

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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TRADE POLICIES REVIEW MECHANISM
THE PHILIPPINES
Report by the Government

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policies Review Mechanism (BISD 36S/403), the initial full report by the Philippines for the review by the Council is attached.

NOTE TO ALL DELEGATIONS

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EXECUTIVE SUMMARY

Given the present state of the Philippine economy and the substantial advances over the last six (6) years across a broad range of structural reform areas, the immediate priority of the Philippine government is the restoration of economic stability. For 1993 and beyond, the government aims to spur recovery and sustain growth by completing structural reforms already begun, particularly in the areas of trade, investment, public finance, foreign exchange, deregulation and privatization.

A programme of trade reforms which was undertaken in 1981 has been continuing up to the present. This programme has had two components: import liberalization and tariff reform.

The principal objective of the trade reform programme is to rationalize the protection structure by reducing the overall level of protection and disperse protection within and across industries. These trade policy reforms seek to: 1) foster development of internationally competitive and efficient industries; 2) improve access of downstream industries to essential raw materials and intermediate inputs; and 3) provide consumers with good quality products at reasonable prices. Less reliance is placed on tariffs both as a revenue source and as an industrial incentive except for deserving infant industries and only for a limited period. The removal of quantitative import restrictions, on the other hand, aims to minimize if not eliminate bureaucratic delays and remove possible sources of graft and corruption. The import liberalization programme is not meant to remove protection for domestic industries but merely to shift protection to tariffs or import duties which are more transparent.

The Philippines continues to participate actively in multilateral, regional and bilateral arrangements which are supportive of national efforts to self-reliance. The accession to GATT in 1980, its participation in the Uruguay Round of negotiations and the market opening measures the Philippines is currently undertaking, are some of the contributions the Philippines has made to keeping the international trading system open, and has committed to strengthen, in order to foster a strong world economy, which would in turn help the Philippines achieve its economic growth and development. Philippine participation in the ASEAN Free Trade Area (AFTA) is also one of the steps being taken in order to be closely integrated with the world economy, via regional integration.

I. THE ECONOMIC ENVIRONMENT

A. *Major Features of the Philippine Economy*

The Medium Term Philippine Development Plan (MTPDP) sets the overall economic objectives of the country, namely: the attainment of recovery and sustainable growth, employment generation and poverty alleviation within acceptable inflation rates and external constraints.

Consistent with these objectives, structural reforms were implemented to revitalize private sector initiatives and restructure the public sector by essentially reducing government presence and intervention in business activities. In agriculture, reform measures included the dismantling of the coconut, sugar, meat and fertilizer monopolies; lifting of the copra export ban; opening up of wheat and soybean meal importation to the private sector; and lifting of price controls on rice, corn, other feed grains, poultry, pork and cement. In the energy sector, a number of reforms involving regulatory, subsidy and pricing issues were also set in place.

Investment-related reforms included the rationalization of investment incentives with the passage of the Omnibus Investments Code in July 1987, simplification and streamlining of procedures for registering investments, and the implementation of the debt-equity conversion scheme. A landmark measure in 1991 was the passage of the Foreign Investment Act which increased allowable foreign equity participation in non-priority areas up to the legal limits, reduced bureaucratic processes, and established stable and transparent policies and procedures. To further enhance the country's competitive position in investment promotion, the 1991 Investment Priorities Plan (IPP) was shortened, enabling the Board of Investments (BOI) to concentrate its promotional efforts on highly selected activities.

The Tariff Reform Programme was launched to promote internationally competitive industries and to provide quality goods at lower prices to consumers. Tariff adjustments, as provided for in Executive Order No. 470 issued in 1991, reduced the overall level of protection and the dispersal of tariff protection to industries within a five-year period. In tandem with tariff reforms, the import liberalization programme replaced non-tariff measures on imports with tariffs as a means of protection, where justified. Under the programme, a total of 1,488 items were liberalized between April 1986 and March 1991.

A more favorable environment for exporters has been set in place with the introduction of a duty exemption/drawback system, enhancement of export finance and a higher retention limit for foreign exchange earnings. In addition, consistent with the growing integration of the global economy, the Central Bank (CB) embarked on a programme to liberalize foreign exchange transactions. Major changes include more liberal regulations governing non-trade foreign transactions; higher ceilings for foreign exchange disbursements; full and immediate repatriation and remittance privileges for all types of investments; and expansion of eligible deposits under the foreign currency deposit system.

Reforms were launched to strengthen the financial sector through greater competition, an improved supervision and regulatory system, enhanced depositor protection, and more efficient and effective savings mobilization. In May 1989, the Central Bank issued Circular No. 1200 which mandated the strengthening of the banking industry through mergers or consolidation of weak with stronger banks; licensing of new banks and branches subject to certain conditions; and lifting of the

requirement to purchase special five-year government securities as a condition for opening new branches. In April 1991, branching regulations were relaxed through the elimination of the bidding requirements for establishing branches in second-class cities and municipalities and the provision of incentives for establishing them in less developed regions.

In the public sector, structural measures included two tax reform packages, the rationalization and privatization of government-owned or controlled corporations (GOCCs), including government financial institutions (GFIs), and the streamlining of the public investments programme. These reforms have served to improve the fiscal position of the National Government, reduce public sector control of the economy, and improve the quality of public investments.

Among the key measures of the 1986 tax reform programme were a partial shift from schedular to global income taxation; the conversion of excise taxes to *ad valorem* rates; the withdrawal of unnecessary tax exemption privileges; the introduction of a value-added tax (VAT); an removal of export duties except those on logs. These were followed by a series of administrative measures implemented in 1989-91; and another set of tax measures in 1990 which included higher excise taxes on cigarettes and liquor; a levy on imports; and a shift of tax rates on petroleum products from *ad valorem* to specific. These measures increased the tax effort from 11.0 per cent in 1986 to 14.3 per cent in 1991.

In the financial sector, the rehabilitation of the Philippine National Bank (PNB) and the Development Bank of the Philippines (DBP) placed them on a sound financial footing. The DBP is being transformed primarily into a wholesale bank, responsible for raising long-term funds and relending them to retail financial institutions. To reduce the size of the public sector in the banking system, the government sold 30 per cent of the shares of PNB and intends to offer an additional 21 per cent to the private sector. Further, of six commercial banks previously acquired by the government, three have been fully sold, another two partially sold, while the other one is up for privatization.

A programme was implemented to privatize or close government corporations (GOCCs) not providing essential services, and to improve the financial performance of those that are to remain in the public sector. As of 31 December 1991, 85 GOCCs have been offered for sale, of which 70 have been fully or partially sold or are in the process of dissolution. In January 1992, 67 per cent of government holdings in the Philippine Airlines (PAL) was sold for ₱9.78 billion. In order to promote efficient allocation and use of resources and to instill financial discipline in GOCCs, the Government Corporate Monitoring and Coordinating Committee (GCMCC) was strengthened, corporate planning was institutionalized, and a performance evaluation system was established. Procedures for the establishment of new corporations have also been tightened. Major initiatives were undertaken to rehabilitate the National Power Corporation (NPC) and the National Electrification Administration (NEA).

Public investment has been substantially refocused, reducing the size of the programme and reorienting expenditures to essential infrastructures reflecting the priority areas. Project preparedness was given greater consideration in the prioritization of projects and in the preparation of implementation schedules. To accelerate project development and implementation, various administrative improvements and institutional support measures were put in place to improve the managerial capabilities of implementing agencies. Meanwhile, to address the severe budget and

foreign financing constraints and to strengthen the partnership between the government and private sector, the build-operate-transfer (BOT) and the build-transfer (BT) schemes are being implemented. Socially oriented projects also received significant budgetary support. Budgetary allocations to education, health, housing and other social services increased significantly. The delivery of basic social services to the poor was also expanded. Under the Comprehensive Agrarian Reform Programme (CARP), land distribution was stepped up, and support services such as credit, farm-to-market roads, and irrigation provided to CARP beneficiaries.

B. *Recent Macroeconomic Performance*

The macroeconomic record reflected the economy's response to structural reform initiatives and the resurgence of confidence arising from political normalization.

After two successive years of decline, the economy performed strongly from 1986 to 1990, posting an average annual growth of 5.3 per cent in the gross national product. The employment situation improved with the expansion in economic activity. From 18.9 million in 1986, average employment increased to 23.0 million in 1990. The agricultural sector continued to absorb the bulk of the work force but its share has been decreasing. The relative shift of the work force from agriculture reflects the strong economic performance of the industrial and services sectors during 1986-89. The unemployment rate fell steadily while the labour situation stabilized considerably with the number of strikes, workers involved and lost man-days dropping sharply.

Up to 1988, recovery was aided by an expansionary fiscal policy, an accommodative monetary policy and a manageable external payments position achieved under an 18-month stabilization programme during 1987 to mid-1988. From 1986 to 1988, economic recovery led to the continued rise in the saving and investment rate and the decline in reliance on foreign capital. Overall investment efficiency improved, as idle capacity was brought back into productive use. Notwithstanding that recovery was heavily import-driven, significant improvement was achieved in the external payments position from 1986 to 1989 as surpluses were recorded in the balance of payments. Gains were recorded in the export sector and in transfers inflows. The medium- and long-term loan account benefited from new inflows mostly from official bilateral and multilateral sources and from new rescheduling arrangements. Recorded net inflows of foreign investment increased, reflecting renewed confidence in the economy.

In anticipation of further growth, the government entered into a three-year Extended Fund Facility in 1989. However, partly because of unanticipated external factors and partly because of fundamental weaknesses in the internal economy which emerged starting in the second semester of 1990, macroeconomic performance was not sustained. On the external front, the Gulf crisis, the slowdown in world economic activity, and the string of natural calamities not only required additional expenditures from the national government but also disrupted supply lines and employment opportunities. Internally, the economy was confronted with serious stabilization problems. The budget gap by the end of 1990 was almost double the previous year's level; inflation accelerated; interest rates were on the uptrend; the current account deficit had widened to 6.1 per cent of GNP in 1990, from 3.5 per cent in 1989.

Against this backdrop, the Philippines shifted to an 18-month stabilization programme aimed at reducing inflation and fiscal and trade deficits. A tighter fiscal programme was adopted and revenue raising measures were carried out to keep the budget deficit within target. Monetary

authorities limited liquidity expansion within target levels to ease inflationary pressures. Thus, by mid-1991, interest rates were reduced and imbalances in the external accounts narrowed down. Inflation rates decelerated in the last quarter of 1991, ending the year at 12.4 percent, while the budget deficit was kept within programme level. Substantial foreign exchange purchases by the CB in the second and third quarters shored up gross international reserves to 3.3 month's worth of imports by year-end.

The stabilization programme, however, had contractionary effects on aggregate demand. Real GNP contracted by 1.2 per cent in the first three quarters of 1991 and the unemployment rate rose to 10.6 per cent for the full year. Meanwhile, due in part to strict adherence to expenditure ceilings brought about by the late passage of the General Appropriations Act, the public investment programme suffered some delay. This was compounded by the debt overhang that continued to strain public resources.

C. *Trade Performance*

TOTAL TRADE

For the period 1986-1990, total Philippine trade increased from US\$9.8 billion in 1986 to US\$15.23 billion in 1988 and to US\$20.39 billion in 1990, with a growth trend computed at 20.1 percent. The balance of trade remained negative due to the high rate of imports. In 1990 alone, the trade deficit was US\$4.02 billion, which surpassed 1986's US\$201.82 million.

The top three (3) trading partners in 1990 were the United States, which contributed US\$5.46 billion or 27 percent; Japan, US\$3.9 billion, or 19 per cent and Taiwan, US\$1.01 billion or 5 percent.

IMPORTS

Philippine imports continued to rise at an average of 24.6 percent, from US\$5.04 billion in 1986 to US\$12.20 billion in 1990. The top three suppliers which accounted for 45 per cent of the imports for the period 1986-1990 were: United States US\$2.36 billion or 20 percent; Japan (US\$2.26 billion or 19 percent) and Taiwan (US\$0.81 billion or 7 percent). Other suppliers of Philippine imports were Hong Kong, Saudi Arabia, Federal Republic of Germany, Singapore and the Republic of Korea, which contributed four per cent each.

LEADING IMPORT PRODUCTS

The Philippines imported a total of 3,537 products in 1990 and topping the list was crude petroleum oil which contributed US\$1,582.52 million or 13 per cent of total Philippine imports. This was followed by dice of any material, as part of semi-conductor devices, US\$514.8 million; parts of electronic components, US\$359.18 million and materials and accessories for the manufacture of semi-conductor devices, US\$315.68 million.

EXPORTS

Philippine exports grew by 14.6 per cent from US\$4.84 billion in 1986 to US\$8.19 billion in 1990. Based on the sum of the country's 3-year (1987-1990) exports, the major markets were the

United States and Japan with a combined share of 58 percent; Federal Republic of Germany, 4.8 percent; the Netherlands, 4.4 per cent and the United Kingdom, 4.3 percent.

LEADING EXPORT PRODUCTS

Among the 1848 products (in 7-digit PSCC) exported in 1990, the top dollar earners were semi-conductor devices (e.g. diodes and transistors) which contributed US\$861.95 million or 10.5 percent. Other leading exports were children's and infants' wear, US\$361.89 million; crude coconut oil, US\$334.41 million; bars, rods and slabs of copper, US\$280.64 million; and women's wear, US\$263.0 million.

D. *Outlook*

The immediate priority from 1992 onwards will be the completion of the stabilization programme, the targets of which the government shall continue to adhere to. On the fiscal side, various revenue measures and fallback expenditure cuts are being readied to ensure attainment of fiscal targets should revenues fall short. Increased revenue collection will be pursued by improving tax administration efficiency. At the same time, existing mechanisms to ensure expenditure controls which were largely responsible for the success in meeting fiscal targets in 1991, shall be continued. Fiscal reforms shall be complemented by a relatively tight monetary régime.

Stabilization measures are expected to yield a tax effort of 15.4 per cent of GNP, a current account deficit of 2.9 per cent of GNP, money base growth of 12-13 percent, and a single-digit inflation rate (7 per cent by December 1992). The success of the stabilization programme and the beneficial effects of the structural reforms already in place, are expected to propel economic recovery. Real GNP is projected to grow moderately by 2.5-3.0 per cent during the year, driven mainly by higher exports and investments and a recovery in consumption.

The Philippine government remains committed to sustaining the impetus of structural reforms achieved over the last six (6) years. Priority shall be given to the following:

- a) Removal of quantitative restrictions on the remaining 206 items (except for a number of items mandated by health, national security, and operative law), and their replacement with tariffs. Out of the last batch of 208 items previously approved for liberalization/tariffication, 95 items will be immediately liberalized without tariff adjustments; 98 items will be subject to tariff adjustments; and the remaining 15 will require congressional action. The government intends to pursue action on these, and to decide on a programme on the remaining 206 items.
 - b) Privatization and deregulation. Under the present privatization programme, further remittances from the sale of disposed assets will be collected upon settlement of pending legal issues and completion of sales transactions via debt-swap schemes. At the same time, build-operate-transfer (BOT) and other similar schemes will continue to be pursued to increase the private sector's participation in the provision of basic infrastructure and other services.
 - c) Improvement of tax collection efficiency and, where warranted, the introduction of revenue measures designed to broaden the tax base.
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- d) **Completion of tasks towards the full implementation of the Foreign Investment Act. The government intends to complete (i) the guidelines and criteria for the selection of industries to be included in List C of the regular foreign investment negative list and the list of strategic industries, and (ii) the list of strategic industries itself.**
 - e) **Financial sector reforms including, among others, the formulation and implementation of a programme to address CB's net losses, will continue to be pushed. Fiscal and monetary authorities also intend to design and implement alternative financial instruments to attract small savers.**
 - f) **Improved supervision of the government corporate sector. The performance evaluation system already in place will be further strengthened, and the coverage of GCMCC's monitoring will be expanded to include more corporations.**
 - g) **Continuing liberalization of the foreign exchange market, which is expected to be completed in 1992.**
 - h) **Building up of the project pipeline, particularly in the power sector. The recently completed energy development plan will serve as a basis for the programming of power projects. Priority will be given to the rehabilitation of existing plants and the completion of projects already in the firm pipeline. At the same time, the government will pursue the rehabilitation programme for NPC, covering improvements in finance, organization, and operations and maintenance. The capability of DENR to assess environmental impact of projects, not only for power but also for other sectors, will be strengthened.**
 - i) **Further fine-tuning of public investment programming procedures. A two-track approach will be formulated to generate firstly, a short-term investment programme of all projects in the firm pipeline, and which accounts for negotiation schedules, readiness for implementation, and immediately available and allocatable public resources; and secondly, a longer-term programme which is based more on sectoral programme/project prototypes, and which will be allowed to evolve to specific projects over time, taking into account appropriate lead time for development and the programming cycles of donors. These two tracks will also be used for devolved functions and procedures under the Local Government Code.**
 - j) **Possible redesign of the Comprehensive Agrarian Reform Programme (CARP), depending on the preferences of the next administration. Among others, the government intends to re-examine the targets for land redistribution, the institutional structures for CARP implementation, and possible amendments to the CARP law (R.A. 6657).**
 - k) **External financing initiatives. While the government will continue to pursue traditional avenues like rescheduling/restructuring of official debt, donor assistance will also be sought in working out effective conduiting and channeling mechanisms for private sector access to official credits without unduly burdening public resources; reopening of international commercial credit windows for the private sector; and alternative forms of debt relief.**
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II. TRADE POLICY REGIME: OBJECTIVES AND FRAMEWORK

A. *Introduction: Structure of Trade Policy Formulation*

a) Executive and Legislative Branches of the Government

The Philippines is a democratic and republican state. Its government is divided into three (3) departments, namely; the Executive, Legislative and the Judiciary. Under the Constitution, the executive power is vested in the President. The Cabinet members, who head the executive departments, are appointed by the President. The President and the Cabinet are in charge of all governmental policies and their day-to-day administration. The President has a constitutional term of six (6) years and only one (1) term is allowed.

The Philippine legislature is a bicameral, with an upper house (Senate) of 24 members and a lower house (House of Representatives) of 250 members. While the Senate is elected by a universal suffrage, the 200 members of the House of Representatives are elected by legislative districts. The remaining 50 members are nominated by organizations and special interest groups. The term of office of the Senate is six (6) years, with a maximum of two (2) consecutive terms. The members of the House of Representatives have a term of three (3) years, allowable for three (3) consecutive terms. The legislation of laws is vested in the congress. However, all bills passed by the Congress are presented to the President before they become laws of the land. The President has the prerogative to exercise veto power on every bill elevated by the Congress.

The Constitution serves as the basic institutional framework for the formulation of economic policies, in general, the trade policies, in particular. The Executive and the Legislative branches are empowered to enact economic and trade policies. All appropriation, revenue or tariff bills originate exclusively from the House of Representatives, but the Senate may propose or concur with amendments. In practice, trade and tariff bills emanate from Congress which deliberate on the same through public hearings before these are promulgated into law. However, the Congress may, by law, authorize the President to fix within specific limits, and subject to such limitations as it may impose, tariff rates, import and export quotas, tonnage and wharfage dues and other duties or imports within the framework of the national development programme of the government. This constitutional provision has been operationalized by way of Title II, Parts 2 and 3, Title III and Title IV, Part 7 of the Philippine Tariff and Customs Code.

The President has the power to enter into a treaty or international agreement on any matter including trade. However, any treaty or international agreement entered into by the President shall not be valid and effective unless concurred in by at least two-thirds of all the Members of the Senate.

b) Advisory Bodies

The Constitution, also provides that Congress may establish an independent economic and planning agency which shall, after due consultations with various public and private sector agencies, recommend to Congress, and implement integrated and coordinated policies for national development. The present National Economic Development Authority (NEDA)

functions as this agency unless Congress decides otherwise. To this end, Executive Order No. 230 was issued by the President on July 22, 1987 to reorganize the NEDA such that it now consists of the NEDA Board and the NEDA Secretariat, which are two distinct and separate entities.

The powers and functions of NEDA to decide economic and trade matters ultimately reside in the NEDA Board, which is composed of the President as Chairman, the Director-General of the NEDA Secretariat as Vice-chairman, the Executive Secretary, other Cabinet members, and the Governor of the Central Bank as members. To assist the NEDA Board in the performance of its functions, six cabinet-level inter-agency committees were created to submit recommendations to the President and the NEDA Board for different areas of economic concern.

One of these is the Committee on Tariff and Related Matters (CTRM) which is charged with the following functions and responsibilities:

- a. To advise the President and the NEDA Board on Tariff and Related Matters and on the effects on the country of various international developments;
- b. To coordinate agency positions and recommend national positions for international economic negotiations; and
- c. To recommend to the President a continuous rationalization programme for the country's tariff structure.

The CTRM is constituted into three (3) committee levels- the Committee Proper (Cabinet-level), the Technical Committee and the Sub-committees. The Cabinet-level Committee discusses and decides on the recommendations by the TRM Technical Committee. The Technical Committee, on the other hand, considers the issues and recommendations from the different sub-committees prior to their elevation to the Cabinet-level Committee. The Cabinet and the Technical Committees are chaired by the Secretary of the Department of Trade and Industry. The six sub-committees under the CTRM are the following: Subcommittee on GATT Matters, Subcommittee on Trade and Investment Related Agreements, Subcommittee on Economic and Technical Cooperation Agreements, Subcommittee on Shipping, Subcommittee on UNCTAD Matters and International Commodity/Producers Agreements and Subcommittee on Tariff and Non-Tariff Measures.

Another body that is responsible for the formulation of trade policies is the Export and Investment Development Council (EIDC). The EIDC has been empowered, among others, to review and assess the country's export and investment performance, identify the main bottlenecks and problem areas that constrain export and investment growth and advise on specific measures required to remove the bottlenecks. The Council is chaired by the President and its membership is composed of the heads of concerned government offices and four representatives from the private sector appointed by the President.

c) Review Body

The Judiciary has the inherent power to review trade laws when the issue of constitutionality is raised. Anti-dumping decisions are subject to appeal to a special tribunal known as the Court of Tax Appeals. However, it covers only the amount of dumping duty. Questions of law arising from an anti-dumping protest may be reviewed on appeal by the Supreme Court whose decision is final.

Violations of Customs Laws pertaining to smuggling are tried by the courts.

As a necessary consequence of constitutional processes, all trade laws enacted by Congress and treaties or international executive trade agreements or measures taken by the President to protect the national interests and/or to promote foreign trade may also be reviewed by the Supreme Court on questions of constitutionality.

d) Rôle of Private Sector and Academia in Trade Policy Formulation

i) Private Sector

The private sector can influence trade policy formulation and implementation through the Export and Investment Development Council (EIDC) through their four (4) representatives.

For tariff modifications, petitions from the private sector are filed with the Tariff Commission pursuant to Sec. 401 of the Tariff Code. The Commission conducts public hearings with all interested parties. The private sector actively participates in the public hearings and are required to submit position papers and supporting information/documents. The recommendations are submitted to an inter-agency committee for further discussions and approval.

The most recent tariff reform embodied in E.O. 470 was arrived at after thorough consultations conducted by both the executive and legislative branches of the government which the private sector which lasted for almost a year.

Pursuant to Section I of the E.O. No. 133, which provides for the reorganization of the Department of Trade and Industry (DTI), it shall be the national policy to pursue a private-sector-based growth strategy. This shall be focused on a socially responsible programme that would deregulate business in a manner that shall encourage private initiative and create a dynamically economic environment. Thus at the DTI, private sector is consulted and always invited to meetings whenever there are issues that affect them. The Group of 11 (G-11) composed of the representatives of the top industries in the Philippines was specially created to coordinate positions, including trade policy, of the private sector.

ii) Academia

A number of research institutions both in the government and private sectors were established in the 1970s as a result of the more appreciative and receptive

attitude towards the rôle of policy research in government decision-making. Two government-funded research institutions, namely: the National Tax Research Center (NTRC) and the Philippine Institute of Development Studies (PIDS) were established under the supervision of the NEDA in 1972 and 1977, respectively.

The NTRC serves as the government's think-tank on matters relating to taxation and recommends tax policies to the Cabinet and the President. It is now attached to the Department of Finance (DOF), but in view of the tax powers granted to Congress under the 1987 Constitution, it no longer wields as much influence as before.

The PIDS, on the other hand, acts as a coordinating research arm of the government to assist the different government agencies in policy formulation and to link the government with other private local and foreign research institutions. In recent years, a number of research outputs of the PIDS has had significant impact on policy debate and formulation. In particular, some studies helped lay the foundation for the trade liberalization programme of the government and the policy agenda for rural development.

In the private sector, independent research institutions have also emerged and undertaken considerable research, sometimes as commissioned by the government. Among these are the Center for Research and Communication (CRC), IBON Databank, Economic and Development Foundation and Philippine Business for Social Progress (PBSP). Growing accessibility of international funding agencies has enabled these institutions to expand their work and to tackle a variety of proposals and issues.

B. *Trade Policy Objectives*

a) General Trade Policy Objectives

The basic objective of the Philippine trade policy is the promotion of a more outward-looking and competitive economy through appropriate exchange rate and tariff policies.

In view of this objective, the government has embarked on a programme of trade reforms which was started in 1981 and has been continuing up to the present. The principal objective of this trade reform programme is to rationalize the protection structure, by reducing the over-all level of protection and disperse the protection within and across industries.

Moreover, it seeks to :

- ensure faster development of internationally competitive and efficient industries;
 - improve access of downstream industries to essential raw materials and intermediate inputs; and
 - provide consumers with good quality products at reasonable prices.
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The trade reform programme has two (2) components, namely: import liberalization programme (ILP) and tariff reform programme (TRP).

The Import Liberalization Programme (ILP) was started in 1981 to raise industrial competitiveness and thus accelerate industrialization. It called for the removal of non-tariff barriers on imports and the shifting of protection to the tariff system. As the country underwent a severe BOP crisis in 1984, the programme was temporarily suspended. The programme was resumed in 1986. Import restrictions were substantially reduced from 1986 to 1991. Quantitative restrictions and licensing requirements on a total of 1,488 items were lifted between April 1986 and March 1991. The total number of items already liberalized from January 1981 to March 1991 has reached 2,487. Decisions have been made to liberalize the importation of an additional 318 items. Liberalization of a number of items covered by the rationalization/development programme i.e. cars, commercial vehicles and consumer electronic products will be temporarily deferred to assist the local investors in these industries until such time that they can be competitive. About 96 items are recommended for deferment/continued regulation for reasons of health, safety and national security.

The Tariff Reform Programme of 1991 is being implemented pursuant to Executive Order No. 470 which took effect on 25 August 1991. Tariff adjustments, under E.O. No. 470 reduced the overall level of protection and the dispersal of tariff protection to industries within a five-year period. Under E.O. 470, tariff levels were, in general reduced from nine (0 to 50 per cent) to basically four final rates 3, 10, 20 and 30 per cent to be implemented over a five-year period to allow local industries reasonable time to adjust. Rates of 0, 5, 15, 25 and 50 per cent have, however, been provided for a limited number of items for reasons of national interest. Under E.O. 470, the weighted average EPR is expected to be reduced from the current level of 26 per cent to only 20 per cent by 1995.

b) Objectives in the Uruguay Round

The Philippines is participating in the on-going Uruguay Round of multilateral trade negotiations in order to achieve the following objectives:

- i) further expand its international trade interests by gaining market access for its exports through concessions exchanged with its trading partners;
- ii) ensure that the special and differential (SND) treatment granted to developing countries also applies to Philippine interests;
- iii) ensure that national interests in the areas of services, investments and intellectual property be protected; and
- iv) contribute to the strengthening of multilateral trade rules and disciplines to effectively curb unilateral and bilateral pressures resorted by major trading countries.

C. *General Trade Laws and Trade Legislation*

Philippine trade laws and trade legislation are basically provided under the Tariff and Customs Code of the Philippines and the National Internal Revenue Code of the Philippines.

a) Tariff and Customs Code

The Tariff and Customs Code of the Philippines is one of the general trade laws which incorporates all laws and legislation connected with the imposition of tariffs on imports and exports. Among the relevant Sections of the Code are as follows:

i) Section 201 - Basis of Dutiable Value
(Customs Valuation Legislation)

Section 201, as amended by Executive Order No. 156, provides that the dutiable value of an imported article subject to an *ad valorem* rate of duty will be based on the fair market value of same, like or similar articles, as bought and sold or offered for sale freely in the usual wholesale quantities in the ordinary course of trade in the principal markets of the exporting country or the date of exportation to the Philippines. The value would include the value of all containers, coverings and/or packing, and other expenses such as freight and insurance premium covering transportation.

Alternative modes of calculation of values are also provided in the Section if the fair market value or price of the article cannot be ascertained.

This legislation is administered by the Bureau of Customs of the Philippines. In March 1992, the Philippines adopted the Comprehensive Import Surveillance Scheme (CISS) which is administered by the Société Général de Surveillance (SGS) to help improve the import tax collection of the Bureau.

ii) Section 301 - Anti-Dumping Legislation

Under Department of Finance Order No. 111-91 dated 20 September 1991, both the Secretaries of Finance and Trade and Industry can initiate anti-dumping investigations upon a complaint of an interested party if both have reasons to believe that dumping is being committed. The Tariff Commission is the principal agency that carries out dumping investigations.

Currently, there are proposals in the Philippine Congress which would seek to amend the present anti-dumping law.

iii) Section 302 - Countervailing Duty Legislation

The Secretary of Finance and the Secretary of Trade can initiate a countervailing investigation upon a finding of a *prima facie* case of bounty, subsidy or subvention. The case is referred to the Tariff Commission for investigation. The recommendation of the Commission is submitted to the Secretary of Finance for decision.

Presidential Decree No. 1973 dated 13 April 1985 restored the injury criterion in countervailing duty investigations subject to the condition that the same shall apply only to imports from countries which are signatories to the GATT Code of Subsidies and

Countervailing Duties. Executive Order No. 66 issued on 21 November 1986 also lowered the bonding requirement from twice the amount of the dutiable value of the article in question to an amount equal to the ascertained or estimated amount of bounty, subsidy or subvention as provisionally determined by the Secretary of Finance. The Order also limited the lifetime of a countervailing duty decision to five (5) years from the date of promulgation.

iv) Section 401 - Flexible Clause

In the interest of the national economy, general welfare and/or national security, and subject to specific limitation, the President, upon recommendation of the National Economic and Development Authority (NEDA), is empowered: (1) to increase, reduce or remove existing protective rates of import duty (including any necessary change in classification). The existing rates may be increased or decreased to any level, in one or several stages but in no case shall the increased rate of import duty be higher than a maximum of one hundred (100) per cent *ad valorem*; (2) to establish import quota or to ban imports of any commodity, as may be necessary; and (3) to impose an additional duty on all imports not exceeding ten (10) per cent *ad valorem* whenever necessary. However, periodic investigations by the Tariff Commission and recommendation of the NEDA, the President may gradually reduce the above-cited protection levels.

b) National Internal Revenue Code (NIRC)

Under the National Internal Revenue Code (NIRC), as amended, the following taxes affect imports:

i) Value Added Tax (VAT)

A value added tax equivalent to 10 per cent based on the total value used by the Bureau of Customs in determining tariff and customs duties, plus customs duties, excise tax, if any, and other charges is collected on every importation of goods. Such tax is paid by the importer prior to the release of goods from customs and duties are determined on the basis of the quantity or volume of the goods. The value added tax is based on the landed cost plus excise taxes, if any.

ii) Excise Tax

Excise taxes apply to goods manufactured or produced in the Philippines for domestic sale or consumption or for any other disposition and to things imported. The excise taxes imposed on imported articles is paid by the owner or importer to the customs officers, in accordance with the regulations of the Department of Finance and before the release of such articles. As such, in every importation, import deposits (pre-payments on taxes due on every importation) are required and notwithstanding their sources, all imported articles are taxed uniformly. The measure applies uniformly to imports from all sources.

c) The Omnibus Investment Code of 1987

The Omnibus Investment Code (E.O. 226) was signed into law in July 1987. The Code put together and harmonized in one document the various Philippine laws on investment. More importantly, it enabled the Philippines to offer to prospective investors a set of incentives equal to those offered by other countries in the region. These incentives include income tax holidays, tax and duty exemptions on imported capital equipment, tax credit for taxes and duties on raw materials, and additional deductions for labour expenses.

In addition, measures have been undertaken to streamline the application process for investment incentives by simplifying procedures and reducing the required documentation. Thus, the whole process now takes only 20 days. A one-stop action center for investments has also been established and made operational, housing government agencies processing investment applications under one roof to facilitate action on the needs of investors.

d) The Foreign Investment Act of 1991
(Republic Act 7042)

Two major measures undertaken to enhance the investment environment were: (1) the review of equity limitations on foreign investments with the objective of liberalizing these through an increase in the maximum allowable foreign equity participation in non-priority areas up to the limits set by law; and (2) the formulation of a set of criteria for the negative list of investment areas where foreign equity participation will be restricted. These measures served as the basis for the passage of the Foreign Investment Act of 1991 (R.A. 7042) on June 13, 1991. The Act repealed Sections 44 to 56 of Book II (Investments without Incentives) of the Omnibus Investment Code of 1987 and has the following main features:

1. introduction of the concept of the negative list;
2. liberalization of domestic market access for investment activities not restricted by the list;
3. relaxation of the definition of export enterprise to mean at least 60 per cent export-orientation ;
4. reduction of bureaucratic processes; and
5. establishment of stable and transparent policies and procedures.

Under old laws, enterprises seeking more than 40 per cent foreign equity had to secure approval from the BOI in order to do business in the Philippines. With R.A. 7042, BOI authority is not required for enterprises not seeking incentives. Moreover, foreign investors merely have to consult and be guided by the Foreign Investment Negative List, which clearly defines the investment areas where foreign equity is limited/restricted to a maximum of 40 per cent.

To further simplify the administrative process, the Implementing Rules and Regulation (IRRs) of the Act provide that registration with the Central Bank for purposes of repatriation

of investments and profits shall be done through the Securities and Exchange Commission (SEC) or the Bureau of Trade Regulation and Consumer Protection (BTRCP). Likewise, export enterprises shall be deemed registered with the BOI upon registration with SEC/BTRCP. Other changes introduced under the same rules of the Act are the provision of specific time periods within which SEC, BTRCP and other concerned agencies, have to act on applications for registration/requests for clearances; submission of reports to SEC or BTRCP only; and reduced documentary requirements.

D. *Trade Agreements and Arrangements*

a) Multilateral Agreements

i) General Agreement on Tariffs and Trade (GATT)

As a developing country, lacking in economic clout and whose trade is dependent on an opening and stable multilateral trading system, the Philippines strongly supports and subscribes to GATT rules and disciplines in order to protect its international trade interest as well as further enhance the expansion of its trade.

The Philippines became a provisional member in the GATT in 1973 and a full member on 1 January 1980.

The Philippines became a signatory to two MTN (Tokyo Round) Agreements, namely: The Agreements on Technical Barriers to Trade and Import Licensing Procedures, when it acceded to GATT on January 1980. In 1985, the Philippines acceded to the Agreement on Subsidies and Countervailing Measures in view of countervailing cases being slapped to its exports, specifically by the United States.

The Philippines is currently an observer in the Agreements on Government Procurement, Customs Valuation and Anti-Dumping Procedures, with the view to acceding to such codes in the future. However, accession to these arrangements is hampered by the following constraints: (1) difficulty in expanding the list of entities for inclusion in the positive list for the Government Procurement Code; and (2) tedious and long process of legislation in aligning its present anti-dumping and customs valuation laws to GATT rules, as provided in the respective Codes..

At present, the Philippines is awaiting the results of the Uruguay Round in these areas.

The Philippines is also a signatory to the Multi-Fibre Arrangement (MFA) and has concluded bilateral textile agreements under MFA IV Article 3, with the US, EC, Canada, Sweden, Austria and Norway. Such agreements cover a wide range of textiles and apparel products made from cotton, man-made fiber and wool.

The Philippines also participates in other multilateral fora such as UNCTAD, the International Monetary Fund, the World Bank and the Asian Development Bank.

The Philippines is also a signatory to the following commodity arrangements: International Coffee Agreement, International Tropical Timber Agreement and the International Sugar Agreement.

b) Bilateral Agreements

The Philippines concluded bilateral trade agreements with 28 countries. These are: Australia, Austria, Benelux, Federal Republic of Germany, Indonesia, India, Japan, Canada, New Zealand, Pakistan, Gabon, Republic of Korea, Malta, Iraq, Bangladesh, Sri Lanka, Argentina, Cyprus, Bulgaria, Hungary, Poland, Romania, the former USSR, German Democratic Republic, Vietnam, Yugoslavia, Czechoslovakia and Peoples Republic of China.

The Philippines has no bilateral trade agreement with the US. It was established within the context of GATT.

c) Regional Trading Arrangements

The Philippines was a founder member of the Association of South East Asian Nations (ASEAN) together with Indonesia, Malaysia, Singapore and Thailand. Brunei Darussalam subsequently joined ASEAN in 1984. The main objective of ASEAN is to promote intra-ASEAN economic, social and cultural relations among its members.

The Philippines is a signatory to the Agreement on the ASEAN Preferential Trading Arrangements (PTA), Protocol on Improvements on Extension of Tariff Preferences under the ASEAN Preferential Trading Agreements, Memorandum of Understanding on Standstill and Rollback of Non-Tariff Barriers and the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA).

i) ASEAN PTA

The ASEAN PTA which was signed in Manila which was signed in Manila on 24 February 1977 is an arrangement whereby an ASEAN Member State grants preferences to selected products exported by the other ASEAN countries. The Agreement provides for preferences through the following instruments:

- 1) Tariff preferences;
 - 2) Liberalization of non-tariff measures;
 - 3) Negotiation of long-term quantity contracts;
 - 4) Preferences in procurement by government entities;
 - 5) Purchase finance support at preferential interest rates; and
 - 6) Other measures.
-

To date ASEAN preference is in the form of reduced tariffs. About 15,600 (3,800 for the Philippines) items have been exchanged by way of Margins of Preferences (MOPs) ranging from 25 per cent to 50 per cent in 1991. Negotiations for the rollback of non-tariff measures started in October 1988 at the 25th Meeting of the Committee on Trade and Tourism. However, no non-tariff measures (NTMs) have been lifted as a result of the negotiations. Nonetheless, the ASEAN countries are unilaterally liberalizing their NTMs.

In order to qualify for preferential treatment, products from exporting ASEAN member countries should comply with the rules of origin whether such products are wholly produced or not. Where products are not wholly produced or obtained in the exporting member country, "the total value of the materials, parts of produce originating from non-ASEAN countries or undetermined origin used" should not exceed 50 per cent of the FOB value of the products produced and the final process of manufacture should be performed within the territory of the exporting Contracting State. The Agreement also allows imported inputs sourced from other ASEAN countries to be considered as originating in the country where processing of the finished product has taken place, provided that upon importation into that country, such inputs have complied with either the wholly produced criterion or the criterion applying to goods with imported content eligible for preferential treatment if the aggregate ASEAN content of such finished product is at least 60 per cent of the FOB value. The Third ASEAN Summit in Manila in 1987 reduced the ASEAN content requirement to 35 per cent for 21 chemical products.

ii) CEPT Scheme

At the Fourth ASEAN Summit held in Singapore on 27-28 January 1992, the ASEAN Heads of Government signed the CEPT Scheme. The CEPT, an improvement of the ASEAN PTA, is the main instrument by which the objectives of an AFTA would be attained.

The CEPT Scheme provides for reduction of tariffs on all manufactured goods, including capital goods and processed agricultural products, to the 0-5 per cent range within a fifteen (15) year period, beginning January 1, 1993. It allows for the temporary exclusion of sensitive products, subject to a review on the 8th year to determine the final exclusion list. The schedule of tariff reduction under CEPT is as follows:

- 1) For products with existing tariffs (i.e., net of the discount under the ASEAN PTA) above 20 per cent, reduction to 20 per cent is to be made with a t-8 year period, beginning January 1, 1993. Subsequently, such tariffs are to be reduced to the 0.5 per cent range within a seven (7) year period.
- 2) For products with existing tariffs of 20 per cent and below, such tariffs are to be reduced to the 0-5 per cent within the fifteen (15) year period.

The Agreement also allows 2 or more member countries to enter into arrangements to reduce tariffs at an accelerated pace, i.e., without following the programme stated above.

Member countries are also obliged to:

- 1) Eliminate all quantitative restrictions on products included in the Scheme upon enjoyment of the concessions applicable to such products;
- 2) Gradually eliminate all other non-tariff barriers within a period of five (5) years after the enjoyment of concessions on products included in the Scheme; and
- 3) Exempt such products from foreign exchange restrictions.

The CEPT Scheme reduced the ASEAN content requirement to 40 per cent for products to qualify for preferential treatment.

d) Other Preferential Arrangements (GSTP)

The Philippines is also a signatory to the Agreement on the Global System of Trade Preferences (GSTP) under which it grants tariff concessions to other participants of the agreements.

III. TRADE RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

Influencing trade flows is just one of the many considerations in the adoption of the country's exchange rate policy. This has always been the main concern under the present system of independent float.

Efforts to adopt a more liberal foreign exchange system started during the year with the implementation of a policy to increase the foreign exchange limits of exporters and to increase their access to foreign loans. This is expected to contribute to lower transactions costs of exporters and help establish a more world-competitive export industry. The other component of the policy is aimed at liberalizing the rules governing non-trade foreign exchange transactions by relaxing repatriation and remittance regulations for all types of investments and raising the ceiling on travel allowance as restrictions have been shown to be less effective than they were in the initial years of their implementation.

Under the present system, the official exchange rate is determined by the weighted average of all exchange transactions in the foreign exchange trading floor conducted by the Bankers Association of the Philippines, which rate would become the reference rate for all commercial exchange transactions the next day. To further deepen the foreign exchange market and improve the mechanism for exchange rate determination, off-floor transactions have been restored and an automated foreign exchange dealing system has been initiated.

A. *Exchange Rate Movements and Trade*

Movements in the exchange rate of the Philippine peso against the U.S. dollar, the country's intervention currency, exert some influence on the country's trade. From 1984-1991, the exchange rate registered an average depreciation of 7.48 per cent while export volumes, on average, rose by 8.69 per cent and import volumes by 12.73 per cent. The elasticities of external trade with respect to changes in the exchange rate were computed to be 1.16 for exports and 1.70 for imports.

The theoretical basis for an improvement in the trade balance resulting from a devaluation is empirically valid in the Philippines, albeit only for certain periods of time. In 1985, for instance, the 11.43 per cent depreciation of the exchange rate was matched by an increase in export volume of 2.04 per cent and a decline in import volume of -9.91 per cent. The same pattern was repeated in 1991 when the exchange rate fell by 13.03 per cent with export volume growing by 4.99 per cent and import volume declining by 1.10 per cent. However, the behavior of external trade during these periods cannot be wholly attributed to the deterioration of the exchange rate, particularly in 1991 during which an import levy was in effect throughout the year.

The influence of the exchange rate on external trade would be rather ambiguous when data for the years 1986-1990 were considered. In 1986, the exchange rate depreciated by 9.56 per cent. While exports grew by 16.60 per cent, as should be the case, imports, ironically, rose by 19.70 per cent. The minimal peso depreciation of 0.89 per cent in 1987 was matched by a 6.52 per cent increase in exports and a 32.00 per cent increase in imports. Similarly, this trade pattern would be exhibited for the years 1988 and 1989. In 1990, however, the exchange rate depreciated by 11.84 per cent which would correspond to an increase in both exports (7.23 per cent) and imports (7.46 per cent). As shown, imports are more sensitive to exchange rate changes than exports

At best, therefore, the influence of the exchange rate on Philippine foreign trade, particularly on exports, can be considered as minimal, as the structure of Philippine foreign trade does not lend itself too readily to favorable developments resulting from adjustments in the exchange rate as would be experienced in other countries such as Malaysia and Thailand.

B. *Investment Policies*

In January 3, 1992, the Central Bank of the Philippines issued rules/regulations liberalizing non-trade foreign exchange transactions, including investment related transactions.

With respect to foreign investments, the major policy changes entailed the broader coverage of foreign investments, the liberalization of repatriation and remittance privileges and the reduction as well as simplification of reportorial and documentary requirements. Under CB Circular No. 1318, foreign investments are defined to include investments by a resident in foreign exchange or its equivalent in assets actually brought into the country, as contrasted to the definition under the Foreign Investments Act of 1991, which considers the nationality or citizenship of the investor. Full and immediate repatriation and remittance privileges for all types of duly registered investments, whether as direct equity or in listed shares/securities and regardless of the type of industry or sector where investment were made are now allowed to be directly serviced by AABs without prior CB approval. This is in contrast to previous guidelines where full and immediate repatriation is allowed only for registered investments in CB-certified export-oriented industries and in CB approved securities, but is otherwise staggered for investments in other industries from three to nine years, depending on the type of industry and sectoral priority where investments were made.

However, under Section 40, Chapter 111 of Circular No. 1318, repatriation of investments financed through the debt-to-equity programme under Circular No. 1111 dated August 26, 1986, Revised Circular No. 1111 dated October 20, 1987 and Circular No. 1267 dated December 20, 1990, shall be governed by said Circulars or any subsequent amendments thereto.

C. *External Debt and Trade*

a) *Medium and Long-Term Loans*

As a general policy, foreign borrowings shall be allowed only to cover foreign exchange costs of priority plan prepared by NEDA. All foreign borrowing proposals of both the public and private sectors shall require prior CB approval. Pursuant to Republic Act 6142, as amended, the Monetary Board promulgated Circular No. 848, as amended by Circular No. 947, Circular No. 1232 and Circular No. 1249, laying down the policy guidelines and implementing rules as follows:

i) *Projects Eligible for Foreign Financing*

Those projects which are (a) export-oriented or foreign exchange generating project or a Board of Investment registered projects (projects listed in the Annual Investment Priorities Plan); (b) Central Bank-certified projects; (c) projects listed in the Medium-Term Public Investment Programme prepared by the NEDA; and (d) other projects specifically authorized by Congress.

ii) Prior Approval

All foreign loans entered into by the government including government-owned and controlled corporations as well as private firms shall require prior approval of the Central Bank, and the Investment Coordination Committee (ICC) for financing the following:

- b.1 Major national projects, i.e., those costing at least ₱300 million and resulting in new capital formation in the economy irrespective of source of financing;
- b.2 Public sector projects with a total cost of at least US\$10 million. Projects costing less than US\$10 million requires NEDA approval; and
- b.3 Projects of the private sector that are supportive of agricultural development, small and medium-scale industries, development of rural infrastructure, as well as large-scale industries seeking concessional loans under on-lending arrangements and/or national government financing guarantees.

iii) Utilization

Foreign loans shall be used to finance foreign exchange costs of eligible projects. Proceeds of loans for private sector projects may finance the foreign cost component and up to fifty per cent (50%) of the total peso cost component of such projects, provided that:

- c.1 The project is an export-oriented/foreign-exchange-generating project of a BOI-registered or CB-certified export-oriented entity;
- c.2 There shall be no foreign exchange outflow for the duration of the foreign loan;
- c.3 The loan shall not be covered by a guarantee of the government or any of the government corporations/financial institutions; and
- c.4 The total amount of foreign loans for local cost/financing shall not exceed the dictative limit to be set by the Monetary Board.

b) Short-Term Loans

Pursuant to MB Resolution No. 1265 dated July 13, 1979 and Circular No. 685 dated July 13, 1979, the following policies and guidelines shall govern short-term foreign borrowings:

i) Prior Approval

Short-term loans from Offshore Banking Units (OBUs) and/or other offshore sources to domestic borrowers, including Foreign Currency Deposit Units (FCDUs) shall be referred to the Central Bank for prior approval, except normal interbank short-term transactions (not exceeding 360 days), e.g., credit lines of Philippine banks with correspondent banks, interbank call loans and interbank loans for general liquidity purposes.

ii) Utilization

Short-term foreign loans as enumerated above shall be approved by the Central Bank only if they are intended to finance foreign exchange requirements of domestic borrowers.

iii) Short-Term Loan Facilities

1. Trade Facility - a mechanism for restoring normal foreign trade finance for the country. It is one of three major components of the financial package from a syndicate of international creditor banks supporting the country's economic recovery programme. Total amount available under the facility is US\$3 billion. The Central Bank issued on August 2, 1985 Circular No. 1071 (for public sector obligors) and Circular No. 1072 (for private sector borrowers) embodying rules and regulations on this short-term trade credits.
2. FCDO Loans to Exporters - as embodied in Circular No. 1317 issued December 11, 1991, all exporters may avail themselves of FCDO loans from the Foreign Currency Deposit Unit (FCDO) of a commercial bank without need of prior Central Bank approval, subject to the following conditions:
 - 2.1 The amount of the FCDO loan shall be up to seventy per cent (70%) of the export irrevocable L/C (either confirmed or unconfirmed), purchase order (P.O.) or sales contract (S.C.);
 - 2.2 Proceeds thereof shall be made available either in pesos through the sale of the foreign exchange to the lending commercial bank to pay local costs, or directly in foreign exchange to pay import costs of machinery, spare parts or raw materials to be used in the production of, or as inputs of, commodities to be exported;
 - 2.3 Payment for the FCDO loan shall be directly deducted from the foreign exchange proceeds of export shipments of the borrower but the amount to be deducted for this purpose shall not exceed seventy per cent (70%) of proceeds from each export shipment; and
 - 2.4 Maturity of the loan shall not exceed 360 days, and interest rates will be in accordance with prevailing rates in the international capital markets.

D. *Foreign Direct Investment and Trade*

In the Philippines, studies revealed that there exists a positive correlation between foreign direct investment (FDI) and exports. This would indicate that an upward change in the level of exports tend to influence FDI in the same direction, while an increase in the latter is expected to lead to higher exports. This is a favorable phenomenon considering the contribution of exports in the growth of the economy. The same two-way association was established between FDI and imports.

Foreign investment have an import-creating effect. Likewise, an increase in imports may cause a rise in investments. Given the close inter-linkages between FDI and trade, it is evident that an effective programme to attract foreign investment would also require the institution of measures that could help foster an environment conducive to the expansion of the country's external trade. Thus, measures initially put in place to attract foreign investment, such as the grant of fiscal incentives and the adoption of a more liberal foreign ownership requirement must be reinforced by the adoption of a more liberal foreign exchange and trade régimes to maximize the benefits that the economy could derive from FDI.

The Philippines has made considerable strides in easing the rules governing foreign investment following the enactment into law of Republic Act (R.A.) 7042, otherwise known as Foreign Investment Act of 1991 on June 13, 1991. Under R.A. 7042, entities with more than 40 per cent foreign equity were allowed to engage in any activity not included in the negative list. Likewise amended was the restriction on the extent of foreign ownership in export firms. Foreigners were also allowed to make investments of as much as 100 per cent of the equity in local enterprises, except in areas included in the negative list. Moreover, the Foreign Investment Act of 1991 simplifies the investment registration process and clearly defines the negative list.

Substantial progress has also been achieved in reforming the country's trade régime. The Import Liberalization Programme (ILP), which was started in 1980 was pursued with greater vigor in 1991, while the tariff reform - which seek to simplify the tariff structure - has been put in place with the issuance of Executive Order (E.O.) No. 470 in July 20, 1991. The full implementation of the ILP and the Tariff Reform Programme are expected to lead to a more open and transparent trade régime.

In addition to these major reforms, the CB has embarked on a major reform package to liberalize foreign exchange transactions with a view to improving the allocative efficiency of the domestic economy and helping it to be more consistent with the growing integration of the global economy.

As an initial step in this process, significant liberalization measures have been implemented that would increase currency convertibility in both the current and capital accounts of the balance of payments. Among these measures are the expanded access to foreign currency loans of exporters and the substantial increase in their dollar retention rate, as provided for in CB Circulars No. 1317 dated December 11, 1991 and No. 1319 dated January 3, 1992, respectively. These measures are expected to significantly reduce the transaction costs of exporters and provide for a more world-competitive export industry.

In addition, more liberal rules and regulations governing non-trade foreign exchange transactions were implemented starting January 20, 1992 pursuant to CB Circular No. 1318 dated January 3, 1992. The major changes include the following: (1) more liberal regulations governing non-trade foreign exchange transactions with respect to the surrender requirement of foreign exchange receipts on invisibles which are now limited to certain service exporters; (2) higher ceilings for foreign exchange disbursements; (3) full and immediate repatriation and remittance privileges for all types of investments; and (4) expansion of eligible deposits under the foreign currency deposit system to include non-surrenderable foreign exchange.

A number of major reforms in the foreign exchange market has also been implemented to deepen the market and improve the mechanism for exchange rate determination. Effective April 1992, the textbook approach in computing the foreign exchange position of commercial banks was adopted under Circular No. 1327, dated January 30, 1992. Specifically, banks were allowed to maintain an overbought or oversold position of up to 25 per cent or 15 percent, respectively, of their unimpaired capital. Additionally, off-floor interbank trading was allowed to re-open in April 1992.

The Central Bank will continue to review the policy matrix governing foreign exchange transactions, including trade regulations, to align domestic policies with the more liberal exchange regulatory régimes of major competitor countries in the Asian region.

IV. TRADE POLICIES AND PRACTICES BY MEASURE

A. *Measures Operating Directly on Imports*

a) Tariffs, other charges and exemption

The Tariff Reform Programme of 1991 is already being implemented pursuant to Executive Order No. 470 which took effect on 25 August 1991. The principal objective of the latest tariff reform is to rationalize the protection structure by reducing the overall level of protection and the dispersion of tariff protection within and across industries. There is now less reliance on tariffs both as a revenue source and as an industrial incentive except for deserving infant industries and only for a limited period.

E.O. 470 covers about 80 per cent of the present Tariff and Customs Code. The total number of Harmonized System tariff lines has been reduced by 10 per cent from 6,193 lines to 5,561 lines due to the simplification of the tariff nomenclature. The modification adheres faithfully to the basic text of the international Harmonized Coding System.

The final rates under E.O. 470 cluster around four levels: 3 per cent 10 per cent 20 per cent and 30 per cent. Ninety-four per cent (94%) of total tariff lines will be dutiable at these rates beginning 1 July 1995. As deviations are necessary for certain industries, a limited number of items bear duties of zero, 5 per cent 15 per cent 25 per cent or 50 per cent.

Under the Tokyo Round of Multilateral Trade Negotiations, the Philippines bound a total of 378 tariff lines representing 7 per cent of the entire tariff schedule. For the Uruguay Round, the Philippine offers are to bind 934 tariff lines and 744 tariff lines, for industrial and agricultural offers, respectively. This will bring the total number of GATT bindings to 2,056 or 37 per cent of the present tariff lines.

Only one product, cinematographic films, is subject to specific duty, as follows:

HS. No	Product	Specific Duty
37.06	Cinematographic film, exposed and developed, whether or not incorporating sound track or consisting only of sound track	
3706.10	Of a width of 35 mm or more:	
3706.10.20	Newsreels, travelogues, technical and scientific films	P0.30/1.m
3706.10.90	Other	P2.00/1.m
3706.90	Other	
3706.90.20	Newsreels, travelogue, technical and scientific films	P0.30/1.m
3706.90.90	Other	P2.00/1.m

The 1991 *ad valorem* equivalent for HS No. 3706.10.90 at ₱2.00/1.m. was 29.5 per cent and for HS No. 3706.90.90 also at ₱2.00/1.m. was 21.6%. There were no imports in 1991 of HS Nos. 3706.10.20 and 3706.90.20.

b) Levies and other charges

The deficit of the National Government was targeted to decline from 3.6 per cent of GNP in 1990 to 2 per cent in 1991 with the implementation of package of fiscal measures for 1991 designed to raise revenue relative to GNP. One of these fiscal measures was the imposition of a temporary 9 per cent additional levy on all imports which was expected to yield an additional revenue of about 2 per cent of GNP

To implement this fiscal measure, the government issued on January 3, 1991 Executive Order No. 443 which mandated the imposition of an additional duty of nine per cent (9%) *ad valorem* on all imported articles subject to certain exceptions and conditions. This measure was amended on August 15, 1991, upon the clamor of the business sector to reduce the levy. Thus, E.O. 475 was issued reducing the import levy to five per cent (5%) *ad valorem* specifically on non-oil commodities. During the latter part of the year, Executive Order No. 484 dated October 18, 1991 was issued which further mandated that capital equipment and spare parts of imported by firms engaged in the preferred areas of activity whose projects were registered with the BOI on or before January 2, 1991 are exempted from the additional 5 per cent *ad valorem*. Effective on May 1, 1992 or barely 2 months short of its final phase-out, the government lifted the 5 per cent levy imposed on the remaining non-commodities. The 9 per cent levy on crude oil, however, remains enforced.

c) Quantitative restrictions

In August 1980, the Philippine government formally adopted the Import Liberalization Programme (ILP). This programme, which was carried out in tandem with the Tariff Reform Programme, sought to liberalize various categories of imports in line with the country's policy of accelerating the industrialization process but in such a way that it will not only benefit entrepreneurs and industrialists but also serve the interest of Filipino consumers. More

specifically, the ILP aims to facilitate the acquisition of imported raw materials and intermediate goods in order to help bring about the efficiency, stability and long-term growth of local industries, including export firms which could become more competitive as a result of the availability of cheaper and better quality imports.

Implementation of the ILP was designed to proceed in several stages in order to give enough time for the affected industries to adjust or rationalize their operations and to minimize and avoid labour dislocation. First to be liberalized by the government were products belonging to the non-essential consumer (NEC) and unclassified consumer (UC) import categories. From January 1981 to March 1986, a total of 999 items were liberalized by the government falling under the abovementioned import commodity groups.

Effective April 1986, an accelerated programme for import liberalization was started under an agreement reached with the IMF-WB. Under this agreement (better known as Phase I of the ILP), the Philippines committed to remove licensing restrictions on 1,232 items on a staggered basis. All of the 1,232 items (3 sugar products were re-regulated as per agreement with the IMF in July 1986) lined up for liberalizing under Phase I of the ILP has already been made freely importable by April 1988.

Phase II of the ILP was carried out starting June 1988. As of April 1992, a total of 355 items have already been made freely importable. In addition, the liberalization of 112 items will take effect once tariff adjustment for these commodities are set in place.

The government is at present undertaking a review of the remaining 206 regulated items to determine which among them will be liberalized and which will remain regulated for health and security reasons.

d) Import Licensing

Imports into the Philippines are free from licensing requirement unless otherwise subject to prior approval by appropriate government agencies/committee responsible for implementing the legislation regulating imports. The Tariff and Customs Code, as amended, and the Central Bank Charter (Republic Act No. 265, as amended by Presidential Decree No. 72), provide the primary legal bases for the control and regulation of imports in the Philippines. However, there are special laws on the importation of some commodities which designate certain government agencies/committees to administer import regulations. Import licence applications must be submitted to the appropriate administrative body responsible for using licences (import permits/clearances/authorization). The licence holder is required to submit it to the Central Bank or its authorized agent banks for authority to buy foreign exchange to pay for imports of goods covered by the licences, and to the Bureau of Customs at the time of customs declaration.

The list of regulated commodities, together with the appropriate regulating agency is indicated in Annex A.

e) Import Prohibition

The Philippines prohibits the importation of some products for reasons of health, morality, balance-of-payments and national security. The list of prohibited imports is attached as Annex B.

f) Technical standards and labelling

The objectives of the Philippines in setting technical standards and regulations are:

- a) to protect the interest of consumers/end-users and the general public especially in matters concerning health, safety or the environment;
- b) to ensure interoperability, interchangeability of component parts, assemblies or complete products; and
- c) to avoid rejection due to non-conformity to requirements of export markets.

Whenever possible, the Philippines adopts internationally-accepted standards to align Philippine needs with the requirements of most of the countries in the world.

Of the 1462 standards that have been developed/formulated, so far 304 or 21 per cent are either identical or equivalent to international standards. The rest are related to standards of some foreign countries.

There is no distinction between standards used for domestic and imported products. Whatever standards are applied to imported goods are the same standards applied to locally manufactured products.

The Bureau of Product Standards (BPS) is the body that promulgates Philippine national standards. The BPS has also signed memoranda of agreement with specialized government agencies, professional institutions, industrial associations regarding drafting of standards by these agencies.

The BPS through its technical committees are developing standards. Depending on the product, these committees are composed of representatives from concerned trade or industry associations, professional institutions, academia, government agencies, consumer organizations and other interested groups.

Testing of products for compliance with standards are conducted by the BPS Laboratory or by its accredited laboratories.

The Philippines has recognized some inspection bodies to conduct tests in other countries on a number of products according to Philippine National Standard procedures; it has not so far recognized the test procedures alone of other countries.

There were few instances when international standards were found inappropriate. These were mostly on electrical products such as voltage, humidity requirements and configuration of electrical outlets.

On labelling, the usual markings required on products are as follows:

- name of product
- name and address of manufacturer
- type of grade
- dimensions as weight or mass (in metric units)
- country of origin

There are ongoing discussions on possible labelling requirement for plastic products to facilitate easy segregation during recycling.

g) Anti-dumping and countervailing action

For the period 1989 to 1992, anti-dumping duties were imposed on refractory bricks and safety matches.

No countervailing duty was applied during the same period.

h) Article XIX action/Article XVIII (B) action

The Philippines does not have any domestic procedure or law for safeguard action. It has never invoked Article XIX of the GATT. However, the ASEAN Preferential Trading Arrangements (PTA), of which the Philippines is a signatory, provides that whenever imports of a product subject to preferential treatment cause, or threaten to cause, serious injury to sectors producing like or similar products in the importing ASEAN country, that the importing country may suspend provisionally and without discrimination the tariff preference accorded to the product in question.

The Philippines has invoked this provision of the ASEAN PTA only once.

The Philippines has invoked Article XVIII (B) of the GATT because of the balance-of-payments problems it encountered in the last decade.

B. *Measures Operating Directly on Export*

a) Export promotion policy

The Philippines' export promotion policy aims to attain economic development through exports and foreign investments and address the country's critical problems of employment, income and foreign exchange. To implement this objective, the three-pronged National Export Development Programme is being undertaken as follows:

- 1) The Export Environment Development Programme - This includes major activities such as strengthening of the primary institutions for export in the public and private

sectors; effecting better linkage and coordination between government and private sector in planning and implementing export development programmes; improvement of the investment climate; liberalization and streamlining of administrative procedures and regulations, improvement of physical infrastructure and labour productivity, and the availability of adequate and competitive financing facilities for the export sector.

- 2) The Export Market Development Programme addresses the need to increase the Philippine share in target markets, reduce deficits in bilateral trade, and diversify product and buyer compositions. Under this Programme, active participation in bilateral and multilateral negotiations such as the Uruguay Round, as well as export promotion activities which include participation in international trade fairs, exhibitions and buying/selling missions, are being undertaken; and
- 3) The Export Enterprise Development Programme seeks to maintain and improve the competitiveness of exporters countrywide through the expansion of the production base, the increase in productivity, and the improvement of management and professionalism in the export sector.

b) Export finance

Exporters need to be assured of access to export financing on the best possible terms to help them respond positively to the opportunities in the international market. A major response to this need is found in the CB's rediscounting window. In recent years, a number of measures have been introduced to enhance the usefulness of the rediscounting facility to exporters.

In March 1990, the authority to provide rediscount credits (up to a maximum amount of P5 million per application) was extended by CB regional offices to speed up the processing of export papers of firms outside Metro Manila. In the following month, the coverage of the rediscounting facility was extended to include indirect exporters.

Subsequently, in October 1990, the CB's regulation on the loanable value of export papers was eased by allowing banks to rediscount the full amount of their export credits, instead of only 80 per cent. To compliment this move and to ensure greater access to exporters, the CB raised its 1991 export rediscount budget to P8 billion from P5 billion in 1990.

Relatedly, the CB also tightened the monitoring of bank's quoted rates and spread on rediscountable papers to ensure that the benefits derived from the increase in the rediscount value for export credits are passed on to end-borrowers. Currently, the local bank's spread of around 3 per cent per annum, the cost of funds to export-oriented economic activities at 18.5 per cent is still lower than the rate applicable to non-export related loans of banks.

To further assist exporters in meeting their financing requirements, the CB issued Circular No. 1317 on December 11, 1991 amending Circular No. 1262 issued on November 9, 1990 increasing the loan amount from 50 to 70 per cent of the value of the confirmed export letter of credit, purchase order or sales contract. This allowed exporters to avail

themselves of a working capital credit facility from the foreign currency deposit units (FCDUs) of local commercial banks. In addition, under Circular No. 1249 dated August 22, 1990, exporters are allowed with prior CB approval to secure loans from foreign financial institutions to fund the full amount of their projects' foreign cost component and up to 50 per cent of the peso costs.

The CB regularly reviews its export regulations to align these with the Government's thrust toward liberalization. An important liberalizing measure was the approval on 2 July, 1991 of the dollar retention scheme which allowed exporters to retain two per cent of their foreign exchange proceeds to finance certain foreign exchange costs such as commissions, freight and insurance. On January 3, 1992, the CB issued Circular No. 1319 raising the retention rate from two (2) to forty (40) per cent of the exporter's foreign exchange proceeds.

c) Export restrictions and controls

In general, Philippine exports are classified into: (a) exports with foreign exchange proceeds; and (b) exports without foreign exchange proceeds. Prior CB approval is required for certain exports with foreign exchange proceeds involving the following transactions:

1. Those payable under open account;
 2. Those payable beyond the prescribed 90 days inward remittance period;
 3. Those with initial drawings or payment of less than 100 per cent of the shipment balance;
 4. Those under inter-company open account (offsetting arrangement);
 5. Those whose payment is contingent upon the sale to third parties abroad of the exported commodities by consignee;
 6. Those providing for deductions representing agent's commission, sales discounts and other charges incurred abroad in connection with the marketing or sale of the commodities unless specifically authorized by the CB;
 7. Exports of copra/coconut oil, copra meal/cake/pallets, logs, sugar and fresh mangoes for the purpose of price verification;
 8. Export trade-related remittances providing for outward remittance of foreign exchange to be purchased from AABs as payment for commission on exports due agents abroad exceeding 5 per cent of shipment value;
 9. Forfeiting transaction covering an export shipment;
 10. Exports of gold except primary gold, secondary gold, and gold bearing jewellery;
 11. Exports to the Republic of South Africa; and
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12. Legal tender Philippine peso notes and coins, checks, money orders and other bills of exchange drawn in pesos against Philippine banks, total face value of which exceeds P5,000.00.

The following no dollar exports also require prior CB approval:

1. Tourist purchases in excess of US\$1,000.00 in total value;
2. Gifts/donations the total value of which exceeds US\$250.00 per shipment;
3. Samples/specimens and exhibits for promotional/testing purposes the total value of which exceeds US\$1,000.00 per shipment; and
4. All export shipments on a no-dollar basis not falling under the categories mentioned in Section 3 of Circular No. 1198 dated April 28, 1989.

Regardless of classification, all exports are required to file an Export Declaration. Export payments should be received in any of the 21 prescribed currencies. Payment in Philippine pesos may be received for exports to ASEAN countries provided they are covered by LCs. Payment for exports may be in the following modes:

1. Irrevocable Letter of Credit (L/C);
2. Documents Against Payment (D/P);
3. Documents Against Acceptance (D/A);
4. Bank Draft received by the AAB prior to shipment of prepaid shipments;
5. Check issued by foreign government or its agencies, if prepaid;
6. Check of a buyer, other than a foreign government or its agencies, drawn on a bank abroad, but only if the check is cleared prior to shipment;
7. Traveller's check or acceptable foreign currency notes, for export shipment of not more than US\$3,000.00 if prepaid;
8. Open Account (with prior CB approval); and
9. Inter-company open account (offsetting) arrangement is made available to exporters with parent-affiliate relationship provided the affiliate is foreign-owned, 100 per cent foreign funded and 100 per cent for export. This type of arrangement requires the prior approval of the Central Bank.

The exporter is required to effect the inward remittance of the export proceeds representing the full invoice value of the shipment within a period of ninety (90) calendar days from date of shipment under Circular 1311 dated October 15, 1991 and must liquidate this value within three (3) business days following the receipt of such export proceeds as

provided for under Circular 419 dated December 16, 1975. Under Circular 1319 dated January, 1992, exporters were allowed to retain 40 per cent of such proceeds in a Special Foreign Currency Deposit Account (SFCDA). Circular 1334 dated April 1, 1992 allowed the free use of the retained proceeds under the SFCDA.

d) Export Processing Zones and Regional Industrial Centers (CIRs)

The Philippine Export Processing Zone Authority (EPZA) is a government corporation created in November 1972 under Presidential Decree No. 66. Its mandate is to develop, establish and manage the export processing zones with the goal of making them major contributors to the Government's industrialization and export expansion programmes. In line with this goal, the EPZA has taken on the task of promoting the zones as suitable sites for foreign investments. In September 1989, the Department of Trade and Industry has included industrial estates development projects in the investment priorities plan (IPP) which entitles private industrial estate developers to avail of incentives. These incentives include exemptions from import and export duties, tax credits, foreign investment guarantees, priorities in foreign exchange allocations, liberal entry provisions and simplified export-import procedures.

The EPZA has developed and managed four fully operational zones namely: the Bataan Export processing Zone, the Baguio City Export Processing Zone, the Mactan Export Processing Zone and the Cavite Export Processing Zone. Under EPZA's supervision, these four zones have been operating as separate, self-contained enclaves for a variety of industries that use imported raw and intermediate materials for the processing, assembly and manufacture of goods for export.

Three industrial areas in Tabangao, Batangay; Isabel, Leyte and Subic, Zambales, have also been designated special export processing zones by the EPZA. Per Executive order No. 567, special export processing zones are the plant sites of industrial firms or the industrial sites of capital-intensive projects that receive incentives similar to those granted to regular zone enterprises.

e) Generalized System of Preferences (GSPs)

GSP enhances the competitiveness of Philippine exports in the markets of GSP donor countries. The reduced or duty-free treatment which GSP provides reduces the landed cost of exports and in effect, the better competitive position leads to more exports (trade creation and trade diversion).

The Philippines' major GSP markets are the United States, Japan and the European Community. In 1990 the United States accorded GSP treatment to US\$806 million worth of imports from the Philippines, and Japan to US\$464 million. In the case of the European Community, US\$440 million worth of imports were accorded GSP treatment in 1989. Each of these value represents 22, 21 and 31 per cent of the total imports from the Philippines of the United States, Japan and the European Community, respectively.

Given the share of GSP imports in the total imports from the Philippines, the GSP plays a significant rôle in boosting exports. Its importance is highlighted by the annual

increase in GSP imports which averaged 35, 3.6 and 7 per cent for the US, Japan and the EC schemes, respectively for the last 3 years ending 1990 for the US and Japan, and for the last 3 years ending 1989 for the European Community.

C. *Measures Affecting Production and Trade*

During the last few years, the Philippine government has launched bold reforms to reduce distortions in commodity and factor markets, rationalize the rôle of the public sector and to maintain market orientation in general. Distortions have been reduced through the abolition of monopolistic marketing arrangements for sugar and coconut products, the removal of price controls and export taxes on several agricultural products and the reduction of trade restrictions on a wide variety of inputs needed by the local industry.

To attract foreign as well as domestic investment in pioneering and other preferred activities, the government grants duty and tax exemption on certain importations. These incentives are provided for under various special laws and apply to imports of basic raw materials, capital equipment and parts, and other essential consumer goods not available locally.

BOI-registered firms are allowed to import tax and duty-free capital equipment that will be directly used in the registered projects. If the equipment is domestically produced, the enterprise is given a tax credit equivalent to the taxes and duties that would have been waived had the equipment been imported.

The BOI issues the importing firm an authority which is presented to the Bureau of Customs when the equipment arrives. The tax credit certificate for local equipment is also issued by the BOI. The firm can use this to pay for any taxes and duties due to the national government.

Regional development is also encouraged through tax incentives as embodied in the 1987 Omnibus Investment Code. Specifically, enterprises which opt to locate in less developed areas identified by the government are entitled to the following additional incentives:

- a) classification as a pioneer registered enterprise, and therefore, entitled to an income tax holiday of six years,
- b) 100 per cent of cost of expenditures for necessary and major infrastructure undertaken by the enterprise may be deducted from taxable income within 10 years from its commercial operation.

These tax credits are granted to influence the directional thrusts of investment initiatives and improve the level of factor or resource usage in the country and production technologies being adopted by industries. Moreover, these tax credits are also used to promote industrialization, agribusiness and export expansion to accelerate economic development.

Export enterprises are also given a tax credit on the taxes and duties paid on imported raw materials incorporated in the export product. Exporters may also be authorized by the Bureau of Customs to operate customs-bonded manufacturing warehouses where raw materials can enter tax and duty-free.

The other incentives being granted are tax and duty-free importation of breeding stocks, genetic materials and imported supplies and spare parts in a bonded manufacturing warehouse which, similarly, has the objective of fostering investment initiatives in the country.

As regards price support given to agricultural products, only rice and corn enjoy such support. The government, through the National Food Authority (NFA), buys paddy and corn grain at P6.00/kg and P4.80/kg., respectively. The procured rice and corn are then sold to wholesalers at P 8.50 and P5.87, respectively.

Government intervention in the rice and corn market, however, is very minimal averaging only 6 per cent for rice and 3 per cent for corn during the last 10 years.

V. TRADE POLICIES AND PRACTICES BY SECTOR

A. *Agriculture*

The government envisions a progressive Philippine rural economy anchored on dynamic agricultural communities throughout the countryside an propelled by organized, self-reliant farmer-entrepreneurs. To this end, the goal of the Philippine Agricultural Development Plan for 1992 to 1995 is to help small farming and fishing communities move from their current subsistence state to one in which they are able to undertake and sustain profitable enterprises on their own, and in the process, uplift the quality of their lives.

Recognizing the potentials of small farmers and fishers to propel this country towards sound industrialization and stable growth, the government is adopting an agriculture-led and farmer-focused national development strategy.

In pursuit of this strategy, steps are being taken to reform the policies and institutional arrangements that stifled the growth of agriculture and the rural sector.

In order to encourage further processing and increase value-added in agricultural commodities, the following activities are being pursued:

1. Implementation of policy reforms

A comprehensive economy-wide reform aimed at correcting the biases against the agriculture and agribusiness sectors. These biases have had negative effects on production and labour used directly or indirectly on all the backward and forward linkages between agricultural production and the rest of the economy. These reforms are in the area of trade, taxation, exchange rate, transport, government expenditure, and natural resources policies,

2. Provision of institutional support

The formation of cooperatives or producers organization, agricultural producers and processors, fishers and other agricultural producers are being encouraged. Under the Cooperative Development Act of 1990, cooperatives can avail of incentives like duty exemptions on imported equipment and raw material.

In addition, aggressive and sustained bilateral, regional, and multilateral trade negotiations such as the Uruguay Round, are being pursued to provide better access for philippine agricultural products in international markets.

3. Encouragement of private sector participation in the planning and implementation of programmes and policies.

The success of an agribusiness development strategy will depend highly on private initiative in the sector. The participation of both small and big agribusiness entrepreneurs from planning to the implementation stages of programmes and policies would give them a stake in the success or failure of the undertaking.

B. Industry

Supportive of the national effort of promoting self-reliance, the industry sector focuses primarily on the establishment of world-competitive industries and on the upgrading of capability and efficiency of existing ones. Likewise, a tighter linkage between agriculture and industry is forged within the framework of balanced agro-industrial development which increases the participation of the populace in productive and gainful activities using indigenous resources. In particular, efforts are focused on the following objectives:

- a) to increase foreign exchange earnings and savings through export promotion particularly of non-traditional manufactured and agro-based exports, self-sufficiency in basic commodities particularly food and selected commercial crops, enhancement of domestic processing, and reduced reliance on imported oil as an energy source;
- b) to accelerate employment generation through the development and promotion of labour-intensive, agro -and resource-based, small and medium industries; and
- c) to equitably distribute the benefits of industrialization through the dispersal of industries to the countryside.

VI. TRADE DISPUTES AND CONSULTATIONS

GATT Dispute Settlement and Other Disputes

The Philippines has not resorted to the dispute settlement mechanism in GATT. Occasional trade problems and issues which have arisen with its trading partners have been discussed and resolved bilaterally.

ANNEX A

1.	Acetic anhydride (513.77-01)	Dangerous Drugs Board (DDB)
2.	Dangerous drugs	DDB
3.	Rice and corn	National Food Authority
4.	Sodium cyanide (523.81-01)	Bureau of Food & Drug (BFAD)
5.	Chlorofluorocarbon (511.38-01)	BFAD
6.	Penicillin/derivatives (541.31.00/542.13-01/542.13-09)	BFAD
7.	Refined petroleum products	Energy Regulatory Board (ERB)
11.	Coal and coal derivatives	ERB
12.	Color reproduction machines (Subgroup 751.3)	NBI and Cash Department Central Bank
13.	Various chemicals for the manufacture of explosives	Philippine National Police, Firearms and Explosives Office (PNP-FEO)
14.	Firearms, ammunition, and parts	PNP-FEO
15.	Onions, garlic, potatoes and cabbages, for seedling purpose	Bureau of Plant Industry
16.	Pesticides including agricultural chemicals	Fertilizer and Pesticide Authority
17.	Motor vehicles, parts and components	Department of Trade and Industry (DTI)/Board of Investments
18.	Truck and automobile tyres and tubes, used, of all sizes	DTI
19.	No-dollar imports of used motor vehicles.	DTI
20.	All commodities originating from Socialist and other centrally-planned economy countries	Philippine International Trading Corporation (PITC)
21.	All commodities originating from the Union of South Africa	PITC/DFA
22.	Warships of all kinds	Maritime Industry Authority (MARINA)
23.	Computers/peripherals imported by government agencies in excess of P2 million within a fiscal year	National Computer Center
24.	Coins, banknotes and gold	Central Bank of the Philippines (CBP)

ANNEX B

- (a) Dynamite, gunpowder, ammunition and other explosives, firearms and weapons of war, and parts thereof, except when authorized by law.
- (b) Written or printed articles in any form containing any matter advocating or inciting treason, or rebellion, insurrection, sedition or subversion against the Government of the Philippines, or forcible resistance to any law of the Philippines, or containing any threat to take the life of, or inflict bodily harm upon any person in the Philippines.
- (c) Written or printed articles, negatives or cinematographic film, photographs, engravings, lithographs, objects, paintings, drawings or other representation of an obscene or immoral character.
- (d) Articles, instruments, drugs and substances designed, intended or adapted for producing unlawful abortion, or any printed matter which advertises or describes or gives directly or indirectly information where, how or by whom unlawful abortion is produced.
- (e) Roulette wheels, gambling outfits, loaded dice, marked cards, machines, apparatus or mechanical devices used in gambling or the distribution of money, cigars, cigarettes or other articles when such distribution is dependent on chance including jackpot and pinball machines or similar contrivances, or parts thereof.
- (f) Lottery and sweepstakes tickets except those authorized by the Philippine Government, advertisements thereof, and lists of drawings therein.
- (g) Any article manufactured in whole or part of gold, silver or other precious metals or alloys thereof, the stamps, brands or marks or which do not indicate the actual fineness of quality of said metals or alloys.
- (h) Any adulterated or misbranded articles of food or any adulterated or misbranded drug in violation of the provisions of the "Food and Drugs Act".
- (i) Marijuana, opium, poppies, coca leaves, heroin or any other narcotics or synthetic drugs which are or may hereafter be declared habit forming by the President of the Philippines, or any compound, manufactured salt, derivative, or preparation thereof, except when imported by the Government of the Philippines or any person duly authorized by the Dangerous Drugs Board for medicinal purposes only.
- (j) Opium pipes and parts thereof, of whatever material.
- (k) All other articles and parts thereof, the importation of which is prohibited by law or rules and regulations issued by the competent authority. (As amended by Presidential Decree No. 34).
- (l) Onions, potatoes, garlic and cabbages, except for seedling purposes (R.A. 1296)
- (m) Coffee (R.A. 2712)
- (n) Used clothing and rags (R.A. 4653)
- (o) Toy guns (LOI 1264 dated July 31, 1982)