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# THE PHILIPPINES IN 2001

## *High Drama, a New President, and Setting the Stage for Recovery*

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Mel C. Labrador

### Introduction

The year 2001 was another year of high drama for the Philippines. In a move reminiscent of the People Power movement that toppled the regime of Ferdinand Marcos in 1986, the Philippines's second People Power Movement sent President Joseph Estrada packing, abandoning the presidency to Gloria Macapagal-Arroyo, then vice-president and one of the leaders in the move against Estrada. The transfer of power was later challenged by Estrada, causing turmoil in the ensuing months and turning the May 14 mid-term elections into a de facto referendum on the legitimacy of the Arroyo government. Estrada's arrest in April, on the eve of the elections, sparked widespread demonstrations culminating in an assault on Malacañang Palace. It was a costly mistake that almost proved the new administration's undoing. The May 14 elections were the most violent in the post-Marcos era. While not giving Arroyo total victory, they did give her a clear mandate and the mantle of legitimacy. The political turmoil did nothing to help an economy already suffering from past excesses and weakened global economic conditions.

Reversing Estrada's "all-out war" policy against the country's largest Muslim rebel group, the Moro Islamic Liberation Front (MILF), Arroyo set the stage for peace negotiations in the South. But other developments were disquieting. The mid-August plebiscite to expand the Autonomous Region of Muslim Mindanao (ARMM) brought disappointing results. ARMM Gover-

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Mel C. Labrador is a retired U.S. Army Foreign Area Officer. He is currently Senior Analyst for Cubic Applications, Inc., based in Honolulu, Hawaii.

*Asian Survey*, 42:1, pp. 141–149. ISSN: 0004–4687

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nor Nur Misuari, ousted as Moro National Liberation Front (MNLF) founding chairman and replaced as chairman of the Southern Philippines Council for Peace and Development (SPCPD), declared war on Manila in November. And, repeating what it had done the previous year, the terrorist Abu Sayyaf Group (ASG) staged a daring hostage-taking raid on an island resort.

Ironically, the tragedy of the September 11 terrorist attacks on the United States gave the Philippines and the Arroyo administration a much-needed boost. Allies, grown apart since the 1992 U.S. departure from Philippine military bases, suddenly found “unity in adversity.”<sup>1</sup> Arroyo’s foreign policy win, in her November visit to the U.S., earned valuable military and economic assistance from Washington and bolstered her domestic standing.

## National Politics

The Senate trial of President Joseph Estrada, which began in December 2000, ended abruptly in early January 2001, when prosecutors walked out charging that pro-Estrada senators were manipulating the trial. The street demonstrations and calls for Estrada’s resignation that had been an almost daily event since the *juetengate*<sup>2</sup> crisis began in October 2000, increased in size and intensity. One by one, members of the cabinet withdrew their support for the embattled Estrada, but he continued to cling to power.

### *Estrada Replaced*

The key was the military. Much to their credit, the Armed Forces of the Philippines remained publicly neutral until January 19, when Armed Forces Chief of Staff General Angelo T. Reyes formally announced the withdrawal of the military’s support for the president.

On the morning of January 20, Estrada, who three years earlier was elected to the presidency by the largest landslide victory in Philippine history, left Malacañang Palace in disgrace, departing by river barge to avoid the thousands of demonstrators outside the gates.

Gloria Macapagal-Arroyo was sworn in as the 10th president of the Republic of the Philippines in a remarkably peaceful transfer of power, earning the Philippines high marks and international support. Recognition for the Arroyo administration was almost immediate. But Estrada, claiming his departure was only temporary, challenged the legitimacy of the new government.

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1. “Unity in adversity” was coined by Professor Carlyle Thayer in a recent article regarding Asia-Pacific’s new-found unity against terrorism. Carlyle A. Thayer, “Podium: Unity in Adversity,” *Asiaweek*, November 9, 2001. For online version, see archives at <<http://www.asiaweek.com/asiaweek/>>.

2. A play on “Watergate.” *Jueteng* is an illegal numbers game played by the poor. Estrada was accused of having received millions in kickbacks from the game.

### *The May 14 Elections*

The decisive event, the May 14 mid-term elections, was to become the de facto referendum on the legitimacy of the Arroyo government.<sup>3</sup>

At stake were 13 of the Senate's 24 seats, all 262 seats in the House of Representatives, and over 7,000 local offices. The contest focused on the critical 13 Senate seats. Arroyo and her People Power Coalition actively campaigned to "shut out" the opposition candidates with a 13-0 Senate win. But with seven powerful opposition candidates (two of them incumbents) arrayed against her, a 13-0 win was unlikely. Prominent among the Senatorial candidates was Dr. Luisa "Loi" Ejercito Estrada, the former president's wife.

In an apparent attempt to further discredit the Estrada camp prior to elections, Estrada and his son, Jinggoy, were taken into custody on April 25 in a highly public, widely televised arrest. The plan backfired, sparking a series of demonstrations that ultimately led to a violent and deadly assault on Malacañang Palace on May 1. The administration miscalculated not only the level of popular support Estrada still enjoyed, but the way in which the arrest offended the ordinary Filipino's sense of dignity and fair play.

Arroyo's response to the assault on Malacañang was the first major demonstration of her decisiveness and strength. Arroyo declared a state of rebellion (two steps away from the declaration of martial law), and ordered the arrest of key opposition leaders on charges of fomenting a rebellion. One problem: several of these were the very people running as opposition candidates for the Senate. In an awkward arrangement, Arroyo suspended the arrest order, allowing them to campaign. The state of rebellion was lifted a week later, one week prior to the elections.

The May 14 elections were the most violent in the post-Marcos era, recording a total of 100 election-related deaths and 141 persons wounded.<sup>4</sup> The contest was also marked by numerous allegations of coercion, fraud, and vote-buying. A high-tech system developed for the elections failed miserably, leading to widespread fingerpointing.<sup>5</sup>

The elections brought Arroyo an overwhelming victory in the lower house and eight of the 13 Senate seats. Four seats went to opposition candidates: Gringo Honasan, Panfilio Lacson, Loi Estrada, and Eduardo Angara; the remaining seat went to independent candidate Noli de Castro. Loi Estrada, considered a dark-horse candidate, had won the people's "sympathy vote."

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3. James Hookway, "Election May Settle Manila's Leadership—Pro-Estrada Protests Could Sway Poll's Results—A Referendum on the Legitimacy of Arroyo's Government," *Asian Wall Street Journal*, May 1, 2001.

4. "Philippines: Military Says 14 May Polls 'Bloodiest' since Elections in 1986," *BBC Monitoring*, London, May 24, 2001.

5. "Why the Philippines' High-tech Election Blew a Fuse," *Asiaweek*, June 1, 2001.

Since assuming the presidency, Arroyo has painted herself as another pro-poor president, waging an aggressive campaign to replace Estrada as the champion of the *masa*,<sup>6</sup> while focusing on transparency, efficiency, and accountability in governance. The core of Arroyo's economic agenda is "poverty alleviation within the decade" through sustained economic growth.<sup>7</sup> She has hinted at bold new measures to jump-start the economy, particularly after a less-than-favorable report card for the first half of the year. But her broad sweeping statements have lacked detail and, due to the short time she had been in office, have not yet produced tangible results. They were not received well. Rumors of impending coup attempts, along with attempts to revive the People Power movement, ran rampant through the end of the year. Allegations that her husband received bribes related to a telecommunications deal added to the damage.

### *State of the Nation Address*

Arroyo's July 23 State of the Nation Address (SONA) focused on her poverty-eradication agenda, outlining four supporting components: free enterprise, a modern agricultural sector, a social bias toward the disadvantaged, and high moral standards for government and society. And, in response to criticism that her initiatives lacked detail, she outlined a number of very specific goals and objectives. These included: P 20 billion (\$388 million) in annual funding to implement the 1997 Agricultural Fisheries and Modernization Act (AFMA); 200,000 hectares annually for distribution to land-reform beneficiaries; construction of 150,000 low-cost/socialized housing units yearly; the staggered completion by 2006 of five new mass-transit lines; a plan to build by 2004 a school building in every *barangay* (the Philippines's smallest political unit); 85% electrification of all *barangays* within a year; and an annual emergency employment program for 20,000 out-of-school and out-of-work youth in Metropolitan Manila.<sup>8</sup>

The SONA drew mixed reviews. It was well received by the business community but slammed by the opposition as financially unrealistic, considering the state of the economy.<sup>9</sup> The SONA failed to boost foreign exchange, equities, and credit markets, and the day after its presentation, the Philippine stock market plunged to an eight-month low.

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6. *Masa* is a Filipino term for "the masses," in whom Estrada still holds a sizeable following.

7. Iris M. Reyes, "Labor Day: Economic Reform Is Government's Top Priority," *Business-world* (Manila), May 1, 2001.

8. "Pres. GMA's First State of the Nation Address," *Philippines Economic Wrap-up*, July 21-27, 2001, Economic Section, U.S. Embassy, Manila, p. 8, at <<http://usembassy.state.gov/manila/wwwf5083.pdf>>.

9. "Philippines: Arroyo's National Address Draws Mixed Reaction from Allies, Foes," *BBC Monitoring*, London, July 24, 2001.

## The Economy

The year 2001 saw the poverty level reach beyond an alarming 40%, with some 35 million Filipinos living below the poverty level. The peso remained weak, ending the year at more than P 51 to the U.S. dollar, after having dropped to a record P 53 in July. Economic growth, recorded at 2.9% for the first three quarters, was slightly short of the government's 3.3% forecast for the year. Growth was adversely affected by the electronics slowdown (representing 60% of the Philippines's export earnings), banking system weaknesses, and the sizable budget deficit.<sup>10</sup> The downtrend was offset by strong performances in the agricultural sector. Inflation appeared on track at between 6% and 7%. And the budget deficit at P 133.2 billion (\$2.6 billion) in October, was ahead of target by P 4.4 billion (\$85 million).

These figures failed to impress, particularly with the raised expectations coming from the change in government. Compared to figures from the previous year, economic performance for 2001 reflected a downward trend rather than progress. In a year-end report, Arroyo admitted to only a modest economic performance but asserted that conditions could have been worse. Indeed, the Philippine economy was little affected by the ripple effects of successive global crises in 2001, from September 11 to Argentina's failure.

In any event, negative public reaction has increased pressure on the Arroyo government. Ever-tightening government budgets to keep the deficit in check have done nothing to repair an already crumbling infrastructure or to jump-start a chronically under-invested economy. Ultimately, the Arroyo government will have to fix the revenue side of the budget equation. The government's inherently weak tax revenue collection and privatization proceeds remain the primary obstacles to growth, and have been a source of frustration in past administrations.

Under these fiscal constraints, the government has attempted to rely on monetary policy to encourage growth and to turn to Build-Operate-Transfer (BOT) initiatives to reduce fiscal drag. The government's privatization efforts have offered some relief. Capping the series of economic reform laws enacted by previous administrations, Arroyo signed the Electric Power Industry Reform Act (EPIRA) into law on June 4.<sup>11</sup> The cost of power in the Philippines remains the second highest in Asia, second only to Japan. The EPIRA is aimed at deregulating the country's power-generation sector and privatizing the government's debt-ridden National Power Corporation (NAPO-

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10. Daxim Lucas and Norman P. Aquino, "IMF Downgrades RP Growth Forecast," *Business-world* (Manila), September 28, 2001.

11. Deidre Sheehan, "The Price of Power," *Far Eastern Economic Review* 164:23, June 14, 2001.

COR), with the government divesting itself of NAPOCOR's \$6 billion debt. However, that measure has yet to produce the expected results.

## The Conflict in the South

The year brought mixed results in the south. The Philippine government has been dealing with three principal separatist groups: the MNLF, the MILF, and the extremist ASG. The MILF, a more militant faction of the MNLF, broke away in 1984.

Until 1997, the government had dealt in any substantive way only with the MNLF. It signed a "Final Peace Agreement" with the group in 1996. The agreement, intended to implement the original Tripoli Agreement of 1976, created the SPCPD as a transitional body toward the goal of establishing a regional autonomous government by September 1999. The MILF, never included in the process, forced the government into new peace negotiations in 1997. Lack of progress led to an escalation of conflict, prompting President Estrada's declaration of an "all-out war" against the MILF in 2000.

Almost immediately after assuming power, Arroyo announced a major policy shift in dealing with the problems in the southern Philippines. Reversing the "all-out war" policy, Arroyo declared that she was prepared to resume talks with the MILF. "I will not only order the resumption [of the talks] but a restructuring so that both sides would come to an agreement to end the sufferings of millions of Muslims there."<sup>12</sup> The policy turnaround successfully quelled the unrest, bringing the MILF back to the bargaining table. A ceasefire agreement, brokered by Malaysia, was signed in August.<sup>13</sup>

In a related development also brokered by Malaysia, the MNLF and MILF signed a reunification agreement, widely viewed as an effort to strengthen the Muslim bargaining position with the government.

Meanwhile, Senate Bill 2129, passed in January, proposed the expansion of the ARMM to 15 provinces and 14 cities—the government's effort to comply with the terms of the 1996 Peace Accord. The ARMM, created in 1990 as an initial implementation of the 1976 Tripoli Agreement, comprised the provinces of Jolo, Lanao del Sur, Maguindanao, and Tawi-Tawi.

A plebiscite on the ARMM's expansion was eventually conducted on August 15. It was fraught with difficulties, marred by numerous delays, and opposed by a number of Muslim leaders. In the end, the expansion proposal added only the province of Basilan, and the lone city of Marawi City to the ARMM. The results suggest differences between the terms the government

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12. "Philippines: President Gloria Macapagal-Arroyo Revives Talks with Militants," *BBC Monitoring*, London, January 23, 2001.

13. "Philippine Government, MILF End Peace Talks," Xinhua News Agency, June 13, 2001, <[http://info.xinhua.org/khdb\\_etripvst/frame.html](http://info.xinhua.org/khdb_etripvst/frame.html)>.

thinks it is operating under and the perceptions of Muslim leaders in the South.

Among those opposed to the plebiscite had been Nur Misuari, saying the ARMM was not ready. The experiment in regional autonomy had not been going well, and to many, had become a miserable failure. As governor of the ARMM, and chairman of the SPCPD, Misuari carried a large part of the blame. In April, the MNLF Central Committee ousted Misuari as chairman for ineffectiveness. The government later removed Misuari as chairman of the SPCPD, replacing him with one of the anti-Misuari leaders in the MNLF. In November, with a handful of followers, Misuari declared war on the government, attacking several military installations. He escaped to the Malaysian state of Sabah, only to be arrested by Malaysian authorities. As the year closed, the Malaysian and Philippine governments continued to deal delicately with the issue of returning Misuari to the Philippines.

Abu Sayyaf, regarded by the U.S. as an international terrorist organization, represents another facet of the Philippine government's problems in the South. Only about 1,200 strong, the group is significantly smaller than either the MNLF or MILF. Its inconsistent agenda and the nature of its activities put it outside the realm of any foreseeable political solution. Financing itself through kidnap-for-ransom activities, the group has earned notoriety for its daring escapades, and attracted government action completely out of proportion to its size or its political agenda. In May, as it did the previous year, the ASG raided an island resort, taking hostage 20 people, including three Americans.

This escapade triggered a massive military response to rescue the hostages and to eradicate the group. In launching the latest military response against the ASG, President Arroyo reiterated that there would be "no ransom, no deal, no suspension of military operations."<sup>14</sup> At year's end, the military still had not brought an end to the ASG.

### Reviving the U.S.-Philippines Relationship

The September 11 terrorist attacks in the United States changed the U.S.-Philippines bilateral relationship—a relationship that had languished since the departure of the U.S. from its military bases in 1992. Its revival was a significant foreign policy success for Arroyo, earning a badly needed military and economic assistance package, as well as bolstering her administration's domestic standing.

President Arroyo was the first Asian leader to have called President Bush in the wake of the September 11 terrorist attacks, offering Philippine support

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14. "Philippine President Reiterates Tough Policy on Abu Sayyaf," Xinhua News Agency, June 13, 2001, <[http://info.xinhua.org/khdb\\_etripvst/frame.html](http://info.xinhua.org/khdb_etripvst/frame.html)>.

for the war on terrorism. She was well rewarded. During her November visit to the U.S. to commemorate the 50th anniversary of the U.S.-Republic of the Philippines (RP) Mutual Defense Treaty, Bush promised Arroyo military and economic assistance, offering to help “in any way she suggests in getting rid of the Abu Sayyaf.”<sup>15</sup> Arroyo reportedly beamed to reporters that she was at “\$4 billion and counting” as she exited one of her meetings in Washington.<sup>16</sup>

A Bush-Arroyo joint statement noted that the two leaders “further agreed that the September 11 terrorist attacks on the United States, and the terrorist activities of the . . . ASG [which now holds both Filipino and American hostages in the southern Philippines], underscore the urgency of ensuring that the two countries maintain a robust defense partnership into the 21st century.”<sup>17</sup>

While opposition to the U.S. presence in the Philippines persists, that opposition has become less strident. Instead, coverage in the Manila press of U.S. assistance in the war against the Abu Sayyaf, deliveries of critical military equipment, and arrivals of U.S. military observers and anti-terrorism training teams have set a different tone for the military bilateral relationship.

The re-energized relationship also revived a previously tabled logistics support agreement. The Military Logistics Support Agreement (MLSA), designed to facilitate military operations and provide greater access to Philippine facilities, was originally known as the Acquisition and Cross-Servicing Agreement (ACSA), which had been set aside in 1996.<sup>18</sup>

## Conclusion

Reality quickly eclipsed the “Gloria euphoria” that opened the year.<sup>19</sup> Disappointing economic performance figures, particularly given raised expectations with the change in government, and mixed results in the southern conflict, were part of that reality.

The May 14 elections brought President Arroyo the mantle of legitimacy, but also found her fighting an uphill battle for credibility. Her elite background has made suspect her agenda and role as champion of the masses. Her credentials may have also created unnecessarily high expectations. How-

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15. Sonya Ross, “Bush Promises Help against Philippine Terrorists,” *Honolulu Advertiser*, November 21, 2001.

16. James Hookway, “Manila Proves Key U.S. Ally in Terror War—Bush Responds with Aid, but There Are Limits to Philippine Support,” *Wall Street Journal*, November 29, 2001.

17. “U.S.-Philippine Joint Statement on Defense Alliance,” The White House, November 20, 2001, <<http://www.whitehouse.gov/news/releases/2001/11/20011120-14.html>>

18. “Philippine President Sets up Team to Receive Military Logistics Accord with USA,” *BBC Monitoring*, London, December 13, 2001.

19. Peter Cordingley and Antonio Lopez, “After the Gloria Euphoria,” *Asiaweek*, Hong Kong, February 2, 2001.

ever, demonstration of her resolve and strength early on gives some assurance that she can and will move to fulfill the goals she set for her presidency.

President Arroyo is in a unique position to see those goals through. If re-elected in 2004, her total time in office could add up to 10 years—a term that might allow her to realize “poverty eradication within the decade.” Judging from the public’s negative reaction to the poor economic performance in 2001, she will need to demonstrate clear progress prior to 2004. She has precious little time.

The situation in the South continues to confound the government. An end to the conflict there would reduce the significant drag on the economy, solving many of the Philippines’s problems. The outlook remains uncertain, but developments in 2001 may have set the stage for positive change. Specifically, this could derive from the Arroyo government’s engagement policy with the MILF, changes to the MNLF and the ARMM leaderships with Nur Misuari’s departure, and the recent MNLF-MILF reunification agreement. On the matter of the Abu Sayyaf Group, enhanced military cooperation with the U.S. and coordinated efforts in the global war on terrorism should produce more positive results shortly.