

Final Report  
Volume IV : Sector Report 2

**TRADE**

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### **3. TRADE**

#### **3.1 Existing Conditions of Trade and Related Services**

##### **3.1.1 Government institutions, policies and plans**

###### **(1) Government institutions**

###### Department of Trade and Industry

The Department of Trade and Industry (DTI) is in charge of promoting an economic and business environment conducive to the birth and growth of enterprises, and supportive of a fair and robust trade of goods and services both from and within the Philippines.

###### Department of Transportation

The Department of Transportation provides statistical data on transport-related infrastructure and their operations that are necessary in policy formulation and economic planning. This information includes such variables as the carrying capacity of the nations fleet of land, water, and air conveyance, extent of the road system, distribution and customer-attending capacity of its air and seaport works, and the information/message-handling capacity of its postal and communication networks.

###### **(2) Government policies and plans**

There exist no comprehensive policies for the services sector as a whole. In the Medium Term Philippine Development Plan (1993-1998), policies related to various services sectors are presented in different sectors such as the fiscal sector for financial services, the external sector for international trade, and the infrastructure sector for freight services as well as economic sectors including tourism.

Emphasis of the Plan on sustainable agricultural development, however, implies the importance of the services sector, because various services activities are linking factors between agriculture and industry. The services sector as a whole is expected to grow at 7.7% per annum during the Plan period. It is regarded as a major generator of employment opportunities, a key of enhancing international competitiveness of industry serving small and medium enterprises as well, and environmentally sound links between agriculture and industry and between producers and consumers.

A general policy direction for the services sector is toward deregulation and encouragement of the private sector initiatives. This is reflected, among others, in liberalization of interest rates, elimination of quantitative import restrictions and reduction tariff rates, and deregulation of the transport industry.

### 3.1.2 Services sector establishments

#### (1) Overview of the services sector

Of all the employment in the Philippines, 39% or 24 million people engage in the services sector producing 43% of GDP in 1992. During the 1970s and the 1980s, retail trade had absorbed surplus labor and increased its share in the total employment (Tables 3.1 and 3.2).

**Table 3.1 Number of Employed Persons in Services Sector (thousand)**

	1970	1975	1980	1985	1990	1991	1992
Number of employed persons	11,358	14,518	16,434	19,801	22,532	22,979	23,917
	100%	100%	100%	100%	100%	100%	100%
Service sector	3,198	4,504	5,421	7,292	8,946	8,882	9,210
	28%	31%	33%	37%	40%	39%	39%
Wholesale and retail trade	838	1,623	1,660	2,611	3,145	3,172	3,283
	7%	11%	10%	13%	14%	14%	14%
Transportation, storage & communication	498	492	732	931	1,137	1,143	1,221
	4%	3%	4%	5%	5%	5%	5%
Financing, insurance, real estate & business services	1,862	2,389	3,029	342	444	451	452
	16%	16%	18%	2%	2%	2%	2%
Community, social & personal services				3,408	4,220	4,116	4,254
				17%	19%	18%	18%

Source: Philippine Statistical Yearbook

**Table 3.2 Gross Domestic Products of Service Sector (million pesos)**

	1980	1985	1990	1991	1992
GDP	609,768	571,883	718,069	712,316	710,396
	100%	100%	100%	100%	100%
Service Sector	219,414	230,781	301,787	303,133	302,312
	36%	40%	42%	43%	43%
Wholesale and retail trade	79,335	82,835	104,807	105,920	104,439
	13%	14%	15%	15%	15%
Transportation, storage & communication	29,175	31,666	41,108	41,291	41,997
	5%	6%	6%	6%	6%
Financing & real estate	55,658	49,255	70,114	69,356	69,751
	9%	9%	10%	10%	10%
Private services	29,896	39,121	49,353	49,273	49,511
	5%	7%	7%	7%	7%
Government services	25,350	27,904	36,405	37,293	36,574
	4%	5%	5%	5%	5%

Source: Philippine Statistical Yearbook

Region III has a slightly higher percentage of its service sector than the national average. Metro Manila that supposedly works as a part of the distribution system of Region III, shows noticeably a high percentage for the sector (Table 3.3).

**Table 3.3 Number of Employed Persons in Service Sector in 1992**

	Philippines	NCR	Region III
Number of employed persons	23,917 100%	2,905 100%	2,215 100%
Service industries total	9,210 39%	2,030 70%	991 45%
Wholesale and retail trade	3,283 14%	619 21%	341 15%
Transportation, storage & communication	1,221 5%	258 9%	157 7%
Financing, insurance, real estate & business services	452 2%	199 7%	50 2%
Community, social & personal service	4,254 18%	954 33%	443 20%

Source: Philippine Statistical Yearbook

(2) Services sector in Central Luzon

Angeles and Olongapo had been heavily dependent on service industries catering for the US bases. Since the withdrawal of the bases, economy of both cities had stagnated.

The number of registered banks is an indicator that shows commercial activities taken place in a region. Following table shows that concentrations of banks are observed in San Fernando-Angeles, Olongapo, Cabanatuan and Tarlac. Although a center is lacking, Bulacan province has 46 banks, which is only next to Pampanga having 50 banks (Table 3.4).

**Table 3.4 Distribution of Commercial Banks in Central Luzon in 1992**

Zambales	17	Tarlac	21	Bulacan	46	Nueva Ecija	36
Olongapo	13	Tarlac	13	Baliuag	12	Cabanatuan	17
Iba	2	Camiling	3	Balagtas	7	Gapan	7
Sta. Cruz	2	Paniqui	3	Malolos	6	Guimba	3
Bataan	12	Concepcion	2	Maycauayan	6	Muñoz	3
Balanga	6	Pampanga	50	Marilao	5	San Jose	5
Limay	2	San Fernando	21	Sta. Maria	5	Talavera	1
Mariveles	2	Angeles	20	Bocaue	2		
Orani	1	Guagua	7	Plaridel	2		
Orion	1	St. Tomas	1	Hagonoy	1		
		Macabebe	1				

Source: Central Bank of the Philippines

(3) Distribution system in Central Luzon

The distribution system in the Philippines is characterized by high percentage of petty retailers typically represented by sari-sari stores and street vendors. In the 1970s and 1980s, this type of retail trade absorbed surplus labor force, resulting in the decrease in GDP per employment as shown in Table 3.5.

**Table 3.5 GDP per Employment in the Philippines**

	1980	1985	1990	1991	1992
GDP in trade (000,000)	79,335	82,835	104,807	105,920	104,439
Employment in trade (000)	1,660	2,611	3,145	3,172	3,283
GDP/Employment (000)	47.8	31.7	33.3	33.4	31.8

Source: Philippine Statistical Yearbook

Goods tend to be delivered directly to major retailers such as supermarkets through middlemen or by producers themselves. For small retailers, supermarkets work as if they are wholesalers from the lack of an appropriate distribution channel. Interviews with retailers in Region III show that considerable part of the commodities sold in the region is bought and delivered from the Divisoria market in Metro Manila by retailers themselves in small quantities.

W/R ratio is an indicator that shows the importance of wholesalers in a distribution system. Low W/R ratio of the Philippines compared to major countries as shown in Table 3.6 proves the observation stated above.

**Table 3.6 International Comparison of Wholesale/Retail Ratio**

	W/R ratio
Philippines	1.22
France	1.57
USA	1.87
Germany	1.95
UK	2.03
Japan	4.21

$$\text{W/R ratio} = \frac{\text{Sales amount of wholesalers}}{\text{Sales amount of retailers}}$$

Source: Philippine Statistical Yearbook, Nikkei Newspaper

W/R ratio in Region III is as low as 0.34, while that of National Capitol Region is 1.45 (Table 3.7). Though it suggests that Metro Manila provides wholesale function for Region III to some extent, immaturity of wholesale trade in the region seems to be evident.

A simpler distribution system may seem to mean lower prices for consumers. However, it makes difficult for small and medium sized establishments to access national market since they have to arrange their market channel and transportation by themselves, which results in high prices for consumers. Also, the insufficient market channel hinders producers to obtain market information to improve their products.

**Table 3.7 Sales by Wholesale and Retail Trade and W/R Ratio**

	Wholesale	Retail	W/R ratio
National Total	128,220	105,130	1.22
National Capital Region	81,813	56,357	1.45
Cordillera Autonomous Region	269	1,707	0.16
I. Ilocos	2,986	2,835	1.05
II. Cagayan Valley	1,258	1,595	0.79
<b>III. Central Luzon</b>	<b>2,441</b>	<b>7,146</b>	<b>0.34</b>
IV. Southern Tagalog	3,279	6,526	0.50
V. Bicol	2,286	1,570	1.46
VI. Western Visayas	7,613	5,583	1.36
VII. Central Visayas	8,940	6,437	1.39
VIII. Eastern Visayas	1,143	1,290	0.89
IX. Western Mindanao	2,453	2,485	0.99
X. Northern Mindanao	3,015	3,268	0.92
XI. Southern Mindanao	6,634	5,994	1.11
XII. Central Mindanao	2,689	2,338	1.15

Source: Census of Establishments 1988

### 3.2 Issued and Prospects for Trade and Related Services

Characteristics of the trade and related services sector in Central Luzon represent both issues to be addressed for the regional development and prospects of the sector. They may be summarized as follows.

(1) Lack of specialization within the distribution system

As the low W/R ratio indicates, wholesalers are not properly separated from retailers. This constrains the efficiency and performance of the distribution system in Central Luzon. Insufficient performance of wholesalers makes a barrier for small and medium sized establishments to access the national level market.

(2) Insufficient distribution system for SMEs

Distribution system is more important for small and medium sized enterprises (SMEs) than large enterprises as it helps to reduce a marketing cost when individual establishments lack in scale economy. Many of small and medium sized enterprises in Region III have to prepare transportation and market channels by themselves, which increases their production costs. A wholesale function that feeds back market needs to producers and could organize them to produce the needed product, is also insufficient.

(3) Poor linkage between tourism and other sector

As discussed in the tourism sector report, Central Luzon lacks in resort areas where various tourism-related establishments compose a resort community. As resort hotels tend to enclose their guests within their hotel sites, linkages between tourism and other commercial

establishments such as restaurants and souvenir shops are very poor. It is also against the tourists needs that require more lively resort communities.

(4) **Decline of service establishments in former US base towns**

Local economies of Angeles and Olongapo had been heavily dependent on the US bases and since the withdrawal of the bases, shopping and amusement districts of both cities have declined. Some parts of the districts are abandoned and need redevelopment with a new development concept.

(5) **Increasing service demand from industrial development**

Foreign investments in Subic Bay Free Port Zone as well as Clark Field will expand demands for service industries such as tourism, convention and conference, restaurant, entertainment, commerce and various services.

### **3.3 Strategy for Trade and Related Services**

(1) **Specialization and diversification in the distribution system**

The trade and transportation establishments and organizations that take part in the distribution system in Central Luzon need more diversification of, and specialization in roles in the system to increase efficiency and to reduce marketing costs for the producers in the region. It is the small and medium sized establishments that need a more efficient distribution system as they lack in scale economy to prepare distribution channels by themselves. This would be essential in fostering small and medium sized establishments in line with the developments strategy for Central Luzon Development Program.

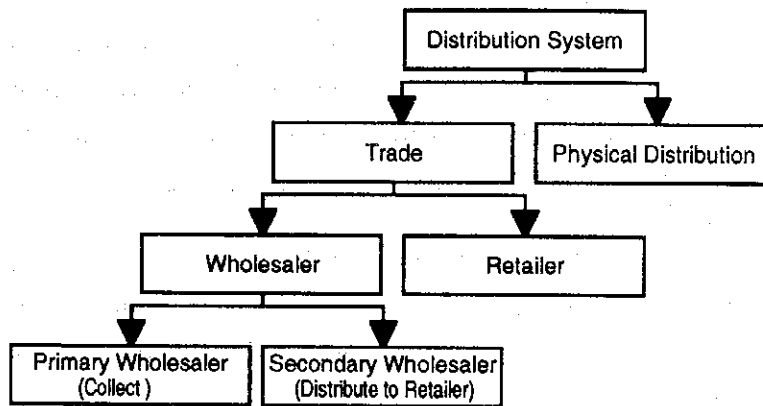
To increase efficiency, the distribution process needs to be diversified as follows.

- Producer
- Primary Wholesaler (collector )
- Secondary Wholesaler (distributor to retailers)
- Retailer
- Consumer

As shown in Figure 3.1, the process assumes the separation of retailers from wholesalers, and primary wholesalers or primary wholesale function that gather products, from secondary wholesalers that distribute products to retailers. Metro Manila needs separation of physical distribution from trade in order to alleviate its traffic congestion as well as to improve the efficiency of physical distribution. Central Luzon is expected to undertake a part of the physical distribution of Metro Manila.



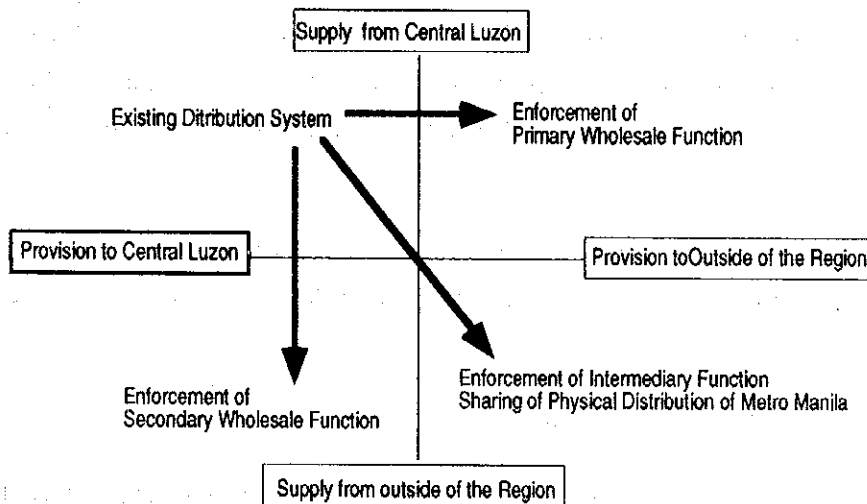
**Figure 3.1 Functions in the Distribution System**



Source: JICA Study Team

Figure 3.2 shows the current position and the future directions for the distribution system in Central Luzon. Commercial establishments in Central Luzon currently tend to sell products from Central Luzon to those in the same region. They should reinforce the capability to get supply from outside of the region, and to sell products to the outside market. More specifically, reinforcement of wholesale function, both primary and secondary, and physical distribution that supplements Metro Manila would be vital for the future development.

**Figure 3.2 Concept for Specialization**



Source: JICA Study Team

(2) Primary wholesale function in Central Luzon

The primary wholesale function is to collect products or products information and to find buyers that need the products, and to feed back market information to producers. Central Luzon has very limited capability for the function as the low W/R ratio indicates, and needs to strengthen the function to market regional products more widely and internationally.

There are two types of approaches. One is to establish integrated distributors based in Central Luzon. The distributors with transportation, warehousing, financing and primary wholesale functions, should be coordinators for production rather than wholesalers. They would feed back market information to producers and could arrange producers to provide products that market needs. The distributors should be private sector but DTI should help and promote the establishment of this type of regional wholesalers.

Another approach is to establish "Regional World Trade Center" run by the public or third sector, to facilitate local producers to meet potential buyers of their products. The industry sector plan proposes the trade center. The center could be combined with the convention and exposition center.

(3) Physical distribution function of Metro Manila

Central Luzon should undertake a part of physical distribution system of Metro Manila. The Divisoria market that is the principal wholesale center for Metro Manila and Central Luzon does not fit for large vehicle transportation because of the limited road capacity in the city center. A few physical distribution centers located in the outskirts of Metro Manila would reduce traffic generation and, as a result, alleviate traffic congestion in the city center, improve the efficiency of the physical distribution, and promote the Divisoria market's specialization in non-physical trade.

Southern part of Bulacan is suitable for one of the physical distribution centers as it is close to the proposed intersections of the North Expressway and C-5 and C-6. The distribution center in Bulacan would work as the physical distribution center that delivers goods to the northern part of Metro Manila.

Each center should have a truck terminal, a wholesale market, processing factories and warehouses. A freight depot with dry port facilities for Manila North Harbor could better be combined with the center.

(4) Intermediation of Metro Manila trade

Central Luzon is the meeting point of the Cagayan road and the North Expressway. It also has Subic Port and Clark International Airport. This would provide an opportunity for wholesale markets that intermediate and transship products from abroad, the North Luzon, and Central Luzon to Metro Manila. Dry port facilities and freight depot could be combined with the wholesale trade center.

(5) Introduction more commercial function to resort areas

This strategy aims to develop retail trade and various services including restaurants and entertainment together with tourism development. A commercial complex in a resort area composed of restaurants and shops selling local products, and introduction of tourism communities development system would be suitable measures for this strategy. The tourism sector plan discusses the more details of the plan.

**3.4 Projects and Programs for Trade and Related Services**

(1) Bulacan truck terminal and distribution center

1) Location

Southern part of Bulacan Province (Meycauayan, Obando, or Bocaue)

2) Agency

Department of Public Works and Highways

Department of Trade and Industry

Private sector

3) Objectives

To build a truck terminal that improve the efficiency of Metro Manila's distribution system.

To build a distribution center that intermediate and transship products from the north and Central Luzon.

4) Expected effects

Streamlining of the distribution system in the Philippines

Soothing of traffic congestion in the center of Manila

5) Project cost

6) Implementation schedule

Phase II

Completion of C-5 is a prerequisite for the distribution center

7) Description

Metro Manila requires physical distribution centers in its outskirts to improve the efficiency of its distribution system, and to soothe its traffic problems. Bulacan is suitable for a distribution center that intermediate and transship products from the north and Central Luzon as the Cagayan road and the North Expressway meet in

the province. A truck terminal and a distribution center could be incorporated into a distribution center.

The distribution center should be near the intersection of North Expressway and C-5 or C-6 and have facilities as follows.

- Truck terminal
- Wholesale market
- Warehouses and cold-storage warehouses
- Processing and packaging factories.

It should have the following functions.

- Physical distribution function for delivering goods to the northern part of Metro Manila
- Wholesale function for intermediating goods from the north and Central Luzon to Metro Manila
- Transshipment function for goods from the north and Central Luzon

This type of distribution complex requires the public sector's intervention as it is not very profitable. Establishing a third sector organization would be preferable to manage the center.

This project presupposes the construction of C-5 and C-6.

(2) Subic Bay Fishermen's Wharf

- 1) Location  
SBMA or Olongapo City
- 2) Agency  
Department of Trade and Industry with the assistance from Department of Tourism  
A third sector organization
- 3) Objectives  
To create and manage a commercial complex composed of local food restaurants and shops that sell and publicize Central Luzon products
- 4) Expected effects  
Enforcement of the linkage with tourism and local industry and agriculture

Creation of a channel to sell Central Luzon products to visitors

- 5) Project cost
- 6) Implementation schedule  
Phase II

7) Description

This project links with Greater Subic Tourism Core Development.

The Subic Bay Fishermen's Wharf is a tourism-commercial complex that works as a marketing channel for Central Luzon products. It is composed of restaurants that serves Pampanga cuisine and sea foods, outlets of factories and cooperatives, shops that sell local manufacturing, agriculture and fishery products. The complex targets primarily at visitors to SBMA.

A tourist pier for high speed boats could be incorporated into the complex.

(3) Clark Field Wholesale and Distribution Center

- 1) Location  
Clark Field

- 2) Agency  
Department of Trade and Industry  
A third sector organization

- 3) Objectives  
To establish a wholesale market and a distribution center for imported and local products.

- 4) Expected effects  
Promotion of wholesale trade  
Streamlining of distribution system in Central Luzon

- 5) Project cost

- 6) Implementation schedule  
Phase II

7) Description

Central Luzon has Subic Port and Clark International Airport. Being a transportation hub in Central Luzon, Clark field is suitable for a wholesale and distribution center catering primarily for international trade.

The wholesale and distribution center should be linked with proposed dry port facility, and engage in the trade of imported goods. The center also works as a wholesale market for Central Luzon products.

(4) Promotion of Regional Integrated Distributors

1) Location

Not specified

2) Agency

Department of Trade and Industry

3) Objectives

To help the establishment of integrated distributors that provide raw materials for, and sell the products of, and feed back market information to, small and medium sized establishments.

4) Expected effects

Fostering of small and medium sized establishments by reducing production cost  
To reinforce wholesale function of the region

5) Project cost

6) Implementation schedule

Immediate

7) Description

Producers in Central Luzon has very limited capability for finding buyers of their products and getting market information to be reflected in their products. They also suffer from the lack of supply of raw materials. Helping the establishment of integrated distributors in Central Luzon will enforce the region's capability for these aspects.

This program aims to publicize the concept of integrated distributors to potential investors, and to promote the establishment of regional distributors.



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