DIGITAL TRADE INTEGRATION OF THE PHILIPPINES WITH ASIA AND THE PACIFIC

UNITED NATIONS
ESCAP
Economic and Social Commission for Asia and the Pacific

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

The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations' regional hub for promoting cooperation among countries to achieve inclusive and sustainable development. The largest regional intergovernmental platform with 53 member States and 9 associate members, ESCAP has emerged as a strong regional think-tank offering countries sound analytical products that shed light on the evolving economic, social and environmental dynamics of the region. The Commission's strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which it does by reinforcing and deepening regional cooperation and integration to advance connectivity, financial cooperation and market integration. ESCAP's research and analysis, coupled with its policy advisory services, capacity-building and technical assistance to governments, aims to support the sustainable and inclusive development ambitions of countries.

Copyright © United Nations 2021
All rights reserved

The report is available at:

Disclaimers:
The designations employed and the presentation of the material in the report do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The United Nations bears no responsibility for the availability or functionality of URLs.

Opinion, figures and estimates set forth in this publication are the responsibility of the authors and should not necessarily be considered as reflecting the views or carrying the endorsement of the United Nations. Any errors are the responsibility of the authors. Mention of firm names and commercial products does not imply the endorsement of the United Nations.

This report has been issued without formal editing.

DIGITAL TRADE INTEGRATION OF THE PHILIPPINES WITH ASIA AND THE PACIFIC

UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

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

Acknowledgements

This ESCAP-PIDS report is part of the 11th Tranche of the Development Account on Measuring, monitoring and improving performance in regional integration within ECA, ESCWA and ESCAP regions. Under overall guidance of Yann Duval, Officer-in-Charge, Trade, Investment and Innovation Division of ESCAP, and section Chief, Trade Policy and Facilitation Section, and supervision of Witada Anukoonwattaka, Economic Affairs Officer and project manager, this report was prepared by the researchers of the Philippine Institute for Development Studies (PIDS), led by Francis Mark A. Quimba. The PIDS researchers that prepared this report include Sylwyn C. Calizo Jr., Jean Clarisse T. Carlos and Jose Ramon G. Albert.[1] The researchers are grateful to Martina Ferracane, European University Institute, for providing technical guidance and comments during the preparation of this report. The report is also benefited from inputs and comments received from national consultation meetings with several governments and non-government entities and experts in Philippines.

[1] Francis Mark A. Quimba, Sylwyn C. Calizo Jr., Jean Clarisse T. Carlos and Jose Ramon G. Albert is Senior Research Fellow, Research Specialist, Project Evaluation Officer III (Philippine APEC Study Center Network), and Senior Research Fellow, respectively, from the Philippine Institute for Development Studies (PIDS).

Abstract

This study assessed the Philippines' readiness for regional digital trade integration with the Asia-Pacific by using the Regional Digital Trade Integration Index (RDTII) framework to provide an analytical overview of the Philippines' digital trade policy and regulatory environment. Using the RDTII framework, the Philippines reported an overall RDTII score of 0.342 in 2020, which rates the country as having a relatively open digital trade environment. In the same year, the Philippines performed best in three pillars, particularly: pillar 1 (tariffs and trade defense measures); pillar 6 (cross-border data policies); and, pillar 8 (intermediary liability and content access). All of these three pillars scored less than 0.200, thus, indicating a non-restrictive policy and regulatory environment. In contrast, the Philippines performed worst in three pillars, namely: pillar 2 (public procurement); pillar 3 (foreign direct investment); and, pillar 5 (telecommunications infrastructure and competition). These three pillars reported a score of above 0.610, so these pillars were characterized with having a strongly restrictive policy and regulatory environment. Meanwhile, the Philippines was found to be slightly restrictive in intellectual property rights (pillar 4), domestic policies on the use of data (pillar 7), quantitative trade restrictions (pillar 9), standards (pillar 10), and online sales and transactions (pillar 11), which all received a score ranging from 0.210-0.400. This study finds that the Philippines generally has an open policy environment for digital trade, which suggests that it is ready for digital trade integration with the region. However, the proper implementation of some of these policies has not been fully achieved, and this could be a great obstacle or challenge to regional integration.

Keywords: digital economy, regional integration, digital trade, Philippines, RDTII, regional digital trade integration index

Executive summary

- ***Digitalization is quickly transforming the global economy.*** The rapid advancement of new technology encouraged the formation of a borderless world, but this progress also gave rise to new and highly complex digital issues. For instance, economies can face issues on handling cross-border data flows, enforcing Intellectual Property Rights (IPR), and protecting consumer welfare, among others. These issues are not only domestic concerns but also regional as well, which is why cooperation between and among economies is important.

- ***In fact, economies already recognized the need to cooperate about these new issues, and this manifests in regional trade agreements becoming deeper.*** The scope of regional trade agreements already expanded to cover not only trade but also emerging issues, such as the environment, foreign investments, and cross-border data flows, to name a few. In the Asia-Pacific, for instance, both the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) are primary examples of deep regional trade agreements. These deep trade agreements are important because these helps to integrate economies – something that is important for a borderless digital world.

- ***Based on the United Nations Economic and Social Commission for Asia and the Pacific's (UNESCAP) Regional Digital Trade Integration Index (RDTII),[2] the Philippines can be described as having a relatively open digital trade environment.*** The Philippines' overall score was computed as 0.342 in 2020, which is an improvement from the more restrictive 0.351 score in 2018. Moreover, the Philippines ranked as the ninth least restrictive economy from among all the 22 Asia-Pacific economies that were assessed[3] in 2020 and has also performed slightly better against the Asia-Pacific regional average of 0.420 during the same year.

- ***In 2020, the Philippines performed best in three pillars, particularly: pillar 1 (tariffs and trade defense measures); pillar 6 (cross-border data policies); and, pillar 8 (intermediary liability and content access).*** All of these three pillars scored less than 0.200, thus, indicating a non-restrictive policy and regulatory environment.

- ***In contrast, the Philippines performed worst in three pillars, namely: pillar 2 (public procurement); pillar 3 (foreign direct investment); and, pillar 5 (telecommunications infrastructure and competition).*** These three pillars reported a score of above 0.610, so these pillars were characterized with having a strongly restrictive policy and regulatory environment.

- ***Meanwhile, other pillars were characterized as being slightly restrictive.*** In particular, these other pillars cover issues on intellectual property rights (pillar 4), domestic policies on the use of data (pillar 7), quantitative trade restrictions (pillar 9), standards

---

[2] For more information about UNESCAP's RDTII, see: https://www.unescap.org/projects/dtra. Accessed on 01 June 2021.

[3] As of 02 May 2021, the 22 Asia-Pacific economies are: Australia; Brunei Darussalam; Cambodia; China; Hong Kong (China); Indonesia; India; Japan; Kazakhstan; Lao PDR; Malaysia; Nepal; New Zealand; Pakistan; the Philippines; the Republic of Korea; Thailand; Turkey; Vanuatu; and, Viet Nam.

(pillar 10), and online sales and transactions (pillar 11), which all received a score ranging from 0.210-0.400.

- ***Perhaps the best factor strengthening the Philippines' position to integrate itself with the Asia-Pacific is its exceptionally low tariffs (pillar 1) that synergizes well with having only slightly restrictive Non-Tariff measures (NTMs) being imposed (pillars 9 and 10) on digital goods.*** Effectively applied tariff rates on digital goods imported from the Asia-Pacific was reported at just 0.09 per cent in 2019 and the coverage rate of duty-free tariff lines reached a high of 92.3 per cent during the same year. The Philippines, however, faces two issues on NTMs: first is that the trade of dual-use strategic goods (e.g., electronics, computers, and telecoms of a specified technical standards) have become highly regulated since October 2020; and, second is that the Philippines does not recognize enterprises' self-certification for product safety. These two issues prevent the Philippines from further reducing trade barriers for the trade of digital goods.

- ***Another factor strengthening the Philippines' position is its continuous improvement on IPR enforcement (pillar 4) that complements the country's liberal access to online content (pillar 8).*** The protection of IPR is a key factor enabling growth in the digital economy. Thus, it is important that policies form a conducive environment that protects IPR. On this aspect, the Philippines has scored 0.289 in 2015, which improved to 0.274 in 2018 and improved further to 0.271 in 2020. The Philippines' IPR performance is a promising indicator because IPR enforcement is an important part of the digital economy as digital sectors are dramatically producing and distributing information-driven products and services, including digital creative products. However, IPR could be rendered irrelevant if online content cannot be accessed in the first place. Fortunately, the Philippines enjoys a non-restrictive policy and regulatory environment on this matter since consumers are free to access online content and license schemes are non-discriminatory albeit the country could face some challenges because of its content-specific safe harbor provisions.

- ***Another key strength is the Philippines' strong policies on data (pillars 6 and 7)***. On this aspect, the Philippines has been performing well on both cross-border data policies (pillar 6) and on domestic policies on the use of data (pillar 7). In 2020, the Philippines scored 0.100 on the former and 0.363 on the latter. These scores can be considered low, suggesting that existing data policies, especially the Data Privacy Act of 2012, are strong enough to create a conducive environment for regional digital trade integration. However, the Philippines' strong policies on data could also increase trade costs. For instance, Philippine laws require minimum data retention requirements on certain contents and hiring data protection officers.

- ***However, foreign equity limitations (pillar 3) possibly banning foreign equity on some electronic commerce and electronic retailing is a major challenge to the Philippines' digital trade integration with the Asia-Pacific.*** The Philippines has consistently imposed strong restrictions on foreign direct investments in sectors relevant for digital trade. Since 2015, the Philippines' performance for pillar 3 has scored a high of 0.625. The strongest restriction is felt by retail trade enterprises with paid-up capital of less than US$2.5 million since this sector is prohibited from having any foreign equity. In certain circumstances, foreign equity on electronic commerce can also be prohibited. For example, leasing and subleasing advertising space or operating an online voucher platform intended to increase the sales of a particular product or service can both be considered as mass media activities, thereby prohibiting any foreign equity for these business activities. Electronic commerce represents an important part of digital trade, which means that bans on foreign investment can impede the digital economy's growth, thereby making digital trade integration difficult.

- ***Another major challenge to the Philippines is its highly discouraging policies affecting foreign bidders' participation to public procurement (pillar 2).*** The Philippines' performance on public procurement related to digital goods and services has been relatively high since 2015 where the score was 0.745. This worsened in 2018 when the score slightly rose to 0.751 owing to a lower 2016 Network Readiness Index (NRI) score for government procurement of advanced technology products (relative to the 2015 NRI score). No score changes were reported since 2018. While foreign bidders are permitted to participate in public procurement, there are certain policies that are either highly restrictive or discouraging. For instance, foreign consultants are required to transfer their technology and knowledge in order to be hired under public procurement. Foreign bidders also participate at a disadvantage because of domestic preference and foreign equity restrictions. This suggests that public procurement for digital goods and services are skewed towards domestic bidders, which may have an adverse effect on competition.

- ***Strong barriers to entry also restrict the Philippine telecommunications sector (pillar 5) from growing, thereby undermining an important part of the digital economy.*** Public utilities are highly regulated in the Philippines and this includes the telecommunications sector. In 2015, the Philippines reported a pillar 5 score of 0.604 on telecommunications infrastructure and competition. This worsened in 2018 when the score slightly rose to 0.620 because of a lower 2016 NRI score for infrastructure relative to the 2015 NRI score. The telecommunications sector serves as the bedrock of the digital economy, so the sector's performance affects multiple industries. Despite the telecommunications sector already having been deregulated in 1995, barriers to entry form an ill-conducive environment for the sector's growth. For instance, Public Telecommunications Entities[4] need to secure a legislative franchise from Congress and a Certificate of Public Convenience and Necessity from the National Telecommunications Commission before they are allowed to operate. In addition, the lack of local loop unbundling poses high infrastructure costs for new entrants.

- ***The infrastructure gap on both Information and Communications Technology (ICT)***

预览已结束，完整报告链接和二维码如下：
https://www.yunbaogao.cn/report/index/report?reportId=5_415