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The Impact of Trade Liberalization and Economic Integration on the Logistics Industry: Maritime Transport and Freight Forwarders

Gilberto M. Llanto and Adoracion M. Navarro[1]

Executive Summary

The ASEAN Economic Community Blueprint targets an ASEAN single market in 2015. This is an ambitious reform agenda that seeks to ensure the free flow of services, investment, and skilled labor, along with the free flow of goods and the freer flow of capital in the ASEAN region. For logistics services, the target is to be achieved by 2013. Liberalization and deregulation efforts in the Philippine maritime transport industry are already heading into the direction of greater participation in ASEAN economic integration even though the AEC measures have not yet been formally sanctioned by all members. This paper examines the current status of the logistics industry in the Philippines and finds out how the opening of the economy to global markets through trade and service liberalization and now, ASEAN economic integration whose culmination is the ASEAN Economic Community in 2015, impacts on the structure, conduct and performance of the logistics industry. The industry is responding to the changes in a positive way notwithstanding its characterization as a concentrated industry dominated by a few domestic firms. Firms have become more innovative in offering quality service to consumers such as better passenger accommodation, improved ticketing system and availability of fast craft ferries. Freight forwarders, at least those surveyed for this study, equip themselves with information on how to adjust to a more liberalized and integrated environment. They are aware of the changes to be brought about by the AEC measures when they are fully implemented and they also have a good idea of the challenges they will face when they decide to locate in an ASEAN member-country, e.g., differences in commercial practices, legal systems and contracting procedures. The way forward involves continuing the market-oriented reforms especially liberalization of trade in services, while ensuring a healthy balancing of domestic industry interests with the requirements of economic regional integration.

Key words: economic integration, logistics, maritime transport, freight forwarders, liberalization in services, cabotage, ASEAN Economic Community Blueprint, domestic shipping

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Introduction

The ASEAN Economic Community Blueprint targets an ASEAN single market in 2015. This is an ambitious reform agenda that seeks to ensure the free flow of services, investment, and skilled labour, along with the free flow of goods and the freer flow of capital in the ASEAN region. For logistics services, the target is to be achieved by 2013 (Dee 2008)[2]. What this means is that by 2015, there should be substantially no restriction to ASEAN services suppliers in providing services and in establishing companies across national borders within the region, subject to domestic regulations (Dee 2012)[3].

The target date for the establishment of the ASEAN single market is literally just "around the corner" and at this juncture, it will be instructive to examine the current status of the logistics industry in the Philippines and find out how the opening of the economy to global markets through trade and service liberalization and now, ASEAN economic integration whose culmination is the ASEAN Economic Community in 2015 impacts on the structure, conduct and performance of the logistics industry.

The concern about how trade liberalization and economic integration affect the logistics industry is well-founded. Logistics services are an important infrastructure of efficient global and regional trade of goods and services. It is now well known that efficient logistics matter to efforts directed at tapping into global markets for increased trade and growth. Arvis and others (2010) observed that based on the 2007 Logistics Performance Index computed at the World Bank, better logistics performance is strongly associated with trade expansion, export diversification, ability to attract foreign direct investments, and economic growth. As pointed out by Nesathurai (2003)[4] the benefits of logistic excellence in terms of maintaining the cost competitiveness of business, attracting foreign direct investors to establish importing, production, and distribution facilities, thereby increasing employment opportunities, and minimizing import and export prices, and inflation are enormous. An economy characterized by logistics excellence has a tremendous edge in an increasingly competitive world. Liberalizing

[2] Dee, Philippa (2008) "Services Liberalization toward the ASEAN Economic Community"

[3] Dee, Philippa (2012) "ASEAN Economic Community Mid-Term Review—Services", January

[4] Nesathurai, A. (2003) "Key players in the logistics chain," unpublished paper. www://mima.gov.my (date accessed March 10, 2012).

logistics services markets, for example, can encourage local service providers to increase quality and price competitively. This is particularly important in sectors such as trucking and customs brokerage that are considered essential to efficient service delivery by international forwarders (Arvis, et al 2010)

This paper is a case study of the impact of services liberalization and economic integration on logistics services industry performance, e.g., output, employment, growth of firms, and productivity. The underlying objectives are first, to understand how the logistics services industry has responded to a liberalized logistics market, and second, to identify the barriers to services liberalization and economic integration. We limit the discussion to the maritime transport and freight forwarders due to time and data limitations. The choice of these components of the logistics services industry is not arbitrary because maritime transport and freight forwarding are critical components of logistics services especially in archipelagic economies such as the Philippines and Indonesia. The envisaged ASEAN Economic Community in the near future (2015) will witness an ever growing role of maritime transport and freight forwarding businesses in regional and global trade, and strong competition but also possibly collaboration among logistics service providers as they realize the advantages of economies of scale and scope, and of tapping into common resources and organizational and technical skills to provide competitively-priced services. This underscores the importance of examining how they have responded to trade liberalization and economic integration. The removal of barriers to competition, elimination of discrimination against foreign service providers, and fostering various modes of service delivery, e.g., commercial presence in other ASEAN countries other than one's own country will work for more efficient regional logistics services.

In this respect, we examine how services trade liberalization and the on-going process toward economic integration have influenced or affected the performance of maritime transport and freight forwarders in a rapidly changing and dynamic region. We do this in two ways, first through an analysis of secondary data on the maritime transport supplemented by expert opinion, and secondly, through an analysis of interviews made with four freight forwarders on the facilitating factors and barriers to services liberalization in the ASEAN region. The responses of our limited cases of freight forwarders are also presented in terms of size of company and years of operation.

The importance of the logistics industry to different players in the supply chain consists in the efficient and timely movement of goods and the provision of competitive services between or among players. Production, distribution, and marketing costs will be high or low depending on how logistics firms are able to efficiently do their part in the supply chain. Inefficiences in the transport and logistics service industry contribute to the high cost of doing business. At the onset, our case study should have included an analysis of the impact of logistics efficiency/costs on small and medium enterprises, which are users of logistics services. ASEAN economies are characterized by the existence of hundreds of thousands of small and medium enterprises, which contribute to significant value addition and employment in the economy. However, time and data limitations prevented the inclusion of SMEs in this case study. A future study should address this lack because of the important role played by SMEs in ASEAN economies.

The paper is organized as follows: after a brief introduction, section 1 provides a brief overview of the logistics industry in the Philippines based on available secondary data. It also looks at the structure of the industry and describes what has happened in the period from the 1990s to 2010. Section 2 discusses the impact of liberalization and economic integration measures, and domestic regulations and policies on the industry. It is noted that most of the AEC measures have not yet been ratified. The domestic policies and impacts assessed are those that are relevant or pertinent to the logistics industry, on the maritime transport and freight forwarding in terms of changes in output, employment, growth of firms, and productivity.[5] Section 3 provides a discussion of the results of a recent survey[6] on facilitating factors and barriers to service liberalization in freight forwarding. It basically covers the opinions of freight forwarders to facilitating factors and barriers service liberalization in the ASEAN region. The last section gives the concluding remarks and policy implication.

1. The logistics industry in the Philippines

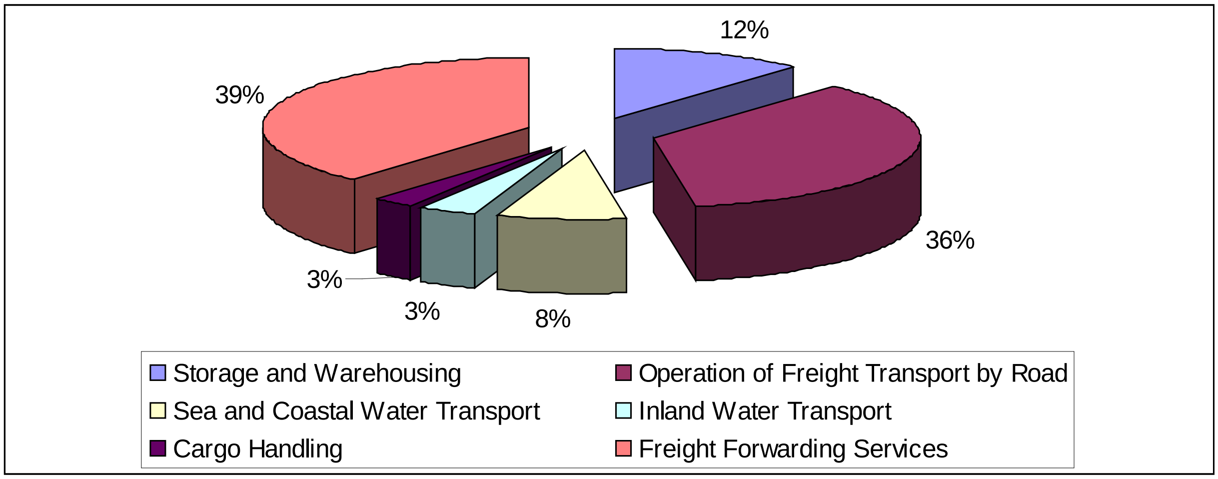
Following Porter (1998)'s value chain analysis, logistics in the value chain framework

[5] Because of time and resource constraints, the authors only reviewed the export and import aspects of logistics. A more comprehensive study should review the pricing and costs of logistics services or logistics costs faced by small and medium enterprises. A future study can look into these items that the current paper could not cover.

[6] A team from the PIDS implemented the survey in December 2011-January 2012.

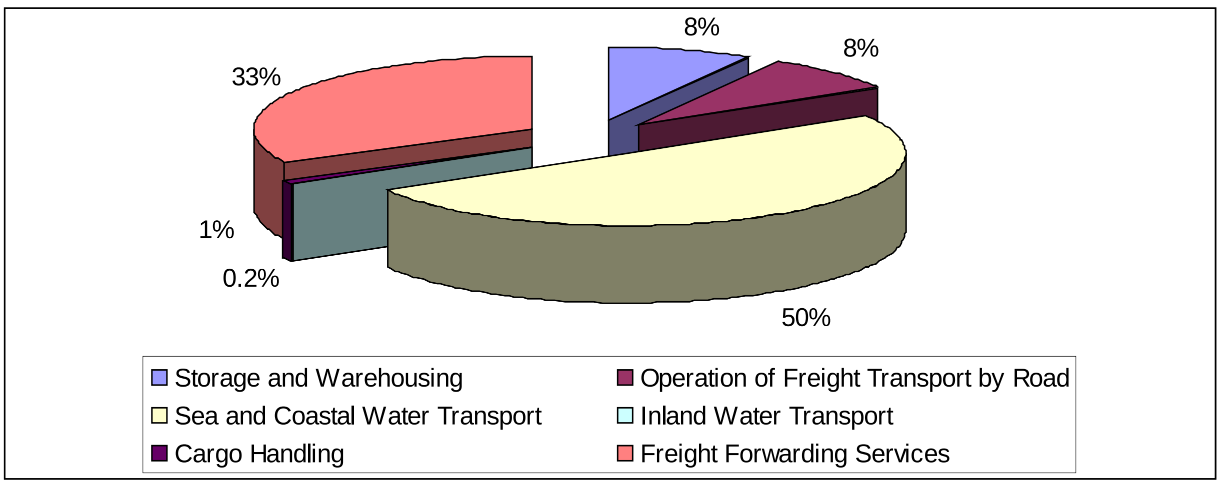
encompass specific activities under “inbound logistics” and “outbound logistics”. Inbound logistics cover activities like receiving, storing and inventory control of inputs. Outbound logistics include the activities needed to deliver the final product to the customers such as warehousing, transportation and distribution management. The discussion here focuses only on outbound logistics due to time and data constraints although both “inbound logistics” and “outbound logistics” will be profoundly affected by liberalization of trade in services. In the single market envisaged under the AEC logistics providers will be able to exploit efficiencies provided by any of the four modes of service delivery because of a liberalized and market-oriented trading environment. Cross border provision of logistics services following the removal of barriers to cross-border trade can be done through different modes of supply depending on their business models, relationship with logistics users, synergy with other logistics providers in other ASEAN countries.

There is currently no comprehensive profiling of the Philippine logistics industry in academic papers or in the statistical system. As far as we know, the treatment of logistics in Philippine developmental research is usually focused on a sub-category of the whole logistics industry, such as inter-island transportation, or in relation to an economic sector, such as logistics in the agriculture sector. Market research reports are available but these are usually for private viewing only and designed to meet the demand of commercial firms for market and industry assessment. Nevertheless, Philippine statistics on different industries that can be considered part of the logistics supply chain are available and, thus, this case study grouped them together to create a comprehensive profile. The shares of each of these industries in terms of number of firms and sales in the overall logistics industry are depicted in Figures 1 and 2, respectively.



Source: 2008 *Annual Survey of Philippine Business and Industry*, National Statistics Office

Figure 1. Shares of sub-industries in terms of number of establishments in the logistics industry, 2008



Source: 2008 *Annual Survey of Philippine Business and Industry*, National Statistics Office

Figure 2. Shares of sub-industries in terms of sales in the logistics industry, 2008

Figure 1 shows that as of 2008, freight forwarding services have the most number of establishments, having 39 percent or 517 establishments of the total 1,336 establishments. The second biggest category in terms of number of establishments is the operation of freight transport by road, having 36 percent or 479 of the total.

In terms of sales or revenues, Figure 2 shows that sea and coastal water transport establishments and freight forwarding services establishments are the biggest players in the logistics market. In 2008, sea and coastal water transport earned 50 percent or 26.58 billion pesos out of the total 53.16 billion pesos logistics industry revenues, whereas freight forwarding services establishments earned 33 percent or 17.35 billion pesos out of the total earnings in the industry (values are in real terms using 2000 prices).

The fact that these two industries, maritime transport[7] and freight forwarding services, have the biggest market share in the overall logistics industry makes the focus of this case study on these two industries more relevant.

Maritime transport

Maritime transport significantly links the Philippines to international trade. The Maritime Industry Authority (MARINA), the industry regulator, classifies the domestic maritime transport routes as follows: (i) primary routes that connect major ports of the country and handle domestic volume of national significance; (ii) secondary routes that are linked to ports of lesser throughputs than major ports and handle domestic volume of regional significance (region in this case refers to administrative region in the Philippines); (iii) tertiary routes that serve as feeder routes and handle cargoes destined for primary and secondary ports; and (iv) developmental routes or "missionary routes" that do not yet have existing shipping operators but have potential to support economic sectors.

Most of the maritime transport routes were highly monopolized before the 1990s. Given this structure, the development of many domestic shipping routes, especially the "missionary routes" or developmental routes, was slow and rates were highly regulated by the Maritime Industry Authority (MARINA) to prevent market power abuse. The objectives of past regulation were, for route entry, to bring capacity and demand into balance and to protect the investment of operators by preventing ruinous competition, and for shipping rates, to protect the public from

[7] Strictly speaking, maritime transport in the Philippines include inland water transport or navigation in rivers and streams, but this case study looks only at the "sea and coastal water transport" category given that the former has only 0.2 percent market share, as shown by the 2008 *Annual Survey of Philippine Business and Industry*.

indiscriminate charging by shipping companies (Austria 2003).

Consistent with the theme of liberalizing and deregulating industries that were considered monopolized or cartelized during the Marcos regime, the Aquino (Cory) administration started issuing rules aimed to liberalize and deregulate the industry. The succeeding administrations continued this effort, with the Ramos administration passing the most number of rules that significantly changed the market structure in the industry. These rules are discussed in Section 2 below.

Freight forwarding

Freight forwarders[8] are specialized firms in the logistics chain, which are classified into "ocean freight forwarders" and "air forwarders." The services that they offer have evolved over time. In the beginning, freight forwarders provide clearing and forwarding services as an agent of the shipper. At the intermediate level, they make available the following services: cargo consolidation, road haulage, and customs clearance. At the final stage, they can also provide door-to-door services as multimodal transport operators. Freight forwarders offer all or a limited range of services depending on their size, number of personnel, and number of branches. Giving advice on booking space in shipping companies and airlines is a task common to them. Many freight forwarders handle both exports and imports, and may also act as customs brokers. The specific services are as follows:

- Advising on the best routes and relative shipping costs
- Booking the necessary space with shipping or airline company
- Arranging with the exporter for packing and marking of the goods to be exported
- Consolidating shipment from different exporters
- Handling customs clearance abroad
- Arranging marine insurance for the shipment
- Preparing export documentation
- Translating foreign language correspondence
- Scrutinizing and advising on ability to comply with letter of credit.

Viewed in this light, the services offered by freight forwarders in trade facilitation are

[8] This description of freight forwarders by Nesathurai (2003) applies to Philippine freight forwarders.

crucial to the tradable sector. It is noted that there are also freight forwarders operating only domestically, providing services only within the economy. However, the advent of an ASEAN Economic Community, which will give due course to commercial presence of foreign logistics providers will force domestic freight forwarders to exert efforts to become more efficient and competitive. Some of those domestic freight forwarders may decide to expand their operations to include not only the domestic economy but the larger ASEAN economic community. They may enter into joint venture agreements with foreign freight forwarders, make investments in foreign freight forwarder companies, or accept equity investments from foreign investors, etc. The inefficient domestic freight forwarder companies may simply fold up in the face of stiff competition from more efficient domestic and foreign companies in a liberalized service environment.

2. Impact of liberalization and economic integration measures

The liberalization and economic integration measures in maritime transport

The AEC Blueprint target for services trade liberalization is to substantially remove by 2015 the restrictions on ASEAN services suppliers in providing services and in establishing companies across national borders within the region, subject to domestic regulations. This target is to be achieved earlier for the logistics services, that is, by 2013. The specific AEC measures to achieve this are not yet ratified. The ASEAN Framework Agreement on Multimodal Transport (AFAMT) was signed on November 17, 2005 in Vientianne, Laos to facilitate regional trade through the development of an efficient multi-modal transport system. However, only three countries, namely Cambodia, the Philippines and Thailand have ratified the agreement. On the other hand, the ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST) was signed in Manila, Philippines on December 10, 2009. It seeks to facilitate inter-state transport of goods in support of the ASEAN Free Trade Area, to simplify and harmonize transport, trade and customs regulation, and to establish an effective, efficient, and integrated regional transport system. This framework agreement is still currently under discussion and has yet to be ratified by the ASEAN member countries.

Despite the slow progress in the ratification of agreements, and in crafting and implementing the necessary rules, regulations and performance standards affecting transport and logistics, the Philippines already has a history of continuing liberalization and deregulation in transport logistics, including maritime transport. Moreover, in general, the Philippines is relatively open and attuned to the changes in the region towards a freer competition. Republic Act 9295 provides the policy framework for the domestic shipping industry. It provides incentives to domestic shipping operators such as exemption from value-added tax on importation and local purchase of passenger and/or cargo vessels and equipment relating to safety and security of passengers and crew. For investments in overseas shipping, Republic Act 7471 (An act to promote the development of Philippine overseas shipping) provides exemption from import duties and taxes imposed on importation of ocean going vessels. More recently, the government issued Executive Order 170 (series of 2003) to lay down the policy for roll-on roll-off (RORO) shipping. Executive Order 170 eliminated the payment of cargo handling charges and wharfage dues by users of RORO vessels.

In response to calls for liberalization and deregulation, the Maritime Industry Authority (MARINA) and the executive branch of government issued several rules aimed to (i) liberalize route entry or exit and (ii) deregulate shipping rates. It was hoped that the liberalization and deregulation rules would foster a favorable climate for increased investments. Table 1 below details these rules.

Table 1. Domestic Shipping Liberalization and Deregulation Rules

Route Entry/Exit Liberalization	Shipping Rates Deregulation
MARINA Memorandum Circular (MC) No. 71 (22 October 1992) • Entry of new/ additional operators in established routes/links allowed if - cost-effective, competitive or superior service is provided - improved quality of service and/ or innovative/ technologically advanced shipping service is introduced • No limit on vessel replacement capacities	**MARINA MC No. 46** (19 May 1989) • abolition of ad valorem rates / adoption of 3/10% valuation surcharge to cover insurance premiums • reclassification/upgrading of basic commodities class • deregulation of second class passage rates **MARINA MC No. 57** (25 October 1990)

Route Entry/Exit Liberalization	Shipping Rates Deregulation
• Flexibility provided for cargo liner operation to alter frequencies, ports of call and swap/substitute vessels **MARINA MC No. 80** (08 November 1993) • liberalized further the control of entry into and exit out of the industry by prescribing that - any route shall have a minimum of two operators in order to provide competition - all routes served by only one operator shall be open for entry by additional operator(s) - to encourage entry into developmental routes, an operator who pioneers in the provision of service in such route shall be authorized to charge market-accepted rates for five years, after which the continued authorization of such rates shall be evaluated by MARINA **Executive Order (EO) No. 185** (28 June 1994) • reiterated the MC 80 policy of opening up all routes and encouraging entry to developmental routes • in addition to monopolized routes, cartelized routes are included in the category of routes that shall be open for entry by additional operators	• deregulation of reefer, transit and livestock rates • abolition of 3/10% valuation surcharge • adoption of fork tariff system, initially set at +/-5% **MARINA MC No. 67** (06 May 1992) • institution of automatic fuel adjustment mechanism • widening of fork tariff range to +10% / -15% **EO No. 213** (28 November 1994) • further deregulation of passage rates for all passenger-carrying vessels • exemption of vessels catering to tourism from the requirement of allocating 50% of passenger capacity for third class accommodation • deregulation of cargo shipping or freight **MARINA MC No. 117** (2 October 1996) • deregulation of all commodities class except for non-containerized basic commodities • exempting Department of Tourism-accredited vessels from allocating 50% of their passenger capacities to 3rd class accommodations

Route Entry/Exit Liberalization	Shipping Rates Deregulation
<u>MARINA MC No. 106</u> (06 April 1995) • reiterated the policy of minimum two operators in any route and made easier the entry in routes served for at least five years • newly-acquired vessels granted flexibility of entry into any route, subject to certain conditions • entry into developmental routes encouraged by way of rates incentives • liberalized vessel rerouting, amendment of frequencies/schedules, vessel swapping/ substitution	• deregulation of passage rates for DOT-accredited vessels serving tourist destinations **EO No. 170 (22 January 2003)** • reduced transport cost roll-on-roll-off (RORO) vessel transport through - elimination of cargo handling charges - elimination of wharfage fees - shift from commodity classification to lane meter in determining freight charges • defines a policy for RORO-road terminal integration system **Republic Act 9295, "Domestic Shipping Development Act" (May 2004)** • The law categorically stated what previous executive issuances instructed, that domestic ship operators are authorized to establish their own domestic shipping rates provided that effective competition is fostered and public interest is served.

Meanwhile, the issue on lifting cabotage still remains. The cabotage principle refers to reserving the right to navigate coastal waters between two ports within a national territory only to vessels registered in that country. This is perceived by players in the logistics supply chain, especially exporters and shippers as a barrier to freer trade because they could not avail of cheaper shipping rates, which they believe international vessels may be able to provide. The cabotage principle is contained under sections 810, 902, 903, and 1009 of the Tariff and Customs Code of the Philippines. Republic Act 9295 likewise confines domestic coastwise shipping to domestic shipping operators and restricts the domestic operation of foreign shipping companies.

Domestic shippers oppose liberalizing the cabotage rule because the expectation of lower shipping rates may not be realized if the vessels were to operate within the same playing field as domestic vessels and be confronted with the same obstacles to competitiveness. They perceive that the issue of lowering shipping rates is an issue of removing the barriers to domestic competitiveness and not simply an issue of opening domestic shipping markets to foreign competition.

The debate about whether or not to lift the cabotage rule has brought to the surface various issues such as alleged cut throat competition, the survival of domestic shipping firms that would be unable to muster enough financial muscle to stay in business, and the spectre of mass unemployment arising from closure or weakening of domestic shipping and allied business activities. What seems to be ignored is that lifting the cabotage rule will create incentives for domestic shipping companies to become more competitive, which will bring down the cost of doing business in the country, generate more business activities and lead to more employment. Lifting that rule will also create downward pressure on shipping rates, benefiting businesses and improving the level of general welfare. It is noted that the domestic shipping industry has been dominated by a few, large firms, some of which are politically well-connected. The concentration of the industry in the hands of a few players with weak incentives to modernize and become competitive has been one of the factors responsible for the failure of the domestic shipping industry to modernize and meet the standards and quality required of 21st century ocean-going vessels. Philippine experience shows how hard it is to introduce policy reforms in an industry that is dominated by a few firms, which exhibit oligarchic behavior, and where there are institutional weaknesses, e.g., weak or captured regulator. In a recent paper, Rosellon and Yap (2010) pointed out that structural supply-side constraints and institutional weaknesses are behind the weak private sector response to the opportunities provided by greater openness and deepening regional economic integration. They explained that some of these factors are extraneous to the private sector but some emanate from the behavior of the private sector.

We submit that this behavior has to do with the unwillingness of domestic firms that have been so used to the protection provided by certain government policies to face up to competitive pressures emanating from a liberalized and deregulated business environment. It seems that the business environment in the country is characterized by a lack of a “culture of competition” (Rosellon and Yap 2010) such that the presence of monopolies and cartels is “accepted as a part of doing business” (*ibid.*) in the country. However, the political commitment of the Philippine government to liberalize trade in services as ASEAN countries move in tandem toward greater liberalization as a preparation for the AEC community in 2015 is an important step toward the development of a competitive domestic shipping industry. The movement toward a more outward-looking economy, more specifically toward a liberalized and deregulated environment where growth and sustainability of firms derive from competitiveness and not from government protection or political connection will reduce the rent-generating capacity of domestic monopolies and oligopolies. The immediate result will be a reduction in cost of doing business and greater competition among firms to provide the most efficient service.

Despite fears that foreign shipping vessels will dominate the local shipping market, this may not necessarily happen because foreign shipping firms will have to contend with limitations of market size, lack of familiarity with domestic markets, and a host of other physical and institutional limitations, and thus, may not necessarily be engaged in all of the regular coast-wise trade, at least initially. Meanwhile this buys time for domestic shipping companies to make more investments and become more competitive. On the other hand, the liberalization of shipping routes will make the market contestable, which puts pressure on domestic shipping firms to become more efficient and to offer more competitively-priced services.

There was an attempt to go around the cabotage rule under Section 6 of RA 9295. Section 6 states:

"Section 6. Foreign Vessels Engaged in Trade and Commerce in Philippine Territorial Waters. – No foreign vessels shall be allowed to transport passengers or cargo between ports or places within the Philippine territorial waters, except upon the grant of Special Permit by the MARINA when no domestic vessel is available or suitable to provide the needed shipping service and public interest warrants the same."

The fundamental objective of the law is to modernize the domestic shipping fleet but it also grants an exception to cabotage in cases where there is a public need for efficient shipping service between Philippine ports and no domestic vessel is available or suitable to meet that need.

Strong lobby groups have raised resistance to the implementation of this provision of the law. In particular, local shipping associations found MARINA's discretion on issuing special permits to foreign vessels questionable. In 2010, the Philippine Liners Shipping Association and the Philippine Petroleum Sea Transport Association argued that MARINA should not have given special permits to foreign flag carriers because there was a surplus of Philippine-flag vessels in the country.[9]

Two issues are faced by policy makers at this juncture. One, is how to educate and convince domestic oppositionists that the liberalization of domestic shipping markets will be more beneficial to the country in terms of improving business and investment climate in the country, introducing greater efficiencies (and more profitable opportunities) to the domestic maritime transport industry, and raising the level of welfare in the economy. It is noted that the liberalization of trade in services, including maritime transport services is being done in the face of past experience with trade liberalization. While the overall benefits of trade liberalization far exceed the costs, time and again domestic oppositionists to freer trade and deregulated markets raise arguments blaming trade liberalization and globalization for the closure of domestic firms and the hollowing out of the manufacturing sector and the consequent shedding of jobs, and in the case of the agriculture sector, pointing to the failure to improve the lot of small farmers and fishers despite government promises that trade liberalization will lead to the modernization of the sector, an improvement of agricultural productivity, and ultimately to increased incomes for those small players.

Second, while an exception to the cabotage principle was allowed in 2004 through a law on domestic shipping development, Republic Act 9295, the conditions attendant to that exception effectively dampened the intent to liberalize domestic shipping routes. In this particular case, the element of discretion gives bureaucrats the power to promote and support the liberalization of trade in maritime transport services, and also to frustrate the policy of creating a freer and more liberal trading environment as envisaged in the AEC of the future in response to political pressures, whether from lobbyists or vote-seeking politicians. This is a tougher hurdle because the exceptional policy is enunciated through legislation and future amendments to make the law more disposed toward liberalization and freer markets have to go through the proverbial legislative mill. Given that it may be difficult to amend the law the challenge is to transform MARINA into an institution that is pre-disposed to promote a liberalized and deregulated maritime transport market.

[9] The News Today. "Improve port conditions, ship groups urge" July 27, 2010. Iloilo City.

State of liberalization in the freight forwarding business

With respect to freight forwarding, the issue is not high regulation or monopoly but barriers to achieving an effective competition. There seems to be no need to liberalize entry to and exit from the freight forwarding business because in the absence of regulatory barriers and the lack of natural monopoly elements in this type of business. Nevertheless, it seems that the ease of entry and exit has not resulted in a proliferation of freight forwarding companies. This may be due to the fact that setting up a freight forwarding business requires (i) substantial resources, (ii) specialized skills, which may not be easily obtained except through professional training, and previous exposure to and familiarity with the different components of the business, e.g., dealing with requirements of ports and customs, and (iii) a network of contacts with different users of logistics services. For example, handling cargo in thousands or even millions of twenty-foot equivalent units (TEUs) from the point of origin to the point of destination and ensuring that they reach the intended party is not an easy task. Behind the seemingly simple task of moving goods from source to destination is a myriad of interrelated tasks, some simple, others not-so-simple, that require efficient coordination, good information, and efficient management. Freight forwarders intending to engage in international forwarding need a good grasp of global export and import markets and a wide array of contacts and access to necessary information to facilitate transshipment of goods. Nesathurai (2003) sees logistics as dealing with geography, time and value. It is not just a matter of moving goods safely to their point of destination but also doing it in a timely fashion that brings value addition to the transported commodities. The process of moving commodities across boundaries from point of origin to point of destination is a complex task and has a number of stages involving many different types of people: purchasing managers, transportation managers, customs brokers, shippers and receivers.

Impacts of the measures

Maritime transport

Llanto et al (2005) describe that one of the immediate impacts of liberalization and deregulation on maritime transport is that the quality of passenger service in the primary and secondary routes in the early 2000s dramatically improved. The improvements were marked in the introduction of new amenities and facilities on board vessels, easier passenger accommodation and ticketing, and the enjoyment of fast craft ferries.

More recently, however, maritime transport performance indicators show that the number of firms decreased between 1999 and 2008 (Table 2). Total employment also decreased but productivity increased from Php1.09 million sales per employee to Php2.16 sales per employee. It may be the case that the number of firms decreased but at the same time labor productivity improved because the competitive pressure brought about by liberalization and deregulation drove away the inefficient firms.

Table 2. Selected indicators in the sea and coastal water transport industry
(value in thousand pesos)

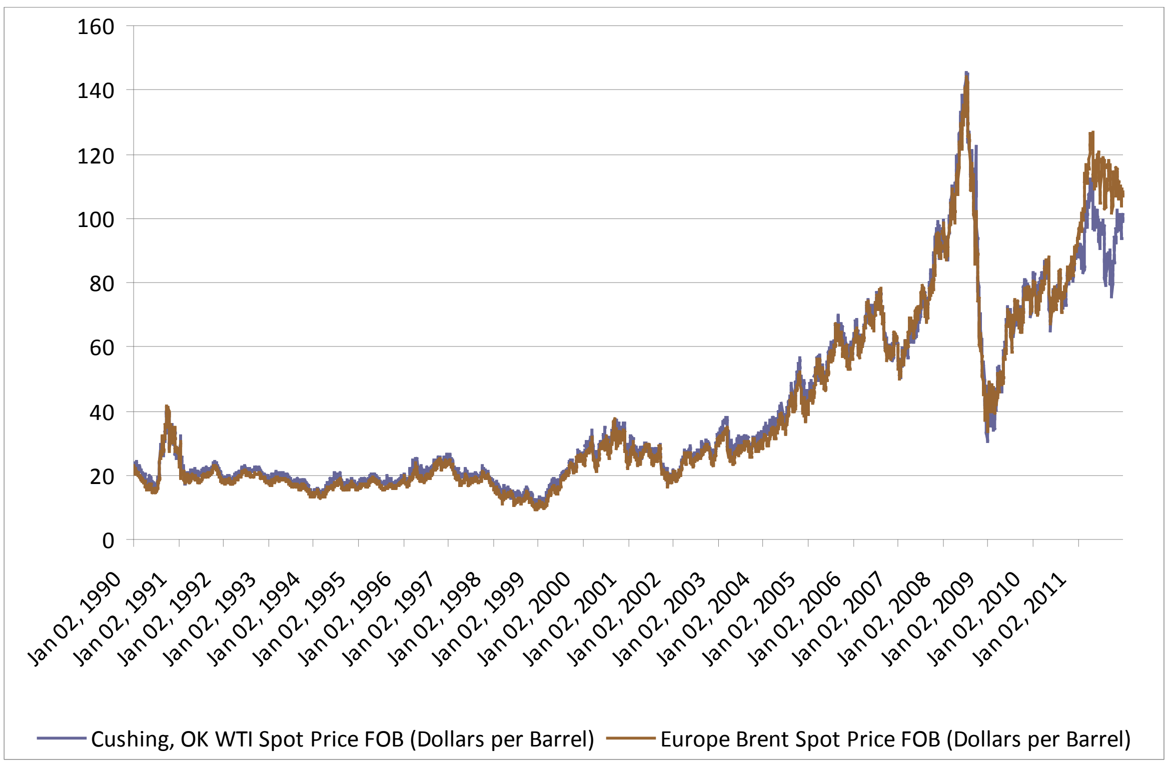
	1999	**2006**	**2008**
Number of Establishments	799	97	105
Total Employment	20,967	11,751	12,286
Sales	22,893,879	26,087,495	26,578,677
Sales/Employee	1,091.90	2,220.02	2,163.33
Cost	13,866,792	20,173,333	19,481,965
Sales/Cost	1.65	1.29	1.36
Gross Additions to Fixed Assets (GAFA)	875,026	765,182	3,328,571
GAFA/Establishment	1,095.15	7,888.47	31,700.68

Note: Details may not add up to totals due to rounding; peso values are in real terms using 2000 prices.
n.a. – not available

Sources: 2000 and 2006 *Census of Philippine Business and Industry*
2008 *Annual Survey of Philippine Business and Industry*

Profitability also decreased, given that sales-cost ratio in 1999 was 1.65 whereas it was 1.36 in 2008. This happened despite the increase in average fixed investments per firm, from Php1.10 million in 1999 to Php31.70 million in 2008 (in real terms, 2000 prices). Please see Table 2.

It is difficult to attribute all of these changes as effects of the implementation of liberalization and deregulation measures. The profitability has declined despite the increase in fixed investment per firm and an increase in labor productivity. It is noted that an increase in labor productivity indicates increased efficiency in maritime transport. The recent decline in profitability probably captures the negative impacts of the oil price hikes in 2007-2008 (see Figure 3) and the global financial crisis in 2008. The domestic maritime transport industry is dependent on fossil fuel and has no alternative source of energy at the moment. Access to the capital markets to finance new investments and expansion of market share has also been constrained by the volatility in the financial markets brought about by the global financial crisis. Those firms in the domestic maritime transport industry that have learned how to deal with the ill effects of oil price hikes and volatility in the loan markets can take advantage of the increased fixed investments (capital investments) and improvements in labor productivity to grow their business amidst a more liberalized industry.



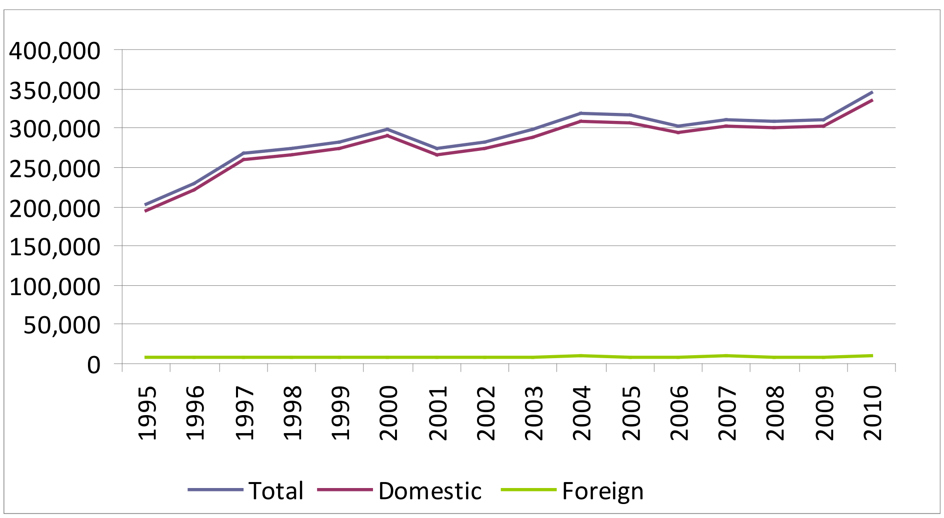
Source: US Energy Information Administration, www.eia.gov

Figure 3. Oil price movement in the international market

These exogenous shocks also impact on the restructuring of the market in response to a freer services liberalization environment and deregulation. What is notable at this point is that the maritime transport industry seems to be exerting great effort in making the necessary adjustment to stay competitive in a changing market.

Trends on the frequency of ship calls at Philippine ports and the volume of cargo handled at these ports suggest an overall positive impact on trade, but at the same time hints at slow growth in the domestic cargo. Figure 4 below shows that the number of shipcalls by domestically registered vessels steadily increased from 1995 to 2010. The number of shipcalls by foreign vessels, however, remained almost constant, probably because the Philippines is not a major destination of foreign vessels in the same way that Port Klang in Malaysia and the Port of Singapore are major transshipment hub for ASEAN. These two ASEAN ports also provide direct services to areas outside the ASEAN.

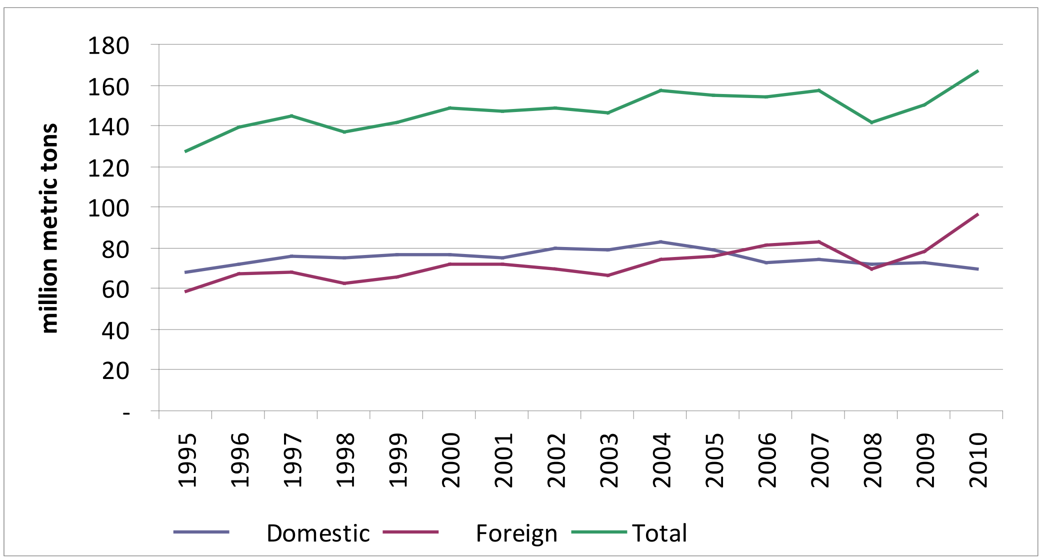
Figure 4. Ship calls (at berth), 1995-2010



Source: 2006-2010 *Philippine Statistical Yearbook*

Figure 5 below shows that total cargo throughput handled at Philippine ports generally increased from 1995 to 2010, with foreign cargo showing an uptrend in 2009-2010. However, domestic cargo throughput increased only slightly during the period; the 2010 volume was only 2.5 percent higher relative to the 1995 volume. Given the growing population and demand for domestically traded goods, this data should be interpreted with caution and should not be readily interpreted as an indication of slow growth in the domestic trade volume. More research should be done to uncover the reasons for this, but one possible explanation is that the burgeoning inter-island trade via roll-on-roll-off (RORO) ferries may have resulted in some cargoes escaping measurement by the port authorities, especially those no longer unloaded and handled by port stevedoring services but merely allowed to pass through via the trucks, buses or jeepneys carrying them. The measurement difficulty may have arisen from the fact that the shipping charges for these RORO cargoes primarily depend on the space (i.e., lane meters) they occupy in vessels rather than their weight.

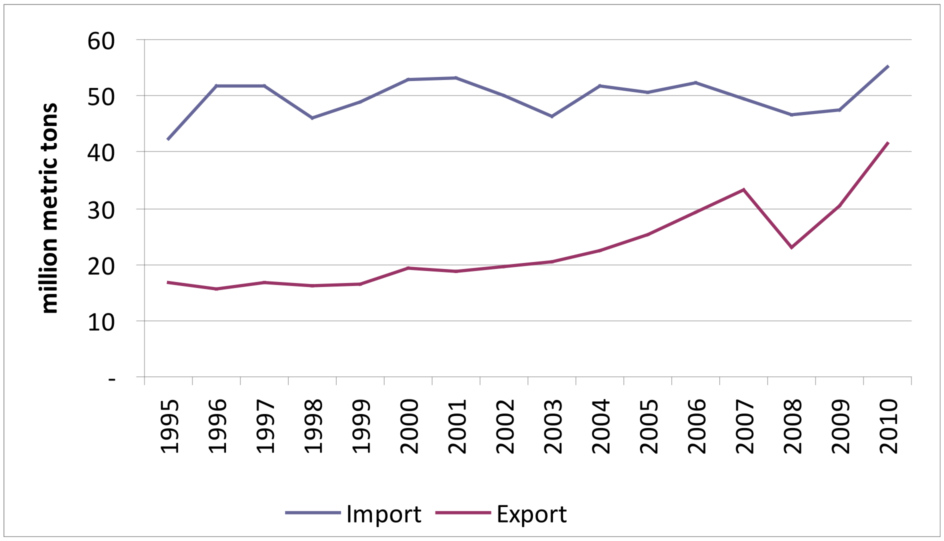
Figure 5. Cargo Shipping Volume, 1995-2010



Source: 2006-2010 *Philippine Statistical Yearbook*

Of the foreign cargo throughput handled at Philippine ports, imports exceeded exports in all the years 1995-2010 (see Figure 6). Both components show an uptrend in 2009-2010, with exports showing a higher growth. It seems that despite the weakening in the economies of the country's traditional trading partners, e.g. U.S., Japan, the economy has been able to exploit on the other hand the growing intra-ASEAN trade and trade with China.

Figure 6. Exports and imports shipping volume, 1995-2010



Source: 2006-2010 *Philippine Statistical Yearbook*

Modernization policies were also implemented together with liberalization policies and thus the impact on safety and standards should also be examined. The 2004 Domestic Shipping Development Act or RA 9295 mandated a re-fleeting program but the MARINA had a difficult time implementing this. MARINA attempted to phase out wooden hulled vessels but this move was met by resistance by the industry and the regulator realized that the phase out could only be implemented if domestic shipping firms find it easy to replace their wooden hulled vessels. Firms could not immediately shift to vessels with fiberglass or steel hulls, which are considered more safe and seaworthy, simply because domestic shipyards are not making them, and the cost of foreign steel hulled vessels could be prohibitive for the smaller domestic shipping firms. Thus, the modernization of the domestic fleet did not progress as planned, as partly indicated by Table 3 below which shows the ageing merchant fleet in years 1995-2010.

Table 3. Average age of the merchant fleet (in years)

	1995	2000	2005	2010
Merchant Fleet	11.61	12.91	15.69	15.18

Source: MARINA

As a sort of compromise, in the 2009 revised implementing rules and regulations of RA 9295 or the 2004 Domestic Shipping Development Act, MARINA did not ban per se the wooden hulled ships and instead, made it a policy that the retirement of wooden hulled vessels is to take place by instituting a maximum allowable age of 20 years. Then in 2011, MARINA issued Circular No. 2011-01 that sets standards on ship construction and aims to control the quality of wooden hulled ships and boats. This gives time to domestic shipping firms to make the necessary investments and adjust to a higher standard of safety imposed by the regulator.

Freight Forwarding

Philippine freight forwarders have a lengthy experience in the business. Over time, they have developed the expertise and sophistication in carrying out the multifarious tasks behind the logistics flow. As of 1999, there are 593 freight forwarding establishments with total employment of 16,104 (see Table 4). Over time, the inefficient firms exited from the industry for several reasons, e.g, inability to cope with the competition, impact of the 2008 global financial crisis, uncertainty brought about by volatile oil prices and other exogenous shocks. They are also affected by exogenous shocks and the uncertainty in trading markets brought about by a rather volatile environment in the late 2000s.

Table 4. Selected indicators in the freight forwarding industry
(value in thousand pesos)

	1999	**2006**	**2008**
Number of Establishments	593	n.a.	517
Total Employment	16,104		17,563
Sales	14,021,117		17,350,305
Sales/Employee	870.66		987.89
Cost	10,686,888		12,118,088
Sales/Cost	1.31		1.43

	1999	2006	2008
Gross Additions to Fixed Assets (GAFA)	456,662		344,382
GAFA/Establishment	770.09		666.12

Note: Details may not add up to totals due to rounding; peso values are in real terms using 2000 prices.

n.a. – not available

Sources: 2000 and 2006 *Census of Philippine Business and Industry*

2008 *Annual Survey of Philippine Business and Industry*

As of 2008, there are 517 freight forwarders with total employment of 17,563. Sales volume has increased from Php14.02 million to Php17.35 million in real terms (2000 prices). Productivity has also increased from Php 870,660 sales per employee in 1999 to Php 987,890 sales per employee in 2008. Profitability also slightly increased: sales-cost ratio increased from 1.31 in 1999 to 1.43 in 2008. Average investments per establishment, however, slightly decreased--gross additions to fixed assets per establishment in 1999 were Php 770,090 whereas in 2008, the figure is Php 666,120. Although services liberalization and facilitation may be reasons for the productivity and profitability improvements observed in the freight forwarding industry, this case study acknowledges that there are factors affecting their conduct and performance. With limited information and data on freight forwarding, we make the same conclusions as we did for maritime transport. It is difficult at this time to make a one-to-one correspondence between services trade liberalization and performance of freight forwarders in view of other determining factors. However, it cannot be denied that freight forwarders, which are well-informed about what is happening in domestic and foreign markets, respond to on-going changes in a dynamic market, including services trade liberalization. Making the necessary adjustments in industry structure, striving to improve performance and productivity, and developing appropriate strategies in a market that is becoming freer and more open are some of the impacts currently observed among freight forwarders.

3. Facilitating factors and barriers to service liberalization in freight forwarding

The freight forwarding businesses in the Philippines are aware of the keen competition ahead as the ASEAN economies integrate into one economic community. They have to deal with several issues that affect their performance and competitiveness. The following discussion analyzes the responses made by four freight forwarders who were interviewed on facilitating factors and barriers to liberalization in the region.

The freight forwarders are fully domestically-owned and are medium-sized companies, with employees numbering from 25 to 40. One respondent is categorized as a large company with 250 personnel. They have been in operation for a long period of time, ranging from 15 to 46 years. The largest firm has been in the business for the longest time at 46 years (Table 5). Two firms provide service delivery to other ASEAN member countries directly from the Philippines but can also operate through an agent. The other two provide service only through a subsidiary, sister company or agent. These are domestically-owned companies with experience in dealing with and exposure to other ASEAN countries.

Table 5. Characteristics of respondent firms (nature of ownership, firm size and years of operation)

	Firm 1	Firm 2	Firm 3	Firm 4
Nature of Ownership				
Fully Domestic Owned Firm	1	1	1	1
Fully Foreign Owned Firm				
Domestic-foreign joint venture firm				
Number of employees				
Micro (1-4)				
Small (5-19)				
Medium (20-99)	85	40		25
Large (=>100)			250	
Number of years in operation				
< 1 years				
1 - 5 years				
6 - 10 years				
11 - 20 years		19		15
> 20 years	27		46	

Without setting up a local operation in other ASEAN countries, all four freight forwarders seem unanimous in identifying certain barriers in delivering services as very important. The most important barrier is finding and engaging the appropriate local agent as identified by all four forwarders. This is understandable since it is the local agent that will represent the firms in other countries and will conduct the business on behalf of the firms. Finding the right agent and engaging him to serve the company are formidable but not insurmountable tasks. However, much effort has to be spent to find the right agent. The second most important barrier is the need to meet specific financial criteria and how to address discriminatory taxes on services delivered across the border. The matter of discriminatory taxes is a concern because there is nothing the firms can do about those taxes, which may not only distort the pricing of the firms' freight forwarding services but also lead to higher transaction costs that will erode the profitability of operating in those countries. Meeting restrictive labor legislation in the absence of mutual recognition arrangement for professional qualifications is a very important barrier for two firms while it is seen as only somewhat important by the other two firms (Table 6).

Table 6. Barriers in delivering services without setting up a local operation in other ASEAN countries

Barriers	Firm 1	Firm 2	Firm 3	Firm 4
Need to register with local professional body	1	1	3	3
Need to engage local agent	3	3	3	3
Need to meet specific financial criteria	3	3	2	3
Need to meet restrictive local labor legislation in absence of mutual recognition arrangement for professional qualifications	2	2	3	3
Need to address discriminatory taxes on services delivered across border	3	3	2	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

All firms regardless of size and years of operation identified the need to engage a local agent as a very important barrier in delivering services without setting up a local operation in other ASEAN countries. The medium-sized firms look at the following as very important barriers: need to engage a local agent, need to meet specific financial criteria, and need to address discriminatory taxes on services delivered across border. For the large firm the most important barriers are need to register with local professional body, need to engage a local agent, and the need to meet restrictive local labor legislation in absence of mutual recognition arrangement for professional qualification as very important barriers (Table 7).

Also in Table 7, the firms classified in terms of years of operation see as most important barriers the need to engage a local agent, need to meet specific financial criteria, need to meet restrictive local labor restriction in the absence of mutual recognition arrangement for professional qualifications, and need to address discriminatory taxes on services delivered across border. The need to register with a local professional body is seen as somewhat important.

Table 7. Barriers in delivering services without setting up a local operation in other ASEAN countries, by firm size and years of operation

Barriers	Firm size		Years of operation	
	Medium (20-99)	Large (=>100)	11 - 20 years	> 20 years
Need to register with local professional body	2	3	2	2
Need to engage local agent	3	3	3	3
Need to meet specific financial criteria	3	2	3	3
Need to meet restrictive local labor legislation in absence of mutual recognition arrangement for professional qualifications	2	3	3	3
Need to address discriminatory taxes on services delivered across border	3	2	3	3

Note: 1 - ‘Not important’; 2 - ‘Somewhat important’; 3 - ‘Very important’

Overall, when it comes to delivering services *without* setting up local operation in other ASEAN countries, the following are consistently cited as most important barriers: (a) need to engage local agent, (b) need to address discriminatory taxes and (c) need to meet specific financial criteria, regardless of firm size or years of operation.

When queried about setting up a local operation in other ASEAN countries, all freight forwarders identified the following as very important barriers: (a) need to obtain license from a professional body, (b) need to meet minimum capital requirements, (c) need to adhere to administrative and legal regulations in setting up a partnership, and (d) need to meet restrictive local labor employment regulations (Table 8). The need to address distinct requirements for branch operations and the need to overcome restrictive access to finance for foreign-owned firms come as the next most important barriers. A somewhat important barrier is the need to manage escalating cost due to inadequate supporting infrastructure. The firms are less concerned with infrastructure problems and consider as very important the legal and financial requirements and procedures for establishing an operation in another country, and of course the labor laws. Freight forwarders will normally establish their branches or representative offices in the capital cities in other ASEAN countries, which presumably have better infrastructure services than the rest of the country or countries concerned. Hence, they are not worried too much about inadequate supporting infrastructure.

Table 8. Barriers in setting up a local operation to deliver services in other ASEAN countries

Barriers	Firm 1	Firm 2	Firm 3	Firm 4
Need to obtain license from local professional body	3	3	3	3
Need to meet minimum capital requirements	3	3	3	3
Need to address distinct requirements for branch operations	3	3	3	2
Need to adhere to administrative/legal regulations in setting up a partnership	3	3	3	3
Need to meet restrictive local labor employment regulations	3	3	3	3
Need to overcome restrictive access to finance for foreign owned firms	3	3	3	2
Need to train local labor to provide services	3	3	1	3
Need to manage escalating cost due to inadequate supporting infrastructure	3	2	2	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

Grouped according to size, the medium-sized firms consider as very important barriers all those items identified in Table 9, namely, licensing and minimum capital requirements, local laws and various regulations, legal and financial requirements for setting up overseas operations, access to finance, training labor and inadequacies in infrastructure. The large firm sees as somewhat important the following: licensing and minimum capital requirements, requirements for branch operations, various regulations, including labor laws while the need for training local labor to provide services is not seen as important. Perhaps, the large firm feels able to recruit skilled labor in the foreign country where it will choose to operate. Inadequate infrastructure is a somewhat important barrier to the large firm.

Table 9. Barriers in setting up a local operation to deliver services in other ASEAN countries, by firm size and years of operation

Barriers	Firm size		Years of operation	
	Medium (20-99)	Large (=>100)	11 - 20 years	> 20 years
Need to obtain license from local professional body	3	3	3	3
Need to meet minimum capital requirements	3	3	3	3
Need to address distinct requirements for branch operations	3	3	3	3
Need to adhere to administrative/legal regulations in setting up a partnership	3	3	3	3
Need to meet restrictive local labor employment regulations	3	3	3	3
Need to overcome restrictive access to finance for foreign owned firms	3	3	3	3
Need to train local labor to provide services	3	1	3	2
Need to manage escalating cost due to inadequate supporting infrastructure	3	2	3	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

Categorized according to years of operation, firms regardless of length of period of operation are almost all unanimous in identifying the following as most important barriers in setting up a local operation to deliver services in other ASEAN countries: licensing and capitalization requirements, branch operations requirements, various regulations including labor laws, problems with access to finance faced by foreign-owned firms, and inadequate infrastructure. The need to train local labor to provide services is seen by the firm with the most number of years of operation as a somewhat important barrier (Table 9).

Overall, when it comes to *setting up* a local operation in other ASEAN countries, there seems to marginal differences in the barriers considered as very important by firms whether categorized according to size or years of operation. Establishing local operation in other ASEAN countries is more difficult than delivering services without setting up a local operation. In establishing a local operation, the most important barriers are the following: licensing and capitalization requirements, various local regulations including restrictive labor legislation, problem with access to finance.

The next set of barriers are those barriers in selling services which firms will confront once operation has been established in other ASEAN countries. Table 10 shows which barriers are considered 'most important', 'somewhat important', and 'not important'. The language barrier is not a most important barrier perhaps because English, the common business language is widely spoken and understood in the ASEAN countries, and thus, working in local language(s) is not seen as a serious problem. There are many items considered as most important barriers by all the firms: (a) need to account for differences in commercial practices, (b) need to adhere to restrictive legal systems and contracting procedures, and (c) need to manage delays in payment, e.g., banking practices and regulations. Failure to account for differences in commercial practices and making the necessary adjustments, and inability to deal with restrictive legal systems and contracting procedures increase the transaction cost of doing business while inability to manage delays in payment impacts negatively on cash flows, which are the lifeblood of the freight forwarding business.

The next set of most important barriers are need to accommodate local traditions while delivering services, need to adhere to planning and zoning restrictions in established market, and need to find creative solution to address inadequate protection of IPR. Failure to accommodate local traditions will support cultural biases against foreign-owned firms operating locally, while inability to adhere to local planning and zoning restrictions will bring the freight forwarders in direct collision with local officials, with disastrous effects on the business operation.

Table 10. Barriers encountered in selling services once operation has been established in other ASEAN countries

Barriers	Firm 1	Firm 2	Firm 3	Firm 4
Need to work in local language(s)	3	2	2	2
Need to accommodate local traditions while delivering services	3	3	3	2
Need to address national standards, testing and certification rules	3	3	3	1
Need to account for differences in commercial practices (e.g., commission for local agents)	3	3	3	3
Need to adhere to planning and zoning restrictions in established market	3	3	3	2
Need to have local track record to compete with local services providers	3	2	2	3
Need to compete with subsidized local services providers	3	2	3	3
Need to manage delays in payment (e.g., banking practices, regulations)	3	3	3	3
Need to adhere to restrictive legal systems and contracting procedures	3	3	3	3
Need to find creative solution to address inadequate protection of IPR	3	3	2	3
Need to manage lack of transparency, inconsistencies and/or confusion in regulations	3	3	3	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

Table 11 shows the categorization of different barriers to be encountered in selling services once local operation has been established in other ASEAN countries based on classification of firms according to size and years of operation.

Table 11. Barriers encountered in selling services once operation has been established in other ASEAN countries, by firm size and years of operation

Barriers	Firm size		Years of operation	
	Medium (20-99)	Large (=>100)	11 - 20 years	> 20 years
Need to work in local language(s)	2	2	2	2
Need to accommodate local traditions while delivering services	3	3	3	3
Need to address national standards, testing and certification rules	2	3	2	3
Need to account for differences in commercial practices (e.g., commission for local agents)	3	3	3	3
Need to adhere to planning and zoning restrictions in established market	3	3	3	3
Need to have local track record to compete with local services providers	3	2	3	2
Need to compete with subsidized local services providers	3	3	2	3
Need to manage delays in payment (e.g., banking practices, regulations)	3	3	3	3
Need to adhere to restrictive legal systems and contracting procedures	3	3	3	3
Need to find creative solution to address inadequate protection of IPR	3	2	3	2
Need to manage lack of transparency, inconsistencies and/or confusion in regulations	3	3	3	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

The large firm sees fewer barriers as 'most important' compared to medium-sized firms. The large firm considers as only somewhat important the following barriers: need to work in local language, need to have local track record to compete with local services providers, and need to find creative solution to address inadequate protection of IPR. The rest of the items enumerated in Table are barriers considered as most important by the large firm.

In contrast, medium-size firms don't' see as most important barrier the need to address national standards, testing and certification rules, which the large firm sees as very important barrier. Medium-sized firms don't consider either the need to find creative solution to address inadequate protection of IPR.

Categorized according to years of operation, the firms commonly see the following as most important barriers: (a) need to accommodate local traditions while delivering services, (b) need to account for differences in commercial practices, (c) need to adhere to planning and zoning restrictions in established markets, (d) need to manage delays in payment, and (e) need to adhere to restrictive legal systems and contracting procedures.

Table 11 shows the barriers encountered in selling services once operation has been established in other ASEAN countries according to country. It is noted that almost all the items identified as barriers are seen as 'most important' barriers except for need to work in local languages where it is not an important barrier in the Philippines and Singapore. The message conveyed by Table is that all ASEAN countries have to work hard to eliminate those very important barriers to services liberalization. The freight forwarders who will operate away from their countries of origin, their "comfort zones" consider the items in Table listed as most important barriers once their respective operation has been established in other ASEAN countries.

Several factors have prevented companies from pursuing trade in services whether by establishing a local operation or delivering services without setting up a local operation in other ASEAN countries. Tables 12 and 13 more or less say the same story. We note that most of the listed barriers that are considered as most important barriers, are namely: (a) lack of information on opportunities, (b) discrimination in favor of local services providers, and (c) discriminatory taxes on trade in services. The lack of appropriate information on business opportunities, bias against foreign service providers, and the unfair tax treatment of foreign service providers are important deterrents to the growth of trade in services in ASEAN countries.

Table 12. Barriers that had deterred the companies from pursuing trade in services in ASEAN earlier on

Barriers	Firm 1	Firm 2	Firm 3	Firm 4
Lack of information on opportunities	3	2	3	3
Restrictions on the type of legal entities	3	2	3	2

Restrictions on the number of services operations	3	2	2	3
Restrictions on the number of persons supplying services	3	2	3	2
Discrimination in favor of local services providers	3	2	3	3
Discrimination taxes on trade in services	3	2	3	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

Table 13. Barriers that had deterred the companies from pursuing trade in services in ASEAN earlier on, by firm size and years of operation

Barriers	Firm size		Years of operation	
	Medium (20-99)	Large (=>100)	11 - 20 years	> 20 years
Lack of information on opportunities	3	3	3	3
Restrictions on the type of legal entities	2	3	2	3
Restrictions on the number of services operations	3	2	3	3
Restrictions on the number of persons supplying services	2	3	2	3
Discrimination in favor of local services providers	3	3	3	3
Discrimination taxes on trade in services	3	3	3	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

Tables 14 and 15 report the firms' perception of the impact if the above-mentioned barriers are removed. Almost all firms believe that positive impact on linkages with local services production network, and increased utilization of information technology for services delivery, followed by improvement in quality and delivery of services, improvement of competitiveness and increased investments in new types of services, new markets and new service delivery methods will arise from the removal of those barriers.

Table 14. Potential impact for firms if the above barriers are removed

Impact	Firm 1	Firm 2	Firm 3	Firm 4
Improve the quality and delivery of services	3	3	2	3
Improve competitiveness through internal restructuring	3	3	2	3

Enhance linkages with local services production network	3	3	3	3
Increase the utilization of information technology for services delivery	3	3	3	3
Increase in investment to develop new services, markets, and/or delivery methods	3	3	2	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

Table 25. Potential impact for firms if the above barriers are removed, by firm size and years of operation

Impact	Firm size		Years of operation	
	Medium (20-99)	Large (=>100)	11 - 20 years	> 20 years
Improve the quality and delivery of services	3	2	3	3
Improve competitiveness through internal restructuring	3	2	3	3
Enhance linkages with local services production network	3	3	3	3
Increase the utilization of information technology for services delivery	3	3	3	3
Increase in investment to develop new services, markets, and/or delivery methods	3	2	3	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

Overall, firms are conscious of very important barriers to setting up a local operation in other ASEAN countries, and also of what barriers are most important when they have already started selling services in those countries. One set of barriers pertain to the establishment of a local operation, e.g., licensing and capitalization requirements, while the other set of barriers are those faced by firms once they have started operation in other countries, e.g., accounting for differences in commercial practices. The firms' perception of the most important barriers categorized by country shows that almost all barriers except for language (in two countries) are considered to be 'most important.' There are definitely very important barriers that deter firms from engaging in trade in services but the firms also think that the rewards awaiting them will be positive and significant, e.g., improvement in quality and delivery of services, once the barriers are removed. ASEAN countries are almost in the same footing in terms of barriers to be encountered in selling services once operation has been established in other countries. Given a choice, will the firms pursue trade in services once barriers are effectively removed or managed? The answer is likely to be 'yes' considering the potential benefits to firms once the identified barriers have been removed.

Table 16 identifies which desirable goals for reforming trade in services are most important to the firms. There is unanimity in saying that the most important goal is ensuring effective regulation to deal with market failure. This is followed by enhancing competition and contestability of markets. Market failure is something that private firms cannot and will not address by themselves and thus, government action to address it is certainly most important to them. Enhancing competition and contestability of markets are matters of public policy and firms will typically leave these issues to the government although the firms saw these as somewhat important goals. Attaining socio-economic objectives are seen as very important by four firms and as somewhat important by the other two firms.

Table 16. Desirable goals for reforming trade in services

Goals	Firm 1	Firm 2	Firm 3	Firm 4
Enhancing competition/contestability of markets	3	3	3	2
Ensuring effective regulation to deal with market failures (efficiency)	3	3	3	3
Attaining social/noneconomic objectives (equity)	3	3	2	2

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

The firms are unanimous in saying that market access negotiations are key to addressing the desirable goals for reforming trade in services. Unilateral reform and regulatory cooperation are also seen as most important mechanisms. This implies the need for closer collaboration and commitment of ASEAN countries in addressing important barriers to trade in services. Trade agreements that provide a mutually-beneficial package of interventions, e.g., mutual recognition for professional qualifications are very important vehicles for reform in trade in services.

Table 17. Mechanisms to address the desirable goals for reforming trade in services

Mechanism	Firm 1	Firm 2	Firm 3	Firm 4
Unilateral reform	3	3	2	
Market access negotiations (through the conclusion of trade agreements)	3	3	3	3
Regulatory cooperation	3	3	2	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

What will be the most important areas of focus under regional cooperation? The firms are unanimous in saying as most important areas of focus are (a) the review of national and regional policies, their impacts, and appropriate strategies for reform, and (b) improvement of the efficiency and competitiveness of ASEAN services. Firms are aware that gaining efficiency and competitiveness in services are their key not only to survival in a highly competitive world but also to sustained growth in the future. However, attaining efficiency and competitiveness in regional and global markets is to a large extent determined by the prevailing national and regional policies and interventions. Highly protectionist policies that are tolerant of inefficient firms constrain the attainment of the efficiency and competitiveness goals of firms (Table).

Table 18. Area of focus under regional cooperation

Area of focus	Firm 1	Firm 2	Firm 3	Firm 4
Review national/regional prevailing policies (or the lack of it), the effects/impacts of its implementation, and develop appropriate strateg(ies) for its reform	3	3	3	3
Enhance collaboration between regulators to expand market access opportunities (e.g., mode4 – movement of natural person)	3	3	2	3
Improve the efficiency and competitiveness of ASEAN services	3	3	3	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

In concrete, the most important activities to be undertaken for regional cooperation are the development of appropriate standards for professional services, and the organization of forums where various stakeholders can discuss political economy constraints to trade in services. Other important activities relate to establishing an effective framework for mutual recognition of professional and educational qualifications and licenses, information on services and policies, and other types of information, and performance, sharing of regulatory experiences,

Table 19. Activities to be undertaken under regional cooperation

Activities	Firm 1	Firm 2	Firm 3	Firm 4
Compile information on services policies and its performance	3	3	3	2
Develop appropriate standards for professional services	3	3	3	3
Establish framework for the recognition of licenses and professional/educational qualifications	3	3	3	2
Enhance knowledge of regulatory experiences and impacts in other countries	3	3	2	3
Disseminate information on underlying factors for successful expansion of trade in services	3	3	2	2
Generate information on complementary policies which could be used to address market failures	3	3	3	2
Organize forum to bring together officials, regulators and service providers to discuss ways of addressing political economy constraints that impede trade in services	3	3	3	3

Note: 1 - 'Not important'; 2 - 'Somewhat important'; 3 - 'Very important'

3. Concluding Remarks and Policy Implication

Liberalization and deregulation efforts in the Philippine maritime transport industry are already heading into the direction of greater participation in ASEAN economic integration even though the AEC measures have not yet been formally sanctioned by all members. The concrete steps taken by the Philippines in this regard are remarkable given that the Philippine maritime transport industry has a history of monopoly in maritime routes, strong lobby by pressure groups, and highly regulated shipping rates behind it. Since the late 1980s the government has seen the need to give domestic consumers better and safe maritime transport services by introducing competition, that is, by liberalizing shipping route entry and exit and letting the market determine passenger and freight rates. However, it is noted that the modernization of the domestic shipping fleet has been slow in coming, while the implementation of safety standards on ageing ships has to be strengthened and properly executed. A key factor in failure to accelerate the development of a more competitive and modern domestic shipping industry is the continuing dominance of a few large firms. This is largely explained by the lack of effective competition from other potential providers. The cabotage principle has only served as a protectionist instrument to support an industry that exhibits oligarchic behavior.

With very limited data, the paper tried to trace the impacts of the liberalization and deregulation in the maritime transport industry and corresponding impact on other players in the logistics supply chain. It is worth noting that the industry is responding to the changes in a positive way notwithstanding its characterization as a concentrated industry dominated by a few domestic firms. Firms have become more innovative in offering quality service to consumers such as better passenger accommodation, improved ticketing system and availability of fast craft ferries. The productivity of firms also increased despite the difficulties posed by external shocks such as the oil price shocks of 2007-2008 and the financial crisis in the late 2000s. A more definitive understanding of impacts is desired but this (future) undertaking has to first procure much better and more detailed data, e.g., a survey of shipping firms, and other players in the logistics supply chain.

The same thing can be said of the freight forwarding industry: even though the AEC measures are not yet fully sanctioned, freight forwarders also seem to respond positively to a more competitive environment in the sense that productivity and profitability increased despite the exogenous shocks. Freight forwarders seem to be engaged in a growth sector with lots of value addition to users of the service, and also generation of employment.

Moreover, freight forwarders, at least those surveyed for this study, equip themselves with information on how to adjust to a more liberalized and integrated environment. They are aware of the changes to be brought about by the AEC measures when they are fully implemented and they also have a good idea of the challenges they will face when they decide to locate in an ASEAN member-country, e.g., differences in commercial practices, legal systems and contracting procedures. They also understand the adjustments that they have to make to enable them to deliver service without the need to locate in an ASEAN member-country, e.g., the need to engage a local agent, address discriminatory taxes, and meet specific local financial criteria.

In terms of policy implication, these positive industry developments point to a stronger support to services trade liberalization and economic integration in the ASEAN and a sense of urgency to approve and implement AEC measures, but of course with the usual caveat that local laws and rules should be considered. Moreover, assuming that the productivity and efficiency improvements in the maritime transport and freight forwarding services are passed on to consumers in the form of better services, the ability to choose suppliers and reasonable and market-based pricing, the positive response by the industry players would have positive consumer welfare effects. There is as yet no reason to suppose otherwise since most of the time, consumers welcome the innovations, greater freedom of choice and market-based pricing that competition brings.

The way forward involves continuing the market-oriented reforms especially liberalization of trade in services, while ensuring a healthy balancing of domestic industry interests with the requirements of economic regional integration. In the case of the issue of lifting cabotage, for example, no definitive study has yet established that the enforcement of cabotage in the Philippines is constraining the competitiveness of the domestic maritime transport industry and raises the cost of doing business in the country. A study of this kind may soften the stance of industry players who oppose the lifting of the cabotage rule. The enforcement of safety and high standards of performance are key issues for the modernization and competitiveness of the maritime transport industry. Policy makers have to solve a seeming puzzle presented by this industry. Despite the array of investment incentives provided by the 2004 Domestic Shipping Development Act, and the availability of long-term financing with government financial institutions, the domestic shipping industry has not kept pace with the demands of modernization. Part of the solution may lie in greater political commitment to the AEC requirement of more liberalization and deregulation in this sector, which will compel domestic action.

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