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A CASE STUDY
ON THE

PHILIPPINE EXPERIENCE
IN
ATTRACTING NON-DEBT CREATING FLOWS

May 14, 1993

A Case Study on the Philippine Experience in Attracting Non-Debt Creating Flows */

I. GENERAL CONSIDERATIONS

A. Main Factors and Impediments in Determining Foreign Direct Investment and Portfolio Flows

A.1 Natural Resource Endowment

The Philippine archipelago lies off in the southeastern coast of the Asian Mainland. It is bounded on the east by the Pacific Ocean, on the south by the Celebes Sea, and on the west and north by the South China Sea. The country consists of about 7,100 islands and islets. The islands are grouped into three geographic areas: Luzon, the biggest island group, covers 141,395 sq. kilometers; Visayas, 56,606 sq. kilometers; and Mindanao, 102,000 sq. kilometers, for a total land area of about 300,000 sq. kilometers. For administrative purposes, the country is classified into 15 regions. These regions are further subdivided into provinces, cities, municipalities and barangays.

The country has two distinct seasons: the dry season which is from November to May and the wet season which lasts for the rest of the year.

The resource base of the country may be described as follows:

1. Crops- the land is suitable for growing various crops such as rice, corn, coconut, sugarcane, tobacco and abaca which are usually grown in small holdings. Export crops such as bananas, mangoes and pineapples are grown in plantations.

2. Forests- most of the country's forest resources are of the tropical rain type and contain predominantly dipterocarp species. The country also has considerable areas of pine in the mountain regions of Northern Luzon. Half of the country's total land area is classified as timberland. Commercial hectarage is mostly found in Mindanao although Palawan province in Region IV is the country's most heavily forested province.

3. Marine- abundant supply of marine resources are found in 167 million hectares of Philippine waters. Philippine brackish water fishponds make up the largest area of developed fishponds in Southeast Asia. A good potential for the expansion of inland

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*/ A paper prepared by the Central Bank of the Philippines in collaboration with the various agencies of the Philippine Government as focal point for the UNCTAD Ad-Hoc Working Group on Investment and Financial Flows; Non-Debt Creating Finance for Development; New Mechanisms for Increasing Investment and Financial Flows.

fishing remains as there are interisland waters and swamps that may still be developed into fishing areas.

4. Minerals- there are about 13 known metallic and 29 non-metallic mineral resources. Metallic minerals available in commercial quantity include copper, gold, nickel, chromite, silver, iron, lead, zinc, manganese and mercury. Non-metallic mineral reserves of economic significance are cement, gypsum, salt and sand and gravel, marble, limestone, clay, feldspar, dolomite, carbide, rock phosphate, guano, and pyrite.

A.2 Labor Costs

The minimum daily nominal wage rate (i.e, legislative wage rate) for non-agricultural workers in the National Capital Region (NCR) rose from ₱27.40 in 1980 to ₱127.83 in 1991, representing an annual growth of 17.14 percent. On the other hand, minimum daily wage for non-agricultural workers in the regions outside NCR increased from ₱28.76 in 1980 to ₱115.92 in 1991, reflecting an annual growth of 16.37 percent. In real terms, the rate of increase in the minimum wage for non-agricultural workers averaged 1.33 percent in the NCR and 1.74 percent in regions outside the NCR.

Based on the survey of key manufacturing enterprises regularly conducted by the National Statistics Office (NSO), the index of average earnings (i.e, ratio of Compensation Index to the Employment Index, 1985=100) of employees in manufacturing increased by 12.19 percent from 1980-1989 and 19.16 percent from 1990-1991.

A.3 Labor Endowments

From 18.2 million in 1981, the Philippine labor force, consisting of persons 15 years old and over, reached 25.2 million in 1991, representing an annual growth of 3.32 percent. The labor participation rate in the Philippines averaged 63.37 percent from 1980 to 1991.

The labor force is characterized by a comparatively high level of education and good degree of familiarity with the English language. These facilitate the introduction of modern production techniques in labor-oriented industries. The Philippines has one of the most highly educated people in the Southeast Asian region. The annual output of college graduates provide a steady source of highly trained manpower for managerial and technical positions. Moreover, a good number of the people enroll in informal education, post secondary, nondegree vocational and technical courses.

A.4 Infrastructure

Energy is provided basically by the National Power Corporation of the Philippines (NAPOCOR). Electricity is sourced from hydropower, oil-based fuel, geothermal power, dual-fired coal oil and diesel. Besides constant undertaking of tapping alternative conventional energy sources, nonconventional sources such as solar, ocean and wind power are also being looked at.

Since 1990, the Philippines is confronted by severe power outages. To address this problem, the Government has included in its priority list and made eligible for fiscal incentives projects for the establishments of power generating plants. As of February 1993, a total of 20 new power projects have been approved by the Board of Investments (BOI) for fiscal incentives with a total project cost of approximately US$2,077.84 million. Of the total number of projects, 4 are already on stream while the rest shall begin operation by the second half of 1993 and 1994.

On transportation network, the country maintains a modestly extensive network of roads with the highest road densities situated in Metropolitan Manila, Regions I, IV and VII. The Government maintains a highway network of about 160,000 kilometers and over 11,000 bridges.

There are about 410 operational water ports classified as ports of entry, subports of entry, municipal ports and private ports.

There are 180 airports, 2 of which are categorized as international, while 4 are alternate international. The Ninoy Aquino International Airport (NAIA) in Manila services most major international airlines.

The country has about 54,000 licensed radio stations. There are nationwide transmission lines and trunks for international calls. A cellular mobile telephone is available with the installation of international gateways to improve long distance capability.

Telex and facsimile facilities are available in most commercial and government offices in major urban centers. Telegraph stations are also available across the nation.

A.5 Growth Performance

From 4.75 percent in 1980, the annual growth of the country's real GNP grew at a decelerated rate of 1.44 percent in 1983 due to weak performance of the agriculture, fishing and forestry; mining and quarrying; as well as manufacturing industries. After posting two successive years of negative growth averaging 7.89 percent from 1984 to 1985, the economy rebounded, reflecting average real GNP growth of 5.33 percent from 1986 to 1990. However in 1991, the adverse effects of the Gulf war in January 1990, the eruption of Mt. Pinatubo in June 1991 and other calamities bore heavily on the economy as real GNP reflected a negligible 0.23 percent growth rate vis-a-vis the 4.53 percent growth in 1990. The decline in overall output was mainly caused by the drop in construction activity, particularly in the private sector. In 1992, real GNP grew by 0.62 percent on the strength of improved activities in the service sector and mining and quarrying industries.

A.6 Size of Domestic Market

Based on the Integrated Survey of Households (ISH), total population in 1992 reached 64.25 million from 48.1 million in 1980, representing an average annual growth of 3.55 percent. About 64.0 percent of the total population from 1981-1991 was in the labor force. Employment rate averaged 90.75 percent during the same period.

A.7 Political Stability

The Philippine Government experienced a series of attempted coups d'etats instigated by factions among the military, sporadic attacks by communist-inspired groups and secessionist activity by Muslim factions in the extreme southern section of the country from 1986 to 1992. The Philippine Government was likewise confronted by socio-economic problems arising from a series of natural disasters, including the eruption of Mount Pinatubo, a series and prolonged drought, typhoons, floods and a devastating earthquake in Central Luzon from 1989 to 1991.

Political instability has subsided during the 90's. The collapse of communism in Eastern Europe and the former Soviet Union as well as intensified anti-insurgency efforts by the Government have contributed to a decline in the strength and political influence of communist-inspired and secessionist groups.

The national elections of May 1992 represented the first peaceful, democratic transfer of political power in the Philippines in two decades. Fidel V. Ramos, of the Lakas National Union of Christian Democrats Party, received the plurality of the popular vote (23%) and took office on the 30th of June 1992 as the twelfth President of the Philippines. Further progress was achieved in the political front during the first 100 days of the Ramos Administration following the decision of both the Executive and Legislative branches of the Government to hold peace talks with both the rightist and leftist elements of the Philippine society.

A.8 Membership in International Organizations

The Philippines is a member of the United Nations and its specialized agencies, the Economic and Social Commission for Asia and the Pacific (ESCAP) and a contracting party of the General Agreement on Tariffs and Trade (GATT). The country is also a member of the International Monetary Fund (IMF), the World Bank (WB) and the Asian Development Bank (ADB). In addition, the country is a member of regional associations such as the Association of Southeast Asian Nations (ASEAN), the South East

Asia, New Zealand and Australia Association (SEANZA), the South East Asian Central Banks Association (SEACEN) and more recently, the ASEAN Free Trade Area (AFTA).

B. Economic Policy Framework

B.1 Fiscal, Monetary and Exchange Rate Policies

In the fiscal sector, the thrust of the Government has always been towards the attainment of a manageable fiscal deficit through bouyant and efficient revenue generation and redirection of expenditures to high payoff activities. In consonance with this, public sector corporate reform through the disposal of non-performing assets by the Asset Privatization Trust (APT) and the partial privatization of a number of government corporations were continuously pursued.

The monetary policy continued to focus at keeping the growth in monetary aggregates within limits set under the Economic Stabilization Program consistent with the objectives of price stability and economic growth. Corollarily, measures to strengthen the financial system to facilitate the flow of resources to vital sectors of the economy as well as policies that favor financial deregulation, competition and market orientation to further improve financial intermediation has been adopted.

With regard to exchange rate policy, the Central Bank (CB) has always been firmed in its commitment to a market-determined floating exchange rate that will reflect economic fundamentals and promote optimum resource use. As such, CB intervention in the foreign exchange market was limited to instances when there are abrupt, speculative attacks on the exchange rate and guided by the need to maintain the country's export competitiveness subject, however, to the observance of monetary targets.

In April 1992, the Central Bank implemented reforms to deepen the foreign exchange market and improve the mechanism for exchange rate determination. One major reform was the adoption of the textbook approach in computing the foreign exchange position of commercial banks wherein banks are allowed to maintain an overbought and oversold position of up to 25 percent and 15 percent of their unimpaired capital, respectively. This regulation effectively forces banks to transact in the foreign exchange market in order to be within the limits prescribed. Another major reform was the re-opening of the off-floor interbank trading last April 28, 1992 under the Philippine Dealing System (PDS). With the wider range of transactions under the PDS, and with most transactions occuring among the participating commercial banks, the determination of the peso's exchange rate vis-a-vis foreign currencies can be considered to be truly market-based.

B.2 Wage Policies and Trade Unions' Attitudes

Wage Policy. The Government adheres to the policy of not duly intervening in the fixing of wages. Said function is relegated to labor and management to decide through collective bargaining.

With regard to the minimum wage, Republic Act (RA) 6727 or the Wage Rationalization Act enacted in July 1989, replaced the previous policy of nationwide minimum wage-fixing through wage orders issued by the Chief Executive or by legislative acts passed by Congress.

One salient feature of RA 6727 is the creation of regional tripartite wages and productivity boards (RTWPBs), wherein government, labor and management sectors are represented to determine wage minima in the regions based on their peculiar needs and economic conditions. The law also provides for the promotion of productivity improvement and gain sharing measures which are meant to enhance enterprise capacity to provide better wages and improve living conditions of the workers.

As of December 1992, the highest average minimum wages for non-agricultural workers were set at ₱118.00 in Metro Manila and the lowest at ₱97.00 in Region IX.

Comparative studies on wage and salary levels in 51 major world cities showed that the Filipinos in Manila received the lowest gross earnings per hour of $0.70 in 1988 relative to $12.8 in Tokyo; $3.7 in Hongkong; $3.6 in Seoul; $3.0 in Singapore; $1.6 in Kuala Lumpur; $1.4 in Bangkok; $0.9 in Jakarta; and $0.80 in Bombay.

Generally, wages of regular workers in established multinational enterprises (MNEs) are significantly higher than those in local firms. MNE workers also receive more and better benefit packages. However, enterprises with foreign equity investments located in export processing zones, and engaged in labor-intensive production for exports, offer wages and benefits relatively lesser than that of local establishments.

Trade Unions' Attitude. Strike statistics arising from industrial disputes substantially declined to 136 in 1992 from an all-time high of 581 in 1986 and 197 in 1989. Consequently, the number of workers involved and mandays lost have also decreased.

More importantly, actions exhibited by the country's labor centers and major federations in recent years, reveal an emerging pattern towards a renewal of socio-political perspective and motivation. The search for an "alternative unionism" that looks beyond the confines of the shopfloor to issues of national importance has become a general preoccupation, particularly in recent years.

A concrete evidence of the labor movement's willingness to support the Government's efforts to lure fresh investments and/or expansions was the forging of the Social Contract for Development Based on Justice and Peace with business leaders through the Employers' Confederation of the Philippines in 1992. The social contract, signed in December 1992 in the presence of President Fidel V. Ramos has committed the organized labor sector in fostering industrial peace.

Moreover, there is a noticeable change in the attitude of the more radical labor groups toward foreign investments. In the past decade, said groups openly denounced the business activities and alleged exploitative practices and imperialistic designs of MNEs as they advocated for homegrown or local investments producing goods and services, particularly for the domestic market. This was particularly true for workers at the Bataan Export Processing Zone (BEPZ). In 1981 and 1982, there were 8 and 31 strikes declared respectively in the BEPZ alone. These strikes resulted in the closure in 1982 of four of the 56 firms in 1981. However, in cognizance of the country's need to align with her Asian neighbors, overt opposition by labor groups to foreign investments as well as to government efforts to attract investments seem to have calmed down in recent years. Labor unions have generally agreed that the creation of jobs takes utmost priority.

B.3 Trade Liberalization

The Government in 1981 undertook a phased import liberalization program (ILP) as part of a structural reform program aimed at promoting efficiency and competitiveness of domestic industries. However, the program was suspended in 1983 during the severe foreign exchange crisis but was vigorously re-activated in late 1985.

To date, only 135 import items remain regulated, 69 of which will continue to be regulated for reasons of health, safety and national security. While there has already been a decision to liberalize the remaining 66 items, the decision on the timing for the liberalization of these items has not yet been reached.

In tandem with the ILP, the country's multi-tiered tariff structure was simplified to four-tiered levels by virtue of Executive Order (E.O.) No. 470 issued last July 20, 1991. The principal objective of E.O. 470 was to rationalize the protection structure of industries by reducing the overall level of protection and the dispersion of tariff protection within and around industries. As a result, the nominal average tariff level which stood at 28 percent prior to the issuance of E.O. 470 is reduced to 25.96 percent in 1991; 24.27 percent in 1992; 22.56 percent in 1993; 21.74 percent in 1994; and 20.07 percent in 1995.

B.4 Deregulation and Privatization

In recent years, the Government has implemented reforms to further reduce barriers to investments and simplify regulatory and administrative procedures in an effort to encourage foreign investments. In particular, the Foreign Investments Act of 1991 (R.A. 7042) was passed last July 1991 and the implementing rules and regulations were issued on October 28 of the same year. The New Foreign Investments Act, which allows foreigners to invest as much as 100 percent equity in domestic enterprises, except in few areas included in the negative list, embodies the Government's commitment to establish conditions which are more conducive to foreign investments.

Complementing the liberalized investment regime is the deregulation of the foreign exchange regulatory system encompassing both trade and non-trade transactions as well as the relaxation of investment regulations. In particular, a major change pertains to the full and immediate repatriation and remittance privileges for all types of investments. This measure, in conjunction with the Foreign Investments Act of 1991, is expected to considerably improve the environment for the entry as well as the continued presence of foreign investments in the country.

In support of the economic reforms aimed at enhancing the competitiveness of Philippine industry, substantial progress has been achieved in reducing the Government's role in business. From 1987 to 1992, 368 entities have been privatized, representing 70 percent of the total number of entities planned for privatization. These privatization efforts have generated gross sales of ₱56 billion.

B.5 Development of Domestic Financial Market

Important liberalization moves were also undertaken starting 1991 in the domestic financial system. Specifically, the Central Bank liberalized bank branching regulations to increase competition and enhance the efficiency of the financial system. As a complementary measure to foster greater stability in the system, the Central Bank likewise hiked the capitalization requirements for commercial banks and rural banks. These reforms are expected to enhance confidence in the financial system, stimulate greater demand for financial services, improve the quality of such services and help improve the domestic mobilization of capital resources.

There are moves in the Legislature to liberalize the entry and scope of operations of foreign banks in the country. The passage of this legislation, which the Central Bank supports, is expected to lead to the increased presence of reputable foreign banks, with a large capital base and established track record, that can contribute to a stronger and more efficient banking system. Their entry should also help provide for a financial system that would be supportive of the economy's thrust of greater foreign investments and trade.

As regards the development of the capital market, the major policy initiatives undertaken by the Government to develop its domestic financial market through the Securities and Exchange Commission (SEC) were:

(i) Unification of the Manila and Makati stock exchanges to Philippine Stock Exchange, Inc. last July 1992, aimed at attaining a transparent, tracktable trading system. At the same time, a central depositary, clearing and settlement system is also envisioned;

(ii) Issuance in March 1992 of new rules on Warrants in anticipation of the growth of the equities market and as a measure to encourage the creation of new derivatives;

(iii) Issuances in 1992 of rules on asset-backed securities as an option of investors and as a means for corporate entities to liquify their receivables through the process of securitization;

(iv) Approval of amendments of the trading rules of the Manila International Futures Exchange; and

(v) Non-Support of Congressional bills under consideration which hampers capital market development.

B.6 Human Resource Development

The Department of Labor and Employment (DOLE) is the prime mover in the pursuit of manpower development to ensure adequate and continuing availability of skilled manpower needed to encourage the sustained inflow of investments to the country and support the industrialization thrust to transform the country into a newly-industrializaing economy by the end of the decade. This will be achieved through the formulation and the implementation of the following:

a) A National Employment Plan which will integrate and harmonize all the Government's policies, programs and stategies to promote employment opportunity creation and availment. It shall provide yearly, area-specific and industry sector-specific employment targets. Mechanisms to inform both prospective employers and employees of job availability and seekers shall be set up through a labor market information system, concretized by schemes such as the Public Employment Service Offices wherein the employment facilitation network is connected with local government units. A system for supervision of plan implementation, monitoring and evaluation will also be put in place and;

b) The Development of a Companion National Manpower Development Plan to complement efforts to develop and provide the necessary skills required by the industries concerned to enable workers to take advantage of emerging employment opportunities.

In line with the economic restructuring thrust of the Government which aims to hasten the growth of employment in the industrial sector relative to that of agriculture, some 5.83 million skilled production workers are expected to emerge with the combined efforts of the formal and non-formal training programs scheduled between 1993 to 1998.

B.7 Infrastructure Investment

Prior to the decade of the 1980s, the Philippine government financed the provision of infrastructure facilities mainly through foreign borrowings. The economic crisis of the 1980s, the consequent dwindling of the Government's resources, and the need to accelerate the pace of infrastructure development has motivated the Government to encourage the private sector's participation in the financing and implementation of public infrastructure facilities. With private sector financing, the Government will be able to channel its meager resources to other priority endeavors which are not financially attractive. At the same time, private sector management expertise and access to new technology will be harnessed to full benefits.

The policy intention of the Government to attract investors to participate in the construction and operation of infrastructure facilities was initiated with the issuance of Executive Order No. 215 in 1987, which allows the private sector to engage in power generation. It was logical and opportune that initiative should come in the power sector for it is where much investment is required since the country's power supply is at a critical level. In July 1990, the Government subsequently issued Republic Act No. 6957 which authorized the financing, construction, operation and maintenance of infrastructure projects by the private sector. Infrastructure projects eligible under said law are as follows: a) highways, including expressways, roads, bridges, interchanges, tunnels and related facilities; b) rail-based projects packaged with commercial development opportunities; c) non-rail based mass transit facilities, navigable inland waterways and related facilities; d) port infrastructure like piers, wharves, quays, storage, handling, ferry services and related facilities; e) airports, air navigation and related facilities; f) power generation, distribution, electrification and related facilities; g) telecommunications, backbone network, terrestrial and satellite facilities and related facilities; h) irrigation and related facilities; i) water supply, sewage, drainage and other related facilities; j) educational and health infrastructure; k) land reclamation; dredging and other related facilities; l) industrial estates, including infrastructure and related facilities; m) markets, slaughterhouses and related facilities;

n) public fishports, fishponds, including storage and processing facilities; and o) environmental and solid waste management related facilities.

The law formalized the Government's policy commitment to involve the private sector in the financing, construction, operation and maintenance of general public infrastructure facilities. It also opened new opportunities for government and private sector cooperation in providing necessary facilities in varied and innovative ways.

B.8 Environmental Protection Policies

The programs and projects of the Department of Environment and Natural Resources (DENR) are geared towards developing innovative approaches in challenging the participation of the industries in the Government's effort to protect the environment while pursuing the overall national goal of elevating the Philippines to a Newly-Industrialized Country (NIC) status by the year 2000. Foremost among these programs is the Industrial Environmental Management Project (IEMP) of the Environmental Management Bureau of the DENR which aims to improve industrial management of pollution through a three-point strategy, namely: 1) pollution prevention or reduction at its sources; 2) reclamation of industrial wastes provided that such reclamation is technically and financially feasible; and 3) encouragement of cost-effective pollution abatement technologies for pollutants that could not be avoided nor reclaimed. Under the IEMP project, several approaches are being employed in order to achieve these objectives. These are: 1) pollution reduction initiative (PRI); 2) policy studies and conduct of dialogues; and 3) capability building.

Another innovative approach implemented by the EMB-DENR in collaboration with the Development Bank of the Philippines (DBP) is the Industrial Restructuring Program-Environmental Management Project (IRP-EMP). The Industrial Restructuring Program (IRP) per se, is geared toward improving the efficiency and international competitiveness of Philippine industries. A sub-component of this program is the Environmental Management Project (EMP), the objective of which is to strengthen the EMB-DENR's capability in the evaluation, scrutiny and approval of investment proposals as to their compliance with environmental standards, the conduct of environmental audits, and assistance to industries in their efforts to develop environmentally sound projects.

In order to address the problem of forest denudation, the DENR, through its Forest Management Bureau (FMB), encourages (through the grant of fiscal incentives and preferential financing rates) the establishment of industrial forest plantations (IFPs). These plantations refer to tracts of forestlands and other public and private lands planted to timber producing species including rubber, and/or non-timber species such as rattan and bamboo primarily to supply the raw material requirements existing or proposed forest-based industries as well as for export.

II. FOREIGN DIRECT INVESTMENT (FDI)

A. Developmental Contribution of FDI

When the Aquino Administration took over in 1986, investment proposals approved by the Board of Investments (BOI) were at an all-time low of ₱3.8 billion (in terms of project cost). With the renewed confidence in the new government and the passage of a new incentive package in 1987, investment approvals increased substantially to a record-high ₱108.4 billion in 1990. Political disturbances in the country and the recession in the developed countries caused investments to drop to ₱83.4 billion in 1991. The trend reversed in 1992 as investments rose to ₱99.1 billion. The increasing number of investor inquiries and missions in late 1992 and during the first two months of 1993 indicate further recovery.

Equity investments grew at an average of 62.9 percent annually for the period 1986-1992 in spite of the 9.01 percent and 36.5 percent declines in 1991 and 1992, respectively. The share of equity investments as compared to the total project costs showed a steady decline from a high 98.9 percent in 1986 to a low 28 percent in 1992. The foreign equity component increased from ₱1.6 billion in 1986 to ₱23.4 billion in 1990. This dipped slightly to ₱21.5 billion in 1991 but contracted sharply in 1992 to ₱7.2 billion. Foreign equity contribution to total equity investments ranged from 41 to 53 percent between 1986 and 1991 but a sudden drop (66.3%) in the volume of foreign equity investments resulted in a mere 26.1 percent foreign equity share in 1992.

The Japanese were the largest foreign investors during the period 1986-1992, accounting for ₱21.6 billion or one-fourth of the ₱84.5 billion total foreign investments. Japan has been consistently the top or second largest foreign investor since 1986. The other major foreign investors were: Great Britain (₱10.2 billion), Hongkong (₱9.8 billion) and Taiwan (₱9.7 billion) and the United States (₱1.1 billion).

From 1988-1992, the energy sector received the biggest cumulative investments amounting to US$2.6 billion due to the Government's efforts to promote energy development. The metals and machinery sector received the second largest volume of investments accounting for US$2.4 billion, while the construction industry was third, with US$1.8 billion.

Projects registered with the Board of Investments from 1986 to 1992 generated 676,421 direct employment. Multiplying this figure with the factor of 1.6 (based on the formula of NEDA) would give us an estimated 1,062,273 indirect employment generated for a total (direct & indirect) of 1,758,694 jobs generated. In terms of technology advancement, BOI figures show that over the years the average employment per project has steadily declined from 95.7 employees per project in 1988 to 24.57 employees in 1992, signifying the shift from labor-intensive to capital-intensive projects. This trend is further strengthened by the fact that equity investments per direct employee increased from US$8,611 in 1988 to US$19,391 in 1992. In terms of project cost, the average project cost per employee also increased from US$5,688 in 1987 to US$69,258 in 1992.

With regard to the developmental contribution of foreign direct investment on technology transfer and upgrading of labor skills, systematic and comprehensive studies have yet to be conducted to determine its actual effect in terms of technology and skills transfer to Filipino workers.

Technology Transfer. Technology transfer refers to the successful transfer of approximate technological capability of a country or company and its adoption by the recipients. Technological capability means skills required to operate, maintain, repair, design and produce capital goods.

Technology may be transferred in the following ways:

a) As part of investment package;

b) Through management/sales contract or under license to use brand names or through joint ventures between MNE subsidiaries and domestic enterprises or between MNE subsidiaries and host government;

This arrangement contains restrictive clauses as it requires the licensee (MNE subsidiaries or domestic enterprises) to purchase materials, components, parts and equipment from the licencer (parent company). Most often the costs are excessive. Other contracts include limitation of sales to the domestic market or designated foreign market and grant back provisions (namely, provisions giving the licenser all rights to improvements).

c) As part of technical assitance program under bilateral and multilateral programs.

Of the many types of technology transfer available, those that involved the actual transfer of know-how, trademarks, and patents constituted two-thirds of collaboration contracts in 1986-1991.

If the amount of investments will be used as the determining factor for identifying the technology that is being transferred, it can be readily inferred that majority of such technology are manufacturing-related. It will be noted that the manufacturing sector accounted for the biggest share of investments that availed of incentives from 1986 to 1991. The marked increase in investments in energy in 1990 and 1991 can be attributed to the present power crisis.

Of the top 10 countries ranked according to size of foreign direct investments in the Philippines, seven are also the leading sources of technology imports: the United States, Japan, the Republic of Korea, the United Kingdom, the Netherlands, Australia and Singapore. This can be taken to reflect a close correlation between foreign equity investments and technology transfer in the Philippines.

Technology transfer contracts entered into by Philippine enterprises with foreign companies cover practically the entire range of economic activities.

In manufacturing activities, the intermediate goods industries accounted for roughly half of the total technology collaboration contracts registered. The consumer goods industries, particularly food, did not show a clear pattern in the number of registered contracts. On the other hand, the capital goods industries exhibited an uptrend. In particular, electrical machinery and transport equipment industries accounted for most of the transfer accounts.

Skills Transfer. There has not been any study made that looks into the transfer of skills to Filipino workers through foreign direct investments. Perhaps, the best material available that can give some hints on the situation is the survey report on the implementation of the Understudy Training Program (UTP) prepared by the Bureau of Local Employment in 1990.

The Understudy Training Program (UTP) was instituted in accordance with Sec. 5(c) of Rule XIV of the Labor Code of the Philippines. The law requires every employer to designate at least two Filipino understudies for every alien worker employed in his company to ensure the actual transfer of technology. Department Order Nos. 5 and 7 limit the stay of alien workers with understudies from three to five years.

The survey showed that 220 new UTPs and 127 renewals were approved by the DOLE regional offices in 1990. The number of understudies totaled 694.

With a total of 327 UTPs in 1990, clearly there was an increase of 21.3 percent from a total of 286 UTPs in 1989. However, the increase in the number of understudies lagged behind the increase in the number of programs registered, which was placed at a mere 4.8 percent or a total of 31 new understudies only.

By occupation, the results showed a plurality of aliens with ongoing UTPs: administrative and managerial workers (29.4 percent); professional, technical and related workers (24.8 percent); production workers (21.9 percent). Correspondingly, the designated Filipino understudies belonged to the abovecited occupational groupings.

Using these data to reflect the types of skills transferred to locals, it can be concluded that Filipino understudies received skills trainings in managerial, technical and production related jobs.

This observation corroborates impressions made in the late 70's that MNEs have increased the managerial and entrepreneurial skills in the country. Actual management experience in local and foreign-owned enterprises has significantly enriched formal training in business administration, which has helped produce a dynamic managerial class in the country.

By industry, the survey showed a big number of aliens with UTPs in the manufacturing industry (47.8 percent) and in community, social and personal services (32.0 percent).

The above observations, however, seem to contradict those made in relation to training received by workers at the Bataan Export Processing Zone in the early 80's. A DOLE survey conducted in 1982 revealed the general view that "most trades in which workers were trained seem to be relatively simple and easy". The observation was borne out by the readings that "apprentices and learners comprised only a small proportion of the Zone's workforce and that the rest of the workers undergo a training period of less than one month". Only 19.6 percent and 3.4 percent of 567 respondents underwent apprenticeship and learnership, respectively.

Policies to Enhance the Developmental Contribution of Foreign Direct Investment

The Medium-Term Philippine Development Plan for 1993-98 adopts two major thrusts for the country: global excellence and competitiveness and people empowerment and human development. To attain these twin goals, the BOI has set as its objective, the development of internationally-competitive industries. In the short-term, emphasis will be given to increasing the production capacity and enlarging the markets of export products that have proved successful in the past such as electronic products, garments, metal products, processed food and software. In the long-term, emphasis will be given to identifying and promoting new export products that would take advantage of the country's natural resources, worker skills and the country's strategic location in the region.

Investments are at present being encouraged in the manufacture of raw materials and components used in export products, in basic industries, capital equipment and spare parts, infrastructure and industrial support facilities, industrial estates, and research and development. Also given priority is the development of tourist resorts and tourism estates.

To increase agricultural production and farmer productivity, the BOI is promoting agricultural projects undertaken through nucleus estate and other subcontracting schemes, as well as the setting up of post-harvest facilities.

a. Regional Dispersal of Industries

Industrial growth up to the mid-1980's has centered mainly in Metro Manila due to the concentration of national government offices and infrastructure development in this area. To counter this trend, the BOI has removed the incentives for projects located within Metro Manila. Instead, projects located in provinces which are considered less developed were also given additional incentives. An additional impetus to regional development was the enactment of the Local Government Code of 1991 which authorized local governments to give incentives to projects located in their territories, and required the central offices of the national government to devolve their authorities and staff to the local governments.

The Government has also embarked on a program to develop alternative industrial sites outside Metro Manila. The most developed of these is the Calabarzon which encompasses four contiguous provinces in Southern Luzon. With assistance from the Japanese Government, a large-scale, multi-sectoral program has been designed to transform the traditional, agro-based rural economies of the region into a vigorous, agro-industrial urban economies. The massive scale of the project demands a systematic, fully integrated approach in which the industrial sector is developed simultaneously with the economic and social sectors, as well as infrastructure and service facilities. Other growth corridors to be established will be located in Northern Luzon and the Southern Island of Mindanao. Aside from growth corridors, regional industrial centers are also being developed in provinces with strong growth potential. Developers of private industrial estates outside Metro Manila are also given incentives by the BOI.

b. Promotion of Small- and Medium Enterprises

Identified as a key ingredient of economic development is the spirit of entrepreneurship. Thus, the Philippine Government recognizes the importance of an entrepreneurial drive which has to be present among the Filipino people while batting for the reduction of unemployment and working to generate more exportable products, especially from the countryside where majority of the people and resources are found. From the Government's end, it will strengthen the facilities that provide, promote, develop and widen the various alternative modes of financing.

The Magna Carta for Small Enterprises under Republic Act No. 6977 states that it is the policy of the State to promote, support, strengthen and encourage the growth and development of small and medium enterprises (SMEs) in all productive sectors of the country, particularly rural agri-based enterprises. This is due to their important contributions to the economy. As such, the BOI is establishing a special unit in its One-Stop-Action-Center to fast-track SME applications and to extend technical assistance.

c. <u>Tying up Industrial Policies with Environmental Protection</u>

The protection and conservation of the environment of the country is included in the country's development efforts. The Government has already identified a list of environmentally-critical projects and environmentally-critical areas. Investors in these projects and/or areas are required to prepare an Environmental Impact Assessment for submission to the Department of Environment and Natural Resources (DENR), after which an Environmental Clearance (ECC) is issued if the project passes the critical set of standards for the establishment of environmentally-critical projects in an environmentally-critical area. The ECC is a requirement of Local Government Units (LGUs) where the projects shall be located, or by the Board of Investments if the investor wishes to register with it for incentives.

d. <u>The Industrial Restructuring Program of the Philippines</u>

The Government in close collaboration with the banking system and industry associations of the private sector, is presently undertaking an Industrial Restructuring Program (IRP) for a number of priority subsectors to serve the following purposes:

1. To guide policymakers in designing sound subsectoral policies and programs;

2. To provide the banking sector with information on subsector opportunities and risks, and to establish yardsticks against which to measure individual projects; and

3. To organize information on environmental issues which government, bankers and industrialists can use.

The IRP aims to make the manufacturing sector internationally-competitive in the near future by assisting firms to adjust to the increasingly competitive environment. Two types of restructuring are envisaged under the program: (1) defensive - to scale down and revitalize uncompetitive sectors; and (2) positive - to accelerate and sustain the operations of competitive sectors.

Under Phase I of the IRP (1989-1990), studies were prepared for the following sectors: (1) cement; (2) textiles; (3) pulp and paper; and (4) shipping and shiprepair. As a result of these studies, the Development Bank of the Philippines has made available lending schemes to the above subsectors.

Phase II of the IRP will commence with studies to be undertaken for the following sectors: (1) wood and wood-based products; (2) electrical appliance and housewares; (3) spinning and weaving; (4) cocoa, chocolate and confectionery; (5) canned, preserved fruits, fruit juices and vegetables; (6) plastic products; (7) fabricated metal products; and (8) canned, preserved fish.

Two laws embody the Government's policy on investments. One law is Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987. The Code provides a comprehensive scheme of benefits for enterprises in priority areas of economic activity. It forms the basis for the grant of investment incentives to both local and foreign investors as well as determines the registration requirements of firms wishing to register to avail themselves of such investment incentives.

Republic Act No. 7042, otherwise known as the Foreign Investments Act (FIA) of 1991 provides the rules and regulations for foreign investments without incentives. It is under this law that all restrictions on the extent of foreign ownership of enterprises that export at least 60 percent of their production are removed. For enterprises catering to the domestic market, the FIA allows 100 percent foreign ownership provided the proposed activity to be entered into is not found in the negative list or else foreign ownership would be allowed only up to 40 percent. Foreign ownership may be allowed to reach 100 percent in areas listed in the negative list only if investments shall be pumped into an enterprise exporting at least 60 percent of its production.

Still under FIA, export enterprises which make use of raw materials from depleting natural resources are required by law to have a paid-in equity capital of at least US$500,000. This equity requirement is for registration purposes only but should not be interpreted as an authority to utilize depleting natural resources. Natural resource use is still subject to compliance with existing laws and policies.

B. Regulatory Framework

B.1 Admission of FDI

Under the new Foreign Investments Act (FIA) of 1991, all new and ongoing domestic corporations and partnerships, as well as foreign corporations and partnerships to do business in the Philippines must be registered/licensed by the Securities and Exchange Commission (SEC). Admission of up to 100 percent foreign equity is approved for as long as these fall outside the FIA's foreign investments negative list.

Other requirements under the policies of the SEC affecting foreign investments are:

a.) Full payment of the subscription of non-resident aliens. This requirement is currently being reviewed to make it less stringent;

b.) Foreign investors who are in the majority in the Board of Directors in a new Philippine enterprise must be residents in the Philippines, supported by the Special Investors Resident Visa (SIRV) and Immigrant Certificate of Residency issued by the Bureau of Immigration and Deportation;

c.) A deposit of securities worth ₱100,000 consisting of bonds or other evidence of indebtedness of the government and shares of stock of companies listed at the stock exchange is required of branch offices of foreign companies; and

d.) The number of alien directors must be directly proportionate to the total foreign equity in the Philippine enterprise. For example, if foreign equity participation is 40 percent, then 40 percent representation in the number of Board of Directors is allowed. Rules on alien participation in the management of the company in certain industries like recruitment and placement agencies are now under review.

The investment policies also provide the basic rights and guarantees for the protection of foreign investments such as:

1. The right of the foreign investor to repatriate his investments;

2. The right to remit the earnings derived from his investments;

3. The right to foreign loans and contracts;

4. The right to freedom from expropriation of property;

5. The right to non-requisition of investment.

B.2. <u>Treatment of Foreign Investment as Compared to Domestic Investment</u>

Foreign investments are treated equally as domestic investments, except in the areas of activities listed in the Foreign Investment Negative List where foreign equity are limited to certain levels. Further, availment of incentives particularly for non-pioneer areas of activities are likewise subject to nationality requirements as in the case of the 60 percent Filipino equity requirement for non-pioneer enterprises exporting less than 70 percent of their production.

B.3 Protection of Property Rights and Standards of Compensation In Cases of Expropriation or Unilateral Termination of Contracts

The Philippine government guarantees that there shall be no expropriation by the Government of the property represented by the investments or of the property of enterprises except for public use or in the interest of national welfare and defense and upon payment of just compensation. In such cases, foreign investors or enterprises shall have the right to remit sums received as compensation for the expropriated property in the currency in which the investment was originally made and at the exchange rate prevailing at the time of remittance.

B.4. Policies Towards Intellectual Property

There are two laws governing patents namely, Republic Act 165, and Paris Convention. The former, enacted in 1947 set up the system for the examination and grant of patents and established the Patent Office. The latter is a multilateral convention to which the Philippines has acceded to in 1965 for the protection of industrial property. The convention, presently administered by the World Intellectual Property Organization (WIPO) is comprised of more than 100 countries. As a member, the Philippines is bound to extend to nationals of other member-countries the same privileges that the Philippines grants to its nationals. Thus, an American with U.S. being a member of the same convention may apply for a patent in the Philippines subject to Philippine laws and regulations. Meanwhile, Presidential Decree (P.D.) No. 49 issued in 1972, Berne Convention (Brussel's Act of 1948) and P.D. 1203 (The Textbook Reprinting Law) encompass protection of copyrights while Republic Act 166 effected in June 1947 and the Paris Convention cover protection of trademarks.

B.5 Transfer of Profits and Repatriation of Capital

The Government, pursuant to CB Circular No. 1353, dated August 24, 1992, guarantees the right of the foreign investor to repatriate the entire proceeds of the liquidation of the investments and to remit the earnings generated from his investments in the currency in which the investment was originally made at the exchange rate prevailing at the time of the repatriation or remittance provided that the investment was duly registered with the Central Bank of the Philippines.

B.6 Taxation

As an incentive, enterprises registered with the BOI are exempted from the payment of corporate income taxes which is 35 percent of the gross income, for a period of four years extendable to a maximum of eight years subject to certain conditions.

Enterprises registered with the BOI are also exempted from the payment of taxes and duties on imported capital equipments, machineries and spare parts.

Raw materials and semi-processed component parts can also be imported tax and duty free if the final products are exported.

B.7 Performance Requirements

As many of the incentives granted to BOI registered enterprises are determined from the various commitments of the companies such as their export level, production capacity, local content, etc., the companies registered with BOI are continuously monitored to assure their compliance to these commitments and the specific rules covering the companies' registration with BOI.

B.8. Mechanisms for the Settlement of Disputes

The Philippine Government encourages the negotiated resolution of conflicts with foreign investors. In case negotiations fail, the Philippine courts will normally and unless otherwise provided have jurisdiction over disputes arising out of investments made in the country. It is however, possible for the Philippines and its foreign investors to refer their differences to such alternative mechanisms as conciliation or binding arbitration. Recourse to such mechanisms is dependent on agreement between the parties to make use of the mechanism for the dispute in question.

B.9. Investment Protection Agreements

The country enters into investment agreements with investor countries with the Philippines taking the initiative or first move through the investor countries' embassies. In undertaking investment protection agreements, the following procedures are involved: (1) securing authorization to negotiate for said agreement by the negotiating team from the national department under which matters are associated with: (2) undergoing the negotiation proper; (3) presentation of negotiations and recommendation to the responsible government department and the Cabinet; and (4) signing of the agreement for the Philippine side by the Secretary of the Department of Trade and Industry.

Presently, the Philippines has existing agreements with Great Britain, Taiwan, China, Netherlands, Italy, Vietnam, and Romania. There are plans however, to negotiate agreements with the top 20 investors of the country from 1987 to October 1992.

C. Other Domestic Measures To Attract FDI

C.1 Fiscal Incentives

The BOI allows foreign investments with incentives to the extent of 40 percent foreign ownership if the activity to be invested into would be a priority economic activity geared towards the domestic market. The priority economic activity is regulated by the Philippine Constitution as to percentage of ownership, or production to be exported. Foreign equity participation of up to 100 percent is allowed in cases where the economic activity has been determined to be of "pioneer" status or the entire production or 70 percent of its total production will be sold in the foreign markets.

The package of incentives which are competitive with those provided by other ASEAN countries take the form of:

1. Income tax holiday which exempts BOI registered investment projects from the payment of income taxes for a period of at least four years but not exceeding eight years as determined by certain conditions which the registered enterprises should satisfy;

2. The privilege to import capital equipment, machineries, and spare parts tax and duty free up to December 31, 1994;

3. Provision of tax credits on capital equipment bought locally;

4. Additional deduction for labor expense;

5. Exemption from the payment of contractor's tax;

6. Tax and duty free importation of breeding stocks and genetic materials;

7. Tax credit on raw materials, supplies and semi-manufactured products used in the manufacture of products and/or forming parts thereof for export;

8. Exemption from wharfage dues and any export tax, duty, supplies.

Additional incentives are likewise provided for projects located in areas categorized as less-developed areas as determined by the National Economic Development Authority (NEDA) namely:

1. Granting of pioneer status to the projects which entitles the enterprise to income tax holiday for at least 6 years and exemption from the nationality requirement imposed on foreign nationals other than those specified under the Constitution and other Statutory Laws;

2. A 100 percent deduction from the enterprise's taxable income for the necessary and major infrastructure undertaken by the enterprise in the course of its operation;

3. An additional deduction from taxable income equivalent to 100 percent of the wages corresponding to the increment in the

number of direct labor for skilled and unskilled workers in the year of availment as against the previous year.

From 1981 to 1992 foregone revenue through the grant of fiscal incentives represented 0.64 percent of Gross Domestic Product. Average annual foregone revenue during the same period amounted to ₱5.67 billion.

On the other hand, the non-fiscal incentives are:

1. Simplification of customs procedures;

2. Unrestricted use of consigned equipments;

3. Employment of foreign nationals; and

4. Access to bonded manufacturing/trading warehouse system.

C.2 Financial Incentives Such As Preferential Access To Credit and Interest Rate Subsidies

In general, the Central Bank discourages the grant of preferential treatment to specific sectors in the economy in order to encourage competition and institutional efficiency. While at present the Bank's rediscounting facility is made eligible to agricultural production and exports, the rediscount rate is uniform for all types of eligible paper. The rate is also market-oriented and carries no subsidy to the borrower. Since October 1990, however, a higher loan value of 100 percent has been given to export credits compared to 80 percent for agricultural production credits to promote the export sector and increase its competitiveness in the world market, particularly in the face of the strengthening of the peso to the US dollar. Foreign Currency Deposit Units (FCDU) of commercial banks have also opened credit facilities to the export sector, the regulations for which as in rediscounting, apply uniformly to both foreign-owned exporting companies and locally-owned ones.

The grant of interest rate subsidies would run counter to the present policy of market orientation. A market-determined interest rate policy has been adopted since the early 1980s to reflect the true cost of funds that would lead to a more responsible and efficient use of credit. Experience has shown that subsidized credit led to inefficiencies in resource allocation. It is for this reason that it has become the policy of the Central Bank to do away with financial incentives. Since financial incentives are not accorded to local investors, such measures are not deemed appropriate nor desirable as means of attracting foreign investments, for equity considerations.

Meanwhile, the Central Bank supports the move to allow the entry of new foreign banks in line with the overall liberalization strategy and to complement the liberalized environment in the country. The proposal includes, among others, the increase in the maximum allowable foreign equity investments in domestic banks from 30 percent to 70 percent. Proposals, however, are being such that foreign banks would be treated on an "even level-playing" field so as not to unduly harm the operation of local banks.

C.3. Investment Promotion Measures, such as Information Services and Assistance for Location

Investment promotion measures undertaken recently were primarily focused on the liberalization of the investment climate to enhance the country's attractiveness as an investment site. These include proposed legislations, conduct of studies and recommendations to amend existing investment laws. The primary government agencies involved in investment promotion in the Philippines are the Board of Investments (BOI), and the Bonded Export Marketing Board (BEMB), which also coordinate with the Foreign Trade Service Corps, all of which are under the Department of Trade and Industry (DTI). Specific activities of these agencies include the following: a) image-building, which consists of the production and dissemination of general investment information and participation in trade fairs and exhibits; b) investment generation, which consists of inbound and overseas missions and business meetings/seminars for prospective investors; and c) investment servicing, specifically the One-Stop Action Center (OSAC) of the BOI, which facilitates processing of required documentation, provides assistance in feasibility studies and provides general information about procedures. The government budget in 1992 for investment promotion activities is estimated at US$454,000. This amount is supplemented by financial assistance from the private sector, foreign governments and multilateral assistance agencies. In 1992, the BOI received a total number of 16,714 inquiries from prospective investors or an increase of 20 percent from the previous year. Aside from the BOI and the BEMB, other government bodies with investment promotion-related functions have been created, namely, the National Economic Research and Business Assistance Center (NERBAC) and the Investment Promotion Unit (IPU) authorized to be established within each of the various departments and agencies of government to satisfy investor inquiries. However, as the NERBAC is not yet operational and the IPUs have only been put in place recently, an assessment of their performance cannot be made at this time.

C.4 Debt-Equity Swaps

Benefits Derived from Debt Equity (DE) Swaps

Since the start of the Program in 1986, the Central bank earned an aggregate of ₱8.725 million miscellaneous income in the form of application fees.

Under the auction system, bid bonds of winning bidders were held by the Central Bank at an average holding period of 52 days for the past five auctions without any cost to the Central Bank thereby helping in easing the pressure on excess money level in circulation. Aside from this, bid bonds so far forfeited and credited to miscellaneous income of the Central Bank totalled ₱3.219 million.

The Central Bank realized savings under the auction system by sharing in the discount of debt presented for redemption in the amount of ₱5,373.499 million as of January 20, 1993 (including CB share to be realized in the sixth auction but excluding CB share from high social impact projects). Under Circular No. 1111, the Central Bank remitted to the National Government conversion fees amounting to ₱681.449 million and received ₱10.070 million in the form of penalty income.

Without using foreign exchange resources, external debt was reduced in the face amount of US$1,430.841 since 1986.

Incremental investments directly traceable to the debt to equity conversion program is recorded at 26 percent of total inflow of foreign investments from 1987 to October 1992.

Out of the registered investment of ₱8,965.456 million (including ₱123.533 million stock dividend) only ₱2,892.403 million capital repatriation and dividend remittance were made as of February 8, 1993 or 32.26 percent of the registered investment.

The long-term equity investments coursed through the Program generated hundreds of jobs for Filipinos not only in Metro Manila but also in other areas in Luzon, Visayas, and Mindanao. It also triggered increases in production.

Costs of DE Swaps

Records of the Central Bank showed that the average outstanding balance of special series Central Bank bills issued under the DE Swaps for the past six years amounted to ₱2,408.23 million. Discounts paid on said bills from 1990 to 1992 totalled ₱576.078 million, ₱453.238 million and ₱4,820.247 million, respectively or an aggregate of ₱5,849.563 million.

Monetary impact arising from the Peso prepayment of external debt amounted to ₱7,055.275 under the auction system (including estimates of Peso prepayment of the 6th auction) and ₱19,257.00 million under Circular No. 1111 or a total of ₱26,312.275 million.

D. Export Processing Zones (EPZ) and Special Economic Zones (SEZ)

The development of the export processing zones and the other special economic zones has proven to be a very effective strategy in promoting investments and attracting foreign investors. The Philippines has at present four regular export processing zones which were developed and being operated by the Government namely: a) Bataan EPZ, established in 1972; b) Baguio City EPZ, 1980; c)

Cavite, 1986; and d) Mactan EPZ, 1979. The number of special EPZs has also increased rapidly from three in the mid-80's to an additional of seven in 1991-92 located mostly in the CALABARZON (Cavite, Laguna, Batangas, Rizal and Quezon provinces).

Investors wishing to locate in any of the country's export processing zones (EPZs) may register with the Export Processing Zone Authority (EPZA) and avail themselves of incentives. EPZA registered enterprises are entitled to the same set of incentives provided to BOI-registered enterprises. However, EPZA registered enterprises enjoy additional incentives as follows:

1. Exemption from SGS inspection;

2. Exemption from taxes imposed by the local governments except realty taxes;

3. Exemption from branch remittance tax; and

4. A more simplified customs procedure owing to the free trade zone status of the EPZs.

Full foreign ownership of corporations is allowed by the EPZA as companies operating in the Zones are required to export 100 percent of their production. In certain instances, a maximum of 30 percent of the production may be allowed for domestic sales but these are subject to certain conditions and prior approval of EPZA.

Public investment in the regular zones over the years has reached ₱2.7 billion as of 1991, with the Bataan EPZ accounting for the highest share of 84.42 percent.

The total cumulative private sector investments in the zones as of 1992 amounted to ₱21.08 billion broken down into: ₱12.47 billion for special zones and the remainder of ₱8.61 billion for regular zones.

In terms of exports, EPZA's performance increased by 533.67 percent from $162.696 million in 1980 to $1,030.96 million in 1992. Employment generation likewise posted remarkable increase from 22,610 in 1980 to 53,646 in 1992 or an increase of 137.27 percent.

Total value added stood at ₱3,928.58 million in 1992 or an increase of 1,049.36 percent from 1980 to 1992. Compared to total exports in the same year, value added comprised 15 percent.

With regard to linkage with the domestic economy, from 1988 to 1992, the increase in domestic sales accounted for 73.41 percent or a measly amount of ₱99.911 million in 1992. Domestic purchases (sales to EPZ-registered companies), however, increased from ₱106.519 million in 1988 to ₱634.392 million in 1992 or an increase of 495.57 percent.

The success of the Export Processing Zones encourages the Government to transform more and wider areas into EPZs. However, the limited resources of the Government coupled by the existence of equally, if not more important and critical projects which are necessary for the achievement of economic development, made it more logical to leave the development of new EPZs in the hands of the private sector.

As a special note, the success of the EPZs has also inspired the Government to utilize the same strategy in transforming the former U.S. Naval Base along Subic Bay in Olongapo City into a Special Economic and Free Port Zone. The base will comprise the core of an 18,500 hectare business complex that would feature an international container seaport, an international airport, a 300 hectare industrial estate and the most modern communication and tourist facilities. It will be made conducive to investments by way of incentives and policies which feature the following:

1. A self-sustaining industrial, commercial, financial and investment center;

2. Free flow or movement of goods and capital;

3. Tax and Duty free importation of raw materials and capital equipment;

4. No local and national taxes, however, enterprises shall be required to pay 5 percent of gross income earned to the Government;

5. No foreign exchange controls and free market for foreign currency;

6. Permanent resident status within the zone to foreign nationals who have invested at least US$250,000.

Private Industrial Estates Registered With the Board of Investments

The activity of industrial estates is identified as a priority area of investment with the view that with industrial estates, industries with the characteristics of being light to medium in terms of products; less polluting, labor intensive, and export oriented will be brought about.

Industrial estates registered with the Philippine Board of Investments as of the present are 10 in number with a combined total project cost of ₱6.901 billion (US$276,040 million) and a total hectarage of 1,543.5.

E. Home Country, Regional and Multilateral Measures that Help Promote FDI in the Host Country

Home Country Measures

It is the Government's general policy to encourage the private sector (i.e, duly registered profit-oriented establishments) to participate in and to undertake priority development projects of the public sector. The private sector is allowed to have access to ODA in recognition of its important role as partners of the Government in the development process. This policy recognizes the private sector's capability to manage resources efficiently; to innovate, adopt, and apply new/appropriate technology; and to bring in additional resources to augment public funds needed to finance public investment programs. The preferred areas for ODA funding are as follows: power, roads and bridges, solid waste management, telecommunications, mass transit and ports.

ODA supports technical assistance activities directly related to investment promotion such as: a) studies like the Investment Promotion Strategy for the Philippines of the Foreign Investments Advisory Service; b) project proposals like the Proposed Technical Assistance Plan to Support the Board of Investments (BOI) Restructuring and the Launching of a New Investment Promotion Strategy; Training Requirements for BOI Personnel Under the Restructured System; Training Program on Investment Project Preparation, Appraisal, Promotion and Implementation; Institutionalization of the Foreign Investments Information System of the Philippines; and UNDP/FIAs Program of Technical Assistance to Developing Countries in Asia and the Pacific Aimed at Strengthening the Investment Environment to Attract Foreign Direct Investment; and c) investment promotions projects such as the Program for the Identification, Formulation and Promotion of Industrial Investments Projects in Selected Industries in the Philippines which included the identification of projects and promoting these to foreign partners through the preparation of a portfolio of 50 project profiles, the setting up of a computerized investment promotion system at the DTI/BOI and the conduct of the Philippine Investors' Forum where Philippine project proponents had the opportunity to discuss with potential foreign partners collaboration in specific projects.

ODA also supports government investments in infrastructure or hardware and capital-based activities. It is believed that the presence of adequate and properly maintained infrastructure facilities is one of the basic factors which foreign investors consider in their investment location decisions.

Regional Measures

The Asean Industrial Joint Venture (AIJV) scheme is a regional industrial cooperation program in ASEAN designed to encourage joint venture activities among the ASEAN and non-ASEAN private sectors. The scheme operates on the basis of resource pooling, economies of scale, and market-sharing through preferential market access.

The AIJV offers a competitive edge in a region characterized by a rapidly expanding market, rising purchasing power and lucrative investment opportunities. The scheme enables the pooling of both ASEAN and non-ASEAN capital, entrepreneurial and technological resources for the establishment of economically scaled production facilities and entry into the ASEAN market at its tariffs which are at least 90 percent lower than those paid by competing non-AIJV products.

The Multilateral Investment Guarantee Agency (MIGA), the newest member of the World Bank Group was formally constituted in April 1988 to encourage the flow of investments for productive purposes among member countries, and in particular to developing member countries, thus supplementing the activities of the International Bank of Reconstruction and Development (IBRD), International Finance Corporation (IFC) and other international development finance institutions. Specifically, MIGA will encourage foreign investments in member countries through: 1) guarantees to foreign investors against losses caused by non-commercial risks associated with currency transfer, expropriation, war, revolution or civil disturbance and breach of contract; 2) advisory and consultative services to member countries to assist them in creating a responsive investment climate and an information base to guide and encourage the flow of capital; and 3) coordination with other agencies concerned with the promotion of foreign investment and in particular with the IFC.

The expected benefits to be derived by the Philippines through accession with MIGA are:

a) Additionality in Foreign Investment

Information from MIGA shows that guarantee applications involving US$140 million for the Philippines as of February 1990 has been received which confirms that potential investments may not materialize should there be no guarantee against non-commercial risks. An OPIC survey shows that in about 25 percent of cases studied, investment would have not taken place without a guarantee (in 18 percent the investment would have proceeded without it, with the remaining 57 percent indeterminate).

b) Prevents Diversion of Foreign Investment

To prevent loss of investments at the margin to countries who join it

c) Promotional Reasons

Accession may help promote the perception that the Philippines is a country that welcomes foreign investments.

As of April 15, 1993, ratification of MIGA is still pending with the Senate.

Annex Table 1
Principal Economic Indicators
1980 to 1992

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
1. GNP per capita (US$ million)	676.9	681.62	683.88	676.67	602.74	546.64	555.83	570.3	597	616.73	630.22	617.7	608.2
GDP growth rates (constant terms) (%)	5.15	3.42	3.62	1.87	(7.32)	(7.31)	3.42	4.78	6.25	6.06	2.7	0.65	(0.04)
2. Gross domestic savings: (as % of GDP)	27.9	27.7	22.4	20.5	14.8	16	18.8	16.1	18.5	20.8	19.7	18.6	17.1
3. Gross domestic investment: (as % of GDP)	29.1	27.5	27.9	29.6	21.8	15.33	16	18	18.4	21.8	22.5	19.8	21.1
4. Prices (Consumer Price Index Changes %)	18.2	13.1	10.2	10	50.3	23.1	0.8	3.8	-72.9	12.2	14.2	18.7	8.9
5. Domestic interest rates: (annual averages)													
. Discount rate offered by Central Bank;	4.541	6.692	6.304	8.046	12.108	11.5	9.638	9.08	8.94	9.64	10.599	10.746	7.632
. Bank deposit rate: Average rate offered by commercial banks on fixed or term deposits for 3 to 6 months;	-	15.314	15.186	14.996	22.198	21.144	12.312	9.438	12.375	15.375	21	19.938	15
. Bank lending rate: average rate charged by commercial banks on secured for all maturities	-	17.119	18.219	19.331	26.743	28.234	17.348	13.295	15.998	19.457	24.317	22.747	18.293
6. Wages*													
. Earnings in manufacturing /2/ (annual averages, in domestic currency); per hour (H), day (D), week (W) or month (M);													
7. Exchange rate (domestic currency per US$) Interbank/BAP Reference Rate	7.5114	7.8997	8.54	11.1127	16.6987	18.6073	20.3856	20.5677	21.0947	21.7367	24.3105	27.4786	25.5125
8. Balance of payments:													
. Current account (US$ million)	(1904)	(2061)	(3200)	(2750)	(1116)	(103)	954	(444)	(390)	(1456)	(2695)	(1033)	(994)
. Trade balance (US$ million)	(1939)	(2224)	(2646)	(2482)	(679)	(482)	(202)	(1017)	(1085)	(2598)	(4020)	(3211)	(4696)
. Factor services:													
- Interest payments (net) (US$ million)	975	1374	1990	1985	2257	2250	2088	2107	2159	2411	2154	2157	1898
- Profit remittances (net) (US$ million)	159	128	158	136	87	134	118	167	178	239	283	269	363

* Data on wages will follow upon receipt from concerned government agencies.

Annex Table 2.0
Foreign Direct Investment
1980 to 1992

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
1. FDI flows (BOP Concept) (US$ million)	119	248	194	255	137	124	186	439	1,077	961	706	798	1,363
\Share of FDI inflows to gross domestic capital formation (%)	1.26	2.5	1.87	2.59	2	2.63	3.89	7.3	15.4	10.3	7.11	8.89	12.27
New Foreign Investment 1/	75	91	25	119	32	9	17	34	81	93	171	130	234
Portfolio investment 2/	5	5	1	7	0	17	13	21	51	386	152	227	566
Reinvested earnings	39	62	44	26	15	10	20	22	17	56	28	34	42
2. Net Intercompany loans	738	768	405	-848	293	-511	-38	-27	-13	-3	74	27	39

1/ Investments made to create and expand some kind of permanent interest in a local firm or enterprise.
2/ Investments in issues of Philippine stocks and bonds and other securities.

Continuation
Annex Table 2.0
Foreign Direct Investment
1980 to 1992
(In Million US dollars)

Item	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
3. Total Foreign Equity Investments Flows (by industry)	229.47	306.81	343.90	275.61	146.55	246.9	108.25	96.38	70.64	202.8	195.87	415.4	327.91
Banks and Other Financial Institutions	20.10	28.94	18.80	12.88	3.02	13.93	30.79	5.77	1.69	16.62	24.52	30.64	36.43
Manufacturing	84.51	135.32	131.19	145.25	80.44	138.8	24.68	47.7	27.25	107.93	109.06	298.91	181.82
Mining	82.98	86.17	162.90	100.21	52.81	60.41	48.29	34.55	10.29	42.28	30.26	30.54	12.23
Commerce	20.74	10.46	9.57	2.14	4.7	3.39	0.03	2.12	9.73	28.27	19.67	22.24	18
Services	4.69	32.88	10.62	13.18	1.34	12.35	3.34	2.67	20.25	5.8	4.95	29.66	69.57
Public Utility	2.22	7.50	3.95	1.02	0.62	1.74	1.04	2.98	0.31	1.56	1.25	1.39	4.55
Agriculture, Fishery, and Forestry	5.76	4.31	4.24	1.11	3.27	16.01	0.06	0.53	1.12	0.33	6.04	0.52	0.25
Construction	8.47	1.23	0.03	-0.18	0.35	0.27	0.02	0.06	0	0.01	0.12	1.5	5.06

Continuation
Annex Table 2.0
Foreign Direct Investment
1980 to 1992
(In Million US Dollars)

Item	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
4. Total Foreign Equity Investments Flows (by country)	229.47	306.81	343.90	275.61	146.55	246.90	108.25	96.38	70.60	202.81	195.87	415.40	327.91
U.S.A.	120.47	186.24	164.56	196.12	89.53	154.90	91.06	68.17	29.17	68.80	52.76	75.07	56.07
Japan	29.11	18.99	60.86	16.33	19.35	31.00	9.98	5.72	17.23	51.96	54.21	188.85	154.33
Hongkong	15.38	39.15	11.96	14.43	10.58	28.13	-15.27	11.29	13.70	15.76	15.76	55.11	15.41
Netherlands	5.15	12.61	58.24	12.82	3.85	10.29	6.68	4.51	1.06	16.89	3.37	3.64	5.18
U.K.	5.09	24.38	12.80	-2.00	4.54	5.61	12.22	1.03	1.05	3.31	8.60	15.17	2.06
Switzerland	7.19	7.08	6.60	1.34	7.64	4.63	2.86	0.03	0.41	5.10	7.17	8.40	8.06
Australia	7.16	4.36	3.43	4.05	0.46	0.13	0.76	1.48	0.11	12.90	7.68	-0.34	4.96
Canada	0.17	-5.77	1.08	0.00	0.00	0.65	0.50	0.59	0.00	1.01	3.29	0.97	0.98
France	10.08	18.19	2.04	3.37	0.24	0.30	0.00	0.01	0.09	0.09	1.05	0.99	5.42
W. Germany	3.81	4.76	2.93	3.69	2.13	0.90	1.19	0.38	1.08	0.45	2.06	5.48	7.53
Sub-total	204.51	309.99	324.5	250.15	138.32	236.54	109.98	93.22	63.88	176.26	155.45	353.35	259.99
Others	24.96	-3.18	19.4	25.46	8.23	10.36	-1.73	3.16	6.75	26.55	40.42	62.05	67.92

Continuation
Annex Table 2.0
Foreign Direct Investment
1980 to 1992
(In Million US Dollars)

Item	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
5. Total Foreign Equity Investments (Stock)	1280.88	1587.69	1931.59	2207.2	2535.75	2600.65	2708.9	2805.28	2875.91	3078.72	3274.59	3689.99	4017.9
U.S.A.	669.37	855.61	1020.17	1216.29	1305.82	1460.72	1551.78	1619.95	1649.12	1717.92	1770.68	1845.75	1901.82
Japan	215.11	234.10	294.96	311.29	330.64	361.64	371.62	377.34	394.57	446.53	500.74	689.59	843.92
Hongkong	55.28	94.43	106.39	120.82	131.40	159.53	144.26	155.55	169.25	185.01	200.26	255.37	270.78
Netherlands	21.22	33.83	92.07	104.89	108.74	119.03	125.71	130.22	131.28	148.17	151.54	155.18	160.36
U.K.	43.09	67.47	80.27	78.27	82.81	88.42	100.64	101.67	102.72	106.03	114.63	129.80	131.86
Switzerland	32.73	39.81	46.41	47.75	55.39	60.02	62.88	62.91	63.32	68.42	75.59	83.99	92.05
Australia	31.41	35.77	39.20	43.25	43.71	43.84	44.60	46.08	46.19	59.09	66.77	66.43	71.39
Canada	50.51	44.74	45.82	45.82	45.82	46.47	46.97	47.56	47.56	48.57	51.86	52.83	53.81
France	17.85	36.04	38.08	41.45	41.69	41.99	41.99	42.00	42.09	42.18	43.23	44.22	49.64
W. Germany	13.4	18.16	21.09	24.78	26.91	27.81	29.00	29.38	30.46	30.91	32.97	38.45	45.98
Sub-total	1149.97	1459.96	1784.46	2034.61	2172.93	2409.47	2519.45	2612.67	2676.55	2852.81	3008.26	3361.61	3621.6
Others	130.91	127.73	147.13	172.59	180.82	191.18	189.45	192.61	199.36	225.91	266.33	328.38	396.3