
THE PHILIPPINES IN 2000

In Search of a Silver Lining . . .

Mel C. Labrador

The year 2000 was a turbulent and troubled one for the Philippines. It ended with the country uncertain what the impeachment trial of its president—the first ever for an Asian head of state—would bring. The intense drama and sensational exposés of personal corruption, along with the spectacle of the trial itself, virtually paralyzed the islands for the last three months of the year. The crisis had been building for some time and became as much a trial of the Philippine constitutional process as it was for its president.

The struggle in Mindanao threatened to break out into a full-fledged conflict. Negotiations for a political settlement with the Moro Islamic Liberation Front (MILF) made little headway as confrontations with government troops increased. The extremist Abu Sayyaf Group (ASG) demonstrated how dangerously close it could bring its fight to the capital by exploding bombs at two Manila shopping centers in May. A month earlier, the same group captured international attention by kidnapping for ransom 21 Asian and Western tourists from a Malaysian resort island. As the year closed, they were high on the suspect list after near-simultaneous explosions of five bombs in Manila killed 11 and wounded over 90.

The Philippines took center stage in other ways. The “I Love You” computer virus, which caused billions of dollars worth of damage to computer systems worldwide, earned the Philippines added notoriety and, in a twisted way, highlighted the talented manpower pool the country had to offer. Another view of the Philippines could be seen in the Payatas dump tragedy in

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July in which a mountain of garbage collapsed under heavy rains, killing over 160 people in a nearby squatter area. The incident served as one of many grim reminders that the country continues to have the highest incidence of poverty in Southeast Asia.

Starting the year with three consecutive quarters of growth behind it, the economy continued to post respectable growth rates throughout the year. The new finance secretary and a new body of economic advisors appeared to be particularly strong and the passage of economic reform bills promised a better investment environment. Working against that, however, were the protracted political crisis, the uncertainty of the Mindanao conflict, and a budget deficit run amok.

Domestic Political Developments

Since the start of his administration, President Joseph Estrada had been fighting an uphill battle to counter perceptions of ineffective leadership and an administration adrift as well as allegations of corruption and cronyism. Turf battles within his cabinet, aggravated by Estrada's own leadership style, led to some of these perceptions. Matters were further aggravated by charges that policy decisions were made during late night drinking and gambling sessions in what became known as the "midnight cabinet." To his credit, Estrada appeared intent on setting things right in 2000. He reorganized his cabinet and, setting a new policy direction, abandoned a highly controversial bid to change the 1987 Constitution as a means of liberalizing the foreign investment climate, pushing instead for more effective legislation.

The appointment of Jose Pardo to succeed Finance Secretary Edgardo Espiritu was among the more important cabinet changes, earning Estrada praise from the business community. Espiritu, highly respected but marginalized by cabinet infighting, had submitted his resignation in late 1999. Formerly Estrada's trade secretary, Pardo was the last remaining cabinet member with close ties to the business community. One immediate result was the formation of an Economic Coordination Committee (ECC), reportedly on Pardo's recommendation, that was intended to help the president chart a new course and give the business community a greater voice in the policy-making process.¹

However, trouble brewed elsewhere. Estrada's new chief of staff, Aprocio Laquian, was forced to resign in late March after just 41 days in office for remarks he made about the president at a Manila Overseas Press Club luncheon. Laquian's comments reinforced the idea the president had a seri-

1. Alex Magno, "President Estrada Sees the Light," *Asian Wall Street Journal*, January 14, 2000.

ous drinking problem and that the so-called midnight cabinet did exist.² Many argued Laquian was simply telling the truth. Indeed, the problems were largely of Estrada's own making. Evidence of crony politics continued to surface, adding to the already long list of grievances against the president. The BW Resources scandal and the air rights dispute with Taiwan, both holdovers from 1999, continued to make news. The biggest stock manipulation scandal in Philippine history, the BW Resources affair reared its ugly head once more when Securities and Exchange Commission Chairman Perfecto Yasay accused Estrada of pressuring him to clear Estrada friend Dante Tan of any wrongdoing in the scandal. Investigators at the Philippine Stock Exchange made similar allegations of interference from Malacanang.³ As for the air rights dispute, which suspended direct flights to and from Taiwan, it was widely seen to serve only the interests of presidential friend, Lucio Tan, who controlled the debt-ridden Philippine Air Lines. The dispute was settled in September 2000 when Estrada, under intense public pressure, finally gave the order to conclude a new agreement in pursuit of broader national interests.

“Juetengate”

The frequent coup rumors, which began in late 1999 and early 2000, spoke volumes on the amount of trouble in which Estrada found himself. The public was on edge. Rumors of an imminent coup ran especially high in April. Power blackouts in July and October prompted panicked dollar sell-offs.

The threshold event that actually started the impeachment crisis came with the October 9 news conference held by Ilocos Sur Governor Luis Chavit Singson, a former friend of President Estrada. Singson alleged he had paid the president P 200 million in proceeds from an illegal numbers game called *jueteng*.⁴ This was the first time that Estrada was directly accused of accepting bribes and kickbacks. Based on Singson's allegations, opposition representative Heherson Alvarez filed a complaint for impeachment against

2. A transcript of Laquian's comment can be found at a *Philippine Headline News Online* report on the World Wide Web at <<http://www.newsflash.org/2000/03/pe/pe001083.htm>>. Laquian was also involved in earlier controversy when, shortly after taking office, his wife, Eleanor, was appointed by Estrada as a news media consultant and asked to review the operations at the offices of the press secretary and presidential spokesman.

3. Kevin Hamlin, “Confidence Game,” *Institutional Investor OnLine*, August 1, 2000, on the World Wide Web at <<http://www.iimagazine.com/channel/other/200008010198.htm>>.

4. *Jueteng* is a variation of a numbers game with origins in China and brought to the Philippines. A bettor can choose any combination of two numbers between one and 37. The lucky pair is drawn, and the winnings depend on how much and on which numbers other competitors have bet. It is a game played by the poor. For more on *jueteng*, see Philippine Center for Investigative Journalism on the World Wide Web at <<http://www.pcij.org/stories/1995/jueteng.html>>.

the president on four counts: for graft and corruption, bribery, culpable violation of the Constitution, and betrayal of public trust. In a feeding frenzy, the press followed up with a series of sensational exposés on other presidential excesses. Vice-President Gloria Macapagal-Arroyo, resigning from the Estrada cabinet, teamed up with former Presidents Aquino and Ramos; the country's Roman Catholic prelate, Cardinal Sin; and members of the business community to launch a campaign to force Estrada's resignation. Mass rallies were organized in obvious attempts to reenact the 1986 People's Power Revolution. Estrada responded with his own, even more massive rally that was attended by over one million. As the crisis deepened, daily anti-Estrada demonstrations filled the streets. There was also a fair share of pro-Estrada demonstrations.

The country was deeply divided. *AsiaWeek* billed the crisis as "The Elites vs Estrada"⁵—a conflict pitting the country's political and economic elites against the *masa* (the masses), who saw in Estrada someone much like themselves. However, in Congress, the unprecedented and overwhelming majority Estrada had enjoyed vanished. His Lapiang ng Masang Pilipino Party (Alliance of the Philippine masses), which had dominated the House with over 160 of 218 seats and the Senate with 18 of 22 seats, ended up with barely 50% of the House and only six Senate seats. The most devastating blow came from mass defections led by House Speaker Manuel Villar and Senate President Franklin Drilon. By the time Congress reconvened on November 13, the House had succeeded in obtaining 115 signatures—significantly more than the 73 required (one-third of the 218-member House) to forward Alvarez's complaint to the Senate.

The Senate trial began on December 7 and recessed for the year just prior to the Christmas holidays. The chief justice of the Supreme Court presided in a non-voting capacity, with members of the Senate as jurors. A panel of 11 representatives assembled by the House served as prosecutors in the case. A two-thirds vote of the 22-member Senate was required in order to convict Estrada on any of the four counts. In spite of efforts in some sectors to conclude the trial before the end of the year, the intense public scrutiny and contention made it evident the trial was going to last well into 2001.

Escalation of Conflict in Mindanao

Although the political turmoil in Manila attracted much of the attention toward the end of the year, for most of it the dominant coverage had been on events in Mindanao. The 30-year old conflict, a significant drain on the country's resources, threatened to erupt once again into outright war. The

5. Alejandro Reyes and Kristina Luz, "The Elites vs Estrada," *Asiaweek*, November 17, 2000, pp. 26–30.

Philippine government has been dealing with three principal separatist groups in the South: the Moro National Liberation Front (MNLF) and the aforementioned MILF, a militant faction of the MNLF that broke away in 1984, and ASG.

One of the immediate causes of the crisis was the failure to fully implement the 1996 Peace Accord signed by the MNLF. Intended to implement the original Organization of the Islamic Conference-brokered Tripoli Agreement of 1976, the 1996 Accord created the Southern Philippines Council for Peace and Development as a transition body toward establishing a Regional Autonomous Government by September 1999. For a variety of complex reasons, the agreement failed to get past the initial transition phase and the full Muslim autonomy promised in the Accord was not achieved.

Although it constituted a significant military force with popular support, the MILF was not a signatory to the agreement. The government had been willing to negotiate only with the MNLF in any substantive way until 1997.⁶ Therefore, encounters with MILF shortly after the Accord was signed forced the government into new peace negotiations. Negotiations proceeded slowly, and with the failure to fully implement the 1996 Peace Accord, confrontations between government troops and the MILF mounted. In January, a frustrated Estrada issued an ultimatum that a peace settlement be reached or he would launch full-scale military operations against the MILF, saying he would give them until June "to realize that there is only one government and one armed forces in the Philippines."⁷

This "get tough" policy boosted Estrada's sagging approval ratings "due to his decisive action against the . . . MILF."⁸ Sadly, in the past, this policy ultimately achieved the opposite of the intended effect. The troubling developments prompted several senators to warn Estrada against an all-out armed conflict erupting in Mindanao. In mid-March, a breakaway group of the MNLF, the MNLF-Islamic Command Council, announced that it would resume its guerilla war against the government in pursuit of a separate Islamic state in Mindanao. And, in early May, MILF Vice-Chair for Military Affairs Al Haj Murad announced an indefinite suspension of the three-year old peace negotiations with the government.

In July, President Estrada devoted over half of his State of the Nation address to the problem in Mindanao. In it, he outlined his four-point policy for the MILF and made clear he could not allow a secessionist movement to prosper, that "secession as a dream is out of tune with history." At the same

6. Interview with Professor Thomas McKenna in *AsiaSource*, on the World Wide Web at <http://www.asiasource.org/news/special_reports/philippine.cfm>.

7. "Talks with MILF Rebs Resume," *Philippine Star*, January 17, 2000. On the World Wide Web at <http://www.philstar.com/philstar/archive.asp?content_id=543&category_id=4> .

8. "Mindanao War Boosts Estrada Rating," *Philippine Daily Inquirer*, August 16, 2000.

time, he vowed to undo centuries of neglect of Mindanao and asked the MILF to join him in converting Mindanao from a “land of promise” into a “land of fulfillment.”⁹

In an effort to fast-track development projects in Mindanao, the administration sought special emergency powers for the president, fashioned after the powers granted to President Ramos in dealing with the energy crisis in 1992. The administration later abandoned that effort when Congress passed legislation to achieve the same ends. The new legislation barred lower courts from issuing temporary restraining orders or preliminary injunctions on government infrastructure projects in Mindanao, and added a provision to accelerate right of way acquisition for those projects.

The extremist ASG was another problem for the Philippine government, and it lay outside the realm of any foreseeable political solution. Significantly smaller than either the MNLF or MILF and with an inconsistent agenda, the ASG has achieved notoriety for its dramatic, news-making activities. The kidnapping of 21 Asian and Western tourists from the Malaysian resort island of Sipadan in April added to the already complex situation in Mindanao. The ASG already was holding 27 local hostages, most schoolchildren, from an earlier kidnapping incident. Taking foreign hostages for a US\$20 million ransom, the negotiations over their release took dramatic turns over the course of six months and involved intermediaries that even included Libya’s Muammar Quaddafi. The ordeal strained diplomatic relations with several of the countries whose citizens were being held hostage. In mid-September, with most of the hostages released, Estrada ordered a massive operation against the rebels’ hideouts in an effort to free the remaining captives. The displacements caused by the military operation added to the overall complexity of the situation in Mindanao.

Economic Developments

The Philippine economy posted relatively strong growth throughout the year, although admittedly lagging behind other nations in the region. Real gross national product (GNP) accelerated to 4.5%, and gross domestic product (GDP) to 4.2% into the third quarter, compared to 1999’s 3.1% GNP growth and 2.7% GDP growth for the same period. The agriculture sector recovered admirably, posting a 3.9% growth rate in the first nine months; it was boosted by a record production of rice and other crops. Electronics exports, which account for over 60% of the Philippines’ total exports, had been driving double-digit growth in the industry since 1992. After initially posting disap-

9. “Toward New Beginnings,” State of the Nation Address of His Excellency, President Joseph Ejercito Estrada, July 24, 2000. On the World Wide Web at <<http://www.news.ops.gov.ph/sona2000.htm>>

pointing results due to reduced export demand, the industry recovered late in 2000. Overall, the outlook for continued growth into 2001 remained positive.

As 2000 closed, however, the uncertainty added by the protracted impeachment crisis, among others, dampened that outlook. The Asian Development Bank (ADB) revised its forecast for GDP growth in 2001 from 4.3% to 3.3%.¹⁰ The Philippine peso had broken through the record-breaking P 50-to-US\$1 barrier in volatile swings attributed to the loss of confidence stemming from the political crisis. The drop in the peso combined with rising oil prices to push up overall price levels, with inflation jumping to 6% in November from October's 4.9%. (That said, the year's average inflation rate stayed at about 4%, comparing favorably to the 6.8% experienced in 1999 and the 9.8% in 1998.)¹¹ As for the Philippine Stock Exchange Index, by year's end it had dropped to nearly 1,300 after having started the year nearly double that level.

In spite of the mixed news, there was reason for some optimism. President Estrada's strong economic team and the administration's continued commitment to the economic reform program promised to pay dividends in the long run. The government finally passed several badly needed economic reform bills, including the Retail Trade Liberalization Act, the Securities Regulation Code, the E-Commerce Act, and the General Banking Law. The administration made an unsuccessful effort to pass the Omnibus Power Sector Reform Bill designed to restructure the electric power industry and may have to wait until the next session of Congress to follow up. The bill would pave the way for privatizing the National Power Corporation.

The administration's biggest headache continued to be the budget deficit. The nine-month gap reached P 82.9 billion and threatened to surpass 1999's shortfall of P 113.6 billion. The government gave up hope of meeting the original P 62.5 billion target for the year, and instead concentrated on trying to contain the shortfall to P 90 billion. It failed. By November the deficit had reached P 95.5 billion. This was the third consecutive year that the government had overshot its target, seriously affecting its ability to secure further loans. In October, the International Monetary Fund ended its three-year standby loan program on a negative note—without disbursing the final US\$314 million installment—due to the size of the deficit.

Contrary to popular perceptions of a free-spending government, the missed deficit targets have been attributed to large shortfalls in internal revenue collection and privatization receipts. The total nine-month revenue shortfall was P 34.1 billion. Of that amount, a hefty P 29.5 billion was attributed to

10. Carmina Reyes, "ADB Sees Lower RP GDP Growth in 2001," *Manila Bulletin*, November 28, 2000.

11. National Statistics Office, *Summary Inflation Report, Consumer Price Index, November and October 2000*, No. 2000-85 (Manila: National Statistics Office, December 5, 2000).

shortfalls in Bureau of Internal Revenue collections. In contrast, government expenditures exceeded the programmed budget by only 1%, or P 4.5 billion, largely from foreign exchange losses resulting from the drop in the value of the peso. The significant revenue shortfall highlights the severity of the government's internal revenue collection problems.

The government's privatization program was also a severe disappointment, earning only P 4.5 billion for the year, with P 2 billion in proceeds from the sale of the government's 45% share of the Philippine Phosphate Fertilizer Corporation (PHILPHOS) in late-November. The total privatization revenue fell far short of the P 13.2 billion target, a figure already revised downward from the original P 22 billion.¹² The anticipated sale of the government's 30% share of the Philippine National Bank to business tycoon Lucio Tan failed to materialize, depriving the government of an additional P 5.6 billion in revenue.

International Relations and Defense

For 2000, South China Sea issues continued to be a foreign policy and defense disappointment for the Philippines. It has become a source of frustration in dealings with the Association of Southeast Asian Nations (ASEAN). At the ASEAN Ministerial Meetings in July, the Philippines renewed its bid to have ASEAN urge all claimants to stop occupying and building structures in disputed areas in the South China Sea. Efforts to include that call in the joint communiqué issued by the ASEAN foreign ministers failed when Malaysia opposed the Philippine proposal. The long-awaited Code of Conduct on the South China Sea, originally proposed by the Philippines, failed to materialize again this year, although a significant milestone was reached in getting a China-ASEAN consolidated draft.

Since the discovery of Chinese construction on Mischief Reef in 1995, the Philippines had been dealing with the South China Sea problem from a position of weakness. Diplomatic efforts have not stemmed construction by competing claimant countries. Moreover, the South China Sea continues to serve as a stinging reminder of the extremely limited capabilities of the Armed Forces of the Philippines (AFP) and the stillborn modernization program launched in 1995. In part, it led to a shift in Philippine perceptions of the U.S. military presence, setting the stage for the 1999 ratification of the U.S.-Philippines Visiting Forces Agreement and, for that matter, the return of Exercise Balikatan in 2000, an annual bilateral defense exercise conducted under the terms of the Mutual Defense Treaty.

12. U.S. Embassy Manila, "Philippines Economic Wrap Up: November 18—December 01, 2000," on the World Wide Web at <<http://usembassy.state.gov/manila/wwwf5052.pdf>>.

Conclusion

Whether or not President Estrada is forced out of office, his impeachment trial will have been an important and beneficial exercise for the country and its constitutional process. The intense public scrutiny given the proceedings and resulting transparency favor a verdict that would be seen as objective and legitimate. And, if there is a silver lining in the dark clouds of this crisis, a successful trial—one seen as objective and legitimate—would not only encourage respect for the overall democratic process and rule of law but also enhance the image of the Philippines in terms of investment and trade. The remarkable discipline and neutrality that the AFP and the Philippine National Police have been able to exercise throughout the crisis thus far is but one example of the changing image of the Philippines.

For Mindanao, the conflict is far from over. With both sides standing their ground, a negotiated political settlement in the near future is difficult to imagine. Infrastructure development to spur economic growth, an elusive target for previous administrations, remains the key to resolving the conflict. However, it is a long-term endeavor that should not be expected to produce immediate results. Finally, for the economy, the year 2000 highlighted continuing policy challenges faced by the government—the problems of graft and corruption, ineffective revenue collection, and inadequate infrastructure.