USAID ASSISTANCE TO THE GOVERNMENT OF THE PHILIPPINES EFFORTS IN DIVESTITURE AN ASSESSMENT

Coopers & Lybrand
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INTRODUCTION

The current economic problems in the Philippines have created a number of unanticipated side effects. For example, though it wishes to consider its economy open, the Philippine government has found itself in the position of owning a significant number of private sector firms. Financial and other problems, some beyond the control of the firms, caused them to default on loans held by public sector banks - notably the Development Bank of the Philippines (DBP) and the Philippine National Bank (PNB). These defaults led to either converting the debt to equity or foreclosure and the acquisition of assets by the Banks. In other cases the government, over time, directly moved into the productive side of the economy and competed directly with the private sector. This gave rise to a growing public sector established for the most part by Presidential Decrees.

The current economic crisis has caused the government to reassess its position and initiate some actions to return more of these holdings to the private sector. Two such actions are dominant. The first, responding to the liquidity problems of the two public sector banks, seeks to divest the government of assets and operating companies acquired by the banks' foreclosure or assumption of equity positions in distressed companies. The second, in response to the net drain on the treasury by subsidized inefficient public sector corporations, consists of selling the governments share in selected companies and/or closing them.

USAID from a policy point of view seeks to assist private sector development in various market oriented countries. In the Philippines, discussions were held with DBP concerning its attempts to divest of its acquired companies and/or assets particularly since it seemed to be a way to assist the private sector during this crisis. However, before proceeding further, USAID believed it needed more information as to the nature of these divestiture activities and whether in fact USAID could provide assistance.

USAID, therefore, contracted with Coopers & Lybrand to assist them, first, to determine whether it is feasible given the current macro-economic climate to develop a program of assistance for divestiture activities both from the point of view of acquired assets and public corporations. In other words, will focusing USAID resources in this area have an impact on the medium and long term economic and development objectives of the Philippines? Second, if it is feasible or if the problem is redefined, determine what types of assistance are appropriate and recommend a proper role for USAID. This report therefore should be considered solely as a decision document for USAID management. It is intended to describe an economic problem and suggest an appropriate response for USAID.

The methodology employed in this study relied primarily on the considered opinion of key government and private sector leaders. It is the essence of their opinion that we tried to capture in this report. The nature of the subject matter demanded that we do this since the feasibility of pursuing a certain program in the Philippines is perhaps more importantly determined on qualitative judgment in addition to objective measurement. We also enhanced our assessment by reviewing critical documents developed by local academicians, donor agencies, and other institutions. The combination of these two sources allowed us to form our conclusions.

The report is divided into two parts. Part I qualitative in nature describes divestiture activities, analyzes the factors influencing divestiture, provides conclusions concerning its feasibility and recommends a role for USAID in private sector development. Part II quantitatively oriented, presents an investment risk assessment, an important aspect of the divestiture program and related medium and long term private sector development. It also identifies the appropriate financial, economic, and political factors which support our conclusions in Part I.

II. EXECUTIVE SUMMARY

Our assessment of the government of the Philippines approach to divesting itself of selected public corporations and private sector enterprises/assets acquired by public banks led us to several conclusions:

- In the near term the government efforts will focus on rehabilitating public corporations rather than selling them. Some isolated sales may occur but to our knowledge, there is no overall plan of action to do so, Some positive steps have occurred to rationalizing their operations, for example requiring some public corporations to pay taxes which they were previously exempted from.

- The divestiture program in DBP related to acquired assets and companies, is experiencing some implementation problems due to factors such as the absence of an effective investment search program, the lack of information on the accounts, policy debate on the terms of sale and again the lack of a systematic plan of action.

- In general both programs are currently focused on meeting the government's and banks' near term liquidity needs.

- It appears likely that additional private sector companies will be acquired by the banks because of the unavailability of adequate financial resources to meet the companies' needs due to the severity of the economic crisis. Thus, the current crisis will place a high share of the economic adjustment burden on the private sector. Anticipated IMF Conditionality will increase the pressure on them in the short term. The short and medium term impact may be the loss of a solid private sector economic base upon which the medium and long term recovery can rest. Preventing this from happening will in our opinion have a greater positive impact on the economy, the banks, and the private sector.

- Therefore, assistance primarily directed to the government for its divestiture activities as they are currently focused does not appear appropriate. In our opinion, the restraining forces against successful divestiture, as it is now being carried out, will lead to a diversion of USAID resources which could be more effectively applied elsewhere in the economy.

- USAID resources should therefore be directed at assisting the government of the Philippines to target its development efforts on viable private sector enterprises in key sectors of the economy where a comparative advantage exists.

- The strategy should be composed of elements which address broader medium and long term private sector needs. It may also include some technical assistance to the government to carry out its divestiture program but this should not be the prime focus of the strategy.

- The strategy includes four elements:

  - Assistance in identifying the sectors of comparative advantage and developing an overall industry rationalization plan.

  - Seed Capital to establish a fund for private sector development. The fund should be primarily focused on providing equity to various private sector investments. Debt assistance, primarily in the form of working capital, should also be available.

  - Support in developing or establishing capacity in the Philippines to:

ooo establish an effective investment promotion and business opportunities search program

ooo enhance the capacity of DBP to undertake its divestment role

ooo Capital market development by establishing the fund identified above as a vehicle through which industrial investment can take place.

oo Support to the private sector and government to develop appropriate policies. This may include grant monies to National Economic and Development Authority and the Philippine Chamber of Commerce and Industry or other appropriate organizations.

The strategy is a broad based one, moving beyond the focus of divestiture. It must be flexible to respond to changing circumstances and therefore projects should be sequenced to permit incremental decision making on future USAID resource allocations.

III. DIVESTITURE OF PUBLIC CORPORATIONS AND ACQUIRED PRIVATE SECTOR COMPANIES AND ASSETS

A. THE CONTEXT

The Philippine economy is experiencing a crisis prompted by the two world oil price shocks which significantly increased their import costs and by the use of foreign commercial loans to run non-productive projects. b.o. public & private The 1980-1982 world recession intensified the effect of these basic problems and coupled with the assassination of Senitor Benigno S. Aquino, caused huge amounts of capital to leave the economy. Commercial banks lowered the ceiling on their exposure to the Philippines and in some cases froze scheduled loans. The subsequent handling of the political situation led to a crisis of confidence in the government and an erosion of its credibility, which to date has not been restored. Many factors have led to this situation.

The import substitution policies of the government and the high tariff barriers imposed to protect local industry led to the development of inefficient, non-competitive (on a world basis) industries supplying predominantly consumer durables and non-durables. Intermediate manufacturers, raw materials, capital goods and industrial supplies remained almost fully imported and have become the weak point of the economy.

The trade deficit prior to the 1973 oil crisis was relatively minor and was generally covered by capital inflow. But in 1974, the country's oil bill rose from US$187.6 million (1973) to over US$600 million resulting in a trade deficit amounting to US$418.27 million in 1974. Capital inflows also increased, but a rate insufficient to meet import requirements. By November of 1982, the trade deficit stood at US$2,468 million. This widening trade gap could not be bridged by non-merchandise transactions so the government resorted to borrowing, which grew from US$0.4 billion in 1964 to US$1.3 billion in 1969, US$9.7 billion by the end of 1979 and then accelerated to reach some US$26 billion by the end of 1983.

In 1982, the economy also suffered both domestically and externally primarily because of depressed prices for major commodity exports, weak demand for non-traditional exports, high oil prices and sharply rising interest payments, culminating in a US$1.14 billion balance of payment deficit. The government enacted some compensatory measures but these proved to be inadequate.

1984 has seen a rapid decline in all economic indicators the collapse of many domestic industries, massive lay-offs, drastic reductions in imports and a decline in exports. A series of devaluations took the peso from around 9:1 to 18:1 in a matter of months and fueled inflation (around 40% for the first months). This caused further massive capital flight which in turn led to scarcity of credit, high interest rates (a prime of around 32%) and failures of financial institutions and thrift banks. The continuing delay in achieving agreement with the IMF for the $630 million standby credit and subsequent re-negotiation of commercial bank loans has brought the economy to a virtual standstill. Investors, both local and foreign have adopted a "wait-and-see" attitude and (effectively) no new investment has been made in the past 6 months. All things considered the economy at mid-year looks decidedly bleak and the future anything but certain.

In order to stimulate the economy it is clear that a number of significant changes will be necessary, including a restructuring of the country's debt. Over the next one or two years the economy can be expected to continue to decline and full recovery is unlikely before the end of the decade.

B. THE PROBLEM OF A GROWING PUBLIC SECTOR

The economic crisis has had some unanticipated side effects. Despite significant intervention, the government desires the economy to be considered an "open" one responsive to the market signals of a competitive environment. However, a series of intended and unintended actions have resulted in the government directly or indirectly to be heavily involved in the productive side of the economy in two ways: the establishment of public corporations and the acquisitions of private sector operating companies and assets who defaulted on loans to public sector banks. The government thus found itself in the position of owning a range of interests from hotels to yachting companies, as well as steel mills and the sugar industry.

Unfortunately, this situation has resulted in a financial burden to the government at a time when its deficit is growing larger. Scarce resources are being channeled to these areas which could be more prodictively used elsewhere in the economy. For example, our analysis of 174 public institutions* showed that in 1982, total government expenditure in the form of subsidies, allotment or additional equity contribution amounted to at least ₱7.82B or approximately 13% of total consolidated public expenditures. Of these 174 corporations, 110 sustained

* For 1982, these 174 enterprises were the only ones where enough data existed for the government auditor to render an opinion.
In 1984, our analysis indicates that there are least 308 government entities and 174 subsidiaries and affiliates.

a loss though aggregate profit was significantly higher than losses (₱4,181.9 M to ₱1,997.7). However, it is difficult to accurately assess those figures since an impact analysis of subsidies on profitability is not available.

We do know that the growth of government enterprises is rapidly increasing. Statistics from the Presidential Commission on Reorganization indicate the following:

Year	Parents	Subsidiaries	Total
1970	47	18	65
1975	71	49	120
1981	92	120	212
1982	95	I20	215
1983	91	158	249

Perhaps of more concern is the manner in which these institutions were created. Our review of the 174 companies mentioned previously is an indication of overall public enterprise creation, one finds that the way these enterprises were created varies significantly:

LEGISLATIVE POWER		EXECUTIVE POWER	
Republic Act	- 55	Presidential Decree	- 75
Commonwealth Act	- 3	Executive Order	- 12
Legislative Act	- 2	Letter of Instruction	- 7
Batas Pambansa	- 3	Memorandum order	- 1
Other	- 7		
	70		95

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Some important issues arise from this analysis:

- More than half of these entities were created by executive power without public debate
- Of those created by Republic Act, at least 27% are amended by Presidential Decrees.
- 34 corporations were created between 1982 and 1983
- Public corporations can create subsidiaries registering with the SEC without public approval. Such subsidiaries would thus be able to receive public funds but without close accountability. The extent of this practice is unknown.

The government itself has raised questions covering the status of public enterprises in the economy. The Presidential Commission on Reorganization states that... "the main issue with respect to government corporations still centers on checking the seemingly uncontrolled growth in their number...." Though originally certain activities were reserved for the government for economic reasons, this may no longer be the reason.

Yet government growth in the economy is continuing. The crisis during the past few years has led the government, through its public banking system, to acquire a number of private sector firms who could not repay loans. Usually, the reasons for default were:

- foreign exchange losses incurred in foreign denominated loans.

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- projects which "never got off the ground" with proponents acting in bad faith.

- losses incurred on projects initiated at government behest to priority sectors in which economic problem arose (e.g. mining, sugar, textiles)

- lack of technical assistance or loss of markets

As a result of these circumstances the following has taken place:

- DBP, PNB and the National Development Corporation (NDC) have acquired significant interests in areas primarily private sector oriented.*

- In doing so, both DBP and PNB have suffered financially. It is estimated that over 70% of DBP's portfolio is classified as non-performing. Collection rates on principal payments have declined to 24% and for interest payments 39%.

- In addition, both PNB and DBP are suffering a liquidity crisis due to lack of access to foreign borrowings and constraints on the growth of public sector deposits due to tightening of fiscal and monetary policies.

Certain actions have been taken by DBP and PNB to strengthen their financial position. An analysis of 378 accounts in DBP concluded that 113 accounts were viable and 32 were identified for rehabilitation action; 136 accounts were no longer viable and 97 are still undergoing review. Analysis in the PNB focused on its 10 largest accounts and it found that 3 were viable and 2 identified for rehabilitation. The others have been considered non viable.

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* See Appendix C & D of this report.

C. THE RESPONSE OF THE GOVERNMENT TO THE PROBLEM

The economic realities have created a situation where the government believes it must take concerted action to divest its holdings in public corporations and divest acquired operating companies and assets of previously private sector owned companies. The objectives for this as we understand from government officials are two fold:

- first, to reduce the budgetary drain caused by inefficient public corporations
- second, to raise cash for the benefit of PNB and DBP

Though the government has a policy to divest itself from the private sector, no formal definitive program is in place that would operationalize this policy. Several actions, however, indicate that the government is attempting to pursue these objectives. For example, actions are being taken to locate investors for MARINDUQUE and NDC has sold several companies including Republic Telephone Co., Philippine Electrical Manufacturing and others. DBP as well has successfully sold some establishments.

But the question of the efficacy of a sustained systematic divestiture program by the government remains unanswered. In reviewing the situation, we found that there are many factors which act as an impetus for a program (driving force). Yet, there are also factors which mitigate against it, both in the short and medium term (restraining forces). The table below identifies those forces and the subsequent discussion provides the framework for our analysis and conclusions concerning the feasibility of the program.

FACTORS AFFECTING FEASIBILITY OF A DIVESTITURE (PRIVATIZATION) PROGRAM

	Driving Forces		Restraining Forces
1.	Economic Crisis	1.	Unsigned IMF Agreement
2.	IMF Conditions	2.	Results of Agrava Commission
3.	ADB/WB/USAID Resources	3.	Political Factors (e.g. Amendment 6)
4.	Need to prevent further government involvement in sectors	4.	Retention of Political Power
5.	Foreign Exchange Needs	5.	History of GOP Inaction
6.	PNB, DBP Survival	6.	Foreign/Domestic Investors Perception of Risk
7.	Need for Political Stability	7.	Legal Constraints
8.	Local Business Support	8.	Lack of Local Capital at Reasonable Rates
9.	Need for Equity	9.	Unattractiveness of Most Enterprises
10.	GOP Stated Policy and Consistency with National Objectives	10.	Obsolescence Overvalue of Equipment
11.	Stability of Employment	11.	Organizational Capacity of Banks to Implement Divestiture

Driving Forces		Restraining Forces	
12.	Need to Save Potentially Viable Firms	12.	Absence of GOP Divestment Plans
13.	Opposition Pressure	13.	Investment laws/procedures

DRIVING FORCES

1. Economic Crisis. It can be reasonably assumed that this is the key driving force for the government to divest of publicly held corporations. Had the corporations under government control performed successfully, there may not have been a desire on the government's part to divest. At the present time the government intends to rehabilitate* those companies prior to divestiture, unless greater economic pressures force government action. As the crisis worsens, as predicted by various sources, this force is in fact anticipated to increase.

2. IMF Conditions. It is generally assumed that the IMF has requested a restructuring of the DBP and PNB as a condition of approving the

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*"to rehabilitate" may mean the process in which a loan account that has been acquired by a government bank is nursed by the bank prior to turnover to the private sector by employing one or any of the following courses of action:

1. active controllership or management control through the Board of Directors to safeguard assets:
2. infusion of more equity:
3. restructuring of the loans normally by:
   - 3.1 lengthening of the period of amortization;
   - 3.2 conversion of the deal into equity to ease debt burden :
4. granting of more loans,

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standby credit line. Considering the dominant role of these banks in the financial system (Total combined assets of DBP and PNB as a percentage of total assets of all Banking Institutions on the Philippine Financial System is approximately 39% in 1983), a restructuring toward a more financially stable and fiscally responsible position is essential. This restructuring will inevitably require disposal of non-performing assets at the very least and may require sale of some profitable corporations to ensure a satisfactory cash flow.

3. ADB/WB/USAID Resources. For a divestment program to work, funds must be available to assist the relatively rapid transfer of companies to new private investors. With the current lack of business confidence, donor agency funds are considered the most feasible source to tap. Ready availability of these funds in the near future can do much to encourage a privatization program.

4. Need to Prevent Further Government Encroachment in Sectors. This factor is considered important by private businessmen. The unfair advantage (in soft loans, tariff protection, monopoly rights etc.) that government ownership bestows, creates an unattractive environment for private entrepreneurs and investors and is a major deterrent to new ventures, or even maintenance of existing ones.

5. Foreign Exchange Needs. The development of a divestiture program could spur the inflow of foreign investment. Though the present economic climate may not be immediately conducive to inflow of foreign equity funds. A selective approach in some companies with high export potential may still be attractive. As such the government's need for foreign exchange may encourage an acceleration of the program.

6. PNB, DBP Survival. Under the present circumstances the survival of these two banks is of critical concern. The high ratio of non-performing assets (reported to be around 70% of the loan portfolio in the case of DBP) and the cash drain to maintain operations of these enterprises leads to the conclusion that a more aggressive stance in asset disposition is called for. Though the price of how much the disposed assets were sold for could spell the difference on easing their liquidity position, a decision to divest will shift the role of the banks from maintaining their accounts and to concentrate on their respective developmental role.

7. Need for Political Stability. Various opposition groups may see divestiture by government as an important issue. Hence, if the government believes that restructuring the economy would lead to political stability, then this may act as a strong motivation to continue divestiture.

8. <u>Local Business Support</u>. The local business community has expressed active interest in assisting in a privatization program through investor search and by promoting policy reform as a means to achieve a fairer, open market environment. Funds from this sector are generally scarce at present, partly due to the lack of confidence in the government. Nonetheless, the group can be expected to support a privatization program and exert pressure towards its achievement.

9. <u>Need for Equity</u>. The high ratio of debt to equity in companies acquired by DBP and PNB has resulted in an onerous financial burden to these companies. The move to increase the equity of corporations under their control cannot be made, as government funds are not available. Consequently, private sources must be tapped and divestiture is one way to tap these funds.

10. <u>GOP Stated Policy and Consistency with National Objectives</u>. There is a formal stated policy on divestiture. The recent pronouncements, however, of the President in his 10 point recovery program may lead us to infer that divestiture is a complementary objective for financial stability. Discussions with senior officials of DBP and PNB exhibit an honest desire to divest themselves of acquired assets as an important phase in their financial operations.

11. Stability of Employment. Although of primary importance to labor leaders and others in the community, this area is not given strong importance by the government in its decisions regarding divestiture although it is recognized that if massive lay-offs are allowed, a degree of unrest will inevitably occur. Hence, there is some pressure to factor in this force in considering divestiture.

12. Need to Save Potentially Viable Firms. Considered important in the longer term if an industrial base is to be maintained, unfortunately, the force does remain of lower priority as short-term forces exert greater effect. The short-term effect of losing firms in a declining market is not seen to be of major importance but it will assume major proportions when the economy attempts to recover.

13. Opposition Pressure. The opposition is vocally opposed to government intervention and control in the private sector and will act as a force to pressure divestment. However, with a minority position and a number of more urgent priorities (such as repeal of Amendment 6), the effect of this pressure will be reduced.

RESTRAINING FORCES

The factors which inhibit divestiture efforts include:

1. Unsigned IMF Agreement. This is the most critical restraining force and without it any divestiture program will be difficult. It would be unwise to start a major divestiture program without this agreement since the availability of investible funds, stability within the financial sector and direction of government fiscal and monetary policies will remain uncertain.

2. Results of Agrava Commission Unknown. Although unimportant of itself, the public reaction to the results is of critical importance since this could affect the peace and order situation in the country. The degree of reaction may determine the future direction of political forces. The public's response will indicate whether increasing stability can be expected, or whether growing unrest becomes more likely and hence, detrimental to any proposed program.

3. Political Factors. The present political situation is seen as a major deterrent to investment by the private sector. Key amongst these is the question of stability over the longer term, and a smooth transition of a new ruling party if President Marcos elects to stepdown. In the short-term Amendment 6 creates uncertainty and is seen as an important precondition to a predictable business climate.

4. Retention of Political Power. Despite the publicized statement of the government's desire to divest of publicly-held corporations, these corporations give various key officials a degree of economic and political control. This concentration of power will be an inhibitor to a genuine effort to divest on an overall scale.

5. History of GOP Inaction. The slowness of the banks to act on problem accounts and of the government to introduce and implement regulations affecting improvements in business will act as a curb to achieving a rapid and effective overall privatization program.

6. Foreign/Domestic Investors Perception of Risk. The risk analysis detailed in Part II of this report shows the high degree of uncertainty surrounding political stability, peace and order and economic planning. The poor press enjoyed by the Philippines overseas further worsens the perception by foreign investors of the stability of the country. Attracting foreign buyers at this time will be difficult, particularly given the absence of a strategy to attract them.

7. Legal Constraints. A number of laws, (such as the requirement to allow the previous owner a one-year option to redeem his company) and the predilection of previous owners to challenge foreclosures and other actions in court (e.g. Delta Motors Corp.) could inhibit the ability of the government, or a third party agency to divest of acquired assets rapidly enough to retain their operational value.

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8. Lack of Local Capital at Reasonable Rates. The excessive inflation (now over 40%), high loan interest rates (32-36% for prime borrowers) and attractiveness of CB bills at around 32% all act to move funds into non-investment areas. The capital flight that has occurred since October 1983 and the need to conserve liquidity, build inventories or pay-off loans have all led to restrictions on capital supply.

9. Unattractiveness of most Enterprises. A number of acquired companies appear to have been poorly conceived and/or overvalued at their inception - (the poor location of the Tradewinds Hotel, for example) is a major inhibiting factor. The high debt-to-equity ratio and substantial overall indebtedness of many of the companies makes sale at any price close to "book" extremely difficult.

10. Obsolescence Overvalue of Machinery and Equipment. A number of acquired companies have second-hand machinery that is no longer world competitive and in some cases is listed at inflated values. To upgrade these machines to compete with modern counterparts can be difficult or more expensive.

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11. Organizational Capacity of Banks to Implement Divestiture. The necessary infrastructure within an organization to support divestiture should be present in order to effectively implement divestiture. Organizational changes have been initiated at DBP but additional support with regard to information systems and valuation of assets may still be required to pursue an effective divestiture program.

12. Absence of GOP Divestment Plans. With the current concentration on handling critical situations as they occur, little attention has been paid by the GOP to formulate an overall divestment plan. This will make it difficult for donor agencies and investors to play an effective role except on a limited basis. A national divestiture plan and series of objectives needs to be formulated and implemented, possibly by Philippine private sector advisory group.

13. Investment Laws/Procedures. These are generally favourable and the recent PD 1892 allowing 100% equity rule gave a more relaxed attitude towards investment. Present investment laws may act as a restraining force in the sense that difficult investment procedures do exist. Investment approval may go through a tedious bureaucratic process that may pose uncertainties to the prospective investor.

The driving and restraining forces acting on the government's approach to divesting of selected public corporations and acquired private sector assets create a complex environment in which no easy solution is found. Yet in analyzing the situation some issues stand out and act as a framework to indicate what course of action could be taken by USAID and perhaps other donor agencies.

First of all, the divestiture program is as is now structured, (though loosely) appears to be aimed primarily at maintaining the position of the government in the economy at least in the medium term. Efforts at disposing of public corporations are now contingent upon rehabilitating those companies, a policy which allows the government more time to assess the appropriateness of their action. There may be some justification for this decision. One reason is that the government is concerned that foreign investors may attempt to dominate some sectors by purchasing some key industries at a low price. Another reason is that if in the medium term the companies are rehabilitated, respond to market signals and make a true profit yet still remain under government control, the government will achieve the objectives of reducing its spending program without loss of economic control. In either case, in our opinion, the government is unable at the present time to make a concerted effort to actually sell these corporations but it will make significant efforts to rehabilitate them.

Second, the efforts of divesting of acquired assets and operating companies is focused almost exclusively on the objective of sustaining DBP and PNB by generating cash to improve their financial position. It is a logical objective from the Bank's point of view.

Third, no significant attention is being paid to the near and medium term needs of private sector companies. We expect that as the economic crisis worsens and companies are unable to obtain adequate financing, more will default on their loans and be acquired by the banks creating even more complex problems. In other cases, what may happen is that a number of these firms may sell out to others and a further concentration of economic power will result. There are indications that this already may be occurring. In some circumstances this will be a natural response of the market, but in the medium and long term, this factor coupled with increased pressures to protect domestic industry may result in an even further deterioration of the Philippines capacity to compete in the international market.

The divestiture program as it is currently being carried out does not adequately address this issue and it is this issue that we believe is of prime importance to the private sector - both in terms of preventing further involvement of the government in certain sectors of the economy and in terms of having an economically sound private sector base upon which the recovery can be focused. That is the strategy upon which a private sector support program should be based.

Therefore, our conclusion is that the real problems of the private sector will not be solved by direct assistance to the DBP or PNB programs. Nor do we believe that the government is fully committed to divesting its interests in government enterprises to warrant an allocation of scarce USAID resources to this area, except when it is a very focused effort with a high probability of success.

However, we do feel that a strategic approach to assist the Philippines private sector is feasible and while it may incorporate some elements of assistance to the government's current divestiture efforts in no way should that be the sole focus. In the following chapter, we outlined such a strategy. It is our opinion that this strategy could be effective if it primarily moves through Philippine private sector channels and remains apart from existing government institutions. These institutions are heavily involved, understandably, in near term issues and the programs may exceed their capacity at this time to absorb them.

Additionally, we feel that certain conditions precedent exist prior to a full commitment of USAID resources. These including:

- The signing of the IMF Agreement
- The results of and response to the Agrava Commission are known

As the strategy progresses, other factors may dominate such as:

- A return to positive real interest rates
- A rationalization of the Banks
- Modification of Amendment 6

The strategy therefore should be viewed as a series of interrelated and sequential projects responsive to the fluidity of the current political and economic situation.

IV. A USAID STRATEGY FOR PRIVATE SECTOR DEVELOPMENT IN THE PHILIPPINES

A. INTRODUCTION

The strategy for USAID's involvement in the government divestiture process in the Philippines must recognize that divestiture as it is currently being carried out is only a partial response to a broad array of economic problems facing the private sector and the government. In fact, as the program is currently being carried out we believe that it is the government and not the private sector which will be the ultimate beneficiary of the program.

We suggest in this chapter that USAID develop a broader strategy for direct private sector assistance that has clearly articulated objectives and programs to meet those objectives. Though the strategy may incorporate some assistance to the public sector banking system to divest of its acquired assets, in no way should that be the sole focus of the strategy.

The strategy therefore should be consistent with national economic objectives as stated by the government (see Appendix B) and yet directly responsive to the critical needs of the private sector. In terms of public expression, we found that there is no appreciable difference between those national objectives and private sector needs.

B. GOAL AND OBJECTIVES OF THE STRATEGY

The recommended goal and objectives for a USAID program of assistance were developed within a systems view of the current economic situation and is based on the premise that assistance must be focused at the individual firm level. The overall goal of the program, therefore, is to ensure that the Philippine economy has a sufficiently strong private sector economic base upon which it can successfully emerge from its economic problems in the medium term. Our belief is that unless that base is adequately developed at this time the readjustment period may be protracted more than necessary. The objectives to reach that goal are as follows:

- To increase the flow of equity and debt capital for new and existing investment in economically strategic sectors.

- To generate new employment and/or maintain existing employment levels.

- To strengthen the capacity of the financial institutions to service the needs of the private sector.

The achievement of these objectives should be guided by three policies which are aimed at a broader structural adjustment of the economy, shifting more of the productive capacity of the economy to an unencumbered private sector. The policy guidelines therefore encourage actions which:

- allow existing areas of the economy to remain independent of future government investment:

- assist the government to efficiently divest its exsting holding back to the private sector in other areas:

- avoid over emphasis on foreign investment.

We expect that in the short and medium term the first of these policies is the most politically viable approach and therefore recommend that it be the primary guiding policy for USAID programs.

C. THE TACTICS TO ACHIEVE THE OBJECTIVES

Basically, our analysis indicates four areas which represent the critical needs of the private sector, are responsive to national objectives, and act as the basis for USAID program support:

1. Debt relief and a rationalization of industry.

2. There is a need to establish a mechanism to attract capital primarily in the form of equity but also including debt.

3. There is a need, over time, to improve the performance of existing institutions and develop/restructure other institutions, particularly the public sector banking system, capital markets, and investment promotion services.

4. There is a need for policy stability and policy development focused on the private sector.

D. PROGRAMS TO ACHIEVE THE OBJECTIVES

The following presents an outline of several areas of programmatic support which USAID could provide both to the Philippine government and more importantly to the unencumbered private sector.

1. The Need For Debt Relief. Perhaps the most important strategic imperative for the Philippines is to find a way to reduce the burden of its international debt, which currently comprises over $26 billion in foreign obligations and is a principal reason behind the decline in international regard for and confidence in the country. A closely related problem is that IMF-led strategies for debt payment typically involve sharp reductions in imports of key raw materials and capital equipment, with profound negative

consequences such as the projected 9 percent decline in Philippine industrial production in 1984. That is, the very process of paying the debts may worsen long-term growth prospects and leave the country far behind in the path toward economic development and jobs. As of this date the IMF agreement has not been signed.

An alternative, which to our knowledge has not yet been tried in any major debtor country, would involve in addition to a moratorium, negotiating a lengthening, restructuring, and perhaps some forgiveness of debt obligations in return for the Philippines implementing a broadly based, analytically supported program to rationalize its industry and focus growth and resources on the most productive sectors. That is, loosening the debt burdens while simultaneously implementing a development strategy that would ensure future growth and ability to meet the newly reduced and stretched-out obligations.

It is beyond the scope of our work to fully outline such a strategy, but its main elements might include the following:

- <u>Primary initiative from the Philippines</u>: By initiating the potential restructuring/rationalizing plan in the Philippines, its likelihood of both acceptance and success would be enhanced.

- <u>Renegotiate foreign loan obligations:</u> Stretch out repayments of interest and principal over an extended period and consider some relief on interest rates and principal if the Philippines will agree to a thoroughgoing economic restructuring and development plan. The recent move by commercial banks to reward debtor countries (e.g. Mexico) who develop such plans and successfully implement them is a precedent the Philippines should capitalize on early on in the IMF adjustment.

- <u>Use productivity measurement techniques to locate the most productive sectors and firms and to diagnose productivity problems in other areas:</u> The types of productivity measurement techniques used to assist major companies in improving their productivity could be applied to the Philippines to search out the industry sectors and individual enterprises that add the most value per dollar of cost to the Philippine economy. These kinds of techniques could also help determine why poorer performing sectors and firms have experienced difficulties (locating cases of comparatively excessive wages, manning rates, materials and energy usage, etc.) so that a rationalization strategy could be well informed.

- <u>Focus development efforts and funding on the most productive sectors or those where solving productivity problems could have the greatest payoff:</u> By focusing on productive sectors and reducing excessive costs in other sectors, the overall performance of the economy would improve and development could be put back on track.

- <u>Include provisions for periodic review of rationalization progress:</u> The agreed steps for rationalizing the Philippine economy would probably need to be monitored periodically to ensure their progress and get any problem areas back on track. The restructuring agreement might make continuation of stretched-out payments and relief conditional on satisfactory annual reviews.

- <u>Rationalizing and de-emphasizing the public sector:</u> It is obvious the Philippines needs to reduce the economic influence of its public sector and thereby allow more growth and investment latitude for its private sector. As part of a debt management program and in lieu of immediate divestiture, the Philippines might explicitly direct its public sector corporations to increase their level of subcontracting to the private sector. Initially, this might focus on a range of service activities, but ideally the

> scope of contracted-out activities would increase continually with time. Such a program would bring a more private sector orientation to the Philippine economy, and it would act as a kind of "incubator" for a range of private sector activities that could later grow into export-oriented businesses. Economic spinoffs might include opening up more sectors to private sector development, improving the learning opportunities for entrepreneurs and workers, and a reduced drain on government resources from uneconomic public sector activities. Of course, public sector employment might fall, but the rise in private sector employment might be enough to offset any public sector job losses.

It is important not to underestimate the difficulty of implementing such a strategy. Even though it might be good for the Philippines and the banks, at least as compared with the path now being pursued, it might require significant sacrifices from both parties. The sacrifices within the Philippines might prove particularly difficult, since they may need to involve layoffs, shutdowns of some operations, wage adjustments, and writedowns in the value of assets. But the potential benefits including the possibility of US$3.3 billion in new lending in 1985 may make the short term hardships worth the political risks.

We recognize that a program of this magnitude is contingent on the political will of the government, the active involvement of the private sector and the availability of resources to develop such a plan. As of this writing we are not entirely convinced that sufficient will exists in the government to undertake this program. Recent decisions seem to focus more on a revenue generating strategy to put its economic house in order rather than a spending reduction approach. However, our discussions with government leaders indicate that the economic pressures may force a more concerted effort to reduce spending as well as increase revenue through more appropriate means than taxing exports. We believe that the time to act on this issue is at hand.

USAID could play a critical role in this area as part of its overall private sector strategy. First, it could sponsor a series of strategy sessions with key government leaders, the Philippine private sector and the commercial banks to discuss the viability of such a rationalization plan for industry. We must emphasize that these discussions must be at the highest level, possibly arranged by the U. S. Ambassador, and are not intended to be academic exercises. We note also that certain influential Filipinos are amenable to discussing such an approach and USAID and the U. S. Embassy may be in a position to act as a catalyst in bringing the various parties together.

Second, USAID can play a role by assisting in the actual development of a rationalization plan. Even if the government elects not to develop such a plan the need to provide assistance directly to private companies and in very selected cases public sector corporations, would still require this information.

As we previously stated one of the objectives of a USAID program of assistance is to help the Philippine private sector to sustain, despite the crisis, a base of economic units upon which the economy can survive and grow in the next few critical years. Most likely these firms will fall into these categories:

- selected acquired operating companies which have operational difficulties because of factors beyond their control (unavailability of raw materials because of debt crisis, dollar denominated loans, unavailability of working capital, etc.) and those which could be rehabilitated.

- selected firms who presently have not been acquired but which may be if financial and other crises continue.

- selected public corporations which the government has unconditionally indicated it is willing to divest or place under management contract.
- new areas for investment in which the economy must establish its comparative advantage.

Specifically USAID could provide technical assistance to conduct a four part assessment of the Philippine industrial economy:

- Use industry-level, cost, price, output and unit data to search for the particular industry sectors where productivity is potentially highest relative to costs;

- Within the most potentially productive sectors, use company data and productivity analysis techniques to locate the most efficient potential divestiture targets and to find other firms where a cost restructuring might render them sufficiently efficient for long-term survival;

- Once the best targets are chosen, assess their likely capacity for survival; prepare a productivity enhancing strategy for assisting those that are chosen for divestiture; and use productivity and financial measurement techniques as inputs to setting a value on the companies to be divested;

- For the public corporations that are not chosen for divestiture, but which are critical to certain sectors, use productivity enhancement techniques to reduce their costs and to cut the tax burdens involved in supporting them. The use of Management Contracts may be a useful interim step for these firms.

Such a strategy could help find the best divestiture targets, ensure that the prices paid are fair and the transition well-executed; and strengthen the operations and viability of even those public companies that are not candidates for divestiture or companies which are currently in the private sector.

It is worth pointing out that such a strategy would not be costless. Insisting on efficient operation of all major sectors may require layoffs, wage reductions, management cutbacks, tougher bargaining with suppliers, and write downs of assets ; but the result could be tougher, more competitive enterprises, able to survive in the external economy and to compete internationally. USAID could play a central support role at a level where the impact will have a significant effect on the Philippine private sector.

2. The Need for Capital. Any strategy for developing the productive and competitive capacity of the private sector economy must come to grips with this central problem: most productive or potentially productive enterprises do not have access in the short and medium term to reasonably priced capital in either equity or debt form.

Problems in the financial sector are being exacerbated by different amounts of private sector "crowding out", due to the large borrowing needs of the national government. In many cases it appears that savers have chosen treasury bonds over corporate debt issues and savings accounts, based on the apparently greater safety of the former combined with attractive investment returns.

One result has been a decrease in total investment by industry-- for example, investment fell by more than 55 percent between February and March of 1984. Activity in the stock market has been nil, and inter-bank rates have on occasion pushed toward 65%. The bank holiday declared by Banco Filipino, the largest savings bank, has caused many investors to shift their funds toward cash or liquid assets--- thus further depressing stock market activity and the availability of funds for industry. The unavailability of funds for working capital and the import of raw materials has had and continually will have a profound effect on companies which otherwise could be viable. It is those firms that we are particularly concerned about.

Yet funds do exist. Several Philippine and foreign commercial banks indicated to us a desire and willingness to invest in projects which have a good return providing some risk sharing could take place. In addition some $4 to 30 billion (depending on whose estimate) of Philippine money resides in offshore investments. Though we would not expect that all of that money would return under any circumstance, we do suggest that given the right investment climate some of that money could return. Foreign commercial banks and other sources as well have money to invest but a continuing variety of international risks make them cautious.

With the crisis at hand it does not appear feasible to wait until the Philippine capital markets are strengthened to service private sector needs. As stated in a recent study this process could take years. In the meanwhile the financial needs of the Philippine private sector will not be met.

What we recommend then is that USAID provide support to the establishment of a mechanism that would both mobilize the existing capital from various sources and share some of their investment risk. There are various ways to structure such a mechanism and it is beyond our scope of work to give a definitive solution. Yet an outline of this mechanism is provided so that USAID can begin a series of discussions with the Philippine government, the commercial banks (foreign and domestic), investment institutions, economists and business people, and other donor agencies on the viability of such a support program.

The objectives of the fund would be:

- To mobilize and to effectively hold on existing capital from various sources by sharing investment risk and arranging for risk insurance;
- To provide working capital, medium, and long term lending to targeted Philippine private sector industry;
- To provide equity capital to targeted private sector industry.

In order to achieve these objectives the following structure is recommended:

a. Funding Levels, Sources and Application. We suggest that the fund be linked to the overall industry rationalization plan described above and therefore its initial target industries and investments would be identified in that plan. Since the fund is not intended to solve all of the problems in the industrial sector, its initial capitalization by USAID could be at the $25-50 million level.

Annual commitments would rise as the funds performance is reviewed and disbursements meet pre-established targets.

Other sources of seed capital could be tapped. Commercial banks could possibly raise another $20-25 million and other donor nations or agencies including the International Finance Corporation could contribute additional funds. It would also appear appropriate to switch contributions from the Venture Capital Corporations to the fund given their performance to date. The participation of bilateral and multilateral agencies would diminish the identification of the fund as a USAID initiative but, in our opinion, this may be a beneficial aspect in that the fund will be viewed by investors as a more objective investment mechanism. The complexity of involving other agencies is apparent but we believe that the advantages of holding into their funds offsets this problem.

Another source of funds is the Philippine monies "salted" offshore. We suspect that in a year or two that this money may be willing to flow back into the country given the right investment mechanism. Using an established offshore banking unit to accept investable deposits on an "anonymous" basis may be useful. In fact the fund may be able to coordinate with existing Philippine-owned banks to establish this mechanism.

The fund could,over time , begin to also attract the liquidity that exists in the domestic or "mattress" market by issuing preferred shares, income bonds or similar fixed interest-bearing instruments. Currently there is a reluctance to invest in industry because of lucrative options elsewhere, the low level of confidence in the capital markets, and the absence of identified "good" investments. The selective nature of the funds investments (targeted to growth potential comparative advantage industries), the objectivity and international credibility of the fund, and a competitive return on the funds investments may overcome this domestic reluctance to invest in Philippine industry. At the same time the fund will act as a bridging mechanism until the Philippine capital markets are reorganized and operating effectively.

Other sources of funds exist as well. For example, it may be possible to use the blocked funds of multinational firms as a source for local equity investment assuming that existing constraints are removed. Though the fund deals with both debt and equity, emphasis, given the Philippine situation, should be on equity. The funds resources probably should be applied on a split of 70% equity, 30% debt. On the debt side working capital loans would initially be a priority with medium and long term lending becoming more important as the Philippine economy begins to recover in the next few years.

b. <u>Providing for Risk</u>. The fund will assume most of the responsibility, through existing financial institutions, for investment appraisal and administration. Many of the stronger Philippine financial institutions have the capacity to identify and appraise investments but this capacity will be augmented by the studies funded by USAID as described previously. However, attracting these institutions and other investors to become part of the fund and lend medium and long term as well as participate in equity investments must recognize and deal with the risks they will incur.

Bankers face three main kinds of risk. These include the risks of loss through default, interest rate fluctuations and foreign exchange rate changes. Greater default risk is normally associated with longer term loans, so given the uncertain future of the Philippines, bankers have good reason to prefer short term loans to long term loans. Concerning interest risk, a banker considering a five year loan must ask himself whether the average interest associated with five one-year loans might not exceed the rate he can obtain on the five year loan. If so, he will decline to make the five year loan in order to avoid this loss. Finally, a borrower taking part of a long term loan in foreign exchange that must be paid back in foreign exchange runs the risk that the rate at time of repayment may be less favorable than the rate at the time the loan is made. Although the forward exchange market may offer the possibility of hedging, the time duration offered by the market is not sufficient in the case of long term industrial loans.

Given the term structure of their deposits, then, banks are unwilling to lend long term, since they would then face a large interest rate risk. As a basic principle, we would argue that economic agents should not be forced to bear risks over which they have no control. Thus, it would be desirable for the fund to absorb the risks of interest rate fluctuations, thereby giving banks greater freedom to lend long term. At the same time, banks should be expected to bear default risk, since it is their proper function to judge the degree of risk involved and to decide whether to accept or reject that degree of risk. Since the fund will rely on the judgments of the banks regarding the viability of the projects being funded, it is vital that banks have a strong incentive to do a good job. Usually banks are prepared to bear some of this burden, although they appeared reluctant to bear all the credit risk of companies unless they were backed by a guarantee. Of course a 100% guarantee would eliminate the risk of default entirely and thereby defeat the purpose. It may be worthwhile to consider a partial guarantee, however, as part of a rediscount facility at the Central Bank. With regard to companies, we would also argue that they should not be asked to bear any interest rate or foreign exchange risk, since they influence neither. At the present time this is a critical problem for Philippine firms since they have entirely absorbed the foreign exchange risk.

Foreign investors also face country risk factors in the areas of finance, economics, and politics (see Part II of this report). The fund could be structured to deal with this risk in several ways. First, it could be a mechanism to either provide or arrange for risk insurance* to foreign investors particularly from countries which do not provide such insurance. We understand that the World Bank is considering such a program for the Philippines and we suggest that it could be coordinated with the activities of the fund. In terms of financial risks for foreign companies, the fund may act as a third party intermediary between a parent company and a Philippine subsidiary to guarantee a back-to-back loan. Although we do not expect the fund to be involved in many multinational corporation activities, mechanisms such as back-to-back loans used by MNC's may be useful as models for foreign medium scale enterprises to use when investing in the Philippines.

In this regard, another function that the fund may undertake both to minimize risk and mobilize capital would be to act as a flow through mechanism for alternative financing schemes. In countries such as the Philippines, where investment risk is high and foreign exchange scarce the need for alternative financing in

* Overseas Private Investment Corporation, AIG Political Risk, Inc. Lloyds of London are a few.

international trade is high. Such schemes as establishing dollar equivalent pesos*, countertrade, and the use of existing blocked funds for equity participation in Philippine industry (assuming repatriation in hard currency at an agreed upon rate and time period) may be channeled through the fund.

c. The Mechanism. The fund could participate through three distinct mechanisms, separately or as a hybrid to provide equity or debt to companies.

(1) The fund could make loans to companies that are co-financed by banks or other financial institutions such as insurance companies or the investment funds of professional syndicates. A participating bank, which was itself extending a loan or equity participation to a project, would present a project to the fund to meet additional foreign exchange or local currency needs. The cofinancing institution would thus be supplying both financing (and therefore sharing the risk) and professional judgment as to the project's viability. The latter is especially important given the fund's intended minimum staff.

As argued earlier, it is critical that the default risk be shared by the fund and the bank throughout the period. Any percentage sharing ratio is possible depending upon a negotiation between the fund and participating banks. The interest rate risk would be borne by the fund. Bankers may be unwilling to accept terms of longer than seven years; to allow for this, the banks could receive all their repayments

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*"Proposal for a Simple Self Supporting Import Financing Scheme II" by David Sycip. Original proposal published in Business Day, 16 January 1984.

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in the earlier maturities, while the last few might accrue exclusively to the fund.

(2) The fund could provide all of the needed funds for an industrial project loan in the form of a term deposit with the bank. This approach thus reduces the liquidity risk of banks traditionally reluctant to tie up their funds for long term lending, while the bank faces all of the credit risk in return for the potential income from the term deposits. Like the first mechanism, this approach minimizes the management drain on the fund by relying on the project appraisal capability of the bank or other participating financial institutions.

(3) As a variant of the second mechanism, the fund could place tranches with selected banks with guidelines for the types of investments that would be permissible. In other words, rather than waiting for a bank to come forward with a specific project, as in the second approach, the fund would deposit a sum, in advance of any specific project ready for funding. This proposal might be attractive to banks, in that they would receive a block of funds at once, and poses the least administrative burden for the fund, but has the possible disadvantage of reducing the fund's control over project selection and timing. To prevent speculation a commitment fee should be charged on unused funds.

d. Management of the Fund. Two approaches are possible for managing the fund, which we suggest operate independently of any existing institution. The fund could be managed by a skeleton staff consisting of a Director and Assistant Director, one with previous banking experience, and appropriate clerical support. Alternatively, management of the fund could be contracted out to a professional financial management firm such as an international investment banking house or other appropriate Philippine institutions. In either case, the fund would be audited by an independent international accounting firm which would monitor disbursements, and be advised by an outside attorney (e.g., on contractual arrangements). The staff or contractor would be responsible for management of the funds, i.e., treasury operations, if the first or second options were chosen.

In either case the fund would be overseen by a board of directors composed of five to seven Philippine and international bankers and members of the business community, rotated on a staggered basis every two years. It should be emphasized that the fund must operate independently. The function of the board would be to establish and review policies and guidelines for the fund, to review the fund's effectiveness periodically, and formally to approve loans already evaluated by the banks.

e. Terms. For the lending side of the fund, the banks or participating financial institutions would pay a fee for the use of the fund contribution, perhaps the Central Bank's maximum rate less a spread sufficient to attract bank participation. The borrower would be lent, in turn, the fund contribution at the Central Bank exchange rate or less, depending on whether concessional rates are necessary to attract borrowers. A progressive interest scheme might be effective, especially for new businesses, in which borrowers pay 75% of the CBE the first year, 80% the next, and so on, until the full rate is reached. The fund would make up the difference. As an alternative the fund could charge a fixed rate, with a gradually increasing fixed schedule of rates for the first five years. A ten year repayment schedule, with a two year grace period, is envisioned.

f. Other Services. The fund may wish to target some of the interest repayments (e.g. 2% out of a 12% rate) for a particular purpose, such as accounting or management assistance. Under this scheme the fund could pre-select three or four consulting firms to provide, on as "as needed" basis, technical assistance to firms borrowing from the fund or firms in which the fund had equity. The proposed IQC contract for Small Enterprise development, proposed by USAID, may be an appropriate model.

As we stated previously it is our opinion that the success of the fund, particularly in terms of its equity investment function,will be enhanced if its focus is limited in scope. In the initial period of its operation it mostly likely would focus on sectors and companies identified by a productivity analysis. Studies have already been conducted in some areas (e.g. electronics and metal working)to give an indication of where the fund could be targeted. However, we also believe that the fund must be linked not only to productivity analysis but also to other factors such as investment promotion, public banking support and private sector policy development.

3. The Need to Improve the Performance of Various Institutions.

There are several aspects of a USAID strategy which will support the needs of the Philippine private sector. In this section of the report we discuss:

* Investment promotion
* Development Bank of the Philippines
* Capital Markets Development

a) Promotion of Investment and other Business Opportunities. As we stated previously the Philippine economy needs an inflow of equity capital. Unfortunately, as Part II of this report discusses, the investment climate at the present time is marginal except for selected targets of opportunity. Long term prospects appear to favor investment if the Philippines can begin a process of promoting its comparative advantages. However, from our interviews we concluded that there is no plan to attract investment to the Philippines. Most of the activities undertaken to date appear to be ad-hoc decisions with limited resource support. This appears to be the case both in terms of the government efforts to divest its acquired assets and in terms of attracting foreign investors to other areas.

In comparison with some other Asian countries, the Philippines lags behind in both the simplicity of its investment laws and the sophistication of its promotion efforts. Yet it is precisely those areas where an effective capacity must exist if the first two parts of the USAID strategy (productivity analysis and investment fund) are to be effective. Essentially, the Philippines must be able to "sell" itself if it is to compete effectively in the world market and if it wishes to base its 10 point recovery program on an export led strategy. What we recommend is that programmatic support by USAID be provided to the Philippine government and private sector to develop the capacity of the country to promote investment and other business opportunities. Essentially, the program must seek not only equity investors but others as well, such as subcontractors. In fact the latter may be more viable targets in the short term given the risk factor on investment.

The program which we would envision would be a results oriented one, measured in terms of successful investment or other business arrangements. To do so, it should involve more than tours or other promotional activities but also provide professional advice to potential investors including site location, introduction to potential Philippine Joint Venture partners, and so forth. Thus, the program should not be a series of isolated one-time events (as in occurring) but rather must be viewed as an on-going process, designed to bring a constant flow of investors into the promotional system.

For investment promotion, we would suggest a particular focus on Hong Kong and Japan, although not to the exclusion of the U. S. or other potential investors. Hong Kong is a major financial and trade center with very little land and thus, some limitations on the amount of primary production it can undertake. Also, with the approaching end of its leases with China, substantial amounts of capital are fleeing to areas such as Singapore and might be attracted to the Philippines. Finally, Hong Kong has large committments for production subcontracting in China and may be sufficiently concerned about its exposure there to search for risk-balancing investments and contracting opportunities in other low-wage efficient countries such as the Philippines. Some efforts have been undertaken previously but to our knowledge not on a systematic basis.

Japan is the major economic power in the region and a world-class marketer and manufacturer. With sharply limited (and very expensive) land availability and rapidly rising wage rates, Japan is clearly concerned about its ability to remain cost competitive internationally. Recently, Japanese investment and subcontracting has mainly focused on countries other than the Philippines, but Japanese businesses and investors have huge amounts of capital and are clearly searching for productive places to invest, set up joint ventures, or contract out the more labor-intensive phases of production. The Japanese are, of course, notoriously difficult to convince and many key players may require personal attention, so a strong promotional campaign focused on Japan will be required if they are to be convinced once again to commit significant additional funds to the Philippines.

For marketing, an increase in the scope of existing joint marketing and production efforts with other members of ASEAN could help ensure the success of marketing ventures and increase the Philippines' degree of economic integration with some of the fastest-growing and most vibrant economies of the world. More joint marketing missions and expositions, perhaps some joint brand names, and more joint production where some of the processing stages of the imports or exports for other ASEAN countries are performed in the Philippines could increase the utility of the ASEAN membership and help spur Philippine development, trade and jobs. Economic spinoffs might include more foreign investment and joint production, more employment and income, an excellent chance to observe successful operations up close, and wider markets for Philippine goods and services without the necessity of large marketing expenses.

As with the fund, the institutional location of this activity is critical. It would appear at this time that the activity should not burden the Board of Investment (FCI). Rather, it may be appropriate to sponsor the project through a private sector organization such as the Philippine Chamber of Commerce and Industry. This would place Philippine businessmen in a position to provide a sense of direction to the project since in many cases they already have established business ties in the world markets and would effectively represent the realistic opportunities of the Philippines.

Structuring it through a private sector organization does not preclude BOI participation. In fact it would be necessary that both BOI and the private sector organization coordinate its operations, possibly through a Board of Directors. It may also be appropriate that the members of the Board of Directors for investment promotion also be members of the Board overseeing the fund described previously. The Philippines Chamber of Commerce and Industry in the process of sending missions to the United States to seek investors for several of the acquired companies of DBP. It is our opinion that USAID could capitalize on opportunities such as this and provide assistance directly to the Philippine private sector through a much more structured program.

b) Support to the Development Bank of the Philippines(DBP). We have stated that the primary purpose of the USAID program should be to assist selected Philippine private sector companies to survive the near term crises and become internationally competitive in the medium term. However, we also recognize that there is a logic to provide assistance to the DBP. First, the DBP has a long term role to play in the economy. Its relationships to the private development banking system will be important when it improves its position through a rehabilitation program and begins to resume lending in the medium term. In the meantime it needs assistance in managing the disposition of some acquired assets. In January of 1983 DBP developed a plan to review its portfolio to categorize various projects. Those that have now been transfered to the Special Projects Marketing Unit, however, have not been effectively organized nor has DBP developed a plan to systematically deal with those assets. Information for prospective buyers or investors, therefore, is limited.

Second, we suspect that a thorough review of the accounts may yield information which would be useful in determining which additional companies could be made viable. Therefore, the DBP accounts could be an additional source of information for targetting the efforts of the fund. If this objective (assistance to viable firm) is kept in mind, then a program to support DBP in its divestiture process is justified as a part of USAID's overall strategy of assistance to the private sector and directly related to the first element of this strategy. In the process DBP itself would be assisted, at least in a limited way.

A program of assistance to the DBP, therefore, could consist of technical assistance to the unit to organize its activities and establish a computerized management information system. We understand that the World Bank has focused in on this issue and a complementary program may be useful.

c) <u>Capital Markets Development</u>. At the present time the capital markets are not functioning effectively. A recent study detailed the problems and our review of the study and discussions with the authors reveal a similarity of approach. However, since developing a strong capital market will take some time, and the needs of Philippine private sector firms are immediate, some action must be taken. As we stated earlier we believe that the fund will act as that bridging mechanism and over time contribute to capital market development. At this time we do not recommend a specific program for USAID to become involved in.

4. The Need for Policy Development

In our discussion with key public and private leaders the issue of policy development and stability was raised. Businessmen believe that they cannot anticipate the direction of changes because of unilateral decisions on the government's part. The pecent tax imposed on exports is an example. In essence,the government believed it was justified since the devaluation of the peso gave exporters a "wind fall" profit. The need to raise revenues to cover the debt justified, in the eyes of the government, this tax. To the businessmen, who apparently received no explanation, it was another example of arbitrary decision-making.

As the Philippine economy goes through this transition period one can expect that more ad hoc decisions will be made as the government attempts to meet the guidelines of the IMF even though the government has stated in its development plan that it wishes to systematically reform policies in certain areas. We are particularly concerned that the private sector has no appropriate mechanism through which it could influence the formation of government policy during this period.

The call by President Marcos for a Council of Economic Advisors is apparently a step in that direction. If that happens it may be useful for USAID,on a grant basis,to provide funds through a private sector organization (such as the Philippine Chamber of Commerce& Industry to support policy research for the private sector. The funds could support these studies either as input to the proposed Council or it could respond solely to an agenda established by the Chamber in the absence of the establishment of the Council. Private research groups or consulting firms could conduct the appropriate studies. When the studies are completed the Chamber then could act as the private sector representative to the government.

E. THE FOCUS OF THE STRATEGY

One of the critical aspects of this strategy is that the four elements (sectoral analysis, the fund, services, policy) should be linked together and focus on specific target sectors and companies. Specifc key factors might include the following (listed in approximate order from most attractive sectors toward somewhat less attractive sectors).

o Food processing : The Philippines already produces and exports significant quantities of raw and processed foods and food processing is the country's major manufacturing industry, providing about one fourth of all value added by manufacturing and one fifth of all manufacturing jobs. With low Philippine labor costs and location on major sea lanes, a continued focus of profitable activity on food processing, especially on processing that could use major Philippine food products (such as coconuts, sugar, bananas, pineapples, seafood) as inputs seems likely.

o Construction contracting: The large scale of domestic projects is teaching a range of useful construction skills to Filipino workers and managers. These skills have already found some overseas uses, but an even greater push in this area is likely. Infrastructure contracting is a rapidly growing area in international commerce, presenting a range of opportunities in economies world-wide; the Far East, the Middle East, Europe, Latin America, and North America.

o <u>Electrical and electronic equipment</u> : The Philippines performs a substantial amount of electrical and electronic assembly and production - - for example, the local electronics semi-conductor component industry is reported to perform as much as 10 to 15 percent of world-wide electronic assembly--giving the country an excellent springboard for further work in this swiftly growing industry. This positioning, combined with low labor costs, a prime location, and a renowned work force make it likely that the electrical and electronic segment of Philippine manufacturing will continue to grow in coming years.

o <u>Furniture and wood-based building products</u>: As a major exporter of logs, lumber, plywood and veneers, the Philippine is primed to add value to its wood exports by broadening its furniture and wood working industry and by engaging in the production of more wood based building products and partial assemblies. Rising income levels in the Far East, the Middle East, and Latin America make these areas particularly attractive potential targets for Philippine furniture and building products, and policies than enhance Philippine efforts in construction contracting can provide an additional direct market for a range of Philippine building products.

o <u>Textiles/Garment Making</u>: The Philippines has substantial textile and garment activity already, much of it in the EPZs. A stronger move to upgrade textile and garment quality and design could raise the profitability of this important sector and take better advantage of the Philippines' low labor costs.

o <u>Footwear and leather products</u>: Emerging middle classes in the higher-tier developing economies will create a growing demand for relatively inexpensive luxury consumer goods such as leather products and footwear. Thus, by pursuing growing high-value markets, the Philippines may be able to follow Italy in gaining significant development and job potential from the growth of this relatively labor-intensive sector.

o <u>Paper products</u>: With timber resources and substantial paper production already occurring, the Philippines is likely to expand its activities in this sector and take advantage of rising demands and the competition-led need for lower-cost production.

o <u>Small machinery and engines</u>: Small machinery and engine manufacture are among the activities most often contracted out to developing countries by large-scale manufacturing companies in developed economies. An enhanced focus on these sectors is, therefore, quite likely as cost pressures lead automobile and other manufacturers to seek more offshore sourcing of parts, machinery, and sub-assemblies.

o <u>Farm implements</u>: The agricultural revolution and rapid Far Eastern and Middle Eastern growth are creating a demand for a wide range of farm implements. As with small machinery and engines, this is a complex market area where selling one's own brand name can be very difficult. Thus, an initial strategy might focus on manufacturing for sale under another label, perhaps through a Japanese, Korean, or American manufacturer.

This partial and preliminary list is not intended to show all sectors where the strategy might have a reasonable chance at succeeding, but rather to point out some areas where a confluence of world opportunities and Philippine resources appears to provide a good chance of near-to middle-term success. Further analysis of both the future of world markets and cost structures and of the costs and labor availability for production in the Philippines can help strengthen and improve this analysis. It seems likely, however, that any final list of key sectors will retain a focus on labor-intensive activities; on activities that allow vertical integration and "value added" to items currently exported by the Philippines; on items that involve subcontracting, joint ventures, or other cross- relationships with major companies in developed economies; and on items where the Philippines' location on major sea routes provides an important comparative advantage. Finally, strong consideration should be given to the packaging industry which affects most sectors of the economy. This will be particularly important for Food Processing and other export sectors.

F. RELATIONSHIP TO COUNTRY DEVELOPMENT STRATEGY STATEMENT (CDSS)

We recognize that the CDSS has not been fully developed and we believe the strategy outlined in this report can act as a basis for final development.

There are, however, certain principles stated in the "Lines of Inquiry" paper which support the thrust of the strategy. The following analysis indicates the relationship between the two.

CDSS	Proposed Strategy
o Look to private sector for solutions to problems thereby reducing pressure on Government budget	o Focused on providing all elements of strategy through private sector institutions
o Employment Generation	o Strategy focuses both on saving jobs by assisting existing firms and by creating jobs through new investment
o Rural focus	o The strategy does not focus on rural or urban areas but attempts to focus on economic units where comparative advantage is evident. The economics of the enterprise will drive its location decision. However, focusing on certain sectors will, for economic reasons, lead to rural areas. In addition, the strategy economically leads one to labor intensive industries.
o Higher Productivity	o The strategy does have a specific focus on productivity by promoting an industrial rationalization plan.

o	Focus on Agriculture	o The strategy complements this focus particularly by assisting firms or promoting investment in resource based industries such as food processing, wood, leather and so forth.

G. RELATIONSHIP TO OTHER DONOR AGENCIES

In our opinion, given the nature of the economic problems in the Philippines and the magnitude of the resources needed to resolve those problems, a joint approach by USAID, the Asian Development Bank and the World Bank (and IFC) is desired. If the strategy as outlined is agreeable to the parties, each particular element could be sponsored by a different donor. For example, the World Bank may focus on the rationalization plan and comparative advantage analysis of sectors while USAID supports investment and other business opportunities development. The ADB could then focus on assistance for capital markets development.

The core of the program, an equity fund, most likely should be a joint undertaking of all donors. We believe that a significant amount of "seed" capital will be required and therefore most likely beyond the capability of any one donor. Though we recognize the administrative complexity we also recognize the need to assist the Philippine private sector.

H. SUMMARY

We have attempted to outline a strategy for USAID assistance to the Philippine private sector. Though our study originally focused on ways to assist the government divest of acquired assets our analysis led us to a somewhat different focus. The concern of the strategy therefore has shifted to direct assistance to existing enterprises and creating new investments. The strategy consists of four elements:

1. Developing a rationalization plan to identify the sectors and companies where assistance is needed.

2. Providing financial assistance primarily in the form of equity.

3. Creating a capacity in investment promotion, the DBP and capital markets to service the private sector.

4. Providing assistance to the private sector to develop an appropriate policy framework.

The strategy calls for close coordination between the donor agencies to ensure that their resources are focused on the same problems.

V

I. IMPLEMENTATION PLAN

The program which we have recommended for USAID assistance to the private sector is complex when viewed in its entirety. However, we do not envision that all programs would begin simultaneously and in fact recommend a sequencing of activities in a way which permits USAID to make resource allocation decisions on an incremental basis as political and economic events unfold over time.

We also suggested in our report that some assistance to the private sector is important at this time both to encourage the continuation of private sector movement to increase its role and influence in the economy and to have in place the mechanisms and resources to support private sector growth when the economy recovers in the next few years. It is this proactive, yet cautious, role for USAID that we believe is critical to any future relationship with the private sector. Accordingly, we suggest the following implementation plan:

Task 1. Review of C&L Report by USAID Management

We raised a number of issues in the report, including such actions as joint USAID/other donor actions. These issues should act as a starting point to analyze and develop a policy framework within which USAID believes it can pursue a private sector support program. In essence it is the process of USAID management deciding which recommendations in the report it can support.

Task 2. Conduct Strategy Sessions with Key Philippine Private Sector Individuals and Government Officials

Using a summary of the report, modified by the USAID policy framework, it would be useful in the next few months to conduct a series of strategy sessions with key people to gather their direct input to the content and direction of a USAID program. This could be used to supplement USAID program for policy dialogue and the report would provide a structured and focused agenda for these sessions.

Task 3. Provide some Immediate Support to the Philippine Private Sector

In order to demonstrate support of the private sector we suggest some direct immediate assistance.

This does not have to be a large sum but nonetheless significant enough to accomplish a worthwhile result. One such activity, as mentioned in our report, could involve the Philippine Chamber of Commerce. Their planned and ongoing activities to sell some of the DBP companies could be a worthwhile venture. Assistance could be provided in terms of funding their investment promotion trips to the U.S. and funding of seminars on investment promotion. Our discussions with them indicate a desire on their part to learn more about this process and we believe that their initiative in this area should be encouraged.

Task 4: Provide Support to Develop a Private Sector Policy Analysis Capability

This type of assistance by USAID seems to be the easiest to mechanically implement in the short term. Assuming the existence of funds in this years USAID budget it may be possible to provide some direct grant monies to CRC or other appropriate private sector group to conduct needed analysis of policies which affect the private sector. The details are contained in our report.

Tasks 2, 3 and 4 indicate how USAID in the near term could establish a close relationship with the private sector which would act as a basis for future programs in 1985 and 1986. We believe as events unfold in the Philippines, USAID will still have opportunity to provide support. However, the uncertainty calls, as we stated, for some caution. Therefore without committing large amounts of funds, USAID could initiate some preliminary planning activities. These would include:

Task 5: <u>Develop P.I.D. for Investment Fund</u>

If USAID accepts the recommendation for a fund then we suggest that discussions be held with the commercial banks and others in the Philippine and international financial community. Recommendations as to possible participants can be provided by C&L Manila. These discussions which could also include a review of the capital markets (building upon the recent ADB study) could act as a basis for a project identification document (PID) which could build upon what we recommended in our report. We expect some modifications to take place, as issues such as equity funding by USAID must be resolved. Nonetheless, we believe that these discussions will yield better USAID management information on the need for equity financing for private sector firms.

Task 6: <u>Develop PID or Project Paper for Investment Promotion Program</u>

Similarly, USAID in early 1985 could prepare a project paper on investment promotion in the Philippines. Using as a starting point, the discussions with key private sector businessmen and members of the Philippine Chamber of Commerce, USAID could assess the potential of this activity as part of its 1985-86 project portfolio. If USAID agrees, then the PP could be written in 1985 with project implementation in 1986.

Task 7: <u>Begin Discussions with World Bank for Joint Assistance to DBP for Management Information Systems</u>

Since the World Bank is seeking ways to assist DBP, USAID may wish to provide in the near term some technical assistance to develop

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information systems to account for the assets of their acquired companies to facilitate divestment. In fact this limited support may be viewed as a preliminary effort to support an investment promotion project.

Task 8: Develop PID for Sectoral Analyses

This project should be discussed with other donor agencies to determine their role in activities of this kind. If USAID determines that it still has a role to play in this area then a project paper could be developed to fund these activities. However, we still believe that sectoral analyses has value when they are conducted as part of a broad planning process to determine where investment promotion activities should be targeted.

Summary

We have provided an overview of activities that we believe act as the first steps in a private sector development strategy. They reflect an approach for USAID which recognizes the need for action during the coming year to capitalize on and support further effort by the private sector. Yet it is cautious and does not recommend a large commitment of resources until a clearer understanding of the Philippine environment is obtained.

PART II

FACTORS INFLUENCING THE RISK OF INVESTMENTS IN THE PHILIPPINES

This part of our report is intended to present an identification and analysis of those factors which influence investment decisions in the Philippines. It is a generic assessment and is not intended to be applied to specific investment decisions since the relative weights an investor will apply to each factor will vary depending on the type of decision to be made such as expansion, production sharing, sub-contracting or equity participation.

Yet, the report is useful in describing for USAID the factors that most investors will consider and provide some insights to where the Philippine government could be taking corrective action.

The assessment consists of four parts. The first gives a brief description of the interrelationships between the major factors used to make a country risk analysis; the second, provides a summary overview of the Philippine investment climate; the third indicates which factors in our opinion are most prominent in investors minds and assign a weighing to reflect our opinion of the relative importance of the factor; finally, we present a description and analysis of the major investment risk factors.

I. RELATIONSHIP BETWEEN FINANCIAL, ECONOMIC AND POLITICAL FACTORS

In assessing risk of investment in a country, financial, economic and political factors and trends must be viewed as a dynamic process, each influencing the others.

In the financial area, uncertainties about currency and financial policy will increase country risk. Issues such as public policy/response to inflation, financing costs, external debt and the capital markets will also contribute to risk.

Economic risk factors include issues such as long-term balance of trade deficits and dependence on foreign aid. In addition, the degree to which a country is dependent on imports or a few exports could have an effect on the investment climate.

On the political side, attitudes toward foreign investment, the probability of opposition group takeover (and the unknown consequences) and other factors tend to influence investment risk.

These three factors and sub-elements of them were used as a basis for identifying the risk of investing in a country. As the following section describes, there is a close inter-relationship between these three factors in the Philippines. For example, it is generally believed that the current economic crisis was triggered by the assassination of Senator Aquino and the subsequent handling of the situation by the government. The perceived lack of political will and growing uncertainty of the political future led to an erosion of confidence in the government and a consequent flight of capital from the country. This is in turn triggered the near-collapse of the financial system and a call for a moratorium on repayment of principal on foreign debt.

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The rapid decline in the economy, uncovering of anomalies in the recording of international reserves and excessive increase in liquidity both in the latter part of 1983 and mid-1984 led to further questioning of the ability of the government to control the situation.

The following section reviews in more detail the current and expected environment (political, economic, financial).

II. FACTORS INFLUENCING THE RISK OF INVESTMENT IN THE PHILIPPINES - AN INVESTMENT OVERVIEW

The political and economic climate in the Philippines is troubled. Following many years of rapid economic growth, moderate inflation and unemployment, and reasonable political stability, the country is experiencing an economic contraction, rising inflation and unemployment, and significant social and economic turmoil. International confidence in the Philippines has fallen and apparently more than $4 billion in capital has left the country in the past 12 months . Also a moratorium has been declared and extended on re-payments of maturing loans in the Philippines' $26 billion foreign debt--further eroding international confidence.

The long-term prospects of the country are favorable, but problems with terms of trade, worries about succession, and recurrent financial crises are the dominant topics of discussion in the business community.

Before we begin a discussion of our perception of the Philippine economic and political strengths and weaknesses, it is important to understand two major forces that are redesigning the landscape of international commerce -- (1) increasingly tough international cost competition and protectionism, and (2) the rising importance of Third World markets and production.

- Tougher cost competition: Huge international debts, the recent world recession, and the rise of new world-class manufacturers such as Taiwan, Korea and Brazil, have intensified international cost competition. Billions of dollars of capital are now available for investment in most areas of the world, but a continuing variety of international investment risks and increasingly strong price competition in product markets has made the owner of this capital absolutely insistent on obtaining the maximum value for the minimum cost and at minimum risk. They also want strong proof, not mere assertions, that costs really are low and productivity really is high in a given location.

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- o Rising importance of Third World commerce and population: World economic growth is increasingly concentrated in the less developed counries (LDCs). The LDCs have risen from producing 17.4 percent of the world's GDP in 1960 to 21.9 percent on 1981, and the share of LDC exports in world trade has risen from 17.7 percent of 1970 to 21.5 percent in 1981. Despite their debt problems, we expect LDCs -- especially those in the Far East and Latin America -- to continue to outspace the developed world over the next 20 years. We would anticipate an overall average real growth rate of 5.6 percent per year as opposed to 2.7 percent for the developed countries. Thus, the LDCs will increasingly be the target markets for producers in both developed and less developed economies. Also, within LDCs there is an inexorable shift of production toward those with lower labor costs, and this production shift in turn tends to foster more rapid increases in per capita income and consumption in the poorest countries.

Together, these major forces are pointing toward a highly competitive international economy with mobile and swiftly changing investment patterns. Since the major centers of economic activity are increasingly located near the fastest growing markets in Latin America and the Far East and since the Philippines is located on a number of key sea lanes, the resulting shifts in economic activity can benefit the Philippines if the country's investment emphasis is well-directed and if some of its existing problems are well-handled.

The current situation in the Philippines has a range of unfavorable elements:

- o High inflation - recurrent devaluations, sluggish production, and rapid money supply increase (fueled mainly by government borrowings) have combined to raise inflation to over 50 percent for 1984;

- o Substantial unemployment - official statistics are inconclusive; but with production falling and many overseas jobs disappearing, unemploy-

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ment is clearly high and up sharply from its low level in the 1970;

- Negative real economic growth - The Bank of the Philippine Islands forecast a loss of almost 2 percent in real GNP this year, led by a 9 percent drop in the industry sector;

- Large trade deficit - weak markets for Philippine exports, combined with large outlays for energy and other imports have led to large trade deficits, $237 million for the first four months of 1984 and a huge $2.6 billion for all of 1983;

- Social and Political unrest - demonstrations and disruptions following last year's assassination of Benigno S. Aquino, Jr. were wide spread in both location and scale; armed conflicts led by the New People's Army and the Moro National Liberation Front continue, raising government cost for supporting enlarged security forces; and some increases in labor strife are reported;

- Troubled industry sector - as in many countries that have followed IMF guidelines in reducing imports to pay debt service charges, industrial enterprises in the Philippines have been facing difficulties in obtaining the raw materials and equipment imports necessary for continued production in raising funds, and in finding sufficient demand at attractive prices for their output; as a result, some important industries (e.g., sugar and chemicals) may be imperiled and the nation is not getting its customary economic boost from the industry sector.

- Strained financial markets - a rapid withdrawal of capital from the country and from many of its major leading institutions has put pressure on Philippine financial markets, especially since government borrowing appear to be crowding out significant amounts of private borrowing; the lack of floating interest rates on deposits has led to some disintermediation, further exacerbating the strains on the Philippine financial system.

The latter two points are especially important, since they relate closely to the cost and availability of capital to purchase businesses divested by the government, and to the value that such businesses might represent. The recent float of high interest rate (over 30%) CB Treasury bills has started to force high deposit rates which may encourage re-investment in savings.

In summary, the Philippine economy is foundering and the country's financial system appears to be in a state near crisis. Both domestic and overseas confidence are low, and neither Philippine nor overseas lenders appear anxious to provide the funds needed to insure continued solvency. The industry sector has been especially hard hit, as loan maturities have dropped and savers have shifted to government financial vehicles during a period when import restrictions had already contributed to substantial problems for this key sector.

Though the Philippine economy is going through a difficult period, the country has good prospects over the long-term if it improves its industrial strategy, solves its current problems, and focuses future economic development in areas conducive to its comparative advantages. This section will briefly outline the advantages and disadvantages of the Philippine economy from investor's point of view.

Advantages and Disadvantages to Investors

In order to develop an effective strategy for Philippine industrial development, it is useful to consider the perspective of investor considering comitting assets to an investment in the Philippines. Our overall conclusion is that the Philippines provide a potentially attractive site for commercial investment, but that significant problems remain to be addressed. A partial list of advantages and disadvantages follow.

Advantages to Potential Investors

- Labor force: The Philippine labor force of nearly 20 million well educated, hard working, largely English-speaking workers is the country's major economic resource. As of 1979, the labor force contained about 18 percent high school graduates and 13 percent college graduates - and nearly a third of the enrollees in Philippine colleges, universities and trade schools study commerce and business administration with another 15 percent in engineering. Thus the Philippine labor force provides a ready supply of high-quality, business oriented workers. Labor relations are generally good, and although strikes are not allowed, walkouts are relatively rare.

  Finally, and perhaps most important, Philippine workers are relatively cost efficient. A recent study compared value added in manufacturing (the value of output minus the cost of purchased inputs) divided by total wages and salaries across a range of Far Eastern nations - the Philippines, Thailand, Malaysia, Hong Kong, Singapore, and the United States - using World Bank data. This ratio - which can be thought of as an omnibus measure of the efficiency of production - was highest in the Philippines at 4.86 in 1980 and 4.85 in 1970. Values elsewhere were lower; for example, the level in the U.S. was only 2.0. This says that relative to some other highly productive countries, Philippine workers produce substantial amounts of output relative to how much they are paid - that is, they are very cost - efficient.

- ASEAN Membership: The Philippines' membership in the Association of Southeast Asian Nations - together with Indonesia, Malaysia, Singapore and Thailand - provides a wealth of economic and trade ties with one of the fastest - growing regions in the world. The performance of ASEAN nations has been exemplary, with rapid growth in real GNP per capita and a rising level of trade in increasingly sophisticated products and services. The concept of ASEAN preferential trade agreements, joint industrial projects, and shared component production once enacted will help to strengthen the Philippine economy in the longer term.

- Business tradition: The economic, political, and educational groundwork that was laid during the period when the Philippines was under American trusteeship has helped create a high-quality business environment and a free enterprise and private sector focus for the Philippine economy. As a result, businessmen from the developed economies find it relatively easy to work with businessmen and workers in the Philippines - in marketing arrangements, joint production and assembly agreements, and other areas of international commerce.

- Location: The Philippines' location off the southeast coast of the Asiatic mainland places it on major sea lanes between Asia, the Middle East, Africa, and North and South America. This makes it an ideal location for a range of production and fabrication activities that add value to raw materials or semi-finished goods or for the initial stages of highly complex production and assembly processes.

- Natural resources: About 42 percent of the Philippine land area is classified as forest. Of this, some 5-6 million hectares is said to contain commercially valuable timber, some 3-4 million hectares to be badly cut-over forest, and 7-8 million hectares to be denuded land, and around 15 million hectares of the remaining area is incorporated in plantations and crop-producing sectors. Philippine agriculture has not yet achieved self-sufficiency in rice or corn and still imports beef, flour and some other foodstuffs. However agricultural products still make up a large share of all Philippine exports. The Philippines also has a large amount of forestry-based industry, including logs, plywood, veneer, and furniture and wood products. Mining related industries make subtantial use of the Philippines' large mineral resources, and fishing is also a major activity and a source of food.

Disadvantages To Potential Investors

- Infrastructure: the general quality of infrastructure such as water supply and purification, sewerage, electric power, telephone services, and efficient road and water transportation is not particulary high in the Philippines. A range of major projects are aimed at addressing these and other critical needs, but the debt and foreign exchange problems of recent years has caused many of these projects to be delayed or postponed - and with the current shortage of funds more projects will have to be shelved. In the meantime, lack of infrastructure hampers foreign investment and tends to concentrate investment in the Manila area.

- Manufacturing quality and design: Manufacturing accounts for about 35 per cent of total production, but some Philippine manufacturing has not yet reached the required quality and design level to be fully competitive internationally. Lack of quality of industrial design has been a particular problem in some of the more labor-intensive industries such as furniture and leather and footwear (although the furniture industry has made some progress in this area) -- better design and quality would allow Philippine manufacturers in these sectors to gain readier acceptance overseas and increase their market penetration in developed economies.

- Shortage of local capital: The small size and low income level of the Philippine economy -- together with the relatively underdeveloped nature of its equity markets and short-term emphasis of its bankers -- have lead to a

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paucity of local capital for investment, especially in the form of longer maturity loans and funds for small or newly-organized businesses. This shortage of local capital can also hamper foreign ventures, since outside certain preferred industries, government regulations generally require that at least 60 per cent of equity be under Philippine ownership (these limits are currently suspended, but only for one year). However, reports are that there is $10 - 30 billion in capital invested by Filipinos overseas.

- Public sector influence: The Philippine economy has a relatively large public sector, including the largest development bank and a range of other key enterprises. Financial problems have further increased the influence of the public sector by weakening many private sector firms and sometimes forcing them to turn loans into equity owned by public sector banks. The effect can be to crowd private sector investment out of key industrial sector ventures that compete with public sector companies. Indirectly, there may also have been significant public sector influence on private transactions through apparent favoritism in the awarding of key monopolies, licenses and loan authorizations.

- Deficits and debt burdens: In recent years, the Philippines has had serious and chronic problems with government deficits, as well as large international trade deficits. International debt has also become an increasing burden -- 1984 scheduled payments on this debt are expected to total about half of the value of Philippine exports for the year. The effect of these forces has been to limit the government's ability to spur investment growth and capital formation, to "crowd out" some private sector borrowing and to limit severely the ability of Philippine manufacturers to import needed equipment and materials.

- Difficult investment procedures: The process of investing foreign funds in the Philippines is complex, with an ineffective "one-stop shopping" program for clearance, strong requirements for a minimum level of local ownership, and complex, time-consuming, and sometimes ill-defined regulations affecting many normal business activities. Although some attempts have been made to streamline investment approval procedures, especially in the EPZs, the process is still time-consuming and fraught with uncertainty for the potential investor. Once established, the bureaucratic interference in almost all transactions constitutes a major deterrent to maintaining an efficient operation.

A related problem is heavy restrictions on foreign banking. No new foreign bank branches have been permitted since 1984, and the few foreign branches established before 1984 have not been granted "unibank" status with consequent restrictions on the scope of their financial activities. Therefore, expanded foreign banking activity is limited mainly to enhanced minority participation in existing Philippine banks. The effect of these restrictions is to complicate some foreign investment activities, since in many developing countries, foreign banks act as a key conduit for investment funds and assist investors in meeting investment regulation.

- Violent image and succession problems: The Aquino assassination and subsequent disruptions did a great deal to harm the Philippines' reputation as a full player in the international arena -- as well as apparently leading directly to the expatriation of billions of dollars of funds. Succession speculation was also rekindled, since Aquino was perhaps the strongest opposition leader. A formal succession procedure exists but few seem to believe that it will determine ultimate succession should President Marcos die in office or become incapacitated. Lack of a clear path to easy succession, combined with a violent image, makes investors wary of committing significant amounts of assets to Philippine investments.

III. RELATIVE WEIGHTS OF FACTORS

The following table lists the various indicators of political, economic, social etc. status of the country.

Section IV discusses each in detail but the table gives a quick assessment based on our perception of the degree to which each factor might be considered a problem.

	A R E A	DEGREE OF PROBLEM					PAGE NO.
A.	ECONOMIC MONETARY FACTORS	Lo. . . . . Hi 1	2	3	4	5	
1.	Size of Gross National (or Domestic) Product.	-	-	-	4	-	IV - 14
2.	Real growth rates of GNP, GDP	-	-	-	4	-	IV - 14
3.	Population size, growth rate	-	-	-	-	5	IV - 44
4.	Per capita income	-	-	-	-	5	IV - 20
5.	Growth rate per capita income	-	-	-	-	5	IV - 23
6.	Adequacy of income distribution	-	-	-	-	5	IV - 41
7.	Existence of a working realistic development plan	-	-	-	4	-	IV - 44
8.	Relative importance of agriculture, trade & services to economy; recent change, developments	-	-	3	-	-	IV - 18
9.	Recent business cycles as indication of resilience, resistance to recession.	-	2	-	-	-	

		Lo. 1	2	3	4	. . . . .Hi 5	PAGE NO.
10.	Relative dependence on imports	-	-	-	4	-	IV - 8
11.	Relative dependence on export	-	-	-	4	-	IV - 10
12.	Trade balance-- recent development outlook	-	-	-	4	-	IV - 11
13.	Balance of payments-- recent developments outlook	-	-	-	4	-	IV - 13
14.	Dependence on foreign aid outlook	-	-	-	4	-	IV - 33
15.	Foreign debt servicing obligations, past record, future load	-	-	-	-	5	IV - 24
16.	Foreign exchange reserve position, recent developments outlook.		-	-	4	-	IV - 24
17.	Convertibility of currency	-	-	3	-	-	IV - 30
18.	Currency, stability, record of fluctuations	-	-	-	4	-	IV - 28
19.	Soundness of government budgeting; degree of deficit financing	-	-	-	4	-	IV - 44
20.	Money supply with historical growth; extent of public indebtedness	-	-	-	4	-	IV - 39
21.	Government spending for development purposes	-	-	3	-	-	IV - 18
22.	Remittance, repatriation guarantees	-	-	-	4	-	IV - 32
23.	Price stability as measured by wholesale, consumer price indices	-	-	3	-	-	IV - 36

	Lo. 1	2	3	4	.Hi 5	PAGE NO.
24. Benefits from any preference tariff schemes.	-	2	-	-	-	
Inflation	-	-	-	-	-	IV - 34
Prices	-	-	-	-	-	IV - 36

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		Lo. 1	2	3	4	Hi 5	PAGE NO.
B.	POLITICAL FACTORS						
25.	Form, stability of government	-	-	-	-	5	IV - 49
26.	Type of constitution	-	-	3	-	-	IV - 49
27.	Harmonious relations with neighboring countries	1	-	-	-	-	IV - 61
28.	Absence of internal insurrection; level of law and order	-	-	-	4	-	IV - 58
29.	Degree of class antagonism; other social friction	1	-	-	-	-	IV - 60
30.	Degree of ethnic, religious friction; problems of minority groups	1	-	-	-	-	IV - 60
31.	Government Attitude toward private ownership	1	-	-	-	-	IV - 55
32.	Government attitudes toward foreign investment, ownership	-	2	-	-	-	IV - 52
33.	Ease of access to authorities	1	-	-	-	-	IV - 56
34.	General business morality	-	-	3	-	-	
35.	Nationalization threat	-	-	3	-	-	IV - 56
36.	Threat of restrictions on remittances, repatriation	-	-	-	4	-	
37.	Popular attitude toward foreign investment, foreign products.	-	2	-	-	-	IV - 54

	Lo. 1	2	3	4	Hi 5	PAGE NO.
38. Degree of small groups' political and/or economic power	-	2	-	-	-	IV - 57
39. Political influence of major powers	1	-	-	-	-	IV - 61

C. POLICY, LEGAL, GOVERNMENT FACTOR

	Lo. 1	2	3	4	Hi 5	PAGE NO.
40. Freedom from red tape	-	-	-	4	-	IV - 67
41. Freedom from corruption	-	-	-	-	5	IV - 68
42. Restrictions on 100% or majority foreign ownership	-	2	-	-	-	IV - 62
43. Patentability of company's products	-	-	3	-	-	IV - 66
44. Fairness of access to courts	-	-	-	4	-	IV - 69
45. Freedom from government intervention in business practices	-	-	-	4	-	IV - 65
46. Soundness of fiscal, monetary policies	-	-	3	-	-	IV - 62
47. Fairness, honesty of administrative procedures; degree of antiforeign discrimination	-	-	3	-	-	IV - 67
48. Freedom from imposition of arbitrary export obligations	-	-	-	4	-	IV - 71
49. Existence of clear modern investment law	-	2	-	-	-	IV - 63

		Lo. 1	2	3	4	Hi 5	PAGE NO.
50.	Existence, efficiency of trade associations	1	-	-	-	-	IV - 69
51.	Safety from sudden tax increases, import restrictions, policy reversals	-	-	3	-	-	IV - 70
52.	Reliability, integrity of government officials, especially regarding verbal promises	-	2	-	-	-	
53.	Absence of price control	-	-	3	-	-	IV - 70
54.	Comptence of lawyers and accountants	1	-	-	-	-	IV - 71
	Foreign Discrimination	-	-	-	-	-	IV - 55
	Licensing	-	-	-	-	-	IV - 67
	General Business Morality	-	-	-	-	-	IV - 68
D.	FINANCIAL FACTORS						
55.	Resources, efficiency of local banking system	-	-	3	-	-	IV - 71 to 79
56.	Restrictions on local, overseas borrowing	-	-	-	4	-	
57.	Availability of local capital	-	-	-	4	-	
58.	Cost of local borrowing; local terms	-	-	-	4	-	
59.	Government credit aids to new investments	-	2	-	-	-	

		Lo. 1	2	3	4	Hi 5	PAGE NO.
60.	Availability of loans from foreign sources for use in this country	-	-	-	4	-	
61.	Availability, cost of export finance, insurance	-	-	3	-	-	
E.	TAX FACTORS						
62.	General Tax morality	-	-	-	4	-	IV - 86
63.	Types of taxes; tax rates (corporate , personal,payroll, capital, capital gains turnover, value-added, excise real estate, stamp, indirect, local, duties, fees); excess profit taxes, sur-charges.	1	-	-	-	-	IV - 81
64.	Customs duties, tariffs and taxes, duty drawbacks	-	2	-	-	-	IV - 86
65.	Long-term taxation trend.	-	2	-	-	-	IV - 79
66.	Tax holidays; other tax incentives for new investments expansion	1	-	-	-	-	
67.	Depreciation Rates	1	-	-	-	-	
68.	Duty and tax draw-backs on imported goods upon re-export	-	-	-	4	-	
69.	Availability of tariff protection	-	2	-	-	-	

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70.	Carry forward, carry backward losses	-	-	3	-	-	
71.	Fairness, incorruptability of tax officers.	-	-	-	4	-	
	Marketing distribution methods	-	-	-	-	-	IV - 102
F.	INFRASTRUCTURE FACTORS						
72.	Efficiency cost of railway, waterway, highway transport	-	-	3	-	-	
73.	Efficiency, cost of port facilities.	-	-	3	-	-	
74.	Existence of free ports, free zones, bonded warehouses	1	-	-	-	-	IV - 87
75.	Availability cost of electricity, gas, water	-	2	-	-	-	
76.	Reliability of utilities	-	-	3	-	-	
77.	Reliability speed, cost of mail services	-	-	3	-	-	
78.	Reliability, cost, availability quality of telex facilities, services	1	-	-	-	-	
79.	Reliability, quality, availability, cost of telephone facilities, services	1	-	-	-	-	
G.	LABOR FACTORS						
81.	Availability of skilled, semi-skilled, unskilled labor; outlook for increase in labor supply at all levels.	1	-	-	-	-	IV - 92

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82.	Degree of skill, discipline, productivity at all levels.	1	-	-	-	-	
83.	Trainability of labor; existing training facilities	1	-	-	-	-	
84.	Availability of English speaking managerial, technical office staff	1	-	-	-	-	
85.	Cost of labor	1	-	-	-	-	
86.	Compulsory, customary voluntary fringe benefits	1	-	-	-	-	
87.	Compulsory, customary profit sharing	1	-	-	-	-	
88.	Degree of labor voice in management; trends, pending legislation in this respect	1	-	-	-	-	IV - 99
89.	Freedom to hire, fire-		2	-	-	-	IV - 100
90.	Absence of militant labor unions; absence of weak, infighting plethora of unions	-	2	-	-	-	
91.	General labor peace situation	-	2	-	-	-	IV - 101
92.	Extent, fairness, enforceability of compulsory arbitration	-	2	-	-	-	
93.	Proximity of suppliers, customers	1	-	-	-	-	IV - 103
94.	Ease of importing	-	-	3	-	-	
95.	Ease of exporting	-	-	-	4	-	

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96. Availability of local raw materials	-	-	3	-	-	IV - 101
97. Geographic distribution of the domestic market; accessibility of provincial markets	-	-	3	-	-	IV - 102
98. Climactic conditions; their influence on worker productivity, expatriate health, consequent additional investments required (e.g. special health services, air conditioning, dust control equipment)	-	2	-	-	-	

PART IV

DESCRIPTION OF FACTORS

A. ECONOMIC, MONETARY FACTORS

1. Historical Overview

The low initial industrial base after the war and the government's import-substitution policy accounted for the manufacturing sector's recorded dramatic growth in the 1945-49 initial development period and continued to grow during the fifties and sixties. In the decade of the seventies as the domestic markets' easily accessible areas became exhausted and manufacturing operations became increasingly inefficient, domestic production began to fall off but the shift toward export oriented activities compensated for this domestic decline.

The import substitution policy led to the development of large-scale, capital intensive industries, mostly situated in Metro Manila and aimed principally at the domestic market. Manufacturing due to its emphasis on substituting for imported consumer and light industrial goods did not develop the capability to produce raw materials, intermediate goods or capital equipment. Consequently, the country remained heavily dependent on the import of these items. This policy also had the negative spinoff of aggravating unemployment, underemployment and uneven income distribution due to the capital-intensive nature of investment. High tariff barriers and import quotas imposed by trade partners protected the growth of (relatively) inefficient industries so that the products produced were not competitive in the world market. Consequently, funding of the necessary imports was supported by the export of agricultural and mineral products. However, by the mid-60's it was clear that these products could no longer generate sufficient foreign exchange to finance industry's import needs.

The government became increasingly aware that these policies had contributed to the country's current social and economic problems - high unemployment, uneven income distribution, and a serious shortage of foreign exchange. Therefore, in 1970, the government introduced policies to promote the growth of export industries particularly of non-traditional products (defined as export of less than 5 million dollars of the product in 1968). The peso was devalued by about 65%* and an export incentives act was introduced. Export processing zones, allowing duty-free entry of raw materials, were established and the Central Bank introduced rediscount facilities at preferential rates for exporters.

With the assistance of a World Bank Structural Adjustment Loan, import duties have, more recently, been adjusted to reduce the rates imposed over a five year period (1981-85). The list of industries that are considered "over-crowded" has also been substantially reduced, thereby allowing further investment in these areas. As a result of these policies, manufactured exports increased at an average of about 20.71% per annum from 1971 to 1979.

The trade deficit prior to the 1973 oil crisis was relatively minor and was generally covered by capital inflow. But in 1974, the country's oil bill rose from US$181 million (1973) to over $600 million resulting in the trade deficit to US$1,164.7 million in 1975. Capital inflows also increased, but a rate insufficient to meet import requirements. By November of 1982, the trade deficit stood at US$2,468 million. This widening trade gap could not be bridged by non-merchandise transactions so the government resorted to borrowing. Borrowing for this and other requirements grew from US$ 0.4 billion in 1964 to US$ 1.3 billion in 1969, US$ 9.7 billion by the end of 1979 and then accelerated to reach some US$25 billion by the end of 1983.

In 1982, the economy also suffered both domestically and externally primarily because of depressed prices for major commodity exports, weak demand for non-traditional exports, high oil prices and sharply rising interest payments-culminating in a US$1.2 billion balance of payments deficit.

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* Based on CRC report.

To ease the impact of these recessionary pressures on the Philippine economy, and to pare down budget deficits, drastic measures were enforced, during the year which included cuts in various types of government expenditures:

- cash expenditures by 11%;
- capital expenditures by 23%;
- equity contributions to public corporations by 50%;
- cash transfer to public corporations by 43%; and
- postponement of public investment programs.

A temporary 3% import surcharge was also imposed and price increases for electricity and water were implemented, to improve the internal income-generating capacity of public enterprise.* Credit was severely restricted to meet the targeted inflation rate and reduce import growth so that by the end of 1982, both exports and imports had declined in real terms** (by 15% and 11% respectively).

With the advent of the world recovery from recession, the Philippines, started a modest recovery and by mid-year 1983, economic indicators showed more positive trends in the domestic sector. Between December 1982 and June 1983, manufacturing recorded a 1% gain in production as recorded by CRC-Meralco (who monitor electrical consumption and extrapolate to industrial production) and durable goods, registered an increase of 3.3%. These figures, although not large by historical trends were significant when compared to the 5% drop in output for the consecutive years of 1981 and 1982.

On the external side, during the first half of 1983 the Philippines posted a USDLR 1.2 Billion trade deficit which represented a 4.3% decline from the corresponding trade deficit in 1982. Moreover, the current account balance was running at 15%.

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*Bernardo Villegas and J.A. Buencamino, Short-term Prospects in East Asia, 1983-1984 (CRC, November 1983)

**1982 figures are from January to November only.

below the corresponding deficit in 1982. This may have been partly due to the 44% increase in receipts into the financial system from remittances from overseas workers.

However, the improved trade balance was due to lower activity and lower price increases in imports as compared to exports. This tended to mask some dramatic declines in volume - copra production, for example, fell 25% to 35% whilst international prices increased 25% to 30%.

Overall foreign exchange earnings from merchandise exports continued a downward course, registering an 8.1% decline for the period, as compared to the same period in 1982.

Foreign exchange expenditures for merchandise imports remained flat at US$ 3923 million, which, considering a $5 per barrel price drop for oil, indicates a 10 - 15% decline in volume of imports.

Government receipts were up by 7.5% from 1982 levels and the trend in government expenditures showed a 4.2% decline. Government deficits were reduced by 30% from the 1982 level. This brought about a favourable change in the financial system as it found itself in a relatively liquid position. All the nominal interest rates reported minor declines. Inflation was brought down to below 7% for the first time since 1979.

Economic analyses at this time however, indicated that the domestic recovery may have been due to factors rather than fundamental ones such as end-user market demand.*

The devaluation on June 23,1983 fueled inflation and as wages fell behind, domestic sales were expected to suffer.

Additionally, a significant portion of the private sector felt further devaluations could be expected and hedged accordingly. Consequently, there was mounting pressure on the exchange rate further fuelling inflation.

*Omar Cruz, Only the First Straws of Recovery, (CRC, July 1983)

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A change for the worse was therefore predicted for the second half.

But the assasination of Senator Aquino in August turned the expected economic difficulties into an unexpected economic crisis.

The assassination, coupled with rumors of the failing health of the President and possible NPA invasion of the urban areas, flight of capital to overseas depositories, buying of (mostly consumer) goods and commodities and demonstrations and rallies held by the academic and business sectors contributed to the decline.

Anxiety of foreign banks over the Philippine political situation prompted foreign banks to lower the ceiling on their exposure to Philippine Banks and in some cases froze scheduled loan releases, as well as freeze the rescheduling of foreign loans.

The government was forced to declare a moratorium on repayment of principal on foreign debt which led to further deterioration of the strength of the Peso, a worsening trade deficit and erosion of the confidence of both foreign and domestic investors. Interest rates started to climb as credit became scarce. And as people resorted to "panic" buying, inventories declined. Raw material imports fell as foreign exchange became unavailable and production faltered leading to increased layoff of workers. The credit rating of the country declined further in the international financial market when an error was detected in the Balance of Payments Report of some US$ 600 million (a recent report indicates that this figure could be as high as US$ 1.2 billion).

Due to increased pressure from foreign creditors, the Philippine government sought IMF funds to help cover the BOP gap through the Philippine standby credit facility. Conditions set by the IMF are reported to include:

- o A curb on liquidity growth
- o Tightening of credit
- o Higher interest rates
- o Restricting on imports and dollar-draining activities
- o A cut in government infrastructure

expenditures
- o Curtailment of the budget deficit
- o Restructuring of the loan/equity portfolios of government-owned development banks.

The Central Bank increased the reserve requirement from 18% to 21% and then to 23% (it now stands at 24).

Import restrictions were imposed and classified as priority items were permitted to be imported. And then, only if funds were available.

The delays and regulation of import financing exposed manufacturers to foreign exchange risks which resulted in further price increases to cover such risks.

The devaluation announced in October led to another round of price increases and further speculation of peso-dollar rates.

By year-end, basic economic indicators (as shown in Table 4.1 below) all showed a deterioration from the previous year - which itself had been very poor.

Table 4.1
BASIC ECONOMIC INDICATORS *
(Real Growth in %)

	1982	1983
Private Consumption Spending	3.1	2.8
Investment Spending	(3.5)	(4.7)
Government Spending	6.4	(3.9)
Exports of Goods and non-factor services	(1.2)	(5.6)
Imports of Goods and non-factor services	3.6	(0.7)
Gross Domestic Product	2.9	(1.1)

The trends established in the second half of 1983 and which accelerated after the assasination of Aquino, continued into the first four months of 1984.

*Based on NEDA preliminary figures.

The overall market declined at an annual rate of 5%; personal consumption contracted as real wages declined and unemployment rose. The 20% increase in minimum wage failed to cover the 41% rate of inflation.

Investment declined by 18% as government cut back on infrastructure programs and capital-intensive projects and industry reduced its capital equipment imports by 30%.

Merchandise exports increased by 8% in value, which helped to offset the decline in foreign exchange, but declined by 16% in volume.

Merchandise imports dropped by 20.5% in the first four months of the year, with April recording a 47% drop. Crude oil imports declined by 25%. For the first time in 11 years, the Philippines became a net importer of rice.

The foreign exchange rate was further depreciated to 18 to 1 on June 6, bringing the total depreciation for the year to 74%. The depreciation was classified as a float of the peso, but as no free trading has occurred since, the rate can be considered to be still controlled.

Lending rates for prime borrowers increased from around 20 - 21% to over 30% and the Interbank Call Rate rose to an average of 42% with peaks of 65% on some days.

The Central Bank issued Treasury Bills with a rate of 32% which is beginning to force similar commercial bank deposit rates.

An active foreign exchange market has been established which, from a high spread of over 50%, has now stabilized at a 15 - 20% spread. This parallel market has been instrumental in maintaining domestic activity at higher-than anticipated levels.

Money supply moved up 41% and reserves increased by 50% whilst savings and time deposits increased by only 18 and 10% respectively, indicating that there was a preference for liquid assets or cash, hence a higher level of currency in circulation.

Strong government demand in April and the need to bail out ailing banks in June/July have led to an increase in reserve money to a level of Pesos 32.1 billion as of July 30. Well in excess of the liquidity levels reported to be required as one of the conditions for approval of the SDR 632 million loan.

2. Import/Export Dependence

Philippine industry is highly dependent on imports for its raw material requirements, supplies and capital equipment. Even spare parts are mostly of imported origin.

The government's import-substitution policy resulted in production capability primarily for consumer durable and non-durable goods with little investment in intermediate products or commercial or industrial equipment.

There are no primary industries so all basic materials must be imported. The copper smelter is not year capable of supplying copper for domestic use.

The balance of trade has been in deficit since the 1940's, consequently export development assumes considerable importance.

Imports

Since 1972, imports have grown rapidly averaging 23% per year for the decade to 1981. However, in 1982, imports declined by 11.3%. It is anticipated that imports for 1983 further declined due to government policies and market conditions.

Table 4.2

FOREIGN TRADE OF THE PHILIPPINES: 1935 to 1982
(F.O.B. Value in Million U.S. Dollars)

		Exports[1]			Imports			Balance of Trade
Year	Total Trade	Value	Percent to Total Trade	Average Exchange Rate (₱/US $)	Value	Percent to Total Trade	Average Exchange Rate (₱/US $)	Favorable (+) Unfavorable (-)
1935	187.47	101.93	54.37	2.000	85.54	45.63	2.000	16.39 +
1940	290.65	155.92	53.65	2.000	134.73	45.63	2.000	21.19 +
1945	29.60	0.67	2.26	2.000	28.93	97.74	2.000	28.26 -
1950	688.88	332.70	48.30	2.000	356.18	51.70	2.000	23.48 -
1955	955.60	419.26	43.87	2.000	536.34	56.13	2.000	117.08 -
1960	1,159.96	535.44	46.16	2.000	624.52	53.84	3.874	89.08 -
1965	1,630.99	795.74	48.79	3.900	835.25	51.21	3.913	39.51 -
1970	2,301.49	1,142.19	49.63	5.729	1,159.30	50.37	5.764	17.11 -
1971	2,450.08	1,189.25	48.54	6.305	1,260.83	51.46	6.391	71.58 -
1972	2,502.03	1,168.43	46.70	6.682	1,133.60	53.30	6.605	165.17 -
1973	3,433.81	1,837.19	53.50	6.755	1,596.62	46.50	6.754	240.57 +
1974	5,868.25	2,724.99	46.44	6.791	3,143.26	53.56	6.772	418.27 -
1975	5,753.65	2,294.47	39.88	7.238	3,459.18	60.12	7.230	1,164.71 -
1976	6,207.16	2,573.68	41.46	7.384	3,633.48	58.54	7.466	1,059.80 -
1977	7,065.65	3,150.89	44.59	7.346	3,914.76	55.41	7.436	763.87 -
1978	8,157.07	3,424.87	41.99	7.314	4,732.20	58.01	7,392	1,307.33 -
1979	10,742.92	4,601.19	42.83	7.323	6,141.73	57.17	7.400	1,540.54 -
1980	13,514.70	5,787.79	42.87	7.454	7,726.91	57.17	7.508	1,939.12 -
1981	13,667.84	5,722.16	41.87	7.834	7,945.68	58.13	7.856	2,223.52 -
1982[2]	11,601.23	4,557.60	39.28	8.416	7,043.63	60.71	8.443	2,468.03 -

[1] Sum of domestic exports and re-exports.

[2] January to November only

Source: National Census and Statistics Office.

The first half of 1984 has further seen a massive decline in imports due to the scarcity of foreign exchange and the estimate is that only US$ 1904 million has been imported in the period January to April representing a 20.5% decline over the same period in 1982.

As only 6% of import is for finished consumer goods, clearly there has been a major, adverse impact on manufactured goods.

Oil imports, after the dramatic rise in 1974 had tapered off during the late seventies and early eighties. In 1982, oil imports were US$ 2.078 billion and in 1983 US$2.132 billion. In the first four months of 1984, US$ 541 million was recorded. Dependence on oil for energy requirements, through the same period, has declined from 95% at the end of the sixties to 68% in 1982. Hydroelectric and geothermal power have provided the bulk of the non-conventional energy alternatives, with coal being developed in certain areas (cement production being a major one) and to lesser extent such areas as biomass, solar etc. These latter being quite small.

Exports

Before the 1970's. the country's exports were dominated by a few traditional products such as copper, coconut and sugar. However, during the 1970's, there was a notable increase in non-traditional exports. In the period 1973-1979, while total export gains averaged only 6.3% annually, the new non-traditional exports registered an increase of 18.4%. By 1980, they made up for over 50% of the Philippines export income. These non-traditional export products are primarily: garments, electronics and electric equipment, footwear and leatherwear, handicrafts, processed foods and overseas construction. In addition, there are two invisible exports: labor and tourism.

This export promotion was in line with the government's industrial policies which aimed to develop a heavy industrial base; encourage the expansion of small and medium size industries, and the dispersal of

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industry away from Manila; attract more foreign investment; and enhance the working relationship of the government and industry. However, a major reassessment of the governments' plans and policies is taking place and the new program puts more emphasis on the agricultural sector and export of non-traditional products.

In the first four months of 1984, exports were recorded at US$ 1.67 billion, although this figure is generally considered to be lower than the actual value of exports due to underdevaluation by a number of exports.

Balance of Trade (Table 4.2)

The trade balance has been negative throughout the past 5 years with the gap gradually widening as can be seen in Table 4.2 .

For the period under consideration, the Philippines has been buying more goods and services than it has been selling to other countries. Throughout the period 1975 to 1982, the Balance of Trade has been unfavourable to the Philippines.

3. Non-Merchandise Trade (Table 4.3)

Development in non-merchandise trade were dominated by increases in interest payments on external debt.

Interest payments increased from USDLR 1,374 million in 1981 to US$ 1,929 million in 1983 although in the same period, interest rates declined from 16.6% to 9.8%. Interest income declined from US$ 519 million in 1981 to US$ 365 million in 1982 and to US 374 million in 1983.

Table 4.3

BALANCE OF PAYMENTS: 1970 to 1982
(In Million U.S. Dollars)

Item	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982P
I. CURRENT TRANSACTIONS													
A. Merchandise trade	(17)	(72)	(166)	241	(418)	(1,165)	(1,059)	(764)	(1,307)	(1,541)	(1,939)	(2,224)	(2,805)
Exports	1,142	1,189	1,168	1,837	2,725	2,294	2,574	3,151	3,425	4,601	5,788	5,722	4,995
Imports	1,159	1,261	1,334	1,596	3,143	3,459	3,633	3,915	4,732	6,142	7,727	7,946	6,800
B. Non-merchandise trade	(142)	(87)	(55)	0	(34)	(45)	(214)	(248)	(178)	(390)	(546)	(541)	(985)
Inflow	258	265	347	639	834	907	871	1,085	1,413	1,576	2,075	2,664	2,881
Outflow	400	352	402	639	868	952	1,085	1,333	1,591	1,966	2,621	3,205	3,866
C. Transfer (donations, etc.)	119	134	188	246	276	318	268	260	312	355	434	472	443
Inflow	124	144	198	256	284	329	279	273	322	369	451	485	455
Outflow	5	10	10	10	08	11	11	13	10	14	17	13	12
Current net inflow total	(30)	9	11	487	(207)	(923)	(1,062)	(752)	(1,173)	(1,576)	(2,051)	(2,293)	(3,347)
II. NON-MONETARY CAPITAL													
D. Long-term capital	133	35	140	71	145	357	684	662	891	1,151	1,032	1,332	1,473
Inflow	401	285	372	380	456	677	1,051	1,242	1,850	2,110	1,579	2,072	2,348
Outflow	268	250	232	309	311	320	367	580	959	959	547	740	875
E. Direct Investments	(28)	(4)	(22)	64	28	125	98	216	171	99	45	407	259
Inflow	7	5	4	119	92	152	139	236	205	225	266	480	418
Outflow	35	9	26	55	64	27	41	20	34	126	221	73	159
F. Short-term capital	76	92	56	74	231	102	260	311	168	(49)	784	(433)[1]	202[1]
Inflow	280	453	579	657	1,138	1,283	1,381	2,475	3,442	4,231	7,458	-	-
Outflow	204	361	523	583	907	1,181	1,121	2,164	3,274	4,280	6,674	-	-
Errors and omissions	(147)	(143)	(107)	(66)	(87)	(182)	(144)	(198)	(144)	(264)	(348)	-	-
Non-monetary capital, total	34	(20)	67	143	317	462	898	951	1,086	937	1,513	1,306	1,934
G. Monetization of gold	-	-	-	-	-	-	-	-	32	41	128	400	278
H. Allocation of SDRs	19	17	16	-	-	-	-	-	-	28	29	27	-
III. OVERALL SURPLUS (DEFICIT)	23	6	94	630	110	(521)	(164)	239	(54)	(570)	(381)	(560)	(1,135)

[1] Includes errors and omissions

Source: Central Bank of the Philippines

In the first quarter of 1984, remittances through official channels of overseas workers declined by 28% to only US$ 166 million due to the attractiveness of the blackmarket rates.

In contrast, remittances in 1983 reached a total of US$ 944 million which was up 16.5% from the 1982 level, which in turn increased of 48.3% over the 1981 figures.

Earnings from tourism grew rapidly in the seventies and in 1981 earned US$ 344 million and in 1982 increased 30.8% to US$ 450 million. But the assassination of Aquino and the subsequent uncertainty that prevailed afterwards has had an adverse impact of tourism and for 1983 the increase was only 3.33% reflecting a massive decline in the last few months of the year.

Foreign merchandise insurance declined by 16.9% in 1983 due to the decrease in imports and greater utilization of Philippine flag vessels where payment can be effected in Pesos.

Remittances in payment of dividends, royalties, earnings etc. has remained more or less steady since 1980 at around US$ 150 million. These remittances have now been stopped.

4. Balance of Payments (BOP) (Table 4.3)

The Balance of Payments is an aggregate account that summarizes the country's relations with the rest of the world. Its impact on the country's economy is felt in terms of its effects on the achievement of macroeconomic goals.

The country has been experiencing a BOP deficit since 1975, gradually increasing in earlier years and then accelerating rapidly in the eighties.

In 1978, the deficit was US$ 54 million, in 1979 US$ 570 million, then US$ 381 million, US$ 560 million, US$ 1135 million for the years 1980 to 1982. In 1983, the deficit had risen to US$ 2117 million by the end of the year.

5. Gross Domestic Product (GDP Tables 4.4, 4.5 4.6)

The Gross Domestic Product, which measures the aggregate output of goods and services produced within the domestic economy, exhibited the same declining trend in growth rates as that of the GNP. The seventies were characterized by high growth rates (1977 6.9%, 1978 6.2% and 1979 6.7%) while the advent of the eighties witnessed a downward trend (1980 4.9%, 1981 3.9% and 1982 2.9%) which was capped by a GDP growth rate of 1.1% in 1983.

In 1981, GDP was 96.2 billion pesos rising to 99 billion pesos in 1982 and 100.1 billion pesos in 1983 (constant 1972 prices). However, with the population growth rate of 2.4%, GDP per capita has been declining in the past few years.

6. Gross National Product - GNP (Tables 4.4, 4.6 and 4.6)

The growth rates achieved by the Philippine economy in the seventies started to slacken in the 1980's. In 1977, the growth rate was 7%, in 1978 6.8% and in 1979, again 6.8%. The start of the eigthies saw a different trend. In 1980, the economy recorded only a 4.3% growth rate. In 1981, the growth rate registered declined further to 3.7% and further to 2.6% in 1982.

1983 was the year that may economists were expecting a better economic performance for the domestic economy and the export sector. The local economists anticipated that the economic reccvery in the United States would fuel Philippine economic growth. However, this did not eventuate as explained earlier and the growth rate recorded for 1983 was a mere 1.3%.

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Table 4.4

GROSS NATIONAL PRODUCT BY EXPENDITURE SHARES: 1950, 1955, 1960, 1965 AND 1970 TO 1983 (In Million Pesos At Constant 1972 Prices)

Type of Expenditure	1950	1955	1960	1965	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980 [r]	1981 [p]	1982 [p]	1983 [p]
1. Personal consumption expenditures	12,631	19,423	23,631	30,300	37,088	38,499	39,922	42,317	44,385	46,160	47,868	51,416	54,098	56,555	59,270	61,617	63,535	65,348
2. General government consumption expenditures	1,613	2,037	2,495	3,168	4,228	4,554	5,260	5,835	6,659	7,031	7,570	7,456	7,788	7,989	8,268	8,598	9,145	8,788
A. Consumption of employees	1,159	1,481	1,970	2,431	3,051	3,235	3,357	3,633	3,664	3,819	4,015	3,909	4,112	4,309	4,557	4,869	5,127	5,141
B. Other expenditures	454	556	525	737	1,177	1,319	1,903	2,202	2,995	3,212	3,555	3,547	3,676	3,680	3,709	3,729	4,018	3,647
3. Gross domestic capital formation	2,632	3,838	5,173	8,336	10,835	11,226	11,573	12,540	15,651	18,984	20,631	20,828	23,089	26,336	26,609	27,220	26,267	25,029
A. Fixed capital formation	2,264	3,075	4,368	7,022	7,919	8,690	8,831	9,085	11,382	15,037	16,361	17,108	19,138	22,113	22,737	23,642	23,687	23,012
1. Construction	1,490	1,587	2,093	3,704	3,089	3,073	3,565	3,693	4,002	6,152	8,011	8,864	9,281	11,105	11,123	12,045	12,521	11,948
a. Government	322	332	417	526	496	628	1,034	1,183	1,508	2,294	3,128	3,666	4,252	5,575	4,860	5,243	5,259	4,375
b. Private	1,168	1,255	1,676	3,178	2,593	2,445	2,531	2,510	2,494	3,858	4,883	5,198	5,029	5,534	6,263	6,802	7,162	7,573
2. Durable equipment	774	1,488	2,275	3,318	4,830	5,617	5,266	5,392	7,380	8,885	8,305	8,244	9,857	11,008	11,614	11,497	11,166	11,064
B. Increase in stocks	630	1,221	805	1,314	2,916	2,536	2,742	3,455	4,269	3,947	4,315	3,720	3,951	4,223	3,872	3,678	2,580	2,017
4. Exports of goods and non-factor services	3,470	5,219	5,110	8,773	8,744	8,997	9,877	11,312	9,980	9,951	11,829	14,168	13,980	15,650	18,148	17,947	17,729	18,954
5. Less: Imports of goods and non-factor services	4,354	6,494	6,253	7,818	9,990	10,015	10,334	10,800	12,883	13,505	13,679	14,099	16,365	18,765	19,450	18,854	19,540	19,409
6. Statistical discrepancy	521	341	718	(2,967)	109	265	(223)	(273)	347	(260)	(634)	(1,779)	198	581	(137)	(321)	1,863	1,410
EXPENDITURES ON GROSS DOMESTIC PRODUCT	16,513	24,464	30,874	39,792	51,014	53,526	56,075	60,931	64,139	68,361	73,585	77,990	82,797	88,346	92,706	96,207	98,999	100,120
7. Net factor income from the rest of the world	(172)	(755)	(723)	(272)	(979)	(605)	(549)	(50)	660	169	(244)	(201)	273	390	(97)	(166)	(418)	(259)
EXPENDITURE ON GROSS NATIONAL PRODUCT	16,341	23,709	30,151	39,520	50,035	52,921	55,526	60,881	64,739	68,530	73,341	77,789	83,070	88,736	92,609	96,041	98,581	99,861

r - revised
p - preliminary estimates as of April 1984

Source: National Accounts Staff, Statistical Coordination Office, NEDA

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Table 4.5

GROWTH RATES: EXPENDITURES ON GNP AT CONSTANT 1972 PRICES

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980[r]	1981[p]	1982[p]	1983[p]
PERSONAL CONSUMPTION EXPENDITURES	3.8	3.7	6.0	4.9	4.0	3.7	7.4	5.2	4.5	4.8	4.0	3.1	2.8
GENERAL GOVERNMENT CONSUMPTION EXPENDITURES	7.7	15.5	10.9	14.1	5.6	7.7	- 1.5	4.4	2.6	3.5	4.0	6.4	- 3.9
GROSS DOMESTIC CAPITAL FORMATION													
Fixed Capital Formation													
Construction													
Government	26.6	64.6	14.4	27.5	52.1	36.4	17.2	16.0	31.1	-12.8	7.9	2.2	-18.4
Private	- 5.7	3.5	- .8	- .6	54.7	23.6	6.4	- 3.2	10.0	13.2	8.6	5.3	5.7
Total Construction	- .5	16.0	3.6	8.4	53.7	30.2	10.6	4.7	19.7	.2	3.0	4.0	- 4.6
Durable equipment	16.3	- 6.3	2.4	36.9	20.4	- 6.6	- .7	19.6	11.7	5.5	- 1.0	- 2.9	- .9
Total Fixed Capital Formation	9.7	1.6	2.9	25.3	32.1	8.5	4.9	11.9	15.5	2.8	3.5	.61	- 2.8
Increase in Stocks	-13.0	8.12	26.0	23.6	- 7.5	- .8	- 5.0	6.2	6.9	- 8.3	- 5.0	-29.9	-21.8
Total Capital Formation	3.6	3.1	8.4	24.8	21.3	6.5	3.0	10.9	14.1	1.0	2.5	- 3.5	- 4.7
EXPORTS OF GOODS AND NON-FACTOR SERVICES	2.9	9.8	14.5	-11.8	- .3	19.9	18.7	- 1.3	11.9	16.0	- 1.1	- 1.2	6.9
IMPORTS OF GOODS AND NON-FACTOR SERVICES	.2	3.2	4.5	19.3	4.8	1.3	3.1	16.1	14.7	3.7	- 3.1	- 3.6	- .7
EXPENDITURES ON GROSS DOMESTIC PRODUCTS	4.9	4.8	9.7	5.3	6.6	6.7	6.9	6.16	6.7	4.9	3.8	2.9	1.1
EXPENDITURES ON GROSS NATIONAL PRODUCTS	5.8	4.9	9.6	6.3	5.9	6.1	7.0	6.8	6.3	4.3	3.7	2.6	1.3

r - revised
p - preliminary estimates as of April 1984

Sources: Table 1

Table 4.6

GNP, NY AND GDP BY INDUSTRIAL ORIGIN: 1970 to 1983
(In Million Pesos at Constant 1972 Prices)

	Industry	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980[r]	1981[p]	1982[p]	1983[p]
1.	AGRICULTURE, FISHERY AND FORESTRY	14,734	15,457	16,040	17,026	17,465	18,218	19,671	20,646	21,620	22,595	23,732	24,608	25,378	24,845
2.	INDUSTRIAL SECTOR	15,048	16,222	17,442	19,586	20,710	22,690	24,904	27,554	29,598	32,343	33,471	34,963	35,714	35,955
	a. Mining and Quarrying	1,093	1,282	1,346	1,400	1,403	1,445	1,491	1,742	1,809	2,134	2,236	2,175	2,016	1,966
	b. Manufacturing	11,823	12,611	13,388	15,252	15,981	16,537	17,481	19,532	21,108	22,239	23,175	23,959	24,535	25,108
	c. Construction	1,738	1,889	2,240	2,433	2,745	4,101	5,254	5,568	5,913	7,121	7,139	7,830	8,079	7,689
	d. Electricity, gas and water	394	440	468	501	581	607	678	712	768	849	921	999	1,084	1,192
3.	SERVICE SECTOR	21,[illegible]32	21,847	22,593	24,319	25,964	27,453	28,387	29,790	31,579	33,403	35,503	36,636	37,907	39,320
	a. Transport, communication and storage	2,056	2,184	2,418	2,657	2,333	3,277	3,875	4,235	4,501	4,613	4,827	5,040	5,165	5,266
	b. Commerce	12,295	12,484	12,688	13,589	14,351	15,056	14,999	15,838	16,361	18,085	19,345	19,695	20,355	21,708
	c. Services	6,381	7,179	7,487	8,073	8,330	9,120	9,513	9,717	10,217	10,710	11,331	11,901	12,387	12,346
	GROSS DOMESTIC PRODUCT OF MARKET PRICES	51,014	53,526	56,075	60,931	64,139	68,361	72,962	77,990	82,797	88,346	92,706	96,207	98,999	100,120
	NET FACTOR INCOME FROM THE REST OF THE WORLD	(979)	(605)	(549)	(50)	600	169	(244)	(201)	273	390	(97)	(166)	(418)	(259)
	GROSS NATIONAL PRODUCT	50,035	52,921	55,526	60,881	64,739	68,530	72,718	77,789	83,070	88,735	92,609	96,041	98,581	99,861
	INDIRECT TAXES NET OF SUBSIDIES	3,666	4,225	4,382	5,482	6,627	7,143	6,674	7,018	8,188	9,303	9,009	8,171	8,332	9,032
	DEPRECIATION	4,712	5,019	5,353	5,535	5,849	6,324	6,910	7,534	7,981	8,757	9,440	10,544	11,149	11,394
	NET NATIONAL PRODUCT OR NATIONAL INCOME	41,657	43,677	45,791	49,364	52,263	55,063	59,134	63,237	68,901	70,675	74,160	77,326	69,100	79,435

r - revised
p - preliminary estimates as of April 1984

Source: National Accounts Staff: Statistical Coordinating Office, NEDA

7. Relative Importance of Various Sectors to the Economy; Recent Changes, Developments (Table 4.7)

Agriculture, fishery and forestry accounted for 24.8% of GDP; the industrial sector for 35.9% and the service sector for 39.3% in 1983.

Table 4.7 gives detail of the various sectors and their importance to GNP.

With the major decline in domestic manufactures and emphasis on agricultural and export production, considerable shifts can be expected in the next few years.

8. Government Spending for Development

The data presented in Table 4.8 show that the consolidated public expenditures (including government corporation capital expenditures) has increased to over 18 - 19% of GNP. Net national government expenditures have fluctuated in the range of 12 - 13% of GNP while local government expenditures have remained stable at somewhat less than 2% of GNP. The recent growth of public expenditure has therefore been mostly due to the increase in the investment programs of the government corporations from less than 3% of GNP in 1978 to 4% of GNP in 1981-82.

The primary factor underlying the growing role of government corporations has been the shift in the sectoral distribution of the infrastructure programs towards those sectors dominated by revenue-earning entities particularly the energy sector (Table 4.9). Secondary factors include the growth of a public sector role in non-infrastructure activities such as industrial projects, real estate development and agricultural marketing which traditionally have been areas of private sector responsibility; and the disparities in the treatment of the National Government Ministries and government corporations.

Table 4.7

Philippine: Gross National Product
by Industrial Origin, 1978-1983

	1978	1979	1980	1981	1982	1983 Est.
	(In billions of peso at current market prices)					
Agriculture, fishery and forestry	21.6	22.6	23.7	24.6	25.4	24.8
Mining and quarrying	1.8	2.1	2.2	2.2	2.0	2.1
Manufacturing	20.9	22.2	23.2	24.0	24.5	25.1
Construction	5.9	7.1	7.2	7.8	8.2	7.7
Electricity, gas and water	0.8	0.9	0.9	1.0	1.1	1.2
Transportation, Communication and storage	4.5	4.6	4.8	5.0	5.1	5.[illegible]
Trade	10.7	11.5	12.2	12.7	13.1	13.7
Finance and housing	6.1	6.6	7.1	7.0	7.3	7.5
Services	10.2	10.7	11.3	11.9	12.4	12.5
Net factor income from abroad	0.3	0.4	-0.1	-0.2	-0.4	-0.1
Real GNP	83.1	88.7	92.6	96.0	98.7	100.0

Source: Data provided by the Philippine authorities.

The share of GNP absorbed by the expenditures of the local government on the other hand has not increased at all, and there was no increase in real government spending per capita during the 1970s. This may be attributed to the fact that local governments have not taken full advantage of the taxing and borrowing powers legally available to them, and the resource of the national government available for transfer to other public sector units have been increasingly preempted by the government orporation and government financial institutions thereby reducing the viability of national government resoures for the local government sector.

It can be gleaned from Table 4.8 that there has been a shift in the distribution of public expenditures between current expenditures and public investment. National government and local government current expenditures have decreased from 11.9% of GNP in 1978 to 9% in 1982 and is expected to continue this trend. To some extent, the reduction in current expenditures reflects efforts to bring about economies in government operations. However, reduction also resulted in inadequate maintenance of roads and irrigation systems, insufficient operating supplies in the health and education sectors, and poor civil service compensation.

Public fixed investment, on the other hand, has increased from 5.5% of GNP in 1978 to 8% of GNP in 1980-82. This principally reflects the expansion of project preparation and implementation capacity in such areas as energy, irrigation, transportation, water supply and industrial projects. In 1981, there was an expansion of government financial investment. This reflected the need to support the liquidity of government financial institutions in the face of poor loan recovery, the Industrial Rescue Fund and the KKK program.

9. Per Capita Income (GNP) (Table 4.10)

Per Capita GNP is computed by dividing the GNP by the population. In effect, it determines the portion of GNP accruing to one person in the economy. In 1980, Per Capita GNP was registered at Pesos 1,917, a 1.75%

Table 4.8

STRUCTURE OF PUBLIC EXPENDITURES
(Cash Basis)

	1978	1979	1980	1981	1982
			Billion Pesos		
Gross National Government Expenditures a/	26.2	29.8	38.1	48.0	48.6
Less: equity contributions to government corporations	1.7	2.8	3.5	4.8	5.4
Less: Transfers to local government	0.8	1.2	1.5-	1.5	2.2
Net National Government Expenditures b/	23.7	25.8	33.1	41.7	41.0
Of which: Current expenditures	18.4	19.4	23.0	24.9	26.8
Of which: Capital expenditures c/	4.4	5.0	8.4	12.6	11.8
Of which: Financial investment d/	0.9	1.4	1.8	4.2	2.4
Local Government Expenditures	3.2	3.8	4.4	5.0	5.6
Of which: Current expenditures	2.8	3.3	3.9	4.3	4.9
Of which: Capital expenditures	0.4	0.5	0.5	0.6	0.7
Government Corporation Capital Expenditures	5.0	8.7	11.7	11.8	14.1
Consolidated Public Expenditures	31.9	38.3	49.4	58.5	60.7
Of which: Government current expenditures e/	21.2	22.7	27.0	29.2	31.7
Of which: Public fixed investment f/	9.8	14.2	20.6	25.0	26.6
Of which: Financial investment	0.9	1.4	1.8	4.2	2.4
			Percentage of GNP		
Gross National Government Expenditures	14.7	13.6	14.4	15.7	13.8
Less: equity contributions to government corporations	1.0	1.3	1.3	1.6	1.5
Less: transfers to local government	0.4	0.5	0.6	0.5	0.6
Net National Government Expenditures	13.3	11.7	12.5	13.6	11.6
Local Government Expenditures	1.8	1.7	1.7	1.6	1.6
Government Corporation Capital Expenditures	2.8	4.0	4.4	4.5	4.5
Consolidated Public Expenditures	17.9	17.4	18.7	19.8	17.7
Of which: Government current expenditures	11.9	10.4	10.2	9.6	9.0
Of which: Public fixed investment	5.5	6.5	7.9	8.8	8.1
Of which: Financial investment	0.5	0.6	0.7	1.4	0.7

a/ Including net lending.
b/ National government expenditures net of contributions and transfers to non-financial government corporations and local governments.
c/ Infrastructure and non-infrastructure.
d/ Budgetary contributions to financial institutions and to National Development Company, and net lending.
e/ National government and local government current expenditures.
f/ National government capital expenditures on its own account, capital expenditures of non-financial government corporations, and capital expenditures of local governments.

Sources: Ministry of the Budget, Ministry of Finance, IMF

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Table 4.9

CONSOLIDATED PUBLIC EXPENDITURES BY SECTOR
(Billions of Pesos, Obligation Basis)

	Actual			Estimate	Projected
	1978	1979	1980	1981	1982
Net National Government Expenditures a/					
Economic Services	8.9	9.8	11.2	14.8	17.0
Agriculture, fishery and forestry	2.9	2.2	2.0	3.0	3.3
Industry, trade, labor and tourism	0.4	0.6	0.6	0.9	1.2
Energy	0.8	0.4	0.7	1.7	1.5
Water supply	0.2	0.6	0.4	0.8	0.7
Transportation	3.4	3.4	5.2	6.3	7.2
Telecommunications	0.3	0.3	0.3	0.4	0.5
Other infrastructure	0.9	2.2	1.8	2.5	2.5
Social Services	5.2	6.5	7.0	9.9	11.9
Education	3.3	3.6	4.2	6.3	7.0
Housing and community development	0.4	1.0	0.8	0.6	1.3
Health	1.0	1.2	1.3	2.1	2.5
Other social services	0.5	0.6	0.7	0.8	1.0
Defense	4.4	4.7	4.8	4.7	7.5
General public administration	2.7	3.5	5.0	3.8	4.9
Debt service	2.1	2.5	3.6	4.0	5.2
Total	23.2	27.0	31.6	37.2	46.4
Government Corporation Capital Expenditures					
Agriculture (NIA)	1.0	1.3	1.3	1.7	2.0
Industry (NDC, EPZA)	0.2	0.2	0.8	1.0	1.1
Energy (PNOC, NPA, NEA)	3.0	5.5	7.6	7.5	8.2
Water supply (MWSS, LWUA)	0.3	0.8	1.6	1.1	1.7
Transportation (PPA, PNR, MMTC)	0.3	0.6	0.9	1.1	1.7
Housing (NHA, HSDC)	0.2	0.3	0.4	0.6	0.9
Total	5.0	8.7	12.6	13.0	15.5
Consolidated Public Expenditures					
Economic Services	13.7	18.1	23.2	27.2	31.7
Agriculture, fishery and forestry	3.9	3.5	3.3	4.7	5.3
Industry, trade, labor and tourism	0.6	0.8	1.4	1.9	2.3
Energy	3.8	5.9	8.3	9.2	9.7
Water supply	0.5	1.5	2.0	1.9	2.4
Transportation	3.7	4.0	6.1	7.4	8.9
Telecommunications	0.3	0.3	0.3	0.4	0.5
Other infrastructure	0.9	2.2	1.8	2.5	2.5
Social Services	5.4	6.7	7.4	10.5	12.7
Education	3.3	3.6	4.2	6.3	7.0
Housing and community development	0.6	1.3	1.2	1.2	2.2
Health	1.0	1.2	1.3	2.1	2.5
Other social services	0.5	0.6	0.7	0.8	1.0
Defense	4.4	4.7	4.8	4.7	7.5
General public administration	2.7	3.5	5.0	3.8	4.9
Debt service	2.1	2.5	3.6	4.0	5.2
Total	18.3	35.5	44.0	50.2	61.9

a/ Expenditures of the national government on its own account.

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Table 4.10

PER CAPITA GNP AND GROWTH RATES: 1950 to 1983
(In 1972 Pesos)

Year	Gross National Product	Growth Rates (p.a. in %)	National Income	Growth Rate (p.a. in %)	Personnel Consumption Expenditure	Growth Rate (p.a. in %)
1950	806		723		623	
		4.96		4.60		6.45
1955	1,006		889		824	
		1.89		1.71		.95
1960	1,101		965		863	
		2.60		2.26		2.11
1965	1,244		1,074		954	
		1.83		1.06		5.56
1970	1,358		1,131		1,007	
		2.80		1.94		.90
1971	1,396		1,153		1,016	
		2.22		2.08		.98
1972	1,427		1,177		1,026	
		6.66		5.86		.311
1973	1,522		1,246		1,058	
		3.55		2.09		2.17
1974	1,576		1,272		1,081	
		2.92		2.44		1.02
1975	1,622		1,303		1,092	
		3.27		4.53		1.01
1976	1,675		1,362		1,103	
		4.54		4.55		4.99
1977	1,751		1,424		1,158	
		3.37		2.39		1.81
1978	1,810		1,458		1,179	
		4.09		2.88		1.87
1979	1,884		1,500		1,201	
		1.75		2.33		2.16
1980[r]	1,917		1,535		1,227	
		1.15		1.69		1.39
1981[p]	1,939		1,561		1,244	
		.21		- .13		.64
1982[p]	1,943		1,559		1,252	
		-1.08		-1.92		.48
1983[p]	1,922		1,529		1,258	

r - revised
p - preliminary estimates as of April 1984

Source: NEDA

increase compared to that of 1979 at Pesos 1,884. In 1982, it was Pesos 1,939 which reflected a 1.15% increase relative to the previous year. In 1982, it was Pesos 1,943 while in 1983 it was Pesos 1,922. The percent change for the last two years were 0.2% and -1.1% respectively.

10. Foreign Exchange Reserves (Table 4.11)

Table 4.11 shows the country's foreign exchange reserves in millions of US dollars in recent years.

A recent report (Business Day, 9 August 1984) indicates that the country's foreign exchange reserves may have been overstated sine 1981 and this may have concealed the rapid deterioration of the country's foreign exchange position in succeeding years. Since the money supply grew as the recorded reserves rose, the possible overstatements also serve to mask the adverse impact of certain monetary policies on the economy. The reserves were reported to be overstated by US$ 264 million in 1981, US$ 823 million in 1982 and US$ 1.2 billion in 1983.

11. Debt and Debt Service (Table 4.12)

To cover the foreign exchange shortfall and finance development, the government has borrowed heavily on the foreign markets, to the point where a moratorium on principal repayment had to be declared in October 1983 due to the unmanageable proportions the debt had reached and the extensive restructuring that was needed.

For the Philippines, the situation is now quite severe. Trade credit which provides a considerable amount of bridge financing to domestic operations has been frozen and even if resumed soon, the country will be unable to obtain the same levels as previously.

Table 4.11

FOREIGN EXCHANGE RESERVES
(Millions of US $, at Year End)

	Gross Reserves		Foreign Exchange Liabilities		Net	Change
Year	Central Bank	Commercial Banks	Central Bank /a	Commercial Banks	International Reserves	In Net Reserves /b
1970	251	128	435	160	- 216	
1971	375	149	396	280	- 152	64
1972	549	186	399	453	- 117	35
1973	1,037	379	314	540	562	679
1974	1,503	475	416	812	750	188
1975	1,361	718	824	990	266	-484
1976	1,642	564	1,019	1,082	105	-161
1977	1,525	739	577	1,419	268	164
1978	1,883	1,312	628	2,353	214	- 54
1979	2,423	1,309	1,109	2,979	- 357	-570
1980	3,155	1,903	2,110	3,686	- 738	-381
1981	2,697	2,608	2,431	4,173	-1,299	-561

/a Net of certain long-term liabilities (IBRD rural credit liabilities, long-term yen liabilities to OECF) agreed with IMF.

/b Beginning in 1976 when an understanding was reached with the IMF in connection with the Extended Fund Facility, "change in net reserves" equals "overall balance" in balance of payments statement (Table 3.1).

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Partial relief can be expected after negotiations with the IMF have been completed but foreign exchange problems will remain because:

- banks will minimize exposure to the country and become selective in the areas they are willing to finance;

- new loans will be subject to numerous and more onerous conditions especially with regard to performance.

The government has announced its intention to negotiate US$ 1.65 billion of new debt but much of this will be used for:

- paying off arrears and current interest obligations;

- building up foreign exchange reserves;

- providing for critical imports e.g. oil, grains, fertilizers and other vital needs for local production and consumption.

The country's debt service this year will amount to US$ 2.8 billion, which would represent 52% of the projected US$ 5.4 billion in exports of goods, or 34% of total foreign exchange receipts of US$ 8.2 billion.

The US$ 2.8 billion in debt consists of US$ 400 million in principal repayments to ODAs and US$ 2.4 billion in interest payments to foreign private banks and official institutions. This amount excludes about US$ 1.1 billion in amortization payments due this year.

Renegotiation of these debts is expected to occur following approval of the IMF loan.

Table 4.12

EXTERNAL MEDIUM - AND LONG-TERM DEBT AND DEBT SERVICE /a

	Actual				Estimate	Projected		
	1978	1979	1980	1981	1982	1983	1984	1985
MLT debt outstanding and disbursed (end-year)	6,200	7,137	8,554	10,028	11,400	12,700	14,150	15,850
Official-source	1,894	2,265	2,710	3,354	4,110	4,940	5,850	6,810
Private-source	4,306	4,872	5,844	6,674	7,290	7,760	8,300	9,040
MLT debt service	828	953	1,114	1,565	2,140	2,450	2,760	3,200
Amortization /b	558	467	455	740	930	1,060	1,230	1,490
Interest	270	486	659	825	1,210	1,390	1,530	1,710
Exports of goods and services	4,838	6,178	7,863	8,277	9,400	10,960	12,830	15,020
Debt service ratio (%) /c	17	15	14	19	23	22	22	21

/a Excludes transactions with IMF.

/b Excludes prepayments amounting to $401 million in 1978, $492 million in 1979, and $92 million in 1980.

/c Ratio of MLT debt service to receipts from exports of goods and services. This is the debt service ratio used in World Bank publications such as World Development Report and the World Bank's Annual Report. It differs from the statutory ratio defined in Republic Act 6142, as amended. If repayments to IMF were to be included, the debt service ratio would be about two percentage points higher.

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Table 4.12 shows the External Medium and Long-Term debt and debt service. From 1978 to 1980, the debt service ratio was declining. However, it rose sharply in 1981 to 19% and was estimated to increased by 4% in 1982 to reach 23%. It is generally assumed that a 1% increase in interest rates results in a USDLR 160 million increase in payments due.

12. Currency Stability Record of Fluctuations

As table 4.13 shows, the Philippine Peso has gone through a series of stable periods, wherein the exchange rates were fixed to the US dollar or tied through a controlled float to the dollar. At the end of each period, a massive devaluation has occured.

In the past 15 months, more frequent and substantial devaluations have occurred occasioned by the severe economic dislocations that have taken place. In June 1983, the exchange rate fell to Pesos 11 = USD 1. In October, of the same year, it moved to Pesos 14 = USD1. The latest devaluation occurred in June of 1984 when the official rate dropped to Pesos 18 = USD 1.

Prediction beyond 1985 is difficult at this time but it can be reasonably expected that the trend will continue until the economy stabilizes after which the rate should remain relatively stable.

It should be noted that due to stabilization taxes imposed on foreign exchange transactions several levels of exchange currently exist, as follows:

1. For import of commodities 18:1 (an ad valorem tax of 10% is subsequently applied to all imports).

2. For foreign exchange to service obligations etc. (non-merchandise transactions 19.80:1 due to 10% ad valorem or excise tax, depending on the nature of the transaction.)

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Table 4. 13

FOREIGN EXCHANGE GUIDING RATE

YEAR/DATE		RATE
	1981	7.9 : 1
	1982	8.5 : 1
First half	1983	9.4 : 1
June	1983	11.0 : 1
October	1983	14.0 : 1
June	1984	18.0 : 1

Source: CRC , Business Day

3. For proceeds of export sales, currently 16.80:1 (this rate is based on the guiding rate of 18:1 less a stabilization tax of 30% of the difference between the previous guiding rate of 14:1 and the new rate i.e. at present ₱4 x 30%. This tax declines by 5% each until the end of 1985).

This stabilization tax has been met with considerable opposition by the private sector and it is possible it may be eliminated or modified.

13. Convertibility of Currency

The Philippine peso is not an internationally traded currency and must be converted to an international currency through the Central Bank (CB) of the Philippines, although some minor black market activity occur in Hong Kong and Singapore. Until recently, convertibility has been readily accomplished, however, following the moratorium declared on repayments of principal on foreign debt there has been a severe shortage of foreign currency so that conversion of peso to foreign currencies has only been possible for priority payments. Memoranda Nos. 50 and 59, CB Circulars 970 and 978 and Presidential Decree 1892 act as the guide for this system.

Under these regulations, the Central Bank has defined five priority areas for disposition of foreign exchange. They are the following, in priority order:

1) Oil

2) Official Development Assistance Loan

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3) Trade and related payments for:

   (a) input needed for exports

   (b) raw materials for vital domestic industries

   (c) food grains

4) Interest on Bank Loans

5) Interbank loans and trade-related credits

The items covered under the third priority category are further categorized into five groups, which in turn have been used to develop three priority subcategories. The basic important groups are:

EP/EC	Essential Product/Commodity
SEP/SEC	Semi-Essential Product/Commodity
NEP/NEC	Non-Essentail Product/Commodity
SUP/SUC	Semi-Unclasssified Product/Commodity
UP/UC	Unclassified Product/Commodity

The priority sub-categories are:

Priority 1-a — Imports necessary to produce export products

Priority 1-b — Imported raw materials, spare parts and supplies under the EP/EC category for

- petroleum products
- food grain and some food products
- fertilizers and pesticides

- medicinal and pharmaceutical products
- textile fibers (limited range)
- livestock
- iron and steel products
- paper products (limited range)

Priority 2. Imported raw materials, spare parts, and supplies listed under the categories EP and SEP for manufactured products other than those listed under 1-b.

Priority 3 Imported raw materials, spare parts, and supplies under categories, NEP, NEC, SEC, SEP, SUP and UP that are necessary to complete manufacture of products in priorities 1-b and 2.

This situation is expected to last through the balance of 1984 and into 1985 until after the renegotiation of foreign debt has been accomplished.

It is government policy to allow remittances of dividends, royalties and other approved foreign currency payments. However, from time to time, approval of remittances has been delayed due to shortage of foreign exchange, but at no time has it been denied.

Recently, all forms of remittances and repatriation have been stopped due to the shortage of foreign exchange. This is considered of relatively low priority so approval to remit cannot be expected until the economy again stabilizes.

14. Dependence on Foreign Aid, Outlook

FOREIGN ASSISTANCE
1975 - 1981 (US$ M)

Year	CDC*	Disbursement
1975	114.9	114.9
1976	233.167	233.167
1977	342.272	448.662
1978	479.577	370.243
1979	1,183.186	794.822
1980	758,473	580.416
1981	8,196,773	729,758

*Cash Disbursement Ceiling

Source: NCSO pp. 600-602

Total commitments rose from $114.9 M in 1975 to $8,196.77 M in 1981 with corresponding increases in disbursements from $114.9M in 1975 to $729.758 in 1981.

Official assistance is at present in the pipeline for a variety of development projects and commodity imports. In addition, assistance is required for infrastructure development to support the development of medium and small scale industries, further regional diversification of export-oriented industries and the rural mobilization effort through electrification and inter-island transport. However, as most development aid requires a corresponding input from the government, most of the projects have been deferred.

15. Inflation

Table 4.14 shows that the average inflation rates in 1973 and 1974 were substantially higher compared to the 1975-1978 period. This higher average can be attributed to the first oil crisis that struck the country in the last quarter of 1973 which intensified even more during the whole of 1974.

1979 saw another round of fuel price increases resulting in double digit inflation which intensified in 1980.

The abrupt hike in world prices of oil resulted in increased prices of imports, particularly raw materials and industrial supplies. For the past decade increases in production costs passed on ultimately to consumers explain about 60% of Philippine inflation. The remaining portion can be attributed to demand pull and imported inflation.

The slowdown in OPEC oil price increases due to the oil glut plus the policies and programs pursued by our trading partners have more recently reduced the imported component of inflation. This explains the downward trend of inflation from 1981 to the first semester of 1983. However, with the three devaluations, the tight foreign exchange situation plus the uncertainties ahead resulting in speculation are primarily responsible for the increasing trend in inflation. This trend is expected to continue as the country has yet to feel the ful impact on domestic prices of the devaluations and the continuing speculation on the peso : dolar exchange rate.

Table 4.14

RP INFLATION RECORD
(1973-1984)

Year		Inflation Rate (% per annum)
1973		16.4
1974		34.2
1975		6.8
1976		9.2
1977		9.9
1978		7.3
1979		16.4
1980		17.6
1981		12.4
1982		10.3
1983		10.0
	January	6.8
	February	6.6
	March	6.3
	April	6.2
	May	6.6
	June	6.3
	July	7.9
	August	9.1
	September	9.1
	October	10.3
	November	16.7
	December	26.1
1984	January	33.3
	February	36.6
	March	39.3
	April	40.7

16. Prices (Tables 4.15 and 4.16)

The National Census and Statistics Office, one of the sources of Philippine data, prepares the consumer price index which has, at present, 1978 as its base a year. The CPI is based on the price movement of what is considered the typical basket of goods for Filipino consumer household. The CPI for all items is summarized below for the past two years. (Details are shown in Table 4.15).

CONSUMER PRICE INDEX*
(All Items)

(1978 = 100)

	December 1982	December 1981	% Change
Nationwide	173.2	157.1	10.25
Metro Manila	176.2	158.7	11.03
Outside Metro Manila	172.6	156.8	10.08

Table 4.16 reviews wholesale prices, again with 1978 as the base year. Growth has been similar to that in the CPI.

It should be noted that these indicators do not reflect the cost increases in good outside the "consumer basket" and in the past 12 months, increases in a majority of products have well exceeded the officially recorded inflation rate. Drugs, for example, have increased over 90% and most factory supplies have more than doubled.

*Preliminary estimates of NEDA.

Table 4.15

CONSUMER PRICE INDEX IN THE PHILIPPINES
1978 to 1982
(All Families: 1978 = 100)

Period	All Items	Food, Alcoholic Beverages and Tobacco	Clothing	Housing and Repair	Fuel, Light and Water	Services	Miscellaneous
1978	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1979	...	...	...	...	...	...	...
1980	...	...	...	...	...	...	...
1981	157.1	149.8	162.0	154.7	211.6	171.1	153.3
January	151.2	144.6	155.5	149.8	203.1	161.7	148.4
February	152.4	146.1	157.1	150.3	205.3	161.5	149.4
March	152.8	145.8	158.5	150.6	205.5	164.6	150.4
April	153.5	145.9	159.7	151.0	208.2	167.5	151.3
May	154.5	146.9	160.4	151.4	209.8	168.8	152.1
June	155.9	148.4	161.6	152.0	210.4	171.1	153.0
July	158.6	151.2	162.8	158.0	212.7	172.9	153.7
August	159.4	152.0	163.7	158.4	214.0	174.5	154.7
September	160.1	152.3	164.6	158.5	216.0	176.0	155.5
October	160.9	153.3	165.5	158.6	216.5	176.9	156.2
November	162.2	154.7	166.7	158.8	217.5	178.5	157.1
December	163.7	156.8	167.9	159.0	220.6	179.4	158.0
1982	173.2	162.5	178.2	180.5	240.0	192.9	165.9
January	167.2	158.5	169.2	173.8	228.4	182.0	159.3
February	168.4	159.1	171.8	174.3	228.8	186.6	160.7
March	169.2	159.1	173.5	174.5	234.3	188.4	162.3
April	170.3	160.4	175.7	174.8	235.1	189.3	163.5
May	170.8	160.6	177.1	175.1	236.8	189.9	164.6
June	171.8	161.1	178.4	175.2	238.5	193.4	165.6
July	174.9	163.4	179.8	186.0	242.9	195.4	166.9
August	176.1	164.9	181.1	186.1	243.3	196.5	167.9
September	176.9	165.8	181.8	186.3	243.7	197.3	169.0
October	177.2	165.8	182.4	186.5	247.0	197.8	169.6
November	177.5	165.6	183.5	186.6	250.0	198.6	170.3
December	177.6	165.3	184.3	186.7	251.5	199.4	170.9

Source: National Census and Statistics Office, Bureau of Agricultural Economics, National Food Authority coordinated by the NEDA Technical Committee on Price Statistics.

Table 4.16

LEGISLATED MONEY AND REAL WAGE RATES IN THE NON-AGRICULTURAL AND AGRICULTURAL SECTORS
METRO-MANILA AND AREAS OUTSIDE METRO-MANILA: 1972 to 1982
(In Pesos)

		Money Wage				Real Wage (1972 = 100)			
		Non-Agriculture		Agriculture		Non-Agriculture		Agriculture	
Period		Metro-Manila	Outside Metro-Manila	Plantation	Non-Plantation	Metro-Manila	Outside Metro-Manila	Plantation	Non-Plantation
1972		8.00	8.00	4.75	4.75	8.00	8.00	4.75	4.75
1973		8.00	8.00	4.75	4.75	7.02	6.84	4.06	4.06
1974		8.59-9.98	9.59-9.98	5.34-6.73	5.64-6.56	5.47-6.36	3.40-4.29	3.40-4.29	3.40-4.29
1975		9.26-10.65	9.26-10.65	5.74-7.13	5.74-7.13	5.63-6.47	5.53-6.37	3.43-4.26	3.43-4.26
1976		11.42-12.81	10.34-11.73	8.17-9.56	7.09-8.48	6.53-7.33	5.63-6.39	4.45-5.21	3.86-4.62
1977		13.80-15.18	12.72-14.10	10.55-11.93	9.47-10.85	7.32-8.05	6.29-6.97	5.22-5.90	4.68-5.36
1978		14.89-16.27	13.80-15.18	11.64-13.02	10.55-11.93	7.34-8.02	6.36-7.00	5.36-6.00	4.86-5.50
1979		21.80-23.19	20.72-22.11	17.76-19.15	13.51-14.90	9.04-9.62	8.22-8.77	7.04-7.60	5.36-5.91
1980	January	22.99-24.38	21.91-23.30	18.95-20.33	13.51-14.90	8.62-9.14	7.92-8.64	6.85-7.34	4.88-5.38
	February	24.09-26.38	23.91-25.30	20.45-21.83	15.01-16.40	8.92-9.76	8.54-9.03	7.30-7.79	5.36-5.86
	August	28.46-29.85	27.37-28.76	23.31-24.70	17.28-18.67	9.85-10.33	9.05-9.54	7.73-8.19	5.73-6.19
1981	January	28.70-29.82	27.62-28.74	23.56-24.68	17.53-18.65	9.44-9.81	8.66-9.01	7.39-7.74	5.50-5.85
	March	30.70-31.82	29.61-30.74	25.06-26.18	18.53-19.65	10.07-10.43	9.17-9.51	7.75-8.10	5.74-6.08
	July	30.70-31.82	29.62-30.74	25.06-26.18	18.53-19.65	9.10-9.82	8.78-9.11	7.43-7.76	5.49-5.83
	August	30.70-31.82	29.62-30.74	25.06-26.18	18.53-19.65	9.45-9.79	8.73-9.06	7.39-7.72	5.46-5.79
	September	30.70-31.82	29.62-30.74	26.06-26.18	18.53-19.65	9.44-9.78	8.70-9.03	7.36-7.69	5.44-5.77
1982	January	31.82	30.74	26.18	19.65	-	-	-	-

Source: National Wages Council, MOLE.

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17. Money Supply (Table 4.17)

The main determinant of total money supply - reserve money - soared to Pesos 32.1 billion as of July 30, 1984, and was reported to be around Pesos 34 billion in early August. Money supply growth was 41.6% in January compared to the year-ago level.

Reserve money is the money the CB releases to banks and the National Government. It does not include current accounts which are usually higher than reserve money by 15 - 22%.

Total domestic liquidity is generally thought to be about four times bigger than the reserve money level. So that at a level of Pesos 32.1 billion total domestic liquidity would be around Pesos 128.4 billion or around 46% higher than a year earlier.

18. Indicators of Resilience

The clearest indicator of the country's economic resilience is shown in the ability of industry to continue performing over the past 12 months despite the massive drop in official foreign exchange availability.

The growth of a "parallel market" that has provided funds to import necessary raw materials and supplies plus the increased smuggling of finished goods shows a resiliency that was not fully expected.

Companies have been able to improve efficiencies by being able to prune work forces, reduce and rationalize inventories and improve receivables etc. in relatively large terms and to considerable effect. Filipinos as individuals are able to adopt to reduced lifestyle with relative ease.

Table 4.17

MONEY SUPPLY AND ITS ORIGIN: 1970 to 1982
(In Million Pesos)

Period	Money Supply	Net Foreign Assets	Net Domestic Credits	Non-Money Supply Deposits	Net Other Accounts
1970	4,696.6	(625.1)	13,421.6	5,480.2	2,619.7
1971	5,179.1	(480.1)	14,574.8	6,320.8	2,594.8
1972	6,469.5	(778.3)	16,289.4	6,446.2	2,595.4
1973	7,267.2	3,093.1	18,342.2	12,726.6	1,441.5
1974	9,007.8	3,877.4	25,500.6	17,015.6	
1975	10,314.8	(186.3)	35,258.1	20,430.9	4,326.1
1976	12,074.9	(1,440.6)	43,677.7	25,834.6	4,327.6
1977	14,938.5	(84.8)	51,464.3	31,215.1	5,225.9
1978	16,945.5	(596.0)	63,075.1	37,728.9	7,804.7
1979	18,843.6	(5,068.4)	79,475.0	41,659.9	13,903.1
1980	22,537.5	(7,115.9)	95,128.3	48,392.1	17,082.8
1981	23,331.3	(11,044.6)	111,109.7	58,314.1	18,419.7
1982					
January	21,423.9	(13,649.5)	117,988.4	62,666.2	20,248.8
February	21,720.9	(14,339.8)	120,107.2	63,751.0	20,295.5
March	22,330.3	(15,951.1)	122,467.6	66,391.0	17,795.2
April	22,613.7	(18,499.4)	124,234.8	66,807.9	16,313.8
May	22,990.2	(18,299.0)	125,639.5	67,447.2	16,903.1
June	22,472.1	(16,905.1)	127,250.8	68,317.5	19,557.0
July	21,312.9	(18,135.1)	128,683.0	69,012.9	20,222.1
August	21,133.8	(20,507.9)	130,082.9	69,856.0	18,585.2
September	20,962.8	(20,737.9)	132,069.4	71,525.0	18,843.7
October	21,113.7	(23,672.1)	135,977.5	71,125.0	20,066.7
November	21,258.8	(26,472.8)	135,267.3	73,254.2	14,281.5
December	23,524.5	(25,980.3)	141,303.3	74,516.9	17,281.6

Source: Central Bank of the Philippines

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19. Income Distribution (Table 4.18 & 4.19)

The extent of equality of income distribution in a country may be determined by ascertaining the percentages of income received by a given percentage of the population (expressed in terms of families). The latest available data is for the year 1971. Table 4.18 shows the percent of family income received by each quintile and by the top 5 and 10 percent of families: 1956 - 1971.

According to the UP School of Economics, estimates based on NCSO 1971 Family Income and Expenditure Survey and the 1979 Integrated Survey of Households (ISH) show that the income distribution worsened between 1972 and 1979. The poorest 60 per cent of total households, which received only 25.0 percent of total income in 1971, suffered a further decline of their share to 22.5 per cent in 1979 while the richest 10 per cent of households increased their share of total income from 37.1 per cent in 1971 to 41.7 per cent in 1979.

As can be seen from Table 4.19, the lowest 20 per cent accounted for 3.7% of total family income with an average monthly income of Pesos 687. The second 20% received 8.2% of total family income with an average monthly income of Pesos 1,523. The third 20% of the families garnered 13.2% of total family income with n average monthly income of Pesos 2,470. The fourth 20% of the families accounted for 21% of total family income with an average of Pesos 3,924 monthly income while the fifth 20% accounted for 53.9% of total family income with an average of Pesos 10,079 monthly income.

The equality of income distribution is an ideal situation being pursued by all economies, and the Philippine is not exempted. Needless to say, a more equitable income distribution would make a country less prone to political and social turmoil.

Table 4.18

PERCENT OF FAMILY INCOME RECEIVED BY EACH QUINTILE AND BY THE TOP 5 AND 10 PERCENT OF FAMILIES: 1956 - 1971

Families (Ranked from Lowest Income to Highest)	Percent Share of Total Family Income				Total Family Income (Thousand Pesos)				Average Income Within Group (Pesos)			
	1956-57[a]	1961[b]	1965[b]	1971[c]	1956-57	1961	1965	1971	1956-57	1961	1965	1971
Lowest 20 percent	4.5	4.2	3.5	3.7	261,086	337,401	458,108	872,237	331	383	447	687
Second 20 percent	8.1	7.9	8.0	8.2	474,594	832,500	1,046,104	1,932,718	598	712	1,020	1,523
Third 20 percent	12.4	12.1	12.8	13.2	721,177	965,504	1,672,018	3,134,705	909	1,090	1,631	2,470
Fourth 20 percent	19.8	19.3	20.2	21.0	1,155,359	1,541,002	2,626,133	4,981,219	1,494	1,738	2,562	3,924
Fifth 20 percent	55.1	56.4	55.4	53.9	3,212,080	4,505,359	7,221,245	12,783,406	4,024	5,094	7,044	10,079
Top 10 percent	39.4	41.0	40.0	37.1	2,296,053	3,273,668	5,217,118	8,790,570	5,800	7,397	10,178	13,850
Top 5 percent	27.7	29.0	28.7	24.8	1,611,598	2,314,533	3,738,125	5,876,452	8,142	10,460	14,585	18,518
Total	100.00	100.0	100.0	100.0	5,824,296	7,981,766	13,023,610	23,714,284	1,471	1,804	2,541	3,736

a Twelve month period ending February 28, 1957

b Calendar year.

c Twelve month period ending April 1971.

Source: National Census and Statistics Office, Survey of Households, Family Income and Expenditures, 1956-75, 1961, 1965 and 1971.

Table 4.19

AVERAGE INCOME OF FAMILIES BY TENTHS OF FAMILIES, BY REGION: 1975
(Preliminary Data Based on the Results of a Hand Tally)

Ranking of Families From Lowest To Highest Income	Philippines	Metropolitan Manila Area (National Capital Region)	Region 1	Region 2	Region 3	Region 4	Region 5	Region 6	Region 7	Region 8	Region 9	Region 10	Region 11	Region 12
First tenth	1,425	2,376	1,563	1,277	1,753	1,331	1,196	1,586	1,068	1,303	1,268	833	1,571	1,673
Second tenth	2,341	3,343	2,514	2,209	2,704	2,279	1,892	2,401	2,065	1,931	1,805	1,678	2,386	2,252
Third tenth	2,932	4,026	3,187	2,645	3,254	2,904	2,355	2,886	2,659	2,409	2,507	2,164	2,986	2,822
Fourth tenth	3,507	4,840	3,696	3,158	3,887	3,525	2,846	3,328	3,224	2,875	2,989	2,554	3,573	3,596
Fifth tenth	4,027	5,900	4,180	3,735	4,576	4,115	3,339	3,852	3,812	3,482	3,462	3,032	4,226	4,345
Sixth tenth	4,904	7,104	4,888	4,602	5,349	4,846	3,878	4,527	4,459	4,074	3,396	3,626	4,911	5,007
Seven tenth	5,872	9,199	5,749	5,597	6,237	5,813	4,527	5,392	5,325	4,906	4,768	4,508	5,698	5,818
Eight tenth	7,328	11,919	7,049	7,106	7,586	7,249	5,398	6,689	6,360	6,086	6,282	5,512	7,080	6,937
Ninth tenth	10,049	16,748	9,527	9,203	9,896	10,092	7,063	9,060	8,325	8,050	8,754	8,077	9,370	8,604
Last tenth	26,863	52,720	20,233	17,455	19,187	20,597	16,262	23,185	21,389	16,274	25,740	17,368	33,990	15,192

Source: National Census and Statistics Office.

20. Population and Growth Rate (Table 4.20)

Discussion of the population is also of vital importance in an economic analysis since any net economic growth achieved may be offset by the growth in population.

In 1980, the population was 48.317 M which reflected a 2.58% growth rate. In 1981, it was pegged at 49.526 M, registering a growth rate of 2.5%. In 1982 population was 50.740 M while in 1983 it was 51,956 M. The corresponding growth rates were 2.45% and 2.40%. It should be noted however that these figures are based on NCSO projections as a full census has not been conducted since 1975 and the total population and growth rate could well exceed these figures.

21. Existence of a Working, Realistic Development Plan

The government has developed and is operating under a 5-year Development Plan. The current plan period is 1983-87 but due to the economic crisis this has been recently modified to cover the 1984-87 period.

The plan is largely strategic rather than quantitative in nature so that it is difficult to assess the effectivity of their implementation at this early stage.

Critical to the achievement of the earlier plan target were the improvement in the efficiency of resource use and increased public sector resource mobilization. Neither of these factors appears to have moved toward improvement and, in fact, the mobilization of public sector resources has declined dramatically with the reduction in the financial markets and the decline in investor confidence.

Table 4.20

POPULATION AND GROWTH RATE: 1950 to 1983

Year	Population (thousand)	Growth Rate (per annum)
1950	20,275	
		3.25
1955	23,568	
		3.24
1960	27,389	
		3.19
1965	31,770	
		3.19
1970	36,839	
		2.87
1971	37,897	
		2.70
1972	38,921	
		2.78
1973	40,005	
		2.67
1974	41,072	
		2.89
1975	42,261	
		2.70
1976	43,402	
		2.34
1977	44,417	
		3.31
1978	45,888	
		2.65
1979	47,104	
		2.58
1980[r]	48,317	
		2.50
1981[p]	49,526	
		2.45
1982[p]	50,740	
		2.40
1983[p]	51,956	

r - revised
p - preliminary estimates as of April 1984

Source: NEDA

It would be difficult to determine how much of the inability to meet plan was due to government inability to direct the economy and how much to factors beyond their control brought about by the financial crisis. But efforts to increase the generation of foreign exchange have not kept pace with the requirements of the public sector in recent years and consequently the govenment has continued to resort to a high level of external financing.

Domestic savings through tax collection and tax generation by public corporations has not met plan and exports have continued to lag imports so that borrowing has been resorted to to maintain economic growth.

The high level of foreign borrowing introduced considerable distortions that became apparent in the latter part of '83 and required a reassessment of the 1983-87 plan. Accordingly, a review took place and the new plan has been drafted.

The new plan is directed more toward stabilizing the economy, and installing a more efficient and less externally dependent economic structure. At the same time greater emphasis has been placed on the development of the agricultural sector and growth of non-traditional exports.

The fundamental goals of the plan remain unchanged. These are the attainment of:

1. National productivity for sustainable economic growth;

2. Equitable distribution of the fruits of development; and

3. Self-reliance in total human development.

Development programs anchored on the primary sector which includes agriculture, forestry, fisheries, and minerals will be given the highest priority. This new task will demand a shift in policy from one which favors import-dependent industrialization to one which emphasizes agricultural modernization and development. The reprogramming of the public investment program toward shorter gestating projects and rehabilitation of existing projects, coupled with structural adjustment measures, is envisioned to be more beneficial in the long term.

A five point economic program will be implemented that covers:

- Loan rescheduling - to restructure the repayment of foreign obligations over a longer period and to re-establish credit lines.

- Economic stabilization - aimed at reducing the balance of payments position and budget deficit to manageable levels, while minimizing inflation.

- Refocusing of economic priorities - mostly in the area of reducing public investment programs and putting greater emphasis on on-going, labor-intensive, and small-scale projects.

- Expansion and strengthening of the structural adjustment program - this program will be broadened to upgrade agriculture, forestry and fisheries whilst maintaining (albeit at a slower rate) the previous emphasis on tariff charges, modernization investment etc.

- Programs to attain social objectives - greater assistance will be given to laid-off workers whilst continuing the other social services identified in the earlier plan.

The proposed budget for 1985 is Pesos 67.3 billion. Table 4.21 shows the breakdown in the budget. (Take note that the sum is only 66.06 billion. It is possible that a typographical error in the publication has occurred.) The proposed expenditure program includes Pesos 50.7 billion for current operating expenditures, Pesos 12.1 billion for capital outlays and Pesos 4.5 billion for debt amortization, for a total of Pesos 67.33 billion.

Table 4.21

PROPOSED GOVERNMENT BUDGET FOR 1985

Ministry of Defense	₱ 7,800.0 million
Ministry of Education	6,500.0 million
Ministry of Public Works and Highways	4,700.0 million
Ministry of Health	2,400.0 million
State Colleges and Universities	1,800.0 million
Ministry of Agriculture and Food	1,300.0 million
Office of the President	1,100.0 million
Ministry of Natural Resources	856.2 million
Ministry of Finance	725.4 million
Ministry of Transportation and Communications	709.9 million
Ministry of Foreign Affairs	638.1 million
Judiciary	548.5 million
Constitutional Office	526.2 million
Ministry of Justice	499.2 million
Ministry of Human Settlements	464.6 million
Ministry of Social Services	358.7 million
Ministry of Trade and Industry	336.2 million
Ministry of Agrarian Reform	257.7 million
Ministry of Local Governments	244.5 million
National Economic Development Authority	238.0 million
Batasan	200.0 million
Ministry of Labor and Employment	128.6 million
Office of the Prime Ministry	104.3 million
Ministry of Tourism	90.7 million
Ministry of Energy	92.1 million
Autonomous Regions	73.4 million
Tanodbayan	11.4 million
Calamity Fund	110.0 million
Corporate Equity Investment Fund	2,400.0 million
International Commitments Fund	210.0 million
National Assistance to Local Governments	4,500.0 million
National Priorities Support Fund	3,700.0 million
Personnel Benefits Fund	3,800.0 million
Property Insurance Fund	140.0 million
Social Pricing and Development Adjustment Fund	1,200.0 million
General Fund Assessment	1,400.0 million
State Service Fund	15,900.0 million
	₱66,063.7 million

Source: Bulletin Today, August 1, 1984

Note: the total doesn't add up to 67.3 billion

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B. FORM, STABILITY OF GOVERNMENT, TYPE OF CONSTITUTION

1. Form of Government

The Philippine government was transformed from a presidential to a parliamentary form of government during the ratification of the Constitution on January 17, 1973. The modified parliamentary system is composed of the President, Vice-President, Prime Minister and the Cabinet, National Assembly, Judiciary, Local Governments, and Commissions on Civil Service, Audit and Elections. Under the New Constitution, the President continues to exercise his power and prerogatives vested in him by the Old Constitution, but shares his legislative authority with the National Assembly, otherwise known as the Parliament or Batasang Pambansa.

The President is elected by the National Assembly for a six-year term and is concurrently the Head of State and Chief Executive of the Republic. He is empowered to approve or veto bills and formulates the guidelines of national policy. He has the right to call special sessions or dissolve the National Assembly and exercise control over all the ministries.

The National Assembly is composed of 183 elective and 17 appointive members for a six-year term. It is empowered to call special presidential elections, to grant emergency powers to the President, to override a presidential veto, and to remove the President from office through impeachment.

The Prime Minister is chosen by the National Assembly from among its members, upon nomination by the President. He is the head of the Cabinet and assumes supervision over the ministries.

The Cabinet is composed of 18 Ministers, chosen from among the members of the National Assembly either by election or presidential appointment. The Ministers comprising the Cabinet are as follows:

MINISTRY	
Agrarian Reform	Conrado Estrella
Agriculture and Food	Salvador Escudero
Education, Culture & Sports	Jaime Laya
Energy	Geronimo Velasco
Foreign Affairs	Arturo Tolentino
Health	Jesus Azurin
Human Settlements	Imelda Marcos
Justice	Estelito Mendoza
Labor and Employment	Blas Ople
Local Government	Jose Rono
National Defense	Juan Ponce Enrile
Natural Resources	Rodolfo del Rosario
Public Works and Highways	Jesus Hipolito
Social Services & Development	Sylvia Montes
Tourism	Jose Aspiras
Trade and Industry	Roberto Ongpin
Transportation & Communication	Jose Dans
Finance	Cesar Virata

The Vice Presidency was created to promote an orderly transition in leadership through the presidency. In accordance with the results of the January 1984 plebiscite, the first Vice-President shall be chosen by the people in the 1987 elections.

The Local Government is composed of political entities with government powers over the cities, provinces, municipalities, municipal districts and barangays.

President Ferdinand E. Marcos has been president since 1965 having been elected to the presidency in that year and re-elected in 1969. In 1972 President Marcos declared Martial Law and the country remained in this condition until 1981 when martial law was lifted and an interim parliament elected to pave the way to a full parliamentary system in the election of May 1984.

It would appear, at this stage, that no significant change has taken place in the method of Presidential control and Mr. Marcos remains in full control of the country's progress.

Gradual changes can be expected to be executed over the next 2 to 3 years as public pressure and parliamentary opposition forces a more active role for the parliament and a modification of the powers of the presidency.

No change in government is expected, banning an unforseen calamity, before the presidential election in 1987 at which time an opposition leader could well challenge Marcos' supremacy; assuming that he does not earlier retire from public office.

Marcos' successor (whether from the present administration or the opposition) is not expected to change the basic policies affecting business investment in the Philippines.

The Philippines will continue to be a capitalistically oriented society emphasizing entrepreneurship and - within the framework of political necessity - free market access and an open environment in which to operate. Although recent years have seen a growing involvement of government in what were previously private sector activities.

2. Government Attitudes Towards Foreign Investments, Ownership

The government has a positive attitude toward foreign investment and, through the Board of Investments (BOI), has adopted a program of incentives to encourage investments in preferred industries.

These incentives were changed in April 1983 to reduce the variety of incentives available and simplify the incentives offered without reducing the financial advantage of the package.

In December 1983, the government, through Presidential Decree No. 1892 relaxed the equity rules for non-pioneer companies to allow up to 100% foreign ownership/ equity in all but a few restricted areas (principally, retail trade and those exploiting natural resources). This relaxation applies for one year.

A major change was enacted in the philosophy of the incentive program which now ties incentives 'in the form of tax credits) to the performance of the enterprise rather than, as previously, to the stated intention of the company. Nonetheless, despite the positive attitude and package of attractive incentives, the practical implementation is often fraught with difficulties and delays which have discourage a number of potential investors.

The current economic depression and uncertainty about political stability have acted as deterrents to investment. For the first time in five years, total equity investments registered with the Board of Investments de decreased in 1983, by 21.6% to Pesos 5.2 billion from Pesos 6.66 billion in 1982. This decline in investment interest can act to the benefit of entreprenuers as it is resulting in a more relaxed attitude to investment approvals and has led to a number of new measures to assist both new and existing investors. Chief amongst these recently has been the ability to now make equity contributions (in most cases up to 100%) in the form of raw materials, spare parts and equipment.

Activities Not Open to Foreign Capital

The manufacture of munitions and armaments and the development of hydroelectric and nuclear power are reserved for the state as is mass media. Retail trade and rural banking are closed to foreign capital being reserved for Filipino companies.

The Oil Industry Commission Law of 1971 provides for eventually 100% local ownership of the oil industry. Although the government retains all petroleum exploration and production activities for itself, foreign companies (including those completely foreign owned) are still allowed to enter into service contracts for drilling.

Placing certain areas of marketing, advertising, finance and other industries designated as strategic in Philippine hands has been suggested (the government has ruled that advertising is not part of the mass media). In the future, other activities may be barred from foreign investors.

Apart from the existing branches of Bank of America, Citibank, Chartered Bank and Hong Kong Shanghai Bank, foreign banks have been barred from establishing branches. However, they have been permitted to acquire equity (up to 40%) in Filipino banks and to open off-shore banking units. At end-September, 1983, 28 offshore units were authorized in the Philippines. Recent developments in the banking sector may force a relaxation of this law.

Under the Retail Trade Nationalization Law, ownership of, and employment in, retailing is limited to Philippine citizens or local firms owned by Filipinos. Four types of sales are not to be considered retail transactions:

1) Sales by manufacturers or processors to industrial and commercial consumers that use the pro-

ducts to render services to the general public and/or product goods for sale to the public;

2) Sales by hotel owners or hotel keepers operating restaurants, if the restaurant is directly connected with the hotel business.

3) Sales by the manufacturers or processors to the general public, if the capital of the company does not exceed P5,000; and

4) Sales by farmers of their agricultural products.

3. Popular Attitude Toward Foreign Investments; Foreign Products

The government attitude towards foreign investment is generally supported by Filipino businessmen although the 100% equity rule has been opposed by the Philippine Chamber of Commerce and Industry (PCCI) and others.

Some opposition groups, students and some sectors of the press, however, are strongly nationalistic and oppose further foreign investment. It is considered unlikely that this opposition could be translated into any reduction or change of government policy on investment. Furthermore, should an opposition group come to power the likelihood is that the moderate elements will prevail and foreign investment will continue to be encouraged and supported.

It is generally recognized that multi-national companies (MNC's) provide better working conditions, salaries, and potential for upgrading skills than the equivalent local companies which makes them favored avenues for employment but also creates some disaffection from those not employed by the MNC's.

In practice, the impact on companies is small and mostly displays itself in slightly more aggressive union activity.

The Filipino consumer is oriented towards US style products and readily accepts western products and equipment, often at the expense of local products.

4. Foreign Discrimination

There is little, if any, foreign discrimination at the personal level and at the corporate level it manifests itself mainly through minority nationalistic groups who are more vocal than effective.

Labor unions are, perhaps, more active in multinational companies but this is perceived to be due to the more tolerant environment created by the MNCs than due to any foreign bias.

5. Government Attitude Towards Private Investment, Ownership

The stated policy of the government is to encourage private sector involvement in the economy.

However, the expansion in the number of parastatals in the past two decades, and the establishment of quasi-government entities seems to belie this statement.

The assumption of control in a wide number of companies through conversion of debt to government-owned equity has also substantially increased governments' involvement in the private sector although in many of these cases the choice was thrust upon the government.

6. Ease of Access to the Authorities

Senior government officials including ministers are readily available for consultation and advice on subjects relating to their responsibilities.

They can be helpful and, at top levels, prepared to modify regulations should it be considered nationally desirable.

At middle management and lower levels, although access is still relatively easy, obtaining meaningful decisions is more difficult and generally not possible due to the hierarchical nature of the bureaucrats.

7. Nationalization Threat

As in many developing countries, nationalization of private corporations can, and does occur. Generally, such nationalization is only effected for the national interest and only affects locally-owned companies. We are not aware of any companies that have foreign equity that have been nationalized.

The government's stated policy is to take equity in private industry only when it is in the national interest, affects national security or achieves a more equitable distribution of wealth. In the past few years, however, the government has become increasingly involved primarily to assist failing companies which have defaulted on their loans from government-owned banks and lending institutions. The establishment of government or quasi-government owned companies in a number of important sectors have also grown dramatically in the last four years.

Government policy on nationalization has been expressed as follows:

Freedom from Expropriation. There shall be no expropriation by the government of the property represented by investments or of the property of enterprises except for public use or in the interest of national welfare and defense and only upon payment of just compensation. In such cases, foreign investors or enterprises shall have the right to remit sums received as compensation for the expropriated property in the currency in which the investment was originally made and at the exchange rate at the time of remittance.

Requisition of Investment. There shall be no requisition of the property represented by the investment or of the property of enterprises, except in the event of war or national emergency and only for its duration. Just compensation shall be determined and paid either at the time of requisition or immediately after cessation of war or national emergency. Payments received as compensation for the requisitioned property may be remitted in the currency in which the investment was originally made at the exchange rate prevailing at the time of remittance.

8. Degree of Small Groups Political and/or Economic Power

The period of the Marcos administration has seen the gradual centralization of all power and decision-making. A small number of apolitical old families have retained their economic power but those that were politically oriented have lost power to Marcos and his partners. The decade of martial law has seen a shift in power (political and economic) from the old families to a new group of businessmen and others.

However, following the death of Aquino, a number of significant changes have taken place and new groups are emerging, or olds ones being reactivated.

Chief amongst these would be:

1. The formal opposition - UNIDO and other small parties forming a loose bond in opposition to Marcos. Currently vocal but still seeking an effective leader and power base.

2. The group around Marcos - principally Cojuanco/Enrile who have established a power base of their own although they remain firmly loyal to Marcos and would only surface upon his departure from power.

3. The Romualdez family - powerful whislt Marcos remains but without the necessary military support to be able to obtain power when Marcos leaves.

4. The middle class businessmen and professionals who have become more politically motivated and urging of change. This group's activity is currently in support of the formal opposition.

5. The Catholic Church - apolitical but highly influential in speaking to the people, and highly critical of the present government particularly in regard to poverty, human rights etc.

6. The MNLF (Moro National Liberation Front) representing the Moslems, mostly on the southern islands of Mindanao, and in violent opposition to whatever government is in power. This group is supported on the platform of secession from the Philippines and has been pressuring this line for centuries.

7. The NPA (New People's Army), a communist-inspired group of rebels bent on active rebellion of the government.

9. Absence of Internal Insurrection, Level of Law and Order

The country has had insurgency groups operating in one form or another for perhaps 400 years. Until this century, these groups have principally been Moslem separatists, called the Moro National Liberation Front, who occupy the country's second largest island, Mindanao. The MNLF forces were originally formed to unite the Moslems against the control of the Spaniards.

When the Philippines gained her independence, the MNLF remained intact and up to the present has opposed the Filipino Christian governments.

The MNLF forces are currently estimated at 50,000 and they hold strong to their demand for autonomy from the Philippines state and government. Their intention is to create a separate state consisting of Mindanao, Sulu and Palawan, but this proposal has been rejected. The group is still active but not as violently as in the 1970's.

The primary internal security problem for government at the present time are the New Peoples Army (NPA) and Communist Party of the Philippines (CPP). These are communist inspired groups who had an estimated force of 5,400 regulars as of 1980, but this has now increased to about 20,000. These groups were originally known as the HUKBALAHAP MOVEMENT (HUKS). The HUKS were actively supported by the U.S. during the second world war and assisted in guerilla operations against the Japanese. After the war, U.S. support was withdrawn but the Huks remained; and in the fifties surfaced actively before being suppressed by President Magsaysay.

The NPA/CPP have proven to be more sophisticated and effective than the HUKS and have been in numerous combats with the military. They have expanded their territory of operations to cover all of Luzon as well as some parts of Visayas and Mindanao. in the past 12 months their numbers have increased substantially and, as mentioned, are reported to be around 20,000 in active service.

A third group that has become active recently are the renegades or bandits which consist of isolated, scattered groups of disgruntled individuals sometimes military or ex-military) who operate independently and are responsible for most bombings, kidnappings etc. that are reported.

In antithesis to these, the military has been strengthened from a force of some 51,700 regular military men to over 223,000 men during the past decade or a ratio of one soldier to every 224 Filipinos. However, many of the batallions are poorly equipped and operational funds are generally inadequate so that the effectivity of many units is reduced.

On balance, the insurgency groups are mostly contained to localized and sporadic outbursts and the country as a whole is able to maintain a stable peace and order situation. This is specially true of Metro Manila where insurgency has been virtually non-existent and the disruption to peace and order has been principally from organized, but diciplined and peaceful demonstrations.

Crime is found in many forms as in any large city and is probably no worse than is to be experienced elsewhere.

Outside of some trouble on plantations, impact on companies has been minimal and is expected to remain so.

10. Degree of Class Antagonism; other Social Friction

Despite the wide gap between the rich and the poor, and the relatively small middle class, there is little class antagonism and social frictions are virtually non-existent.

This is, in part, due to the geographic separation of the rich (in the cities - and then predominantly Manila) and poor (in the provinces) but also due to the easy-going tolerant nature of the people.

11. Degree of Ethnic, Religious Friction; Problems of Minority Groups

Outside of the above-mentioned Christian-Moslem confrontations, there is little friction between the various groups comprising the Filipino people.

In fact, the Filipinos are a basically homogeneous group from Malay stock with a few, very small native (Ifugao, Kalingas, Mangyans etc.) tribes in the hinterlands.

The Chinese population is small and relatively well assimilated and although ethnic differences inevitably cause some conflict, it is minor.

The Philippines is predominantly Christian. Roman Catholics make up 83% of the population. About 2.9% are Protestants while 6.2% are members of the Philippine Independent Church and the Iglesia ni Kristo which were both founded by Filipinos. Islam is the faith of the Muslims in Mindanao and Sulu. They make up 3.9% of the population.

Except for aggressive clamors by the Muslims to grant them their own regional and political autonomy, differences in religion and ethnology have not caused any threat to the country.

12. Political Influence of Major Powers

The Marcos government strongly denies any influence from other government on the affairs of the nation. However, it is generally recognized that because of its historical associations, major trading and investment involvement and presence of naval and air force bases that the United States does extend some influence on the ruling administration.

13. Harmonious Relations with Neighboring Countries

The Philippines is part of the ASEAN (Association of South East Asian Nations) group and being so, has built friendly ties with Indonesia, Malaysia, Thailand, Singapore and most recently, the Republic of Brunei.

The recently concluded ASEAN Foreign Ministers' meeting in Jakarta sought the need for opening up trade among ASEAN member countries. The ASEAN Task Force, assigned with assessing ASEAN projects, strongly recommended further liberation of the preferential trading arrangement (PTA). This will work toward a reduction, if not total elimination, of the current long list of exclusion, deeper cuts on PTA items and adoption of the "most-favored-nation" principle in trading. If this plan materializes, a closer and more substantial relationship can be expected among the ASEAN countries. Additionally, in the longer term there is the possibility of a U.S.-ASEAN Trade Treaty Pact. Realistically, this will yet be some time in the future as progress on ASEAN inter-country development has been very slow.

Incipient friction over ownership of Sabah was resolved in 1983 by the announcement of President Marcos that the Philippines was renouncing all claims to it. However Sabah remain in contention with Malaysia but this "dispute" has been quiescent for some time.

Elsewhere in the region, the Philippines has maintained harmonious relations and active trade activity, particularly with the key nations of Japan, China and Australia.

C. POLICY, LEGAL, GOVERNMENT FACTORS

1. Soundness of Fiscal, Monetary Policies

With the present moratorium on debt and renegotiation of loans, fiscal and monetary policies are in a state of flux. Governments' planning in this regard is conducted primarily by the "Technocrats" in the Ministry of Finance, Central Bank and NEDA. This group establishes the policies to be followed although they can be by-passed by political considerations.

Currently, tight monetary policies are being implemented to curtail inflation, reduce budgetary deficits and increase government revenues.

2. Investment Law

It is the policy of the Philippines to encourage private domestic and foreign investments in industry, agriculture, mining and other sectors of the economy which shall:

- o provide significant employment opportunities relative to the amount of the capital being invested;
- o increase productivity of the land , minerals, forestry, aquatic and other resources of the country, and improve utilization of the products thereof;
- o improve technical skills of the people employed in the enterprise;
- o provide foundation for the future development of the economy;
- o meet the tests for international competitiveness;
- o accelerate development of less developed regions of the country; and
- o result in increased volume and value of exports for the economy.

Futhermore, it is the policy of the state to extend to projects which will substantially contribute to the achievement of the above objectives, fiscal incentives, stimulate establishment and assist initial operations of the enterprise.

Among the investment incentives outlined in the Presidential Decree No. 1789, otherwise known as the Omnibus Investments Code, as amended by Batas Pambansa Blg. 391; Republic Act No. 5490, Batas Pambansa Blg. 44, and Presidential Decrees Nos. 535 and 538 are:

- o Guarantees against expropriation
- o Remittance of foreign exchange earnings and payments
- o Repatriation of capital
- o Protection Schemes and Priorities given to investors and aliens
- o Exemptions from certain taxes and tariff duties
- o Deductions from taxable corporate income
- o Tax Credits
- o Special Incentives

These incentives may be availed of by enterprises engaged in preferred areas of economic activity as outlined in the 1984 Investment Priorities Plan. The preferred areas can be found in the following:

- o Agriculture
- o Forestry
- o Fishery
- o Mining
- o Manufacturing
- o Energy - related projects
- o Public Utilities
- o Export Traders
- o Service Exporters

3. Freedom from Government Intervention in Business Practices

It is the government's stated policy to promote free trade, however, the proliferation of government enterprises in almost all sectors of the economy puts this policy into question.

The government has pioneered industries in a number of areas where private investors where reluctant to invest, with the intention of later divesting to the private sector. There has also been a degree of government intervention through default of private companies with government-backed loans and consequent assumption of control. And, there are also areas where the government has instituted publicly-owned enterprises within a specific sector.

4. Restriction on 100% or Majority Foreign Ownership

A recent ruling has relaxed the foreign ownership laws to allow (for a period of one year) foreign investors to acquire or establish 100% ownership in companies.

Except for certain restricted categories, foreign investment is permitted up to 30% of equity with notification to the BOI only. Up to 40% requires BOI approval which is generally readily granted. Over 40% normally requires justification and can be difficult to obtain unless it is a permitted priority area. Export-oriented (over 70% of product exported) companies, for example, are permitted 100% foreign ownership.

However, as mentioned above, Presidential Decree No. 1892 allows 100% foreign ownership in most industries until December 1984.

Divestment of foreign equity in excess of 40% is required within 30 years, although exemption may be applied for.

5. Patent and Trademark Protection

The laws governing patents and trademarks are controlled by the Philippine Patent Office.

Patent law amendments contained in a 1977 presidential decree considerably reduced patent protection and tightened procedures governing licensing agreements. The amendments reduced the minimum period before an application for compulsory license can be made from the Paris Convention's suggested three years to two years; redefined "working" a patent to exclude importation; and allowed the National Economic Development Authority (NEDA) and the BOI to declare certain patented products or processes vital to national defense, the economy or public health and thus subject to compulsory licensing.

Trademarks can be protected without registration if prior use in the Philippines can be shown and if the mark continues to be used.

In case of any patent or trademark infringement, the local licensee should handle the problem. Infringements of patent rights are examined by the civil courts. In a 1982 ruling, the Supreme Court noted that the use of another company's trademark does not constitute infringement if the two products are unrelated and do not compete with each other.

In 1982, the Philippine Patent Office issued a total of 2,001 patents - 1,000 for inventions, 530 for utility models and 471 for designs. (Inventions are new products, utility models are new versions of existing products and designs are ornamental modifications of existing products.) The office also granted 1,367 letter patents (699 for local and 668 for foreign products).

6. Licensing Agreements

The Ministry of Trade & Industry's Technology Transfer Board (TTB) has the sole power to screen and regulate licensing agreements and other forms of technology transfer arrangements. The TTB is an inter-agency body composed of representatives from the BOI, the National Science and Technology Authority, the NEDA, the Central Bank and other organizations.

All companies seeking Central Bank authority to remit royalties, fees or other transactions under a technology transfer arrangement must have proof of having registered first with the Technology Transfer Board (TTB).

7. Fairness, Honesty of Adminstrative Procedures

Administrative procedures relating to the day-to-day operations of a company are somewhat complex and often requiring of "facilitation" fees to ensure speedy passage of the documents. The degree of relationship between the company and the government officials involved can often be a key element in finalizing transactions.

8. Freedom from Red Tape

There is no freedom from it. It abounds in all government ministries. The only saving grace is that companies dealing with it can generally assign a relatively low-ranking employee to the processing of the requisite governmental forms with little time involvement of senior management.

However, the cost in lost time, petty graft and so on can be significant and becomes a major constraint if dealing with perishable, or short shelf life commodities and products.

It is a major deterrent to conducting export business.

9. Freedom from Corruption

The Philippines has a reputation for graft and corruption.

Foreign businessmen usually find the practice a deterrent, either because of the amount involved, uncertainty of how to handle the transaction, or fear of adverse legal or public relations consequences.

Petty graft within the government is rife "in the form of facilitating fees" but the amounts are small and have little impact on the cost of doing business. Large amounts are generally encountered in the project implementation or company start-up stage.

Nonetheless, a significant number of companies are able to operate without "under the table payments" and with care and strong controls these can be avoided or minimized.

10. General Business Morality

CRC, an independent and respected economic research organization estimates that somewhere between 20 and 30 billion dollars is currently invested offshore from funds derived both honestly and through questionnable practices.

Overvaluing of plant machineries, under invoicing of exports and misdeclaring imports have been noted and are considered fairly common.

11. Fairness of, Access to, the Courts

Access to the courts is easily obtained but processing of cases can be extremely slow. In 1980, (latest figure available) there was a backlog of 493,000 cases, or a disposal rate of 46%.

The American Chamber of Commerce in the Philippines in a white paper presented to President Marcos in November last year, stated:

> "It is the perception of the members of our Chamber that justice is often delayed and not meted out on an impartial basis."

12. Fairness of Anti-Trust, Restrictive Practices, Laws, Regulations

Despite the existence of anti-trust laws, collusion is common and in fact, at government level, encouraged.

There are many examples of government condoned monopolies and consortia and it is not considered a restriction in business.

13. Existence, Efficiency of Trade Associations

Most industry groups have formed trade associations and this practice is encouraged by the government.

The government prefers to deal with an industry association rather than an individual corporation.

Associations are most effective for negotiating with government agencies either alone or in concert with others through the commercial chambers (Philippines, American, Chinese etc.). Issues have been resolved and agreement reached quite effectively through this system.

14. Safety from Sudden Tax Increases, Import Restrictions, Policy Reversal

The government has announced that it will restrict the addition of extra taxes, or the increase in existing taxes and rather concentrate on more effective collection. However, this month the government announced increases in the travel tax and car registration fees that belie this announcement.

It should be realized that due to the economic crisis, import restrictions will be severe as the economy falters further and the normal sources of government revenues decline, hence sudden policy changes, new restrictions and added taxes cannot be ruled out in medium - term planning for investment.

The government has historically enacted new policies, rules and regulations with minimal notice. Nonetheless, companies have operated successfully within these limitations and are generally able to make allowances for expected contingencies.

15. Absence of Price Control

The government has imposed, and maintained, price controls on a small number of basic commodities. The commodities under price control are the following: canned milk, rice, cooking oil, poultry, fish, pork, beef, sugar, soap, cement and fuel based products. Additionally, it maintains a watching brief/advisory role on a few selected, essential products (e.g. tires through the Price Stablization Council (PSC), who monitors the compliance of retail establishments with the price ceilings the Council has imposed.

Otherwise, free market forces dictate prices and the government does not involve itself in price control.

The government has announced that it will gradually lift price controls on most products starting with eggs and poultry.

16. Freedom from Imposition of Arbitrary Export Obligations

The recent imposition of an export stabilization (or windfall) tax on export, following the most recent devaluation indicates that arbitrary export obligations can be imposed..

Strong private sector opposition to the tax may end in its withdrawal, or modification but it will remain an area of uncertainty for future business planning.

17. Competence of Lawyers and Accountants

The Philippines has an abundance of professional services in such fields as economics, accounting, legal counsel, engineering, finance, insurance, management consultancy, computers and others. Details regarding these organizations are readily available.

The accountancy, engineering, and medical professions among others, are regulated by the Professional Regulation Commission.

Professionals from these professions have been readily accepted into practice in the U.S. and elsewhere.

D. FINANCIAL, FINANCING FACTORS

1. The Financial Sector

The Philippines has an advanced financial system in terms of diversity of financial institutions and financial instruments in the market, however, the system is on a very thin base and compared with comparable countries is less developed with respect to financial asset accumulation, size of financial institutions, volume of transaction etc.

The strongest institution within the financial system is a bank with expanded commercial banking authority (unibanks).

Other financial institutions are:

- the other commercial banks
- thrift banks
- rural banks
- investment houses
- insurance companies and institutions
- leasing companies
- financial companies
- Central Bank

Though a stock market does exist, activity there is nil.

The financial system had total assets of Pesos 418 billion at the end of 1983. An analysis of the system's assets highlights the dominant role of the commercial banks (56.2%) the DBP (13.5%), and the PNB which has about 16.9% of the total assets. Of the commercial banks after PNB, Citibank is the next largest at 9% of the commercial banks' assets or 5.1% of the total assets of the system.

2. Banks

There are 34 commercial banks of which 4 are foreign-owned (Citibank, Bank of America , Chartered, Hong Kong and Shanghai) and 2 are government owned (PNB and Veterans). Of the 28 domestic commercial banks (DCBs), 5 are controlled or effectively owned by government financial institutions (GFI), viz:

Bank	GFI
Associated Bank	Development Bank of the Philippines
Pilipinas Bank	Philippine National Bank
Union Bank	Land Bank of the Philippines
Commercial Bank of Manila	Government Service Insurance System
International Corporate Bank	National Development Company

A few of the DCBs have a percentage of foreign bank ownership. Most of them are small, many with close fami y or group ownership fulfilling the financial needs of business activities within the family or business group.

Added to the Philippine banking system are the Offshore Banking Units (OBUs) which are branches, subsidiaries or affiliates of foreign banks authorized to conduct offshore banking business in the country but not to trade domestically.

Nine banks have been granted expanded commercial banking authorities (unibanks) which allows them to provide long-term funds to the economy by allowing them to invest funds in non-allied undertakings.

The minimum capital requirement for Unibanks is Pesos 500 million.

Major sources of commercial bank funds are:

- o demand deposits
- o savings and time deposits
- o deposit substitutes
- o borrowings from the CB and other banks and non-banks.

The composition of these sources at the end of 1983 was:

o	demand deposits	22%
o	savings deposits	17%
o	time deposits	15%
o	borrowings from the CB	9.4%

Funds are used for loans and discounts and securities investments, however, 24% of deposits and deposit substitutes must be placed in reserve with the CB and 25% of loanable funds is required to be allotted to agriculture and agrarian reform projects or in lieu thereof to purchase eligible government securities.

Medium and long-term loans have become virtually unobtainable in the recent months and even short-term loans are extremely difficult to get. Maturity on short-term loans can be as little as 15-days.

Loans are normally secured by collaterals on fixed assets and inventories although in the Chinese community particularly, personal guarantees are accepted.

3. Thrift Banks

Thrift banks comprise savings and mortgage banks, private development banks, and stock savings and loan associations. Funds are mobilized mainly through savings and time deposits and are utilized mostly for housing, consumer durables and small and medium scale industry-term loans. Their contribution to the financial sector was only about 4% of the total assets in 1983 and is now considerably smaller.

4. Private Development Banks

Private development banks depend for their sources of funds on medium and long-term loans from the government, usually the CB and on multi-lateral loans for small and medium-scale enterprises.

5. Rural Banks

Rural banks number some 950 but they are small, mostly independent units established to service the rural sector by providing credits to small farm holders and cooperatives. Their sources of funds are mainly savings deposits and borrowings most of which (98%) are from the CB. Their total assets amounted to only 2.3% of the assets of the total financial sector.

6. Investment Houses

Investment houses contributed 1.5% of the assets of the financial sector at the end of 1983 and there were 14 houses operating. They depend mostly on short-term borrowings which are used for loans and security investments. Private Development Company of the Philippines (PDCP) accounts for 20-25% of the total activities of investment houses although its functions are mostly those of a private development bank.

.7 Insurance Companies

Insurance companies are divided into private and government, and life and non-life. There are two government-owned social insurance institutions - Government Service Insurance System (GSIS) and the Social Security System (SSS) both provide life and non-life services, workers' compensation and pension funds. GSIS is for the government employees and SSS is for the private sector.

The outstanding investible funds of GSIS at the end of 1983 was Pesos 14.7 billion. The funds are used to finance investment activities of government and semi-government organizations.

The two largest private companies are Philamlife and Insular Life and these two account for about 60% of the industry making them quite influential in the capital market as institutional investors.

SSS's total assets at the end of 1983 were Pesos 15.9 billion and these funds are used mainly for investment in government securities and housing loans.

8. Leasing Companies

Leasing companies are mostly subsidiaries of financial institutions and rely on bank loans for their funds. Lease contracts outstanding at the end of 1983 were Pesos 1.0 billion. These companies have suffered severely in 1983 due to the tight credit situation and slackening in demand.

9. Finance Companies

Finance companies utilize their funds mostly to finance purchasing of consumer durables, automobiles, factories, etc. Funds are supplied from the money market and bank borrowings. At the end of 1981, there were 372 companies, by the end of 1983 it had fallen to 336 and has since fallen drastically in the first half of 1984. They contributed 2.8% on the basis of total assets at the end of 1983.

10. Investment Companies

Investment companies are engaged in investing, re-investing and trading of securities. They operate mutual funds as administrators of private pension funds, employee's provident funds and investment trust funds.

11. Securities Market

In the securities markets, the bond market predominates and consists of the government securities market and the private bonds market, although private bond issues have been very limited with the last being in 1977 (to PICOP).

Central Bank Certificates of Indebtedness (CBCIs) and Treasury Bills (T-Bills) have been the most popular mode for government securities.

At the end of May, 1984, the total outstanding amount of government securities was Pesos 44.5 billion. 36% of this is held by commercial banks and 26.7% percent by semi-government entities, 20% is held by trust funds and private non-bank institutions. About 30% of the securities held by commercial banks is for the purpose of complying with the CB reserve requirement. Secondary markets for securities have declined to negligible proportions since October, 1983.

The stock market has three exchanges - Manila, Makati and Metropolitan but Metropolitan has not operated for some time. At the end of 1983, total market capitalization of the two exchanges was Pesos 18.2 billion and 200 companies were listed with Pesos 5.4 billion traded during the year. Since then, the market has fallen and trading activity now is drastically reduced with turnover in the first half of 1984 registering only ₱335 million compared to ₱1.13 billion in the same period last year.

The stock market has not been a significant source of funds as most corporations are closely held with little need, or desire to finance through public subscription. Also market conditions do not give companies attrative financing terms to raise equity capital and private investors are wary of a market that has demonstrated some highly speculative maneuvers.

12. Money Markets

The money market consists of the following:

- Interbank call money market
- CBCI's
- T-bills
- Promissory notes issued by Banks and quasi-banks (QB's)
- Repurchase agreement
- Certificates of assignments
- Certificates of participation
- Commercial papers issued by non-financial institutions without QB licenses.

The banks and non-quasi bank financial institutions participate in all these activities whilst corporations, institutional investors and individuals participate in all but the first three.

The size of the markets is listed in Tables 4-25, where it can be seen that the interbank call market and promissory notes market account for over 80% of the transactions.

13. Central Bank of the Philippines

As the nucleus of the country's banking system, the Central Bank of the Philippines monitors and regulates the activities of banks and other financial institutions in the country. Under its original charter, its main functions are:

- to maintain monetary stability
- to ensure preservation of the international value and convertability of the peso into other freely convertible currencies; and
- to promote a rising level of production, employment and income.

Moreover, it performs clearing functions and has custody of the commercial banks' reserves; acts as a financial adviser and fiscal agent to the government; and collects national revenue taxes.

Exchange Controls

In the 1950's, the Philippines pursued a strategy of Trade and Exchange controls. In the 1960's, the country opted for monetary and credit regulations in a free economy with an adjusted but fixed exchange rate. However, in the 1970's and up to the present, the controls being effected are through monetary and credit management, external debt management, and regulation of certain exchange transactions under a "controlled floating" currency.

E. TAX FACTORS

1. Tax Laws and Trends

The Philippine tariff system has undergone considerable changes over time, reflecting prevailing economic circumstances and government policies towards development.

A Tariff Reform Program (TRP) funded by a WB Structural Adjustment Loan was developed during 1978-1980. The TRP has scheduled tariff rate adjustments in five stages over the four-year period (1981-85) in order to cushion the adjustment pressure on industries. The change in structure is indicated broadly in Table 4.22.

Table 4.22
Distribution of Tariff Items by Rate

	Number of Tariff Items		
Tariff Level	Before TRP	1981	1982
Fee and Specific	3	3	3
5%	2	14	14
10%	319	380	334
20%	204	283	335

Tariff Level	Before TRP	1981	1982
30%	218	194	284
40%	5	87	100
50%	203	151	311
60%	-	59	-
70%	119	139	-
75%	-	2	-
80%	-	58	-
90%	-	29	-
100%	228	2	-
Total Tariff Level	1,301	1,403	1,403
Average Tariff Level	43%	34%	28%

Of some 1,400 tariff items, almost half will have their rates reduced, 1/3 will remain unchanged and the balance will have their rates increased. The overall effect has been to reduce the range to a maximum of 50% instead of the previous 100%. The average tariff was to fall from 43% in 1981 to 28% by 1985. Recent needs to adapt to the crisis, however, have resulted in the average rate rising again to around 37%.

Items were grouped into raw materials, intermediate goods and finished goods. Consumer goods remain the most highly protected group as is shown in the following guidelines rate table:

	Percentage
Raw Materials	
o locally produced	10 - 20%
o not locally produced	5 - 10%
Intermediate Goods	20 - 30%
Finished Goods	
o capital equipment and producer goods	20 - 30%
o consumer goods	40 - 50%

2. Types of Taxes

Taxation is resorted to as a main source of government revenue by which resources from the private sector are transferred to the public sector. As a source of revenue, close to three quarters of the government resources originate from taxes, the remaining quarter being distributed among commercial and administrative operations of the government, borrowing and miscellaneous income.

a) Corporate Income Tax

For domestic and foreign corporations engaged in trade or business within the Philippines, a corporate income tax is levied as follows:

- Corporation organized under Philippine laws are subject to income tax on net income received from all sources. The rate of tax are 25% for the first P100,000 of the taxable income; and 35% of net income exceeding P100,00.

- Non-resident Corporations. A foreign corporation not engaged in trade or business in the Philippines shall pay a tax equal to 35% of the gross income received during each taxable year from all sources within the Philippines.

- A resident foreign corporation is taxed at the same rate imposed on domestic corporations. The tax is applied on net income derived within the Philippines.

- Any profit remitted abroad by a branch to its head office shall be subject to a tax of 15%. Dividends declared by the subsidiary in favor of the holding company abroad are also subject to a tax of 35% unless otherwise reduced by a tax treaty. At present, the Philippines has tax treaties with Japan, Belguim, Denmark, Australia, United Kingdom, Sweden, Canada, France, Singapore, U.S., Thailand, Malaysia, Indonesia, New Zealand, and Pakistan.

b) Individual Income Tax

Every Filipino citizen, whether residing in the Philippines or abroad and every alien in the Philippines, having a gross income of P3,000 or more for the taxable year from sources within or outside the Philippines must file an income tax return. Citizens and resident aliens are taxed at graduated rates applied either on gross or net income depending on the type of income received. Compensation income arising from employer-employee relationships is taxed on gross amounts received. On the other hand, the tax on income, is applied on net income.

Non-resident aliens engaged in trade and business in the Philippines are taxed on the entire income received within the Philippines at the same rates imposed on citizens. A non-resident alien is deemed engaged in trade or business in the Philiipines if he stays therein for an aggregate period of more than 180 days during a calendar year. Citizens, resident aliens and non-resident aliens engaged in trade or business in the Philippines are allowed personal and additional exemption for dependents. Aliens employed by offshore banking units and by regional or area headquarters to multinationals are taxed at the rate of 15% of gross income from salaries, wages annuities, and other emoluments in the Philippines.

c) Withholding Income Taxes

Salaries, wages and other compensation arising from employer-employee relationships received by individuals are subject to final withholding tax creditable to the final asessment. The rate of withholding tax are based on the gross compensation received. Certain types of income payments to individual and corporations are likewise subject to creditable withholding taxes at rates depending on the entity which received the income payment.

d) Business Tax

Before any specific business can be lawfully pursued, a privilege tax must be paid. This tax is payable for every separate or distinct establishment to the place where business subject to the tax is conducted. Privilege taxes are classified into percentage taxes or fixed taxes. Percentage taxes include sales tax, contractor's tax, tax on brokers, banks, finance companies, insurance companies. The percentage tax is based on the gross selling price of articles sold in the case of other business subject to percentage tax. Business establishments not subject to percentage taxes are liable to fixed or graduated rates based on their gross annual sales during the preceding tax sales.

e) Municipal Tax

Business establishments are likewise subject to licenses or fees imposed by the municipality where the business operates. The municipal tax is usually based on the gross receipts during the preceding calendar year.

f) Residence Tax

Every inhabitant of the Philippines, 18 years of age and over who has been regularly employed on a wage and salary basis for at least thirty consecutive working days during any calendar year; or who is engaged in business or occupation; or who owns a real property with a aggregate assessed value of P1,000 or more is subject to an annual residence tax of P1 and an annual additional tax which in no case shall exceed P3,000. Every corporation, whether domestic or resident foreign, engaged in doing business in the Philippines is subject to an annual residence tax of P50 and an annual additional tax which, in no case, shall exceed P6,000.

g) Transfer Tax

Estate tax is imposed on the transfer of the deceased estate to his lawful heirs and beneficiaries based on the fair market value of the net estate at the time of the decedent's death. The taxable estate of the citizens of residential aliens includes real and personal properties, wherever situated. A non-resident decedent's taxable estate would include real and personal properties situated in the Philippines.

Donor's tax is imposed on the transfer of property by gift. The payable amount by the donor is based upon the fair market value of the total net gifts made by such donor during the calendar year.

h) Other Significant Taxes

Estate Tax - Real properties situated in the Philippines are subject to a real estate tax at rates depending on the location of the property. The rates, however, do not exceed 3% of the assessed value of the property.

Documentary Stamps Tax - All documents, instruments and papers, acceptances, assignments, sales and transfer of the obligation, right or property incident thereto are subject to documentary stamp tax. The amount of tax usually varies directly with the amount involved in the document.

Amusement Tax - A tax of 12% is imposed on gross receipts of cockpits, cabarets, night or day club; 10% on gross receipts of boxing exhibitions and professional basketball games and 20% on total receipts of Jai-Alai and race tracks. A tax of 10% is imposed on individual dividends or winnings in horse races or Jai-Alai and race tracks.

Overseas Communications Tax - A tax of 10% is imposed upon every overseas dispatch, messages of conversation transmitted from the Philippines by telephone, telegraph, telex, wireless and other communication equipment services on the amount paid for such services.

Energy Tax - The energy tax is an ad valorem tax based on a schedule of values of motor vehicles to be fixed by the Finance Minister. This tax has been recently increased.

Travel Tax - The tax is imposed on all citizens, permanent residing aliens, non-immigrant aliens who have stayed in the Philippines for more than one year, and Filipino citizens who are permanent residents of a foreign country, who have stayed in the Philippines for more than one year. This tax has also been recently increased.

Immigration Tax - Every alien over 16 years of age admitted to the Philippines for a stay exceeding 60 days shall pay a tax of P25. This shall be paid to the Immigration Officer at the time of entry.

i) Incentive and Grants

Persons who come to settle for the first time in the Philippines enjoy exemption from payment of compensating taxes and customs duties on their professional instruments and implements, tools of trade, wearing apparel, domestic animals and personal and household effects brought into the country. However, the aforementioned items should not be sold, bartered or exchanged within one year from date of importation in the country. If such items are sold, bartered or exchanged within one year, a written notice shall be sent to the Commissioner of Internal Revenue and payment of the corresponding compensation taxes and duties shall be made by the importer within 10 days from such sale, barter or exchange.

Enterprises registered with the Board of Investments (BOI) are granted tax and fiscal incentives. To qualify for registration for purposes of these incentives, the enterprise must be engaged in an activity listed under the Investment Priorities Plan issued by the BOI. An enterprise may be registered if at least 60% of its capital stock is owned by Filipino and at least 60% of the members of its board of directors are Filipinos. Although this law has been amended temporarily by PD1892 to allow 100% foreign investment during 1984.

Incentives take the form of deduction of organisational and pre-operating expenses, accelerated depreciation, net operational loss-carry, tax exemptions on importations of capital equipment, deductions for expansion or re-investment and deductions for labor-training expenses.

Incentives are also granted under other related laws to export-oriented companies operating in an export processing zone, construction companies with overseas operations and registered with the Overseas Construction Board, tourism enterprises registered with the Philippine Tourism Authority, enterprises engaged exclusively in overseas shipping and enterprises converting their oil-fired plant to coal and other forms of conventional energy.

3. Customs Duties, Tariffs and Taxes; Duty Drawbacks

All articles when imported from any foreign country into the Philippines, are subject to duty upon each importation, even previously exported from the Philippines.

4. General Tax Morality

It is not possible to derive the ratio of taxes collected to taxes due but it is generally accepted that collection is quite poor with perhaps as little as 25% of taxes due being actually collected.

This is an area of considerable concern to the government in its efforts to increase income. However, attempts to increase the rate of collection have not been successful to date although the current crisis may force a more aggressive collection activity. There have been a number of cases reported of tax collectors negotiating lower amounts with the taxpayer provided the agent receives a portion of the payment.

F. EXISTENCE OF FREE PORTS, FREE ZONES AND BONDED WAREHOUSES

1. Export Processing Zone Authority

The Export Processing Zone Authority (EPZA) was created to carry out the policy of the government to encourage and promote foreign commerce as a means of making the Philippines a center of international trade.

Capitalized by the government, EPZA exercises financial and operational autonomy in the conduct of its affairs. As a service - oriented organization, EPZA sees to it that all the various services and forms of assistance are available to zone enterprises. Simplification of system and the elimination of red tape is a continuing concern of the Authority. The EPZA Board of Commissioners is composed of senior officials from various ministries involved in investment trade and policies.

At present, the industry mix in the zones gives significant weight to labor intensive operations. The companies operating in the zones, represent investments from the United States, United Kingdom, Australia, Canada, Austria, Germany, France, Japan, Italy, Nationalist China, Korea, Malaysia, Norway, Singapore, Indonesia and Hongkong. Many of these foreign companies are in -joint partnership with Filipino counterparts.

a) Bataan EPZ

The Bataan EPZ is located at the Southern tip of the Bataan peninsula - 160 kilometers from Manila, or a 2 hour drive via a newly completed concrete and asphalt road. By hovercraft it is 1 hour by helicopter, it is a 25 minutes away. An airport in the zone makes it also accessible to small aircraft.

Facilities

The Bataan Export Processing Zone (BEPZ) was the first EPZ developed in the Philippines. Facilities available include:

- Utilities such as power, water, sewerage, telephone and telex lines.
- A pier capable of handling ocean-going vessels.
- Banking, shipping and professional offices located within the area.
- Housing facilities for executives, middle managers and rank and file.
- A 100-bed hospital equipped with facilities for major surgery, intensive care, and other fields of diagnostic and therapeutic medicine. Recreational facilities such as a 9-hole golf course, a 14 lane bowling alley, two movie houses, covered tennis courts, restaurants and a first class hotel.

Manpower for zone enterprises comes from the provinces' population of 306,000 and those from neighboring provinces.

b) Mactan EPZ

Metro Cebu is the second largest metropolis in the Philippines. The zone is adjacent to the Mactan International Airport and 14 kilometers from the Port of Cebu on the island of Mactan in Cebu province. By commercial jet, the site is one hour from Manila, and is serviced by daily flights of Philippine Air Lines.

Facilities

- There is a wide range of upper and middle class accommodation in nearby Metro Cebu.
- All major Philippine Banks, insurance companies, audit firms and service agencies have branches in Cebu.
- There are a number colleges and universities.
- Four of the principal hospitals in Metro Cebu are fully equipped to handle specialized medical services.
- Recreational facilities include golf courses, tennis courts, beach and sea resorts.

c) Baguio City EPZ

The Baguio City Export Processing Zone is located 5,000 ft. above sea level, in a mountain city known as the Philippines' summer capital. It is 250 Km. from Manila and can be reached in 4-5 hours by car. Philippine Air Lines maintains a twice-daily schedule of flights from Manila to Baguio City's Loakan Airport, which is adjacent to the zone.

The Baguio City EPZ is designed to cater to electronics and other high-technology operations requiring cooler weather. The temperature in Baguio City averages 19 C.

Facilities

- Housing, commercial and recreational amenities are plentiful.
- There are a number of schools which can meet the educational requirements of expatriates, whose

families will relocate to the site.

- Hospitals with good facilities offer medical and surgical services for most cases.

A large pool of English-speaking technical workers and professionals are also available. Educational institutions in the city turn out yearly a large number of highly educated manpower.

d) Tax Incentives

The Philippines has formulated a package of measures that make investment in an export processing zone advantageous to a foreign firm planning to expand its operations abroad.

- Tax and customs duty-free importation of machinery, equipment, raw materials, and operating supplies.
- Exemption from payment of export taxes.
- Exemption from payment of municipal and provincial taxes.
- Exemption from the payments of property tax on movable production equipment.
- Exemption from payment of contractor's tax on gross receipts of registered zone enterprises.
- Net operating loss incurred in any of the first 10 years of operation may be carried over as a deduction from taxable income for the six years immediately following the year of loss.
- Accelerated depreciation of fixed assets.
- Additional deduction from taxable income of half the value of labor training expenses but not exceeding 10% of direct labor wages.

- Deduction from taxable income of organizational and pre-operating expenses for a period of not more than 10 years.

- Tax credits on sales, compensating specific taxes and duties on local purchase of supplies and raw materials.

e) Other Advantages

Foreign Investment Guarantees - Repatriation of foreign investments and remittance of profit and dividends at any time in full at prevailing exchange rates.

Foreign Exchange - Priority in the allocation of foreign exchange for the importation of merchandise, equipment and raw materials.

Liberal Laws for the Entry of Investors - Fully foreign-owned or controlled enterprises are admissable into the zones. Foreign technicians may be employed in supervisory, technical or advisory positions within 5 years from registration of a zone enterprise and up to 5% of the firm's total personnel in each category.

Simplified Import-Export Procedures - Documentation and procedures assure release of all imports and exports within 48 hours.

f) Application and Registration Procedures

An application for registration including a Project Feasibility Study and other necessary documents should be filed with the Project Evaluation and Review Department (PERD) of the EPZA. The information and Promotion Department (IPD) of the EPZA shall assist applicant in completing the application form.

Evaluation of applicants by the PERD are based on two criteria :

1) Feasibility criteria based on management and marketing, technical and financial aspects.

2) Economic desirability criteria based on export or dollar-earning capacity, employment potential, tax generation and utilization of indigenous raw materials.

The PERD shall submit its recommendation to the EPZA Board, and if the application is approved, the applicant is given 20 days from the date of approval to sign the Registration Agreement with EPZA.

In 1980 the government, through the BOI, issued regulations releasing the restriction of bonded operations to EPZ's by instituting a Bonded Manufacturing Warehouse Concept.

G. LABOR FACTORS

1. Availability of Worker Skills

Availability of worker skills can be deduced from the Table 4. 23. The Philippines enjoys a reputation for having a relatively highly educated population, whether the measure is the ratio of total GNP; the proportion of the relevant age groups enrolled in secondary and higher education; the national literacy rate (83%); or the proportion of the active population aged 10 - 65 with at least five years of primary education (54.4%) with some college education '8%) and with completed education (4%). See Table 4. 25.

Table 4-23

Available Worker Skills

Field of Study	Tertiary Enrollment	Graduates
TOTAL	1,335,889	189,131
Collegiate	1,170,876	109,693
Agriculture	54,513	7,122
Chemistry	4,573	594
Commerce and Business Administration	473,396	38,109
Engineering and technology	229,002	18,382
Food and Nutrition	14,306	1,507
Law and Foreign Service	26,751	2,123
Arts and Sciences	84,411	10,618
Medical Science	125,971	17,712
Music and Fine Arts	9,982	778
Nautical Science	38,447	3,298
Teachers Training (education)	109,524	9,440
Masteral	28,544	1,959
Doctoral	2,452	232
Technical Vocational	134,017	77,247

Source: Ministry of Education, Culture and Sports.

Table 4.24

Professionals Who Passed the Board Examinations - 1982

Board/Bar Examination		1982
TOTAL		45,602
Agricultural Engineer		421
Architect		481
Bar		433
Certified Public Accountant		5,300
Chemical Engineer		670
Chemist		N/A
Civil Engineer		3,500
Contractor		N/A
Crimonology (unimplemented)		...
Customs Broker		179
Deck Officer (all grades)		4,751
Dentist		1,053
Dietician/Nutritionist		1,230
Electrical Engineer		2,255
Electronics and Communications Engineer		238
Engine Officer		3,831
Forester		229
Geodetic Engineer		328
Geologist		156
Master Plumber		58
Mechanical Engineer		2,456
Medicine (with Prelims)		1,513
Medical Technology		691
Metallurgical Engineer	(new)	14
Midwife		3,205
Mining Engineer		84
Naval Architect		10
Nurse		9,741
Optometry		246
Pharmacy		530
Physical Therapy/Occupational Therapy		8
Sanitary Engineer		106
Social Worker		1,305
Sugar Technology		-
Veterinarian		196

Source: Ministry of Education, Culture and Sports

In 1982 alone, the Philippines added to its number of professionals: 5,300 Certified Public Accountants; 3,566 Civil Engineers; 2,255 Electrical Engineers; 2,456 Mechanical Engineers; 9,741 Nurses etc. as presented in Table 4.24.

Table 4.25

Total Enrollment vs. School Age Population

	School Age Population (SAP)	Total Enrollment	As a % of SAP
Elementary	12,834,565	8,227,355	64.1 %
Secondary	5,353,867	1,766,874	51.68%
Tertiary	4,568,927	1,170,876	25.63%
T O T A L	22,757,359	12,165,105	53.46%

2. Degree of Skill, Discipline, Productivity

Within a span of almost three decades - from 1965 to 1982 - the labor force of the Philippines increased by almost eight million. Labor force participation remained almost static from 1965 to 1975, followed by a slight deterioration towards 1982, as evident in Table 4.26

Table 4.26

Employment Status and Labor Force Participation Rate
in the Philippines: 1965 to 1982
(number of persons in the labor force in thousands)

Year	Total Labor Force	Labor Force participation rate %
1965	10,764	53.1
1966	11,757	55.1
1967	11,776	54.7
1968	11,371	49.6
1969	12,046	52.0
1970	.....	....
1971	13,241	50.2
1972	13,294	48.4
1973	14,559	50.4
1974	14,283	49.7
1975	15,161	51.0
1976	15,018	60.5
1977	14,994	57.6
1978	17,363	63.9
1979	16,945	61.4
1980	17.705	61.4
1981	18,464	67.5
1982	18,602	60.5

The latest national statistics (fourth quarter of 1978) show that the majority of the people are employed in the agricultural sector as shown in Table 4.27. It can also be gleaned from the same table that the bulk of the agriculture workers are found in the rural areas. The next largest occupation groups are production and realted workers, transport equipment operators and laborers, followed by sales workers and service workers. It can be further noted that in the Metropolitan Manila are, most employed persons are connected with manufacturing and community social and personal services.

Table 4.27

Employed Persons by Major Industry and
By Major Occupation Groups by Region
Fourth Quarter, 1978
(In Thousands)

Major Industry/ Occupation Group	Total	Metropolitan Manila Area	Rural Area
Agriculture, fishery and forestry	8,702	20	8,682
Mining & quarrying	67	4	63
Manufacturing	1,916	567	1,349
Electricity, gas and water	55	19	36
Construction	480	102	378
Wholesale & retail trade	1,745	280	1,465
Transportation, storage and communication	681	179	502
Finance, insurance, real estate and business services	308	153	155
Community, social and personal services	2,660	680	1,980
Activities not adequately defined	54	9	45
TOTAL INDUSTRY	16,668	2,014	14,654

Major Industry/ Occupational Groups	Total	Metro Manila Area	Rural Area
Profession, technical and related workers	952	219	733
Administrative, executive and managerial workers	172	86	86
Clerical & related workers	665	269	369
Sales workers	1,759	281	1,478
Service workers	1,271	369	902
Agriculture & animal husbandry & forest workers, fishermen and hunters	8,665	19	8,646
Production and related workers, transport and equipment operators and laborers	3,147	769	2,378
Occupation not adequately defined	37	2	35
TOTAL OCCUPATION	16,668	2,014	14,654

3. Degree of Labor Voice in Management, Trends and Pending Legislation in this Respect

Labor has been encouraged to form unions, generally on a sectoral scale, and most multinationals and larger Filipino companies are unionized. However, a significant number of large companies and the greater majority of medium and small companies are not.

On an individual basis (without unions), labor has little say in the management of the company. Where unions are organized, the union can, and does negotiate quite strongly for the wages and benefits of employees. However, they have little say in the operations of the company or the formulation of policy. Wage and benefit packages are normally negotiated for a three year term with incremental increases each year.

In order to press wage and benefit demands in the tri-annual negotiations (collective bargaining agreement - CBA) strikes can be resorted to on one month's notice to the Bureau of Labor Relations (BLR) of the Ministry of Labor and Employment (MOLE). The number of notices of strikes filed from January to July 31, 1984 at the BLR has reached 236. In the preceeding years, 1980, 1981, 1982 and 1983, there have been 276, 592, 495 and 443 notices of strikes recorded.

This year, strikes have abated due to the generally poor economic conditions, massive lay-offs and consequent fear of job loss, although the lay-offs have triggered a few lengthy strikes in sympathetic support of the laid-off workers.

It is anticipated that there could be a rash of strikes in the next 1 - 3 months due to external aggravation but thereafter there should be a fairly long period of relative calmness as employees seek to retain their jobs, and companies strive to survive.

4. Freedom to Hire and Fire

The labor and social laws which apply to all workers are contained in the Labor Code of the Philippines. Its basic policy is to provide protection to labor, promote full employment, ensure equal work opportunities regardless of sex, race or creed, and regulate the relations between workers and employers.

Recruitment and placement of workers for others may be undertaken by public employment offices and licensed or authorized private employers who are bound by certain rules and restrictions.

The provisions for termination of an employee are as follows:

- The closing or cessation of operation of the establishment or enterprises, or where the employer has to reduce his workforce by more than one-half (1/2) due to serious business reverses;
- Gross and habitual neglect by the employee of his duties;
- Fraud or willful breach by the employee against the person of his employer or any immediate member of his family or representative; and
- Other causes analogous to the foregoing.

The services of an employee who has been engaged on a probationary basis may be terminated for just cause or when he fails to qualify as a regular employee in accordance with reasonable standards made known by the employer at the time of his engagement.

The termination of employment of any employee due to the installation of labor saving devices, redundancy retrenchment to prevent losses and other similar causes, shall entitle the employee affected to separation pay.

5. General Labor Peace Situation

The labor situation has been generally peaceful, even after the suspension of the ban on labor strikes as a consequence of the lifting of martial law in January 1982. Approximately 30% of the working population are unionized and existing labor unions are generally non-militant in nature. There have been violent outbursts in a few strikes and reports have concluded that these were caused by the infiltration of radical elements or possibly military aggravation. However, there is no concrete evidence to this contention.

Compared with the labor strikes before the proclamation of martial law, present-day strikes are quieter, more peaceful and generally more effective. Generally, the strikes in the 1980's have been resolved through a fair compromise between the employers and the employees.

H. Geographical Factors

1. Availability of Raw Materials Locally

The Philippines has a number of natural resources providing basic agricultural and industrial requirements, principal amongst these are:

1. Various food crops, principally rice, sugar,, corn, coconut, rootcrop, fruits and vegetables.
2. Agricultural products for industry, such as tobacco, abaca, cotton.
3. Aquaculture products - fish, shellfish, prawns, crabs and lobster.
4. Livestock - mostly poultry and pork with lesser amounts of beef and buffalo beef.

5. Forestry products - mostly soft wood

6. Mineral resources - principally copper, nickel, gold and silver.

However, for most industries the raw materials needed for production must be imported as the processing facilities to convert basic materials to usable raw materials are not in-site. Almost every product produced in the Philippines has same imported component which makes self-sufficiency extremely difficult.

2. Marketing, Distribution Methods, Facilities

As detailed earlier, the multitude of islands poses considerable problems for efficient, low cost distribution.

Principal modes of distribution are via truck within the islands, particularly Luzon and by ship or plane between islands. Rail is restricted to a small corridor on Luzon and carries a relatively small volume of cargo.

Distribution of consumer goods is generally accomplished by the manufacturers themselves, through national distributors or through a selected group of regional distributors/wholesalers.

Retailers sale is handled through department stores and supermarkets in the main cities and "sari-sari" (cornershop) stores throughout the country.

Major industrial products are generally handled by national distributors who either have branch offices in key regional cities or appoint sub-distributors in those locations. Hardware, construction materials etc. at the retail level are most frequently distributed by local hardware stores with only a small number of them having more than one outlet.

3. Geographic Distribution of the Domestic Market

The domestic market for both durable and non-durables is concentrated in Metro Manila and the lay cities (principally Cebu, Davao, Baguio, Bacolod, Cagayan de Oro, Iloilo, Zamboanga etc.). These cities probably account for over 70% of the consumption of consumer products, particularly durables.

The island nature of the country compounds the problem of making distribution difficult and expensive. The absence of good quality roads in many provincial areas and the remoteness of many villages restricts the accessibility of a large percentage of the provincial population to the marketplace.

4. Proximity To Suppliers, Customers

The Philippines being centrally located in South East Asia finds access to sources of supply of most raw materials needed for production. The bulk of imported materials come from Japan, Taiwan, Korea and the United States. Ships (and planes) maintain frequent services from these locations to Manila, and to a smaller extent, Cebu.

Similarly, export markets are readily supplied through the same sea and air services.

APPENDIX A

LIST OF GOVERNMENT ENTITIES

OFFICE OF THE PRESIDENT

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
1. Board of Energy		
2. Board of Liquidators		
3. Board of Review for Motion Picture and Television		
4. Central Bank of the Philippines	4.1 Industrial Guarantee and Loan Fund	
	4.2 Philippine International Convention Center	
5. Commission of Filipinos Overseas		
6. Gintong Alay Foundation Incorporated		
7. National Cartography Authority		
8. National Dendro Development Corporation		
9. National Electrification Administration		
10. National Fertilizer Corporation of the Philippines		
11. National Kidney Foundation		
12. National Manpower and Youth Council		
13. National Science and Technology Authority	13.1 Food and Nutrition Research Institute (FNRI)	
	13.2 Forest Products Research and Industries Development Institute (FPRIDI)	
	13.3 National Academy of Science and Technology (NAST)	
	13.4 National Institute of Science and Technology (NIST)	
	13.5 National Research Council of the Philippines (NRCP)	
	13.6 Philippine Energy Atomic Commission	
	13.7 Philippine Council for Agricultural and Resources Research and Development (PCARRD)	
	13.8 Philippine Institute of Volcanology (PIV)	
	13.9 Philippine Invention Development Institute (PIDI)	
	13.10 Science Foundation of the Philippines	

Government Entities	Subsidiaries — 1st Level	Subsidiaries — 2nd Level
14. National Reinsurance Corporation of the Philippines		
15. Pambansang Katipunan ng Kabataang Barangay ng Pilipinas		
16. Philippine Amusement and Gaming Corporation		
17. Philippine Convention Bureau (PCB)		
18. Philippine Commission for the International Youth Year		
19. Philippine Gamefowl Commission		
20. Philippine National Steel Corporation		
21. Philippine Racing Commission (PRC)		
22. Science Promotion Institute		
23. Central Tender Board		

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NATIONAL ECONOMIC DEVELOPMENT AUTHORITY

Government Entities	Subsidiaries 1st Level		Subsidiaries 2nd Level	
1. Bicol Development Project				
2. Bicol River Basin Development Program				
3. Cagayan Integrated Agricultural Development Office				
4. CEPOC Industries Incorporated				
5. Committee on Transport Planning				
6. Cotabato-Agusan River Basin				
7. Development Bank of the Philippines (DBP)	7.1	Associated Bank		
	7.2	Century Holding Company (shared equally by Philippine National Bank, Development Bank of the Philippines, Government Service Insurance System, Social Security System, Land Bank of the Philippines	7.2.1	Century Bank of Los Angeles
	7.3	Development Bank of the Philippines Data Center		
	7.4	Development Bank of the Philippines Management Corporation		
	7.5	Hotel Development Corporation		
8. Development Budget Coordinating Committee				
9. Government Service Insurance System (GSIS)	9.1	Commercial Bank of Manila		
	9.2	GSIS Realty and Development Corporation		
	9.3	Hotel Enterprises of the Philippines		
	9.4	Manila Hotel Corporation		
	9.5	Meat Packing Corporation		
	9.6	Philippine Airlines		
10. Investment Coordinating Committee				
11. Kalinga Special Development Region				
12. Laguna de Bay Development Coordinating Council				
13. Laguna Lake Development Authority				
14. Leyte Sub-A Basin Authority	14.1	Basin Dredging and Development Authority		
	14.2	Eastern Visayas Resource Trading Corporation		
	14.3	East Visayas Agriculture Project, Incorporated		
	14.4	Philippine Rural and Development Corporation		
15. Mindoro Integrated Rural Development Office				

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Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
16. National Census and Statistics Office		
17. National Land Use Committee		
18. National Productivity Commission		
19. National Tax Research Center		
20. Palawan Integrated Area Development Program Office		
21. Philippine Center for Economic Development		
22. Philippine Deposit Insurance Corporation		
23. Philippine Institute for Development Studies		
24. Philippine National Bank	24.1 Altavilte Resorts Development Corporation	
	24.2 Central Azucarera del Danao	
	24.3 Coco-Chemical Philippines Incorporated	
	24.4 Construction Development Corporation of the Philippines (now Philippine National Construction Corporation)	
	24.5 Delta Motors Corporation	
	24.6 National Investment and Development Corporation (NIDC)	24.6.1 Licolandia Sugar Development Corporation
		24.6.2 National Realty Development Corporation
		24.6.3 National Sugar Development Corporation
		24.6.4 National Warehouse Corporation
		24.6.5 Pantranco North Express Incorporated
		24.6.6 Philippine Shipyard Engineering Corporation
	24.7 National Service Corporation	
	24.8 NIDC Oil Mills	
	24.9 Pilipinas Bank	
	24.10 Philippine Exchange Company	
	24.11 PNB International Finance	
	24.12 PNB Venture Capital Corporation	
25. Philippine National Volunteer Service Coordinating Agency		
26. Philippine Veterans Bank	26.1 Vetgroup Intervest Projects Incorporated	
	26.2 Western Palawan Lumber Corporation	

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Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
27. Public Estate Authority		
28. Samar Integrated Rural Development Office		
29. Social Security System	29.1. Integrated Bar of the Philippines	
	29.2 Union Bank	
30. Statistical Advisory Board		
31. Sales Development Company		
32. Tariff Commission		

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MINISTRY OF LABOR AND EMPLOYMENT (MOLE)

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Employees Compensation Commission		
2. Institute of Labor and Manpower Studies		
3. National Labor Relations Commission		
4. National Wages Council		
5. Philippine Overseas Employment Administration		
6. Welfare Fund for Overseas Workers		

MINISTRY OF HUMAN SETTLEMENT

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Culion Committee		
2. Cultural Center of the Philippines (CCP)	2.1 National Artists Awards Fund	
	2.2 Philippine High School for the Arts	
3. Environmental Center of the Philippines		
4. Food Terminal, Incorporated (FTI)		
5. Home Development Mutual Fund (HDMF)		
6. Home Financing Corporation (HFC)	6.1 Maunlad Savings and Loan Association	
7. Human Settlement Development Corporation (HSDC)	7.1 Alpombras Manuales Filipinas, Incorporated	
	7.2 Bliss Development Corporation	
	7.3 Bliss Marketing Corporation	
	7.4 Builders' Buch, Incorporated	
	7.5 Corfoods, Incorporated	
	7.6 Recto Central Park Development Corporation	
	7.7 Wood Waste Utilization and Development Corporation	
8. Human Settlement Regulatory Commission (HSRC)		
9. KKK Processing Center Authority		
10. KKK Marketing Coordination Center		
11. Lung Center of the Philippines		
12. Lungsod ng Kabataan Children's Hospital (LKCH)		
13. Markets Infrastructure Development Council		
14. Musuem of Philippine Costumes		
15. National Artists Awards Committee		
16. National Commission on the Role of Filipino Women		
17. National Committee on the Rehabilitation	17.1 Program for Moro National Liberation Front (MNLF)	
18. National Environmental Protection Council		
19. National Food Authority	19.1 Grains Insurance Agency Corporation (GRAIN SCOR)	
	19.2 Philippine Fund Marketing	
	19.3 Quedan Guarantee Fund Board	
20. National Housing Authority (NHA)		
21. National Housing Corporation (NHC)		
22. National Home Mortgage Finance Corporation		
23. National Parks Development Committee		
24. National Pollution Control (NPC)		

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Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
25. National Post Harvest Institute for Research Extension		
26. Nayong Pilipino Foundation, Incorporated		
27. Pagkain ng Bayan National Advisory Council		
28. Philippine Dendro Gasifier Corporation		
29. Philippine Human Resource Development Center		
30. Rural Waterworks Development Corp Corporation		
31. Sacobia Development Authority		
32. Southern Philippines Development Authority (SPDA)	32.1 Integrated Feed Mills Corporation (IFMC)	
	32.2 Marawi Resort Hotel, Incorporated	
	32.3 Mindeva Coco Coir Industries, Incorporated	
	32.4 Mindeva Refrigeration Industries, Incorporated	
	32.5 Monte Maria Poultry Farms, Incorporated (MMPFI)	
	32.6 Panaon Praun Development Corporation	
33. Technology Resource Center (TRC)	33.1 Peoples Livelihood Enterprises, Incorporated	
	33.2 Peoples Technology Terminal Corporation	
	33.3 Technology Management Development Corporation	
34. University of Life		
35. Urban Land Reform Coordinating Council		

MINISTRY OF AGRARIAN REFORM

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
1. Agrarian Reform Coordinating Council	2.1 Agricultural Credit Administration	
2. Land Bank of the Philippines ✓	2.2 Agro-Industrial and Commercial Corporation	
	2.3 ASEAN Finance Corporation	
	2.4 First Consolidated Rural Bank of Bohol	
	2.5 Land Bank of the Philippines Educational Foundation, Incorporated	
	2.6 Land Bank of the Philippines Insurance Brokerage, Incorporated	
	2.7 Land Bank of the Philippines Leasing Corporation	
	2.8 Lumang Bayan Realty Development Corporation	
	2.9 Masaganang Samahan Incorporated	
	2.10 Philippine Commercial and Industrial Bank (PCIB)	
	2.11 Philippine Clearing House	
	2.12 Philippine Investment Systems Organization (PISO) Bank	
	2.13 PISO Leasing	
	2.14 Talavera Nueva Ecija Single Business Unit Project	
	2.15 Union Bank (also under SSS)	
	2.16 VIBES - Venture Capital/ Equity Financing	

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MINISTRY OF FINANCE

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Central Board of Assessment Appeals		
2. Export Credit Corporation		
3. Gold Mining Industry Assistance Board (GMIAB)		
4. Insurance Commission		
5. Philippine Amanah Bank (PAB)		
6. Philippine Crop Insurance Corporation		
7. Philippine Export and Foreign Loan Guarantee Corporation		
8. Revenue Information Systems Services, Incorporated		
9. Securities and Exchange Commission		

MINISTRY OF TRANSPORTATION AND COMMUNICATIONS

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Board of Transportation		
2. Communications and Electricity Development Authority		
3. Light Rail Transit Authority		
4. Manila International Airport Authority		
5. Maritime Industry Authority		
6. Metro-Manila Transit Corporation		
7. Office of Transportation Cooperative		
8. Philippine Aerospace Development Corporation	8.1 National Aero Manufacturing Corporation	
	8.2 Philippine Aero Transport, Incorporated	
	8.3 Philippine Aero Services, Incorporated	
	8.4 Philippine Helicopter Services, Incorporated	
	8.5 Philippine Resource Helicopter Incorporated	
9. Philippine National Lines	9.1 Philippine Leasing Corporation	
10. Philippine National Railways		
11. Philippine Ports Authority		
12. Toll Regulatory Board		

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MINISTRY OF PUBLIC WORKS AND HIGHWAYS

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Central Luzon - Cagayan Valley Authority		
2. Farms Systems Development Corporation	2.1 Gasifier Equipment Manufacturing Corporation	
3. Local Water Utilities Administration		
4. Metro-Manila Flood Control and Drainage Council		
5. Metropolitan Waterworks and Sewerage System		
6. National Irrigation Administration		
7. National Water Resources Council		
8. Pasig River Development Council		

MINISTRY OF TRADE AND INDUSTRY

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
✓1. Board of Investment		
2. Cement Industry Authority		
3. Commission on Export Procedures		
4. Commission for Heavy Engineering Industries		
5. Construction Industry Authority of the Philippines		
6. Design Center Philippines		
7. Export Processing Zone Authority		
8. Garments and Textiles Exports Board		
9. Iron and Steel Authority		
10. Metals Industry Research and Development Center (MIRDC)	10.1 MIRDC Testing Foundation of the Philippines	
11. National Cottage Industries Development Authority		
12. National Development Corporation (NDC)	12.1 Acoje Mining Corporation	
	12.2 Air Mindanao	
	12.3 Association of Southeast Asian Nations (ASEAN) Bintulu Fertilizer Sendirian Berhad	
	12.4 ASEAN Philippine Copper Molding, Incorporated	
	12.5 Asia Industries, Incorporated	
	12.6 Batangas Land Company, Incorporated	
	12.7 Beta Electric Corporation	
	12.8 CDCP Farms Corporation	
	12.9 Cellophil Resources Corporation	
	12.10 Cellulos Processing Corporation	
	12.11 Consolidated Terminals, Incorporated	
	12.12 Construction Manpower Development Corporation	
	12.13 Dasmariñas Estate Development Corporation	
	12.14 Farm Machinery Corporation	

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Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
	12.15 Filipino Construction International Corporation	
	12.16 First Chicago Leasing Corporation	
	12.17 Good Year Real Estate Incorporated	
	12.18 Herditex Mills, Incorporated	
	12.19 Hydro Resources Contractor Corporation	
	12.20 Industrial Tree Plantation	
	12.21 International Corporate Bank	
	12.22 Kamayan Realty Corporation	
	12.23 Koppel Incorporated	
	12.24 Luzon Stevedoring Corporation	
	12.25 Manila Land Corporation	
	12.26 Manila Gas Corporation	
	12.27 Marina Properties Corporation	
	12.28 Mindanao Textiles Corporation	
	12.29 Multi-Natural Resources and Drilling Corporation	
	12.30 Nadeco Realty Corporation	
	12.31 National Galleon Shipping Corporation	
	12.32 National Precision Cutting Tools Incorporated	
	12.33 National Rattan Corporation	
	12.34 National Steel Corporation (NSC)	12.34.1 Iligan Shipping Corporation
		12.34.2 Iron and Steel Corporation of the Philippines
		12.34.3 NSC Shipping Corporation
		12.34.4 NSC Trading Corporation
		12.34.5 Pasig Steel Corporation
	12.35 NDC Guthrie Estates, Incorporated	
	12.36 NDC Guthrie Plantations, Incorporated	
	12.37 NDC Holding Company	
	12.38 NDC-NACIDA Raw Materials Corporation	
	12.39 NDC-Shell (Billiton) Mineral Investment Corporation	
	12.40 Negros Occidental Copper-field Mines	
	12.41 Philippine Associated Smelting and Refinery (PASAR)	

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
	12.42 Paper Industries Corporation of the Philippines	
	12.43 Pinagkaisa Realty Corporation	
	12.44 Philippine Cellophane Films Corporation	
	12.45 Philippine Dockyard Corporarion	
	12.46 Philippine Phosphate Fertilizer Corporation	
	12.47 Philippine Plate Mills Corporation	
	12.48 Refractories Corporations of the Philippines	
	12.49 Resort Hotels	
	12.50 San Jose Oil Company, Incorporated	
	12.51 Seafront Petroleum and Mineral Resources	
	12.52 Semirara Coal Corporation	
	12.53 Summa Insurance Corporation	
	12.54 The Energy Corporation	
	12.55 Tierra Factors, Incorporated	
	12.56 Transcon Contractors Corporation	
	12.57 Usiphil Corporation	
	12.58 Venture Capital Corporation	
	12.59 Vulcan Industrial and Mining Corporation	
13. Philippine Cement Manufacturing Corporation		
14. Philippine Cement Industry Authority		
15. Philippine International Trading Corporation	15.1 Center for International Trade Exposition and Missions	
	15.2 Philippine International Development Corporation	
16. Philippine Shippers Council		
17. Philippine Textile Research Institute		
18. Philippine Trade Exhibits		
19. Presidential Advisory Committee on the Copper Industry		
20. Price Stabilization Council		
21. Technology Transfer Board		

MINISTRY OF NATURAL RESOURCES

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Fishery Industry Development Council		
2. Forest Research Institute		
3. Mineral Reservations Development Board		
4. National Board on the SEAFDEC Aquaculture Department Program, Budget and Operations		
5. National Committee on Geological Sciences		
6. National Council for Forest Ecosystem Management		
7. Natural Resources Development Corporation		

MINISTRY OF ENERGY

Government Entities	Subsidiaries 1st Level		Subsidiaries 2nd Level	
1. Alcohol Commission				
2. Center for Non-Conventional Energy Development				
3. Emergency Petroleum Operations Board				
4. National Coal Authority				
5. National Power Corporation				
6. Philippine National Oil Company	6.1	Bataan Refining Corporation		
	6.2	Filoil Refinery Corporation	6.2.1	Filoil Industrial Estate Incorporated
	6.3	Malayan Coal Corporation		
	6.4	Petrophil Corporation		
	6.5	Petrophil Tanker's Corporation		
	6.6	Petron TBA (Tires, Batteries and Accessories) Corporation		
	6.7	PNOC Coal Corporation		
	6.8	PNOC Crude Oil Tankers, Incorporated		
	6.9	PNOC Alcohol Corporation		
	6.10	PNOC Energy Drilling, Incorporated		
	6.11	PNOC Enercon Corporation		
	6.12	PNOC Energy Supply Base, Incorporated		
	6.13	PNOC Energy Development Corporation		
	6.14	PNOC Exploration Corporation		
	6.15	PNOC Geothermal Technology, Incorporated		
	6.16	PNOC Marine Corporation		
	6.17	PNOC Oil Carriers, Incorporated		
	6.18	PNOC Petroleum Tankers, Incorporated		
	6.19	PNOC Petrochemical Development Corporation		
	6.20	PNOC Petroleum Carriers Corporation		
	6.21	PNOC Shipping and Transport Corporation		
	6.22	Petron Tanker's Corporation		
	6.23	Petrophil Tanker's Corporation		

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MINISTRY OF AGRICULTURE

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
1. Coconut Investment Company		
2. Cooperative Development Loan Fund		
3. Fertilizer and Pesticide Authority		
4. Fiber Development Authority		
5. Green Revolution Expanded Program Action Committee		
6. Livestock Development Council		
7. National Artificial Rain Stimulation Committee		
8. National Food and Agriculture Council		
9. National Governing Board of the Philippines	9.1 Training Centers for Rural Development	
10. National Meat Inspection Commission		
11. National Nutrition Council		
12. National Stud Farm		
13. Palayan ng Bayan		
14. Philippine Agricultural Training Council		
15. Philippine Coconut Authority (PCA)		
16. Philippine Cotton Corporation		
17. Philippine Dairy Corporation (PDC)		
18. Philippine Stud Farm (PSF)		
19. Philippine Sugar Commission (PHILSUCOM)	19.1 Guimaras Bulk Sugar Installation	
	19.2 National Sugar Trading Corporation (NASUTRA)	
	19.3 National Sugar Refinery Corporation	
	19.4 Panay Railways, Incorporated	
	19.5 Philippine Sugar Corporation	
	19.6 Republic Planters Bank	
	19.7 Republic Sugar Development Corporation	
	19.8 Republic Transportation and Shipyard Corporation	
20. Philippine Tobacco Research and Training Center (PTRTC)		
21. Philippine Tobacco Administration (PTA)		
22. Philippine Virginia Tobacco Administration		
23. Philippine Virginia Tobacco Board		
24. Presidential Committee on Agricultural Credit		

MINISTRY OF NATIONAL DEFENSE

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
1. National Computer Center	1.1 National Computer Institute	
2. National Police Commission		
3. Philippine Expeditionary Forces to Korea (PEFTOK) Investment and Development Corporation		
4. Philippine Veterans Assistance Commission (PVAC)		
5. Philippine Veterans Investment Development Corporation (PHIVIDEC)	5.1 Cebu Veteran Port Services, Incorporated	
	5.2 Marikina Plaza Agora, Incorporated	
	5.3 PHIVIDEC Construction and Development Corporation	
	5.4 PHIVIDEC Foundation, Incorporated	
	5.5 PHIVIDEC Industrial Authority	
	5.6 PHIVIDEC Panay Agro Corporation	
	5.7 Sea Ranch Corporation	
6. Veterans Federation of the Philippines		

MINISTRY OF TOURISM

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Civil Aeronautics Board		
2. Council on Tourism Information		
3. Experimental Cinema of the Philippines		
4. Philippine Commission on the Promotion and Development of Sports Scuba Diving		
5. Philippine Tourism Authority		

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MINISTRY OF EDUCATION, CULTURE AND SPORTS

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Bicol University		
2. Boy Scouts of the Philippines		
3. Bukidnon State Colleges		
4. Bulacan Colleges of Arts and Trade		
5. Cotton Research and Development Institute (CRDI)		
6. Cagayan State University		
7. Catanduanes State College		
8. Cebu State Colleges		
9. Central Luzon Polytechnic College		
10. Central Luzon State University		
11. Central Mindanao University		
12. Chartered State Colleges and Universities		
13. Childrens Educational Foundation Village		
14. Don Honorio Ventura College of Arts and Trades		
15. Don Mariano Marcos Memorial Polytechnic State Colleges		
16. Don Mariano Marcos Memorial - State University		
17. Don Severino Agricultural College		
18. Educational Assistance Policy Council		
19. Educational Development Projects		
20. Eulogio "Amang" Rodriguez Institute of Science and Technology		
21. Girl Scouts of the Philippines		
22. Iloilo State College of Fisheries		
23. Instructional Materials Corporation		
24. Isabela State University		
25. Leyte Institute of Technology		
26. Leyte State Colleges		
27. Mariano Marcos State University		
28. Mindanao State University		
29. Mountain State Agricultural College		
30. Music Promotion Foundation of the Philippines		
31. National Board for Teachers		
32. National Educational Loan Assistance Center		
33. National Research and Development Center for Teacher Education		
34. National Scholarship Center		
35. National Social Action Council		
36. National Youth and Sports Development Foundation of the Philippines		
37. National Maritime Polytechnic		
38. Nueva Vizcaya State Institute of Technology		

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Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
39. Naval Institute of Technology		
40. Pablo Borbon Memorial Institute of Technology		
41. Palawan National Agricultural College		
42. Palawan Teacher's College		
43. Palompon Institute of Technology		
44. Pamantasan Lungsod ng Maynila		
45. Pampanga Agricultural College		
46. Pangasinan State University		
47. Philippine Merchant Marine		
48. Philippine Science High School		
49. Polytechnic University of the Philippines		
50. Population Education Program Unit		
51. Professional Boards		
52. Rizal Technological College		
53. Samar State Polytechnic College		
54. Southern Luzon Polytechnic College		
55. Tarlac College of Agriculture		
56. Tarlac College of Technology		
57. Technological University of the Philippines		
58. Textbook Council		
59. University of Eastern Philippines		
60. University of Northern Philippines		
61. University of the Philippines System		
62. University of the Philippines - Los Baños		
63. University of Southern Mindanao		
64. University of Southern Philippines		
65. Visayas States College of Agriculture		
66. West Visayas State College		
67. Western Mindanao State University		
68. Western Visayas Colleges of Fisheries		

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MINISTRY OF SOCIAL SERVICES

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Commission on Population		
2. Council for the Welfare of Children		
3. National Commission Concerning Disabled Persons (NCCDP)		
4. Philippine Charity Sweepstakes Offices		
5. Philippine National Red Cross		

MINISTRY OF LOCAL GOVERNMENT

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Barangay Brigade Development Program Office		
2. Barangay Roads Development Program Office		
3. Inter-Agency Committee for National Government Aid to Local Government Units		
4. Joint Commission on Local Government Personnel Administration		
5. Katipunan ng mga Sanggunian National Secretariat		
6. Pambansang Katipunan ng mga Punong Bayan sa Pilipinas Office		
7. Lupong Tagapagpaganap Secretariat		
8. Management Information Systems Office		
9. National Barangay Operations Office		
10. National Secretariat Paglilingkod sa Bagong Lipunan		
11. Operations Monitoring and Support Office		

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MINISTRY OF HEALTH

Government Entities	Subsidiaries 1st Level	Subsidiaries 2nd Level
1. Dangerous Drugs Board		
2. Dr. Jose Fabella Memorial Hospital		
3. Dr. Jose Reyes Memorial Hospital and Medical Center		
4. National Cancer Control		
5. National Childrens Hospital		
6. National Mental Hospital		
7. National Orthopedic Hospital		
8. Philippine Heart Center for Asia (PHCA)		
9. Philippine Medical Care Commission		
10. San Lazaro Hospital		
11. Tondo Medical Center		
12. Schistosomiasis Control Council		

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MINISTRY OF FOREIGN AFFAIRS

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
1. Board of Foreign Service Examiners		
2. Committee on State Visits		
3. Foreign Service Institute		
4. Philippine - United States Business Development Council		
5. Technical Assistance Council		
6. UNESCO National Commission of the Philippines		

CONSTITUTIONAL BODIES

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
1. Civil Service Commission	1.1 Career Executive Service Board	
	1.2 Developm ent Academy of the Philippines	

OFFICE OF BUDGET MANAGEMENT

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
1. Procurement Service Council		

OFFICE OF MEDIA AFFAIRS

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
1. National Media Production Center		

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OFFICE OF MUSLIM AFFAIRS

Government Entities	Subsidiaries: 1st Level	Subsidiaries: 2nd Level
1. Philippine Pilgrim Authority		

APPENDIX B

GOVERNMENT'S 10-POINT PROGRAM FOR RECOVERY

I. FINANCIAL STABILITY

A. Allocation of Financial Resources

1. Stricter Credit Program
2. Flexible Exchange and Interest Rates
3. Control Government Spending

B. Generate Foreign Exchange

1. Increase Exports (Services, Non-Traditional, Agro)
2. Diversify Sources of Foreign Loans/Investments
3. Promote Tourism

C. Improve Debt Management

1. Adopt Debt Management Strategy
2. Better Utilize Development Assistance
3. Improve Institutional Arrangements for Efficient Use of Foreign Exchange

D. Develop and Strengthen Financial System

1. Merger and Consolidation
2. Longer Term Spending
3. Regional Dispersal
4. Strengthen Supervision and Control of Government Financial Institutions
5. Develop Capital Market

E. Improve Revenue Generation and Administration

1. Reform Revenue Collection Agencies
2. Redistribute Tax Burden (Ability to Pay)
3. Intensify Non-tax Revenue Generation by Government Corporations, National and Local Governments and Social Security Institutions
4. Minimize Subsidies and Incentives and Rationalize on Basis of Performance
5. Shift Emphasis in Financing Development from Foreign Borrowings to Domestic Resource Mobilization

II. LOAN STRUCTURING

A. Reschedule and Restructure Maturing Foreign Obligations

B. Provide Needed Foreign Exchange Resources

III. BALANCED AGRO-INDUSTRIAL DEVELOPMENT

A. Expand Powers and Scope of Ministry of Agriculture and Food

B. Mobilize Ministries of Agrarian Reform and Natural Resources for Productivity Effort

C. Reform Agricultural Sector

1. Gradual Lifting of Price Ceilings
2. Removal of Market Interventions Affecting Key Products
3. Develop Self-Sufficiency in key Products
4. Legislation to Strengthen Land Use Management and Control, Environment Protection
5. Legislation to Dismantle Excessive Regulations Affecting Various Aspects of Agricultural Production, Marketing and Distribution

IV. STRUCTURAL ADJUSTMENT

A. Develop World Competitive and Agro-Based Industries and to Intensify Selective Import Substitution

1. Postpone the Establishment of Additional Major Industrial Projects.
2. Develop Labor-Intensive, Small-Scale Industries Focused on those with strong linkage to the Agricultural Sector and on Areas of Comparative Advantage

B. Promote International Tourism with Focus on Asia/Pacific Region

C. Diversification of Energy Sector to Non-Oil, Indigenous Energy Sources

1. Implement Demand Management Procedures
2. Improve Ability of Government Entities involved in Energy to Generate Internal Revenue to Finance Additional Investment
3. Pursue National Electrification Program

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V. PRODUCTIVITY AND SELF RELIANCE

A. National Productivity Program

1. Greater Utilization of Indigenous Materials
2. Develop and Use Local Technologies

a. Promote Collaborative S&T Activities Between Government and Private Sector

b. Strengthen Interagency Linkages with Research Extension- Utilization Continuum

VI. SOCIAL EQUITY

A. Maintain (Not Increase) Current Budget Levels for Social Services

B. More Efficient Delivery Systems

C. Bring Inflation Down

D. Strengthen Industrial Peace-Presidential Commission

E. Reduction of Population Growth Rate

VII. PARTNERSHIP BETWEEN GOVERNMENT AND THE PRIVATE SECTOR

A. National Productivity Council

B. Council of Economic Advisors ✓

VIII. DEVELOPMENT ADMINISTRATION AND GOVERNMENT REFORM

A. Streamline Government Operations

B. Efficient/Cost Effective Project Implementation Through Planning, Programming, Budgeting Process

C. Legislation to Streamline Corporate Sector, Upgrade Civil Service, Improve Accountability

IX. PEACE AND SECURITY

A. No Return to Martial Law

X. POLITICAL STABILITY

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APPENDIX C

UNOFFICIAL LIST OF DBP HOLDINGS

H O T E L S

1. Baguio Hilltop Enterprises
2. Baguio Leisure Corporation
3. Hotel Mirador, Incorporated
4. Manila Midtown Commercial
5. Maranaw Hotel and Resort Corporation (Century Park Sheraton)
6. Monarch Estate Development (Tradewinds Hotel)
7. Philippine Hoteliers, Incorporated (Manila Garden Hotel)
8. Resort Hotels Corporation (Pines Hotel, Taal Vista Lodge, Hotel Mindanao)
9. Silahis International Hotel
10. Cebu Plaza Hotel
11. Zamboanga Plaza Hotel
12. Zamboanga Factors, Incorporated (Zamboyan Hotel)
13. Admiral Realty (Admiral Hotel)
14. Leyte Park Hotel
15. Rafols Hotel Corporation
16. Universal Hotel Corporation
17. McAdore Hotel
18. Pacific Hotel
19. Capiz Hotel Corporation
20. Maceda, Bonifacio (Gran Hotel)
21. Dizon, Gregorio (Manila Manor Hotel)
22. Integrated Realty Corporation (Tower Hotel)
23. I & A Development Corporation (Diplomat Hotel)
24. Landoil Resources (Hotel Kamaya Point)
25. Majia. Cirilo & Milagros (Urduja Hotel)
26. Herrera, Jose (El Dorado Hotel)
27. Metro-Manila Commission (Makati Hotel)

R E S O R T S

1. VMG Sports Plaza
2. Manila Bay Island Resort (Ccvelandia Resort)
3. Argao Resort
4. Hacienda Looc (unfinished)
5. Club Solviento, Incorporated
6. Crystal Spring Resorts
7. Elorde Sports and Tourism Development Corporation
8. Emerald Resort Corporation (Hotel Ibalon)
9. Sea Breeze Resorts
10. Lagos dela Sierra
11. Airville Resort and Country Club
12. Huerta Alba Resort
13. Bagumbayan Corporation (Tropical Palace and El Grande)
14. Balajadia. Delfin (D'Chalet)

APARTELLE

1. Villamor Amparo (Metropolitan Apartel)
2. Algo Towers Development Corporation (Algo Inn)
3. Balane, Salvador (Remil Apartel)

YACHT

1. Seaquest Ventures

SCHOOLS

1. Human Settlements Development Corporation (University of Life)
2. Perpetual Help Hospital/College of Rizal
3. Technological Institute of the Philippines

HOSPITALS

1. Capitol Medical Center, Incorporated
2. Marian Clinic, Incorporated
3. Emmanuel Community Hospital
4. Estrellas Home Care
5. Laguna Polymedic Center
6. Montes, Rosario (Holy Rosary Hospital)
7. Castañeda, Godofredo (Antipolo Immaculate Concepcion Medical Center)
8. Magat-Santiago, Francisca (St. Francis General Hospital)

MOVIE PRODUCTION

1. Experimental Cinema of the Philippines

RECORDING

1. Vicor Music Corporation

DORMITORY

1. Loveriza, Rufino

TEXTILES

1. Continental Manufacturing Corporation
2. Lakeview Industrial Corporation
3. P. Floro & Sons, Incorporated
4. American Philippine Fiber Industries, Incorporated
5. Philippine Cotton Corporation
6. Interlining Corporation
7. Peggy Mills, Incorporated
8. Philippine Knitting Mills

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9. Solid Mills, Incorporated
10. Unisol Industries & Manufacturing Corporation
11. Atlas Textile Development Corporation
12. Manufacturers Associates, Incorporated
13. Philippine Polymide Industrial Corporation
14. Emperor Textile Mills
15. Lirag Textile Mills
16. Riverside Mills Corporation
17. Texfiber Corporation
18. Wearever Textile Mills
19. United Asia Weaving
20. United Textile Mills, Incorporated
21. Fame Textile Mills
22. Eastern Textile Mills

G A R M E N T

1. Ding. Velayo Export Corporation
2. Montilla Garments Manufacturing
3. D.T. Industries
4. EOD (Philippines), Incorporated
5. Naguia Manufacturing, Incorporated

OVERSEAS SHIPPING

1. Aklan Bulk Carriers
2. Coron Bulk Carriers
3. Ecija Bulk Carriers
4. Fuga Bulk Carriers
5. National Galleon Shipping Company
6. Extraco Shipping

INTERISLAND SHIPPING

1. Hadji Mahmud Jammang
2. Marcelino Castro
3. Mayflower Shipping
4. Palacio Shipping Lines
5. Southwest Cargo
6. Link Shipping
7. Sealink, Incorporated
8. Rico Shipping
9. Aries Shipping Lines
10. Berda Shipping Lines
11. Trans-Asia Shipping
12. Teoco, Bienvenido
13. Cagayan Shipping
14. Seabrone Carriers

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PUBLIC TRANSPORTATION

1. California Bus Lines
2. Metro-Manila Transit Corporation

PUBLIC UTILITIES

1. Misamis Oriental Rural Electric Services Cooperative, Incorporated
2. VMC Rural Electric Service Cooperative, Incorporated
3. Jose Aquino (public telephone system in Butuan)
4. Mayon Telephone Company

ICE PLANT

1. Mendoza, Delfin
2. Limjuco, Apolonio

STEVEDORING, CONTAINER YARD, SHIPBUILDING

1. Ocean Terminal Services
2. EFC Merchandising
3. Navotas Industrial Corporation

EXTRACTIVE INDUSTRIES

1. Philippine Eagle Mines
2. Marinduque Mining & Industrial Corporation (Island Cement)
3. Batong Buhay Bold Mines
4. Western Minolco Corporation
5. Filipinas Marble Corporation
6. Basay Mining Corporation
7. Blank Mountain, Incorporated
8. D.C. Sanchez Coal Mines
9. Pamana Mining Corporation
10. Sta. Ines Mining & Steel Corporation
11. Golden River Mining Corporation
12. Sabena Mining Corporation

CONSTRUCTION

1. Luzon Aggregates
2. Basalt Rock Aggregates Corporation
3. Rocky Mountain Construction & Development
4. Achievers Construction

NON-METALLIC PRODUCTS

1. Midland Cement Corporation
2. Northern Cement Corporation
3. Universal Cement Corporation
4. Refractories Corporation of the Philippines
5. Manila Brickworks, Incorporated
6. Floro Cement Corporation
7. Continental Cement Corporation
8. Jovel Industries, Incorporated
9. Fil-Hispano Ceramics
10. Fil-Mosaic Corporation
11. Tegula Filipina Corporation
12. Union Glass Container Corporation
13. Union Industries, Incorporated

TRANSPORTATION EQUIPMENT MANUFACTURE AND REPAIR

1. Philippine Aerospace Development Corporation
2. Milagrosa Shipyard & Shipbuilding

AGRI AND AGRI-BUSINESS

1. Golden Country Farms, Incorporated
2. Philippine Asia Food Industries
3. Rice and Corn Administration
4. CDCP Farms Corporation
5. Retired Servicement Enterprises
6. Mindanao Progress Corporation (MGA)
7. National Food Authority
8. Manila Seedling Bank Foundation, Incorporated
9. Co, Johnny
10. Management Properties Corporation
11. Manara Cassava Flour Mills
12. Philippine Seeds, Incorporated
13. SAAD Investments Corporation
14. Sugarland Agro-Industrial Corporation
15. Western Agro-Industrial Corporation
16. Wright Peiterson Manufacturing Corporation
17. Borres Fishing and Development
18. Vital Agro-Industrial Corporation
19. Asian Swine Breeders
20. Filipinas Mills, Incorporated
21. Avendaño, Pedro
22. Crown Fruits and Cannery Corporation
23. Philippine Stach Industrial Corporation
24. Northwest Agro-Marine Products

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FOOD PROCESSING

1. Food Terminal, Incorporated
2. Hilongos Development Corporation
3. Tolong Sugar Milling Company, Incorporated
4. Central Azucarera del Pilar
5. Diamond Seafoods Corporation
6. Foodmasters Worldwide
7. Mirod Multifoods
8. Sanifood Processing Corporation
9. Alfa Food Products
10. Carebi (Philippines), Incorporated
11. La Campana Food Products
12. People's Industrial and Commercial Corporation

WOOD AND WOOD PRODUCTS

1. Fil-Eastern Wood Industries
2. Pagdanan Timber Products
3. Sta. Ines Melale Forest Products
4. Tropical Philippine Wood Industries
5. National Housing Corporation
6. Mansion Woodworks, Incorporated
7. Durano Trading Corporation
8. Republic Hardwood, Incorporated
9. Sirawai Plywood and Lumber Company, Incorporated
10. Sta. Clara Lumber Company, Incorporated
11. Davao Timber Corporation
12. Goyo and Sons, Incorporated
13. Mindanao Plywood
14. Visayan Box Factory
15. Trans-Oriental Woodworks

RUBBER PRODUCTS

1. Dupax Rubber Corporation
2. Durafil Manufacturing Corporation

LEATHER AND LEATHER PRODUCTS

1. Fitschuh Manufacturing Corporation
2. Victor Shoes
3. Philippine Hi-Standard
4. Philippine Integrated Leather

ELECTRONICS

1. Filipinas Micro-Circuits, Incorporated
2. Agretonics, Incorporated
3. Computer Electronics, Incorporated
4. Integrated Circuits
5. Integrated Electronics Industries
6. Selecta Electronics
7. Cathay Philippine Electronics Industries
8. Interphase Development Corporation

PUBLICATIONS

1. Philippine Journalists, Incorporated
2. Business Day Information Systems and Services

CHEMICAL AND CHEMICAL PRODUCTS

1. Cellophil Resources
2. Philippine Cellophane Film Corporation
3. Peroxide Philippine, Incorporated
4. Philippine Phosphate and Fertilizer Corporation
5. Laminex Corporation
6. Crma Industrial Corporation
7. Mabuhay Vinyl Corporation
8. Philippine Pigment and Resin Corporation
9. Polystyrene Manufacturing Company, Incorporated
10 United Cathay, Inc.
11. San Juan, Gloria and Carlos
12. International Components and Processing Corporation
13. Central Fermentation Industrial Corporation
14. Far East Starch Corporation
15. L.P. Mannie Trading and Manufacturing Corporation
16. Jedme Manufacturing Corporation
17. Lanar Manufacturing Corporation
18. Mindanao Polysack
19. Philippine Polysterene Paper Corporation
20 Sta. Cruz Agro-Industrial Corporation
21. Oro Packaging Corporation

PULP AND PAPER

1. Menzi Development Corporation
2. Isarog Pulp and Paper Company, Incorporated
3. Paper Industries Corporation of the Philippines
4. Utility Enterprises Corporation
5. Paragon Paper Industries, Incorporated

METAL INDUSTRIES AND PRODUCTS

1. Creative Self Reliance
2. Marsteel Corporation
3. Dayton Metals Corporation
4. Philippine Plate Mills
5. Elizalde Steel Consolidated, Incorporated
6. National Development Corporation
7. Pasig Steel
8. Mindanao Steel
9. Philippine Smelters Corporation
10. National Steel Corporation
11. El Oro Engraver Corporation
12. Philippine Associated Smelting and Refinery (PASAR)

13. Aluminum World Corporation
14. Western Steel
15. Machine Tools Manufacturing Company, Incorporated
16. Mackay Machinery, Incorporated
17. Philippine Iron Manufacturing Company, Incorporated/ Philippine United Foundry and Machinery
18. Juki Industrial Company
19. Atlas Developers and Steel Industries
20. Masy Metals Manufacturing
21. Alinsu Steel Foundry Corporation
22. Alinsu Valves Corporation
23. Allied Industrial Corporation

APPENDIX D

NATIONAL DEVELOPMENT COMPANY (NDC)

Subsidiaries/Affiliates	Nature of Services
Acoje Mining	Manufacture of Metalurgical Chrome
Air Mindanao Corporation	
ASEAN Bintulu Fertilizer Sendirian Berhad	Will provide the country with an adequate supply of fertilizer while implementing the government's strategy of industrial complementation in the ASEAN region.
ASEAN Philippine Copper Molding, Incorporated	
Asia Industries	Machinery and Equipment
Batangas Land Company	Manages and leases real estate
Beta Electric Corporation	
Cellophil Resources Corporation	Produces "Abra Pulp" derived from Pine as an input to paper production
Cellulose Processing Corporation	
Consolidated Terminals, Incorporated	
Construction and Development Corporation of the Philippines (CDCP)	Involved in both domestic and overseas construction projects, trading, mining, manufacturing, realty, transport, agri-business, process engineering and other related services.
CDCP Farms Corporation	
Construction Manpower Development Corporation	Involved in the training of skilled manpower to form part of the manpower pool of the Philippines for big construction projects here and abroad.
Dasmariñas Estate Development Corporation	
The Energy Corporation	Petroleum, mining, investment in Semirara.
Farm Machinery Corporation	
Filipino Contractors International Corporation	Involved in overseas marketing and construction program.
First Chicago Leasing Corporation	
Galleon Shipping Corporation	International Cargo Liner.
Good Year Realty Corporation	Manages and leases real estate.

Subsidiaries/Affiliates	Nature of Services
Herditex Mills, Incorporated	
Hydro Resources Contractors Corporation	
Industrial Tree Plantation	Designed to promote and implement reforestration program of the government.
International Corporate Bank	Banking
Kamayan Realty Corporation	Manages and leases real estate.
Koppel, Incorporated	
Luzon Stevedoring Company	International Cargo Liner.
Manila Gas Corporation	Distributes Manila Gas Liquified Petroleum Gas (LPG).
Manila Land Corporation	
Mindanao Textile Corporation	Involved with the establishment of a fully integrated textile plan manufacturing woven and knitted fabrics and garments.
Multi-Natural Resources and Drilling Corporation	Petroluem and Mining.
Nadeco Realty Corporation	Manages and leases real estate.
National Precision Cutting Tools, Incorporated	Manufactures drills, taps, and special farm tools to support the metal fabrication industry.
National Rattan Corporation	
National Steel Corporation (NSC) Iligan Shipping Corporation Iron and Steel Corporation of the Philippines Natsteel Shipping Corporation NSC Shipping Corporation NSC Trading Company Pasig Steel Corporation	
NDC - Guthrie Estates	
NDC-Guthrie Plantations, Incorporated	Will develop an 8,000-hectare palm tree plantation in Agusan del Sur for the production of palm oil.
NDC Holding Company	
NDC-Nacida	Deals in critical raw materials to provide the cottage industry producers with cheap claims in Hinobaan and Sipalay Negros Occidental.

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Subsidiaries/Affiliates	Nature of Services
NDC-Shell (Billiton) Mineral Investment	Will invest in new mining projects or in the expansion of on-going operations of local mining companies engaged in copper, zinc, lead, nickel, tin, tungsten, molybdenum and associated non-ferrous metals.
Paper Industries Corporation of the Philippines	Lumber, tanning and milling manufacture of timber, lumber, paper pulp and by-products.
Philippine Associated Smelting and Refinery (PASAR)	Will produce copper cathodes from locally produced copper concentrates, and sulfuric acid as by product.
Philippine Cellophane Film Corporation	Produces cellulosic film.
Philippine Dockyard Corporation	Engaged in ship-maintenance and outfitting, in addition to ship-building and other connected services.
Philippine National Lines	Establishes to augment the existing Philippine overseas fleet. Its services include the ownership, lease charter, management and operation of merchant vessels and ship brokerage.
Philippine Phosphate Fertilizer Corporation	Provides an adequate supply of fertilizer for country's food production drive.
Philippine Plate Mills, Company	Engages in the production of steel plates for vital industries such as ship-building, construction and mining. For integration with National Steel Corporation.
Pinagkaisa Realty Corporation	Manages and leases real estate.
Refractories Corporation of the Philippines	Manufacture of Chrome Magnesite refractory bricks.
Resort Hotels Corporation	Operates a chain of hotels in Luzon and Mindanao.
San Jose Oil Company, Incorporated	Petroleum
Seafront Petroleum and Mineral Resources	Petroleum drilling and investment in Semirara
Semirara Coal Corporation	Coal
Summa Insurance, Incorporated	Non-Life Insurance
Transcon Contractors Corporation	
Usiphil, Incorporated	Machinery and Equipment
Venture Capital Corporation	Offers equity financing to small and medium-scale industries, many of them export-oriented and labor intensive.
Vulcan Industrial and Mining Corporation	Gold, Adhesive and Silica sand, investment in Semirara.