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The services sector in the Philippines

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Introduction

The objective of this paper is to study the traded services in the Philippines with emphasis on the analysis of government intervention. The introduction contains the definition of services as they are measured in Philippine data, and the major sources of data used in the analysis. Section 1 examines the pattern of trade in services. Section 2 contains information on the links between the Philippine domestic economic structure and trade in services. Section 3 gives details of the regulation and protection of traded services which are presented and analysed in terms of government policies, levels of protection, and economic implications. Finally some prospects for policy cooperation in traded services are suggested.

For this study two types of classification of services are used, that of the national income accounts and that of the balance of payments accounts. The balance of payments accounts define the traded services sector as composed of the following current non-merchandise trade transactions: freight and insurance, other transportation, travel, investment income, government, and other services. The national income accounts define services as transportation, communication and storage, trade, finance, real estate, government services, educational services, health services, and hotels and restaurants.

Data from both primary and secondary sources were used in this paper. The main sources of statistical data are the International Monetary Fund (IMF), the Central Bank of the Philippines, the 1978 Interindustry Accounts of the Philippines, and the National Census and Statistics Office (NCSO). In addition, industry-specific statistics come from the Philippine Tourism Authority (PTA), the Philippine Airlines (PAL) Annual Report for 1980, and the Insurance Commission Annual Report for 1980. Data for analysing government intervention in traded services are provided by laws, decrees, regulations, and other official documents, as well as through interviews with senior ranking officers from the government agencies. Finally, the paper draws on existing materials in discussing trends in specialisation among services, supply conditions in the service industries and economic implications of protectionism in these industries.

Some data are difficult to obtain and inconsistent. For example, there are data gaps regarding the pattern of trade in services and levels of protection. There are no detailed files of foreign exchange receipts and disbursements for 1960. Balance of payments statistics by direction of trade for each component of traded services have been available only since 1978 and therefore preclude any long-run analysis of bilateral patterns of trade in services. Except for the PTA, no government agency keeps account of the level of subsidies granted to and the amount of taxes collected to protect a particular industry under its supervision. There is evidence of some unreliability in particular balance of payments data, such as travel receipts, on which Central Bank balance of payments data differ drastically from estimates of the Ministry of Tourism. Some data published by the Central Bank differ from the International Monetary Fund Statistics. These statistical gaps will be explained as they are encountered in the analysis.

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1 Pattern of trade in services, 1960–1980

Composition and changing shares

Services has substantially increased its share in Philippine international trade over the last two decades. In 1960, total receipts from services amounted to US$69 million, or 10.7 per cent of all receipts from goods and services.[1] This share rose to 29.4 per cent in 1980.[2] Total payments for services in 1960 were US$183 million, or 23.3 per cent of all payments for goods and services, increasing to 25.4 per cent in 1980. Because of the greater increase in the share of service receipts, the deficit in the trade balance has shown a relative decline. In 1960, the deficit in the services trade balance was US$114 million, or 165 per cent of all service receipts but, by 1980, it had declined to only 13.6 per cent of service receipts.

Tables 1 to 3 show the composition of Philippine trade in services over two decades. There are gaps between balance of payments data published in the Philippines and those published by the International Monetary Fund (IMF). There are two major reasons for the differences between them. First, the IMF balance of payments accounts are based on accruals, while the Central Bank of the Philippines records actual cash flows. Secondly, the IMF balance of payments data are based on the f.o.b. values of trade data, while Central Bank data derive mostly from bank reports which generally record the c.i.f. values.

Despite these data gaps, however, it is possible to discern some broad trends in the composition of Philippine trade in services. The residual item termed 'other services' includes labour income, property income, and other goods, services and income, and it has dominated the export of services over the past two decades.

According to Central Bank data, in 1980, 51 per cent of invisible receipts on current account was made up of 'other services' (Table 3). A large proportion of this (21 per cent) is personal income, mainly seamen's and contract workers' incomes. Raw data from the Central Bank indicate that consultancy fees made up only 1 per cent of all invisible receipts on current account in 1980. Travel has shown the greatest growth among service exports, increasing its share in all service receipts from 4 per cent in 1960 to 14 per cent in 1980.

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[1]All basic data for 1960 come from the Republic of the Philippines, National Economic and Development Authority, 1980 Philippine Statistical Yearbook (NEDA, 1980, p. 500).

[2]All basic data for 1980 come from the International Monetary Fund, 1981 Balance of Payments Statistics Yearbook (IMF, 1981, p. 427).

TABLE 1 Balance of payments, services account, 1973-80 (SDR million, percentages in parentheses)

Item	1973 R[a]	1973 P[a]	1974 R	1974 P	1975 R	1975 P	1976 R	1976 P	1977 R	1977 P	1978 R	1978 P	1979 R	1979 P	1980 R	1980 P
Goods and services	2059	1854	2933	3335	2611	3633	2937	4123	3562	4495	3869	5044	4779	6263	6044	7950
Freight and insurance	16	141	20	270	19	267	27	277	80	305	66	328	73	365	77	436
	(2)	(27)	(2)	(37)	(2)	(34)	(3)	(28)	(7)	(27)	(5)	(26)	(5)	(24)	(4)	(22)
Other transportation	25	9	39	14	55	25	58	31	55	63	45	73	55	132	82	148
	(4)	(2)	(5)	(2)	(6)	(3)	(6)	(3)	(5)	(5)	(3)	(6)	(4)	(9)	(5)	(7)
Travel	65	13	48	14	90	22	80	25	124	30	168	41	184	58	246	81
	(10)	(3)	(6)	(2)	(10)	(3)	(9)	(3)	(11)	(3)	(13)	(3)	(13)	(4)	(14)	(4)
Investment income	55	150	142	187	140	243	110	329	119	394	145	468	164	563	240	803
	(8)	(29)	(17)	(26)	(16)	(31)	(12)	(34)	(11)	(34)	(11)	(37)	(12)	(37)	(13)	(40)
Government	336	40	260	52	298	62	356	69	324	53	326	83	300	71	358	93
	(51)	(8)	(32)	(7)	(33)	(8)	(38)	(7)	(30)	(5)	(25)	(6)	(22)	(5)	(20)	(5)
Other services	160	162	314	184	294	165	302	246	388	297	551	277	592	322	771	454
	(24)	(31)	(38)	(26)	(33)	(21)	(32)	(25)	(36)	(26)	(42)	(22)	(43)	(21)	(43)	(22)
All services	657	515	823	721	896	784	933	977	1090	1142	1301	1270	1368	1511	1774	2015
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

[a]R = receipts, P = payments.

Source: International Monetary Fund, Balance of Payments Statistics, Volume 32, Yearbook, Part 3, 1981, p. 427.

TABLE 2 Balance of payments, services account, 1973-78 (US$ million, percentages in parentheses)

Item	1973		1974		1975		1976		1977		1978	
	R[a]	P[a]	R	P	R	P	R	P	R	P	R	P
Goods and services	2510	2235	3526	4010	3170	441	3476	4664	4161	5248	3244	4371
Freight and insurance	20	193	23	324	23	323	31	320	94	356	80	310
	(3)	(30)	(3)	(37)	(3)	(34)	(3)	(28)	(9)	(27)	(7)	(22)
Other transportation	30	11	47	18	67	30	67	36	63	73	56	93
	(5)	(2)	(6)	(2)	(7)	(3)	(8)	(3)	(6)	(5)	(5)	(7)
Travel	77	15	58	17	110	27	93	29	145	35	209	52
	(12)	(2)	(7)	(2)	(12)	(3)	(11)	(3)	(13)	(3)	(19)	(4)
Investment income	65	179	171	225	170	296	127	381	140	460	198	538
	(10)	(28)	(20)	(26)	(19)	(31)	(15)	(34)	(13)	(34)	(18)	(38)
Government	185	47	157	62	181	76	204	80	189	62	207	87
	(29)	(7)	(19)	(7)	(20)	(8)	(23)	(7)	(17)	(5)	(19)	(6)
Other services	262	193	377	221	357	200	348	284	454	347	344	315
	(41)	(30)	(45)	(25)	(39)	(21)	(40)	(25)	(42)	(26)	(31)	(23)
All services	639	638	833	867	908	952	870	1130	1085	1333	1094	1395
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

[a]R = receipts, P = payments.

Source: National Economic and Development Authority (NEDA), 1980 Philippine Statistical Yearbook, p. 501.

TABLE 3. Composition of the services accounts, balance of payments, selected years (percentage)

Item	1960		1965		1970		1975				1980			
							NEDA data		IMF data		CB data		IMF data	
	R[a]	P[a]	R	P	R	P	R	P	R	P	R	P	R	P
Freight and insurance	6	31	5	27	11	27	3	34	3	34	1	7	4	22
Other transportation	–	4	–	3	3	5	7	3	6	3	5	10	5	7
Travel	4	3	9	22	37	7	12	3	10	3	16	5	14	4
Investment income	9	44	6	20	4	35	19	31	16	31	15	42	14	40
Government	32	4	22	3	26	4	20	8	33	8	12	6	20	5
Other services	49	14	58	25	19	22	39	21	33	21	51	30	43	22
All services	100	100	100	100	100	100	100	100	100	100	100	100	100	100

[a] R = receipts, P = payments.

Sources: For 1960, 1965, 1970 and 1975: NEDA, 1980 Philippine Statistical Yearbook, pp. 500-1. For 1975 and 1980: IMF, 1981 Balance of Payments Statistics Yearbook, p. 427. For 1980: Central Bank of the Philippines 'Invisible Receipts, January - December, 1980 and 1981', and 'Invisible Disbursements, January to December, 1980 and 1981' (mimeographed).

Intra-ASEAN shares and growth

Table 4 shows the direction of Philippine trade in services. The United States dominates that trade, accounting for 58.2 per cent in 1980, while that with ASEAN was relatively insignificant, accounting for only 1.6 per cent.

Tables 5 and 6 summarise the structure of Philippine services trade with other ASEAN nations. A substantial portion of Philippine service exports to Singapore, Malaysia and Indonesia is made up of the residual item 'other services'. Although there is no official disaggregation of this residual, preliminary Central Bank data indicate that the bulk of these 'other services' consist of the operating expenses of branch offices located in the Philippines. Personal income represents the largest service export to Thailand and also makes up a large component of invisible receipts from the other three ASEAN countries.

Finance is the largest service import of the Philippines from other ASEAN countries, coming mainly from Singapore. This is followed by travel, since the Philippines has a large travel deficit with Singapore, possibly because it is a business and tourist centre for many Filipinos.

Philippine-Australian bilateral links

Table 7 shows the services trade account between the Philippines and Australia for 1980. Philippine trade in services with Australia constitutes only a small amount of its total world trade in services, and about one-fourth of the value of its trade in services with other ASEAN countries. The Philippines has a considerable surplus in its balance of services trade with Australia.

Australian government expenditures and the residual item 'other services' represent the largest receipts in the Philippine services trade account with Australia. Unofficial Central Bank data indicate that 86 per cent of 'other services' are for operating expenses. Travel and 'other services' make up the largest services payments to Australia. Under regulations implemented by the Philippines Central Bank, Australia has one of the highest allowances for foreign exchange purchases for travel. Thus, travel to Australia is relatively less restricted despite the Philippines general policy to restrict travel. However, the foreign exchange allowances for educational expenses of students and maintenance of dependents in Australia are less than those for the United States but the same as for Europe, Japan and New Zealand.

TABLE 4 Direction of Philippine services trade, 1980 (US$ million, percentages in parentheses)

Item	ASEAN		Australia		United States		Japan		Other countries		Total	
Government expenditure	1.002	(0.3)	4.282	(1.2)	76.806	(21.7)	0.179	(0.05)	272.231	(76.8)	354.50	(100)
Services	22.026	(1.7)	7.554	(0.6)	1106.990	(82.8)	60.552	(4.5)	140.018	(10.5)	1337.14	(100)
Freight and insurance	3.139	(2.0)	1.232	(0.8)	103.526	(65.2)	16.046	(10.1)	34.857	(22.0)	158.80	(100)
Other transportation	12.936	(4.3)	.770	(0.3)	196.709	(66.0)	23.140	(7.8)	64.415	(21.6)	297.97	(100)
Travel	5.734	(1.4)	3.051	(0.7)	295.065	(69.3)	11.581	(3.7)	110.189	(25.9)	425.62	(100)
Investment income	17.526	(1.5)	.471	(0.04)	538.132	(47.3)	31.413	(2.8)	550.768	(48.4)	1138.31	(100)
Miscellaneous	–		–		–		–		268.480	(100.0)	268.48	(100)
Total	62.363	(1.6)	17.360	(0.4)	2317.228	(58.2)	142.911	(3.6)	1440.958	(36.2)	3980.82	(100)

Source: Central Bank of the Philippines.

TABLE 5 **Invisible receipts of the Philippines on current account from other ASEAN countries, 1980 (US$ million, percentages in parentheses)**

Item	Indonesia		Malaysia		Singapore		Thailand	
1. Government expenditures	-		0.006	(0.6)	1.002	(4.7)	-	
2. Services	1.951	(79.6)	0.793	(82.8)	15.768	(74.4)	0.197	(49.6)
Prem. on non-mdse insurance[a]	0.001		0.009		0.195		-	
Personal income	0.549		0.108		3.100		0.113	
Management and consultant fees	0.073		-		0.001		-	
Commissions	0.279		0.205		1.131		0.048	
Construction activity	0.042		-		0.156		-	
Subscriptions	0.005		-		0.004		-	
Communication, stamp, postage	0.026		-		0.003		0.003	
Other services	0.976		0.471		11.178		0.033	
3. Freight and insurance	0.062	(2.5)	-		0.314	(1.5)	0.058	(14.6)
4. Other transportation	0.401	(16.3)	0.054	(5.6)	1.531	(7.2)	0.047	(11.8)
5. Travel	0.038	(1.6)	0.105	(11.0)	0.424	(2.0)	0.095	(23.9)
6. Interest income	-		-		2.148	(10.1)	-	
Total Receipts	2.452	(100)	0.958	(100)	21.187	(100)	0.397	(100)

Composition of 'other services' (percentage)

Item	Indonesia	Malaysia	Singapore	Thailand
Re-export of consigned materials	-	3.6	1.0	-
Operating expenses	91.3	91.3	38.3	86.1
Surrender of AFXDS	-	1.0	1.0	8.2
Other	8.7	4.1	59.7	5.7
Total	100	100	100	100

[a]Premiums on non-merchandise insurance.

Source: Central Bank of the Philippines.

TABLE 6 Current invisible payments from the Philippines to other ASEAN countries, 1980 (US$ million, percentages in parentheses)

Item	Indonesia		Malaysia		Singapore		Thailand		All ASEAN	
1. Government expenditures					0.00127	(.01)			0.001	
2. Services	0.369	(25.7)	0.1822	(27.9)	2.18244	(8.8)	0.583	(5.6)	3.317	(8.9)
Personal income	0.168		0.0026		0.0092		0.010			
Management and consultant fees	0.073		0.0058		0.48295		0.005			
Other services	0.128		0.1738		1.68957		0.568			
3. Freight and insurance	0.429	(29.9)	0.0010	(0.1)	1.13807	(4.6)	1.137	(10.9)	2.705	(7.2)
4. Other transport	0.012	(0.8)	0.0060	(0.9)	2.69745	(10.8)	8.188	(78.7)	10.903	(29.2)
5. Travel	0.388	(27.0)	0.4641	(71.1)	3.72744	(15.0)	0.492	(4.7)	5.072	(13.6)
6. Profits, earnings, dividends	0.237	(16.5)		-	0.19431	(0.8)		-	0.431	(1.1)
7. Interest payments		-		-	14.939	(60.0)	0.008	(0.1)	14.947	(40.0)
Total	1.435	(100)	0.653	(100)	24.8796	(100)	10.408	(100)	37.376	(100)

Source: Central Bank of the Philippines.

TABLE 7 **Services account: Philippines-Australia, 1980 (US$ million, percentages in parentheses)**

Item	Receipts		Payments	
1. Government expenditures	4.281	(38.5)	0.001	(0.02)
2. Services	5.013	(45.0)	2.541	(40.8)
Premium on non-mdse insurance			0.013	
Premium on non-mdse reinsurance			0.012	
Claims on non-mdse reinsurance			0.022	
Personal income	0.867		0.282	
Management and consultant fees	0.045		0.247	
Commissions	1.274		0.127	
Construction activity	0.109		0.220	
Communication	0.003		0.001	
Traffic payouts	-		0.010	
Advertising	-		0.046	
Subscriptions	-		0.023	
Film rentals	-		0.037	
Royalties	-		0.006	
Other services	2.715	(24.4)	1.404	(22.5)
Adjustments	-		0.036	
Cancellation and refund	-		0.049	
Rebates, discounts and penalties			0.006	
3. Freight and insurance	0.013	(0.1)	1.219	(19.6)
4. Other transportation	0.724	(6.5)	0.046	(0.7)
5. Travel	1.101	(9.9)	1.950	(31.3)
6. Profits, earnings, dividends	-		0.304	(4.9)
7. Interest	-		0.167	(2.7)
Total	11.132	(100)	6.228	(100)

Source: Central Bank of the Philippines.

Measures of specialisation and dependency by country and industry

Table 8 shows the measures of specialisation in services, (meaning the ratio of receipts to disbursements of particular services) for the years 1960 and 1980. In 1960 the Philippines specialised in personal and other services. There are no other detailed data on invisible receipts and disbursements for 1960, but the available literature shows that personal income receipts became prominent during the latter half of the 1960s when large numbers of Filipino loggers went to work in logging camps in Kalimantan. At the same time, many construction workers were recruited to work in Vietnam, Thailand, and Guam as the war in Vietnam escalated. At present, large numbers of professionals are leaving for the Middle East and Africa (Abella, 1979, pp. 7-14). While the largest group of workers going overseas was for construction, data from the Overseas Employment Development Board show that between 1975 and 1981 one out of every four workers was a professional or a technical worker. This is a relatively high share, since the national average for professionals and technical workers is only one out of every twenty in the Philippine labour force.

In 1980 the Philippines still specialised in personal and other services, but travel services had become increasingly important. Between 1974 and 1980 tourism became a priority industry eligible for a variety of tax incentives and customs concessions. This period is considered the peak in Philippine tourism.

In 1960 the Philippines was still very dependent in the transportation field. Virtually all of its needs were imported. But by 1980 this dependency was relatively less important compared with equity finance, freight and insurance. In terms of concentration of services traded, the Philippines has therefore been most dependent on finance imports and personal services exports. The United States has been the most important trading partner in services trade. In 1980 about 61 per cent of all exports of services went to the United States. This pattern was reflected in each component of the services account. The United States also provided over 55 per cent of all imports of services (Central Bank of the Philippines data).

TABLE 8 Specialisation and dependence in services, 1960 and 1980

Service	Receipts/Disbursements 1980		Receipts/Disbursements 1960	Share in total service trade (excluding govt expenditures) 1980		Share in total service trade (excluding govt expenditures) 1960
Freight and insurance	.15181		.07143	.044		.269
Other transportation	.55330		.00000	.082		.031
Travel	3.01983		.50000	.117		.040
Profits, earnings and dividends	.03380	- .34805	.07407	.041	- .313	.390
Interest	.41396			.272		
Personal income						
Management & consultancy fees	2.52335			.369		
Other services						
Miscellaneous	.24187		1.30769	.074		.269

Source: Central Bank of the Philippines.

2 Links between the domestic economic structure and trade in services

Relative size of the services sector

Table 9 shows the relative size of the different major sectors in the Philippine economy. National accounts indicate that the services sector has been quantitatively the most important producer of gross domestic output since 1950 (NEDA, 1981, pp. 166-9).

TABLE 9 Philippine gross domestic product by industrial origin, 1980-81 (constant 1972 prices)

Industry	Levels (million pesos) 1980	1981	Per cent distribution 1980	1981
1. Agriculture, fishery and forestry	23720	24578	25.6	25.6
2. Industrial sector	33471	35057	36.1	36.4
3. Services sector	35503	36554	38.3	38.0
Transport and storage	3937	4066		
Communication	890	974		
Wholesale and retail trade	12224	12731		
Banks, nonbanks and insurance	4306	4002		
Real estate and ownership of dwellings	2815	2962		
Government services	4769	4998		
Hotels and restaurants	1440	1500		
Other private services	5122	5321		
Gross domestic product at market prices	92694	96189	100	100

Source: NEDA, Philippine Economic Indicators, Vol. X, No. 6 (June 1982), pp. 46 and 75-81.

Table 10 compares industry size within the services sector as it appears in the census of establishments and in the interindustry tables.[3] All measures of the values of the services sector as shown in the interindustry accounts and the census of establishments indicate that wholesale and retail trade is the most important component of the domestic services sector.

TABLE 10 Estimates of industry size within the services sector, 1978 (US$ million, percentages in parentheses)

Service industry	Gross output (interindustry tables)		Receipts (census of establishments)	
Land transport operation	1077	(8.7)	308	(0.8)
Water transport operation	360	(2.9)	747	(4.5)
Air transport services	203	(1.6)	105	(0.6)
Services incidental to transport	302	(2.4)	3	(-)
Communication services	192	(1.6)	228	(1.4)
Storage and warehousing	10	(0.1)	3	(-)
Wholesale and retail trade	4385	(35.5)	10282	(61.3)
Banks, nonbanks and insurance	1223	(9.9)	2432	(14.5)
Real estate and ownership of dwellings	996	(8.1)	1187	(7.1)
Government services	1222	(9.9)	28	(0.2)
Educational services	247	(2.0)	154	(0.9)
Medical and health services	370	(3.0)	176	(1.0)
Hotels and restaurants	747	(6.0)	631	(3.8)
Other private services	1029	(8.3)	478	(2.8)
Total	12363	(100)	16762	(100)

Source: NEDA, 1978 Interindustry Accounts of the Philippines; NEDA, National Census and Statistics Office, 1978 Census of Establishments.

It is not possible to distinguish wholesale and retail trade for the years shown in the table because the published accounts aggregate them into one sector. But the 1974 interindustry accounts provided some information about the proportions involved. The accounts indicated that for that year 51 per cent of value-added in trade was in wholesale trade, 55 per cent of final output in retail trade, and 64 per cent of gross output in wholesale trade. Much of the final demand for traded services is export demand.

[3]For details of estimation of gross output and receipts for the services sectors, see NEDA (1974, 1978).

Proportion of services traded

Table 11 shows gross value-added in traded services for the Philippines in 1978 and the proportion exported - about one-sixth. Among the traded services classified according to the national accounts categories, trade and transportation dominate, accounting for nearly half of the total. While wholesale and retail trade is the largest item in the traded services account, its exports make up only one-seventh of the value-added of the wholesale and retail trade.

Hotels and restaurants also constitute a significant 14 per cent of exported traded services (Table 11, col. 2). Exports make up most of the value-added of that sector, total dollar receipts amounting to US$220 million in 1978. 'Other services' accounts for less than one-fifth of total service exports whereas in Table 2 it accounts for 31 per cent of exports in 1978. The explanation for this discrepancy can be found in the difference in the components of the two 'other services' items.[4]

Government services are not traded at all. The traded component of financial and health services is also insignificant. These services, however, are traded in the same sense that retail services are traded to tourists.

Data in Table 11 of course represent merely the proportion of services traded directly. Services can also be traded indirectly when they are embodied as intermediate inputs in other industries. Table 12 shows that services used as intermediate inputs amounted to about US$4.7 billion in 1978.

Input-output linkages

This section analyses the linkages of the services sector. The Philippine input-output (I-O) table for 1978 was used for this analysis and the I-O table's 63 sectors were condensed into six major sectors (Table 12).

The 1978 I-0 tables show that the total output of the service industries amounted to US$12,363 million in 1978, out of which US$7,691 million, or 62 per cent, went to final demand and US$4,672 million, or 38 per cent, was used as intermediate inputs by various sectors. Of the 62 per cent of total output that went to final demand, private consumption, government expenditures, investment and exports accounted for 33 per cent, 12 per cent, 5 per cent and 12 per cent respectively.

[4]For composition of other services in the balance of payments and interindustry accounts, see NEDA, National Census and Statistics Office, and Central Bank of the Philippines data.

TABLE 11 Value-added and proportion of services traded, 1978

Service industry	Gross value-added (US$m) (1)	Exports (US$m) (2)	(1) / (2)
Transportation and storage	1184	358	3.3
Communication	157	20	7.8
Wholesale and retail trade	3583	524	6.8
Banks, nonbanks and insurance	1026	16	64.1
Real estate and ownership of dwellings	814	82	9.9
Government services	1184	-	-
Educational services	151	17	8.9
Medical and health services	259	12	21.6
Hotels and restaurants	299	220	1.4
Other private services	738	287	2.6
Total	9395	1536	6.1

Source: NEDA, 1982 Statistical Yearbook, pp. 182-9; NEDA, 1978 Input-Output Table (mimeographed).

Table 12 shows that the largest users of services as intermediate inputs are services themselves. In 1978 the value of services used by the services sector and the manufacturing sector amounted to US$2,355 million and US$1,795 million respectively. The proportion of services as intermediate inputs is broken down by industry in Table 13. Traded services are the most important service inputs for the manufacturing sector.

The cost of producing the service industries' output of US$12,363 million represents the whole range of inputs in the form of compensation to employees, indirect taxes net of subsidies, other value-added and other industrial inputs. Based on the Philippine I-O table for 1978, the services sector spent US$3,840 million for produced goods and services. They also paid US$3,080 million in the form of compensation to employees, and US$759 million to government in the form of indirect taxes net of subsidies, and realised US$8,524 million as other value-added.

Determinants of demand

There is an inverse relationship between the price of services and the quantity demanded, and a direct relationship between income and demand. A linear regression analysis was made with final demand as the dependent variable, and national income and

TABLE 12 1978 aggregated interindustry transactions table (US$ million, at producers' prices)

From sector / To sector	1	2	3	4	5	6	Subtotal	Final demand	Total output
1. Agriculture, forestry and fishing	505.3	7.1	3927.2	12.5	4.2	102.8	4559.1	3121.1	7680.2
2. Mining & quarrying	2.1	13.8	1075.4	74.3	-	3.0	1168.6	-491.5	677.1
3. Manufacturing	616.8	134.8	5191.1	934.2	147.6	1060.1	8084.6	9819.8	17904.4
4. Construction	5.5	1.6	10.4	19.1	1.3	106.7	144.6	2809.7	2954.3
5. Utilities	2.7	4.2	79.0	3.5	28.2	212.2	329.8	155.1	484.9
6. Services	182.1	58.5	1794.7	202.2	79.8	2354.9	4672.2	7690.9	12363.1
Subtotal	1314.5	220.0	12077.8	1245.8	261.1	3839.7	18958.9	23105.1	42064.0
Value added	6366.0	457.1	5826.0	1708.0	224.0	8524.0	23105.1		
Total input	7680.5	677.1	17903.8	2953.8	485.1	12363.7	42064.0		

Source: 1978 Interindustry Transactions Table.

TABLE 13 Services as intermediate inputs, 1978 (US$ million)

From service industry / To sector	1 Agriculture	2 Mining	3 Manufacturing	4 Construction	5 Utilities	6 Services	All sectors
Transportation	58.1	24.9	419.0	57.1	12.7	485.6	1057.4
Communication and storage	5.6	0.8	19.2	6.1	2.0	89.5	123.2
Trade	81.0	18.8	1025.4	69.2	36.1	185.3	1415.8
Finances	6.8	2.5	73.6	10.4	9.0	989.5	1091.8
Real estate	8.4	0.4	51.2	1.2	4.5	222.1	287.8
Government, education and health	6.2	2.2	33.4	2.8	1.4	42.5	88.5
Hotels and restaurants	2.9	2.3	21.2	5.3	2.5	82.9	117.1
Other private services	13.1	6.6	151.7	50.1	11.6	257.5	490.6
Service inputs	182.1	58.5	1794.7	202.2	79.8	2354.9	4672.2

Source: 1978 Interindustry Transactions Table.

relative prices as independent variables. Value-added has been selected to reflect demand rather than total output since there is no time series for total output by sector in the Philippine system of national accounts, and since, conceptually the value of total inputs, which is value-added, is equal to the value of the total output for each industry or sector.

Demand for services was therefore proxied by value-added in services in 1972 prices, and national income was also tabulated in 1972 pesos. Relative prices were represented by the ratio of the implicit price index for services to the implicit price index for national income. The regression coefficients for the time series regression reflected the expected signs with significant t-values. The estimated linear equation relating income and prices to demand for services is as follows:

$$D = 6219.36719 + .44317Y - .3802.17798P$$

$$(56.87373) \quad (-2.05299) \qquad R^2 = .99727$$

$$\bar{R}^2 = .99672$$

where D = demand for services

Y = national income

P = relative prices

The figures under the regression coefficients are t-values.

A study of the structure of demand for services also shows that its largest component is intermediate demand (Table 14). The demand for services is therefore a derived demand. The largest consumer of intermediate services is the services sector itself, so much of the demand for intermediate services may also depend on the final demand for services.

Intermediate demand makes up more than half the total demand for finance and insurance, communication and storage, and transportation. On the other hand, consumption demand constitutes the bulk of the demand for real estate and for hotels and restaurants. For these services, we can expect personal income to be an important determinant.

TABLE 14 Structure of demand for services, 1978

Service	Intermediate (US$m)	(%)	Consumption (US$m)	(%)	Government (US$m)	(%)	Investment (US$m)	(%)	Exports (US$m)	(%)	Total (US$m)	(%)
Transportation	1057.4	52.0	402.4	19.8	71.4	3.5	145.0	7.1	356.4	17.5	2032.6	100
Communication and storage	123.2	58.5	58.9	28.0	7.6	3.6	-	-	21.0	10.0	210.7	100
Trade	1415.8	32.3	1785.7	40.7	133.4	3.0	525.9	12.0	523.7	11.9	4384.5	100
Finance and insurance	1091.8	87.7	123.3	9.9	13.8	1.1	-	-	16.0	1.3	1244.9	100
Real estate	287.8	28.5	623.6	61.7	18.3	1.8	-	-	81.4	8.0	1011.1	100
Government, educational and health services	88.5	4.7	526.4	28.2	1222.3	65.5	-	-	29.2	1.6	1866.4	100
Hotels and restaurants	117.1	13.8	412.4	48.7	97.7	11.5	-	-	220.1	26.0	847.3	100
Other private services	490.6	41.6	377.8	32.0	23.7	2.0	-	-	287.3	24.4	1179.4	100
Total	4672.4	36.6	4310.5	33.7	1588.2	12.4	670.9	5.3	1535.1	12.0	12777.0	100

Source: 1978 Interindustry Accounts of the Philippines.

Supply conditions

Few studies exist on the supply conditions of the Philippine services sector. The government owns the national airline, several tourist enterprises, and the largest bank in the Philippines. Foreign ownership is evident in insurance, tourism, and banking.

Most of the large service establishments and their main offices are located in and around Manila. Large establishments are defined by the National Census and Statistics Office (NCSO) as those having ten or more workers. It is also in and around Manila that the biggest concentration of formal service employment is found. The International Labour Office (ILO), however, calls attention to the existence of a large, low-income, unorganised services sub-sector which is spread throughout the country.[5] According to the ILO calculation, over 60 per cent of total service employment can be found in the unorganised sector.

Table 15 shows the extent to which the service industries are labour-intensive. In terms of the labour/output ratio, the service industries rank first, second, sixth, seventh, ninth, and twelfth out of thirteen industries. Only trade and finance are not labour-intensive using this criterion. In terms of the labour/capital ratio, service industries rank first, third, sixth, seventh, and eighth out of eleven. Using this criterion, then, only trade and public services are labour-intensive. These statistics, however, do not represent the unorganised service sector.

The ILO gives some indication about productivity trends in services. Its findings indicate that the value-added per worker in the services sector relative to the rest of the economy fell from 1.74 in 1960 to 1.23 in 1971; for commerce the decline was from 1.94 to 1.15.

Table 16 indicates that productivity is higher in the larger establishments. This is a safe generalisation to make, especially in the service industries such as transportation and finance, where we can expect economies of scale. These economies of scale also lead to natural entry barriers arising from the large amounts of capital invested in the major service enterprises.

[5]Details of adjustments to the figures in the Bureau of Census and Statistics labour force survey by the ILO are explained in ILO (1974, pp. 391-6).

By contrast, easy entry into the unorganised sub-sector gives it the function of what the ILO calls a 'buffer zone' for low-income employment because of the lack of productive and desirable jobs elsewhere. However, the ILO adds that the trade and services sectors have been unable to absorb labour at such a high rate without a substantial fall in average productivity levels.

If the ILO is correct in its estimate that over 60 per cent of total service employment can be classified in the unorganised sector, we can deduce the size of employment in the unorganised 'buffer zone'. The 1978 census figure showed that 2,031,348 were employed in the organised services sector. This must, therefore, represent no more than 40 per cent of total service employment. Employment in the unorganised 'buffer zone' must then have numbered at least 3 million in 1978.

TABLE 15 Labour intensity by industry, 1978[a] (ranks in parentheses)

Industry		Employment	Employment per US$1 million Labour/output[b] ratio		Labour/capital ratio	
Agriculture and forestry	(large)	216,676	323	(5)	366	(5)
Fisheries	(large)	48,318	503	(4)	548	(2)
Mining and quarrying	(all)	48,062	86	(10)		
	(large)				92	(10)
Electricity, gas and water	(large)	28,835	34	(13)	16	(11)
Construction	(all)	126,662	160	(8)		
	(large)				432	(4)
Manufacturing	(large)	1,615,185	65	(11)	208	(9)
	(small)	243,180	749	(3)		
Transportation, communication and storage	(all)	262,682	175	(7)		
	(large)				250	(6)
Private services	(large)	312,583	273	(6)	234	(7)
	(small)	193,446	1155	(2)		
Public services	(large)	53,666	1930	(1)	513	(3)
Wholesale and retail trade	(all)	1,012,008	98	(9)		
	(large)				1817	(1)
Financing, insurance, real estate and business services	(all)	196,963	53	(12)		
	(large)				209	(8)

[a]Census data do not permit this type of analysis by hours worked.
[b]Output is measured by the total receipts reported in the 1978 Census of Establishments.

Source: NEDA, 1978 Census of Establishments.

TABLE 16 Measures of productivity in selected services

Service	Value-added ('000 pesos)	Employment (No.)	Productivity[a] (pesos)
Large transportation, communication and storage	4,098,018	167,953	24,400
Small transportation, communication and storage	330,564	94,729	3,490
Sub-total	4,428,582	262,682	16,859
Large private services	3,303,665	312,583	10,569
Small private services	610,315	193,446	3,155
Sub-total	3,913,980	506,029	7,735

[a] Average value-added per employee.

Source: NEDA, Preliminary Report, 1978 Census of Establishments.

3 Government intervention: regulation and protection of traded services

Government policies on supply or demand side

The Philippine government has enacted a number of measures intended to regulate and protect traded services. Such measures include border restrictions, regulatory barriers, factor market barriers, barriers to investment flows, and restrictions on government. These types of protection are examined below.

Border restrictions. The government has passed several regulations to control the flow of service imports into the Philippines. Presidential Decree (PD) 806 (1975), for example, provides that vessels registered in the Philippines and owned or controlled or chartered by Filipinos must have shares at least equal (40 per cent of all cargo trade) with vessels of another country in the carriage of international cargo between the Philippines and that other country. The Maritime Industry Authority (MARINA) must also approve all acquisitions of foreign vessels through importation or chartering.

Filipinos are also not allowed to import any insurance services, except in the case of reinsurance contracts, and then only with the approval of the Office of the Insurance Commissioner (OIC). Government policies dictate that firms must first reinsure locally; only when the risk 'cannot be absorbed' (i.e., the risk is too large) is reinsurance abroad allowed.

An alien coming to pre-arranged consultancy employment may enter the Philippines as a non-immigrant only on petition filed by the prospective employer with the Commissioner of Immigration, establishing that no person can be found in the Philippines willing and competent to perform the service.

Regulatory barriers. The Central Bank controls the flow of service imports through regulation of the sale of foreign exchange. The sale of foreign exchange is not permitted without prior approval by the Central Bank unless already covered by existing foreign exchange regulations or policies, some of which cover traded services. All transactions involving foreign exchange require Central Bank approval.

Among existing foreign exchange regulations are limitations on the amount of foreign exchange allowed for travel. For non-business travel, each individual who is at least 12 years old is allowed to purchase US$1,000 or US$600 depending on destination. Those under 12 are allowed half these amounts. Foreign travel is also subject to travel tax. It amounts to US$170 or $100, depending on the category of the ticket bought.

Imported services are subject to discriminatory taxes which can be considered as tariff equivalents. The statutory tax rate on the gross income of non-resident aliens from Philippine sources is generally 30 per cent of gross income for individuals and 35 per cent for corporations, but there are two exceptions. The first is reinsurance premia, which is not subject to tax. The second is interest on foreign loans, which is subject to a preferential 15 per cent tax.

Factor market barriers and other investment incentives. Among the measures for protection in the Philippines are tax exemptions for so-called 'pioneer' and 'preferred areas'. Most of the various incentive laws that have been enacted to grant subsidies to these areas have been consolidated in the Omnibus Investments Code (PD 1789) of 1981. The Code extends a deduction from taxable income for an amount equal to 50 per cent of the total export fees of exporters of services registered with the Board of Investments (BOI). Other incentives are given to investors in areas included in the Investment Priorities Plan which the BOI submits to the President of the Philippines each year. However, the only service industries included in the 1981 Plan were export trading and service exports, which include the export of consultancy services.

Export traders are defined in the Omnibus Investments Code as enterprises engaged in the sale of export products bought from one or more export producers. Service exporters are defined as enterprises engaged in rendering technical, professional or other services which are paid for in foreign currency or in exporting television and motion pictures and musical recordings made or produced in the Philippines.

In addition to the above incentives, there are tax incentives which have been granted to particular services through individual pieces of legislation. Among the more important are those granted to overseas shipping and tourism. These decrees grant income tax exemption to overseas shippers who invest their net income above 10 per cent in shipping investments, and provide several incentives, including tax credits on the interest on foreign loans, exemption from payments of real estate taxes on land improvements, tax concessions on imported capital equipment, and deduction from taxable income of profits which are reinvested.

Barriers to investment flows. There is a general rule in the Philippines regarding ownership. Foreign investments are permitted for up to 30 per cent of the outstanding capital of the enterprise without BOI permission. Beyond this, and for the licensing of foreign firms, BOI permission is required.

Among the most protected services in terms of ownership is the insurance industry which has been closed to foreign insurance companies since December 1946. (Foreign firms that had been operating before 1946 were allowed to continue.) Today, foreign insurance companies can enter the insurance industry only through joint ventures in which Filipino nationals hold at least 70 per cent of the equity.

Transportation is another industry protected in terms of ownership. As a public utility it may not have more than 40 per cent foreign ownership.

Restrictions on government. Governments are major purchasers as well as major suppliers of certain services. In 1978, for example, government agencies bought 13 per cent of the gross output and 21 per cent of the final output of services produced in the Philippines. The Philippine Airlines, the Philippine National Bank, which is the largest commercial bank, and several tourist establishments are all state-owned.

In transportation, there is a requirement that the government give preference to domestic carriers. Thus, where state agencies procure or export cargoes using government funds, they must utilise Philippine flag vessels. Except in certain instances, beneficiaries of government loans and guarantees must also utilise the services of Philippine flag vessels whenever the transportation is paid for from the proceeds of their loans.

In government foreign-assisted projects, the policy is to respect the provisions of the loan agreement regarding foreign consultants. Unless otherwise stipulated in the agreement, however, National Budget Circular No. 346 of 21 April 1981 specifies the policies on the staffing requirements of foreign-assisted projects, which also essentially apply to public sector projects which are not foreign-assisted. According to these policies, the services of foreign consultants are to be used only in the absence of local consultants with similar background and expertise and they may not be paid more than 120 per cent of the salary of their local equivalents except with ministerial exemption.

Levels of protection

Insurance. Foreign firms operating since before December 1946 must, under Section 191 of the Insurance Code, deposit with the Insurance Commissioner total securities with a market value of at least as much as the minimum paid-up capital required of domestic insurance companies. At least 50 per cent of this deposit must consist of evidence of debt of the Philippine government. The tax rates which apply to domestic corporations also apply to foreign insurance companies operating in the Philippines. Any profit remitted by a resident foreign corporation to its mother company is subject to a 15 per cent tax rate.

The OIC allows reinsurance abroad only when the risk cannot be absorbed locally. While reinsurance premiums of foreign as well as domestic reinsurers are not subject to tax, in the case of foreign reinsurers 40 per cent of their gross premiums must be retained by their ceding companies in the Philippines and invested in assets acceptable to the OIC. Foreign non-resident reinsurance companies pay a tax rate of 35 per cent on the gross income received from these assets or from other sources of income in the Philippines. An exception is a tax rate of 15 per cent on dividends received from domestic corporations, provided that a similar privilege is extended to the Philippines under a double tax agreement with the relevant foreign country.

Transportation. The large deficit on shipping indicated in the balance of payments accounts has led the government to promote local shipping services. One of the latest steps taken was the approval in 1981 of the purchase of 99 ships worth US$139.5 million.

A survey of Philippine law demonstrates the protectionist policy on overseas transportation. The Philippine Overseas Shipping Act of 1955 (RA 1407 as amended by PD 806) states that Filipinos engaged exclusively in the overseas shipping business or in the construction of ocean-going vessels are exempt from the payment of income tax until 9 September 1985, provided that they invest the net income above 10 per cent in the construction, purchase, or improvement of vessels and equipment. PD 215 (1973) exempts the importation of ocean-going vessels from the payment of the 10 per cent customs duty prescribed by the Tariff and Customs Code and the 7 per cent compensating tax provided in the National Internal Revenue Code. PD 806 also provides that Philippine flag vessels and national shipping lines shall have at least equal shares as vessels of another country in the carriage of international cargo between the Philippines and that other country with a reasonable share of cross-trades. PD 894 (1976) (amended by PDs 917 and 1466) grants preference to the local shipping and airline industries with respect to the transportation of government-financed passengers and property, including any corporation enjoying tax exemptions, subsidies, or incentives from the government. PD 1540 (1978) reduced the withholding tax for rental of foreign-owned vessels under charter to Filipinos from 35 per cent to 4.5 per cent.

The Philippines has ratified the UNCTAD Code of Conduct for Liner Conferences. Accordingly, Executive Order (EO) 769 was issued in January 1982 ordering the Maritime Industry Authority (MARINA) to reserve at least 80 per cent of the Philippine export and import liner cargo not covered by PD 1466 for flag carriers of the Philippines and that of the bilateral partner, with the cargo reserved to be shared equally by the flag carriers of the two countries. MARINA Memorandum Order No. 3 was issued in July 1982 to implement the 40-40-20 convention.

Many problems have been encountered in the implementation of EO 769. For example, American military equipment is not included in the scope of the 40-40-20 convention for reasons of national security. This is always loaded on American liners. Moreover, the Philippines is often faced with a choice between promoting Philippine exports and promoting Philippine shipping. Export consignees, usually from developing countries, often prefer their own or third flag carriers. Thus the UNCTAD convention is in practice implemented only on import cargo, frequently leaving Philippine shipping companies with insufficient return cargo to make the trip commercially viable. Often they prefer not to ply the route at all. This results in an apparent lack of Philippine vessels, giving still more business to third flag carriers.

There are only eight Philippine vessels trading the Philippine-American route, which constitutes the bulk of Philippine shipping trade. Four are owned by Galleon Shipping, and are docked in the Philippines every eleven days. The other four are owned by the Maritime Company of the Philippines, and dock less frequently.

Apart from the explicit protection given the Philippine overseas shipping industry, the policy on transportation is the handmaiden of tourism policy. Most of the priority regions for tourism development are open for the operation of transport facilities. The Second Tourism Investment Priorities Plan (1979-1982) includes land and water transportation facilities. Between 1979 and 1981, there was an increase of US$1.2 million in the tax incentives availed of by the transport sector (Philippine Tourism Authority). The tourism-related incentives make up about 4 per cent of all government subsidies as reported in the national accounts.

As an added incentive to the tourism industry, the country adopted an Open Skies policy in the mid-1970s. Government protection of the aviation industry is in the form of ownership of the country's major airline, Philippine Airlines (PAL). Between 1964 and 1978 the government retained only a 24 per cent interest in PAL through the Government Service Insurance System (GSIS). In 1979, the stockholders approved an increase in the authorised capital stock of the company from 250 million pesos (US$33.88 million) to 1 billion pesos (US$0.13 billion), with issued stock of 500 million pesos ($US67.77 million) of which the GSIS now owns 445.7 million pesos (PAL, 1980).

Apart from government stockholding, there is almost no protection in the civil aviation industry except that the local civil aviation industry enjoys the preferential rights given also to shipping by PDs 894 and 1466 (see above). An airline seeking entry into the Philippines must simply be a designated airline of a country friendly to the Philippines. The frequency of operation by any airline is determined solely by the Civil Aeronautics Board. The tax rates charged to PAL and other international carriers are the same. However, PD 895 authorises the Civil Aeronautics Administration to impose retaliatory fees, rentals, and charges on foreign airlines whose countries impose them on PAL.

Travel. Travel has experienced the highest growth among service exports owing to government promotion, which in many instances has amounted to protectionism. The present tourism program may be traced to 11 May 1973, when the Ministry of Tourism (then called the Department of Tourism) and the Philippine Tourism Authority (PTA) were established. Several decrees have been issued to provide a basis for the implementation of the tourism promotion policy. Among the most important of these is PD 535 (1974) which provides the following incentives to foreign and local investors registered with the PTA:

(a) a deduction from net taxable income equivalent to 50 per cent of total foreign exchange earned for the year in which incentives are claimed;

(b) the carry-over of net operating loss as a deduction from taxable income;

(c) tax credits granted on taxes withheld on interest payments on foreign loans;

(d) exemption from payment of real estate taxes on land improvements and building;

(e) reduced payment of tariffs and compensating taxes due on imported capital equipment;

(f) tax credit equivalent to 100 per cent of the value of the compensating tax, and customs duty that would have been paid had the equipment been imported, 50 per cent thereof in favour of the domestic manufacturer;

(g) deduction from taxable income of the undistributed profit of a tourism enterprise which is reinvested in the same year.

The tourism industries covered by PD 535 are hotels, restaurants, tourist transportation, and tour operators. The incentives are in the form of taxes waived rather than actual government disbursements. Import duties waived on transportation account for the great bulk of total taxes waived. In the nine years to 1982, they accounted for 66.3 per cent of the total US$43.5 million concessions granted (Philippine Tourism Authority).

The travel tax is the source of PTA's tourism development projects. A sum of US$170 to US$100, depending on the category of the ticket, is imposed on (a) all citizens of the Philippines; (b) permanent resident aliens; and (c) non-immigrant aliens who have stayed in the Philippines for more than one year and are leaving the country. Travel tax collections increased from US$12 million in 1978 to over US$22 million in 1980 (Philippines Tourism Authority).

Finance. Financial services referred to here include the services rendered by financial intermediaries and the services of money capital.

The Central Bank has limited borrowing sectors to seven, and has directed that foreign loans be used only to finance foreign exchange costs of the loans to be secured for all projects. Loans denominated in American dollars should not exceed 2 per cent of the prevailing lending rates of the World Bank and the Asian Development Bank. Furthermore, interest on foreign loans is subject to a 15 per cent tax.

Under the General Banking Act (RA 337) of 1948, a foreign bank is permitted to transact business in the Philippines with the approval of the Central Bank. Of the 32 commercial banks in the Philippines, four are branches of foreign banks. Filipinos are not allowed to maintain bank accounts abroad without Central Bank permission. Instead, a foreign currency deposit system has been instituted in the Philippines whereby anyone may deposit acceptable foreign currencies with any authorised Philippine bank. Non-residents not engaged in business within the country are exempt from paying taxes on interest on deposits.

In 1977 the government allowed the establishment of Offshore Banking Units (OBUs) in the Philippines. The Central Bank is empowered to approve applications by international banks to establish agencies dealing only in foreign currencies. Upon authorising an OBU to operate, the Central Bank collects a fee of at least US$20,000 annually. OBUs are subject to a tax of 5 per cent.

Consultancy services. We have seen that personal income represents the largest single source of invisible receipts on current account for the Philippines. Nevertheless, manpower exports are the least promoted.

Consultancy services, which are essentially manpower services, receive very little government promotion. They are usually composed of consulting assistance in design and engineering services, industrial technological services, economic research and planning services, and consultancy in training programs (UNIDO, 1972).

Under PD 1789, enterprises engaged in consultancy services which are paid for in currency and registered with the Board of Investments receive a deduction from taxable income of an amount equivalent to 50 per cent of total export fees during the year in which the incentive is claimed. Taxes on the income of foreign consultants are governed by Section 22(b) of the National Internal Revenue Code of 1977, which provides for the collection of taxes on the income received by non-resident aliens as wages, compensation, remunerations or emoluments, equal to 30 per cent of such income.

Consultants and other aliens employed in the regional or area headquarters of multinational companies, however, are subject to only a 15 per cent tax on gross income earned in the Philippines. In the case of foreign consultants in government institutions whose projects are foreign-assisted, the rules for taxation follow the provisions of the foreign loan agreement.

Economic implications

Balance of payments. While there is an attempt to solve the Philippines chronic balance of payments problem by promoting import-substituting and export-oriented services through investment incentives, these incentives seem at times self-defeating. Among the most frequently offered incentives are tax exemption on imports. Since some services require large amounts of imports, the foreign exchange savings or proceeds from export promotion or import substitution are dissipated by the cost of imported materials and equipment.

One example is the shipping industry. In 1980 the overseas shipping industry exported services amounting to US$129 million. To begin with, not all of this represents an inflow of foreign exchange because portions of the foreign exchange earnings are allowed to be retained abroad for working capital, amortisation and interest payments on foreign loans, and contingencies. Moreover, in 1981 the MARINA approved the importation of 99 ships worth US$139.5 million.

Another example is the tourism industry. The tax exemptions on imports contribute to the foreign exchange outflows of firms granted incentives. The outflow increased from over US$1 million in 1974 to almost US$21 million in 1981, and was US$14 million in 1982 (Philippines Tourism Authority). Moreover, not all tourism receipts lessen the balance of payments problem because of the black market. Many tourists would prefer to convert their dollars in the black market rather than with the Central Bank or authorised foreign exchange dealers. Tourist expenditures unrecorded by the Central Bank might have amounted to US$146 million in 1978, judging by the discrepancy between receipts recorded by the Ministry of Tourism and those of the Bank. This would have represented 0.6 per cent of that year's GNP.

Employment. One of the arguments against dismantling an existing protectionist measure is its impact on employment. The Australian Bureau of Industry Economics points out, however, that such an argument neglects the important job-creating effects in the service sector which are connected with trade liberalisation (Australia, 1980). Trade liberalisation provides employment opportunities in the distribution of imported products and in the distribution and maintenance of capital-embodying new technology.

Another adverse impact of protectionism on employment occurs when the structure of protectionism emphasises, as it does in the Philippines, the tariff concession and compensating tax on imported capital equipment. This structure of protection without any compensating subsidy on the use of labour, results in a bias towards capital intensity.

Protection increases the costs of production in the industries using the protected services. It results not only in higher consumer prices but also in lower levels of production and employment in the industries using the service inputs.

Capital flows. Table 17 shows the structure of equity capital flows into the Philippines. Services make up about a quarter of all foreign capital in the Philippines. In the services sector, banks and other financial institutions are the most preferred areas among foreign investors. They accounted for 15 per cent of aggregate foreign investment between 1970 and 1981.

The popularity of banks as an investment for foreign capital is a direct consequence of the lifting of policies protecting Philippine ownership of banks. This was mainly because of the increased capitalisation program of the Central Bank, which required domestic commercial banks to put up a minimum paid-in capital of 100 million pesos, either through mergers or foreign equity infusion.

The massive inflow of capital into the banking sector upon liberalisation of the protection of ownership indicates that it had been the protectionist policies that were preventing the inflow of foreign capital. Thus, we can deduce that the highly protective policies towards the ownership of insurance, transportation and consultancy services probably inhibit the free flow of capital into these areas.

Economic growth. Many services are in the nature of infrastructure, such as banking, communications, transportation, etc. These infrastructure services must be given priority in the push towards economic growth. Therefore, in a developing economy where these services are not yet adequately produced locally, imports will be necessary. Moreover, technology, another requirement for economic growth, can be transferred to the developing country through trade in services. Thus we can infer that premature protectionism in infrastructure and technology services may undermine economic growth.

It has been shown earlier that the amount of services produced for intermediate use was US$4.67 billion in 1978, or one-fourth of the total intermediate requirements of US$18.96 billion. This intermediate demand was 38 per cent of the total demand for services. Table 18 shows that in 1978, imported services amounting to about US$166 million were necessary to support the economy's output.

The structure of protectionism can also affect the growth potential of an economy. Philippine protectionism in services is aimed at promoting industrialisation. It therefore mainly benefits that segment of the services sector linked with the manufacturing sector. This results in effective discrimination against the unorganised services sector which is potentially important to economic growth.

TABLE 17 Approved foreign investment by industry, 21 February 1970 to 30 September 1981

Industry	Amount (US$m)	Distribution (%)
Manufacturing	942.97	51.78
Banks and other financial institutions	277.28	15.22
Mining	299.94	16.47
Commerce	104.11	5.72
Business services	60.65	3.33
Personal services	18.64	1.02
Recreational services	0.09	-
Other services	0.01	-
Public utilities	49.03	2.70
Agriculture, fisheries and forestry	40.78	2.24
Construction	27.02	1.48
Others	0.73	0.04
Total	1821.25	100.00

Source: Central Bank of the Philippines.

TABLE 18 Breakdown of imported services into intermediate and final services, 1978 (US$ million)

Service	(1) Intermediate demand	(2) Total demand	(3) Imports	(4) (3)-(2)	(5) (1)x(4)
Transportation	1057.4	1943	90.0	.046	48.6
Communication and storage	123.2	202	8.7	.043	5.3
Trade	1415.8	4385	-	-	-
Finance	1091.8	1223	22.1	.018	19.7
Real estate	287.8	996	15.0	.015	4.3
Government, education and health	88.5	1840	26.7	.015	1.3
Hotels and restaurants	117.1	747	100.2	.134	15.7
Others	490.6	1029	150.5	.146	71.6
Total imported services for intermediate use					166.5
Total imported services for final use					246.7
Total imported services					413.2

Source: 1978 Interindustry Accounts of the Philippines.

4 Prospects for policy cooperation in traded services

Intra-ASEAN prospects

Cooperation within ASEAN extends over a broad spectrum, encompassing such traded services as transportation, finance, tourism, and technology. Despite this, the Philippines trade in services with the other ASEAN countries is relatively insignificant compared with developed countries, particularly the United States. Policy cooperation in traded services should therefore be geared towards increasing the Philippines trade relations with other ASEAN nations, especially in those services which will mutually benefit the Philippines and the region.

Some progress has been achieved in traded service cooperation. For example, in the field of tourism, governments have agreed on a common travel document instead of visas to enter each of the ASEAN countries for group tours of 5-10 persons. Intra-ASEAN fares have been introduced to encourage travel within the region.

On overseas shipping, a meeting of ASEAN Economic Ministers in 1977 decided to organise an ad hoc working group to devise measures to solve problems in regional shipping. The Federation of ASEAN Shipowners' Association also assigned its national units to undertake investigation of such problems, with the Philippines studying joint shipping services for intra-ASEAN trade. Another meeting of representatives of governments, shippers, and commodity organisations in 1977 urged effective cooperation of shipping bodies on a regional basis.

The Philippine Insurance Commission is actively involved in promoting regional cooperation in insurance. In October 1980, it hosted the Sixth Meeting of the ASEAN Insurance Commissioners which advanced the cause of ASEAN harmonisation of insurance laws and unified forms of insurance statistics.

Philippine-Australian prospects

Efficiency is the prime consideration in cooperation between Australia and the Philippines in traded services. It is in the interests of developing nations such as the Philippines to operate in terms of efficiently run and internationally competitive enterprises.

Prospects for policy cooperation can be deduced from agreements signed between the Philippines and Australia. As early as 1960, the two countries entered into an agreement relating to the waiver of passport visa fees for non-immigrants. In 1971, they signed an air transport agreement in Manila. There have been development assistance programs for Zamboanga del Sur and Samar, two of the most troubled areas in the Philippines. A trade agreement was signed in Manila in 1975 and, in 1979, the two countries signed a convention for the avoidance of double taxation and the prevention of fiscal evasion of income taxes.

Between ASEAN and Australia, the Development Import Finance Facility (1980) is intended 'to reduce the cost to ASEAN governments of importing capital goods and services of Australian origin for use in developing countries'. The character of trade relations between ASEAN and Australia, particularly in non-merchandise trade, also shows respect for their mutual welfare.

Strategies for reducing distortions

The ASEAN emphasis on friendship, good understanding, and meaningful cooperation among members and with other friendly states provides ample room for strategies to reduce distortions in traded services. For such purposes, adjustments to existing timetables, bilateral negotiations, and the industry-by-industry approach may be adopted within the framework of previous agreements.

On the part of the Philippines, there is great leeway for such strategies to diminish existing distortions. Under a Constitutional provision, the President of the Philippines may enter into any international agreement as the national welfare and interest may require without the concurrence of the National Assembly (Sec. 16, Art. XIV). He may also issue decrees, orders, or instructions which form part of the law of the land whenever in his judgement the National Assembly fails or is unable to act adequately on any matter that in his judgement requires immediate action (Amendment 6, 16 October, 1976).

However, in assessing prospects for policy cooperation, non-economic considerations such as defence and foreign policy are not to be disregarded. It is to be hoped that misunderstandings on these matters will not greatly impede cooperation.

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