

How ready are we? Measuring the Philippines' readiness for digital trade integration with the Asia-Pacific

Dr. Francis Mark A. Quimba, *Senior Research Fellow*

Sylwyn C. Calizo Jr., *Research Specialist*

Jean Clarisse T. Carlos, *Project Evaluation Officer III (Philippine APEC Study Center Network)*

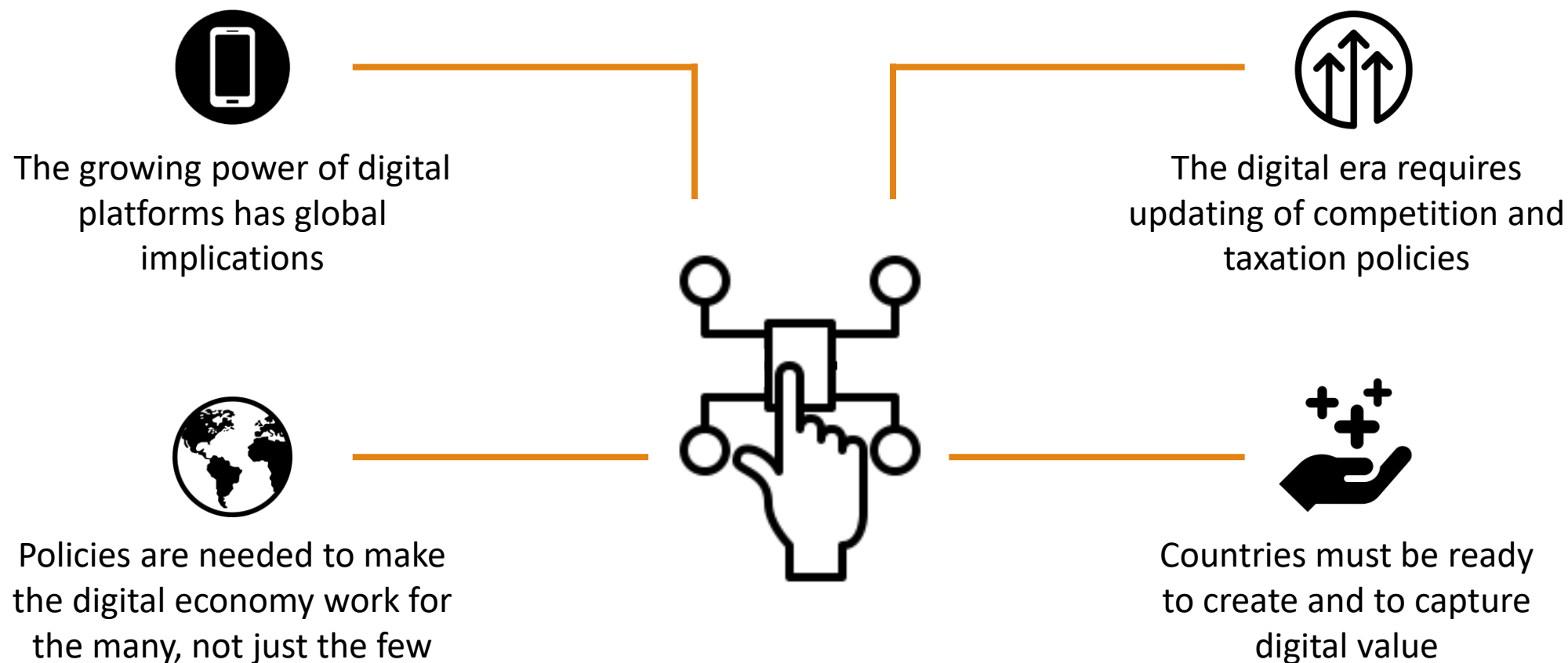
Dr. Jose Ramon G. Albert, *Senior Research Fellow*



Philippine Institute for Development Studies

Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Why is regional digital trade integration worth studying?



Source: UNCTAD Digital Economy Report 2019

A specialized regional index is needed to measure an economy's readiness for regional digital trade integration

Regional Digital Trade Integration Index (RDTII)

Score range: 0 (not restricted) to 1 (most restricted)

Pillar 1: Tariffs & Trade Defense

Pillar 2: Public Procurement

Pillar 3: Investment

Pillar 4: Intellectual Property Rights

Pillar 5: Infrastructure and competition

Pillar 6: Cross-border data policies

Pillar 7: Domestic data policies

Pillar 8: Intermediary liability & content access

Pillar 9: Quantitative trade restrictions

Pillar 10: Standards

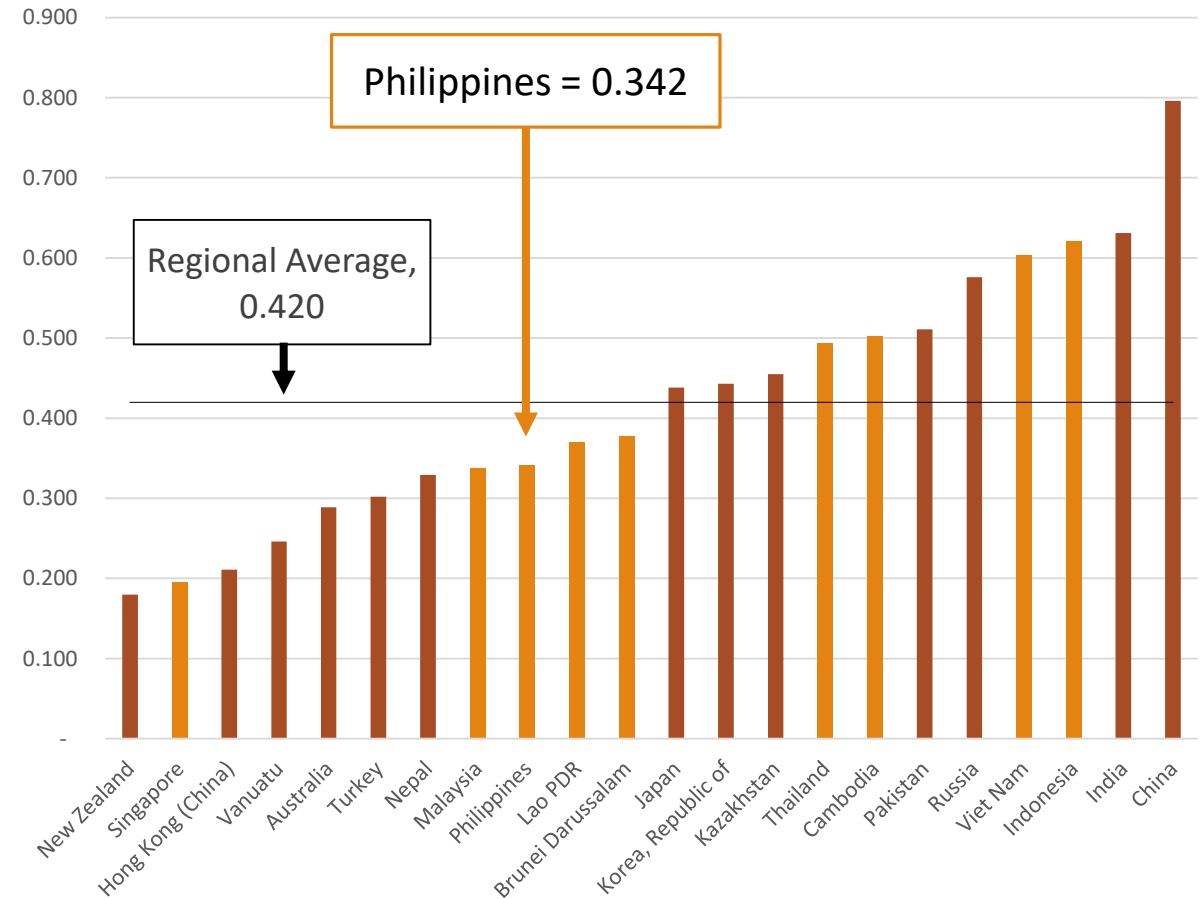
Pillar 11: Online sales and transactions

Using the RDTII, the Philippines can be described as having a relatively open digital trade environment (2020 Philippines Score = 0.342)

Table 1. RDTII pillar scores in the Philippines in 2020

Pillar	2020	Remarks
1. Tariffs & Trade Defense	0.003	Non-Restrictive
2. Public Procurement	0.751	Strongly Restrictive
3. Investment	0.625	Strongly Restrictive
4. Intellectual Property Rights	0.271	Slightly Restrictive
5. Infrastructure & Competition	0.620	Strongly Restrictive
6. Cross-border data policies	0.100	Non-Restrictive
7. Domestic data policies	0.363	Slightly Restrictive
8. Intermediary liability & content access	0.125	Non-Restrictive
9. Quantitative trade restrictions	0.350	Slightly Restrictive
10. Standards	0.250	Slightly Restrictive
11. Online sales & transactions	0.300	Slightly Restrictive
Philippines (simple average)	0.342	Slightly Restrictive

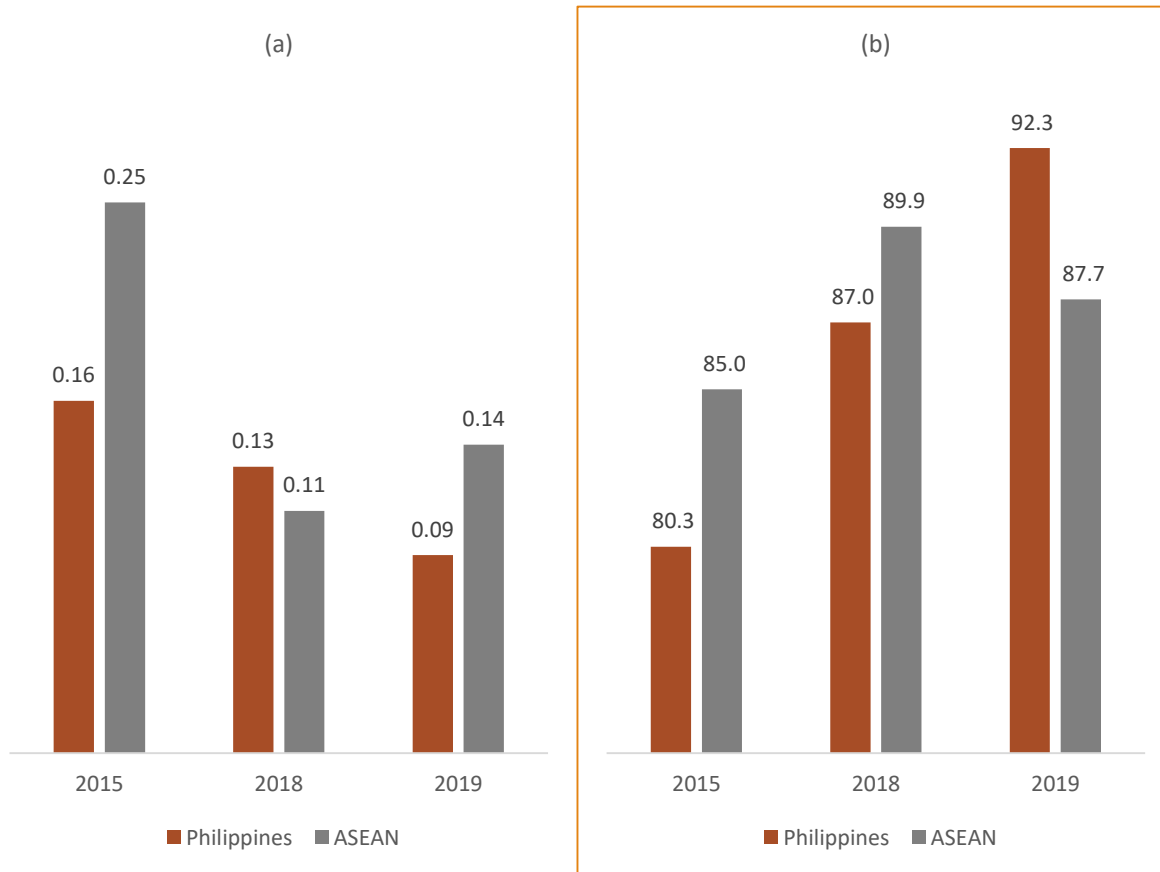
Figure 1. Overall RDTII scores in selected Asia-Pacific economies in 2020



Note: ASEAN Member States (Orange Columns)

1. The exceptionally low tariffs on digital goods (pillar 1) synergizes well with having only slightly restrictive NTMs (pillars 9 and 10)

Figure 2 (a) Effectively applied tariff rates and (b) coverage rate of duty-free digital goods imported from the Asia-Pacific (Percentage)



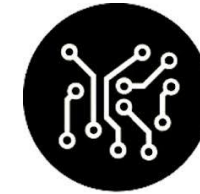
Note: Weighted average tariff rates

What are the remaining issues related to NTMs?

1. The trade of dual-use strategic goods are highly regulated. However, the STMO implements policies consistent with international best practices. Examples of these goods are:



Computers



Electronics

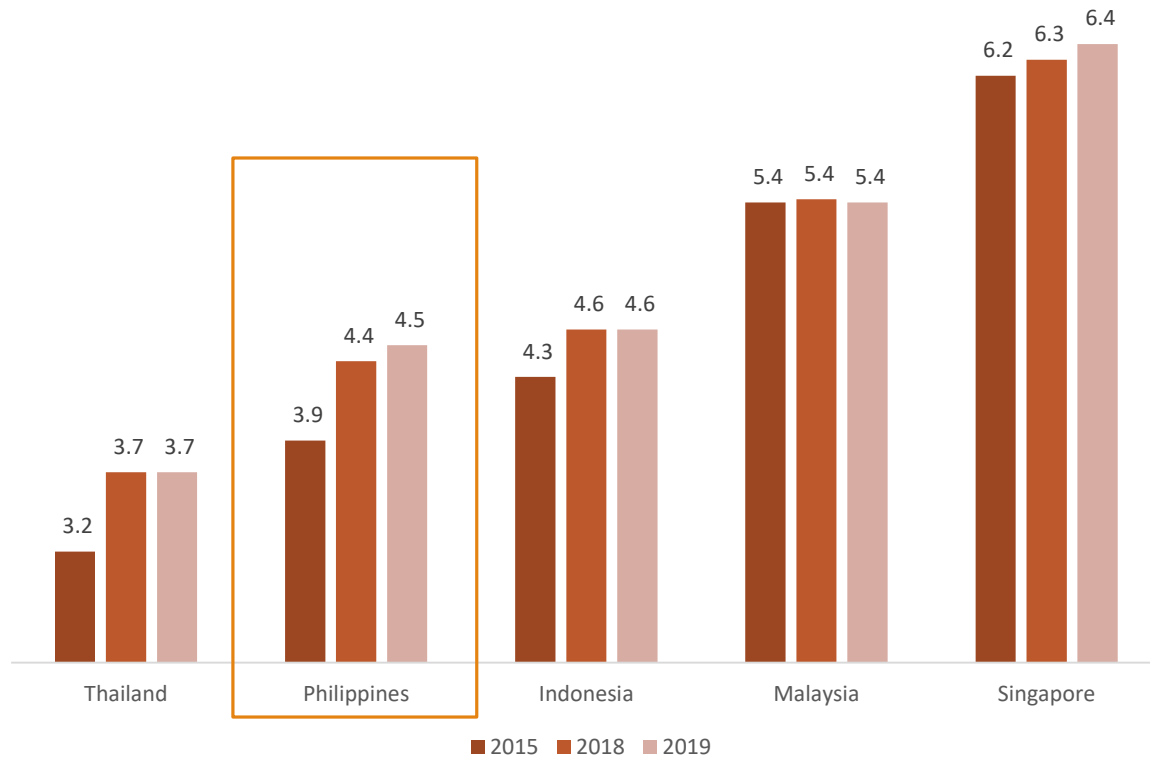


Telecoms

2. Lack of self-certification for product safety (EMC/EMI, radio transmissions)

2. The continuous improvement on IPR enforcement (pillar 4) complements the Philippines' liberal access to online content (pillar 8)

Figure 3. Intellectual property protection in the ASEAN-5 from 2015-2019 (1-7, where 7 is the best)

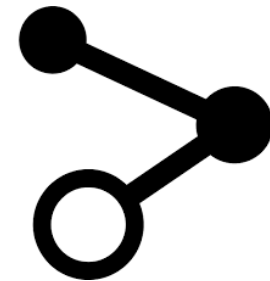


Note: Based on the WEF's Global Competitiveness Index indicator for IP protection

What are the remaining issues?



64.0% Digital Piracy (2017)

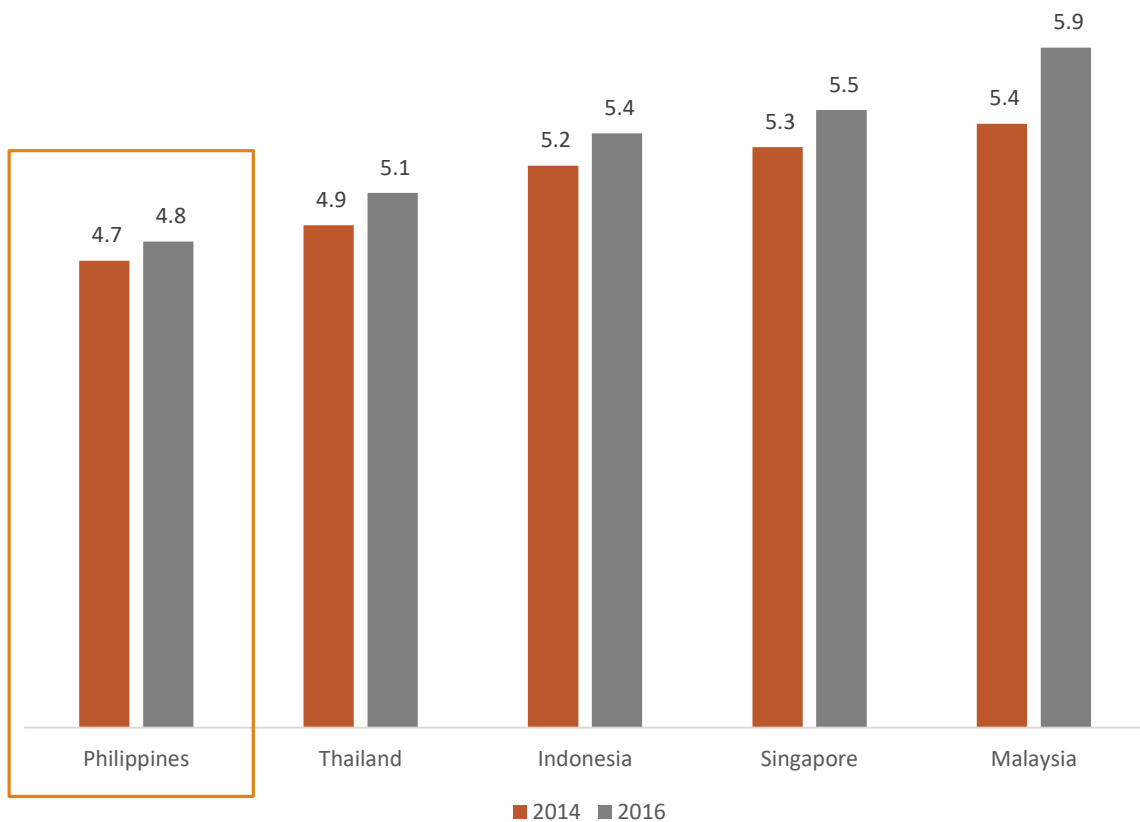


Content-Specific Safe Harbor Clauses

Source: Razon (2018); Pugatch and Torstensson (2020)

3. The Philippines also has strong policies on data (pillars 6 and 7)

Figure 4. Business-to-consumer use in the ASEAN-5 in 2014 and 2016 (1-7, where 7 is the best)



Note: Based on the Network Readiness Index pillar 7.05

What is the remaining issue?



Trade costs from data retention and data privacy requirements

Six-months minimum data retention requirement for potential cybercrime evidence (Sect. 13 of RA 10175)

Retention of call data records (NTC MC No. 04-06-2007)

Hiring of data protection officers (Rule VI, Sect. 26(a) of RA 10173's IRR)

4. Foreign equity limitations (pillar 3) possibly banning foreign equity on some e-commerce and e-retailing restrict digital trade from growing

What is the issue?

1. Mass media activity, except recording and internet business
2. Retail trade enterprises with paid-up capital less than USD2.5 million.

1. Businesses that specialize in high-end or luxury products with paid-up capital per store of not less than USD250,000.
2. If rendering service to third-party clients:
 - a. No pervasive promotions to the public;
 - b. Enumerates only services offered by the platform itself



**Foreign
Equity Ban**



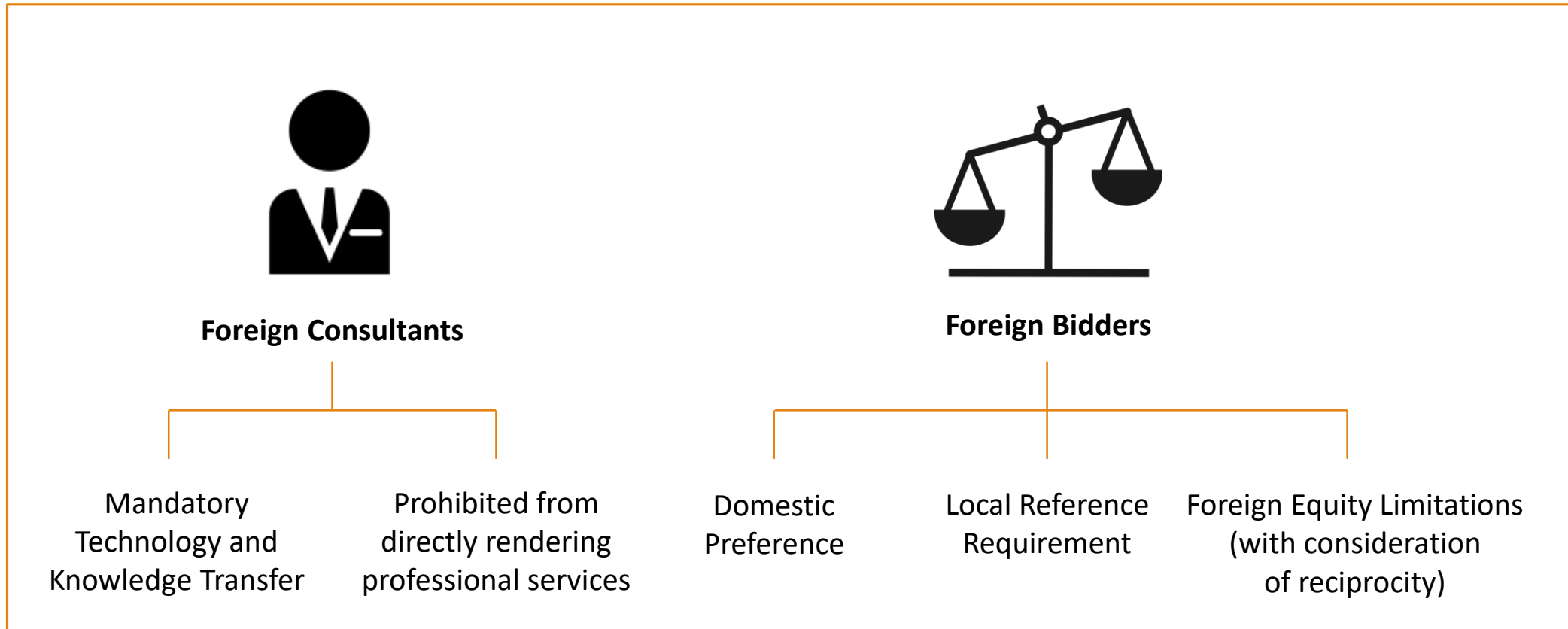
**Full / Partial
Foreign Equity**



**E-Commerce
and E-Retail**

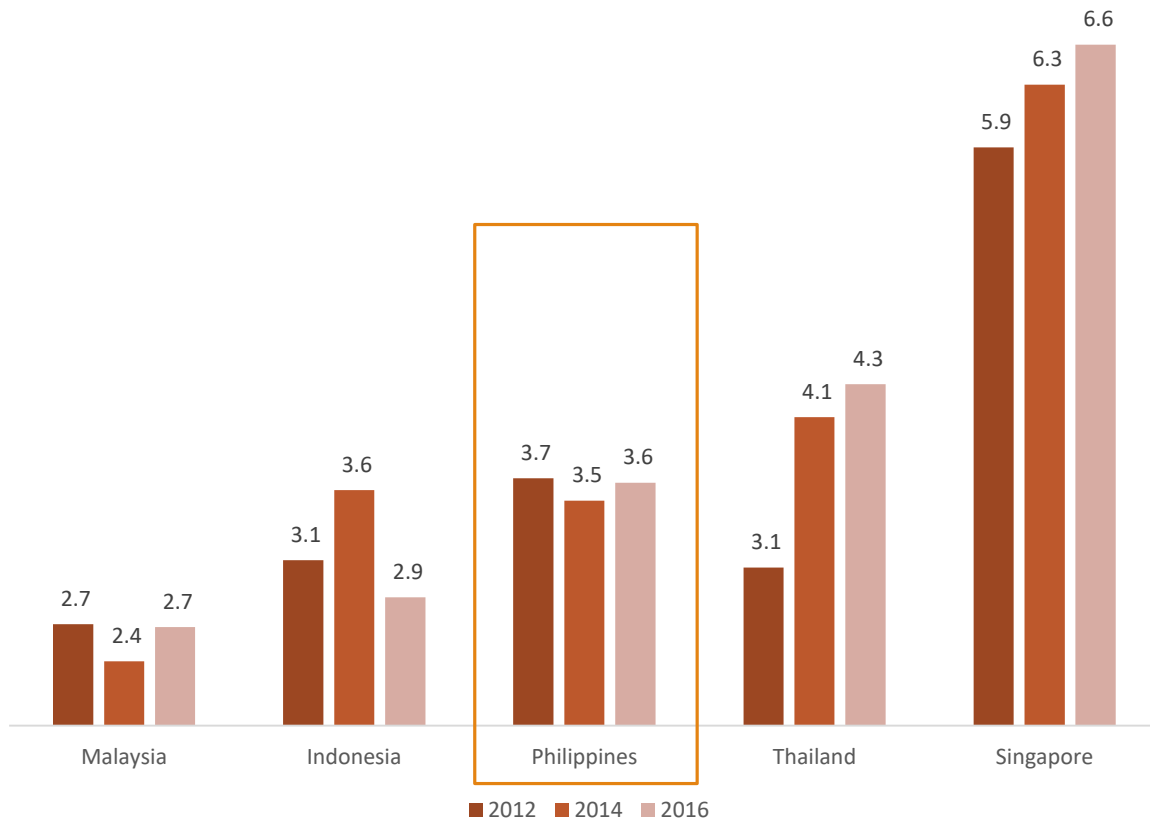
5. Highly discouraging policies affect foreign bidders' participation to public procurement (pillar 2)

What are the issues?



6. Strong barriers to entry restrict the Philippine telecommunications sector (pillar 5) from developing

Figure 5. Infrastructure performance in the ASEAN-5 from 2012-2016 (1-7, where 7 is the best)



Note: Based on the Network Readiness Index pillar 3

What are the issues?



Lack of local loop unbundling



Foreign equity limitations to public utilities (up to 40.0%)



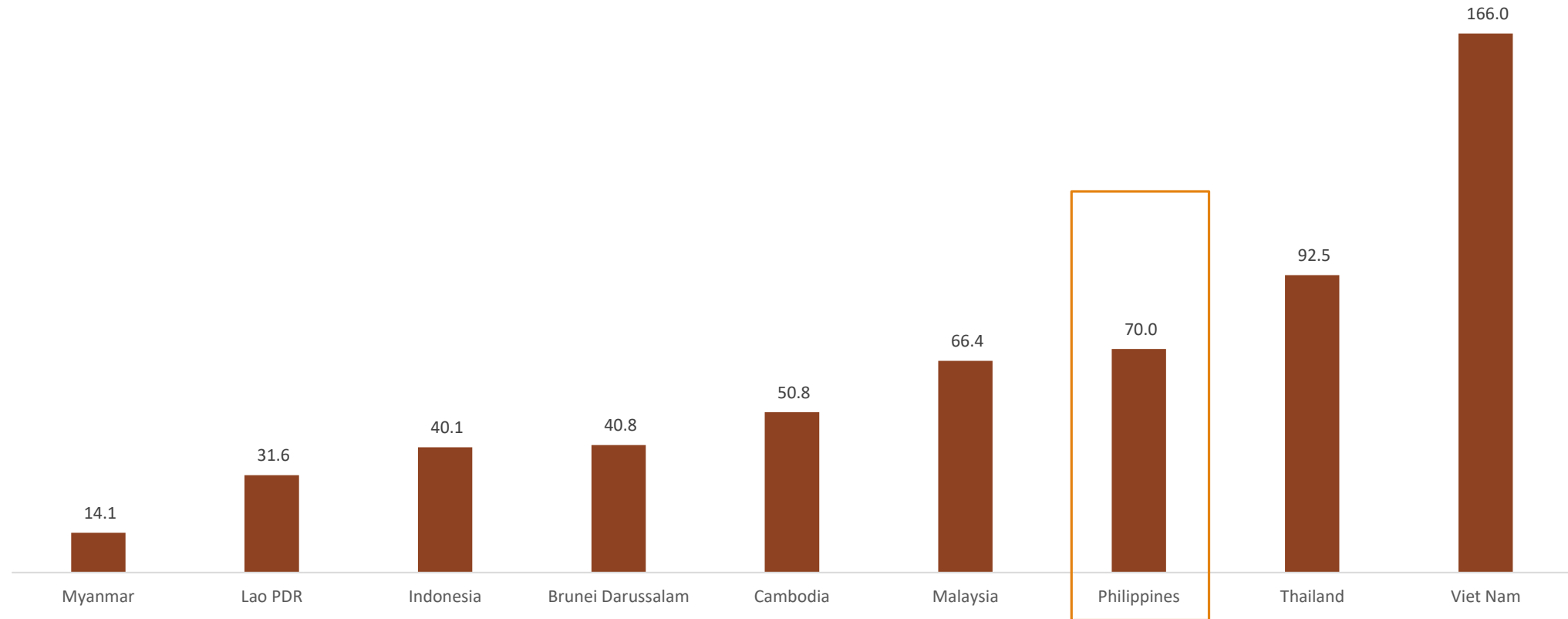
Legislative franchise from Congress



Strict licensing requirements (e.g., CPCN)

7. The infrastructure gap on both ICT and transportation can adversely affect online sales and transactions (pillar 11)

Figure 6. Cell tower density in ASEAN in 2017
(Number of towers per 1,000 km²)



Source: Authors' calculation based on Frost and Sullivan (2017)

Note: Singapore was removed since its cell tower density was too high relative to others (i.e., 9,927.7 per 1,000 km²)



The Philippines is ready for regional digital trade integration with the Asia-Pacific

Ways Forward



Policy Recommendations

Low hanging fruits
(Executive Branch)

Whole-of-Government



Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Service through
policy research

Thank you



/PIDS.PH



@PIDS_PH



<http://www.pids.gov.ph>

EMAIL: fquimba@mail.pids.gov.ph
scalizo@mail.pids.gov.ph
jcarlos@mail.pids.gov.ph
jalbert@mail.pids.gov.ph

References

Frost & Sullivan (2017). *ASEAN telecommunications towers market: Rise of the towerco*. Available at https://ww2.frost.com/wp-content/uploads/2017/01/ASEAN-Telecommunications-Towers-Market_-_EDT_AG_Final.pdf. Accessed 27 May 2021.

Pugatch, Meir and Torstensson, David (2020). *Art of the possible: US Chamber international IP index*. Washington, D.C.: United States Chamber of Commerce. Available at https://www.uschamber.com/sites/default/files/023881_gipc_ip_index_2020_fullreport_final.pdf. Accessed on 5 January 2021.

Razon, Arvin Kristopher (2018). Decoding the role of the 'gatekeepers of cyberspace' in the internet economy: Analyzing the legal foundation of intermediary liability of online providers. *Philippine Law Journal*, vol 91, No. 4 (July), pp. 741-773. Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3414058. Accessed on 22 December 2020.

United Nations Conference on Trade and Development (2019). *Digital economy report 2019: Value creation and capture: Implications for developing countries*. [United Nations Publication]. Available at https://unctad.org/system/files/official-document/der2019_en.pdf. Accessed on 27 May 2021.