

PASCN Discussion Paper No. 99-04

## **Towards Enhancing the Philippine IAP**

*Cid Terosa and George Manzano*



The *PASCN Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions and review. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Network.

Not for quotation without permission from the author(s) and the Network.

# Toward Enhancing the Philippine IAP

George Manzano and Cid Teroza\*

## I. Introduction

The Philippines is committed to the APEC vision of building an Asia-Pacific community anchored on free and open trade and investments. Such a vision demands that all members accept market competition, free trade, and open investments as common framework policies. APEC's way of liberalization is quite unique. In contrast to the WTO, APEC is not a forum for negotiation, but one for building consensus. Its agreements are not legally binding. Instead, it relies on peer pressure to extract commitments from every member. It asks for unilateral actions to liberalize and facilitate trade and investments, at the same time encourage its member economies to act in concert.

The APEC Vision, enunciated in Seattle and supported by political commitments from the highest levels of government, is now sufficiently refined. In Jakarta, members set definite timetables with a two-tiered completion date (2010 and 2020). In Osaka, the vision took concrete form in an Action Agenda which outlines the areas for liberalization as well as articulate the broad guidelines of liberalization. In Manila/Subic, specific *voluntary* action plans, both on the individual as well as on the collective levels have been tabled. Economic and technical cooperation, the third pillar of APEC, has likewise been given much emphasis in Manila/Subic.

The perennial challenge of every APEC summit is sustaining liberalization and facilitation efforts. Central to this challenge is the periodic review and enhancement of the Individual Action Plans (IAPs). Comprehensive in nature, the IAPs are the main instrument in implementing the liberalization and facilitation commitments of every member.

Enhancing our IAP is a big step toward deepening the APEC process in the Philippines. Such a move would give the country credibility in APEC. More importantly, it would spur the Philippines to adopt greater market-oriented policies. As experiences of other countries show, unilateral liberalization confers many benefits to the early "liberalizers."

Indeed, policymakers have spent much effort throughout the year enhancing the Philippine IAP. The objective of this report is to suggest a strategy of enhancing the Philippine IAP *in the light of the IAPs of the rest of APEC members*.

## II. Benchmarking

Redesigning IAPs requires an understanding of the trade-offs between offering too much and offering too little commitments. While it is perceived that committing to

---

\* Research Director and Assistant Professor, respectively, School of Economics, University of Asia and the Pacific. The paper was presented during the *Second Annual PASCN Symposium-Business Meeting*, 4-5 December 1997.

bold liberalization plans has greater benefits than committing to too little, the process can be lengthy and arduous given developing countries' economic protection policies as well the limitations in institutional and physical infrastructure. Offering too little, on the other hand, will probably encounter less resistance, but would not help make the local industries more competitive nor would it eliminate the hidden costs of protection on the local economy.

In view of enhancing the Philippine IAP, a balance should be struck between continued liberalization on one hand and more time to make the necessary changes to meet the challenges of liberalization on the other. This is quite in keeping with the two-tiered deadline for reducing tariffs to zero as agreed in Bogor. It should be noted though that economies that decide to make and implement bolder commitments usually gain more from trade.

Formulating strategies to enhance the IAP starts with an assessment of the strengths and weaknesses of the current IAP. Central to any assessment is specifying benchmarks or standards or criteria with which to evaluate performance. The type of strategy formulated depends on the choice of the benchmark.

There are basically two kinds of benchmarks used in evaluating IAPs—absolute and relative.

Absolute benchmarks pertain to best practices. They represent the ideal conditions or the fullest extent of liberalization. For example, in tariffs, this represents zero tariff rates. A guideline on what constitutes best practices for IAPs has earlier been proposed in a paper by the United States to the APEC Committee on Trade and Investment.<sup>1</sup>

While everyone would agree that best practices should be the long-run outcome of the APEC process, some would question whether such a benchmark would be appropriate at this stage of review of the IAPs. Certainly, adopting best practices as the benchmark would put the IAPs of many developing countries in a bad light compared to those of developed ones. Put another way, the pace of liberalization of many developing members would be deemed too slow if this benchmark is used. In light of the disparities in the levels of economic development among the members, some (mainly developing ones) would prefer to liberalize gradually.

Relative benchmarking, on the other hand, takes a different tack altogether. This method entails evaluating one member's IAP relative to the IAPs of the rest. Thus, rather than work with absolute standards, relative benchmarking operates on the basis of *averages*. A member's IAP is evaluated on whether it contains more features or less than what is contained in the "average" IAP.

Relative benchmarking, though technically inferior to the absolute approach, is more flexible in pacing liberalization. Before such a method can be used, however, members must first agree on what the "average" pace of liberalization is. Only then can relative benchmarking be useful in identifying specific areas of the IAP that needs improvement. Using a relative benchmark would also accentuate the peer pressure

---

<sup>1</sup> Committee on Trade and Investment, "Best Practices Guidelines for IAPs Discussion Paper," United States, 97/SOM2/CTI/014, May 15, 1997.

mechanism of the APEC process, at the same time preserve the principle of “mutual respect.” Thus, from the perspective of the political economy, relative benchmarking is a more acceptable approach given the sensitivities of some members.

One variant of relative benchmarking is employed in Yamazawa,<sup>2</sup> first study to make a comprehensive and quantitative assessment of the short-term commitments of the original IAPs in the Manila Action Plan for APEC (MAPA). The study’s method of assessing IAPs essentially involves listing the relevant criteria for each area of liberalization (tariffs, nontariff measure, deregulation, etc.) and assigning marks for each criterion. Each IAP is then examined and marked according to the “quality” of the commitment.

There are 13 areas covered in the Yamazawa analysis: tariff, nontariff measures, services, investments, standard and conformance, customs procedure, intellectual property rights, competition policy, government procurement, deregulation, rules of origin, dispute mediation, and mobility of business people. Of course, the commitments in each area of the IAP are evaluated according to criteria proper to the area. The evaluations are necessarily subjective because apart from tariff, the rest of the IAPs are non-quantitative. However, as long as the set of criteria is used consistently, the IAPs can be comparable.

Using the APEC “averages,” the area-specific commitments of the Philippine IAP is evaluated in the Yamazawa analysis as:

**Table 1. Quantitative Assessment of the Philippine IAP in the Yamazawa Study**

IAP Area	Philippine Marks	APEC Average
	65	58
Tariffs		
Nontariff Measures	30	66
Services	47	41
Investments	65	66
Standard & Conformance	79	64
Customs Procedure	56	52
IPR	60	59
Competition Policy	58	62
Government Procurement	25	46
Deregulation	66	66
Rules of Origin	45	50
Dispute Mediation	75	72
Mobility of Business People	71	49

From the preceding table, the Philippine IAP has high scores in the areas of tariffs, services, standard and conformance, customs procedure, dispute mediation and mobility of business people. In fact, the Philippine IAP ranks highest among the other IAPs in the area of mobility of business sector. However, in Yamazawa’s analysis, the Philippines lags behind the majority of the APEC economies in the areas of nontariff measures, competition policy, government procurement, and rules of origin. The

<sup>2</sup>Yamazawa, I. (1997) Apec’s Progress Toward the Bogor Target: A Quantitative Assessment of Individual Action Plans, manuscript, IAP Study Group-JANCOPE, APEC Study Center-Hitotsubashi University

analysis of the Philippine IAP in Yamazawa's study is useful in formulating a strategy for enhancing the Philippines' IAP in the lead to Vancouver.

### **III. Strategic Options**

Given the Yamazawa assessment, how should the Philippine IAP enhancement proceed? There are at least three options:

- Adopt best practices in all areas
- Standstill or adopt minimal changes in all areas
- Focus on areas where the commitments are deemed deficient relative to the APEC average and improve in the areas where APEC standing is average

The first option, adopting best practices, is technically the superior option. This strategy can accelerate the liberalization efforts that, in turn, will enhance the competitiveness of the domestic environment. As mentioned previously, however, existing constraints in the institutional and physical infrastructure prevents an across-the-board liberalization of the deepest order. Certainly, the current external instability of the economy is facing makes it hard for the government to fully open up the economy. Such a move could prove contentious.

The second option, standstill, is incompatible with the Philippines' stance of engaging the global economy's economic mainstream. Why? It has been argued that the survival of many Philippine industries hinges on improving their competitiveness. Exposing them to international competition will certainly improve competitiveness. Liberalization also enhances the consumer's welfare by providing him or her with more choices at better prices. A move to remain at standstill would not prepare the economy to take part in a rapidly globalizing environment.

This leaves the third option. Adopting this option allows policymakers mindful of resource constraints to focus on the critical areas that need to be improved. At the same time, this alternative allows reforms to continue. Another advantage of this option would be the potentially more popular support it may have due to its appeal to the concept of a level playing field. If this option is used, improvements should also be made in areas where the 1996 commitments of the Philippines are at par with the APEC average. The APEC process calls for a continuous review and assessment of liberalization efforts. The implication is that the benchmark "average" liberalization efforts will progress through time. Thus, to keep in step with the rest, the Philippines needs to improve its IAP, even in areas where it is perceived to be on equal footing with the majority of the members in 1996. For these reasons, this study recommends the adoption of the third option.

### **IV. Methodology**

The starting point in enhancing the Philippine IAP, as mentioned previously, is to determine how the Philippine commitments in the different areas of liberalization compare with the IAPs of the rest of APEC members. Yamazawa's benchmarking analysis is extremely useful in this regard. Using the APEC average as the benchmark,

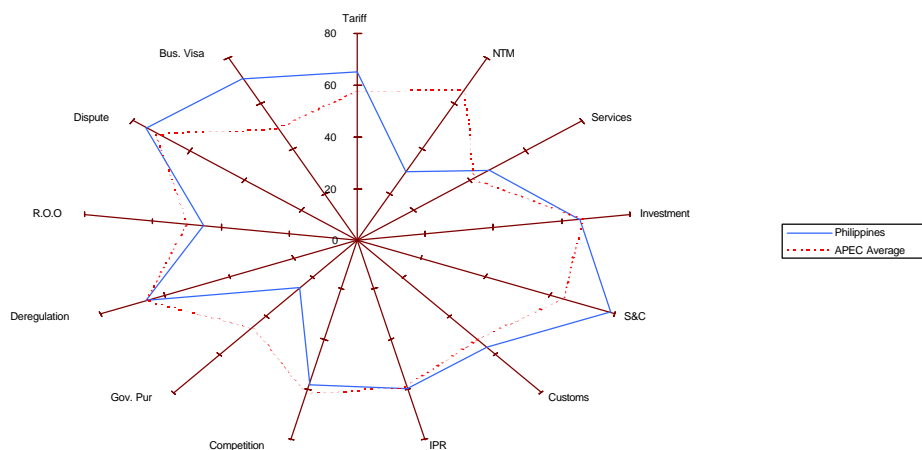
the analysis shows that the 1996 Philippine IAP scores highly in many areas (Table 2 and Figure 1). By identifying the quality of the Philippines' commitments in the different liberalization areas, recommendations are then proposed.

**Table 2. Assessment of the Philippine IAP using APEC Average as Benchmark**

IAP Area	Below APEC Average	APEC Average	Above APEC Average
Tariffs			3
Nontariff Measures	3		
Services			3
Investments		3	
Standard & Conformance			3
Customs Procedure			3
IPR		3	
Competition Policy	3		
Government Procurement	3		
Deregulation		3	
Rules of Origin	3		
Dispute Mediation			3
Mobility of Business People			3

Source of basic data: Yamazawa (1997)

**Figure 1. Radar Chart of the Philippine IAP Assessment from Yamazawa (1997)**



In formulating recommendations, the IAPs of APEC economies are directly compared with each other. A listing of commitments in each area is then compiled. From this listing, the most common elements in the IAPs are listed down to come up with the typical or average IAP commitments. The enhancement of the Philippine IAP in the areas below the APEC average proceeds by incorporating the elements not found in the average APEC IAP commitments per area. In the areas where the Philippine IAP is on a par with the APEC average, improvements can be made by incorporating elements found in other IAPs that go beyond the APEC average.

The general criteria used in identifying areas for improvement in the Philippine IAP are as follows:

1. Are the commitments well-defined and unambiguous?
2. Is the timeframe and method for implementing the commitments clear?
3. Is there a system or process for the periodic review and evaluation of IAP commitments?
4. Are there any fresh or path-breaking activities in the IAP?
5. Do the commitments promote greater free trade and increased transparency?

The methodology is admittedly subjective. Nevertheless, the framework draws out the essential elements for benchmarking and provides directions as to what features in the Philippine IAP can be enhanced.

## **V. Recommendations**

This paper proposes three sets of recommendations. The first set addresses the areas where the Philippine IAP is perceived to be lagging behind the majority of the APEC members. Policymakers ought to focus on these areas first. The second set proposes improvements in the areas where the Philippine IAP commitments are deemed at par with the APEC average. The third set proposes recommendations on areas where the Philippine IAP is considered to be above the APEC average. It should be noted that the first and second sets of recommendations should be acted on first. The third set is not as critical as the rest in enhancing the IAP.

### **A. Suggested Improvements in Areas with Below APEC Average Assessments**

(Note: \* indicates that the item is already incorporated in the IAP as of early October 1997)

#### **1. Nontariff Measures**

- Review ways of progressively eliminating import-licensing requirements for coal and coal derivatives.
- Clearly identify the commodities with import regulations maintained for reasons of health, safety, and national security as notified to the WTO.
- Clearly identify the import regulations for some commodities for reasons of health, safety, and national security as notified to the WTO.
- Provide regular updates on the status of residual nontariff measures (NTMs).
- Identify other possible ways of exchanging information with APEC on residual NTMs aside from the computer database (e.g. Internet, periodic publications, etc.).

## **2. Competition Policy**

- Clearly discuss existing competition-related laws and statutes.
- Review and report on developments on competition related-bills in Congress.
- Provide updates on the status of the establishment of a body such as a Free Trade Commission that will encourage competition.
- Actively support the collection and storing of information on the experiences of APEC countries that are reviewing and revising competition laws. This will serve as future inputs for annual APEC workshops on competition policy.

## **3. Government Procurement**

- Accelerate the compilation, development, and dissemination of information on government procurement laws and practices.
- Progressively review and report on the developments in the compilation, development, and dissemination of the database on government procurement laws and opportunities to domestic users and APEC member countries.
- Review and revise appropriately those government procurement laws and policies particularly those that provide preferential treatment for local suppliers.
- Conduct workshops and seminars on government procurement practices within APEC for government personnel involved in the government procurement process.
- Conduct workshops and seminars on government procurement practices within APEC for those in the private sector that provide the government with supplies and materials.

## **4. Rules of Origin**

- Accelerate the alignment of the Philippines' Rules of Origin (ROO) with internationally harmonised ROO.
- After alignment, periodically review the implementation and harmonization of non-preferential ROO.
- Provide information on the preferential and non-preferential ROO in the Philippines to APEC member countries.
- Conduct seminars, workshops, and on-the-job training for customs officers to ensure the full implementation of our ROO.

- Conduct seminars and workshops for the private sector on the ROO in order to promote understanding of ROO and to ensure private sector compliance.
- Actively initiate or support the publication of a compendium of ASEAN-CEPT preferential ROO.
- Facilitate, complement, or accelerate the WTO/WCO work on the harmonization of non-preferential ROO.

## **B. Suggested Improvements in Areas with APEC-Average Assessments**

### **1. Investment**

- Provide periodic information and updates on the status of bills pending in Congress that will help improve the overall investment environment of all APEC member countries.
- Conduct workshops, seminars, and symposia for those in the private sector on changes and improvements in APEC investment regimes and opportunities.
- Actively disseminate through the media and Internet ongoing changes and improvements in the country's investment regime and opportunities to foreign investors.
- Obtain performance pledges from all government agencies that facilitate and complement the creation of an improved overall investment environment.
- Explore the possibility of expanding bilateral protection agreements with all APEC member countries.

### **2. Intellectual Property Rights**

- Provide periodic information and updates on the status of new laws on the protection of plant varieties, geographical indications, layout designs of integrated circuits and undisclosed information.
- Encourage and initiate the preparation of drafts of legislation on geographical indications, layout designs of integrated circuits, and undisclosed information.
- Actively seek to be a party to intellectual property agreements.
- Actively seek to negotiate new intellectual property treaties.
- Develop human resources that will implement intellectual property rights agreements.

- Actively conduct public education and information campaigns on intellectual property rights protection. Cooperate in training programs, seminars and symposia by providing speakers.\*
- Identify contact points of public and business intellectual property rights experts and provide a list of intellectual property rights law enforcement officers.
- Support the setting up of an intellectual property rights-related computer network system that will facilitate the exchange of information among APEC member countries.
- Further advance the modernization of the Philippine intellectual property system by substantially implementing or completing the automation of administrative functions and the updating of patent documents and science and technology reference materials.

### **3. Deregulation**

- Provide periodic information and updates on the status of measures that will further deregulate the domestic regime.
- Encourage and initiate legislative initiatives to improve efficiency and effectiveness of the regulatory framework (e.g., legal reforms to streamline court proceedings, reduce borrowing costs for business, restrictions on domestic borrowings of foreign firms, etc.).
- Actively cooperate in the compilation of a compendium on APEC deregulation and liberalization measures.
- Actively cooperate in developing APEC principles and best practice for deregulation program.
- Encourage the creation and maintenance of a database on past and present regulatory activities in the different APEC governments that will serve as basis for case studies and ongoing research and analysis on deregulation practices and success stories by researchers from all APEC member countries.
- Improve the transparency of ongoing changes in the regulatory regime to the international community through the Internet.
- Gradually phase out inter-grid subsidy and unbundled generation and transmission tariffs for electricity.\*
- Implement privatization of MWSS operations (Already identified for incorporation in the 1997 IAP).

## **C. Suggested Improvements in Areas with Above Average APEC Assessments**

### **1. Tariffs**

- Continue to progressively eliminate tariffs on more products to bring down the simple average tariff down from 12.11% in 1997 to zero by no later than 2020 to conform with the Bogor targets.
- Continue to gradually expand the minimum access volumes according to WTO commitments.
- Disseminate details of tariff reductions and all other information related to tariffs such as those on preferential and export tariffs not only through the print media and the APEC computerized database but also through the Internet.
- Progressively eliminate tariffs on information technology products as per commitments under the ITA.
- Review accelerated liberalization on Information Technology products vis-a-vis ITA schedule.

## **2. Services**

- Expand commitments to include other service areas such as professional and business services
- Energy
  - Assess EO 392 in relation to the attainment of its original objectives.
  - Review measures to lift import restrictions on coal.
  - Provide updates and information on the status of the Omnibus Bill on the policy framework that will govern the energy sector.
  - Vertical (in addition to horizontal) unbundling of the National Power Corporation's electricity generation facilities into a number of distinct generation entities and subsidiaries, and transmission and sub-transmission activities.\*
- Telecommunications
  - Actively support the reduction of prices of basic telecommunications through free-trade principles.
  - Outline policies that will foster a healthy competitive environment (e.g., policies that will create conditions whereby service providers can maintain their viability while maintaining affordable rates).

- Assess the progress of the privatization of government telecommunication facilities and to institute measures that will hasten their privatization.
- Continue to seek ways of removing market access restrictions where appropriate.
- Progressively develop manpower that will sustain the telecommunications infrastructure not only of the Philippines but other APEC member countries as well.
- Transport
  - Shipping: Review technical standards and practices to ensure transparency and consistency with international standards and practices.
  - Review and revise where appropriate cabotage protection limited to Filipinos and other limitations on market access.
  - Review the nationality requirements of auxiliary maritime services such as the management of shipping agencies and multi-modal operations.
  - Land Transport: Initiate studies on the possibility of opening up land transportation services to foreign participation.
  - Air Transport: Assess the domestic and international civil aviation liberalization policy in relation to the attainment of its original objectives.
- Tourism
  - Provide updates and information on the status of the review of laws on tourism movement and investment and the review of plans and investible areas for tourism projects.
  - Initiate the implementation of improvements and changes in existing tourism-related laws based on the review of tourism-related laws.
- Distribution
  - Provide information and updates on the status of the bill allowing foreign investors to engage in retail trade.

### **3. Standards and Conformance**

- Pursue membership in IEC.

- Actively seek to expand membership and active participation in key international and regional standards related organizations aside from the ISO, IEC, and Codex.
- Actively seek to contract more Mutual Recognition of Conformity Agreements with other APEC member countries. Specifically,
  - Participate in PAC MRA on laboratory accreditation.\*
  - Conclude bilateral agreements on conformity assessment of food and food products.\*
  - Establish MRAs on product certification.\*
  - Establish MRAs on factory inspection.\*
  - Participate in the International Accreditation Forum Multilateral Agreement.\*
- Initiate the alignment of the PNS for plastic products, food labelling, garments and textiles, and footwear
- Align national SPS standards on processed fruits and fish and fishery products with international standards.\*
- Improve the dissemination of information on international standards through the print and visual media. Set-up online exchange of information system on PNS for NSB clients.\*
- Actively encourage and initiate the compilation and dissemination of standards and conformance practices of the APEC member countries.
- Seek to substantially implement the following:
  - Acceptance of test results from accredited laboratories for imported products.
  - Expansion of Philippine Standards Mark Certification to foreign suppliers and companies.
  - Establishment of hierarchical scheme of physical standards and calibration
  - Implementation of pattern approval and verification of measuring instrument.
  - Accreditation from Quality System Certification/Registration.
  - Recognition by Automotive Industry as an accredited body for QS 9000.
  - Establishment of regional calibration centers.

#### **4. Customs Procedures**

- Provide periodic information and updates on the status of customs reforms geared toward simplifying and harmonizing procedures such as:
  - Making information on customs procedures available on CD ROM.\*

- Integrate public information into the automated customs operating system for direct dissemination to customs client.\*
  - Continue to publish monthly newsletter on customs.\*
  - Conduct familiarization programs for customs officials and the private sector on the new system of valuation.\*
  - Disseminate information to the public on the advance Classification Ruling System.\*
  - Consult with relevant agencies to determine data needs.\*
- Secure the ratification of the HS Convention
  - Consult with relevant agencies to determine data needs.\*
  - Conduct regular consultations and meetings on customs procedures and reforms with traders, exporters, and the private sector.\*
  - Progressively implement the computerization of customs procedures. Seek private sector involvement in establishing EDI Gateway.\*
  - Explore the possibility of a nationally-linked customs computer system.
  - Encourage and initiate the exchange of information on customs laws, regulations, procedures, and rulings among APEC-member countries. Link with other customs authorities in the APEC region using UN/EDIFACT.\*
  - Explore the feasibility of harmonizing with other APEC economies data elements for customs processing.\*
  - Participate in the technical assistance programs on customs valuation in APEC.\*
  - Increase channels for lodging complaints and appeals against customs decisions.
  - Continue familiarization programs for the private sector on the mechanics of the appeals procedures.\*
  - Disseminate information to the public on the advance Classification Ruling System.\*
  - Continue to review screens of the Selectivity System.\*
  - Participate in the program on express consignment clearance of SCCP.\*

## **5. Dispute Mediation**

- Actively work for the establishment of an APEC dispute mediation mechanism.
- Actively seek to participate in international mediation bodies.

- Provide information and updates on bills on commercial arbitration pending in Congress.
- Disseminate information on changes and improvements in laws, regulations, and administrative procedures.
- Seek to establish more Investment Promotion and Protection Agreements with APEC member countries.

## **6. Mobility of Business People**

- Periodically review commitments made and actions taken to improve the mobility of business people within APEC in order to effect further improvements in the future.
- Actively encourage greater commitments from APEC-member countries by discussing the implications of Philippine policy changes and actions on the promotion of greater trade and market access.

## **VI. Final Remarks**

The IAP represents a critical element in the liberalization and facilitation agenda of APEC. Its preparation and implementation demands great amounts of resources. Though some would question whether IAPs have really been instrumental in promoting strides in liberalization, it should be noted that it remains a bellwether of the reform programs of many economies, the Philippines included. In this context, constant enhancement of the Philippine IAP can provide a sustaining boost to the reform process.

## **Reference**

Yamazawa, I. (1997) Apec's Progress Toward the Bogor Target: A Quantitative Assessment of Individual Action Plans, manuscript, IAP Study Group-JANCPEC, APEC Study Center - Hitotsubashi University.