



WEEK 23 OF 2002

Covering Events in the Philippines from 03 to 09 June, 2002

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HEADLINE NEWS

The yearlong hostage crisis in Mindanao reached a sudden and unexpected conclusion last June 7 when a firefight between Muslim extremist Abu Sayyaf rebels and pursuing American troops resulted in the unfortunate deaths of one of the two American hostages as well as the captive Filipino nurse. The latest encounter ends one crisis but unless the remaining Abu Sayyaf leadership is captured quickly and brought to justice – yes, once again they were able to escape – it may just be the makings of another. While their numbers have been reduced there is nothing to stop the rump regrouping and recruiting from the rank and file of this impoverished corner of the Philippines and the whole process starting over. President Arroyo needs a decisive victory and the military has not yet delivered on it.

[See: Yearlong Hostage Crisis Ends](#)

A 32.9 percent YoY surge in electronic exports in April has brought the overall export growth figure for the first four months of the year back into positive territory, prodding economic analysts to raise their export growth forecast for the whole year from flat growth to four percent.

[See: Electronic Exports Climb 33 Percent in April](#)

The prices of goods and services in the country moved up by an average of 3.6 percent in the first five months of the year, led by a double-digit inflation for fuel, light and water. In May, the country's inflation rate also hit 3.6 percent year-on-year and 0.2 percent month-on-month. The rate in Metro Manila remains well above the national average.

[See: Inflation Remains at 3.6 Percent in May](#)

The opposition party identified with deposed President Joseph Estrada may have not been able to oust President Gloria Macapagal-Arroyo, but they have once again made their presence felt in the Senate where they staged a "coup" to grab the majority. Their victory may be short-lived and will undoubtedly be challenged when the full Senate resumes in July.

[See: Supposed Coup at the Senate](#)

The Bureau of Internal Revenue (BIR), the Philippine government's main tax collection agency, missed its revenue collection target for May by a whopping P13 billion, resulting in a larger than expected deficit in the first five months of the year.

[See: Tax Collection, P13 Billion Short in May](#)

The Philippine anti-graft court has rejected former President Joseph Estrada's request to leave for the United States to seek medical operation on his knee injury, saying the legal justice system must prevail over the deposed president's medical preference.

[See: Estrada Kept From Leaving for US](#)

Makati City Hall has done it again - switched street names that is! Herrera Street is no more. It is now known as Ruffino. Pity the poor businesses that have their offices along this passageway. Perhaps someone in City Hall has the franchise for printing business cards and stationary.

[See: What's in a Name?](#)

Summer in the Philippines refers to the hot and dry spell of weather between late March and the end of May. With the onset of June comes the rain and slightly cooler temperatures – somewhat offset in terms of relief by the higher humidity. Full climatic data for the past twenty years is now available on the MCA Virtual Philippines website.

[See: The Day that the Rains Came](#)

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

MAIN STORIES

An End to the Yearlong Hostage Crisis

The yearlong hostage crisis in Mindanao reached a sudden and unexpected conclusion last June 7 when a firefight between Muslim extremist Abu Sayyaf rebels and pursuing American troops resulted in the unfortunate deaths of one of the two American hostages as well as the captive Filipino nurse.

Martin Burnham and Ediborah Yap died at the site of the fire encounter in Zamboanga del Norte province, far from the island of Basilan province where most Filipino and American troops were stationed. Martin's wife, Gracia, sustained a gunshot wound on her thigh but was pronounced safe in a hospital. She has now returned to the United States.

Martin, 42 and Gracia, 43 were among the



Figure 1: The recent Anzcham SME Exhibition - for story see last week's report.

20 people abducted by the Muslim extremist group from a beach resort in Palawan province on May 27, 2001. The Abu Sayyaf group beheaded another American tourist, Guillermo Sobero from California, in June last year and later released all the Filipino hostages aside from Yap allegedly upon payment of a multi-million-peso ransom. Yap was retained by the group because of her medical skills.

The Burnhams, who were Christian missionaries of the New Tribes Mission in the Philippines, were celebrating their 18th wedding anniversary in Palawan when the Muslim extremists raided the resort.

The American couple from Wichita, Kansas had been missionaries in the Philippines since 1985. Martin, in fact, grew up in the Philippines because his parents had also served as missionaries in the country.

Some 1,000 American troops have been deployed in Mindanao since January this year to coordinate, advise and train Filipino soldiers in the rescue mission of the couple. Despite the massive effort over several months, these troops were unable to trace the exact location of the hostages, forcing the US embassy in Manila to offer a US\$5 million bounty for information leading to the capture of the commanders of the Muslim rebels.

As a result of the offer, the US embassy was flooded with information about the whereabouts of the Abu Sayyaf. It was later learned that the Abu Sayyaf kidnapers and the hostages were able to slip through the military cordon around Basilan island and cross the waters of Basilan Strait towards Zamboanga del Norte province.

The Abu Sayyaf (Bearers of the Sword) is a Muslim extremist group that had been fighting for an independent Islamic state in Mindanao. It was particularly ruthless and since 1994, it had burned a Christian town, beheaded a number of innocent civilians, abducted foreigners and planted bombs in crowded areas.

In April 1995, the Abu Sayyaf group raided the Christian town of Ipil in Zamboanga del Norte province and burned all its houses and establishments. The group also shot dead at least 54 residents of the town.

In April 2000, the group took 21 hostages, mostly European tourists from the Sipadan Island in Sabah, Malaysia and took them to Sulu province in Mindanao. The hostages were freed four months later upon payment of US\$20 million ransom by the Libyan government. There were reports at the time that the military and government officials of the Estrada administration split the bounty with the kidnapers. Reports that some military officers are still colluding with the rebel leadership – allowing them to evade capture – continue to surface. Certainly there are a number of puzzling elements that need proper explanation.

On April 21, 2002, 15 innocent civilians were killed while 60 others were injured when a bomb exploded outside a shopping mall in General Santos City (southern Mindanao). The Abu Sayyaf quickly claimed responsibility over the bombing, although the military was convinced that a larger Muslim rebel group could be involved.

The Philippines military claimed that it was able to reduce the Abu Sayyaf force from 4,000 in 1994 to 600 in June 2001 and to 60 in May this year. The Abu Sayyaf group is in the US State Department's list of international terrorists.

The latest encounter ends one crisis but unless the remaining Abu Sayyaf leadership are captured quickly and brought to justice – yes, once again they were able to escape – it may just be the makings of another. While the numbers have been reduced there is nothing to stop the rump regrouping and recruiting from the rank and file of this impoverished corner of the Philippines and the whole process starting over. President Arroyo needs a decisive victory and the military has not yet delivered on it.

Aside from Abu Sayyaf, the other Muslim rebel groups active in Mindanao include the Moro Islamic Liberation Front (MILF), the Pentagon kidnapping group and a breakaway faction of the Moro National Liberation Front (MNLF) composed of about 1,000 supporters of Moro leader Nur Misuari who is detained at a prison camp in Laguna province (Southern Luzon).

In 1996, the government and the MNLF, the original Muslim separatist movement in the southern Philippines, signed a peace agreement. Yet, the MILF continued the armed struggle for a separate

Mindanao government. In November last year, former Autonomous Region for Muslim Mindanao (ARMM) Governor Nur Misuari, the father of Muslim rebellion, broke the peace pact when President Arroyo endorsed another MNLF official for the top Muslim post.

Misuari led a group of 1,000 supporters and attacked unsuccessfully a local military camp. He fled to Sabah, Malaysia where he was arrested by Malaysian authorities.

While the administration of President Gloria Macapagal-Arroyo has recently inked a peace agreement with the 12,000-combatant MILF, there are no clear indications that peace will finally settle in Mindanao any time soon. According to the World Bank, the cost of recurring conflict in the area would amount to P100 billion within the next ten years.

Electronic Exports Climb 33 Percent In April

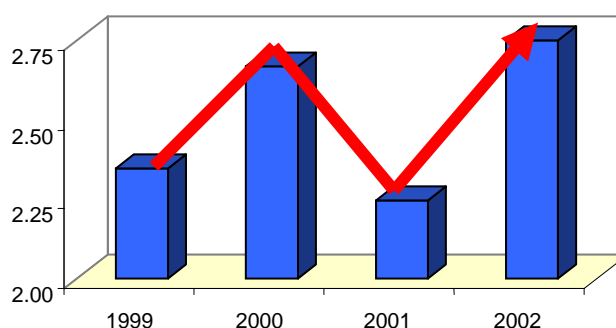
A 32.9 percent YoY surge in electronic exports in April has brought the overall export growth figure for the first four months of the year back into positive territory, prodding economic analysts to raise their export growth forecast for the whole year from flat growth to four percent.

According to the National Statistics Office (NSO), the country's merchandise exports climbed to US\$2.749 billion in April, the highest ever recorded for that particular month. The figure was 22.2 percent higher than the US\$2.246 billion registered in April last year; 3 percent higher than US\$2.688 billion in April 2000; and 17.2 percent higher than US\$2.346 billion in April 1999.

Total outbound shipments improved by 0.4 percent to US\$10.857 billion in the first four months from US\$10.810 billion a year earlier. Even such minimal growth in the four-month period has led to the hope that it was the spark that would ignite a recovery in the export sector, which saw a 15.6 percent YoY contraction last year.

Exports dropped to US\$32.148 billion in 2001 from US\$38.078 billion in 2000 because of a slump in demand in the markets of United States and Japan. With Japan officially emerging from recession, local exporters are beginning to see the conditions for a recovery this year.

April Exports (In Billion US Dollars)



The Winners

In particular, shipments of electronic components, accounting for 53.4 percent of total exports, rose 32.9 percent to US\$1.468 billion in April from US\$1.105 billion during the same month last year. This growth is led by a 48 percent increase in shipments of microcircuits that grossed US\$262 million and a 40 percent rise in shipments of semiconductors that amounted to US\$771 million in April. Shipments of input-output and peripheral units improved by 16 percent to US\$213 million while other electronic exports picked up by 15 percent to US\$221 million.

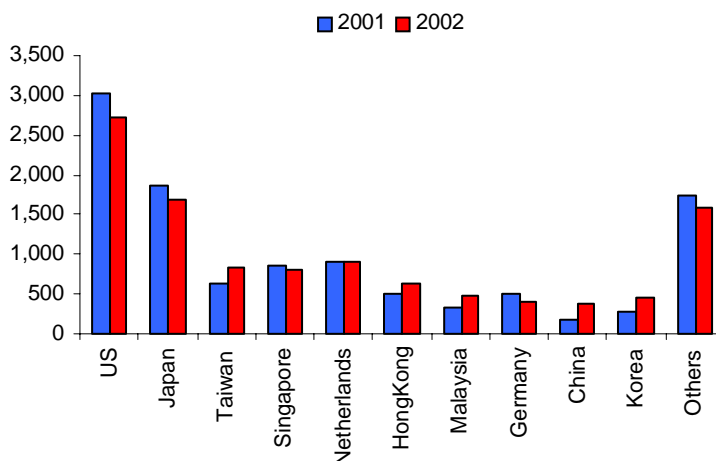
Exports other than electronic items, accounting for 46.6 percent of the total receipts, also grew by 12.2 percent to US\$1.280 billion in April this year from US\$1.140 billion a year earlier.

And the Losers

Shipments of articles of apparel and clothing accessories, the country's second export earner, plunged 16.2 percent to US\$153.62 million in April this year while exports of ignition wiring set and other wiring sets used in vehicles, aircraft and ships fell 4 percent to US\$41.56 million.

Shipments of woodcraft and furniture moved up by 21 percent to US\$35.86 million in April while export revenue from other products manufactured from materials imported on consignment basis improved by 17 percent to US\$35.46 million.

Exports by Destinations, Jan - Apr (In Million US\$)

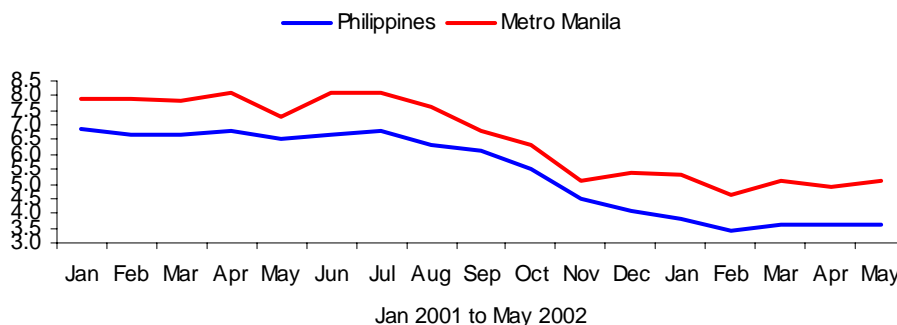


Other top export revenue earners for the month were metal components, which amounted to US\$32.46 million; petroleum products, US\$30.20 million; fresh bananas, US\$25.11 million; coconut oil, US\$22.27 million; and cathodes and sections of cathodes of refined copper, US\$15.88 million.

For the first time this year, exports to the United States, accounting for 25.4 percent of all shipments during the month, climbed by 5.1 percent to US\$698.48 million in April this year from US\$664.83 million a year earlier. Shipments to Japan, accounting for 15.8 percent of the total, also picked up by 15 percent to US\$433.14 million from US\$376.59 million. However, total exports to these countries in the first four months of the year remained lower than their respective levels a year ago. What made up for the continuous slump in these two major markets is the significant growth in exports to China, South Korea, Malaysia, Taiwan and Hong Kong.

Inflation Remains at 3.6 Percent in May

Inflation Rate in the Philippines and Metro Manila (In Percent YoY)



The prices of goods and services in the country moved up by an average of 3.6 percent in the first five months of the year, led by a double-digit inflation for fuel, light and water. In May, the country's inflation rate also hit 3.6 percent year-on-year and 0.2 percent month-on-month. The rate in Metro Manila remains well above the national average.

According to the National Statistics Office (NSO), inflation in Metro Manila was higher at 5.1 percent compared with only 3 percent in areas outside the metropolis. April's figures were almost the same, with 4.9 percent inflation in Metro Manila and 3.1 percent inflation in areas outside the metropolis.

Metro Manila refers to the 12 cities and five municipalities belonging to the National Capital Region, a 636-square kilometer urban area where the largest commercial and industrial establishments are located. While Metro Manila covers only 0.2 percent of the country's total area, it is home to over half of the largest companies in the country and accounts for almost 40% of GDP.

Inflation Rate in the Philippines (In Percent, YoY)		
	May-02	Apr-02
Average	3.6	3.6
Food, Beverage, Tobacco	2.3	2.5
Of which Food	2.2	2.3
Clothing	2.7	2.8
Housing, Repair	5.1	5.1
Fuel, Light, Water	10.1	8.1
Services	5.0	4.9
Miscellaneous	1.9	1.9

Prices of food, beverage and tobacco moved up by 2.3 percent in May, with inflation for food in particular slowing to 2.2 percent in May from 2.3 percent in April. Rice registered an inflation rate of 0.4 percent YoY in May; corn, 1.8 percent; meat, 0.9 percent; cereal preparations, 3.2 percent; dairy products, 5.8 percent in May; eggs, 4.9 percent; fish, 3.7 percent; fruits and vegetables, 0.2 percent; and miscellaneous foods, 3.5 percent.

The inflation rate for fuel, light and water hit 10.1 percent in May; housing and repair, 5.1 percent; services, 5 percent; clothing, 2.7 percent; and miscellaneous items, 1.9 percent. While a reduction in the PPA adjustment for electricity while moderate the rise in fuel prices, the flow-on effect into the economic from the rapid rise in utilities charges has still to be felt.

The government is maintaining a full-year inflation forecast of 5 percent to 6 percent this year.

Supposed Coup at the Senate

The opposition party identified with deposed President Joseph Estrada may have not been able to oust President Gloria Macapagal-Arroyo, but they have once again made their presence felt in the Senate where they staged a "coup" to grab the majority.

On June 3, Senator John Osmena, formerly of the administration party, switched side to the opposition party, which resulted in an evenly balanced representation. With each camp having 12 members, the opposition decided to grab the "new majority" since an administration solon – Senator Ramon Revilla – was absent and in the United States.

The opposition party claimed that with 12 members present against the administration's 11, they had the majority. In response, the administration party cited a Constitutional provision that provided that the Senate president should be elected by at least 13 senators. ("A majority of the full Senate,")

As the administration senators were meeting in a separate room, the opposition senators called the 83rd session of the first regular session of the 12th Congress to order. The administration

senators quickly called the opposition led quorum as "illegal Senate" and decided not to participate in the proceedings, creating a standoff that remains to be settled.

On June 6, Senator Blas Ople of the opposition party declared the Senate adjourned "sine die" until July 22 when the second regular session of the 12th Congress is to be opened. No doubt the constitutionality of the move will be challenged as soon as the full senate resumes.

The business community has expressed alarm over the standoff at the Senate, saying it was inimical to the country's economic interest and political stability. The Makati Business Club (MBC) described the incident as "disgusting" and accused several senators of working for their own personal political agenda. No argument with that one - it is Filipino politics in full force.

With the next election only two years away, a number of senators have been working to enhance their chances of getting reelected or obtaining higher government posts including those of the vice president and the president.

Tax Collection, P13 Billion Short in May

The Bureau of Internal Revenue (BIR), the Philippine government's main tax collection agency, missed its revenue collection target for May by a whopping P13 billion, resulting in a larger than expected deficit in the first five months of the year.

Such a dismal tax collection performance now endangers the overall fiscal position of the country for 2002, when the government plans to limit its budget gap to only P130 billion from P147 billion last year. The chances of reaching this target are receding.

Total tax collection of the BIR amounted to only P24.229 billion in May, or about P13 billion lower than the P37.234 billion anticipated for the month. This brought down the five-month tax collection to P159.869 billion, lower than the targeted P190.575 billion.

The BIR, which collects 80 percent of the government's total revenue, is supposed to generate P447.6 billion for the whole year to achieve limit the overall deficit to P130 billion in 2002. The other government's revenue collection agencies are the Bureau of Customs and the Bureau of Treasury. Revenues are also generated through the privatization of several government assets.

In the first four months of the year, budget deficit has already amounted to P82.96 billion, after the government spent P263.6 billion but earned only P180.7 billion.

Estrada Kept From Leaving for US

The Philippine anti-graft court has rejected former President Joseph Estrada's request to leave for the United States to seek medical treatment for his knee injury, saying the legal justice system must prevail over the deposed president's medical preference.

On June 6 this year, the Sandiganbayan said Estrada who has been complaining of sore knees could not insist on his choice of doctor, given the gravity of the case he is facing in the Philippines. On November 14 last year, Estrada filed a request to seek medical treatment in the United States where he said his knee injury would be properly treated.

The administration of President Gloria Macapagal-Arroyo has described Estrada's petition as an attempt to evade prosecution in the Philippines and hinted that the former president might be planning not to return to the country once his travel request is granted.

Estrada was ousted from office in January 2001, arrested in April of the same year and charged with plunder and corruption charges in the following months. In a statement released by his political party, Estrada said: "If ever I agree to have my knee operation done here and something bad happens to me, the blame and responsibility fall directly on this government."

What's in a Name?

If you jump into a taxi and ask to be taken to Antonio S. Arnaiz Avenue, you might get a blank stare since most people still call it by its old name of Pasay Road. The same goes for Sen. Gil Puyat Avenue ("avenue" is hardly the appropriate term for this unpretentious artery) which

everyone calls by the much more convenient name of Buendia Ave. Then of course there is Pasong Tamo which also underwent a name change and became Chino Roces and of course when Mr. L.P. Leviste trumped Mr. Alfaro by owning more property along one street in Salcedo Village it forced another name change. Alfaro Street suddenly became L.P. Leviste Street.

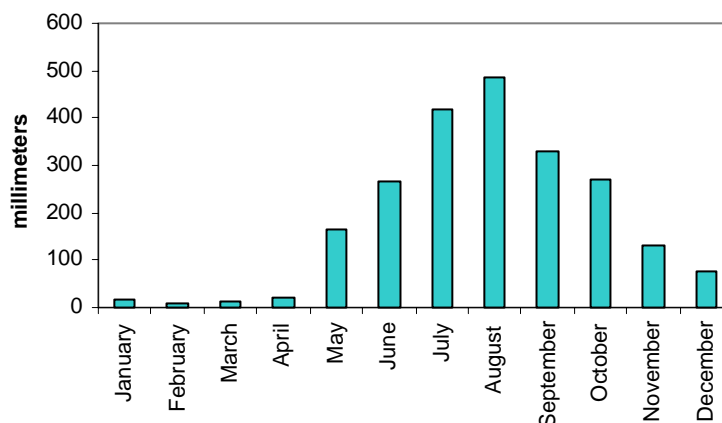
Well, Makati City Hall has done it again - switched street names that is! Herrera Street is no more. It is now known as Ruffino. Pity the poor businesses that have their offices along this passageway. Perhaps someone in City Hall has the franchise for printing business cards and stationary.

Foreigners are bemused by the penchant of local government to stroke the egos of their favored citizens by renaming streets after them – only to switch again when someone falls out of favor or someone else trumps one more condo along said street. Perhaps Makati itself should be renamed? “Babel” comes to mind as one option. What would Ayala Tower be called under such as scenario?

The Day that the Rains Came

Summer is over! Summer in the Philippines refers to the hot and dry spell of weather between late March and the end of May. With the onset of June comes the rain and slightly cooler temperatures – somewhat offset in terms of relief by the higher humidity.

Rainfall - Manila Area 1971 - 2000 Averages



Manila's mean average daily temperature throughout the year is 28.2 Celsius. May is the hottest month (based on an average of the last thirty years) with an average of 30.0 while January is the coolest with an average of 26.5.

With the end of summer comes the resumption of school. Expect more clogged roads and transport systems during peak hours.

Full climatological data is now available from the statistical section of the MCA Virtual Philippines website at virtual-asia.com.

NEWS IN BRIEF

The Central Bank of the Philippines reported that the country's **money supply** or domestic liquidity grew 6.7 percent YoY to P1.569 trillion Philippine pesos in April this year. In particular, total currency in circulation was estimated at P176.214 billion; peso deposits, P227.681 billion; and near cash items (savings deposits and time deposits), P1.161 trillion.

Discussions are underway for the **sale of the stake** of Hong Kong-based First Pacific Co. Ltd. in the Philippine Long Distance Telephone Co. (PLDT) and Bonifacio Land Corp. to JG Summit Holdings Inc. for about US\$925 million. The PLDT is the country's largest telecommunications

company while the Bonifacio Land Corp. is the developer of the Fort Bonifacio Global City central business district. JG Summit, which is owned by the Gokongwei family, is into property, retail, telecommunication, media and other large investments.

The Supreme Court has junked a **civilian petition** asking to prevent power distributor Manila Electric Co. (Meralco) from collecting purchased power adjustment (PPA) charges from the Filipino consumers in Luzon. State-owned power utility National Power Corp. (Napocor) and Meralco impose on the consumers additional charges aside from the basic power rate to cover adjustments resulting from system losses or excess production by independent power producers (IPPs).

INVESTMENT NEWS

New investment's at the country's economic zones, as reported by the **Philippine Economic Zone Authority** (PEZA) dropped by 70 percent to P5 billion in the first four months of the year from P16.61 billion a year earlier. In April alone, investments approved by PEZA fell 42 percent to P1.18 billion this year from P2.05 billion a year ago.

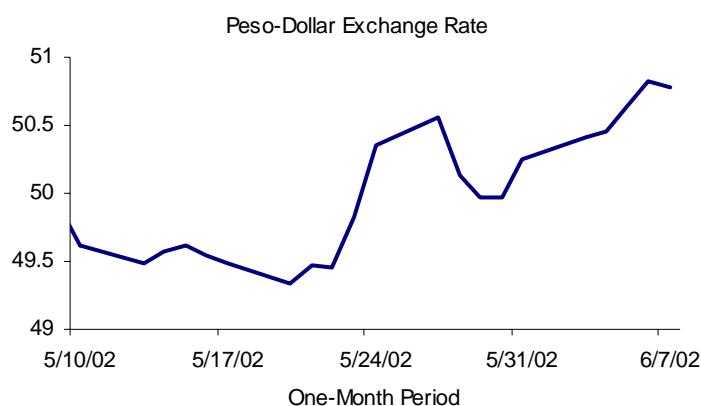
The **Filinvest Development Corp.** has announced that American retail chain S&R Price Club is among those that would establish branches in the new 9.5-hectare Westgate Center at the Filinvest Corporate City in Alabang. Among the other companies that have expressed interest to secure a space in the project are Country Waffles, Fitness First Gym and Spa, Brothers Burger and East West Bank.

The **International Finance Corp.** (IFC), which serves as the investment arm of the World Bank, said it would invest between US\$140 million to US\$150 million dollars in the Philippines annually over the next three years. Such investment would finance about five to seven projects each year.

Japanese wood manufacturer **Juken Sangyo** is investing additional US\$37.3 million in its expansion project in the country, less than a year after it opened its manufacturing facility at the Subic Bay Freeport. The additional capital would bring to about US\$55 million the company's total investments in Subic. The number of workers in Sangyo is also expected to increase to 250.

CURRENCY MOVEMENTS

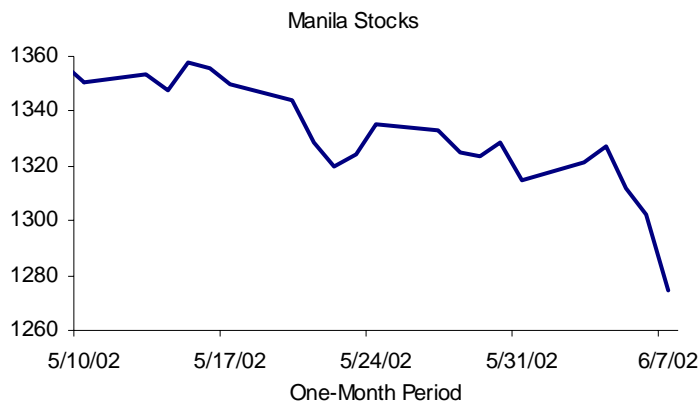
The Philippine peso continued to weaken against the US dollar last week, as it tracked the movement of regional currencies. The peso ended last week's currency trading at 50.63 against the greenback on June 7, down from previous week's (May 31) close of 50.25 against the dollar.



LATEST: 49.825/US\$ (Ave. May 2002)
HIGH: P26.159/US\$ (Ave. Feb 1996)
LOW: P53.224/US\$ (Ave. July 2001)

STOCK MOVEMENTS

The Phisix, the main barometer of the 30-company Philippine Stock Exchange (PSE), fell below the 1300-point level at the height of political standoff at the Senate last week. The Phisix, which usually monitors the economic and political tension in the country, lost 41 points to end at 1274 points on June 7, down from previous week's (May 31) close of 1335 points.



LATEST: 1375.59 (Ave. May 2002)

HIGH: 2,621.67 (Ave. Jul 1999)

LOW: 979.34 (Ave. Oct 2001)

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