STRUCTURE AND PROSPECTS OF THE ASEAN FINANCIAL AND BANKING SYSTEMS: A PERSPECTIVE FROM THE PHILIPPINES

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STRUCTURE AND PROSPECTS OF THE ASEAN FINANCIAL AND BANKING SYSTEMS: A PERSPECTIVE FROM THE PHILIPPINES

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I. INTRODUCTION

As a political grouping, the Association of Southeast Asian Nations or Asean has already made significant strides. The peace and stability in the region is one example of these political achievements. As an economic grouping, however, the Asean has not achieved much. Intra-Asean trade and investment still continue their historical patterns where greater interdependence between two or three Asean countries exists not because of an Asean cooperative endeavor but because of their long, established economic relationship. The substantial trade and investment flows between Singapore and Malaysia typify this relationship. This is not to say that no efforts were exerted to improve intra- Asean trade and investment. On the contrary, both Asean governments and private sectors have been actively involved in designing and implementing several cooperation programs. Admittedly, the performance of the various cooperative efforts are uneven.

This study examines Asean financial cooperative efforts and their implications for improving intra-Asean trade and investment. The Philippine perspective will be emphasized.

II. RECENT ECONOMIC DEVELOPMENTS IN THE PHILIPPINES

The last two years of Ferdinand Marcos' presidency of the Philippines proved devastating to the domestic economy. Serious political instability and economic uncertainty plunged the economy into a recession in two consecutive years, 1984 and 1985 (Figure 1). The economy bounced back remarkably well starting in 1986 when Corazon Aquino took over the reins of the government. Gross national product (GNP) real growth rate accelerated and hit 6.6 percent in 1988. However, it decelerated to 5.6 percent the following year as bottlenecks to the rapid economic recovery became more pronounced and *coup d'etat* threats by disgruntled military officers persisted.

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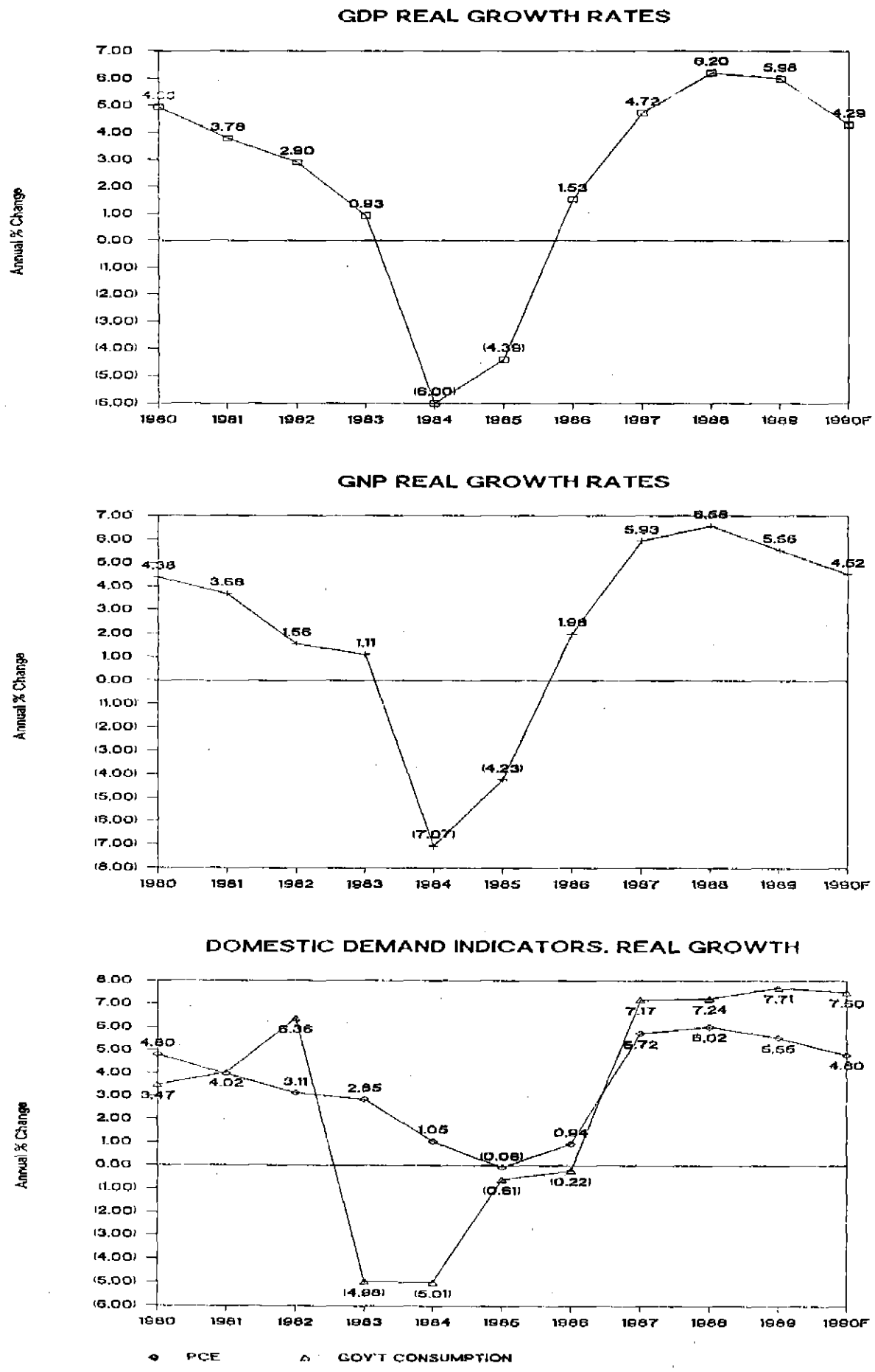
Figure 1



PCE - Private Consumption Expenditure

Provided by First Pacific Securities Philippines Inc. (FPSPI)

Consumption propelled the growth in the first two years of the Aquino administration. Then demand shifted, to investment to augment the productive capacities of the economy. This acceleration in investment growth, however, did not compensate for the decline in the growth rate of consumption. Thus, aggregate demand softened in 1989.

Based on sectoral performance, Figure 2 shows that only the agricultural sector was spared of the crisis that struck in 1984- 85. It posted a negative growth only in 1983 and 1987 as a result of devastating typhoons and prolonged drought that visited the country in these years. In contrast, both the industry and services sectors posted negative growth rates during the crisis years. The services sector first led the recovery; later the industry sector took the lead.

Interesting developments also took place in the external sector. First, the composition of exports changed substantially in the 1970s and 1980s. In the 1960s, the Philippines was basically exporting agricultural and mineral products. By the 1980s, manufactured exports comprised more than 50 percent of total exports. Classifying exports into traditional and non- traditional exports, the latter comprised a mere 8 percent of total exports in 1970. By 1987, its share went up to 73 percent. Increasing market diversification of exports is also notable in the 1970s and the 1980s. The share in total exports of traditional trading partners has been going down since. In particular, the US share fell from 42 percent in 1970 to 35 percent in 1987, while that of Japan, from 40 percent to 17 percent over the same period. The slack was taken up mostly by the developing member countries of the European Economic Community (EEC) and the Asian Development Bank (ADB), particularly Hong Kong, South Korea, and the Asean group[1].

Exports grew rapidly between 1970 and 1980 averaging 21 percent per year, but declined in the first half of the 1980s as a result of political and economic uncertainties. With very low confidence in the performance of Filipino exporters in their export orders, many traditional and potential buyers of Philippine products shifted to other countries for supply. Exports recovered steadily during the second half of the 1980s (Figure 3).

The economic recovery in 1986-88 took place alongside a surge in demand for imports outracing that of exports. Moreover, some of the leading merchandise exports, e.g., garments and electronics, had import content of over 50 percent of export value. Thus, the trade balance deteriorated steadily since 1986 reaching almost $2 billion in 1989. The poor performance of the external sector is reflected in the balance of payments (BOP), which dipped to negative $541 million in 1989.

In 1990, the Philippine economy performed even worse than the previous year as it was shaken by the devastating earthquake of July 1990 and by the doubling of petroleum prices caused by the Middle East war. The economy managed to grow by only 3.1 percent. The industrial sector bore the brunt of this economic slowdown.

Table 1 presents some key economic indicators comparing the performance of the Philippines with those of other Asean countries during the period 1981-1988. In almost all indicators, the Philippines had the worst performance. In particular, it had the lowest average growth rate in

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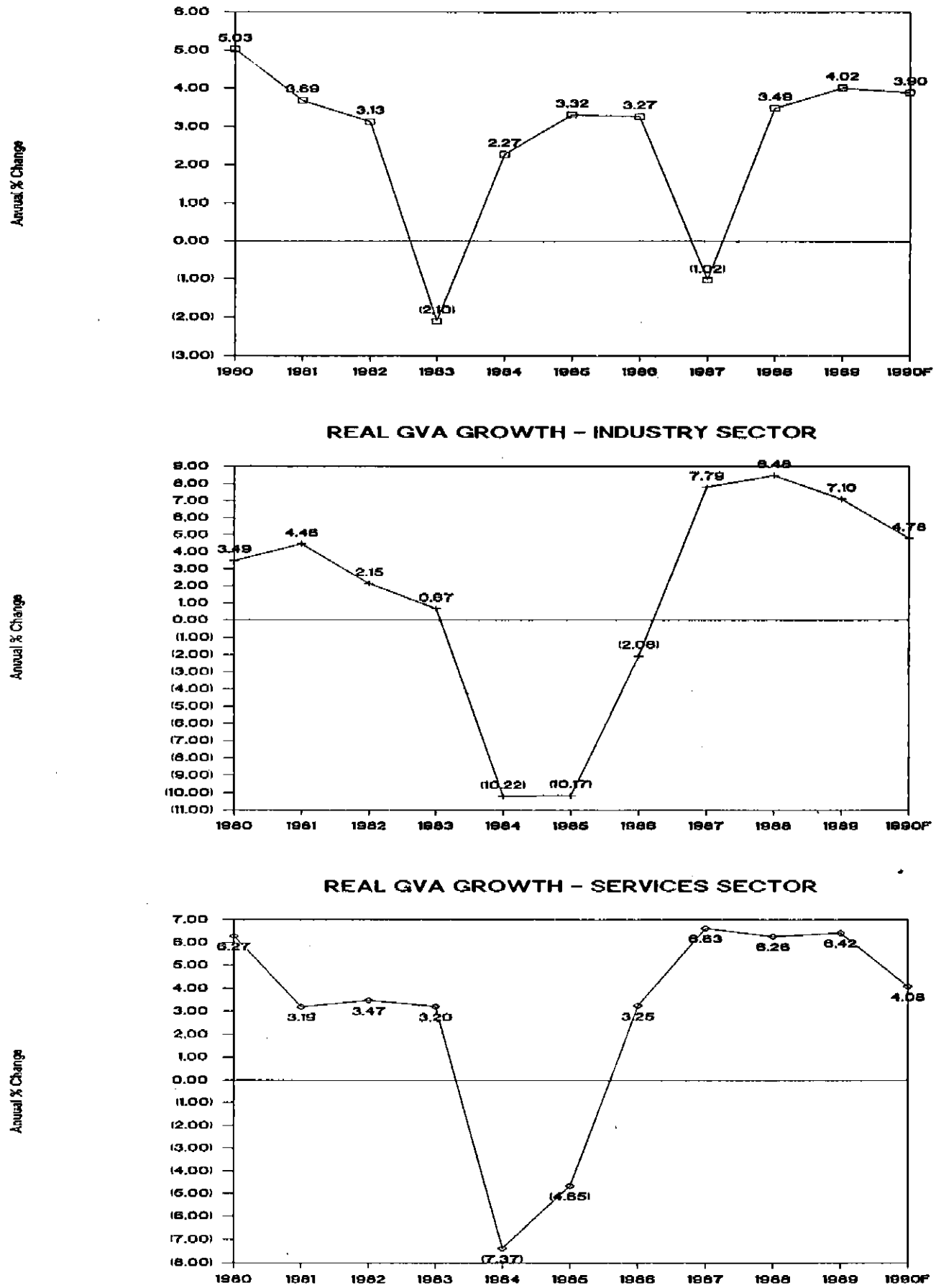
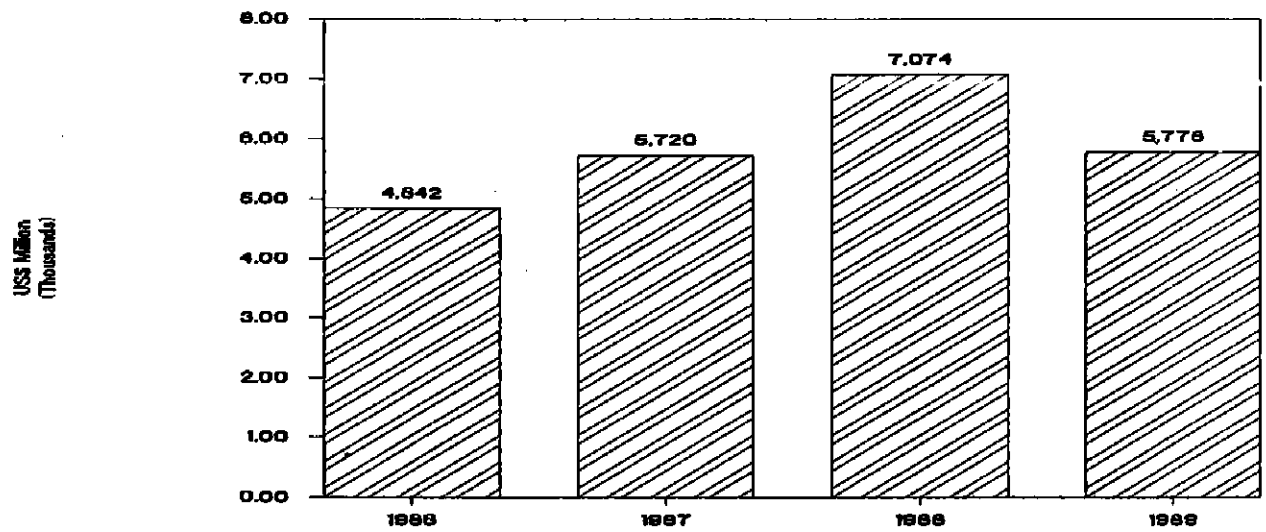
1. A more detailed discussion of trade between the Philippines and other ASEAN countries is presented in Chapter III.

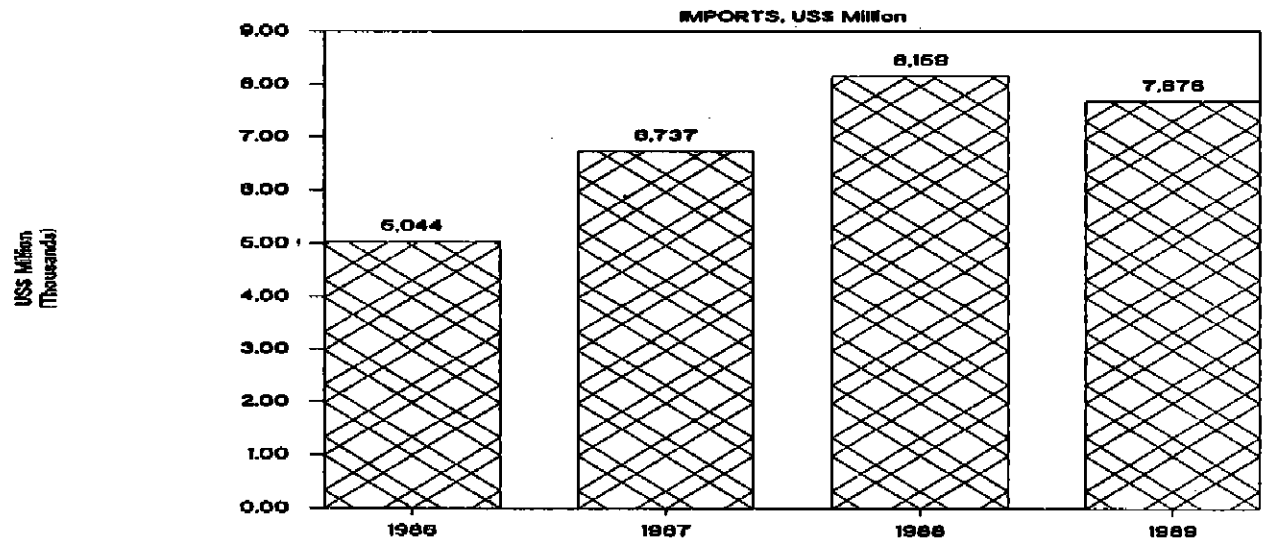
Figure 2
Real GVA Growth-Agri Fishery and Forestry, Industry Sector and Services Sector



Provided by FPSPI.

Figure 3
Merchandise Trade, 1986 to January-September 1989
(Exports in US$M)





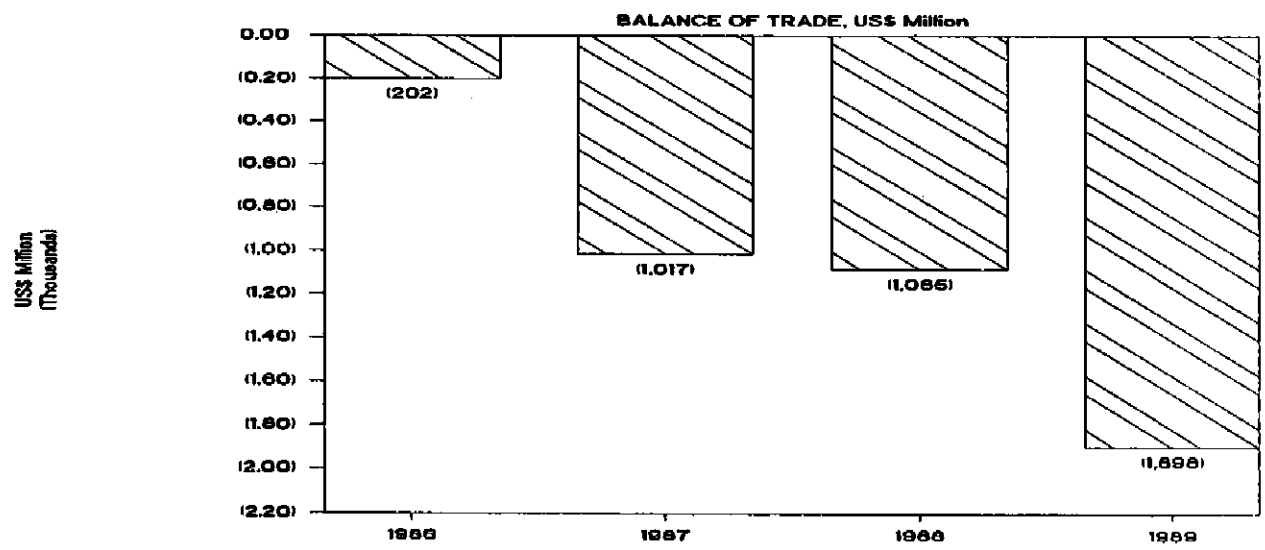


Table 1
Key Economic Indicators: Asean 1981-1988

Country/Indicator	1981	1982	1983	1984	1985	1986	1987	1988	Average
Indonesia									
GDP (%)	7.9	2.2	4.2	6.0	2.5	4.0	3.6	4.7	4.4
Per capita GDP (%)	8.0	0.0	1.9	3.7	0.3	1.8	1.4	2.3	2.4
Exports ($ million)	23,348	19,747	18,689	20,754	18,527	14,396	17,206	19,219	
Growth rate:exports	7.1	-15.4	-5.4	11.0	-10.7	-22.3	19.5	11.7	-0.6
External debt outstanding	22,723	26,500	30,138	31,952	35,999	43,039	52,581	55,600	
Inflation rate (%)	12.2	9.5	11.8	10.4	4.7	5.9	9.3	8.0	9.0
Malaysia									
GDP (%)	6.9	5.9	6.3	7.8	-1.0	1.2	5.2	7.8	5.0
Per capita GDP (%)	4.4	2.8	3.5	5.1	-3.6	-1.5	2.5	4.9	2.3
Exports ($ million)	11,675	11,966	13,683	16,407	15,133	13,703	17,706	20,627	
Growth rate:exports	-9.3	2.5	14.3	19.9	-7.8	-9.4	29.2	16.5	7.0
External debt outstanding a/	7,544	11,617	14,896	16,249	18,268	19,999	21,675	18,400	
Inflation rate (%)	9.7	5.8	3.7	3.9	0.3	0.7	0.6	2.7	3.4
Philippines									
GDP (%)	3.9	2.9	0.9	-6.0	-4.3	1.4	4.7	6.6	1.3
Per capita GDP (%)	1.3	0.4	-1.6	-8.3	-6.6	-1.0	2.2	4.0	-1.2
Exports ($ million)	5,722	5,021	5,005	5,391	4,629	4,842	5,720	7,074	
Growth rate:exports	-1.1	-12.3	-0.3	7.7	-14.1	4.6	18.1	23.7	3.3
External debt outstanding	20,750	24,299	24,124	24,358	26,190	28,853	29,962	29,900	
Inflation rate (%)	13.1	10.2	10.0	50.4	23.0	0.8	3.8	8.8	15.0
Singapore									
GDP (%)	9.6	6.9	8.2	8.3	-1.6	1.8	8.8	11.1	6.6
Per capita GDP (%)	8.3	5.6	6.9	7.0	-2.8	0.7	8.0	9.8	5.4
Exports ($ million)	19,662	19,435	20,429	22,662	21,533	21,336	27,277	36,000	
Growth rate:exports	8.0	-1.2	5.1	10.9	-5.0	-0.9	27.8	32.0	9.6
External debt outstanding	2,263	2,629	2,803	3,290	3,406	3,875	4,491	2,260	
Inflation rate (%)	15.5	6.5	3.9	3.9	4.0	-1.4	0.5	1.5	4.3
Thailand									
GDP (%)	6.3	4.1	7.3	7.1	3.5	4.5	8.4	11.0	6.5
Per capita GDP (%)	4.1	1.9	5.1	5.1	1.6	2.6	6.4	8.7	4.4
Exports ($ million)	6,902	6,835	6,308	7,338	7,059	8,803	11,595	15,990	
Growth rate:exports	7.0	-1.0	-7.7	16.3	-3.8	24.7	31.7	37.9	13.1
External debt outstanding	10,809	12,198	13,868	14,981	17,528	18,549	20,710	22,000	
Inflation rate (%)	12.7	5.2	3.7	0.9	2.4	1.8	2.5	3.7	4.1

a/ Excludes short-term debt.

Source: ADB, Asian Development Outlook, 1989.

gross domestic product (GDP). It was also the only country in the region whose average growth in per capita remained negative for the entire period. The level of its merchandise exports registered the lowest among Asean countries, and the average growth in its exports during the same period was the second lowest. It was also the only country which realized a double-digit average inflation rate. Given this dismal scenario, the Philippines will have a lot of catching up to do in the next few years.

III. PHILIPPINE TRADE AND INVESTMENT WITH ASEAN

After the Bali Summit Conference in February 1976, the Asean heads of state issued the "Declaration of Asean Accord." This declaration provides firm guidelines for the future pattern of economic cooperation among Asean countries. The preferential trade arrangements (PTA) and joint-venture projects were among the means used to foster economic cooperation. This section discusses the growth and patterns of Philippine trade and investment with other Asean countries in the 1980s.

Trade Growth and Patterns

To describe the trade growth and patterns between the Philippines and other Asean countries, the ratio of Philippine trade with Asean to total trade was derived[2]. This is shown in Figure 4 for the period 1980-1987. The ratio was steadily increasing from 7 percent in 1980 to 13 percent in 1985, but it declined thereafter to a level just a little above that in 1980. Surprisingly, no drastic change in cooperative agreement among Asean countries occurred in 1985 which could have produced a reversal in the trade pattern. It was, therefore, necessary to find out whether the rise in the ratio from 1980 to 1987 really reflects a dramatic change in the volume of trade between the Philippines and other Asean countries. Thus, Figure 5 presents the dollar value of Philippine trade with Asean and total trade. Trade with Asean appears to be flat throughout the indicated period with only a slight increase in 1984 and 1985. In contrast, total trade was declining since 1980 and rebounded only in 1986. Thus, the decline in total trade especially during the crisis years of 1984 and 1985 produced the sharply rising ratio of Asean trade to total trade in those years.

One of the intentions of the Asean economic cooperation was to facilitate specialization in producing commodities where comparative advantage exists. Table 2 presents the percentage distribution of imports from and exports to other Asean countries according to the 10 first-digit Standard International Trade Classification (SITC) for 1980, 1985, and 1987[3]. Category 9 consistently obtained the highest percentage share to total exports. But it cannot be said that the Philippines is specializing in the production of this group of commodities because it is obviously composed of a basket of commodities totally unrelated to one another. On imports, Category 3

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2. Trade with other ASEAN countries refers to the sum of the value of exports to and imports from ASEAN countries while total trade refers to the sum of the value of the Philippines' total imports from and total exports to the world including ASEAN countries.

3. See Appendix 1 for the absolute figures.

Figure 4
Philippine Trade with other ASEAN Countries

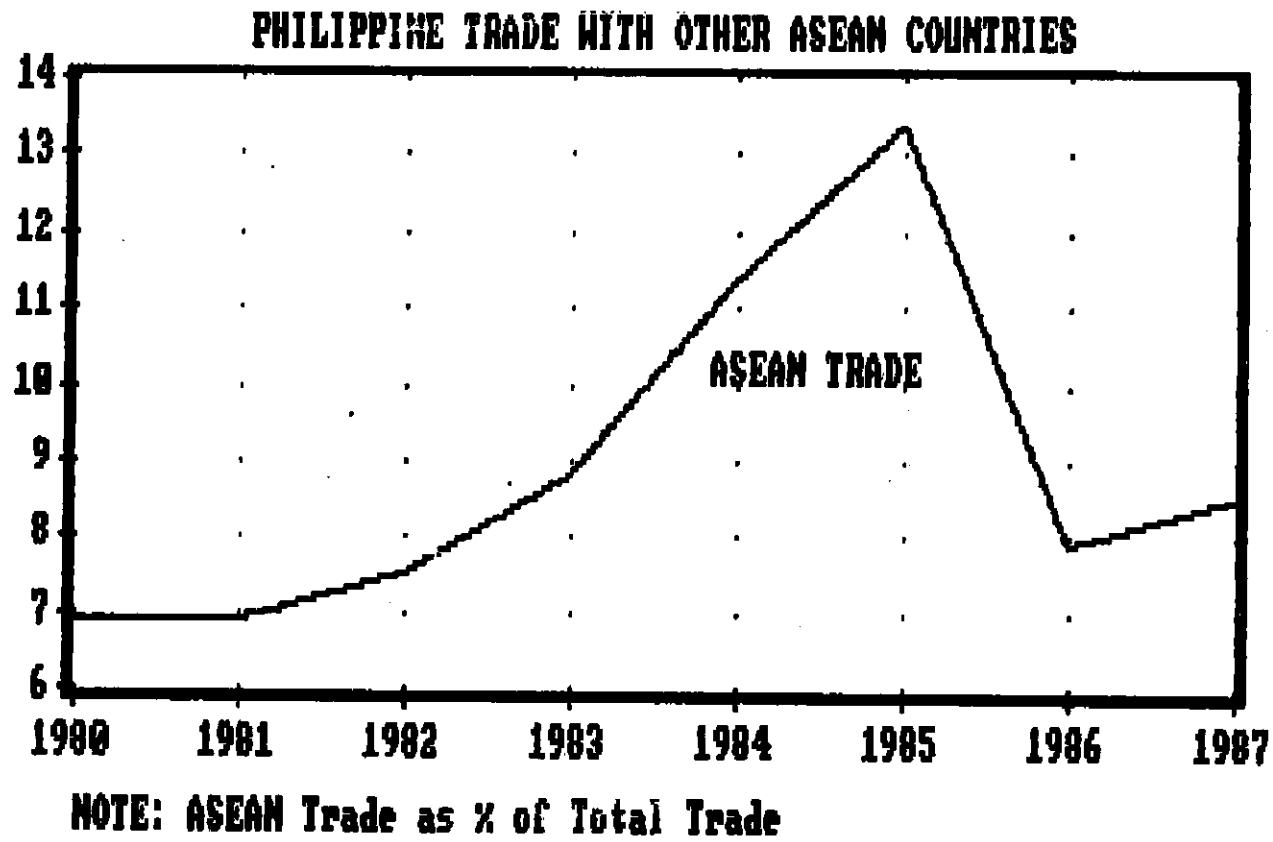

Figure 5
Philippine Trade with ASEAN and the World

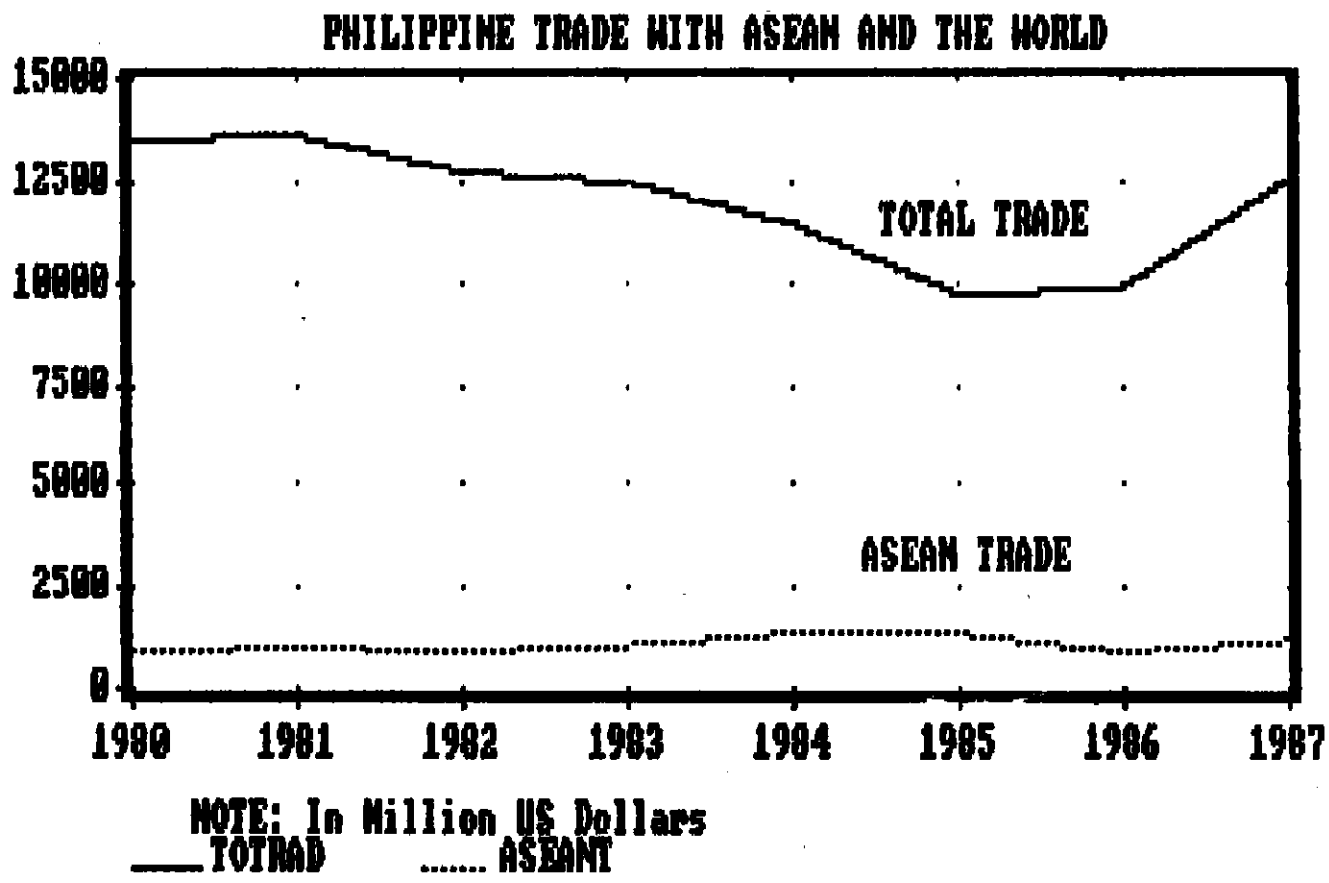

Table 2
Percentage Distribution of Philippine Imports/Exports to
ASEAN/World by 1-Digit PSCC Category
(1980, 1985, and 1987)

CODE :	IMPORTS (c.i.f.)	1980 ASEAN	1980 WORLD	1985 ASEAN	1985 WORLD	1987 ASEAN	1987 WORLD
0 :	FOOD AND FOOD PREPARATIONS	4.41	6.90	1.02	8.87	9.12	7.14
1 :	BEVERAGES AND TOBACCO	1.53	0.63	-	1.45	-	1.56
2 :	CRUDE MATERIALS, INEDIBLE	1.06	3.88	0.89	3.09	3.32	4.52
3 :	MINERAL, FUELS AND LUBRICANTS	63.86	28.43	63.86	11.77	33.17	18.18
4 :	ANIMAL AND VEGETABLE OILS & FATS	0.43	0.24	0.51	0.28	0.83	0.21
5 :	CHEMICALS	12.85	9.78	6.64	27.77	16.58	14.04
6 :	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL	4.07	12.90	2.04	10.08	9.78	14.33
7 :	MACHINERY AND TRANSPORT EQUIPMENT	4.41	23.60	3.07	13.96	9.62	16.60
8 :	MISCELLANEOUS MANUFACTURES	0.63	2.54	0.38	2.06	-	2.13
9 :	COMMODITIES AND TRANSACTIONS NOT CLASSIFIED ELSEWHERE	6.75	11.10	12.01	20.70	16.25	21.30
:	TOTAL IMPORTS	100.00	100.00	100.00	100.00	100.00	100.00

CODE :	EXPORTS (f.o.b.)	1980 ASEAN	1980 WORLD	1985 ASEAN	1985 WORLD	1987 ASEAN	1987 WORLD
0 :	FOOD AND FOOD PREPARATIONS	38.93	24.37	5.38	17.98	9.57	15.94
1 :	BEVERAGES AND TOBACCO	-	0.56	-	0.68	-	0.50
2 :	CRUDE MATERIALS, INEDIBLE	1.07	25.14	0.38	10.46	2.39	9.60
3 :	MINERAL, FUELS AND LUBRICANTS	6.40	0.66	0.96	0.92	7.83	1.74
4 :	ANIMAL AND VEGETABLE OILS & FATS	2.40	9.96	-	8.11	1.30	7.13
5 :	CHEMICALS	2.67	1.55	6.15	3.27	11.74	4.40
6 :	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL	9.33	9.25	3.65	10.20	3.26	8.42
7 :	MACHINERY AND TRANSPORT EQUIPMENT	3.73	2.21	10.77	6.73	19.35	9.93
8 :	MISCELLANEOUS MANUFACTURES	2.93	10.61	1.15	11.70	1.52	13.61
9 :	COMMODITIES AND TRANSACTIONS NOT CLASSIFIED ELSEWHERE	32.80	15.70	71.35	29.96	43.04	28.74
:	TOTAL EXPORTS	100.00	100.00	100.00	100.00	100.00	100.00

a/ pscc -- Philippine Standard Commodity Classification

b/ cif -- Cost, Insurance, Freight

c/ fob -- Freight on board.

consistently topped the list. This is understandable since the Philippines is a net oil importing country.

The results discussed above seem to suggest that Asean economic cooperation has not yet produced a discernible improvement in trade between the Philippines and other Asean countries. In part, this may be attributed to the deficiencies in the existing Asean PTA. In the first place, commodity classification of each of the member countries has not been standardized. The Philippine PTA, for instance, includes 3,446 lines that correspond to only 2,913 lines of the Philippine Standard Commodity Classification (PSCC), implying a total of 533 duplications or extractions. Also, the PTA does not cover all the commodities listed in a PSCC line. Secondly, the provision for an exclusion list for each of the member countries undermines the effectiveness of the PTA. A cursory look at the exclusion lists of Asean countries would show the presence of several items with substantial trade content. Interestingly, the percentages excluded increase with import value (Table 3), thus virtually eliminating all potential tradable items. Thirdly, the margins of preference (MOP) granted by each of the member countries were very low and not enough to induce trade creation and diversion.

Investment

Aside from merchandise trade, investment flows are one of the gauges of a successful economic cooperation in the region. There are two sources of data on foreign investments in the Philippines: the Board of Investments (BOI) and the Central Bank (CB). Both institutions are empowered to approve foreign investments. BOI-registered foreign equity investments are accorded privileges prescribed under the Omnibus Investment Code, while CB-registered foreign investments can enjoy additional privileges such as profit and capital repatriation. There is a big difference between the data on foreign investments compiled by the BOI and those reported by the CB. The latter reflect actual investment flows while the former are mere expressions of foreign investors to commit themselves to invest a certain amount in a particular industry. Thus, the BOI figures on foreign investments are always higher than those of the CB.

Table 4 shows the BOI-approved foreign equity investments in local currency from other Asean countries. They fluctuated widely from year to year. The highest recorded was in 1989. As a percentage to total BOI-approved foreign equity investments, Asean investments are shown to be negligible, except in 1984 when it registered 13 percent. The table also shows that Asean investments in the 1980s were dominated by Singapore, except in 1983 and 1984.

Table 5 gives the CB-registered Asean investments, which are divided into direct foreign equity investments and investments in CB-approved securities. Again, the Asean investments appear to be negligible.

Almost all of the Asean direct foreign equity investments flowed in the 1980s. Asean investments in securities all occurred in the 1980s. While the BOI records show that the other four Asean countries registered direct equity investments in the Philippines, only Singapore and Malaysia actually made such investments.

There are no official records about investments made by Filipinos abroad. Our guess is that Filipino investments in the other Asean countries are very small.

Table 3
Summary of Items Excluded under the
Across-the-Board Exchanges

Import Value Range (in US $)	Total No. of Items Under Each Batch	No. of Items Excluded	% Excluded
Indonesia			
Less than 50,000	743	293	39
50,000 - 500,000	734	518	71
500,000 - 1 M	234	112	48
1 M - 2.5 M	264	137	52
2.5 M - 10 M	255	158	62
Above 10 M	126	66	52
Total	2,356	1,284	54
Malaysia			
Less than 50,000	1,717	582	34
50,000 - 500,000	1,404	331	24
500,000 - 1 M	390	316	81
1 M - 2.5 M	178	112	63
2.5 M - 10 M	119	86	72
Above 10 M	83	72	87
Total	3,891	1,499	39
Philippines			
Less than 50,000	1,624	141	9
50,000 - 500,000	1,122	269	24
500,000 - 1 M	284	92	32
1 M - 2.5 M	241	164	68
2.5 M - 10 M	229	150	66
Above 10 M	89	69	78
Total	3,589	885	25
Singapore			
Less than 50,000	597	28	5
50,000 - 500,000	927	16	2
500,000 - 1 M	577	3	1
1 M - 2.5 M	951	11	1
2.5 M - 10 M	619	11	2
Above 10 M	510	14	3
Total	4,181	83	2
Thailand			
Less than 50,000	1,524	710	47
50,000 - 500,000	1,131	1,012	89
500,000 - 1 M	315	124	39
1 M - 2.5 M	320	163	51
2.5 M - 10 M	228	186	82
Above 10 M	81	62	77
Total	3,599	2,257	63

Source: Tariff Commission, Philippine Tariff Concessions in the Asean Preferential Trading Arrangements, 1986.

Table 4
BOI-APPROVED FOREIGN EQUITY INVESTMENTS OF OTHER ASEAN COUNTRIES IN THE PHILIPPINES
(in thousand pesos)

Country	1981	1982	1983	1984	1985	1986	1987	1988	1989
Brunei	0	0	0	0	0	0	0	0	0
Indonesia	640	1351	0	136330	0	500	400	639	1242
Malaysia	200	75	54384	154159	1400	163	5565	381	222437
Singapore	55105	18823	13436	41098	31872	5428	18378	50068	507519
Thailand	50	0	560	163513	0	112	375	0	235
Total Asean	55995	20249	68380	495100	33272	6203	24718	51088	731433
Total Non-Asean	1936159	2162495	2909429	3405420	2416336	1587472	3402624	9472328	15124396
Grand Total	1992154	2182744	2977809	3900520	2449608	1593675	3427342	9523416	15855829

Source: Board of Investments.

Table 5
CB-Approved Direct Foreign Equity Investments [a/] and
Investments in Securities of other Asean Countries in the
Philippines 1970-1988
(in million US$)

Country	Equity A b/	Equity R b/	Securities
Brunei	0.00	0.00	0.00
Indonesia	0.00	0.00	0.00
Malaysia	13.10	10.60	0.01
Singapore	20.62	16.05	1.27
Thailand	0.00	0.00	0.00
Total Asean	33.72	26.65	1.28
Total Non-Asean	3232.92	2875.02	210.81
Grand Total	3266.64	2901.67	212.09

a/ Net of cancellations and adjustments.
b/ A - approved; R - registered.

Source: Central Bank of the Philippines.

The results above lead to the conclusion that investment flows between the Philippines and other Asean countries are still negligible. This is to be expected considering the fact that, except for Singapore, Asean countries are typically capital- scarce economies. As noted by Manasan (1988), Asean countries are trying to outbid one another in attracting foreign capital by providing more generous incentives to foreign investors.

IV. PHILIPPINE FINANCIAL STRUCTURE

The Philippine financial system has grown in size and complexity since the country gained independence in 1946. Nevertheless, it still remains underdeveloped compared with those of the fast growing economies of its Asian neighbors.

The financial system has two large submarkets: the regulated and the unregulated markets. Several studies point out the importance of the unregulated markets in efficiently mobilizing and allocating resources. They have remained large and active especially in the late 1980s when the regulated financial markets encountered difficulties as a result of a series of bank failures and the economic crisis in the mid-1980s (Lamberte 1989, and Lamberte and Lim 1987). The regulated financial markets are supervised mainly by the CB, except the insurance and credit union systems which have their respective regulatory bodies.

In this study, focus is given on the CB-supervised financial system and the insurance system because of their implications on Asean cooperation and development. The systems are made up of institutions that deal with securitized instruments either in the money markets or in the capital markets. The securitized capital markets, supervised by the Securities and Exchange Commission, will also be discussed. The end of this chapter will assess how the existing financial and banking structure will likely enhance or hamper intra-Asean cooperation.

The Financial System

The financial system supervised by the CB is commonly referred to as "the Philippine financial system." The total real assets of the financial system had been growing fairly well in the early 1980s until an economy-wide crisis struck in 1984 and 1985 (Figure 6). The total real assets plunged from P96 billion in 1983 to P45 billion in 1986 as a result of high inflation rates and capital flight. Although these recovered in 1987, total real assets of the financial system in 1988 were still far below the 1983 level.

The financial system has two major sub-systems: the banking system and the non-bank financial system. The main difference between the two is that banking institutions are licensed to accept deposits, while those belonging to the non-banking financial system cannot. As of December 1988, both systems had about the same number of outlets (Table 6)[4]. On the average, four outlets can be found in each municipality/city in the country. However, outlets tended to congregate in Metro Manila, which is considered as the financial capital of the country. In assets, the banking system clearly dominated the financial landscape, contributing 72 percent of the total assets of the financial system in 1988 (Table 7).

4: This excludes offshore banking units and representative offices of foreign banks.

Figure 6
Resources of Financial and Commercial Banking Systems, Real

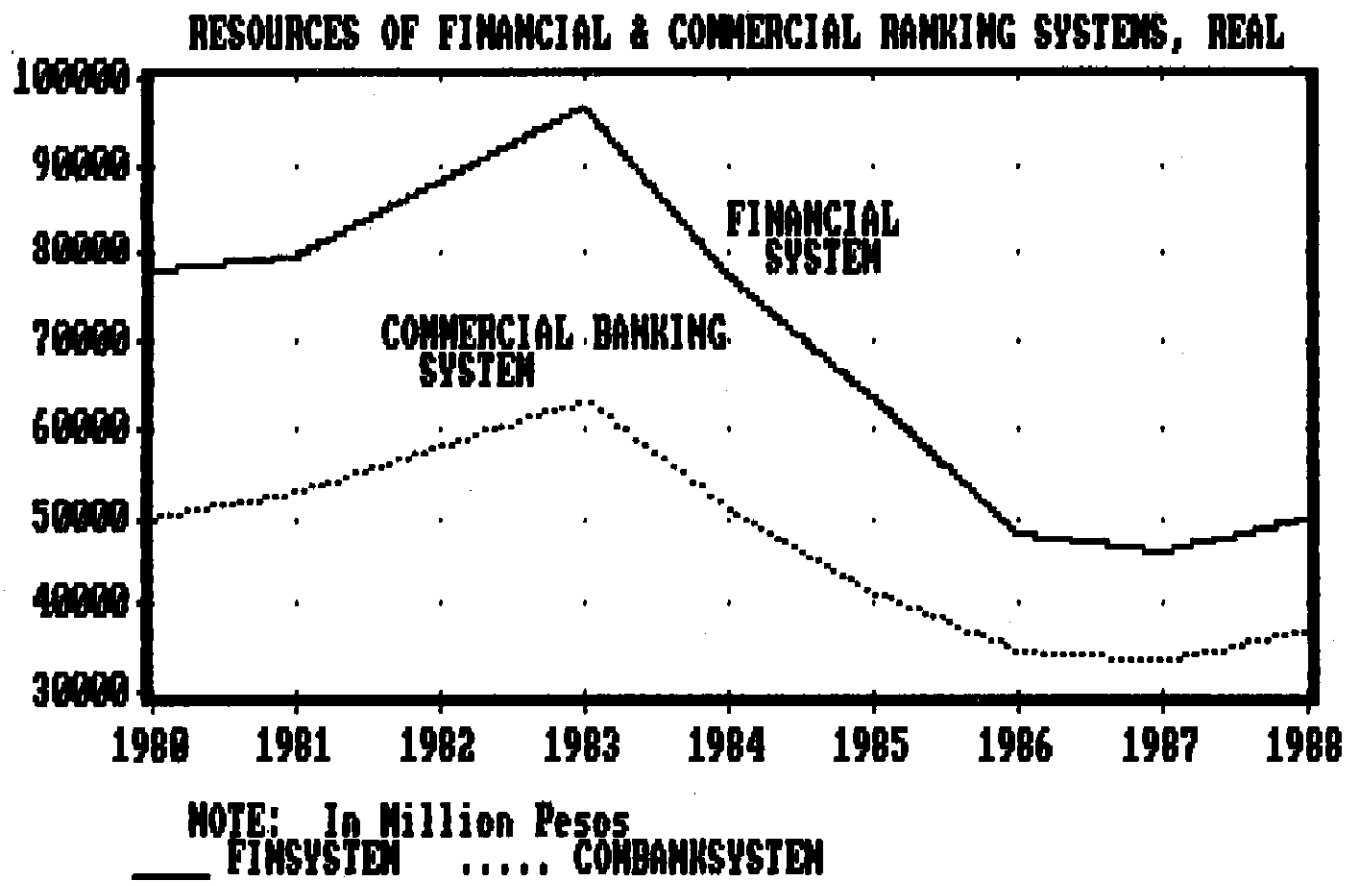

Table 6
Operating Offices of the Financial System

	Total	Head Offices	Branches and other Offices	Overseas Offices of Phil. Banks
Total operating offices	6,805	3,697	3,084	24
Banks	3,562	982	2,556	24
Non-bank financial intermediaries	3,158	2,631	527	-
Non-bank thrift institutions	85	84	1	-

Source: Philippine Financial Factbook, 1988.

Table 7
Assets of the Financial System
31 December 1988
(in billion pesos)

	Amount (billion P)	%
Banking system	360.1	72.0
Commercial banks	299.3	59.8
Private	224.6	44.9
Government	38.8	7.8
Foreign	35.9	7.2
Thrift banks	24.9	5.0
Savings & mortgage banks	14.2	2.8
Private development banks	6.7	1.3
Stock savings & loan associations	4.0	0.8
Rural banks	10.7	2.1
Specialized government banks	25.2	5.0
Nonbank financial intermediaries	140.2	28.0
Insurance companies	98.3	19.6
Government	68.6	13.7
Private	29.7	5.9
Investment institutions	21.4	4.3
Financing companies	7.4	1.5
Investment companies	5.6	1.1
Investment houses	8.4	1.7
Trust operations (fund managers)	1.8	0.4
Other financial intermediaries	18.7	3.7
T o t a l	500.3	100.0
Memo item: GNP	822.7	
% of GNP		60.8

Sources: Philippine Financial Fact Book, 1988.
Insurance Commission (for data on insurance companies in 1988).
Government Corporate Monitoring and Coordinating Committee for assets of the Social Security System and Government Social Insurance System in 1988.

The commercial banking system. Within the banking system, the commercial banking system appears to be the biggest sub-system. Its assets comprised 60 percent of the total assets of the financial system in 1988. Being national banks, commercial banks (KBs) have the most extensive branching network in the country.

The financial system suffered three major crises since 1970, and the commercial banking system was not spared of these crises. The crisis in 1984-85 was by far the severest of them all. Between 1970 and 1987, six KBs floundered. As may be seen from Figure 6, the real assets of the commercial banking system sharply dropped from P62 billion in 1983 to P32 billion in 1986. While the system has been on the road to recovery since 1987, it will definitely take a long time before it can regain the 1983 level.

Since its establishment in 1949, the CB introduced a number of financial reforms to address the weaknesses of the banking system. The most important reforms were introduced in 1980. They paved the way for the creation of the so-called "universal banks." These are KBs that are allowed to perform investment functions. They may own other financial institutions, except other KBs where their ownership is limited to 30 percent. Their required minimum capital is P500 million.

The current structure of the commercial banking system is presented in Table 8. Of the 29 operating KBs, nine are universal banks, 16 are ordinary KBs, and four are branches of foreign banks. Assets of universal banks constituted 60 percent, ordinary KBs constituted 28 percent, and branches of foreign banks constituted 12 percent of the total assets of the KB system in 1988. A universal bank has both commercial banking and investment banking functions, while an ordinary KB cannot perform investment banking. The former has a higher minimum capital requirement of P500 thousand; the latter has only a P300 thousand requirement.

One feature of the KB system is the presence of a large government-owned commercial bank, the Philippine National Bank (PNB). It has remained the biggest in terms of total assets even when its assets were already reduced by a half in 1986 as a result of the transfer of its non-performing assets to the national government. The government started privatizing PNB by successfully selling 30 percent of its total outstanding shares in June 1989.

Financing foreign trade is the sole domain of KBs. They are allowed to open foreign and domestic letters of credits (LCs) and have swap arrangement with the CB. In the 1970s, all KBs were granted the authority to operate a foreign currency deposit unit (FCDU). This was aimed primarily at widening the access of the country to foreign currency funds, gaining familiarity with foreign investors, and exposing domestic corporations to the foreign market, thereby enabling the country to compete in the international capital markets. Some domestic KBs have overseas offices, which may be categorized into fully operating branches, agencies, and representative offices. They tend to concentrate in countries where trade and investment flows with the Philippines are substantial. Only PNB has a branch in Singapore, while two private domestic banks maintain only a representative office in the same country (Table 9). None of the domestic banks has an overseas office in Asean countries other than Singapore. This may reflect the small volume of trade and investments or the restrictive banking policies in Asean countries. Banking policies and regulations in the Philippines will be discussed below.

Table 8
Total Assets of Individual Commercial Banks
(in million pesos)

Bank Group and Name	Total Assets
Commercial Banks (P million)	299,227
A. Government universal bank	38,758
1. PNB	38,758
B. Total private universal banks	141,709
2. Allied	9,470
3. BPI	26,280
4. Citytrust	8,098
5. Equitable	8,190
6. Far East	28,093
7. Metrobank	25,729
8. PCIB	19,676
9. UCPB	16,173
Total universal banks	180,467
C. Total ordinary commercial banks	82,848
10. Associated	2,518
11. Boston Bank	2,150
12. China Bank	6,015
13. Interbank	7,274
14. PBCom	5,010
15. Philbanking	3,699
16. Philtrust	3,938
17. Pilipinas	1,425
18. Producers	3,121
19. Prudential	7,879
20. Republic Planters	7,604
21. RCBC	11,169
22. Security	4,666
23. Solidbank	8,837
24. Traders	3,853
25. Union	3,690
Total Private Domestic Banks	224,557
D. Branches of foreign banks	35,912
26. Bank of America	8,868
27. Std. Chartered	429
28. Citibank	2,875
29. HSBC	377

Source: Philippine Financial Fact Book, 1988.

Table 9
Overseas Offices of Commercial Banks, December 1988

Type	Address	Date Opened
A. Branches		
1. Allied - Bahrain	11/F Bahrain Tower Government Avenue Manama, State of Bahrain	08-18-80
2. Allied - Guam	Ground Floor, ADA Bldg. Agana, Guam 96910	09-28-81
3. Allied - London	131-133 Cannon St. London, EC4N5BL England	01-02-80
4. BPI New York	805 3rd Avenue New York, New York	07-01-85
5. Equitable - Hongkong	No. 4 Duddele St. Central Hongkong	09-15-63
6. Metrobank - Guam	GCIC Bldg., 414 West Soledad Avenue, Agana Guam 96910	09-15-63
7. Metrobank - New York	One World Trade Center Suite 1701, New York City 10048, USA	06-15-79
8. Metrobank - Taipei	52 Nanking East Road, Section 1, Taipei, Taiwan	09-30-70
9. PCIB - New York	Suite 4621 One World Trade Center New York City 10048, USA	06-02-80
10. PNB - Hongkong	2nd floor, Wings Bldg. 100-116 Queens Road Central Hongkong	03-23-79
11. PNB - London	103 Cannon st. London, EC4N5AD, England	09-20-68
12. PNB - New York	5 World Trade Center New York City 10048, USA	10-03-67
14. PNB - Los Angeles	700 S. Flower st. Suite 2516 Los Angeles, California 90017, USA	09-10-68
B. Agencies		
1. PCIB - Los Angeles	Suite 130, Los Angeles World Trade Center 350 South Figueroa Los Angeles, California 90071, USA	10-16-79
2. PNB - Honolulu	3rd floor, Bishop Trust 100 Bishop st., Honolulu Hawaii 96813, USA	09-01-70
C. Representative Offices		
1. Allied - Singapore	Suite 1106, 11th floor Shenton House Shenton Way Singapore	06-30-81
2. Solid Bank Corp. - Hongkong	1502 World-Wide House 19 Des Voeux Road Central Hongkong	07-07-81
3. Metrobank - Hongkong	15th floor, Unit D United Centre 95 Queensway, Hongkong	12-15-72
4. Metrobank - Singapore	10301 Marlin Plaza Singapore	01-01-82
5. Metrobank - Tokyo	Tokyo, Japan	09-05-83
6. PCIB - Frankfurt	6th floor, FBC Bldg. Mainzer, Landstrasse 46D-6,000 Frankfurt AM Main Germany	10-06-81
7. PNB -Riyadh	P.O. Box 94366 Riyadh, Saudi Arabia	
8. UCPB - Paris	28 Rue Bayard Paris, France	04-02-82

Source: CB Fact Book, various years

The offshore banking system (OBS). The OBS is a newly created sub-system of the financial sector It is a mechanism for the country to have more and better access to funds of international financial markets through the participation of foreign financial institutions. The success of Singapore's OBS encouraged the Philippine government to restructure the foreign currency deposit system. Thus, the foreign currency banking setup is now comprised of two sectors: the foreign currency deposit units and the offshore banking units (OBUs).

Since the system was implemented, the number of OBUs increased rapidly, reaching 26 in 1983. But some of them lost interest in continuing their operations here as a result of the 1984-85 economic crisis. As of December 1988, 21 OBUs were still actively operating. One of them is the International Bank of Singapore which has been in the country since 1977. Apart from it, no other OBU is owned by any of the other Asean countries.

The growth in OBS assets in the first few years was phenomenal. From US$757 million in 1977, assets went up to US$5 billion in 1982, exceeding the expectations of the authorities. In the following year, however, a BOP crisis struck the economy. The Philippines declared a moratorium on payments of external debts. As expected, the volume of OBS business declined sharply. By September 1989, total OBS assets stood only at US$2.7 billion. Most of the OBS loans are short-term, i.e., one year or less.

Most of the OBS resources were lent onshore, either directly to non-bank customers or to domestic KBs, which in turn lent the funds to domestic non-bank customers (Table 10). Almost all of these funds came from outside the Philippines. Thus, the inflow of foreign capital through the OBS supplemented the meager supply of domestic capital.

The Development Bank of the Philippines (DBP). The DBP was created by the government primarily to provide long-term funds to agriculture and industry. It was also given the task of promoting the establishment of private development banks through direct equity participation.

DBP's role was purely developmental. Unlike PNB, it did not compete with private KBs in mobilizing deposits. It mainly relied on subsidies from the government, deposits of government corporations notably the Government Social Insurance System (GSIS) and the Social Security System (SSS), and foreign loans which were earmarked for special projects. On the lending side, it concentrated on financing long-gestating projects such as steel, cement, shipping, and mining that were deemed crucial to the economic development of the country but which required huge financial outlays. It also provided guarantees to several foreign loans contracted by private corporations. In the early 1980s, it was heavily involved in rehabilitating private financial institutions by either infusing fresh capital or lending to ailing financial institutions.

DBP used to be the second largest financial institution in the country next to PNB. Between 1980 and 1985, its total assets more than doubled from P27 billion to P72 billion (Table 11). But this only masked the real problems of DBP. The proportion of foreign borrowing to total long-term borrowing markedly increased during the 1983-84 BOP crisis as a result of the sharp devaluation of the peso against the dollar. DBP's problems became more pronounced in 1984 when it suffered a substantial loss of P6.6 billion. Most of the behest and guaranteed loans turned sour. DBP ended up haggling non-performing assets. Huge losses went on for three consecutive years totalling P17.9 billion. In 1986, DBP underwent a rehabilitation program that

Table 10
Philippine Offshore Banking System Statement of Assets and Liabilities, September 1989

Items	US$Million
Assets	
Notes and coins on hand	0
Due from banks	1,506
Outside the Philippines	359
In the Philippines	1,147
Loans and discounts to customers other than banks	1,096
Non-residents	115
Residents	981
Public sector	481
Private sector	500
Bills discounted/purchased	1
Non-residents	0
Residents	0
Investment in bonds and other securities	28
Non-residents	20
Residents	8
All other assets	86
Interest receivable	40
Non-residents	8
Residents	32
Other assets in the Philippines	45
Other assets outside the Philippines	1
Total assets	2,717
Less: Allowance for probable losses	20
Total assets after allowance for losses	2,697
Liabilities	
Deposit of non-residents other than banks	40
Due to banks	2,554
Outside the Philippines	2,205
In the Philippines	349
Other liabilities	103
Interest payable	37
Non-residents	33
Residents	4
In the Philippines	31
Outside the Philippines	35
Total liabilities	2,697

Source: Foreign Exchange Regulations Department, Central Bank of the Philippines.

Table 11
Selected Financial Statistics, DBP (in million pesos)

	1980	1981	1982	1983	1984	1985	1986	1987
A. Resources								
Total Assets	27,086.2	34,706.8	43,998.5	54,934.0	66,800.2	72,043.0	9,503.6	10,531.6
Loans	15,933.8	18,516.5	22,875.4	30,919.7	35,827.6	24,758.0	5,271.1	4,394.5
B. Time and Savings Deposits	4,603.9	6,627.6	7,068.5	4,672.3	978.3	1,519.0	561.5	531.6
C. Long-term Borrowings								
Foreign	6,333.8	7,635.2	11,459.3	16,860.9	28,853.2	32,295.9		
Domestic	8,242.7	10,016.1	11,971.1	14,175.7	14,954.6	12,704.6	2,025.7	1,340.0
D. Equity	4,060.1	4,534.8	5,305.9	5,427.7	4,422.5	4,470.6	2,678.2	3,460.8
E. Income and Expenses								
Earnings	2,673.7	3,419.7	4,369.6	5,369.8	2,648.0	3,140.2	2,138.5	1,777.2
Expenses	2,435.7	3,315.9	4,298.0	5,272.0	8,607.5 2/	8,776.7	8,776.4	965.4
Net Profit 1/	223.1	108.7	117.3	110.2	(6640.9)	(5636.5)	(5638.2)	782.6

1/ Net of taxes
2/ P5.48 was funded by the National Government

Sources: DBP Annual Reports (various years)

involved the transfer to the national government of its non- performing assets totalling P61.4 billion and certain liabilities and related accounts amounting to P62.2 billion. This drastically reduced DBP's total assets to P9.5 billion in 1986.

In 1989, DBP resumed its normal lending operations. It is currently trying to reestablish itself as the primary development lending institution in the country minus the previous practice of accommodating behest loans and indiscriminately providing guarantees on privately contracted foreign loans. Government subsidies to DBP are being gradually phased out. But it still remains the major conduit of externally funded special credit programs such as the Industrial Guarantee Loan Fund.

The insurance system. Like banking, the insurance business was formally introduced by foreigners into the country in the 19th century. The first domestic, privately owned life insurance company was established only in 1910. The GSIS, a social security system for government employees, was established in 1937; the SSS, a social security system for employees in the private sector, was established in 1957.

Although part of the financial system, the insurance system falls outside the purview of CB regulations. It is supervised and regulated by a separate body, the Insurance Commission, which reports to the Department of Finance. The importance of the insurance system may be gauged by its share in the total assets of the financial system that already reached 20 percent as of December 1988 (Table 7), representing 135 insurance companies, of which 131 were privately owned. Thirteen were owned by non-residents. Private insurance companies may be classified into life, non-life, composite of life and non-life, and reinsurer (Table 12). Non-life insurance companies dominate the system as duly registered institutions. One reinsurance corporation is owned by all the insurance companies in the Philippines including the government-owned GSIS.

The ratio of premium expenditure to GNP is the measure commonly used to evaluate the size of national insurance markets. In the Philippines, this ratio reached 1.56 percent in 1987, which was the highest among Asean countries[5]. But this is low by international standards. USA, Japan, West Germany, Great Britain, France, and Korea had ratios ranging from 5 to 9 percent in the same year.

Between 1978 and 1987, total assets of the insurance system increased more than four-fold (Table 13). The government insurance companies, dominated by GSIS and SSS, contributed between 63 percent to 72 percent of the total assets of the insurance system during the same period. Table 14 presents the shares in total assets of private domestic and foreign-owned insurance companies by type of insurance companies, as of December 1987. The table shows that the shares of foreign-owned insurance companies in total assets are relatively small in all types of insurance companies.

Table 15 provides the consolidated balance sheet of private insurance companies as of December 1987. In general, stocks, bonds, and short-term investments were the most popular

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5. The ratio for the other ASEAN countries are: Indonesia : .40 percent, Malaysia : 1.35 percent, Singapore : 1.18 percent, and Thailand : .72 percent.

Table 12
Distribution of Authorized Insurance Companies,
31 December 1988

	Private					Government a/	
	Direct-Writing Companies			Professional Reinsurers	Total		Grand Total
	Life	Non-Life	Composite				
Domestic	21	92	2	3	118	4	122
Foreign	2	10	-	1	13	-	13
Total	23	102	2	4	131	4	135

a/ Includes GSIS, SSS, the Philippine Deposit Insurance Corporation (PDIC) and the Philippine Crop Insurance Corporation (PCIC).

Source: Insurance Commission Annual Report, 1988.

Table 13
Admitted Assets, 1978-1987 (in million pesos)

Year	Private Insurance Companies				Government Insurance Companies a/	Grand Total
	Non-Life Companies	Professional Reinsurers	Life Companies	Total		
1987	10,082.9	911.6	14,378.2	25,372.7	64,730.0	90102.7
1986	9,256.1	798.8	12,670.4	22,725.3	54,768.4	77493.7
1985	8,815.5	969.5	10,499.5	20,284.5	43,138.0	63422.5
1984	7,894.6	931.7	9,238.2	18,064.5	36,493.1	54557.6
1983	6,535.4	747.6	8,003.6	15,286.6	31,642.5	46929.1
1982	5,965.7	906.1	6,843.9	13,715.7	27,372.0	41087.7
1981	4,870.5	512.4	5,950.7	11,333.6	22,700.0	34033.6
1980	4,382.2	507.5	5,107.7	9,997.4	17,466.2	27463.6
1979	4,102.0	4,383.0	4,414.8	12,899.8	14,887.7	27787.5
1978	3,636.8	367.3	3,799.0	7,803.1	13,345.7	21148.8

a/ Government Insurance Corporations:
1978-1980 : GSIS and SSS.
1981-1985 : GSIS, SSS, and PCIC.
1986-1987 : GSIS, SSS, PCIC, and PDIC.

Source: Insurance Commission Annual Report, 1988.
Philippine Statistical Yearbook, 1989.

Table 14
Admitted Assets of Insurance Companies Authorized to Operate in the Philippines, by Type of Ownership, as of 31 December 1987 (in million pesos)

Insurance Companies	Admitted Assets	Percentage to Total
Life companies		
I. Domestic - life	12,685.85	50.00
II. Foreign - life	1,692.39	6.67
Total domestic & foreign life	14,378.24	56.67
Non-life companies		
I. Domestic - non-life	8,278.03	32.63
II. Foreign - non-life	1,804.94	7.11
Total domestic & foreign non-life	10,082.97	39.74
Professional reinsurers		
I. Domestic reinsurers	825.95	3.26
II. Foreign reinsurers	85.62	0.34
Total domestic & foreign reinsurers	911.57	3.59
Grand Total	25,372.79	100.00

Source: Insurance Commission Annual Report, 1988.

Table 15
Consolidated Balance Sheet
Private Insurance Companies
31 December 1987

	Non-life			Professional Reinsurers			Life			Grand
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Total
Admitted assets										
Bonds	359.5	407.1	776.6	14.8	7.7	22.5	2,305.8	317.2	2,622.8	3,421.9
Stocks	1,081.5	80.8	1,162.3	46.7	3.6	50.3	2,888.3	238.9	2,927.2	4,139.8
Real estate owned	433.9	6.6	440.5	4.1	-	4.1	844.1	-	844.1	1,288.7
Purchase money mortgage	0.5	-	0.5	-	-	-	14.2	-	14.2	14.7
Mortgage loans on real estate	83.4	2.8	86.2	0.5	-	0.5	737.3	-	737.3	824.0
Collateral loans	8.0	-	8.0	0.6	-	0.6	177.8	9.0	186.8	195.4
Guaranteed loans	39.1	-	39.1	-	-	-	658.7	284.3	943.0	982.1
Policy loans	-	-	-	-	-	-	1,851.4	198.5	2,049.9	2,049.9
Other loans	12.0	0.2	12.2	0.8	-	0.8	196.1	4.0	200.1	213.1
Short-term investment	1,201.1	306.6	1,507.7	33.0	5.9	38.9	1,764.4	564.7	2,329.1	3,875.7
Security fund	3.7	0.5	4.2	8.3	0.1	0.4	4.8	0.3	5.1	9.7
Other investments	69.2	2.1	71.3	4.0	-	4.0	189.6	0.1	189.7	265.0
Cash on hand and in banks	665.8	115.1	800.9	19.3	21.1	40.4	869.2	13.8	883.0	1,524.3
Premiums receivable	445.5	75.8	521.3	-	-	-	-	-	-	521.3
Life insurance premiums and annuity considerations uncollected	-	-	-	-	-	-	192.3	29.6	221.9	221.9
Due from ceding companies	1,266.9	368.8	1,635.7	254.2	25.5	279.7	14.0	-	14.0	1,929.4
Premiums/loss reserves withheld by ceding companies	317.5	50.2	367.7	203.2	-	203.2	27.3	-	27.3	598.2
Accident and health premiums due and uncollected	-	-	-	-	-	-	6.6	-	6.6	6.6
Reinsurance recoverable on losses	1,708.3	300.4	2,008.7	234.7	2.3	237.0	-	-	-	2,245.7
Other reinsurance accounts receivable	50.2	8.3	58.5	-	-	-	-	-	-	58.5
Commissions/accounts/notes receivable	345.7	26.6	372.2	7.8	-	7.8	-	-	-	380.0
Salvage recoverable	45.3	-	45.3	-	-	-	-	-	-	45.3
Accrued interest and other investment income	48.9	19.4	68.3	0.9	0.6	1.4	170.5	28.0	292.5	272.2
Other assets	82.0	33.7	115.7	18.9	18.9	20.0	167.6	6.0	173.6	309.6
Total admitted assets	8,278.0	1,804.9	10,082.9	848.7	85.7	911.6	12,685.8	1,692.4	14,378.2	25,372.7
Liabilities										
Reserves for unearned premiums	772.7	291.1	1,063.8	69.8	15.3	85.1	-	-	-	1,148.9
Legal policy reserves	-	-	-	-	-	-	7,070.9	984.2	7,055.1	7,969.1
Policy and contract claims	-	-	-	-	-	-	167.8	18.8	186.4	186.4
Losses and claims payable	1,884.3	529.4	2,413.7	337.9	-	337.9	-	-	-	2,751.6
Loss adjustment expenses	27.1	10.8	37.9	-	-	-	-	-	-	37.9
Dividends payable to stockholder	1.0	-	1.0	-	-	-	16.2	-	16.2	17.2
Policyholders' dividends	-	-	-	-	-	-	234.5	230.1	464.6	464.6
Premiums and annuity consideration received in advance	-	-	-	-	-	-	37.5	-	37.5	37.5
Liabilities for premium deposit	-	-	-	-	-	-	74.8	0.5	74.9	74.9
Premiums due to reinsurers	1,479.1	173.3	1,646.4	175.0	0.6	175.6	77.5	0.1	77.6	1,899.6
Premiums/loss reserve withheld for reinsurers	411.0	131.9	542.9	85.6	5.2	100.8	2.3	-	2.3	646.8
Other reinsurance accounts payable	61.6	72.8	134.4	1.3	-	1.3	-	-	-	135.7
Taxes/licenses payable	231.9	19.5	251.4	3.1	0.2	3.3	40.7	10.5	51.2	305.9
Accrued expenses payable	55.4	4.0	59.4	2.6	-	2.6	-	-	-	62.0
Commissions and other charges payable	211.6	25.0	236.6	-	0.2	0.2	57.0	6.7	63.7	300.5
Accounts/notes payable	158.6	2.5	161.3	20.6	-	20.6	79.4	0.1	79.5	261.6
Unearned investments income	-	-	-	-	-	-	48.5	1.2	49.7	49.7
Other liabilities	64.5	20.6	85.1	5.1	4.7	9.8	357.4	188.9	546.3	641.2
Total liabilities	5,359.0	1,280.9	6,639.9	711.2	26.2	737.4	8,264.3	1,340.7	9,605.0	16,978.3
Networth/trusted surplus*										
Paid-up capital/statutory deposits*	1,020.0	110.1	1,131.0	57.2	15.0	72.2	760.5	26.0	786.5	1,989.7
Paid-in capital in excess of par value	7.2	2.4	9.6	-	-	0.0	1.0	-	1.0	10.6
Contributed surplus	158.2	77.6	235.8	9.2	-	9.2	82.7	51.8	134.5	380.8
Investment fluctuation reserve	734.5	134.8	869.3	8.5	-	8.5	1,863.5	3.2	1,866.7	2,744.5
Assigned surplus	19.6	-	19.6	-	-	0.0	8.1	-	8.1	27.7
Unassigned surplus/home office accounts*	983.6	189.1	1,162.7	39.8	44.5	84.3	1,795.7	279.7	1,978.4	3,243.4
Total networth	2,825.0	524.0	3,449.0	114.7	59.5	174.2	4,421.5	351.7	4,773.2	8,396.4
Total liabilities and networth/trusted surplus*	8,278.0	1,804.9	10,082.9	825.9	85.7	911.6	12,685.8	1,692.4	14,378.2	25,372.7

Source: Insurance Commission Annual Report, 1988.

investment instruments of insurance companies. Policy loans also appeared to be an important investment instrument of life insurance companies. A more detailed breakdown of investments in bonds by private insurance companies is presented in Table 16. Government securities dominated the investment portfolio of insurance companies. Among government securities, treasury notes and the high-yielding treasury bills were the most important investment instruments of insurance companies. Investment in private corporate bonds was very small. Note, however, that the supply of private corporate bonds in the domestic market was also minimal.

Table 17 gives the investment profile of government insurance companies. GSIS investment portfolio appeared to be well-diversified, whereas that of SSS concentrated in bonds. Government securities were the most important investment outlet of government insurance companies.

The analysis above shows the importance of the insurance system in generating financial resources and financing the budget deficit of the national government.

The Securitized Capital Market

The securitized capital market provides medium- and long-term funds by issuing instruments that are negotiable. It is divided into the primary market and the secondary market. The Philippine primary market has remained thin and unimportant in providing medium- and long-term funds. The secondary market, on the other hand, grew fairly well over the 1970s and 1980s. However, it remains narrow compared with those of Singapore and Malaysia. It is dominated by the stock market.

Two stock exchanges exist in the country. The Manila Stock Exchange was established in the 1920s. It currently has 65 members and 229 listed issues. The Makati Stock Exchange, on the other hand, was organized only in the mid-1960s. It also has 65 members. Both exchanges have identical listings of stocks because of the law that requires automatic listing in both stock exchanges of securities approved for listing and trading. More issues are listed than there are companies because of the regulation that Class A shares can only be owned by Filipinos while Class B shares can be owned by both Filipinos and foreigners. However, no difference exists between the two classes as far as voting rights, dividend rights, or any other rights of stockholders. The distinction is made to facilitate identifying an issue's foreign ownership base because of the regulation that foreign ownership of a corporation is limited to a maximum of 40 percent. Apparently, this has led to the distortion in the prices of the shares since there always has been excess demand on class B shares. Now a move toward merging the two stock exchanges and doing away with two classes of shares is taking place.

Like the rest of the financial system, the stock market was not spared of the recent economic crisis. In fact, its problem started as early as 1981 when a liquidity crisis struck the financial system. It started to recover when the economy bounced back in 1986 (Table 18) and local and foreign investors made a comeback. The current profile of market players is given as follows: local institutional investors - 40 percent, resident individuals - 37 percent, and foreign investors - 23 percent.

Table 16
Breakdown of Investments in Bonds (at cost)
Private Insurance Companies
31 December 1987

Kinds of Bonds	Non-life Domestic	Non-life Foreign	Non-life Total	Professional Reinsurers Domestic	Professional Reinsurers Foreign	Professional Reinsurers Total	Life Domestic	Life Foreign	Life Total	Grand Total	Percentage of Total
I.											
A. Long-term govemmnet securities											
1. Treasury notes	152.4	133.4	285.8	11.6	-	11.6	1,739.8	282.7	2,022.5	2,319.9	75.2
2. National power corporation funds	3.5	54.0	57.5	-	-	-	253.9	-	253.9	311.4	10.1
3. DBP insurance notes	15.3	11.0	26.3	0.5	-	0.5	129.0	-	129.0	155.8	5.0
4. DBP countryside bills	59.2	23.2	82.4	0.9	5.3	6.2	8.7	-	8.7.	97.3	3.2
5. National housing authority bonds	34.8	20.9	55.7	0.8	-	0.8	16.8	-	16.8	73.3	2.4
6. Other government bonds	29.3	-	29.3	-	2.4	2.4	20.2	-	20.2	51.9	1.7
7. NHMFC bonds	3.6	2.4	6.0	-	-	-	29.3	9.6	38.9	44.9	1.5
8. C B C I 's	1.4	-	1.4	-	-	-	19.0	-	19.0	20.4	0.7
9. Land bank bonds	8.8	-	8.8	-	-	-	1.8	-	1.8	10.6	0.3
Total long-term government securities	308.3	244.9	553.2	13.8	7.7	21.5	2,218.5	292.3	2,510.8	3,085.5	100.0
B. Short-term government securities											
1. Treasury bills	1,095.5	287.2	1,382.7	33.0	5.9	38.9	1,544.7	537.6	2,082.3	3,503.9	93.0
2. C B bills	36.8	16.0	52.8	-	-	-	107.1	-	107.1	159.9	4.2
3. Other short-term government securities	1.0	-	1.0	-	-	-	100.0	-	100.0	101.0	2.7
4. DBP bills	2.0	-	2.0	-	-	-	-	-	-	2.0	0.1
Total short-term government securities	1,135.3	303.2	1,438.5	33.0	5.9	38.9	1,751.8	537.6	2,289.4	3,766.8	100.0
Total government securities	1,443.6	548.1	1,991.7	46.8	13.6	60.4	3,970.3	829.9	4,800.2	6,852.3	98.3
II.											
A. Private corporate bonds	3.6	0.3	3.9	0.5	-	0.5	10.6	6.6	17.2	21.6	0.3
B. Foreign issue bonds	44.5	39.6	84.1	-	-	-	11.2	0.0	11.2	95.3	1.4
Grand total	1,491.7	588.0	2,079.7	47.3	13.6	60.9	3,992.1	836.5	4,828.6	6,969.2	100.0

Source: Insurance Commission Annual Report, 1988.

Table 17
Investments at Cost
Government Insurance Corporations
31 December 1987
(in million pesos)

Types of Investments	GSIS	SSS	PCIC	PDIC	Total	Percentage of Total (%)
Bonds	686	22,960	366	141	24,153	44.48
Short-term investments	2,525	5,630	-	155	8,310	15.31
Other loans	3,302	2,624	-	-	5,926	10.91
Mortgage loans on real estate	778	4,224	-	-	5,002	9.21
Stocks	2,780	336	-	-	3,116	5.74
Other investments	3,031	-	-	-	3,031	5.58
Real estate owned	2,851	-	-	60	2,857	5.26
Policy loans	1,184	-	-	-	1,184	2.18
Fixed deposits	511	-	-	205	716	1.32
Total	17,648	35,774	366	561	54,295	100.00

Source: Insurance Commission Annual Report, 1988.

Table 18
Manila/Makati Stock Exchange Trading, 1975-1988
(in billion shares/pesos)

	Manila		Makati	
	Volume	Value	Volume	Value
1975	58.4	1.5	57	1.6
1976	128	3.4	120	3.4
1977	63	1.2	66	1.3
1978	70	2.5	83	2.9
1979	56	2.3	74	2.7
1980	40	2.1	61	2.6
1981	20	0.6	32	0.7
1982	21	0.7	20	0.5
1983	17	3.4	20	2.0
1984	9	0.7	15	1.4
1985	7	1.6	5	0.5
1986	38	8.4	21	3.1
1987	208	19.3	107	12.1
1988	142	10.1	80	8.2

Source: Annual Reports of Manila and Makati Stock Exchanges (various years).

Impact of the Current Financial and Banking Structure on Asean Cooperation

The Philippine financial system is less fragmented now than before. The 1980 financial deregulations, particularly the broadening of the functions and the reduction in the functional distinction among different types of banks, have encouraged consolidation and mergers. Banks have either set up new departments to take on additional functions or have created or bought subsidiaries. As a result, there is better coordination in the system. Moreover, the 1984-85 BOP crisis led to the collapse of weaker and badly managed financial institutions. Thus, only relatively strong financial institutions have remained in the system. Also, practically the same set of regulations apply to all types of banks.

A strong and well-coordinated financial system is in a better position to promote intra-Asean cooperation. For instance, any discussion about cooperation in the securities market will likely be participated in or strongly supported by leading financial institutions in the country since they have subsidiaries operating in this submarket.

Representation will be less of a problem because of reduced functional distinctions among different types of financial institutions. Representatives to an Asean forum will, therefore, have a larger view of cooperation since they will be thinking of their impact on the entire system. For instance, cooperative efforts in the thrift banking system will be seen in the context of how they will affect the rest of the financial system.

There are indications, however, that the present structure of the financial system could hamper Asean cooperation. This is particularly true in areas where competitive position of financial institutions will be reduced. For instance, allowing other Asean countries to enter in one particular submarket will likely meet strong resistance from all sectors within the financial system. Thus, cooperation within the region will likely be limited to parallel activities such as training, sharing of information, and policy coordination, but never in areas where improvement in microeconomic efficiency is needed.

V. LINKAGES BETWEEN THE REAL AND FINANCIAL SECTORS OF THE PHILIPPINE ECONOMY

It is said that the real and financial sectors of the economy are two faces of the same coin. They are closely linked to each other through various avenues. The strength of the linkage through certain means would differ, of course, across countries because such linkage depends on what sub-sectors of the real and financial sectors have been developed. This section analyzes the extent of the linkage between the real and financial sectors of the Philippine economy. The Annual Macroeconometric Model: Version 1989 of the Philippine Institute of Development Studies (PIDS) and the National Economic Development Authority (NEDA), which was developed by Constantino, *et al.* (1990), was used in analyzing the structure of the Philippine economy. The model is based on a combination of classical, Keynesian, structuralist, and monetarist models.

The model has four major blocks: 1) the real sector consisting of production, expenditure and employment, wages, and prices; 2) the fiscal sector; 3) the financial sector; and 4) the external sector. It uses 114 behavioral equations and 53 identities. The financial sector alone has a total of 22 equations of which 15 are behavioral equations.

In this study, two experiments were conducted covering the period 1977-1987: The values of two variables in the financial sector, i.e., the treasury bill rate and the reserve requirement ratio on deposit liabilities, were changed and their short- and long-run impact on all the four major blocks were traced. For purposes of this study, only the results of a few variables will be presented.

Increase in the Treasury Bill Rate

The treasury bill rate was increased by 10 percent. The effects of this shock on key variables are shown in Table 19. Total liquidity increases by 3.2 percent in the short run and by 9.2 percent in the long run. The reason is that an increase in the Treasury bill rate raises the net credit of the CB to the national government. Since the latter is a component of the monetary base, the increase ultimately expands total liquidity through the reserve money multiplier equation. The inflationary pressure created adversely affects the real sector of the economy. In particular, GNP declines by 0.29 percent in the short run and by 3.7 percent in the long run. Among the various components of demand, durable equipment will be hardest hit. Among the major production sectors, agriculture will not be adversely affected by an increase in the Treasury bill rate since loans to the rural banks, which mainly provide credit to the agricultural sector, will increase with an increase in total liquidity[6]. Trade balance considerably improves in the long run since demand is dampened.

Increase in Reserve Requirement

In this experiment, the reserve requirement ratio on deposit liabilities of banks was increased by 10 percent. The results are shown in Table 20. Total liquidity is reduced by 2.6 percent in the short run and by 16.7 percent in the long run. This is because an increase in the reserve requirement ratio lessens the value of the money multiplier. The reduction in total liquidity decreases the consumer price index by 0.44 percent in the short run and by 6.44 percent in the long run. The overall impact of an increase in the reserve requirement ratio on the real sector is positive. GNP improves by 0.03 percent in the short run and by 2.08 percent in the long run. The short run impact, however, varies among the demand components. Personal consumption and durable equipment will be adversely affected in the short-run while the rest of the demand components will be positively affected. Among the major production sectors, agriculture will suffer both in the short and the long run. The reason is that an increase in reserve requirement reduces total liquidity which, in turn, reduces total loans to the rural banking system, a major provider of credit to the agricultural sector. Trade balance also improves in the second experiment, although the improvement is much less than that of the first experiment. In overall performance, the second experiment produces better results than the first experiment.

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6. In the Philippines, rural banks were heavily dependent on borrowing from the CB for their lending activities to the agricultural sector for most of the period covered in the study.

Table 19
Impact, Terminal, and Average Percent Differences for
Selected Variables, 1977-87: Ten Percent Increase
in Treasury Bill Rate, Sustained Shock

Variable	Impact	Terminal	Average
Gross National Product	-0.2900	-3.6730	-2.0631
Personal Consumption	-0.2299	-3.2443	-1.7176
Government Consumption	-0.1327	-4.4422	-3.4152
Gross Domestic Capital Formation	-0.7812	-8.0398	-5.0080
Private Construction	-0.3988	-4.3829	-2.4581
Public Construction	-0.3343	-4.7777	-2.9343
Durable Equipment	-1.5337	-15.0090	-8.4201
Exports	-0.9938	-1.8683	-1.0754
Imports	-0.2752	-4.3256	-2.6677
Gross Domestic Product	-0.2926	-3.6779	-2.0696
Agriculture	-0.0115	0.0834	0.0033
Industry	-0.5456	-6.9965	-3.7683
Manufacturing	-0.5213	-6.1810	-3.4016
Services	-0.2456	-3.5588	-1.9977
Consumer Price Index	0.5506	3.7080	2.8555
Total Liquidity	3.1789	9.2365	7.3897
Budget Deficit	3.6252	5.9926	275.4884
Revenues	-0.5453	-1.7529	-1.5036
Trade Balance	0.9852	11.1850	54.3019
Exports	-0.0992	-2.1785	-1.2108
Imports	-0.2786	-4.1042	-2.3577
Balance of Payments	11.4906	37.9650	24.4520

Table 20
Impact, Terminal, and Average Percent Differences for Selected Variables, 1977-1987: Ten Percent Increase in Reserve Requirements, Sustained Shock

Variable	Impact	Terminal	Average
Gross National Product	0.0316	2.0847	0.9060
Personal Consumption	-0.1051	0.7395	0.2596
Government Consumption	0.1056	6.5634	2.9524
Gross Domestic Capital Formation	0.0375	3.6686	1.6127
Private Construction	0.2276	4.0211	1.9448
Public Construction	0.2664	7.9435	3.9838
Durable Equipment	-1.1763	2.4761	0.4140
Exports	0.0684	2.9107	1.3163
Imports	0.0142	1.3834	0.6976
Gross Domestic Product	0.0325	2.1243	0.9434
Agriculture	-0.1043	-2.6827	1.2066
Industry	0.1451	6.0118	2.5720
Manufacturing	0.1010	5.1504	2.1507
Services	0.0199	2.2377	0.9783
Consumer Price Index	-0.4364	-6.4397	-3.7730
Total Liquidity	-2.6026	-16.6620	-10.9451
Budget Deficit	1.5638	8.4904	1030.5697
Revenues	-0.2476	-2.4693	-1.4466
Trade Balance	0.1939	5.8141	13.9207
Exports	0.0661	3.3513	1.4529
Imports	0.0139	1.3771	0.6293
Balance of Payments	1.8213	17.1270	9.7505

To recapitulate, we have examined the linkage of the real and financial sectors of the economy using an econometric model. The model itself tries to capture the relationships among various sectors of the economy. The results suggest a strong linkage between the real and financial sectors of the economy. It implies that an appropriate monetary policy can help steer the course of the economy.

VI. POLICY MEASURES, LAWS, AND REGULATIONS AFFECTING FINANCIAL FLOWS BETWEEN THE PHILIPPINES AND ASEAN

In general, the Philippines does not discriminate Asean from non- Asean countries in its policies governing financial transactions between residents and non-residents. Thus, the same regulations are applied to transactions between the Philippines and Asean countries, and between the Philippines and non-Asean countries. Transactions that involve the use of foreign exchange, either through the current or capital account, are heavily regulated. Transactions that involve inflows of foreign exchange are less regulated than those that involve outflows.

On merchandise trade, the Philippines has been regulating imports, although trade has been liberalized in the 1980s. In 1980, importation of 2,032 items was regulated, banned, or prohibited. By January 1990, the number of regulated, banned, or prohibited items went down to 441. Banks are prohibited from selling foreign exchange to importers who wish to import those included in the list of banned or prohibited items; thus, importers have to seek clearance from concerned government agencies before they are allowed to secure foreign currency from banks. For non-trade (invisibles) foreign exchange transactions, Section 39 of CB Circular No. 960 states that --

> No person, firm, association or corporation shall take or transmit or attempt to take or transmit foreign exchange, in any form, in any manner, out of the Philippines directly or through other person, through mails, or through international carriers unless specifically authorized by the Central Bank or allowed under existing international agreements or Central Bank regulations; Provided, That this prohibition shall not apply to tourists and non-resident temporary visitors who are taking or sending out of the Philippines foreign exchange in amounts not exceeding such amounts of foreign exchange brought in and declared by them.

The specific regulations covering the sale of foreign exchange requiring prior CB approval is presented in Appendix 2. The long list of regulations and procedures to be followed in procuring foreign exchange for non-trade transactions clearly indicates the very restrictive policy of the government in this area. There is no doubt that this partly hampers financial flows between the Philippines and other Asean countries.

The Philippines encourages foreign investments into the country. Such investments may take the form of direct equity participation in a domestically-registered (or resident) firm, or investments in CB-approved securities. There are limits to equity participation by foreigners in a resident firm. The Philippine Constitution states that: "The Congress shall, upon recommendation of the economic and planning agency, when the national interest dictates, reserve to citizens of the Philippines or to corporations or associations at least *sixty per centum* of whose capital is owned by such citizens, or such higher percentage as Congress may prescribe, certain areas of investments" (Article XII, Section 10). Restrictions on foreign equity participation in domestic

activities are not uncommon among host less developing countries (LDCs). Among Asean countries, Singapore has the least restrictive policy on foreign equity participation, while the Philippines has the most restrictive policy (Table 21).

Restriction on foreign equity participation has certainly affected the free flow of capital into the Philippines. This is now seriously felt by the domestic economy, especially at this time when it is virtually impossible to obtain foreign loans from the international banking community[7]. Investment growth in the past few years could have been sustained had foreign investments accelerated. However, many potential investors wanted to come in only if they were allowed to exercise greater control over their assets. Moreover, the lack of local capital for joint venture projects requires more investments coming from foreign investors, which means that foreign participation could go beyond the 40 percent limit to initiate a project.

This need to stimulate investment in the domestic economy has led some members of the Philippine congress and the executive branch to initiate some moves to relax the rule on foreign equity participation. However, they are meeting strong resistance from the so-called "nationalist bloc" inside and outside the congress.

In the Philippines, entry by non-residents into banking is more restrictive than entry into non-banking activities. There is currently a moratorium on giving new licenses to branches of foreign banks. Only four branches of foreign banks have been allowed to operate since the establishment of the CB. They may open up branches in any part of the country, but the new branches are not allowed to accept demand deposits. This is one discriminatory policy against branches of foreign banks. However, foreign equity participation in domestic banking institutions is encouraged up to 30 percent of the total voting stocks of banks. The Monetary Board may, with the approval of the President of the Philippines, increase the percentage of foreign-owned voting stocks in any domestic bank from 30 to 40 percent.

Non-bank financial institutions such as finance companies and insurance companies also have the 40 percent limit on foreign equity participation. Asian banks, entry by foreigners into the insurance market is restricted. No new branch or subsidiary of foreign insurance companies has been established since 1960.

One way by which non-residents can participate in financial activities is to engage in offshore banking activities. Offshore banking refers to banking transactions and operations in foreign currencies involving the receipt of funds principally from external sources and the utilization of such funds. Only banks organized under any law other than that of the Republic of the Philippines, their branches, subsidiaries, or affiliates shall be qualified to operate an OBU in the Philippines. Table 22 presents a summary of regulations governing operations of OBUs. Unlike in Singapore, the OBS in the Philippines was established for the purpose of increasing local residents' access to foreign currency funds.

As already mentioned earlier, foreign investors may also invest in CB-approved Philippine securities. These refer to securities listed with the Philippine stock exchanges, whether the

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7. There has been a reverse flow of financial resources in the past few years. The net resource transfer to creditors from 1985 to 1989 already reached US$7.67 billion. A huge chunk of these payments went to commercial banks and institutions.

Table 21
Regulations on Ownership of Enterprise
and Foreign Equity Participation

Indonesia	Malaysia	Philippines	Singapore	Thailand
The initial minimum shareholding required of the Indonesian participant is generally set at 20%. The initial shareholding of the Indonesian partner may be as low as 5%, which has to be increased to 20% within 5 years from the date of commercial production and further to 51% within 10 years. Provided, these investments fulfill one of the following requirements: (i) The intended investment amounts to at least $10 million; (ii) The project is to be located in a remote area; or	(ii) Industrial projects substantially dependent on the domestic market may require majority Malaysian equity. (iii) Projects involving the extraction and primary processing of depletable domestic resources should have at least 70% Malaysian equity, including 30% Bumiputra equity. (iv) Export-oriented projects are allowed foreign majority ownership. Where it is justified, 100% foreign equity may be considered. Under redefined guidelines, foreign companies can own up to 100% foreign equity if the company exports 50% of its production or employs 350 full-	In most economic activities, foreign investment should account for not more than 40% of the total equity. Foreign-equity participation in excess of 40% is allowed if: (i) the enterprise proposes to engage in a "pioneer" project; (ii) at least 70% of its production is for exports; or (iii) the enterprise is located in an export processing zone. In these cases, the foreign investor is required to direct their shares to attain 40% limit within 30 years.	Generally, there is no restriction on foreign participation in equity, except for certain industries like banking, newspapers, and companies owning residential properties. In the construction industry, a 5% preferential margin is given to companies with majority local equity participation for certain government projects.	With the enactment of the Alien Business Law on November 26, 1972 (NEC 281), aliens are granted permission to engage in certain business enterprises in Thailand only if more than 50% of the capital is owned by Thais. For certain industries, foreign control of the business may be allowed on certain conditions prescribed by the Director-General of Trade Registration. Foreign control is also possible for promoted companies engaged in priority activities, as approved by the BOI.

Table 21 (continued)

Indonesia	Malaysia	Philippines	Singapore	Thailand
(iii) At least 85% of production is intended for exports.	time Malaysian workers. These new rules apply only to investments made from October1, 1986 to December 31, 1990.	Furthermore, foreign equity participation in excess of 40% is permissible provided the following are established. (1) the investment is made in an area of economic activity that contributes to the sound and balanced development of the national economy on a self-sustaining basis; (2) the area is not yet adequately exploited by Filipinos; (3) the activity will not conflict with the Constitution or laws of the Philippines; (4) the operations of the enterprise are not inconsistent with the Investment Priorities Plan; and (5) the enterprise will not pose a clear and present danger of promoting monopolies in restraint of trade.		

Source: Manasan, Rosario. "A Review of Investment Incentives in ASEAN Countries," PIDS Working Paper Series No. 88-27.

Table 22
Regulations Governing the Operations
of OBUs in the Philippines

Area	Regulations
1. Participating banks	- - Branches of foreign banks.
2. Qualified depositors	- - a. Resident commercial banks only. b. Non-residents.
3. Amount of deposit	- - a. For time/call deposits: $50,000 and above. b. For demand deposits: any amount.
4. Types of deposits	- - a. Time/call b. Demand (There are no savings accounts. There are no regulations as to trust deposits.)
5. Currencies used	- - Any foreign currency (for transactions with residents only reserve currencies or any foreign currency freely convertible into reserve currencies. The peso is used for administrative transactions only.).
6. Liquidity ratios	- - There is no provision on the cover. All that is required is an unconditional guarantee by the head office which suggests, in effect, a 100% cover.
7. Currency trading	- - Foreign exchange trading is allowed with no restrictions on what currency the bank is to hold.
8. Minimum capitalization requirement	- -No capitalization requirement. (The law simply requires that they hold at least US$1 million in deposits with the Central Bank or investments in Phil. securities or other CB-approved assets.)
9. Securities	- - a. Short-term. b. Medium-term. c. Long-term.
10. Qualified borrowers	- - a. Residents (subject to Central Bank approval). b. Non-residents (no Central Bank approval needed).
11. Swap operations (foreign currency - peso)	- - 0% (OBUs do not have access to pesos; thus there are no swap arrangements in pesos) Swap with CB, FCDU, OBU (only in foreign currencies).
12. Uniform Currency Law (RA 529)/Usury Law (RA 2655)	- - Not applicable.
13. Taxation: a. 5% gross receipts tax (Tax Code, Sec. 249).	- - a. Not applicable.
b. documentary and science tax.	b. Not applicable.
c. tax on net income.	c. For net offshore income, the tax rate is 5%; for gross onshore income, the tax rate is 10%.

Source: Central Bank Circular No. 960 (1983).

principal amount is expressed in Philippine peso or in some other currency. They include securities traded or dealt in by accredited government securities dealers. Foreign investments in CB- approved Philippine securities funded by inward remittance of foreign exchange should be registered with the CB through an authorized agent bank. All commercial banks and banks with expanded KBs functions are designated as authorized securities dealers. Any duly licensed securities dealer may also secure a certificate of authority from the CB.

The law on real estate ownership by alien investors in the Philippines also discourages foreign investment. The Philippine Constitution limits the ownership of land and the development, exploration, exploitation, and use of natural resources to citizens of the Philippines and to corporations or associations with at least 60 percent capital owned by Filipino citizens. As shown in Table 23, the Philippines appears to have the most restrictive law on real estate ownership by alien investors in the Asean region.

Asean countries grant foreign investors almost similar guarantees against expropriation; losses due to nationalization, war, and inconvertibility of currency; remittance of foreign exchange on earnings, profits, and dividends on investments; remittance of interest and principal payments on foreign loans; and repatriation of capital (Table 24). In the Philippines, only investments duly registered with the CB, whether in the form of equity or securities, are eligible for repatriation and remittances of profits and dividends. Note that only the Philippines has a proviso restricting foreign exchange remittance in the event of an emergency situation in the foreign exchange market or a BOP crisis. This was invoked in 1983 when the Philippines declared a moratorium on the servicing of foreign debts. With the moratorium still fresh in the minds of many foreign investors, any sign of a foreign exchange crisis in the Philippines will be taken seriously by foreign investors.

Asean countries also use fiscal incentives to attract foreign investments (Table 24). Except for Indonesia, the Asean countries offer investors with income tax holidays. Indonesia and Thailand tax capital gains like ordinary income. In analyzing the impact of investment incentives on the internal rate of return, Manasan (1988; p.18) concluded that "Asean countries are to a large extent as competitive with one another before incentives as after incentives."

The Philippines has bilateral tax treaties with Singapore (January 1977), Indonesia (January 1983), Thailand (January 1983), and Malaysia (January 1985) to avoid double taxation and prevent fiscal evasion of taxes on income. For instance, the Philippines and Indonesia concluded in 1981 a tax treaty covering the following: for the Philippines, the income taxes imposed by the Government of the Republic of the Philippines; for Indonesia, the income tax, the company tax, and the tax on interest, dividend, and royalty. This took effect in 1983. Table 25 gives a summary of the Philippines' tax treaty rates on investment income and on shipping and air transport.

To recapitulate, the Philippine government has been exerting efforts to encourage foreign investments into the country. However, certain domestic policy measures, domestic laws, and regulations impede financial flows between the Philippines and the rest of the world, in general, and between the Philippines and Asean countries, in particular. Among these are: 1) the 40 percent limit on foreign equity participation, 2) restrictive law on real estate ownership by alien investors, 3) the proviso restricting foreign exchange remittance in the event of an emergency

Table 23
Basic Rights and Guarantees Granted to Foreign Investors

	Indonesia	Malaysia	Philippines	Singapore	Thailand
a. Guarantee against expropriation	Freedom from nationalization or revocation of ownership rights or restriction of rights of control and management of foreign-capital enterprises is granted. A revocation of these rights requires an Act of Parliament undertaken in the interest of the State. Bilateral investment guarantee agreements with Belgium, Canada, Denmark, the Federal Republic of Germany, France, the Republic of Korea, the Netherlands, Norway, Switzerland, the United Kingdom, and the U.S.A. cover compensation guarantees for expropriation.	Malaysia has signed foreign investment guarantee agreements against expropriation with Canada, the U.S.A., the Netherlands, the Federal Republic of Germany, France, Switzerland, Sweden, Belgo-Luxembourg, the United Kingdom, Sri Lanka, Romania, Norway, Austria, and Finland. The government is prepared to sign similar agreements with other countries.	The Philippines guarantees foreign investments against expropriation except for public use or in the interest of national welfare and defense and upon payment of just compensation. In such cases, foreign investors or enterprises shall have the right to remit sums received as compensation for the expropriated property in the currency in which the investment was originally made and at the exchange rate at the time of remittance.	Investors from the U.S.A., the United Kingdom, Canada, the Netherlands, Switzerland, Belgo-Luxembourg, the Federal Republic of Germany, France, Sri Lanka, and the People's Republic of China are covered by investment guarantees provided for in bilateral treaties between their respective governments and the Government of Singapore. These treaties contain guarantees against expropriation. Specific protection schemes are also available to US and UK investors through the Overseas Private Investment Corporation (OPIC) in the U.S.A. and the Crown Agents in the U.K. Investors bear the cost of the protection.	All industries are guaranteed against expropriation without just compensation.

Table 23 (continued)

	Indonesia	Malaysia	Philippines	Singapore	Thailand
b. Guarantee against losses due to: Nationalization Damage caused by war Inconvertibility of currency	The foreign investment guarantee agreements also contain provisions covering compensation guarantees for nationalization, losses due to war and inconvertibility of currency.	The foreign investment guarantee agreements also contain provisions guaranteeing against losses due to nationalization.	None	The foreign investment guarantee agreements also contain provisions guaranteeing against losses due to nationalization and war.	Guarantee is provided against losses due to nationalization.
c. Remittance of foreign exchange (i) Earnings, profits, and dividends (on investments/ principal and interest on foreign loans/ others).	Foreign investors are guaranteed remittance of: 1) Earnings (in proportion to the shareholding of the foreign participants and after deduction of taxes and other financial obligations): 2) Payments of interest and principal on foreign loans (if the loan agreement is approved by Bank Indonesia: 3) Expenses for foreign personnel:	Except for the completion of the usual exchange control forms for amounts exceeding M$10,000, no restrictions are placed on remittance of earnings or profits.	All earnings and profits accruing to nonresidents and earned on foreign investments duly registered with the Central Bank may be remitted in full, net of taxes, in the currency in which the investment was originally made and at the prevailing exchange rate, subject to emergency restrictions on exchange operations.	No restrictions are imposed on the remittance of earnings, profits, and dividends on investments.	Remittance of earnings or profits is permitted but may be temporarily restricted by the Bank of Thailand if required by the balance-of-payments situation. However, in case of such restriction, earnings corresponding to at least 15% of paid-up capital brought in can still be remitted annually.

Table 23 (continued)

	Indonesia	Malaysia	Philippines	Singapore	Thailand
	4) Depreciation allowance for capital assets with respect to imported plant, machinery, and equipment, in accordance with the foreign investment scheme; 5) Proceeds of the sale of shares by foreign partners to Indonesian partners or to other Indonesian nationals/companies; and 6) Compensation in case of nationalization.				
(ii) Principal and interest on foreign loans		Remittances of interest and principal payments on foreign loans and foreign obligations are not restricted if these are within the repayment terms previously approved by Bank Negara of Malaysia.	The remittance of foreign exchange to meet the payments of interest and principal on duly registered foreign loans and obligations arising from technological assistance contracts is allowed, subject to the emergency restrictions on exchange operations.		Remittance of foreign exchange to meet repayment of principal and interest on foreign loans is permitted subject to some qualifications. Even in extreme cases where Thailand's balance-of-payments position is under severe strain, the Bank

Table 23 (continued)

	Indonesia	Malaysia	Philippines	Singapore	Thailand
					of Thailand still permits such remittance at a rate of not lower than 20% annually after two years from the date of original investment.
d. Repatriation of capital	Repatriation of remaining invested capital in the original foreign currency is guaranteed. However repatriation is not permitted while any of the tax concessions are still in effect.	Repatriation of capital is freely permitted subject to the completion of the usual exchange control forms for amounts exceeding M$10,000.	The entire amount of foreign investments duly registered with the Central Bank may be repatriated in the currency in which the original investment was made, in accordance with the schedule of priorities imposed by the Central Bank, subject to emergency restrictions for exchange operations.	Repatriation of capital is not restricted.	Repatriation of capital is permitted but may be temporarily restricted by the Bank of Thailand if required by the balance-of-payments situation. However, in case of such restriction, investment capital may still be repatriated at the rate of not less than 20% annually after two years from the date of principal investment.

Source: Manasan, Rosario. "A Review of Investment Incentives in ASEAN Countries." PIDS Working Paper Series No. 88-27.

Table 24
Investment Incentives in ASEAN countries

	Philippines	Indonesia	Malaysia	Singapore	Thailand
1. Tax Exemptions					
A. Income Tax	Exemption from 35% income tax for 6 years from commercial operation for pioneer firms and 4 years for non-pioneer firms, extendible for another year (but not to exceed 8 years) in each of the following cases: (a) project meets prescribed capital-labor ratio; (b) utilization of indigenous raw materials; (c) net foreign exchange earnings of at least US$500,000.00 annually during the first three years of operation. For expanding firms, the exemption shall be proportionate to their expansions for a period of 3 years from commercial operations.	None	Exemption from income tax of 40%, development tax of 5% and excess profit tax of 3% for 5 years from production date extendible for another 5 years for pioneer status firms. Dividends paid from exempt income are also exempt from tax in the hands of stockholders.	Exemption from 33% tax on profits for a period of 5-10 years for pioneer status firms. This also applies to incremental income of expansion projects.	Exemption from 30% or 40% corporate income tax for a period of 3 to 8 years depending on size, type of industry & number of employees. For firms in the investment promotion zone, reduction of 50% of corp. income tax for 5 years after the normal tax holiday given above.

Table 24 (continued)

		Philippines	Indonesia	Malaysia	Singapore	Thailand
B.	Tax and Duty on Imported Capital Equipment	For new and expanding registered enterprises 100% exemption from taxes and duties on imported capital acquired before August 12, 1992.	Exemption or reduction of duties and value added tax (VAT) on sales of imported equipment.	100% exemption from import duty, surtax & sales tax on imported equipment upon application.	Zero tariffs are levied on capital equipment, on general.	50% to 100% exemption from import duties and business taxes on imported equipment for registered firms.
C.	Tax and Duty on Imported Spare Parts	100% exemption from taxes and duties provided that 70% of production is exported, such spare parts are not locally available at reasonable prices, sufficient quantity and comparable quality and that all importations of spare parts shall be transferred only to the firm's bonded warehouse.	Exemption from or reduction of duties & VAT on imported spare parts as listed by BKPM.	None	None	None

Table 24 (continued)

		Philippines	Indonesia	Malaysia	Singapore	Thailand
D.	Tax on Imported Raw Materials	100% exemption from taxes and duties for firms located in export processing zones and firms operating bonded manufacturing warehouses. 100% exemption from breeding stocks and genetic materials imported within 10 years from the date of registration or commercial operation provided such breeding stocks and genetic materials are not locally available and/or obtained locally in comparable quality and at reasonable prices; are reasonably needed in the registered activity; and approved by the Board.	Exemption or reduction of import duties for two years.	100 % exemption from customs duties & surtax for export-oriented firms. For firms producing for the domestic market, 100% exemption if it complies with the equity condition, management and employment structure. In other cases, partial exemption in which manufacturers are required to pay 2% or 3%.	100% exempt for those not available locally.	up to 90% exemption from import duties and business taxes for 1 year period. Export enterprises are also exempted from taxes and duties on raw materials for an indefinite period.
E.	Capital Gains Tax	None	Capital gains are taxed as ordinary income.	None	No capital gains tax.	Capital gains are taxed as ordinary income.

Table 24 (continued)

	Philippines	Indonesia	Malaysia	Singapore	Thailand
II. Tax Deductions					
A. Investment Allowance	100% of the cost of major infrastructure undertaken in areas designated as necessary for industry dispersal or areas deficient in infrastructure (for less developed areas).	None	100% of qualifying capital expenditure incurred within 5 years from date of approval of the project determined according to priorities termed as promotional activities/ products. This is granted into firms not given pioneer status. Reinvestment allowance equal to 25% is granted to a manufacturing company which incurs qualifying capital	10-50% of outlays on new investments in plant machinery and factory building may be deducted from profits for approved manufacturing and technical services, research and development (R&D) activities, construction operations and projects for reducing consumption of potable water. This is valid for the year in which the expenditure is incurred and may be carried forward until after a tax	None

Table 24 (continued)

		Philippines	Indonesia	Malaysia	Singapore	Thailand
				expenditures (plant, machinery and factory building) for the purpose of approved expansion before 31 Dec. 1988.	holiday period.	
B.	Deduction of Research & Development Program	None	None	Additional allowance of 10% in 1st year and 2% thereafter of cost of buildings used for research.	On a case-by-case situation manufacturing firms that conduct R&D and R&D institutions are given the following incentives: (a) one or more years of pioneer status; (b) investment allowance of 50% of capital	None

ɔle 24 (continued)

		Philippines	Indonesia	Malaysia	Singapore	Thailand
					investment (excluding building); (c) double deduction of R&D expenses; (d) accelerated depreciation of R&D plant & equipment; and (e) complete exemption from or reduction of 20% with-holding taxes for royalty, fees, etc.	
C.	Accelerated Depreciation	None	Normal rate of 50% if asset life is less than 4 years, 25% if less than 8 years, 10% if more than 8 years.	Qualified capital incurred before December 31, 1988 may be written off in three years.	Plant & machinery may be written off in 3 years; computers and automation equipment in 1 year.	Normal annual rate: 20% for assets not identi-fiable as land or merchandise Plant equipment, vehicles and R&D expenses are included in this category.

Table 24 (continued)

		Philippines	Indonesia	Malaysia	Singapore	Thailand
D.	Net Loss Carry-Forward	None	Losses carried forward for next 5 to 8 years after loss.	Losses carried forward for unlimited period.	Losses may be carried over provided there is no substantial change in ownership.	Losses incurred during the tax holiday period may be carried over for the next 5 years after the tax holiday.
E.	Labor Expenses	50% of the incremental labor expense of a registered enterprise for the first 5 years from registration provided it meets the prescribed ratio of capital assets to annual labor; 100% of the incremental labor if located outside Metro Manila.	None	None	None	None
F.	Export Deductions	None	None	1. Export producers are allowed to deduct from Y. (a) some prop X of Y where X is 50% of X sales total sales plus	double deduction of promotional expense for exports.	5% of incremental X income

Table 24 (continued)

Philippines	Indonesia	Malaysia	Singapore	Thailand
		(b) 5% of value indigenous product used for export production. 2.5% of the FOB value of export sales is granted as export allowance to trading companies/ agri-producer for exports. 3. Double deduction of export credit insurance premiums and export promotion expenses, i.e., overseas advertising exhibit par-		

Table 24 (continued)

	Philippines	Indonesia	Malaysia	Singapore	Thailand
			ticipation, fares, etc.		
G. Others	None	None	5% of taxable Y for the first 5 years, for firms located in promoted areas, for small scale enterprises and for firms meeting capital participation requirement.	None	None
III. Tax Credits					
A. Taxes & Duties on Raw Materials	Equivalent to the National Internal Revenue taxes and customs duties paid on the supplies, raw materials and semi-manufactured products used in the manufacture, processing or production of export products and forming part thereof; exported directly or indirectly by the registered enterprise.	For exports, the VAT will be charged at zero rates meaning that the payment of any taxes for previous purchases will be refunded.	Equivalent to the import duty and surtax on raw materials used as parts or ingredients in the manufacture of export products excluding packaging materials.	None - Free port, no turnover, sales & excise taxes except on petroleum, alcoholic beverages & cigarettes produced locally.	None. Refer to II-D above.

Table 24 (continued)

		Philippines	Indonesia	Malaysia	Singapore	Thailand
B.	Purchase of Domestic Capital Equipment & Accompanying Spare Parts	For purchase of domestic capital equipment made before 8-12-92 tax credit equivalent to 100% of the value of taxes and duties that would have been waived on the machinery and spare parts had these been imported. Provided, (1) that the said equipment, machinery and spare parts are reasonably needed and used exclusively by the registered enterprise unless otherwise exempted by the Board; and (2) that the approval of the Board was obtained.	None	None	None	None

Source: Manasan (1988)

Table 25
Comparative Presentation of RP Tax Treaty Rates on
Investment Income and on Shipping and Air Transport

COUNTRY	SINGAPORE	MALAYSIA	THAILAND	INDONESIA
I. TREATY RATES AND RELIEFS THEREFROM ON INVESTMENT INCOME				
Date of EFFECTIVITY/SIGNING/ CONCLUSION	E-01/01/77	E-01/01/85	E-01/01/83	E-01/01/83
DIVIDENDS				
Inter-Corporate Relief	15% C,DPC,TS	15% C,DPC,TS-RP EX-M	15%-RP,20%-T C,DPC,TS	15% C,TS
BOI (Pioneer) Relief	-	-	15%-T C,TS	-
Ordinary Relief	25% C,TS	25% C,TS-RP EX-M	-	20% C,TS
BRANCH PROFITS 1/				
Relief	-	10% C,TS	-	20% C,TS
INTEREST				
Derived by gov't relief	-	Exempt	Exempt	Exempt
Loans guarant'd/insured by gov't relief	Exempt	-	-	Exempt
Public Bond Issues Relief	10% C,TS	-	10%-RP C,TS	10% C,TS
Ordinary Relief	15% C,TS	15% C,TS	15%-RP,25%-T C,TS	15% C,TS
Special Cases Relief	-	OK loans -Ex	10%-T 2/ C,TS	15% C,TS
ROYALTIES				
BOI Pioneer Relief	15% C,TS-RP Ex-S	15% C,TS-RP Ex-M	15% C,TS	15% C,TS
Cinema Films Relief	15% C,TS-RP	Ex-M	15% C,TS	-
Ordinary Relief	25% C,TS	25%-RP,15%-M C,TS	25% C,TS	25%-RP,15%-I C,TS
II. TAXATION OF SHIPPING and AIR TRANSPORT				
Rate (%)	1 1/2MFN	1 1/2MFN	1 1/2MFN 3/	1 1/2MFN
Relief	C,TS	C,TS	C,TS	C,TS

LEGEND:
1. C - Ordinary foreign tax credit
2. c - credit/refund of local taxes paid imposing the tax
3. DPC - Deemed paid credit are imposing the tax
4. MC - Matching credit the specific income item
5. TS - tax sparing
6. Ex - exempted
7. Capital letter(s) after the rate indicate the country imposing the tax.
8. If no country is indicated it means that both countries are imposing the tax.
9. Dash (-) means that there is no treaty provision for the specific income item.

1/ Income from operation of ships and aircraft in Int'l traffic of MFN countries are exempted from this tax beginning on April 2, 1981.
2/ If the recipient is an RP-financial institution
3/ In Thailand the tax should not be lower than 50% of local rate

SOURCE: Atty. V.C. Rodriguez, I.O.D., BIR.

situation in the foreign exchange market or BOP, and 4) the unfavorable exchange rate policy that has been pursued by the government.

On the exchange rate policy, Medalla (1990) pointed out that the Philippines has been trying to maintain a fixed nominal exchange rate for periods of time, until it is forced to devalue. This has resulted in real appreciation of the peso since domestic inflation rate has been higher than the world inflation rate. This is shown in Table 26. The real effective exchange rate index has tended to decline in 1989, implying some appreciation of the domestic currency. Still, the recent huge de facto devaluation of the Philippine peso from P22/US$1 to P28/US$1 seems inadequate considering the fact that the black market rate is 8 percent above the official rate. The government maintains an overvalued exchange rate policy by pursuing a high interest rate policy.

Investors that came in at an overvalued exchange rate are now encountering huge losses since they could remit fewer dollars than before. This is one case wherein the overvaluation of the domestic currency weakens the attractiveness of having a more liberal policy on profit remittances. On the other hand, potential investors are withholding their investment since they believe that the domestic currency is still overvalued. The Philippines should therefore pursue a more realistic exchange rate policy to encourage foreign investments.

Still another factor discouraging foreign investment is the lack of consensus among government officials regarding the promotion of foreign investments. There were already several cases wherein foreign investments pushed by one government office were questioned by other government agencies, thereby forcing foreign investors to abrogate their plans to invest in the country.

VII. INTER-COUNTRY FINANCIAL COOPERATION: LESSONS FROM THE EUROPEAN MONETARY SYSTEM

Asean countries have been exerting a lot of effort in forging financial cooperation among themselves. Both the private and government sectors have been involved in these cooperations[8]. But where will this continuing cooperation lead? One could think of the Asean following the footsteps of those that have already forged some kind of formal inter-country financial cooperation such as the European Monetary System (EMS), which is the most advanced form of regional financial cooperation. It is, therefore, worthwhile to review the progress of the EMS and to draw some lessons from it for Asean financial cooperation.

The EMS development can best be understood in the context of attempts by the EEC to create an economic and monetary union. EEC leaders approved in 1972 the Werner Report which envisaged the gradual attainment of monetary unification within a decade. The Report specifically states that: "Economic and Monetary Union means that the main economic policy decisions will be taken at Community level and therefore the necessary powers will be transferred from the national to the Community level. The adoption of a single currency could be the final stage of this union, ensuring the irreversibility of the process." Soon after this, several

8. These initiatives are discussed in the next chapter.

Table 26
Nominal and Real Effective Exchange Rate Index, 1972-1988

Year	Nominal Effective Exchange Rate Index (%)	Real Effective Exchange Rate Index (%)
1972	100.00	100.00
1973	108.89	105.01
1974	107.67	87.88
1975	114.71	96.79
1976	115.78	100.43
1977	119.00	102.94
1978	130.01	110.60
1979	130.03	98.41
1980	131.52	92.51
1981	133.91	90.21
1982	136.18	87.30
1983	174.27	107.49
1984	254.57	105.04
1985	276.93	92.80
1986	348.12	117.64
1987	373.49	124.76
1988	406.36	128.67
1989		
Jan.	354.32	126.14
Feb.	353.39	125.99

*w - 15-year average
Source: Medalla (1990)

concrete programs were launched. These included the establishment of the "snake" arrangement in 1972 and the creation of the European Monetary Cooperation Fund (EMCF), an institutional machinery for short- and medium-term financial assistance. Under the "snake" arrangement, the EEC Central Banks agreed to set up a common margins arrangement allowing for a maximum spread of 2.25 percent among their currencies. The arrangement lasted for only one year, but it became a predecessor of the EMS.

The oil shock in the early 1970s and the divergence in policy responses to the oil shock practically halted the process of monetary integration in EEC countries. This was revived only in 1979 with the creation of the EMS and the European Currency Unit (ECU). The EMS has the following objectives:

1. Europe should become a zone of internal and external monetary stability (involving both low inflation and stable exchange rate).

2. The EMS would provide the framework for improved economic policy cooperation between member states, leading to more convergence in economic performance, as well as better growth and increased employment.

3. The EMS should help alleviate global monetary instability through common policies vis-a-vis third currencies and by spreading the impact of external monetary shocks over all participant currencies.

The EMS has three basic elements: an exchange rate mechanism (ERM), the European currency system (ECU), and credit facilities. The EMS is based on a system of fixed but adjustable exchange rates. Guitian (1988, p.8) succinctly describes it in the following:

> *Within this regime, each participating currency has a central rate relative to the ECU. From the linkage among these central rates for the ECU, a grid of bilateral central rates can be derived for which margins of fluctuations of ± 2.25 percent (6 percent for Italy) have been established. At these margins, participating central banks are obliged to intervene in unlimited amounts, in principle in ERM currencies, although intervention is also allowed in outside currencies (mainly US dollars).*

Studies evaluating the effectiveness of the EMS have more or less reached the conclusion that exchange rate variability is much lower for EMS currencies than for other major currencies and that the tendency toward lower variability in EMS currencies has strengthened in recent years. In short, EMS has improved exchange rate stability in member countries. This was not achieved at the price of interest rate variability. Moreover, price inflation has fallen further and converged more rapidly in EMS countries than in non-EMS countries in the communities. Although there is no explicit rule concerning inflation, there is however an unwritten rule that Germany decides its domestic inflation rate and all other members adopt policies to adjust gradually their own to it. In effect, the German inflation rate has become the target inflation rate for the system.

EMS owes partly its success to its flexibility. It provides a balance between rules and discretion by providing a framework that contributes to the process of coordination of national economic policies.

Although substantial progress has already been achieved with EMS serving as the focal point for improved monetary coordination among member countries, much remain to be desired. Several EEC countries have not yet joined the exchange rate mechanism. Also, fiscal policy coordination still lags behind monetary coordination.

The ECU, created in 1979 to replace the European Unit of Account (EUA), fulfills several functions. It serves as the numeraire for expressing central rates used in the exchange rate mechanism of the EMS, as the unit in which EMS intervention credits are denominated, and as the unit in which various financial assets and obligations, both official and private, are denominated. Presently, the ECU's role in the operating mechanism of the EMS has been very limited. In particular, the build-up of intervention balances to be settled in ECUs has been very small. As a denominator for financial transactions, however, the ECU has gained considerable popularity. This was achieved through the active support of the EEC institutions and certain European governments in using the ECU in private markets through suasion, market operations in the unit, and, in some cases, through preferential treatment. For instance, the EEC, the European Investment Bank, the European Coal and Steel Community, the European Atomic Energy Community, and the Council of Europe Resettlement Fund all launched bond issues in ECUs.

It has been expressed that a single currency is a desirable feature of a monetary union. The plan is to develop the ECU into a common currency. Hence, it will be transformed from a basket of currencies into a genuine currency.

Several lessons may be drawn from the EMS experience. The creation of the zone of increasing monetary stability like the one in EMS countries seems to be a desirable objective for Asean countries. It should be noted, however, that monetary stability is only an intermediate target while growth and investment will be the ultimate targets. A higher exchange rate stability in Asean countries will be favorable to Asean investors since they will face a lower level of risk concerning their rates of return. For a certain level of interest rates, the exchange rate stability will improve investment prospects and, ultimately, growth prospects. This requires a program of financial integration similar to the EMS.

At least two closely linked elements are involved in any attempt at Asean financial integration. The first pertains to coordination of monetary policies, and the second, to the freeing of capital transactions among the member countries. Coordination of monetary policies, as a first step, involves harmonization of monetary policies. This is rather a long shot for Asean countries for sevaral resons. First, Asean countries are in varying stages of economic development, whereas EMS countries are more or less in the same stage of development (Table 27). Countries at the same level of development will likely have common aims; and commonality of aims will likely result in similar policy stance. This facilitates policy coordination. Second, financial systems in Asean countries have been restrictive in varying degrees. As Tyabji (1989, p.1) observes: "Arguably this has not retarded growth, since the region is one of the fastest growing in the world. However, within Asean, the country with the least restrictions has attained rapid

Table 27
Per Capita Income, 1987 (in US$)

Country	Per Capita Income
EMS:	
Belgium	11,480
Denmark	14,930
France	12,790
Germany	14,400
Ireland	6,120
Italy	10,350
Netherlands	11,860
Average	11,704
standard deviation	2,724
Asean:	
Malaysia	1,810
Indonesia	450
Philippines	590
Thailand	850
Singapore	7,940
Brunei	15,390
Average	4,505
standard deviation	5,518

a/ Data cutoff date is 30 April 1989.

Source: World Development Report, 1989.

growth on a sustained basis and achieved a much higher level of development." The first task, therefore, is to undo those restrictions such as entry restrictions, interest rate ceilings on loans and deposits, and controls on credit allocation so that the domestic financial markets of Asean countries can exploit their potentials. Actually, this process was started in the 1980s. Reforms in the banking sector particularly in Indonesia, the Philippines, and Thailand include privatizing domestic banks, deregulating deposit and loan rates, liberalizing bank entry and branching, and improving prudential regulations. The process of deregulation is still ongoing in most Asean countries. It is thus worthwhile, at this early stage while reforms are still ongoing, to work toward harmonizing regulations and policies, such as prudential regulations and intermediation taxes. It is believed that there is still a chance to coordinate monetary policy in the future, once substantial liberalization in the domestic financial markets of Asean countries is achieved. Coordination of monetary policies will provide a strong signal toward integration.

Next comes the second element: any attempt at monetary policy coordination among Asean countries should be accompanied by the freeing of capital transactions among the member countries. In EMS countries, capital account liberalization, which just started recently, came after trade account liberalization. In Asean countries, however, substantial trade barriers still exist as discussed in Chapter III. If the EMS process were to be followed, this suggests that monetary policy coordination cannot be launched unless trade barriers among Asean countries are removed. Perhaps, this is one area where Asean countries can take a different path from that of EMS countries. More specifically, it is suggested that liberalization of the capital account need not wait for the liberalization of the trade account because the intention of monetary policy coordination is to reduce the variability of inflation and exchange rates to make the region conducive to investment.

Establishing an Asean currency unit (ACU) could be done together with the start of monetary policy coordination. Clearly, the absence of the latter could undermine any efforts in promoting the ACU.

The role of financial institutions is crucial in the move toward monetary policy coordination. In EMS countries, short-term financing mechanism is readily available for meeting temporary BOP deficits and for intervention purposes. Existing Asean finance institutions like the Asean Finance Corporation, and certain facilities like the Asean Swap Arrangement could be geared up to assume those roles in the future.

VIII. REVIEW OF EXISTING ASEAN COOPERATION IN BANKING AND FINANCE

This chapter reviews the existing Asean cooperation in the area of banking and finance. Perhaps, this is one area where the private sectors of Asean countries have heavily participated either by setting up their own institutions for regional cooperation or by advancing proposals for cooperative mechanisms to their respective governments. The programs/institutions being reviewed are the Asean Swap Arrangement, the use of Asean currencies in intra-Asean trade, the Asean Finance Corporation (AFC), the Asean Fund, and the Asean cooperations in insurance.

The Asean Swap Arrangement

This arrangement was established by the Asean Central Banks (excluding Brunei) in August 1977 to provide short-term swap facilities for member countries with temporary liquidity problems. It operates through swaps of US dollars against the currency of the borrowing Asean country. Each member is supposed to contribute US$40 million and may borrow up to US$80 million. The five Asean member countries take turns in acting as managing agent. The arrangement is supposed to last for five years. Its success prompted the Asean Central Banks to renew it four times. The fourth renewal was done in January 1987.

The facility serves as a last resort financing for Asean Central Banks. None availed of it in the first few years and in the last few years when Asean Central Banks had easy access to other facilities. But in times of great need, Asean countries availed of the facility. The Philippines, for instance, availed of it during the height of its BOP problem. The country did not avail of it in recent years because other financing facilities were readily available.

There is no doubt that the Asean Swap arrangement is the clearest manifestation of a successful Asean cooperation. However, it does not have any impact on intra-Asean trade and investment.

Liberalization in the Use of Asean Currencies in Intra-Asean Trade[9]

The idea originated from the Asean private banking sector, which proposed that Asean governments formally agree to permit Asean- based traders to use any Asean currency as the medium of exchange for intra-Asean trade. There are at least three advantages in this arrangement. First, it will conserve hard currencies of Asean countries and, at the same time, promote intra-Asean trade. Second, it will ensure the supply of critical imports that can be readily supplied by Asean countries. Third, it will stimulate the expansion of intra-Asean banking activities with increased intra-Asean trade flows.

One disadvantage, however, is that it will subject traders to greater exchange risk if Asean currencies constantly and widely fluctuate in opposite directions. Of course, traders can defend themselves by either using the currencies as soon as possible or by effecting a forward sales market for currencies to insure themselves. Nevertheless, risks and transaction costs are still involved in this approach. The first best solution would be to reduce exchange rate variability among Asean currencies. This only emphasizes the need for greater monetary policy coordination among Asean countries, as discussed in the previous chapter.

Liberalizing Asean currencies was not difficult to forge since two of the six Asean countries, Singapore and Brunei, have already liberal foreign exchange policies that allow their traders to use any medium of exchange acceptable to the exporter. In other Asean countries, liberalization in the use of Asean currencies began in 1987 in response to the proposal of the private banking sector. Since January 1987, Malaysia has allowed traders to use any foreign currency, except that

9. Most of the information in this section were obtained from the files (memoranda, letters, etc.) of the Bankers Association of the Philippines and reports submitted to the ASEAN Committee on Banking and Finance during a meeting held in Bangkok in May 1990.

of Israel and Africa, for foreign-related trade. For payments in ringgit for exports, the ringgit must be from an External Account (i.e., a ringgit account of a non-resident with a financial institution in Malaysia).

Indonesia also allows traders to use any medium of exchange to finance their imports and exports. However, Bank Indonesia accepts only US dollars for reimbursement of export proceeds and sells only US dollars to finance imports.

Payments for international trade by importers and exporters of Thailand can be made in any foreign currency. However, the use of the baht for this purpose is allowed only through the "Transferable Baht Account" of non-residents in Thailand. Starting 26 July 1989, the Bank of Thailand has allowed commercial banks to act on behalf of the exchange control officers in approving the requested transfers of the baht currency into non-resident transferable account for payment of imported goods and trade-related expenditure. In May 1989, Thailand dismantled all exchange restrictions on current international transactions.

The Philippines in September 1987 expanded the list of currencies as payments for exports to include all Asean currencies. The only restriction was that, in the case of the Philippine peso, such may be received in payment of exports only if it was used earlier as payment for imports from any of the Asean countries. This restriction was lifted in August 1990. Thus, the current regulation stipulates that -- 1) the Philippine peso may be used in payment of exports or imports from any of the Asean countries, 2) other Asean currencies shall be accepted as payment of exports and imports, 3) all transactions shall be covered by bank- documented payment form, and 4) the CB shall not be asked to intervene in the clearing of any balances resulting from the operation of this scheme. The Philippine CB has included all Asean currencies in its daily exchange rate quotation since 8 September 1987.

The results of the liberalized use of Asean currencies in intra- Asean trade have been encouraging. All Asean countries reported an increasing trend in the use of Asean currencies, especially in those currencies that had not been accepted before as medium of exchange. Reports of individual countries showed the following:

Brunei Darussalam

Ninety-five percent of the accounts involving Asean trade were settled with Asean currencies. Available data on the value of intra-Asean currency settlements through commercial banks showed that Singapore dollar accounted for 82 percent. But what is notable is the increasing use of the Malaysian, Philippine, and Thai currencies in the settlements.

Indonesia

Of the total trade transactions with Asean countries, less than 20 percent were settled in Asean currencies. Singapore dollar was the dominant settlement currency.

Malaysia

Around 23 to 28 percent of its total receipts and 12 to 14 percent of its total payments were settled in ringgit. Singapore dollar was also used widely as a settlement currency accounting for

5 to 7 percent of its total receipts and about 10 percent of its total payments. To a lesser extent, rupiah, baht, and Brunei dollar were also used for trade settlement.

Philippines

Available information on the value of intra-Asean currency settlements pertains to the CB's over-the-counter purchases of Asean currencies. Figures indicate a continuing growth in the use of Asean currencies. Still, Singapore dollar dominates. Noteworthy is the significant rise in the CB's over-the-counter purchases of Malaysian, Brunei, Thailand, and Indonesian currencies during the period 1986 to 1989 (Table 28).

Thailand

The proportion of trade settled in Asean currencies compared to the value of Thailand's trade with other Asean countries rose by 11.5 percent in 1989 against 10.7 percent in 1988.

So far, available information suggest that with the liberalized use of Asean currencies, Asean countries were able to conserve their hard currencies in intra-Asean trade transactions. However, it could not be ascertained yet whether the arrangement has induced more trade among Asean countries. More detailed information are needed to answer this question. But the conservation of hard currencies that result from this arrangement is in itself already a big achievement. More importantly, the acceptability of Asean currencies in intra-Asean trade augurs well for the future creation of an Asean Currency Unit.

Asean Finance Corporation

The Asean Finance Corporation (AFC) is another concrete manifestation of regional cooperation among the private banking sector under the leadership of the Asean Banking Council. It was set up in 1981 with five Asean countries contributing Singapore $20 million each to the initial capital to finance Asean industrial cooperative projects and to provide venture capital to Asean entrepreneurs. Schulze (1988) made a thorough assessment of the AFC, and most of his conclusions still hold today. Specifically, AFC is generally liquid and undertakes mostly money market activities. But it is characterized by slow growth. Hence, it is not able to attract more equity funds. AFC cannot be faulted entirely for this since there have not been enough industrial cooperative projects to support. Other serious weaknesses were pointed out by Schulze. One is the conflict of interest between shareholders and the AFC which could have resulted in having the latter accept highly risky but less profitable ventures while the former take the less risky but more profitable ones. Another weakness is that, being a private corporation, AFC cannot tap cheap sources of funds usually given by donor foreign governments. A proposal to deal with these weaknesses and to reorient AFC is put forward in the last chapter.

Asean Fund Limited

The Asean Fund is another project of the Asean Banking Council that was just recently launched. It is cashing in on the worldwide popularity of mutual funds to raise capital in more developed countries for investment in shares of stocks in less developed countries. The Philippines alone has two closed-in funds, one listed in the New York Stock Exchange and the

Table 28
Central Bank's Over-the-Counter Purchases of ASEAN Currencies, 1986-1988 (in US$ equivalent)

Currency	1986	1987	1988	1989	Total
Singapore dollar	3,239,250	3,464,865	7,503,683	6,768,018	20,975,816
Malaysian dollar	2,546,366	2,354,950	4,178,223	4,363,425	13,442,964
Brunei dollar	-	15,545	1,318,538	3,715,684	5,049,767
Thailand baht	-	6,100	171,822	202,524	380,446
Indonesian rupiah	-	475	24,917	35,873	61,265
T O T A L	5,785,616	5,841,935	13,197,183	15,085,524	39,910,258

Source of data: Cash Department, Central Bank

other in the London International Stock Exchange. Indonesia, Malaysia, and Thailand have similar closed-in funds listed abroad.

The objectives of the Fund are to --

1. Provide a greater measure of liquidity for Asean stock markets;
2. Foster the development of unlisted small- and medium-sized indigenous companies;
3. Offer enhanced visibility for Asean countries; and
4. Help promote the respective countries' fund management industries.

To attain the second objective, the Fund will invest 20 percent of its initial proceeds in securities of emerging growth companies that are not listed on any securities exchange in Asean countries, while the 80 percent will be invested principally in securities that are listed on any stock exchange in the Asean countries. The Fund, therefore, provides a vehicle for investors seeking long-term capital appreciation through investments in securities of companies in the Asean countries.

The Fund is incorporated under the laws of Singapore. It will initially issue 15 million shares at an offering price of Singapore $10 per share. The Fund will be listed in the Singapore Stock Exchange.

It is still too early to make an assessment of the Fund since it was just launched.

Asean cooperation in Insurance[10]

Cooperation in the insurance sector among Asean countries is fairly advance. The government and private sectors of Asean countries have greatly contributed to the progressive cooperation in this sector.

The Asean Insurance Council (AIC), composed of the insurance commissioners of Asean countries, was established in 1978. Its annual meeting has continuously provided an excellent forum for the promotion of Asean cooperation in insurance. Several projects for cooperative action were put forward in past fora, and quite a number of them have already been implemented.

One of the accomplishments of the AIC is the construction of the Unified Forms of Insurance Statistics. This project seeks to disseminate information on market conditions and practices prevailing in each member country and to promote intra-Asean trade in insurance. The different forms that are being used contain the following detailed information:

Form 1: Profit and Loss Statement: Life Insurance

Form 2: Summary of Life Insurance Policies

Form 3: Profit and Loss Statement: Non-Life Insurance

Form 4: Statement of Premiums and Claims: Non-Life Insurance

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10. Much of the information here are culled from the proceedings of the annual meetings of AIC, the annual reports of the Insurance Commission of the Philippines, and interviews with the Insurance Commissioner of the Philippines and the General Manager of the National Reinsurance Corporation.

Form 5: Balance Sheet: Life Insurance

Form 6: Key Economic Indicators

The first obstacle, i.e., standardizing concepts and definitions, was already resolved by the Council. The remaining obstacle is to come up with the report on a timely basis. To a great extent, this depends on the efforts exerted by the individual Asean insurance commissioners. The Insurance Institute for Asia and the Pacific (IIAP), which is based in the Philippines, has been assigned to organize and analyze the insurance statistics submitted by member countries. The first report appeared in 1986. The latest report put out by IIAP came out in October 1990 containing the statistics for 1987 and 1988. Given the amount of data reported in the Unified Forms of Insurance Statistics, one can readily make a comparative analysis of the performance of the insurance sector of Asean countries. For instance, one might want to know the extent of coverage of life insurance in each Asean country as may be indicated by the ratio of the number of insured persons (life insurance) to the population. The ratio for 1988 was 2.25 percent for Indonesia, 4.82 percent for Thailand, 12.63 percent for the Philippines, 14.51 percent for Malaysia, and 46.23 percent for Singapore.

Another important accomplishment of the AIC is the Comparative Study on Insurance and Supervision including Tax Laws on Insurance. This project hopes to keep member countries informed of timely developments in insurance legislations and regulations. The report contains comprehensive and detailed information on regulations governing the operations of insurance companies in the Asean countries. They include the following:

1. Legislation governing insurance operations.
2. Structure of national insurance markets.
3. Granting of authorization to operate as insurer.
4. Legal forms of concerns and control of insurance contracts and tariffs.
5. Rules related to technical reserves.
6. Financial guarantees other than technical reserves.
7. Investments of insurance enterprises.
8. Rules governing reinsurance operations.
9. Measures related to solvency.
10. Settlement of claims.
11. Regulation of sales agencies and technical services.
12. Insurance tax laws and regulations.

The latest report came out in October 1990, a monumental accomplishment of the Council. The report gives the similarities and differences of insurance regulations and tax laws among Asean countries. This is an important step toward understanding the insurance systems of

member countries if cooperation is at all to be promoted in this sector. It can also aid the Council in pinpointing areas where harmonization of regulations is needed. It is, therefore, necessary to constantly update the report so that changes in the insurance regulations in one country can be made known immediately to others.

In the area of insurance education and training, the Council organized several training programs. The courses offered in these programs were meant to improve the skills and knowledge of the supervisory staff of the Asean Insurance Commissioners. Study tours in developed countries were also organized to enable Asean officials to gain insights into operations, supervisory systems, and marketing practices of the insurance industry of these countries.

The private sector was not to be left out in Asean cooperation in the insurance sector. They established in 1982 the Asean Reinsurance Pool with three separate pools -- treaty pool (non-marine), an excess-of-loss pool (non-marine), and a facultative pool (non-marine). The Pool seeks to retain a significant proportion of reinsurance premiums that had been completely captured before by re-insurance companies of non-Asean countries. About one and a half years ago, it was decided to replace the Asean Reinsurance Pool by the Asean Reinsurance Corporation to give it greater flexibility. It was incorporated in Singapore with Asean insurance companies as stockholders. In the case of the Philippines, it was decided that the National Reinsurance Corporation of the Philippines be the sole stockholder in the Asean Reinsurance Corporation since it is owned by private insurance companies in the country[11].

The Corporation is off to a modest start. Booked premiums in 1989 amounted to Singapore $2.5 million, for the first half of 1990, the amount reached to Singapore $2.6 million. The corporation incurred losses amounting to Singapore $266 thousand in 1989 and Singapore $128 thousand during the first half of 1990. This is to be expected in its first few years of operation because of the need to build the corporation's reserves.

The governments of Asean countries have been providing support to the corporation. In the case of the Philippines, which has strict regulations on non-trade (invisible) payments in hard currencies, the Insurance Commissioner received the authority to approve remittance of reinsurance premiums to reinsurance companies abroad.

While it cannot be denied that achievements in Asean cooperation in the insurance sector have been impressive, the process to get things done took more time than expected. This is because only parttime staff have been providing support to the cooperative activities. It may be worthwhile for the Asean commissioners to assign at least one fulltime staffmember to handle assignments related to Asean cooperation in the insurance sector.

Other Initiatives

Aside from those discussed above, other attempts at Asean cooperation were initiated by the private sector. Most of these were discussed by Skully (1979) and Sheng (1989). One attempt is

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11. GSIS is also a stockholder of the National Reinsurance Corporation of the Philippines.

the Asean bankers' acceptance (ABA). A feasibility study was conducted and the concept and mechanics were widely discussed through seminars and fora held in the region. However, it did not take off the ground for some reasons. One is that the existing facilities offered by leading international banks were viewed by many as more convenient and inexpensive. Another reason is that foreign-exchange regulations, withholding tax provisions, and foreign currency borrowing limits vary among Asean countries. The latter problem can be overcome through cooperation, but the former is a crucial problem since leading international banks, with branch networks all over the world offering various types of financial products, can fiercely compete with the ABA.

Another initiative that did not take off the ground is the Asean Trading and Investment Corporation (ATIC). This is supposed to be patterned after the Japanese international trading corporations to promote intra-Asean trade and diversify Asean exports. It was not able to elicit enough interest by investors. The main reason is that intra-Asean trade had been minimal for the past years to make ATIC viable. There is no doubt, however, that ATIC will become viable once intra-Asean trade reaches a certain level.

IX. SOME INITIATIVES FOR ASEAN COOPERATION IN BANKING AND FINANCE

Although several cooperative programs in the area of banking and finance were already launched by the Asean countries with varying degrees of success, there is still room for cooperation that will enhance intra-Asean trade and investment. In this chapter, some initiatives that may be considered by the Committee on Finance and Banking (COFAB) will be discussed. Some of these were already put forward before, but they are still cited here to emphasize their importance to the Asean.

Asean Cooperation in the Insurance Sector

As already mentioned, Asean cooperation in this area is already fairly advance. Nevertheless, more proposals for cooperation have been submitted to the AIC. An example is a very detailed proposal for the setting up of an Asean Oil and Gas Insurance Facility presented to the AIC in October 1990. Two other proposals to be presented here deal with increasing trade in insurance services in the Asean region, and encouraging Asean countries to export to non-traditional markets.

Increasing trade in insurance services

Rationale. So far, regional discussions have been focused on trade in goods. In light of the Uruguay Round of negotiations on trade in financial services and the increasing pressure exerted by developed economies on developing economies to open up their financial services sector, there is a need for Asean countries to increase their level of cooperation in this area in order to deal with these new developments and to initiate trade in financial services in the region. In the following discussion, trade in insurance services will be emphasized.

The insurance sector of Asean countries has been heavily regulated and, because of this, trade in insurance services among them is virtually nil. Two major arguments justify heavily

regulating and protecting the insurance sector. One is the need to provide consumer protection. Consumers of insurance services may find it too costly to gather information about the financial health of providers of insurance services. This is true especially when it comes to insurance firms offering services in one country but established in another country. The other argument is that the insurance sector is the major provider of long-term funds to LDCs. In the absence of a well-developed capital market, governments of LDCs usually limit the export of funds generated by the insurance sector; they also restrict the export of funds from direct purchase of insurance services by residents from foreign insurance providers, so that such funds could be made available to the domestic economy. In view of these, LDCs have made it difficult for foreign providers of insurance services to enter the domestic market. Other restrictions include discriminatory tax measures and stiff licensing requirements. However, these restrictions have led to a limited capacity of the domestic insurance firms to provide adequate services to domestic residents as well as to inefficiency and lack of competitiveness of the domestic insurance sector. As Park (1990) pointed out, the average size of insurance companies in the Asean, in terms of premium is only US$8.4 million or 1/9 of the world average. Economies of scale and scope are far from being achieved. Hence, liberalizing the insurance sector of Asean countries should be considered seriously.

However, liberalization should be done gradually. It should proceed first with the opening of the insurance markets among Asean countries before opening them to other countries. Asean countries could use this to convince non-Asean countries that it is a part of the overall process of progressive liberalization of their financial sector. This would lessen the pressure exerted by economically developed countries on the Asean countries' insurance system to open up; it would also give them enough time and opportunities to gear up their insurance system to a more competitive environment in the future when the sector is fully liberalized. Note that trade in insurance services complements trade in goods which the Asean countries are trying to promote. Moreover, as will be pointed out later, it will enhance intra- Asean investment.

The scheme. The proposal this study recommends is that Asean countries should initiate trade in insurance services. This can take two forms. One is cross-border trade between providers and consumers of insurance services. This does not require the establishment or maintenance of funds in the importing country. The other is trade between domestic consumers and foreign business firms licensed to do business within the territory of the host country. This requires cross-border movements of factors of production. Foreign presence may take in the form of subsidiaries, branches, or joint ventures with domestic entrepreneurs. Both forms of trade in insurance services should be promoted in the Asean region. All these, however, require liberalization of certain rules and regulations covering the insurance sector.

On cross-border trade in insurance services, there is a need to determine what product lines may be opened. It is our view that large industrial risks be singled out in this transaction since the retailing of other insurance services, such as motor vehicle insurance, can be done more efficiently by insurance firms established within the territory. Insurance companies in one Asean country could be more familiar with risks involved in an industry being established in another Asean country because of their experience in their own country. Hence, those industries should be allowed to obtain directly insurance services from those insurers. Also, joint venture firms of Asean entrepreneurs may be allowed to secure an insurance coverage from an insurance provider

licensed to operate in any of the countries where the Asean investors of such joint venture firm reside. In such a case, there is a need to liberalize rules covering the selling of insurance services by non-established insurers without a locally licensed broker. This should be complemented by a revision of certain legal provisions such that residents may be able to enforce in domestic courts insurance contracts sold by non-licensed insurers. Rules on import and export of insurance premium should also be relaxed.

On establishment-related trade in insurance services, more liberalization among Asean countries is also needed. At present, the degree of restrictiveness on foreign equity participation substantially differs among Asean countries, with the Philippines being the most restrictive and Singapore the most liberal. Moreover, a license to operate as an insurer is difficult to secure. Intra-Asean investment in the insurance sector can be promoted if investment rules on this sector were relaxed and harmonized. The idea is to give insurance companies or entrepreneurs from an Asean country a wider array of investment opportunities in other Asean countries. They may choose, for instance, to establish a branch, a subsidiary, or have joint ventures with insurance companies or entrepreneurs in other Asean countries. Branches and subsidiaries of Asean insurance companies should be accorded competitive opportunities similar to those of domestic insurers.

As already mentioned above, governments of LDCs including Asean countries have imposed restrictions on placements of investible funds of insurance companies abroad. Even Singapore does this. While the intention is to make long-term funds available to the local economy, the restriction actually penalizes insurance firms since they cannot maximize the return on their funds unless the domestic economy always offers the best investment alternatives.

Liberalizing trade in insurance services in the Asean region should also extend to investment activities of insurance companies. Investible funds of an insurance company of an Asean member country should be invested in any financial instruments in the Asean region. This will hopefully increase intra-Asean investment flows. Again, this requires agreement among Asean countries on what investment instruments would qualify. Shares listed in stock exchanges of Asean countries would definitely be a prime candidate.

Role of AIC. Liberalizing trade in insurance services does not require the creation of a new and permanent institution. However, a lead institution must be singled out to take the initiative. The AIC is the appropriate institution to initiate the move to liberalize trade in insurance services in the Asean region. It already has a strong link with national insurance associations. It also has a number of activities that can be quickly reoriented to support the liberalization process. For instance, its activities related to comparative study on insurance legislation and supervision could be expanded to include the preparation of a draft document that would outline in detail the scope of the agreement to liberalize trade in insurance services and the procedures for doing it.

Timetable. The AIC should convene a meeting in June 1991 to discuss this proposal. The Insurance Institute for Asia and the Pacific (IIAP) may start working on the draft document in the following month. An expert from the United Nations Conference on Trade and Development (UNCTAD) may be asked to help the IIAP in preparing the document. The complete draft will be presented to the AIC for consideration in December 1991. A ministerial meeting may be held in March 1992. After this meeting, Asean countries may be given six months to prepare

themselves for the program implementation. Legal issues should be ironed out during this period. Actual implementation may start in October 1992.

Asean export credit facility

Rationale. This scheme is not designed to increase intra-Asean trade, but rather to strengthen the competitive position of Asean countries in the international markets through cooperation. Export transactions are usually undertaken in credit. Thus, aside from the quality and price of export commodities, the ability to sell on credit also determines the competitiveness of a country in the international markets. With other things being equal, countries that cannot offer competitive credit terms will always be left behind. But selling on credit involves risks, and this may undermine the willingness of exporters to deal on deferred payments.

The change in the economic orientation of East European countries and the USSR, and the economic integration of Western Europe could translate into new economic opportunities for Asean countries. They could intensify their export diversification efforts by including such non-traditional markets. However, the lack of a facility to determine the credit worthiness of new buyers makes exports to non-traditional markets definitely riskier than to traditional markets. This then undermines the aggressiveness of Asean exporters to find new markets.

The proposed Asean Export Credit Insurance Facility is intended to deal with these problems. It will encourage Asean exporters, especially those exporting non-traditional goods to non-traditional markets, to aggressively open new business in new markets since their worries about being unable to collect payment for their exports are minimized. It can also strengthen their competitive position since the availability of an insurance facility will help them offer better credit terms to their buyers. Those that have problems with accessing production credit will benefit from the insurance facility since they can use the insurance cover as additional collateral.

The scheme. The proposed Asean Credit Insurance Facility will insure Asean exporters against the possibility that their buyers abroad could not make payments on exports they made on credit. It shall cover both commercial and non-commercial risks for which coverage is not yet available. Coverage may include the following specific risks:

1. Insolvency;
2. Protracted default;
3. Contract repudiation by the buyer;
4. Exchange transfer delays;
5. Imposition of import license ban;
6. War, revolution, boycotts, strikes, and similar events;
7. Expropriation, nationalization, confiscation;
8. Natural catastrophes;
9. Marine insurance when not otherwise insurable due to war; and

10. Non-acceptance of goods in violation of the contract by the buyer.

Enterprises that are wholly owned or of which majority of the stockholders are nationals of Asean countries will qualify under this facility.

The Facility shall offer *general* and *specific* insurance policies. The former requires exporters to insure the major portion of their business, while the latter will be issued for each separate export transaction that an exporter selects to cover. Both general and specific policies may be further classified into *shipment policies*, which apply to risks running from the date of actual shipment of exported items, and *contract policies*, which provide cover from the date of the contract.

Organizational set-up. The Facility should be financed and managed by the private sector. The formula for determining the contribution of each Asean country shall be patterned after that of the Asean Reinsurance Corporation.

The Asean Reinsurance Corporation would be an ideal manager of the Facility. However, the preparatory work including the detailed feasibility study should be done by the AIC.

Timetable. The AIC, representatives of the national associations of insurance companies of Asean countries, and the president of the Asean Reinsurance Corporation should organize a meeting in June 1991 to discuss this proposal. If approved, the AIC should immediately form a technical committee to prepare a detailed feasibility study which will be submitted in December 1991. Representatives of the national associations of insurance companies of Asean countries and the Asean should meet in December 1991 to review and approve the feasibility study. The Facility may be opened in April 1992.

Asean Development Bank

Rationale. The establishment of an Asean Development Bank was earlier proposed by the United Nations team that conducted a study on economic cooperation for the Asean[12]. The proposal was recently echoed by Naya (1987) and Schulze (1988). A development bank that provides financial and technical support to regional projects facilitates regional economic cooperation and integration. Regional groupings have their own development bank. Examples are the European Investment Bank for the EEC and the Caribbean Development Bank for the Caribbean Free Trade Association.

Several arguments do not favor the establishment of an Asean development bank. One argument is that its role and functions in the region have already been pre-empted by the privately initiated AFC. Yet, this is not so. AFC follows a "demand- following approach" in banking whereas the proposed Bank is expected to apply mainly a "supply-leading approach" to banking[13]. In other words, the proposed Bank will mainly concentrate on development banking, although it carries a commercial banking function to a lesser extent. It will try to secure cheap funds from donor agencies and serve as a conduit of financial assistance from donor countries to

12. This is discussed in Skully (1979).

13. These concepts were originated by Patrick (1966).

the Asean region. For instance, the US$2 billion Asean-Japan Development Fund could have been coursed through the proposed Bank. This is to the advantage of donor countries since they only have to deal with one institution for their assistance to the entire region.

Another argument against the proposed Bank, which some Philippine bankers believe, is that it will duplicate the effort or will compete with the Asian Development Bank. Naya's counterargument is that the ADB is not generally equipped to handle regional projects because it primarily concerns itself with national projects. In the most recent past, ADB, following the footsteps of the World Bank, shifted its emphasis from project lending to sectoral and program lending. The proposed Bank is envisioned to stick to project lending. It will specialize in assisting the Asean region in identifying, promoting, and financing viable regional projects. Additionally, the proposed Bank may provide intra-Asean trade financing facilities which no institution in the region is doing at present. This implies that the Bank will also have a commercial banking function. But this latter function is prompted by the need to assist the region in developing trade among themselves. It should also be pointed out that the membership of ADB has been expanding, which could result in giving less attention to the needs of the Asean countries.

It should be recalled that in the EMS countries, the European Investment Bank played a significant role in stimulating the use of the ECU as a denominator in financial transactions. The proposed Bank could play this role in the future as regards the Asean Currency Unit.

Objectives and functions. The objective of the proposed Bank is primarily to assist the Asean region in identifying, promoting, and financing viable regional projects; and secondarily to provide intra-Asean trade financing facilities. The specific functions of the Bank are --

1. To identify regional projects and conduct feasibility studies;

2. To provide management consultancy to regional projects;

3. To provide financial support to regional projects in the form of long-term credit;

4. To raise cheap funds from donor agencies to finance regional projects;

5. To promote trade in the region by providing intra-Asean trade financing facility; and

6. To assist the region in promoting the use of an Asean currency unit through various means, such as issuing bonds denominated in Asean currency unit.

Credit facilities. The proposed Bank shall have two main credit facilities: the development credit facility and the trade financing facility. However, it shall allocate at least 75 percent of its loan portfolio to the development loan window. This is to emphasize the development function of the Bank.

Organizational structure. The proposed Bank should have participation from the private sector and governments of Asean countries. Two alternative approaches may be taken. One is to

create an entirely new institution; the other is to convert AFC into the Asean Development Bank. Our preference is for the latter since AFC has already the necessary infrastructure to operate as a bank. In addition, the private sector will be immediately represented, and they do not have to raise so much additional capital. The charter of AFC will have to be revised to reflect the objectives and functions of the Bank; its capitalization should also be increased. The equity contribution of the private sector shall be matched by the equity contribution of the governments of the Asean countries, preferably, through their national development banks. Asean countries may have an equal contribution to the Bank's capital, and therefore they have an equal number of representatives in the Board. The only requirement is that each Asean country will have at least two representatives in the Board: one representing the government, and the other the private sector.

The Asean Development Bank should be run like a private enterprise. Thus, its president and management staff should be truly professional and well-versed in development banking. Nevertheless, it should draw on the expertise of the staff of national development banks of the Asean countries for project appraisal from time to time so that it can keep its permanent staff lean.

Relationship with national development banks. It should be noted that Asean countries have their own national development banks[14]. The proposed Asean Development Bank may establish formal and informal links with these banks. For instance, the Bank may hire or work jointly with these banks in the conduct of feasibility studies. This is important especially if the project is located in a particular country, in which case the national development bank has ready information and expertise to be shared with the Bank.

The Bank and the national banks of the respective Asean countries should have no conflict of interest. The former will focus on regional projects, while the latter on national projects.

Relationship with the ADB. ADB may cofinance regional projects being supported by the Asean Development Bank. The latter, however, should take the lead role in financing projects that it supports.

Location. The proposed Bank should be located in Singapore and incorporated under the Singaporean law.

Action plan. Since the establishment of the Asean Development Bank will doubtlessly shape the course of development of the region in the near future, a ministerial meeting should be held to discuss this proposal. The next step would be to discuss with AFC the proposal to convert it into a development bank for the region with government and private sector representation. The reorganization of AFC and infusion of additional capital should follow.

Timetable. It is proposed that the ministerial meeting be held in June 1991 to discuss this proposal. A discussion with AFC should be conducted the following month. The implementation plan and the agreement between Asean governments and AFC should be ready by December 1991. Actual implementation should commence by January 1992.

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14. These are BAPINDO for Indonesia. Bank Pembangunan Malaysia for Malaysia, DBP for the Philippines, and IFCT, a semi-government owned corporation for Thailand.

Export Guarantee Scheme

Rationale. Small and medium export-oriented enterprises in Asean countries generally have very little access to bank credit. The main reason is that banks put more emphasis on collateral, and small and medium enterprises (SMEs) usually do not have adequate or acceptable collateral to offer. A collateral substitute is, therefore, necessary. A preshipment export finance guarantee scheme could do the job. Several countries, e.g., Korea and Japan, have been successful with their export finance guarantee programs. It might be worthwhile for Asean countries to set up a common preshipment export finance guarantee scheme that will provide guarantee cover to banks granting loans to both small and medium **direct** and **indirect** exporters who are exporting to other Asean countries. This should complement the trade financing facility offered by the Asean Development Bank.

The scheme. To make the guarantee scheme useful, commercial banks' access to the scheme should be automatic. The transaction process under this export credit guarantee scheme may be described as follows (Figure 7):

Step 1. Exporter receives in one's favor an immediate LC at sight in dollars under predetermined terms to include expiry date sufficient to provide an adequate period for preparation and shipment.

Step 2. Exporter assigns LC to local bank I as support for one's request to establish a back-to-back inland LC (BB LC) in favor of the manufacturer, or indirect exporter (IE).

Step 3. Bank I obtains a preshipment guarantee from the Asean Export Credit Guarantee Corporation (AECGC).

Step 4. Against the assigned export LC, exporter opens through bank II a BB LC in favor of the IE in local currency up to a certain percentage of the value of the underlying export LC and made available for a shorter period than the export LC to allow receipt of product, packing, and shipment by exporter.

Step 5. IE assigns the BB LC to bank II and requests a local currency loan equal to a certain percent of BB LC to be used for purchase of raw material and working capital.

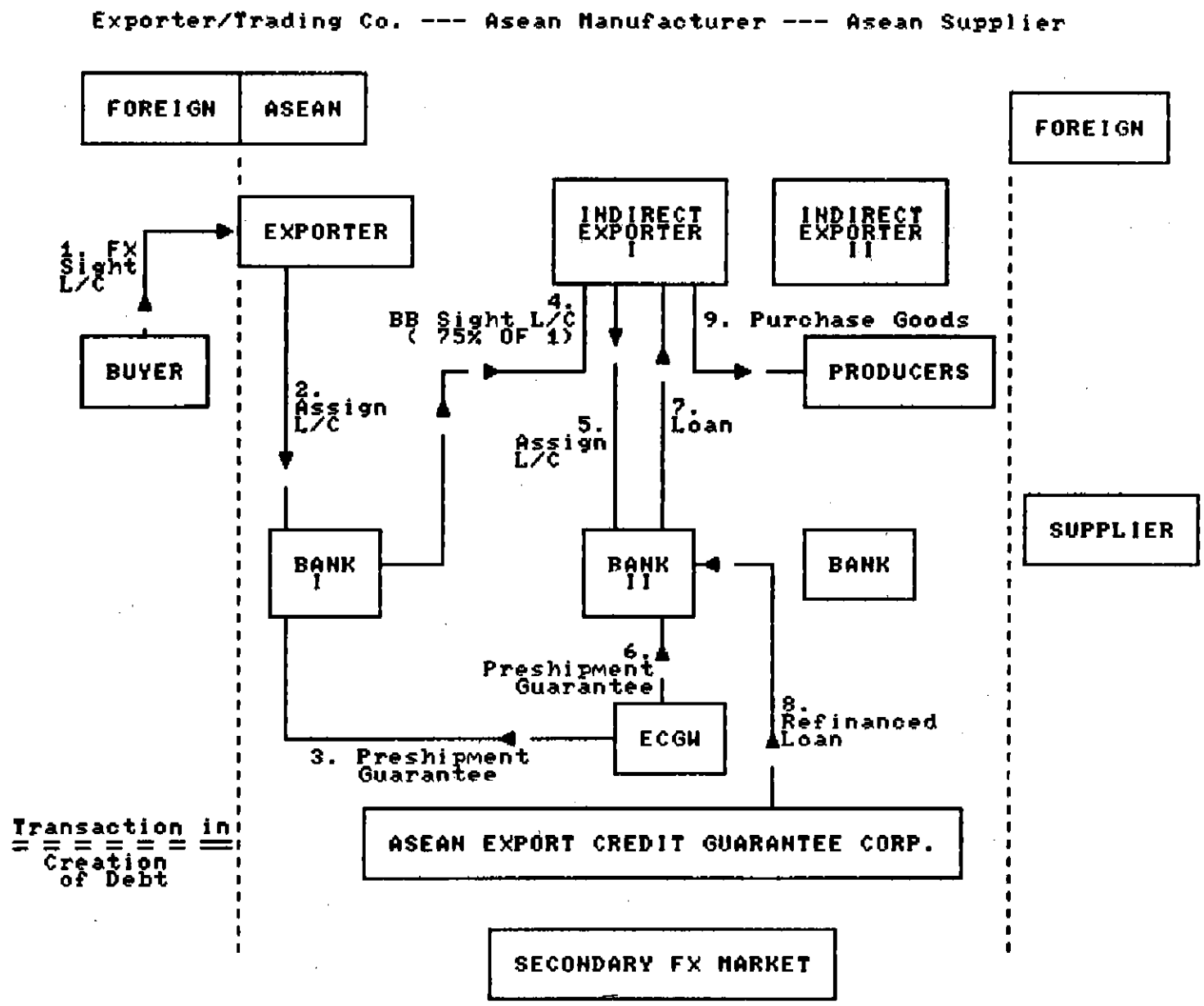
Step 6. Bank II obtains preshipment guarantee from AECGC;

Step 7. Grants loan to IE.

Step 8. Refinances loan with the CB.

Step 9. IE uses cash to purchase raw material from local suppliers and begins the manufacturing process.

Figure 7
ASEAN Export Credit Guarantee Scheme



Organization. A corporation to be named Asean Export Credit Guarantee Corporation (AECGC) should be created. It will be owned wholly by the governments of Asean countries, which will give equal contribution to the required capital. The ADB may be invited as a minority stockholder.

Each Asean country will have one representative in the board, preferably the Minister of Finance. However, the corporation should be run like a private enterprise.

Location. The head office of the corporation may be located in any of the Asean countries, except Singapore since it will house the proposed Asean Development Bank. Since access of commercial banks to the guarantee scheme is automatic, there is no need to have a branch office in each member country.

A key step. To provide both direct and indirect exporters equal access to AECGC financing, Asean countries should modernize their export financing system. One of the key elements to modernizing preshipment export financing is disaggregating export loans into those that 1) generate value added (VAL), 2) purchase domestically produced intermediate inputs (DIL), 3) purchase imported intermediate inputs (FIL), and 4) purchase domestically produced finished goods (DOL). Separating DIL from FIL, and DOL from production financing makes it possible to implement a domestic LC system for domestic purchase and an import LC system for imported inputs. Asean countries virtually do not have a domestic LC system. The development of the domestic LC system assures automatic availability of short-term export loans and free trade status to all indirect exporters. Moreover, the separation of FIL, DIL, and DOL from VAL makes it possible to make a quasi-physical collateral, with inputs or outputs financed by export loans through the automatic loan disbursement mechanism. With the creation of a quasi-physical collateral, it is hoped that commercial banks in Asean countries respond to the credit needs of all qualified exporters, whether they are direct or indirect exporters.

Action plan. Asean governments should discuss this proposal. Once an agreement to go ahead with the project is reached, a thorough feasibility study should be conducted immediately.

Timetable. A ministerial meeting should be held in June 1991 to discuss this proposal. The detailed feasibility study should begin in July 1991 and the results presented to a ministerial meeting in December 1991. Actual implementation may start during the first quarter of 1991.

Multicountry Listing of Stocks.

Recently, the stock markets in Asean countries expanded rapidly[15]. This is most noticeable in Thailand and Indonesia. Nevertheless, the stock markets of Asean countries are still considered underdeveloped, except those of Singapore and Malaysia. The number of listed firms is still few. A great majority of potential investors still do not have access to the stock markets mainly due to lack of information, high transaction costs, and inadequate supply of securities traded in the stock markets.

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15. Brunei does not yet have a stock market.

There are mechanisms to raise funds for the capital markets of individual Asean countries. The country funds discussed in the preceding section serve as an example. However, these are facilities for non-Asean investors to invest in securities of Asean firms. While the scheme increases the supply of funds available to Asean firms, it does not provide Asean investors opportunities.

Asean investors should also be given some mechanisms for investing their funds in securities of other Asean countries so that more intra-Asean investment could take place. Existing policies on investing in the stock markets of Asean countries seem sufficient at first glance. (Table 29). However, access to Asean investment opportunities through this facility is limited only to a few large investors, not to mention the varying restrictions on capital outflows in Asean countries. Perhaps, a better way of broadening Asean investors' access to Asean securities markets is to encourage multicountry listing of securities. This will partially solve the problem of a very limited number of firms being listed in the stock markets of Asean countries. For instance, a Filipino firm, like San Miguel Corporation which is listed in the stock exchanges in the Philippines, could also be listed in the stock exchanges of other Asean countries. Similarly, firms listed in the stock exchanges of other Asean countries could be listed in the stock exchanges in the Philippines. Initially, each country may accept two firms from each Asean country to be listed in its stock exchange; these can later increase to several firms.

One of the preconditions for implementing this program is the standardization of policies and regulations covering the stock markets in Asean countries. In the first place, governments in Asean countries have to agree on liberalizing their stock markets to encourage multicountry listing of Asean private securities. Secondly, criteria and procedures (e.g., disclosure requirements) for listing in the stock markets of Asean countries need to be standardized. Thirdly, tax on income from listed securities have to be harmonized (in addition to the existing bilateral treaties on double taxation between Asean countries). As shown in Table 30, there is a considerable difference in tax measures on capital gains and dividends among Asean countries. And lastly, regulations of capital flows should be relaxed for this specific program to allow listed firms to transfer funds from host countries to its mother country. This applies to Indonesia, Malaysia, the Philippines, and Thailand where foreign exchange regulations are still restrictive. In the case of the Philippines, two more tasks have to be done. One is to unify its two stock exchanges so that foreign companies to be listed in the Philippine stock market will have to deal with only one institution. The other is that it should do away with its two classes of shares and use instead one class of shares for all investors.

It might be worthwhile to apply here the principle covering the use of Asean currencies in intra-Asean trade which was discussed in the preceding chapter. This will circumvent the problem of converting one Asean currency to a hard currency, and then to another Asean currency; at the same time, this will enable Asean countries to conserve hard currencies.

Table 29
POLICIES OF ASEAN COUNTRIES ON FOREIGN INVESTMENT IN STOCK MARKETS

Indonesia

The December 1987 package of deregulation introduced for the first time to foreigners the opportunity to purchase shares listed on the Jakarta stock exchange. A foreign investor may now buy shares in a company listed on the stock exchange (or over-the-counter market when that has been established), provided that the aggregate shareholding of foreign investors in the company does not exceed the permissible level of foreign capital participation (presently 49 percent). Moreover, a foreign investor may be restricted by a maximum percentage of foreign equity ownership contained in the constitution of any company.

Malaysia

There are no restrictions on non-residents investing in stocks, shares, and bonds listed and quoted on the local stock exchange except in shares of banks or bank owning companies where no person is permitted to own more than 20 percent of the equity. There may also be restrictions in the constitutions of some companies on the amount of foreign equity ownership.

Philippines

Non-residents who wish to invest in the local stock and bond markets have the option of financing their transactions either through an inward foreign exchange remittance or from a withdrawal against their foreign currency accounts in the Philippines and only with respect to securities registered with the CB. All transactions must be effected through an authorized security dealer or broker who registers the same with the CB. For sale of securities, the authorized dealer or broker ensures that the proceeds are immediately reinvested or remitted in accordance with the instructions of the investor. Immediate remittance of the proceeds abroad is allowed upon approval by the CB.

Singapore

There are no restrictions on non-residents' sale or purchase of stocks, shares, bonds, or other marketable securities listed and quoted on the Singapore Stock Exchange, except that foreign ownership is restricted by law in the case of specific types of companies such as financial institutions. There may also be restrictions in foreign equity ownership contained in the constitutions of certain companies.

Thailand

Foreigners can invest through the Securities Exchange of Thailand subject to the following restrictions on foreign shareholding and minimal requirements on exchange control:

1. Generally, foreign shareholding is limited to 49 percent under the Alien Business Act, and further limited by other specific legislation, as for example, 25 percent for banking and finance companies.

2. At the time of importation of foreign currency, a foreign investor should register the exchange control documents with the Bank of Thailand so that request for repatriation of capital, yields and dividends can be automatically approved.

Source: *Asean Fund Limited Prospectus.*

Table 30
TAX MEASURES OF ASEAN COUNTRIES
ON CAPITAL GAINS AND DIVIDENDS

Brunei

There is no individual income tax in Brunei. However, all companies, whether incorporated locally or (as in the case of the Fund) overseas, are liable to tax at the rate of 30 percent on any income accruing in, derived from, or received in Brunei. While there is no capital gains tax, there is a possibility that any profits made by the Fund from the resale of shares in Brunei companies may be treated as income and taxed as such at a flat rate of 30 percent.

Under the Stamp Act, ad valorem stamp duty is payable in Brunei for transfers of shares in Brunei companies whether on sale or otherwise, computed on the price or value thereof on the date of the transfer of such shares. For every B$1,000 or a fraction thereof B$100 is charged; the stamp duty payable is B$0.10 when the transferee's name appears on the transfer and B$0.30 when the transferee's name does not appear on the transfer.

Indonesia

Non-resident taxpayers are subject to withholding tax on dividends received from resident Indonesian companies. The withholding tax rate for non-residents is 20 percent.

The tax withheld on dividends is treated as a final tax. There is no provision for a refund or reclaim by the non-resident of the tax withheld, nor is there any requirement to submit tax returns by the non-resident shareholder.

A non-resident shareholder of an Indonesian company is not normally assessable for Indonesian tax on gains made on the sale of shares held by the resident in the Indonesian company. An exception holds if the non-resident shareholder creates a permanent establishment for tax purposes in Indonesia and the gain is made in connection with the conduct of business by the permanent establishment.

Prior to 1 January 1984, the Indonesian government offered various tax incentives such as company tax and dividend tax relief for a new foreign investment. However, such incentives have since been withdrawn. Incentives in the form of exemption from or reduction of import duties and deferral of value added tax on the importation of certain equipment prices remain for approved foreign investors.

Malaysia

If all transactions executed by the Fund are done through authorized brokers and banks, and instructions for these transactions are given from outside Malaysia, the Fund will not be deemed to be carrying on business in Malaysia and will be considered a non-resident foreign corporation. However, such brokers or banks must not have any independent authority to enter into contracts, except on the prior instructions of their clients.

There is no capital gains tax on gains derived from the sale of securities of companies that are listed and quoted on The Kuala Lumpur Stock Exchange.

The Share (Land Based Company) Transfer Tax Act, 1984 was repealed effective 21 October 1988. Effective on same date, pursuant to the Real Property Gains Tax Act, 1976, gains arising from the disposal of shares in real property companies as defined in the Act are taxed ranging from a maximum of 20 percent for disposal within two years to a minimum of five percent for disposal in the fifth and subsequent years for companies. There is no real property gains tax liability on disposal by individuals and other persons in the sixth and subsequent years.

Under current Malaysian law, companies pay tax on their profits at the rate of 35 percent (from 1 January 1989) for income tax and five percent for development tax. The net after-tax dividends are not exigible to further tax. The Malaysian government also confirmed that development tax is to be abolished gradually starting with a reduction of one percent starting from the 1990 year of assessment.

Interest derived from bank deposits placed by non-residents is exempt from income tax, unless such interest is paid on funds required for the purpose of maintaining net working funds as prescribed in Section 14 of the Banking Act. Furthermore, no tax is exigible on interest paid to an individual for government bonds or securities.

Any other interest derived from Malaysia is subject to income tax at 20 percent. Such tax will be withheld at source and paid directly to the Inland Revenue by the payer.

Stamp duty is payable on the transfer of shares at the rate of M$0.03 for every Malaysian dollar of the price paid in purchasing the securities.

The word "non-resident" is used above to describe a person who is neither resident nor maintains a permanent place of business in Malaysia.

Philippines

Under current Philippine law, the Fund will be regarded as a non-resident foreign corporation if its activities are limited to investment in securities issued by Philippine corporations.

Accordingly, the Fund will be subject to the following taxes:

1. 35 percent on gross income from sources within Philippines, including dividend income from Philippine corporations (reduced to 15 percent under certain conditions of reciprocity).

2. A capital gains (final) tax of 0.25 percent on the gross selling price for shares listed on the stock exchange and 20 percent on capital gains (10 percent for the first P100,000) for shares that are not listed; and

3. Documentary stamp taxes of P1.70 for each P200 par value for original issuances and P0.50 on each P200 for subsequent sales.

Singapore

Section 13C of the Income Tax Act exempts from tax the income of a non-resident person arising from funds managed by a fund manager approved by the Minister for Finance.

The Fund although incorporated in Singapore would function as and be a non-resident of Singapore for tax purposes as its Board of Directors will meet outside Singapore. On that basis, the control and management of its business (other than that conducted through the approved fund managers) would be outside Singapore.

Wardley, H&Q Asia Pacific, and SEAVI have each been approved by the Minister for the purposes of Section 13C.

Regulations under Section 13C that detail the exemption and the terms of such relief provide that the "specified income" derived by a "foreign investor" shall be exempt from tax. The fund would come within the definition of a "foreign investor" as the Articles of Association restrict ownership in the issued capital of the fund which may be owned by Singapore residents or citizens to five percent or less of the total issued capital. Only those who are non-residents of Singapore and who are not citizens of Singapore may own the balance 95 percent of the total issued capital.

A person will be treated as resident of Singapore for tax purposes if he or she is "resident in Singapore" as defined in the Income Tax Act. In this statutory definition, a person is resident of Singapore if --

1. Being an individual, if in the year preceding the year of assessment (the basis period) he or she was resident of Singapore in a qualitative sense. It also includes a person who was physically present in Singapore for 183 days or more during the basis period.

2. He or she does not have a permanent establishment in Singapore.

3. He or she does not hold more than 20 percent of the issued capital of a company incorporated in Singapore.

4. He or she carry on a business in Singapore either solely or in association with others.

Thailand

If all transactions executed by the Fund are done through a licensed securities broker, and the Fund does not maintain a representative in Thailand, for tax purposes it will be treated as not doing business in Thailand. Under current law, the Fund would be subject to withholding tax on dividends at the rate of 20 percent at the rate of 25 percent on interest received, and at the rate of 25 percent on capital gains. If shares in approved mutual funds are purchased by the Fund with foreign currency remitted into Thailand, income and benefits from mutual funds will be taxed at the rate of 10 percent and capital gains on the sale of mutual fund shares will be taxed at 12.5 percent. Each transaction is taxed separately so that transactions may not be aggregated to reduce profits to the extent of losses.

In addition, stamp duty at the rate of B1.00 per B1,000 of realized value is applicable on all transfers of shares not listed on the Securities Exchange of Thailand (SET) while transfers of shares of companies listed on the SET are exempted from stamp duty if the SET acts as the share registrar.

Source: *Asean Fund Limited Prospectus.*

APPENDIX 1

PHILIPPINE IMPORTS/EXPORTS TO ASEAN/WORLD BY 1-DIGIT PSCC CATEGORY
(1980, 1985, and 1987; in million US$)

Category	Imports (cif)	1980 Asean	1980 World	1985 Asean	1985 World	1987 Asean	1987 World
0	Food and food preparations	26	572	8	483	55	513
1	Beverages and tobacco	9	52	-	79	-	112
2	Crude materials, inedible	6	322	7	168	20	325
3	Mineral, fuels, and lubricants	376	2358	500	641	200	1307
4	Animal and vegetable oils & fats	3	20	4	15	5	15
5	Chemicals	76	811	52	1512	100	1009
6	Manufactured goods classified chiefly by material	24	1070	16	549	59	1030
7	Machinery and transport equipment	26	1958	24	760	58	1193
8	Miscellaneous manufactures	4	211	3	112	-	153
9	Commodities and transactions not classified elsewhere	40	921	94	1127	98	1531
	Total imports	589	8295	783	5445	603	7188

Source: Foreign Trade Statistics of the Philippines.

Category	Exports (fob)	1980 Asean	1980 World	1985 Asean	1985 World	1987 Asean	1987 World
0	Food and food preparations	146	1402	28	825	44	888
1	Beverages and tobacco	-	32	-	31	-	28
2	Crude materials, inedible	4	1446	2	480	11	535
3	Mineral, fuels, and lubricants	24	38	5	42	36	97
4	Animal and vegetable oils & fats	9	573	-	372	6	397
5	Chemicals	10	89	32	150	54	245
6	Manufactured goods classified chiefly by material	35	532	19	468	15	469
7	Machinery and transport equipment	14	127	56	309	89	553
8	Miscellaneous manufactures	11	610	6	537	7	758
9	Commodities and transactions not classified elsewhere	123	903	371	1375	198	1601
	Total exports	375	5752	520	4589	460	5571

Source: DER, Statistical Information Center, CB.

Appendix 2

SALE OF FOREIGN EXCHANGE REQUIRING PRIOR CB APPROVAL

SEC. 54. Profits, dividends and interests of non-residents. Remittances abroad of profits, dividends and interests by non- residents shall be governed by the following regulations:

a. For resident companies that are owned or controlled by non- residents engaged in BOI-approved projects, in export-oriented industries and non-export-oriented industries that have not availed of domestic credit resources, the transfer of profits and dividends abroad corresponding to the net profits realized, after taxes, during the year, may be allowed in full at the exchange rate prevailing on date of remittance.

As used herein, the term "domestic credit resources" of resident companies owned or controlled by non-residents engaged in non- export-oriented industries, refers to all credit availments whether in cash or in kind, from any government or private banking financial institutions or other private sources in the Philippines.

b. Other resident companies that are owned or controlled by non- residents may be allowed to transfer profits and dividends abroad in an amount equivalent to twenty-five (25%) percent of the non- residents' equity participation in the net profits after taxes, during the year for which the remittance of the earnings is being made.

c. Filipino-controlled firms may be allowed to remit in full the shares of dividends and profits corresponding to the net profits realized, after taxes, during the year, due to their non-resident stockholders or non-resident partners abroad. The amounts of dividends and profits which may be remitted in accordance with the foregoing shall be net of withholding taxes.

d. Applications for remittance of profits and dividends to non- residents shall be accompanied by the following:

1. Proof of registration with the Central Bank of foreign investments upon which the profits/ dividends sought to be remitted have accrued;

2. Certified copy of the Board Resolution declaring the dividends, accompanied by a computation indicating separately the amount of dividends/ profits due to resident and non-resident stockholders.

3. Evidences of payments of withholding tax and other applicable taxes corresponding to the amount;

4. Sworn statement of the remitting company's officer that the remittance will not be financed by domestic borrowings; and

5. Audited financial statement as of the end of the year during which the dividends/profits sought to be remitted were earned.

e. Remittance of interest payments abroad by resident companies which have existing foreign obligations registered with the Central Bank prior to November 26, 1969 may be allowed in full. For existing but not registered foreign obligations as of November 26, 1969, remittance of interest abroad may also be allowed in full, only upon subsequent registration with and approval by the Central Bank.

f. Interest earned by non-residents from government securities (except treasury bills) may also be remitted in full; Provided, That the government securities were acquired by the non-resident before December 26, 1969, or, if acquired subsequent to said date, such acquisition has Central Bank approval.

g. Applications for remittance of interest shall be substantiated by supporting documents, such as financial statements, income tax returns, loan contracts, an auditor's certificate that the amounts being remitted are correct and proof of payment of withholding tax.

h. New applications of oil companies operating in the Philippines to purchase foreign exchange to cover remittance of profits, dividends, payment of royalties and other fees shall have the prior clearance of the Bureau of Energy Utilization.

i. Where the remittance is applied for by multinational firms, prior clearance from the Central Bank Inter-Agency Committee on domestic borrowings of foreign firms, is required before any remittance of profits and dividends may be allowed.

SEC. 55. Royalties, films, rentals and others. Remittances shall be governed by the following rules:

a. Remittances of royalties or rentals on patents, trademarks, copyrights and franchises may be allowed up to fifty percent (50%) of the royalties or rentals incurred during the year for which the remittance is being made; Provided, That no royalties shall exceed five percent (5%) of the wholesale price of the commodity which is manufactured locally under a royalty contract.

Remittance covering service, license or rental fee shall be based on agreements previously approved by the Central Bank.

b. Royalties on retail sales in 1970, and the unremitted royalties for 1969 and prior years, shall be allowed full remittance at the royalty rates indicated in reprinting contracts entered into earlier, and subsisting as of February 21, 1970.

c. Royalties incurred after 1970 on reprinting contracts existing as of February 21, 1970 and on those concluded thereafter shall be allowed full remittance only in cases where the reprinting contracts confer upon the local reprinters concerned the right to market reprinted books in foreign countries, substantiated by documents of export shipments made; Provided, however, That the remittances shall not exceed the net export proceeds of the reprinter concerned arising from the sale abroad of the reprinted books.

d. Royalties incurred after 1970 on reprinting contracts existing as of February 21, 1970 and on those concluded thereafter, where such contracts restrict the marketing rights of the local

reprinters concerned to the domestic market, shall be subject to the quantitative limitations prescribed in Items a to c above.

e. Remittance of the producer's share of earnings made on movie films imported without exchange payments may be allowed up to fifty percent (50%) of the producer's share of earnings during the year for which the remittance is being made. Remittances for TV film rentals shall be governed by the individual contracts or agreements. The remitter or applicant shall substantiate the correctness of the amounts being transferred by the following:

1. Copy of the Central Bank approval/registration of the distributorship agreement, which may be submitted only once with the application for the initial remittance of film rentals/producer's shares;

2. Computation on how the producer's shares were arrived at;

3. Copy of official receipts evidencing payment of the withholding tax corresponding to the amount sought to be remitted accompanied with a copy of the appropriate return filed with the Bureau of Internal Revenue; and

4. Copy of the audited Balance Sheet and Profit and Loss Statement corresponding to the year during which the producer's shares accrued.

f. Royalty/rental contracts involving "manufacturing royalty", e.g. actual transfer of technological services, such as secret formula/processes, technical know-how and the like, shall not exceed five percent (5%) of the wholesale price of the commodity manufactured under the royalty agreement. For contracts involving marketing services such as the use of foreign brands or transactions or trademarks, the royalty rental rates shall not exceed two percent (2%) of the wholesale price of the commodity manufactured under the royalty agreement. The producer or foreign licensor's share in the proceeds from the distribution/ exhibition of the films shall not exceed sixty per cent (60%) of the net proceeds (gross proceeds less local expenses) from the exhibition/distribution of the films.

The Monetary Board, in consultation with the Board of Investments, may authorize remittance of royalties on contracts providing for higher royalty/rental rates, or for terms longer than five (5) years; or on contracts containing restrictive provisions prohibiting the local licensees to export the products manufactured under the royalty/rental agreements or limiting their exportation abroad only through the foreign licensors as exclusive distributors.

Remittance of royalty/rental arising from contracts involving "manufacturing or marketing services" shall be allowed in full, net of taxes, at the prevailing exchange rate at the time of remittance.

g. Companies seeking Central Bank authority to remit royalties, fees or other forms of payments made to a foreign company or a foreign-owned company under the technology transfer arrangements covered by the Memorandum of Agreement entered into by the Ministry of Industry, Central Bank of the Philippines, and the Board of Investments, shall submit, in addition to Central Bank requirements, proof of registration thereof with the Technology Transfer Board before any authority to remit foreign exchange will be granted. Without prejudice to its power to

implement monetary and fiscal policies, including remittances of foreign exchange the Central Bank shall take into account the royalty rates prescribed by the Technology Transfer Board.

Technology transfer arrangements covering management and technical consultancy services relating to the operation of industrial enterprises on a continuing basis, involving an aggregate amount of not more than US$20,000 per agreement shall be referred to the Technology Transfer Board for notification and approval.

h. Withholding tax must be deducted from the amount of the allowable remittances of royalties or rentals on patents, trademarks, copyrights and franchises as well as from the amount equivalent to the producer's share of earnings made on movie films or of TV film rentals.

i. Applications for remittance of royalty/technical service/license/rental fees shall be accompanied by the following documents:

1. Copy of Central Bank approval of the pertinent agreement, which may be submitted only once with the application for the initial remittance of royalty/technical service/licenses/rental fees. In case where the remittance represents blocked royalties (royalties/rentals heretofore unremitted on account of the quantitative restrictions provided in earlier regulations), the same shall be referred to the Central Bank for prior approval and shall be accompanied by proof that the remittance shall not be financed by domestic borrowings;

2. Copy of official receipt evidencing payment of the withholding tax corresponding to the amount sought to be remitted accompanied by a copy of the appropriate return filed with the Bureau of Internal Revenue;

3. Statement/computation of royalty/technical service/license fees due, duly certified by an independent Certified Public Accountant; and

4. Audited financial statements as of the end of the year during which the royalty/license fees sought to be remitted were earned.

SEC. 56. Foreign investments. Foreign exchange remittances involving foreign investment in CB-approved Philippine securities shall be governed by the following rules:

a. Central Bank approval of the entry of foreign investments is required as a pre-condition for repatriation of investments and earnings. Application for approval of incoming foreign investments shall be coursed through agent banks.

b. Repatriation of the foreign cash investments, net of losses, may be made at any time by the foreign investors, subject to the terms and conditions of the swap arrangement between the handling bank and the Central Bank.

c. Repatriation of foreign investments should be accompanied with proof of inward remittance of foreign exchange utilized for the purpose.

d. For repatriation of foreign investments in CB-approved Philippine securities, the following shall be required:

1. Investments in CB-approved Philippine securities:

a) Daily Report of Purchase and Sales of Philippine Securities (CBP-6.22.30);
b) Pertinent Sales Confirmation slips;
c) Daily Report of Repatriation of Proceeds of Sales (CBP- 6.22.32);
d) Summary list of registered investments being liquidated;
e) Application to Transfer Securities for Account of Non-Resident (CBP-FED-ASD 3);
f) Application for Authority to Sell Securities in the Philippines for Account of Non-Residents (CBP-FED-ASD 5);
g) Proof of payment of applicable taxes; and
h) Statement of Remittance.

2. Other investments:

a) Evidence of registration with and approval by the Central Bank of the foreign investments sought to be repatriated;
b) Copy of the Contract of Sale covering the investments sold, duly certified by the Secretary of the firm/company where the divestments were made;
c) Computation showing how the amount sought to be remitted was arrived at, indicating the taxes due the Philippine Government and other related expenses; and
d) Evidence of payment of the capital gains tax (copy of official receipt) and/or other taxes due the Philippine Government.

SEC. 57. Emigrant's assets. The following rules shall govern capital transfers of Filipino emigrants' assets:

a. Emigrants may remit up to a maximum of US$5,000 of their capital assets to their new country of domicile, subject to prior approval by the Central Bank.

The remaining liquid capital assets may be withdrawn starting one (1) year after emigration on a staggered basis no exceeding five (5) years.

b. Remittances of emigrants' assets shall be supported by proof of:

1. permanent residence of emigrant/beneficiary abroad;
2. ownership of the asset/s by the emigrant/ beneficiary abroad;
3. payment of applicable taxes;
4. applicant's authority to remit.

Additional proofs shall be required in the following cases:

1) Remittance of income from real properties - Statement of rentals/income earned certified by an independent CPA.

2) Remittance of proceeds of sale of capital assets -

a) Copy of deed of sale.
b) If the subject of the sale is real estate, proof that the transaction was registered with the Register of Deeds.

3) Remittance of proceeds of retirement benefits

a) Evidence of payment of retirement benefits.
b) If the filing for remittance is five (5) years or over after receipt of the retirement pay, evidence regarding custody of the funds.

4) Capital transfer of testate and intestate inheritance and legacies -

a) Copy of Court Order approving the partition and distribution of estate.
b) Copy of the extra-judicial settlement and partition duly registered with the Registered of Deeds.

5) Remittances of proceeds of life insurance benefits - Proof of payment of the proceeds of the policy.

6) Remittances of proceeds of sales of personal property - Copy of the deed of sale.

7) Remittances of proceeds of sale of shares of stock -

a) Copy of the confirmation of sale of authorized securities dealer or broker or the issuing corporation.
b) Certification of stock transfer agent showing the name of issuing corporation, date of issue, par value, cost of acquisition, and that the shares of stock owned by the beneficiary have been sold at the price indicated.

SEC. 58. Transfer of savings; remittance of salaries. Remittances for transfer of savings and salaries shall be governed by the following:

a. Transfer of savings of expatriate employee may be allowed in full, net of taxes, when the contract of employment has been concluded or the employee is transferred to other offices abroad. The request for remittance shall be supported by the following documents:

1. Contract of employment;
2. Certification of the employer that the contract has been terminated or concluded;
3. Statement of salaries paid during the validity of the contract of employment.
4. Transcript of bank deposit account certified by the bank official. If the amount to be remitted comes from new deposits (less than one year placement), information regarding the sources of funds, supported by appropriate documents shall be submitted; and

5. Proof of payment of corresponding taxes.

b. Remittance of salaries of expatriate employee shall be allowed in amount not more than fifty percent (50%) of the salary, net of withholding tax, and shall be supported by:

1. Copy of the employment contract;
2. Copy of valid "Alien Employment Permit" issued by the Ministry of Labor and Employment;
3. Proof of payment of withholding tax;
4. Statement of salaries paid, duly certified by the employer; and
5. Proof of inward remittances to cover salary of the expatriate employee in case of multinationals.

SEC. 59. Freight charges. The following rules shall govern payments of freight charges:

a. With prior approval of the Central Bank, all payments for freight charges covering Philippine imports loaded on board Philippine flag vessels and airlines and/or alien flag vessels and airlines which are operated or chartered by Philippine residents may be made in the Philippines in pesos or in other freely convertible foreign currencies. Philippine resident operators or charterers shall accept Philippine pesos offered as payments in the Philippines for such freights.

b. Peso freight payments covering Philippine imports shipped on "Free on Board" (FOB) basis are remittable in foreign currency by local shipping agents/forwarders to their principals abroad. Applications for such remittances may be filed with the Central Bank through agent banks subject to documentation requirements which shall include, among others, the following:

1. Statement of net revenues and expenses certified by an independent certified public accountant attesting to the fact that the net peso revenues appearing therein have not yet been remitted;
2. Copy of the bill of lading covering the import shipment certified as authentic by an authorized official of the local shipping agent or representatives of the shipping company concerned. If the shipment is without L/C, copy of Central Bank authority to import under D/A arrangement or to export the commodities under a no-L/C arrangement shall be submitted; and
3. If applicable, information as to balance sheet account where the obligations due was lodged.

c. All application for forward exchange cover and/or applications for remittances of foreign exchange in payment of freight charges for crude oil imports of local oil companies shall be supported with clearance from the Bureau of Energy Utilization, stating that the Philippine National Oil Company and/or its affiliates and subsidiaries did not have the appropriate and/or required tonnage capability, whether owned, chartered or hired to transport the crude oil for which freight payment remittance is requested.

SEC. 60. Insurance. The following rules shall govern remittances of net profits, reinsurance premiums and payment of claims for losses:

a. Peso deposit accounts.

1. Authorized agent banks may open and maintain peso deposit accounts in the name of non-resident foreign insurers or non- resident foreign reinsurance brokers; Provided, That said accounts shall be credited only with proceeds of inward remittances of foreign exchange and by reinsurance premiums collected and/or received from local ceding companies; Provided, further, That the deposit is supported by a certification of the Insurance Commissioner to the effect that:

   a) The ceding companies are under obligation to remit to the non- resident foreign insurer or reinsurance broker the amount to be deposited;
   b) The ceding companies have withheld portion of the premium required by law for treaty reinsurance to be held as reserve and have reinvested the reserve funds in accordance with the provisions of the Insurance Code;
   c) The ceding companies have certified that they have withheld the required taxes in accordance with the Internal Revenue rules and regulations of the Philippines.

2. There shall be no restrictions on withdrawals from such deposits; Provided, That withdrawals for remittance abroad against such deposits shall be allowed subject to the submission of a certification from the Insurance Commissioner.

b. Application for remittances - Every application for the purchase of foreign exchange for remittance of net profits, reinsurance premiums and payments of claims for losses of branches of foreign insurance companies authorized to do business in the Philippines shall be accompanied with the following documents:

1. Proof of Central Bank registration/approval of the inward investment.
2. Certification of the Insurance Commissioner that the applicant has complied with the requirements of the Insurance Commission on the remittance of profits, reinsurance and payments of claims for losses;
3. Statement of account or notice of demand; and
4. Latest audited financial statements.

Additionally, the following supporting papers shall be required on remittances of:

a) Net profits - If the applicant is a Philippine agent of the beneficiary (foreign principal), a copy of the agency contract and an affidavit of an authorized official of the agency stating that the beneficiary is not maintaining a branch office or does not have a general manager in the Philippines as verified by the Insurance Commission shall be submitted.

   A Philippine agent of a foreign insurance company with branch office or general manager in the Philippines shall not be allowed to remit its net

premium collections direct to the head office of its principal abroad. Such net premium collections should be delivered by the agent to the beneficiary's (foreign principal's) branch office or general manager in the Philippines.

b) Reinsurance premium - If the applicant is a resident reinsurance broker (a reinsurance broker authorized to do business in the Philippines), authority in writing by the ceding resident insurance company to remit reinsurance to the accepting non-resident foreign reinsurer or non-resident foreign broker abroad covering reinsurance placed with such reinsurer or through such broker by the resident reinsurance broker shall be submitted.

If the accepting foreign insurer or reinsurer is duly authorized by the Insurance Commissioner to do insurance or reinsurance business in the Philippines, the resident ceding company shall not be allowed to remit reinsurance premium to the Head Office abroad of the accepting foreign insurers or reinsurer. Such premium payment shall instead be delivered by the resident ceding company to the branch office in the Philippines of the accepting foreign insurer/reinsurer abroad.

c) Payments of claims for losses - For payment of claims for losses and other cases of insurance and/or reinsurance payment not specifically covered by the above rules, the agent banks shall require the applicant to submit the pertinent documents to the Insurance Commissioner for prior clearance on a case-to-case basis.

SEC. 61. Commissions. Remittances of commissions shall be governed by the following rules:

a. Agency agreement for the sale of airline and shipping tickets shall be submitted to the Central Bank for approval.

b. Commission earnings of airline or shipping companies in foreign currencies shall be reported to the Central Bank.

c. Commissions of travel agents and tour operators of airline and shipping companies shall be paid in the same currency in which the tickets have been paid for.

d. Authorized agent banks may allow foreign airline and shipping companies to remit their revenues to their head offices, net of commissions, with the prior approval of the Central Bank.

e. Remittance in payment of commissions shall be supported by the following:

1. Computation showing how the amount sought to be remitted was arrived at (in no case to exceed 5% of the FOB price of the export shipment). Agency agreements calling for commission payments in excess of 5% shall have the prior approval of the Central Bank.
2. Evidence of export shipment, such as bills of lading

3. Certification from the negotiating bank concerned that the export proceeds have been inwardly remitted accompanied by the bank's credit advice; and
4. Latest audited financial statement of the applicant.

SEC. 62. Maintenance of trade offices abroad. Remittances for the maintenance of overseas trade offices abroad shall be governed by the following rules:

a. Authorized agent banks may act on the request for foreign exchange remittances to maintain overseas trade offices of an export trader registered under Republic Act 6135 up to $100,000 per year per overseas office for operating expenses.

b. Requests for remittances of foreign exchange to maintain branch office abroad of Philippine companies shall be supported by the following documents:

1. Copy of the authority to establish the branch office abroad;
2. Evidence of the establishment of the office abroad, including approval of the appropriate government agency where the office is established;
3. Copy of the latest financial statements of the head office duly certified by an independent CPA;
4. Billings/statement of accounts to support the disbursements from the maintenance fund;
5. Report of foreign exchange operations of the branch, duly certified by the Branch Manager concerned;
6. Proof that the branch office abroad is generating economic benefit for the country; and
7. Proof that the operating expenses of the branch abroad is being derived from the profits generated by the company.

OTHER DISBURSEMENTS/PAYMENTS FOR INVISIBLES

SEC. 63. Remittances for other disbursements/payments. The following rules shall govern requests for remittances not specifically covered by the foregoing provisions:

a. With prior Central Bank approval, applications for foreign exchange to cover current invisible payments under this Section shall be duly supported by appropriate documents as may be required.

b. Central Bank clearance/approval shall be required in payments of foreign exchange for the following:

1. Passenger fares - These are payments by residents to foreign carriers in connection with transport of persons and shall be supported by:
   a) List of passenger ticket issued by the carrier;
   b) Proof of payment of the corresponding taxes;
   c) Statement of Revenue and Expenses certified by an independent CPA;
   d) Statement of gross Philippine billing corresponding to the period covered by the remittance, duly certified by an independent CPA;

e) Report on tax exemptions given to non-resident passengers.

2. Time charters - These are payments by domestic operators to foreigners for hire of foreign-owned vessels and shall be supported by:

   a) Copy of Central bank approval of the Charter Hire Contract which may be submitted only once with the initial application for remittance of charter fees;
   b) Copy of clearance/authority from the proper government agency for the chartered trips;
   c) Copy of the latest income tax return of charterer;
   d) Latest audited financial statements of charterer;
   e) Billings/statement of account from the creditor, duly certified by an independent CPA; and
   f) Proof that the required report covering the foreign exchange earnings of the charterer has been submitted to the Central Bank and the proceeds from the operation of the chartered vessel/craft have been remitted inward.

3. Institutional remittances - These are donations made by resident private institutions, including missionary, educational and other benevolent contributions and shall be supported by:

   a) Acceptance of the donation by the donee, indicating his exact address.
   b) Copy of the latest income tax return of donor and proof of payment of applicable tax;

4. Gifts/Donations - Gifts, donations and contributions in excess of US$100 to any one beneficiary shall be referred to the Central Bank for prior approval.

5. Personal remittances - These are donations made by residents to non-residents. The supporting documents in Item 3 above shall be required to support these remittances.

6. Management dues and registrations fees - These cover payments of membership dues and registration fees to associations abroad. Remittances for these purposes shall be supported by:
   a) Copy of the Articles of Incorporation/ Partnership of the remitting firm together with copy of certificate of registration of its business name, whichever is applicable.
   b) Proof of membership in the foreign association;
   c) Billings for membership dues or fees;
   d) Copy of the latest audited financial statements and proof of payment of applicable taxes.

7. Management fees - These cover payments for management fees of firms or individuals by local firms or individuals, for services rendered and shall be supported by:

a) Duly registered "Management Agreement Contract" as approved by the Central Bank;
b) Audited financial statement and proof of payment of applicable taxes;
c) Official receipt covering the remittance net of withholding tax, if any.

8. Tuition fees to correspondence schools abroad - These cover payments made directly to the correspondence school and shall be supported by:
   a) Proof of admission or enrollment in the correspondence school.
   b) Proof of previous remittances;
   c) Justification for the correspondent study, together with curriculum of courses offered and statement of fees, dues, total cost of the course and schedule of payments;
   d) Latest income tax return of the applicant or of the person financing the schooling; and
   e) Billings from the school abroad.

9. Advertising - These are payments for the advertisements of local firms in publications abroad and shall be accompanied by:
   a) Duly signed statement of account and bills of advertising fees;
   b) Proof of advertisement such as newspaper clippings or appropriate page of the magazine where the advertisement was made; and
   c) Justification why the advertisement was made abroad.

10. Subscriptions - These shall cover payments on subscriptions to foreign publications. Remittance in payment of subscriptions to magazines and other reading materials shall be supported by a statement of account and billings as well as proof of the subscriptions.

11. Retainers' fees - These refer to payments by local firms or individuals to foreign retainers, which shall be supported by the following:
   a) Duly registered Retainer Contract as approved by the Central Bank;
   b) Justification why such retainership agreement was entered into;
   c) Audited financial statements of the individual/corporation/firm/engaging the foreign retainer.

SEC. 64. Other remittances. The following disbursements may also be allowed, subject to Central Bank approval; Provided, That they are reasonable and necessary; that the services, benefits or transactions are not available locally; and the remittances are duly supported by necessary documents showing the veracity of the transactions, which shall include, among others: (a) duly certified statements of accounts, bills, invoices; (b) proof of payment of applicable taxes; (c) audited financial statements certified by an independent CPA, if applicable; and (d) agreement contracts, if any.

1. Port disbursements abroad other than for time charters by domestic carriers including payments to foreigners for bunker fuel, ship's stores and similar supplies, harbor and airfield fees, tonnage and repairs and maintenance;

2. Disbursements to foreign carriers from residents for mail fees and salvage earnings.
3. Fees for comic strips published in local publications.
4. Disbursements to cover international settlement on account, postage, use of telegraph, telegram, cable, radio and other medium of communication facilities.
5. Payments for rebates, discounts and penalties due to specification deficiencies on exports.
6. Payments for income and real property taxes due to foreign governments.
7. Disbursements involving cancellation and refund due to transfer instruments previously credited to the account of the Central Bank and the corresponding adjusting entries.
8. Payments for health and medical expenses to be incurred abroad. Payment of this kind shall be accompanied with a certification under oath of non-availability of local medical facilities and reasonableness of the amount applied for.
   Payments shall be remitted directly to the hospital/doctor abroad, after showing proof of confinement/treatment and statement of account and/or other bills of expenses.

Miscellaneous Provisions

SEC. 65. Means of servicing payments of invisibles. Commercial banks shall service the remittance covering payments for invisibles by means of telegraphic transfer, mail transfer or demand draft, except that in the case of remittance by demand draft the selling bank shall mail the demand draft directly to the beneficiary abroad.

SEC. 66. Processing of applications. The following procedures shall be followed in processing foreign exchange applications:

a. Commercial banks shall inform applicants that foreign exchange application shall be filed through authorized agent banks and not directly with the Central Bank.

b. Commercial banks shall undertake the initial processing of foreign exchange applications to determine whether the documents submitted by applicants in support of applications are complete as required under pertinent guidelines.

c. Commercial banks shall furnish the Central Bank with the names of their accredited liaison officer with whom consultations may be made.

d. Only requests and applications requiring Central Bank clearance/prior approval shall be referred to the Central Bank.

Supervisory Authority of the Central Bank

SEC. 67. Verification. The head of the appropriate department of the Central Bank, personally or by deputy shall, when necessary, look into the books of accounts and transactions of each authorized agent bank to verify bank's compliance with the provisions of the law and these regulations.

Source: Central Bank Circular No. 960.

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