. The blueprint emphasizes agricultural cooperatives for they are seen as a means also to enhance market access of agricultural products.[64]

Currently (and consistent with Paragraph 77), a midterm review (MTR) of the AEC Blueprint is underway. The review shall *"focus on areas considered essential and to contribute most towards the realisation of AEC by 2015. In this context, the MTR shall assess the gap between the implementation status and targets set as well as provide recommendations to enhance the implementation of the AEC Blueprint"*.[65]

The Philippine agriculture study aims to assess the effectiveness of the integration measures implemented by the Philippines at the national level, in compliance with the AEC blueprint. Gaps in implementation and effectiveness would be identified, as well as the need to address these gaps. The assessment also covers the contributions of the proposed AEC to economic growth, employment, competitiveness, and social welfare. Data for the analysis would be obtained from a survey of respondents in the relevant government agencies, based largely on subjective rating by key informants. Based on the analysis, the study would lastly state recommendations towards enhancing implementation of the AEC blueprint on agriculture.[66]

The rest of this report is organized as follows: background and issues of ASEAN integration for Philippine agriculture are reviewed in Subsection 2. The method for data gathering is presented in Subsection 3. Subsection 4 summarizes and states recommendations.

IV.E.2. Integration: Issues and Concerns for Agriculture

<u>Integration Initiatives</u>

In 1992, ASEAN member states agreed to create a trade block, the ASEAN Free Trade Area (AFTA). The AFTA implements a comprehensive program of tariff reduction under the

[63] This section was drafted by Dr Roehlano Briones, Dr Danilo Israel, and Ms Ivory Myka Galang (Senior Fellows and Research Analyst at PIDS, respectively).
[64] ASEAN Economic Community Blueprint.
[65] From the TOR and Inception Report.
[66] Forestry products are no longer a significant export item in the Philippines. The area is not usually discussed within a context of regional integration but typically as a domestic concern. As per inception meeting, this product was omitted in the report.

Common Effective Preferential Tariff (CEPT). Tariff lines within the CEPT are restricted to a 0 to 5% band within a timetable. Tariff lines under the Inclusion List fall under fast-track reduction, while lines under the Sensitive List provide a longer timetable. Lines under the Highly Sensitive List are given a higher tariff by end of timetable.

Tariff reduction was further accelerated under the ASEAN Trade in Goods Agreement (ATIGA). Under ATIGA, 99% of tariff lines under the Inclusion List would fall to zero-duty. The ATIGA retains the Sensitive and Highly Sensitive Lists; in the case of the Philippines for example, rice tariffs are expected to be reduced to 35% while sugar tariffs will be at 5% by 2015.[67] By 2010, 99% of tariff lines of the ASEAN-6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) in the Inclusion List were within the 0-to-5% band; likewise, 46% of tariff lines under the Inclusion List for CLMV countries (Cambodia, Laos, Myanmar, and Vietnam) are within the band. By 2015, tariffs on 98 to 100% of all tariff lines for all countries would be included (Tantraporn, 2011).

In addition to tariff reduction, the ATIGA provides for "AFTA plus", involving elimination of non-tariff barriers, customs harmonization, and common certification standards.

For crops, the ASEAN GAP was launched in 2006 to cover production, harvesting and post-harvest handling of fresh fruits and vegetables in the ASEAN region. Its purpose are to enhance the harmonization of national GAP programs within the ASEAN region, enhance fruit and vegetable safety for consumers, ensure sustainability of natural resources and facilitate the trade of fruits and vegetables regionally and internationally.

ASEAN GAP consists of four modules covering food safety, environmental management, workers' health, safety and welfare, and produce quality. The national government in each ASEAN country is responsible for carrying out the certification process. This also becomes an opportunity for the less developed ASEAN members to develop their own national GAP as the ASEAN GAP includes guidelines like the code of recommended practices.[68]

Another set of standards relates to Maximum Residue Limits (MRLs). ASEAN has thus far established 802 harmonized maximum residue limits for (MRLs) 63 pesticides. Among the fruits that have common standards adopted, which ensure freshness and quality, are mango, pineapple, durian, papaya, pomelo and rambutan.[69] ASEAN has also identified Guidelines on the Risk Assessment of Agriculture-related Genetically Modified Organisms (GMOs), as well as establishment of an ASEAN Genetically Modified Food Testing Network.[70]

For livestock products the GAHP was developed primarily to promote animal health and food safety. GAHP includes use of appropriate vaccine for the animals, disinfection of the barn/premises, proper clothing of the personnel, and proper disposal of dead animals. Meanwhile for fisheries, HACCP has been identified as the quality management system to ensure food safety and support competitiveness. The HACCP system is based on a systematic and scientific approach of identifying and eliminating hazards throughout the food chain, focusing on preventive measures, thus reducing need for inspection and testing of end-products.[71]

[67] BITR AFTA Overview.
[68] http://www.asean.org/Fact%20Sheet/AEC/AEC-05.pdf.
[69] www.aseansec.org/23098.htm.
[70] http://www.asean.org/13553.htm
[71] http://www.fao.org/docrep/W8088E/w8088e05.htm#module 1history and background of the haccp system.

The AEC blueprint also aims at joint approaches and technology transfer among member countries. These involve, among others, collaborative research, strategic alliances with the private sector, combating illegal logging and fishing, strengthening and networking of agricultural cooperatives to enhance market access, together with establishment of business linkages.

Agricultural Trade of the Philippines

The following discussion on agricultural trade is based on the Trade Map database (www.trademap.org), which permits disaggregation by direction of trade. We average statistics over a three-year period to smoothen out the data. Agricultural imports of the Philippines averaged $4.7 billion over the period 2008-2010 (Table E.1).

Table E.1. Imports and import shares of agricultural products, average of 2008-2010

	Value of imports,	Share of product in	Share of commodity
Rice	1,553	33.7	93.6
Other cereals	703	15.3	0.9
Miscellaneous edible preparations	473	10.3	46.9
Rubber and articles thereof	245	5.3	40.6
Cereal, flour, starch, milk products	220	4.8	42.3
Animal,vegetable fats and oils	186	4.0	81.4
Sugars and sugar confectionery	185	4.0	45.4
Tobacco	182	4.0	14.4
Cotton	152	3.3	10.8
Fish, crustaceans, molluscs, etc	143	3.1	13.9
Oil seed, oleagic fruits, grain, etc	131	2.8	24.7
Vegetable, fruit, nut, etc food preparations	102	2.2	21.2
Edible fruit, nuts, peel of citrus, melons	97	2.1	2.0
Maize (Corn)	69	1.5	30.8
Edible vegetables, roots and tubers	61	1.3	21.9
Coffee	44	1.0	99.3
Lac, gums, resins, etc	27	0.6	7.9
Live animals	15	0.3	1.2
Products of animal origin	12	0.3	2.3
Meat, fish and seafood food preparations	7	0.2	28.8
Vegetable products	0	0.0	20.7
Total	4,607	100.0	50.1

Imports are dominated by rice, followed by other cereals and miscellaneous edible preparations. Other major imports are rubber and rubber products, cereal and dairy products, fats and oils, sugar, and tobacco. Imports from ASEAN total about $2.3 billion (about half of imports). Rice imports are primarily from ASEAN, as are fats and oils; ASEAN is also a major source of miscellaneous preparations, rubber and cereal products.

Table E.2 presents the export side. The Philippines' top export commodities are coconut oil, followed by fruits, vegetable food preparations, meat and related preparations, and fish. ASEAN is a key market only for exports of minor products such as coffee and cereals, although over than 40% of tobacco exports end up in the ASEAN market.

Table E.2. Exports and export shares of agricultural products, average of 2008-2010

	Value of exports	Share of product in	Share of ASEAN in
Coconut	967	26.8	3.3
Edible fruit, nuts, peel of citrus, melons	635	17.6	3.9
Vegetable, fruit, nut, etc food preparations	336	9.3	8.3
Rubber and articles thereof	329	9.1	17.4
Meat, fish and seafood food preparations	319	8.8	2.5
Fish, crustaceans, molluscs, etc	305	8.4	7.7
Tobacco	220	6.1	42.3
Sugars and sugar confectionery	132	3.7	32.5
Cereal, flour, starch, milk products	113	3.1	26.3
Lac, gums, resins, etc	100	2.8	3.7
Miscellaneous edible preparations	89	2.5	19.8
Oil seed, oleagic fruits, grain, etc	30	0.8	21.7
Edible vegetables, roots and tubers	18	0.5	14.7
Cotton	8	0.2	6.5
Live animals	4	0.1	8.9
Products of animal origin	2	0.1	10
Cereals	2	0.1	63.7
Vegetable products	2	0.1	2.6
Coffee	0	0.0	69.0
Total	3611	100	10.3

Next we examine trends over time. We take the ratio of import (export) share by country and commodity in the recent period over the same import (export) share in a base period. select the average of 2001-2003 as the base (2001 being the earliest year for the Trademap data). The import ratios are shown in Table E.3. The first numerical column presents the product share of the recent period as a ratio to the base period; the second numerical column presents the trade share of ASEAN in the recent period as a ratio of the base period. Rice, the biggest import item, also gained the most, gaining import share by over eightfold over the decade. The other major import items also registered the largest import share gains, except for coffee and maize. ASEAN has emerged as an increasingly important source of maize, vegetable preparations, oil seed, and meat preparations.

On the export side, cereals grew five-fold, as did tobacco (Table E.4). Other significant market share gainers are rubber, vegetable products, meat and seafood prerpations, as well as coconut. Significant gains were observed for Philippine exports to ASEAN for vegetable, fruit and nut food preparations. ASEAN as a market destination is gaining in importance for some commodities, but these tend to have small product shares in total.

Table E.3: Import share ratios by agricultural product, 2001-2003 and 2008-2010

	Imports	ASEAN
Rice	8.1	1.4
Animal, vegetable fats and oils	3.3	1.1
Edible fruit, nuts, peel of citrus, melons	3.0	0.2
Products of animal origin	2.8	0.2
Coffee	2.7	1.1
Fish, crustaceans, molluscs, etc	2.4	0.6
Miscellaneous edible preparations	2.2	1.1
Sugars and sugar confectionery	2.0	1.5
Cereal, flour, starch, milk products	1.8	1.0
Maize (Corn)	1.8	2.1
Vegetable, fruit, nut, etc food preparations	1.7	2.7
Lac, gums, resins, etc	1.7	0.6
Edible vegetables, roots and tubers	1.5	1.8
Rubber and articles thereof	1.3	1.4
Other cereals	1.2	1.7
Oil seed, oleagic fruits, grain, etc	1.0	3.0
Tobacco	0.8	0.4
Cotton	0.3	1.7
Meat, fish and seafood food preparations	0.2	5.8
Live animals	0.2	0.6
Vegetable products	0.1	0.4

TableE.4: Export share ratios by agricultural product, 2001-2003 and 2008-2010

	Exports	ASEAN
Cereals	5.2	1.0
Tobacco	4.7	1.2
Rubber and articles thereof	3.6	0.8
Vegetable products	3.1	0.5
Meat, fish and seafood food preparations	2.6	0.3
Lac, gums, resins, etc	2.2	0.9
Coconut	2.1	0.3
Cereal, flour, starch, milk products	1.8	0.6
Sugars and sugar confectionery	1.7	1.5
Miscellaneous edible preparations	1.6	1.3
Vegetable, fruit, nut, etc food preparations	1.4	17.4
Coffee	1.2	4.1
Edible fruit, nuts, peel of citrus, melons	1.2	3.4
Live animals	1.0	0.4
Fish, crustaceans, molluscs, etc	0.9	2.0
Oil seed, oleagic fruits, grain, etc	0.6	2.4
Edible vegetables, roots and tubers	0.5	1.0
Products of animal origin	0.4	4.4
Cotton	0.1	0.3

Key Agencies for Implementation of the AEC Blueprint in the Philippines

The implementation of harmonization measures for agricultural products is under the regulation of various government agencies. The DA is the principal agency that implements

food safety and quarantine of agricultural products that are fresh, live and semi-processed.[72] The Bureau of Agriculture and Fisheries Product Standards (DA-BAFPS) is tasked by the Agriculture and Fisheries Modernization Act (AFMA) to formulate as well as enforce standards for fresh, primary and secondary processed agricultural products (Bondad, 2012). It conducts research on product standardization, including alignment of local standards with international standards. DA-BAFPS is the national inquiry point for Codex Alimentarius and other food safety regulatory bodies. It is the lead agency for ASEAN harmonization of standards on horticultural produce and other food crops, as well as for food safety management and certification systems. It conducts national food safety and quality trainings to disseminate standards to stakeholders. Thus far there are 110 Philippine National Standards (PNS) covering cut flowers, vegetables, fruits, cereals, beverages, coconut and by-products, fishery and fishery products, and sugar.

DA-BAFPs is chairperson of GAP certification, as well as co-chair and secretariat for GAHP. Certification is harmonized throughout ASEAN for GAP and GAHP; harmonization is in process for GAqP, which has likewise been developed for the Philippines based on HACCP.

Under BAFPS oversight are frontline regulatory agencies of DA. The Bureau of Fisheries and Aquatic Resources (BFAR) regulates the fisheries industry and is responsible for issuing HACCP certification as well as food safety regulation for fish processing plants, as well as imports and exports of fish.[73] The Bureau of Plant Industry (DA-BPI) is tasked to prevent entry and spread of plant pests and enforce phytosanitary measures on plant and product exports. The Bureau of Animal Industry (DA-BAI) regulates animal feeds, prevent and control infectious animal disease, and controls the movement of animals and animal products, via certification, quarantine clearances, and permits.[74] The National Meat Inspection Service (NMIS), under RA 9296 or the Meat Inspection Code, serves as the sole national controlling authority to implement policies, programs, guidelines, and rules and regulations pertaining to meat inspection and meat hygiene to ensure meat safety and quality from farm to table.[75]

Aside from standards harmonization, the AEC blueprint also refers to collaboration in research and among agricultural cooperatives. Agricultural research in the Philippines under the DA is within the purview of the Bureau of Agricultural Research (DA-BAR); the body overseeing the national agricultural research system is the Philippine Council for Agriculture, Aquatic, and Natural Resources Research and Development (PCARRD), under the Department of Science and Technology (DOST). In charge of registration, regulation, and support for cooperatives in the Philippines is the Cooperatives Development Authority (CDA), under the Department of Finance.

Issues in Implementation

A number of issues have been raised about implementation of commodity and production and processing/distribution standards (Lacson, 2005). One problem is the overlapping of functions and tasks of the concerned agencies, particularly between BAFPS, BPI, BAI, and BFAR. Another is the sequencing of import clearance: the Bureau of Customs (BOC) typically undertakes initial clearance, with quarantine procedures following. Tariffs and duties are already collected *prior* to inspection for SPS measures implemented by DA, which

[72] The Department of Health-Bureau of Food and Drugs (DOH-BFAR) is tasked with ensuring that processed food and agricultural products are safe for human consumption.
[73] http://www.bfar.da.gov.ph/pages/Legislation/FAO/fao212.html
[74] http://www.bai.ph/?page=aboutus
[75] http://nmis.gov.ph/index.php/about-nmis-men/73-brief-history

may raise problems for some importers; furthermore traders who seek to evade customs duties (smugglers) would perforce also evade quarantine.

Few studies have examined the impact of standards and certification systems of the Philippines. Bathan and Lantican (2009) show that in the case of pineapple, Philippine standards were consistent with global standards, and there was no deterioration in competitiveness of pineapple exports under the Sanitary and Phytosanitary Measures (SPS) regime of the World Trade Organization (WTO).

A more detailed study of the impact of HACCP certification for fisheries is provided by Ragasa et al (2011). Using survey data of seafood exporters, it compares costs and benefits from continued or discontinued EU HACCP certification. They find statistically significant differences between certified and decertified firms, mainly in the form of increase in sales associated with certification. In particular, certified firms are able to increase the share of exports going to EU. However there are costs associated with certification, particularly those related to price and acquisition of quality raw materials. De-certified firms cited budget constraint and the prospect of not being able to recover costs of compliance. The study found that for certified firms, certification is a rational decision as benefit exceeds cost; net benefit is about 0.8% of production value. Meanwhile for de-certified firms, cost exceeded benefits owing to decreasing ability to sale to the EU market, hence the decision to de-certify is likewise rational choice.

IV.E.3. Methodology

This study combines desk review with primary data based on assessments by key informants (i.e., a form of expert opinion). The desk review covers reports and past studies on regional integration, a broader context in terms of salient features of Philippine agriculture, and related background information (such as relevant private and public sector institutions). Meanwhile, key informants are drawn from heads of the relevant line bureau and agencies concerned with implementing the AEC Blueprint for agriculture, mainly from the Department of Agriculture (DA) and related agencies (DA-BAFPS, DA-BPI, DA-BFAR, DA-BAI, DA-BAR), as well as CDA.

Interviews were conducted according to a structured questionnaire on food and agriculture sector made by the regional study team. The questionnaire covers intra- and extra- ASEAN trade, the long-term competitiveness of ASEAN's food and agriculture commodities, and assessment of the implementation of HACCP-based systems. It also looks into the harmonization of quarantine and inspection procedures, MRLs, issues related to GAP, GAHP, GHP, and GMP. It also focused on the cooperation in R&D, technology transfer, among agricultural cooperatives, and the private sector.

Summary of survey results

For fisheries the survey results may be summarized as follows:

- HACCP-based systems have been implemented, validated and verified. Generally, however, in is only in the processing area that this is happening. Furthermore, only the large processing firms can comply because the needed investment to do so is high.
- The quality and safety management systems generally have not been adopted among SMEs in the fisheries sector because they a) cater largely to the domestic market; b) perceived costs of adoption is high; and c) perceived returns from adoption is low.

- The quarantine and inspection/sampling procedures have been harmonized with ASEAN or international standards/guidelines but there are reports that some shipments enter through the backdoor and just bypass quarantine and inspection.
- The harmonization of Maximum residue limits (MRLs) of commonly used pesticides for widely traded fish products in accordance with international standards/guidelines is in progress. Since pesticides are poisonous and/or carcinogenic, consumers benefit. But meeting the MRLs is costly to producers.
- Good Aquaculture Practices (GAqP) is yet to be finalized at the ASEAN level.
- The establishment/adoption/implementation of good aquaculture and fisheries practices for products with significant trade/trade potential is continuing. Implementation is hindered by perceptions that the practices are not pro-poor but only intended for those commercial operators who are engaged in the export trade.
- The use of chemical in aquaculture and measures to eliminate the use of harmful chemical been harmonized in accordance with international standards/guidelines.
- Collaborative research and technology transfer with other ASEAN member countries in fisheries have been undertaken, such as through (SEAFDEC AQD) and NACA.
- The strengthening of efforts to combat illegal fishing in continuing but with limited progress so far.
- The strengthening of linkages with regional networks of fisheries research and development in ASEAN and East Asia Countries is continuing.
- Linkages with private sector is at a fair stage of development; however, strategic alliances and business linkages between local fisheries cooperatives and those in other ASEAN countries have not been strengthened.

For crops and livestock the survey results may be summarized as follows:

- In the case of crops and livestock, the trade-related requirements (quarantine, GAP, GAHP, MRL) have all been harmonized, although implementation gaps with respect to quarantine may be noted owing to inadequate laboratory facilities, materials, and staff.
- The impact of trade harmonization measures ranges from Substantial to Much; similarly costs lie within the same range. Nevertheless gains for competitiveness are generally rated as Much.
- Cooperation in the area of technology transfer, R&D, private sector linkages, and cooperative linkages, are much more mixed.
- In the case of the private sector for instance, one major constraint is lack of interest as the private sector prefers its own networking. Private sector cooperation provides substantial benefits but commensurate cost – which may account for low levels of participation of private sector players.
- Technical cooperation and R&D, participation is limited. With respect to technology transfer and R&D, engagement with other ASEAN member countries is on a multilateral basis, rather than through ASEAN or bilateral arrangements.
- For cooperatives, participation is limited to NEDAC (Network for the Development of Agricultural Cooperatives), whose membership goes beyond ASEAN. Networking however has not matured to the level of international business linkages among or between cooperatives. Cooperatives benefited Very much from their participation, particularly in terms of information and building capacity through observing good governance practices in other successful organizations. Costs are minimal especially with government support.

IV.E.4. Conclusion and Recommendations

Gaps in AEC blueprint implementation

The widest gaps in AEC blueprint implementation appears to be in cooperation areas related to private sector linkages, agricultural cooperatives, R&D, and technology transfer. For the private sector, a key factor accounting for the gap is preference for own networking and business arrangement. Where government is offering support, say for market access, the private sector is engaged only if they have a direct interest and if there are few or no viable alternatives, as in the case of HACCP certification which is required by developed country markets. Similarly for R&D and technology transfer, ASEAN member countries are already pursuing wider regional and global networks, hence specific Southeast Asian or bilateral ties are seen as less necessary for mainstreaming. Meanwhile development of producer cooperatives is at a nascent phase within each country, let alone participate in international commercial linkages. There is nonetheless an active international alliance (though membership is not specifically confined to ASEAN).

As for trade-related harmonization, considerable progress has been made in GAP, GAHP, GHP, and GMP. In general harmonization is most advanced where foreign markets have imposed stringent standards, i.e. the case of HACCP. The other aspects have not been as mandatory hence interest in these is lower. For some key markets the Philippines has worked out bilateral arrangements, e.g. mangoes for Japan and the US, with standards specifically tailored for these markets. Conversely there is less interest for market access for developing countries and ASEAN itself, given lack of mandatory requirement, and relatively low levels of trade integration with these markets.

While the Philippines is monitoring aquaculture activities intensively, work on ASEAN GAqP is yet to be concluded. This is certainly one area were ASEAN work should be expedited.

Another major gap is implementation of HACCP for small enterprises. The costs for small enterprises are simply too high, and few are expected to export; hence there is no reason for small enterprises to invest in certification. In general, aside from HACCP, quality and safety standards are expected to tighten in the medium to long term. This raises concerns about exacerbating the dual development structure of agricultural production in developing countries. One mechanism to open up market access is to engage cooperatives and other collective arrangements among small producers in the trade harmonization. Such a prospect appears to not have been mentioned in the cooperatives and related sections of the AEC blueprint.

Recommendations

The recommendations are fairly straightforward based on the aforementioned gaps:

1. Re-examine objectives and targets for cooperation with the private sector, agriculture cooperatives, R&D, and technology transfer. To avoid unnecessarily raising expectations, objectives and targets for these areas of cooperation should be specific, and based on rationale for collective action across member countries. Note that trade standard harmonization is easily justified given that acceptance by outside importers of ASEAN standards *ipso facto* carries over to domestic certification. However the collective rationale for cooperation in the other areas need to be better articulated.

2. Within trade standard harmonization, a couple of action items are:
   2.1. Expedite completion of the ASEAN GAqP.
   2.2. Highlight the issue of small producer inclusion. ASEAN-wide mechanisms towards inclusion of small producers hold a long-term potential for uplifting livelihoods of millions of small farmers and fishers in Southeast Asia through improved market access and value addition. Such inclusion cannot follow the same modality as standards certification for large exporting companies. To this end, the blueprint targets and objectives for cooperatives, including other types of producer assocations, should be re-formulated towards collective modalities of approval and certification.

Ways forward for the Philippines and ASEAN

- Stakeholders in the Philippines have generally pursued agricultural competitiveness for independent commercial, social, or environmental reasons, rather than pursuing a collective approach to standard-setting, governance, and enforcement. Both the Philippines and ASEAN should promote the AEC blueprint for agriculture more aggressively, with well-articulated reasons why a collective approach may improve over the status quo.
- The ASEAN should assist its member countries develop cheaper technologies and facilities that will allow them to meet it harmonized international food quality and safety standards at lower costs.
- The ASEAN should strengthen ASEAN-wide fisheries research and development as well as technology transfer by providing more funding support to regional agencies doing the task. National level funding alone would not be enough particularly for some countries in fiscal deficits so that ASEAN assistance would be direly necessary.
- The ASEAN should promote (on voluntary basis) organic farming practices, for crops, livestock, and aquaculture, together with mandatory ban on use of chemicals in aquaculture. It should move to effectively curtail IUU fisheries within and between its member countries and strongly discourage fish caught in this manner from being traded in ASEAN and other foreign markets.
- The Philippines, together with other ASEAN member countries, should assist SMEs to become active participants in international trade by enabling them to effectively meet international food quality and safety standards through technology, financial, marketing and other necessary forms of assistance.
- The Philippines should strengthen cooperatives and other producer associations in the Philippines by addressing their multifarious financial, organizational and other problems so that they can become a real player in the promotion of better food quality and safety, and good farming, handling, and processing practices.

IV.F. Competitiveness-Related Measures

IV.F.1. Competition Policy[76]

The Philippines does not have a comprehensive and developed anti-trust legislation implemented by a central government agency. In June 2011, however, the government issued Executive Order Number 45 designating the Department of Justice as the country's competition body. During President Aquino's inaugural address in 2010, he announced competition law as one of his priority bills. Currently, there are two different competition bills being deliberated at the House and Senate. One major difference between the two is in the organization of the competition body: the House Consolidated Bill proposes to create a new separate competition body while the Senate Consolidated Bill proposes to lodge it in the Department of Justice.

It is important to note that while the Philippines does not have a comprehensive anti-trust law, it has numerous competition legislations and regulations that deal with monopolies, combinations in restraint of trade, price control measures and consumer protection. These are widely fragmented and implemented by many different government institutions (refer to Tables F.1.1 and F.1.2). The Philippine Constitution prohibits and regulates monopolies, combinations in restraint of trade and other unfair competition practices. The Revised Penal Code defines and penalizes anticompetitive behavior that is criminal in nature. The Civil Code of the Philippines allows the collection of damages arising from unfair competition as well as abuse of dominant position by a monopolist. The Act to Prohibit Monopolies and Combinations in Restraint of Trade allows treble damages for civil liability arising from anticompetitive behavior.

Table F.1.1: Existing Antitrust Laws and Regulations

Competition Law	**Description**
Article XII, Section 19 Philippine Constitution	prohibits and regulates monopolies, combinations in restraint of trade and other unfair competition practices
Act No. 3247: Act to Prohibit Monopolies and Combinations in Restraint of Trade (Dec. 1925) Republic Act No. 3815: Revised Penal Code (Dec. 1930) Art. 186 Monopolies & Combination In Restraint of Trade (Revised Penal Code)	allows treble damages for civil liability arising from anticompetitive behavior defines and penalizes anticompetitive behavior that is criminal in nature Penalty of prison correctional in its minimum period or a fine ranging from P200 to P6000 or both shall be imposed
Republic Act 386: Civil Code of the Philippines (1949) Article 28	allows the collection of damages arising from unfair competition as well as abuse of dominant position by a monopolist Unfair competition in agricultural, commercial or industrial enterprises or in labor through the use of force, intimidation, deceit, machination or any other unjust, oppressive or highhanded method shall give rise to a right of action by the person who thereby suffers damage
Executive Order 45 (2011)	designates the Department of Justice as the country's competition body
Special Laws	**Description**
Republic Act 8752: Antidumping Act of the Philippines (1999)	Protect Filipino enterprises against unfair foreign competition & trade practices
Republic Act 8293: Intellectual Property Code of the Phil (1997)	protects patents, trademarks, and copyrights and provides for the corresponding penalties for infringement

[76] This subsection was drafted by Dr Rafaelita Aldaba, Senior Fellow at PIDS.

Batas Pambansa 68: Corporation Code of the Philippines (1980)	rules on mergers, consolidations, and acquisitions. It does not, however, address competition issues such as the possible abuse of dominant position arising from mergers and acquisitions
Batas Pambansa 178: Revised Securities Act (1982)	prohibits and penalizes manipulation of security prices and insider trading
Republic Act 7581: Price Act (1991)	to stabilize prices of basic commodities through price controls and ceiling mechanisms and prescribe measures against abusive price increases during emergencies and critical situations in order to protect consumers
Republic Act 7494: Consumer Act of the Philippines (1932)	consumer product quality and safety standards and includes deceptive and unfair sales practices like weight and measures as well as product and service warranties
Republic Act 8479: Downstream Oil Industry Deregulation Act (1998)	Deregulation of the downstream oil industry to ensure competitive market to encourage fair pricing, adequate & continuous supply of environmentally clean petroleum products
Republic Act 9136: Electric Power Industry Regulation Act (2001)	Restructuring of the electric power industry & privatization of the of the assets of the National Power Corporation

Table F.1.2: Government Regulatory Agencies

Regulatory Agency	Function
Department of Trade and Industry Bureau of Trade Regulation and Consumer Protection Bureau of Food and Drugs Bureau of Product Standards Board of Investments Intellectual Property Office	 protection of consumer welfare pioneer and nonpioneer industries and firms availing of BOI incentives protection of intellectual property rights
Securities and Exchange Commission	stock and nonstock corporations, resolves intra-corporate disputes and regulates all forms of securities, brokers and dealers, financing companies and investment houses
Bangko Sentral ng Pilipinas	banks and financial institutions
Insurance Commission	insurance companies
Housing and Land Use Regulatory Board	land use and real estate development
National Food Authority	rice, corn, wheat and other grains and foodstuff
Sugar Regulatory Administration	sugar industry
Philippine Coconut Authority	coconut industry
National Telecommunications Commission	telecommunications companies
Land Transportation Franchising and Regulatory Board	common carriers for land
Civil Aeronautics Board	companies engaged in air commerce
Maritime Industry Authority	shipping industry
Philippine Ports Authority	port operators and arrastre services
Department of Energy Energy Regulatory Board National Power Corporation	power generation companies and oil companies
Local Water Utilities Administration	water firms outside Metro Manila

There are also special legislations such the Anti-dumping Act, Intellectual Property Code, Revised Securities Act, and consumer protection laws such as the Price Act and the Consumer Act. There are also sectoral legislations pertaining to industry regulation and competition such as those in the downstream oil industry and electric power industry. In these sectors, various government agencies are tasked with both the regulation and promotion of competition; for instance, the National Telecommunications Commission for telecommunications, the Energy Regulatory Board for power, Philippine Ports Authority for

ports, and the Civil Aeronautics Board for air commerce. Note, however, that in the case of the Corporation Code of the Philippines which covers the rules on mergers, consolidations, and acquisitions; competition issues such as the possible abuse of dominant position arising from mergers and acquisitions are not taken into account in their merger analysis.

There is general agreement that despite their considerable number and varied nature, these laws have been ineffective in addressing anticompetitive behavior mainly due to lack of enforcement. The laws have been hardly used or implemented as may be seen in the lack of cases litigated in court. Since the laws are penal in nature, guilt must be proven without reasonable doubt and hence, the amount of evidence required so that the case may prosper is tremendous. The fines are also insufficient to prevent would-be criminals.

There have been numerous attempts to legislate new competition laws since the 11th Congress (covering the period from 1998 to 2001) (Table F.1.3). Up to the 13th Congress (2004-2007), none of the bills was acted upon, most had pending status and never went beyond first reading. Note that the lawmaking process requires three readings. This inaction seemed to indicate the lack of appreciation and political will to pass a comprehensive framework for competition law in the country by previous administrations.

During the 14th Congress (2007-2010), some positive changes took place as the Senate moved for the passage of the consolidated version of the Senate Bills on competition. Senate Bill No. 3197 or Competition Act of 2009 was approved after third reading in June 2009. SB 3197 prohibits cartelization, monopolization, abuse of dominant position or monopoly power and other unfair competition practices and imposes stricter penalties on parties guilty of engaging in restraint of trade. It authorizes the Department of Justice as its key implementing body and bestows upon it power to investigate and enforce orders and resolutions. However, in the case of the House, the consolidated version of the House of Representatives bills remained pending with the House Committee on Trade and Industry as the 14th Congress ended in 2010.

In the 15th Congress, the House Consolidated Bill, House Bill 4835 was approved on its second reading. One major difference from the Senate Bill is the proposal of House Bill 4835 to create a Fair trade Commission which will exercise exclusive jurisdiction to enforce, implement and administer the law. Under the Senate version these functions will be performed by the Department of Justice. At present, approval of the consolidated version, Senate Bill 3098, is still up for second reading approval. As earlier indicated, the process requires three separate readings. Given that there are two separate versions of the competition bill, a bicameral conference committee would be formed to address and reconcile the differences between the House and Senate versions. Once a joint and reconciled version has been prepared by the committee, this will be presented to both houses for ratification before submission to the President for approval.

It has been noted that the Philippines is among the AMS that have not implemented a comprehensive national competition law. A well-drafted competition law is an important legal measure that the Aquino government has committed to prioritize. While this is still being debated at the House and the Senate, the Office for Competition Office created under the Department of Justice has been mandated to investigate all cases violating competition law and prosecute violators; enforce competition policy and competition law; and supervise competition. Barely a year old, the young competition office is in the process of formulating its organizational and administrative plans along with its enforcement agenda. It should

continue its advocacy and awareness-raising campaigns and organize and conduct competition trainings and capacity building activities for lawyers, judges, members of academe, journalists, and government agencies. It should also maintain close coordination with other government sectoral regulators as it attempts to craft a mechanism for cooperation in promoting competition and addressing the competition-regulation interface issues.

Both Senate and House bills have the major components of a modern competition law including abuse of dominant position, bid rigging, price fixing, horizontal, and vertical agreements along with mergers. The administration of President Aquino should continue to push for competition law as one of its priority legislations. We should take advantage of this opportunity and craft an effective competition law taking into account our institutional capacity and other resource constraints. The need for an independent Commission cannot be overemphasized, this would require strong appointments in order to build the credibility of the Commission and ensure that the law is effectively implemented. The emphasis should be on economic efficiency rather than on size or market structure alone. The policy focus should be on business conduct, market power and keeping markets competitive and disciplining, whenever necessary, exercises of market power that reduce output or increase prices.

The Philippines needs a competition law to complement the previous and ongoing market-oriented reforms. In the absence of competition laws, there is a risk that market reforms like liberalization may not be sufficient to foster effective competition and without competition law, it would be difficult to control possible abuses of dominant positions by large firms.

Table F.1.3: Competition bills filed at the House and Senate (11th Congress to Present)

Proposed bill	Authors	Description	Year filed
HB 1373	Gerardo Espina	creation of fair trade commission which can adjudicate violations & conduct formal investigations, it can issue restraining orders, writs of execution, cease & desist orders	11th Congress
HB 4455	Neptali Gonzales II & Manuel Roxas II	creation of fair trade commission, no adjudicatory powers to issue writs, cease & desist order or seizure of products	11th Congress
HB 3780	Feliciano Belmonte Jr., Jack Enrile & Oscar Moreno	monopolization of trade, more detailed provisions on various anti trust activities	11th Congress
HB 183	Rolando Briones	an act penalizing unfair trade practices & combinations in restraint of trade, creating the fair trade commission, appropriating funds therefore	11th Congress
HB 5281	Monfort & Parcon	an act creating a speocla body that shall regulate & exercise authority over monopolistic practices, combinations in restraint of trade & unfair competition	11th Congress
HB 271	Roilo Golez	provides for anti trust penalties	11th Congress
SB 150	Sergio Osmena III	creation of a fair trade commission & regulation of various anti-competitive practices	11th Congress
SB 1792	Juan Ponce Enrile	same as Belmonte House Bill, strengthens penal provisions prohibiting monopolies & combinations in restraint of trade leaves antitrust enforcement to Courts & DOJ, DTI, & DA	11th Congress
SB 488	Blas Ople	an act incerasing penalty for illegal act of price manipulation committed by a cartel, amending RA 7581 Price Act	11th Congress
SB 889	Sergio Osmena III	an act to strengthen prohibition against monopolies & cartels of basic necessities or prime commodities, amneding RA 7581 Price Act	11th Congress
HB 1906		an act declaring unfair trade practices as acts of economic	11th

		sabatoge, it declares the fflg as acts of economic sabatoge & provides criminal sanctions: smuggling, technical smuggling, misclassification of importation, dumping, & other forms of unfair trade practices	Congress
HB 198		an act creating a special body that shall regulate & exercise authority over monopolistic practices, combinations in restraint of trade & unfair competition	11th Congress
HB 2439		an act penalizing unfair trade practices & combinations in restraint of trade, creating the fair trade commission, appropriating funds therefore	11th Congress
SB 1600	Panfilo Lacson	does not create an independent commission, provides for anti trust penalties including imprisonment	12th Congress
SB 1361		an act providing for effective implementation of the Constitutional mandate against monopolies, combination in restraint of trade & unfair competition by redefining & strengthening existing laws, processes & structure regulating the same	12th Congress
SB 175		an act creating the fair trade commission, prescribing its powers & functions in regulating trade, competition, & monopolies	12th Congress
HB 116	Joey Salceda	an act creating the Philippine competition commission, regualting & penalizing trade practices that lessen compatition & other anti-competitive practices & conduct, unlawful mergers, acquisitions & combinations in restraint of trade, unfair competition & appropriating funds therefore	13th Congress
HB 1874	Jose De Venecia	an act prescribing a fair competition law, its enforcement, establishment of a fair tarde commission, delineating its powers & functions	13th Congress
HB 2958	Edgar Valdez	an act prohibiting monopolies, attempt to monopolize an industry or line of commerce, manipulation of prices of commodities, asset acquisition & interlocking memberships in the Board of Directors of competing corporate bodies & price discrimination among customers	13th Congress
HB 3139	Juan Ponce Enrile, Jr.	an act prohibiting monopolies, attempt to monopolize an industry or line of commerce, manipulation of prices of commodities, asset acquisition & interlocking memberships in the Board of Directors of competing corporate bodies & price discrimination among customers	13th Congress
SB 150	Sergio Osmena III	An act creating the fair trade commission prescribing its powers & functions in regulating trade competition & monopolies	13th Congress
SB 1600	Panfilo Lacson	The anti-trusr act of 2001 or an act prohibiting monopolies, attempt to monopolize an industry or line of commerce, manipulation of prices of commodities, asset acquisition & interlocking memberships in the Board of Directors of competing corporate bodies & price discrimination among customers	13th Congress
SB 1792	Juan Ponce Enrile	an act prohibiting monopolies, attempt to monopolize an industry or line of commerce, manipulation of prices of commodities, asset acquisition & interlocking memberships in the Board of Directors of competing corporate bodies & price discrimination among customers	13th Congress
SB 1122	Defensor-Santiago	amends Revised Penal Code (RA3815), Art. 186 on monopolies & combinations in restraint of trade by providing for treble damage action	13th Congress
SB 3197	Enrile, Santiago, Trillanes IV, Roxas &	An act penalizing unfair trade & anti-competitive practices in restraint of trade, unfair competition, abuse of dominant power,	14th Congress

	Angara	strengthening the powers of regulatory authorities & appropriating funds therefore	
SB 123	Enrile	penalizes combinations or conspiracies in restraint of trade & all forms of artificial machinations that will destroy, injure or prevent free market competition	14th Congress
SB 3099	Miriam Defensor-Santiago	An act prohibiting anti-competitive practices & creating the competition regulatory commission	14th Congress
HB 3856	Junie Cua	creation of Philippine Fair Trade Commission to investigate, gather evidence, & initiate prosecution of those engaged in unfair trade practices	14th Congress
HB 3009	Rufus Rodriguez		14th Congress
HB 1678	Jose De Venecia, Jr.	Fair Competition Law of the Philippines	14th Congress
HB 913	Susan Yap	An act penalizing unfair trade & anti-competitive practices in restraint of trade, unfair competition, abuse of dominant power, strengthening the powers of regulatory authorities & appropriating funds therefore	15th Congress
HB 1007	Antonio Alvarez	An act penalizing unfair trade & anti-competitive practices in restraint of trade, unfair competition, abuse of dominant power, strengthening the powers of regulatory authorities & appropriating funds therefore	15th Congress
HB 1583	Gloria Macapagal-Arroyo & Diosdado Arroyo	An act penalizing unfair trade & anti-competitive practices in restraint of trade, unfair competition, abuse of dominant power, strengthening the powers of regulatory authorities & appropriating funds therefore	15th Congress
HB 3100	Albert Garcia, Raymond Sandejas	An act penalizing unfair trade & anti-competitive practices in restraint of trade, unfair competition, abuse of dominant power, strengthening the powers of regulatory authorities & appropriating funds therefore	15th Congress
HB 3134	Alfredo Benitez	An act penalizing unfair trade & anti-competitive practices in restraint of trade, unfair competition, abuse of dominant power, strengthening the powers of regulatory authorities & appropriating funds therefore	15th Congress
HB 4835	Ponce-Enrile,Yap, Alvarez, Apacible, Arroyo, Macapagal-Arroyo, Teodoro, Rodriguez, Garcia, Benitez, Aumentado, et al	An act penalizing anti-competitive agreements, abuse of dominant position, & anticompetitive mergers, establsihing the Philippine Fair Competition Commission & appropriating funds therefor	15th Congress
SB 3109	Teofisto Guingona III	An act to implement the the competition policy under the Constitution, strengthen the prohibition against abuse of monopoly power or dominant position, prevent cartels, combinations in restraint of trade & other anticompetitive practices & conduct	15th Congress
SB 3098	Enrile, Trillanes, Recto, Osmena III, Santiago & Villar	An act penalizing anti-competitive conduct, abuse of dominance, & anti-competitive mergers, establishing for the purpose an office for competition under the Department of Justice, appropriating funds therefore	15th Congress

Note: 11th Congress (1998-2001); 12th Congress (2001-2004); 13th Congress (2004-2007); 14th Congress (2007-2010); 15th Congress (2010-2013).

IV.F.2. Intellectual Property Rights (IPR): Trademarks[77]

In the Philippines, Intellectual Property Rights (IPR) is administered by the Intellectual Property Office of the Philippines (IPOPHIL) by virtue of Republic Act (R.A.) No. 8293 that took effect in January 1998, otherwise known as the Intellectual Property Code of the Philippines. In particular, IPOPHIL is a separate, independent, and quasi-judicial organization under the Department of Trade and Industry (DTI), and is the lead agency responsible for handling the registration and conflict resolution of IPR. The office is composed of six bureaus: Bureau of Patents; Bureau of Trademarks; Bureau of Legal Affairs; Documentation, Information and Technology Transfer Bureau; Management Information System and EDP Bureau; and Administrative, Financial and Personnel Services Bureau. Its main office is located in Taguig City and it has 8 satellite offices throughout the country. Previously, the IP system in the Philippines was directly administered by DTI through its Bureau of Trademarks, Patents and Technology Transfer.

Administration

(i) Registration

Registration for patents, utility models and industrial designs are handled by the Bureau of Patents. Utility models and industrial designs follow the same registration procedure in which the application is received, checked for formality, published, and if unopposed, confirmed and then issued a certificate (Box 1). If the application is opposed, the applicant could appeal to the Director of Patents or to the Director General if the appeal is refused by the Director of Patents.

Box 1. Flow chart of processes

Source: IPOPHIL.

Patent registration differs from the two in that it has to undergo more substantive examination to determine the novelty and usefulness of the invention. Appeal to opposition is also similar to the process described earlier, with the addition of having recourse to the Court of Appeals and, ultimately, to the Supreme Court if refused. Trademark registration is similar to the one followed by utility model and industrial design and is handled by the Bureau of Trademarks.

To register a work for copyright, a registration and deposit form is accomplished and submitted together with other required documents, and then categorized and reviewed by a field specialist. Once approved, the work would be recorded and deposited at the National Library of the Philippines.

[77] This subsection was drafted by Dr Melanie Milo and Mr Reinier de Guzman (Research Consultant and Research Analyst at PIDS, respectively).

Automation. IPOPHIL, with the assistance of the World Intellectual Property Organization (WIPO), formally commenced the implementation of the Industrial Property Automation System (IPAS) last 2010. This technical assistance from WIPO would automate end-to-end processing of IP (inventions, trademarks, industrial designs, and utility models) applications, from filing to registration, including publications, printing of certificates and post-registration/post-grant management. The system will also facilitate tracking the status of an application.

Statistics. During the period 2000 to 2011, application for patents for inventions generally grew (Table F.2.1). Total application could be divided into those filed by nationals and by foreigners, and consistently, local applications have always been a small part of overall application for patents. Granted applications have typically been less than 50 percent, although this does not necessarily mean that the rest have been rejected. The low rate could just be indicative of a backlog in the processing of applications.

Table F.2.1. Foreign and local patent applications for invention, 2000-2011

	Foreign		Local		Total	
Year	Applications	Granted	Applications	Granted	Applications	Granted
2000	3,482	566	154	8	3,636	574
2001	2,470	1,082	135	7	2,605	1,089
2002	769	1,112	149	12	918	1,124
2003	1,801	1,160	141	13	1,942	1,173
2004	2,538	1,434	157	18	2,695	1,452
2005	2,762	1,638	210	4	2,972	1,642
2006	3,038	1,191	223	5	3,261	1,196
2007	3,248	1,785	225	2	3,473	1,787
2008	3,097	797	216	41	3,313	838
2009	2,825	1,657	172	22	2,997	1,679
2010	3,224	1,140	167	13	3,391	1,153
2011	2,737	1,017	155	4	2,892	1,021

Source: IPOPHIL.
Note: Patents granted may not have been filed in the same year.

For trademarks, applications also generally increased during the same time period (Table F.2.2). Unlike patent applications for inventions, foreign and local applications for trademarks were more equal, with local applications surpassing foreign applications beginning in 2001. The number of trademark applications granted also steadily increased during the period, compared to patents granted which remained fairly stable throughout the same period. The latter is likely due to the longer time necessary to process patent applications, which requires more rigorous examination.

Of the total foreign trademark applications, only around 5-8 percent was accounted for by other ASEAN Member States. Singapore, Malaysia, Thailand, and Indonesia filed the most number of trademark applications in the Philippines, in that order (Table F.2.3).

Table F.2.2. Foreign and local applications for trademarks, 2000-2011

	Foreign		Local		Total	
Year	Applications	Granted	Applications	Granted	Applications	Granted
2000	5,648	2,306	4,975	545	10,623	2,851
2001	4,536	3,145	5,125	477	9,661	3,622
2002	4,740	3,091	6,281	661	11,021	3,752
2003	4,969	2,563	6,847	611	11,816	3,174
2004	5,272	5,099	6,870	1,694	12,142	6,793
2005	5,680	6,816	7,048	3,208	12,728	10,024
2006	6,175	7,634	8,317	5,027	14,492	12,661
2007	6,402	10,177	8,676	7,414	15,078	17,591
2008	6,987	7,285	8,870	6,582	15,857	13,867
2009	6,135	5,800	8,874	5,380	15,009	11,180
2010	7,076	6,141	9,751	5,887	16,827	12,028
2011	7,587	5,276	9,575	5,114	17,162	10,390

Source: IPOPHIL.
Note: Trademarks granted may not have been filed in the same year.

Table F.2.3. Trademarks applications from other ASEAN Member States, 2000-2011

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Brunei Darussalam					4	1					2	1
								(3)				(2)
Cambodia												
	1	*1*										
Indonesia	40	30	27	41	34	34	57	61	34	50	56	77
	(2)	(14)	(21)	(22)	(27)	(49)	(66)	(84)	(46)	(32)	(43)	(48)
Lao PDR			1									
						(1)						
Malaysia	41	27	76	72	62	82	84	107	148	109	132	133
	(7)	(17)	(11)	(23)	(35)	(63)	(102	(146	(127	(120	(109	(113
Myanmar						1						
								(1)			(1)	
Singapore	209	87	90	119	159	162	157	162	196	166	218	319
	(28)	(72)	(80)	(47)	(101	(162	(173	(279	(182	(165	(143	(285
Thailand	37	51	42	96	73	75	69	108	104	84	117	89
	8	8	22	20	63	79	98	145	124	42	91	98
Viet Nam	1	6	14	21	15	17	13	4	11	6	12	20
	(1)	(2)	(1)		(6)	(10)	(18)	(25)	(11)	(8)	(5)	(12)
Total	328	201	250	349	347	372	380	442	493	415	537	639
	(47)	(114	(135	(112	(232	(364	(457	(683	(490	(367	(392	(558

Source: IPOPHIL.
Note: Figures in parentheses represent trademarks granted. Trademarks granted may not have been filed in the same year.

(ii) Enforcement

In 2008, a national committee composed of different agencies was set up to enforce IPR. Executive Order no. 746 created the National Committee on Intellectual Property Rights (NCIPR). It is chaired by The Department of Trade and Industry (DTI), with IPOPHIL serving as vice-chair. Member agencies include the Department of Justice (DOJ), Department of Interior and Local Government (DILG), Bureau of Customs (BOC), National Telecommunications Commission (NTC), National Bureau of Investigation (NBI), Philippine National Police (PNP), Optical Media Board (OMB), National Book Development Board

(NBDB), and the Bureau of Food and Drugs (BFAD). The Office of the Special Envoy on Transnational Crime (OSETC) was added subsequently.

For petitions and oppositions to a registered or the registration of an IP (**Inter Pares Case** or IPC), the Director of the Bureau of Legal Affairs (BLA) is given original jurisdiction over the proceedings. IP Rights Holder whose rights have been violated could file administrative complaints for **Violation of IP laws** (IPV) to the BLA if claim for damages amount to PhP 200,000 or more. IPV cases include: (i) Infringement of IPRs; (ii) Unfair Competition; (iii) False and Fraudulent Declaration; and (iv) False Designation of Origin and False Description.

Table F.2.4 shows the number of IP violations that were filed and disposed over the period 2000-2011. In particular, petitions and oppositions to a registered or the registration of an IP have been increasing over the period, but the number of disposed cases has been significantly lagging especially in recent years.

Table F.2.4. Cases of IP violations file and disposed, 2000-2011

	Filed		Disposed		Total	
Year	IPC	IPV	IPC	IPV	Filed	Disposed
2000	44	0	112	0	44	112
2001	59	19	131	0	78	131
2002	88	9	143	12	97	155
2003	66	27	138	9	93	147
2004	174	13	103	5	187	108
2005	140	30	145	19	170	164
2006	200	22	284	25	222	309
2007	359	14	295	26	373	321
2008	371	13	303	13	384	316
2009	296	14	299	14	310	313
2010	333	17	137	5	350	142
2011	514	28	204	20	542	224

Source: IPOPHIL.
Note: Cases disposed may not have been filed in the same year.

Under the Alternative Dispute Resolution System (ADR) mechanism, IPR cases are required to first undergo mediation. The mechanism aims to "resolve cases speedily at the least expense on the concerned parties" (IPOPHIL n.d.). If both parties settled on a compromise agreement and the latter was approved, it would then be implemented. However, if the parties were unable to reach an agreement, the case would then be referred to arbitration or litigation.

Reciprocity Arrangements with Other Countries

(i) PCT

Since the Philippines joined the Patent Cooperation Treaty (PCT) in 2001, patent applicants in the country have the option of filing their patent application in other contracting countries simultaneously. However, the power to grant patent is maintained by the IP Office in the country where patent protection is pursued. The PCT system enables seeking patent protection in a lot of countries simultaneously. It also provides the applicant time to evaluate desirability of applying and working on the requirements in each foreign country (WIPO n.d.).

(ii) Madrid Protocol

One of the specified targets of the ASEAN IPR Action Plan for 2011-2015 is the accession of ASEAN Member States (AMS) to the Protocol Related to the Madrid Agreement Concerning the International Registration of Trademarks (Madrid Protocol), with the Philippines tasked to lead this initiative. IPOPHIL had been preparing for accession since 2006 and it had been able to submit the formal recommendations in 2011, aided by consultations with businesses and trademark lawyers through a series of fora entitled "Madrid Protocol – The Way Forward for the Philippines: Forum for stakeholders" (IPOPHIL 2011).

(iii) TRIPS

The Philippines, along with other AMS, joined the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) on January 1995. The agreement introduced rules on IP in the international trade that allows for a more consistent understanding of IP across borders and a more systematic way to settle disputes (WTO n.d.). Application of basic trading principles and enforcement of IPR in a signatory country's territory were also covered in the agreement.

Summary of Survey Results

As reported in Chapter I, one of the key results of the ERIA Survey of Core Measures (2011) was that most of the respondent firms (around 80 percent) identified strengthening and implementing effective intellectual property rights (IPR) rules and regulations as both beneficial and urgent measure for the private sector to benefit well from the realization of the AEC by 2015.

For the MTR, the 2012 Survey on Intellectual Property Rights (SIPR) was undertaken by the National Statistics Office, with a total of 30 respondent firms and a focus on trademarks.

On the average length of time it took from the filing of their recent trademark application to trademark registration, or from filing of trademark application to initial notice of rejection/objection/opposition to the application, the most number of respondent firms (8) reported that the whole process took them an average of 7-9 months, with more firms (11) reporting longer periods of up to two years or more (see Table 7.4, page 72).

Firms were also asked for their perception on the improvement of administration in 2011 compared to 4-7 years ago, with respect to the following: (i) turnaround time (from filing to registration); (ii) communication with applicants during application processes; (iii) access to IPR related information (such as trademark register); and smooth enforcement against counterfeits (see Tables 7.5 and 7.6, page 72). Most firms (20-24) reported improved or substantially improved administration in these key areas compared to four years ago, with more firms having the same perception compared to seven years ago. In particular, firms noted significant improvement in turnaround time (from filing to registration) and access to IPR related information, which likely account for the dramatic increase in their trademark registrations in recent years (see Table 7.3, page 71) .

That said, almost all firms still considered smooth registration as a very or most important aspect of IPR policies that should be prioritized, followed by smooth enforcement and assistance in creation of trademarks (see Table 7.8, page 73). According to several firms

approached by NSO for the survey, they have outsourced the activity of securing trademarks, patents, and other IP-related procedures to law firms. This could indicate that the Philippines' IP system may not yet be very user-friendly despite recent improvements. This also has important implications for SMEs' use of the country's IP system.

Ways Forward

The establishment of IPOPHIL as a separate, independent agency was a strong recognition of the importance of an effective and efficient IP system in the country's push for economic development. During its early years, IPOPHIL sought to modernize the administration of intellectual property in the Philippines particularly through computerization. From 2005, IPO endeavored to play a more active role in promoting the IP system of the country by undertaking a developmental approach to intellectual property. And it has accomplished much in terms of demystifying, and promoting appreciation and utilization of the country's IP system over the past 10 years particularly through its various information dissemination campaigns. That said, IPOPHIL still considers creating the need/demand for IP asset creation and capacity as its primary focus, to foster an "innovative culture" in the country.

Full automation of the country's IP system will further enhance its effectiveness and efficiency, and hopefully make it more user-friendly particularly among SMEs. At the moment, there are no special procedures for SMEs and the only concession they receive is a 50 percent reduction in application fees. Procedures designed especially for SMEs would help to make the country's IP system more accessible to them. Incorporating trademark application in DTI's one-stop shop for business registration[78] is worth considering.

Overall, the needs of the Philippines with respect to IPR are still fairly basic. That said, IPOPHIL also actively participates in regional initiatives on IPR in ASEAN and APEC. IPOPHIL has also partnered with the European Patent Office and the United States Patent and Trademark Office (USPTO) to facilitate the exchange of information and technology that can be used to enhance the protection of IP rights and enforcement of IP laws.

In particular, IPOPHIL identifies the need to streamline the different legal frameworks governing IPR in ASEAN as an important area for cooperation. A key change in direction in terms of trademarks in ASEAN is the decision to shift from an ASEAN Trademark System to accession to the Madrid Protocol. This is cognizant of the fact that most foreign trademark applications come from outside the region, including in the Philippines. Accession to the Madrid Protocol will also enable IPOPHIL to track Philippine applications for trademarks in other countries, which it currently does not undertake. It is also likely that Philippine foreign applications for trademarks are mostly outside of the ASEAN region. Overall, accession to the Madrid Protocol will already address the issue of a unified framework for simplification, harmonization, registration and protection of trademarks within ASEAN. A regional trademark system may only duplicate this effort, and may not be warranted considering that trademark applications from within the region is fairly small. Instead, ASEAN should focus on accession to other global treaties related to IPR.

The key challenges facing IPOPHIL are basic and internal: (i) how to increase public awareness of the importance of creating and protecting intellectual property, and

[78] I.e., the Philippine Business Registry (PBR) launched in January 2012, which electronically links various agencies involved in the start-up of a business, aims to cut down business registration to as short as 30 minutes.

consequently build up the country's IP capacity; and (ii) building up IPOPHIL's human resources and institutional capacity in order to further speed up the processing of applications and cases of IP violations. Thus, IPOPHIL has been actively organizing seminars and roadshows. In particular, SMEs have to be educated on the importance of registering their trademarks, for example, as well the procedures. They are also given the opportunity to register their trademarks at the events organized by IPOPHIL to facilitate the process for them. IPR promotion and protection have to be seen as part of the overall strategy to support SME development in the country.

But information dissemination campaigns would not be as effective if there is a perception that the country is still weak in terms of protecting and enforcing IPR. The Philippines remains on the US piracy watch list in 2012, marking its seventh year on the list. Indonesia and Thailand are also on the priority watch list of the US. Since piracy and counterfeiting activities cross borders in the region, this makes cooperation in IPR protection a highly relevant, beneficial and urgent measure in ASEAN.

IV.F.3.Transport Facilitation[79]

Introduction

The provision of efficient, reliable and affordable transport infrastructure and services contributes significantly to economic and social development as well as regional cooperation, integration and cohesion. The overall objective of transport policy is to ensure an economically efficient, environmentally friendly, socially acceptable and spatially equitable transport system for the benefit of all the peoples and businesses located within the jurisdiction of the policymaker (ESCAP 2011)[80]. In this regard, ASEAN transport cooperation is a key issue in the preparation for an AEC in 2015.

Transport cooperation requires member countries to ratify and sign several measures, that is, protocols and agreements that will liberalize the transport sector in ASEAN and that will make more efficient the movement and exchange of goods and services in the region followed by investments and capital flows in regional areas, which present profit-making opportunities. Ratification and subsequent implementation of protocols and agreements demonstrate commitment and support to the formation of AEC but more importantly, the availability of more certain and predictable rules or regulations in the transport sector will pave the way for more rapid integration and cohesion in the putative ASEAN Economic community.

It is important to move quickly on the ratification and implementation of those protocols and agreements in the transport, which are expected to result in a freer flow of trade in goods and services, and investments in the future integrated ASEAN economic community but certain issues or challenges may constrain or delay the desired action from the government. This paper examines the progress made by the Philippines with respect to the ratification and implementation of protocols and agreements bearing on the transport sector, and discusses perceived barriers to ratification and implementation with a view to identify policy recommendations to address the identified constraints or barriers. The transport sector in this study covers maritime and air transport.

The study is organized into four sections. After a brief introduction, Section 2 reviews the Philippine scorecard in liberalization in the transport sector. Section 3 reports the status of the ratification and implementation of protocols and agreements in the transport sector a year after the scorecard has been reported, and the barriers to the ratification and implementation of remaining protocols and agreements in the transport sector. The final section concludes by providing some policy recommendations to address those barriers.

[79] This subsection was drafted by Dr Gilberto Llanto, Senior Fellow at PIDS.
[80] ESCAP. 2011. "Emerging issues in transport: Inter-island shipping," Expert Group Meeting on Preparations for the Ministerial Conference on Transport, Bangkok, 14-15 July.

Philippine Scorecard in the Liberalization of the Transport Sector [81]

(i) An overview

The Philippines is a signatory to the ASEAN Free Trade Agreement on Services (AFAS). Looking at the regional perspective, Nikomborirak (2005) and Nikomborirak and Stephenson (2001) observed the **slow liberalization of the services sector, including the transport sector** based on the marginal commitments made by the member countries.

Just how important is the transport sector to the economy, which makes further liberalization imperative? It is an important segment of the services industry whose share in total value added was 54.6% in the last five years (2006-2010)[82]. Table F.3.1 shows data on the number of establishments, total employment, and sales of the transport and logistics industry for selected years[83]. There was a decline in the number of establishments and employment in the sea and coastal transport on the one hand, and growth in sales on the other. This contrasts with the decline in number of establishments, employment and sales in inland water transport.

For the most recent year of data available, 2008, freight forwarding services have the most number of establishments, having 39% or 517 establishments of the total 1,336 establishments. The second biggest category in terms of number of establishments is the operation of freight transport by road, having 36% or 479 of the total. In terms of sales or revenues, sea and coastal water transport establishments and freight forwarding services establishments are the biggest players in the logistics market. In 2008, sea and coastal water transport earned 50% or 26.58 billion pesos out of the total 53.16 billion pesos logistics industry revenues, whereas freight forwarding services establishments earned 33% or 17.35 billion pesos out of the total earnings in the industry (values are in real terms using 2000 prices).

Available data on share in total commercial services indicates the relative importance of transportation services (Table F.3.2). It has a 28% of total exports of commercial services and 48% of total imports of commercial services.

Table F.3.2 Contribution of transportation services to Philippine trade, 2003

2003 Exports (US Million)		2003 Imports (US Million)	
Total merchandise	37, 026	Total merchandise	39, 502
Commercial services	3, 299	Commercial services	4,841
Services as % of total	8%	Services as % of total	11%
Transportation services	935	Transportation services	2, 316
% of total services	28%	% of total services	48%
2003 Imports (US Million)			

Source: Table 2 in Thanh and Bartlett (2006).

[81] This section draws from Aldaba, R., E. Medalla, V. Ledda, G.M. Llanto, and B. Alano, Jr. 2011. "ERIA Phase Two Study: Toward a More Effective ASEAN Economic Community Scorecard Monitoring System and Mechanism: Philippines Summary Report," Study submitted to the Economic Research Institute for ASEAN and East Asia (ERIA); and Llanto, G.M. and A. Navarro, 2012 "The Impact of Trade Liberalization and Economic Integration on the Logistics Industry: Maritime Transport and Freight Forwarders," Study submitted to ERIA.

[82] Source of basic data: ADB 2011. Key indicators for Asia and the Pacific 2011, page 166.

[83] These data are the only available census and survey data on the industry.

Table F.3.1 Transport and logistics industry (1996, 2006, 2008)

		1999	2006	2008
Storage and Warehousing				
	Number of Establishments	614	176	155
	Total Employment	7,452	3,879	3,615
	Sales	4,501,331	10,751,323	6,893,113
	Sales/Employee	604.04	2,771.67	1,906.81
	Cost	2,993,700	9,481,806	5,120,966
	Sales:Cost	1.50	1.13	1.35
	Gross Additions to Fixed Assets (GAFA)	293,138	157,112	376,824
	GAFA/Establishment	477.42	892.68	2,431.12
Operation of Freight Transport by Road				
	Number of Establishments	1,989	621	479
	Total Employment	25,514	13,148	10,692
	Sales	9,798,505	6,783,138	6,562,222
	Sales/Employee	384.04	515.91	613.75
	Cost	5,863,926	4,260,910	4,880,334
	Sales:Cost	1.67	1.59	1.34
	Gross Additions to Fixed Assets (GAFA)	534,671	179,737	215,505
	GAFA/Establishment	268.81	289.43	449.91
Sea and Coastal Water Transport				
	Number of Establishments	799	97	105
	Total Employment	20,967	11,751	12,286
	Sales	22,023,912	35,974,655	41,196,949
	Sales/Employee	1,050.41	3,061.41	3,353.16
	Cost	13,339,854	27,819,026	30,197,046
	Sales:Cost	1.65	1.29	1.36
	Gross Additions to Fixed Assets (GAFA)	841,775	1,055,186	5,159,285
	GAFA/Establishment	1,053.54	10,878.21	49,136.05
Inland Water Transport				
	Number of Establishments	399	n/a	46
	Total Employment	2,505		418
	Sales	1,206,840		164,843
	Sales/Employee	481.77		394.36
	Cost	976,187		106,595
	Sales:Cost	1.24		1.55
	Gross Additions to Fixed Assets (GAFA)	51,063		46
	GAFA/Establishment	127.98		1.00
Cargo Handling				
	Number of Establishments	88	n/a	34
	Total Employment	1,535		785
	Sales	872,440		694,744
	Sales/Employee	568.36		885.02
	Cost	574,008		474,949
	Sales:Cost	1.52		1.46
	Gross Additions to Fixed Assets (GAFA)	24,988		9,989
	GAFA/Establishment	283.95		293.79
Freight Forwarding Services				
	Number of Establishments	593	n/a	517
	Total Employment	16,104		17,563
	Sales	13,488,315		26,892,972
	Sales/Employee	837.58		1,531.23
	Cost	10,280,786		18,783,036
	Sales:Cost	1.31		1.43
	Gross Additions to Fixed Assets (GAFA)	439,309		533,792
	GAFA/Establishment	740.82		1,032.48

Sources: 2000 and 2006 Census of Philippine Business and Industry; 2008 Survey of Philippine Business and Industry

The importance of the transport sector to the economy in generating value added, and employment, and in providing the economy a vital link to international trade underscore accentuates the need to make it more efficient and accessible to a diversity of local economic

players taking part in the global and regional markets. The liberalization of trade in transportation services promises to provide greater opportunities for linking domestic with regional and global markets, which augur well for growth in output and employment.

With respect to maritime transport, the Philippines' archipelagic geographic configuration logically makes maritime transport a very significant means of moving people and goods, and of providing services within the country. Shipping facilitates 98% of domestic inter-island trade amounting to about 80 million tons of cargoes every year, including agri-fishery products. It also facilitates the movement of over 40 million Filipinos and foreign tourists within the country (ADB 2010). In conjunction with logistics services, maritime transport provides producers, assemblers, processors, distributors a vital link to domestic and foreign markets.

Maritime transport significantly links the Philippines to international trade. Most of the maritime transport routes were highly monopolized before the 1990s. Given this structure, the development of many domestic shipping routes, especially the "missionary routes" or developmental routes, was slow and rates were highly regulated by the Maritime Industry Authority (MARINA) to prevent market power abuse. The objectives of pre-reform regulation were to regulate route entry, bring capacity and demand into balance and protect the investment of operators by preventing ruinous competition, and for shipping rates, to protect the public from indiscriminate charging by shipping companies (Austria 2003).

Consistent with the theme of liberalizing and deregulating industries that were considered monopolized or cartelized during the Marcos regime, the Aquino (Cory) administration started issuing rules aimed to liberalize and deregulate the industry. The succeeding administrations continued this effort, with the Ramos administration passing the most number of rules that significantly changed the market structure in the industry.

In response to calls for liberalization and deregulation, the Maritime Industry Authority (MARINA) and the executive branch of government issued several rules aimed to (i) liberalize route entry or exit and (ii) deregulate shipping rates. It was hoped that the liberalization and deregulation rules would foster a favorable climate for increased investments[84].

The Domestic Shipping Development Act of 2004 (RA 9295) laid down the policy framework for domestic shipping, recognizing its vital importance to economic development. RA 9295 acknowledges that the Philippines needs a strong, competitive domestic merchant fleet that, among others, will:

- Bridge islands with safe, reliable, efficient, adequate and economic passenger and cargo service;
- Facilitate the dispersal of industry and economic activity towards regional communities through regular, reliable and efficient shipping services; and
- Ensure growth in exports by providing necessary, competitive and economical domestic sea linkages.

The reforms pursued under RA 9295 essentially promoted the deregulation of the shipping industry and encouraged competition, free enterprise and market driven rates. Ultimately, one of the envisioned outcomes – a healthy, competitive investment and operating environment in

[84] Table 2.1 in p. 95 details these rules, in the discussion of maritime transport in the logistics case study.

the shipping sector – is necessary for increased private sector investments in the sector. The efficiency of services, lower costs and widened service networks, in turn, are expected to have a positive impact on local industries' competitiveness and create a favorable environment for regional trade and investments. Efficient port infrastructure and shipping services are also necessary to enable local suppliers to access international markets. International demand has, in fact, increased pressure on the Philippine government to provide more integrated port infrastructure with reduced cost of services.

While the private sector has always been involved in the provision of shipping services, there are now even greater opportunities for the private sector to engage in the development of shipping, and ports development and management. Fiscal constraints faced by the government have driven the privatization of ports. However, the greater motivation is the felt need of developing and promoting the competitiveness of firms and industry, which is substantially anchored on the availability of adequate infrastructure. The ports and shipping infrastructure are critical for competitiveness and regional integration and cohesion. Thus, the country's main ports servicing international trade have to improve operational and management efficiencies. To achieve these goals, private sector effort and investment are necessary because without private participation it will be difficult to tackle the tough challenges posed by the lumpiness of port investments, and the complexity of ports and shipping development and management. Already the benchmark set by other successful regional ports, e.g., Port of Singapore, Port Klang in Malaysia in ports and shipping development and management present the Philippines with an important set of standards to emulate. These two regional ports are major destinations of foreign vessels and serve as critical trans-shipment hubs for the ASEAN region.

The airline industry of the Philippines was liberalized in 1995 under Executive Order 219, which reduced regulations on the entry into and exit from the airline industry as well as on tariffs and fares. Previous to the liberalization, the government's one-airline policy allowed only one local airline, Philippine Airlines (PAL) to operate domestic flights.

As many as six players were operating in competition after the industry liberalization took effect; however, the number has fluctuated due to consolidation. Southeast Asian Airlines (SEAir) entered the scheduled airline flights sector in 2003, joining PAL, Cebu Pacific, Air Philippines and Zest Air in vying for passengers on major, minor and short-distance routes.

While the adoption of open sky policy may be well on track, it is important to note that new entrants have to contend with the still uneven playing field in Philippine aviation market, which is largely dominated by the Philippine Airlines (PAL). PAL still receives the fiscal incentives and other unconditional guarantees it once enjoyed as a government corporation (Aldaba, 2008). Furthermore, terminal space and landing slots are dominated by PAL, which managed to secure sole ownership of an airport terminal originally intended to serve as the country's domestic terminal.

(ii) Philippine Scorecard for AFAFGIT, AFAFIST, AFAMT, MAFLAFS, MAAS, and MAFLPAS

The Philippines appears to have a relatively open policy with regards to the objectives of the ASEAN framework agreements on transport facilitation. The Philippines has ratified a number of important protocols, some are in the stage of implementation and others are in the preparation for ratification, especially by way of consultation.

The Philippines scored 47.2% for the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT), 56.25% for the ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST), and 75% for the ASEAN Framework Agreement on Multimodal Transport (AFAMT).

Among these three agreements, the Philippines scored highest for the ASEAN Framework Agreement on Multimodal Transport (AFAMT). The good result is mainly due to the completion of all the steps required for the ratification and relatively good progress made in the implementation of the AFAMT in the Philippines.

The implementation scores for other agreements, specifically for AFAFIST, will be enhanced with the modification of the existing laws that have a bearing on inter-state transport. The procedure to secure concurrence of six government agencies to achieve this end is on-going, with the approval already given by the Department of Public Works and Highways, the Department of Finance, the Department of Agriculture, and the Department of Transportation and Communication.

For air transport services, the Philippines scored 63% for the ASEAN Multilateral Agreement on the Full Liberalization of Air Freight Services (MAFLAFS), 66.4% for the ASEAN Multilateral Agreement on Air Services (MAAS), and 63% for the ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services (MAFLPAS).

Tables F.3.3 – F.3.8 respectively show the different scores.

Table F.3.3 Summary of Philippine Scorecard for ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT)

ASEAN FRAMEWORK AGREEMENT ON THE FACILITATION OF GOODS IN TRANSIT		
100%		Protocol 1: Designation of Transit Transport Routes & Facilities
	100%	Ratification Deposited with ASEAN SG
0%	0%	Protocol 2: Designation of Frontier Posts (Not Yet Concluded)
50%		Protocol 3: Types & Quantity of Road Vehicles (Wef 1st June 2010)
	50%	Draft Amendments of Domestic Regulation(s) under consultation
50%		Protocol 4: Technical Requirements of Vehicles (Wef 1st June 2010)
	50%	Draft/Proposed Amendment/s of Domestic Law(s)/ Regulation(s) under consultation
50%		Protocol 5: ASEAN Scheme of Compulsory Motor Vehicle Insurance Wef 16th October 2003)
	50%	Draft/Proposed Amendment/s of Domestic Law(s)/ Regulation(s) under consultation
0%	0%	Protocol 6: Railways Borders and Interchange Stations (Not Yet Concluded)
0%	0%	Protocol 7: Customs Transit System (Not Yet Concluded)
100%		Protocol 8: Sanitary and Phytosanitary Measures (Wef Sept 2010)
	100%	Each Member State to confirm if any changes in relevant SPS laws and regulations have been communicated and disseminated through the ASEAN Secretariat (Art 3.3)
75%		Protocol 9: Dangerous Goods (Two Member States still to Ratify)
		Ratification Steps
	100%	Ratification Deposited with ASEAN SG
		Implementation Steps
	50%	Draft Amendment/s of Domestic Regulation(s) under consultation
47.2%	**Average Score for AFAFGIT**	

Table F.3.4 Summary of Philippine Scorecard for ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST)

ASEAN FRAMEWORK AGREEMENT ON THE FACILITATION OF INTER-STATE TRANSPORT (AFAFIST)		
		Ratification Steps
	25%	Ongoing
100%		Protocol 1: Designation of Transit Transport Routes & Facilities
	100%	Ratification Deposited with ASEAN SG
0%		Protocol 2: Designation of Frontier Posts
		Implementation Steps for the Other Protocols
50%		Protocol 3: Types & Quantity of Road Vehicles
	50%	Draft/Proposed Amendments of Domestic Law(s)/Regulation(s) under consultation
50%		Protocol 4: Technical Requirements of Vehicles
	50%	Draft/Proposed Amendment/s of Domestic Law(s)/Regulation(s) under consultation
50%		Protocol 5: ASEAN Scheme of Compulsory Motor Vehicle Insurance
	50%	Draft Amendment/s of Domestic Law(s)/Regulation under consultation
100%		Protocol 8: Sanitary and Phytosanitary Measures
	100%	Each Member State to confirm if any changes in relevant SPS laws and regulations have been communicated and disseminated through the ASEAN Secretariat (Art 3.3)
50%		Protocol 9: Dangerous Goods
	50%	Draft Amendment/s of Domestic Law(s)/Regulation under consultation
50%		Implementation of Art 16- Temporary Admission of Road Vehicles
	50%	Draft Amendment/s of Domestic Law(s)/Regulation under consultation
56.25%	**Average Score for AFAFIST**	

Table F.3.5 Summary of Philippine Scorecard for ASEAN Framework Agreement on Multimodal Transport (AFAMT)

ASEAN FRAMEWORK AGREEMENT ON MULTIMODAL TRANSPORT (AFAMT)		
		Ratification Steps
100%	100%	Ratification Deposited with ASEAN SG
		Implementation Steps
50%	50%	Draft/Proposed Amendment/s of Domestic Law(s)/Regulation(s) under consultation
75%	**Average Score for AFAMT**	

Table F.3.6 Summary of Philippine Scorecard for ASEAN Framework Agreement on the Full Liberalization of Air Freight Services (AFAFLAFS)

ASEAN MULTILATERAL AGREEMENT ON THE FULL LIBERALISATION OF AIR FREIGHT SERVICES		
50%	0.50	Protocol 1 on Unlimited Third, Fourth and Fifth Freedom Traffic Rights among Designated Points in ASEAN
	(70%)	Ratification Steps
	100%	Ratification Deposited with Depository (ASEAN SG)
	(30%)	Implementation Steps
	100%	Member State designates as many Airlines to operate above Air Services and informs Depository (ASEAN SG) of such designation/s (Art 3.1)

50%	0.50	Protocol 2 on Unlimited Third, Fourth and Fifth Freedom Traffic Rights among All Points with International Airports in ASEAN
	(70%)	Ratification Steps
	100%	Ratification Deposited with Depository (ASEAN SG)
	(30%)	Implementation Steps
	100%	Member State designates as many Airlines that apply to operate above Air Services and informs Depository (ASEAN SG) of such designation/s (Art 3.1)
100%	**Average Score for ASEAN Multilateral Agreement on the Full Liberalization of Air Freight Services**	

Table F.3.7 Summary of Philippine Scorecard for ASEAN Multilateral Agreement on Air Services (MAAS)

ASEAN MULTILATERAL AGREEMENT ON AIR SERVICES(MAAS)		
16.6%	0.166	Protocol 1 on Unlimited Third and Fourth Freedom Traffic Rights within the ASEAN Sub-Region
	70%	Ratification Steps
	100%	Ratification Deposited with Depository (ASEAN SG)
	30%	Implementation Steps
	100%	Member State designates as many Airlines that apply to operate above Air Services and informs Depository (ASEAN SG) of designation/s (Art 3.1)
16.6%	0.166	Protocol 2 on Fifth Freedom Traffic Rights within the ASEAN Sub-Region
	70%	Ratification Steps
	100%	Ratification Deposited with Depository (ASEAN SG)
	30%	Implementation Steps
	100%	Member State designates as many Airlines that apply to operate above Air Services and informs Depository (ASEAN SG) of designation/s (Art 3.1)
16.6%	0.166	Prot 3 Unlimited 3rd, 4th Freedom Traffic Rights bet ASEAN Sub-Regions
	70%	Ratification Steps
	100%	Ratification Deposited with Depository (ASEAN SG)
	30%	Implementation Steps
	100%	Member State designates as many Airlines that apply to operate above Air Services and informs Depository (ASEAN SG) of designation/s (Art 3.1)
16.6%	0.166	Prot 4 Unlimited Fifth Freedom Traffic Rights bet ASEAN Sub-Regions
	70%	Ratification Steps
	100%	Ratification Deposited with Depository (ASEAN SG)
	30%	Implementation Steps
	100%	Member State designates as many Airlines that apply to operate above Air Services and informs Depository (ASEAN SG) of designation/s (Art 3.1)
0%	0.166	Prot 5 Unlimited Third & Fourth Freedom Traffic Rights bet ASEAN Capital Cities
	70%	Ratification Steps
	0%	Not Started
	30%	Implementation Steps
	0%	Not Started
0%	0.166	Prot 6 Unlimited Fifth Freedom Traffic Rights bet ASEAN Capital Cities
	70%	Ratification Steps
	0%	Not Started
	30%	Implementation Steps
	0%	Not Started
66.4%	**Average Score for MAAS**	

Table F.3.8 Summary of Philippine Scorecard for ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services (MAFLPAS)

ASEAN MULTILATERAL AGREEMENT ON THE FULL LIBERALISATION OF PASSENGER AIR SERVICES (MAFLPAS)		
31.5%	0.50	Protocol 1 on Unlimited Third & Fourth Freedom Traffic Rights between Any ASEAN Cities (by 30 Jun 10)
	70%	Ratification Steps
	90%	Internal Approval Granted
	30%	Implementation Steps
	0%	Not Started
31.5%	0.50	Protocol 2 on Unlimited Fifth Freedom Traffic Rights between Any ASEAN Cities (by 30 Jun '13)
	70%	Ratification Steps
	90%	Internal Approval Granted
	30%	Implementation Steps
	0%	Not Started
63%	**Average Score for MAFLPAS**	

Status of and Barriers to Ratification and Implementation of Protocols and Agreements

The ASEAN Framework Agreement on Multimodal Transport (AFAMT) was signed on November 17, 2005 in Vientiane, Laos to facilitate regional trade through the development of an efficient multi-modal transport system. However, only three countries, namely Cambodia, the Philippines and Thailand have ratified the agreement. On the other hand, the ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST) was signed in Manila, Philippines on December 10, 2009. It seeks to facilitate inter-state transport of goods in support of the ASEAN Free Trade Area, to simplify and harmonize transport, trade and customs regulation, and to establish an effective, efficient, and integrated regional transport system. This framework agreement is still currently under discussion and has yet to be ratified by the ASEAN member countries.

The Philippines appears committed to the ratification and implementation of remaining protocols and agreements in the transport sector. This section reports on the status of remaining protocols and agreements in AFAFGIT, AFAIST, MAFLPAS, and MAAS. It identifies barriers to full ratification and implementation. Table F.3.10 provides a summary.

Table F.3.9 Status of AEC measures under transport facilitation: 2008-2009, 2010-2011

Measures for implementation: 2008-2009	**Status**
Protocol 2 (designation of frontier posts) AFAFGIT	Not yet concluded; still under discussion
Protocol 7 (customs transit system) AFAFGIT	Not yet concluded; still under discussion
Protocol 5 (unlimited third and fourth freedom traffic rights between ASEAN capital cities) MAAS	Cannot be ratified due to airport infrastructure deficiency/limitations
Measures for ratification: 2010-2011	**Status**
ASEAN Framework Agreement on Inter-State Transport (AFAIST)	Concerned government agencies have concurred except for Department of Justice
ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services (MAFLPAS)	Ratified on March 28, 2012
Protocol 1 (unlimited third, fourth and fifth freedom traffic rights among designated points in ASEAN) of MAFPLAS	Ratified already including Protocol 2 of MAFPLAS on December 10, 2010
Protocol 6 (unlimited fifth freedom traffic rights between ASEAN capital cities) MAAS	Cannot be ratified due to airport infrastructure deficiency/limitations

Source: Department of Transportation and Communication.

The Instrument of Ratification of MAFPLAS was signed on March 28, 2012. Protocols 1 and 2 of MAFPLAS have also been signed. The Philippine score for MAFPLAS is now 100%. During the review of protocols and agreements done in 2011 as shown in Table 8 above, the Philippine score was established at 63%.

At present, the Civil Aviation Authority of the Philippines (CAAP) is working on the night rating of ten domestic airports, mostly located in various tourism areas of the country. Manila can absorb night time flights but most of the airport facilities outside Manila are inadequate and have to be improved.

Under Protocol 1 of MAFPLAS the designated airlines of each contracting party shall be allowed to operate the agreed services from any city with international airport in its territory to any city with international airport in the territory of the other contracting party, and vice-versa with full third and fourth freedom traffic rights. In no case, however, shall the origin and destination points both be the capital cities. Such operations shall be without limitations on capacity, frequency and aircraft type. The full third and fourth freedom traffic rights are applicable to air services to cities outside the capital cities.

Under Protocol 2 of MAFPLAS the designated airlines of each contracting party shall be allowed to exercise fifth freedom rights for the agreed services between any cities with international airport in the territories of the contracting parties.

The ratification and implementation of Protocols 5 and 6 of MAAS require that the capital airport's (NAIA) infrastructure facilities and air navigation systems have to be significantly improved in order to handle the expected increase in number of flights under this agreement. The government has to make critical investments in airport infrastructure facilities and air navigation systems.

The situation of the runway and terminal facilities has been brought to the attention of the government by several stakeholders. A report of the U.S. Foreign Commercial Services and U.S. Department of State referred to a statement attributed to the Foreign Chambers of Commerce of the Philippines that "the Ninoy Aquino International Airport (NAIA) is in need of improvements in runway safety and capacity, and upgrade of terminal facilities. The runway design is below standards for new generation aircraft. The runway requires heavy maintenance, which affects airline schedules and airport revenue. In terms of passenger terminals, the old domestic terminal is out of date, NAIA Terminal 1 is almost 30 years old, while NAIA Terminal 2 which has operated for a decade, is for the exclusive use of flag carrier, Philippine Airlines (PAL). With the current tourism growth rate of over 10%, the runway and passenger terminals' capacity (including the unopened NAIA 3) will reach its limits by 2010"[85].

According to the U.S. Foreign Commercial Services and the U.S. Department of State, "another challenge in the Philippine aviation industry is air transportation safety. The Federal Aviation Administration (FAA) has recently revised the Philippines' aviation safety oversight category from Category 1 to Category 2. Category 2 indicates that the FAA has assessed the Government of the Philippines' Civil Aviation Authority as not being in compliance with International Civil Aviation Organization (ICAO) safety standards for the oversight of Philippine air carrier operations. While in Category 2, Philippine air carriers will be

[85] Philippines: Country Commercial Guide 2008
http://www.ipe11.org/uscomservice/docs/Philippines%20Country%20Commercial%20Guide.pdf

permitted to continue current operations to the United States, but will be under heightened FAA surveillance"[86].

Box 1 provides information on some of the findings of an audit of the country's aviation industry undertaken by the U.S. Federal Aviation Authority (FAA) in 2012 and the International Civil Aviation Organization (ICAO) in 2009. U.S. FAA inspectors conducted a Pre-Assessment Audit on International Civil Aviation Organization (ICAO)'s Standards and Recommended Practices (SARP) on Jan. 23 to 27, 2012.

Box 1. Several deficiencies and limitations of the country's civil aviation system

The US Federal Aviation Authority (FAA) technical audit, which was conducted on January 2011, identified several deficiencies in the country's civil aviation systems. Deficiencies were noted in the following:

1. Level of compliance on critical aviation safety issues such as qualifications and training of CAAP technical personnel conducting aircraft worthiness checks and airline pilot skills tests,
2. Integrity of certificates being issued by CAAP units , e.g. operating or compliance certificates to air operators and airworthiness certificates to aircraft owners
3. Conduct of safety oversight functions
4. Qualifications and training of CAAP's inspectors and other critical technical personnel
5. Computerized records keeping system, such as a Civil Aviation Safety Reporting and Tracking System (CASORT)

In 2009, the International Civil Aviation (ICAO) raised significant safety concerns on the country's civil aviation system during an audit conducted under its Universal Oversight Audit Program.

Source: http://www.abs-cbnnews.com/business/03/18/12/us-faa-finds-several-deficiencies-caap-systems

The Manila International Airport Authority (MIAA) has implemented airport slotting in the third quarter of 2010 for safety operation to handle the increase in number of domestic and international flights. This means that air carriers land and take off at a specified time of the day. However, airport slotting arrangement is a temporary measure. The country has to firmly address the deficiency and limitations of the capital airport, e.g., inadequate equipment such as landing instrumentation, ageing navigational equipment, as well as deficiencies in the systems of the Civil Aviation Authority of the Philippines (CAAP).

Protocols 2 and 7 under AFAFGIT are still under discussion and not yet concluded. According to the Department of Transportation and Communication, the lead government agency for Protocol 2 (designation of frontier posts) and Protocol 7 (customs transit system) is the Bureau of Customs (BOC). This bureau (BOC) is currently under reorganization for greater efficiency and transparency and for improving its capacity to collect revenues for the government. It appears that attending to the requirements of Protocols 2 and 7 have temporarily taken a back seat.

On AFAIST, concerned government agencies, e.g. Department of Agriculture, have all given their respective certificates of concurrence except for the Department of Justice, which is the remaining agency to submit yet its concurrence. That department is taking time to review AFAIST.

A major issue related to the liberalization of maritime transport services in the Philippines is cabotage. Cabotage is the principle embedded in a country's laws or regulations that reserves

[86] Philippines: Country Commercial Guide 2008
http://www.ipe11.org/uscomservice/docs/Philippines%20Country%20Commercial%20Guide.pdf

the privilege/right of inter-port navigating and trading within the national territory, only to domestic-owned vessels. Three sections of the Tariff and Customs Code of the Philippines cover the implementation of cabotage in the country. Currently, cabotage prevents foreign firms to compete with domestic shipping firms in providing shipping services because they are only allowed to directly transport passengers or cargo to designated international ports like Manila International Container Port, Manila South Harbor, Batangas, Limay and Davao.

There have been calls to lift the cabotage in the Philippines. Advocates invoke economic benefits as a result of lifting the country's cabotage. Businessmen from Mindanao and exporters from different parts of the country are among those who are calling for the lifting of the country's cabotage (Sio 2002). Through the lifting of the country's cabotage, foreign shipping vessels would be allowed to transport goods and passengers from non-international ports in the country to various destinations (local and foreign). This will create more competition in shipping services resulting in a decline in the cost of shipping. Because of the possibility of more new players and competition in the shipping industry, it is expected that the shipping costs would go down. Other benefits of the lifting of the country's cabotage include the possible benefits to domestic tourism, the increase in port revenues and the improvement of the cost-efficiency of exporters. The competition among domestic and foreign shipping firms is also seen to lead to a more efficient and better quality of the country's shipping industry.

Roads should complement ports and rail infrastructure to facilitate more efficient transport of goods and people. About 50 percent of Philippine roads are considered in good or fair condition, which compares rather poorly with other Asian countries. This has large negative impacts on attempts to link producers to global markets. The poor quality of national roads linking domestic producers to international airports and international ports increases travel time and vehicle operating costs per kilometer, especially of freight forwarders. The Department of Public Works and Highways found that average vehicle operating costs doubled between 1999 and 2003. This translates to even higher transaction costs for domestic producers exporting to global markets.

The World Bank estimated that a 1% improvement in the international roughness index (IRI) for national roads would yield a 4% reduction in vehicle operating costs, translating to 13 billion pesos a year (based on 1999 estimates).

Road transport regulation has the same conflict of interest situation and a fragmented regulatory approach as that in ports and shipping. For example, the Department of Transportation and Communications is both the regulator and operator of Metro Manila Light Rail Transit 3; the Light Rail Transit Authority is both regulator and operator of Light Rail Transit 1 in Manila. Public land transportation routes and rates are regulated by the LTFRB while the LTO ensures safety of land transport users and commuters. Overlaps in operation, ownership and regulation give rise to higher transaction costs and low quality service for commuters, shippers and freight forwarders.

Conclusions and Recommendations

The ratification of the ASEAN MAFPLAS together with its Protocols 1 and 2 has paved the way for greater liberalization and the introduction of greater efficiencies in air transport services. However, the other important protocols (Protocols 5 and 6) of MAAS cannot be ratified due to airport infrastructure deficiencies and other limitations. There is a great need for policy maker attention to this issue. The Philippines very badly needs an efficient air and marine transport system in view of its archipelagic geographic condition and its goal to have

better, more efficient, and stronger linkages with regional and global markets. Investments to modernize international ports and airports are obviously needed.

The current physical limitations of the country's international airports, particularly the Ninoy Aquino International Airport (NAIA), do not allow for additional traffic. The problems related to slotting, leading to airport congestion, are being addressed by an inter-agency committee. Recommendations to enhance runway capacity and to move general aviation to the Diosdado Macapagal International Airport in Clark have been proposed and studied. However, no timeline can be provided for the resolution of the issues.

Although the relevant Philippine laws and policies are in place, the offer of "open skies" to secondary gateways may be hampered by accessibility issues. The government still needs to improve multi-modal transport connectivity, for example, rail or fast train connecting Clark to Metro Manila. Increasing the number of skilled personnel to perform customs, immigration and quarantine functions is also an important issue to be addressed, especially in the smaller international airports.

Investments to improve port facilities and management are in order because port congestion, long queue of trucks, unavailability of containers, insufficient container depot in addition to the problems with the road condition and metropolitan traffic undermine the competitiveness of Philippine exports. Almost all exports have to pass through or have to be flown or shipped from Manila. There are some ports that are in good and even excellent condition but have been underutilized or even not used at all. A very good example is the Subic Bay Port. Firms situated both in the Subic Bay Freeport Zone (SBFZ) and the Clark Freeport Zone (CFZ) strongly suggests that the Subic Bay Port be utilized so that they would have an alternative to the Manila North Harbor.

For the ratification and implementation of Protocols 2 and 7 of AFAFGIT, the government has to work, among others, on the standardization of documentation requirements, introduction of automation, and the consolidation of the application and approval processes under a national single window conversant with the ASEAN single window. For those offices that already use the automated or online documentation processes, the problem is the lack of synchronization of the systems of concerned agencies/offices (i.e., BOC and CDC in Clark). There is also need for a clear and common understanding of guidelines and policies, a simplification and reduction of export documentation requirements in addition to the automation of processes that will bring down transaction costs.

The Department of Justice has to give priority to the review of AFAIST because it is the only remaining agency yet to give its concurrence to the proposed agreement.

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IV.G. Narrowing Development Gap Measure: SME Development[87]

IV.G.1 Introduction

The Philippines has two operational definitions of small and medium enterprises. Based on employment which is the most commonly used definition in the country, the different size categories are classified as follows:[88] Micro enterprises: 1-9 employees; Small enterprises: 10-99 employees; Medium: 100-199 employees; and Large: 200 or more employees. In terms of the assets, small and medium enterprises (SMEs) are defined as: Micro enterprises: P3 million or less; Small enterprises: P3-15 million; Medium: P15-100 million; and Large: P100 or more.

This paper evaluates the implementation of the 2010-2015 ASEAN Strategic Action Plan for SME Development and the 2004-2009 ASEAN Policy Blueprint for SME Development. A survey of both SMEs and government member of the Technical Working Group is conducted to gather insights on the status of the implementation of the ASEAN Strategic Action Plan and the Blueprint for SME Development. After the introduction, section II reviews government policies and programs on small and medium enterprises. Section III discusses the economic performance of SMEs in terms of contribution to value added and employment. Section IV presents the survey results while Section V summarizes the major findings and recommendations.

IV.G.2. SME Policies and Programs: 1990s-2000s

Policies

Like many developing countries and transition economies, the Philippines opened up its domestic economy to international trade starting in the 1980s. After more than three decades of protectionism and import-substitution policy, the government implemented several trade liberalization programs through unilateral reforms that reduced tariff and non-tariff barriers in the 1980s. In the 1990s, trade reforms were continued in line with the country's commitments under the General Agreement on Tariffs and Trade-World Trade Organization (GATT-WTO) and the Association of South East Asian Nations Free Trade Area Common Effective Preferential Tariff Scheme (AFTA-CEPT). Under the ASEAN Trade in Goods Agreement (ATIGA) which came into force in 2010), the Philippines reduced all tariffs to 0-10% range except for highly sensitive agriculture products such as rice.

Similarly, SME policies and programs have evolved with the focus shifting from inward-looking towards a more external-oriented approach. In the 1990s, government policy on SMEs concentrated on improving market access, export expansion, and increasing competitiveness. In 1991, the Magna Carta for Small Enterprises was passed to consolidate all government programs for the promotion and development of SMEs into a unified framework. It is highlighted by the following provisions: (i) creation of the Small and Medium Enterprise Development (SMED) Council to consolidate incentives available for SMEs; (ii) creation of the Small Business Guarantee and Finance Corporation (SBGFC) to address SME financing needs; and (iii) allocation of credit resources to SMEs by mandating

[87] This section was drafted by Dr Rafaelita Aldaba.
[88] National Statistics Office and Small and Medium Enterprise Development Council Resolution No. 1, Series 2003.

all lending institutions to set aside 8% of their total loan portfolio to SMEs (6% for small and 2% for medium enterprises). RA 6977 was amended by RA 8289 in 1997 to further strengthen the promotion and development of and assistance to small and medium enterprises.

In 2001, the SBGFC was merged with the Guarantee Fund for Small and Medium Enterprises (GFSME[89]) through EO 28 and became known as the Small Business Corporation (SBC). It registered a total of P728 million in loan approvals in 2002, exceeding the highest approval level of P180 million in 1999. The SBC is considered as the National Government's largest provider of SME financing, with a lending portfolio of over P3 billion. It has more than 3,000 clients and 71 partner financial institutions serving 57 (out of 75) provinces in the country.[90]

In 2002, RA 6977 was amended by RA 9178 or Barangay Micro Business Enterprises or BMBE Act. The latter provides support to microenterprises and the informal sector through incentives to local government registered barangay micro enterprises, exemption from income tax, reduction in local taxes, exemption from payment of minimum wages, financial support from government financial institutions and technological assistance from government agencies.

The 2004-2010 Medium Term Philippine Development Plan (MTPDP) focused on providing credit, technology and marketing support for three million micro, small and medium enterprises (MSMEs). The MTPDP also highlights credit provision, product development and promotion of clusters for SME development. A "One Town-One Product "(OTOP) Program was planned to stimulate economic activities of SMEs with every city or municipality in the country developing a product where it has competitive advantage. Industry clustering was also targeted. The Plan highlighted the creation of globally competitive SMEs and strengthening government assistance in seeking new market and product opportunities. It also identified the following strategies: increase access to managerial and technological support, support to export-oriented growth industries, increase support to improve industrial linkages with Philippine industries, increase SME financing support programs and strengthen institutions that provide SME support programs and incentives, streamline implementation of SME policies and regulations, and strengthen institutions that implement SME programs.

The Micro, Small, and Medium Enterprise (MSME) Development Plan for 2010-2016 aims to improve the business and investment enabling environment for MSMEs, increase their access to finance, allow them to penetrate new markets and maintain and expand existing ones and raise their level of productivity and efficiency. The Plan identified poor business conditions, access to finance, inability to penetrate export markets, and low level of productivity as the critical constraints to the growth and development of the MSME sector.

Programs

(i) Overall SME Development

The Department of Trade and Industry (DTI) is responsible for the development and regulation of Philippine SMEs including micro and large enterprises. There are various DTI-attached agencies set up with 14 offices and 20 line bureaus mandated to support SMEs and

[89] GFSME was a guarantee fund operated independently by a Management Committee and professional staff under the Livelihood Corporation, a corporation attached to the Office of the President of the Philippines. The services of GFSME were restricted to offering of guarantee services to participating financial institutions lending to SMEs from the time it started commercial operations in 1984.

[90] http://www.sbgfc.org.ph/about-history.htm (accessed on 30 July 2010).

SME exporters. The Small and Medium Enterprise Development (SMED) Council formulates SME promotion policies and provides guidance and direction in implementing SME programs. It is a multi-agency group chaired by the DTI Secretary. The Bureau of Micro, Small and Medium Enterprises Development (BMSMED) leads DTI's SME Core Group and coordinates SME policies, programs and projects. It acts as a "one-stop-shop" to guide SMEs to specialized support agencies. The BMSMED is also the secretariat to the SMED Council tasked to review policies and strategies for SME development.

The other member agencies of the SME Core Group are the following: Small Business Guarantee and Finance Corporation responsible for finance services; Philippine Trade Training Center (PTTC) for development and implementation of SME training and learning activities; Product Development and Design Center (PDDC) for product development initiatives and design programs; and Cottage Industry Technology Center for technologies. Other DTI agencies that support SMEs include the Center for International Trade Expositions and Missions (CITEM), Bureau of Export Trade Promotion (BETP), Board of Investments (BOI), and Philippine International Trading Corporation (PITC).

(ii) Finance

In order to provide SMEs greater access to capital, the Small Business Guarantee and Finance Corporation developed a lending program in 2003, known as SME Unified Lending Opportunities for National Growth (SULONG). The Program is a collaboration among government financial institutions consisting of the Land Bank of the Philippines, Development Bank of the Philippines, Small Business Corporation, Quedan and Rural Credit Corporation, Philippine Export-Import Credit Agency, and the National Livelihood Support Fund. Interest rates are fixed at 9% per annum for short-term loans, 11.25% per annum for medium-term loans and 12.75% per annum for long-term loans. The program funds export financing and temporary working capital for short-term loans as well as permanent working capital, equipment or lot purchase or building/warehouse construction for long-term loans. More than PHP 35.3 billion (US640 million) in loans have been released to 368,000 SMEs since 2003.

Under the one town, one product (OTOP) Program, the government allocates PHP 1 million (US$ 18,200) for lending to an SME in every locality, through identified funding sources. DTI, in coordination with local government units, identifies a product or service cluster for funding support. SMEs that offer such product or service are eligible to apply for a loan with a maximum effective interest rate of 10% per annum. The OTOP Program offers a comprehensive assistance package through local government units (LGUs), national government agencies and the private sector covering business counseling, appropriate technologies, skills and entrepreneurial training, marketing, and product designs and development.

(iii) Marketing

The DTI-Center for International Trade Expositions and Missions (CITEM) assists exporters develop their core competencies in marketing, promotion, and capability-building. CITEM organizes local and international trade fairs; it holds an annual National Trade Fair (NTF), a five-day, order-taking and retail selling fair showcasing the best producers in the country. Participants are provided with assistance such as raw material identification, product design, training, marketing, information dissemination, and promotion.

CITEM also organizes international trade fairs like the Manila F.A.M.E. International, an international exhibition for furniture, gifts and housewares, holiday decor, and fashion accessories. It also organizes the International Food Exhibition Philippines, a trade event that features the competitiveness of Filipino food products; Bio Search, Industry Link and E-Services Philippines, an exhibition that focuses on IT and IT-enabled services industry.

Apart from trade fairs, CITEM also organizes trade missions and other promotional activities, business matching, technical and export marketing assistance, and administers the biennial Golden Shell Awards for outstanding exporters in manufacturing, marketing, and design.

(iv) Training and Human Resource Development

The DTI also has training and entrepreneurship development programs to provide existing and potential entrepreneurs with the necessary skill and knowledge to become competitive players in both the domestic and international markets. Business counselors are assigned in SME Centers which are located in regional and provincial offices to provide assistance and information on government and private sector programs for SMEs. Business counselors are trained to assist entrepreneurs in their finance, marketing, technology, and HRD needs.

The DTI-Philippine Trade Training Center (PTTC) designs and develops training curricula and instructional materials and conducts training programs for MSMEs. Its programs and services include entrepreneurship development, business management, export management, IT and webpage development, quality and productivity, and international standard seminars like ISO 9000 quality management system.

(v) Technology and Product Development

The Department of Science and Technology (DOST) is the main agency responsible for providing technology support. It launched the Small Enterprises Technology Upgrading Program (SET-UP) to improve the viability of SMEs and enhance their competitiveness through the infusion of technology, technical assistance and manpower development.[91] The Program provides support to SMEs in the following areas: (i) technology needs assessment and technology sourcing; (ii) provision of seed funds for technology acquisition; (iii) technical training on hazard analysis and critical control points, good manufacturing practices, quality and environment management systems and other specific skills; (iv) technical and productivity consultancy services to participating firms; (v) establishment of product standards; (vi) development of networks of accredited regional product-testing laboratories; (vii) establishment of a packaging R&D center; and (viii) design and fabrication of cost-reducing equipment. The Program covers the following sectors: food processing, furniture, fashion accessories, gift, housewares, decors, handicrafts, natural dyes and fibers, marine and aquatic resources, horticulture, and metals and engineering.

Between 2002 and 2006, the Program funded a total of 328 projects. It was able to provide assistance to 727 firms in acquiring modern production equipment and upgrading the quality and marketability of their products. A total of 30,885 testing/calibration services was provided by DOST laboratories to 9,546 clients. SET-UP also supported 415 trainings with 9,818 participants. Trainings focused on key production issues such as hazard analysis and critical control points for food processing, good manufacturing practices, and quality and environment management systems. Technical and consultancy services were provided to 3,616 firms. To further support the services of the Program, an Inter-Agency Design and

[91] http://setup.dost.gov.ph/index.php (accessed on 30 July 2010).

Engineering Assessment (IDEA) Team was created in 2005. This is composed of 8 DOST R&D agencies tasked to assist in the development, assessment and standardization of efficiency and performance indicators of various equipment, tools, jigs and fixtures associated with DOST technologies that can be used by SMEs.

The DTI-Product Development and Design Center of the Philippines is mandated to promote design as a tool for improving the quality and competitiveness of Philippine products and is geared towards the design needs and requirements of SMEs. There are other agencies involved in providing product and package design development services and technology intervention. These include the Industrial Technology and Development Institute, Technology Application and Promotion Institute, Metals Industry Research and Development Center, Forest Products Research and Development Institute, Philippine Textile Research Institute, Packaging Research and Design Center of the Philippines, Bureau of Food and Drugs, Bureau of Product Standards, and Food Development Center.

IV.G.3. Performance

In terms of number of establishments; micro, small, and medium enterprises (MSMEs) dominate the economy and account for almost 99.6% of the total number of establishments in 2006. In terms of employment and value added contribution, MSMEs accounted for 61.2% of the country's total employment and 35.7% of total value added (Table G.1). The growth of the MSME sector, however, has not been vigorous enough to propel the economy. Firm size distribution has not changed much in the past two decades as the proportion of medium sized enterprises has remained small. As a result, the country's industry structure is often characterized by a missing or hollowed middle. The share of medium enterprises has remained miniscule at 0.4% while that of small enterprises was almost unchanged at 7.7%. Micro enterprises meanwhile formed the bulk of enterprises with a share of 91.6%.

Table G.1: Micro, small and medium enterprises: Structure and economic contribution

	Total	Micro	Small	Medium	Large	MSMEs
2008 Number of Enterprises	761,409	697,077	58,292	3,067	2,973	758,436
% Distribution		91.6	7.7	0.4	0.4	99.6
2008 Employment	5,544,590	1,663,382	1,314,065	418,058	2,149,085	3,395,505
% Distribution		30.0	23.7	7.5	38.8	61.2
2006 Value Added (in million pesos)	2,108,546	103,918	431,340	216,685	1,356,603	751,943
% Distribution	100	4.9	20.5	10.3	64.3	35.7
2006 Value added per worker (in pesos)	380,289	62,474	328,248	518,313	631,247	221,452
% of large enterprises		9.9	52.0	82.1		

Source: MSMED Plan 2010-2016.

Table G.1 also shows that in terms of employment contribution, SMEs registered a modest share of 32% while micro enterprises contributed 31.2%. SME value added contribution was moderate at 30.3% while micro enterprises accounted for a share of 4.9%. In terms of labor productivity measured by value added per worker, micro enterprises registered the lowest as expected with their labor productivity being only about 10% of the labor productivity of large enterprises. The labor productivity of small enterprises was 52% of large enterprises' labor

productivity while for medium enterprises, it was about 82% of large enterprises' productivity.

Table G.2 shows that from 1999 up to 2006, the total number of SMEs in manufacturing declined from 15,748 to 11,278 with the share decreasing from 12% in 1999 to only 9.6% in 2006. Table G.3 indicates that in terms of employment contribution, the number of workers in SMEs also declined from 516,506 workers to 385,263 with its corresponding share falling from 31% in 1999 to 28% in 2006.

Table G.2: Number of manufacturing establishments by size, 1999-2006

Year	MICRO	%	SMEs	%	LARGE	%	TOTAL
1999	113861	87.0	15748	12.0	1322	1.0	130931
2000	108998	86.9	15231	12.1	1238	1.0	125467
2001	108986	88.0	13615	11.0	1194	1.0	123795
2002	108847	88.5	13148	10.7	982	0.8	122977
2003	107398	88.6	12763	10.5	1024	0.8	121184
2004	103926	88.0	13081	11.1	1120	0.9	118127
2005	103982	88.6	12392	10.6	1008	0.9	117382
2006	105083	89.5	11278	9.6	985	0.8	117346

Table G.3: Manufacturing employment by size, 1999-2006

Year	MICRO	%	SMEs	%	LARGE	%	TOTAL
1999	366689	21.9	516506	30.8	791277	47.3	1674472
2000	354025	22.3	505062	31.8	730127	45.9	1589214
2001	353415	23.0	446600	29.1	734088	47.9	1534103
2002	353255	24.1	437490	29.8	676443	46.1	1467188
2003	360576	24.7	403923	27.6	698173	47.7	1462672
2004	327112	21.3	432869	28.2	775969	50.5	1535950
2005	323510	22.1	408100	27.9	731736	50.0	1463346
2006	259664	18.9	385263	28.1	727984	53.0	1372911

Table G.4 shows that in terms of manufacturing value added, the share of SMEs dropped to 21% in 2003 from 28 percent in 1998. Large firms contributed 79 percent of the total, an increase from its level of 72 percent contribution in 1998.

Table G.4: Manufacturing value added contribution by size: 1994, 1998, 2003 and 2006

Year	1994		1998		2003		2006*	
Size	SMEs	Large	SMEs	Large	SMEs	Large	SMEs	Large
Total	23	77	28	72	21	79	20	80
Value Added current prices (in billion PhP)	324.2		664.2		738.95		688.06	

*2006 covers only the formal sector of the economy.

Though an increase in the manufacturing labor productivity of both SMEs and large enterprises was registered between the 1994 and 1998, the same fell in 2003 (Table G.5). For SMEs, labor productivity dropped from P139,000 to P97,000 while for large enterprises, the same measure declined from P227,000 to P211,000. According to the FIAS, World Bank and IFC (2005), the value added per worker relative to all firms was approximately 46% in the Philippines as compared to 64% in Indonesia, 65% in Malaysia, and 84% in Thailand.

Table G.5: Labor productivity: 1994, 1998, 2003 and 2006

Year	1994		1998		2003		2006*	
Establishment Size	SMEs	Large	SMEs	Large	SMEs	Large	SMEs	Large
Labor Productivity In PhP million at 1985 prices	0.11	0.196	0.139	0.227	0.097	0.211	0.064	0.118

*2006 figures are not comparable with the rest of the years, the 2006 Annual Survey of Establishments covers only the formal sector of the economy.

While some notable improvements in terms of number of enterprises, value added, and employment contribution were registered between 1994 and 1998, the overall economic performance of SMEs in the last decade has been subdued. Thus, they have not substantially generated sufficient value added and employment to increase competition, improve industrial structure and increase the country's overall manufacturing growth. The weak performance of SMEs has been largely attributed to the large number of barriers that SMEs must face particularly access to finance, technology, and skills as well as information gaps and difficulties with product quality and marketing. Despite the substantial trade and investment liberalization in the country along with increasing regional integration, penetrating the export market has not been easy for SMEs. Making small and medium manufacturers internationally competitive is a major challenge that would require government support and close coordination between the government and the SME sector. This requires a coherent set of policies and programs designed with the direct involvement of SMEs.

Access to finance has remained one of most critical factors affecting the competitiveness of MSMES. Studies focusing on the growth constraints faced by SMEs in the Philippines have continued to highlight the difficulties of MSMEs in accessing finance. Based on the PEP survey, Nangia and Vaillancourt (2006) indicated that funds obtained from the banking sector accounted for only 11 to 21% of capital raised by SMEs. This is lower than the 30% international benchmark seen in other developing countries like India and Thailand. Furthermore, banks are generally reluctant to lend large loans particularly those ranging from P150,000 to P5 million (US$3,450-115,000) which is the normal range of funding required by SMEs.[92]

Studies (FINEX and ACERD 2006; Nangia and Vaillancourt 2006; Aldaba et al 2010; Aldaba 2011) have shown that despite the availability of funds for lending, SMEs particularly the smaller ones have been unable to access funds due to their limited track record, limited acceptable collateral, and inadequate financial statements and business plans. In these studies, the lack of access to financing is highlighted as the most difficult constraint to SME growth. The problem seems to lie not in the supply of funds potentially available for SME lending but the difficulty of access to these funds. In theory, there should be sufficient funds for SME

[92] Citing an IFC Study, Bangko Sentral ng Pilipinas Deputy Governor Nestor Espenilla in a speech delivered in an SME forum. (Michelle V. Remo, Sept 27, 2010. "SMEs' loan access still limited". Philippine Daily Inquirer.

financing since banks are required by law to allocate 8 percent of their loan portfolios to SME financing. At the same time, government financial institutions have their own SME financing programs. Private banks, however, are reluctant to lend to SMEs because of their general aversion to dealing with a larger number of smaller accounts. Moreover, many banks are still not aware of lending to small businesses. Many SMEs cannot access available funds due to their limited track record, limited acceptable collateral, and inadequate financial statements and business plans.

Banks have continuously pointed out that the lack of credit information has deterred them from lending to SMEs. Without the necessary credit information, it is difficult to determine creditworthiness of borrower firms. Banks are also concerned about the bankability of MSMEs and high risks involved in MSME lending given that many MSMEs have limited management and financial capability. Thus, financial institutions have continued to impose collateral requirements and other stringent conditions such as minimum loan requirement. Other issues include slow loan processing, short repayment period, difficulties in loan restructuring, high interest rates, and lack of start-up funds for SMEs.

SME financing in the country is to a large extent driven by government policy covering targeted interventions through government financial institutions using private banks as conduits, direct lending by government agencies and corporations, along with the mandatory credit requirements for banks. However, despite these programs and policies, the volume of funds for SME lending has remained inadequate for their needs. Estimates of the financial gap ranged from Philexport's P67 billion (US$1.6 billion)to the the Department of Trade and Industry's P180 billion (US$4.2 billion). Nangia and Vaillancourt came up with a finance gap that ranged from P76 billion (US$1.8 billion) to P170 billion (US$3.9 billion) gap. Applying the same procedure of Nangia and Vaillancourt, Aldaba (2011) obatined an estimated gap of around P130 billion.

IV.G.4. ASEAN Strategic Action Plan for SME Development and ASEAN Policy Blueprint for SME Development

Overview and Description

The ASEAN Policy Blueprint for SME Development for SME Development (APBSD) 2004-2014 provides the framework for SME development in the ASEAN region in order to narrow the development gap in the region. It aims to accelerate the pace of SME development and enhance the competitiveness and dynamism of ASEAN SMEs by facilitating their access to information, market, human resource development and skills, finance, and technology. It also aims to strengthen the resilience of SMEs to withstand adverse macroeconomic and financial conditions along with challenges arising from a more liberalized trading environment and improve SME contribution to overall growth and development of the ASEAN region. By 2015, the APBSD envisions ASEAN SMEs as competitive, innovative, and world-class enterprises that perform major roles in regional and global supply chains and are able to take advantage of the opportunities from ASEAN economic integration. Its major programs consist of the following: Human Resource Development and Capacity Building; Enhancing SME Marketing Capabilities; Access to Financing; Access to Technology; and Creating Conducive Environment. Table G.6 summarizes the major activities in each program.

Table G.6: ASEAN Policy Blueprint for SME Development

Program Area	Activities
Human Resource Development and Capacity Building	-Entrepreneurship development program -Enhancing SME sector skills in management & organization on a self-reliant basis -Fostering SME capabilities for inter-firm networking & linkages -Tracking & benchmarking SME capabilities, dynamism & competitiveness
Enhancing SME Marketing Capabilities	-Setting up regional & subregional networks of interlinked, online clearing points or trading houses for SME businesses -Enhancing SME capabilities in & reliance on ICT & e-commerce -Tracking & benchmarking SME readiness as subcontractors & compliance to non-negotiable subcontracting preconditions or compliance requirements on the demand side
Access to Financing	-Capacity building for improved SME access to financing -Financial institutional capacity building for improved SME financing -Widening & deepening SME access to credit
Access to Technology	-SME technology upgrading & transfer of innovative technologies
Creating Conducive Environment	-Simplification, streamlining & rationalization of procedures for SME registration & process for SME support services -Fine-tune policy & regulatory framework for SME development -Promotion of public-private synergies & partnerships for SME development & integration

Building on the progressive work under the APBSD, the ASEAN Strategic Action Plan for SME Development aims to further enhance the competitiveness and flexibility of SMEs in moving towards a single market and production base in ASEAN. The key policy measures and activities are summarized in Table G.7. These cover access to financing, facilitation, technology development, promotion and human resource development.

Table G.7: ASEAN Strategic Action Plan for SME Development

Program area	Activities
Access to Financing	-SME Financial Facility in each Member Country -Feasibility study of SME credit systems for enhancing SME access to bank lending and loan guarantee in ASEAN -Regional SME Development Fund
Facilitation	-Multi-media self-reliant system toolkit package -Technology transfers and licensing within SME sector through dissemination of concrete good practices -Hyperlink national SME Portals -SME service center with regional and sub-regional linkages in AMSs -Dissemination of information on regional & international opportunities in trade & investment to SMEs
Technology Development	-Sharing of information on technology availability for SMEs in AMSs -Developing key performance indicators (KPIs) on SME Innovation -Development of technology incubators to nurture & support techno-entrepreneurs from infancy to take-off & commercialization stages
Promotion	-Identification of top 1000 ASEAN SMEs -ASEAN SME Innovation Awards -Promoting ASEAN SMEs to the international market -Dissemination of information on SMEs trade fairs & festivals & facilitate SMEs' participation in these events
Human Resource Development	-Common curriculum for entrepreneurship in ASEAN -Regional program for promotion of internship scheme for staff exchanges & visits for skills trainings

Survey Results

Four SMEs and one government-member of the SME Working Group were surveyed in order to evaluate the current status of the Philippine implementation of the ASEAN Strategic Action Plan for SME Development and the ASEAN Policy Blueprint for SME Development.

Overall, the assessment of the ASEAN Strategic Action Plan for SME Development showed low average effectiveness scores that ranged from without to no or little concrete impacts on the implementation of various programs covering access to financing, facilitation, technology development, promotion, human resource development and other regional SME initiatives. However, it is important to note that according to 4 respondents, financing such as improved financial products, developing regional capital market for SMEs; expanding mutual SME investment; improving SME access to finance; getting SMEs listed in growing stock market and national and regional SME credit guarantee scheme were implemented with some moderate identifiable impacts. 4 of the respondents indicated that promoting ASEAN SMEs to the international market and wider dissemination of information on SME trade fairs were implemented with some moderate impacts.

In general, the assessment of the ASEAN Policy Blueprint for SME Development also indicated low average effectiveness scores that ranged from without to no or little concrete impacts on the implementation of various programs on human resource development and capacity building, enhancing SME marketing capabilities, access to financing, access to technology, and creating conducive policy environment[93].

IV.G.5. Conclusions and Recommendations

In the last decade, manufacturing SMEs have not substantially generated sufficient value added and employment to increase competition, improve industrial structure and increase the country's overall manufacturing growth. The weak performance of SMEs has been largely attributed to the large number of barriers that they must face particularly access to finance, technology, and skills as well as information gaps and difficulties with product quality and marketing. Despite the substantial trade and investment liberalization in the country along with increasing regional integration, penetrating the export market has not been easy for SMEs. Making small and medium manufacturers internationally competitive is a major challenge that would require strong government support and close coordination between the government and the SME sector. In addition, SME programs and policy measures at the ASEAN level must also be implemented in such a way that they complement domestic policy reforms and programs. All these would require an integrated approach and a coherent set of domestic and regional policies and programs designed with the direct involvement of SMEs.

To boost SME competitiveness, pursuing promotion and development of outsourcing arrangements would be important. Given the potential opportunities arising from the growth of GPN industries through subcontracting and outsourcing, policies aimed at improving these relationships between SMEs and large corporations and MNCs are crucial for SME development. Subcontracting and outsourcing arrangements can be promoted by linking up or matching up companies, providing subcontracting and outsourcing advice to SMEs, and organizing fairs for subcontractors.

[93] See III.A.8 on page 74 for a fuller discussion of the survey results.

The experiences of South Korea, Singapore, and Taiwan show that the successful implementation of technology upgrading, human resource development and training, and finance support programs are crucial for SME growth and development. Industrial upgrading would require a strong base of domestic knowledge. This would need the development of specialized skills and technological capabilities. The government also needs to implement substantial reforms in all stages of the education and training system to cope with rising competition from lower wage countries. The quality and completion rates need to be improved and the length of the schooling be brought in line with international norms. Moreover, technical training schools should reorient their curricula to serve employer needs and requirements; to address specific skills needed by both traditional industries.

Equally important particularly for the global/regional production network operations of multinational enterprises is the presence of good infrastructure and logistics that lower production cost and facilitate the easy supply chain management from the procurement of inputs to the export of outputs. This implies reducing power and communication costs, providing sufficient port systems, reducing travel time and offering travel and shipment options.

Within this light, the government could facilitate SMEs' gainful participation in ASEAN through: (1) designing a coherent set of policies and programs; (2) raising awareness of the potential of participation in international/global production networks and good understanding of the advantages and potential of sub-contracting; (3) addressing financing issues including inadequate working capital, insufficient equity, difficulties of credit finding and expensive credit cost; (4) improving the technological capabilities and strengthening supply chains to enable SMEs to move up the technology scale as well as to create and enhance existing linkages with production networks; and (5) creating an enabling environment for firms to survive and realize their potentials to grow, a crucial precondition for both foreign and domestic investment.

To improve MSMEs access to finance, the paper suggests the following: (1) implementation of the Central Credit Information Corporation to improve the overall availability of credit particularly for MSMEs, provide mechanisms to make credit more cost-effective, and reduce the excessive dependence on collateral to secure credit facilities; (2) changing the traditional mindsets of banks and encourage the adoption of non-traditional approach to SME lending. Traditionally, lending to SMEs is seen to entail higher risks and higher costs and the tendency is to over guarantee the loan; (3) trainings and capability building programs for SMEs to improve their financial literacy and management capacity are also necessary; and (4) improve data collection and statistics on SMEs particularly on financing indicators.

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V. Ways Forward: Specific Recommendations to Raise the Implementation Rate of AEC Measures in the Philippines[94]

In the last two decades, the Philippines has implemented substantial market-oriented reforms covering liberalization, privatization, and deregulation in both the manufacturing and services sectors. Economic growth, however, has been characterized by a boom-bust cycle which placed the Philippines significantly behind its neighbors. The reform process which started in the early 1980s was bumpy with many stops and starts due to domestic, natural, and external crises. It was also characterized by policy reversals due to the successful resistance to economic change by some powerful domestic interest groups with strong political clout.

The shift from import substitution to a more open economy requires not only changes in laws and policies, but also efficient institutions and good infrastructure that will support growth and the new economic environment. While the Philippines has done a lot of market-oriented reforms; much remains to be done in terms of creating efficient institutions and regulatory mechanisms (Aldaba 2005). As the foregoing chapters illustrated, there exists a large gap between policy and practice; coordination among government agencies has remained ineffective; governance has been weak; poor infrastructure continues to hamper efficient business operations; and many processes such as registration and applications for permits and licenses remained complex, problematic, and costly.

Overall, Philippine experience has shown that economic reforms are not enough; good infrastructure and efficient institutions are necessary to support the new economic environment. To effectively implement these reforms, it should substantially increase investment spending and strengthen its weak institutional and regulatory environment. Many complementary policies and institutions that are necessary to support the reforms and generate supply-side responses leading to employment and growth are missing. If market reforms are to have their intended effects, "behind the border" complementary policies that define the business environment must be addressed including investment in human capital, infrastructure, and the quality of governance in the country. Note, however, that Constitutional restrictions still limit foreign participation to 40% in sectors such as public utilities, Build-Operate-Transfer (BOT) projects, and similar private sector-led infrastructure arrangements.

The AEC Scorecard is the mechanism developed to track the implementation of the various measures under the AEC Blueprint and its strategic schedules. To ensure that the timelines and targets of AEC are met, the AEC Blueprint is monitored in four phases: 2008-09; 2010-11; 2012-13; and 2014-15.

The Philippines' overall score for Phase I of the AEC Scorecard as of July 2011 was 95 percent. The score represented 104 measures that the Philippines had fully implemented, with 6 measures still to be fully implemented to date. Three of these measures, which are under various stages of implementation, are under Single Market and Production Base, particularly for free flow of services: (i) Schedule at least 51% of foreign equity in the 4 priority integration sectors for services (air travel, e-ASEAN, health care, and tourism); (ii) Schedule maximum 2 types of non-equity MA Limitations for all 29 subsectors of 4 priority integration sectors for services; and (iii) Schedule maximum 3 types of non-equity MA Limitations for all nine logistics subsectors. The other three are under Competitive Economic Region,

[94] This chapter draws heavily on the ERIA studies on the AEC Scorecard (Aldaba et al. 2010; Medalla et al. 2011).

specifically transport cooperation under the infrastructure development (ratification of protocols 2 and 7 of AFAGIT, and protocol 5 of MAAS).

Under Phase II (2010-2011) of the AEC Scorecard, the Philippines' overall score for measures that have been fully implemented from January 2010 up to July 2011 was 73 percent, representing 96 measures out of a total of 131 measures. Of the 96 measures that have been fully implemented by July 2011, 24 were fully implemented ahead of schedule. On the other hand, there were 35 measures that were due for implementation by July 2011 that have not yet been fully implemented. An additional 48 measures are due for implementation by the end of 2011. The key measures implemented to date include tariff and non-tariff reduction (e.g., entry into force of the ASEAN Trade in Goods Agreement on 17 May 2010); implementation of mutual recognition arrangements for medical, dental and nursing services; and conclusion of 5th round of negotiations for financial services.

Most of the measures that are due for implementation but have not been fully implemented as of July 2011 are under Pillar 1, particularly for free flow of goods (19 out of 23 measures, especially those related to customs integration); 10 measures are under Pillar 2, with 5 competitiveness-related measures and 5 measures on ratification of transport protocols and agreements; and 2 measures are under Pillar 4 (Integration into the Global Economy).

In particular, measures critical for customs integration include the establishment of pre-clearance arrival for customs clearance and cargo release, development of advance ruling systems for tariff classification and value assessment, implementation of ASEAN Customs Declaration Document, implementation of cargo processing model, and finalization and implementation of Protocols 2 and 7 under the ASEAN Framework on the Facilitation of Goods in Transit. Standard and conformance measures still to be implemented relate to the development and implementation of standard MRAs as well as harmonized regulatory regimes for certain products. For transport, the priority is to finalize the pending protocols and agreements under ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services[95] (MAFLPAS), AFAFGIT, and MAAS.

Overall, the Philippines has demonstrated its commitment to the AEC and the AEC Blueprint, as indicated in the measures that have been implemented over 2008-2011. That said, key measures remain due for implementation, particularly those that relate to services liberalization, customs integration, and ratification of transport protocols and agreements. Liberalization measures in particular require changing Philippine laws, or even specific provisions in the Constitution, and hence are expectedly most difficult to undertake given the country's political economy constraints as discussed in the previous chapter. Others relate to changes in bureaucratic/administrative processes, procedures, and arrangements. Finally, ratification of transport protocols and agreements also requires upgrading the country's infrastructure. The analyses in the previous chapters have demonstrated the benefits of the implementation of AEC measures in the Philippines, particularly those measures that addressed precisely the key institutional weaknesses faced by the private sector. Further delays in implementation, which could also build up over time because the implementation of measures in the AEC Blueprint is designed to be progressive over time (i.e. future measures are built on earlier measures), could be costly for the country.

To bring the Philippines closer to its AEC 2015 commitments, the ERIA Phase II study on how to further improve the AEC Scorecard for the Philippines (Medalla et al. 2011) suggested that the following core measures be prioritized by the government: investment

[95] Ratified on 28 March 2012.

promotion and facilitation; trade facilitation and national single window; and transport facilitation. Apart from improving the implementation of the Philippines' AEC commitments, the same measures are necessary in order to reduce the gap between policy and implementation within the country, improve our investment climate, and boost the country's competitiveness to enable us to catch up with our neighbors.

Investment Promotion and Facilitation

In terms of operational environment and investment climate, there are still many processes such as registration and applications for permits and licenses that have remained complex, problematic, and costly. The AEC Scorecard Phase 1 Philippine Country Report (Aldaba et al. 2010) highlighted the need for automation of business procedures in national government agencies; transparent procedures and guidelines; streamlined procedures handled by different national government agencies; clear and consistent policies, any policy changes should be communicated effectively; and assistance to prospective investors as well as investment promotion. The same were found in the survey of core measures as well as in the AEC Scorecard Phase 2 Philippine Country Report..

Hence, the top two investment measures that must be pursued are as follows: first, streamlined procedures for permits, licenses for investments in starting business; and second, acceleration of the adoption of investment promotion. As earlier discussed, streamlining procedures in starting a business would be important especially since the Philippines has lagged significantly behind other countries in the region in terms of cost of doing business indicators. Accelerating investment promotion with other ASEAN member countries would be important and to pursue this, more efforts are needed to coordinate and harmonize investment promotion efforts among the various investment agencies in the Philippines. With the AEC as external pressure, the government will also have to directly act on the issue of Constitutional limitations to foreign equity.

Building on the recommendations highlighted not only in the present survey but also in the other investment surveys covering both IPAs and firms, the following recommendations are proposed:

1) Unify and centralize the investment promotion and facilitation efforts by all IPAs under one agency with strong leadership. The IPAs were created by different legislations administered by different government bodies without an overall coherent and integrated investment promotion and facilitation strategy that would guide IPA activities. Each IPA individually coordinates with national agencies and LGUs. In the absence of standard procedures and processes for all IPAs, different arrangements emerged with some IPAs facing more difficulties than others. It is important to establish a single mechanism to coordinate the business registration and investment promotion and facilitation policies with the national and local governments including standard procedures for granting of tax incentives and exemptions to investors. The case of Singapore's Economic Development Board (EDB) shows how a one-stop and lead agency for investment promotion has played a crucial role in Singapore's continued economic success. The crafting and passing of a legislation to centralize investment promotion and facilitation activities under a single agency should therefore be prioritized.

2) Strengthen the current efforts of the PIPP inter-agency committee to coordinate the various IPAs' actions and plans. This may be viewed as a transitional arrangement while a lead agency for investment promotion and facilitation is yet to be created. IPAs should synchronize their efforts in promoting the country, image-building activities, providing

after sales service to investors and implementing the country's investment plan. They should update information regularly and make these easily available on-line. To be effective, IPAs should have sufficient resources.

3) Other IPAs in the country should learn and adopt the "PEZA way" in dealing with operational issues such as slow processing of permits and other clearances required by national agencies and local government units. As studies by Akinci (2008) and Booz Allen Hamilton (2008) showed, PEZA has successfully combined regulation and promotion. Its one-stop shop is very efficient and effective and has reduced the cost of doing business leading to increased competitiveness of firms.

4) The DTI and the DILG are currently intensifying their efforts to improve the country's business permit and licensing system. In order to improve the operational environment and investment climate, IPAs should closely collaborate with DTI, DILG and other national agencies as well as with local government units in addressing the following:
   - Automation of business procedures in national government agencies, procedures and guidelines should be transparent;
   - Streamlining interrelated procedures handled by different national government agencies;
   - Implementing clear and consistent policies, any policy changes should be communicated effectively; and
   - Providing assistance to prospective investors as well as in promoting the country.

5) To review the existing investment incentives towards a more comprehensive and harmonized set of incentives governing all the IPAs. IPAs cannot and should not compete on the basis of fiscal incentives, but rather differentiate themselves in terms of facilities, services, and most importantly through streamlined procedures (FIAS 2008). As the survey results showed, most of the firms used IPAs primarily to get fiscal incentives. Currently, investment incentives have also widely differed from each other. PEZA offers income tax holiday (ITH) and a 5% income tax rate after; BOI has ITH but no 5% tax rate while both Subic and Clark have only a 5% tax rate but no ITH.

AEC 2015 is seen by most firms as offering both challenges and opportunities. To take advantage of the opportunities, the above suggested reforms must be accompanied by the following:

6) Increase infrastructure investment in physical infrastructure, power and logistics in particular, to reduce the cost of doing business in the country. Modern and efficient air, land, and sea infrastructure should be built fast enough.

7) Review the Constitutional limitations on foreign equity particularly the 60-40 rule. While limitations on foreign equity in these sectors cannot still be directly addressed, the government has to continue implementing measures to promote competition and strengthening institutional and regulatory framework particularly in public utilities. The Philippines is already considered as relatively open vis-à-vis its ASEAN neighbors. Foreign entry remains restricted in a substantial number of important economic sectors.

8) Improve institutional infrastructure by addressing corruption, which together with poor infrastructure, has severely weaken our competitiveness.

National Single Window and Trade Facilitation

While major achievements have been made in trade facilitation, a lot more needs to be done, especially in NSW. Possibly the most important hurdle to clear pertains to the relationship between the BOC, NSW and the Value Added Service Providers (VASPs), and how to link them together. Lack of progress in this area is the main factor that reduces the NSW scorecard for the Philippines. Removing the stumbling block in this regard would be key. As such, reforms in terms of Standardization and Harmonization are the important areas for improving the Philippine NSW Scorecard.

The Philippines has adopted a pragmatic and unconventional approach in implementing its National Single Window (NSW) project. The creation of the Philippine NSW portal which utilizes existing forms and procedures among the government agencies aims to achieve maximum benefit with minimal disruption and cost of compliance. On the other hand, this does not deal head on with the linkage problem, particularly in terms of standardization and harmonization. Decisive factors in the success of the early BOC reforms included strong political will; sustained operational leadership and ownership of the reform by the head of customs; and private sector involvement and support, generic customs software, and analysis and selectivity (Parayno 2005). Stronger commitments on the part of OGAs, BOC and NSW are necessary. Phasing in the Value Added Service Providers (VASPs) into the system would also need to be resolved.

To this end, the key recommendations *at the national level* are as follows:

1) 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.
2) 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, e-government funds must be allocated to the agencies lacking physical infrastructure as well as technical staff.
3) The step-by-step procedure in the use of NSW must be disseminated to all concerned stakeholders 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.
4) 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.
5) 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.

6) 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.

7) Finally, it is important to improve and strengthen the Risk Management System that links directly with the information and database of the NSW and BOC. 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. As earlier noted, the Risk Management department should be directly under the Commissioner's office, for transparency and accountability.

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.

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.

Transport Facilitation

The problems of the Philippine transport services sector are in the areas of infrastructure development and regulation. There is a need for a "big bang" in infrastructure spending that would address the main problems of infrastructure development contributing to the poor state and performance of ports in the country.

In order for the Philippines to maximize the benefits of globalization and trade liberalization, it needs to address not only border issues but also and more importantly behind border issues. New opportunities in the global markets require an intensified focus on improving the efficiency of transport and logistics services. The following policy recommendations are hereby presented to further improve the state of transport and logistics services in the country:

1) Improve port infrastructure and modernize port operation through efficient public-private partnership.
2) Remove conflict-of-interest situation of a regulatory agency, which owns certain infrastructure, e.g., ports in the case of PPA, and at the same time regulates port operation. Ensure the independence of regulatory agencies to ensure a more competitive market and upholding of consumer welfare.
3) Allow international airlines to land and pick up cargo business from the Diosdado Macapagal International Airport (DMIA) in Clark, Pampanga to give exporters from Subic Bay Freeport Zone and Clark Freeport Zone a less costly option for shipping out their exports, e.g., shorter travel time, more-on-time exports, avoiding the congestion in NAIA and heavy Manila traffic.
4) Improve the efficiency of concerned regulatory agencies and government departments involved in trade, e.g., Land Transportation Office, Bureau of Customs, by modernizing and streamlining operations through the use of information and communications technology (ICT).
5) Provide a clear and common understanding among concerned regulatory agencies and government departments of guidelines and policies, a simplification and reduction of export documentation requirements in addition to the automation of processes to bring down transaction costs.
6) Review the cabotage policy in light of the need for more competitive transport and logistics in the country.

All these pose a serious challenge to the Aquino administration. In view of the deepening regional economic integration via the implementation of country's commitments to the AEC Blueprint, the Report put forward policy recommendations which are necessary in order to reduce the gap between policy and implementation, improve the investment climate, and boost the country's competitiveness to enable us to catch up with our neighbors and take advantage of the opportunities offered by the AEC. The Aquino government should make full use of its popularity and wide support from broad sectors in society to carry out these badly needed institutional and regulatory reforms together with huge infrastructure spending. A key survey result for this MTR is the improvement in private sector perception with respect to the country's political stability and level of corruption, which respondent firms indicated to be better now than two years ago. This bodes well for the Aquino administration.