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Philippine Export Promotion Policies and Their Responsiveness to European Market Conditions

A Case Study of Philippine Handicraft Exports to Belgium and Germany[1]

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1. Introduction: Export promotion

An export-oriented economic policy has boosted the economics of the Newly Industrialised Countries of Asia. Philippine policy makers have also realised that the Philippines cannot achieve its aim of becoming the next “economic tiger” of Asia without shifting to an export-oriented economic programme. In fact, the vision of President Fidel V. Ramos's administration, summarised in the slogan "Philippine 2000", is built on the premise of sustained export growth. Anchoring every successful export-oriented programme are the export promotion policies carried out by the different public and private export promotion organisations. These policies stimulate export entrepreneurship and help to make the business community more highly aware of the profit potential of the export market.

Export promotion programmes are public policy measures which actually or potentially enhance exporting activity at the company, industry or national level. Export promotion policies are targeted mainly at small and medium-sized enterprises (Seringhaus and Rosson, 1991: 5). One gap in the study of export promotion is that these policies have rarely been evaluated in developing countries such as the Philippines. Even among developed countries, no standard criteria have been formulated for the evaluation of the effectiveness of export promotion policies and organisations (see however Cuyvers, De Pelsmacker, Rayp and Roozen, 1995). The main reason for this is the diversity of export promotion needs of each individual country. Further research is needed in this area (see Seringhaus and Rosson, 1991: 243-271). Moreover, this research should also try to bridge the gap between the academe and public/private organisations in the field of export promotion and development (see Seringhaus and Rosson, 1991: 321).

Ideally, an export promotion policy should be backed up with an appropriate political and economic philosophy of the government. Export promotion policies should take into account the nature, size, and distribution of the individual exporting firms. Studies have shown that even within individual firms belonging to the same country and product category, export promotion needs could be very diverse. This suggests that integrated export promotion should not only be comprehensive enough to cover the needs of each individual firm, but also flexible and dynamic in order to help that firm as it passes through the different stages of export promotion.

Export promotion has also been controversial in the last few years. One school of thought is that export promotion is more and more becoming an indispensable tool for the development of individual nations as world trade has increased dramatically in the past two to three decades. There is an opposing view, however, that considers export promotion really just another form of economic protectionism. It has been argued that although these policies do not directly affect global competition the way subsidies and quotas do, they nevertheless impede fair global trade by providing undue advantage to the country which implements these policies. As a developing country, the Philippines really does not have much choice in the matter. It needs to increase its export volume as a matter of economic survival, and within its national context, only the public sector has the resources to provide export promotion services to small and medium-sized businesses in a cost-effective way.

2. The Philippine handicrafts sector: a profile

2.1 What are handicrafts?

The authors have chosen to focus on the Philippine handicraft industry in particular in evaluating the effectiveness of Philippine export promotion policies. This product category was selected over other sectors with greater export values because of the distinctively Filipino character of handicrafts. Despite its relatively smaller earnings, the handicraft sector (which broadly includes portions of the furniture, ceramics, and gifts and houseware sectors), was identified as one of the country's fourteen export winners by the Philippine Department of Trade and Industry in May 1993 along with other traditional winners such as garments, computer software, construction services and professional services (Favis-Villafuerte, 1993c). Most handicraft manufacturers are also classified as small and medium-sized enterprises (SME's), and if they are to survive in the competitive global market, they will need far greater promotional support than the traditional resource-based and semi-finished export products. Today, these needs are being addressed not just by the government, but private industry groups as wel, such as the Philippine Chamber of Handicraft Industries (PCHI), the Ceramics Exporters and Manufacturers Association (CREMA), the Federation of Handmade Paper Makers and Converters (FEHPA) and the Christmas Decors Association of the Philippines (CAP).

One general problem that we face in studying this sector is the fact that there is really no separate product classification for handicrafts: Philippine handicraft products fall mainly under the classification of “Gifts, Toys and Houseware”, but many other items fall under such classifications as “Furniture” or “Ceramics”. Because there is no universally accepted definition of the term "handicrafts", it has been used to refer to a very wide range of items, including a broad spectrum of "gift items", houseware, home furnishings, products of craft industries, and fashion accessories (UNCTAD/GATT, International Trade Centre, 1989). The United Nations Development Programme defines handicrafts as articles produced with or without the use of tools, simple instruments or implements operated directly by hand or feet including improved upon machine-made materials with a novel finished product (UNDP, 1981), including improved depicting native designs. This definition is still much too broad to be useful for this study.

To sharpen our focus, the authors will use the term to refer to a more specific subset of items covering what are, for the Philippines, only the most prominent product segments under this general category: artificial flowers, Christmas decorations, ceramics, handmade paper and paper products, basket and wickerwork, metalwork and furniture.

2.2 Handicraft exports to Europe

Our case study will be further refined by focusing only on exports to the European market, and two countries in particular: Germany and Belgium.

The European market exhibits the greatest future growth potential for most handicraft manufacturing firms. In fact, Philippine participation in international and local fairs and exhibitions (whether organised by the government through the Center for International Trade Expositions and Missions, CITEM, or by the private sector) is primarily to showcase Philippine handicrafts to European buyers. For instance, Europeans dominated the foreign buyers who visited the 17th Gifts, Toys, Houseware and Fashion Accessories Market Week held in Manila, April 1993 (Favis-Villafuerte, 1993a).

Germany has traditionally been the Philippines' s largest trading partner in Europe. In 1991, Philippine exports to Germany accounted for 4.63 % of the total value of its exports, out of a total of 13.83% for the entire European Union. As of 1990, Germany had also become the Philippines's fourth largest trading partner in the world. In terms of handicraft in particular, Germany was the second largest importer of Philippine-made handicraft products in 1991, behind the United States. Overall, Germany bought 11.8% of Philippine exports in the Gifts, Toys and Houseware sector.

Belgium is a much smaller trading partner for the Philippines, but is important nevertheless. As of 1990, Belgium ranked 21st among the trading partners of the Philippines, but it has continually improved its ranking through the years, advancing from 24th in 1988 to 22nd in 1989 and finally to 21st in 1990. Total export value to Belgium has increased more than five-fold since 1985, testifying to the fact that it is increasingly becoming an important export market for the Philippines. As of 1991, Belgium purchased 1.35% of all Filipino exports in the Gifts, Toys and Houseware category, ranking 18th over-all among Philippine trading partners in this category.

2.3 The comparative advantage of Philippine handicrafts

Handicraft products have been an export winner for the Philippines because of the comparative advantages it enjoys in terms of: the artistry and creativity of Filipinos, the availability of a large pool of well educated, skilllful and highly trainable workers in the countryside; a vibrant, cohesive and articulate national association of handicraft producers and traders, and the existence of Filipino-owned export trading companies that have spurred expanded production by small, widely scattered handicraft producers. Almost all exporters interviewed in this study (see list below) have specifically pointed out Filipino creativity in design as the key factor that distinguishes them from their competitors. The Philippines has in fact been labelled as the "Milan of Asia" as a testament to the Filipino's ingenuity and creativeness.

This competitive advantage has not been achieved without cost: design would be comparable to the Research and Development undertaken by companies in other industries, and most companies invest a lot of time and effort to stay current in terms of their product designs. It is not unusual for companies to send their designers and artists to Europe and the US just to check out the latest trends in design.

The Product Development and Design Center of the Philippines (PDDCP), a technical agency of the Department of Trade and Industry, was organised to help companies come up with new designs. It provides invaluable assistance in product research and development, design education, design promotion, package design and design resource and technical formation. PDDCP is assisted by foreign consultants, including those provided by the GTZ as part of the Philippine-German Export Development Programme (PhilGED). These consultants, usually based in their mother countries, regularly visit the Philippines to educate local manufacturers about the designs, colours, and finishing currently desired in the foreign markets.

Sadly, Filipino handicraft manufacturers have not been able to capitalise on the comparative advantages discussed above. The proliferation of designs for each artist and designer in each handicraft firm has given rise to unhealthy competition. Ideas and designs that are not selected for final production often end up getting sold to foreign competition. Competitors from other Asian countries have been able to lure frustrated Filipino artists away from their overcrowded local firms.

Filipino designs showcased in trade fairs are often copied by the competition, and later produced at a lower price, to the detriment of the Filipino originators of the product or product design.
When foreign companies steal designs that have been developed by Filipinos or pirate away designers that have been trained in the Philippines, they are reducing the Philippines's competitive advantage without making the same sort of investment that the Philippines had put into developing this advantage.

Patents provide some protection locally, but manufacturers are aware of the expense and the futility of trying to enforce such patents in the international market.

Chinese manufacturers were singled out by the handicraft manufacturers interviewed for this study as the most frequently guilty of this sort of design pilferage.

2.4 Local profile of the handicraft industry

2.4.1 Competition

The Philippines's main competition comes from countries in South and East Asia, such as Thailand, Indonesia, Malaysia, Korea, Taiwan, India, Hong Kong, and the People's Republic of China (PROC). The most common advantages that these countries enjoy over the Philippines include their lower production costs (especially in terms of labour, as in the case of China), and their superior technology and production methods (e.g. in Taiwan and Hong Kong).

2.4.2 Fairs and exhibits

Despite the stiff global competition, Philippine-made handicrafts have been quite successful at penetrating foreign markets. The Department of Trade and Industry in 1991 cited the Gifts, Toys and Houseware industry as one of the six export 'champlons' to be given priority by the government. A lot of credit for the success of Philippine handicraft exports goes to the Center for International Trade Expositions and Missions (CITEM), the main government marketing arm for these products. CITEM has not only exposed Philippine handicrafts to the global market through locally held fairs and permanent showrooms, it has also assisted several exporters in joining international fairs and exhibitions, the most prominent of which is the Ambiente in Frankfurt, Germany.

Locally, CITEM holds fairs three times a year. These fairs are called the Manila Furnishing Apparel Manufacturing Exchange (FAME) Week and they are held in February, April and October. The February edition of the fair features furniture while the latter two feature Gifts, Toy, Housewares and Fashion Accessories. So far, results of the local fairs have proved to be encouraging. In October 1992, for instance, the FAME Week was able to gather 337 Filipino exhibitors and attract 2,565 buyers, over 70 % of which were foreign. This edition of the fair was able to generate $ 58,000,000 in negotiated sales and $54,500,000 in projected sales. The two countries under consideration in this study, Belgium and Germany, both figured prominently in the Manila FAME fairs. In April 1992, Germany ranked 4th and Belgium ranked 10th in terms of booked orders generated by the FAME fair. These results are not bad at all considering that the government spends less than US$300,000 to prepare these fairs. For each local fair, CITEM coordinates with the commercial attachés at the Philippine embassies in the target countries to send invitations to potential as well as past importers of Philippine goods.

Joining international trade fairs has been acknowledged as a good vehicle not only to promote or showcase one's products, but also to test the market and to learn about the market (see Seringhaus and Rosson, 1991: 163-188). Thus, CITEM also tries to organise and sometimes subsidise local handicraft firms' participation in international fairs. The thirteen firms that participated in Ambiente 1993 reaped US$3,015,879 in negotiated sales.

The companies housed in the Philippine booth at these fairs are selected and screened by CITEM. According to CITEM officials, they usually try to select as diverse a group of firms as possible to participate in foreign trade fairs. It has specific selection criteria and tries to give equal exposure to established firms and fairly new ones. Of course, not all firms are able to meet CITEM's criteria, and funding problems will always limit the number of firms that they can afford to send to each trade fair. A certain amount of discontentment consequently results from this process.

Because CITEM and private industry associations have no policing power, they cannot stop firms that have not been selected for the Philippine booth at these fairs from setting up their own booths, and many have done so. CITEM regards this as detrimental to the general wellbeing of the Philippine handicraft industry, especially when these firms had not been selected for the Philippine booth in the first place because their products did not conform to CITEM's quality and performance standards.

2.4.3 Business size and nature

A total of 225 firms were registered with the Board of Investments (BOI) in 1989 as exporters under the Gifts, Toys and Houseware sector. These manufacturers are primarily small-to-medium scale exporters (SME's). This sector is dominated by cottage industries or firms with capitalisations of up to US$18,000 (P500,000), and less than ten employees. Subcontractors who are not registered with the BOI comprise more than 50 % of the industry.

Most established handicraft firms acknowledge CITEM as their main patron, but there are also private industry sub-sector and regional organisations which seek to help fellow industry members by lobbying for their sector to CITEM and other government agencies, by providing technical and technological assistance, by organising inter-industry fairs and seminars and by providing financial assistance. Some of the more prominent trade organisations among handicraft manufacturers are the Federation of Handmade Paper Makers and Converters (FEHPA), the Christmas Decor Association of the Philippines (CAP), the Philippine Chamber of Handicraft Industries (PCHI), the Artificial Plants Manufacturers' Association of the Philippines (APMAP) and the Ceramics Export Manufacturers' Association (CREMA). Most established companies are members of more than one industry association because a typical handicraft manufacturer produces more than one type of handicraft product.

2.4.4 Technology and raw materials

The level of technology employed by the small and medium-sized exporters varies depending on the products that they produce. Some products such as basketwork and woodcraft employ simple manual processing while ceramics use a wide variety of machines and equipment and a relatively high level of technology.

The raw materials employed in the industry are mostly indigenous. It is estimated that only 10% worth of non-indigenous raw materials go into the production process.

2.4.5 Financing

Handicraft manufacturers are often backyard entrepreneurs who need substantial financing from both private and public organisations. CAP and FEHPA have an internal fund which they use to provide loans for their members, usually secured by the shipment purchase orders. The government has developed a Preshipment Export Financing Guarantee (PEFG) Programme which provides guarantees to banks lending to small and medium-sized exporters. The PEFG is administered by the Philippine Export and Foreign Loan Guarantee Corporation (PHILGUARANTEE). The Development Bank of the Philippines also has a financing package offered to SME'S.

However, the common problem with all of these lending schemes is the voluminous paper work required and the various technicalities involved for a loan application. The trouble involved in applying for a loan often discourages many firms from seeking financial assistance from organisations, both private and public.

2.4.6 Potential

The handicraft industry posted double digit growth rates from 1986 to 1988. Although its pace slowed down somewhat after 1988, it continued to outperform total national export growth in 1989 and 1990. The UNCTAD/GATT International Trade Centre does not foresee market saturation for handicraft products in the foreseeable future. It adds that there is substantial room for expansion in its existing markets, as well as by tapping new markets. The biggest buyers of Philippine handicrafts are the United States, Germany, Japan and the United Kingdom.

2.4.7 Problems

Like many growing industries, the Philippine handicraft industry has its share of problems. In 1993, the chief complaint of most handicraft producers related to the long power outages experienced daily in the metropolis and in the countryside. Prolonged power outages caused them to miss many of their delivery deadlines, resulting in cancelled orders from their buyers and substantial losses.

Another problem of the industry is the constantly rising cost of raw materials. These rising costs are the combined effect of a number of different factors: the continuous depletion of resources without replacement, the seasonal nature of raw materials, the lack of peace and order in the countryside and the lack of specialisation in raw material production. Likewise, the industry is plagued by high import tariffs and rising wages. The importation of finishing materials has been made more expensive by the import levies, and production labour costs have increased because of several hikes in the minimum wage. and the increasing premiums charged by highly skilled workers.

Handicraft manufacturers also complain of the high and unstable floating exchange rate adopted by the government. Philippine products cannot be price competitive at the current peso-dollar rate of exchange. Exports have been lobbying the government to devalue the peso by as much as 20 to 25 percent in order to make Philippine exports competitive in the world market.

Other problems cited by the firm owners were inadequate financial support, 'red tape' in processing export documents and inadequate technology and equipment.

2.4.8 Solutions

To cope with the problems, the government has introduced various programmes and policies to help the individual exporter. To address the power problem, the government prioritised the installation of fast-track power barges while constructing longer-term base load power plants. Programmes such as "Kalakalan 20" for countryside and barangay businesses were initiated to allow small firms to avail of tax and fees exemption. These programmes also provide for exemptions from many restrictive rules and regulations regarding the asset base, income and operating activities of qualified firms. Export sales of handicrafts are exempted from the value-added tax. With the assistance of private industry associations, the government has also come up with programmes that will provide even more financial aid to exporters. An example of this is the US$535,000 (PI5,000,000) grant that the government-run Technology and Livelihood Research Centre (TLRC) has given PCHI.

The Council of the European Communities has prescribed a new format for a Certificate of Origin for all handicraft exports to its twelve member countries. This special form will enable European buyers to avail of special tariff concessions such as a total exemption from or partial reduction of import taxes on Philippine exports. This development also bodes well for Philippine exporters.

The over-valued peso is probably the most intractable problem facing the industry today. There seems to be no solution in sight for this problem, as there is a very strong national lobby against any devaluation of the peso.

2.4.9 Latest developments

The government has recently decided to focus a lot of its export promotion efforts on the handmade paper subsector. This subsector has been labelled as the "sunrise industry" to watchout for, and the government has created a multi-sectoral committee to ensure its development in the country. The newly created FEHPA was awarded a fairly large grant of US$180,000 (P5,000,000) by then President Corazon Aquino in 1991. Officials of FEHPA disclose that they intend to use this money to create a National Paper Centre that will serve both as a permanent showroom of Philippine-made handmade paper and paper products and as an information centre for entrepreneurs interested in learning more about the technology and the industry. FEHPA also intends to create a materials exchange programme that will provide member firms with raw materials loans or advances upon presentation of their purchase orders.

Government concern for the handmade paper sub-sector is justified because of the abundance of suitable raw materials in the Philippines and the rising global demand for earth-friendly products.

3. Export promotion for the Philippine handicrafts sector

3.1 Export promotion in the Philippines

3.1.1 Marketing

We can clearly see the rationale behind each step that the government has taken in promoting the handicrafts industry if we look at them in the light of the Philippine Export Development Plan (PEDP).

The short term marketing objective of this plan is to find or even create market niches for Philippine products. It is also to promote a shift in product profile from low value/high quantity exports to the sort of high value exports that require more processing and higher levels of creativity. The medium term marketing objective is to establish the image of the Philippines as a source of highly creative consumer products (the "Milan of Asia"), and as a reliable supplier of light manufactured goods.

As the main marketing organ of the government for handicrafts and other goods abroad, CITEM has these marketing objectives in mind when it tries to encourage creativity among the handicraft manufacturers. In this area, CITEM coordinates extensively with the PDDCP and the Philippine Trade Training Centre (PTTC) to ensure that Philippine-made handicrafts are always ahead of the competition in terms of design and creativity. Moreover, the Bureau of Export Trade Promotion (BETP) provides private firms with a rich library of literature on export statistics and export trends. CITEM will then make sure that these new handicraft designs are properly showcased to the world market by organizing its own fairs, or putting together missions and exhibits to participate in international trade shows. CITEM has been invaluable to the handicraft sector in organising and sometimes subsidising Philippine participating in these local and foreign fairs and exhibitions. This assistance has extended as far as designing and arranging the motifs of their booths.

Perhaps the only objection that has been raised about CITEM so far in terms of its organisation of trade missions and production of fairs and exhibitions is its strict screening of the companies that are allowed to represent the country in the Philippine booths of these fairs and exhibits. Companies that do not pass this screening for one reason or another are naturally unhappy about this tight selectivity.

Of course, CITEM's reason for being so strict is its desire to ensure that the image of the Philippines as a supplier of high quality, high-end products is etched in the minds of buyers in the international market. It would also be unproductive to showcase companies that may not have the capacity to meet the volume of orders that are often generated at these fairs. Many exporters agree that the Philippines has been quite successful in establishing an image of design superiority and uniqueness among the foreign buyers of handicraft.

Philippine handicrafts usually cost more than competing products because they are competing on the basis of design quality rather than price. However, the Philippines's efforts to establish itself as the design centre of Asia has often been undermined by unscrupulous competition that has on several occasions been able to copy Philippine designs and then to produce these designs at a much lower cost, wiping out any Philippine advantage in the market.

Some exporters have claimed that the Philippines's emphasis on design has resulted in a lot of new products and ideas, but not in increased sales. Volume orders for new products come in six months after they are introduced. By then, the competition will already have had enough time to copy the designs and master the manufacturing process of these successful new products, and they will get the volume orders because of their lower costs. PDDCP and CITEM have responded to this problem by encouraging more design development and regular design updating in order to always keep abreast of the competition, and forcing foreign buyers to get their goods from the Philippines, while the designs are still "hot".

3.1.2 Technology

The short term technology thrust of the Philippine Export Development Plan is to transfer higher production management skills to individual firms, to provide exporters with skills in or access to design engineering and to acquire appropriate technologies that will improve production in terms of generating lower costs, higher output and/or higher quality. The medium term technology thrust is to implement a modernisation and expansion programme among exporters, to establish skills development facilities in craft, production and management, to realign the educational programme in science, business administration and engineering to those needed by export industries, and to establish research and development centres for export products identified as benefiting the most from Research and Development.

The TLRC, PTTC and the Department of Science and Technology count as the most important government agencies in the promotion and development of new technologies. Industry associations also try to conduct seminars on the latest production methods for its members, but it is unreasonable to expect more established firms to divulge their trade and production secrets even to fellow members of the industry group, as their colleagues are also on many occasions their competitors in the marketplace.

Many of the exporters that were interviewed for this study have indicated that technology is the area most often neglected by the government and the private sector because of the higher capitalisation costs associated with the installation of new equipment. Exporters often try to cut costs by making do with whatever traditional technology they already have in place. In many instances, Philippine handicraft firms simply lose by default to companies from more advanced countries like Hong Kong, Japan and Taiwan just because they do not have the machinery to produce certain types of products. Of course, the problem of inadequate and inferior technology is not helped at all by the chronic power outages that have afflicted local manufacturers, resulting in further delays in deliveries and dissatisfied foreign buyers.

3.1.3 Finance

The short term financial objectives of PEDP are to facilitate financing for indirect exporters through a rediscounting window that will accept domestic letters of credit, and to make financing more accessible to small and medium scale exporters. The medium term objective is to source credit facilities that will be able to provide financing for modernisation and expansion under very soft terms.

Thus far, the government has only been actively promoting short term loans to SME's in the handicraft sector through programmes like the PEFG or through grants to the individual industry associations which are supposed to be used as the initial capitalisation for lending cooperatives among member companies. However, even with financing schemes such as these, several companies still hesitate to apply for loans and instead rely on their own resources in financing their shipment orders.

The main deterrent to the use of these funds is the complex procedure and requirements involved in applying for a loan. The government has tried to respond to this private sector hesitation with information campaigns and the simplification of the loan application process. Until the government can substantially achieve its short term goals, it cannot begin to move towards the accomplishment of its medium term objectives.

3.2 Export promotion in the European market

Traditionally, export promotion efforts have been clearly directed at stimulating supply in the home front. The focus of most export promotion policies has usually been to encourage entrepreneurs to go into the exporting business by providing them with information, technology, financing and marketing assistance. This study tries to move a step further by looking into the demand side of export promotion.

Looking at the demand side will enable us to identify some of the opportunities that are being missed by export promotion policies at home, as well as to recognise the successes of the policies currently in place. Basically, we will look at the structure of the foreign market, and check to see if the Philippine manufacturers have been using the appropriate marketing mix in targeting this market.

The executives of eight Belgian and one German firm were interviewed regarding their view of Philippine-made handicraft products. These firms vary in size and structure. Some are a combination of retailer and wholesaler while others are purely wholesalers. One of the companies is a big conglomerate while another has a chain network of 100 stores. These companies also vary in the types of products that they import. Some purchase large volumes of relatively inexpensive handicrafts while others stock up on only exclusive and somewhat unique products. The geographical scope and selection of the companies has been limited by the available time and resources; thus, this study does not claim to provide an exhaustive and conclusive picture of Philippine handicrafts in Europe. However, many of the insights gained are still very useful for the purposes of this paper. The nine companies interviewed will not be named, as the confidentiality of their identities was guaranteed as a precondition for their cooperation.

3.2.1 Product considerations

It was the general consensus among the European importers interviewed that Philippine handicrafts are of good quality and design. One of the importers believed that Philippine designs were superior to even those from Italy. Although there were occasional complaints regarding the consistency of quality and finishing, Europeans generally saw Philippine products as being well designed. Philippine products ranked highly against those of their Asian neighbours. While it cannot be denied that countries such as China, Thailand and Indonesia have been improving on their craft, the Philippines is still widely regarded as the leader in design.

The problem, it seems, lies in the variety of products offered by the Philippines. Some of the firms interviewed indicated that their Philippine suppliers were often unable to provide certain types of products that were available from the more advanced Asian countries like Taiwan and Japan. They surmised that this was due to their suppliers' lack of appropriate technology and machinery.

Handicrafts may be classified as either exclusive or non-exclusive. Exclusive products are high-end products which command a higher price. They are usually sold at specialised shops and are targeted at the higher economic classes. Non-exclusive products are low-end products usually ordered in mass volumes by wholesalers and large retail outlets and chains. These products are usually targeted at the lower and middle class who cannot afford the exclusive product but would like to buy lower end products that resemble them.

In terms of volume, the low-end products have a much greater share of the market. One firm estimates that handicraft sales at the lower end of the market are five times that of sales to the high end. Philippine exports, however, are mostly targeted at the high-end, exclusive segment of the market.

Most of the Filipino handicraft items kept in inventory by the firms that participated in this study were in the high end of the market - a testament to CITEM's policy of creating a high quality image among foreign buyers. There were some low-end Philippine products, but these goods were usually delivered through special arrangements between the foreign buyer and the Filipino supplier, rather than through normal commercial transactions. For example, one Belgian firm lent a Filipino entrepreneur US$50,000 specifically so that he could set up a manufacturing operation in the Pampanga province (north of Manila) to supply them with low-priced ceramic products. Outside of these exceptional cases, there was very little Philippine presence in the low-end of the market, which is dominated by China.

There was some negative feedback about the packaging of the product which deserves special attention in the future from the Filipino exporter. Some importers think that the Filipinos are trying to skimp too much on packaging by not placing pieces of cardboard in between items. Thus, it becomes tedious for them to unload the items in their warehouses. Still, others suggest that it would be good for Filipinos to number the items they put in the crates and cartons so that the importers could easily identify them.

As far as market potential is concerned, most importers think that Europe still has a vast untapped market. They foresee continuing growth of handicraft imports through the years, especially when the world-wide recession ends.

3.2.2 Pricing strategy

A good assessment of the Filipino pricing strategy was made by a Belgian importer who commented that the Filipino handicrafts are nice to took at, but not to buy. Only foreign buyers who insist on updated and exclusive designs will regularly buy Philippine products since most non-exclusive buyers would rather just wait for China to copy the Philippine design half a year later and then purchase these items from China at 25% less in price. Chinese products have been described as being of much lower quality than the Philippine products, but the cost factor has forced most non-exclusive importers, usually large retail outlet and chains, to limit their purchase from the Philippines. Even among the high-end items importers, there are complaints of overpricing. Some importers think that the high prices are unjustified because Taiwanese products are available at the same price as Philippine products even if Philippine labour costs are almost 20 times lower than in Taiwan. One importer commented that with the devaluation of the Italian lira, it was now more profitable to buy goods from Italy than it was to import handicrafts from the Philippines.

Most importers think that the high prices are due to the large overheads and high profit goals of the big companies that they have to deal with. Although they think that the smaller companies can provide better prices, they are concerned that these companies would have too much difficulty in organizing a large shipment order.

The complaint about Philippine product pricing was unanimous among all the firms interviewed. Many cited this as the foremost reason why they have limited or stopped importing Philippine-made products. Most importers think that Filipinos are too greedy in their desire to get rich quickly. They commented that a high price scheme could only benefit the exporters in the short term for in the long run an established relationship with a foreign buyer becomes more profitable.

Of course, these foreign buyers have not taken into account the design and development costs Filipinos incur in making their products unique and creative. But even after factoring in development costs, it does not seem as if Filipino handicrafts should be priced at the level they are now. Certainly not if we are to remain competitive in the European market. The earlier example of the partnership between the Belgian and a Filipino firm further proves the point that it is possible to produce these handicraft products at a more acceptable cost.

3.2.3 Distribution channels

This is the area which generated the most violent protests among the firms interviewed. The Filipinos have been accused of violating the chain of distribution by selling directly to the retailers, instead of the wholesalers. A quick check with the Philippine Commercial Attaché in Germany revealed that CITEM has ordered Philippine handicraft exporters to charge different prices for wholesalers and retailers. But according to the European wholesale importers, the Philippine pricing structure did not provide a large enough difference between their wholesale and their retail prices to sufficiently protect the position of the wholesaler. Apparently, the wholesalers have to charge retailers as much as double their purchase price to recover their costs of importation and operation.

Philippine exporters who sell directly to large retail chains do so naturally to the detriment of the wholesaler/importer. More than one wholesaler/importer has made it a policy not to import items which large retail chains already carry on their display. In fact, they regularly check to see if any of the items that they import even vaguely resemble items on the shelves of large retail chains because none of the smaller retailers will want to stock up this item anymore. Large retail outlets buy limited types of products in large volumes. They will typically bypass the wholesaler, and go directly to the manufacturer, to be able to sell the items at a much lower price.

Although manufacturers may be dazzled by the size of the orders that these retailers might generate in the short term, the importers warned that doing business directly with retail outlets can only harm the Philippine handicraft industry, as this would alienate the wholesalers who will still generate the greater volume of orders over the long-term, and for a much broader product range at that.

If Filipino firms continue this practice of selling their products to large retail chains they would only end up discouraging wholesalers from carrying heretofor "exclusive" Filipino items on their inventory.

3.2.4 Advertising and promotion

There are two phases of promotion for handicrafts. The first is the pre-importation promotion which the individual firms undertake often with CITEM to find importers for Philippine handicrafts. The second is the post-importation promotion which are the activities that the importers undertake to promote the imported items in the foreign market. Both sets of activities are vital for the growth of the Philippine handicraft industry.

The European importers believe that the Manila fairs are an excellent method of pre-importation promotion, and are effective in promoting Philippine handicrafts. These fairs are well-organised and the products are unique, creative and appealing. The importers, however complain about the regular attendance of Filipino firms in international fairs such as the one regularly held in Frankfurt. The exclusive wholesalers and distributors feel that the Filipinos are overpromoting themselves, as even the exclusive items supposedly reserved for certain importers are being displayed and sold to other importers. This eliminates the exclusiveness of the item being offered, which is the main reason why the importer had ordered the item in the first place!

Foreign buyers willingly incur considerable costs to travel to Manila and see Filipino products, primarily so that they can gain exclusivity. When CITEM and the Filipino handicraft exporters subsequently bring these products to European fairs and then sell these same items to competing wholesalers and retailers who have not incurred the same sort of travelling costs to see the product, they have carelessly wiped out any advantage that the original buyer had gained with his fairly high investment in traveling expenses. One particular importer especially lamented the unethical behaviour of a Filipino exporter who tried to exhibit in Europe a product that they had designed together!

Importers rightly stress that exclusive products should remain exclusive. Any violation of the confidence given by the foreign buyer will result in a black eye not only for the individual firm, but for the entire Philippine handicraft industry as well.

The importer usually does the post-importation promotion himself, often by setting up a permanent showroom at the Trade Mart in Brussels. There are, however, instances when some European importers believe that Filipino exporters could help them in their post-importation promotion by putting adequate labels and descriptions on their products.

The statements of the importers support the conclusions of Ronald Van Den Bosch (1993), who in his report to CITEM about the Filipino handmade paper exports to Europe, stated that Filipinos spent too much money attending numerous foreign fairs and developing too many designs. He recommended that Filipino handicraft exporters should instead learn to concentrate more on just several winning designs and to try to price them reasonably in the world market.

4. Conclusion and recommendations

By and large, the Philippine government's efforts to promote handicraft exports seem to have been quite successful, and most of the problems articulated by the local companies are being adequately addressed by the Philippine Export Development Plan. However, by assessing this Plan for handicrafts in the light of the European importers' assessment of the Philippine export performance, some areas for improvement can be identified.

Pricing is the first area that should be looked into. While it may be a good strategy to pursue the higher value-added segment, it is also possible to price oneselve out the market. Concrete policies that will address the pricing issue are necessary to make Philippine products more competitive. Devaluing the

Philippine peso will accomplish this, of course, but this is not the only possible solution. Tax breaks have helped, but do not seem to be enough. Training Filipino manufacturers to improve their productivity and reduce their overheads could go a long way towards reducing their costs of production, and this may prove to be a better long-term solution to this problem.

Moreover, the Philippine handicraft export community has to be educated into thinking long term in terms of building relationships with their buyers. Instead of being transaction-oriented and looking for "deals", they should be relationship-oriented and engage in long term business development. This sort of thinking should influence their decisions in terms of pricing policies, product packaging, and choice of distribution channels. A very telling statistic is that the average relationship between a European buyer and a Taiwanese supplier is five times longer than the average relationship between a European buyer and a comparable Filipino supplier. Industry associations can play a stronger role in this regard by educating their members, and policing their ranks.

CITEM has undoubtedly been successful in promoting Filipino handicrafts as a high-end, high quality product. But all these efforts will go for naught if the Filipinos do not take full advantage of their reputation as the "Milan of Asia".

Finally, the large disparity in size between the exclusive and non-exclusive ends of the handicraft market is worthy of note. Although the Philippines has made a conscious decision to find its niche in the high end of the market, the sheer size of the low-end market makes it difficult to ignore. Should Filipino manufacturers allow their competitors to win this market simply by default, or should they not also try to make inroads into this huge market? Entry into this segment of the market could help hard-pressed Filipino firms to generate larger production volumes and spread out more of the overhead that is pricing them out of the market at their existing level of operations. Besides, why should they let others enjoy all the benefits of imitating the designs that they have developed? By making cheaper knock-offs of their own products, they may also find themselves regaining some of the market that they seem to have ceded to China.

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