

## Chapter 12

# PHILIPPINES

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### Republic of the Philippines

Area:	300,000 km <sup>2</sup>
Population:	84.24 million (2005 projected figure at medium assumption)
Capital:	Manila
Language:	Filipino (based on Tagalog) and, for official purposes, English
Religion:	Roman Catholicism as well as the Philippine Independent Church, Islam, and Protestantism
Government type:	Republic
Chief of state:	President Gloria MACAPAGAL-ARROYO
Currency:	Philippine peso (US\$1 = 55.08 pesos; 2005 average)
Fiscal year:	Calendar year

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# Trust in President Arroyo Shaken

YURIKA SUZUKI

The outstanding features of domestic politics in the Philippines during 2005 were the political turmoil resulting from the surfacing of alleged scandals involving President Gloria Macapagal-Arroyo and the growing demand for her resignation. Due to the rise of scandals, the approval ratings of President Arroyo fell sharply, followed by the en masse resignation of ten Cabinet members in July. In the middle of the year, impeachment complaints against the President were filed but dismissed later in the House of Representatives, which was dominated by the administration party. However, because none of the truths concerning the scandals were clarified, distrust grew among the people. While this was occurring, President Arroyo raised the new issue of constitutional change which involved a shift from a presidential to a parliamentary form of government. A Consultative Commission on constitutional change was established, and in December the committee submitted a report which stated that the 2007 midterm elections should be cancelled and a shift be made to a parliamentary form of government.

In the economy, there was concern over potential effects exerted by soaring global oil prices and the domestic political situation, but the real GDP growth rate maintained a level of 5.1 percent. The growth rate was supported by consumption, which was fueled by an increase in remittances from overseas Filipino workers. With regard to the tax reform, the Expanded Value-Added Tax Act of 2005 was approved in May. However, due to the issuance of a temporary restraining order by the Supreme Court, the enforcement of the Act was delayed for a time. In financial sector, the *Bangko Sentral ng Pilipinas*, the central bank, tight-

ened its monetary policy due to inflationary pressures and raised the policy rates.

In foreign relations, Chinese President Hu Jintao made a state visit to the Philippines and witnessed the signing of multiple business agreements between the two countries. Both governments also agreed to start ASEAN-China Early Harvest Program.

## DOMESTIC POLITICS

### *Two Scandals*

Of the alleged scandals surrounding President Arroyo, two in particular were of concern to the people. One was that the president's relatives had received payoffs from an illegal type of gambling known as "Jueteng," and the other was that she herself had engaged in alleged rigging of 2004 election results.

Because Jueteng is said to drive the poor to ruin and to be a hotbed of political corruption, the Catholic Church has been demanding its complete eradication. On the other hand, because it can also be a source of revenue for the government, there has been some movement to legalize it. President Arroyo herself, while calling for eradication, mentioned that she would leave the final decision on the legalization to the Congress. After that, the Congress held ongoing debates on the appropriateness of legalization, and at the public hearings on the subject where testimonies by Archbishop Oscar V. Cruz and others were made, the alleged scandal involving President Arroyo's relatives surfaced.

Archbishop Cruz reported that efforts to eradicate Jueteng were making almost no headway, but instead, top figures in the police and politicians close to the administration were receiving the payoffs. Subsequently, self-proclaimed businesswoman Sandra Cam testified at the Senate hearings held in early June, where she stated that she herself handed over proceeds of Jueteng to President Arroyo's eldest son, Rep. Juan Miguel Arroyo, and her brother-in-law, Rep. Ignacio Arroyo, on instructions from top police figures. In addition to these two relatives of the president, there had been indications several years earlier that President Arroyo's husband, First Gentleman Jose Miguel Arroyo, was also involved, and he once again came under suspicion.

Together with this Jueteng scandal, alleged rigging of the 2004 election results by the president came to be an issue. It all began with tapes

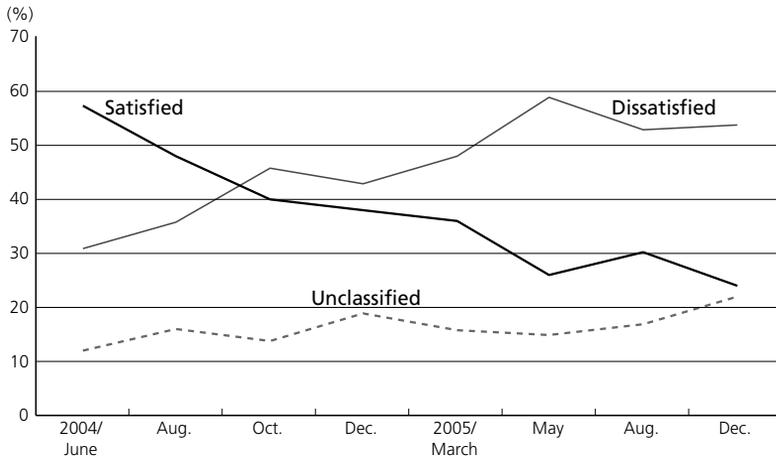
that Press Secretary Ignacio R. Bunye released to the press in early June. On those tapes was a seemingly wiretapped conversation between a woman who sounded just like President Arroyo and an election commissioner, most probably Virgilio O. Garcillano, where she is checking whether she can win by a wide margin over the opposition candidate. While tacitly admitting that the woman's voice was that of President Arroyo, Press Secretary Bunye criticized the sending of the tape as the deed of the opposition party carried out with the intention of destabilizing the administration. However, the taped conversation caused a great fuss among the people because it was regarded as an evidence of rigging of the election results by the president herself. After that, the reaction of the administration was disordered, with Press Secretary Bunye retracting his previous statement and stating instead that it could not be determined whether the voice of the woman was that of President Arroyo.

With the credibility of the tapes in question, next the former deputy chief of the National Bureau of Investigation, Samuel Ong, appeared before the media and claimed that he had the "mother of all tapes." Ong subsequently went into hiding with the assistance of the Catholic Church, and after that, his whereabouts became unknown. President Arroyo, who was the target of the accusation, avoided comments. After former election commissioner Virgilio O. Garcillano publicly stated that he was not the man in the tape, his whereabouts also became unknown. Congress began investigating the issue. However, the administration stated that expert analysis denies the credibility of the tapes, and the Intelligence Service, which was suspected of wiretapping, denied any involvement, saying that it has never had the capability to wiretap. Given this lack of progress in baring the truth, the people increasingly lost confidence in President Arroyo, and even some within the administration party began to call for the president to directly address the accusations. Thus on June 27, three weeks after the release of the tapes, President Arroyo admitted to having had the telephone conversation with an election commissioner and apologized to the nation for her "lapse in judgment." However, she denied any wrongdoing.

Due to the surfacing of these two alleged scandals, the people's trust in President Arroyo was heavily shaken. Looking at President Arroyo's approval rating, it declined gradually from the launch of her administration in 2004 and then further dropped in 2005 (Figure 12.1).

If it was true that she rigged the election results, the very legitimacy of President Arroyo's administration would be thrown into question. The

Figure 12.1. Satisfaction Rating of President Arroyo



Source: Social Weather Stations website.

Congress made an effort to investigate further, but in the end nothing was clarified during 2005. Because the wiretap itself was illegal, the tape was not admissible as evidence. In addition, because the government witnesses did not attend the public hearings, as will be explained below, no useful testimony could be obtained. Furthermore, the response of the military's Intelligence Service was slow as to whether or not it conducted the wiretapping, and although it said that it prepared an internal investigative report, the content of the report was not disclosed. The only testimony considered reliable was that of the election commissioner, Virgilio O. Garcillano, but Garcillano, who finally appeared in early December after disappearing for five months, made no useful testimony at the congressional inquiries. Moreover, the whereabouts of Samuel Ong, who claimed to possess the "mother of all tapes," remained unknown. Given these facts, the House decided that it was almost meaningless to continue with the congressional inquiries any longer, and so they closed further investigation in January 2006.

Likewise, regarding the Jueteng scandal, no useful testimony or ultimate facts were obtained, and nothing was resolved. The congressional hearings were interrupted by the start of the impeachment inquiry in the House of Representatives. Thus, 2005 was a year when none of the scandals revolving around President Arroyo were resolved, and distrust in the president merely grew stronger.

### *Mounting Demand for Resignation*

After President Arroyo admitted the conversation with the election commissioner, demands for the president's resignation greatly increased. The opposition party strengthened its offensive, and protest rallies by citizens came to be held frequently on the streets. On July 1, nearly 10,000 citizens gathered, together with opposition party members of Congress, in the center of the business district in Makati City and demanded the president's resignation. In addition, the widow of a leading candidate in the 2004 presidential election, the late Fernando Poe, Jr. (who passed away in December 2004), continued to make statements demanding the president's resignation. Even some major universities such as the University of the Philippines began to issue statements demanding her resignation as well.

Amidst mounting demands for her resignation, President Arroyo repeatedly stated that she had done nothing illegal and had no intention of resigning. The president let her husband and her eldest son, who were at the center of the Jueteng scandal, leave the country to avoid any accusations and at the same time instructed the Ombudsman to conduct investigations. Furthermore, the president announced a reshuffle of the cabinet in order to prioritize the economic problems faced by the country. Immediately after that on July 8, a total of ten senior administration officials announced their resignation en masse. They were the eight cabinet members Finance Secretary Cesar Purisima, Trade Secretary Juan Santos, Budget Secretary Emilia Boncodin, Social Welfare Secretary Dinky Soliman, Education Secretary Florencio Abad, Agrarian Reform Secretary Rene Villa, Presidential Adviser on the Peace Process Teresita Quintos-Deles, and National Anti-Poverty Commission Chairperson Imelda Nicolas, as well as two other officials, Internal Revenue Commissioner Guillermo Parayno and Customs Commissioner Alberto Lina. This movement placed further pressure on President Arroyo to resign. These ten, who later became known as the Hyatt 10 because they held a press conference at the Hyatt Regency Hotel, made a clear statement that they were very concerned that, if President Arroyo gave priority to prolonging her administration, it would adversely affect the economy. Former president Corazon Aquino followed suit and issued a statement calling for the president's voluntary resignation, saying that President Arroyo should make the supreme sacrifice. Senate President Franklin Drilon and the Liberal Party which he led also announced the withdrawal of their support. With multiple declarations of withdrawal of support in the space of one day, including close advisors and leading business figures who had supported

her until then, the continuation of the Arroyo administration was put at serious risk.

Who saved the day were former president Fidel V. Ramos and House Speaker Jose de Venecia. On the day that the ten senior administration officials resigned, former president Ramos went to the palace and announced his support for President Arroyo. However, his support was conditional on the holding of a plebiscite on constitutional change by mid-2006 to shift to a parliamentary form of government and “a graceful exit” by President Arroyo at the time of the shift. House Speaker Jose de Venecia also made clear his intention to support President Arroyo with the ruling party Lakas-CMD, which he represented.

During the turn of the events, the military and the police maintained their stance of neutrality and loyalty to the constitution. The Catholic Church, after holding the Catholic Bishops Conference, issued a statement that it would not demand President Arroyo’s resignation but did call for the forming of a Truth Commission. In this way, President Arroyo ultimately survived the political crisis; however, when the new session of Congress started at the end of July, she had to face an impeachment inquiry.

### *Impeachment Inquiry*

The second regular session of the 13th Congress began on July 25. Senator Franklin Drilon and Rep. Jose de Venecia remained in their posts as the Senate President and the House Speaker, respectively. Because Senate President Drilon had declared his withdrawal of support for President Arroyo, attention was focused on whether or not he would remain in his post, but no other senators aside from him received a majority of the support.

Upon the opening of the congressional session, an impeachment complaint was filed against the president with the signatures of 42 opposition party members in the House of Representatives. In fact, it was the third complaint submitted to the House at this point in time. One had been submitted at the end of June and another in early July. The third one with the signatures of opposition party members was an amended version of the first complaint, and it presented a far stronger case than the first one. It charged President Arroyo with culpable violation of the constitution, bribery, graft and corruption, and betrayal of public trust. However, the rule said support of at least one-third of the 236 members of the House, or 79 representatives, is necessary to send an impeachment complaint to the

Senate. Because none of the submitted complaints fulfilled that condition upon submission, House Speaker Jose de Venecia immediately transmitted all three complaints to the House Committee on Justice.

In the Justice Committee, members of the ruling and opposition parties continued their heated debate over impeachment procedures and whether the complaints were sufficient in form and substance. According to the constitution, no impeachment proceedings shall be initiated against the same official more than once within a period of one year. For that reason, debate took place between the administration party and the opposition parties, where the former wanted to use the first complaint as the official one because it was weakest among the three, and the latter wanted to consolidate all three complaints. However, House Justice Committee Chair Rep. Simeon Datumanong ruled out further debate. After the walk-out of angry pro-impeachment lawmakers, the complaint that was filed first was voted to be the only one sufficient in form, and the filing of the other two was barred. In another vote conducted immediately after, the committee decided to dismiss the first complaint itself for insufficient in substance. Furthermore, at the plenary of the House of Representatives several days thereafter, the presidential impeachment complaint was ultimately dismissed by a vote of 158 in favor of dismissal and 51 opposed. With this, no other impeachment complaint could be filed against the sitting President Arroyo for a year, until July 2006.

The rejection of the impeachment complaint did not lead to “people power” as seen in 2001. This may be said to be the outstanding features of this series of happenings. The following four points are the likely reasons behind this. First, the alleged scandals surrounding President Arroyo were never clarified, and sufficient evidence and truth were never found. Second, there was “people power fatigue.” Even though there had been political changes in 2001, there still remain graft and corruption among politicians. It is likely that the people no longer held strong hopes that a change in the administration through people power would bring changes for the better. Third, there were no capable, competent successors in sight. As a matter of procedure, if the president resigns, the vice president assumes the presidency. But some cast doubt on the ability of incumbent Vice President Noli de Castro, a former television newscaster with little experience as a politician. Fourth, unlike during previous administrations, it may be noted that no negative cycle had yet occurred wherein the unstable political situation causes economic instability, which further exacerbates the political instability.

### *The President's "Hard-line Stance" and Deepening Friction with the Senate*

The impeachment complaint was finally dismissed in the House of Representatives, and subsequently, President Arroyo perceived the allegations of scandal involvement against her to have finally been closed. However, next the Senate strengthened its investigation of various scandals. President Arroyo strongly criticized this movement as a "politics of insults," and friction between the administration and the Senate deepened.

The trigger of the friction was the release of a signed agreement between the Arroyo administration and the US lobby firm Venable LLP, which seek US funding for the planned constitutional change. The Senate criticized the administration for depending on the support of other countries in important issues such as constitutional change and questioned in particular whether Presidential Adviser on National Securities Norberto B. Gonzales was authorized to sign the agreement. However, because Gonzales, who was summoned at the public hearings, refused to answer the questions, the Senate cited Gonzales for contempt and ordered his detention. Seeing this, President Arroyo strongly criticized the move, and subsequently issued Executive Order 464, a gag order which required senior officials of the administration, including the military and the police, to have the president's clearance before testifying in Congress. Due to this, there followed some cases of congressional inquiries where there were no witnesses from the administration in attendance.

As another example of the friction between President Arroyo and the Senate, there was the investigation of the alleged misuse of agricultural funds (totaling 728 million pesos) disbursed in February 2004. These funds, which were disbursed at the beginning of the election campaign, were for the purpose of buying agricultural chemicals, fertilizers, seeds, and the other items. However, there were some members of Congress and governors who did not receive funds supposedly earmarked for them. Apparently, President Arroyo was strongly suspected of distributing the funds only to her political allies. The Senate held a number of public hearings in an attempt to investigate this alleged scandal, but invoking Executive Order 464, senior officials of the Department of Agriculture begged off from such hearings, and after that, the scandal was not resolved. The Senate displayed strong resistance to President Arroyo who issued the gag order, and the opposition decided to appeal to the Supreme Court concerning the legality of this controversial order.

This “hard-line stance” of President Arroyo was also directed at the protest rallies. Following the dismissal of the impeachment complaint, protest rallies were held intermittently by some citizens demanding a full investigation into the scandals. However, in late September, President Arroyo changed the requirements so that it was necessary to have permits for demonstrations and instructed the police to enforce the rule of “calibrated preemptive response in lieu of maximum tolerance.” In fact, there occurred a case near the Palace in October where anti-riot police using fire trucks sprayed jets of water on the crowd of protesters, including former vice president Teofisto Guingona, Senator Jamby Madrigal, and bishops and priests. The administration justified its action by saying that repeated protest rallies would have an adverse impact on economic activities, but this only increased the criticism toward the administration.

### *Issue of Constitutional Change*

In her State of the Nation Address at the end of July, President Arroyo emphasized the need for a constitutional change to shift to a parliamentary-federal form of government. According to the president, the current presidential system had become a hindrance to progress because it tended to cause gridlock and creates political stagnation. This kind of constitutional discussion had surfaced several times since the Ramos administration (1992–98), but it was emphasized anew largely because it was suggested by former president Ramos and House Speaker Jose de Venecia who supported the Arroyo administration in early July amid political crisis as mentioned above. However, the majority view was that this was not the only reason for urging constitutional change. The House of Representatives had once before approved a resolution in favor of the change during the previous session, and this time as well, it strongly supports the change. For this reason President Arroyo is thought to have proposed constitutional change as a political agenda for her survival, expecting Arroyo supporters in the House to kill the impeachment complaint. In the end, the complaint was dismissed.

In August, President Arroyo established a 55-member Consultative Commission on constitutional change with former president of the University of the Philippines, Dr. Jose Abueva, as the chairperson. She instructed the commission to submit a report by December 15. Nine subcommittees were formed under the commission, including the Committee on Structure of the Republic, the Committee on the Form of Government, the Committee on National Patrimony and Economic Reforms, and the

Committee on Judiciary. Based on the president's idea of listening to the people's opinions, the committee members traveled to various regions to hold public consultations.

The report submitted in mid-December proposed, as expected, a shift to a parliamentary system after a transition period of three years. However, what drew attention were the transitory provisions. The proposal was to cancel the 2007 midterm elections and extend the terms of all elected officials who would automatically become part of the interim Parliament until 2010. Moreover, the proposal called for the interim Parliament to select an interim prime minister, who would be under the supervision and direction of the president. As stated above, former President Ramos and the others who originally suggested constitutional change had proposed that President Arroyo make a "graceful exit" when the shift was made to a parliamentary system. However, the plan to cancel the 2007 midterm elections could be considered as a measure to extend the Arroyo administration. On top of that, it might have opened up the possibility for the president to retain some authority. For these reasons, criticism was raised by some citizens, including former president Ramos, over the content of the report.

Another point that drew attention was regulations on foreign ownership in the Philippines. Under the current constitution, foreign investments are restricted in areas such as land ownership, development of natural resources, operation of public utilities, advertising, and the mass media. Some prospective investors and economists had been pointing out that amendments were necessary in order to further promote deregulation and to strengthen economic competitiveness. In the commission's report, the basic orientation was to study amendment of the restrictions, but it also seemed to have allowed some room for restrictions of government or by legislation of the Parliament if necessary.

Aside from the debate on the content of the new constitution, the implementation process was another contentious issue. Approval of three-fourths of the Congress was required for constitutional change. However, it was not clear in the current constitution whether this referred to three-fourths of the House and the Senate combined or three-fourths of each house respectively. The debate regarding the process was split between the House and the Senate, where the former proposed to pursue the change with the current Congress convened as a constituent assembly, and the latter insisted on calling a constitutional convention whose members would be chosen by elections. With each house unwilling to yield,

the House approved a resolution calling for the constituent assembly near the end of November. Meanwhile, the deliberation in the Senate made no progress. It can be said that gridlock between the president and the Congress especially with the Senate this time, which was the reason originally given for constitutional change, was actually being aggravated by the issue of constitutional change itself. In 2006, there was a move being initiated for a people's initiative, which could be a "third way" for constitutional change, but its future remains unclear.

### *Movements of Antigovernment Forces*

There was no major progress in the peace negotiations with the Communist Party. The communist-led National Democratic Front (NDF) had been calling off the formal talks since June 2004, due to the dissatisfaction over being listed as a terrorist organization by the United States and the EU. Following the political turmoil since July 2005, the NDF refused to resume peace talks with the Arroyo administration, stating that they would rather wait for a new administration. Taking this appeal as a unilateral withdrawal from the talks, the Philippine government notified the NDF of the immediate abrogation of the Joint Agreement on Safety and Immunity Guarantees (JASIG) which was signed in 1995. The abrogation of the agreement meant that guarantees of free and unobstructed movement of 97 members of the NDF during the course of the peace negotiation would be suspended. It appears that an effort was made to resume consultations with Norway as the mediator, but the NDF continued to refuse. Since then, destructive acts by their armed wing, New People's Army, against the military, police outposts, and telecommunication facilities occurred frequently, and intense clashes with the military increased, resulting some deaths on both sides.

With the Moro Islamic Liberation Front (MILF), exploratory talks for formal peace negotiations were held several times with Malaysia as the mediator. It is said that the agenda in the April talk included the definition of the area covered by the ancestral domain, management of resources, and the governance over their supposed territory. Talks were also held in June and September, and the Philippine government announced that significant progress was made in the negotiations. The content of the negotiations was kept confidential, but according to some reports, two panels seemed to have reached a broad consensus on the issues of ancestral domain, security, reconstruction and development, and the governance.

In parallel to these negotiations with the MILF, elections which had been postponed since November 2004 were held in the Autonomous Region in Muslim Mindanao (ARMM) in August 2005. In addition to the ARMM governor and vice governor, 24 assemblymen were to be elected. Among the eight candidates for the governorship, Zaldy Ampatuan, who was nominated by the administration party Lakas-CMD, won the election. Ampatuan was the town mayor of Sharif Aguak and was from a family of politicians living in Maguindanao Province. He is also said to have contributed to Arroyo's campaign in the 2004 presidential election. However, the fact that Lakas-CMD endorsed Ampatuan, who did not belong to the Moro National Liberation Front (MNLF), was resented by MNLF leaders. Outgoing governor Parouk Hussin was a member of the MNLF.

It is not yet certain how ARMM will change henceforth due to the selection of a new governor. The governance in the Muslim Mindanao area was also a subject of discussion in the peace negotiations with the MILF. On the other hand, because the government has been discussing constitutional change with a view to a federal system, it is likely that the future form of ARMM and negotiations with MILF will be greatly affected by the course of constitutional change.

The military is strengthening its offensive against Abu Sayyaf, the Islamic extremist group. This is because the link with Jemaah Islamiyah had been pointed out, and there was information in 2005 that nearly 30 Indonesian and Malaysian international terrorists believed to be members of Jemaah Islamiyah were hiding out in Mindanao. While the military was on alert, Abu Sayyaf carried out a number of attacks. On February 14, it carried out a simultaneous bombing in the three cities of Makati, Davao, and General Santos that left eight civilians dead. Later, two suspects in the Makati City bombing were arrested, followed by the capture of the person who was believed to be the overall leader of the attacks. Abu Sayyaf also mounted attacks on military outposts together with the faction of the MNLF that supports the former ARMM governor, Nur Misuari, who was being detained by the government. In February and November, an intense battle broke out in Sulu Province, resulting in many deaths on both sides. Furthermore, on a different occasion in March, members of Abu Sayyaf shot three jail guards dead during an attempted jailbreak in Taguig City and temporarily took over the jail. This incident was resolved in one day, but a police officer and 22 members of Abu Sayyaf were killed when the police stormed the jail.

## ECONOMY

### *Real GDP Growth Rate of 5.1 Percent*

There was concern over the effects of soaring international oil prices and the domestic political situation on the Philippine economy in 2005, but the real GDP growth rate rose by 5.1 percent, higher than earlier predictions by private-sector economists. The robust increase of 13.8 percent in foreign net factor income, mostly coming from the remittances of overseas Filipino workers, pushed the real GNP growth to 5.7 percent.

Real GDP by type of expenditure shows that personal consumption continued to be the driving force of the economy, increasing 4.9 percent for the year as a whole in 2005. Meanwhile, investment was depressed compared to 2004. Capital formation declined 4.3 percent as a result of the substantial decline of 7.9 percent in durable equipment. It appeared that high oil prices and the political situation did after all have an effect on investment. Exports on a value-added basis remained sluggish compared to 2004, with an increase of 2.3 percent. This was due to sluggishness in electronics, which comprise over half of exports and which were affected partly by global market conditions.

By industrial origin, growth in the agriculture, forestry, and fishing sector slowed to a 2.0 percent increase due to the effects of dry spell. Meanwhile, growth in industry exceeded that of 2004, with a 5.6 percent increase in manufacturing sector and a 9.3 percent increase in the mining sector. Services continued to boost the economy, increasing 6.3 percent with marked acceleration of 15.4 percent in the finance subsector. The other subsectors remained stable although slightly weaker than in 2004.

Direct investment (approved basis) totaled 150.3 billion pesos through the third quarter, which was essentially the same amount as the same period in the previous year. Of that amount, foreign direct investment was 59.5 billion pesos, a decline of 56 percent, which was invested primarily in the manufacturing sector. This decline can be explained by the fact that, as of the third quarter, there was no single massive project like 2004's power generation project of 96.5 billion pesos. On the other hand, the actual inflow of foreign direct investment as seen in the international balance of payment statistics was approximately US\$812 million as of the third quarter, showing a 69 percent increase.

In external trade in goods, exports were US\$41.3 billion, a 4.0 percent increase from the previous year, and the imports were US\$47.4 billion, an increase of 7.7 percent. Exports exceeded US\$40 billion for the first time,

but electronic products, which accounted for 67 percent of the total export revenue, were sluggish, increasing only 2.2 percent. Apparel export rose 5.9 percent to US\$2.3 billion even though quotas had been removed.

The increase in consumer prices (“inflation rate” hereinafter) for the year 2005 was 7.6 percent on average. On a monthly basis, the inflation rate was in the 8 percent range through May, then eased to the 7 percent range, and finally dropped to 6.6 percent in December. Prices in the first half of the year were particularly affected by soaring oil prices and the increase in the prices of some agricultural products as a result of the dry spell.

The unemployment rate, according to the new definition following ILO standards, was 7.4 percent as of October 2005. Using the old definition, the rate remained high at 10.3 percent. Furthermore, the underemployment rate was 21.2 percent, an increase over the 16.9 percent figure in 2004. It is reported that nearly half of the underemployed are engaged in the agricultural sector. The Philippine economy may be growing, but it seems that the growth is not accompanied by adequate job creation.

### *Approval of the Expanded Value-added Tax Law*

In fiscal sector, budget deficit of national government in 2005 (January to December) was 146.5 billion pesos (2.7 percent of GDP) with 815.7 billion pesos in revenue and 962.2 billion pesos in expenditures. This was a significant improvement compared to the FY2004 budget deficit of 187.1 billion pesos (4.2 percent of GDP). Deficit reduction was assisted by firm growth in tax receipts and income other than taxes such as the sale of government assets.

The Arroyo administration, which was formed in mid-2004, had been proposing eight tax reforms. Of those, the act increasing the excise tax rates imposed on alcohol and tobacco products (Republic Act 9334) was passed in December 2004, and the Attrition Act of 2005 (Republic Act 9335) which applies to the Bureau of Internal Revenue and the Bureau of Customs, was passed in January 2005. The next in focus was the Expanded Value-Added Tax (EVAT) bill. The president wished to have this act approved as quickly as possible, but because its deliberations overlapped with the already delayed 2005 general appropriation bill, and also because of differences in the Senate and House versions when they finally appeared in April, even more time was required for the EVAT bill to be passed.

The House of Representatives' version of EVAT adopted the proposal of the Arroyo administration to raise the 10 percent value-added tax to 12 percent. The House version also proposed different tax rates to be applied to several new sectors that had been exempt until then. Meanwhile, the Senate version basically opted to retain a uniform 10 percent rate and instead repealed certain exemptions to the tax, such as the sale of electric power and petroleum products. In addition, the Senate version covered a wide range, provisionally raising the corporate income tax (from 32 percent to 35 percent), revising some commodity taxes, and furthermore reforming or abolishing some other taxes. Although many points needed to be ironed out between the two houses, the major point of discord was the VAT rate. In the Senate, even the ruling party members were opposed to the 12 percent proposed by the House and coordination between the houses proved difficult. Thereupon, the Senate suggested a compromise plan wherein the president would make the final decision to raise the rate to 12 percent when certain conditions were met. There were two conditions, one being that the budget deficit as a share of the GDP exceeded 1.5 percent and the other being that VAT revenue as a share of the GDP exceeded 2.8 percent. The latter condition was aimed at improving the discipline of tax administration. With this, the Expanded Value-Added Tax Act of 2005 (Republic Act 9337) was passed in May and was scheduled to take effect on July 1.

However, on the day it was to take effect, the Supreme Court issued a temporary restraining order. Opposition party members had filed a complaint to the said court claiming that, constitutionally, the authority to determine internal taxes lay with the Congress and not the president. In September, the Supreme Court declared the act constitutional but announced that the temporary restraining order would not be lifted until the final decision. It was on October 18 that the court finally upheld the constitutionality of the EVAT Act. The act took effect on November 1, and furthermore, the VAT rate was raised to 12 percent on February 1, 2006.

The tax authorities did not merely wait for the enactment of new tax laws, but the Bureau of Internal Revenue and the Bureau of Customs also worked to crackdown on tax evasion and smuggling. One example is the campaign called Run After Tax Evaders (RATE). The authorities indicted companies and some famous entertainers strongly suspected of tax evasion. The problem with this campaign is that it may take some time to formally prosecute the alleged evaders, but even so, there were some entertainers who voluntarily resolved the matter by making additional tax

Table 12.1. Fiscal Deficit Program

	(Billion pesos)		
	<i>Deficit Program</i>		<i>Tax Revenues/GDP (%)</i>
	<i>Revised Targets</i>	<i>Original Targets</i>	
2005	-146.5	-180.0	12.7
2006	-124.9	-160.0	14.6
2007	-63.5	-127.0	15.7
2008	0.0	-79.0	16.1
2009	1.6	-14.4	-
2010	6.4	0.0	-

Source: Papers presented by DOF and NEDA.

payments. Another campaign, Enhanced Voluntary Assessment Program (EVAP), was also started in 2005 to encourage those who had not properly filed taxes at the end of 2004. Under this program, taxpayers are granted opportunities to avail themselves of the privilege of last priority in audit and not to be prosecuted under RATE. This campaign has produced some effects. However, there is a concern that it may also have adverse effects on those who have been filing their taxes properly due to the fact that similar tax amnesty campaigns are held every now and then.

As mentioned above, fiscal balance improved in 2005, and so the government displayed a bullish stance by moving up the date it expects to achieve a balanced budget from 2010 to 2008 (Table 12.1). However, although three tax laws were passed, it certainly cannot be said that progress in tax reform had been swift, with the implementation of the EVAT Act having been delayed and also with the delay in the enactment of the Internal Rules and Regulations of the Attrition Act. Moreover, the EVAT Act is unpopular in business circles because of the lack of economic rationality in the 70 percent cap imposed on the allowable input VAT deductions. There were concerns that, due to the excessive priority attached to early achievement of a balanced budget, tax policies like the 70 percent input VAT cap that could easily ensure a certain amount of fiscal revenue tended to be implemented without accomplishing serious and comprehensive tax reforms.

### ***Monetary Policy Tightened***

Monetary policy shifted toward a tighter policy. The inflation rate had been exceeding the 2005 target range of 5.0 percent to 6.0 percent from the beginning of the year. Therefore, the Bangko Sentral ng Pilipinas

(BSP), the central bank, raised the policy rate by 25 basis points in April, September, and October, resulting in an overnight borrowing rate of 7.50 percent. Moreover, the overall reserve requirement was raised by 2 percentage points to 21 percent. Behind these decisions were the hike in the US federal funds rate and anticipation of foreign exchange fluctuations which may have been caused by unstable political conditions as well as inflationary pressure from soaring oil prices and increases in the money supply. In particular, the rate hike in October was implemented immediately following the decision on the constitutionality of the Expanded Value-Added Tax Act. The BSP raised rates in order to contain expectations of higher inflation due to the enactment of this law. The trends in inflation were as mentioned above, and the BSP attributed the cause of inflation solely to the supply side, not to the overheating of the demand side, namely consumption.

The money supply (domestic liquidity M3) showed high growth throughout the year due to a surge in remittances from overseas Filipino workers. In some months, money supply growth exceeded the indicative program of 13 percent, and that was also a reason for monetary tightening.

It deserves special mention that remittances from overseas Filipino workers topped US\$10 billion in 2005 to total US\$10.7 billion, a 25 percent increase from the previous year (Table 12.2). By region, almost 60 percent of the remittances were from the United States, followed by Europe (13 percent), Middle East (13 percent), and Asia (11 percent). One cause of the surge in remittances was the increase in the number of workers going overseas, but it is also attributed to the increase in high-income earners with specialized skills, such as doctors, nurses, and engineers, together with the fact that more remittances were sent through the official route of financial institutions.

### ***Privatization of the Electric Power Industry Further Delayed***

Privatization of the electric power industry in the Philippines is being implemented under the Electric Power Industry Reform Act of 2001. However, only marginal progress was seen in 2005. In the original plan, the Wholesale Electricity Spot Market (WESM) was supposed to start operations in January 2006, on the precondition of privatization of 70 percent of the generating assets of the National Power Corporation. Nevertheless, only 6 of the 31 power plants scheduled for sale had actually been sold. In addition, not one sale was completed during 2005. In June, the government put up for auction the coal-fired Calaca Power Plant

Table 12.2. Overseas Filipino Workers' Remittances by Region

	(US\$ million)					
	2000	2001	2002	2003	2004	2005
Total	6,050.5	6,031.3	6,886.2	7,578.5	8,550.4	10,689.0
Americas	4,000.0	3,300.3	3,537.8	4,370.7	5,023.8	6,605.2
Europe	534.7	406.2	889.1	1,040.6	1,286.1	1,433.9
Middle East	594.2	711.9	1,242.8	1,166.4	1,232.1	1,417.5
Asia	831.8	1,049.6	1,116.3	894.3	918.3	1,172.4
Oceania	21.4	21.2	34.8	44.5	42.6	54.6
Africa	4.5	3.6	4.0	11.4	3.4	4.5
Others	64.0	538.5	61.4	50.7	44.0	0.9

Source: BSP website.

Note: In 2005, 97% of remittances from Americas is from the United States.

(600 MW) in Batangas Province, but of the three companies that offered bids, two withdrew immediately before the bidding, and so the auction was declared failure. The main reason for the companies' withdrawal seemed to have been that the plant did not have a power supply contract with distribution utilities attached to the sale. According to the law, supply contracts are permitted between power generators and distribution utilities for a specified period of time to allow for active entry of private investors and for stable supply of electricity to consumers (provided, however, that distribution utilities procure 10 percent of the purchased electricity from the WESM). The Energy Regulatory Commission (ERC) is also calling for the early conclusion of supply contracts. However, it is said that some distribution utilities are hesitating to conclude such contracts because future demand for electric power is not certain. One good example is the failure of the National Power Corporation and Meralco to reach agreement on a supply contract. On the other hand, prospective investors in the power generation business are having second thoughts due to the large risk posed by the lack of a supply contract. For these reasons, sale of generating assets is greatly behind schedule.

In continuation from 2004, adjustments in electricity rates persisted in an effort to produce a rate system consistent with the costs involved. However, there were cases where the Energy Regulatory Commission and judicial rulings obstructed the rate setting, and this is another possible reason for the flight by prospective investors. Moreover, because the Expanded Value-Added Tax Act which took effect in November levied a value-added tax on sales of electric power as well, close attention is being paid to its effects on electricity rates.

The privatization of National Transmission Corporation (Transco) has been left unresolved likewise. According to the president of Transco's parent company, Power Sector Assets and Liabilities Management Corporation (PSALM), the deadline was approaching to determine Transco's maximum allowable revenue, and there was no prospect of selling until that was settled. It could be said that the Philippine government may need to review the whole privatization plan for the electric power industry.

### *Renationalization of Some Infrastructure Projects*

Among the infrastructure projects financed by private capital during the 1990s, there are some that have been seized by the government. One of those is the Ninoy Aquino International Airport Terminal 3 (NAIA3). In early January 2005, the Pasay City Regional Trial Court issued an order allowing the expropriation of NAIA3 on the condition that the government makes an immediate payment of US\$62.34 million to Philippine International Air Terminal Corporation (PIATCo), the consortium that built the terminal, as an initial compensation. In response to this order, the Supreme Court issued a temporary restraining order, but in December, the court finally handed down a decision that upheld the decision of Pasay City Regional Trial Court. In regard to this case, however, the Foreign Chambers of Commerce is demanding adequate compensation to all companies involved in the construction, and so the final amount of compensation is still undetermined. Incidentally, Fraport AG, a German partner and a major shareholder of PIATCo, has sued the Philippine government before the World Bank's International Center for the Settlement of Investment Disputes, insisting that Philippine government should pay US\$425 million in lost investments for the expropriation of the terminal. In parallel with this kind of movement, in February the Office of the Ombudsman filed graft charges against executives of PIATCo, former officials of the Department of Transportation and Communication, and top management of the Manila International Airport Authority for allegedly concluding an anomalous contract to build NAIA3. However, the president of PIATCo repudiated the charges, and the inquiry is making no progress.

In water projects, the rehabilitation plan of Maynilad Water Services, Inc. (MWSI), which declared at the end of 2002 that the water concession for the west zone of Metropolitan Manila be returned to the government, finally took shape in mid-2005. The plan called for the parent

company, Benpres Holdings Corporation of the Lopez Group, to completely divest, and the Metropolitan Waterworks and Sewerage System (MWSS), which ordered the project, to acquire nearly 80 percent of the shares, thereby renationalizing MWSI. Maynilad was reported to have 18 billion pesos worth of unpaid debts, and it is estimated that seven to eight years will be required to repay them. MWSS, which became the major shareholder, will operate Maynilad with a view to reprivatizing following the rehabilitation.

Likewise, the government plans to take over Metro Rail Transit 3 (MRT3) from its private developer and owner due to losses. Currently, the government is reportedly subsidizing US\$3.5 million per month in order to keep fares low. It seems that a buyout would ultimately be less expensive for the government than continuing with the subsidies. However, because budget deliberations for FY2006 are behind schedule, it is not known whether the funds for the buyout will be available.

In addition, there is the case of a road project which was supposed to have been implemented by a joint venture of private and government-owned companies, but five years have passed with almost no progress being made. Moreover, the construction of the above-mentioned Ninoy Aquino International Airport Terminal 3 was started 10 years ago, in 1996, but it still has not opened. There is concern that these cases will produce a negative image of the investment climate in the Philippines.

### *Corporate Trends*

In March 2005, two major companies conducted initial public offerings one after the other. One was the Manila Water Co., Inc., of the Ayala Group which is the concessionaire of the east zone of Metropolitan Manila. In contrast to Maynilad Water Services, Inc., which is going through rehabilitation, the business performance of Manila Water Co., Inc., is satisfactory, and steady corporate efforts have produced results, decreasing the level of non-revenue water from 63 percent to 43 percent during the seven years from the start of operations in 1997. This public offering raised net proceeds of approximately 3.4 billion pesos from the market.

The other company is SM Investments Corp., the holding company of the Sy Group which is involved in retail trading, property development, and banking. Their public offering was the largest in the history of the Philippines, raising US\$528 million (approximately 29 billion pesos) from the market. In addition to the two above companies, First

Generation Holdings Corporation, which manages the electric power business of the Lopez Group, is scheduled to be listed early in 2006.

The largest food company, San Miguel Corporation, is aggressively expanding its business. The Japanese company, Kirin Brewery Co. Ltd., increased its holdings of San Miguel shares from 15 percent to 20 percent, and in March 2005, San Miguel itself undertook a capital increase. Subsequently, San Miguel took control of the Australian dairy producer, National Foods, and Berri Ltd., a company known for its fruit juice, as well as the Singaporean company King's Creameries Ptd., Ltd, which is known for ice cream, joined the corporate group. San Miguel Corp. together with Campos Group also succeeded in purchasing Del Monte Pacific, Ltd., further expanding its manufacturing base in the Asia-Pacific region.

Meanwhile, activity was also visible in the banking sector. The Bank of the Philippine Islands (BPI), an affiliate of the Ayala Group, decided to merge with Prudential Bank. BPI ranked second in the sector with 468 billion pesos in assets, and Prudential Bank ranked eighteenth with 58 billion pesos in assets.

Banco de Oro (ranked seventh) of the above-mentioned Sy Group, which had already acquired 70 percent of the share of China Bank (ranked ninth), also acquired operation rights for 66 branches of the Singaporean bank, United Overseas Bank. Banco de Oro also purchased shares of the Equitable PCI Bank (ranked third) from the Go Family who was the founder and the manager, thereby increasing its shareholdings to 27 percent. Subsequently in January 2006, Banco de Oro proposed a merger with Equitable PCI Bank. These movements in the banking sector were due in part to the fact that new international accounting standards were being applied by December 2005 and the fact that the BSP had been instructing banks to observe Basel II (new BIS regulations) by the year 2007. For these reasons, it is likely that bank mergers and acquisitions may continue in the future. Meanwhile, the percentage of nonperforming loans held by all commercial banks in the Philippines was 9.1 percent as of September.

The Philippine National Bank (PNB, ranked sixth) which the government renationalized through the Philippine Deposit Insurance Corporation (PDIC) was once again privatized. In August, the combined PNB share of 67 percent that was held by both PDIC and major shareholder Lucio Tan Group was sold together. The simultaneous sale by the two parties was agreed upon in a joint sale agreement in 2002. Union

Bank and the Lucio Tan Group participated in the auction, and in the end, the latter was the purchaser, putting Tan's shareholdings at 77 percent. PNB, which was originally a government-owned bank, was privatized once to Lucio Tan, but in 2000 it was renationalized due the liquidity crisis through a capital infusion by the PDIC and BSP. Following this recent reprivatization, the government still owned 12.5 percent.

## FOREIGN RELATIONS

### *The United States Seeks Stronger Counter-terrorism Measures*

The Philippines, which withdrew its 51-member peacekeeping forces from Iraq in August 2004 due to the kidnapping of overseas Filipino workers there, has continued to state to the world that there has been no alteration of its anti-terror stance. This state of affairs also lies behind its strengthening of offensives against Abu Sayyaf, the Islamic extremist group in Mindanao. The United States basically supports this stance of the Philippine government. The two countries' joint military exercises were held in 2005 as usual, including Balikatan 2005 in February, with participation of approximately 950 troops from both countries, and another in October with participation of approximately 5,000 troops from both sides. In addition, several dozen US troops are reported to be assisting the intelligence activities of the Philippine's Armed Forces Southern Command in Mindanao. However in 2005, high-ranking officials of the US government and the US Embassy in the Philippines pointed out an alleged connection between a group of the MILF and Jemaah Islamiyah and also stated that they perceived Mindanao as becoming a new base of terrorist activities in Southeast Asia. It appeared that the United States desired further strengthening of counter-terrorism measures on the part of the Philippines, one of which was to enact an Anti-terrorism Law. President Arroyo, too, requested the Congress to speed up the passage of the law, but it was not realized during 2005.

In November, a Filipina was allegedly raped by six US Marines who participated in the military exercises at Subic Bay Freeport. The Olongapo City prosecutor demanded custody of the accused Marines, but the United States refused. Due to this incident, the 1999 Visiting Forces Agreement came to be questioned. The Legislative Oversight Committee on the Visiting Forces Agreement adopted a resolution in January 2006 demand-

ing that the joint military exercises be temporarily halted until revisions in the agreement were made and the rape case was resolved. There were some opinions that the sovereignty of the Philippines was being disrespected. Further development on this matter remains to be seen.

### *Relations with the Other Countries*

Looking at relations with China, Chinese President Hu Jintao visited the Philippines in April. With President Arroyo, he witnessed the signing of 14 business agreements (totaling US\$1.6 billion), and both governments agreed to start an Early Harvest Program under the ASEAN-China Free Trade Agreement. Henceforth, further increases in the investment and trade between the two countries are anticipated. Moreover, both parties also agreed to start bilateral dialogue to explore possible cooperation on maritime security and disaster coordination.

In addition, the Philippines has started to undertake joint oil exploration together with China and Vietnam in the South China Sea. The Philippine National Oil Company formally signed a three-year plan for joint marine study with state-owned companies of China and Vietnam. The ocean area involved includes waters around Spratly Islands, which are the subject of a territorial dispute. In 2004, the Philippines was pursuing a plan to conduct a joint exploration project with China alone, but since Vietnam reacted negatively, it became a joint project by the three countries. The Philippine government maintains that the multilateral project will contribute to confidence building among the nations and to the promotion of regional peace and stability in this area.

For the Philippines, with an increasing number of overseas Filipino workers, there are cases where securing employment opportunities abroad becomes a diplomatic issue. For example, negotiations on JPEPA are still ongoing, with employment of Filipino nurses and caregivers as one of the issues of concern. Also, when Japan decided to impose stricter regulations on acquisition of entertainers' visas to prevent human trafficking, the Philippine government sent Foreign Affairs Secretary Alberto Romulo to Japan to formally request the deferment of implementation. Moreover, when there was a crackdown on undocumented foreign workers in Sabah, Malaysia, it is said that at least 60,000 Filipino workers were affected. The Philippines sent senior officials from the Department of Foreign Affairs and the Department of Labor and Employment to Malaysia and arranged for possible reentry for those who went through certain procedures.

There are also some cases of overseas Filipino workers being involved in serious incidents. In Iraq, where the Philippine government has issued a ban on deployment of workers, a number of Filipino workers were reported killed or injured in attacks. Meanwhile, Robert Tarongoy, an accountant who was held hostage in Iraq for seven months, was finally released in June. It is said that there were about 6,000 Filipino workers working in Iraq at US military installations. However, there is less information concerning Filipino workers entering Iraq through illegal channels. Ensuring the security of Filipinos abroad is becoming a major issue.

## ISSUES IN 2006

On February 24, 2006, President Arroyo declared a State of National Emergency on the grounds that there was a coup attempt within the military. The declaration was lifted one week later, but in the unfolding of events, it became clear that the military was not necessarily a solid force. It may be said that this will certainly continue to be a veiled threat for the Arroyo administration in the future. In addition, joining together of anti-Arroyo groups, particularly the political opposition and the extreme-left, is considered to be a danger to the safety and integrity of the Philippine State. It is likely that pressure from such forces may also continue in the future. Moreover, the hard-line political stance of President Arroyo displayed since 2005 has won her a bad reputation among the people. For the president, therefore, the key issue is likely to be how to regain trust in 2006. The focuses of attention are likely to be on whether the alleged scandals which caused the decline in trust are resolved and on the development of constitutional change that President Arroyo herself raised as a political issue.

In the economy, fiscal reform may continue to be an issue. Tax reform is still at the halfway stage. It is also necessary to engage seriously in improving the investment climate. In particular, the key to strengthening the competitiveness of the Philippines is likely to be better quality in education and infrastructure. Improvement of the fiscal balance should not be used to extend the life of the administration, but rather it should be efficiently allocated for the future development.

## IMPORTANT DATES IN 2005

### *January*

- 5–6: President Gloria Macapagal-Arroyo visited Indonesia to attend the ASEAN special summit.
- 5–7: Congress held special sessions on the budget bill and the tax bill at the request of President Arroyo.
- 9: The Moro Islamic Liberation Front (MILF) attacked a military outpost in Maguindanao Province. Eight troops and 13 MILF members were killed.
- 14: The Supreme Court issued a temporary restraining order on the expropriation of the Ninoy Aquino International Airport Terminal 3 by the government, which was ordered by the Pasay City Regional Trial Court to pay initial compensation to the Philippine International Air Terminal Corporation (PIATCo).
- 15: Former President Joseph Estrada returned from Hong Kong, where he had been staying for medical treatment.
- 25: President Arroyo signed the Attrition Act of 2005 (RA9335).
- 27: The Armed Forces of the Philippines (AFP) air bombed what was believed to be a meeting point of leaders of Abu Sayyaf and Jemaah Islamiyah in Maguindanao Province.

### *February*

- 1: The Supreme Court issued a final decision upholding the constitutionality of the Mining Act (RA7942).
- 7: A faction of the Moro National Liberation Front (MNLF) and Abu Sayyaf attacked a military outpost in Sulu Province. In the hostilities which lasted 10 days, 25 soldiers and more than 50 guerillas were killed. More than 25,000 residents fled.
- 9: President Arroyo replaced Public Works and Highways Secretary Florante M. Soriquez due to charges of corruption. She appointed as his successor National Security Adviser Hermogenes E. Ebdane, Jr. As the new national security adviser, she appointed Presidential Chief of Staff Norberto B. Gonzales.
- 14: Simultaneous bombings occurred in Metro Manila, Davao City, and General Santos City. Eight were killed and more than 130 were injured. Abu Sayyaf issued a statement taking responsibility.
- 15: Following the resignation of Finance Secretary Juanita D. Amatong, President Arroyo appointed as her successor Trade Secretary Cesar Purisima and appointed Nestle Philippines chairman Juan B. Santos as the new trade secretary.
- 21–March 6: Balikatan 2005, the joint military exercises by the Philippines and the United States, began in Laguna and Quezon provinces. A total of 950 soldiers from both sides took part.

### *March*

- 7–8: The Philippine Development Forum was held in Davao City.
- 14: President Arroyo appointed PNP Deputy Director General Arturo C. Lomibao to succeed the retired Philippine National Police Director General Edgar B. Aglipay.  
- Abu Sayyaf members, attempting to escape from the jail in Taguig City, temporarily took control of the jail after shooting dead three jail guards. The police stormed in, resulting in a total of 22 killed, including 1 police officer and 3 Abu Sayyaf leaders.
- 15: President Arroyo signed 2005 General Appropriation Act (RA9336), which totaled approximately 907.5 billion pesos.
- 21: Following the resignation of Energy Secretary Vince S. Perez, Jr., President Arroyo appointed as his successor Power Sector Assets and Liabilities Management Corp. (PSALM) president Raphael M. Lotilla.
- 23: The AFP announced that it arrested, in Maguindanao Province, an Indonesian named Rohmat, a member of Jemaah Islamiyah, who is said to have led the February 14 simultaneous bombing incident.
- 30–April 1: Congress held special sessions on the Expanded Value-Added Tax Bill at the request of President Arroyo.

### *April*

- 3–8: The 112th Inter-Parliamentary Union Assembly was held in Manila. A total of 700 persons from 145 countries participated.
- 4–May 31: The government initiated a four-day work week at some central government offices as an energy-saving measure.
- 6–9: President Arroyo visited the Vatican to attend the funeral of Pope John Paul II.
- 7: The Bangko Sentral ng Pilipinas (BSP), the central bank, raised the policy rate by 0.25 percentage point. The overnight borrowing rate was set at 7.0 percent.
- 18–20: The government held exploratory peace talks with the MILF in Kuala Lumpur.  
- The public transportation sector held a nationwide strike to protest the oil price hike.
- 18–20: Pakistani President Pervez Musharraf visited.
- 21: President Arroyo visited Indonesia to attend the Asian-African Business Summit.
- 26–28: Chinese President Hu Jintao visited. On April 27, he witnessed the signing of business agreements worth US\$1.6 billion. Both governments agreed to start the ASEAN-China Early Harvest Program.
- 27: Presidential Commission on Good Government Chairperson Haydee B. Yorac resigned. Commissioner Camilo L. Sabio was promoted to be her successor. Yorac died on September 13.

## May

- 9: The Land Transportation Franchising and Regulatory Board approved a hike in the initial fares of jeepneys and buses (of approximately two pesos), to be implemented from June 21.
- 11: A court-martial decided on the conditional release of some of the 184 soldiers involved in the 2003 Oakwood Mutiny.
- 24: President Arroyo signed the Expanded Value-Added Tax Act of 2005 (RA9337), which was to take effect from July 1.
- 27: Japanese Embassy staff in Manila visited General Santos City to check information on a surviving Japanese soldier missing since WWII, but unable to confirm the information, left on May 30.
- 30: A minimum wage increase of 25 pesos was approved by the National Capital Region's Regional Tripartite Wages and Productivity Board, to 275 pesos, effective June 16.
- 31: Following the resignation of Health Secretary Manuel M. Dayrit, President Arroyo appointed as his successor Philippine Health Insurance Corp. president Francisco T. Duque III.

## June

- 6: Press Secretary Ignacio R. Bunye released tapes containing a wiretapped conversation allegedly between President Arroyo and Election Commissioner Virgilio O. Garcillano.
- 9: Press Secretary Bunye retracted his early statements and said that the voice on the tape was not President Arroyo.
  - Sandra Cam testified at a Senate hearing on illegal gambling (Jueteng) that she handed payoffs to President Arroyo's eldest son and to her brother-in-law, who were both congressional representatives.
- 10: Samuel Ong, former deputy chief of the National Bureau of Investigation, disappeared after announcing that he possessed the "mother of all tapes."
- 11: President Arroyo's eldest son, Rep. Juan Miguel "Mikey" Arroyo, took a voluntary leave of absence.
- 13: The New People's Army (NPA) attacked the AFP which was preparing security for a victory commemoration in Ilocos Sur Province. Nine soldiers were killed.
- 16: The Bureau of Internal Revenue indicted Agriculture Secretary Arthur C. Yap on charges of tax evasion. Yap announced his resignation on June 30.
- 20: President Arroyo visited Hong Kong to promote investment in the Philippines (one-day trip).
- 20–21: Indonesian President Susilo Bambang Yudhoyono visited.
- 20–22: Gambian President Alhaji Dr. Yahya A.J.J. Jammeh visited.
- 21: Jaime Cardinal Sin, a leading figure in the 1986 People Power I, died at age 76.

- 22: Robert Tarongoy, an accountant who was taken hostage in Iraq, was released after approximately seven months.
- 27: President Arroyo admitted that it was her voice on the wiretapping tape and apologized to the nation. Following this, suspicion increased of alleged manipulation of the election results.
- 30: President Arroyo's husband, First Gentleman Jose Miguel "Mike" Arroyo, left for Hong Kong to avoid criticism arising from the Jueteng scandal.

### *July*

- 1: The Supreme Court issued a temporary restraining order on the Expanded Value-Added Tax Act which had just been enforced that day.
- 4: Following the expiration of the term of Bangko Sentral ng Pilipinas Governor Rafael V. Buenaventura, Deputy Governor Amando M. Tetangco, Jr., was promoted as his successor.
- 5–6: Polish Prime Minister Marek Belka visited.
- 7: President Arroyo, amidst increasing demands for her to step down, announced that she would not resign and called for cabinet members to tender their resignations for the reshuffling.
- 8: Ten senior officials of the administration resigned, including Finance Secretary Cesar Purisima and Trade Secretary Juan Santos. President Arroyo was pressed to resign.
- 10: The Catholic Bishops Conference of the Philippines issued a statement saying it did not request President Arroyo's resignation.
- 12: President Arroyo appointed Land Bank of the Philippines president Margarito "Gary" Teves as finance secretary.
- 13: A protest rally was held in the business district of Makati City to demand President Arroyo's resignation.
- 14: President Arroyo appointed NEDA Director General Romulo Neri as budget secretary, also appointed Philippine Stock Exchange chairman Peter Favila as trade secretary, and NEDA Deputy Director General Augusto Santos as NEDA director general.
- 25: The second regular session of the 13th Congress began. President Arroyo presented a State of the Nation Address in the Congress.
  - Franklin Drilon was reappointed as the senate president, and Jose de Venecia, Jr., as the House Speaker.
  - In the House of Representatives, 42 opposition party members signed an impeachment complaint, the third such complaint submitted by the House.

### *August*

- 3: The government notified the National Democratic Front (NDF), which had unilaterally declared a halt to the peace negotiations, that the Joint Agreement on Safety and Immunity Guarantees (JASIG) would be abrogated after a month.

- The House of Representatives asked the police to arrest Election Commissioner Virgilio O. Garcillano, whose whereabouts were unknown, so that he could be summoned.
- 8: Elections were held in the Autonomous Region in Muslim Mindanao (ARMM).
- 10: Bombs exploded in two locations in Zamboanga City, injuring at least 26 people.
- 12: The Philippine Deposit Insurance Corporation together with the Lucio Tan Group put up its Philippine National Bank stock for sale. This amounted to 67 percent of all Philippine National Bank shares.
- 15: President Arroyo appointed Army Commander Generoso Senga to succeed Armed Forces of the Philippines Chief of Staff Efren Abu, who retired.
- 21: President Arroyo established the Consultative Commission on constitutional change (EO453). As chairperson, Dr. Jose Abueva, former president of the University of the Philippines, was appointed.
- 24: President Arroyo submitted the 2006 General Appropriation Act to Congress. Total appropriations amounted to approximately 1.5 trillion pesos.
- 28: A bomb exploded on the ferry MV Dona Ramona off the coast of Basilan, injuring 28 persons.
- 31: The House Justice Committee decided that, of the three impeachment complaints, the one first submitted was sufficient in form. Subsequently, that complaint was dismissed.

## **September**

- 1: The Supreme Court upheld the constitutionality of the Expanded Value-Added Tax Act. However, the temporary restraining order was not lifted until the final decision.
- 6: The House of Representatives ultimately decided to dismiss the impeachment complaint in the plenary which had continued through the night since the previous day.
- 12–18: President Arroyo visited the United States to attend the UN General Assembly.
- 21: The Senate ordered that National Security Adviser Norberto Gonzales be taken into custody because he remained silent when summoned to testify concerning the contract with the US lobby firm Venable LLP which he signed.
  - In a reversal of her tolerant stance, the President Arroyo instructed the police to adopt the “rule of calibrated preemptive response in lieu of maximum tolerance,” which meant tougher measures would be taken against street protests without permits.
- 22: The BSP raised the policy rates by 0.25 percentage point. The overnight borrowing rate was set at 7.25 percent.

- 28: President Arroyo issued an order to senior officials of the administration, including the military and the police, to obtain president's clearance before testifying in Congress (EO464).

### *October*

- 4: The Supreme Court ordered the release of National Security Adviser Norberto Gonzales who was being held in custody by the Senate (and who was hospitalized for high blood pressure at the time). He was released on October 26.
- 5: The government decided to abrogate the JASIG, suspending the special immunity of 97 members of NDF who would not resume peace negotiations.
- 9: The NPA attacked soldiers bound for the market in Misamis Occidental Province. Five soldiers and four citizens were killed.
- 14–November 1: US-Philippines joint military exercises took place. Approximately five thousand persons from both sides participated.
- 18: The Supreme Court issued its final decision on the constitutionality of the Expanded Value-Added Tax Act. The act was to be implemented starting November 1.
- 20: President Arroyo attended the funeral of the wife of Malaysian Prime Minister Abdullah (one-day trip).  
- The BSP raised the policy rates by 0.25 percentage point. The overnight borrowing rate was set at 7.50 percent.

### *November*

- 7: Rep. Juan Miguel “Mikey” Arroyo, President Arroyo’s eldest son who had been on leave of absence, returned to work.
- 8: The Olongapo City prosecutor issued a subpoena requesting the United States to hand over the six suspects in the case of a rape of a Filipina by US Marines on November 1.
- 14: The AFP announced that 4 soldiers and 20 guerillas were killed in hostilities with Abu Sayyaf which began on November 11 in Sulu Province.
- 17–21: President Arroyo visited South Korea to attend an APEC meeting and then visited Hong Kong.
- 19: A landmine planted by the NPA exploded in Iloilo Province, killing nine soldiers. Including hostilities in other provinces, a total of 18 soldiers were killed up to November 29.
- 23: Reynaldo G. Wycoco, National Bureau of Investigation Director, collapsed due to a cerebral infarction. He died on December 19.
- 27–December 5: The 23rd Southeast Asian Games were held.
- 29: US Marines suspected in a rape incident denied the charges through an attorney.  
- The House of Representatives passed a resolution calling for the current Congress to convene as a constituent assembly.

## December

- 1: Jaro Archbishop Angel Lagdameo assumed the post as the president of the Catholic Bishops Conference of the Philippines.
- 2: A Court Martial sentenced former Maj. Gen. Carlos Garcia, who falsely reported illegally obtained wealth, to two years in prison and dishonorable discharge.
- 7: Former Election Commissioner Virgilio O. Garcillano, whose whereabouts were unknown for five months, finally made an appearance at the congressional inquiry.
  - Car bombs planted in three locations across Metropolitan Manila exploded, injuring none.
- 11–14: President Arroyo visited Malaysia to attend the ASEAN Summit.
- 13: Former Defense Secretary Fortunato Abat declared the establishment of a revolutionary government at Club Filipino and called on the AFP for its support. He was arrested on December 15 and released on December 16.
- 14: An alleged leader of the 2003 Oakwood Mutiny who was in prison, Marine Captain Nicanor Faeldon, escaped.
- 14–16: South Korean President Roh Moo-hyun visited.
- 15: The Consultative Commission on constitutional change approved a plan that would cancel the 2007 midterm elections and shift to a parliamentary system. The plan was submitted to the president on the following day, December 16.
- 19: The Supreme Court issued a decision upholding the expropriation of the Ninoy Aquino International Airport Terminal 3 by the government, on the condition that it pays 3 billion pesos as an initial compensation to PIATCo.
- 20: Following the retirement of Supreme Court Chief Justice Hilario Davide, President Arroyo appointed as his successor Associate Justice Artemio Panganiban.
  - The Presidential Agrarian Reform Council decided to revoke the stock distribution option of Hacienda Luisita.
- 23: President Arroyo unilaterally declared a ceasefire to the New People's Army (NPA), effective December 24–25 and December 31–January 1.
- 27: The Olongapo City Prosecutor indicted four US Marines suspected of rape.
- 29: The AFP announced the sending of 320 troops as UN peacekeepers to Liberia and Haiti.
- 30: Judge Henrick Gingoyon of the Pasay City Regional Trial Court who issued the decision in the PIATCo case in January was shot and killed by an unidentified assailant.

## APPENDIX 12.1: LIST OF MAIN GOVERNMENT OFFICIALS (as of December 31, 2005)

### EXECUTIVE BRANCH

*President:* Gloria Macapagal-Arroyo

*Vice-President* (Chairman of Housing and Urban Development Coordinating Council, Co-Chairman of National Anti-Poverty Commission, Presidential Adviser on OFW's): Noli de Castro

### OFFICE OF THE PRESIDENT

*Executive Secretary:* Eduardo R. Ermita

*Press Secretary and Presidential Spokesperson:* Ignacio R. Bunye

*Chief of Staff:* Tomas Alcantara

*Presidential Management Staff, Chief:* Rigoberto D. Tiglao

*Presidential Legislative Liaison Office:* Catherine Bello

*Presidential Adviser on National Securities:* Norberto B. Gonzales

*Presidential Adviser for Political Affairs:* Gabriel S. Claudio

*Presidential Adviser on the Peace Process:* Rene V. Sarmiento

*Presidential Adviser for Revenue Enhancement:* Narciso Y. Santiago, Jr.

*Presidential Adviser on Job Creation:* Arthur Yap

*Presidential Commission on Good Government, Chairman:* Camilo L. Sabio

*Presidential Anti-Graft Commission, Chairperson:* Constanca de Guzman

*National Anti-Poverty Commission, Chairman:* Datu Zamzamin L. Ampatuan

*Metropolitan Manila Development Authority, Chairman:* Bayani F. Fernando

*Mindanao Economic Development Council, Chairman:* Jesus G. Dureza

### DEPARTMENT SECRETARIES

*Department of Foreign Affairs:* Alberto G. Romulo

*Department of Finance:* Margarito B. Teves

*Department of Budget and Management:* Romulo L. Neri

*Department of Interior and Local Government:* Angelo T. Reyes

*Department of National Defense:* Avelino Cruz, Jr.

*Department of Justice:* Raul M. Gonzales

*Department of Agrarian Reform (Acting Secretary):* Nasser C. Pangandaman

*Department of Agriculture:* Domingo F. Panganiban

*Department of Environment and Natural Resources:* Michael T. Defensor

*Department of Tourism:* Joseph H. Durano

*Department of Trade and Industry:* Peter B. Favila

*Department of Transportation and Communication:* Leandro R. Mendoza

*Department of Public Works and Highways:* Hermogenes E. Ebdane, Jr.

*Department of Energy:* Raphael P. M. Lotilla

*Department of Social Welfare and Development (Acting Secretary):* Luwalhati F. Pablo

*Department of Health:* Francisco T. Duque III

*Department of Labor and Employment:* Patricia A. Sto. Tomas

*Department of Education (Acting Secretary):* Fe. A. Hidalgo

*Department of Science and Technology:* Estrella F. Alabastro

*National Economic Development Authority:* Augusto B. Santos

## **OTHERS**

*Armed Forces of the Philippines, Chief of Staff:* Generoso S. Senga

*Philippine National Police, Chief:* Arturo C. Lomibao

*Solicitor General:* Alfredo L. Benipayo

*National Bureau of Investigation, Director (Acting):* Nestor M. Mantaring

*Bangko Sentral ng Pilipinas, Governor:* Amando M. Tetangco, Jr.

*Securities and Exchange Commission, Chairman:* Fe B. Barin

*Energy Regulatory Commission, Chairman:* Rodolfo B. Albano

## **CONSTITUTIONAL OFFICES**

*Office of the Ombudsman:* Merceditas N. Gutierrez

*Commission on Human Rights, Chairperson:* Purificacion C. Valera Quisumbing

*Civil Service Commission, Chairperson:* Karina C. David

*Commission on Elections, Chairman:* Benjamin S. Abalos, Sr.

*Commission on Audit, Chairman:* Guillermo N. Carague

## **LEGISLATIVE BRANCH**

### **<Senate>**

*President:* Franklin M. Dilon

*President Pro-Tempore:* Juan M. Flavier

*Majority Floor Leader:* Francis N. Pangilinan

*Minority Floor Leader:* Aquilino Q. Pimentel, Jr.

**<House of Representatives>**

*Speaker:* Jose de Venecia, Jr.

*Deputy Speakers:* Emilio R. Espinosa, Jr., Raul V. Del Mar, Gerry Ajul Salapuddin, Benigno Simeon C. Aquino III

*Majority Floor Leader:* Prospero C. Nograles

*Minority Floor Leader:* Francis G. Escudero

**JUDICIAL BRANCH**

*Supreme Court, Chief Justice:* Artemio V. Panganiban

*Sandiganbayan, Presiding Justice:* Teresita de Castro

## APPENDIX 12.2: MAJOR STATISTICS

### 1. General

	1999	2000	2001	2002	2003	2004	2005
Population (million persons)	74.75	76.35	77.93	79.50	81.08	82.66	84.24
Total labor force (million persons)	32.00	30.91	33.36	33.67	35.12	35.62	36.64
Inflation rate (%)	5.9	4.0	6.8	3.0	3.5	6.0	7.6
Unemployment rates (%)	9.4	10.1	9.8	10.2	10.2	10.9	7.4
Exchange rates (US\$1 = pesos)	39.089	44.194	50.993	51.604	54.203	56.040	55.085

*Sources:* National Statistical Coordination Board (NSCB), National Statistics Office (NSO), and Bangko Sentral ng Pilipinas (BSP).

*Note:* Population is projected at medium assumption using 1995 Population Census count as a base. Total Labor Force and Unemployment Rates were taken from the October round of the Labor Force Survey. A new definition of Unemployment Rate is used starting in 2005. Under the old definition used until 2004, the 2005 Unemployment Rate would be 10.3%. Inflation Rate refers to the year-on-year change in the Consumer Price Index (year 2000 =100).

### 2. Gross National Product by Type of Expenditure (at current prices)

	1999	2000	2001	2002	2003	2004	2005
Consumption expenditures	2,550,883	2,774,393	3,009,856	3,207,898	3,465,651	3,838,795	4,297,676
Government	389,238	438,858	444,834	456,904	477,411	494,575	524,351
Personal	2,161,645	2,335,535	2,565,022	2,750,994	2,988,240	3,344,220	3,773,325
Capital formation	558,251	710,073	689,048	700,218	715,236	825,361	846,670
Fixed capital	568,249	710,489	651,290	698,106	715,492	797,874	832,178
Changes in stocks	-9,998	-416	37,758	2,112	-256	27,487	14,492
Export of goods and services	1,532,160	1,858,576	1,785,232	1,991,332	2,125,368	2,440,954	2,496,562
Import of goods and services	1,527,418	1,794,717	1,899,385	2,010,484	2,212,677	2,413,489	2,533,873
Statistical discrepancy	-136,972	-193,598	46,723	74,908	199,448	134,722	272,214
Gross domestic product (GDP)	2,976,905	3,354,727	3,631,474	3,963,873	4,293,026	4,826,343	5,379,249
GDP growth	3.4	4.4	1.8	4.4	4.5	6.0	5.1
Net factor income from abroad	159,264	211,332	245,129	255,010	298,417	341,232	416,440
Gross national product (GNP)	3,136,169	3,566,059	3,876,603	4,218,883	4,591,443	5,167,575	5,795,689

*Source:* NSCB.

*Note:* GDP growth is based on real GDP.

### 3. Gross Domestic Product by Industries (at constant 1985 prices)

	(Million pesos)						
	1999	2000	2001	2002	2003	2004	2005
Agriculture, fishery & forestry	184,464	192,457	199,589	207,480	214,144	224,669	229,152
Mining & quarrying	9,736	10,833	10,125	15,285	17,856	18,325	20,025
Manufacturing	224,667	237,271	244,082	252,553	263,255	276,747	292,177
Construction	50,988	64,377	49,487	47,498	45,579	48,971	51,071
Electricity, gas & water supply	31,259	32,560	32,777	34,172	35,262	36,753	37,668
Transport, communication & storage	61,726	68,174	74,181	80,805	87,745	97,556	104,483
Trade	145,406	152,904	161,487	170,789	180,460	192,691	203,783
Financial services	46,311	46,717	47,293	48,921	52,393	56,816	65,591
Ownership of dwellings & real estate	48,350	48,338	48,119	48,997	50,955	53,654	56,334
Private services	67,582	70,854	73,973	78,032	82,037	87,531	91,478
Government services	47,671	48,475	48,929	49,562	50,986	52,086	52,773
Gross domestic product (GDP)	918,160	972,960	990,042	1,034,094	1,080,672	1,145,799	1,204,535

Source: BSP.

### 4. Balance of Payments

	(US\$ million)						
	1999	2000	2001	2002	2003	2004	2005
Current account	-2,874	-2,225	-1,762	-351	282	1,626	2,354
Goods and services	-7,597	-7,841	-8,553	-7,532	-7,814	-7,461	-8,942
Trade balance	-5,977	-5,971	-6,265	-5,530	-5,851	-5,684	-7,546
Exports	34,243	37,347	31,313	34,403	35,339	38,794	40,231
Imports	40,220	43,318	37,578	39,933	41,190	44,478	47,777
Services	-1,620	-1,870	-2,288	-2,002	-1,963	-1,777	-1,396
Income	-1,061	-27	-69	-499	-290	-73	-107
Current transfers	5,784	5,643	6,860	7,680	8,386	9,160	11,403
Capital and financial account	4,185	3,363	911	1,056	726	-1,630	860
Financial account	4,022	3,225	849	1,029	672	-1,647	820
Direct investment	1,114	2,115	335	1,477	188	109	970
Portfolio investment	3,315	-553	1,027	746	562	-1,665	2,835
Financial derivatives	8	44	-15	-21	-64	-27	-43
Other investment	-415	1,619	-498	-1,173	-14	-64	-2,942
Capital account	163	138	62	27	54	17	40
Net unclassified items	2,280	-1,647	649	105	-893	-276	-807
Overall BOP position	3,591	-509	-202	810	115	-280	2,407

Source: BSP.

Note: Year 2005 is preliminary data. Other data are revised figures as of March 23, 2006.

## 5. Foreign Trade by Country and Area

(US\$ million)

	2002		2003		2004							
	Exports	Imports	Exports	Imports	Exports	Imports						
	%	%	%	%	%	%						
USA	8,683	24.66	9,345	23.82	7,263	20.05	8,989	22.21	7,088	17.86	8,270	18.78
Japan	5,293	15.03	7,551	19.24	5,768	15.92	7,860	19.42	7,982	20.12	7,674	17.43
China	1,356	3.85	1,257	3.20	2,145	5.92	1,815	4.48	2,653	6.69	2,659	6.04
South Korea	1,339	3.80	2,999	7.64	1,314	3.63	2,576	6.37	1,113	2.80	2,740	6.22
Hong Kong	2,359	6.70	1,601	4.08	3,094	8.54	1,622	4.01	3,146	7.93	1,739	3.95
Taiwan	2,485	7.06	2,036	5.19	2,492	6.88	2,030	5.02	2,228	5.61	3,214	7.30
Australia	356	1.01	576	1.47	407	1.12	492	1.22	482	1.21	579	1.31
ASEAN	5,530	15.71	6,180	15.75	6,582	18.17	6,804	16.81	6,838	17.23	8,356	18.97
Indonesia	205	0.58	765	1.95	296	0.82	829	2.05	376	0.95	936	2.13
Malaysia	1,653	4.69	1,491	3.80	2,463	6.80	1,500	3.71	2,070	5.22	1,981	4.50
Singapore	2,472	7.02	2,526	6.44	2,431	6.71	2,737	6.76	2,631	6.63	3,421	7.77
Thailand	1,083	3.08	1,090	2.78	1,234	3.41	1,429	3.53	1,064	2.68	1,572	3.57
Europe	6,428	18.26	3,640	9.28	5,935	16.38	3,889	9.61	6,579	16.58	4,387	9.96
Others	1,379	3.92	4,052	10.33	1,231	3.40	4,394	10.86	1,572	3.96	4,421	10.04
Total	35,208	100	39,237	100	36,231	100	40,471	100	39,681	100	44,039	100

Sources: NSCB, NSO.

Note: ASEAN includes Brunei, Cambodia, Laos, Myanmar, and Viet Nam in addition to the above four countries. Figures for Europe include 22 countries.

