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Focus Workshop on Trade

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**Meeting the Shanghai Accord on 5%
Transaction Cost Reduction**

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Meeting the Shanghai Accord on 5% Transaction Cost Reduction

Issues and Challenges to a Developing Country

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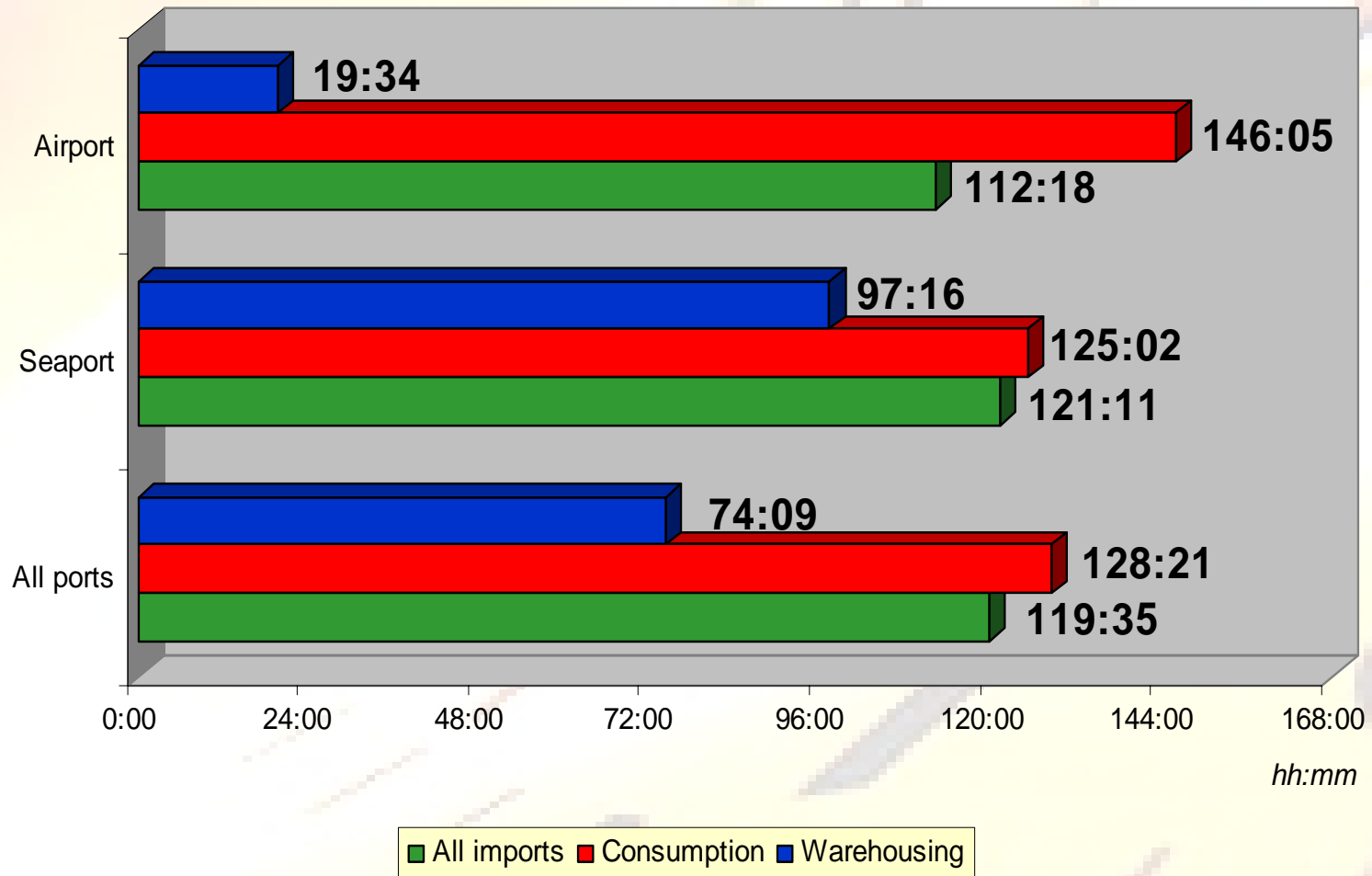
Structure of Presentation

- Key findings of the Time Measurement Study in the Philippines and their implications on trade facilitation
- Estimation of transaction costs based on time required for release of goods
- Issues and challenges in reducing transaction costs

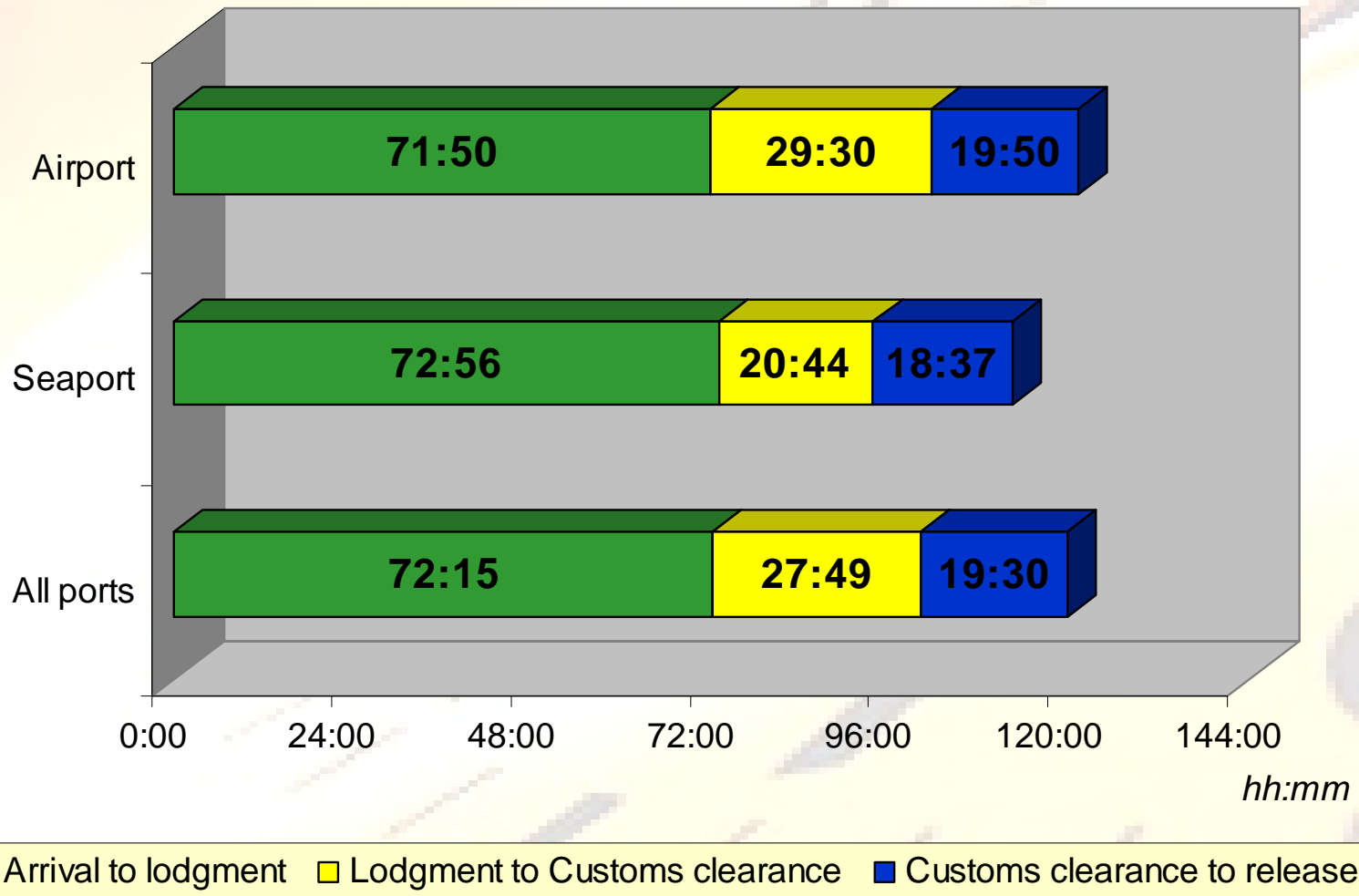
Time Measurement Study in the Philippines

- In 1994, the WCO endorsed time measurement study as a management tool to improve Customs clearance procedures.
- The study aims to estimate the average time between arrival of goods and their release to importer, as well as intervening events between arrival and release.
- Japan has undertaken 6 time measurement studies since 1991. The Philippine study may be considered the first in developing countries.
- Philippine sample: 16,770 import entries lodged during the first week of March 2003.

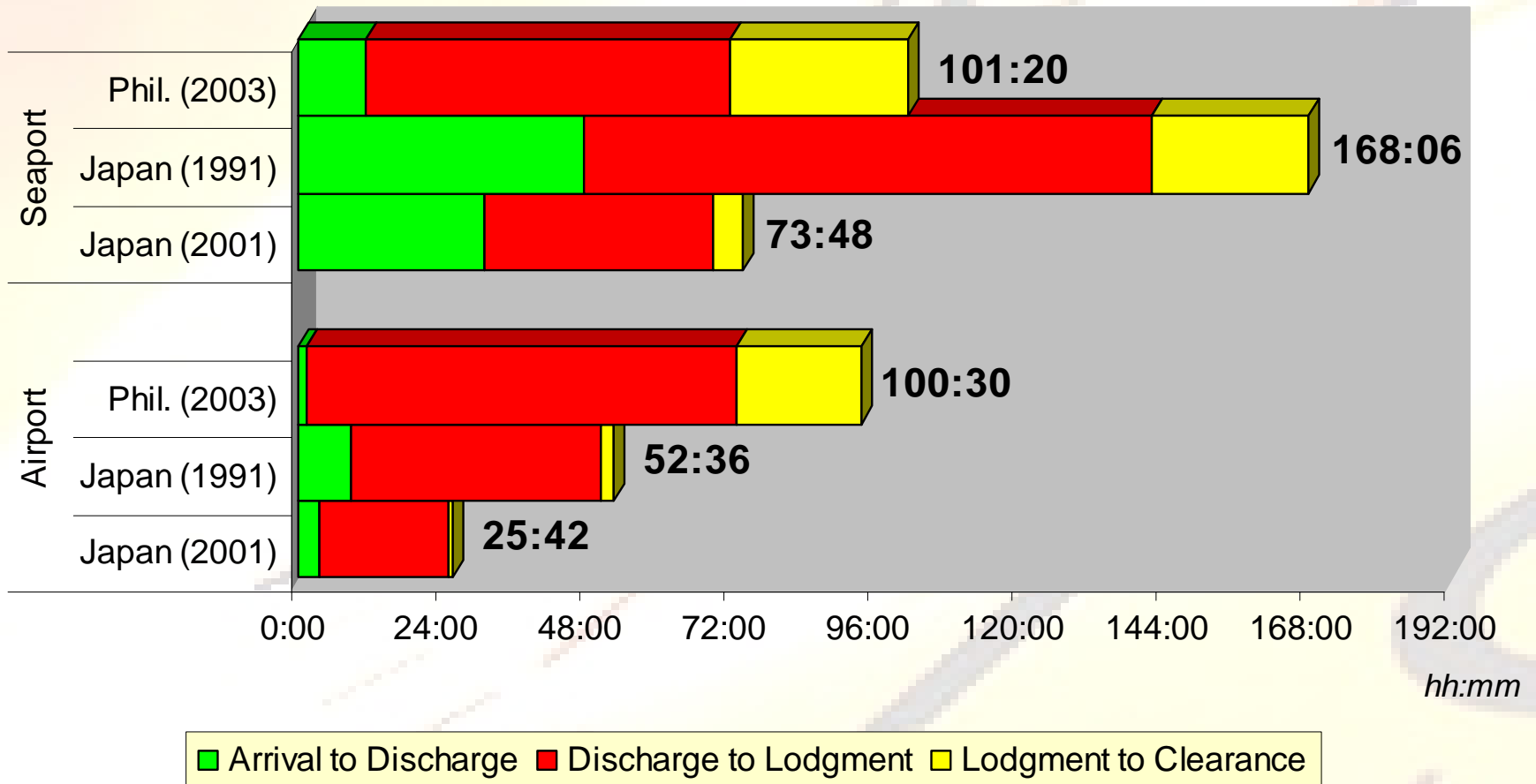
Time Required to Release Goods in the Philippines



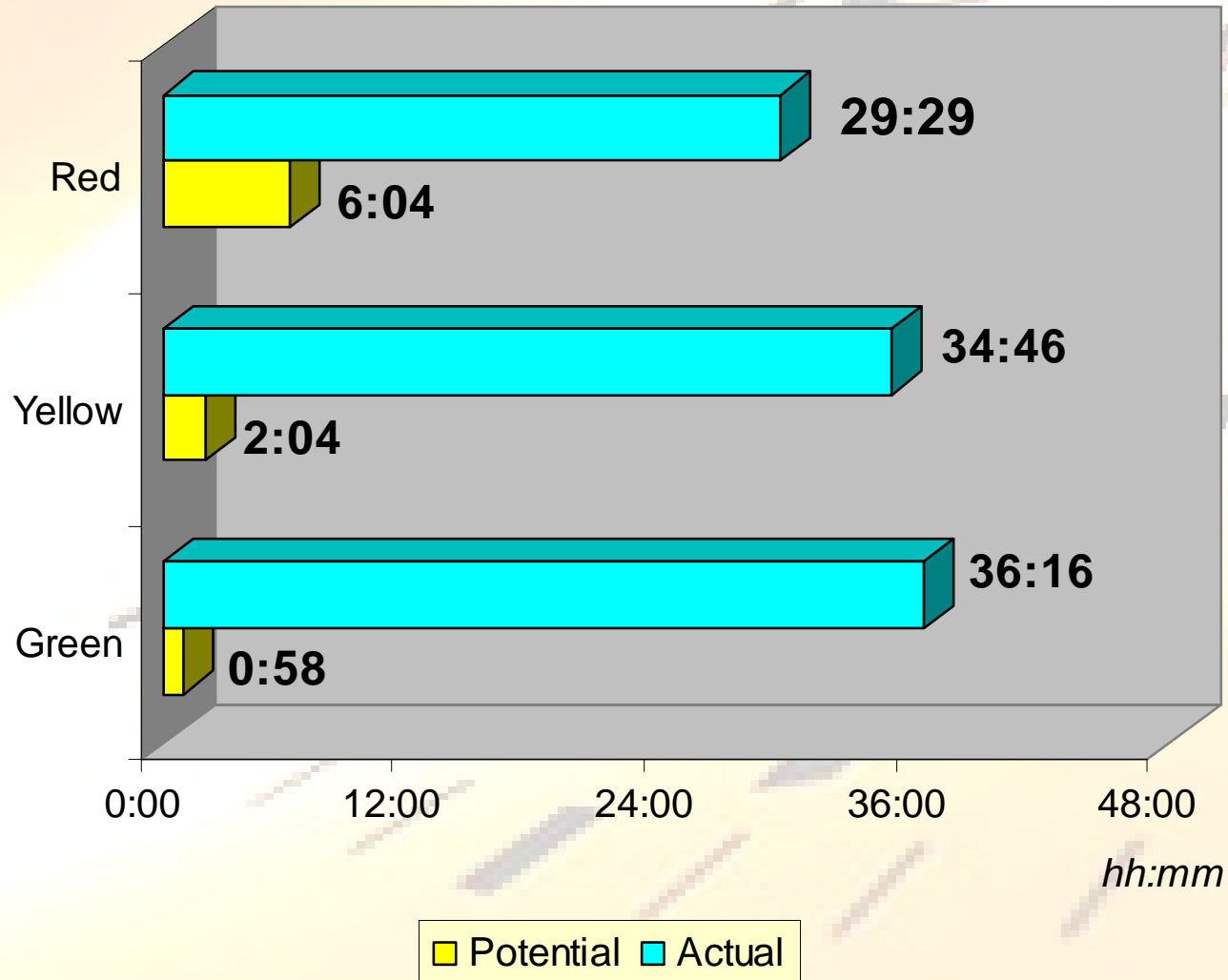
Customs clearance procedures account for only one-fifth of total release time.



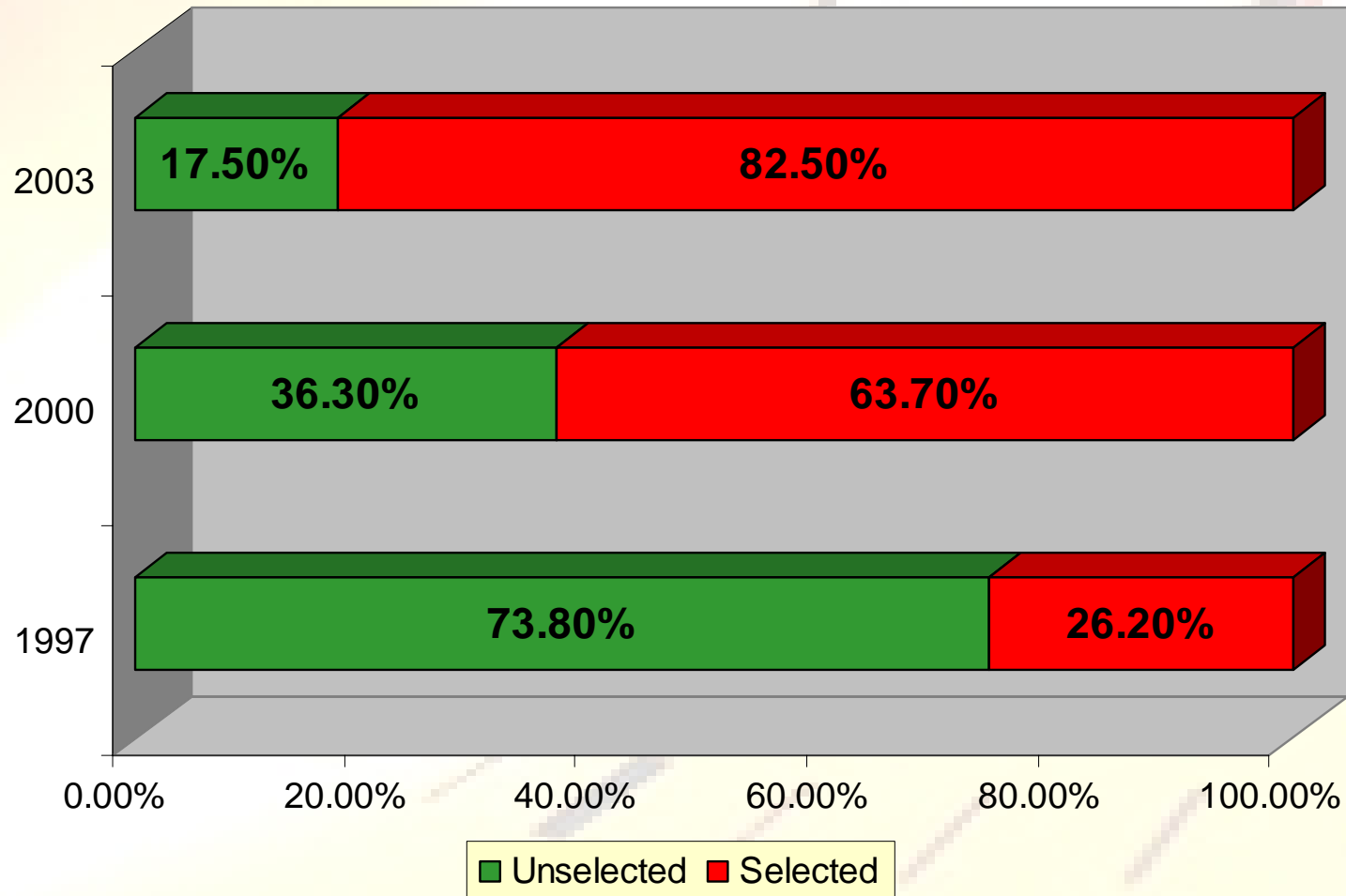
Comparison of Philippines and Japan Release Time



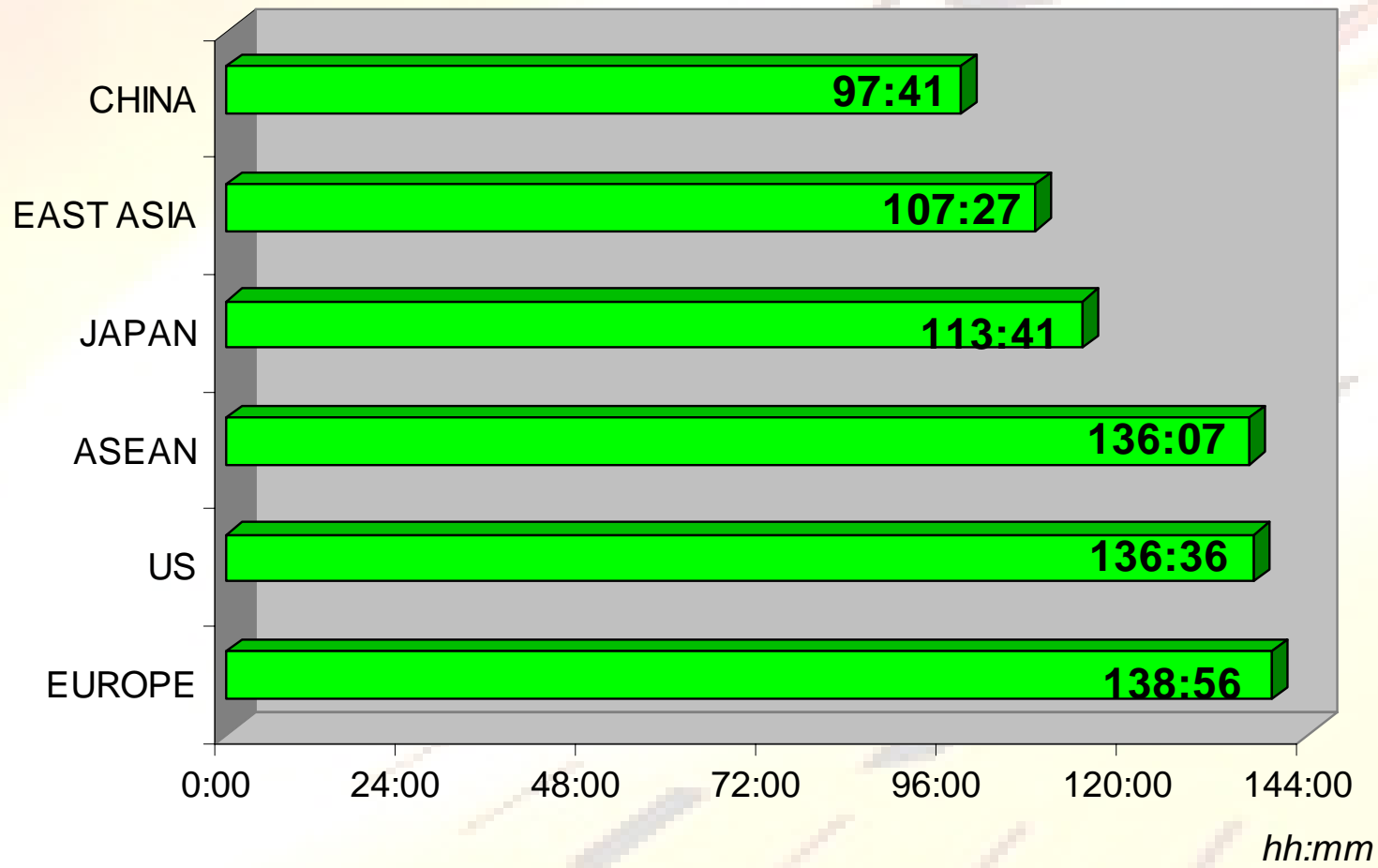
Insight 1: Phil. Customs efficiency has yet to reach its potential.



Insight 2: Selectivity system fails because of poor intelligence, system limitations and political intervention.



Insight 3: PTA as a mechanism for trade facilitation fails.



Insight 4: Large standard deviation in release time suggests inconsistent application of regulations and formalities.

| | Mean | Std. Dev. | Median |
|-----------|--------|-----------|--------|
| Airport | 112:18 | 138:52 | 74:15 |
| Seaport | 121:11 | 126:40 | 104:12 |
| All ports | 119:35 | 128:59 | 99:47 |

Measuring Transaction Costs

transaction costs = lost business opportunities due to
necessary and efficient cargo handling
and customs clearance procedures

- + lost business opportunities due to
unnecessary delays in cargo handling and
customs clearance procedures
- + lack of predictability in application of
regulations and procedures

Version 1: Opportunity cost = value-added per manhour

| | Mean | Std. dev. | VA per hr. (US\$) | Ave. TC (US\$) | TC/import (%) |
|------------------|--------|-----------|----------------------|-------------------|------------------|
| Food | 130:12 | 93:43 | 9.34 | 2,091 | 3.7 |
| Motor vehicle | 118:37 | 62:30 | 10.48 | 1,898 | 1.8 |

Version 2: Opportunity cost = export per manhour

| | Mean | Std. dev. | export per hr. (US\$) | Ave. TC (US\$) | TC/import (%) |
|------------------|--------|-----------|--------------------------|-------------------|------------------|
| Food | 130:12 | 93:43 | 3.95 | 884 | 1.6 |
| Motor vehicle | 118:37 | 62:30 | 7.16 | 1,297 | 1.2 |

Reducing Transaction Cost by 5%

hh:mm

| | ↓ release time | ↓ uncertainty |
|---------------|----------------|---------------|
| Food | 6:30 | 4:41 |
| Motor vehicle | 5:56 | 3:07 |

Key challenges in reducing transaction costs in a developing country

- 1) Trade facilitation role of customs should precede its traditional role of revenue generation.
- 2) Continuous investment in customs modernization is required.
- 3) Complementary investment in people is indispensable.