

# Chapter 9

## Survey Report on the Use of Free Trade Agreements in the Philippines

Rafaelita M. Aldaba

Erlinda M. Medalla

Josef T. Yap

Mureen Ane D. Rosellon

Fatima Lourdes E. del Prado

Melalyn C. Mantaring

Veredigna M. Ledda

*Philippine Institute for Development Studies*

August 2015

### **This chapter should be cited as**

Aldaba, R. M. *et al.* (2015), 'Survey Report on the Use of Free Trade Agreements in the Philippines', in Ing, L.Y. and S. Urata (eds.), *The Use of FTAs in ASEAN: Survey-based Analysis*. ERIA Research Project Report 2013-5, Jakarta: ERIA, pp.185-214.

## CHAPTER 9

### Survey Report on the Use of Free Trade Agreements in the Philippines

Rafaelita M. Aldaba, Erlinda M. Medalla, Josef T. Yap,  
Maureen Ane D. Rosellon, Fatima Lourdes E. del Prado, Melalyn C. Mantaring,  
and Veredigna M. Ledda

*Philippine Institute for Development Studies*

*The Philippines involvement in the free trade agreements (FTAs) has mainly been as a member of ASEAN, though the ASEAN Free Trade Area (AFTA) and through the various ASEAN+1 agreements, and a lone bilateral free trade agreement with Japan. While the Government of the Philippines is expected to progressively reduce preferential tariffs to zero, Philippine firms have historically been slow to take advantage of FTAs. This survey reaffirms that this awareness and the utilisation of FTAs need significant improvement among manufacturing and services firms. As the main source of information for FTAs, the government needs to increase the efficiency, scope, and reach of its promotional and technical training programmes and to rely further on technology to deliver results. These efforts to enhance FTA utilisation are directly linked with the easing of rules of origin (ROO) compliance and administration. At the national level, these efforts include reforms to promote electronic Certificates of Origin (COOs) and self-certification, and linkage to the national single window. This will improve timelines and ease the entry of micro, small, and medium-sized enterprises. Regional efforts to harmonise ROOs can increase FTA utilisation across ASEAN member countries and pave the way for the forthcoming Regional Comprehensive Economic Partnership (RCEP).*

Keywords: Free Trade Agreements, Philippines, Certificate of Origin, FTA utilisation

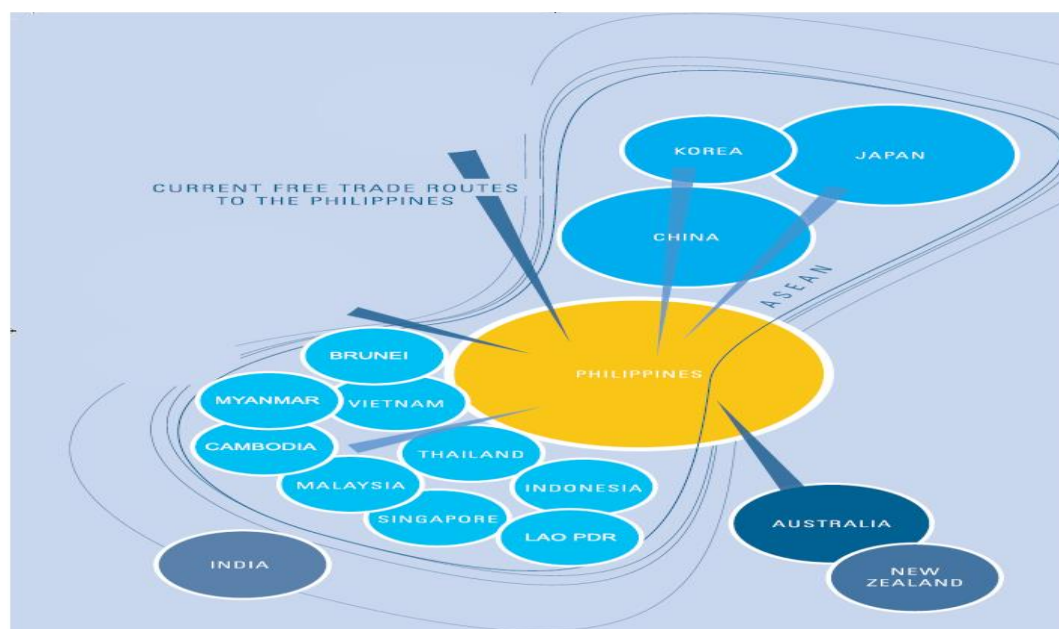
JEL Classification: F1, F2, F6, F610

## 1. Context

### 1.1. Background

The Philippines has been more cautious in its policy on free trade agreements (FTAs) than some of its Association of Southeast Asian Nations (ASEAN) neighbours. As a policy, the use of FTAs has not been given much attention until 2008, with the forging of the Philippines–Japan Economic Partnership Agreement (PJEPA), the country’s first bilateral FTA with Japan. The involvement of the Philippines in FTAs or regional trade agreement formation has mainly been as a member of ASEAN or the ASEAN Free Trade Area (AFTA) and through the various ASEAN+1 agreements: ASEAN-Australia and New Zealand FTA (AANZFTA), ASEAN-China FTA (ACFTA), ASEAN-India FTA (AIFTA), ASEAN-Japan Comprehensive Economic Partnership (AJCEP), and ASEAN-Korea FTA (AKFTA). The country’s involvement in FTAs is illustrated in Figure 9.1.

**Figure 9.1. Free Trade Routes to the Philippines**



Source: Taken from *Department of Trade and Industry Doing Business in Free Trade Areas Handbook* (2011), page iv (Cover and Foreword)

Based on various FTAs, the Philippines’ tariff profile and percentage of duty-free tariff lines are summarised in Table 9.1. As the first FTA signed by the country, the ASEAN Trade in Goods Agreement (ATIGA)<sup>1</sup> covers almost 100 percent of goods. Tariff elimination

<sup>1</sup> An improvement over the ASEAN Free Trade Area–Common Effective Preferential Tariff (AFTA–CEPT) Scheme, it comprises both tariff and non-tariff elements (e.g. trade disciplines on sanitary and phytosanitary measures, customs procedures, and trade facilitation, among others).

is expected to be enforced by 2010 for ASEAN-6 (i.e., Brunei, Indonesia, Malaysia, Philippines, Thailand, and Singapore) and by 2015, with flexibility to 2018, for Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV). For the other ASEAN plus FTAs, the government is expected to progressively grant preferential tariffs with the end goal of zero tariffs on substantially all goods for the respective FTA at later agreed end dates.

**Table 9.1. Philippines' Tariff Profile Under Various FTAs**

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

AFTA-CEPT = ASEAN Free Trade Area-Common Effective Preferential Tariff, ATIGA = ASEAN Trade in Goods Agreement, EO = executive order, FTA = free trade agreement.

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

A more recent development<sup>2</sup> was the launch in 2012 of the negotiations for the Regional Comprehensive Economic Partnership (RCEP) involving ASEAN and its six East Asian dialogue partners (People's Republic of China, Japan, Republic of Korea, Australia, New Zealand, and India).

<sup>2</sup>This part and the succeeding discussions on RCEP and Trans Pacific Partnership (TPP) draws from Policy Updates on International Economic Cooperation, p. 17-19 (Chapter 2 of PIDS Economic Policy Monitor 2012)

RCEP will cover trade in goods and services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, and other issues.<sup>3</sup> It works on an open accession principle, which allows participation of any of the ASEAN FTA partners either from the outset or whenever they feel ready to join. It also takes into consideration the different levels of development of the participating countries, thereby including appropriate forms of flexibility. RCEP is potentially the largest trading arrangement in the region and could lead to the creation of an integrated market spanning 16 countries with a combined market population of more than three billion people and a combined gross domestic product of US\$19.78 trillion based on 2011 figures.<sup>4</sup> Another major ongoing development is the US-led Trans Pacific Partnership (TPP), a trade alliance that now represents more than 658 million people, with a combined gross domestic product of US\$20.5 trillion or 26 percent of global trade.<sup>5</sup> The ultimate goal of this partnership is to include additional Asia-Pacific countries<sup>6</sup> in successive clusters to eventually cover a region that represents more than half of global output and over 40 percent of world trade.<sup>7</sup> TPP, labelled as the 21st-century regional agreement, is a vehicle for Asia-Pacific-wide economic integration, and a 'high-quality agreement' because of its wider FTA coverage and deeper and wider liberalisation of the services sector and investments. It also calls for stronger intellectual property rights, stricter labour and environmental standards, regulatory discipline of state-owned enterprises, and transparency, among others.

---

<sup>3</sup>As listed in the Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership. Document downloaded from <http://www10.iadb.org/intal/intalcdi/PE/CM%202013/11581.pdf> (accessed 22 November 2012).

<sup>4</sup>Quoted from <http://www.bangkokpost.com/news/local/322261/asean-leaders-begin-rcep-negotiations> (accessed 22 November 2012)

<sup>5</sup> Estimate taken from <http://www.globalmeatnews.com/Industry-Markets/Mexico-and-Canada-become-TPP-members> (accessed 22 November 2012).

<sup>6</sup> The Republic of Korea, Japan, Taiwan, the Philippines, and Thailand are among the Asia-Pacific countries that have expressed their interest in TPP membership.

<sup>7</sup> TPP Frequently Asked Questions <http://www.ustr.gov/sites/default/files/TPPFAQ.pdf> (Accessed 22 November 2012).

## **1.2. Questions**

The Philippines has concluded seven FTAs with new partnerships under discussion. In assessing the impact of FTAs on trade, investment, and other economic activities in the Philippines, it is worth studying whether firms have joined in and availed themselves of the benefits available from these FTAs. Previous studies indicated a relatively low utilisation of FTAs in the Philippines (Hiratsuka, et al, 2009; Baldwin, 2007 and Avila and Manzano, 2007 as cited in Wignaraja, et al, 2010). What constrains firms from using FTAs? What could and should be done to increase utilisation of FTAs? The Certificate of Origin (COO), a requirement for a firm to be able to access preferential tariff rates, is a crucial feature of FTAs. How do firms regard the procedures for obtaining COOs? Better understanding these issues will help policymakers formulate and implement appropriate policies and programmes.

## **1.3. Objectives**

This paper aims to examine the use of FTAs in the Philippines to provide inputs to designing policy support to optimise their use. A firm survey, covering manufacturing and services businesses, was carried out to gain broader insights and better understanding of the extent of use of FTAs, and identify the constraints preventing firms from using FTAs. Specifically, the survey aimed to provide evidence on the use of FTAs by the private sector, illustrate the use of FTAs as demonstrated by the use of COOs, explain the constraints on using existing FTAs, and provide inputs to designing policy support to optimise the use of FTAs.

## **2. Key Findings**

### **2.1. Use of FTAs in the Manufacturing Sector**

Table 9.2a shows the major characteristics of surveyed manufacturing firms by size, location, ownership, and trading activity. The sample is dominated by medium-sized and large enterprises that have trading activities abroad. The majority of the firms included in the survey are either fully or partially owned by foreigners, most of which are in industrial or economic zones.

**Table 9.2a. Characteristics of Surveyed Firms**

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

By Location	Not in any particular zone	Industrial zone	Bonded zone	Export processing zone	Special economic zone	Free trade zone	Unknown	Total
Number	32	8	1	16	31	19	1	108
Percent	29.6	7.4	0.9	14.8	28.7	17.6	0.9	100.0

Source: Firm survey.

### 2.1.1. The Use of FTAs, Analysed by Firm Characteristics

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

This utilisation rate may show a weak inclination to use FTAs in trade transactions, especially since a huge bulk of the sample are exporters and importers. Although not shown here, survey figures and official data (based on results of the firm survey and data from the Philippine Statistics Authority) reveal that these firms mostly export to countries such as the United States (US) and the European Union (EU), with which the Philippines has no outstanding FTA, yet where firms still enjoy lower tariffs because of the Generalized System of Preferences (GSP) (Wignaraja, et al, 2010). Other major export destinations are Japan and the People’s Republic of China.<sup>8</sup> In these cases, the Philippines’ FTAs with these countries are fairly recent, perhaps partly explaining the low FTA utilisation rate among the surveyed firms.

<sup>8</sup>The 2012 First Semester Report of the Philippine Statistics Authority identified Japan, the US, the People’s Republic of China, and Germany as the Philippines’ top export country destinations. As an economic block, the EU ranked fourth in the country’s list of top export markets for August 2012.

Moreover, close to 70 percent of the firms surveyed are in export processing zones and special economic zones. These firms tend to have a higher FTA utilisation rate (Table 2c), maybe because exporting firms outnumber importing firms in the sample. Studies (Wignaraja, et al, 2010; Medalla and Rosellon, 2011) show that the use of FTAs complements the tariff exemption privileges on inbound raw materials and equipment offered to firms in economic zones. Firms view incentives granted by economic zones as important to promote and maintain investments, while preferential tariff rates under FTAs, which are just as important, reduce costs and increase the chances of gaining markets abroad (Medalla and Rosellon, 2011).

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

**Table 9.2b. Firm Characteristics of FTA Users, by Size and Ownership**

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

FTA = free trade agreement.

Source: Firm survey.



**Table 9.2c. Firm Characteristics of FTA Users, by Location and Activity**

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

FTA = free trade agreement.

Source: Firm survey.

### 2.1.2. Survey Results on FTA Use, Analysed by Agreement

Central to FTA use are the rules of origin (ROOs) or the set of criteria used to determine where goods are made. Firms have to prepare documents and secure a COO to prove that a good is produced in a particular country and qualifies for a preferential tariff. ROOs vary with each FTA, so different COO forms exist for different FTAs. Based on the COO forms used by the surveyed firms, Table 9.3 measures FTA utilisation by type of agreement. Greater usage for Forms A and D, which cover export products under GSP and AFTA, respectively, are shown. Since the country's preferential trade experience is primarily with GSP and AFTA, exporting firms are presumably more familiar with these forms than with those associated with recently concluded FTAs. It could also be an indication of closer trade relations between the Philippines and the US and ASEAN. As a former US colony, the Philippines has always maintained strong trade relations with US, accounting for nearly 13-20% of the Philippine exports from 1999-2014. Similarly, the Philippines' exports to ASEAN has increased, albeit modestly, from 7.2% in 1999 to 16.87% in 2014 (BSP)<sup>9</sup>. It should be recalled that AFTA, implemented in the early 1990s, was the

<sup>9</sup> Bangkok Sentral Pilipinas (BSP) Direction of Trade, Online Database. Accessed: August 10, 2015

first full FTA of the Philippines and, presumably, firms are more aware of AFTA than of other FTAs.

Not explicitly stated but reported under 'others' are COO issuances for country destinations, mostly Japan (Figure 9.2), likely because PJEPA was not included among the choices of FTA in the questionnaire. PJEPA even overtook ATIGA in terms of the number of COOs issued by the Bureau of Customs (BOC), the country's COO-issuing authority (Table 9.4). Many of the firms that answer 'others', therefore, likely use the bilateral FTA with Japan.

**Table 9.3: FTA Use, by Agreement\***

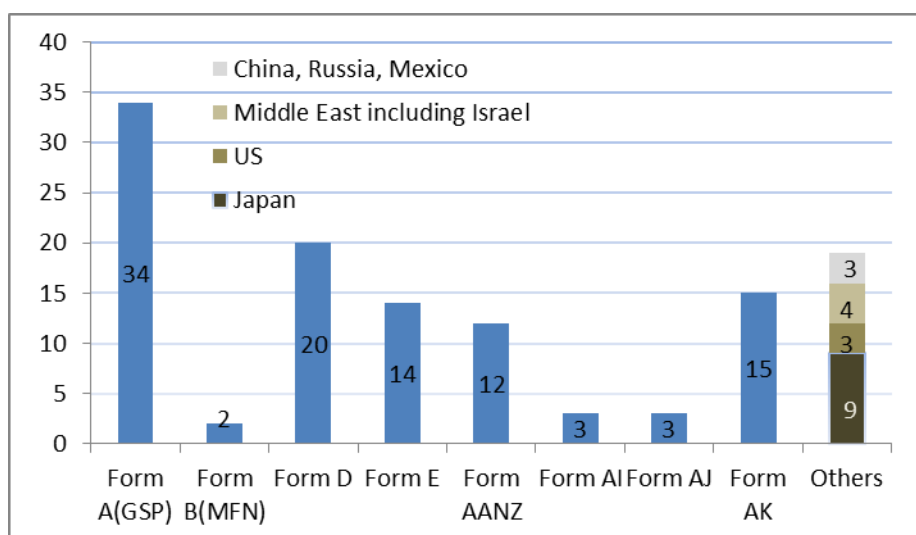
	For Export	For Import
Total	122	63
Form A (GSP)	34	9
Form B (MFN)	2	2
Form D (ATIGA)	20	10
Form E (ACFTA)	14	12
Form AANZ	12	5
Form AI	3	4
Form AJ	3	3
Form AK	15	7
Others	19	11

AANZ = ASEAN-Australia and New Zealand, ACFTA = ASEAN-China Free Trade Agreement, AI = ASEAN-India, AJ = ASEAN-Japan, AK = ASEAN-Korea, FTA = free trade agreement, GSP = Generalized System of Preferences, MFN = most-favoured nation, ATIGA = ASEAN Trade in Goods Agreement.

Note : \*Firm survey responses on use of COOs

Source: Firm survey.

**Figure 9.2. FTA Use, by Agreement (Exporters)**



AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, AJ = ASEAN-Japan, AK = ASEAN-Korea, FTA = free trade agreement, GSP = Generalized System of Preferences, MFN = most-favoured nation, US = United States.

Source: Firm survey.

### 2.1.3. Official Data on the Use of FTAs, by Agreement, Over the Years

The Philippines uses a single guideline in the issuance of COOs for all its FTAs for ASEAN, various ASEAN+1, and PJEPA. The BOC, the sole authority<sup>10</sup> to issue and receive preferential COOs for FTA usage, facilitates the entire process, from pre-export verification, followed by evaluation of whether the export product will qualify for preferential tariff treatment, up to the issuance of a COO.

Figure 9.3 summarises the process of COO issuance and lists the necessary documents for pre-export evaluation and issuance of a COO. The application and issuance of COOs are done manually.

<sup>10</sup>For non-preferential COO or those that use the MFN rates, the Philippine Chamber of Commerce and Industry is also an authorised body.

Figure 9.3. Operational Certification Procedures for ROO

<b>Step 1: Application for pre-export verification</b>	<div style="border: 1px solid black; padding: 5px; text-align: center;"> <p>Manufacturer/Exporter Applies for the pre-export verification of the origin of goods</p> </div>	<p>What are the requirements for Pre-export Evaluation?</p> <ol style="list-style-type: none"> <li>1. Written request for evaluation to be submitted at least five days prior to exportation</li> <li>2. Complete list of materials (local and imported) used in the production</li> <li>3. Breakdown of cost element</li> <li>4. Import and export declarations</li> <li>5. Production flowcharts</li> <li>6. Company profile</li> <li>7. Other documents to support originating status of the product</li> <li>8. Photo of production process</li> </ol> <p>What are the requirements of the Issuance of COO?</p> <ol style="list-style-type: none"> <li>1. Copy of approved Exporter declaration</li> <li>2. Copy of bill lading/Airway bill</li> <li>3. Commercial invoice</li> <li>4. Copy of export permit for regulated products</li> </ol>
<b>Step 2: Pre-export verification</b>	<div style="border: 1px solid black; padding: 5px; text-align: center;"> <p>Issuing Authority/Body Conducts the pre-export examination</p> </div>	
<b>Step 3: COO application</b>	<div style="border: 1px solid black; padding: 5px; text-align: center;"> <p>Manufacturer/Exporter Applies for a COO. Submits the result of pre-export verification and appropriate requirements</p> </div>	
<b>Step 4: COO issuance</b>	<div style="border: 1px solid black; padding: 5px; text-align: center; margin-bottom: 10px;"> <p>Issuing Authority/Body Issues the COO. Retains duplicate copy of the COO</p> </div> <div style="border: 1px solid black; padding: 5px; text-align: center;"> <p>Manufacturer/Exporter Sends original COO to the importer. Retains the triplicate copy of the COO.</p> </div>	

Source: Bureau of Customs.

As confirmed by BOC officials, obtaining COOs takes about five working days for pre-export verification, two hours for verification of supporting documents, and 15 minutes for COO issuance, provided the supporting documents are complete.

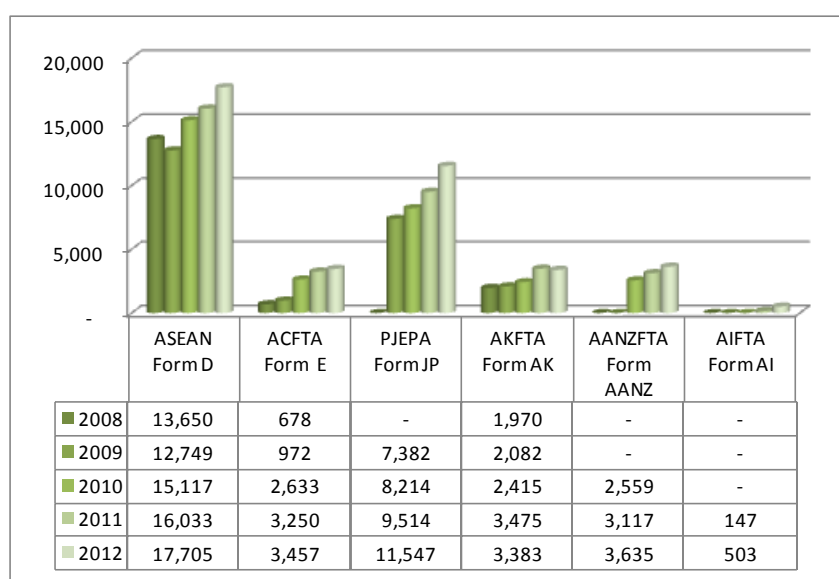
From 2008 to 2012, data from the BOC suggest an increasing utilisation of FTAs in terms of the number (and corresponding export value) of COOs<sup>11</sup> issued for exporters. Total COOs issued increased from 16,298 to 40,230 or about 147 percent (Figure 9.4). COO issuances are highest for ATIGA (Form D), followed by Philippines-Japan EPA (Form JP) and then AKFTA (Form AK). The number of COOs issued under ACFTA (Form E) started relatively

<sup>11</sup>This is the only information available from the BOC and represents the Port of Manila only, covering more than 50 percent of COO issuances for export transactions. Given that the application and issuance of COOs are still done manually, a customs official said there is no system yet of compiling reports from all collection districts. This might be why disaggregated data in terms of size, ownership, products and industry, and location of firms using COOs are not yet available. The relevant division in the bureau is working on this problem.

low but significantly increased. PJEPA became operational only in 2009, and thus no COOs were issued before then, but the utilisation rate quickly overtook that of the earlier AKFTA and ACFTA.

In terms of export value, PJEPA overtook ATIGA in 2009 (Figure 9.5). There also appears to be a preference for the bilateral partnership rather than AJCEP, most likely because PJEPA was implemented earlier.<sup>12</sup> AANZFTA entered into force only in 2010, and thus there were no issuances in 2008 and 2009, but after that the number immediately rivalled the figures for AKFTA and ACFTA. AIFTA was only implemented in 2011, thus data were only recorded for Form AI in 2011–2012.

**Figure 9.4. Number of COO Issuances by FTA\***

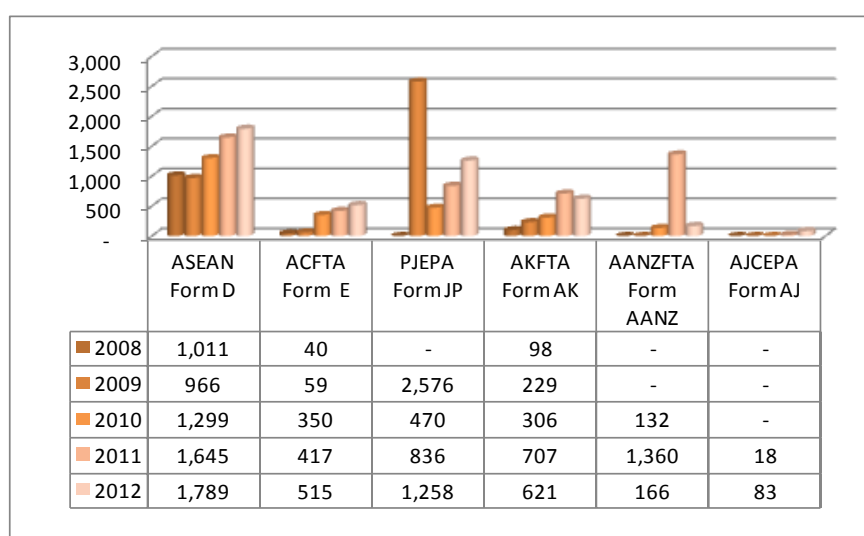


AANZFTA = ASEAN-Australia and New Zealand Free Trade Agreement, ACFTA = ASEAN-China Free Trade Agreement, AIFTA = ASEAN-India Free Trade Agreement, AKFTA = ASEAN-Korea Free Trade Agreement, ASEAN = Association of Southeast Asian Nations, COO = Certificate of Origin, FTA = free trade agreement, PJEPA = Philippine-Japan Economic Partnership Agreement.

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

Source: Export Division–Bureau of Customs.

<sup>12</sup> PJEPA was implemented in 2008 while AJCEP was in force in early 2010. Awareness of PJEPA is most likely higher than AJCEP. Upon verification with the BOC, records show that exporters are using PJEPA and none of them are availing themselves of AJCEP preferential rates.

**Figure 9.5. Value of Cargo Covered by COO\* (US\$ million)**

AANZFTA = ASEAN-Australia and New Zealand Free Trade Agreement, ACFTA = ASEAN-China Free Trade Agreement, AJCEPA = ASEAN-Japan Comprehensive Economic Partnership Agreement, AKFTA = ASEAN-Korea Free Trade Agreement, ASEAN = Association of Southeast Asian Nations, PJEPA = Philippine-Japan Economic Partnership Agreement.

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

Source: Export Division–Bureau of Customs.

A survey of Japanese-affiliated firms operating in the ASEAN countries, conducted by Hiratsuka, et al (2009), shows the Philippines to have a lower FTA utilisation than the rest of ASEAN, in terms of both exports and imports. Utilisation by exporting firms was around 15 percent in 2006–2007, which declined to 11.8 percent in 2008.<sup>13</sup> Nonetheless, the levels are higher than previously estimated by earlier studies (at below five percent). They also pertain only to Japanese firms. In a more recent survey by Wignaraja, et al (2010) covering 155 Philippine firms in the transport, electronics, and food sectors, the researchers found that 20 percent used FTAs, with 41 percent planning to do so.

A press release issued by the Department of Trade and Industry (DTI) stated that the Philippines was one of the four countries in ASEAN (including Cambodia, Indonesia, and Thailand) with the highest FTA utilisation rates in 2010. The country's utilisation rate was said to have risen to 41.2 percent,<sup>14</sup> a marked increase from the 20 percent in the 2010 survey of the Asian Development Bank. Nonetheless, while the level of utilisation may

<sup>13</sup>Utilisation was measured as the percentage of firms that used AFTA.

<sup>14</sup>Department of Trade and Industry (DTI) Upbeat No. 5. 20 March 2012. However, we were unable to obtain clear documentation of data. In addition, the estimates likely used different methodologies, making comparison of the figures subject to question.

prove to have been less than accurate, the rising trend in the issuance of COOs for exports—much steeper than the comparable rise for imports—supports the finding of increasing FTA utilisation.

Increasing FTA utilisation is among the core strategies identified in the Philippine Export Development Plan. The DTI (specifically the Bureau of Export Trade Promotion and the Bureau of International Trade Relations) started an FTA promotion programme called ‘Doing Business in Free Trade Areas’ (DBFTA) in the last quarter of 2010. Initially conducted in Metro Manila before successfully being carried out in the regions, DBFTA aims to increase nationwide awareness of the benefits of FTAs and increase their utilisation especially by small and medium-sized enterprises. The programme is being conducted along with other government agencies (Bureau of Customs, Tariff Commission, Philippine Statistics Authority) as well as the private sector, including the Philippine Chamber of Commerce and Industry, the Philippine Exporters’ Confederation, and certain academic institutions. Table 9.4 shows the number of DBFTA seminars conducted and the number of participants.

**Table 9.4. Number of DBFTA Seminars Conducted, 2010–2012**

	November to December 2010	January to December 2011	January to December 2012
No. of information sessions	11	78	116
No. of SME participants benefitted	1,948	8,631	11,169

DBFTA = Doing Business in Free Trade Areas, SMEs = small and medium-sized enterprises.

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

‘DTI reaches 11,169 participants through its 2012 DBFTA outreach program’,

<http://www.emb.dti.gov.ph/dbfta/news/outreachprogram.htm> (accessed 8 November 2014).

The DTI recently published the *DBFTA Handbook* and *FTA Business Primers* for all Philippine FTA engagements. These publications, as well as presentation materials in the various DBFTA sessions, are also available and downloadable from the Philippine Trade

Training Center website.<sup>15</sup> It is thought that DBFTA is gradually having an impact by encouraging more firms to use FTAs, as seen in the increase in utilisation rates.

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

#### **2.1.4. Perceptions of How FTAs Affect Decisions to Invest, Analysed by Firm Size**

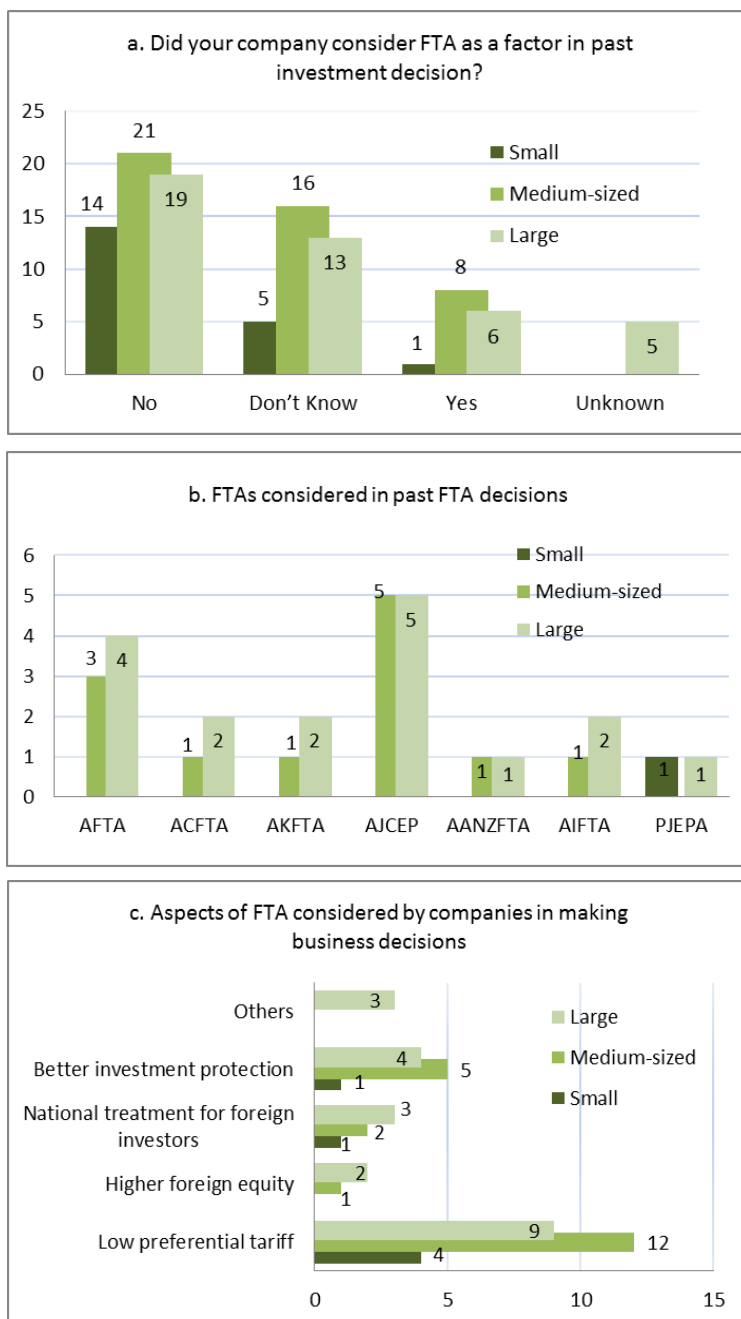
Half of the firms (54 of the 108) surveyed did not consider FTA availability a factor in past investment decisions. However, 15 out of the 108 firms (14 percent) feel that the existence of an FTA had been a factor for locating investment. Most of these are large and medium-sized enterprises. AJCEP, which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

---

<sup>15</sup>PTTC website <http://www.pttc.gov.ph/>; <http://www.pttc.gov.ph/dbfta/dbfta-handbook.html>; <http://www.pttc.gov.ph/dbfta/fta-business-primer.html>.



**Figure 9.6a-c. Firms' Decisions on Investment Location**



AANZFTA = ASEAN-Australia and New Zealand Free Trade Agreement, ACFTA = ASEAN-China Free Trade Agreement, AFTA = ASEAN Free Trade Area, AJCEP = ASEAN-Japan Comprehensive Economic Partnership, AKFTA = ASEAN-Korea Free Trade Agreement, ASEAN = Association of Southeast Asian Nations, FTA = free trade agreement, PJEPA = Philippine-Japan Economic Partnership Agreement.

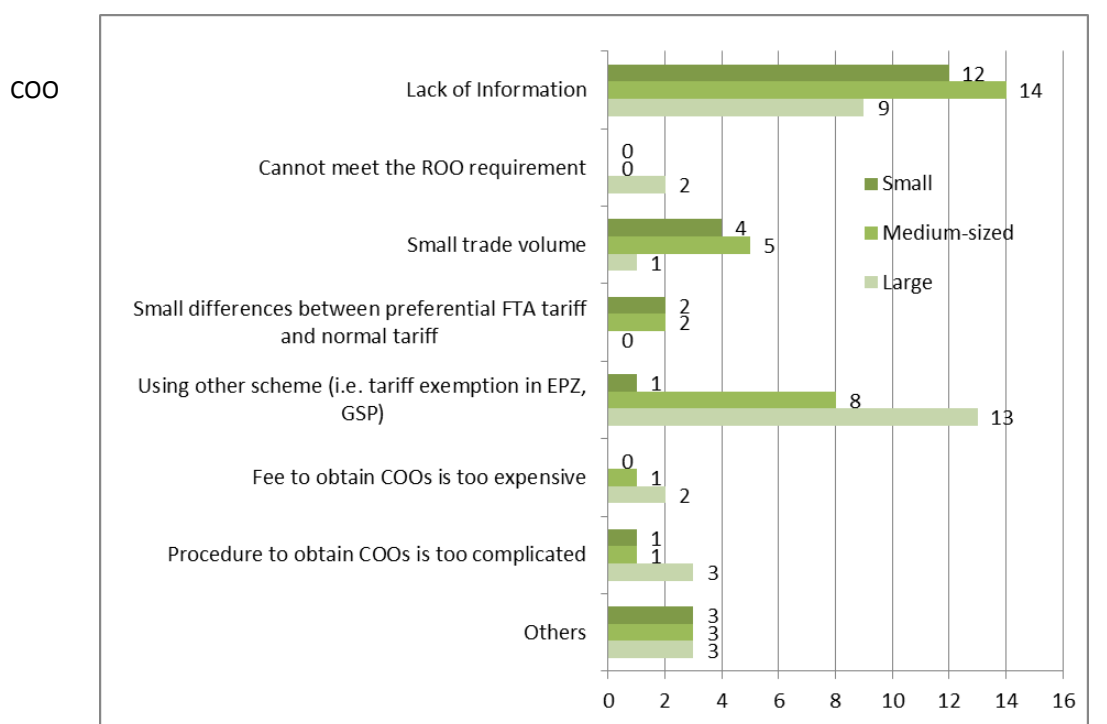
\*Figure 6a refers to number of firms; Figures b and c refer to the number of multiple responses.

Source: Firm survey.

### **2.1.5. Constraints Leading to Non-Usage of FTAs, Analysed by Firm Size**

A majority of firms (70 percent) currently do not use FTAs. Figure 9.7 enumerates the most common reasons for non-use among firms. Topping the list is lack of information, followed closely by using another scheme. For small and medium-sized firms, lack of information was cited as a huge impediment to using FTAs. Large firms, on the other hand, are less inclined to use FTAs because they are typically located in economic zones and zone locators are granted duty- and tax-free importation of raw materials, supplies, capital equipment, and spare parts. Twenty-four percent of the large firms and 33 percent of medium-sized sample firms are located in zones. As shown by Figure 9.7, these zones eliminate most incentives for exporters to use FTAs (Kawai and Wignaraja, 2011). Small trade volume and, to some extent, complicated COO requirements are also identified as constraints on using FTAs. All too often, firms, according to Hayakawa, et al (2009), are discouraged by the administrative costs of securing COOs. Preparing all the documents entails work that creates fixed costs, so that only those that can afford to cover the costs are inclined to use an FTA scheme. In the Philippines, despite government efforts to streamline customs processes, some procedural lapses persist (Wignaraja, et al, 2010).

**Figure 9.7. Reasons for Not Using FTAs\***



Certificate of Origin, EPZ = export processing zone, FTA = free trade agreement, GSP = Generalized System of Preferences.

\*Frequency of responses; multiple responses allowed

Source: Firm survey.

### 2.1.6. Perceptions of the Costs and Procedures of FTAs, Analysed by Firm Size

By and large, respondents find the entire COO procedure generally reasonable. The number of documents required (at most three) is deemed acceptable by over 80 percent of those who responded to the question. In most cases, it only takes about one day to obtain a COO and the average cost of US\$15 is seen as affordable.<sup>16</sup> This view is widely shared by surveyed firms (Table 9.5a, 9.5b), especially among medium-sized and large firms: collective responses were ‘very few’ and ‘reasonable’ for perception of the number of documents, ‘very quick’ and ‘reasonable’ for number of processing days, and ‘very low’ and ‘reasonable’ for cost totalled close to 60 percent of respondents for each group.

<sup>16</sup>This, however, pertains only to the issuance of COOs. Figure 9.3 presents the number of documents required by the BOC to complete the pre-export evaluation or ‘examination of origin’ process. The pre-export evaluation and verification process takes about five days, whereas the issuance of a COO takes two hours to one day, provided the necessary documents are complete and accurate.

**Table 9.5a. Perceptions of Costs and Procedures of FTAs**

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

COO = Certificate of Origin, FTA = free trade agreement.

Source: Firm survey.

**Table 9.5b. Perceptions of Costs and Procedures of FTAs, by Firm Size**

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

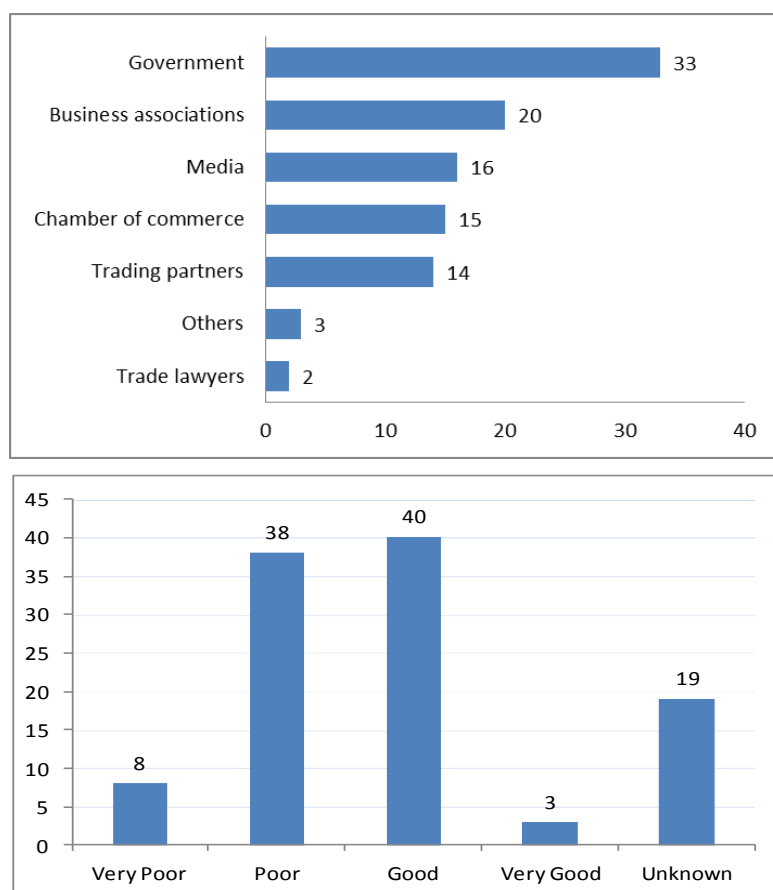
COO = Certificate of Origin.

Source: Firm survey.

### 2.1.7. Main Sources of Information About FTAs

For most respondents, the government remains the number-one source of FTA information (Figure 9.8). This is especially true for foreign firms (72 percent of 33 FTA users) but less so for locally owned firms (18 percent). Business associations, media, and chambers of commerce are also high on the list of information sources. Respondents' take on the quality of FTA information does not look very encouraging, however, as there is only a very small margin between those that rate the available information good (37 percent of 108) from those that rate it poor (35.2 percent) (Figure 9.8). Taken together, poor and very poor outrank the good and very good responses. These figures indicate that the availability of information is a continuing concern that needs to be addressed if the government wants to encourage greater FTA usage.

**Figure 9.8. Firms' Major Sources of FTA Information and Their Views on Available FTA Data**

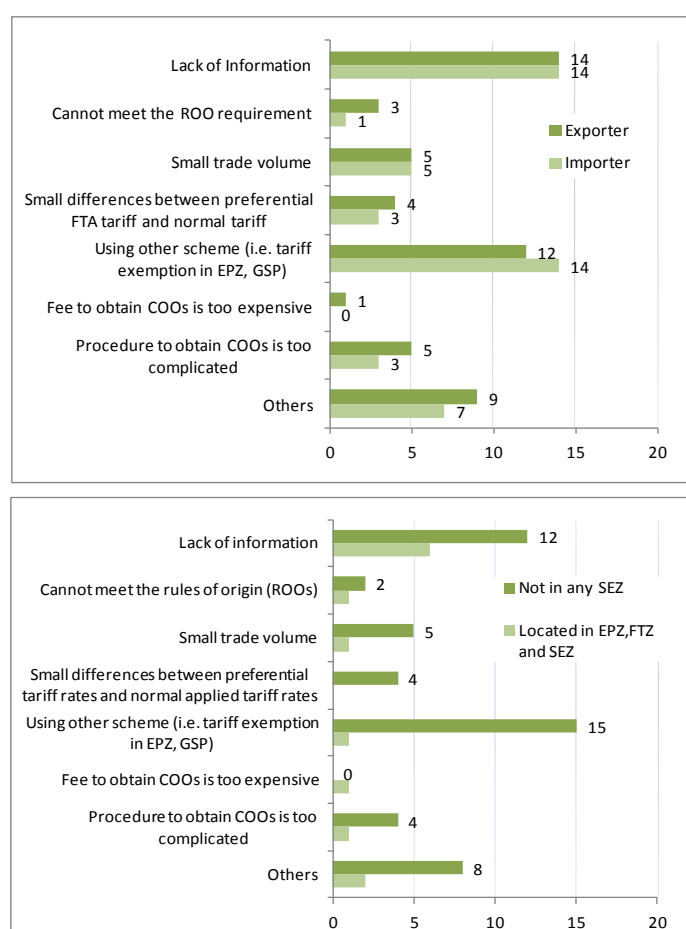


FTA = free trade agreement.  
Source: Firm survey.

### Other Interesting Issues that Need to be Highlighted

Figure 9.9 dissects the issue a little more carefully by distinguishing the problems encountered by exporters and importers, and by those in an economic zone (locators) and those not (non-locators). It would seem that while exporters and importers have similar problems when it comes to FTA utilisation, importers tend to have less incentive to utilise FTAs. Lack of information is common to both, and strongly so, but for importers the use of other schemes ranks just as high as information insufficiency. The same is true in the case of zone locators, where the presence of other incentive schemes and lack of information are more conspicuous than other identified issues. Perhaps the lack of information stems from confusion among economic zone locators in terms of which incentive to use—FTA or zone import duty-free incentive.

**Figure 9.9. Reasons for Not Using FTA COOs\***



COO = Certificate of Origin, EPZ = export processing zone, FTA = free trade agreement, GSP = Generalized System of Preferences, ROO = rules of origin.

\*Frequency of responses; multiple responses allowed.

Source: Firm survey.

## 2.2. Use of FTAs in the Services Sector

### 2.2.1. Use of FTAs, Analysed by Firm Characteristics (Size, Ownership, Location, Exporting and/or Importing)

The results indicate that most of the 34 firms surveyed come from the food and restaurant business, hotels and restaurants, and computer and Internet services. Table 9.6 gives additional information about the firms, including their FTA preferences and trade transactions. The majority of firms surveyed are small and medium-sized enterprises, representing 59 and 29 percent of the sample, respectively. These are firms with 51 to 300 workers.

**Table 9.6. Use of FTAs, by Major Characteristics of Surveyed Services Firms**

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

FTA = free trade agreement

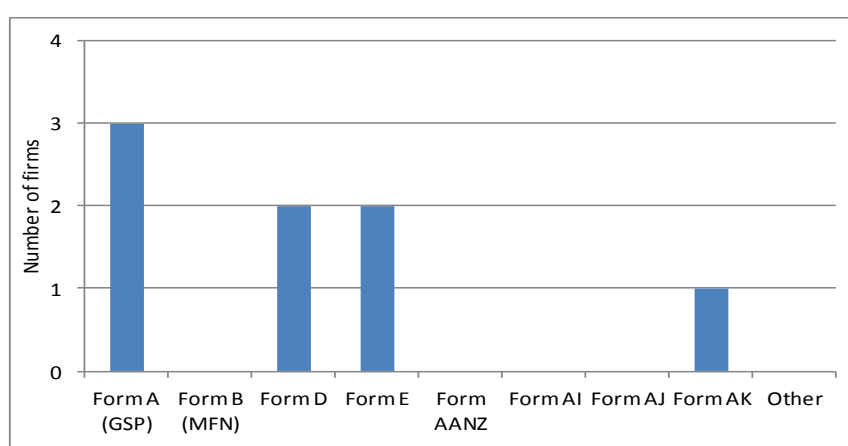
Source: Firm survey.

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

### 2.2.2. Survey Results of the Use of FTAs, by Type of Agreement

Using the number of COOs filed, Figure 9.10 shows the surveyed firms' use of FTAs, by type of agreement. Similar to manufacturers, services firms also apply tariff concessions under the GSP, and Forms D, E, and AK, which cover imported goods using AFTA, ACFTA, and AKFTA. However, unlike manufacturing, trade relations with Japan, either via AJFTA or PJEPA, do not feature in the COO applications of firms in the services sector, perhaps because AJCEP and PJEPA are relatively recent.

**Figure 9.10. Service Firms' Use of FTAs, by Agreement\***



AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, AJ = ASEAN-Japan, AK = ASEAN-Korea, FTA = free trade agreement, GSP = Generalized System of Preferences, MFN = most-favoured nation.

\*Multiple responses allowed.

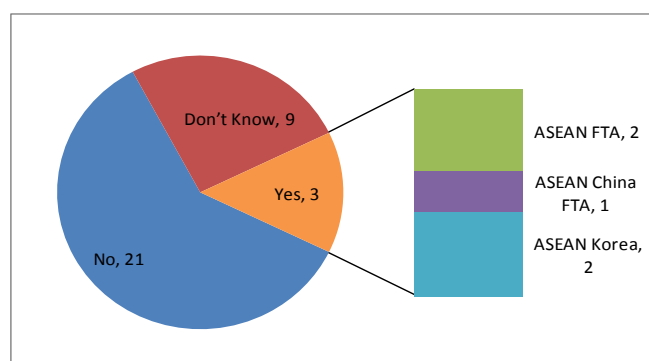
Source: Firm survey.

### 2.2.3. Perceptions of How FTAs Affect Decisions to Invest, by Firm Size

FTAs do not feature prominently in the business decisions of services firms, and this is very much reflected in the survey results. Among the FTA users surveyed, the FTAs most considered are AFTA, AKFTA, and ACFTA. These companies are engaged in computer and Internet services, hotels and restaurants, and packaging and printing.



**Figure 9.11. FTAs Considered in Investment Decisions by Most Firms**



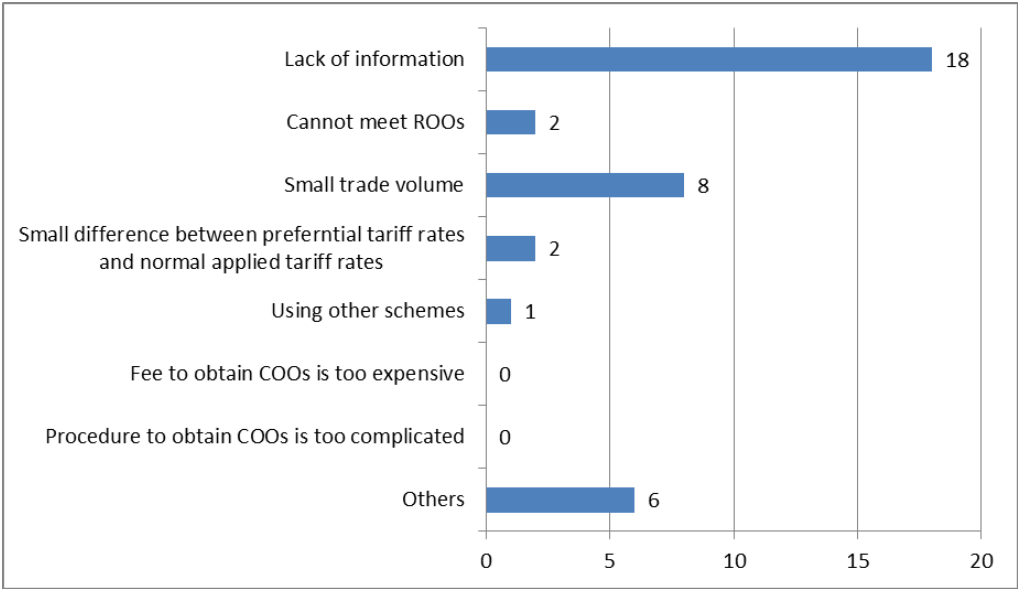
ASEAN = Association of Southeast Asian Nations, FTA = free trade agreement.  
 Source: Firm survey.

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

#### **2.2.4. Constraints Leading to Lack of Use of FTAs, Analysed by Firm Size**

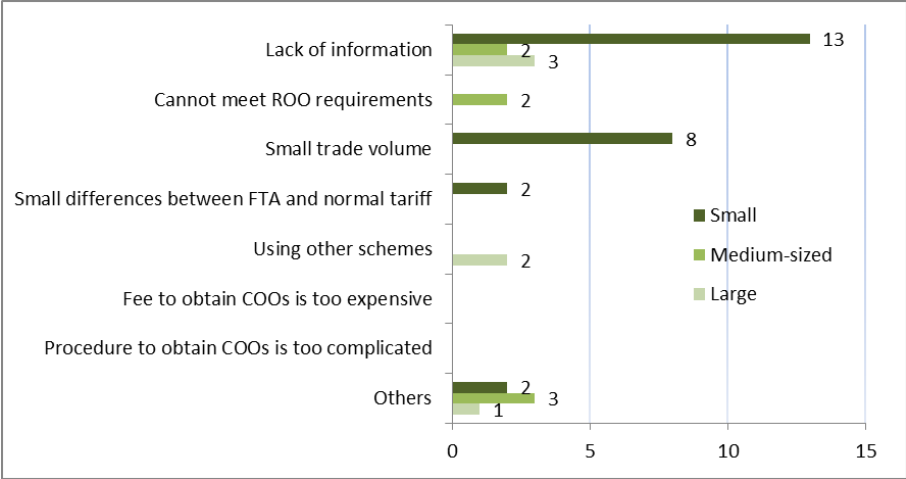
Of the 34 services establishments surveyed, only three are FTA users and all are small or medium-sized. Since the percentage of non-users is overwhelming, it is important to note the factors that lead to this decision and gain a better understanding of the issue from the firms' perspective. Figure 9.12 tabulates the major reasons for firms' low FTA utilisation. Lack of information is first on the list, followed by small trade volume. These two factors are cited mostly by small firms (Figure 9.12a), which comprise a significant portion of the survey sample. For large and medium-sized firms, the lack of information and the use of other incentive schemes are major impediments to FTA use. Other reasons cited include focus on the domestic market, using other business-related incentives, and inapplicability of FTA in current business operations.

**Figure 9.12. Reasons for Not Using FTAs**



COO = Certificate of Origin, FTA = free trade agreement, ROO = rules of origin.  
 Source: Firm survey.

**Figure 9.12a. Reasons for Not Using FTAs, by Firm Size\***



COO = Certificate of Origin, FTA = free trade agreement, ROO = rules of origin.  
 \*Frequency of responses; multiple responses allowed.  
 Source: Firm survey.

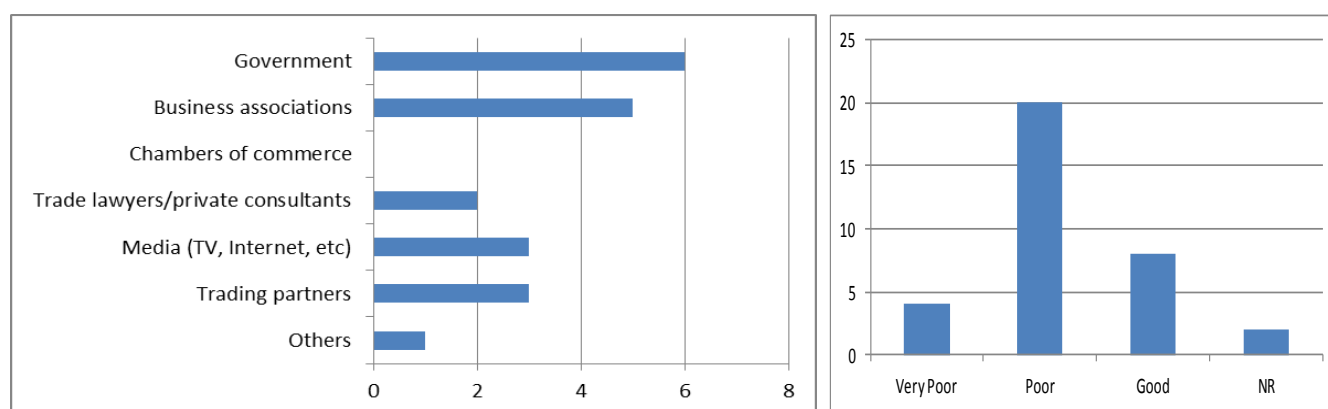
**2.2.5. Main Sources of Information About FTAs**

For a majority of those who responded, the government is the main source of FTA information; closely following are business associations, trading partners, and the media. Unfortunately, the quality and volume of information obtained from these sources were

rated very poorly by the respondents. The large percentage of firms that indicate the available data are very poor and poor is cause for concern. It seems that current efforts by the government to inform and educate the public about FTAs are not reaching most stakeholders. Perhaps there is a need to disseminate information more broadly and effectively, and make more information available to stakeholders.

**Figure 9.13. Firms' Major Sources of FTA Information and Their Views on Available FTA**

**Data**



FTA = free trade agreement.  
 Source: Firm survey.

**2.2.6. Other Interesting Issues that Need to be Highlighted**

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

### 3. Key Recommendations

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

The DTI has made considerable efforts to increase FTA awareness through DBFTA sessions nationwide and the publication of a DBFTA handbook and FTA primers. However, the government needs to further promote FTAs by setting up a portal (similar to that of the International Enterprise<sup>17</sup> and the Ministry of Trade and Industry in Singapore, and the Ministry of Foreign Affairs and Trade in Australia-New Zealand),<sup>18</sup> where information about the benefits of FTAs, the process of gaining access, the requirements and forms, and other relevant information that firms and other major stakeholders might need, can be easily accessed or downloaded. As indicated in the survey, the government is still the main source of FTA information. This FTA portal, which should be an improvement on what is currently offered on the DTI website, will most likely enhance FTA awareness, eventually translating into increased utilisation levels. This is not only cost-effective on the part of the government but also a means to promote transparency in COO issuance, thereby minimising rent-seeking behaviour of the agencies involved in FTA implementation.

Entities such as business associations and chambers of commerce are reported as the second major source of information on FTAs. Thus, it would be more beneficial for the government and the private sector to coordinate efforts more closely. It would also be useful for the BOC to regularly monitor and set up a system to analyse FTA utilisation. A

---

<sup>17</sup>IE Singapore is the government agency driving Singapore's external economy, i.e. spearheading the overseas growth of Singapore-based companies and promoting international trade <http://www.iesingapore.gov.sg/About-Us/Overview>.

<sup>18</sup>Another portal where information about AANZFTA can be accessed at <http://aanzfta.asean.org/>.

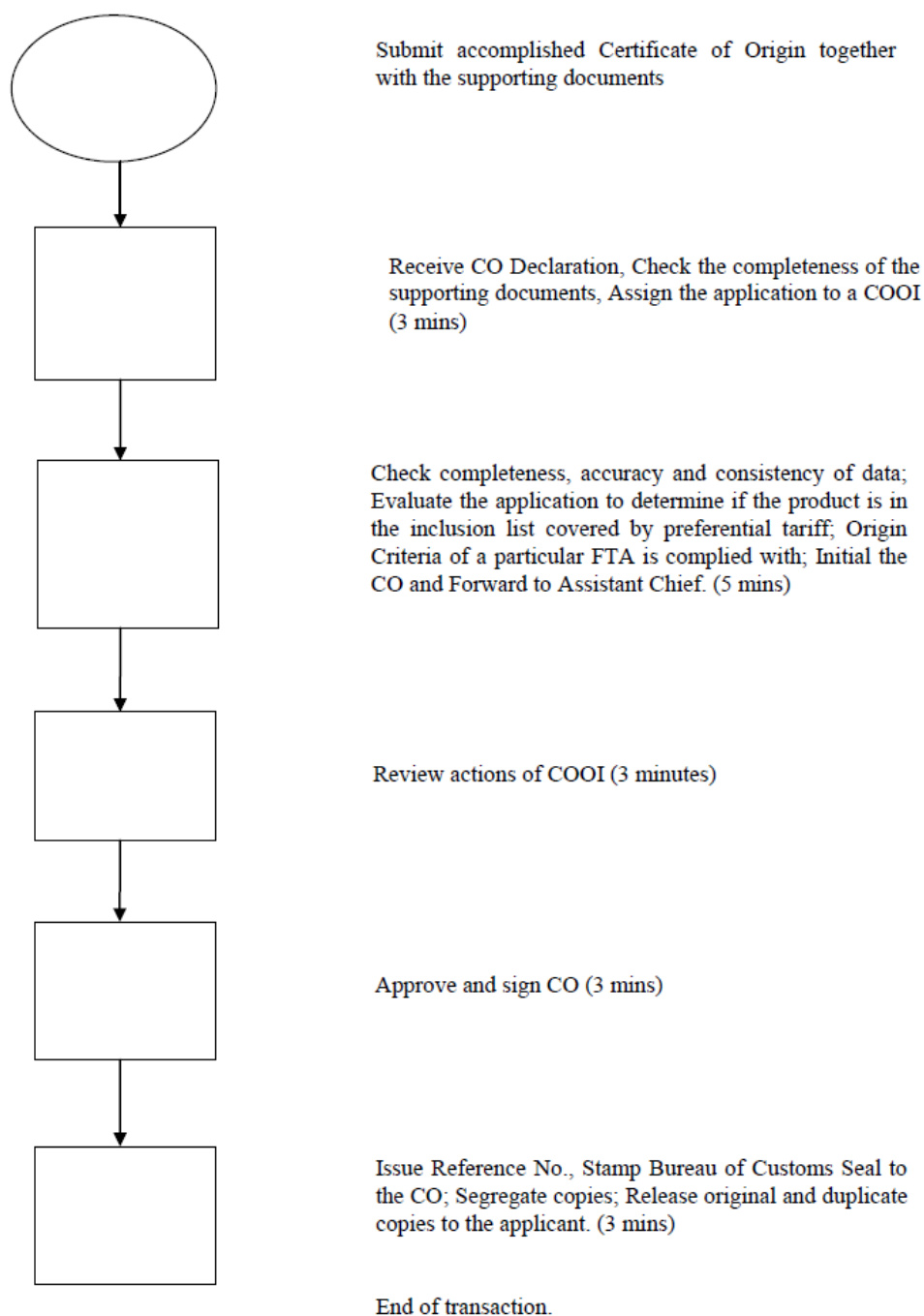
monitoring scheme would provide more accurate data and information about the Philippines' use of various FTAs. The data available are limited to the number of COO issuances and the corresponding value and volume of cargo covered. Information about the characteristics (such as industry or products, size, location, ownership) of the firms using FTAs would also be useful, not only in analysing FTA utilisation but more importantly in designing programmes to maximise FTA benefits. There is no system in place compiling all the reports from all collection districts. At present, official data on COOs cover only the Port of Manila.

A review of the COO access procedures to achieve a smooth, simplified, and speedy process is also recommended, as this will greatly ease the apprehensions of and lessen the cost especially for firms that attempt to use FTAs for the first time. The computerisation of COO issuances should be pursued and integrated with the National Single Window. Identifying steps in the procedure that can be automated is also worth pursuing in the short term. Rationalising the roles of the different issuing authorities (i.e. the BOC for preferential COOs and private industry associations for non-preferential COOs) may also be in order. Specifically, a big push for the DTI's self-certification pilot project could have a potentially significant impact, especially for micro, small, and medium-sized enterprises.

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

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

## Annex 1. Issuance of Certificates of Origin



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

## References

- Department of Trade and Industry (DTI) Doing Business in Free Trade Areas 2011 Handbook.. First published September 2011; Revised edition, December 2012). <http://www.pttc.gov.ph/dbfta/dbfta-handbook.html>. Hayakawa, K., Hiratsuka, D., Shino, K., and Sukegawa, S. (2009), 'Who Uses Free Trade Agreements?' ERIA Discussion Paper 2009-22, Economic Research Institute for ASEAN and East Asia, Jakarta.
- Hiratsuka, D., Hayakawa, K., Shino, K. and Sukegawa, S. (2009), 'Maximizing Benefits from FTAs in ASEAN', in J. Corbett and S. Umezaki (eds.), *Deepening East Asian Economic Integration*, ERIA Research Project Report 2008-1, pp.407–545, Economic Research Institute for ASEAN and East Asia, Jakarta.
- Kawai, M. and Wignaraja, G. (eds.) (2011), *Asia's Free Trade Agreements, How is Business Responding?* Edward Elgar, Cheltenham.
- Medalla, E. (2011a), 'Taking Stock of the ROOs in the ASEAN+1 FTAs: Toward Deepening East Asian Integration', in Chang Jae Lee and Okabe, M. (eds.), *Comprehensive Mapping of ASEAN+1 FTAs*, Economic Research Institute for ASEAN and East Asia, Jakarta.
- Medalla, E. (2011b), 'Survey of Origin Documentation in FTAs: Philippines', unpublished report, *ERIA Project on Towards Accessible FTAs: The Role of Rules of Origin Documentation in FTA Utilisation*, Economic Research Institute for ASEAN and East Asia, Jakarta.
- Medalla, E. and Balboa, J. (2009), 'ASEAN Rules of Origin: Lessons and Recommendations for Best Practice', ERIA Discussion Paper 2009-17, Economic Research Institute for ASEAN and East Asia, Jakarta.
- Medalla, et al (2013). Chapter 2 Policy Updates: Developments and Implications in PIDS Economic Policy Monitor 2012. Philippine Institute for Development Studies, Makati City, 2013.
- Medalla E. and Rosellon, M. (2011), 'Rules of Origin in ASEAN+1 FTAs and the Value Chain in East Asia', in Findlay, C. (ed), *ASEAN+1 FTAs and Global Value Chains in East Asia*, Economic Research Institute for ASEAN and East Asia, Jakarta.
- Wignaraja, G., Lazaro, D. and De Guzman, G. (2010), 'FTAs and Philippine Business: Evidence from Transport, Food, and Electronics Firms', ADBI Working Paper 185, Asian Development Bank Institute, Tokyo. Available at: <http://www.adbi.org/workingpaper/2010/01/13/3431.fta.philippine.business/>.