NON-TARIFF BARRIERS TO PHILIPPINE IMPORTS

by

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Table of Contents

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This paper examines the nature and extent of non-tariff restrictions on imports to the Philippines. Section I discusses the theoretical framework and methodology. Section II surveys the various existing non-tariff barriers, the commodities affected, and the years of effectivity. For significant imports, the manner in which various regulations were implemented is also described. Section III presents the results of the investigation, first by showing coverage or the number of commodities affected and comparing their yearly import values. The degree of restrictiveness is next examined by tracing import values of each commodity before and after the restriction took effect. Relative prices for a sample of commodities are also analyzed. On this basis, Section IV makes some conclusions.

I.A. Theoretical Framework

A non-tariff measure (NTM) is a government measure other than a tariff which artificially changes the relative competitiveness of domestic and foreign producers in a given market. It may be imposed for the explicit intention of increasing domestic output above what would result under free trade conditions, or for such other reasons as promotion of public health, safety and national security, safeguarding the balance-of-payments position, or as retaliation against the constraints imposed by other countries. It may also either be an unintended result of government regulation, or consciously applied. Such a measure involves the legal or administrative segregation of domestic and foreign sources of supply and discrimination in favor of the domestic source.

Assuming perfect competition in all markets and a small open economy, the effects of an NTM can be graphically represented as in Figure 1. The left-hand graph shows domestic supply S_D and domestic demand D_D for a homogenous traded good. The right-hand graph shows import demand D_M obtained as the difference between domestic supply and demand. Its intersection with an infinitely elastic import supply curve S_M sets the world price P_W, which in turn determines the domestic price and quantity of imports. Thus, of total consumption OD, OA is produced domestically and AD is imported.

Suppose a tariff rate of t is imposed on imports. Domestic producers' price then increases to P_1, equal to P_W (1 + t). Domestic production increases to OB, while imports decline by AB plus CD.

To explain the effects of a restriction on imports and prices, two cases are considered. Case 1 explains how the restriction causes an increase in the domestic price relative to the world price, as well as restricts supply of the imported good. Here, the government imposes a quota, allowing imports only up to Q_1. This raises price P_W to P_1, and has effects similar to those of a tariff.

Case 2 explains how the restriction causes both an increase in the domestic price relative to the world price and an increase in imports. In this case, suppose domestic supply shifts up exogenously, owing, say, to a natural calamity or labour disputes. With a fixed domestic demand

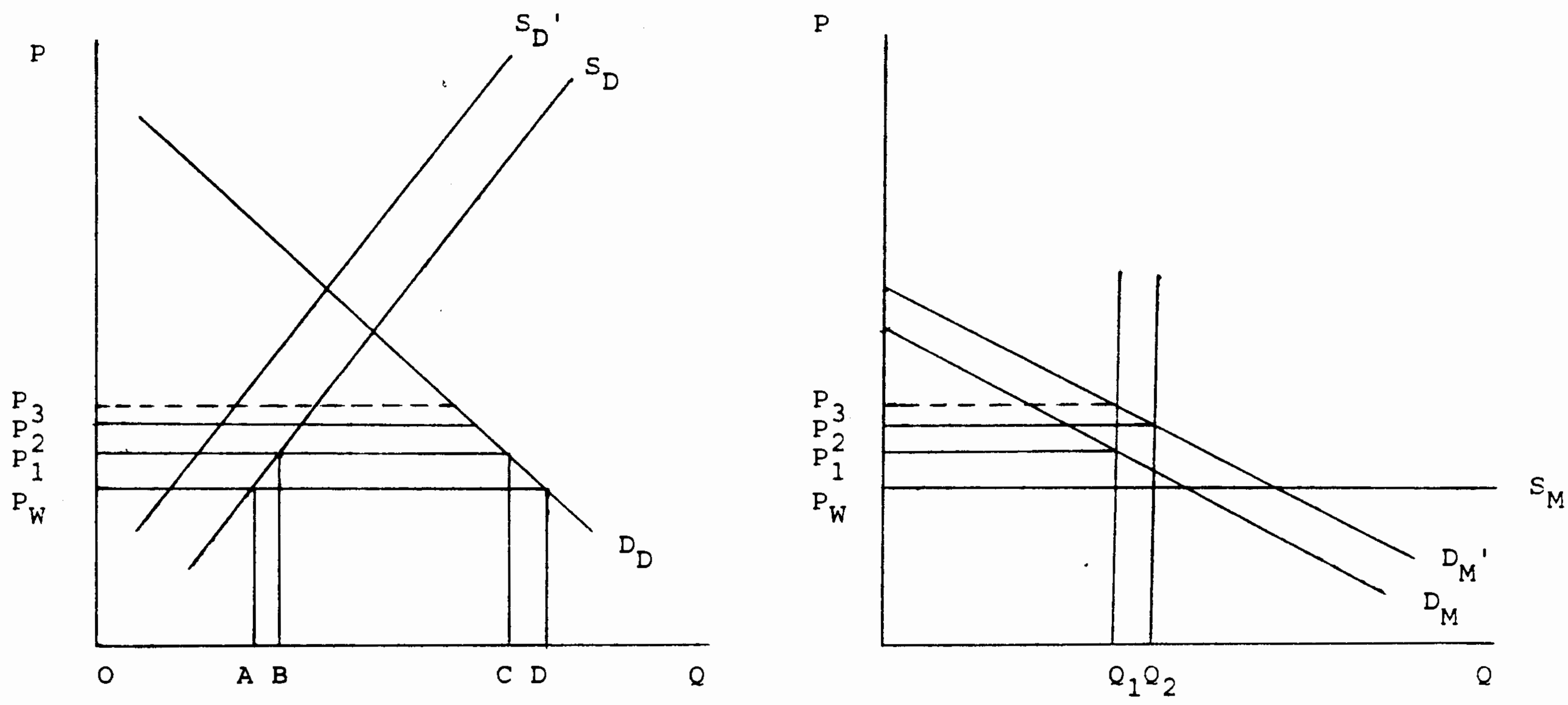

Figure 1

schedule, the demand for imports is raised to D_M'. Authorities may respond to the situation by increasing the quota to Q_2, so that price will only rise to P_2 instead of P_3, with more imports allowed.

The difference between the price caused by the imposition of the restriction, and the world price is the rent or premium added to the price caused by the forced scarcity of the good. Domestic demand for the imported good has grown, and its price must rise in order to reduce demand to the required level. Domestic output also increases as a result of these changes.

The precise effects of a particular NTM would depend on how it is administered. Seven parameters were listed by Deardoff and Stern[1/] that are required in order to characterize NTMs fully: (1) reduction in the quantity of imports; (2) increase in the price of imports; (3) change in the elasticity of demand for imports; (4) variability of effects; (5) uncertainty of NTMs; (6) welfare costs, since they distort consumer and producer behavior; and (7) resource costs such as direct administrative costs and more importantly, resources lost to rent-seeking. Measuring price and quantity changes does not only capture the properties of the NTM, they reflect the interaction of supply and demand, as well as the underlying supply elasticities and competitiveness. While an exhaustive

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[1/] Alan V. Deardoff and Robert M. Stern, Methods of Measurement of Non-Tariff Barriers, United Nations Conference on Trade and Development, 2 January 1985.

study would take all of the above into account, this paper deals mainly with the first two parameters.

I.B. Methodology

Three measures of the effect of NTMs are used: (a) frequency, (b) price-impact, and (c) quantity-impact measures. Frequency tables show the incidence of NTMs for different commodity groups. The unweighted frequency table gives the number of items restricted per group.[2/] Weighted frequency tables use as weights the share of restricted items in the value of total group imports. However, these give no information about the impact of an NTM on prices, production, consumption or trade, nor does it show the severity of the NTM. Lower import shares per commodity group do not allow one to conclude that an NTM has become more restrictive. In addition, one might require that the number restricted per group must have remained constant or increased. (Some import shares of affected items may decline even as a result of deregulation.) Of course, the magnitudes of imports and the import share of the affected commodity will themselves depend on the underlying demand and supply functions, and lacking any direct knowledge of these, it is not possible to make exact conclusions regarding trends in restrictiveness. However, the rule of thumb mentioned above might serve to indicate broad directions.

[2/] Based on the Philippine Standard Commodity Classification (PSCC) which lists 10 sections or broad economic categories (one digit), 68 divisions (2-digit), 238 groups (3-digit), 790 subgroups (4-digit), 2,222 items (5-digit) and 5,545 sub-items (7-digit). The 3-digit level was convenient because it is midway between the aggregate and the specific.

The price impact measure compares the price P_W which would hold without the NTM, with the price P_1 which would prevail in the domestic market with the NTM in force. It takes the form of a ratio:

$$R = 100 \times \frac{P_1}{P_W}$$

Under the small-country assumption, the appropriate prices to use are the domestic and import prices of the same imported good. Because the available data are a combination of prices of domestic substitutes as well as imported goods, questions of quality differences emerge. Moreover, one should also consider whether supply conditions are competitive or monopolistic.

Direct quantity-impact measures are also difficult because of the ex-ante quantity imported in the absence of the NTM cannot be observed. However, an idea of restrictiveness may be obtained from tabulations of import values of restricted items before and after the restrictions were in place, since it is exactly the same set of items to be studied from year to year.

Finally, an aggregate approach to measuring quantity changes is to set up an import demand to estimate potential imports. Estimates may then be compared with the actual figures, and the difference ascribed to the NTM. Among the determinants of the change in imports considered important are GNP, the resource endowment of the country, utility structure, real exchange rate and trade resistance factors (e.g., distance).

This is most fruitful if carried out across countries or commodities. For a particular NTM in one country, a time-series analysis is conducted, as in Section III, to see which years were relatively liberal.

II.A. Survey of Non-Tariff Barriers

In 1969 the UNCTAD adopted a classification system of NTMs based on the intent of the policy instrument, defining three types of government practices to be as follows:

Type I - Measures designed primarily to protect domestic industry from import competition, or to strengthen domestic industry in competing with imports or competing for export markets.

Type II - Trade distorting policies and practices which are imposed primarily with the intent of dealing with non-trade related problems but which are periodically and intentionally employed for trade-restrictive purposes.

Type III - Policies and practices applied exclusively for non-trade related reasons but which unavoidably serve to distort international competitive conditions.

Each of these categories is further subdivided into two groups; those operating primarily through quantitative restraint of trade (A), and those operating on production costs and prices (B). Table 1 shows the various government products cited as NTMs by GATT signatories, incorporating the UNCTAD scheme. In the Philippines, the following have been identified:

Table 1. Non-Tariff Measures

Major Grouping	Type by Function	Type by Intent
Government participation in trade	a) Production subsidies	II B
	b) Capital subsidies	II B
	c) Export subsidies	I B
	d) Direct or indirect subsidization of import competing industries, including credit subsidization	I B
	e) Domestic procurement practice by public units	I B
	f) State trading, government monopolies and exclusive franchise	IA, B
	g) Tied aid	IA, B
	h) Exchange rate restrictions and other financial controls	I B
	i) Local content program, other mixing regulations	II B
	j) Macroeconomic policy, foreign investment policy	III
	k) Government industrial policy, regional development measures	III
	l) Government sponsored subsidized R & D programs, other technology policies	III
	m) Government defense programs	III
Standards	a) Health and sanitary regulations for production and products	II B
	b) Quality standards, safety and industrial standards and requirements	II B
	c) Packaging and labelling regulations, mark-of-origin trademarks	II B
	d) Marketing regulations	II A
	e) Variations in national weights and measures	III
	f) Advertising and media restrictions	II A
Specific limitations primarily affecting quantities	a) Import quotas	I A
	b) Licensing-open general, automatic, restrictive, or liberal	I A
	c) Bilateral agreements; preferential trade arrangements	III
	d) Voluntary export restraints;	I A
	e) Import prohibitions-embargoes; selective	I A
	f) Performance requirements for domestic sourcing or exporting	I A
	g) Buy-domestic campaigns	I A
Specific limitations operating through price mechanism	a) Variable levies	I B
	b) Supplementary import charges	I B
	c) Minimum import prices	I B
	d) Duty remission programs	I B

Major Grouping	Type by Function	Type by Intent
	e) Anti-dumping and countervail duties	I B
	f) Advanced deposit requirement	I B
	g) Credit and other restraints on import through the financial sector	I B
	h) Discriminatory internal transport charges	I B
	i) Discriminatory external transport charges	III
Taxation system	a) Border tax adjustment	I B
	b) Use taxes and exercises	I B
	c) Variations in indirext and direct taxation	III
	d) Variations in depreciation method	III
	e) Variations in taxation of export industries	I B
	f) Tax benefits for import-competing industries	I B
	g) Tax credits and rebates	III
	h) Discriminatory sales tax	III
Customs and administrative entry	a) Customs classification procedure	II B
	b) Customs clearance practices	II B
	c) Customs valuation procedures	II B

1. Government procurement practices - The Supplies Coordination Office of the Ministry of General Services takes charge of procuring and furnishing supplies to the various government offices for official use. The procedures follow standard operations based on market research, then open bidding among interested and qualified suppliers. An alternative used is the "Special Open-End Order Contracting Method" under which the price is fixed as to units and the quantity to be supplied is fixed depending on the actual requirements of government in a given period not to exceed one year. Agencies are allowed to import certain items that have no suitable local substitute at comparable prices.

2. State trading - These operations are currently maintained for petroleum and petroleum products; maize, rice, sorghum, feedgrains, fertilizers and pesticides.

3. Tied aid - A typical feature of loan/aid agreements which constraint the government to secure goods and services from the donor/lending country, such as machinery, equipment and technical services from Japan for contructing a bridge.

4. Local content programs - These are part of progressive manufacturing programs that have been set up for cars, trucks, motorcycle, consumer electronic products, and diesel engines.

5. Standard or technical specifications - Marking/labelling/packing requirements are set for all foodstuff, medicine, and cosmetics by the Bureau of Food and Drugs. These are maintained to protect

consumers as well as local industries. The Product Standards Agency of the Ministry of Trade and Industry also takes charge of inspecting and testing imported commodities, although they are currently limited to electrical products, iron and steel products, fire extinguishers, LPG cylinders, medical oxygen, tires, cement, safety matches, and vitreous china sanitary ware. Quarantine regulations cover importations of live animals whether or not for food, as well as plants and plant products.

6. Import quotas - Only three items were specifically stipulated as being subject to quotas (live horses and cattle, eggs of game fowls, and aromatic leaf tobacco for blending purposes). However, in the implementation of licensing regulations, a few other commodities have been quantitatively restricted.

7. Licenses - Before 1981, about one-third of the total number of PSCC lines at the 7-digit level were subject to licensing.

8. Bilateral agreements, preferential trade arrangements, etc. - Special treatment is accorded to certain products of ASEAN countries by other members.

9. Import prohibitions - This applies to Section 102 of the Tariff & Customs Code, which lists explosives and firearms; written or printed articles advocating treason; immoral or obscene representations; instruments and drugs adopted for abortion; gambling devices; lottery and sweepstakes tickets; articles of gold, silver, or other precious metals which do not indicate fineness of quality; adulterated or misbranded food

and drugs; narcotics or synthetic drugs; opium pipes and parts. Coffee, onions, potatoes, garlic and cabbages except for seedling purposes, as well as goods from the Union of South Africa are also prohibited imports.

10. Anti-dumping duties - These are imposed if there is any industry that is or will be injured because of the importation of an article at prices lower than its fair value, as provided for in the Tariff and Customs Code.

11. Countervailing duty - This is levied on an article which is directly or indirectly granted any bounty, subsidy, or subvention upon its production, manufacture or exportation, also as provided for in the Code.

12. Advanced marginal deposit requirement on import letters of credit (L/Cs) - This has been used by the monetary authorities since the 1950's to discourage the use of foreign exchange by importers and absorb excess liquidity especially when the country has a large balance-of-payments deficit. The rate has varied over the years from 80% on all types of goods in 1949 to 125% in the late 1950's. In the 1960's, it differed between types of goods, ranging from 25% to 175%. In July 1970 a uniform rate of 30% was imposed, this time by the Banker's Association of the Philippines (BAP). This was raised to 50% in October of the same year. A decade later, in April 1982, the guidelines were revised to (a) exempt import L/Cs opened by export producers with adequate export performance, government entities, firms in specified vital industries,

and non-profit organizations; (b) reduce from 25% to 15% the margin deposit on import L/Cs opened by export producers with no actual export performance, provided the privilege would cover one year after the firm's organization; (c) reduce from 40% in April 1982 to 25% in July 1982 the margin deposit on import L/Cs opened by all other importers. In June 1983, these were again revised to (a) exempt import L/Cs opened for certain essential commodities in addition to those already exempted in 1982; (b) impose a 70% rate on import L/Cs opened for liberalized items except those undertaken by qualified exporters; (c) impose a 25% rate on import L/Cs opened by all other importers. Requests for reduction and exemptions from the requirement are processed and approved by the BAP in consultation with the Central Bank.

13. Discriminatory sales tax - Most luxury items are subject to such a tax.

14. Customs classification, valuation and clearance procedures - These are paratariff barriers since they create uncertainty and necessitate time-consuming litigation. They also provide ample scope for discretionary or arbitrary action. Since 1982 a standard time of 3-4 days to process papers has been strictly enforced; as long as papers are complete, the 14 signatures needed are usually obtained in this imposed span of time.

B. Non-Tariff Measures: Legal Provisions (1970-1985)

Central Bank Circular 289 of 21 February 1970, authorized banks to sell foreign exchange for imports without prior CB approval except those classifed under UC, SUC and NEC.[3/] In the years that followed, a substantial number of Circulars, Memoranda to Authorized Agent Banks

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[3/] CB classification of imports of consumer and producer items based on degree of essentiality.

EC = essential consumer, limited to basic necessities which low income groups can afford;

SEC = semi-essential consumer goods, which average income groups can afford in addition to basic necessities;

NEC = non-essential consumer, requirements of affluent group and are considered as luxuries or expenses for mere pleasure;

SUC = semi-unclassified consumer;

UC = unclassified consumer; produced locally in sufficient quantity to meet local demand, of acceptable quality and competitively priced;

EP = essential producer, limited to machinery, equipment, supplies and raw materials needed in the production of EC, SEP, NEP, export commodities, public utility services;

SEP = semi-essential producer, limited to machinery, equipment, supplies and materials needed in production of SEC and services;

NEP = non-essential producer, limited to machinery, equipment, supplies and raw materials needed in production of NEC and services;

SUP = semi-unclassified producer, goods purchased locally but which do not qualify as to quantity, quality or price;

UP = unclassified producer, produced locally in sufficient quantity to meet local demand, of acceptable quality and competitively priced.

(MAABs), and Circular Letters were issued mainly to regulate the importations of the other categories of consumer and producer items. Appendix I tabulates these regulations for each commodity group, noting the year of effectivity. Many of these did not include the rationale behind the regulation, although they would usually cite Monetary Board Resolutions as bases. In the late 1970's however, not a few MAABs cited Presidential Decrees (PDs), Executive Orders (EOs) and Letters of Instructions (LOIs) as bases for regulating the different imports. Such would be obvious in cases where state trading was to commence, e.g., authorizing the National Grains Authority to determine and import wheat needs; or where a progressive manufacturing program was to be instituted, e.g., PEPCEP for electronic products; or when supply stabilization was an immediate concern, e.g., fuel oil, hydrogen peroxide; or where the product was to be procured locally because a plant exists, e.g., semi-synthetic antibiotics. The only other objective specified in a few regulations was the promotion of public health and safety, e.g., chlorofluorocarbon, meat from certain countries.

Table 2 classifies the regulation commodities according to purpose of the regulation. For most items, more than one applicable law is listed, although different levels of aggregation are used. Many of these provisions extend the validity of the previous ones or expand coverages. Some others withdraw the restriction and then put them back again, as a response to domestic input needs. Notable examples are hydrogen peroxide and liquefied petroleum gas.

Table 2

COMMODITIES COVERED BY REGULATIONS ACCORDING TO PURPOSE OF REGULATION

Purpose of Regulation and Commodities Covered (PSCC)	Applicable Law (MAAB, CBCircular, LOI, EO, PD, RA)	Date Issued
Safeguarding Public Health & Safety		
1. Acetic Anhydride (5137102)	MAAB 17	21 Oct. 1981
2. Dangerous Drugs	Circular letter	14 April 1980
3. Chinese Medicinal Herbs (2924009)	MAAB 135	20 Nov.1973
4. Meat of Bovine Cattle & Beef (0111100, 0111200)	MAAB 30 LOI 322 PD 1297 PD 1593 EO 512 LOI 972 LOI 1327,MAAB 53	21 April 1975 29 Sept. 1975 30 Jan. 1978 11 June 1978 6 Dec. 1979 19 Dec. 1979 25 Sept. 1983
5. Empty bottles, & other containers (6651107, 6651109, 8931002, 8931003)	Circular-letter	3 July 1975
6. Magazines, Journals (8922002)	MAAB 50	14 July 1975
7. Fish & fish preparations (groups 034 to 037)	MAAB 44 MAAB 11	20 July 1976 22 Feb. 1982
8. Mackerel & sardines (0371104, 0371107)	MAAB 44 MAAB 68 MAAB 53	20 July 1976 8 Oct. 1975 2 Nov. 1983
9. Meat & meat preparations (groups 011, 012, 014)	MAAB 12 MAAB 40	22 Feb. 1982 7 July 1975
10. Animals & animal effects (group 001, 941001, 941002, 941003, 941009)	MAAB 44 MAAB 12	19 Oct. 1979 22 Feb. 1982
11. Sodium cyanide (5232500)	MAAB 56 MAAB 38	21 July 1977 5 May 1977

12. Pesticides, Fertilizer, & Agricultural Chemicals (groups 591, 562)	MAAB 81	17 Oct. 1977
13. Antibiotics (group 541)	MAAB 90	23 Nov. 1977
14. Ampicyllin & Amoxycillin (5413100, 5417104)	MAAB 90 MAAB 36	23 Nov. 1977 22 Sept. 1982
15. Chlorofluorocarbon (5113901)	MAAB 2	14 Jan. 1983
16. Radiation-emitting apparatus devices (various)	MAAB 33	15 Aug. 1983
17. Polyvinyl Chloride in the form of waste & scrap (5834900)	MAAB 144	13 Dec. 1973

B. Safeguarding National Security

1. Refined petroleum products (group 334, 3413902)	PD 2106 MAAB 43	6 Oct. 1977 17 June 1978
2. Coal & coal derivatives (groups 322, 323)	PD 1464 MAAB 39 MAAB 46	11 June 1978 6 SEPT. 1983 11 Oct. 1983
3. Color Reproduction machines (7518201, 7518202, 7518203)	MAAB 88	21 Nov. 1977
4. Radio telecommunications equipment (group 764)	MAAB 51	25 Aug. 1978
5. CB Radio Transceiver (7643400)	MAAB 4	9 March 1981
6. Sporting, Hunting, & Target - shooting runs & ammunitions (8946301-8946309)	MAAB	20 AUG. 1970
7. Chemicals for the manufacture of explosives (from groups 511, 512, 522, 523, 562)	MAAB 5	21 Jan. 1984
8. Feedgrains & Feed Substitutes (022400, 0224919, 0430000, 0459200, 0615200, 081, 2911102, 2222000, 0980918)	PD 212 Circular-letter	12 Oct. 1977 24 Nov. 1977 5 April 1979

C. Industry Protection

1. Newsprint (6411000)	MAAB 33	25 Oct. 1972
2. Textile Fabrics (groups 652, 653, 654, 655)	MAAB 97	9 Sept. 1974

3.	Synthetic Yarns, Fibers & Threads (groups 266, 267, 651)	MAAB 1 MAAB 2 MAAB 51	3 Jan. 1975 19 Jan. 1982 7 Dec. 1982
4.	Basic Iron & Steel Products (Division 67)	MAAB 36 MAAB 6	23 June 1975 15 Feb. 1982
5.	Used & New Tires	MAAB 9 LOI 389	15 Feb. 1982 24 March 1976
6.	Sheet Glass of laminating quality (6643200)	MAAB 41	5 June 1978
7.	Cellophane (5842201)	MAAB 9	12 March 1979
8.	Vinyl asbestos tiles & asbestos vinyl tiles (8939101, 6638108)	LOI 964 MAAB 51 MAAB 28	28 Nov. 1979 28 Dec. 1979 7 Oct. 1980
9.	Hydrogen Peroxide (5239100)	LOI 1255 MAAB 25 MAAB 19 MAAB 5 LOI 899	14 July 1982 30 July 1982 30 March 1984 5 Jan. 1984 25 July 1979
10.	Basic Refractories (6623100, 6623201, 6623209, 6623211, 6623300)	MAAB 28	20 Aug. 1982
11.	Paper & paperboard products (groups 641, 642)	MAAB 13 MAAB 31 MAAB 48 MAAB 42 MAAB 10 MAAB 22	18 Feb. 1983 31 Aug. 1982 29 Nov. 1982 25 Oct. 1982 10 Oct. 1983 10 May 1983
12.	Synthetic resins & synthetic resin products (groups 582, 583, 8931001)	MAAB 52 MAAB 13	13 Dec. 1982 18 Feb. 1983
13.	Sodium Tripolyphosphate (STPP) & Tetrasodium Pyrophosphate (TSPP) (5232201)	MAAB 8	31 Jan. 1983
14.	Liquid Caustic soda (5225301, 5225302)	MAAR 8 MAAB 49	15 Feb. 1982 29 Nov. 1982
15.	Paper waste (2511011)	MAAB 10	10 Feb. 1984

D. Progressive Manufacturing or Local Content Programs

1.	CKD Automobiles & trucks, components, (groups 781, 782, 783, 784)	MAAB 26 MAAB 96 Circular 979	30 March 1977 21 Dec. 1977 21 Nov. 1983
2.	New & Used Trucks (group 782)	MAAB 26	30 March 1977

		LOI 389	24 March 1976
		LOI 590	27 Aug. 1977
3.	Motorcycles & parts (group 784)	Circular 1000	
4.	Consumer Electronic Products, Raw materials, parts, components (groups 772. 773, 776, 778, 664, 761, 762, 763, 764, 697, 741, 775, 776, 778)	LOI 656 MAAB 16 MAAB 64 Circular 1017 Circular 854 Circular 956	16 Jan. 1978 8 Feb. 1978 19 Dec. 1983 Series 1984 1 March 1982 17 Oct. 1983
5.	Diesel & semi-diesel truck engines (group 713)	MAAB 98 MAAB 5 MAAB 19 MAAB 7	28 Dec. 1977 20 Jan. 1983 15 June 1982 15 Feb. 1982
E.	Various Other Reasons		
1.	Raw cotton other than linters (2631000)	MAAB	2 March 1970
2.	Nonmetric measuring devices (groups 745, 873, 874)	MAAB 23 MAAB 30	8 July 1982 24 Aug. 1982
3.	Onions, garlic, potatoes, cabbage for seedling purposes (0545101, 0545102, 0541200, 2925003, 0542909)	RA 1296 MAAB 38	30 Sept. 1982
4.	Selected dairy products (groups 022, 023, 024)	MAAB 35	2 Sept. 1983
5.	Items with Tariff rates of 50%, 60%, 70%	MAAB 37 MAAB 40	2 Sept.1983 12 Sept. 1983
6.	Shipping vessels (group 793)	PD 474	2 June 1974

Most of the commodity-specific regulations were issued in 1975 and onwards (Table 3). In the 1960s and the first half of the 1970s, regulations were more general in scope. Furthermore, before 1981, 32 per cent of a total of 5639 items at the 7-digit level were either banned or regulated. The rest were freely importable. From 1981 to 1983, 921 or 16% of the total was deregulated. However, in 1983, 573 high-tariff rate items or 10% of the total were again monitored, although these were exempt from BOI clearance and CB release certificate requirements, and fall under "surveillance licensing". By the end of 1984, 1481 items remained regulated, which is 26% of the total. This nevertheless represents a decrease in the proportion of regulated items from the pre-1981 level.

In 1981 the initial stage of the import liberalization plan was implemented with 263 items removed from the banned list by Circular 758 of 4 September 1980. In 1982 the second stage of the plan was implemented with 610 items delisted by Circular 850 of 15 February 1982. However, a few MAABs and Circulars were subsequently issued within the period that put back restrictions on the importation of some liberalized items, consisting of one in 1981, five in 1982, and five in 1983 and affecting a total of 81 items.

In 1983 because of the full blown liquidity crisis, the thrust was on restraint rather than on liberalization, with the adoption of measures to dampen imports. Among these was the advance deposit of Customs duties (MAAB 4 and Circular 909) and the additional 3 per cent ad

Table 3

Number of Items Newly Regulated, Banned, & Liberalized Per Year
From 1970 to 1984

Year	Newly Regulated	Banned	Liberalized
1970	2	1,294	-
1971	-	-	-
1972	27	-	-
1973	13	-	-
1974	1	-	-
1975	241	-	-
1976	37	-	-
1977	48	-	-
1978	32	-	-
1979	127	-	-
1980	10	-	-
1981	3	1,031	263
1982	306	421	610
1983	620	373	48
1984	6	-	-
TOTAL	1,481	373	921

valorem duty(Executive Order 860 of 1982). Moreover, CB undertook a review of the payment terms of high volume imports, BOI started monitoring high-tariff rate items to check undervaluation (MAAB 37); government imports were limited to those not produced locally (LOI Nos. 1307 and 1329), and imports of certain banned and regulated items were suspended (MAAB 52 and 53). There were new restrictions covering 281 previously freely importable goods. Domestic industry was allowed to undertake prepaid importation of producer items for domestic use and for re-export under certain conditions (MAAB 50), as well as importations on no-dollar and consignment basis of raw materials (Circulars 963, 964, 986, 989). The liberalization plan was continued to fulfill commitments to GATT, WB and IMF but on a smaller scale; Circular 918 of 11 March 1983 delisted 48 items from the banned list.

To adjust to the economic crisis, a system of pooling of foreign exchange receipts took effect in 4 November 1983 with the issuance of Circular 970. Under this, domestic banks were required to sell to the CB all their foreign exchange receipts for placement in a pool out of which payments according to officially set priorities were made. Central Bank also opened up several alternative schemes for effecting imports, in order not to disrupt the importations of crucial items of lower priority (relative to the priority list). These schemes included (a) an expanded coverage of importations on no-dollar basis, (b) treatment of certain imports as equity investment, (c) payment of imports through export deduction, and (d) prepayment of import letters of credit (L/Cs).

The liberalization program was officially suspended at the end of 1984, while restraint was exercised for the first 3 quarters of the year. An additional ad valorem duty of 5 per cent was imposed (Executive Order 918 and Circular Letter of 26 March 1984), then this was raised to 8 per cent (Executive Order 946), and then to 10 per cent (Executive Order 955). Monitoring and reporting requirements were stricter on no-dollar and consignment-based importations (Circulars 963, 964, 971, 989). Local producers were still allowed to import producer items and selected EC goods on a prepaid L/C basis, as well as undertake no-dollar importations for domestic uses (Circular 1004 and 1009). The pooling scheme was discountinued by the end of the year.[4/]

In January 1985, the ad valorem duty was lowered to 5 per cent, and commercial banks were allowed to hold on to 50 per cent of export proceeds instead of 35 per cent, against import L/Cs that they opened for their clients. Circular 1060 in May delisted 46 previously banned items covering certain vegetables and fruits, beverages, textile fibers, cork and wood, articles of apparel and clothing accessories, metal manufactures, and miscellaneous manufactures. In August, Circular 1074 deregulated dairy products and empty bottles and containers.

The policies just outlined show that the Import Liberalization Program was undertaken just before a severe economic crisis that necessitated deliberate efforts to slow down import demand and minimize payments to reduce the outflow of foreign exchange. Controls were

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[4/] In October of the same year, Circular 1029 was issued to consolidate previous import regulations by classifying imports into five types, namely the freely importable, prohibited, banned, regulated, and liberalized. The freely importable are given due course by Authorized Agent Banks without prior CB approval. Banned items are those which need prior CB approval and consist of NEC and UC goods, items in tourist duty-free shops, and those used as inputs in export production by firms registered with the Garments & Textile Export Board, the Board of Investments, and the Export Processing Zone Authority. Regulated commodities require clearances from various government agencies although they do not need CB approval. Liberalized items were formerly banned NEC and UC goods no longer needing CB approval.

instituted to allocate this judiciously, based on the economy's priority needs. At the same time, simple monitoring was tightened on commodities with high tariff rates, in order to minimize revenue losses from undervaluation. This distinguishes the Reform period from the previous years, when controls were used primarily to stabilize supply and prices of certain commodities whose domestic supply fluctuated widely, or to protect local industry.

C. Policy Implementation

To show how legal provisions are put into effect by the government agency charged with issuing authorities or clearances to import, fourteen groups of commodities are discussed; three state-traded commodities are first examined briefly to see how government importation is carried out. These were chosen as illustrative cases because their importance in the economy makes them subject to government regulations. The discussion is based on interviews conducted with the personnel handling them.

Wheat

Before the 1970s, flour mills were free to import all their wheat requirements. When foreign exchange controls were instituted in 1970, wheat grain imports were nct allowed except under the US Commodity Credit Corporation export sales program, through the Development Bank of the Philippines (MAAB of 2 March 1970). At the same time, banks were requested not to open letters of credit for wheat flour without Central Bank authority (MAAB of 26 January 1970). Flour millers allocated the wheat grain among themselves, based on a 3-year average of each mill's sales and production. In 1972 the National Grains Authority was created (PD of 25 September 1972). State-trading of wheat started in 1974 when, because of high world prices, flour millers wanted to take advantage of NGA's tariff-free status by requesting it to do the importations. It was officially authorized to import exclusively all wheat requirements by PD 726 of 5 June 1975. Wheat flour price controls also went into effect.

Feedgrains

The National Food Authority (NFA, previously NGA) also has sole import rights for feedstuffs and compounds, to take advantage of their ability to purchase at preferential rates and to stabilize prices. The main feedgrains are yellow corn and soybean meal. It then allocates these among poultry farms, hog raisers and feedmills based on their population, monthly feed consumption and rated capacity of feedmixers. Soybean meal is imported wholly since there are no facilities for turning soybean into meal and soybeans are not grown abundantly. To determine the importable amount of yellow corn, the supply-demand situation is assessed. If there is a shortage foreseen, importation is done through bidding, but the amount of imports is limited to the deficit, to ensure that domestic prices will not drop considerably.

Fertilizers

The Fertilizer and Pesticide Authority (FPA) has been regulating the fertilizer marketing system since 1973, when the world price of fertilizer quadrupled. Up to 1984 it permitted imports by five fertilizer firms to supplement domestic production in order to satisfy demand at the official price. The importable volume is jointly determined by the FPA and the industry, as follows: (a) each company submits its monthly sales forecast and production volumes; (b) actual sales and inventory positions are reviewed; (c) sales forecasts are refined, taking into consideration requirements of food programs, hectarage planted, new irrigated areas, etc.; (d) the importable volume which is the difference between total supply and demand and buffer stock is bidded out by FPA and the company. The firms distribute the fertilizer to dealers who sell it to farmers. Imports are exempt from customs duties, advance sales tax, and the margin deposit requirement. The distribution system operates on a ceiling mark-up of price from the ex-warehouse level.

World prices of fertilizer dropped by about 70 per cent in 1976. However, farmers still paid a price premium of about 10 per cent over the border price on the average between 1973 and 1981.[5/]

[5/] C.C. David and A.M. Balisacan, "An Analysis of Fertilizer Policies in the Philippines," Staff Paper No. 82-1, Philippine Institute for Development Studies, May 1982.

Meat and Meat Products

In 1975, a large supply of Australian beef was dumped here. Because of this surplus, importation since then has been allowed only for restaurants and food processors. In 1976, some meat traders were allowed to import. PD 1573 in 1978 allowed only meat processors with canning facilities to import low-cost manufacturing grade beef, and such quantities that the Bureau of Animal Industry (BAI) certified, taking into consideration the actual direct raw material requirements for processed and canned meat products. Importations by the government of cattle for breeding and slaughter was to be done only to "ensure protection of the local cattle industry and adequate beef supply at a reasonable price" (PD 1573). Likewise, applications to import pork are given clearances in consideration of the domestic industry. Utilization of imports is monitored via spot inspection of plant and records. Meat processors are subject to a quota based on the rated capacity of their plants, although such a quota could be raised with increases in capacity. This is to make sure that meat importations are to be processed and not traded.

In 1979, Phil-BAI International Pty., Ltd., an overseas buying and trading agency, was established in Australia to procure all livestock, meat and meat products from Oceania (EO 572 and LOI 972). These imports are exempt from the margin deposit requirement, and CB does not allow importations except through this agency. Livestock and meat users are required to submit their meat requirements to BAI, which imports these through Phil-BAI. In 1985, imports from New Zealand and Australia were negligible compared to previous years, since majority of imports came from Europe.

The other animal, meat and meat product importations needed clearance from BAI in 1979 (MAAB 44), two months before Phil-BAI was set up, and again in 1980 (MAAB 34). However, some were liberalized in 1982 (Circular 758). These regulations are presently still being followed.

Antibiotics

In order to import antibiotics, one must first get a license to operate as an importer from the Bureau of Food and Drugs (BFD), which is granted upon fulfilling the following conditions: having a registered pharmacist in one's employ; being certified by the consulate to be a manufacturer, and having an agency agreement with the foreign supplier. An opening fee is charged, ranging from ₱25 for those with capital less than ₱25,000 to 0.1 per cent of a capitalization of ₱1 million and over. The firm must also either be a local distributor, a general wholesaler, or an importer. In the 1970s, all groups could obtain licenses but in the early 1980s, only importers were given licenses. In 1984 however, restrictions on local distributors were lifted.

The drugs to be imported need to be registered with the BFD, and the documents that are required consist of: a technical specification of the ingredients, a report of the efficacy and safety of the preparation, a complete assay procedure of all the active ingredients in the finished product, a full description of the methods and facilities used in manufacturing and packaging, stability studies to justify the expiration date, as well as labelling requirements.

In the case of semi-synthetic antibiotics, importations are allowed only for quantities and types that cannot be produced locally, because a plant exists (EO 776 of 24 February 1982). In 1977 and again in 1982, importations of "ampicyllin" and "amoxycillin" needed a BFD authority to import (MAAB 90 and 37, respectively). Moreover, only ampicyllin vial injection can be imported.

Iron and Steel Products

Importations of these have been regulated since 1975 (MAAB 36) by the Ministry of Trade and Industry to reduce speculation since their prices fluctuate often. The main criteria used in evaluating applications to import have been unchanged: local availability of the product at a comparable price, quality and in sufficient quantity. Importers must first negotiate with local manufacturers. The National Steel Corporation, established in 1974, comprises 70 per cent of the industry. The Iron and Steel Authority relies on the NSC to perform technical evaluation of requests for importation. Priority is given to exporters. In 1984, a rule-of-thumb followed was to allow one-half of the value of the firm's importations in 1983. Applications for volumes much larger than this were decided upon based on their historical volume requirements.

Refined Petroleum Products

Supply and price stabilization are the objectives of regulating petroleum products, which were first issued in 1976. The Philippine National Oil Corporation (PNOC) was the licensing body. The criterion used in evaluating applications to import these products is the availability of local supply or substitutes at comparable price, quality and quantity. The Bureau of Energy Utilization which started monitoring prices and quantities in 1978, examines the need to import by projecting local supply and demand while the Board of Energy sets the price. Products with no local substitute or equivalent grade need a certification. Another criterion is the minimization of costs and outflow of foreign exchange involved in the importation. The importer is asked to look for reputable alternative sources, first local and then foreign. However, there are no quantitative restrictions on imports. If the product is for the specific need of end-users, importation is allowed. If the product is locally processed, importation is allowed only if the value of the import is less than the domestic price. This ruling however, is not strictly followed because the importing oil companies are also traders.

Coal and Coal Derivatives

Imports of these have been subject to licensing since 1978 (MAAB 43) by the Bureau of Energy Utilization. The need to import is established if the product cannot be secured locally at comparable price, quality and quantity. In 1980, the National Coal Authority (NCA) was created (PD 1722) to regulate the coal industry. The buying price was set at ₱438 per metric ton from 1981 to 1983, for coal of the grade 9000 BTU/lb. For the cement industry, the selling price never exceeded 65 per cent of fuel oil prices on a delivered basis. For other industries, the maximum selling price by NCA was set at either 65 per cent of fuel oil-equivalent price or import parity, whichever was higher.

Coal became the larget non-oil energy resource in 1983 when the objective was to reduce dependence on imported fuel. Cement and mining plants shifted to coal use. Coal production increased and was only supplemented by high-grade coal imports to blend with local coal in order to meet strict quality requirements of some end-users. A significant policy change that same year was the shift to the "free market" scheme under which local coal producers and consumers themselves would negotiate mutually convenient terms of supply and price without having to course their transactions through the NCA. Thus, cement plants were no longer bound to secure their coal requirements from NCA. Likewise, NCA was released from its commitment of a guaranteed selling price. However, it continues to buy and sell coal from interested parties at a set buying price which increased from ₱579/MT in January 1984 to ₱930/MT in July 1984 (10000 BTU/lb grade).

Cars

The Progressive Car Manufacturing Program was initiated in 1973, geared to the assembly of cars with internal combustion piston engines of 4 cylinders and less and with piston displacement not exceeding 2,000 c.c.. Importation of built-up passenger cars was thus not allowed. The Board of Investments took charge of the program and issued clearances to import to participants who had foreign exchange allocations determined on the basis of sales performance. Traders and end-users went direct to CB for importations of automotive spare parts.

Domestic price policy aimed at maintaining car prices that were as close as possible to the car prices of the country of origin. Completely-knocked down (CKD) price was not to be more than 85 per cent of the f.o.b. completely-built up (CBU) price of comparative model from the source country. The local content requirement, which is now 40 per cent, has always been a flexible one which allowed the mix of local and imported inputs to vary.

In early 1983, the basis for determining the allocation was changed somewhat. Those who did not utilize at least 50 per cent of their allocations in 1982 suffered a reduction to 25 per cent; all assembler's allocation were reduced by 20 per cent since total utilization of 1982 allocations was only 69 per cent; the distribution among participants was based on their market share, i.e., c.i.f. value of 1982 sales.

At the end of the year, the allocation was discontinued and participants had to be foreign exchange self-sufficient via their exports. To effect such self-sufficiency, importation of CKDs and raw materials for automotive components was based on one year Documents against Acceptance

(D/A). Foreign exchange for payment of maturing D/As would come solely from net foreign exchange receipts realized from exports of automotive components and non-traditional export products. Imports of CKDs and raw materials were allowed as equity investment. Traders could import spare parts based on one-half of the value of their highest importations for the last 4 years. End-users had no allocation and were only endorsed from time to time.

Trucks

As early as 1970, the opening of letters of credit for imports of CBU light trucks and small vans was not allowed and those for CKD light trucks or small vans needed CB approval (MAAB 13).

The Progressive Truck Manufacturing Program was implemented in 1977 (LOI 590) to cover trucks up to 30,000 lbs. gross vehicle weight (GVW). The program first covered vehicles up to 4500 lbs. GVW in July 1977, then 20000 lbs. GVW in January 1978 and finally 30000 lbs. GVW in July 1978. The permissible content of the CKD pack was defined from time to time in order to exclude those which are domestically manufactured and are approved local content. Imports of CBU trucks within the coverage of the program were not allowed even on a no-dollar basis.

In 1982 the guidelines were revised, and 14 participants were cut down to 12. The major new provisions consisted of: covering trucks up to 40000 lbs. GVW, and changing the local content formula to include an actual physical local content requirement under which the proportion to be attained would be based on the f.o.b. CKD price of the components. The revised guidelines also listed diesel engines and other locally manufactured components to be mandatorily deleted from the CKD pack and not to be authorized for importation. Gasoline engines were also allowed, if locally made, subject to BOI approval. The division of the foreign exchange allocation was based on the participants' 1980 retail sales performance.

In 1983 the foreign exchange allocation to participants was the same as the 1982 allocation since only 81 per cent of the latter was used up. This was distributed according to the participants' respective market shares. At year-end, foreign exchange self-sufficiency was imposed and regulations covering PCMP participants were applicable to PTMP.

In the case of used trucks, import permits are only given for trucks that are more than 40000 lbs. GVW. In 1983 imports of trucks, engines and engine blocks were limited to $50,000 per month per importer, whether end-user or trader. Quotas were set on used truck imports, from $18.8 M in 1976 to $9.0 M in 1983, at which time only those on prepaid basis were allowed. The priority system gave traditional importers quotas to import those types that are locally manufactured, while traders and end-users could only import those types that are not locally manufactured. In 1984 and 1985, no quotas were imposed.

Tires

Tires were regulated as early as 1977 (MAAB 68 of 27 December 1976). An Inter-Agency Committee on Used Trucks and Engines created in August 1980 (LOI 1053) monitors the importation of tires in addition to trucks, special purpose vehicles, engines, and engine blocks. The licensing is intended to regulate the quantity or value of imports in order to ensure continuous and sufficient supply and at the same time support local industry.

Authority to import is basically given only when tires are not locally manufactured. From 1976 to 1982, quotas were set on imports of brand new and used tires which were locally available. PNOC got the bulk of the allocation, from 75 per cent of the total in 1977 to 67 per cent in 1982, but it had no allocation in 1983 and 1984. For new tires, traditional importers got about 80 per cent in 1976, 33 per cent in 1982, and 100 per cent in 1983 and 1984, while for used tires, they got 20 per cent in 1976, only 1 per cent in 1981, after which these were banned. In 1983 and 1984, imports by traders and traditional importers were coursed through the Philippine International Trading Corporation. These quotas were only fully utilized in 1979-80 by all groups of importers, in 1976-77 by traditional importers of used tires, and in 1980-81 by PNOC. In 1984 and 1985, traditional importers could import up to ₱3.5 M of steel belted tires which had local substitutes. There was no quota on types which have no local substitutes. Since 1983, changes in tire prices needed the approval of the Ministry of Trade and Industry.

Basic Refractory Products

Before August 1982, basic refractories were freely importable. After that regulations were put in place (MAAB 28 in 1982, MAAB in 1983) to disallow importations if the product was locally available. The importer would have to negotiate with the sole manufacturer over the price. However, the acidic type of refractories such as alumina bricks, are automatically allowed to be imported since they are locally unavailable. BOI checks if requirements are justified and also examines previous importations, but no quota is set.

Textile Fibers, Yarns and Fabrics

Textile fabrics were part of Circular 289 of 21 February 1970 which required CB approval of all UC, SUC and NEC imports. Regulations were repeated under EO 720 (24 May 1979) and Circular 850 (15 February 1982) to underscore the need to protect local industry. Requests are now referred to the Textile Manufacturers Association of the Philippines.

Synthetic yarns and fibers needed licenses starting in 1972 (MAAB 1 of 3 January and MAAB 58 of 8 September). Polyester fiber and filament tow were restricted in 4 November 1983 (Circular 970). A certification from BOI stating that the fiber or yarn is not sufficiently produced is needed. Importations in excess of capacity, i.e., in relation to their normal inventory level, are discouraged. A basic guideline followed is to allow importation if the landed price is lower than the local manufacturer's price. The need for import clearance was removed in 1983 (EO 926), but with an increase of tariff rate on polyester staple fiber from 20 per cent to 30 per cent. However, this was not followed.

Spun yarn and sewing threads were regulated in January 1982 (MAAB 2). As a deterrent to smuggling and misdeclaration of items, which are the main problems of the textile industry, an unnumbered MAAB of 7 July 1970 cancelled letters of credit for used clothings and rags, while waste of fibers were made subject to licensing in 1977 (MAAB 51) and finally banned in 1984 (Circular 1029).

Paper and Paperboard Products

These have been regulated since 1972 (MAABs 33 and 61) and close to 50 per cent were liberalized in 1982. The same criteria of local unavailability at the same price, quality and quantity is followed by BOI. An additional requirement is that if it cannot be supplied domestically, the product to be imported must be used in the production of an export good. A quota is based on the average of the previous two years importations, although this restriction is not binding because requests have not exceeded historical importations.

Semi-chemical fluting paper imports were first regulated in 1980, liberalized in 1981 and then regulated again in 1982 after local manufacturers requested it. Kraft paper and paper products imports were restricted in October 1982, followed by all other paper products in November 1982. Paper waste was restricted only in 1984. Newsprint has been subject to licensing since 1972 despite petitions to remove controls.

Liquid Caustic Soda, Hydrogen Peroxide, Sheet Class

Liquid caustic soda importations needed clearance from CB in 1976 (MAAB 43), then from the Ministry of Trade and Industry in 1977 (MAAB 98). It was liberalized for a few months in 1982 (MAAB 8) when approval was again required in November (MAAB 49). Now, imports are monitored by BOI which sets an implicit ceiling based on inventory levels of users.

Hydrogen peroxide importations have been covered by a series of orders. In 1979, MAABs 15 and 49 specified that imports of hydrogen peroxide of 35 per cent and 50 per cent weight of concentration would not be allowed. In 1982, LOI 1255 authorized its importation as an emergency measure to supplement shortages in domestic production provided the selling price would be regulated by BOI. This was to assure a steady supply to such users as textile, pulp and cosmetic manufacturers. LOI 1294 in 1983 repeated this measure. In 1984, MAAB 19 exempted the product from clearance requirements of the PC-Firearms and Explosive Unit.

Sheet glass imports have, since 1982, not been importable in order to protect the local producer. However, it was already regulated previously (MAAB 41 of 5 June 1978). Float glass, which is not available, can be imported as a substitute for sheet glass, but on a limited basis depending on end-use. If it is to be used for re-export purposes, it is allowed automatically; for trading purposes, it is not allowed; for manufacturers and end-users, some are allowed on a case-to-case basis. These limitations came about in 1983 as a result of the perception that there were too many importations.

Liquors and Wines, Cigars and Cigarettes

These fall under the banned (NEC) category. Prior to 1983, wines and liquors could be imported by certain qualified importers in an amount not to exceed $4,000 a month for each of those authorized and in an amount equivalent to a certain percentage of their traditional importations for pledge holders. Authorized importers included traditional importers as well as those with exclusive distributorship contracts with foreign wine suppliers. LOI 1367 in November 1983 suspended applications to import wines and liquors. In April 1984, LOI 1398 again allowed importations, but limited these to those imported as foreign equity investment in a registered export enterprise whose exports are at least double the value of their imports. Cigars and cigarettes may be imported only by certain qualified importers upon prior CB approval, subject to a monthly allocation. This provision has not been lifted.

III. The Effects of Non-Tariff Measures

This section establishes the presence and effects of NTMs at various levels of aggregation. The estimated import demand equation is first discussed briefly, and the value of potential imports estimated using the equation (Table 4a). Then the share of restricted commodities in actual and estimated imports is computed ((Table 4b).

The unweighted frequency tables showing the number of items regulated or banned per commodity group or 3-digit PSCC level of classification is next discussed (Table 5). Table 6a, on the other hand, shows the weighted frequency of new regulations per year, that is, the import values of newly regulated and banned commodities. Table 6b is the counterpart of 6a for liberalized items.

The restrictiveness of import regulations is examined by comparing annual shares in total imports of each year's batch of newly regulated commodities, in order to see changes in import shares before and after the restrictions were imposed (Table 7).

Coverage of restrictions is dealt with in Table 8, which gives for each 3-digit level the shares of regulated imports in that group's imports. This is different from the previous table because it takes into account the yearly change in the number of restricted items per group.

The price impact of NTMs is the major concern of the last part of this section. Tables 9a, 9b, and 9c, which indicate relative prices. of a sample of regulated and liberalized commodities at the 7-digit level, are discussed in an attempt to apply the model.

The year 1977 was chosen as base year for two reasons: (a) it is the year that exhibited a relatively low balance of trade deficit; and (b) it is the year when the new commodity classification scheme was implemented, making it difficult to return to previous years because of changes in some classifications, aggregation and disaggregation problems.

A. Import Demand Function

An aggregate demand equation was estimated to test the effects of changes in real GNP and the real exchange rate on total and non-oil imports from 1967 to 1984. The data used are enumerated in Appendix II. A logarithmic specification was used with the following results for total (1) and nonoil (2) inputs:

$$(1) \qquad M_{TOTAL} = -5.0176 + \underset{(7.18359)}{0.95375\ GNP} - \underset{(-2.92319)}{0.41817\ r}$$

$$R^2 = 0.86599 \qquad \bar{R}^2 = 0.84812$$

$$(2) \qquad M_{NON\text{-}OIL} = -5.39803 + \underset{(15.08099)}{1.02023\ GNP} - \underset{(-4.35824)}{0.59645\ r}$$

$$R^2 = 0.93820 \qquad \bar{R}^2 = 0.92996$$

where M is imports converted to a quantum index, in logs

GNP is Gross National Product in constant 1972 terms, in logs r is the real exchange rate equal to $ER \frac{MPI}{GDP_{pd}}$, the product of the official exchange rate and the ratio of the import price index to the GDP price deflator, in logs.

The t-values, given in parenthesis, show both GNP and r to be significant in both equations. They also behave as expected, that is, with the right signs and at plausible levels. Coefficients for both are also lower when tested against M_{TOTAL}, since the inclusion of oil imports, which is both income-inelastic and price-inelastic, dampens the effect of changes in both GNP and r.

Actual and potential imports are tabulated in 4a. The relatively liberal years, i.e., where actual exceeded the potential value, seem to be in the early and mid-1970's and the early 1980's in the case of total imports. The performance of nonoil imports was slightly different. One unexpected result is that in 1976 the nonoil actual import figure was short of the potential, indicating that nonoil imports were more strictly regulated, when in fact it was petroleum products that became subject to restrictions in that year. The energy crises in 1974 resulted in major price increases in crude oil and petroleum products and that continued even in succeeding years. The economy's increasing need for crude oil to run local industry resulted in hiked import bills which the government tried to counter by developing other energy sources and regulating oil imports. It is probable that the inflation and recession in industrial countries in 1975 influenced government to be more restrictive the following year.

Table 4a

Actual and Estimated Total and Non-Oil Imports
(CIF, $ m)

Year	Total Imports Actual	Total Imports Estimated	Non-Oil Imports Actual	Non-Oil Imports Estimated
1967	1,053	1,140	948	1,041
1968	1,332	1,249	1,203	1,119
1969	1,327	1,351	1,200	1,199
1970	1,286	1,240	1,142	1,094
1971	1,405	1,370	1,231	1,208
1972	1,485	1,500	1,301	1,325
1973	1,790	2,044	1,556	1,784
1974	3,468	3,194	2,758	2,505
1975	3,776	3,511	2,958	2,705
1976	3,953	3,915	3,010	3,056
1977	4,270	4,411	3,224	3,390
1978	5,143	4,856	4,054	3,840
1979	5,613	5,862	4,155	4,635
1980	8,295	7,579	5,937	5,452
1981	8,479	8,430	5,923	5,978
1982	8,263	8,059	6,068	5,937
1983	7,979	7,760	5,783	5,504
1984	6,428	7,699	4,723	5,220

In the case of total imports, the restrictive years appear to be 1967, 1969, 1972, 1977, 1979, and 1984. One might consider the possibility of using a time-lag in explaining this result; the examination would then show there was reason to be stricter in these years because of sizeable trade gaps in the preceding year. In 1976, imports rose due to increased crude oil requirements, an expansion of domestic credits, and the growth of industrial activity and government projects. In 1978, imports grew faster that exports, and as in previous years, imports consisted mostly of producer goods. In 1983, the liquidity problem could be reduced only by stemming the outflow of foreign exchange while promoting exports to increase receipts.

The reason for more liberal policy in 1973, 1978, and 1980 may likewise be traced to the previous year's performance. In 1972, the balance of payments surplus was unexpected, although there was a trade deficit due to national disasters and unfavorable world market conditions, heavy food imports and high import prices. In 1977, a surplus was again registered, although there were large inflows of capital. Exports this time rose faster than imports because of increased economic activity abroad, and increased export capacity. The BOP and trade deficit in 1979 were substantial despite large exports, since prices of crude oil rose again and import volumes also increased.

A look back at Table 2 shows opposite results: in terms of the number of MAABs issued, 1975, 1976, 1982, and 1983 are the most regulation-ridden years. It is likely that the number of commodities affected was too small to show in overall import levels. Moreover, other wide-ranging measures were present whose effects are not easy to decompose. Nevertheless, these are indications that the degree of liberalization of current trade policy stems from the previous year's experience.

Table 4b shows the magnitudes of restricted imports. The highest, $2.5 billion, was registered in 1983 and is probably because the greatest incidence of regulations occurred in this year. There is also a high figure for 1980, when only 38 per cent of items were regulated. However, when one takes the value of restricted items as a proportion of total imports, 1979 exhibits the highest figure, although this was not substantially above the 1983 value. The average was 27 per cent for the entire eight-year period.

B. Frequency, Coverage, Restrictiveness of NTMs

Table 5 shows the number of commodities per group newly subject to any form of regulation from 1977 to 1984, although 1977 includes the sum of past restrictions from 1970 to 1976. Restricted is taken to mean either subject to import licensing, state-traded, affected by a local content program, subject to a quota, or banned. Those NTMs that affect all items invariably are not included, i.e., foreign exchange regulations, customs procedures, advance marginal deposit requirement, and advance payment of duties and taxes. About one-third

Table 4b.

Total Import Values of Regulated and Banned Items
(CIF, $ m)

Year	Imports of Regulated & Banned Items	Imports of Banned Items Subsequently Liberalized	Total	Proportion of Total Imports (%)
1977	1,051	33	1,084	25.4
1978	1,216	44	1,260	24.5
1979	1,751	51	1,802	32.1
1980	2,118	84	2,202	26.5
1981	1,928	44	1,973	23.2
1982	2,163	1	2,164	26.2
1983	2,541	-	2,541	31.8
1984	1,760	-	1,760	27.4

Table 5a.
Frequency of Restrictions: Number of Items
Regulated and/or Banned per Year, by Group

Group	Description	Total No. of Items	1977[a/]	1978	1979	1980	1981	1982	1983	1984
001	live animals for food	28	18		9				1	
011-014	meat & meat preparations	48	44			1				
022-024	dairy products	24	6						18	
025	bird's eggs	11	7						4	
034-037	fish & fish preparations	60	48			1			10	
041-048	cereal & cereal preparations	80	35						16	
054,056	vegetables	131	91						21	
057,058	fruits & nuts	141	86						52	
061,062	sugar & honey	29	11						14	
071-074	coffee, cocoa, tea & maté	22	15						1	
075	spices	67	31							
081	feeding stuff for animals	35	20						2	
091,098	miscellaneous edible products	63	34						24	
111	non-alcoholic beverages	12	10						2	
112	alcoholic beverages	35	35							
121,122	tobacco & manufactures	24	10						9	
212	skins & furskins	3							3	
222,223	soyabean & soyabean powder	14	3							
245	fuel wood	5	4							
251	paper waste	20								1
263	cotton	5					1			
266-268	synthetic fibers,wool	30	10						1	
269	old textile materials	6	4						2	
278,289	crude minerals, scraps of precious metals	47	1			1			1	
291	crude animal materials	20							14	
292	crude vegetable material	42	6						12	
322-323	coal, coke & briquettes	11		2		5				
334,341	petroleum products	30	10	3						
411,431	animal oils & fats	29				1			2	
511-514	organic chemicals	80	1				1		6	1
522-523	inorganic chemicals	104	3		1				2	4
533	pigments, paints, varnish	51	4						1	

Frequency of Restrictions: Number of Items
Regulated and/or Banned per Year, by Group

Group	Description	Total No. of Items	1977	1978	1979	1980	1981	1982	1983	1984
541	medicinal & pharmaceutical products	104	27							
553	perfumery, other toilet preparations	15	14							
554	soap,cleansing preparations	12	10							
562	fertilizers	19	19							
572	explosives	12	2							
582-584	artificial resins & plastic materials	128			1			59		
591	disinfectants, insecticides & similar products	12	7							
592	starches & glues	27	2							
612	leather manufactures	20	2						15	
613	furskin	2	1							
621	rubber hose	18	1							
625	rubber tires, etc.	34	15					6		
628	other articles of rubber	28	5						8	
633-635	cork & wood manufactures	63	16						15	
641,642	paper & paperboard	184	55	1				88	17	
651	textile yarn	137	21					55	1	
652	cotton fabrics, woven	32			19				1	
653	woven fabrics of manmade fibers	50			24				2	
654	woven fabrics of other fibers	33			29				1	
655	knitted or crocheted fabrics	9			6				2	
656	lace, ribbons, trimmings	48							35	
657	special textile fabrics	70	5						16	
658	made-up textile articles	33	25					2	6	
659	floor coverings	28	11							
661	cement, fabricated construction materials	23							13	
662	clays & refractory construction materials	13						5	3	
663	mineral manufactures	47	3			1			7	
664	glass	39	4	1			1		9	
665	glassware	27	8						7	
666	pottery	8	8							

Frequency of Restrictions: Number of Items Regulated and/or Banned per Year, by Group

Group	Description	Total No. of Items	1977	1978	1979	1980	1981	1982	1983	1984
667	precious & semi-precious stones	10	5						4	
671-679	iron & steel	128	128							
681	non-ferous metals	8							8	
695	charcoal fed flatiron	33	1							
696	cutlery	33	20						1	
697	household equipment, base metal	46	19						25	
699	other manufactures of base metal	150	17						29	
713	internal combustion piston engine	43	10					7	4	
721	lawn mower	48	1							
724	household sewing machine	42	1					1		
728	machinery & equipment for particular industries	49							5	
736,737	metalworking machineries & tools	32							4	
741	heating & cooling equipment	58	4					3	2	
745	other non-electrical machinery tools	49						6		
751	office machines	37	3							
761	tv receivers	8	4					4		
762	radio broadcast receivers	8							8	
763	tv image & sound recorders & reproducers	7							6	
764	telecommunications equipment	53	1	21					15	
771	electric power machineries	23		1					8	
772	electric apparatus	34							6	
773	equipment for distributing electricity	14		1					2	
774	electro-medical apparatus	6							2	
775	household type, electric & non-electric equipment	50	28					14	1	
776	picture tubes, valves, transistors, etc.	14		1					7	

Frequency of Restrictions: Number of Items Regulated and/or Banned per Year, by Group

Group	Description	Total No. of Items	1977	1978	1979	1980	1981	1982	1983	1984
778	other electric machinery & apparatus	90	6					2	7	
781-785	road vehicles & parts	73	59							
786	motorcycles	13	1							
793	ships, boats	21	18							
812	sanitary, heating, lighting fixtures & fittings	30	1						9	
821	furniture & parts	37	22						7	
831	travel goods	14	14							
842-848	articles of apparel & clothing accessories	239	205						12	
851	footwear	27	25						2	
871-874	professional, scientific & controlloing instruments	68	6					29	1	
883,884	cinematographic goods	25	7						1	
892	printed matter	43	18						3	
893	articles of artificial resin & plastic materials	43	10	1	1			1	25	
894	baby carriages, toys, sporting goods	66	28						13	
895	office & stationery supplies	60	17						9	
896	works of art, antiques	7	6							
897	jewelry	11	10						1	
898	musical instruments	39	7						11	
899	other miscellaneous manufactured articles	96	64						14	
911	postal-packages	1	1							
931A	special transactions-exports	18	17							
931B	special transactions-replacement	18	18							
941	animals, live	4			4					
951	fighting vehicles, arms of war, ammunition	19	19							
	TOTAL	4,626	1,629	32	94	10	3	282	628	6

a/ Includes items restricted from 1970 to 1976.

of the groups showed that at least 50% of the total items were regulated in 1977. These were majority of food and food products, beverages, cleansing preparations, fertilizers, insecticides, textile fabrics, pottery, iron and steel, household electrical equipment, road vehicles, furniture, travel goods, articles of apparel, footwear, and other miscellaneous manufactured products.

In the ensuing years, regulations cropped up either to support local content programs, e.g. Diesel Engine Manufacturing Program, Progressive Export Program for Consumer Electronic Products; or to centralize importations, e.g. Phil-BAI for meat, National Coal Authority for coal. Others were protective of local industry, e.g. paper, spun yarn and thread, refractories, sheet glass, ampicillin and amoxycillin. Coverage per commodity group was close to complete in 1983, with the issuance of MAAB 37 which aimed to check the undervaluation of imports of high-tariff, freely importable articles. To the previous list was added tobacco, crude animal materials, leather manufactures, paper and paperboard products, textile yarn and fabrics, cement, clay and refractory construction materials, glassware, non-ferrous metals, articles of artificial resins and plastic, toys and sporting goods and consumer electronic products. Looking at totals, one-third of the number of items was regulated as of 1977 and this increased slowly up to 1981, after which it jumped to more than 50% in 1983. The strength of these regulations however, differs between commodity groups.

Restrictiveness may be gleaned from Table 6a which gives the total yearly import values of all regulated and banned items in the years the measure took effect. The commodities restricted before and in 1977 (1,629 items) first increased in value from 1978 to 1980 and then decreased successively from 1981 to 1984. The value of the 1978 batch (32 items) was higher compared to 1977. It declined slightly in 1979 but went up by half in the following years, maintaining that level up to 1984. The 1979 batch (94 items) rose by half from the previous years level and again in the succeeding years, with erratic changes in import values afterwards.

There was also a slight fall in imports of the 1982 set (282 items) from the 1981 level, but it climbed the next year. Products restricted in 1983 (628 items) also dropped considerably in 1983 and 1984. The 1984 batch (6 items), although small, was curious in exhibiting an almost twofold increase in 1984, when imports of all other groups declined because of the foreign exchange crisis.

This observation should be qualified by the presence of time lags especially when regulations are set in place in the last quarter of the year. For instance, about half of the 1982 batch was restricted in November and December only, and so the effect of the restriction would only appear in the next year. In the same manner, the 1983 batch consisted of 573 items regulated only in September plus 37 more covered by other late restrictions. Nevertheless, imports of the 1982 batch unexpectedly increased in 1983, even after taking time lags into account.

Table 6a.

Annual Import (CIF) Values of All Regulated and Banned Items in the Years the Restriction Took Effect, by Import Year

($ 000)

Import Years	Restriction Year					
	1977[a]	1978	1979	1982	1983	1984
1977	1,050,720	22,072	37,287	177,758	230,174	9,936
1978	1,175,457	40,337	47,209	208,044	256,583	9,071
1979	1,646,835	37,438	67,403	259,149	294,301	13,630
1980	1,971,948	55,698	90,410	282,233	385,193	15,172
1981	1,778,313	52,954	96,983	292,272	428,757	22,473
1982	1,735,898	52,446	86,938	287,959	492,514	19,563
1983	1,601,556	55,545	114,528	306,763	462,829	14,644
1984	993,619	55,467	93,268	205,340	388,436	23,737

[a] Includes items restricted from 1970 to 1976.

Import values of liberalized goods are tabulated in Table 6b. The 1981 batch (255 items) decreased from its 1980 level but more than doubled the following year. Both the 1982 and 1983 batches (596 and 47 items) rose and then fell. The highest value of liberalized imports occurs in 1982, which is to be expected since a total of 1368 items were delisted by then. However, these decreased successively in 1983 and 1984.

The relatively more restrictive set of regulations was implemented in 1977, 1978, and 1983 (Table 7), since the shares in total imports of these batches showed declines in the year the restrictions were made operative, in the following year, or both. It is worth noting that the share of the 1983 batch of regulated items rose in 1984, considering that policy aimed at lowering imports; the same may be said of the 1984 batch.

For the liberalized goods, shares of the 1981 batch increased in 1982, while those of the 1982 and 1983 batches grew in the years liberalization was implemented. The effect of time lags is not relevant here, since they were liberalized early in the year. Thus it is apparent that deregulation of imports has an impact on quantities, both in absolute and relative terms.

These import shares are cumulated by commodity group, and those groups which are characterized both by high frequency of restrictions (based on Table 5), and relatively low import shares, and suffered

Table 6b.

Annual Import (CIF) Values of All Liberalized Items, by Import Year ($ 000)

Import Year	Liberalization Years			Imports of Liberalized Items	Imports of Previously Regulated Items
	1981	1982	1983		
1977	7,285	25,185	604	-	33,074
1978	12,562	29,684	1,490	-	43,736
1979	13,616	36,023	911	-	50,550
1980	38,277	44,641	674	-	83,592
1981	19,552	43,616	721	19,552	44,337
1982	42.205	61,292	923	103,497	923
1983	24,823	54,806	1,479	81,108	
1984	19,326	28,340	175	47,841	

Table 7.

Proportion of Total Imports of Newly Regulated
and Liberalized Items in the Years They Took Effect, by Import Year

Batch of Items[a]	1977	1978	1979	1980	1981	1982	1983	1984
R 1977	24.61	22.34	24.89	23.67	20.95	21.12	20.10	15.40
R 1978	0.52	0.77	0.49	0.67	0.62	0.63	0.70	0.86
R 1979	0.87	0.90	1.02	1.08	1.14	1.05	1.44	[illegible]
R 1982	4.16	3.96	3.92	3.38	3.44	3.48	3.65	3.18
R 1983	5.39	4.88	4.45	5.45	5.04	5.95	5.81	6.02
R 1984	0.23	0.17	0.21	0.18	0.26	0.24	0.18	0.37
L 1981	0.17	0.24	0.21	0.46	0.23	0.51	0.31	0.30
L 1982	0.59	0.56	0.55	0.54	0.52	0.75	0.70	0.44
L 1983	0.01	0.03	0.01	0.01	0.01	0.01	0.02	0.003

a/ R 1977 means those newly regulated in 1977, and so on, although R 1977 includes 1970 to 1976.

reductions in these as well are summarized in Table 8. What is pursued here is whether the restrictions were binding enough to lower import shares for some groups. A group with low incidence and high import shares may indicate that the regulation is not constraining, since large volumes of imports are allowed of otherwise restricted commodities. Conversely, high incidence and low import shares may indicate that the restrictions are effective. It is necessary to see whether the shares went down in the year following the implementation of the restriction, since "low" and "high" are relative and we do not have prior information on the normal shares. Thus with this qualification the following items seem to have responded to the measures: live animals for food both in 1980 and 1984; fish and fish preparations in 1981 and 1984; vegetables, fruits, old textile articles, lace trimmings, made-up textile articles, glassware, telecommunications equipment, clothing accessories, optical instruments, and articles of artificial resins and plastic materials in 1984; household-type electric and non-electric equipment in 1978 and 1984; men's garments in 1978. However, the decreases that occurred in 1984 could be traced to controls that aimed to discourage imports in general because of the debt crisis rather than supply and price stabilization measures. Nevertheless, the other commodity groups do not seem to have been affected by restrictions. On the whole, 1983 was the most restrictive year in terms of import shares, since most group's shares fell in 1984.

Table 8. IMPORT SHARES OF COMMODITY GROUPS WITH HIGH FREQUENCY OF RESTRICTIONS

	Description	1977	1978	1979	1980	1981	1982	1983	1984
001	live animals for food	29.35	11.11	99.96	29.37	29.79	25.38	60.63	24.66
034	fish and fish preparations	100.00	100.00	100.00	100.00	98.55	0.92	8.86	5.51
035		100.00	100.00	100.00	100.00	10.53	0.58	24.15	4.68
036		100.00	100.00	86.53	97.43	-	-	0.79	12.20
037		90.69	94.87	92.37	96.25	94.44	92.88	88.86	97.80
054	vegetables	27.75	35.48	24.19	25.99	24.40	3.00	7.06	5.80
056		29.82	25.99	22.23	40.18	18.72	-	67.29	86.87
057	fruits and nuts	87.54	86.74	92.89	90.45	92.05	87.10	100.00	100.00
058		29.48	28.68	22.02	16.75	10.71	22.45	17.40	5.70
269	old textile articles	3.11	12.81	56.97	90.91	1.03	19.68	100.00	-
656	lace, ribbons, trimmings	-	-	-	-	-	-	49.61	29.85
658	made-up textile articles	35.06	73.31	57.41	65.98	43.15	31.71	30.18	12.86
665	glassware	42.82	47.91	65.19	89.21	62.39	52.38	16.32	14.80
764	telecommunications equipment	1.50	31.20	30.20	23.85	13.65	14.26	29.25	28.66
775	household-type electric and non-electric equipment	18.44	14.58	9.86	15.17	10.38	5.03	9.25	7.26
842	male outergarments of textile fabrics	41.88	33.44	88.06	68.33	61.57	-	-	-
847	clothing accessories of textile fabrics	94.27	99.58	99.45	99.71	93.77	-	0.93	0.25
871	optical instruments and apparatus	-	0.09	-	-	-	24.32	37.36	23.70
893	articles of artificial resins and plastic materials	36.39	52.51	71.27	73.41	60.43	19.22	27.83	25.94
	TOTAL	25.38	23.94	27.17	26.43	23.24	26.29	31.90	27.27

C. Relative Prices of Sample Commodities

The price impact of NTMs is discussed in this section. The data used in calculating relative prices consist of wholesale domestic prices (P_d) of both imported goods and locally-produced substitutes obtained from the National Census and Statistics Office. Border prices (P_b) were taken from Philippine Foreign Trade Statistics, using unit c.i.f. import values. It is noted that quality differences are implicit in comparing these commodities, because of the heterogeneity of the classifications used in the trade statistics, and differences in units of measurement that necessitated the use of certain assumptions.

The sample of commodities which were regulated between 1977 and 1984 are tabulated in 9a. Milk retail containers, lubricating oil, flourocarbon, metal sinks, trucks, electronic measuring devices, and typewriter ribbons all conform to the expectations of Case I of the model, that is, where relative prices rise and quantity imported falls after the imposition of the restrictions. Decreased imports were also reported for skim milk and whole milk in bulk containers, butterfat, raw cotton, and firebricks, although it is not possible to conclude about the applicability of the model because of incomplete information. On the other hand, Case II would apply to canned squid, sodium hydroxide (or liquid caustic soda), and knitted fabrics, since they exhibit increases in both relative prices and absolute imports after the regulation was implemented. Greater import volumes were also registered by polyethylene and polystyrene although the lack of price data makes it difficult to judge which case applies to these. For the rest of the items, the reverse changes occurred instead.

Aside from the predictions of the model, nominal and implicit tariff may also be compared. The average premia exceed the nominal tariff in the case of milk in bulk containers, canned tuna, cotton, lubricating oil, flourocarbon, acetic acid, polyethylene, knitted fabrics, metal sinks, room airconditioner, trucks, and typewriter ribbon. The opposite characterizes the rest of the sample, indicating that the tariffs were not binding.

Table 9b is the counterpart of 9a for liberalized items. Cheese, flour and cookies behaved as Case I predicted, with lower relative prices and larger imports. Price gaps of biscuits, mixed pickles, toilet soap, and cutlery also narrowed, but imports also decreased. Similarly, quantities imported of macaroni, other paints, and glassware climbed but so did their price differentials. Nominal tariffs of flour, macaroni, biscuits, other paints, toilet soap, kraft paper, and cutlery exceeded that implied by the price wedge.

Relative prices of some other items restricted before 1977 are shown in Table 9c. Comparing tariffs with the price differentials yields the result that the former exceeds the latter in only a few cases (beef, cigarettes, kerosene, other nitrogenous fertilizer, newsprint, bond paper), indicating this time that the non-tariff restrictions are more binding.

TABLE 9a. CHANGE IN PRICE RATIOS (Pd/Pb) AND IMPORT SHARES (Mi/M) OF SAMPLE REGULATED ITEMS IN THE YEAR AFTER THE REGULATION TOOK EFFECT

Commodity	Type	t	Year Regulated	Average Pd/Pb 1977-84	Range of Pd/Pb Low	Range of Pd/Pb High	Change in Pd/Pb Decrease	Change in Pd/Pb Increase	Change in Mi/M Decrease	Change in Mi/M Increase	ΔM -	ΔM +
Skim milk, bulk	EP	5	1983	1.00	0.85	1.15			x		x	
Milk, bulk	EP	5	1983	1.65	1.06	2.32			x		x	
Milk, retail	EC	5	1983	1.42	1.19	1.58		x	x		x	
Butterfat	EP	10	1983	1.04	1.01	1.08			x		x	
Canned squid	EC	20	1980	0.95	0.80	1.04		x		x		x
Canned tuna	NEC	50	1982	2.48	0.54	5.67						
Corn, unmilled	UP	50	1983	1.35	1.15	1.67	x		x		x	
Cotton	EP	10	1981	1.31	1.13	1.58			x		x	
Lubricating oil	EP	20	1978	1.58	1.32	1.81		x	x		x	
Flourocarbon	EP	10	1983	2.07	1.55	2.44		x	x		x	
Sodium hydroxide	NEP	30	1977	1.09	0.12	2.83		x		x		x
Acetic acid	EP	10	1981	2.09	0.65	3.19	x		x		x	
Polythylene	EP	20	1982	0.96	0.85	1.15				x		x
Polystyrene	EP	40	1982	1.25	1.15	1.39				x		x
Onion skin paper	SUP	50	1982	1.50	1.20	1.88	x		x		x	
Blue denims	UP	40	1979	1.37	1.24	1.62	x			x		x
Knitted fabrics	UP	40	1979	1.76	1.56	1.85		x		x		x
Firebricks	EP	10	1982	0.82	0.55	1.11			x		x	
Sink, metal	NEP	50	1983	3.46	0.45	7.64		x	x		x	
Room aircon, 2 HP	NEC	60	1982	1.70	0.26	3.73	x			x		x
Monochrome TV picture tube	UP	40	1978	0.46	0.02	1.45	x		x		x	
Motor vehicles for goods	UP	30,50	1977	1.65	1.41	1.84		x	x		x	
Other electronic measuring devices	EP	10,20	1982	0.66	0.68	1.50		x	x		x	
Typewriter ribbon	UP	50	1983	1.84	0.71	6.53		x	x		x	

TABLE 9b. CHANGE IN PRICE RATIOS (Pd/Pb) AND IMPORT SHARES (Mi/M) OF SAMPLE LIBERALIZED ITEMS IN THE YEAR AFTER LIBERALIZATION TOOK EFFECT

Commodity	Type	t	Year Liberalized	Average Pd/Pb 1977-84	Range of Pd/Pb		Change in Pd/Pb		Change in M_i/M	
					Low	High	Decrease	Increase	Decrease	Increase
Cheese	NEC	40	1982	1.88	1.08	3.30	x			x
Flour	NEC	30	1982	1.09	0.33	1.80	x			x
Macaroni	NEC	70	1981	1.68	1.01	3.39		x		x
Sotanghon	NEC	70	1981	2.81	1.77	4.47		x	x	
Biscuits	NEC	60	1981	1.37	0.59	2.24	x		x	
Cookies	NEC	60	1981	2.52	1.12	4.27	x			x
Mixed pickles	NEC	50	1982	3.04	0.91	5.13	x		x	
Cocoa powder	UC	60	1981	7.88	2.80	26.38				x
Other paints and enamels	NEP	40	1981	0.95	0.49	1.95		x		x
Toilet soaps	NEC	50	1982	1.43	0.39	2.56	x		x	
Kraft paper	NEC	40	1982	0.51	0.03	2.11	no imports		no imports	
Toilet and kitchen linen	NEC	70	1982	1.97	1.04	3.19				x
Table and kitchen glassware	NEC	50	1982	1.02	0.35	1.71		x		x
Cutlery of iron or steel	NEC	50	1982	2.15	1.03	4.41	x		x	

TABLE 9c. PRICE RATIOS (Pd/Pb) OF SAMPLE ITEMS REGULATED OR BANNED BEFORE 1977

Commodity	Type	t	Year Regulated Or Banned		Average Pd/Pb	Range of Pd/Pb Low	High
Beef	EP	5	R	1975	0.89	0.37	1.32
Beef, boneless	EP	5	R	1975	1.54	1.06	1.81
Pork	EP	5	R	1975	2.02	1.55	2.57
Canned mackerel	EC	10	R	1976	1.70	1.25	2.03
Canned sardines	EC	10	R	1976	1.82	1.20	2.21
Apples	NEC	50	B	1970	2.42	2.01	3.22
Canned mixed fruit	NEC	60	B	1970	2.32	1.03	4.51
Coffee	UC	50	B	1970	1.50	0.83	2.37
Soybean oilcake	EP	10	R	1975	1.40	0.98	2.52
Meat meal	EP	5	R	1975	1.39	1.18	1.85
Fish meal	EP	10,5	R	1975	1.30	1.11	1.47
Soyabeans	UP	10	R	1975	1.84	1.30	2.72
Whisky	NEC	50	B	1970	1.76	1.50	1.92
Cigarettes, Virginia type	NEC	50	B	1970	0.99	0.51	1.60
Polyester fibers	EP	20	R	1975	1.43	1.14	2.20
Gasoline, motor	EP	30	R	1976	1.83	1.48	2.33
Kerosene	EC	30	R	1976	0.73	0.01	1.32
Gas oil	EP	20	R	1976	1.27	1.16	1.41
Diesel oil	EP	20	R	1976	1.33	1.14	1.53
Liquefied petroleum gas	UP	20	R	1973	1.63	1.23	2.00
Ammonium sulphate	SUP	20	R	1972	1.50	1.07	1.90
Urea	EP	20	R	1972	1.38	0.87	1.94
Other nitrogenous fertilizers	EP	20	R	1972	1.13	0.48	2.05
Automobile tires	SEC	30	R	1976	1.99	1.55	2.90
Newsprint	EP	30	R	1972	1.27	1.12	1.44
Bond paper	NEC	30	B	1970	1.29	1.24	1.34
Glass bottles	UP	40	R	1975	4.52	2.80	7.17
Cars, diesel, CKD	NEP	30	R	1972	1.97	0.62	3.06
Cars, gasoline, CKD	NEP	30	R	1972	1.97	1.35	2.66
Motorcycles	NEC	50	B	1970	2.15	1.48	2.94
Cinematographic film	NEC	₱2/m	B	1970	1.11	0.72	1.70
Other printed matters	NEC	50	B	1970	2.35	2.31	2.42

IV. Summary and Conclusion

The major findings of this study may be enumerated as follows:

1. The types of non-tariff barriers to imports are state-trading, import licensing, quotas, standards, local content programs, government procurement, margin deposit requirement, customs valuation and clearance procedures, and anti-dumping and countervailing duties. The proportion of total imports covered by any of the first five types was 27 per cent on the average from 1977 to 1984. In this period, the highest absolute value of imports affected by NTMs was $2.5 billion in 1983. In terms of number of items, 32 per cent of the 7-digit PSCC level commodities were subject to some form of regulation as of 1977, and this proportion increased to 58 per cent in 1983. At the 3-digit PSCC level, one-fourth of the number of commodity groups had between 80 to 100 per cent of their composition regulated by 1983.

2. The yearly commodity-specific regulations were more numerous in the mid- and late-1970s rather than in the first half of the decade, when regulations were more general in scope. Monetary Board Resolutions were the bases of earlier regulations, and the purposes cited were the safeguarding of national security, promotion of public health and safety, and protection of local industry. In contrast, many of the later regulations were meant to implement Presidential Decrees, Executive Orders, and Letters of Instructions. While supply and price stabilization were still the main objectives of these import controls in the late 1970's,

the rationing of foreign exchange became paramount in 1983 and 1984, as a response to the balance-of-payments crisis. In fact a few (81) items that had been liberalized were again restricted, imports of certain banned and regulated items completely suspended, monitoring of 573 high tariff items started, and 281 previously freely importable items were regulated. Advance deposit of customs duties and an additional ad valorem duty were imposed. Prepaid importation of producer goods, no-dollar importation of raw materials and treatment of certain imports as equity investment were allowed. Foreign exchange receipts were pooled and priority payments outlined. These were, however, slowly discontinued as the problem was eased.

3. Government agencies followed basically the same criteria in evaluating applications to import: local unavailability of a product of similar quality, at a comparable price. Discretion differed depending on type of importer as well as type of good. The illustrative cases showed that for most, quantitative restrictions were implied by the fact that the government agency would first determine the need to import by assessing the supply-demand situation (wheat, feedgrains, fertilizer, meat, iron and steel, refined petroleum products, coal, tires). Imports of some others were allowed but limited to certain amounts if not based on rated capacity or historical volume requirements or inventory levels (meat, certain iron and steel, textile yarn and fiber, paper products, liquid caustic soda, hydrogen peroxide, wines and liquors) or to maintain price levels (yellow corn, fertilizers, refined petroleum

products). A few were allowed only for those not produced locally (antibiotics, used trucks, tires, basic refractories, float glass) while the rest were outrightly prohibited because they are locally produced (CBU cars, CBU trucks, certain antibiotics, sheet glass, basic refractories).

4. The import demand equation tested showed a relationship between imports and real GNP and the real exchange rate. A comparison of the actual and potential import values indicated that the early and mid-1970's and the early 1980's were relatively more liberal than the other years during the whole period. Furthermore, the previous year's balance of payments experience seemed to exert some influence on trade policy in these relatively liberal years.

5. Restrictiveness was apparent only for the 1982 and 1983 sets of newly regulated commodities, since the absolute imports of these batches fell in the years the restriction took effect. However, liberalization was also most apparent for the 1982 and 1983 batches because their imports rose in the years delisting took effect.

On the other hand, in terms of shares, the relatively more restrictive set of regulations were in 1977, 1978, and 1983, the last being the most restrictive. The liberal set was again in 1982 and 1983.

Some groups were pinpointed to be especially affected by restrictions, considering that they were characterized by high incidence of restrictions, low import shares, and a decrease in these shares following the implementation of the regulation.

6. The price comparisons yielded some measures of the wedge caused by both the tariff and the NTM for a sample of regulated and liberalized items. In addition, the changes in relative prices as well as import shares could be explained by either Case I or Case II of the model, although to a limited extent. Premia in excess of the nominal tariff were computed for some items, indicating that restrictions were binding.

The effect of across-the-board measures such as the margin deposit requirement, customs valuation and clearance procedures, not to mention government procurement, exchange control, and sales taxes should ideally be taken into account since their impact differs between years and between commodity types. But even without accounting for these, the effect of liberalization was more evident than were the effects of regulations. This becomes a stronger point when it is noted that the severe economic crisis took place just when liberalization was being pursued and yet its desired impact was felt.

The controls imposed in 1983 were in response to the full-blown liquidity problem, adding another dimension to the whole import regulating scheme. For by the start of the 1980's, there was already present a whole system of regulation that was pursued for different purposes, ranging from simple monitoring, to those tied to progressive manufacturing programs, to supply and price stabilization measures, to state-trading purposes. This was built up over the previous decade wherein one main purpose of import regulation was to protect local industry and stabilize supply and prices. However, together with the tariff structure, it resulted in protecting the consumption goods industry, since imports of non-essential consumer and unclassified consumer goods were the most frequently regulated items, and enjoyed high effective rates of protection. The idea was to make these highly priced in the domestic market, but local producers were also given the opportunity to raise their prices and become more profitable relative to the other sectors. There should instead be an attempt to strike a balance between exacting low tariffs on certain essential inputs and encouraging domestic production of these items. A multi-level tariff structure may be inevitable, but it should nevertheless be geared towards the idea of efficient allocation.

Aside from the evidence that non-tariff restrictions partly offset the accomplishments of tariff changes, they should, as a matter of policy, be converted into tariffs since they distort decision-making. They are less tractable because they comprise a wide range of dissimilar measures and involve administrative procedures and explicit legislative requirements, the application of which are highly discretionary. The arguments for the conversion of NTMs to tariffs start with the fact that with tariffs, one can predict effects more precisely. Firms would know what they are facing, and could plan their purchases better. The interdependent nature of tariffs could even be accounted for, since one would know what industries are being encouraged by the tariff structure. Moreover, revenues from the tariff would accrue to the government instead of some entity seeking rent out of his allocation. The degree of compliance could also easily be observed, for there is only one agency to monitor. Finally, graft and corruption could be lessened and the behaviour of the bureaucracy more easily pinned down. Of course, implementation is made difficult by the economy's vulnerability to economic crises such as the recent one. Moreover, the transition is always costly in terms of displaced industries and the consequences on employment. Nevertheless, the costs of postponement of such a move may be higher in the future compared to immediate implementation because of the urgent necessity for structural reform. And it is precisely the negative effects of this dependence on outside influences that may be lessened if the industrial structure was based on comparative advantage.

Appendix II

Memoranda to Authorized Agent Banks and Year Effective[a/], by Group

PSCC Group	MAABs
001	40 (75), 44 (79), 37 (83)
011-014	30 (75), 40 (75), 37 (83), 53 (83), 34 (80)
022-024	726 (75), 35 (83),
025	37 (83)
034-037	11 (82), 37 (83), 40 (83), 53 (83), 68 (75), Cletter (76), 44 (76), 99 (77), Cletter (80)
041-048	37 (83), PD 726 (75), n (70)
054,056	37 (83), RA 1296 (70), 38 (80), 38 (82), 40 (83)
057,058	37 (83)
061,062	37 (83), PD 726 (75)
071-074	37 (83)
075	-
081	PD 726 (75), 37 (83)
091,098	37 (83), PD 726 (75)
111	37 (83), L
112	-
121,122	40 (83), 37 (83)
212	37 (83)
222,223	PD 726 (75)
245	-
251	(84)
263,266-269	1 (75), 37 (83), 2 (70), 10 (81)
278,289	39 (83)
291	37 (83), PD 726 (83)
292	37 (83), RA 1296 (70), 135 (73)
322-323	43 (78), 39 (83)
334,341	10 (76), 43 (78), 17 (76), 14 (76), 113 (73)
411,431	37 (83), 34 (80)
511-514	5 (84), 37 (83), 2 (83), 17 (81)
522-523	5 (84), 37 (83), 98 (77), 8 (83), 56 (77)
533	37 (83), 15 (79), 25 (82), 41 (79)
541	90 (77), 36 (82)
553-554	-
562	12 (72), 130 (73), 5 (84)
572	-
582-584	52 (82), 9 (79)
591	81 (77)
592	-
612-613	37 (83)
621	-
625	24 (76), 9 (82)
628	37 (83)
633-635	37 (83), 16 (78)

[a/] MAAB numbers are given and the years are in parentheses.

PSCC Group	MAABs
641,642	48 (82), 64 (83), 37 (83), 16 (78), 33 (72), 61 (72)
651	2 (82), 1 (75), 37 (83)
652	EO 537 (79), 37 (83)
653	EO 537 (79), 37 (83)
654	EO 537 (79), 37 (83)
655	EO 537 (79), 37 (83)
656	37 (83), 40 (83)
657	37 (83), 40 (83)
658	37 (83), 52 (82)
659	-
661	37 (83)
662	28 (82), 37 (83)
663	37 (83), 28 (80)
664	1 (81), 41 (78), 37 (83)
665	Cletter (75), 37 (83)
666	-
667	37 (83)
67	36 (75), 6 (82)
681	37 (83)
695	-
696	37 (83), 40 (83)
697	37 (83)
699	37 (83), 16 (78), 64 (83)
713	68 (76), 98 (77), 19 (82), 5 (83)
721-728	C 854 (82), 33 (83)
736,737	33 (83)
741,745	33 (83), C 854 (82), 23 (82)
75	19 (77), 88 (77)
76	C 854 (82), C 956 (83), 64 (83), 16 (78), 51 (78), 33 (83), 2 (81)
77	64 (83), 16 (78), 16 (78), 33 (83), C 854 (82)
78	68 (76), 98 (77), 69 (74), 105 (74), 36 (73), 70 (22), 36 (73), 41 (72)
793	73 (75)
812	37 (83), 40 (83)
821	37 (83)
831	-
84	37 (83)
851	37 (83)
87	L, 37 (83), 33(83)
88	37 (83)
892	37 (83)
893	52 (82), Cletter (75), 16 (78), 37 (83), 51 (79)
894	37 (83)
895	37 (83)
896	-
897	37 (83)
898	37 (83)
899	37 (83)
911	-
931	-
941	44 (79)
95	-

Appendix III

Variables Used in the Import Demand Equation

YEAR	DUM	ALLIMPTS	NOLIMPTS	REEX 1	REEX 2	REAL GNP	BMER
1967	1	81.04	77.58	5.784	5.186	43,214	4.1000
1968	1	101.15	103.01	5.217	4.863	45,615	4.2600
1969	1	99.05	106.67	4.755	4.713	47,970	4.9500
1970	0	92.66	91.11	7.096	6.886	49,869	6.6800
1971	0	99.19	99.55	6.544	6.574	53,078	7.0100
1972	0	100.00	100.00	6.671	6.671	55,939	7.0300
1973	0	91.61	90.00	7.603	7.525	61,176	7.2000
1974	1	109.04	116.83	7.961	9.394	64,575	7.1400
1975	1	112.04	122.29	8.050	9.827	68,457	7.9000
1976	1	114.37	120.79	7.788	9.461	73,472	7.9100
1977	1	117.45	130.92	7.128	9.220	78,151	7.8000
1978	1	140.52	159.77	6.691	8.456	82,643	7.8600
1979	0	136.86	149.66	6.364	8.245	88,356	7.9700
1980	0	154.67	195.29	6.134	9.494	92,840	7.9600
1981	1	145.18	183.19	6.185	4.759	96,041	8.1800
1982	1	156.61	199.35	5.806	8.818	97,539	8.7100
1983	0	147.79	189.01	6.795	10.505	98,767	12.4800
1984	0	109.55	151.33	6.969	11.478	93,345	19.0100