



PHILIPPINE TRADE LOGISTICS AND FACILITIES

The Demand for a Strong Supply Chain

HIGHLIGHTS

- A country's supply chain efficiency and cost-effectiveness affect regional and global business especially if it is deeply embedded in the world's supply chain.
- Beyond the individual strengths and challenges of firms, policy reforms and public-private collaborations can directly impact firms' ability to gain greater participation in the global supply chain.
- Trade-related infrastructure, customs procedures, and logistics competence are the Philippines' least competitive areas in the World Bank's Logistics Performance Index
- A Philippine exporter has the potential to save 2.8 days and \$928 in the exporting process, while an importer can cut 1.8 days of importing time and save \$983, for every dry cargo, 20-foot full container load if related infrastructure, customs procedures and terminal operations are made more efficient and cost-effective for businesses.
- The Philippine government's promising plans to develop quality and sustainable infrastructure, and improve existing ones, must be implemented. The country also needs to invest in detailed studies and analyses to determine its own strengths and weaknesses in the supply chain.
- In addressing bottlenecks, the Philippines should study the best practices of developing economies and look into adopting these effective strategies.

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In international trading, seamless trade facilitation and logistics are integral to the timely transportation of goods from point A to point Z. Cost-effectiveness also plays a key role in expanding trade and investment between economies. It is, therefore, crucial for any economy to identify and address the loopholes that upset these areas of competitiveness if it is seriously committed to doing business with the rest of the world.

Naturally, every firm operates under its own logistics framework, and every industry weighs in its unique set of requirements in the supply chain. But there are domestic realities that directly impact trade flow and costs for all. These include the quality of infrastructure, the efficiency of customs procedures, dispute mechanisms, logistics services, safety and security measures, and the costs involved.

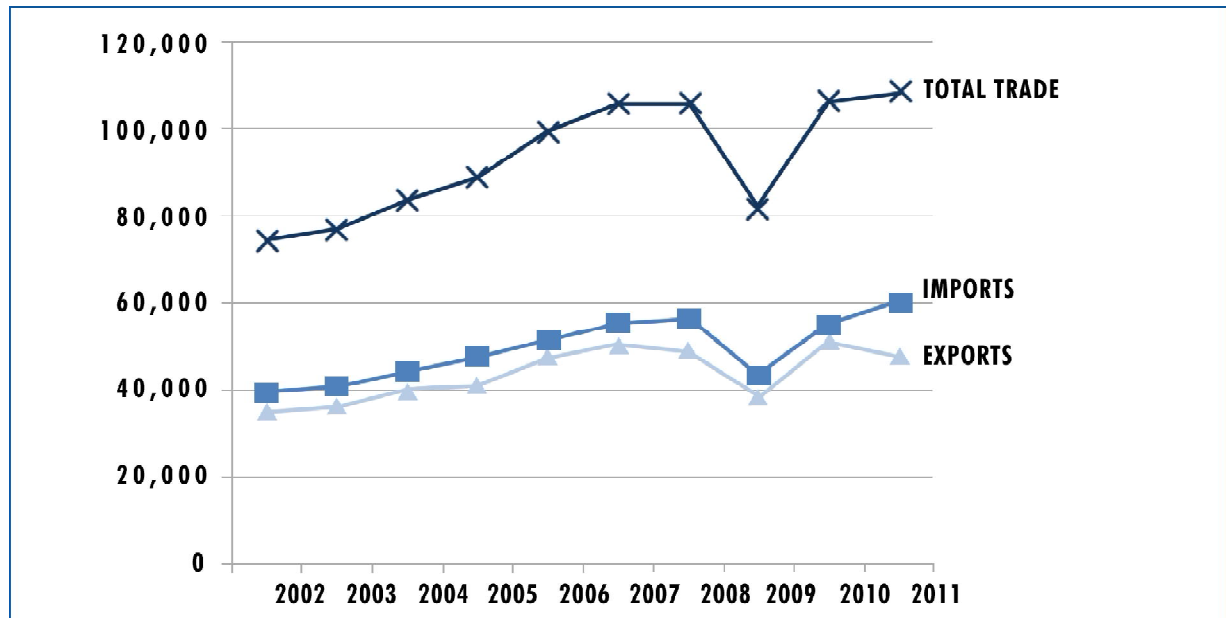
In a working paper released in 2008, Bernard Hoekman and Alessandro Nicita concluded that improving the measures in the logistics performance index of low-income countries to the middle-income average would boost trade by about 15%. Reducing the tariff equivalent of nontariff measures to 10% would also result in a trade gain of 8%.

In addition, due to the interdependent nature of trading across borders, harmonization of trade policies and regulations between economies is ideal, and improved operational linkages between trading economies must occur. If inefficiency exists at any stage of the supply chain, the efficiency of the whole chain is compromised. After all, the supply chain is only as strong as its weakest link.

This report aims to look into the domestic and international bottlenecks in the Philippine supply chain that impose unnecessary business costs and economic losses, particularly within the context of merchandise trade within the Asia-Pacific region. It is crucial to identify these critical chokepoints because, if addressed through government intervention and private-public sector partnerships, these will provide the biggest potential for time and cost savings.

The major references for this report are the World Bank Logistics Performance Index 2010, the World Bank and International Finance Corporation's Doing Business 2012 report, the World Economic Forum Global Competitiveness Report 2011–2012, the WEF Global Enabling Trade Report 2010, and the University of Southern California Marshall School of Business's 2011 study on "APEC Supply Chains: Identifying Opportunities for Improvement."

Chart 1
PHILIPPINES EXTERNAL TRADE PERFORMANCE, 2002-2011
 In million US dollars



Source: National Statistics Office (2011)

PHILIPPINES: MUCH ROOM FOR IMPROVEMENT

With the exception of the dip in total trade in 2008–2009 following the global financial crisis, the Philippines posted consistent growth in external trading of merchandise in the past 10 years (see Chart 1). The positive performance could be due to a combination of different factors in the areas of further liberalization in market access, bilateral and multilateral partnerships affecting tariff and non-tariff measures, improved infrastructure and logistics, transparency in operations, and the resilience of the Philippine economy and businesses.

The upward trend in the graph, however, does not mean we are faring well by global standards. In the past decade, many economies welcomed and embraced globalization and, in doing so, countries like Vietnam and China posted double-digit year-on-year growth rates in merchandise trade. Another neighbor, Malaysia, posted its highest total trade recorded at RM1.3 trillion last year, an 8.7% jump in total trade. The Philippines can do better than a 1.6% growth rate in total trade or even the 6.9% growth in merchandise trade in 2011 if it can create an environment that reduces supply chain risks and uncertainty.

The Global Competitiveness Report 2011–2012 of the World Economic Forum revealed that the level of

participation of Philippine exporters in the value chain is quite narrow and limited to individual segments (e.g., production only). Ranking 67th out of 142 countries, the Philippines (scoring 3.6) fell below the mean score of 3.7, indicating that there is much room for our exporting firms to expand in the entire value chain, such as through performing product design, marketing sales, logistics, and other after-sales services. Beyond the individual strengths and challenges of firms, policy reforms and public-private collaborations can directly impact the ability of firms to gain a larger participation in the global supply chain.

BASIC SOURCES OF COMPETITIVENESS

The top 3 “most problematic factors for doing business” in the Philippines, according to the WEF Global Competitiveness Report respondents, are corruption (24.4%), inefficient government bureaucracy (18.3%), and inadequate supply of infrastructure (16.5%). This mirrors business concerns for trading in the Philippines as revealed in the WEF Global Enabling Trade Report 2010 and the World Bank’s Logistics Performance Index (LPI) 2010. Weak trade-related infrastructure, customs procedures, and logistics competence are the least competitive areas of the Philippines in the LPI (see Table 1).

Table 1

PHILIPPINES: LOGISTICS PERFORMANCE INDEX 2010

	Score (Low 1 - 5 Best)	Rank (Out of 155 Countries)
Overall LPI	3.14	44
Infrastructure		
Quality of trade and transport-related infrastructure	2.57	64
Customs		
Efficiency of the clearance process in border control	2.67	54
Logistics competence		
Competence and quality of logistics services	2.95	47
Tracking and tracing		
Ability to track and trace consignments	3.29	44
Timeliness		
Timeliness of shipments in reaching destination	3.83	42
International shipments		
Ease of arranging competitively priced shipments	3.4	20

Source: World Bank (2010)

Infrastructure. The current state of the Philippines' trade-related infrastructure and the costs associated with the use of its seaports, airports, roads, railways, and warehousing/transloading present a heavy burden to exporters and importers. In the country's LPI scorecard, all of the respondents (companies and individuals engaged in international logistics) rated the state of Philippine roads and railways as either "low or very low," while half of the respondents also gave the same rating to airports and warehousing facilities.

While only 25% of the respondents gave the state of Philippine seaports a poor rating, 50% classified the country's port fees and charges to be "high or very high." A comparison of total freight charges, including agent fees, port, airport, and other charges, for transporting a typical 40-foot dry container or semi-trailer in select countries in Asia shows that the Philippines has the highest rates (see Table 2).

The country also obtained low scores and rankings under the infrastructure pillar of the WEF Global Competitiveness Report. Out of 142 countries, the Philippines ranked 113th in quality of infrastructure with a score of 3.4 out of 7. Similarly, in the transport and communications infrastructure subindex of the WEF

Global Enabling Trade Report, the country's air transport infrastructure quality ranked 95th out of 125 countries; railroad infrastructure quality, 99th; road quality, 97th; and port infrastructure quality, 105th.

Recognizing the need to address persistent infrastructure concerns, the Philippine government is currently accelerating the provision of efficient and cost-effective infrastructure nationwide. The Aquino administration is poised to roll out big-ticket projects under its Public-Private Partnership (PPP) Program, including the construction of an elevated road that will connect the North Luzon Expressway and South Luzon Expressway, the establishment of cold chain systems covering strategic agri-fishery areas in the country, the extension of metro railway tracks, and the construction and modernization of major airports. For roads, bridges, and highways, 85% of the 2,139 public works and highways projects have already been bid out as of March 2012 (Philippine Economic Briefing 2012). For key seaports, the government is allotting P500 million for the construction and upgrade of berthing facilities in Albay, Iloilo, Leyte, and Davao.

Border Administration. Drawing from the index scores in the abovementioned WEF and World Bank reports, the USC Marshall School of Business prepared in 2011 a comprehensive comparison of supply chains of Asia Pacific Economic Cooperation member economies, highlighting best practices in both time and costs in exporting and importing a dry-cargo, 20-foot, full container load. From the APEC economies' average and best practices data, the USC report computed the potential savings in cost and time for international trading for an emerging economy when infrastructure, documentation, and port procedures are improved at par to APEC's best cases. To find out how much the Philippines specifically could potentially save, this MBC Research Report drew Philippine data from the World Bank reports and used these with the USC report's model (see Tables 3A and 3B).

Based on the computations shown in Tables 3A and 3B, a Philippine exporter has the potential to save 2.8 days and \$928 in the export process if the Philippines adopts the best practices within APEC. In Table 3A, the Republic of Korea was used as a benchmark with its relatively low costs in documentation and port clearances and operations. It is APEC's leader in electronic customs procedures and has the least number of documents (three) required.

Not only does the Philippines need to modernize its documentation process, it also has room to reduce its paper trail. At present, an exporter or importer needs

Table 2

TOTAL FREIGHT COSTS FOR EXPORT AND IMPORT IN SELECT ASIAN ECONOMIES

In US dollars

	Typical Charge for a 40-Foot Export Container	Typical Charge for a 40-Foot Export Container
China	418.90	376.37
Hong Kong, China	464.81	459.19
Indonesia	378.93	1,023.84
Malaysia	353.55	329.88
Philippines	1,118.03	1,357.21
Singapore	421.72	334.72
Taiwan	393.00	500.00
Thailand	250.00	353.55
Vietnam	500.00	500.00

Source: World Bank (2010)

to file and submit eight documents to concerned agencies, as opposed to four documents in Hong Kong or five documents in Thailand for each application. China, meanwhile, has the cheapest port and terminal fees at \$85, which is more than 200% lower than Philippine port fees.

For “on road” and “at port” operations, the benchmarks were the best practices achieved by APEC emerging economies. For inland transportation, for example, Chile was used as the benchmark for having posted the shortest time among APEC emerging economies, reporting only 2 days for transporting goods on road. (If all APEC economies are taken into account, Singapore actually has a better “time on road” because of its high-quality roads and superior logistics services.)

Removing supply chain inefficiencies can also result in significant savings for Philippine importers. Benchmarked against best practices in APEC emerging economies, a Philippine importer can cut 1.8 days of importing time and save \$983 for every dry cargo, 20-foot full container load if related infrastructure, customs procedures, and terminal operations are made more efficient and cost-effective for businesses.

The present reality, however, is that the efficiency of Philippine customs clearance processes lags behind its neighbors’. In the latest WEF Global Competitiveness Report, the Philippines ranked 128th out of 142 countries in terms of the burden of customs procedures. Similar conclusions can be drawn from the WEF Global Enabling Trade Report wherein the country ranked 112th out of 125 countries in the same measurement of efficiency enhancer.

Aiming to hit double-digit growth in total exports annually beginning this year, the Aquino administration

is focused on enabling the country’s industries and services sectors to move up the value chain. In the Philippine Economic Briefing held in March, the government announced several programs to help turn this into reality. The list includes participation in the global supply and value chain, the development of organic and natural product linkages, and the implementation of trade remedies to sustain the competitiveness of domestic industries—all

of which will involve marketing Philippine products and services towards participation in global supply chains with countries and economic blocs, as well as country branding that emphasizes the high quality of Philippine products.

Business Environment. Companies that are exposed and vulnerable to corruption risks lose real and significant business opportunities (PriceWaterhouseCoopers 2008). Thus, the prevalence, or even the perceived level, of corrupt practices in a certain location has become an important factor in firms’ decisions whether to venture into a specific market or not. Naturally, most companies are discouraged from pursuing business opportunities where shady deals seem to be the norm.

The Philippines has long carried the burden of the perceived high levels of corruption in its public and private sectors. In the WEF Global Competitiveness Index 2011–2012, corruption remains the most problematic factor for doing business in the Philippines. The country scored and ranked very poorly in all corruption-related indicators, including the diversion of public funds, irregular payments and bribes, and favoritism in decisions of government officials.

The results of Transparency International’s Corruption Perceptions Index 2011, which measures the perceived levels of corruption in a country’s public sector, further confirm that corruption still serves as a big obstacle to doing business in the Philippines. Currently, the country ranks 129th out of 183 countries, with a score of 2.6 on a scale of 0 (highly corrupt) to 10 (very clean government). How this particularly affects trade operations is revealed in the World Bank’s Logistics Performance Index wherein 75% of the respondents identified “solicitation of informal payments” as the primary source of major delays of transporting goods for the Philippines.

Table 3A

PHILIPPINES EXPORT TIME & COST POTENTIAL SAVINGS						
	Philippine Situation		Regional Best Practice		Potential Savings	
	Time	Cost	Time	Cost	Time	Cost
At Desk Documentation	Time at desk is part of usual operations	\$150	Time at desk is part of usual operations	Korea \$60	N/A	\$90
On Road Inland Transportation	2.8 days	\$826 (\$295/day X 2.8 days)	Chile 2.0 days	Top 5 \$228	0.8 days	\$598
At Port Customs Clearance and Technical Control	2.0 days	\$85	Thailand 1.0 days	Korea \$30	1.0 days	\$55
Port and Terminal Operations	3.0 days	\$270	Indonesia 2.0 days	China \$85	1.0 days	\$185
TOTAL	7.8 days	\$1,331	5.0 days	\$403	2.8 days	\$928
Sources: USC Marshall School of Business (2011), World Bank (2010), World Bank and IFC (2012)						

Table 3B

PHILIPPINES IMPORT TIME & COST POTENTIAL SAVINGS						
	Philippine Situation		Regional Best Practice		Potential Savings	
	Time	Cost	Time	Cost	Time	Cost
At Desk Documentation	Time at desk is part of usual operations	\$170	Time at desk is part of usual operations	Korea \$60	N/A	\$110
At Port Customs Clearance and Technical Control	2.0 days	\$185	Thailand 2.0 days	Korea \$30	0 days	\$155
Port and Terminal Operations	3.0 days	\$200	Thailand 2.0 days	China \$80	1.0 days	\$120
On Road Inland Transportation	2.8 days	\$826 (\$295/day X 2.8 days)	Chile 2.0 days	Top 5 \$228	0.8 days	\$598
TOTAL	7.8 days	\$1,381	6.0 days	\$398	1.8 days	\$983
Sources: USC Marshall School of Business (2011), World Bank (2010), World Bank and IFC (2012)						

Key reforms are being instituted by the Aquino administration to combat corruption and instill a culture of transparency, accountability, and good governance in the public sector. One of the campaigns being pursued by the government is the Revenue Integrity Protection Service (RIPS) program, which was created to address reports of corruption in revenue-generating agencies of the government.

To create a more level playing field, the government is vigorously running after smugglers and tax evaders,

and to establish a more transparent procurement process in government projects, contracts and public tenders are now posted on public websites.

THE PHILIPPINES AS A REGIONAL PLAYER

The efficiency and cost-effectiveness of a country's supply chain affect regional and global business especially if it is deeply embedded in the world's supply chain. The USC Marshall School of Business study found

that in moving a product across the APEC supply chain, substantial savings in cost and time could be realized with a reduction of inefficiencies. Similar to the analysis for the Philippines, Table 4 shows the potential savings for export and import between developed economies, between emerging economies, and between developed and emerging economies.

Taking into consideration the four main pillars of the Enabling Trade Index—market access, border administration, transport and communications infrastructure, and business environment—and the scores of APEC economies in the ETI, as shown in Chart 2, it becomes apparent how and why the Philippines trails in supply chain competitiveness. Of course, this comparison involves economies with varying levels of economic development, hence the extreme variations in logistics competitiveness.

What this report emphasizes is that the global supply chain can be improved if some of the key metrics are addressed through standardization. This means replicating “best practices” across economies under the same segment of economic development. This is when comparative analysis becomes a significant tool in the drive towards increasing competitiveness and productivity.

POSSIBLE COURSES OF ACTION

Implementation and follow-through. The Philippines has laid out promising plans to develop quality and sustainable infrastructure, and improve existing ones, with the assistance of the private sector. The Aquino administration is also keenly pursuing the drive against corruption in the public and private sectors. Government-led programs are being initiated to expand market access and enable Philippine businesses to participate in the global supply chain. The implementation of these plans in the next five years will dictate the pace of development of the country’s competitiveness and whether this can be maintained in the long run.

Get the data. The USC Marshall School of Business report identified portions in the APEC supply chain that, if improved on, could produce immediate and significant gains. For emerging economies like the Philippines, the report found that port operations and customs clearance show the largest levels of potential time improvements, while the implementation of electronic systems similar to Korea’s and simplifying documentation would yield the most cost reductions for firms.

Table 4

POTENTIAL SAVINGS FROM TRADE BETWEEN SEGMENTS IN APEC ECONOMIES

	Developed Economy (Import)	Emerging Economy (Import)
Developed Economy (Export)	1.1 days / shipment \$617 / container	4.1 days / shipment \$1,084 / container
Emerging Economy (Export)	3.6 days / shipment \$840 / container	5.6 days / shipment \$1,307 / container

Sources: USC Marshall School of Business (2011)

The Philippines needs to invest in such detailed studies and analyses to determine its own strengths and weaknesses in the supply chain. The government must conduct regular dialogues with key players and stakeholders from trade-heavy industries to gain access to direct and reliable information. Furthermore, it needs to religiously update its data. Equipped with information and knowledge, the government will have a better chance of addressing critical chokepoints.

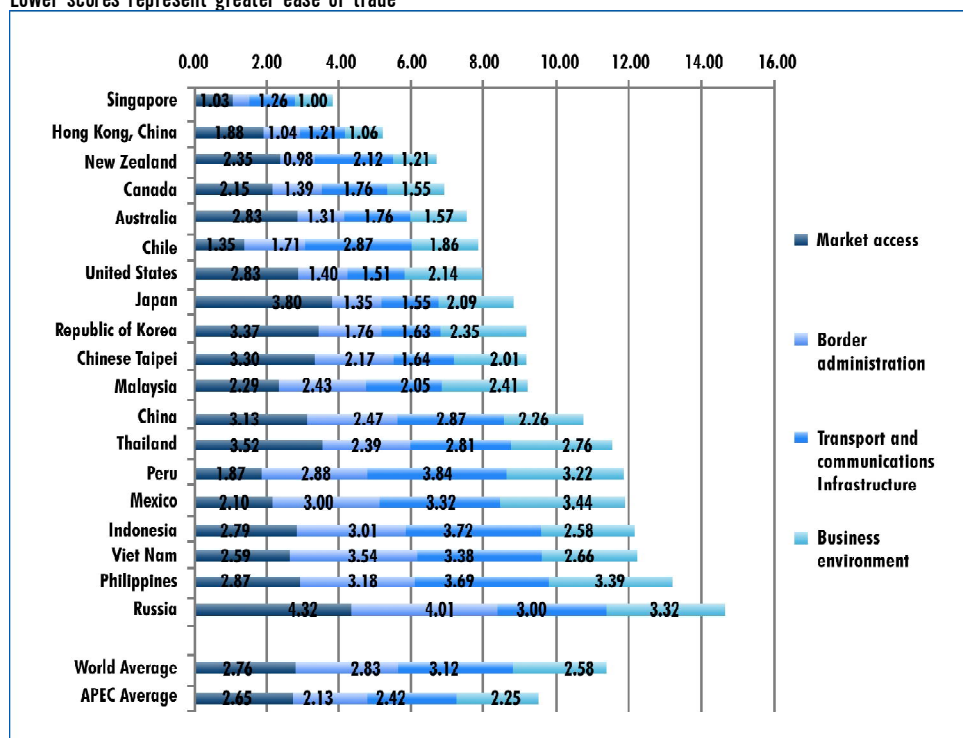
Study and adopt best practices. One of the best practices in the region, which can be adopted by all economies, is the utilization of information technology. There should be an aggressive move towards digitizing information as this has been proven to benefit documentation, clearance, and connectivity. In the Philippines, this could easily reduce the number of documents required in exporting/importing and further bring down the number of processing days.

In other areas in the supply chain framework, the Philippines would do well to study the best practices of developing economies and look into adopting strategies that address bottlenecks in the supply chain. There is no need to utilize limited resources to reinvent the wheel if the right tools are already known and available. ■

Chart 2

ENABLING TRADE INDEX RATINGS: COMPARATIVE ANALYSIS OF APEC ECONOMIES

Lower scores represent greater ease of trade



Sources: WEF (2010), USC Marshall School of Business (2011)

SOURCES

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