Supply chain competitiveness in the philippines

The trade performance in the Philippines has been continuously growing for the past decade, from 2002-2011 , except for the world economic slump of 2009 (Figure 1). While this trend Is not even close to the growth performance of our neighbors Malaysia, it provides an idea of how supply chain management (SCM) becomes more and more important in the economy. In this short report, the facts on SCM competitiveness of the Philippines are analyses based on data published by World

Economic Forum on " Global Competitiveness Report 2012-2013" and " Global Enabling Trade Report 2012" and the report of Maxima Business Club on " Need for Stronger Supply Chain". At the latter part of this report, we look at the culture of the Filipino people and how this trickles down the supply chain. Figure 1: Philippine External Trade over the years (source: MOB Research #106) Data and Statistics on Philippines' SCM Competitiveness The Philippines has been more and more open to International trade over the years and supply chain management has been improving as well.

While many of local businesses still have much to improve on their methods and technology, those involved in international trade are becoming more and more able to adapt the international best practices. Many of private entities push for better supply chain management either as internal Improvement or as a requirement of doing business with other more advances companies. However, looking at the entire supply chain, there are still bottlenecks and inefficiencies.

And since this is a chain, the effects trickle to the overall supply chain performance as evidence by the competitiveness port of World Economic

Forum and the Logistics Performance Index (LIP) of World Bank where the Philippines lag behind similar economies (Table 2). In the research paper published by Maxima Business Club, the Philippines is at the trail-end of the list of APACE member economies in terms of Enabling Trade Index (ET) ratings (Figure 2). This index reflects how the supply chain is affected and how it is managed in the country.

The country scored poorly In all areas: Market Access, border administration, telecommunications and transport Infrastructure, and overall business environment. While Market Access Is scored relatively better compared to our neighbor Taiwan and Thailand, the other facets made the ranking fall overall. This same trend was found by World Bank (Figure 3) whereby trade-related infrastructure, customs procedures and logistics competence are the least competitive area in Philippines LIP.

Report 106) Figure 3: Logistics Performance Index (source: MOB Report #106) The transportation infrastructure in the Philippines is still lacking in many ways despite the promises of the past administrations. It is understandable that there are inherent difficulties due to the archipelago nature of the country, but is it not an excuse to be far from that of Japan with more than 6000 islands or Indonesia, for that matter, with more than 12000 islands. According to the WEFT data, Philippines has the highest freight charges (port, agent fee, airport and other fees) among Asian countries.

WEFT ranked the Philippines at 13th out of 142 in terms of quality of infrastructures. We also ranked 95th, 99th, 97th and 105 out of 125 countries in air, rail, and road and port facilities, respectively. Even the availability of airport is coming a concern. The ANNA for example, is already experiencing traffic delays affecting logistics and commercial flights. The plan of transferring some of the airport services to Clark and Cavity are good alternatives but the government must also ensure that inland transportation will be able to support the transfer.

In a study by the USC Marshall School of Business, among SEAN countries including China, only the Philippines has freight cost exceeding $1000 for a 40-foot Export container (Figure 3). It takes a about 7. Days for a cargo to go thru desk processes, remonstration and clearances within the country. This is far from regional best practice of 5 days overall. All of these factors contribute to the increase in overall SCM cost which includes the cost of inputs and cost of conversion and down the SCM chain.

In the current administration's drive for inclusive growth, transport infrastructure is one of the primary focus of development towards global competitiveness. Most of the projects, however, still remains to be implemented. Another issue considered in the WEFT report is the border administration. Again, the Philippines lag behind the neighboring developing countries. Up to this point, we have failed to implement automation in processing trade across the border.

The country is yet to keep up with the needed automation given more and more open trade agreements being signed. Despite efforts and money spent in improving the IT facilities and processes, our customs still resort to manual processing. There are several reasons given including sabotage by customs employees. The degree of corruption, or even perceived corruption, in the Philippines is at a very high level articulacy at Bureau of Customs. The cost of bribery and other undocumented and non-standard fees are passed to the supply chain.

The reputation itself is enough to discourage some firms from doing business within the Philippine border which prevents us from taking advantage of the benefits of open trade. Those firms within the PIZZA administration is usually taking less toll because of automation. But the majority of firms do not belong to this zone and thus would have to be bothered by the corrupt customs procedures. In the WEFT data (Figure 4), corruption is listed as he top problem in doing business in the Philippines, followed by inefficiency of government bureaucracy then inadequate infrastructures.

Therefore, despite the improve to what they can control. But the current problems rely mostly on government efforts on creating infrastructures and in improving business ethics and processes. Part of the challenge in addressing corruption lies in the culture itself. Some people feel that others owe it to them when they process a document. Another factor that brings corruption is the tang-an-lobo culture. People will ask and do favors for various personalities, even circumventing the rules (such as a simple queue).

Some illegal shipments cross the border because they pay certain people in authorities and these shipments will later on bring weakness in the reliability, quality and competitiveness of good in the market. Probably another strong culture in the Philippines is family-ties whereby competition by quality is weakened by blood affiliation. For example, a family owned firm needs a supply of services. Instead of getting from a cost competitive and better quality supplier, a " Compare" who is in the equines will be awarded the contract.

This could also lead to inferior service quality, which would later on be passed along the supply chain towards the end customer. Figure 4: Problematic factors of doing business in the Philippines. (source: GAR 2012-2013) In summary, the supply chain management in the Philippines is far from being globally competitive. We might have the human and natural resources, but all of these would not be beneficial unless the entire supply chain quality is elevated. If we want to be at par with fellow developing countries, serious efforts must be taken not only in private sectors but in government as well.

As the saying goes, a chain will only be as strong as its weakest link. Supply Chain Management now meaner a global affairs. It is no longer a choice, it is already embedded into the economy. And for the Philippines to improve its global economic competitiveness, the inefficiencies and bottlenecks in the supply chain have to be addressed. For now, the bottlenecks and inefficiencies seem to be concentrated in infrastructure development and in government (especially customs) transparency and efficiency.