Philippine Institute for Development Studies
*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

# Closer Trade and Financial Cooperation in ASEAN: Issues at the Regional and National Level with Focus on the Philippines

*Jenny D. Balboa, Erlinda M. Medalla and Josef T. Yap*

**DISCUSSION PAPER SERIES NO. 2007-03**

The *PIDS Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements. The studies under the *Series* are unedited and unreviewed.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Institute.

Not for quotation without permission from the author(s) and the Institute.

May 2007

For comments, suggestions or further inquiries please contact:
**The Research Information Staff,** Philippine Institute for Development Studies
5th Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines
Tel Nos: (63-2) 8942584 and 8935705; Fax No: (63-2) 8939589; E-mail: publications@pids.gov.ph
Or visit our website at http://www.pids.gov.ph

*Abstract*

Trade and financial policies in ASEAN-member countries have contributed to the goal of economic integration. One important feature of this process is the need to narrow the development gap in the region in order to make economic integration more effective and meaningful. This paper examines the Philippine experience with economic reform, particularly in its attempt to integrate with ASEAN. The Philippines simplified its tariff structure and reduced tariffs in accordance with the CEPT Scheme. Monetary and financial reform—particularly adopting the inflation targeting framework—and fiscal consolidation were undertaken to strengthen the financial system and address the fiscal deficit. These efforts also facilitate regional monetary cooperation and integration. However, the Philippines continues to lag behind the larger ASEAN economies particularly with respect to reducing poverty incidence. The Philippine experience has shown the importance of having economic reform supported by strategies to enhance good governance and strengthen institutions.

Key words*: regional economic integration, development gap, trade and investment reforms, financial cooperation, governance and institutions*

Authors' Address:

Philippine Institute for Development Studies
NEDA sa Makati Building
106 Amorsolo Street, Legaspi Village
Makati City 1200
Philippines
Website: www.pids.gov.ph

## Closer Trade and Financial Cooperation in ASEAN: Issues at the Regional and National Level with Focus on the Philippines

*Jenny D. Balboa, Erlinda M. Medalla and Josef T. Yap* [*]

### Introduction

Over the past decade, efforts at promoting closer regionalism in East Asia have been stepped up for various reasons, including: i) a response to the experience and lessons of the 1997 financial crisis; ii) the gridlock in the Doha round, success of NAFTA, and expansion of the EU; iii) the mitigation of political factors that prevented closer cooperation in the past, e.g. competition between China and Japan; and iv) the perception that ASEAN economic integration will not progress far unless other East Asian economies are involved.

One major constraint to this process is the large disparity in economic development in East Asia. Table 1 depicts the situation for 14 countries of East Asia and the ASEAN member countries including Timor L'este. In terms of per capita income in PPP$, East Asia has the largest disparity when compared to other regional groupings: Latin America, Europe, South Asia, and North Africa. Studies have shown (e.g. Venables 2003) that a large disparity in economic development will hinder efforts toward greater economic integration.

This paper examines various policies at the regional and national level that can help narrow the development gap and at the same time increase the chances for effective and meaningful economic integration. At the national level, these policies can be considered as *necessary conditions* for successful trade liberalization and financial cooperation. Free flow of goods and services is a minimum requirement for ASEAN to function as a single market. On the other hand financial cooperation and integration of financial markets provides a valuable window of opportunity to foment macroeconomic stability and reduce vulnerabilities.

In this context, the following questions will be considered: What are the structural constraints to growth in the Philippines? What institutional and economic reforms, thus far, have been implemented? What factors prompted these reforms? What institutional and economic reforms are needed or lacking?

[*] Respectively, Project Development Officer V, Senior Research Fellow and President, Philippine Institute for Development Studies. The authors acknowledge the excellent research assistance of Ms. Fatima Lourdes E. del Prado. The usual disclaimer applies.

**The Economic Disparity in ASEAN**

The ten ASEAN member countries significantly vary in several social and economic indicators (Tables 2 and 3). In general, they can be classified into four clusters based on HDI rankings and socio-economic indicators. Singapore and Brunei belong to the upper cluster, being in the "high human development" category along with Japan, Republic of Korea, and the US.

The second cluster is categorized as upper "medium development countries" and includes Malaysia, Thailand and the Philippines. Viet Nam and Indonesia belong to the medium "medium human development" countries, while Cambodia, Myanmar, and Lao PDR belong to the fourth group of countries referred to as lower "medium human development" countries.

The Philippines actually straddles the second and third groups since many of its socio-economic indicators are closer to Indonesia and Viet Nam rather than Thailand and Malaysia. Among the ASEAN 6, the Philippines has the highest incidence of poverty—even higher than Viet Nam—as measured by the proportion of population living below $1/day, and the highest income inequality (Table 3). Its only distinct advantage is in the education index, reflecting its tradition of having a highly qualified workforce that is proficient in the English language.

The Philippines is an enigma in this context. It has not lived up to its enormous potential, which is reflected not only in its level of education but in the vast natural resources of the country. Despite the economic reforms that have been implemented, economic progress has been hampered by issues of poor governance and a weak state (Fabella 1999; Llanto and Gonzalez 2006). This issue will be further explained later.

An existing large disparity in the level of development will likely lead to divergence or greater disparity in development when an FTA among the member countries is formed. Systematic analyses of the comparative advantage of customs union members[1] show that countries with 'extreme' comparative advantage do worse than those with comparative advantage intermediate between partner and the rest of the world (Venables 2003). The analysis shows the possible drawbacks of "South-South" integration schemes, showing how they may draw manufacturing production into richer countries at the expense of poorer members of the region. It also suggests that low income countries are better served by integration with high income countries.

This analysis can be dovetailed with evidence that countries that trade intensively tend to exhibit a relatively high incidence of income convergence. The initial large disparity may likely indicate that some countries are not in a position to absorb the new technology that goes with greater trade and investment and hence these countries may not be able to take advantage of the opportunities provided by a more liberalized trade regime. Another way of viewing it is that the less developed countries should attain a minimum threshold level

[1] The analysis of Venables (2003) focuses on the effect of the formation of a customs union. The arguments can readily be extended to the formation of an FTA.

of economic and social development to participate effectively in both the regional integration and globalization processes.

The analysis indicates that to be effective and meaningful, efforts at regional integration must be accompanied by or even preceded by domestic reforms. The next section gives an overview of the progress of economic integration and cooperation in ASEAN. The reforms that the Philippines has undertaken and still has to implement are then discussed in the subsequent section.

## Overview of Trade, Investment and Financial Integration and Cooperation in ASEAN

*Trade and Investment Integration*

While ASEAN has been in existence since 1967, efforts to integrate the economies have not been seriously pursued until 1992, with the advent of the ASEAN Free Trade Area (AFTA). Prior to this, trade cooperation came in the form of Preferential Trading Arrangement (PTA) and piecemeal approaches such as ASEAN Investment Projects (AIPs), ASEAN Industrial Complementation Programmes and ASEAN Industrial Joint Ventures (AIJVs)—programs that failed to come up with a comprehensive approach to forging closer economic cooperation (Ariff 2000).

AFTA is considered to be the centerpiece of the ASEAN economic integration. It is implemented through the Common Effective Preferential Tariff (CEPT) Scheme, a comprehensive tariff listing that at present covers 65,529 tariff lines, 84 percent of which is in the Inclusion List (Table 4). When AFTA was first introduced, most ASEAN countries took a defensive stance and enumerated a wide range of products in the exclusion list. However, as the CEPT scheme was implemented, exclusion listing has been substantially cut down. Even agricultural products which were previously excluded are now scheduled to be included in 2010[2]. Since most ASEAN members embraced this scheme freely, deadlines were even moved closer from 2008 to 2003 to achieve the 0-5 percent tariff level for products covered. By January 2002, six years ahead of original schedule, the ASEAN-6 realized the target of 0-5 percent tariff level, covering 95.7 percent of tariff lines and 90 percent of intra-ASEAN trade in goods.

As far as attracting FDI is concerned, ASEAN's performance is commendable. Upon signing of the Agreement in 1995, the share of FDI in the region grew from 26 percent in

[2] Since some unprocessed agriculture products (UAPs) are classified as "sensitive" and "highly sensitive", special arrangements were made which was articulated in the 31st ASEAN Economic Ministers Meeting in 1999. The Protocol on the Special Arrangement for Sensitive and Highly Sensitive Products paved the way for the agreement to integrate sensitive products into the CEPT Scheme by 2010 with 0-5 percent tariff rates without any QRs or NTBs. This does not cover rice, considered to be a highly sensitive product for the Philippines, Malaysia and Indonesia, which is allowed an end tariff of over 5 percent. A staple food in almost all ASEAN member countries, sufficiency in rice production has become an end goal for these countries. Rice is considered not just an economic commodity, but also political commodity, giving a human security dimension to the rice sufficiency issue.

1995 to 51 percent in 2001. While FDI fell by 50 percent during the financial crisis period, it recovered right away in 1999, showing a 49 percent increase in priority goods and services sectors (Austria 2004).

Another strategy crafted is the ASEAN Framework Agreement on Services (AFAS) for services liberalization. Signed on 15 December 2005, AFAS aims to enhance cooperation in services among member states, eliminate restrictions to trade in services and liberalize trade in services beyond each member's commitment under the GATS with the end goal of realizing a free trade area in services[3]. It complements AFTA and AIA by promoting free flow of services within the region, with heavy emphasis on business services, transportation, telecommunications and finance. However, like most trade arrangements, welfare losses may arise, but these are estimated to be fairly small compared to potential gains. Furthermore, in most cases, the losses are not created by AFTA. Thus, AFTA can be aptly called as a positive-sum game, because integrating the economies will help everyone emerge as winners and no one will end up losing.

*Financial Cooperation*

Interest in regional monetary and financial cooperation and integration increased in the aftermath of the 1997 East Asian financial crisis. Regional financial and monetary cooperation can be justified by three phenomena that were highlighted during the 1997 debacle (Montiel 2003): (i) spillovers from exchange rate policies, which present a reason for exchange rate coordination; (ii) inadequate supplies of international liquidity; and (iii) common structural weaknesses in the financial sector and corporate governance, which can be addressed more effectively by cross-country cooperation. The European experience is also cited as factor that has heightened interest in greater financial and monetary cooperation.

Meanwhile, it is acknowledged that trade liberalization brings pressure for financial liberalization, and that financial liberalization is as important, complex and arduous as trade liberalization. As trade becomes more open and free, so do financial flows. Money flowed in and out of Southeast Asia, increasing not only its volume but also its volatility (Estanislao 2000).

Financial reform programs in the region were initially motivated by stabilizing currencies rather than coordinating macroeconomic policy or achieving overall financial stability. An important strategy is the Chiang Mai Initiative of May 2000. CMI expanded the existing ASEAN swap arrangements to include all ASEAN countries and set up a network of bilateral currency swap and repurchase arrangements among ASEAN+3 countries. The initiative aims to provide additional short-term hard currency for countries facing possible liquidity shortfalls. It also seeks to achieve better monitoring of capital flows, regional surveillance and training of personnel. In the CMI, Japan and China play key roles as they are the only ones that can take the role of lender should the network be activated (Amyx 2005).

[3] ASEAN Framework Agreement on Services, p. 2

In 2002, ASEAN integrated financial reforms aimed at targeting structural weaknesses in the financial systems of ASEAN member countries. One of the major problems identified is the presence of “double mismatch” in financial markets. Double mismatch is the mismatch between debt maturities (short term borrowing for long-term investments) and the denomination of this debt (in foreign rather than local currencies). The presence of a double mismatch has the potential to bring about a currency crisis. The ASEAN Bond Market Initiative was introduced to address this issue. By establishing the option of longer term capital procurement and investment in the region, bond markets potentially may be able to spur greater productivity in national markets across the region. ASEAN+3 Bond Market Initiative is at the heart of financial reforms and liberalization of ASEAN+3 countries.

Meanwhile, exchange rate coordination is one aspect of general macroeconomic policy coordination that has been gaining adherents. Countries can benefit from coordinating macroeconomic policy, e.g. monetary policy among G8 countries, even if they do not coordinate their exchange rates. On the other hand, exchange rate coordination requires coordination in other macroeconomic policies, particularly monetary and fiscal policies. A typical list of preconditions for a successful regional basket peg regime reads as follows (Ito and Park, 2003):

- Ability to manage (independent) monetary policy prudently when countering; external and internal shocks, without nominal anchor (possibly with inflation targeting)
- Fiscal policy prudence; and
- Credibility in macroeconomic management.

These conditions guarantee the removal of factors that lead to fluctuations due to domestic macroeconomic stability. The criteria generally apply to any regional exchange rate coordination scheme. While the fiscal and monetary reforms implemented by the Philippine government are geared primarily towards domestic macroeconomic stability, they are also necessary conditions for successful exchange rate coordination.

At the heart of all these regional initiatives is the goal of narrowing the development gap in ASEAN and East Asia, in general, by enhancing economic institutions, creating accountable, transparent and pro-people governments that adhere to good governance practices, and helping address resource limitations of member countries, particularly institutional and human resource inadequacy. This is a huge task that requires focused assistance programs with clear timelines from ASEAN, as well as clear commitments and supportive domestic policies from all ASEAN member states.

**Status of Economic Reform in the Philippines in Areas Important to Regional Economic Integration**

*Trade Reforms*

The government introduced a comprehensive trade reform program in the 1980s to liberalize trade unilaterally. The program spanned more than a decade and was implemented in three phases up to the 1990s. The first phase was implemented from 1981-1985, and narrowed down the tariff structure from a range of 100-0 per cent to 50-10 percent. This was accompanied by the Import Liberalization Program (ILP), which sought to eliminate non-tariff import measures. Implementation of the program, however was stalled by the economic and political crises in the country in the mid-1980s. [4]

The second phase of trade liberalization was implemented in 1991, which was aimed at lowering tariff rates over a five-year period. The program clustered the commodities within a tariff range of 10-30 per cent. The following year in 1992, Executive Order 8 was issued to provide tariff protection measures to replace quantitative restrictions (QRs) on imports of 153 commodities. [5]

The third and final phase of the unilateral trade reform took place in 1994. It created a four-tier tariff structure with the end goal of achieving a low, uniform tariff by 2002. This aims to simplify the tariff structure and targeted achieving the following rates: 3 percent for raw materials and capital equipment that are not available locally; 10 percent for raw materials and capital equipment that can be sourced locally; 20 percent for intermediate goods; and 30 percent for finished goods. The third phase was implemented by four Executive Orders:[6]

a. EO 189 issued on 1 January 1994 reduced tariff rates on capital equipment and machinery.
b. EO 204 issued on 30 September 1994 lowered tariff rates on imported textiles, garments and chemical inputs.
c. EO 264 issued on 22 July 1995 reduced tariffs on 4,142 lines of the Harmonized System (HS) in the manufacturing sector. This is considered to be the biggest reform in the tariff code.
d. EO 288 introduced on 1 January 1996 complemented the reform in 1995 thru reduction of tariffs on non-sensitive agricultural products.

With the country's accession to WTO, it committed to eliminating all its quantitative import restrictions on agricultural products, except rice. Congress passed Republic Act 8178 on 29 March 1996 to implement this, supplemented by Executive Order 313 which specified the tariff equivalent rates for each agricultural quantitative restrictions.

---

[4] Clarete, Ramon. Philippines: Ex-Post Effects of Trade Liberalization in the Philippines. January 2005.

[5] Ibid., p. 248
[6] Ibid., p. 248

Further, the government expressed its intention to adopt a uniform 5 per cent tariff by the year 2004 to comply to the AFTA-CEPT Agreement where the tariffs on most products is to be reduced to a range between 0 and 5 per cent by 2002 . This has been complied with as the average CEPT Tariff Rate in the Philippines at present is already at 3.75 per cent.

The series of reforms gradually lowered nominal and weighted average tariff rates and simplified the tariff structure. Temporary periods of reversals were implemented such as during the Asian financial crisis in 1998 and 1999 and another increase in tariff protection for certain industries in 2003, particularly for steel, sugar and polymers, with specific schedules to lowering them gradually.

It is significant to note that under this tariff restructuring regime, aggregate exports expanded dramatically, overtaking aggregate imports, but growth occurred in only a few sectors, particularly in manufacturing, machinery and transportation equipment. Moreover, value added generated by these export sectors has been relatively low, a phenomenon that will be discussed in more detail later. In a number of sectors such as raw materials, and animal and vegetable oils, it has remained stagnant or even declined. Notably, per capita income has not changed, and there are mixed evidences as to whether the reforms really helped in alleviating poverty and improving income distribution in the country (Clarete 2005).

### *Financial Reforms*[7]

Relative to other East Asian countries, the Philippines was less adversely affected by the financial crisis of 1997. The resilience of the country's financial sector is largely attributable to the policy and institutional reforms that the country undertook more than a decade before the crisis erupted. Most significant of these reforms were: institutional reforms and the rehabilitation of the financial system including the restructuring of the Central Bank, interest rate reforms and the liberalization of the foreign exchange market, and liberalization of bank entry (Bautista, 1992; Lamberte, 1993; Lamberte and Llanto, 1993; Intal and Llanto, 1998). These strengthened prudential regulations, minimized pricing distortions in credit decisions by eliminating subsidy coming from the Central Bank and the imposition of a uniform and market based rediscount rate, and facilitated the entry of foreign banks into the country's financial sector. With these reforms, the financial sector became more robust such that the country was able to withstand the impact of the crisis, particularly the depreciation of peso, the rise in interest rates and the slowdown of the economy without any collapse in the financial institutions.

A major reform effort to resuscitate a poorly functioning financial sector was strengthening of the Central Bank, which had suffered losses in the 1980s as a result of swap arrangements and interest rate losses. A series of enactments in 1993 made the

[7] This section is mostly drawn from Financial Reforms in the Philippines from 1980-1997 by Ponciano Intal and Gilberto Llanto, PIDS (1998).

Central Bank more independent, and substantially boosted its capitalization. The problem assets of the old Central bank were transferred to a separate body for liquidation.

To complement these reforms, the foreign exchange market was liberalized, resulting in the elimination of the restrictions in the current account and reduction of regulations on inward and outward capital flows. At the same time, the Central Bank lifted the prohibition on off-floor foreign exchange trading. This transformed a highly regulated foreign exchange market with significant controls on capital flows to a highly deregulated one.

Lastly, an important policy change undertaken was the liberalization of entry of foreign banks in 1994 either as fully owned full service branched through equity purchase in an existing bank, or the establishment of a joint venture between foreign and local groups. With the liberalization of bank entry, banks were allowed to open branches anywhere as long as requirements on capital adequacy, liquidity, profitability and soundness of management are met. This also paved the way for the entry of new commercial banks in the country.

While it posted relatively strong growth in 2003-06, financial health of the banking sector remains fragile due to certain factors, particularly the high level of non-performing assets (NPAs) and non-performing loans (NPLs), which has resulted in a cutback in bank lending. NPL ratio as of 2004 stood at 13.9, and is one of the highest among Asian countries (see Table 5). Other countries have been able to reduce their NPL because of sufficient fiscal room for the creation of state-owned asset management companies (AMCs). Unfortunately, for the Philippines, the government was not capable of intervening in this manner because of its huge fiscal problem. [8]

Other identified problems in the banking sector are increasing interest rates (brought about by fiscal problems and not by an increased credit demand), high operating expenses (operating expense eat up 89% of the operating income in banks), corporate governance problems (as shown by few bank auditors, absence of domestic credit rating agencies, lack of transparency in sharing of information), and compliance with international standards.

Recently the Bangko Sental ng Pilipinas (BSP) adopted the Basel II Framework which aims to address the abovementioned issues. Basel II, which is to be fully implemented in 2007, is the revised set of standards issued by the Basel Committee on Banking Supervision (BCBS) in 2004. [9]Also known as the "International Convergence of Capital Measurement and Capital Standards", Basel II promotes adoption of stronger risk management practices by banks and is governed by three pillars: Minimum Capital Requirements (that is banks should have adequate capital for their risk-taking activities),

---

[8] Ladan, Laarni. "Banking on Banking: Issues and Challenges Facing the Banking Sector". Senate Economic Planning Office. Policy Insights, May 2005 pp. 4.

[9] Basel I was issued by the Basel Committee on Banking Supervision in 1988 and 1996, respectively.

stronger supervisory review process (banks should be able to properly assess their capital adequacy in relation to the risk they are taking, and supervisors should be able to evaluate the soundness of assessments) , and market discipline (banks should be disclosing pertinent information necessary to enable market mechanisms to complement the supervisory oversight function). [10]

Other than this, the BSP is working on adopting Capital Market Reforms by developing the domestic capital market and to optimize the country's access to international capital. This reform effort is carried out by price stability measures such as inflation targeting and using of higher level of transparency requirements. It also aims to broaden the array of available capital market instruments such as tier 2 paper, LTNCDs (Long Term Negotiable Certificate of Deposit), documented repos, structures debt, collateralized debt obligations, and credit derivatives. On the demand side, the trust business is reformed with the conversion of the common trust funds into Unit Investment Trust Fund (UITF). It will also encourage the entry of more high quality rating agencies, and institutionalize an independent securities custody system to improve investor protection, defeat market malpractices and reduce systemic risks.[11] Further, BSP pushes for amendment of its Charter to strengthen the institution and to make it at par with other well performing Central Banks.

*Fiscal Reforms*

Beyond financial reforms, another key factor that helped the country withstand the crisis is fiscal consolidation done in the early 1990s. Efforts at strengthening the country's fiscal position resulted to surpluses of less than 1 percent of GDP in 1994-1997, a stark contrast from years of fiscal deficit in the 80s up to the early 1990s (Manasan 2004).

However, while the Philippines did not suffer as much as other East Asian countries, one visible mark left by the financial crisis is that it squandered fiscal gains achieved in the 1990s. Deficits persistently grew, from 1.9 percent of GDP in 1998 to 4.1 percent in 2000, and reached a peak of 5.4 percent in 2002. The level subsequently fell in 2003 2004, and 2005, with the deficit /GDP ratio recording 4.6, 3.9 and 2.7 percent respectively

Meanwhile, the debt crisis in the country continued to worsen. As of 2005, the national government's debt was already equivalent to 79.3% of GDP. Consolidated public sector debt accounted for more than 130% of GDP.[12] The problem was aggravated by policy mistakes, government inaction in specific problem areas, and the government's heavy reliance on budgetary cuts instead of revenue generation for fiscal adjustment.

---

[10] Espenilla, Nestor "Impact of Basel II on the Philippine Banking Sector with Special Focus on Risk Management". AIM Quarterly Risk Management Forum, 7 September 2005.

[11] Tetangco, Amando. Continuing Reforms in the Philippine Financial Sector. ABA Journal, vol. XXI, No. 1, 2006.

[12] Pacific Economic Outlook (2005-2006).

Studies conducted showed that the widening deficit is not the result of increased national government expenditures, as it remained stable at around 19.4 percent of GDP from 1997-2003, but the consequence of poor revenue effort which declined progressively from 19.4 percent of GDP in 1997 to 15.6 percent in 2000. In 2004, revenue effort fell to only 14.6 percent of the GDP before recovering to 15.1 percent in 2005. As of November 2006, the government managed to pull together P86.7 billion in total revenues signifying a 19 percent increase over a comparable period in 2005.[13] This puts revenue effort on track to reach 15.7 percent in 2006.

Instead of addressing the problems squarely, the government relied on expenditure cuts to narrow the deficit. This took a heavy toll on public service as government agencies had to work with budgets so much smaller than what is needed to effectively deliver social service (see Table 6).

Moreover, Government and Controlled Corporations (GOCCs) exacerbated the country's fiscal position as many of these GOCCs suffer from poor cost recovery due to inadequate tariff adjustments, political interference in tariff setting, government intervention in pricing policy, liabilities that they had contracted through the years, poor revenue generation performance, and overstaffed structures with grossly overpaid staff.

Manasan (2004) showed that the fourteen GOCCs of the country are responsible for the huge deficit of the non-financial public sector, which had risen steeply since 1996 and had expanded from 75.4 percent of GDP to 103 percent of GDP in 2002. The most notable in terms of contribution to the deficit are: the National Power Corporation (NPC), the National Food Authority (NFA), the Light Rail Transit Authority (LRTA), the Metropolitan Waterworks and Sewerage System (MWSS), the National Irrigation Administration (NIA) and the Home Guaranty Corporation (HGC).

The government aims to balance the national government fiscal position by 2010. Thus, efforts towards improving the public sector's fiscal position have, notably:

- Operation RATE (Run After Tax Evaders), RATS (Run After the Smugglers) and RIPS (Revenue Integrity Protection Service): Operation RATE targets high profile tax evaders, RATS targets smugglers, particularly high profile oil importer and Bureau of Custom personnel, and RIPS targets erring government officials and employees.
- Tighter monitoring of the Bureau of Customs, particularly strengthening of the anti-smuggling campaign, auction of overstaying containers, tightening of post-entry audit, and expansion and speeding up of computerization program.
- Programs to improve collection efficiency of the Bureau of Internal Revenue through benchmarking revenues and deductions against industry standards and use of third party information to check veracity of tax returns.

[13] Bureau of Treasury Fiscal Report. Press Release. December 19, 2006

Legislative measures were also pushed by the government to reform the tax policy of the country. The Arroyo administration's eight-point to this end are:

- Adoption of gross income taxation
- Indexation of excise tax on tobacco and liquor
- Excise tax on petroleum products
- Rationalization of fiscal incentives
- General tax amnesty with submission of Statements of Liabilities
- Lateral attrition system
- Franchise tax on telecoms
- Review of the Value Added Tax (VAT) System

As of 2006, only three have been approved by the legislature. Raising of "sin taxes" or excise tax on tobacco and alcohol has been approved, although the original bill which called for the indexation of the excise tax to inflation has been revised and is no longer included in the final version. The increase in the "sin taxes" is expected to raise P15 billion. Another Bill which was approved is Lateral Attrition which was passed in January 2005. The bill aims to provide incentives to revenue collecting agencies and is expected to increase collection by 10 Billion pesos. Finally, the more contentious Bill revising the current VAT Law was also approved. The Expanded Value Added Tax or E-VAT was passed on May 2005 and removed many of the exemptions listed in the old VAT law such as power generation and exemptions for oil companies. It also gave President Arroyo the power to raise VAT to 12% from 10% and raise corporate income tax to 35% from 32% starting 2006 before cutting it to 30% in 2009. The VAT changes are expected to raise an additional 28 to 31 Billion Pesos in revenue.

Thus far, the Philippine experience showed that it is not enough that the government cut down on expenditures to improve fiscal performance. The government should focus its efforts on tax policy and tax administration reform to address the widening fiscal gap. It is also important that efforts towards curbing corruption, minimizing wastage in government resources and addressing the fiscal problems of GOCCs are addressed.

*Additional Domestic Reform Measures and Issues*

Significant strides have been achieved in integrating the Philippines in the global economy as a result of economic reforms undertaken in the past decade. However, there are still much to be done in order for these reforms to translate into actual economic development. For example, even with policies that enhance market access through various means of trade liberalization (unilateral and negotiated), the Philippines remains to encounter problems with maximizing opportunities. This failure is primarily due to poor economic structures and lack of good governance mechanisms that affect the country's competitiveness and overall economic performance. Clarete emphasized high transaction costs and poor investment climate as culprit in the country's failure to capture as much FDI as other ASEAN countries. In addition, there were the major setbacks from political upheavals (particularly the attempted coup attempt in 1990), the power crisis in 1992 (which was also a result of poor economic structure and lack of good governance mechanisms), which have seriously stunted whatever momentum gained from the reforms at that time.

Trade and industrial reforms have been inadequate in fueling faster GDP and employment growth and economic transformation in the Philippines as shown by data in Table 7. Compared to China, Indonesia, Korea, Malaysia, and Thailand, the share of manufacturing value added in the Philippines is lower in 2002. Moreover, the share actually fell between 1990 and 2002 in the Philippines while it increased in the other countries.

The structure of domestic manufacturing value added and manufactured exports is quite revealing. The Philippines has the highest share of medium-or-high technology products in manufactured exports among these counties in 2002. However, it also has the lowest share in terms of domestic manufacturing valued added in the medium-or-high technology sectors. The variance indicates a dichotomy between the domestic manufacturing sector and export sector.

What are the major factors that have prevented the Philippines from maximizing its gains from globalization? A number of these factors can be traced to policy shortcomings, foremost of which are:

1. *Low investments in infrastructure*. According to World Bank estimates, a middle income country in East Asia will need to spend at least 5 percent of GDP on infrastructure to meet their needs in the next 10 years. Infrastructure expenditure in the Philippines is much below this benchmark as it only accounts for 2.8 percent of GDP. In addition, resources allotted for infrastructure development are spent inefficiently. Infrastructure upgrading is necessary to improve economic performance of the country as it would help attract more investments and reduce production costs. The lack of infrastructure program is largely related to the fragile fiscal situation of the government.

2. *Lack of political will to implement a sustained and credible fiscal reform program*. Weak fiscal institutions created policies that increased the debt burden and inherently put bias to deficit-spending. They are also responsible for the fiscal blunders created such as politicized spending and delayed fiscal consolidation during crises. Fiscal reforms, to be effective, should aim at creating stronger fiscal institutions that adhere to rules and do not easily give in to populist demands. Reforms should also create accountable and more transparent institutions that will implement the revenue generation programs and include capability enhancement measures to reinforce technical capacity of these institutions to fully mobilize revenues for the country's needs (Canlas 2005).

3. *High Transaction Costs*. Transaction costs refer to market-related infrastructure, facilities and services needed to conduct business. It also includes costs in acquiring and exchanging information in transactions and contract enforcement. If transaction costs are high, these become a disincentive to the producers to participate in any market exchange. It has been argued that the relatively poor performance of Philippine exports may be explained by high transaction costs in the country rather than market access issues.

Logistical cost disadvantages have hindered domestic industries from benefiting fully from the effects of trade liberalization and have discouraged foreign investors to consider the Philippines in their production and logistical networks.

4. *Lack of a coherent industrial policy*. This is an area that has been overlooked because of the controversy it generates. However, recent work has attempted to provide a pragmatic approach that eschews ideological prescriptions and instead looks more closely at historical experience (Rodrik 2004, Hausmann and Rodrik 2006). The basic argument is that industrial policy is as much about eliciting information from the private sector on significant externalities—primarily information and coordination externalities—and their remedies as it is about implementing appropriate policies. However, the capacity to apply industrial policy is also important, which leads to the importance of governance and institutions. Since 1972, Philippine economic managers followed a program that largely mimicked the Washington Consensus and did not allow for strategic intervention on the part of the government.

5. *Low priority given to basic social services*. Effective delivery of basic social services is the most cost-effective way of combating poverty and inequity. At the World Summit for Social Development held in Copenhagen in 1995, the 20/20 Initiative was crafted. This Initiative proposed that in order to achieve universal coverage of basic social services, 20 percent of budgetary expenditure in developing countries and 20 percent of aid flows should on average be allocated to social services. Basic Social Services account for only 8.6 percent of the Philippine national budget in contrast to the combined debt service and defense budget which account for 40.6 percent. Greater social spending also implies a higher level of education, which is necessary to encourage FDI and enhance the technological capability of the economy.

There were also gaps in the implementation of reforms and this is related to failure to address issues in good governance. This focuses on anti-corruption initiatives and institutionalization of corporate governance practices. The Philippines has always been cited as a country whose potential for growth has been eroded by corrupt institutions. In 2005, it ranks 117th in the Transparency International Survey of countries with the least corrupt government. According to World Bank figures, 20 percent of annual government budget is lost to corruption. On average, this is equivalent to 3.8 percent of the GNP.

It is of utmost importance that measures to curb corruption are undertaken. Anti-corruption strategy should be reinforced by a committed leadership and able management skills to implement the programs and sustain the progress made. Continued reengineering of the bureaucracy is necessary, with reforms focused not only on achieving efficiency and effectiveness, but also instilling a culture of adherence to rules (Balboa and Medalla 2006).

**Strategies at the regional level to help member countries address development gaps**

ASEAN recognizes that for genuine economic cooperation to take place, it must first address the existing development gaps in member countries. Developmental gaps may be characterized by economic gaps (GDP, life expectancy, education, health, poverty incidence), resource limitations (institutional capacity) and governance issues (transparency, accountability, rule of law, efficient and effective institutions and participatory process). The Bali Concord II explicitly imbedded this agenda to ASEAN. Adopted in the ASEAN Summit in 2003, the Concord specifies the modalities and extent to which cooperation can take place. It envisioned a three-pillared ASEAN community composed of the ASEAN Economic Community (AEC), ASEAN Security Community (ASC) and the ASEAN Socio-Cultural Communities (ASCC). This is expected to be fully realized in 2020.[14]

The Vientiane Plan of Action (VPA) launched in 2004 provides the framework to realize these goals. VPA builds on existing initiatives such as the ASEAN Integration Initiative (IAI), the Roadmap for the Integration of ASEAN (RIA), the Ha Noi Declaration on Narrowing Development Gap for Closer ASEAN Integration in 2001 and the Vientiane Declaration on Enhancing Economic and Integration among CLMV.[15] It seeks to ensure that the benefits of economic integration is maximized and equitably distributed across and within member countries. It also aims to deepen integration thru intensified dialogue, making binding commitments, extending national and regional competencies, developing institutional frameworks, responses and human resources in a range of areas. Three types of development cooperation interventions are envisioned: regional policy initiatives, development of regional implementation and human capacity building.[16]

The VPA Programme Areas and Measures include specific strategies for cooperation in trade and investments, trade facilitation, trade in services, industrial cooperation and enterprise development, intellectual property rights, tourism, institutional strengthening, infrastructure enhancement, economic integration activities and social development to complement the national poverty reduction programmes. It creates a comprehensive development agenda that encompasses economic reforms and political development. It sets out specific action points for political, economic and socio-cultural progress. This strategy highlighted the need to promote human rights and obligations and also strengthen domestic institutions and establish rule of law, functional legal structures and good governance.

The Philippines was actively involved in the crafting of the VPA. It submitted the first draft Plan of Action at the Special SOM Brainstorming Session for the Vientiane Plan of Action in Laos on December 2003. In formulating the plan, consultations were held with the National Committee on Culture and Information (COCI). Concerned agencies and

[14] Understanding Development Gaps in ASEAN by Mely Caballero-Anthony. IDSS Commentaries May 31, 2005

[15] Vientiane Action Programe (VAP) 2004-2010

[16] Ibid., p. 12

institutions involved in drafting regional programs in social development were also consulted, making sure that the VPA is consistent and supportive of its various programs.

Even in this context the VPA, in particular, or regional economic integration, in general, is not the primary motivator of the domestic reform efforts in the Philippines. Financial and fiscal reforms are geared primarily towards macroeconomic stability. Meanwhile, trade reforms were prompted by the general malaise of the economy in the late 1970s, IMF-World Bank conditionalities, and subsequent WTO commitments. Nevertheless these reforms can be considered as necessary conditions for effective and meaningful regional economic integration.

## Conclusion

Regional integration in Southeast Asia is mainly characterized by "regionalization" or market-oriented integration, hence initiatives undertaken to promote closer cooperation used to be, for the most part, focused on trade liberalization strategies. However, despite aggressive trade liberalization initiatives, what has been shown is that economic openness did not necessarily translate to economic opportunities. Lessons from the Philippine experience established that even with trade liberalization and compliance to regional economic cooperation programs, sustained economic development remained elusive. Despite economic reforms, the Philippines continue to post very high unemployment rate and relatively high poverty incidence. Moreover, a dichotomy between the domestic manufacturing sector and export sector has evolved.

Clearly, market integration through trade reforms is not sufficient to achieve development goals and address the economic divide in the region. For trade cooperation to be an agent of development, it should be accompanied by other fundamental macroeconomic strategies at the national level, particularly sustainable financial reforms, fiscal consolidation, and perhaps a coherent industrial policy. Moreover, reforms should be complemented by strategies to integrate good governance practices, strengthen support institutions, infrastructure and adequate social development programs that will ensure that gains from these reforms result into concrete opportunities that will benefit the people.

## References

Amyx, Jennifer. "What Motivates Regional Financial Cooperation in East Asia Today?" Analysis from the East West Center. No 76 February 2005.

Anthony, Mely. Bridging Development Gaps in Southeast Asia: Towards an ASEAN Community. UNISCI Discussion Papers. May 2006.

Balboa, Jenny and Medalla, Erlinda. "Anti-Corruption and Governance: The Philippine Experience". http://www.apec.org.au/docs/06ASCC_HCMC/06_9_1_Balboa.pdf.

paper presented in the APEC Senior Officials Meeting II at Ho Chi Minh City, Vietnam. May 23, 2006.

Bureau of Treasury (BTr). 2007. Press release [online]. http://www.treasury.gov.ph/news/news/FiscalReport-121906.pdf

Canlas, Mark Emmanuel. Rewriting Fiscal Institutions in the Philippines: The Case for Fiscal Rules with Numerical Limits. Senate Planning Office. (unpublished).

Clarete, Ramon. Philippines: Ex-post Effects of Trade Liberalization. Paper presented at the conference "Adjusting to Trade Reforms: What are the Major Challenges for Developing Countries? Organized by the Trade Analysis Branch, United Nations Conference on Trade and Development in Geneva, Switzerland. 18-19 January 2005.

Espenilla, Nestor. Jr. Impact of of Basel II on the Philippine Banking Sector with Special Focus on Risk Management. Asian Institute of Management Quarterly Risk Management Forum. 07 September 2005.

Fabella, Raul V. 1999. "The Soft State, the Market, and Governance" in D. B. Canlas and S. Fujisaki (eds.) *Studies in Governance and Regulation: the Philippines*. Tokyo: Institute of Developing Economies.

Hausmann, Ricardo and Dani Rodrik. "Doomed to Choose: Industrial Policy as Predicament". September 2006. Downloaded from http://www.cid.harvard.edu/bluesky/papers/hausmann_doomed_0609.pdf.

Intal, Ponciano Jr. and Llanto, Gilberto. Financial Reform and Development in the Philippines, 1980-1997: Imperatives, Performance and Challenges. PIDS Discussion Paper Series No. 98-02. January 1998.

Ito, Takatoshi and Yung Chul Park . "Exchange Rates in East Asia." In Asian Development Bank ***Monetary and Financial Integration in East Asia: The Way Ahead***. Volume 1 and Volume 2. 2003.

Krumm, Kathie and Kharas, Homi. "East Asia Integrates". The International Bank for Reconstruction and Development/The World Bank Washington D.C. 2004

Laird, Sam et al. "Coping with Trade Reforms: A Developing Country Perspective on the WTO Industrial Tariff Negotiations". DITC/UNCTAD. 2005.

Lamberte, M. B., H. R. Arboleda, and C. M. Reyes. 2006. ASEAN Baseline Report: Measurements to Monitor Progress Towards the ASEAN Community (March).

Llanto, Gilberto M. and Eduardo T. Gonzalez. 2006. "Policy Reforms and Institutional

Weaknesses: Closing the Gap”. Paper presented at the conference “Microeconomic Founations of Economic Performance in East Asia” hosted by the Australia National University and the Philippine Institute for Development Studies, Manila, 23-24 November.

Manasan, Rosario. Fiscal Reform Agenda: Getting Ready for the Bumpy Ride Ahead. PIDS Discussion Paper Series No. 2004-26. August 2004.

Montiel, Peter. “An Overview of Monetary and Financial Integration in East Asia”. In Asian Development Bank ***Monetary and Financial Integration in East Asia: The Way Ahead***. Volume 1 and Volume 2. 2003.

Pacific Economic Outlook. Economic Prospects for the Asia Pacific Region. Pacific Economic Cooperation Council. 2004-2005.

________________________. Economic Prospects for the Asia Pacific Region. Pacific Economic Cooperation Council. 2005-2006.

Rodrik, Dani. “Industrial Policy for the Twenty-First Century”. September 2004. Downloaded from http://ksghome.harvard.edu/~drodrik/UNIDOSep.pdf.

Southeast Asia Human Development Report. UNDP 2005.

Tay, S., Estanislao, J. Soesastro H. “A New ASEAN in a New Millenium”. Centre for Strategic and International Studies, Jakarta. 2000.

Teves, Margarito. Building on Success, Committed to Further Reforms. Department of Finance. September 5, 2005. (unpublished).

The World Bank Group in the Philippines. “Meeting Infrastructure Challenges in the Philippines”. The International Bank for Reconstruction and Development/The World Bank. Washington D.C. 2005.

Yap, Josef. “Trade, Competitiveness and Finance in the Philippine Manufacturing Sector”. In Jose Maria Fanelli and Rohinton Medhora (eds.) ***Finance and Competitiveness in Developing Countries***. London: Routledge, 2002.

Yap, Josef. Economic Integration and Regional Cooperation in East Asia: A Pragmatic View. PIDS Discussion Paper Series No. 2005-32. December 2005.

| Table 1. Summary Measures for Europe 34, East Asia 14, SEA 11 and Other Regions, 2003 | | |
|---|---|---|
| | Mean | CV |
| Per Capita GDP (PPP$) SEA 11 | 6,937 | 113.1 |
| Per Capita GDP (PPP$) East Asia 14 | 9,090 | 101.9 |
| Per Capita GDP (PPP$) Europe 34 | 18,286 | 71.3 |
| Per Capita GDP (PPP$) Accession-12 | 13,491 | 29.7 |
| Per Capita GDP (PPP$) South Asia | 2,321 | 37.3 |
| Per Capita GDP (PPP$) North Africa | 5,306 | 30.0 |
| Per Capita GDP (PPP$) Latin America | 8,223 | 32.0 |

NOTES:
1) CV is the coefficient of variation. The higher is the measure, the higher the disparity.
2) SEA 11 are the ASEAN member countries plus Timor L'este. The East Asia 14 are the SEA 11 plus Japan, Korea and China. 2002 value was used for Myanmar.
3) Europe 34 is composed of the 15 EU member countries the 12 Accession countries (including Bulgaria and Romania which will follow in 2007) and the so-called CIS-7 (Armenia, Azerbaijan, Georgia, Kyrgystan, Moldova, Tajikistan, and Uzbekistan).
4) South Asia covers India, Pakistan, Nepal, Bangladesh, Sri Lanka, Bhutan, and Maldives.
5) The North African countries are Algeria, Egypt, Morocco, and Tunisia.
6) The Latin American countries included are Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay.

Source of Basic Data: 2005 UNDP Human Development Report (implying that the data are for 2003)

**Table 2. Development Gap Indicators**

| DEVELOPMENT GAP INDICATORS* | ASEAN 6 | | | | | | CLMV Region | | | | CHINA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Brunei | Indonesia | Malaysia | Philippines | Singapore | Thailand | Cambodia | Lao PDR | Myanmar | Viet Nam | |
| **Economic Performance** | | | | | | | | | | | |
| **GDP (US $B)** | 5.5 | 257.6 | 118.3 | 84.6 | 106.8 | 161.7 | 4.9 | 2.5 | 10.1 | 45.2 | 1,931.7 |
| **PPP US $B** | .. | 785.2 | 255.8 | 376.6 | 119.1 | 515.3 | 33.4 | 11.3 | .. | 225.5 | 7,642.3 |
| **Per Capita GDP (US$)** | 15,122.3 | 1,184.0 | 4,753.0 | 1,036.0 | 25,191.0 | 2,539.0 | 354.0 | 423.0 | 201.2 | 550.0 | 1,490.0 |
| **Per Capita PPP GDP (US $)** | 19,210.0 | 3,609.0 | 10,276.0 | 4,614.0 | 28,077.0 | 8,090.0 | 2,423.0 | 1,954.0 | 1,027.0 | 2,745.0 | 5,896.0 |
| **Population (million), 2005** | 0.4 | 222.8 | 26.0 | 83.1 | 4.2 | 64.2 | 14.1 | 5.9 | 54.0 | 84.2 | 1,315.8 |
| **Structure of Economy, 2005 (At Current Prices)** | | | | | | | | | | | |
| **Share of Agriculture in GDP** | 3.2 | 13.4 | 8.4 | 14.4 | 0.1 | 11.1 | 35.2 | 46.0 | 56.8 | 20.9 | 13.1 |
| **Share of Industry** | 40.4 | 39.4 | 46.9 | 28.0 | 28.8 | 40.2 | 20.2 | 24.9 | 8.5 | 34.7 | 40.2 |
| **Share of Manufacturing** | .. | 28.1 | 29.5 | 23.7 | 27.3 | 34.0 | 19.4 | 21.0 | 7.9 | 20.7 | 40.2 |
| **Share of Services** | 56.4 | 47.2 | 44.7 | 57.6 | 71.1 | 48.7 | 44.6 | 29.2 | 34.7 | 44.4 | 46.7 |
| **Trade Structure** | | | | | | | | | | | |
| **Imports / GDP (%)** | 98.56 [3] | 27.0 | 100.0 | 51.0 | 141 [4] | 66.0 | 76.0 | 42.0 | 46 [1] | 74.0 | 31.0 |
| **Exports / GDP (%)** | 29.71 [3] | 31.0 | 121.0 | 52.0 | 171 [4] | 71.0 | 65.0 | 29.0 | 19 [1] | 66.0 | 34.0 |
| **Primary exports / Merchandise exports (%)** | 88.0 | 44.0 | 23.0 | 10.0 | 13.0 | 22.0 | 3.0 | | 61 [1] | 46.0 | 8.0 |
| **Manufactured / Merchanidise exports (%)** | 12.0 | 56.0 | 76.0 | 55.0 | 84.0 | 75.0 | 97.0 | .. | 39 [1] | 53.0 | 91.0 |
| **Hi-tech exports / Manufactured exports (%)** | 5.0 | 16.0 | 55.0 | 64.0 | 59.0 | 30.0 | .. | .. | .. | 6.0 | 30.0 |
| **Human Development Index** | | | | | | | | | | | |
| **HDI value** | 0.9 | 0.7 | 0.8 | 0.8 | 0.9 | 0.8 | 0.6 | 0.6 | 0.6 | 0.7 | 0.8 |
| **Life expectancy at birth (years)** | 76.6 | 67.2 | 73.4 | 70.7 | 78.9 | 70.3 | 56.5 | 55.1 | 60.5 | 70.8 | 71.9 |
| **Adult literacy rate(%15 and above)** | 92.7 | 90.4 | 88.7 | 92.6 | 92.5 | 92.6 | 73.6 | 68.7 | 89.9 | 90.3 | 90.9 |
| **Education** | | | | | | | | | | | |
| **Education Index** | 0.9 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| **Public Expenditure for Education** | | | | | | | | | | | |
| **as % of GDP (2002-2004)** | 9.1 [2] | 0.9 | 8.0 | 3.2 | .. | 4.2 | 2.0 | 2.3 | .. | .. | .. |
| **as % of Total Government Expenditure (2002-2004)** | 9.1 [2] | 9.0 | 28.0 | 17.2 | .. | 40.0 | 15.3 2 | 11.0 | .. | .. | .. |
| **Tertiary students in Math, Science & Engineering (% of all students, 1998-2004)** | 8.0 | .. | 40.0 | 25.0 | .. | .. | 19.0 | 11.0 | 42.0 | .. | .. |
| **Combined gross enrollment ratio for primary, secondary and tertiary schools (2004, %)** | 77.0 | 68.0 | 73.0 | 82.0 | 87.0 | 74.0 | 60.0 | 61.0 | 49.0 | 63.0 | 70.0 |
| **Research and Development** | | | | | | | | | | | |
| **Expenditure / GDP, % (2000-2003)** | .. | .. | 0.7 | .. | 2.2 | 0.2 | .. | .. | .. | .. | 1.3 |
| **Researchers / 1 million people (1990-2003)** | 274.0 | .. | 299.0 | .. | 4,745.0 | 286.0 | .. | .. | .. | .. | 663.0 |
| **Infrastructure** | | | | | | | | | | | |
| **Telephone mainlines (per 100 inhabitants, 2005)** | 25.57 [4] | 5.7 | 16.8 | 4.2 | 43.5 | 11.0 | 0.3 | 1.3 | 0.79 [4] | 18.8 | 26.6 |
| **Cellular subscribers (per 100 inhabitants, 2005)** | 56.3 | 21.1 | 75.2 | 39.5 | 103.4 | 43.0 | 7.6 | 10.8 | 0.17 [4] | 11.4 | 29.9 |
| **Internet users (per 100 inhabitants, 2005)** | 15.3 | 7.2 | 42.4 | 5.3 | 57.9 | 11.0 | 0.3 | 0.4 | 0.12 [4] | 12.7 | 8.4 |
| **Electricity consumption per capita (kilowatt-hours, 2003)** | 9,133.0 | 498.0 | 3,196.0 | 655.0 | 8,087.0 | 1,896.0 | 9.0 | 135.0 | 126.0 | 503.0 | 1,440.0 |

Source: UNDP Human Development Report 2006. ADB Key Indicators 2006. UN Statistics Division Database. ITU Website

* - All figures refer to the year 2004 unless otherwise specified.

[1] Data refer to 2002; From Lamberte, et al (2006) and Central Statistical Organization, Myanmar Statistical Yearbook 2003; Manufactured exports of Myanmar includes category labeled as 'others'.

[2] Data refer to 2000-2002

[3] Data refer to 2003

[4] Data refer to 2004

**Table 3. Poverty and Income Inequality**

| | National Poverty Line | | | | International Poverty Line | | | | | Gini coefficient |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Population below the poverty line (%) | | | | Population below $1 a day (%) | Poverty gap at $1 a day (%) | Population below $2 a day (%) | Poverty gap at $2 a day (%) | |
| | Survey year | Rural | Urban | National | Survey year | | | | | |
| Cambodia | 1999 | 40.1 | 13.9 | 35.9 | 1997[a] | 34.1 | 9.7 | 77.7 | 34.5 | 0.450 |
| China | 1998 | 3.1 (2003) | <2 | 4.6 | 2001[a] | 16.6 | 3.9 | 46.7 | 18.4 | 0.447 |
| Indonesia | 2002 | 21.1 | 14.5 | 18.2 | 2002[a] | 7.5 | 0.9 | 52.4 | 15.7 | 0.343 |
| Lao PDR | 1997–98 | 41.0 | 26.9 | 38.6 | 2002[a] | 27 | 6.1 | 74.1 | 30.2 | 0.370 |
| Malaysia | 1999 | 12.4 | 3.4 | 7.5 | 1997[b] | <2 | <0.5 | 9.3 | 2 | 0.440 |
| Myanmar | 1997 | 22.4 | 23.9 | 22.9 | .. | .. | .. | .. | .. | … |
| Philippines | 2000 | 47.4 | 20.4 | 34.0 | 2000[a] | 15.5 | 3 | 47.5 | 17.8 | 0.461 |
| Singapore | .. | .. | .. | .. | .. | .. | .. | .. | .. | 0.425 |
| Thailand | 2002 | 12.6 | 4 | 9.8 | 2002[a] | <2 | <0.5 | 25.2 | 6.2 | 0.432 |
| Vietnam | 2002 | 35.6 | 6.6 | 28.9 | 2002 | 13.1 | .. | .. | | 0.376 |

Sources: World Development Indicators, 2006; ADB Key Indicators, 2004

a. Expenditure base. b. Income base.

**Table 4. AFTA:Common Effective Preferential Tariff (CEPTt) List for 2001**

| Country | Inclusion List | Temporary Exclusion List | General Exception List | Sensitive List | Total |
|---|---|---|---|---|---|
| Brunei | 6,284 | - | 202 | 6 | 6,492 |
| Indonesia | 7,190 | 21 | 68 | 4 | 7,283 |
| Malaysia | 9,654 | 218 | 53 | 83 | 10,008 |
| Philippines | 5,622 | 6 | 16 | 50 | 5,694 |
| Singapore | 5,821 | - | 38 | - | 5,859 |
| Thailand | 9,104 | - | - | 7 | 9,111 |
| **ASEAN-6 Total** | **43,675** | **245** | **377** | **150** | **44,447** |
| **Percentage** | **98.26** | **0.55** | **0.85** | **0.34** | **100** |
| Cambodia | 3,115 | 3,523 | 134 | 50 | 6,822 |
| Laos | 1,673 | 1,716 | 74 | 88 | 3,551 |
| Myanmar | 2,984 | 2,419 | 48 | 21 | 5,472 |
| Vietnam | 4,233 | 757 | 196 | 51 | 5,237 |
| New Members Total | 12,005.00 | 8,415 | 452 | 210 | 21,082 |
| Percentage | 57 | 40 | 2 | 1 | 100 |
| **ASEAN Total** | **55,680** | **8,660** | **829** | **360** | **65,529** |
| **Percentage** | **85** | **13** | **1** | **1** | **100** |

Source: ASEAN Secretariat

**Table 5. Non Performing Loans (NPLs) of Select Asian Countries**

| | 2000 | 2004 |
|---|---|---|
| China | 22.4 | 17.9 ('03) |
| Japan | 5.3 | 4.7 |
| Korea | 8.9 | 2.4 |
| Indonesia | 34.4 | 14.9 |
| Malaysia | 15.4 | 12.6 |
| **Philippines** | **14.9** | **13.9** |
| Singapore | 3.4 | 2.9 |
| Thailand | 17.7 | 12.4 |

Source: Global Financial Stability Report (2005)

**Table 6. Real Per Capita National Government Expenditures on Social Services, 1996-2004**

(2000 Prices)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|
| Total Social Services | 2,188 | 2,487 | 2,417 | 2,323 | 2,302 | 2,035 | 2,022 | 2,016 | 1,999 |
| Education | 1,534 | 1,789 | 1,761 | 1,675 | 1,608 | 1,516 | 1,505 | 1,455 | 1,412 |
| Health | 230 | 266 | 221 | 223 | 202 | 166 | 171 | 151 | 141 |
| Soc. Security, Welfare, & Employment | 317 | 392 | 387 | 364 | 376 | 331 | 327 | 392 | 418 |
| Housing & Community Devt. | 107 | 39 | 48 | 61 | 115 | 22 | 19 | 19 | 29 |

Source: Manasan, 2004

**Table 7. Six indicators of industrial performance (1990 and 2002)**

| | *Manufacturing value added (MVA) per capita (1995 US$)* | | *Manufactured exports per capita (US$)* | | *Share of manufacturing in total output (GDP) (percent)* | | *Share of manufacturing in total exports (percent)* | | *Share of medium-or-high-technology production in MVA (percent)* | | *Share of medium-or-high-technology products in manufactured exports (percent)* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1990* | *2002* | *1990* | *2002* | *1990* | *2002* | *1990* | *2002* | *1990* | *2002* | *1990* | *2002* |
| China | 100.7 | 359.4 | 41.6 | 234.5 | 33.1 | 34.5 | 76 | 91.6 | 51.6 | 57.3 | 34.4 | 45.6 |
| Hong Kong SAR | 2 042.8 | 1 133.0 | 4 842.9 | 3 211.6 | 16.3 | 8.7 | 95.3 | 94.9 | 41.8 | 58.5 | 40.6 | 36.8 |
| India | 49 | 77.6 | 16.8 | 38.5 | 16.6 | 15.8 | 79.6 | 85.8 | 55.3 | 58.4 | 17.9 | 19.7 |
| Indonesia | 162 | 278.7 | 82 | 224 | 20.7 | 27 | 58.6 | 76.9 | 30 | 43.4 | 10.5 | 31.3 |
| Japan | 9 696.9 | 9 850.9 | 2 263.9 | 3 595.2 | 26.5 | 25 | 97.5 | 93 | 66.5 | 68.1 | 83.9 | 86.3 |
| Korea, Republic of | 2 237.6 | 4 858.7 | 1 455.4 | 3 591.1 | 28.8 | 33.9 | 96.2 | 96.5 | 55.1 | 64.1 | 52.9 | 70.6 |
| Malaysia | 757.5 | 1 516.5 | 1 286.5 | 4 120.5 | 26.5 | 35.9 | 78 | 93.3 | 52.3 | 65.1 | 50.6 | 76.2 |
| Philippines | 252.4 | 269.5 | 69.8 | 482.4 | 24.8 | 24.2 | 52.7 | 96.2 | 31.2 | 38.3 | 30 | 81.8 |
| Singapore | 4 410.3 | 6 582.5 | 16 266.1 | 33 105.8 | 28.6 | 28.2 | 93.2 | 96.8 | 78.8 | 87.6 | 62.3 | 78.9 |
| Taiwan Province of China | 2 842.1 | 4 397.5 | 3 148.7 | 6 563.7 | 32.7 | 28.1 | 95.8 | 98.3 | 52.2 | 58.6 | 51.6 | 71.2 |
| Thailand | 520.9 | 999.6 | 338.6 | 869.6 | 27.2 | 33.6 | 80.6 | 87.4 | 23.7 | 42.6 | 33.3 | 60.3 |

*Source: UNIDO Industrial Development Report, 2005*