EMBARGO:

NOT FOR PUBLICATION BEFORE 1300 HOURS GMT WEDNESDAY 17 FEBRUARY 1993

GATT/1565
5 February 1993

THE PHILIPPINE GOVERNMENT SEEMS DETERMINED TO MAINTAIN PACE OF ECONOMIC REFORM

Over the past decade, the Philippines has been buffeted by a series of external shocks, social and economic turbulence and natural disasters. Fluctuating economic growth performance has reflected the effects of these events, according to the GATT Secretariat's report on the trade policies and practices of the Philippines. However, it observes, the present administration of President Ramos seems determined to maintain the pace of economic reform and deregulation in the face of such adverse circumstances.

The report notes that trade policy reform, which was strengthened under the previous government, is continuing to open up the economy and to go some way to correcting the misallocation of domestic resources. The main thrust of current trade and industrial policies is to address the anti-export, import-substitution bias. The tariff structure has been simplified and the average has come down from over 40 per cent to 25.6 per cent, with a further reduction to 20 per cent planned by 1995. At the same time, major progress has been made in the past decade to make the economy more responsive to international price signals; import restrictions have been removed; export taxes phased out and monopolies in commodity trade abolished. However, tariff escalation and exclusion of certain key products from import liberalization continue to provide high effective protection to import-competing sectors, especially in manufacturing.

Until recently, political concerns and policy restrictions have inhibited growth of foreign investment; despite liberalization, some restrictions still exist. The report urges an extension of current efforts to liberalize trade and investment policies in order to enhance their credibility and the confidence of trading partners.

93-0166

MORE

The report also points out certain structural features which have contributed to the erratic performance of the economy. Domestic savings are low, so that the savings-investment gap has to be bridged by borrowing from abroad. Exports have grown slowly, with the positive performance of non-traditional items like electronic equipment and garments being dampened by the slow development of traditional exports like coconuts, sugar and copper. Since domestic manufacturing still depends heavily on imported intermediate and capital goods, the result has been a chronic shortage of foreign exchange and recurrent balance-of-payments problems. Moreover, the distribution of wealth is highly skewed, which results in a narrow domestic market for goods and services.

The report also highlights the Philippines' active participation in the GATT and the Uruguay Round, where it is a member of the Cairns Group. Its recent strengthening of regional links through the ASEAN Common Effective Preferential Tariff has given rise to concern about possible trade diversion. However, this effect may be reduced as external barriers come down in the Philippines and other ASEAN countries.

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Philippine Government, will be discussed by the GATT Council on 16-17 February 1993 under the Trade Policy Review Mechanism (TPRM). The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

2. The current reports cover all aspects of the trade policies of the Philippines, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.

3. A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in Spring 1993 as the complete trade policy review of the Philippines and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

4. Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992), Brazil (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990 and 1992), Korea, Rep. of (1992), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Poland (1993), Romania (1992), Singapore (1992), Sweden (1990), Switzerland (1991), Thailand (1991), the United States (1989 and 1992), and Uruguay (1992).

TRADE POLICY REVIEW
PHILIPPINES

Report by the GATT Secretariat - Summary Observations

Over the past decade, the Philippines has undergone social and economic turbulence. It has also been affected by devastating natural events: volcanic eruptions, typhoons and drought. Circumstances forced the Philippines to declare a moratorium on foreign debt in 1983. The end of the Marcos régime coincided with a fall in real income till 1985, linked to the global recession. Economic reforms and debt rescheduling assisted recovery, but action to correct inflation has again depressed economic activity. Trade policy reform, which was strengthened under the Aquino Government, is opening up the economy and going some way to correcting the misallocation of domestic resources associated with previous trade and industrial policies. The present administration of President Ramos seems determined to maintain the pace of economic reform and deregulation.

The Philippines has a skilled labour force and a variety of natural resources. It experienced periods of rapid growth and moderate inflation before the early 1980s, although its performance lagged behind that of neighbouring countries. Political and economic turmoil in the mid-1980s created an atmosphere of uncertainty which led to the curtailment of both private and public investment. As a result, many of the country's manufacturing facilities have become seriously outdated, while the physical infrastructure (especially for power generation) is deficient. High domestic interest rates result principally from earlier political decisions obliging the Central Bank to assume extensive foreign currency obligations from troubled private and State-owned organizations. This burden seriously weakened the Central Bank's ability to carry out its normal rôle in monetary management.

The main thrust of current trade and industrial policies is to address the anti-export, import-substitution bias within the economy. A major reform has simplified the tariff structure, whose average has come down from over 40 per cent to 25.6 per cent, with a further reduction to 20 per cent planned by 1995. However, tariff escalation, while diminished, continues to provide high effective protection to import-competing sectors, especially in manufacturing. Major progress has been made, since 1981, in making the economy more responsive to international price signals, through the removal of import restrictions from nearly 2,800 items. The automobile sector remains subject to restrictions, including a local content scheme and partial trade balancing requirements. Prior import approval is still required for 135 items. In the context of a tariffication programme, quantitative restrictions were recently replaced by tariffs (initially up to 100 per cent in a few cases, but to be phased down over five years) for a wide range of products. Export taxes on minerals and other natural resource products were removed in 1986, together with the abolition of the private monopolies controlling trade in sugar, coconut oil, meat and other major commodities.

Current Governmental trade and investment promotion programmes focus on increasing domestic value added by strengthening forward and backward linkages. Approval of foreign investment has been streamlined, and the number of sectors not open to foreign investment has been reduced. All significant foreign exchange controls were eliminated at the end of August 1992.

The achievement of stable economic growth will depend on a credible policy environment for real investment. Monetary policy, directed towards restraining inflation, has achieved some success in 1992. However, high interest rates, while attracting speculative capital, have tended to inhibit borrowing for real investment projects. Rates are reported to have fallen slightly in 1992 and investment, which had declined in 1990, has started to recover. There has been an easing of the foreign payments burden resulting from the renegotiation of the Philippines' foreign debt.

A decline in the total value of imports in 1991 reflected domestic recession, the imposition of an import surcharge, and falling oil prices. Import growth recently started to recover and is expected to continue to rise in 1993. Exports have been adversely affected by physical infrastructural problems as well as by upward pressure on exchange rates resulting from capital inflows and growth in worker remittances. Sterilizing the inflationary and exchange rate pressures of recent high net capital inflows has been difficult because the Central Bank's low liquidity has weakened its ability to conduct open market operations. However, the siutation has improved with the easing of interest rates and strengthening of the peso in early 1992, but a more fundamental restructuring of the Central Bank's finances would give it greater flexibility to tackle the problem of inflation. Improvement in public finance, through better tax collection and further privatization of inefficient public sector enterprises, would free public expenditure for critical infrastructure and social development projects, assisting in the long-term restructuring of the economy. Such restructuring could also be strengthened by further reducing the anti-export bias of trade, industrial and agricultural policies, better administration of existing policies and the removal of remaining constraints on foreign direct investment.

The Philippines in World Trade

The past two decades have seen a major shift in Philippine exports from such traditional areas as copper ore and cathodes, coconut products and lumber to manufactured goods such as garments and electronic components. Overall, manufactures have increased their share of Philippine exports from nearly 53 per cent in 1985 to 71 per cent in 1991.

Current account deficits generally persisted throughout the 1980s and into the 1990s. Imbalances in merchandise trade have consistently outpaced revenues from services and worker remittances. For 1991, a merchandise trade deficit of US$3.2 billion was counterbalanced by US$2 billion in net income from worker remittances and services, leading to a current account deficit of US$1 billion.

The goods which dominate Philippine exports, garments and electronic components, are characterized by high levels of imported inputs and correspondingly low levels of value added. Exports of most natural resource-based items, including coconut and copper products, generally take the form of raw materials or semi-manufactures. Achieving the Government's objectives of diversification, deepening of the export base and increased domestic value added will require an extension of the present efforts to reduce the anti-export bias of the trade policy structure.

In the early 1980s, Philippine exports were hampered by an exchange rate generally perceived to be substantially overvalued, as well as export taxes on major natural resource products. Following the debt crisis, the currency was floated in 1984 and exchange controls, introduced in 1983 to cope with the crisis, were removed. The currency depreciated in nominal terms by some 30 per cent in 1983 and a further 50 per cent in 1984. In real effective terms, the peso depreciated further between 1985 and 1988, remaining stable thereafter. Together with the elimination of export taxes and the overall economic recovery, this helped exports to increase from US$4.6 billion in 1985 to US$8.8 billion by 1991.

With the recovery in the second half of the mid-1980s, Philippine merchandise imports grew substantially, rising from US$5.1 billion in 1985 to US$12.2 billion by 1990. However, in 1991 imports declined to US$12.0 billion, due to domestic recession and the imposition of an import levy. Introduced primarily for domestic budgetary reasons, the import levy was originally set at 5 per cent in December 1990, then increased to 9 per cent in January 1991 before being removed in May 1992.

The direction of trade has remained virtually unchanged in recent years. In 1991, exports to the United States accounted for 35.6 per cent of total merchandise exports; other leading export markets were Japan, at 19.9 per cent, and the European Communities, at 18.6 per cent. The United States accounted for 20.1 per cent of total Philippine imports in 1991, followed by Japan at 19.5 per cent and the European Communities at 10.3 per cent.

From the 1970s until recently, concern over domestic political stability has negatively affected the growth of potential foreign direct investment (FDI) into the Philippines. Other factors affecting investment included restrictions limiting foreign ownership to specific levels. While FDI regulations were liberalized in 1987 and 1991, restrictions written into the 1987 Constitution continue to limit foreign ownership in natural resource-related sectors to minority shareholdings. There are indications that this policy has inhibited investment. Between 1981 and 1991, the nominal stock of FDI in the Philippines grew from US$1.6 billion to US$3.9 billion. By source, investment in 1990 was predominantly from the United States (50 per cent), followed by Japan (18.7 per cent). Japan's share, however, has been increasing in recent years, growing from about 15 per cent in 1981, while that of the United States has fallen from the over 60 per cent recorded in the same year.

Institutional Framework

The present Constitution, adopted in February 1987 after approval in a national referendum, provides the basic institutional framework for the formulation of economic policy, including trade policy. The Congress of the Philippines may, by law, authorize the President to fix, within certain limits, measures such as tariff rates, import and export quotas, tonnage and wharfage dues and other duties. Under the Tariffs and Customs Code, the Congress has delegated to the President the power to modify import duties and import quotas, impose up to 10 per cent (ad valorem) additional duties, enter into trade agreements and take measures to counteract discriminatory trade practices employed by other countries.

Under the Constitution, the rôle of an independent economic and planning agency is currently fulfilled by the National Economic and Development Authority (NEDA). Five net-level inter-agency committees advise the President and or NEDA board; two, the Committee on Tariff and Related Matters (CTRM) and the Export and Investment Development Council (EIDC), deal with trade-related issues. The Department of Trade and Industry (DTI) is the major government agency for implementing trade, industry and investment activities. Within the DTI, the Bureau of International Trade Relations (BITR) consults and advises domestic industry groups, identifies tariff and non-tariff barriers affecting exports from the Philippines and handles all trade negotiations.

Under Philippine law, changes to the tariff require public hearings by the Tariff Commission. However, the reports of the Commission, which are sent directly to the Government, are not published. The private sector influences trade policy formulation and implementation through its representation in many government agencies, including the EIDC and the BOI. The private sector is also consulted on major policy decisions by the DTI.

Periodic reviews and assessments of trade policy are carried out by inter-agency committees under the CTRM. Other studies are carried out by both independent and government-funded research institutes. However, there is no official, independent review and transparency body.

Trade Policy Features and Trends

The Philippines acceded to the GATT in 1980. It is a signatory to the Tokyo Round MTN Agreements on Technical Barriers to Trade, Subsidies and Countervailing Duties, and Import Licensing Procedures, as well as an observer to the Agreements on Government Procurement, Customs Valuation, and Anti-Dumping Procedures. In the Uruguay Round, the Philippines coordinates its negotiating positions with other ASEAN member countries. It is particularly interested in negotiations on tropical products, textiles and clothing, and natural resource based products. The Philippines is also a member of the Cairns Group involving agricultural negotiations.

Within ASEAN, the Philippines is party to the Common Effective Preferential Tariff (CEPT) scheme, signed in January 1992, aiming to achieve an ASEAN Free Trade Area (AFTA). The scheme provides for a progressive reduction of tariffs among ASEAN countries on all manufactured goods to the 0-5 per cent range over fifteen years, starting in 1993. In October 1992, ASEAN announced that it would accelerate such tariff reductions for 15 priority product areas.

The Philippines' major markets under the Generalized System of Preferences (GSP) system are the United States, Japan and the European Communities. Through the Global System of Trade Preferences among Developing Countries (GSTP), the Philippines grants tariff concessions on potassium sulphate, polybutadiene, and diesel and semi-diesel engines for tractors.

Recent evolution

Progress through the 1980s in the reform of trade policy has measurably increased the openess and transparency of the Philippine economic system. The Import Liberalization Programme (ILP), initiated in 1981, was designed to improve the efficiency of resource allocation and foster the development of internationally competitive industries. Under a system of pre-announced reductions, average nominal tariffs were reduced from over 41 per cent in 1981 to some 25 per cent at present, and are scheduled to fall further to around 20 per cent by 1995. By reducing the number of tariff levels from nine to essentially four, tariff dispersion has also been significantly reduced.

Since 1981, import restrictions have also been removed from nearly 2,800 tariff lines; restrictions in the form of prior clearance (possibly giving rise to implicit quotas) now apply to only 135 "regulated" items, or less than 5 per cent of total lines in the Philippines Standard Classification Code (PSCC). In July 1992, quantitative restrictions on 178 HS lines (140 items under the 1977 PSCC) items were converted into tariffs. Although, in this conversion, tariff levels were initially set as high as 100 per cent for certain sensitive products such as meat, fish and some consumer durables, most of these rates are to be significantly reduced by 1995, in conformity with the overall schedule of tariff reforms.

The third major area of reform is the recent liberalization of regulations governing foreign exchange transactions and foreign direct investment (FDI). Under a Presidential decree issued in August 1992, exporters may retain 100 per cent of their foreign exchange earnings; up to April 1991, 98 per cent of such foreign exchange and, between April 1991 and August 1992, 60 per cent, was required to be sold to the Central Bank. Regulations relating to FDI were revised under the Foreign Investments Act of 1991, which expanded the number of economic sectors open to 100 per cent foreign ownership, streamlined the investment approval process, and provided clearer definitions of remaining limits and restrictions on foreign investments. A key feature is the establishment of a short negative list of sectors where foreign investment continues to be limited.

Trade policy instruments

Taking the recent tariffication of quantitative measures into consideration, the current Philippine tariff averages 25.6 per cent (on an unweighted basis). The average for agriculture (41.2 per cent) is considerably higher than for manufacturing (23 per cent). Overall, the highest average rates are charged on animals and animal products, fish, shellfish and products, beverages and spirits, footwear and travel goods and tobacco, while the lowest are for coal, petroleum and natural gas, chemicals and non-electrical machinery. Only about 7 per cent of tariffs are currently bound. The Philippines has offered to raise this level to 37 per cent in the Uruguay Round negotiations.

A total of 208 "strategic" agricultural and manufactured products are excluded from the scheduled tariff reductions. While such products as fresh fruit, tobacco, footwear and travel goods are exempted in order to protect local producers, a second objective is to discourage the importation of perfume, furs and other items perceived to be luxuries or non-essential. A final duty of 50 per cent will remain for all of these products after 1995.

There is significant tariff escalation in the manufacturing sector; raw materials are subject to a simple average operative tariff of 10.7 per cent, semi-processed industrial products to 19.7 per cent and final industrial goods to 26.5 per cent. Agricultural raw materials and intermediate inputs bear high average duty levels; 38 per cent for unprocessed agricultural products, 47 per cent for semi-processed products and 44 per cent for processed agricultural products.

Products remaining subject to quantitative restrictions are primarily under rationalization or modernization programmes, such as those for motor vehicles; certain agricultural products and products subject to health, safety or security standards. By 1994, only 69 items are expected to be subject to restrictions, primarily health and safety related. According to the Philippine authorities, the Government does not make use of tariff quotas.

In order to address the widespread problem of technical smuggling, primarily in the form of misdeclarations of customs value, the Philippines Government introduced the Comprehensive Import Surveillance Scheme (CISS) in March 1987. Preshipment inspections by a designated inspection company were initially required for shipments valued at US$500 and over, from 10 countries. The scope was expanded in March 1992 to cover shipments from all countries.

Wherever possible, internationally accepted standards are adopted to align Philippine requirements with those of other countries. Of the 1,462 standards that have been developed or formulated, at present 304, or 21 per cent, are either identical or equivalent to international standards. The rest are related to standards in specific foreign countries. All food and food products intended for import or export must be registered with the

Bureau of Food Standards, while phytosanitary certification is required for imports of certain fresh fruits, vegetables, spices, herbs, etc.

According to the authorities, the Philippines does not have any local content requirements. However, participants in the Car Development Program (CDP) are required to achieve a local content requirement of 40 per cent, as well as obtaining a minimum of 50 per cent of their foreign exchange requirements through exports.

The Export Processing Zone Authority (EPZA) manages four export processing zones in Bataan, Mactan, Baguio and Cavite, as well as ten industrial areas in the Calabarazon area, Leyte and Zimbales, which have been designated as special zones. The zones operate as self-contained enclaves for a variety of industries using imported raw and intermediate materials for processing, assembly and manufacture of goods for export. Incentives offered to zone enterprises include tax and duty exemptions, tax credits and other special privileges and priorities. In 1991, there were 188 firms operating in the zones, accounting for net exports of US$245 million.

The Philippines International Trading Corporation (PITC), founded in 1973, is the sole State trading enterprise. Initially focusing on trade with centrally planned economies, the PITC does not have exclusive trading rights for any commodity and usually operates on behalf of Philippine companies. There are plans for its privatization. For certain grain products, the National Food Authority (NFA) is the sole importer.

Export taxes on all products except logs were removed in July 1986. Minimum export prices, previously applied to exports of most major commodities, were abolished in July 1992. Log exports were banned in 1986; currently, exports of 11 products are prohibited, including coconut seedlings and certain raw materials for cottage industries such as bamboo and rattan. Exports of 22 additional products, including garments and textiles, plants and plant products, sugar, natural fibres and lumber, are regulated by Government agencies. For every shipment involving foreign exchange proceeds, exporters must submit an export declaration to an authorized agent bank, which forwards it to the Bureau of Customs.

The Philippines is a member of the Multi-Fibre Arrangement (MFA) and has restrictive bilateral textile agreements with Austria, Canada, the European Communities, Norway and the United States. The Philippines is also a member of the International Sugar Agreement and the International Coffee Agreement. Its bilateral sugar export quota to the United States has recently been reduced by more than one-half.

Temporary measures

To help combat domestic shortages of electric power, the tariff on electrical generating sets was temporarily reduced to zero in June 1992, to be reviewed after three years. Tariffs on cement and cement clinkers were suspended in July 1992 in reaction to domestic shortages and rising prices.

An additional import levy of 5 per cent was imposed for fiscal reasons in December 1990 (and later increased to 9 per cent in January 1991). The levy was removed in May 1992, except on certain petroleum products.

The Philippines does not have any specific law or procedure for safeguard action under Article XIX of the GATT and would, in case of disputes, follow GATT procedures or specific provisions within bilateral agreements. Under the ASEAN Preferential Trading Arrangement, the Philippines has suspended preferences on only one occasion. Countervailing duties have never been imposed on any product, while anti-dumping duties have been imposed in three cases (involving refractory bricks and safety matches).

Sectoral trade policies

Despite the higher nominal tariff protection enjoyed by agriculture in contrast to manufacturing, data on weighted effective protection levels published by the Philippine Tariff Commission reveal that manufacturing is more higly protected overall. In general, low, or even negative, levels of effective protection for exportable goods contrast to far higher levels for importable products, including import-competing and industrial inputs.

Due primarily to budget constraints, agricultural price support in the Philippines is minimal. Rice and corn are the only supported domestic crops, with Government purchases limited to well under 10 per cent of production levels. The National Food Agency (NFA) is subject to the often-conflicting responsibilities of supporting farmgate prices while at the same time attempting to maintain low prices for consumers. As a result, agricultural support programs invariably entail losses, which have been paid from monopoly profits on State trading in grains.

In terms of nominal tariffs, the most highly protected agricultural sectors of the Philippine economy are for animals and animal products (63 per cent simple tariff average), shellfish and products (57 per cent), beverages and spirits (47 per cent), and tobacco (46 per cent). For manufacturing, footwear and travel goods are protected by a simple tariff average of 47 per cent, followed by furniture (42 per cent), firearms, etc. (40 per cent), textiles (39 per cent) and toys (34 per cent).

Passenger car assembly and component production are among the few specifically protected sectors of the Philippine economy. In support of the Government's Car Development Program (CDP) to promote the domestic automobile industry, quantitative restrictions are maintained on imports of assembled vehicles and most major components. A Government review of the programme in 1991 claims foreign exchange savings of US$313 million between 1988-90. The review fails to mention, however, the presence of domestic market distortions, including higher prices for local consumers, minimal efficiencies of scale due to low production volumes for individual models, and the overall cost to the Philippine economy in terms of resource misallocation.

The Philippine government is placing its immediate policy concern on eliminating domestic power shortages, as well as accelerating land reforms in an effort to reduce the high incidence of rural poverty. Other major objectives are replanting and rehabilitation in specific agricultural sectors, including coconuts, and promoting agro-industrialization through improved infrastructure and greater access to credit facilities. For both agriculture and industry, general emphasis is also placed on increasing the levels of domestic processing, value-added and local inputs.

Trade Policies and Foreign Trading Partners

The recent opening up of trade and investment policies has made the Philippines' policy framework more open and transparent. The affirmation of these policies by President Ramos will enhance their credibility and the confidence of trading partners. According to the Philippine authorities, there is little reason to fear the short-run market disruptions which often lead to resistance to tariff reform. Risks will be further reduced as the economy picks up. Further liberalization is planned, but more yet could be done to reduce the anti-export bias of existing policies and their administration. Adherence to the remaining GATT codes where the Philippines retains observer status would be seen as a further, positive indication of the Philippines' intentions by the international community.

The recent strengthening of trade relations with other ASEAN countries through the Common Effective Preferential Tariff (CEPT) Scheme, signed in 1992, could lead to some trade diversion; however, this effect will be reduced as external barriers come down in the Philippines and other ASEAN countries.

The Philippines' continuing attachment to an open and effective multilateral trading system to underpin its national policies and programmes may be seen from the fact that it has been an active participant in the Uruguay Round, including in the Cairns Group. Its areas of special interest are agriculture, tropical products, natural resource-based products, and textiles and clothing, where it faces considerable barriers to its exports. In coordination with its ASEAN partners, the Philippines has also participated actively in negotiations in the areas of textiles and clothing, services, TRIPS and TRIMS. There can be little doubt that the Philippines stands to benefit from market opening and improved rules being negotiated in the Uruguay Round. Such results would also help in maintaining and deepening the Philippines' autonomous liberalization measures, and consolidating their beneficial economic effects.

TRADE POLICY REVIEW
PHILIPPINES

Report by the Government of the Philipines - Summary Extracts

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 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.

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.

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.

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.

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.

END