

**Beyond Legal Boundaries: Unpacking The Political-Economic Drivers of the
Philippines' Ukay-Ukay Trade**

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Abstract

This thesis takes a look into the continued persistence and expansion of the informal second-hand clothing industry, or *ukay-ukay* as it is referred to in the Philippines. Although the commercial importation of second-hand clothing has been officially banned since 1966 under Republic Act No. 4653 (RA 4653), the ukay-ukay sector has not only continued to grow, but also evolve into a multi million-peso industry that plays a significant role in the everyday lives of millions of Filipinos. This thesis investigates the apparent contradiction between legal prohibition and the industry's widespread, semi-visible presence. Specifically, it asks the question: Why does the informal ukay-ukay sector continue to thrive despite being explicitly prohibited by national law? By tracing the different political and economic factors that shape and influence both the informal and formal ukay-ukay markets, this research challenges overly simplistic explanations that attribute the market's continued persistence solely to enforcement failures or evolving consumer preferences. Instead, this research highlights the different institutional and structural mechanisms simultaneously at play that actively sustain the informal market and its continued resistance.

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1. Introduction

In recent years, clothing consumption in the United States and across much of the Global North has been increasingly shaped by a culture of excess and disposability. Fast fashion giants such as Zara and H&M have been known to take advantage of low overseas production costs and constantly shifting trend cycles in order to offer their customer bases a constant influx of new and inexpensive garments. This persistent cycle shortens the lifespan of clothing and normalizes the practice of discarding items of clothing only after a few wears. Many consumers justify this cycle by donating their unwanted clothing to local thrift stores and charities, assuming that their items will be resold to others in their area. However, what many fail to realize is that less than 10 percent of donations are actually being sold locally, and that the remaining 90 percent – an estimated 3.8 billion pounds – is sold to larger scale recyclers (ABC News, 2006). The sheer volume of unwanted clothing donated to local thrift stores and charities frequently exceeds their capacity to resell or repurpose, prompting them to sell their remaining stock to global recyclers, who profit by selling a larger portion to overseas markets. It is estimated that 45% of recycled clothing is sold and exported overseas to the Global South (Northam, 2013). What may begin as a well-intentioned act of charity quickly becomes part of a vast transnational flow of used clothing, raising important questions about where these goods ultimately end up and how they impact the economies abroad.

One destination for this global castoff economy is the Philippines. In the Philippines, second-hand clothing trade is known locally as *ukay-ukay* and is a thriving part of everyday life for millions of Filipinos. Derived originally from the Cebuano word *hukay*, which means “to dig,” *ukay-ukay* refers to the act of rummaging through huge piles of clothing in search of desirable items. Although the practice was originally associated with economic necessity, it now expands across all social classes and encompasses a wide range of consumers seeking a variety of things that range from affordable prices to unique fashion statements. What is unique about the *ukay-ukay* sector in the Philippines, however, is that much of this market operates on a completely informal basis as the commercial importation of second-hand clothing is formally banned under Republic Act No. 4653. This contradiction between the illegality of *ukay-ukay* and its widespread normalization introduces an interesting puzzle: *How does ukay-ukay thrive in a*

regulatory environment that explicitly forbids it? Recent scholars have taken an interest in this sector, but have so far only been able to offer isolated explanations for the economy's continued persistence. Milgram (2012) and Isla (2014) emphasize the cultural and economic appeal of second-hand clothing to consumers in the Philippines, while scholars such as Ofreneo (2009) attribute the sector's success to the collapse of the domestic clothing industry during the era of neoliberal globalization. While these perspectives are relevant, they fall short of explaining how institutional contradictions, particularly between national regulations and local business practices, actively sustain the informal ukay-ukay economy. What remains underexplored is how political-economic structures not only enable, but also incentivize this informal market to flourish.

This thesis attempts to fill this apparent gap by asking: *To what extent do government regulations on the formal second hand (ukay-ukay) clothing industry both at the national and local level affect the persistence of the informal second hand clothing industry in the Philippines? And, why has the informal second-hand (ukay-ukay) industry continued to persist and grow despite legal restrictions?* In order to answer these questions, this study draws on public records of legal and governmental documents, government and NGO reports, local and national media coverage, and related academic and peer-reviewed literature.

This thesis argues that there is not only a singular factor contributing to the persistence of the ukay-ukay market, but instead it is a combination of fragmented political-economic factors and structures that creates an environment that fuels this informal economy. While it might be tempting to attribute the flourishing of ukay-ukay markets to a lack of state capacity to enforce the import ban, national agencies responsible for upholding the national import ban have been consistently known to look the other way or accept bribes, and local government agencies often issue business permits to ukay-ukay vendors without thinking twice about where their merchandise is sourced from, suggesting that the market's continued vibrancy cannot be reduced to a simple inability to enforce the laws on the books. This disjointed governance also enables the emergence of a "segmented market," where formal and informal actors operate side by side, but adhere to vastly different institutional conditions.

It is important to understand and map this dynamic for it not only challenges the assumptions that informal economies are simply the result of weak state capacity or poverty, but it also illustrates how a state's own contradictory practices and policies can not only create, but also sustain these informal markets. It also complicates popular perspectives surrounding ethical consumption practices and second-hand fashion by highlighting how the afterlife of donated clothing is linked to systems of inequality and political compromise. By tracing the journey of a donated piece of clothing from the Global North to a street stall in the Global South, this research offers an explanation for the persistence of the informal ukay-ukay economy embedded in political-economic structures and contributes to broader discussions on informality, regulation and globalization.

2. Literature Review & Theory

The Philippines' informal second-hand clothing, or ukay-ukay, sector presents a unique example of how informal practices can persist and adapt in spite of formal regulatory restrictions. Despite being prohibited under Republic Act No. 4653, which bans the commercial importation of second-hand clothing into the Philippines, for the purposes of protecting public health and upholding national dignity, the ukay-ukay sector has not only endured but flourished. Ukay-ukay has become a staple in the everyday economic and cultural lives of modern Filipinos. From flea markets and public stalls to curated thrift stores and social media platforms, ukay-ukay has transcended class divisions and embedded itself into the greater Filipino culture and identity.

The persistence of the ukay-ukay sector in the Philippines challenges the assumption that formal regulatory frameworks alone are adequate to regulate economic activity. Instead, ukay-ukay illustrates how the commodification of second-hand goods, local economic pressures, and intrinsic survival strategies can work together to produce and sustain informal markets. Additionally, ukay-ukay epitomizes the kind of economic practices that have emerged in response to weak state capacity and neoliberal restructuring. It also blurs the line between the formal and informal, legal and illegal, by operating in a legal grey zone where enforcement is inconsistent and selective.

This literature review aims to examine how current scholars have approached this ukay-ukay phenomenon, particularly in the context of debates on informality and development, and identify where these expectations fall short when it comes to fully understanding the resilience of the ukay-ukay market in the Philippines. The review begins by taking a look at the relationship between ukay-ukay and the decline of the Philippines' domestic textile and garment industries, before shifting into a discussion of the sector's significance in Filipino culture and the different economic factors impacting its growth. It ends by situating ukay-ukay within the wider theoretical framework on informal economies in the Global South. In doing this, this review intends to identify the gaps within current literature and make the argument that a more structural, political economic approach is needed in order to get a more comprehensive explanation for the ukay-ukay sector's continued persistence and endurance.

2.1 Collapse of Domestic Textile and Garment Industries

A major factor that contributed to the initial growth of the second-hand clothing sector is the collapse of the domestic garment and textile industry in the Philippines. Despite the fact that an initial intention for the implementation of RA 4653 was to protect the country's domestic textile and garment industries, the eventual collapse of the domestic textile and garment sectors nonetheless can be traced to the Philippine government's failure to invest resources into the sector's modernization in the post-Multi-Fiber Arrangement (MFA) era. As Ofreneo (2009) documents, post-WWII, the Philippines's domestic garment and textile industries were vibrant and thriving. In an attempt to promote domestic manufacturing and "preserve foreign exchange through the limiting of imports," the Philippine government implemented a policy of "import substitution" (Aguilar & Miralo, 1984 as cited in Migram, 2014 pg. 192). The Multi-Fiber Arrangement (MFA) contributed to the Philippines' import substitution policy because it not only established import quotas and guaranteed export markets for Filipino garments, but it also unintentionally encouraged local producers to focus on producing large quantities of goods domestically that were previously imported from foreign suppliers (Ofreneo, 2009).

From the 1960s to the 1980s, the garment industry was the second biggest export industry in the Philippines, "contributing close to 10% of the country's US\$30 billion annual export earning," as well as the country's leading employer, employing close to a million workers at its

peak (Ofreneo, 2009). However, the end of the Multi-Fiber Arrangement (MFA) and the liberalization of tariffs under the World Trade Organization (WTO) during the mid-1990s marked the beginning of the end for the Philippine's robust textile and garment industry (Ofreneo, 2009). Post-MFA, the Philippines did not take the necessary steps to upgrade its garment manufacturers into "full-package producers capable of handling the entire production processes" (Ofreneo, 2009). Moreover, Philippine textile and garment manufacturers relied heavily on imported raw materials and equipment, and operated at higher labor and energy costs compared to their competitors (Ofreneo, 2009). This lack of investment into structural upgrades not only discouraged foreign investment, but ultimately limited the Philippine's competitiveness in the increasingly liberalized global market. Without the capacity to compete with more vertically integrated manufacturers such as the ones located in China, India, Pakistan, and Vietnam, Philippine garment and textile firms were forced to cease operations and lay off thousands of employees (Ofreneo, 2009). By the mid-2000s, many of the major garment and textile manufacturer firms shut down, leaving a gap in the domestic market for second-hand clothing to fill (Ofreneo, 2009).

Although Ofreneo highlights the consequences of liberalization for labor and domestic manufacturing in the Philippines, his paper does not explore how these macroeconomic shifts correlate with the rise of ukay-ukay as a substitute supply chain for domestically produced garments. His research primarily focuses on how the ukay-ukay market capitalized on the gap created by the decline in domestic garment production. However, he does not address the factors that initially led to the development of a separate second-hand clothing industry or how it was well-positioned to fill the void left by domestic producers.

Locsin (2007) identifies three key contributors to the emergence of the ukay-ukay sector prior to the mid-2000s boom referenced by Ofreneo: NGO donations, fundraising, and Hong Kong-based overseas female workers (OFWs). Between 1943 and 1949, the UN Relief and Rehabilitation Administration (UNRRA) administered over a billion dollars' worth of relief to post-war Asia, including the Philippines (Locsin, 2009). These donations included emergency supplies, food, and clothing. By the 1980s, the industry continued to expand through NGOs that sold donated clothing in the Philippines to raise funds for economically vulnerable communities (Locsin, 2007).

In addition, Filipina OFWs played a crucial role in spreading ukay-ukay across the country by sending balikbayan boxes filled with second-hand clothing items either purchased from thrift stores in Hong Kong or drawn from their personal belongings. Lastly, Ofreneo does not investigate why the Philippine state continues to enforce RA 4653—a law originally intended to protect domestic industry—even though there is now little to no domestic garment industry left to protect.

2. 2 Economic Drivers of Growth:

In addition to these structural shifts in the Philippine garment sector, much of the existing literature emphasizes the role of consumer demand in the emergence of the ukay-ukay sector. Scholars such as Isla (2014) and Milgram (2012) assert that a majority of ukay-ukay's popularity can be attributed to its affordability and as well as fashion appeal. For many low- and middle-income Filipinos, ukay-ukay provides access to affordable clothing that is often three times less expensive than brand new clothing being sold by traditional retailers (Abueg, 2005). A report published by the World Bank in 2022, cites how despite notable economic growth income inequality continues to persist within the country, with the top 1% earning a large majority of the national income while the bottom 50% only earns around 14% (World Bank, 2022). In 2023, it was estimated 15.5% of the population, roughly 17.5 million people, were living below the poverty line and were earning roughly P12,030-P24,060 (\$215-430) per month (Albert, 2024; Philippine Information Agency, 2024). Milgram (2012) notes how many of the frequent ukay-ukay customers she spoke with during her time spent in Baguio City described ukay-ukay as the most feasible way to clothe their entire families. Compared to the ready-to-wear (RTW) and brand name items sold by traditional retailers, ukay-ukay was a much more cost effective choice for individuals looking to stretch their already limited budgets without having to sacrifice quality or style (Milgram 2012). Many of the consumers and vendors that Milgram (2012) interviewed in Baguio City were quick to emphasize the fact that they were able to purchase multiple, brand-name items second-hand for the same price as one singular item would cost them at the mall or department store. This emphasis on the affordability of ukay-ukay for many consumers in the Philippines highlights the main motivator behind the initial growth of the second-hand clothing sector.

For young, middle-class consumers, ukay-ukay presents an opportunity to participate in popular fashion trends and creatively express one's individuality (Isla, 2014). In recent years, ukay-ukay has experienced a cultural transformation. No longer viewed merely as a way to fulfill clothing needs at an affordable price, but has since gained popularity amongst young, fashion-conscious consumers seeking unique pieces to add to their closets. Isla (2014) emphasizes how second-hand clothing in the Philippines spans a wide range of consumption practices that range from fulfilling basic needs to style expression. There are now dedicated online platforms and boutique stores that market ukay-ukay as a unique way to participate in global fashion. These outlets have diversified the market and have moved the sector beyond its traditional image of piles of clothing being sold out on the street. This evolution of the ukay-ukay market highlights the entrepreneurial adaption of vendors, but also the normalization of an informal economic practice into everyday life.

However, while Milgram and Isla's consumption oriented explanations seek to provide insight into the demand-side dynamics of the ukay-ukay market, they do not answer important questions about the supply-side of ukay-ukay goods. For instance, how is this demand met despite importation regulations? How do these goods circumvent formal enforcement mechanisms? And, how do these goods travel throughout the country's informal economy? Both Milgram (2012) and Isla (2014) point to cultural popularity and affordability as the main explanations of the persistence of ukay-ukay, but both explanations fail to recognize the political-economic conditions at play and how those factors sustain the supply chain.

2. 3 Inconsistent and Contradictory State Regulation

Lastly, in order to better understand the continued circulation of ukay-ukay throughout the Philippines, it is important to situate the trade within a broader theoretical framework on informal economies, particularly a framework focused on the dynamics of enforcement politics and illegal trade. Alisha Holland's theory of *forbearance* provides a compelling lens to interpret the continued toleration of ukay-ukay by the Philippine authorities, despite formal restrictions banning its commercial importation. According to Holland's theory, politicians sometimes intentionally refrain from enforcing formal rules and regulations as for formal or informal redistribution (Holland, 2015). She argues that in situations where the poor are the primary

violators of property or trade laws, or in poorer districts where crackdowns on informal markets could alienate voters, politicians opt to exercise “forbearance” in an attempt to retain essential voters. In this instance, the choice to tolerate illicit activities and not enforce local and/or national regulations is a political strategy that also happens to result in welfare-like benefits without the state having to budget any additional expenditures (Holland, 2015). For instance, Holland outlines how, in Lima, Peru, forbearance towards informal street vending resulted in an informal subsidy of \$1,560 per vendor, annually, which compared to the current subsidy individuals were receiving from the *Vaso de Leche* social welfare program which awarded families an additional \$115 annually, was a huge increase in benefits and it did not cost the state a dime (Holland, 2015).

This theoretical reasoning relates to the Philippine context in that local and national government agencies may tolerate ukay-ukay in an attempt to maintain political support amongst the lower-income demographic. As outlined above, the majority of the consumers who shop second-hand prefer it over shopping traditional retail because of its affordability. However, although Holland’s framework can be applied to explain the political logic behind the continued tolerance of ukay-ukay by government officials and agencies, it does not fully describe the localized and globalized nature of the trade itself. Holland’s theory focuses on short-term electoral incentives for not enforcing government regulations and overlooks the structural economic drivers that make the informal sector more than just a temporary solution.

On the other hand, Max Gallian’s (2019) work on illicit trade and transnational smuggling provides alternative insight into the key challenges in combating illicit trade. According to Gallian the three key challenges combating illicit trade are the complexity of transportation geography, the amount of time it takes government agencies to adapt to smuggling methods, and failures within institutions to adequately coordinate enforcement efforts with each other (Gallian, 2019). For example, in Gallian’s study where looked at informal smuggling networks in North Africa, he found that smugglers rapidly adapt to enforcement efforts by continuously alternating shipment routes, investing capital into effective concealment strategies, and leveraging institutional weakness such as corruption and poor inter-agency communication (Gallian, 2019). Gallian further highlights how these strategies are particularly successful when

smuggling lower-profile goods for enforcement efforts tend to be more discretionary and under-resourced (Gallian, 2019). My case of second-hand clothing fits nicely with this paradigm, indicating that this is a market in which avoiding formal regulation is fairly straightforward. Regardless of this, Gallian's framework also falls short in fully explaining the continued persistence and integration of ukay-ukay into the Philippine economy. Gallian's analysis of illegal trade centers mainly on high-risk, high-reward smuggling markets and does not fully address how integrated, semi-visible trade like ukay-ukay operates along the blurred lines of legality and illegality. The "grey zone" that ukay-ukay naturally operates within allows it to persist in ways that evade the rigid binary of legal and illegal. A more comprehensive explanation that combines political forbearance, logistical evasion, and understanding of structural economic inequalities is needed to fully understand the phenomenon that is ukay-ukay in the Philippines.

2.4 Current Gaps

In light of these insights, several gaps still remain within the current literature on the ukay-ukay sector. In particular, there remains a need to explore the underlying political-economic factors and institutional inconsistencies that shape this informal sector. Few studies have fully traced the rise of ukay-ukay to the collapse of the Philippine's domestic textile and garment industry. While Ofreneo (2009) investigates the impact neoliberal reforms—such as tariff reduction and currency liberalization—on halting the growth of the local garment sector, his study stops short of connecting the decline in domestic production to the emergence of the informal second-hand clothing industry. Moreover, much of the current literature attributes the persistence of ukay-ukay to lack of action by enforcement agencies, without accounting for how a fragmented authority and the state's broader retreat from industrial planning contributes to the sector's resilience.

Furthermore, there is little analysis of how informal actors actively navigate the blurred line between illegality and legality. Although both Milgram (2012) and Isla (2014) provide insights into the daily lives and practices of ukay-ukay vendors, they do not explore how these vendors acquire permits, interact with local authorities, or adapt to the periodic crackdowns. Nor do these existing studies look into how actors within this informal sector develop social networks

and logistical infrastructures in order to sustain their operations, or how these networks and practices might vary by region or vendor type.

Slavnic (2010) offers a unique framework through which to understand how informal actors navigate the legality of ukay-ukay. Slavnic (2010) argues that informalization must be understood from both “below” (as adaptive strategies) and “above” (as outcomes of state and corporate restructuring). Informalization from below refers to the strategies employed by marginalized actors, such as low-income earners and small-scale entrepreneurs, to take advantage of informal practices in order to supplement the income they receive from their limited formal opportunities (Slavnic, 2010). Informalization from above, on the other hand, refers to how state and corporate restructuring practices such as deregulation and outsourcing actively contribute to the expansion of the informal market (Slavnic, 2010). Applying this framework to the ukay-ukay sector in the Philippines reveals how vendors are not simply passive participants in this informal economy, but actually strategic actors who operate within and against formal institutions. This dual approach of focusing on both vendor strategies (from below) and the broader regulatory and economic conditions that shape the sector (from above) is also helpful in understanding all the different layered dynamics that contribute to informal persistence in a regulated space.

The core research questions of this study include:

1. To what extent do government regulations on the formal second hand (ukay-ukay) clothing industry both at the national and local level affect the persistence of the informal second hand clothing industry in the Philippines?
2. In what ways do these regulations shape the strategies used by informal actors to support their businesses?
3. Why has the informal second-hand (ukay-ukay) industry continued to persist and grow despite legal restrictions?

Attempting to answer these questions fills a critical gap in the literature on informality by presenting a perspective that takes into account how a shifting global economy and a fragmented

local government work together to sustain the Philippine's informal second-hand clothing market.

This research aims to fill these identified gaps by employing an integrated political-economic perspective to help explain the persistence of the informal ukay-ukay sector. By building upon existing literature that situates this phenomenon within the context of consumer behavior, failed enforcement practices, and general entrepreneurial resourcefulness, this research aims to position these dynamics within the larger context of global restructuring and fragmented state governance.

Additionally, this study fills the gap by detailing how local government units (LGUs) and national agencies operate within conflicting mandates, highlighting the regulatory disconnect wherein LGUs legitimize local ukay-ukay businesses through permits, while national law continues to criminalize the sector. This study argues that it is this disjuncture between national and local governance that creates an environment for the informal sector to not only persist, but thrive.

Similarly, this research takes a look at the different strategies employed by informal actors within the sector, and provides insight into how these actors actively navigate, resist, and exploit these regulatory contradictions. This bottom-up perspective on the informal sector coupled with an overall structural analysis aims to provide a more complete picture of the continued persistence of the informal ukay-ukay market, and contribute to the broader debate on informality in the Global South.

The informal ukay-ukay sector in the Philippines is more than just a niche market or pillar of Filipino culture; it is a representation of how global commodity chains, national industrial decline and local governance dynamics come together to create a complex and resilient informal economy. Understanding the continued persistence of the ukay-ukay market requires a structural analysis of the market that takes into account the political-economic forces that shape both supply and demand. This literature review demonstrates that while consumer behavior and cultural trends matter, they are not the only explanations as to why ukay-ukay continues to

persist in the Philippines despite regulatory constraints. Only by incorporating insights from studies on trade, regulation, and informality can one begin to grasp the entire picture. In doing all of this, this research offers both an explanation for a specific case and a framework for analyzing informal economies in this era of globalization.

3. Methods and Data

A central hypothesis that helped guide this study is that the persistence of the ukay-ukay sector cannot be explained by a single cause, but rather it stems from the interactions between multiple different political-economic factors operating on both the supply and demand sides of the second-hand clothing market in the Philippines. These factors, which include regulatory ambiguity, gaps in institutional structure, and shifting consumer preferences, combine in ways that encourage the growth of informality within the sector.

3.1 Case Selection

This study focuses on the informal, second-hand clothing industry in the Philippines. Unlike other countries in the Global South where the importation of second-hand clothing is either fully banned or is a legitimate factor on the formal economy, the ukay-ukay sector in the Philippines provides a unique case for analyzing how informal markets continue to operate and adapt despite formal governmental regulation.

In India, the importation of second-hand clothing is formally prohibited. However, the country does allow for “mutilated hosiery” to enter the country for the purposes of fiber recycling (Hansen, 2004). These imported rags are processed into raw materials that are then re-exported or used domestically to manufacture new products such as new blankets or yarn (Hansen, 2004). Rather than fueling a distinct resale market for second-hand clothing, India’s restrictions have facilitated the formation of a robust textile recycling industry. Similarly, Indonesia also enforces a strict ban on the importation of second-hand clothing in an effort to protect its local textile industry (Hansen, 2004). In contrast to the Philippines, these regulatory bans have been successful in preventing the emergence of an informal second-hand clothing market in Indonesia.

On the opposite end of the spectrum, Zambia fully legalized the importation of second-hand clothing in the mid- to late 1980s (Hansen, 2004). Known locally as *salaula*, this sector has grown into an expansive and widely accepted part of Zambia's economy and cultural life (Hansen, 2004). Although Zambia's second-hand clothing market does compete directly with its domestic textile industry, it has not been subject to any formal restrictions or regulations, and instead plays a central role in generating additional streams of income for those who participate in the market and defining the country's fashion culture.

In comparison to these markets, the ukay-ukay market in the Philippines stands out not only for the contradiction between maintaining a formal ban while supporting a flourishing informal sector, but also for how this contradiction contributes to local economic strategies and cultural practices. It is the state's apparent contradictory stance towards the industry that makes this case distinctive. On one hand, the illegality of the trade is reinforced by the periodic warehouse raids executed by the Bureau of Customs (BOC) and public condemnations by anti-ukay-ukay lawmakers; whereas on the other hand, gaps in enforcement, exploitation of relaxed import restriction in Special Economic Zones (SEZs), local business licenses for ukay-ukay vendors, and widespread consumer acceptance of ukay-ukay reflect a more tolerant opinion of the sector. Moreover, the market segmentation between the formal, permitted ukay-ukay businesses and the informal, non-permitted ukay-ukay actors offers an opportunity to study how formal regulation can disproportionately affect different actors within one sector. While formal sellers are required to abide more strictly to import restrictions and licensing requirements, informal actors often bypass these constraints and are able to be more flexible with their business operations. This distinction between the two segments of the ukay-ukay sector highlights opportunities of tension and potential interdependence between the two groups. This dynamic is especially visible in areas where informal and formal vendors operate within close proximity to each other.

3. 2 Data Collection

Given the fact that informal economic activity is, by definition, difficult to observe and measure,, this study triangulates data collected from a variety of publicly available governmental

materials, general literature on informal markets, and specific studies done on the ukay-ukay sector. The data collected for this study can be categorized into the following four main groups:

1. *Legal and Policy Documents:* Materials from this category include the text of the Republic Act. NO. 4653, Customs Circular No. 01-2015, and various Senate resolutions investigating corruption and smuggling activities facilitated by the Bureau of Customs (BOC) and branches of the Department of Finance (DOF). These documents offer insight into the formal legal structure that governs the second-hand clothing trade in the Philippines.
2. *Government and NGO Reports:* Data pulled from reports published by the Philippine Statistics Authority (PSA), Department of Finance (DOF), and Bureau of Customs (BOC) provided important information about poverty statistics, trade flows, enforcement initiatives, and attempted governmental oversight.
3. *Local and National Media Coverage and Investigative Journalism:* The category included materials from online databases of both national and regional media outlets. These sites included ABS-CBN, PhilStar, Palawan News, and Inquirer.net, and were used to identify specific cases of enforcement actions, public responses, and adaptation strategies by vendors and consumers.
4. *Academic and Peer-Reviewed Publications:* Material from this group contained peer-reviewed studies and policy briefs on trade liberalization and informal markets. These sources provided context for understanding how macroeconomic and political pressures can shape local markets.

In order to evaluate this study's central hypothesis that the persistence of the ukay-ukay sector is a result of interactions between supply-side and demand-side institutional forces it is important to take into consideration the alternative explanation for the sector's continued resilience such as weak state capacity. If weak state capacity was the only factor contributing to the market's growth and popularity, then the data would reflect patterns of underfunded enforcement agencies, incoherent policies across multiple levels of local and national government agencies, and inability to implement existing regulations across the board. Evidence such as uniform regulatory failure across multiple regions and localities, or testimony from informal actors indicating that they continue to operate solely as a result of state negligence

would support the claim of weak state capacity. However, if the sector's persistence is instead better explained by the interaction of different institutional forces, the evidence would highlight regions or actors shielded from enforcement as a result of local political relationships, formal institutions creating unintentional incentives for informal practices, and shifts in consumer preferences that sustain informal networks despite formal restrictions on the market. Evidence to support this explanation would include informal actors and vendors actively navigating ambiguous legal terrain through leveraging SEZs or employing adaptive strategies in response to localized enforcement.

Analysis of all the collected data involved identifying what scholars refer to as “causal-process observation” (COP) or process tracing. Process tracing is recognizing patterns within the evidence that directly reveal the mechanisms through which the informal market is sustained. For example, the repeated reference to the use of SEZs to circumvent import restrictions or misdeclaration of imported materials in order to bypass port inspection indicate how regulatory frameworks are bent in order to accommodate informal practices. Similarly, senate reports of bribery schemes such as the “5-20” plot within the BOC support observations that point to systemic corruption as one factor that enables informal trade. Additionally, patterns of cooperation can be identified in the cases where formal ukay-ukay actors were shown to interact with informal networks. These interactions suggest that instead of simply suppressing informality, regulation may allow for the production of interdependent arrangements that allow both groups to survive and thrive within the sector.

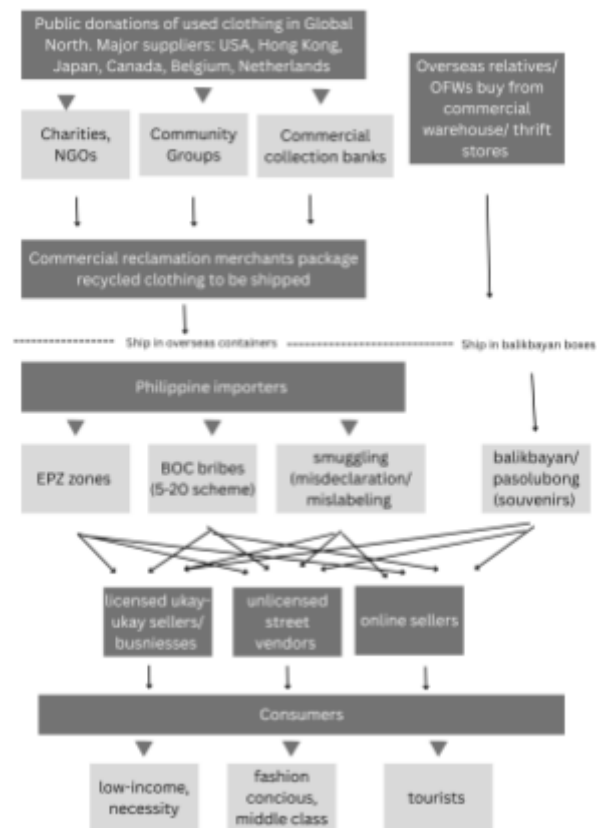
3.3 Study Limitations

There are several limitations that restrict this study. First, due to the underground nature of the informal market and related smuggling activities, locating direct interviews with actors directly involved in the logistics or retail aspects of the ukay-ukay trade proved to be quite difficult. As a result, the majority of this research relies on secondary reporting published publicly on online sites and may overlook many of the micro-level negotiations that support informal operations. Second, the legal ambiguity surrounding SEZ operations and customs protocols makes it challenging to assuredly classify certain practices as legal or informal. This ambiguity results not only a challenge of this study, but also a significant feature of the

Philippine regulatory environment that fosters an environment that can be exploited by both informal and formal actors.

However, despite these limitations, this study offers a unique and nuanced account of how informality can continue to persist in the face of formal regulations. It offers insight into how these informal groups operate not as separate entities outside of the state, but instead as a product of institutional fragmentation, regulatory contradiction, and strategic adaptation.

4. Understanding the Flow of Goods Throughout The Informal Ukay-Ukay Supply Chain



The diagram above illustrates the flow of second-hand clothing from sources in the Global North to consumers in the Philippines, providing a visual overview of the complex and informal networks that sustain the Philippines' ukay-ukay industry.

At the source, mass donations of second-hand clothing are made by various actors—typically charities, community organizations, or commercial collection banks—in countries in

the Global North such as the United States, Germany, Canada, the Netherlands, and Hong Kong. These donations are then transferred to commercial reclamation merchants who then sort, grade and package the clothing into massive bales intended for export. Another way that second-hand clothing gets funneled into the Philippines is through overseas Filipino workers (OFWs) and relatives who purchase second-hand clothing from thrift stores or commercial warehouses and who send those purchases back to the Philippines in the form of *pasalubong*, or gifts from abroad.

Once packaged, these shipments travel overseas through two primary channels, depending on their origin. Commercial shipments are transported via container ships and routed through Philippine importers, while personal shipments sent by overseas Filipino workers (OFWs) and relatives arrive in balikbayan boxes. However, because Republic Act No. 4653 effectively bans the commercial importation of second-hand clothing into the Philippines, commercial shipments often enter the country through a variety of different loopholes, which include routing goods through Special Economic Zones (SEZs), engaging in smuggling schemes that involve misdeclaration and mislabeling, and paying bribes to corrupted officials within the Bureau of Customs (BOC). Once these commercial shipments clear port authorities undetected, the goods are then distributed to a network of informal and formal sellers across the country. These sellers include unlicensed street vendors, licensed ukay-ukay stores, and online sellers. Meanwhile, the second-hand clothing items shipped overseas through balikbayan boxes bypass these regulatory hurdles all together. Since second-hand clothing that enters the Philippines through personal shipments of *pasalubong* is not prohibited under RA 4653, these shipments can enter the country without the need for a major workaround. However, once these shipments arrive to their final destination the items inside these balikbayan boxes often find themselves in the same informal networks of resale and redistribution.

After these goods are absorbed into the market they are sold to a wide range of Filipino consumers. For many low-income individuals who participate in the second-hand clothing market, ukay-ukay serves as a functional and economic necessity. For middle-class and fashion-conscious consumers, ukay-ukay offers access to affordable foreign brands and an opportunity to individualize their personal style. Even tourists are known to participate in this informal economy, drawn by the thrift appeal of ukay-ukay finds.

This diagram is not just a logistical map that follows the flow of second-hand clothing in the Philippines, but it is a window into the structural conditions that shape and sustain this informal second-hand clothing market. It aims to underscore how regulatory evasion, institutional weakness, and economic necessity intersect to produce a thriving informal market system. The following analysis section builds upon this supply chain overview and examines how political-economic forces actively sustain and incentivize informality in the ukay-ukay sector.

5. Analysis

The informal second-hand clothing, or ukay-ukay market in the Philippines continues to persist and expand not because of the absence of institutional regulatory measures, but because of political-economic factors that shape both supply and demand for second-hand clothing in ways that favor informality. This section argues that the resilience of the informal ukay-ukay sector must be understood in the context of a broader political-economic environment that shapes both the supply and demand sides of the market. On the supply side, Republic Act No. 4653, which aims to prohibit the importation of second-hand clothing for commercial purposes and to protect domestic textile manufacturers and uphold public health standards, has not eliminated the flow of second-hand goods into the country. Rather than halting imports, RA 4653 has incentivized informal actors to bypass regulations by allowing them to exploit institutional corruption, inconsistent enforcement, and loopholes in the law. Informal actors have been able to build robust smuggling networks that continue to let them smuggle in copious amounts of second-hand clothing. On the demand side, the informal sector is fueled by both economic necessity and cultural preferences. While ukay-ukay was originally made popular amongst lower-income groups for its affordability, it has since begun to attract middle- and upper-class consumers for its perceived sustainability and accessibility to foreign brands. For young, middle-class Filipinos, ukay-ukay has become a mode through which they can participate in mainstream trends and form a unique sense of individuality.

These supply and demand dynamics are further shaped by the regulatory landscape, which, rather than fostering competition, has led to the emergence of parallel markets. Instead of

promoting direct competition within a unified second-hand clothing sector, government regulation of the ukay-ukay market has created conditions where informal street vendors and legally registered ukay-ukay businesses are able to co-exist and operate on completely separate terms. Informal sellers benefit from lower operating costs and fewer regulatory constraints, making them more adaptive and better able to shift with changing restrictions and market conditions; whereas, formal ukay-ukay retailers—those with verified business permits issued by their local governments—must navigate inconsistent enforcement and legal ambiguities in order to remain viable. As a result, these two groups function parallelly, rather than in direct competition with each other.

This analysis draws on three key patterns in the data to illustrate how political-economic conditions sustain informality in the Philippine second-hand clothing market: first, how informal actors secure supply through weak enforcement of regulatory measures and institutional loopholes; second, ukay-ukay's popularity and demand is sustained through cultural and economic factors that transcend class lines; and third, how regulatory contradictions have produced parallel markets instead of encouraged direct competition between informal and formal actors. By drawing on these patterns, this section highlights how the Philippine ukay-ukay market is not simply a product of the absence of regulatory frameworks or even solely explained by weak enforcement of regulation on the books, but of a political-economic environment that actively supports informality. It is these factors that set the Philippine's ukay-ukay market apart from other second-hand clothing markets in other developing countries, where either stricter enforcement or more coherent policy frameworks have limited the expansion of their informal second-hand clothing sectors.

5.1 Supply side factors: weak enforcement, legal loopholes, and corruption

The first pattern that illustrates how informal ukay-ukay actors are able to exploit the Philippines' weak regulatory framework reveals how legal loopholes and weak enforcement of the law have reshaped how second-hand clothing continues to flow into the country instead of being restricted. This persistence of the ukay-ukay sector is linked to the failure of state institutions to meaningfully enforce Republic Act 4653. While Republic Act 4653, enacted in 1966 under the pretext of protecting public health and maintaining national dignity, explicitly bans the commercial importation of second-hand clothing, uneven and inconsistent

implementation of the law, as well as bureaucratic corruption and institutional loopholes, have continued to allow informal actors the opportunity to circumvent traditional import pathways and pave new channels for distribution (Republic Act no. 4653, 1966). In 2023, Senator Raffy “Idol” Tulfo made an attempt to legalize and regulate the importation of ukay-ukay. Senator Tulfo emphasized that ukay-ukay has become a staple in Filipino culture and remains a significant yet untapped economic opportunity (Senate of the Philippines, 2023). Tulfo also stressed the need to investigate the Bureau of Customs (BOC) and the Philippine Economic Zone Authority (EPZA), citing concerns over the smuggling and misdeclaration of used clothing as tax-exempt rags (Senate of the Philippines, 2023). Tulfo went on to emphasize how it is the smugglers making large profits off importing used clothing, not the small business owners who are burdened with paying income taxes on sales from their businesses (Dela Cruz & Fernandez, 2022). According to other supporters of RA 4653 reform, “Ukay-ukay is legal in all but the law itself...even apprehended ukay imports are eventually donated to disaster victims” (Dela Cruz & Fernandez, 2022). It is this absence of coordination amongst agencies and policymakers involved, including the trade industry department, the BOC, and even the provincial governments that creates new problems for RA 4653 to be adequately enforced when only one particular agency tries to do something without communicating with the other. It is this disconnection between national law and local governance that creates a regulatory grey zone for informal second-hand clothing actors to occupy and exploit. While vendors are technically selling illegal merchandise, they are legally integrated into local economies through licensing and business taxation. This inconsistency of authority reflects broader patterns of weak state capacity and fragmented governance in the Philippines (Isla, 2014).

Another factor that contributes to the continued vulnerability and inconsistent implementation of the law is the low compensation received by port and warehouse personnel. Another investigation carried out by the Committees on Trade and Commerce and Economic Affairs found that a reason BOC ports and warehouses continue to be hotspots for corruption and smuggling is the low wage scale of workers under the Salary Standardization Law (SSL) (Committees on Trade and Commerce and Economic Affairs, 2005). According to the SSL, warehousemen and port personnel fall under the salary grades 11 to 13, meaning they only earn around P187.65-P215.13 per hour, or roughly \$3.35-3.84 (Committees on Trade and Commerce and Economic Affairs, 2005). With wages this low, it is common for employees to look for other

ways to earn a few more pesos. This coordinated subversion of the law by those charged with enforcing illustrates that the continued influx of second-hand clothing into the Philippines is not the result of accidental oversight, but of a failure of governance. This continued failure by the Philippine government to consistently enforce this restriction coupled with the institutional corruption has not only resulted in a continued rise in the amount of second-hand clothing imported into the country, but also the proliferation of informal actors operating outside of the state's control. Rather than reduce the size of the market, RA 4653 has created a regulatory environment in which informality has become the most practical way to participate in the second-hand clothing industry.

A key strategy utilized by informal actors to bypass import inspection traditionally performed at commercial ports involves leveraging the Philippine's Special Economic Zones (SEZs) such as the Subic Bay Freeport and the Cavite Export Processing Zone Authority (EPZA) zones. These zones are managed by the Philippine Economic Zone Authority (PEZA) and operate outside of traditional import restrictions in separate customs territories in order to provide increased incentives for investors. The textile materials imported into these zones are segregated by type, graded on quality or condition, sorted into further categories, and then re-packed for export to other countries (*Full text and summary of g. R. No. 223275—Bureau of customs vs. Interlink recyclers Philippines, inc.* 2016).

Although RA 4653 bans the importation of second-hand clothing into the Philippines, these SEZs act as a legal gray area. Since the goods are not technically entering Philippine customs territory and are intended to be processed for re-exportation and not domestic sale, second-hand clothing can be legally imported into these zones. International investors and businesses, drawn by the country's low labor costs, take advantage of these zones by routing their used clothing and textiles scraps through these zones for sorting and repackaging (Committees on Trade and Commerce and Economic Affairs, 2005; *Full text and summary of g. R. No. 223275—Bureau of customs vs. Interlink recyclers Philippines, inc.* 2016). However, although the goods and materials that are imported into these zones are intended to be processed and then re-exported, many shipments labeled as 'scrap textiles' or 'material for rags' remain in the country (*Full text and summary of g. R. No. 223275—Bureau of customs vs. Interlink recyclers Philippines, inc.* 2016). These shipments that remain in these unregulated zones, are

then smuggled out by traders and distributed into the local market and ukay-ukay sellers across the country. This method takes advantage of the blurred line between the legal reprocessing of textile materials and the illegal importation of second-hand clothing. Informal actors have become experts at operating within these ambiguous regulatory zones and have learned to exploit both blind spots in the regulatory framework and the inability of enforcement institutions to coordinate across multiple levels. The widespread misuse of SEZs is not a failure of regulation per se, but instead a failure of implementation, demonstrating how the state unintentionally facilitates informal trade through gaps in its own system.

This pattern reinforces the hypothesis that failure in enforcement mechanisms, rather than the actual law itself, enables informal sellers to bypass import restrictions and reshape the flow of second-hand clothing into the country.

Holes within the Philippines' customs enforcement system are further compounded by corruption within the Bureau of Customs (BOC). In a resolution presented to the Philippines' Senate in 2015, Senator Miriam Defensor Santiago sheds light on some of the systemic corruption undermining RA 4653's enforcement. Citing a *Philippine Daily Inquirer* investigation into the Bureau of Customs, Santiago revealed how a persistent "5-20" scheme enables a small group of Bureau of Customs (BOC) officials to profit from the illegal importation of ukay-ukay (Defensor Santiago, 2015). The *Inquirer's* investigation found that, "...for every 25 shipments of imported ukay-ukay (used clothing), five are seized... while the rest are released to their consignees upon payment of 'tara' (grease money) to corrupt customs personnel" (Defensor Santiago, 2015, 1). The report further indicates that the corruption goes beyond just officials with the BOC and extends to the branch of the Department of Finance (DOF) in charge of managing import tariffs, revealing deep-seated, multi-level collusion. Because of widespread corruption and the normalization of bribery, informal actors are no longer deterred by the possibility of their goods being seized by the BOC and instead are incentivized to set aside a budget for bribes. Bribes have become a small price importers are willing to pay to ensure the continuation of their businesses. This normalization of bribery reflects how deeply corruption has embedded itself into the logistics of the informal ukay-ukay trade. These practices not only subvert the legitimacy of state institutions, but more importantly creates a reliable way for second-hand clothing

imports to enter the country and entirely bypass formal regulation efforts. Rather than being deterred by RA 4653, these informal actors are motivated by their ability to evade the law.

This pattern demonstrates how corruption undermines enforcement efforts and diverts informal actors away from the legal consequences associated with the illegal importation of second-hand clothing, further confirming the argument that the persistence of the informal market is shaped by political-economic factors that influence supply-side informality.

5.2 Demand-side factors: from economic necessity to sustainable fashion

However, although supply-side factors such as inconsistent enforcement, bureaucratic corruption, and regulatory loopholes allow for the persistence and resilience of the informal ukay-ukay sector, these conditions alone do not explain the market's continued growth and increasing popularity. Another factor that contributes to the informal market's resilience is the cultural significance second-hand clothing plays in consumer demand in the Philippines. Cultural shifts and economic pressure have shifted what it means to shop second-hand. It is no longer the exception to traditional retail shopping, but the norm. Recent data from a study conducted by Milieu Insight underscores the normalization of second-hand fashion in the Philippines, asserting that "Filipinos are the biggest shoppers of second-hand fashion in Southeast Asia" (Desiderio, 2022). The study revealed that 83% of Filipino consumers purchase second-hand clothing on a regular basis, highlighting that shopping second-hand is a mainstream choice rather than just an alternative to traditional retail (Desiderio, 2022). This trend is further confirmed by the growth of online ukay-ukay platforms such as Carousell, where the Philippines accounts for over 30% of regional second-hand clothing transactions ("Filipinos Embrace Secondhand Fashion for Savings, Sustainability," 2024). These figures illustrate how second-hand clothing shopping has become an essential component of Filipino consumer behavior, reflecting a shift in retail conventions.

A central reason for the continued existence of the informal market on the demand side is its ability to meet the basic material needs of low-income consumers, both on the vendor and customer side. The Philippine Statistics Authority (PSA) categorizes families and individuals as "low-income" if their income falls below the poverty threshold, or the minimum requirement needed to meet basic food and non-food needs (CORDERO, 2024). In 2023, the poverty

threshold was set at P13,873 per month for a family of five or roughly \$250 (Flores & Mair, 2024). In 2023, it was estimated 15.5% of the population, roughly 17.5 million people, were living below the poverty line and were earning roughly P12,030-P24,060 (\$215-430) per month (Albert, 2024; Philippine Information Agency, 2024).

Milgram (2012) highlights in her study that a lot of ukay-ukay vendors in Baguio City first entered the market out of necessity rather than choice. The ukay-ukay market allowed them the financial flexibility to either supplement another source of income or provide for their families during times of unemployment. This economic vulnerability is mirrored on the consumer side. For consumers, these second-hand clothes are significantly cheaper than locally produced textiles, which are around 30% more expensive due to inefficiencies in domestic production (Sing, Esquivias, Dobles & Build, 2019). Ukay-ukay vendors meet their customers where they are and develop pricing strategies that align with what customers in their communities can afford. Strategies such as distinct pricing tiers dependent on brand, item condition, and level of perceived desirability (Class A, B, C boxes); on-the-spot bargaining; and time sensitive deals allow ukay-ukay vendors the flexibility to meet the needs of their customers that traditional retail models are not structured to do not (Milgram, 2012). It is in this context, that the informal ukay-ukay sector persists not in spite of state inaction, but because it fills a gap in the market that the formal clothing industry is not equipped to fill. The decentralized and low-cost structure of the ukay-ukay market allows even the most economically marginalized an opportunity to participate in the clothing market. By providing their customers with multiple ways to participate in the market, ukay-ukay offers a cost-effective option for consumers to access new clothing while balancing fluctuating household incomes and budgets.

Furthermore, not only is the ukay-ukay informal market sustained on the demand side by its affordable costs, but also because of its integration into Filipino consumer culture, especially in urban areas such as Baguio City where this market thrives. Both Isla (2014) and Locsin (2007) highlight how ukay-ukay has evolved from “generic street piles” into a sophisticated subculture that occupies its own space with its own language and status signals. For example, terms used by ukay-ukay vendors like “first pull” or “Original UK” reflect specialized vocabulary that distinguishes quality, origin, and exclusivity of top brands and items within the market (Isla 2014). This evolution signifies how second-hand clothing has become more than a necessity, it is

a vehicle for identity formation, class mobility, and even subversion. Filipino consumers, especially those from lower income groups, use second-hand fashion to construct socially acceptable yet distinct identities. As Isla (2014) notes, for Filipino low-income consumers, “Being able to afford fashionable, even branded quality clothes is liberating. It is social acceptance that motivates them, rather than the possibility of constructing a new identity through a total make-over or disguise” (p. 232). Wearing name brand brands purchased second-hand allows consumers to blur class boundaries at an affordable price, revealing how clothing can be a powerful yet subtle tool for negotiating social hierarchies.

Additionally, in her analysis of ukay-ukay culture in Baguio City, Locsin (2007) recounts how vendors strategically separate top brands and display “trendy” pieces of clothing separately from their other bulk piles. By deliberately cultivating the ways their merchandise is displayed these vendors redefine the value of secondhand clothing as valuable, desirable and fashionable. The fashion capital value of these separate pieces of clothing is raised and now instead of being just something that is worn out of necessity, these pieces of clothing hold important values that can help its owner define their individuality. It is practices such as this that attracts younger and middle-class consumers who embrace ukay-ukay not out of necessity but as a statement of individuality and resourcefulness. Ethical brand founder Monica Vivar shares with Fashion Revolution Philippines that, “to her, ukay-ukay is empowering because it enables Filipinos to express themselves however they want through clothing that is affordable” (Sing et al., 2019, 23). These pieces are not rags; they are one of a kind articles of clothing that cannot be found anywhere else. Shoppers are able to move past the stigma of shopping second-hand and are instead motivated by their desire for social distinction.

5.3 Segmented markets: The outcome of unevenly regulated supply and multiple sources of demand

Lastly, the third pattern that emerges from the data to illustrate how it is political-economic conditions that sustain informality in the Philippines’ second-hand clothing market is the emergence of segmented markets, or distinct spaces in within the larger ukay-ukay market in which there is a clear distinction between formal, legally registered ukay-ukay businesses and informal street vendors. These separate segments of the same sector coexist while

navigating completely separate institutional conditions. This creation of segmented markets is not merely the product of the country's uneven enforcement of its laws, but instead is a direct outcome of the country's fragmented and contradictory regulatory structure. Rather than discouraging informality, the Philippines' current political-economic framework has created two separate market systems: once composed of formally registered ukay-ukay businesses and another consisting of unlicensed street vendors and online sellers. Both groups draw from the same informal supply chains, but operate under different institutional conditions. This distinction between the two market systems highlights how the state's uneven application of the law and inconsistent enforcement actively sustains and incentivises informality.

Currently, there are multiple laws and regulatory bodies in place within the Philippine government to oversee and regulate the importation and distribution of second-hand clothing in the Philippines. As mentioned above, RA 4653 effectively bans the commercial importation of second-hand clothing for the purpose of safeguarding the local textile industry and protecting public health. Institutions such as the Bureau of Customs (BOC) and the Philippine National Police-Criminal Investigation and Detection Group (PNP-CIDG) are tasked with enforcing laws such as RA 4653 and preventing the sale of illegally imported goods. However, as also proven above, enforcement by these institutions has been both selective and reactive. A prime example of this is the 2014 BOC crackdown in Baguio and Trinidad, Benguet where over 2,800 bales of second-hand clothing were seized from warehouses and ordered to be destroyed (Beleo & Refuerzo, 2014). These items, most of which originated for the US and Canada, had reportedly entered the country through the Philippines' Special Economic Zones (SEZ) under the false pretense that they were scrap textiles intended for re-export and were set to be distributed to numerous different vendors and businesses across the city (Beleo & Refuerzo, 2014).

Despite the fact that the illegal act occurred when the items were initially smuggled into the country by the importers, it was the local ukay-ukay retailers, many who had valid business permits, who were the ones who were penalized. Baguio City Rep. Nicasio Aliping Jr. questioned why the raid had occurred in the first place since the items "had already passed BOC scrutiny" prior to arriving at the warehouses (Beleo & Refuerzo, 2014). Baguio Mayor Mauricio Domogan went on to further criticize the BOC's decision to carry out the crackdown by pointing out, "It is unfair to our businessmen because they are not the importers but only the retailers.

Why can't [the BOC] run after the smugglers?" (Beleo & Refuerzo, 2014). This sentiment underscores the argument that it is the legally operating small businesses that are the ones who bear the burden of enforcement, while the import violations go unchecked at the ports.

Furthermore, the burden of formalizing a business in accordance with local regulations further incentivises informality. Under Section 147 of the Local Government Code of 1991 (Republic Act No. 7160), local government units (LGUs) are authorized to impose business permit fees on any entity operating within their jurisdiction (RESPICIO & CO, 2024). Additionally, under Batas Pambansa Blg. 232, LGUs also have the power to regulate street vending in order to maintain public order and sanitation (RESPICIO & CO, 2024). As a result, many LGUs have imposed ordinances that both limit vendor stall size and require vendors to purchase vendor permits. Permit costs vary from P200 to P500 annually for smaller vendors, and P1000 to P2500 annually for larger vendors (RESPICIO & CO, 2024). Vendors are required to renew these permits yearly and can face penalties for noncompliance, which can include additional fines, confiscation of goods, and revocation of licenses (RESPICIO & CO, 2024). Hypothetically, this system should promote order and accountability; however, in reality it fosters a system where formalization of a business is costly and risky compared to informality, which requires little to no start-up costs and offers greater flexibility regarding business location and size with less risk. Despite formally registering their businesses with their LGUs and routinely paying local taxes, permitted ukay-ukay sellers and licensed businesses are still subject to random merchandise raids if it is suspected that the items being sold are tied to informal or grey-market supply chains. Meanwhile, informal vendors who are not formally registered with their LGUs and are technically in greater violation of the law compared to their licenced counterparts, are better equipped to avoid random raids since they are more mobile and adaptable. This discrepancy underscores how the costs, risks, and regulatory burdens associated with formalization actively encourage informality and highlight it as the more practical and strategic choice for many ukay-ukay sellers.

Lastly, there currently is no coherent, integrated policy framework within the Philippine regulatory state for managing second-hand clothing trade. Instead, it relies on varied enforcement agencies and fragmented interpretations of state and local law. This disjointed framework creates space for segmented markets to emerge; a system where formal and informal sellers are able to

coexist, but do not compete on equal terms. Rather than encourage ukay-ukay business formalization, the government's actions promote structural inequalities that lead many sellers to view informality as the most sensible and economic option.

6. Conclusion

The persistence of the informal ukay-ukay market in the Philippines is not merely the result of local consumer demand or inadequate enforcement, but rather a structural consequence of global and national political-economic dynamics. This thesis has shown how the Philippine state's fragmented regulatory landscape, combined with systemic corruption and economic necessity, actively sustains an informal economy that operates in defiance of official prohibitions. From national agencies that turn a blind eye to smuggled goods to local governments that issue permits despite legal bans, the contradictory nature of the state both enables and legitimizes the ukay-ukay trade. Far from being passive participants, informal actors navigate this regulatory grey zone with strategic coordination, exploiting loopholes in customs enforcement and leveraging Special Economic Zones (SEZs) to sustain supply chains.

These findings reflect a broader pattern of how waste and surplus in the Global North are reconfigured into commodities within the Global South. What begins as discarded clothing is reinserted into new circuits of exchange, not as trash, but as economic sources for informal workers and accessible goods for low and middle-class consumers. This re-commodification of waste reflects the global asymmetry of overproduction and disposability of fast fashion in wealthy economies and the flow of used clothing through transnational networks to developing countries under the guise of thrift, sustainability, or necessity. In this way, the Philippine ukay-ukay sector becomes a material expression of the unequal global system of consumption and disposal. While on one hand ukay-ukay does generate additional income sources for vendors and offers an affordable option for consumers, on the other hand it undermines formal economic development goals focused on market formalization and trade openness. The continued persistence of an informal, and in some cases technically illegal, second-hand clothing economy poses important questions about what counts as “development” and who gets to define it. Future research might look into how policymakers and development institutions view ukay-ukay and its perceived value to the Philippine economy. Do they see this sector as an obstacle to economic

formalization? Maybe a necessary safety net for a developing economy still trying to find its footing in a globalized world? Or perhaps something altogether separate from traditional development trajectories?

Ultimately, the case of ukay-ukay illustrates how informal economies are deeply embedded in, and shaped by, the structures of globalization. Rather than existing outside or beneath the state, informality in the Philippines is actively produced by institutional contradictions and market failures that span national borders. This thesis underscores the importance of moving beyond cultural or behavioral explanations for informality, and instead focusing on the political-economic conditions that give rise to and reproduce such markets. In doing so, it offers a framework for understanding informal economies as both outcomes and agents of global processes, where waste becomes opportunity, legality is fluid, and consumption is inseparable from inequality.

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