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The Philippines Trade Brief

Trade Policy

The Philippines has moved towards liberal trade and investment regimes through unilateral liberalization since 1985, and policy actions in the context of regional and multilateral commitments. In spite of a temporary reversal during the East Asian crisis in 1999, liberalization proceeded in line with the Philippines' commitments under the ASEAN (Association of South East Asian Nations) free trade agreement (AFTA). However, after a partial reversal of tariff reductions in late 2003, new initiatives have been lacking. As judged by its latest MFN Tariff Trade Restrictiveness Index (TTRI)[1] for overall trade of 3.8 percent, the Philippines remains a relatively open economy, and compares well to the average East Asian and Pacific (EAP) and lower-middle-income countries (with TTRIs of 4.9 and 8.4 percent respectively). Based on the MFN TTRI, it ranks 21st out of 181 countries (where 1st is least restrictive). The trade regime is more protective of imports of agricultural goods, which have a barrier three times higher than that for non-agricultural goods (with TTRIs of 10.8 and 3.3 percent respectively).

The simple average of the MFN applied tariff rate has remained constant over the past five years at 6.3 percent, and remains less than the average for both the EAP region and lower-middle-income countries (which are 9.3 and 11.4 percent, respectively). The Philippines' maximum tariff on all goods (excluding alcohol and tobacco) has been equal to 65 percent since 2005. The trade policy space, as measured by the gap between bound and applied tariff levels (the overhang), has remained steady at a relatively low 19.6 percent. However, while all of the agricultural tariffs are bound, less than two-thirds of non-agricultural goods are bound.[2] The country maintains high tariffs on finished autos, to develop a local assembly hub. In February 2008, import tariffs were removed from several auto parts under an ASEAN commitment.[3] Most quantity restrictions have been eliminated except that rice is traded solely by a state agency.

In terms of commitment to multilateral services liberalization, the government agreed to bind all restrictions on market access and has applied national treatment in the area of financial, transport, communications, and tourism. It ranks 83rd among 148 countries, as reflected by the GATS commitments index. Under ASEAN, liberalization of air transport, telecommunications, tourism, and healthcare is planned for 2010, when foreign ownership limits expand to 70 percent.

High food prices in the first half of 2008 prompted the government to remove quotas on imports of rice and maize.[4] Import tariffs placed on rice, which had been designed to encourage local production, were lifted in April 2008 and replaced with a less substantial import service fee.[5] Tariffs on wheat and meslin were also reduced. In the context of the global recession and declining external and domestic demand, the country reduced tariffs on several raw materials (to help exporters) and consumer products not produced locally (to help consumers) in February and May 2009. Additional funds were also allocated for export promotion activities.[6] In February 2009, the government placed a temporary safeguard measure on steel angle bars, which requires importers to post cash bonds.[7]

External Environment

The exports of the Philippines' face relatively open foreign markets as reflected by the latest Market Access TTRI[8] (including preferences) of 2.5 percent for all goods. However, agricultural goods face a MA-TTRI that is significantly (9 percentage points) higher than for non-agricultural goods. The overall trade restrictiveness faced is close to the average for lower-middle-income countries (2.4 percent), but lower than the EAP regional average of 3.8 percent. The simple average of the rest of the world tariff faced by Philippine exports is 9.9 percent. When weighted by

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank .org/wti.

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actual exports, it is 1.8 percent, with the rate faced by agricultural goods and non-agricultural goods substantially different (11.1 and 1.3, respectively). In 2008, the Philippines had one anti-dumping investigation initiated against it by India regarding its exports of hot rolled steel. Over the course of 2008 the real effective exchange rate of the Philippine peso appreciated by 7.6 percent, making exports relatively less competitive abroad.

Besides access to ASEAN markets, the country has increased market access to goods and services through the free tread agreements (FTAs) it has negotiated as part of ASEAN. ASEAN has FTAs with China, Japan, the Republic of Korea, Australia, New Zealand, and, since August 2009, India. The goods FTAs with China and Korea are expected to be fully realized by January 1, 2010. The FTA with Korea extends beyond goods trade with the services agreement taking effect in May 2009, and an investment component signed in June. The comprehensive ASEAN-Australia-New Zealand FTA signed in February 2009 covers goods and services as well as investment and intellectual property issues, whereas the FTA with India is currently restricted to goods. Both FTAs are expected to come into effect on January 1, 2010. In March 2008 ASEAN signed a FTA with Japan that would eliminate tariffs on 93 percent of goods exported from ASEAN. The Philippines' signed a deeper bilateral agreement with Japan that took effect in December 2008. It expanded the product coverage to 95 percent, and covers migration and commercial presence.[9]

Behind the Border Constraints

In terms of the conduciveness of its institutional environment to business, Philippines ranked 144th out of 183 countries in the 2010 Ease of Doing Business index, reflecting a cumbersome business environment. The Logistics Performance Index, a measure of the ease of trade facilitation, rates the Philippines at 2.69 on a scale from 1 to 5 with 5 being the highest performance. This is a good performance when compared with the scores of 2.58 for the EAP region and 2.47 for countries in the lower-middle-income group. It ranked 65th in the world and 6th in the East Asia and Pacific region (with Malaysia leading the regional group). It performed best in lowering domestic logistics costs and lagged in the quality of transport and IT infrastructure.

The slowdown in the worldwide economy has decreased the availability of trade finance in the Philippines as a result of banks raising their lending standards. According to a World Bank survey of firms in March 2009, 41 percent of demand for new orders fell due to the lack of trade financing on the side of the exporter or importer. The government has recently responded to the lack of trade finance by expanding the funds available to banks lending to exporters, requiring banks to increase their lending to small and medium-sized businesses, and providing loan guarantees for funds borrowed by exporters.[10]

Trade Outcomes

Total trade in goods and services did not grow at all in real (constant 2000 U.S. dollars) terms during 2008. Real exports fell by 1.9 percent, after averaging a growth rate of 7.9 percent during 2005–07. Real imports grew 2.4 percent after falling 4.1 percent in 2007. Expectations are that both exports and imports will fall in 2009 by 11.8 and 3.6 percent in real terms, respectively.

In nominal U.S. dollar terms, total trade grew by 2.6 percent in 2008, less than a quarter of its 2007 growth rate. Total exports fell by 1.5 percent, driven mostly by decreases in goods exports, which fell by 2.6 percent. During the last quarter of 2008, when the economy began to feel the impact of the global economic crisis, the Philippines saw a 13 percent decrease in exports over the last quarter of 2007. However, exports in services (including business process outsourcing) were resilient and grew by 4.4 percent, after increasing by over 50 percent in 2007. Philippine exports have suffered due to a lack of available credit for exporters and the drop in worldwide demand for semiconductors and other electronics products, (which make up 60 percent of goods exports) as well as for garments, furniture, and footwear.[11] In the first two quarters of 2009, exports dropped by 25 percent and 34 percent respectively on a year-on-year basis. Even on a quarter-on-quarter basis, exports declined in the second quarter of 2009 by 23 percent.

Total nominal imports grew by 6.3 percent, led by a growth in services of 16.5 percent in 2008. In the first two quarters of 2009, imports dropped by 27 percent and 31 percent respectively on a year-on-year basis, reflecting the drop in domestic demand. The U.S. dollar value of total remittances increased in 2008, and only marginally dropped as a share of GDP to 11.2 percent from 11.3 percent in 2007. Total remittances continued to grow in 2009, but at a slower rate than in 2008. Foreign direct investment as a share of GDP halved to 0.9 percent in 2008 from 2 percent the year before.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. Office of the US Trade Representative, 2009.
3. The ASEAN Industrial Cooperation (AICO) scheme aims to foster joint manufacturing and industrial complementarity within ASEAN. ESCAP, March 2008, p. 4.
4. FAO, 2009.
5. ESCAP, May 2008, p. 5.
6. WTO, 2009, p. 72.
7. Global Trade Alert, 2009.
8. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
9. Bilaterals.org, 2008, 2009a–d.
10. World Bank PREM Trade Group, 2009, pp. 6–7.
11. World Bank, April 2009, p. 51.

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