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PHILIPPINES

Key Economic Indicators

(Billions of U.S. dollars unless otherwise noted)

	1998	1999	2000	1/
Income, Production and Employment:				
Nominal GDP	65.5	76.7	73.8	
Real GDP Growth (pct) 2/	-0.6	3.3	3.7	
Nominal GDP by Sector:				
Agriculture	11.4	13.5	11.8	
Manufacturing	14.3	16.5	16.1	
Services	33.6	39.8	39.5	
Government 3/	8.3	9.5	9.1	
Per Capita GDP (US$)	905	1,039	980	
Labor Force (000s)	31,056	32,081	32,300	
Unemployment Rate (pct)	10.1	9.6	11.0	
Money and Prices (annual percentage growth):				
Money Supply Growth (M2) 4/	8.0	19.3	8.5	
Consumer Price Inflation (pct)	9.7	6.6	4.5	
Exchange Rate (Peso/US$ annual average)				
Interbank Rate	40.89	39.09	44.00	
Balance of Payments and Trade:				
Total Exports FOB 5/	29.5	35.0	39.9	
Exports to U.S. 6/	11.9	12.4	13.9	
Total Imports FOB 5/	29.5	30.7	32.6	
Imports from U.S. 6/	6.7	7.2	7.7	
Trade Balance 5/	-0.03	4.3	7.3	
Balance with U.S. 6/	5.2	5.2	6.7	
Current Acct. Surplus or Deficit/GDP (pct)	2.4	10.3	11.8	
External Public Sector Debt	30.3	34.8	35.5	
Foreign Debt Service Payments/GDP (pct)	7.8	7.8	8.7	
Nat'l Gov. Fiscal Surplus or Deficit/GDP (pct)	-1.9	-3.7	-2.8	
Gold and Foreign Exchange Reserves	10.8	15.1	15.7	
Aid from U.S. (US$ millions) 7/	48.0	70.0	34.0	8/
Aid from Other Bilateral Sources (US$ millions) 7/	1,020.0	1,127.0	599.0	8/

1/ Figures for 2000 are full-year estimates based on data available as of October.
2/ Percentage changes based on local currency.
3/ Government construction and services gross value added.
4/ Growth rates of year-end M2 levels.
5/ Merchandise trade (Philippine government data).
6/ Source: U.S. Department of Commerce; exports FAS, imports customs basis; 2000 figures are estimates based on data available through October 2000.
7/ Inflows per Philippine government balance of payments data, excluding inflows from the U.S. Veterans Administration (USVA).
8/ Actual January-June 2000 figures.

Sources: National Economic and Development Authority, Bangko Sentral ng Pilipinas, Department of Finance.

1. General Policy Framework

Preliminary results of the 2000 government census placed the Philippines' population count at 75.3 million, and the country's annual population growth rate between the 1995 and 2000 census years at two percent. Agriculture contributes only 20 percent of GDP but absorbs 40 percent of employment. Electronics, garments, and auto parts are the leading merchandise exports, but rely heavily on imported inputs. Overseas workers remittances, estimated at $5-6 billion yearly, are a major source of foreign exchange. The balance of payments historically has registered current account surpluses (including those since the Asian crisis) only during periods of lethargic economic growth and weak import demand. The domestic savings rate is relatively low, compared to the rest of Asia, estimated at barely 20 percent of GDP in 1999.

Weak public finance is a long-standing problem. After four consecutive surpluses (1994-1997), the national government has reverted to deficit-spending since 1998, partly as a response to the Asian financial crisis. The government perennially has problems containing its fiscal gap because revenues suffer from weak tax administration and collection while efforts to contain expenditures are hampered by the large share (over 70 percent) of "non-discretionary" expenditures such as payroll costs, interest payments and mandated transfers to local government units. Fiscal difficulties make it extremely difficult for the government to address the country's urgent infrastructure, health and education needs, and complicate government efforts to manage domestic interest rates.

Open market operations serve as the main policy tool to control money supply. The Bangko Sentral is working to shift from a base money to inflation-targeting framework in 2001 to better fulfill its price stabilization mandate.

Although nationalist groups and vested interests pose obstacles to the scope and pace of reforms, President Estrada has signed several economic reform bills into law. These include the Retail Trade Liberalization Act, General Banking Law, Securities Regulation Code, and the Electronic Commerce Act. The Philippine Congress is also moving forward on proposed legislation to restructure the power sector and privatize the government-owned National Power

Corporation.

2. Exchange Rate Policy

There are generally no restrictions to full and immediate capital repatriation and profit remittances, foreign debt servicing, and the payment of royalties, lease payments and similar fees. In January 2000 the Bangko Sentral ng Pilipinas (Central Bank [BSP]) moved to curb foreign exchange speculation and volatility by requiring a minimum holding period for foreign investments registered as peso time deposits. There are no mandatory foreign exchange surrender requirements imposed on export earners and foreign exchange can be freely bought and sold outside the banking system. The exchange rate is not fixed and generally evolves freely in the interbank market, although the BSP imposes limits on banks' foreign exchange positions. The depreciation of the peso during the Asian financial crisis (from peso 26/dollar in June 1997 to weaker than peso 50/dollar at present) has hurt the competitiveness of some U.S. exports.

3. Structural Policies

Prices are generally determined by market forces, although basic public services (such as transport, water and electricity) are regulated by the government. Government regulation of prices of "socially sensitive" petroleum products (i.e., liquefied petroleum gas, regular gasoline, and kerosene) legally ended in July 1998 with the full deregulation of the oil industry. However, over the past year, the government has responded to public opposition to oil price increases by occasionally applying moral suasion on oil companies to limit, delay or stagger fuel price adjustments, resulting in alleged cost under-recoveries. The government's National Food Authority remains a major factor in the market for rice and other agricultural products.

While progress in investment liberalization has been substantial, important barriers to foreign entry remain. Two "negative lists" outline where investment is restricted. Divestment requirements exist for firms seeking certain investment incentives. A number of other laws specify, or have the effect of imposing, local sourcing requirements.

Almost all products, including imports, are subject to a 10 percent value added tax. Certain products, whether domestically manufactured or imported, are subject to excise tax. The Philippines' Tariff Reform Program is gradually lowering applied duty rates on nearly all items, toward a goal of tariff rates of zero to five percent by 2004 for all items except sensitive agricultural products.

4. Debt Management Policies

Foreign debt (estimated at $52.2 billion as of June 2000) has been growing, but debt servicing is no longer a severe problem. The ratio of debt service payments to exports of goods and services was 13.7 percent during the first half of 2000, compared to 40 percent in the early 1980s. The bias for medium- to long-term loans (which comprise more than 85 percent of external liabilities) and relatively small (25 percent) share of the private, non-bank sector have been advantages in coping with the Asian financial crisis. Concessional credits from multilateral and official bilateral lenders account for about half of the country's external debt.

The Philippines had four debt rescheduling rounds with official bilateral (Paris Club) creditors and did not exercise a fifth Paris Club debt rescheduling agreement. The Philippines had hoped to end over three decades of International Monetary Fund (IMF) supervision in March 1998, but opted for a two-year precautionary arrangement due to the regional currency crisis. The Estrada administration converted this program to a regular $1.4 billion standby arrangement in August 1998. The standby program should have concluded in March 2000 but was twice extended (most recently to December 2000) to give the government more time to improve its fiscal performance and complete promised reforms (including legislation to restructure the energy sector). The government has indicated it may explore a follow-through monitoring arrangement when the current program ends.

While regulations have substantially eased, the Bangko Sentral ng Pilipinas continues to monitor and/or regulate foreign borrowing to ensure that they can be serviced with due regard for the economy's overall debt servicing capacity. Certain loans of the private sector must be approved by the Bangko Sentral regardless of maturity, the source of foreign exchange for debt service and/or any other consideration. These are: private sector debts guaranteed by the public sector, or covered by forex guarantees issued by local banks; loans granted by foreign currency deposit units funded from or collateralized by offshore loans or deposits; and loans with maturities of more than one year obtained by private banks and financial institutions for relending.

5. Significant Barriers to U.S. Exports

Tariffs: Imported items that are not locally produced generally face low tariffs, while intermediate products and raw materials produced locally are generally assessed duties of seven or ten percent. Finished products, which compete with locally-produced goods face higher tariffs of between 15 to 30 percent. Imports of finished automotive vehicles (completely built-up units) are subject to a 30 percent tariff, currently the highest duty rate applied to a non-agricultural product, as an incentive to promote local assembly under the Philippines Motor Vehicle Development Program. In January 1999 President Estrada signed Executive Order (E.O.) 63 raising applied MFN tariff rates on a range of products including yarns, threads, fabric, apparel, and kraft liner paper. Rates on these items were reduced to their 1997 levels of 10 to 20 percent beginning January 1, 2000. The Philippines maintains high tariff rates of 35 to 65 percent on sensitive agricultural products, including grains, livestock and meat products, sugar, certain vegetables, and coffee. Overall, the unweighted average nominal tariff rate of 9.98 percent in 1999 has been lowered to 8.08 percent since January 1, 2000.

Import Licenses: The National Food Authority (NFA), a government entity, is the sole importer of rice and continues to be involved in imports of corn. Fisheries Administrative Order (FAO) 195, series of 1999, issued by the Department of Agriculture, requires a license to import fresh, chilled, and frozen fish when intended for sale in local retail markets. E.O. 209 of February 2000 requires an eligible commercial fishing vessel operator to obtain an Authority to Import from the Maritime Industry Authority prior to tax and duty-free importation of fishing vessels or boats. Subject to other import regulations are certain other items, including firearms and ammunition, used clothing, sodium cyanide, chlorofluorocarbon (CFC) and other ozone-depleting substances, penicillin and derivatives, coal and derivatives, color reproduction machines, chemicals for the manufacture of explosives, pesticides, used motor vehicles, and used tires. In addition, certain agricultural commodities are subject to minimum access volume tariff-rate quotas.

Excise Taxes: U.S. producers of automobiles and distilled spirits have raised concerns about certain discriminatory aspects of the Philippines' excise tax system. Excise taxes on distilled spirits impose a lower tax on products made from materials that are indigenously available (e.g., coconut, palm, sugar cane). The excise tax treatment of automotive vehicles is based on engine displacement, rather than vehicle value.

Services Barriers: In the field of banking, May 1994 amendments to the 1948 General Banking Act (GBA) allowed a maximum of ten foreign banks to establish foreign branches in the country. Foreign branch banks are limited to opening six branches each. The General Banking Law of 2000 (signed in May 2000 to succeed the GBA) opened a seven-year window during which foreign banks may own up to 100 percent of one locally-incorporated commercial or thrift bank (up from the previous 60 percent foreign equity ceiling, with no obligation to divest). However, for the first three years, such foreign investment may be made only in existing banks, reflecting the Bangko Sentral's current emphasis on banking sector consolidation. Regulations require that majority Filipino-owned domestic banks control, at all times, at least 70 percent of total banking system assets. Rural banking remains completely closed to foreigners.

Securities: Membership in the Philippine stock exchange is open to foreign-controlled stock brokerage firms that are incorporated under Philippine laws. Foreign ownership in securities underwriting companies is limited to 60 percent. Securities underwriting companies not established under Philippine law are not allowed to underwrite securities for the Philippine market, but may underwrite Philippine issues for foreign markets.

Insurance: Minimum capitalization requirements increase with the degree of foreign equity. Current regulations specify that only the Philippines' Government Service Insurance System can provide coverage for government-funded and Build-Operate-Transfer (BOT) projects. Insurance and professional reinsurance companies operating in the country are required by law to cede to the industry-owned National Reinsurance Corporation of the Philippines at least 10 percent of outward reinsurance placements.

Professional Services: The Philippine Constitution reserves the practice of licensed professions to Philippine citizens. This includes, inter alia, law, engineering, medicine, accountancy, architecture, and customs brokerage.

Telecommunications: The Philippine Constitution limits foreign ownership in public utilities to 40 percent. Telecommunication firms are considered public utilities.

Shipping: Foreign-flagged vessels are prohibited from the carriage of domestic trade.

Express Delivery Services: Foreign air express couriers and airfreight forwarding firms must either contract with a wholly Philippine-owned business to provide delivery services, or establish a domestic company, at least 60 percent of which should be Philippine-owned.

Standards, Testing, Labeling, and Certification: Imports of products covered by mandatory Philippine national standards must be cleared by the Bureau of Product Standards (BPS). Labeling requirements apply to a variety of products, including pharmaceuticals, food, textiles and certain industrial goods. The Generics Act of 1988 mandates that the generic name of a particular pharmaceutical product appear above its brand name on all packaging.

Investment Barriers: The Foreign Investment Act of 1991 contains two "negative lists" that outline areas where foreign investment is restricted. "List A" restricts foreign investment in certain sectors because of constitutional or legal constraints. No foreign investment is permitted in, among others, mass media (including cable television), small-scale mining, private security agencies, and the manufacture of firecrackers and pyrotechnic devices. Varying foreign ownership limitations also apply to, among others, recruitment agencies (25 percent), public works construction and repair (25 percent, with the exception of BOT and foreign-assisted projects), advertising (30 percent), public utilities (40 percent), education (40 percent), commercial deep-sea fishing (40 percent), the exploration and development of natural resources (40 percent, except for high-cost and high-risk activities such as oil exploration and large-scale mining), financing (60 percent), and securities underwriting (60 percent). Land ownership is reserved to Philippine citizens and corporations that are at least 60 percent owned by Philippine citizens. The Retail Trade Liberalization Act of 2000 (signed in March 2000) repealed 1954 legislation banning foreigners from retail trade, but prohibits foreign participation in retail companies capitalized at less than $2.5 million. A lower minimum capitalization threshold ($250,000) applies to foreign retail establishments specializing in high-end luxury products. Retail trade firms not specializing in high-end luxury items which are more than 80 percent foreign-owned should offer at least 30 percent of their equity to the public within eight years from start of operations. "List B" limits foreign ownership (generally to 40 percent) for reasons of public health, safety and morals. This list also seeks to protect local small- and medium-sized firms by restricting foreign ownership to no more than 40 percent in non-export firms capitalized at less than $200,000.

Incentives and Export Performance Requirements: In general, foreign-owned firms producing for the domestic market must engage in a “pioneer” activity to qualify for incentives administered by the government’s Board of Investment (BOI). For exporters, the BOI imposes a higher export performance requirement for foreign-owned enterprises (70 percent of production should be exported) than for Philippine-controlled companies (50 percent). With the exception of foreign-controlled firms that export 100 percent of production, foreign firms that seek incentives from the Board of Investments must commit to divest to 40 percent ownership within 30 years or such longer period as the BOI may allow. The Philippines has requested an extension of the January 1, 2000 deadline to eliminate WTO-inconsistent local-content and foreign exchange requirements under its motor vehicle development program. The U.S. counterproposal requires that the Philippines agree to an expedited procedure in the event of any dispute concerning the Philippine's obligations to eliminate the Trade-Related Investment Measures (TRIMs) by June 30, 2002.

Local Sourcing Requirements: Outside of the investment incentives regime, investors in certain industries are subject to specific laws which require local sourcing. E.O. 776 requires that pharmaceutical firms purchase semi-synthetic antibiotics from a specific local company, unless they can demonstrate that the landed cost of imported semi-synthetic antibiotics is at least 20 percent less than that produced by the local firm. E.O. 259 bans imports of soap and detergents containing less than 60 percent coconut-based surface active agents of Philippine origin, thereby requiring local sourcing by soap and detergent manufacturers. Letter of Instruction (LOI) 1387, issued in 1984, requires mining firms to prioritize the sale of their copper concentrates to Philippine Associated Smelting and Refining Corp. (PASAR), a government-controlled firm until its privatization in 1998. The Retail Trade Liberalization Act of 2000 requires local sourcing for the first ten years after the law's effective date. During that period, 10 percent of the cost of inventory of foreign retail firms specializing in high-end luxury merchandise, and at least 30 percent of the inventory cost of other retail establishments, should consist of Philippine-made products.

Government Procurement Practices: Contracts for government procurement are awarded by competitive bidding. Preferential treatment of local suppliers is practiced in government purchases of pharmaceuticals, rice, corn, and iron/steel materials for use in government projects, and in locally-funded government consulting requirements. The Philippines is not a signatory of the WTO Government Procurement Agreement.

Customs Procedures: On March 31, 2000 the Philippine government ended its contract with a private firm, Societe Generale de Surveillance, to perform preshipment inspection services. Thus, effective April 1, there is no longer any physical preshipment inspection requirement for exporters. Instead, all importers or their agents are required to file import entries directly with the Philippine Bureau of Customs (BOC), which processes these entries through its Automated Customs Operating System (ACOS). ACOS uses a computer system to classify shipments as low-risk (green lane), moderate risk (yellow lane) or high risk (red lane). The government implements the "transaction value" method of customs valuation, in line with WTO obligations.

6. Export Subsidies Policies

Firms engaged in activities under the government's "Investment Priorities Plan" may register with the Board of Investments (BOI) for fiscal incentives, including three to six year income tax holidays and a tax deduction equivalent to 50 percent of the wages of direct-hire workers for the first five years from registration. BOI-registered firms that locate in less-developed areas may be eligible to claim a tax deduction of up to 100 percent of outlays for infrastructure works and 100 percent of incremental labor expenses also for the first five years from registration. Export-oriented firms located in government-designated export zones and industrial estates registered with the Philippine Economic Zone Authority enjoy basically the same incentives as BOI-registered firms, and a longer income tax holiday (ITH) of four years, extendable to a maximum of eight years. After the ITH period, a special five percent tax on gross income in lieu of all national and local taxes will apply. Firms which earn at least 50 percent of their revenues from exports may register for certain tax credits under the "Export Development Act" (EDA), including a tax credit based on incremental export revenues.

7. Protection of U.S. Intellectual Property

The Philippines is a party to the Bern and Paris Conventions, the WTO Agreement on Trade Related Aspects of Intellectual Property (TRIPS), and is a member of the World Intellectual Property Organization. The Philippines remains on the “Special 301” Watch List.

While substantial progress has been made in recent years, significant problems remain in ensuring consistent, effective protection of intellectual property rights (IPR). The IP law (R.A. 8293), which took effect January 1, 1998, improves the legal framework for IPR protection. It enhanced copyright and trademark protection; created a new Intellectual Property Office with original jurisdiction to resolve IPR infringement complaints; increased penalties for infringement and counterfeiting; and relaxed provisions requiring the registration of licensing agreements. The law, however, contains significant deficiencies. These include the lack of authority for courts to order the seizure of pirated material as a provisional measure without notice to the infringer; ambiguous provisions on the rights of copyright owners over broadcast, rebroadcast, cable retransmission, or satellite retransmission of their works; and burdensome requirements concerning licensing contracts. Additional legislation is pending to provide IPR protection for plant varieties and layout-designs of integrated circuits, in line with WTO obligations. A new challenge for IPR has arisen in the pharmaceutical industry; the Philippine government is developing plans to purchase and parallel import pharmaceuticals in an effort to reduce medical costs. Such plans may involve off-patent but branded medicines. U.S. and other pharmaceutical manufacturers have threatened legal action if the plan is WTO-inconsistent or threatens their commercial interests.

Enforcement: Enforcement agencies generally will not proactively target infringement unless the copyright owner brings it to their attention and works with them on surveillance and enforcement actions. Joint efforts between the private sector and the National Bureau of Investigation and Philippine Customs have resulted in successful enforcement actions. While certain courts have been designated to hear IPR cases, little has been done to streamline judicial proceedings in this area, as these courts have not received additional resources and continue to handle a heavy non-IPR workload. In addition, IPR cases are not considered “major crimes,” and take a lower precedence in court proceedings. Because of the prospect that court action will be lengthy, many cases are settled out of court.

Patents: R.A. 8293 mandates a first-to-file system, increases the term of patents from 17 to 20 years from date of filing, provides for the patentability of micro-organisms and non-biological and microbiological processes, and gives patent holders the right of exclusive importation of their inventions.

Trademarks, Service Marks and Trade Names: R.A. 8293 no longer requires prior use of trademarks in the Philippines as a requirement for filing a trademark application. Also eliminated was the requirement that well-known marks be in actual use in Philippine commerce or registered with the government. Trademark infringement remains a serious problem in the Philippines.

Copyrights: R.A. 8293 expands IPR protection by clarifying protection of computer software as a literary work (although it includes a fair-use provision on decompilation of software), establishing exclusive rental rights, and providing terms of protection for sound recordings, audiovisual works, and newspapers and periodicals that are compatible with the WTO TRIPS Agreement. Software, music and film piracy remain widespread. The Business Software Alliance estimates that 78 percent of business software in use in 1998 was unlicensed; the piracy rate for entertainment software is 90 percent. The Motion Picture Association of America estimates that two-thirds of motion pictures on video or optical discs in 1998 were illegal copies. The illegal retransmission of satellite programming by cable operators is a growing problem.

The U.S. intellectual property industry estimates 1999 potential trade losses due to piracy of software at $50.5 million; of motion pictures, $18 million; of sound recordings, $2 million; of books, $44 million.

8. Worker Rights

a. *The Right of Association:* All workers (including public employees) have the right to form and join labor unions. Although this right is exercised in practice, aspects of the public sector organization law restrict and discourage organizing. Trade unions are independent of the government and generally free of political party control. Unions have the right to form or join federations or other labor groups. Subject to certain procedural restrictions, strikes in the private sector are legal. Unions are required to provide strike notice, respect mandatory cooling-off periods, and obtain majority member approval before calling a strike.

b. *The Right to Organize and Bargain Collectively:* The Philippine Constitution guarantees the right to organize and bargain collectively. The Labor Code protects and promotes this right for employees in the private sector and in government-owned or controlled corporations. A similar but more limited right is afforded to employees in most areas of government service. Dismissal of a union official or worker trying to organize a union is considered an unfair labor practice. Labor law is uniform throughout the country, including industrial zones. However, local political leaders and officials governing some special economic zones have tried to frustrate union organizing efforts by maintaining "union free/strike free" policies. In the garment industry, the widespread use of short-term, contract workers is an obstacle to workers forming unions or obtaining medical and retirement benefits.

c. *Prohibition of Forced or Compulsory Labor:* The Philippine Constitution prohibits forced labor, and the government generally enforces this prohibition.

d. *Minimum Age for Employment of Children:* Philippine law prohibits the employment of children below age 15, with some exceptions involving situations under the direct and sole responsibility of parents or guardians, or in the cinema, theater, radio and television in cases where a child's employment is essential. The Labor Code allows employment for those between the ages of 15 and 18 for such hours and periods of the day as are determined by the Secretary of Labor, but forbids employment of persons under 18 years in hazardous or dangerous work. Government and international organization estimates indicate that some three million children under age 18 are employed in the informal sector of the urban economy, certain fishing practices, port work or as unpaid family workers in rural areas.

e. *Acceptable Conditions of Work:* A comprehensive set of occupational safety and health standards exists in law. Statistics on actual work-related accidents and illnesses are incomplete, as incidents (especially in regard to agriculture) are underreported.

f. *Rights in Sectors with U.S. Investment:* U.S. investors in the Philippines generally apply U.S. standards of worker safety and health, in order to meet the requirements of their home-based insurance carriers. Some U.S. firms have resisted efforts by their employees to form unions, with local government support.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		601
Total Manufacturing		1,270
Food & Kindred Products	351	
Chemicals & Allied Products	419	
Primary & Fabricated Metals	41	
Industrial Machinery and Equipment	19	
Electric & Electronic Equipment	258	
Transportation Equipment	0	
Other Manufacturing	181	
Wholesale Trade		184
Banking		283
Finance/Insurance/Real Estate		1,028
Services		223
Other Industries		203
TOTAL ALL INDUSTRIES		3,792

Source: U.S. Department of Commerce, Bureau of Economic Analysis.