



Philippines Weekly Report

WEEK 17 OF 2002

Covering Events in the Philippines from 22 to 28 April, 2002

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HEADLINE NEWS

Amidst the deployment of more American troops in Mindanao, local terrorists have caused havoc in a major city in the south, detonating bombs that killed 15 innocent civilians in crowded areas and threatening to sow terror in other cities in the country, including Metro Manila.

[See: No Less Than Terrorist Attacks](#)

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[See: American Military In, Civilians Out of Mindanao](#)

The Arroyo administration has quickly dumped cold water on a hazy plan by a shadowy group to organize a "collective leadership" that would institute reforms in government, should the "social volcano" erupt.

[See: Smoke Before Fire](#)

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[See: President Arroyo Cites Accomplishments](#)

After a 10-month stretch of negative growth, the country's manufacturing output, as measured by volume of production (VoP) index picked up by 2.2 percent YoY in February, a turnaround from a 1.3 percent drop in January.

[See: Manufacturing Finally Picks Up in February](#)

Both foreign direct investments (FDIs) and foreign funds for development projects came at a slower pace last year, even as the Arroyo administration tried to convince investors and lenders that the Philippines is worth the trip.

[See: FDIs, Foreign Funded Projects Slow Down in 2001](#)

Reports about the shortage of Philippine passports have been validated by the labor department's data showing that the number of Filipino workers deployed abroad rose by about 7 percent this year.

[See: OFW Deployment Rise 7 Percent](#)

The Arroyo administration's efforts to spur economic activities in the first half of the year resulted in a huge budget deficit of P35.941 billion (about US\$705 million) in the first two months of the year, up by 22 percent from its level one year-ago. Budget Secretary Emilia Boncodin, however, said the figure is on track for the government's full year fiscal deficit target of P130 billion for 2002.

[See: Budget Deficit on Track](#)

The Asian Development Bank (ADB) has reported that the Philippines had registered the third lowest gross domestic investment as a percentage of the gross domestic product (GDP) in the entire Asian region.

[See: RP Had Third Lowest Domestic Investments in Asia](#)

Property consultancy firm FPD Savills Philippines has predicted that office space rents would further drop by 15 percent this year, because of large volume of available space and slow entry of new occupants.

[See: FPD Savills: Office Space Rents to Drop by 15 Percent](#)

Plus: [News In Brief](#), [Investment News](#) as well as [Currency](#) and [Stock](#) information.

MAIN STORIES

No Less Than Terrorist Attacks

Amidst the deployment of more American troops in Mindanao, local terrorists attacked a major city in the south, detonating bombs that killed innocent civilians in crowded areas and threatening to sow terror in other cities in the country, including Metro Manila.

The Arroyo administration quickly responded to the call by summoning more security forces to General Santos City and tightening security procedures in major urban areas. Authorities were also able to pin down at least five suspects who were connected to the Muslim separatist movement.

Investigators claimed that they gathered documents from the suspects about the supposed alliance among Muslim rebel groups and communist insurgents in a destabilization attempt against the government, starting with the bombings in the south.

This series of indiscriminate bombings has left 15 innocent civilians dead in General Santos City (Southern Mindanao). While Abu Sayyaf extremists have claimed responsibility for the incidents, authorities have arrested five former members of the Moro Islamic Liberation Front (MILF) and the Moro National Liberation Front (MNLF).

Some 60 people were also injured in the two explosions on April 21. Before this, a man who claimed to be the honcho of the Muslim extremist Abu Sayyaf group in the city said his group was also responsible for previous bombings and fires that razed two shopping malls in the city this year.

Abu Muslim al-Ghazi, the self-proclaimed mastermind of the General Santos blasts, accused the Philippine and US governments of planning an "ethnic cleansing" in Mindanao.

Investigators, however, were carefully studying the real motive behind the bombings. It could be a tactic to divert the attention of the military from pursuing the band of Abu Sayyaf extremists who are still holding an American couple and a Filipino nurse in the island-province of Basilan.

It could be a message for hundreds of American soldiers conducting joint military drills with Filipino soldiers in Mindanao or a reprisal to the arrest of top Muslim leader Nur Misuari, who is now detained at a police camp in Laguna province.

The explosions in General Santos City took place three days after Indonesian national Fathur Roman al-Ghozi was sentenced to 12 years in jail for possession of explosives. Al-Ghozi was linked to a series of bombings that killed 22 innocent civilians in Metro Manila on December 30, 2000 and a car explosion that nearly killed the Philippine ambassador to Jakarta also in 2000.

Signs of the Times

Times are tough along Makati's entertainment strip and bar owners are resorting to a number of innovative ways to make ends meet. While some bars have added to their problems by raising their prices others are offering all-night *happy hours* to attract what custom is available.

One story we heard over the weekend, however, should be passed along as a salutary reminder of "buyer beware".

Two Australian locals were drinking on P. Burgos last Thursday evening and went into one locally owned and managed bar for their usual vodkas and tonic. They each had three over the space of about an hour at which point both were feeling decidedly queezy. Both were hardened drinkers but one of the pair had already passed out. The second was not far behind him and quickly called for the bill.

Six drinks came to – wait for it – eighteen thousand pesos. These two were surrounded by heavies and had to pay up "or else." Both swear that they were not drunk when they went into the bar and no ladies drinks were involved.

Both of them believe it was a set-up and that something was slipped into their drinks.

It seems that in hard times some of the local bar owners are putting the squeeze on their managers to meet revenue targets in whatever way they can.

Hence we pass on this word of warning. Be careful when out drinking and best to frequent the bars you know or those which seem well patronized by expats. If you venture further just remember – it's a jungle out there.

Military intelligence reports said al-Ghozi was a member of the Muslim militant group Jemaah Islamiyah (JI), a terrorist group that was trying to target American installations in Malaysia, Singapore and Indonesia. That group was also linked to the MILF, a group of over 11,000 dissidents fighting for the establishment of a Bangsa Moro republic in Mindanao.

Following the arrest of al-Ghozi in Manila in January, Philippine authorities discovered a huge cache of explosives and weapons in General Santos City. Three Muslims were arrested at the site, which contained 50 boxes of TNT, a ton of explosive boosters, 300 detonators and six rolls of detonating cord as well as 17 M-16 rifles. Police also arrested al-Ghozi's local contact in Marawi City but failed to track down two other Indonesian nationals who reportedly helped al-Ghozi launch the December 30, 2000 bombings.

President Arroyo has asked the national police to intensify its security precautions in Metro Manila and Mindanao, as unidentified Muslim extremists told the government that the bombings in General Santos City was just the start of their terror drive to pressure the government to declare a separate Islamic state in the south.

Senator Rodolfo Biazon, a former military general, said he had received text messages from Muslim extremists who warned that Metro Manila would be their next target. "Death to American and Christian Filipinos, Islamic Jihad, Allah be Praised to our Muslim heroes of Oplan Gen San," the text message read. Another text message called for the "ouster of Americans from Philippine soil".

Investigators said two of the arrested suspects in the General Santos City bombings informed them that the bombings were a part of a destabilization plot throughout the country.

Ironically, the Asian Institute of Management has named General Santos City as the country's most business friendly city in its second annual Philippine Cities Competitiveness Ranking Survey.

Finance Secretary Jose Isidro Camacho said the General Santos City bombings would have little effect on the national economy but cited the need to change the perception of foreign investors about the Philippines. Perception of political instability in the country discourages both investors and tourists from coming into the country.

The US embassy in Manila is discouraging all their nationals from visiting Mindanao even as hundreds of more American troops along with their modern equipment were arriving in Manila, Clark and Zamboanga City last week. The Hong Kong-based Political and Economic Risk Consultancy has warned that the expanding US military presence in Mindanao could spark an escalation of the conflict in the region. This is the very scenario that the Americans are seeking to avoid through their involvement in a program aimed at "winning hearts and minds."

Another complication in the overall equation is the arrival of Israeli security experts to train Filipino policemen in counter terrorism activities. Senator Joker Arroyo said the arrival of the Israelis in the country might get the country involved in the Israel-Palestine conflict.

"Without passing judgment on who is right and who is wrong, the fact remains that if we enlist the help of the Israelis, it can rub the country's Arab friends the wrong way," Senator Arroyo said.

As predicted, the conflict in Mindanao cannot come to a conclusion without the necessity of taking bold action. In a domestic war that has embraced terrorism and human rights violations, the government may be left with only two choices: end the conflict by neutralizing all armed groups or giving in to the demand of the rebels for their own Islamic state.

According to the World Bank, this recurring conflict will likely cost southwestern Mindanao over P100 billion in the next 10 years in terms of lost or stagnant investments.

In its estimate, the World Bank study said the conflict cost 0.5 percent of the region's GDP between 1997 and 2001 and an average of 1 percent from 1970 to 1982. Southwestern Mindanao is already considered as the poorest region in the country in terms of gross domestic product (GDP), although the area teems with natural and mineral resources waiting to be exploited.

American Military In, Civilians Out of Mindanao

As hundreds of more American troops touched down in the country, the US State Department has highlighted the danger of travel in the Philippines and urged their citizens to exercise caution outdoor and specifically avoid travel to central, western and southern Mindanao.

The travel advisory was issued on April 18, or three days before two bombs exploded near a shopping mall in the southern city of General Santos that killed 15 people and wounded 60 other innocent civilians.

Last week, some 300 American troops, mostly engineers, arrived in Basilan province reportedly to build roads and bridges that could accelerate the movement of local soldiers in pursuit of Muslim extremists in the area.

Another 500 American soldiers also arrived to hold the second phase of the so-called "Balikatan" joint military exercises with Filipino troops in Luzon. Admiral Dennis Blair of the US Pacific Command said they are studying the possibility of expanding and extending the joint military drills.

A study conducted by local poll group Social Weather Stations (SWS) said 76 percent of their 1,200 respondents were in favor of American soldiers going to combat zones in the country such as Basilan province.

Ironically, the US State Department warned its citizens against incidents of terrorism, kidnappings and violence in the Philippines. "A number of recent security-related incidents highlight the danger of travel in the Philippines. Kidnappings of foreigners, bombings, and other violent incidents call for Americans to exercise great caution throughout the country," the advisory read in part.

In its precautionary measures, the US government has withdrawn its officials from Basilan, Tawi-Tawi and Jolo in southwestern Mindanao and advised Americans living in these areas to review their situation.

"US citizens are warned to avoid travel to the central, southern and western areas of Mindanao, including Zamboanga City, due to incidents of terrorism, kidnappings, and violence. US citizens should also avoid travel to the islands of Basilan, Tawi-Tawi, and Jolo, located in the Sulu Archipelago in the extreme southwest of the Philippines," it said.

In justifying its latest advisory, the US State Department mentioned the death of an American hiker at the slopes of Mount Pinatubo in Pampanga province in January, the discovery of ten explosive devices without fuse in Metro Manila in March, the December 30, 2000 bombings in Metro Manila, the continuing exploits of kidnap-for-ransom groups throughout the country, and the still unresolved hostage crisis in Basilan province where Muslim extremist Abu Sayyaf group holds an American couple.

"In view of these incidents and the possibility of future terrorist activity, kidnappings for ransom, or bombings, Americans traveling to or residing in the Philippines are urged to maintain a high level of vigilance and to increase their security awareness," the US State Department said.

South Korea, one of the top sources of tourism revenues in the Philippines, has also issued a negative travel advisory discouraging its nationals from visiting Mindanao. It also warned about the kidnapping and terrorism problems in the Philippines. About 230,000 Korean tourists visited the country last year.

Smoke Before Fire

The Arroyo administration has quickly dumped water on a hazy plan by a shadowy group to organize a "collective leadership" that would institute reforms in government, once the "social volcano" erupts.

Although reports about a civilian-military junta were dismissed as premature, what has been clearly established so far is the existence of a group that is crying for reforms in government and President Gloria Macapagal-Arroyo's admission that not all were satisfied with her management.

Media reports said former Representative Jose Cojuangco, a brother of former President Corazon Cojuangco Aquino; a non-government organization (NGO) leader; a top police official; a former head of the government pension fund, and a veteran journalist joined forces to form "Freedom Force", an ideological group seeking to administer the country by "collective leadership".

This group, whose civilian supporters include members of the Council of Philippine Affairs (COPA), an NGO that helped President Arroyo into power in January 2001, tried to woo the support of Manila Archbishop Jaime Cardinal Sin. Sin did not give his blessing though.

Freedom Force does not include followers of deposed President Joseph Estrada who are planning a large street demonstration on May 1. Police on April 25 finally arrested Ronald Lumbao, head of the People's Movement Against Poverty (PMAP), which was trying to repeat last year's May 1 mob attack at Malacanang Palace. PMAP is composed of Estrada supporters and funded by the opposition party.

It was later "clarified" that a military junta was the last thing in the plans of the group, which according to journalist Teodoro Benigno, a former press secretary during the watch of former President Corazon Aquino, was just in its infancy stage.

A Freedom Force spokesperson claimed that it does not have a plan to push for a military junta and indeed that the group's stand against such a junta was the very reason for its formation in the first place. The spokesperson said that the group is apprehensive about current conditions, in which "extremists" could take advantage to bring the country to martial law.

The group accused leftists and rightists of trying to destabilize the government and warned that a military junta could take over the government. Such a "social volcano" or "social upheaval" could throw the country into a situation where a military junta could be the only option, the group explained.

Benigno, who writes political columns for a major Manila broadsheet, cited the need to prevent leftists and rightists from taking over the government. He argued that a "social volcano" always erupts when population growth exceeds a country's food production and said the Freedom Force would only take over in the event of an eruption. (*Ironically, the country's agricultural output rose 3.9 percent in 2001 against a 2.3 percent population growth.*)

The problem with Freedom Force is that their plan was disclosed to the public even before it had completed its statement of philosophy, ideology and objectives. The group was supposed to come out in the open in June.

Sin, however, publicly announced that he is not in favor of the "collective leadership" concept being espoused by the Freedom Force, although he cited the need for reforms. "The problem is not in the leaders. Neither is the problem in the system. The problem is in our values system. The problem is in our attitude," Sin said. It was a religious statement, of course.

President Arroyo, for her part, disclosed that the people behind Freedom Force wanted a collective leadership even before she assumed the presidency last year. "They have never been allied with me," she said.

The formation of Freedom Force has raised the eyebrow of other Filipino politicians also interested in the presidency. Their first question is whether the proponents of Freedom Force have the credibility to advance social reforms in the first place.

The main opposition party even fanned the smoke by proposing a snap presidential election this year to galvanize support behind the presidency. Of course, the Arroyo administration shrugged off the proposal, since the legitimate presidential poll is just two years away.

Then again, two years is a long political period in the Philippines and no one exactly knows what would happen during the stretch. What would be best for the economy is to see President Arroyo at Malacanang Palace until the 2004 election.

President Arroyo Cites Accomplishments

In an effort to gain further support for her presidency, President Gloria Macapagal-Arroyo has listed her major accomplishments since replacing deposed President Joseph Estrada in January last year. Among these, she said, are the improving employment situation, distribution of lands to farmers, construction of more school buildings, expansion of national health care program and provision of socialized housing units for the poor.

While none of the said accomplishments could be considered significant enough to alter the poverty incidence in the country, President Arroyo can take some consolation from the fact that she has made progress during a volatile period which has seen two people's revolts, worsening armed conflict in the south and a rash of kidnapping incidents in Metro Manila and Mindanao.

Obviously, the president could not brag about the 3.4 percent economic growth in 2001, which was lower than the 4 percent growth recorded in 2000 under the Estrada watch. Foreign direct investments (FDIs) also plunged by 39 percent to US\$857.8 million in 2001 from US\$1.398 billion in 2000. The poverty incidence was estimated at 40 percent of the population in 2001.

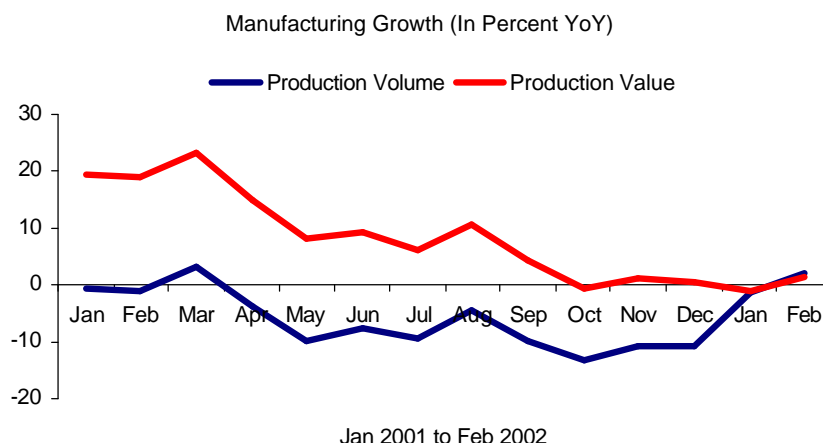
For the moment, the president takes pride for the following:

- ✍ The unemployment rate has gone down to 10.3 percent in January this year from 11.3 percent a year earlier. The president says she will find jobs for 4 million Filipinos by the end of her term in 2004.
- ✍ The Department of Agrarian Reform (DAR) has been able to distribute about 101,650 hectares of private and agricultural land to farmer-beneficiaries, in excess of the original target of 100,000 for one whole year.
- ✍ The government has constructed 120 school buildings with the help of the Philippine Army Engineering Brigade while the Department of Education is about to finish some 350 more by October this year.
- ✍ There are now at least 25 varieties of medicines available to the poor at half their former price. These medicines are now being sold in 77 different government hospitals throughout the entire archipelago.
- ✍ The government also exceeded its target of providing membership to some 500,000 poor Filipinos under the National Health Insurance Program (NHIP).
- ✍ In the housing program, the Chief Executive also noted that about 155,000 poor families have already been given the right to procure the land they are occupying. Under the program, the government aims to provide socialized housing units for 100,000 workers and 50,000 units for the poor.

Senator Edgardo Angara, a leader of the opposition party, contradicted the president's statement, saying that the Philippines is an "Asian turtle" because of the slow-paced growth in the country.

"While it is true the economy -- unlike other countries in the region -- posted positive growth of GNP by 3.7% and GDP by 3.5% - the only reason for this is because of our underexposure in the international markets. We have yet to reach a level of development that makes us a major global player like Singapore, Taiwan and Malaysia," Sen. Angara told the Foreign Overseas Correspondents Association of the Philippines (FOCAP). Of course, there is some truth in what he says. Had the agricultural sector not performed well last year, the president's story may have been rather different.

Manufacturing Finally Picks Up in February



After a 10-month stretch of negative growth, the country's manufacturing output, as measured by the volume of production (VoP) index picked up by 2.2 percent YoY in February, a turnaround from a 1.3 percent drop in January.

According to the National Statistics Office (NSO), the country's value of production also rose by 1.5 percent YoY in February, although it was lower than the previous month's 3.4 percent. Volume of sales increased by 5.7 percent YoY in February while value of sales mildly gained by 1 percent during the month.

In terms of volume of production, electrical machinery, the country's top exports, registered a 43 percent growth. Other items that saw improved production are footwear and wearing apparel, with an 83 percent YoY growth; food, 17.4 percent; chemical products, 11.6 percent; and transport equipment, 8.5 percent.

Meanwhile, the producer price index fell 0.7 percent YoY in February after growing by 0.3 percent in January. Among the items that sold at lower costs in February are leather products, footwear and clothing, miscellaneous food products, rubber products and electrical machinery.

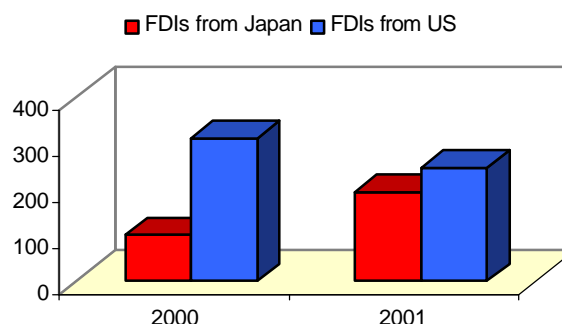
In terms of value of sales, the NSO said the following items recorded growth: publishing and printing, electrical machinery, chemical products, and fabricated metal products.

The average capacity utilization rate of manufacturing companies was estimated at 75.8 percent, with firms engaged in publishing and printing, rubber products, tobacco, paper and paper products, and machinery recording the highest capacity utilization rate.

Volume and Value of Production, February 2002		
YoY Growth (In Percent) Based on 1994 Series		
	Volume	Value
Footwear & Wearing Apparel	83.0	7.6
Food Manufacturing	17.4	14.4
Chemical Products	11.6	15.0
Transport Equipment	8.5	4.8
Electrical Machinery	43.0	25.2
Basic Metals	1.9	7.0
Wood & Wood Products	9.4	9.1
Publishing & Printing	2.0	30.3
Petroleum Products	-27.9	-35.4
Beverage	-21.2	-3.4
Paper & Paper Products	-28.4	-27.7
Tobacco	-13.1	-8.7
Machinery Excluding Electrical	-23.9	-21.2
Textile	-8.3	-5.0
Miscellaneous Manufactures	-8.3	-10.6
Non-Metallic Mineral Products	-2.3	4.4
Leather Products	-39.6	-65.3
Furniture & Fixtures	-8.3	-7.4
Rubber Products	-1.3	-13.8
Fabricated Metal Products	-0.8	3.4

FDIs, Foreign Funded Projects Slow Down in 2001

Foreign Direct Investments in 2000 and 2001



Both foreign direct investments (FDIs) and foreign funds for development projects came at a slower pace last year, even as the Arroyo administration tried to convince investors and lenders that coming to the Philippines is worth the trip.

According to the Central Bank of the Philippines, foreign direct equity investments fell by almost 39 percent to US\$857.8 million in 2001 from US\$1.398 billion in 2000. Foreign capital from two of the country's largest sources of investments had different directions last year.

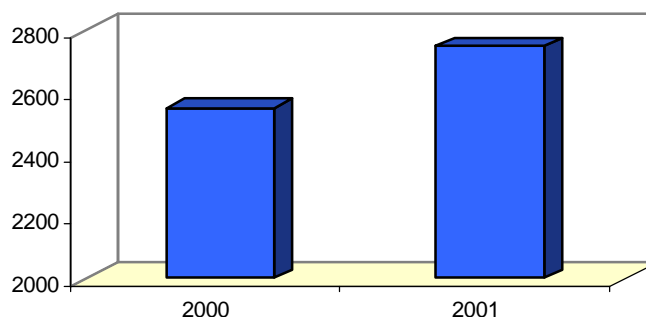
While FDIs from Japan rose 92.5 percent to US\$192.8 million in 2001 from US\$100.17 million in 2000, equity investments from the United States dropped by 21.4 percent to US\$245.3 million from US\$312 million.

Meanwhile, the National Economic and Development Authority (NEDA) reported that foreign loan-funded programs and projects approved by the interagency Investment Coordination Committee (ICC) slid by 9 percent to P131.53 billion (US\$2.5 billion) in 2001 from P144.96 billion in 2000 and P270.76 billion in 1999.

Most of these loans came from international financial institutions like the World Bank, Asian Development Bank (ADB) and Japan Bank for International Cooperation.

OFW Deployment Rise 7 Percent

Number of OFWs Leaving Each Day (Jan 1 - Apr 17)



Reports about the shortage of Philippine passports have somewhat been validated by the labor department's data showing that the number of Filipino workers deployed abroad rose by about 7 percent this year.

Before this, the Department of Foreign Affairs noted an unusual surge in demand for passports particularly among overseas Filipino workers (OFWs). The DFA said the demand for new

passports has almost doubled this year from only 9,000 a day last year. Such unusual upsurge in the demand for passports resulted in a shortage of passports not only in Manila but also in the country's embassies abroad.

"The unusual upsurge in the number of applicants was way beyond our expectation. Many people wanted to get out of the country," said DFA spokesperson Victoriano Lecaros.

Data from the Philippine Overseas Employment Administration (POEA) show that the average number of OFWs leaving the country each day increased to 2,748 as of April 17 this year from 2,551 last year.

The labor department said 280,882 OFWs were deployed to other countries from January 1 to April 17 this year. Of the total number, 219,132 are land-based workers while 61,750 are seafarers. Among land-based workers, 146,367 or 67 percent of the total were "re-hired" while 72,765 were newly hired.

The government estimates that around 7 to 8 million Filipinos live and work abroad, including illegal contractual workers. In 2001 alone, 866,590 Filipinos left the country to find work abroad. Of this number, 661,639 are land-based workers while 204,951 are seafarers. Filipino mariners man about 20 percent of international vessels in the world.

The top destinations of OFWs last year were Saudi Arabia, which hired 190,732 Filipinos; Hong Kong, 113,583; Japan, 74,093; Singapore, 26,305; Kuwait, 21,956; and Italy, 21,641. These exclude thousands of Filipino immigrants to the US, Canada and Australia.

Dollar remittances sent by OFWs amounted to US\$6.235 billion last year, or 3 percent higher than US\$6.05 billion in 2000. About US\$5.142 billion of the total amount were sent by land-based OFWs while US\$1.093 billion came from Filipino seafarers. Some US\$3.2 billion or over half of total remittances came from the United States, where around 2.5 million Filipino-Americans live.

Budget Deficit on Track

The Arroyo administration's efforts to spur economic activities in the first half of the year resulted in a huge budget deficit of P35.941 billion (about US\$705 million) in the first two months of the year, up by 22 percent from its level of a year ago. Budget Secretary Emilia Boncodin, however, said the figure is on track for the government's full year fiscal deficit target of P130 billion for 2002.

The finance department explained that the bulk of expenditures would be made in the first half of the year in order to accelerate trade and investment in the following months. This is one way of saying that the government will slow down in spending in the third and fourth quarters of the year.

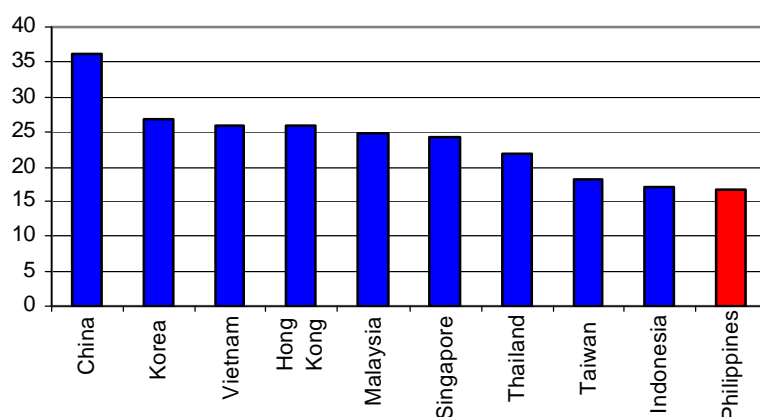
In January and February this year, the government spent P121.14 billion on P85.2 billion revenues, translating to a budget gap of P35.94 billion or 68 percent of the P52.93-billion deficit programmed for the first quarter.

The government is trying to limit its fiscal deficit to P130 billion this year, down from the actual P147 billion budget shortage recorded in 2001. The finance department is hoping that the Bureau of Internal Revenue (BIR) would collect some P447 billion in taxes this year to meet its budget deficit target.

Other revenue collecting agencies in the country are the Bureau of Customs and the Bureau of Treasury. Government revenues are crucial in determining the country's economic growth. The Arroyo administration targets a 4 to 4.5 percent growth in gross domestic product (GDP) this year, up from the actual 3.4 percent growth in 2001 and comparable to the 4 percent economic expansion in 2000.

RP Has Third Lowest Domestic Investments in Asia

Domestic Investments as Percentage of GDP, 2001



The Asian Development Bank (ADB) has reported that the Philippines had registered the third lowest gross domestic investments as a percentage of the gross domestic product (GDP) in the entire Asian region.

The country's investment ratio to the GDP further dropped to 16.6 percent in 2001 from 16.9 percent in 2000, 23.8 percent in 1999 and 23.8 percent in 1998.

Last year's investment ratio for the Philippines was only higher than that of Pakistan at 14.7 percent and Cambodia at 16.2 percent.

China topped all East Asian economies in the list, with its gross domestic investments accounting for 36.3 percent of its GDP. China was followed by Korea with 26.7 percent; Vietnam, 25.9 percent; Hong Kong, 25.8 percent; Malaysia, 24.8 percent; Singapore, 24.3 percent; Thailand, 22 percent; Taiwan, 18.2 percent; and Indonesia, 17 percent.

The good news is that the Philippines investment ratio is expected to improve to 18 percent in 2002 and 18.5 percent in 2003, on expectations that expenditures in infrastructure would increase by 19 percent this year.

Domestic Investment Ratio as % of GDP	
Country	Percent
China	36.3%
Korea	26.7%
Vietnam	25.9%
Hong Kong	25.8%
Malaysia	24.8%
Singapore	24.3%
Thailand	22.0%
Taiwan	18.2%
Indonesia	17.0%
Philippines	16.6%
Cambodia	16.2%
Pakistan	14.7%

FPDSavills: Office Space Rents to Drop by 15 Percent

Property consultancy firm FPDSavills Philippines has predicted that office space rents would further drop by 15 percent this year, because of large volume of available space and slow entry of new occupants.

In its latest report, FPDSavills said office space take-up fell by as much as 57 percent to 11,944 square meters in January this year from 27,741 square meters a year earlier. The consultancy firm said it would take some time before the current office space glut subsides.

Office space rents are said to have contracted by over 50 percent since 1997, due to the Asian financial crisis and then the global economic downswing. FPDSavills estimated the average rent for Grade A office space at P400 per square meter in Makati commercial business district (CBD) and P250 per square meter in Ortigas CBD.

Capital values of office space were placed at P50,000 per square meter in Makati CBD and P30,000 per square meter in Ortigas CBD.

Likewise, FPD Savills said the average rents for residential condominium units were expected to soften by 15 to 20 percent and that vacancy rate in Makati and Ortigas would climb to 30 percent this year.

The property research firm said the average monthly rent for two-bedroom residential condominiums would slump to P260 per square meter per month in Makati and P210 per square meter in Ortigas. FPD Savills said capital values of the two-bedroom residential condominium would remain flat at P50,000 per square meter in Makati and P31,000 per square meter in Quezon City.

NEWS IN BRIEF

The Department of Labor and Employment (DOLE) has recommended against any announcement of **wage increase on May 1** (Labor Day). Labor Undersecretary Arturo D. Brion, said government officials have reached a conclusion not to recommend a wage increase among the package of the benefits for workers on Labor Day. Militant labor groups are pushing for a P125 across-the-board wage increase. In November last year, the Regional Wages Tripartite and Productivity Boards (RWTPBs) had granted an average of P30 cost of living allowance (COLA) for workers.

The Sugar Regulatory Administration (SRA) reported that **sugar production** rose by 8.2 percent to 1.59 million metric tons in 2001-2002 crop year (September to March) from 1.47 million metric tons during the same period a year earlier. The SRA attributed the growth to the robust production of all sugar districts in the country.

The Department of Finance has announced that it would impose an **excise tax of as much as 100 percent** on vehicles worth at least P2 million. Under the proposal, which requires congressional approval, the basis of taxing vehicles would shift from fuel type and engine displacement to wholesale price. By way of example: Asian utility vehicles worth P600,000, which used to be exempted from excise tax will now be taxed 3 percent while sports utility vehicles with the same price will be taxed 10 percent. Vehicles priced from P600,000 to P1 million would be subject to a 15 percent excise tax while those priced between P1 million and P2 million would carry an excise tax of 25 percent. Vehicles priced over P2 million would be subject to a 100 percent excise tax. The proposal would reportedly give the government some P2.5 to P3 million in additional revenues annually.

Using the country's status as a former Spanish colony as a bargaining tool, the Philippine Department of Trade and Industry is asking the European Union to cut its **tariff rate on Philippine canned tuna** to 5 percent from the present 24 percent. Ironically, the 15-nation European Union, under a special trade pact with former European colonies, allows 77 African, Caribbean and Pacific (ACP) countries to export their canned tuna to Europe under a quota system and without any tariff. The Philippines is one the world's largest exporters of tuna, with some five million cases of canned tuna leaving its ports annually.

President Gloria Macapagal-Arroyo has rejected a proposal to set up a **Casino University** in the country. Under such a proposal, the Philippine Amusement and Gaming Corp. said the Casino University would offer bachelor's degrees in casino operations and management. President Arroyo said her decision was based on her personal stand against fostering a culture of gambling. Ironically, gambling in the Philippines is fast being spread by text messages. For example, a text message worth P10 to a four-digit game site is tantamount to a lottery ticket that could win millions of pesos. The president is silent on this so far.

San Miguel Corporation posted a 35% gain in consolidated revenue for the first quarter of 2002 to P30.17 billion from P22.39 billion in the same period last year. Sales revenue grew by 41% in beverages, 86% in food products and 3% in packaging following the consolidation of most of the newly acquired businesses. Without these acquisitions, consolidated net income would have been 13% better than last year. With the short-term dilutive effect of these acquisitions, net income amounted to P1.11 billion – lower than the P1.67 billion reported in 2001.

The transformation program being implemented in Coca Cola Bottlers Philippines Inc. (CCBPI) is expected to bring positive results within the year.

San Miguel re-acquired the domestic Coca Cola operations last year by swapping its 21% stake in Coca Cola Amatil Australia for 65% of CCBPI. Also acquired last year was the Cosmos Bottling Corporation which is to be integrated under CCBPI and Pure Foods.

Interest expenses declined by 29% as the company prepaid some of its loans, resulting in a 3% decrease in net financing charges. Interest income however was lower as placements went down due to acquisitions. This was slightly offset later in the quarter by the entry of P28 billion from Kirin Japan, which acquired a 15% stake in San Miguel Corporation.

INVESTMENT NEWS

Some P3 billion worth of development projects, to be funded by the Saudi government, were approved by the **Investment Coordinating Council (ICC)**. These projects included P2.2 billion worth of road projects in Mindanao, namely: the Cotabato East Diversion Road, the Lake Lanao Circumferential Road and the Basilan Circumferential Road. The Saudi Fund for Development, a bilateral facility that carries a three- to five-percent interest per annum, would fund these projects. Another project is the P858-million upgrading of the Philippine Merchant Marine Academy (PMMA), the country's largest training facility for seafarers.

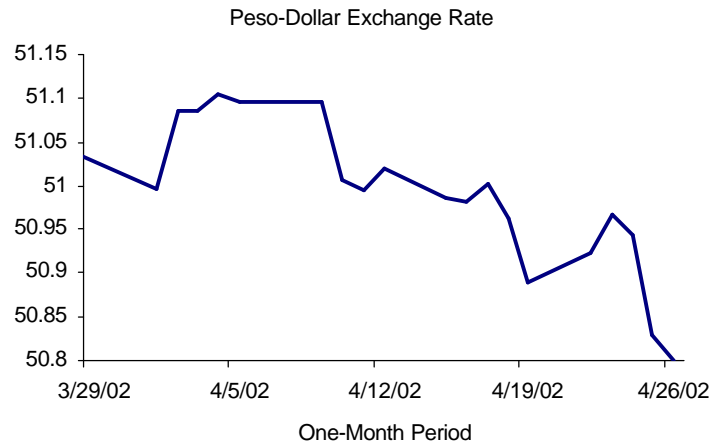
After investing heavily in the Watsons Personal Care Store Philippines, **A.S. Watson**, which is owned by Hong Kong business tycoon Li Ka-Shing, is again negotiating with the SM Group of Companies to bring at least three more retail chains in the Philippines, namely: Park n' Shop supermarkets, Fortress appliance store, and Watsons airport retail shops. A.S. Watson group managing director Ian Wade said his company would also build 15 new personal care stores in the country this year and another 20 next year, with each store costing at least US\$800,000 dollars.

Power producer **Mirant Philippines Corp.**, the country's largest company in terms of net income, announced that it would invest another US\$150 million in its operations this year. The company's latest acquisitions are the 121-megawatt Toledo Power Station in Toledo City, Cebu, the 81-megawatt coal thermal unit in Sangi and the 40-megawatt diesel unit in Carmen. This brought to eight the number of power plants Mirant already owns, with a combined installed capacity of 2,500 megawatts. Mirant Philippines, a subsidiary of Atlanta-based Mirant Corp., posted a net income of US\$8.5 billion in 2001.

Property developer **Megaworld Corp.** said it would invest another P5 billion in its flagship project, Eastwood City CyberPark in the next two years. Some P2 billion were allotted for the development of the information and technology (IT) park this year and P3 billion next year. This would bring to P15 billion the total investments of Megaworld in Eastwood.

CURRENCY MOVEMENTS

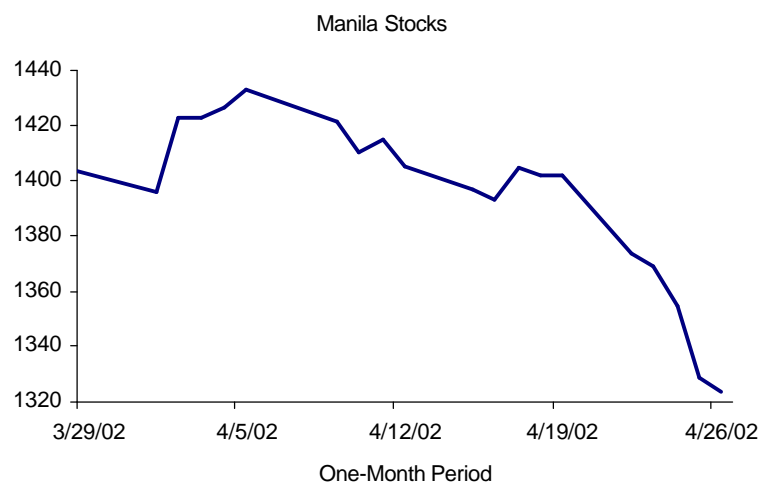
The Philippine peso traded stronger against the US dollar last week, as banks cut their dollar positions with the waning demand for the greenback. The peso was trading at 50.8 against the dollar in the afternoon of April 26, up from the previous week's (April 19) close of 50.89 against the greenback.



LATEST: 51.066/US\$ (Ave. Mar 2002)
HIGH: P26.1588/US\$ (Ave. Feb 1996)
LOW: P53.224/US\$ (Ave. July 2001)

STOCK MOVEMENTS

Manila stocks reacted negatively on the General Santos City bombings last April 21 and on rumors of another destabilization plot against the Arroyo administration last week. The Phisix, the main barometer of the 30-company Philippine Stock Exchange (PSE), lost 78 points in last week's market trading and ended at 1323 points on April 26, down from previous week's (April 19) close of 1401 points.



LATEST: 1403.62 (Ave. Mar 2002)
HIGH: 2,621.67 (Ave. Jul 1999)
LOW: 996.14 (Ave. Oct 2001)

ONLINE RESOURCES

MCA Limited has prepared this background report as a general reference document. Subscribers may download this and previous documents (HTML, or PDF) from the Weekly Archive Section of the Virtual Philippines website. To access, click on the hyperlink below.

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