

# Non-Tariff measures in the Philippines: A Preliminary Stocktake of Incidence and Linkages with Imports

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*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

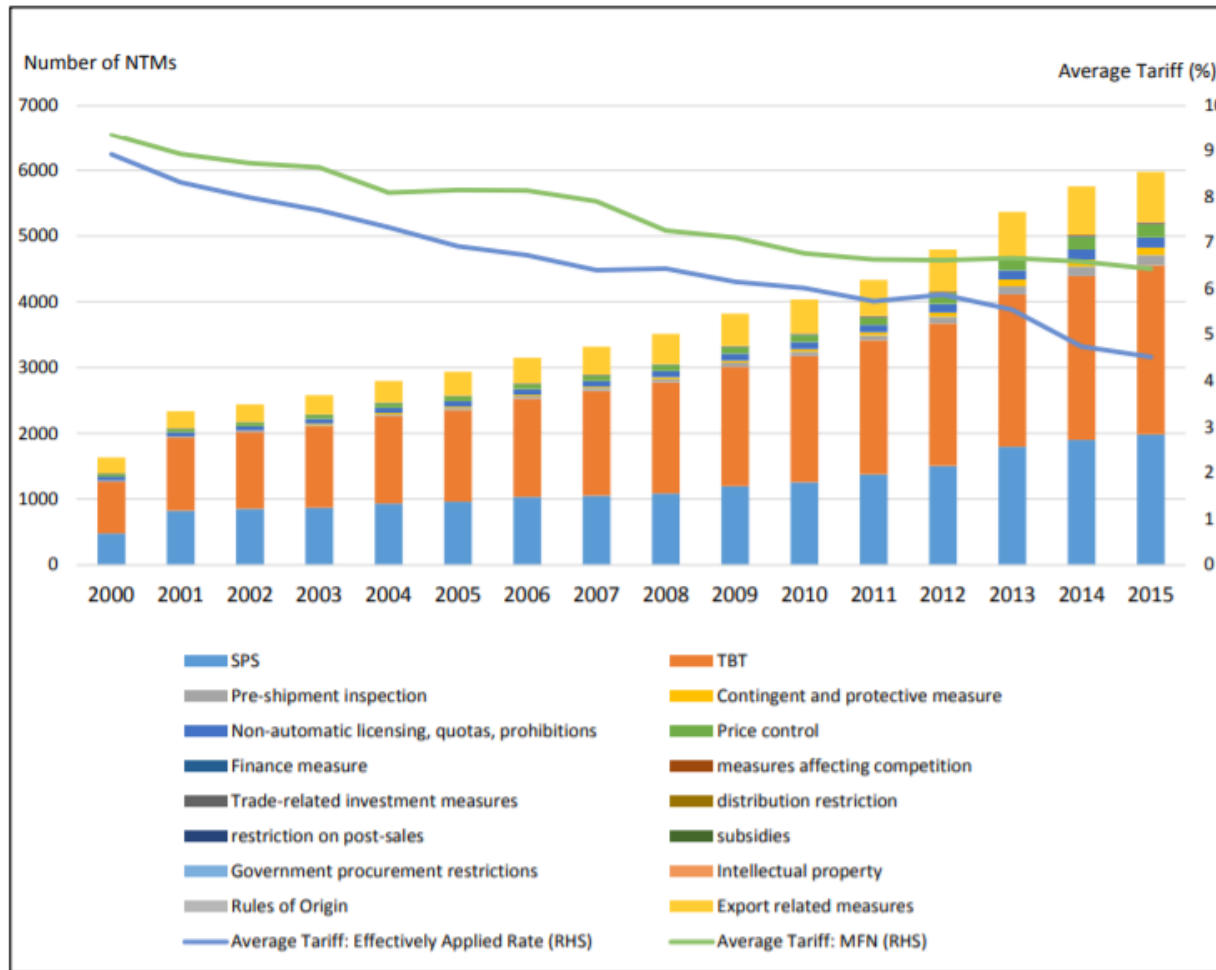
# Outline

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1. Introduction
  - a. Definition of NTMs
  - b. Examples of NTMs imposed by the Philippines
  - c. Objectives of the study
2. Methodology
3. Results and discussion
4. Conclusion and Recommendations

# Definition of NTMs

Figure 2.2: Trends of Tariff and Non-tariff Measures in ASEAN, 2000–2015

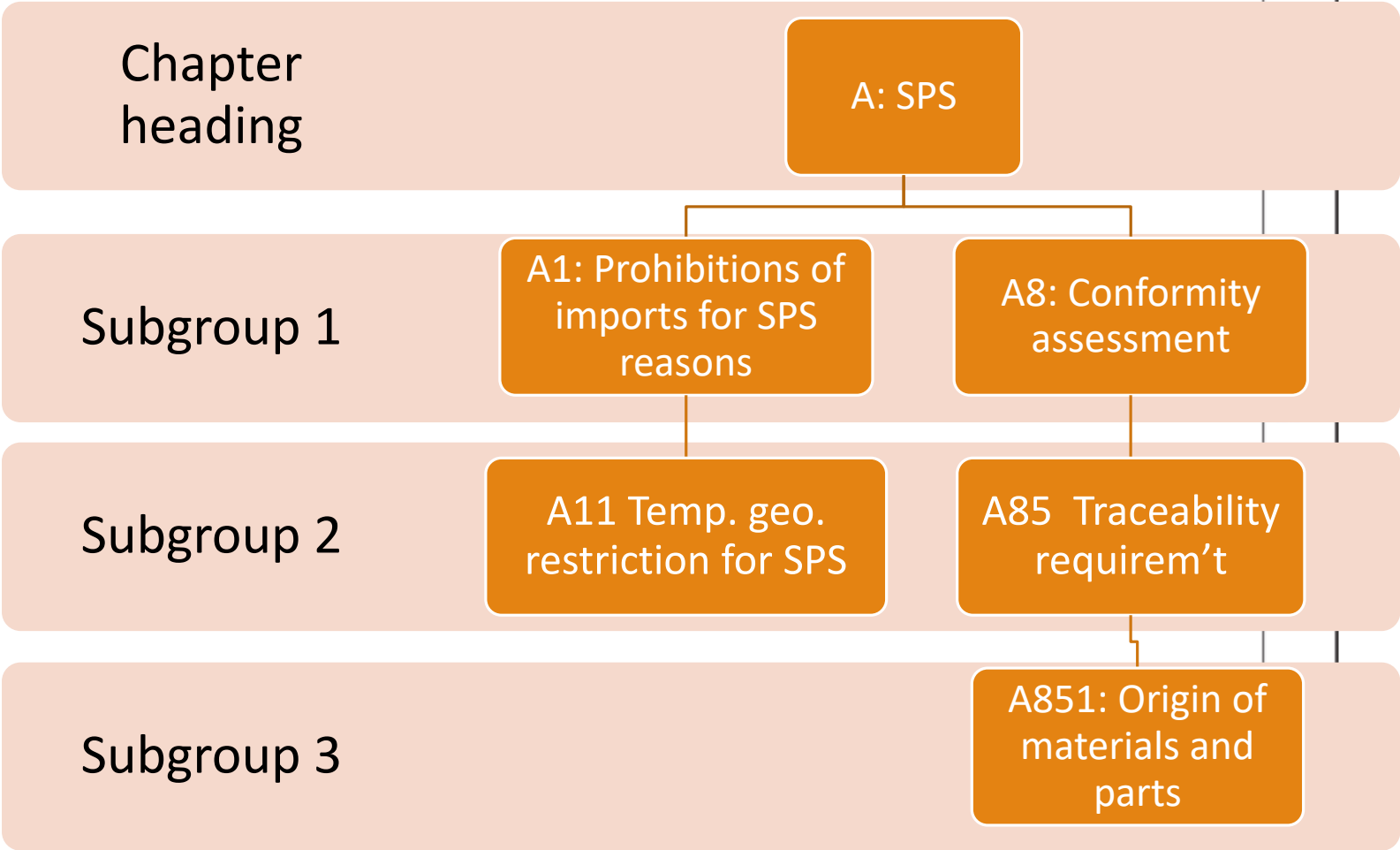


ASEAN = Association of Southeast Asian Nations; NTM = non-tariff measure; SPS = sanitary and phytosanitary; TBT = technical barriers to trade.

Source: Ing, Cordoba and Cadot et al. (2016)

**Non-tariff measures (NTMs)** are policy measures, **other than ordinary customs tariffs**, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both (UNCTAD)

# Taxonomy of NTMs



|                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Technical measures</b>     | <b>A</b> SANITARY AND PHYTOSANITARY MEASURES<br><b>B</b> TECHNICAL BARRIERS TO TRADE<br><b>C</b> PRE-SHIPMENT INSPECTION AND OTHER FORMALITIES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Non technical measures</b> | <b>D</b> CONTINGENT TRADE-PROTECTIVE MEASURES<br><b>E</b> NON-AUTOMATIC LICENSING, QUOTAS, PROHIBITIONS AND QUANTITY-CONTROL MEASURES OTHER THAN FOR SPS OR TBT REASONS<br><b>F</b> PRICE-CONTROL MEASURES, INCLUDING ADDITIONAL TAXES AND CHARGES<br><b>G</b> FINANCE MEASURES<br><b>H</b> MEASURES AFFECTING COMPETITION<br><b>I</b> TRADE-RELATED INVESTMENT MEASURES<br><b>J</b> DISTRIBUTION RESTRICTIONS<br><b>K</b> RESTRICTIONS ON POST-SALES SERVICES<br><b>L</b> SUBSIDIES (EXCLUDING EXPORT SUBSIDIES UNDER P7)<br><b>M</b> GOVERNMENT PROCUREMENT RESTRICTIONS<br><b>N</b> INTELLECTUAL PROPERTY<br><b>O</b> RULES OF ORIGIN |
| <b>Exports</b>                | <b>P</b> EXPORT-RELATED MEASURES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

# Description of each chapter (1/4)

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Chapter A. **Sanitary and phytosanitary measures:** requirements restricting the use of specific substances, hygienic requirements or other measures for preventing the dissemination of diseases as well as conformity assessment measures related to food safety, such as certification, testing and inspection, and quarantine.

- Chapter B. **Technical measures:** labelling requirements and conformity assessment measures relating to technical product requirements, including certification, testing and inspection.

- Chapter C. **Pre-shipment inspection:** requirements and formalities to be performed in the exporting country prior to shipment.

# Description of each chapter (2/4)

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Chapter D. **Contingent trade measures:** measures to counteract adverse effects of imports, including antidumping, countervailing, and safeguards measures.

- Chapter E. **Quantitative restrictions:** licensing requirements, quotas and other quantity control measures, import prohibitions that are not related to sanitary and phytosanitary or technical barriers to trade measures.

- Chapter F. **Price controls:** measures to control or affect the prices of imported goods to support or stabilize the domestic price of competing products or raise tax revenue. Includes para-tariff measures.

- Chapter G. **Finance measures:** policies restricting payments for imports, including regulation of access and cost of foreign exchange and terms of payment.

# Description of each chapter (3/4)

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- Chapter H. **Measures affecting competition:** exclusive or special preferences or privileges accorded to one or a limited number of economic operators. Includes state trading monopolies, sole importing agencies and compulsory use of national services or transport.
- Chapter I. **Trade-related investment measures:** policies that restrict investment by requiring local content or conditioning investment on balancing of exports and imports.
- Chapter J. **Measures affecting distribution of imported products:** restrictions on distribution of imported goods within the country.
- Chapter K. **Restrictions on after-sales services:** measures that limit provision of services that are accessory or ancillary to the sale of a good.
- Chapter L. **Subsidies:** measures that relate to subsidies that affect trade.

# Description of each chapter (4/4)

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- Chapter M. **Government procurement policies:** restrictions on foreign bidders for public projects and contracts.
- Chapter N. Restrictions related to intellectual property.
- Chapter O. **Rules of origin:** measures that pertain to determining the origin of products, or their inputs.
- Chapter P. **Export measures:** measures applied by a country on its exports; includes export taxes, export quotas or export prohibitions.



# Examples of NTMs in the Philippines (Technical Measures)

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## **Box 1. Examples of Technical Measures applied by the Philippines for Agricultural and Manufacturing Products**

### **Agriculture imports**

1. SPS Measure governing fish and fishery products from Japan (Chapter A)
2. TBT Measure governing vegetable products (celery, lettuce and crucifers) from the US (Chapter B)
3. Inspection Measures governing Meat (Edible Carcass) from all countries (Chapter C)

### **Manufactured goods**

1. SPS on used vehicles, earth moving equipment and container vans (Chapter A)
2. Technical Barriers to trade on Radio Frequency Identification systems (RFID) (Chapter B)
3. Inspection covering household appliances, lights and lighting, wiring devices, wires and cables, mechanical and construction materials, chemical and consumer products (Chapter C)

# Examples of NTMs in the Philippines (Non-technical measures)

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## **Box 2. Examples of non-Technical Measures applied by the Philippines for Agriculture and Manufacturing imports**

### **Agricultural imports**

1. Import-licensing regulations for fresh vegetable importation (Chapter E)
2. Processing fee charged per bill of lading for the importation of rice (Chapter F)
3. Terms of payment regulations for importation of rice (Chapter G)

### **Manufacturing imports**

1. Import ban of right-hand drive vehicles (Chapter E)
2. Application fees for the importation of vaccines, biologics, other temperature-sensitive drug products (Chapter F)
3. Advance payment requirements for the importation of household appliances, lights and lighting products, wiring devices, wires and cables, mechanical and construction materials, chemicals and consumer products (Chapter G)

# What else do we know about NTMs in the Philippines?

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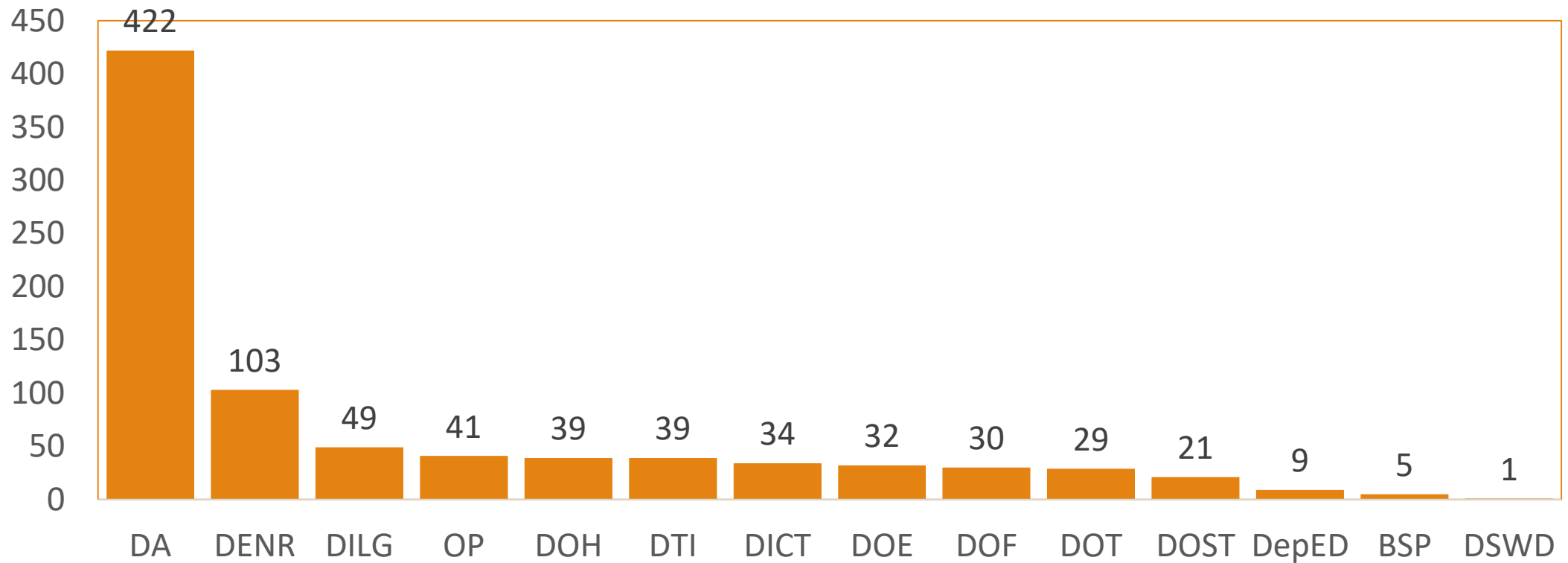
100% of all product lines (imports) of the Philippines is subject to some form of NTM (De dios 2015). Since 1976, all imports of the Philippines has been subject to some form of Non-tariff measure.

| Comprehensiveness Indicator                       | Number |
|---------------------------------------------------|--------|
| Total number of coded regulations                 | 295    |
| Total number of coded NTMs                        | 854    |
| Total number of coded NTMs reported to the WTO    | 542    |
| Total number of affected product lines (HS lines) | 9,820  |
| Proportion of products affected                   | 100%   |
| Total Issuing institutions                        | 37     |

Source: De dios (2015)

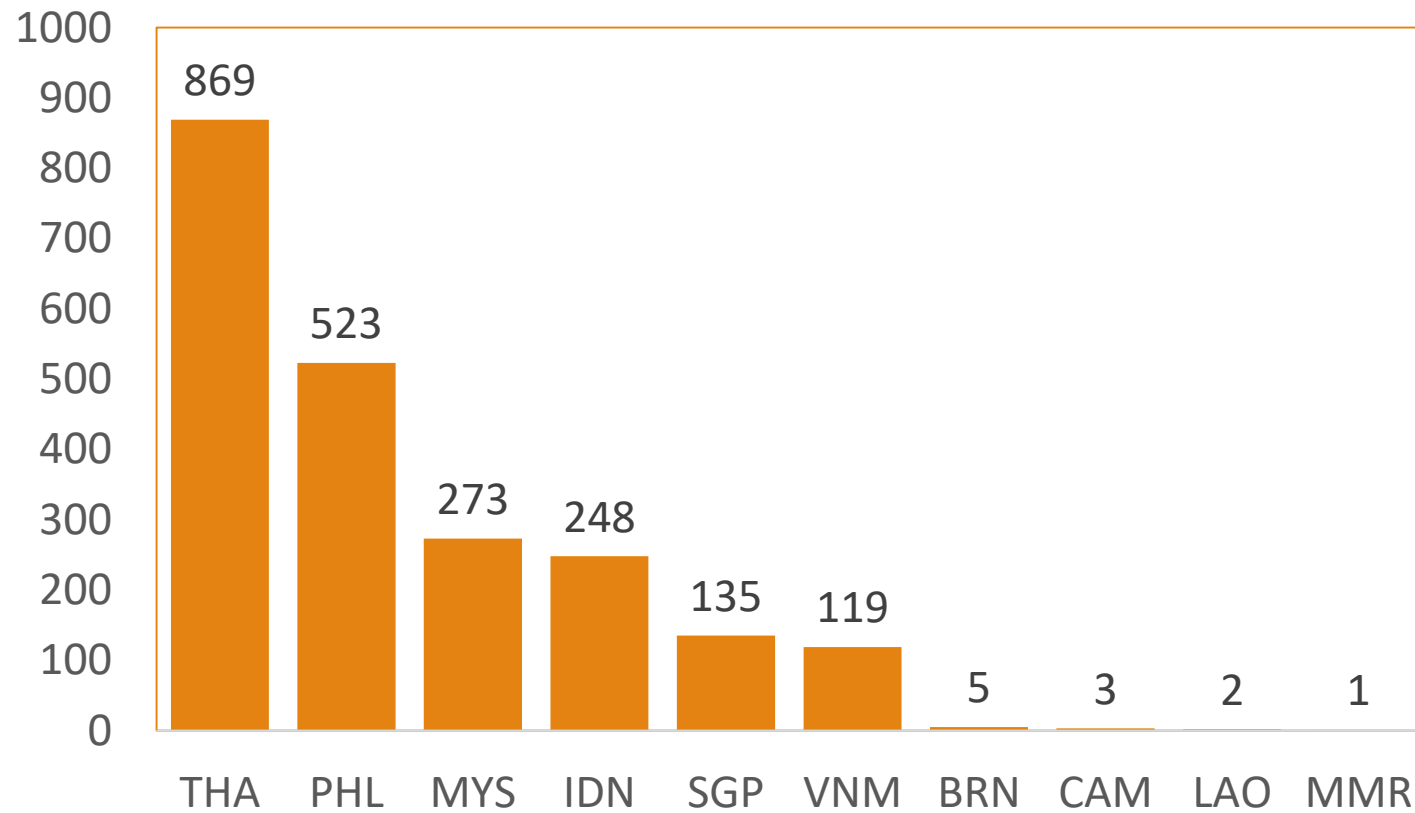
# What else do we know about NTMs in the Philippines?

De dios (2015) also found that NTMs are contained in the issuances of 37 government agencies. Three line bureaus of DA (BAI, BPI and BFAR) issued the largest number of regulations.



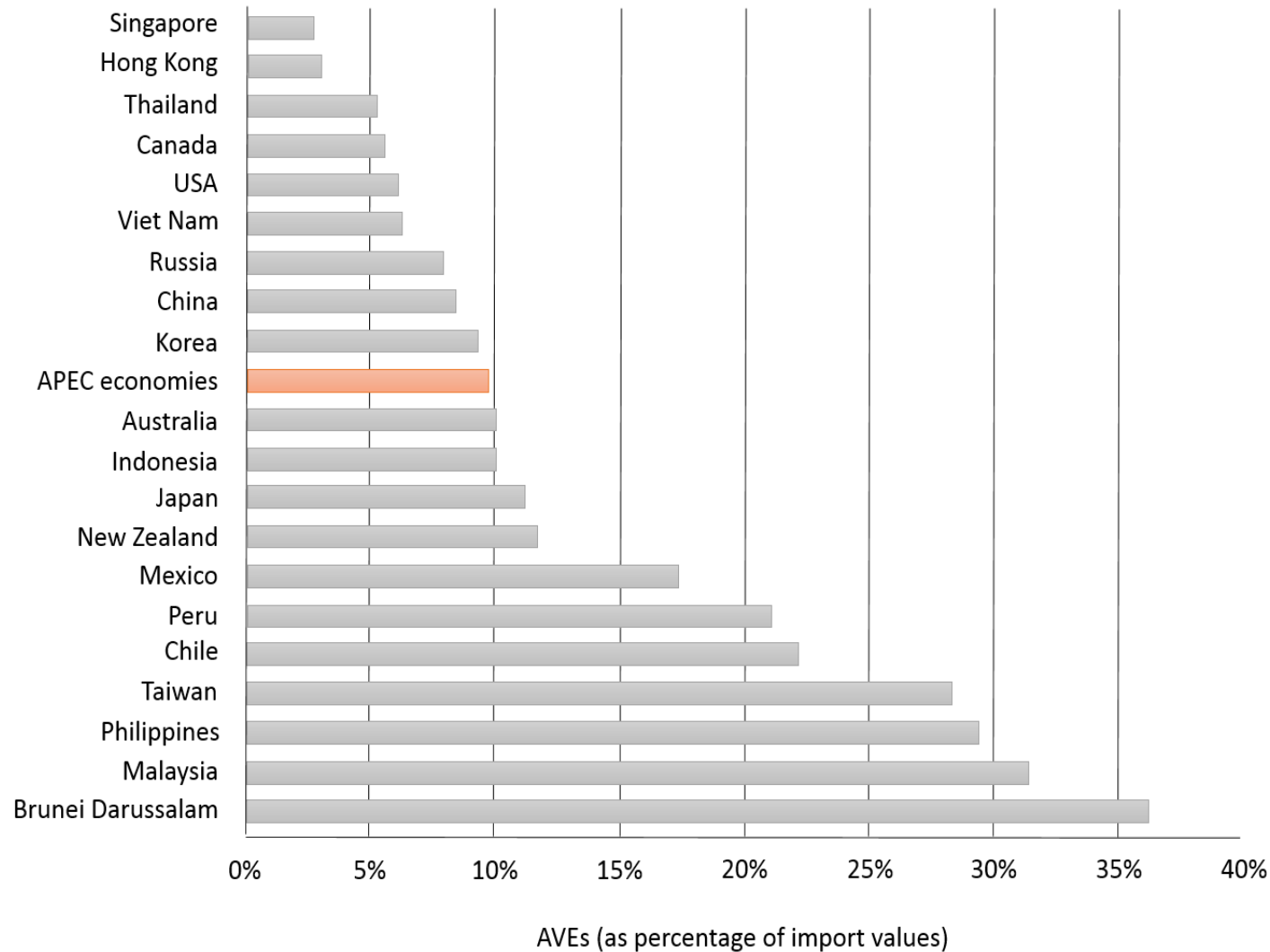
# What else do we know about NTMs in the Philippines?

Thailand (869) and Philippines (583) have the most number of notified NTMs in ASEAN. Most of these NTMs are SPS and TBT measures (UNCTAD 2010).



# What else do we know about NTMs in the Philippines?

Figure 3 AVEs, as percentage of import values, by APEC economy



- The NTMs of APEC economies have, on average, an AVE of 10 percent.

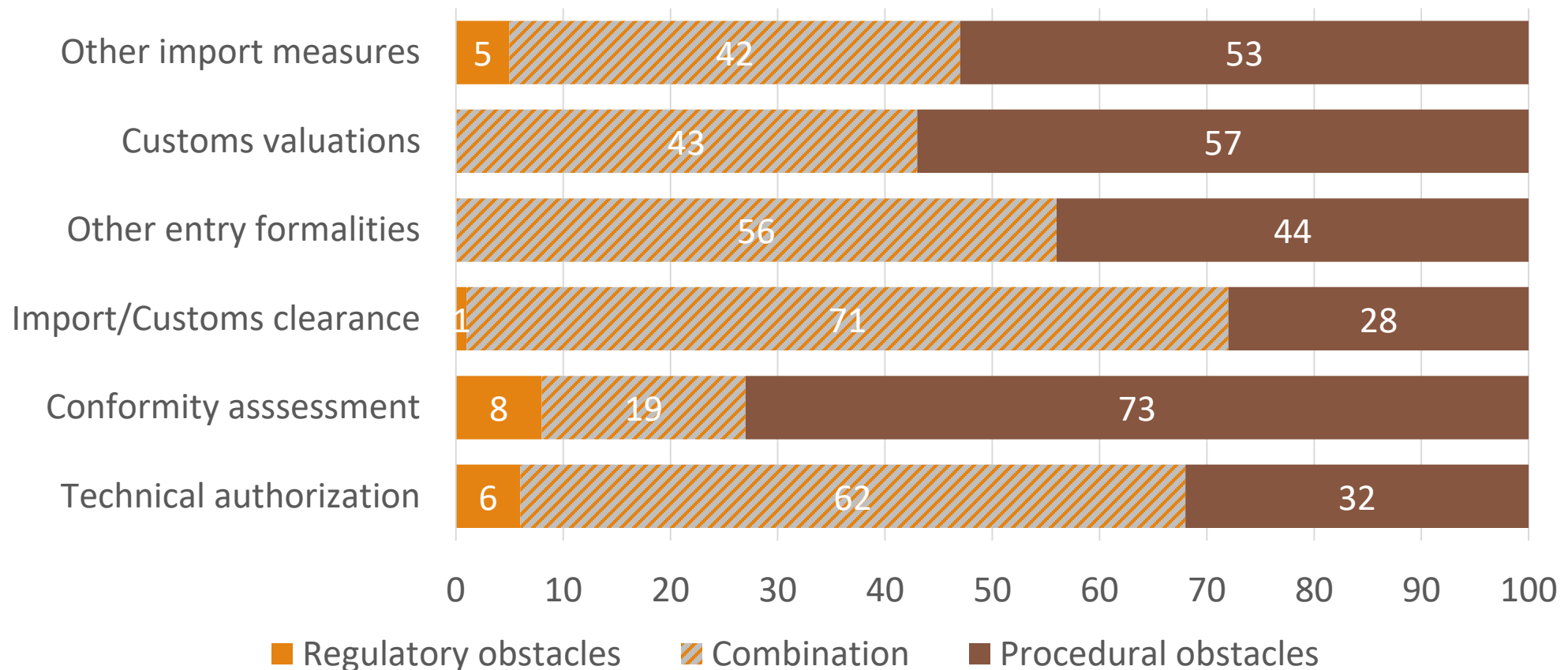
- For the Philippines, the average AVE is about 30 percent.

→ The Philippines is imposing NTMs equivalent to a tariff rate of about 30 percent.

Source: Lifted from (with some stylistic alterations) NZIER (2016).

# What else do we know about NTMs in the Philippines?

Private sector's biggest perceived barriers to trade are not the regulations *per se* but their accompanying Procedural Obstacles (ITC 2016).



# Why do we need to study NTMs?

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1. Because of our limited understanding and knowledge of NTMs and their impacts (Ing et al. 2016).
2. NTMs have implications to meeting international commitments of the Philippines (SDGs)
3. NTMs have implications to industrial development.
4. This study supports the strategy of implementing a strategic external trade policy regime to meet the goal of an enabling and supporting macroeconomic environment
  - Review and implement laws, rules and regulations to reduce the cost to exporters and importers, as well as facilitate and streamline procedures for engaging in trade.



# Limitations

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1. Focus only on imports (import regulations are what the country can control). Although there are export regulations as well (Chapter P).
2. Comprehensiveness
3. Endogeneity of the indicators:
  - Do the indicators result to lower imports?
  - A certain sector may have zero imports (i.e. not included in coverage ratio) but perhaps because of some NTMs.

# Methodology

1. Calculate descriptive indices - The simplest approach to summarizing the prevalence of NTMs on trade. (Deardorff and Stern, 1998).

- a) By product classification (Agriculture, natural resources, manufacturing)
- b) By broad economic classification (Consumption, Capital, Intermediate goods)
- c) Theory-based classification [Ederington and Ruta (2016)]: Customs regulations, process regulations, consumer regulations and product regulations

2. Use scatterplots to observe the correlation between NTMs and trade outcomes (imports)

| Coverage Ratio                                                                           | Frequency Ratio                                                                          | Prevalence Score                                                                |
|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| the percentage of trade subject to NTMs                                                  | percentage of products to which NTMs apply                                               | the average number of NTMs applied to products                                  |
| $CR_i = \frac{\sum_{k=1}^{hs6\epsilon i} NTM_k X_k}{\sum_{k=1}^{hs6\epsilon i} X_k} 100$ | $FI_i = \frac{\sum_{k=1}^{hs6\epsilon i} NTM_k D_k}{\sum_{k=1}^{hs6\epsilon i} D_k} 100$ | $\frac{\sum_{k=1}^{hs6\epsilon i} \#NTM_k D_k}{\sum_{k=1}^{hs6\epsilon i} D_k}$ |

# Sources of data

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## **Trade Analysis and Information System (TRAINS)**

- Provides information at 6-digit HS level;
- Does not specify the requirement to comply to the regulation

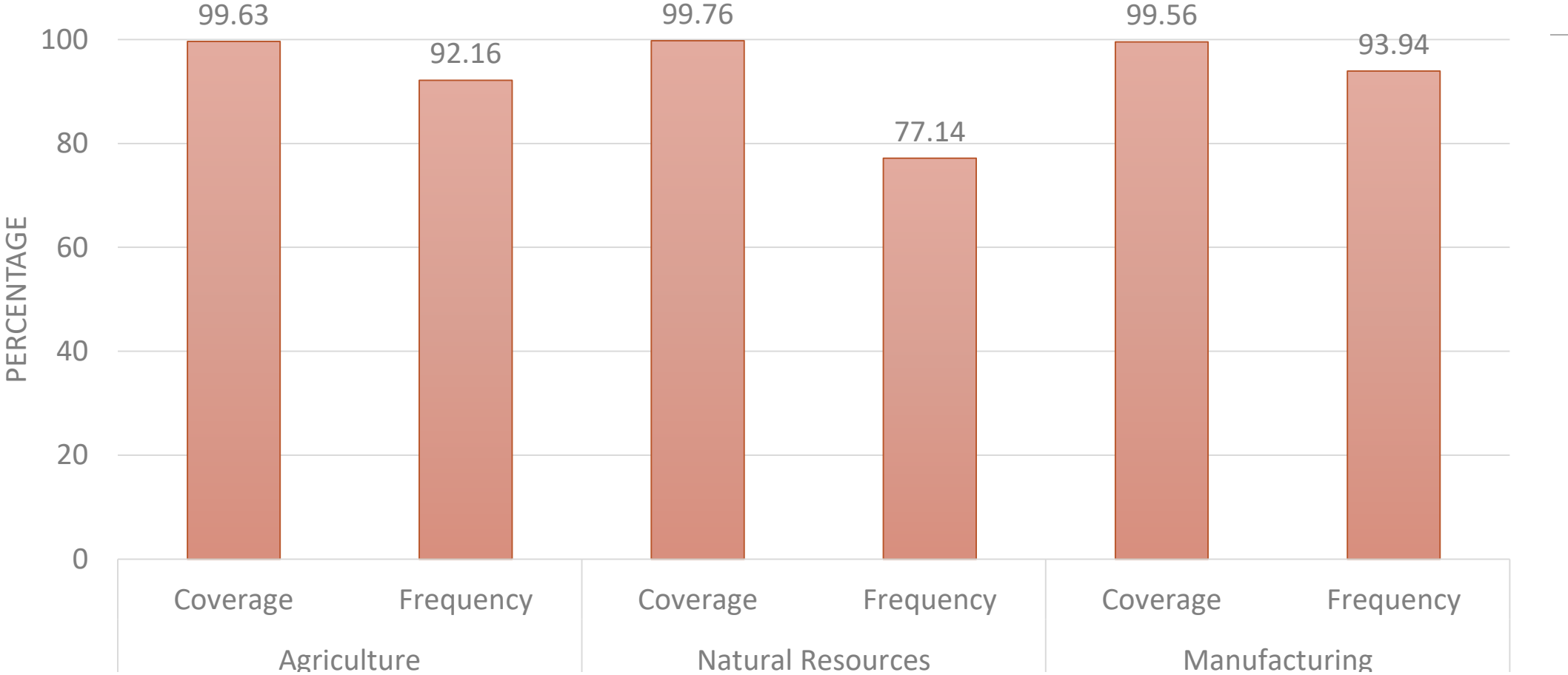
## **UNCTAD Integrated Trade Intelligence Portal (iTIP)**

- Provides the links to the relevant legislation behind the measures listed in TRAINS

## **Others (Not used in this paper)**

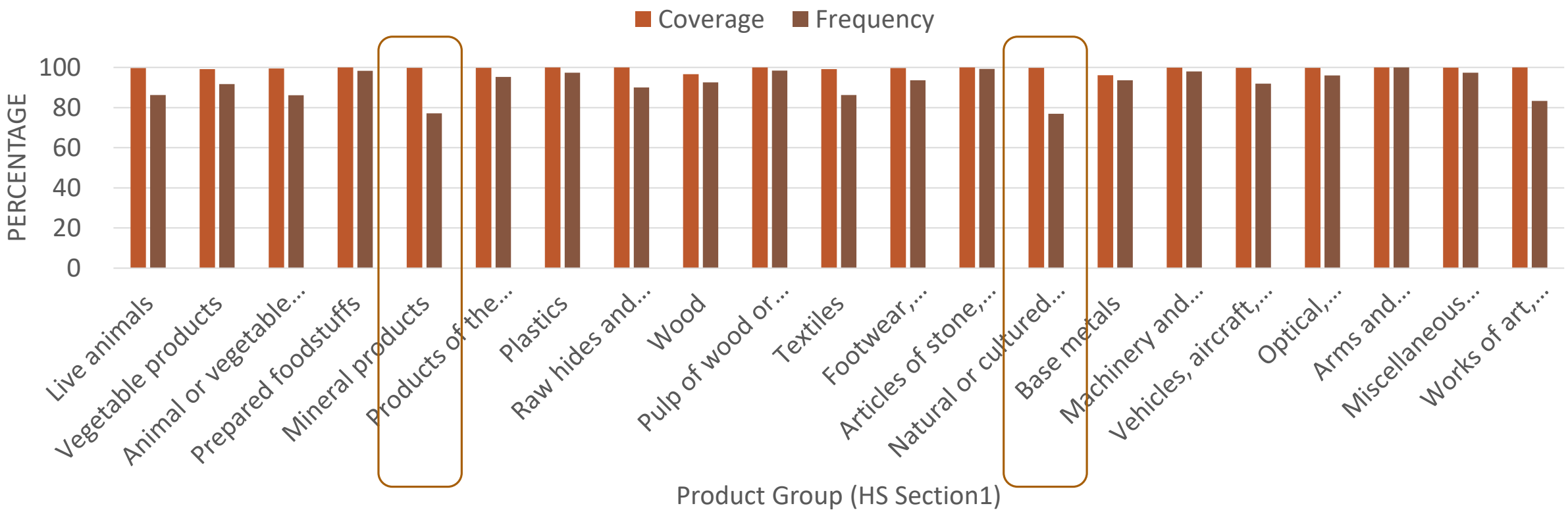
- US International Trade Commission Database
- European Commission Market Access Database

# Coverage ratio and Frequency index by industry



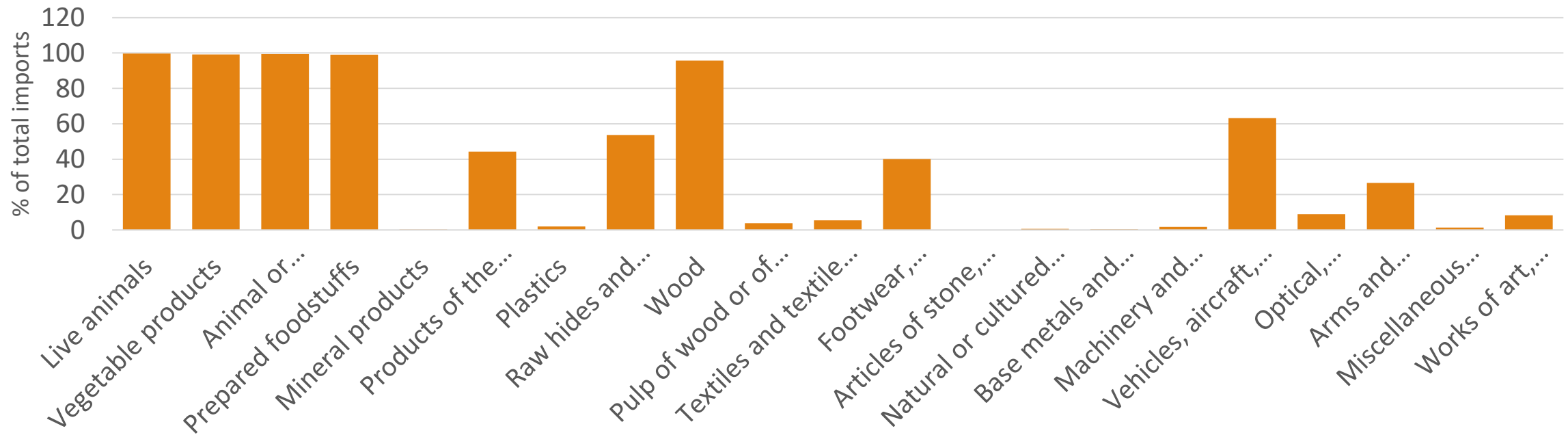
- Agriculture, natural resources and manufacturing imports have a coverage ratio of close to 100 percent.
- The 22.9 Percent of natural resources product codes not subject to NTMs accounts for only 0.2 percent of the value of natural resources imports.

# CR and FI for all types of NTMs applied to Philippines by HS section



- Agriculture and Manufacturing tends to be similarly treated while natural resource imports tend to be less regulated.
- Section XIX (Arms and Ammunition) are subject to some type of NTM.

# Coverage ratio of SPS Measures

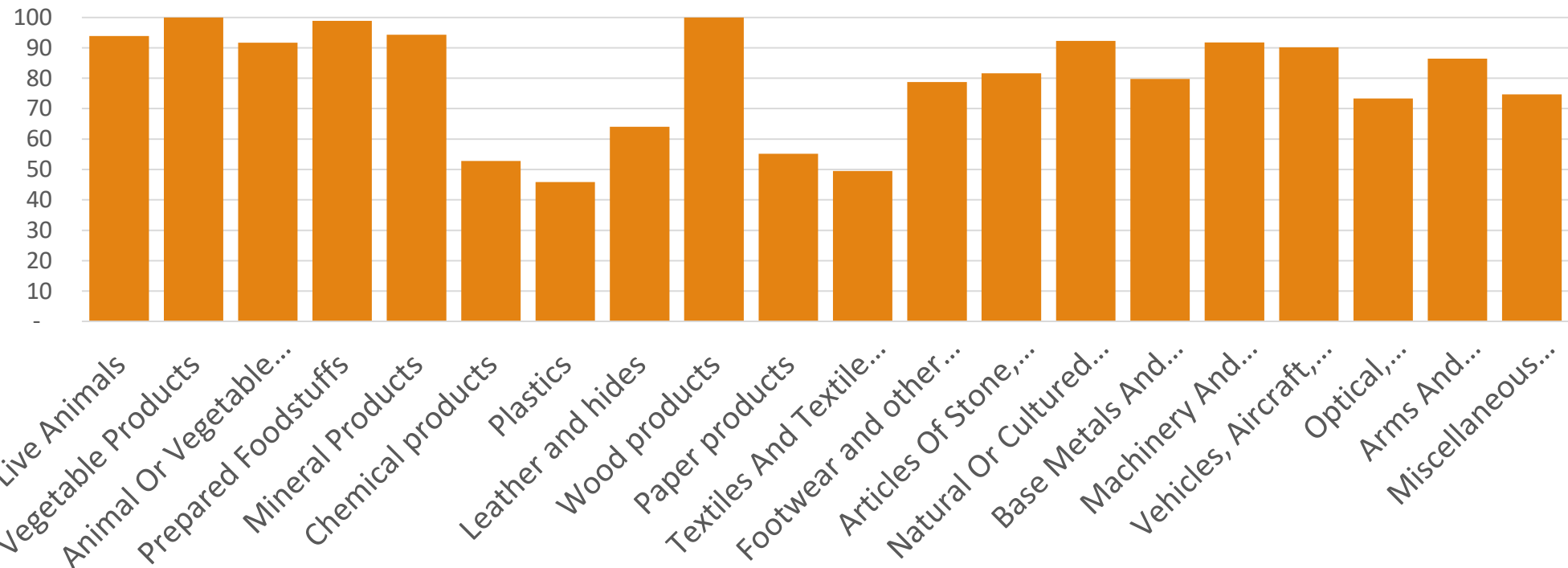


Source: Author's calculations using TRAINS ( see Table 2 of the Paper)

Product groups that are highly regulated (more than 80 percent) by SPS Measures are live animals, vegetable products, animal fats, oils including dairy; Beverages (Prepared food stuffs), and wood products.

# Coverage ratio of TBT measures

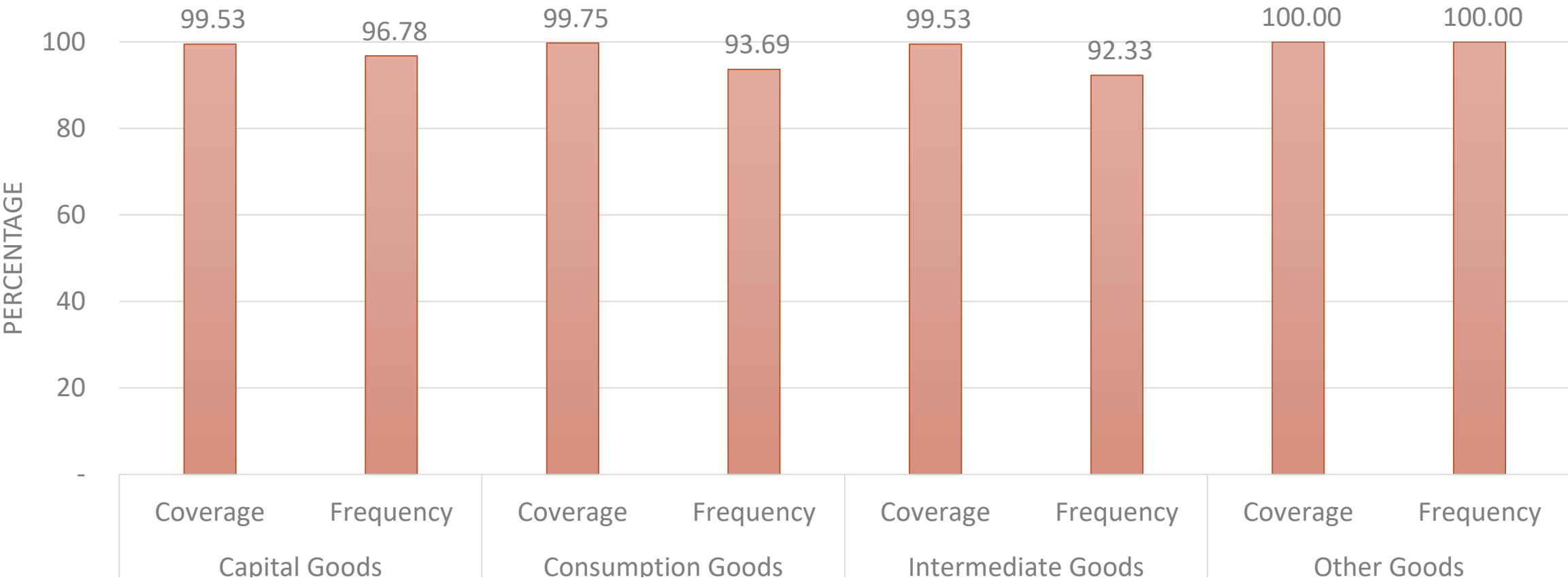
% of total value of imports



Source: Author's calculations using TRAINS (see Table 2 of the paper)

Compared to SPS measures, the coverage of TBT is broader with more than 90 percent coverage ratio with 9 out of 20 product groups (about 1732 tariff lines).

# Coverage ratio of technical measures by SNA basic class of goods



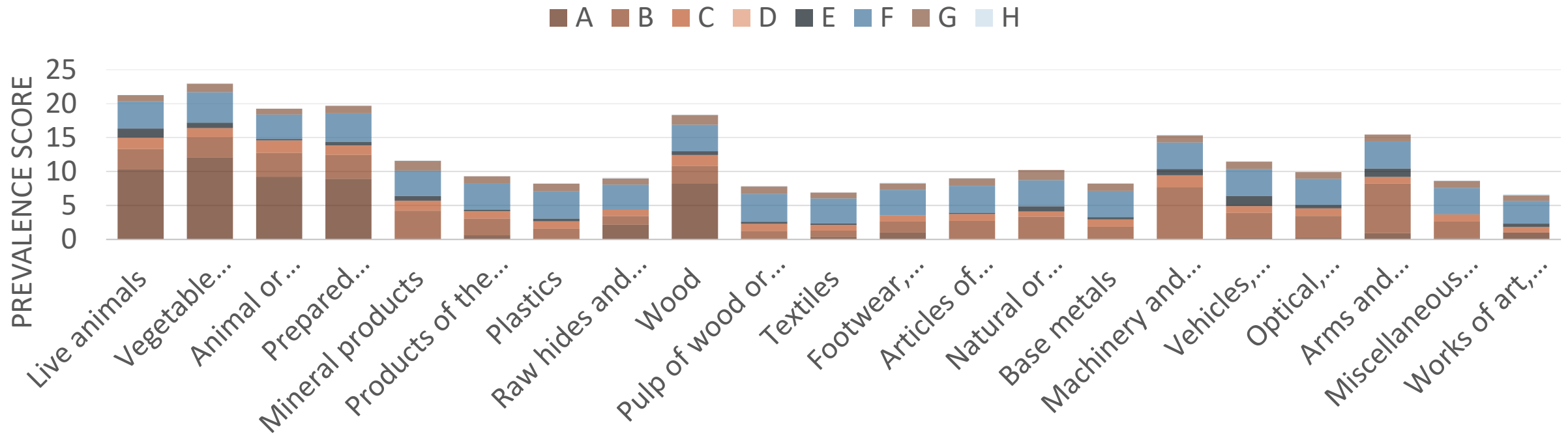
Source: Author's calculations using TRAINS

High coverage ratio (greater than frequency indices) for all types of goods

High coverage ratio applied for consumption and intermediate goods



# PS by HS Section and NTM chapter

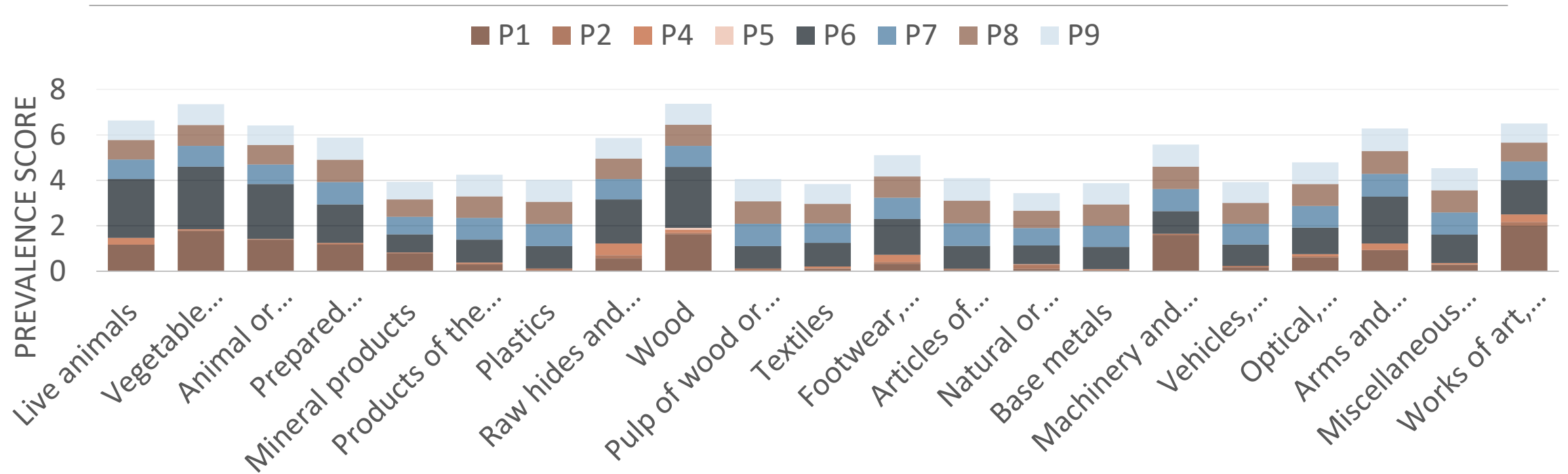


NTM CHAPTER1 BY PRODUCT GROUP (HS SECTION2)

Non-technical measures (F Price Control Measures and G finance measures) are applied to almost all imports of the Philippines

F6 (Additional taxes and charges levied in connection to services provided by government) and G1 (advance payment requirements) are the primary non-technical NTMs affecting Philippine imports.

# PS by HS section by select Chapter P sub-branches

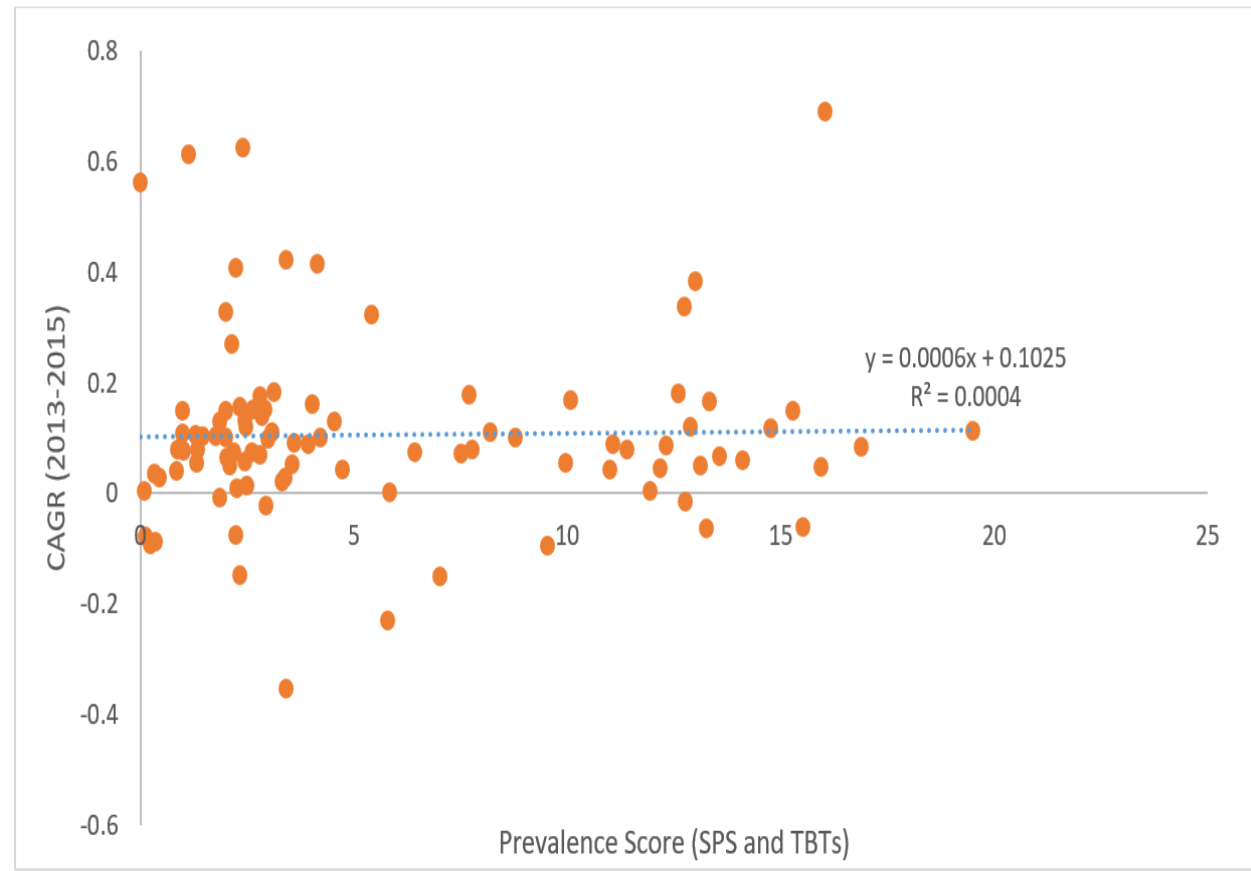
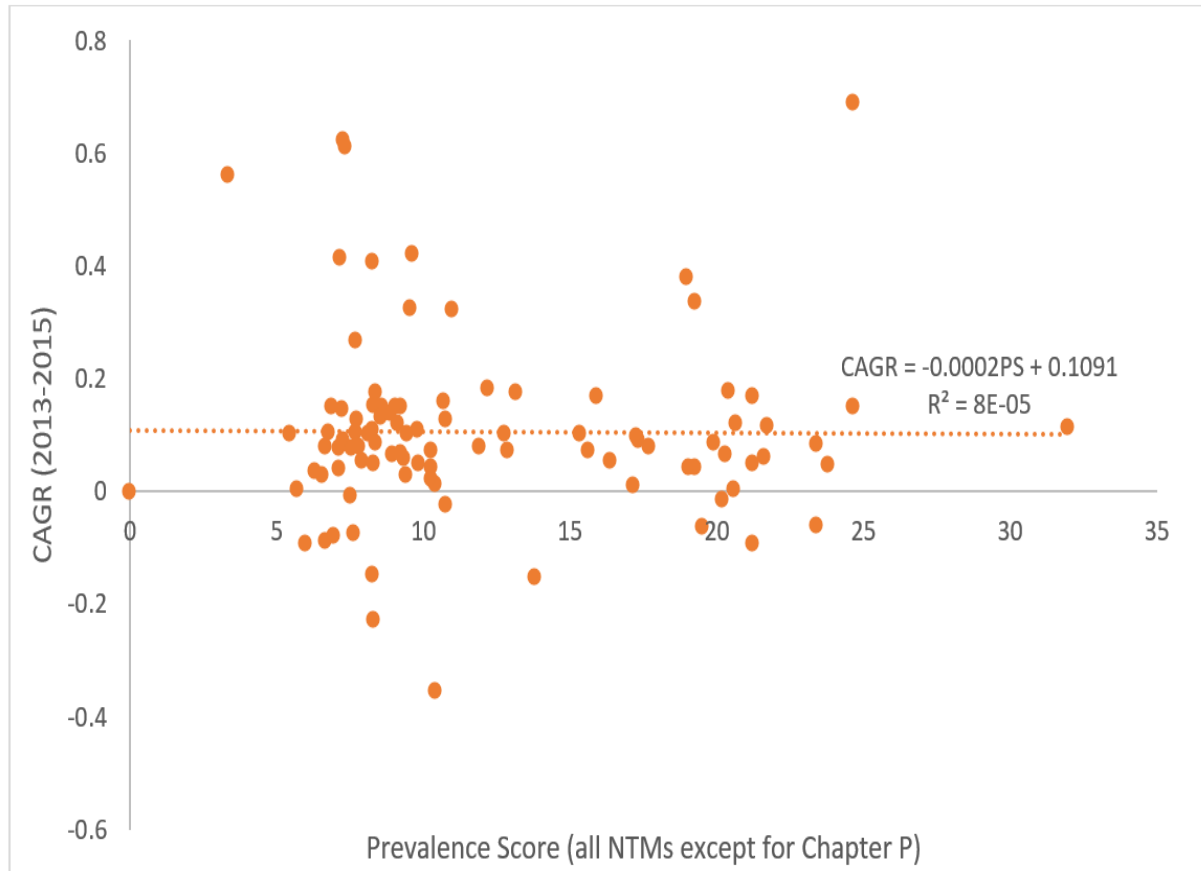


SELECT CHAPTER P SUB-BRANCHES1 BY PRODUCT GROUP (HS SECTION2)

High degree of regulation applied to almost all types of exports

P6 (Technical measures) is applied mostly to Philippine exports to ensure that Philippines would meet international standards

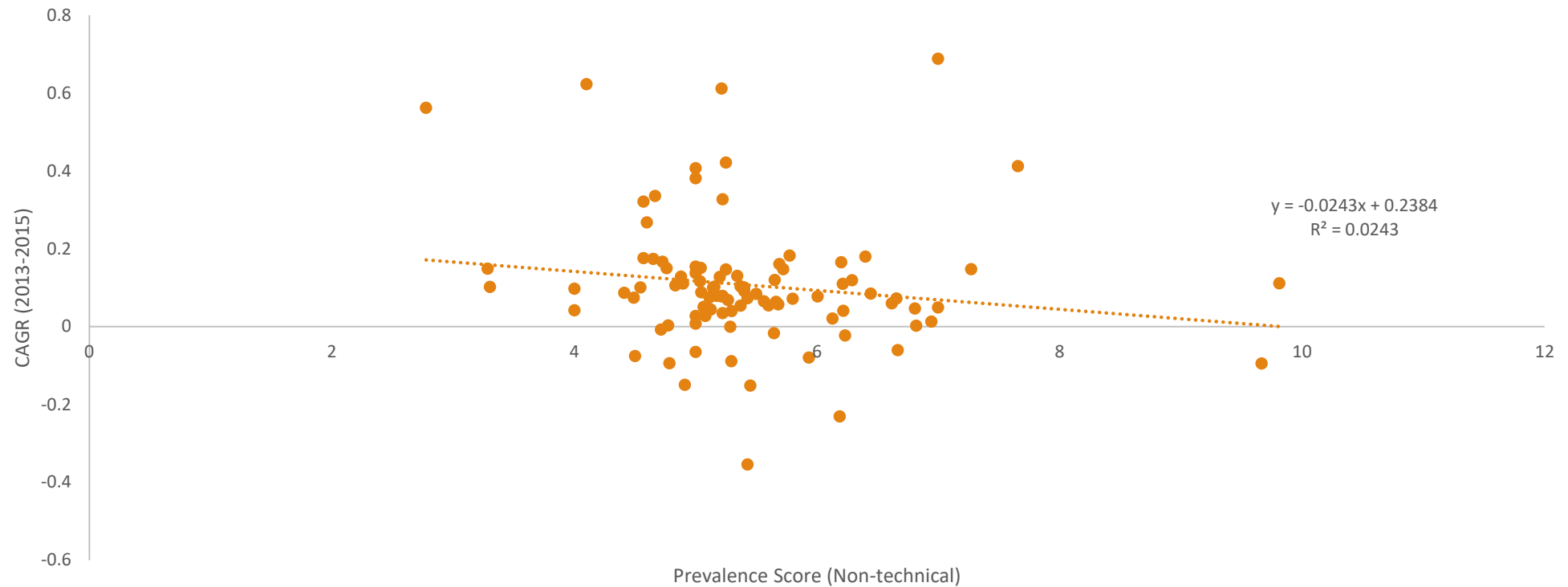
# NTMs and import growth



Source: Authors' calculations using the modified UNCTAD-TRAINS dataset and trade outcomes from WITS

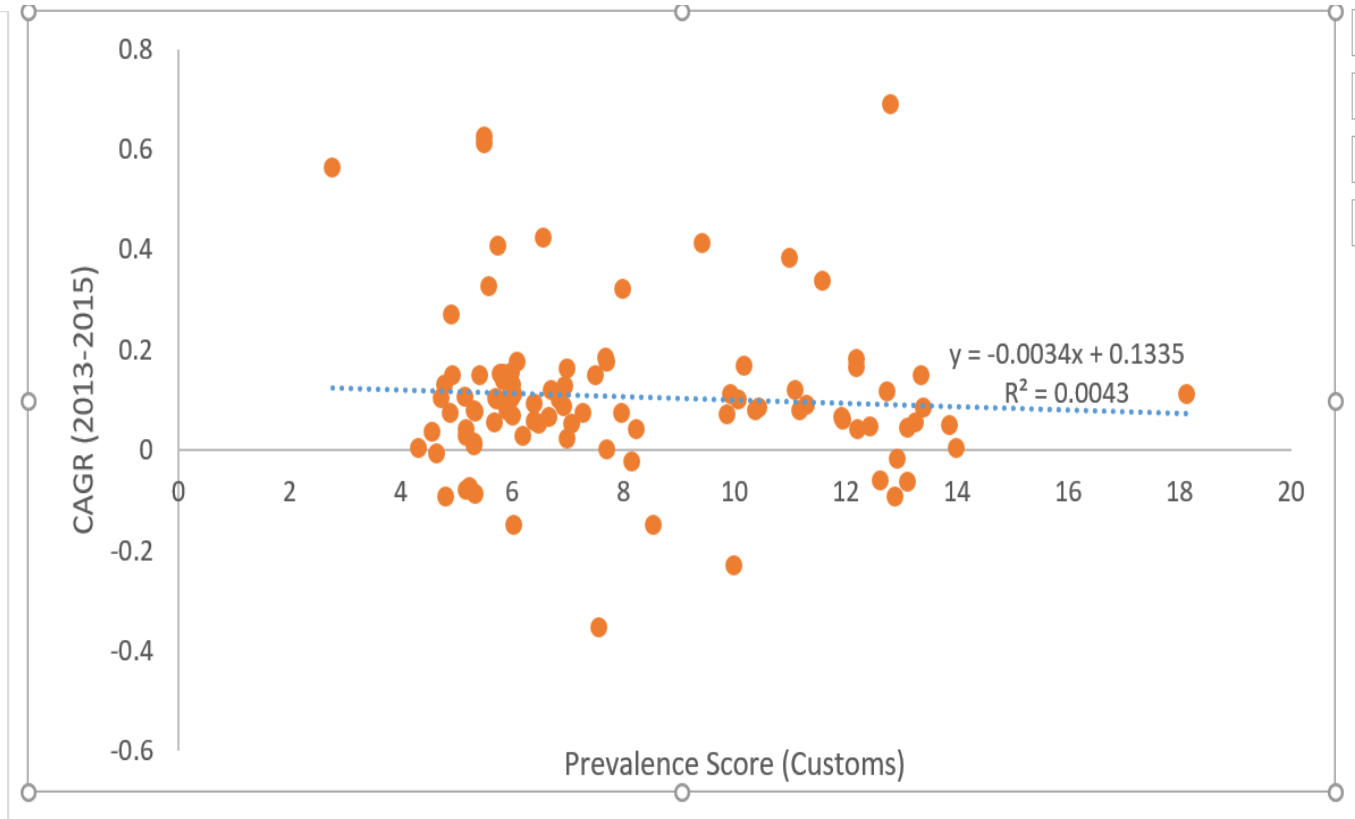
Weak correlation between import growth and PS (all NTMs), PS (SPS and TBT).

# NTMs and import growth



Number of non-technical NTMs have a negative correlation with the CAGR of imports

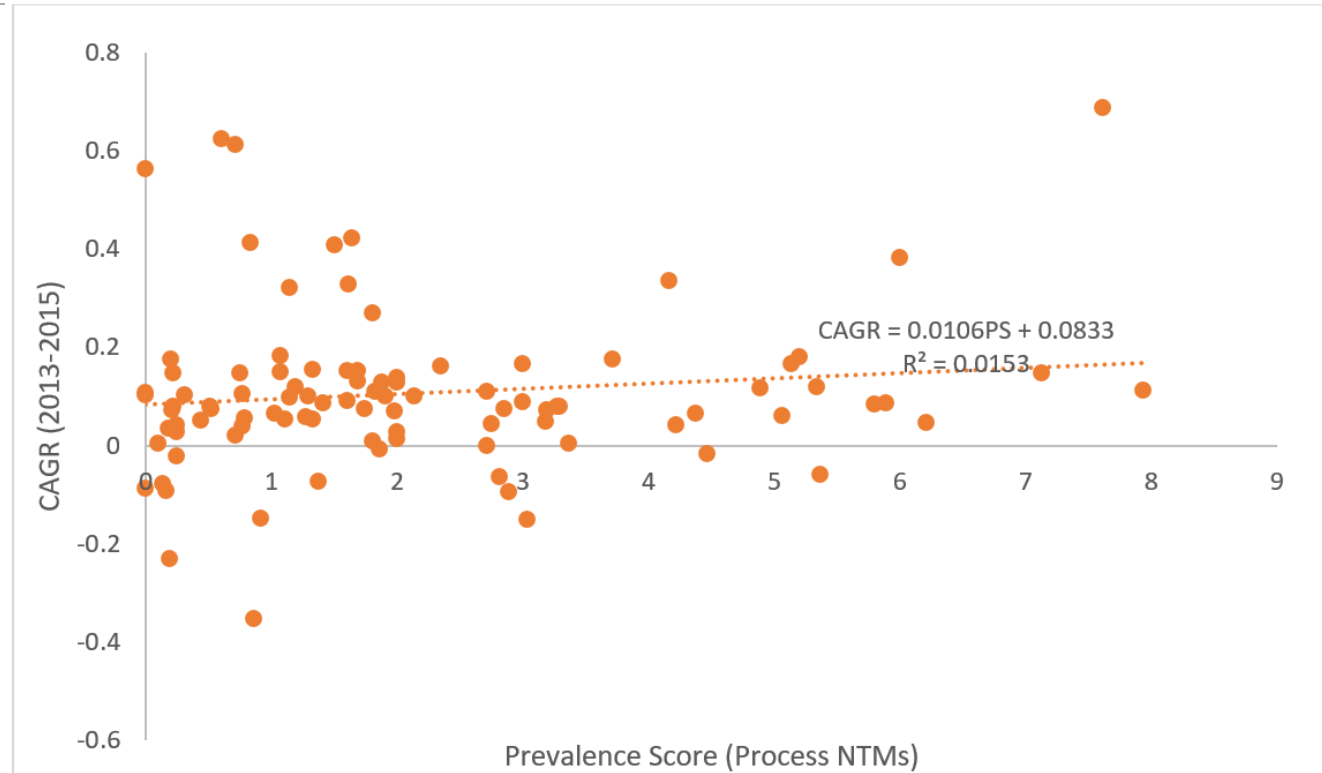
# NTMs and import growth



Source: Authors' calculations using the modified UNCTAD-TRAINS dataset and trade outcomes from WIT | Source: Authors' calculations using the modified UNCTAD-TRAINS dataset and trade outcomes from WITS

Import growth is inversely associated with the number of consumer and customs NTMs

# NTMs and Import growth

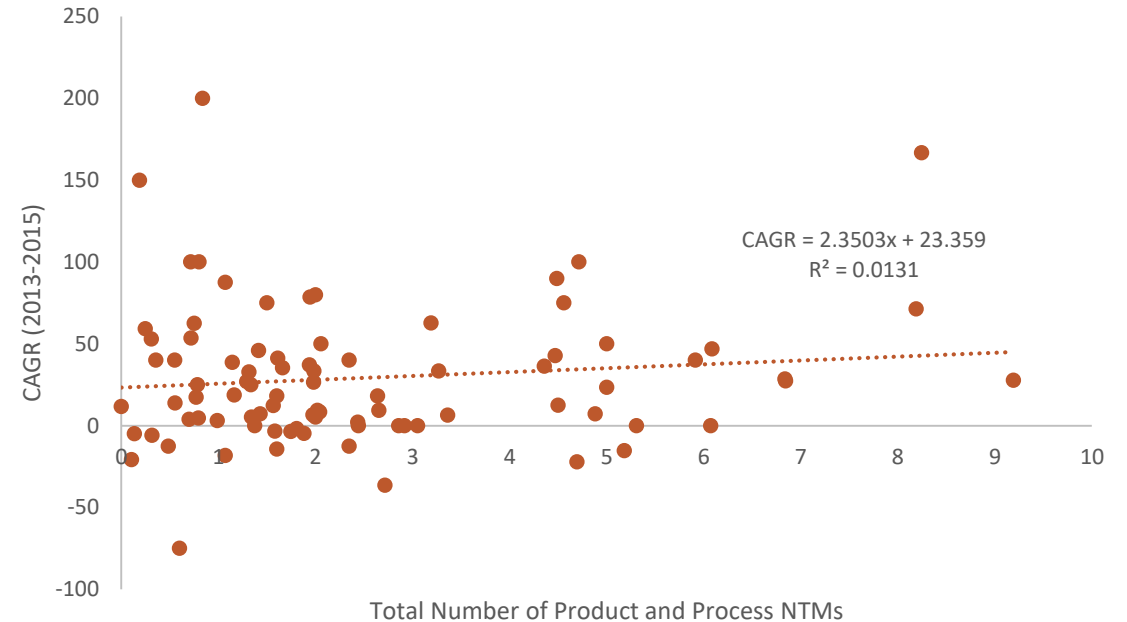
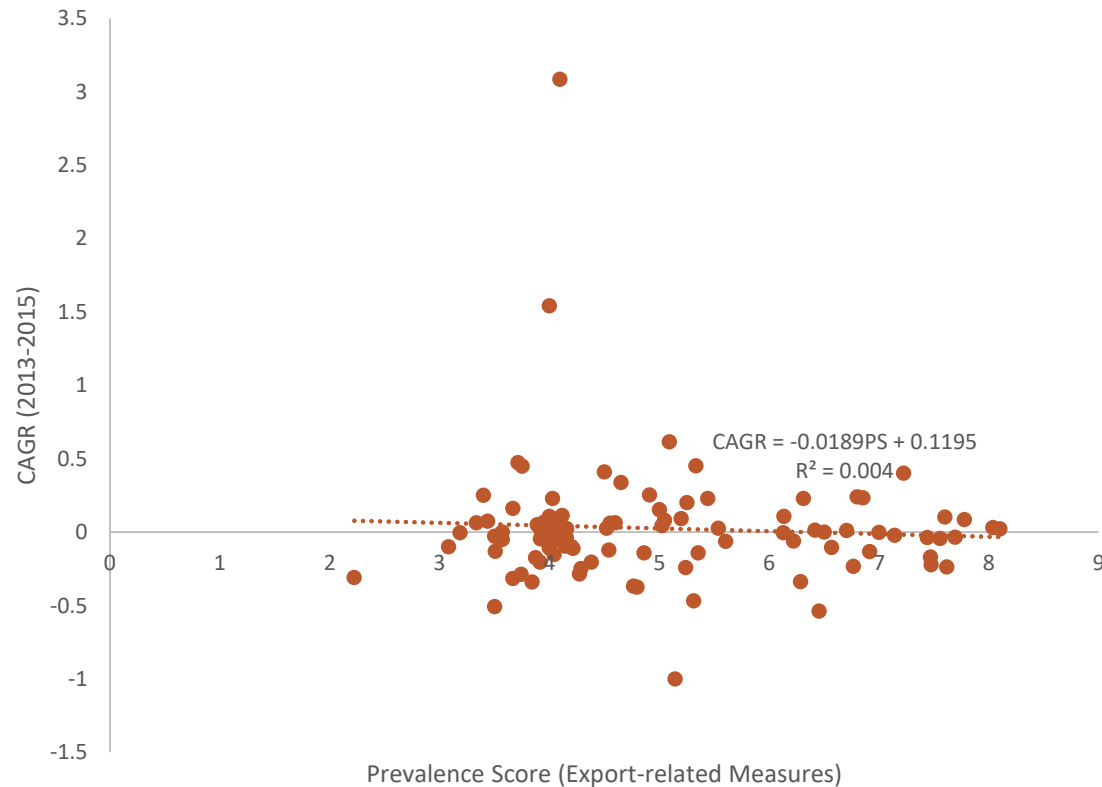


Source: Authors' calculations using the modified UNCTAD-TRAINS dataset and trade outcomes from WITS

Positive correlation between process NTMs and import growth.

Some regulations may actually benefit international trade as it can reduce information costs (labelling), guarantee product quality (certification) or reflect commitment to development issues or goals (e.g. labor and environmental standards).

# NTMs and export growth



Negative relationship between NTMs and CAGR of exports

Average number of product and process NTMs have positive correlation with growth of export markets

# Conclusion and Recommendations

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- ❑ Both agriculture and manufacturing are highly regulated as compared to imports of natural resources.
- ❑ Agriculture goods have a higher prevalence score (19.8) as against manufacturing goods (8.9).
- ❑ Both capital goods and consumption goods are highly regulated as shown by their high coverage ratios.
- ❑ NTMs in general have no association with growth of imports but the number of non-technical NTMs show a negative correlation for imports growth.
- ❑ Import growth is negatively correlated with the number of consumer and customs NTMs but has a positive correlation with process NTMs.
- ❑ Product and process NTMs show positive correlation with export growth and growth of markets.



# Policy recommendations

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1. Regulations by themselves have little impact to imports. According to the ITC (2016) procedural obstacles are the main reason for NTMs hampering trade. Examples include delays, numerous administrative windows or redundant documents, informal payments and the like.
2. There is a need to review the non-technical measures particularly Chapters F and G as these cover most of the goods traded by the Philippines.
3. Government works towards the completion of the Philippine national Single window to improve trade facilitation and reduce the procedural obstacles related to import licensing and issuance of permits.
4. Ensuring quality of exports is of primary importance. Government policy should be to provide assistance to exporters and manufacturers to ensure that international standards are met.
5. Strengthen Philippine National Trade Repository
6. Continue studying NTMs at sub-branches level to be able to isolate the true impact of NTMs.



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