The Impact of Liberalisation: Communicating with APEC Communities

This series of publications is part of an Initiative of APEC Committee on Trade and Investment. There are five sectoral reports, a summary report and a review of literature on trade liberalisation.

Furniture Industry in Canada : Summary

Although now a $US 6.3 billion industry, Canada's furniture manufacture still bears the marks of its origins as a cottage industry. Much of the industry is composed of family firms. Most family firms run single plant, small operations with the sales less than a third the size of the average Canadian manufacturing firm.

It was an industry ill-prepared for the Canada-US Free Trade Agreement signed in 1989. It had little experience in export markets and had depended upon tariff protection of between 12.5 percent and 15 percent to compete in the domestic market against larger, American competitors.

Companies typically produced a wide range of products, each with small production runs, to fill the diverse needs of the small Canadian market. On the eve of the tariff cuts, the Quebec Furniture Manufacturers' Association said free trade was 'a rather formidable challenge and threatens its very existence'. The challenge was in fact greater than the industry expected. The effect of reduced tariff protection was compounded by both a severe recession and an appreciation of the Canadian dollar.

For several years, the forecasts of doom appeared well founded. From 1989 to 1994, the number of furniture manufacturing establishments fell by a third and employment in the industry dropped 25 percent. There was some growth in exports, but it was nowhere near enough to compensate for the contraction in the domestic market and the erosion of the Canadian manufacturer's share of that market. While the domestic market contracted, the importers increased their share of the market from 21 to 32 percent.

In 1992, however, a recovery began. Although there are fewer firms and employees in the industry now than there were before it was exposed to international competition, output is 36 percent higher than it was. The industry has become much more internationally focussed, with exports soaring from less than $US 900 million to about $US 3.5 billion. The industry now exports 55 percent of its output.

The crisis caught firms in different stages of preparedness. Canadel Furniture is a family owned company that makes casual dining furniture, which is a small segment of the market. As early as 1985, it could see that a free trade agreement would eventually come to pass. The company's key selling point is a design system that gives customers many options over fabrics, components and models and it guarantees delivery in under six weeks. It believes the free trade agreement and NAFTA were the best things that ever happened to the firm. Since 1992, exports have risen from 20 percent to 75 percent of their output, while turnover has risen from $Cnd 23 million to $Cnd 62 million.

The Canadian subsidiary of the US office furniture manufacturer, Steelcase Inc., was initially less confident. Both management and staff felt that Steelcase Canada was not ready for free trade. A number of US subsidiaries in Canada had responded to the agreement by closing their Canadian plant. Steelcase Inc's initial response was to attempt to run the Canadian operation from the US, eliminating some Canadian management posts.

It soon became evident that the company was going to lose its position in the Canadian market and a different strategy was devised. Prior to the free trade agreement, Steelcase Canada had produced 12 products, exporting a small portion to the US and selling the rest domestically. The Canadian operations were considered high cost and complex because of their high production runs. Trade within the group was strictly controlled, with subsidiaries only exporting as much as they imported, in order to remove foreign exchange exposure.

The new strategy demanded that all Steelcase subsidiaries bid for the exclusive rights to produce specific Steelcase products and to market them worldwide. Plant managers had to establish that their production costs were lowest and that quality standards would be maintained. The number of products produced in Canada was cut to four, however the value of production more than doubled.

A general feature of the Canadian industry's response to free trade has been a shift towards more specialised, higher value added segments of the market. The household sector's share of the market declined from 43 percent in 1988 to 36 percent by 1997. The share of office and other sectors of the market rose from 57 to 64 percent.

There has also been a trend towards bigger firms and greater concentration of production. The average sales per factory rose from $US 2.3 million in 1988 to $US4 million by 1996, however this is still significantly smaller than the average US factory. Productivity increased dramatically, with the value-added per employee rising from $US 37,565 to $US 62,244 over the same period although it remains 20 percent below the more capital intensive US industry.

Companies have also developed more focussed distribution strategies. Durham Furniture was the subject of a management buy-out after it had gone into receivership in 1992. In addition to eliminating most of its product lines, the new management also adopted a new distribution philosophy of establishing closer relations with a smaller number of retailers. The approach was that no two retailers would compete in the same market.

A similar approach was taken by one of Canada's largest manufacturers, Palliser. It realised that its best retailers in Canada were being targeted by US manufacturers. It took the tough decision to eliminate almost half its 800 retailers, and accept, as an immediate consequence, the loss of 10-12 percent of their Canadian business.

One of the fears before the free trade agreement was that Canadian industry would de-camp to the United States. A few companies did so, however very few have made a success of it. Palliser already had a plant in the US that was closed because it was too small. A larger facility was opened in North Carolina, motivated by the conventional wisdom that wage rates were lower in the US. These cost savings have not been realised and the firm says the profitability of the plant is doubtful.

Palliser remains concerned that most of its investment remains in Canada. The passage of the NAFTA Agreement in 1994 superseded the US-Canada Free Trade Agreement. Canadian tariff barriers to Mexican imports are coming down in stages, heralding a new round of competition. Palliser expects to expand operations in Mexico.

There is a recognition that Canada needs to diversify its export markets. The US accounts for 96 percent of Canada's furniture exports (representing 20% of the US furniture imports). A recession in the industry, which is prone to strong cycles, would hit hard. Trade liberalisation in APEC is seen to present opportunity for new markets, although it also exposes Canada's producers to new sources of competition.

Telecommunications Industry in the Philippines

The Philippines was, until ten years ago, notorious for its poor telecommunications. There were more names on the waiting list than there were in the telephone book. There were barely half a million lines servicing a population of 60 million people. Many non-metropolitan communities not being served at all.

Under the Marcos administration, four private companies held government protected monopolies over all the key aspects of telecommunications. By far the biggest was the Philippine Long Distance Telephone (PLDT) company, which had a monopoly over international and domestic calls. Two other companies had monopolies over domestic and international satellite services, while the fourth concentrated on international telex and data communications. Investment and service levels were low.

The first moves to introduce competition were made by the administration of Cory Aquino, which took the view that competition was needed to improve the efficiency of the telecommunications industry. New licences were issued for operations of international gateways, cellular mobile services, and Cable television.

The pace of liberalisation increased under President Ramos, whose administration introduced a new law to create a better climate for industry growth and investment. The Public Telecommunications Policy Act, which established the policy framework for the industry, was supplemented with two specific regulations. The first, EO 59, requires compulsory interconnection of all authorised public telecommunications carriers. The second, EO 109, requires cellular mobile telecommunications service providers to install at least 400,000 fixed telephone lines over three years, and international gateway facility operators to install at least 300,000 lines within five years.

The country was divided into 11 geographic areas, with each service area including some profitable and some unprofitable zones. Operating licences for these areas were distributed among 8 telecommunications carriers. The strategy has been successful in its primary aim of raising the level of telecommunications coverage in the Philippines. The number of telephones lines has risen from just over 1 million, prior to the introduction of the new policy in 1993, to reach 6.5 million lines by the first half of 1998.

Cellular telephony has grown rapidly rising almost 30 percent in 1997 to reach 1.3 million subscribers. The spread of telephone services throughout the country has also improved. The proportion of municipalities serviced by telephones has increased from 20 percent to 37 percent since 1992. The objective under the Basic Telephone Program is that telecommunications should reach 87 percent of communities.

There has been an explosion in the number of participants in the industry. In the basic local exchange segment, where the PLDT had a monopoly, there are now 12 companies operating. The number of companies operating international gateways has increased from one to 11. The number of cellular companies has increased from two to five.

The new participants have included many partnerships between local and international companies. Foreign ownership of telecommunications companies is limited to 40 percent, although there is some pressure to have this limit raised. International companies involved in partnerships in the Philippine market include Singapore Telecom, Deutsche Telekom, First Pacific from Hong Kong, NTT from Japan and Nynex from the US.

Not all the new ventures have been successful. A number of companies have not been able to fulfil their commitments to establish the required number of lines in their geographic area, and many of the lines that have been laid have not yet found subscribers. Some of the businesses are running at substantial losses.

The most spectacular new entrant has been SMART. It started providing cellular services in 1994 and had, by 1997, seized 46 percent of the cellular market, overtaking the long established leader Pilipino Telephone (PILTEL). It has strategic alliances with NTT, from Japan, and First Pacific from Hong Kong. Its success has been largely based upon aggressive price based marketing and establishing a clear brand identity.

The size of the network SMART has built brings its own marketing advantages, with the ability to offer local call charges for calls between "Smart" telephone subscribers in different parts of the country, and the ability to offer widespread dealer and service support. The company took careful precautions against fraud in setting up its systems and has been spared the losses suffered by some competitors. It is strongly profitable.

Another strongly competitive participant in the market is Globe Telecom, which is a joint venture between Ayala Corporation and Singapore Telecom. Globe has pursued a strategy of technological leadership. It was the country's first GSM (Global System Mobile) cellular operator and has build capacity for ISDN (Integrated Services Digital Network) into its fixed line network. Its network is designed to support features such as caller ID, last call memory, three-way calling, call forwarding and phone lock. As a development business, Globe is not yet profitable, although it achieved a positive cash flow in 1997.

The incumbent, Philippine Long Distance Telephone Company, has had a lot of adjusting to do as it has faced up to competition. It has dramatically increased the size of its network and plans to have it fully digital by 2002. It did so while reducing its workforce, and embarking on programs to improve the quality of service, and process re-engineering to reduce problems in the network. It remains one of the largest companies in the Philippines and is strongly profitable.

Although deregulation is seen as a success, problems remain. The legislation that ordered interconnection of networks did not specify the price of that interconnection. PDLT has been accused of making it hard for newcomers to gain interconnection and of charging prohibitive rates.

The policy has given the Philippines an active telecommunications industry, but it is fragmented with operators having regional franchises as a result of the service area agreements. Regulators have yet to develop policies to ensure that healthy competition takes place once the exclusive licences in the service area scheme are phased out.

Textiles Industry in Thailand

If the establishment of an internationally competitive clothing and textile industry in Thailand was based upon the low cost labour, its future depends much more upon smart thinking. The advantage of low cost of labour is being challenged both by rising labour costs in Thailand, and the shift towards more capital intensive production, offering greater efficiencies, in the industry worldwide.

Smart thinking is needed both to achieve efficient production throughout the supply chain, and also to deliver quality produce that meets the increasingly exacting standards of international customers. It is also required to succeed in a testing international regulatory environment.

The textile and clothing sector overtook rice as Thailand's biggest single export industry in the mid-eighties. It employs about a million workers and contributes more than a quarter of the total value added in the country's manufacturing industry. The industry has long had to contend with various distortions in the textile trade.

Subsidised exports from Pakistan caused a contraction of the industry in the fifties and led to tariff protection. In the seventies, that protection reached levels of 100 percent. The government sought to regulate the industry in the seventies, prohibiting capacity expansion and the establishment of new textile firms. The objective was to stop over-production and excess capacity. This regulation was applied with intermittent vehemence until the late eighties, however it was never implemented effectively.

The number of spindles, looms and knitting machines grew by about 10 percent a year throughout the period of regulation. The growth of exports and local shortages of yarn led to the capacity limitations being dropped in 1987. Rapid growth in the industry followed, with the number of weaving firms doubling over the course of the next seven years. There was a significant increase in the import of capital equipment for the industry.

The structure of the industry has traditionally been dominated by the large number of garment firms. There are more than 2000 of these, ranging from small firms with less than 10 sewing machines to those with more than 1000. They employ more than 900,000 people and account for nearly three quarters of Thailand's clothing and textile industry exports. There are about 250 weaving firms, most of which are small and employ relatively old technology. There are a few large modern firms with current technology for air-jet looms. They account for 13.7 percent of exports. There are 141 spinning companies, with yarns providing 8.3 percent of exports, while, at the most capital intensive end of the industry, there are 16 firms manufacturing artificial fibres. They provide 2.3 percent of Thailand's clothing and textile industry exports.

Over the course of the nineties, the industry has been learning to survive with lower levels of tariff protection. Tariffs on fibres and yarns have fallen to 10 percent, while tariffs on fabrics are 20 percent and those on clothing are 30 percent. Until the early nineties, tariffs on fibres and yarns were set at 30 percent, while those on fabrics and clothing were at 60 percent.

The greatest industry growth has been in the more lightly protected and more capital intensive sectors, with yarn production doubling over the past ten years. Clothing exports declined sharply in 1996 (from $US 6.7 billion to $US 4.5 billion), reflecting a loss of competitiveness in the more labour intensive part of the
industry.

A continuing constraint upon the industry is the Multi-Fibre Arrangement (MFA) which allocates quotas on exporter members. In the early years of the agreement, it helped Thailand by curtailing sales of the three biggest textile exporters, Hong Kong, the Republic of Korea and Chinese Taipei.

However, Thailand was filling its quotas by the late eighties and the agreement has limited the industry ever since.

The MFA is being phased out as textiles are brought under the auspices of the General Agreement on Tariffs and Trade (GATT). The process of its incorporation, prolonged over the past 10 years, is complex and presents some risks for exporting nations. Importing countries are able to impose unilateral restrictions on exporters whose trade rises move past the MFA quota levels.

The MFA requires the Thai government to allocate export quotas among companies. Although the allocation is supposed to be open, in practice it favours larger integrated companies and acts as a barrier to new entrants. The larger firms put a lot of effort into ensuring that they meet the criteria for maintaining their quota and this diverts management attention from other opportunities. Small, medium and new exporters concentrate upon servicing non-MFA countries, such as those of the ASEAN region. Until the recent financial difficulties, this was a good growth market.

ASEAN nations, also represent some competition to Thailand in the textile industry. Indonesia, in particular, has been building its textile industry with lower cost labour than is available in Thailand. The devaluation of the Thai currency, the baht, has restored some competitiveness to its exporters. However, the pressure remains to seek differentiation. The Thai Garment Export Company, for example, has developed systems to meet the exacting standards of buyers such as retailer, Marks and Spencer, which demands that there be no loose metal in the workplaces where its children's clothes are manufactured, or the US department store chain, JC Penney, which requires supplier to be linked to its electronic data interchange network.

The Thai Garment Export Company is a large firm, with exports worth $US 144 million last year. Smaller companies are also becoming more sophisticated in their operation. The Amornthep Knitting Factory, a knitwear company with sales of about $US 1.5 million predominantly derived from exports, is working to implement the ISO9002 quality standard next year. It sees improved productivity as the key to maintaining competitiveness.

Technology is an issue for the industry. The weaving industry is moving to an era of shuttleless production, but more than 80 percent of Thai textile companies still use shuttles. In the spinning sector, the average age of machinery is more than 10 years old. It is reported that across the entire Thai garment industry, there are only two computerised cutting machines. The Thai government has obtained some funds to support the renovation of the industry form the Asian Development Bank and the World Bank. The Thai Textile Institute has been established. It will administer distribution of the funds and will also be responsible for organising trade missions and supporting quality control.

Wine Industry in New Zealand : Summary

In 1993, the award for the 'World's Best Sauvignon' wine went to a small New Zealand vineyard, Jackson Estate, with just four employees. It was an achievement both for the company, and for the New Zealand wine industry. The industry has developed a reputation for producing quality wines, particularly sauvignon blancs, over the past ten years.

New Zealand wines sell around the world but Britain is its largest market, taking two thirds of its exports. New Zealand's reputation for quality is evident in fact that its wines achieve a higher unit value than any other exporter into the British market. New Zealand wine fetches an average GBP5.14 a bottle in Britain, while the nearest competitor is GBP4.64 a bottle.

The success of New Zealand winemakers in world markets is relatively recent. Exports were negligible until the mid-eighties. The industry had developed behind prohibitive tariff barriers supplying the domestic New Zealand market with relatively low quality wine. Commercial development of wine started in the sixties, although a number of companies had been producing wine successfully for longer. Like most New Zealand industry at the time, wine production was heavily protected.

The wine industry became the subject of particular government attention in the late seventies, when it was decided special support was warranted to help domestic industry earn foreign exchange itself, and save foreign exchange by import substitution. A complex structure of composite tariffs, tariff quotas and a tariff threshold was introduced that had the effect of making imports of cheap wine prohibitive. New Zealanders were not, at the time, sophisticated wine drinkers and cheaper wines comprised the bulk of the market. Domestic producers started to expand and there were also some first forays into the medium and higher quality ends of the market.

The industry had established a representative body, the Wine Institute of New Zealand in the mid seventies. The industry was then, as it still is today, composed of a few medium sized to large producers, and many small boutique producers. The membership of WINZ in 1998 comprises 293 wineries, of which 17 are medium scale and only four are large. The institute's assessment of the industry in the late seventies was that it was not sustainable. The domestic market was too small and transport costs were too high. A development plan, geared at exports, was devised covering the period 1981-1986. Production of grapes grew more rapidly than did the markets for New Zealand wine and, by the mid eighties, there was a grape glut that threatened a number of wine companies - both big and small – with bankruptcy.

A scheme was introduced in the 1985 to subsidise vineyards to remove grapevines. This accelerated a shift in the market position of the country's wine production towards higher quality produce. At the same time, a significant reform in tariff policy started to take effect. The specific tariffs of 68 cents a litre, which penalized cheaper imports, were phased out, and replaced with an ad valorum tariff which was to be cut at a pre-determined rate from 25 percent in 1990 to 5 percent by 2000. Tariff quotas were removed.

The exposure of the domestic wine market was increased by the establishment of a free trade area with Australia which enabled Australian wine to enter New Zealand duty free. Imports started to rise. From 2.8 million litres in 1986, which represented just 6.5 percent of New Zealand's wine consumption, imports soared to a peak of 32.7 million litres in 1994, which represented just under half domestic consumption. The domestic wine producers have won back a portion of market share since then, but imports still hold 40 percent of the market.

The New Zealand wine market has grown since the mid eighties, however virtually all of that growth is accounted for by imports. Australia increased its share of New Zealand wine imports from 36 percent in 1988 to 72 percent by 1997. Imports also increased from European suppliers such as Italy and Spain and Latin American suppliers including Argentina and Chile. The growth in imports has been more than offset by a surge in New Zealand's exports. Although, in volume terms, the country imports significantly more wine than it exports, the high value of New Zealand wine means that the country has, for the first time, started to record a trade surplus in wine. The total volume of wine production has shown a modest increase over the last ten years, however the average value of has increased dramatically.

One of the pioneers of New Zealand's wine industry, the publicly listed Montana Wines, illustrates the change in the profile of the industry. Founded in the forties, it was a volume driven producer until the late eighties. Since then, it has concentrated upon building profitability by developing quality and high value wines. The shift involved a geographic relocation of its vineyards to grow more desirable grape varieties. The company established strategic production alliances with the French winemakers, Deutz and Cordier and, through them introduced new production techniques and products into the New Zealand market. It has also invested in its own research and development focusing on improving the quality of grapes by advancing environmental protection practices.

One of the first New Zealand wine companies to start marketing sauvignon blanc in the United Kingdom was Hunter's Wines, based in the Marlborough area. It entered export markets using mail-orders, with momentum building after it had won some international awards for its wines. It also produces some mid-range wines which are an essential category to gain entry to supermarket sales. It invests in research and development to improve its vines and has won ISO accreditation for quality.

At the small boutique end of the market, Jackson's, which started business in 1987, had a strategy of growing only the best quality of grapes. It makes extensive use of outside contractors, including for winemaking, bottling and labelling, storage, excise tax compliance, wholesale marketing and distribution. This enables it to focus upon growing grapes. It retains control over its wine production, retaining an internationally renowned winemaker to supervise production. Its export sales, which are handled through distributors, now exceed its domestic market.

The industry still has its challenges. The number of small producers has doubled, so it is a difficult battle for market share. Despite a far-reaching liberalisation of licensing laws and a much greater sophistication in wine appreciation, New Zealand market has not brought growth to the domestic producers because of the 40 percent share taken by imports. However the industry's positioning as a producer of premium quality wine for niche markets still promises export growth.

Financial Services Sector in Peru: Summary

The only foreign banking presence in Peru in 1990 was the single representative office of Citibank. Peru'sinance sector was not an attractive place to be, with hyper inflation, a recession and real interest rates of more than 95 percent. A populist government had attempted to shape the course of the economy by ordering banks to: advance credit to select economic activities; convert all foreign exchange deposits to domestic currency; ban profit remittances and credit payments abroad; and control interest rates. The entry of foreign banks was banned. Indeed foreign banks operating in Peru had been nation- alised by the earlier military government during the seventies. The interventionist strategy resulted in medium and long term credit drying up altogether. The largest commercial bank, Banco de Credito, protected itself during the hyper-inflation years by not expanding the number of branches and channelling deposits into real assets. Although the financial environment was hostile, it faced little real competition. Service levels were poor, despite overstaffing. There was little investment in modernisation.

The first sign of a change came soon after the appointment of the new government of President Fujimori in August 1990. In its first month, the government liberalized interest rates. A few months later, all exchange controls were scrapped. Exporters could keep their proceeds abroad and anyone could use foreign exchange.

It was the beginning of a dramatic liberalisation of the Peruvian economy. In the hyper-inflation era, there were price controls, multiple exchange rates, non-tariff trade barriers and subsidies to consumer goods. Under the new government, the domestic market, foreign trade and capital markets were freed almost simultaneously.

The urgent demand was to rein in the fiscal deficit and introduce competition to restrain price rises. The government unified the exchange rate, and liberalised trade to introduce some price competition. The liberalisation of finance markets was required so that domestic industry could gain access to the funds it required in order to be competitive.

A new banking law was introduced which created a deposit insurance fund, but which ended the guarantee of deposits by the Central Bank. Four commercial banks were closed, with substantial losses borne by depositors.

In a big break with the past, the government adopted a policy of non-discrimination between foreign, national, state or private sector banks. The market was opened to foreign banks and insurance companies. Barriers of entry for domestic participants were also lowered, with the only requirements being that the owners have sound financial reputations and a minimum capital base equivalent to $US 7 million.

While barriers to entry have come down, required prudential standards have gone up. Banks are required to diversify risk and have better capital adequacy ratios than the international standard. Loan loss reserves requirements are strictly enforced. Banks are also subject to strong disclosure requirements. Their loan portfolio quality is published each month and they are required to get credit ratings reviewed by two credit rating agencies twice a year.

The result has been a much more robust banking system. A measure of the new confidence in the system has been the growth of bank deposits from just $US 350 million in 1989 to $US 12.2 billion by the end of 1997. The industry has become much more productive, with the loans per employee rising from $US 27,000 in 1990 (which was only twice the yearly salary of a bank employee) to $US 490,000 per bank worker by the end of 1997.

Improved competition and better quality services have resulted in a reduction in the spread between deposit and loan rates. At the beginning of 1992, it has come down from 8 percent to 1 percent. Real interest rates have dropped from more than 40 percent to about 9 percent over the same period.

The market is succeeding in getting funds to sectors of the economy in a way that orders from the government could not. For example, lending to agriculture and livestock increased from just $US 54 million in 1990 to $US 440 million last year.

New banks are opening their doors. For example, the Banco del Nuevo Mundo, established in 1993, has become a highly profitable business focusing upon lending to medium sized firms and middle-class mortgages and gaining deposits from middle-class customers. It's deposits grew from $US 72 million to $US 311 million between 1993 and 1997. Citibank now has company, with 13 of the 25 banks at least partly foreign owned. Banks with foreign ownership have a 32 percent share of bank deposits.

Established operators, such as the Banco de Credito, have responded to the competition by investing in technology, and improving customer service. The bank has become aggressive in its leasing, factoring and underwriting activities. It has also ventured offshore, with its holding company acquiring banks in the United States and in several Latin American countries. The wave of liberalisation has extended to other institutions.

The stock exchange was privatised and, in 1996, a new capital market law was introduced which increased the scope of operations for broking firms. Mutual funds are encouraged and new legislation established a private pension fund scheme. To get activity going, the government offered tax exemptions on both capital profits on stock transactions and interest income from bonds. The result has been that daily average turnover has increased from just $US 240,000 to $US 27 million through 1997.

Companies raised $US 1.4 billion through initial public offerings last year. Pension funds have also been a success, with nearly 2 million members and accumulated funds of more than $US 1.7 billion. Shares, bank deposits and corporate bonds account for 80 percent of their investments. There are five funds in operation with a sales force between them of about 4,500 people. The biggest problem for the pension funds and for the stock exchange is a scarcity of assets in which to invest. Although public raisings have increased dramatically, it has not yet been enough to satisfy rising demand. There are still some issues to be resolved in the pension fund scheme, among them the double taxation of contributions and pensions, and the lack of a special scheme for the self employed.

The banking system too still has its challenges. Supervision of financial institutions with branches abroad is difficult as is the treatment of financial derivatives. At the other end of the spectrum, some banks suffer from shortages of skilled staff and are unable to take advantage of economies of scale. A problem which Peru, like other Latin American countries, faces is the extent of borrowings denominated in US dollars. This exacerbates the recessionary impact of any local currency devaluation. Peru, however, draws some comfort from high reserve requirements on US dollar deposits, a level of international reserves that is four times its liquidity in the domestic currency, and a sound macroeconomic and banking regulatory policy framework.