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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRESS ON POLICY REFORMS UNDER RAMOS

(CONTRACT NO. 492-0000-C-00-2206-00)

DRAFT FINAL REPORT

Submitted by:

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Consolidated Executive Summary

1. The Ramos administration was ushered in 1992 thru a multiparty election, with the support of the Aquino administration. President Fidel V. Ramos (PFVR) obtained a plurality (24% among seven candidates), with his election being protested only by one of the candidates.

   The election was quite unique in Philippine political history since all national and local government elective posts were included in the 1992 elections, except the officials of the autonomous region in Muslim Mindanao. The terms of the elective posts in the Local Government Units (LGU's) and the House of Representatives (HR) were shortened to 3 years in accordance with the 1987 Constitution; also half of the Senate was elected for a 3-year period in order to provide for staggered terms subsequently.

2. In view of the election results, PFVR made an effort to consolidate political forces, first, by the formation of a rainbow coalition in the HR; second, by the reorganization of the Senate; third, affiliation of various local political leaders to the Administration coalition. The President has continuously travelled to various areas in the Philippines, like he used to do, to gain support and to know the local/regional problems. We believe that the reduced term of 3 years is a big factor in the shift to the Administration party.

   Recent survey results showed the large support (66%) for the Ramos administration.

   The issue of lack of political support and stability is no longer a problem both from a domestic or foreign viewpoint. The political process of transferring political power from one administration to another was adjudged a success.

3. Any new or successor administration is faced with a broad horizon of problems to be solved immediately and in the medium and long term.

   Briefly, the Aquino administration ended their term with the following problems.

   (a) Acute peace and order problem - especially kidnap for ransom cases

   (b) Severe electric energy shortages in two major islands - Luzon and Mindanao

(c) Bloated bureaucracy resulting in high budget expenditures for salaries and benefits but with a record of relatively slow project implementation.

(d) The budget deficit was being reined in, resulting in cuts on capital spending and at the same time, domestic borrowing was reduced resulting in declining interest rates.

(e) Improvement in the trade regime by liberalization [removal of remaining quantitative restrictions (QRs)] and by lowering tariff rates over a 5-year period; and by acceeding to the ASEAN Free Trade Agreement (AFTA), under the formula of a Common Effective Preferential Tariff (CEPT) scheme.

However, the Aquino government approved the reinstallation of QRs on agricultural products in June 1992 when the Magna Carta for Small Farmers was enacted into law.

(f) Adopted a consistent policy on debt management resulting in negotiated debt reduction and improved terms.

(g) Let go of the last U.S. military facility in the Philippines, the Subic Naval facility.

4. The Ramos administration set their targets on immediate problems.

(a) Peace and order; and police problems-

In response to the vexing problem, the Vice President (VP) was appointed head of the Presidential Anti-Crime Commission (PACC) to consolidate and coordinate the administration efforts to reduce crime and at the same time reorganize the Philippine National Police (PNP). PFVR carried out the reorganization by asking a number of top officials to file for retirement.

Police matters is the expertise of PFVR since he was in command of the Philippine Constabulary (PC) for a long time, PNP, and the Armed Forces of the Philippines (AFP); hence, solving the worsened crime situation was a test of his will and effectiveness.

This effort is succeeding as shown by the decline on index crime statistics.

(b) Energy crisis

The initial approach was to reduce brownouts by operating the power plants to the fullest extent. This strategy failed; the announced promises that brownouts would be over by September 1993 faded away. The electric shortage in Luzon was so severe, up to 8 to 10 hours of no electricity, resulted in reduced production, increased unemployment and negative growth.

Several steps were taken: tax exemption for electric generators; Build-Operate-Transfer (BOT) projects; recreation of the Department of Energy (DOE); reorganization at the National Power Corporation (NPC); capital infusion to NPC from the Oil Price Stabilization Fund (OPSF); enactment of the Electric Power Crisis Act allowing for shortened procedures for environmental impact assessments (EIAs) and equipment procurement; leased floating generating sets; and increased energy rates. Due to lack of surplus energy even at night, the pump up storage system for peaking power supply have been left idle. Pump irrigation during the summer or dry season could not also be operated.

All the immediate and medium term actions taken so far will produce an electric generation system that is relatively high cost.

The nuclear power plant issue was sidelined (political - legal issues) without the government requesting expert opinion from the International Atomic Energy Agency (IAEA) to determine whether the plant was safe to operate or not. The Koreans who operate a similar nuclear power plant in Korea even ventured to offer PFVR in his visit to Korea to operate the plant since they have 10 years of operating experience in a plant of similar design.

The major electric power plants are being worked out: (1) Pagbilao (2) Masinloc (3) Calaca. Unless there are replacements for the old generating units which are relatively large capacity, the power supply situation will not be reliable. The new estimate now is that the power supply will stabilize by 1996.

The longer term energy plan has been formulated. What remains in question is the capability of the NPC to implement the program on a timely basis.

The lack of energy has become the main bottleneck to production, failures to meet market deliveries, and slowing down investments both domestic and foreign.

The other aspect of energy is fuel supply. There is no problem about international supply, in fact, it continued to remain on the oversupply or soft side.

Domestically, it was a question of price setting. Up to now, the price remains controlled by government; in addition the government continues to protect the oil companies against exchange rate fluctuation through the use of the OPSF funds. The return on investment on the petroleum, refining and distribution facilities remained low because of price controls; hence, there were delays in the expansion and modernization of refineries and other facilities. While the petroleum industry was considered strategic [under the Foreign Investment Act (FIA)], it was decided by the National Economic and Development Authority (NEDA) that there would be no domestic investment requirement; it is open up to 100% foreign investment. The oil companies have started their expansion programs; otherwise, the Philippines will be short of refining capacity in two to three years time.

Philippine demand is also skewed towards the middle distillates, especially diesel fuel oil. This situation requires refinery modification or an active trade in oil products with other refining centers.

Oil exploration and development efforts have been successful to some extent due to a major find by the Shell-Occidental combine. Once this oil and gas field starts producing, it will provide positive balance-of-payments (BOP) effects in the medium term that could help spur additional investments. Preliminary discussions and negotiations are now being held with government for the supply off-take contracts to justify investments in the proposed pipeline (400 km.) and other facilities.

Privatization of PETRON Corporation is also underway; hopefully, leading to a more deregulated petroleum industry in the near future.

(c) Unification process

The unification of the different elements of society with the main stream of society was one of the early initiatives of the FVR administration. This process is not yet complete but it is entering the negotiation stage with the military rebels.

International developments have provided a good setting for the unification process. The collapse of the communist system and the problems in the Middle East have removed substantially both the economic and moral support to the leftist and secessionist groups. On the other hand, the military rebels have lost ground and, therefore, are more willing to negotiate for their return to the mainstream.

The general approach is to forget the past- amnesia - amnesty. This will require an act of Congress upon the recommendation of the President. There is a forward move on this aspect. However, without supporting growth of the economy, these deviant elements of society can resort to criminal acts if they cannot find gainful employment.

This unification process requires a commitment; hence, it will not be surprising if some elements of the movement would not join the majority in their pledge of allegiance to support the duly constituted government.

Economic Matters

5. It was a running start for the FVR administration, as far as, the issuance of economic EOs (1) tax free importation of generators; (2) zero duty for cement imports and then, the (3) basic policy guidelines for a medium term development plan- growth and competitiveness.

   There was an early reaffirmation of the tariff reform initiated by the previous administrations and an attempt to liberalize trade including agricultural products, and passing measures for foreign exchange deregulation.

   The budget which was prepared basically by the Aquino administration was submitted to Congress by PFVR but Congress took time to deliberate on the budget because Congress had to organize all its committees first before conducting hearings and before other legislative functions could be performed. Issues on the debt cap and more allocation to the service sectors became an issue again but a compromise was arrived at. The budget was finally enacted on January 6, 1993, too late for projects to get started during the good weather months.

   Before the fiscal year began, there were plans to pump prime the economy during the first semester of 1993 in order to boost the economy but the public works program implementation was too slow; as a result, expenditures were way below expectations. Many reasons were advanced for the slow implementation such as delayed approvals, new people, more careful implementation procedures, no electricity, etc.

In addition to the poor public works performance, the electricity shortage became worse during summer months, so the private sector productive activities were restrained from producing more. Investments which were being expected to come as soon as the Administration settled in place just waited for better conditions. One could say, though, that investors in the Philippines remained to be bullish based on inquiries, visits, registrations, joint venture agreements but real investment flows did not come as anticipated. The facilitation of the registration of foreign investments under the Foreign Investments Act and the approval of the 1993 Investments Priority Plan (IPP) had minor effects on actual direct investment inflow. However, investments made in the stock market and government notes/bills rose due to the foreign exchange liberalization measures and the relatively high real interest rate on the government debt instruments. These kind of investments are flighty, they move in and out quickly depending on the situation.

While waiting for the electricity situation to improve, the Team thought it would have been good for the government to fast track the reforms in investment laws, for example: (1) amendment to the Banking Act allowing foreign banks to operate; (2) changing the thrust of the Board of Investments (BOI) to be more promotional rather than regulatory by having: (a) low uniform duty on equipment imports but without exemptions; (b) allowing accelerated depreciation and loss carry forward in place of income tax holiday of 5 years; (3) applying the condominium concept to ownership of factory land in industrial estates; (4) classifying investments made by multilateral institutions of which the Philippines is a member as "national" investments; and (5) extend the transition period of the FIA to a longer period. Since these pieces of legislation were not enacted during the first session, they should be priority before 1993 ends; the investment climate could be receptive and friendly for the incoming investments either late in 1993 or in 1994. This investment boost is essential for growth for employment since the domestic savings is low. After the package of investment laws is passed, these laws should be stabilized for a while in order to give the new investors a breathing spell; otherwise, they will say the rules of the ball game keep on changing. It is true that some changes could not be avoided because of changing situations both domestically and internationally.

It goes without saying that a correction in the exchange rate is also an important step since investors are wary of initial investment losses. The investment proponents get a beating from their respective boards when their initial investments lose value immediately. For example, investors give a favorable rating to their investments in Thailand and Taiwan because the currencies maintained their value and even appreciated vis a vis the US Dollar after they had invested.

The emphasis on infrastructure build up is an important complementing action. Good roads and ports, traffic decongestion, reliable air services, good communications are all necessary for business efficiency and competitiveness.

Comparing the Philippines with other countries, the RP still has good opportunities to attract investments due to availability of workers and managerial level staff. The pressures to relocate industries from Japan, Korea, Taiwan are still there- appreciating currencies, shortage of manpower and the trade surpluses with the U.S. and Europe.

6. The draft Medium Term Philippine Development Plan (MTPDP) was released early December 1992. This plan was characterized as a framework plan with good basic policy intentions but lacking in components. The agro industrial sector components are not clearly specified. The planned growth rates were quite high, both at starting points and at end-of-plan. This plan was subjected to a barrage of comments and criticism so the government had to defend planning targets. As the months of 1993 passed by, the over targetting became more pronounced resulting in the scaling down the first year growth target but considered still as unattainable. The MTPDP was submitted to Congress for its blessing but the first session of the 8th Congress adjourned without passing the plan due to overoptimistic growth targets which were not supported by other factors such as adequate electrical energy supply, inflow of investments, increased savings, higher capital budget expenditures, etc. Hopefully, the Congress can finally endorse the plan before 1993 ends.

In addition to the effort of disseminating the objectives of MTPDP, the government launched the program for Philippines 2000 which aims to bring the industrialization effort to a level that will qualify the Philippines to the category of a Newly Industrialized Country (NIC). This is another target. On the other hand, the electric energy situation will only stabilize by 1996 according to official estimates. The selected export winners which number 14 categories of exports are practically the same exports over the past 10 years. It seems that the planning horizon to accomplish NIC-hood is too short. Probably the Philippines 2000 is being made as a guiding star to rally and encourage the people to strive harder rather than being a realistic plan to NIC-hood.

The delayed approval of the MTPDP 1993-1998 by Congress left the business sector without clear planning and policy guidelines. Even with the majority control in both houses of Congress, the Ramos administration finds it difficult to get a resolution to endorse its basic plan. In order to implement the Plan, the annual budgets supporting the infrastructure program will require new revenue measures to finance its basic and counterpart funding. The requirements of the plan and the budget are supposed to be resolved in a proposed summit between Congress and the Ramos administration sometime in August or early September. Probably the only remaining period for the enactment of revenue measures will be up to early 1994. The preparations for the 1995 elections will make Congressmen uncooperative to introduce new revenue measures.

As stated earlier, the basic policy elements of the plan and the Philippines are growth and competitiveness. Growth will be boosted by inflows of investment, hence policy stability and the enactment of investment friendly measures are a must. The administration must also avoid confusing signals for example, the announcement that Subic is a "free port" but when the regulations were issued, it was in the category of an export processing zone.

The gearing of the economy to a competitiveness mode should show that many existing industries are already competitive. After the tariff hearings on the selection of industries that will participate in the AFTA, we learned that many industries are in the exclusion list. This is an index of the Philippine's level of competitiveness. While the aims of E.O. 470 (tariff reduction) and the AFTA converge towards competitiveness, it is necessary for the Ramos administration to formulate now its own commitment to pursue tariff reduction and trade liberalization on the basis of foundations laid earlier by previous administrations.

7. In support of the restructuring of the economy towards competitiveness and stability, the growth of the export sector is emphasized. The Philippine economy does not produce enough exports to counterbalance the rapid increase in imports as the economy improves and grows. The Plan has

indicated the program to improve exports. On the other hand, the exchange rate was allowed to appreciate, thus adversely affecting the exporters. The peso appreciated on top of the lack of availability of electric power and the declining supply of some raw materials, wood and rattan.

Furthermore, the refunds of taxes and duties paid by exporters still take time due to bureaucratic and auditorial requirements. Again it is hoped that these elements that affect efficiency could be attended to quickly. In addition, the Philippine export credit system does not extend to the indirect exporters or suppliers to export industries. They do not get the benefit of special rediscounting or export credit schemes for exporters. We recommend that these businesses supplying the export industries be given access to special credit arrangements. Probably the domestic letter of credit system for indirect exporters could help them avail of appropriate credit terms. We emphasize this aspect because interest rates are relatively high in the Philippines as compared with many countries.

It is generally known that the Philippines could build up international reserves if the economy is growing slowly because the import demand goes down. This is what was happening over the past three years. As soon as the economy picks up, then there will be a surge of imports hopefully most of the capital imports are going to be financed by medium term loans and by direct investments.

The interest rate level in the Philippines is affected largely by the inflation levels, and the extent of government borrowing to finance the public sector deficits.

Generally speaking, not all aspects of the Ramos administration thrust for an export boost were in place during his first year.

8. The monetary and fiscal authorities will have to dedicate more effort in tackling fiscal problems after having completed the rescheduling of the foreign commercial debt and the return of the Philippines to the voluntary international credit market during the first year of the Ramos administration. There was a delay in the negotiations with the International Monetary Fund (IMF) to have a successor program initially due to differences in the growth parameters of the economy and then the necessity of having a set of revenue measures to match the demand for expenditures and investments. As indicated by the budget statistics, there was a substantial drop in revenues vs expected revenues but the expenditures for the first semester were also below target; hence, the budget deficit

was contained within targets. However, there are plans to accelerate disbursements during the third quarter of 1993, and therefore, the specter of a huge budget deficit with the corresponding demand for domestic financing will arise. The fiscal aspect remains to be a basic problem, because the revenue prospect is not good due to a very pervasive tax exemption system that has reached about P27 billion in revenues foregone. The revenue proposals that were approved during the first session of Congress were largely advancing the payments of VAT, not real increases in revenues over the long term. Advancing payments would probably mean a one time two-month gain in cash flow only. It seems that the basic approach of the revenue agencies lie in better tax administration and using the built-in flexible clauses to cope with the demands for additional revenues. The Philippine tax rates are about as par with the region, but the tax to Gross National Product (GNP) ratio is about 2 to 3 percentage points of GNP less. The proposed computerization will help tax administration indicate major leakages.

The sustained privatization will also result in funds flow, however, these funds are largely alloted to agrarian reform. On the other hand, the liabilities of such privatized companies are lodged with the national government (NG) and therefore, this gives the NG very little leeway to fund other requests. The latest liability transfer to the national government is that of the Central Bank of the Philippines (CBP). In addition to the agrarian reform, 40% of internal revenue is alloted to local governments. There is no doubt that the various schemes for revenue raising, tax exemptions, automatic sharing of revenues and transfer of liabilities have great effects on the fiscal matters which have to be consolidated and assessed as to what would be the outcomes under the MTPDP and the supporting budgetary programs. There is no doubt that the fiscal matters should deserve a basic review and then decisive action on reform programs taken.

The law creating the Central Monetary Authority (CMA) was enacted towards the close of the first session of Congress. The transfer of liabilities to the National Government is being worked out. On the basis that the CMA is starting clean, then they would be more flexible in managing the exchange rate and the level of money supply. It seems quite strange, though, that the Secretary of Finance is not included as a member of the Monetary Board. Monetary and fiscal matters are two faces of the same coin.

With reference to the financial system, bank branching has been liberalized, capital requirements are increasing and the Bank of International Settlements' (BIS) rules on capital/risk ratios are going to be adopted soon. The consolidation of some banking units are still going. The trend to have a big capital base either by merger or capital contribution is a good trend. Legislation to allow entry of additional foreign bank branches is awaiting further deliberation in Congress. The increase in the capacity of the banks to lend or invest is important in supporting the growth of business and industry, not only for their short term working capital requirements but for medium term loans for expansion and modernization. It was learned that the process of reducing reserve requirements will continue but the Monetary Authorities are discussing the inclusion of trust accounts to be covered also by reserve requirements.

Complementing the improvements in the banking system is the intervention of PFVR himself in the unification of the two stock exchanges. This move to unify will enhance the stature and credibility of the Philippine Stock Exchange (PSE) because many investors are wondering why there are two prices for the same stock which are transacted at the same time where the trading floors are so close to each other. It is also encouraging to see that many more family businesses are being listed in the stock exchange. While the trading infrastructure is being improved through computerization and common rules, the capacity of the brokers to underwrite primary issues is still very weak. Increased capitalization requirements will come as the next step to increase the capacity and efficiency of the capital market.

9. As part of this executive summary, we are repeating the conclusions and prospects as presented in the macroeconomic analysis.

The first year of the Ramos administration was crucial in several ways. Firstly, it needed to build a stronger foundation by which the environment for the economy becomes more conducive to growth. Second, it needed to maintain the fruits of the earlier foundations and reforms instituted by the previous regime. Third, it needed to initiate structural reforms that would spark recovery and eventually propel and sustain growth. Finally, it needed to arrive at some collective understanding (and consensus) of the adjustments that various sectors of society had to carry as part of economic growth.

The Ramos administration, undoubtedly, was able to consolidate fractious forces in the country to build a strong foundation for the economy. It sustained the stabilization program sufficiently to attain its benefits although one can argue that it may have been carried too conservatively. And then it was able to forge a common framework among policy leaders of the two branches of government.

During this first year, it took serious efforts to put structural reforms in place for a more sustainable macroeconomy to flourish. The review of these reforms indicate many were instituted in terms of executive actions or legislation. But the institution of these reforms also suffered from a number of weaknesses. For one, the Ramos administration wavered in some areas (e.g. opening up the economy, debt strategy pronouncements) thus threatening the credibility of its commitment to a macroeconomy based on competitive forces. For another, a number of critical reforms essential for succeeding ones took undue time to complete even with more friendly Congress and consolidated political forces. And then the Ramos administration took or proposed more easy measures instead of bolder reforms that strike at the structure of the macroeconomy (e.g. tax efficiency, abolition of tax laws inhibiting savings and capital mobilization). The administration also did not assert the importance of a fully committed MTPDP as the basic ground rule for the macroeconomic environment, thus, effectively retaining some uncertainty in direction and agenda.

This does not mean the reform measures had feeble repercussions. (Table 1.3 sets out a summary of macroeconomic reforms during the first year of the Ramos administration). It simply means the environment had not attained the strength and credibility for a potential take-off to succeed. With every wavering of policy pronouncement, commitment erodes. With every delay in policy reform measures, uncertainty creeps in. With every avoidance of real reforms, their reinforcive impact diminishes.

TABLE 1.3
MACROECONOMIC REFORMS AGENDA AND PROGRESS

Reform Areas	Progress
Monetary	
Creation of Central Monetary Authority	Legislation completed
Liberalization of Banking	Pending H.B.
IMF Facility	Under discussion
Reduction in reserve requirements	First stage completed
Financial Sector	
Unification of two bourses	Completed
Stabilization Program	Completed
Removal of high intermediation costs	No bill submitted to Congress

Fiscal Policy

Sales of Government Assets	Many "to be disposed at later date"
Reliance on customs revenue source	No dramatic decline in MTPDP
Pump-priming Expenditures	Underspending
Measures for increased collection	Pending
Revenue enhancing measures	Legislated
o Amended Tobacco Tax Act	
o Stiffer Penalties for Tax Evasion	
o Creation of Large Taxpayers Unit at BIR	
o Requiring Monthly Payments of Value Added Tax	
o Repealing Sections of Tariff and Customs Code	
o Requiring Government Agencies to Deduct and Withhold VAT from Payments Made to Contractors	

Debt Management

Rescheduling of commercial debt	Completed
Debt-reduction exploration	Stated and Recanted

The performance of the economy in the first year of the administration shows a weak recovery, but bottoming out nonetheless. Although the past's understanding may be debatable more can be ascribed to some lack of policy reform resoluteness than the administration may be willing to accept. The President's assertion, however, that more and radical measures have to be made suggests the weaknesses of the reform agenda and process in his first year. That these are known is necessary to re-affirm the direction of these reforms.

The most telling concern for the reforms is the employment generation of the economy. The reduction of the unemployment rate from 9.1 percent in the first quarter of 1992 (the beginning of the Ramos administration) to 8.3 percent in the first quarter of 1993 can not be dismissed easily. But this magnitude of the unemployment rate suggests the enormity of getting the macroeconomy going and sustaining it on the path that eventually tightens the labor markets. Couple this with the increase in the underemployment rate from 20.1 percent to 21 percent for the same period and the concern is even more telling. Indeed, the job creation work of macroeconomic reforms for the succeeding years of the Ramos administration is already cut out. A successful drive to a lower population growth rate (which the Ramos administration has assiduously pursued in its first year) would ease the burden tremendously. But it will not lessen the task of the government's work in the next 5 years.

PROGRESS ON POLICY REFORMS UNDER RAMOS

A. POLITICAL ASPECTS OF ECONOMIC REFORM

I. INTRODUCTION

This final report gives an overview of developments in the political arena which directly affect the environment for economic reforms under the Ramos Administration. It covers the first year of the administration's term and incorporates the contents of the previous reports. The assumption underlying this section is that the success of the Ramos Administration's economic reform program depends to a large extent on political developments that affect the formulation and implementation of policies.

In this connection, the following important political factors will be considered: (1) the peace and order situation, (2) executive-legislative relations, (3) the administrative machinery's capabilities to implement reform programs and (4) support for and opposition to the reforms. Peace and order is a key area inasmuch as it has become in the recent past a major determinant of business activity in the country and the Philippines' economic performance. Unless the government addresses perceived problems in this area, the social environment will remain unfavorable for business expansion.

The relations between the executive and the legislative branches of government is a key to the translation of the administration's reform program into actual policies and budgets. The presidential system with its intricate system of checks and balances adopted by the 1987 Constitution has given much power to Congress vis-a-vis the President, from the appointment of administration officials to the annual budget to legislation. The President absolutely needs the cooperation or concurrence of Congress with regard to his administration's reform program and in the way that this program is translated into policies.

The capability of public institutions, including the administrative and judicial machinery to implement policies and resolve legal problems also determines the success of every reform program adopted by a country's leadership. Aside from this, the support of the public and politically significant groups at the grassroots level is important in the context of the Philippines' pluralistic political system.

This report focuses on the achievements of the Ramos administration in addressing the problems and furthering the cause of economic reform with regard to these four areas in the first year of his term. It also touches on and analyzes the problems in these areas that the administration faced during this period and has not been able to address successfully or at all.

II. PEACE AND ORDER

A. The Insurgencies

The insurgencies, having lost much ground during the last years of the Aquino Administration, continued to lose their relevance, appeal and following during the first year of the Ramos Administration. At the outset of President Ramos' term, the triple threats of the communist insurgency, the right-wing military rebellion and the Muslim secessionist movement have been largely neutralized and reduced to the level of peace and order problems, to the point that most businessmen have become more concerned with crime than with the threat from these subversive elements.

The AFP's anti-insurgency campaign during the first year of the Ramos Administration continued to gradually reduce the CPP-NPA's ranks (AFP estimates of NPA strength runs at slightly over 11,000 as of June 1993 as compared to a peak of over 25,000 in 1986), although the low level of military operations following the initiation of the peace talks between the government and the rebels has also slowed down the NPA's attrition rate. Only some remote and economically depressed areas in Eastern Visayas, Bicol and the Cordillera region remained firmly under CPP-NPA control.

There have been signs of disintegration of the NPA as former elements of NPA units like the Alex Boncayao Brigade have recently been involved in criminal operations such as kidnap-for-ransom activities. The accusations thrown by NPA leaders like Gregorio Rosal (alias Ka Roger) against former NPA members like Leopoldo Mabilangan (alias Ka Hector), who sought protection from the law, indicate that the NPA command has lost control over some units, which have turned into banditry.

More significant for the future of the communist insurgency is the development of deep divisions within the movement, which have resulted in the emergence of three major factions. These are as follows:

a. The Jose Maria Sison group: This group is led by the self-exiled Jose Maria Sison and is run from the party's headquarters in the Netherlands. It has strong following among rural cadres in the Visayas and Mindanao and in the Northern Luzon, Southern Tagalog and Bicol regions. This group adheres to the Maoist doctrine of "protracted people's war", which emphasizes a rural-based insurgency.

b. The Manila-Rizal Regional Committee: This is headed by Filemon Lagman (alias Carlos Forte) and includes former NPA commander Romulo Kintanar, and claims an armed force of around 5,000 cadres, including the urban terrorist Alex Boncayao Brigade (ABB). This group challenged Sison's rural-based strategy and opposed his consolidation of power and suppression of internal debate within the party. The group adheres to the Nicaraguan "insurrectionist" doctrine, which calls for an urban-based insurgency. However, the group has also declared itself supportive of the government-initiated peace process if it promises to address the issues of social injustice and poverty.

c. The reformists: This group includes the "Verdaderos," a group active in the Visayas and Mindanao areas which was formed by Byron Bocar, a former member of the NDF negotiating panel in 1986, as well as other groups within the NDF close to Satur Ocampo who opposed the authoritarian tendencies of the Sison faction and are likely to develop into a legal and open leftist political group. They are supportive of the peace process.

Similar developments seem to occur within the Muslim separatist movement. Further divisions have weakened the movement, which had already broken up into three groups in the past: the main Moro National Liberation Front (MNLF) group under Nur Misuari, the Moro Islamic Liberation Front (MILF) under Hashim Salamant and the MNLF Reformist Group. More recently, lost commands and fundamentalist groups (like the Abu Sayyaf group) have emerged and conducted terrorist activities in Basilan, Sulu and Cotabato. Among these were:

a. the abduction of Fr. Jaime Blanco and Anthony Biel by the Jil Jilan MNLF break-away faction and the Muslim fundamentalist group Abu Sayyaf;

b. the killing of six civilians in Kidapawan, Cotabato on June, 1993 by alleged elements of the MILF "lost command;"

c. the bombing of key infrastructure and social service areas in Metro Manila like the Light Rail Transit bombing last May by remnants of the Abu Sayyaf group; and

d. the bombing of a National Power Corporation transmission tower near Lake Lanao allegedly ordered by Misuari to dramatize Muslim resentment over the building of the government hydro electric plant in the area.

The rightist rebel movement has ceased its terrorist operations after its leaders surfaced and negotiations with the Ramos government started. Some bombing incidents resulting in the destruction of property were attributed to rightist rebel groups during the election campaign period. There were indications that the rightists were preparing for action in anticipation of a possible failure of the May 1992 elections, which never happened. Weakened by lack of public support and dwindling financial assistance since the failed coup attempt of December 1989, the RAM-YOU and the SFP were open to a negotiated settlement as Ramos took over the reins of government.

While continuing military operations against the few remaining CPP/NPA bases, the Ramos administration shifted the emphasis towards a political solution directed at the three anti-government groups. In order to encourage these groups to negotiate, the president initiated the following moves:

a. the legalization of the CPP by repealing RA 1700;

b. the release of leftist and rightist political detainees;

c. the suspension of court proceedings against political detainees charged with offenses against national security and public order; and

d. the issuance of Proclamation Numbers 10 and 10a granting amnesty to 4,485 former rebels, which was submitted to the Senate for concurrence.

At the same time, the president created the National Unification Commission (NUC), which became the main vehicle for the peace process. The NUC was tasked to design a peace program acceptable to all groups and to hold talks with rebel groups to arrive at a comprehensive amnesty package. The NUC has identified five stages of the peace process:

a. confidence building;

b. agenda formulation;

c. negotiations or consensus-building;

d. finalization of the agreement; and

e. implementation of the agreement.

The peace process has gone much farther ahead in the case of the rightist rebels and in the others' cases. Exploratory talks with the MNLF and the CPP-NPA-NDP have been bogged down by issues of venue as well as by the emergence of contending factions and have not yet led to actual negotiations. The following describes the progress of the peace process:

a. The RAM/YOU/KSP: In their case, the peace process has reached the third stage (negotiations or consensus-building). Negotiations between the government panel headed by Professor Artemio Tadiar and the RAM panel headed by Brig. Gen. Edgardo Abenina have been stalled by various technical issues, the latest of which were the issue of whether the rebels are to surrender their offensive weapons now or after the talks and the arrest of Sgt. Antonio Soriano, a RAM member, which the RAM decried as a violation of the December 23 preliminary peace agreement.

   Meanwhile, both parties have agreed on 5 talking points for the negotiations: (a) electoral reforms, (b) good government, (c) reforms in the military, (d) nationalist economic policies and (e) social justice. The negotiations with KSP, which is headed by Brig. Gen. Jose Maria Zumel, is also underway.

b. The NDF: Formal talks with the NDF, which have passed the second stage (agenda-setting), have been delayed by the issue of venue. The NDF insists on holding the talks either in the Netherlands, Japan or Switzerland, while the government is for a shifting of venues. The talks have been complicated by the emergence of factions within the communist movement which are more supportive of the peace process than the Sison-led faction. President Ramos has initiated the formation of the government panel by appointing former Ambassador Howard Dee as chief government negotiator. The government and the NDF have agreed on the following ten talking points from their series of exploratory talks:

   1. electoral reforms;

   2. political principles for the operation of political parties;

   3. broader and more effective enforcement of human rights principles;

4. dismantling of all private armies;

5. improvement of the administration of justice;

6. environmental protection;

7. socio-economic reforms;

8. provision for the victims of internal armed conflict;

9. economic components of national unification; and

10. disposition of forces and armaments.

c. The MNLF/MILF: The talks are stalled in the second stage (agenda-formulation). The start of formal talks, which were scheduled for mid-July (after having already been postponed from the original June 30 date), has been further postponed pending a personal meeting between the heads of the panels, Maj. Gen. Manuel Yan (heading the government panel) and Nur Misuari (heading the MNLF panel). Misuari has in principle agreed to the government's proposal of shifting venues.

However, the parties still have to agree on the final talking points, with the MNLF stressing that the modalities of the 1976 Tripoli Agreement must be taken up and the government panel insisting that the creation of the Autonomous Region for Muslim Mindanao (ARMM) already complies with the agreement. The government is also about to resume exploratory talks with the MILF after these were suspended last November due to the partisan activities of the MILF in the period leading to the last ARMM elections.

Faced with adverse external and internal circumstances and dwindling chances of strategic success, the anti-government rebel groups have been drawn to the negotiating table with the Ramos Administration's policy of reconciliation. The rightist rebel leaders have gone the furthest in these negotiations. Internal dissensions within the communist and Moro secessionist movements are further weakening their leaderships' position vis-a-vis the government. Prospects are bright for the eventual conclusion of the talks with the rightist rebels, given the apparent exhaustion of the rebel leaders, the consolidation of government control over the military and unfavorable political conditions for another coup attempt.

Talks with the hardline leadership of the CPP-NPA-NDF and the MNLF face more difficult times as these are complicated by the emergence of breakaway factions that will either seek to negotiate directly with the government or repudiate the peace efforts and conduct their own terroristic actions. While these rebel movements have clearly stopped being serious threats to national security, it is expected that their disintegration will lead both to the return of many rebels to the mainstream of society and to the conversion of the remnants of these movements into criminal groups or their integration into the criminal syndicates operating in the country.

The national security environment, which had improved during the last years under the Aquino Administration, was further improved by the steps taken by the Ramos Administration. The legalization of the Communist Party, the offer of amnesty and the peace talks not only brought about the possibility of ending the insurgencies through peaceful negotiations; they also weakened the rebel movements from inside and added to the factors which are causing the disintegration of these movements.

B. Criminality

Various indicators show a general decline in criminality in the country, although the impressions from media reports would suggest otherwise. Statistics provided by the PNP indicate the continuing downward trend of index crime cases and show that in the last few months, criminality has reached the lowest levels compared to the last twelve years. [See Figure 1.] Public opinion surveys conducted by SWS, an independent group, would support the PNP's description of a downward trend in criminality as experienced by ordinary citizens. [See Figure 2.]

FIGURE 1
COMPARATIVE CRIME VOLUME
Average number of index crime cases reported per month

1981	5,560
1982	6,067
1983	6,306
1984	7,491
1985	7,972
1986	6,800
1987	7,592
1988	7,586
1989	7,901
1990	7,417
1991	5,988
1992	5,672
1993*	5,098

*Jan-Feb
Source: Philippine National Police

FIGURE 2
CRIME VICTIMIZATION RATE
Victimization by Crime of Any Immediate Family Member of SWS Survey Respondents Within the Past Six Months
(Percent of total respondents)

	Theft	Break-In	Carnap*	Violence
Feb 1989	18	9	5	
Sep 1989	14	5	3	
Apr 1990	14	7	4	
Nov 1990	14	7	7	
Jul 1991	18	10	12	9
Nov 1991	14	9	9	11
Feb 1992	19	8	18	10
Apr 1992	17	8	19	7
Sep 1992	9	4	2	2
Dec 1992	10	5	4	4
Apr 1993	9	4	2	2

*Carnap is percent of respondents who own motor vehicles

Source: Social Weather Stations

Three types of crimes have defied the general downward trend over the past few years and have increased in the late 1980s and early 1990s: kidnapping for ransom, car thefts and armed robberies. Unlike average index crimes, these types of crimes yield lucrative returns and are clearly committed for the overriding purpose of financial gain. These crimes also involve well-organized syndicates and members or former members of the military and police establishments. [See Figure 3.]

FIGURE 3
INCIDENCE OF REPORTED KIDNAPPINGS, CAR THEFTS AND ARMED ROBBERIES PER MONTH

	Kidnappings	Car thefts	Armed roberries
1987	NA	142.2	5.5
1988	NA	116.1	2.6
1989	1.1	47.8	3.5
1990	0.8	NA	7.4
1991	3.2	NA	4.6
1992	4.7	56.0	2.9
1993*	4.3	60.7	3.0

*Jan-Mar
Source: Philippine National Police

Among these crimes, kidnapping for ransom increased dramatically during the last two years, with members of wealthy Filipino-Chinese families composing the bulk of victims. Many cases seem to have remained unreported, which indicates that the levels of kidnapping are higher than those reported by the PNP. Reported cases of kidnapping reached a peak in September 1992, even after the Ramos Administration took highly-publicized measures, including the establishment of a Presidential Anti-Crime Commission (PACC). [See Figure 4.]

FIGURE 4
KIDNAP FOR RANSOM INCIDENTS NATIONWIDE
(Number of reported incidents, Jan. 1992 - Apr. 1993)

Jan 1992	5
Feb 1992	3
Mar 1992	6
Apr 1992	3
May 1992	3
Jun 1992	4
Jul 1992	3
Aug 1992	5
Sep 1992	13
Oct 1992	3
Nov 1992	5
Dec 1992	3
Jan 1993	9
Feb 1993	4
Mar 1993	5
Apr 1993	0

Source: Presidential Anti-Crime Commission

However, reported kidnappings slightly subsided soon after and registered a dramatic downturn after the first quarter of 1993. A geographical breakdown of reported kidnapping cases show a shift of kidnapping operations from the National Capital Region and Luzon to Mindanao. Mindanao accounted for less than a third of such cases in the last semester of 1992 and for more than half in the first quarter of 1993. [See Figure 5.] Most of the kidnappings in Mindanao involved renegade groups formerly affiliated to the MNLF.

FIGURE 5
GEOGRAPHICAL BREAKDOWN OF REPORTED KIDNAP FOR RANSOM INCIDENTS

	NCR	Rest Luzon	Visayas	Mindanao
1Q 1992	6	0	0	8
2Q 1992	5	0	0	5
3Q 1992	7	8	1	5
4Q 1992	5	2	0	4
1Q 1993	5	2	1	10
TOTAL	28	12	2	32

Source: Presidential Anti-Crime Commission

The most important factor contributing to the persistence of such crimes seems to be the involvement of police personnel and local government officials in illegal operations. The administration has taken some drastic moves to remedy the situation, including a large-scale revamp of the PNP leadership (discussed in Section IV below) and the filing of charges in court against local government officials involved in murder, illegal gambling and illegal logging operations. However, it must be underscored that in spite of highly-publicized criminal cases, the general peace and order situation has improved under the Ramos Administration.

III. EXECUTIVE-LEGISLATIVE RELATIONS

President Ramos succeeded for the most part in consolidating political support in Congress for his administration during the first year of his term. The administration party, the Lakas-NUCD-UMDP, which a year ago was only the third largest party in the House of Representatives, attracted defectors from other parties to become the majority party today. Aside from this, the party secretary general, Speaker de Venecia, fashioned a rainbow coalition together with all other parties except the opposition Laban (formerly LDP) to form an overwhelming majority in the chamber.

The President and his partymates initially failed to engineer a similar development in the Senate, with the Lakas-NUCD-UMDP able to attract only one defector, Senator Guingona. The majority (15 out of 24 senators) remained with the Laban and the Senate Presidency was held by the party president, Senator Gonzales. However, many of the Laban senators decided to form a group independent of their party leadership and launched a successful coup resulting in the replacement of Neptali Gonzales by Edgardo Angara as Senate President and the formation of a Senate coalition majority that included the NPC and the Lakas-NUCD-UMDP, with the lone LP senator as the minority. [See Figure 6.]

FIGURE 6
PARTY AFFILIATIONS IN CONGRESS

House of Representatives:

	Jul 1992	Dec 1992	Mar 1993	Jun 1993
Lakas-NUCD-UMDP	36	101	111	118
NPC	42	44	42	40
Laban (LDP)	87	30	24	24
LP-PDP-Laban	16	15	13	11
KBL	4	3	3	2
NP	6	1	1	2
Independent	6	4	4	1
PMP	1	0	0	0
Panaghiusa	1	0	0	0
TOTAL*	199	198	198	198

Senate:

	Jul 1992	Jun 1993
Laban (LDP)	16	15
NPC	5	5
Lakas-NUCD-UMDP	2	2
LP	1	1
TOTAL	24	23

*The total number of seats in the House is 200. However, Rep. Edelmiro Amante left after being appointed Executive Secretary, while the seat for the 2nd District of Northern Samar was being disputed until mid-1993. The death of Rep. Gerardo Roxas, Jr. brought back the number of elected representatives to 198.

These changes led to a more cooperative relationship between the President and Congress. The House fell under the control of the Lakas-NUCD-UMDP, with Speaker De Venecia coordinating closely with the President to ensure the chamber's support for the administration's policies. The Senate has remained fiercely independent, although it has, under Angara's leadership, taken a more cooperative and less partisan stance vis-a-vis the administration. There has been close coordination among the President and the heads of the two legislative chambers. However, Angara's influence over his independent-minded colleagues in the Senate is not as strong as de Venecia's power in the House, and this has proven to be a formidable check on the power of the Executive.

Congress has not acted swiftly on the confirmation of presidential appointments. As of July, 1993, about 50 (18% of the total) appointees subject to the Commission on Appointments' (CA) confirmation have been bypassed. Two appointments were withdrawn and one appointee to the Cabinet, Ramon del Rosario, Jr. (Secretary of Finance), was rejected by the CA. [See Figure 7.] This rejection, seen by some as a defeat for the President, must be seen in the light of the lack of backing for (and even antagonism towards) del Rosario by other groups close to President Ramos.

FIGURE 7
CONGRESSIONAL COMMISSION ON APPOINTMENTS ACTION ON PRESIDENTIAL NOMINATIONS
(As of 15 July 1993)

	Confirmed	Bypassed	Withdrawn	Rejected
AFP/PNP officers	114	10		
Ambassadors	32	1	1	
For service officers	60	26		
House sectoral reps	8	9		
COA Commissioners	2			
Cabinet	16	1		1
Judicial Bar Council	2			
COMELEC commissioners		2		
Civ Serv commissioners		1		
TOTAL	234	50	1	1

Source: Makati Business Club

Nevertheless, legislation coming out of Congress during the first year of Ramos' term has been generally in the administration's favor. Two major legislative bills opposed by the president and the cabinet (the debt cap bill filed in the House and a Senate bill which proposed a nationwide P25 increase in the minimum wage) did not progress as the House majority leadership stood firmly behind the president. The President was also able to influence the outcome of negotiations between the House and Senate panels in the conference committee which resulted in RA 7654 (Increasing Ad Valorem Taxes on Cigar and Cigarette Taxes) in favor of the Senate version which was more favorable to the Executive Branch.

Congress' priorities as shown by the laws it had passed reflected a convergence of concerns with the Executive Branch. Two-thirds of legislation were concerned with measures to enhance government revenues, investments or energy production --

three areas which are considered crucial for the success of the Administration's Medium-Term Philippine Development Plan. [See Figure 8.]

FIGURE 8
NUMBER OF LAWS ENACTED BY THE 10TH CONGRESS
AS OF 11 JUNE 1993, BY TYPE

Revenue measures	7
Investment enhancement	3
Energy development	3
Social welfare	3
Political	2
Appropriations	1

Source: Presidential Legislative Liaison Office

The president has been able in general to get priority measures legislated by Congress, with the House acting more quickly on them than the Senate. As of June, Congress has enacted 19 such measures, all priority bills of the President, into law.[1] The House has approved five such bills on third reading and three on second reading, while the Senate has approved only one on third reading and none yet on second reading. Twelve bills certified as priority or urgent by the President still have to be filed in the Senate. [See Figure 9.]

[1]These are:
RA 7636 Repealing RA 1700, otherwise known as the Anti-Subversion Act (09/22/92)
RA 7637 P10 B Fund for Mt. Pinatubo Victims (09/24/92)
RA 7638 Creating the Department of Energy (12/09/92)
RA 7639 Payment of P5 B NPC Capital Stock from OPSF (12/09/92)
RA 7640 Legislative-Executive Development Council (12/09/92)
RA 7641 Retirement Benefits for Private Sector Employees (12/09/92)
RA 7642 Increasing Penalties for Tax Evasion (12/28/92)
RA 7643 Requiring the Monthly Payment of VAT (12/28/92)
RA 7644 Extending the Period of the Rent Control Law (12/28/92)
RA 7645 General Appropriations Act (01/06/93)
RA 7646 Prescribing the Place for Payment of Taxes by Large Taxpayers (02/24/93)
RA 7647 Setting the Elections for the ARMM (03/05/93)
RA 7648 Electric Power Crisis Act (04-05/93)
RA 7649 Requiring to Withhold 5% VAT due on Account of Purchase (04/06/93)
RA 7650 Eliminating the Mandatory 10% Physical Examination of Imports (04/06/93)
RA 7651 Revitalizing the Bureau of Customs (06/04/93)
RA 7652 Long Term Lease of Private Lands by Foreign Investors (06/04/93)
RA 7653 Creation of the Central Monetary Authority (06/14/93)
RA 7654 Increasing Ad Valorem Taxes on Cigar and Cigarette Taxes (06/14/93)

FIGURE 9
STATUS OF THE PRESIDENT'S PRIORITY BILLS IN CONGRESS
AS OF 11 JUNE 1993

	House	Senate	Both
Enacted into Law			19
Approved on Third Reading	5	1	
Approved on Second Reading	3	0	
On Second Reading	6	7	
In Committee	30	27	
No corresponding bill filed	3	12	

Source: Presidential Legislative Liaison Office

The President was also able to get most of what he wanted from Congress in the 1993 budget. The 1993 budget approved by Congress, while cutting P19 billion from the budget proposed by the Executive, did not really alter the original proposal. The budget for debt servicing, while being P26 billion less than what the Executive proposed, was arrived at by realigning the interest rates payments to the new peso-dollar exchange rate and by removing subsidies to the Central Bank. Most of the changes were made by the senators, as the House version had differed little from the executive's budget proposal [See Figure 10].

FIGURE 10
1993 NATIONAL GOVERNMENT BUDGET

	Proposed by Executive (P Billion)	Approved by Congress (P Billion)	Variance
Debt servicing	126.514	99.994*	-26.520
Economic services	66.906	68.286	1.380
Social services	70.406	74.274	3.868
General public services	35.599	36.206	0.607
Defense	28.698	29.319	0.621
Net lending	2.114	2.172	0.058
TOTAL	330.237	310.251	-19.986

The following are bills and resolutions being considered in Congress which have direct implications for economic reforms and their status as of July, 1993:

1. Liberalizing the Entry of Foreign Banks:
   - HB 8226 has been approved on 2nd reading
   - SB 839 is being discussed at the committee level

2. Review and Assessment of the Proposed MTPDP:
   - HCR 27 is due for 2nd reading
   - SR 462 is due for 2nd reading

3. Anti-Trust Bill:
   - HB 7011 is being discussed at the committee level
   - SB 845 is being discussed at the committee level

4. The Public Works Bill Covering Several Years:
   - HB 8391 has been approved on 3rd reading
   - SB 1239 is being discussed at the committee level

5. Updating the Public Service Act Industry:
   - HB 7869 is being discussed at the committee level
   - No counterpart bill has been filed in the Senate

6. Mining Incentive Code:
   - HB 7239 is being discussed at the committee level
   - SB 560/1200 are being discussed at the committee level

7. Amendments to the Condominium Law:
   - HB 7027 is due for 2nd reading
   - SB 355 is on 2nd reading

8. Amending the Omnibus Investments Code of 1987:
   - HB 262 is being discussed at the committee level
   - No counterpart bill has been filed in the Senate

9. Promotion of Inter-Island Shipping:
   - HB 17 is being discussed at the committee level
   - No counterpart bill has been filed in the Senate

10. Amending Title 2 Book II of the Labor Code, regarding Apprenticeship:
    - HB 159 is being discussed at the committee level
    - SB 168 is due for 2nd reading

11. Reallocation of IRA for LGUs:
    - HB 6346 is being discussed at the committee level
    - SB 1068 is being discussed at the committee level

12. Privatizing Local Water Districts:
   -HB 721 is being discussed at the committee level
   -SB 1022 is being discussed at the committee level

President Ramos has generally succeeded in consolidating his support base in both chambers of Congress, although the Senate remains under the control of an independent group. However, the leaderships of both chambers can be said to share the Ramos Administration's concern for economic reforms, especially in the area of liberalizing the economy. Differences in approach are likely to emerge in the area of raising government revenues, with the senators more likely to pressure the Executive to improve its tax collection capabilities first before considering the imposition of additional taxes.

IV. REFORMING THE ADMINISTRATIVE MACHINERY AND THE JUDICIARY

The President has recognized that the reorganization of the Civil Service is a necessity for his reforms to succeed.[2] The inefficiency and ineffectiveness of a large part of the administrative machinery has hampered the emergence of a favorable business climate in the country. Graft and corruption has persisted in various government agencies: the Bureau of Customs, the Bureau of Internal Revenue, the Department of Public Works and Highways, the Philippine National Police, the National Power Corporation as well as in local governments and the judiciary.

The involvement of police personnel in criminal activities is a major reason for the government's inability to effect dramatic improvements in the general peace and order situation. The government's budgetary problems and the tensions between the Administration and Congress stem in large part from the former's inability to collect taxes. The Ramos Administration's pump-priming efforts have been faltering on the slowness of line agencies', particularly the DPWH's, utilization of funds. These shortcomings have greatly contributed to the economy's inability to take off in spite of the beneficial results of the economic stabilization program.

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[2]President Ramos stated the following in his first State of the Nation Address: "For us to get anywhere, we need to remodel the very machinery of government. We have to reorganize the Civil Service so that it can do more-and do better...I would urge Congress therefore to consider one comprehensive "Government Reorganization Act" that will enable us to streamline the entire Executive Branch, including the Office of the President. Our goal here is to promote speed in decision-making and action that yields quality results; and to increase effectiveness and impact in government operations despite funding constraints." Fidel V. Ramos, *Reform, Change and Growth* [State of the Nation Address, Opening of the Joint Regular Session, Congress of the Philippines, 27 July 1992].

Another factor which has complicated matters especially for the business sector is the way in which the new Local Government Code is being implemented by local government units. Local businesses have begun complaining about the arbitrary taxes being imposed by local government units. The latest controversy involves taxes imposed on petroleum products by the city of Manila and the municipality of Limay, Bataan, which threaten to increase petroleum prices. At the heart of these problems lie LGUs' lack of capability to raise non-tax revenues and unpreparedness to take over administrative responsibilities from the National Government.

In the first six months of his term, President Ramos has concentrated on consolidating his political power base, making his appointments to top government positions, formulating his government's medium- and long-term objectives and tackling urgent issues needed to set the economy on the right track: peace and order, the power shortage and the 1993 budget. Little was done to address the less urgent but important task of improving the capability of the administrative machinery, which is crucial for the successful implementation of economic policies.

The president implicitly admitted the ineffectiveness of the bureaucracy with his creation of and reliance on a multitude of ad hoc bodies and commissions to deal more swiftly with specific problems.[3] There were also factors related to the change in administration and the replacement of presidential appointees that contributed to instability at the top levels of the administrative machinery. Among these factors are the following:

a. The executive search committee tasked by the president to recommend new appointees was slow in screening applicants and possible nominees to government positions due to the difficulties in striking a balance among the recommendees of different groups which had supported Ramos during the election campaign.

b. The Commission on Appointments of Congress has not acted swiftly on the confirmations of many nominees submitted by the president, especially those of nominees to Cabinet positions.

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[3]The President has created with Executive Orders nine such bodies during the first six months of his term: the PACC, the Presidential Council for Countryside Development, extended offices of the President in Visayas and Mindanao, the Presidential Commission to Fight Poverty, the Philippine Council on Sustainable Development, the Technical Cooperation Council of the Philippines, the National Unification Commission, the Coordinating Committee for the 24th ASEAN Economic Ministers' Meeting and the Bondoc Peninsula Development Program Office.

c. It took time for procedures and workflows within the Office of the President and among newly-appointed officials involved with the day-to-day management and coordination of the president's and the cabinet's activities to stabilize. This was worsened by the changes in the office of the Executive Secretary midway during the period as a result of the replacement of Peter Garrucho by Edelmiro Amante, who in turn was replaced by Teofisto Guingona.

d. Much uncertainty remained over plans to reorganize the departments. Initial plans for the first 100 days had suggested the merging of key government agencies.[4] In his State of the Nation Address, President Ramos promised a revamp of the Executive Branch, which was to reduce the number of executive departments.[5] The Presidential Management Staff announced in late August that this move has been deferred indefinitely.

e. It has been taking long to finalize plans for the privatization of government-owned and controlled corporations (GOCCs).

f. The finality of presidential appointments especially to the top of various departments were put in question by the expectations that people who had run for elective positions with Ramos under the Lakas-NUCD-UMDP banner and lost in the elections are expecting to be given appointments to executive positions after the one-year period for the ban on the appointment of losing candidates expires in May 1993.

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[4]One document had suggested the following reorganization measures: (1) absorption of the DBM by the DOF, (2) division of the DENR into a separate Department of Environment (DE) and Department of Natural Resources (DNR), (3) absorption of the OEA and the ERB by the DNR (3) merger of the DAR and the DA into a Department of Agrarian Development (DAD), (4) merger of the DOST and the DTI into a Department of Science, Technology and Industry (DSTI), (5) merger of the BOI and the foreign trade units of the DTI with the DFA into a Department of Foreign Affairs and Trade and (6) the re-merging of the DPWH and the DOTC into a Department of Public Works, Transportation and Communications.

[5]On the issue of government reorganization, Ramos said in his address: "We envision the following as integral elements of the reorganization program: (1) implementation of the law on attrition; (2) realignment of agency mandates by abolishing non-essential functions including vacant positions; (3) integration of all attaches and offices abroad; (4) reduction of the number of departments and agencies."

The Administration undertook some minor actions to improve civil service performance, such as the following:[6]

a. Memorandum Order No. 27, which was issued on August 13, 1992, mandating all heads of the various government agencies to streamline their operations and organizations. This resulted in the abolition of 4,987 positions and the closure of 9 embassies and 3 consular offices, saving the National Government a reported sum of P227.2 million in personnel services as of May 31, 1993.

b. Computerization of the operations of the Bureau of Customs and the Bureau of Internal Revenue, which is still ongoing.

c. Executive Order No. 89, which directed all heads of government agencies to adopt transparency procedures facilitating public access to official records, documents and papers subject to limitations provided by law.

d. Institutionalization of performance commitments from the department secretaries and heads of agencies attached to the Office of the President, which was directed by the President and formally presented on June 19.

The boldest move that the President has made in this area so far has been the revamp of the PNP leadership. The PNP has fallen under intense criticism for alleged involvement of its personnel in numerous illegal activities. Among these activities are kidnapping-for-ransom, rape and murder, bank robberies, illegal gambling, smuggling, drug trafficking and graft and corruption. In the wake of these accusations, the President formed a 9-man committee to deliberate on and recommend action on the revamp of the PNP's leadership.[7] Out of the 239 senior officers affected by the President's

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[6]Taken from a report, *The First 365 Days* (Manila: Office of the Press Secretary, 1993), p. 24.

[7]The committee was composed of DILG Secretary Rafael Alunan III, Commissioner Edgar Dula Torres of the National Police Commission, Defense Secretary Renato de Villa, Defense UnderSecretary Ernesto Gidaya, Brig. Gen. Cicero Campos, Maj. Gen. Alexander Aguirre and Director Vicente Vinarao of the Office of the President. The committee set five criteria on which to base judgments on whether to retire or retain certain top PNP officers: (1) consistency, educational and training backgrounds, awards, decorations and commendations since 1980, (2) integrity, (3) loyalty to the Constitution, (4) leadership and management potential and (5) physical and neuro-psychiatric fitness.

memorandum, 194 sought voluntary retirement (63 of whom were recommended by the committee for retirement).[8]

The President's program for the next 365 days as far as civil service reform is concerned enumerates three key result areas:[9]

a. the filing and facilitation of the passage of a bill granting authority to the President to reorganize the Civil Service;

b. intensifying streamlining and cost reduction in government; and

c. accelerating the resolution of issues on the Local Government Code.

Another area where much-needed reforms are due is the judiciary. The judicial system plays a key role in the government's efforts to provide a healthy socio-political environment for economic growth. First, it plays a role beside the police in promoting peace and order and reducing graft and corruption involving the civil service. Second, it provides the legal environment for business in the country. The judiciary has recently fallen under criticism for inefficiency, corruption and producing impediments to business expansion.

Some of the criticisms, especially regarding inefficiency, has factual basis. The backlog of cases in the country's about 1,600 courts has accumulated over the years to a total of more than 300,000 at the end of the first quarter of 1993. Most (60%) of these pending cases are with the regional trial courts, while a further 20% are with the metropolitan trial courts. [See Figure 11.] The efficiency of regional trial courts in disposing of cases has also been low (at 90% in 1992), resulting in an additional backlog of 17,000 cases from last year's case inflows. [See Figure 12]

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[8]The officials recommended for retirement filed complaints to the House Committee on Public Order and Security about the lack of fairness in the selection of retireable officials. Former PNP Inspector General Benjamin Valenton alleged that many of those retained in the force have been linked to anomalies in the past or charged with the Ombudsman.

[9]*The First 365 Days* (Manila: Office of the Press Secretary, 1993), p. 29.

FIGURE 11
PENDING CASES IN THE COURTS

	As of 12/31/91	As of 12/31/92	As of 03/31/93	Percent share
Court of Appeals	12,957	13,400	13,466	4
Sandiganbayan	2,913	3,162	3,359	1
Court of Tax Appeals	452	530	579	0
Regional T.C.	158,031	175,185	186,497	60
Metropolitan T.C.	17,337	17,286	19,332	6
Municipal T.C (Cities)	18,774	19,421	20,669	7
Municipal T.C.	36,953	38,396	40,137	13
Municipal Circuit T.C.	24,112	24,370	24,715	9
Sharia District Courts	81	90	95	0
Sharia Circuit Courts	235	254	271	0
TOTAL	271,845	292,094	309,120	100

Source: Statistics Division, Office of the Court Administrator, Supreme Court of the Philippines

FIGURE 12
CASE INFLOW AND OUTFLOW IN THE COURTS, 1992

	(A) CASE INFLOW	(B) CASE OUTFLOW	B/A
Court of Appeals	9,753	9,310	95
Sandiganbayan	1,124	875	78
Court of Tax Appeals	202	124	61
Regional T.C.	180,076	162,922	90
Metropolitan T.C.	45,815	45,866	100
Municipal T.C (Cities)	50,540	49,893	99
Municipal T.C.	61,685	60,242	98
Municipal Circuit T.C.	40,839	40,581	99
Sharia District Courts	42	33	79
Sharia Circuit Courts	204	185	91
TOTAL	390,280	370,031	95

Case inflow: Newly-filed cases, revived or reopened cases, cases received from other salas/courts
Case outflow: Decided or resolved cases, archived cases, cases transferred to other salas/courts

Source: Statistics Division, Office of the Court Administrator, Supreme Court of the Philippines

Charges of corruption in the judiciary in the mass media have intensified following the Vice-President's announcement of his campaign to go after "hoodlums in robes" last year. The impression generated by media that there is widespread corruption in the courts has been reflected in the relatively low confidence ratings the courts (including the Supreme Court) have received in the most recent public opinion surveys. [See Figures 16, 17 and 18.]

There were 854 pending administrative cases filed against judges and court personnel as of the end of the second quarter of 1993, 60% of which were filed against trial court judges and 40% against other court personnel. During the first two quarters of the year, 198 cases, or one-fourth of all the pending cases, were disposed of. In these cases, 7 judges and 11 other court personnel were dismissed from service while 26 judges and 10 other court personnel were disciplined. Two thirds of the cases disposed of during the first two quarters of 1993 were dismissed. [See Figure 13.]

FIGURE 13
ADMINISTRATIVE CASES FILED AGAINST JUDGES AND COURT PERSONNEL

	Judges	Personnel	Total
Pending cases as of 12/31/92	350	279	629
Cases filed 01/02/93-06/30/93	172	53	225
TOTAL CASES	522	332	854
Cases disposed of	140	58	198
Complaint dismissed	97	37	134
Disciplined	26	10	36
Dismissed from service	7*	11	18
Cases Pending as of 06/30/93	382	274	656

*Dismissed on account of 17 cases

Source: Documentation Unit, Office of the Court Administrator, Supreme Court of the Philippines

Public dissatisfaction with the Judiciary's capability to reform itself has led to discussions about ways and means of reforming it. Senate President Angara has suggested the transfer of supervision over local trial courts from the Supreme Court to the Department of Justice. Another recommendation called for the creation of a permanent independent constitutional commission to investigate the courts from outside the judiciary system. The President, sensitive to the implications of this issue on the doctrine of separation of powers underlying the Constitution, has been reluctant to intervene, and appears to be leaving the issue to the responsibility of the Supreme Court.

The first year of President Ramos' term has been spent mostly on the important issues of political consolidation, ending the insurgencies, raising much-needed revenues, improving peace and order conditions and crafting the Philippines 2000 vision and the Medium-Term Philippine Development Plan. The less urgent but very crucial issue of reforming the administrative machinery and the judiciary has been accorded only secondary attention, although this seems to be part of an overall strategy where various issues are tackled according to their place in the list of priorities.

There are indications that the President will pay more attention to the reform of the administrative machinery. This has in any case become necessary in view of the need to enhance the capabilities of government agencies and local government units to implement the MTPDP and to pump-prime the economy. The President has signified his intention to seek Congress' authorization to effect what appear to be wide-ranging changes in the civil service. However, the solutions to the problems of the judiciary do not seem to figure in the President's plan of action, which leaves the initiative in this case very much in the hands of the Supreme Court and of Congress, which has the power to make and change laws.

V. PUBLIC SUPPORT FOR THE RAMOS ADMINISTRATION'S REFORM PROGRAMS

Given the delicate balance of power between the Executive and the Legislature under the current constitution, public support for the Administration plays a crucial role. The popularity of the President is important in ensuring support for his policies from the Senate and the House, in view of the predominance of political (electoral) considerations in the actions of the members of Congress.

The President continues to enjoy a high level of popularity, with his ratings going up again in the first quarter of 1993 after a slight decline in the last quarter of 1992. [See Figure 14.] However, the performance ratings given by the public to the administration as a whole have gone down, reflecting the inability of the administration to make a strong public impact in the areas of fighting graft and corruption and crime. [See Figure 15.]

FIGURE 14
PERFORMANCE RATING OF PRESIDENT FIDEL V. RAMOS
Margin of Satisfaction (Satisfied - Dissatisfied)

September 1992	+66
December 1992	+60
April 1993	+66

Source: Social Weather Stations

FIGURE 15
PERFORMANCE RATING OF THE NATIONAL ADMINISTRATION
Margin of Satisfaction (Satisfied - Dissatisfied)

Issue	Sep 1992	Apr 1993
Weakening the insurgency	+49	+20
Fighting graft and corruption	+10	-7
Making quick decisions	+18	+12
Doing what the people want	+26	0
Decreasing crime	+26	+9
Average	+26	+7

Source: Social Weather Stations

General public satisfaction with institutions remains high, although slightly diminished, with the local police and military enjoying greater approval than the Administration in general, Congress and the Supreme Court [also indicating general public satisfaction with the peace and order situation as it affects people personally]. The Supreme Court received lower ratings than the Executive and Legislative branches of government. There has also been a prevalent perception of corruption in the judiciary. [See Figures 16 and 17.]

Perceptions of business executives diverge from those of the general public in that there is much greater dissatisfaction with services, the police and Congress. The Supreme Court and the judiciary as a whole received the lowest ratings, even lower than the much-maligned National Power Corporation. However, the businessmen have shown high satisfaction with the government's economic agencies: the Department of Trade and Industry, Department of Finance, the Central Bank and, to a certain extent, the NEDA. The Department of Public Works and Highways, which plays the key role in infrastructure development, received very low ratings. [See Figure 18.]

FIGURE 16

PUBLIC NET SATISFACTION WITH INSTITUTIONS, Feb 1992 to Apr 1993

(Nationwide)

	2/92	4/92	9/92	12/92	4/93
Police in your place	+37	+31	+35	+30	+32
Military in your place	+36	+36	+35	+29	+29
Administration	-2	-5	+32	+31	+24
House of Reps	+11	+11	+25	+25	+21
Senate	+7	+13	+34	+27	+20
Supreme Court	+18	+16	+31	+24	+18

Source: Social Weather Stations

FIGURE 17

PUBLIC PERCEPTION ON CORRUPTION IN THE JUDICIARY

(Percent of survey respondents)

Question: "Can most, many, few judges be considered corrupt?"

	RP	NCR
Most	20	16
Many	37	47
Few	39	36

Source: Social Weather Stations

FIGURE 18
BUSINESS EXECUTIVES' PERCEPTION OF GOVERNMENT PERFORMANCE
(January to June, 1993)

	Net rating*	Change over Jul-Dec 1992 Survey (% points)
DOH	71.9	+33.2
DTI	50.6	+14.7
DOF	42.0	+16.5
CB	33.3	+14.4
DOLE	23.6	+8.5
DFA	18.3	NA
DILG	17.2	+47.4
AFP	11.8	+19.3
DND	8.5	NA
DECS	6.5	+0.9
NEDA	6.5	NA
DA	5.3	-1.3
DSWD	5.3	-0.3
DOST	-3.3	NA
DAR	-5.4	-2.6
DOT	-8.7	-8.7
Telephone service	-13.9	+4.1
DBM	-15.0	NA
DOTC	-19.3	-25.0
DENR	-22.6	-18.8
PNP -	23.7	+33.9
DPWH	-24.8	-55.0
DOJ	-25.8	+3.4
House of Reps	-25.8	-18.3
Garbage collection	-26.9	+4.2
Senate	-34.4	-28.7
Traffic Management	-42.0	+0.4
Water Utilities	-45.2	-23.5
DOE/Napocor	-46.3	+26.3
Supreme Court	-46.3	-5.8
Court System	-52.7	-11.2

*Net rating = % of satisfied - % of dissatisfied

Source: Makati Business Club, MBC Executive Outlook Survey, Second Semester 1993

The power problem remains one of the most important factors that affect public perceptions of the government. In this case, there has been a further increase in dissatisfaction among Luzon residents with electric service, reflecting the worsening power situation in the island. The situation is different in the

Visayas and in Mindanao, where the people are much more satisfied with the power situation than in Luzon. [See Figure 19.]

FIGURE 19
NET SATISFACTION WITH ELECTRIC SERVICE

	Sep 1992	Dec 1992	Apr 1993
Philippines	+ 6	-17	-31
Metro Manila	+ 9	-62	-81
Urban Luzon (Rest)	+ 2	-38	-73
Rural Luzon	-10	-23	-59
Urban Visayas	+23	+29	+27
Rural Visayas	+ 9	+21	+49
Urban Mindanao	+33	- 6	+ 6
Rural Mindanao	+ 3	+15	+13

Source: Social Weather Stations

While President Ramos' Administration enjoys a relatively high level of public support in general (with the exception of the power issue in Luzon), and greater public support than Congress and the Judiciary, its power base at the local political levels has not yet been consolidated. As of midyear, the administration party counts as members only 33% of all provincial governors, 23% of all city mayors and 21% of all municipal mayors. [See Figure 20.]

FIGURE 20
PARTY AFFILIATIONS OF LOCAL GOVERNMENT OFFICIALS
(As of June 30, 1993)

	Governors	City Mayors	Town Mayors
Lakas-NUCD	25	14	316
NPC	17	15	249
Laban (LDP)	24	20	564
LP-PDP-Laban	6	4	76
KBL	1	0	29
Independent	1	2	227
NP	1	1	44
PRP	0	2	4
PMP	0	0	7
Others	0	2	20
TOTAL	75	60	1,536

Source: Department of Interior and Local Government

The Administration has failed to win over the support of the moderate leftist cause-oriented groups, which have criticized Ramos' Philippines 2000 Vision and the Medium-Term Philippine Development Plan. It has also provoked tensions with the Catholic Church hierarchy over the government's population control program. Both cause-oriented groups and the Church count on a number of sympathizers in both chambers of Congress. The Catholic Bishops' Conference of the Philippines (CBCP) is in a position to influence the thinking of a nationwide network of parish organizations and other church-based groups, as well as a significant portion of the country's business and opinion leaders, even though the issue of population control has not been uncontroversial among the country's predominantly Catholic population, and even within certain clerical circles.

President Ramos and his administration can be said to enjoy wide public support a year after taking office, even as the public is not satisfied with the performance of agencies that are supposed to deliver services such as power, infrastructure, water and traffic management. This can still be translated into political leverage over a less popular Congress to ensure support for administration programs and initiatives. However, Ramos has not yet been able to consolidate support at the local government level, and is beginning to face opposition to some of his programs from some groups such as the moderate Left and the Catholic Church hierarchy.

VI. CONCLUSIONS

The political environment for economic growth has clearly improved during the first year of the Ramos Administration. Although no final resolution of the insurgencies has yet been reached up to now, the ongoing peace process, the declining fortunes of and the emerging divisions in the ranks of the anti-government rebels have brightened the prospects for political stability and marginalized the insurgencies to a great extent. The possibility looms, however, of splinter rebel groups or "lost commands" turning increasingly to criminal activities and creating new peace and order problems.

The general peace and order situation has also improved, especially after the widely-publicized kidnap-for-ransom operations of criminal groups decreased in frequency by the second quarter of 1993. Recent incidents have uncovered the involvement of local government officials in criminal and illegal activities and the extent of their use of private armies, most of the time under the guise of auxiliary police forces. However, these do not subtract from what the statistics and opinion surveys show as a lower level of crime victimization among ordinary citizens.

President Ramos has succeeded in consolidating and expanding his support base in the House of Representatives and in forging a cooperative relationship with the new Senate leadership. In his first year in office, Ramos has been generally able to marshall support from Congress for his administration's budget and legislative agenda, and was able to influence Congress' voting on various controversial bills. Congress remains sympathetic to the administration's concern for certain reforms and for further opening up the economy, although the administration can expect to encounter difficulties in getting the Legislature (especially the Senate) to approve of most of its proposed new tax measures.

The administration has not yet begun to seriously address the problem of civil service reform, due to its preoccupation with what were considered as more urgent matters: political consolidation, the peace process, raising revenues and drafting the vision and the economic plan. In the meantime, the ineffectiveness of the administrative machinery has become a bottleneck that hampers the government's revenue-generation, pump-priming and peacekeeping efforts. The implementation of the Local Government Code has also caught local government units unprepared, causing problems especially for business establishments. It appears that the Ramos Administration is intending to take significant steps to improve the situation in this area within the next 365 days.

The problems of the Judiciary have also surfaced and proven to be part of the general malaise that afflicts Philippine public institutions. So far, the Ramos Administration has been cautious in intervening in the affairs of this other branch of government, but the Supreme Court has not been able with its current actions to convince the public of its determination to reform the judicial system. No clear consensus on the course of action on this matter has so far emerged from discussions in the Senate.

The administration still enjoys relatively high levels of public support, which it can translate into political capital to ensure the continuing support of Congress for its reform programs. Some opposition to the government's programs from certain groups have also emerged, which can endanger Ramos' political support base. There is a need for the administration to expand its power base among local officials, not only for the speedier implementation of government programs but also, and more importantly, for further building up political support that can be used in ensuring continued Congressional cooperation.

All in all, President Ramos has done generally well in the political arena during his first year in office. He has succeeded in improving the general security and peace and order environment for economic growth. He has also been able to get majorities and leaderships in Congress to support his administration's programs. However, he has not yet been able to solidify political support at the local government level, and opposition to certain programs and policies in the public arena is already emerging. For its programs to be successful, the administration will also need to address more seriously the problems of government institutions, especially those involved in revenue-generation, peace and order, the administration of justice, infrastructure development and local government.

B. ECONOMIC POLICY REFORMS

1. MACROECONOMY

A. Summary

In the first full year of the Ramos administration, the aggregate performance of the economy suggested a bottoming out although, in the words of President Ramos, "unspectacular". Given an estimated population growth rate of 2.3 percent, this simply means that per capita incomes continued to deteriorate even with a change of political administration in June 1992.

In a very real sense, however, the new administration managed to reverse the drift of the economy which had suffered a recession as early as the last quarter of 1990, despite the crippling power shortage, remaining calamities, and poor external environment. Indeed, one might argue that the economy could have done worse in Ramos' first year.

On the other hand, the numbers tend to show that the economy could have fared better especially since it rebounded quickly in the first quarter of the administration. The 1992 Gross Domestic Product (GDP) was no less worse than the 1991 figure despite claims of lingering recession and additional constraints. The hype of the third quarter of 1992 (reflecting the upbeat mood and welcome to the Ramos administration) was both real and expectant.

That the administration was unable to maintain the mood and rise to the expectations was a result of several factors. For one, the reforms set out in its agenda were short in implementation with critical ones delayed by almost a year (e.g. the CMA creation, Public Works Act). For another, there were continued policy inconsistencies which created uncertainties throughout the economy (e.g. policies related to the opening of the economy). Then the administration's major initiatives (e.g. pump-priming, MTPDP) suffered from the bureaucratic maze with the exception perhaps of the important foreign exchange deregulation. Finally, the administration did not take an activist initiative in following up the successful stabilization program with subsequent fiscal and monetary ease to capture the recovery.

A distinction needs to be made between building the foundations of the macroeconomy and building the structures **on top** of the foundations. Previous reports on the progress of reforms in the new administration indicated a successful drive to stabilize the political process, achieve peace and order, and secure a consolidated government machinery (mainly between Executive and Legislative). These are the important foundations for a conducive environment for structural reforms. In its first year, the Ramos government made the right kind of pronouncements, each of which should ideally be cumulative of building the structures. Translating them into legislation, appropriate executive orders, and bureaucratic memoranda was wanting in both timeliness and effectiveness. Where these were implemented, inconsistencies and conflicting signals were apparent in part eroding the strength and credibility of the structural reforms.

All these are of course recognized by the government. It is also aware of where the gaps lie and the direction of both mid-course correction and succeeding reforms. It need not be said that what is to be done is go on with the structural reforms on the basis of the solid foundations of the macroeconomy.

B. Performance of the Economy

The economic performance of the Ramos administration's first year is caught between the second half of 1992 and the first half of 1993. It is also caught between the budgetary program of the previous administration and the implementation process of the new government. In fact, the targets and goals for the economy of the administration begin with 1993. Yet the first six (6) months are crucial since this is where the initial reception of the economy is gauged and where a reform agenda is set and signals raised for subsequent behavioral responses to evolve.

Aggregate indicators for 1992 fall short of what the administration projected and the initial data for the first quarter of 1993 also fall short of what the administration is targeting. It will be recalled that a yearly growth rate of 6-8 percent between 1992 and 1998 has been planned for.

The growth rate of GDP for 1992 was zero, a bottoming out the -0.7 percent decline in 1991. From the expenditure side, investments registered a positive 7.8 percent growth, a reversal from the -14 percent decline a year ago. From the industrial origin side, industry showed a -0.5 percent growth, better than the -3.1 percent deterioration in 1991 (mainly due to the reversal in construction activities from -16.3 percent in 1991 to 1 percent in 1992).

Comparing the first year of the Aquino administration with the Ramos administration first year, it seems the latter faces a clear handicap - the 1986 performance (of 1.5 percent growth) exceeded initial projections while the 1992 flat growth fall short of official expectations.

In order to appreciate the overall performance of the economy more closely, Table 1.1 presents the quarterly GNP/GDP growth rates by components between the third quarter of 1992 and first quarter of 1993, on a quarter to quarter basis (i.e. 1991-92 and 1992-93). It can be seen that the economy posted a 0.4 percent growth rate in the third quarter 1992 compared to the decline of -0.9 percent in the second quarter, principally arising from a multiple increase in the growth of construction expenditures. On the other hand, in terms of industrial origin, a similar growth in the first quarter of the Ramos administration is observed. The peaceful transition in government is apparent in this performance. Moreover the large growth in remittances from abroad also took place in the Ramos administration first quarter.

These figures suggest a mild rally early into the Ramos administration. In fact, the implied year-on-year growth rates of the economy indicate a similar reversal from a negative growth rate in the second quarter of 1992. A positive 1.7 percent and 1.8 percent growth rate of GNP for the third and fourth quarters of 1992, respectively, indicate the rally had potentials to remain.

Economic stability was also achieved by the administration in its first year. The earlier stabilization program proved beneficial to the new government. Interest rates (91-day T-bills) consistently fell from 18.7 percent in the first quarter of 1992 to 13.3 percent in the first quarter of 1993. Inflation rates also fell from 9 percent when the administration came in to 8.1 percent by early 1993.

Yet the economy faltered with the fourth quarters GDP falling to zero and a further decline of -0.2 percent in the first quarter of 1993. This has been ascribed to the drought and power outages (of 4-6 hours in Luzon) which had worsened towards the end of 1992. How much of the decline from a seeming comeback in the first quarter of the new administration is due to power and other problems and how much due to lack of internal reforms can only be speculated at best. However, it would be useful to consolidate the state of reforms and its progress before assessing this question.

C. *Economic Reforms: Agenda and Progress*

There is no doubt that the power crisis constrained a higher performance of the economy in Ramos' first year in office. But there is equally no doubt that the government's inability to control the crisis exacerbated its poor economic performance, from at least two fronts. One was the complete uncertainty of power outages that created havoc to production scheduling in the private sector. While there were clear efforts at power self-sufficiency (note the surge in the imports

TABLE 1.1
REAL GNP/GDP GROWTH RATES
1992 Q_2 - 1993 Q_1

Component	1992 Q_2	1992 Q_3	1992 Q_4	1993 Q_1
A. Expenditure				
Personal Consumption	3.2	3.2	2.4	2.2
Government Consumption	-6.8	-4.8	-1.9	-13.1
Capital Formation	17.7	9.9	12.5	0.7
Construction	1.4	9.2	5.3	5.1
Durable Equipment	22.3	16.8	18.2	7.2
Exports	-9.7	5.6	2.6	1.0
Imports	14.1	11.0	14.1	1.9
B. Industrial Origin				
Agr, Fishery, Forestry	-2.4	-1.5	2.0	1.7
Industry	-1.5	1.0	-2.6	-3.0
Mining/Quarrying	2.5	28.8	-7.3	15.8
Manufacturing	-1.7	-1.4	-4.4	-5.0
Construction	-0.8	6.8	4.7	3.1
Elect, Gas, Water	-3.9	-0.1	1.3	-2.2
Services	0.3	0.8	0.9	1.1
GDP	-0.9	0.4	0.0	-0.2
GNP	-1.0	2.7	0.3	0.9
N.B. Power Deficiency[a] (hours, daily ave.)	3.4	2.1	4.8	7.2

[a]For 1993, Q2 = 9.0

Source: NSCB, NPC, Multisectoral Task Force on Power Scheduling of generating sets in the latter half of 1992), they could not substitute for the unpredictability of power failures.

The other is the delay in correcting the problems with the government's power agency (for which the economy relied wrongly on false assurances of ending the power crisis, preventing appropriate behavioral response e.g. more power self-sufficiency) until late in the day. Changes were made concomitant with the creation of a Department of Energy.

As shown in Table 1.1 (N.B.), there was a decline in power deficiency in the first quarter of the administration when regular maintenance was sacrificed in favor of continuous power. This <u>in part</u>, was associated with the 0.4 percent GDP improvement. Yet, manufacturing only improved marginally compared to construction and mining/quarrying. On the other hand, in the next quarter, manufacturing performance dipped with a power deficiency 40 percent worse than the second quarter of 1992. One can guess that the industrial sector was geared up for outages but could not cope with their uncertainty.

In short, the power crisis went out of control at a crucial stage in economic recovery. Where the crisis called for short-term solutions such as predictable scheduling and more comprehensive maintenance, the government legislated an Electric Power Crisis Act (R.A. 7648) which essentially provided for long-term solutions.

Industry did contract in the last two quarters of the administration's first year, but it seems it was more from power uncertainty than lack of power. After all, the country was already into a power shortage at the beginning of 1992.

With regard to the drought, its importance can be gauged from the effects on the performance of agriculture, fishery and forestry. Here the data appear to indicate a turnaround beginning with the Ramos administration. The worse production growth rate occurred in the second quarter of 1992. From then the sector rebounded fueled by palay, banana and other crops. The previous administration had seen worse droughts than the first year of the Ramos administration.

On the external environment, trade suffered less from the vagaries of world markets than the anti-export conditions during the Ramos administration first year. For 1992, exports expanded by only 11.1 percent (1991: 8 percent) compared with the 20.5 percent surge of imports. Mainly responsible for this slow movement of exports relative to imports was the continued real appreciation of the peso compared to a year earlier and with the movements of currencies of competing countries. What is to be noted in this regard is a policy declaration by the President that "... exports are no cure-all for our ills - particularly now when the world trade is rapidly becoming politicized and blocs are forming in our primary markets ... we should look for relief from mass-poverty closer to home ..." (speech during NEDA anniversary, December 16, 1992). Although this (mistaken) pronouncement seems isolated, it reflects a view that attributes poor performance to global difficulties.

The Cebu provinces' 1992 performance in part puts a better perspective to the global environment. Its 13 percent growth in exports is better than the 1991, 9 percent expansion. Although this is quite short of its previous export windfalls (e.g. 36 percent growth rate in 1988), what is interesting is its ability to compensate currency appreciation with productivity improvements and more efficient linkages where imports usually do not outpace exports.

Setting aside these parametric considerations, it is useful to consolidate the reforms set out by the administration in its first year for the macroeconomy and their progress:

A. Monetary Reform - Flexibility of monetary policy in the first year of the Ramos administration was constrained by the existing IMF stabilization program defining monetary ceilings, public sector borrowings, etc. Although the program ended in December 1992, the government continued to adhere to the conservative direction of the program. The Medium-Term Philippine Development Plan (MTPDP) did make noises about monetary ease but the preference for a new IMF facility and impending negotiations set the direction aside. In January, monetary authorities announced a reduction in reserve requirements by 1 percent per month for 3 months but neither did this stimulate monetary expansion.

Of two reform areas in monetary policy needing legislation, R.A. 7653 creating the Central Monetary Authority was finally passed towards the end of the first year of the Ramos administration. The important problems associated with macroeconomic policy, however, remain to be decided upon by the new central bank. This pertains to the disposition of its liabilities which will be decided by the new Monetary Board. Whatever mode would be recommended would have serious implications on the monetary policy scene and thus on the whole economy. The other area requiring legislation is again on the agenda for the government's second year - the entry of foreign banks and subsequent to it other monetary policies (e.g. capitalization requirement).

B. <u>Financial Sector Reform</u> - Financial sector reforms involve altering the financial base so that a higher domestic resource mobilization rate is achieved. This means an objective of raising internal savings (both public and private) i.e. eliminating distortions that inhibit them, and promoting domestic capital markets.

The wedge between saving and lending rates has been identified as due to high intermediation costs because of principally the gross receipts tax (GRT), the agri-agra law and the small-medium enterprise law mandating a specified fraction of bank portfolio for agriculture, agrarian reform and the small scale industry. The Ramos administration reiterated the removal of these wedges as part of its reform agenda.

The unification of the two bourses into a Philippine Stock Exchange became final in the first quarter of 1993 after a vote on the site completed the disagreements that have bugged the unification since the start of the Ramos administration.

The administration also provided for lower ceilings for capital placements (i.e. money market) to encourage small savers (low denominated bills). Furthermore, longer term notes with a floating interest rate are being issued.

The fruits of the stabilization program, in particular the lower inflation rate, would likewise improve resource mobilization.

C. <u>Fiscal Policy Reforms</u> - These pertain to government revenue generation, government expenditures and tax policy.

In an earlier monitoring report, it was noted that the draft MTPDP did not seem to imply a departure from a customs-reliance revenue source, reflected an insensitive revenue effort, and expenditures pattern where the bulk remains in a non-productive component.

Several revenue enhancing measures were passed by Congress during the Ramos administration's first year. These included increasing penalties for tax evasion, withholding 5% VAT on government contracts, cigarette tax, and monthly VAT payment. Seven of the 11 tax measures were passed or approved on first reading.

In addition, the administration extended the life (till end of December 1993) of the Committee on Privatization (COP) to administer the sales of government assets. In a previous report, it was noted that big ticket items remain unsold. With the proposal to further extend COP, the second-year agenda will include the disposition of these items.

Fiscal policy actions in the Ramos administration's first year revolved around two other related areas: (1) the budgetary deficit of the national government and (2) a pump-priming program as fiscal stimulus. The national government's deficit in 1992 actually exceeded the programmed deficit by P7 billion although the consolidated public sector deficit of 1.9 percent of GNP was short of the programmed 2.7 percent of GNP. Table 1.2 shows this. There was a conservative care in reining in budgetary deficits.

Thus, in the first quarter of 1993 with a front-loaded pump-priming program of some P50.2 B for infrastructure projects, there was in fact under spending. Consequently, the desired stimulus did not materialize.

The actual Treasury budget data for the first six months are shown in the lower part of Table 1.2. As stated earlier, there was a plan to pump prime the economy but the implementation was so slow such that there was an underspending of about P13 billion. On the other hand, the revenue in-take was below target by about P14 billion; hence, the deficit was contained to manageable levels.

The total net domestic financing is quite low at the end of June. There was high borrowing during the first quarter in anticipation of the pump priming activities; but during the second quarter, the redemptions of Treasury Bills were greater than issues so the net total were reduced by 30 June 1993.

According to information gathered from the different government agencies and corporations by the Department of Budget and Management (DBM), they are going to disburse up to 80% of what was programmed earlier so there could be a substantial increase in deficit during the third quarter if there are no extraordinary revenue receipts anticipated.

TABLE 1.2
CONSOLIDATED PUBLIC SECTOR DEFICIT
(billion pesos)
1992: ACTUAL AND PROGRAM

	Program	Actual
National Government	(9.0)	(16.0)
14 Nonfinancial Gov't. Corp.	(14.4)	(10.6)
Oil Price Stabilization Fund	(2.5)	5.4
Adjustments	4.0	0.8
Public Sector Borrowing	(21.9)	(20.4)
Gov't. Financial Institution	3.2	3.8
SSS/GSIS	9.4	8.9
Central Bank	(28.6)	(22.0)
LGU	0.1	0.0
Adjustments	0.1	3.6
Consolidated Public Sector Deficit	(37.7)	(26.1)
As % of GNP	(2.7)	(1.9)

National Government Budget
First Semester 1993
Preliminary Figures (in Million Pesos)
IMF Definition

Revenues	125,392
Expenditures	136,625
Deficit	11,233
Financing	11,233
External Borrowing (net)	6,029
Domestic Borrowing (net)	5,204

Source: Department of Finance

While the reform measures appear to be numerous in the fiscal side, they seem short of addressing structural problems. For example, with the exception of "sin" taxes, the country's tax rates are comparable to other Asian countries yet the Philippines' tax effort ratio is low suggesting a collection problem. On the other hand, without tax deduction ceilings the tax effort of the rich is effectively reduced. Finally, there may be a need to revalue the base of real properties to increase revenue as well. All these are equally essential reforms but quite difficult in political terms.

D. Debt Management - From the very start of the Ramos administration, the official policy with respect to foreign debt was announced to be a continuation of the Aquino regime policy. Reforms in debt management are confined to regular restructuring (for commercial and official debt), voluntary credit access, and IMF-umbrella negotiations.

With respect to domestic debt, the current administration also follows the same policy of the previous regime i.e. renewal of debt stocks and restructuring via longer term maturities of new debt instruments. There are, therefore, no new reforms to speak of in the Ramos administration concerning debt management.

At the twilight of the previous administration, a debt buyback deal was concluded for \$1.3 B debt of the \$4.6 B scheduled for restructuring (the purchase of which is reflected in the BOP accounts). The remaining \$3.3 B restructuring under several options was concluded in the last quarter of 1992. The agreement included debt-conversion bonds with new money, temporary interest rate reduction bonds, and principal-collateralized interest reduction bonds.

There appears to be no intention on the part of the Ramos administration in re-opening debt management strategies or negotiations. But the President did pronounce a possible exploration with debt reduction with the US President in a forthcoming US visit. This was later quickly corrected to affirm existing policy.

The government, however, launched Eurobond issues in early 1993 as investment instruments. This was considered to be a signal of the country's re-entry into voluntary credit markets, an achievement of reforms related to debt management. It is too early to consider this as a re-entry into the world credit market. Both time and volume have to be experienced before implying that the reform has been successful.

D. Conclusions and Prospects

The first year of the Ramos administration was crucial in several ways. Firstly, it needed to build a stronger foundation by which the environment for the economy becomes more conducive to growth. Second, it needed to maintain the fruits of the earlier foundations and reforms instituted by the previous regime. Third, it needed to initiate structural reforms that would spark recovery and eventually propel and sustain growth. Finally, it needed to arrive at some collective understanding (and consensus) of the adjustments that various sectors of society had to carry as part of economic growth.

The Ramos administration, undoubtedly, was able to consolidate fractious forces in the country to build a strong foundation for the economy. It sustained the stabilization program sufficiently to attain its benefits although one can argue that it may have been carried too conservatively. And then it was able to forge a common framework among policy leaders of the two branches of government.

During this first year, it took serious efforts to put structural reforms in place for a more sustainable macroeconomy to flourish. The review of these reforms indicate many were instituted in terms of executive actions or legislation. But the institution of these reforms also suffered from a number of weaknesses. For one, the Ramos administration wavered in some areas (e.g. opening up the economy, debt strategy pronouncements) thus threatening the credibility of its commitment to a macroeconomy based on competitive forces. For another, a number of critical reforms essential for succeeding ones took undue time to complete even with more friendly Congress and consolidated political forces. And then the Ramos administration took or proposed more easy measures instead of bolder reforms that strike at the structure of the macroeconomy (e.g. tax efficiency, abolition of tax laws inhibiting savings and capital mobilization). The administration also did not assert the importance of a fully committed MTPDP as the basic ground rule for the macroeconomic environment, thus, effectively retaining some uncertainty in direction and agenda.

This does not mean the reform measures had feeble repercussions. (Table 1.3 sets out a summary of macroeconomic reforms during the first year of the Ramos administration). It simply means the environment had not attained the strength and credibility for a potential take-off to succeed. With every wavering of policy pronouncement, commitment erodes. With every

TABLE 1.3
MACROECONOMIC REFORMS
AGENDA AND PROGRESS

Reform Areas	Progress
Monetary	
Creation of Central Monetary Authority	Legislation completed
Liberalization of Banking	Pending H.B.
IMF Facility	Under discussion
Reduction in reserve requirements	First stage completed
Financial Sector	
Unification of two bourses	Completed
Stabilization Program	Completed
Removal of high intermediation costs	No bill submitted to Congress
Fiscal Policy	
Sales of Government Assets	Many "to be disposed at later date"
Reliance on customs revenue source	No dramatic decline in MTPDP
Pump-priming Expenditures	Underspending
Measures for increased collection	Pending
Revenue enhancing measures	Legislated
o Amended Tobacco Tax Act	
o Stiffer Penalties for Tax Evasion	
o Creation of Large Taxpayers Unit at BIR	
o Requiring Monthly Payments of Value Added Tax	
o Repealing Sections of Tariff and Customs Code	
o Requiring Government Agencies to Deduct and Withhold VAT from Payments Made to Contractors	
Debt Management	
Rescheduling of commercial debt	Completed
Debt-reduction exploration	Stated and Recanted

delay in policy reform measures, uncertainty creeps in. With every avoidance of real reforms, their reinforcive impact diminishes.

The performance of the economy in the first year of the administration shows a weak recovery, but bottoming out nonetheless. Although the past's understanding may be debatable more can be ascribed to some lack of policy reform resoluteness than the administration may be willing to accept. The President's assertion, however, that more and radical measures have to be made suggests the weaknesses of the reform agenda and process in his first year. That these are known is necessary to re-affirm the direction of these reforms.

The most telling concern for the reforms is the employment generation of the economy. The reduction of the unemployment rate from 9.1 percent in the first quarter of 1992 (the beginning of the Ramos administration) to 8.3 percent in the first quarter of 1993 can not be dismissed easily. But this magnitude of the unemployment rate suggests the enormity of getting the macroeconomy going and sustaining it on the path that eventually tightens the labor markets. Couple this with the increase in the underemployment rate from 20.1 percent to 21 percent for the same period and the concern is even more telling. Indeed, the job creation work of macroeconomic reforms for the succeeding years of the Ramos administration is already cut out. A successful drive to a lower population growth rate (which the Ramos administration has assidiously pursued in its first year) would ease the burden tremendously. But it will not lessen the task of the government's work in the next 5 years.

2. TRADE POLICY REFORMS

Trade liberalization remains part of the Ramos Administration's policy agenda. This is enunciated in the Medium-Term Philippine Development Plan. There has been some wavering in the implementation of these reforms, with the suspension then revisions in Executive Orders (EOs) and Central Bank (CB) Circulars issued. The same hesitation is observed in the Philippine position towards the ASEAN Free Trade Agreement (AFTA) negotiations. Still, at the very least, the intent to continue with the trade reforms is manifested in its attempt to pass some policy measures (e. g., through EOs and CB Circulars).

Trade Policy Measures: EOs and CB Circulars

There were series of EOs and CB circulars passed under the Ramos Administration implementing trade reforms. These are E. O. 1, E. O. 2, E. O. 5, E. O. 8, and E. O. 61 among the executive orders and CB Circulars 1347, 1356 and 1365 among the Central Bank Circulars affecting trade policy.

The first E. O. exempts from payment of import duties electric generating sets with compression-ignition internal combustion piston engines (diesel and semi-diesel). The second E. O. (amended by E. O. 5 shortening the period of extension) extends the effectivity of duty-free importation of cement and cement clinker. These are considered temporary measures to address the power problem and cement shortages and do not greatly affect the overall protection structure.

The major trade policy measures since the Ramos Administration took over consist mainly of EO 8 in August 1992 and CB Circulars 2347 and 1356 in September 1992. CB Circulars 1347 and 1356, with EO 8 are basically import liberalization measures where import restrictions are initially and partly replaced by tariffs.

To accompany the liberalization of import restrictions on selected items (as provided in the CB Circulars), statutory tariff rates of the affected items were generally raised, then scheduled to be reduced over a five- year period, to smoothen the adjustment (EO 8). The joint-agency committee on tariff related matters (TRM) formulated these tariff changes usually after consultation with various sectors of the economy. With respect to E.O. 8, the committee generally followed a rule of thumb of simply doubling the then existing tariff rate during the first year of the E.O., to be gradually brought down back to its original level after five years.

CB Circulars 1347 and 1356, with EO 8 are basically import liberalization measures where import restrictions are initially and partly replaced by tariffs. Thus, during the first year of implementation, tariffs on affected commodities were generally raised -- most to 60 percent, some to 100 percent. These are scheduled to be reduced over five years to within the 0 to 30 percent range.

The impact of these measures on the protection structure has been assessed in a previous PEPS Report. (See Tables 2.1 and 2.2 for a summary of results) To summarize, with E. O. 8, some trade liberalization occurs but nominal statutory rates rise. That is, assuming that the CB Circulars and EO 8 were implemented, the PEPS Report shows that the overall average tariff and effective protection rate (EPR) and their standard deviation are reduced.

The PEPS Report qualified that the conclusions are based on the assumption that the new tariff rates are not prohibitive. For example, it used 80 percent as the pre-EO 8 implicit protection for corn based on a 3 year-average price comparison ending 1988, done under the TC-PIDS project. This is generally much higher than other studies' estimates. Cabanilla's estimate, for example, was 17 percent for 1981 (PIDS Working Paper No. 83-07, 1983) and Tina David's estimate is around 48 percent for 1990. This implies that the estimated reduction in EPR could be somewhat overestimated.

The discussion above assumed the implementation of both E. O. 8 and the accompanying CB Circulars. There was, however, strong lobby against the implementation of both the EO and the CB Circulars from various groups. The main objection (and most influential) came from the Department of Agriculture itself, in particular, arguing for an even higher protection for corn at 125 percent. This, of course, has direct repercussion on the livestock producers, who, in turn, are demanding also higher protection.

Shortly after being passed, certain provisions of EO 8 and CB Circular 1356 were suspended following strong objections from these various sectors. In particular, (1) a court injunction on EO 8 for livestock, poultry and meat, (2) CB Circular 1365 deferring liberalization for corn, and (3) Memorandum Order No. 60 freezing the tariff on corn until February 1993.

On February 27, 1993, decisions on these products were made with the passing of EO 61 (effective 30 days after) and Memo Order No. 95 (effective immediately). The EO sets the tariff rates while the Memo Order imposes quantitative restrictions in accordance with the provisions of the Magna Carta for Small Farmers enacted on June 1992.

Table 2.1

AVERAGE TARIFF (1992 - 1996)
Comparison W/ EO 470 and W/ E08
Using Price Comparison

Sector Group	W/ EO 470 1992	1993	1994	1995	1996	W/ E08 1992	1993	1994	1995	1996
03-96 ALL SECTORS	0.2431	0.2333	0.2250	0.2165	0.2165	0.2005	0.1886	0.1786	0.1702	0.1701
Importables	0.4222	0.4061	0.3924	0.3784	0.3784	0.4137	0.3987	0.3765	0.3562	0.3560
03-22 AGRICULTURE, FISHING & FORESTRY	0.1033	0.0943	0.0856	0.0768	0.0768	0.0669	0.0522	0.0405	0.0346	0.0346
Importables	0.5233	0.4925	0.4625	0.4325	0.4325	0.5087	0.4339	0.3745	0.3445	0.3445
03-13 Agriculture	0.1804	0.1718	0.1636	0.1553	0.1553	0.1643	0.1385	0.1189	0.1111	0.1111
Importables	0.5525	0.5262	0.5009	0.4756	0.4756	0.5334	0.4496	0.3061	0.3608	0.3608
19-20 Fishing	0.0528	0.0469	0.0410	0.0352	0.0352	0.0528	0.0469	0.0410	0.0352	0.0352
Importables	0.4485	0.3988	0.3490	0.2992	0.2992	0.4485	0.3988	0.3490	0.2992	0.2992
21-22 Logging & other forestry activities	-0.1809	-0.1817	-0.1824	-0.1832	-0.1832	-0.1809	-0.1817	-0.1824	-0.1832	-0.1832
Importables	0.3018	0.2823	0.2628	0.2433	0.2433	0.3018	0.2823	0.2628	0.2433	0.2433
23-27 MINING	0.0701	0.0700	0.0700	0.0700	0.0700	0.0701	0.0700	0.0700	0.0700	0.0700
Importables	0.2743	0.2740	0.2740	0.2740	0.2740	0.2743	0.2740	0.2740	0.2740	0.2740
28-96 MANUFACTURING	0.3096	0.2990	0.2902	0.2813	0.2813	0.2811	0.2700	0.2604	0.2501	0.2499
Importables	0.4096	0.3955	0.3840	0.3722	0.3722	0.4020	0.3958	0.3789	0.3597	0.3595
28-45 Food Processing	0.2468	0.2340	0.2216	0.2091	0.2091	0.2283	0.2145	0.2006	0.1857	0.1857
Importables	0.3122	0.2960	0.2803	0.2646	0.2646	0.3122	0.3095	0.2851	0.2573	0.2573
46-50 Beverages and Tobacco	0.2437	0.2409	0.2380	0.2351	0.2351	0.2437	0.2409	0.2380	0.2351	0.2351
Importables	0.4942	0.4884	0.4826	0.4769	0.4769	0.4942	0.4884	0.4826	0.4769	0.4769
51-55 Textile and Footwear	0.0630	0.0503	0.0503	0.0477	0.0477	0.0630	0.0503	0.0503	0.0477	0.0477
Importables	0.2957	0.2361	0.2361	0.2242	0.2242	0.2957	0.2361	0.2361	0.2242	0.2242
56-58 Wood and wood products	-	-	-	-	-	-	-	-	-	-
Importables										
59-66 Paper,rubber,leather & plastic prod	0.2459	0.2279	0.2143	0.1997	0.1997	0.2459	0.2279	0.2143	0.1997	0.1997
Importables	0.3123	0.2695	0.2722	0.2536	0.2536	0.3123	0.2895	0.2722	0.2536	0.2536
*67-75 Chemicals and chemical products	0.3494	0.3474	0.3468	0.3454	0.3454	0.3494	0.3474	0.3468	0.3454	0.3454
Importables	0.3494	0.3474	0.3468	0.3455	0.3454	0.3494	0.3474	0.3468	0.3455	0.3454
76-79 Non-metallic mineral products	0.7883	0.7861	0.7839	0.7818	0.7818	0.7883	0.7861	0.7839	0.7818	0.7818
Importables	0.8107	0.8085	0.8062	0.8041	0.8041	0.8107	0.8085	0.8062	0.8041	0.8041
80-82 Basic metals and metal products	0.2551	0.2252	0.2080	0.1934	0.1934	0.2551	0.2252	0.2080	0.1934	0.1934
Importables	0.2623	0.2316	0.2139	0.1988	0.1988	0.2623	0.2316	0.2139	0.1988	0.1988

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Table 2.1
AVERAGE TARIFF (1992 - 1996)
Comparison W/ EO 470 and W/ E08
Using Price Comparison

Sector Group	W/ EO 470 1992	1993	1994	1995	1996	W/ E08 1992	1993	1994	1995	1996
83-91 Mach. incl. elec. eqpt, transport e	0.3872	0.3829	0.3796	0.3763	0.3763	0.3113	0.3051	0.3004	0.2957	0.2933
Importables	0.5029	0.4972	0.4928	0.4887	0.4887	0.4043	0.3961	0.3901	0.3840	0.3809
92-96 Miscellaneous manufactures	0.1060	0.0996	0.0933	0.0869	0.0869	0.1060	0.0996	0.0933	0.0869	0.0869
Importables	0.2326	0.2187	0.2047	0.1908	0.1908	0.2326	0.2187	0.2047	0.1908	0.1908

Notes:
Weights Used: FTVA*Qb
- FTVAs were excluded
Source: Medalla (Forthcoming) Assessment of EO 470, PIDS Working Paper.

Table 2.2
AVERAGE EPR* (1992 to 1996)
BY MAJOR GROUPS
COMPARISON W/ AND W/OUT EO8
using price comparison

Sector Grp.		W/ out EO8 1992	W/ out EO8 1993	W/ out EO8 1994	W/ out EO8 1995	W/ out EO8 1996	W/ EO8 1992	W/ EO8 1993	W/ EO8 1994	W/ EO8 1995	W/ EO8 1996
03-96	ALL SECTORS	0.3573	0.3426	0.3315	0.3199	0.3199	0.3453	0.3261	0.3116	0.2982	0.2979
	Exportables	-0.0414	-0.0414	-0.0414	-0.0414	-0.0414	-0.0414	-0.0414	-0.0414	-0.0414	-0.0414
	Importables	0.7409	0.7113	0.6902	0.6681	0.6681	0.7008	0.6633	0.6358	0.6104	0.6099
03-22	AGRICULTURE,FISHING & FORESTRY	0.0691	0.0624	0.0558	0.0493	0.0493	0.0656	0.0493	0.0364	0.0298	0.0298
	Exportables	-0.0570	-0.0570	-0.0570	-0.0570	-0.0570	-0.0570	-0.0570	-0.0570	-0.0570	-0.0570
	Importables	0.5745	0.5403	0.5071	0.4739	0.4739	0.4571	0.3892	0.3353	0.3079	0.3079
03-13	Agriculture	0.1810	0.1725	0.1643	0.1561	0.1561	0.1739	0.1459	0.1247	0.1165	0.1165
	Exportables	-0.0070	-0.0070	-0.0070	-0.0070	-0.0070	-0.0070	-0.0070	-0.0070	-0.0070	-0.0070
	Importables	0.5970	0.5692	0.5427	0.5162	0.5162	0.4467	0.3758	0.3222	0.3013	0.3013
19-20	Fishing	0.0543	0.0472	0.0400	0.0328	0.0328	0.0543	0.0472	0.0400	0.0328	0.0328
	Exportables	-0.0096	-0.0096	-0.0096	-0.0096	-0.0096	-0.0096	-0.0096	-0.0096	-0.0096	-0.0096
	Importables	0.5330	0.4721	0.4112	0.3504	0.3504	0.5330	0.4721	0.4112	0.3504	0.3504
21-22	Logging & other forestry activiti	-0.2186	-0.2193	-0.2201	-0.2208	-0.2208	-0.2186	-0.2193	-0.2201	-0.2208	-0.2208
	Exportables	-0.2480	-0.2480	-0.2480	-0.2480	-0.2480	-0.2480	-0.2480	-0.2480	-0.2480	-0.2480
	Importables	0.3064	0.2866	0.2667	0.2468	0.2468	0.3064	0.2866	0.2667	0.2468	0.2468
23-27	MINING	0.0268	0.0268	0.0268	0.0268	0.0268	0.0269	0.0268	0.0268	0.0268	0.0268
	Exportables	-0.0898	-0.0898	-0.0898	-0.0898	-0.0898	-0.0898	-0.0898	-0.0898	-0.0898	-0.0898
	Importables	0.3178	0.3173	0.3174	0.3174	0.3174	0.3178	0.3173	0.3174	0.3174	0.3174
28-96	MANUFACTURING	0.5341	0.5142	0.5000	0.4850	0.4850	0.5165	0.4946	0.4784	0.4606	0.4601
	Exportables	-0.0128	-0.0128	-0.0128	-0.0128	-0.0128	-0.0128	-0.0128	-0.0128	-0.0128	-0.0128
	Importables	0.7753	0.7458	0.7262	0.7054	0.7054	0.7546	0.7220	0.6989	0.6733	0.6727
28-45	Food processing	0.2827	0.2661	0.2507	0.2353	0.2353	0.2827	0.2631	0.2439	0.2232	0.2232
	Exportables	-0.0511	-0.0511	-0.0511	-0.0511	-0.0511	-0.0511	-0.0511	-0.0511	-0.0511	-0.0511
	Importables	0.4032	0.3805	0.3594	0.3384	0.3384	0.4032	0.3763	0.3501	0.3219	0.3219
46-50	Beverages and Tobacco	0.4101	0.4065	0.4029	0.3993	0.3993	0.4101	0.4065	0.4029	0.3993	0.3993
	Exportables	-0.0922	-0.0922	-0.0922	-0.0922	-0.0922	-0.0922	-0.0922	-0.0922	-0.0922	-0.0922
	Importables	0.9748	0.9675	0.9602	0.9530	0.9530	0.9748	0.9675	0.9602	0.9530	0.9530
51-55	Textile and Footwear	0.0788	0.0444	0.0444	0.0341	0.0341	0.0788	0.0444	0.0444	0.0341	0.0341
	Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Importables	0.8703	0.6622	0.6622	0.6111	0.6111	0.8703	0.6622	0.6622	0.6111	0.6111
56-58	Wood and wood products	0.2337	0.2338	0.2338	0.2341	0.2341	0.2337	0.2338	0.2338	0.2341	0.2341
	Exportables	0.2337	0.2338	0.2338	0.2341	0.2341	0.2337	0.2338	0.2338	0.2341	0.2341
	Importables	-	-	-	-	-	-	-	-	-	-

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Table 2.2
AVERAGE EPR* (1992 to 1996)
BY MAJOR GROUPS
COMPARISON W/ AND W/OUT EO8
using price comparison

Sector Grp.	W/ out EO8 1992	1993	1994	1995	1996	W/ EO8 1992	1993	1994	1995	1996
59-66 Paper,rubber,leather & plastic pr	1.0496	0.9491	0.8794	0.7936	0.7936	1.0496	0.9491	0.8794	0.7936	0.7936
Exportables	-0.1089	-0.1089	-0.1089	-0.1089	-0.1089	-0.1089	-0.1089	-0.1089	-0.1089	-0.1089
Importables	1.3464	1.2187	1.1303	1.0212	1.0212	1.3464	1.2187	1.1303	1.0212	1.0212
67-75 Chemicals and chemical products	1.0451	1.0357	1.0174	0.9967	0.9967	1.0451	1.0357	1.0174	0.9967	0.9967
Exportables	--	--	--	--	--	--	--	--	--	--
Importables	1.0451	1.0357	1.0174	0.9967	0.9967	1.0451	1.0357	1.0174	0.9967	0.9967
76-79 Non-metallic mineral products	1.7263	1.7208	1.7153	1.7102	1.7102	1.7263	1.7208	1.7153	1.7102	1.7102
Exportables	-0.0815	-0.0815	-0.0815	-0.0815	-0.0815	-0.0815	-0.0815	-0.0815	-0.0815	-0.0815
Importables	1.7777	1.7721	1.7664	1.7611	1.7611	1.7777	1.7721	1.7664	1.7611	1.7611
80-82 Basic metals and metal products	0.7634	0.6545	0.5921	0.5386	0.5386	0.7634	0.6545	0.5921	0.5386	0.5386
Exportables	-0.0783	-0.0783	-0.0783	-0.0783	-0.0783	-0.0783	-0.0783	-0.0783	-0.0783	-0.0783
Importables	0.7872	0.6752	0.6110	0.5560	0.5560	0.7872	0.6752	0.6110	0.5560	0.5560
83-91 Mach. incl. elec. eqpt,transport	0.9551	0.9399	0.9327	0.9254	0.9254	0.7498	0.7289	0.7179	0.7068	0.7004
Exportables	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Importables	1.2457	1.2259	1.2165	1.2072	1.2072	0.9791	0.9520	0.9376	0.9232	0.9149
92-96 Miscellaneous manufactures	0.4905	0.4528	0.4116	0.3745	0.3745	0.4905	0.4528	0.4116	0.3745	0.3745
Exportables	-0.0245	-0.0245	-0.0245	-0.0245	-0.0245	-0.0245	-0.0245	-0.0245	-0.0245	-0.0245
Importables	0.7906	0.7297	0.6684	0.6081	0.6081	0.7906	0.7297	0.6684	0.6081	0.6081

Notes:

*EPRs are weighted with FTVA x Qb.
*In averaging, Sector 95 whose FTVA is negative was excluded.

Source: Medalla (Forthcoming), Assessment of EO 470, PIDS Working Paper.

EO 61 and Memo Order 95 affect 4 sectors in general: corn (I-O sector 3 in 1983), poultry (sector 16), hogs and pork (sector 34) and meat and meat products (sector 35).

Tariffs on poultry and poultry products and meat and meat products were untouched by EO 61, which means that the raising of tariffs on these products under EO 8 remains effective while their importation have been re-restricted. Thus, no liberalization occurred on these sectors (except for beef and beef products) while their book rates have been raised (although scheduled to go down to EO 470 level by 1996). If tariffs were redundant (and/or the tariff equivalent of the QR is lower than the tariff rate), then nominal and effective protection remains the same.

Estimates of Rosegrant and Gonzales (1991) for chicken is 54 percent for 1990. This is lower than the provision under EO 8 in 1992 at 100 percent tariff (the rate goes down to 30 percent in 1996). This implies a higher EPR for chicken up to 1994 under EO 61 (which is really EO 8 provision on poultry, without liberalization) than under EO 8 with liberalization.

There are no price comparisons for meat and meat products. Book rate comparisons show lower effective protection rates under EO 470 up to 1994 vis-a-vis EO 61, before they even up in 1995. However, if the tariff equivalent of the import restriction is higher than the tariff book rate, the EPR under the EOs should be the same.

Perhaps the more controversial provision of EO 8 pertains to corn and hogs. Using book rates, the EPR under EO 8 for sector 34 (which includes hogs) is almost double that under EO 470 in 1993 and 1994 (.8 vs .4 in 1993 and .6 vs .35 in 1994). The change in EO 61 brings down the EPR to around .6 for 1993 and .4 for 1994 (still higher than under EO 470). (See Table 2.3)

Again if the tariff equivalent of the QR is higher than the book rates, the EPR should be the same for the two EOs. Price comparisons by C. David, however, show a nominal protection rate of only around 6 percent. This could mean two things. One, the tariffs could be redundant, in which case the tariffs have no differential effects. Or two, the QR and the tariffs protect quality differences and/or domestic market shares (rather than price), in which case the tariff is effective. Thus, the higher tariff means higher EPR.

Table 2.3

Comparison of Tariff Rates and EPR
Under EO 470, EO 8, EO 61 for Affected Sectors

I. Sector 3 : Corn

a). Book Rate

	EO 470				EO 8				EO 61		
	1993	1994	1995		1993	1994	1995		1993	1994	1995
Tj	0.4000	0.3500	0.3000	Tj	0.5828	0.5000	0.5000	Tj	0.2000	0.2000	0.2000
EPR	0.4352	0.3804	0.3256	EPR	0.6384	0.5472	0.5480	EPR	0.2129	0.2136	0.2145

b). Price Comparison

1. Using TC-PIDS estimate of .8 for 1988

	EO 470				EO 8				EO 61		
	1993	1994	1995		1993	1994	1995		1993	1994	1995
Tj	0.8000	0.8000	0.8000	Tj	0.8000	0.8000	0.8000	Tj	0.8000	0.8000	0.8000
EPR	0.8799	0.8806	0.8815	EPR	0.8768	0.8783	0.8784	EPR	0.8830	0.8830	0.8830

2. Using C. David's estimate of .4 for 1990

	EO 470				EO 8				EO 61		
	1993	1994	1995		1993	1994	1995		1993	1994	1995
Tj	0.4800	0.4800	0.4800	Tj	0.5828	0.5000	0.5000	Tj	0.4800	0.4800	0.4800
EPR	0.5241	0.5249	0.5258	EPR	0.6384	0.5472	0.5480	EPR	0.5273	0.5273	0.5273

II. Sector 34 : Meat of Bovine Animals /a

Book Rate

	EO 470				EO 8				EO 61		
	1993	1994	1995		1993	1994	1995		1993	1994	1995
Tj	0.3987	0.3494	0.3000	Tj	0.7962	0.5975	0.3000	Tj	0.5962	0.3987	0.3000
EPR	0.4010	0.3512	0.3015	EPR	0.8011	0.6010	0.3015	EPR	0.5997	0.4010	0.3015

con't

Table 2.3
Comparison of Tariff Rates and EPR
Under EO 470, EO 8, EO 61 for Affected Sectors

III. Sector 16: Chicken / b

1. Using Book Rate

	E O 8 / E O 61				E O 8 470		
	1993	1994	1995		1993	1994	1995
TH	0.8000	0.6000	0.3000	TH	0.4000	0.3500	0.3000
TL	0.3000	0.3000	0.3000	TL	0.3000	0.3000	0.3000

2. Using Price Comparison

	E O 470				E O 8		
	1993	1994	1995		1993	1994	1995
Tj	0.4000	0.5400	0.5400	Tj	0.8000	0.6000	0.5000
Ti	0.3000	0.3000	0.3000	Ti	0.3000	0.3000	0.3000

IV. Sector 35 : Processed Meat

Using Book Rate

	EO 470				EO 8		
	1993	1994	1995		1993	1994	1995
Tj	0.3750	0.3375	0.3000	Tj	0.6250	0.4500	0.3000
EPR	0.4407	0.3830	0.3253	EPR	0.8255	0.5562	0.3253

a/ No PC data available for Sector 34.
b/ No EPR estimate available in earlier estimates by Medalla for Sector 16 as this was considered not traded before.

For corn, EO 8, even with liberalization, could mean an increase in effective protection if the estimate of Tina David is used (See line I.b.2 of Table 2.4). The switch back to low tariffs combined with QR under EO 61 and Memo 95 would then be an improvement over EO 8. The EPR under EO 61 goes back to EO 470 level by 1995.

AFTA Developments

With reference to the implementation of the ASEAN Free Trade Agreement, we attach herewith some of the tables:

Table 2.5. Summary of List of Products, ATR, NRR & EL
Table 2.6. Philippine General Formula
- Fast Track > 20%
Table 2.7. Philippine General Formula
- ATR < 20%
Table 2.8. Philippine General Formula
- NTR > 20%
Table 2.9. Philippine General Formula
- NTR < 20%
Table 2.10. Summary - Excluded Fast Track
Table 2.11. Summary - Included Fast Track
Table 2.12. Average Unweighted Tariffs Selected Items

To achieve a free trade area, ASEAN adopted the Common Effective Preferential Tariff (CEPT) scheme. Under the scheme, a CEPT range of 0 - 5 percent is targeted over a 15-year period starting January 1993.

The implementation of the CEPT follows two parallel schedules - (1) a normal rate of reduction (normal track) and (2) an accelerated rate of reduction (fast track). Under the normal track, products with tariff rates above 20 percent would be reduced to 20 percent within 5 - 8 years, then further down to 0 - 5 percent seven years thereafter. Products with tariff rates at 20 percent and below would be reduced to 0 - 5 percent within 10 years. Under the fast track, tariff rates would be reduced to 0 - 5 percent within 10 years for products with tariffs above 20 percent and within 7 years for those at 20 percent and below.

The negotiations centered around which products to include (inclusion list) and which to exclude (exclusion list). For the exclusion list, there are (a) general exception (for health and security reasons, patterned after GATT), (b) permanent exclusion, basically for raw agricultural products, and (c) temporary exclusion for "sensitive" industries which are deemed to need time for adjustment.

Table 2.4
Comparison of Tariff Rates and EPR
Under EO 470, EO 8, EO 61 for Affected Sectors

I. Sector 3 : Corn

a). Book Rate

	E O 470				E O 8				EO 61		
	1993	1994	1995		1993	1994	1995		1993	1994	1995
Tj	0.4000	0.3500	0.3000	Tj	0.5828	0.5000	0.5000	Tj	0.2000	0.2000	0.2000
EPR	0.4352	0.3804	0.3256	EPR	0.6384	0.5472	0.5480	EPR	0.2129	0.2136	0.2145

b). Price Comparison

1. Using TC-PIDS estimate of .8 for 1988

	E O 470				E O 8				EO 61		
	1993	1994	1995		1993	1994	1995		1993	1994	1995
Tj	0.8000	0.8000	0.8000	Tj	0.8000	0.8000	0.8000	Tj	0.8000	0.8000	0.8000
EPR	0.8799	0.8806	0.8815	EPR	0.8768	0.8783	0.8784	EPR	0.8830	0.8830	0.8830

2. Using C. David's estimate of .4 for 1990

	E O 470				E O 8				EO 61		
	1993	1994	1995		1993	1994	1995		1993	1994	1995
Tj	0.4800	0.4800	0.4800	Tj	0.5828	0.5000	0.5000	Tj	0.4800	0.4800	0.4800
EPR	0.5241	0.5249	0.5258	EPR	0.6384	0.5472	0.5480	EPR	0.5273	0.5273	0.5273

II. Sector 34 : Meat of Bovine Animals /a

Book Rate

	E O 470				E O 8				EO 61		
	1993	1994	1995		1993	1994	1995		1993	1994	1995
Tj	0.3987	0.3494	0.3000	Tj	0.7962	0.5975	0.3000	Tj	0.5962	0.3987	0.3000
EPR	0.4010	0.3512	0.3015	EPR	0.8011	0.6010	0.3015	EPR	0.5997	0.4010	0.3015

Table 2.4
Comparison of Tariff Rates and EPR
Under EO 470, EO 8, EO 61 for Affected Sectors

III. Sector 16: Chicken / b

1. Using Book Rate

	E O 8/E O 61			E O 8 470		
	1993	1994	1995	1993	1994	1995
TH	0.8000	0.6000	0.3000	0.4000	0.3500	0.3000
TL	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000

2. Using Price Comparison

	E O 470			E O 8		
	1993	1994	1995	1993	1994	1995
Tj	0.4000	0.5400	0.5400	0.8000	0.6000	0.5000
Ti	0.3000	0.3000	0.3000	0.3000	0.3000	0.3000

IV. Sector 35 : Processed Meat

Using Book Rate

	EO 470			EO 8		
	1993	1994	1995	1993	1994	1995
Tj	0.3750	0.3375	0.3000	0.6250	0.4500	0.3000
EPR	0.4407	0.3830	0.3253	0.8255	0.5562	0.3253

a/ No PC data available for Sector 34.
b/ No EPR estimate available in earlier estimates by Medalla for Sector 16
as this was considered not traded before.

TABLE 2.5

SUMMARY OF LIST OF PRODUCTS
ACCELERATED TARIFF REDUCTION, NORMAL RATE REDUCTION AND EXCLUSION LIST

NO.	COUNTRY	HS DIGIT LEVEL	INCLUSION				EXCLUSION		TOTAL
			ATRP	NRRP	SUB-TOTAL	% (g)/(k)	TEMPORARY	PERMANENT + GENERAL EXCEPTION	
(a)	(b)	(c)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	BRUNEI DARUSSALAM	9	1,826	4,357	6,183	94.48%	166	195	6,544
2	INDONESIA	9	3,165	4,288	7,453	80.82%	1,708	61	9,222
3	MALAYSIA	9	3,251	6,895	10,146	86.38%	648	952	11,746
4	PHILIPPINES	8	916	3,568	~~4,484~~	80.20%	681	426	5,591
5	SINGAPORE	9	2,200	3,514	5,714	97.98%	--	118	5,832
6	THAILAND	6	1,936	2,764	4,700	90.38%	118*	382*	5,200

ATRP - Accelerated Tariff Reduction Program
NRRP - Normal Rate Reduction Program

Notes: *) Exclusion are based on 10 digit level therefore the Permanent Exception and General Exception will be correspondingly adjusted when the exclusion list is expressed in HS 8/9 Digit.

TABLE 2.6

PHILIPPINE GENERAL FORMULA OF PROGRAMS FOR TARIFF REDUCTION UNDER THE ACCELERATED TARIFF REDUCTION (FAST TRACK)

FOR PRODUCTS WITH TARIFF RATES ABOVE 20%

YEAR	EXISTING TARIFF RATES					
	21-25%	26-30%	31-35%	36-40%	41-45%	46-50%
1993))) 1994)) 1995)	During 1993 - 1995, Executive Order 470 implements an autonomous 5-year tariff reduction program ending 1995					
1996	20%	25%	30%	35%	40%	45%
1997	20%	25%	25%	30%	35%	40%
1998	15%	20%	20%	25%	30%	35%
1999	15%	20%	20%	20%	25%	30%
2000	15%	15%	15%	15%	20%	25%
2001	10%	15%	15%	15%	15%	20%
2002	10%	10%	10%	10%	10%	15%
2003	0-5%	0-5%	0-5%	0-5%	0-5%	0-5%

NOTE:

1) The above is a general tariff reduction formula. This does not preclude a faster or slower rate of reduction for each tariff line within the specified time-frame.

2) Starting date as at 1 January of the following year.

*

Existing Tariff Rates applicable to ASEAN:

Non-PTA products (as of 1 January 1992)
PTA products (as of 31 December 1992)

TABLE 2.7

PHILIPPINE GENERAL FORMULA OF PROGRAMS FOR TARIFF REDUCTION UNDER THE ACCELERATED TARIFF REDUCTION (FAST TRACK)

FOR PRODUCTS WITH TARIFF RATES 20% AND BELOW

YEAR	EXISTING TARIFF RATES			
	0-5%	6-10%	11-15%	16-20%
1993)))) 1994)) 1995)	During 1993 - 1995, Executive Order 470 implements an autonomous 5-year tariff reduction program ending 1995			
1996	0-5%	0-5%	10%	15%
1997	-	0-5%	10%	15%
1998	-	-	10%	10%
1999	-	-	10%	10%
2000	-	-	0-5%	0-5%

NOTE:

1) The above is a general tariff reduction formula. This does not preclude a faster or slower rate of reduction for each tariff line within the specified time-frame.

2) Starting date as at 1 January of the following year.

* Existing Tariff Rates applicable to ASEAN:

Non-PTA products (as of 1 January 1992)
PTA products (as of 31 December 1992)

TABLE 2.8

PHILIPPINE GENERAL FORMULA OF PROGRAMS FOR TARIFF REDUCTION UNDER THE NORMAL TARIFF REDUCTION (NORMAL TRACK)

FOR PRODUCTS WITH TARIFF RATES ABOVE 20%

YEAR	EXISTING TARIFF RATES					
	21-25%	26-30%	31-35%	36-40%	41-45%	46-50%
1993) 1994) 1995)	During 1993 - 1995, Executive Order 470 implements an autonomous 5-year tariff reduction program ending 1995					
1996	20%	25%	30%	35%	40%	45%
1997	20%	25%	30%	30%	35%	40%
1998	20%	25%	30%	30%	30%	35%
1999	20%	25%	25%	25%	25%	30%
2000	20%	25%	25%	25%	25%	25%
2001	20%	20%	20%	20%	20%	20%
2002	20%	20%	20%	20%	20%	20%
2003	20%	20%	20%	20%	20%	20%
2004	15%	15%	15%	15%	15%	15%
2005	15%	15%	15%	15%	15%	15%
2006	10%	10%	10%	10%	10%	10%
2007	10%	10%	10%	10%	10%	10%
2008	0-5%	0-5%	0-5%	0-5%	0-5%	0-5%

NOTE:

1) The above is a general tariff reduction formula. This does not preclude a faster or slower rate of reduction for each tariff line within the specified time-frame.
2) Starting date as at 1 January of the following year.

* Existing Tariff Rates applicable to ASEAN:
Non-PTA products (as of 1 January 1992)
PTA products (as of 31 December 1992)

TABLE 2.9

PHILIPPINE GENERAL FORMULA OF PROGRAMS FOR TARIFF REDUCTION UNDER THE NORMAL TARIFF REDUCTION (NORMAL TRACK)

FOR PRODUCTS WITH TARIFF RATES 20% AND BELOW

YEAR	EXISTING TARIFF RATES			
0-5%	0-5%	6-10%	11-15%	16-20
1993))) 1994)) 1995)	During 1993 - 1995, Executive Order 470 implements an autonomous 5-year tariff reduction program ending 1995			
1996	0-5%	0-5%	10%	15%
1997	0-5%	0-5%	10%	15%
1998	0-5%	0-5%	10%	15%
1999	0-5%	0-5%	10%	15%
2000	-	0-5%	10%	10%
2001	-	-	10%	10%
2002	-	-	0-5%	10%
2003	-	-	0-5%	0-5%

NOTE:

1) The above is a general tariff reduction formula. This does not preclude a faster or slower rate of reduction for each tariff line within the specified time-frame.

2) Starting date as at 1 January of the following year.

*

Existing Tariff Rates applicable to ASEAN:

Non-PTA products (as of 1 January 1992)
PTA products (as of 31 December 1992)

TABLE 2.10

SUMMARY OF PHILIPPINE PRODUCTS EXCLUDED FROM THE FAST-TRACK PROGRAM

PRODUCT GROUP	NO. OF LINES
VEGETABLE OILS	20
CEMENT	-
CHEMICALS	20
PHARMACEUTICALS	2
FERTILIZERS	-
PLASTICS	6
RUBBER PRODUCTS	2
LEATHER AND LEATHER PRODUCTS	28
PULP	-
TEXTILES AND TEXTILE ARTICLES	271
CERAMIC AND GLASS PRODUCTS	30
GEMS AND JEWELLERY	11
COPPER CATHODE	-
ELECTRONICS	2
WOODEN AND RATTAN FURNITURE	-
TOTAL	392

TABLE 2.11
SUMMARY OF PHILIPPINE PRODUCTS INCLUDED UNDER THE FAST-TRACK PROGRAM

PRODUCT GROUPS	NO. OF LINES
VEGETABLE OILS	10
CEMENT	7
CHEMICALS	323
PHARMACEUTICALS	19
FERTILIZERS	25
PLASTICS	68
RUBBER PRODUCTS	76
LEATHER & LEATHER PRODUCTS	12
PULP	19
TEXTILES AND TEXTILES ARTICLES	149
CERAMICS AND GLASS PRODUCTS	69
GEMS AND JEWELLERY	39
COPPER CATHODES	1
ELECTRONICS	89
WOODEN AND RATTAN FURNITURE	10
TOTAL	916

TABLE 2.12

AVERAGE UNWEIGHTED TARIFFS (%) SELECTED ITEMS

	IND	MAL	PHIL	THL	AVG
Pulp	9	3	7	5	6
Textiles	19	6	26	30	20
Veg Oils	13	1	21	10	11
Chemical	4	0	7	10	5
Pharm	5	0	9	8	5
Fert'zer	0	0	3	0	1
Plastics	15	13	17	25	18
Leather	3	9	19	24	14
Rubber	9	8	23	22	15
Cement	15	55	(30) 0*	5	26
Glass	20	15	20	18	18
Gems	11	5	24	0	10
El'nics	24	15	18	25	21
F'nture	50	24	33	80	47
AVERAGE	14	11	19	19	16

* President Ramos issued Executive Order No. 2 reducing the tariff duty on cement to 0%.

Source: Tariffs and Customs Documentation, various ASEAN countries

There is, at the same time, a fast track program for 15 product groups, which have been selected during the Fourth ASEAN Summit.

The 15 product groups for accelerated tariff reduction include vegetable oils (10 tariff lines), cement (7), chemicals (323), pharmaceuticals (19), fertilizers (25), plastics (68), rubber products (76), leather products (12), pulp (19), textiles (149), ceramics and glass products (69), gems and jewelry (39), copper cathodes (1), electronics (89), and wooden and rattan furniture (10), comprising a total of 916 tariff lines (8 digit HS code).

Alburo (1993) estimates that a full participation in the 15 product groups would affect around 50 percent of total ASEAN trade and 15 percent of total Philippine trade. The initial product coverages in the fast track program for the Philippines, however, would affect only 29 percent of total Philippine trade with ASEAN or 7 percent of total Philippine trade (considering the less than full coverages for the Philippines in the 15 product groups at present).

More problematic is the exclusion list. If a product is included in a country's exclusion list, neither would the country be able to enjoy AFTA benefits for this product. The longer the exclusion list, the narrower the AFTA scope and its liberalizing impact.

Among the ASEAN countries, the Philippines has the highest percentage of exclusion as of May 1993 (in terms of percent of total number of HS lines). (See Table 2.13)

Table 2.14 gives the Philippine exclusion list. Of the tariff lines included in the temporary exclusion, garments comprise around 27 percent, food processing - 18 percent, paper - 9 percent, and motor vehicles around 8 percent.

Public hearings were held by the Tariff Commission and DTI to determine the exclusion and inclusion list.

To get full benefits from AFTA, the exclusion list should be as short as possible. Exclusion should be limited to those for reasons of health and security reasons (e.g. general exception patterned after GATT). After all, the time period for CEPT is quite long as it is - more than enough time for preparation and adjustment. In particular, it seems indefensible why garments should be in the exclusion list, accounting for the largest share of the total tariff lines in the exclusion list.

TABLE 2.13
NUMBER OF LINES IN THE EXCLUSION LISTS
SUBMITTED BY THE ASEAN COUNTRIES
as of May 1993

Country	HS Digit Level	# of Tariff Lines	Exclusion List Temporary	Permanent	Total	% Total # of Lines
Brunei	9	6,544	339	243	582	9
Indonesia	9	9,222	1,707	370	2,077	23
Malaysia	9	11,746	609	773	1,382	12
Philippines	8	5,561	681	426	1,107	20
Singapore	9	5,832	0	120	120	2
Thailand	6	5,816	118	500	618	11

Source: "Philippine Exclusion List in the CEPT-AFTA" presented by UnderSecretary Cesar B. Bautista at PES/FES Seminar on AFTA, June 30, 1993.

TABLE 2.14
PHILIPPINE EXCLUSION LIST

GENERAL EXCEPTION (products regulated for health and security reasons majority of which are arms and ammunition)		=	28
TOTAL 1991 Import from the World =	U.S. $10.7 M		
from ASEAN =	1.2M		
PERMANENT EXCLUSION (live animals, fish, vegetable products, crude animal/vegetable fats; oil and by-products thereof)		=	398
TOTAL 1991 Imports from the World =	U.S. $475.4M		
from ASEAN =	19.3M		
TEMPORARY EXCLUSION (garments sector; paper industry; food processing and motor vehicles under the car development program)		=	675
TOTAL 1991 Imports from the World =	U.S. $1.1B		
from ASEAN =	97M		
T O T A L			1,107

Source: "Philippine Exclusion List in the CEPT-AFTA" presented by UnderSecretary Cesar B. Bautista at PES/FES Seminar on AFTA. June 30, 1993.

Some Indications and Implications of Proposed Policy Direction

In his State of the Nation address, President Ramos recognizes the importance of improving the business climate by "creating a level playing field." The government, he states, would "dismantle protectionism and controls and restructure monopolies and cartels that operate against public interest."

Such policy pronouncement is consistent with and should be very supportive of trade policy reforms towards greater trade liberalization. An open trade regime would best ensure such "level playing field" and effectively curtail monopoly power. It remains to be seen whether the government would be more firm and continue with trade reforms with greater conviction and commitment.

More explicit in his address is the plan to rationalize the granting of tax exemptions. This could be salutary to the economy. Care should, however, be taken that incentives to exports, badly needed by the economy, should not suffer. That is, export incentives in the form of tax and duty free importation of capital and intermediate inputs should remain (especially as long as trade policy bias against exports, mainly resulting from trade restrictions, remain).

More disturbing than this, however, is the proposal to accelerate the reduction of tariffs on imported raw materials under EO 470. This proposed move has two negative implications. One, considering that these comprise the large part of the countries imports, the revenue impact in the short run could be enormous which the government could ill afford. The more serious impact is on the EPR structure and the negative backward linkage effect. Such a move would again raise the EPRs of import dependent import substituting industries, increasing the bias against exports. It would artificially cheapen imported raw materials and provide an implicit subsidy to its users.

This is illustrated as follows. Suppose the tariff on imports is 5 percent. However, due to other trade restrictions and high tariffs on other products, the shadow price of foreign exchange, i. e., the "true social" value of foreign exchange is 1.2 times the Official Exchange Rate, OER. This means, for example, that the equilibrium exchange rate under free trade would have been 20 percent higher. Then, in effect the importation of the raw material at 5 percent duty actually comes into the country at an effectively lower price. The price should have been the border price times OER times 1.2, but it comes in at border price times OER times 1 plus the tariff, which is 1.05.

Granted, that this is only an acceleration of the reduction of tariffs on imported raw materials under EO 470. Still, in the first place, the low duties on imported inputs is one of the main weaknesses of EO 470. The ultimate goal is towards a low and near uniform tariff structure. This is what would avoid the bias against exports, and bias against forward and backward linkages. Such a proposed move would run counter to this goal.

3. INVESTMENTS

A. INTRODUCTION

This section monitors the developments in the investments area during the first year of the Ramos administration. The discussion covers the following major topics: (1) assessment of the business climate, (2) attitudes toward private sector, (3) privatization, (4) transport sector deregulation, (5) energy and oil pricing policies, (6) other deregulation efforts, (7) investment incentives and promotion policies, and (8) overall assessment of investment-related policy reforms.

The emphasis of the analysis is on the consistency between policy pronouncements and actions (both legislative and executive) in each area of concern. It likewise documents the status of every policy reform initiated during the last twelve months.

B. ASSESSMENT OF THE BUSINESS CLIMATE

Pronouncements on the continuation of the policy reforms initiated by former President Corazon C. Aquino were made in the first six months of the Ramos government. Among these were: proposed revisions of the Foreign Investments Act, removal of trade barriers, privatization, oil price deregulation, and demonopolization policies.

In its first twelve months, the Ramos government has been trying very hard to have a sense of national purpose by pushing for a NIC-hood status by year 2000. In a report to the nation on his first 365 days in office last June 30, 1993, President Ramos said that "we are winning this ballgame ... and that the Philippines is back on its feet". However, some disturbing aspect of policy making surfaced in its first six months in office. The new government issued Executive Order No. 8 (E.O. 8) on July 1992 which restructured the rates on import duties and amended the classification of certain articles under the Tariff and Customs Code of 1978. Unfortunately, the new government demonstrated a lack of consistency of policy implementation by amending E.O. 8 on November 7, 1992. Thus, in less than six months after its promulgation, a major trade policy reform was effectively amended. Nevertheless, President Ramos outlined a three-point agenda on June 30, 1993 to move the country forward, namely: (a) maintenance of the climate of stability, (b) preservation and strengthening of the new spirit of collaboration between the major branches of the government and the private sector, and (c) acceleration of reforms. The fulfillment of the third agenda in the last five years of its term is an issue that needs to be evaluated at a future time.

Among the nineteen (19) legislative proposals certified as urgent by the Ramos government in the first regular session of Congress (July 1992 to June 1993), four are considered having a direct impact on investment reforms, namely: Creation of the Department of Energy, Creation of the Central Monetary Authority, Amendment to the Condominium Act, and Amendment to the Public Service Act. Only the first two have been approved by Congress. On the other hand, the Ramos government had been successful in pushing for the approval of some of its revenue-enhancing bills:

- Amended Tobacco Tax Act
- Stiffer Penalties for Tax Evasion
- Creation of Large Taxpayers Unit at BIR
- Requiring Monthly Payments of Value Added Tax
- Repealing Sections of Tariff and Customs Code
- Requiring Government Agencies to Deduct and Withhold VAT from Payments Made to Contractors.

Although not certified as "urgent" by the executive branch, Congress has proposed the following measures aimed at liberalizing the rules on foreign investment:

- Liberalizing the Rules on the Entry of Foreign Banks
- Extending BOI's Authority to Suspend Nationality Requirement for Investments of International Multilateral Financial Institutions
- Providing for Anti-Trust Procedures and Creating the Fair Trade Commission

Some investment-related legislation that were not part of the original priority bills submitted to Congress on July 1992 but were acted favorably by Congress are:

- Electric Power Crisis Act
- Allowing Foreign Investors to Lease Private Lands for a Period of 50 years, and Renewable for not more than 25 years
- Limiting to a Maximum of 45 Days the Period for Filing an Import Entry and Filing for Claim on the Imported Article

Policy pronouncements were made by DTI and BOI on August 17, 1992 to open more sectors (e.g. retail trade, banking, construction, shipping, and insurance) to foreign investors. On September 18, 1992, BOI announced the approval of major amendments to the FIA for submission to President Ramos. Among these amendments were: the liberalization of the $500,000 minimum paid-in equity requirement for ordinary domestic market-oriented enterprises, the provision that import and wholesale activities should be integrated with the production or manufacture of goods before opening to foreign firms, the restriction of foreign companies with existing licensing or technology transfer agreements, and the listing of strategic industries with desired equity participation. The Ramos government decided to allow 100 percent foreign equity participation in strategic industries which are defined as those activities involving the production of coal and petroleum products, electricity and gas. However, foreign and local business groups believe that adoption of investment-enhancing measures that will fully support the FIA is an important step to attract foreign investments. But the BOI indicated that those covered by specific laws and administrative policies under the negative list (e.g. retail trade, banking, construction, travel agencies, insurance, etc.) should have to be studied carefully by the government to determine which areas would be liberalized. In effect, pronouncements of investment reforms require detailed studies to support proposed legislative measures. Although the Ramos government has consolidated its political control of Congress in the past 12 months, its key investment-related reform bills remain trapped in the bureaucratic and legislative gridlock.

C. ATTITUDES TOWARD PRIVATE SECTOR

An examination of a chronological table (see Table 3.1) of President Ramos' major policy pronouncements on industrial policy and investments indicates that there is a serious attempt to maintain the momentum for reforms. However, except for the policy on foreign exchange deregulation, no major policy reforms were initiated in the past 12 months.

Dismantling of protectionist barriers, restructuring of regulatory regime, deregulation, privatization, amending the FIA, reviewing the present system of incentives, rationalizing the public corporate sector, and dismantling of cartels and monopolies are some of the policy pronouncements made by Mr. Ramos in the past 13 months (June 30, 1992 to July 26, 1993). Official documents detailing the accomplishments of the Ramos government in the first 100 days claimed that the groundwork for "conducive business and investment climate" has been laid. Its report to the nation on its first 365 days claimed that the government "is winning the battle against major national problems ... and that it is now back on its feet and moving toward economic progress".

On his inaugural address, Mr. Ramos made a statement that our industries must be more efficient and world-competitive and our exports the spearhead for economic revival and growth. Six months later, he made a statement at NEDA that exports are no cure-all for all our ills in a world that is rapidly becoming politicized and protectionist. Another four months later,

TABLE 3.1
CHRONOLOGICAL TABLE OF MAJOR POLICY PRONOUNCEMENTS
ON INDUSTRIAL POLICY AND INVESTMENTS
JUNE 1992 - JULY 1993

PRONOUNCEMENT	DATE
1. We must restructure the entire regime of regulation and control that rewards people who do not produce.	Inaugural Address, June 30, 1992
2. We cannot dream of development while our homes and factories are in darkness.	Inaugural Address, June 30, 1992
3. Deregulation and privatization shall set free our industries from the apron strings of the State.	Inaugural Address, June 30, 1992
4. Dismantling protectionist barriers and providing correct incentives and support shall make our industry more efficient and world-competitive - and our exports, the spearhead for economic revival and growth.	Inaugural Address, June 30, 1992
5. The last Congress has given us the law opening the economy to foreign investments. Our job now is to make that law come to life.	Inaugural Address, June 30, 1992
6. In support of the Foreign Investments Act, I ask Congress to amend the Condominium Law and liberalize nationality requirements in the Omnibus Investment Code.	State of the Nation Address, July 27, 1992
7. We shall also review the present system of incentives to make it more attractive and encourage the flow of investments into the economy.	State of the Nation Address, July 27, 1992
8. We must rationalize the public corporate sector by privatizing those of its operations which are better undertaken by private enterprises.	State of the Nation Address, July 27, 1992

PRONOUNCEMENT	DATE
9. We have started reorienting our diplomatic service, refocus it on foreign trade and investment.	State of the Nation Address, July 27, 1992
10. The country must be moved from its present immersion in problems to a stage where all its energies are focused on productive efforts and are competing with other nations for trade and investments.	Multisectoral Workshop, October 17, 1992
11. We are putting a stop, once and for all, to political entrepreneurship... And we are cutting off monopolies and cartels - in manufacturing, in the financial system, in the service industries, and wherever else they may be found.	Speech before 30th Annual Meeting of Philippine Economic Society, December 14, 1992
12. Exports are no cure-all for our ills - particularly now when the world trade is rapidly becoming politicized and blocs are forming in our primary markets ... We should look for relief from mass-poverty closer to home.	Speech during NEDA Anniversary Celebration, December 16, 1992
13. The government should pursue structural reforms and eliminate monopolies and cartels.	Speech during Cabinet Workshop, January 9, 1993
14. Pump-priming the economy will only be effective with an environment conducive to investment and production.	Speech during Cabinet Workshop, January 9, 1993
15. The Philippines must open its markets to broader competition in order to sustain long-term economic growth.	Speech during Cabinet Workshop, January 9, 1993
16. The country should be able to withstand the rigors of international competitiveness and come up with world-class products and services.	Speech during 7th EDSA Anniversary Celebration, February 25, 1993

PRONOUNCEMENT	DATE
17. During my watch, we will privatize all government companies that can and must be privatized. There are no if's or but's about this.	Speech during the 74th Anniversary Rites of the National Development Company, March 16, 1993
18. The most important wars of the 21st century may be fought not on the battlefield but in corporate boardrooms, on the farms, in the research laboratories, in the assembly plants, in schoolrooms, and even in community centers where livelihood is generated.	Speech before the graduates of the Philippine Military Academy, March 21, 1993
19. The breaking of monopolies and cartels is not a move against big business ... The bottomline of this reform thrust is that firmness and fairness in our economic policies are in the interest of business itself and the public as a whole.	Speech before the Federation of Filipino and Chinese Chambers of Commerce and Industry, March 28, 1993
20. Business-government relations must reflect on orientation of development effort wherein the private sector matches with enterprise what government provides for business.	Speech before the Federation of Filipino and Chinese Chambers of Commerce and Industry, March 28, 1993.
21. We have begun a program of reform that already has dared more than any government since 1946.	Report to the Nation on his first 365 days in Office, June 30, 1993
22. The government has embarked on critical initiatives to end conflict and disorder, overhaul the government bureaucracy, and open the doors to free enterprise to create more jobs.	Report to the Nation on his first 365 days in Office, June 30, 1993

PRONOUNCEMENT	DATE
23. The economy must be open to all who bring in new capital, new knowledge, new ideas and new levels of efficiency	State of the Nation Address, July 26, 1993
24. Opening of the financial system to foreign banks should bring more foreign investment and expertise	State of the Nation Address, July 26, 1993
25. We now have a real opportunity to secure a fair share of the investments flowing into the ASEAN region. What is important is that we continue to improve our country's attractiveness for investments - by emphasizing our competitive advantage.	State of the Nation Address, July 26, 1992
26. We will accelerate sales of public assets and shares in private corporations, and get government out of the business of the private sector	State of the Nation Address, July 26, 1992
27. We must not relent in our campaign to level the field of business competition ... global competitiveness must begin at home.	State of the Nation Address, July 26, 1992

Mr. Ramos signed Presidential Proclamation No. 167, making exports the linchpin of Philippine economic growth to the year 2000.

Another case of policy inconsistency was illustrated in the Philippine Airlines (PAL) controversy. Government-nominated directors of PAL, were the most persistent proponents of the dissolution of PR Holdings Inc., the consortium which owns 67 percent of PAL even though corporate law requires the affirmative vote of at least 2/3 of the shareholders. PR Holdings Inc. bought 67 percent of PAL under the much-heralded major privatization program of the Aquino government. However, when Lucio Tan acquired control of PR Holdings, the government directors of PAL, with the support of the Ayala Group, announced its proposal to collapse PR Holdings. PR Holdings is entitled to name 10 of the 15 board directors of PAL, with the government naming the remaining five. The proposal to dissolve PR Holdings implies that its members will simply have direct investments in PAL. Thus, the government will increase its share from the current 33 percent to 46.4 percent, while the Tan Group's control of PAL through PR Holdings will be reduced from 50.4 percent to 34 percent. In addition, the Committee on Privatization through its Chairman, the Finance Secretary, had indicated that assets acquired by individuals or groups prior to any cases of ill-gotten wealth filed against them cannot be taken back by the government. Furthermore, the board of the PR Holdings Inc. rejected on April 5, 1993 a government proposal to dissolve the company and distribute its PAL shareholdings directly to the firm's owners. The nine-man board voted 6-2 against collapsing the firm on the belief that this would not serve the interest of all shareholders. However, directors representing government financial institutions have vowed not to give up the fight to dissolve the holding firm.

Although the government has not issued an official policy to recover ownership of PAL, a successful dissolution of PR Holdings will create a precedent that may be perceived as a deprivatization policy. Private investors (both domestic and foreign) would consider this proposal as another example of an inconsistent investment policy. Investors who were led to invest in a private corporation will feel deceived by this move. Government bureaucrats will be considered as planning to entrap private funds for government use in the guise of privatization, and the integrity of the government's policy would be at stake if bureaucrats can change the rules of the privatization plan anytime to suit their designs. If this thing happens, the move to privatize Petron Corporation, National Steel Corporation (NSC), National Power Corporation (NPC), and other big-ticket items would be in jeopardy.

The government should have privatized PAL through a direct sale of the shareholdings instead of selling it to a controlling consortium but changing the rules of the game now is unfair. When the consortium was controlled by another group before the Tan takeover, it seemed to be acceptable to the government-named directors. Again the politics of privatization seems to contradict the policy statement of President Ramos made on March 28, 1993 (see Table 3.1) that "the bottomline of the reform thrust is that firmness and fairness in our economic policies are in the interest of business itself and the public as a whole".

Another disappointing experience is the case of the Philippine National Bank (PNB). The privatization process of PNB began under the Aquino government and is restated under the Ramos government. In both regimes, the private sector holds 43 percent of PNB, but not a single director has been elected to represent this sizeable private-sector share. When the Ramos government made its first nominations to the PNB board, all their nominees were subsequently elected to the board, leaving no single seat to represent the interests of the private and non-government shareholders.

The Ramos government must take a firm stand on its privatization policy and the PAL case gives it an opportunity to demonstrate that it is firm on its fair and neutral privatization policy and that vested interests can not change privatization rules anytime.

Evidently, the private sector needs to be given a clear signal that policy pronouncements have a certain degree of stability, consistency and predictability; and that these are eventually implemented.

D. PRIVATIZATION

Policy statement made on inauguration day indicated that "deregulation and privatization shall set free our industries from the apron strings of the State". Immediately after that statement, the newly appointed top management of the Philippine National Bank expressed hesitation on the sale of more equity to the private sector, citing the need to use the bank to help develop the countryside which is generally against the interest of the private investors if the PNB will extend high cost loans. On December 2, 1992, President Ramos issued Executive Order No. 37 (entitled "Restating the Privatization Policy of the Government") which instructed the Committee on Privatization (COP) and Asset Privatization Trust (APT) to draw up a comprehensive program for all government corporations set for disposal. PNB announced that it has finally decided to push through with the sale of more bank shares to the public. In addition, the government has approved the sale of the government's 65 percent equity in Petron Corporation. Despite this assurance that the privatization policy will be vigorously pursued in the remaining 5 years of the Ramos government, the privatization of Duty Free Philippines, Inc. was scrapped because it proves to be "the goose that lays the golden eggs". The experience of some countries on privatization indicated that private enterprises considered to be well on the road to recovery have either stopped improving performance or suffered deterioration. This is a lesson in privatization for the government to consider.

In the past twelve months, the Ramos government has successfully privatized only two firms, namely the PNOC shipyard in Bauan, Batangas and the International Corporate Bank or INTERBANK (see Table 3.2). Yet, President Ramos categorically stated the policy of his government to privatize all government companies that can and must be privatized in a speech on March 16, 1993 during the 74th anniversary of the National Development Company.

The status on the privatization of Petron Corporation (the oil refining and marketing subsidiary of the Philippine National Oil Company - PNOC) is in the phase where it has chosen the consortium of Salomon Brothers and PCI Capital Corporation as its financial adviser which will help PNOC draw up the privatization package for Petron Corporation for submission to the Committee on Privatization. On the other hand, the National Development Company (NDC) has appointed the consortium of All Asia Capital, Barclays de Zoete Wedd and Beddows & Co. as financial advisor for the privatization of the National Steel Corporation (NSC). The consortium is tasked to scan the international steel market for NDC's search for a strategic partner, to size up how the privatization plan will fit with respect to current developments in the international market for steel, and to provide the financial expertise in the privatization strategy for NSC.

PNOC's recent bidding for the 58.3 hectare real estate assets of Filoil Refinery Corporation (FRC) in Rosario, Cavite failed. This setback was further complicated by the claims of a farmer group (now under investigation by the Department of Agrarian Reform) on a portion of the real estate of FRC. After clearing this remaining issue, PNOC will decide whether to rebid or open a negotiated sale for FRC's real estate assets worth at least P175 million. Another asset planned to be privatized is the Associated Bank (AB). APT is finalizing a memorandum of agreement with the Leonardo Ty Group which hopefully will pave the way for the final bidding of the government's 98 percent holding in Associated Bank. The Ty Group has committed not to block the sale of AB in exchange for its right to match the winning bid for the bank.

TABLE 3.2
UPDATE ON PRIVATIZATION EFFORTS

FIRM	STATUS
1. PNOC Shipyard in Bauan, Batangas	Sold to a consortium of Keppel Philippines Shipbuilding and SM Group on October 16, 1992 for P668 million
2. International Corporate Bank	Sold to a consortium of Union Bank, Ramcar, Aboitiz Group and Insular Life for P2.88 billion on July 8, 1993
3. Petron Corporation	The Salomon Brothers and PCI Capital Corporation were chosen on April 1, 1993 to be the financial advisors for the privatization of Petron Corporation
4. National Steel Corporation	The consortium of All Asia Capital, Barclays de Zoete Wedd, and Beddows & Co. was chosen on July 9, 1993 to be the financial advisor for the privatization of NSC.
5. Associated Bank	Asset Privatization Trust (APT) is preparing (as of July 1993) a Memorandum of Agreement with the Leonardo Ty group to pave the way for the final bidding of Associated Bank
6. Pantranco North Express, Inc.	Assets are being offered to be bought for P190 million by E. Francisco Liners Company
7. Real Estate Assets of Filoil Refinery Corp. (Rosario, Cavite)	PNOC's bidding on April 29, 1993 for FRC's 58.3 hecrate real estate assets failed
8. Duty Free Philippines, Inc.	Privatization plans scrapped
9. Philippine Shipyard and Engineering Corporation	APT plans to bid PHILSECO but SBMA wants to convert it into an export processing zone (as of July 1993)

FIRM	STATUS
10. DOMSAT	To be bidded on August 12, 1993 at a minimum price of P560 million
11. Food Terminal, Inc. (FTI)	The privatization plan cannot proceed until FTI settles its P300 million debt to the national government. The plan to sell FTI's shares instead of assets has been submitted to the Office of the President for approval (as of August 1993)
12. Others	No definite privatization schedule as yet
- Philippine National Bank	
- Manila Hotel	Owned by government employees; not by government
- Radio Philippines Network	
- North Davao Mining	
- PICOP	
- Basay Mining Corp.	
- Philippine Amanah Bank	
- Batong Buhay Gold Mines	
- Philippine Aerospace Development Corp.	
- PHILPHOS	
- Financial Center Area	
- MERALCO	

The other firms which were mentioned by APT to be privatized are: PICOP, Basay Mining, North Davao Mining, Manila Hotel, Radio Philippines Network, Philippine Amanah Bank, Philippine Aerospace and Development Corporation, Batong Buhay Gold Mines and PHILPHOS. These firms have yet to announce definite privatization schedules. Francisco Liners Company was reported to be interested in buying the assets of Pantranco North Express, Inc. for P190 million. Philippine Shipyard and Engineering Corporation (PHILSECO) is expected to be auction in August or September 1993 for at least P1 billion. PHILSECO's 52-hectare property is located in Subic. On the other hand, the Subic Bay Metropolitan Authority (SBMA) has indicated earlier its plan to seek approval from the Office of the President to convert the PHILSECO property into an export processing zone. The most interesting asset to be privatized is the Philippine National Bank. In its 77th anniversary celebration last July 22, 1993, PNB under its new management unveiled an eight-point strategy in support of "Philippines 2000" economic development program, called "PNB 2000". It calls for increased lending to the countryside, to provide the credit needs of viable small and medium-scale enterprises, to undertake livelihood lending programs, to be the banker of local government units, to promote human resource development and environmental protection, to support regional development programs, to expand in the Asia-Pacific region, to finance export-oriented enterprises, and to expand its presence in areas where there are large communities of Filipino OCWs and migrant workers. Although "PNB 2000" states that the plan to privatize the bank will provide flexibility and nimbleness to be able to compete more effectively, no definite privatization schedule was indicated. Moreover, since most of "PNB 2000" strategies are development-oriented, it may take a while for a profit-oriented privatization scheme to be finally implemented. PHILPHOS debts have reached P22.3 billion while the original loan amounted to only P5.6 billion. This huge debt complicates the privatization of PHILPHOS. In addition, the NPC has proposed to privatize oil fired facilities, particularly Malaya 1 and Malaya 2 power plants.

While privatization is a desirable policy, the "successful" privatization of the Philippine Airlines (PAL) by the Aquino government is now a controversial issue. The lesson to be learned here refers to a study that states that "privatization is easier to launch and more likely to produce positive results when the company operates in a competitive market, and when the country has a market-friendly policy environment and a good capacity to regulate". It also argues that privatization works best when accompanied by reforms "to open markets, remove price and exchange rate distortions, and encourage the development of the private sector through free entry". The primary goal of privatization should be the elimination of monopoly power and enhancement of competitive activities and consumer welfare than to maximize revenue or selling price. The privatization experience of PAL probably fits into the following frame - it does not operate in a competitive environment, revenue or selling price maximization was the primary goal of privatization, and the privatization program is not part of a larger program of reforms promoting efficiency.

The remaining task for the Ramos government in this area is to ensure that the privatization experience is not a reprise of the past administration's performance.

E. TRANSPORT SECTOR DEREGULATION

The policy on transport sector deregulation is based on DOTC Order No. 92-587 issued by former Secretary Nicomedes Prado on March 30, 1992. The implementing rules and guidelines were issued on October 22, 1992 (MARINA Circular No. 71).

The following are the salient features of the transport sector deregulation program:

1. The control in entry into and exit out of the industry shall be liberalized to introduce and enhance the level of competition both in terms of the rates charged and the quality of service rendered by domestic water transportation operators.

2. Links/routes presently serviced by only one operator shall be open for entry to at least one additional operator.

3. Operators that shall develop a link/route where there are no existing authorized operators/services shall be afforded protection of investment for a maximum period of five years after which the route shall be open for entry to at least one additional operator.

4. The entry of an additional operator in links/routes presently serviced by several existing authorized operators shall be allowed: (a) if the new entrant provides a more cost-effective service than existing operators, (b) the new entrant introduces innovations or quality of service improvements, (c) the route warrants additional capital or existing operators have not been sensitive to increase in demand, (d) in routes where practices of existing operators result in lack of effective competition, (e) if existing operators abandoned its operation, and (f) if the existing authorized operators have been violating the Public Service Law or its Certificate of Public Convenience.

5. First and Second Class passage rates are deregulated provided that at least fifty percent of the authorized passenger capacity of the vessels shall be allocated and maintained for Third Class accommodation.

6. Class A and Class B freight rates shall be deregulated provided the operator files their tariff for Class A and B commodities, and any change thereafter with the MARINA.

7. In determining the issuance of a certificate to operate or a certificate of public convenience, the use of "prior operator" and the "priority of filling" rules shall be discontinued. The route measured capacity test of demand for vehicle/vessel fleet for any route shall be used only as a guide in weighing the merits of each franchise application and not as a limit to the services offered.

8. The government shall not engage in special financing and incentive programs, including direct subsidies for fleet acquisition and expansion.

President Ramos approved on June 2, 1993 a five-year maritime plan to deregulate and modernize the obsolete domestic fleet.

Another transport deregulation policy is contained in DOTC Memo Circular No. 92-009 which provides for the deregulation of the country's land transportation industry to promote public interest through responsible competition. Some bus operators oppose deregulation on the assumption that a free-wheeling and destructive competition will ensure. They espouse the so-called "prior operator" and "protection of investments" doctrines. Such doctrines are usually used to protect their franchised routes, but not when they invade fellow operators' routes.

The remaining tasks for the Ramos government in this sector is to maintain the momentum for reforms by pursuing the privatization of Philippine Ports Authority (PPA) and the deregulation of air, land, and sea transport. In addition, competition in cargo handling and stevedoring services must be encouraged in the remaining 5 years of the Ramos government. Hopefully, two bills on transport sector deregulation (namely, incentives for the domestic shipping industry and public service act) which are certified as urgent by President Ramos in the last regular session of Congress, will be finally acted upon in the next regular session of the Ninth Congress.

F. ENERGY AND OIL PRICING POLICIES

The energy outlook for Luzon in 1993 and beyond will mainly depend on the rehabilitation state of existing and old thermal power plants (e.g. Kalayaan 1, Kalayaan 2, Bataan 2, Malaya 1, Malaya 2, Sucat 2, Sucat 3, Sucat 4, and Macban). The fast-track projects (see Table 3.3) which were originally planned by NPC) under the Aquino government are vigorously pursued by NPC under the Ramos government. The first of the six fast-track energy projects, the 100 MW Navotas II gas turbine power plant built by Hopewell was inaugurated on March 31, 1993. In addition, the groundbreaking of Pagbilao Coal-Fired Plant, Calaca Coal-Fired Plant, Masinloc Coal Fired Plant, and Bauang Gas Turbine Power Plant were held on February 6, March 29, May 2, and July 3, 1993, respectively. The first unit of 70 MW (Block A) of the 300 MW Limay Gas Turbine Power Plant was inaugurated on April 11, 1993 while the 63.8 MW Diesel-Fed Power Plant in Northern Mindanao was inaugurated on July 17, 1993.

The Export-Import Bank of Japan has agreed to release $396 million loan to Hopewell Holdings Ltd. It partly finances the construction of a 700 MW coal-fired power plant in Pagbilao, Quezon. However, the rehabilitation problems of existing plants (e.g. Malaya 1, Malaya 2, Sucat 1, and Sucat 4) with a combined capacity of 1,100 MW are causing unstable supply patterns, hence the demand of electric power service could not be bridged by the additional supply of electric power generated by the fast-track projects in the short-run.

As of June 19, 1993, President Ramos had issued authorization to NPC to negotiate for the lease of 100 MW power barge for Luzon and 120 MW power barge for Mindanao to augment their power generating capacities.

R.A. 7648 otherwise known as the Electric Power Crisis Act of 1993 was passed by both houses of Congress on April 1, 1993 and signed by the President into law on April 5, 1993. This legislation was certified by Malacanang as urgent to help it fast track the solution of the power problem. The law empowers the President to effectively address the power crisis with the following provisions:

(a) To enter into negotiated contracts for the construction, repair, rehabilitation, improvement or maintenance of power plants, projects and facilities, subject to various conditions.

(b) To fix the rate of return of base to not more than 12 percent of the rate base, subject to several safeguards.

TABLE 3.3
ENERGY PRIORITY PROJECTS

1. 215 MW Combined Cycles Gas Turbine Power Plant in Payopoc, Bauang, La Union (First Private Power Corp.)	Ground-breaking ceremonies held on July 3, 1993
2. 105 MW Diesel Power Plant in Pinamucan, Batangas (ENRON)	Ground-breaking conducted on January 16, 1993 and inaugurated on July 31, 1993
3. 300 MW Combined Cycle Gas Turbine Power Plant in Limay, Bataan (ABB/ Marubeni/Kawasaki)	Construction on-going
4. 100 MW Gas Turbine Power Plant in Navotas (Hopewell)	Inaugurated on March 31, 1993
5. 63.8 MW Diesel Fueled Power Plant (Northern Mindanao Power Corp./ Alsons)	Inaugurated on July 17, 1993
6. 40 MW Diesel-Fed Plant in Mindanao (Alsons/Tomen)	Under construction
7. 300 MW Coal-Fired Power Plant in Calaca, Batangas	Ground-breaking on March 29, 1993
8. 700 MW Coal-Fired Power Plant in Pagbilao, Quezon (Hopewell)	Ground-breaking on February 6, 1993
9. 600 MW Coal-Fired Power Plant in Masinloc, Zambales	Ground-breaking on May 2, 1993

(c) To reorganize the NPC to make it effective, innovative and responsive, and to upgrade compensation of its personnel as may be provided for in its 1994 approved budget, subject to certain conditions.

(d) To derive from the Philippine Amusement and Games Corporation (PAGCOR) 10 percent of its aggregate gross earnings for the next five years after deducting the 5 percent franchise tax and the 50 percent income share of the national government.

A new President of the NPC was also announced during the signing of R.A. 7648.

This second quarter of 1993 update of the Philippine power situation has driven the point that despite attempts to short-circuit the bureaucracy through the grant by Congress of emergency powers to the Executive Branch to effectively address the power crisis, no short-run solution to the power crisis is imminent.

The Energy Regulatory Board (ERB) proposed in December 1992 the removal of cost subsidies in the prices of diesel, kerosene and liquified petroleum (LPG) in exchange for a lower reduction in the price per liter of gasoline. This proposal was never implemented. Thus, a plan designed to lay the groundwork toward the deregulation of the oil industry was lost in the bureaucratic wilderness. With revenue collection falling below targets, and the recent transfer of P3 billion from the Oil Price Stabilization fund (OPSF) to NPC, an oil pricing policy based on revenue generation and oriented to compensate oil producers for unexpected price fluctuations remains in place. The Ramos government has said that it has no policy differences with the recommendations of a study commissioned by the World Bank suggesting the initial deregulation of the oil industry in December 1992, as well as the privatization of power facilities gradually because once deregulated, local oil prices may fluctuate wildly and this will adversely affect transport fares and the cost of electricity. The new Secretary of Energy has publicly expressed his agreement with the recommendation to privatize NPC.

In May 1993, the Monetary Board of the Central Bank refused to lift the foreign exchange cover given to oil importers. The reasoning of the Monetary Board was that oil companies might seek outright payment of the P2.5 billion in tax credits which the government owes them. They also explained that a one shot scrapping of the foreign exchange cover would result to a volatile foreign exchange market because oil companies will scramble for foreign exchange to meet their obligations amounting to $840 million.

An executive order had been signed in July 24, 1993 (just before the start of the second regular session of the Ninth Congress) to impose a P1 per liter additional import duty on oil and petroleum products. The Cabinet had earlier pushed for this policy.

It is evidently clear from our findings that during the past twelve months, the Ramos government has not formulated a new oil pricing policy. And within the energy sector, it mainly pursues the fast-track and short run energy development program initiated by the Aquino government. What remains to be done in this sector for the Ramos government is to develop a definite oil pricing policy. Its long-term energy development program through the coordination with the private sector projects an annual average increase of 8 percent in electricity demand which might result to an oversupply of electricity in 1998 according to the World Bank. NPC asserts that the 44 percent reserve in 1997 to 1998 has taken into consideration the maintenance and breakdown of power plants. This is a comfortable reserve, but it will not be considered as over-capacity.

G. OTHER DEREGULATION EFFORTS

The deregulation in December 1992 of the cellular mobile telephone industry has attracted four telecommunications companies to vie for a franchise to operate the last two available slots for a national cellular mobile telephone system (CMTS). These four are the International Communications Corporation (ICC), Globe Telecom (GT), SMART Information Technologies, and Isla Communications Corp. (ISLACOM). Before the deregulation policy, only Pilipino Telephone Company (PILTEL) and Express Telecommunications Co., Inc. (EXTELCOM) were allowed to engage in domestic CMTS.

In March 30, 1993, National Telecommunications Commission (NTC) granted SMART Information Technologies (SMART) a provisional authority to operate a nationwide cellular phone network over the objections of ICC, Globe Telecom, PILTEL, EXTELCOM, PLDT, and PT&T. SMART's franchise covers fixed and mobile stations for domestic and international communications. NTC defended the granting of provisional authority to SMART as in the best interest of the public and indicated that two more cellular licenses will be granted.

The Senate Committee on Public Services had disputed the NTC's authority to grant a public franchise to telecommunications companies. It also looked into the government's telecommunications policy and questioned the appropriateness of emphasizing cellular telephone and gateway operations to solve the country's phone backlog problem.

President Ramos issued a directive to DOTC and NTC on January 13, 1993 calling for an end to PLDT's monopoly over the telephone business. However, Congress' refusal to grant legislative franchises to new entrants and PLDT's past refusal to allow interconnection with competitors even in areas without any phone service were major obstacles to immediate deregulation of the telephone industry. The Ramos government directed the NTC on February 24, 1993 to expedite the mandatory interconnection of all common telecommunication carriers. In response to this policy to deregulate the telecommunication industry, PLDT decided to interconnect with duly authorized common carriers. However, PLDT believes that only its expansion programs can meet the backlog in telephone line applications of around 800,000 by 1997. Interconnection will not increase the number of telephone lines because common carriers are only interested in exploiting the lucrative international telephone service through interconnection. PLDT claims that the domestic telephone service is partially subsidized by the international service.

A successful privatization policy that transforms a public monopoly into a private monopoly does not enhance effective competition in domestic markets. The elimination of cartels and monopolies is one of the policy reforms enunciated by the President during the Cabinet workshop on January 9, 1993 (see Table 3.1).

In the meantime, the proposed anti-trust legislation in Congress is still being discussed. It is true that certain corporations or groups have a major or significant share of the Philippine market, but if they are compared with other corporations in the region, they are still considered small in size. The Philippine Penal Code has provisions regarding unfair trade and combinations in restraint of trade but these are hardly enforced. Furthermore, the concept of "measured capacity" has transformed corporate activities into regulated franchises and, therefore, they are not subject to anti-trust action.

The telecommunication sector deregulation policy is an area where the Ramos government has taken bolder initiatives than the Aquino government. What needs to be done is to determine the technical requirements for interconnection. But what is more important is to outline a detailed and long-term telecommunication policy for the country.

H. INVESTMENT INCENTIVES AND PROMOTION POLICIES

A major policy document that provides an important insight in assessing the Ramos government's investment incentives and promotion policies is the 1993 Investments Priorities Plan (IPP).

The first draft of the 1993 IPP which was presented during a public hearing on March 17, 1993 listed 59 areas of economic activities, 55 of which are carryovers from the 1992 IPP. The four new areas included are: vaccines, microbial pesticides, air and water tourist transport facilities. Before the public hearing, the Board of Investments (BOI) had voiced its intention that under the 1993 IPP, registration of expansion projects will be allowed only for export-oriented projects and small-and medium-scale enterprises with project cost not exceeding P40 million. New projects which need more assistance because of higher investment and production costs will be given top priority in incentive availment. Furthermore, registration of multi- phased projects will be restricted to the initial phase of the project and subsequent phases will be treated as expansion projects. In order to encourage project proponents to implement immediately their projects, BOI had included in its first draft of the 1993 IPP a provision to reduce the timetable for acquiring capacity-determining equipment from the current five years to only two years from date of registration. The general policy direction behind these policy changes is to make BOI registration requirements stricter and to limit incentive availment on priority projects that cannot be implemented without such subsidies.

After conducting a public hearing on the proposed 1993 IPP, the BOI had softened its stance on its original policies to restrict the granting of incentives to expansion projects due to complaints raised by various industries which submitted position papers urging the granting of exemptions on these sectors. For instance, the Chamber of Mines of the Philippines argued that survival of mining companies depends on their expansions which entail the same value of capital expenditures as new projects. On the other hand, the Philippine Industrial Estates Association asserted that the expansion of developed industrial lands capable of accommodating manufacturing facilities will entice investors to engage in manufacturing ventures. And the Department of Tourism insisted that tourism expansion projects are considered export-oriented. Thus the final draft of the 1993 IPP which BOI submitted to Malacanang on March 31, 1993 contained 61 areas, not 59 as originally planned. It also expanded the list of expansion undertakings qualified for fiscal incentives; namely, (1) those that will be undertaken in less developed areas; (2) projects that involved new technology; (3) tourism-related activities; (4) power generating plants; (5) rehabilitation of existing power generating facilities;

(6) forest plantation areas; (7) sugar refining; (8) refined petroleum products; (9) industrial estates; and (10) environmental support facilities. Moreover, the BOI has retained the five-year lag time for registered firms to bring in their importation of capital equipment instead of the proposed two-year period.

Since the 1992 IPP (the last of the Aquino government) contained only 59 areas, the Ramos government had slightly expanded the areas of investment it approved in May 1993 under the 1993 IPP. A few days before the 1993 IPP was submitted to Malacanang for approval, the Department of Finance (DOF) proposed a complete overhaul of the incentive schemes for BOI-registered firms. DOF suggested that an evaluation of the present guidelines should be undertaken to determine which makes sense and which can be totally scrapped. Incentives should be separately identified as expenditures of the national government and included in its yearly budgetary allocation to make it more transparent and accountable. In this way, the impact of tax incentives in the revenue performance of the national government is clearly understood by all concerned. As of July 1993, President Ramos proposed to Congress a moratorium on legislative measures providing for tax exemptions as a means of preventing revenue erosion. However, tax exemptions granted by the BOI are not covered. This policy, according to the Department of Finance (DOF), is based on studies which pointed out that the more important factors that attract investments are not tax incentives, but political stability, presence of skilled workers, and sufficient infrastructure.

After 12 months in office, it is evident that the political economy of investment incentive availment has remained intact, and the Ramos government has not attempted to change the nature of investment incentives policy making or has not reduced the incentive for rent-seeking behavior. On the other hand, in its fixation to address the energy crisis, it may have overlooked the need to formulate its own investment incentives and promotion policies that need to be rationalized in order not to hamper the government's resource-generating capacity to implement its major infrastructure projects. The policy to support tax exempt imports thru BOI registration is not in line with the other move to impose a uniform duty on equipment imports and transform the BOI to an investment promotion agency. The tone of investment incentives and promotion policies is not yet set probably due to the (1) reliance on the Foreign Investments Act and (2) the adoption of a foreign exchange deregulation policy as adequate measures for the trade and investment sectors. What seems to be overlooked is the implication that a broader incentives scheme implicit in the 1993 IPP is a commitment that would last for the next five years. As far as investment policy making is concerned, the first twelve months are crucial for assessing the direction which a new government wants to take. Unfortunately, not all the legislation affecting the liberalization of investments were approved before the first regular session of Congress adjourned in June 1993.

Three indicators of foreign investments from first quarter 1990 to fourth quarter 1992 are presented in Table 3.4. The first indicator refers to Central Bank's (CB) data on foreign direct investment (in million U.S. dollars). Data on the third and fourth quarter of 1992 coincide with the first six months of the Ramos government. The second indicator refers to Securities and Exchange Commission (SEC) data on foreign direct equity investment (in million pesos). And the third indicator refers to Board of Investments' (BOI) data on registered foreign equity investment (in billion pesos). The three investment indicators are consistent in documenting the drop of investment from third quarter 1992 to fourth quarter 1992. Some observers have pointed at the power shortage as a major factor discouraging foreign investment. One must also add the lack of policy consistency to be a contributing factor for the decline in investment inflow for this period.

Finally, the Ramos government through the Department of Trade and Industry (DTI) has identified 14 export product groups for priority promotion and development. These are ceramics, furniture, garments, gifts and houseware, jewelry, carrageenan and seaweeds, marble, processed tropical fruits, shrimps and prawns, subcontracted electronic products, subcontracted metal components, computer software, construction services, and professional services. These export groups (or "export winners" as packaged by DTI) are the major thrust of the Philippine Export Development Plan for 1993 to 1998. Presumably five criteria were used to identify these products from an original list of 155. The criteria used were:

(a) a market share of at least 25 percent of the target market's imports

(b) high worldwide potential

(c) less sensitive to protectionist measures of importing countries

(d) minimum requirements for efficient infrastructure

(e) production capability and requirement for highly skilled labor.

TABLE 3.4
FOREIGN INVESTMENTS, 1990-1992

PERIOD	CB[1]	SEC[2]	BOI[3]
1990-1	193	1,560.8	8.38
-2	196	1,859.8	5.35
-3	140	2,064.5	2.91
-4	166	1,288.9	6.71
1991-1	185	1,569.7	6.26
-2	290	1,521.2	3.78
-3	159	2,052.8	8.46
-4	158	1,958.1	2.99
1992-1	342	1,051.4	1.76
-2	318	1,246.4	1.34
-3	384	3,139.7	1.52
-4	80	1,533.1	2.61

Source: Scholastica Cororation, "Real Investments in the First Year of the Ramos Administration: Weak Showing, Strong Prospects", in the Investments: The Driving Force Toward Philippines 2000, Center for Research and Communication (July 1993).

[1]Foreign direct investment in million U.S. dollars.

[2]Foreign direct equity investment in million pesos.

[3]Registered foreign equity investment in billion pesos.

Evidently, there is no indication as to what weights were assigned to each criterion in order to give an overall score for each of the 155 commodity groups that were initially considered. Criteria like worldwide potential, production capability, or sensitivity to protectionist measures are subjective criteria and should be defined more specifically. None of the five criteria is concerned with the products cost or price competitiveness in the international market.

I. OVERALL ASSESSMENT OF INVESTMENT-RELATED POLICY REFORMS

The overall assessment on the performance of the Ramos administration in investment-related policy reforms in the last 13 months is at best below expectations. Table 3.5 attempts to reconcile policy pronouncements made during the last 13 months with legislative actions and executive actions, respectively. Eight areas of concern are identified namely, (1) amendments of the Foreign Investments Act, (2) removal of trade barriers, (3) privatization, (4) transport deregulation, (5) energy development, (6) telecommunications policy, (7) investment incentives, and (8) banking deregulation.

No major initiation has been observed towards full implementation and/or amendments of the FIA. Although the government's privatization policy has been restated, slow progress in the disposition of public assets has been detected. In the areas of telecommunication policy and investment incentives, there is a need to formulate a clear and coordinated policy agenda. However, the most promising areas of concern are transport sector deregulation, energy development, and banking deregulation. They should produce adequate results given a little more time. Thus, the next 12 to 24 months are crucial months for monitoring satisfactory progress for policy reforms in these three areas. Except for these three areas, there is a clear and urgent need to coordinate legislative action and executive action in support of a policy pronouncement.

In sum, the Ramos government has made bold policy reform pronouncements in the first few months in office, but subsequent legislative and executive actions have not drastically improved the economic environment. It remains to be seen how fast the legislative and executive can coordinate their actions in support of a consistent policy reforms in the remaining five years of the Ramos government.

TABLE 3.5
INVESTMENT REFORM ASSESSMENT
JULY 1992-JULY 1993

PRONOUNCEMENTS	LEGISLATIVE ACTION	EXECUTIVE ACTION	REMARKS
1. Revision of the FIA	Three pending bills	N o n e	No more initiative
2. Removal of Trade Barriers	N o n e	Amended E.O. 8	Lack of consistency
3. Privatization	APT's term to be extended	E.O. 37	Slow progress
4. Transport Deregulation	Two bills pending	MARINA Circular 71	Fast action is needed
5. Energy Development	Energy Crisis Act Dept. of Energy	NAPOCOR revamp Adjustment of economic pricing	Adequately responsive action in this area
6. Telecommunication Policy	No new franchises were approved	NTC approved one additional telecommunication firm in cellular phone business	Lack of coordinated policy in the area
7. Investment Incentives	No legislative initiative in this area	IPP areas slightly expanded New tax-exempt measures discouraged	No clear policy direction
8. Banking deregulation	Two major bills pending New Central Bank Act	E.O. on foreign exchange deregulation	Fast action is needed