

STRUCTURAL CHANGE AND BARRIERS TO PHILIPPINE MANUFACTURED EXPORTS

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I. INTRODUCTION

RECENT developments in trade stand witness to the changes in the developing countries' pattern of comparative advantage and the pace of industrialization that has taken place over time. One obvious indicator is these countries' increased participation in what was heretofore an exclusive trading domain of developed countries, namely in manufactures. On the other hand, there is a growing and persistent fear among developing countries that the present trading system is increasingly biased against goods that embody their comparative advantage. Moreover since tariffs have generally taken the backseat in the protection policies of the developed countries, a less transparent and possibly more intractable set of non-tariff protectionist devices is being put in their place. For instance, while the developed countries have instituted such schemes as the duty-free GSP quota, they have also created the MFA. Unfortunately little attempt has been made to systematically examine the prevalence of non-tariff measures (NTM) that confront developing country exports. For instance, it is not known except possibly in a general way, what sort of non-tariff measures impinge on the Philippines' ability to break into markets for manufactures, particularly of the labor-intensive type. How have these measures affected the production, investment, and export activity of firms in the industries confronted by such policy devices?

In the following section we shall first point out the structural changes that have taken place in Philippine exports during the last two decades, i.e., until 1983 when the economy underwent deep recession. In the third section, a measure of the prevalence of non-tariff measures confronting Philippine exports will be presented, with particular attention to those that bear certain manufactured exports in which the Philippines has demonstrated its comparative advantage. A quick glance will be taken of similar measures facing the country's exports to

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TABLE I
COMMODITY STRUCTURE OF PHILIPPINE EXPORTS, 1963 AND 1983

	SITC 0-4	SITC 5-8	SITC 9	SITC 5-9
World				
1963	95.24	4.66	0.93	4.76
1983	47.45	26.70	25.85	52.55
U.S.A.				
1963	90.87	9.04	0.09	9.13
1983	34.64	32.40	32.94	65.36
EC				
1963	99.53	0.44	0.04	0.48
1973	49.69	27.22	23.07	50.30
EFTA*				
1963	99.49	0.36	0.15	0.51
1973	68.42	21.97	9.60	31.58
Japan				
1963	99.58	0.39	0.03	0.42
1983	71.33	15.61	13.05	28.66
Australia-New Zealand				
1963	96.84	2.24	0.92	3.16
1983	34.30	56.58	9.11	65.70
Asian NICs				
1963	95.11	4.68	0.21	4.89
1983	44.61	24.94	30.44	55.39
ASEAN				
1963	13.96	80.70	5.34	86.04
1983	6.93	21.48	71.59	93.07

Sources: U.N., *Commodity Trade Statistics*, 1963 and 1983 editions.

* The European Free Trade Area.

ASEAN countries. In the fourth section, the results of a firm-level survey will be presented, showing the perception of entrepreneurs on the effects of non-tariff measures on their production, investment, and export activity. Then the fifth section will be devoted to a discussion of certain other barriers of domestic origin that appear to limit export activities. The final section will summarize the findings of the study and their policy implications.

II. COMMODITY DIVERSIFICATION OF PHILIPPINE EXPORT STRUCTURE

Probably the most notable structural change that has occurred in Philippine exports during the last two decades is commodity diversification towards manufactures. While resource-based exports (SITC 0-4) comprised a dominant share of over 90 per cent of total exports in 1963, by 1983 their importance had declined to less than 50 per cent (Table I). In turn the share of manufactured exports (SITC 5-8) rose by 22 percentage points, from a 5 per cent share in

TABLE II
STRUCTURE OF PHILIPPINE MANUFACTURED EXPORTS ACCORDING TO
LABOR-INTENSITY, 1963, 1973, AND 1983

(%)

Destination	Category I			Category II			Category III		
	1963	1973	1983	1963	1973	1983	1963	1973	1983
World	14	26	49	80	55	34	6	19	17
Developed countries	10	24	52	85	55	31	5	16	17
U.S.A.	9	24	55	89	69	37	2	7	8
EC	93	38	58	6	56	32	1	6	10
EFTA	1	17	59	0	83	8	0	0	33
Japan	4	29	21	14	28	13	62	43	66
Developing countries	57	11	23	10	28	58	33	62	19
Asian NICs	57	29	26	9	42	60	34	29	14
ASEAN	64	10	11	4	59	55	31	31	34

Sources: Calculated by author based on U.N., *Commodity Trade Statistics*, 1963, 1973, and 1983 editions; and Philippine, National Statistics Office, *Annual Survey of Manufacturing Establishments*, 1963, 1973, and 1983 editions.

1963. If one takes into account the fact that most SITC 9 (special transactions) is made up of manufactured articles (especially apparel on consignment and subcontracted electronic devices), manufactured exports would comprise more than half of total exports. Most such structural change occurred during the last decade and was accounted for mainly by share increases in miscellaneous manufactured goods [SITC 8, particularly apparel (SITC 84); furniture (SITC 82); footwear (SITC 85); and miscellaneous manufactured goods (SITC 89)] and in electrical equipment (SITC 72; mainly semiconductors).

However, geographic concentration in developed country markets still characterizes the country's manufactured export trade, similar to the geographical concentration of total exports two decades earlier. About 40 per cent of manufactured exports presently goes to the U.S. market. There is however a slight, though discernible, trend in exports flowing in the direction of the other developing countries. In 1985 they absorbed about 20 per cent of the country's exports of manufactures. For the most part these found their way to the dynamic developing economies of East and Southeast Asia.

The Philippines is generally assumed to be abundant in unskilled labor and is expected to reveal a comparative advantage in goods that use this resource intensively. The commodity structure of the country's manufactured exports and the changes therein reflect the changing pattern of its comparative advantage. Table II shows that the Philippines' manufactured exports to the world tend to concentrate in the labor-intensive category,¹ a tendency reinforced over time.

¹ Manufactured exports were ranked according to their degree of capital intensity and classified from the least capital intensive (or alternatively, most labor intensive: category I) to the most capital intensive (or least labor intensive: category III). Capital intensity

Indeed, concentration intensified in the most labor-intensive group (category I), made up for the most part of wearing apparel, furniture, and footwear. In contrast, the importance of wood and cork manufactures (SITC 63) which, in 1963, made up category II almost exclusively, drastically declined. In 1983, electrical equipment exports, primarily semiconductors, had supplanted wood manufactures, which made up most of category II.

The Philippines' import markets represent the broad spectrum of developed and developing countries. Since its labor abundance is clearly marked only in reference to the factor endowment of the former group, one would have to partition its manufactured exports into those to labor-scarce and labor-abundant countries in order to link the country's pattern of commodity specialization with the geographic structure of its exports.

Partitioning the country's manufactured exports into developed country (labor-scarce) and developing country (labor-abundant) destinations shows striking but expected contrasts. The dominance of the most labor-intensive category observed in exports to developed country markets is not seen at all in the pattern of export flow to developing countries. The share of labor-intensive manufactures to the developing countries in the sample remained small even in 1983. Among developed country markets, however, Japan is clearly an outlier in that its manufactured imports are still concentrated in the most capital-intensive group (category III). In 1983, Japanese imports of the most labor-intensive manufactures accounted for only a fifth of the total, in contrast to the United States' 55 per cent and the EC's 58 per cent share. These findings generally confirm those of other studies² which have found generally lower import penetration ratios of labor-intensive developing country exports to Japan when compared to other developed markets. Instead, the composition of manufactured exports to Japan resembles more closely that of the Asian NICs or of ASEAN than the developed country groups to which it belongs. One notes though that the Philippines' export trade to the East Asian NICs and Southeast Asian near NICs (e.g., Malaysia and Thailand) concentrates in category II, especially in exports of electrical equipment (SITC 72). The shift over time towards category II exports to the NICs reflects the unprecedented burst of trade in subcontracted electronic parts and components in recent years. A similar trend in exports to ASEAN in part reflects the preferential trade relations between ASEAN members for products from industrial complementation schemes and, more especially, of the global strategy of multinational companies operating in the region, which subcontract the production of parts and components wherever profitable.

It is alleged, however, that developed countries have moved to block developing country comparative advantage to the extent that it poses a threat to the

was measured using Lary's flow measure [3], that is: $K_i = VA_i/N_i$, where K_i is a measure of capital intensity of industry i (from which exports i originate), VA_i is value added in industry i (using two- or three-digit Philippine Standard Industrial Classification); and N_i is the number of persons employed in industry i . For contents of each category, see Appendix Table.

² See, for example, [2].

former's domestic industry. To what extent do trade measures in the Philippines' trade partners impinge on its manufactured exports? Are such measures systematically directed against the Philippines' emerging comparative advantage in labor-intensive manufactures? The following section explores these issues in greater detail.

III. TARIFFS AND NON-TARIFF MEASURES ON MANUFACTURED EXPORTS

This section examines the trade measures confronted by Philippine manufactured exports in its principal trading partners, the United States, Japan, and the EC. It also looks at the possible implementation of similar policies by its neighbors. To this end, we estimate the "coverage ratios" of NTMs. These ratios show the percentage of Philippine exports to a given country market that are covered by a specified set of NTMs in that market.

Coverage ratios do not attempt to measure the degree of restrictiveness of a given NTM but only the proportion of the country's total export which is subjected to a set of import policy measures in a given market. The limitations to the use of this measurement are well known. For one, downward bias may be present since the more restrictive the NTM, the more it reduces imports, and hence the less weight attributed to the NTM. On the other hand, upward bias may be present to the extent that the NTM is not binding and may thus be attributed greater weight. Since biases can occur in either direction, they may offset each other in terms of effects of a given NTM on the process of aggregating trade values across commodity groups.

Table III gives an overall picture of Philippine exports to the United States, Japan, and the EC which are covered by NTMs in 1983. In the United States the most common NTMs are health and sanitary regulations, which affect 26 per cent of total Philippine exports. This is followed by customs formalities which affect 9 per cent, and bilateral quotas which affect 7 per cent of all exports to the United States. In Japan, NTMs are mostly in the form of phytosanitary regulations (18 per cent), customs classifications, packaging requirements, discretionary licensing, and quotas (14 per cent each). Health certification has a low NTM coverage since it seems to affect only 4 per cent of all exports. But in reality, it is a prevalent NTM since it applies to about a fourth of the 85 major Philippine export categories examined in the study. For the EC, the most common NTMs are quantitative restrictions, especially import licensing (3 per cent), quotas, either global or bilateral (52 per cent), unspecified import restrictions (35 per cent), and certification requirements (31 per cent).

Estimates of NTM-coverage ratios are highest for the EC (75 per cent), followed by the United States (48 per cent), and Japan (47 per cent). The reason for the high EC ratio may be that each EC member country has its own set of NTMs, so that a given five-digit CCCN category may not face an NTM in one country but be confronted in another, and thus be recorded as subject to NTM in the EC. This is deducible from the longer list of NTMs in the EC that are

faced by two-digit CCCN groups (Table III) as compared with that of Japan or the United States. Thus the common perception that Japan's trade barriers are higher and more numerous than those of other developed countries is not verifiable from the above findings on NTM-coverage ratios. One reason is that Japan's imports from the Philippines are predominantly mineral products which are among those least subject to NTMs. On the other hand, it may also be argued that Japan's NTMs are of a non-conventional type and thus are omitted from the UNCTAD inventory.

Closer examination of Table IV reveals rather high NTM-coverage ratios for principal exports to these countries. The top eight categories (in terms of share of total exports) represent more than 5 per cent of all NTM-covered exports in 1983. Considerable concentration is also evident in that the NTM-covered export values of three categories of agricultural and agro-based manufactures (i.e., animal and vegetable fats and oils, vegetable products, beverages and tobacco) represent about 50 per cent of total NTM-covered export values in each of the three national markets.

Compared to resource-based exports, three labor-intensive categories belonging to category I (textile and textile products, footwear, and other manufactures) do not appear to have been subjected to more-than-average NTM-coverage. Their NTM-coverage ratios are generally lower than those of agricultural and agro-based manufactures, except for miscellaneous manufactures to the United States (82 per cent). Moreover, the ratios are conspicuously lower for Japan (ranging from 1 per cent for footwear and related products to 28 per cent for textile and textile products). The NTM-covered values for the three groups represent only 27, 2, and 11 per cent of total NTM-covered exports to the United States, Japan, and the EC, respectively. However there is some evidence of a tendency to use tariff protection to supplement or reinforce NTMs against these groups. In the United States, aside from being subject to quotas, textile and textile products do not generally fall under GSP and tend to be under imposed MFN tariffs that go as high as 39 per cent on certain items such as women's, girls', and infants' coats and jackets or manmade fibers that are not knitted or crocheted. In the EC, however, textile and textile products are accorded preferential treatment under GSP, beyond the duty-free ceiling MFN tariffs operate and are higher (ranging from 7.5 to 15 per cent) than the average 6.7 per cent weighted-average tariff rate for finished and semifinished manufactures. On the other hand, Japan does not impose MFA quotas on textiles and apparel and grants GSP privileges, but also imposes higher-than-average tariffs that range from 8 to 17 per cent beyond the GSP quota. It must also be pointed out that Japan has laid down restrictive GSP arrangements on about half of its total imports of textile and textile products through measures such as quota allocation (thirteen products), daily quota administration (for twelve products) and a 50 per cent GSP merge on selected products (about sixteen products). GSP eligibility was also subject to the suspension applied on nine products for all beneficiaries and on eight products for specific beneficiaries during fiscal year 1983 [5].

Similarly, the rate of nominal tariff on footwear is higher than the average

TABLE

NTM COVERAGE OF PHILIPPINE EXPORTS TO THE UNITED STATES,

CCCN	Product Category	Value of NTM-covered Exports (US \$1,000)	U.S.A.		Value of NTM-covered Exports (US \$1,000)
			NTM		
			Type	NTM Coverage by Type of NTM (%)	
01	Live animals	9,063	• Health & sanitary regulations	100	44,364
02	Vegetable products	83,119	• Health & sanitary regulations	100	218,303
			• Consular & customs formalities & documentation	0.23	
			• Rules of origin	0.23	
03	Animal & vegetable oils	214,234	• Global quota	0	38,683
			• Price support	0	
			• Production control	0	
			• Health & sanitary regulations	99	
04	Beverages & tobacco	256,866	• Countervailing duty	11	57,793
			• Health & sanitary regulations	53	
			• Tariff quota	11	
			• Global quota	46	
			• Quota by country	46	
			• Import levy	46	
			• Domestic subsidy	46	

III

JAPAN, AND THE EC BY COMMODITY GROUP AND TYPE OF NTM

Japan		Value of NTM-covered Exports (US \$1,000)	EC	
Type	NTM Coverage by Type of NTM (%)		Type	NTM Coverage by Type of NTM (%)
• Production control	100	8,912	• Reference import price	100
• Health certification	100		• Licensing	100
• Import authorization	100		• Technical requirements	100
• Global quota	100		• Tariff quota	100
			• Quota by country	0
			• Price control	0
		34,900	• Global quota	62
• Phytosanitary regulations	100		• Selective internal tax	5
• Customs certification	81		• Quota by country	100
• Packaging requirements	81		• Import restriction	62
• Import authorization	81		• Health & safety standards	0
• Global quota	81		• Phytosanitary regulations	0
• Seasonal tariffs	81		• Rules of origin	0
• Health certification	17		• Customs & consular formalities & documentation	0
• Commodity tax	0.1		• Restrictions (unspecified)	30
• Internal tax	0.1		• Import restriction	99
		196,053	• Entry control measure	99
• Phytosanitary regulations	2		• Licensing	99
• Global quota	2		• Health certification	2
• Deficiency payment	2		• Quota	99
• Health certification	23		• Technical requirements	2
• Import authorization	0		• Certification requests	97
• Health & safety standards	75		• Import levy	97
			• Quota by country	0
• Internal tax	95	127,167	• Restrictions (unspecified)	8
• Sugar excise tax	88		• Bilateral quota	11
• Import levy	87		• Quota	8
• Health certification	88		• Licensing	93
• Import certification	87		• Import levy	100
• Price support	87		• Entry control measure	7
• Phytosanitary regulations	10			

TABLE III

CCCN	Product Category	U.S.A.			Value of NTM-covered Exports (US \$1,000)
		Value of NTM-covered Exports (US \$1,000)	NTM		
			Type	NTM Coverage by Type of NTM (%)	
			<ul style="list-style-type: none"> • Minimum import price 46 • Phytosanitary regulations 8 • Consular & customs formalities & documentation 28 • Rules of origin 28 		
05	Mineral products	33,451	<ul style="list-style-type: none"> • Import documentation 38 	173,758	
06	Chemical products	—	—	5,467	
07	Plastic & rubber products	—	—	—	
08	Hides & skins	—	—	—	
09	Wood & wood articles	108,017	<ul style="list-style-type: none"> • Health & sanitary regulations 100 • Tariff quotas 100 	43,003	

(Continued)

Japan		Value of NTM-covered Exports (US \$1,000)	EC	
NTM			NTM	
Type	NTM Coverage by Type of NTM (%)		Type	NTM Coverage by Type of NTM (%)
• Global quota	3		• Flexible import fee system	0
• Discretionary licensing	0.7		• Certification requirements	82
• Health & safety standards	0.4		• Health certification	0
• Customs & consular formalities & documentation	0.4		• Variable levy	82
• Commodity tax	0.3		• Selective internal tax	0
• Production control	0.3		• Customs & consular formalities & documentation	4
• Packaging regulations	0.3		• Additional duty on sugar	7
• State trading	7		• Health & safety standards	4
• Marking & packing requirements	—		• Phytosanitary regulations	4
			• Rules of origin	4
			• Import restriction	3
			• Discretionary licensing	0
			• State trading	7
• Discretionary licensing	100	1,365	• Quota by country	0
• Quota	100		• Licensing	100
			• Restriction (unspecified)	0
			• State trading	0
			• Global quota	0
			• Discretionary licensing	0
• Technical regulations	—	—	—	—
• Global quota	—	—	—	—
—	—	—	—	—
—	—	—	—	—
• Health certification	100	167,338	• Entry control measures	74
• Commodity tax	7		• Automatic licensing	70
			• Serveillance	70
			• Quota by country	20

TABLE III

CCCN	Product Category	U.S.A.				Value of NTM-covered Exports (US \$1,000)
		Value of NTM-covered Exports (US \$1,000)	NTM		Value of NTM-covered Exports (US \$1,000)	
			Type	NTM Coverage by Type of NTM (%)		
10	Paper & paper products	7,822	• Tariff quotas	100	—	
11	Textile & textile products	168,742	• Bilateral quota	82	7,232	
			• VER	16		
			• Customs formalities & documentation	75		
			• Global quota	2		
			• Packaging requirements	2		
			• Discriminatory sourcing	14		
			• Rules of origin	14		
			• Restrictive practices	14		
12	Footwear	23,177	• Quota by country	100	4	
			• Import documentation	100		
			• Import monitoring	100		
13	Stone, cement products	—	—	—	—	
14	Pearls & precious stones	—	—	—	—	
15	Base metal products	—	—	—	—	
16	Machinery & equipment	30,364	• Import licensing	100	9,720	
			• Surveillance	100		
17	Vehicles & aircraft	—	—	—	—	

(Continued)

Japan		EC		
NTM		Value of NTM-covered Exports (US \$1,000)	NTM	
Type	NTM Coverage by Type of NTM (%)		Type	NTM Coverage by Type of NTM (%)
			• Marketing standard regulations	17
			• Tariff quota	17
			• Discretionary licensing	2
• Import authorization	—	57,786	• Global quota	83
			• Automatic licensing	85
			• Export restraint	43
			• State trading	1
			• Restriction (unspecified)	99
			• Packaging requirements	21
			• Bilateral quota	32
			• Discretionary licensing	59
			• Testing & certificate requirements	21
			• Surveillance	93
			• Licensing	17
• Global quota	—	2,949	• Bilateral quota	17
• Discretionary licensing	100		• Global quota	100
			• Restriction (unspecified)	26
			• Licensing for surveillance	74
			• Automatic licensing	100
			• Global quota	0
			• Discretionary licensing	0
• Commodity tax	100	86,196	• Bilateral quota	100
			• Discretionary licensing	100
			• Tripartite accord	100
			• Restriction	100
			• Bilateral quota	100

TABLE III

CCCN	Product Category	U.S.A.			
		Value of NTM-covered Exports (US \$1,000)	NTM		Value of NTM-covered Exports (US \$1,000)
			Type	NTM Coverage by Type of NTM (%)	
18	Professional instruments	—	—	—	—
19	Arms, ammunitions	—	—	—	—
20	Miscellaneous manufactures	88,489	• Import regulations	7	2,064
21	Works of art	—	—	—	—
	Total NTM-covered exports	1,023,344			592,399
	Total exports (1983)	2,125,186			1,255,781
	Total NTM coverage	48%			47%

Source: [4, Table 8].

on manufactures (8.7 per cent in the United States, 6.7 per cent in the EC, and 6.9 per cent in Japan) [2]. The United States excludes footwear from GSP and imposes a 6 to 16 per cent MFN rate. The EC applies no GSP duty on footwear but slaps an MFN tariff rate ranging from 8 to 20 per cent beyond the ceiling. In Japan, some footwear items fall under the 13.5 per cent GSP tariff rate while others get a 27 per cent uniform MFN rate.

The tendency for NTMs to be reinforced by higher tariff can also be gleaned from Table V which gives the average tariff rates for the United States, Japan, and the EC weighted by Philippine exports. The rate is conspicuously highest for footwear in all three countries—this in spite of its low weight in total Philippine exports—and for textile and textile products, especially in the United States and EC.

To summarize, there is no evidence that the NTMs of the Philippines' principal trading partners are unduly directed towards Philippine manufactured exports, especially of the labor-intensive type. However there seems to be a tendency to simultaneously rely on more conventional trade measures, in the form of higher-

(Continued)

Japan		Value of NTM-covered Exports (US \$1,000)	EC	
NTM			NTM	
Type	NTM Coverage by Type of NTM (%)		Type	NTM Coverage by Type of NTM (%)
			• Quota by country	100
			• Entry control measure	100
			• Restrictions	100
—	—	935	• Restrictions	100
• Supplementary	72	17,813	• Quota by country	22
• Internal tax	73		• Automatic licensing	32
• Commodity tax	72			
• Global quota	0.7			
• Health certification	27			
—	—			
		719,699		
		958,156		
		75%		

than-average tariff rates applied on labor-intensive manufactured exports that exceed GSP quotas.

ASEAN countries except Singapore seem to rely on tariff protection (Table VI). Average tariff rates (weighted by Philippine bilateral exports) on Philippine exports exceed 25 per cent for Thailand and Indonesia and 15 per cent for Malaysia. Moreover, tariffs on manufactured exports, especially of the labor-intensive type (c.f., footwear in Indonesia, textile and textile products in Thailand, miscellaneous manufactures in Malaysia, Thailand, and Indonesia) generally exceed the average rate. Only Singapore imposes minimal tariff rates. On the other hand, NTM-coverage ratios are very low (4.7 per cent for Thailand, 2.77 per cent for Singapore, and 1.65 per cent for Malaysia). Indonesia is an exception with its ratio of 41 per cent in 1983, where NTMs were generally in the form of import licensing and state trading. Thailand and Singapore, usually demand import licenses while Malaysia uses mostly import prohibitions.

TABLE IV
 NTM COVERAGE OF PHILIPPINE EXPORTS TO THE UNITED STATES,
 JAPAN, AND THE EC, 1983

		(%)					
CCCN	Product Category	U.S.A.		Japan		EC	
		Export Share	NTM Coverage	Export Share	NTM Coverage	Export Share	NTM Coverage
01	Live animals	1.0	47	5.7	62	1.3	71
02	Vegetable products	4.0	98	17.9	97	5.0	73
03	Animal and vegetable fats & oils	10.1	100	2.8	88	20.5	100
04	Beverage & tobacco	13.6	89	8.9	52	17.1	78
05	Mineral products	2.1	76	41.7	33	0.3	42
06	Chemical products	0.0	—	1.7	26	0.2	—
07	Plastic & rubber products	0.4	—	0.1	—	0.3	—
08	Hides & skins	2.0	—	0.1	—	0.8	—
09	Wood & wood products	5.9	87	11.5	30	19.5	90
10	Paper & paper products	0.5	72	0.5	99	0.4	—
11	Textile & textile products	15.2	52	2.0	28	13.8	44
12	Footwear & related products	2.0	58	0.3	0.1	1.3	24
13	Stone & cement products	0.3	—	0.0	—	0.1	—
14	Pearls & precious stones	0.4	—	0.2	—	0.3	62
15	Base metal products	—	—	3.6	—	1.5	88
16	Machinery & equipment	36.0	4	1.0	81	11.5	78
17	Vehicles & aircraft	—	—	0.5	—	0.5	20
18	Professional instruments	—	—	0.6	—	1.4	7
19	Arms, ammunitions	0.1	—	—	—	9.2	—
20	Miscellaneous manufactures	5.1	82	0.9	19	3.8	49
21	Works of art	0.0	—	—	—	0.2	—

Sources: U.N., *Commodity Trade Statistics*, 1983 edition and UNCTAD, *Study on Protectionism and Structural Adjustment* (Geneva, 1985).

TABLE V
 AVERAGE DEVELOPED-COUNTRY TARIFF RATES BY COMMODITY GROUP
 WEIGHTED BY PHILIPPINE EXPORTS, 1984

(%)				
CCCN	Description	U.S.A.	Japan	EC
05	Mineral products	1.38	2.17	0.60
06	Chemical products	4.17	4.99	5.59
07	Plastic & rubber products	3.59	3.36	5.85
08	Hides & skins	7.63	6.59	2.89
09	Wood & wood articles	1.67	0.81	2.52
10	Paper & paper products	1.27	2.38	3.37
11	Textile & textile products	12.18	5.42	8.64
12	Footwear & related products	18.86	14.76	12.76
13	Stone & cement products	8.03	3.78	6.49
14	Pearls & precious stones	2.71	2.08	1.58
15	Base metal products	3.99	4.42	3.42
16	Machinery & equipment	3.99	4.50	4.86
17	Vehicles & aircraft	7.74	3.22	7.68
18	Professional instruments	4.86	5.04	5.79
19	Arms, ammunitions	5.49	10.93	5.34
20	Miscellaneous manufactures	5.58	5.52	6.14
21	Works of art	0.67	0.00	0.00

Source: [4, Table 4].

IV. PERCEIVED EFFECTS OF NON-TARIFF MEASURES

A survey of ninety-nine firms³ involved in producing and/or trading labor-intensive goods for export markets was conducted to determine the perceived effects of NTMs on their activities and to find out what strategies they generally use to cope with such measures. The responses were "counterchecked" by interviews conducted with trade associations and government policymakers.

Table VII gives the results of the firm survey conducted on a country-commodity basis. Garments, followed by leather accessories, appeared to have NTMs imposed on them in the greatest number of developed markets. Beside MFA quotas, the other commonly noted form of NTM was import licensing. The EC was likewise perceived to be employing the most varied types of NTMs. As explained earlier, this might be due to the freedom of each member country to determine its own

³ The survey was conducted in Metro Manila and surrounding provinces in mid-1986. Industries covered were garment (forty firms), footwear (twenty), semiconductor (fifteen), toys (five), fruits and nuts (five), processing of marine products (tuna) (four), textile (three), leather accessories (three), coffee (two), and vegetables and spices (two). Majority of the firms were medium- and large-scale in size, employing more than 100 or more workers. More than half (fifty-four firms) were fully owned by Filipinos; ten firms were foreign-owned while thirty-five firms were joint ventures. About half started production in the 1970s and an even greater proportion (90 per cent) started to export only in the 1970s and early 1980s.

TABLE VI
AVERAGE ASEAN TARIFF RATES WEIGHTED BY PHILIPPINE EXPORTS, 1984

CCCN	Product Category	Indonesia	Malaysia	Singapore	Thailand*
01	Live animals	33.33	0.26	0.00	13.90
02	Vegetable products	10.68	0.46	0.00	33.57
03	Animal and vegetable fats & oils	32.29	1.33	0.00	15.76
04	Beverages & tobacco	28.29	13.76	0.20	33.41
05	Mineral products	5.44	0.09	1.38	5.42
06	Chemical products	5.58	6.25	0.00	16.16
07	Plastic & rubber products	35.30	29.58	0.08	48.78
08	Hides & skins	30.68	22.04	1.18	22.20
09	Wood & wood articles	34.83	18.20	0.00	4.28
10	Paper & paper products	20.94	3.77	0.00	17.51
11	Textile & textile products	15.11	22.76	0.96	54.81
12	Footwear & related products	56.99	30.76	0.15	49.61
13	Stone & cement products	25.80	18.15	0.00	35.77
14	Pearls & precious stones	17.65	1.47	0.12	8.26
15	Base metal products	21.01	7.03	0.00	11.02
16	Machinery & equipment	21.96	11.49	0.00	19.21
17	Vehicle & aircraft	30.34	25.53	1.55	20.07
18	Professional instruments	22.05	16.43	0.00	22.65
19	Arms, ammunitions	25.23	5.60	0.00	26.00
20	Miscellaneous manufactures	45.84	16.57	0.78	37.24
21	Works of art	49.33	0.00	0.00	25.00
Total average		27.92	16.08	0.30	25.54

Source: [4, Table 13].

* Import values used in the computation for the average for Thailand were for 1980.

set of NTMs, in contrast with tariffs which are agreed upon by the entire group. Conspicuously, exporters of semiconductors and toys did not report any NTMs on their products. One possible reason for this perception is that producers of semiconductors usually operate under subcontracting arrangements with a multinational company in the region, which in turn is in direct contact with NTMs on the final product. Being only subcontractors with a ready buyer, the producers may not be aware of actual market conditions. Similar cases may be found in the toy industry. In the same manner, exporters to the Asian NICs and ASEAN did not report visible NTMs against their products. It was seen earlier that in these countries, NTM application was less prevalent than in the developed country markets.

Beyond awareness of NTMs on their products, the exporters' perception of the effects of such measures on their production and planning activity was probed. The results were mixed. In particular, a large group of respondent firms claimed that their output had not been affected by NTMs. One possible explanation is that for many of them, especially garment producers, exportation had started only in 1975 when NTMs were already well in place. In fact most firms claimed to

be aware of NTM existence at the start of exportation, thus possibly regarding NTMs as a "given" condition considered in determining production scale. Moreover, if quotas do not strictly bind they will not be perceived as directly affecting output. Also, since most of the surveyed firms received orders on consignment from trading firms, mother companies, or foreign agents, any sluggish growth in demand attributable to NTMs could have been interpreted as a normal market phenomenon. Possible losses resulting from NTMs were probably absorbed directly by the trader rather than the manufacturer. However, a respondent firm claimed that although NTMs did not directly affect his production, his firm's potential ability to increase capacity had been curtailed by the presence of NTMs.

While some firms claimed a decline in output as a result of NTMs, some, especially garment exporters, claimed improvement. Although intriguing, this response can be understood in the light of the perception shared by government trade policymakers that the MFA quota system might have actually benefited garment producers by opening up a share in the American or European markets which would not have been available had these firms been forced to compete with garment exporters from the Asian NICs, especially Hong Kong and Korea. From this vantage point, the exporters might have correctly perceived a gain from NTM application. The problem remains, however, that this gain may be reversed in the long run once the quotas become binding.

What typical adjustment strategies did the respondent firms adopt to deal with restrictive NTMs? Two most frequently cited by garment exporters were: (1) shift to non-quota markets, such as the Middle East or local markets; (2) shift to new product lines that are either not yet covered by NTMs (non-quota items) or where there is still substantial room for expansion within the quota (non-binding quota). A problem associated with the first strategy is, according to one respondent, that non-quota markets are usually smaller and less lucrative than the U.S. or EC markets, with fewer expansion opportunities. On the other hand, the second strategy may force firms to shift to lower value-added items. This is because items on which quotas are fully met are usually high valued added such as fashionwear, while those on which quotas are often left unfilled are generally low in value added and thus less attractive (such as bedsheets where manufacturers merely sew edges). This is why, superficially, average quota fulfillment may appear to be well below 100 per cent ceiling (e.g., in 1982 it was 46 per cent in the United States and 66 per cent in the EC for textile and textile products), which is sometimes cited as proof of "leniency" in MFA quota systems. There is actually a great degree of variation in the degree of quota fulfillment across export commodities.

Respondent firms offered a number of suggestions as to how government might help them with NTMs. Most frequently cited were negotiations with trading partners to enlarge the bilateral quotas and prevention of additional quota restrictions on items that are not under quota at present. Exporters also want government assistance in marketing and market research to help sell their products as well as locate non-quota or NTM-free markets.

TABLE
NTMS PERCEIVED BY SURVEYED FIRMS BY

	U.S.A	EC		
		Germany	France	U.K.
Garments	<ul style="list-style-type: none"> • Quota • SOS by Far-East limited 	<ul style="list-style-type: none"> • Quota • Certificate of origin 	<ul style="list-style-type: none"> • Quota • Restrictive licensing 	<ul style="list-style-type: none"> • Quota • Restrictive licensing
Footwear	<ul style="list-style-type: none"> • Quality regulation • Documents from the Bureau of Animal Industry 	<ul style="list-style-type: none"> • Restrictive licensing • Quota 		
Fruits & nuts				
Processing of marine products (tuna)	<ul style="list-style-type: none"> • Quota 			
Leather accessories	<ul style="list-style-type: none"> • Quota 	<ul style="list-style-type: none"> • Quota 		
Coffee	<ul style="list-style-type: none"> • 5 per cent additional tax 			
Vegetables & spices				
Semiconductors				
Toys				
Textiles				

Source: [4, Table 15].

V. INTERNAL BARRIERS TO MANUFACTURED EXPORT GROWTH

The survey revealed an important by-product, namely the perception by exporters of several constraints of domestic origin. Indeed, the policy suggestions for export promotion that some respondents volunteered gave the impression of greater sensitivity to existing domestic policy-induced constraints on exports than to foreign

VII
COMMODITY AND IMPORTING COUNTRY

Italy	Netherlands	Japan	Canada	Australia	Asian NICs
<ul style="list-style-type: none"> • Quota • Restrictive licensing 	<ul style="list-style-type: none"> • Quota 		<ul style="list-style-type: none"> • Quota • Special export license 	<ul style="list-style-type: none"> • Quota • Licensing 	
			<ul style="list-style-type: none"> • Canadian invoice 		
		<ul style="list-style-type: none"> • Analysis of ingredients statements 			
			<ul style="list-style-type: none"> • Quota 	<ul style="list-style-type: none"> • Quota 	
		<ul style="list-style-type: none"> • GSP-certificate of origin 			

barriers. One recurring suggestion was for government to lower their tariffs on raw materials and intermediate imports so that domestic companies could become more competitive in the export market. Another was that exporters be given greater access to financing by domestic banks and that special assistance be given to small-scale exporting firms. Moreover, they said that government should reduce bureaucratic red tape, especially in the area of exportation, and provide information on prospective markets and products that appear lucrative in world markets. They expressed a desire to see government agencies become more responsive to

their needs as exporters by providing analytical services if importing countries demand testing and certification of ingredients.

The underlying principle that has guided the successful export promotion strategies of the Asian NICs was a guarantee of "neutral status" to all products and firms generating export value-added. Put simply this meant placing exporters, to the fullest extent possible, on an equal footing with foreign competitors. In spite of all the export incentives and promotional strategies adopted by the Philippine government since the seventies, the granting of "neutral status" to Philippine exporters is still far from reality. While the central monetary authority's intervention in the foreign exchange market is no longer as massive and as pervasive as during the 1983-85 crisis, foreign exchange management persists in a manner that keeps the peso overvalued. And although the periodic currency overvaluation caused by exchange rate management (e.g., crawling pegs in countries like Korea) is offset to a certain extent by compensatory fiscal and financial export incentives in the successful NICs, the Philippines has presently opted for a gradual phase-out of such incentives. The Central Bank export rediscount rate has been aligned with that from other short-term loans. Moreover, in the new Omnibus Investment Code⁴ there are hardly any special export-related incentives. Rather, fiscal incentives are made available to all eligible enterprises, regardless of whether they are export-oriented or not. This is apparently in keeping with the GATT agreement to phase out all export incentives, or with the World Bank policy agenda.

Effectively, only a fraction of exports enjoy a "free trade status" with regard to access to raw materials that enter into production for the export markets. There are presently four ways by which direct exporters in the Philippines can gain access to raw materials and intermediate inputs at world prices: the duty drawback system, the standard rebate system, the bonded manufacturing warehouse (BMW) system, or locating in free trade zones. However, except for the last of the four methods and for garment exports—for which a special agency has been set up to allocate quotas—bureaucratic red tape tends to delay the processing of documents needed by the exporter in order to make good use of one of the systems and the costs to the exporter to process these documents place a burden on him, all of which wholly, or partially, cancels the policy's "free trade" intent. In effect, what would have gone to the government in tariff revenue is probably spent instead on "directly unproductive activities" (such as bribes to facilitate movement of documents and goods). The bonded warehousing system, on the other hand, is more accessible to large exporters because of the cost of maintaining such a warehouse. The system is inherently time-consuming and inspector-intensive due to the physical controls required. In one of the Manila ports, 220 BMWs are reportedly supervised by 680 full-time customs personnel. Moreover, the system has been found to delay the release of goods, thus delaying production and delivery to importers.

At the time of the survey, the respondent firms, especially the small exporters,

⁴ The New Omnibus Investment Code is a piece of legislation passed under Aquino administration. It provides a revised package of incentives to domestic and foreign investors in the Philippines.

complained of having to rely on informal money lenders who charge usurious rates (up to 100 per cent or more per annum) because they were unable to gain access to commercial bank loans. The reasons for bias against small and medium borrowers are well known [1] and the government has not quite succeeded in treating small exporters equal in the granting of automatic and speedy rediscounting of export loans by the Central Bank. Providing guaranteed loans and speedy rediscounting is one of several ways which successful Asian NICs have ensured neutral status to exporters who have to compete in the money and financial markets of foreign competitors. Filipino exporters cite quick and easy access to export finance at market rates, as preferable to delayed access at preferential rates. The exporter who is short of cash prefers to borrow at usurious interest rates rather than borrow from a bank at a much lower rates and be required to prepare documents and collateral, and wait a month or more for the loan application to be processed.

Trade information services definitely need strengthening to induce greater export activity. These services areas cover such as market search, identification of reliable importers and sources of raw material at attractive prices, etc. Lynchpins in successful Japanese and Korean export-promotion strategies were the trading company and specialized institutions for market research (i.e., JETRO, KOTRA), with their international information networks. Given the counteravailability of many traditional incentives, the Department of Trade and Industry is left with no choice but to look for noncounteravailable forms. One of these is precisely the provision of assistance in market research and promotion of products in potential markets, especially for small- and medium-scale exporters. Consular offices abroad have been given the task of helping to provide such services. Industry associations could be more effectively used to transmit information to interested exporters. The upgrading and standardization of quality is another area where the government will have to redouble its efforts. Other government agencies especially those with testing and quality control equipment and expertise, will to be tapped for the purpose, while limited funding could be provided to spur cooperative research on product and technology development.

VI. SUMMARY AND POLICY IMPLICATIONS

The major structural change that took place in Philippine exports over the last two decades is diversification towards exports in manufactured form. The country's manufactured exports have, from 1963 to 1983, tended to concentrate in the most labor-intensive category. The trend is even more pronounced when exports are divided between developed and developing country destinations. Among developed countries, however, Japan has emerged as an outlier given the concentration of its imports in the least labor-intensive category.

This study, moreover, identified the type and degree of prevalence of non-tariff measures faced by Philippine exports in both developed and developing country trade partners. In the former, the EC came out with the highest NTM-coverage ratio, followed by the United States and Japan. ASEAN countries,

however, apparently rely heavily on tariffs for protection while non-tariff coverage ratios were found to be generally low. In addition, there seems to be no evidence that developed countries discriminately direct NTMs against Philippine manufactured exports, particularly of the labor-intensive type. There might be a tendency, though, for NTMs on labor-intensive imports to be supplemented by higher-than-average tariffs once these are applied (e.g., beyond the duty-free GSP ceiling).

Perceptions as to the effects of NTMs on firm operations vary, however. They have been perceived as having positive, negative, or no influence on firms' production or export activity. However, an interesting sidelight revealed by the survey is the importance of certain constraints of domestic origin in limiting export growth.

From the above findings, certain policy implications come to the fore, a number suggested by the surveyed firms themselves. Government intervention is needed particularly to negotiate for increased opening of partner country markets. Since the Philippines has made considerable effort to liberalize imports, reciprocal treatment may be solicited for more favorable terms from trading partners. Government assistance, too, is needed to actively bring exporters in contact with non-quota markets and to promote the development of markets in non-quota or non-critical items.

With regard to perceived domestic constraints on exports, measures will have to be undertaken to provide an environment that sharpens the competitive edge

APPENDIX
LABOR-INTENSITY OF MANUFACTURING INDUSTRIES AND COMMODITY

PSIC Code	Industry	$\frac{VA^*}{E_i}$ (1,000 pesos)	World			Developed Countries			Developing Countries			U.S.A.	
			1963	1973	1983	1963	1973	1983	1963	1973	1983	1963	1973
	Category I		14	26	49	10	29	52	57	10	23	9	24
85	Footwear, except rubber	13	0	1	4	0	1	4	0	0	4	0	1
84	Wearing apparel	14	1	5	24	1	6	25	1	1	5	1	7
61	Leather, leather goods	15	0	0	0	0	0	0	0	0	0	0	0
82	Furniture, except metal	14	0	0	6	1	2	7	0	1	1	1	2
88	Furniture, fixtures of metal	19											
86	Professional & scientific instr.	18	0	0	1	0	0	1	0	0	2	0	0
89	Other manufactures	20	3	8	10	2	10	11	2	1	4	2	7
83	Travel goods, handbags	20	0	2	1	0	2	1	0	0	0	0	2
65	Textiles	21	10	10	3	6	8	3	54	7	7	5	5

of Philippine exports. Among the policies that can be instituted are those that provide automatic access to raw materials and other intermediate inputs at world prices, speedy and greater access to export finance, the easing of bureaucratic red tape in both raw material importation and export activity, the provision of support services such as technical assistance in the different phases of industrial activity, market research and information dissemination.

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TABLE

STRUCTURE OF EXPORT BY COUNTRY OF DESTINATION, 1963, 1973, AND 1983

(%)

1983	EC			EFTA			Japan			Asian NICs			ASEAN		
	1963	1973	1983	1963	1973	1983	1963	1973	1983	1963	1973	1983	1963	1973	1983
55	93	38	58	100	17	59	4	29	21	57	29	26	64	10	11
4	0	0	4	0	0	2	0	0	2	0	0	5	0	0	0
26	0	3	35	0	0	27	0	3	7	1	4	6	0	1	2
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	0	1	4	0	0	13	0	1	3	1	0	1	0	0	0
0	0	0	1	0	0	0	0	0	0	0	0	3	0	1	1
11	4	28	11	16	12	13	1	8	7	3	3	4	0	2	4
1	0	1	1	0	0	1	0	5	1	0	0	0	0	0	0
3	89	5	2	85	5	4	3	12	1	52	22	7	64	6	4

PSIC Code	Industry	$\frac{VA^*}{E_t}$ (1,000 pesos)	World			Developed Countries			Developing Countries			U.S.A.	
			1963	1973	1983	1963	1973	1983	1963	1973	1983	1963	1973
	Category II		80	55	34	85	55	31	10	28	58	89	69
71	Machinery except electrical	22	0	1	1	0	0	0	1	1	5	0	0
69	Metal prods. except machinery	23	0	1	1	0	0	1	5	1	3	0	0
63	Wood & wood prods. & cork	25	80	41	12	85	51	14	3	8	10	89	66
66	Other nonmetal. min. prods.	27	0	10	2	0	3	1	1	16	10	0	3
58	Plastic prods.	30	0	1	1	0	1	0	0	1	5	0	0
72	Electrical machinery	38	0	1	17	0	0	15	0	0	24	0	0
81	Plumb, heatng., light equip.	40	0	0	0	0	0	0	0	0	0	0	0
62	Rubber prods.	40	0	0	0	0	0	0	0	0	1	0	0
56	Misc. prods. of petroleum	41	0	0	0	0	0	0	0	1	0	0	0
	Category III		6	19	17	5	16	17	33	62	19	2	7
73	Transport equip.	61	0	0	2	0	0	1	0	1	2	0	0
68	Nonferrous metal	62	0	12	7	0	14	8	0	3	4	0	6
64	Paper & paper prods.	67	0	4	0	0	1	0	0	54	1	0	1
53	Paints, varnishes, other chem.	78	1	1	0	1	0	0	1	0	1	0	0
59	Other chem. prods.	91	0	0	1	0	0	1	0	0	1	0	0
55	Soap, perfumes, toilet preps.	94	0	0	0	0	0	0	1	1	1	0	0
54	Drugs & medicines	101	1	1	1	0	0	0	25	2	3	0	0
51	Industrial chem.	187	4	1	4	4	1	4	6	0	4	0	0
67	Iron and steel	242	0	0	2	0	0	2	0	1	3	0	0
52	Petroleum refineries	1,871	0	0	0	0	0	1	0	0	0	0	0

Source: As in Table II.

* Value added / Number of persons employed.

TABLE (Continued)

1983	EC			EFTA			Japan			Asian NICs			ASEAN		
	1963	1973	1983	1963	1973	1983	1963	1973	1983	1963	1973	1983	1963	1973	1983
37	6	56	32	0	83	8	14	28	13	9	42	60	4	59	55
1	0	0	0	0	1	2	0	0	0	1	0	3	4	7	9
0	0	0	0	0	0	0	1	0	0	3	2	2	0	3	6
11	6	55	24	0	79	6	12	21	6	4	19	13	1	2	2
1	0	0	0	0	1	0	0	5	1	1	19	9	0	43	8
0	0	0	0	0	0	0	0	2	0	0	2	6	0	3	3
24	0	1	8	0	2	0	0	0	6	0	0	25	1	1	25
0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	2
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8	1	6	10	0	0	33	82	43	66	34	29	14	31	31	34
2	0	0	1	0	0	10	0	0	4	0	0	1	0	3	6
6	0	5	8	0	0	32	0	38	16	0	11	2	0	2	9
0	0	0	0	0	0	0	0	3	1	0	12	0	0	16	2
0	0	0	0	0	0	0	12	0	0	0	0	1	0	1	1
0	0	0	0	0	0	0	0	0	3	0	0	1	0	0	2
0	0	0	0	0	0	0	0	0	0	2	1	1	0	1	2
0	1	0	0	0	0	0	0	0	0	23	2	3	31	6	3
0	0	1	1	0	0	0	70	2	25	9	1	3	0	1	5
0	0	0	0	0	0	0	0	0	14	0	1	2	0	1	4
0	0	0	0	0	0	0	0	0	3	0	1	0	0	0	0