

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/W/62

12 November 1982

Limited Distribution

Committee on Balance-of-Payments Restrictions

1982 CONSULTATION WITH THE PHILIPPINES (SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration.

I. The Philippines' previous consultation

2. The Philippines has consulted for the first time in the Committee on Balance-of-Payments Restrictions in 1980, the year of its accession to GATT. At this consultation, which took place on 15 October 1980, the Committee noted the import liberalization programme adopted by the Philippines and welcomed the authorities' intention to continue the implementation of the phased plan on the reform of the tariff structure linked to a progressive dismantlement of import restrictions. The Committee's principal conclusion was "that the remaining restrictive import measures were justified as a temporary means to safeguard the balance of payments until more fundamental policies became effective". The Committee also encouraged the Philippines authorities to further pursue "flexible interest rate and foreign exchange policies which, in combination with other domestic policies" would "lead over the medium term to the desired external adjustment and to the gradual removal of the restrictive import measures maintained for balance-of-payments purposes".

II Recent changes in the Philippines trade policy

3. The Philippines has persevered with its trade liberalization programme. It has undertaken a comprehensive tariff reform phased over a four-year period and involving a lower overall level of protection and unification of rates across-the-board and within sectors. The average nominal tariff rates will be reduced from 43 per cent to 28 per cent as a result of the tariff reform. The realignment of levels on 600 tariff lines out of total of 1,299, was carried out in 1981 and 1982 as scheduled. The present tariff schedule comprises duty levels within 10 to 50 per cent range; peak rates of 100 per cent and 70 per cent ad valorem, applied mostly on non-essential consumer goods, are lowered to about 50 per cent in 1982. Imports of sugar-mill machinery and parts, certain machinery, equipment and spare parts imported for use in the energy sector continue to be exempt from duty.

4. Imports of certain commodities or commodity groups are subject to clearance certificates or import permits issued by the competent government agencies. This system of prior approval is applied for import surveillance purposes as well as for administering restrictions imposed to alleviate the balance-of-payments problem and for health, safety, security and national welfare purposes. A list of items subject to licensing as of 31 January 1982 and of the competent government agencies is included in Annex A to the Replies to the Questionnaire on Import

Licensing Procedures circulated in document L/5232/Rev.1 and Corr.1. Quantitative restrictions are imposed on some twenty-three items listed in Annex C of the same document. The allocation of quotas is determined on the basis of national consumption requirements and availability of local sources.

5. The Central Bank of the Philippines continues to apply exchange restrictions on imports of specified commodities for balance-of-payments purposes. In parallel with the tariff reform, steps have been taken for a progressive liberalization of the requirement of prior approval on payments for imports falling under so-called unclassified consumer (UC) and non-essential consumer (NEC) goods categories¹. As of 1 January 1981, authorized agent banks were allowed to sell foreign exchange without the prior approval by the Central Bank for imports of 263 items previously banned or restricted. Exchange restrictions were eliminated for a further 610 items in early 1982. As a result of these two measures the number of items subject to restrictions by the Central Bank was reduced from 1306 to 433. By the Executive Board Decision of 30 April 1982, the IMF has granted approval on the restrictions on payments for the remaining import items under Article VIII of the Articles of the Agreement until 31 July 1983.

III. Recent trends in Philippines' economy and foreign trade

6. The Philippines' GNP growth decelerated slightly in 1981, to less than 4 per cent, due mainly to a slower expansion of agricultural and mining output. Private investment expenditure in 1981 was 14 per cent lower than in the previous year, while public spending increased by 24 per cent. The official consumer price index recorded a rise of almost 12 per cent, compared with increases of around 18 per cent in each of the two preceding years.

7. Exports totalled \$5,655 million in 1981. In value terms, they declined by just under 2 per cent (following an increase of 26 per cent in 1980), while in volume terms there was little or no change from the previous year. Revenue from coconut products continued to decline, accounting for 13 per cent of total exports. After a strong recovery in both volume and prices in 1980, the value of sugar exports declined by just over 10 per cent in 1981, with the volume of shipments down 30 per cent, largely due to reduced domestic output. Exports of manufactures generally performed better than those of primary products and increased in value by 14 per cent.

8. The value of imports reached \$8,469 million in 1981, a 2 per cent increase over 1980, compared to a 26 per cent increase the year before. In volume terms, however, imports are estimated to have declined by 8 per cent in 1981. The value of crude oil imports rose by 12 per cent, accounting for just under 25 per cent of the total; the actual volume of petroleum imports remained unchanged. With reduced investment activity, imports of capital equipment declined by 9.5 per cent in value, with imports of non-electric machinery down by 12.5 per cent. Among the other main import categories, expenditure on transport equipment declined by 8 per cent and the value of imports of base metals fell by 2 per cent.

¹ Lists of goods included in the UC and NEC categories valid as of 30 June 1981 are available for reference in the secretariat.