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

How Are Firms Responding to Philippine Free Trade Agreements?

Rafaelita M. Aldaba et al.

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How Are Firms Responding to Philippine FTAs?¹

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Abstract:

The Philippines has been more cautious in its policy towards free trade agreements (FTAs) than other ASEAN member states, having signed, so far, only one bilateral agreement with Japan in addition to the various ASEAN+1 agreements. While the Government is expected to progressively reduce preferential tariffs to zero, Philippine firms have historically been slow to take advantage of FTAs. This survey reaffirms that this awareness and the usage of FTAs need significant improvement among both manufacturing and services sector firms. Identified as the main source of information for FTAs, the Government needs to increase the efficiency, scope and reach of its promotional and technical training programmes and to rely further on technology to deliver results. These efforts to enhance FTA utilisation are directly linked with the easing of rules of origin (ROOs) compliance and administration. At the national level, these efforts include reforms towards electronic Certificates of Origin (COOs) and self-certification, and linkage to the national single window (NSW). This will improve timelines and ease the entry of micro, small and medium enterprises. Regional efforts to harmonise ROOs can increase FTA utilisation across ASEAN member countries and pave the way for the forthcoming Regional Comprehensive Economic Partnership (RCEP).

Keywords: *free trade agreements, Philippines, Certificate of Origin, FTA utilisation*

JEL Classification: *F1, F2, F6, F610*

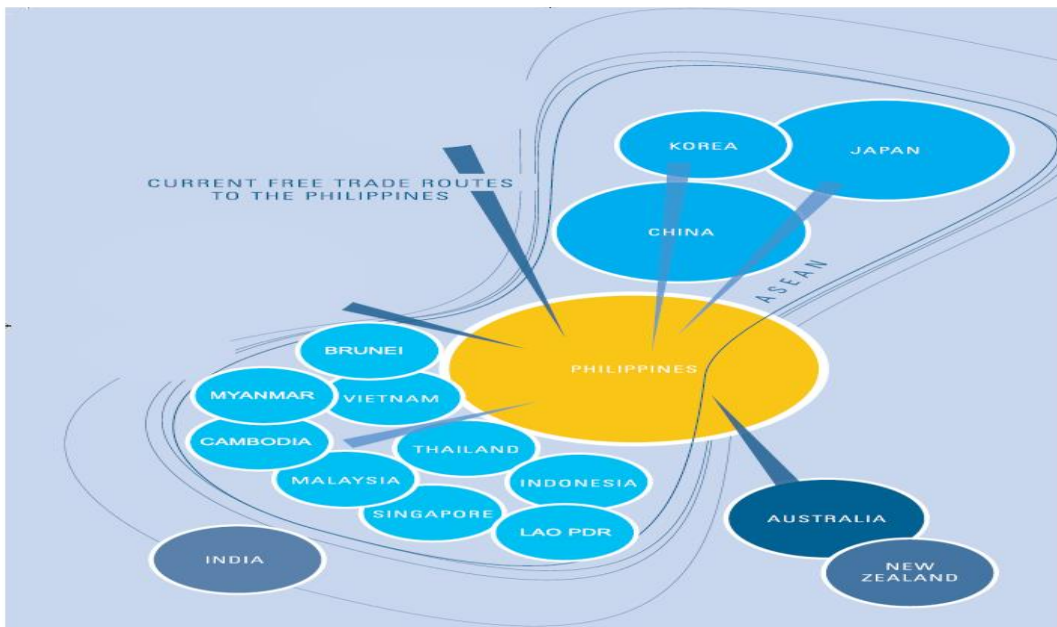
¹ This research was developed with technical and funding support from the Economic Research Institute for ASEAN and East Asia (ERIA). The authors would also like to thank the Philippine Statistics Authority (PSA) for their assistance in conducting the survey that was used in this study.

1. Context

1.1. Background

The Philippines has been rather more cautious in its FTA policy than some of its ASEAN neighbours. As a policy, the use of FTAs has not been given much attention until recently, with the forging of its first bilateral FTA with Japan. The Philippine involvement in FTAs or regional trade agreement formation has mainly been as a member of ASEAN or the ASEAN Free Trade Area (AFTA) and through the various ASEAN+1 agreements, namely the ASEAN-China FTA (ACFTA), ASEAN-Korea FTA (AKFTA), ASEAN-Japan Comprehensive Economic Partnership (AJCEP), ASEAN-Australia-New Zealand FTA (AANZFTA), and ASEAN-India FTA (AIFTA). Its sole bilateral free trade agreement is with Japan (the Philippines-Japan Economic Partnership Agreement or PJEPA). The country's involvement in FTAs is illustrated in Figure 1 below.

Figure 1: Free Trade Routes to the Philippines



Source: Taken from Department of Trade and Industry Doing Business in Free Trade Areas (DFBTA) 2011 Handbook.

Based on various FTAs, the Philippine tariff profile and percentage of duty free tariff lines are summarised in Table 1. As the first FTA signed by the country, the

ASEAN Trade in Goods Agreement (ATIGA)² covers almost 100 percent of goods and is expected to be fully enforced in 2015. For the other ASEAN plus FTAs, the Government is expected to progressively grant preferential tariffs with the end goal of zero tariffs levied on substantially all goods for the respective FTA at later agreed end dates.

Table 1: Philippine Tariff Profile under Various FTAs

FTA Agreement	Issuance/ Date of Implementation (Enactment)	2010		2011		End Dates
		Simple Average Tariff	% Duty free Tariff Lines to All goods	Simple Average Tariff	% Duty free Tariff Lines to All goods	
AFTA-CEPT/ATIGA	2006 (EO 489)	0.00	Approx 100.00	0.00	Approx 100.00	2015
ASEAN-China	2005 (EO 485)	0.35	92.24	0.35	92.24	2018
ASEAN-Korea	2007/2008 (EO 638)	0.44	89.69	0.44	89.69	2016
ASEAN-Japan	2009/2010 (EO 852)	2.33	63.22	1.55	71.45	2018
ASEAN-Australia/New Zealand	2009/2010 (EO 851)	3.38	59.52	3.08	60.76	2020
ASEAN-India	2011 (EO 25)			4.90	4.28	2022
Philippines-Japan	2008 (EO 767)	2.68	64.63	2.38	65.57	2018

Source: Individual Action Plan (AIP) 2012 submitted by the Philippines to Asia Pacific Economic Cooperation APEC (compiled by Department of Trade and Industry).

A more recent development³ was the launch of the negotiations for the Regional Comprehensive Economic Partnership (RCEP) involving ASEAN and its six East Asian dialogue partners (China, Japan, South Korea, Australia, New Zealand and India) on 20 November 2012 during the 21st ASEAN Summit and Related Summits in Phnom Penh, Cambodia. ASEAN, together with its six dialogue partner countries, endorsed the RCEP framework and started the first round of negotiations in 9-13 May, 2013. Since then there have been a series of negotiation rounds, initially focused on trade in goods, trade in services and investments. Recently, there have been discussions on other broad ranges of issues (e.g., intellectual property, competition, economic and technical

² An improvement over the ASEAN Free Trade Area-Common Effective Preferential Tariff (AFTA-CEPT) Scheme. It comprises both tariff and non-tariff elements (e.g. trade disciplines on Sanitary and Phytosanitary (SPS) measures, Customs Procedures, and Trade Facilitation, among others).

³This part and the succeeding discussions on RCEP and TPP draws from Medalla and Mantaring (2013)

cooperation, and dispute settlement, among others). The participating countries will continue their intensive discussions on a range of issues in order to advance the negotiations. The 5th round of RCEP negotiation was held in Singapore from June 21-27, 2014. The aim is to conclude all RCEP negotiations by the end of 2015.

RCEP will cover trade in goods and services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues.⁴ RCEP works on an open accession principle, which allows participation of any of the ASEAN FTA partners, either from the outset or when they feel ready to join at a later date. It also takes into consideration the different levels of development of the participating countries, thereby including appropriate forms of flexibility. RCEP is potentially the largest regional trading arrangement. It could lead to the creation of an integrated market spanning 16 countries with a combined market population of more than 3 billion people and a combined GDP of about USD 19.78 trillion based on 2011 figures.⁵

Another major ongoing development is the US-led Trans Pacific Partnership (TPP). This trade alliance now represents more than 658 million people, with a combined GDP of USD 20.5 trillion or 26 percent of global trade.⁶ The ultimate goal is to include additional Asia-Pacific countries⁷ in successive clusters to eventually cover a region that represents more than half of global output and over 40 percent of world trade.⁸

TPP is a vehicle for Asia-Pacific-wide economic integration. It is labeled as the 21st century regional agreement, a “high-quality agreement” because of its broader and deeper coverage. It includes wider FTA coverage, and deeper and wider liberalisation of the services sector and investments. It also calls for stronger intellectual property rights,

⁴ As listed in the Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership

⁵ Quoted from <http://www.bangkokpost.com/news/local/322261/asean-leaders-begin-rcep-negotiations> (date accessed November 22, 2012)

⁶ Estimate taken from <http://www.globalmeatnews.com/Industry-Markets/Mexico-and-Canada-become-TPP-members> (accessed November 22, 2012)

⁷South Korea, Japan, Taiwan, Philippines and Thailand are among the Asia-Pacific countries that have expressed their interest in TPP membership.

⁸ TPP Frequently Asked Questions <http://www.ustr.gov/sites/default/files/TPPFAQ.pdf> (date accessed November 22, 2012)

stricter labour and environmental standards, regulatory discipline of state-owned enterprises and transparency, among others.

Both developments have key relevance for countries like the Philippines— TPP because the US continues to be its major trading partner, and RCEP because of its role in ASEAN and its key importance in including ASEAN's dialogue partners. In the case of TPP, more needs to be done to address the constraints and impediments particularly in services, and assess the costs and benefits of the Philippines joining (and, if it decides to join, the timing). In RCEP, the Philippines would be forging an agreement with existing FTA partners. RCEP could actually serve as a building block for multilateralism, as a result of its adherence to the open accession principle. More importantly, RCEP could provide the needed consolidation, consistency and coherence of the various ASEAN+1 FTAs. It will help to reduce further the cost of doing business in the region. From a more political perspective, another advantage of RCEP is its ASEAN centrality. The road to RCEP, however, is by no means easy. While there is agreement on the guiding principles, the negotiation process—starting from how it is to be done, and going on to modalities, coverage and target setting—is bound to pose many challenges.

1.2. Questions

The Philippines has concluded seven FTAs, with new partnerships under discussion, as mentioned above. As much as it is important to assess the impact of FTAs on trade, investment and other economic activities in the Philippines, it is also worth studying whether firms have actually joined in and availed themselves of the benefits available from these FTAs. Previous studies indicated a relatively low utilisation of FTAs in the Philippines. What constrains firms from using FTAs? What could and should be done to increase utilisation, i.e., encourage more firms to use FTAs? The Certificate of Origin (COO) is a crucial feature of FTAs—it is a requirement for a firm to be able to access preferential tariff rates. How do firms find the procedures in obtaining COOs? These issues are critical in understanding FTA utilisation in the Philippines. With better understanding of the issues, appropriate policies and programmes can be formulated and implemented.

1.3. Objectives

The main objective of this paper is to examine the use of FTAs in the Philippines in order to provide inputs in designing policy support to optimise their use. A firm survey, covering businesses in the manufacturing and services sectors, was carried out to gain broader insights and better understanding of the extent of use of FTAs in the country, as well to identify the constraints preventing firms from using FTAs. The survey specifically aimed to:

- Provide evidence on the use of FTAs by the private sector in the Philippines.
- Illustrate the use of FTAs as demonstrated by the use of COOs.
- Explain the constraints for using the current existing FTAs.
- Provide inputs in designing policy support to optimize the use of FTAs.

The report is divided into three parts. Section 1 outlines the context of the report, while Section 2 discusses key findings from the firm survey, as well as official data on FTA utilisation. Manufacturing and service firms are dealt with separately. Section 3 discusses the key policy implications of the results.

2. Key Findings

2.1. Use of FTAs in the manufacturing sector

Table 2a tabulates some of the major attributes of surveyed manufacturing firms, by size, location, ownership and trading activities. The sample is dominated by medium-sized and large enterprises, with trading activities abroad. The majority of the firms included in the survey are either fully or partially-owned by foreigners, most of whom are located in industrial or economic zones.

Table 2a: Characteristics of Surveyed Firms

By Size	Small	Medium	Large	Unknown	Total
Number	20	45	43		108
Percent	18.5	41.7	39.8		100.0
By ownership	Domestic	Foreign	Joint Venture	Unknown	Total
Number	26	41	34	7	108
Percent	24.1	38.0	32.4	5.6	100.0
By exporting activities	Exporting only	Importing only	Exporting & Importing	Unknown	Total
Number	15	10	76	7	108
Percent	13.9	9.3	70.4	6.5	100.0

By location	Not in any particular zone	Industrial zone	Bonded zone	Export Processing zone	Special Economic Zone	Free Trade Zone	Unknown	Total
Number	32	8	1	16	31	19	1	108
Percent	29.6	7.4	0.9	14.8	28.7	17.6	0.9	100.0

2.1.1. The use of FTAs analysed by firm characteristics (size, ownership, location, exporting/importing)

Of the 108 firms that responded, 33 or 30.6 percent are FTA users. These are mostly medium-sized industries with total employment ranging from 51 to 300 workers. The survey results summarised below showed a higher concentration of FTA users among firms with foreign equity. Over 75 percent, or 25 out of the 33 FTA users, are firms fully or partially owned by foreigners, while only 7 of the 26 domestic firms state that they use FTAs (Tables 2b-2c).

This utilisation rate may be considered to show a weak inclination to use FTAs in trade transactions, especially since exporters and importers together constitute a huge bulk of the sample. Although it is not shown here, survey figures and official data both reveal these firms mostly export to countries like the US and the EU, with which the Philippines has no outstanding free trade agreement, yet where firms, according to Wignaraja et al (2010) could still enjoy lower tariffs because of the Generalised System of Preferences (GSP). Other major export destinations are Japan, and China.⁹ In these cases, Philippine FTAs with these countries are fairly recent and this could also perhaps explain, in part, the low FTA utilisation rate among the surveyed firms.

⁹The 2012 First Semester Report of the National Statistics Office (NSO) identified Japan, the US, China and Germany as the Philippines' top export country destinations. As an economic block, EU ranked 4th in the country's list of top export markets for August 2012.

Moreover, close to 70 percent of the firms surveyed are located in zones, and most are found in export processing zones and special economic zones. These firms also tend to have a higher FTA utilisation rate as shown in Table 2c. This may be attributable to the larger share of exporting firms relative to the number of importing firms in the sample. It also worth noting that based on past studies (Wignaraja et al, 2010; Medalla and Rosellon, 2011) the use of FTAs complements the tariff exemption privileges on inbound raw materials and equipment offered to firms located in economic zones. Incentives granted by economic zones are viewed by firms to be important in promoting and maintaining investments while preferential tariff rates under FTAs, which are just as important, reduce costs and increase the chances of gaining markets abroad (Medalla and Rosellon, 2011).

In terms of sectoral classification, survey results indicate that FTA use is also highest in the automotive and electronics sectors, as well as in the apparel and leather cluster. This is consistent with Wignaraja et al (2010) who noted high FTA availment among the surveyed firms in the automotive sector.

Table 2b: Firm Characteristics of FTA Users by Firm Size and Ownership

	FTA User	% of Firms	Total
Total	33	30.6	108
Firm size			
Small	1	5.0	20
Medium	17	37.8	45
Large	15	34.9	43
Ownership			
100% Filipino-owned	7	26.9	26
100% Foreign	14	34.1	41
Joint Venture	11	32.4	34
No Response	1	14.3	7

Table 2c: Firm Characteristics of FTA Users by Location of Firm,

	FTA User	% of Firms	Total
Total	33	30.6	108
Location			
Not in any particular zone	10	31.3	32
Industrial zone	2	25.0	8
Bonded zone	0	-	1
Export Processing zone	2	12.5	16
Special Economic Zone	12	38.7	31
Free Trade Zone	7	36.8	19
No Response	0	-	1
Exporter			
No	4	26.7	15
Yes	29	31.9	91
Importer			
No	2	10.0	20
Yes	31	36.0	86

Exporting/Importing)*2.1.2. Survey results of the use of FTAs analysed by agreements*

Central to the issue of FTA use is the existence of rules of origin (ROOs) or the set of criteria used to determine where goods are made. Firms have to prepare required documents and secure a COO to prove that a good is produced in a particular country and qualifies for a preferential tariff. ROOs vary with each FTA and hence there are different COO forms for different FTAs. Based on the COO forms used by the surveyed firms, Table 3 below measures FTA utilisation by type of agreement. Greater usage for Forms A and D, which cover export products under GSP and AFTA, respectively, are shown. Since the country's preferential trade experience is primarily with GSP and AFTA, exporting firms are presumably more familiar with these forms than with the forms associated with recently concluded FTAs. It could also be an indication of closer trade relations between the Philippines and the US and ASEAN. It should be recalled that AFTA, which was implemented in the early 1990s, was the first full FTA of the Philippines and, presumably, firms are more aware of AFTA than other FTAs.

Although not explicitly stated, also reported under "others" are COO issuances for country destinations, mostly Japan (Figure 2). This is likely because PJEPA (Philippine-Japan Economic Partnership Agreement) was not included in the choices of FTA in the questionnaire. As indicated later on in Table 4, PJEPA even overtook

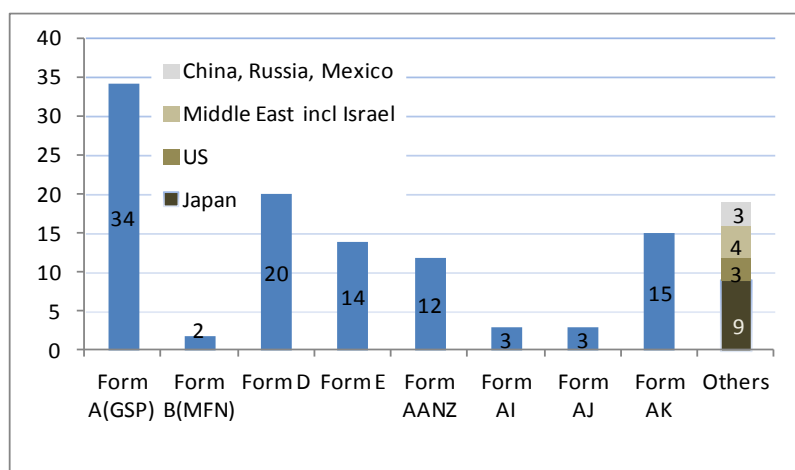
ATIGA in terms of the number of COOs issued by the Bureau of Customs (the COO issuing authority). Hence, many of the firms that answer “others” likely use the bilateral FTA with Japan.

Table 3: FTA Use by Agreement*

	For export	For import
Total	122	63
Form A (GSP)	34	9
Form B (MFN)	2	2
Form D (ATIGA)	20	10
Form E (ACFTA)	14	12
Form AANZ	12	5
Form AI	3	4
Form AJ	3	3
Form AK	15	7
Others	19	11

*Firm survey responses on use of COOs

Figure 2. FTA Use by Agreement (Exporters)



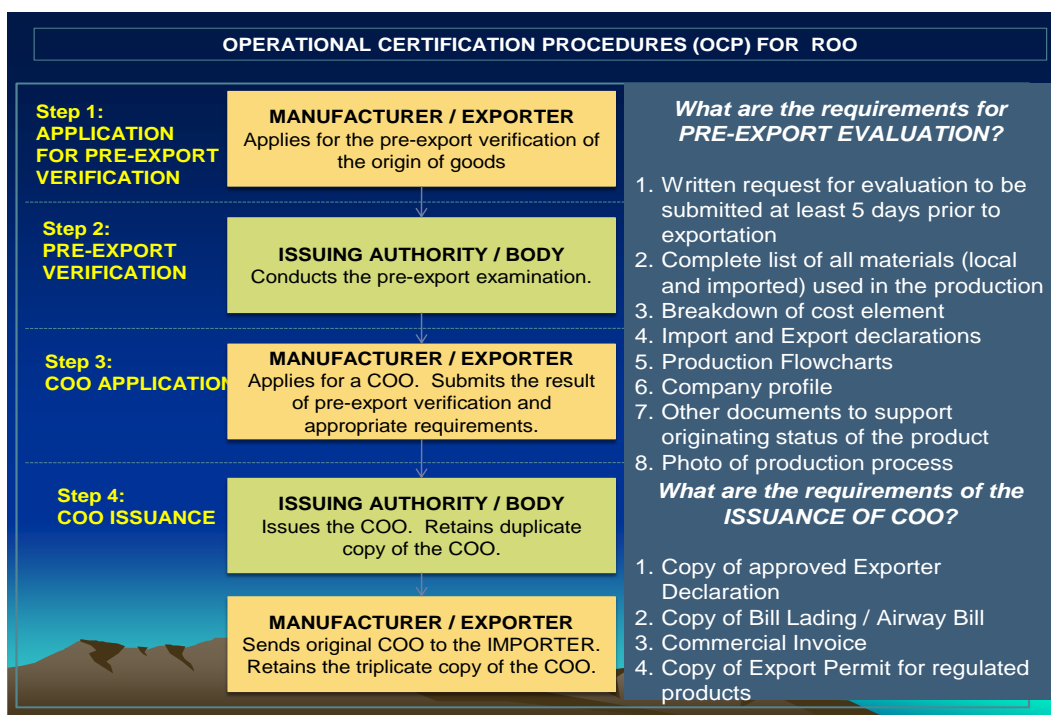
2.1.3. Official data on the use of FTAs by agreements over the years

The Philippines uses a single guideline in the issuance of COOs for all its FTAs for ASEAN (and various ASEAN+1) and PJEPA. The Bureau of Customs (BOC) is

designated as the sole authority¹⁰ to issue and receive preferential COOs for FTA usage. It facilitates the entire process, starting from pre-export verification, followed by evaluation of whether the export product will qualify for preferential tariff treatment, up to the issuance of a COO.

Figure 3 summarises the entire process of COO issuance with four procedures and enumerates the necessary documents for pre-export evaluation and issuance of a COO. The application and issuance of COOs is done manually. The application and all required documents for pre-export evaluation have to be submitted to the Chief of the Export Division of the BOC.

Figure 3: Operational Certification Procedures for ROO



Source: Bureau of Customs

¹⁰For non-preferential COO or those that use the MFN rates, the Philippine Chamber of Commerce and Industry (PCCI) is also an authorised body.

As confirmed in interviews with relevant BOC officials, the availing process takes about five working days for pre-export verification (Step 1-2) and an additional two hours to complete the verification of all supporting documents (Step 3) and 15 minutes for COO issuance (Step 4) provided the supporting documents are complete.

Medalla and Balboa (2009) discussed in detail the above pre-export verification process in availing AFTA/ATIGA ROO (Form D), which would require evaluation of data to determine the origin status of the product, conduct a factory visit and examination of records and the preparation of a report, including proposed origin ruling (five working days). The documents will then go through another round of evaluation before they are released to the exporter (additional two hours). The COO issuance in about 15 minutes is presented in Annex 1.

In terms of the cost of obtaining a COO, according to the BOC there is no fee for “examination of origin” and issuing of COOs but there is a documentary stamp tax of Php115.00 (USD 2.72). Anecdotal reports from the interviewed firms¹¹ reveal some sort of “facilitation cost” in the requirement for plant inspection and in meeting the certifier’s requirements. Plant inspection can cause delays in shipment, not to mention added costs in terms of gasoline and other allowances given to the inspector to facilitate and expedite the COO issuance process. Also, while the COO form is supposedly free, the applicant has to pay a sum ranging from Php20 to Php50 (USD 0.47 to 1.18).

For the period 2008-12, the data from the BOC suggest an increasing utilisation of FTAs in terms of the number (and corresponding export value) of COOs¹² issued for exporters. The data in Figure 4 indicate an increase in total COO issuances from 16,298 to 40,230 or about 147 percent. Of the different FTAs, COO issuances are highest for ATIGA (Form D), followed by the Philippines-Japan EPA (Form JP) and then AKFTA (Form AK). ACFTA (Form E) started relatively low in the number of COOs issued but significantly increased. PJEPA became operational only in 2009, and thus no COOs

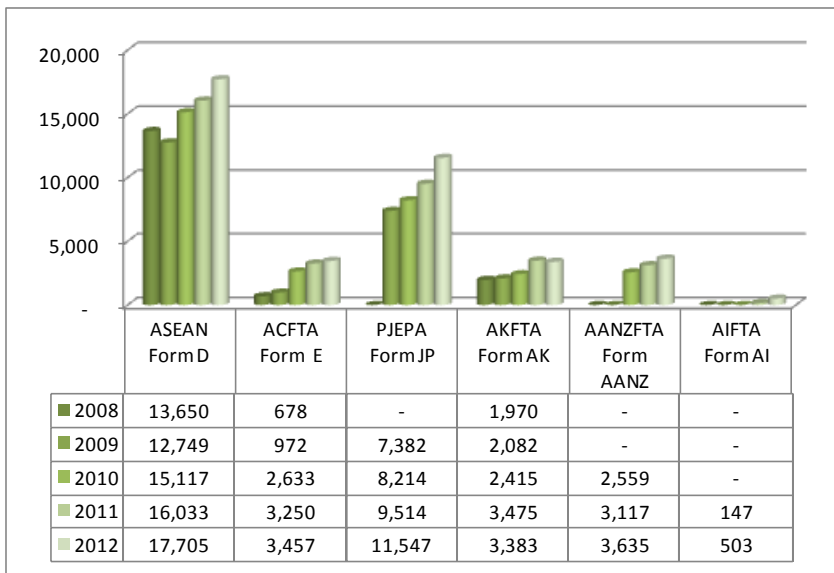
¹¹ Medalla (2011) Survey of Origin Documentation in FTAs: Philippines. An ERIA project on “Towards Accessible FTAs: The Role of Rules of Origin Documentation in FTA Utilisation” headed by Dr. Robert Scollay. (Unpublished).

¹²This is the only information available from the BOC and represents the Port of Manila only, covering more than 50 percent of COO issuances for export transactions. Given that the application and issuance of COOs is still done manually, a BOC official said there is no system yet of compiling all the reports from all collection districts. This might be the reason why disaggregated data in terms of size, ownership, products/industry, location of firms using COOs are not yet available. The relevant division in the BOC is presently working on this problem.

were issued before then, but the utilisation rate quickly overtook the earlier FTAs of AKFTA and ACFTA.

Indeed, in terms of export value, in 2009 PJEPA overtook ATIGA (Figure 5). In addition, there appears preference for the bilateral partnership rather than AJCEP, most likely because PJEPA was implemented earlier.¹³ The AANZFTA entered into force only in 2010, and thus there were no issuances in 2008 and 2009, but after that the number immediately rivaled the figures for AKFTA and ACFTA. AIFTA was only implemented in 2011, thus data were only recorded for Form AI in 2011-12.

Figure 4: Number of COO Issuances by FTA*

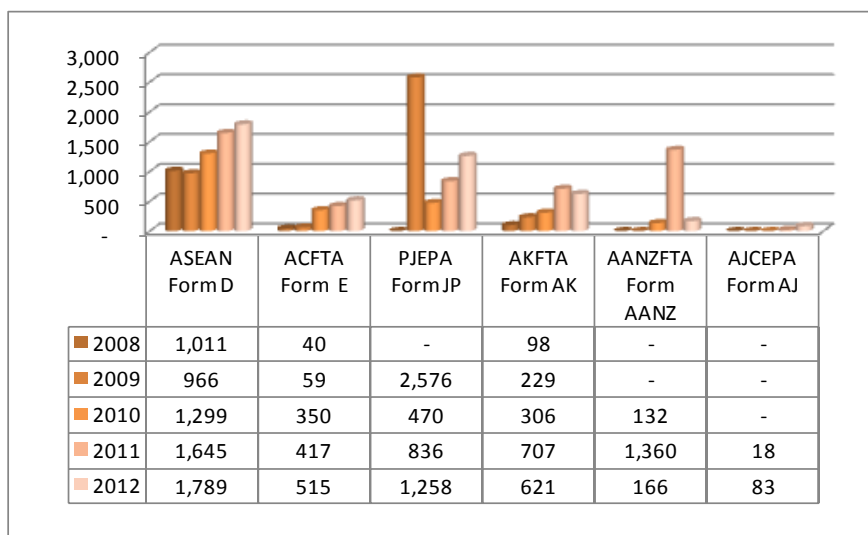


* Represents all the COOs issued to exporters for all kinds of qualified products from the Philippines (i.e., all sectors including oil and gas) but for Port of Manila only, covering more than 50 percent of COO issuances for export transactions.

Source of basic data: Export Division-BOC

¹³ PJEPA was implemented in 2008 while AJCEP was in force in early 2010 – the level of awareness of PJEPA is most likely higher than AJCEP. Also, upon verification with the BOC, records showed that exporters are using PJEPA and there are no exporters availing of AJCEP preferential rates.

Figure 5: Value of Cargo Covered by COO* (USD million)



* represents all the COOs issued to exporters for all kind of qualified products from the Philippines (i.e., all sectors including oil and gas) but for Port of Manila only, covering more than 50 percent of COO issuances for export transactions

Source of basic data: Export Division-BOC

A survey of Japanese-affiliated firms operating in the ASEAN countries, conducted by Hiratsuka et al. (2009), shows the Philippines (and Viet Nam) to have relatively low FTA utilisations compared with the rest of ASEAN, in terms of both export and import operations. Utilisation by exporting firms was around 15 percent in 2006-07, which declined to 11.8 percent in 2008.¹⁴ Nonetheless, the levels are higher than previously estimated by earlier studies (at below 5 percent). Also, they pertain only to Japanese firms. In a more recent survey by Wignaraja et al (2010), covering 155 Philippine firms from the transport, electronics and food sectors, the researchers found that 20 percent of these firms used FTAs, with 41 percent planning to do so.

A press release issued by the Department of Trade and Industry (DTI) stated that the Philippines was one of the four countries in ASEAN (including Cambodia, Indonesia, and Thailand) with the highest FTA utilisation rates in 2010. The country's utilisation rate was said to have risen to 41.2 percent,¹⁵ a marked increase from the 20

¹⁴Utilisation was measured as the percentage of firms that used AFTA.

¹⁵Department of Trade and Industry (DTI) Upbeat No. 5. 20 March 2012. However, we were unable to obtain clear documentation of data. In addition, the estimates likely used different methodologies making comparison in the figures subject to question.

percent utilisation rate in the 2010 survey of the Asian Development Bank (ADB). Nonetheless, while the level of utilisation may prove to have been less than accurate, the rising trend in the issuance of COOs for exports—much steeper than the comparable rise for imports—supports the finding of increasing FTA utilisation.

Increasing FTA utilisation is among the core strategies identified in the Philippine Export Development Plan (PEDP). As such, the DTI (specifically the Bureau of Export Trade Promotion and the Bureau of International Trade Relations) started an FTA promotion programme called ‘Doing Business in Free Trade Areas’ (DBFTA) in the last quarter of 2010. Initially, it was conducted in Metro Manila and succeeding information campaigns were carried out in the regions. DBFTA aims to increase nationwide awareness of the benefits of FTAs and increase their utilisation especially by small and medium enterprises (SMEs). It is being conducted along with other government agencies, (BOC, Tariff Commission (TC), National Statistics Office (NSO)), as well as the private sector including the Philippine Chamber of Commerce and Industry, the Philippine Exporters’ Confederation and certain academic institutions. Table 4 shows the number of DBFTA seminars conducted and the number of participants.

Table 4: Number of DBFTA Seminars Conducted, 2010-12

	November to December 2010	January to December 2011	January to December 2012
No. of Information Sessions	11	78	116
No. of SME Participants Benefitted	1,948	8,631	11,169

Sources: Perlada, S., ‘Best Practices on FTA promotion Policies’, presented at the APEC Workshop on Increasing FTA Utilisation by SMEs, Tokyo, Japan, 7 August 2012.

“DTI reaches 11,169 participants through its 2012 DBFTA outreach program”, <http://www.emb.dti.gov.ph/dbfta/news/outreachprogram.htm>

The DTI recently published the DBFTA Handbook and FTA Business Primers for all Philippine FTA engagements. These publications, as well as presentation materials in the various DBFTA sessions, are also available and downloadable from the Philippine Trade Training Center (PTTC) website.¹⁶ It is thought that DBFTA is gradually having an impact by encouraging more firms to use FTAs, as seen in the increase in utilisation rates.

A major reason consistently pointed out in previous studies (Wignaraja et al, 2010; Medalla, 2011b) and even in the results of the firm survey remains the lack of information and education campaigns focused on FTAs. This issue will be discussed further in the succeeding sections. In addition, compliance and administration costs related to the ROOs represent a major hurdle in the decision of firms to utilise an FTA. There are signs that the utilisation rate could improve, as the Government steps up its efforts in information and education campaigning, and as reforms continue to be implemented, especially in ROO administration. There appears to be increased recognition of the potential benefits FTAs on the part of both the Government and the business sector.

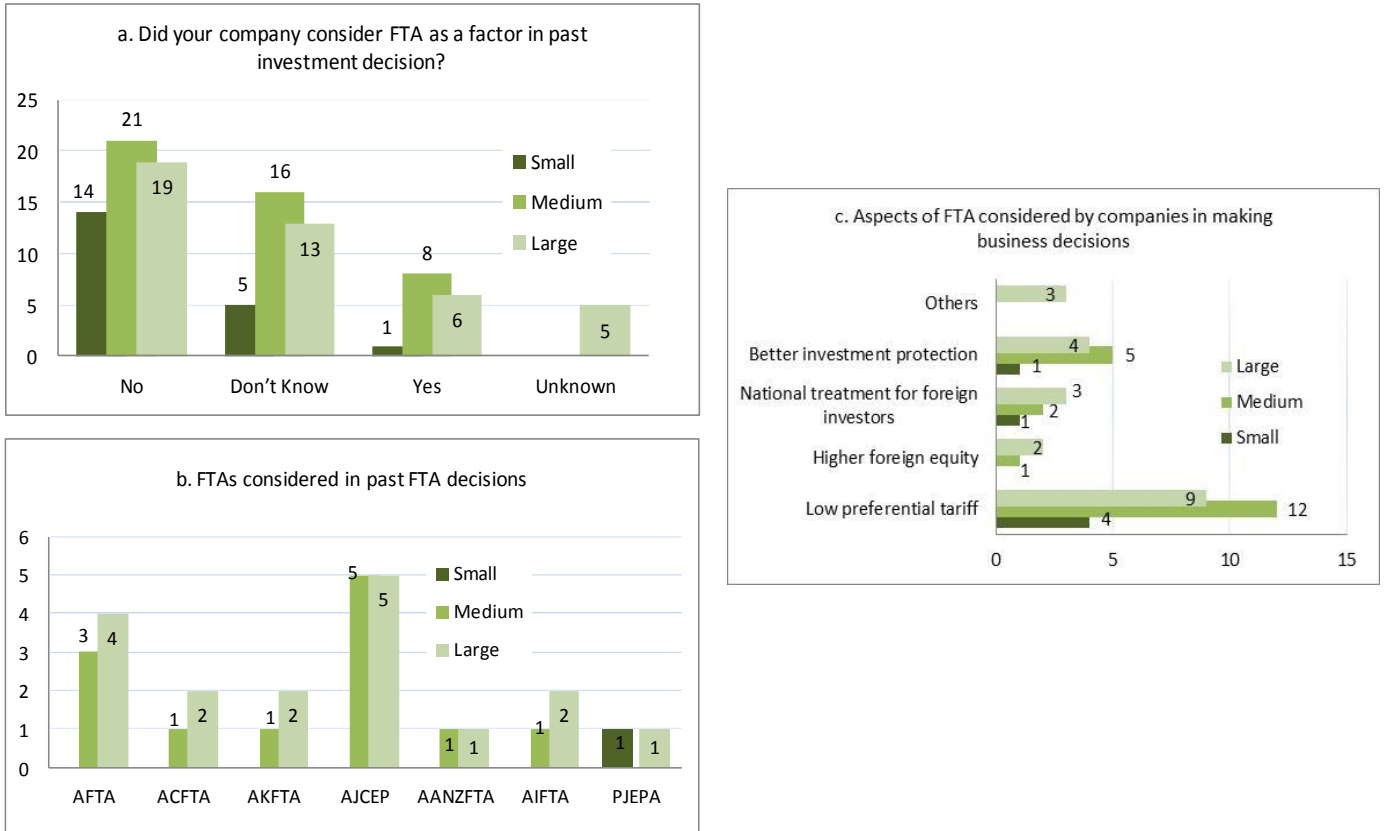
2.1.4. Perceptions of how FTAs affect decisions to invest, analysed by firm size

Half of the firms (54 of the 108 firms) surveyed did not consider that FTA availability a factor in past investment decisions. However, 15 out of the 108 firms (14 percent) feel that the existence of an FTA had been a factor for locating investment. Most of these are large and medium-sized enterprises. AJCEP, which is highly regarded especially by foreign firms, and AFTA, are the FTAs most cited in past investment decisions on location of investment. The same preference for AJCEP is also equally shared by both medium-sized and large firms included in the survey. Surprisingly, favouring AJCEP is not confined to Japanese firms (16 percent of the 75 firms with foreign equity), as there were also a handful (4 percent) of non-Japanese firms that would consider it when deciding on investment locations. Low preferential tariff is one aspect of FTAs that attracts most firms to invest in a certain location, and this is true across firm sizes. Better investment protection and the national treatment for foreign investors offered by

¹⁶PTTC website <http://www.pttc.gov.ph/>; <http://www.pttc.gov.ph/dbfta/dbfta-handbook.html>; <http://www.pttc.gov.ph/dbfta/fta-business-primer.html>

FTAs come in second and third place, respectively, in the firms' recollections of past decisions on locating investment.

Figure 6a-c: Firms' Decisions on Investment Location



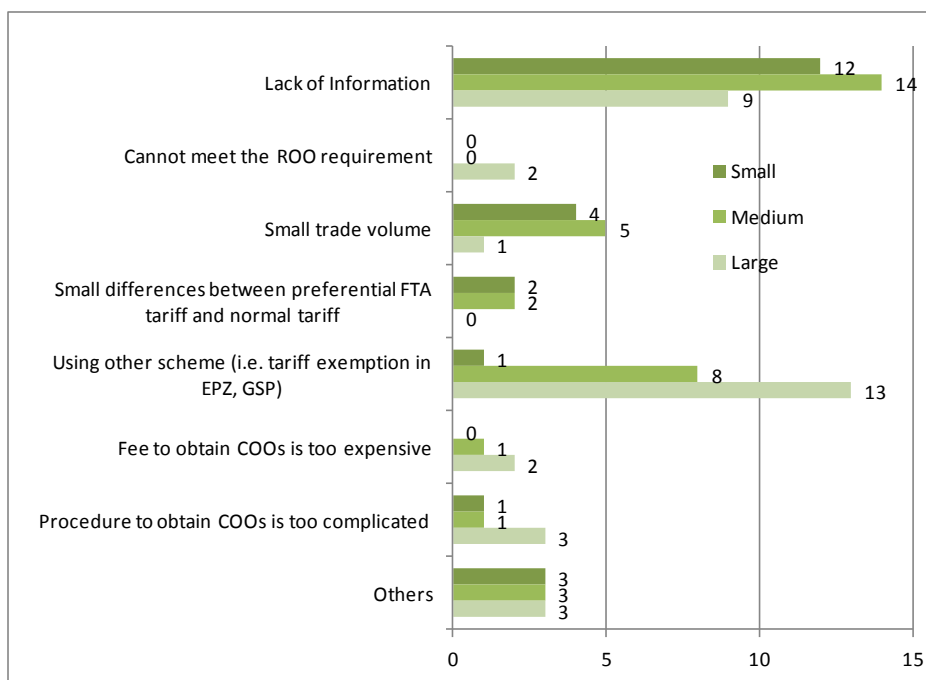
*Figure 6a refers to number of firms; Figures b and c refer to the number of multiple responses

2.1.5. Constraints leading to non-usage of FTAs, analysed by firm size

A majority of firms (70 percent) currently do not use FTAs. Figure 7 enumerates the most common reasons for non-use among firms. Topping the list is lack of information, followed closely by using another scheme. For small- and medium-sized firms, lack of information was cited as a huge impediment to using FTAs. Large firms on the other hand are less inclined to use FTAs because they are typically located in economic zones and zone locators are granted duty and tax free importation of raw materials, supplies, capital equipment, and spare parts. Twenty-four percent of the large firms and 33

percent of medium-sized sample firms are located in zones. As shown by Figure 7, these zones eliminate most incentives for exporters to use FTAs (Kawai and Wignaraja, 2011). Small trade volume, and to some extent, complicated COO requirements are also identified as constraints to using FTAs. All too often, firms, according to Hayakawa et al (2009) are discouraged by the administrative costs incurred in securing COOs. Preparing all the documents entails work that creates fixed costs, so that only those that can afford to cover the costs are inclined to use an FTA scheme. In the Philippines it was noted that despite government efforts to streamline customs processes, some procedural lapses persist (Wignaraja et al, 2010).

Figure 7: Reasons for Not Using FTAs



**frequency of responses; multiple responses allowed*

2.1.6. Perceptions of the costs and procedures of FTAs, analysed by firm size

By and large respondents find the entire COO procedure to be generally reasonable. The number of documents required, which is at most three, is deemed acceptable by over 80 percent of those who responded to the question. In most cases, it only takes about one

day to obtain a COO and the average cost of USD 15 is seen as affordable.¹⁷ This view is widely shared by surveyed firms (Table 5a, 5b), especially among medium and large firms, where collective responses for very few, and reasonable (for perception of the number of documents), very quick, and reasonable (number of processing days) and very low, and reasonable (for cost) totaled close to 60 percent of respondents for each group.

Table 5a: Perceptions of Costs and Procedures of FTAs

Number of documents to obtain COO			How do you perceive the no. of documents?		
	Freq	% Share of total respondents		Freq	% Share of total respondents
1	9	8.3	Very few	13	12.0
2	7	6.5	Reasonable	34	31.5
3	8	7.4	Many	8	7.4
4	5	4.6	Too many	1	0.9
6	1	0.9	Unknown	52	48.1
8	1	0.9			
10	2	1.9			
11	2	1.9			
Unknown	73	67.6			
No. of days to obtain COO?			How do you perceive the length of time?		
1 day	16	14.8	Very quick	9	8.3
2 days	3	2.8	Reasonable	40	37.0
3 days	1	0.9	Lengthy	6	5.6
4 days and more	10	9.3	Very lengthy	1	0.9
Unknown	78	72.2	Unknown	52	48.1
Cost to obtain COO (in USD)			How do you perceive the cost of obtaining COO?		
1-9 USD	18	16.7	Very low	4	3.7
10-20 USD	4	3.7	Reasonable	39	36.1
20-30 USD	1	0.9	Costly	10	9.3
30-40 USD	1	0.9	Very costly	1	0.9
100 USD and over	1	0.9	Unknown	54	50.0
500 USD	1	0.9			
Average	15.7				

¹⁷This, however, pertains only to the issuance of COO. Figure 3 earlier presented the number of documents required by the BOC to complete the pre-export evaluation or “examination of origin” process. The pre-export evaluation and verification process takes about five days. Whereas, the issuance of COO will only take two hours to one day processing, provided the necessary documents are complete and accurate.

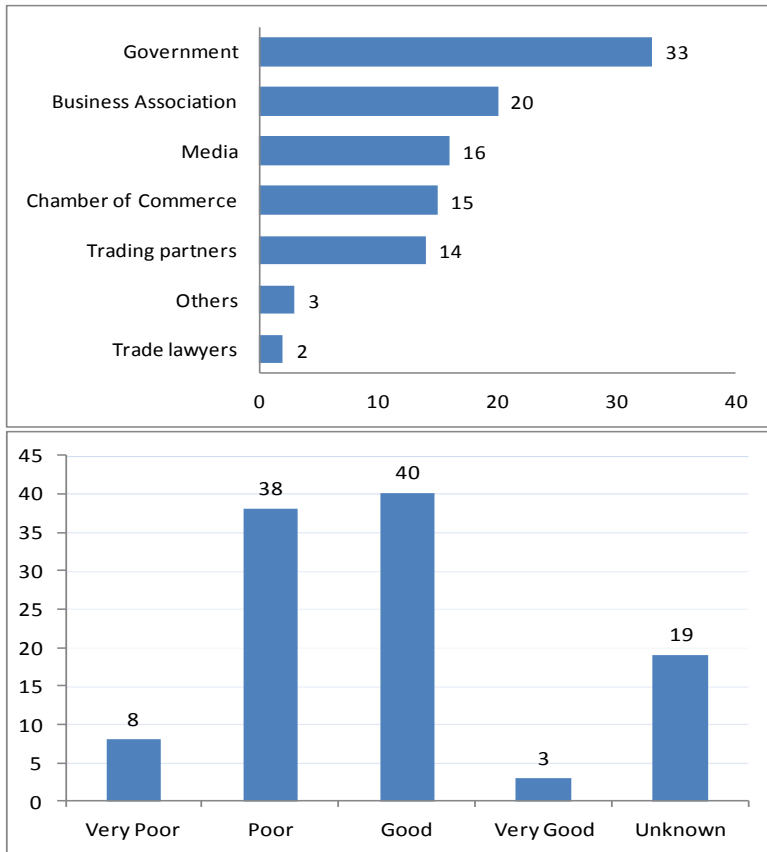
Table 5b: Perceptions of Costs and Procedures of FTAs by Firm Size

How do you perceive the no. of documents?									
	No. of Firms				Percent of Total				
	Small	Medium	Large	Total	Small	Medium	Large	Total	
Unknown	13	7	7	27	72.2	20.0	23.3	32.5	
Very few	3	7	3	13	16.7	20.0	10.0	15.7	
Reasonable	2	17	15	34	11.1	48.6	50.0	41.0	
Many	0	4	4	8	-	11.4	13.3	9.6	
Too many	0	0	1	1	-	-	3.3	1.2	
Total	18	35	30	83	100.0	100.0	100.0	100.0	
How do you perceive the length of time to obtain the COO?									
	No. of Firms				Percent of Total				
	Small	Medium	Large	Total	Small	Medium	Large	Total	
Unknown	13	7	7	27	72.2	20.0	23.3	32.5	
Very quick	0	6	3	9	-	17.1	10.0	10.8	
Reasonable	4	19	17	40	22.2	54.3	56.7	48.2	
Lengthy	1	2	3	6	5.6	5.7	10.0	7.2	
Very lengthy	0	1	0	1	-	2.9	-	1.2	
Total	18	35	30	83	100.0	100.0	100.0	100.0	
How do you perceive the cost of obtaining COO?									
	No. of Firms				Percent of Total				
	Small	Medium	Large	Total	Small	Medium	Large	Total	
Unknown	13	7	7	27	72.2	21.2	23.3	33.3	
Very low	1	3	0	4	5.6	9.1	-	4.9	
Reasonable	4	18	17	39	22.2	54.5	56.7	48.1	
Costly	0	5	5	10	-	15.2	16.7	12.3	
Very costly	0	0	1	1	-	-	3.3	1.2	
Total	18	33	30	81	100.0	100.0	100.0	100.0	

2.1.7. Main sources of information about FTAs

For most respondents, the Government remains the number one source of FTA information (Figure 8). This is especially true in the case of foreign firms, but less so for locally-owned firms, where only 18 percent (compared with 72 percent of foreign firms) of the 33 FTA-users benefit much from the Government’s information drives. Business associations, media and chambers of commerce are also high on the list of information sources. Respondents’ take on the quality of FTA information does not look very encouraging however (Figure 8), as there is only a very small margin between those that rate the available information as good (37 percent of 108) from those that rate it as poor (35.2 percent). In fact, taken together, poor and very poor outrank the good and very good responses. These figures indicate that the availability of information is a continuing concern that needs to be addressed if the Government wants to encourage greater FTA usage.

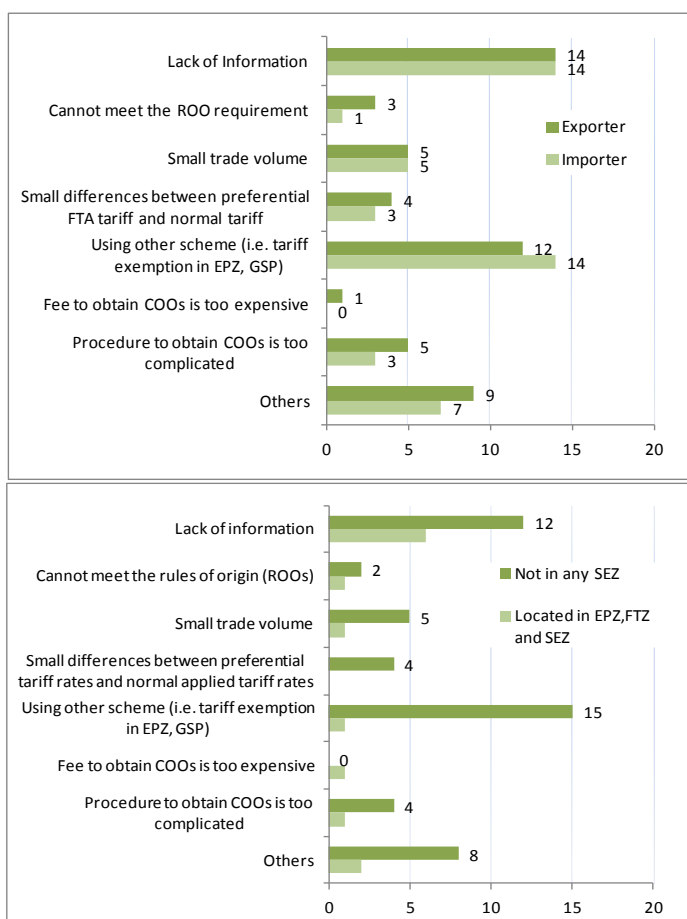
Figure 8: Firms’ Major Sources of FTA Information and Their Views on Available FTA Data



2.1.8. Other interesting issues that need to be highlighted

Figure 9 dissects the issue a little more carefully by distinguishing the problems encountered by exporters and importers, and also by economic zone locators and non-locators (i.e., whether located in an economic zone or not). It would seem that while exporters and importers have similar problems when it comes to FTA utilisation, importers tend to have less incentive to utilise FTAs. Lack of information is common to both, and strongly so, but for importers the use of other schemes ranks just as high as information insufficiency. The same is true in the case of zone locators, where the presence of other incentive schemes and lack of information are most conspicuous compared with other identified issues. Perhaps the lack of information stems from confusion among economic zone locators in terms of which incentive to use—FTA or zone import duty-free incentive.

Figure 9: Reasons for Not Using FTA COOs



**frequency of responses; multiple responses allowed*

2.2 Use of FTAs in the services sector

2.2.1. Use of FTAs analysed by firm characteristics (size, ownership, location, exporting/importing)

The results indicate that most of the 34 firms interviewed come from the food and restaurant business, hotels and restaurants, and computer and internet services. Table 6 gives additional information about the firms, including their FTA preferences and trade transactions. The majority of firms interviewed are small- and medium-sized enterprises, representing 59 and 29 percent of the sample, respectively. These are firms with average total employment ranging from 51 to 300 workers.

Table 6: Use of FTAs, by Major Characteristics of Surveyed Services Firms

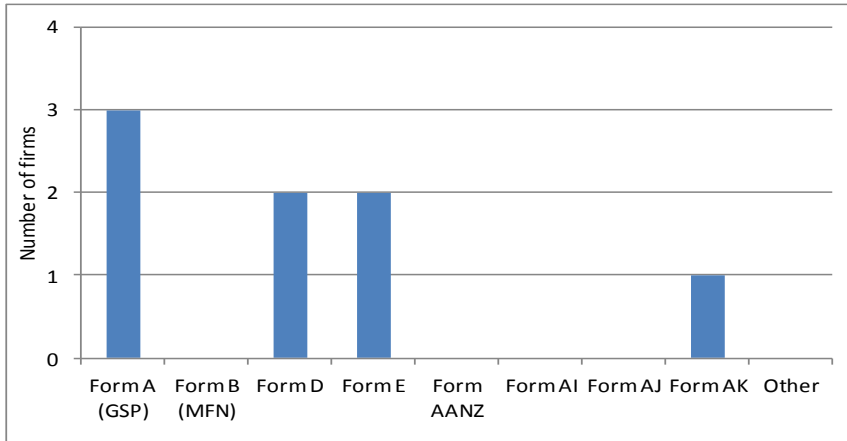
	FTA usage			Total
	No	Don't Know	Yes	
Total	28	3	3	34
Employment size				
Small	18	1	1	20
Medium	7	1	2	10
Large	3	1	0	4
Ownership				
Locally-owned	25	3	2	30
Foreign-owned	0	0	1	1
Joint venture	3	0	0	3
Exporter				
No	27	3	3	33
Yes	1	0	0	1
Importer				
No	22	3	0	25
Yes	6	0	3	9

In terms of capitalisation, most are purely Filipino-owned, and only about 12 percent of the total respondents are funded with foreign equity. Interestingly, none of the large services firms surveyed use FTAs. Of the 34 respondents, only three are recognised FTA users, while all are importers of input goods and all three are SMEs.

2.2.2. The survey results of the use of FTAs by type of agreement

Using the number of COOs filed, Figure 10 shows the surveyed firms' use of FTA, by type of agreement. Similar to the manufacturing sector, services firms also apply tariff concessions under the GSP, and Forms D, E and AK, which cover imported goods using the AFTA, ASEAN-China and ASEAN-Korea FTAs. However, unlike manufacturing, trade relations with Japan, either via ASEAN-Japan or PJEPA, do not feature in the COO applications of firms in the services sector. Perhaps this is because AJCEP and PJEPA are relatively recent.

Figure10: Service Firms’ Use of FTAs by Agreement*

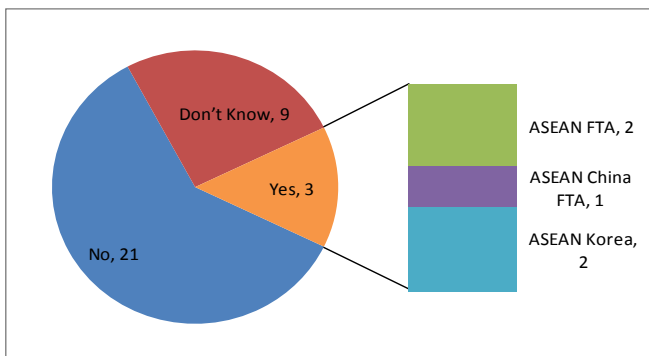


* multiple responses allowed

2.2.3. Perceptions of how FTAs affect decisions to invest, by firm size

FTAs do not feature prominently in the business decisions of firms in the services sector, and this is very much reflected in the survey results. Of the FTA users surveyed, the FTAs most considered are the ASEAN FTA, ASEAN-Korea and ASEAN-China. These companies are engaged in computer and internet services, hotels and restaurants, and packaging and printing.

Figure 11: FTAs Considered in Investment Decisions by Most Firms



As with most businesses in the manufacturing sector, services sector firms also find positive and favourable aspects of FTAs that motivate their decision to invest in a particular location. Survey results indicate that low preferential tariff is one aspect of FTAs that attracts most firms to investing in a certain location. Better investment protection and the national treatment of foreign investors offered by FTAs come in

second and third places, respectively, in firms' considerations for decisions on locating investment.

2.2.4. Constraints leading to lack of use of FTAs analysed by firm size

As previously mentioned, of the 34 service establishments surveyed, only three are FTA users and all are in the small- and medium-sized category. Since the percentage of non-users is overwhelming, it is important to note the factors that lead to this decision and gain a better understanding of the issue from the firms' perspective. Figure 12 tabulates the major reasons for firms' low FTA utilisation. Lack of information is first on the list, followed by small trade volume. These two factors are cited mostly by small firms (Figure 12a), which comprise a significant portion of the survey sample. For large and medium-sized firms, the lack of information and the use of other incentive schemes came out as major impediments to FTA use. Other reasons cited include: focus on the domestic market; using other business-related incentives; and inapplicability of FTA in current business operations.

Figure12: Reasons for Not Using FTAs

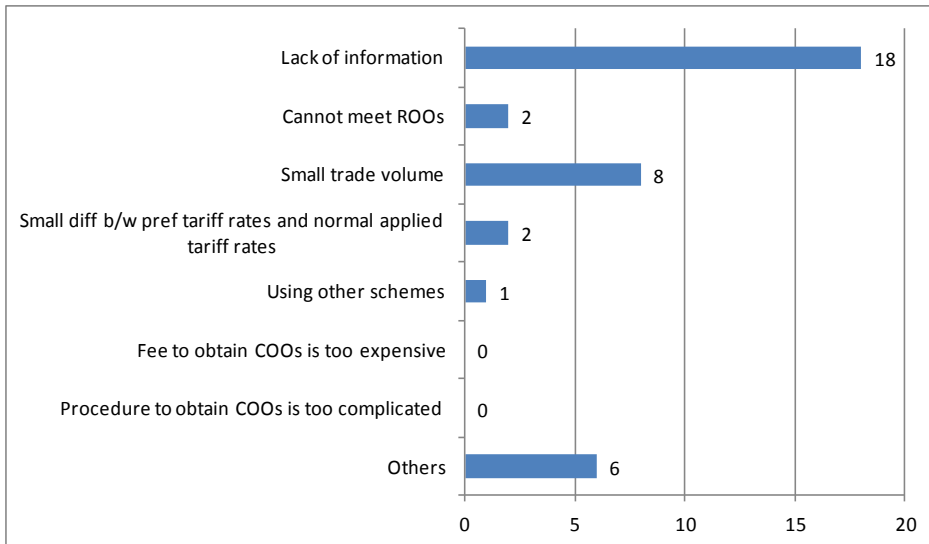
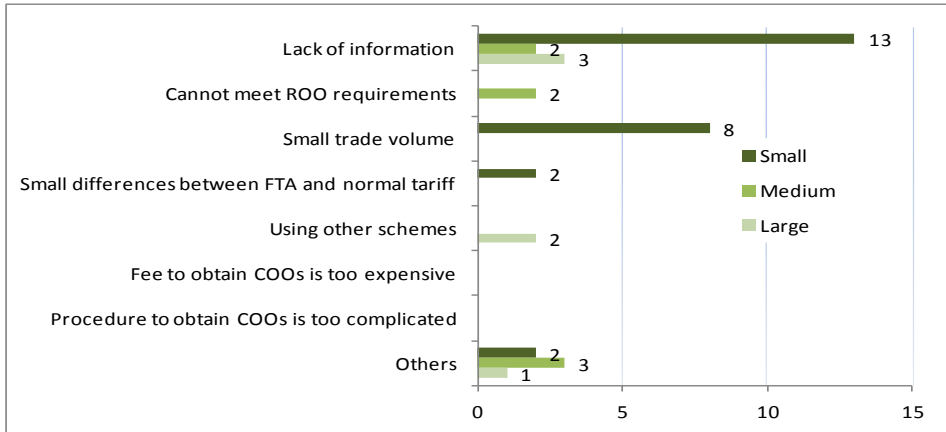


Figure12a: Reasons for Not Using FTAs, by Firm Size

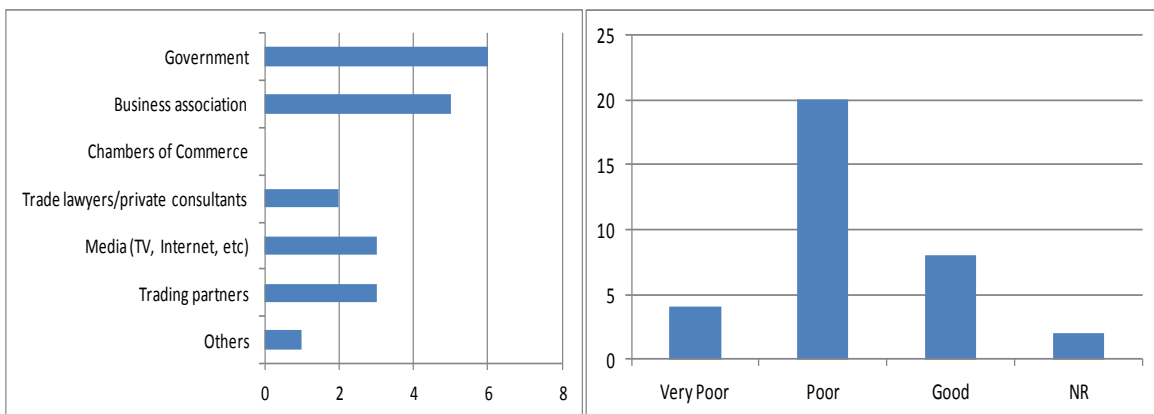


**frequency of responses; multiple responses allowed*

2.2.5. Main sources of information about FTAs

For a majority of those who responded, the Government is the main source of FTA information while closely following are business associations, trading partners and the media. Unfortunately, the quality and volume of information obtained from these sources were rated very poorly by the respondents. The large percentage of firms that indicate the available data are very poor and poor is cause for concern. It seems that current efforts by the Government to inform and educate the public about FTAs are not reaching most of the relevant stakeholders. Perhaps there is a need to design broader and more effective information dissemination, and make more information available to stakeholders.

Figure13: Firms’ Major Sources of FTA Information and Their Views on Available FTA Data



2.2.6. Other interesting issues that need to be highlighted

The low rate of FTA utilisation reported by services sector firms may be understandable given that these firms are not usually involved directly in the importation of the raw materials they use. Only six firms are importers and three of these firms are actually FTA users. Traders or indent agencies that consolidate bulk imports are more likely hired by service firms to handle their importation needs. In terms of export of outputs, almost all of the services firms interviewed in this survey say that they operate within the domestic economy. The more substantial impact of FTAs on services would come from eliminating trade restrictions in services among the ASEAN Member Countries, which the survey is not able to capture. Relaxing restrictions to entry and investment in services would benefit countries such as the Philippines, as it would open up investments in critical sectors, provide greater mobility to workers and foster a more efficient and competitive services sector.

3. Key Recommendations

Although the utilisation rate of FTAs reported by the manufacturing sector is increasing compared with a recent study (Wignaraja et al, 2010), there is room for improvement in the usage of FTAs by both manufacturing and services sector firms. The two sectors report that FTA utilisation is hampered by a lack of information which, when available, was rated poorly in terms of quality and volume. The Government, through the DTI, clearly needs to strengthen, broaden the scope, and make more effective promotional campaigns and technical training, both live and online. Information may need to be targeted at manufacturing firms located in export processing and special economic zones to make them aware of the extra benefits available from FTA usage beyond those that are zone-specific.

The DTI has made considerable efforts to increase FTA awareness through the conduct of Doing Business in FTAs (DBFTA) sessions nationwide, and the publication of a DBFTA Handbook, as well as FTA primers. However, the Government needs to further promote FTAs by setting up a portal (such as in the case of International

Enterprise [IE]¹⁸ and the Ministry of Trade and Industry in Singapore and the Ministry of Foreign Affairs and Trade in Australia-New Zealand),¹⁹ where information about the benefits of FTAs, the process of gaining access, the requirements and forms, and other relevant information that firms and other major stakeholders might need, can be easily accessed or downloaded. As indicated in the survey, the Government is still the main source of FTA information. This FTA portal, which should be an improvement on what is currently offered on the DTI website, will most likely enhance FTA awareness, eventually translating into increased utilisation levels. This is not only cost-effective on the part of the Government, but it is also a means to promote transparency in the process of COO issuance, thereby minimising rent-seeking behaviour of the agencies involved in FTA implementation.

Entities such as business associations and chambers of commerce are reported as the second major source of information on FTAs. Thus, it would be more beneficial for the Government and the private sector to coordinate efforts more closely. Moreover, regular monitoring and the setting up of a system to analyse FTA utilisation by the Bureau of Customs would be useful. A monitoring scheme would provide more accurate data and information about the Philippine use of various FTAs. As pointed out earlier, the data available to date are limited to the number of COO issuances and the corresponding value/volume of cargo covered. Information about the characteristics (such as industry or products, size, location, ownerships) of the firms using FTAs would also be very useful, not only in analysing FTA utilisation but more importantly in designing appropriate programmes to maximise FTA benefits. Furthermore, there is no system in place compiling all the reports from all collection districts. At present, official data on COOs cover only the Port of Manila.

A review of the COO access procedures to achieve a smooth, simplified and speedy process is also recommended, as this will greatly ease the apprehensions and lessen the cost especially for firms that attempt to use FTAs for the first time. The computerisation of COO issuances should be pursued and integrated with the National Single Window (NSW). Identifying steps in the procedure that can already be

¹⁸IE Singapore is the government agency driving Singapore's external economy, i.e. spearheading the overseas growth of Singapore-based companies and promoting international trade
<http://www.iesingapore.gov.sg/About-Us/Overview>.

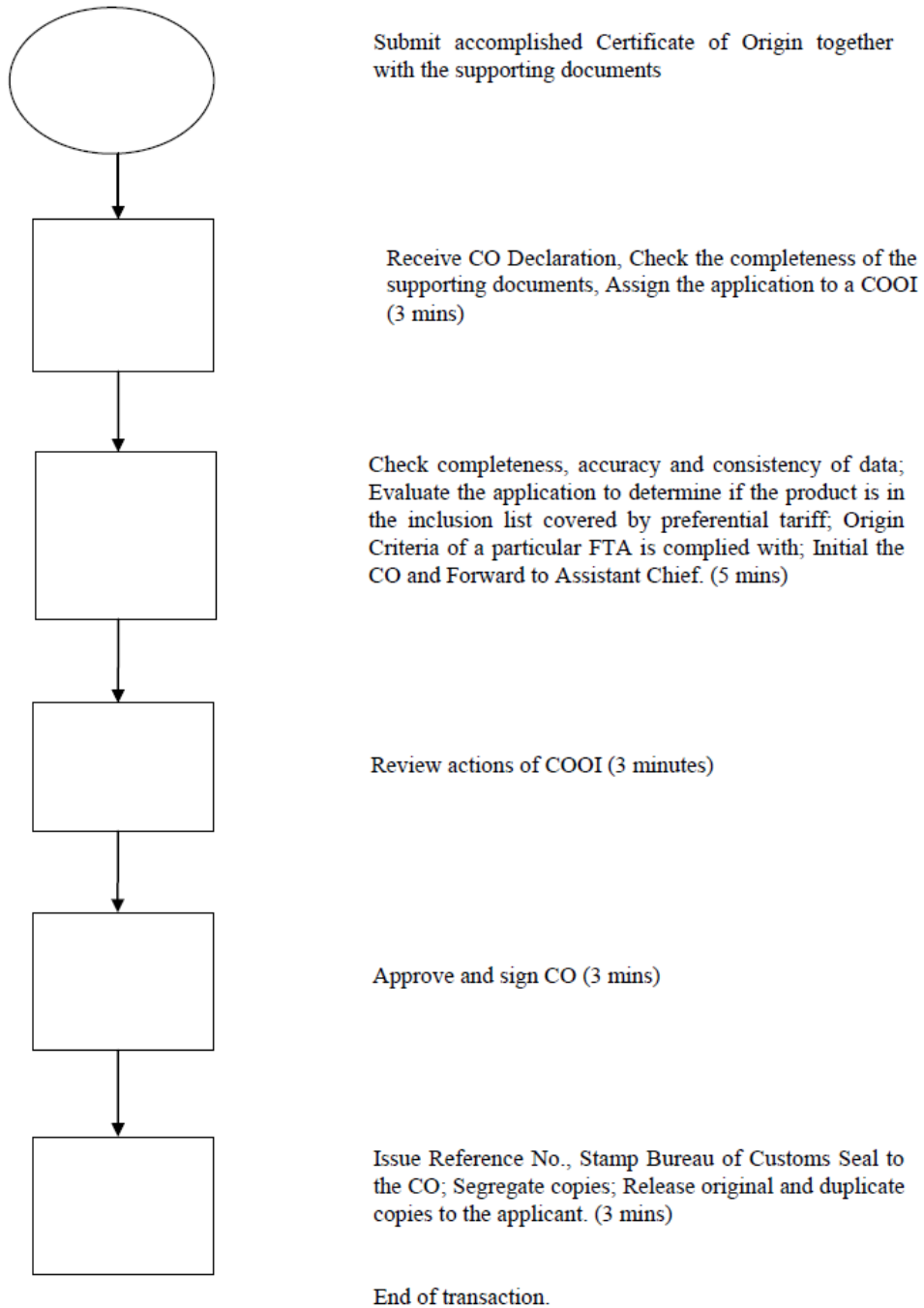
¹⁹Another portal where information about AANZFTA can be accessed at <http://aanzfta.asean.org/>.

automated could also be worth pursuing in the short term. Rationalising the roles of the different issuing authorities (i.e., BOC for preferential COOs and private industry associations for non-preferential COOs) may also be in order. Specifically, a big push for the Department of Trade and Industry's self-certification pilot project could have a potentially significant impact, especially for micro, small and medium enterprises (MSMEs).

In 2011, the Philippines successfully proposed to ASEAN that member countries be allowed to initiate their own pilot projects on self-certification. This declaration from a certified exporter that a product meets ROOs under an ASEAN FTA eliminates the need to secure COO forms from the BOC and saves time and related financial costs. This study strongly recommends a further step, namely to link self-certification to the NSW.

Finally, increasing FTA utilisation can be spurred by greater regional efforts to harmonise ROOs, not just on the level of procedures but also the rules themselves. Apart from addressing issues such as fake COOs, continued coordination among countries would help reduce the complications arising from different ROOs and would lay the foundations for RCEP.

Annex 1. Issuance of Certificates of Origin



Source: Taken from page 18 of Medalla, E. and Balboa, J. 2009, ASEAN Rules of Origin: Lessons and Recommendations for Best Practice, ERIA Discussion Paper 2009-17, Economic Research Institute for ASEAN and East Asia, Jakarta.

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