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Interlocking Directorates, Commercial Banks, Other Financial Institutions and Nonfinancial Corporations

by

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Abstract

The paper documents the interlocking directorates of banks with other financial and nonfinancial firms which belong to the top 1,000 corporations in the Philippines. Within the interlocked group of firms are the large conglomerates of leading families. Additionally there is interlocking within the major banks. The paper argues that interlocking is an innovation for obtaining rent or privileges that were created by policies. Interlocking facilitates the lobbying process. This possibly explains the difficulty of implementing structural reforms in the country.

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Introduction

In 1983, Doherty traced the interlocking directorates of commercial banks with industrial enterprises and other financial institutions. The study was stimulated by the growing control of major sectors of the economy by the Marcos family and its cronies. The interlocking of directorates between banks and industries was a means by which key economic sectors could be put under the control of a manageable group of trusted people. But even before Marcos, there probably was already a sizeable number of interlocked firms. Some banks were identified to be owned by leading industrialists. Even the Philippine National Bank (PNB) was alleged to have been under the control of the sugar barons. The interlocking structure has persisted to the present, though the key directors have changed as a result of the sequestration of the Marcos-related companies and the rise of a new group of politically powerful businessmen. A number of banks are known

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to be interlocked with other financial institution and key industries. But the full extent of the interlocking directorates in the post-Marcos years has not yet been assessed. This the paper will do. It will trace the interlocking of directors in the largest 1,000 corporations in 1988, the year during which the latest statistics on big business in the country are available.

The interlocking of directorates is of interest for its possible implications on resource allocation under the present regime of financial and foreign exchange repression, the discriminatory granting of investment incentives, and close government-business relationship. The exchange rate has been overvalued leading to persistent current account deficit and foreign exchange rationing. Barriers to bank entry and branching have encouraged monopolistic behavior allowing for very high interest rate spreads and high credit cost. Big business influence on the affairs of government is palpable as a number of the highest positions (secretary to assistant secretaries) in the executive branch of the government have been held by individuals with known business affiliations. Both the Central Bank and the Board of Investments (BOI) were, until recently, headed by persons identified with large banking and industrial corporations. The presence of vested interests in the government may have influenced the policy decisions and the manner of their implementation. Not a few key policies have been favorable to big business and banks with the authorities given discriminatory power of dispensing privileges such as licenses to open a new bank or branches, tax and tariff exemptions upon registration with the BOI, special accommodations by the Central Bank granted to failing banks, privilege to import during periods of foreign exchange rationing, qualification for underwriting government securities, and so on. Interlocking with politically powerful enterprises could be a means of accessing any of these privileges. Interlocking in highly concentrated businesses intensifies their monopoly power for it facilitates collusion. In turn, the extensive interlocking directorates have created an institution for business lobbying. Consequently, the interlocked structure tends to take on a life of its own. Over time the interlocked firms are able to increase their control over the nation's resources and wield greater political influence to protect their interests. The failure of government to implement needed structural reforms in the tax system in the financial market and in industrial policy, among other areas, may be attributed to the resistance of influential big business interest against the change.

Within an interlocked group of firms are family-controlled corporations that form into large conglomerates. The better-known of the big conglomerates here are the Zobel de Ayala and Soriano enterprises. New ones have appeared and seem to have flourished during the Aquino administration like the Gokongwei, Aboitiz and Concepcion conglomerates. These conglomerates are engaged in fairly diversified industries cutting across financial, real estate, industrial, agriculture and food, and other sectors. Interlocking beyond a conglomerated group of enterprises is observed. It provides links with other powerful groups, facilitating cooperation between them for price setting, market sharing, lobbying and other mutually beneficial decisions. Interlocking therefore helps strengthen and sustain the interlocked groups' monopoly power. The controlling interest in a conglomerated firm need not hold a director's position. This may be assigned to a professional manager or some other trusted persons.

Interlocking directorates are found in both conglomerated and non-conglomerated groups of firms. Control over a conglomerated group of firms is generally exercised through directorship in the member firms. Much of interlocking directorates are found in conglomerated firms but they do extend to firms where the directors have minor or even zero equity holdings. There has been very meager research on interlocking directorates per se and Scherer (1988) observed that indeed little is as yet understood about the motivations for interlocking and its implications. The literature has focused instead on the conglomerate structure of the vertical and horizontal types observed in many industrial countries - the U.S., France, Germany, Sweden and Japan. In the more recent book of Martin (1988), interlocking directorates were not even covered though it is a prevalent phenomenon in these economies (Dooley, 1969; Scherer, 1988; U.S. Congress House Committee on the Judiciary; Antitrust Subcommittee Staff Report, 89th Congress,1965). Scherer argued that interlocking "contributes to the maintenance of an industrial and commercial elite, to which one might object on political and social grounds" though they may not actually contribute to business concentration. In the Philippines, interlocking directorates of the leading financial, industrial and politically influencial personages in the largest firms do intensify the economic and political power of the elite.

2. Conglomeration in the US and Japan

The rise of large conglomerates in advanced economies such as the United States and Japan is explained by different factors. In the US, the big conglomerates were originally successful single unit businesses which were able to assume a large share of the market and therefore acquire some monopoly power. They earned relatively large profits that were then reinvested in related businesses. The conglomerates were first monopolists or oligopolists which had control over relatively large financial resources. Their market power is traceable to some cost advantages arising from marketing innovations, economies of scale, technological breakthroughs protected by patents, control of a strategic resource like oil and aluminum, and from simply being first and having the marketing and other cost advantages of being first. A firm's market power may be enhanced by conglomerating vertically and/or horizontally with one or a few other large firms. The literature discusses some advantages that might have motivated the conglomeration of firms. These may be grouped into three: saving in transactions costs, risk reduction by diversification, and financial economies. Vertical integration would tend to improve the flow of information, the mechanics for decision-making and the organization of operation between two interrelated firms. Transactions economies are likely to be present in conglomerating firms engaged in finance and production, production and marketing or intermediate input supplier and user. For example, some large consumer goods producers found it more efficient to organize their own trading arms rather than rely on numerous small retailers located all over a wide area. Some firms conglomerated with suppliers of intermediate inputs and the railroad to carry their products. The cost of financing is found to be negatively related to firm size and conglomeration is an indirect way of increasing size. Saving in transactions cost would be an important reason for vertical conglomeration/integration while risk avoidance would motivate horizontal conglomeration. Financial economies can be realized for both types of conglomeration. It is noted, however, that the conglomerate structure is formed among large firms and when any of the competitive conditions is violated.

In the U.S., government subsidy did not play a significant part in fostering industrial concentration and conglomeration. It was essentially the outcome of individual entrepreneurship.[1] In contrast, the Japanese zaibatsus developed during the first five decades of Japan's modernization period (Meiji) so that by 1900, the first five zaibatsus led by Mitsui and Mitsubishi were already well in place. It is well recognized that they were virtually a creation of policy. The government saw them as agents of Japan's modernization efforts, managing the government's textile, shipping, mining and modern steel industries. They were assisted to break the foreigners' control over the country's external trade. Each of them received substantial subsidies which came in many forms but the major ones were low-cost credit, acquisition of government corporations at nominal prices and exclusive contracts and licenses.[2]

The persistence of large conglomerates depends on policy. The contrasting experience between the U.S. and Japan is illustrated. In the U.S., the market was fairly competitive and there was a negative attitude to bigness resulting in legal restrictions on monopolies and conglomerations (the Sherman Anti-trust Law and the Clayton Act of 1914 prohibiting activities that would encourage or maintain monopoly power including interlocking directorates.) The market power of its conglomerate tended to be short-lived as seen in the fairly fast turnover of dominant companies.[3] Banks in the US are competitive, providing new entrepreneurs with a more equitable access to loanable funds. The banks, in turn have less incentive to conglomerate with firms who hold little or zero monopoly power. The relative openness of the industry and the capital market to international competition diminished the cost and other advantages of the large conglomerates thus allowing the entry of new firms.

There is reason to be concerned about conglomeration in the Philippines. There is a small number of relatively large conglomerates which have characteristics similar to the Meiji zaibatsus. They are family based; they include a bank among their component firms; very few of their companies are publicly traded in the stock exchange; they have received and continue to receive favors from the government; and some of their directors/officers are politically influential by reason of friendship, blood or marriage. This study is mainly exploratory. It extends and updates the work of Father Doherty (1983) which traced the conglomeration of the 12 largest commercial banks with financial and non-financial enterprises in 1978. We will see whether the degree of conglomeration has increased or diminished. The study has two main sections. The first traces the interlocking directorates between commercial banks and the top 1,000 corporations based on 1988 data. The second will estimate the degree of concentration of the conglomeration in key industries. A framework is developed for analyzing the allocative implications of interlocking directorates under the present policy regime. On the whole, it is shown that the regimes of the post-independence administrations have been favorable to the enhancement and preservation of conglomeration and conglomerate power. Section 3 gives the data on interlocking directorates among all private commercial banks.

3. Policy Regimes and Interlocking Directorates

The fulcrum of interlocking directorates used here is a commercial bank, KB. The commercial banking industry is highly concentrated, with the six largest banks comprising 54 percent of the total private domestic commercial banking assets. Evidently, KBs exercise monopoly power in the pricing of their services. Tan (1989) attributed the prevailing wide intermediation margin and large differential between saving and time deposits to the cartel-like behavior of banks. The World Bank's 'Financial

Sector Study" (1989) showed the banks to have a relatively high profit rate and administrative cost. In her bi-weekly column in the *Philippine Star* (December 1990), Monsod considered the rising and relatively high service charges on foreign exchange transactions particularly the issue of letters of credit, to be the result of monopoly behavior. Our econometric study of KBs provides a more rigorous test of bank competitiveness or lack of competitiveness than what was done in the writer's earlier study and that of the World Bank.

The banking and central banking leaders who were interviewed by Hutchcroft (1990) agree to the hypothesis that, indeed, the country's commercial banks act as a cartel. The banks appear to collude on interest rate level and structure and to lobby for favorable policies via the Bankers Association of the Philippines (BAP) and possibly through informal talks among the leading bankers when they play golf, drink cocktails at weddings, and attend interlocked board meetings. Interest rate changes are announced by the BAP and the member banks uniformly set their rates at the BAP-announced levels. The recent (January,1991) agreement between the presidents of the leading banks with the President and the Central Bank to lower loan rate and government security rates could only be the result of some collusion among the bankers. They could not have been able to unilaterally and simultaneously lower loan rates and securities rates by as much as 4 percentage points if there was no collusion.

Banks are protected from competition by implicit barriers to entry. They are, in addition, favored by the present policy of maintaining an overvalued exchange rate and giving selected banks virtual monopoly over the marketing of government securities. Considering that the level of intermediation activity (loans and deposits) is lower in a monopolized banking structure than in a competitive one and that excess demand for foreign exchange results from maintaining an overvalued currency, the banks acquire rationing powers. Now banks need not merely favor large monopolistic clients in loan and foreign exchange allocation but go one step further, that is agglomerate with them. This way the banks are able to share in the profits of the monopolistic clients. Non-bank enterprises on the other hand would benefit from agglomeration with banks which could assure them of a stable supply of credit and foreign exchange. However, the gains of a monopolistic firm from conglomerating with a bank must be weighed against the loss from sharing its profits with the bank. The impetus for conglomeration may come from either party. The gains to the bank from conglomeration increases with the monopoly power of prospective members. The more concentrated the industry to which the conglomerated firm belongs, the larger the profits with which to share with the bank. Everything else being equal, the larger the firm, the larger its flow of deposits and the larger the loans demand the bank captures by conglomeration. Both parties gain in a looser configuration of non-conglomerate interlocking directorates - the bank gains the patronage of a large client in exchange for preferential treatment in the rationing of credit and foreign exchange.

Monopoly power is defined here as any cost advantage that is not available to everybody. This might be in the form of special privileges to import, tax exemptions or export quota and other types of incentives that our Board of Investments for instance provides selected firms. It might also be in form of an entry barrier such as that created for the car and truck industry or exclusive licenses given to shipping and port services. Much of the banking-industrial conglomeration in the country might be explained by the monopoly privileges that have resulted from the complex banking, trade and industrial policy regime. Initially, a bank or a firm is able to obtain a special license to operate, to import or to export. Abnormal profits are earned and these give the firm resources for expansion within related product or service lines or across totally new ones. The process continues. In a few cases, we may have an honest-to-goodness entrepreneur who makes an initial success in his/her own endeavour who now finds it worthwhile conglomerating with a monopolistic bank and other firms. It appears, however that most Philippine conglomerates have their origin in special privileges or inherited resources such as big landholdings or exclusive import privileges.

Several hypotheses derive from the arguments.

1. Conglomeration occurs among large firms with monopolistic power.

2. Policy regimes determine the size, prevalence and stability of conglomerate structures.

3. The purely techonological cost advantages from horizontal conglomeration are important but not sufficient to explain the size and stability of conglomerates.

Some evidence in support of Hypotheses 1 and 2, in particular the degree of monopoly power as reflected in the concentration ratio of the conglomerated and interlocked industriesis provided here. We also try to show the trend in the interlocking directorates especially with the change in government in 1986.

4. The Conglomerate Structure[1]

People talk of the 40 or so Filipino families that control most of the country's businesses. The study makes a first stab at empirically identifying the controlling interest in the interlocked large businesses here. Like in Japan, each conglomerate generally includes a commercial bank, is highly diversified and generally has political links. We have fairly complete information on the interlocking directorates among the largest 1,000 corporations and we can identify the controlling families in the more important interlocked groups of firms. This information is summarized in Table 1 which gives the number of companies with interlocking directors with each bank. The detailed list of interlocked firms classified by industry is in Table 2. Data on conglomerated firms are collected for only three families - Zobel de Ayala, Gokongwei, and Aboitiz. Additional data will be collected to complete the picture on conglomeration. In not a few cases a bank may be indirectly related to another corporation through their common directorship in a third corporation. This relationship is not reflected in Tables 1 and 2 though it is noted for some of the more prominent personalities in the business. The data come from the top 1000

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[1]The detailed list of each bank's interlocking directorates is not provided here but is available upon request.

corporations in 1988. This means that interlocking with smaller firms is not included in the listing on Table 2. In summary we try to identify three types of business relationships that come in varying degree of closeness or control - the closest being the conglomeration, the second is interlocking directorates and the most loose being personal affiliation and indirect interlocking.

Table 1 shows the extensive interlocking of directorate between the large commercial banks and firms in various sectors. The Bank of the Philippine Island (BPI) is a good case on which to focus attention. The Zobel de Ayala conglomerate to which the bank belongs is the largest in the country. BPI is the largest private commercial bank,KB, and has been in the leading position for more than two decades. It is interlocked with 47 other corporations which include 4 other banks, 10 insurance companies and other financial institutions, 7 companies in agriculture and food processing, 10 in real estate, 7 in industrial/mining sector, 6 in transport/communications/travel, and 3 in other sectors. The family has controlling interest in 29 out of the 47 interlocked firms plus in 5 other corporations that are not in the interlocked list. It is interlocked with Pilipinas Shell Petroleum Corporation and the Shell Chemical Co.(Phil.) which are identified with Cesar Buenaventura whose brother heads the Philippine Commercial and International Bank (PCIB). BPI has interlocking and other affiliations with Far East Bank and Trust Company (FEBTC), China Banking Corporation and Equitable Bank, and has controlling interest in the BPI Family Bank, BPI Agricultural Development Bank, Peoples Development Bank and Monte de Piedad. BPI and Metropolitan Bank each has a director in Monte de Piedad. Metro Bank is one of the five largest KBs and is interlocked with 34 corporations which include 3 other banks and 12 non-bank financial institution. The BPI and Union Bank each have a director in Lapanday Corporation.

The Far East Bank and Trust Company, the second largest private KB, has no known non-bank conglomeration but it has the most extensive interlocking, -- 71 companies in the various sectors. It is interlocked with 7 banks including four commercial banks: PCIB, Rizal Commercial Bank Corporation (RCBC), China Banking Corporation, and Asia Bank. PCIB and RCBC are among the top 10 banks. Twelve insurance and other non-bank financial institutions are also interlocked with FEBTC. The PCIB is in turn interlocked with 26 corporations including the Republic Planters Bank, while RCBC is interlocked with 59 corporations including Planters Development Bank and 9 non-bank financial institutions. Equitable Bank has 37 interlocked corporations including Planters Development Bank which is interlocked with RCBC.

The Aboitiz family appears to have gained much power during the Aquino administration. The family bought controlling interest in the Union Bank, a government-acquired KB. It is interlocked with 54 companies including the giant San Miguel Corporation, 7 non-bank financial institutions, 8 in food/agriculture, 18 in industrial/mining/construction, 7 in transport/communications and

6 in other companies. The family has controlling interest in 19 of the interlocked firms.

Another group is still relatively small but was recently in the limelight over the control of the Boston Bank and the entry of the Columbian Motors in the Car Development Program. It is worth watching whether Elena Lim, the group's outspoken director and a newcomer in the conglomerate arena, will succeed in keeping her position. The bank is interlocked with 15 companies though none of them financial.

City Trust is a relatively small KB but boasts one of the fastest growth rates (in assets) in the post-Marcos era. It is associated with the Concepcion group though it has no interlocking with its industries. Banks that were closely associated with the Marcos cronies - the Allied Bank, the United Coconut Planters Bank (UCPB) and the Commercial Bank have suffered in relative importance. Allied and UCPB have remained big banks but market shares have fallen since the EDSA revolution. Allied is still interlocked with Lucio Tan's business firms numbering 36 while UCPB has been sequestered by the government and is now run by presidential appointees. It is interlocked with 12 companies. The failed and government-acquired Interbank has been privatized and now exhibits good recovery. It is interlocked with 39 corporations as compared with 8 in 1984.

The interlocking directorates and other affiliations between 8 leading banks - BPI, FEBTC, PCIB, RCBC, Equitable, Metropolitan, China and Union pose a rather serious threat to competition in the whole financial market. The interrelated banks control not only a fairly large proportion of the commercial banking assets, about 64 percent of private commercial bank assets, but also the non-bank financial sector especially the insurance business. Fifty-nine insurance and finance companies are interlocked with these leading KBs. The banks are identified with certain families: the BPI conglomerate with Zobel de Ayala-Andres Soriano, FEBTC with Jose B. Fernandez, PCIB with Gokongwei, RCBC with Yuchengco, Equitable with Go Pailan, China Banking with Henry Sy. The politically influential names that are associated with some of these banks are the Del Rosarios- Ramon Sr. is a director in FEBTC while his son is a director in RCBC; the Buenaventuras in BPI and PCIB, the Aboitis in Union Bank, the Concepcions in City Trust; and J. B. Fernandez, the Central Bank Governor from 1984 to 1989 headed FEBTC. In its board is Roberto Villanueva who held high positions in the Private Development Bank Corporation and the Atlantic Gulf and Pacific Company, the largest construction and construction material firm in the country. Villanueva headed the ambitious Philippine Assistance Program. Union Bank is the Aboitiz conglomerate bank which has interlocking with many of the Aboitiz family enterprises. This bank was headed by Jose Cuisia in his capacity as Chairman of the Social Security System immediately before his assumption of the governorship of the Central Bank in replacement of J.B. Fernandez. One Aboitiz heads the National Power Corporation. Jaime Zobel of BPI has established a humanitarian image and helped in the 1986 revolution. BPI is interlocked with Filipinas Shell which was headed by Cesar Buenaventura who is seen to be personally close to the President. BPI's interlocking with PCIB who is headed by Rafael Buenaventura, a brother of Cesar Buenaventura strengthens BPI's political influence. Two sons of the late Carlos P. Romulo are bank directors, one in Equitable and the other in RCBC. Undersecretary of Trade and Industry Tomas Alcantara sits in the board of Interbank.

Table 1 also gives the comparative interlocking figures for the top 1,000 corporations for 1984, the second to the last year of the Marcos regime. The UCPB and the Allied Bank grew very rapidly and were in the 5 largest bank category during the Marcos regime. Moreover, UCPB's interlocking declined rather drastically from 21 in 1984 to 12 in 1988. Allied Bank's interlocking increased but it is mainly with Lucio Tan's own enterprises, including his Fortune Tobacco. There are no currently important business and polical names associated with Allied Bank. UCPB is essentially a government bank and so the personalities on its board and in its controlled corporations are there by appointment rather than by voluntary affiliation with other businessmen. PCIB, which was identified with Kokoy Romualdez is now part of the large Gokongwei conglomerate. The businesses to which it is currently interlocked are different from before. Excepting PCIB, the Marcos-affiliated banks underwent adverse changes; their relative importance in the banking system and their conglomerate power fell.

The experience of BPI, FEBTC, RCBC, Metro Bank and Equitable Bank contrast with the Marcos-related banks. The former banks survived and benefited from the financial instability of the last years of the Marcos era. As bank after bank failed during that time, these banks became the mainstay of the industry and attracted clients from the less stable banks. Their relative importance or share in the industry assets increased from 17 percent to 19 percent from 1980 to 1985 and to 43.87 percent in the present. They were able to establish affiliations with the new politically influential personalities. Under the continuing regime of industrial protection, overvalued currency and barriers to bank entry, these banks have successfully increased their interlooking directorates and degree of conglomeration. Between 1984 to 1988, the number of interlocked firms with BPI rose from 44 to 47; FEBTC from 19 to 71; RCBC from 7 to 59; Equitable from 7 to 23. Union Bank, a merger between the Insular Bank of Asia and Union Bank, increased the combined interlocking of the two banks from 32 to 54. China Banking, a relatively small bank, increased its interlocking from 8 to 35. These increases do not take into account the consolidation of some of the smaller interlocked companies. The data do show that the policy environment which gives monopoly power to banks and selected industries has fostered and sustained interlocking and conglomeration between banks and other enterprises. Being the major beneficiary of the policy regime it may not be unreasonable to expect them to work for the retention of the policies. Their being interlocked into a small group of "successful" bankers and industrialists facilitates their organization into a united lobby group. It is not surprising that proposals for reforms of the financial system have met with a thick wall of resistance, in particular reforms that aim to liberalize entry of new banks and the marketing of government securities. The same group of interlocked industries that are being protected from foreign and domestic competition may be behind the resistance against devaluation and the dismantling of quantitative import controls and its replacement by a simple tariff structure.

5. Monopoly Power

This section further discusses interlocking directorates with the concept of monopoly power. Market structure as determined by the firm size of the industry reflects the degree of concentration among industries. Although market shares for individual firms in an industry are confidential, the National Statistics Office (NSO) reports the percentage of industry sales accounted for by the top 4 firms and the top 8 firms. When analyzed in the context of interlocking directorates, it would be seen that some firms affiliated or controlled by comercial banks are concentrated or have monopoly powers. In the manufacturing industry alone, 16 of these firms belong to concentrated industries. Table 2 shows the commercial bank-interlocked firms with their corresponding industry classification in 4-digit PSIC code and concentration ratios of the top 4 firms with respect to the total industry in 1987.

The Bank of the Philippine Islands (BPI), which has the most industry-concentrated manufacturing firms, has in its control

Purefoods Corporation, San Miguel Corp., Integrated Microelectronics Inc., Pilipinas Shell Petroleum Corp. and Gold Zack Philippines, Inc. The Purefoods Corp. and three other firms account for 86.683 percent of the market for slaughtering, preparing and preserving meat. The giant San Miguel Corporation (SMC) in turn monopolizes the malt miquors and malt industry. SMC has 70 percent ownership of Philippine Dairy Products Corp., and 45 percent of Nestle Philippines, Inc. are among the top 4 firms accounting for 88.423 percent of the market for manufacturing dairy products except milk. Thirdly, another subsidiary/affiliate, La Tondena Distillers, which is also 70 percent owned by SMC is among the top 4 firms capturing 100 percent of the market for manufacturing wine. Nestle Philippines is also among the top 4 firms capturing 99.8 percent of the market for coffee roasting and processing. The Integrated Microelectronics Inc., manufacturer of electric wires and wiring devices, shares 92.9 percent with 3 other firms of the market. The Gold Zack Philippines, Inc. and 3 other firms capture 80.4 percent of the market for manufacturing made-up textile goods except wearing apparel. The Pilipinas Shell Petroleum Corp. along with Caltex Philippines, Inc. and Philippine Petroleum Corp. fully controls the petroleum refineries industry. Note that Pilipinas Shell Petroleum Corp. owns 99.5 percent of the Philippine Petroleum Corporation. The Philippine Commercial International Bank (PCIB) which is interlocked with BPI has in its control the Philippine Petroleum Corporation. The Rizal Commercial Banking Corporation (RCBC) has Dole Philippines, Inc. sharing 95.54 percent of the market for canning and preserving of fruits and vegetable with 3 other firms. Equitable Bank has Kraft Foods, Inc. which accounts for 88.423 percent of the market for manufacturing dairy products except milk with 3 other firms and Honda Philippines, Inc. which has 98.81 percent of the market for manufacturing of motorcycles and bicycles with 3 other firms. The Philippine Banking Corp. besides having Honda Philippines, Inc. has also Mariwasa Manufacturing, Inc., sharing 100 percent of the market for manufacturing of structural clay products with 3 other firms. The Citytrust Bank and the International Corpoate Bank (Interbank) have the Philippine Associated Smelting and Refining Corp. which monopolizes the industry of non-ferrous smelting and refining plants except precious metal. The Interbank also has in its control Westinghouse Asia Controls Corporation which is among the top 4 that account for 89.243 percent of the market for manufacturing of electrical apparatus and supplies. The Union Bank of the Philippines (Union Bank) is another interesting bank. Besides being interlocked with the powerful San Miguel Corp., it has controlling interest in Pilipinas Kao, Inc. and Kao Philippines, Inc. Both firms, along with 2 other firms comprise 84.191 percent of the market for the manufacture of soap and cleaning preparations, perfumes, cosmetics and other toilet preparations. And, the Republic Planters Bank has the Philippine Dairy Corp. which is among the top 4 firms comprising 88.423 percent of the market for manufacturing of dairy products except milk.

An application of these concentrated industry firms is that commercial banks tend to have specialized control on industries.

BPI, for example, tends to operate on the Food and Beverage Industry as well as the Manufacturing Industry while Union Bank has the tendency to specialize on manufacturing of soap, cleaning preparations, perfumes, cosmetics and other toilet preparations. Another point to consider is that even if a certain competitive industry exists, the firms behave in such a way that there is collusion. A reason might be that most of these firms are conglomerated. An example is the Aboitiz group. Although nationwide the shipping industry is widely competitive, the Aboitiz group has local monopolies in shipping and electric power supply. It operates the Aboitiz Overseas Shipping Corporation, the Aboitiz Shipping Corp., and the Aboitiz Jebsen Bulk Transport Corp. and Aboitiz's Ormoc Electric Co., Inc., Jolo Power Co., Inc., and Davao Light and Power Co., Inc. More so, Ernesto Aboitiz is the president of the government's National Power Corporation. The Citytrust's Henry Brimo has Philex Mining Corporation and Surigao Consolidated Mining Co., Inc. in the mining industry, as well as Philtread Tire and Rubber Corp. and Firestone Tire and Rubber Co. in the tire and rubber industry.

Monopoly power by a firm initiates pricing of goods and services over the marginal cost. This exceeds the actual price but the consumers are constrained to pay at this price because the dominant firm dictates it. The dominant firm, capturing the larger part of the market, becomes the producer sufficient enough to supply the goods and services. And to maintain this monopolistic power, policies and interest rates as provided for by the affiliated commercial bank are set to favor the firm.

6. Concluding Remarks

The casual observation about the control by Manila's "40" families over the country's economic wealth is not without an empirical basis. The paper established the extensive interlocking directorates among the largest 1,000 corporations which include banks, industry, agriculture and mining. The largest five banks, which share half of private commercial bank assets, interlock with hundreds of firms in various sectors and with other commercial banks and all the major insurance companies. The major banks are interlocked and/or conglomerated with firms in highly-concentrated industries. Especially noteworthy is their control over petroleum refining and food processing. The families that control these banks and their conglomerates are politically influential. Their business success has been widely aclaimed though it is explained in part by the privileges the government has granted them. Their entrepreneurship certainly accounts for part of this success and it is possible that they might have flourished even without government protection. The reality confounds the sources of their achievement. A test of their entrepreneurial ability is the surmounting of competition from new entrants to business and from international suppliers. But this has been resisted. A case in point is the resistance of the BAP against the expansion of foreign bank branching and foreign bank entry. It proposes cost increasing barriers to entry like frozen foreign exchange deposits in addition to capital investment. Only one domestic KB, the Asia Bank, has been allowed to open in the last five years. This bank is controlled by the Del Rosario group, one of the leading interlocked groups.

The paper argued that the conglomeration of, and the intricate interlocking directorates, in the largest financial and non-financial corporations in the country have been initiated and sustained by the protective industrial, trade and financial policies of the government. The protective policy environment has discouraged competition from new domestic firms and foreign companies thus allowing the conglomerates to maintain their monopoly power. This is reflected in the high concentration ratios in sectors that are interlocked or conglomerated with the big banks. The large banks themselves are interlocked with each other. Interlocking facilitates collusion and the organization of lobby groups. The difficulty of effectively carrying out reforms in industrial, trade and financial policy directed at fostering competition --an avowed objective of the government -- might be explained by the resistance of vested interest which is comprised mainly of these conglomerates and interlocked banks and industries. While there is no solid evidence to support the presence of organized lobbies by the leading business groups, there are indicators they exist. The BAP for instance comes out with recommendations to the Central Bank for imposing cost barriers to foreign banks/branches which wish to open business here. We have the Philippine Chamber of Commerce and Industry which regularly issues press releases and statements either supporting policies that are favorable to the business of its members, or opposing reforms that would diminish their market power. The BAP and PCCI have expressed their views on the issues of bank entry, trade liberalization, devaluation. The PCCI has expressed its view favoring the ratification of the Treaty on Friendship, Cooperation and Security. There are many other instances showing grouped expression of views on economic issues. Such grouped thinking and likely lobbying are definitely facilitated by the interlocking directorates in the leading businesses of the land. A consensus exists among economists from here and abroad that structural reforms in the country are required in order to accelerate growth. Success stories abound in neighboring countries on the effects of such structural reforms. Yet the government has chosen the status quo. It would seem therefore that reforms could only be expected after a sufficiently strong countervailing power against the well-organized vested interest would have developed. The situation does not appear very optimistic but history oftentimes comes up with surprises.

[1]In the US, many of the existing conglomerates originated from a single large monopolistic firm which had at least one of the cost advantages mentioned above. Integration of geographically separated marketing outlets to service a large manufacturing company like McCormick, Montgomery Ward and Sears Roebuck was a common basis for the horizontal expansion of many geographically dispersed merchandising transport companies. Scherer (1978,p.135) observed " that nearly all the manufacturers that pioneered in creating large integrated enterprises had been forced to do so because the existing mass marketers were unable to handle their products" and that the normal route to size was that of horizontal combination. Diversification across unrelated industries occurred much later and not very extensively in the US.

[2]The Mitsui bank was made the exclusive agent for underwriting government bonds and new currency in exchange for the government zero-interest loans. The bank was also made the sole depository of government funds. The Mitsui Trading Company (Mitsui Bussan), which was established in 1876 was the sole agent for the government-owned Miike Coal Mine which was later sold to it. It bought government-owned silk filature and cotton spinning. By 1913, 25 per cent of Japan's foreign trade was serviced by Mitsui Bussan and by 1928, it had developed into a 130-company conglomerate. Misubishi had a similar beginning. It was the next largest conglomerate; was sold the government's Takashima, Sado Gold and Ikuno Silver Mines and the Nagasaki Shipyard, and was lent 40 ships by the government for practically nothing. The company bought 14 large steamers with low-interest government loan. It was given the military transport contract during the busy period of the Japan-China and the Japan-Russo wars. These ships and the shipyard provided the impetus for Mitsubishi's ocean transport and trading power. As early as 1877, the company provided 73 percent of total tonnage of modern steamers. Its only one major competitor, Kyodo Unyu Co. was merged with Mitsubishi at the government's initiative. In 1928, the company had become a conglomerate with 119 member companies in highly diversified industries. Each conglomerate had a bank and was composed mostly of large or oligopolistic and monopolistic firms. The profits from their enterprises and the financial resources of their bank provided the conglomerates control over huge resources and the facility for new investment and for the establishment or acquisition of new companies. The growth of the conglomerates was very rapid up to the Second World War. (Data are from Nakagawa (1981) and Iwata (1981).)

[3]Of the 10 largest corporations in 1900, only one remained in 1977. New successful entrepreneurs in new fields like the IBM and ITT came into the picture. Also the control of at least three major families, respectively in rubber and car manufacture (Du Pont), petroleum refining (Rockefeller) and aluminum,

petroleum, coal and bank (Mellon) have diminished gradually since 1930 as family shares got divided into multiplying heirs and as new competitors came into the field (Scherer, 1978). Ownership of large American corporation is generally diluted and their stocks are openly traded. In Japan the sale of corporate shares is oftentimes restricted to affiliated corporations and employees.

TABLE 1

NUMBER OF FIRMS WITH INTERLOCKING DIRECTORATES
BY SECTOR IN 1988 TOP CORPORATIONS

	Other Banks	Other Financial Institutions	Agriculture and Food	Real Estate	Industrial Mat.,/ Const./Mining	Transport & Communication	Others	Total
1. BPI, 1988	4	10	7	10	7	6	3	47
CI [a]	1	8	4	7	2	5	2	29
CI [b]	-	-	2	3	-	-	-	5
1984	3	8	5	10	15	3	-	43
2. FEBTC	7	12	19	9	15	2	7	71
1984	1	1	4	3	7	-	3	19
3. PCIB, 1988	1	9	5	7	4	1	1	26
1984	1	10	-	2	15	3	1	32
4. Metrobank, 1988	3	12	2	2	5	5	5	34
1984	1	1	1	1	2	1	1	8
5. RCBC, 1988	2	9	6	5	18	9	10	59
1984	-	-	1	2	-	-	7	10
6. Equitable	1	5	2	1	9	-	5	23
1984	-	2	-	1	3	1	-	7
7. China, 1988	4	6	1	11	9	-	4	35
1984	-	4	1	-	3	-	-	8
8. Union, 1988	3	7	8	5	18	7	6	54
CI	-	-	-	2	9	5	3	17
1984 (Insular)	-	7	2	4	5	3	1	19
(Union)	-	7	1	2	2	-	1	13
9. Allied, 1988	3	5	6	4	9	-	5	32
10. UCPB, 1988	-	2	3	1	4	1	1	12
1984	-	4	4	2	5	1	5	21
11. Citytrust	-	-	-	-	9	-	-	9

Table 1--*Continued*

	Other Banks	Other Financial Institutions	Agriculture and Food	Real Estate	Industrial Mat./ Const./Mining	Transport & Communication	Others	Total
12. Philbanking Corp.	-	2	-	1	8	1	1	13
1984	-	-	-	-	2	-	-	2
13. Intl. Corp. Bank	1	2	2	6	20	3	5	39
1984	-	1	-	-	6	-	1	8
14. Pilipinas Bank	2	4	1	1	4	3	1	16
1984	-	-	1	-	1	1	-	3
CI	-	-	-	2	3	1	-	
15. Traders Royal	-	-	1	-	2	3	1	7
1984	-	-	-	-	-	1	-	1
16. Boston Bank, 1988	-	-	3	-	6	1	5	13
17. ComBank, 1984	1	1	-	1	-	-	2	4
18. Republic Planters	1	2	9	-	-	-	1	13
19. Solidbank	-	3	-	-	10	3	7	23
20. Security	-	1	1	2	2	-	5	11
21. Communications	-	1	-	1	2	1	6	11

Notes: Interlocking/controlling interest/affiliation of the following:

1. BPI: FEBTC, BPI Family Savings Bank, BPI Agricultural Development Bank, People's Development Bank, Monte de Piedad, China, Equitable Bank.
2. FEBTC: RCBC, China, Asia Bank, Banco de Oro, Philippine Chemical Bank and Mitsui Bank.
3. PCIB: RCBC, Republic Planters Bank.
4. RCBC: FEBTC, China, Asia Savings Bank, Planters Development Bank.
5. Metrobank: Monte de Piedad.
6. Equitable: Planters Development Bank.
7. China: FEBTC, RCBC, Asia Savings Bank, Banco de Oro.
8. Union: PNB, Urban Devt. Bank, Land Bank.
9. Allied: Western Pacific Bank, Pacific Bnk, First Malayan Development Bank.
10. International Corporate Bank: Development Bank of the Philippines.
11. Pilipinas Bank: Development Bank of the Philippines, Planters Development Bank.
12. Combank: Land Bank of the Philippines.

TABLE 2

COMMERCIAL BANKS AND CONCENTRATED INDUSTRIES

Bank	Corporation	Industry Classification	CR4
BPI	Purefood Corp.	slaughtering, preparing & preserving meat	0.86683
	San Miguel Corp.	malt liquors and malt	1.00000
	Integrated Micro-electronics Inc.	mfc. of electric wires & wiring devices	0.92900
	Pilipinas Shell Petroleum Corp.	petroleum refineries	1.00000
	Philippine Dairy Products	mfc. of dairy products except milk	
	Gold Zack Phil. Inc.	mfc. of made-up textile	0.80385
PCI	Phil. Petroleum Corp.	petroleum refineries	1.00000
RCBC	Dole Phil. Inc	canning & preserving of fruits & vegetables	0.95540
Equit	Honda Phil. Inc.	mfc. of motorcycles & bicycles	0.98810
	Kraft Foods Inc.	mfc. of dairy products except milk	0.88423
Union	San Miguel Corp.	malt liquors & malt	1.00000
	Pilipinas Kao Inc.	mfc. of soap, cleaning prep., perfumes, cosmetics & other toilet	0.84191
	Kao Phil. Inc.	mfc. of soap, cleaning prep., perfumes, cosmetics & other toilet	0.84191

Table 2--*Continued*

Bank	Corporation	Industry Classification	CR4
Citytr	Phil. Asso. Smelting & Refining Corp.	non-ferrous smelting & refining plants except precious metals	1.00000
Philbank	Honda Phil. Inc.	mfc. of motorcycles & bicycles	0.99910
	Mariwasa Mfg. Corp.	mfc. of structural clay products	1.00000
Interbank	Phil. Asso. Smelting & Refining Corp.	non-ferrous smelting & refining plants except precious metals	1.00000
	Westinghouse Asia Controls Corp.	mfc. of electrical appliances & supplies	0.89243
Boston	Ram Food Products Inc.	canning & preserving of fruits & vegetables	0.95540
Republic	Phil. Dairy Corp.	mfc. of dairy products except milk	0.88423

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