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PHILIPPINES

Key Economic Indicators

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

	1999	2000	2001	1/
Income, Production and Employment:				
Nominal GDP	76.2	74.7	70.7	
Real GDP Growth (pct) 2/	3.4	4.0	2.8	
Nominal GDP by Sector:				
Agriculture	13.1	11.9	10.3	
Manufacturing	16.5	16.9	15.9	
Services	39.8	39.6	38.1	
Government 3/	9.5	9.1	8.3	
Per Capita GDP (actual level, US$)	1,019	977	903	
Labor Force (quarterly ave., 000s)	30,759	30,911	32,500	
Unemployment Rate (quarterly ave., pct)	9.8	11.2	11.1	
Money and Prices (annual percentage growth):				
Money Supply Growth (M2) 4/	19.3	4.8	10.5	
Consumer Price Inflation (pct)	6.7	4.4	6.3	
Exchange Rate (Peso/US$ annual average)				
Interbank Rate	39.09	44.00	51.00	
Balance of Payments and Trade:				
Total Exports FOB 5/	34.2	37.3	31.7	
Exports to United States 6/	12.4	13.9	12.0	
Total Imports FOB 5/	29.2	30.4	29.9	
Imports from United States 6/	7.2	8.8	8.6	
Trade Balance 5/	5.0	6.9	1.8	
Balance with United States 6/	5.2	5.1	3.4	
External Public Sector Debt	34.8	34.4	32.6	8/
Fiscal Deficit/GDP (pct)	–3.7	–4.1	–4.0	
Foreign Debt Service Payments/GDP (pct)	8.3	8.3	9.3	8/
Current Account Balance/GDP (pct)	10.0	12.5	5.5	
Gold and Foreign Exchange Reserves	15.1	15.0	14.0	
Aid from United States (US$ millions) 7/	70.0	59.0	24.0	8/
Aid from Other Bilateral Sources (US$ millions) 7/	173.0	55.0	16.0	8/

1/ Figures for 2001 are full-year estimates based on data available as of October.
2/ Percentage changes based on local currency.
3/ Government construction and services gross value added.
4/ Growth rates of year-end M2 levels.
5/ Merchandise trade (Philippine government data).
6/ Source: U.S. Department of Commerce; U.S. exports FAS, U.S. imports customs basis.
7/ Grants under bilateral agreements; amounts are inflows per balance of payments.
8/ Actual January-June 2001 data; actual public sector external debt as of June 2001.

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

1. General Policy Framework

President Macapagal-Arroyo has made poverty elimination the primary goal of her administration. Achieving that goal will not be easy. Since 1997, the Asian financial crisis, extreme weather disturbances, political uncertainties, poor public sector governance, and a high population growth rate have resulted in a rise in poverty and increasingly inequitable income distribution in the Philippines. The incidence of poverty increased from 36.8 percent in 1997 to 40 percent in 2000, representing a setback from the steady declines recorded since 1988. In 2000, the richest 30 percent of households received more than two-thirds of national income and the poorest 30 percent of households barely eight percent. Population growth has been a significant factor in rising poverty. After years of steady decline, from 3.08 percent per year in the 1960s to 2.32 percent per year for the 1990-1995 period, final 2000 census results estimated the Philippines' annual population expansion at a faster 2.36 percent clip.

Agriculture contributes only 20 percent of GDP but generates 40 percent of Philippine employment. Poverty incidence is much higher in rural areas (54 percent) than in urban areas (25 percent). Electronics, garments, and auto parts are the leading merchandise exports, but rely heavily on imported inputs. Dampened by the global economic crunch, January-August 2001 export receipts have declined by 13 percent year-on-year, led by a 21 percent slump in revenues from electronics shipments. Overseas workers remittances, estimated at $5-6 billion yearly, are a major source of foreign exchange. The balance of payments historically has registered current account surpluses (including those since the Asian crisis) during periods of economic weakness and lethargic import demand, but typically reverts to deficits as economic expansion accelerates. The domestic savings rate is relatively low compared to the rest of Asia, estimated at barely 17 percent of GDP in 2000.

Weak public sector finance has been a long-standing problem merely magnified by the Asian financial crisis. After four consecutive surpluses from 1994-1997, the national government has reverted to deficit spending since 1998, initially as an economic pump-priming measure. The medium-term fiscal program calls for gradually declining deficits starting in 2002, toward a balanced national government budget by 2006. The government perennially has problems containing its fiscal gap because revenues suffer from weak tax administration, while efforts to contain expenditures are hampered by the large share, over 70 percent, of nondiscretionary expenditures such as payroll costs, interest payments and mandated transfers to local government units. The Philippines' tax-to-GDP ratio, among the poorest in the region, peaked at no more than 17.1 percent in 1998 before deteriorating in subsequent years to 13.7 percent in 2000. These fiscal difficulties have made it extremely difficult for the government to address the country's urgent infrastructure, health, and education needs and have complicated government efforts to manage domestic interest rates. While the Macapagal-Arroyo administration's fiscal team deserves praise for its determined efforts thus far to live within tight financial resources, revenue mobilization remains crucial to sustaining a deficit-reduction plan that supports a higher economic growth path and the socioeconomic needs of a growing population.

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

Although subject to opposition from ultra-nationalist groups and vested interests, and their effectiveness tempered by political uncertainty and separatist violence, reforms to make the Philippines a more attractive destination for foreign investment continue to move forward. One important example is the Electric Power Industry Reform Act, which President Macapagal-Arroyo signed into law in June 2001 despite strong opposition from ultra-nationalists, environmental groups, and entrenched economic interests. Culminating a month-long effort of intense lobbying to get legislators and the private sector onboard, President Macapagal-Arroyo signed an anti-money laundering law on the eve of the September 30 Financial Action Task Force deadline for passage of legislation, holding off likely FATF countermeasures. These successes built on legislation passed in 2000 under the Estrada administration, including the General Banking Law, Securities Regulation Code, and the Electronic Commerce Act.

2. Exchange Rate Policy

There are generally no restrictions to the full and immediate transfer of funds associated with import payments, foreign investments (i.e., capital repatriation and profit remittances), foreign debt servicing, and the payment of royalties, lease payments, and similar fees. To obtain foreign exchange from the banking system for such purposes, the Bangko Sentral ng Pilipinas (BSP, the central bank) only specifies certain registration and/or documentation requirements.

The exchange rate is not fixed and varies daily in response to market forces, although the BSP imposes limits on banks' foreign exchange positions. Recent measures in response to speculative currency pressures and excessive foreign exchange volatility included monetary tightening (i.e., adjustments in reserve requirements and a generally cautious domestic interest-rate stance despite successive U.S. rate cuts); a lower over-the-counter ceiling for foreign exchange sales without documentation; expanded coverage of the BSP's Currency Risk Protection Facility (a nondeliverable forward hedging facility first introduced in December 1997 to reduce pressures in the spot market); and occasional liquidity infusions in the interbank foreign exchange market. The depreciation of the peso since the Asian financial crisis, from peso 26/dollar in June 1997 to nearly 51/dollar at present, has hurt the competitiveness of some U.S. exports.

3. Structural Policies

There are few activities closed to private enterprise, generally for reasons of security, health, and public morals. Prices are generally determined by market forces, although basic public services such as transport, water, and electricity are subject to government control or oversight. Government regulation of prices of petroleum products (for example, liquefied petroleum gas, regular gasoline, and kerosene) legally ended in July 1998 with the full deregulation of the oil industry, but the issue remains politically and socially sensitive. In response to public resistance to oil price increases, the government has sometimes stepped in to apply moral suasion on oil companies to limit, delay, or stagger fuel price adjustments, resulting in alleged cost under-recoveries. The government's National Food Authority remains a major factor in the market for rice and other agricultural products.

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

Almost all products, including imports, are subject to a 10 percent Value-Added Tax. Certain products, whether domestically manufactured or imported, are subject to excise tax. Imported manufactured items that are not locally produced generally face low tariffs, while imports that compete with local products face tariffs of up to 30 percent. The Philippines' Tariff Reform Program is gradually lowering applied duty rates on nearly all items toward a goal of zero to five percent tariff rates by 2004, except for sensitive agricultural products.

4. Debt Management Policies

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

According to the most recent quarterly estimates, the Philippines' recorded external debt, based on foreign credits approved or registered with the Bangko Sentral ng Pilipinas, stood at $50.9 billion as of end-June 2001, lower by 2.2 percent ($1.2 billion) from end-2000 and lower by 2.4 percent ($1.3 billion) year-on-year. The decline in the foreign debt stock reflected larger net repayments of foreign obligations, lower commercial bank liabilities, and currency revaluation adjustments. Concessional credits from multilateral and official bilateral lenders accounted for 48 percent of the country's external obligations. As of August 2001, the Bangko Sentral estimated that its gross international reserves equaled 133 percent of outstanding short-term external liabilities (residual maturity basis). Although the foreign debt stock declined, the BSP expects the ratio of debt service payments to merchandise and service exports to spike from 12.4 percent in 2000 to between 16 to 17 percent in 2001 (the highest since 1995)—reflecting a combination of higher debt service outlays and slumping export receipts. These developments suggest vulnerabilities to unexpected reversals in export markets, highlighting the importance of addressing the weak state of government finances and attracting more sustainable, nondebt sources of foreign exchange.

The Philippines had hoped to end over three decades of International Monetary Fund (IMF) supervision in March 1998, but opted for a two-year precautionary arrangement due to the regional currency crisis. The Estrada administration converted this program to a regular $1.4 billion standby arrangement in August 1998. The standby program should have concluded in March 2000 but was extended to December 2000 to give the government more time to improve its fiscal performance and complete promised reforms, including legislation to restructure the energy sector. The Philippines nevertheless failed to make a graceful exit from the arrangement and to draw the last $300 million tranche from that facility, mainly because of worsening fiscal slippages. The government and the IMF have since agreed on a post-program monitoring framework, which involves a periodic review of economic and policy developments but no financial support from the Fund.

5. Significant Barriers to U.S. Exports

Tariffs: Imported items that are not locally produced generally face low tariffs (zero to five percent), while intermediate products and raw materials that are produced locally are generally assessed duties of three to ten percent. Finished products that compete with locally produced goods face higher tariffs of 15 to 30 percent. Under the current tariff schedule, issued on January 3, 2001, Executive Order 334, tariffs will be gradually reduced in 2002 and 2003 to meet a uniform five percent tariff rate for all products by January 2004. Exceptions to this plan include some raw materials that would face a three percent rate for 2004, as well as finished automobiles and some agricultural goods. Imports of finished automotive vehicles, completely built-up units, will remain subject to a 30 percent tariff until 2004, when the tariff will fall to five percent. Agricultural goods such as sugar and rice now face in-quota tariff rates of between 20 and 45 percent and out-of-quota rates of up to 65 percent. In 2004, the highest rate on agricultural goods will be reduced to 30 percent, both in and out of quota. The unweighted average nominal tariff rate was 7.72 percent in 2001, down from 9.98 percent in 1999.

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

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

Banking: In the field of banking, May 1994 amendments to the 1948 General Banking Act (GBA) allowed a maximum of 10 foreign banks to establish branches in the country. Those foreign banks are limited to opening six branches each. The General Banking Law of 2000 (signed in May 2000 to succeed the GBA) opened a seven-year window during which foreign banks may own up to 100 percent of one locally incorporated commercial bank or thrift institution (up from the previous 60 percent foreign equity ceiling, with no obligation to divest). However, for the first three years, such foreign investment may be made only in existing banks, reflecting the Bangko Sentral's current emphasis on banking sector consolidation. Regulations require that majority Filipino-owned domestic banks control, at all times, at least 70 percent of total banking system assets. Rural banking remains completely closed to foreigners.

Securities: Stock and securities brokerage firms may be up to 100 percent foreign owned but should incorporate under Philippine laws. Foreign ownership in securities underwriting companies is limited to 60 percent. Securities underwriting companies not established under Philippine law are not allowed to underwrite securities for the Philippine market, but may underwrite Philippine issues for foreign markets.

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

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

Investment Barriers: The Foreign Investment Act of 1991 contains two "negative lists" that outline areas where foreign investment is restricted. List A restricts foreign investment in certain sectors because of constitutional or legal constraints. For example, the practice of licensed professions such as engineering, medicine, accountancy, environmental planning, and law is fully reserved for Filipino citizens. Also reserved for Filipino citizens are enterprises engaged in retail trade (with paid-up capital of less than $2.5 million, or less than $250,000 for retailers of luxury goods), mass media, small-scale mining, private security, cock fighting, utilization of marine resources, and manufacture of firecrackers and pyrotechnic devices. Up to 25 percent foreign ownership is allowed for enterprises engaged in employee recruitment and for public works construction and repair (with the exception of build-operate-transfer and foreign-funded or assisted projects, that is, foreign aid, where there is no upper limit). Foreign ownership of 30 percent is allowed for advertising agencies, while 40 percent foreign participation is allowed in natural resource extraction (the president may authorize 100 percent foreign ownership), educational institutions, express delivery, public utilities (including telecommunications, shipping, and shipyard operation, for example), commercial deep sea fishing, government procurement contracts, rice and corn processing (after 30 years of operation, before which time 100 percent foreign participation is allowed), and ownership of private lands. Retail trade enterprises with paid-up capital of more than $2.5 million but less than $7.5 million are limited to 60 percent foreign ownership until March 2002, after which 100 percent foreign ownership will be allowed. Enterprises engaged in financing and investment activities, including securities underwriting, are also limited to 60 percent foreign ownership.

List B restricts foreign ownership (generally to 40 percent) for reasons of national security, defense, public health, safety, and morals. Sectors covered include explosives, firearms, military hardware, massage clinics, and gambling. This list also seeks to protect local small and medium firms by restricting foreign ownership to no more than 40 percent in nonexport firms capitalized at less than US$200,000.

Incentives and Export Performance Requirements: In general, foreign-owned firms producing for the domestic market must engage in a pioneer activity to qualify for incentives administered by the government's Board of Investment (BOI). For exporters, the BOI imposes a higher export performance requirement for foreign-owned enterprises, 70 percent of production should be exported, than for Philippine-controlled companies, 50 percent. With the exception of foreign-controlled firms that export 100 percent of production, foreign firms that seek incentives from the Board of Investments must commit to divest to 40 percent ownership within 30 years or such longer period as the BOI may allow. The United States and the Philippines are near agreement on a plan that would phase out WTO-inconsistent local content and foreign exchange requirements under the Philippine motor vehicle development program by June 30, 2003.

Local Sourcing Requirements: Outside of the investment incentives regime, investors in certain industries are subject to specific laws which require local sourcing. E.O. 776 requires that pharmaceutical firms purchase semi-synthetic antibiotics from a specific local company, unless they can demonstrate that the landed cost of imported semi-synthetic antibiotics is at least 20 percent less than that produced by the local firm. E.O. 259 bans imports of soap and detergents containing less than 60 percent coconut-based surface active agents of Philippine origin, thereby requiring local sourcing by soap and detergent manufacturers. The Philippine Department of Justice, in Opinion No. 88 (1999), stated that E.O. 259 conflicts with the country's obligations under the WTO Agreement on Trade-Related Investment Measures. Since then, the E.O. has not been enforced. Letter of Instruction (LOI) 1387, issued in 1984, requires mining firms to prioritize the sale of their copper concentrates to Philippine Associated Smelting and Refining Corp. (PASAR), a government-controlled firm until its privatization in 1998. The Retail Trade Act of 2000 requires local sourcing for the first ten years after the law's effective date. During that period, at least 30 percent of the cost of inventory of foreign retail firms not dealing exclusively in luxury goods, and 10 percent of the inventory of firms selling luxury products, should consist of products assembled in the Philippines..

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

Customs Procedures: All importers or their agents must file import entries with the Bureau of Customs (BOC), which then processes these entries through its Automated Customs Operating System (ACOS). ACOS uses a computer system to classify shipments as low-risk (green lane), moderate risk (yellow lane) or high risk (red lane). BOC officials say that shipments channeled through the yellow lane will require a documentary review, while red lane shipments will require physical inspection at the port. According to BOC, green lane shipments are not subject to any documentary or inspection requirements. BOC has also added a "Super Green Lane" for the largest importers (see below). BOC issued a series of regulations in December 1999 governing the implementation on January 1, 2000, of transaction value and outlining procedural steps importers will need to follow. Several of these regulations were revised on April 3, 2000. In April 2000, a new customs valuation law (R.A. 9135) went into effect. The new law clarifies the hierarchy of valuation methods to be used by BOC by removing reference to a price reference database and also authorizes the BOC to conduct post-entry audits. However, the BOC has not yet issued implementing rules and regulations for R.A. 9135.

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

In addition to its commitments under the WTO TRIPs Agreement, the Philippines is a party to the Paris Convention for the Protection of Industrial Property, Berne Convention for the Protection of Literary and Artistic Works, Budapest Treaty on the International Recognition of the Deposit of Microorganisms, Patent Cooperation Treaty, and Rome Convention. Although the Philippines is a member of the World Intellectual Property Organization, it has not yet ratified the WIPO Performances and Phonograms Treaty or the Copyright Treaty.

The Intellectual Property Code (R.A. 8293, 1997) provides the legal framework for IPR protection in the Philippines. The Electronic Commerce Act (R.A. 8792, 2000) extends this framework to the internet. Key provisions of the Intellectual Property Code are summarized here:

Patents: The Philippines uses a first-to-file system, with a patent term of 20 years from date of filing, and provides for the patentability of micro-organisms and nonbiological and microbiological processes. The holder of a patent is guaranteed an additional right of exclusive importation of his invention. A compulsory license may be granted in some circumstances, including if the patented invention is not being worked in the Philippines without satisfactory reason, although importation of the patented article constitutes working or using the patent.

Industrial Designs: The registration of a qualifying industrial design, including layout-designs of integrated circuits, shall be for a period of five years from the filing date of the application. The registration of an industrial design may be renewed for not more than two consecutive periods of five years each.

Trademarks, Service Marks, and Trade Names: Prior use of a trademark in the Philippines is not a requirement for filing a trademark application. Well-known marks need not be in actual use in Philippine commerce or registered with the Bureau of Patents, Trademarks, and Technology Transfer. A Certificate of Registration (COR) shall remain in force for ten years. A COR may be renewed for periods of ten years at its expiration upon request and payment of a prescribed fee.

Copyright: Computer software is protected as a literary work; exclusive rental rights may be offered in several categories of works and sound recordings; and terms of protection for sound recordings, audiovisual works, and newspapers and periodicals are compatible with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).

Performers Rights: "The qualifying rights of a performer . . . shall be maintained and exercised fifty years after his death." However, ambiguities exist concerning exclusive rights for copyright owners over broadcast and retransmission.

Trade Secrets: While there are no codified rules on the protection of trade secrets, Philippine officials assert that existing civil and criminal statutes protect trade secrets and confidential information.

Policy Framework: Deficiencies in the Intellectual Property Code remain a source of concern. Weaknesses include the lack of authority for courts hearing civil cases to order the seizure of pirated material as a provisional measure without notice to the suspected infringer, that is, ex-parte search rights (as required by Article 50 of the WTO TRIPS Agreement); ambiguous provisions on the rights of copyright owners over broadcast, rebroadcast, cable retransmission, or satellite retransmission of their works; and burdensome restrictions affecting contracts to license software and other technology.

Under the Intellectual Property Code of the Philippines, the Intellectual Property Office (IPO) has jurisdiction to resolve certain disputes concerning alleged infringement and licensing. IPO's administrative complaint mechanisms, established in April 2001, has yet to be tested. In addition to the IPO, agencies with IPR enforcement responsibilities include the Department of Justice; National Bureau of Investigation; Videogram Regulatory Board (for piracy involving cinematographic works), the Bureau of Customs, and the National Telecommunications Commission (for piracy involving satellite signals and cable programming). The Presidential Interagency Committee on Intellectual Property Rights (PIAC-IPR) is composed of representatives from these and other agencies and is tasked with coordinating enforcement efforts. The private sector can file requests for IPR enforcement actions with the PIAC-IPR.

Enforcement: Significant problems remain in ensuring the consistent and effective protection of intellectual property rights. According to aggregated industry statistics, the total annual loss resulting from copyright piracy in the Philippines in 2000 was estimated at about US$140 million. U.S. distributors report high levels of pirated optical discs of cinematographic, musical works, and computer games, and widespread unauthorized transmissions of motion pictures and other programming on cable television systems.

Serious problems continue to hamper the effective operation of agencies tasked with IPR enforcement. Resource constraints, already a problem, have been exacerbated by general government budgetary shortfalls. In general, government enforcement agencies are most responsive to those copyright owners who actively work with them to target infringement. Enforcement agencies generally will not proactively target infringement unless the copyright owner brings it to their attention and works with them on surveillance and enforcement actions. Joint efforts between the private sector and the National Bureau of Investigations and Videogram Regulatory Board have resulted in some successful enforcement actions. The designation of 48 courts to handle IPR violations has done little to streamline judicial proceedings, as these courts have not received additional resources and continue to handle a heavy non-IPR workload.

Delays in the issuance of warrants are a problem and arrests are infrequent. In addition, IPR cases are not considered major crimes, and take a lower precedence in court proceedings. Because of the prospect that court action will be lengthy, many cases are settled out of court.

8. Worker Rights

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

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

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

d. *Minimum Age for Employment of Children:* Philippine law prohibits the employment of children below age 15, with some exceptions involving situations under the direct and sole responsibility of parents or guardians, or in the cinema, theater, radio and television in cases where a child's employment is essential. The Labor Code allows employment for those between the ages of 15 and 18 for such hours and periods of the day as are determined by the Secretary of Labor, but forbids employment of persons under 18 years in hazardous or dangerous work. Government and international organizations estimates indicate that there are some 3.7 million working children, including 2 million in hazardous conditions. A significant number are employed in the informal sector of the urban economy or as unpaid family workers in rural areas.

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

f. *Rights in Sectors with U.S. Investment:* U.S. investors in the Philippines generally apply

U.S. standards of worker safety and health, in order to meet the requirements of their home-based insurance carriers. Some U.S. firms have resisted efforts by their employees to form unions, with local government support.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category	Amount	
Petroleum		1
Total Manufacturing		1,207
Food & Kindred Products	349	
Chemicals & Allied Products	371	
Primary & Fabricated Metals	55	
Industrial Machinery and Equipment	11	
Electric & Electronic Equipment	283	
Transportation Equipment	0	
Other Manufacturing	140	
Wholesale Trade		232
Banking		201
Finance/Insurance/Real Estate		975
Services		-15
Other Industries		308
TOTAL ALL INDUSTRIES		2,910

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