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Liberalization (EVSL) on Jewelry and Gems**

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The Effects of Early Voluntary Sectoral Liberalization (EVSL) on Jewelry and Gems

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As instructed by their respective Economic Leaders during the APEC Meeting in Subic, Philippines last November 1996, the APEC Trade Ministers identified fifteen (15) sectors for early voluntary sectoral liberalization (EVSL) which would have “a positive impact on trade, investment and economic growth in the individual APEC economies as well as in the region.”

Of the 15 sectors, nine (9) were fast tracked with the finalization of their EVSL schedule due in June 1998 to be implemented in the beginning of 1999. These include environmental goods and services; fish and fish products; forest products; medical equipment and instruments; telecommunications MRA; energy sector; toys; gems and jewelry; and chemicals. The EVSL of the remaining 6 sectors comprising oilseeds and oil products; food sector; natural and synthetic rubber; fertilizers; automotive; and civil aircraft will be reviewed by the Ministers in June 1998 and by the Leaders in November 1998.

This paper is concerned with the jewelry industry of the Philippines. Its general objective is to define the position and strategy of the Philippine jewelry sector in the APEC EVSL program to enable the country to maximize the benefits it could get from the EVSL initiative. Specifically, the aim is to identify specific problems faced by the jewelry sector and the appropriate measures to be undertaken to enable them to be competitive under the EVSL.

The first section will focus on the industry proper, its market structure, supply and demand conditions, current issues and problems. The second section will concentrate on the likely impact of the EVSL on the sector. The last section will provide an Action Plan containing a tariff reduction schedule as well as facilitation measures and economic-technical measures relevant to the sector.

This paper is based on secondary sources, interviews with industry participants and inputs from the roundtable-discussion organized for this purpose and attended by representatives from the Guild of Philippine Jewellers, Inc., Fashion Accessories Manufacturers and Exporters (FAME) Foundation, Inc., Philippine Association of Pearl

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Jewelry and gems were nominated for EVSL by the countries of Taiwan and Thailand. Based on the Harmonized System (HS) product codes, the commodities that will be affected are the following:

<u>HS Code</u>	<u>Product description</u>
71.01	Pearls
71.02	Diamonds
71.03	Precious and semi-precious stones
71.04	Synthetic or reconstructed precious and semi-precious stones
71.05	Dust and power of precious and semi-precious stones
71.06	Silver
71.07	Base metals clad with silver
71.08	Gold
71.09	Base metals clad with gold
71.10	Platinum
71.11	Base metals clad with platinum
71.12	Waste and scrap of precious metals
71.13	Articles of jewelry
71.14	Articles of goldsmiths or silversmiths wares
71.15	Other articles of precious metal
71.16	Articles of pearls, precious and semi-precious stones
71.17	Imitation jewelry

The present tariff schedule aims to reduce tariffs in the following manner:

(1) by 1 Jan 2003

(a) 5% for graded pearls, articles of goldsmiths or silversmiths wares, other articles of precious metal, articles of pearls, precious and semi-precious stones, and non-parts of fine and imitation jewelry;

(b) 3% for all other items (71.01 to 71.17) not in (a).

(2) by 1 Jan 2005: zero tariffs on all items (71.01 to 71.17).

The proposed tariff schedule is discussed in the action plan and is presented in the annexes.

Current situation, Problems and Issues

The Philippine jewelry industry belongs to the *informal* sector. For economic considerations and in response to the regulatory environment, business operations of most firms are small (in terms of size of employment and assets) and/or not fully formalized (e.g. underdeclaration of revenue figures, etc.).

For this reason, therefore, it is very difficult to arrive at a comprehensive definition of the industry. Corollary to this, as will be shown later on, a study based purely on official government statistics may result in misleading conclusions. Thus, official figures on the sector will have to be validated and modified based on industry interviews, surveys and first-hand observations.

Problems of Informality. As a general rule, nobody wants to become informal. This is because such a condition has numerous costs, such as: (1) harassment from government institutions; (2) no redress to justice; (3) absence of social recognition; (4) difficult access to information, technology, training and financing; (5) difficulty in expanding business; and (6) an identity crisis with regard to social standing. Nevertheless, firms do stay informal if and when the costs of formality (in the form of excessive bureaucratic requirements, registration procedures, taxes, tariffs and fees) outweigh the costs of informality. Apparently, that is the case with the jewelry industry. Excessive taxation² have inflated costs above market returns such that firms have preferred to remain informal despite the attempts of jewelry trade associations to obtain formal recognition.

Problem of Informal Sourcing of Raw Materials. The industry is highly dependent on the supply of raw materials, which accounts for 69.6% of total operating costs. Other significant input costs are wages and salaries, which account for another 25.7%. The other cost factors, such as electricity, fuel, and services, are quite negligible. This cost structure highlights the critical role that raw material prices--which are greatly affected by tariffs and taxes--play in the industry.

Table 1. Shares in Production Costs (percent)

Raw Materials	69.6
Labor (Salaries and Wages)	25.7
Electricity	3.1
Fuels	0.3
Others	1.3
Total	100.0

Source of Basic Data: SKEM (1994)

² Before the passage of the new Jewelry Industry Development Act of 1998, these formal costs included a 3-10% import duty, a 20% excise tax and the 10% Value-Added Tax.

The only formal source of gold in the country is the *Bangko Sentral ng Pilipinas* (BSP). In response to industry initiatives, it opened in 1993 a One-Stop Shop for members of jewelry industry associations (e.g. Guild of Philippine Jewellers, Inc. and the Meycauayan Jewelry Industry Association). Presently, the BSP has allotted about 50 kgs per month for sale to jewelers but sales have reached only around 10 kgs a month at its highest. The BSP is also a reliable source of quality gold (up to 99.99% pure). As for the price, the BSP quotes the London Bullion Price. It has also lowered its processing fee from 3.5% to just 1% of gold purchase. It can even lower this further to 0.25% if demand increases. There appears also no problem with value-added taxes (VAT) as the BSP, being a government institution, is exempted from imposing the 10% VAT. The BSP is also willing to continue shouldering the carrying cost of gold inventory.

However despite advantages of purchasing gold from the BSP, the industry has mostly stayed away. For 1997, although gold purchases of over 41 kgs is 18% higher than in 1996, the volumes involved are a pittance compared with the actual market requirements. Also there has been no improvement in the utilization of the One-Stop Shop by the industry since 1994 when the number of purchasers was 19 -- which up to now still stands as the highest.

Table 2. Gold purchases of jewelry industry from BSP

	BSP Gold Sales		No. of Firms
	(in grams)	% change	
1993	2,950.6		6
1994	25,929.9	779	19
1995	30,605.7	18	13
1996	34,923.7	14	19
1997	41,200.4	18	18

* No. of firms pertain to no. of buyers in a year which individually may have multiple purchases.

The main reason for this lack of industry acceptance is that the BSP does not give credit terms to gold buyers or delivery services to their establishments as what the present informal sources presently offer. In addition, by offering lower quality of gold, informal sellers can also give lower prices -- which is acceptable to the industry as not all jewelry manufacturers require the high standard grade of BSP gold. Also, the setting of minimum purchase levels at 50 gms. maybe a factor but the BSP claims that they can still set this limit to as low as 10 gms. A more substantial obstacle is the fear of jewellers that their purchases from the BSP can be traced by the Bureau of Internal Revenue (BIR) and ultimately lead to future legal/tax problems. Another point of contention is the fact that the gold prices of BSP are pegged to the US dollar which may be too complicated for some jewellers.

Problem of Definitions. One of the problems of being primarily informal is the lack of clear-cut guidelines defining the industry or its respective subsectors. In the case of the jewelry industry, its definitions are further muddled with its diversity in product composition, form and use.

The Tariff Commission generally defines jewelry as *any personal adornment that can be worn by the person and/or on his clothing(s), including the pockets and/or belts.*³ This definition clearly encompasses traditional forms of jewelry such as rings, bracelets and necklaces. However, it is also too general and vague enough to also include such products as watches, pens, tie pins, hair clips and belt buckles. As a working definition, therefore, it suffers from a lack of clarity.

The industry has two main product lines according to their product composition: *fine* and *costume* jewelry. *Fine* jewelry refers to jewelry made of precious metals (e.g. gold and/or silver), which may or not be mounted with gemstones. Gemstones are either precious (e.g. diamonds, emeralds, rubies and sapphires and pearls) or semi-precious (others stones). These could be in the form of rings, earrings, bracelets, necklaces, pendants, tie pins and cuff-links. In contrast, *costume* jewelry is composed of other materials (primarily indigenous) such as shells, coral, beads, wood, plastics, and the like. The manufacture of jewelry itself receives little importance in government statistics. It is classified under the broad category “*Other Manufacturing Industries.*”

However, the PSCC⁴ and HS categorizes the jewelry and jewelry-related products differently. Gemstones as raw materials are classified under pearls, precious & semi-precious stones (PSCC: 667; HS: 71.01 to 71.12). The products of fine jewelry are primarily classified under articles of jewelry (PSCC:897.3; HS: 71.13 to 71.16). However, the non-traditional forms of jewelry that are not worn on the person but on his clothing such as buttons, cuff-links and tie clips are considered imitation jewelry (PSCC: 897.2; HS: 71.17). This term is made more confusing as it primarily also covers costume jewelry under the heading of *imitation jewelry of other non-precious materials, nes* which could also be included in the traditional forms of jewelry (e.g. rings, bracelets, etc) but they are composed of non-precious materials. Not included in the assigned tariff schedule are the raw materials of costume jewelry like glass beads & imitations of pearls, precious and semi-precious stones (PSCC: 665.93.01; HS: 70.18.10), selected articles of molding/carving like capiz shells, shell handbags, mother-of-pearl, animal carvings (PSCC: 899.11; HS: 96.01), hairpins (PSCC: 89989; HS: 96.15), buttons (PSCC: 89983; HS: 96.06.29) to name a few.

The term “jewelry industry” also spans several activities: from raw material extraction and/or importation, to manufacturing, and eventually, to trading (wholesale and retail). However, there are no available government figures specifically on the extraction

³ Engr. Bernardino, Roundtable Discussion on the EVSL (Jewelry Sector), University of Asia and the Pacific, March 13, 1998.

⁴ Philippine Standards Classification Code

of raw materials for jewelry and on the trading of jewelry products. These are normally aggregated with the other activities. For example, under the Philippine Standard Industrial Classification (PSIC) system,⁵ pearl farming is classified under “*Other fishery activities*” ; gold extraction for jewelry is considered together with mining and production for other gold uses e.g., minting; while jewelry trading is classified under “*Wholesale trade, not elsewhere classified*” and “*Retail trade, not elsewhere classified.*”

Thus, due mainly to the above data constraints, the manufacturing side of the Philippine fine jewelry industry will be given more emphasis in this report. However, this limitation will not seriously affect the usefulness of this report as most, if not all, retail jewellers participate in the manufacturing process in one way or another.

However for the purposes of this study, the manufacture of fine jewelry involves the following:

- Bracelet, jewelry, manufacturing
- Diamond cutting and polishing
- Dress set, jewelry, manufacturing
- Electroplating
- Engraving on precious metal
- Gold engraving
- Jewel cutting, drilling, and polishing
- Jewel setting and mounting manufacturing
- Jewel, watchmakers’, working
- Jewelry enamelling and engraving
- Jewelry, precious metal, manufacturing
- Lapidary work
- Metal coating, jewelry
- Metal engraving, jewelry
- Pearl drilling
- Precious stone cutting and polishing
- Ring, jewelry, manufacturing
- Semi-precious stone cutting and polishing
- Silver engraving
- Synthetic precious stone cutting and working

The manufacture of jewelry-like accessories (mainly imitation jewelry) and personal items with precious metals are also included. These are:

- Button, precious metal, manufacturing
- Cane trimming, precious metal, mfg.
- Case, cigar/cigarette, precious metal, mfg.
- Case, precious metal, mfg.
- Chasing on precious metal
- Clasp, handbag, precious metal, mfg.
- Emblem, precious metal, mfg.
- Etching on precious metal
- Fountain pen mounting, gold, mfg.
- Government mint
- Handbag, precious metal, mfg.
- Jewelers’ finding and material mfg.
- Jewelry box or case, precious metal, mfg.
- Lighter, cigarette, precious metal, mfg.
- Loving cup trophy mfg.
- Medal, precious or semi-precious metal
- Pin and stem, jewelry finding, mfg.
- Precious metal product mfg.
- Toilet ware, silver, mfg.
- Vanity case, precious metal, mfg.

⁵ Philippine Standard Industrial Classification (PSIC). National Economic Development Authority (NEDA). Manila, 1997. The PSIC is the framework used by the government in defining and classifying industries. It is one of the standards set by NEDA to effect uniformity and avoid confusion in the classification work of government agencies.

Economic significance to the economy. According to the 1994 Survey of Key Establishments in Manufacturing (SKEM)⁶--the latest which was published by the government--the fine jewelry sector is composed of only 693 manufacturing establishments employing 4,844 people and producing P1.148 billion worth of goods. It accounted for 0.07% of the total 1994 Gross Domestic Product (GDP) and 0.09% of total Personal Consumption Expenditures (PCE).

However, such figures do not include the majority of the firms which are informal. Based on our estimates, the industry has establishments numbering within 7-10,000 firms, employing about 100,000 workers (of which 18,000 are direct). The industry output for 1997 is computed at P 2.4 billion of which the value-added is P936 million and compensation is P920 million.

Table 3. Economic significance of Philippine jewelry industry

	SKEM 1994	Estimates
No. of Firms:	693	7-10,000
Employment Generation:	4,844 (direct)	100,000 + (total) of which 18,000 (direct)
Compensation:	P244 million	P920 million
Output:	P 1.1 billion (1994)	P 2.4 billion (1997)
Value-added:	P 455 million	P 936 million
Share to GDP:	0.07 %	0.10 %
Share to PCE:	0.09 %	0.13 %

Source: Survey of Key Establishments in Manufacturing, NSO; Authors' estimates

⁶ 1994 Survey of Key Establishments in Manufacturing (SKEM). National Statistics Office. Manila, Philippines.

Accordingly the adjusted shares of the output with regard to GDP and PCE are 0.1% and 0.13% respectively.⁷ This is a marked increase since 1988 when it accounted for only 0.01% of GDP and 0.02% of PCE. This consistent rise is indicative of the growing attractiveness of the industry's products to the average consumer.

Industry Structure. Most of the industry is operating underground to avoid heavy taxation. As a result, over 95% of the firms are small with only 9 or less employees. A great majority are in fact household operations with only 2-3 workers. Only a few dozen firms have 50 or more workers. There is very little investments in modern tools and equipment. Smuggling is rampant as its carrying cost is only 1-3% compared with the official burdens. Correspondingly the fine jewelry industry is mostly domestic-oriented with only minimal exports of fine jewelry as only about 25 firms are regular exporters.

In contrast, the costume jewelry industry has concentrated on exports. This necessitated more formality on their part to access foreign markets and to transport their goods. As such most of the costume jewellers operate aboveground and are more knowledgeable with regard to international standards and requirements.

The Philippine jewelry industry is concentrated in the following areas: Metro-Manila, Bulacan (Meycauayan), Pampanga, Mountain Province, Camarines Norte, Batangas, Cebu, Iloilo and Davao.

Philippine Export Performance. The travails and the prospects of the industry is reflected in trade statistics. Total exports which stood at US\$28.56 million in 1996, have been declining at an annual average rate of 23% since 1994. This development is mainly due to the drastic fall of imitation jewelry exports from \$46.4M in 1994 to only \$17.5M in 1996. Local producers of costume jewelry have failed to keep up with foreign demand of new trends, designs and materials. Between 1994 to 1996, the exports of pearls have been fairly stable at \$6M; while articles of silver jewelry exports have risen by 50% to over \$3M. (See Table 4 & 5 for Foreign Trade Statistics on Jewelry and Gems.)

- **Export Products.** Around three-fourths of the country's exports are imitation jewelry, while the rest is halved by fine jewelry and pearls. The traditional jewelry products of the Philippines include imitation jewelry of materials other than base metals or *costume jewelry* (HS 711719), articles of silver jewelry (HS 711311), worked cultured pearls (HS 710121), articles of gold/silversmiths wares made of silver (HS 711411), articles of jewelry made of precious metal other than silver or *gold jewelry* (HS 711319), and articles of precious and semi-precious stones (HS 711620). However, as stated, the country is fast losing ground in *costume jewelry* (HS 711719) and cuff-links and studs (HS 711711) while there has been sharp declines from 1995 to 1996 in *gold jewelry* (HS 711319), articles of gold/silversmiths wares made of silver (HS 711411) and articles of pearls (HS 711610).

⁷ Authors' estimates

- **Export Markets** The top five export markets of the country are the US, Japan, United Kingdom, Hong Kong and Germany. Together these markets comprise over 75% of total RP jewelry exports. However, from 1994 to 1996, exports to these major markets have fallen except for Japan which grew by 19%. The share of APEC in total exports grew to over 60% in 1996 from only 54.2% in 1994 (Table 7).

The world market for gold, silverware and jewelry is about US\$21 billion in 1995 (International Trade Statistics). The top exporters include Italy (\$4.75B), Switzerland (\$2.02B), Hong Kong (\$1.66B), UK (\$1.44B), China (\$1.40B) and the US (\$1.09B). The country's exports of \$29 million (M) paled in comparison with the country's neighbors such as Singapore (\$658M), Malaysia (\$475M), Japan (\$369M), Indonesia (\$335M), South Korea (\$328M). The top potential market is still the US which accounts for 24 percent of total jewelry imports. This is followed by Switzerland (9.2%), UK (9.0%), Japan (7.8%), Germany (5.0%) and Hong Kong (5.8%). The potential role of APEC has increased with Asia accounting for a third of total trade in jewelry in 1995 up from only 18% in 1986.

This is apart from the market for pearls and semi-/precious stones which totaled over \$40 billion in 1995 (International Trade Statistics). The main sources of such precious stones include Belgium-Luxembourg (\$10.73B), Israel (\$5.58B) and India (\$5.11B). The top regional exporters are Hong Kong (\$1.4B), Thailand (\$1.2B), China (\$515M), Australia (\$255M), Japan (\$262M), Singapore (\$146M), Malaysia (\$103M) and Indonesia (\$12M) while the Philippines lagged behind with only \$6M in 1996. The top markets include Belgium-Luxembourg (23%), USA (15%), Israel (11%), and the UK (10%). Likewise the share of Asia in world trade of precious stones has risen to 42.3% in 1995 from only 28.1% in 1981.

Philippine Import Performance. Philippine jewelry imports have risen slowly (about 6% annually) from \$1.87M in 1994 to \$2.10M in 1996. This increase is contrary to the significant decrease in total jewelry exports. This implies that an increasing share of imports are finished jewelry rather than raw material inputs for the local industry -- which coincides with the increase in personal disposable incomes for the period. Bear in mind that such import figures hardly indicate the total inflow of jewelry products into the country as smuggling is evidently rampant.

- **Imported products.** The traditional imports of the country are precious stones other than pearls and diamonds, both worked (HS 710239) and unworked (710231), cuff-links and studs of base metal (HS 711711), imitation jewelry of base metal (HS 711719) and other materials (HS 711719), gold jewelry (HS 711319), and articles of pearls (HS 711610) and semi-/precious stones (HS 711620). In between 1994 and 1996, although imports of articles of precious metal (HS 711311 to 20) and of imitation jewelry of other materials (HS 711719) have declined by 41% and 35% respectively, this has been more than offset by an upsurge of imported cuff-links & studs of base metal (HS 711711) and of imitation jewelry of base metal (HS 711719)

which grew by 154% and 102%. An increase in the industry's capacity is expected with the 42% rise in imports of articles of gold/silversmiths wares (HS 711411 to 20) from 1994 to 1996 (Table 2).

Import sources. The majority of the country's imports came from only three sources: Hong Kong, the US and more recently South Korea. Together these comprise more than half of total jewelry imports (Table 8). Although imports from Hong Kong have fallen continuously from over \$1M in 1994 to only \$732 thousand (T) in 1996, the Philippines still sources over a third of its imported raw materials from the former crown colony. This slack was however taken up by a surge in imports from Japan (other precious stones), Taipei (imitation jewelry of other materials), China (imitation jewelry of base metal), Thailand (imitation jewelry of base metal) and India (articles of precious stones). The role of APEC is significant with over 88% of imports coming from the region.

Net Trade. Whereas the country is faced with declining exports and increasing imports, the net trade position is still favorable although falling (Table 6). Understandably the country has negative positions with regard to raw materials such as diamonds (HS 710239); and products made of base metals whether it be imitation jewelry (HS 711719), articles of jewelry (HS 711320) or articles of gold/silversmiths wares (HS 711420). Surprisingly, in 1996, this list included articles of pearls (HS 711610) and of precious metals, nes (HS 711590).

Summary of Industry Characteristics. The strengths of the industry include:

- (1) A ready manpower pool that is skilled, trainable, inexpensive, creative and familiar with other cultures.
- (2) Availability of raw materials such as gold, silver and pearls
- (3) Long industry experience
- (4) World class craftsmanship.
- (5) Active trade associations in the form of the Guild of Philippine Jewellers, the Meycauayan Jewelry Industry Association, the Fashion Accessories Manufacturers and Exporters Foundation and the Philippine Association of Pearl Producers / Exporters.

The weaknesses of the industry include:

- (1) Largely underground operations
- (2) Lack of price-competitiveness due to heavy taxation
- (3) Domestic-market orientation
- (4) Technological stagnation and the use of outdated equipment
- (5) Lack of familiarity with international product standards and work systems
- (6) Absence of an assay, appraisal and hallmarking system to brand and guarantee the weight and quality of jewelry articles
- (7) Lack of aggressive marketing promotion
- (8) Dependence on imported supply of diamonds and precious stones
- (9) Lack of safety measures for use of toxic chemicals in metal-refining processes

The opportunities of the industry are:

- (1) A relatively stable US market which is a traditional Philippine export market
- (2) Proximity to Japan and Hong Kong which are potential export markets
- (3) Growing primary and secondary markets in the country with the rise in disposable incomes

The threats faced by the industry include:

- (1) Burdensome policies, regulations and taxes that have plagued the industry and forced many firms to remain informal
- (2) Limited access to BSP gold
- (3) Lack of supply capability and cost-competitiveness as most firms are entrenched according to the old regime of informal activity
- (4) Rising labor costs as local daily wages of US\$7-9 (at P/\$ 40) are less competitive compared with the \$1-2 offered in Mongolia, China and Vietnam

Government regulation. In an attempt to correct the mistakes of the past and to encourage the full development of the Philippine jewelry sector, the government recently enacted into law Republic Act 8502 which is referred to as *The Jewelry Industry Development Act of 1998*. Among the highlights of the said law are the following incentives to duly accredited jewelry establishments:

1. Zero duty on imported raw materials
2. Exemption from the imposition of excise tax
3. Zero duty on imported capital equipment
4. Deduction from taxable income of 50% of expenses incurred in training
5. Gold and silver sales by the BSP to jewelry enterprises under minimal margins
6. Authority for jewelry firms to buy gold and silver directly from other sources
7. Inclusion of locally-manufactured jewelry in the government's tourist duty-free shops

Though it is too early to evaluate, the provisions of the Jewelry Industry Development Act answers the main problems (e.g., excessive taxation, difficulty in sourcing raw materials) cited by industry players on why they prefer to remain in the informal sector.

LIKELY IMPACT OF THE EVSL ON THE PHILIPPINE JEWELRY INDUSTRY

Demand Effects. The economic effects of import liberalization are expected of which, the most important is that the local consumer be given better choices with greater access to more diverse products, styles and designs at more market-friendly prices. This would lead to the continuous upgrading of the taste of domestic consumers thereby raising local product standards as well as opening new market opportunities for local manufacturers. For the local producers, this would mean access to cheaper raw materials, more modern technology and productive processes, as well as an increasingly imperative outlook for export markets.

Supply Effects. The EVSL, in combination with RA 8502, will most likely encourage more jewelry establishments to formalize their operations. For it is only in doing so that the benefits of the two government initiatives can be received. In line with formalization, the industry is expected to undergo rapid consolidation as the prevalent small outfits group together to achieve greater economies of scale.

The formalization of the jewelry industry will lead to increased economic activity resulting in greater employment, and increases in compensation, income taxes (both individual and corporate) and VAT collections. Jewelry-making is labor-intensive and allows small-scale production thus possibly alleviating numerous rural areas. Note that most industry workers do not require tertiary education as their training is based on skills, craftsmanship and design-making. Another positive development is in raising local awareness of traditional Philippine jewelry. Export expansion in jewelry and all its benefits including foreign-exchange earnings is also a possibility that requires more government assistance.

Sectoral Effects. The probable effects on the different subsectors of the industry are mixed. The local pearl producers are apprehensive of the possible saturation in their domestic market before their capacity is increased. Obviously their product development and measures to increase capacity require natural methods which are time-bound.

For the fine jewelry sector, the tariff-free entry of their material inputs has been eagerly awaited for several years. Their concern is with the inflow of finished jewelry which is defined as jewelry that can be readily worn as it is. The local producers are asking for time in adjusting to the new regime of open markets without excessive taxation. As stated this would entail industry formalization and consolidation as well as rapid technological modernization which cannot happen overnight.

For fashion jewelry, it would appear that opening local markets to both raw materials and finished goods is not a problem as most are exporters anyway. In fact, foreign competition is welcome especially for local designers to view new fashion trends for the world market. This is also a way to introduce fashion jewelry to the domestic market -- which currently is viewed as uninformed and limited.

In conclusion, the EVSL is projected to be beneficial to the Philippine economy as a whole. For the government, this would result in generating more employment and tax revenues. For the producers, the lowering of tariffs will make the industry more cost-competitive, thereby inducing long-delayed plans for capital investment in production. For local consumers, the realignment of the cost structures would result in better prices. Admittedly the choices of fine jewelry will still be relatively limited to locally manufactured items -- which are expected to increase in quality in the face of foreign competition. However, such will not be the case when full liberalization occurs in 2005. Until that time expect accelerated development in the industry which will ultimately be for the benefit of all concerned.

ACTION PLAN

Tariff Reduction Schedule. (See Table 9 for details.)

- ***Zero percent tariff, at the soonest time, for jewelry raw materials, loose gems, jewelry components, parts, pieces, except South Sea Pearls.*** Jewelry raw materials include all items under diamonds (HS 7102); precious stones (HS 7103); synthetic or reconstructed precious or semi-precious stones (HS 7104) excluding piezo-electric quartz (HS 710410) which is utilized by electronics industry; dust and powder of natural and synthetic precious or semi-precious stones (HS 7105); silver (HS 7106); base metals clad with silver (HS 7107); gold (HS 7108) excluding monetary gold of BSP (HS 710820); base metals or silver clad with gold (HS 7109); platinum (HS 7110); base metals clad with platinum (HS 7111); waste and scrap of precious metal (HS 7112); and all parts of articles of jewelry (HS 71131190, HS 71131990, HS 71132090), of cuff-links and studs (HS 71171110) and of others (HS 71171990, HS 71179090).
- ***Conditional tariff reductions on finished costume/imitation jewelry.*** Finished imitation jewelry pertains to non-parts of imitation jewelry (HS 71171190, HS 71171990, HS 71179090). The industry is willing to reduce tariffs on finished imitation jewelry to zero provided their respective raw materials are also reduced to the same level. Note however that such raw materials are not all stated under the same HS headings (HS 7117), but can be found throughout the HS system under for example glass beads & imitations of pearls, precious and semi-precious stones (PSCC: 665.93.01; HS: 701810), selected articles of molding/carving like capiz shells, shell handbags, mother-of-pearl, animal carvings (PSCC: 899.11; HS: 9601), hairpins (PSCC: 89989; HS: 9615), buttons (PSCC: 89983; HS: 960629) to name a few. As it is the industry is willing to settle for tariffs that is equal to the tariffs on the said raw materials which is generally 3%.
- ***No acceleration of tariff reduction for finished fine jewelry.*** This refers to jewelry that can readily be worn or used which fall under articles of goldsmiths' and silversmiths' wares (HS 7114), non-parts or "other" of articles of jewelry (HS 71131110, HS 71131910, HS 71132010) and all other articles of precious metal (HS 7115).
- ***Delay in the reduction to zero percent of the tariff for South Sea Pearls; 10% duty on South Sea Pearls until 2003, reduce to 5% by 2004, and 0% by 2005.*** This pertains to pearls (HS 7101) and articles of pearls and precious and semi-precious stones (HS 7116).

Programs to be Implemented by the Philippine Government

1. Accelerate the completion of the industry's Implementing Rules and Regulations (IRR). This includes the accreditation process and requirements needed by the local jewellers to avail themselves of the tax and non-tariff benefits of the new RA 8502: (The Jewelry Industry Development Act of 1998).
2. Establishment of Assay Services. This involves the provision of technical and organizational assistance for the physical and human resource development needs of the Industry in connection with institutionalized hallmarking and assaying of jewelry products.

At present assay services are available at the *Bango Sentral ng Pilipinas*. However the current costs are prohibitive as the technology used by the BSP requires the destruction of the sample. It is said that foreign technology exists wherein the sample is not destroyed through the possible use of X-rays; but the acquisition of the said technology requires capital investment of which the local producers cannot afford.

3. Access to financing. Aside from the implied difficulty of providing financing to informal outfits, the industry is hampered by the composition of their assets. It is an inherent fact that generally the only collateral that jewellers can offer to financiers is their inventories -- which is where most of their assets reside. The problem is therefore how to set a value to the said jewelry inventories that is recognized by all concerned. This is related to the task of establishing assay services.
4. Provide financial and marketing assistance to small firms especially towards exportation.
5. Support in international promotions. This would possibly entail the publication of a Philippine jewelry manufacturers catalogue, the sponsoring of articles about the local industry in international publications and of selling missions abroad, and the match-making of sub-contractors with local and foreign manufacturers through joint ventures.
6. Design and product development assistance. This consists of firm-level assistance for the development of product collections, designs and probably presentation/packaging aspects.
7. Develop supporting industries. This includes industries in gold and silver mining as well as jewelry equipment manufacturers.
8. Open the market to international and local trading of raw gold and factory gold waste. This would lead to gold trading by way of a commodities exchange in the distant future.

9. Organize authorized gold and silver outlets nationwide. The recommended locations are Meycauayan, Camarines Norte and Baguio involving the selling of gold/silver in sheets, wires, grains, etc. as well as solder in various karats/purities.
10. Implementation of Philippine National Standards on Jewelry.
11. Setting of ecology measures for improving fresh water bodies for possible fresh water pearl culture. Although it can be said that the country should instead concentrate on the production of South Sea pearls, the possibility of producing such products is intriguing.

Programs that can be Advanced in APEC

Facilitation Measures

1. Formulating a Mutual Recognition Agreement (MRA) on Jewelry Standards. Note that the Philippine jewelry industry is in itself lacking a national standard. But this could also be set on an APEC-wide or regional basis so as to accelerate the local industry's own development.
2. Trade facilitation assistance -This involves the forming of cooperative endeavors between and among member economies for a more effective implementation of the Philippine Retail Trade Law.

Economic and Technical Cooperation Measures

1. Technical assistance in the establishment of assay services.
2. Technical support for skill standardization and certification program, and trade testing.
3. Establishment of an APEC Regional Jewelry Training Center. This could raise questions regarding its suitable location. A case maybe made for the Philippines instead of other countries which are anyway already way ahead in terms of jewelry industry development.
4. Technology transfers and exchanges on product design and development, pollution control and waste management, and the upgrading of production technology. This could consist of the provision of experts on specialized aspects of jewelry manufacturing such as stone setting, engraving, casting, surface enhancements, e.g. granulation, enameling, etc. Skill-formation techniques may include exchange programs and local capability build-up. Another area of concern is waste minimization, particularly the control, and/or management of waste generated from the processes involved in the production of precious metal jewelry and fashion accessories (e.g. waste from electroplating process and small-scale refining).

4. Development of natural dyes - to include research and development of natural dyes and production of these dyes in sufficient quantities for use by the various industries to reduce dependence on synthetic dyes and provide productive economic activities to the rural areas.

