

The Philippines: Trade Brief*

Trade Policy

As judged by the Trade (MFN) Tariff Restrictiveness Index (TTRI), on which it is ranked 45th out of 125 countries, the Philippines's tariff regime is less restrictive, on the whole, than that of an average East Asia and Pacific (EAP) or lower-middle-income country. Following trade liberalization in the 1990s, the MFN applied simple (6.3 percent) and import-weighted MFN tariff averages (3.4 percent) are less than half their 1995–99 levels and also lower than the regional (10.2 percent and 11.1 percent) and lower-middle-income comparators' averages (11.5 percent and 11.1). Moreover, the MFN applied maximum rate is 65 percent, far lower than either the EAP (389.9 percent) or income group (262.9 percent) averages, further evidence of the economy's openness. With respect to services, deregulation and privatization have continued with renewed vigor since the late 1990s, but the Philippines' 2007 overall GATS index is worse than the regional or income group comparators' averages, suggesting considerable room for further liberalization and for bolder commitments under the GATS.

Market Access

According to both the latest Market Access TTRI (including preferences) on which it is ranked 45th, and the rest-of-the-world applied tariff (including preferences) of 1.4 percent, Philippine products face lower tariff rates in their export markets than do those from an average EAP or lower-middle-income country. The Philippines takes good advantage of its low external barriers as evidenced by the 76.7 percent of Philippines' 2006 exports that were MFN duty free and the 58.7 percent of its 2006 exports that were to free trade agreement (FTA) partners (although its utilization rate of U.S. and EU preferences is low). A Generalized System of Preferences (GSP) beneficiary with a number of industrialized countries, the Philippines has been a party to the Trade and Investment Framework Agreement (TIFA) with the United States since 1989. At the regional level, the Philippines is part of the Association of South East Asian Nations (ASEAN) and the ASEAN Free Trade Area (AFTA) and has FTAs with Japan and China (the latter through ASEAN). A discussion is ongoing for a potential future FTA between the EU and ASEAN.

Behind the Border Constraints

The overall business and institutional environment appears to have room for improvements, as the country's Doing Business latest overall rank is 133rd (out of 178 countries). On the other hand, the Philippines ranked 65th (out of 150) on the 2006 Logistics Performance Index, surpassing the EAP and lower-middle-income group averages on nearly all components of the index. Quality of transport and efficiency of customs were its weakest areas, while domestic transportation costs the strongest. Moreover, it ranked 57th on the Doing Business—Trading Across Borders subcategory, the latter despite fairly high average per container export and import costs. The Philippines' per capita rate for telephones and mobile phones (54 percent in 2006) is comparable to the regional average, but fall short of the lower-middle-income group. However, its rate for Internet users (5.5 percent during 2005–06) is below both comparators' means. The country's 2005 secondary (84.8 percent) school enrollment rate is above both the regional and income group averages, but the tertiary (28.1 percent) school enrollment rate is above the regional average but below the lower-middle-income country group's.

*As of April 2008. See the World Trade Indicators 2008 database at <http://www.worldbank.org/wti2008>.

Trade Outcomes

Despite a favorable import and export climate, the Philippines' real growth in total trade of goods and services was 6.0 percent in 2007, down from 8.5 percent in 2006, resulting in a ranking of 100th out of 160 countries. Its trade share in GDP was 84.3 percent, close to the lower-middle-income (98.8 percent) mean but short of the EAP (115.4 percent) average openness ratio. Foreign direct investment (FDI) inflows account for a relatively low 2 percent of GDP in 2007. Merchandise, of which electronics is the main subgroup, dominates exports (88.6 percent) with services making up just 12.4 percent of total exports. The Philippines' main destination markets in 2005–06 were the United States, Japan, the Netherlands, and China, while imports were primarily obtained from the United States, Japan, Singapore, and China.

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