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Employment effects of multinational enterprises in the Philippines

by Casimiro V. Miranda, Jr.
(Professor of Economics, University of the Philippines)

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1. Introduction

This study focuses on the impact of multinational enterprises (MNEs) on employment and industrialization in the Philippines. After a quick overview of the industrial experience of the Philippines, the study reviews the main trends in the activities of MNEs in the country and highlights the role played by the Government in providing incentives and a regulatory framework for foreign direct investment (FDI). Data and estimates on the employment effects — both direct and indirect — of MNEs are then presented, including the results of a survey among a small sample of multinational enterprises on their linkages with the local economy.

2. Overview of industrialization in the Philippines [1]

2.1. Post Second World War "control" period up to the "decontrol" of the 1960s

Among the members of the Association of South-east Asian Nations (ASEAN), the Philippines was the first to embark in industrialization by directly encouraging the establishment of import-substituting domestic industries in the 1950s. Equipped with a large relatively educated manpower and an institutional structure already established by past colonizers, the Philippines went through a relatively easy phase of import-substitution, assisted by the Government through stringent controls on import and foreign exchange. A protective tariff system that imposed relatively higher duties on non-essential consumer and industrial goods than on capital equipment was introduced in the second half of the 1950s. Overall, this protective system translated into a fast growth of real GDP, particularly in the industrial sector, as shown in table 1.

Table 1. Average annual growth of gross domestic product at 1972 prices, 1949-90 (per cent)

Sector or industry	1949-53	1953-57	1957-61	1961-65	1965-69	1969-73	1973-79	1979-83	1983-86	1986-90
Agriculture, fishery and forestry	7.7	4.3	4.2	4.6	4.0	3.4	5.4	2.4	3.1	2.2
Industrial sector	8.8	8.1	3.7	5.8	5.5	7.3	8.1	3.2	–7.7	6.2
Mining	23.5	7.7	1.0	2.7	14.6	11.4	4.3	–0.5	–7.3	0.4
Manufacturing	14.1	11.1	5.7	4.8	6.6	7.5	5.0	2.8	–4.6	5.8
Construction	0.3	2.6	–1.6	10.8	–0.6	5.2	21.8	5.3	–25.7	11.1
Utilities	3.6	5.7	2.5	3.0	5.3	7.9	11.2	8.5	9.1	6.4
Services	9.4	0.6	4.6	4.6	4.7	4.6	5.2	4.1	–3.75	5.4
Gross domestic product (GDP)	8.6	6.2	4.2	4.8	4.6	4.9	6.1	3.1	–3.1	4.8

Sources: Reyes, Alejandro and Siy, Robert Jr.(eds.): *Technology and skills in the Philippines* (Singapore: Institute of South-East Asian Studies), 1987; National Economic and Development Authority: *Philippine Statistical Yearbook*, various years; National Statistical Coordination Board: *National Income Accounts*, 1968.

The protective measures, however, which were extended into the early 1960s, were "causing a drag on the overall growth of the Philippines" (Oshima, 1983, page 60).

[1] This section and section 3 draw heavily from the author's paper for the United Nations Centre for Regional Development, "Transnational corporations in the ASEAN region: The Philippines" (1989). The statistical data, however, have been updated and some parts of the paper have been rewritten and considerably expanded for the purposes of this study.

Protection did not provide an incentive to improve efficiency in manufacturing industries, particularly in capital-intensive activities. The growth of productivity in the industrial sector remained slow.

This was a major factor in explaining why the Philippines has not been able to swiftly and successfully shift to export-promotion after the import-substitution phase. The shift or "decontrol" started in the early 1960s. Import substitution was de-emphasized, but not entirely abandoned. In the 1960s, the industrial sector, unable to compete on the international markets, suffered from the gradual dismantling of import controls and the devaluation of the peso caused by persistent deficits in the balance of payments. The withdrawal of the protective system, therefore, took its toll on the growth of the economy in this period.

2.2. The 1970s to the crisis period of the 1980s

In the late 1960s, in an effort to stop the trend to declining economic growth, the Government started to provide incentives for the establishment of export-oriented industries. The switch to an export-promotion strategy was marked by the Industrial Incentives Act in 1967 and the Export Incentives Act in 1970. Both aimed, among other things, at attracting foreign capital in export-oriented production. The Industrial Incentives Act set up "pioneer areas" where investment by foreign enterprises was permitted. Still, Filipino ownership of at least 60 per cent was required even in the "preferred areas".

The Export Incentives Act further broadened the scope for foreign investment. Export-processing zones were established in geographically bonded localities outside Metropolitan Manila to encourage investors to embark on labour-intensive operations and also to disperse industries and ease congestion in the capital.

The growth rate of GDP in the industrial sector from the late 1960s up to the late 1970s (table 1) show that there was a positive response to the Government's new incentive schemes. The export-oriented industrialization strategy contributed to the growth of manufacturing which came to account for about 25 per cent of GDP. However, the increases in productivity and exports were modest, perhaps reflecting the fact that the general thrust of incentives and trade policies remained in reality oriented toward capital-intensive, import-competing production for the small domestic market.

In the 1980s, the country experienced oil shocks, debt problems, stiff competition from other industrializing countries and the adverse effect of recession and growing protectionism in the industrialized countries. Over the 1983-86 period, the Philippines experienced a severe political and economic crisis, which hit the industrial sector the hardest. This crisis, evident in the strong decline of GDP, was triggered by massive capital flight, heavy balance-of-payments deficit, and sharp currency devaluations. Import-dependent industries suffered from the high price of imported capital equipment and intermediate goods. Faced with growing unemployment, the current Government (i.e. post-1986) is strengthening its programme of outward-looking, labour-intensive industrialization to complement the expansion of capital-intensive activities. There is also a continuing effort to promote regional development by establishing or refurbishing export processing zones in backward regions.

To sum up, the Philippine industrial experience has gone through different phases. Domestic investment has been relatively high from the 1950s to the 1980s although it slowed down in the mid-60s as a result of "decontrol" policies (see table 2). With incentives set up during the 1970s, investment, but not productivity, rebounded with a renewed vigour. In the 1970s, in response to various promotional measures to attract foreign investors to the country, foreign participation in the economy rose as shown in table 3. Foreign capital contributed to industrial growth in different forms such as foreign exchange, capital goods, technology transfer, entrepreneurship, managerial expertise but it had a limited impact on employment.

In the late 1980s, after the deep crisis of the 1983-86 period, all sectors posted a positive though relatively modest expansion. The rate of growth of GDP in the 1986-90 period (4.8 per cent) is an indication that the economy is on the upturn and augurs better performance in the 1990s. Still, economic growth declined considerably in 1991 and 1992, following the adverse impact of the Gulf war, continuing political instability and a series of natural disasters such as the eruption of Mount Pinatubo in June 1991.

Table 2. Net domestic capital formation at 1972 prices, 1950-90 (millions of Philippine pesos)

	1950	1955	1960	1965	1970	1975	1980	1983	1986	1990
Fixed capital formation	2 264	3 075	4 368	7 022	7 919	15 037	22 754	23 186	10 057	18 574
Construction	1 490	1 587	2 093	3 704	3 089	6 152	10 831	12 013	5 505	8 169
Government	322	332	417	526	496	2 294	4 568	4 327	2 161	2 501
Private	1 168	1 255	1 676	3 178	2 593	3 858	6 263	7 686	3 344	5 668
Durable equipment	774	1 488	2 275	3 318	4 830	8 885	11 923	11 173	4 552	10 405
Increase in stocks	630	1 221	805	1 314	2 916	3 947	3 872	2 064	124	(373)
Gross domestic capital formation (GDCF)	2 632	3 838	5 173	8 336	10 835	18 984	26 626	25 260	10 042	18 201

Sources: National Economic and Development Authority; National Statistical Coordination Board.

3. Foreign direct investment and multinational enterprises in the Philippines

The recognition of the significant role of foreign capital in the industrial transformation of the country has pushed the Government of the Philippines to adopt laws, policies and regulations designed to attract foreign investment and create a good investment climate for multinational enterprises (Bautista: 1979, page 27). In general, the regulatory framework and the policies that impinged specifically on foreign investment and, hence, on MNEs were set to: (a) limit the extent of foreign ownership of local enterprises; (b) affect the repatriation of profits; (c) seek to influence the choice of equipment and technology; (d) address foreign investment to targeted industries; and (e) regulate the employment of expatriate managers or migrant workers in foreign-owned firms. All other laws, policies, and regulations, e.g. labour laws, industrial relations policy, tariffs, tax measures, etc. affected both domestic and foreign enterprises without distinction.

3.1. From the postwar period to the 1960s

The Philippine economy has been opened to foreign investors since colonial times, but the Government's deliberate encouragement of foreign investment came with the start of "decontrol" in 1960. Previously, largely American MNEs were already operating in those sectors of the economy not covered by nationalization laws, a body of legislation intended to protect Philippine businesses from encroachment in the exploitation of natural resources, in real estate, in banking and in the public utilities industry (Bautista, 1979, page 27). The Parity Agreement of 1946 and the Laurel-Langley Agreement of 1955, in fact, had provided for the treatment of Americans as Philippine citizens, thereby allowing them to freely invest and establish businesses in the economy's various sectors. During the postwar recovery period, however, American investment declined relatively to its pre-war level mainly as a result of the war and, in the 1950s, the existence of restrictions on profit remittance and capital repatriation.

To encourage the inflow of new investment, in 1961 the Congress passed the Basic Industries Act, foreseeing tax- and duty-free import of capital equipment for those industries which were considered of basic importance. Since MNEs have mainly the technology and the resources to venture into these industries, they benefited the most from these incentives. In 1967, a special agency, the Board of Investments (BOI) was established by the Investment Incentives Act with the purpose to regulate and define the modalities of foreign investment in the country and formulate policies to encourage MNEs to operate in "priority areas" and "pioneer" industries.

Table 3. Foreign direct investment inflows, 1970-89 (millions of Philippine pesos)

Year	Equity	Reinvested earnings	Total FDI
1970	24.0	...	24.0
1971	19.0	...	19.0
1972	13.0	...	13.0
1973	561.0	...	561.0
1974	434.0	...	434.0
1975	841.0	...	841.0
1976	677.0	499.0	1 176.0
1977	962.0	577.0	1 539.0
1978	501.0	457.0	958.0
1979	531.0	428.0	959.0
1980	563.0	293.0	856.0
1981	1 430.0	490.0	1 920.0
1982	1 273.0	376.0	1 649.0
1983	2 455.0	289.0	2 744.0
1984	2 037.0	250.0	2 287.0
1985	1 055.0	186.0	1 191.0
1986	1 407.0	408.0	1 815.0
1987	7 240.0	452.0	7 692.0
1988	18 985.0	359.0	19 344.0
1989	9 761.0	1 217.0	10 978.0

Note: Foreign direct investment equity inflow data reflect new equity investment, technical and other fees converted into equity, imports converted into equity and, for the period 1987-89, debt converted into equity (amounting to 5,903 million Philippine pesos in 1986, 17,002 million Philippine pesos in 1988 and 6,652 million Philippine pesos in 1989). Data are reported on a gross basis, without taking into account investments that have been withdrawn.
Source: UNCTC (1992).

3.2. From the 1970s to the 1990s

In accordance with the new emphasis on export promotion, foreign participation was further encouraged by the Export Incentives Act of 1970. Moreover, a series of presidential decrees expanded the "priority areas" and, hence, the scope for foreign investment during the so-called martial law years, from 1972 to 1986. Priority plans released annually by the BOI also provided tax and non-tax incentives to MNEs. Special schemes were offered by government agencies like the Export Processing Zone Authority. The operations of MNEs were regulated by the Republic Act 5455 of 1968, the BOI's licensing schemes, and several other guidelines. The domestic use of local credit by MNEs was subject to control by the Central Bank.

A set of policies and a comprehensive legal structure for the encouragement of foreign investment may not be effective unless such policies and regulations are seriously and consistently implemented. On the whole, despite some weaknesses, the Government's efforts

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to attract foreign investment were successful, as indicated by the trends in the participation of MNEs in the economy of the country. FDI inflows grew particularly in the mid-1970s. They remained large in the late 1970s and in the first half of the 1980s although with large swings. Inward FDI and MNE involvement in the Philippine economy rose sharply in the 1986-89 period, partly thanks to the impact of the debt-equity swap programme which was enacted to reduce the burden of the external debt cumulated during the crisis of the 1980s (TCMD, 1993). Political disturbances and the recession in industrialized countries have caused FDI inflows to decline in 1991. However, there were signs of a recovery in FDI in the late months of 1992 (UNCTAD, 1993).

3.3. Sectorial and geographical distribution of inward FDI

The bulk of foreign investment in the Philippines has consistently been in the secondary sector. As shown in table 4, the secondary sector accounted for slightly less than 50 per cent of the cumulated FDI approved by the Central Bank of the Philippines over the period 1970-90. Investment in the primary sector — mainly mining — accounted for about another 28 per cent. In the tertiary sector, a substantial amount of foreign capital accrued to the banking and other financial services industries. To some extent, this sectoral distribution of foreign investment may have reflected the Government's effort to direct the activities of MNEs to those relatively capital-intensive activities which were considered vital for fast economic growth.

Table 4. Sectoral distribution of foreign direct equity investment approved by the Central Bank from February 1970 to March 1990 (US$ million and percentage)

Sector/industry	Value	%
Primary sector	1 007.0	27.9
Agriculture	53.9	1.5
Mining	953.1	26.4
Secondary sector	1 757.6	48.6
Tertiary sector	851.1	23.5
Banking and finance	437.5	12.1
Distributive trade	185.5	5.1
Public utilities	46.6	1.3
Construction	24.2	0.7
Other services	157.3	4.3
Total	3 615.7	100.0

Source: Foreign Exchange Operations and Investments Department, Central Bank of the Philippines.

The United States is by far the leading foreign investor in the Philippines, followed, at a distance, by Japan, Hong Kong, the Netherlands and the United Kingdom. Investors from these five economies accounted for over 80 per cent of total cumulative FDI inflows approved as of March 1990 (table 5). FDI from the other industrialized countries (Switzerland, Australia, Canada, France, Germany and Sweden) is overall quite limited, particularly with respect to the large investment activities which are carried out worldwide by the large multinationals based in these countries.

Table 5. Geographical distribution of cumulative foreign direct equity investment approved by the Central Bank from February 1970 to March 1990 (US$ million and percentage)

Country/territory	Value	%
United States	1,879.18	51.97
Japan	600.67	16.61
Hong Kong	258.74	7.16
Netherlands	144.71	4.00
United Kingdom	113.63	3.14
Switzerland	86.73	2.40
Australia	74.46	2.06
Canada	58.74	1.62
France	46.70	1.29
Germany, Fed. Rep	41.89	1.16
Republic of Nauru	40.00	1.10
Taiwan (China)	31.65	0.90
Singapore	29.47	0.82
Sweden	28.12	0.78
Denmark	19.27	0.53
Luxembourg	14.86	0.41
Republic of Korea	13.76	0.38
Malaysia	13.35	0.37
Others	101.26	2.80
Total	3 615.68	100.00

Note: The Central Bank of the Philippines stopped monitoring foreign investment in March 1990.
Source: Foreign Exchange Operations and Investments Department, Central Bank of the Philippines.

The leading role of the United States is not surprising since the Philippines has had a long and continuing economic, social and political relationship with its former colonizer. Over the past three decades, large investments from the United States have taken place, but the American share of total FDI has generally declined relative to investment from other industrialized and non-industrialized economies.

In the second half of the 1980s, in particular, Asian multinationals have been among the most active investors in the country. Investment from Japan has increased considerably in this period, as well as investment from the dynamic economies of East Asia (see table 6) although FDI in the Philippines has lagged behind FDI in the other ASEAN economies. With the main exception of Hong Kong, investments from these "non-traditional" sources is still negligible. FDI from Malaysia, the Republic of Korea, Taiwan (China) and Singapore did not reach 3 per cent of the total FDI stock in 1990 (see table 5). However it has been growing rapidly in recent years and can be expected to grow further, assuming that the business and economic conditions in the Philippines remain favourable. Investment into the Philippines by businessmen from Hong Kong and Taiwan (China) may be partly explained by the apprehension about the future of the two territories as the People's Republic of China moves to reclaim them.

Table 6. Geographical distribution of foreign direct investment inflows, 1986-89 (percentage)

	1986	1987	1988	1989
Industrialized countries	97	84	75	79
United States	69	71	26	34
Japan	8	6	2	25
Netherlands	5	5	1	7
United Kingdom	9	1	2	2
Germany, Fed. Rep. of	1	..	..	..
Developing countries or territories	3	16	25	21
Hong Kong	2	13	20	8
Taiwan	..	..	1	7
Singapore	..	..	1	2
Republic of Korea	..	..	..	1
Total	100	100	100	100
Total (millions of Philippine pesos)	2 671.9	1 945.5	1 427.7	4 373.2

Note: FDI inflow data refer to foreign equity investment registered with the Central Bank of the Philippines.
Source: UNCTC (1992).

3.4. The role of MNEs in the Philippine economy

Multinational enterprises play a main role in the modern sectors of the Philippine economy. According to a study of the top 1,000 corporations in the Philippines as listed by the Securities and Exchange Commissions in 1976, about one-third — 326 firms — were affiliates of foreign-based companies, with more than 50 per cent among the top 500 corporations and 39 per cent in the top 200 (Tsuda et al., 1978, page 13). As shown in table 7, the largest number of foreign affiliates could be found in manufacturing (212 firms), distributive trades (40 firms) and financial services (27 firms). In 1989, the number of foreign affiliates out of the top 1,000 corporations had increased slightly to 344 firms, with manufacturing (220), distributive trades (35) and financial services (52) accounting again for the largest number (table 8).

The two tables also report the distribution by industry of foreign direct investment by foreign affiliates. In 1989, investment in manufacturing concentrated in the electrical machinery, chemicals, oil, and food and drink industries (see table 8).

According to the UNCTC (1992, table 11, page 226), foreign affiliates accounted in 1987 for 18.9 per cent of the assets, 26 per cent of the sales, 30.8 per cent of the profits and 34.7 of the exports by the largest 1,000 corporations in the Philippines. These figures clearly indicate the extent of the participation by MNEs to economic activity in the country. The significance of foreign affiliates was higher in the secondary sector, where they accounted for about 32 per cent of total assets and 41 per cent of total sales, and reached its peak in the electrical equipment, chemicals, and oil industries.

Table 7. Foreign direct investment by the foreign affiliates included among the top 1,000 corporations in the Philippines, by industry, 1976 (millions of Philippine pesos, percentage)

Industry	No. of foreign affiliates	Amount of FDI	%
Agriculture, fishery and forestry	12	89.3	1.0
Mining and quarrying	15	1 056.4	12.4
Manufacturing	212	4 894.3	57.3
Food and beverages	37	1 057.4	12.4
Textiles and garments	31	297.3	3.5
Petroleum products	7	1 069.9	12.5
Vegetables, animal fats/oils	14	473.9	5.6
Chemicals/chemical products	38	515.4	6.0
Wood and wood products	5	27.4	0.3
Paper and paper products	5	169.3	2.0
Leather and leather products	1	–	–
Rubber and plastic products	6	296.7	3.5
Basic metals	15	216.2	2.5
Non-metallic mineral products	10	54.1	0.6
Tobacco	10	196.7	2.3
Alcoholic beverages	1	23.4	0.3
Transportation and heavy equipment	10	118.9	1.4
Electrical machinery	19	224.5	2.6
Shipbuilding	–	–	–
Miscellaneous manufactures	4	63.8	0.7
Electricity, gas and water	1	51.1	0.6
Wholesale and retail trade	40	1 025.5	12.0
Transportation	8	168.9	2.0
Financing, insurance, real estate and business services	27	1 233.6	14.5
Community, social and personal services	11	13.8	1.6
Total	326	8 535.0	100.0

Sources: Tsuda, Mamoru et al., *The impact of multinational corporations in the Philippines*, Quezon City, Philippines, University of the Philippines Law Center and the US Asian and Pacific Development Administration, mimeographed, 1978, pp. 26-27.

One of the main benefits, besides income and employment generation, that the Philippine economy can expect to gain from MNEs' operations is the acquisition of technology transferred through the introduction of capital equipment, new production processes and technical know-how in the country. Advantages may also derive from licensing of patents and trademarks and from the exposure to the modern managerial techniques employed in the foreign affiliates.

Table 8. Foreign direct investment by the foreign affiliates included among the top 1,000 corporations in the Philippines by industry, 1989 (millions of Philippine pesos and percentage)

Industry	No. of foreign affiliates	Amount of FDI	%
Agriculture, fishery and forestry	6	659.5	3.3
Mining and quarrying	5	21.0	0.1
Manufacturing	220	14 635.4	74.0
Food and beverages	22	2 932.5	14.8
Tobacco	2	166.3	0.8
Textile	18	556.0	2.8
Wearing apparel except footwear	26	398.8	2.0
Leather and leather products	1		
Wood and wood products	3	198.2	1.0
Furniture	1	1.2	0.0
Paper and paper products	2	179.8	0.9
Printing and publishing	2	3.2	0.0
Industrial chemicals	11	775.1	3.9
Other chemical products	55	2 973.6	15.0
Petroleum refineries	5	1 408.0	7.1
Rubber products	5	377.7	1.9
Plastic products n.e.c.	3	215.1	1.1
Pottery and china	2	65.9	0.3
Glass and glass products	2	35.9	0.2
Cement	1	29.0	0.1
Other non-metallic products	1	9.0	0.0
Iron and steel	3	736.1	3.7
Fabricated metal products	3	239.7	1.2
Machinery	3	46.5	0.2
Electrical machinery	28	2 633.9	13.3
Transport equipment	10	1 228.0	6.2
Professional and scientific equipment	4	371.0	1.9
Other manufacturing	6	103.3	0.5
Electricity, gas and water	1	0.0	0.0
Construction	5	5.0	0.0
Wholesale and retail trade	35	621.5	3.1
Transportation	14	262.9	1.3
Financing, insurance, real estate and business services	52	2 309.1	11.7
Community, social and personal services	6	1 260.9	6.4
Total	344	19 775.2	100.0

Source: Investment and Research Department, Securities and Exchange Commission, Manila, Philippines.

Different government agencies have been established to deal with the various aspects of ensuring the transfer of technology. The BOI and the Central Bank, for example, determine the eligibility of investment proposals to incentive by closely assessing their economic and technological merits and the reasonableness of the royalties for the use of technology. The Technology Transfer Board (TTB) has mainly the task to regulate technology transfer agreements. The TTB, under the Department of Trade and Industry, is made up of representatives from the National Economic and Development Authority, the Central Bank, the BOI, the Technology Resource Center (TRC), and the Philippine Patents Office (Reyes and Siy, 1987, page 13).

3.5. Recent developments in the legislative environment

Notwithstanding the existence of broad incentive schemes, laws and regulations on FDI contain provisions that tend to restrict the entry and operation of foreign enterprises in the country and may therefore negatively affect FDI. These aspects, which tend to offset promotional efforts, fall under three broad types:

(1) Provisions that limit the number of businesses or industries in which foreign investors have free access: currently, foreign investors can freely operate in the so-called "pioneer industries" or "priority areas", i.e. industries in which locally owned enterprises are virtually absent or extremely few in number. These industries are mainly highly capital-intensive, which perhaps explains why local entrepreneurs do not venture into them. Examples are the mining, petroleum products, chemicals and chemical products industries. On the other hand, with the exception of export-oriented production in the EPZs, foreign investment is either disallowed or restricted in those industries where locally owned enterprises are dominant, e.g. food manufacture, textile and wearing apparel, electrical appliances and supplies, commerce and services, which are obviously relatively less capital-intensive. As a result of this aspect of the Philippine regulatory framework, local business is protected from competition by foreign investors, who have an edge in capital resources and technology. However, this may generate "oligopolistic" or "monopolistic" imperfections, out of which rent-seeking domestic enterprises can extract robust profits.

(2) Provisions that regulate the foreign-to-local equity ratio in "non-pioneer" industries: Foreign equity participation is allowed mainly because it is needed to complement meagre local capital. Foreign equity participation can reach a maximum of 40 per cent, thus leaving many enterprises in these industries largely under the control, management, and operation by local business.

(3) Provisions that impinge, directly or indirectly, on MNE profits. These do not include taxation of profits, but restrictions on profit remittances and repatriation of capital. Such restrictions (by the Central Bank) and the requirement that foreign enterprises use primarily their profits and not domestic resources to finance their own additional investment are considered negative features by foreign businesses in the country.

These three negative aspects have led recently actual and prospective foreign investors to advocate the official release of a "negative list", i.e. a list which, once and for all, spells out very clearly the areas in which foreign investment can do business. In order to pave the way for a faster growth of foreign investment, at time when the Philippine economy is struggling to emerge from a severe political and economic crisis, the Philippine Government has responded with a new investment law: the Foreign Investment Act of 1991.

The Act has liberalized the entry of foreign investment into the country and has made an attempt at balancing the interests of Philippine businesses with the need to attract foreign investment. The new law provides that, as a general rule, there be no restrictions on the extent of foreign ownership of export-oriented enterprises, i.e. those enterprises exporting at least 70 per cent of their output. Foreign equity participation in the enterprises oriented to the domestic market can be as much as 100 per cent, except in the areas included in the negative list where foreign ownership is allowed up to 40 per cent (see Appendix A).

In practice, the new law has swept aside many impediments to the entry and operation of foreign investment in the country. It is, however, too early to assess the impact of the new law on the inflow of FDI and general business activity (since domestic investment may be adversely affected). As shown by past experience, the effectiveness of the new policies will be influenced by the manner in which the Government exercises its right and responsibility in the areas foreign investment and MNEs. The firms given preferred pioneer status or those exporting at least 70 per cent of their output were allowed 100 per cent foreign equity participation. The firms in non-pioneer industries were subject to the requirement that a minimum of 60 per cent of voting equity be held by Philippine entities.

3.6. Multinational enterprises based in the Philippines

To complete the overview of MNE activities in the Philippines a few words should be spent on the international activities of domestic firms. Only one or two large firms based in the Philippines are known to have investment abroad. Perhaps investment abroad by private Philippine citizens in small scale businesses — largely in the service sector, e.g. small restaurants — may be less unusual than overseas production by Philippine-based MNEs. On the whole, however, outward FDI is negligible.

Several reasons explain the lack of Philippine MNEs. The Philippines is a largely agricultural less developed country with a real per capita income of only US$727 in 1990 (Asiaweek, 1991). The industrial sector is small and the local capabilities to autonomously accumulate technology or other internationally transferable productive assets are very weak. The country's economic, social and political structure is still "semi-feudal". There are not many entrepreneurs willing to take the risk to engage in international production and compete with foreign enterprises in their home markets. The generally protected economic environment constitutes a disincentive to entrepreneurial activities. "Rent-seeking" behaviour — in which what is being maximized is not only profit but the difference between the cost of a product good and its subsidized price — is quite common in the country. Under these circumstances, only MNEs based in countries outside the Philippines are considered in this study.

4. The employment effects of MNEs in the Philippines

4.1. Overview of the Philippine labour market (1983-88)

The Philippines has a large population. In 1983, the economically active population (15 years old and over) stood at nearly 32 million and in 1988 it reached 35.8 million (table 9). A main structural feature of the labour market is the large share of employment in agriculture — on average about 50 per cent of total employment. Manufacturing accounts only for less than 10 per cent of total employment. Distributive trade and other services account for the bulk of employment in the tertiary sector.

Another important aspect is the large number of self-employed and unpaid family workers. Small businesses and family-run enterprises can be found mainly in agriculture and distributive trade, but they are also quite common in industrial activities. Self-employment and unpaid family work, in fact, account for about one-third of manufacturing employment (see table 10).

Table 9. Economically active population by employment status and gender, 1983 and 1988 (in thousands)

	1983			1988		
	MF	F	F/MF (%)	MF	F	F/MF (%)
Total economically active population (15 years and over)	31 908	16 167	51	35 865	18 090	50
In the labour force	20 369	7 953	39	23 452	8 667	37
Employed (fully and partially)	18 555	7 069	38	21 029	7 432	35
Agriculture	9 409	2 615	28	9 968	2 509	25
Non-agricultural industries	9 146	4 454	49	11 061	4 923	45
Unemployed	1 814	884	49	2 423	1 235	51
Not in the labour force	11 539	8 214	71	12 413	9 423	76

Note: MF = total male and female; F = female.

Source: National Statistics Office (NSO), *Integrated Survey of Households Bulletin*, various issues.

During the 1983-88 period, the country experienced a major economic and political crisis. Employment increased from 18.5 million in 1983 to 21 million in 1988 but the 2.5 million newly created jobs were not sufficient to offset the expansion in the supply of labour, as the labour force increased by over 3 million. A telling implication of the above was the growing number of the unemployed, as employment creation failed to catch up with the growth of the labour force. The largest increases in employment were registered in agriculture and in the service sector, which bore the brunt of absorbing the growing supply of labour. While in the industrialized countries the trend to a growth of the tertiary sector is largely a consequence of industrial maturity, i.e. it is a result of affluence, in the Philippines it was a result of poverty and the lack of employment opportunities in the industrial sector.

Employment in manufacturing remained static. Male employment, in particular, stagnated, while the number of female workers increased, albeit modestly. Relatively more women joined the ranks of the unemployed and a lot more were discouraged from looking for an occupation and exited from the labour force. Throughout the period 1983-88, more than 70 per cent of those outside the labour force were women in contrast to the fact that they account for about 50 per cent of the country's economically active population.

Table 10. Total employment by status, gender and major industry group, 1988 (in thousands and per cent)

	1988				Share of employment (%)			
	Total No. of employed	Wage/ salary workers	Self-employed	Unpaid family workers	Total No. of employed	Wage/ salary workers	Self-employed	Unpaid family workers
MF	21 029	9 629	8 080	3 320	100	45.8	38.4	15.8
Agriculture	9 968	2 275	4 918	2 775	47.4	10.8	23.4	13.2
Mining and quarrying	160	111	41	8	0.8	0.5	0.2	0.0
Manufacturing	2 095	1 453	525	117	10.0	6.9	2.5	0.6
Construction	830	740	88	2	3,9	3.5	0.4	0.0
Distributive trade	2 871	685	1 809	377	13.7	3.3	8.6	1.8
Transport and storage	1 014	742	261	11	4.8	3.5	1.2	0.1
Finance, insurance and real estate	390	356	34	—	1.9	1.7	0.2	—
Other services	3 701	3 195	424	81	17.6	15.2	2.0	0.4
F	7 432	3 341	2 376	1 715	100	45.0	32.0	23.1
Agriculture	2 509	508	622	1 378	33.8	6.8	8.4	18.5
Mining and quarrying	14	4	6	4	0.2	0.1	0.1	0.1
Manufacturing	1 001	592	326	82	13.5	8.0	4.4	1.1
Construction	11	11	—	—	0.1	0.1	—	—
Distributive trade	1 864	328	1 256	280	25.1	4.4	16.9	3.8
Transport and storage	47	42	4	1	0.6	0.6	0.1	0.0
Finance, insurance and real estate	143	131	11	1	1.9	1.8	0.2	0.0
Other services	1 843	1 622	173	43	24.8	21.8	2.4	0.6

Note: Details may not add up to totals due to rounding.
Source: NSO, *Integrated Survey of Households Bulletin*, various issues.

4.2. Direct employment effects of foreign affiliates

Several problems were encountered in the gathering of data for this section. Except for major industry totals, figures on employment are not available in the official statistics on MNEs and foreign investment. The Securities and Exchange Commission has data on the number of establishments and gross revenues or sales of foreign affiliates by major sector, but it does not have figures on employment. Some data, however, were specially generated by the National Statistical Office for the purposes of this study.

Tables 11 and 12 report on the number of the Philippine affiliates of foreign-based MNEs and their employment levels by gender and industry. In 1983, 181,197 were employed in 885 foreign affiliates (table 11), while in 1988 155,578 were employed in 866 foreign affiliates (table 12).

Table 11. Employment in foreign affiliates by sector and gender, 1983 (number of workers)

Sector or industry	No. of foreign affiliates	Employment in foreign affiliates		
		MF	F	F/MF (%)
Primary sector				
Agriculture	—	—	—	—
Mining and quarrying	5	19 035	563	3.0
Oil	—	—	—	—
Secondary sector				
Manufacturing	519	130 435	43 601	33.4
Food, beverage and tobacco	89	29 033	6 531	22.5
Textile, leather, clothing	98	32 566	17 487	53.7
Paper and allied	9	1 099	233	21.2
Chemicals and allied	150	12 392	3 435	27.7
Coal and oil products	10	646	32	5.0
Rubber products	14	9 338	3 443	36.9
Non-metallic products	42	3 823	597	15.6
Metals	28	4 121	410	9.9
Mechanical equipment	5	100	23	23.0
Electrical equipment	18	14 829	8 921	60.2
Motor vehicles	23	1 348	152	11.3
Other transport equipment	—	—	—	—
Other manufacturing	33	17 300	2 337	13.5
Tertiary sector				
Construction	10	2 909	80	2.8
Distributive trade	162	6 698	3 044	45.4
Transport and storage	15	160	39	24.4
Communication	20	14 147	4 495	31.8
Finance and insurance	94	4 988	2 468	49.5
Real estate	15	231	62	26.8
Other services	44	2 594	865	33.3
Total	**885**	**181 197**	**55 225**	**30.5**

Note: MF = total male and female; F = female.
Source: National Statistics Office, Manila, Philippines.

Table 12. Employment in foreign affiliates by sector and gender, 1988 (number of workers)

Sector or industry	No. of foreign affiliates	Employment in foreign affiliates		
		MF	F	F/MF (%)
Primary sector				
Agriculture	—	—	—	—
Mining and quarrying	4	835	57	6.8
Oil	17	519	70	13.5
Secondary sector				
Manufacturing	354	124 229	70 825	57.0
Food, beverage and tobacco	79	19 655	5 257	26.7
Textile, leather, clothing	68	38 627	31 586	81.8
Paper and allied	—	—	—	—
Chemicals and allied	64	10 199	2 602	25.5
Coal and oil products	3	1 219	182	14.9
Rubber products	24	14 203	6 235	43.9
Non-metallic products	8	1 033	423	40.9
Metals	19	1 542	175	11.3
Mechanical equipment	19	941	386	41.0
Electrical equipment	32	25 338	19 214	75.8
Motor vehicles	2	920	6	0.7
Other transport equipment	1	219	10	4.6
Other manufacturing	35	10 333	4 749	46.0
Tertiary sector				
Construction	15	8 183	101	1.2
Distributive trade	207	7 898	3 584	45.4
Transport and storage	45	1 378	547	39.7
Communication	3	22	2	9.1
Finance and insurance	94	3 246	1 575	48.5
Real estate	4	1 382	655	47.4
Other services	123	7 886	2 886	36.6
Total	**866**	**155 578**	**80 302**	**51.6**

Note: MF = total male and female; F = female.
Source: National Statistics Office, Manila, Philippines.

Direct employment in foreign affiliates was largely concentrated in manufacturing. Overall, manufacturing accounted for approximately 50 per cent of the estimated stock of inward FDI, but nearly 80 per cent of total MNE employment in 1988, up from 72 per cent in 1983 (see tables 13 and 14). Within manufacturing, the textiles and clothing, electrical equipment and the food and drink industries were most prominent in terms of direct MNE employment.

Next to manufacturing was mining and quarrying in 1983, whose share of MNE employment, however, dropped considerably in 1988 due most likely to disinvestment. The employment generated by MNE investment in the service sector was mainly concentrated in distributive trades, construction and in the other services industry group. MNEs' activities in the financial sector, a privileged area for FDI, did not contribute significantly to direct generation of employment although those at work in the foreign affiliates in this group of industries were, most likely, relatively skilled and well-qualified.

Table 13. Distribution of employment in foreign affiliates by sector, 1983 (per cent)

Sector or industry	MF		F	
Primary sector				
Agriculture	—			—
Mining and quarrying	10.5			1.5
Oil				—
Secondary sector				
Manufacturing	72.0	100.0	79.0	100.0
Food, bev. and tobacco		23.0		15.0
Textile, leather, cloth.		25.6		40.1
Paper and allied		0.9		0.5
Chemicals and allied		9.8		7.9
Coal and oil products		0.5		0.1
Rubber products		7.4		7.9
Non-metallic products		3.0		1.4
Metals		3.3		1.0
Mechanical equipment		0.1		0.1
Electrical equipment		11.7		20.5
Motor vehicles		1.1		0.4
Other transport equipment		—		—
Other manufacturing		13.7		5.4
Tertiary sector				
Construction	1.6		0.1	
Distributive trade	3.7		5.5	
Transport and storage	0.1		0.1	
Communication	7.8		8.1	
Finance and insurance	2.8		4.5	
Real estate	0.1		0.1	
Other services	1.5		1.6	
Total	100.0		100.0	

Note: MF = total male and female; F = female.
Source: Table 11.

During the 1983-88 period, MNE employment declined considerably in the mining and communication industries. A slight decrease was also registered in the number of employees in the affiliates in manufacturing, from 130,000 in 1983 to 124,000 in 1988.

This was the result of contrasting trends. The brunt of the downward plunge in employment was shouldered by the male workers. The number of male workers in foreign affiliates in manufacturing declined by about 40 per cent, while that of women workers increased by about 60 per cent. The female share, therefore, increased in all the industries where foreign affiliates were operating. During a recession, perhaps, foreign affiliates tend to hire or retain relatively more women since the wages of the latter are lower than those of male workers.

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Table 14. Distribution of employment in foreign affiliates by sector, 1988 (per cent)

Sector or industry	MF		F	
Primary sector				
Agriculture	—		—	
Mining and quarrying	0.5		0.1	
Oil	0.3		0.1	
Secondary sector				
Manufacturing	79.9	100.0	88.2	100.0
Food, beverage and tobacco		15.8		7.4
Textile, leather, clothing		31.1		44.6
Paper and allied		—		—
Chemicals and allied		8.2		3.7
Coal and oil products		1.0		0.3
Rubber products		11.4		8.8
Non-metallic products		0.8		0.6
Metals		1.2		0.3
Mechanical equipment		0.8		0.6
Electrical equipment		20.4		27.1
Motor vehicles		0.7		0.0
Other transport equipment		0.2		0.0
Other manufacturing		8.3		6.7
Tertiary sector				
Construction	5.3		0.1	
Distributive trade	5.1		4.5	
Transport and storage	0.9		0.7	
Communication	0.0		0.0	
Finance and insurance	2.1		2.0	
Real estate	0.9		0.8	
Other services	5.1		3.6	
Total	**100.0**		**100.0**	

Note: MF = total male and female; F = female.
Source: Table 12.

The feminization of the MNE workforce, however, was to a large extent explained by the trends in MNE employment by industry. The textiles and clothing and the electrical equipment industries — both with a high content of female labour — registered robust increases in employment, while MNE employment declined in almost all the other branches of manufacturing.

The above points to a change in the dominating pattern of FDI in the country. Traditionally, a considerable portion of MNEs' activities in the Philippines was oriented to the domestic market. It is not surprising that these activities suffered, and MNE employment declined, in a period of economic crisis and GDP decline. However, MNEs' interests may have been shifting to labour-intensive and tendentiously export-oriented industries like garment and electrical appliances. The strong increase in the number of female workers usually employed as production workers in assembly operations in the two latter industries, is probably a good indication of this shift. The relative share of women in total MNE manufacturing employment, which was modestly high at 33 per cent in 1983, increased to 57 per cent in 1988, well above the national average for manufacturing (about 47 per cent).

4.3. The incidence of MNE direct employment on the Philippine labour market

The direct quantitative impact of MNE employment on the Philippine labour market is, on the whole, quite limited. The number of those employed by foreign affiliates represents less than 1 per cent of total employment in all domestically and foreign-owned establishments in the Philippines. Over the 1983-88 period, there has also been a slight decline in the relative share of MNE employment (see table 15).

This is largely explained by the sectoral distribution of total employment, which is exactly the opposite of that of MNE employment. As mentioned above, manufacturing employment is relatively small in the Philippines in comparison to employment in the primary and the tertiary sectors. MNEs' investments in these latter sectors was far from having a meaningful quantitative employment impact.

MNEs are more important employers in the secondary sector. The direct employment generated by MNEs in manufacturing was 7 per cent of the country's total employment in manufacturing in 1983 and nearly 6 per cent in 1988. A limited group of industries benefited more, in terms of direct employment generation, from MNE investment: primarily the electrical equipment industry (where the share of MNE employment reached 18.3 per cent in 1988), followed by the coal and oil products, rubber products, chemicals and allied, and textile, leather and clothing industries (see table 15).

The contribution of MNEs to manufacturing employment would be much higher if it could be assessed in terms of their share in the "formal sector" employment only. Dearth of data, however, forbids this. As a proxy, it could be recalled that, as mentioned above, about one-third of manufacturing employment in the Philippines is constituted by self-employed and unpaid family workers, presumably engaged in small-scale and largely informal activities, and that foreign affiliates loom large in terms of assets and sales among the top companies in the Philippines.

The slight decline in the share of MNE employment in manufacturing over the 1983-88 period is largely due to the deep economic and political crisis that the country was going through in those years. The adverse impact of the crisis may have been felt more severely by modern or "formal" economic activities, including MNEs' operations in the country. On the positive side, the number of women workers in foreign affiliates increased considerably as MNEs' interests were shifting to labour-intensive production in the electrical equipment and textiles, leather and clothing industries.

Table 15. Share of foreign affiliates in total employment in all domestically and foreign-owned establishments by sector, 1983 and 1988 (per cent)

Sector or industry	MF 1983	MF 1988	F 1983	F 1988
Primary sector				
Agriculture	—	—	—	—
Mining and quarrying	16.4	0.5	4.0	0.4
Oil	—	—	—	—
Secondary sector				
Manufacturing	7.1	5.9	6.0	7.1
Food, beverage and tobacco	6.1	3.8	3.9	2.7
Textile, leather, clothing	7.0	6.2	7.4	7.8
Paper and allied	1.5	—	0.9	—
Chemicals and allied	13.3	9.9	9.8	7.0
Coal and oil products	10.8	15.2	1.6	9.1
Rubber products	10.2	12.8	9.1	12.2
Non-metallic products	8.7	2.5	4.3	2.4
Metals	3.8	1.5	1.3	0.6
Mechanical equipment	0.2	2.0	0.1	1.8
Electrical equipment	10.6	28.4	11.7	22.3
Motor vehicles	2.3	2.6	0.8	0.1
Other transport equipment	—	—	—	—
Other manufacturing	7.2	3.9	3.2	3.8
Tertiary sector				
Construction	0.4	1.0	0.0	0.9
Distributive trade	0.3	1.0	0.2	0.2
Transport and storage	0.0	0.1	0.1	1.2
Communication	—	—	—	—
Finance and insurance	1.4	0.8	1.8	1.1
Real estate	—	—	—	—
Other services	0.1	0.2	0.8	0.2
Total	**1.0**	**0.7**	**0.8**	**1.1**

Note: MF = total male and female; F = female.
Source: National Statistics Office, Manila, Philippines.

4.4. Indirect employment effects

The impact on employment by MNEs is not confined to direct employment in foreign affiliates although this latter is remarkably visible. MNE affiliates can open up opportunities for employment generation also indirectly through their intricate network of economic linkages with local units. Significant indirect employment effects derive mainly from backward linkages — i.e. job creation through local purchases — and from forward linkages, which encompass distribution and servicing. On the whole, the sum of these indirect employment effects can have an impact equal or even higher than the direct creation of jobs in MNE affiliates.

The possibilities indirectly opened up by MNEs for employment generation can be estimated using the input-output analysis. The results of this exercise for the Philippine economy in 1983 are shown in table 16. They indicate that the indirect employment generated by MNEs can be estimated at 260,653 workers, i.e. 1.4 times the direct employment in foreign affiliates. Thus, the direct and indirect employment generated by MNEs reached 435,152 workers in 1983, or 2.3 per cent of total employment in the Philippines.

Table 16. Estimated indirect employment effects of MNEs in the Philippines by major industry group, based on the input-output table, 1983

Major industry group	(a) Total (direct and indirect) labour coefficient, C_i	(b) Direct labour coefficient, C_i^{MNE}	(c) Implied multiplier [(a)/(b)]	(d) Direct MNE employment[1] (persons)	(e) Indirect employment (persons) [(f) — (d)]	(f) Total (direct and indirect) employment (persons) [(c) x (d)]
Mining and quarrying	1.1948	0.8740	1.3669	19 035	6 9842	6 019
Manufacturing	2.3412	0.9892	2.3668	130 435	178 279	308 714
Construction	2.3836	0.7120	3.3478	2 909	6 830	9 739
Distributive trade	—	—	—	6 698	—	6 698
Transportation, storage and communication	3.9107	1.6192	2.4152	14 307	20 247	34 554
Finance, insurance and real estate	0.6698	0.0748	8.9545	5 219	41 515	46 734
Other services	7.6863	2.1228	3.6208	2 594	6 798	9 392
Total				**181 197**	**260 653**	**441 850**

Notes: (a) = total direct and indirect employment per unit of output (1 million Philippine pesos worth of production); (b) direct employment per unit of output (1 million Philippine pesos worth of production); [1] figures under column (d) are from table 11.
Source: The author.

The figures in table 16 were obtained by applying the method described in ILO (1981, pages 53-71). In estimating the labour coefficients — columns (a) and (b) of table 16 — only "backward linkage" effects (i.e., purchases of intermediate goods of each of the major sectors) have been used. The reasons are that "forward linkage" effects are rather ambiguous and that, as long as one sector's purchases are another sector's sales, they are already taken into account to a large extent by "backward linkage" effects.

The estimation method based on labour coefficients is described in the following expressions:

(1) Total (direct and indirect) labour coefficients:

$$C_i = \frac{L_i}{Q_i}(r_i), (i = 1,2,3...,n)$$

Where: C_i = Total (direct and indirect) labour coefficient of the ith major industry group

L_i = Total employment (domestic and MNEs) of the ith major industry group

Q_i = Total real output of the ith major industry group

r_i = Proportion of intermediate inputs to total output of the ith major industry group

(2) Direct labour coefficients:

$$C_i^{MNE} = \frac{L_i^{MNE}}{Q_i^{MNE}}(r_i)$$

Where: C_i^{MNE} = Direct labour coefficient of MNEs in the ith major industry group
L_i^{MNE} = Total employment of MNEs in the ith major industry group
Q_i^{MNE} = Total output (gross sales) of MNEs in the ith major industry group

By weighing both labour-output ratios by the proportion of intermediate inputs to total output (r_i), the labour-output ratios are transformed into a measure of the "backward linkage" effect. The implied multiplier for each sector shown under column (c) of table 16 is obtained by simply dividing C_i by C^{MNE}_i. The rest of the computational procedure to obtain direct and indirect employment by major sector or industry, shown under column (f) of table 16, is described in the table itself. Since direct employment by MNEs is known (column (d)) the indirect employment effect (column (e)) is obtained as a residual, i.e. column (e) = column (f) — column (d). The method has also been applied to the various branches of manufacturing. However, the calculations yielded perverse results, i.e. the multipliers for many branches were below the unity. This can be attributed to weaknesses in the data on output by branch. Hence the procedure was applied only to the major industry groups, the results for which, though somewhat overstated, were normal.

The estimation of indirect employment on the basis of the Leontief input-output table has several weaknesses. The estimation procedure assumes that total (direct and indirect) labour coefficients of MNEs and domestically owned firms are, on the average, the same. Moreover, no distinction is made among firms in a given industry with regards to their participation to inter-industry transactions. The input-output table, in fact, is constructed at the industry level, not at the level of the firm. Hence, firms with no sales to other firms in the industry (forward linkages) and no purchases from them (backward linkages) will have positive indirect labour effect if inter-industry transactions (sales and purchases at the industry level) are positive. But an MNE may have no backward and forward linkages, i.e. it imports all its raw material inputs and exports the entire output. An excellent example is a firm that manufactures winter gloves or mittens or other winter gear. Since the Philippines has no winter season, there is no local market for these products, which are entirely exported. The raw material inputs (e.g., soft leather and woollen linings, etc.) may all be imported as well. Apparently, this MNE generates only direct employment.

A survey investigation among a small group of MNEs operating in the Philippines has been carried out in order to examine the extent of backward and forward linkages between the MNEs and local firms. Fourteen foreign affiliates have been surveyed on this issue, 12 in manufacturing and two in services (see Appendix B for more details). The affiliates belong to well-known multinational groups and rank high among Philippine firms in terms of assets, sales and employment. Seven of them reported figures on their employment levels, which totalled 3,309 employees. Eight firms in manufacturing catered largely to the international market, exporting at least 65 per cent of their total product. The remaining four were mainly oriented towards the local market. Six were American, four were European, three Japanese and one Chinese. The large majority of them were established in the 1970s.

Table 17 shows the extent of local procurement and clearly has a bearing on the assessment of indirect employment generated by MNEs. The considerably large purchases of MNEs from local suppliers in various industries indicate strong backward linkages which provides some support to the estimated large indirect employment effect of MNEs. The locally owned enterprises involved, regardless of their size, clearly derive great benefits from their linkages with MNEs. However, there are relatively weak inter-sectoral backward linkages between foreign affiliates in the rubber products industry and local suppliers in agriculture and in the chemical and chemical products industry; and between foreign affiliates in the fabricated metal products industry and local suppliers in the electrical machinery industry. As a matter of fact, the Philippines is not a large producer of inputs for the rubber industry, while local productive capacities in the electrical machinery industry are probably too limited to supply inputs to MNEs in the fabricated metal products industry. Even within a small sample of MNEs, it appears that the linkages with the local economy are industry and company-specific.

Table 17. Purchases of a selected number of foreign affiliates from local suppliers by major industry group, 1991 (per cent)

Industry of local suppliers	Share of raw material inputs (%)	No. of responding affiliates	Industry of the foreign affiliate
Agriculture	90.0	1	Chemicals
Agriculture	17.1	1	Rubber products
Agriculture	80.0	1	Chemicals
Textiles, wearing apparel	60.0	1	Textiles, wearing apparel
Chemicals	10.5	1	Rubber products
Chemicals	92.0	1	Chemicals
Electrical machinery	45.0	1	Services
Electrical machinery	1.7	1	Fabricated metal products
Electrical machinery	100.0	1	Chemicals
Total number of foreign affiliates		9	

Source: The author.

5. Summary and conclusions

The overview of industrialization in the Philippines has shown that foreign investment has played a major role in the country, particularly in the development of large-scale industrial activities. The recognition of this role accounted for the considerable efforts by the Philippine Government to devise policies on FDI and MNEs. From the control schemes which prevailed in the mid-1950s to the subsequent adoption of measures to attract foreign investment into the country, the regulatory framework concerning foreign participation in the economy has become more and more liberal. The Foreign Investments Act of 1991, in fact, virtually liberalizes the entry of foreign direct investment into the country.

Such a positive attitude to FDI, however, has traditionally coupled with trade policies and incentive schemes that have channelled foreign and domestic investment into capital-intensive, inward-oriented production. This may partly explain why FDI into the Philippines has not been associated with a transition to the pattern of export-oriented labour-intensive growth of manufacturing which has characterized other neighbouring Asian countries.

The overview of the Philippine labour market during the 1983-88 period showed a relative stability in employment despite a serious political and economic crisis. Unemployment, however, increased, largely due to the inability of employment creation to outpace the expansion in the country's labour force. While the primary sector remained the country's largest employer, the tertiary sector exhibited the major increases in employment (largely urban underemployment), absorbing the effects of the poor performance of manufacturing during the 1983-88 period. The structural features of the labour market in the Philippines and the main developments in the 1980s are an indication of the economy's less developed, largely agricultural, semi-feudal character. Manufacturing accounts for a small portion of

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total employment (about 10 per cent) and is characterized by poor productivity and stagnant growth.

Turning to the employment effects of multinational enterprises in the Philippines, the main findings are: (1) direct employment in foreign affiliates in all sectors was only less than 1 per cent of total employment in both 1983 and 1988; (2) there has been a decline in the direct employment in foreign affiliates over the period 1983-88, which can be attributed largely to the political and economic crisis that gripped the country during the period; (3) manufacturing accounted for the largest share (over 70 per cent) of total employment in foreign affiliates in both 1983 and 1988; (4) MNE employment in manufacturing was concentrated in the textile and clothing, electrical equipment, food, and rubber products industries; (5) women accounted for a considerable and growing share of MNE employment, particularly in manufacturing; and, lastly, (6) by using the input-output analysis it can be estimated that about 260,000 jobs were generated indirectly by MNEs in 1983, i.e. 1.4 times the number of those directly employed in foreign affiliates in the country.

What does the study portend of the future of foreign investment in the Philippines? There are some signs that the pattern of FDI is slowly shifting to small-scale export-oriented projects in textiles, garments and electronics. Non-traditional investors, such as those originating from the dynamic economies of East Asia are making their appearance. The Foreign Investments Act of 1991 has virtually liberalized the entry of foreign investment into the country and foreign investors can now own a 100 per cent equity stake in most industries. In addition, the large supply of educated and relatively cheap labour and the widespread of of English are likely to make the country an attractive destination for MNEs' activities. Despite the unstable political situation and the recent economic difficulties there are some reasons for optimism on the future of foreign investment and multinational enterprises in the country.

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UNCTC. *World Investment Directory 1992.* Volume I: Asia and the Pacific (New York, United Nations Centre on Transnational Corporations, 1992).

UNTCMD. *Debt-equity swaps and development* (New York, United Nations Transnational Corporations and Management Division, 1993).

UNCTAD. *The Philippine experience in attracting non-debt creating flows.* Paper submitted at the Ad Hoc Working Group on Investment and Financial Flows, second session (Geneva, United Nations Conference on Trade and Development, June 1993).

World Bank. *Industrial development strategy and policies in the Philippines.* Volume I: The Summary Report (Washington, Industrial Development and Finance Department, the World Bank, Oct. 1979).

Appendix A

The 1991 transitory investment negative list

The Foreign Investment Act of 1991 provides the rules and regulations for foreign investment without incentives. Under the Act, there are no restrictions on the extent of foreign ownership for those enterprises that export at least 60 per cent of their output. For the enterprises catering to the domestic market, the Act allows 100 per cent foreign ownership provided that the activity of the enterprise does not fall in the negative list. In this latter case, foreign ownership remains subject to a ceiling of 40 per cent.

During the initial transitory period of 3 years after the promulgation of the implementing rules and regulations of the Act, the transitory investment negative list shall consist of the following:

LIST A:

(1) All areas of investment in which foreign ownership is limited by the Constitution or specific laws.

LIST B:

(1) Manufacture, repair, storage and/or distribution of firearms, ammunition, lethal weapons, military ordinance, explosives, pyrotechnics and similar materials.

(2) Manufacture and distribution of dangerous drugs; all forms of gambling, nightclubs, bars, beerhouses, dance halls; sauna and steam bathhouses, massage clinics and other like activities regulated by law because of risks they pose to public health and morals.

(3) Small and medium-sized domestic market enterprises with paid-in equity capital of less than the equivalent of $500,000, unless they involve advanced technology.

(4) Export enterprises which utilize raw materials from depleting natural resources and have paid in equity capital of less than the equivalent of $500,000.

LIST C:

(1) Import and wholesale activities not integrated with production or manufacture of goods.

(2) Services requiring a licence or specific authorization, and subject to continuing regulation by national government agencies, which at the time of enactment of the Act are restricted to Philippine nationals by existing administrative regulations and practice of the regulatory agencies concerned, provided that no other services shall be additionally subjected to such restriction on nationality of the owners by the relevant regulatory agencies and that such restrictions once removed shall not be reimposed.

(3) Enterprises owned in the majority by a foreign licensor and/or its affiliates for the assembly, processing or manufacture of goods for the domestic market which are being produced by a Philippine national, as of the date of enactment of the Act, under a technology, know-how and/or brand-name licence from such licensor, provided that the licence agreement is duly registered with the Central Bank and/or the Technology Transfer Board.

The transitory negative list defines the areas in which foreign ownership is restricted only during an initial period of three years, after which all areas or industries would be open to foreign investors without restrictions on ownership.

Appendix B

List of respondent foreign affiliates in the Philippines

Company	Home country	Industry
San Carlos Milling Company Centro Building 180 Salcedo St., Legaspi Village Makati, Philippines	US	Food
Levi Strauss (Philippines), Inc. 2204 Pasong Tamo Extension Makati, Philippines	US	Textiles, wearing apparel
Avon Cosmetics, Inc. 2204 Pasong Tamo Extension Makati, Philippines	US	Chemicals
Motorola (Philippines), Inc. Km. 17, South Superhighway Paranaque, Philippines	US	Electrical equipment
Exxon Chemical Eastern, Inc. Lepanto Building Makati, Philippines	US	Chemicals
Goodyear (Philippines), Inc. Barrio Almanza, Las Pinas Philippines	US	Rubber products
Proton Chemical Industries, Inc. Golden Rock Building 168 Salcedo St. Legaspi Village Makati, Philippines	Japan	Chemicals
Pilipinas Kao, Inc. 108-A. E. Rodriguez Jr. Avenue Quezon City, Philippines	Japan	Chemicals
Rhone-Poulenc Agrochemicals (Philippines), Inc. J.P. Rizal St., Lamayan Mandaluyong, Philippines	France	Chemicals
Banque Nationale de Paris Services PCIB Tower II, Makati Avenue Makati, Philippines	France	Finance
Barclays De Zoete Wedd Dolmar Gold Tower 107 Palanca St., Araneta Village Makati, Philippines	England	Research
Hoechst (Philippines), Inc. 221 Salcedo St., Legaspi Village Makati, Philippines	Germany	Chemicals
Ciba-Geigy (Philippines), Inc. Asian Reinsurance Building Salcedo Cor. Gamboa Sts. Legaspi Village, Makati, Philippines	Switzerland	Chemicals
Data General (Philippines), Inc. 1000 Aurora Blvd., Cubao Quezon City, Philippines	Hong Kong	Electrical supplies

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Appendix C

Selected annotated bibliography

1. Alburo, Florian. *Some Aspects of Japanese Investments in the Philippines*. Discussion paper No. 8113. School of Economics, University of the Philippines, Oct. 1981.

   Japanese investment in Asia has substantially increased in the 1970s, including in the Philippines. Assessing the determinants of Japanese investment in the Philippines is difficult, but an association between investments and relative rates of return across industries suggests the strength of profit as a motivating factor. The paper does not directly discuss the impact of Japanese investment but infer this from the patterns in investment flows.

2. Aldana, Cornelia; Posadas, Conchita and Sanchez, Myra. "Everything is Under Control", in *IBON Facts and Figures* No. 11. IBON Databank Philippines, Mar. 1988.

   Transnational corporations operate in a country in various ways: as offshore banking units (OBUs), regional headquarters or licensing agreements holders. In this latter case, they do not have actual equity investment in the country. However, direct foreign equity investments are large in three crucial sectors: manufacturing, banking and finance and oil exploitation, with the United States in the dominant position.

3. —; —; and —. "Do they or don't they: New answers to old questions", in *IBON Facts and Figures* No. 11. IBON Databank Philippines, Mar. 1988.

   There is a common fallacy in the argument that technology is transferred because of the presence of transnational corporations' subsidiaries in the country. In most cases what these corporations offer is merely technical assistance in the use of machinery. Transfer pricing is also a common practice. The positive effects of foreign investment on capital formation and employment are only in the short term and these could be net losses in the long term.

4. Aseniero, George. "Multinational corporations and technology transfer", in *Multinational Corporations in the Philippines*. Technology Assessment and Policy Studies Programme (Makati: Technology Resource Center, 1979).

   Multinational corporations are less inclined to justify their presence in underdeveloped countries as purveyors of capital because their utilization of host country's credit to finance their operations and the magnitude of repatriated earnings show that they do not bring in a massive amount of capital. The claim of technology transfer is also worth examining.

   Technology transfer should be properly termed "technology commercialization". The analysis of the international market for technology on the supply side show: (a) concentration of research and development activities in the hands of multinational corporations; (b) protection of this technology through international patent system; and (c) availability of technology to Third World countries. The demand side for this market can include: (a) access to information on technology, (b) explicit costs, and (c) implicit costs of technology transfer.

5. Bantegui, B.G. *Aspects of US investments in the Philippines CY 1956-CY 1965*. National Economic Council, 1965 (mimeographed).

   A significant amount of direct investment from the United States flowed into the country because of the imposition of foreign exchange and monetary controls and, to a lesser extent, because of the Laurel-Langley Agreement in the 1950s. The concentration of investment in various sectors, however, has not changed markedly over the past ten years. The biggest industry earners in 1965 were the extractive industry; trade, food and manufactures; and, banking and chemicals. The profits of US firms have increasingly gone into dividends and not into retained earnings.

   The paper also presented the distribution of US investments in the different sectors and the composition of total assets and sources of funds.

6. Bautista, Lilia. "Multinational Corporations and Philippine Policies on Foreign Investments", in *Multinational Corporations in the Philippines*, Technology Assessment and Policy Studies Programme (Makati, Technology Resource Center, 1979).

Foreign investment policies and regulations in the last ten years have consistently encouraged multinational corporations in businesses targetted by the Government. This is seen in the promulgation of the New and Necessary Industries Act, the Incentives Act and other decrees that offer incentives based on location. The paper expressed the hope that new regulations on foreign investment will be proposed to enable the Philippines to harness the potentials of multinational corporations not only for the benefit of these corporations but for the interest of the country.

7. —. "Restrictive business practices of multinational corporations", in *Philippine Perspectives on Multinational Corporations* (Quezon City, University of the Philippines Law Center, 1978).

Concern has been expressed on the economic power of multinational corporations, and their potential ability in circumventing regulations and controlling international markets. This has led to the development of national laws in different countries which control certain restrictive business practices. These practices generally fall under five broad categories: (1) establishment of "cartels" detrimental to consumers; (2) abuse of dominant market power; (3) growth in market through acquisitions, mergers and take-overs; (4) existence of monopoly; (5) practices directly affecting consumers. The author recommends that for the laws to be effective in the Philippines, legislations referring to business practices should be collated and strictly enforced.

8. Bello, Walden; Kinley, David and Elinson, Elaine. "Export-oriented industrialization: The short-lived illusion", in *Development Debacle: The World Bank in the Philippines* (California, Institute for Food and Development Policy, and Philippine Solidarity Network, 1982).

The Martial Law regime, under prescription of the World Bank, implemented legislations on incentives and the creation of export processing zones to attract foreign investors into the country. In the period 1977-79, the decline in foreign investment inflows and the increase in the repatriation of profits were pronounced. Foreign export manufacturers operated in the country for a very short time, thus the failure to provide "backward linkages" in the export sector.

9. Bulatao, Edmund. *Wage Effects of Foreign Investments*. Paper presented at the Workshop on Manpower and Human Resources, Los Baños, Laguna (Institute of Economic Development and Research, University of the Philippines and The National Economic Council, 1970).

The paper's database is the 1970 operations of 838 firms among the 1,000 largest corporations in the Philippines. Wage level differences are noted in almost all sectors but significantly in the transport, communication and utilities industries. Some factors explain wage differentials. First, average product as measured by value added per employee of foreign firms is higher than that of local firms. The joint effects of foreigners and size affect wage levels although "foreignness" is not a guarantee of high average compensation in manufacturing. Foreign investment implies more use of labour in production.

10. Cagampang-De Castro, Soledad Monteroso. *Foreign Business Enterprise in the Philippines: A Study of the Legal Framework in a Developing Economy*. Ph.D. Dissertation, University of Michigan (Quezon City, Multiplex Publamark, 1977).

In many countries, economic nationalism is expressed by policies to protect natural resources from foreign exploitation. This may result in legal constraints on foreign investment. The aim of accelerating investment growth in the Philippines is concretized through (a) foreign exchange policy implemented by the Central Bank; (b) guarantees against expropriation and reacquisition; (c) treaties and other internal committments in which the

Philippines was a signatory; and (d) incentives. The author believes that tax exemption without substantial economic return is wasteful. Favorable legal factors in the Philippines are not by themselves sufficient to provide incentives to investment.

11. Castro, Amado; Ahrensdorf, Joachim; Camus, Quirico Jr.; Fabella, Armand; Legarda, Benito Jr.; McHale, Thomas; and Roxas, Sixto. *Joint International Business Ventures in the Philippines*. Research Project of Columbia University (Manila, 1958).

    After having provided a historical background and a review of current operations of foreign investors in the Philippines, the paper classifies joint ventures by type of agreement, legal form and nationality. The Reparations Agreement between the Philippines and Japan is also discussed. The paper also presented case studies representative of joint ventures and showed how these firms have adapted to political and economic change.

12. Constantino, Renato. "Development issues", in *The Nationalist Alternative* (Quezon City, Foundation for Nationalist Studies, 1984).

    The Philippine Administrations have always been captive of development concepts of advanced countries, through their transnational corporations (TNCs). One example is the idea that TNC operations will generate foreign exchange earnings. As a matter of fact, $2 of net profit is repatriated to the home country while only $1.58 is reinvested here for every $3.58 of profits. Even the Agrarian Reform Program has been used as a vehicle to promote the interests of agri-business TNCs.

13. —. *Global Enterprises and the Transfer of Technology*. Proceedings of the First Congress of the Third World Economists, Algiers, 2-9 Feb. 1976.

    Multinationals guard their technology in many ways: by setting up enterprises with incomplete production cycles in each country; turning the Philippine economy into a market for obsolete equipment or second-hand machineries (technological subordination). Peoples of the Third World must be made aware of the fact that for profit motives transnational corporations refuse to share their technology unless on their own terms and for their own interests. The problem cannot be solved in isolation from other social and political problems, nor by a country acting alone.

14. De Dios, Emmanuel S. *Protection, Concentration and the Direction of Foreign Investments*. School of Economics, University of the Philippines, Dec. 1985.

    This paper tests the hypothesis that the pattern of tariff protection in the past did contribute to the oligopolistic structure of Philippine manufacturing and that this included a distinctive foreign component. The findings suggest that tariff protection exerted a distinct influence in promoting sellers' concentration, and influenced the direction of international investments.

15. Espiritu, Augusto Caesar. "A Filipino looks at multinational corporations", in Philippine Perspectives on Multinational Corporations (Quezon City, University of the Philippines Law Center, 1978).

    The Philippine policy has aimed to attract foreign investments in the belief that MNCs' resources, access to international markets and management skills can be an engine for growth. Although the total impact on the balance of payments cannot be measured accurately, outflows exceed inflows of capital. Multinational corporations, however, do not create employment except in limited sectors. Some multinational enterprises interfere in the internal affairs of host states, mostly through "payoffs". Aside from the problems for national sovereignty, these enterprises can easily control key sectors of the economy such as oil refining and marketing; tire industry; food processing; rubber; machinery and applicance; drugs and pharmaceuticals. MNCs also have considerable influence in banking and finance. American investments are consistently at the top, but Japanese investments are accelerating.

    The author recognizes that generalizations may be dangerous and care must be taken in the regulation of MNCs, although the centralized management and the policies of MNCs

may be in conflict with the national goals of the host country. The Philippines should take measures to minimize the harmful effects of MNCs and increase benefits from them in presence in the long run. Control measures can be used to increase Philippine bargaining power. Working towards better economic cooperation among ASEAN countries could also achieve this end.

16. Hal, Hill. *Foreign Investors from Small Countries: A Philippine Case Study*. Discussion Paper No. 8206. School of Economics, University of the Philippines, May 1982.

The preliminary results of a survey of Australian investments in the Philippine manufacturing industry are presented. In general, two sets of motivating factors are found to be important: those which relate to domestic market considerations, and those which apply to export-oriented firms. Among the factors influencing the selection of production techniques, differences in relative labor costs and in the scale of operations are found to be significant. The hypothesis that small investors operate as a kind of technological intermediary between large developed countries' and small developing countries' markets is found to have no support.

17. Henares, Hilarion Jr. *Multinational Corporations, Trade Policies, Price Mechanisms* (mimeographed), Manila, 1977.

In many industries, various forms of cooperative agreements between a few large corporations have eliminated price competition. The United States has enacted laws aimed at breaking up corporate monopolies. However, the practices feared and disliked by the US Government — monopolies, price-fixing arrangements, patent pools, cartelized markets — are common in the Philippines with the US' full backing.

Transfer pricing, in particular, prejudices the country in two ways: (1) with a reduced taxable income, multinationals do not pay their share of income tax, and (2) they adversely affect the Philippines' balance of payments by inflating import costs.

18. "Impact of the Debt Crisis", in *Business Journal* (Manila, the American Chamber of Commerce of the Philippines, Aug. 1984).

Contrary to the thinking of local sectors, multinational corporations operating in a heavily-indebted country like the Philippines become losers in a debt crisis. Subsidiaries cannot remit dividends to stockholders and patent holders abroad because of the limited dollar pool of the Central Bank. MNCs find it difficult to bring in the needed production inputs and suffer from market contraction and the loss in export business. As a result of these and other problems, such as tight credit, inflation and bureaucratic interference, there are more foreign firms leaving the country than those moving in.

19. Inter-Agency Working Group on Foreign Investments. *Study of Foreign Investments in the Philippines: Interim Report*. Makati, Philippines, 1970.

This is a summary of the findings of an inter-agency working group created by Presidential Memorandum Order No. 249. The first part tabulates the results of the survey covering areas such as volume and source of foreign equity investments, distribution by industry, and domestic and foreign borrowings. From the case study of 70 firms, it could be observed that market penetration was the most frequently mentioned reason for investing in the Philippines. The second part enumerates motives for equity investment and the favorable and unfavorable aspects of the country as seen by foreign investors.

20. Interco Press. "A lot could be said about MNCs, good or bad", in *Manila Journal* (Manila, 13 Mar. 1987).

Traditionally and historically, hospitality towards multinational corporations has three objectives: (1) foreign inflows of capital; (2) transfer of technology; and (3) employment of Filipino workers.

The contribution by multinationals to economic progress should be considered in the context of the Philippine policy on MNCs. The political and "psychological" environment should be hospitable to make these firms stay, because if they leave, they might leave a void difficult to be filled in.

21. Lindsey, Charles. *The development contribution of multinational firms in the Philippines: A summary of a survey of 28 firms*. Discussion Paper No. 8106. School of Economics, University of the Philippines, July 1981.

    This paper is a summary of a survey conducted by the author in 1980-81. It presents the responses of participant firms to questions concerning MNCs' investment decisions, choice of the equipment, technology transfer, employment and skill development, impact on competition, exports, imports, and local production.

22. — and Valencia, Ernesto M. *Foreign Direct Investment in the Philippines: A Review of the Literature*. Working Paper No. 8111. Philippine Institute for Development Studies, 1981.

    This paper reviews foreign direct investment (FDI) in the Philippines since the independence. Three reasons are mentioned to justify the interest towards FDI: (1) foreign investment has a significant impact on economic development; (2) Filipinos perceive foreign investment to be significant and hold strong views on it; (3) the Government's policies have generally encouraged foreign investment. Although admiration for the success of modern business style of TNCs is less today than 25 or 30 years ago, it is however still present. As a whole, the literature is found to be, to a considerable extent, critical.

23. Macaraig, Mynardo. "Counting on Stability", in *Asian Business* (Manila, May 1988).

    Despite the offer of tax holidays and other incentives, foreign investments are not effectively attracted to the Philippines. Unclear government regulations and red tape are deterrents, but the political instability of the country largely account for the slow growth of investments. The perception of instability is caused by coup attempts, kidnappings and killings of Japanese businessmen, and the insurgency. But in 1988, analysts were eyeing a fast growth of foreign investments because of political stabilization and traditional advantages.

24. Magallona, Merlin. "Transnational corporations: Toward a definition of a national economic security problem and its resolution", in *Philippine Perspectives on Multinational Corporations* (Quezon City, University of the Philippines Law Center, 1978).

    The paper is based on studies conducted by Business Day, the National Tax Research Center, and the Securities and Exchange Commission. It discusses multinational pricing and technology transfer. Economic and social development in host countries is determined by multinational corporations and their home countries, as the host countries have become economic satellites of MNCs. Economic independence needs a basic reorientation of the role of the State, resulting from pressures articulated by general interest and based on mass support.

25. Mata, Benjamin. "NIEO approaches to the problems of multinationals revisited: The search for Fairness", in *Central Bank Review* (Manila, Sep. 1986).

    In recognition of the problems posed by multinational corporations on host countries, the General Assembly of the United Nations adopted a provision that the new international economic order should be founded on full respect of "regulation and supervision of the activities of transnational corporations by taking measures in the interest of the national economies of the countries where such transnational corporations operate on the basis of full sovereignities of those countries".

    The governments of host countries should negotiate with the TNCs to ensure that the activities of these enterprises result in effective and appropriate increase in GNP and employment. The bargaining power of Third World countries in these negotiations must be increased by regional grouping.

26. McDougald, Charles. "MNCs in the Philippines: Lording it over or adapting to the local situation", in *Business Journal* (Manila, May 1983).

Multinational corporations in the Philippines, at present, have to deal with more than competition to survive. They have to adapt their management methods and operating procedures to the local situation in order to minimize conflict with local customs and culture. To attract more foreign investments, the situations of the firms already in the country should be improved. Institutional change is also needed. The Government should examine political and social institutions and strive for results and commitments.

27. Miranda, Casimiro Jr. V. "Foreign investments in the Philippines and transnational corporations", in *Kabar Seberang*. James Cook University of North Queensland, 1982.

The history of foreign participation in the Philippine economy covers the seven centuries of trading with the Chinese, 350 years of Spanish occupation and 50 years of American domination. During the pre-war period, economic activities were concentrated in the development of primary products for export with three major groups of investors: American, Chinese, and Japanese. Because of the problems besetting the economy in the 1950s and 1960s, the Government imposed controls on profit remittances and capital repatriations which dampened new foreign investment. During the period of decontrol, the Government attempted to attract foreign investment and transnational corporations (TNCs) through the Investment Incentives Act and the Export Incentives Act. These brought about a resurgence in the inflow of foreign capital.

TNCs are expected to contribute to industrialization and development in the host country because of their assets, technology, and managerial skills. However, these corporations, through their transfer pricing and other practices create balance-of-payments problems and contribute to inflation.

28. —. "Transnational corporations in the ASEAN region: The Philippines", in *Regional Development Dialogue*, Vol. 12, No. 1 (Nagoya, Japan: United Nations Centre for Regional Development, 1991).

The paper provides an overview of industrialization in the Philippines and the role of foreign investment and transnational corporations from the 1950s to 1989. The Philippines' industrialization strategies are briefly analyzed along with the growing policy of encouraging foreign participation in the country's economy. Secondly, the paper gives the results of a small survey among a limited number of transnational corporations on their operations in the Philippines and how they are affected by the country's policies and regulations.

29. *Monitoring and Regulating Transnational Corporations in the Philippines*. Joint CTC/ESCAP Unit on Transnational Corporations, Working Paper No. 11, Bangkok, Aug. 1980.

Several government agencies are responsible for monitoring and regulating transnational corporations in the Philippines: the Securities and Exchange Commission, the Board of Investments, the Central Bank, and the National Economic and Development Authority. They implement laws and regulations aimed at attracting TNCs and directing investment in accordance with the goals of the Government. Operational constraints on ownership, remittances, and financing are also part of their tasks. The Philippine Government, through licensing agreements and regulations, asserts its role in technology transfer. Among the ASEAN countries, the Philippines has one of the most carefully designed systems of restrictions and incentives. The paper also recommends changes in the employment policies of TNCs and the creation of an intersectoral committee to formulate a code of conduct for TNCs.

30. Patanne, E.P. "Philippine uncertainties cause multinational jitters", in *Asian Business* (Manila, Sep. 1984).

According to the Philippine Association of Multinational Companies' Regional Headquarters (PAMURI), more regional headquarters are leaving this year than are coming.

Despite incentives and indications of political stability, a good number of firms are leaving for reasons such as foreign exchange restrictions, recession and restrictions on imports. However, PAMURI and other groups are optimistic and confident.

31. Paterno, Vicente. "Multinational corporations and host governments", in *Philippine Perspectives on Multinational Corporations* (Quezon City, University of the Philippines Law Center, 1978).

Multinational firms have made positive contributions to the economy but such contributions should be made more significant. If "corporate social responsibility" can be outweighed by desired increases in dividends, then the governments of developing countries should regulate, control and, if necessary, direct the operations of MNCs. The implementation of laws on ownership is intended to maintain a balance between encouraging foreign investment to develop the economy and avoiding dominance by foreign investors. The Philippines should review the benefits for the economy and the society of MNCs' operations. The Government should clearly state its goals and plans.

32. Peñaranda, Victor Jose. "Fruits of Wrath", in *New Day Magazine* (Manila, 4 Aug. 1986).

The colonial relationship between the United States and the Philippines was perpetuated by laws passed by US Congress. These included the Philippine Trade Act, which provided the atmosphere for a flourishing pineapple industry. Philpak, a subsidiary of Del Monte, acquired 8,195 hectares when the legal limit was 1,024 hectares. Dolefil, a subsidiary of Castle and Cooke, was able to lease land in violation of the Philippine Constitution.

33. Perez, Emeterio Sd. "Top multinationals extract $100 million out of RP operations", in *Philippine Daily Inquirer* (Manila, 26 Feb. 1988).

The Securities and Exchange Commission reported that 61 foreign companies withdrew $100 million in earnings from the Philippines in 1986. Only about $12 million were ploughed back into local operations. One hundred and ninety-six firms accounted for 20 per cent of total sales by the top 1,000 firms.

34. Plana, Efren. "Towards a better and more effective working relation between multinational corporations and host governments and local enterprises", in *Tax Monthly* (Manila, National Tax Research Center, Nov. 1980).

The operations of some MNCs pose hazards to the host country through manipulations of prices, use of local credit, and other ways to manoeuvre their way out of the requirements of Philippine laws. Despite these, their entry into developing countries is encouraged because of their resources. Host governments and MNCs have mutual needs and must therefore develop a congenial relationship. The Government's major concern is the entry of investment into high-risk, capital-intensive ventures and export-oriented, labour-intensive industries. Foreign investment must, however, supplement, not crowd out local resources. The Philippine Government is offering incentives to ensure the stability of investments. The author recommends the establishment of a framework for economic cooperation among ASEAN countries. MNCs must also forge a code of conduct for their operations in the country.

35. Poblador, Niceto. *Foreign Investments in the Major Non-Financial Corporate Sector of the Philippines, 1964 and 1965*. School of Economics, University of the Philippines, 1971.

This work analyzes basic data on foreign investment in major non-financial corporations with adjusted net assets of 1 million pesos or more in 1964. Athough it is confirmed that foreign enterprises are important in the economy, with Americans contributing the largest amount of foreign-owned equity, the Filipino citizens' share of the increase in equity investment amounted to almost three-fourths of the total.

36. Salonga, Jovito. *Multinational Corporations and their Participation in Philippine Development*. Lecture delivered at the University of Santo Tomas. Manila, Feb. 1975.

The Philippine economy is dominated by MNCs and public policy is more and more aimed at attracting foreign investors in the name of national development. These giant firms are primarily after their own profit because it has been easier for these firms to make profits abroad than in their own home countries.

The basic strategy of attracting all forms of foreign capital was formalized by the Martial Law Decrees, the Export Incentives Act and other tax incentives. In the view of the author, developing countries should formulate their development strategies to direct investment of MNCs in a way that is consistent with their national goals.

37. Sicat, Gerardo. *Economic Incentives and Foreign Investments*. Discussion Paper No. 6815. Institute of Economic Development and Research. School of Economics, University of the Philippines, 1968.

The incentives to attract foreign investments in the Philippines should emphasize the gains in value added that accrue to factors depending on nationality. The benefits derived per each dollar of foreign claims on value added should be high. Incentives such as those for labour-intensive manufacturing and processing operations and the regulation of monopoly power can better achieve this scheme.

38. —. *A Quantitative Measure of Host Country Factor Gains from Direct Foreign Investments: Applications to (1) Development Project Planning, and (2) Gains from Overseas US Investments*. Discussion paper No. 6814. Institute of Economic Development and Research. School of Economics, University of the Philippines, 1968.

Aside from suggesting a quantitative measure of host country benefits from foreign direct investment, the paper also makes recommendations on the applications of this measure to microeconomic project planning. Aspects such as indirect value added, economic efficiency, investment funds borrowed from host countries and nationality of flows should be considered. The index of gains will depend on how advanced the development of the host country is.

39. Tadem, Eduardo. *Japanese Presence in the Philippines: A Critical Reassessment*. Research Series No. 3 (Davao City: Alternate Resource Center, 1983).

On the whole, the Philippines has been running a deficit in its trade with Japan. Japanese trading firms account for 70-80 per cent of total Philippines-Japan trade. This trade reflects a classical colonial relationship, with machinery, metal products and chemicals imported from Japan and food and raw materials exported to Japan. The share of Japanese equity in Philippine corporations is not always an accurate gauge of the extent of Japanese control.

40. Tanchoco-Subido, Chita Irene. *Determinants of Direct Foreign Investments in the Philippines*. Ph.D. Dissertation. School of Economics, University of the Philippines, 1975.

This study identifies the determinants of direct foreign investments in the Philippines with the use of regression techniques: profit rate, rate of growth of GNP, international liquidity position of the host country and foreign exchange. Reinvestment of earnings is heavily dependent on profits as well as dividends. The study shows that sales were an important determinant of fixed investment. The profit rate and the dummy variable for control were found to be the most important determinants of foreign investments.

41. —. *Employment Effects of Direct Foreign Investment*. Paper presented at the Workshop on Manpower and Human Resources held at Los Baños, Laguna on 13-15 Oct. 1972.

The paper is based on a survey of foreign investments by 900 foreign firms out of the top 1,000 firms in 1971. The study shows that 0.92 per cent of total employment is due to foreign firms.

The inflow of foreign investments indirectly benefits the labour force through manpower training and the introduction of entrepreneurial skills in the country. Forward and backward linkages are a possible source of indirect benefits from foreign investments but they have been limited so far. The author stresses the need to reorient Philippine policies towards labour-intensive industries by rationalizing interest rate and wage policies, freeing interest rates from a fixed ceiling.

42. Tiglao, Rigoberto, ed. "Unfair Contracts with MNCs Period", in *The Manila Chronicle* (Manila, 24 Dec. 1986).

The Commission on Audit found out that several large MNCs were able to obtain contracts with the previous regime that were disadvantageous to the Government. Dole Philippines, Inc. and the Philippine Packing Corporation (Philpak), local affiliate of Del Monte Corporation, were able to obtain a lease for 7,818 and 8,195 hectares respectively, for their plantations in Mindanao. The 1973 Constitution, as well as the proposed new Charter, limit the area of agricultural land that can be leased to 1,000 hectares. These corporations paid very low rental fees despite their large profits.

43. Torres, Ruben. "Multinationals and Philippine Labor", in *Philippine Perspectives on Multinational Corporations* (Quezon City, University of the Philippines Law Center, 1978).

Due to paucity of data on labour relations in foreign firms, it can only be presumed that their solid financial status enable them to comply with the requirements of labour relations. Overt labour unrest is limited. Centralized management and decision-making pose problems for collective bargaining in subsidiary companies.

44. —. "The Social Impact of Multinational Corporations", in *Philippine Labor Review* (First Quarter, 1977).

Multinational corporations are mainly active in the following industries: rubber, soap, food processing, banking and finance. Legislations on MNCs may be classified into those imposing restrictions on ownership and those which provide fiscal incentives.

The intensive use of local credit and the size of profit remittances are indicative of the effects on capital resources in the country. To a certain degree, foreign corporations have direct and indirect employment effects, but technology or skill transfer cannot be ascertained. Foreign enterprises pay relatively higher wages than local companies. This can probably account for the relative absence of acute industrial disputes involving MNCs although most MNCs have unions.

45. Tsuda, Mamoru; Tiglao, Rigoberto D. and Atienza, Edith S. *The impact of Multinational Corporation in the Philippines* (Quezon City, University of the Philippines Law Center and the US Asian and Pacific Development Administration (mimeographed), 1978).

Foreign investment in the pre-war period was geared towards the extractive industries. During the period, American investments were mainly in export-oriented industries, serving the US market. The basic structure of the export-oriented economy remained essentially intact during the period which followed independence.

46. Villegas, Edberto. "Foreign Investments and the Multinational Corporations in the Philippines", in *Studies in Philippine Political Economy* (Manila, Silangan, 1983).

After the Laurel-Langley Agreement and Parity Rights with the United States, other decrees were implemented to provide foreign investors with incentives. The study argues that: (1) the inflow of foreign capital is belied by the fact that foreign-owned firms borrow from private local sources and drain the dollar reserves of the Philippines through heavy repatriation of capital; (2) it is in the interest of industrialized nations that the countries where they derive their raw materials remain predominantly agricultural; and (3) that although foreign corporations provide some employment, their contribution to total employment is not large.

47. Yoshirara, Kunio. *Philippine Industrialization: Foreign and Domestic Capital* (Quezon City and Singapore, Ateneo de Manila University Press and Oxford University Press, 1985).

Data from the list of the largest firms in manufacturing are used to find out whether or not Chinese and American capital are contributing to industrialization in the Philippines. After an overview of industrial distribution, ownership and entry patterns and foreign patents, the study looks into American investment in processing and import-substituting ventures. Japanese, Chinese, Spanish and other European investments are also discussed. The Chinese have an important role in the Philippine economy especially in the retail and wholesale trades. Non-Malay and Malay Filipinos also participated in providing capital for industrialization. The use-of-credit policy of the Philippine Government also helped sugar centrals and steel plants in their capital requirements. The Philippines' industrialization process is largely attributable to Chinese and other foreign investment, with about one-third attributable to Filipinos.