

TRADE OVERVIEW

The economy of the Philippines appears to be rebounding strongly from almost three years of negative growth. While GNP recorded a marginal positive growth of 0.13% in 1986, it grew by 5.1% in 1987. Investments (local and foreign) increased by approximately 10% in the first half of 1987 and a new Investment Code further liberalized tax incentives for newly established or expanding businesses. The major impediments to greater investment are: the perceived political instability, labour unrest, and ownership limitations. Most foreign investors want full control over their local investments which are now restricted by the equity limitations (40% foreign, 60% local - for most sectors) in the new constitution.

The Government of the Philippines is making good progress in its privatization, deregulation and import liberalization efforts. Agreement in principle has been reached with private and official creditors for rescheduling principal and interest payments on a major portion of the country's estimated \$29 billion external debt. Servicing the debt will still absorb 40% of the national budget and 45% of export earnings. To help reduce debt the Government has come up with some innovative debt to equity swap mechanisms. Increasingly, ODA in-flows are being applied to project implementation rather than simple balance of payment support. As part of the rescheduling with private bank creditors, the Government is expecting the renewal of a \$1-2 billion revolving Trade Credit Facility and additional foreign borrowing of approximately \$1 billion in 1988.

Prospects for Canadian Trade have improved considerably over the past year. Canadian exports for 1987 reached \$122 million which represents a 147% increase over the 1986 level and also an increasing share of the Philippine market. Six CIDA CPPF funded feasibility studies were approved and the provision of commodities under the CIDA bilateral program have already totalled \$15 million (delivered or contracted). The Canadian Wheat Board is again selling milling wheat and feed grains to Philippine feed and flour millers. EDC is back on cover for the Philippines and Canadian companies are pursuing opportunities in several large capital projects (Calaca II Thermal Power Station, PLDT Telephone Expansion Program, Semirara Coal Expansion Project, Light Railway Transit System, Rockwell Rehabilitation). Canadian investment prospects include a J.V. copper/gold mining venture with Lepanto and acquisition of 40% equity in a local bank by Bank of Nova Scotia.