

CHAPTER V

THE ECONOMY

MACROECONOMIC DEVELOPMENT

It was only in 1946, when it gained independence from the United States, that the Philippines finally had the opportunity to run its own economy. The immediate task at that time was to rehabilitate the country from the ravages of the Second World War. Although the opportunity to determine its own economic policies were in principle granted, the Philippines continued to rely heavily on American assistance for its economic development. In exchange, investors from the US were accorded special treatment. For a time, this mutual assistance was beneficial until the deluge of American funds and American imports caused a balance of payments crisis in 1949.

To address the crisis, the Philippines exercised a system of stringent foreign controls and import restrictions. These measures, along with the implementation of the Filipino First Policy, which encouraged a preference for Filipino products, prompted industrialization in



Makati City is the center of financial and commercial activity in the Philippines.

the Philippines. Industries in the country began to manufacture products to serve as import substitutes and meet the increased demand for Philippine products. This industrialization slowly made the Philippine economy self-reliant as it was able to post an average growth rate of 6.7 percent between 1950-1960.

In the 1960s, President Diosdado Macapagal, a free-trade advocate, lifted the foreign exchange and import controls and replaced them with a system of floating peso-dollar rates and lower tariff regimes. This resulted in the devaluation of the peso by almost 100 percent. It also enabled huge gains for the agricultural exporters. The coconut industry was the principal beneficiary of the decontrol policies, as copra, coconut oil and desiccated coconut became top Philippine exports in 1965. The devaluation of the peso, however, doubled the cost of importing raw materials, which proved detrimental to the manufacturing sector. Some industries went into insolvency while others cut back on their production.

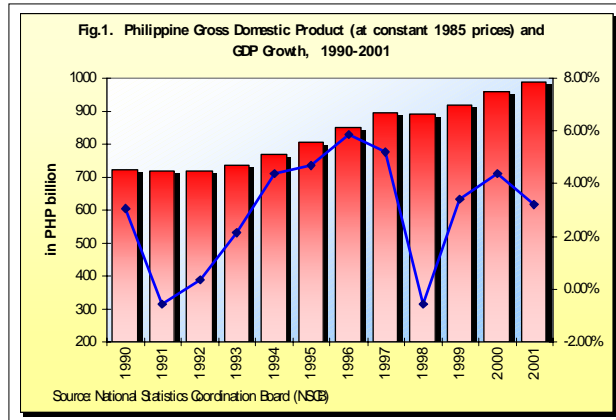
The decontrol policies likewise altered the pattern of land use in the Philippines as farmers shifted away from food production to commercial crop production. Land area for export crops expanded while those for rice declined. The price of rice naturally soared, leading to a more severe problem of structural inflation in 1966.

To improve rice productivity and to stem price increase, the government tapped the expertise of the International Rice Research Institute (IRRI) to develop high-yielding varieties of rice. This period marked the beginning of the "green revolution" in the Philippines as between 1962 and 1985 total rice production doubled from 1.25 to 2.50 metric tons of palay per hectare.

President Marcos continued the decontrol policies throughout his term. He pushed for exports of agricultural products to be the harbinger of economic development; however, it did not benefit the poor, as income generated from agricultural exports accrued to a few individuals. Marcos also deployed state power to put control of the country's top agricultural products securely in the hands of the presidential cronies.

The economy plunged into an economic crisis in 1970 when the profligate spending of the Marcos administration took its toll on the government's coffers. The government was unable to meet payments on its USD2.3 billion loan and it had to rely on additional borrowings to finance government expenditures. Although economic growth was relatively robust, averaging 6.2 percent between 1970 and 1980, it was an economic growth sustained by a large accumulation of external debt. So large was the Philippine international loan that at the time President Corazon Aquino took office in 1986, the country's debt had ballooned to USD28 billion.

The latter part of the Marcos rule was marred by severe economic and political crisis. It was only in 1986 that the Philippine economy was able to recover. To revitalize the economy, the Aquino administration undertook outward-looking economic reform strategies that included



agrarian reform, trade liberalization, exchange decontrol, and tax reforms. Although GDP growth was initially modest at 3.4 percent, it was more upbeat in the next four years when growth averaged 5 percent. The decade's most spectacular performance was attained in 1988 when economic output improved by 6.8 percent. The economy, however, once again faltered when the

country experienced a string of natural calamities in 1990, which exacerbated the destructive consequences of the 1989 coup attempts. The Aquino administration was also unable to get Congress' support in enacting a new economic plan to prevail over the country's economic quandary. As a result, GDP slipped by 0.58 percent in 1991.

Economic reforms initiated during the Aquino administration triumphed in the mid-1990s when the Philippines manifested sound economic fundamentals that geared up the country for globalization. Economic planners of the Ramos administration continued the market-oriented reforms by further opening the economy and lessening macroeconomic imbalances. The reforms included the privatization of government-owned corporations; liberalization of the banking, telecommunications and energy sectors; and reduction of import tariffs. Changes in the monetary policy were also adopted. The central bank was re-capitalized and the Philippine peso was de facto pegged to the US dollar, giving rise to an independent monetary policy with a coherent objective of pursuing price stability. The political stability achieved during this time also helped the economy grow uninterrupted by an average of 4.3 percent, and exports intensified by 20 percent every year between 1993-1996. The Philippines was perceived as a dynamic emerging economy in Southeast Asia during this period.

When the financial crisis hit Asia in 1997, the Philippine economy remained steadfast, managing to grow by 5 percent. It weakened by a meager 0.50 percent the following year, compared to Indonesia's decline of 13.2 percent and Thailand's 10.2 percent. Much of the country's economic resilience was due to its political and macroeconomic stability. It was only the El Niño phenomenon that adversely affected the economy as agricultural output fell by more than 6 percent.

Recovery began in 1999 when the Philippine peso stabilized to an average of P38.40 to a dollar after hitting all-time lows in the last quarter the previous year. To bolster the economy, tight monetary and fiscal policies plus an assembly of key structural reforms were implemented. Interest rates were back to pre-crisis levels and inflation rate was down 6.7

percent after reaching a double-digit figure the previous year. Net international reserves rose by 46 percent to USD12 billion after it was nearly drained out in the crisis years when the *Bangko Sentral ng Pilipinas* intervened to prevent the peso from further slipping against the dollar. Lastly, external accounts experienced a dramatic turnaround when a current

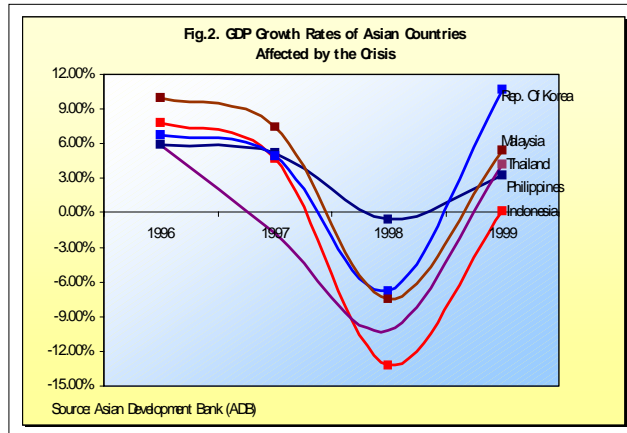
account surplus increased to 9.2 percent of the gross national product on the heels of an unrelenting strength in exports. GDP registered an improvement of 3.3 percent. How the Philippines weathered the Asian crisis faster and in better shape than most of its neighbors demonstrates a country of sound economic policies, stable political environment, and a place suitable for investments.

In 2000, the Philippine economy managed to post an even faster growth of 3.9 percent despite the political disturbance in the last quarter of the year. The improvement, sustained by the positive growth figures of the agriculture, industry and services sectors, almost met the government's growth target of 4 percent. Much of the improvement was attributed to the stunning performance of the transport and communications sectors, whose increases in the subscriber base of wireless and landline telecommunications services boosted the sector's growth of 10.4 percent.

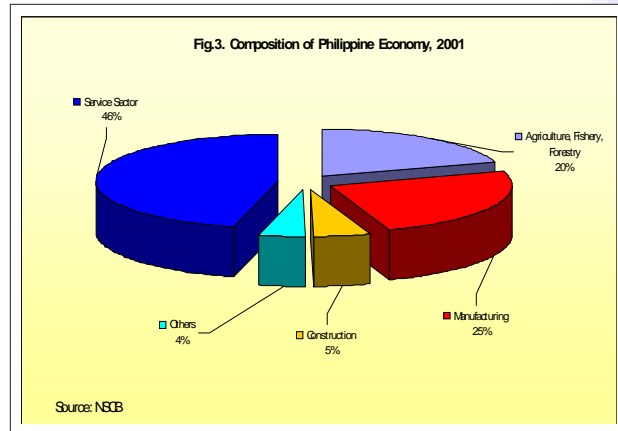
THE NATIONAL ECONOMY

The Philippines is the fifth largest economy in Southeast Asia after Indonesia, Thailand, Malaysia, and Singapore. Its gross domestic product (GDP) at current prices, that is, the value of total goods and services produced in a year, was valued at USD71.383 billion in 2001. The Philippine economic output has increased four times in the last 25 years, and has even multiplied more than ten times in the last 30 years. Traditionally agricultural, the Philippine economy has grown in the manufacturing sector since the 1960s and has recently boomed in the services sector.

Valued in the local currency at PHP989.258 billion (at constant 1985 prices), the Philippine GDP grew by 3.4 percent in 2001 despite being hounded by global recession in the last quarter of the year. The continued stability and resilience exhibited by the country's economic



fundamentals confirmed that the country was on its way to a sustained recovery after the Asian crisis. The economy's strength is attributed to the spectacular performance of the services sector, whose 4.3 percent growth was boosted by the 20.5 percent expansion of telecommunications services output. Services contributed 46 percent to GDP and employed 42 percent of the total work force.



The global economic slowdown, however, abated the growth of industry as its 1.9 percent growth in 2001 was a resounding contrast to its 3.9 percent increase the previous year. Mining and quarrying suffered a 5 percent decline due to reduced production of gold, copper, crude oil, clay and sandpits, and other minerals. Manufacturing, which felt the brunt of sluggish consumer demand and the relapse of the global technology sector, managed to grow only by 2.2 percent as compared to its 5.6 percent rise in 2000. Industry contributed 34 percent to GDP and employed 16 percent of the total workforce.

Contributing 20 percent to GDP and employing 32 percent of the total work force, the agriculture, fishery and forestry sector rose 3.9 percent in 2001. The improved performance of the sector is credited to good weather and benefits reaped from structural reforms specified in the Agriculture and Fisheries Modernization Act, which was centered on boosting productivity and market competition.

Accounting as well for net income factor from abroad, the gross national product (GNP) of the Philippines grew by 3.7 percent to PHP1.05 trillion. Net inflow of factor income amounted to PHP62.96 billion at constant prices, an increment of 9.2 percent from PHP57.652 billion recorded in 2000. The bulk of the net factor income came from remittances of Overseas Filipino Workers (OFWs), which amounted to PHP365.7 billion at current prices, an increase of 30 percent from PHP281.7 billion the previous year. The OFW's annual dollar remittances are a principal source of the country's foreign reserves.

Nominal GNP per capita in 2001 was valued at PHP49,103 (USD982.06), a 7.4 percent increase from 2000 nominal GNP per capita of PHP45,727 (USD914.54).

Disposable incomes of Filipino families have increased significantly in the last decade. From 1988 to 1997, total annual family income rose fourfold from PHP425.7 billion to PHP1.7

trillion. In 2000, it increased further by 26.2 percent to PHP2.2 trillion. Average annual family income in 2000 reached PHP144,039, indicating an increase by 16.9 percent over PHP123,168 in 1997.

SOCIOECONOMIC PLANNING

The central task of the Philippine economic policy is poverty reduction. The government's antipoverty and overall economic development framework is outlined in the Medium-Term Philippine Development Plan (MTPDP). The MTPDP identifies targets and strategies that will help the country win the fight against poverty. It distinguishes macroeconomic stability, sustained growth of income, and employment across sectors, socioeconomic groupings, and regions as fundamental policies in reducing the number and proportion of poor families in the Philippines.

The National Economic Development Authority (NEDA) is the Philippines' premier economic development and planning agency. It has the primary responsibility of formulating coordinated and fully integrated social and economic plans, policies and programs for the Philippine government. The NEDA is mandated to directly consult with the private sector, community organizations and beneficiaries, local government units, and the appropriate public agencies, to aid itself in drawing up annual medium-term public investment programs, programming of official development assistance, and the monitoring and evaluation of plan implementation. The powers and functions of the NEDA are vested on the NEDA Board. The Board is composed of the President of the Philippines as chairman; the Secretary of Socio-economic Planning and NEDA Director-General as vice-chairman; and the Executive Secretary and Secretaries of Finance, Trade and Industry, Agriculture, Environment and Natural Resources, Public Works and Highways, Budget and Management, Labor and Employment, and Interior and Local Government. Advising the Board on certain issues and concerns are five cabinet-level inter-agency committees, namely, the Development Budget Coordination Committee (DBCC) on matters relating to the proper allocation of government expenditure; Infrastructure Committee (InfraCom) on infrastructure development; Investment Coordination Committee (ICC) on fiscal and monetary policies, and the domestic and foreign borrowings program; Social Development Committee (SDC) on issues concerning social development, such as education, manpower, health and nutrition, population, and human settlements; and the Committee on Tariff and Related Matters (CTRM) on tariff-related issues and international economic negotiations positions.

FOREIGN TRADE

PHILIPPINE FOREIGN TRADE

The more liberalized economy of the Philippines led to the gradual improvement in external trade performance between 1991 and 2000. The value of exports more than quadrupled from USD8.34 billion in 1991 to USD38.08 billion in 2000. Imports also increased from USD12.05 billion to USD31.39 billion. However, because of the slowdown of the economies of the United States and Japan, the Philippines' top trading partners, Philippine trade declined in 2001. Exports were down by 16 percent to USD32.14 billion and imports by 6 percent to USD29.55 billion.

The Philippines' top exports include electronic equipment and parts, machinery and transport equipment, garments, non-metallic mineral manufactures, coconut oil, chemicals, fish, shrimps and prawns, bananas, processed food and beverages, textile, and copper metal. The country's top imports are telecommunications equipment and electric machines, materials for the manufacture of electric equipment, petroleum crude, chemicals, and office and electronic data processing (EDP) machines, food and live animals, iron and steel, and textile.

In 2001, the US remained the top Philippine export partner with a share of 27.9 percent in total exports, followed by Japan (15.7 percent), the Netherlands (9.2 percent), Singapore (7.1 percent) and Taiwan (6.5 percent). The Philippines imported mainly from Japan (20.6 percent), the US (18 percent), Republic of Korea (6.5 percent), Singapore (6.1 percent) and Taiwan (5.6 percent).

TRADE REFORMS AND POLICIES

In September 1967, the Philippine government enacted into law the Investments Incentives Act or Republic Act (RA) 5186, which offered tax incentives and programs necessary for the development and growth of the export industry. Substantial trade reform started in 1981 when the government launched the Import Liberalization Program (ILP), which had the primary goals of removing excess protection to domestic industries and improving the competitiveness of Philippine exports in the world market. The ILP provided for the removal of import restrictions and the rationalization of the Philippine tariff structure. The structure included a four-tiered tariff band of 3 percent and a maximum of 30 percent.

The government's trade-promoting endeavors were, however, halted when the Philippines fell into an economic crisis in 1983, characterized by the exhaustion of foreign currency reserves and the ballooning of the foreign debt. Imports were subsequently restricted and import licenses aborted. The ILP was only revived in the Aquino administration, along with the reduction of the number of restricted items and the elimination of export taxes. Tariff reforms were also instituted through the issuance of Executive Order (EO) 470 in 1991,



Top Philippine exports: (clockwise from right): processed food, garments, footwear, auto parts, chemicals, and gifts and houseware



The Philippines and Japan are currently negotiating for a free trade area.

which set an extensive program of tariff reduction and restructuring. Phased in over a five-year period, EO 470 lowered the average nominal tariff rate to 20 percent.

There was a further effort to promote export with the passage of the Export Development Act of 1994 or RA 7844, which championed exports to be the prime mover for a sustainable economic development. The law mandated the existing Export Development Council to provide institutional support for the export industry. It created the Philippine Trade Center to house the trade promotion offices and serve as exhibit site for Philippine export products. It also authorized government-owned banks to extend special credit facilities and easy credit schemes to Filipino exporters. The following year, the Special Economic Zones Act of 1995 or RA 7916 was made into law, which provided for the establishment of thirty-seven ecozones throughout the archipelago aside from the existing export processing zones and government-owned industrial estates. Through the modern agro-industrial, commercial, tourist, and financial centers to be located in the special economic zones, the Act promotes financial and industrial cooperation between the Philippines and industrialized countries as well as encourages local and international investment flows. The law considers enterprises located in the export processing zones to be outside the Philippines customs territory and allows them to import capital equipment and raw materials free of customs duties and taxes.

The Philippines' accessions to the World Trade Organization (WTO) and the ASEAN Free Trade Area (AFTA), and its membership in the Asia-Pacific Economic Cooperation (APEC) uphold the country's adherence to the liberalization of world trade. As a signatory to the General Agreement on Tariffs and Trade (GATT) since 1979, and a member of the WTO since 1995, its active involvement in the global trading arena has contributed wide-ranging economic reforms through the years, and profoundly affected its trade structure. Demonstrating its commitments to the WTO, the Philippines exercises the most-favored nation (MFN) principle, has bound almost all of its agricultural and manufacturing tariff lines, tariffed quantitative restrictions, and phased out import restraints. As part of AFTA's accelerated tariff reduction program under the Common Effective Preferential Tariff (CEPT) Agreement, the Philippines is set to reduce tariffs on all manufactured goods to zero to five percent by 2003.

Sectoral policy developments in the Philippines were led by the approval of RA 8479 or the Downstream Oil Industry Deregulation Act in February 1998. This law removed import restrictions on crude oil and other petroleum products, provided for the elimination of monopolies and cartels, and granted five-year tax incentives to enterprises in the oil industry.

The Agriculture and Fisheries Modernization Act or RA 8435 supported the government's pursuit to

enhance the comparative advantage of the sectors – the Philippines being rich in land and sea resources. The law prepared the sectors for the challenges of globalization such as sparing enterprises involved in the agriculture and fisheries sectors from paying duties on all imported inputs such as fertilizers, pesticides, seeds, and farm implements.

The Jewelry Development Act or RA 8502 also adopted incentives and trade promotion programs such as exemptions from the payment of taxes and duties on imported inputs, and the inclusion of locally-manufactured jewelry in the government's



The Philippines supplies 80 percent of the world's total production of carageenan, a euclidean-based seaweed food additive and

duty-free shops.

RELEVANT AGENCIES

The Department of Trade and Industry (DTI) is the lead government agency mandated to make Philippine products competitive here and abroad. The DTI is composed of 20 bureaus and 14 attached agencies that oversee the promotion and development of Philippine trade. Foremost of these are the Bureau of International Trade Relations (BITR), which is the DTI's chief office for foreign trade concerns, and the Bureau of Export Trade Promotion (BETP), which is DTI's export promotion arm. Another important DTI unit is the Center for International Trade Expositions and Missions (CITEM), tasked to develop and manage international trade fairs and missions. The Product Development and Design Center of the Philippines (PDDCP) is responsible for advancing industrial design as a means to improving the excellence and competitiveness of Philippine products. The Philippine International Trading Corporation (PITC) implements government-to-government trading transactions such as countertrade and bulk importation programs, while the Philippine Trade Training Center (PTTC) offers



The Center for International Trade Expositions and Missions (CITEM) organizes outgoing and incoming trade missions to showcase Philippine priority exports and emerging products in foreign markets.

FOREIGN DIRECT INVESTMENTS

Foreign direct investments (FDI) play an important role in the economic development of the Philippines. The Philippine government encourages the inflow of FDI as they increase the foreign exchange reserves, enhance domestic capital, promote technology transfer, encourage competition in the local market, generate jobs, and provide access to foreign markets.

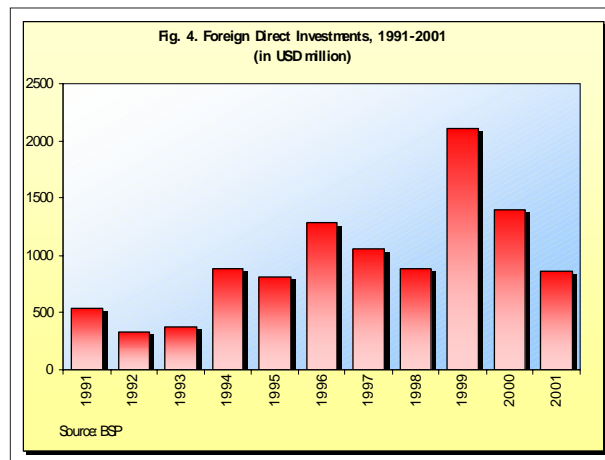
FDI registered with the *Bangko Sentral ng Pilipinas* (BSP) amounted to USD6.30 billion between 1997 and 2001. Indicating the magnitude of FDI as a financial stimulus for economic progress in the Philippines, FDI constituted 33 percent of private flows and 30 percent of net resource flows in the same period. They grew by an average of 6 percent in the five-year period, registering an unprecedented high of 138 percent in 1999. This signifies that the Philippines has remained a favored investment destination in Asia after the region recovered from the 1997 financial crisis. In 2001, FDI amounted to USD857.81 million.

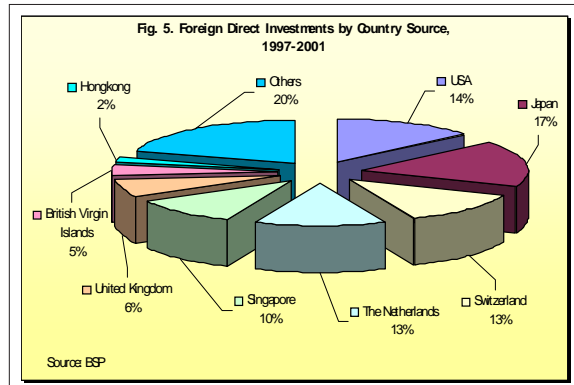
The manufacturing sector's USD1.90 billion worth of projects comprised a 30 percent share in the total FDI registered with the BSP in the last five years. Banks, which accounted for 26 percent, chalked up a total of USD1.64 billion of investments. Public utility made up 22 percent, with investments in communication, electricity and transportation totaling up to USD1.36 billion.

As to source of FDI by country, the top five leading investors for the period 1997-2001 were Japan (17%), United States (14%), The Netherlands (13%), Switzerland (12.5%), and Singapore (10%). Other major investors include the United Kingdom, The British Virgin Islands, Germany, Taiwan, Hong Kong, Malaysia, South Korea, Australia, Canada, and France. Together these top 15 investors represented 89 percent of the total FDI for the period.

INVESTING IN THE PHILIPPINES

The Foreign Investments Act of 1991 (RA 7042 as amended by RA 8179) stipulates that anyone, regardless of nationality, may invest up to 100 percent in Philippine domestic market





enterprises except in those that are limited by the Philippine Constitution or the Foreign Investment Negative List.

The Philippine Constitution classifies all natural resources as owned by the State. While agricultural land is alienable, only individuals of Philippine citizenship and corporations, at least 60 percent of whose capital is owned by Filipinos, may own

land through a lease for a period not exceeding twenty-five years. The President of the Philippines may also enter into contracts with foreign-owned corporations for technical and financial assistance for large-scale operation and exploration of minerals, petroleum, and other mineral oils.

The Philippine Constitution limits foreign ownership of Philippine corporations to 40 percent. It also limits the franchise, license, and any other form of authorization in the operation of a public utility to 40 percent foreign equity. Such franchise, license and authorization shall be granted for not longer than fifty years.

Nevertheless, foreign investors are entitled to the basic rights guaranteed by the Philippine Constitution, which include:

1. Freedom from expropriation without just compensation;
2. The right to remit profits, capital gains, and dividends within the guidelines of the BSP;
3. The right to repatriate proceeds of the liquidation of investments; and
4. The right to obtain foreign exchange to meet principal and interest payments on foreign obligations.

Aside from those reserved to Philippine nationals as mandated by the Philippine Constitution, the Foreign Investment Negative List enumerates the investment areas reserved to Philippine nationals.

Investments of single proprietorships are to be registered with the Bureau of Trade Regulation and Consumer Protection (BTRCP), while partnerships and corporations are to be registered with the Securities Exchange Commission (SEC). One-Stop Action Centers (OSACs), located at several registration sites, provide assistance and facilitation services to enable investors to obtain the required information and documentation in one place, thereby hastening the registration process.

There are a number of reasons why the Philippines is an ideal place to invest in. These are:

STRATEGIC LOCATION

The Philippines is located in the Asia-Pacific, the fastest-growing region in the world today. Its proximity to Taiwan to the north, Indonesia to the South, Malaysia and Singapore to the southwest, Japan, Korea and China to the northeast, and Australia and New Zealand to the southeast, makes the Philippines an ideal business location in Asia. It is at the junction of eastern and western business, trade and culture and at the same time serves as the ASEAN access to international air and shipping lines.

QUALITY HUMAN RESOURCES

The Philippines has a rich reservoir of national talents, ranked first in the availability of knowledge-based jobs and workers worldwide by a leading information technology (IT) market assessment firm METAGroup, and 4th among Asian neighbors in quality of labor force, behind only Japan, Taiwan and Singapore.



The country has a growing resource of highly educated, skilled, and trainable English-speaking

IT and IT-enabled services top the list of Philippines' priority investment areas.

workers. The Philippines is the third largest English-speaking country in the world, next to the United States and the United Kingdom. Many Filipinos also speak Spanish and Chinese as a second language. It is also third among Asian countries with the highest literacy rates.

QUALITY LIVING CONDITIONS AND FRIENDLY PEOPLE

A survey conducted by the Political and Economic Risk Consultancy (PERC) in 2000 ranked the Philippines as the best Asian country for expatriate living. The Philippines scored highly for availability of a world-class quality of life and the openness of Filipinos to varied cultures. Expatriates enjoy affordable and quality housing, schools, hospitals, shopping malls, hotels, restaurants, beach resorts, recreational facilities, and a vibrant nightlife. Filipinos are also highly regarded for their friendliness and hospitality. In 2001, PERC ranked the Philippines as the second least stressful country next to Japan, highlighting the indefatigable optimism of its people in the face of political upheavals.

OPEN AND BUSINESS-FRIENDLY ECONOMY

Economic policies are continually improving, getting rid of strict government regulations,

making the country more attractive to foreign investments. The recent policy reforms undertaken by the Philippine government have allowed many businesses to be fully-owned by foreigners. The telecommunications, shipping, oil, banking, insurance and retail trade industries have now been liberalized. Investment procedures are simplified and assistance

**Table 1. Comparative Monthly Salaries in 2000 in Selected Countries
(in US Dollars)**

	Average	Philippines	Indonesia	Japan	Malaysia	Singapore	Thailand	USA
Bank Manager	3,374	979	508	8,417	1,842	4,145	794	6,983
Civil Engineer	2,851	918	224	5,687	1,908	3,184	397	6,213
Manufacturing Director	5,954	2,368	2,181	12,045	4,364	6,740	2,772	11,592
Factory/Plant Manager	3,918	1,623	915	7,992	2,033	4,639	1,931	8,025
Accountant	2,113	410	355	4,527	1,171	2,290	1,147	4,463
Systems Engineer	2,283	547	533	4,663	1,171	2,290	927	5,460
Software Developer	2,287	547	533	4,708	864	2,792	927	5,250
Secretary	1,078	309	210	1,720	491	1,326	446	2,208
Chauffeur	928	231	157	1,217	366	975	240	2,442

Source: Asiaweek

GROWING BUSINESS OPPORTUNITIES

The Philippines offers access to a very large Southeast Asian market of more than 500 million people. The Philippine market alone is composed of more than 76.5 million consumers, making the country a natural choice for businesses that want access to the larger ASEAN market and its vast investment opportunities. Productive business opportunities are growing in the technology, telecommunications, food processing, construction, metal products, energy, and infrastructure projects. The Philippine government has also strengthened various sectors and economic activities while reducing its intervention in private enterprises in line with its privatization program.

INVESTMENT POLICIES

The Board of Investments (BOI) is the lead agency responsible for promoting investments in the Philippines. It helps Filipino and foreign investors venture and succeed in various business opportunities. It regularly views existing investment policies and formulates new ones that will prime each sector for the challenges of globalization.

One answer to these challenges has been the liberalization of foreign investments with the goal of expanding employment opportunities; enhancing Filipino capital and technology; and creating efficient competition through lower prices, better services, and wider choices. The Foreign Investments Act of 1991 was enacted to allow foreigners to invest as much as 100 percent in domestic market enterprises, except in areas limited by the Philippine Constitution and the Foreign Investment Negative List. The Constitution reserves the exploration, development and utilization of natural resources to at least 60 percent Filipino equity while the Foreign Investment Negative List contains a list of economic activities requiring at least 60 percent Filipino ownership.

The Omnibus Investments Code of 1987 or EO 226 provides that investments that allocate 70 percent of total production for export or those designated as "pioneer" may be wholly-owned by foreigners. Pioneer enterprises are those that engage in the manufacture, processing, or production of raw materials that have not been produced in the Philippines on a commercial scale; production or transformation of any element, substance, or raw material into another raw material or finished good that is new in the Philippines; the pursuit of agricultural, forestry, and mining activities, which are determined by the BOI to be essential to the attainment of the national goals in the food and agricultural program; and the production of non-conventional fuels or equipment that utilize non-conventional sources or the use of coal in their production.

Foreigners have also been allowed to engage in retail trade in the Philippines through the enactment of the Retail Trade Liberalization Act of 2000 or RA 8762. Foreign ownership of domestic retail businesses depends on the amount of the establishment's capitalization. Retail businesses with paid-up capital of more than USD750 million as well as those involved in the retail of high-end or luxury products may be fully-owned by foreigners. Enterprises with a paid-up capital of USD2.5 million are limited to not more than 60 percent foreign equity. Beginning 2002, two years after the effectivity of the Act, such business endeavors may be wholly-owned by international investors. The telecommunications industry, which was once dominated by the Philippine Long Distance Telephone Company (PLDT), has benefited from the government's liberalization strategies. In 1994, the Public Telecommunications Policy Act or RA 7925 was enacted, creating a more level playing field for all companies, and significantly heralding the entry of 72 new private telephone companies in the telecommunications market.

The privatization program is the heart of the Philippine economic and investment policy in the 1990s, a fundamental feature in the government's aim to achieve an investment-led economic growth. The sale of banks, airline, hotels, mining companies, oil refinery, and other

government-owned and controlled corporations (GOCCs) from 1991-2000 brought in more than PHP122.5 billion in privatization proceeds. To carry out the handing over of government-owned entities to the private sector, the government introduced schemes such as mergers, holding companies, consolidations, and leverage buy-outs. The Philippine Congress also enacted the Build-Operate-Transfer (BOT) Law, which authorizes the financing, construction, operation, and maintenance of infrastructure projects by private corporations. The BOT scheme, which is highly emulated by the country's Southeast Asian neighbors, provides local and international investors countless business opportunities in the utilities, infrastructure, transportation, telecommunication, tourism, and energy sectors.

In 1998 the Philippines carried out the deregulation of the downstream petroleum industry, which attracted new entrants to the energy sector. Four years earlier, the Philippine government sold its 40 percent stake in Petron to Saudi Aramco. With the enactment into law of The Electric Power Industry Reforms Act of 2001 or RA 9136, the National Power Corporation is due for privatization, with the private sector expected to raise more than 75 percent of the total investment requirement.

The Philippine government has also adopted strategic policy reforms to attract investments, such as the lifting of restrictions on foreign exchange transactions, immediate repatriation of all types of investments, enhancement of incentives for priority investment areas, and the granting of investment incentives.

The Philippines is a signatory to a friendship, commerce, and navigation treaty with Japan, and a party to bilateral investment treaties with more than 20 countries, promoting friendly investment relationships, providing a Most Favored Nation treatment, and guaranteeing the free transfer of investments and returns held in the territory of one country to the other.

The Philippines is a member of the Multilateral Investment Guarantee Agency (MIGA), which promotes foreign direct investments by offering political risk insurance and investment marketing assistance to investors. This means that foreign investors in the Philippines are eligible to apply for investment guarantees against non-commercial risks such as transfer restrictions, expropriation, breach of contract, and war and civil disturbance. As a member of the



The aggressive efforts of the Philippine government to promote investments in the energy sector have instigated numerous research, exploration and development projects all over the

WTO and the World Bank, the Philippines embraces the procedures for dispute settlement established by the WTO and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

INVESTMENT PRIORITIES

Every year, the BOI prepares the Investment Priorities Plan (IPP) where the government identifies a list of priority investment areas that are complimentary to the government's long-term economic development objectives. Investments in these sectors are entitled to an assortment of incentives. In the past years, priority investments included manufacturing, information technology, services provided to international and shipping lines, drugs and medicines, tourism, mass housing, infrastructure, agriculture, energy, food, and environmental projects. The IPP also incorporates a list of economic activities being promoted by the Autonomous Region for Muslim Mindanao (ARMM).



The manufacture of electronic parts and products comprises 58 percent of locator investments in PEZA.

SPECIAL INVESTMENT LOCATIONS

To promote regional development and to shift commerce and trade to localities outside crowded Metro Manila, the Philippine government has identified investment growth centers around the country. The contiguous provinces of Cavite, Laguna, Batangas, Rizal, and Quezon make up a large multi-sectoral investment area called CALABARZON. It accommodates 10 major industrial estates to further boost the economic activities in the region and counts on the Batangas port as its main international container and passenger port.

SOCSARGEN is an agro-industrial economic area composed of South Cotabato, Sarangani, and General Santos City. Its energetic economy and well-maintained modern infrastructure, including an international airport, boost trade with neighboring countries making SOCSARGEN the Philippines' gateway to the East ASEAN Growth Triangle. Its rich geographical makeup makes it the country's top producer of various agricultural products and the leading exporter of asparagus, cutflower, and tuna.

The Cagayan-Iligan Corridor along the coast of northern Mindanao links the two industrial

hubs of Cagayan de Oro City in Misamis Oriental and Iligan City in Lanao del Norte. The corridor is rich in hydroelectric energy and is the industrial base for the manufacture of food, petrochemicals, paper, steel, and cement; fruit canning; and ore mining and processing. The Philippine Sinter Corporation and Del Monte Philippines are located in the corridor.

Export processing zones, special processing zones, freeport zones, and several private industrial estates and technology parks throughout the country have attracted numerous investments because of the several incentives, excellent location, and outstanding infrastructure available in these special investment locations.

The Philippine Economic Zone Authority (PEZA) manages the establishment, development, and promotion of investments in 142 economic zones all over the country. Bataan, Baguio, Mactan and Cavite have special economic zones developed and operated by PEZA where enterprises are allowed to import capital equipment free from taxes, duties, and other import restrictions. Industrial estates are targeted to include industries listed in the government's priority investment areas. Such industrial estates include the Carmelray, First Cavite, and Luisita Industrial Parks, Gateway Business Park, and Laguna International Park.



RCBC Plaza is the first building in the Philippines to be proclaimed an IT zone.

Two of the former American military facilities in the Philippines have been transformed into world-class freeports and economic zones that have attracted investments and created jobs far exceeding expectations. The Subic Bay Freeport and Special Economic Zone is an investment haven for enterprises ranging from tourism, power generation to freight services and information technology. Federal Express (FedEx), the world's largest express cargo transshipment and transportation company, is Subic's largest investment locator. FedEx has made Subic its Asia-Pacific hub, connecting 18 major economic and financial centers in the region. Acer, one of the world's largest producers of personal computers, has its US\$120 million production plant in Subic, the corporation's largest outside Taiwan. Having been granted pioneer incentives by the BOI, Acer employs 2,500 workers and has manufactured 10 million motherboards and 1 million notebook computers since it began operating in 1995.

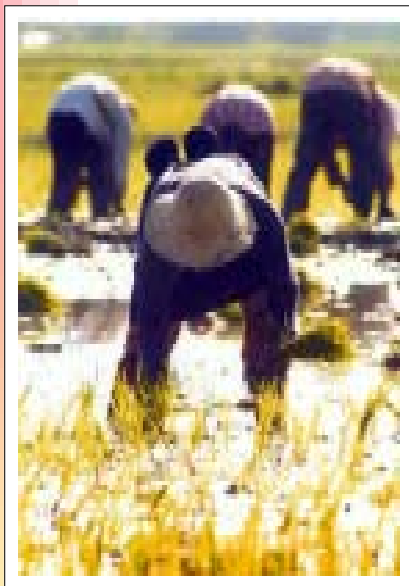
The Clark Special Economic Zone serves as a major aviation complex for international passenger and cargoes, with the use of the world-class Clark International Airport. Its excellent recreational and entertainment facilities make it a tourism and gaming center of

AGRICULTURE, FORESTRY, AND FISHERIES

The agriculture, forestry, and fisheries sector is significant to the Philippine economy as it provides considerable employment for many Filipinos, contributes to export earnings every year, and supplies a major part of the dietary needs of the general population. As two-thirds of the Philippine population live in the rural countryside and 77 percent of the poor are involved in agriculture, forestry, and fisheries, the government relies on the sector to alleviate poverty by increasing agricultural productivity and rural household income as well as widening access to modern technology.

AGRICULTURE

The Philippines is chiefly an agricultural country with 47 percent or 13 million hectares of its land area devoted to farming. From 1960-1991, total farm area rose at the rate of 0.8 percent annually. Remarkable increases in total farm area were observed from 1971 to 1980, coinciding with the implementation of *Masagana 99*, a government program aimed at increasing rice production. From 1992-2000, the average annual growth in agricultural area decelerated to 0.54 percent, indicating a shift of economic activities away from farming. Agriculture had traditionally been the main economic sector in the 1960s. Its share in economic output declined in the decades that followed due to low world prices combined with high



Filipino farmers are principally engaged in rice farming.

costs of farm inputs and unsynchronized government policies. In 2001, agriculture registered a 4.01 percent growth, accounting for 20 percent of GDP, and generated more than 11 million jobs or 37 percent of the labor force.

Philippine agriculture is a combination of small, medium, and large farms, mostly characterized as family farms. According to the 1991 Census of Agriculture, more than 90 percent of farms in the Philippines are less than 5 hectares and 37 percent are less than 1 hectare in size. Very small farms of between 1 to 2 hectares are very common, making up 28 percent of the total. Of the 4,770,000 farms all over the Philippines, more than a third are fully owned while 10 percent are partly owned. Three percent are leased, 6 percent are rent free, and 15 percent are tenanted. More than 30 percent have more than one form of tenurial status, which means that they are



Principal fruit crops grown in the Philippines: calamansi, mango, banana and durian.

partially owned and partially rented, leased, or farmed under other forms of tenancy.

According to the Department of Agrarian Reform (DAR), the Philippine government has acquired and distributed some 5 million hectares of agricultural lands to beneficiaries of the Comprehensive Agrarian Reform Program (CARP). The Comprehensive Agrarian Reform Law (CARL) or RA 6655 enacted in 1988 instituted the landmark agrarian reform program. It was designed to distribute all agricultural lands in excess of a 5-hectare retention limit plus 3 hectares for each heir of at least 15 years of age, over a period of 10 years. Although CARP is the most comprehensive to date of all the land reform programs introduced since the 1940s, its implementation has taken longer than programmed. Land acquisition and distribution should have been completed in 1998. The delay has been due to a variety of reasons, including judicial contests over land acquisition and distribution, and insufficient material and financial support services. DAR projects the complete distribution of a total of 8,061,864 hectares of land to more than of 3 million farmer beneficiaries by 2004.

The principal crops of the Philippines in terms of production value are rice, corn, coconut, sugarcane, cassava, sweet potato, coffee, and tobacco. A variety of tropical fruits are grown, such as banana, mango, pineapple, papaya, and citrus. Many types of vegetables are also raised for domestic consumption,

such as eggplant, tomato, cabbage, onion, and garlic. In 2001, total agricultural crop production was valued at PHP287.43 billion (USD5.75 billion), with rice accounting for 37 percent, corn 11 percent, and coconut 9 percent.

RICE

Rice is the staple food in the Philippines. It is grown on almost a third of total farmland, for the most part in Luzon, Western Visayas, Southern Mindanao, and Central Mindanao. The Philippine government continues to strive for self-sufficiency in rice production in line with its principal responsibility of ensuring the adequacy of food supply. In the mid-1960s, with the help of the International Rice Research Institute (IRRI) located in Los Baños, Laguna, rice yields improved considerably as a result of the development of high-yielding rice varieties known as the "miracle rice." This so-called green revolution, however, suffered a slowdown as rice production dwindled in the 1980s, largely due to natural calamities and erratic weather conditions, in step with the general global economic downturn of the period. Rice production suffered further from the destructive effects of the Mt. Pinatubo eruption of 1991, as pyroclastic flows known as *lahar* buried large areas of Central Luzon (then known as the Rice Bowl of the Philippines), leaving hundreds of thousands of hectares of agricultural land unproductive. Once one of the



Modern post-harvest facilities help rice farmers improve farm productivity.

world's top rice producers, the Philippines is now a net importer of this commodity. In 2001, the Philippines imported 739,428 metric tons of rice from Vietnam, Thailand, and the United States. Nevertheless, the Philippines remains hopeful of achieving self-sufficiency in rice by the end of 2003 with the implementation of the *Ginintuang Masaganang Ani-Rice* (GMA-Rice) program. The present administration's banner rice productivity scheme aims to expand rice cultivation to 250,000 hectares by 2003 and to generate one million jobs in agriculture. This program will be jointly implemented by

several government agencies such as the Philippine Rice Research Institute (PhilRice) in the provision of high yielding certified seeds, the National Irrigation Administration (NIA) in the operation and maintenance of national irrigation systems, and the formerly state-owned Philippine Phosphate and Fertilizer Corporation (PhilPhos) in the granting of easy fertilizer credits to farmers.

SUGAR

Sugar was widely grown in the Philippines even before the advent of the Spaniards. Under Spanish colonial rule, sugar production continued to be a major economic activity. Its export was well developed by the early 1900s, with the support received from American legislation, which established a free trade relationship between the

Philippines and the United States and set quotas for Philippine sugar in the US market. Over the years, the Philippines exported huge amounts of sugar to the US, making the commodity a major factor of the Philippine agricultural economy and the principal source of income of many wealthy Filipino *hacenderos*. When the quotas eventually collapsed so did free trade with the US, leaving Philippine sugar in a situation of intense competition with more efficient sugar production systems of other countries. The Philippines remained one of the leading sugar exporters in the world until the mid-1980s when world prices plummeted, forcing the country's top sugar-producing region, Negros Occidental, to flounder in severe economic hardship.

While the sugar industry employed 556,000 farmers and 25,000 sugar mill workers, sugarcane areas in the Philippines were reduced from 373,130 hectares in 1997 to 364,445 hectares in 2001. Sugarcane production, nevertheless improved from PHP15.37 billion (USD307.4 million) to PHP25.21 billion (USD504.2 million) in the same period. The Philippines



(Top) Fully-grown sugarcane; (bottom) harvesting of sugar-

now imports sugar from Brazil, Australia, and Thailand to make up for the production shortfall. Although the sugar industry is seen by some as a sunset industry, the government remains resolute in making the industry self-sufficient and economically viable by increasingly improving production technology and rehabilitating sugar mills. Sugarcane is extensively grown in Batangas, Laguna, Pampanga, Tarlac, Negros Occidental, Iloilo, and Bukidnon. There are 31 sugar mills operating around the country with a total milling capacity of 212,288 metric tons of canes per day.

AGRICULTURE AND FISHERIES MODERNIZATION ACT

Recognizing the need to transform the sector, the Agriculture and Fisheries Modernization Act (AFMA) was enacted in 1997. AFMA entrusts the government with enhancing the profitability of the sector, transforming the sector from a resource-based to a technology-based industry, and preparing it for domestic and global competition. It also guarantees the protection of farmers and fisherfolk from unfair competition, and assures Filipinos of adequate, accessible and affordable food supplies at all times. These goals will be achieved through adequate, rational, and efficient provision of production and post-production support services such as the strengthening of research and development; creation of a credit financing program; rehabilitation of existing irrigation systems; establishment of a national marketing assistance program; and the development of priority farm-to-market roads, fishports, seaports, and airports to facilitate the transport of crops and fish harvests. AFMA also acknowledges the significance of biotechnology in modernizing Philippine agriculture. In fact, the law incorporates the allocation of 4 percent of the total research and development appropriations under AFMA to biotechnology. The Department of Agriculture launched the Philippine Agriculture Fisheries



Dipterocarp forests are a major source of timber and other forest

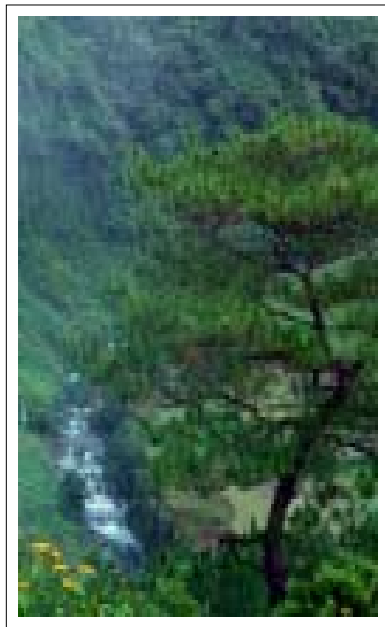
Biotechnology Program while the University of the Philippines in Los Baños was granted PHP13 billion (USD260 million) to support the university's construction of laboratories, procurement of necessary equipment for the detection of genetically modified organisms in plants, and capacity-building of required staff.

FORESTRY

Half of the Philippines'

total land area – 15.8 million hectares – is covered by forest. Ninety-three percent of it is classified as public forest land. The region with the largest forest area in proportion to its total size is the Cordillera Administrative Region (54 percent), covering the provinces of Abra, Benguet, Ifugao, Kalinga Apayao, and the Mountain Province. The one with the smallest forest area is the National Capital Region (24 percent), which covers Metro Manila.

For many centuries, Philippine forests have served as major host to the country's natural resources and biodiversity. Many dense tropical forests are dwelling areas for a number of



Industrial tree plantation has a large domestic and international market

indigenous tribal groups and various communities, and their lush vegetation serves as habitat for many endangered plant and wildlife species. However, despite the importance of the Philippine forests, deforestation is rampant throughout the archipelago. In 1976, areas categorized as forests numbered 3,762. In 1999, the number was down to 931, or a loss of 75 percent of Philippine virgin forests. This rapid rate of deforestation is caused by illegal logging, slash and burn farming, forest fires, and typhoons.

In the 1970s and 1980s the logging industry was a big export-earner. The government authorized the felling of trees by allocating some unclassified forest to logging and issuing timber licenses to individuals and corporations. In 1976, 219 timber licenses were granted to cover more than 8 million hectares of land, which produced 11.07 million cubic meters of logs, lumber, plywood, and veneer. In 1982, the Philippines exported USD293 million worth of logs, fuelwood,

charcoal, woodwaste, lumber, plywood and veneer, while non-timber forest products, such as almaciga resin, elemi gum, bamboo, rattan poles, and salago fiber, accounted for an additional USD1 million in export revenues.

Aside from the regulated logging industry, there was also a considerable amount of indiscriminate illegal logging, which for many years caused environmental damage, such as soil erosion, landslides, and floods, leading to much destruction of life and property. Abundant wildlife was displaced while atmospheric changes produced conditions that are hazardous to humans. The alarming rate of forest destruction in the last two decades highlighted the need for serious forest protection programs.

The Department of Environment and Natural Resources (DENR) is mandated to lead in the protection of the Philippine forests through the Forest Management Bureau

(FMB). The FMB initiated the community-based forest management program, which allows indigenous communities to actively participate in the management and conservation of the forests. The soil conservation and watershed management program was also set up to arrest the harmful effects of soil erosion. The DENR established protected areas systems and biodiversity conservation projects to protect forest plant, animal, and marine species through the creation of national parks, wildlife sanctuaries, and forest reserves. The urban forestry program was also established to create small nature parks, greenbelts, and landscaped grounds around schools, hospitals, and public areas. The reforestation program of the government successfully reforested a total of 27,632 hectares of forests in 2000.

FISHERIES

The Philippines' extensive total marine water area of 2,200,000 km² makes it one of the top producers of fish in the world. It ranked 12th among the 80 top producing countries in 1995 according to the Food and Agriculture Organization (FAO). In 2001, total fish production was 3,166,500 metric tons, or 2 percent of the world's total fish production. The industry employs more than 1 million people, equivalent to about 5 percent of the total labor force. It accounts for 4 percent of GDP.

The fisheries industry in the Philippines is classified into three types. Commercial fishing is fish production with the use of commercial fishing vessels. Production usually accounts for 34 percent of total production value and has grown by an average of more than 9 percent over the last 10 years. Its growth, however, showed a declining trend from 23 percent in 1991 to 6.5 percent in 2001. The principal species produced from commercial fishing are tuna, sardines, round scads, anchovies, mackerel, grouper, snapper, prawns, shrimps, cuttlefish, squid, and crabs.

The second type of fishing operation is municipal fishing, which involves fishing in inland or fresh bodies of water such as lakes and rivers and in coastal waters 15 km from the coastline. Production from municipal fishing accounts for 32 percent of total value and 31 percent of total quantity, and its growth averaged 4.6 percent over the last 10 years. The chief species caught in municipal fishing include sardines, mackerel, anchovies, round herring, fusiliers, round scad, milkfish, marlin, swordfish, sailfish, barracuda, shrimps, and slipmouths.

The third type of fish production is aquaculture, which engages production through fish raising and culture, particularly in brackish water, freshwater fishponds, freshwater and marine fishpens, freshwater and marine fishcages, culture of oysters, mussels and seaweeds. Of the three types, aquaculture has been the most promising and best performing fishing operation of the last decade. Its growth over the last ten years averaged 5.6 percent and showed an increasing trend of 11 percent in 1991 to 15 percent in 2001. It also contributes 38.5 percent to total

Philippine Marine Products



Marine products (clockwise from right): tilapia, mussels, clams, shrimps, tuna, and milkfish.

INDUSTRY

The Philippine industry, which is principally composed of manufacturing; mining and quarrying; construction; and electricity, gas, and water, employs about 4.4 million people or 16 percent of the total work force. Its economic output, growing at an average of 13 percent in the last ten years, represents 34 percent of the country's GDP. Its share of the economy has, however, weakened considerably since three decades ago, when industry reigned as the biggest economic component by comprising nearly half of the GDP. The industry's decline has been offset by the substantial climb of the services sector, which in 2001 accounted for 46 percent of GDP from an average of only 35 percent in the 1980s.

MANUFACTURING

Manufacturing is the largest component of industry, making up 72 percent of industry's contribution to the national economy. Manufacturing flourished in the 1950s when economic policies encouraged the production of Philippine goods as import substitutes, and later as exports. Growth in the subsequent decades was, however, elusive as the tumultuous economic situation instigated a major disintegration of many manufacturing establishments. Manufacturing was revitalized only in the 1990s when market-oriented reforms ushered in for exports, notably the electronic products, to become the linchpin of the Philippine economy. In 2001, manufacturing output grew by 3 percent.

There are 105,458 manufacturing firms that have an average total employment of 10 workers, representing 87 percent of the total number of manufacturing establishments. This indicates that a great majority of manufacturing establishments in the Philippines are small and micro in size. There are 15,674 manufacturing firms, or only about one-eighth of the total, that are considered medium or large, having 10 or more workers on the payroll. Medium and large manufacturing firms, however, employ 77 percent of the total workers in the manufacturing sector. They also account for 98 percent of the total revenue of the manufacturing sector.



The Philippine Economic Zone Authority is at the helm of the government's strategy to promote the establishment of world-class economic zones to respond to demands for foreign investment locations.



(Top) The San Miguel Corporation (SMC) building in Mandaluyong City; (bottom) Some of SMC's beverages that won the prestigious Monde Selection Awards.

Manufacturing in the Philippines is centered on the processing of raw materials and agricultural products, as well as the production and assembly of electronic products. The manufacturing industry is controlled by the food and beverages sector, which operates 26 percent of the total number of large establishments. Collectively, food and beverages enterprises have total receipts of more than PHP429 billion (USD8.6 billion), comprising 26 percent of the total receipts of the large manufacturing firms.

Wearing apparel is the second largest, operating 14 percent of the total number of large establishments. Along with the textile sector, the wearing apparel sector, has revenues of more than PHP86 billion (USD1.7 billion), 5

percent of the total receipts of the large manufacturing establishments.

Other major industry groups in manufacturing include printing and publishing, and those involved in the manufacture of fabricated metal products, industrial machinery, furniture and fixtures, non-metallic mineral products, leather and leather products, wood and wood products, plastic products, electrical machinery, transport equipment, and appliance and supplies.

Many of the large manufacturing firms in the Philippines are known in Asia and have branches and facilities overseas. San Miguel Corporation is Southeast Asia's largest food and beverages company. It has over 100 facilities in the Philippines,

Table 2. Top Philippine Corporations

Company	Main Business	Sales (in USD millions)	Profit (in USD millions)
1. Manila Electric Company	Electricity distribution	2422.1	56.3
2. National Power Corporation	Power generation	2265.5	-293.4
3. San Miguel Corporation	Beer, food, packaging	2007.2	154.9
4. Petron Corporation	Oil refining, distribution	1990.6	-23.5
5. Pilipinas Shell Petroleum Corp.	Oil refining, distribution	1891.5	-24.1
6. PLDT	Telecommunications	1423.4	25.1
7. Texas Instruments	Semiconductors	1385.3	9.11
8. Caltex Philippines	Oil refining, distribution	1266.2	-68.7
9. Nestle Philippines	Food	914.9	72.9
10. Philippine Airlines	Air transport	889.5	9.5
11. Ayala Corporation	Property, finance	788.4	71.4
12. JG Summit Holdings	Food	779.3	67.5
13. Zuellig Pharma	Distribution	669.8	7.3
14. Mercury Drug Corp.	Pharmaceuticals retailing	649.3	14.1
15. Coca-Cola Bottlers Corp.	Soft drinks	645.6	32.5
16. Jollibee Foods Corp.	Food	459.2	20.6
17. Globe Telecom	Telecommunications	454.3	35
18. Procter & Gamble Philippines	Personal care products	435.3	39.1
19. RFM Corp.	Food, drinks	390.9	-11.8
20. Philippine National Oil Company	Oil, energy development	371.9	36.8

Source: Asiaweek

Indonesia, Vietnam, China, including Hong Kong, and Australia. Its flagship product, San Miguel Beer, is one of the world's largest selling beers and is among the top three beer brands in Asia.

SMALL AND MEDIUM ENTERPRISES (SMEs)

The economic significance of SMEs to the country transcends the employment they generate and the new industries they diffuse to the countryside. They are considered the engine that drives the economy, nurturing the entrepreneurial spirit of the Filipinos, and providing a venue for innovative industries.

In the Philippines, SMEs are defined as any business enterprise involved in industry, agri-business and/or services, whether single proprietorship, cooperative or corporation, whose total assets are not more than PHP60 million (USD1.2 million).

Medium-sized enterprises have a minimum asset size of PHP15 million (USD300,000) and not exceeding PHP60 million (USD1.2 million). They are usually engaged in the production of a few related products geared for an extensive market base.

Small enterprises have a total asset of between PHP1,500,001 (USD30,000) and PHP15 million (USD300,000). Micro enterprises have an asset size of less than PHP1,500,001 (USD30,000). Small and micro enterprises are generally involved in the production of one product line produced in a smaller volume and intended for a limited market base.

In terms of employment, medium-sized enterprises have between 100 and 199 workers

Table 3. SME Definitions by Asset Size and Employment

	Asset Size	No. of Employees
Micro	Less than PHP1,500,001	1-9
Small	PHP1,500,001 – PHP15,000,000	10-99
Medium	PHP15,000,001 – PHP60,000,000	100-199

Source: Department of Trade and Industry (DTI)

Realizing the extent of SMEs' dynamism in national economic growth, the Philippine government created the Small and Medium Enterprise Development Council, an inter-agency body responsible for the promotion, growth, and development of SMEs in the Philippines. In 2001, the council's efforts were directed at accelerating the development of SMEs by improving their access to credit. The government also developed the SME Development Plan, whose main goal was to develop a vibrant SME sector that would provide a strong domestic supply base for globally-competitive industries. The plan would infuse PHP10 billion (USD200 million) of new funds to promising enterprises such as the jewelry industry in Bulacan and the furniture

industry in Cebu.

MINING

The Philippine geological setting makes it one of the world's leading producers of gold, silver, copper, nickel, chromite, and fertilizer minerals, such as phosphate rock and guano. Its rich mineral endowment of about 13 known metallic and 29 non-metallic minerals makes the Philippines second in the world for gold and third for copper production.

Mining is the smallest component of industry, making up only 3 percent of the industry's total economic output. The mining sector, however, generates employment of about 109,500 and supports around 1 million of the Philippines' population. Although mining industry workers represent less than 1 percent of the labor force, the government profoundly considers mining as an important catalyst in rural development, attracting people away from the overcrowded urban areas.

The mining industry is a considerable source of foreign exchange as most of its products are exported abroad. A major share of the minerals is exported to Japan. The rest of the mineral exports go to North America, Europe, and the rest of Asia.

The key players in the mining industry consist of eighteen large-scale mines and an undetermined number of small-scale mines. The mines operate mostly in the provinces of

Table 4. General Classification of Minerals in the Philippines

Categories	Minerals Covered	Minerals Currently Mined
1. Precious Metals	Gold, Silver, and Platinum	Gold and Silver
2. Iron and Ferro-Alloy Metals	Iron, Chromite, Nickel, and Manganese	Chromite and Nickel
3. Base Metals	Copper, Lead, Zinc, Molybdenum, Mercury and Aluminum	Copper
4. Fertilizer Minerals	Phosphate Rock, Guano, Magnesite, and Sulfur	Phosphate Rock and Guano
5. Industrial Minerals	Asbestos, Barite, Clay Bentonite, Dolomite, Diatomite, Feldspar, Gypsum, Limestone, Marble, Perlite, Rock Agregates, Silica,	Clay, Dolomite, Feldspar, Limestone, Marble, Perlite, Rock
Aggregates	Sand and Gravel, and Salt	Sand and Gravel,
Stone		and Salt
6. Gemstone and Decorative Minerals	Jade, Quartz, Rhodomite, Tektite, Opal, Obsidian, Diorite, Agate, and Serpentinite	Diorite and Serpentinite

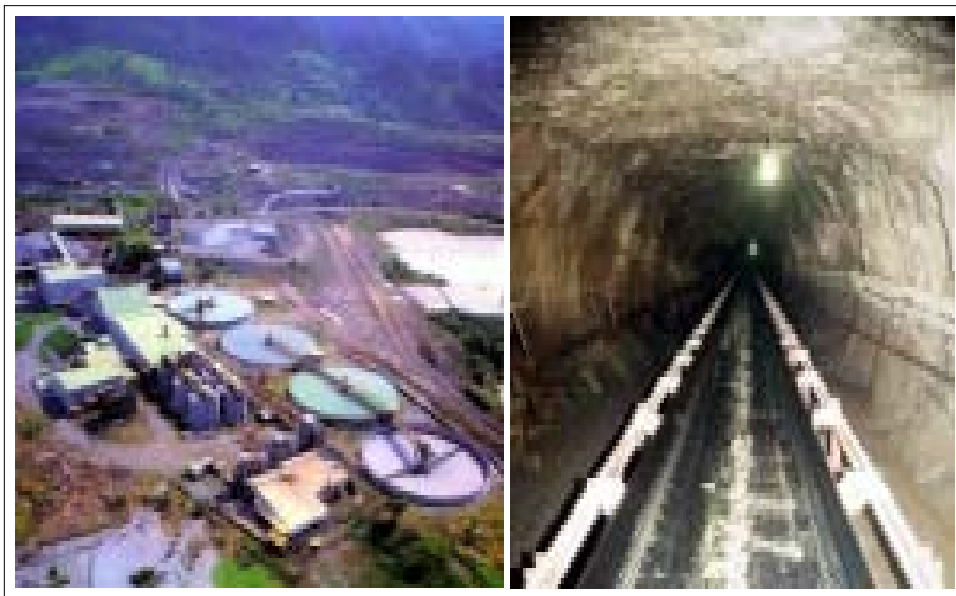
Source: Mines and Geosciences Bureau

Benguet, Zambales, Camarines Norte, Negros Occidental, Surigao del Norte, Marinduque, Zamboanga del Norte, and Davao Oriental.

The mining industry produces six types of minerals, namely, precious metals, iron and ferro-alloy metals, base metals, fertilizer minerals, industrial minerals, and gemstone and decorative minerals.

Major metallic minerals produced in the Philippines consist of copper, gold, nickel, and chromite. The metallic sector is the most active component of the mining industry, assuming 60 percent of the industry's total production value. The production of metallic minerals increased by 31 percent in 2000, which was kept afloat by the exceptional upsurge in nickel, gold and chromite production. The prolonged dry season brought about by the *El Niño* phenomenon proved to be favorable to the mining industry as it allowed more operating days for the production of these metallic minerals. Gold production has particularly rekindled interest among mining investors, resulting in the entry of four new mining ventures in 2000. Copper production, however, has been on a continuous slump following a multitude of hostile economic and environmental developments that took place in the last ten years.

Major non-metallic minerals produced in the Philippines consist of sand and gravel, coal, salt, marble, limestone, feldspar, phosphate rock, guano, industrial gemstone, and decorative minerals. While the non-metallic sector comprises 40 percent of the mining industry's production, its contribution to the sector has tempered consistently since the



Aerial view of the Surigao Consolidated Mining Co. (left); Crushed ore on a conveyor belt in a mine operated by PhilEx Mining Corporation in Benguet (right).

outbreak of the Asian crisis, as construction activities were minimized due to the financial strain experienced by the property sector.

To support and regulate the mining sector, Presidential Decree (PD) 1899 was issued in 1984 to establish small-scale mining as a new dimension in mineral development and to demand that technical assistance be provided to the sector. In 1995, the government legislated the Philippine Mining Act or RA 7942, which introduced a more liberal fiscal and regulatory framework in order to revitalize the mining industry. Adhering to sustainable development as its governing principle, the Mining Act established stringent rules relating to the environment, mine restoration, and social acceptability of mining projects.



CHAMBER OF COMMERCE AND INDUSTRY

The Philippine Chamber of Commerce and Industry (PCCI) is a private, independent, and non-profit organization composed of 113 industry associations, 115 local chamber affiliates, 1,043 regular members, and 7 associate members. It draws membership from every size and type of business involved in trade, commerce, transport and communications, tourism, manufacturing and processing, and services, as well as local and industry associations. PCCI serves as the institutional framework of the entire business community in the Philippines with the mission of business growth and community development. It promotes the business sector's interest and pursues closer and harmonious relationships among commercial and industrial sectors of the economy. It acts as the principal liaison between the government and local private business groups as well as foreign chambers of commerce and industry in the Philippines. It actively supports the government in the promotion and development of SME's and in the local

LABOR MARKET

For years, the labor market has been inconvenienced by the economic predicaments of the Philippines. Even as the government constantly struggles to create job opportunities for Filipinos, the economic system still fails to absorb more workers. The unemployment rate averaged close to 10 percent for the period 1981 to 2001, and fluctuated between 7 and 10 percent from 1991 to 2001, almost twice the level in some neighboring countries. In a world of escalating globalization, many Filipinos are exposed to the employment opportunities available beyond the geographical limits of the Philippines. Overseas migration of a significant amount of Philippine labor has now become a legitimate option for many of the country's work force.

EMPLOYMENT

The Philippine labor force is composed of Filipinos 15 years old and over who contribute to the production of goods and services in the country. The labor force has a pool of 33.35 million Filipinos, or a participation rate of 67.5 percent. In 2001, more than 2.4 million new job seekers joined the labor force, which had increased by more than 7 million since 1992. This translates to an average annual growth rate of 2.9 percent in the last ten years, which means that an average of 811,000 Filipinos entered the labor force every year since 1992.

The Philippines has a large cost-effective, highly skilled, and trainable pool of human resource. With a literacy rate of 94 percent, a huge portion of the population speaks fluent English. Tertiary enrollment in the Philippines is constantly increasing, numbering 2.43 million in 2001. Of these, 1.67 million enrolled in private educational institutions and 760,416 in public schools. Majority of the students were enrolled in business administration and related disciplines, education and teacher training, engineering and technology, and mathematics and computer science. Graduation rate has also been escalating, numbering 367,839 in 2001. The bulk of the recent entries into the labor force is comprised by those who specialized in business-related courses, education, engineering, and computer



The pool of highly skilled Filipino workers is the number one competitive advantage of the Philippines.

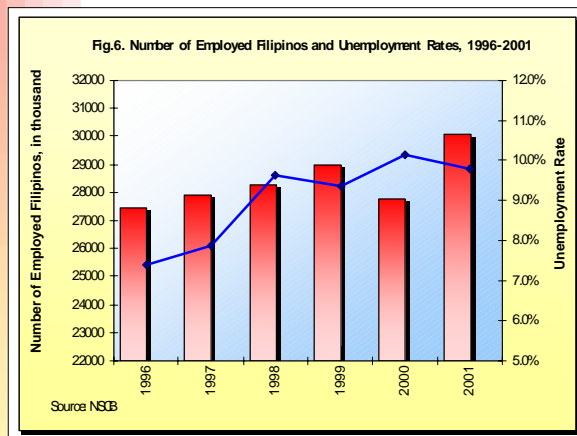


A majority of Filipinos are employed in the services sector.

was also made up of graduates from technical and vocational programs, which include skills and technology training in automotive, construction, electronics, refrigeration. In 2001, there were 286,316 enrollees and 73,057 graduates from technical and vocational programs.

The number of employed Filipinos in 2001 was 30.08 million, an increase of 2.3 million or 8.3 percent from the previous year. The optimistic growth of jobs generated in 2001 demonstrates that in spite of the global economic meltdown, the Philippine economy remained fundamentally sound. More than 6.2 million jobs had been created since 1992, or a yearly average increase of 2.8 percent. This means that an average of 711,000 Filipinos found employment every year in the last ten years. Sixty percent of the employed are male and 40 percent are female.

A majority of Filipinos find work in the services sector, which has a share of 47 percent



in total employment. The services sector's stake in employment rose to this level from only 39 percent in 1992, bolstered by the proliferation of workers in the communications and transportation subsectors. Employment in agriculture ebbed through the years with its share of total employment receding from 45 percent in 1992 to 37 percent in 2001. Finally, 16 percent of total employed

science. In addition, the trend in the national passing rate for licensure exams was on the rise from 44.39 percent in 1999 to 47.97 percent in 2001. Among the professional fields with the highest passing rates included geology (91 percent), mining engineering (87 percent), environmental planning (76 percent), metallurgical engineering (70 percent), and medicine (62 percent). A significant amount of the country's labor supply

Filipinos work in industry, whose share in total employment steadied around 16 and 17 percent in the past ten years. Industry's biggest employer is the manufacturing subsector, which captures 10 percent of total jobs in the Philippines.

The growth in employment in recent years has not been sufficient to accommodate the even faster growth of the labor force. For this reason, the unemployment rate remains high in the Philippines. Unemployment averaged 2.63 million Filipinos every year, or an annual average unemployment rate of 8.9 percent. The unemployment rate peaked at 10.1 percent in 2000, when the economy lost 1.23 million jobs largely attributed to a flagging performance of the agricultural sector. In 2001, the unemployment rate slightly lowered to 9.8 percent of the labor force, representing 3.27 million Filipinos who were out of job in the year. Although the labor force is about evenly divided between the urban and rural areas, the urban unemployment rate is almost twice as high as the rural unemployment rate. The unemployment rate in the urban areas was 12.8 percent in 2001, while the rural rate was only 6.9 percent.

Aside from the long-standing problem of unemployment, one dilemma that has been consistently confronting the Philippine economy is underemployment. Underemployment occurs when employed persons desire to have additional hours of work in their current job or to have a new job with longer working hours. In 2001, underemployment was estimated at 16.6 percent of employed Filipinos. This demonstrates that many of the employed Filipinos have low-paying and less than full-time jobs. Underemployment generally prevails among non-agricultural jobs in Metro Manila.

OVERSEAS FILIPINO WORKERS (OFWs)

Due to scant employment opportunities at home, a significant segment of the Philippine labor market is working abroad. The exodus of Filipinos in quest of work overseas can be traced back to the 1900s when the first wave of Philippine migration headed to American agricultural lands in the states of Hawaii, California, Washington, and Alaska. These Philippine laborers harvested sugar and pineapple, and picked apples, oranges, grapes, and tomatoes. Between the 1940s and the 1970s, as the US economy was coping with a shortage of professionals who were one by one dispatched to participate in World War II and the Vietnam War, the US derived a hefty supply of highly-skilled physicians, nurses, teachers, engineers, and businessmen from the Philippines. Simultaneously, the demand for Filipino non-professional contract workers was developing in neighboring Asian countries. Most of these labor migrants were artists, barbers, musicians, loggers, and construction workers.

In the mid-1970s, the prime destination of Philippine skilled and semi-skilled manpower was the Middle East, where oil-rich countries hugely demanded Philippine engineers, architects, and construction workers to labor in large-scale infrastructure and development projects. The massive departure of Filipino women to work in domestic services likewise burgeoned in several countries in Asia, Europe, and North America. As the number of deployed

Philippine workers swelled to hundreds of thousands every year, the Philippine government created the Philippine Overseas Employment Administration (POEA) in 1982 to assist and process the OFWs' applications and to guarantee the welfare of the migrant workers. Since then, the Philippine government has regarded overseas employment as a temporary solution to the burgeoning plight of domestic unemployment.

In the 1990s up to the present, more highly and technically-skilled Filipino professionals



OFWs arrive at the NAIA to spend Christmas with family in the Philippines

find employment overseas as recent developments in technology and communications developed an emerging market for information technology (IT) experts such as computer programmers, software developers, and computer engineers. These professionals also find work as English teachers. The aging population of the developed countries beckons a strong demand for nurses, physicians and other medical professionals from the Philippines, who are usually favored over other nationalities in the health care profession.

The Philippines has deployed over 7.5 million OFWs around the world in the last ten years. In 2001, there were 866,590 jobs filled by Filipinos abroad, a 3 percent increase from the previous year. The batch consisted of 661,639 land-based workers and 204,951 sea-based workers, or those employed in vessels engaged in maritime navigation. The year encountered a heightened demand for high-end skills such as nurses and technical professionals who found employment in the United Kingdom, the United States, Ireland, and the Netherlands. The Kingdom of Saudi Arabia was the top destination of the land-based OFWs. The growing migration of workers to neighboring countries in Asia also placed Hong Kong, Japan, Taiwan, and Singapore among the prime countries of deployment of OFWs.

As a labor-sending economy, the Philippines, to a large extent, counts on the billions of dollars of foreign exchange remittances from the OFWs every year. These remittances have eased the country's budget and trade deficits, offset the foreign exchange outflows and financing capital expenditures, and prompted the country to elude a negative growth during the height of the Asian crisis.

From 1984 to 2001, OFWs remitted a total of USD53.43 billion. Land-based OFWs

Table 5. Top Ten Countries of Destination of OFWs, 2000-2001

Country	January - December		
	2001	2000	% Change
1. Kingdom of Saudi Arabia	190,732	184,724	3.25
2. Hong Kong	113,583	121,762	-6.72
3. Japan	74,093	63,041	17.53
4. United Arab Emirates	44,631	43,045	3.68
5. Taiwan	38,311	51,145	-25.09
6. Singapore	26,305	22,873	15.00
7. Italy	21,956	21,490	2.17
8. Kuwait	21,641	26,386	-17.98
9. Brunei	13,068	13,649	-4.26
10. Qatar	10,7698,679	24.08	

Source: Philippine Overseas Employment Administration

tion

brought in 88 percent of the amount, while the sea-based workers remitted the remaining 12 percent. In 2001, OFWs' total foreign exchange remittances of USD6.03 billion represented an 8 percent share in the country's GNP. In the same year, remittances corresponded to 25 percent of export earnings, significantly trimming down the gap between exports and imports.

GOVERNMENT POLICIES AND PROGRAMS

The Philippine government's general policy on the labor market is to promote full, decent, and productive employment. The government also assures the right of workers to self-organization, collective bargaining, security of tenure, and just and humane conditions of work. Through the stewardship of the Department of Labor and Employment (DOLE), the government ensures that jobs are provided for, quality of workforce is promoted, workers' rights are guaranteed, harmonious worker-employer relationship is enhanced, and sufficient income is generated. One of the major strategies vigorously pursued by the government is employment generation through the modernization of agriculture, strengthening of the information and communications technology (ICT), and the revival of tourism. The government is also accelerating its efforts in building new partnerships with the private sector, touted to be the prime engine in job creation.

The government's policy on labor promotes a mechanism of tripartism and social dialogue to ensure industrial peace. The Labor Code of the Philippines, itself a product of tripartite discussions among the government, employers, and labor organizations, promotes free trade unionism as an instrument for the enhancement of democracy. It also supports the active

participation of workers in the decision and policy-making processes relating to their rights, duties, and welfare. The National Labor Relations Commission (NLRC) makes certain that issues affecting workers and their employers are addressed effectively. In 2001, the DOLE led the establishment of the Fourth Industry Tripartite Council (ITC), which was instrumental in addressing issues affecting workers and employers in the automotive industry.

The Philippine government considers human capital as the country's most vital resource. It regards overseas employment as a legitimate option for the Philippine labor force. Nevertheless, in the long run, it hopes to recall all of its workers overseas back to the country once the Philippines has achieved a level of development strong enough to support the labor market by providing sufficient job opportunities. For now, the Philippine government actively engages itself in facilitating employment by improving access of Filipino workers to employment opportunities, whether locally or abroad.

The Department of Foreign Affairs (DFA) counts the protection and promotion of the welfare and dignity of overseas Filipinos as one of its highest priority concerns. The Migrant Workers and Overseas Filipinos Act of 1995 or RA 8042 institutes the policies to promote the welfare of migrant workers and their families especially in times of distress. The law protects migrant workers from illegal recruitment, provides for the establishment of a Migrant Workers and Other Overseas Filipinos Resource Center, provides for the establishment of a financing scheme to grant pre-departure loans for OFWs, and mandates the DFA to take initiatives in forging multilateral declarations and resolutions pertaining to the protection of migrant workers. The law also names other government agencies such as the Overseas Workers Welfare Administration (OWWA) to provide necessary assistance to the OFWs and their families.

WAGES

The Philippines has one of the highest minimum wages in Southeast Asia following Singapore and Malaysia. The daily minimum wage rates for non-agricultural jobs in 2001 stood between PHP280.00 (USD5.60) and PHP133.60 (USD2.67). As for agricultural jobs, the daily minimum wage rates varied between PHP243.00 (USD4.86) and PHP130.00 (USD2.60).

Minimum wages are set by the Regional Tripartite Wages and Productivity Boards (RTWPBs) to better emulate the regional and industry disparities within the Philippine economy. The Labor Code instructs that private sector employees should receive the applicable minimum wages not lower than those prescribed by the regional wage boards. The Wage Rationalization Act or RA 6727, was legislated in 1989 to establish the mechanism and proper standards for wage policy determination. The law specifies that collective bargaining is the primary mode of setting wages. The minimum wage rate is adjusted in a fair and equitable manner, taking into consideration the regional differences in the cost of living and other socio-economic factors. The National Wages and Productivity Commission (NWPC) is the lead government agency in formulating policies and guidelines affecting wages, incomes and productivity. Before the Wage Rationalization Act was enacted, the Philippine Congress determined the minimum wage level after a series of public hearings and consultations with the employers, labor

MONEY AND BANKING

The unit of currency of the Republic of the Philippines is the Philippine peso (PHP 1 = 100 centavos). Notes are in denominations of PHP1000, 500, 200, 100, 50, 20, and 10. Coins are in denominations of PHP10, 5, 2, 1, and 50, 25, 10, 5, and 1 centavos. The Philippines maintains a floating exchange rate system. In the Philippines, the exchange rate is traditionally expressed as the value of one US dollar in terms of the peso. In 2001, the Philippine peso averaged PHP51 to USD1.

THE *BANGKO SENTRAL NG PILIPINAS*

The Republic of the Philippines' central bank is the *Bangko Sentral ng Pilipinas* (BSP) located in Manila. It was established on July 3, 1993, as an independent central monetary authority pursuant to RA 7653, otherwise known as The New Central Bank Act. The BSP replaced the old Central Bank of the Philippines (CBP), which was originally established in 1949. The CBP incurred sizeable deficits as a result of its development banking and financing activities, and its assumption of liabilities of certain government-owned and controlled corporations, domestic banks, and other private sector companies that had fallen upon financial difficulties in the 1980s. It also accumulated high interest expenses on its domestic securities issued under its open market operations. The weak financial position of the CBP precluded normal central banking operations. Thus, restoring the country's central bank to a position of fiscal soundness was of paramount importance in the effective conduct of monetary policy.

The policymaking body of the BSP is the Monetary Board, which has seven members composed of the BSP Governor as Chairman, a cabinet member designated by the President of the Philippines, and five members from the private sector. The BSP is one of the few government agencies that have been expressly mandated by the Philippine Constitution to be administratively independent like the Supreme Court, the Constitutional Commissions, and the Office of the Ombudsman. The BSP also enjoys fiscal autonomy, which guarantees itself full independence and flexibility to allocate and use its resources.

The BSP's paramount responsibility is to provide policy directions in the areas of money, banking, and credit. It also supervises bank operations and exercises regulatory powers over finance companies and non-bank financial institutions performing quasi-banking functions.

Having the obligation to regulate the amount of money in circulation in the economy, the BSP has the primary objective of maintaining price stability that is favorable to achieving a balanced and sustainable economic development. Price stability means inflation is low and stable. To effectively achieve this goal, the Monetary Board approved on June 24, 2000, the shift to "inflation targeting" from the "monetary targeting" approach in the conduct

The P100,000 Centennial Commemorative Note



The P100,000 Centennial Commemorative note, which only 1,000 pieces were printed by the BSP, is accredited by the Guinness Book of Records as the world's largest legal tender note. It has exceeded by 2 sq. inch the 1-Quan issued in China in 1368. It is, so far, the biggest bank note the BSP has issued. The front (left) features "Sigaw ng Himagsikan," a scene that depicts the struggle for independence against Spanish tyranny. The back (right) features the victorious occasion of the proclamation of the Philippine independence in Kawit, Cavite on June 12, 1898.

of monetary policy. Inflation targeting involves the announcement of an explicit inflation target that the BSP vows to achieve over a specified time period. To guarantee consistency of macroeconomic policy and commitments, the target inflation rate will be jointly set by the BSP and the government through an inter-agency body. To achieve the inflation target, the BSP will essentially adjust its key policy interest rates, the overnight borrowing rate, and the overnight lending rate. If the BSP fails to attain the inflation target, it is required to explain to the public why the target was not met and to take on actions on how to drive inflation close to the target level. The BSP officially implemented inflation targeting as the framework for monetary policy in the beginning of 2002.

The Philippines posted a 6 percent inflation rate in 2001, which was well within the government's target of 6-7 percent for the year. The decline of the BSP's key policy rates also led to the overall downtrend in domestic interest rates for the year. The benchmark 91-day T-bill averaged 8.9 percent in December 2001 compared to 13.6 percent the previous year.

DEVELOPMENTS IN THE FINANCIAL SECTOR AND POLICY DIRECTIONS

Following the creation of a strong and independent BSP, the Philippines undertook

Philippine Banknotes



Philippine Coins



other banking reforms in the 1990s. These included the deregulation of the entry of new domestic banks and bank branching, and the easing of restrictions on the entry of foreign banks, which led to greater competition. The required minimum capital for banks was also successively increased. Thus, the relatively high capital adequacy ratio of Philippine banks was one important reason why the Philippine banking sector was able to weather the 1997 Asian crisis.

Many lessons were learned from the crisis. Foremost of this was the importance of bank transparency as it was felt that the lack of adequate information was crucial in bank clients' panic reactions. The BSP toughened the rules on reporting banks' financial conditions, which included tightening the rules on classifying asset quality and loan restructuring. The BSP also began to order all banks to publish their quarterly statement of condition in newspapers and in the BSP website.

The heart of the recent financial reforms is the General Banking Law of 2000 or RA 8791, which provides the current overarching regulatory framework for the banking system.

Updating the old General Banking Law of 1948, the new law reinstates the regulatory and supervisory powers of the BSP and endeavors to restructure the Philippine banking system in order to foster greater competition in the industry. It adopts stricter rules and higher qualifications for individuals elected or appointed as bank directors or officers. It exacts greater transparency and disclosure among banks. It limits loans and credit accommodations that a bank may extend to any person or corporation to 20 percent of the net worth of the bank. It allows foreign individuals to acquire up to 40 percent of the voting stock in a domestic bank. It also authorizes foreign banks to own up to 100 percent of a domestic bank.

In 2000, the Philippines was identified by the Paris-based inter-governmental body Financial Action Task Force (FATF) as one of the fifteen countries deemed non-cooperative in combating money laundering, citing the Philippines' serious systemic problems due to its lack of money laundering regulations. As the Philippines, along with two other countries, faced imminent economic sanctions from FATF unless it enacted a law on money laundering before September 30, 2001, the Philippine Congress passed the Anti-Money Laundering Law (RA 9160) a day before the deadline set by the organization. The law takes the Philippines' regulations on anti-money laundering closer to international standards and ensures that the country will not be a haven for any unlawful activity. The law recognizes money laundering as a crime punishable by imprisonment ranging from seven to fourteen years plus a fine of up to PHP3 million (USD60,000). It provides for the creation of the Anti-Money Laundering Council (AMLC), which will initiate the investigations of money laundering activities, freeze deposits and properties, inquire into deposits and investments related to an unlawful activity, and obtain and request assistance from foreign states for money laundering operations. The law also authorizes the government of the Philippines to negotiate for the inclusion of money laundering as among extraditable offenses in all future treaties.

The Philippine financial sector faced political and economic challenges in 2001, which helped guide in the design of a monetary agenda for the country in the near term. The Medium-Term Development Plan 2001-2004 instructs the BSP to pursue its goal of achieving price stability and to create an efficient financial intermediation in the midst of a flexible exchange rate system and an intensifying global movement of capital. Inflation is targeted to stand between 4.5 to 5.5 percent by 2006. The government hopes to strengthen the banking sector by encouraging bank consolidation along the lines of prudent banking standards.

BANKS

Banks in the Philippines are classified into commercial banks, universal banks, thrift banks, rural banks, cooperative banks, and Islamic banks. In 2001, there were 938 banks in operation, composed of 44 commercial banks (of which 18 are universal banks), 109 thrift banks, and 785 rural and cooperative banks.

Commercial banks primarily accept drafts; issue letters of credit; discount and negotiate promissory notes, drafts, bills of exchange, and other evidences of debt; create demand deposits; receive deposits; buy and sell foreign exchange and gold or silver bullion; acquire

**Table 6. Top Ten Commercial Banks in the Philippines
(in PHP millions, as of December 14, 2001)**

Bank	Total Assets
1. Metropolitan Bank and Trust Company	386,646
2. Bank of the Philippine Islands	334,138
3. Citibank Philippines	257,314
4. Equitable PCI Bank	234,093
5. Land Bank of the Philippines	227,189
6. Philippine National Bank	186,469
7. Development Bank of the Philippines	143,779
8. Rizal Commercial Banking Corporation	139,917
9. United Coconut Planters Bank	108,341
10. Allied Banking Corporation	94,167
Total Philippine Banking System Assets	3,242.48

Source: BSP

marketable bonds and other debt securities; and extend credits. The 4,261 branches of commercial banks throughout the country dominate the Philippine banking industry, whose nearly PHP3 trillion (USD58 billion) total assets in 2001 accounted for 91 percent of the total banking system resources. Total assets of the top ten commercial banks already accounted for 72 percent. Some commercial banks are classified as universal banks, which, in addition to their commercial banking powers, perform the functions of an investment house such as securities underwriting. Universal banks can also invest in equity of corporations engaged in businesses not related to banking.

Thrift banks customarily provide working capital to individuals and small and medium-sized enterprises in the form of medium and long-term loans for the purpose of financing businesses engaged in agriculture, housing, industry and services. Thrift banks are composed of 744 branches of savings and mortgage banks, 225 branches of stock savings and loan associations, and 408 branches of private development banks. In 2001, total assets of thrift banks amounted to PHP235.9 billion (USD4.6 billion).

Rural and cooperative banks are mainly privately-owned and extend loans to farmers, fisherfolk, cooperatives, and small businesses in the rural areas. The assets of 1,908 branches of rural and cooperative banks totaled to PHP 68.96 billion (USD 1.35 billion) in 2001.

The Philippine banking system remains sound and steadfast despite the repeated crises in the financial sector in the 1980s. The government addressed the crises by introducing liberalization programs to promote a dynamic and efficient banking system and to enhance the country's competitiveness in the international financial market. Foreign exchange controls

and the moratorium on the entry of new domestic banks were lifted. The enactment of RA 7721, otherwise known as the Bank Liberalization Act, broadened the entry and scope of operations of foreign banks. Under this law, foreign banks can operate in the Philippines under any of three modes:

1. by acquiring, purchasing, or owning up to 60 percent of the voting stock of an existing bank;
2. by investing in up to 60 percent of the voting stock of a new banking subsidiary incorporated under Philippine laws; and
3. by establishing branches with full banking authority.

The law authorizes the establishment of up to ten foreign banks, which would perform the same functions as domestic banks, and enjoy the same privileges and limitations mandated on local banks under the same category. This law was a landmark piece of legislation as for nearly five decades only four foreign banks were allowed to operate in the Philippines, namely, Standard Chartered Bank, Hong Kong and Shanghai Bank, Citibank, and Bank of America.

THE STOCK MARKET

The Philippine capital market improved immensely in the 1990s considering that the sector had a tradition of strict government controls and was restricted from foreign entry. This was due to the various reforms that the government implemented to develop the capital market.

The Philippines used to have two stock exchanges: the Manila Stock Exchange, established in 1927, and the Makati Stock Exchange, organized in 1963. The two exchanges operated as separate entities although they were trading the same listed issues. In 1992, the Securities and Exchange Commission (SEC) proposed to unify the two bourses. Two years later the Philippine Stock Exchange (PSE) was established as the sole operating exchange by electronically linking the two exchanges. The PSE has two trading floors: the PSE Center in Ortigas, Pasig City and the PSE Plaza in Ayala, Makati City. The PSE's main barometer of market performance is the PSE Composite Index, otherwise known as the



The Makati trading floor of the Philippine Stock Exchange

Table 7. Composition of the PSE Composite Index

1. Aboitiz Equity Ventures, Inc.	16. Jollibee Foods Corporation
2. ABS-CBN Broadcasting Corporation	17. La Tondeña Distillers, Inc.
3. Ayala Corporation	18. Lepanto Consolidated Mining Company
4. Ayala Land, Inc.	19. Manila Electric Company
5. Belle Corporation	20. Megaworld Properties & Holdings, Inc.
6. Benpres Holdings Corporation	21. Metro Pacific Corporation
7. C & P Homes, Inc.	22. Metropolitan Bank & Trust Company
8. Digital Telecommunications Philippines, Inc.	23. Petron Corporation
9. DMCI Holdings, Inc.	24. Philippine Commercial International Bank,
10. Long Distance Telephone Company Corporation 26.	25. Philippine
11. Filinvest Land, Inc.	11. Filinvest Development
12. International Container Terminal Services, Inc.	Philippine National Bank
13. Ionics Circuits, Inc.	27. Pilipino Telephone Corporation
14. JG Summit Holdings, Inc.	28. San Miguel Corporation
	29. SM Prime Holdings, Inc.
	30. Southeast Asia Cement Holdings, Inc.

PHISIX, which is computed daily according to the weighted market capitalization of the thirty stocks representative of the banking and financial services sector, commercial-industrial sector, and the property, mining, and oil sectors.

The Philippine equity market has remarkably expanded in terms of capitalization, number of listed shares, volume turnover, and the diversity of listed issues. Market capitalization increased from USD4.3 billion in 1989 to USD51.6 billion in 2001. Along with the growth in market capitalization, the number of companies listed in the stock exchange also increased from 153 in 1990 to 232 in 2001. Although the stock market reached historic lows in 2001 as the PHISIX ended the year at 1,168.08 points, 22 percent lower than the previous year's close of 1,494.50 points, it was ranked sixth best-performing stock market in the world in the first quarter of 2002 by global financial services firm Merrill Lynch.

The only major debacle that rocked Asia's oldest stock exchange was the alleged price manipulation and insider trading scandal involving a phenomenal increase in share prices of a listed gaming corporation. In the country's effort to regain the credibility of the stock market, the SEC immediately ordered the PSE to demutualize and become a stock corporation as mandated by the Securities Regulation Code (RA 8799). Under demutualization, the PSE's assets are converted into shares, and the broker-members surrender membership rights in exchange for trading rights and shares in the PSE. The new structure hopes to dispel the old perception of the Philippine bourse as being an "old boys' club" and will make it more transparent as it is subject to rules on full disclosure.

THE BOND MARKET

It is largely due to the government's unceasing problem of budget deficits that the bond market was created. The Philippine government issues two kinds of government securities: treasury bills and treasury bonds. Treasury bills, or government securities that mature in less than one year, are issued in 91-day, 182-day, and 364-day maturities. The Bureau of Treasury (BTr) sells T-bills weekly to primary market



GSIS is one of the largest investors in government bonds.

dealers via the Swiss auction, where bids are ranked highest to lowest according to their yields. Bids with the lowest yield are accepted by the auction committee. Treasury bonds, or those that mature in more than one year, are issued in 2-year, 5-year, 7-year, 10-year, and 20-year tenors. Treasury bonds are auctioned off every other week using the Dutch auction system, through which the BTr determines the lowest acceptable bid price by pegging a uniform coupon rate at the stop-out level of different bids.

The national government auctions securities electronically through the Automated Debt Auction Processing System (ADAPS), which links SEC-licensed securities dealers to the Bureau of Treasury. The largest holders of government securities are the BSP, banks, insurance companies, wealthy individuals, and semi-government savings institutions such as the Social Security System (SSS) and the Government Service Insurance System (GSIS).

Private corporations likewise issue debt securities in the form of commercial papers of short and long-term maturities, mortgage-backed securities, inter-bank loans, promissory notes, and repurchase agreements.

MICROFINANCE

Despite the liberalization of the finance industry, the government continues to get involved in credit financing, as part of its poverty alleviation program by ensuring the accessibility of credit programs, loans, insurance, and deposit services to small enterprises, livelihood activities, fisherfolk, and rural farmers. The limitations of commercial banks to reach the

farmers and the informal sector have made microfinance institutions (MFIs) necessary channels to serve the poor.

MFIs in the Philippines are categorized into three types: rural banks, credit non-government organizations (NGOs), and credit cooperatives. Of the three, only rural banks are under the regulatory supervision of BSP. Credit NGOs register with the SEC as non-stock non-profit corporations; however, they do not have a supervisory body that oversees their operations. Credit cooperatives are regulated by the Cooperative Development Authority (CDA). The BSP has limited supervisory and regulatory powers over MFIs as the New Central Bank Act explicitly prohibits it to engage in development banking and financing. The General Banking Law of 2000 also does not cover specific provisions on regulating and supervising microfinance activities. The BSP's direct support for microfinance is through its collaboration in drafting reforms and policies with the National Credit Corporation (NCC), an inter-agency policy-making body located within the Department of Finance (DOF). The National Strategy for Microfinance drawn up by the NCC envisions a more accessible financial service to the majority of the poor by 2005. This will be achieved by encouraging the increased participation of the private sector and the implementation of market-oriented financial and credit policies.

Microfinancing loans are the most important services offered by MFIs. They are used to provide capital for microenterprises, raise the income of low-income households, and improve the living standards of rural folks. The maximum amount of a microfinance loan a credit NGO or a credit cooperative can grant is PHP150,000 (USD3,000). The average microfinance loan obtained by farmers in the Philippines is about PHP25,000 (USD500). Loans are habitually unsecured, for short periods of time (180 days), and with daily, weekly, semi-monthly or monthly amortizations of interest and capital depending on the cash flow situation of the borrowers. They often include a guarantee of one or more persons and rarely feature a tangible collateral. Interest rates applied to microfinancing loans are market-based, which allow the MFIs to cover administrative costs, provisions for loan losses and intermediation costs.

Two government-owned banks function both as a commercial bank and a development bank. The Development Bank of the Philippines (DBP) is the premiere development financial institution, which provided a variety of financial support packages to agricultural enterprises in the countryside. As a development bank, Land Bank of the Philippines (LBP) offers products and services an MFI normally does such as loan programs and financial assistance, making it the largest provider of financial services to farmers.

MODES OF PAYMENT

The majority of financial settlements in the Philippines are handled through checks and cash payments. The development in technology, however, is slowly transforming the Philippines into a cashless society. The use of automated teller machines (ATMs) was introduced in 1987 when seven banks decided to establish an ATM consortium called Bancnet.

Table 8. Bancnet Member Banks

1. Allied Banking Corporation	18. Malayan Savings Bank
2. Asia United Bank	19. Manila Banking Corporation
3. Banco Filipino Savings and Mortgage Bank	20. Merchants Commercial Bank
4. Banco San Juan	21. Metropolitan Bank and Trust Company
5. Bangko Kredito	22. Orient Development Bank
6. Bank of Commerce	23. Orion Savings Bank
7. Bank of the Philippines Islands	24. Philippine Bank of Communication
8. Centennial Savings Bank	25. Philippine Savings Bank
9. China Banking Corporation	26. Philippine Trust Company
10. Chinatrust Commercial Bank Corporation	27. Planters Development Bank
11. Citibank, N.A.	28. Rizal Commercial Banking Corporation
12. Citystate Bank	29. RCBC Savings Bank
13. East-West Bank	30. Security Banking Corporation
14. Equitable-PCI Bank	31. Standard Chartered Bank
15. Export & Industry Bank	32. Union BankUnited
16. First e-Bank	33. Overseas Bank
17. Global Business Bank	

Table 9. Megalink Member Banks

1. Active Bank	13. LBC Bank
2. All Asia Bank	14. Maybank Savings Bank
3. Asiatrust Bank	15. Philam Savings Bank
4. Bank of Commerce	16. Philippine National Bank
5. Development Bank of the Philippines	17. Philippine Veterans Bank
6. Ecology Bank	18. Premiere Bank
7. Equitable-PCI Bank	19. Prudential Bank
8. Equitable Savings Bank	20. Queen City Bank
9. Global Business Bank	21. Robinsons Savings Bank
10. Insular Savings Bank	22. Union Bank of the Philippines
11. International Exchange Bank	23. United Coconut Planters Bank
12. Keppel Bank Philippines	

Bancnet, which formally began its operations in 1990, is now made up of 33 member-banks. Another ATM consortium Megalink, established in 1989, is composed of 23 member-banks. Both consortia took a major step when they interconnected in 1993 giving Bancnet and Megalink ATM cardholders a more expansive access to a network of more than 3,100 ATMs in the Philippines. Aside from cash withdrawal and balance inquiry, ATMs offer services such as bills payments, fund transfers, credit card cash advances, checkbook requests,

PHILIPPINE ENERGY

As in all nations, energy plays a very important role in the development of the Philippine economy: it is the turbine of growth as most, if not all, economic activity involves the utilization of energy and raw materials. The world's main sources of energy include non-renewable sources such as fossil fuels (coal, oil and natural gas) and nuclear fuels (uranium, plutonium and, isotopes of hydrogen such as deuterium and tritium). However, with the increased global awareness on environmental concerns, gaining significant importance are renewable sources of energy with their huge but mainly untapped potential. These include wind power, wave power, hydroelectricity, solar power, wood burning, peat burning, tidal power, biofuels, gas from animal wastes, and ocean thermal energy. In the Philippines, these renewable alternatives are slowly replacing more intensive and relatively wasteful sources of energy. Citizens have realized the economic and environmental benefits of utilizing these alternatives, as could be shown by the various efforts exerted in implementing the recently enacted RA

Table 10. ASEAN Energy Resources, 2001

Country	Oil(BBI)	Gas(TCF)	Coal(MMT)	Hydro(MW)	Geothermal(MW)	Wood(KTon)
Philippines	0.285	4.6	346	9,160	2,047	89,267
Indonesia	9.8	166	38,000	75,625	19,658	439,049
Singapore	-	-	-	-	-	-
Cambodia	-	-	-	10,000	-	81,565
Lao PDR	-	-	600	26,500	-	46,006
Vietnam	2.6	25	4,500	68,500	-	48,960
Brunei	1.4	13.8	-	-	-	-
Malaysia	3.42	84.4	1,024	25,000	-	137,301
Thailand	0.156	12.2	1,240	n.d	.-	67,130
Myanmar	0.20	12.07	-	108,000	-	129,936

Source: ASEAN Centre for Energy

8749, also known as the Clean Air Act.

The country is significant to world energy markets because it is a growing energy consumer and a major potential market for foreign energy firms. It may also become a major producer of natural gas, with the discovery of the Malampaya field located in the northwest of the island of Palawan. The country's energy sector is relatively dynamic: considerable reforms are underway, which include further electrification projects, and ventures to reduce dependence on imported oil and to change the relative composition of fuel consumption.

The existence of various energy sources posits greater opportunities for energy resource exploration and development in the country. As of November 2002, the Philippines had 178 million barrels of proven oil reserves, 3.693 trillion cubic feet of natural gas reserves, and

366 million short tons of recoverable coal reserves. Oil production registered at 8,460 barrels per day (bbl/d), with oil consumption at 356,000 bbl/d in 2001. Oil imports during that period reached 111,454 thousand barrels (MB). In 2001, coal consumption was at 8,138,819 metric tons (MT) while domestic coal production registered at 1,314,837 MT.

Additionally, the energy sector's impact on environment degradation has been on a downtrend for the past three years, with the constant decrease of energy intensity, from 2.7 barrels of fuel oil equivalent per PHP10,000 (BFOE/PHP10,000) output in 1998 to 2.6 in 2000. This means that there is lower energy input for the same amount of output, resulting in improved energy use. This also denotes a decrease in carbon dioxide, sulfur oxide, and nitrogen oxide emissions due to the deferred construction of additional power generation plants, coupled with the increased utilization of new and renewable energy.

LOCAL ENERGY SOURCES

Energy production in the Philippines is concentrated in the electricity sector. In 2000, overall electricity sales amounted to 36.6 terawatt-hours (TWh), which was 7.3 percent higher than the 1999 sales level of 34.1 TWh. The biggest percentage of the total sales was consumed by the industrial sector, with a share of 36.1 percent, while the residential and commercial sectors contributed 35.3 percent and 26 percent respectively. Electricity generation in 2000 registered at 40.7 billion kilowatt hours (bkwh), 57.5 percent of which was thermal, 19.9 percent of which was hydro, and 22.6 percent were "renewables." In turn, electricity consumption during the same period was at 37.8 bkwh. Geothermal power accounts for the largest share of indigenous energy production, followed by hydropower, coal, downstream oil and natural gas.

GEOTHERMAL ENERGY

Second only to the United States in international geothermal power production, geothermal energy is the lead contributor to the Philippines' local power generation mix. In 2001, the Philippine geothermal sector produced a total gross generation of 10,442 gigawatt-hours (GWh), which was roughly 10 percent lower than the 2000 figure of 11,626 GWh.

Two companies are actively engaged in developing geothermal reserves: the wholly owned subsidiary of Unocal (California) Philippine Geothermal, Inc. (PGI), and the state-owned Philippine National Oil Corporation - Energy Development Corporation (PNOC-EDC). The government vigorously pursues the development of the existing gas reserves and offers investors a potential investment site.

COAL

In 2001, the country consumed 8,138,819 MT of coal, 7,601,077 MT of which were imported, the bulk of which originated from Indonesia and China. As of December 31, 1999,

Table 11. Power Generation by Source, 1993 to 2001
(In gigawatt-hours, GWh)

Plant Type	1996	1997	1998	1999	2000	2001
Total	36,708	39,797	41,578	41,432	45,290	47,049
Oil Based	18,288	19,116	18,190	11,799	9,185	9,867
Oil-Thermal	8,083	8,670	7,207	5,392	2,560	3,528
Diesel	6,855	6,736	7,169	4,326	5,028	4,473
Gas Turbines	3,350	3,709	3,814	2,080	1,597	1,865
Hydro	7,030	6,069	5,066	7,840	7,799	7,104
Geothermal	6,534	7,237	8,914	10,594	11,626	10,442
Coal	4,855	7,363	9,388	11,183	16,663	18,789
Non-Conventional
Natural gas	...	12	20	16	17	848

Source: NSCB

Note: Details may not add up to totals due to

rounding

the Philippines's proven coal resources amounted to 399 million metric tons, only 16.8 percent of the total coal resource potential of 2.37 billion metric tons. Local coal exploration and development has not been actively pursued in the past due to various challenges such as limited financial resources of coal producers, depressed market conditions, and the unfavorable geological conditions that make mechanization difficult and inefficient. Still, the development of the sector is constantly emphasized under the Coal Development Program (CDP), outlining accelerated development plans for the Zamboanga coal basin and the establishment of mine-mouth power plants in Surigao del Sur, Cebu, Semirara, Samar, and Zamboanga del Sur. It also outlines key opportunities for private companies in the coal sector, such as the setting up of coal preparation plants to upgrade the quality of domestic coal; the expansion of production of higher rank-domestic coal which can be used without upgrading and/or blending with imported coal; and the introduction of clean coal technologies (i.e. fluidized bed combustion) to ensure utilization of domestic coal with minimal adverse environmental effects. Additionally, research on coal market development is constantly pursued to stabilize the local coal industry by enabling the local coal production to compete with imported coal from Indonesia and Australia, among others.

DOWNSTREAM OIL

When the oil industry deregulated, it also diversified while the country's oil dependence declined. By the end of 2001, the Philippines' downstream oil production averaged at 22,000 bbl/d mainly due to the discovery of new deep-sea oil deposits beneath the natural gas-



Petron is the Philippines's largest oil refinery and marketing company. Its Bataan Refinery has a crude-processing capacity of 180,000 bbl/d.

bearing structures in the Malampaya field. The industry is primarily dominated by Petron, Pilipinas Shell (Royal Dutch/ Shell's Philippine subsidiary), and Caltex (Philippines), although new entrants have come into play. Since deregulation started in 1998, 62 new firms have emerged. These include Flying V, SeaOil (Philippines), TotalfinaElf, Eastern Petroleum, Trans-Asia Energy and Unioil Petroleum Philippines Inc. By the end of 2000, these new players had been able to capture 10.4 percent of the local oil market. Through their organization, the New Players Petroleum Association of the Philippines (NPPAP), they have been credited with constantly buffering the rise of retail fuel prices in the country. The Philippines currently enjoys the lowest fuel prices of any non-oil exporting Asian country.

The major oil refineries in the country include those in Limay, Bataan for Petron (with a capacity of 180,000 bbl/d), Tabangao, Batangas for Pilipinas Shell (with a capacity of 153,000 bbl/d), and those in San Pascual, Batangas for Caltex (with a capacity of 86,500 bbl/d). In the year 2001, crude imports amounted to 111,629 MB, 94 percent of which were sourced from the Middle East with the bulk supplied by Saudi Arabia (35 percent), Iran (28 percent) and United Arab Emirates (21 percent)

HYDROPOWER

The Philippines's vast hydroelectric potentials are currently estimated at 13,000 megawatts (MW), but so far there are only 51 installed mini-hydropower facilities with a capacity of 82.07 MW, which is only 7.2 percent of the total identified hydro resource potential. In comparison, Indonesia scored a gross theoretical hydro potential of 2,150 TWh/year, with actual output of about 13 TWh in 1999. Myanmar's technically feasible potential, on the other hand, is put at 37,000 MW, with current hydro capacity of about 340 MW.

In 2001, hydropower plants generated 7,104 GWh of energy, contributing a share of 15 percent in terms of gross power generation. There were 17 micro-hydropower projects completed that same year, energizing 17 barangays under the government's electrification

program. At present, the DOE is encouraging and intensifying the development of the mini-hydropower resource potential with the passage of RA 7156, which gives various incentives to investors who wish to contribute to the mini-hydropower development program.

NATURAL GAS

The Malampaya Deep Water Gas-to-Power Project, located in the northwest of the island of Palawan, is the country's largest infrastructure facility that gave birth to the Philippine natural gas industry. It was discovered by Occidental Philippines in 1989 under Service Contract 38 (SC38). Shell Philippines Exploration B.V. (SPEX) later signed a joint venture arrangement with Occidental Philippines to fully develop and explore the site. At present, Shell remains the operator of the project with 45 percent interest, the other 45 percent held by Texaco, while the remaining 10 percent was acquired by the PNOC-EDC. The Malampaya gas project will serve as the country's link to the Trans-ASEAN gas pipeline, a 4,200km pipeline with the other six systems connecting to oilfields of Vietnam, Sumatra and Kalimantan islands of Indonesia, Malaysia, and the Gulf of Thailand. The construction of the pipeline began in 2002 and is expected to be completed by 2010, at a cost of around USD 7 billion.



The Malampaya Deep Water Gas-to-Power Project, located in Palawan, is the country's largest natural gas infrastructure facility. It will serve as the country's link to the Trans-ASEAN gas pipeline.

Natural gas is expected to become a vital component of the country's energy supply mix. The evolving industry is represented mainly by projects being undertaken by entities such as SPEX, PNOC, Texaco, First Gas Power Corporation (FGPC), Kepco-Ilijan Electric Company (KIELCO) and the Manila Electric Company (MERALCO).

NEW AND RENEWABLE ENERGY (NRE)

Being second in terms of new and renewable energy utilization among the Asia-Pacific economies, the Philippines's potential sources for NRE such as solar, wind, biomass, and micro-hydro play a significant role. The first commercial wind farm in Southeast Asia, the Northern Luzon Wind Power Project (NLWPP), will be established by the PNOC-EDC, in cooperation with the Japanese Government. Presently, design for the project have been concluded and is now awaiting funding. Additionally, the agriculture, livestock, and forestry industries increasingly provide biomass resources through fuelwood, bagasse, coconut

Table 12. Crude Oil Importations by Country of Origin, Selected Periods
(Volume in thousand barrels; CIF value in USD thousand)

Country	1997		1999		2001	
	Volume	Value	Volume	Value	Volume	Value
MIDDLE EAST	120,236	2,340,831	110,811	1,941,808	105,008	...
Saudi Arabia	47,330	930,360	41,553	720,985	35,610	...
Kuwait	-	-	-	-	-	...
Iran	42,504	804,086	35,320	601,312	28,859	...
Iraq	774	15,142	1,817	29,881	0	...
Abu Dhabi	-	-	-	-	-	...
Qatar	3,538	70,333	3,381	58,157	7,466	...
Dubai	-	-	-	-	-	...
Oman	14,480	278,946	9,540	157,130	10,472	...
UAE	11,610	241,964	19,200	374,343	21,853	...
Yemen	-	-	-	-	748	...
OTHER REGIONS	8,705	189,015	6,781	132,428	6,167	...
Indonesia	2,452	51,370	420	5,905	1,176	...
Malaysia	4,419	95,374	4,274	78,917	2,701	...
Brunei	-	-	-	-	-	...
PROC	891	19,784	-	-	0	...
Mexico	-	-	-	-	-	...
Australia	-	-	-	-	2,290	...
Pakistan	-	-	-	-	-	...
Nigeria	942	22,487	558	11,769	0	...
UK	-	-	989	25,168	-	...
Gabon	-	-	540	10,669	0	...

Source: 2002 Philippine Statistical Yearbook
Note: Details may not add up to totals due to rounding

residues, ricehull, animal waste, and municipal solid waste. These developments have raised the NRE contribution to 30 percent in the overall primary energy mix in 2000.

In March 2000, the Philippine government announced that it would build a 600-MW nuclear power plant similar to the Bataan plant by 2020 but the latter was declared inoperable for being located on an earthquake fault. At present, the government continues to pay USD250,000 a day to service the debt on the Bataan plant.

THE GOVERNMENT IN ENERGY DEVELOPMENT



The 1,500 megawatt plant of First Gas Corporation in Sta. Rita, Batangas City, fueled by indigenous natural gas from the Shell Malampaya off-shore platform in Palawan

POLICIES AND STRATEGIES

The government, primarily through the Department of Energy (DOE) and its attached agencies, recognizes and acts upon the realization of the vast contribution of energy resource development in the country's economic growth. The government's present policies and strategies are enshrined in the long-term Philippine Energy Plan (PEP) 2002-2011, which outlines specific goals embodied in the Medium-Term Philippine Development Plan (MTPDP) 2001-2004.

Stable, secure and efficient energy supply. The PEP provides for the increase of the Philippine energy sector's self-sufficiency level from 45 percent in 2000 to about 52 percent in 2004, and at least 50 percent until the end of the planning period. These will be actualized through various programs such as the adoption of technologies for both power and non-power applications; the diversification of energy sources with the development of geothermal, hydro, natural gas, coal and new and renewable energy; and further development in infrastructure to ensure efficiency in energy service delivery to end-users.

Full barangay electrification. Current electrification efforts are directed towards further providing electricity to the country's barangays. While 100 percent electrification has been attained in the cities and municipalities, 19.3 percent of barangays remain without electricity. The PEP, through its *O-Ilaw* Electrification Program, aims to achieve

Table 13. Status of Energization
(as of December 31, 2001)

Region	Municipalities			Barangays		
	Coverage	Energized	%	Coverage	Energized	%
Philippines	1,454	1,454	100.0	36,077	29,115	80.7
Cordillera	73	73	100.0	1,108	945	85.3
1	116	116	100.0	3,035	2,991	98.6
2	97	97	100.0	2,375	1,961	82.6
3	92	92	100.0	2,096	2,030	96.9
4	148	148	100.0	3,513	3,102	88.3
5	113	113	100.0	3,408	2,694	79.0
6	132	132	100.0	3,869	3,181	82.2
7	121	121	100.0	2,717	2,383	87.7
8	143	143	100.0	4,388	3,267	74.5
9	72	72	100.0	1,861	1,104	59.3
10	85	85	100.0	1,842	1,537	83.4
11	45	45	100.0	895	724	80.9
12	46	46	100.0	1,023	710	69.4
13	73	73	100.0	1,306	1,134	86.8
ARMM	98	98	100.0	2,641	1,352	51.2

Source: 2002 Philippine Statistical Yearbook
Note: Details may not add up to totals due to rounding

a 95 percent barangay electrification level by the year 2004, through the close coordination of the DOE, the National Power Corporation (NPC), Philippine National Oil Company (PNOC) and the National Electrification Administration (NEA) and private investors in the energy sector.

Consumer welfare enhancement in an increasingly deregulated sector. This mainly involves the promotion of consumer rights through intensive tri-media information campaigns, the pursuit of fair and reasonable energy prices, clean and efficient energy fuels, and the development of technology and infrastructure facilities through the active implementation of various laws. The PNOC is the country's state-owned energy company responsible for the development of oil and other local energy sources, while the NPC is the state-owned electric company. On June 8, 2001, the Electric Power Industry Reform Act (EIRA) or RA 9136 was passed. It provided for the restructuring of the energy sector and the privatization of the NPC. Privatization mainly involves unbundling to encourage competition in the energy generation and supply sectors, as well as splitting the NPC into several generation companies to promote profitability and viability. It also

Table 14. Energy Consumption by Source, 1991 to 2001
(In million barrels of fuel-oil equivalent, MMBFOE)

Energy Source	1996	1997	1998	1999	2000	2001	
Total	222.86	241.72	240.23	245.49	250.90	250.90	248.45
Indigenous Energy	97.12	97.11	97.90	106.26	113.33	113.33	113.00
a. Conventional	29.98	27.17	29.25	36.04	38.25	38.25	35.87
Oil	0.45	0.16	0.27	0.34	0.32	0.32	0.32
Coal	5.06	4.05	4.84	3.90	4.40	4.40	3.84
Hydro	12.17	10.46	8.74	13.50	13.45	13.45	12.25
Geothermal	11.30	12.48	15.37	18.28	20.05	20.05	18.00
Gas	-	0.02	0.04	0.03	0.04	0.04	1.46
b. Non-conventional	68.14	69.94	68.65	70.22	75.08	75.08	77.13
Bagasse	7.89	9.69	10.17	10.40	15.90	15.90	16.34
Agriwaste	60.00	59.94	58.42	59.70	16.42	16.42	16.93
Coconut Husk/ Shell	13.94	10.75	11.07	9.56	-	-	-
Rice Husk	4.12	4.26	4.34	6.37	-	-	-
Wood/ Woodwaste	39.84	40.11	38.33	39.30	42.58	42.58	43.68
Charcoal	2.10	4.82	4.41	4.47	-	-	-
Other							
Biomass	-	-	0.25	-	-	-	-
Animal Wastes	-	0.01	0.02	-	-	-	-
Imported Energy	125.74	144.61	142.33	139.23	137.57	137.57	135.45
Oil	117.40	132.76	128.93	122.30	113.30	113.30	112.56
Coal	8.34	11.85	13.40	16.94	24.28	24.28	22.89

Source: Department of Energy
Note: Details may not add up to totals due to rounding

provided for the use of tax parity treatment of indigenous energy resources vis-à-vis imported fuels; value-added-tax (VAT)-zero rated sales of generated power of generating companies; and the review of the Power Purchase Agreement (PPA) contract, to name a few. The effective implementation of EIRA and RA 8479, or the Downstream Oil Industry Deregulation Act of 1998, will not only promote fair energy prices but will also encourage private sector investments.

The Philippine Clean Air Act of 1999 or RA 8749 laid the comprehensive framework on air quality enhancement in the energy sector. Among others, it provides for the complete phase-out of leaded gasoline in the country by January 2001. In addition, the Ecological Solid Waste Management Law (RA 9003) signed in January 2001 provided for the proper management and disposal of wastes, including those from energy-related activities.

PROJECTS

The country's main thrusts for energy development include sustainability, through the development of new and renewable energy sources and the natural gas sectors; power sector reform; and cooperation and collaboration with its ASEAN neighbors. The three-year Window of Opportunity for Petroleum Exploration in the Philippines program was launched in June 2000. It aims to attract both foreign and local investors in petroleum exploration and development. As a result of this, two Geophysical Survey and Exploration Contracts (GSEC) were awarded to South China Sea Resources, Inc. (GSEC 99) and PNOG-Exploration Corporation (GSEC 100), collectively bringing in some USD7.9 million in investment. As a part of the Window of Opportunity development strategy, the Corridor of Focus was launched to encourage offshore petroleum exploration in proximity to the Malampaya field and other associated infrastructure. The COF includes the following areas: (a) offshore areas surrounding Palawan, (b) the Sulu Sea and (c) offshore areas surrounding Mindoro. There are also various major interconnection and uprating projects which include those for Negros-Panay (1990-2005), Leyte-Luzon (1998), Leyte-Cebu (1997-2003), Leyte-Mindanao (2005), Leyte-Bohol (2003), and Negros-Cebu (1993-2005).

Various projects have also been formulated to utilize compressed natural gas (CNG). Provincial buses plying Manila and Batangas are envisioned to run on CNG from the Malampaya gas starting 2002. A similar project will be implemented in Cebu with the re-opening of two small-scale gas fields in 2002. It is also projected that between 2005-2006, Metro Manila public utility vehicles will be using CNG.

The Philippines is also a member of various multilateral organizations such as the WTO and APEC, where reforms in the energy sector are emphasized. The government has viewed participation in these organizations as viable opportunities for the country to use its natural resources to promote development, not only of the energy sector but of the entire economy in general, enhancing its competitiveness in the world market while defending and improving market access for their exports.

TRANSPORT

An efficient transport system is crucial to the economic progress of a developing country. Improved transport network brings large economic advantages especially those arising from an expeditious transfer of goods and services, improved accessibility and mobility of the people, and increased investments in the transport sector. The Philippines' transport infrastructure requirements remain huge, challenging government with completely effecting the construction of the country's transportation infrastructure in keeping with the Philippines' active integration in the global market.

The Department of Public Works and Highways (DPWH), the Philippine government's engineering and construction arm, and the Department of Transport and Communications (DOTC), are significantly faced with the challenges of providing an efficient transport system in support of the government priority programs such as the modernization of agriculture, development of tourism, and decongestion of traffic. Cognizant of its ongoing responsibility of deregulation and privatization, the government is outlining a policy framework that heartens maximum private sector participation under the build-operate-transfer (BOT) scheme, joint ventures, franchises, and long-term leases.

ROAD TRANSPORTATION

The Philippines has a total road network of 202,083 kilometers straddling across the archipelago. Of these, 30,161 km. are national roads, 27,076 km. are provincial roads, 121,989 km. are barangay roads, and the remaining 22,856 are city and municipal roads.



Years after the historic People Power Revolution, the EDSA Shrine in the heart of Ortigas finds itself in the midst of flyovers.

National roads are the responsibility of the DPWH, while the provincial, city, municipal, and barangay roads are devolved to the local government units (LGUs).

Although the Philippines has the highest road density among the developing countries in ASEAN, it is inferior to them in terms of road quality. In 2001, the Philippines had a paved road ratio of 21 percent compared to 82

**Table 15. Existing Bridges Along National Roads
(as of end-December 2001)**

Type	Number	Length (Lineal Meters)
Permanent Bridges	6,500	262,160.53
Temporary Bridges	1,792	45,294.79
Spillway/Overflow Bridges	265	12,839.01
Total	8,557	320,284.33

percent of Thailand and 74 percent of Malaysia. Provincial, barangay, city and municipal roads comprise 85 percent of the total Philippine road network. However, only 15 percent of these are paved.

The Philippines also has 8,557 bridges spanning a total length of 320,284.33 lineal meters. Of these, 89 percent are permanent structures made of steel and pre-cast concrete.

The Pan-Philippine Highway, sometimes called the "Maharlika Highway," is the country's main transport backbone, linking four major islands of Luzon, Samar, Leyte, and Mindanao. Stretching a total of 2,500 kilometers, the Pan-Philippine Highway runs from the province of



The Second Mactan-Mandaue Bridge has been very effective in reducing traffic congestion and ensuring smooth traffic flow between the islands of Cebu and Mactan

Cagayan in the northeasternmost part of Luzon to the city of Davao in southeast Mindanao.

For the Filipinos, motor vehicle is the primary and indispensable means of transport. There are more motor vehicles in the Philippines than ever before, numbering nearly 4 million in 2001. This figure included 792,736 cars, 1,425,880 utility vehicles, 253,596 trucks, 31,686 buses, 1,330,263 motorcycles and tricycles, and 23,701 trailers. Cars and utility vehicles dominate the roads carrying people to and from work and places of leisure. Trucks are the principal means of carrying freight. Jeepneys, which are lengthened versions of World War II American jeeps, are the most common means of public transport. Motorcycles and tricycles (motorcycles with sidecars) ply along narrow city streets, subdivisions, and barangay roads, or in places where larger vehicles cannot penetrate.

Metro Manila is the seat of the heaviest traffic volume in the country where major thoroughfares carry an average annual daily traffic (AADT) of 59,649.30 each. The heaviest traffic volumes outside the Metro Manila area are recorded in the following corridors: North Luzon Expressway, North Luzon segment (Cagayan Valley Road) of the Pan Philippine Highway, Manila-Cavite Road, and South Luzon Expressway.

The Philippines exhibits an expanding trend in vehicle ownership. The plethora of vehicles, whose number quadrupled between 1981 and 2001, has induced heavy traffic congestion, particularly in Metro Manila. The Metro Manila Development Authority (MMDA), which is in charge of the administration and execution of traffic enforcement operations, implements the Unified Vehicle Volume Reduction Program (UVVRP), popularly termed as the "color coding" scheme. The scheme orders vehicles whose license plate numbers end with 1 and 2 to stay off the roads on Mondays, 3 and 4 on Tuesdays, 5 and 6 on Wednesdays, 7 and 8 on Thursdays, and 9 and 0 on Fridays.

WATER TRANSPORTATION

The Philippines' archipelagic setting beckons a need for an inter-island means of transport. Government efforts in enhancing the competitiveness of the water



The Eva Macapagal Super Terminal



WG&A's Superferry 15, the latest in the company's passenger transport fleet

transport industry have been well rewarded, as passenger traffic and cargo throughput are improving through the years. In 2001, 43.66 million passengers utilized sea transport in traveling across the Philippines. This figure had expanded by 6 million since 1995, or an average growth of 2.4 percent per year in the last six years. More than 86% of the passenger traffic passed through government ports. There are five largest players in the passenger service, all of which account for 90 percent of the boat-riding population. These are Negros Navigation Company, WG&A, Sulpicio Lines, Philippine Fast Ferry Corporation, and Cebu Ferries Corporation.

The country's intense reliance on trade – domestic and foreign— is contingent to the domestic shipping industry's ability to carry cargoes between ports in the country and around the world. Total cargo serviced by the Philippine Ports Authority (PPA) in 2001, added up to 147.85 million metric tons, a minimal contraction of 1.3 percent from the total cargo throughput of 149.84 million metric tons in 2000. The slowdown was largely due to the general weakening of domestic and international trade in the year as both domestic and foreign cargo traffic experienced a slight decline. Domestic cargo waned by 2.4 percent, while foreign cargo lessened by an almost negligible rate of 0.30 percent. Transit cargo, which is that intended for export and arrives in the Philippines as imports, however, soared by 3 percent to 780,685 metric tons. Cargo service is also highly concentrated among the top five players, cornering the market by 91 percent. These companies are WG&A, Sulpicio Lines, Lorenzo Shipping Corporation, Solid Shipping Corporation, and Negros Navigation Company.

The Philippines has a total of 1,592 ports, classified into fishing ports, feeder ports, and commercial ports. The 462 fishing ports serve as the main collection and distribution center for the local fishing industry. The 224 feeder ports provide linkages among neighboring small islands and urban centers, generally catering to small passenger and fishing vessels. The commercial ports, which number 906, serve as baseports or terminal ports, which are run either by the government or private corporations.

The Philippine water transport industry, as in any other water transport industry around the world, has a long history of stringent government regulations. Liner rates were fixed since 1928, and route licensing was established in 1972. The government, in due course realized however that this regulatory system had adverse consequences to the economy. For instance, since liner tariffs were fixed, they were also hindered to increase with the general inflation rate, instigating passenger line companies to operate on unprofitable results or to provide low quality services. Route licensing, on the other hand, proved to be restricting market entry, and did not remedy the problem of overtonnaging, for which it was originally intended.

Reforms intended to enhance competition and attract investments in the water transport industry are continuously carried out since 1989. These reforms included the deregulation of passenger rates, introduction of the fork tariff system in determining freight and passenger rates, strong government support to liners serving as tourist passenger vessels, route liberalization, and the domestic shipping modernization program to rehabilitate and upgrade ports and inter-island fleet. The Maritime Industry Authority (MARINA) is in charge of the development, promotion, and regulation of domestic shipping, overseas shipping, shipbuilding and ship repair, and maritime manpower.



The Light Rail Transit (LRT), one of the two public rail transport systems in Metro Manila, served 110 million passen-

Light rail transport is a vital component in the urban transport system especially in Metro Manila. With the light rail transport's fundamental role in decongesting traffic in the metropolis, the government runs the public rail transit. There are two public rail transport systems in Metro Manila. The Light Rail Transit (LRT1) is a fully elevated single line rail, running north to south from Caloocan City to Pasay City. LRT1 served 110 million passengers in 2001, equivalent to an average of 50 trips during peak hours. At present, Light Rail Transit Authority (LRTA) is finishing the 12-kilometer south extension project for LRT1, which extends

RAIL TRANSPORTATION

The Philippines has one heavy railroad network running through Metro Manila to La Union Province in the north and Albay Province in the south. The government-owned Philippine National Railways (PNR) operates the rail services, which have been unfortunately impaired by the not so well maintained rail facilities. Passengers carried by the PNR dwindled from 1.65 million in 1981 to only 318,700 in 2001. Cargo also lessened from 115,800 tons in 1981 to a meager 14.1 tons in 1995.

the existing LRT1 from Baclaran to the Province of Cavite, just south of Metro Manila. LRTA is also completing the construction of LRT2, a 13.8-kilometer light rail transit that traverses through five cities in Metro Manila, namely, Pasig, Marikina, Quezon City, San Juan, and Manila.

The Metro Rail Transit, popularly called the MRT, is the newest mass light rail transit that opened in 1999. Running 16.8-kilometers on elevated tracks along EDSA, Metro Manila's principal thoroughfare, the MRT carries 120,000 riding public everyday.

AIR TRANSPORTATION

The Philippines has a total of 87 airports, which count among them 8 international airports, 12 trunkline airports, 36 secondary airports, and 31 feeder airports. The Ninoy Aquino International Airport (NAIA) in Manila is the Philippines' premiere airport and principal gateway to the Philippines. The Manila International Airport Authority (MIAA), which manages and operates the NAIA, reported that the airport carried 37,000 flights servicing a total of 7 million passengers in 2001. The MIAA is awaiting the opening of the NAIA Terminal 3, which is expected to expand NAIA's passenger traffic to 13 million annually.

The other commercial international airports include the Mactan-Cebu International Airport, Subic International Airport in Zambales, Diosdado Macapagal International Airport (also known as the Clark International Airport) in Pampanga, Laoag International Airport in Ilocos, Zamboanga International Airport, General Santos International Airport, and Francisco Bangoy International Airport (also known as Davao International Airport) in Davao.

Domestic airports are located in key Philippine cities such as Baguio, Lucena, Caticlan, Roxas, Cagayan de Oro, Cotabato, Bohol, Dumaguete, Iloilo, Bacolod, and Tacloban.

The Philippine Airlines (PAL) is the Philippines' official flag carrier. Established in 1941, operated and managed by the Philippine government since then, PAL is Asia's first airline. The government relinquished control of the airline in 1992 when it sold 67 percent of its stake in what was the largest privatization deal at that time. After the issuance in 1995 of Executive Order 219, which crafted the national and international civil



Philippine Airlines (PAL), the Philippines' official flag carrier, captures almost half of the passenger traffic market.

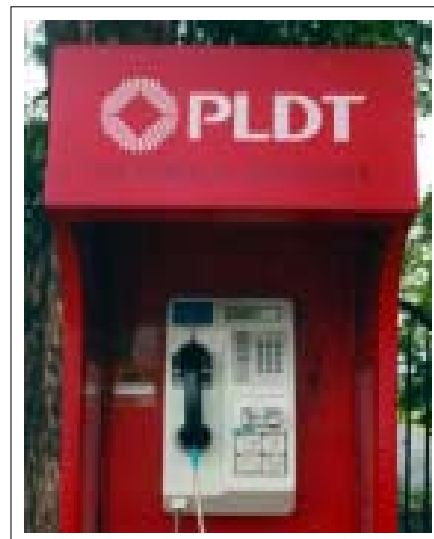
aviation liberalization framework of the Philippines, five new airlines entered the industry. These were Cebu Pacific Air, Air Philippines, Asian Spirit, Mindanao Express, and Grand

TELECOMMUNICATIONS AND POSTS

The Philippine telecommunications industry is one of the most dynamic telecommunications industries in the world. It consists of 74 local exchange carrier services operators, 14 inter-exchange carrier services operators, 11 international gateway facilities, 7 cellular mobile telephone systems, 11 public trunk repeater service providers, 11 radio paging service systems, 217 value-added services providers, and more than two fixed telephone line operators servicing 13 regions across the country.

Like most other countries around the world, the Philippine telecommunications industry was traditionally deregulated and monopolized. For decades, the industry was dominated by the Philippine Long Distance Company (PLDT). The travails of introducing competition in the telecommunications market began in 1987, when the newly crafted Philippine Constitution incorporated an anti-monopoly provision for the telecommunications industry. It was not until 1993, however, that private sector investment was welcomed in the telecommunications industry. EO 59 was issued prescribing the interconnection of public telecommunications carriers in order to create a universally accessible and fully integrated nationwide telecommunications network. Subsequently, EO 109 was issued in 1995, calling for the widening of the provision of telecommunications services to unserved and underserved areas in the Philippines. To carry out this provision, EO 109 required international gateway facilities operators to provide a minimum of 300,000 local exchange lines, and cellular mobile telephone operators to provide a minimum of 400,000 local exchange lines in the Philippines within a period of five years.

The deregulation process of the telecommunications industry reached its pinnacle in 1995 when the Public Telecommunications Policy Act of the Philippines (RA 7925) was legislated. It recognized the private sector as the engine of rapid and efficient growth in the telecommunications industry. The law ordered all telecommunications entities to be listed publicly in the stock exchanges. It also called for the privatization of all telecommunications facilities owned and operated by the Philippine government. Furthermore, at least two inter-exchange carriers should provide national long distance telephony services, International carriers should provide local exchange services



The Philippine Long Distance Telephone Company (PLDT) is the leading provider of telecommunications services in the

in unserved and underserved areas in the Philippines, and value-added services providers need not secure a franchise in order to enter the market.

The deregulation policies effected a surge in teledensity ratio from 0.8 per 100 persons in 1992 to 8.96 per 100 persons in 2001, outperforming the growth of fixed-line networks in the rest of the ASEAN countries. PLDT has since been owned by Hong Kong's First Pacific (25 percent), Japan's NTT (15 percent), while the rest of the shares are traded on the Philippine Stock Exchange. Although PLDT remains the dominant telecommunications service provider in the country, capturing a 67 percent market share in the fixed-line telephone business, it increasingly faces stiff competition from new entrants such as Globe Telecom (Globe), Bayan Telecommunications Inc. (Bayantel), Digital Telecommunications Philippines Inc. (Digitel), and Eastern Telecommunications Philippines Inc. (ETPI).

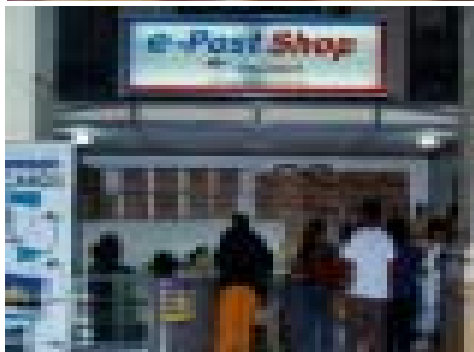


The short messaging system (SMS), more commonly known as texting, has been widely incorporated in the local

The liberalization policies notably instigated the phenomenal development presently taking place in the local cellular mobile phone services sector. Following the issuance of E.O. 109, mobile phone subscribers increased by close to 200 percent in 1995. In 2001, mobile subscribers numbered 11.4 million, a growth of 76 percent from the previous year, and by 300 percent from the year before that, making the Philippine mobile telephony market the fastest growing in the world. The extraordinary growth of mobile penetration and usage is demonstrated by the cellular mobile telephone density of 15.61 per 100 persons in 2001, which grew from 8.46 per 100 persons in 2000, and only 3.81 per 100 persons in 1999.

While there are five companies operating in the mobile phone market, the sector is dominated by Globe Telecom and Smart Communications, Inc. (Smart), which together secure 98 percent of all mobile phone subscribers. Globe is partly-owned by Germany's Deutsche Telekom (4.65 percent), Singapore Telecom (11.79 percent), and the Philippines' Ayala Corporation (11 percent). It owns Touch Mobile, a new cellular phone service it launched in September 2001. Smart, established in 1991, is a wholly-owned subsidiary of PLDT.

An important feature of mobile phone use that makes it a popular means of communication in the Philippines is the Short Messaging System (SMS), widely known as "texting." SMS was initially incorporated free of charge in every mobile phone subscription in the Philippines until 2001, when each text message was set a price of PHP1.00, a rate equivalent to one-eighth of a minute of voice call. The relative affordability of the SMS brought about the "texting" craze in the country. The Philippines leads the world in per capita SMS use, gaining prominence as the "texting" capital of the world. As proof of this, in December 2001, the volume of messages



sent and received numbered as high as 90 million per day.

Mobile services also include advanced technology features such as Wireless Application Protocol (WAP), General Packet Radio Service (GPRS), Multimedia Messaging Service (MMS), and mobile banking.

PHILIPPINE POSTAL SYSTEM

The Philippine Postal Corporation (Philpost) establishes, operates and maintains the country's post offices. It offers services such as letter post, international express mail, registered mail, air parcel post, surface parcel post, insured parcel post, international reply coupon, and international postal money order. In 2001, the volume of mail posted and delivered by Philpost numbered 755,617,336.

Philpost was established as a postal office in Manila in 1767 and was later created as a postal district of Spain in 1779. It became the Philippine Postal Corporation in 1992 by virtue of RA 7354. Operated and maintained by the government since its establishment, it was privatized in 1997 through the sale of 55 percent of its stocks to the private sector. Philpost owns a bank subsidiary, the Philippine Postal Savings Bank (PPSB), which performs all functions authorized for commercial banks. PPSB has an authorized capital stock of PHP1 billion (USD20 million) and PHP300 million (USD6 million) in paid-up capital stock.

Philpost has established bilateral agreements with several countries to ~~the Philippine Postal Corporation in Lawton, S. Manila~~ entered into an agreement with the

Hong Kong Post to provide a speedy reciprocal postal remittance service. It also has bilateral agreements with 54 countries for the reciprocal exchange of express mail services.

INFORMATION TECHNOLOGY

Recent developments in technology have been adapted to good advantage by major sectors of the Philippine economy. Modern technology is indispensable to economic growth and to the development of competitive and strategic advantages for the Philippines in the global market. The government, with the enthusiastic support of the private sector, encourages investments in technology as a national priority.

Information technology (IT) in the Philippines refers to the different forms of technology involved in the creation, storage, and exchange of information used in telecommunications, electronics, data processing, banking, multimedia, information management, e-commerce, entertainment, and other forms of economic activities. The importance of IT to the Philippine economy transcends the macroeconomic benefits of enhancing productivity and efficiency of businesses. Although information technology is relatively new in the Philippines it is undoubtedly the fastest growing industry and one of the biggest providers of employment and foreign exchange.

The advent of information technology in the Philippines dates back to the 1980s when foreign multinational corporations engaged in the manufacture of computer chips relocated the assembly and packaging segments of their operations to the Philippines, primarily to take advantage of the low labor and production costs, strong government support, and a pool of technically capable Filipino workers. Private local corporations then acquired modern technologies, developed infrastructures, and sent employees for technical training in more advanced countries. The government eagerly supported the advancement of information technology through the incorporation of IT courses in secondary and tertiary education, and in vocational training. Investment incentives were augmented, telecommunication and transportation infrastructures were improved, and economic zones and IT cyberparks were established. International corporations such as Sony, Texas Instruments, Intel, Motorola, NEC, Sharp, IBM, and Acer were the early



The Philippines is home to many global electronics firms.

beneficiaries of these government incentives. Likewise, in its efforts to modernize public administration by using advanced technologies, government did not only improve efficiency in the delivery of public services, but also created a sizeable demand for IT products and services. From its beginnings as an industry of microprocessors manufacturing, Philippine IT has grown into a more advanced and sophisticated provider of software, computer programs, business solutions, and other technological innovations of global importance. The



Meta Group's Global New E-Economy Index (GNEI) ranked the Philippines as the world's number one source of knowledge workers.

unprecedented rapid expansion of IT has heightened people's awareness of modern technology, making it a vital component of the daily life of an increasing number of Filipinos.

The biggest component of the Philippines's IT industry is the electronics sector. The sector covers business enterprises engaged in the production, assembly, distribution, and development of semiconductors, consumer electronics, office equipment, telecommunications, sound and video apparatus, medical and industrial instruments, and automotive electronics. Identified by government as one of the 14 "export winners," electronic parts and equipment rank at the top of the list of Philippine exports, comprising 52 percent of the total.

The value of electronics exports has grown more than six times in the last ten years despite the recent slide of the global IT industry, amounting to USD16.7 billion in 2001. As one of the main sources of domestic employment, the electronics industry generates employment for more than 200,000 people, almost all of whom are college graduates. Semiconductor companies employ more than 60 percent of the industry's workforce, ranking semiconductor production one of the largest non-agricultural employment-generating industries in the Philippines. There are approximately 2,000 IT firms registered with the Securities and Exchange Commission. Most of the firms are located in Metro Manila and in various designated export processing zones and industrial parks around the Philippines. The firms are either large and local subsidiaries of multinational corporations, or small and medium-sized companies wholly owned by Filipinos.

The Philippines has an enormous human resource pool providing innovative and cost-

effective IT services to companies all over the world. The country has become a leading provider of outsourcing activities, comprising core and non-core corporate operations such as information systems analysis, 3D modeling and animation, systems and software development, anti-virus and Internet security services, data center management, accounting, human resources training and management, website design and development, technical and billing support, wireless directory assistance, inventory management, online purchasing and medical transcription. The Philippines is often the favored nation in outsourcing activities among vendors in the United States, United Kingdom, and Japan. It is preferred for its technically skilled, easily trainable and English-speaking workers. The DTI reckons there are approximately 8,000 Filipino firms involved in outsourcing activities.

Call centers, which have been hailed as the latest sunshine industry, abound in Metro Manila and are expected to create thousands of jobs in the next two years. The rising costs of business operations in industrialized countries make the Philippines a lucrative nation to outsource several business activities. A PricewaterhouseCoopers study on offshore business processing indicated that the Philippines has been a preferred hub for Customer Interaction services, garnering 25 percent of approval rating among surveyed multinational companies from Europe and North America. The Philippines is now home to 30 call centers, with more than 5,000 seats currently in operation (a seat is a workstation composed of two or three people alternating in three shifts daily). Call centers usually perform customer service, helpdesk, medical transcription, and wireless directory assistance services for companies located in the US, UK, Japan, and Singapore. The DTI forecasts a 400 percent growth rate in the call center business from USD173 million in 2002 to USD864 million in 2004.

The deregulation of the telecommunications industry has led to greater competition, increased foreign investments, and acquisition and transfer of new technologies. It has



The call center business in the Philippines is expected to become a USD42 billion industry by 2010.

resulted in the establishment of more international gateway facilities, cellular mobile telephone system operators, paging companies, interexchange carriers, and fixed telephone line operators. It has also improved landline telephone density five times, and caused a phenomenal increase in cellular mobile phone users, leading the International Telecommunications Union (ITU) to consider the Philippines as the largest mobile phone market in ASEAN.

Internet penetration in the Philippines has improved due to the growth in the number of Internet service providers (ISPs). Filipino Internet users are estimated to number around 3.5 million and are expected to grow by 1 million every year. There are about 200 ISPs around the country offering high-velocity Internet access in DSL, wireless and fixed broadband, cable, and satellite facilities. Philippine websites with their own domain name are estimated at 500, almost all of which are corporate web pages.

GOVERNMENT SUPPORT

Recognizing the vital role of information technology in the Philippines' future economic development, the government has adopted the National Information Technology Plan (NITP) for the 21st Century. Otherwise known as IT21, NITP is a policy framework that builds on the country's strengths in providing directions for IT over the next 10-25 years. It plans to lay the technology infrastructure required in every business, every government agency, school, and home by the turn of the 21st century. It also envisions the Philippines becoming the Knowledge Center in the Asia-Pacific by taking the leader role in IT education and training.

The development strategy of IT21 engages the government as the enabler, lead user and partner of the private sector, performing responsibilities such as providing the national



http://www.gov.ph: The official government portal of the Republic of the Philippines.

structure for information technology, cultivating an environment that will encourage the growth of IT, implementing cutting-edge technology in the delivery of public services, and undertaking crucial IT projects in tandem with business, the academe, the science and technology community, and the civil society. Together, the stakeholders of IT in the Philippines are encouraged to cultivate an IT culture among Filipinos. In support of IT21, the government launched RPWeb, a Philippine intranet connecting all government agencies, including government-owned and controlled corporations, state universities and colleges, and public schools.

The government also guarantees the protection of the exclusive rights of software and program developers by having passed into law the Intellectual Property Code of the Philippines (RA 8293) on June 6, 1997. The Code established the Intellectual Property Office, which grants patents for inventions, registers technology transfer arrangements, and adjudicates contested proceedings involving intellectual property rights. The Code also seeks more severe punishments and penalties for the illegal use, production, and distribution of unlicensed software.

The government has taken the lead in enhancing research and development programs on information technology through the Department of Science and Technology (DOST). DOST established the Advanced Science and Technology Institute (ASTI) to carry out scientific research and development in the fields of microelectronics, and information and communication technologies, as well as promote the dynamic assimilation of specialized know-how by the academe, the private sector, and the government.

The Philippines commits itself to trade liberalization of IT products by supporting the Information Technology Agreement (ITA), which called for a multilateral elimination of tariffs on 188 IT product lines by 2000, and 47 product lines by 2005. With tariff rates bound to zero, it is expected that the importation of IT products will be within reach of many Filipinos, widening their exposure to different varieties of technologies from all over the world.

PUBLIC FINANCE

THE PUBLIC SECTOR

The public sector is composed of the national government, local governments, government corporations, and public enterprises. The Philippines has a unitary and centralized form of government with a multilevel structure. At the top of this structure is the National Government, which is run by the executive, legislative and judiciary branches of government. The country is administratively divided into 16 regions – Regions 1 to 12, the National Capital Region (NCR), the Autonomous Region of Muslim Mindanao, the Cordillera Administrative Region, and the Caraga Administrative Region. Making up the second level of the government structure are the provinces, cities, municipalities, and barangays, which are collectively known as local government units (LGUs).

The Philippine government also holds equity in corporations established under a special law or charter. These enterprises are called government-owned and controlled corporations (GOCC's). The Philippines has practiced a policy of privatization in recent years in its efforts to modernize and improve efficiency in the delivery of public goods and services. At present the government operates a total of 57 GOCC's.

PHILIPPINE TAX SYSTEM

The assessment and collection of national internal revenue taxes, charges and fees are administered by the Bureau of Internal Revenue (BIR). The laws governing taxation in the Philippines as well as the powers and duties of the BIR are stipulated in the National Internal Revenue Code of 1997.

The Philippines has varied types of taxes, which include income tax, estate and donor's tax, value-added tax (VAT), documentary stamp tax, excise taxes on certain goods, and other percentage taxes.

An income tax is imposed on resident Filipino citizens, who reside in the Philippines and derive income from sources within or outside the Philippines. Non-resident Filipino citizens and alien individuals, residing in the Philippines or not, are taxable only on income derived from sources within the Philippines. Income tax varies according to a schedule of rates ranging from 5 percent to 32 percent. Passive incomes are also levied at different rates, such as 20 percent final tax on interest income, 10 percent final tax on dividends, and 10 percent final tax on capital gains from the sale of shares of stock.

Philippine corporations are imposed a 32 percent tax on their net income arising from sources within the Philippines and anywhere around the world. Resident foreign corporations

List of Government-Owned and Controlled Corporations

- | | |
|--|---|
| 1. Bangko Sentral ng Pilipinas | 30. National Tobacco Administration |
| 2. Bases Conversion Development Authority | 31. Overseas Workers Welfare Administration |
| 3. Cottage Industry Technology Center | 32. People's Television Network, Inc. |
| 4. Center for International Trade Expositions and Missions | 33. Philippine Aerospace Development Corp. |
| 5. Philippine Amusement & Gaming Corp. | 34. Philippine Cultural Center of the Philippines |
| 6. Philippine Development Academy of the Philippines | 35. Philippine Center for Economic Development |
| 7. Philippine Charity Sweepstakes Office Commission | 36. Development Bank of the Philippines |
| 8. Food Terminal, Inc. | 37. Employees' Compensation Commission |
| 9. Government Service Insurance | 38. Philippine Coconut Authority |
| 10. Home Development Mutual Fund | 39. Philippine Convention & Visitor's Corp. |
| 11. Home Guarantee Corporation | 40. Philippine Deposit Insurance Corp. |
| 12. Home Guarantee Corporation | 41. Philippine Economic Zone Authority |
| 13. Philippine Fisheries Development Authority | 42. KKK-Processing Center Authority |
| 43. Philippine Health Insurance Corp. | 43. Land Bank of the Philippines |
| 15. Light Trail Transit Authority | 44. Philippine Heart Center |
| 16. Local Water Utilities Administration Inc. | 45. Philippine International Convention Center |
| Philippine International Trading Corporation | 46. Lung Center of the Philippines |
| 47. Philippine Institute for Development Studies Authority | 47. Manila Gas Corporation |
| 20. Metropolitan Waterworks and Sewerage System | 48. Manila International Airport |
| 21. National Development Company | 49. Philippine National Railways |
| 22. National Electrification Administration | 50. Philippine Ports Authority |
| 23. National Food Authority | 51. Philippine Postal Corporation |
| | 52. Philippine Tourism Authority |
| | 53. Public Estates Authority |

24. National Home Mortgage Finance Corp. are subject to a 32 percent tax on their net income from sources within the Philippines. Corp.

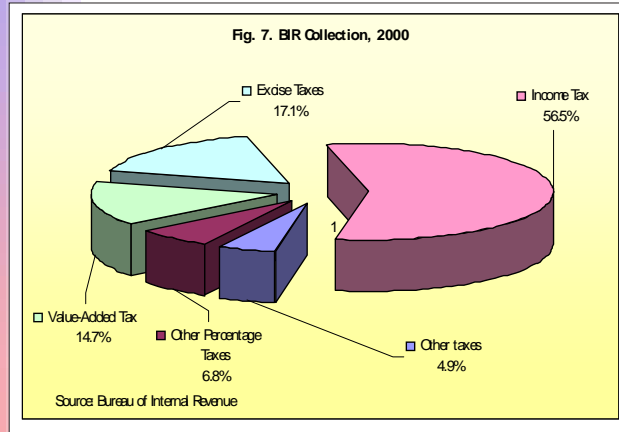
The Philippines adopted the value-added tax (VAT) system in 1988, whose scope was broadened through the enactment of the Expanded Value-Added Tax Law in 1994. The VAT simplified the tax system by abolishing 73 other taxes and harmonizing them into a single rate of 10 percent. A VAT is imposed on the seller in the course of trade or business on the sale of goods and services. It is also applied to imported goods before they are released from Customs custody. Exports are exempt from payment of the VAT.

Excise taxes of varied rates are levied on a number of products, imported or locally produced, such as alcohol, tobacco, petroleum, minerals, automobiles, jewelry, perfume, and other articles.

TAX COLLECTIONS

Total tax revenue in 2000 amounted to PHP460.03 billion, of which PHP360.8 billion or 78.4 percent were collected by the BIR. The Bureau of Customs (BOC) contributed some

PHP95 billion in import duties and taxes. A rather insignificant balance of 1 percent is collected by other government agencies.



BIR tax revenue in 2000 was PHP19.48 billion more than the agency's collections in 1999. The growth is attributed to the strong income tax collections from the communications sector as the year saw an unparalleled increase in the subscriber

base of wireless services. Income tax registered the highest contribution at PHP203.85 billion, or 56.5 percent of the total BIR tax revenue.

Excise taxes followed, with PHP61.68 billion or 17 percent of BIR collections. Excise taxes collected in 2000 came mostly from petroleum, tobacco, and alcohol products as well as from motor vehicles. VAT raised PHP53.21 billion, or 3.5 percent less than the VAT revenues of the previous year. The slowdown in the VAT collection was largely due to the economic slowdown, which resulted in a slump in the property sector.

Other percentage taxes, which included taxes imposed by banks and insurance companies as well as amusement taxes, amounted to PHP24.5 billion. These made up 6.8 percent of the total BIR tax collections. Taxes remitted by banks and financial institutions alone totaled PHP8.82 billion, or a 10 percent increment from the collections in 1999. The surge in tax collections from banks indicated that the Philippine financial system remained resilient even during a period of economic turbulence.

Duties and taxes collected by the BOC likewise intensified despite the devaluation of the peso and the decrease in the average tariff rate. BOC's collection for the year represented a more than 10 percent increase from its revenue in 1999.

REVENUE PROGRAM

National Government (NG) revenues come from taxes and fees collected by the BIR, the BOC and other government offices, and non-tax revenues in the form of fees and charges, income from the Bureau of Treasury, privatization proceeds, and foreign grants. In 2000, NG revenue totaled PHP514.76 billion, of which 89 percent were tax proceeds and 11 percent were non-tax revenues. Non-tax revenues, which totaled PHP54.73 billion, included PHP48.7

Table 17. National Government Revenues by Type, 2000

	Levels (in PHP million)	Percent Distribution
Total Revenues	514,762	100.00
1. Tax revenue	460,034	89.37
Taxes on net income and profits	203,849	39.60
Taxes on property	469	0.09
Taxes on goods and services	139,385	27.08
Taxes on international trade and transactions	95,318	18.52
Other taxes	21,013	4.08
2. Non-tax revenue	54,728	10.63
Non-tax revenue proper	48,700	9.46
Capital revenue	4,646	0.90
CARP	6	0.00
Grants	1,376	0.27

Source: Bureau of

Treasury

billion in payments in exchange for services rendered by government agencies to the public, PHP4.65 billion from the sale of government's fixed and capital assets, and PHP1.38 billion in foreign grants.

The government's revenue performance began to wane at the inception of the Asian crisis as NG revenue dwindled minimally by 1.5 percent from PHP471.8 billion in 1997 to PHP464.9 billion in 1998. While NG revenue grew by an average of 15 percent annually between 1991-1997, its growth decelerated to a feeble average of 4.3 percent per year in the period covering the Asian financial crisis up to 2000.

EXPENDITURE PROGRAM

Philippine government expenditures are categorized into six areas, namely, social services, economic services, general public services, defense, net lending, and debt service. NG expenditures in 2000 amounted to PHP649.48 billion. Spending on social services took the largest allocation of PHP214.34 billion or 33 percent of the total. This was divided among education, culture and manpower development, health, social security, labor and employment, housing, community development, and land distribution. Education, culture and manpower development took the lion's share of the NG expenditure, which amounted to PHP121.13 billion, or 18.6 percent of the total NG expenditures.

Spending for agriculture and agrarian reform, natural resources and the environment, trade and industry, tourism, power and energy, flood control, communication, roads and transportation, form part of the allocation for economic services, which combined for a total of PHP157.26 billion, or 24 percent of total NG expenditures. Disbursements for communications, roads, and transportation amounted to PHP61.75 billion or 9.5 percent of total NG expenditures.

Table 18. Philippine Expenditure Program by Sector, 2000

	Levels (in PHP million)	Percent Distribution
Total Expenditure	649,484	100.00
Social Services	214,339	33.00
Education, Culture, and Manpower Development	121,128	18.65
Health	14,665	2.26
Social Security, Labor and Employment	24,368	3.75
Housing and Community Development	4,743	0.73
Land Distribution	4,895	0.75
Other Social Services	3,182	0.49
Subsidy to Local Government Units	41,358	6.37
Economic Services	157,258	24.21
Agriculture and Agrarian Reform	30,316	4.62
Natural Resources and Environment	6,992	1.08
Trade and Industry	3,024	0.47
Tourism	1,323	0.20
Power and Energy	1,192	0.18
Water Resource Development and Flood Control	5,071	0.78
Communications, Roads, and Other Transport	61,748	9.51
Other Economic Services	8,770	1.35
Subsidy to Local Government Units	39,122	6.02
Defense	32,512	5.01
General Public Services	115,162	17.73
General Administration	35,189	5.42
Public Order and Safety	45,723	7.04
Other General Public Services	2,952	0.45
Subsidy to Local Government Units	31,298	4.82
Net Lending	415	0.06
Debt Service – Interest Payment	129,798	19.98

Source: Department of Budget and Management

General public services, which include executive and legislative services, financial and fiscal services, civil services, planning, the conduct of foreign affairs, general research, and public order and safety, captured 18 percent of the total NG spending.

Defense spending, which amounted to PHP32.5 billion, is one of the lowest in Asia, grabbing hold of only 5 percent of the total NG budget.

Net lending, which are advances by the Philippine government to service its government guaranteed corporate debt, reaped PHP415 million or a minimal share of less than 1 percent.

The government apportions about 20 percent of the NG budget to debt service. Accounting for both domestic and external debts, the Department of Finance (DOF) recorded a total of

PHP227.8 billion in debt service in 2000, or equivalent to 6.9 percent of GDP. This comprised PHP140.9 billion in interest expense and PHP86.9 billion in principal payments. In 2000, the Philippines had an outstanding external debt of USD52.06 billion and a public sector debt of PHP4.4 trillion.

LOCAL GOVERNMENT UNITS

A large share of the NG expenditure program is assigned to transfers to local government units (LGUs). The National Government believes that local governments can be effective partners in nation building and development. In 1991, the Local Government Code was created to make LGUs self-sufficient by granting them more power, authority, responsibilities and resources. The Code authorizes each LGU to generate its own sources of revenue by levying taxes, fees and other charges. Such taxes, fees, and charges accrue exclusively to the local government. The Code also mandates the National Government to transfer basic services and facilities to the LGUs. These include tourism facilities and tourism promotion, housing projects for provinces and cities, social welfare services, school building programs, field health and hospital services, community-based forestry programs, telecommunication services for provinces and cities, public works and infrastructure projects, and agricultural extension.

To effectively perform their devolved functions and responsibilities the LGUs are entitled to 40 percent of the total internal revenue collections of the National Government through the Internal Revenue Allotment (IRA). The IRA is distributed among the LGUs by means of a vertical allocation formula, which apportions 23 percent to provinces, 23 percent to cities, 34 percent to municipalities, and 20 percent to barangays. The IRA of LGUs can be adjusted by the President in case the National Government incurs a public sector deficit. In 2000, a total of PHP111.78 billion was distributed among LGUs all over the Philippines.

FISCAL POSITION

Trimming down the fiscal deficit has always been a daunting challenge for the Philippine government. Buoyed by stronger revenues in the early 1990s, fiscal deficit contracted from of 2.1 percent of GDP in 1991 to 0.2 percent in 1995. Fiscal consolidation was achieved in 1996 when the consolidated public sector fiscal position recorded a surplus of PHP7.5 billion, partly rallied round by the funds raised from the privatization of GOCCs. However, at the onset of the Asian crisis in 1997 the fiscal position deteriorated to a deficit of 1 percent of GDP. The fiscal deficit worsened in the years that followed, reaching PHP151.7 billion in 2000, or 4.6 percent of GDP. The widening fiscal deficit was largely attributed to weakened tax efforts, as tax effort declined to 13.9 percent of GDP in 2000 from 14.5 percent in 1999. This also translated to a deficiency of 9.29 percent of the BIR's collection goal for the year.

The government projects its fiscal position in the medium-term to improve from a deficit to a surplus of 0.40 percent by 2006. Much of the burden of public sector reforms

will be carried by the BIR particularly in the strengthening of its tax audit capabilities and the full computerization of its procedures.

BUDGET PROCESS

The budget process for the National Government involves four distinct stages: budget preparation, budget authorization, budget execution, and accountability.

Budget preparation commences with the determination of the overall economic targets, expenditure levels, and revenue projections by the Development Budget Coordinating Committee (DBCC). The DBCC is an inter-agency body composed of the Secretaries of the Department of Budget and Management (DBM) and the Department of Finance (DOF), the Governor of the BSP, the Director General of the National Economic and Development Authority (NEDA), and a representative of the Office of the President (OP). The DBCC ensures that the budget framework is consistent with the government's priorities.

The next step in the process is the issuance of a Budget Call by the DBM, which, aside from defining the budget framework, specifies the guidelines, procedures, and the schedule for budget preparation. The various government agencies submit their proposed budgets to the DBM, detailing programs, projects, and activities for the succeeding year. The agencies will then justify their proposed budgets during budget hearings before a DBM panel, which will subsequently present the proposed budgets to the DBCC for approval. Once approved, the DBCC submits the proposed budgets to the President and the Cabinet for review and approval before they are submitted to Congress as the President's budget. In conformance with the Constitution, the President's budget must be submitted to Congress within 30 days from the opening of each regular session.

In Congress, the President's budget is scrutinized during budget hearings conducted by the House Appropriations Committee. When the President's budget is



A budget deliberation proceeding in Congress, where the President's budget is scrutinized during hearings conducted by the House Appropriations Committee.

approved, it is submitted to the House body as the General Appropriations Bill. The Senate Finance Committee simultaneously carries out its own review of the budget and offers amendments to the General Appropriations Bill before the bill is presented to the Senate body. A Bicameral Conference Committee is also created to come up with a common version of the General Appropriations Bill. This common version of the General Appropriations Bill is thereby enacted into law, known as the General Appropriations Act (GAA). The GAA authorizes government appropriations in the form of capital outlays for the implementation of various government programs, projects and activities; salaries, wages and personnel benefits; disbursements for maintenance and other operating expenses; and payment of public debt.

Budget execution, or the release of funds to the agencies, is carried out through the Simplified Fund Release System (SFRS). It is a policy-driven system that guarantees prudent use of funds as it standardizes the allocation of the national government budget to agencies belonging to similar sectors. The major sectors are social services, economic services, defense, general public services, and debt burden. Budget execution begins with the DBM's formulation of the cash release programs in a document called Allotment Release Order. The cash release programs authorize the agencies to spend a specified amount in a given year. Cash releases take place in a monthly or quarterly basis, requiring agencies to provide DBM with a monthly or quarterly cash plan. DBM will then issue a Notice of Cash Allocation (NCA) indicating the maximum amount an agency is allowed to withdraw from a government bank. The government banks are the Land

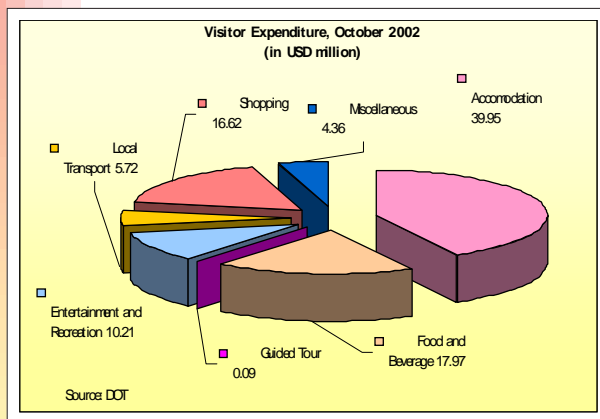
TOURISM

TOURISM PROFILE AND CONTRIBUTION TO THE ECONOMY

The innate hospitality of the Filipinos and the country's natural wonders provide the Philippines with a natural advantage in tourism, a sector recognized as a major contributor to economic development by generating vital investments, foreign exchange earnings and revenues as well as stimulating the growth of other industries such as construction and manufacturing.

The tourism industry has swiftly been on the rise during the last decade, reaching a peak in the year 2000. The figures for 2001 and 2002, however, have not been as impressive largely due to the global effects wrought by international terrorism incidents and the global economic slowdown. In 1999, the country ranked fifth in terms of visitor arrivals among ASEAN member countries with 2.2 million tourists. Visitor arrivals to the Philippines declined to 1.8 million in 2001 from 2.0 million in the previous year as the number of tourists from the major tourism markets, namely the United States, Japan, Korea, Taiwan, the United Kingdom, and Germany, dropped significantly due to various internal and external peace and order problems. This consequently reduced tourist receipts to USD1.7 billion from USD2.1 billion in 2000.

The industry is a major source of employment for those in the hotel and restaurant, transportation, travel agency or tour operation, and retail trade sectors. For instance, there are around 3 million people employed in the hotels, restaurants, transport, and communication industries as of October of 2001. Additionally, investments in tourism-oriented projects have increased to PHP678 million in 2001 from PHP514 million in 2002.



Hotel room rates in the Philippines are comparatively higher than those in its neighbors, and the average occupancy rate declined by 2.9 percent in 2001 from its figure the year before. This did not deter tourist inflow, however, as a significant 24.6 percent of visitors stayed in the homes of relatives and friends. Almost all visitors enter the country through the

various airports. Most visitors are males and usually belong to the professional, managerial, and administrative occupational group. Visitors have an average annual gross income of USD69,222.67 and usually spend roughly USD100 daily during their stay in the country, a bulk of which is spent on accommodations, food, and shopping.

THE GOVERNMENT IN TOURISM DEVELOPMENT

POLICIES AND STRATEGIES

The tourism policies and strategies of the Philippines, as articulated in the Philippine Tourism Master Plan, are in consonance with the government's priority of enhancing the country's image domestically and abroad, as well as strengthening its competitiveness in attracting foreign visitors while preserving its sociocultural heritage and the environment, as seen from the main theme in tourism projects, which is the promotion of ecotourism.

More concretely, the government, through its Department of Tourism (DOT) seeks to improve the accessibility of tourist destinations in the country, to devise better and more affordable tourist products that are truly Filipino, to promote a "*culture of tourism*" among the local residents, and to strive for increased recognition of the Philippine tourism industry in general.

The Philippine Tourism Master Plan also seeks to optimize the economic benefits of tourism and to reinforce the Philippines's position as one of the main international tourist destinations.

The Philippine Tourism Authority (PTA) of the DOT is tasked to implement these policies and strategies as well as specific programs as outlined in the Tourism Master Plan. Among other tasks, the PTA implements revenue-generating and high-impact tourism ventures, initiates ecological conservation projects, and pursues investment activities for tourism purposes. A bulk of the tourism marketing effort is planned and implemented by the Philippine Convention and Visitors Corporation, a government-owned and controlled corporation attached to the DOT. To maintain efficiency and effectivity, there are also constant reviews and assessments of the implementation of tourism development plans at the national, regional and local levels, taking into account tourism-related developments and trends as well as projected requirements and market demands.

Major Strategies

Accessibility to Tourist Destinations

Accessibility to the country's top tourist destinations is enhanced through further improvements in infrastructure supporting the four identified tourism hubs: Laoag, Manila, Cebu and Davao. This is coupled by continued liberalization efforts in civil aviation and the utilization of information and communications technology in maintaining existing tourist markets and opening new ones. The finalization of the implementing rules and regulations

of EO 219, which establishes the domestic and international civil aviation liberalization policy, aided in improving the availability, quality and efficiency of air services. Numerous air services agreements were also negotiated with other countries to increase the weekly air seat capacity levels on the same degree as that of Thailand, Singapore and Malaysia. Visa requirements for tourists have also been liberalized, consequently increasing visitor traffic from China, one of the country's fast growing tourism markets.

Developing a Culture of Tourism

In coordination with the private sector, the government seeks to develop tourism manpower skills that will meet, if not surpass, international standards and make diverse, affordable tourist products of high quality. Initiatives and partnerships among all stakeholders are constantly utilized in introducing a culture of tourism among Filipinos, as well as in further improving peace and order conditions to make the country safe for its citizens and tourists alike.

Increasing Investments in the Tourism Industry

Investments play a key role in attaining these and other priorities, such that collaborating with the private sector and LGUs in harnessing investment resources is constantly underlined. LGUs, with their own communities and civil society, are increasingly relied upon to develop and maintain tourism sites in their localities. LGUs are also encouraged to employ existing



Scenic Taal Volcano, one of the six main investment areas of the country's tourism projects

credit facilities such as the Department of Finance's Community-Based Resource Management Program to aid them in the development and maintenance of local tourist attractions and in the implementation of the Regional Tourism Master Plans (RTMPs). Official development assistance (ODA) from the United Nations Development Program (UNDP), the World Trade Organization (WTO) and the Japan Bank for International Cooperation, are utilized for particular resource gaps in conjunction with the exploration of new means for

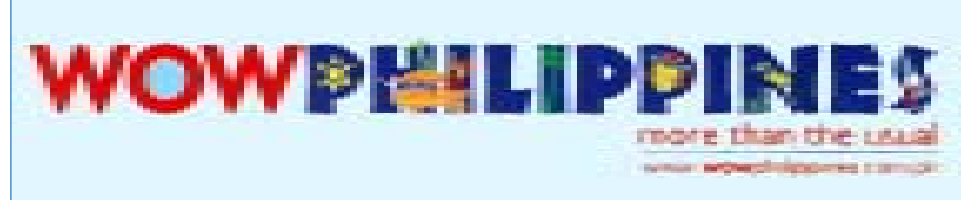
sourcing funds. Membership in the ASEAN and the Asia Pacific Economic Cooperation (APEC) are further utilized to maintain increasing recognition of the country's tourism industry.

Six main investment areas were identified to be the focus of development efforts: Area 1 covers Samal Island near Davao City in the Island of Mindanao; Area 2 includes Panglao Islands in Bohol; while Area 3 is comprised of Northern Palawan, one of the country's most environmentally and culturally sensitive areas; Area 4 includes Tagaytay, Taal and Batangas; while Baguio, La Union, Ilocos Norte and Sur comprise Area 5; lastly, Area 6 covers the beach island of Boracay and the Bicol Region where the world-famous Mayon Volcano is located.

Projects

The present tourism campaign of the DOT is comprised of various elements, including emphasis on mixed-use attractions in the country under the *WOW Philippines* slogan. *Warm over Winter* highlights the Philippines' white sand beaches, *Wacko over Wildlife* features its exotic wildlife, and the vibrant diving spots are accentuated in *Wonder over Wrecks*. The *Visit Philippines 2003* and the *Volunteer-12 Program* are being aggressively pursued to bring in more visitors and investors into the country. The *Volunteer-12 Program* aims for each overseas Filipino to bring home at least one foreign visitor, mobilizing the estimated 7.38 million overseas Filipinos as tourism volunteers.

The PTA, on the other hand, has recently launched two projects: the Luneta Boardwalk and the Boracay Water System. The Luneta Boardwalk Project was inspired by the success of waterfront development projects abroad such as the Opera House in Australia and the Pier 39 in San Francisco. On the Boardwalk, local and foreign visitors alike will be able to buy world-class native products, see Filipino cultural shows, enjoy native cuisine, or just enjoy the best that the Philippines can offer amidst the breeze blowing from the renowned Manila Bay. The construction of the foundation and platform areas have been completed, and bidding for the construction of the superstructure is ongoing. The Boracay Water System project, on the other hand, is a component of the Boracay Environmental Infrastructure Project (BEIP) which the government has undertaken through a loan package from the Japan Bank for International Cooperation. The BEIP seeks to upgrade the quality of tourism services and the quality of life of the



The DOT's present tourism campaign under the *WOW Philippines* slogan has several highlights focusing on different mixed-use attractions in the country.

PHILIPPINE ENVIRONMENT

With its complex geological origins and its tropical location, the Philippines is one of the most ecologically diverse countries in the world . Unfortunately, the country also ranks high in terms of biodiversity loss caused by both natural and manmade elements. While noteworthy socioeconomic gains have been achieved in the past few years, the process has also yielded environmental and natural resource degradation and depletion. Nevertheless, the Philippine government has grown more aware of these problems, and has slowly but constantly striven for environmental conservation and development with a combination of domestic and international policy mechanisms. Various laws have been promulgated, and agencies have been set up for their implementation. In addition, civil society and private sector participation are constantly encouraged and strengthened, while environmental projects are persistently created, endorsed, and prioritized.

The Philippines is greatly involved in the international environmental effort to save the environment, being a party to various international conventions such as the Convention on International Trade of Endangered Species (CITES) and the 1989 Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal. It is also a party to the Vienna Convention for the Protection of the Ozone Layer and the Montreal



One of the numerous mangrove covers in the Philippines, essential in the life cycles of many marine species

Protocol, which it ratified in 1991, giving rise to the formulation of the Philippine Country Program detailing the plan to phase out ozone-depleting substances (ODS). Noteworthy is its participation in the United Nations Conference on Environment and Development of 1992, or the Earth Summit, which gave rise to various conventions on sustainable development including the *Agenda 21*, which is the blueprint for environment and development in the 21st century.

MAJOR POLICIES AND LAWS

Environmental awareness and conservation is enshrined in Article II, Section 16 of the Philippine Constitution, which guarantees the right to a balanced and healthful ecology. Laws have been enacted to operationalize the country's commitments in the various conventions it has ratified, such as the Toxic Substance and Hazardous and Nuclear Waste Control Act of 1990. The first serious effort to analyze the biodiversity profile of protected areas in the country was the introduction of the Integrated Protected Areas System (IPAS), further developed by the formulation of RA 7586, or the National Integrated Protected Areas System (NIPAS) Act of 1992, which governs the classification and administration of all designated protected areas.

The Philippines was one of the first countries to respond to the call of the Agenda 21 process with its creation of the Philippine Council for Sustainable Development (PCSD) which is tasked to provide a mechanism for attaining the principles of sustainable development, and to assure its integration into the national policies, plans and multisectoral programs. It also led the formulation and implementation of the Philippine Agenda 21, or the national agenda for sustainable development, which is crucial to the realization of the country's UNCED commitments.

More recent ecologically-related legislation include RA 7160, or the 1991 Local Government Code, which emphasized a multisectoral effort towards development, especially of the environment, and RA 8749 or the Clean Air Act of 1999. Finally, with the passage of RA 9003 or the Ecological Solid Waste Management Act of 2000, open dumpsites will no longer be allowed as final deposit sites. The law also requires LGUs to divert 25 percent of their trash collection to recycling in material recovery facilities to be constructed in every barangay.

GOVERNMENT AND PRIVATE AGENCIES IN ENVIRONMENTAL PROTECTION

The Department of Environment and Natural Resources (DENR) is the primary government agency responsible for the conservation, management, development and proper use of the country's environment and natural resources, as well as the licensing and regulation of all natural resources utilization as may be provided by law to ensure equitable sharing of the benefits for all Filipinos. The DENR has various attached agencies, such as the Protected

Areas and Wildlife Bureau (PAWB), which undertakes the establishment, management, development and conservation of protected areas in the Philippines. It also serves as the National Biodiversity Reference Unit (NBRU), and is likewise responsible for implementing national and regional policy in accordance with the 1992 NIPAS Act, through the DENR's Regional Executive Directors (REDs), the Provincial Environment and Natural Resources Officers (PENROs), the Community Environment and Natural Resources Officers (CENROs) and its other field offices. Other attached agencies of the DENR include the Environment Management Bureau (EMB), the Forest Management Bureau (FMB), the Mines and Geosciences Bureau (MGB), the Land Management Bureau (LMB), the Ecosystems Research and Development Bureau (ERDB), the National Mapping Resources Information Authority (NMRIA), and the Laguna Lake Development Authority (LLDA).

There are also various non-governmental organizations active in ecological undertakings such as the World Wide Fund for Nature-Philippines, the Wildlife Foundation of the Philippines, Haribon Foundation, Green Forum Philippines, Crusade for Sustainable Environment, and *Likas, Tao at Kalikasan*.

THE PRESENT STATE OF THE PHILIPPINE ENVIRONMENT

AIR QUALITY

The atmosphere in the Philippines, as in many developing countries, is polluted mainly by mobile or vehicular emissions. While nitrogen oxides, ozone, and carbon monoxide levels remain within the standard, sulfur dioxide and total oxidants occasionally exceed standards. This is largely due to fossil fuel combustion from small and medium industrial and commercial installations, re-suspension and construction activities, as well as vehicle exhaust. Ambient levels of lead, on the other hand, have significantly decreased. This is mainly attributable to the gradual phase-out of leaded gasoline in the country. Furthermore, during the period of 1995 to 1999, consumption of ozone-depleting substances (ODS) fell by 55 percent from 3,625 to 1,640 metric tons. Noteworthy is the fact that the country's ambient air quality guidelines for common pollutants, as contained in the Clean Air Act, are closer to the World Health Organization's (WHO) guidelines than the US-EPA's.

WATER QUALITY

According to the 2000 Environmental Sustainability Index of the World Environment Forum, water quality in river and lake systems in the Philippines is reportedly better than in Indonesia, Malaysia, and Thailand. Nonetheless, most river systems in Metro Manila remain in poor condition, and this is mainly due to the indiscriminate dumping of household and industrial liquid wastes. However, efforts to rehabilitate the Pasig River System resulted in a 30 percent reduction in biological oxygen demand (BOD) loading,

Table 22. Philippines (Clean Air Act), US-EPA and WHO Ambient Air Quality Guidelines for Common Pollutants, 1999

Pollutant	Time (averaging)	WHO (ug/m ³)	US-EPA (ug/m ³)	Philippines (ug/m ³)
Total Suspended Particulates (TSP)	daily		**	230
	annual	**		90
Particulate Matter less than 10 microns (PM ₁₀)	daily	**	150	150
	annual	**	50	60
Sulfur dioxide (SO ₂)	daily	125	365	180
	annual	50	80	80
Nitrogen dioxide (NO ₂)	daily	40	-	
	annual		100	100
Ozone (O ₃)	1 hour	120	235	140
	8 hours		15	60
Carbon monoxide (CO)	1 hour	30 mg/m ³	40 mg/m ³	35 mg/m ³
	8 hours	10 mg/m ³	10 mg/m ³	10 mg/m ³
Lead(Pb)	3 months	0.5	-	1.5
	annual	1.0		

Source: 2002 Philippines Environment Monitor
 ** WHO no longer recommends air quality guidelines for PM because there is no safe lower limit. Values of US-EPA are for primary standards ug/m³ is 1 millionth of a gram of a pollutant in a cubic meter of air

from 327 tons/day in 1990 to 230 tons/day in 1996.

SOLID AND HAZARDOUS WASTE

According to a 1999 study of Solid Waste Management for Metro Manila conducted by the Japan International Cooperation Agency, the national average waste generation rates per capita are estimated to be 0.3 kg/capita/day, or about 22,500 tons/day, 5,400 tons/day of which is generated by Metro Manila alone, where only 6 percent is recycled. 73 percent of total household waste, mainly composed of highly organic and recyclable materials, is collected while the rest is illegally dumped. Efforts to combat this are gradually increasing: about 142 LGUs are implementing integrated waste management measures, which include waste reduction, composting, recycling, and re-use.

LAND

Of the Philippines's total land area of 30 million hectares, 14 million hectares are certified alienable and disposable lands, while around 15 million hectares are forest lands, 14.8 million



Deforestation has stabilized with the banning of logging by the government after widespread flooding in the 1980s and 1990s.

hectares of which are classified. The country has registered relatively low levels of fertilizer use compared with some of its Southeast Asian neighbors.

FOREST

From an estimated 93.3 percent of the total landmass in 1575, Philippine forest cover had been reduced to 22 percent by 1992 due to unregulated logging and conversion of forests to agricultural land. In 1977, the country had 13 million hectares of forests, 3.59 million of which were old growth forests. Twenty years later, the total forest area decreased to 5.39 million hectares, with old growth forests accounting for only 0.8 million hectares. Deforestation is caused by *kaingin*, illegal logging, and forest fires, yielding a total cost of PHP7.8 million in 2001. At present, the deforestation rate has stabilized, reforestation efforts are still erratic, with the government sector still taking the lead, and the non-government sector contributing more significantly in recent years.

BIODIVERSITY

The Philippines is one of the countries with the highest numbers of species for mammals, birds, amphibians, and reptiles, but its ecosystem is constantly being threatened by natural and man-made causes. As of 1998, around 342 species of mammals, reptiles, and birds are recognized as threatened with extinction, including the tamaraw and the Philippine eagle. Still, protected areas in the country has significantly increased, from 492,474 hectares in 1991 to about 2.6 million hectares in 2001.

Table 24. Foreign-Assisted Projects as of 2002

Ongoing			Pipeline		
Source	Amount (USD Million)	Share (%)	Source	Amount (USD Million)	Share (%)
CIDA	8.56	1.96	Austria	60.00	3.86
DANIDA	1.24	0.28	France	6.80	0.44
EU	27.57	6.31	EU	4.80	0.30
JBIC	110.34	25.24	JBIC	736.46	47.40
JICA	7.10	1.62	JICA	22.26	1.43
GTZ/KFW	20.65	4.72	GTZ	0.40	0.03
SIDA	2.83	0.65	KOICA	0.61	0.04
USAID	87.54	20.02	Netherlands	0.35	0.02
AUSAID	5.10	1.17	New Zealand	0.70	0.05
ADB	55.14	12.61	ADB	400.63	25.78
GEF	42.00	9.61	WB-GEF	128	8.24
IFAD	9.68	2.21	UNIDO	0.89	0.06
Multilateral Fund	30.00	6.86	Sweden	33.40	2.15
UNDP	3.44	0.79	NORAD	0.25	0.02
WB	24.86	5.69	WB	158.26	10.19
Others	1.20	0.27			

Source: Department of Environment and Natural Resources, Foreign-Assisted and Special Programs Office

COASTAL AND MARINE RESOURCES

The Philippines has one of the largest coral reef areas in the world, covering about 27,000 square kilometers, with the potential of producing more than 1,320,000 metric tons of fish. It also has the second highest seagrass diversity in the world. However, coral reefs are constantly threatened by sedimentation, pollution, and destructive fishing methods; only 5 percent of the country's coral reefs are still in pristine condition. Mangrove cover, on the other hand, has significantly decreased as a result of shrimp farming and urban development.

PROGRAMS AND PROJECTS

There have been various programs and projects formulated and implemented through the efforts of the DENR, in coordination with other government agencies, the private sector, and civil society. These programs seek to address four main areas in Philippine environment. The *Brown Agenda* pertains to pollution caused by industrial, urban, transport and energy sources, their impact, and the relevant protection measures and programs formulated to address them. The *Blue Agenda* deals with all forms of water resources management. The *Green Agenda* pertains to the environmental impact of agriculture, deforestation, land conversion and destruction of protected species and related protection measures formulated and adopted to address them. Other projects deal with land and mine management and human resources development. The DENR employs various management systems and



Variety of fishes. (Clockwise from right): Clownfish (*amphiprion* spp. family pomacentridae); pot-bellied seahorse (*hippocampus abdominalis*); surgeon fish (family acanthuridae); angelfish (*pterophyllum scalare*); cardinal fish (family apogonidae); batfish (*platax orbicularis*); spikelets (*G. strigosus*)

efforts to realize different project thrusts, some of which include environmental impact assessment and management; human settlement or population management, and environmental health protection; disaster management; environmental education; and people's participation in environmental protection.

BROWN AGENDA

There have been various coordinated multisectoral responses by the government, the civil society and private sector in the fight against air pollution, foremost of which was the enactment and implementation of the Clean Air Act. The Metro Manila Air Quality Improvement Sector Development Program (MMAQISDP) is an existing four-year USD200 million project of the Philippine Government and the Asian Development Bank . It aims to reduce urban air pollution in Metro Manila through policy reform, strengthening of institutions, and the implementation of specific actions to improve air quality. It is comprised of various activities of the different sectors: the establishment of a motor vehicle inspection system by the Department of Transportation and Communication (DOTC) or the Land Transportation Office (LTO); the implementation of an industrial air emission abatement program by the DENR; the introduction of vehicular emissions technology measures; traffic engineering and management by the Metropolitan Manila Development Authority; the strengthening and upgrading of existent ambient air quality monitoring systems and the improvement of the air quality reporting system by the DENR, the Department of Trade and Industry, the Philippine Information Agency, DOTC/LTO, the private sector and NGOs; and the establishment of an effective public awareness program. Multisectoral cooperation is also being advanced by the Partnership for Clean Air (PCA) and the Sustainable Transport Network, which is participated in by NGOs, the private sector, and the DOTC. Existing civil society initiatives such as the Concerned Citizens Against Pollution (CBCAP), Bantay Kalikasan, Schools for Clean Air, the Green Forum, and the Firefly Brigade contribute to the continued fight against pollution.

A crucial government move to reduce air pollution in the country was the gradual phase-out of leaded gasoline in the Philippines. Lead content in gasoline was first reduced from 0.6 gram per liter (g/l) to 0.15 g/l in April 1993, with unleaded gasoline (ULG) being introduced almost a year after, coupled with the lowering of taxes of ULG by the Oil Deregulation Law in January 1995, making it cheaper than leaded gasoline. Leaded gasoline was eventually phased out in Metro Manila in April of 2000, with its complete national phase out eight months later. Sulfur content in diesel has also been lowered from 0.50 percent in mid-1999 to 0.20 percent on December 31, 2000, and will be further reduced to 0.05 percent by 2004.

With regard to water quality management, multisectoral efforts to rehabilitate some key water systems in the country have been launched and implemented. Water quality standards and classification of surface water have also been revised and updated to afford for present developments. Multilateral agencies such as the ADB and the World Bank (WB) continue to

provide funding for water supply and for projects related to wastewater treatment. Some of the projects lined up by the WB, for instance, include the USD76 million Metro Manila Second Sewerage Project of Maynilad Water Services Inc. (MWSI), and the USD60 million Second Local Government Unit Urban Water and Sanitation project to be implemented by the Department of Interior and Local Government and the LGUs. The ADB, on the other hand, is funding a USD57 million Water and Sanitation Sector Study with a 1999 to 2004 timeline that will identify priority projects for LGUs. It is also funding the USD175 million Pasig River Rehabilitation Project; Small Towns Water Supply and Sanitation Sector II; the PHP2.827 billion Umiray Angat Transbasin Project; and the PHP250 million Technical Assistance for the Interim Water Supply Sources for Metro Manila.

There have also been significant waste management projects such as the Industrial Ecowatch Program launched by the government to foster compliance and provide recognition for waste management efforts. The computer-based environmental management compliance rating system was developed with the active participation of 23 industry associations. Furthermore, a central treatment and storage facility for electroplating waste is now operational



The Philippines underwater. (Clockwise from right): The corals of Tubbataha Reef; the vivid pink sponge corals and golden featherstars are a breathtaking contrast to the predominantly white corals in the Nagarao beach bed; one of the countless spectacular starfishes in the archipelago

in Cebu City.

GREEN AGENDA

The FMB coordinates efforts in forest protection and management through timber license agreements and forest lands management agreements, reforestation and integrated social forestry projects, and an urban forestry or clean and green program. It also identifies watershed forest resources and protected areas, and delineates final forest line and ancestral lands.

There are various government biodiversity projects that implement the national laws on biodiversity conservation and the country's international commitments, some of which are the Integrated Protected Areas System (IPAS) Project managed by the Conservation of Priority Protected Areas (CPPAP), and the National Integrated Protected Areas Program (1995-2002) which implements the NIPAS Act. The following subject sites are included, among others: the Batanes Protected Landscapes and Seascapes; Subic-Bataan Natural Park; El Nido-Taytay Managed Resource Protected Area; Malampaya Sound Protected Landscape and Seascape; Siargao Island Protected Landscape and Seascape; Mt. Kitanglad Range Natural Park; Agusan Marsh Wildlife Sanctuary; Mt. Apo Wildlife Sanctuary; and the Turtle Island Wildlife Sanctuary.

Other ongoing biodiversity projects include the World Bank-supported Technical Assistance for Improving Biodiversity Conservation in Protected Areas (1999-2001); the Samar Island Biodiversity Conservation Project (2000-2008) and the Coastal and Marine Biodiversity Component of the Mindanao Rural Development Project (2000-2003); the Calauit Game Reserve Project; the Philippine flying lemur program; the Crocodile Farming Institute; Project CARE; and the Debt-for-Nature Swap. There are also ongoing conservation projects for the *pawikan*, the *tamaraw*, the Philippine eagle, the tarsier, and the Tubbataha Reef.

BLUE AGENDA

The Coastal Environment Program was created to promote the use of environment-friendly coastal technologies, expand livelihood opportunities in and assure equal access to coastal resources, and upgrade capabilities of all DENR personnel in the management of the coastal environment.

Most ongoing projects, as well as those still being formulated, are being financed by domestic and foreign investments. In 2001, there were 33 implemented foreign-assisted projects (FAP) with an investment cost of USD432.97 million, with USD352.14 million (81%) coming from loan and grant proceeds, and the rest being GOP counterparts. There were 45 ongoing FAPs by the end of 2002, with a total project cost of USD437.23 million, a bulk of which was obtained from grants and loans. A huge portion of the FAPs are funded by the JBIC (25% or USD110.34 million), the USAID (20.02% or USD87.54 million) and the ADB (12.61% or USD55.14 million). Most ongoing FAPs are forestry or upland projects (45%), while biodiversity, coastal or marine, and environment projects each account for 15 percent. The rest of the FAPs are classified as multisectoral, lands, and mineral.