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Towards a More Open Philippines: Monetary and Exchange Rate Policy

by

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Abstract

The Philippines has never had a structural experience in export development. Instead of fully departing from protection and import-substitution, export policies were placed on top of existing biases and the country ended up achieving neither export-orientation nor efficient import-substitution.

The paper explores two major forces to export promotion. One is exchange rate. It is argued that it is a policy tool available in active export promotion. The experiences of other countries (to which the Philippines has been historically comparable) show how important exchange rate has been.

The other is monetary policy. Access to domestic and foreign credits, cost of money and financing availability for exporters are discussed. It is argued that exports should be allowed access to financing from global financial markets. There is something to be said for an Exim-bank for the Philippines whose special effort is putting to bear its resources-financial, technical - into export development.

Some policy actions are suggested.

Towards a More Open Philippines: Monetary and Exchange Rate Policy

*Florian A. Alburo**

I. "Export for National Survival"

The theme of the Philippines being or becoming export-oriented or of seeing exports for national survival is not new. This is a direction almost everybody agrees we should go. However while in the direction nobody disputes, there seems to be no general consensus on what to do or how to go about it. Even independent Philippine observers or students of the Philippines cannot put a finger as to whether the country is really export-oriented.

It is also a theme that seems to recur everytime the country experiences an economic decline as the domestic economy fails to perk up. For example in 1985 I said, "... with real declines in economic activities and a projected o percent real growth rate of GNP..., one will have to contend with depressed domestic markets, more so when the stabilization program with the IMF shall have been in force in the next 18 months....But we need not be confined to domestic markets. We can gear up resources to respond to international trade opportunities where a baby boom of

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some sorts in supposed to have started. ... In fact trade would seem to be where we are pinning our hopes."[1]

Well, in reality the economy did not have a zero growth under that IMF program but experienced a depression of more than a 7 percent decline and exports (and imports) fell by more than 14 percent.[2]

The rationale for export orientation is well known. The Philippines is always pictured as abundant in natural resources, skilled and educated labor, and is an open economy. But this may not be for long a characterization of our country. We are seriously and irreversibly depleting our natural resources, our educated labor force are migrating in droves at the peak of their productivities and pretty soon we will end up with the young to tend to, a runaway population, increasing poverty and greater unemployment than what we have today.

Our present export potential lies in products using a lot of skilled and semi-skilled labor, natural resources, and low-level technology.[3] The advantage of looking at the global market is that it appears wide if not unlimited as long as we are competitive.

Increased participation helps increase employment, earn foreign exchange , and alleviate poverty. Indeed, in the final analysis, increasing our exports of footwear, furniture, basketwork, processed food, garments or computer software congeals a lot of labor and employment in them. We are really exporting labor embodied in these products but at the same time

priming our related industries. What better way is there of national survival than of becoming internationally-oriented.

Yet the Philippines has never had a structural experience in export development. If anything what we have is a long history of protection and import substitution, longer in fact than the other countries we started out together with -- South Korea, Taiwan, Singapore. But it does not mean that there has been no recognition of the importance of exports and of implementing policies and programs to promote them.[4] After all they pay for the voracious imports of domestic protected industries. However instead of fully departing from protection and import-substitution, the export policies were placed on top of existing biases and the country ended up achieving neither. Industrial employment share has in fact declined, low-productivity service industries absorb employment, poverty has worsened and the trade deficit keeps on widening.[5]

The elements that compose the process of moving towards export-orientation i.e. an outward-oriented development strategy are found in the official documents of the development plan.[6] They have been discussed and discussed. The more important ones will also (again) be further discussed. What is critical to remember though is that they should be pursued as a package and simultaneously if necessary. What is more, unfortunately, is that there is very little room for compromise among the elements.

This paper explores two major forces to export promotion. One is exchange rate. We demystify the meaning of it first

before arguing that it is a policy tool available in active export promotion. Then we look at the experiences of other currencies of countries which have succeeded in the export drive. Finally we look at productivity as the other side of the same coin.

The other is monetary policy. Here we look at access to domestic and foreign credits, cost of money, and financing availability for exporters. We also set in context the present monetary policies as they impinge on export development.

We end the paper by spelling out actionable policies and the caveats that go with them.

II. Demystifying The Exchange Rate

The exchange rate, i.e. the amount of pesos needed to purchase one unit of foreign currency usually a US dollar, strongly influences the behavior of importers and exporters. As it goes up (meaning increasing pesos per dollar) importers tend to purchase less abroad even if actual price of imports remain the same. Exporters tend to sell more since foreign buyers can purchase more pesos even if the actual price of exports remain the same. The actual exchange received and paid for of course differs by such things as bank charges, deposit margins, documentary stamps etc.

Because of the importance of exchange rates in determining exports, imports and general international trade, its historical movement in the Philippines has been one of successive government

interventions that have kept it from adjusting towards its "appropriate" rate.[7] But what is an appropriate exchange rate? Some would say that it would be that which can be maintained over a sustained period of time. This however begs the question since maintaining a rate can be a policy act which can then be considered appropriate. An alternative is to take the broad view that an exchange rate is a general price indicator of the country's exports and imports relative to other countries (whether as trading partners or competitors).[8] Ideally it should be that rate which clears the demand for and supply of dollars without a government entity (or its agent) being a residual buyer or seller.

While it is true that such an ideal may not be realizable we can take a close approximation. Suppose that an average exchange rate for a certain day, or month or year is considered appropriate (due perhaps to minimum interventions). Whatever that rate is could be our basis for tracing the adjustment to a new appropriate rate.

The adjustment to a new appropriate rate relies on essentially two dimensions. One is the relative movement of prices between the trading countries. In a situation where Philippine prices (measured by inflation) in general have been rising faster than its trading partners (say inflation in the US or Japan) Philippine exports become more expensive and imports cheaper - we are likely to lose export sales and increase import purchases. Adjustment will require an exchange rate depreciation

of a magnitude equal to the differences in relative price movements. Thus even if prices are increasing, if a depreciation increases the number of pesos per dollar they can compensate for inflation.

The other is the degree of exchange rate movements of our trading partners or competitors. If the Philippines depreciates the peso less than its trading partners' depreciation, Philippine prices fall less as well. Adjustment will require further depreciation or a fall in general prices. An exchange rate satisfying these two dimensions is what I call a realistic or appropriate exchange rate. A measure that takes these into account is technically termed the real effective exchange rate. And since it is based on a reference appropriate rate, it is generally in index terms, i.e. REER.[9]

An appropriate exchange rate must therefore reflect the two dimensions I outlined. To the extent that the Philippine exchange rate falls out of line with the two adjustments then the peso is either overvalued or undervalued. If it is overvalued it means that our imports are cheaper and exports more expensive than if the rate were appropriate i.e. exporters are penalized/taxed and importers rewarded/subsidized. If it is undervalued it means that our imports are more expensive and exports cheaper then if the rate were appropriate. In other words, the extent to which the peso is overvalued is also the extent to which domestic producers are protected in addition to the tariffs imposed, and it is also the extent to which exporters

are penalized in addition to the penalty they receive from export taxes.

The exchange rate, if it is appropriate or realistic, is perhaps the best neutral promoter of our exports and the best neutral protector of our domestic industries. If it is out of line then it creates distortions to our trading system.

In the Philippines as well as in other countries, the behavior of exports, imports and trade in general is strongly influenced by the REER. As the peso appreciates (i.e. it is overvalued) relative to the country's trading partners, exports decline and imports increase.

Since the abandonment of the Bretton Woods system of fixed exchange rates in the early seventies and the stringent IMF conditions of "fundamental disequilibrium" as defining when exchange rates change, the exchange rate has been rapidly used as a potent policy tool for influencing trade. For those countries which put a social value to earning foreign exchange, accumulating reserves, promoting exports and discouraging imports, the exchange rate has been deliberately used as a powerful instrument for development.

Looking now into the REER for the Philippines with reference to 1970, it can be seen that in almost all years the index exceeded 100 meaning the peso either did not depreciate enough or Philippine inflation has been rising faster than other countries or both. In any case the magnitude in excess of 100 measures the

degree of overvaluation of the peso. An insufficient depreciation of the peso over the years effectively was no real depreciation at all, indeed a case of "too little, too late".

Consider now the movement of the Singapore dollar, Korean won, Taiwanese dollar, Malaysian ringgit, Thai baht, and Indonesian rupiah. It can be seen these currencies have been undervalued for many years, a product of a deliberate policy to promote exports. In the latter 3 currencies the recent period shows quick adjustments if not, again, an undervaluation. Of course the track record of these countries for export expansion or reserve accumulation is common knowledge. In other words these currencies' movements reflect an aggressive exchange rate policy to promote exports.

Suppose that there are also deliberate efforts to increase the productivity of the export industries (or for that matter all tradeable industries). Then this, coupled with an aggressive exchange rate policy, will have a double-barrel effect of further competitiveness since productivity improvements lower prices. Even efficiency increases in import-substituting industries increase the protection to them. Insufficient depreciation, however, coupled with productivity improvements, undermine competitiveness and actually reduce exports. The message is clear: depreciation and productivity increases should complement each other. In fact increases in Japanese export industries in the face of undervaluation of currency guaranteed export markets.

Table 1 and Figure 1 show the Philippines REER from 1970 to 1989. For example, in 1980 the REER shows an index of 116.2 implying that the exchange rate should have depreciated by 16.2 percent if the Philippines were to remain competitive. A simple comparison of US and Philippine inflation rates for that year would reveal that the exchange rate should have been ₱8.80 per US dollar. The actual average rate for 1980 was ₱7.51 or an overvaluation of 17 percent. In other words the peso was deliberately protected from adjusting to its appropriate rate in 1980, and in the process the country lost competitiveness at least relative to US markets. In still other words, our foreign buyers were paying ₱116.20 for ₱100 worth of Philippine goods (see Table 1).

This explanation however ignores how our competitors are adjusting because one would note that by 1986 (Figure 1) the REER drops below 100 and the peso was "undervalued," i.e. the foreign buyers could buy ₱100 worth of Philippine goods for ₱74.10. But if similar goods are available from say, Thailand and Indonesia, how much would foreigners pay for them there? Table 3 (Figure 3) shows that the same goods can be bought from Thailand and Indonesia for much less (₱57.10 and ₱55.10 respectively). Thus even if the peso was already undervalued (relative to 1970) it was still overvalued relative to our ability to sell our exports. If the Philippines in the seventies had a currency that was overvalued and its competitors had undervalued currencies then

the competitive loss of Philippine exports came from two sources, peso overvaluation and competitor country currency undervaluation.

Since all REER (Tables 1-3) are in index without units they are all comparable and we can use pesos as reference unit for all to drive home the argument of the paper. Throughout the seventies foreigners had to pay more than ₱100 to purchase ₱100 worth of 1970 goods while the same foreigners can buy presumably the same kinds of goods (e.g. garments, toys, footwear, furniture) from the other countries for less than ₱100. Symmetrically, Filipinos pay only ₱100 for more than ₱100 worth of 1970 foreign goods from abroad while the Koreans, Taiwanese, and others get less than ₱100 worth of 1970 foreign goods. In such a situation the Philippines would tend to sell less and purchase more abroad compared to its competitors and if the exchange rate were adjusted appropriately.

When Figure 1 is compared with Figure 2 (or Table 1 with Table 2) the sustained undervaluation of the Korean won is apparent as well as the Singapore dollar and in the mid-seventies and early eighties of the Taiwanese dollar as well.

In 1980, the exchange rate has been depreciated between January and September by 12.8 percent (₱22.4644 in January and ₱25.35 in September at the BAP floor). On the face of it this seems to be a quick response and consistent with the degree of relative inflation between say the US and the Philippines. However, again, based on the movements of REER among the

country's competitors in the world market there seems to be some variation. With respect to Singapore, Korea, and Taiwan the peso has indeed really depreciated (See Table 4 and Figure 4). On the other hand with respect to the close competitors of the Philippines namely Malaysia, Thailand and Indonesia (Table 5 and Figure 5), this is not the case. If the intention is to promote exports aggressively, the exchange rate adjustments are so far insufficient.

The 1990 adjustments however should not detract from the need to devise a structural exchange rate policy of export promotion that will transform the country into a real export-oriented economy.

III. Accompanying Monetary Policy

Competition in the international markets require that producers operate on the basis of common parameters especially for inputs that are internationally mobile. One of these is financial capital. A country's comparative advantage ought to be reflected by its resource endowments and not to be handicapped by its inaccessibility to financial resources.

Although broad monetary policy (reserve requirements, CB operations, monetary base, etc.) is undoubtedly important, what is probably more important to the particular development of exports is narrower.

First, there is the access to short-term credit and long-term financing for exporters in general. In theory and under

free markets, exporters would have no trouble sourcing funds from international credit markets since they trade globally. Assuming that they have a good credit record, they can presumably seek financing from multinational banks or even domestic commercial banks. Given a satisfactory credit evaluation, access ought not be a problem.

Unfortunately this is not so in the Philippines. For one, there are restrictions to exporters from directly borrowing from international credit markets or even from offshore banks.[10] For another, smaller and purely Filipino exporters are disadvantaged vis-a-vis exporters that use inputs on consignment basis since presumably the latter receive raw materials financed from international credit markets.

It is difficult to understand why this is so. After all exporters trade in foreign currencies and are perfectly capable of assuming exchange risks. And government guarantees cannot be a substitute for normal bank credit evaluation. Inaccessibility to short-term credit or even long term financing inhibits the growth of small exporters as well.

Second, a presumably standard reply to the above point is that exports can always access to domestic credit markets. The subsequent concern is more telling. And that is the high cost of financing in the Philippines. With rates of interest that are a multiple of what competing exporters pay, financing is a resource handicap. Add to this the collateral-orientation of local banks and the resistance to tie up funds beyond the period when an L/C

is opened, because of higher opportunity costs in government treasury notes, exporters are further biased against.[11]

A discussion of the high cost of money and its solution goes beyond the purpose of this paper.[12] It involves a more general macroeconomic and monetary problem. To the extent however that some of the significant but unnecessary intermediation costs are reduced, greater banking competition encouraged, and project worthiness used as gauge of financing, the cost of money can be reduced to exporters in particular and to the financial sector in general.[13] Conservative exporters with access to foreign currency credit markets would perhaps finance their local currency costs domestically (at high financing costs) to avoid exchange risks.

Third, there is the concern for special credit windows or loan guarantees for the export sector. Indeed given the importance attached to exports it is only natural to expect some financial concessions for the sector. There are in fact several existing mechanisms.[14] One is the availability of guarantee funds for export financing through multilateral and bilateral support. Another is the existence of special rediscount rate for export papers with the Central Bank. Indeed exporters pay only around 18 percent rate for financing which banks in turn rediscount at 14 percent. The effective rate may be higher given that exporters are financed only up to 64 percent of their papers.[15]

Finally, there is the vacuum of a government financial institution whose sole purpose is to promote, facilitate financing and advocate exports. An analogy is made with the Export-Import Bank of the US or Japan and other countries. In addition to these tasks it might be useful to mention that existing guarantees and special financing windows for exports are underutilized since these are not known to many exporters especially outside major urban centers.[16]

There is something to be said for an Exim-bank for the Philippines. After all our competing neighbors do have such facility for their exporters. Not only will such a bank consolidate the variety of existing mechanisms, it will also be able to cut down both costs and turnaround time for rediscount facilities, reduce transactions and information costs for exporters and concentrate the job of export promotion on a coordinated basis. One prime candidate for an Exim-bank is the Development Bank of the Philippines (DBP).

DBP might argue, as it probably will, that it is already responding to export needs through some of its windows.[17] This is however no substitute for a concentrated effort in putting to bear its resources-financial, technical - into export development.

These various monetary dimensions are essential to the full and sustained development of an export-oriented Philippines. They do not however bear directly on monetary policy per se but are somehow responses to adverse consequences of policy. In

particular as the cost of money goes up because of monetary policy, special windows are opened to address the financing needs of special groups (in this case exports).

What seems more relevant to the export sector is greater capital and financial market liberalization as well as greater currency convertibility. The former plus banking reforms would improve financial sector competitiveness and with it reduce the cost of money for borrowers. If combined with policy efforts to remove policy-based intermediation costs, lending rates would fall some more. The latter would allow exporters (as well as the rest of the economy) to determine on the basis of their own needs and plans their foreign and domestic currency requirements without CB rules or regulations. This would be superior to requiring the surrender of all export receipts into domestic currency and for them to purchase foreign currency at different rates. Providing for different rates or different proportions for earnings is actually de facto a multiple exchange rate system. The Philippines has had this experience in the past and failed.[18]

All this does not mean monetary policy does not matter to export promotion. In the face of an aggressive exchange rate policy a more conservative but accommodative monetary regime would support exports in three ways. The first is that monetary ease through both lower intermediation cost and CB direct instruments will be conducive to longer term investments in export industries. The second is that monetary policy that preserves

price stability or prevents inflationary spiral maintains the country's international competitiveness that the exchange rate promotes and avoids continuous exchange rate adjustments. Finally supply problems of export upstream industries are minimized and the sector as a whole has a more certain environment for responding to global signals.

While it is true that accommodative or liberal monetary policies may not be essential as long as specific needs of exports are addressed through special guarantees, windows or access to financing sources, it is true that a "correct" monetary policy is far superior in accommodating export growth, does not necessitate a special treatment for them, and contributes more broadly to overall development.

IV. Policy Actions

Since this paper's concerns are focussed on monetary and exchange rate policies, it is important to point out that there are other equally critical, if not more critical, factors that would influence exports. All these form part of a package of policies and programs that must be viewed as a whole and implemented as a whole. A piece-meal effort would fail to achieve any impact and may be counterproductive. For instance a competitive exchange rate may stimulate a supply response but if there are infrastructural bottlenecks to the availability of production inputs, prices may only rise erasing an exchange rate advantage. In fact many studies point out that a major key to

export development is the provision of basic infrastructure (physical, power, communication).[19] Some also argue that incentives are important especially if competing countries offer them.[20] Even land reform is important if export growth is to translate itself into a broad base development. With a skeeved income and wealth distribution, an undervalued exchange rate will still lead to purchases for luxury consumption and imports and somehow dissipate its protective effect.

There is an abundance of a comprehensive policy agenda for economic development in general and export growth in particular for the Philippines.[21] Whether Filipino or foreign authored or institutionally advanced, there is no surfeit of concrete proposals. What is often noted as a reason for failure in carrying them out is lack of "political will".

Rather than repeating a known agenda and as a way of summarizing this paper, a set of policy actions is spelled out in order to increase their appreciation and understanding of the interrelationships in the context of export promotion.

1. The first is a full and total departure from the regime of protection and import substitution along with export promotion. It was technically clear that legislating R.A. 6135 (Export Incentives Act) on top of R.A. 5187 (Investment Incentives Act) was bound to achieve neither efficient import substitution nor sustained export development. This is well documented for the Philippines[22] and, in all other cases,

outward-oriented strategies followed import-substitution in a step phase, not simultaneously.[23]

It is difficult to understand how a meaningful prioritization can be made with a policy attachment to both protection and export promotion, besides the government losing in forgone revenues through various incentives. With 222 industries or product groups in the 1989 Investment Priorities Plan, one wonders how facilities and attention can be given to all.[24]

Compatibility between the two suggests confining (manufactured) exports in bonded warehouses or processing zones without strong domestic inter-industry links. The development of (competitive) upstream industries is therefore inhibited. Yet, again, the experience of the newly-exporting countries show that their sole export drives eventually led to the backward linkages and development of medium and eventually heavy upstream industries.[25]

2. Second, there must be a firm social commitment to adopt, implement and sustain an export-oriented economy as a natural sequel to the departure from a regime of protection and import-substitution. Not only must the political regime rally a social vision of exports but it must put a premium to exports.

Although there is always a continuum in the trade-off among economic policies, in the final analysis there is very little, if any, room for compromise among policy choices especially if it involves accurate numerical magnitudes. To illustrate, an insufficient peso depreciation is no depreciation at all, invites

speculation, exacerbates a balance of payments problem, and the economist gets blamed for the ensuing economic debacle.

Notice that this action requires the acceptance of a social responsibility of export development, not individual interests. This means the whole country (society) gears itself up to earn foreign exchange, accumulate reserves, and strive to avoid deficits in the balance of payments. Once this social commitment (and social premium to exports) is bannered there cannot be a compromise in policy making. Thus it is seldom that a government expresses clearly and in unequivocal terms what is the social direction it wants to take. But if government is half-hearted, hesitant and compromising, what for is it?[26] After all social order is its main task that transforms a citizenry into a society. If exports are important, a social premium needs to be put into it.

3. Third, the exchange rate must be continuously realistic, competitive and even undervalued to reflect the social value to exports. It has been argued in this paper that the exchange rate is the superior neutral promoter of exports and neutral protector of import-substituting industries. Natural advantages and efficiency will determine competitiveness and trade.

Even without a social premium to exports, an unrealistic exchange rate eventually leads to a balance of payments crisis which in turn lead to a larger set of economic problems. The

lessons of a foreign exchange crisis every decade from 1949 and more frequent since 1979 (one in 1984 and now in 1990) is pretty clear. Reliance on exogenous factors (controls in the 50's; tariffs in the 60's; debt in the 70's; aid in the 80's?) does not change the structural problem that a wrong exchange rate fosters.[27]

On the other hand, an aggressive exchange rate policy helps exports and import substitutes, encourages local industries, and induces savings. The record of the countries which have pursued aggressive exchange rate policies in terms of sustained exports is evidence of its effectiveness.

4. Fourth, keeping in mind the need to maintain price stability, there must be greater financial and monetary policy liberalization. While direct monetary ease or tightness does not affect exports, the associated liberalization (greater competition among banks, convertibility, etc.) and its effects would promote exports.

The international trade character of exports suggests that exporters be allowed to directly transact in international capital markets, either through correspondent domestic banks or offshore banks. Liberalization of monetary rules should accommodate this.

5. Finally, the design, implementation and management of economic policies for exports must be in the hands of professional, not amateur, economists.[28] While alternative designs have to be fully explained, discussed and agreed upon by

the body politic and society at large, their specifications must be entrusted to those whose discipline is economics itself.

These five areas of policy action of course cover more than exchange rate and monetary policy. They are however essential in order to keep the context circumscribed. These actions in support of export promotion should have been done 10 or 15 years ago, are late, and require immediate application. In fact, the experience of the country in export growth in the last 10 to 15 years shows the rationale for these policy actions. Moreover what has been spelled out here are all in the realm of Executive action, are known in the policy circles, and can be quickly implemented.

This does not mean no legislative work is cut out. In the medium term the restructuring of the Central Bank as the monetary authority may have to be modified. There are others as well. The debt problem may have to be separately addressed, although in a separate paper, an argument is made that its solution will not solve the trade's structural problem.[29] The various laws promoting import-substitution or retaining protection may have to be amended or repealed.

A break from the past in terms of monetary and exchange rate policy is the beginning to sustained export development and an outward-looking Philippines. If there has been undue attention given in this paper to exchange rate policy for export orientation, it is because it is probably the most important factor.

Table 1

Real Effective Exchange Rate Index
(May 1970 = 100)

	Philippines
1970	105.5
1971	110.0
1972	103.9
1973	103.3
1974	123.5
1975	108.4
1976	111.4
1977	110.2
1978	100.7
1979	110.0
1980	116.2
1981	118.4
1982	120.4
1983	103.5
1984	103.1
1985	108.3
1986	74.1
1987	69.6
1988	68.5
1989	72.3

Source: Central Bank of the Philippines.

Table 2

Real Effective Exchange Rate Index
Singapore Dollar, South Korean Won, Taiwan Dollar
(1970 = 100)

	Singapore	South Korea	Taiwan
1970	100.0	100.0	100.0
1971	94.3	92.2	93.8
1972	90.4	80.8	85.8
1973	109.5	72.2	84.9
1974	122.5	77.6	114.7
1975	116.6	73.9	109.1
1976	103.5	79.8	105.4
1977	95.5	77.1	100.3
1978	89.1	72.8	93.6
1979	90.3	80.3	99.1
1980	90.2	85.5	108.0
1981	93.7	85.8	116.7
1982	99.2	82.3	111.9
1983	97.1	75.2	105.0
1984	97.0	72.3	102.6
1985	92.4	66.6	97.2
1986	77.9	56.3	89.5
1987	73.2	57.2	99.5
1988	72.4	64.1	104.3
1989	75.9	73.8	117.3

Source: Central Bank of the Philippines

Table 3

Real Effective Exchange Rate Index
Malaysian Riggit, Thai Baht, Indonesian Rupiah
(1970 = 100)

	Malaysia	Thailand	Indonesia
1970	100.0	100.0	100.0
1971	97.8	93.8	88.0
1972	96.5	84.1	79.4
1973	101.0	80.4	84.1
1974	103.7	89.6	104.5
1975	97.6	83.6	101.0
1976	89.6	83.8	111.6
1977	85.2	78.7	110.7
1978	77.7	67.9	95.3
1979	79.1	71.1	79.0
1980	76.3	78.0	84.9
1981	77.3	80.1	85.9
1982	82.5	84.5	99.0
1983	70.3	84.2	74.0
1984	85.3	77.6	71.9
1985	78.7	67.0	74.5
1986	62.4	57.3	55.1
1987	58.1	53.4	35.8
1988	53.2	54.2	34.5
1989	52.9	56.4	35.7

Source: Central Bank of the Philippines.

Table 4

Real Effective Exchange Rate Index
Singapore, South Korea, Taiwan
January-September 1990
(1970 = 100)

	Singapore	South Korea	Taiwan
January	78.5	74.6	117.6
February	79.4	74.2	118.8
March	80.5	74.7	120.0
April	80.8	74.0	119.9
May	80.9	73.7	116.1
June	80.6	72.6	113.4
July	79.6	71.9	111.8
August	79.1	71.9	111.7
September	76.6	71.1	112.4

Source: See Table 2.

Table 5

Real Effective Exchange Rate Index
Philippines, Malaysia, Thailand, Indonesia
January-September 1990
(1970 = 100)

	Philippines	Malaysia	Thailand	Indonesia
January	75.1	58.5	54.6	36.3
February	75.0	53.8	55.2	36.7
March	75.3	54.3	58.8	37.8
April	75.0	53.6	57.2	38.2
May	74.3	52.9	56.7	37.5
June	74.4	51.8	57.8	36.6
July	72.7	51.4	56.5	35.6
August	70.0	50.8	56.6	35.2
September	66.6	49.9	56.1	33.7

Source: See Table 2.

ENDNOTES

[1]See F.A. Alburo (1985).

[2]The government is again (October 1990) preparing a new IMF program which will presumably have quantitative targets and economic forecasts. Given this experience of the actual performance being way off program forecast, a careful assessment of a new program is essential.

[3]For a classification of Philippine manufactured exports into their resource content see F.A. Alburo (1987).

[4]See ILO (1973).

[5]Contrary to theoretical expectations, and actual experience of labor-surplus countries, the share of manufacturing employment actually declined from 11.2 percent of total employment in 1976 to 9.2 percent in 1986. Poverty incidence did decline from 59 percent of households in 1985 to 49 percent in 1988. Yet it must be noted that the incidence in 1971 was 51 percent. Moreover the incidence measure is sensitive to inflation rates and it would not be surprising if the incidence has again increased.

[6]See NEDA (1986) for a statement of this objective of outward orientation though not quite unambiguous.

[7]For a historical account, see F. Pante (1983).

[8]See World Bank (1987) for cross-country comparisons.

[9]An index over 100 means that the exchange rates of the partner countries have depreciated by more than the peso depreciation or their inflation rates are lower or both in which case the peso is overvalued. To correct for that the peso should have been depreciated by the extent of the overvaluation.

[10]See R.E. Balwin (1990).

[11]See M. B. Lamberte (1989).

[12]See M.S. Cochoco (n.d.)

[13]In one World Bank estimate the bank spreads between borrowing and lending with current intermediation costs amount to 5.2 percentage points.

[14]See M.B. Lamberte (1989).

[15]Banks normally finance 80 percent of papers which are rediscounted for 80 percnet with the CB yielding a 64 percent proceeds for exporters.

[16]While some specific programs (e.g. the Export Industry Modernization Program) may have been fully utilized, some have not been including export rediscounting facilities of CB. See M.B. Lamberte (1989).

[17]DBP has participated in the IGLF (Industrial Guarantee Loan Fund) but considering the number of other export financing schemes scattered among many implementing institutions there is still wide scope for it to assume a greater financing role for exports.

[18]See R.A. Baldwin (1975) for a detailed exercise in estimating exchange rates for different transactions.

[19]For a survey see M. Ariff and H. Hill (1985).

[20]See S. Guisinger (1986) for an illustrative argument.

[21]Since 1961 there have been more than half a dozen major studies on the Philippines which practically argue the same theme about the economic direction of the country. Among them are G.P. Sicat and J.H. Power (1971), R.M. Bautista, J.H. Power and others (1979), F.A. Alburo and G. Shepherd (1991), and World Bank (1976).

[22]See R.M. Bautista, J.H. Power and others (1979).

[23]See G. Hicks (1990) for a recent survey.

[24]See F.A. Alburo (1990).

[25]A forced backward integration as Korea did in 1979 actually backfired and caused policy problems in the early eighties. For an account of this experience see Jungho Yoo (1989).

[26]The so-called "lack of political will" is really a product of a prior decision as to the social or economic direction desired and the social premium placed in it. An outward-oriented outlook can be fully explained in terms of costs and sacrifices. Once the constituency (not all) accepts it the political will follows.

[27]See F.A. Alburo and C. Rejante (1989).

[28]A counter-argument is often made that the economy is too important an area to be left to economists. Two points may be said in this regard. One is that since 1949 the Philippine economy was never managed by economists (though most elaborate plans were formulated by them). Look at the economic record of the country since then. The other is that placing the analysis, design of policy options and their management to professional economists does not mean social and political leaders will have no say. Rather they will be fully aware of options and consequences (through interaction and iteration) for which their final decision hinges on.

[29]See F.A. Alburo and C. Rejante (1989).

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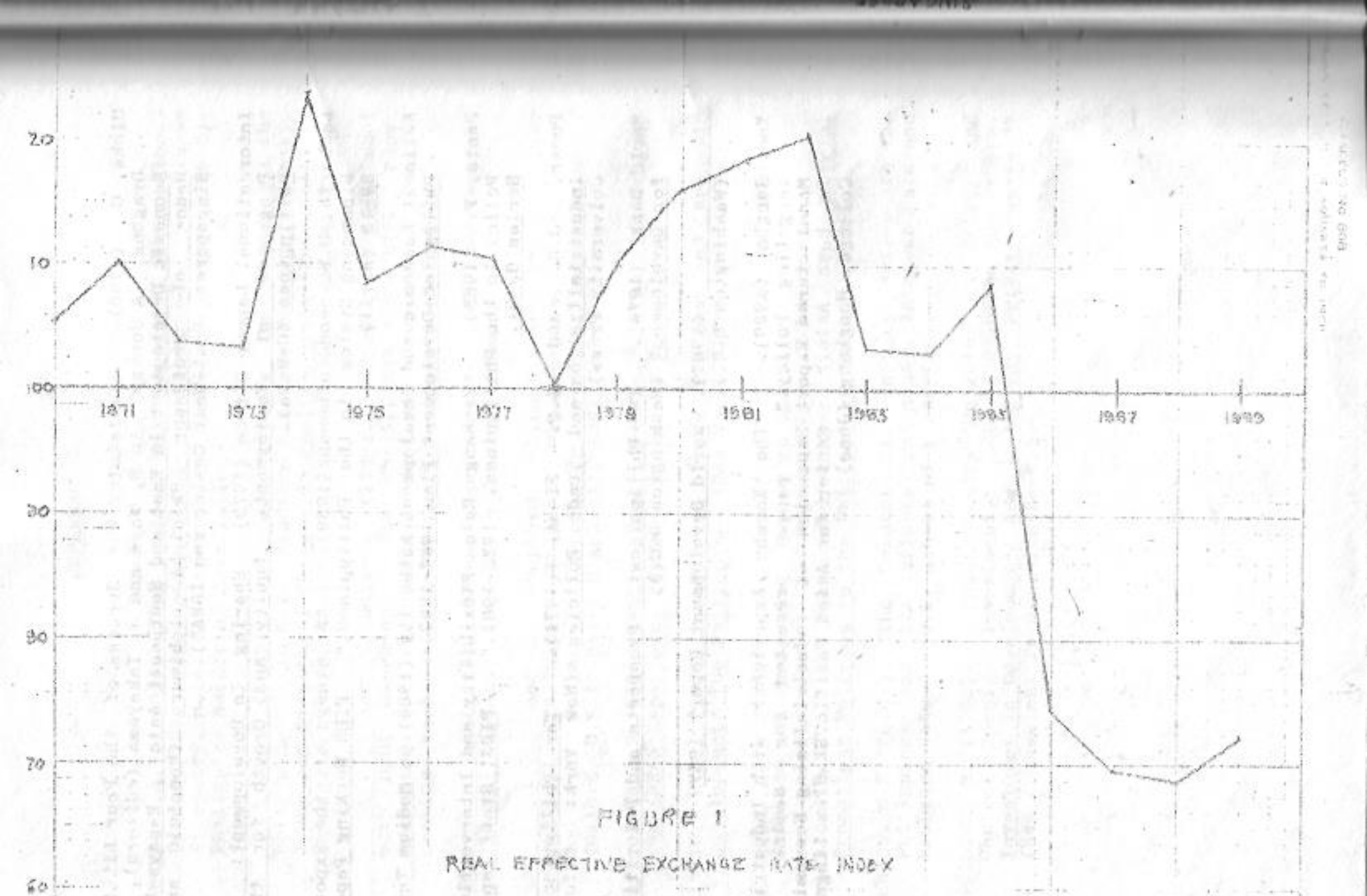


FIGURE 1

REAL EFFECTIVE EXCHANGE RATE INDEX

PHILIPPINES

(MAY 1970 = 100)

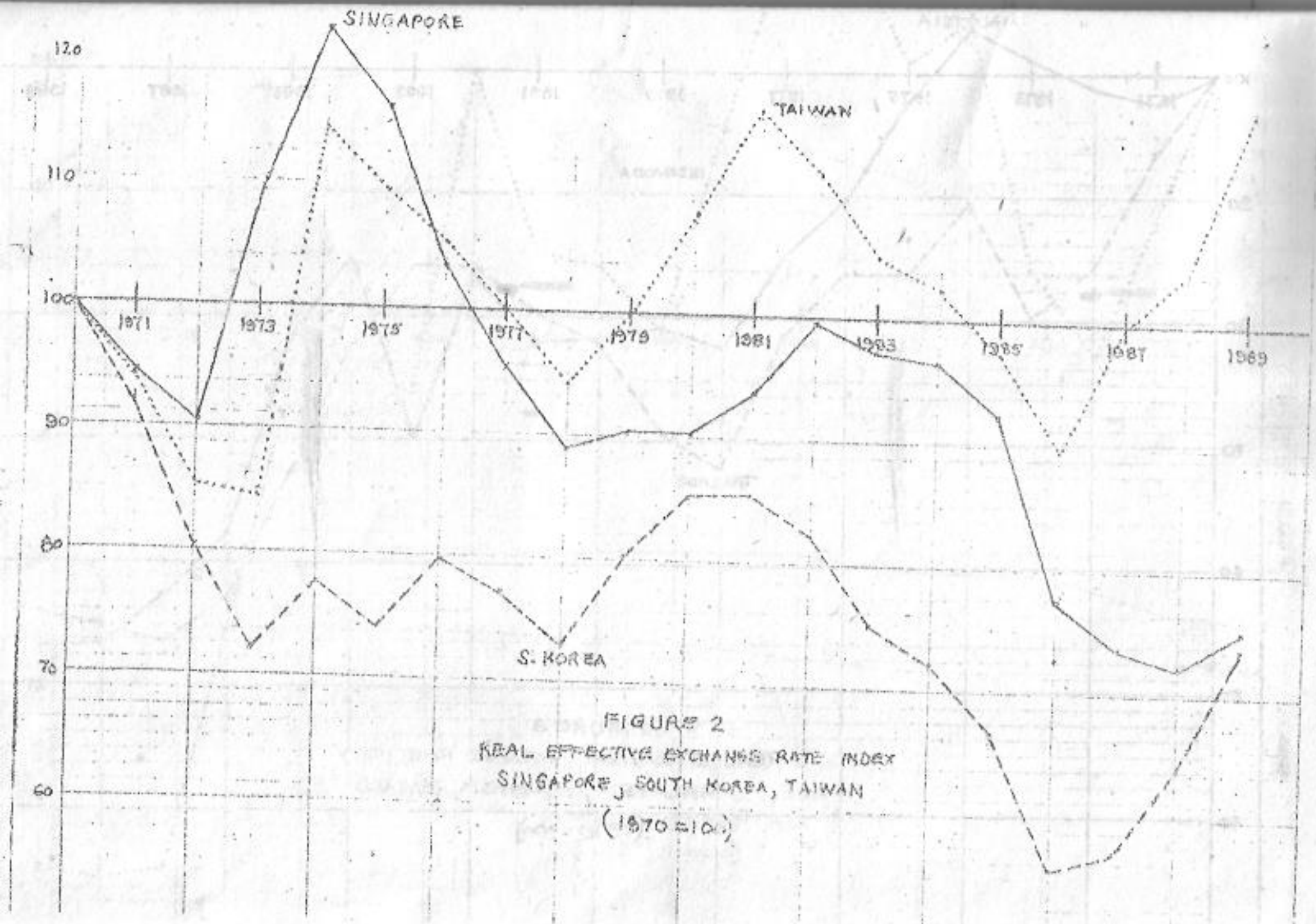


FIGURE 2
REAL EFFECTIVE EXCHANGE RATE INDEX
SINGAPORE, SOUTH KOREA, TAIWAN
(1970 = 100)

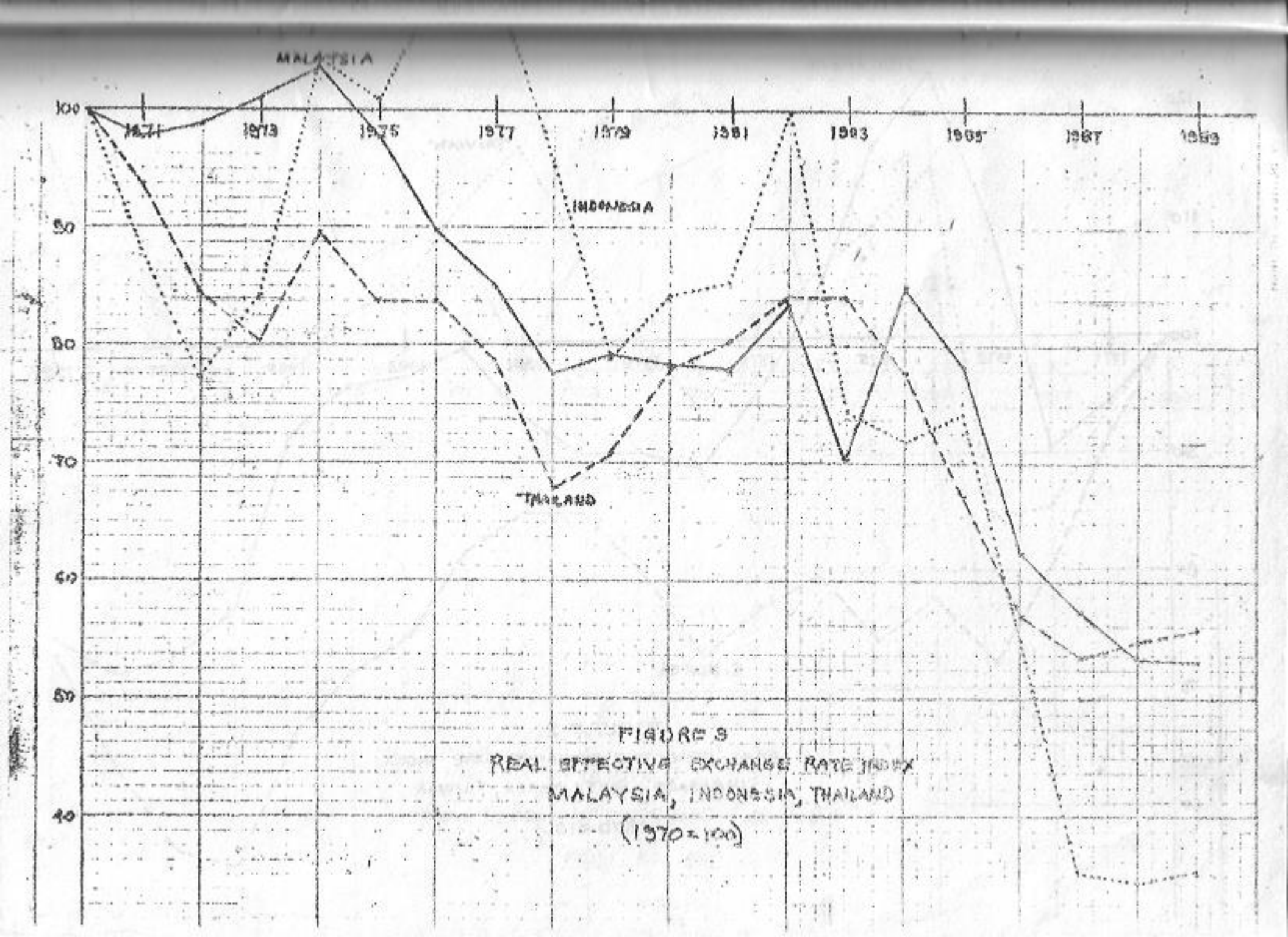


FIGURE 3
REAL EFFECTIVE EXCHANGE RATE INDEX
MALAYSIA, INDONESIA, THAILAND
(1970=100)

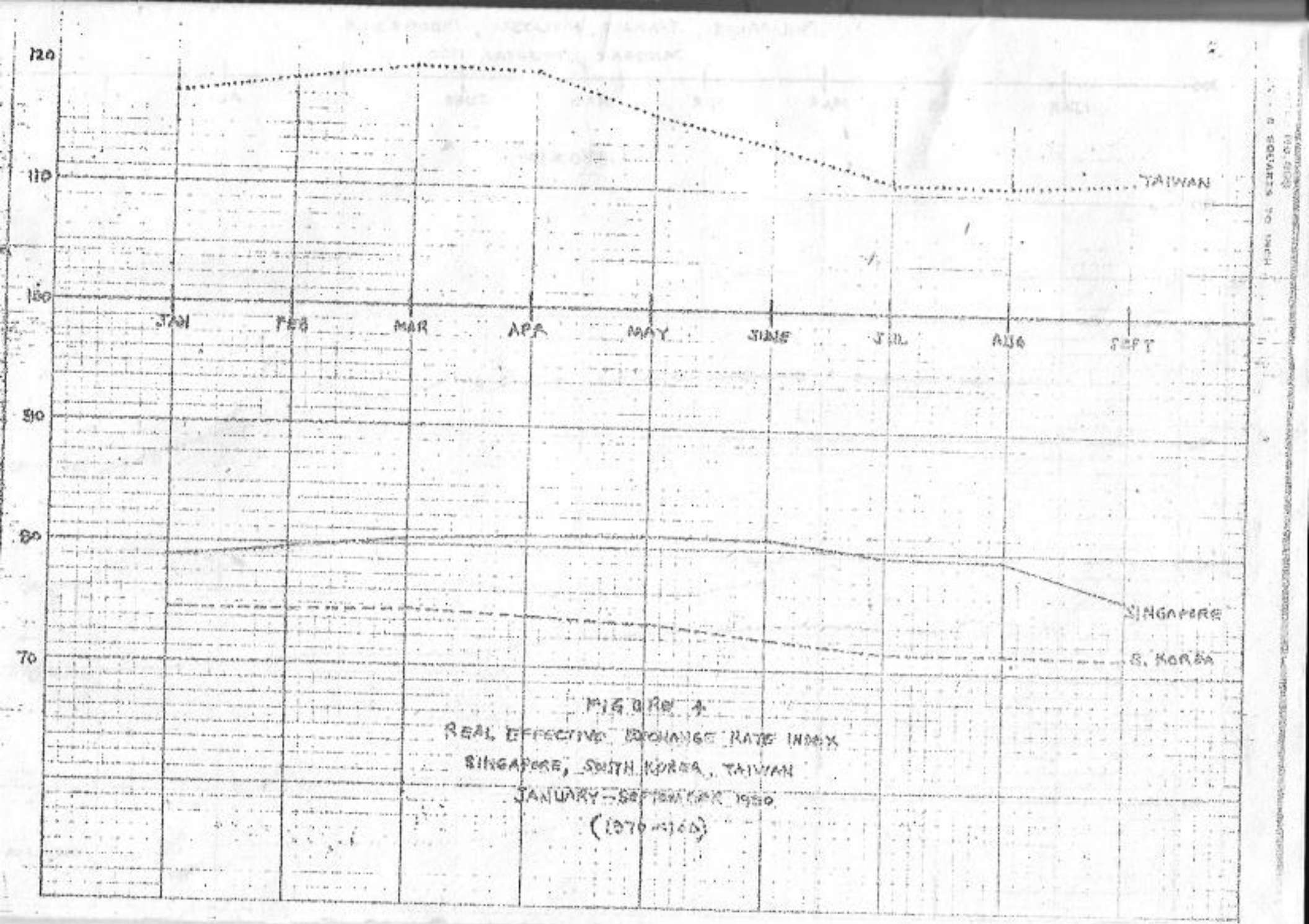


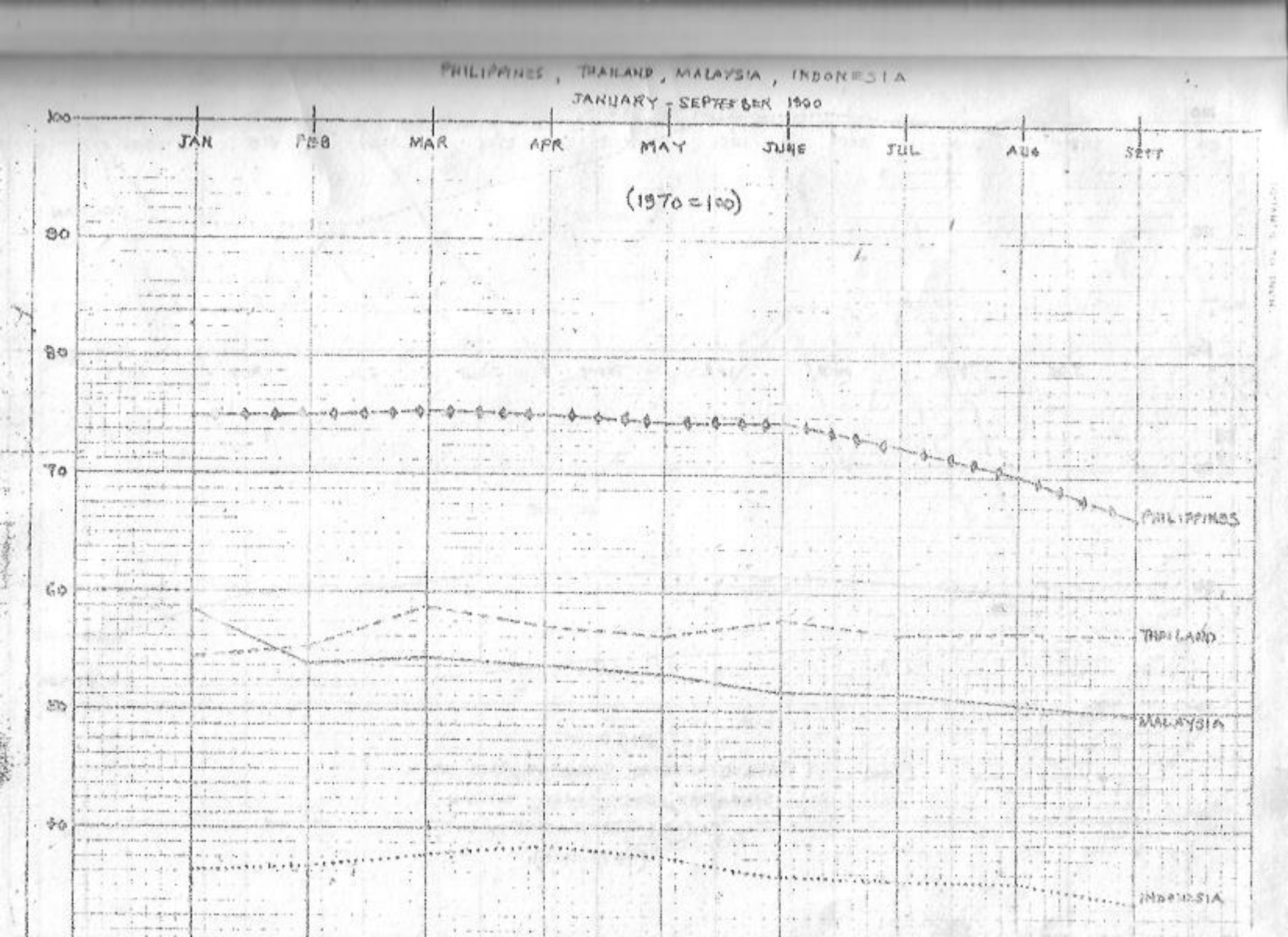
FIGURE 4

REAL EFFECTIVE EXCHANGE RATE INDEX

SINGAPORE, SOUTH KOREA, TAIWAN

JANUARY–SEPTEMBER 1980

(1970=100)


PHILIPPINES, THAILAND, MALAYSIA, INDONESIA
JANUARY - SEPTEMBER 1990
100
JAN
FEB
MAR
APR
MAY
JUNE
JUL
AUG
SEPT
(1970 = 100)
90
80
70
60
50
40
PHILIPPINES
THAILAND
MALAYSIA
INDONESIA