THE PHILIPPINES

Overview

The Philippine economy continues to move on to a higher growth path. Combined with widespread evidence of restored political and macroeconomic stability, economic reforms since 1992 have stimulated growing interest from potential foreign investors and renewed confidence domestically. Beginning in 1992, the economy began to recover after two years of macroeconomic stabilization concerns, and growth has since accelerated. Gross National Product (GNP) expanded by 5.5 percent in 1995, and could have been even stronger if not for weak agricultural sector performance due to unfavorable weather. According to recent government estimates, real first quarter 1996 GNP grew 6.2 percent year-to-year. The Government is targeting full-year GNP growth of between 6.5 - 7.5 percent in 1996, which many economists and businessmen consider achievable.

While there is a growing consensus that the Philippines is presently in a much better position than previous growth periods to sustain expansion, important challenges nevertheless remain as the Philippines moves to solidify recent economic progress. Economists continue to express concern specifically over certain weaknesses of the fiscal and external accounts, which had derailed past recoveries. Although important milestones, the recent fiscal surpluses have relied heavily on nonrecurring privatization receipts. Economists also point to the reliance on "unpredictable" sources of balance of payments financing (such as portfolio capital and workers' remittances). These concerns call for aggressive efforts to, among others: attract foreign direct investment; enhance export competitiveness (continuing the break from the protectionist, import substitution policies of the past); reform the tax system (the Government has a comprehensive tax reform package pending congressional approval) and improve tax collection efforts; streamline the bureaucracy and rationalize spending; and pursue financial and macroeconomic policies supportive of higher rates of domestic savings. Overall, provided that fiscal concerns are decisively addressed and market-oriented reforms continue, the Philippines now appears closer than in previous growth periods to its goal of breaking away from the boom-and-bust growth pattern of the past.

Current Government policies have improved the trade and investment climate for foreign firms seeking to do business in the Philippines. Among the more important measures are tariff reductions and restructuring, liberalization of foreign exchange and foreign investment regulations, deregulation of the telecommunications sector, and measures to alleviate the acute electric power shortages of recent years. These accomplishments, combined with restored political stability, have stimulated growing interest from potential foreign investors.

U.S.-Philippine relations have improved substantially since the Philippine Senate's 1991 rejection of a treaty which would have permitted the continuation of U.S. bases at Clark and Subic Bay. During Philippine President Ramos' visit to the U.S. in November 1993, he and President Clinton agreed on a new, post-bases partnership centering on expanded trade and investment ties, as well as continued security cooperation under a mutual defense treaty.

Although U.S. economic and security assistance to the Philippines has declined in recent years, a modest aid program continues. The bilateral relationship is buttressed by longstanding historical and cultural links, as well as extensive people-to-people interaction. There are over 2 million Filipinos residing in the U.S.

The strengthening Philippine recovery and the increasing demand for capital goods and high technology products, coupled with improved political relations with the U.S., provides U.S. firms with a variety of defense and commercial opportunities.

Defense Industry Environment

The Armed Forces of the Philippines (AFP) embarked on a 15-year modernization program in 1989 to acquire major equipment and support systems for the Navy, Air Force, Army, and General Headquarters (GHQ), in order of priority. The program is the result of a comprehensive assessment of the country's defense requirements. The result has been a refocusing of the country's military mission from internal security to external defense. On February 23, 1995, President Ramos signed into law the AFP Modernization Act (AMP). In July 1995, the AFP submitted its AMP for approval.

The proposed budget for modernization is forecast at US $11.76 billion over the next fifteen years, with US $10.6 billion for equipment acquisition and US $1.16 billion for base development. In February 1996, the Philippine House of Representatives passed the first five-year resolution for US $1.96 billion, but the program submission and its associated appropriation bill have since languished in the Senate. The upper house is attempting to flex some political muscle and exert influence to decrease funds for the AMP. The Philippine Congress is expected to appropriate preliminary program funding by the fall of 1996. The AFP's budget submission for 1997 is 7.8 percent of the Philippine national budget.

Since the Philippine domestic defense industry is limited, the overwhelming share of defense equipment required is procured from foreign sources. Government entities manufacturing equipment and material are: Arsenal (small arms and ammunition); Philippine Aerospace Development Corp. (PADC - aircraft and spare parts); and Veterans Electronic Communications (Vetronix - communications and electronics). Local private defense industry suppliers are: Francisco Motors (Jeeps); Columbia Motors (Jeeps); G. Marfil (ordnance); Pentagon (ordnance); Santos-Schaeter (armored vehicle and ship parts); Squires Bingham (rifles and ammunition); and AG&P (patrol crafts in an affiliation with Trinity Marine of the U.S.). Under the United States' Foreign Military Sales (FMS) program, which ended in 1993, the U.S. was the dominant foreign supplier to the Philippines. U.S. firms interested in supplying the Philippines defense needs are: Boeing/McDonnell Douglas (fighter aircraft); Boeing/Rockwell (electronics, avionics); Lockheed Martin (surveillance radar, fighter aircraft); Raytheon (missiles, radar); Electronic Systems Group (surveillance radar); Ingalls (offshore patrol vessels); Newport News (offshore patrol vessels); Tacoma Boat (offshore patrol vessels); and Kaman (helicopters).

Non-U.S. firms interested in the Philippines market are: MIG - Russia (fighter aircraft); Israel Aircraft Industries - Israel (fighter aircraft); Transfield Defence Systems - Australia (gunboats, support vessels); Fokker - Holland (aircraft); Martin Baker - UK (aircraft trainers, ejection seats); GTE Marconi - UK (radar systems); and Thomson CSF - France (radar, patrol boats). Over 20 shipyards have submitted prequalification documents for the offshore patrol craft procurement.

Defense Opportunities

The Philippine armed forces has the following requirements to fulfill their modernization program.

Army Programs

The Philippine Army, which provides the core of land-based forces, will undergo a major transformation as a result of the change in national strategy. While its mission remains essentially unchanged, its force structure will change significantly. The present eight infantry divisions will be reduced to three full divisions and 11 brigades which can operate independently as maneuver forces. As a result, total army manpower will be reduced by approximately 30 percent.

Specific anticipated acquisitions by the Army include the following: transport, support, and armored vehicles, including tanks; various types of aircraft; mobile combat engineering equipment; crew-served and anti-aircraft weapons; missiles; heavy artillery and heavy mortars; and satellite communication systems, radio relays, radios & transceivers, and SIGINT equipment.

Air Force Programs

The Air Force's mission and basic force structure is not expected to change significantly during the modernization of the AFP. Personnel strength will be reduced slightly from its present level. Equipment modernization focuses on aircraft acquisition and the development of an adequate air defense system. The objective is to modernize its air assets and radar systems, and gradually to replace obsolete equipment in order to perform such tasks as securing the Philippines' exclusive economic zone, in conjunction with the Philippine Navy.

Specific anticipated acquisitions by the Air Force include: multi-role fighter aircraft; air defense radar systems; air defense communications systems (troposcatter, microwave); lead-in fighters/ground attack aircraft (fixed & rotary wing), fixed-wing airlift aircraft (heavy & medium), and rotary wing airlift aircraft (heavy & medium); primary turbine and basic jet trainers, long-range maritime patrol and recon-photo aircraft; air defense missile systems; training simulators; and ground support equipment (runway sweepers, fire/crash rescue equipment, refuelers).

Navy Programs

The Philippine Navy's role will remain essentially unchanged as the country's seaward first line of defense, as well as to enforce the Philippine exclusive economic zone. Toward that end, the Navy must replace its aging ships with modern vessels capable of supporting its defense mission, as well as performing other functions such as protection of marine resources, safeguarding internal sea lines of communication, and interdiction of seaborne intruders into Philippine waters.

Anticipated acquisitions by the Navy include: logistic support, offshore patrol, and service support vessels; frigates; multi-mission aircraft; V-300's (with and without turret), gun and missile fast attack craft; corvettes; coastal radars; training simulators; minesweepers; 145-ft. patrol gunboats; maritime patrol helicopters; light anti-armor vehicles; light armor weapons; squad automatic weapons; simulator systems; missile systems; point defense and point surveillance systems; and floating drydocks and a dockyard.

Defense Procurement Process

The acquisition of weapons systems is dictated by the AFP five-year development plan, which spells out the AFP strategy and corresponding force development. Specific proposals/studies are generated by the major services' weapons systems boards, approved by the Major Service Commander, and submitted to the Chief of Staff of the AFP (CSAFP) for consideration by the AFP Weapons Systems Board (AFPWSB).

The AFPWSB deliberates on proposals submitted by the major services, bringing in experts, requesting any studies or analyses, or creating committees as necessary to evaluate a proposal. If a proposal cannot be decided upon, it is referred to general headquarters' Weapons Study Committee (WSC) for further evaluation of operational, technical, and financial feasibility. After its evaluation, the WSC forwards its findings/recommendations to the AFPWSB for its final deliberation. After a consensus is reached by the board, the proposal is submitted to the CSAFP for approval or disapproval. Proposals made by foreign suppliers directly to the major services are forwarded to the Deputy Chief of Staff for consideration. The above process is then followed. The points of contact for further information are:

Cdr Artemio R. Arugay
Deputy Chief of Staff for Plans J5 (also Vice-Chair of the AFP Weapon Systems Board)
General Headquarters, Armed Forces of the Philippines
Camp General Emilio Aguinaldo
Quezon City, Metro Manila
Tel: (632) 911-8131

Bgen Rolando Y. Espejo
Deputy Chief of Staff for Logistics J4
General Headquarters, Camp Aguinaldo
Quezon City, Metro Manila
Tel: (632) 911-6365, 911-6365
Fax: (632) 911-7781

Offset/Countertrade

To the extent possible, the Government of the Philippines (GOP) will obtain the products and services of foreign suppliers through countertrade and technology transfer and industrial investments through offset agreements. The Philippine International Trading Corporation (PITC), an attached agency of the Department of Trade and Industry, is responsible for implementing the countertrade and offset program of the government. PITC sources needed products, develops supplier bases and facilitates all trade documentation, and negotiations and contracts for the GOP and its agencies. PITC also is very influential in assisting foreign suppliers to develop acceptable industrial offset and technology transfer programs. PITC has worked closely with DND in the Augusta I and II and GKN defense contracts for the AFP and it is active in formulating the offset requirements for the Defense Modernization Program.

For assistance and information on countertrade and offset requirements, U.S. firms should contact PITC and review the following documents:

- Executive Order 120: Implementing Rules and Regulations on Countertrade;

- Memorandum Circular No. CT-95.1/01: Guidelines for the Evaluation and Approval of Offsets Arrangements to be Undertaken Pursuant to E.O. 120 and Its Implementing Rules and Regulations.

PITC contacts are:

Cesar H. Bello Ceso III
Assistant Secretary for Installations and Logistics
Department of National Defense
Camp General Emilion Aguinaldo
Quezon City, Metro Manila
Tel: (632) 911-6227, 911-6224
Fax: (632) 911-6227

Miguel Z. Patolot
Manager, Countertrade
Philippine International Trading Corp.
Tel: 632-818-9801 to 18
Fax: 632-815-2302; 632-819-0562

The U.S. Commercial Service (USCS) Manila has completed an in-depth market study on the Philippine Defense sector. This information is available through the National Trade Data Bank (NTDB) and accessible by calling 800-STAT-USA or on internet through www.stat-usa.gov.

Diversification/Commercial Opportunities

Despite the GOP's Self-Reliant Defense Posture Program (SRDP) policy (budgeted at only US $3.85 million in 1995), the domestic industry focussed on the military sector is small-scale and not showing any major signs of diversifying.

As with the Armed Forces, the civil sector has embarked on an expansion and modernization program to the improve safety, efficiency and competitiveness of Philippine industry and government services. One specific example is aviation. The GOP has privatized Philippine Air Lines (PAL) and is fostering competition by allowing three additional carriers to enter the domestic market first and the more lucrative international market later. PAL and the three new airlines will source and/or lease most of their aircraft from the U.S. GOP is also modernizing its airports which will provide commercial or dual-use trade opportunities for U.S. firms, particularly for avionics, radar and other airport equipment and services.

GOP is implementing the 1993-1998 Medium Term Public Investment Program which covers: agro-industry, infrastructure and human development, and disaster mitigation. Infrastructure projects under this program include construction of airports, roads, ports, light rail transport and railroad systems, water supply, power, telecommunications, and information technology. The GOP and private sector, under the build-operate-transfer (BOT) scheme and its variants, plus foreign government assistance, finance the projects. The USCS Manila has extensive contacts and project information available on a wide range of infrastructure projects.

The USCS also has a full-time American officer who provides counseling and detailed information on projects funded by the Asian Development Bank (ADB) in the Philippines. Projects now in progress cover such areas as air quality improvement, hydropower development, rural irrigation and livestock development, natural resources management, and port improvement.

In addition to the projects mentioned above, opportunities exist for U.S. firms in the following industry sectors:

Telecommunications

The Ramos Administration has taken major strides to liberalize the telecom sector, allowing competition in the provision of a variety of services. The Philippines' medium-term development plan (1993-98) targets installation of over one million additional phone lines by 1998, requiring more than US $2 billion dollars in government and private sector investment. Demand exists for foreign expertise in establishment of telephone systems, equipment for land lines, cellular and paging equipment, air traffic control, surveillance radar, and satellite communications technology.

Power Generation

The Philippines Draft National Power plan through 2005 relies on as much as US $30 billion dollars in private-sector-sourced equipment and know-how. U.S. companies excel in this field and can take advantage of export opportunities for power generating machinery and distribution equipment. Investment opportunities exist to build facilities, especially natural gas-fired plants on a turnkey basis, as well as hydro and geothermal plants.

Computers and Peripherals

The Philippines is continually upgrading application of computers and information technology, from PCS in the home, to networking in business and government offices, to computerized automation in factories. The country depends almost entirely on imported computer technology, with the market growing at an average 25-30 percent annually. Major opportunities exist for U.S. exports of mini and micro computers, business and desktop microcomputers, and peripherals.

Construction/Building Products

The real estate market has been strong, even during periods of slower economic growth, and the construction industry ranks second among overall industrial sectors. As the Philippine economy continues to grow, demand for building supplies should strengthen, as industrial estates, new office buildings, hotels, condominiums, low-cost housing, and shopping malls go up in Manila, Cebu, Davao, and elsewhere in the provinces. Best opportunities for U.S. exports include cement, iron and steel products, and materials for low-cost housing.

Environmental Technologies

Although the current market for environmental equipment is small, the potential is growing as more funding becomes available. U.S. firms, already successful in numerous specialized areas, are looked to increasingly for advanced technology and equipment. Demand is greatest for wastewater treatment (filters and purifying equipment) and solid waste management, including toxic wastes. The U.S.-Asia Environmental Partnership, under the direction of the USCS Manila, can provide special assistance to U.S. firms in the rapidly developing environmental protection area.

Privatization

The GOP, through the Committee on Privatization, is disposing over 500 Government assets, grouped into two broad categories: (1) about 419 so-called "transferred assets," which the GOP assumed when it bailed out financially distressed government financial institutions in the mid-1980s; and (2) 130 Government-owned or Controlled Corporations (GOCCS). As of June 1996, the GOP had partially or fully privatized 340 of the former and 93 of the latter including a number of relatively large state-run firms such as: Petron, the oil refining and marketing arm of the Philippine National Oil Company (PNOC); National Steel; the Philippine National Bank; Philippine Airlines (PAL); and the Philippine Shipyard and Engineering Corp which is engaged in ship repair activities in Subic. These sales have generated about US $6.4 billion for the GOP. Major state-run firms yet to be sold include the Philippine Associated Smelting and Refining Corp, the country's only copper smelter and refinery firm; the Philippine Phosphate Fertilizer Corp (Philphos), the largest phosphatic fertilizer operation in Asia; and the Manila Hotel.

The GOP has now embarked on the second wave of its comprehensive privatization program which will include utilities (power and water) and the third wave, public-private partnerships in social services such as health, education and pension funds. For further information on the privatization program, interested companies can contact USCS Manila, the Department of Finance's Privatization Office, or the Assets Privatization Trust as follows:

Ms. Crisanta Legaspi
Director, Privatization Office
Department of Finance
Room 309A, Five-Storey Bldg.
Central Bank of the Philippines
A. Mabini Street, Manila, the Philippines
Tel: 011-63-2-524-1633
Fax: 011-63-2-523-5143

Atty Gonzalo T. Santos, Jr.
Chief Executive Trustee
Asset Privatization Trust
6/F North Davao Mining Building
104 Gamboa St. Legaspi Village
Makati, Metro Manila, the Philippines
Tel: 011-63-2-893-2383, 893-1209
Fax: 011-63-2-893-3543

Doing Business in the Philippines

For American firms, enduring Philippine-American ties result in familiar interest in American products, services and technology. Filipinos still frequently look to the U.S. first for technology; many if not most technical standards are based on U.S. equivalents. Until the United States' foreign military sales program ended in 1992, the U.S. was by far the largest foreign military supplier to the Philippines. AFP officials are therefore thoroughly familiar with U.S. military equipment and technology: many of them have trained in the United States.

U.S. firms interested in selling products and/or services to the AFP, civilian departments of the GOP, or to private industry should utilize the services of established local distributors/agents in the Philippines. Local representation provides the contacts and has the awareness of local business practices that will give U.S. firms an added marketing edge in dealing with the GOP, the AFP, and the private sector.

USCS Manila can help U.S. firms locate business partners in the Philippines. For U.S. business representatives planning to visit the Philippines, USCS will arrange a full schedule of briefings and business meetings for a modest fee under its "gold key" service. The Agent-Distributor Service (ADS) is a cost-effective way for U.S. firms to identify potential Filipino representatives in the market. USCS also features a quarterly video/catalog program called "Direct from the USA," that offers American companies a low-cost way to test the

Philippine market for their goods and services.   Information on these services is available from U.S. Department of Commerce District Offices in the United States or directly from US&FCS Manila.

Customs and Tariffs

On July 1, 1996, the GOP switched its "comprehensive import surveillance scheme" from one based on "Home Consumption Value" (HCV) to one based on export value (EV). The use of export value, valuing products on published export prices in the country of origin, regardless of the actual selling price between buyer and seller, has resulted in rather high valuations of U.S. exports to the Philippines.

The GOP has a contract with the Societe Generale de Surveillance (SGS) for its preshipment inspection services. U.S. firms unfamiliar with the preshipment inspection process should contact the U.S. Department of Commerce's desk officer for the Philippines for information or contact SGS' New York office at TEL: 221-482-8700; FAX: 212-482-0048.

Commercial Government Procurement

While not a signatory to the GATT procurement code, the Philippine Government procurement practices, in general, do not discriminate against U.S. or other foreign suppliers. The situation with respect to incidents of bribery and other forms of corruption intervening in the working of the system is not as clear. Competition for contracts in areas of significant interest to U.S. suppliers include power generation equipment (more than 10 National Power Corporation projects); telecommunications equipment (satellites, radar); computer hardware (trunkline projects), and transportation infrastructure equipment (airport expansion, radar surveillance, maritime positioning system and vessel traffic system).

Export Licenses, End-User Certificates

The Philippines is not a listed country and as such does not require USDOC/BXA export licenses and related Pre-license Checks (PLC's) for most high-tech products. In almost all cases requiring a PLC check is recommended.

Intellectual Property Protection

In April 1993, a significant step forward was taken when the Philippines and the United States signed an agreement to strengthen protection of Intellectual Property Rights (IPR) in the Philippines. The GOP is a party to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, for the protection of literary and artistic works, and is a member of the World Intellectual Property Organization. In February 1993, President Ramos created the Interagency Committee on Intellectual Property Rights and charged it with recommending and coordinating enforcement oversight and program implementation. This year, the GOP designated 48 courts to handle IPR cases with instructions for judges to terminate "as far as practicable" the trial of IPR cases in 60 days and to render judgement in another 30 days. Joint government-private sector efforts have improved administrative enforcement. However, when IPR owners must use the courts to protect their property, enforcement is slower and less certain. Fines and jail sentences currently imposed are not real deterrents.

Foreign Investment Regulations

The GOP has taken important steps in recent years to welcome foreign investment through foreign exchange liberalization, and more liberal foreign ownership regulations for enterprises not seeking investment incentives. In May 1994, President Ramos signed into law amendments to the Build-Operate-Transfer (BOT) law. Implementing rules and regulations currently are being formulated. Legislation passed in March 1996 abolished the "C" list (one of three negative lists under the 1991 Foreign Investment Act - FIA) which had protected "adequately protected" sectors. This same legislation also lowered the minimum capital requirement for foreign majority ownership from US $500,000 to US $200,000.

Certain industries and activities remain on two remaining "negative lists," however, which limits foreign equity. The "A" list consists of activities in which foreign ownership is limited by the constitution or specific laws. These include mass media, advertising, public utilities, most licensed professional services, and retail trade. The "B" list consists of activities in which the degree of foreign ownership is limited for reasons of security, defense, health or moral concerns, and to protect small-and medium-scale enterprises. The "C" list consists of activities in which the national economic development authority has determined the Philippine market "adequately served by domestic firms."

Enterprises engaged in preferred activities listed in the Board of Investment's (BOI) annual investment priorities plan (e.g., export oriented industries; industries that will trigger production of higher value-added products; industries affected negatively by liberalized trade policies; and industries involved in infrastructure and services, environmental support facilities, and R&D) may register with the BOI if they wish to qualify for tax and non-tax incentives. An enterprise seeking incentives must be no more than 40 percent foreign-owned, unless the proposed activity is classified as "pioneer," at least 70 percent of production is for export, or the enterprise locates in areas classified by the government as less developed. The enterprise must agree to divest to a maximum 40 percent foreign ownership within 30 years from registration with the BOI, unless the enterprise exports 100 percent of production. It should be noted that this divestiture amount and time line are negotiable. Currently, the BOI strictly specifies industry-wide local content requirements under the government's progressive manufacturing program for automobiles. Current guidelines also specify that participants in this program generate, via exports, a certain ratio of the foreign exchange needed for import requirements.

Technology Transfer Regulations

Through its Technology Transfer Board, the Philippines reserves the right to require that licensing agreements involving the use of foreign patents or trademarks include technology or economic benefits for the Philippines. Technology transfer limitations on royalties and exports apply to unpatented technology protected as trade secrets as well as to patented technology. However, the GOP has never applied this right.

U.S. Government and Other Points of Contact

U.S. Commercial Service, Manila
Thomas Jefferson Cultural Center
395 Sen. Gil J. Puyat Ave
Makati, Metro Manila
Tel: 011-63-2-890-9717; 818-3878
Fax: 011-63-2-895-3028

U.S. Mailing address:
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Carmine D'Aloisio, Commercial Counselor
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Cantwell Walsh
USCS Liaison to the Asian Development Bank
Tel: 011-63-2-890-9364
Fax: 011-63-2-890-9713

Joint U.S. Military Assistance Group (JUSMAG)
Col. Danwell Lee or Lt. Col. Glenn Cleveland
AFP Liaison Officer
U.S. Embassy Manila
Tel: 011-63-2-521-7116, ext. 6337/8
Fax: 011-63-2-833-3530

American Chamber of Commerce of the Philippines
Mr. Rob Sears
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Tel: 011-63-2-818-7911
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Board of Investments

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385 Sen. Gil J. Puyat Ave.
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