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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1984 CONSULTATION WITH THE PHILIPPINES (SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

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

I. The Philippines' previous consultations

2. The Philippines consulted for the first time in the Committee on Balance-of-Payments Restrictions in 1980, the year of its accession to GATT. At this consultation, which took place on 15 October 1980, the Committee noted the import liberalization programme adopted by the Philippines and welcomed the authorities' intention to continue the implementation of the phased plan on the reform of the tariff structure linked to a progressive dismantlement of import restrictions. The Committee's principal conclusion was "that the remaining restrictive import measures were justified as a temporary means to safeguard the balance of payments until more fundamental policies became effective". The Committee also encouraged the Philippines authorities to further pursue "flexible interest rate and foreign exchange policies which, in combination with other domestic policies" would "lead over the medium term to the desired external adjustment and to the gradual removal of the restrictive import measures maintained for balance-of-payments purposes" (BOP/R/115). Subsequently a consultation under simplified procedures was held on 30 November 1982 (BOP/R/128).

II. Recent changes in the Philippines' trade policy

3. During 1983 and 1984, in response to domestic economic stagnation and inflationary trends, coupled with a serious deterioration in the balance of payments (including the effects of arrears in import payments) and a rapid capital outflow, the Philippines authorities took a number of domestic policy steps aimed at reducing inflation and restoring greater budgetary equilibrium on the domestic side, and temporary exchange and import control measures on the external payments side. Domestically, the budget deficit was reduced from 14 million pesos in 1982 to some 6½ million pesos in 1983 and stricter monetary policies were invoked. As regards the external sector, an initial 90-day moratorium on foreign debt repayments introduced in October 1983 was succeeded by the reinforcement of a number of restrictions in force since January 1983, and the introduction of new limits on imports and payments for overseas services, including travel. These measures are summarized below.

(a) Additional duties on imports

4. An additional duty on imports was introduced at the rate of 3 per cent on 1 January 1983 (L/5575). The duty was subsequently increased to 5 per cent as of 3 November 1983 (L/5637) to 8 per cent as of 12 April 1984, and to 10 per cent as of 6 June 1984 (L/5691)[1]. In their notifications the Philippine authorities have stated that these measures were instituted in the wake of external factors over which the Philippine authorities had no control, including the continuing deterioration in the terms of trade, protectionist measures applied on Philippine exports by trading partners, contractions in international financing and the high cost of credit.

5. At the same time as the introduction of the additional duty, importers were required to deposit the full amount of all duties in banks at the time of opening letters of credit or presenting import documents under other modes of payment. Measures to prevent over- or under- invoicing were also reinforced. Reserves required against marginal deposits on letters of credit for products in various categories of imports were increased to 100 per cent in June and November 1983. Administrative fees, payable in advance, were introduced on a number of imports in September 1983.

(b) Other measures affecting imports

6. The import licensing system of the Philippines has been notified to GATT in 1982/83 in L/5232/Rev.1 and Corr.1 and 2. These documents list all items prohibited, regulated, or subject to discretionary licensing as of August 1983, together with the registration fees, licence fees or administrative charges imposed on imports of particular products.

7. Import items are classified in ten categories according to the degree to which they are regarded as essential by the authorities. Foreign exchange sales for import of "non-essential consumer goods" (NEC), "semi-unclassified consumer goods"(SUC) and "unclassified consumer goods" (UC) are generally tightly restricted.

8. In January 1983, authorization to import under arrangements in the form of documents against acceptance or open accounts, was restricted to oil firms, companies registered with the Export Processing Zone Authority, exporters of semi-conductor devices and of garments and footwear. In June 1983 government agencies were ordered to reduce imports and other foreign exchange payments by maximising domestic procurement of goods, limiting foreign travel and observing new guidelines for foreign borrowing and investment formulated by the Central Bank. In July, imports of capital goods, machinery and equipment valued at US$ 50,000 or over per month were restricted to those under suppliers' credits or Asian Development Bank/World Bank credit lines. In October 1983, eleven items of electronic goods previously freely importable were placed under prior certification, to help promote a progressive export programme for consumer electronic products.

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[1]The relevant Executive Orders were Nos. 918, 946 and 955.

9. In November 1983, a number of import suspensions and other limitations were introduced. A pooling system for import payments was introduced under which priorities are given to payments for oil imports, inputs into export production, raw materials for vital domestic industries, and food grains. This system was relaxed in June 1984 when commercial banks were allowed to retain 20 per cent of their foreign exchange receipts to service their clients' requirements. Imports of fresh fruits, and of electronic products or components for assembly, except those imported by participants in the export programme for consumer electronics, were suspended indefinitely. Imports of liquor and wine were suspended until further notice. Imports of canned sardines and mackerel, and meat imports, were to be limited and if possible deferred, taking into account local supply capacity. Imports permitted by hotels and other tourist establishments were to be reduced from 40 to 15 per cent of the value of the foreign exchange they sold to the Central Bank or Philippines National Bank: tourist duty-free shops were also required to surrender in full their foreign exchange and to limit their imports.

(c) Measures affecting invisibles

10. Various measures were taken during 1983 to encourage remittances and discourage outflows of foreign currency. A foreign exchange raffle scheme was introduced in March 1983 under which holders of tickets, priced at US$100 to be paid in foreign exchange, could gain cash prizes in Philippine pesos. Also in March, commercial banks' net foreign exchange holdings were limited to the sum of 20 per cent of outstanding letters of credit plus 25 per cent of foreign exchange received, any excess holdings to be sold to the Central Bank; this limit was reduced degressively to 20 per cent of outstanding L/Cs by September 1983. From June, minimum amounts of US$50,000 per month in foreign currency were required to be sold to the Central Bank by non-bank authorized foreign exchange dealers; the level was raised to US$100,000 in the fourth quarter of 1983. Travel allowances, and allowances for students abroad, were reduced in February and again in August 1983. In November, sales of foreign exchange for entertainment, sports and shows were prohibited.

(d) Measures affecting exports

11. Measures affecting exports include the publication in mid-1983 of a new five-year plan for export development. Under this, special emphasis is placed on increasing exports of frozen and canned tuna, coffee, fresh and processed fruits (including bananas, mango and papayas) and meat and livestock products (chicken, eggs and pork), as well as seven manufacturing or service sectors (garments, furniture, electronics, handicrafts, construction services, leather goods and footwear). In November 1983, new export duties were introduced on coffee and tuna to encourage domestic processing, while additional export duties were imposed on, inter alia, a number of wood products, coconut products, pineapple products, bananas, shrimps and prawns. Exports of copper were placed under regulation in February 1984 in order to ensure supplies for the domestic PASAR refinery. With the peso depreciation of June 1984, a new economic stabilization tax on exports was introduced, initially at 30 per cent to decrease by five percentage points each quarter until eliminated. The tax was, however, suspended in late September 1984.

(e) Exchange rate policy

12. The peso was floating steadily downwards against the dollar until 23 June 1983, when the currency was depreciated aginst the dollar by 7.8 per cent; in October 1983, the exchange rate declined again by 27.3 per cent and remained stable until June 1984, when the peso lost a further 28.6 per cent of its dollar value after returning to a float as part of the economic measures designed to reduce domestic and external disequilibria. A 10 per cent excise tax was introduced on all non-merchandise foreign exchange purchases in June 1984.

III. Recent developments in production and trade

13. The Philippines' economy recorded a 1 per cent increase in real GDP in 1983. Major crops were severely damaged by the 1982-83 drought and activity in the manufacturing sector was dampened by foreign exchange restrictions. Economic slowdown did not prevent inflation from picking up sharply from October 1983, when the effects of the peso depreciation were not sufficiently neutralized by fiscal and monetary measures. In the first three quarters of 1983, the consumer price index had been rising at an annual (12-month basis) rate of around 7 per cent, which was even lower than in 1982, but its rate of increase jumped to about 26 per cent in December and has been climbing further to more than 40 per cent in the first months of 1984.

14. Exports earned $5.0 billion in 1983, slightly less than in the preceding year and 14 per cent below their level in 1980. In volume they declined by 5 per cent. Exports of sugar and copper declined in volume by 23 and 26 per cent respectively, and in value by 28 per cent (to $299 million) and 20 per cent (to $250 million), respectively. Shipments of coconut products also dropped by 6 per cent in volume, but export prices increased markedly, so that receipts climbed over 15 per cent, to nearly $700 million. Wood exports fell by 2.9 per cent, to $331 million, despite substantially higher volumes shipped. Most other commodity exports are thought to have either declined or stagnated in value terms. As for manufactures, exports of electronic parts and clothing rose by 5.3 and 0.7 per cent to $1,053 million and $545 million respectively. The value of imports contracted slightly in 1983, to $8.2 billion (c.i.f.) ($7.5 billion f.o.b.) and their average volume fell by 4 per cent.

15. According to balance-of-payments estimates, there was a small reduction in the trade deficit which, coupled with increased workers' remittances, lower interest rates and the effects of the debt moratorium (applying to interest due in 1983), brought about a decline in the country's current account deficit from $3.2 billion to $2.5 billion. However, this could not compensate for the deterioration in the non-monetary capital account resulting from an accelerated demand for repayments of short-term obligations and a sharp fall in new investments and capital inflows. The overall balance of payments deficit thus

increased from $1.6 billion to $2.1 billion. Preliminary data for the first half of 1984 showed a fall in the current deficit to $0.7 billion for the six months, mainly due to a reduction in imports, and an overall deficit of $158 million. International reserves (excluding gold) fell from $2.8 billion at end 1980 to $1.7 billion at end 1982, and to $0.8 billion at end-December 1983 and to about $0.4 billion (an amount corresponding to less than one month's imports) by July 1984. Gross external debt is currently estimated at about $25 billion of which 38 per cent is short-term debt.