

Assessing the Legislative Politics in the Making of the Foreign Bank Liberalization Act

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Abstract: The study is about the dynamics among the actors in the making of the Foreign Bank Liberalization Act or Republic Act 7721. The central issue in the legislation was whether to have a restricted or extensive liberalization of the banking sector. The policy divide was between the Senate-BSP-BAP-resident foreign banks' bloc, which was advocating for a single-mode of entry for foreign banks, and the House-FCCP-the rural-development banks-the academic-business-consumer groups' bloc, which was endorsing a multiple-mode of entry for foreign banks. The Senate-BSP-BAP-resident foreign banks' bloc prevailed since this bloc benefited from three intertwined factors in the legislation process. First, the inevitability of the liberalization of the banking sector left the domestic commercial banks with no recourse but to take an all-out effort to push for a limited liberalization law. Second, the Senate-BSP-BAP-resident foreign banks' bloc was aided by the collective action dilemma among the actors. And third, the internal dynamics among the members of the Senate and the House made it very difficult for the former and tolerable for the latter to compromise.

Keywords: *policy making, legislative politics, pluralism, Republic Act 7721, Foreign Bank Liberalization Law*

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INTRODUCTION

Under the era of economic nationalism, the General Banking Act of 1948 restructured the landscape of the banking industry. The law made the banking system exclusively for Filipinos and placed a moratorium on the entry of new foreign banks in the country. The rationale was by limiting competition from foreign banks, the domestic banks would get the needed protection and the opportunity to expand. Through the decades, this protective condition made the banking industry very profitable. A detrimental effect of the financial success of domestic banks, however, had been the restricted competition leading to an oligopoly in the banking sector. This condition was manifested by undue concentration of bank deposits among few large domestic banks, in the huge gap between savings and borrowings interest rate, and in the poor performance of the local banking sector relative to ASEAN neighbors. With these, calls were made for the lifting of the moratorium and opening of the banking sector to foreign competition. Since the move was expected to bring efficiency, innovations, and better services in the banking industry, the Ramos administration took the cudgel in legislating the foreign bank liberalization law.

This study is about the diversity among political actors in the making of the Foreign Bank Liberalization Act (FBLA) or Republic Act (RA) 7721. The emphasis is on the actors' engagement in the formal legislation process, specifically on the policy divide between having a restrictive or extensive bank liberalization law. In answering why the FBLA took a particular shape, the research made a detailed assessment of the interaction among the legislative actors and stakeholders. The paper first explains the pluralist perspective in policy making analysis; second, it discusses the move towards a foreign bank liberalization policy; third, it illustrates the foreign bank liberalization's policy divide; fourth, it elucidates the

legislative dynamics among the policy actors; and lastly, it presents the concluding remark

Pluralist Perspective in Policy Making Analysis

There are two existing studies on the legislation of banking policy in the Philippines—Paul Hutchcroft’s *Booty Capitalism: The Politics of Banking in the Philippines* in 1998; and Antonio Pedro and Eric Batalla’s *The Politics of Financial Liberalization* in 2002.² The first represents the weak state-elitist tradition, the dominant perspective in interpreting Philippine policy making (see Quirino, 1974; McCoy, 1988; De Dios, 1990; Rivera, 1991; Montes, 1992; Almonte, 1993; McCoy, 1993; Hutchcroft, 1993; Caoili, 1993; Rivera, 1994; Gutierrez, 1994; Doronila, 1994; Rocamora, 1998; Almonte, 2007; Magno, 2009), and the second represents the pluralist tradition, the minority perspective.

Considered as a pioneering work in the politics of banking policy, Hutchcroft, using the concept of booty capitalism, contended that the oligarchs have captured the Philippine state, and that this condition has allowed them to skew the banking policies to their favor. This oligarchic domination has resulted in the unpredictability and inconsistency of banking policies, and in the systematic plunder of the banking sector, via abuse of its loan portfolios and cartel practices. On the whole, Hutchcroft’s work suggested cohesiveness or homogeneity among the political actors controlling the government’s legislative mechanism. Pedro and Batalla’s work took off from Hutchcroft’s work by critiquing the later. Focusing on the business-government relationship, Pedro and Batalla argued that the fragmentation among business elites prevented the state’s capture and allowed the government the leeway to pass the financial liberalization policy.³ This analysis hinted that, instead of cohesiveness, there was increasing pluralism among the political actors in contemporary Philippine polity.

Taking cue from the literature, the study adopted the pluralist perspective in exploring the dynamics in Philippine policy making. The pluralist perspective views the legislative process as an arena among competing interests, and the policy as a decision which reflects the equilibrium among the interacting actors (see Truman, 1951; Bentley, 1967; Dahl, 1961, 1967, and 1971; Lindblom, 1977). This perspective assumes that actors are autonomous and takes diversified positions vis-à-vis their interest in the policy making equation (Self, 1985; Smith, 1990; Howlett and Ramesh, 1995). Following this assumption, the actors in the study were deemed autonomous collective actors who take actions to influence the legislative process and outcome.

In the policy making of the FBLA, the principal collective actors are the legislature, the bureaucracy, and the interest groups. The legislature corresponds to the two chambers of the Philippine Congress—the Senate and the House of Representatives. The bureaucracy corresponds to the main government agency that actively took part in the legislative deliberations—the Bangko Sentral ng Pilipinas (BSP). And the interest groups refer to the gamut of non-governmental actors that vigorously participated in the legislation process—the Bankers Association of the Philippines (BAP), which represents the domestic commercial banks' interest; the four resident foreign banks—Bank of America (BA), Citibank, Hong Kong Shanghai Bank (HSKB), and Standard Chartered Bank (SCB), which refers to the existing foreign banks in the country prior to the FBLA; Rural Bankers Association of the Philippines (RBAP) and Development Bank of the Philippines (DBP), which represent the rural-development banks' interest; the Foreign Chambers of Commerce in the Philippines (FCCP)⁴, which represents the foreign banks' interest; and the academic-business-consumer groups⁵, which converge via a liberalization policy lobby group.

The actors' engagement in policy making was delineated via the two diverging positions. On one hand, the Senate, the BSP, the resident foreign banks, and the BAP favor the banking sector's restricted opening to foreign banks. On the other hand, the House of Representatives, rural-development banks, the academic-business-consumer groups, and the FCCP supporting the banking sector's extensive opening to foreign banks. This issue would be the central point in the legislation of the FBLA.

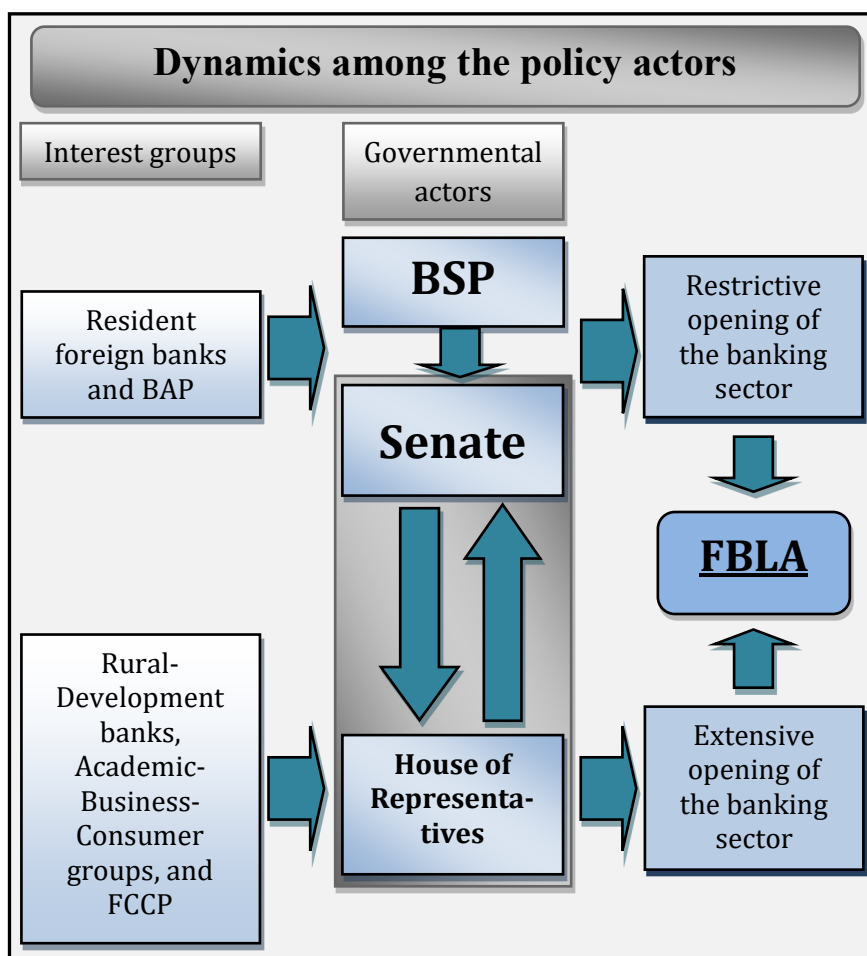


Figure 1. Legislation process of the FBLA

Moving Towards a Foreign Bank Liberalization Policy

In the era when economic nationalism reigned over the banking sector, the Philippine legislature enacted the General Banking Act or RA 337 in 1948 (Batalla, 2002; Pedro, 2002). The law, as it delineated the authority of the Monetary Board, became the principal regulatory statute of the Philippine banking sector. Prior to the law, there were 28 domestic-owned banks and four foreign banks operating in the Philippines—BA since 1947, Citibank since 1902, HKSB since 1867, and SCB since 1872.

The General Banking Act strategically altered the banking industry since it limited the number of banks and encouraged them to increase their size. The rationale behind the policy was that fewer but bigger banks would promote soundness and stability in the banking sector. The regulatory statute essentially made the banking system exclusive for Filipinos by restricting the branching of existing foreign banks and entry of new foreign banks (Milo, 2001). In effect, the law “fossilized” the existing foreign banks to whatever branches they had and placed a moratorium on the entry of other foreign banks in the country. By limiting competition from foreign banks, the thinking was that domestic banks would get the needed protection, the opportunity to expand, and the assurance that the banking sector would be firmly in the hands of Filipino bankers.

With the restriction on the entry and branching of foreign banks continuing throughout the 1970s and 1980s, the local banking sector through the years became one of the most profitable industries in the Philippines (Milo, 2001). The financial success of domestic banks, however, had a downside. The restricted competition in the banking sector was seen as detrimental to the economy, the public, and the long-term viability of the banking industry. For instance, one prominent issue against the prevailing

banking system was the undue concentration of bank deposits among few large domestic banks. The two studies conducted by the Center for Research and Communication (CRC)⁶ in 1991 and the Philippine National Bank (PNB) in 1992 showed that seven banks account for 63 and 62.2 percent, respectively, of the total deposits and 66.9 and 63.3 percent, respectively, of the total savings deposits (Congress of the Philippines-House Committee Hearings October 19, 1992).

This oligopolistic condition was often equated to the existence of a banking cartel. Moreover, this situation was exacerbated when the huge profits of domestic banks was superimposed on the bank spread⁷ (i.e., the gap between deposits and lending rates). As it was, there existed a wide gap between the low interest rate on savings (around 6%) and the high interest rate on borrowings (around 24%), which translated to a heavy burden on borrowers and an enormous windfall for domestic commercial banks.

Another was the issue of the local banking industry being at the bottom in terms of the number of foreign banks relative to ASEAN neighbors. The Philippines with four foreign banks (compared to 14 in Thailand, 16 in Malaysia, 11 in Indonesia, and 36 in Singapore) has the smallest number of foreign commercial banks. In addition, CRC cited that among ASEAN countries (aside from Thailand),⁸ the Philippines was the only banking market that did not allow the entry of foreign banks (Congress of the Philippines-House Committee Hearings, October 19, 1992).⁹ The closed-protective nature of the domestic banking industry denied competition from foreign banks. With this condition, the consensus in government was to open the banking sector to foreign banks. This consensus aimed to foster more competition, which eventually was expected to redound to more efficiency, innovations, and better services.

The call for the liberalization of the banking industry began in the early 1980s when the Government of Corazon Aquino undertook the reformulation of economic policies toward greater liberalization. The ensuing political problems that threatened the survival of the administration, however, stalled most of these liberalization reforms (Pedro, 2002). In the 1990s, the liberalization program gradually permeated the banking sector; starting with relaxation of restrictions on the entry and branching of domestic banks and the call for the lifting of moratorium on the entry and operations of foreign banks (Milo, 2001). In 1991, a formal action was taken by Representative Margarito Teves when he filed House Bill 35068 in the Eighth Congress calling for the amendment of the General Banking Act of 1948 to liberalize the entry and scope of operations of foreign banks in the country.

The bill was approved in the House of Representatives, but no corresponding action was made in the Senate (Pedro, 2002). After the May 1992 elections, the newly installed administration of President Fidel Ramos made it a priority to accelerate the phase of the liberalization of the economy. With the commitment of the Ramos administration, Representative Teves re-filed the same bill (now House Bill 263) in the Ninth Congress. Months later, the Senate followed suit. Several bills were filed with the aim of allowing the entry of foreign banks, namely: Senate Bill 839 (Senator Gloria Macapagal-Arroyo), Senate Bill 1474 (Senators Edgardo Angara, Raul Roco, Blas Ople and Neptali Gonzales), and Senate Bill 1653 (Senator Leticia Ramos-Shahani).¹⁰

Summary of the lawmaking proceedings. In the House of Representatives, House Bill 263 was heard through a joint meeting between the Committee on Banks and Financial Intermediaries, chaired by Representative Jose Carlos Lacson, and the Committee on Economic Affairs, chaired by Representative Felicito Payumo. The joint hearing came out with Committee Report No. 112 on

House Bill 8226 (in substitution to House Bill 263). In the Senate, on the other hand, Senate Bills 839, 1474 and 1653 were heard by the Committee on Banks, Financial Institution and Currencies, chaired by Senator Raul Roco.

The hearing resulted in Committee Report No. 316 on Senate Bill 1606 (consolidated version of the bills 839, 1474 and 1653). On February 2, 1994, President Ramos certified the bill as priority legislation. The House approved the bill on the second reading on May 17, 1993 and third reading on June 10, 1993 (120 affirmative votes, 2 against, and 0 abstention). The Senate approved the second and third readings on March 24, 1994 (14 affirmative votes, 2 against, and 2 abstentions). The House and Senate versions of the bill were reconciled and approved by the Bicameral Conference Committee (Bicam), and ratified by both chambers on May 17, 1994. The foreign bank liberalization law was formally signed by the President on May 18, 1994 and became RA 7721.

Foreign Bank Liberalization's Policy Divide

The move to legislate the foreign bank liberalization law was anchored on three objectives: first, to generate greater competition in the banking industry so as to enhance efficiency and banking services; second, to further integrate the Philippine economy to the global economy; and third, to encourage dispersal of ownership in the banking industry in keeping with the policy of breaking up cartels and monopolies (Congress of the Philippines-Senate Session Proceedings, January 24, 1994). The foreign bank liberalization law was also seen as supplementary and complimentary to then recently enacted Foreign Investment Act (RA 7042) since the law was conceived to further induce and facilitate the inflow of foreign investments.

The main issue in the legislation was the extent of the liberalization, which is whether to have a restricted or extensive opening of the banking sector to foreign banks. Empirically, the concern boiled down to the modes of entry for foreign banks in the banking sector. The entry of foreign banks can take three forms—branching, subsidiary, or acquisition. In branching, the foreign bank simply expands its scope of operation by putting up a branch that is an extension unit in the Philippines. In subsidiary, the foreign bank enters by establishing a wholly or majority locally incorporated bank. And in acquisition, the foreign bank's entry is through outright purchase of the equity of an existing domestic bank or joint venture arrangement, preferably distressed or banks that need to be rehabilitated.

The mode of entry issue polarized the policy actors into two positions: the Senate's position, which is for a limited opening of the banking sector, and the House's position, which is for an extensive opening of the banking sector. In particular, the Senate version restricts to a single mode of entry where a foreign bank once chosen in a particular mode cannot anymore avail of the other modes. The House version allows for multiple modes of entry where a foreign bank can avail of one or all three modes of entering and operating in the country.

Moreover, the Senate-House divide was also manifested in other subsidiary issues. For instance, on the number of branches a foreign bank can establish, the Senate version limits to a total of ten branches only, while the House version has no limits. On the issue of equity ownership, the Senate version restricts the equity ceiling to only 60 percent, whereas the House version allows up to 70 percent equity for foreign banks. And on the time frame of the entry of foreign banks, the Senate version limits the period of entry of foreign banks to five years, while the House version provides no limitation.

The Senate's position was strongly supported by the BSP, the BAP, and the resident foreign banks. The BAP and the resident foreign banks' behavior was consistent with protecting their interests, as allowing more foreign banks coming would mean more competition for them, which could translate to less market share and profit. In other words, the domestic commercial banks and the four existing foreign banks would like to lessen the repercussion of the liberalization policy and maintain the advantages that they enjoyed in the past via restrictive competition. With this intention, the BAP and the resident foreign banks ardently lobbied the Senate for a single mode of entry for foreign banks. The BAP and the resident foreign banks' influence was evident when Senator Gonzales admitted that the single mode entry proposal came at their behest (Congress of the Philippines-Bicameral Conference Committee, April 21, 1994).

The BSP's support for the Senate's version was in line with the government agency's commitment to protect domestic commercial banks. This relationship between the BSP and the domestic commercial banks was underpinned by the strong bond between the BSP leadership and the BAP, as the past and present heads of the former usually come from the latter. Accordingly, the BSP, in the committee hearings, argued that allowing multiple entries, specifically the acquisition and subsidiary mode, would prejudice domestic commercial banks, and that by concentrating on just one mode, the legislation would be hastened. Here, the BSP cited that allowing the two other modes would violate provisions in the General Banking Act (specifically, Section 12-A, 12-B, and 12-D), and hence, would complicate and delay the legislative proceedings. The BSP's position was formally stated by Feliciano Miranda: "The Monetary Board has adopted the position that amendments to existing provisions of RA No. 337, as amended, be limited to provisions governing the entry of foreign banks only through the

establishment of branches in the Philippines" (Congress of the Philippines-House Committee Hearings, October 19, 1992: 23).

Moreover, the Senate's position in favor for a restricted liberalization law was buoyed by the prevailing nationalist sentiment among its members that the local banks would need protection from the competition that would come from the influx of foreign banks (Congress of the Philippines-Senate Conference Committee Report, May 16, 1994). This sentiment was made clear by Senator Gonzales in the Bicameral Conference Committee, when he admonished the body that its primary consideration was the protection of domestic banks (Congress of the Philippines-Bicameral Conference Committee, April 21, 1994).

The House's position, on the other hand, was strongly supported by the FCCP, the rural-development banks, and the academic-business-consumer groups. The FCCP's support to a more encompassing opening of the banking sector was a given since its members—the American, Canadian, Australian-New Zealand, Japanese, and European Chamber of Commerce of the Philippines—would directly benefit from the liberalization law. Foreign banks would not only gain access to the Philippine market but could avail of multiple-entry options.

The rural-development banks' support for the House bill was anchored on the perception that the liberalization law has no serious deleterious effect on them. For instance, DBP, representing development banks, believed that their operations would be unaffected, as multilateral institutions (e.g., WB, IMF, and ADB)¹¹ prefer to do business, such as providing development financial assistance through the government's development bank, with or without the entry of foreign banks. While RBAP, representing rural banks, believed that foreign banks have a different customer base, and would not establish branches in rural areas; hence, foreign

banks would not directly compete with the rural banks for market share. Moreover, RBAP sensed that with the entry of more foreign banks, the rural banks would benefit, as they anticipate potential business partners and expect a boost in their remittance business.

The academic-business-consumer groups' support for the House's version was grounded on the consensus that the extensive liberalization of the banking sector would redound to their benefit and to the country as a whole. For instance, PCCI, representing the business industry, and NEPA, representing the consumers, stated publicly that the expected increase in competition in the banking sector brought about by the entry of foreign banks, would be better overall for the entire business sector and the consumers. The ideological rationalization on this was supplied by the academic groups, in particular, PIDS and CRC. For instance, PIDS' Dr. Mario Lamberte (1993), arguing for the multiple modes of entry for foreign banks, contended that partial deregulation will have less meaningful effect since the aim is to create a contestable financial market where the threat of potential entry must be credible and sufficient to force incumbents to behave like competitors. He further explained that there is no need to restrict the opening of the banking sector, as the market will ultimately determine the optimal number of foreign banks in the country. CRC elucidated the expected benefits of full liberalization, such as market de-concentration, lower loan rates, and efficient performance of the banking market. As evidence, CRC cited the success experienced by other ASEAN countries when they implemented extensive liberalization in their banking sector.

Moreover, the House of Representatives' position in favor for an extensive liberalization law was buoyed by the prevailing sentiment among its members that the country urgently needs to send a strong signal to the international community in order to compensate for its lateness in liberalizing the banking sector

(Congress of the Philippines-House Conference Committee Report, May 16, 1994). This sentiment corresponds with the Ramos administration's desire to accelerate economic growth and help the Philippines to catch up with its neighboring ASEAN countries.

The Legislative Dynamics Among the Policy Actors

The policy divide between the Senate-BSP-BAP-resident foreign banks' bloc (that is, advocating for a restricted foreign bank liberalization law), and the House-FCCP-the rural-development banks-the academic-business-consumer groups' bloc (that is, endorsing an extensive liberalization policy) was settled when the legislature came up with a law that partially liberalized the entry and operations of foreign banks. Thus, the Foreign Bank Liberalization Act or RA 7721 reflected the position of the Senate-BSP-BAP-resident foreign banks' bloc. The restrictiveness of the FBLA was shown in the following sections of the law.

Sec. 2. Modes of entry — The Monetary Board may authorize foreign banks to operate in the Philippine banking system through any of the following modes of entry: (i) by acquiring, purchasing or owning up to sixty percent (60%) of the voting stock of an existing bank; (ii) by investing in up to sixty percent (60%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (iii) by establishing branches with full banking authority: Provided, that a foreign bank may avail itself of only one (1) mode of entry: Provided, further, that a foreign bank or a Philippine corporation may own up to a sixty percent (60%) of the voting stock of only one (1) domestic bank or new banking subsidiary.

Sec. 4, (ii) For foreign bank branches — The foreign bank may open three (3) additional branches in locations

designated by the Monetary Board by inwardly remitting and converting into Philippine currency as permanently assigned capital, the U.S. dollar equivalent of Thirty-five million pesos (P35,000,000.00) per additional branch at the exchange rate on the date of the effectivity of this Act, as ascertained by the Monetary Board. The total number of branches for each new foreign bank entrant shall not exceed six (6).

Sec. 6. Entrants under Section 2 (iii) — Foreign banks shall be allowed entry under Section 2 (iii) within five (5) years from the effectivity of this Act. During this period, six (6) new foreign banks shall be allowed entry under Section 2 (iii) upon the approval of the Monetary Board.¹²

Sec. 10. Transitory provisions — Foreign banks operating through branches in the Philippines upon the effectivity of this Act, shall be eligible for the privilege of establishing up to six (6) additional branches under the same terms and conditions required by Section 4 (ii) hereof.^{13 14}

The policy making process and outcome was shaped by three intertwined factors present in the legislation. The first factor is that the policy actors were working on the premise that economic liberalization is the government's framework for economic development since post-EDSA (see Brillo, 2010a; Brillo, 2010b). The Ramos administration also did not only continue the liberalization policy of its predecessor but considerably accelerated the liberalization of the economy. The Ramos administration showed its unwavering commitment towards liberalization when the government spearheaded the enactment of the Foreign Investment Act, reorganized the Central Bank, and dismantled the monopoly in the telecommunications industry (Pedro, 2002). In the legislation of the FBLA, the Ramos administration's resolute

commitment to liberalization has made the opening of the banking sector to foreign banks inevitable to both the Senate-BSP-BAP-resident foreign banks' bloc and the House-FCCP-the rural-development banks-the academic-business-consumer groups' bloc. For the directly affected sector, specifically the BAP and the resident foreign banks, the certainty of the foreign bank liberalization law was already a concession to the government. Henceforth, the BAP and the resident foreign banks became so determined to make an all-out push for the only logical remedy available to them—influence the law's formulation to ensure that some level of protection is afforded to them.

The second factor is that the policy making equation among the actors suffered from collective action dilemma. The dilemma happens when the costs are immediately felt and concentrated on a small group while the benefits have long-term impact and spread to a much larger group. This scenario creates strong incentives for the former and disincentives for the latter to mobilize for collective action (see Olsen, 1965). The situation intensifies when the small group is highly organized, well-funded, and politically influential, compared to the larger group (Reich, 2002).

In the case of the FBLA, the collective action dilemma benefited the Senate-BSP-BAP-resident foreign banks' bloc against the House-FCCP-the rural-development banks-the academic-business-consumer groups' bloc. (1) As to the costs, the BAP and the resident foreign banks were expected to bear the brunt of the liberalization policy. Being the sectors directly threatened, the BAP and the resident foreign banks have strong incentive to intervene and heavily influence the policy outcome. Compared to the rural-development banks and the FCCP-academic-business-consumer groups, the former would not be significantly affected, while the latter perceived gains in the long term; hence, they have less incentive to intensify the move to influence the policy outcome.

(2) As to the strength of the contending groups, the BAP and the resident foreign banks have the advantage since overall, their groups were more organized and have the financial muscle and the political connections. Relative to the rural-development banks and the FCCP-academic-business-consumer groups, the former was minuscule (in size, capital, and market) compared to the domestic commercial banks, and the latter, in general, was broad-based (as to the academic-business-consumer groups) and an external actor (as to the FCCP).

In consequence, the rural-development banks, the FCCP-academic-business-consumer groups took a more moderate involvement in the legislation process compared to the aggressive stance put up by the BAP throughout the proceedings. Moreover, the BAP and the resident foreign banks' cause was boosted by the support of their patron agency, the BSP. The BSP's involvement was significant since its opinion had more weight to the lawmakers being the principal government agency for the banking sector.

The third factor is the internal politics that exists in the Senate and in the House of Representatives. The Senate, as a legislative body, has long been regarded for its members' independence in decision making (Caoili, 2006; Brillo, 2013). The Senators usually exhibit more autonomy (in relation to their leadership's position or their political party's stand) in voting over a bill. In the legislation of the FBLA, the autonomy of the Senators was visible from the opposition's unwavering quest to provide protection to domestic commercial banks amid the anticipated influx of foreign banks.¹⁵ In effect, the Senate's committee chair Senator Raul Roco had to make considerable concessions, via restrictive measures in the policy, to appease the opposition not to block the bill's passage and at the same time, ensure the necessary number of votes to approve it. Thus, with its commitments to the opposition, the Senate became very firm in its position, particularly during the Bicameral Conference Committee.

On the other hand, the House of Representatives has long been regarded for its members' submissive behavior in decision-making (Gutierrez, 1994; Coronel, Chua, Rimban, & Cruz, 2004). The Congressmen, in general, are more obedient to their leadership's position (regardless of party affiliations) in voting over a bill. In the legislation of the FBLA, the submissiveness of the Congressmen was shown when chamber readily acceded to the request of its leadership to swiftly approve the extensively liberalized version of the bill with no modifications. Since the House of Representatives' position was largely determined by its leadership, the chambers policy stand was more flexible in the sense that it did not have commitments to the opposition to satisfy and that its members tend to accept the compromises entered into by their leaders, particularly during the Bicameral Conference Committee. Thus, the unyieldingness of the opposition in the Senate and the acquiescence of members of the House Representative to their leadership made it difficult for the former and tolerable for the latter to enter to a compromise in the Bicameral Conference Committee.

CONCLUSIONS

In the move to legislate the foreign bank liberalization law, the central issue was whether to have a restricted or extensive liberalization of the banking sector. The issue divided the policy actors into the Senate-BSP-BAP-resident foreign banks' bloc, which was advocating for a single-mode of entry for foreign banks, and the House-FCCP-the rural-development banks-the academic-business-consumer groups' bloc, which was endorsing a multiple-mode of entry for foreign banks.

The Senate's position was underpinned by the sentiment that it must give protection to the domestic commercial banks. The BSP supported the Senate position since it was also committed to

promoting the interest of the domestic banks, while the BAP-the resident foreign banks saw the urgent need to defend their advantage. On the other hand, the House's position was underscored by the sentiment that all-encompassing liberalization is essential to jumpstarting economic growth. The FCCP supported the House position since it anticipated gaining a foothold on the local banking market. The rural-development banks saw no serious adverse effect, and the academic-business-consumer groups believed that extensive liberalization is better for everyone.

The Senate-BSP-BAP-resident foreign banks' bloc prevailed over the policy divide via a law that partially liberalized the entry and operations of foreign banks. The legislative politics was characterized by three intertwined factors. First, the inevitability of the liberalization of the banking sector left the directly affected sector—the domestic commercial banks—with no alternative but to make an all-out push for a restrictive liberalization law. Second, the Senate-BSP-BAP-resident foreign banks' bloc benefited from the collective action dilemma, which strengthened their resolve and position. And third, the prevailing characteristic among the members of the Senate and the House made it very difficult for the former and tolerable for the latter to compromise. Summing up, these factors generated a policy making dynamics that reinforced the position of the Senate-BSP-BAP-resident foreign banks' bloc and weakened the position of the House-FCCP-the rural-development banks-the academic-business-consumer groups' bloc, hence, sealing a more restrictive FBLA.

END NOTES

² Batalla is the book's editor, and Pedro's article is entitled Legislating Banking Liberation in the Philippines: Business-Government Relations in Policy Reform

³ For earlier work on the fragmentation in Philippine politics, see 1992

⁴ American Chamber of Commerce of the Philippines (ACC), Canadian Chamber of Commerce of the Philippines (CCC), Australian-New Zealand Chamber of Commerce of the Philippines (A/NZC), Japanese Chamber of Commerce and Industry of the Philippines (JCCI), and the European Chamber of Commerce of the Philippines (ECC)

⁵ The Center for Research and Communication (CRC), the Philippine Institute for Development Studies (PIDS), Philippine Exporters Confederation (PhilExport), National Economic Protectionism Association (NEPA), and the Philippine Chamber of Commerce and Industry (PCCI)

⁶ CRC is a private think-tank that conducts economic and social research. It is now the University of Asia and the Pacific

⁷ In general, bank spread refers to the difference between the interest rate a bank charges a borrower and the interest rate a bank pays a depositor (<http://www.special-loans.com/dictionary>)

⁸ Although Thailand does not allow the entry of foreign banks, it has more foreign banks operating compared to the Philippines

⁹ In 1993, the existing four foreign banks had a total of nine branches, while the 32 domestic banks had an aggregate total of 2,360 branches

¹⁰ This paragraph relied heavily from Pedro (2002)

¹¹ World Bank, International Monetary Fund, and Asian Development Bank

¹² An additional four foreign banks may be allowed entry on recommendation of the Monetary Board, subject to compliance

with Sections 2, 3, 4, and 5 of this Act upon approval of the President as the national interest may require

¹³ Underscoring was made for emphasis

¹⁴ Overall, only 10 foreign banks were allowed entry to operate by the FBLA (Hapitan, 2001)

¹⁵ Notably Senators Arturo Tolentino, Ernesto Maceda, Anna Dominique Coseteng, and Wigberto Tanada

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