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Policy Adjustments to the Global Economic Environment

Services Sector

by John Lawrence V. Avila

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POLICY ADJUSTMENTS TO APEC/WTO/ASEAN: SERVICES SECTOR

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Executive Summary

1. The services industry is the most dynamic sector of the Philippine economy in terms of its contribution to GDP, employment and investment. Its share of GDP has been expanding while the shares for the agriculture and industrial sectors have been declining. The services sector has also been growing at a much faster rate than national output and other sectors of the domestic economy. Almost half of the country's labor force is employed by the tertiary sector. Moreover, close to two-thirds of investments were made in service-related industries. The sector has remained resilient despite the economic downturn resulting from the Asian financial crisis.

2. Commercial services account for more than a third of the Philippines' total exports and about a fifth of its total imports. The Philippine has generally experienced an uptrend in its services trade and has consistently exhibited a trade surplus in the past ten years. The APEC grouping is the largest market for Philippine services exports as well as source of its services imports.

3. The Philippines has entered into market access commitments in the services sector under the WTO, ASEAN and APEC. Under the GATS accord, the Philippines committed to bind present levels of restriction and provide market access and national treatment to foreign service providers. The Philippines made binding commitments under four service sub-sectors, namely: transport, tourism, finance, and communication services. The countries' additional commitments under ASEAN and APEC are designed to build on these offers under preferential arrangements. In addition to its GATS commitments, the Philippines has included auditing services and increased the foreign equity limitation for pension houses, tourist inns, and apartels under the ASEAN Framework on Services. Under APEC, the Philippines volunteered to further ease restrictions in telecommunications, maritime transport services, energy services, tourism, retail trade, finance and the movement of intercorporate personnel.

4. In general, the country's binding commitments reflect existing regulatory regimes or sometimes even overstated the level of restrictions in some sub-sectors. Trade negotiators only volunteered sectors that were already heavily regulated or sectors that the government wished to open up in pursuit of its development objectives. In fact, the Philippines committed far fewer sub-sectors compared to other countries and made offers in already heavily regulated sectors. Hence, very little adjustment will result from the country's multilateral commitments in commercial services.

5. The Philippines appears to have a comparative advantage in the services sector given the availability of highly skilled labor and its strong export performance. In particular, there are opportunities in long-distance provision of services in such areas as data processing and entry, software development, back-office service activities, product design, and consulting services. There are also prospects in the tourism sector, hotel and restaurant services, finance, computer, R&D services, and recreation and cultural services.

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6. Given that the Philippines' service suppliers are still relatively underdeveloped compared with other countries, however, local service suppliers may be unable to take advantage of certain market openings to create economies of scale or achieve significant enough level of specialization. The lack of capital and limited technical capabilities would make it difficult for the country to avail of opportunities in cross-border trade or establishing commercial presence in other countries. In addition, other countries continue to maintain numerous measures that restrict market access in services.

7. Approximately, 85 percent of the domestic service industry are at least partially, if not completely, restricted. The Philippine Constitution and other laws expressly prohibit foreign entry in certain sectors and reserve them exclusively for nationals. However, these limitations help create distortions in the rest of the economy and help bring about inefficient service delivery. Ultimately, an inefficient service sector will act as a drag on the Philippines' development prospects and the competitiveness of its industries.

8. Modernization pressures brought about by technological change and the growing demand from users highlight the need to pursue regulatory reform and liberalization of the domestic service sector. There is a need to rationalize the price structure and reduce market distortions in order to improve productivity and bring the quality of domestic services to world standards.

9. In particular, it is imperative that domestic service providers position themselves in the international market. Export promotion should also be complemented by measures to progressively open up the domestic market to foreign providers. There are gains to be made from specialization, greater competition, and increased access to quality services that would result from liberalization.

10. Special attention should be given to the role of producer services, specifically transport, communications, finance and distribution services. Liberalizing these sectors will help reduce the cost of doing business and will make better quality services more available. As foreign direct investment is a major mode of delivery of international services, it is also important to improve measures to attract FDI by lowering restrictions on their entry. Likewise, deregulation is a necessary complement to opening up of the domestic services sector.

11. Finally, there is a crucial need to improve the collection of data on the services sector. Policy formulation is constrained by the lack of accurate information and relevant statistical data on services trade. It is proposed here that the government immediately adopt the UN Central Classification (CPC) scheme in classifying services and improve reporting methods. Moreover, there is also a need to ensure an industry-neutral approach to policy development by taking cognizance of the services sector in trade policy formulation.

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POLICY ADJUSTMENTS TO APEC/WTO/ASEAN: SERVICES SECTOR

JOHN LAWRENCE V. AVILA*

I. Introduction

World trade in commercial services is expanding rapidly. The World Trade Organization (WTO) reports that cross-border transactions in services has more than tripled in the past decade outpacing growth in merchandise trade. According to the World Bank, services now account for close to one-quarter of world trade and three-fifths of foreign direct investment (FDI) flows. Primarily propelled by innovations in telecommunications and information technology, the range of 'tradable' services has multiplied in recent years. At the same time, demand for the provision of efficient services for firms to remain competitive in the global marketplace is growing.

The growing commercial importance of the services sector is highlighted by the various multilateral efforts aimed at opening trade in services. Parallel discussions centered on the liberalization of the services industry are simultaneously being pursued at the WTO as well as under regional arrangements in the Association of Southeast Asian Nations (ASEAN) and in the Asia Pacific Economic Cooperation (APEC).

The internationalization of services presents both challenges and opportunities for the Philippines. On one hand, it creates the opportunity to expand services exports as well as to increase access to efficient services that will contribute to the country's economic development. Greater availability of services, more open markets, and stronger disciplines will help local business firms improve their operations and adapt to a more globally competitive environment.

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* Political economist at the Center for Research and Communication. This study was made possible through a grant from the Philippine Exporters Confederation Inc. under its Trade and Investment Policy Analysis and Advocacy Support Project. This paper benefited from the comments of George Manzano and Florian Alburo.

On the other hand, the trend towards opening up the domestic services sector will present some adjustment problems. This is because the services sector remains heavily regulated and protected by complex barriers to entry. A number of sub-sectors are virtual monopolies, controlled by either the government or private entities. Moreover, political imperatives commonly rationalize the continued protection of the sector making liberalization difficult.

However, technological change and the growing internationalization of economies are pressuring governments to open up their domestic services sector. A "services revolution" is taking place with the rapid expansion of knowledge-based industries and the growing tradability of services (Primo-Braga, 1996). The increasing share of the service sector in the country's overall growth underlines its economic significance. That is, the liberalization of the services sector is seen to be beneficial as it provides links between various commercial activities and accounts for a major proportion of the value added of economic output.

The challenge for the Philippines is how to fully take advantage of these developments to realize gains from the internationalization of services. This paper briefly examines this matter by evaluating the implications of greater market access and stronger multilateral disciplines on services trade.

The first section of this study looks at trends in services trade, particularly in the composition and trading patterns of the Philippines' service sector. The second section describes the role of services in the domestic economy. The following part examines the binding commitments made by the Philippines and other countries under the General Agreement on Trade in Services (GATS), ASEAN and APEC arrangements. The primary objective of this study is to assess the opportunities presented by the growing liberalization of services trade which will then be discussed in the next two sections. In the end, the paper defines policy issues relevant to the service sector.

II. Trends in Services Trade

There are inherent conceptual and measurement problems that make an accurate assessment of the scope and extent of services trade difficult (Lamberte, 1996; Hoekman, 1995; UNCTAD-WB, 1994). In the first place, the services sector is actually composed of various industries that have very little in common with each other except that they are all service providers.[1] Unlike merchandise trade, most services are delivered by different modes other than cross-border trade for which traditional measurement instruments may not be applicable.

In fact, many services are not traded in the conventional sense of the word but are accessed through foreign direct investment or movement of producers and consumers. Unlike goods, most services are not stored but rather are consumed at the point of delivery. Some are directly tradable, such as tourism and information-intensive services, while others facilitate trade, such as in the case of finance, transport, and telecommunications. Such diversity makes any assessment of the scope of services trade rather complex.

Additionally, measurement problems are particularly distressing in services trade. The availability and comparability of services trade data is very weak compared to those maintained for goods. The main source of trade data are reflected in a country's Balance of Payments (BOP), particularly accounts of non-factor services. BOP accounts, however, do not follow the GATS classifications and may not report information on certain sub-sectors. Moreover, limited statistics particularly at a relatively disaggregated level make cross-country comparisons difficult. Thus, figures presented here likely understate the extent of international commercial transactions in services.

[1] The WTO lists twelve major sub-sectors in the services industry including business services, communication, construction and related engineering services, distribution, education, environmental services, finance, health related and social services, tourism and travel related services, recreational cultural and sporting services, transport and energy services. See Annex.

Because there is no commonly observed nomenclature that covers the different modes of supply, comprehensive set of data that could provide reliable estimates of services trade is virtually absent. But while trade data is still deficient in many respects, it is clear that global trade in commercial services has grown steadily.

The World Trade Organization estimates global exports of commercial services to have reached US$1.3 trillion in 1997 rising from just US$382 billion in 1985. Services exports grew by an average of 8 percent between 1990-97. On the other hand, world imports of commercial services rose to US$1.29 trillion in 1997, more than triple the level registered in 1985. In the last seven years, world imports grew by an average 7 percent. However, there has been a general slowdown in world services trade in 1997 partly due to the economic crisis that cut growth in Asia. World exports of services fell from 7 to 3 percent between 1996-97 while imports decline from 5 to 2 percent in the last year.

The United States, Western European, and Japan were the largest producers as well as consumers of services (see Annex Table 1). Developed economies account for over 70 percent of world exports of commercial services in 1997. This figure is slightly down from its 79.3 percent share recorded in 1990. Meantime, developing countries have gradually increased their share of world exports of commercial services from about 23 percent in 1985 to roughly 26 percent in 1996.

Likewise, industrialized countries were the largest consumers of services accounting for about 66.5 percent of world services imports in 1997, down from its two-thirds share registered in 1990. This decline is attributable to the growing demand in developing countries in recent years taking in 32.4 percent of world services imports, up from just 26 percent in 1990. Developing countries' portion of world services trade, however, is expected to fall or remain flat due to downward growth in the Asian region.

Philippine Services Trade

Services play a significant role in the overall trade performance of the Philippines. About 35 percent of the country's total exports consisted of commercial services, the highest proportion recorded in the Asian region in 1995. In the same year, approximately 21 percent of Philippine imports were in services where it was only one of two countries in the region that enjoyed a trade surplus in commercial services.

The WTO ranked the Philippines as the 23th largest exporter of commercial services and the 28th largest importer in 1997. Philippine services exports was valued at US$15.1 billion in 1997 from just under US$3 billion in 1990. Services imports have also impressive growth from just US$1.7 billion in 1990 to US$14.1 billion in 1997 (see Table 1). The country's share of world services exports was about 1.2 percent of the total, tripling its share in 1990. Likewise, the Philippines' 1.1% share of world services imports in 1995 was more than five times the share posted in 1990. This indicates the robustness of the Philippines services sector.

Table 1: Philippines' share of world trade in commercial services
(in US$ billion and percent)

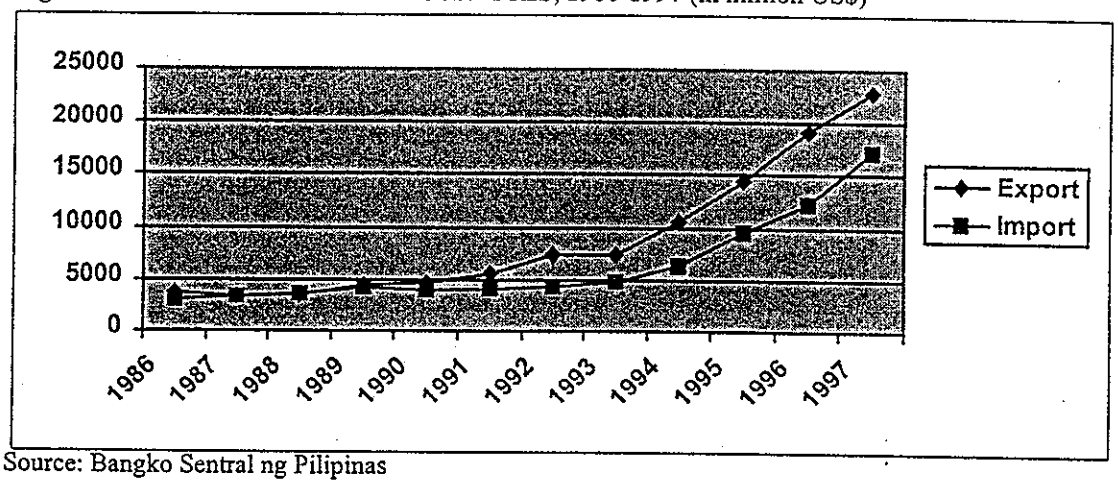
	Exports			Imports		
	1990	1995	1997	1990	1995	1997
Value	2.89	9.3	15.1	1.73	6.9	14.1
Share	0.37	0.8	1.2	0.21	0.6	1.1

Source: World Trade Organization

The Philippine has generally exhibited a surplus in its services trade, particularly posting impressive growth rates in the past four years. Philippine exports of commercial services grew by an average of 25.9 percent between 1992-97. Imports likewise expanded rapidly averaging about 31.5 percent growth rates in the last five years. For almost a decade, exports have exceeded imports in the country's services trade (see Figure 1). As mentioned above, this is probably understated as conventional BOP figures do not capture the overall growth in services trade.

However, the sector has not escaped the negative impact of the Asian financial crisis. Service exports contracted by 9.5 percent in the first half of 1998 compared with a 35 percent increase during the same period of 1997.[2] This follows the much slower growth of 15.6 percent in the semester following the onset of the crisis in July 1997. On the other hand, service imports managed a positive growth at 9.1 percent in the same period though substantially lower than its 113.2 percent rise in 1997.

Figure 1: PHILIPPINE TRADE IN SERVICES, 1986-1997 (in million US$)



Source: Bangko Sentral ng Pilipinas

Drawing on BOP data, the biggest source of export revenue came from the 'others' category which accounted for 55 percent of services receipts in 1997, up from 45.7 percent in 1992.[3] This item includes advertising, film rentals, real estate rentals, copyrights and patent royalties, earnings from computer software and animation services, construction activity, communications (stamps and postage), and other commissions and fees.

[2] The decline, however, was primarily attributed to minimal growth in personal income and a huge drop in peso conversions of foreign currency deposit units.

[3] The Bangko Sentral ng Pilipinas (BSP) includes the following services in its BOP account: (a) freight and merchandise insurance, (b) travel services including tourism, (c) investment income which includes profits, earnings, dividends, and interest income, (d) government which covers expenditures of foreign governments and maintenance of diplomatic and consular offices, (e) personal income which includes earnings and salaries, and (f) others which include transportation, deposit withdrawals, commissions and fees, construction, operating expenses, advertising, motion picture films, patents and copyrights, lease of real estate, postage and telegraph, telephone and radio, rental fee of equipment, etc.

The single largest source of export revenue comes from personal income, principally remittances from overseas contract workers, amounting to 25 percent of total services receipts and estimated at US$5.7 billion in 1997. This figure represents a decrease from its 30 percent share in 1992. Receipts from tourism-related services accounted for 10 percent of the total during the same year, down from 12.7 percent in 1992 (see Annex Table 2).

Likewise, the others category represented the largest import item accounting for more than half of total services payments in 1997, more than double the 22.3 percent level registered in 1992. This includes communication, advertising, producers' share on film rentals, copyright and patent royalties, rental fee of equipment, construction activity, etc. Payments for freight and merchandise insurance registered a 15 percent share of the total service payments due to the lack of domestic service providers in this area.

The APEC market captured the greater portion of Philippine services exports, accounting for almost two-thirds of the total in 1997 valued at approximately US$6.7 billion.[4] This was slightly down from the 80 percent share registered in 1990. The largest consumer of Philippine services is the United States accounting for 80 percent share of the APEC total. The ASEAN market registered a 12 percent share of export revenue, valued at US$584 million in the same year.

Similarly, APEC was the largest source of services imports registering about 80 percent of the total in 1997, a substantial increase from its 61 percent share in 1990.[5] Again, the United States is the largest source of imports accounting for 75 percent of the APEC total. Japan was a distant second with only a 9 percent share.

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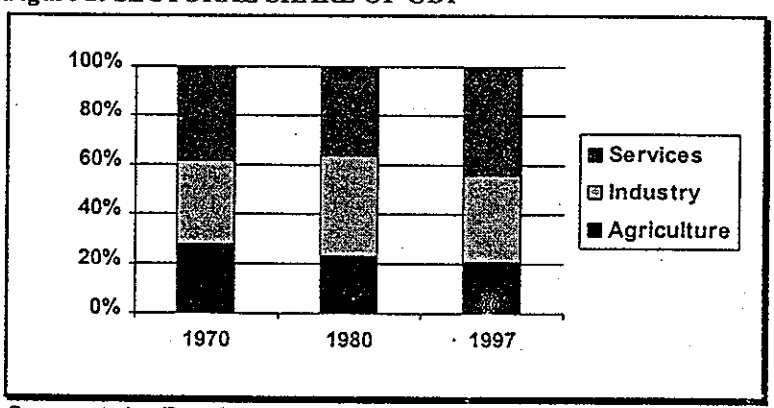
[4] Excluding personal income and investment income.
[5] Ibid.

III. Relevance of Services to the Domestic Economy

The trade performance of the services sector underlines its important contribution to the national economy. The services industry is comparatively the largest sector in the domestic economy, valued at approximately 388 billion pesos in 1997. The tertiary sector accounts for 41 percent of gross national product (GNP) and almost 44 percent of gross domestic product (GDP) in 1997. Its share of domestic output has grown from its 36 percent share registered in 1980. This is contrasted with the declining shares of the industrial sector, from 40.5 percent to 35.9 percent, and the agricultural sector, from 23.5 percent to 20.5 percent share during the same period (see Figure 2). In recent years, the services sector has been the country's engine of growth.

Figure 2: SECTORAL SHARE OF GDP

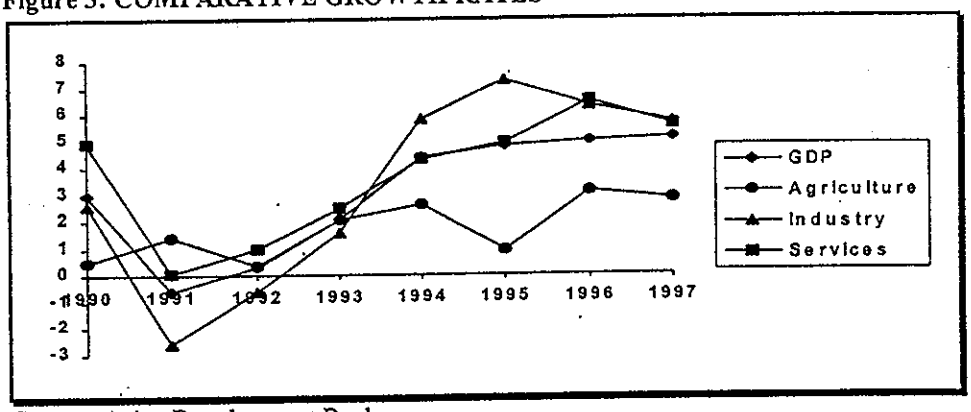


Source: Asian Development Bank

The services sector has also been growing at a much faster rate than national output and other sectors of the domestic economy. While GDP growth rate averaged around one percent during the period 1981-90, the growth rate of the services sector averaged 2.9 percent. Between 1990-97, GDP grew at an average of 3 percent while the services sector expanded by 3.7 percent. The agriculture sector expanded by only one percent between 1981-90 and by 1.7 percent between 1990-97. After contracting by 0.9 percent between 1981-90, the Philippine industrial sector grew by 3.3 percent between 1990-97 (see Figure 3).

Not surprisingly, the growth momentum of the services sector slowed somewhat in the aftermath of the economic downturn that hit the region. However, it proved more resilient than the other sectors of the domestic economy which either contracted (agriculture) or where growth was generally flat (industry). In the first semester of 1998, the tertiary sector still managed to grow by 4.1 percent, though this was slower than the 5.9 percent growth in the previous year's period (see Annex Table 3).

Figure 3: COMPARATIVE GROWTH RATES



Source: Asian Development Bank

Traditionally, the sub-sector with the biggest contribution to GDP has been the trading sector. This sector accounts for close to 15.2 percent of GDP, a 135 billion peso industry in 1997. The second biggest sub-sector is construction services with 6.4 percent of domestic output, followed by ownership of dwellings which had a 4.1 percent share. The banking sector and personal services also were significant sub-sectors accounting for between 2.3-2.8 percent of GDP (see Annex Table 4).

The fastest growing services sub-sectors were construction, communication, and banking services which registered between 14-16 percent growth in 1997. First semester data from the National Statistical Coordination Board (NSCB), however, shows negative rates in construction, air transport, wholesale trade, and real estate. While managing some growth in the first semester, significant declines were also reported for banking and non-banking

financial institutions. Only communication, retail trade, education, and health and medical services managed some growth in the first half of 1998.

Bulk of the country's labor force were employed by services providers, accounting for about 48 percent of the country's workforce in 1996 up from 33 percent in 1980. Again, this compares with the declining shares of the agricultural sector, which was down to 42 percent in 1996 from 45 percent in 1992, and the manufacturing sector, accounting for only ten percent of the workforce in 1996 down from 11 percent in 1992. As a result of the economic slowdown, the tertiary sector is absorbing the excess labor force that could not otherwise be accommodated by either the agricultural or industrial sectors.[6]

Data from 1996 shows that over 38 percent of the total workforce employed by the services industry found jobs in the community, social and personal services sub-sector. The wholesale and retail trading sub-sector came second with a 31 percent share of the total. These two sub-sectors accounted for larger shares of the country's total workforce (accounting for 18 percent and 15 percent, respectively) than those employed in the manufacturing sector (at only 10 percent of the total).

Likewise, the greater portion of capital inflows has found its way into the services sector. According to the Board of Investments, around 50 percent of total foreign equity investments into the Philippines between 1990-1997, amounting 124 billion pesos went to the services sector. These capital inflows were mainly directed at public utilities (telecommunications, water, etc.), energy, and infrastructure and individual services sub-sectors. Similarly, data from the Securities and Exchange Commission report that approximately 73 percent of initial paid-up capital in 1996 (both domestic and foreign) went to the services sector with the bulk going to the finance, insurance, real estate and

[6] Some analysts do not necessarily view this as a positive development. According to this view, the movement of labor from agriculture and industry to the less productive, technological-poor and capital-deficient services sector does not really contribute to overall economic growth. Given that the largest sub-sectors are the trading sub-sector and personal services – many of them in the informal sector, overall productivity may actually decline when labor shifts to the services sector. (Lamberte, 1996).

business services sub-sectors. This figure represents an increase of over 55 percent level registered in 1990 (see Annex Table 5).

According to the BSP, most foreign direct investments between January to April of 1998 was directed at financial institutions which cornered US$97.6 million, a 150.8% improvement over the same period in 1996. Combined investment for the commerce and real estate industries was the third highest for the period with $35.5 billion. Inflows for this group were mostly in the real estate sector. As expected, investors stayed out of the construction industry during the period as funds reached only $835,000 from a high of US$66 million recorded in the same period last year. This was completely different from the investment picture last year when equity flows for construction climbed 69.7 percent.

Essentially, the Philippine economy is a service economy (Lamberte, 1996). The above discussion shows that services are an ancillary part of the economy and vital in helping the country become internationally competitive. In terms of its share of GDP, employment, trade and investment, the services industry helps promote income-generation and boost national welfare. Given that most providers are in the informal sector, government statistics likely underestimate the real contribution of the services industry to the domestic economy.

Studies show that services have strong linkages with the rest of the economy. Transport, tourism, communication and storage subsector exhibited strong backward linkages while personal and distribution services had the largest forward linkage effects (Lamberte, 1996; Rodolfo, 1997b). Financial services are essential in any commercial transaction of goods and services, which require credit, capital, foreign exchange and insurance. Telecommunications are now a vital part in almost business operation. Education, recreational, and medical and health services contribute the quality and well-being of the country's labor force. Clearly, the services sector plays an important role in the development of the Philippine economy.

IV. Multilateral Agreements in Services Trade

The General Agreement on Trade in Services

Negotiated during the Uruguay Round of multilateral trade negotiations, the GATS provides the overall framework for setting multilateral disciplines on services transactions. The first legally enforceable agreement covering all services (except government services), GATS binds signatories to provide foreign firms with market access and non-discriminatory treatment subject to defined exemptions.[7] The agreement is designed to reduce or eliminate regulatory measures that prevent services from being provided across borders or that discriminate against locally-established service firms with foreign ownership.

Signatories to the GATS are obliged to grant Most-Favoured-Nation (MFN) treatment to all its members. The coverage of the MFN is subject to a negative list, that is it applies to all services except those listed by each member.[8] On the other hand, coverage for national treatment is determined by a 'conditional' positive list. Simply, this approach allows governments to choose the services and limit the degree of market access and national treatment that they provide in their schedule (Hoekman, 1995). In GATS, national treatment only applies where a country has made specific commitments unlike GATT where the provision is a general principle.[9]

GATS members make both horizontal and specific commitments. Horizontal commitments apply to all sectors in the schedule while specific commitments refer only

[7] Separate negotiations on basic telecommunications, financial services, maritime transport, and movement of natural persons continued after the end of the Uruguay Round. New commitments on basic telecommunications and financial services were agreed upon in 1997. Modest improvements on movement of natural persons were contained in a 1996 Protocol to the GATS while negotiations on maritime transport will resume in 2000.

[8] Although a general obligation, member countries are allowed to make a one-time temporary exemption to the MFN rule.

to the sub-sector in which it is listed. The commitments are divided according to limitations on market access and national treatment. These offers are further divided according to the four modes of supply (see Box 1).

The GATS is basically a standstill agreement, rather than a commitment to future liberalization (Teh, 1996). That is, member countries submit their respective offers identifying the present extent of regulations on market access and national treatment in their respective service industries. Signatories to the GATS commit to bind these levels of restriction and agree not to raise them further. Thus, the accord imposes a cap on the extent of protection preventing these measures from becoming more restrictive in the future. As such, the GATS can be seen to only reflect the extent of trade-restrictive policies and has limited trade-opening effects.

Box 1: The GATS Framework

GATS Modes of Supply
• *Cross-border supply* in which neither the producer nor the consumer moves physically interacting instead through a postal or a telecommunications network
• *Consumption abroad* where a consumer moves temporarily to a supplier's country of residence
• *Commercial presence* where a commercial organization moves to the consumer's country of residence
• *Presence of natural persons* where an individual service supplier moves temporarily to the consumer's country of residence
Impediments to international service transactions
• *National treatment* where a foreign service provider is treated less favorably than local service providers
• *Market access* where both foreign and domestic potential entrants are treated less favorably than are certain privileged local service providers.

Source: World Trade Organization

The Philippines' GATS Commitments

The Philippines made binding commitments in the following service sectors under the GATS agreement, namely:

[9] In this regard, GATS is more limited than GATT. Moreover, the provision of national treatment under GATS is further subjected to limitations. Mattoo (1996) adds that the GATS article on national treatment is not clearly delineated, particularly in relation to market access.

- Transport services including maritime, air, rail, and road; both passenger and freight except cabotage transport and government-owned cargoes for maritime transport, and rental and leasing of air and sea vessels without crew;
- Tourism services including accommodation facilities, specialty restaurants, professional congress organizers, and travel agencies;
- Financial services including banking, insurance, securities and other non-banking financial services; and
- Communication particularly voice telephone, telegraph, telex, cellular mobile, and packet-switched and circuit-switched data transmission services, and facsimile services.

The Philippines generally does not discriminate between foreign and domestic service providers but maintains restrictions on market access (see Table 2). Except for a few cases, there are hardly any limitations on cross-border supply and measures affecting the movement of consumers of services in all sectors. On the other hand, market access restrictions generally apply to measures affecting investment and movement of labor in the services sector. In commercial presence, however, the government limits market access in activities expressly reserved by law to Philippine citizens.

The Foreign Investment Act completely restricts foreign ownership in mass media, retail trade, cooperatives, private security agencies, small scale mining, utilization of marine resource, services related to the rice and corn industry, and services involving the practice of a licensed profession.[10] The law also places limitations on foreign equity, such as for private recruitment and construction engaged in public-funded projects (25 percent); advertising (30 percent), and natural resource exploration and development, ownership of private lands, operation and management of public utilities, ownership of educational institutions, finance and construction (40 percent). In addition, ownership of small and

[10] Licensed professions particularly referred to by RA 7042 include engineering, medical and allied profession, accountancy, architecture, interior design, criminology, chemistry, customs broker, forestry, environmental planning, geology, marine deck officer, marine engine officer, master plumbing, sugar technology, social work, librarian, teaching, and law.

medium-scale businesses with paid-in capital of less than US$200,000 is reserved for Philippine nationals.[11]

In addition, the entry of natural persons supplying services is based on an economic-needs test for all sectors. Other limitations on this mode of supply include restrictions on length of stay, transfer of technology requirements, scope of work and citizenship requirements. The Philippines' schedule also indicates restrictions on land ownership and the appointment of foreign managers in executive positions. Certain conditions on access to domestic credit are likewise proscribed for foreign service providers (see Annex Table 6).

Table 2: Limitations by Mode of Supply Submitted by the Philippines

Type of commitment	Cross-border supply	Consumption abroad	Commercial presence	Presence of natural persons
On National Treatment				
None	21	31	31	27
Unbound	13	2	0	1
Specific	0	0	2	5
On Market Access				
None	5	29	10	29
Unbound	11	1	0	1
Specific	18	4	24	6

Source: World Trade Organization

For transport services, there are essentially no limitations on national treatment for all modes of supply. Certain conditions apply to the employment of aliens for maritime vessels engaged in international transport. The appropriate regulatory authority must approve the leasing and rental of sea vessels and aircraft. The maintenance and repair of Philippine-owned or registered vessels must be carried out in domestic ship repair yards registered with the Maritime Industry Authority. And commercial presence is required for general and cargo sales agency related to air freight. New entrants providing road

[11] A March 1996 legislation amending RA 7042 lowered foreign investment barriers in so-called "adequately served" sectors such as insurance, travel agencies, tourist lodging firms, and conference organizers. The measure also reduced the minimum capitalization from $500,000 at which majority foreign ownership would be allowed.

transport services are subject to economic needs test and approval of the Land Transport Authority.

Similarly, there are no national treatment limitations in tourism services. The Philippines bound restrictions on foreign equity at 40 percent for pension houses, tourist inns, apartels, travel agencies, and professional conference organizers. As a general rule, only Philippine citizens may be employed in tourism-oriented establishments. But foreign workers may gain entry depending on the approval of the concerned regulatory authorities. Commercial presence is required for travel agencies.

Market access requirements in communication services include acquiring a franchise from Congress and a certificate from the National Telecommunications Commission. Foreign equity is permitted only up to 40 percent and entry is subject to the availability of radio frequencies. Limitations on national treatment provide that all executives and managers must be Philippine citizens while the number of aliens in the Board of Directors should be proportionate to its share of foreign capital.

In financial services, market access would generally depend on whether public interest and economic conditions justify authorization for the establishment of commercial presence or expansion of existing operations in banking and other financial services in the Philippines. Moreover, foreign banks may only hold 30 percent of resources or assets in the local banking system.

Commercial presence is required for banking, investment, factoring, financial leasing, money brokering, credit card, securities, and insurance service providers. Forty percent foreign equity is the Philippines' binding commitment on all financial service providers except for commercial banks, investment houses, and life and non-life insurance which

may acquire up to 51 percent of the voting stock of a new or existing domestic company.[12]

For the presence of natural persons mode of supply, the limits are applicable to financial advisory services, factoring, financial leasing, money brokerage and foreign exchange brokerage, and credit card services. Majority of a financial firm's Board of Directors must be Philippine citizens. Aliens assigned to hold technical positions may be employed within the first five years of operation of the enterprise but their stay should not to exceed five years upon entry and each employed alien should have at least two Filipino understudies.

Under the GATS accord, the Philippines has applied for MFN exemptions in the area of commercial banking and investment houses. In these cases, market access of foreign service suppliers will be subject to a reciprocity test and is applicable to all countries. This is meant to ensure that Philippine financial service suppliers are accorded full market access and national treatment to the same extent that the country extends to foreign service providers.

The ASEAN Framework Agreement on Services

In December 1995, ASEAN members entered into an agreement to promote preferential trade in services. ASEAN cooperation in services aims to substantially reduce restrictions on intra-ASEAN services trade thereby complementing intra-regional trade in goods under the AFTA's CEPT scheme. More significantly, this move was in recognition of the importance of cooperation in services to enhance the investment climate in the region. The framework agreement is meant "to improve the efficiency and competitiveness,

[12] These offers were made in the Fifth Protocol on Financial Services annexed to the GATS Agreement. Under the 1997 Protocol, the Philippines also increased the allowable additional branches of foreign banks from four to six and raised the foreign equity limit in investment houses from 49 percent to 51 percent. It also reduced the scope of its MFN exemptions based on reciprocity in commercial banking by excluding the authorization to expand existing operations from the scope leaving only the authorization to establish commercial presence subject to reciprocity test.

diversify production capacity, and supply and distribution of services ...within and outside ASEAN."

Under the accord, ASEAN member countries agreed to liberalize trade in services by eliminating substantially all existing discriminatory measures and market access limitations among members and prohibit the enactment of new restrictions or limitations. Members also agreed to mutual recognition of each other's licensing or certification requirements for service suppliers.[13]

The AFAS prioritized seven service sectors to be given preferential liberalization within ASEAN; namely financial services, tourism, telecommunications, business services, construction, air transport, and maritime transport. Of these sectors, ASEAN leaders agreed to fast-track the process of negotiations in telecommunications, tourism, and financial services. As in GATS, ASEAN members are given the flexibility to determine the extent to which sectors are to be negotiated and the duration of the negotiation.

Under a so-called GATS-Plus arrangement, member countries are asked to add to their GATS commitments which is then extended on a preferential treatment to other ASEAN countries. In addition to its GATS commitments, the Philippines has included auditing services, provided they be accredited by the Board of Accountancy and the Professional Regulation Commission, and increased the foreign equity limitation to 49 percent for pension houses, tourist inns, and apartels.

Other ASEAN members also made improvements on their GATS commitments. These additional offers were mostly in tourism and transport services, particularly in:

[13] The AFAS states that eligible service suppliers are: (1) natural persons of member states and juridical persons owned or controlled by persons of member states with or without substantive business operations in the territory of member states, and (2) juridical persons owned or controlled by persons of non-member states and constituted under the laws of member states and natural persons of non-member states who have substantive business operations in the territory of member states. Those not eligible are natural persons of non-member states and juridical persons owned or controlled by persons of non-members states and constituted under the laws of member states who do not have substantive business operations in the territory of member states.

- Accommodation facilities (Brunei, Thailand)
- International hotel operators (Indonesia, Vietnam)
- Theme and amusement parks (Malaysia, Thailand)
- Convention centers (Malaysia)
- Travel agency and tour operators services (Singapore)
- Tourism consulting services (Indonesia)
- Maritime transport services, particularly in international freight and passenger transport (Brunei, Indonesia, Malaysia and Thailand)
- Port customs clearance services (Thailand)
- Maritime agency and freight forwarding services (Malaysia).
- Selling and marketing of air transport services (Singapore and Malaysia)
- Aircraft repair and maintenance (Brunei)
- Computer reservation system services for air travel (Malaysia)

Unlike the CEPT, however, ASEAN members have moved rather slowly (at least, not much faster than GATS) in finalizing their respective commitments under the accord. As yet, there is no definite timetable on how AFAS will be integrated into AFTA. The sectoral approach to negotiations has somewhat hampered liberalization efforts under the AFAS. Given the effects of the regional financial crunch, there are doubts about the continued willingness of ASEAN members to liberalize their service markets with each other.

The Manila Action Plan for APEC

Similarly, APEC members made commitments that complement and build on the GATS agreement. In addition to the main sectors of GATS negotiations, APEC members agreed to implement progressive liberalization in energy, retail trade, and business and professional services. Substantial offers were also made in the financial sector and telecommunications. These commitments were listed in their respective individual action

plans (IAPs), with eight APEC members outlining specific and time-bounded measures to open up the service sector (see Box 2).

Collectively, APEC members have committed to help (1) strengthen the financial system for infrastructure building, (2) upgrade worker skills, (3) improve distribution and communication systems, and (4) create opportunities for business in areas like professional services, financial intermediation, construction, telecommunications and data processing, among others. In addition, APEC agreed to promote expand the role of the private sector in infrastructure development. Under the Early Voluntary Sectoral Liberalization (EVSL) scheme proposed during the Fifth APEC Leaders' Meeting in Vancouver, environmental services and a telecommunications mutual recognition agreement were among the 15 sectors slated for early liberalization.

Box 2: APEC Unilateral Market Opening Measures in Services Sector

Economies	Undertakings
Australia	• Maritime cabotage protection will be rolled back by 2000
China	• Number of operational foreign branches in banking, insurance and securities will be increased between 1997 and 2000
Korea	• Remaining limits on foreign investment in distribution (except wholesale meat) will be removed by 2000 • Air freight handling services will be liberalized by 1997 • Foreign equity ratio in air transport will be allowed up to 50% by 2000 • Cargo reservation system in favor of domestic vessels will be removed by 1998 • Petroleum refining industry and legal services will be opened to foreign investment by 1999 and 1997, respectively.
Malaysia	• Foreign brokerage firms will be allowed to acquire up to 49% equity in domestic firms • Foreign equity in domestic funds management firms will be raised to 70%
Philippines	• Management of multi-modal operations and auxiliary services to shipping will be opened up • Liberalization of finance companies, underwriting of securities and management of mutual funds will be considered between 1997 and 2000
Chinese Taipei	• Foreign lawyers will be permitted to establish offices and supply a number of services by 2000. The scope for partnership with local lawyers will be reviewed • Foreign firms will be permitted to set up travel agencies • Banking, insurance and securities services will be opened up between 1997 and 2000
Thailand	• Up to 25% foreign equity will be allowed in insurance. Beyond 2000, lifting this cap will be considered
United States	• Offer to negotiate open skies agreement with APEC partners

Source: MAPA 1996

Perhaps, the most significant initiative of APEC is in the area of movement of professionals and business people. The grouping has taken steps to develop guidelines for mutual recognition of professional qualifications, beginning with accounting services. Some members have expanded this effort by including other professional services such as engineering and architecture. Moreover, APEC agreed to facilitate the mobility of service professionals by relaxing immigration and residency rules. Already, the Philippines, Australia and South Korea have set up so-called APEC Business Lanes at their immigration centers to ease the entry/exit of business people from the region.

Under MAPA, the Philippines volunteered to undertake various measures to liberalize services trade building on its GATS commitments. Apart from the sectors already included under its GATS schedule, the Philippines offered to ease restrictions on the energy sector and distribution services. Under its IAP, the Philippines volunteered to eliminate franchising requirement for value-added service providers in the telecommunications sector, relax the nationality requirement of multi-modal and auxiliary maritime transport services, completely deregulate the energy sector, liberalize existing regimes on investments and employment of foreign nationals in the tourism sector, allow foreign participation in the retail trade sector, and relax restrictions on foreign equity participation and foreign membership in board of directors in banks, investment, and financing companies. Most of these voluntary commitments were to be carried out between 1997 and 2000.

V. Assessment of Philippine GATS Commitments

By enumerating its GATS offers, the Philippines has agreed to bind all current restrictions on market access in all four modes of supply in the services sector. The countries' additional commitments under AFAS and APEC are designed to build on these offers under preferential arrangements.

Philippine trade negotiators have been generally cautious in drawing up the country's schedule of commitments under GATS. The country's offers generally reflected existing regulatory regimes or sometimes even overstated the level of restrictions in some sub-sectors. Because of the positive approach to negotiations, the Philippines only volunteered sectors that were already heavily regulated or sectors that the government wished to open up in pursuit of its development objectives.

For instance, GATS commitments in the finance, tourism, and insurance sub-sectors are actually below existing regulatory regimes. In banking, the indicated limit for foreign equity is 51 percent when presently the allowed level is already 60 percent.[14] Likewise, the government bound restrictions on foreign equity for the insurance sector at 51 percent when the present regulatory regime now permits 100 percent foreign ownership.[15] The same for applies for the tourism sector where government presently allows full foreign ownership for certain tourist accommodations whereas the country's GATS commitment only indicates 40 percent equity. In fact, investment in tourism-related activities is open to foreign nationals up to 100 percent.[16]

Therefore, little or virtually no adjustment will result from the country's GATS commitments. The Philippines' schedule of commitments are not really concessions but merely codified existing regulatory regimes. Because of the positive listing approach to commitments, there will actually be few policy implications flowing directly from GATS.

Moreover, Philippine trade negotiators actually committed far fewer sub-sectors in services compared to other countries. The country's offers only represented 25.8 percent

[14] RA 7721 allows foreign banks to operate in the Philippine banking system by either (a) acquiring, purchasing or owning up to 60 percent of the voting stock of an existing bank; (b) investing up to 60 percent of the voting stock of a new banking subsidiary; or (c) establishing branches with full banking authority. However, the May 1994 law permitted only 10 new foreign banks entry on a full-service branch basis and the quota has since been filled. New entrants are limited to establishing six branches each.

[15] Department of Finance Order Nos. 100-94 and 100-94-A permits100 percent foreign-owned insurance companies to operate in the Philippines.

of total possible commitments whereas other ASEAN countries committed more than a third more (see Table 3). In terms of the number of major sub-sectors, the Philippines only made offers for four sub-sectors compared with six for Indonesia, nine for Malaysia, and ten for Thailand (see Figure 4).

Table 3: Coverage of Commitments under GATS (in percent)

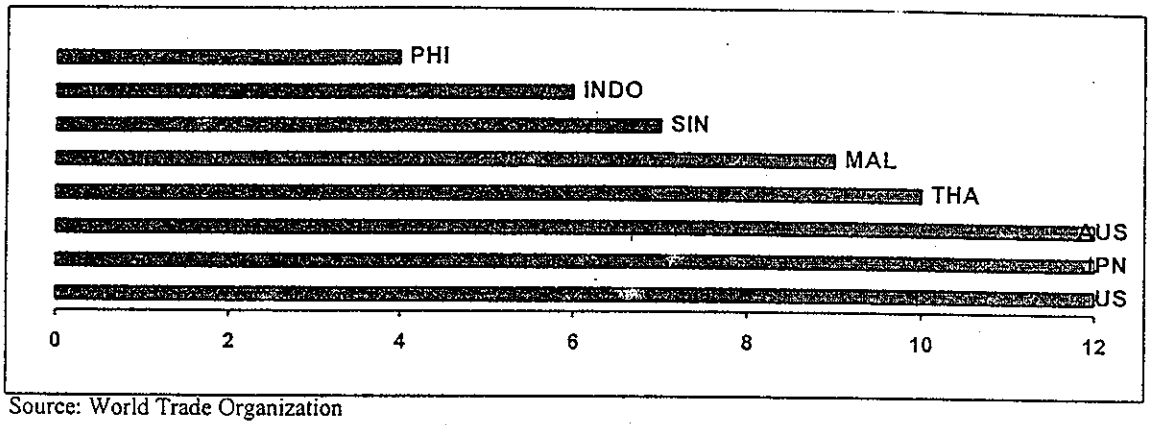
Country	*Coverage*	*No Market Access Restriction*	*No National Treatment Restrictions*	*Completely Unrestricted*
PRChina	31.6	21.4	27.6	6.0
Hong Kong	32.3	45.0	20.5	5.0
Indonesia	22.6	30.0	21.4	4.5
Malaysia	41.3	39.1	64.8	14.5
Philippines	*25.8*	*63.8*	*90.0*	*14.7*
Singapore	37.4	50.9	65.5	18.5
Thailand	41.9	22.7	50.8	9.4
Japan	65.8	56.4	48.8	25.0
United States	61.9	63.5	84.4	35.2
EU	63.2	43.1	59.4	26.3

Source: Asian Development Bank taken from Hoekman and Primo Braga (1996)
Note: Percentages based on 155 sub-sectors in services multiplied by four modes of supply or a total of 620 possible commitments.

The nature of concessions that were proposed by Philippine trade negotiators does not accurately reflect the extent of liberalization efforts currently being undertaken in the domestic services sector. Table 3 shows the actual extent of liberalization in the Philippine services industry. Notably, the country maintains the highest degree of market access and national treatment in its services sector. There are no market access restriction in about 64 percent and no limitations on national treatment in 90 percent of all possible categories of the services industry. Moreover, the Philippines has actually fully liberalized close to 15 percent of all possible commitments, about the same level as Malaysia. From the assessment made by Hoekman and Primo Braga (1996), the coverage of the Philippines' schedule of commitments understates the actual extent of openness of its domestic services sector.

[16] EO 63 grants certain incentives to foreign investors to encourage greater investments in tourist-related projects and establishments. EO 266 or the 1987 Omnibus Investment Code grants other incentives to tourism establishments such as special investors visa and full repatriation rights.

Figure 4: Number of Sectoral Commitments of Selected Economies



Source: World Trade Organization

Under the Ramos government, the Philippines has unilaterally sought to deregulate and open market access to important service industries such as air and maritime transport, banking, tourism, telecommunications and insurance (see Table 4). This formed part of the Ramos administration's 3T strategy that aimed to facilitate the flow of people, goods, capital and information through the modernization of the transport, telecommunications and tourism sectors. These policies helped bring about the expansion and development of these sectors and contributed to economic growth. In addition, the Ramos government considered amending RA 1180 or the Retail Trade Nationalization Act with the objective of allowing foreign investors to engage in retail trade subject to certain conditions such as limitation on capitalization and number of branches.

VI. Market Opportunities in Services Trade

An assessment of market opportunities for Philippine service providers must be undertaken. This would require looking at three key areas: (a) the comparative advantage of the domestic service sector, (b) the areas of open market opportunities made by other countries in their GATS commitments, and (c) technological changes that may alter the competitive equation among countries and firms.

The main problem in assessing comparative advantage in services is the difficulty in obtaining comparable data as there are substantial differences in costs, various regulatory

laws and the lack of disaggregated information across countries. And, to recall, the GATS schedules only indicate present levels of restrictions and do not reveal the extent of openness in their respective national markets. As such, the assessment presented here is only indicative and not conclusive.

Table 4: Selected Market-Opening Measures in the Services Sector

Sector	Policy
Air Transport	EO 219 (1995) liberalized domestic & international airline industry
Communications	RA 7925 (1995) deregulated and liberalized telecommunication industry
Water Transport	EO 185 (1994) deregulated inter-island maritime shipping industry
Finance	RA 7721 (1994) liberalized banking industry
	RA 8556 increased foreign equity participation in financing companies
Energy	EO 215 (1991) allowed private sector participation in power generation under BOT scheme
	RA 8180 (1996) deregulated downstream oil industry
Others	EO 226 (1995) eased investment regulations on foreign ownership
	RA 7652 allowed long-term lease of private lands by foreign investors
	RA 8179 (1995) removed Negative List C in Foreign Investment Act
	RA 8239 (1997) strengthened intellectual property rights

Looking at BOP data, the Philippines appears to have a strong potential in the services sector. The impressive performance of services exports and the enduring surplus position of services trade demonstrate this. The country's service industry benefits from the large pool of labor, the high level of educational qualification, and the English proficiency of its population. As the acquisition, deployment and use of human expertise becomes increasingly necessary in the production and trade in goods and services, the Philippines is well positioned to exploit opportunities given its supply of highly skilled workforce.

One can also assess existing market opportunities for Philippine service providers by looking into the GATS commitments of other countries. The impact of GATS depends to a large extent on the offers made by its members. But analyses of these commitments

conclude that most countries scheduled only a small part of their services sector. And many continue to maintain numerous measures that restrict market access (see discussion below).

Commitments made by developed countries were substantially higher than those made by developing countries. Figure 4 above shows that the major consumers of commercial services have made wide-ranging offers in their services sector. Australia, Japan, the United States and the European Union have made binding commitments in all major services sub-sectors. From Table 2 above, we can also assess the degree of openness in these markets. More than a quarter of all possible commitments in the services sector for Japan and the EU and over a third for the US are completely unrestricted.

The United States currently maintains relatively low barriers in areas such as construction, wholesale and retail trade, hotel and restaurant, real estate, recreation and cultural services. EU member countries, on the other hand, extend liberal treatment in hotel and restaurant services and distribution. Market access to computer services is particularly open in the US, EU, Japan and Australia.

Likewise, barriers to construction services are comparatively low in Indonesia, Malaysia and Singapore. The latter also maintains relatively minimal barriers to hotel and restaurant services, computer services, research and development (social sciences), and recreation and cultural services. In ASEAN, access to the provision of hotel and restaurant services, finance, computer, R&D services, and recreation and cultural services are relatively open (see Annex Table 7).

However, local service suppliers may be unable to take advantage of certain market openings to create economies of scale or achieve significant enough level of specialization given that the Philippines' service suppliers are still relatively underdeveloped. Most Philippine firms do not have the capital to establish branches or subsidiaries abroad. The lack of limited technical capabilities would also make it

difficult for the country to avail of opportunities in cross-border trade or establishing commercial presence in other countries. Moreover, the Philippines is not a major player in finance, telecommunications, or transport services – three main areas of sectoral negotiations under GATS. In this regard, the possibility of commercial gain may be limited to the movement of local labor for international services and freeing up the movement of consumers availing of Philippine services. In this regard, the prospects of two sub-sectors are explored here.

Professional Services

The Philippines appears to have a comparative advantage given the demand for professional and low-skills services. Official remittances of Overseas Filipino Workers (OFW) was estimated at US$5.7 billion in 1997 alone, more than double the level registered five years ago. Over 95 percent of this amount came from service laborers employed in land-based jobs. Of the total, OFWs working in the United States generated about 72 percent. Asia accounted for 8 percent of total remittances, led by Japan and Hong Kong, with about the same amount coming from Europe (see Annex Table 8).

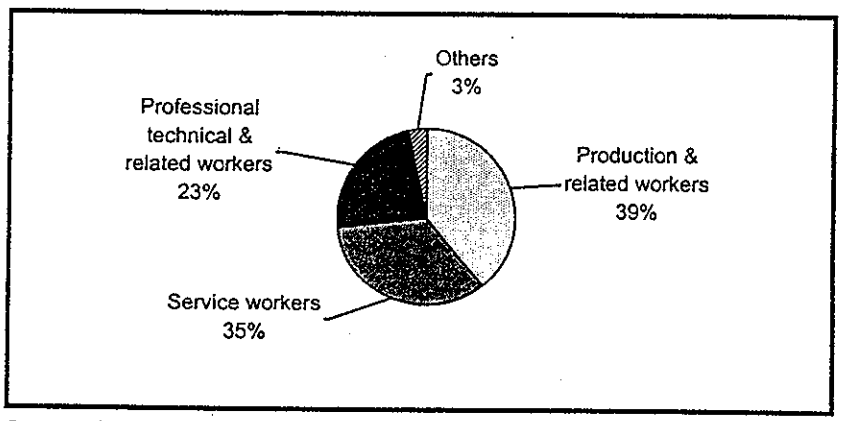
The Asian crisis has had some impact on the level of remittances of OFWs. From January to April 1998, the Philippine Overseas Employment Agency (POEA) reported a 0.5 contraction in OFW remittances compared with the same period last year. The decline was attributable to negative rates registered by sea-based jobs which contracted by as much as 31 percent. The only region that registered growth were remittances from the Americas while Europe, Asia, Oceania and Middle East all posted negative rates. POEA also reported declines in new hires particularly in recession-hit Asia.

In terms of the distribution of OFWs by skill category, production and related workers accounted for 39 percent of the total in 1997 (see Figure 4).[17] This category includes

[17] Data presented here refers to the number of documented OFWs as monitored by the POEA, which is probably understated because of the large number of undocumented overseas workers.

laborers, electrical-related workers, plumbers, fitters, foremen, transport equipment operators, carpenters, etc. The second largest group of workers is comprised of service workers accounting for about 35 percent of the total. Maids and housekeeping service workers account for approximately 62 percent of OFWs under this category. Those employed in professional technical and related tasks ranked third with 23 percent of the total OFWs, of which 62 percent are composers and performing artists.

Figure 4: OFWs by Skill Category, 1997



Source: Philippine Overseas Employment Agency

Professor Lamberte noted that Filipino service providers could compete well in certain highly skilled jobs. The Philippines has traditionally been an important source of construction services and professional services in the fields of engineering, architecture, and management consultancy. Between 1996-97, the POEA noted a 35 percent rise in contracts for architect engineers and related technicians and a 22 percent increase for surveyors, engineers, draftsmen and engineering technicians. He also indicated the potential of medical-related services, accountancy and computer services primarily because of the large domestic supply in such professions. The POEA reported a 53 percent jump for computer technicians between 1996-97.

On the other hand, Lamberte also noted the decline in competitiveness of certain medium and low-skill categories such as professions related to construction work, clerical jobs, common laborers, and service workers. Indeed, between 1996-97, overseas demand for

professional technical and related workers increased by 43 percent while production and related workers grew by only 13 percent. On the other hand, deployment of service workers went down by as much as 10 percent, mainly due to significant decline in overseas contracts maids and related housekeeping service workers.

GATS, however, primarily focuses on freeing movement of upper-level and skilled workers. Binding commitments made by developed countries involved more liberal treatment of the entry of business visitors, intra-corporate transferees (executives, senior management and specialists), and the practice of qualified foreign professionals.

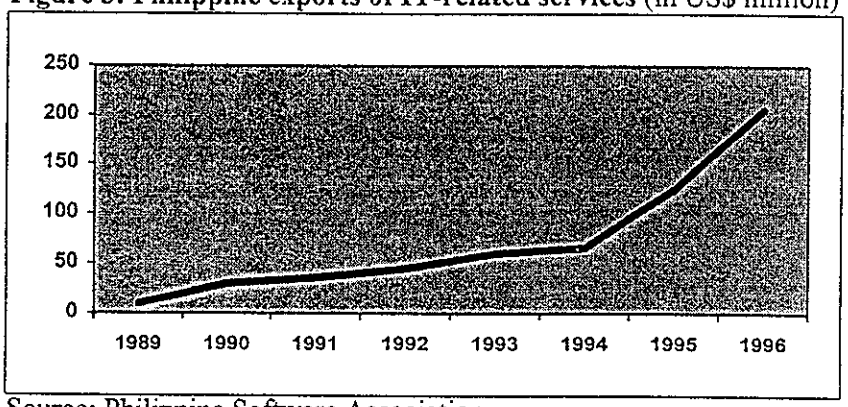
Moreover, most commitments made under mode four are still subject to a market test, that is the temporary restriction or quota is conditioned upon a determination that no resident or national of the host country is available and qualified to carry out the same assignment. Countries like the US and Japan maintain quota restrictions on the number of foreign skilled workers that enter their domestic market. An additional barrier relates to licensing and professional qualification required by standard-setting and regulatory bodies. Hence, the entry of Filipino professionals in these service markets is somewhat limited. There is benefit in negotiating mutual recognition agreements, as is being pursued in APEC, in the areas of qualification and licensing requirements.

But one should not limit service exports merely on the overseas deployment of Filipino professionals. There are also opportunities to export services through other modes of supply. Technological changes are rapidly creating new opportunities in services exports, particularly in long-distance provision of certain services. The World Bank estimates the potential value of long-distance exports at about US$140 billion annually.

For instance, data-processing and entry, software programming, back-office service activities, product design, logistic management, research and development, and customer service are increasingly being outsourced and traded across borders. The Philippine Software Association estimates that the country's software and data service exports grew

from just US$10 million in 1989 to US$206 million in 1996 (see Figure 5). The Philippines is second only to India in computer software exports in Asia. Focusing initially on offshore data entry services, Philippine software firms have also provided software design, contract programming, consulting, and systems integration services (AIM, 1998).

Figure 5: Philippine exports of IT-related services (in US$ million)



Source: Philippine Software Association

Given the availability of cost-competitive IT service providers, there are bright prospects for locally-based firms to service the needs of foreign consumers of information technology-intensive services. The potential of cross-border supply of computer services has been recognized by the draft Philippine Export Development Plan (PhilExport, 1998) which includes such services as applications, software development, systems software development, turnkey systems development, consulting services, and systems integration as potential export winners.

Tourism

There are also prospects in the tourism sector.[18] The travel and tourism sector accounts for about 8.7 percent of GDP. Approximately 10.5 percent of investments are made in the tourism-related business. Moreover, almost 9 percent of the country's labor force have

[18] The DOT defines tourism services to include travel; temporary accommodation; provision of food, drink, goods, and souvenirs; entertainment and recreation; opportunities for physical rest and renewal; choice of recreational pastimes; social and cultural experiences; etc.

found employment in tourism-related establishments. In other words, promoting tourism services can help push growth in employment, income and investments.

According to the Department of Tourism (DOT), the tourist-related establishments generated more than US$2.4 billion in foreign visitor receipts in 1996, up from US$2 billion in 1994, second only to semi-conductor exports in terms of generating foreign exchange revenue. Visitor receipts represent the total expenses of both foreigners and foreign-based Filipinos during their stay in the country. The major expenditure items the form part of these receipts include entertainment and recreation, accommodation, food and beverage, and shopping.

Before the Asian crisis hit, tourism revenues were expected to further rise based on the five million foreign visitors projected to arrive in the Philippines by the year 2010. But in the first half of 1998, foreign visitor arrivals posted only a 0.8 percent increase, a substantial decline from last year's 11.2 percent increase. According to the DOT, total visitor receipts for first five months of 1998 went down by nearly 20 percent to US$962 million from US$1.2 billion generated in the same period last year. In contrast, visitor receipts grew by 4.8 percent in 1997 and 10.1 percent in 1996.

Much of the past years' increase in tourist arrivals was accounted by visits of tourists from Southeast Asian and East Asian countries, particularly from Taiwan and Korea. The regional crisis, however, has dampened consumer demand for intra-regional travel. Tourists from South Korea, Hong Kong, Japan and other ASEAN countries have been quite scarce in recent months. Indeed, there is a reversion to the traditional markets for Philippine tourism services, particularly from the United States and Europe.

According to estimates, Philippine travel and tourism has a 0.80 percent market share of the Asia-Pacific market and 0.21 percent in the international market. According to the Pacific Asia Travel Association, only 7.6 percent of the almost 5 million Americans who

toured the Pacific region in 1997 chose the Philippines as their destination. There is, therefore, considerable scope for expanding tourism revenues.

Demand for Philippine tourism services is generally dependent on income levels in the visitor's home economy. The domestic prices of tourism-related goods and services and the availability of airline services to the Philippines also influence tourist arrivals and revenues. On the qualitative side, the political and social climate also affects the flow of tourist arrivals to the country (Rodolfo, 1997a).

Moreover, the poor state of the country's tourism support infrastructure services can impose limits on the growth of tourism markets despite the Philippines' natural attractions. The country's natural attractions are a boon for the industry. But the poor state of infrastructure, particularly in the areas of transportation and communication, impose serious limits to its growth potential. Restrictive domestic and international transport policies limit access to certain destinations in the Philippines (Garchitorena, 1997). Moreover, the lack of trained personnel and inadequate community-based support facilities further constraint the tourism sector. There is the need for qualitative improvements of both soft and hard infrastructure before tourism services can grow.

VII. Impediments to Services Trade

Market access opportunities in the services trade, however, is hampered by the fact that the sector remains heavily regulated and protected. Many sectors are subject to very detailed rules most of which act to impede trade in services. The UNCTAD and the World Bank have identified various measures, relating to impediments to market access and national treatment, which operate to distort international service transactions (see Table 5).

The nature of impediments in services differs from goods due to the nature of commercial trade in services. Trade barriers in services tend not be in the form of tariffs but in the

form of licensing requirements, standards, quantitative restrictions, or outright prohibition. Rules commonly limit the number of players allowed to contest a market. Foreign equity and the number of foreign personnel allowed to work in the domestic industry are usually subject to restrictions. Considerations relating to consumer protection, prudential supervision and regulatory oversight often induce governments to require establishment of foreign providers (e.g. in financial or professional services) or reserve activities for government-owned or controlled/regulated entities (Hoekman, 1995). There also remain substantial non-regulatory barriers created by private industry practice.

The effects of such restrictions are not as transparent as tariffs and are difficult to measure. Moreover, according to Hoekman, binding commitments made under GATS are less powerful than tariff bindings under GATT because many access barriers are not captured in the scheduling exercise. Instead of focusing on the identification, quantification, and reduction of barriers, absolute sectoral reciprocity was the norm in GATS negotiations (Hoekman, 1995).

Except for cross-border supply and consumption abroad of services, limitations are commonly made under the horizontal commitments for commercial presence and the movement of natural persons. Many countries often impose ownership rules, performance requirements, and equity restrictions on foreign service providers wishing to establish a commercial presence in a domestic market. Many governments also maintain restrictions in ownership of land and prohibit foreign interests in certain "strategic" service sub-sectors. In addition, differences in education and examination standards, experience requirements, and regulatory policies inhibit the movement of service personnel. [19]

[19] GATS has set up a Working Party on Professional Services to provide guidelines for mutual recognition of professional qualifications between members, particularly in the accountancy sector.

Table 5: Survey of Impediments to International Service Transactions

Mode of Supply	Market Access Restrictions	Violation of National Treatment
Cross-border supply	• quotas • bilateral agreements • local content rules	• port taxes • price controls • subsidies • government procurement • access to distribution networks
Consumption abroad	• exit visas • travel documentation • entry restrictions • residence permits	• limits on foreign currency • recognition of educational standards and certificates • taxes on travel
Commercial presence	• total exclusion of foreign investment • nationality requirements • foreign equity limits • restrictions on number of branches • restrictions on geographical location	• limits on services provided • 'buy-local' state procurement policy • technology transfer requirements • performance requirements • limits to scope of business operation and access to local finance
Presence of natural persons	• immigration controls • professional licensing requirements	• restrictions on living conditions • limits on overseas remittances • restrictions on workplace benefits • taxation of foreign providers • repatriation rules

Source: UNCTAD and the World Bank (1994).

In a survey of impediments to trade and investment in the APEC region, the Pacific Economic Cooperation Council (PECC) assesses that regional service markets remain heavily regulated despite binding commitments made by APEC members under GATS. Approximately 78 percent of service markets within the APEC region are closed to international transactions. The PECC report notes that computer and tourism services are the most open service industries in the APEC region while the most restricted are postal services, basic telecommunications, transport services, health and social services.

Limitations in Philippine Services Sector

Approximately 85 percent of the Philippine service industry are at least partially, if not completely, restricted. Hoekman (1995) noted that maritime cabotage, air transport, basic telecommunications, life insurance, and research and development in the natural sciences

are completely restricted in the Philippines (see Annex Table 7). Partial restrictions also exist in construction, real estate, and education services.

According to the 1995 PECC survey, the most regulated service industries in the Philippines are pipeline transport, space transport, maritime cabotage, recreational services, health and social services, environmental services, education, distribution, construction, audio-visual services, basic telecommunications, postal services, rental services, real estate, R&D, computer, professional and other business services. Substantial restrictions were also noted for value-added telecommunications, tourism, banking, insurance, and transport services.

The provision of national treatment to foreign service providers is especially a sensitive policy issue. The Philippine Constitution expressly prohibits foreign ownership in certain sectors and reserves them exclusively for nationals.[20] Labor laws also restrict employment of foreigners and several regulatory laws govern the practice of certain professions.[21]

The surveys made by Hoekman and PECC on the country's GATS schedules, it appears that the Philippines made binding commitments on services sectors that were already subject to extensive regulations. From a negotiating point of view, this provides trade negotiators some leeway for the next round of negotiations scheduled in 2000. Some margin has been given for improving the country's concessions without actually modifying existing regulatory frameworks thereby allowing room for progressive liberalization in the future.

However, these limitations only serve to stifle the growth potential of the domestic service sector. The effect of such restrictions is to limit the choice of services, contribute to higher prices, stifle innovation, and engender inefficiencies throughout the economy.

[20] Among the relevant constitutional provisions are Section 9 Article II; Sections 9, 11, 12 and 14 of Article XII; Article XIV Section 4; and Section 11 of Article XVI. (See Villegas, 1998).
[21] Particularly Article 40 of the Labor Code of the Philippines and Presidential Decree (PD) 223 as amended by PD 657 creating the Professional Regulatory Commission.

Moreover, monopolistic structures, government ownership, use of antiquated technologies, the public nature of some service industries, over-regulation, and weak consumer pressure further bring about inefficient service delivery (PECC, 1996). The outcome is price and market distortions that in the end hamper the Philippines' ability to compete with other countries. Ultimately, an inefficient service sector will act as a drag on the Philippines' development prospects.

VIII. Policy Issues in the Services Sector

As the domestic service sector remains heavily regulated, practically no adjustment will result from the Philippines' commitments under the GATS accord. The agreement itself does not seriously constrain the government's policy choices except for the sectors entered in its schedule of commitments. The APEC and ASEAN agreements on services merely build on the GATS agreement (voluntarily for the former) and sufficient flexibility is allowed with regard one's commitments. As the UNCTAD (1996) observed,

> "The process of liberalization (in services) will take place with due respect for national policy objectives and the level of development of individual members, both overall and in individual sectors. There will be appropriate flexibility for individual developing countries for opening fewer sectors, liberalizing fewer types of transactions, progressively extending market access in line with their development situation."

Nevertheless, the imperative to be competitive in the global marketplace and the modernization pressures brought about by technological change are enough motivations for the Philippines to consider opening up its domestic service sector. Moreover, the growing demand from users and consumers will induce regulatory reform and liberalization across the service industry (PECC, 1996). In other words, there is a need to rationalize the price structure and reduce market distortions in order to improve productivity and bring the quality of domestic services to world standards. This can be

partly achieved by minimizing restrictions on services trade and allowing the entry of foreign service inputs.

Since domestic demand is not enough to support the development of a sophisticated, high-value-added specialty services, there is need to access export markets so domestic service providers can grow and innovate. Through exports of professional services, for instance, the Philippines can access technology and develop competitive strength for increasing their share in world trade in services. However, domestic service providers seeking to enter overseas markets must be able to offer world-class services.

Export promotion then should also be complemented by measures to progressively open up the domestic service sector. Progressively opening up the local market will subject local businesses to competition and force them to upgrade their services. Moreover, there are gains to be made from specialization and greater access to lower cost and quality services that result from liberalization. Such policy reforms will also help facilitate cross-border trade of Philippine services, generate foreign exchange revenues, and encourage greater foreign direct investment.

Given the diverse market structures and industrial characteristics of the services sector, however, there is difficulty in formulating a single set of policy recommendations that will be applicable for the entire sector. Rather than go into sector-specific analysis and recommendations, the study will merely outline broad policy initiatives that the government may pursue to promote services trade.

Firstly, there is a crucial need to improve the collection of data on the services sector. Policy formulation is constrained by the lack of accurate information and relevant statistical data on services trade. It is difficult to define the Philippines' commercial interests in international markets when very little is known as to the volume and direction of trade in services. This study proposes that the government adopt the UN Central Product Classification (CPC) scheme which the GATS uses in classifying services.

This data should be presented in a sufficiently disaggregated level for both service exports and imports, particularly breaking down the 'others' item. Government statistics should also distinguish between export and domestic revenues and intra-corporate and non-affiliate trade data as well as reflect the destination and sources of services trade (ITC, 1997).

The Philippines' overseas trade missions and attaches should also provide information on trends and opportunities in services trade. They should be tasked to identify market opportunities for Philippine-based service exports and address existing barriers to trade in services. Improving the monitoring capabilities of government and revising methods of reporting services trade will go a long way in helping define trade strategies in services.

Secondly, there is need to reform policies that act to constrain services trade. As regulation can be an important indirect barrier to services trade, regulatory reform is often a necessary complement to trade liberalization (Hoekman and Primo-Braga, 1997). Given that FDI is a major mode of delivery of international services, it is also important to improve measures to attract foreign direct investment by lowering restrictions on their entry. Further, regulatory reform should take cognizance of technological developments that make existing laws obsolescent. The International Trade Center (ITC) suggests the following policy measures to enhance the performance of service exporters:

- Ensure an industry-neutral approach to policy development by making sure that the service industry has a voice in export promotion policy and trade policy development;
- Ensure that current incentives or support given to merchandise exporters are equally extended to service producers (in terms of tax credits, export assistance, etc.);
- Provide for an incentive system that does not discriminate according to size, location, or configuration of service enterprises;

- Support investments in human resource development and industrial skills training and grant incentives for skilled individuals to remain in the country; and
- Build electronic commerce infrastructure to facilitate the delivery of services.

In particular, it is important to highlight the role of producer services, such as transport, communications, finance, and distribution services. There is a need to address the imbalance caused by the relative dominance of distribution services and the relative inefficiency of producer services (Mehta, 1997). In essence, efficient producer services are an important and necessary complement to the present outward-oriented development strategy of the Philippines. Liberalizing these sectors will greatly help reduce the cost of doing business and will make better quality services more available.

To a degree, liberal policies have been pursued with respect to telecommunications, air and maritime transport, and finance. But there is room for the improving the competitive framework governing these sectors. The Estrada administration promises to further relax restrictions on the foreign ownership of land, review existing limits on foreign equity in areas such as retail trade, postal services, and media as well as the complete liberalization of non-banking financial services including pre-need services and management of mutual funds. Amending existing laws on investment companies to allow full foreign equity participation and reviewing restrictions on foreign membership in board of directors for investment and financing companies are also being considered.

Likewise, there are initiatives toward allowing the entry of more foreign banks into the country. There are also proposals to amend the nationality requirements in the Constitution relating to the practice of licensed professions and removing the labor market test for entry and temporary stay of certain categories of natural persons who supply services. Other outstanding areas for further policy reform include such areas as transport policy, telecommunications, retail trade, etc. (see Box 3).

Box 3: Selected Areas of Policy Reform in Services

- Open the provision of telecommunication services nationwide
- Resolve interconnection issue
- Implement tariff rate re-balancing for domestic long distance and local exchange
- Ensure cost-effective internet connectivity
- Tighten enforcement of intellectual property rights
- Lower or eliminate tariff rates on imported IT-related software and equipment
- Open up retail trade to foreign investors
- Expand 'open skies' policy on a reciprocal arrangement
- Deregulate and liberalize inter-island shipping
- Upgrade the quality of the labor force to make it more receptive to technological change
- Allow equal access to government procurement

Source: Center for Research and Communication (1997), International Trade Center (1997), Basilio (1998)

In addition, there is need to develop a supportive human infrastructure to promote services trade. As the Philippines becomes more service-oriented, various professional skills and the need for continuous training become more relevant. For one, the quality and technological competence of the country's workforce stands improvement. Specifically, the diffusion of computer literacy should receive special attention in education strategy (Primo-Braga, 1996).

The private sector can also contribute to developing the international competitiveness of local services industries. For one, local service providers seeking to enter the international market must aggressively build up a credible image overseas. And even if local firms do not wish to enter foreign markets, they still have to contend with a more competitive environment with the entry of foreign players. The overwhelming majority of service providers are small and medium-scale enterprises (SMEs) that have modest means to engage in export activities. For these SMEs, therefore, the central task is to establish a position in the international market for services. The ITC recommends the following measures:

- Obtain international recognized professional licenses and/or certifications such as a ISO 9000 registration;[22]
- Network and form strategic alliances with known industry leaders and affiliates;
- Seek membership in international service associations;
- Build the firms' capabilities in information technology and communications; and
- Promote the formation of a service industry association to promote best practices and advocate policy in support for the sector.

There is ample scope for both business and government to work together in developing internationally competitive service exporters in the Philippines. Government can help improve the regulatory framework and infrastructure support for services exporters. While private firms can help develop enterprise improvement initiatives, such as establishing best practices and ensuring quality control.

Further research is also required before one can formulate appropriate strategies for the services industry. Reviewing and consolidating various industry-specific studies would provide baseline data for an integrated approach to services trade. An assessment of the sector-specific implications of the entry of foreign suppliers must be studied further. In addition, there is need to examine the condition of backward linkages needed to support domestic service providers' entry into the world market. Specifically, the following studies should be undertaken:

- Benchmark the performance of the services sector vis-à-vis the Philippines' competitors based on cost efficiency and inefficiency;
- Reassess the existing policy and regulatory framework, such as in the area of competition policy;

[22] The ISO 9000 series of standards is used by the International Organization of Standardization (ISO) deals with quality management systems.

- Study the forward and backward linkages of the services sector to highlight more accurately its contribution to the other sectors of the economy, in general, and to the export sector, in particular; and
- Reevaluate the Philippine Export Development Plan to take into account of the quantitative contribution of services to the country's trading performance.

IX. Conclusion

While there may be limited outcomes arising from the present GATS agreement, the accord provides greater transparency and predictability in the conduct of international transactions in commercial services. The publication of current policies on market access and national treatment will facilitate trade significantly by reducing uncertainty and preventing arbitrary changes on government policies. The binding of current levels of restrictions likewise sets the stage for further liberalization in future negotiations.

Given the dynamic role of services in the overall development of the national economy, the Philippines stands to directly benefit from this process of liberalization. The country's service exporters will directly gain from the opening up of markets and stronger multilateral trade disciplines. Consumers and producers alike will also gain from greater access to cheaper and better quality services. The wider range of services made available by opening measures pursued by the government should also improve the market competitiveness of local industries.

Future liberalization, however, will have to take into account how the country can derive meaningful benefits by opening up heretofore protected services sub-sectors. The government will need to redefine the appropriate regulatory framework that would allow the services sector to grow. The resiliency of the services sector during this period of economic crisis should persuade policymakers to reassess the priorities and refocus their traditional bias for merchandise trade. Similarly, there is room for private sector involvement particularly in improving productivity and fostering linkages across sectors.

Liberalization should increase rather than decrease commercial activity and hence promote economic growth. There exists numerous opportunities to further develop the Philippines' service industries and for local exporters expand into the international market. A policy framework more consistent with the government's outward-oriented development strategy should help promote the expansion of the country's services exports and prepare the Philippines for the next round of GATS negotiations in 2000.

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ANNEX

GATS Services Sectoral Classification List

1. Business Services
    - A. Professional Services
        - a. Legal Services
        - b. Accounting, auditing, and bookeeping services
        - c. Taxation services
        - d. Architectural services
        - e. Engineering services
        - f. Integrated engineering services
        - g. Urban planning and landscape architectural services
        - h. Medical and dental services
        - i. Veterinary services
        - j. Services provided by midwives, nurses, physiotherapists and para-medical personnel
        - k. Others
    - B. Computer and Related Services
        - a. Consultancy services related to the installation of computer hardware
        - b. Software implementation services
        - c. Data processing services
        - d. Data base services
        - e. Other
    - C. Research and Development Services
        - a. R&D services on natural sciences
        - b. R&D services on social sciences and humanities
        - c. Interdisciplinary R&D services
    - D. Real Estate Services
        - a. Involving own or leased property
        - b. On a fee or contract basis
    - E. Rental/Leasing Services without Operators
        - a. Relating to ships
        - b. Relating to aircraft
        - c. Relating to other transport equipment
        - d. Relating to other machinery and equipment
        - e. Other
    - F. Other Business Services
        - a. Advertising services
        - b. Market research and public opinion polling services
        - c. Management consulting services
        - d. Services relating to man, consulting
        - e. Technical testing and analysis service
        - f. Services incidental to agriculture, hunting and forestry
        - g. Services incidental to fishing
        - h. Services incidental to mining
        - i. Services incidental to manufacturing
        - j. Services incidental to energy distribution
        - k. Placement and supply services of personnel

m. Related scientific and technical consulting services
n. Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment)
o. Building-cleaning services
p. Photographic services
q. Packaging services
r. Printing and publishing
s. Convention services
t. Other

2. Communication Services

A. Postal Services
B. Courier Services
C. Telecommunication Services
a. Voice telephone services
b. Packet-switched data transmission services
c. Circuit-switched data transmission services
d. Telex services
e. Telegraph services
f. Facsimile services
g. Private leased circuit services
h. Electronic mail
i. Voice mail
j. On-line information and data base retrieval
k. Electroninc data interchange
l. Enhanced/value-added facsimile services, including store and forward, store and retrieve
m. Code and protocol conversion
n. On-line information and/or data processing (including transaction processing)
o. Other
D. Audio-visual Services
a. Motion picture and video tape production and distribution services
b. Motion picture projection service
c. Radio and television services
d. Radio and television transmission services
e. Sound recording
f. Other
E. Other

3. Construction and Related Engineering Services

A. General Construction Work for Buildings
B. General Construction Work for Civil Engineering
C. Installation and Assembly Work
D. Building Completion and Finishing Work
E. Other

4. Distribution Services

A. Commission Agents Services

B. Wholesale Trade Services
C. Retailing Services
D. Franchising
E. Other

5. Educational Services
A. Primary Education Services
B. Secondary Education Services
C. Higher Education Services
D. Adult Education
E. Other Education Services

6. Environmental Services
A. Sewage Services
B. Refuse Disposal Services
C. Sanitation and Similar Services
D. Other

7. Financial Services
A. All Insurance and Insurance-related Services
a. Life, accident and health insurance services
b. Non-life insurance services
c. Reinsurance and retrocession
d. Services auxiliary to insurance (including broking and agency services)
B. Banking and Other Financial Services
a. Acceptance of deposits and other repayable funds from the public
b. Lending of all types, including inter alia, consumer credit, mortage credit, factoring and financing commercial transaction
c. Financial leasing
d. All payment and money transmission services
e. Guarantees and commitments
f. Trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise, the following:
- money market insurance (cheques, bills, certificate of deposits, etc.)
- foreign exchange
- derivative products, including, but not limited to, futures and options
- exchange rate and interest rate instruments, including products such as swaps, forward rate agreements, etc.
- transfearable securities
- other negotiable instruments and financial assets, including bullion
g. Participation in issues of all kinds of securities, including under-writing and placement as agent (whether publicly or privately) and provision of service related to such issues
h. Money broking

i. Asset management, such as cash or portfolio management, all forms of collective investment management, pension fund management, custodial depository and trust services

j. Settlement and clearing services for financial assets, including securities, derivative products, and other negotiable instruments

k. Advisory and other auxiliary financial services on all the activities listed in Article 1 of MTN, TNC/W/50 including credit reference and analysis, investment portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy

l. Provision and transfer of financial information, and financial data processing and related software by providers of other financial services

C. Other

8. Health Related and Social Services

A. Hospital services
B. Other Human Health Services
C. Social Services
D. Other

9. Tourism and Travel Related Services

A. Hotels and Restaurants (including catering)
B. Travel Agencies and Tour Operators Services
C. Tourist Guide Services
D. Other

10. Recreational, Cultural and Sporting Services (other than audio visual services)

A. Entertainment Services (including theatre, live bands, and circus services)
B. News Agency Services
C.Libraries, Archives, Museums, and other Cultural Services
D. Sporting and other Recreational Services
E. Other

11. Transport Services

A. Maritime Transport Services
   a. Passenger transportation
   b. Freight transportation
   c. Rental of vessels with crew
   d. Maintenance and repair of vessels
   e. Pushing and towing services
   f. Supporting services for maritime transport
B. Internal Waterways Transport
   a. Passenger transportation
   b. Freight transportation
   c. Rental of vessels with crew
   d. Maintenance and repair of vessels
   e. Pushing and towing services
   f. Supporting services for internal waterway transport
C. Air Transport Services

a. Passenger transportation
b. Freight transportation
c. Rental of aircraft with crew
d. Maintenance and repair of aircraft
e. Supporting services for air transport

D. Space Transport

E. Rail Transport Services
a. Passenger transportation
b. Freight transportation
c. Pushing and towing services
d. Maintenance and repair of rail transport equipment
e. Supporting services for rail transport services

F. Road Transport
a. Passenger transportation
b. Freight transportation
c. Rental of commercial vehicles with operator
d. Maintenance and repair of road transport equipment
e. Supporting services for road transport services

G. Pipeline Transport
a. Transportation of fuels
b. Transportation of other goods

H. Services auxiliary to all modes of transport
a. Cargo-handling services
b. Storage and warehouse services
c. Freight transport agency services
d. Other

I. Other Transport Services

12. Other Services Not Included Elsewhere

A. Energy Services

Table 1

Leading Traders in Commercial Services, 1997

(in US$ billion and percent)

Rank	Exporter	Value	Share	Rank	Importer	Value	Share
1	United States	229.9	17.5	1	United States	150.1	11.6
2	United Kingdom	85.5	6.5	2	Japan	122.1	9.4
3	France	80.3	6.1	3	Germany	120.1	9.3
4	Germany	75.4	5.7	4	Italy	70.1	5.4
5	Italy	71.7	5.5	5	United Kingdom	68.6	5.3
6	Japan	68.1	5.2	10	China	30.1	2.3
9	Hong Kong	37.3	2.8	11	South Korea	29	2.2
11	Singapore	30.4	2.3	14	Taiwan	24.1	1.9
15	South Korea	25.4	1.9	15	Hong Kong	22.7	1.8
16	China	24.5	1.9	17	Singapore	19.4	1.5
20	Taiwan	17	1.3	21	Thailand	17.2	1.3
22	Thailand	15.8	1.2	22	Malaysia	16.8	1.3
23	Philippines	15.1	1.2	23	Indonesia	16.1	1.2
24	Malaysia	14.5	1.1	28	Philippines	14.1	1.1

Source: World Trade Organization

Table 2
Philippine Services Trade
(in US$ million and percent)

	1992	1993	1994	1995	1996	1997	Average Growth Rate
Services, Net	3020	2507	3964	4765	6800	5744	17.7
Receipts	7443	7497	10550	14374	19006	22835	25.9
Freight & Merchandise Insurance	153	156	185	252	331	329	17.5
Travel	944	1178	973	1124	1546	2341	22.4
Investment Income	479	548	773	1147	1753	1956	33.7
Government	247	56	19	24	18	7	-40.6
Personal Income	2222	2276	3009	3869	4306	5742	21.6
Others	3398	3283	5591	7958	11052	12460	32.2
Payments	4423	4990	6586	9609	12206	17091	31.5
Freight & Merchandise Insurance	942	1176	1300	1950	2285	2602	13.4
Other Transportation	283	278	181	132	40	113	9.8
Travel	102	130	196	422	1266	1935	89.3
Investment Expense	2108	1887	1919	2617	2720	2969	8.1
Government	3	18	15	20	37	49	126.8
Others	985	1501	2975	4414	5858	9423	58.5

Source: Bangko Sentral ng Pilipinas

Table 3

Share of Service Sector

(in million pesos at constant prices)

	1992	1993	1994	1995	1996	1997	1998*
Agriculture, Fishery & Forestry	163571	167053	171043	172844	178143	183146	84496
Industry	247348	251459	266820	284504	302482	319834	151406
Services	307986	315798	327886	345518	367826	388550	194235
Transport, Communication & Storage	41870	43095	45067	47366	50878	54916	28876
Trade	109780	112479	116923	123430	130247	135685	64392
Finance	29217	29909	31531	33852	38513	43277	22642
Ownership of Dwellings & Real Estate	40534	41269	42473	43765	45576	47316	24103
Private Services	49551	50984	53138	55461	58231	61207	31129
Government Services	37034	38062	38754	41644	44381	46149	23093
GDP	718914	734310	765749	802866	848451	891530	430137
Net factor income from rest of the world	18198	22137	29160	22298	33948	41754	20783
GNP	737139	756447	794909	825164	882399	933284	450920

Growth rates

(in percent)

	1992-93	1993-94	1994-95	1995-96	1996-97	96-97/1	96-97/2	97-98/1
Agriculture, Fishery & Forestry	2.13	2.39	1.1	3.1	2.8	3.4	2.5	-7.5
Industry	1.65	6.11	6.6	6.3	5.7	6.3	6	0
Services	2.54	3.83	5.4	6.5	5.6	5.9	5	4.1
Transport, Communication & Storage	2.93	4.58	5.1	7.4	7.9	8.5	8	7.3
Trade	2.46	3.95	5.6	5.5	4.2	4.6	3.3	3
Finance	2.37	5.42	7.4	13.8	12.4	14.1	11.9	6.1
Ownership of Dwellings & Real Estate	1.81	2.92	3	4.1	3.8	4.1	3.4	2.2
Private Services	2.89	4.22	4.4	5	5.1	4.8	4.9	4.3
Government Services	2.78	1.82	7.5	6.6	4	3	2.8	2.7
GDP	2.14	4.28	4.8	5.7	5.1	5.5	4.9	0.2
GNP	2.62	5.08	3.8	6.9	5.8	5.4	5.3	0.6

Source: National Statistical Coordination Board

* first semester data

Table 5
Investments in Services Sector
(in million pesos)

	1992	1993	1994	1995	1996
Wholesale & retail trade	1027	1670	2008	2761	3738
Finance, insurance, real estate & business services	3809	7993	12175	13523	17748
Transport, storage, & communication	432	755	1044	2174	2137
Community, social & personal services	534	921	1195	2765	5170
All industries	8536	14438	22522	32264	39749

Source: Securities and Exchange Commission

Table 8
OFW Remittances by region
(in US$ million)

	1992	**1993**	**1994**	**1995**	**1996**	**1997**
Total	2222	2276	3008	3868	4307	5742
Sea-based	445	389	379	210	251	258
Land-based	1757	1840	2560	3658	4055	5484
Asia	112	173	389	462	536	455
Japan	53	74	78	152	115	131
Hong Kong	38	75	189	171	221	189
Singapore	14	15	98	106	130	93
United States	1159	1426	1979	2748	2564	4109
Oceania	8	11	55	71	68	19
Europe	148	179	254	251	574	436
Middle East	153	173	131	42	39	25
Saudi Arabia	146	161	101	11	15	6
Others	638	310	194	280	510	679

Source: Bangko Sentral ng Pilipinas

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Table 6 : Summary of Limitation in the Philippine GATS Commitments

Service Sector	*Land Ownership*	*Foreign Equity*	*Presence of aliens*	*Regulatory Approval*	*Access to credit limitations*	*Economic needs test*	*Commercial presence*
All sectors	✓	✓	✓		✓		
Transport		✓	✓				
Maritime transport services							
International transport			✓				
Leasing/ rental of vessels w/o crew				✓			
Maintenance/ repair of vessels				✓			
Air transport services							
Leasing/rental of vessels w/o crew				✓			
Maintenance/repair of aircraft							✓
General sales & cargo sales agency							
Rail transport services							
Passenger/freight transport							
Maintenance/repair of vessels							
Road Transport services							
Passenger and freight transport				✓		✓	
Maintenance/repair of vehicles							
Tourism							
Tourism accommodation facilities		✓	✓				
Specialty restaurants		✓	✓	✓			
Professional congress organizers		✓					
Travel agencies		✓	✓				✓
Financial services				✓		✓	
Banking and other financial services							
Commercial banking		✓	✓	✓			✓
Investment house		✓	✓	✓			✓
Financial advisory services		✓					
Factoring		✓	✓				✓
Financial leasing		✓	✓				✓
Money and forex broking		✓					✓
Credit card services		✓					✓
Securities dealership/brokerage				✓			✓
Insurance			✓				
Life and non-life insurance		✓	✓	✓			
Auxiliary services		✓	✓				✓
Reinsurance		✓	✓	✓			
Communication services		✓	✓	✓			

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Table 7

Tariff Equivalents in Selected Services Sector, 1995

Sector	Phil	Indo	Malay	Sing	Thai
Construction	40.0	16	10	12	28
Wholesale & retail trade	32.8	34.8	34.8	34.4	32.5
Hotel & restaurant	5.0	5	5	2.5	10
Land transport	21.3	50	50	50	40
Maritime transport	39.1	43.8	37.5	39.1	39.1
Maritime cabotage	200	200	200	200	200
Air transport	200	200	200	200	200
Postal services (incl. Courier)	25	200	200	75	200
Basic telecommunications	200	200	157.1	200	200
Financial services	13.8	27.5	27.1	22.5	35.4
Life insurance	200	200	200	200	200
Real estate	50	50	50	50	50
Rental services	26	40	22	40	36
Computer	20	16	11	6	12
R&D (social science)	20	16.7	15	14.2	20
R&D (hard science)	100	100	100	100	100
Business services	35.4	34.1	21.3	21.7	29.1
Education	50	50	50	50	38.8
Health & social services	37.5	50	37.5	36.5	50
Recreation & culture	19.4	18.8	13.8	14.6	16.7

Source: Hoekman (1995)