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Policy Adjustment to Exploit Opportunities in WTO, APEC and AFTA: Tradable Goods Sector

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Philippine Institute for Development Studies

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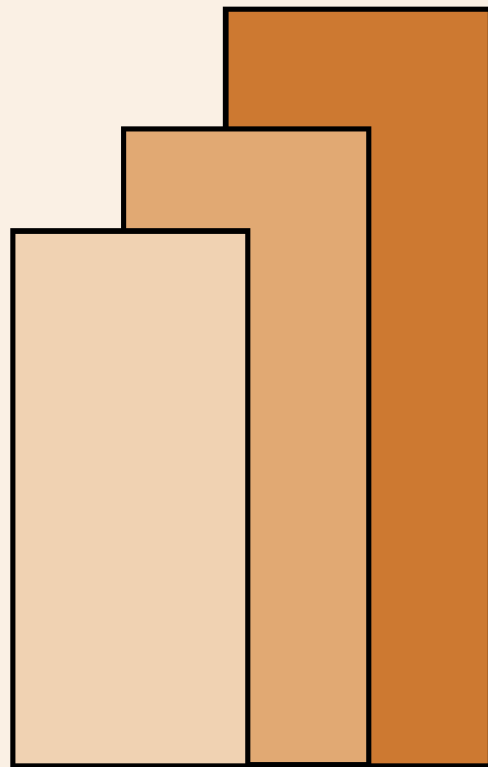
Myrna S. Austria

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Policy Adjustments to Exploit Opportunities in WTO, APEC and AFTA: Tradable Goods Sector

Myrna S. Austria*

The fast economic integration of the world in the 1990s has revolutionized the conduct of business, here and abroad. The increasing free and open trade and investment has brought new players, new products and new technology into the market making competition more intense. In response to this development, the Philippines embarked on a clear-cut change in trade policy in the 1990s to enhance its competitiveness in the world market. This is shown by the country's move towards a more uniform tariff rate and its commitments in multilateral and regional trading arrangements like the World Trade Organization (WTO), ASEAN Free Trade Area (AFTA) and the Asia-Pacific Economic Cooperation (APEC).

Recent developments include the objective to fast-track certain liberalization efforts. This includes the Early Voluntary Sectoral Liberalization (EVSL) initiative under APEC and the Information Technology Agreement (ITA) under WTO. The objective of this paper is to analyze the implications of these recent trade policy developments and present a forward-looking approach on how best the business sector and the government can respond and adapt to these changes amidst the ongoing crisis in the region.

The next section of the paper discusses the emerging Philippine trade environment, including the recent regional developments that are expected to affect Philippine trade. This is followed by an analysis of the overall trade performance and the performance of the sectors to be affected by the new agreements. The potential gains the emerging trading environment may bring to the country are then discussed. Finally, the action agenda for both the business sector and the government on how to optimize the potential gains are addressed.

The Emerging Philippine Trade Environment

The emerging Philippine trade environment is heavily influenced by the country's unilateral trade policy reforms and commitments in various regional trading arrangements such as the WTO, AFTA and APEC.

* Research Fellow, Philippine Institute for Development Studies. The research assistance provided by May Coronado is gratefully acknowledged.

Trade Policy Reform

Tariff Reform Program. The country has pursued a series of Tariff Reform Programs (TRP) since 1981 with the objective of reducing the overall level of protection and the dispersion of tariff protection within and across sectors and industries. The first phase (TRP 1) was implemented in 1981-1985 but this was temporarily put on hold because of the political and balance of payments crises at that time.

Tariff reform resumed under TRP II with the implementation of *Executive Order (EO) No. 470* in August 1991. This phase ended in 1995. The current round of trade reform (TRP Phase III, 1996-2003) aims at a uniform tariff rate of 5 percent by 2004. To achieve this, a series of Executive Orders (EO) were issued to gradually restructure the economy namely, EO 189 (machinery and capital equipment), EO 204 (textiles and garments), EO 264 (industrial products), EO 288 (non-sensitive agricultural products) and EO 313 (tariffication of quantitative restrictions in agricultural commodities)

In 13 January 1998, EO 465 was issued modifying the tariff structure of 22 industries identified as '*Philippine winners*'¹. EO 465 was the result of the review of the pace of tariff reduction under EO 264 in consideration of the adverse effects the regional financial crisis has impacted on the domestic economy. The recalibration of the tariff structure was based on the pace of liberalization in other ASEAN countries and whether or not an industry has potentials or has proven to be competitive.

EO 465 was not designed to delay the attainment of a uniform tariff rate by 2004. Nonetheless, it resulted to the small increase in the overall average nominal tariff rate for 1998, 1999 and 2000 from the pre-EO 465 level (Table 1). The average nominal tariff rates for agriculture and mining decreased while that of manufacturing increased. The overall effective protection rates (EPRs)² also went down but manufacturing will continue to enjoy higher protection than the agriculture, fishery and forestry sector (Table 2).

Import Liberalization Program. To complement TRP is the Import Liberalization Program (ILP) designed to gradually remove non-tariff restrictions on imports, mainly import licensing requirements or outright import bans. In 1996, only 161 items or three percent of the total PSCC lines remained regulated (de Dios 1997).

¹ The industries include electronics, garments/textiles, metal products, processed foods, marine products, furniture, jewelry, holiday decors, seaweeds, and carageenan, ceramics, marble products, basketwork, footwear, leathersgoods, fresh fruits, oleochemical products, fertilizer, copper products, petrochemical products, motor vehicle parts and components, iron and steel products and specialties, and industrial tree plantation products including rubber products.

²The *effective rate of protection* is the net rate of protection received after counting for both the protection accorded to final products and the higher costs associated with protection of inputs.

Table 1. Average nominal tariff rates, by sector, 1998-2000 (percent)

Sector	1998	1999	2000
Pre EO 465			
Overall	10.74	10.28	9.00
Agriculture, Fishery and Forestry	20.70	19.01	18.06
Mining	3.91	3.91	3.13
Manufacturing	9.05	8.82	7.45
EO 465			
Overall	11.24	10.21	9.08
Agriculture, Fishery and Forestry	19.82	17.96	16.56
Mining	3.89	3.84	3.21
Manufacturing	9.87	8.97	7.88

Source: Tariff Commission

Table 2. Estimated average EPR, by sector, 1998-2000 (percent)

Sector	1998	1999	2000
Pre EO 465			
Overall	19.27	18.01	17.38
Agriculture, Fishery and Forestry	17.35	16.96	16.55
Mining	0.50	0.53	0.25
Manufacturing	21.25	19.44	18.73
EO 465			
Overall	14.10	13.24	12.48
Agriculture, Fishery and Forestry	12.64	12.36	11.72
Mining	0.55	0.58	(0.07)
Manufacturing	15.48	14.34	13.52

Source: Tariff Commission

Commitments in the World Trade Organization (WTO)

The Philippines' accession to the WTO was ratified by the Senate in December 1994. With a few exceptions, the country did not reduce tariffs from its unilateral reforms. However, the country committed to the following:

- to bind tariff rates at a ceiling rate of 10 percentage points above the 1995 applied rate on some 2,800 industrial tariff lines and 744 agricultural tariff lines representing 63 percent of total tariff lines.
- to convert all existing quantitative restrictions on agricultural imports to tariff equivalents (except rice for which a 10 year delay was agreed). The agricultural products affected include corn, sugar, coconut oil, onions, garlic, potatoes, cabbage, pork, poultry meat, beef, live hogs, live poultry and cattle.

Agreement on Information Technology (ITA). The more recent achievement in the WTO was the Agreement on Information Technology which aims to eliminate tariffs on information technology (IT) products through equal rate reduction of tariffs beginning 1 July 1997 and concluding in 1 January 2000. Extended staging of reductions until 2005 is also allowed under limited circumstances.

The ITA covers a wide range of product categories that include computer hardware and software, semiconductors, telecommunications equipment, electronic office equipment and manufacturing equipment particularly for use in semiconductor production. Excluded in the coverage, however, are consumer electronics.

The Philippine commitments³ include the following:

- to bind tariff rates to zero on some 188 IT product lines by 2000; and
- to bind tariff rates to zero on some 47 IT product lines by 2005

Most of the IT product lines committed to a zero tariff rate by 2000 belongs to the 10 percent tariff level in 1998. On the other hand, those committed to an extended staging of reduction until 2005 have tariff rates between 20 and 40 percent in 1998.

Commitments in the ASEAN Free Trade Area (AFTA)

The main goal of AFTA is to increase ASEAN's competitive edge as a production base geared for the world market. The Common Effective Preferential Tariff (CEPT) Scheme is the main instrument to achieve the goal of AFTA. It provides for the elimination of non-tariff barriers and the reduction of tariffs on all manufactured products, including capital goods, and processed and unprocessed agricultural products, to 0-5 percent by 2003⁴ starting January 1993.

The Philippine CEPT package for 1998 is found in Table 3. The country's commitments in its Inclusion List as a percentage of total tariff lines committed is

³ The Philippines has signed to the agreement but it has yet to be ratified by the Senate.

⁴ The timeframe was originally 2008 but this was accelerated to 2003 during the ASEAN Economic Ministers Meeting in September 1994.

lower compared to the commitments of the other original members of the ASEAN⁵. The country's average CEPT rate in 1998 is 6.48 percent. From 2000, the country's average is already within the 0-5 percent range. However, the country's CEPT rates are below those of Indonesia and Thailand (Figure 1).

Table 3. 1998 CEPT Package.

Country	Inclusion	Temporary exclusion	Sensitive	General exception	Total
Number of tariff lines					
Brunei	6,060	220	14	236	6,530
Indonesia	6,597	593	23	45	7,258
Malaysia	8,690	406	137	60	9,293
Philippines	5,099	589	58	28	5,774
Singapore	5,738	-	-	120	5,858
Thailand	9,033	74	7	26	9,140
Vietnam	1,497	1,127	23	165	2,812
Laos	533	2,820	96	102	3,551
Myanmar	2,356	2,987	21	108	5,472
Total	45,603	8,816	379	890	55,688
Percent distribution of tariff lines covered by CEPT, by country					
Brunei	92.80	3.37	0.21	3.61	100.00
Indonesia	90.89	8.17	0.32	0.62	100.00
Malaysia	93.51	4.37	1.47	0.65	100.00
Philippines	88.31	10.20	1.00	0.48	100.00
Singapore	97.95			2.05	100.00
Thailand	98.83	0.81	0.08	0.28	100.00
Vietnam	53.24	40.08	0.82	5.87	100.00
Laos	15.01	79.41	2.70	2.87	100.00
Myanmar	43.06	54.59	0.38	1.97	100.00
Total	81.89	15.83	0.68	1.60	100.00

Source: Joint Press Statement, 11th Meeting of the AFTA Council, Malaysia, 15 October 1997.

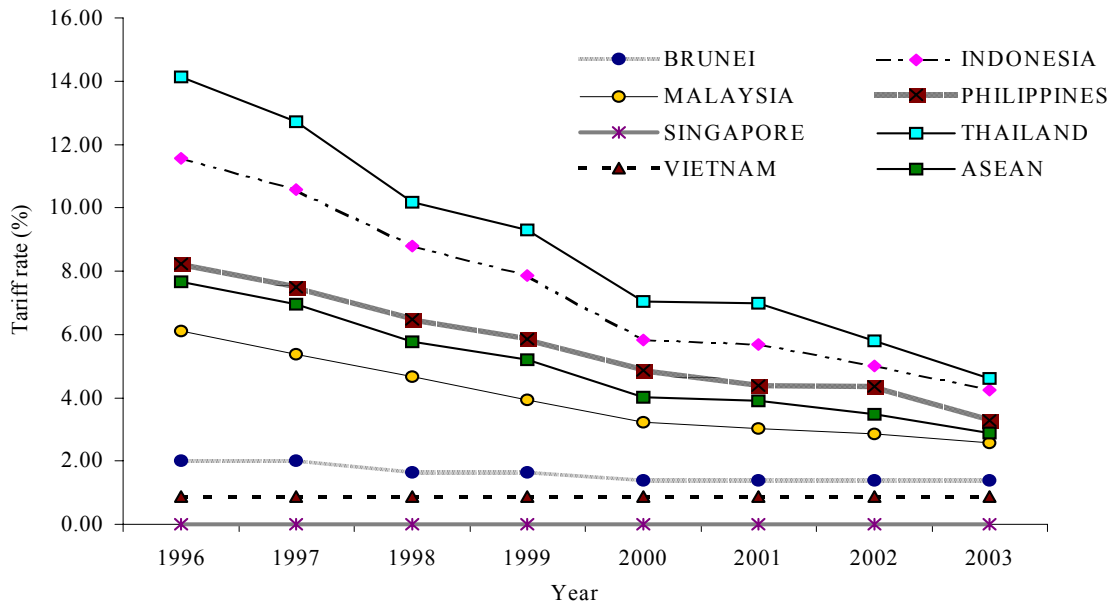
In terms of major commodities, by 2003, the Philippines' CEPT rates range from a low of 3 percent for mineral products to a high of 5 percent for antiques and works of art (Appendix Table 1). For unprocessed agricultural products, the country's CEPT rate will decline from 16 percent in 1996 to 4 percent in 2003.

The effective protection rate (EPR) in Philippine manufacturing will be reduced by about 2 percentage points because of CEPT (Pineda, 1997). The EPRs in

⁵ Vietnam formally acceded to the CEPT agreement in December 1995 and Laos and Myanmar in July 1997.

the manufacturing sector based on CEPT rates are 11.9 percent in 1996 and 7.3 percent in 2000 as compared to EPRs at non-CEPT rates of 13.8 percent in 1996 and 9.2 percent in 2000.

Figure 1. Average CEPT rates for all sectors, ASEAN, 1996-2003 (percent)



Source: ASEAN Secretariat, 1996.

Commitments in the Asia-Pacific Economic Cooperation (APEC)

The long term goal of APEC, as set out in Bogor, is to achieve a free and open trade and investment in the Asia-Pacific region by 2010 for developed member economies and 2020 for developing member economies. To achieve this goal, the 18 member economies formulated their Individual Action Plans (IAPs) in 1996. The IAPs map out individual member economy's concrete steps and actions towards the attainment of free trade and investment in the region.

The Philippines' commitments in its IAP are consistent with its commitments with WTO and AFTA. On tariff, the commitment is to gradually reduce phasedown tariffs, targeting a uniform rate of 5 percent, except for sensitive products, by the year 2004. This is considerably more liberal and immediate than the country's WTO commitment to bind tariffs at their 1995 levels. Because the Philippines has committed to extensive tariff reduction, it is one of the four APEC economies whose progress against their IAP is ahead of the commitments inherent in the Bogor Declaration (PECC, PIDS and the Asia Foundation, 1996). The other three economies in this position are Chile, China and Indonesia.

Early Voluntary Sectoral Liberalization (EVSL). Recognizing the importance of progressing towards the achievement of the Bogor goals, the APEC Economic Leaders endorsed the early liberalization of 15 sectors during their Fifth Meeting in Canada in 1997. The 15 sectors were identified to have a likely positive

impact on trade, investment and economic growth in individual APEC economies and the region should the timetable for the elimination of tariffs and non-tariff barriers as set out in the IAPs be fast-tracked.

Of the 15 sectors, 9 sectors will have their EVSL program (scope of coverage, measures to be covered and implementation schedule) finalized by September 1998, for implementation by 1999⁶. The proposals for the remaining sectors will also be further developed for review and assessment by the Ministers in September 1998, and for possible endorsement by the Leaders in November 1998.

The nine sectors are:

- | | |
|---|--------------------|
| - environmental goods and services | - energy |
| - fish and fish products | - toys |
| - forest products | - gems and jewelry |
| - medical equipment and instruments | - chemicals |
| - telecommunications mutual recognition agreement (MRA) | |

The remaining six sectors are:

- | | |
|---------------------------------|------------------|
| - food | - fertilizers |
| - oilseeds and oilseed products | - automotive |
| - natural and synthetic rubber | - civil aircraft |

In contrast to the usual liberalization program, however, EVSL will have two components to make the program balanced and mutually beneficial for all participating economies. These are: (1) elimination of tariff and non-tariff barriers; and (2) identification of facilitation and economic and technical cooperation measures. *Trade facilitation measures* are programs that would reduce the cost of doing business by liberalizing trade, eliminating unnecessary administrative burdens and bringing down technical barriers to trade. On the other hand, *economic and technical cooperation measures* are programs designed to enable the participating economies, especially the developing economies, to build their capacity and enhance their competitiveness thereby, enabling them to participate and take advantage of the opportunities arising from the EVSL.

The proposed product coverage and schedule of implementation for the elimination of tariffs for the 15 sectors are shown in Table 4. Each sector has a different proposed timetable. In general, however, the proposal is for a progressive reduction of tariffs to zero starting in 1999 and to be completed not later than 2005.

The proposal for telecommunications is quite unique as it calls for the development of mutual recognition agreements (MRA), where a framework and mechanism for testing and certification of telecommunications equipment is being studied for adoption by APEC economies. The arrangement provides for the mutual recognition by the importing country of the results of testing and equipment certification procedures undertaken by the exporting country's conformity assessment bodies in assessing the conformity of equipment to the importing country's own technical regulations.

⁶The original schedule of finalizing the program was June 1998 but in the absence of any agreements on "flexibility" in the implementation of EVSL during the APEC Trade Ministers Meeting in June 1998, the deadline was deferred to September.

Table 4. Summary of EVSL Proposals for the elimination /reduction of tariffs.

Sector	Nominating Economies	Product Coverage	Proposal
Toys	China, Hongkong, Singapore, USA	HS 9501 to 9505	Progressive reduction of tariffs to zero commencing 1998 and to be completed preferably by 2000 but not later than 2005.
Gems and jewelry	Thailand, Chinese Taipei	HS 71	To be jointly formulated by member economies in 1998.
Fish and fish products	Brunei Darussalam, Canada, Indonesia, New Zealand, Thailand	HS 03.02 to 03.07, 05.11, 15.04, 16.03 to 16.05, 23.01, 23.09	Elimination of tariffs in 2 phases: <ul style="list-style-type: none"> ➤ for tariff rates equal to or less than 20 percent, elimination by December 31, 2001. ➤ for tariff rates higher than 20 percent, reduction to 20 percent, by December 31, 2001, followed by elimination by December 31, 2003.
Medical equipment and instruments	USA, Singapore	HS 2844.40, 3822, 8419.20, ex HS 8543.8985, 8713, 8714.20, 9018 to 9019, 9021 to 9028, 9030 to 9032	Elimination of tariffs within 3 years; all tariff reduction would be bound in the tariff schedule of the WTO.
Environmental goods and services	Canada, Japan, Chinese Taipei, USA	Economies are encouraged to identify goods and services to be covered under the agreement	To be jointly formulated by member economies in 1998.
Forest products	Canada, Indonesia, New Zealand, USA	HS 44, 46, 47, 48, 49, ex 94.01, ex 94.03, ex 94.06	Elimination of tariffs by 1 January 2002 on products falling under chapters 44 and 49; by 1 January 2004 on products under chapters 46, 47 and 49; by 1 January 2000 on products under chapter 48.
Chemicals	USA, Singapore, Australia, Hongkong	HS 28 to 39 except for the ff: 2905.43, 2905.44, 3301, 3501 to 3505, 3809.10 and 3823.60	To bring tariffs into conformity with the rates established in the Uruguay Round Chemical Tariff Harmonization Agreement (CTHA) into two tranches as agreed in the UR, i.e. by 2001 for tariffs up to and including 10 percent and by 2004 for tariffs over 10 percent. Tariffs will be bound to the WTO schedules.
Telecommunications MRA	USA	Phase I: Mutual Recognition of Test Results Phase II: Mutual Recognition of Equipment Certificates	MRA activities to start by July 1, 1999.

Con't Table 4.

Sector	Nominating Economies	Product Coverage	Proposal
Energy	Australia, USA, Thailand	Primary energy commodities (coal and gas), electricity, energy products, technologies, services and equipment. Tariff work will concentrate on coal and gas items under HS 2701 and 2711. Precise details of the other components of the sector will be defined thru further consultation with APEC member economies.	Acceleration of the progressive removal of residual tariffs on coal and gas items ahead of the Bogor timeframe. Reduction timetable would be determined through member consultation in 1998.
Food	Australia	HS 0701 to 0714, 0801 to 0814, 0901 to 0903, 1602, 1704, 1806, 1901, 1902, 1904 to 1905, 2001 to 2008, 2101, 2103 to 2105, 2201 to 2205, 2208 to 2209	To bring down applied tariffs to 5 percent and below by 2004 starting June 1999.
Natural and synthetic rubber	Thailand, Japan	HS 40.01 to 40.02	To be jointly formulated by member economies in 1998.
Fertilizers	Canada	HS 25.03, 2809.20, 2814.10, 31.01 to 31.05	Elimination of tariffs by January 1, 2004 and subsequently bound in WTO schedules at zero.
Oilseeds and oilseed products	Canada, USA, Malaysia	HS 1201, 1203 to 1208, 1507, 1511 to 1518, 2106.10, 2103.30, 2302.50, 2304, 2306, 2923.20, 3504	Elimination of all tariffs, NTBs, export subsidies, quotas and other trade distorting measures by 2002 and bound in WTO schedules.
Automotive	USA	HS 8701 to 8706, 3819, 3820, 4009 to 4016, 6813, 7007, 7009, 7318, 7320, 8301, 8302, 8407 to 8409, 8413, 8414, 8515, 8421, 8425, 8431, 8482, 8483, 8501, 8507, 8511, 8512, 8519, 8525, 8707, 8708, 8716, 9029, 9104, 9401, 9403, 9802	
Civil Aircraft	Canada	Same coverage as in Agreement on Trade in Civil Aircraft.	Elimination of tariffs in two equal cuts on January 1, 1999 and January 1, 2000 and bound in WTO schedules at zero.

Source: EVSL nomination papers.

Under the TRP, most of the product lines proposed for EVSL are already under the 3 percent tariff rate level in 1998 and by the year 2000 (Table 5). Natural and synthetic rubber and fertilizer all have 3 percent tariff rate. Medical equipment and instruments will also be 100 percent under 3 percent tariff rate in 2000. A small percentage belongs to the 10 percent and 20 percent tariff rate levels, except for food and toys where more than 50 percent of their product lines have 20 percent tariff rates. The most protected sector is automotive where 24 percent of its product lines still belong to the 40 percent and above tariff level in 1998 although by the year 2000, most of the product lines will receive the 10 percent tariff rate. About 12 percent of the tariff lines of food also belong to the 40 percent and above category and these are mostly sensitive products like sugar and coffee.

Table 5. Distribution of products proposed for EVSL, by tariff rates, 1998-2000.

Sector/Year	Tariff rates									Total
	3%	5%	7%	10%	15%	20%	25%	30%	40% & above	
1998										
Toy	0.0	0.0	0.0	33.3	9.5	57.1	0.0	0.0	0.0	100.0
Environmental goods & services	0.0	64.0	0.0	25.0	4.1	7.0	0.0	0.0	0.0	100.0
Medical equipment, instruments, and devices	98.8	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	100.0
Gems & jewelry	70.5	0.0	0.0	11.5	4.9	13.1	0.0	0.0	0.0	100.0
Fish & fish products	22.8	0.0	0.0	44.9	0.0	31.5	0.0	0.0	0.8	100.0
Forest products	36.6	0.0	0.4	10.2	21.1	13.0	18.7	0.0	0.0	100.0
Chemicals	76.1	0.4	0.0	17.6	1.1	4.8	0.0	0.0	0.0	100.0
Natural & synthetic rubber	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Fertilizer	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Automotive	18.1	0.0	6.0	21.7	1.2	25.3	0.0	3.6	24.1	100.0
Oilseeds & oilseed products	39.3	0.0	0.0	19.6	0.0	41.1	0.0	0.0	0.0	100.0
Civil aircraft	60.4	0.0	0.0	22.1	0.0	14.0	2.8	0.7	0.0	100.0
Food	5.0	0.0	0.0	20.1	0.0	57.0	0.0	5.4	12.4	100.0
2000										
Toy	0.0	0.0	0.0	42.9	0.0	57.1	0.0	0.0	0.0	100.0
Environmental goods & services	0.0	69.3	0.0	25.2	4.0	1.5	0.0	0.0	0.0	100.0
Medical equipment, instruments, and devices	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Gems & jewelry	70.5	0.0	3.3	13.1	13.1	0.0	0.0	0.0	0.0	100.0
Fish & fish products	26.0	0.0	41.7	0.0	31.5	0.0	0.0	0.0	0.8	100.0
Forest products	36.6	0.0	8.9	22.8	11.8	19.9	0.0	0.0	0.0	100.0
Chemicals	82.4	0.1	6.9	6.4	1.5	2.6	0.0	0.0	0.0	100.0
Natural & synthetic rubber	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Fertilizer	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
Automotive	18.1	0.0	0.0	49.4	1.2	7.2	0.0	24.1	0.0	100.0
Oilseeds & oilseed products	38.6	0.0	0.0	35.1	0.0	26.3	0.0	0.0	0.0	100.0
Civil aircraft	62.7	0.0	4.1	18.5	4.4	10.3	0.0	0.0	0.0	100.0
Food	5.8	0.0	0.0	41.0	0.0	34.5	0.0	5.8	13.0	100.0

Note: The tariff rates are based on the Tariff Reform Program.

Source: Tariff Commission.

Recent Regional Developments

There are two regional concerns that are expected to affect trade in the region in general and the country in particular. One is the ongoing financial crisis which started in Thailand in July 1997 and which has now spread to the rest of East Asia. Second is China's possible accession to the WTO and the possible devaluation of its currency in response to the regional crisis.

Regional financial crisis. The major devaluation of the currencies in the region since July 1997 was a long overdue correction to the appreciation of the Philippine peso since the late 1980s. From 1989 to 1996, the real effective exchange rate continuously appreciated because of the increase in foreign investment. Although the ASEAN economies all experienced an appreciation of their currency prior to July 1997, the Philippines appreciated the most resulting in the loss of its competitiveness vis-à-vis its major competitors in the region (Intal and Basilio, 1998).

The devaluation was expected to improve the country's competitiveness. However, as will be discussed in the next section, exports during the first semester of 1998 did not grow as much as it did during the same period in 1997. Two possible explanations are raised here. One, the peso depreciated the least from the ongoing currency crisis and hence, relative to the other economies in the region, the country's competitiveness may not have improved. Second, while interest rate was kept low, it did not translate to availability of credit since the banking system's capital base has been eroded due to the crisis. This credit crunch is making it difficult for industries to obtain working capital for their exports.

The country's export to the region may slow down as the ASEAN and Japan are experiencing the severe effects of the crisis. The magnitude of the effects on exports, however, may not be that severe as will be discussed later in the paper.

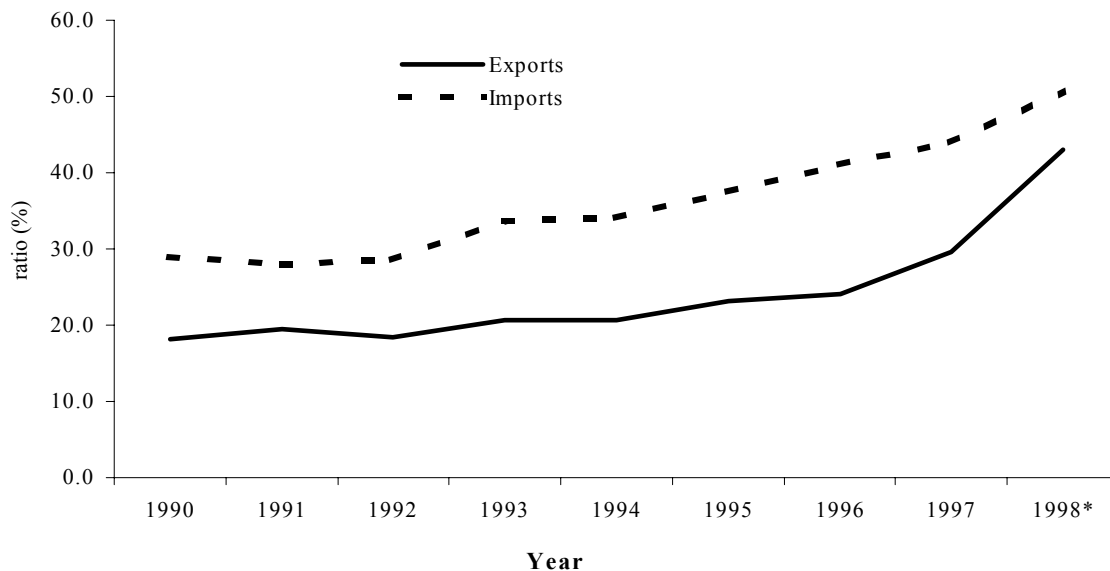
China. China's accession to the WTO constitutes one central issue for the organization as the conditions under which China should be admitted has remained the subject of negotiation. The threat in China's accession to the WTO with the status of a developing nation lies in the belief that China could prevail in the domestic markets of its competitors with its virtually unlimited supply of cheap labor and domestic economies of scale. Also, there is a growing concern that China might devalue its yuan to regain its competitiveness in the region.

Overall Trade Performance, 1990- First Semester 1998

The effects of the trade reform are reflected in the increasing ratio of exports and imports to GDP (Figure 2). Prior to the financial crisis, the ratio of imports to GDP has grown faster due to the combination of trade liberalization and the overvaluation of the peso. Export and imports also grew rapidly in real terms (Figure 3). The ongoing crisis has taken its toll on trade during the first semester of 1998. Exports growth during the first semester of 1998 was less than the growth registered during the same period in 1997 (Table 6). As discussed in the preceding section, the credit crunch limited the capability of exporters to reap the expected

benefits from the depreciation of the peso. The good news however is the sharp increase in the ratio of exports to GDP (Figure 2). As expected, import growth also slowed in response to the depreciated peso.

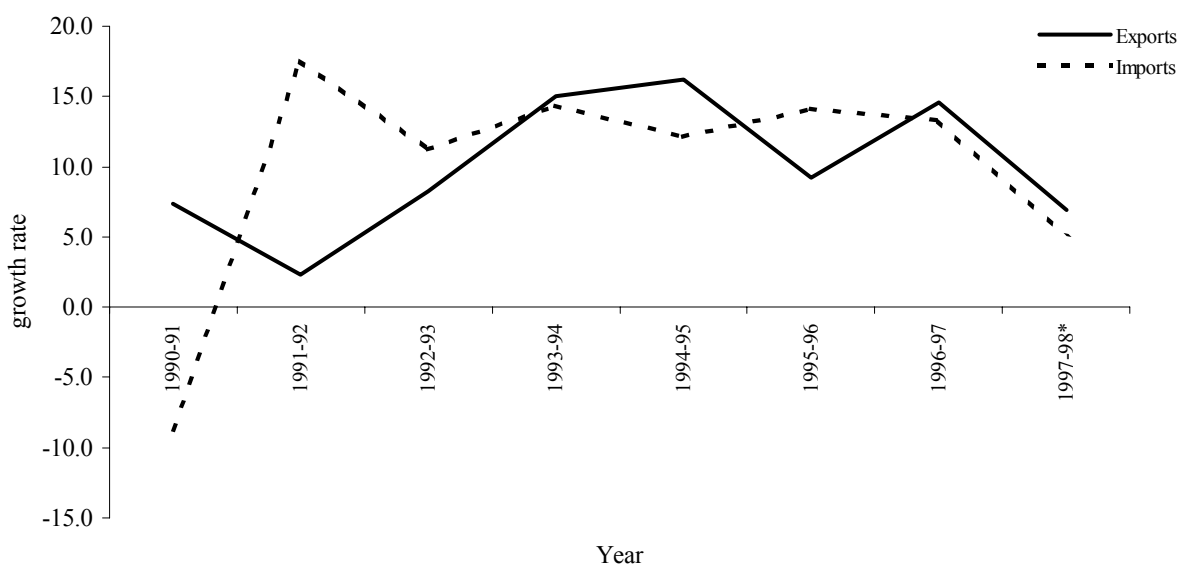
Figure 2. Ratio of exports and imports to GDP, 1990-1998 (percent)



Note: * Data are as of June 1998.

Source: National Income Accounts, National Statistical Coordination Board.

Figure 3. Annual real growth rate of merchandise exports and imports, 1991-1998 (percent) (1985 prices)



Note: * Data are from 1st semester of 1997 to 1st semester of 1998.

Source: National Income Accounts, National Statistical Coordination Board.

Table 6. Growth rate of exports and imports, 1997-1998 (percent)

Period		Real (1985 prices)		Nominal	
		Exports	Imports	Exports	Imports
1997	First semester	12.9	5.5	22.1	31.4
	Second semester	16.0	21.0	22.5	18.9
1998	First semester	6.9	5.0	16.5	(11.7)

Source: National Income Accounts, National Statistical Coordination Board.

Non-traditional manufactures have continued dominating the composition of the country's exports since the reform in trade policies (Table 7). In particular, semiconductors and garments have become the leading exports since the mid-1980s. However, the two industries have registered contrasting export performance over the years. On the one hand, garments steadily increased its share to total exports between 1980 and 1992 but its share has fallen progressively since then (Figure 4). The decline in the share of garments was due to the relatively high cost of labor compared to competitors like China and the emergence of Mexico and the Caribbean countries as new competitors in the US market, the country's major export market for garments. Prior to the financial crisis, the overvalued exchange rate contributed to the decline. The garment producers who survived did so by raising their capital and labor productivity (Table 8). Unless the industry improves on price competitiveness, it cannot continue to compete in the international market, especially that the country's major competitors now have weaker currencies than the Philippine peso.

Table 7. Percent distribution of Philippine exports, by major categories, 1990,1997, 1998.

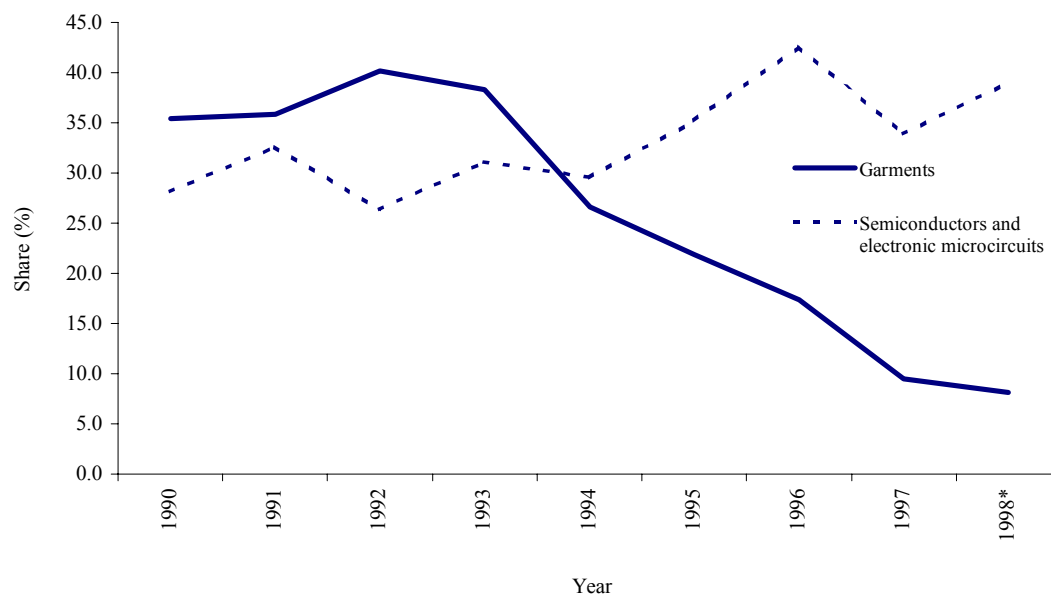
Category	1990	1997	1998*
Traditional exports	17.6	10.2	8.6
Non-traditional manufactures	73.2	85.8	87.3
Non-traditional unmanufactures	9.2	4.0	4.1
Total	100.0	100.0	100.0

Note: * Data are as of June 1998.

Source: Philippine Statistical Yearbook, NSCB; NSO press release on merchandise exports.

On the other hand, the share of semiconductors in total exports steadily increased between 1985 and 1995. Its share increased rapidly between 1996 and the first semester of 1998 (Figure 4). The industry's capital productivity, however, has been going down and the industry is becoming more and more capital intensive (Table 8).

Figure 4. Share of garments and semiconductors in total merchandise exports, 1990-1998 (percent)



Note: * Data are as of June 1998.

Source: National Income Account, National Statistical Coordination Board.

Table 8. Productivity and factor intensity of Philippine major exports.

Commodity	1980	1985	1990	1993
Capital productivity US\$ '000 of value added per US\$ '000 of capital expenditures				
Electrical and electrical equipment/ parts and telecom	5.1	5.8	4.4	3.9
Garments	11.0	21.1	24.4	30.1
Labor productivity US\$ '000 of value added per person employed				
Electrical and electrical equipment/ parts and telecom	5.3	5.3	10.2	10.6
Garments	1.3	1.5	2.8	4.0
Capital-labor ratio US\$ '000 of capital expenditures per person employed				
Electrical and electrical equipment/ parts and telecom	1.0	0.9	2.3	2.7
Garments	0.1	0.1	0.1	0.1

Note: Majority of products classified under electrical and electrical equipment/parts and telecommunications are semiconductors and microcircuits.

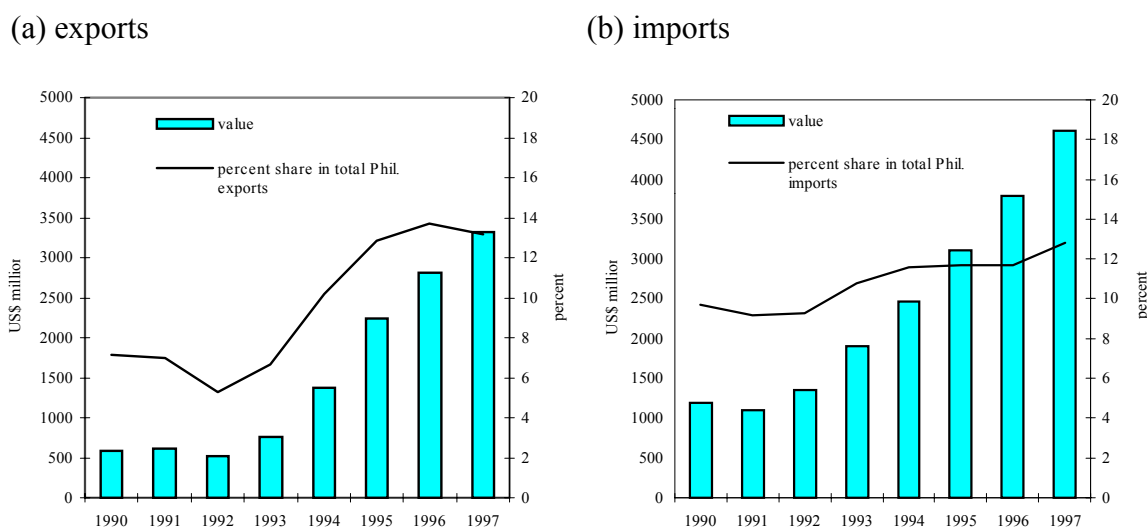
Source: Austria (1997).

The heavy reliance on these two industries for export earnings has become a concern because of their high import content and low value added. The appreciation of the peso prior to the crisis meant exporters had little incentive to source inputs locally. The average local content is only 20 percent in semiconductors, 25 percent in simple circuit products and even lower at 15 percent in more complex products (World Bank 1997). On the other hand, the bulk of total garment exports were made from raw materials consigned from abroad. The share of this type of exports increased from 34 percent in the early 1980s to 62 percent in the 1990s, reducing the industry's value added to mere labor (Austria 1996). These two industries can be a strong base for long term growth only if local inputs are increased.

Implications of regional trading arrangements and the crisis to Philippine trade.

Philippine trade is rapidly being integrated with the ASEAN. This could be seen from the rising share of the ASEAN in Philippine exports and imports (Figure 5). Between 1990 and 1992, the share of the ASEAN in Philippine trade was actually declining. But between 1993 and 1997, the share of the ASEAN, while still low, increased significantly. AFTA may be contributing to this rapid integration as could be seen from the increasing share of CEPT products in the country's exports and imports (Table 9). Nonetheless, the share of the Philippines in total intra-ASEAN CEPT exports and imports is the second smallest in the region (Table 10).

Figure 5. Share of ASEAN in Philippine exports and imports, 1990-1997



Source: Foreign Trade Statistics, National Statistics Office.

Increasing our exports with Indonesia and Thailand during the next few years may prove difficult since these two countries are now experiencing the effects of a recession due to the currency crisis. But the overall effects of the crisis on our exports to the ASEAN may not be that severe since Singapore, the least affected by the crisis in the region, is still the country's major market in the ASEAN (Table 11).

On the other hand, less than 7 percent of our exports to ASEAN go to Indonesia, the hardest hit by the crisis.

Table 9. Share of CEPT products in Philippine trade, 1993-1996 (percent).

Period	Exports	Imports
1993	5.5	6.3
1994	8.8	6.6
1995	12.2	8.7
1996	13.2	NA

Source: ASEAN Secretariat, 1996; Joint Press Statement of the 11th Meeting of the AFTA Council, October, 1997; Philippine Statistical Yearbook, 1996.

Table 10. Percent distribution of exports and imports of CEPT products, 1993-1996 (percent).

Country	Exports (%)				Imports (%)			
	1993	1994	1995	1996	1993	1994	1995	1996*
Brunei	1.3	1.0	0.9	0.7	2.4	2.4	2.1	0.7
Indonesia	12.8	10.9	10.0	11.2	6.9	6.4	6.6	4.6
Malaysia	33.0	27.5	27.0	27.5	22.0	23.1	22.0	40.2
Philippines	1.8	2.5	3.7	4.3	3.5	3.6	5.3	4.1
Singapore	43.0	50.3	49.1	48.3	57.5	55.7	54.2	30.5
Thailand	8.2	7.9	9.3	8.0	7.6	8.8	9.8	17.5
ASEAN	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Data for Vietnam are not available.

In 1996, the combined share of Laos, Myanmar and Vietnam was 2.4%.

Source: ASEAN Secretariat, 1996; Joint Press Statement of the 11th Meeting of the AFTA Council, October, 1997.

APEC also plays a major role in Philippine trade as the country's major trading partners (USA and Japan, and recently, the ASEAN) are in the APEC region. More than three-fourths of the country's exports and imports occur in APEC and this has been growing significantly in the 1990s (Figure 6). Since Japan is a major trading partner, our exports to Japan may slow down due to the recession in the country. Nonetheless, the growing US economy, the country's top export market, is expected to boost our exports amidst the crisis in the region. China, however, continues to pose a threat to our exports, particularly labor intensive exports, as shown by its increasing share in world exports in contrast to the less than one percent share of the Philippines (Table 12).

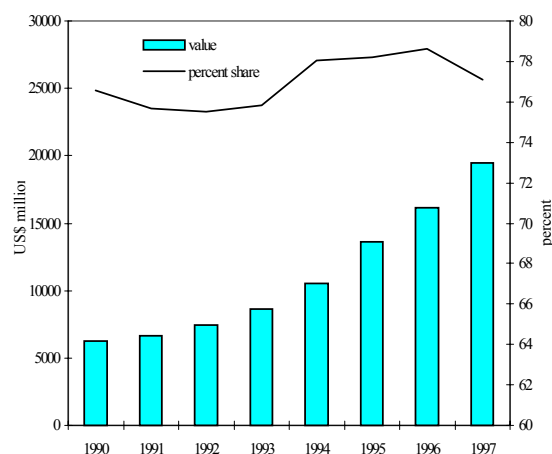
Table 11. Philippine exports to ASEAN, by country, 1990-1997.

Country	Average % distribution	Average real growth rate
Brunei	0.21	21.15
Indonesia	6.72	16.56
Malaysia	20.05	22.51
Singapore	45.61	28.00
Thailand	27.41	24.18
Total	100.00	24.87

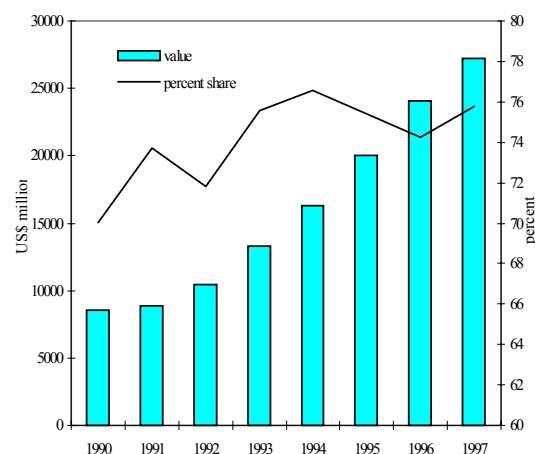
Source: Foreign Trade Statistics, National Statistics Office.

Figure 6. Share of APEC in Philippine exports and imports, 1990-1997

(a) exports



(b) imports



Source: Foreign Trade Statistics, National Statistics Office.

Sectoral Performance

This section will focus on the analysis of the performance of the sectors to be covered by the new trading agreements and the likely implications the agreements may have on the sectors.

Information Technology (IT) Products

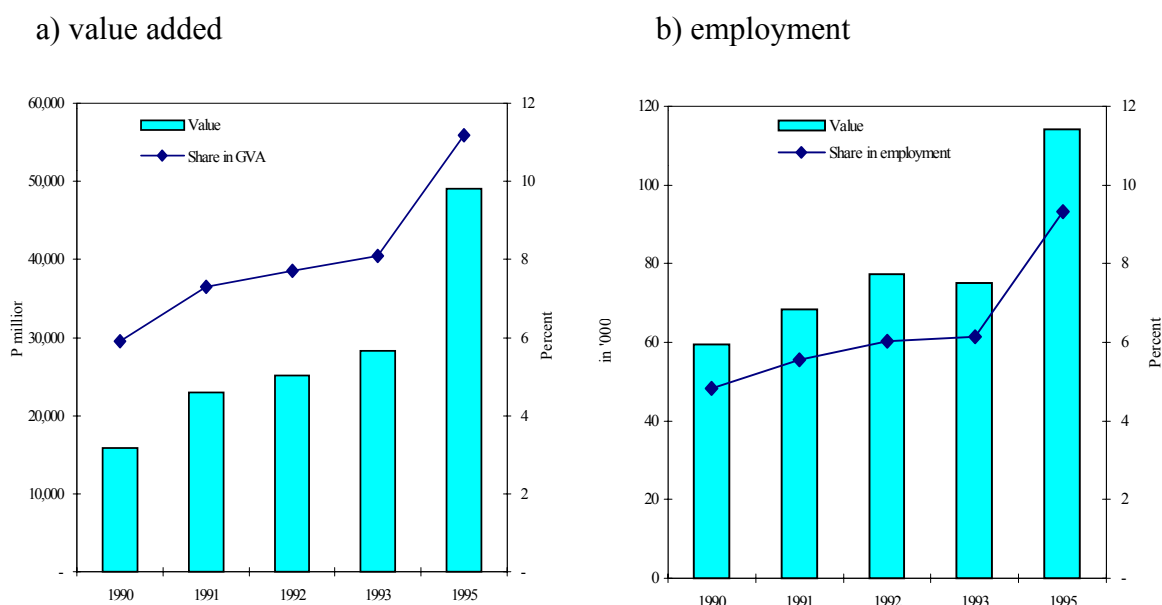
Value added. The share of IT products to manufacturing value added increased from 5.9 percent in 1990 to 11.2 percent in 1995 (Figure 7). The small contribution of the industry to value added is due to the dependence of the industry on imports for its raw materials as discussed earlier.

Table 12. Share of APEC to world exports, 1991-1995 (percent).

Country	1991	1992	1993	1994	1995
Australia	1.08	1.06	1.09	1.15	1.08
Brunei	0.06	0.06	0.07	0.08	0.07
Canada	3.71	3.40	3.70	3.62	3.46
Chile	0.23	0.26	0.28	0.28	0.31
China	1.08	1.52	2.04	1.98	2.07
Hongkong	1.81	3.09	2.91	3.21	3.25
Indonesia	0.56	0.60	0.64	0.65	0.74
Japan	5.15	4.91	5.18	5.27	5.52
Korea	2.00	1.74	1.90	2.09	2.38
Malaysia	0.99	0.92	1.16	1.46	1.64
Mexico	1.55	1.71	1.75	1.84	1.40
New Zealand	0.21	0.21	0.23	0.25	0.25
Philippines	0.32	0.38	0.49	0.51	0.56
Papua New Guinea	0.04	0.04	0.04	0.04	0.03
Singapore	1.66	1.78	2.09	2.17	2.29
Thailand	0.94	0.96	1.08	1.17	1.35
USA	13.61	14.06	15.75	15.91	15.17
Total APEC	34.99	36.70	40.41	41.67	41.57

Source: PCTAS/UNCTAD; TAPS, Philexport.

Figure 7. Gross value added and employment of IT products, 1990-1995



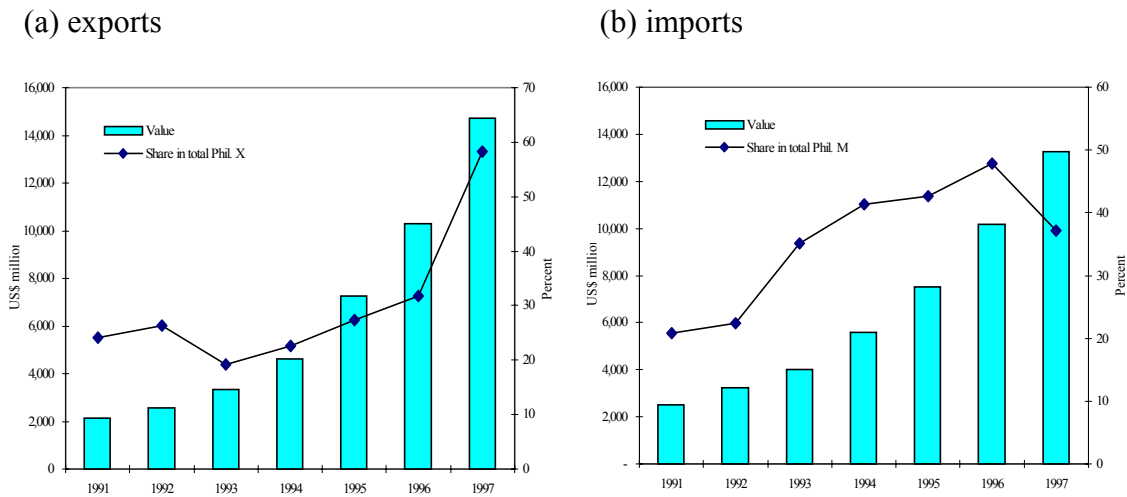
Source: Annual Survey of Establishments, National Statistics Office; Philippine Statistical Yearbook, National Statistics Office.

Employment. The industry's contribution to employment went up from 4.8 percent in 1990 to 9.3 percent in 1995 (Figure 7). Labor productivity at constant

1990 prices also increased from P266.1 thousand in 1990 to P270.6 thousand in 1995.

Exports. Exports of IT products increased from US\$2.1 billion in 1991 to US\$14.7 billion in 1997 or an average annual real growth rate of 37.9 percent during the period. IT products has dominated the country's exports in the 1990s increasing its share from 24.2 percent in 1991 to 58.3 percent in 1997 (Figure 8). While the bulk of IT exports is semiconductors, the share of these products to total IT exports has been going down for the last two years (Table 13). This is attributed to the structural weaknesses of the country's IT industry which will be discussed below. On the other hand, electronics office and automatic data processing machines has increased its share from 5 percent in 1991 to 14.3 percent in 1997, registering the highest average annual growth rate of 64.3 percent among the IT products during the period.

Figure 8. Philippine trade in IT products, 1991-1997



Source: Bureau of Export Trade Promotion, Department of Trade and Industry.

Table 13. Exports of IT products, by sub-sectors, 1991-1997

Year	% Distribution			
	Semiconductors	Electrical Machinery	Telecommunications/sound & video apparatus	Electronic office and automatic data processing machines
1991	82.7	2.0	10.3	5.0
1992	79.0	2.4	11.1	7.5
1993	79.7	2.9	11.0	6.4
1994	81.3	3.7	10.0	5.0
1995	83.4	3.0	7.6	6.1
1996	82.2	2.0	7.3	8.5
1997	78.2	1.9	5.7	14.3
Ave. annual growth rate (%) 1991-97	36.6	36.8	24.8	64.3

Source: Bureau of Export Trade Promotion, Department of Trade and Industry.

Imports. Imports of IT products rose to US\$13.2 billion in 1997 from P2.5 billion in 1991. The industry has also been slowly increasing its share to the country's total imports since 1991, except in 1997 when its share declined by 10 percentage point from 1996 (Figure 8).

Like exports, imports of IT products is dominated by semiconductors (Table 14). However, imports of telecommunication equipment and video apparatus, and electronic office and automated data processing machines have been growing the fastest since 1994. This is attributed to the deregulation of the telecommunication industry in 1993. There are no local manufacturers for telecommunication equipment; hence, the heavy dependence of the industry on imports. Imports of telecommunications equipment include switching apparatus, cellphones, telephone sets, fax machine, modem, etc.

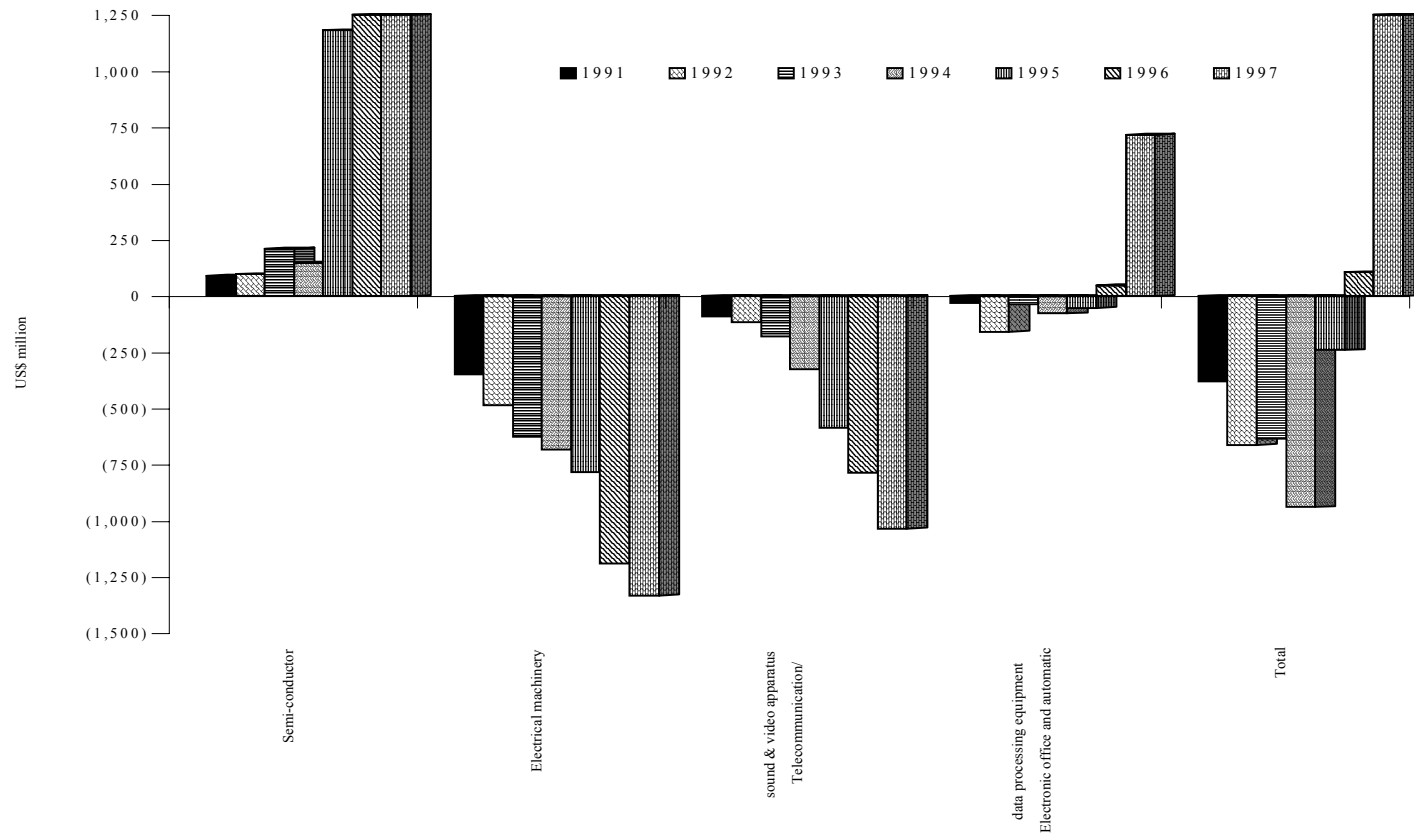
Table 14. Imports of IT products, by sub-sector, 1991-1997.

Year	% Distribution			
	Semiconductors	Electrical Machinery	Telecommunications/ sound & video apparatus	Electronic office and automatic data processing machines
1991	66.7	15.5	12.3	5.5
1992	59.8	16.9	12.4	10.9
1993	61.7	18.2	13.8	6.3
1994	65.0	15.3	14.2	5.6
1995	65.0	13.3	15.1	6.6
1996	63.1	13.7	15.0	8.2
1997	63.3	12.2	14.1	10.5
Ave. annual growth rate (%) 1991-97	30.8	26.6	34.9	47.0

Source: Bureau of Export Trade Promotion, Department of Trade and Industry.

Net trade. The country is a net importer of IT products during the first half of the 1990s but this trend was reversed during the last two years when the industry registered a trade surplus of US\$105.9 million in 1996 and US\$1.5 billion in 1997 (Figure 9). In terms of products, only semiconductors registered an annual trade surplus from 1991 to 1997; electronic office and automatic data processing machines also became a net exporter in 1996 and 1997.

Figure 9. Net trade of information technology products, 1991-1997



Source: Bureau of Export Trade Promotion. Department of Trade and Industry.

Strengths and weaknesses. The IT industry boasts of being the largest foreign exchange earner for the country in the 1990s. The industry's comparative advantage lies in the availability of skilled manpower who can understand and speak English. However, the industry has structural weaknesses that might affect its future growth. The industry is dominated by semiconductor where the local activity is limited with the simplest assembly and testing level. The local content has not been growing and this is becoming a concern since it signifies that the capabilities of the local suppliers (in terms of technological skills and facilities) have not been improving (World Bank, 1997).

Technology advancement in the IT industry is very fast and the limited capabilities of the local industry has constrained the continued transfer of process technologies from the MNCs. Unless the local industry improve on its capability that would enable it to absorb and cope with new and advanced technologies, the long term competitiveness of the industry will be at risk and the country will lose its attractiveness as a supplier base for high technology products.

EVSL Sectors

Value added. Except for fish and fish products and energy, the sectors nominated for EVSL belong to the manufacturing sector. Together, they contributed an average of 22 percent per year to the country's gross domestic product during the period 1990-1995 (Table 15). Among the sectors, food contributed the highest share in manufacturing value added. On the other hand, toys, medical equipment and instruments, gems and jewelry, and civil aircraft contributed less than 1 percent each.

The total value added generated by the sectors grew on the average by 10.3 percent per year during the period 1990-1995. Only fertilizer and oilseeds and oilseed products registered negative growth during the same period.

Employment. The sectors proposed for EVSL contributed about 2 percent per year to the country's total employment between 1990 and 1995 (Table 16). However, the contribution has been on a downtrend. The overvalued exchange rate prior to the crisis has prevented the industries from generating much employment. Nonetheless, while the percentage is small, the number is quite large, about 700 thousand workers. This is the number of workers that might be affected or displaced should the sectors be opened for EVSL.

Labor productivity at constant 1990 prices rose from P311 thousand in 1990 to P341.7 thousand in 1995, or an average annual growth rate of 2.4 percent during the period. All the sectors, except toys, medical equipment, fish and fish products and oilseeds, registered increasing labor productivity (Figure 10). The improvement in labor productivity is one factor that will enable the sectors to withstand competition from a more open trade environment.

Table 15. Share to total value added, by sector, 1990-1995.

Sector	1990	1991	1992	1993	1995
Toy	0.1	0.1	0.1	0.1	0.0
Medical equipment & instruments	0.1	0.2	0.2	0.4	0.3
Gems and jewelry	0.0	0.0	0.1	0.1	0.1
Fish and fish products	2.8	3.1	3.1	2.9	2.2
Forest products	6.1	5.8	5.5	5.6	5.0
Energy	15.8	18.4	18.3	17.6	17.1
Chemicals	7.6	8.0	7.8	8.3	8.1
Natural and synthetic rubber	1.3	1.3	1.3	1.1	1.0
Fertilizer	0.9	0.9	0.8	0.6	0.8
Automotive	3.9	3.2	4.8	5.2	5.8
Oilseeds & oilseed products	2.4	2.1	2.6	1.4	1.7
Civil aircraft	0.0	0.0	0.0	0.0	0.0
Food	46.4	44.3	45.6	44.7	44.9
Total	22.4	22.9	22.6	21.9	20.7

Note: Shares refer to share in manufacturing value added except for the following:

- (1) fish and fish products - share in value added in manufacturing and fishery combined.
- (2) energy - share in total value added of manufacturing, mining and electricity, water & gas.
- (3) total - share in GDP

Source: Philippine Statistical Yearbook, National Statistics Office; Annual Survey of Establishments, National Statistics Office (various years).

Exports. The total value of exports generated by the sectors proposed for EVSL rose from US\$3.8 billion in 1991 to US\$5.1 billion in 1997 or an average growth rate of 2.4 percent per year during the period (Table 17). The sectors contributed an average of 31 percent to the country's total exports, although the share has been declining since 1991 due to the increasing share of IT products in total exports (Table 18). Among the sectors, food contributed the largest share to the country's total exports while toys, civil aircraft and medical equipment and instruments contributed the least.

Most of the sectors registered a positive annual growth of exports during the period 1991-1997, the highest growth rate being registered by the environmental goods and services sector and automotive products (Table 17). On the other hand, exports of gems and jewelry, fish and fish products, fertilizers, food and civil aircraft registered negative growth rates.

Table 16. Share to total Philippine employment, 1990-1995.

Sector	1990	1991	1992	1993	1995
Toy	0.3	0.3	0.4	0.4	0.3
Medical equipment & instrument	0.3	0.3	0.4	0.8	0.8
Gems and jewelry	0.3	0.3	0.4	0.2	0.2
Fish and fish products		4.2	3.9	4.0	4.1
Forest products	11.5	10.4	9.3	8.5	10.4
Energy	8.8	9.0	7.9	8.0	7.6
Chemicals	3.6	3.7	3.5	3.6	3.7
Natural rubber	2.5	2.2	2.4	2.0	1.8
Fertilizer	0.2	0.1	0.2	0.2	0.1
Automotive	1.4	1.4	1.7	1.8	2.0
Oilseeds & oilseed products		0.5	0.5	0.6	0.5
Civil aircraft	0.0	0.0	0.0	0.0	0.0
Food	29.0	28.6	26.7	27.9	27.7
Total EVSL	2.0	2.0	1.8	1.7	1.7

Note: Shares refer to share in manufacturing value added except for the following:

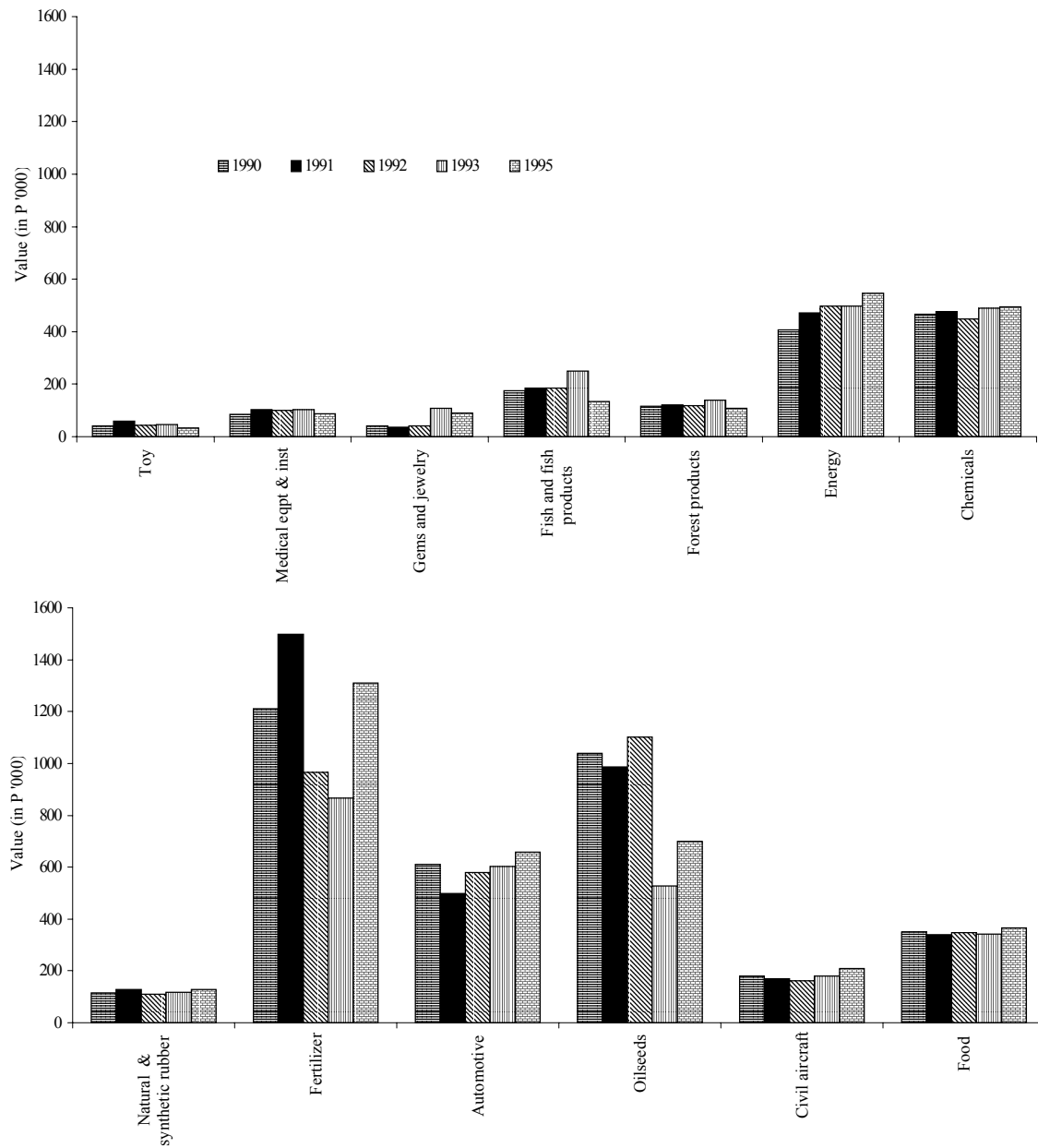
- (1) fish and fish products - share in employment in manufacturing and fishery combined.
- (2) energy - share in total employment of manufacturing, mining and electricity, water & gas.
- (3) total - share in total employment

Source: Philippine Statistical Yearbook, National Statistics Office; Annual Survey of Establishments, National Statistics Office (various years).

Exports of gems and jewelry actually increased between 1991 and 1993. However, exports of the industry has been going down since 1994 because the industry failed to keep up with foreign demand of new trends, designs and materials on costume and imitation jewelry which comprised about three-fourths of the country's exports of gems and jewelry (Quesada, et. al., 1998). On the other hand, the increasing competitiveness of the fish and fish products from Thailand, China and Indonesia is giving the country a tough competition for its exports of fresh and frozen shellfish and prepared and preserved fish. In addition, the country's fishery sector suffered from a significant setback in 1995 due to the outbreak of shrimp disease in the Visayas region (Macam, et. al., 1998a). The increasing competitiveness of the fertilizer industry of South Korea and Mexico is causing the unstable growth of the country's exports of fertilizer to its major markets namely, Thailand, Indonesia and Australia (Macam, et. al., 1998c).

The growth of the exports of toys and oilseed and oilseed products was rather erratic and unstable during the 1990s. The country is losing out to Indonesia for its exports of dolls and with South Korea in the exports of stuffed toys. The country's competitors in toys (which are mostly APEC members) have successfully developed their niche markets by enhancing the competitiveness of their toy industries through improved technology particularly in design and pattern-making. The country, however, has yet to develop its niche market (Austria, 1998).

Figure 10. Labor productivity, 1990-1995 (1990 prices)



Source: Foreign Trade Statistics, National Statistics Office; Annual Survey of Establishments, National Statistics Office (various years).

Table 17. Average annual real growth rate of Philippine exports and imports, by sector, 1991-1997 (1990 prices).

Sector	Exports	Imports
Toy	5.78	37.58
Environmental goods & services	25.27	20.87
Medical equipment & instruments	7.38	23.35
Gems and jewelry	(8.65)	5.31
Fish and fish products	(3.32)	23.51
Forest products	3.70	13.96
Energy	4.38	6.78
Chemicals	1.30	10.35
Natural and synthetic rubber	8.84	22.71
Fertilizer	(9.32)	3.39
Automotive	24.48	17.96
Oilseeds & oilseed products	0.72	8.16
Food	(1.26)	15.90
Civil aircraft	(19.48)	16.92
Total EVSL exports	2.41	12.02

Source: Foreign Trade Statistics, National Statistics Office; Bureau of Export Trade Promotion, Department of Trade and Industry.

Table 18. Share to total Philippine exports, 1991-1997 (percent).

Sector	1991	1992	1993	1994	1995	1996	1997
Toy	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Environmental goods & services	0.04	0.04	0.02	0.03	0.03	0.03	0.06
Medical equipment & instruments	0.06	0.05	0.02	0.02	0.01	0.01	0.04
Gems and jewelry	0.48	0.47	0.44	0.42	0.21	0.14	0.11
Fish and fish products	6.00	3.88	4.09	3.84	2.80	2.04	1.98
Forest products	4.64	4.98	4.60	4.31	3.75	3.31	2.33
Energy	2.63	2.72	1.50	1.20	1.09	1.18	1.38
Chemicals	3.45	2.74	1.52	1.51	1.29	1.09	1.52
Natural and synthetic rubber	0.15	0.09	0.10	0.10	0.16	0.16	0.10
Fertilizer	1.75	1.05	0.85	0.82	0.69	0.56	0.39
Automotive	2.54	3.33	3.62	4.57	3.96	3.82	3.81
Oilseeds & oilseed products	6.85	9.93	3.67	4.05	5.28	3.12	2.89
Food	14.10	11.60	11.80	9.95	7.75	6.84	5.32
Civil aircraft	0.01	0.00	0.00	0.00	0.01	0.00	0.00
Total EVSL exports	42.70	40.90	32.25	30.84	27.05	22.30	19.95

Source: Foreign Trade Statistics, National Statistics Office; Bureau of Export Trade Promotion, Department of Trade and Industry.

On the other hand, the fluctuation in the world price of coconut oil is affecting the country's exports of coconut oil despite the fact that the country is the largest exporter of coconut oil in the world.

Export markets. The APEC region is the country's major export market for most of the sectors proposed for EVSL (Table 19). An exception to this is civil aircraft parts which are exported largely to Europe, particularly Belgium and France, and Africa. The share of the region for most of the sectors, however, has gone down, in 1996 and 1997 compared to the early 1990s. This suggests that these sectors are diverting away from APEC as their export market, probably due to greater competition or increasing non-tariff barriers in the region.

Table 19. Share of APEC to total Philippine exports, by sector, 1991-1997.

Sector	1991	1992	1993	1994	1995	1996	1997
Toy	70.9	77.7	76.9	70.3	67.3	72.1	68.3
Medical equipment	96.2	82.5	70.7	86.5	93.7	98.6	88.5
Gems and jewelry	64.9	48.8	58.3	54.2	57.7	60.4	46.2
Fish and fish products	63.8	81.2	82.1	80.7	85.4	83.2	54.0
Forest products	82.4	61.8	66.1	68.4	69.3	68.3	51.3
Energy	97.9	99.2	97.9	98.0	92.4	92.4	73.5
Chemicals	81.0	88.6	81.2	72.9	59.6	64.0	84.6
Natural and synthetic rubber		99.8	99.9	92.7	93.8	99.6	93.7
Fertilizer	84.0	69.8	65.0	52.9	28.0	30.7	45.5
Automotive	97.0	95.7	96.9	92.7	86.0	83.5	73.6
Oilseeds	93.2	34.6	58.8	55.0	56.1	64.1	56.8
Food	78.9	78.1	77.8	77.7	80.8	80.2	79.2
Civil aircraft	83.4	47.9	17.1	10.5	1.1	18.8	40.7

Source: Foreign Trade Statistics, National Statistics Office.

The Philippines is a very small player in the APEC region, supplying less than 1 percent of the total imports of individual economies of toys, gems and jewelry, chemicals, environmental goods, medical equipment, energy, automotive and automotive parts, civil aircraft parts and natural rubber (Appendix Table 2). The share of the country in Malaysia's imports of natural rubber in 1992 was 15 percent but this went down to only 9 percent in 1995.

While Japan and the US are the country's major markets for its exports of fish and fish products and food, the country is slowly losing its competitiveness as shown by its declining share in the imports of these two countries (Appendix Table 2).

Likewise, the share of the Philippines in its major export markets for fertilizer has been declining. For example, the country supplied one-fourth of Indonesia's imports of fertilizer in 1991 but this went down to 5 percent in 1995. Also, the share of the country in Australia's imports of fertilizer decreased from 4.4

percent in 1991 to 0.7 percent in 1995. As discussed earlier, South Korea and Mexico are becoming the country's emerging competitors in the fertilizer industry in the region. Because of this, the country has shifted to Vietnam, Middle East and Russia for its export of fertilizer. This explains the declining share of APEC in the country's export of fertilizer in the 1990s (Table 19).

However, there are a few commodities in which the country enjoys having the highest share in exports in the region. These include coconuts, bananas and pineapples. Nevertheless, the country has been losing its niche market in some of these products. For example, while the country is the major exporter of coconuts in APEC, it is losing its competitiveness on the product in its major markets like Australia, Canada, Japan and the US, as shown by the declining share of the country in the imports of these countries in the 1990s. Also, the country's share in the imports of Hong Kong and Singapore of bananas and mangoes is going down; the same is true with Japan's imports of Philippine mangoes (Austria and Paracuelles, 1998).

The country has a captive market in oilseeds and oilseed products in the region (Table 20). The country is gaining strength in its exports of the following products: (i) refined coconut oil in Canada where the country's share in Canada's total imports of the product almost doubled between 1994 and 1995; (ii) crude coconut oil in Malaysia where the country's share more than doubled between 1992 and 1995; and (iii) copra meal in South Korea where the country's share also rose from 66 percent in 1992 to 72 percent in 1995. Indonesia continues to source almost 100 percent of its imports of crude coconut oil from the country.

Table 20. Share of Philippines to total imports of oilseed and oilseed products of APEC economies, 1991-1995.

Country	1991	1992	1993	1994	1995
Canada	39.3	46.8	39.7	37.7	71.2
China	-	22.6	1.0	0.9	1.1
Hongkong	-	-	-	9.8	34.5
Indonesia*	45.1	91.2	93.8	99.8	99.8
Japan	33.6	38.1	25.2	31.0	20.8
Korea*	90.6	66.5	91.9	40.5	72.2
Malaysia*	64.3	41.4	58.8	83.0	91.4
Mexico	4.7	-	-	75.2	89.6
Singapore	8.1	43.3	1.5	29.6	25.6
Thailand	90.1	85.2	86.4	81.3	96.8
United States*	51.1	54.0	48.1	45.5	65.9

Note: Those with asterisks are the major markets of the Philippines.

Source: PC/Trade Analysis System, UNCTAD.

The country's coconut oil exports enter the US duty free (Dy, et. al, 1998). However, the share of the country in the US imports of coconut oil has registered

significant fluctuations (Table 20). This could be explained by the presence of substitutes to the country's coconut oil.

Imports. On the other hand, total imports of the sectors proposed for early liberalization comprised about 45-52 percent of the country's total imports and are growing more rapidly than exports (Table 17 and Table 21). The growth in the imports of civil aircraft and parts was due to the deregulation of the civil aviation industry in 1995. Like in telecommunication equipment, the country has no local manufacturer on this industry causing the industry to be largely dependent in imports. Majority of imports of aircraft parts includes aircraft tires, engines and electrical parts.

Table 21. Share to total Philippine imports, by sector, 1991-1997 (percent).

Sector	1991	1992	1993	1994	1995	1996	1997
Toy	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Environmental goods & services	1.0	1.1	2.0	2.1	2.1	2.3	1.2
Medical equipment & instruments	0.5	0.5	0.9	1.1	0.9	1.0	0.7
Gems and jewelry	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fish and fish products	0.7	0.8	1.6	0.6	1.0	0.6	1.1
Forest products	2.2	1.9	2.1	2.3	2.8	2.7	2.0
Energy	14.8	14.1	17.8	15.2	14.0	14.1	8.6
Chemicals	11.0	10.2	14.6	14.9	13.6	12.0	7.8
Natural and synthetic rubber*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fertilizer	1.2	1.3	1.0	1.1	1.1	0.9	0.6
Automotive	3.7	3.8	4.5	4.8	5.3	5.5	4.1
Oilseeds and oilseed products	1.3	1.3	1.4	1.0	0.9	0.6	0.9
Food	6.7	7.0	6.6	6.5	7.2	7.1	6.1
Civil aircraft	2.0	1.9	3.5	1.0	2.7	4.3	2.0
Total EVSL exports	45.1	44.1	56.1	50.6	51.7	51.4	35.1

* - Share is less than 0.1 percent.

Source: Foreign Trade Statistics, National Statistics Office; Bureau of Export Trade Promotion, Department of Trade and Industry.

The automotive industry is also largely import dependent, despite the 45 percent local content requirement. Since the local content requirement includes the cost of assembly, it is hardly a significant factor in the computation of value added (Romea and Carandang, 1998). Imports of motor car and other vehicles for the transport of persons accounted for a big portion of the industry's imports. This is followed by parts and accessories such as engines, chassis, transmission, panels, fuel tanks, axles, head lights, break pads, and dashboards.

Import of rubber is basically synthetic rubber since there are no local manufacturers of synthetic rubber (Macam, et. al., 1998d). About 70 percent of the

imports of fish and fish products industry is fish meal; and 80 percent of the imports of oilseeds and oilseed products is soybean meal. Both products are important ingredients in the manufacture of animal feeds (Macam, et. al. 1998a; Dy, et. al, 1998).

The rapid increase in the imports of food is due to the dismal performance of the food and agriculture sector in providing food not only for direct consumption but also as raw materials for the food processing industries (Austria and Paracuelles, 1998). The adverse effects of El Nino on agricultural production will further increase the imports of foods for the next few years.

About 42-47 percent of the imports of fertilizer is urea (Macam, et. al., 1998c). Again, there are no local industries producing this type of fertilizer. The bulk of energy imports include crude petroleum, petroleum products, coal and petroleum oils. On the other hand, the country's major imports of toys belong to the high-end and high-technology type of toys such as video games and other disc-operated machine games (Austria, 1998). However, the non-enforcement of toy standards makes the country a dumping ground for cheap low quality unsafe toys. This trading practice creates unnecessary competition in the local market to the detriment of the local toy producers.

Sources of imports. Just like in exports, the APEC region is the major source of the country's imports, except for energy which is imported largely from the Middle East. (Table 22).

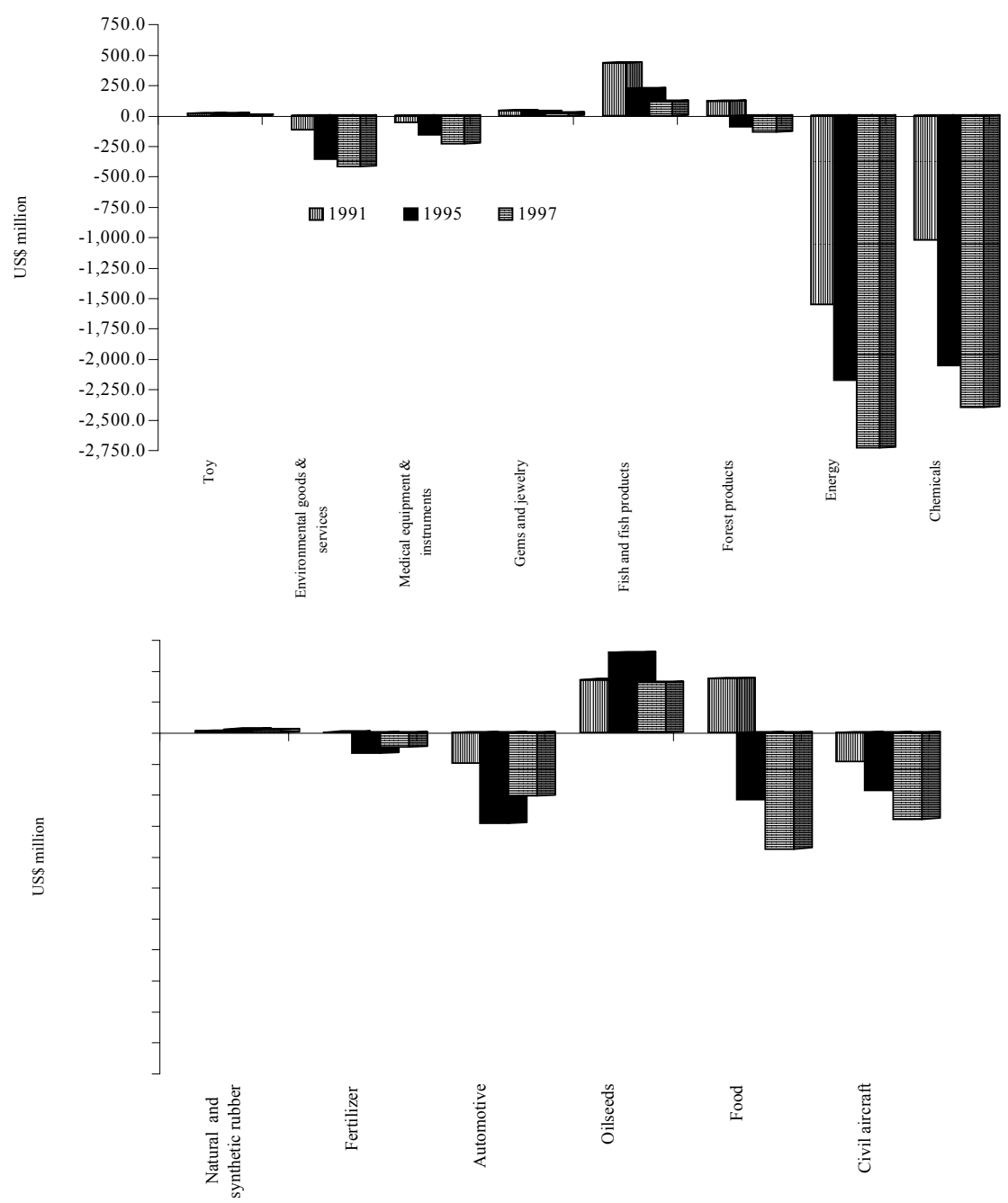
Table 22. Share of APEC to total Philippine imports, by sector, 1992-1997 (percent) .

Sector	1992	1993	1994	1995	1996	1997
Toy	98.6	95.9	95.2	96.6	94.9	94.7
Medical equipment & instruments	75.4	84.4	73.1	76.7	84.1	81.7
Gems and jewelry	57.5	66.4	84.7	80.6	88.1	56.1
Fish and fish products	81.2	82.1	80.7	85.4	83.2	89.2
Forest products	62.3	72.7	67.3	80.6	81.9	79.4
Energy	27.8	34.7	36.8	19.1	20.5	22.0
Chemicals	74.6	68.8	67.9	68.4	66.1	72.2
Natural and synthetic rubber	80.4	80.5	81.4	78.3	82.2	81.9
Fertilizer	43.7	56.2	51.9	56.6	53.7	41.0
Automotive	91.9	93.8	89.7	88.0	85.1	95.6
Oilseeds & oilseed products	54.1	60.0	65.1	77.6	65.9	52.8
Food	69.2	74.3	73.5	73.7	67.8	72.4
Civil aircraft	64.4	79.7	67.0	64.1	81.8	20.2

Source: Foreign Trade Statistics, National Statistics Office.

Net trade. The country is a net importer in most of the sectors proposed for EVSL and the net trade position has worsened between 1991 and 1996 (Figure 11). The currency crisis in 1997 provided a relief as shown by the decrease in trade deficit. The sectors that registered trade surpluses are toys, gems and jewelry, fish and fish products, natural and synthetic rubber and oilseeds and oilseed products. Nevertheless, the net trade position of these sectors is weakening.

Figure 11. Net trade, by sector, 1991, 1995 and 1997 (US\$ million)



Source: Foreign Trade Statistics, National Statistics Office; Bureau of Export Trade Promotion, Department of Trade and Industry.

Strengths and weaknesses. The strengths, problems, opportunities and threats confronting the sectors proposed for early liberalization are outlined in detail in Appendix Table 3. As a summary, the comparative advantage of the sectors lies in the abundant resources of the country, proximity of the country to its export markets and availability of skilled manpower who are very creative and can speak and understand English. High power rates, the credit crunch and lack of infrastructure are also major concerns affecting the competitiveness of the sectors. The unavailability of testing centers and facilities to certify standards is increasingly becoming a major constraint for exporters.

Some of the problems of the sectors are external to the country and hence, can only be addressed in international fora and bodies, like APEC. Foremost of these are the technical barriers to trade like sanitary and phyto-sanitary standards that limits market access of exporters.

Strategies on how to address the concerns of the sectors are discussed later.

Potential Gains from the Emerging Trade Environment

Under the WTO, the Philippines will benefit from the enhanced export opportunities because of the tariff reductions of its trading partners. Also, because the tariff concessions are bound MFN, the country will benefit for the security and predictability of these tariff concessions.

CEPT will affect individual industries depending on their competitiveness, current EPR and whether the Philippines is a net exporter or importer of the commodity. The study by Pineda (1997) shows that the largest *gainers from CEPT* include those commodities where the country is a net exporter to ASEAN. The CEPT tariff reductions will increase the Philippine price competitiveness in these markets and hence, will increase the demand for Philippine exports of these products. The top commodities in this category include semi-conductor devices, fertilizers, motor vehicles parts and accessories, vegetable fats and oils, and copper.

Some industries, however, are *not vulnerable to ASEAN competition* even if the country is a net importer from both the ASEAN and the world because either they are competitive or because their EPRs are higher or the same under CEPT. The former group of commodities includes food manufacturing, paper and printing, chemicals, fabricated metal products and electrical machinery. The latter group includes non-electrical machinery and transport equipment.

Nonetheless, some industries could be *adversely affected by ASEAN competition* because they are uncompetitive, their EPRs are significantly reduced by CEPT and the proportion of ASEAN imports is high. These industries include hardboard and particleboard, glass containers, non-metallic products and general hardware.

The emerging trade environment opens new opportunities which the local industries should take advantage of. These include the following:

- *Expansion of and better access to international markets.* The elimination of tariff and non-tariff barriers would provide the country's manufacturers and exporters better access to international markets and hence, expand the market for the country's exports. There is a huge market potential in the APEC region. The country's less than 1 percent share in the imports of APEC economies in most of the sectors proposed for EVSL (Appendix Table 2) shows that the country has not really tapped the APEC markets. The same is true with AFTA judging from the less than 5 percent share of the country in total CEPT export (Table 10).

Our exporters should turn the situation as an opportunity (rather than a threat) for them to improve and/or develop new products in order to increase their shares of the market.

Likewise, as tariffs are removed in the country's export markets, Philippine products become more price competitive.

- *Greater efficiency in production.* The influx of imported products creates greater competition in the local market forcing companies to be more efficient and innovative. Only the efficient industries can survive with the stiff competition accompanying a more open trading environment.
- *Cheaper inputs to domestic firms.* Cheaper imports could lead to lower domestic cost if these are used as raw materials by local industries. This is particularly true for IT products which are highly dependent on imports for their raw materials. A decline in domestic cost will in turn increase the price competitiveness of our exports of IT products.
- *Encourages product innovation and adoption of new technology.* Greater competition arising from greater imports encourages firms to be innovative and adopt new technology. The latter could result from the firms' own investment in research and development activities or partnership with multinational companies
- *Wider choices of products.* Local consumers will now enjoy wider choices of high quality products at lower prices and hence, lead to improved consumer welfare.

On telecommunications MRA, given that the country does not have a local manufacturing industry for telecommunication equipment and given also that the existing regulatory requirements related to testing and certification hamper the flow of trade in telecommunication equipment, the MRA would be beneficial to the country. Since under the MRA, local carriers no longer have to conduct their own tests on the equipment they are importing, their resources are freed and can therefore be reallocated to better use (Chua, 1998)

Business Sector Action Agenda

How can the business sector realize the potential gains? The emerging trading environment has created a window for the country's local industries and exporters to make the necessary adjustments to increase their competitiveness. Industries have to

unlearn the tenets of protectionism that they have coddled for many years. The strategy is to reshape to be able to compete.

The following are suggested strategies for the business sector to adopt:

- *Develop niche markets.* The international and domestic markets for the rest of the 1990s and the next millenium would be characterized by the presence of differentiated products, each catering to specific consumer groups with specific consumer tastes and lifestyle. Because of the advancement in technology, new products will emerge in the market. Likewise, the proliferation of labor intensive products from China is posing a threat to local producers. Market niching is therefore the strategy to be assured of a share of the growing competitive market. Developing niche markets, however, requires comprehensive industry study and industry plan mapping out in detail the development path an industry would like to follow.

For IT products, the developed economies will continue to dominate the production of high technology products where their comparative advantage lies. The Philippines, on the other hand, can continue specializing on being the major platform of US-Japan networks on skill-intensive IT products because of the availability of its skilled manpower.

- *Increase in the local content of exports.* Industries should be encouraged to increase their use of local inputs to lessen their vulnerability to fluctuations in the exchange rate. This would also create backward and forward linkages in the economy which in turn could create more employment opportunities.
- *Intensive marketing promotion through the information highway.* The advancement in information technology which makes virtual and electronic shopping possible adds competition in the already competitive market. In addition to direct marketing strategies, maintaining a web site or homepage in the Internet detailing product description and specification becomes necessary to make marketing promotion effective in attracting global consumers. Industries should also continuously gather market intelligence on the export front to remain updated on consumer demands, new markets and new competitors.
- *Adopt certification of standards.* Domestic manufacturers must begin to adopt and internalize quality and environmental standards and their relevant tools such as hazard analysis and critical control point (HACCP) and good manufacturing practice (GMP). Without this, industries are in danger of losing their markets. The certification would increase the confidence of importers that the exported products meet international quality and environmental standards and hence, reduce the probability of a product being reduced at the border.

Industries, in partnership with the government, should therefore invest in testing facilities for ISO 9000 and ISO 14000 in order to meet the quality and environmental standard requirements and their conformity acceptance.

- *Partnership with multinational corporations.* The best way of transferring technology is to forge partnership with multinational corporations (MNCs). This

strategy will modernize production and improve productivity. This is especially true for IT products where their development can come about *only* by partnership with MNCs who have the edge in technology development because of their heavy investment in R&D.

- *Build innovative capabilities through increased investment in research and development activities.* Maintaining a competitive edge in the market is a strategy in itself. The best way of doing this is by investing in research and development activities particularly on cost-reducing production technologies and in discovering new products.
- *Product innovation and packaging.* Design and packaging play a crucial role in enhancing the competitiveness of a product.

Government Action Agenda

The government has two-pronged agenda to enhance the capabilities of local industries to meet head on the competition and opportunities arising from the new trading environment. These are: (1) programs and strategies that the government should put forward in regional and multilateral trading arrangements in order to advance the country's own interests; and (2) domestic programs.

(i) Programs the government should advance in trading arrangements

The government should use the EVSL initiative to prepare and position the sectors for their eventual liberalization in the future. The benefits that the country can get from EVSL depends on its success in pushing for the following issues:

- *Elimination of production and export subsidies by the developed member economies of APEC.* Since the tariff rates of the developed member economies of APEC are already low for most of the sectors proposed for EVSL, there is nothing more to gain from further tariff reductions. The government should therefore use the EVSL process to force the developed economies to eliminate their production and export subsidies and other domestic support to their local producers. If this is achieved, EVSL will make it possible for the country to have greater access to the markets of the developed economies. This is particularly true for the food sector, fish and fish products, and oilseeds and oilseed products.
- *Facilitation measures, particularly the harmonization of sanitary and phyto-sanitary standards and other importing country regulations* – Many developed member economies, like the US and Australia, impose quality standards which most exporters such as developing economies, including the Philippines, find difficult to meet. Standards are necessary to safeguard consumer health and safety and to protect the environment. However, the diverse standards and technical regulations among APEC economies along with the corresponding testing procedures for compliance limits market access by raising production and testing costs. It also increases the possibility of products being rejected at the

custom border of the importing country. The harmonization of standards and regulations will lead to an expansion of and better access to markets in APEC.

- *Economic and technical cooperation measures* – To make the EVSL package beneficial to all participating economies, the government should push for the implementation of economic and technical cooperation measures in APEC that will build the capacities of developing economies thereby, enhancing their competitiveness. These ecotech measures include the following:
 - (i) Technical assistance from developed economies to Philippine companies on setting up their HACCP and ISO accreditation and facilities
 - (ii) Conduct of training programs of manpower for standard testing and implementation
 - (iii) Technology transfer and exchange on product design and development, pollution control, waste management and the upgrading of production technology
 - (iv) Technical assistance from developed economies on the establishment of a virtual custom administration
 - (v) Development of a comprehensive APEC database on industries of utmost importance to APEC member economies. Such database should contain the following:
 - Detailed character and demands of APEC consumers so as to tailor products to the tastes and needs of targeted markets;
 - Business practices, customs, patterns of behavior in APEC economies; and
 - Preferred distribution system, i.e. wholesalers, traders, general or specialized trading companies

(ii) Domestic Government Policies and Programs

There is no substitute to a sound macroeconomic environment in making business favorable as the experience of the country during the Ramos administration has shown. While we cannot underestimate the dangers and economic costs of the present financial crisis as domestic demand is slowed creating greater pressure on employment, it would be to the country's advantage to abide by its earlier trade liberalization commitments. Not doing so would send wrong signal to the international community and this might erode the gains already achieved during the past administration in projecting the country's image as a profitable investment site in the region.

Now is even the appropriate time for the government to exercise concerted efforts on liberalization and consolidate the reforms. This would mean eliminating

the remaining rigidities (e.g. subsidies in agriculture) which have been preventing the domestic economy from making adjustments to make it more competitive.

Since the Philippine peso depreciated the least from the ongoing currency crisis in the region, measures have to be taken to make the country's exports compete against neighbors with weaker currencies. One way of doing this is to ensure that the devaluation is maintained in real terms and does not get dissipated in the form of higher inflation and wages.

To the extent that the trade reforms have lessened domestic market distortions, the role of the investment incentive structure should be to promote exports on externality grounds. This implies that the target areas and industries for inclusion in the investment priorities plan should be well-studied and well-defined to include only those that are guaranteed to export winners.

The government should also implement domestic programs to enhance the competitiveness of industries, in addition to the ecotech programs that the government can advance to APEC. The timing of the implementation of domestic programs and other reforms should be tied with the pace of liberalization in order to create an environment where industries are better prepared to compete. Some of the domestic programs in fact need to be in place before industries can compete and before the government can take part in some of the facilitation and ecotech measures of APEC.

These programs include the following:

- *Export finance and credit facilities* – As discussed earlier, the credit crunch has slowed business activities, especially for the small and medium enterprises, preventing exporters from meeting their export orders. The government should rebuild the capital base of the banking system and give especial credit facilities (through the development banks - PNB, DBP and Land Bank) and rediscounting windows for the SMEs. Likewise, PhilExport should give accreditation to importers to facilitate the availment of credit facilities by the latter. These facilities should be made available within the next six months.
- *Maintain lower interest rate to spur economic activity* - While interest rate has gone down from its peak at the height of the crisis, it is still high compared to its level before the crisis.
- *Removal of cross subsidies for power* - Power rates in the country are one of the highest in the region and this lessens the competitiveness of industries, especially power-intensive industries. This is attributed to the cross subsidies and distribution losses in the power sector, both of which translate to high power cost. The removal of cross subsidies and improvement in the technical efficiency of distribution lines will ultimately result to lower power rates
- *Wage-setting based on productivity* - Wage adjustments should be based on productivity performance rather than on mandated legislated wages. A mechanism for a stronger linkage between labor productivity improvements and wage adjustment should be institutionalized.

- *Study on non-tariff barriers* - With the reduction in tariff, quality and environmental standards and other technical measures have increasingly become barriers to the country's exports. A study should be undertaken to identify the non-tariff barriers that exporters have been facing and the strategies on how to overcome them.
- *Technological and skills upgrading* - As discussed earlier, the competitiveness of the IT industry will be at risk unless the capability of the industry is advanced enough to meet new production technologies. The government in tandem with the private sector should take a pro-active stance in investing in technological and skills upgrading that would meet the future requirements of the global network of IT manufacturers.

Industry associations should coordinate with government agencies like DTI and TESDA on their training needs.

- *Investment in vocational and technical education.* While the country has a relatively high literacy rate compared to other Asian countries, the country's educational system puts greater emphasis on general education as opposed to vocational and technical education. What is important, however, is an educational level that is high and with the correct mixture of skills. The government should therefore increase investment in the provision of specialized technical skills and to encourage demand for vocational and technical trainings.
- *Infrastructure for conformity assessment.* Mutual recognition agreements (MRA) require participating economies to have the infrastructure for conformity assessment of telecommunication equipment. Economies that lack this infrastructure will not be able to provide the reciprocity needed for it to obtain the full benefit of the MRA.

Such infrastructure is also needed for the certification of quality standards (ISO 9000) and environmental standards (ISO 14000) and conformance acceptance.

- *Development and/or strict enforcement of standards.* The country has yet to develop its standards on toys, telecommunication equipment, gems and jewelry, food, medical instruments, etc. Other economies cannot mutually agree on our standards if there are no standards to agree with in the first place.

In addition, the non-enforcement of standards can make the country an accessible site for dumping of inferior products. Dumping creates unnecessary competition in the local market to the detriment of local producers. Also, low quality standards pose hazards to the health of local consumers.

- *Establishment of customs green lane or virtual custom administration.* The unwarranted delays in SGS processing of shipments add cost to production as operational losses are incurred, especially for products of short shelf life. Streamlining customs procedures will therefore benefit of importers and exporters.

- *Investment in infrastructure facilities* - In this age of advanced information technology, telecommunication infrastructure plays a crucial role in doing business. The inadequate telecommunication infrastructure in the country has hampered the ability of the country to attract foreign companies in the IT industry.

Moreover, the lack of infrastructure facilities such as farm-to-market roads, port facilities, post harvest facilities and the like cause delay in the delivery of goods and commodities thereby causing additional cost to producers. The government should tap the *Competitive Enhancement Fund (CEF)* to finance the construction of these infrastructure facilities.

- *Incentive for intensive investment in R& D Activities.* The government should aim for the development of well-developed R&D institutions. The implementation of this program should be coupled with the strict implementation of intellectual property rights to encourage industries to invest in R&D.
- *Intensive investment and marketing promotion abroad.* The government should establish trade missions abroad and assist industries participating in foreign trade fairs. The assistance could come in two forms: (1) financial assistance as the cost of participation in foreign trade fairs is very high; and (2) information gathering on market preferences before the conduct of trade fairs to enable the participants to bring the appropriate materials/products for display or exhibit.

Concluding Remarks

The current globalization will continue to reshape the corporate landscape of the world economy in the next millenium. As the country is rapidly being integrated with the global community through its commitments in multilateral and regional trading arrangements, domestic producers are faced with greater competition. Nonetheless, this should not be considered as a threat to the economy but should be welcomed as an opportunity to enhance the country's competitiveness and reap the benefits of globalization. The increase in the productivity performance of the sectors proposed for early voluntary sectoral liberalization is in fact an indication that these sectors can face greater competition.

The current crisis provides an avenue for the government to consolidate its efforts at removing the remaining distortions that have been preventing its adjustment to a globally competitive environment. Both the government and the business sector have the responsibility to implement an action agenda that will create an environment where industries are able to march forward and compete.

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Appendix Table 1. Projected CEPT rates, by major commodity group, Philippines 1996 - 2003

HS	Commodity	No. of tariff lines	1996	1997	1998	1999	2000	2001	2002	2003
1-5	Live animals	121	12.2	11.7	7.8	7.1	6.8	6.5	5.4	3.8
6-14	Vegetable products	166	12.2	11.5	8.5	7.6	5.4	4.4	4.3	3.5
15	Fats and oils	32	13.0	12.1	6.2	5.4	3.9	3.9	3.7	3.2
16-24	Prepared foodstuffs	130	15.4	14.0	12.1	9.3	8.4	6.9	5.5	4.0
25-27	Mineral products	144	4.2	4.1	3.7	3.7	3.0	3.0	3.0	3.0
28-38	Chemicals	778	5.2	5.0	4.0	3.8	3.3	3.3	3.2	3.1
39-40	Plastics	197	9.9	8.9	8.0	7.3	4.8	4.6	4.1	3.9
41-43	Hides and leathers	82	15.4	12.6	10.7	9.2	6.3	5.1	5.1	3.6
44-46	Wood and wood articles	77	13.0	12.3	9.7	8.1	6.4	5.4	4.7	3.9
47-49	Pulp and paper	116	8.8	8.7	6.3	5.8	4.4	4.1	3.8	3.6
50-63	Textile and apparel	613	14.8	10.9	10.5	9.6	7.1	7.0	7.0	4.3
64-67	Footware	36	15.6	14.7	13.4	10.0	9.4	8.1	8.1	4.4
68-70	Stone/cement/ceramics	128	13.5	12.1	10.1	8.0	6.5	6.0	5.6	4.2
71	Gems	56	6.6	6.6	6.3	6.1	6.1	4.6	4.6	3.5
72-83	Base metals and metal articles	675	10.6	10.3	7.7	6.7	5.4	4.6	4.4	3.8
84-85	Machinery & electrical appliances	848	6.2	5.9	5.4	4.9	4.2	4.0	3.7	3.5
86-89	Vehicles	101	5.4	5.1	4.8	4.4	4.0	3.8	3.5	3.3
90-92	Optical, precision & musical instruments	242	8.0	7.0	5.9	4.9	3.8	3.8	3.8	3.5
93	Arms	2	9.0	9.0	9.0	6.5	6.5	6.5	4.0	4.0
94	Miscellaneous manufactured articles	143	14.9	14.2	11.8	9.8	8.0	7.4	5.4	4.6
97-98	Antiques and work of arts	7	20.0	17.1	14.3	11.4	7.9	7.1	7.1	5.0

Source: APEC Secretariat, 1996.

Appendix Table 2. Share of Philippines to total imports of APEC economies, by sector, 1991-1995

Sector/Market	1991	1992	1993	1994	1995
Toy					
Australia	1.04	0.80	1.10	0.93	0.69
Canada	0.44	0.48	0.56	0.71	0.64
Chile				0.01	0.09
China			0.00		0.09
Hongkong		0.04	0.03	0.05	0.05
Indonesia					
Japan*	0.45	0.53	0.51	0.50	0.58
Korea	0.04	0.13	0.42	0.24	0.32
Malaysia	0.23	0.20	0.33	0.32	0.13
Mexico	0.04	0.02	0.05	0.33	0.16
New Zealand	0.61	0.53	0.60	0.88	0.92
Singapore	0.30	0.27	0.35	0.37	0.36
Thailand	0.89	0.78	0.52	0.60	0.55
USA*	0.92	0.97	1.04	1.06	0.88
Environmental goods					
Australia	0.02	0.02	0.05	0.04	0.04
Canada	0.36	0.55	0.93	0.93	1.56
China		0.02	0.01	0.07	0.01
Hongkong		0.53	0.25	0.40	0.43
Indonesia	0.24	0.28	0.23	0.44	0.99
Japan	0.11	0.02	0.05	0.20	0.29
Korea	0.00	0.00	0.01	0.01	0.02
Malaysia	0.09	0.17	0.13	0.25	0.38
Singapore	0.51	0.52	1.21	0.62	0.77
Chinese Taipei					
Thailand	0.13	0.19	0.82	0.10	0.08
United States	0.30	0.24	0.45	0.74	1.83
Medical equipment & instruments					
Australia	0.07	0.10	0.11	0.17	0.28
China			0.02	0.07	0.02
Hongkong	0.05	0.06	0.04	0.12	0.14
Indonesia					
Japan	0.02	0.07	0.17	0.15	0.34
Korea	0.06	0.02	0.16	0.16	0.07
Malaysia	0.32	0.31	0.17	0.04	0.03
Singapore	0.02	0.05	0.06	1.39	0.43
Thailand	0.90	1.32	1.72	0.07	0.03
United States	0.66	1.21	1.27	1.12	0.91
Gems & jewelry					
Australia	0.05	0.40	0.07	0.15	0.04
Canada	2.21	1.74	1.93	2.01	1.19
Hongkong*	-	3.91	1.20	0.11	0.08
Indonesia					
Japan*	0.69	0.19	0.70	0.29	0.31
Korea	2.08	0.28	0.37	0.98	0.35
Malaysia	1.08	0.02	0.00	0.01	0.01
Mexico	0.23	-	0.00	0.32	0.29
New Zealand	3.45	3.51	3.84	3.31	2.86
Singapore	0.17	0.32	2.10	4.90	9.59
Thailand	24.37	15.92	-	-	-

Appendix Table 2. Share of Philippines to total imports of APEC economies, by sector, 1991-1995

Sector/Market	1991	1992	1993	1994	1995
USA*	0.24	0.27	0.24	0.20	0.11
Fish & fish products					
Australia	1.35	0.74	0.36	0.72	0.88
Canada	3.06	3.07	2.57	1.81	2.47
China	-	0.57	0.56	0.63	0.26
Hongkong	-	1.43	1.76	2.06	1.85
Japan*	3.38	2.73	2.70	2.47	2.14
Korea	1.14	1.62	1.46	2.58	2.77
Malaysia	1.74	1.22	3.17	2.77	0.57
Mexico	0.00	0.00	0.10	7.79	1.72
Singapore	0.57	0.40	0.37	0.56	0.62
Thailand	0.03	0.16	0.07	0.50	0.92
USA*	2.02	1.94	1.76	1.63	1.83
Forest products					
Australia	2.95	2.98	2.55	2.55	2.45
Canada	0.56	0.51	0.35	0.33	0.34
Chile	0.73	2.01	2.93	3.67	3.41
China		0.15	0.10	0.21	0.51
Hongkong		0.20	0.25	0.30	0.10
Indonesia	0.70	0.22	1.54	1.37	2.93
Japan	1.03	1.01	0.89	0.81	0.79
Korea	0.75	0.79	0.64	0.80	1.59
Malaysia	3.42	4.33	4.44	2.77	1.30
Mexico	0.76	0.20	0.15		0.23
New Zealand	2.75	2.57	2.14	1.66	1.64
Singapore	2.14	1.39	0.45	0.65	0.41
Thailand	0.04	0.56	0.32	0.18	0.07
United States	1.78	1.61	1.36	1.28	1.34
Energy					
Australia	0.21	-	-	0.10	-
China		0.66	1.26	3.68	2.23
Hongkong		1.93	1.45	0.49	0.37
Indonesia	0.01	-	0.27	0.01	0.02
Japan	0.18	0.20	0.17	0.12	0.14
Korea	0.28	0.31	0.20	0.22	0.04
Malaysia	0.21	0.34	0.19	0.26	0.41
Singapore	0.05	0.17	0.16	0.10	0.16
Thailand	0.03	0.02	-	-	0.03
United States	0.36	0.25	0.11	0.01	0.24
Chemicals					
Australia	0.26	0.21	0.19	0.20	0.22
Canada	0.01	0.01	0.00	0.01	0.01
Chile	0.00	0.00	0.01	0.00	0.01
China		0.41	0.24	0.06	0.05
Hongkong		0.35	0.28	0.25	0.31
Indonesia	1.83	0.55	0.34	0.20	0.27
Japan	0.20	0.23	0.21	0.19	0.18
Korea	0.14	0.08	0.07	0.09	0.06
Malaysia	0.23	0.17	0.16	0.17	0.15
Mexico	0.02	0.01	0.00	0.00	0.01
New Zealand	0.11	0.12	0.18	0.13	0.15

Appendix Table 2. Share of Philippines to total imports of APEC economies, by sector, 1991-1995

Sector/Market	1991	1992	1993	1994	1995
Singapore	0.19	0.20	0.17	0.12	0.10
Thailand	1.19	0.95	1.03	0.86	0.41
United States	0.11	0.11	0.10	0.09	0.10
Natural & synthetic rubber					
China*		0.03	0.19	0.19	0.47
Hongkong*				0.50	1.29
Indonesia				0.19	0.10
Korea	0.68	0.10	0.07	0.12	0.56
Malaysia*	9.39	14.90	16.01	6.64	8.55
Singapore*	0.15	0.36	0.47	0.30	2.29
United States	0.47	0.41	0.26	0.17	0.02
Fertilizer					
Australia*	4.36	1.27	1.58	0.88	0.71
Hongkong			15.40	1.41	
Indonesia*	24.91	11.92	13.91	6.17	4.82
Japan	0.45	0.20	0.32	0.18	0.27
Korea	2.85	3.70			0.01
Malaysia	2.23	1.57	1.94	0.22	0.22
New Zealand	3.05	2.91	8.97	2.74	
Singapore	0.28				5.06
Thailand*	9.66	7.42	8.09	8.01	0.02
United States	0.72	0.59	0.30	0.21	0.34
Automotive					
Australia	0.81	1.21	1.14	0.74	0.67
Canada	0.06	0.06	0.06	0.06	0.07
Chile	-	0.26	1.70	2.66	2.43
China	-	0.01	0.06	0.03	0.02
Hongkong	-	0.10	0.20	0.17	0.41
Indonesia	0.06	0.02	0.17	0.30	0.30
Japan	1.15	1.57	1.84	1.45	1.39
Korea	0.10	0.31	1.10	0.81	0.70
Malaysia	0.15	0.14	0.86	0.83	0.94
Mexico	0.09	0.05	0.03	0.09	0.03
New Zealand	0.89	1.11	1.11	0.74	0.68
Singapore	0.18	0.24	0.59	0.62	0.36
Thailand*	0.44	0.43	0.88	1.10	1.15
USA	0.89	1.00	1.09	1.08	1.25
Oilseed & oilseed products					
Canada	39.30	46.77	39.71	37.66	71.15
China	-	22.63	0.96	0.95	1.12
Hongkong	-	-	-	9.83	34.51
Indonesia*	45.06	91.15	93.80	99.79	99.76
Japan	33.58	38.07	25.24	30.96	20.76
Korea*	90.60	66.49	91.86	40.45	72.17
Malaysia*	64.27	41.37	58.83	82.96	91.36
Mexico	4.73	-	-	75.16	89.58
Singapore	8.14	43.32	1.53	29.56	25.63
Thailand	90.07	85.25	86.43	81.34	96.84
United States*	51.10	53.98	48.07	45.47	65.92

Food

Appendix Table 2. Share of Philippines to total imports of APEC economies, by sector, 1991-1995

Sector/Market	1991	1992	1993	1994	1995
Australia	0.83	0.80	0.79	0.62	0.63
Canada	0.45	0.43	0.39	0.32	0.37
Chile	0.08	0.18	0.05	0.09	0.11
China	-	0.38	0.77	0.45	0.51
Hongkong	-	1.15	1.28	1.16	1.31
Indonesia	0.54	0.79	0.38	0.40	0.38
Japan*	2.21	2.01	2.05	1.69	1.52
Korea	2.93	1.67	2.01	2.14	2.02
Malaysia	0.25	0.24	0.61	0.38	0.41
Mexico	0.00	-	0.00	0.10	0.08
New Zealand	0.65	0.68	0.73	1.38	1.64
Singapore	0.51	0.46	0.64	0.75	0.77
Thailand	0.09	0.13	0.14	0.34	0.42
USA*	1.55	1.50	1.35	1.14	1.19
Civil aircraft					
Australia	0.01	0.01	0.03	0.06	0.01
Hongkong	-	0.07	0.31	0.16	0.09
Korea	-	0.02	-	-	-
New Zealand					
Singapore	0.03	0.34	0.07	0.14	0.14
USA	0.03	0.04	0.04	0.05	0.04

Note: Those with asterisks are the major export markets of the Philippines.

Source: PC/TAS, UNCTAD.

Appendix Table 3. Strengths, weaknesses, opportunities and threats, by sector

Strengths	Weaknesses	Opportunities	Threats
Toys			
<ol style="list-style-type: none"> 1. Labor force ability to understand and speak English 2. Appreciation of Western culture as to understand fashion/toy characters 3. Creativity of Filipinos 4. Ability of exporters to meet their markets' standards 	<ol style="list-style-type: none"> 1. Unstable labor situation and high labor cost 2. Inadequate raw materials 3. Limited counter sample making ability 4. Inadequate funding and interest rate 5. Inadequate marketing promotion 6. Non-enforcement of standards 	<ol style="list-style-type: none"> 1. Firms engaged in the manufacture of raw materials such as plush, stuffing materials and accessories used by the industry are encouraged to invest in the country to strengthen backward linkages 	<ol style="list-style-type: none"> 1. Smuggling of cheap, low quality toys
Gems and jewelry			
<ol style="list-style-type: none"> 1. A ready manpower pool that is skilled, trainable, cheap and creative 2. Availability of raw materials such as gold, silver and pearls 3. Long industry experience 4. World class craftsmanship 5. Active trade associations 	<ol style="list-style-type: none"> 1. Largely underground operations 2. Domestic market orientation 3. Outdated technology 4. Lack of familiarity with international product standards 5. Absence of an assay, appraisal and hall marking system 6. Lack of aggressive marketing promotion 7. Dependence on imported supply of diamonds and precious stones 	<ol style="list-style-type: none"> 1. A relatively stable US market, the traditional Philippine market 2. Proximity to Japan and Hong Kong, the potential markets 3. Growing primary and secondary markets in the country due to rise in disposable income 	<ol style="list-style-type: none"> 1. Burdensome government policies and regulations forcing many firms to remain informal 2. Limited access to BSP gold 3. Rising labor costs compared to potential competitors like China and Vietnam
Fish and fish products			
<ol style="list-style-type: none"> 1. Abundant water resources 2. Skilled workforce for fish processing and canning 3. Proximity to major Asian markets for fresh frozen and chilled marine products 	<ol style="list-style-type: none"> 1. Use of conventional methods, especially in quality control 2. High cost of feeds, feed ingredients and packaging materials 3. Inadequate infrastructure like wharves and ports 4. Inadequate post-harvest facilities like cold storage and conveyors 5. Old, poorly maintained fishing vessels and equipment 6. Problematic distributions or marketing system. 	<ol style="list-style-type: none"> 1. Increasing demand for health foods (low calories, low fat and high protein) 2. Legislative support provided by the newly-approved Fisheries Code and the Agriculture and Fishery Modernization Law 3. Liberalization of imports in some major Asian markets like South Korea 4. Institutional support for global and regional trade by the WTO 	<ol style="list-style-type: none"> 1. Water pollution due to the irresponsible waste disposal and behavior of households, and firms 2. Over fishing and use of dangerous fishing techniques 3. Inappropriate government policies that raise the cost of imports or discourage investments 4. Non-tariff barriers to trade such as quality certification requirements 5. Emerging competitors, like India and Indonesia

Con't. Appendix Table 3.

Strengths	Weaknesses	Opportunities	Threats
Medical equipment and instruments	<ol style="list-style-type: none"> 1. Delays in SGS processing of shipments shortens shelf life of products by as much as 50 percent and this increases costs. 2. Slow processing of registration at BFAD because of stringent requirements 3. BFAD does not have the necessary facilities and manpower for testing 4. Absence of guarantee on parts availability 5. Product value based on export value from source; different sources of like product could have different export values 	<ol style="list-style-type: none"> 1. Reduction of tariffs to zero to all medical devices will improve healthcare delivery system 	
Forest products			
(a) Primary wood based products			
<ol style="list-style-type: none"> 1. Strong linkage with LGUs and rapport with labor unions 2. Large and highly skilled work - force 3. Good soil and climate for growing timber 	<ol style="list-style-type: none"> 1. Difficult credit access 2. Low efficiency due to plant obsolescence 3. Inadequate R & D 4. Imposition of strict Geographic Information System 5. Unsettled secessionist movements 6. Undefined ancestral lands and community based forests 7. Poverty and population pressures in the upland areas 	<ol style="list-style-type: none"> 1. Improving investment climate and good promise of value-added products 2. Growing domestic and export markets 3. Government policy on sustainable environment 	<ol style="list-style-type: none"> 1. Poverty and population pressures in the upland areas 2. Log ban 3. Drastic reduction in tariff on wood products 4. Disparity in tariff rate on plywood and plywood substitutes
(b) Wood furniture and fixtures			
<ol style="list-style-type: none"> 1. High quality and craftsmanship resulting from its long tradition 2. Export winner 3. Dominance in high end market. 	<ol style="list-style-type: none"> 1. Difficulty in getting raw materials at globally competitive prices 2. Low labor productivity due to inadequate formal entrepreneurial and worker education 3. Low technology 4. High inter-island shipping costs. 	<ol style="list-style-type: none"> 1. Booming domestic markets 	

Con't. Appendix Table 3.

Strengths	Weaknesses	Opportunities	Threats
(c) Pulp and paper products 1. Large domestic market 2. Export winner	1. Not competitive compared to other APEC members like Canada, New Zealand and US 2. Capital-intensive and hence, vulnerable to high interest rates 3. Power-intensive 4. Inadequate supply of technical and specialized manpower and of laboratory and equipment facilities 5. No government product testing centers that can certify standards 6. High tariff on raw materials	1. Increasing market 2. Availability of fiber substitutes 3. Enhancement of government's pollution and energy related program 4. Potential joint venture partners outside the ASEAN region	1. Strong competition from imports 2. Dumping of imported paper products 3. Accelerated tariff phase down 4. Diminishing supply of recyclable materials on which the larger part of the industry is dependent 5. Increasing trend in the use of non-paper communication media like computers 6. Dividing forest reserves
Food 1. Niche market in coconut, banana, pineapple and mango 2. Availability of skilled manpower	1. Limited production capability due to inadequate supply of raw materials 2. High cost of production, i. e. labor, power, packaging materials and inputs (fertilizer and seeds) 3. Low productivity due to poor farming practices, post-harvest losses and poor technology in processing industries 4. Limited access to and high cost of financing 5. Inadequate infrastructure (farm-to-market roads and post-harvest facilities) especially for high-value crops 6. No government product testing centers that can certify standards 7. High tariff on sugar	1. Expansion of international markets 2. Growing population	1. Imposition of strict quality standards by developed economies which most exporters find difficult to meet 2. Emerging competitors in the region

Con't. Appendix Table 3.

Strengths	Weaknesses	Opportunities	Threats
Fertilizers			
<ol style="list-style-type: none"> 1. Role in agriculture where there is a huge potential demand 2. Proximity to other Asian markets 3. (China, Vietnam, Indonesia and Malaysia) 4. Human resources composed of managerial experts and skilled and semi-skilled labor. 5. Increasing demand, both local and international. 	<ol style="list-style-type: none"> 1. Problems in agriculture weakens the fertilizer industry 2. Poor transport and distribution facilities 3. Import dependent for raw materials 	<ol style="list-style-type: none"> 1. Agriculture modernization plan expected to increase demand for fertilizer 2. Palawan has the potential to produce natural gas which can be used to produced urea 	<ol style="list-style-type: none"> 1. Emerging competitors in the region like South Korea and Mexico
Natural and synthetic rubber			
(a) Natural rubber			
<ol style="list-style-type: none"> 1. Suitable agro-climatic conditions in Mindanao 	<ol style="list-style-type: none"> 1. Inadequate quality standards (especially in reducing dirt adulteration in crum dumps) 2. Inadequate financial schemes for rubber growers 3. Limited land size which hinders growth and economies of scale in production 4. Absence of enforceable planting and replanting program 5. Long gestation period discourage investments 	<ol style="list-style-type: none"> 1. Increasing demand for natural rubber and rubber products because of thriving automotive, electronic and capital goods industries serviced by rubber manufacturers 	<ol style="list-style-type: none"> 1. Unauthorized and improper tapping of young trees
(b) Synthetic rubber			
<ol style="list-style-type: none"> 1. Well-educated managerial and technical staff 	<ol style="list-style-type: none"> 1. High energy cost 2. Import dependent 	<ol style="list-style-type: none"> 1. Increasing demand for rubber products 	<ol style="list-style-type: none"> 1. Dumping of China, Thailand and Indonesia

Con't. Appendix Table 3.

Strengths	Weaknesses	Opportunities	Threats
Oilseeds and oilseed products			
<ol style="list-style-type: none"> 1. Agro-climatic advantage especially in Mindanao for coconut and palm kernel production coupled by the presence of plantations 2. Presence of processing plants 3. Active and organized marketing channels for both domestic and export markets 	<ol style="list-style-type: none"> 1. Chronic lack of fertilization 2. Low productivity 3. High cost of labor 4. Lack of long-term financing and inadequate infrastructure 5. High marketing costs; numerous layers in marketing channels 6. Limited and often inadequate government support. 	<ol style="list-style-type: none"> 1. Improving access to financing with the passage of Agriculture Modernization Law 2. World Bank assisted program for the coconut industry's rehabilitation 3. Lifting of the sequestration of coconut levy 4. Monetization of coconut levy can be used as funds to further develop coconut industry 5. Planting of coconut hybrids to increase yield 	<ol style="list-style-type: none"> 1. Cheaper coconut oil substitutes in the world market 2. Growing exports of other vegetable oils 3. Increasing research and development of other oils as a source of lauric oil 4. Increasing production of both palm oil and kernel oil in Malaysia and Indonesia 5. Shift to more profitable commercial crops 6. Form conversion to non-agricultural uses.
Automotive			
<ol style="list-style-type: none"> 1. Highly trained manpower 2. Big market potential 3. Niche market in Asian utility vehicle 	<ol style="list-style-type: none"> 1. Absence of economies of scale 2. Dependence on financing schemes 3. Most parts producers are SMEs who not have advanced technology to match quality of parts produced in other countries 4. Highly import dependent making the industry vulnerable to the volatility of the foreign exchange market. 	<ol style="list-style-type: none"> 1. Rising domestic income will increase demand 	
Civil aircraft			
<ol style="list-style-type: none"> 1. Strong potential of civil aircraft maintenance and service 2. Availability of skilled and semi-skilled labor as well as the ability of labor force to understand and speak English 3. Available hangars in Mactan and 	<ol style="list-style-type: none"> 1. Underdeveloped civil aircraft manufacturing 2. Lack of necessary technology and know-how in the manufacture of civil aircrafts and parts 	<ol style="list-style-type: none"> 1. Military represents a potential market 2. Geographic make up consisting of many large islands making air travel an alternative mode of transport 	

Con't. Appendix Table 3.

Strengths	Weaknesses	Opportunities	Threats
Clark airports which could be utilized as maintenance and R & D manufacturing facilities			
4. Availability of local engineering equipment manufacturers who could provide heavy equipment like hydraulic presses and other basic machine shop equipment			

Source: APEC-EVSL Industry papers.

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