

Case Study on the role of Philippine Logistics in E-commerce and Cross border trade

Eurice Marie Pua

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Abstract: The Philippines has the potential to expand its influence in the regional and global digital markets. Economic development driven by consumption improved telecommunications infrastructure, and an increasing percentage of the population with internet connection are just some of the primary reasons for positioning the Philippines as a prominent player in Southeast Asia's e-commerce market. By January 2020, over half of the 105 million Filipinos were already shopping online. This figure is predicted to increase to 54.7 million by 2024. In addition, consumers and companies are being compelled to go digital by the current COVID-19 outbreak. To effectively capitalize on the current economic conditions, Filipino SMEs need access to more affordable and dependable methods of importing raw materials and distributing their goods. As more SMEs become aware of the potential benefits of e-commerce, there may be an increase in demand for small package deliveries to support the SMEs' smaller scale of operations. Generally, significant firms may import raw materials and export finished goods at a low cost by using high-volume shipments.

On the other hand, local SMEs operate on a considerably smaller scale and often face costly shipping and delivery costs when importing smaller raw materials, limiting their manufacturing options. Thus, more dependable and affordable logistics and transportation for small packages may enable local SMEs to save expenses, increase productivity, and perhaps invest more in innovation. The Philippines is archipelagic, making it a challenge for logistics. The government's initiative in connecting the three main islands: Luzon, Visayas, and Mindanao, can help flourish cross-border trade and help SMEs expand their business locally and internationally. Recommendations in achieving policy and regulatory clarity around the logistics sector will help attract private investments and improve innovation. A review of regulatory requirements for small parcel delivery providers is necessary to support e-commerce. Legal and regulatory frameworks should address enhancing trade flows, safety and security, and the control of physical goods by providing advanced data across various business models.

Keywords: Philippines, Logistics, E-commerce, Cross border trade.

I. INTRODUCTION

The Internet dramatically influences society, most importantly, how businesses and organizations conduct their operations and activities. Many companies are prompted to rethink their business strategy and abandon the conventional approach in organizing and evaluating economic activity in the knowledge-based economy. Many companies are compelled to develop new and more innovative techniques for optimizing their business's utilization of information technology and the Internet. E-commerce has become the extension of traditional companies; enhancing efficiency, lowering costs, and providing excellent customer service are crucial strategic considerations for every successful business. With the help of reliable logistics, geographical location and scale of operation are no longer barriers to the success of a business since many small businesses may now sell their goods online and rapidly reach new markets.

The Philippines has been considered another of Southeast Asia's rising stars. The Philippines' growing domestic e-commerce consumer base enables it to strengthen its regional and global digital markets. Economic growth fueled by consumption improved telecommunications infrastructure, and an increasing proportion of the population with internet connectivity are a few key factors that have positioned the Philippines as a significant player in Southeast Asia's e-commerce market. According to Google's economy Southeast Asia 2020¹, the Philippines' e-commerce industry for consumer products increased in value from US\$ 3 billion in 2019 to US\$ 4 billion in 2020 and is expected to reach US\$ 15 billion in 2025. In addition, Filipinos are avid social media users and the second-largest active internet user base in Southeast Asia². According to recent estimates, the Philippines has 76.2 million active social media users (Statista Research Department, 2021).

Furthermore, the pandemic of COVID-19 has raised the demand for e-commerce in the Philippines. e-commerce growth is fueled by a growing middle class, increasing consumer spending, and a youthful, dynamic, tech-savvy society. Despite rising sales and a favorable outlook for e-commerce development in the Philippines, the country's average e-commerce revenue per user was the lowest in Southeast Asia in January 2020. The Philippines has the most insufficient average revenue per customer and e-commerce consumption compared to its regional counterparts. One of the drivers of e-commerce growth is the untapped market by regional players, which suggests that there is still room for growth. This paper aims to explore these factors that show an exciting future for e-commerce in the Philippines. This paper will study the existing state of Philippine logistics and its role in the booming e-commerce in the Philippines. However, the country also faces many challenges, especially in its logistics. With the Philippines being an archipelago of more than 7,600 islands, logistics becomes a challenge with the high cost and low logistics performance. To conclude the paper, this paper will suggest some reforms that can help improve the logistics and e-commerce in the Philippines.

II. LITERATURE REVIEW

The Role of Logistics Performance in E-commerce

In the last several years, e-commerce has grown in synch with the rise of both technology devices and the Internet. Like how the Internet has evolved into a preferred medium for marketing, advertising, and making purchases of goods and services, e-commerce has come to compete with conventional shopping in several ways. Logistics has advanced significantly in the corporate sector. When online shopping began to grow in popularity, many predicted it would end many intermediaries who dominated traditional supply chains. As more suppliers and manufacturers were likely to prefer directly selling to customers to reduce costs, delivery time and compete in the online market (Lancioni, et al., 2000) This would mean that most logistics providers will be limited to the "last mile" of the online shopping order cycle. However, this was not the case, as logistics service providers increased their business with online shopping (Rabinovich & Bailey, 2004).

E-commerce, particularly the B2C sector, is often characterized by a high volume of small orders that need shipping through a different distribution system than brick-and-mortar businesses. So, it gives a more significant opportunity for logistics to play a substantial role (Cho, et al., 2008).

(Cho, et al., 2008) assessed the firm's capability concerning its logistics channel. Additionally, the study discussed logistics outsourcing and third-party logistics considering various factors pertinent to the e-commerce market. It concluded that outsourcing logistics does not pose a threat to their business but instead aids in achieving a higher level of performance and position for the organization.

¹ e-commerce has been a driving factor of development in the Philippines, accounting for 55% of total growth. This advancement has more than offset the reductions in Travel, Transportation, and Food Delivery. Gross Merchandise Value is predicted to achieve a total value of US \$7.5 billion in 2020, up 6% year on year. By 2025, the whole e-commerce market would likely exceed US \$28B in value, reaccelerating to a 30% compound annual growth rate.

² Southeast Asians spent an hour more per day on the Internet on average during lockdowns, whereas Filipinos spent 4.0 hours online (for personal use) prior to COVID-19, which increased to 5.2 hours at the lockdown's peak - the highest in the region - and has since stabilized at 4.9 hours per day. With eight out of ten users stating that technology was very useful during the pandemic, technology has become an integral part of people's daily lives.

III. DISCUSSION

1. Understanding the Philippine E-commerce

The Filipino e-commerce business has grown steadily over the last five to six years, attributed to the country's increased internet usage. The high smartphone uses in the nation, a rapidly increasing middle class, strong consumer confidence, and changing consumer preferences are among the other factors that have accelerated the expansion of e-commerce, thus increasing the demand for e-commerce logistics in the country. The continued growth in the e-commerce industry requires equal rapid and innovative actions from transport and logistics businesses. Manila and a few other areas, particularly Central Quezon City, Cebu, and Davao, have emerged as the primary hubs for e-commerce logistics demand and supply. The COVID-19 pandemic has also boosted market demand, as a necessity for social separation has compelled many to turn to internet buying. The surge in e-commerce logistics orders has been primarily fueled by increased online loyalty and demand for value-added services. In response to the market in the digital marketplace, new players in the logistics segment of e-commerce emerged. The logistics industry is catching up in the number of logistic subsectors: 6 in cross-border logistics, 6 in package forwarding, 13 in third-party logistics, 7 in on-demand delivery, and 7 in fulfillment logistics. E-commerce success cannot happen without support from the logistics sector. The emerging fulfillment logistics service enables businesses, small or big, to cater to better and quality end-to-end service. E-commerce fulfillment refers to the process of fulfilling and sending customer orders. This supply chain segment is responsible for collecting and storing inventory, processing orders, choosing and packaging products, delivering shipments to their ultimate destination, and managing e-commerce returns. Several specialized companies established e-commerce fulfillment services where they simplify the day-to-day tasks of running an e-commerce business. E-commerce fulfillment offers customized solutions that include on-demand warehousing, affordable access to various last-mile delivery options, and an integrated technology platform that enables entrepreneurs to run and manage their businesses more accurately and efficiently by acting as a single data source for all their online stores and marketplaces. This trend poses a threat to the existing and established traditional logistics companies such as UPS, FedEx, DHL, Air21, LBC, 2GO, and PHL Post, these companies need to find innovative solutions to meet the size, sophistication, and geographic coverage requirements of online sellers, as well as on managing the volume of the transactions in different cost structures. With companies increasing shift to online, the Last-mile delivery³ is the most popular because of its efficiency and cheaper rates.

Bike and van are the primary vehicles used in last-mile deliveries. Bikes have historically been a popular last-mile delivery option because of their rapid delivery times and more excellent accuracy rates while delivering packages. Van deliveries are a low-cost last-mile service that has gained popularity among consumers who appreciate fresh vegetables from tiny farms near heavily populated metropolitan areas. Last-mile delivery services have been an essential factor of how all Filipino consumers get their commodities from producers to consumers any time of the day. The last-mile delivery can be divided into two segments: a) technology companies like Grab, Mober, NinjaVan, Lalamove, and Transportify that mostly use crowdsourcing for deliveries, and b) niche market delivery services for restaurants, grocery, or single-item delivery services like Grab Express, Food Panda and Lalafood.

Transportation and logistics are essential to retailers, wholesalers, manufacturers, and distributors. These functions are critical to the supply chain management process's success. Conventional retail stores are still dominant in the Philippines, and they still require transportation and logistics services. In a conventional retail supply chain⁴, customers are responsible for buying their items at the retailer's location. They take responsibility for the "final mile" of freight distribution by going to the store and returning their purchases.

³ The last mile delivery is the last step of the supply chain. Convenience shops and cafés, typically lack the time or resources to organize deliveries themselves, so they turn to last mile delivery companies for support. This word is used by logistics experts to describe how items are transported from their final stop to customers, which may be one mile distant.

Why is last mile delivery so important for the Philippine economy? - Canson Art School Awards (cansonartschoolawards.com)

⁴ Logistics are being impacted by e-commerce, particularly by its business to consumer segment Retail Logistics and E-commerce | The Geography of Transport Systems (transportgeography.org)

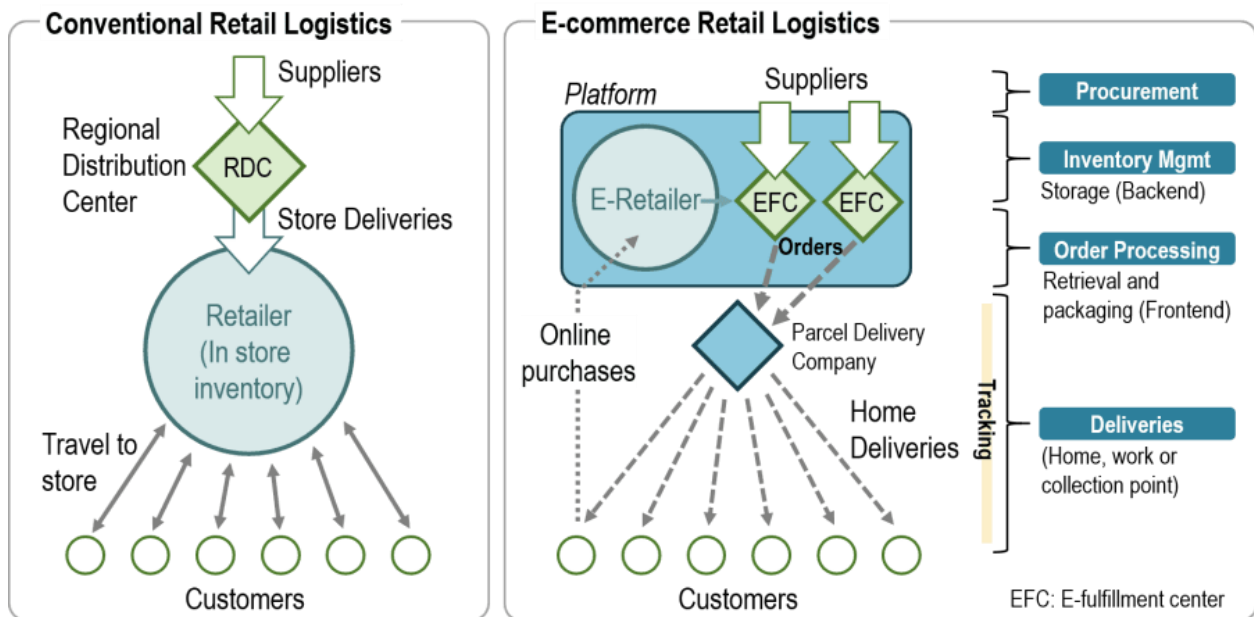


Figure 1. Conventional Retail Logistics VS. E-commerce Retail Logistics

The rise of e-commerce has altered the nature of customer-retailer interactions (e-retailers). In this model Figure 1, the customers are directly linked to the supply chain. The e-retailer, in the evolving distribution system, serves as both a retailer and a distribution facility, and an e-fulfillment center (EFC). The locational options available to e-retailers are far more flexible, allowing for the utilization of lower-cost venues that would not have been recognized appropriate for retail otherwise. For example, large e-retailers might maintain a distribution center network to maximize market penetration and support regional markets. Consumers engage digitally with a shop called a platform, sending items through package providers that handle home delivery. Customers are intrinsically linked to the supply chain conceptually since their product orders directly interact with the distribution center. Deliveries are now the duty of the e-retailer, a shift from traditional retailing, in which the client gained possession of the products immediately upon purchase, where this requires the usage of package delivery services. Due to the time delay associated with home delivery vs. quick availability in shops, some items are less suited to e-commerce. For example, groceries and medications account for a smaller percentage of e-commerce than clothes, cosmetics, and gadgets. Online retailers are experimenting with same-day or next-day delivery by pre-positioning high-demand items at urban logistics depots to increase market share or penetrate new market segments.

The Courier, Express, and Parcel (CEP) market in the Philippines is expected to expand at a CAGR of 4 percent during the projected period (Mordor Intelligence, 2021). Express delivery has gained popularity over the last several years, owing to the country's infrastructure expansion and development. In addition, Express delivery has strengthened the country's express delivery sector, as businesses and customers increasingly choose to deliver goods in a shorter time.

Express delivery service has become essential to every business in supporting efficient and fast-paced transactions. Accessibility is a significant component in the growth of the e-commerce business. The ability for everyone globally to look for and purchase practically anything at any time is essential. Express delivery is pivotal to the survival of online stores. People desire to get their recently acquired things as quickly as possible. Moreover, they are unwilling to pay a high price for it. Thus, it paved the way for express delivery services in the Philippines and has become one of the most critical sectors in the economy.

Air express has dominated the express delivery industry in revenue and revenue share over the last decade (AP News, 2019). Airfreight requires fewer hours to transfer goods between cities than terrestrial logistics. Road express was a significant mode of delivering documents and packages by trucks and vans in the domestic market. In the early months of the year, truck bans and congestion have negatively affected the country's preference for road transit.

The freight and logistics business in the Philippines is highly fragmented, according to Figure 2, with several local and foreign logistics service providers. FedEx, UPS, DHL, Yusen Logistics, XPO Logistics, Lorenzo Shipping Corporation,

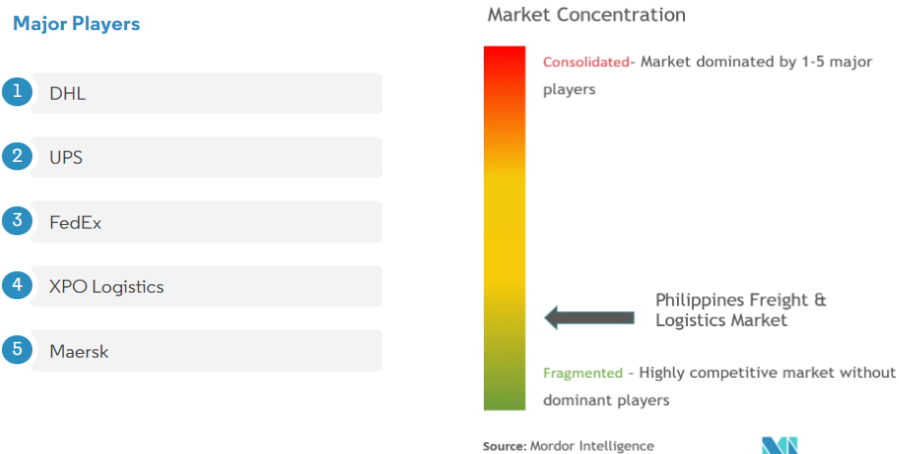


Figure 2. Market Concentration and Major Players in Philippine Logistics

TNT, PHL Post, Nippon Express, 2GO Express, JRS Express, and Maersk are among the market's established leading players (Mordor Intelligence, n.d.). The logistics and warehousing sector in the Philippines have developed in recent years as the country's financial operations have risen. In addition, sectors such as automotive, electronics, clothes and accessories, chemicals, and pharmaceuticals, all of which have a high need for logistics services, are propelling the country's logistics business.

2. Investment in Logistics

The booming e-commerce sector and ongoing retail developments in the Manila area increased the demand for last-mile delivery hubs, inner-city distribution centers, cold storage, and warehouse facilities. In recent years, the Philippines boosted its expenditure on roads, bridges, aviation and seaports, and other large-scale infrastructure. Public infrastructure spending increased from an average of 3 percent of GDP in 2011–2016 to over 5 percent in 2018, to reach over 6 percent by 2022 (Mordor Intelligence, 2021). The Build Build Build initiative of the government funds large-scale projects that solve critical bottlenecks in transportation, water resources, and energy. The logistics and industrial real estate sectors have seen dramatic changes due to a burgeoning middle class and a developing e-commerce business. Transportation and storage sector investments increased by 626 percent to PHP 129.6 billion in 2018, up from PHP 17.8 billion in 2017 (Global Information Inc., 2020). Improving transportation infrastructure is crucial for boosting economic development and improving the investment environment.

According to the International Finance Corp., a member of the World Bank Group⁵, the Philippines had the highest logistical costs as a percentage of sales in manufacturing firms, amounting to an astounding 27.16 percent. Transportation accounted for 10.71 percent, warehousing accounted for 5.20 percent, inventory carrying accounted for 8.78 percent, and logistics administration accounted for 2.47 percent. Thailand had the lowest rate of (11.11 percent), followed by Vietnam (16.3 percent) and Indonesia (21.40percent) (Chua, 2017). Apart from the high cost, the researchers discovered that manufacturers' primary concern is reliability. Given that the Philippines is archipelagic in structure, a transport company's capacity to deliver goods fully and on schedule is limited, especially for building materials, chemical products, food, and electronics. This problem of reliability forces manufacturers to depend on inventory and warehouses, further raising the logistical costs.

⁵ Logistics costs in Philippines significantly higher than Indonesia, Vietnam, Thailand — study - BusinessWorld Online (bworldonline.com)

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Additionally, the research showed that logistic performance differs per island group in the Philippines. For example, Visayas has a nearly one-month cash conversion period, but Mindanao has a two-week cycle, making it financially more difficult for businesses in the Visayas than in Mindanao.

The growing competition among the leading logistics companies and new entrants in the Philippines improves the performance quality of each courier service that offers same-day delivery of parcels and shipments at a more affordable cost. The more competitors, the more intense the competition, and the higher the standard of performance in terms of reliability that each delivery service provider will seek to offer to its customers.

Table 1. Rankings on the Ease of Doing Business

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Brunei Darussalam	112	83	79	59	101	84	72	56	55	66
Indonesia	121	129	128	120	114	109	91	72	73	73
Thailand	19	17	18	18	26	49	46	26	27	21
Singapore	1	1	1	1	1	1	2	2	2	2
Philippines	148	136	138	108	95	103	99	113	124	95
Vietnam	78	98	99	99	78	90	82	68	69	70
Malaysia	21	18	12	6	18	18	23	24	15	12
Cambodia	147	138	133	137	135	127	131	135	138	144
Lao PDR	171	165	163	159	148	134	139	141	154	154
Total Respondents	183	183	185	189	189	189	190	190	190	190

Source: publication of *The World Bank and the International Finance Corporation*⁶

With the amendment of the Foreign Investment Act of 1991 in 2018, The Foreign Investment Act is a policy created to attract, promote, and welcome productive investments from foreign individuals, partnerships, corporations, and governments, which significantly contribute to national industrialization and socio-economic development (Reyes, 2017). Amending different policies can ease doing business in the Philippines, thereby attracting many foreign investors. With the increasing demand for delivery services in the Philippines, many foreign companies can enter the local market. Primary parcel delivery and logistics companies from foreign companies such as FedEx, UPS, and TNT entered the Philippine market. Recently, the ASEAN Economic Community's (AEC) coming into effect might assist the entry of international logistics providers; this will drive domestic freight forwarders to become more competitive or pursue prospective joint venture agreements or equity investments with foreign freight forwarders.

However, the local logistics business in the Philippines remains limited to foreign companies with a controlling stake. The Philippine Constitution restricts public utility operations and management to corporations with at least 60 percent Filipino ownership. While the legal definition of what constitutes a public utility remains ambiguous, court cases brought by local freight forwarding companies against FedEx and other international air freight forwarders have resulted in judicial rulings challenging the legality of foreigners engaged in international air freight services (Philippine Daily Inquirer, 2013). As a result, DHL and FedEx may only transfer freight to and from international airports; other local logistics companies must handle the domestic distribution of these items. (Souza, et al., 2007) concluded that foreign ownership regulations established considerable barriers to free and open commerce throughout ASEAN, apart from Brunei and Singapore, which enable 100percent foreign ownership and control. According to the 1987 Constitution of the Philippines, public utilities shall be owned, operated, controlled, and managed by Filipino people or corporations held at least 60 percent by Filipinos. Indonesia, the Philippines, Thailand, and Vietnam prohibit foreign ownership of majority stakes in air, surface, and marine transportation enterprises, restraining investment (OECD, 2014). Even an Indonesian company, Go-Jek, has attempted twice

⁶ The rankings are based on the average of each economy's ease of doing business scores for several topics included in every year's aggregate ranking. This measure shows how close each economy is to global best practices in business regulation. A higher score indicates a more efficient business environment and stronger legal institutions

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to enter the Philippine market and have been rejected twice by the Land Transportation Franchising and Regulatory Board (LTFRB), becoming a hurdle on its expansion in Southeast Asia.

In the Philippines, ride-hailing services must be owned by at least 60 percent of Filipinos. Go-Jek's first application, submitted via its subsidiary Velox Technology Philippines, was denied in January due to its parent business Velox South-East Asia Holdings which is 99.99 percent owned by its Singaporean parent company. It is unknown if any changes to its ownership structure were made during Go-Jek's second attempt to get regulatory approval. In any event, the LTFRB determined that the foreign ownership requirements had been violated. According to Rappler, Go-Jek has been talking with the Ayala Group, a Filipino conglomerate, over a prospective merger and acquisition.

3. Transforming the Philippine Cross Border Trade

The Philippines lags many of its neighbors in infrastructure development; the Philippines is ranked 56th out of 140 nations in the 2018 World Economic Forum (WEF) Global Competitiveness Edition, unchanged from the 2017-2018 report, and 92nd in the infrastructure category. In addition, the Philippines ranks lowest among peer countries on the World Bank's Logistics Performance Index, and it scores poorly on connectivity to international markets (Isono & Kumagai, 2016). However, the transportation infrastructure industry has substantial demands and opportunities. Moreover, enhancing logistics performance has become a primary development goal to facilitate cross-border trade due to its significant influence on economic activity. Thus, improved performance is significantly related to increasing trade, export diversification, the opportunity to attract direct investment, and economic growth. In other words, "trade logistics are essential," according to a World Bank report⁷.

In response to the development goal, the Duterte Administration started the \$180 billion "Build, Build, Build" (BBB) initiative in 2017 to solve the country's rising infrastructure difficulties. The most recent list of flagships⁸ projects comprises 112 projects with an estimated value of around \$94 billion. The list includes 76 transportation and mobility projects totaling \$85 billion, with over half of them being road, highway, expressway, or bridge developments. Rail, airport, bus rapid transit, subway, and port developments across the country are all included in this category. The government preferred to finance most projects via linked assistance loans, which provide concessional interest rates and extended payback terms. Japan and China established themselves as leaders in this field, seizing high-profile rail projects. Other concessional loans for the Philippines' significant projects were the Asian Development Bank, the World Bank, and Korea. Many construction projects are still in the preliminary stages. As a result of the pandemic, ongoing building projects have been significantly delayed. Contract awarding is also slowed down. Unsolicited public-private partnership plans for airport improvements are currently being assessed and amended by project proponents to consider the COVID pandemic's consequences.

Customs policies must be unified to maximize efficiency. Transparent and streamlined customs processes are necessary for the smooth transfer of physical products across borders. Many shippers' primary barriers to cross-border e-commerce are inconsistency and complexity in customs processes and trade regulatory restrictions and clearances. Dealing with Southeast Asia may be difficult since each nation has its customs procedures and import duties; the difference in customs de-minimis rules, region-wide e-commerce, and consumer adoption may also be impeded. For example, Duties and taxes on US\$60 shoes sold in ASEAN member nations may vary from zero to US\$24, with the Philippines, Singapore, and Malaysia charging almost nothing due to their more significant de minimis thresholds of US\$198.61, US\$294.79, and US\$119.76 respectively.

Table 2. Comparative Import Duties and Taxes on a US\$ 60.00 Shoes

ASEAN Member State	Duty (US\$)	Taxes (US\$)	Total (US\$)	De Minis Threshold (US\$)
Brunei Darussalam	3	0	3	296.05
Cambodia	8.70	5.80	14.50	50
Indonesia	6	30	36	75
Lao PDR	6	6	12	50

⁷ Logistics needs improved infrastructure and cross-border procedures (railwaypro.com)

⁸ The flagship projects' list is available at <https://neda.gov.ph/infrastructure-flagship-projects>

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Malaysia	0	0	0	119.76
Myanmar	0	4.80	4.80	50
Philippines	0	0	0	198.61
Singapore	0	0	0	294.79
Thailand	4.20	18	22.20	45.81
Vietnam	6	18	24	44.14

Note: Assuming a shoe is to be imported from the United States of America to these Southeast Asian Countries. The price of the shoes imported is USD\$ 60. Using the November 17, 2021 exchange rate Php50.35/US\$1⁹

Moreover, high trade costs further impede the competition and reduce domestic firms' opportunities in accessing the larger market. Among the Southeast Asian countries, the Philippines has the most increased cost in importing and exporting. Trades costs and regulatory burdens are worse for companies outside the city capital of the Philippines, Manila (International Finance Corporation, 2019). Only a few agencies are automated, requiring manual paperwork and personal visits to the respective agencies and offices to complete and submit the requirements needed for the importation and exportation of goods. For example, the Bureau of Philippine Standards processes Import Commodity Clearances through the Department of Trade and Industry's regional offices, final processing at the Bureau's head office in Manila. According to internal estimates of the Department of Trade and Industry, this increases compliance costs by 25 percent and lengthens processing time by one month since papers must be sent through the mail from the regions to the capital and back. Although direct international shipping is possible from major port cities like Cebu and Davao, most shipping companies make regular stops in Manila. As a result, exporting necessitates transit via the capital and imposes extra freight costs on businesses operating on outlying islands.

Customs clearance processes have been established to facilitate cross-border small package delivery, but further work is still needed. When the Customs Modernization and Tariff Act (CMTA)¹⁰ was passed into law in 2016 to modernize customs rules and procedures for faster trade, reduce opportunities for corruption, improve customs service delivery, and improve the supply chain. To enhance government revenue, institute fair and transparent customs and tariff management that will efficiently facilitate international trade, the Philippines raised its de minimis level to Php10,000.00 (Department of Finance, n.d.).

Furthermore, the Philippines Bureau of Customs (BOC) has yet to generate specific policies and procedures for processing and clearing cross-border e-commerce goods. The Revised Kyoto Convention's¹¹ mandatory standards serve as the foundation for contemporary and efficient customs processes. When completely implemented, the CMTA will provide a legislative framework for fully automating customs operations and promote more significant simplification and harmonization of import and export procedures according to international norms. Despite the law's enactment, the Philippines has yet to finalize secondary regulations necessary for the law's full implementation.

Nonetheless, concerns regarding the value of small parcels traded across borders remain unsolved. Along with customs clearance processes for e-commerce merchandise, the acceptability of the transaction value for customs valuation of goods acquired during special offers and other substantially reduced prices is a point of contention between importers and the customs administration.

Moreover, the management of returns is complex in cross-border e-commerce since it crosses countries and is regulated differently across international borders. Domestic returns are already a problem for local businesses; foreign returns bring

⁹ More information found on Customs Duty De Minimis Value by Country 2020 | ZhenHub, Duties and Taxes were calculated using the <https://www.easyship.com/> website.

¹⁰ <https://customs.gov.ph/>

¹¹ The Revised Kyoto Convention is largely recognized as the model for 21st century Customs processes. The Revised Kyoto Convention's principles enhance trade facilitation while protecting Customs' statutory powers. Customs presence is a mandatory requirement for cross-border movement of goods. Revised Kyoto Convention | Bureau of Customs

a whole new set of complicated issues and ambiguous processes. The Philippines Bureau of Customs does not have a standard policy on how cross-border e-commerce items rejected or declined by consumers will be returned to origin.

Furthermore, the long waiting might be due to consolidated customs processing and clearing small items from the state-owned postal service. The importer may utilize the Philippine Postal Service (PHLPost) to deliver orders online in foreign countries. PHLPost, a member of the Universal Postal Union, handles foreign mail arriving in the Philippines. Despite the State-owned postal service's countrywide network, it usually takes longer to get a parcel, particularly when sent to a provincial location. Despite the presence of regional or local branches in other areas with access to international airports where another office exchange may be opened, such as Cebu and Davao, this may be due to the central customs clearing done in Manila's Airmail Exchange Department, Express Mail Exchange Department, and Surface Mail Exchange Department. When a package arrives at the PHLPost Central Office, customs officials may re-tag certain items to complete the same clearance procedure. While provincial customs offices may help postal consignees in their jurisdictions, customers whose items were transported through the mail service must pay duties and taxes levied at the official exchange in Manila.

While consolidating and transporting small commodities through full-container load (FCL) transportation may save money, it may create legal complications. When smaller enterprises use ocean freight to move small items, they incur considerable logistical expenses and risks. Consequently, the significant gains that an SME may earn from serving an increasing internet market are restricted. The Philippines' limited amount of loose cargo (LCL), and customs facilities and warehouses (CFW) operations may be linked to the BOC's restriction preventing customs facilities and warehouses operators from charging consistent rates. In addition, LCL shipping is time-consuming and incurs additional costs with each shipment, significantly raising the cost of shipping for an individual online seller or small company. Small shippers may realize that shipping through FCL is more cost-efficient than LCL.

4. Domestic Logistics

Typically, current freight forwarders and logistics service providers (LSPs) provide postally and package delivery services. While the state-owned PHLPost, which includes package delivery, has a more extensive network than private-sector logistics, the latter is favored for its greater accessibility and dependability. Last-mile delivery services (LMDS) are gaining traction but are primarily concentrated in large cities. The Philippines has an extensive network of bus transport services that connects even the most remote locations of the provinces through the RORO Terminal System (RRTS)¹². Increased demand for products or people transportation may result in uncontrolled vehicle expansion, which leads to traffic congestion. Utilizing buses' cargo capacity may give SMEs and online merchants another alternative to transfer their goods between islands.

IV. CONCLUSION

The Philippines e-commerce industry is no doubt a thriving one. Especially now, many Filipinos choose more convenient and efficient ways of purchasing goods, such as online shopping. However, this does not negate the reality that the Philippines face several logistical issues that hamper this economic sector. For example, many dissatisfied customers have occurred because of missing or damaged deliveries or delayed distribution of products. However, these are just a few deep-seated problems in the country's regulatory system that limits the full potential of the e-commerce and cross border trade.

The clarity in policy and regulation around the logistics industry will aid in attracting private investment and fostering innovation. Lack of legislative clarity, especially on foreign investment limits across industrial categories and cross-border consumer transactions, may have hampered increased private sector engagement. Regulatory restrictions for small package service operators must be reviewed and updated to enable e-commerce. Transitioning and transferring monitoring and control powers over postal service providers from the Department of Transportation and Communications (DOTC)¹³,

¹² The RORO Terminal System (RRTS) connects land highways to sea routes using RORO vessels. Cargo trucks may board RORO boats directly, effectively eliminating the need for cargo handling, one of the most costly and time-consuming processes in maritime trade.

¹³ Department of Transportation and Communications (DOTC) is the primary government agency responsible for the development and regulation of transportation and communications systems.

PHLPost, the National Telecommunications Commission (NTC)¹⁴, and now under the DICT¹⁵, must be evaluated and redefined to reflect practical realities. With the DICT spearheading the charge to enhance the country's ICT environment, it is also responsible for advancing e-commerce, fintech, and, most recently, the regulation of express courier services that handle postal commerce. Reviewing regulatory requirements in close collaboration with other relevant authorities is necessary to ensure that rules are consistent, that services are delivered seamlessly, and that consumer transactions are secure and efficient. Legal and regulatory frameworks should address how to improve trade flows, safety and security, and control of physical goods through the provision of advanced data across multiple business models, how to define the legal status and respective roles and responsibilities of economic stakeholders involved in the e-commerce movement, how to comply with privacy and antitrust laws and protect consumers' personal information, and how to reduce environmental pollution. For instance, while app-based logistics asset providers follow the shared economy wave, the outsourced human asset's welfare, safety, security, and remuneration must also be addressed. While reviewing the laws governing this sector, authorities must consider the need to foster growth and develop digital business models in logistics, which may be restricted by regulatory expansion. Attributed to the fact that the absence of systematic and harmonized rules, regulations, and procedures may expose significant vulnerabilities in the cross-border e-commerce supply chain, Customs must collaborate with other relevant government agencies and stakeholders to address these cross-cutting regulatory concerns. Moreover, given the absence of a clear definition of what constitutes a public utility, international corporations cannot expand the range of logistical services in the country. Rapid approval of the Public Services Act amendment may help clarify the legal position of foreign ownership limitations in the logistics industry and stimulate innovation.

PHLPost's revitalization may serve as a critical foundation for the small package delivery logistics business, particularly in distant and isolated localities. Various Philippine government administrations have presented many ideas to restructure PHLPost, including partial privatization or the formation of a public-private partnership, but these initiatives have not been realized completely. Given PHLPost's existing asset base, immediate steps include expanding partnerships with third-party logistics providers to leverage those assets for consolidation and last-mile delivery by utilizing their buildings and warehouses as shared service centers for hub and exchange, sorting, and cross-docking. A more in-depth legal and operational review will be required to determine which specific issues can be addressed in the short term, such as revising the 2016 Agreement between the Bureau of Customs and PHLPost to reflect better the CMTA's provisions and the needs of e-commerce. Issues can be resolved in the intermediate term for PHLPost that can follow BrazilPost's or SingaporePost's transformation process. Simultaneously, the PHLPost amendments should promote competitive neutrality, ensuring that any regulatory benefits granted to PHLPost to achieve its universal service requirements retain a fair playing field for commercial logistics companies.

Campaigns educating SMEs about available logistics services may be critical in motivating them to explore the possibility of e-commerce business. Although platform-based sellers such as Lazada, Shopee, and Zalora are well-versed in available delivery options, other budding online sellers rely on social media platforms such as Facebook and Instagram to reach their market. Many small-time online sellers may be unaware of the variety of logistics services available to them and how they can tailor their shipping needs. The industry and government may work on information collection and dissemination to SMEs. The annual Logistics Services Philippines Conference, inaugurated in 2018, is an excellent platform for connecting the logistics service industry with SMEs and for additional debate on developing and supporting e-commerce logistics and delivery.

Finally, logistical investments must be recognized and supported. Logistics assets, especially in storage, transportation, and technology, demand significant and long-term investment. Existing logistics firms must be enticed to modernize existing buildings, transportation assets, and information technology infrastructure and systems via support and access to long-term funding at reasonable interest rates. Support for human capital development must be institutionalized through competency mapping and the development of required skill sets, as well as through the provision of scholarships for technical-vocational

¹⁴ The National Telecommunications Commission (NTC) is primarily responsible for the regulation and quasi-judicial functions relative to the supervision, adjudication, and control of the country's radio communications, telecommunications, and broadcast, including cable television (CATV) facilities and services.

¹⁵ The Department of Information and Communications Technology is the executive department of the Philippine government responsible for the planning, development and promotion of the country's information and communications technology agenda in support of national development.

courses in logistics and the establishment of a mechanism for tax exemptions on the importation of training tools and equipment such as driving simulators and logistics software. Finally, the government is urged to invest in and incentivize new startups and firms that deliver cutting-edge technical solutions.

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