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TNCs and Structural Change
in the Philippines

by

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ABSTRACT

The paper examines the changing role of Transnational Corporations (TNCs) in the Philippine government's structural reforms.

The structural change that is now in the Philippines' development strategy implies a different role for direct foreign investment (DFI) and TNC than in the past. In particular, DFI flows are seen to absorb the slack in the use of multilateral, bilateral and commercial loan sources. Given the changing picture of global DFI towards international production, the realignment and revaluation of currencies among home countries, and increasing competitive structure of global markets, TNCs will be seen to play not only a larger but a different role from the past which has been inward-looking into domestic markets.

TNCs and Structural Change in the Philippines

Florian A. Alburo*

This paper looks into the current state of transnational corporation (TNC) involvement in the Philippines in the context of its latest economic performance and development plan. Focus will be made in this paper on the macro aggregates of TNCs and not on micro characteristics of individual representative TNC enterprise. We will rely on previous studies that are more detailed analyses of TNC operations in the Philippines (UNTC/ESCAP, 1980, 1985).

The renewed interest in direct foreign investment (DFI) and TNCs in developing countries principally stem from the sharp decline in commercial resource transfer and official development assistance (ODA) relative to previous trends and development needs. The former comes as an aftermath of the debt explosion in the eighties while the latter from variabilities in the commitments of major donor countries (e.g. U.S.). While global net direct investment has not accelerated but kept a constant positive trend, net borrowings from private creditors and net ODA have sharply declined since 1981 (Goldsbrough, 1986).

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On the other hand, there has also been a decline in the annual net DFI in Asia as a proportion to country total investments, even in countries with past tradition of large DFI's (i.e. Korea, Singapore, Taiwan, Indonesia, Malaysia)(James, Naya and Meier, 1987).

What this means is that greater reliance will be sought for DFI and its principal carrier, the TNC, in the development process, given the debt burdens of many developing countries, the drying up of commercial credit, and unreliability of sustainable ODA flows.

The Philippines is no exception to this scenario. Although for 1986 and 1987, upon the assumption of the new government, there has been a rise in ODA, it appears that this has levelled off (along with the waning of external enthusiasm), and DFI looms as the clear alternative source of external finance over the medium term. The implementation of various structural reforms, however, may define another setting for DFI and TNCs in the Philippines.

Accordingly, the first section reviews recent trends in DFI, country identities of TNCs, industry distribution, special areas for TNCs, and some emerging Philippine TNCs.

The second section looks at the recent balance of payments, and the role of DFI or TNC in them. The pattern of net flows of

DFI is viewed within the larger context of current accounts and overall exchange flows.

The third section outlines the apparent structural change that the country is aiming for, its implications for the role of external finance in general and TNCs, in particular. The achievement of sustained economic growth will be highlighted as crucial in the reform process.

Finally, several issues and conclusions will be drawn. Given the changing structure of the Philippine economy and the renewed role of TNC in it, what appropriate policy changes need to be pursued? Aside from largely global trends regarding financial flows and DFI, how will peculiar Philippine conditions be viewed to respond to the external environment?

1. Trends in Direct Foreign Investment

Source and Direction

There is no direct published data on TNC investments in the Philippines. Annual flows on DFI are recorded in regular balance of payments accounting. The presumption is that DFI reflects those transacted by TNC. Yet this must imply that we use a liberal meaning of TNC and DFI to include those termed as "new forms of investment" such as joint ventures, licensing agreements, management contracts, franchising, turnkey and "product-in-hand" contracts, production sharing, etc., and not

just equity participation - to the extent that these lead to exchange inflows (Oman, 1986: 131). Neither can we capture TNCs in their strict definition as "enterprises which control assets - factories, mines, sales offices and the like - in two or more countries" (UN, 1973). Nevertheless since the bulk of economic activities done by foreign entities in the country are attributable to TNCs, the DFI flows would be a fair representation of aggregate TNC behavior.

The Board of Investment (BOI) also records foreign investments by TNCs in areas where they seek incentives, or own at least 40 percent equity. Thus, we will also use BOI data.

Table 1 shows DFI flows between 1970 and 1987. Although 1987 saw the highest recorded DFI inflow, on a net basis the peak was in 1977. In fact there were years during which the country experienced a net outflow of DFI. On an average annual level, total net DFI increased substantially between the period 1966-76 and 1977-85 yet as a percentage of total investment, this had declined. (James, Naya and Meier, 1987: 138-139).

The country sources of DFI flows or TNC operations have been partly shaped by historical roots and economic policy. Pre-war foreign investments were dominated by US, Chinese, Spanish and British capital reflecting past colonial history or ethnic identity.² Over time there have been shifts especially with the emergence of Japan as a major source of DFI. But the US has

Table 1

DIRECT INVESTMENTS
1970-1987
(in Million US Dollars)

Year	Inflow	Outflow	Net
1970	7	35	-28
1971	5	9	-4
1972	4	26	-22
1973	119	55	64
1974	92	64	28
1975	152	27	125
1976	185	41	144
1977	236	20	216
1978	134	34	100
1979	146	126	20
1980	119	221	-102
1981	249	73	176
1982	194	177	17
1983	255	143	112
1984	137	131	6
1985	124	107	17
1986	166	46	140
1987	318	113	205

Source: Central Bank

remained the dominant investor country. Table 2 presents the share of country investments to total in 1975, 1980, 1985 and 1987. Note that the table only registers foreign equity investments and may not therefore capture other TNC arrangements. Note also the increased share of Hongkong in 1985 and the displacement of Canada and Australia by Netherlands and Switzerland between 1975 and 1985. In recent period, Taiwan has been the major source of surge in BOI-approved foreign equity investments. For instance, in the period between January-October 1987 and January-October 1988 its share rose from 5.9 percent of total to 30.8 percent of total surpassing North America's (USA and Canada) share of 28 percent.

In addition the data reflect the stock of foreign equity registered not the flows of FDI. However the change in stocks would indicate the actual FDI for the year.

In terms of the industry direction of FDI, previous patterns indicated a concentration in extractive, primary commodity exports industries and later into import-substituting manufactures. Table 3 partly confirms this behavior. Financial institutions as destination of foreign equity investments have declined in importance between 1975 and 1985 whereas manufacturing has remained quite significant with mining and services assuming greater shares.

Table 2
SHARE OF INVESTOR COUNTRY TO TOTAL REGISTERED
FOREIGN EQUITY INVESTMENTS
(in percent)

Country	1975	1980	1985	1987
USA	48.4	54.6	52.9	64.3
Japan	23.5	16.8	13.6	13.3
Hongkong	2.1	4.3	5.7	6.2
Netherlands	0.4	1.6	4.2	4.6
UK	7.3	3.5	3.1	3.6
Switzerland	1.6	2.5	2.1	2.2
Canada	8.6	3.9	1.6	1.7
Australia	2.4	2.4	1.6	1.6
France	0.3	1.4	1.5	1.5
W. Germany	0.2	1.0	1.0	1.0
Other	5.2	8.0	12.7	-
Total Investment (US\$ M)	390.0	1280.9	2600.6	2829.6

Source: Central Bank

Note: Foreign direct investments registered with the Central Bank is cumulative from 1970 i.e. they measure the stock of foreign equity.

Table 3
SHARE OF INDUSTRY
IN FOREIGN EQUITY INVESTMENT
(in percent)

Industry	1975	1980	1985	1987
Financial Institutions	34.0	18.8	11.4	12.5
Manufacturing	44.8	50.4	45.6	48.5
Mining	7.8	17.6	31.7	27.2
Commerce	5.7	6.5	4.0	4.1
Services	2.2	2.5	3.7	3.8
Public Utility	3.2	1.5	1.2	1.3
Farming	1.5	1.3	1.6	1.6
Construction	0.05	1.3	0.8	0.8
Others	0.07	0.1	-	0.5
Total Investment (US\$ M)	390.9	1280.9	2600.6	2829.6

Source: Central Bank.

These observations on trends in DFI can be validated in another way. The actual list of top TNCs in the Philippines tend to show the predominance of US origin followed by Japan. Table 4 provides a list of the 50 top TNCs. On the other hand a comparison of the sectoral distribution of equity investments (reflected in Table 3) reveals the strength of manufacturing as dominant direction of DFI and the re-emergence of mining as significant. Looking at the distribution of approved equity investments as registered in the BOI reveals the same preponderance in the manufacturing sector of over 50 percent (see Table 5).

Characteristically, past studies have asserted that FDI and TNC operations have been confined to extractive industries or those in import-substituting manufactures -- not really broadly based among industries. Indeed in one study, Japanese DFI were concentrated in industries with high concentration ratios or high effective protection rates. Moreover the industries where DFI were located had higher than average capital-labor ratios (Alburo, 1981).

In summary the trends of DFI indicate that there has been apparent stability of source and direction during the past decade. For sure there has been some change in major sources of DFI and TNC operations of the Philippines but industry distribution seems most stable. The question now is whether the

Table 4

1986 TOP 50 TRANSNATIONAL CORPORATIONS

Rank	Name of Corporation	Nationality
1	Caltex (Philippines) Inc.	American
2	Citibank, N.A.	American
3	Texas Instruments (Philippines), Inc.	American
4	Philippine Refining Company, Inc.	Dutch
5	Procter & Gamble Phil. Mfg. Corp.	American
6	Philippine Packing Corporation	American
7	Dole Philippines	American
8	Advanced Micro Devices (Phil.) Inc.	American
9	Philippine Geothermal, Inc.	American
10	Colgate-Palmolive Philippines Inc.	American
11	Philippine American Life Insurance	American
12	Motorola Philippines, Inc.	American
13	California Manufacturing Company, Inc.	American
14	Philips Components Philippines, Inc.	Dutch
15	Eveready Battery Company Philippines, Inc.	American
16	Philippine Sinter Corporation	Japanese
17	National Semiconductor (Philippines), Inc.	American
18	Phimco Industries, Inc.	Swiss
19	The Goodyear Tire & Rubber Company of the Philippines, Ltd.	American
20	The Coca-Cola Export Corporation	American
21	Pilipinas Kao Incorporated	Japanese
22	Wyeth-Suaco Laboratories Incorporated	American
23	Shell Chemical Co. (Phils.), Inc. (The)	American
24	Sime Darby International Tire Co., Inc.	Malaysian
25	Kimberly-Clark Philippines Inc.	American
26	Abbott Laboratories, Inc.	American
27	Chase Manhattan Bank, N.A. (The)	American
28	Jhonson and Jhonson (Philippines), Inc.	American
29	Chemical Bank	American
30	Shell Gas Philippines, Inc.	British
31	Berrochrome Philippines, Inc.	Austrian
32	Bank of Nova Scotia (The)	Canadian
33	IBM Philippines, Inc.	American
34	Barclays Bank plc	British
35	American President Lines, Ltd. (The)	American
36	Sea-Land Service, Inc.	American
37	Warner-Lambert Philippines, Inc.	American
38	Mead Johnson (Philippines), Inc.	American
39	Hongkong & Shanghai Banking Corp. (The)	British

Table 4 (Continued)

Rank	Name of Corporation	Nationality
40	Bayer Philippines, Inc.	German
41	Mobil Philippines	American
42	Sun Life Assurance Co. of Canada	Canadian
43	Fairchild Semiconductor (Hongkong) Ltd.	British
44	Hanil Development Co., Ltd.	Korea
45	Banque National de Paris	French
46	The Bank of Tokyo, Ltd.	Japanese
47	Canlubang Automotive Resources Corp.	Japanese
48	Credit Lyonnais-Manila Offshore Branch	French
49	Intel Philippines Manufacturing, Inc.	American
50	Avon Cosmetics, Inc.	American

Source: Securities and Exchange Commission

Note: Based on gross revenue.

Table 5

SHARE OF INDUSTRY IN BOI-APPROVED
FOREIGN EQUITY INVESTMENT
(in percent)

Industry	1975	1980	1985	1987
Agro-based	10.9	20.7		
Mining	1.1	15.4		
Metal-based	13.2	24.8		
Chemical-based	30.5	19.3		
Others	44.3		20.0	28.7
Other Manufactured Products		2.8		
Fuel Conv. Prog.		3.8		
Agriculture			1.1	5.4
Fishing			0.5	3.5
Mining			0.9	1.3
Manufacturing			75.5	57.5
Energy			0.3	3.4
Export			1.5	0.2
Total Investment (P M)	210.9	1775.6	2449.6	3427.3

Source: Board of Investment

new regime has instituted structural reforms that may dictate a redirection of DFI and TNCs in the Philippines.

Foreign Investment Policy

In the Philippines "multinationals" have been operating in the country as early as the Spanish colonial era. During the American regime, American investment was widespread in public utilities and agricultural trade.

The systematic means of streamlining and rationalizing foreign investments policy in the Philippines is embodied in a series of laws that began with Republic Act (R.A.) 5186, known as the Investment Incentives Act. This Act defined investment areas and simultaneously created the Board of Investment (BOI) to carry out and implement its provisions.

R.A. 5186 specified the extent of foreign participation in investment areas, itemized incentives and set time limits. This Act indicated preferred areas of investment which could be pioneer or non-pioneer.

Pioneer areas are generally industries in the intermediate fields "...such as smelting of ores, refining of metal ... petroleum and salt-based chemicals ... pulping and integrated pulp and paper." Under the pioneer preferred areas, foreign participation can be up to 100 percent equity. In the non-

pioneer preferred areas, foreign capital may participate up to 40 percent.

Foreign investment as well as Filipino owned firms registered with BOI under this Act are provided with a range of incentives in addition to whatever structural distortions the economy may have that affect it. This includes repatriation and remittance rights, freedom from expropriation of investment, exemption from capital gains tax, accelerated depreciation, carry-over of losses, exemption from tariffs and compensating taxes on machinery and equipment importations, employment of foreign nationals (within 5 years of registration), antidumping protection, and protection from government competition. For non-pioneer preferred areas, the incentives are just about the same.

Subsequent investments policies were meant to complement the basic Act. For example, R.A. 5455 (in 1968) provided for the entry of foreign capital in areas not covered by R.A. 5186 as long as participation does not exceed 30 percent. R.A. 6135 or the Export Incentives Act was passed in 1970 to encourage export development especially of manufactured products. As a corollary to the latter export processing zones (EPZ) were institutionalized. In the Philippines, Bataan became the first zone followed later by several others.

In the EPZs, foreign investments and TNCs can come in even at 100 percent non-Filipino ownership since all firms in EPZs are supposed to operate for export. Moreover the various incentives and institutional infrastructure are geared towards supporting FDI. Although the fraction of FDI in the Philippines located in EPZs is small, the extension of the concept towards manufacturing bonded warehouses has expanded the ambit of FDI direction.

In 1987, investment incentives were consolidated under a single Omnibus Investments Code of 1987 which is an improvement of previous investment incentives since it consolidates the following incentives and privileges embodied under separate laws: (a) additional incentives to enterprises locating in less developed areas, (b) privileges granted to holders of special investors' resident visa, (c) incentives granted to regional headquarters and regional warehouses locating in the Philippines, and (d) incentives to firms locating in the export processing zones. In addition the new Code aligns Philippine incentive schemes to those of ASEAN countries.

Philippine TNCs

The recorded amount of DFI shown in Table 1 contains information that there are also outward flows of foreign investment from the Philippines where in some years they even exceeded inflows.

There is no adequate data base however to test the magnitude of Philippine TNC operations associated with the flows. Fragmented evidence shows that TNCs from the Philippines have been (a) in services such as banks and other financial institutions (e.g. Philippine National Bank opened its New York agency in 1923), (b) concentrated in Asia (i.e. Hongkong), (c) in the form of joint ventures such as those between Filipino and Indonesian and (d) moving into manufacturing. More recent expansion of Philippine companies in other countries (e.g. Jollibee Corporation, SGV) may signal the opportunities of influencing factors in stimulating the emergence of Philippine TNCs (ESCAP/UNCTC, 1985).

2. Balance of Payments and Trade Structure

Philippine Balance of Payments (BOP) has always been characterized by continuous deficits in its current accounts, unfavorable trade balances (as well as excessive concentration in country relations and product groups), negative overall balances, and episodic attacks, almost every decade on the foreign exchange markets.

There was a significant improvement of the BOP in 1985 and again in 1986. However this was not due to any secular change but arose simply from lack of domestic economic activity -- the economy suffered from a negative real GNP growth of more than 6 percent in 1985 and a recovery of 1.5 percent in 1986. The

current account in 1986 experienced a surplus of 3.3 percent of GNP and there was an overall BOP surplus of US \$1.2 billion. The 1987 GNP growth rate of 5.7 percent further reduced the surplus to US \$264 million. See Table 6 for the BOP 1985-1987.

If we take a long view of BOP, what would be its striking feature is the constantly poor trade performance and the undue dependence on long-term loans in its capital accounts. Overall net direct investments, especially after 1975, have only been a fraction of loans incurred. In 1976 for example, net DFI was a mere US \$144 million as against long term loans of US \$1.04 billion. In fact in 1980 net DFI was an outflow of US \$102 million as against long term loans of US \$1.03 billion. This became unsustainable when a foreign exchange crisis occurred in 1983.⁴

The trade accounts accentuated and exacerbated the problems of overall BOP. Only in 1973 do we find a positive balance on goods and services for the period of the seventies and early eighties.⁵ What has accounted for this trade picture is the host of trade policies that have nurtured an import-dependent industrial structure and a shallow export sector. Both commercial and exchange rate policies had nurtured an import-substitution regime despite a respectable surge of non-traditional manufactured exports in the late seventies.⁶

Table 6

BALANCE OF PAYMENTS
(US\$ Million)

	1985	1986	1987
Exports	4629	4042	5720
Imports	5111	5044	6737
Trade Balance	-482	-202	-1017
Services (Net)	0	757	-76
Transfers (Net)	379	441	554
Current Account Balance	-103	996	-539
Long-Term Loans (Net)	2787	815	242
Direct Investments (Net)	17	140	205
Short-Term Capital (Net)	-1731	-814	52
Errors and Omissions	638	-102	89
Nonmonetary Capital Account Balance	1711	39	588
Monetization of Gold	221	279	365
Allocation of SDR	-88	-	-
Unremittable Arrears/ Adjustments	560	-	-
Revaluation	-88	-72	-150
Overall BOP Position	2301	1242	264

Source: Central Bank

Because policies have not really seen drastic changes there is very little transformation in Philippine trade structure between 1950 and 1970. The top 10 principal exports as source of foreign exchange remained constant during this period, accounting for 75 to 85 percent of all exports.

Since the early seventies there have been shifts in the structure and pattern of trade not so much because of policy reforms but of adjustments to external shocks and incentives to exports. The share of the 10 principal exports fell to 34 percent in 1980. Conversely the share of non-traditional manufactured exports (e.g. electronic components, garments, handicrafts, chemicals, furniture and parts, footwear etc.) to total increased from 8.3 percent in 1970 to 61.7 percent in 1985.

This change in trade structure is not only confined to products but markets as well. The principal destinations of our exports, while remaining basically the same, have actually declined in importance. In the early seventies, both the US and Japan constituted 74 percent of our export markets. By 1985, this had dropped to 44 percent with the slack taken up by ASEAN, the socialist countries and Hongkong, Australia and the Middle East. For imports both the US and Japan declined in share from 57 percent to 39 percent during the same period.

Despite what seems to be evident as structural changes in trade pattern and performance especially in the seventies,

Philippine trade still suffers from some fundamental flaws that give both concern and opportunity to policy alternatives and reforms which may have implications on the balance of payments and the behavior of TNCs.

First is the widening base of export products and the increased processing behind them. The increasing value of non-traditional manufactured exports implies that the country is now actively competing in global markets. Moreover, this is reflected in the significance of exports from processing zones where many TNCs operate.

Within the context of this widening base and expansion however is a concern over a disproportionate share of few products in the spectrum of non-traditional manufactures. In 1985, 59 percent of these new exports were accounted for by electronics and garments which have higher import content than, say, processed food, handicrafts, furniture or footwear.⁷ Indeed, if we had relied on a few principal exports for a large part of foreign exchange earnings, it is obvious that the lopsided scale of new exports had not changed the structure.

Third, the trade pattern and performance evident in the recent past has not corrected inherent balance of payments problems that seemed to occur in short-term frequencies. This is not of course directly traceable to the structure of imports or

exports but to larger factors (e.g. exchange rate) that condition them. What is problematic is the shift in the export basket towards those requiring more imports. Unless the trade structure itself will reflect comparative advantage and an equilibrium state, balance of payments problems will continue to plague the country.

Fourth, the structure for the country's industrialization path continues to retain vestiges of the distortionary protection system of the sixties and the narrow base of industry it spawned. This is reflected in the structure of tariffs, system of regulation, incentives package, and government participation in industry despite the reforms on the trade area instituted in 1980. A more even protection and neutral incentives will have to be addressed in any further restructuring of trade and industrial policies.

In summary, the underlying trade and capital structure of the BOP does not seem to bode well for a sustainable payments position for the country. For one the trade balance itself speaks of continued unfavorable trends unless break-out into less import-dependent exports take place and more processing and value-added goes into agriculture-related exports. The associated import substitution syndrome that the trade accounts reveal needs to be structurally addressed. For another the capital account has obviously reached its limit in terms of

previous patterns. Over dependence on long-term loans has indeed resulted in the country's debt crisis. It is unlikely that the pattern can be sustained. This also requires a structural reform.⁸ Finally, the other BOP accounts (e.g. services, remittances) have to be seen in the context of the overall economic conditions. They also have to be structurally addressed.

3. Structural Change

The previous section alluded to the BOP and trade accounts requiring structural reforms. This section outlines the agenda for structural reforms that the Philippines has identified in its development plans.

Continued reliance on long-term loans throughout the seventies amidst lingering trade deficits eventually led to the outbreak of the country's debt crisis. Without a concomitant increase in foreign exchange and a decline in real economic activities, the debt-service became a heavy burden on the economy.⁹

The debt crisis led to two important consequences. One was the concern for the absolute size itself. The other was the increasing share in the debt-service burden. The Philippine Medium-term Plan spells out the damage of the debt crisis on BOP accounts. In the services account, interest payments are

recorded to average a yearly outflow of US \$2.48 billion during the period 1988-1992. Indeed net services is seen to be negative throughout the same time period.¹⁰

On the other hand, Philippine government estimates of medium- and long- term loan availments show that over the period 1987-1992 the country would have an overall net outflow of US \$1.8 billion from both official and commercial sources. Apparently, the projections in the Plan support the observation earlier made on the declining importance of ODA in the overall resource flow of the country.¹¹

One implication of these magnitudes is a net resource transfer from the Philippines to its creditors abroad of about US \$16 billion during the course of the present regime i.e. 1987-1992. Put differently, the country would be a net creditor, a stage obviously too early for its level of development. While this is not unique to the Philippines but is characteristic of most heavily indebted developing countries, it brings to the fore the need as well for a global approach to structural change.

Another implication is that these net outflows open a wider BOP gap than otherwise, given growth targets and their associated foreign exchange flows. This gap has also been estimated to be US \$7-8 billion over the same period.

The structure of Philippine BOP has therefore been highly shaped by the debt crisis of 1983. Net resource transfers significantly impact on exchange flows but most especially on the real sector of the economy.

Increasing availability or our accessibility to Official Development Assistance (ODA) is another source of foreign exchange. But here there are many factors that militate against the expansion of this source including institutional bottlenecks, project conditionalities etc. While ODA to the Philippines increased in 1986-1987 it is not foreseen to continue. There is an expected fallout from large increases of ODA consistent with global trends. Thus ODA is not likely to address the structural problem of BOP.

We are then left with DFI flows as responding to the structural adjustment needs of the BOP. However the required flows are shifts from historical patterns. For instance average annual levels of new DFI are projected to be US \$102 million, almost double the historical average of US \$58 million (1976-86). Reinvested earnings will grow by 1.7 percent per year instead of a 30 percent decline historically (1976-86). Clearly this implies a structural shift in DFI, a stronger reliance on it and a greater role for it in the economy. Yet even with this the burden on the rest of exchange flows remain.

In summary, the DFI will be part of structural change on the economy in the aftermath of the debt crisis and lesser reliance on commercial and multilateral or bilateral sources. The question now is what choices are left for policy to bring about the required structural change.

4. Issues and Conclusions //

The Philippine government has begun a structural reform program in the trade sector which bears on DFI. This includes (a) the removal of quantitative trade restrictions and shift to tariff as protective instrument, (b) moratorium on EPZ expansion, (c) rationalization of industry programs and (d) trade liberalization.

Recall that we have shown in this paper that DFI and TNC operations have been predominant in industries characterized by high EPRs or concentration ratios. It was also shown that this has been quite stable over a long period of time. This seems to be a classic pattern of DFI flows as behavior responding to protective walls to obtain market shares through local production or assembly i.e. import-dependent import substitution. In the case of the Philippines, this pattern has been accentuated by the existence of non-tariff barriers in manufacturing industries. As a result industries have become inefficient or earn excessive returns as reflected by wide disparities between domestic and

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border prices.

Structural reforms towards greater liberalization have therefore been viewed by a number of TNCs as a threat to their expansion and stay in the country. For instance, tire manufacturers, all TNCs, have argued for continued trade regulation of their products noting their possible inability to compete globally. Yet it seems obvious that protection may have been the rationale for this industry to be in the country.

Liberalization is therefore not necessarily seen as positive for existing TNCs especially those which are in the country because of high protective walls. But if the policy interest on DFI is industrial expansion in accordance with the country's resource endowments and comparative advantage, protection or liberalization is an important issue. For domestic development as well as for the neutrality of policy regime, apart from inherently capturing the benefit of DFI/TNCs, greater trade liberalization and protection rationalization is a forgone policy direction.

A neutral economic environment being part of a structural reform does not imply that the institutional support for DFI/TNC is also neutral. The incentive structure for foreign investments in the Philippines has been modified, as noted earlier. The broad principle involved however is whether FDI/TNC were forthcoming or can be attracted with investment incentives. The

choice is actually not only between promotion and incentives but also between general service and policy reform and particular incentives to firms or industries.

Guisinger (1986) has argued that foreign investors do look into incentives given them and that these do matter in location decisions, contrary to a common belief that incentives are not as important as the provision of or accessibility to basic infrastructure such as telecommunications, physical facilities, ports, peace and order and the like. Moreover in situations where incentives are withdrawn (while other countries' incentives remain) foreign investors expressed the view that their investments would not be forthcoming. What is interesting to note in the study is the importance of policy consistency and stability.

For the Philippines, the facts suggest that incentives may not be as crucial as the broad environment itself. For one the value of FDI registered with the BOI which requirement is necessary for incentives is only a small fraction of total FDI as reflected in Central Bank data. For another the fragmented studies on Philippine firms seem to indicate the relative unimportance of incentives compared to such external factors as political stability, peace and order, basic infrastructure etc. Finally, business firms (domestic and foreign) are more concerned with the stability and consistency of incentives than of the

incentives themselves (Pernia and Herrin, 1987; Alburo, 1983; Ariff and Hill, 1985). Indeed if we remove the importance of tariff structure in the incentives dimension, the net packages lose their importance even in the context of Guisinger's study. The alignment of Philippine incentives with ASEAN will neutralize the incremental influence of incentives (assuming they have influence) and leave more basic structures to affect DFI flows.

What seems essential then is to keep the broad environment "right" and the policy regime neutral. There are equal costs in either incentives or promotion in attracting DFI and TNCs into the country. The latter however might have less distortionary effects than the former, at the same time keeping the structural reform.

In the final analysis, structural change in the Philippines can lead to changes in the nature of DFI/TNC flows as well, especially in the form of newer forms of DFI/TNCs away from an inward look into the domestic markets sheltered by protection and into world markets in greater inter industry linkages that rely on comparative advantages.

The pursuit of structural change in the context of greater trade liberalization is aimed at shifting sources of external resources from loans into DFI. As the country recovers and sustains its growth it cannot rely anymore on transactions which require fixed payments in the form of interest and amortization.

Rather there will have to be greater reliance on DFI as responding to the vacuum of external resources. The role of the new generation of DFI and TNCs will even be greater.

It is useful to point out that the country has to avoid relying on mechanisms that, while in the short-run promote interim growth, only postpones much needed structural changes that build a stronger permanent foundation for sustainable development. Thus in the fifties, one can argue that the country had a control-led growth, in the sixties an import-substitution-led growth, and in the seventies and early eighties a debt-led growth. With all the focus on soliciting more aid, ODA and multilateral assistance, growth may become an aid-led one. On the contrary, reforms that alter trade and investment structures which may define new niches for DFI and TNCs will result in a broader base for growth consistent with the country's factor endowments.

In summary, the structural change that is now in the Philippines' development strategy implies a different role for DFI and TNCs than in the past. In particular DFI flows are seen to absorb the slack in the use of multilateral, bilateral and commercial loan sources. Given the changing picture of global DFI towards international production, the realignment and revaluation of currencies among home countries, and increasing competitive structure of global markets, TNCs will be seen to

play not only a larger but a different role from the past which had been inward-looking into domestic markets. Although the political dimension may provide some constraints to the TNCs character in the country's structural change, there is no doubt that DFI has now assumed a more crucial role.

FOOTNOTES

1

BOI data however suffer from the fact that they are commitments of equity participation and do not measure actual investment flows. In addition to differences between commitments and flows one would have to determine the timing of the translation into flows.

2

Joint CTC/ESCAP Unit on Transnational Corporations, "Monitoring and Regulating Transnational Corporations in the Philippines," Working Paper No. 11 (Bangkok, Thailand: August 1980), p. 5.

3

To the extent that the inclusion of services in the current General Agreement on Tariffs and Trade Uruguay Round of Multilateral Trade Negotiations yield acceptable results, there may be surges of TNCs and DFI in financial institutions.

4

The inflow of long-term loans effectively postponed needed structural reforms and policies.

5

The 1973 positive balance was more the product of the commodity boom than of any significant change in trade structure.

6

For an analysis of the structural change from the expansion of non-traditional manufactured exports see F.A. Alburo, "Philippine Trade in Manufactures: Structural Change and Adjustment" University of the Philippines School of Economics Discussion Paper 8509 (August 1985).

7

Both electronics and garments exports are significantly contributed by consignment arrangements or vertical transactions among TNCs.

8

A reduction in interest payments for the country's external debt will obviously ease BOP problems (in the current account). While this helps, this again is not a permanent correction in the sense of structure.

9

Even on a liberal calculation of debt-service burden as the ratio of debt service to current account receipts, this has increased from 14 percent in 1975 to 23 percent in 1986. As a ratio to exports however, the burden is even higher (38 percent during 1978-1981).

10

Medium-Term Philippine Development Plan 1987-1992 (Manila: National Economic and Development Authority, 1986).

11

It goes without saying that overall net outflows would even be wider if there were no ODA at all.

12

See R.M. Bautista, J.H. Power and Associates, Industrial Promotions Policies in the Philippines (Makati, Philippines: Philippine Institute for Development Studies, 1979).

13

Compare Tables 2 and 5.