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THE PHILIPPINES

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THE LITTLEST TIGER

A New Sense of Independence Builds Confidence in the Economy

Manila's expanding skyline is one of the most striking illustrations of the country's expanding economy.

Years from now, the people of the Philippines may be celebrating a holiday similar to the American Thanksgiving. Two events in November 1992 could determine the future of this archipelago nation of 64 million scattered across 7,000 islands in the Pacific Ocean and South China Sea. The first event was the visit to Manila by Singapore's founding premier Lee Kwan Yew; the second, the U.S. withdrawal from Subic Bay.

The U.S. military departure ended decades of almost self-imposed psychological and economic dependence on the part of Filipinos. It will now let them concentrate on building bridges of trade and foreign policy with their Asian neighbors with whom their long-term prospects ultimately rest.

Speaking at a Philippine business conference, Lee Kwan Yew, now senior minister, declared, "What the country needs to develop is discipline more than democracy. The exuberance of democracy leads to undisciplined and disorderly conditions which are inimical to development."

Lee's advice could not have been more timely. In fact, he stated what almost everyone else in the Philippines had been thinking but was not in a position to say themselves, especially newly elected president Fidel V. Ramos, who more than a decade earlier, as chief of police, was the man who enforced Ferdinand Marcos' decree of martial law.

According to Lee, a major problem for the Philippines is that it's an underdeveloped country struggling to cope with an American-style constitution — which is one of the most difficult forms of government in the world. He contends that it breeds a culture in which politicians revel in the freedom to wheel and deal and protect special interest groups and the dynastic, family-owned conglomerates which dominate the economy. (More than half of the country's total income currently flows to less than 20 percent of the population.)

Ramos' official response was to recall the nation's "flirtation with authoritarianism not so long ago" and remind Filipinos that they had established democracy in a region where "some democracies are democracies in name only."

Unofficially, though, after nine months in office, Ramos now realizes that the political gridlock of the past six years could thwart his dream of getting his country accepted as a member of the Asian Tiger club. Hence he has decided to take a more hands-on approach to the day-to-day affairs of the economy than his predecessor, Corazon Aquino.

According to J. Malcolm Dowling, Jr., assistant chief economist at the Asian Development Bank, three decades ago the Philippines was on the same economic footing as Singapore, Thailand, and Malaysia. It was left in the backwash of their spectacular economic wake through its failure to transform the economy from import substitution to export promotion.

The Philippines' trade gap reached $2.97 billion in the first eight months of 1992, which was 35 percent worse than the 1991 shortfall. The reason? Growth in manufactured imports outpaced growth in manufactured exports by 16.6 percent, compared to 9.4 percent a year earlier.

"There isn't a country in the world that has remained protectionist and grown fast," warns Dowling. "Filipinos should stop looking at foreign investors as competitors, but as partners in growth."

The government's medium-term development plan for the next five years is ambitious, if not downright audacious.

Among other things, it aims to:

• Reduce population growth from 2.2 percent in 1993 to 1.9 percent in 1998, and the number of families living in poverty from 40.7 percent of the population to less than 30 percent by the end of the decade.

• Accelerate GNP expansion from a projected 4.5 percent in 1993 to 10 percent by 1998, thereby achieving average annual growth of 7.5 percent over the five year period.

• Bring the average inflation rate down to 6.3 percent, from a target of 7.5 percent in 1993 to 5.5 percent in 1998.

• Increase investments from 22.7 percent of GNP in 1993 to 30.4 percent by 1998, with public funds accounting for only 7.7 percent a year on average.

• Spend an average of PHP5.95 billion a year on infrastructure for the period 1994-98.

• Shrink the public sector deficit from 2.8 percent of GNP in 1993 to 1.3 percent in 1998.

• Reduce the current account deficit to 3.5 percent of GNP by 1998. Exports are calculated to grow by an average of 15.3 percent a year, compared to an annual rise in imports of 12.9 percent.

• Maintain sufficient gross international reserves to finance three months' worth of imports of goods and services.

• Cut debt service as a percentage of exports of goods and services from the 20.7 percent expected in 1993 to 15.6 percent in 1998.

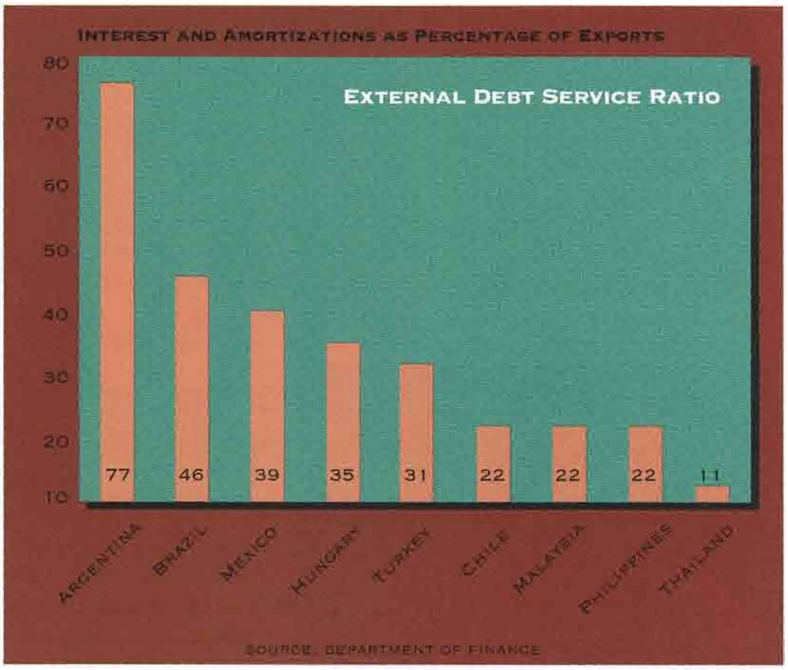
"CANDLEPOWER"

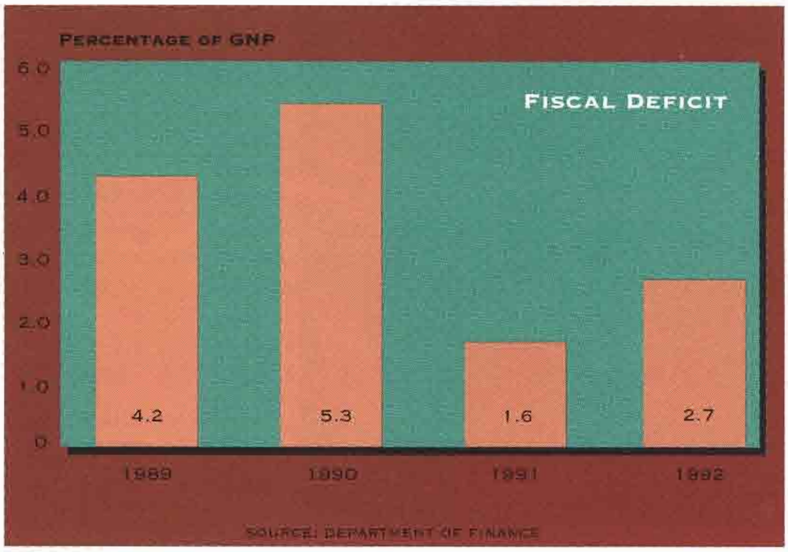
If the Ramos government is ever to get its "vision for development" plan off the ground by attracting both domestic and overseas investment into its $45 billion economy, it will have to address several major problems which have sociopolitical as well as economic implications.

The first is the power crisis. For the past two years, Manila has endured brownouts of up to six hours a day. Local commentators, who once described the administration of Mrs. Aquino in terms of "people power," are now calling the Ramos government one of "candlepower."

While most major industries have private generators to keep production lines running, the success of government's fast track program to build power plants with a total output of 505 megawatts over the next nine months is crucial to spark the economy from a growth rate of 1.2 percent in 1992 to the 4.5 percent expected for this year.

The World Bank estimates that the crippling power situation could cost the Philippine economy up to $1 billion this year with a loss of 400,000 jobs. An equally skeptical International Monetary Fund is asking





the Ramos government to scale back its growth forecast to a more realistic 2 to 3 percent.

The second major test is the government's ability to restore law and order. Although President Ramos has successfully brought extremist insurgents on both the left and right to the bargaining table, thus defusing any real threat to the viability of his regime, the country is still plagued with a corrupt police force which has allegedly assisted in a wave of highly publicized kidnappings and murders among Filipino-Chinese businessman and their families. These are the very individuals the government must rely on for domestic investment, and right now they are being forced to keep a very low profile.

While domestic investment in new and existing firms grew by 27 percent in the first eight months of 1992 — the same as in the 1991 recession — this pales in comparison with the 63 percent average investment growth from 1987 to 1989. The decline in the number of expanding companies, from 1,019 in 1991 to 676 last year, indicates that domestic investment growth mainly took the form of capital improvements as firms replaced obsolete equipment. Over the same period, foreign investment dropped by 74.5 percent after registering 6.8 percent growth in 1991.

Ramos' third major test will be his ability to push through the legislation for his proposed antitrust legislation, based on his promise to make Filipino companies compete to survive. At stake here is not only Ramos' resolve to break up the concentration of wealth, but to ensure that consumers benefit from more numerous and more competitively priced services.

On an international level this move, along with the already successful efforts to liberalize foreign exchange and allow foreigners to own land in industrial estates, will create a real incentive to set up operations, especially in the highly competitive fields of telecommunications, transport and oil exploration.

The showpiece of the internationalization and privatization program is the development of Subic Bay Naval Base (an area larger than Singapore) into a special economic and free port zone housing industrial estates, civil aviation and maritime complexes, as well as a range of world-class tourist facilities.

Since 1986 the Philippine government has privatized 346 companies, representing two thirds of all companies slated for sale. This effort has produced revenues of $2.3 billion, of which the three main items were Philippine Airlines, the Philippine National Bank and Manila Electric Company. Big ticket items still on the block include the state oil company, PETRON, whose assets are far larger than any sold to date, and the National Steel Corporation.

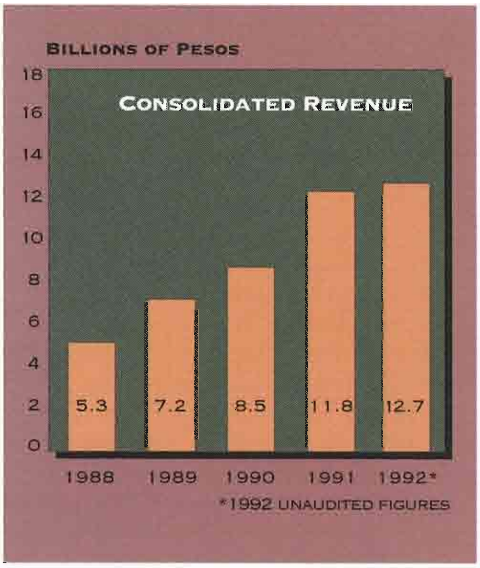
HEROIC TRANSFORMATION

At the start of the Aquino administration in 1986, predicting how the economy would fare, or where the country was heading, were not too difficult. The economy was showing negative GNP growth, while inflation had reached 26 percent in the final year of the Marcos regime. There was no way for the economy to go but up and, indeed, GNP rose steadily from 4.2 percent in 1986 to 7.2 percent in 1988.

AYALA CORPORATION

AYALA CORPORATION

STRENGTH THROUGH DIVERSIFICATION



The Ayala Corporation, long known as the Philippines' leading real estate company, is today a holding company active in real estate, hotels, financial services, food processing, agribusiness, electronics, information technology, insurance, and overseas investment. Ayala's partners in various Philippine ventures include J.P. Morgan, Hormel, Honda, IBM, Japan Asia Investment Corp., and Kawasaki Steel. Since 1986 total return on Ayala shares has been 67 percent. At the end of 1992 Ayala's capitalization was PHP97.352 billion, 13 percent of the market.

Ayala Land, Inc. (ALI), spun off in 1988, is the Philippines' only full-line property developer. It is engaged in land development, office and residential construction; and the development and operation of shopping centers and hotels.

Established in 1851, the **Bank of the Philippine Islands (BPI)** is the country's oldest banking institution and, through a series of strategic acquisitions and mergers, its largest private universal bank in terms of assets. A leader in electronic banking, it maintains the most extensive branch network in the country. BPI played a key role in the privatization of Philippine Air Lines and public offerings of Manila Electric Co. and Ayala Land.

Pure Foods Corporation has expanded into new markets (poultry, flour, noodles and ice cream), while bolstering its traditional business in processed and canned meats, where it is the local market leader. With the country's third largest integrated poultry operation, Pure Foods produces frozen dressed chicken and value-added chicken products. It also processes and cans tuna for export, and has a similar operation in Indonesia with the Sinar Mas Group.

Ayala Agricultural Development Corporation, a leader in the Philippine hybrid corn seed market, has an exclusive producer-distributor agreement with Cargill Seeds, Inc.

Integrated Micro Electronics, Inc. is one of the Philippines' largest packagers and assemblers of integrated circuits. It also assembles printed circuit boards, disk drives and other microelectronic products.

Ayala Systems Technology, Inc. established in 1989 with BPI and Mitsubishi, provides mainframe and midrange-oriented systems solutions with integration services in local and foreign markets.

Globe Telecom, formerly Globe-Mackay Cable and Radio Corporation, provides all forms of telecommunications services, both data and voice, domestic and international. It has the most satellite-based telecom facilities in the country.

Ayala Corporation holds an interest in **Ayala Insurance Holding, Inc.**, which owns **FGU Insurance**, a leader in non-life insurance, **Ayala Life Assurance**, a full-service life insurer, and **Universal Reinsurance,** the largest Philippine reinsurance company in terms of resources.

AYC (Overseas), Ltd. is Ayala Corporation's overseas investment vehicle. AYC maintains a trading concern in Hong Kong and a marketing company in California, both of which support the group's export activities. AYC's investment in Corpfin Capital, a Spanish venture capital and corporate finance company, is Ayala's window of opportunity in the European market.

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Then everything came to a crushing halt in December 1989, with a nearly successful coup that wrapped the country in a shroud of political instability for three more years. GNP growth fell from 5.7 percent in 1989 to negative 0.1 percent in 1991, while inflation, which had been in the single digits, soared to over 20 percent.

The 2,000 year-old terraced rice plantations in Banaue.

"Combined with the start of a worldwide recession, a killer earthquake in Baguio and North Luzon in 1990, the Mt. Pinatubo volcanic eruptions in 1991 and 1992, it's hardly surprising that the country sank once again to negative growth rates," says Finance Minister Ramon del Rosario, Jr. "The real miracle of the democracy restored in 1986 is that it survived against all odds. That we are here today, able to build on a peaceful political transition and the momentum of economic reform, is nothing less than heroic." Last year was equally difficult for the Philippines, but signs of a recovery began to fall in place with GNP growth of 1.2 percent.

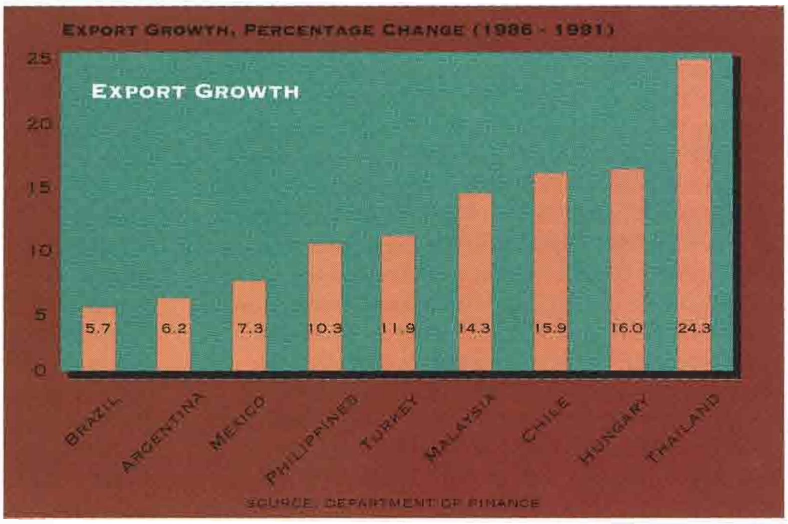
The Philippines today is in a better economic position than at any time in the last decade. The IMF-imposed Economic Stabilization Program of the past few years has succeeded in controlling the country's excessive spending and achieved stabile prices for goods, funds and currencies. Inflation is again in single digits, interest rates have fallen from over 25 percent a year ago to less than 15 percent, and the Philippine peso has managed to remain strong against the U.S. dollar. The high and sustainable growth enjoyed by its Asian neighbors is within its reach if the government can now implement its five-year development plan.

In December 1992, the government issued $3.21 billion in Brady bonds, marking the completion of a $4.8 billion debt relief package in connection with the country's $28.9 billion debt with foreign commercial banks. The 15-20 year bonds with 4 percent interest coupons signalled the end of the country's long-term debt problems. The bonds are backed by high-yielding U.S. Treasury notes which the Philippine government purchased at a substantial discount.

Among other encouraging signs, foreign debt as a percentage of GNP has gone from 94 percent in 1986 to 56 percent at the end of 1992, while debt service as a percentage of exports has declined from 36 percent to a little over 20 percent. "Our ratio is one of the lowest among emerging market countries," del Rosario points out. "I think the numbers show we are closer to investment-grade countries than to debt restructuring countries."

In February 1993 the Philippines ended a ten-year absence from international capital markets with a $150 million Eurobond due in 1996, lead-managed by J. P. Morgan. According to del Rosario, "It was more to test the waters of international confidence in the Philippines than a real need for the money." At 7 7/8 percent, the fully subscribed offering, was 320 basis points above comparable U.S. Treasury issues.

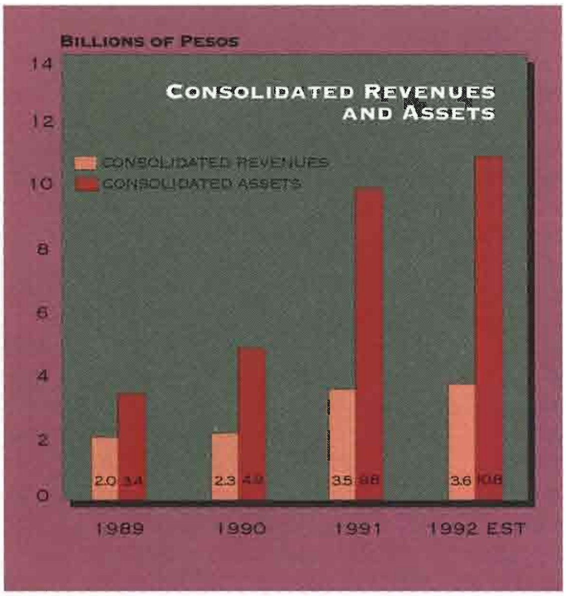
The Philippines is already banking on that newfound confidence. "We have identified the defects that must be remedied," declares President Ramos. "What I am working on now is the economic empowerment of our people."



AYALA LAND, INC.

AYALA LAND, INC.

COMBINING INNOVATION WITH PRUDENCE



The Philippines' largest real estate developer, Ayala Land was spun off in 1988 from Ayala Corporation. In 1991 Ayala Land raised PHP2.5 billion through a public offering in domestic and international markets, thereby increasing its market capitalization to almost PHP44 billion.

Keeping debt to a minimum has helped Ayala Land remain a conservative and prudent developer. It uses innovative financing plans such as equity partnerships, pre-sales and occasionally, land exchanges, to fund its huge acquisition and development program. In 1991, when the country experienced negative GNP growth and a flat real estate market, Ayala Land's consolidated net income rose by 12 percent to PHP808.3 million on consolidated gross revenues of PHP3.5 billion. Further improvements were realized in 1992, with a 32 percent increase in estimated earnings.

Ayala Land's success is based on its long-term approach of integrating mutually reinforcing land uses, applying high aesthetic and quality standards to its developments, and committing itself to after-sales service. Prices of lots in Makati, site of the country's premier financial and business district as well as first-class residential villages, where Ayala Land has the largest share of vacant or underbuilt land, have soared 19 times in the past ten years.

Another Ayala Land showcase is a self-contained, largely residential 1,628-acre subdivision south of Makati. An integral part of this subdivision is a 62-acre office subdivision that was recently opened to buyers. Other major developments include a 173-acre residential subdivision north of Makati, a 554-acre industrial estate in Laguna province and a 126-acre commercial complex in Cebu that will be the central Philippines' first planned and integrated business district.

Ayala Land also derives value by developing individual land uses within the framework of a larger planned community, such as medium-density townhouses, residential and office towers, mixed-use shopping, entertainment and commercial centers, hotels and sports clubs.

Rentals from shopping and entertainment centers account for about 30 percent of consolidated real estate revenues. The 89-acre Ayala Center, the country's largest mixed-use shopping center, is undergoing a PHP4 billion five-year redevelopment that will double its gross leasable area. A shopping complex is also being developed in the Cebu business park. Rental revenue from these projects will cushion inherently volatile development income.

Ayala Land's growth is backed by its solid reputation for successful large-scale development, its huge land bank and inventory of completed and ongoing projects, its diversification into related projects, its conservative financial stance, and its long-term planning. Positive trends in the Philippine economy should revive the real estate industry in coming years, and serve as a basis for even stronger financial performance by Ayala Land.

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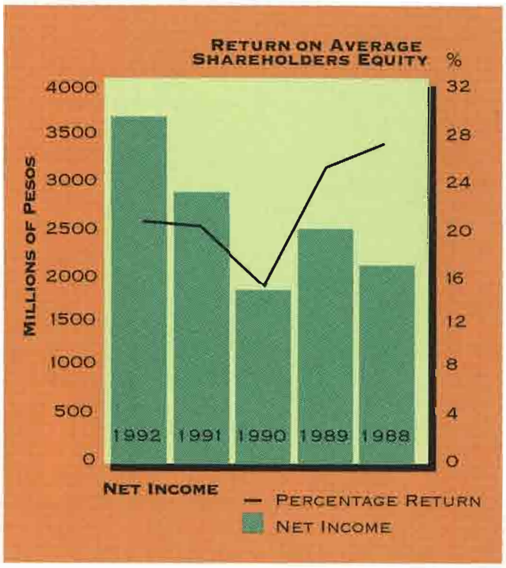
SAN MIGUEL CORPORATION

SAN MIGUEL

A Leader in Domestic And International Markets



Continuing to build on its strength as the Philippines' largest beverage, food and packaging company, the San Miguel Corporation has embarked on a program which will make it even more competitive in the global marketplace.

Over the last five years, seeing opportunities beyond the country's economic straits, San Miguel invested over PHP25 billion in the expansion and modernization of its operations — a level of investment unparalleled in the company's 102-year history.

As a result, San Miguel continues to be the market leader in many of its businesses. San Miguel beer enjoys a 90 percent share of the domestic beer market, and its sales of 12 million bottles a day rank it as the world's tenth largest beer brand. The company also accounts for three quarters of the Philippine soft drink and ice cream markets.

Domestic operations include joint ventures with Coca-Cola, Nestle, Spain's Conservera Campofrio S.A., Yamamura Glass Company of Japan; and the New Zealand Dairy Board.

But San Miguel is not just a Philippine company. Its brewing operations extend to Hong Kong, China, and Indonesia. It exports beer and other products to 23 countries throughout Asia-Pacific, North America and Europe.

With total assets of over PHP48 billion and consolidated sales in excess of PHP58 billion, the company and its subsidiaries generate over 4 percent of the Philippines' GNP and account for about 7 percent of the government's total tax revenue.

San Miguel's activities range from manufacturing and marketing beer and other beverages to consumer food, packaging, livestock, animal feeds, coconut products and aquaculture. The company employs 33,000 people, making it the largest private sector employer in the country.

Founded in 1890, San Miguel was the first brewer in Southeast Asia and remains widely known as a beer company. However, its non-beer operations now contribute more than half its consolidated net sales.

Between 1988 and 1992, sales rose by an average of 20 percent a year while operating income likewise grew by 20 percent.

In 1992, San Miguel earned a net profit of PHP3.59 billion on sales of PHP58.23 billion, representing increases of 28 percent and 9 percent respectively over the previous year. Much of this improvement is attributed to higher operating efficiencies.

San Miguel has provided its 30,000 shareholders a consistently high return on their investment. With a stock market capitalization of PHP65 billion, it is one of the most actively traded stocks on both the Manila and Makati stock exchanges, accounting for 17 percent of the market's total capitalization.

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SETTING PRIORITIES

AN INTERVIEW WITH PRESIDENT FIDEL V. RAMOS

Q. Considering that major economies around the world have scaled back their growth projections for 1993, is it realistic for the Philippines to expect growth of 4.5 percent?

A. We have been at 4.5 percent before and that was not too long ago. It is only the setbacks suffered by the country from natural and man-made calamities that brought us to the present state. During the first half of 1992 we had negative growth, but we have now recovered from that. We were up 1.9 percent in the last quarter of 1992.

Secondly, we're not just looking at exports to drive the economy. Our first priority is the domestic market. Our objective is to increase our per capita income by more investments to generate jobs and to allow our households to earn supplementary income through more thorough training programs.

Q. Your administration is planning to introduce antitrust laws. Will they be based on the U.S. model?

A. That's right. We already have a good record of breaking up monopolies starting with the Aquino administration. We did it with coconuts, we are now doing it with the rice industry with more active government intervention.

To answer your question: no, this new antitrust legislation will not be based on the American model. We have our own situation here to worry about. We are now studying the subject, and will start by substantially amending the Public Service Act which deals with transportation and communications, especially in the matter of franchising. The laws we have now date back to the 1940s and obviously must be upgraded, enhanced and adjusted for our present situation in the 1990s.

Q. Does this mean that you intend to break up the Philippine Long Distance Telephone Company?

A. No, we are not asking for any corporation, especially progressive and prosperous ones, to be broken up. We are just asking them to be ready for competition, because telecommunications is probably the fastest growing industry worldwide.

Q. The power shortage in the Philippines is reportedly so critical that many believe it casts a shadow over any economic and development plans of your administration. What are you doing to correct this?

A. We have two major programs. One is the fast-track program, where by the end of 1993 we plan to put about 505 megawatts of additional power into the Luzon grid, which includes Manila. The other covers regular base-load power plant projects, many of which have already been started and will run off indigenous resources, principally geothermal and coal.

I have directed that our energy and power development should grow ahead of our projected increase in GNP to the extent of about 10 percent a year. In the past, increased demand for power was unanticipated. But I realize that for our industrialization and agricultural modernization programs to succeed, we must put energy and power-generating programs in place at a rate faster than the growth of industry and agriculture.

Q. Corazon Aquino spent six years trying to repair the damage of the Marcos years. Is there anything you must see to after the Aquino years?

A. Any new administration will discover shortfalls in programs and defects that must be remedied. Let me tell you of my five priority programs.

First, national stability, peace and security. We have reached out to the enemies of the state on the extreme left and the extreme right, and we have a good dialogue going on. Of the three main anti-government armed groups, we have already succeeded in bringing out the most potentially dangerous in terms of fighting capabilities.

My next priority is economic growth and sustained development. The matter of increasing investment, trade and tourism has already been addressed. Subic Bay is probably the centerpiece of our investment program, but we have also opened up other prime investment areas.

We have also put in legislative reforms that make possible the liberalization of the investment climate, such as a 99-year lease allowing foreigners to develop land for private and industrial uses, the complete liberalization of foreign exchange, the privatization of government assets, the recovery of hidden wealth and the massive program to convert the land recovered from former U.S. military bases.

Our third priority is power development. The fourth is protecting the environment. The fifth is the streamlining of the bureaucracy. We are devolving more and more people and resources to the local government level. We are transferring from the level of the office of the president many agencies which rightfully belong in my view to the various public departments and separate agencies out there in the field.

Q. What is the legacy of the Aquino administration?
A. The Aquino administration, principally Mrs. Aquino, should be credited with the political empowerment of our people. I think political freedom and the exercise of the political and civil rights of our citizens is even better than in some Western countries. What I am working on now is the economic empowerment of our people, both at the macro and micro levels.

On the macro level — investment, tourism, trade. A better balanced environment for those activities to operate in the Philippines in relation to the outside world. But on the micro level — the empowerment of ordinary Filipino families to become quality productive units. This can be done by training, by the issue of credit, marketing assistance, export assistance and the whole range of activities that will allow our people to derive supplemental impact from the efforts they exert when they are not working at their regular jobs.

Q. Last November Lee Kwan Yew said the Philippines must develop more discipline than democracy. How do you respond to that?
A. Of course we agree with discipline. More discipline from businessmen in paying their taxes, more discipline from public servants in providing honest, transparent public service, a minimum of graft and corruption. Discipline also means cleaning up our surroundings, greening, cleaning and beautifying our cities. We do not object to that kind of discipline, but one should not forget that the situation in the Philippines is different from that in any other country. What might be suitable for Singapore might not be suitable for the Philippines — a country scattered over thousands of islands, with a history of political struggle. So we are not about to give up what we fought for in February 1986 when our people threw out a dictatorship by non-violent people power. Discipline, yes, but not authoritarianism.

Q. You have recently taken a more active role in trying to sort out problems in the private sector, specifically, in disputes over the creation of a Philippine stock exchange and the management of Philippine Airlines. Is this a sign of the new discipline you hope to see in the country?
A. Unfortunately, the problem of a stock exchange was not solved at all by my predecessor. I told the leaders of the two stock exchanges to stop basing their proposed unification on the location of the building where they would operate but instead on the viability of the real factors which will make for enduring integration. After all, many countries have no single location for their stock exchange because they can interconnect by satellite, computers, etc. Singapore is one such example.

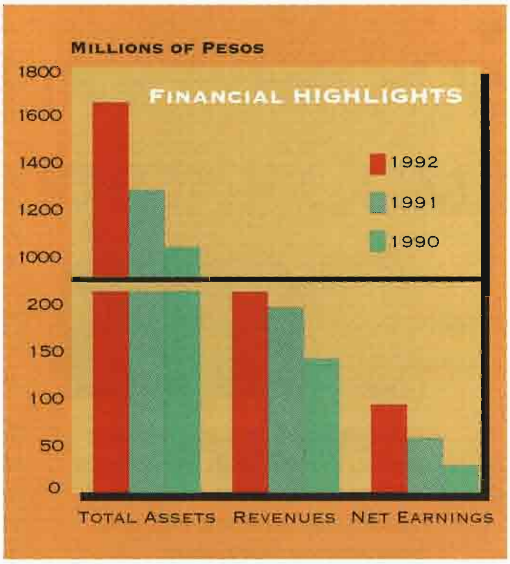
In the case of Philippine Airlines, it was privatized in March 1992. The principle behind that decision was that government must get out of any businesses it can and let the private sector carry the ball. I intervened in a fatherly way, so to speak, by telling them, "Why don't you guys get together first as a corporate organization and determine once and for all who are the real owners?" The problem apparently arose because of a lack of complete transparency in identifying proposed investors for the airline. I had to step in to protect the integrity and the viability and competitiveness of Philippine Airlines as the national carrier, because it is not just the airline which could be compromised, but the country itself.

Q. Could your government operate more effectively with a parliamentary form of government instead of the present congressional system?
A. This is a matter of intense study by both the executive branch and Congress itself. The avenues are open for our people to adopt another form of government by amending the constitution. It is premature to comment on that now. But in my view the decision-making must be speeded up on both the executive and legislative sides.

All Asia Capital and Trust Corporation

ALL ASIACAPITAL

A FULL-SERVICE FINANCIAL INSTITUTION



All Asia Capital and Trust Corporation is an internationally-linked financial institution with investment banking, trust and leasing capabilities as well as investments in strategic undertakings. Its subsidiaries are engaged in stock brokerage, property investment and insurance. "Our multiple roles allow us to address the diversified requirements of a growing domestic and international client base," says Roland U. Young, the firm's president and chief executive officer.

With assets of PHP1.6 billion, All AsiaCapital has an unbroken record of revenue growth. Gross revenues rose at an average rate of 46 percent a year from 1987 to 1991 and in 1992 amounted to PHP254 million, an increase of 37 percent over 1991. In the past three years, net earnings have averaged 60 percent growth, reaching PHP80 million in 1992.

All AsiaCapital offers a sophisticated range of financial services which can take an industrial client from company start-up all the way to a listing on the stock exchange. Its investment banking services include project promotions, mergers and acquisitions, project finance, leasing, securities dealership and financial advisory services. The company pioneered dollar-dominated leases and is the only leasing firm in the Philippines to provide the Asian Development Bank with leasing advisory services to date. All AsiaCapital is also prominent in equity underwriting, having participated in public offerings of such highly-subscribed equity issues as those for Philippine National Bank and the Manila Electric Company. A sizable portion of its revenues also come from securities dealership, affirming its status as one of the most active commercial paper dealers. All AsiaCapital is also very active in government relending programs, responsible for syndicating approximately PHP2 billion in loans and leases.

In 1991 the company's expertise in project finance and loan syndication earned it the accolade from the Development Bank of the Philippines as the "Most Outstanding Non-Bank Financial Intermediary." All AsiaCapital's major foreign stockholders include the International Finance Corporation, Rockefeller & Company Ltd., which represents the business interests of the Rockefeller family; and the Korea Merchant Banking Corporation, an investment house affiliated with Daewoo and Hyundai. The company's brokerage arm, All AsiaSecurities, is one of the top ten trading firms on the Manila Stock Exchange. It is a 33.3 percent joint venture with Sanyo Securities, Japan's seventh largest brokerage firm, and Yasuda and Pama Ltd., an affiliate of Prudential Asia. These international links provide All AsiaCapital with a marketing network in the world's leading financial centers both to serve its growing international client base and to secure foreign investment in the Philippines.

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STOCK MARKET

Investing For The Right Reasons

After months of sometimes bitter negotiations, on December 23, 1992 the Philippines' two existing stock exchanges in Manila and Makati agreed to establish a unified Philippine Stock Exchange. Under the terms of the agreement, each exchange will contribute PHP100 million in working capital to get the system up and running.

Although it will take several months before the unified exchange becomes fully operational, Securities and Exchange Commission chairman Rosario N. Lopez is optimistic about the prospect. "A unified, and more importantly, a fully computerized exchange should provide a more efficient infrastructure and a system by which trades and settlements are executed," he notes. "This will not only translate into greater productivity and profitability for members, but will also enhance investor confidence in the system's reliability and transparency."

The chairman of the new Philippine Stock Exchange will be Eduardo C. Lim, who is at present the chairman of the Makati Exchange. Its first president will be Robert Coyiuto, Jr., currently the chairman of the Manila Exchange. All the brokers on both exchanges have been guaranteed seats on the unified exchange.

Yet despite the surge of enthusiasm that has accompa-

nied this historic step, many brokers from both exchanges are cautioning investors that unification in itself will not guarantee a long-term uptrend for the Philippine stock market. What really matters, they emphasize, is not only the form the market takes, but the environment in which it operates.

PUTTING FIRST THINGS FIRST

Local brokers, like Don P. Calderon, managing director of All AsiaSecurities in Makati, are quick to point out that rather than waiting for the exchange unification to take place, foreign investors in particular should be concentrating on more fundamental measures such as the series of market-oriented reforms that are establishing a firm foundation for the stock exchange's sustainable, long-term growth. These measures include the liberalization of foreign exchange regulations, tariff reform and — most significant of all — the Foreign Investment Act of 1991. Prior to the passage of this Act, the Philippines had deterred foreign investment with its aggressively protectionistic policies and stringent restrictions on the foreign ownership of Filipino companies or shares. To make matters worse, these legal problems were merely the unpalatable icing on the cake of often murderous political turmoil.

Although equity ownership by foreigners is still limited to 40 percent, the Foreign Investment Act has simplified investment procedures and abolished most restrictions on foreign direct investment. Partly in response to the newly liberalized investment climate, last year capital investment in new and existing Philippine companies rose 23 percent to PHP 40.1 billion. Of this, PHP8.58 billion pesos represented initial capital in start-up companies.

"Once one realizes that the positive transformation of the political, economic and social structure currently taking place is bound to elevate the Philippines into the Asian Tiger club, one can bravely face the present stock market's corrective swings," says Calderon.

"If you trade the news, you'll lose, because day-to-day events will begin to have less of a bearing on the market's general direction once the fundamentals of listed compa-

These shares having been sold, this announcement appears as a matter of record only.

NEW ISSUE

October 1992

$316,250,000

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

12,650,000 Global Depositary Shares
Each Representing One Share
of Series II Convertible
Preferred Stock

European Offering
2,300,000 Global Depositary Shares

United States Offering
5,520,000 Rule 144A Global Depositary Shares

Asian Offering
4,830,000 Global Depositary Shares

Global Coordinator
of the Offerings

CS FIRST BOSTON GROUP

nies can be seen in the context of the structural transformation in the economy."

At present, just over 170 stocks are listed on the two exchanges, of which five — Philippine Long Distance Telephone (PLDT), Ayala Corp., San Miguel, Philippine National Bank (PNB), and Manila Electric — account for more than 82 percent of total market capitalization. On a trading basis, 20 stocks account for 65 percent of daily traded value.

REASONS FOR OPTIMISM

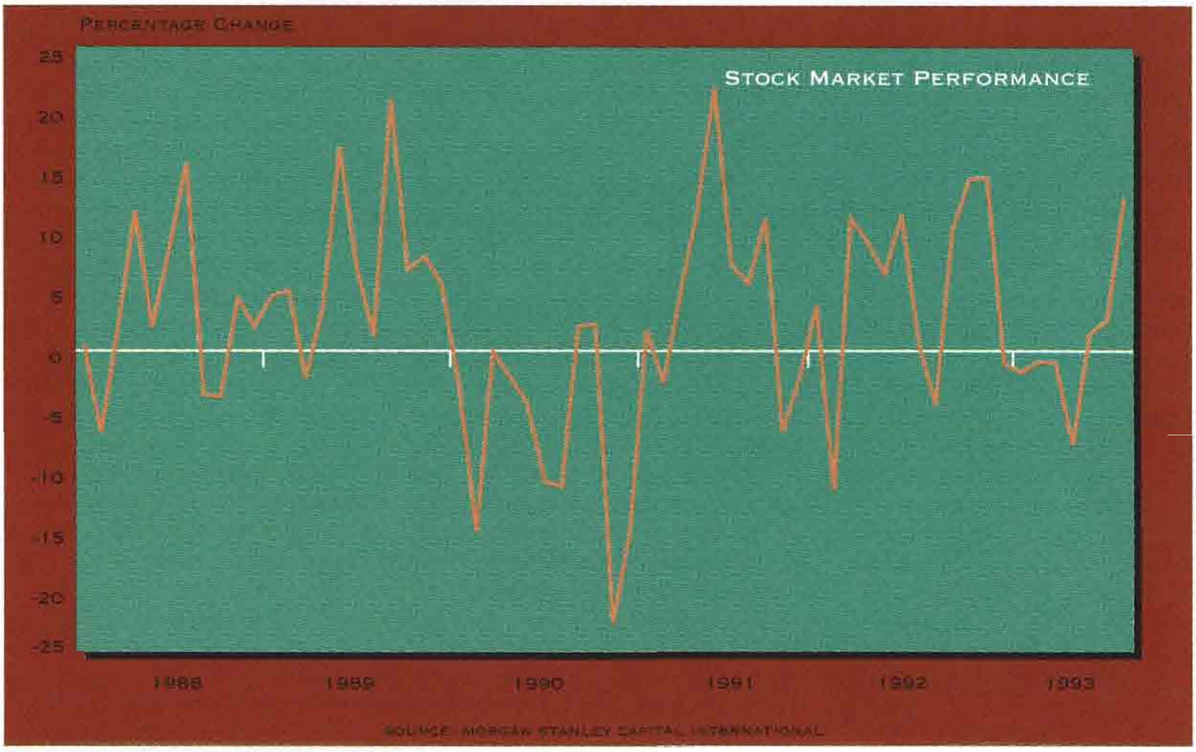
In formulating his $5 million portfolio strategy, Calderon relies on a system using the Elliot Wave principle as a framework. He claims that since October 1990 this analysis has been more than 90 percent accurate. The Elliot Wave theory indicates that the Philippine market, which started the year with the composite index at 1256, should reach 2200 by the end of this year. This would mean that the market's current P/E ratio of 12.7 times earnings would rise to nearly 20.

"However, if this were to occur," says a more cautious Ray Jovanovich, manager of the $68 million Indosuez Manila Fund based in Hong Kong, "it would require a dramatic surge in corporate earnings."

On a more positive note, Jovanovich points out that "the lower inflation outlook for 1993 will permit further interest rate cuts that will eventually boost corporate earnings and asset values."

The combined Philippine stock markets closed out 1992 with a modest gain of 9 percent, after recording a strong performance in the first six months of the year. One reason for the lack of stamina was the severe power shortage during the second half of 1992 which moderated initial optimism for a strong economic recovery in 1993 and eroded the substantial gains the market had posted in the first half of 1992. By the end of the year, the market was 22 percent off its record high. Currency volatility has further impacted the performance of large capitalization stocks such as PLDT and PNB.

While Jovanovich notes that foreign investors are increasingly willing to test the waters of secondary markets like the Philippines by selecting two or three individual stocks, there are still major obstacles to be overcome. For one thing, he warns, "At the moment it's very difficult to build a strong position in any single company because the market is not very liquid. If the market gets a whiff that a big buyer is trying to get in, the sellers back away. And even if you can build up a position in a major stock in the course of a week or two, liquidating that position can be quite difficult."



MOVING AHEAD

AN INTERVIEW WITH FINANCE MINISTER RAMON DEL ROSARIO, JR.

Q. The IMF has suggest that the government should scale down its growth estimates because of the power crisis. Do you agree?
A. No, I think our estimate of 4.5 percent growth is ambitious but achievable. The power situation is a problem, but we are confident it will not continue to be a problem past the third quarter of this year because we have been very successful in keeping our fast track energy program on schedule. The other strategy we have put in place, precisely because we realize the power situation will be a problem for the first half, is to frontload our infrastructure spending with 60 percent of the annual budget, which will give us the nudge necessary to reach that 4.5 target.

Q. How much of the success of this overall strategy is tied to the leadership of President Ramos?
A. When I am asked about the difference between President Ramos and Mrs. Aquino, I point out that President Ramos is a very hands-on man. He likes to grapple with problems directly, particularly when he believes those problems are impeding a certain item he considers to be of high priority. He is a man obsessed with making sure he succeeds, given the limited time frame he has. I think he is determined to have a role in history and he knows that this is his one shot at it.

Q. How do you think the IMF views the Philippines now?

A. I am quite confident that we will reach an agreement with the IMF for one last extended fund facility. We are not yet ready to declare our independence right now. I realize that there are fundamental issues which need to be resolved. The question of how much inflation we should tolerate, for example, or how much growth we should aspire to. But I am hopeful that we will be able to come to terms. The World Bank has shown a more flexible attitude towards the country and they will be participating in the talks with the IMF.

The point I have been trying to make to the IMF is that the new government has a unique opportunity. There is a new sense of optimism, there is a willingness to give the benefit of the doubt to the government, on the part of both domestic and foreign investors. I also think there is enough of a stock of good will, especially in some of our neighboring countries, to allow us to move forward quite well. But there is a limited period during which you have to show results. We have to show significant forward movement this year, or people will conclude that it's the same old story all over again.

Q. How do you answer members of the business community who say government policy lacks consistency, making it hard for them to establish long-term plans?
A. I disagree. The basic policies that we have adopted are a continuation of the policies of the last six years, being pursued with somewhat more aggressiveness and determination now. In fact, one of the criticisms of this administration is that we have not deviated very much from the flawed policies of the past. But these are policies which we basically consider to be sound. The continuation of the process of deregulation, privatization, increasing competition within the system, opening up the economy, lowering tariffs — all of these policies began in the past and we are carrying them forward because I believe very strongly in them. To my mind, the Aquino government is not being given enough credit for the work they accomplished in the economic field. They grappled with a lot of the hard decisions and put in place a lot of policies, legislation and programs in place that will help us to achieve the growth that we aspire to.

ORIENTAL OIL

A Successful Record of Exploration and Development

With the Philippine government's plans already well under way to encourage private sector development of the country's oil industry, more than a dozen local firms have staked a claim on what promises to be the "jewel of the economy." So far, however, few in this high risk, high reward business, have had much to show for their efforts — with the notable exception of firms like Oriental Petroleum and Minerals Corporation (OPMC).

Drilling for oil in offshore Northwest Palawan.

REALIZING THE DREAM

With over a third of its total equity in the only major operating oil field in the country, OPMC has realized the dream of others by becoming a cash-rich organization. This in turn has placed the company in an excellent position to capitalize on the treasures of natural wealth which lay beneath the waters of the Philippine archipelago.

"Most listed oil companies here are selling on a speculative basis," says Robert Coyiuto, Jr., chairman and president of OPMC and also chairman of the Manila Stock Exchange. "But we have already struck oil in the West Linapacan field, which means we have a definite source of revenue." OPMC currently accounts for about 20 percent of total oil sector trading in the Philippine equity markets.

"With our new and improved financial resources, OPMC will continue to look eagerly for additional oil reserves as well as for possible areas of diversification, in fields initially related to our oil exploration activities and subsequently in other areas of endeavor that will assure profitability," says Coyiuto.

OPMC's major stake is in the West Linapacan-A oil field off the northwestern coast of the island of Palawan, discovered in December 1990. In the space of only two years, Oriental Oil's three wells now produce at an average rate of between 15,000 and 20,000 barrels of oil per day.

Under Stage One of the project, which cost an estimated $40 million, production will be maintained at this rate through 1994 in order to gather sufficient reservoir information before proceeding to the next — or full development — stage.

Stage Two, or full development of the West Linapacan-A oil field, envisions an additional three to five development wells, which together with the three wells that are currently producing in Stage One, will increase daily production to 50,000 barrels of oil per day by the middle of 1994.

PLENTIFUL RESERVES

The West Linapacan-A Project is managed and operated by the Texas-based energy company, Alcorn. The oil field is believed to have enough reserves to be productive for a period of 10 to 15 years. A recent study by Gruy Engineering Corp. of Houston, Texas, estimates the oil reserves of the West Linapacan-A field, of which OPMC has a 36.6 percent stake, at 106 million barrels.

"We are projecting net income of at least PHP150 million for the 1993 financial year from the West Linapacan find, which is up from PHP12.6 million last year," Coyiuto points out. While OPMC anticipates increased profits for both 1993 and 1994, Coyiuto confidently predicts that, with the implementation of Stage Two of the project by mid-1994, "profits thereafter should soar to record heights."

PROMISING NEW OIL FIELDS

The Philippine oil industry is closely monitoring the development of the West Linapacan-B field, located 8 kilometers to the southeast of West Linapacan-A. Should the new West Linapacan discovery turn out to be commercially viable, it will probably be developed and produced in tandem with West Linapacan-A under an expanded, and more permanent, production facility.

In addition to its West Linapacan holdings, Oriental Oil also has a 10 percent equity stake in the promising oil and gas fields of Octon, and 12 percent in Calauit and Busuanga in the Northwest Palawan Basin. Several exploratory wells have already been sunk in these fields, and there are early indications of sizable deposits of both oil and gas. Evaluation studies are now being undertaken to determine the extent of these reserves, after which a program will be designed for possible development. Still to be put onstream is the Galoc oil discovery located some 27 kilometers northeast of West Linapacan and estimated to have reserves of 30 to 40 million barrels.

Oriental Oil's offshore rigs near Palawan Island produce up to 20,000 barrels a day on average.

Another major project for OPMC is its 25 percent stake in an exploration off the coast of Mindoro. Drilling, which is scheduled to begin some time this year, is based on a 1991 "Seepfinder" survey which detected oil seepage from the sea floor. This particular contract area has not yet been fully tested and an oil discovery could very well transform it into the most promising exploration "playground" after the Northwest Palawan Basin.

A SECURE FUTURE BASED ON DIVERSIFICATION PLANS

With a view to helping to extricate the country from its current energy crisis, OPMC plans to set up a new company called Linapacan Oil, Gas & Power Corporation (LOGPOCO), which will also invest in an onshore power generating plant. LOGPOCO will be listed on the new Philippine Stock Exchange and shares will be sold in overseas as well as domestic markets, mainly to European and Asian investors. The local underwriters will be Philippine Commercial & Credit International and PCI Capital Corp., while Hong Kong-based securities firms Morgan Grenfell Securities, Baring Securities and Worldsec Securities will handle B shares for foreigners.

According to Robert Coyiuto, Jr., who will head LOGPOCO in addition to his other duties, "We see the power generation business as a sound investment because it generates plenty of cash and it is very little affected by fluctuating conditions in the economy."

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OIL INDUSTRY

ON TAP FOR AN OIL BOOM

Although much of the news is dominated by power shortages, there is actually an energy boom going on in the Philippines.

So far, 170 wells have been drilled under the service contract system which, according to a report prepared by Wood Mackenzie Co. Ltd., was rated the "most profitable" among nine countries in Southeast Asia and Australasia (see graph). Moreover, the report declares that the Philippine service contract is "probably the simplest petroleum tax system in Southeast Asia."

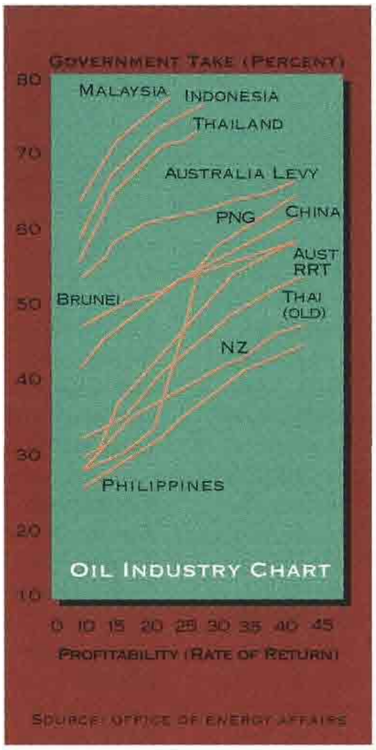
The government hopes the country will be able to meet 80 percent of its oil needs by the end of the decade with a quota of 270,000 barrels per day, as opposed to its present output of around 15,000 b/d.

In real terms, all the oil drilled in the Philippines will be exported as its quality is similar to Dubai light crude, which is unsuitable for local needs. The country still relies on a heavier lower grade of crude.

In financial terms, this could well prove to be a foreign currency bonanza for the national treasury as the price of the oil exports are expected to outstrip the cost of the imported fuel.

There are 13 sedimentary basins in the Philippines which are considered likely to contain deposits of oil and natural gas, according to a report financed by the World Bank and conducted by the Philippine Office of Energy Affairs. The major basins are Northwest Palawan, Visayan, Sulu Sea, onshore Mindoro and offshore south of Mindoro.

New offshore drilling sites have contributed to the energy boom.



The OEA report, which cost US$25 million and took four years to complete, has already attracted a number of U.S., U.K., Australian and New Zealand oil companies.

INCENTIVES FOR CONTRACTORS

In addition to its plan to privatize the national petroleum company PETRON in 1993, the government has created incentives for the oil industry which are designed not only to attract service contractors, both local and foreign, but also to induce greater offshore foreign investment in their operations. These incentives include:

- A service fee of up to 40 percent of production.
- Cost reimbursements of up to 70 percent of gross production with a carryforward of unrecovered costs.
- Filipino Participation Incentive Allowance (FPIA) grants of up to 7.5 percent of gross proceeds to service contracts with a minimum Philippine participating interest of 15 percent.
- Exemption from all taxes and duties for importing materials and equipment for petroleum operations.
- Easy repatriation of investments and profits.
- Free market determination of crude oil prices.
- A special income tax rate for foreign employees.

THE PHILODRILL CORPORATION

PHILODRILL

TARGETING INTERNATIONAL CAPITAL MARKETS FOR EXPANSION FUNDS

Philodrill, the Philippines' premier oil exploration and development company, is preparing to tap international capital markets in order to fund an expansion program in one of the country's fastest growing and most promising industries.

With assets of PHP1.46 billion (US $58.4 million), and unaudited net income of PHP69.5 million ($2.78 million) during the second half of 1992, the company plans to enhance its position as one of the best placed companies in terms of its service contracts in oil exploration areas.

PHILODRILL'S ACREAGE POSITION (AS OF DECEMBER 31, 1992.)

CONTRACT AREA	OPERATOR	PARTICIPATION EQUITY(%)	COST(%)
SC 6A (NW PALAWAN)	PHILODRILL	27 2.47 CARRIED	27
SC 6B (NW PALAWAN)	ALCORN	10 2.47 CARRIED	10
SC 14C (LINAPACAN)	ALCORN	7.10	4
SC 14A (NIDO)	ALCORN	4.33	4.33
SC14B (MATINLOC)	ALCORN	12.68	12.68
SC 39 (NW PALAWAN)	FLETCHER CHALLENGE	11.11	11.11
SC 35 (SOUTH SULU SEAS)	PHILODRILL	21.29	21.29
GSEC 59 (ONSHORE MINDORO)	ANDERMAN/ SMITH	21.07	21.07
GSEC 63 (REED BANK)	KIRKLAND	17.50	17.50
COTABATO BASIN	PETROFIELDS	25	25
SC 36 (CENTRAL LUZON)	VULCAN/ANGLO	18.38	18.38
GSEC 64 (SW PALAWAN)	TRANS-ASIA	11.25	11.25
WEST CULION GSEC	OXY	5	PARTIAL CARRIED
N.W. MALAMPAYA GSEC	PHILODRILL	30	30

Early this summer, Philodrill plans to float a $35 million international bond issue, which company president, Alfredo C. Ramos says "will primarily allow us to pay for our share of the development costs of the Octon and Galoc fields in the Northwest Palawan Basin." The Octon field is believed to have reserves of 15 to 30 million barrels of oil, 200 billion cubic feet of natural gas and up to 15 million barrels of condensate.

Philodrill's other priority is the development of two huge new areas which surround the concession operated by Royal Dutch Shell and which contain the giant Camago-Malampaya oil and gas discovery. The latter is believed to have at least 300 million barrels of recoverable oil and 2.7 trillion cubic feet of natural gas.

In West Culion, just north of Malampaya, Philodrill has chosen Occidental Petroleum as its operating partner. In northwest Malampaya, immediately to the west of Shell's giant find, Philodrill acts as operator, holding a 30 percent interest. Here, too, the company intends to negotiate a "farm out" contract, exchanging a portion of its interest for a commitment by an international major to supply expertise and substantial exploration dollars for expensive deepwater drilling.

In addition to its holdings in the Octon, Galoc, Camago-Malampaya and West Culion oil fields, Philodrill has a 3 percent stake in the now cash-generating West Linapacan-A oil field, with a corresponding 6.7 percent share of gross revenues. Operated by the Texas-based company, Alcorn, the West Linapacan discovery has estimated reserves of at least 100 million barrels. It is currently producing 12,000 barrels of oil a day, and is expected to reach 50,000 barrels per day by the middle of 1995.

With service contracts and major stakes in 14 concession areas, Philodrill has broader exploration potential than any other Philippine company, and has established links for their development with a number of international oil firms, including Hunt Exploration and Occidental of the U.S. Although particularly well situated in the proven commercial finds offshore northwest Palawan, the company is also well placed in several other highly prospective areas,

THE PHILODRILL CORPORATION

particularly the South Sulu Sea district, which abuts confirmed finds offshore Sabah.

Francisco A. Navarro. Philodrill's vice president for exploration, summarizes the company's strategy: "Our approach is to obtain the highest exposure to potential finds at the least risk," he explains. "For this purpose, we maintain a team of highly skilled professionals to analyze how we can best obtain mileage for our still limited resources. We use their work as the basis for decisions as to which oil fields we can bring into production on our own, generally smaller-to-medium-sized opportunities like Octon, or which have to be contracted out to larger and more experienced companies because of the higher costs and risks, as would be the case with any deepwater finds we may make near Malampaya."

General Credit Corp., Philodrill's local finance house, offers advisory services to many types of clients.

OTHER LINES OF BUSINESS

Although oil exploration will remain its main focus for the foreseeable future, Philodrill is more than an oil company. "Over the years, we have developed into a holding company with well defined divisional interests," says Reynaldo E. Nazarea, vice president for finance and administration.

Financial Services. Philodrill expanded into financial services in 1989 when it acquired a local finance house, General Credit Corporation (GCC). The quasi-bank subsidiary has recorded consistent growth, posting net revenues of PHP21.8 million (up 14 percent) and net income of PHP7.8 million (an increase of 89 percent) in 1991. GCC has now established a new fee-based corporate advisory service division to engage in merchant banking services, such as corporate finance, loan packaging and syndications, project financing, and trade financing services.

Property Development. One of the jewels in the Philodrill crown is the PHP1.9 billion Shangri-La Plaza shopping mall, part of its 19 percent-owned Shangri-La Properties Inc. Built with one of Asia's leading developers, Robert Kwok, the 8.7 hectare complex, with total assets worth PHP6 billion, is positioned in Manila's fastest growing commercial section. Shangri-La properties recorded a profit of PHP16.8 million in 1991.

"Shangri-La's future prospects and profitability should be significantly enhanced by the recent spin-off of the shopping mall into a separate corporation," says Nazarea. "Two regional Asian investors will each buy 20 percent of this new entity for a total of PHP1 billion, and the money will flow upstream to reduce parent company debt and increase net income."

Gold and Copper Mining. Philodrill also maintains equity investments in the gold and copper mining sectors through its stakes in Surigac Consolidated Mining and Atlas Consolidated Mining and Development. Hit with a worldwide downturn in metal prices in the past two years, Nazarea nevertheless maintains, "We are optimistic about the recovery of the mining industry, due to the recent pick up in commodity indicators, and the remarkable growth in demand for gold on the part of consumers in China, among others."

Manufacturing. Philodrill's manufacturing sector investment, Pacific Rim Export and Holding Corporation (Primexport) posted net earnings of PHP4.3 million on consolidated revenues of PHP141.8 million in 1991, up 34 percent on the previous year. Primexport currently has eight manufacturing joint ventures with foreign firms, ranging from pleasure craft to children's toys.

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THE PHILODRILL CORPORATION

AN INTERVIEW WITH ALFREDO C. RAMOS, PRESIDENT OF THE PHILODRILL CORPORATION

Q. What can you tell us about the bond issue that Philodrill is about to launch?
A. It will be a US$35 million equity-linked bond. At the moment, the terms can only be indicative; they will be finalized at the time the issue actually comes to the market.

The instrument has been designed to meet the needs not only of domestic purchasers but also of foreign investors in terms of its yield, security, and upside potential.

Q. What do you think will make Philodrill's offer attractive to investors?
A. For one thing, it is in effect a slightly more conservative way to invest in a company whose stock tends to be volatile. The bond element provides downside protection, while the equity-linked feature ensures that the upside will be equally or, possibly, even more exciting than owning the common stock.

We expect that the offer will be made some time early this summer. Our financial advisors on the deal have been MAA Securities Limited in Hong Kong and Tael Limited in Geneva. A number of underwriters have discussed the issue with us, and Peregrine Capital has put forward some really interesting ideas.

Q. What is the reasoning behind making the offer now?
A. We think Philodrill is the best positioned oil exploration company in an industry that is currently undergoing rapid growth. We are participating in 14 concession areas, some with proven reserves, particularly the Linapacan, Octon and Galoc fields. In addition, we are very well placed in the highly lucrative Malampaya find of Royal Dutch Shell and Occidental Petroleum.

Q. What factors have contributed to making Philodrill the premier oil exploration and development company in the Philippines?

Alfredo C. Ramos

A. It is a matter of strategy. Our interests are very diverse and we have the best technical team. We act as operator for four of our concessions — which is more than any other Philippine company — but we also understand our limitations. We certainly have the capability to develop medium-sized finds in shallow water, like Octon, by ourselves but we still need to link up with majors for deepwater projects. It is a matter of balance, of getting the risk-reward ratio right for the benefit of our stockholders.

Q. In the past, Philodrill has diversified successfully into financial services, manufacturing, property development and other non-oil activities. Are these the types of businesses which Philodrill intends to continue emphasizing in the future?
A. These kinds of activities will be held at approximately their present level. According to our projections, they will contribute less than 10 percent of earnings during the remainder of this decade.

To understand our strategy in regard to diversification, you have to know something about the history involved, which influenced our thinking back in the mid-1980s. One important fact to remember is that we were disappointed by the rather limited size of early finds in the Philippines, such as Nido, Matinloc, and Cadlao. Even in Nido, recoverable reserves only amounted to about 17 million barrels.

New finds like Linapacan and Malampaya have totally changed this picture. The rate of return in the oil sector is set to rise sharply in the next few years, and we want to be fully involved. Our non-oil investments should be viewed as valuable but incidental. From here on in, our focus will again be almost exclusively on oil.

(Note: This interview was conducted in mid-February 1993.)

A NEW ROLE

A Talk with Central Bank Governor Jose L. Cuisia, Jr.

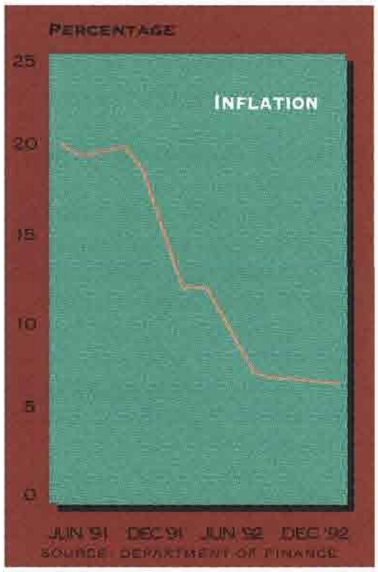
Q. What is the Philippine Central Bank's monetary policy at this time?
A. Our target for inflation in 1993 is 7.5 percent. We hope to achieve this by containing the expansion of the money supply. In 1990 the increase in M3 was more than 20 percent. In 1991 it rose to 22 percent, then fell to 17 percent, and in 1992 it was down to 12 percent. For this year we are projecting an increase in the money supply of 13.8 percent in order to spur growth. Our reasoning behind this increase is that we have some room to accommodate an increase in the inflation rate, which now stands at 8.5 percent, during the first half of the year before we tighten the money supply during the second half. This will be accomplished by allocating 60 percent of public works expenditures in the first half of the financial year and 40 percent in the latter half.

Q. How will you control this pump-priming of the economy?
A. I always take the opportunity to remind the government of the dangers of pump-priming unless it is properly managed and controlled. We are ready to tighten monetary control any time we think we see things getting out of hand. This may run counter to what the government wants, but we are prepared to do it. We can always do this by influencing the interbank rates, sending out a signal to which the markets will react.

Q. How will the proposed Monetary Authority Act affect the role of the Central Bank?
A. It will mean a clear policy of independence for the Central Bank — something that unfortunately is not present in the existing charter. The composition of the monetary board will be such that a majority of the members will come from the private sector. I believe it is imperative for the monetary board to be independent from both the legislative and executive branches of government in setting monetary policy.

Q. What do you see as the primary role of an independent Central Bank?
A. Our primary objective is price stabilization. Not exchange rate management to support exporters. Not growth. Under the present charter we are not sure exactly what the Central Bank's objectives are. It talks about sustainable growth, price stability, ensuring adequate credit, all of which make us balance many conflicting objectives.

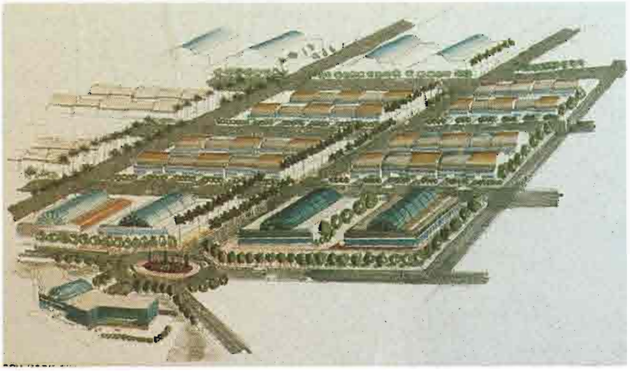
Q. How important is an independent Central Bank in attracting more foreign investment into the country?
A. I think it will give the foreign community greater confidence if the Central Bank is not politicized, and if I were in their shoes I would be more comfortable if the Central Bank was no longer being directed by the President — as it has been in the past — to let the government borrow money from the Central Bank interest-free, or to cushion the impact of prices on consumers, as happened for example during the oil crisis of the late 1970s, by insisting that we provide forward coverage for oil products.



SUBIC BAY

SELLING THE FILIPINO DREAM

Subic Bay is a microcosm of the Philippine economic future. Blessed with a range of natural and physical resources and backed by an abundance of enthusiastic, well-trained local workers and volunteers, it hopes to pull off what no local authority in this country has yet managed to do: pay for itself.



Artist's rendering of the proposed Subic Bay development.

Leading the low-key privatization program, which bears some resemblance to a neighborhood garage sale, is the dynamic and often autocratic 47 year-old mayor of adjacent Olongapo City, Richard Gordon. Both admirers and critics credit Gordon with being possibly the only person who has enough determination and ambition to see the project through. He does little to hide the fact that he is carrying on the dream of his father, who was assassinated in 1967 while mayor of the same city.

Every day for the past few months, groups of investors from Taiwan, Singapore, Korea, Japan, the U.S. and Australia have paraded through Gordon's office on the base — once occupied by the fleet admiral — and have looked over his impressive models and master plans to convert the vast US$8 billion complex into a free port and export zone which he hopes will one day rival Taiwan's Kaohsiung or China's Shenzen special economic zone. His main enticement is a flat 5 percent business tax, compared to the 35 percent corporate tax imposed on the rest of the country.

Gordon has a lot to sell. There are over 600 buildings, 1,876 air conditioned homes, a deepwater port, an airport, a resort island, oil storage facilities, schools, supermarkets, even golf courses. All are built to U.S. standards, which in Asian terms is top of the range.

But he also has a lot to make up. A government study calculated that it will cost US$1.4 billion to convert the base to private use, and until the cash starts flowing in, the Subic Bay Metropolitan Authority (SBMA), which is operating on a paltry US$12 million annual budget, will have to pick up the tab for keeping an infrastructure running that cost the Americans US$130 million a year.

Despite these drawbacks, a Taiwanese government-backed consortium has agreed to set up a US$60 million industrial park which could create 160,000 jobs over the next ten years. The American Enron Power Corp. plans to spend US$140 million to build a 105MW generator, which will allow it to earn revenue by selling electricity to the rest of the country. An Australian firm wants to use the location to base its multimillion dollar international telecommunications message center which in six years could employ up to 6,000 people. Keppel Corp. and Marissco Ltd. of Singapore have agreed to set up a seafood processing plant which will employ 600 people, and CS-First Boston has already found a lessee for the oil storage depot.

The speed with which all of this has been achieved so far is impressive by any standard, but it is still too early to call Subic Bay a viable proposition.

Gordon is counting heavily on the international curiosity surrounding Subic to continue to attract free publicity as well as investor curiosity. "People from all over the world are aware of it. And they will be impressed if this mightiest base of America can be turned into a successful commercial enterprise," he says.

If the promise of investment is kept, Gordon plans to take his show on the road and float a bond issue in New York similar to the Cebu equity bonds issued last year. "There are an awful lot of assets here to cover the bond," says Gordon, "but it will be a better issue if we are already generating revenues."

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