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## **Export Promotion in the Philippines**

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## 1. Introduction

The Medium Term Philippine Export Development Plan (MTEDP) for 1993-1998 expects a 19 per cent annual rate of growth between 1993 and 1998. Under this MTEDP, the Philippines plan for US\$ 22.9 billion exports in 1998 - as compared with US\$ 11 billion in 1993 - by focusing its export promotion efforts on 14 selected product groups<sup>1</sup>, which were selected after mutual consultation between the government and the private sector. The criteria used in the selection are: worldwide sales potential; sensitivity to protectionist measures of importing countries; the minimum requirements for efficient infrastructure in the production capacity of the Philippines and the availability of skilled labour. Exports should grow by an average rate of 15.3 per cent and imports by 12.9 per cent from 1993 to 1998. It is hoped that the MTEDP, will raise the share of exports to GNP to 30 per cent in 1998, as compared with 19 per cent for 1993. Special attention will be devoted to increased exports to the major trade powers such as Europe, Japan and the U.S.

Future export promotion policies will remain very important to reach the targets mentioned above as many import restrictions cannot be removed in the short run and specific export promotion policies will be needed to alleviate the anti-export bias and put the Philippine exporters on an equal basis with their competitors on the world market. In addition, the gradual creation of the ASEAN Free Trade Area (AFTA), will oblige Philippine export promotion to devote more attention to its competitiveness with a larger trade bloc. This will require a qualitative shift in the Philippines' export promotion policies.

This paper presents an overview of the public export promotion methods that are used in the Philippines. After a brief introductory section on the export performance of the Philippines, the exchange rate policy, the import and export regime, the export financing regime, the investment incentives for exporters, the infrastructural situation and the export promotion activities of the government will be discussed.

## 2. Outward oriented strategies and export performance of the Philippines

Until a few years ago, many (Asian) developing countries, including the Philippines, applied an import-substituting trade regime, in which the domestic market was the central focus. An overvalued exchange rate, import controls, high tariffs and quantitative restrictions on imports all contributed to a high level of protection (Ifzal, 1990, p. 6). On some finished goods, tariff rates even reached 100 per cent (Noland, 1990, p.80).

In the literature, many categorisation of trade and development strategies, have been attempted. Baghwati (1990) distinguishes import substitution, export orientation and ultra-export promotion. In an *Import Substituting Regime* the effective exchange rate on imports,  $EER_m$ , exceeds the effective exchange rate on exports,  $EER_x$ . The effective exchange rate on exports is usually defined as the domestic currency that can be obtained for one dollar of exports, taking into account export duties, sub-

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<sup>1</sup> These 14 so-called 'export winners' are: carrageenan and seaweeds, marble, processed tropical fruits, shrimps and prawns, ceramics, furniture, garments, gifts and housewares, jewelry, electronic components, metal components, computer software, construction service and professional services.

sidies and surcharges, special exchange rates, import subsidies related to exports, etc. Likewise, the effective exchange rate on imports can be defined as the domestic currency that would be paid for one dollar of imports, taking into account tariffs, surcharges, interest on advanced deposits, etc. Using  $EER_m$  and  $EER_x$ , three different development strategies can be distinguished: in an Import-Substitution Strategy, i.e.  $EER_x < EER_m$ , a bias against exports is developed and a net incentive is given to produce locally more import-substitutes compared to what international prices would dictate. An *Export Orientation Strategy* will imply  $EER_x \approx EER_m$  and the elimination of the anti-export bias, with sales in the domestic market been given the same incentive as exporting. Some authors have coined with Ultra Export Promotion Strategy  $EER_x > EER_m$ , (Baghwati, p. 17)

The comparison of the average  $EER_m$  and  $EER_x$ , however, only gives a rough indication about development strategies which are followed. Both  $EER_x$  and  $EER_m$  can vary widely between different goals. Also a country, which adopts an export promotion strategy, can still apply import substitution policies in particular industrial sectors (Baghwati, 1990, p. 18). To avoid these problems that arise when measuring the trade regime of a country by one single index, the Bradford-Branson multiple indicator approach was developed. This approach is more appropriate to define trade regimes and development strategies as it not only takes into account effective exchange rates, but also other quantitative and qualitative data, leading to a continuum of trade regimes from dirigisme on the import side through laissez-faire, to dirigisme on the export side. (see Figure 1).

**Figure 1 : Characteristics of trade regimes: the Bradford-Branson continuum**

Trade regime	Characteristics
Autarky	No trade 'Delinking' Self-reliance
Closed Economy Import Substitution	Exports and imports less than 5 per cent as share of GDP (a) Discrimination against all imports through controls: $EER_m > EER_x$ (b) Selective discrimination (c) Mild and limited applications
Inward Orientation Outward orientation Trade Economy Open Economy	Priority given to the domestic economy Priority given to exports Exports 15 per cent or more of GDP Internal liberalisation: $EER_x = EER_m$ (a) tradable goods (b) (a) + nontradable goods (c) (a) + (b) - macroeconomic variables
Export Promotion	(a) Uniform subsidies for all exports: $EER_x > EER_m$ (b) Selective subsidies Industrial policy Import substitution

Source: Bradford and Branson (1987), p. 18

During the 1950s, the domestic enterprises in the Philippines producing consumer goods expanded rapidly, due to exemptions from industrial taxes and from import duties. Meanwhile, tariff rates on imports were increased, reaching over 100 per cent nominal rate on some finished goods. Transit of capital goods was hit by lower tariffs and exports were discouraged. Because many capital goods and

materials had to be imported, the balance of payments of the Philippines deteriorated. By 1960, a devaluation of the peso and a relaxation of import controls became necessary. However, as the protectionist structure remained more or less the same, the finishing stages in the production process were rewarded and the backward linkages and exports were penalized. The decontrol program was not very successful, and as the balance of payments problems could not be solved, import controls were restored (Alburo, 1987).

In the late 1960s, the Philippine government alleviated the export bias and introduced incentives to stimulate non-traditional exports. In 1970, a direct subsidy to value added was available for firms which exported more than half of their output. Bonded warehouses were established and partial duty drawbacks were provided to exporters of selected products. In 1972 the first Export Processing Zone in the Philippines was established in Bataan.

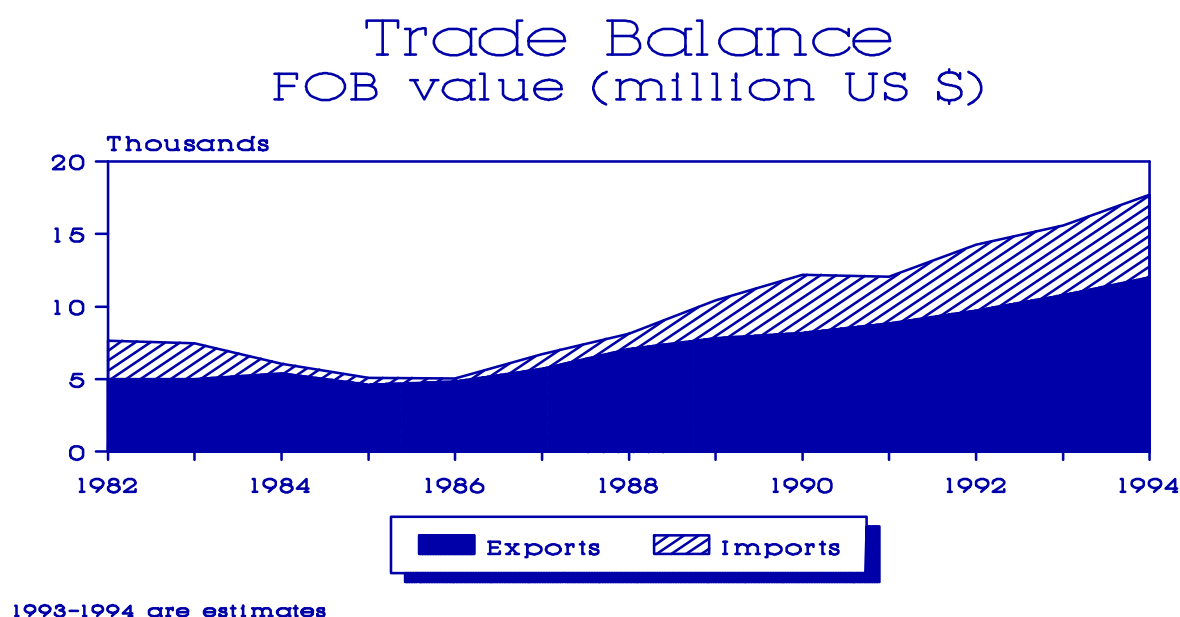
The alleviation of the bias against exports in the Philippines can be illustrated by looking at the ratio of  $EER_m$  and  $EER_x$ , which was 1.64 in 1960-62 and decreased to 1.37 in 1970 (Greenaway and Reed, 1990, p. 68).

With the declaration of martial law in 1972, policies were reversed and the role of government intervention and the importance of the public sector increased again. Many large companies were nationalized (e.g. Philippine Airlines). A revision of the customs code resulted in an increase in import duties and to the establishment of an export tariff. At the same time, in order to maintain a high output level, the government pursued expansionary monetary and fiscal policies which resulted in an overvaluated Philippine Peso. The deficit on the current account balance was financed by heavy government borrowing abroad. In 1983, the year of the assassination of Benigno Aquino, the country was hit by a severe economic crisis which resulted in a debt-repayment moratorium and a stand-by agreement with the IMF (1985). The reform programme to establish a more outward orientation policy could only be reinitiated in 1986 (see further). Yet, the Philippine economy today is still more of an import-substitution than an export-oriented regime. The bias against exports, though smaller than before, is still present (see also Alburo, 1987). Although exports have been growing over the past decade, after the 1984-1986 crisis this expansion was not enough to compensate for the expenditures on imports (Figure 2). Throughout the 1980s the Philippines was confronted with a structural trade balance deficit. Since the early 1990s, the gap between exports and imports has even been worsening. In 1992, total imports increased with 20 per cent while exports only grew with less than 10 per cent. Estimates from the Asian Development Bank reveal that for 1993 and 1994 imports will continue to increase at a much higher rate than exports, resulting in a ever widening trade gap. (Asian Development Outlook, 1993).

Since the late 1970s, the share of 'manufactured' goods in the exports of the Philippines became larger than for the so-called 'traditional' products. Philippine policy makers define *traditional products* as products with an export value exceeding US \$ 5 million in 1968. Among these traditional products are coconut, sugar, mineral and forest products, fruits and vegetables, abacca fibres, unmanufactured tobacco and petroleum. All other products are considered as *non-traditional products*, with manufac-

tures constituting the largest part of this group. Among manufactured exports, garments and electronics are the most important categories.

**Figure 2: Evolution of the Philippine trade balance**



Source: ADB, *Asian Development Outlook*, 1993.

The share of traditional exports thus defined, in total exports, decreased from 91 per cent in 1970 to 16 per cent in 1992 (see table 1). Weakening world demand for sugar, coconut and copper are the major cause for this decline. The non-traditional manufactures, which contributed only 7 per cent in 1970 to total exports, increased their share to 75 per cent in 1991. In 1991, the share of electronics and garments in the total exports amounted to respectively 26 and 21 per cent.

**Table 1: Philippine exports by category (FOB value, million US\$)**

	1970	1975	1980	1985	1990	1991	1992	1993
Traditional	972	1767	3068	1302	1437	1385	n.a.	n.a.
Non-traditional	85	504	2650	3275	6635	7355	n.a.	n.a.
non-manufactures	13	137	645	510	640	720	n.a.	n.a.
manufactures	72	367	2005	2765	5995	6635	n.a.	n.a.
electronics		47	671	1056	1964	2293	2290	3170
garments		100	502	623	1776	1861	n.a.	n.a.
Others	5	24	70	52	114	99	n.a.	n.a.
TOTAL	1062	2294	5788	4629	8186	8840	9824	10915

Source: Central Bank of the Philippines

n.a. : not available

In the Philippine manufacturing sector, in particular in garments and electronics, a high proportion of raw materials is imported on consignment and only little value is added to the reexported finished goods. These goods are also often manufactured in export processing zones or bonded warehouses where the imported raw materials enter tax- and duty-free and without any other restriction. Of the total value of 1991 imports raw materials and intermediate goods represented 48.5 per cent (see table 2). It has been said that the major non-traditional manufactured exports are "enclave activities with relatively few backward linkage effects" (Ifzal, 1988, p. 12).

**Table 2: Philippine imports by category (FOB value, million US\$)**

	1970	1975	1980	1985	1990	1991	1992	1993
Producer goods	1015	3187	7388	4718	11351			
machines and eqpt.	205	675	1253	317	1531			
unproc. raw materials	158	908	2235	1504	2357			
semi-proc. raw materials	595	1471	3300	2532	6924			
supplie	57	133	599	365	538			
Consumer goods	75	272	339	393	855			
durables	7	15	28	16	82			
non durables	68	257	311	377	774			
TOTAL	1090	3459	7727	5111	12206	12054	14520	16530

Source: Central Bank of the Philippines

Imports of capital goods have increased considerably during the past few years. This might indicate the improvement of the general business climate and better future business prospects. It also might result from the increasing imports of generators, office machines and telecommunication equipment, due to the serious and lingering power shortages and insufficient telecommunication infrastructures in the Philippines.<sup>2</sup>

### 3. Import regime of the Philippines: overview and recent developments

#### 3.1 Characteristics of the import regime

Most goods can be imported freely into the Philippines. The importation of goods into the Philippines is subject to duties based on the *Home Consumption Value* (HCV), also known as the Fair Market Value (FMV). This value is based on the domestic wholesale price in the exporting country at the time of exportation, to which is added marketing, distribution and promotion costs. Currently, a bill has been proposed to the Congress to shift the import valuation scheme from the Home Consumption Value (HCV) to the GATT Transaction Value System as agreed in the Tokyo Round<sup>3</sup> and based on the invoiced value of the goods. Under the new GATT agreement, the Philippines has to shift to the GATT Value system before 1999.

A study made by the Bureau of Customs revealed that the Home Consumption Value is on average 35 per cent higher than the invoice price. In this study, the declared invoice price of 44 shipments was compared to the value provided by the commercial attaches (Manila Bulletin, 28 February 1993). With a shift to the GATT value system, importers would thus benefit by lower tariffs. For agricultural products from the European Union such as dairy products, the domestic prices are higher than the actual export prices. The expected loss of government revenue due to a future shift to the GATT Transaction Value System is estimated as about 9 to 12 billion Pesos.

An *Import Liberalization Programme (ILP)* was initiated in 1984. Under the ILP, the importation status of only 69 products will remain restricted by the end of 1994, mainly for safety or health reasons (GATT, 1993, p. 38). As of November 1992, 2,761 items were already deregulated. Quantitative

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<sup>2</sup> Capital equipment can be imported tax- and duty-free by BOI- and EPZA- registered enterprises.

restrictions on 135 items (less than 5 per cent of the total number of Philippine Standard Classification Code lines) were still applied. At present, there are only two types of *direct import restrictions* left<sup>4</sup>: i.e. prohibited imports and regulated imports. All other products can be imported freely. Among the import products which are completely *prohibited* are e.g. explosives; firearms; pornographic pictures; articles advocating treason, rebellion, subversion against the government; gambling materials; narcotics; onions, potatoes, garlic and cabbages except for seedling purposes; coffee; used clothing) (GATT, 1993, p. 83). Yet, these products can still be imported if there are special circumstances. For *regulated imports*, clearances are required from various government agencies. These imports are regulated for reasons of health, safety and security. This is e.g. the case for animals, antibiotics, fertilizers, fresh fruits and vegetables, petroleum products, sugar, trucks and automobile tires, vessels, ...

*Executive Order No. 470* was issued in 1991, with the purpose to narrow down tariffs of about 80 per cent of the items under the Tariff and Customs Code, to levels of respectively 3, 10, 20 and 30 per cent over a period of five years (until July 1995). The 3 per cent tariff applies to basic raw materials either previously exempt from tariffs or subject to a 5 per cent tariff rate. The 10 per cent tariff rate applies to raw materials and capital equipment for which no locally produced substitutes are available. The 20 per cent tariff is applicable to intermediate and semi-processed goods and capital equipment for which there exist locally produced substitutes and the tariff of 30 per cent relates to finished goods. The 1995 rates will continue to be levied in the following years until modified (GATT, 1993, p. 67). Under the tariff restructuring programme of EO 470, the number of tariff lines will be reduced by 10 per cent from 6,193 to 5,561 lines. The ultimate goal is to set a uniform tariff rate of 10 per cent on all imports by 1998 (Philippine Daily Inquirer, 27 August 1992).

The programme allows many exceptions:

- 208 products will remain subject to a 50 per cent duty after 1995, in order to protect local products like tobacco, footwear and travel goods, rice, coconut, sugar and fresh fruits or to discourage the imports of luxury or non-essential items such as beverages and spirits, perfumes and fur (GATT, 1993, p. 68).
- 178 lines will be temporarily subject to much higher tariffs (on average double the rates of 1991). These products are goods which were recently deregulated, e.g. certain kinds of meat, fish and consumer durables. The local production will need interim support measures that will enable them to develop their competitiveness and efficiency in a market oriented environment."... The government must provide increased tariff protection to said industries *in lieu* of import restrictions" (Executive Order No. 8, July 1992).

After December 1995, the Philippine tariff rates will be readjusted into two levels: the 10 per cent duty will be reduced to only 3 per cent and rates above 10 per cent will be cut down to 10 per cent. A uniform 5 per cent rate will be attained on all imports starting January 1, 2001.

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<sup>3</sup> In fact, the Philippines is one of the only countries in the world where tariffs are based on HCV. As a member of GATT, the Philippines has committed itself to change the basis of computation towards a GATT approved system (Manila Bulletin, September 6, 1993).

Table 3 provides estimates by the Tariff Commission of the Philippines about the average tariff rates between 1980 and 1995. The unweighed average tariff rate declined from 41 per cent to about 24 per cent in 1992. After the current tariff reforms, this rate should be lowered further to 20 per cent. The import weighted tariff rate declined much less than the unweighed rate.

According to Medalla (1992, p. 31), E.O. 470 will result in a decrease of the average tariff rate for all importables from 30.6 per cent in 1989/90 to 24.4 per cent in 1995. The standard deviation would also decrease from 10.8 per cent in 1990 to 5.1 per cent in 1995 and the average effective rate of protection for importables would decrease from 48.1 per cent in 1989/90 to 38.1 per cent in 1995.

**Table 3: Average tariff rates in the Philippines, 1980-1995**

	Unweighed	Weighted
1980	41.37	21.40
1981	34.60	21.20
1982	31.40	21.10
1983	29.50	20.30
1984	28.80	20.20
1985	27.60	18.30
1986	27.90	21.20
1987	27.90	19.50
1988	27.90	19.50
1989	27.60	19.69
1990	27.84	19.69
1991	25.69	17.93
1992	24.27	
1993	22.56	
1994	21.74	
1995	20.07	

Source: Tariff Commission, in: GATT, p.70

**Table 4: Effective protection rates (1990) (%)**

All sectors	25
Exportables	-3
Importables	47
Agriculture, fishery and forestry	4
Exportables	-5
Importables	42
Mining	4
Exportables	-1
Importables	25
Manufacturing	35
Exportables	0
Importables	48

Source: Tariff Commission

Table 4 shows the 1990 effective rate of protection for different sectors calculated by the Tariff Commission. It clearly appears that exportables are still facing negative (or zero) rates of effective protection, whereas importables are still highly protected. This implies that exporting from the Philippines in fact is still facing certain barriers.

## 3.2 ASEAN

### 3.2.1 The PTA scheme

The ASEAN countries have accorded each others exports preferential treatment on the basis of the 1977 *ASEAN Preferential Trading Agreement* (PTA). To enjoy preferential treatment, products need to be integrally produced in the exporting ASEAN country or, if the final manufacturing process takes place in the exporting country, the total value added from non-ASEAN countries may not exceed 50 per cent of the FOB-value of the products. Originally, the ASEAN PTA negotiations, followed a *product-by-product* approach which consisted of each country offering 200 new tariff preferences each year. In 1980 for imports with a value of less than US\$ 50.000<sup>5</sup>, an *across-the-board* approach was

<sup>4</sup> Until July 1992, imports were classified into five categories: freely importable, prohibited, banned, regulated and liberalized. Since then, imports are classified into three categories: freely importable, regulated and prohibited.

<sup>5</sup> Raised to US\$ 500.000 after 1981.



adopted, which resulted in a tariff reduction of 20 per cent on these imports. However, exceptions were allowed for "sensitive items" (Dewint, 1992, p. 81).

In 1991, about 15,600 different products were traded among ASEAN member states. The list of the Philippines amounted to 3,800 products (GATT, 1993, p. 75). Many observers have viewed the results of the ASEAN PTA as disappointing. The margins of preference of 25 to 50 per cents in the PTA scheme, are on average considered as too low. In addition, some ASEAN countries like the Philippines and Indonesia, were involved in major external trade liberalisation schemes which reduced the advantages given by the PTA to ASEAN suppliers. Furthermore, the large national exclusion lists reduced the effects of the tariff cuts. Finally, the largest impediment to increase intra-regional trade seems to be non-tariff barriers rather than tariff barriers (Teh, 1993, p. 15).

### 3.2.2 The ASEAN Free Trade Area and the CEPT

Following the Singapore Declaration of January 1992 of the ASEAN member states, tariff and non-tariff barriers will be removed on the basis of the establishment of the *ASEAN Free Trade Area (AFTA)* during a period of 15 years. The major tool for achieving AFTA will be the *Common Effective Preferential Tariff (CEPT)*, under which tariffs on manufactured goods and processed agricultural products will be lowered to 0-5 per cent by the year 2008<sup>6</sup>, although only for products with an ASEAN content of at least 40 per cent. (This implies a relaxation of the rules of origin compared with the PTA schemes). For 15 products<sup>7</sup>, tariff reductions will be achieved under an Accelerated Tariff Reduction Scheme, the so-called "fast-track system". For these products, current tariffs above 20 per cent will be lowered to 0-5 per cent within 10 years and tariffs of 20 per cent or below will be lowered to the same 0-5 per cent range within 8 years. Tariffs for products under *the Normal Tariff Reduction Scheme* will be reduced during a 10 years period for tariffs of 20 per cent or below and during a 15 years period for tariffs above 20 per cent (first a reduction to 20 per cent within 5-8 years followed by a final reduction to 0-5 per cent after another 7 years). Once a product is included in the CEPT scheme, non-tariff barriers affecting this product are also to be gradually removed within 5 years. For the Philippines, the CEPT tariff reductions will only start in 1996 after E.O. 470 is fully implemented<sup>8</sup>.

It is important to notice that the import duties in all ASEAN countries will be reduced to 0 - 5 per cent by the year 2008 (now 2003), with even more chance that the tariffs will be 0 per cent instead of 5 per cent as the cost of tariff collection and administration will probably be higher than the revenues collected (Ariff, 1993, p. 10). Each ASEAN country can temporarily exclude certain products from the tariff reductions. These exemption lists will be reviewed after 8 years, when a permanent exclusion list will be prepared. It should be stressed that services and raw agricultural products have been excluded from the CEPT from the beginning<sup>9</sup>.

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<sup>6</sup> At the September 1994 meeting of the ASEAN Economic Ministers, the time period was reduced to 10 years, ending by 2003, and agricultural products were included.

<sup>7</sup> These products are: vegetable oils, cement, chemicals, pharmaceuticals, fertilizers, plastics, rubber products, leather products, textiles, ceramic and glass products, jewellery, copper cathodes, electronics, wooden and rattan furniture and pulp.

<sup>8</sup> The CEPT is a tariff reduction program between ASEAN countries while E.O. 470 is a Philippine unilateral tariff reduction program towards all countries.

<sup>9</sup> See footnote 6.

A major distinction between the CEPT and the PTA is that the former will result in the same net nominal tariff for each ASEAN country whereas the PTA scheme gives the same MOP for all tariffs in the different ASEAN countries which leads to different net nominal tariffs.

Of the 5,591 total tariff lines in the Philippines at 6 digit HS level, 426 tariff lines are permanently and 714 are temporarily excluded (mostly petroleum products, garment products, processed foods, paper products and motor vehicles). Also 1,033 tariff lines fall under the accelerated track and 3,418 under the normal track<sup>10</sup>. The Philippines submitted 79.6 per cent of the total tariff lines under the accelerated and normal reduction program, Indonesia 78.4 per cent (7,355 lines), Malaysia 87.4 per cent (8,777 lines), Thailand 91.6 per cent (4,513 lines), Brunei 92.9 per cent (6,079 lines) and Singapore 98 per cent (5,722 lines). Indonesia and the Philippines have the longest exemption lists. In both countries, less than 80 per cent of the tariff lines is included in the CEPT (see Table 5).

**Table 5: Summary of CEPT product lists**

Country	HS Digit level	Inclusion				Exclusion				Total
		Fast Track	Normal Track	Subtotal	%	Temporary	General Exception	Unproc. agricultural products	Subtotal	
Brunei	9	2,420	3,659	6,079	92.89	208	201	56	465	6,544
	6	1,975	2,604	4,579	-	-	-	-	-	-
Indonesia	9	2,816	4,539	7,355	78.39	1,654	50	324	2,028	9,383
	6	1,445	2,734	4,179	80.07	834	30	176	1,040	5,219
Malaysia	9	3,166	5,611	8,777	87.39	627	98*	541	1,266	10,043
	6	1,725	2,419	4,144	85.50	273	98*	332	703	4,847
Philippines	9	1,033	3,418	4,451	79.61	714	28	398	1,140	5,591
	6	974	3,079	4,053	-	-	-	-	-	-
Singapore	9	2,205	3,517	5,722	97.95	Nil	120	Nil	120	5,842
	6	1,896	3,078	4,974	100.00	Nil	-	Nil	-	4,974
Thailand	Tariff-Line	3,509	5,254	8,763	94.00	118**	26*	415	559	9,322
	6	1,736	2,777	4,513	91.56	-	26*	390	416	4,929

\* Products, \*\* at HS-10 digit level - Source: AFTA Commission

Four distinctive effects of AFTA and the CEPT on intra-ASEAN trade can be distinguished (Teh, 1993, p. 29-30) First, the gradual reduction of tariffs under the CEPT will create incentives for larger intra-ASEAN trade. Second, the effects of standardization, harmonization and dismantling of non-tariff barriers will also stimulate intra-ASEAN trade. Third, with the world economy apparently breaking up into regional trading blocs, there might develop strong political pressures to orient trade towards the regional trading partners. Fourth, the timespan for which the ASEAN Free Trade Area will be established is sufficiently long to allow the necessary restructuring of production and trade adjustments.

At present, intra-ASEAN trade is still relatively small and dominated by the bilateral trade flows between Singapore and Malaysia (Yap and Edillon, 1993, p. 2). Trade by ASEAN countries is mainly of an extra-regional nature. The share of intra-ASEAN trade in the total ASEAN trade reached only 17.7 per cent in 1990 (Ariff, 1993, p. 16). Only 2 per cent of the external trade of the Philippines is intra-ASEAN trade, and the imports and exports of some products are even not affected by the CEPT because of their existing low levels<sup>11</sup>. Yet, the products covered by the CEPT generated US\$ 9.3 billion of intra-ASEAN trade, or about 37 per cent of total intra-ASEAN imports (Ariff, 1993, p. 9). The higher

<sup>10</sup> Speech of Dr. E. De Dios (U.P.) about AFTA at Ateneo de Manila University, 23 September 1993.

intra-ASEAN trade is expected to improve Singapore's trade balance, although a net gain for all ASEAN countries in terms of long-term GDP growth is envisaged. (Yap and Edillon, 1993, p. 5)

Because intra-ASEAN trade is small, the effects of AFTA should be seen in a more global context (Ariff, 1993, p. 4). Free trade will lead to a more efficient allocation of resources and reduce transaction and input costs, making the ASEAN more attractive to foreign investors and giving ASEAN products more competitive strength in the international market. Ariff (1993, p. 28) has stressed that ASEAN countries should agree upon a common set of incentives.

## 4. Export incentives in the Philippines

Successful export growth depends on two key factors: 1) a competitive real exchange rate and 2) minimal import restrictions and external trade barriers. Import restrictions will lead to less efficient use of scarce resources and impose penalties on exports when an overvalued exchange rate is maintained (Ifzal, 1990, p. 33). We will deal first with the exchange rate, and in subsequent sections with the import and export regime.

### 4.1 A competitive exchange rate

An overvalued exchange rate penalizes exports and reduces the competitive position in the world market. However, a devaluation of the Philippine Peso leads to a rise of the total outstanding external debt (i.e. long-term debt, short-term debt and use of IMF credit) which reached US \$ 32,500 million in 1992. It also affects the ratio of total debt service (principal repayments, interest payments on long-term debt and IMF credit, and interest payments on short-term debt) to exports which reached 18.9 per cent in 1992 (Asian Development Bank, 1993). The Philippine debt service ratio is the second highest in the South-East Asian region. Although decreasing yearly, the ratio still reached 35.6 per cent in 1987. Because the external debt continued to rise during the same period, this relative decline has to be attributed to the rise in exports of goods and services.

Another effect to be expected of a devaluation of the Peso is higher inflation, nullifying the efforts of the Philippine government to reduce inflation since 1992 below the two-digit level, which was unexperienced since 1988. Due to the weak economy, tight monetary and fiscal policies and the depreciation of the Peso (see Table 6), inflation in 1992 was 8.9 per cent, practically half the rate of the preceding year (Asian Development Bank 1993, p. 115). Therefore, a devaluation which is not accompanied by sound macro-economic policies to curb inflationary pressures is likely to fail.

Table 6 shows the continuous depreciation of the Peso. The Peso was appreciated nominally in 1992. A number of factors contributed to this appreciation. Firstly, the election of president Ramos renewed confidence in the future. Secondly, the increased inflow of worker remittances from overseas, the decline in the inflation rate and the continued high interest rates on peso investments pushed the level of

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<sup>11</sup> Lecture of Dr. J. Pelkmans about ASEAN Free Trade Area, De La Salle University, 11 August 1993.

the Peso (Villamor, 1993, p. 72). By mid 1993, the exchange rate of the Peso versus the US \$ again reached approximately 28 Pesos, meaning that the high level was only temporary.

A better way to analyse the role of the exchange rate in foreign trade, is to look at the *real exchange rate* (RER) which is an index of relative domestic and world prices expressed in terms of a common currency, here the Peso. It determines the relative profitability of export and import competing goods versus non-traded goods. A real exchange rate depreciation will increase price competitiveness of the tradables of the country relative to the rest of the world. An increase in the index reflects an appreciation of the currency, in this case the Peso.

In Table 6 both the nominal exchange rate and the real effective exchange rate index are given.

**Table 6: Evolution of the exchange rate: Pesos vs. US\$**

	Nominal Exchange Rate Peso/US\$	Real Effective Exchange Rate Index 1980 = 100
1960	2.02	
1970	6.02	
1975	7.24	
1976	7.44	
1977	7.40	
1978	7.38	
1979	7.42	
1980	7.51	100.0
1981	7.90	101.4
1982	8.54	104.9
1983	11.11	85.3
1984	16.70	81.9
1985	18.61	89.1
1986	20.39	72.6
1987	20.57	68.2
1988	21.10	66.4
1989	21.74	69.7
1990	24.31	68.0
1991	27.48	67.6
1992	25.51	75.7

Source: ADB, Key Indicators 1992 and ADB, Asian Development Outlook, various editions.

During about 6 years since 1986, the real exchange rates remained more or less the same and even increased sharply in 1992. The nominal depreciation in 1992 was nullified by the devaluation of the competitors' currencies and by domestic price increases.

It is interesting to compare the evolution of the RER of the Philippine Peso with the evolution in the other ASEAN countries. Table 7 shows the real exchange rates for four ASEAN countries with base year 1970. From 1970 to 1990, the Peso has only depreciated 30 per cent compared to a depreciation with 46 per cent in Thailand, 49 per cent in Malaysia and 64 per cent in Indonesia. The other ASEAN countries have clearly used a more aggressive exchange rate policies to promote their exports, which is making the Philippines competitors less competitive.

**Table 7: Real Exchange rates (1970 =100)**

	Philippines	Malaysia	Thailand	Indonesia
1970	100.0	100.0	100.0	100.0
1980-88	106.4	79.7	80.9	89.9
1989	72.3	52.9	56.4	35.7
1990	69.9	51.4	56.4	35.7

Source: Central Bank of the Philippines, in: Krugman, p. 15

## 4.2 Regime for export-related imports

### 4.2.1 Exemption from SGS inspection for particular imports

In 1987 the *Comprehensive Import Surveillance Scheme (CISS)*, was introduced in the Philippines and implemented by the *Société Générale de Surveillance (SGS)*. According to this import regulation, all shipments valued at US \$ 500 or more have to be inspected at the port of origin.

The CISS performs the following functions (BETP, 1990, p.16):

- a) verification of the quantity and quality of the goods as to the accordance with the contract specifications;
- b) verification of the Tariff and Customs Code Classification and the tariff rate;
- c) identification of the dutiable value based on the fair market value/HCV, freight and other dutiable charges;
- d) verification of the invoice price of the goods, compared to the prevailing export price in the country of origin;
- e) issuance of a *Clean Report of Findings (CRF)*, necessary for Customs clearance and to support the negotiation of payment.

These functions are performed not only to prevent fraud in the payment of tariffs and duties, but also to prevent smuggling. According to estimates of the Economic Intelligence and Investigation Bureau, about US \$ 1.11 billion was smuggled per year during the 1986-1989 period, i.e. about 12 per cent of The Philippines' average annual imports (GATT, 1993, p. 92).

According to the CISS-regulation, not all imported goods are subject to inspection. Imported goods like meat, eggs, fruits, works of art, current newspapers, parcel post, raw materials and supplies for the semi-conductor and allied industries, goods consigned to government or government corporations/agencies and goods with a FOB-value of less than US \$ 500, are exempted. Also imports by enterprises located in Export Processing Zones are exempted (BETP, 1990, p. 17).

The process of inspection can take a long time, though. A 14-day delay in the arrival of shipments is not unusual. These delays obviously hamper the Philippine exporters who need the imported raw materials or semi-manufactured goods for their production activity. Therefore, the government decided in 1993 to also exempt from inspection the imports of sectors which are among the most important sources of export revenue, such as e.g. the electronics sector. Also the imports of raw materials, pre-cut fabrics and accessories used by local firms in the manufacture of garments for exports, are partially exempted. However, exemption of inspection is only granted to firms with an export track record of above US \$ 500,000 annually for at least five years (Philippine Business Report 1993). The Department of Trade and Industry is presently also considering the exemption of the imports of manufacturers located in industrial estates and in the Subic Free Port Zone. As a result of these exemption measures, the CISS regulation increasingly tends to become a non-tariff barrier. However, in order to speed up the movement of goods arriving in the Philippines, the government has recently allowed all SGS-pre-inspected cargo to be exempt from local customs examination provided they carry the firm's unhampered seal (Manila Bulletin, 3 Dec. 1993).

A GATT report argued recently and convincingly that there is enough evidence to indicate that physical smuggling is a much more serious problem than wrong declarations. Therefore, the Bureau of Customs should concentrate on the prevention of smuggling rather than on the classification and valuation procedures (GATT, 1993, p. 93).

#### 4.2.2 Access to inputs at world market prices

Several schemes in the Philippines warrant the Philippine exporters access to foreign inputs at world market prices, in order to put them to an equal footing with their foreign competitors in terms of costs of inputs (Manasan, 1990, p. 203). Privileges are granted to exporters who import raw materials and transform them into finished products for export. The Philippine government is administering the following duty drawbacks and duty exemption schemes (BETP, 1990, p. 41-135):

- 1) Common Bonded Warehouse Scheme
- 2) Bonded Manufacturing Warehouse Scheme
- 3) Export Processing Zone Scheme
- 4) Regional Warehouse Scheme
- 5) Duty Exemption Scheme under section 105(d) of the Tariff and Customs Code of the Philippines (TCCP)
- 6) Duty Drawback Scheme of the Bureau of Customs (BOC) and Special Tax Credit Scheme of the Board of Investments (BOI)

Tax and duty *exemption* on intermediate inputs can be availed for exporters under (1) to (5), meaning that exporters are exempted from payment of taxes and duties on imported raw materials and supplies used for exports. Tax and duty *drawbacks* can be obtained under (6) and exporters consequently pay duties and taxes at the time of importation of raw materials and supplies, but are refunded at the moment of exportation of the finished goods.

Most *common bonded warehouses* offer its members not only import tax and duty-free access to raw materials needed for the production of exports, but also provide assistance for import/export procedures, warehousing facilities for materials, and sometimes basic processing activities (e.g. cutting services for garments). A service fee is charged to avail of these facilities, normally based on the invoice value of the intended importation. Several common bonded warehouses are operating in the Philippines, such as Fashion Link Corporation (for garment exporters), Luzon Rattan Industries (for furniture, gifts and houseware exporters) and Philexport (for all kinds of direct and indirect exporters). Philexport, the largest export organization in the Philippines (over 1,200 members), operates two bonded warehouses, one for miscellaneous goods and another for garments. It also offers to its members: trade information, seminars and workshops on export related topics, a buyer-seller matching program, an investment matching program for joint ventures between Philippine and foreign companies and representation in several local and international trade fairs. Philexport also advocates regularly a supportive policy environment to strengthen the competitiveness of Philippine exports.

An exporter can also opt to exclusively operate a *bonded manufacturing warehouse*. The plant must be in an accessible location for inspection by Customs officials. The imported materials that are proc-

essed for export in this location are also free of duties and import taxes. Part of the processing can be subcontracted to duly accredited subcontractors without payment of duties and taxes. Posting of a re-export bond is required before the imported articles are transferred to the warehouse, in order to ensure the export of the finished goods within the prescribed period and/or the payment of taxes and duties due on such imports.

When using a bonded manufacturing warehouse or a common bonded manufacturing warehouse, a *Formula of Manufacture* (FOM), determining input-output coefficients has to be submitted and approved by the Industrial Technology Development Institute, or by the Garments and Textile Export Board (GETB) in the case of garments. The FOM should allow a thorough evaluation and inspection of the use that is made of the imported materials. The main disadvantage of the FOM is that it is not standardized and thus time consuming in preparing (GATT, 1993, p. 109).

Enterprises located in a *(special) export processing zone* are also allowed to import the necessary raw materials tax and duty-free. The import/export procedures of the enterprises registered with the Export Processing Zone Authority (EPZA) are handled by EPZA- Customs Documentation Units (ECDU), joint EPZA and Customs offices, located in the most important ports of entry in the Philippines. Subcontracting is also possible if the subcontractors are registered with EPZA.

Multinationals are allowed to establish regional headquarters in the Philippines for the supervision, and coordination of, and communication with their subsidiaries, branches and affiliates in the Asia-Pacific Region. They can avail of the *regional warehouse scheme* for the storage of their raw materials for export goods, free of customs duty, internal revenue tax, export tax or local taxes.

*Duty exemption under section 105(d) of the TCCP* is only granted on a case-by-case basis. This exemption needs approval of the Department of Finance prior of the arrival of the imported goods. These must be covered by a re-export bond equivalent to 150 per cent of the value of the ascertained duties and taxes, and re-exported within six months (GATT, 1993, p. 108). After re-exportation, a request to cancel the re-export bond has to be introduced after which the Collector of Customs will cancel it within 15 days.

Exporters can also avail of the *duty drawback scheme of the BOC*. A refund of the taxes and duties paid on the imported raw materials (including the packing, covering, marking and labelling of the products) is allowed upon exportation of the finished goods using these materials. A refund is also granted for delivery to bonded warehouses and enterprises located in *(special) export processing zones*. The refund is only granted, however, if there are no local substitutes for the imported materials available at the time of importation. The finished goods must be exported within one year after importation of the raw materials used, and the refund or tax credit must be claimed within six months from the date of exportation.

BOI-registered firms can avail of the *special tax credit scheme*. According to this scheme, exporters pay at the time of importation the total amount of duties and taxes, but later ask for the refund in the form of a tax credit. The tax credit certificates can be used for the payment of taxes and duties due to

the government. The two BOI implemented systems of tax credit are the *standard rebate scheme* (a predetermined fixed percentage of the export value) and the *regular tax credit scheme* (actual taxes and duties paid on imports), respectively.

As many BOI-registered exporters are exempted from income taxes, the disadvantage of the tax credit system is that the tax credit certificates, which can only be used during a limited period of time, often remain unused. On the other hand, the duty drawback system requires much working capital to finance the taxes and duties until the refunding time and exports must be made within two years from the date of importation of the raw materials.

The Philippine duty drawback and duty exemption schemes are necessary in order to allow the Philippine exporters to compete with producers in the rest of the world. However, proportionately few exporters can avail of these schemes. In 1985, less than one-fifth of all exporters and less than one-half of the total value of non-traditional manufactured exports had access to duty free imports (Ifzal, 1988, p. 35). Also, bureaucratic complexities and delays impose significant costs on exporters (GATT, 1993, p. 109). Manasan (1990, p. 217) has estimated the implicit tariff equivalent of the direct costs and transaction costs incurred by firms availing of the schemes. Based upon interviews with exporters, he concluded that:

- 1) location in an export processing zone (EPZ) to reduce the anti-export bias of Philippine foreign trade policies is the most effective mechanism for an exporter. Firms locating in EPZ are not only charged small fees relative to the value of their imports, but are also subject to the least number of documentary and procedural requirements. This can only be achieved however at the cost for the government of huge investments in infrastructure and administration.
- 2) the bonded manufacturing warehouses seem to be the second most effective way for the exporter of getting tariff free inputs. Some financial costs are incurred, however, such as supervision fees, overhead expenses and performance/re-export bonds premiums, which companies in the EPZs do not have to pay, but from the point of view of the companies, these fees are not very high compared to the value of their imports.

The duty drawback system of the Bureau of Customs and the Board of Investments are clearly the least effective for the exporter as the interest cost on the working capital used to pay the taxes and duties before it is refunded is considerable. In the case of the BOC scheme, it was estimated that all the costs represented at least one-half of the average tariff expenses on raw materials without duty exemption/drawback. In the case of the BOI scheme, these costs equal to 6 per cent to one-quarter of the average tariff expenses. For these findings, Manasan concluded that "the advantages of the BMWs (bonded manufacturing warehouses) and CCBWs (common bonded warehouses) over the other schemes cannot be underestimated. However, the former are better suited to firms that produce primarily for export. At the same time, the edge of exemption over the drawback scheme is obvious. Thus, one cannot escape the need for an efficient exemption system that will cover firms that produce both for the domestic and export markets as well as those that export marginally as these types of exports will become increasingly important in the medium term" (Manasan, 1990, p. 220).



### 4.3 Export regime

The export of 11 products is prohibited for environmental reasons and to conserve depletable raw materials<sup>12</sup>. Some 22 products require prior approval in the form of commodity clearance by different government agencies before they can be exported<sup>13</sup>. Other goods requiring an export clearance are these governed by import quotas in other countries (e.g sugar and garments), or covered by international agreements to which the Philippines is a signatory, such as coffee, fresh fruits, vegetables, live insects, etc.. The latter category of exports require phytosanitary certification under the International Plant Protection Convention (FAO) (GATT, 1993, p. 107).

The Philippines is a member of the *Multi Fibre Agreement* (MFA) and has bilateral textile agreements with the US, the EU, Canada, Norway and Austria (GATT, 1993, p. 107). The MFA is perceived by the Philippines as positive because it allows Philippine exporters to obtain a share in the world market which would have been impossible if they had to compete freely with the Asian NICs (South Korea, Taiwan and Hong Kong) (Medalla and Tecson, 1988, p. 247). The Philippines is also a member of the *International Sugar Agreement* and the *International Coffee Agreement*.

Considered as *constructive exports* by the Philippine government and therefore provided the same benefits as the regular exports are:

- gold sales to the Central Bank;
- sales to bonded manufacturing warehouses, to export processing zones, to BOI-registered export traders and to diplomatic missions in the Philippines paid in foreign currency;
- sales to Duty Free Philippines paid in foreign currency.

Almost all modes of payment for exports are accepted without prior Central Bank approval: letter of credit (L/C), Documents against Payments (D/P), Documents against Acceptance (D/A), Open Account (OA), Cash against Documents (C/D), Prepayment, Export Advance, Exports on consignment, Intercompany Open Account Offset Arrangements (Intercom OA). The payment for exports is accepted in a wide range of currencies. Exports to ASEAN countries can be paid in Philippine pesos.

### 4.4 Access to export financing

The exporting capabilities of a company are to a large extent determined by its access to financial resources. The *commercial banking system* is the main source for satisfying the exporters' needs of loans. A study prepared for the Asian Development Bank in 1988, however, based on a survey of 7 banks that were working with 2,392 Philippine exporters (45 per cent of all active exporters), revealed that in general, commercial banks are only willing to lend to exporters up to 70 per cent of the L/C.

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<sup>12</sup> These include: buri, abaca and ramie seeds, mangrove, bangus fry, mother bangus, prawn-spawner and fry, certain species of plant and animal wildlife and shells, matured coconuts and coconut seedlings, stalactites and stalagmites, and certain raw materials for cottage industries like bamboo, buri fibres and rattan (GATT, 1993, p. 102).

<sup>13</sup> Included are: garments and textiles, carpets, polyester staple fibre, yarns, fabrics upholstered furniture, copper concentrates, all plants and plant products, animals, animal products and animal effects, sugar, coffee, natural fibres, aircraft, antiques, lumber, shells, wildlife species, cement and clinker, firearms, Philippine notes, coins, checks, money orders and other bills of exchange greater than P 5,000, grain and grain-by products, oil and petroleum products, motion pictures/television films and related publicity materials, radioactive materials, all products destined to the Republic of South Africa, all products to socialist and centrally-planned economy countries (GATT, 1993, p. 104.)

Apart from the L/C, the banks request collateral like real estate and bank deposits up to 100-125 per cent of the loan value. Exporters also complained about high interest rates, short maturity periods of the loan and the required track record (Lamberte and Manasan, 1990, p. 234): credit is only provided to exporters with physical collateral (thus large exporters). However, in order to have enough collateral and a good track record, exporters should have access to credit at low interest rates, in the first place.

Interest rates in the Philippines are very high, reaching 24.1, 23.1 and 19.3 per cent in 1990, 1991 and 1992, respectively, although they have slowly been coming down since the beginning of 1993 (IMF Financial Statistics). Recently, the government has been making efforts to bring interest rates down by lowering the Central Bank rediscount rate (from 14 per cent in 1992 to 12.8 per cent in March 1993 and to 9.4 per cent in August 1993), by lowering the reserve requirements for the commercial banks (now 17 per cent) and by liberalizing the entry of foreign banks (a bill is now pending for approval in Congress). Since 1992, the government also allows exporters to avail of *Foreign Currency Deposit Unit (FCDU) loans*<sup>14</sup>. Interest rates are based on the LIBOR rate. Because of much lower interest rates compared to peso-denominated loans, the FCDU loans are highly attractive. Therefore, it is not surprising that the amount for FCDU loans doubled since 1992 and reached a level of about 2 billion pesos in September 1993<sup>15</sup>. In addition, the Development Bank of the Philippines, a government-owned financial institution, started in 1993 Eximbank operations (see also annex 1) to support the Philippine Export Development Plan 1993-1998 launched by the Ramos government.

Since 1991, by Republic Act 6977, otherwise known as the Magna Carta for Small Enterprises, the banking sector has to set aside prescribed shares of its total loan portfolio for small enterprises<sup>16</sup>. In 1993, this required share reached 10 per cent. Although, not particularly meant to promote exports, it will most likely affect positively the access by small enterprises to export finance.

A lot of other special financing assistance schemes are being offered to exporters. Many of these schemes are established for new exporters (and manufacturers) without track record, that are unable to avail of the facilities offered by the commercial banks, or small and medium-sized exporters without sufficient collateral, etc... Some of these schemes are also designed to promote at the same time other objectives, e.g. industrial relocation towards regions outside Metro Manila. Besides, some agencies are offering credit guarantee schemes for exporters that do not avail of enough acceptable collateral.

Appendix 1 presents an overview of the major export financing schemes of the different government agencies and clearly demonstrates the current fragmentation of the credit finance and guarantee system in the Philippines. Due to this fragmentation, economies of scale can hardly be achieved by these institutions and consistency of export promotion policies are seriously hampered. A study by Andersen Consulting, commissioned by Philexport and PITO-P, rightly calls for consolidating or

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<sup>14</sup> Since 1993, the foreign exchange system has been deregulated. Exporters can now freely use their foreign exchange proceeds. They can use loans from a foreign currency based credit facility from the Foreign Currency Deposit Unit (FCDU) of a local commercial bank.

<sup>15</sup> Atty. P. Ronquillo, Seminar on export finance in the Philippines, Central Bank, September 21, 1993.

<sup>16</sup> Small enterprises are defined as enterprises with total assets not exceeding P10 million before the loan, exclusive of the value of the land.

merging some of these facilities, particularly Philguarantee and GFSME (Guarantee Fund for Small and Medium Enterprises), that are competing in providing credit to exporters (Manila Bulletin, 25 Oct. 1993).

Moreover, many of these schemes are either not sufficiently known to most exporters, particularly to those exporters working outside major urban areas and therefore are not fully utilized (Alburo, 1991, p. 14), or the voluminous paper work required is discouraging the exporters who seek financial assistance (Ang and Teo, 1993, p. 10).

## 4.5 Investment incentives for export activities

Exporters in the Philippines can apply for investment incentives (1) under the Omnibus Investment Code of 1987, (2) as enterprises located in less developed areas and (3) as EPZA-registered enterprises.

### 4.5.1 The Omnibus Investment Code of 1987

The *Omnibus Investment Code* offers several incentives for companies registered with the Board of Investments (BOI). The incentives are available for:

a) investors located in preferred areas of investment<sup>17</sup>, b) Filipino owned enterprises exporting at least 50 per cent of production or, c) majority foreign-owned companies (more than 40 per cent foreign equity) exporting at least 70 per cent of production.

The fiscal incentives include (Board of Investments, 1993):

- Income tax holiday: 4 years for registered new non-pioneer firms and 6 years for registered new pioneer firms.
- Tax and duty-free importation of capital equipment, machineries and accompanying spare parts (up to December 31, 1994)<sup>18</sup>.
- Tax credit on domestic capital equipment (up to December 31, 1994).
- Additional deduction of 50 per cent for labour expenses during the first 5 years from registration (on the incremental number of workers if the project meets the prescribed ratio of capital equipment to number of workers set by the BOI).
- Exemption from contractor's tax.
- Tax and duty-free importation of breeding stocks and genetic materials for 10 years from registration.
- Tax credit on domestic breeding stocks and genetic materials for 10 years from registration.

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<sup>17</sup> These preferred areas are mentioned in the yearly published *Investment Priorities Plan (IPP)*. The IPP is a list of promoted areas of investments eligible for government incentives.

<sup>18</sup> After 31 December 1994, the importation of capital equipment, machineries and accompanying spare parts will be subject to 10 per cent VAT, although the equipment can still be imported duty-free. Companies registered with the BOI after May 27, 1994, have already to pay the 10 per cent VAT, although they can avail of a tax credit. On the other hand, the Philippine government decided to reduce gradually tariffs on the importation of capital equipment, components and spare parts from the current tariff of maximum 30-35 per cent to 3 to 10 per cent in the year 2000 (Manila Bulletin, July 14, 1994).

- Simplification of Customs procedures: no restrictions on the use of consigned equipment provided a re-export bond is posted (which can be waived for certain situations).
- Employment of foreign nationals: during 5 years from registration for supervisory, technical or advisory positions, and during unlimited time for the president, general manager and treasurer of foreign-owned firms.
- Tax credit for taxes and duties on raw materials, supplies and semi-manufactured products used in the manufacture of exports products (see supra).
- Access to bonded manufacturing/trading warehouse system (see supra).
- Exemption from wharfage dues and any export tax, duty and fees.
- Tax and duty exemption of imported spare parts and supplies.

*New export traders* (those engaged in export marketing of new products or new markets), registered with the BOI, can avail of the following incentives:

- Income tax holiday for 4 years.
- Tax and duty free importation of capital equipment until December 31, 1994<sup>19</sup>.
- Tax credit on domestic capital equipment up to December 31, 1994.
- Unrestricted use of consigned equipment.
- Tax credit for taxes and duties on raw materials and supplies.
- Exemption from wharfage dues, export tax, duties and fees.
- Additional deduction for incremental labour expenses.
- Employment of foreign nationals.

*Existing export traders*, registered with the BOI, are entitled to the same incentives as new export traders, except the income tax holiday and the capital equipment incentives.

Service exporters, registered with the BOI, can also avail of different incentives. *New service exporters* can apply for the same set of incentives as new export traders plus the exemption from contractor's tax. *Existing service exporters* can avail of an additional deduction for incremental labour expenses, exemption from contractor's tax, employment of foreign nationals and tax credit for taxes and duties on raw materials.

Table 8 shows total BOI-approved investments in some selected years, both for foreign direct investment and local investment. The number of projects and equity investments show a highly erratic pattern, mainly because of the political situation. The small share of foreign direct investment in 1992 reflects the fear of political instability and the wait-and-see policy of foreign investors. In 1993, foreign direct investment increased again and there are positive signs that this will continue in 1994 and beyond.

**Table 8: Amount of BOI-approved investments (in '000 US\$)**

Year	Number of projects	Local	Share	Foreign	Share	Total	
1970	42	31,312	66.3	15,930	33.7	47,242	100
1975	78	56,478	49.9	56,681	50.1	113,159	100
1980	205	332,947	58.5	236,410	41.5	569,357	100
1985	378	120,976	47.9	131,648	52.1	252,624	100
1990	3081	1,014,564	51.3	961,326	48.7	1,975,890	100
1991	2124	821,660	50.8	796,759	49.2	1,618,419	100
1992	2248	803,620	73.9	284,190	26.1	1,087,810	100
1993	2011	765,381	57.5	565,001	42.5	1,330,382	100
Total 1985-May 1994	20,567	10,201,053	57.3	7,341,287	42.7	17,794,964	100

Source: Board of Investments

Table 9 lists the projects approved in 1990 and 1991 under Executive Order 226, otherwise known as the Omnibus Investment Code of 1987<sup>20</sup>. Distinction is made between the projects which availed of incentives and which did not. The conditions for companies eligible for incentives under E.O. 226 are described in Book I of the Omnibus Investment Code. The number of projects not eligible for incentives under E.O. 226 highly exceed the number of projects which can avail of incentives. But looking at the project cost and equity of the projects, it is seen that those projects which can avail of incentives are much larger than the ones which cannot. It can therefore be concluded that mainly large projects and companies (can) avail of investment incentives. Comparing the data of 1991 with the previous year, it is clear that the political instability in 1991 in the Philippines severely affected the number of approved projects under E.O. 226. Since the Foreign Investment Act of 1991, enterprises not seeking investments, do not have to register with the Board of Investments. Therefore, no recent figures distinguishing between companies with and without incentives are available.

**Table 9: Projects approved in 1990 and 1991 under E.O. 226 ('000 Pesos)**

	1991		1990	
	With incentives	Without incentives	With incentives	Without incentives
Number of projects	715	1409	1510	1571
of which				
new & expansion projects	490	1409	755	1571
existing projects	130		141	
regional headquarters	17		18	
power generators	78		596	
Project cost	78,276,870	5,235,946	10,308,272	5,343,427
Equity	37,347,062	6,350,688	42,125,943	5,907,951
of which				
local	20,288,765			
foreign	17,058,297			
employment generation (*)	63,510		113,290	

(\*) for new and expansion projects only

Source: Board of Investments

#### 4.5.2 Incentives for enterprises in less developed areas

Incentives for BOI-registered exporters located in *less developed areas* are the same as the incentives given to a pioneer registered enterprise (see 4.5.1.). They also receive a 100 per cent deduction from taxable income for necessary infrastructure and an additional deduction of 100 per cent of the wages of the incremental number of workers in the year of availment.

<sup>19</sup> See footnote 18.

<sup>20</sup> The year 1991 is the last year of which the Board of Investments analyzed the projects by availment of incentives.

### 4.5.3 Incentives for EPZA-registered enterprises

Exporters located in (*special*) *export processing zones* are entitled to the following incentives:

- All the incentives available to BOI-registered enterprises under the same conditions.
- Exemption from local taxes and fees.
- Exemption from SGS inspection (see 3.3.).
- Simplified import and export procedures.
- No limitation on the ownership of equity by foreigners.

All these fiscal incentives offered to investors and exporters significantly affect the amount of tax revenues of the government. Table 10 shows the various incentives offered and the resulting loss of government revenue for 1989.

**Table 10: Foregone tax revenues from BOI investment incentives, 1989, billion Pesos**

Incentive	Amount of foregone tax revenue
Import duties on capital equipment	1.227
Import duties on raw materials	8.331
Import taxes on capital equipment	1.350
Import taxes on raw materials	4.999
Tax credits on domestic capital equipment	0.541
Income tax holiday	1.530
Duties and taxes of government agencies	2.764
Duties and taxes on travellers	0.010
Duties and taxes on EPZA imports	2.757
ASEAN-PTA preferences	0.259
Duties and taxes on imports of multilateral institutions	0.196
TOTAL	23.964

Source: Department of Finance, in Krugman, p. 48

Compared to total tax revenues, which totalled 121 billion Pesos in 1989, the total amount of foregone tax revenues from BOI-investment incentives, reached almost 20 per cent (Krugman, p. 41).

For the latest years, the granting of fiscal incentives by the Board of Investments implied a loss of tax revenues of about 26 billion Pesos (Business World, 18 August 1994).

### 4.6 Provision of infrastructure

One of the serious bottlenecks hampering export growth of the Philippines is the poor infrastructure. Power shortage, traffic congestion and insufficient infrastructural projects are very serious problems which limit production output and therefore exports. Sufficient power plants, modern telecommunications networks, better equipped seaports and ships, an improved railway system (presently almost totally absent) and "farm-to-market" roads, are among the necessary priorities. Most urgent in the Philippines is probably the power shortage problem which e.g. resulted in up to 10 hours of daily power blackouts during the summer of 1993 and in one of the highest electricity rates in Asia (Manila Bulletin, 27 Sept. 1993). Since 1994, power is restored but still at a very high price.

As was pointed out in a study by the Congressional Planning and Budget Office, only 1 per cent of the GNP has been spent annually since 1986 on roads, ports and other public works (Manila Bulletin, 27

Sept. 1993). Under the Medium Term Philippine Development Plan 1993-1998, 70 per cent of the resources for the Public Investment Program will be allocated to infrastructure projects.

The government's priority now are the *Flagship Projects*, consisting of 32 ventures to rebuild Philippine infrastructure and industry. Among these projects are: the light-rail system in Manila, a new international airport in Manila, expressways in and around the capital, an airport and seaport in Davao City, a petrochemical plant in Bataan and an integrated steel mill in Mindanao. The complete list of 32 ventures consist of 82 separate projects of which 49 are under construction. The whole program is estimated to cost about US\$ 8 billion. More than half of it is expected to come from the private sector, primarily through build-operate-transfer (BOT) arrangements (Far Eastern Economic Review, p. 78-79, 28 July 1994).

In order to alleviate the infrastructural problem and, indirectly, to strengthen the export capacity of the country, the Philippine government has been looking for increased private sector involvement in construction works. Under the *Build-Operate-and-Transfer* (BOT) law (R.A. No.6957) of June 1989, the contractor constructs, finances, operates and maintains a given infrastructure facility, charging tolls, fees or rentals. At the end of a fixed term -not exceeding 50 years- the project is transferred to the public authorities. Other variations of the BOT scheme include: the *Build-Transfer* scheme (the project is turned over to the government immediately after the completion of the project), the *Build-Transfer-Lease-Operate* scheme (the government is the direct borrower and leases back the infrastructure to the contractor for the operation) and the *Supply-Operate* scheme (the supplier of equipment and machinery the operates facility transfers the technology and trains the Filipino officials). Under these schemes private investors are attracted by interesting business prospects, the assurance of the project's viability and access to Official Development Assistance (ODA). Authorised infrastructure projects consist of highways, rail-based projects, non-rail based mass transit facilities, port infrastructure, airports, power generation, plant telecommunication, tourist infrastructure, industrial estates, export processing zones, land reclamation projects, etc.

In 1994, in order to increase the part of private investors in the BOT-schemes, the BOT-law was liberalized and expanded through the inclusion of other variations such as rehabilitate-operate-transfer (ROT) and contract-add-operate (CAO). More attractive incentives are also offered like three to six years income tax holiday, tax- and duty-free importation of capital equipment, tax deduction for labour expenses and direct negotiations of contracts in case there is only one complying bidder for a project (Philippine Business Report, Vol.5, No. 6, June 1994, p.1).

## 5. Public export promotion

### 5.1 Overview of the main governmental departments and agencies involved in public export promotion

It is important for exporters to get information on overseas markets, technology and export products. The government institutions created in the Philippines to assist in export product development and

marketing are organized in the International Trade Group of the Department of Trade and Industry. Table 11 provides an overview of these agencies and their main services.

**Table 11: The International Trade Group of the Department of Trade and Industry**

Agency	Objective
BUREAU OF EXPORT TRADE PROMOTION (BETP)	Formulates and implements plans, programmes, projects and strategies to develop, expand, and diversify Philippine exports.
CENTER FOR INTERNATIONAL TRADE EXPOSITIONS AND MISSIONS (CITEM)	Assists exporters through aggressive market promotion strategies to expand the niche of Philippine-made products in new and existing markets abroad.
FOREIGN TRADE SERVICE CORPS (FTSC)	Promotes Philippine exports and investments overseas through personal selling and commercial intelligence work.
GARMENTS & TEXTILE EXPORT BOARD (GTEB)	Integrates and rationalizes government policies and procedures on the Philippine garment industry. It manages the country's quota allocation system to maximize the benefits from textile agreements with major importing countries and optimize foreign exchange earnings.
INTERNATIONAL COFFEE ORGANIZATION CERTIFYING AGENCY (ICO-CA)	Manages the export trade in coffee according to the rules under the International Coffee Agreement (ICA ).
PRODUCT DEVELOPMENT AND DESIGN CENTER OF THE PHILIPPINES (PDDCP)	Provides product and packaging design assistance to exporters and manufacturers to improve the competitiveness of Philippine-made goods in the overseas markets.
PHILIPPINE INTERNATIONAL TRADING CORPORATION (PITC)	PITC is the international trading arm of the government. As such, it undertakes both import and export trading of new or nontraditional products and/or markets not normally pursued by the private business sector.
PHILIPPINE TRADE TRAINING CENTER (PTTC)	Designs and implements training modules on exports to update Filipino entrepreneurs on the demands of the international market and improve their capability to meet these demands.
PHILIPPINE SHIPPERS' BUREAU (SHIPPERCON)	Facilitates the development and growth of foreign trade and the national economy by protecting and promoting the interests of Philippine shippers.

Source: Department of Trade and Industry, 1992.

## 5.2 Center for International Trade Expositions and Missions (CITEM)

CITEM, the Center for International Trade Expositions and Missions, is the main export promotion agency of the Department of Trade and Industry (DTI). It was established in 1983, with the mandate "to professionally manage an export promotion organization which will plan, develop and implement trade fairs, special exhibits, selling missions and other promotional activities that will be responsive to the needs of exporters and to the requirements of the target markets". The top management of the Department of Trade and Industry will determine on which markets and which products CITEM has to focus. For the coming five years, efforts will be concentrated on the export winners mentioned in the Medium Term Philippine Export Development Plan 1993-1998 (see further). Based on the DTI guidelines, CITEM decides which promotional tools will be used, such as: trade fairs, sales missions, in-store-promotions, food festivals, permanent trade fairs, local fairs and incoming missions. CITEM publishes annually a market calendar with the planned participation in trade fairs, abroad and in the Philippines. The temporary market calendar for 1994 can be consulted in Annex 2.

### 5.2.1 Investment

The participation in traditional *trade fairs* abroad accounts for 60 per cent of the working program of CITEM. The remaining 40 per cent relate to fairs in new markets and products. CITEM's activities in



international trade fair participation are organised in close coordination with the Philippine commercial attachés abroad.

*Selling missions* to other countries are most of the time linked with trade fairs in that country in order to use the total budget in a more efficient way. There is always a coordinator of CITEM accompanying the selling missions.

A rather new promotional tool are the *in-store promotions*. The first in-store promotion was tested in 1989 when JC Penney of the USA offered to house US \$ 20 million worth of Philippine products at its retail branches nationwide. After this initial success, contracts with Hudson's Bay Group (Canada), Galeries Lafayette (France), Harrods (Great Britain) and El Corte Ingles (Spain) were launched. These in-store promotions are not only for commercial purposes but are also used as a medium for Philippine image-building.

CITEM is organising annually four FAME (Furnishing Apparel Manufacturing Exchange) *market weeks* in Manila. These four market weeks are held in:

February (furniture and furnishing), April (gifts, housewares and fashion), October (gifts, housewares and fashion) and November (food and plants).

The FAME market weeks were started in 1983 and during the past few years have been more effective than the international trade fairs, which are often too expensive for exporters (especially the trade fairs in Japan). An increasing number of buyers are visiting the FAME market weeks. In October 1993, 3,500 potential buyers visited the FAME market week and 400 Philippine exporters exhibited their products.

Trade promotion activities in Asia are increasingly coordinated. An agreement between the ASEAN trade promotion agencies to organize the local trade fairs in the Asian countries in the same period, is giving potential buyers the opportunity to visit several fairs during their stay in Asia. Mention should also be made of the Asian Trade Promotion Forum, consisting of 16 Asian trade promotion organizations which meet annually with the objective of exchanging export promotion strategies and experiences.

In 1985, an *international trade center* was established in Manila, of which CITEM is the administrator. Since 1986, CITEM operates eight product halls providing year-round displays of export products and a regional display hall for products from thirteen regions of the Philippines. Exporters interested to have their products exhibited in the *permanent showroom* have to sign a one-year (renewable) contract with CITEM. CITEM only requires to renew the exhibited products regularly.

In order to guard the quality label of the Philippines as an exporting country, CITEM will select exporters interested to participate in one of CITEM's activities, according to stringent criteria. Exporters who intend to export for the first time are encouraged to participate in the permanent trade fair in Manila, which gives them the opportunity to test the market at a low cost and to use the fair to test new designs and new products.

Exporters with a track record of at least two years and with last annual sales (export and domestic) between US \$ 200,000 and 500,000, however, can participate in the FAME market weeks. If these two criteria cannot be met the company must have at least one year export experience, and should be endorsed by its corresponding trade association if it wants to participate in the market weeks. Hence, only exporters exporting on a full-time basis can participate in the international fairs and join-selling missions.

Exporters are informed of CITEM's activities through direct mailing, local advertisements and through visits by CITEM officials to the Philippine business associations in the different regions. Potential buyers are informed of the activities of CITEM (especially for the FAME market weeks) through an intensive campaign of individual mailing. For instance, for the FAME market week on gifts and housewares, CITEM has a mailing list of more than 15,000 names. Other ways of informing potential buyers are advertisements in selected journals and through the commercial attachés (Foreign Trade Service Corps -FTSC). During the last year, CITEM tried to limit participation of the FAME market weeks through the use of stringent criteria because of the increasing success it encountered. On the other hand, Filipino ownership criteria have been relaxed. Today 100 per cent foreign owned companies can avail of CITEM's services, whereas before exporters with at least 30 per cent Filipino ownership were considered.

The Foreign Trade Service Corps can organize *incoming missions*, e.g. during the FAME market weeks. CITEM coordinates all incoming trade missions since 1987. These missions receive incentives by CITEM like special hotel rates, special flight rates, organized visit to factory sites, etc.

Finally, other activities of CITEM include mediation in the establishment of industry associations (e.g. Ceramics Core Group, Handmade Paper Association, Christmas Decor Association, Handwoven Textiles Association, etc.), and the provision of technical, marketing and research assistance and promotion of new industries (e.g. handmade paper).

### 5.2.2 Performance

In the last ten years, CITEM was able to increase its performance significantly in its different fields of activity:

- *International trade fairs*: In 1983, CITEM organized 29 international trade fair participations. By 1992 this number increased to 38. During the same period the number of participants rose from 207 to 438. Negotiated sales expanded by 336 % from 1983, amounting to US \$ 84.93 million in 1992.
- *FAME market weeks*: In 1983, 248 companies offered their products in the market weeks. In 1992, the number of participants had risen to 812. The number of buyers that visited the market weeks increased from 1,982 in 1983 to 5,935 in 1992. Negotiated sales during the fairs showed a 214 % increase, from US \$ 39.28 million in 1983 to US \$ 123.45 million in 1992.
- *Outgoing missions*: In 1992, CITEM organized 25 missions compared with 17 in 1983. The number of participating companies increased by 58 % from 93 in 1983 to 147 in 1992. Negotiated

sales reported from the missions rose from US \$ 6.425 million in 1983 to US \$ 14.527 million in 1992.

- *Incoming missions:* Between 1985 and 1992, CITEM serviced 134 missions, with total reported initial sales of US \$ 48.94 million.
- *Permanent showrooms:* In 1992, 242 Philippine companies exhibited in the eight product halls, which represent an increase of 122 % since 1986.

### 5.2.3 CITEM's export promotion programmes

CITEM's *export promotion programme for 1994* has three main components:

- promotion of export winners in priority markets
- image-building projects
- promotion of other winners and other markets.

The 14 export winners are mentioned in the Medium Term Philippine Export Development Plan (see supra). Priority markets are Japan, USA-NAFTA and the European Union. The promotion of the products is conducted through FAME market weeks, international trade fair participations, selling missions and institutional displays. In 1994, 64 per cent of CITEM's export promotion programmes will be spent on these products and markets.

Image-building projects are aimed to position the Philippine exports more favourably in the world market. These projects include special projects such as major solo exhibitions, food festivals and trade promotion components of projects of the Department of Trade and Industry or of presidential state visits abroad, in-store promotions and special fairs (e.g. the Philippine participation in *Scènes d'Interieur* in Paris). In 1994, 15 per cent of CITEM's programme will be spent on these activities.

Promotion of other winners and other markets includes emerging products that show great potential to become an export winner in other than the priority markets. This promotion component represents 21 per cent of CITEM's programme in 1994.

## 5.3 Other public export promotion activities and agencies

The *Product Development and Design Center of the Philippines (PDDCP)* is a technical agency of the Department of Trade and Industry, with a mandate to improve the competitiveness of Philippine products through better quality and product design. Therefore, the PDDCP offers services such as product design, package design, design consultancy, product technology consultancy, product technology demonstration, design and technical information and product development seminars. A library is also available for manufacturers, students and the general public.

The *Philippine Trade Training Center*, also a government agency under the Department of Trade and Industry, started activities in 1986, with a mandate to institutionalize human resource development in international trade, trade inspection and trade exhibition. Its main training courses include (BSMBD, p. 51):

- Trade business courses in the area of export marketing, designed for managers, owners, company executives and employees of export-oriented companies, interested in developing their export marketing skills.
- Trade exhibition courses to prepare participants for a trade fair or exhibition as a way to maximize the promotion of their products.
- Testing and inspection courses for garments, furniture and food products, aiming to develop among exporters the awareness and appreciation for quality control and product standards.

The *Bureau of Export Trade Promotion* (BETP) is the primary export assistance and information arm of the Department of Trade and Industry. Its programmes and services include (BSMBD, p. 35-37):

- Exporter's registration and the introduction of registered exporters to potential buyers worldwide through internationally-distributed promotional publications. Registration also facilitates buyer-seller matching and participation in various export promotion projects of the BETP.
- Trade information services.
- Export assistance and facilitation services using the BETP networks with various government and private entities to facilitate export business transactions.
- Specialized market/product consultancy and export enterprise development.
- Overseas trade offices.
- Special trade promotion projects, like the export brochures project, the GSP opportunities programmes, etc.

## 6. Conclusions

Export growth appears to be one of the pillars of the Philippines Medium Term Development Plan. Under this plan, the government hopes to increase exports by about 15 per cent annually and to narrow down its current negative trade balance. To meet these objectives, and also to compete with its ASEAN neighbours, export promotion will continue to be important in the Philippines.

This paper reviewed the present export promotion instruments and policies in the Philippines, against an historical background. It appeared that the Philippines has to overcome an important anti-export bias that existed since many years. The measures taken in the late 1960s and the second half of the 1980s, to alleviate this anti-export bias have been hampered by severe balance of payments and international debt service problems. Moreover, throughout the years, the stance towards import substitution policies has remained.

Because many exporters in the Philippines still import most of its raw materials and capital equipment, we first analysed the import regime. The Philippines is now in the process of restructuring its tariff program in order to narrow down tariffs. Purpose is to reach an uniform 5 per cent tariff rate by 2005. Besides this unilateral Philippine tariff programme, ASEAN countries will also establish an ASEAN Free Trade Area by 2003, lowering down tariffs between ASEAN countries to 0-5 per cent. But for the Philippines, extra-ASEAN trade is much more important than intra-ASEAN trade, the latter accounting

for only 2 per cent of total Philippine trade. Therefore, the expected results of the Philippine tariff restructuring program will be much more substantial than the effects of AFTA.

The Philippines suffer from the same evils with which many other external trade regimes in the world are confronted, i.e. of export promotion cum import substitution, and the many inconsistencies that stem from past endeavours to reconcile these contradictory policy targets. The many instances of such attempts in the Philippines have resulted in a very complex system of export incentives.

There exists many schemes to allow exporters to import their raw materials tax- and duty- free. Companies locating in an export processing zone or operating a bonded warehouse can import their raw materials tax- and duty-free. Also can companies avail of the duty exemption and drawback schemes of the Board of Investments and the Bureau of Customs. It seems nevertheless that these schemes are not always an appropriate tool for exporters. First of all, less than one-fifth of the Philippine exporters are eligible for one of these schemes and second, the direct and transactions costs incurred by firms availing of these schemes can be quite high, reaching half of the average tariff rate in the case of the duty drawback scheme of the Bureau of Customs.

The Philippine pre-shipment inspection system is another instance that apparently developed into a powerful non-tariff barrier, the negative impact of which was only alleviated later by granting exporting companies SGS exemptions.

Considered by many exporters as one of the most important factors to increase their competitiveness in the world market, is a favourable exchange rate. Nevertheless, as of now, it seems that the Philippine Peso is overvalued. Compared with his ASEAN competitors, the Philippine Peso is far less competitive. The government however still seems reluctant to devalue the currency, mainly of fear to increase inflation and the share of debt servicing in its total budget.

The export regime in the Philippines is almost completely liberalized, allowing almost all modes of payment and only requiring prior approval in some cases like for exports subject to quota's in the importing country and for exports like plants, animals and antiques. Few exports are prohibited, only some products, mainly for environmental reasons.

The recent liberalization on foreign exchange has increased competitiveness for the Philippine exporter. Exporters can now freely use their foreign exchange proceeds, they can avail of foreign currency loans at much lower interest rates than the peso-denominated loans and by liberalizing the entry of foreign banks, it is hoped that this will also increase competition and thus be favourable for the exporter. Despite this liberalization, however, access to export finance still remains a major problem, especially for smaller exporters. The necessity for a track record, high collateral and many other paper requirements are extremely discouraging for the new and small exporters to use the several financing schemes set up by private and public financial institutions.

The luke-warm attitudes towards export promotion in the Philippines' foreign trade and investment policies have resulted in a proliferation of a maze of measures and counter-measures, and the

establishment of institutions with overlapping mandates. Many measures that were introduced to stimulate exports within the still largely dominant import substitution regime, are costly for the government (e.g. infrastructure provisions for export processing zones) or for the exporting companies themselves (e.g. the costs involved in coping with the many regulations).

Exporters, eligible for incentives of the Board of Investments or the Export Processing Zone Authority can avail of several other fiscal incentives, besides the duty free importation of raw materials. But these incentives mean a huge loss of government revenues, amounting up to 20 per cent of all tax revenues. More and more studies question the effectiveness of these incentives, not only because of the loss of revenues but also because of the questionable benefits by offering these incentives to attract more investment.

The infrastructural facilities remain an enormous problem in the Philippines. Traffic congestion, power shortage and insufficient infrastructural projects are major problems which have to be addressed immediately. The present government is now trying to upgrade its infrastructure with the help of the private sector through the Build-Operate-Transfer (BOT) schemes. It was not realized however that basic infrastructure improvements should be addressed immediately, and that because of insufficient public funds, private funds are necessary.

Too many institutions and public agencies are responsible for implementing all sorts of export finance schemes. This is reflected in the way in which the government bureaucracy has dealt with the inconsistencies between import substitution and export promotion policies. This institution building has led to a struggle about legitimacy and to a fragmentation of scarce human and financial resources. Moreover, because there are so many institutions involved in export promotion, implementing so many promotional schemes, the exporters can hardly be blamed if they cannot find their way through this institutional jungle. Particularly for small potential exporting companies, the export promotion jungle, especially with regard to export finance, has become a huge barrier to engage in export activities.

Recent changes in the institutional framework for public export promotion, have tended to improve the effectiveness, however. The establishment e.g. of the Center for International Trade Expositions and Missions of the Philippines (CITEM) and the activities it has engaged in, point in this direction. More research is needed, however, to assess whether the increasing use by the private sector of CITEM's services is not just due to the increasing number of Philippine companies which became exporters and the increased export potential, rather than a greater effectiveness of the export promotion policies as such.

If the Philippines wants its products to gain competitive strength in the world market, it has to reduce the still present anti-export bias even more. Because of the very rapidly changing economic and social environment in the Asia-Pacific Region urgent measures need to be taken. An important trump card for the ASEAN countries might be the creation of the ASEAN Free Trade Area. The Philippines cannot afford to lag behind in this process of regional integration. Otherwise the more advanced ASEAN partner countries could take unilateral trade liberalisation measures that might deprive the Philippines of the future benefits of AFTA.

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## Annex 1

## Overview of the different financing and guarantee schemes available to exporters

LENDING PROGRAM	ELIGIBLE BORROWERS	PURPOSE OF LOAN/ GUARANTEE	COLLATERAL	LOAN VALUE	INTEREST RATE	MATURITY PERIOD
<b>I. CENTRAL BANK Rediscount Facility</b>	Direct and indirect exporters with satisfactory credit standing, sound track record and able to meet the bank's credit requirements	1.Export Packing Credit (pre-export phase) 2.Export Bill Credit (post shipment) 3.working capital for indirect exporters	L/C, purchase order (PO) or sales contract (SC)	balance of LC, PO, SC (up to 100 per cent) not financed by an FCDU loan	Lending rate of commercial banks. The bank lending rate is equal to the CB rediscount rate (9.4 per cent in August 1993)	1.90 days, renewable for another 90 days 2.based on the location of the drawee bank (10 to 40 days) 3.90 days, no roll-over
<b>FCDU Foreign Currency Loan</b>	All exporters	To fund peso cost requirements of export projects	L/C, PO or SC	100 per cent of L/C, PO or SC	Dependent of international capital markets	short-term
<b>II. DEVELOPMENT BANK OF THE PHILIPPINES Industrial Guarantee and Loan Fund</b>	Manufacturing and service industries with max. assets of P 40M (excl. cost of land)	1.loan a)working capital b)fixed assets acquisition c)packing d)production 2.guarantee a)credit risk b)short collateral	real estate, machinery, government securities	- IGLF : 72 per cent (max.) - financ.inst.:8 per cent - borrowers' equity: 20 per cent (min.)	loan:market rate guarantee fee: 2 per cent	loans: a) 7 years, max. grace period 2 yrs. b) 12 years, max. grace period 3 yrs. c) 180 days d) 1 year
<b>Credit Lines</b>	Manufacturers, exporters	a)working capital b)purchase order c)accounts receivable financing d)production	Real estate, holdout on deposits, other accept. collaterals	dependent on needs, value of collaterals, capability to pay	market rate	60 to 120 days
<b>Term Loans</b>	Manufacturers, exporters, agricultural enterprises	a)expansion of plant b)additional machinery c)fixed assets acquisition (except land) d)construction of factory building	Real estate, holdout on deposits, other accept. collaterals	dependent on needs, value of collaterals, capability to pay	market rate	max. 5 years
<b>Export Development Financing Program (Eximbank)</b>	-direct and indirect exporters, traders -trade and industry ass. Priority for the financing needs of the 15 export winners under the PEDP 1993-1998	<u>short term:</u> 1.working capital 2.FCDU-loans and Export Bills Purchase line <u>long term:</u> 1.expansion of plant capacity 2.modernization of plant 3.improvement/ acquisition of technology 4.pollution abatement 5.export related investment with foreign partners 6.overseas marketing 7.relending to members of trade and industry ass., common-service facilities, R&D,...	<u>short term:</u> < P 5M: -transactional: LC/PO/SC -line: LC/PO/SC plus acceptable collaterals (real estate, chattels,...) > P 5M: acceptable collaterals  <u>long term:</u> assets acquired outside the loan and other acceptable collaterals	<u>short term:</u> max. 80 per cent of LC/PO <u>long term:</u> max. 80 per cent of project cost or value of collaterals  mixed funding (with external funding) is allowed	for endorsees of Philexport and other export org.: super prime rate minus 2 per cent (min. 12 per cent)  endorsees of trade and industry org.: super prime rate minus 1 per cent  service fee of 0.5 per cent for medium and long loans	N.A.
<b>Pre-shipment production financing and Export Bills Purchase Facility</b>	Exporter/suppliers with satisfactory track records who are accredited by FOBAP (Foreign Buyers Ass. of the Phils.), in the export business for 3 years, sales of \$50,000 to \$ 1 million	To finance the procurement of raw materials and machinery and equipment used in export production	PO, L/C	80 per cent of PO, L/C, but not exceeding P 3 million	20.5 per cent per annum	90 days or upon negotiation of PO, L/C

LENDING PROGRAM	ELIGIBLE BORROWERS	PURPOSE OF LOAN/ GUARANTEE	COLLATERAL	LOAN VALUE	INTEREST RATE	MATURITY PERIOD
<b>III. PHILIPPINE NATIONAL BANK International Trade Financing Program</b>	Small and medium-scale enterprises engaged in import/export business	For pre-shipment and post-shipment financing needs	Real estate, chattels, stocks, bonds, receivables, T-bills, deposits and other collaterals accepted by BNP	No limit on a per-transaction basis, except for export advances/line (80 per cent of face value of the assigned export L/C and/or PO)	prime rate determined	90 days
<b>Small Enter-prise Loan Fund</b>	Exporters located outside Metro Manila, preferably with intensive labor requirement and with assets of max. P1M	To finance project costs and/or provide working capital requirements	1.peso savings and time deposits holdout 2.chattel mortgage 3.real estate	max. P 250,000	regular lending rate	capital requirement:1 year capital expenditure:5 yrs.
<b>Pangkabuhayan ng Bayan Lending Program</b>	For production, processing and manufacturing enterprises, preferably in export business and with assets of max. P 5M	1.fixed-asset acquisition, 2.capital expenditures 3.working capital	1.real estate mortgage 2.machinery and equipment 3.savings and time deposits hold-outs	based on borrower's actual requirements not exceeding P 1 M per borrower	< 1 year: 17 per cent < 3 years: 18 per cent < 5 years: 19 per cent	1.for operating capital: 1 year 2.fixed asset acquisition and capital expenditure:5 yrs. with max. grace period of 1 year
<b>IV. TECHNOLOGY AND LIVELIHOOD RESOURCE CENTER Transactional Financing</b>	Manufacturing enterprises with L/Cs, POs issued by any retail store/trader/importer	1.purchase of raw materials 2.payment of labor 3.other working capital	1.real estate 2.chattel mortgage 3.machinery and equipment 4.government bonds and marketable securities	max.P 750,000 for domestic PO or P 1M for foreign LC	18 to 24 per cent depending on the capital of the company	short-time loan: 6 months
<b>Export Industry Modernization Program</b>	Small- and medium-scale export-and labor-oriented industries in priority industries	To finance building, civil works, machinery and equipment and working capital for modernization projects	100 per cent covered with real estate and chattel mortgage	max. of P 5M	10 per cent per annum of outstanding balance	5 to 10 years, including a grace period of 1 to 3 years
<b>V. SOCIAL SECURITY SYSTEM Kabaliklat sa Pagpapaunlad ng Industriya (Kasapi)</b>	Individuals, partnerships and companies preferably outside top 1,000 corporations	1.increase in capacity utilization 2.addition in new capacity 3.construction of factory building/ware-houses and other civil works 4.acquisition of machinery and equipment 5.permanent working capital	land, building and machinery,	min. P 500,000, max. P 10M	resp. 17 per cent and 16 per cent for Metro-Manila and outside Metro-Manila projects	max. of 5 years, including a grace period of max. 1 year
<b>VI. PHILIPPINE INTERNATIONAL TRADING CORPORATION P10 Million Facility for Small and Medium-Scale Exporters</b>	Direct and indirect exporters with assets not exceeding P20M. The L/C proceeds and the promissory note of the borrower should be assigned to PITC	1.Acquisition of raw materials 2.working capital 3.other costs of servicing export orders	1.L/C proceeds 2.JSS on promissory notes	70 per cent of L/C but not exceeding P 200,000	Prime rates charged by PNB or Land Bank whichever is lower PITC charges service fee of 2 per cent of loan value	Upon negotiation of export L/C or upon maturity date of the promissory note, whichever comes earlier
<b>VII. PHILIPPINE EXPORT AND FOREIGN LOAN GUARANTEE CORPORATION (PHILGUARANTEE) General Facility</b>	Service exporters and contractors, producers and traders of export products with relative stability and now faced with opportunities for market expansion. Also included are subcontractors, indirect exporters and domestic producers diversifying into actual export sales	guarantee coverage on loans for working capital	Philguarantee requires a first lien over the assets which it is financing. Collateral deficiencies are treated on case-to-case basis	70 per cent of the loan accommodation value	1.filling fee rates: P5M to P20M: P500 for every P1M with a min. fee of P3,000 Over P20M: P10,000 for the first P20M + 1/10th of 1 per cent of amount in excess 2.guarantee fee: 1.5 per cent (min) per annum of the amount guaranteed 3.interest rate on the loan: prevailing market rates	

LENDING PROGRAM	ELIGIBLE BORROWERS	PURPOSE OF LOAN/ GUARANTEE	COLLATERAL	LOAN VALUE	INTEREST RATE	MATURITY PERIOD
<b>Export Credit Guarantee Program for Small and Medium Industries (in partnership with selected commercial banks)</b>	Small-sized (total assets between P500,000 and P5M) and medium-sized (between P5M-P20M) exporters engaged in the processing, processing, production and marketing of non-traditional export products, with 3 year export track record and average profit margin of 10 per cent, av. return on equity of 15 per cent, av. current ratio of 1.5:1 and debt-equity ratio of 75:25. Also valid for indirect exporters.	pre-shipment and post-shipment revolving lines of credit such as packing credit line, export advance line and export bills purchase line	no collaterals required from the exporter-borrower but Philguarantee has a proportionate share on all collaterals, rights, interests and claims held by the participating bank against the borrower for the credit accommodation under the guarantee	70 per cent of the approved credit facility	1. filling fee rate: 1/5 of 1 per cent of the guarantee accommodation (min. 1,000P) to be shared equally between Philguarantee and the bank 2. guarantee fee rate: 1.5 per cent per annum of the guarantee fee accommodation 3. interest rate on the loan: prevailing market rate	
<b>VIII. DEPARTMENT OF TRADE AND INDUSTRY Small Business Guarantee and Finance Corporation</b>	Small scale entrepreneurs with total assets not exceeding P5M that are in the manufacturing and subcontracting business	loans and guarantee for loans not covered by any collateral	no collateral required!	loans up to P 2M		
<b>IX. THE GUARANTEE FUND FOR SMALL AND MEDIUM ENTERPRISES</b>	small and medium-scale agri-based projects	1. Acquisition of fixed assets 2. construction of plant facilities 3. working capital	1. project assets 2. JSS of the partners, members or principal stockholders	for small-scale loan: P50,000 to P2M for medium-scale loan: P2M to P8M	market determined	1. and 2. Max. 10 years, incl. of 2 years grace period 3. Max. of 5 years, incl. of 1 year grace period

Source: Central Bank and Philexport

**Appendix 2:****1994 market calendar of Philippine participation of trade fairs, exhibitions and selling missions**

MONTH	EVENT & VENUE	EXHIBITS
JANUARY		
12-15	HEIMTEXTIL FAIR Frankfurt, Germany	Home Linen
19-22	HONGKONG FASHION WEEK '94 Hongkong	Garments
21-25	CHIBICAR Milan, Italy	Fashion Accessories
26-29	INTER-NEPCON JAPAN '94 Chiba, Japan	Electronic Products, Components & Assembly
FEBRUARY		
6-8	IGEDO-DESSOUS Dusseldorf, Germany	Lingerie, Sleepwear, Daywear, Nightwear
19-23	FRANKFURT INTERNATIONAL FAIR-AMBIENTE Frankfurt, Germany	Ceramics, Gifts & Houseware
20-3	PHILIPPINE TRADE MISSION TO SOUTH AFRICA & ISRAEL Johannesburg/Cape Town (S.A.) & Tel Aviv (Israel)	Industrial Goods, Food & Consumer Goods
25-March10	APPAREL SELLING MISSION TO AUSTRALIA AND NEW ZEALAND Australia/New Zealand	Garments
27-March3	NEPCON WEST '94 Anaheim, California, U.S.A.	Electronic Products, Components & Assembly
MARCH		
March	FOOD FESTIVAL AND FOOD SELLING MISSION TO AUSTRALIA Sydney & Melbourne	Food
5-8	MANILA F.A.M.E. 11th HOME FURNISHINGS MARKET WEEK Manila, Philippines	Furniture, Furnishings, Architectural Components
7-18	FOODEX WITH FOOD SELLING MISSION TO JAPAN & S.KOREA Chiba, Osaka, Kobe/Seoul March 7-11 (Fair) March 14-18 (Mission)	Food
15-17	BOSTON SEAFOOD SHOW Boston, Massachusetts, USA	Food
16-23	CEBIT '94 Hannover, Germany	Computer Software Products & Services
28-April1	PLANT SURVEY MISSION TO ISRAEL Tel Aviv	Plants & Cutflowers
APRIL		
12-20	FOOD & HOTEL ASIA AND FOOD SELLING MISSION TO HONG KONG Hong Kong April 12-15 (Fair) April 18-20 (Mission)	Food
14-17	MANILA F.A.M.E. 19th GIFTS & HOUSEWARE MARKET WEEK Manila, Philippines	Gifts, Toys, Houseware and Fashion Accessories
14-22	INTERNATIONAL HOME FURNISHINGS MARKET High Point, North Carolina, U.S.A.	Furniture & Furnishings
25-27	ASIA-PACIFIC LEATHER FAIR '94 Hong Kong	Footwear & Leathergoods
MAY		
14-17	THE VISUAL MARKETING AND STORE DESIGN SHOW New York City, USA	Gifts, Toys & Houseware
30-June3	SELLING MISSION TO JAPAN Osaka	Garments, Fashion Accessories & Fine Jewelry, Leathergoods
JUNE		
June	FOOD FESTIVAL WITH FOOD SELLING MISSION TO USA USA	Food
8-11	IMPORT FAIR BERLIN Berlin, Germany	Garments & Textiles
10-12	INTERNATIONAL HOUSEWARE SHOW Chiba, Japan	Gifts, Toys & Houseware
20-25	PHILIPPINE METALWORKING INDUSTRY TRADE MISSION TO TAIWAN Taipei & Kaoshiung	Metal Manufactures
JULY		
July	TRADE MISSION TO SCANDINAVIA Denmark & Sweden	General
20-23	INTERNATIONAL CONFECTIONERY TOKYO Tokyo, Japan	Food

AUGUST		
26-28	KIND + JUGEND (Baby to Teenage) INTERNATIONAL FAIR Cologne, Germany	Infants'Wear & Children's Wear
27-31	FRANKFURT INTERNATIONAL AUTUMN FAIR Frankfurt, Germany	Gifts, Toys & Houseware
SEPTEMBER		
September	TOKYO INTERNATIONAL GIFT SHOW Tokyo, Japan	Gifts, Toys & Houseware
Sept.-Dec.	SAN DIEGO GALLEON PROMOTION France	General
September	GARMENTS SELLING MISSION TO CANADA Canada	Garments & Textiles
September	TRADE MISSION TO FRANCE Paris	General Products
September	TRADE MISSION TO CHINA Beijing	General
1-7	SCENES D'INTERIEUR Paris, France	Gifts, Toys & Houseware
13-18	AUTOMEKANIK '94 Hanover, Germany	Automotive Parts & Accessories
19-23	MARMO MACHINA Verona, Italy	Marble
28-Oct.2	INDEX MIDDLE EAST INTERNATIONAL FURNITURE EXHIBITION Dubai, UAE	Furniture & Furnishings
28-Oct.7	PHILIPPINE SOLO EXHIBITION IN THE MIDDLE EAST Riyadh, KSA/ Dubai, UAE	Industrial Goods, Food & Other Consumer Goods
OCTOBER		
October	MIPEL FAIR (International Leathergoods Market) Milan, Italy	Footwear & Leathergoods
October	PHILIPPINE METALWORKING INDUSTRY MISSION TO AUSTRALIA Sydney/Perth	Metal Manufactures
13-16	MANILA F.A.M.E. 20th GIFTS & HOUSEWARE MARKET WEEK Manila, Philippines	Gifts, Toys, Houseware & Fashion Accessories
20-28	INTERNATIONAL HOME FURNISHINGS MARKET High Point, North Carolina, U.S.A.	Furniture & Furnishings
23-27	SIAL Paris, France	Food
24-27	FIRST ASIA-PACIFIC INTERNATIONAL TRADE FAIR (APEC) Osaka, Japan	Industrial Goods, Food, Furniture & Other Consumer Goods
28-31	THEMA DOMUS INTL. FRANKFURT IDEAL HOME EXHIBITION Frankfurt, Germany	Furniture & Furnishings
NOVEMBER		
2-5	BIG I/APAA '94 INTERNATIONAL EXHIBITION Las Vegas, USA	Automotive Parts & Accessories
3-6	HONG KONG INTERNATIONAL FURNITURE FAIR Hong Kong	Furniture & Furnishings
8-12	ELECTRONICA Munich, Germany	Electronic Products, Components & Assembly
12-16	1st NATIONAL GARDEN & PETS EXHIBITION Manila, Philippines	Plants, Flowers, Tropical Birds & Fishes
12-16	MANILA F.A.M.E. FOOD & BEVERAGE MARKET WEEK Manila, Philippines	Fresh and Processed Food, Beverages
15-19	COMDEX/FALL '94 Las Vegas, USA	Computer Software Products & Services

**Note:** Schedule of In-Store Promotions and Special Projects is not yet available. This schedule is subject to change.

**Source:** Center for International Trade Expositions and Missions (CITEM)