

NATURAL PARTNERS

North Australia-Philippines Relations

R. J. May (ed.)



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R.J. May
editor

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Preface

Relations between the Philippines and northern Australia date back to the early years of European settlement. Filipinos made a significant contribution to the development of north Australia throughout the nineteenth century, while a small number of Australians were involved in commerce in the Philippines. In north Australia, where some Filipinos intermarried with Aboriginal people and European settlers, this heritage is reflected in the incidence of Filipino names in present-day northern communities.

In more recent years the Northern Territory, and to a lesser extent northern communities in Western Australia and Queensland, have come to see their futures inextricably linked to developments in the countries to their immediate north, particularly Indonesia and the Philippines, and have sought increasingly to strengthen social, cultural and sporting, as well as commercial, ties. For Australians, some commonalities of language, predominant religion, Western cultural experience, and democratic traditions have contributed to making the Philippines especially attractive as a place to visit and to do business with; for Filipinos, Australia has been seen since the 1970s as a desirable destination for migration and, increasingly, as a source of education and training. Over the past decade, trade between Australia and the Philippines has grown substantially, if from a low base, and the Philippines has become the fourth largest recipient of Australian development assistance.

For north Australia, trade with the Philippines is still small, and dominated by live cattle exports to the Philippines. This is in large part due to the small market and relatively low level of manufacturing activity which north Australia represents, but the infrequency and high cost of shipping and lack of direct air links are also major inhibiting factors. Nevertheless, the possibilities for expanded trade and investment flows,

particularly through the provision of services and through joint ventures in small and medium-sized enterprises, appear to be considerable.

With the issue of expanded commercial relations primarily in mind, and with a delegation from the Northern Territory about to visit the Philippines in conjunction with Australia's 'All the Best from Australia' presentation in Manila, a workshop on 'North Australia-Philippines Relations' was held at the Australian National University's North Australia Research Unit on 25 September 1998, in association with the Northern Territory University's Centre for Southeast Asian Studies and the NT International Business Council. The workshop followed an earlier conference on 'Government-Business Relations Between Eastern Indonesia and the Northern Territory'. This volume is an outcome of the September 1998 workshop.

An opening chapter by Philippines Minister and Consul General in Australia, Edwin Bael, provides an overview of relations between Australia and the Philippines, with particular reference to north Australia and the southern Philippine island of Mindanao (regions which share an interest in the development of the Brunei/ Indonesia/ Malaysia/Philippines-East ASEAN Growth Area (BIMP-EAGA). Subsequent chapters by Dennis Shoesmith, R.J. May, and William Brummitt and Frances Perkins (the latter from the Department of Foreign Affairs and Trade's East Asia Analytical Unit) review, respectively, the historical context of north Australia-Philippines relations and the political and economic contexts of the Philippines. Relations between the Northern Territory and the Philippines are surveyed in the chapter by Ian Watts, from the NT Department of Asian Relations, Trade and Industry (DARTI). Darwin-resident businessman Pascual Tantengco then presents the viewpoint of a Filipino businessman operating in north Australia, while papers by Michael Kilgariff (of the NT International Business Council), William Cordingley, Steve Ellison, Chris Healey and Kym Handberg discuss various aspects of north Australian business and academic relations with the Philippines, including the live cattle trade, which has maintained its importance in the Australia-Philippines relationship notwithstanding the effects of

the Asian financial crisis (which have severely affected the trade between Australia and Indonesia). Further chapters survey the role and functions of the Australia-Philippines Business Council, the principal features of trade relations between Australia and the Philippines, and the main components of Australia's development assistance programme in the Philippines. Finally, The Philippines Honorary Consul General for the Northern Territory, Robert Matthewson, provides an overview of the workshop proceedings and suggests some possible lines of future development. Collectively, the various papers give some indication of the extent and dynamics of north Australia-Philippines relations and point to the possibilities of a much more detailed study of the relationship.

In organizing the workshop and bringing this volume to publication, I am indebted to my longstanding Filipinist NTU colleague, Dennis Shoesmith, and to the encouragement and support received from NARU director Christine Fletcher and NARU staff Janet Sincock, Melissa Sue and Paula Fennel; DARTI officers Ian Watts, Patrick Markwick-Smith, John McCue and Steve Sanderson; director of DFAT's Northern Territory office, Keith Gardiner (who presented the Brummitt and Perkins paper in the absence of the author) and Ross Ainsworth, of the Northern Territory Livestock Exporters Association, who was unable to attend the workshop due to commitments in the Philippines. Bill Cordingley, of Meat and Livestock Australia, though not present at the workshop, provided a paper at very short notice, and Aurora Quinn, of the Office of Ethnic Affairs, Department of the Chief Minister, Darwin, kindly agreed to the reproduction of sections of her 'Background on Philippines-born Territorians'. In Canberra, Claire Smith and Allison Ley carried the burden of converting a collection of written and recorded presentations into a publication, with characteristic efficiency.

Opening Address

Edwin Bael

These are interesting times for the Asia region. Times marked by an historic economic crisis. Much of Asia has plunged back to poverty. Old political tensions are cracking again. New rifts are opening. Gone is the stability that underpinned Asia's economic growth. And people ask whether the region's recessionary agony can be relieved without serious conflict and bloodshed.

Against this backdrop, we have come today to look closer at North Australia-Philippines relations. We, at the Embassy in Canberra, would like to view this NARU exercise more as an act of faith than as an expression of concern, though it could well be both. And we certainly appreciate being included in your considerations. On behalf therefore of the Ambassador, Her Excellency Delia Domingo Albert, and of the Filipino people, I wish to express our profound gratitude to Dr Fletcher, Dr May and the staff of NARU for hosting this workshop. I also wish to thank all of you for your interest in the subject.

I am sure the subject will be enriched by the quality and focus that our speakers today will bring to bear in our discussions. They will also be complemented by your insights as well-informed participants.

In the meantime, I propose to consider with you a general perspective on Philippine-Australia relations, talk a bit about Mindanao, and perhaps point out some possibilities for enhancing the relations of our countries with Mindanao and Northern Territory as points of reference.

Perspective

Let me begin my update on Philippines-Australia relations by using the 1995 visit of President Ramos as a benchmark. That was the first state visit to Australia of an incumbent Philippine head of state. It resulted in upgrading the relationship substantially and has been viewed by both sides as a watershed in Philippines-Australia relations. President Ramos conveyed Philippine policy priorities placing Asia-Pacific relations as the cornerstone of Philippine foreign policy. This message was delivered in twenty-two speeches during a period of six days and in five cities before audiences of Australian officials, businessmen, academics, the press and general public. The President underscored the convergence of views with Australia on mutual security in the region, encompassing military, economic, political and diplomatic dimensions. He cited the important role of the 'middle powers' in the region. He also featured the commonalities in our democratic processes such as an exuberant press, common religious heritage, and even the English language as bases for intensifying a meaningful bilateral relationship.

The improvements in the bilateral relations could generally be grouped into three areas: economic, and development and defence cooperation.

During the Ramos visit, the private sector signed thirty-three agreements with Australian partners. This has led to considerable increase in economic activities. But it has not yet addressed the chronic trade imbalance ratio of four to one in favour of Australia. Total trade in 1997 reached \$1.7 billion, but Australian exports amounted to \$1.3 billion while the reciprocating Philippine exports barely reached \$377 million. There is also the continuing imbalance in investments: Philippine investments in Australia are valued at \$405 million while Australian investments in the Philippines reach only \$290 million.

Today, the Philippines is Australia's largest market for dairy products and now also the largest market for livestock, much of the livestock coming from the Northern Territory.

Despite the trade imbalance, there are positive signs of increasing economic activities. In the past four years, membership in the Australia-Philippine Business Council (APBC) has increased from fifty to 180 entities; San Miguel Corporation swapped shares with Coca-Cola Amatil; P & O Australia expanded the Manila South Harbor and the grain terminal in Mariveles, Bataan; specialized Australian cranes for handling containers are being made in Subic; and some Filipino skilled welders have been transplanted to Williamstown to help build the ANZAC frigates.

In the area of development cooperation, agreements signed during the 1995 visit strengthened the development cooperation assistance agreement signed in 1994 during the visit of then Foreign Secretary Roberto R. Romulo. Australia today is our second largest bilateral partner in development cooperation after Japan. The Philippines on the other hand is Australia's fourth largest partner after Papua New Guinea, Indonesia and Vietnam.

Australian development assistance is now focused on projects in Southern Philippines, in keeping with the Philippine policy to ensure that Mindanao gets on its feet. Development cooperation policies have shifted focus to humanitarian concerns, health and governance. Australia also funded training of trainers in basic education. Brisbane was recently host to more than 600 schoolteachers from far flung barrios of Mindanao and the Visayas, upgrading their skills in teaching English, Mathematics and Science. Currently, we are undertaking a review and assessment of the thrust of development assistance.

As regards defence cooperation, the 1995 visit also resulted in a major agreement that has become the basis of an upgraded defence cooperation program. Australia today hosts the majority of training programs for our defence personnel. Defence cooperation between our two countries includes joint military exercises, official visits, exchanges of personnel and

information, intelligence sharing, cooperative research and development, production and export, and industry cooperation.

We have seen in the past three years a considerable increase in the number of officers and other military personnel involved in exchange visits. The recently published Defence White Paper for the Philippines is a product of several consultations. And in Canberra alone, there are fourteen military officers pursuing studies at various academic and defence institutions.

Overall, Australia has made very positive moves to increase our relations and make them more meaningful. At the 1996 APEC Summit hosted by the Philippines, Australia played its role well as 'friend of the chair'. In the ASEAN Regional Forum, where the Philippines was chairman until July this year, Australia cooperated actively as member of the Friends of Cambodia, seeking a just solution to the situation in Cambodia. It does not hurt, of course, that our two countries happen to have similar positions on various international security issues ranging from the need to support regional stability, to nuclear non-proliferation, and chemical and biological weapons.

In responding to President Ramos's invitation to Australia to participate in the celebration of the centennial of the declaration of the Philippine independence from Spain, Foreign Minister Downer announced Australia's participation through a three-week country promotion this November, called 'All the Best from Australia' – to convey a dual meaning of greeting the Philippines for its centennial and of bringing the best of Australian capabilities to the Philippines. Trade and investments are at the core of the promotion events and I am sure the Northern Territory is involved in sending 'all the best' from Australia. But there will be complementing activities showcasing Australia's best in business, science and technology, culture and sports. Australians of Philippine extraction will also join cultural activities, like singer Kate Ceberano and poet Melinda Bobis.

Moreover, Minister Downer launched last May a publication of the Department of Foreign Affairs and Trade entitled *The Philippines: Beyond the Crisis*. It is a well researched study and I

am happy to learn that this workshop will take it up, for it is indeed highly recommended to fully appreciate business opportunities in the Philippines.

Philippine-Australia relations are subjected to regular and systematic assessments, through the following mechanisms:

SOM (Senior Officials Meeting) – held every eighteen months to two years at head of department level, focusing on political issues arising between the two countries.

JMC (Joint Commission Meeting) – held annually between senior economic officials of both countries to discuss and resolve bilateral trade and investment issues and share perspectives on regional and global economic issues.

HLC (High Level Consultation) – generally held annually between the aid coordinators of both countries to discuss the focus and direction of the aid program as well as address issues arising from projects.

JWG/MDL (Joint Working Group on Meat, Dairy and Livestock) – held annually to discuss matters relating to bilateral cooperation in agriculture; it is participated in by senior officials and technical experts in the concerned fields.

JDCT (Joint Defence Cooperation Talks) – provide a regular forum for the discussion of issues arising out of the defence relationship to include exchanges between defence colleges, business from armed forces modernization, and even regional defence concerns.

BRSD (Bilateral Regional Security Dialogue) – intended to add further substance and depth to the two countries' regional engagements; it was set up in 1997.

PAD (Philippine-Australia Dialogue) – also established in 1997, it is aimed at further enhancing the bilateral relations and partnership through the involvement of the academe, business and government. The first PAD was held at the University of Asia and the Pacific last year in Pasig City, Metro Manila. PAD II is scheduled to take place this November at the Griffith University, Brisbane.

With these mechanisms, we have the institutional systems for periodically upgrading our bilateral relations. And we can say in general that Philippines-Australia relations have never been better. The trade and investment imbalances have somehow been offset by Australian expenditures under the rubric of defence and development cooperation – for we must look at relations in totality.

Imbalance

But this does not mean that the lopsidedness of the economic relations will cease to be a concern. No self-respecting nation wants to be a recipient forever of development assistance. Certainly, the Philippines looks forward to graduating from this situation and giving its fair share of contribution for the development of others, which to a certain extent, under South-South cooperation, it has begun to do.

A review of pertinent statistics will show why there is this continued concern for the economic imbalance, particularly as regards the Northern Territory. The Philippines is the sixth top export destination of the Territory. 1996-97 data show that NT exports to the Philippines reached \$69.2 million. In the same period, Philippine exports to the Territory amounted to only \$246,000. Aggregate figures from 1989 to 1997 reveal total exports for that period from Northern Territory to the Philippines worth \$258.8 million, whereas the sum of Philippine exports to the Territory for the same period was only \$5.9 million. Rounded up, this means a ratio of 6 to 260 (or 1 to 43.3) in favour of the Territory. More recent figures covering 1992 to 1998 show a worse balance of aggregates: \$1.6 million to \$286.8 million in favour of the Territory – an imbalance of 1 to 143.5.

You will therefore understand why we must appeal, as I appeal to you today, for steps to address this grievous imbalance. And we would like to suggest that those steps be focused on Mindanao and Palawan, as these are the Philippine areas involved in the BIMB-EAGA and the peace process in Mindanao which need to be supported with trade and development.

Mindanao

Mindanao accounts for 34 per cent of Philippine agriculture, 44 per cent of domestic food trade, 20 per cent of Philippine GDP, 33 per cent of total Philippine land area, and 25 per cent of total Philippine population. It is interesting to note that if the Philippine population were put at 72 million (estimates range from 70 to 75 million), Mindanao's population would be 18 million – the same as that of the entire Australian continent.

What then are the steps we can take to redress the imbalance?

Before I try to answer this question, I wish to assure you that the citation of the lopsided data in favour of the Northern Territory was not intended to cast a bad light on my friend, Mr Bob Matthewson, the Philippine Honorary Consul General in Darwin, who is with us this morning. For the truth of the matter is that the undesirable situation in which we find our trade relations is largely a function of the relative market sizes of the two parties. Mindanao alone has 18 million people whereas the whole of the Northern Territory, including the capital city of Darwin, can reach 190,000 people if transients/tourists are included. In other words, the market size has a balance of 18 million to 0.19 million in favour of Mindanao.

This means that our remedies to address the imbalance must go beyond selling to the other market, that is the Australian market. Of course, we acknowledge that better market analysis would perhaps allow us to identify more Australian needs that can be met with competitively priced Philippine goods and services.

Areas for redress of imbalance

But for immediate redress, I would like to submit for your consideration the following approaches: *joint ventures, tourism, skilled manpower, and educational and scientific exchange.*

For joint ventures, I recommend that we keep in mind the current priorities of the Estrada administration, which are basic services for our people. 'Food on their tables; roof over their heads'. In high-falutin terms: food security, affordable housing, health, education and other basic needs. Thus, joint ventures that would help produce, store, transport and distribute food supplies would be welcome projects. This means not only ventures in food production and post-harvest maximization, but also pushing for the needed farm-to-market infrastructure to include inland, inter-island and air transport. Mindanao is being groomed as a food basket. It will therefore need such infrastructure as roads, bridges, ports, airports, irrigation systems, reliable weather information services and even the detection of banned chemical pesticides which end up polluting the land.

One area related to food business where Australian technology and business acumen might generate profits for both sides could be fruit purees. Soon, for example, the island of Mindanao will be producing mango because of the innumerable marcotted seedlings planted by small and not-so-small land holders.

Linkage with small and medium enterprises (SMEs) is recommended. This jibes with the nature of the vast majority of enterprises in Mindanao and Northern Australia. Production in the Philippines and marketing to Australia and the rest of the world of such lines as gifts, toys, housewares, furniture/furnishings, metal craft, textiles, garments, fashion accessories and jewellery, and even tropical fruits and vegetables, can be winners and can serve as entry points.

Aside from the Davao and SOCSARGEN area, it might be good to consider other parts of Mindanao and Palawan. The CARAGA region covering Agusan and Surigao areas is known as the timber corridor of Mindanao, and businesses such as those

of Mr Matthewson might find greener pastures there. The Zamboanga peninsula has the Zamboanga Export Processing Zone where businesses of Darwin's Trade Development Zone (TDZ) might want to establish some presence to meet EAGA needs; and in the province of Zamboanga del Norte, there are untapped huge deposits of highly workable and multi-colored marble for the marble industry. Palawan is well known for its eco-tourism. The Sulu Archipelago could have joint ventures in coffee. Jolo is one of the two areas in the Philippines that produce really superb Arabica coffee (the other is Batangas). Mention of Sulu brings us to the Autonomous Region of Muslim Mindanao (ARMM). We would not hesitate to facilitate business discussions between the NT and the ARMM.

In terms of *tourism*, we certainly would not mind welcoming more tourists from Northern Territory. And we would also welcome Northern Territory's participation in the World Expo 2002 to be held in Quezon City.¹ A tie-up between the Philippines and the many eco-tourism destinations in Northern Australia might be a good area for negotiation. The matter of ecotourism and the role of indigenous peoples in it might occasion an exchange programme among your Aborigines and our indigenous cultural communities.

As regards *skilled manpower*, perhaps closer exploration of your Employer Nomination Scheme (ENS) and Regional Sponsored Migration Scheme (RSMS), in coordination with Australian immigration authorities, might generate a win-win situation: your local industries can meet their needs for skilled and experienced manpower from the Philippines.

A final area for looking to redress the imbalance, without precluding recourse to other approaches, would be technology transfer. Off-hand, I can think of tree-farming technology and

¹ On 23 September 1998 President Estrada announced that the Philippines would no longer host the World Expo in 2002, due to the economic crisis (*Philippine Daily Inquirer* 25 September 1998). Support for the Expo from the private sector, however, has led to a reconsideration of the decision.

tropical aquaculture, which the Northern Territory possesses in suitable quality.

These are just some ideas we can think of at the moment. I am sure there are more, especially in the maritime and trade areas, for which the natives of our islands have a natural aptitude.

Conclusion

So long as we keep within the Estrada priorities for the basic needs of our people, there will be mutual benefit in joint undertakings and hopefully redress of our trade and investment imbalance. To paraphrase former President Ramos, we encourage you to stay with the Philippines for the best is yet to come. The current economic crisis, if seen from the Philippine historical perspective, is milder than the one that hit the country in 1982-1985. And we are now stronger as a result of following the IMF strictures over the succeeding years. With Australia effectively weathering this financial storm, the immediate prospects of improved economic relations between our two countries can only be called very good, despite these interesting times for the region.

Northern Australia and the Philippines: The Historical Context

Dennis Shoesmith

It has only been very recently that Australia and the Philippines have developed substantial bilateral relations. At the level of human interaction, the relationship goes back much further, particularly between the people of Northern Australia and the Philippines. This paper attempts to sketch the larger historical context within which Australian-Philippine relations developed and then to look at the special relationship which developed between northern Australia and the Philippines from the 1870s when Filipino pearl divers began to arrive on the coast in significant numbers.

Fortunately, a few years ago, a study of Philippine-Australian relations appeared, edited by Rey Ileto and Rodney Sullivan. I would like to acknowledge my debt to that work: *Discovering Australasia, Essays on Philippine-Australian Interactions* (James Cook University, 1993). I would also like to acknowledge the help of Aurora Quinn, Inez Cubillo, Frank Cubillo, Tina Black, and Mary Lee Cubillo who provided me with community and family histories of Filipino and Filipino-Larrakia people in the Top End.

The general historical context

It is important in assessing the origins of the relationship between Australia and the Philippines to understand how the peculiar colonial experience of each country set each apart from the other. Our histories divided us rather than brought us together. There was trade between the Philippines and the Australian colonies in the nineteenth century, mainly in sugar and coffee (Battersby 1993:49), but apart from trade, other country-to-country contacts were insignificant. The weakness of the

relationship illustrated, in a striking manner, the way in which European colonialism divided Southeast Asia into discrete, culturally unrelated parts. White settler Australia was an outpost of Britain; the Philippines was an outpost of Spain and, from 1898, of the United States.

The Spanish and British legacies

The Philippines, of course, has by far the longer contact with Europe and European colonialism. Between the sixteenth and the nineteenth centuries, the Philippines was an outpost of Spain, an extension of Latin America into Asia. From the late eighteenth century to the end of the nineteenth, Australia was a collection of Anglo-British colonies (Ileto 1993:10). In 1898, the Philippines became a colony of the United States, gaining independence in 1946.

Both Spanish Catholic and United States colonialism were concerned to remake the fundamental identity of Filipino society, to convert the Filipinos to their understanding of 'civilization'. But, as the Filipino historian Teodoro Agoncillo has remarked, after four hundred years of Western colonialism, while the Filipino 'is the most Westernized Asian', at heart, Filipino identity remains Asian (Agoncillo 1969:8). During a very long colonial history, Filipinos have developed a unique culture which remains essentially Filipino while it incorporates Spanish and North American elements into its values, beliefs and social institutions.

In Australia, the British connection continued well after federation; indeed, it was still strong after the Second World War. The metropolitan centre of Philippine elite culture in the nineteenth century was Madrid, in the twentieth, Washington DC. The metropolitan centre of British Australian culture, at least until the 1940s, was London (see, for instance, Patrick White's uncertainty over his British and Australian identities in his autobiography, *Flaws in the Glass*).

British Australian culture represented an obstacle in crossing the colonial and post-colonial divide. British Australian culture, in the nineteenth and first half of the

twentieth century, was largely defined by its Anglo-Australian, Protestant heritage. Christianity can be seen as both a link and a barrier between Australia and the Philippines in the colonial period. The Church exercised a unique influence in the Philippines, greater than in Spanish America or in Spain itself. British Australians shared the British prejudice against Spain and Spanish Catholicism. In terms of the 'Black Legend', Spain represented 'Popery and superstition' (Gibson 1971).

British Australian attitudes to Southeast Asians in the early twentieth century were also shaped by contemporary theories of Social Darwinism that claimed racial differences between peoples helped explain their different levels of 'civilization'.¹ Racial prejudice was reinforced in this period in Australia by the threat of cheap Asian labour. At the time of Australian federation, the exclusionist 'White Australia' policy was 'widely defended in parliament and the community on the two grounds of racial purity and the preservation of working conditions' (McGillivray and Smith 1997:31).

As nineteenth century colonials, Australians and Filipinos inhabited two separate, even hostile, colonial domains. Iletto and Sullivan have challenged the assumption that Australia's British history made Australians alien in the Asia-Pacific (Iletto and Sullivan 1993:2). Their contribution to the rediscovery of links between Australia and the Philippines, particularly with northern Australia, is valuable. But the extent of Australian-Philippine relations up to the middle of the twentieth century should not be exaggerated. What Iletto and Sullivan have demonstrated is the special significance of the historical links between the Philippines and *northern* Australia and I will return to this relationship later.

British Australians were kept at arm's length from their neighbours:

¹ These racial theories derived from the work of such nineteenth century writers as Arthur de Gobineau and his *Essai sur l'inégalité des races humaines* (1854).

In terms of real power, beginning in the late nineteenth century, it made sense for the people of this country to approach Asia by means of the metropolitan capitals of Europe and the USA, capitals such as London, Paris, the Hague and Washington.... (Milner and Quilty 1998:1).

The primary links with the Western metropolitan capitals were important culturally as well as politically and economically.

The American legacy

British prejudice against Spanish Catholic civilization was an attitude shared by Americans such as Theodore Roosevelt and William Howard Taft, who helped set American colonial policy for the Philippines in the first years of the twentieth century. Catholic Filipinos, in this view, were victims of Spanish 'medieval theocracy', of 'priestcraft' in contrast to the progressive civilization of 'Anglo-Saxon individualism' (Taft 1904).

Roosevelt argued that the extension of Anglo-Saxon civilization to the Philippines justified conquest and colonial rule (Alfonso 1970:20). Taft, the first civil governor of the Philippines under American rule, believed, however, that, of all Asian peoples, the Filipinos were most ready 'for development along the lines which American ideals require'. They were Christian, although 'their Christianity sometimes seems different from European or American Christianity' and their educated leaders understood 'liberty and free government'.² In fact, the Philippines had produced outstanding progressive and liberal thinkers among the educated *ilustrado* elite and the Filipino clergy, generations before the American occupation (Schumacher 1981, n.d.).

The United States immediately and aggressively promoted American civilization in the Philippines through the public school system, staffed by American teachers and with the

² 'The duty of Americans in the Philippines', speech of William Taft delivered before the Union Reading College in Manila, 17 December 1903, quoted in Alfonso (1970:16).

English language the basis of all public-school instruction (Atkinson 1905:386). As its Asian colony, the Philippines was exposed to sustained contact with North American popular culture. This was not only an élite phenomenon but included anyone with a primary school education. As the English language was promoted through the free public school system, English became the key to American newspapers and magazines, films, radio and later television.

American colonial rule of the Philippines eventually helped bring Australians and Filipinos into a shared cultural orbit. American culture and the English language in the Philippines provided a possibility of cultural dialogue with Australians (although possibly only at a superficial level). In practice, that cultural dialogue was between Filipinos and Americans and Australians and Americans and not between Filipinos and Australians.

The turning point: The Pacific War

The fact that Australia and the Philippines share a geographical neighbourhood was largely irrelevant until the Second World War. During the war, for the first time, the bilateral relationship gained some substance. General Douglas Macarthur had close links through his own military career and that of his father with the Philippines. He had been appointed military adviser to the Philippine Commonwealth before his appointment as commander of United States Forces in the Far East (USAFFE). In February 1942, after the fall of Manila, President Roosevelt ordered Macarthur to transfer from Corregidor to Australia where he took command of the Southwest Pacific Area. From Melbourne and then from Brisbane, Macarthur directed the campaign which eventually led to the recapture of Manila in February 1945.

War propaganda was printed in Australia for the Office of War Information (OWI). The magazine *Free Philippines* was distributed from January 1944 'far and wide in enemy-occupied territory. Hundreds reached Manila every month'. 'Pencils, mirrors, small hand stencil kits, cigarettes, matches were

produced by the millions and landed all over the archipelago. All bore the I shall return message In the radio warfare, The Philippines Hour, broadcast each night from a short wave station in Melbourne, was to the Filipinos a magnet of information' (Warren 1993:24).

Australian forces were involved in Macarthur's Philippine campaign. The heavy cruisers *HMAS Australia* and *HMAS Shropshire*, Tribal destroyers *HMAS Arunta* and *HMAS Warramunga*, and smaller vessels were with the first Leyte-bound convoy, shared in the bombardment of landing beaches and gave general support (*ibid.*:29). Australian officers were also engaged as guerrilla leaders against the Japanese in Mindanao (Ross 1989). After the war, Filipino leaders such as President Manuel Roxas and Vice-President and then President Elpidio Quirino recognized the new relationship and included Australia in plans for a new regional association. Australian leaders, for their part, expressed their gratitude for Filipino resistance to the Japanese and the contribution this made to Australian security (Sullivan 1992:102–103).

The war with Japan confirmed a shared strategic orientation between the Philippines and Australia (*ibid.*:103). Australia and the Philippines now both looked to Washington for political leadership in regional and world affairs. The Pacific War and the subsequent period of decolonization changed the regional environment for the Philippines and Australia for ever. Australia had to establish bilateral and multilateral relations with the new states of Southeast Asia. The intrusion of Cold War rivalries into the region made this urgent (Milner and Quilty 1998:2).

Parallel but separate: strategic and defence alignments

After a brief period of diplomatic experimentation, Australia and the Philippines were caught up in the Cold War as American allies. By the 1950s, the Philippines and Australia were both American 'client states' (to use the language of the 1970s Left) (see, for example, Feith 1976). Both countries hosted American military facilities and were members of the South-East Asian

Treaty Organisation (SEATO, 1955-1977), the American-organized military alliance (JSCFADT 1998a:3). Australia and the Philippines provided troops to support the American effort in South Vietnam. The Philippines was a founding member of ASEAN which 'grew out of regional insecurity in the 1960s'; Australia has considered ASEAN the centrepiece of Australia's own regional security. Australian and Philippine governments, from the 1950s to the end of the Cold War, were dependent upon United States' patronage and shared a view of regional strategic and security matters (David-Balaba 1993:156).

The paradox of the convergence of Australian and Philippine strategic and defence positions from the 1950s is that, on the Australian side, the American alliance was perceived as protection against a region which was seen as dangerous and threatening. Australia relied on the ANZUS security pact, and successfully resisted the inclusion of the Philippines in ANZUS. Some Filipinos saw this as offensively racist (Sullivan 1993:107). Anxiety about regional stability in general and about the rise of communism (in the Philippines as well as in Vietnam and Indonesia) made the 1960s and 1970s the 'fear of Asia' decades for Australia (Smith 1997:114).

As allies of the United States, Australia and the Philippines developed some bilateral links but the primary bilateral relationship for both was with the United States and only incidentally with each other until well into the 1970s (David-Balaba 1993:158-159). When ASEAN was formed in 1967, 'the country with the most tenuous relationship with Australia was the Philippines' (Lim 1987:1). When the implications of the Nixon Doctrine (1969) began to be understood in Southeast Asia this prompted Australia to develop its regional relationships. In 1979, Canberra upgraded defence cooperation with the Philippines as Australia reviewed its strategic and defence policies in the post-Vietnam War era (*ibid.*:4).

Issues in a developing bilateral relationship

The Filipinos' long familiarity with American-style democracy could have provided a basis for better understanding between

Australia and the Philippines. But it was only during the period that democracy was suspended in the Philippines (1972-1986) that Australian interest grew. Martial law was declared by President Marcos just a few months before the election of the Whitlam Labor government in Australia. The Whitlam government had a mixed agenda regarding the Philippines. It wanted to establish closer relations with the ASEAN countries, and, in the Philippines case, it was anxious that the United States should maintain its naval base in Subic Bay. But the Labor government was also an advocate of human rights and democratic values in Asia and the imposition of martial law and the detention of opposition leader, Benigno Aquino, persuaded Whitlam, when he visited Manila in February 1974, to call for 'the recreation of Filipino democracy' during a speech at the University of the Philippines (*ibid.*:21-22).

Human rights issues in the Philippines were a source of political concern and agitation in Australia during the Marcos era. The campaign in Australia against the Marcos regime helped raise Australian consciousness of the Philippines generally, just as levels of Filipino migration to Australia were about to rise dramatically. Major Australian aid projects in Zamboanga del Sur and in northern Samar aroused criticism, and the arrest of the Australian Columban priest, Father Brian Gore, in Negros helped focus human rights concerns in 1983. Christian groups in Australia and the Philippines worked together against the Marcos regime.³ Australian priests and religious have served in the Philippines since the early American period. The Redemptorist, Father Leo English, who was ordained in Ballarat in 1935 and served in Manila from before the War, was one of a number of Australian Redemptorist Fathers who served in the Philippines.⁴ Filipino clergy and

³ See Wurth (1985) and McCoy (1984) for details of Father Gore's Philippine career.

⁴ Australian Christian groups and organizations which supported human rights and social justice causes in the Philippines in the 1970s and 1980s included the Catholic Commission for Justice and Peace and Asia Bureau

religious make a significant contribution to the Australian churches.

Australian attention remained focused on the Philippines through the 1980s. In September 1985 the parliamentary Joint Committee on Foreign Affairs and Defence set up a subcommittee to examine the situation in the Philippines and its implications for Australia.

The combination of factors: a need for closer strategic and defence ties, concerns over human rights, migration from the Philippines, and Australian tourism to the Philippines created a new consciousness of the Philippines in Australia. The February 1986 'People's Power' revolution confirmed this.

Nevertheless, the Philippines has never attracted the degree of attention that Indonesia has commanded in Australia, under President Soekarno or President Soeharto. The fall of the Marcos regime largely removed the Philippines as a focus of Australia's concern over human rights.⁵ Australian perceptions of the Philippines are probably less acute now than they were in the 1980s. The election of Joseph Estrada provoked some curiosity here but probably was not seen as seriously involving Australian interests. Unlike Indonesia, the Philippines has never been perceived as a major 'problem' in Canberra, much less a potential threat (Lim 1987:7).

Filipino migration to Australia

In the 1901 Census there were only 689 Filipino-born persons residing in Australia (Quinn 1998). Filipino migration to

Australia, the Uniting Church, Community Aid Abroad, and others, many associated with the Australian Council for Overseas Aid.

⁵ The Philippines gets one brief mention in a 1998 report of the parliamentary Joint Standing Committee on Foreign Affairs, Defence and Trade, simply reporting its 'good track record on human rights' (JSCFADT 1998b:70).

Australia, as a general process, became significant in the 1980s. In the 1970s, the Census recorded only 2,500 persons resident in Australia who had been born in the Philippines (Jackson 1993:136, 141). Between 1981 and 1990, the Philippine-born population of Australia grew from 15,800 to 68,000, an increase of 330 per cent. By 1991, this figure had again risen to 74,000 (Langfield 1997:35, 51). For every Filipino migrant, many more establish links with Australia through kinship and friendship ties with the migrant.

Many Filipino migrants came under the family reunion migration provisions. In the 1980s more than twice as many Filipino women as men migrated to Australia, most between 25 and 44 years of age. Over 80 per cent of these women migrated as wives or fiancées of Australian men. Australian-Philippine marriages led to a high rate of 'chain migration' as Filipino wives and fiancées sponsored members of their immediate families to join them in Australia. Over three quarters of wholly Filipino families are concentrated in Sydney and Melbourne, but Filipinos in mixed marriage households are scattered all around Australia, with some concentrations in more isolated areas such as mining towns (Jackson 1993:149).

The North Australian Connection

It was the very remoteness and underpopulation of Australia's north that help explain the significance of the Filipino contribution to north Australian development. Filipino migration to northern Australia was significant from the 1870s, predating the wave of immigration in the 1980s by well over a century. In the nineteenth century, as now, 'Northern Australia was not and never could be an exclusively European domain'. As Ilete and Sullivan observe,

Asian immigrants, including Filipinos have long been part of Northern Australia. There are a not inconsiderable number of families in Northern Australia today who count Filipinos among their forebears.... Northern Australia was one of the

destinations of the post-1872 Filipino diaspora and Filipinos helped pioneer the pearl shell and other maritime industries. By the turn of the century there were substantial Filipino communities dotted around northern Australia with particular concentrations on the pearllshelling centres of Broome in Western Australia, Darwin in the Northern Territory and Thursday Island off Northern Queensland. While their absolute numbers appear modest, they were comparatively large in the sparsely populated North. Moreover, the Filipinos were distinguished from other Asian settlers – at least on Thursday Island – by the presence of their families, their desire to integrate into the local community, their acceptance by most European community leaders, and the frequency with which they sought to take out citizenship' (Ileto and Sullivan 1993:2).

Filipino pearl divers

Filipino divers were recruited to work the pearling grounds of the northern coast from Shark Bay on the west coast to Cossack and Broome and King Sound on the northern coast of Western Australia, across to Darwin and on to the islands of the Torres Strait in far north Queensland. Soon after pearling began on the tip of Cape York in 1869, Filipinos were recruited in Singapore to work in north Queensland as 'swimming divers' and later as deep water divers. By 1896 there were 212 Filipinos employed fishing for pearls and bêche-de-mer and by 1901, the 265 Filipino boat owners, boat masters, divers and crewmen engaged in the Torres Strait pearling industry outnumbered European participants by more than two to one (Ileto 1993:27–28).

On the Western Australian coast, when from 1876 the Dutch authorities made it difficult for West Australian labour recruiters to hire labour in the Dutch East Indies, the recruiters turned their attention to the Philippines. From 1835, when the Philippines was opened to world trade, thousands of poor Filipinos found overseas employment. From 1876, the pearler Farquhar McRae began recruiting divers from Manila, and the

Western Australian pearling grounds became a popular destination (McGann 1988:42–43). Most of those recruited from the Philippines were drawn from Tagalog-speaking Manila (they were known in Australia as ‘Manillamen’) and Ilongo-speaking Iloilo in the Bisayas. Filipino involvement in the pearl diving industry was substantial and long-term.

Filipinos sometimes took positions of great responsibility, as well as working the reefs in the skindiving and apparatus diving phases of the pearl shell industry (*ibid.*:45). As well as the Christian ‘Manillamen’ and Ilongos, between 1883 and 1886 some skindivers were recruited from Sulu in the Muslim South (‘Sulumen’). Most of these workers were Tausug but a few were Samal, the Bajau Laut who were expert at skindiving. E.W. Streeter, a friend of the Sulu Sultan, and an important figure in Western Australia’s pearl industry, brought Samal Bajau Laut divers to Western Australia’s northwest coast. Seven were employed in 1883, fifty-three in 1884, and fifty-two in 1885. After the introduction of diving apparatus, almost all the ‘Sulumen’ disappeared from northern Australia.

By 1875, the Western Australian pearling industry was served by some fifty vessels and employed over 1,000 workers (*ibid.*:83). Francis Rodrigues, a ‘Manillaman’ who arrived in the colony in the early 1880s saved enough capital by 1888 to start his own pearling plant. He was one of the few Asian workers in the industry to be granted naturalization (*ibid.*:106–107). Heriberto Zarcas, from Manila, became a prominent businessman and a naturalized British subject (in 1897) and operated a pearling fleet from Thursday Island, expanding his operations to Darwin from 1898 (Ileto 1993:32, 42).

Around Broome, by the beginning of the twentieth century, some 320 Filipinos worked in the pearling industry. According to a 1901 survey, 265 Filipinos were then engaged in the Torres Strait pearling industry. In 1911 there were 60 Filipinos resident in Darwin when the European population was only 374 (Ileto 1997:66). Another twenty-one Darwin residents were of mixed parentage with one parent from the Philippines (*ibid.*:27). Filipino divers tended to settle and form relationships. On

Thursday Island, Filipinos were generally married with families and were regarded as 'amongst the most settled of our Asiatic population' (Douglas 1889, quoted in Iletto 1993:29). In a comparative sense, Filipinos were a significant part of the populations of the northern coast of Western Australia, of the Top End of the Northern Territory, and of the Torres Strait area of far north Queensland.

Australian-Philippine marriages in North Australia

A hundred years later, another wave of Filipino settlers began to reach northern Australia. The first wave, from the 1870s, were all men recruited to provide skilled labour. The second wave, from the late 1970s were predominantly women, migrating as wives or fiancées of Australian men under the Family Reunion Program.

The contrast between sparsely populated northern Australia and the densely populated lowland Philippines could not be more striking. Demographics helps explain the need of the Australian north for immigrant labour such as that in the pearling industry. Northern Australians' experience of living in a multiracial environment probably made them less anxious about accepting Asian Australians as members of their community than some southern Australians (Iletto 1993:25).

Demographics also helps explain why Australian-Philippine marriages have been a significant trend in this region. Australian-Philippine marriages were in part a response to the imbalance between men and women in mining towns and remote areas (Pendlebury 1990). On the Philippine side, women who have foregone marriage in their twenties, to help their families financially for instance, or have delayed marriage for education, may have difficulties in finding a marriage partner in the Philippines. Marriage with an Australian was also perceived as a way to achieve financial security and to help the bride's family back home in the Philippines (*ibid.*:7).

The 1996 Census showed that Filipinos were the largest non-English speaking background birthplace group in the Territory. The Census recorded 1,715 Philippine-born persons living in the

Territory. It also recorded 2,609 Territorians with at least one parent born in the Philippines. First and second generation 'Filipinos' thus numbered 4,324 in total (Quinn 1998). The Filipino community in the Territory is well organized: there are at least four large Filipino associations in Darwin, and others in Alice Springs and Katherine (Office of Ethnic Affairs 1998). There is also a number of smaller sporting and special-interest Filipino associations.

Filipino-Aboriginal Families in the Top End

It has been observed that the Filipino divers working the north Australian coast often established long-term or even permanent links with local communities. The more successful became citizens but even those who remained non-citizens managed to overcome the difficulties of being Asians and aliens in White Australia. McGregor observes that 'in racially stratified Darwin, Chinese and other Asians occupied intermediate positions on the social scale, and correspondingly intermediate positions in the hierarchy of power' (McGregor 1997:77-78).

Filipinos formed relationships with Larrakia women and fathered children. The Aboriginal women could not be citizens: they were wards of the state. In the Northern Territory aborigines came under the control of the resident. Throughout the first decade of the twentieth century, the Northern Territory administration urged the need for South Australian legislation to 'regulate the relations of Aboriginals with Europeans and Asians'. Repression of interracial sexual activity remained a paramount official concern in the Territory (*ibid.*:63). Government Resident Herbert conceded that some of these relationships were stable domestic arrangements but that did not excuse them. Herbert referred with disapproval to a 'growing desire amongst the Asiatic population to make wives of aboriginal women'. Asian men provided for their wives and treated them 'fairly well' but such mixed marriages should be strongly discouraged and even forbidden. The *Northern Territory Aboriginals Act* of 7 December 1910, restricted sexual relations between the races. Baldwin Spencer, special

commissioner and chief protector of Aborigines in the Northern Territory, warned that 'the source of the greatest evil was Chinese and Malays [who] provide the natives with opium and liquor' in order 'to obtain possession of the lubras for immoral purposes' (*ibid.*:78).

Despite the law against cohabitation, a number of Filipino-Larrakia families flourished in Darwin. Some of the best known are the Cubillos, the Lees, the Damasos, the Villaflors and the Angeles. These families have made a unique contribution to Darwin and the Top End and form a numerous and successful part of the city community today. For this paper, I interviewed Inez Cubillo (now living in Alice Springs) and her mother Teresa, in Teresa's home in Coconut Grove, Darwin. I also interviewed Frank Cubillo and his sister, Mary Lee in Darwin, and spoke to Mary Lee's son, Gary, by phone. Gary was designer and scriptwriter of the play, *Keep Him in My Heart, A Larrakia-Filipino Love Story*, produced in Darwin a few years ago. The brochure for this play includes a family history of the Cubillos and historical notes on the Filipino pearl divers and their Larrakia families.⁶

Inez Cubillo is producing a family history of the Cubillo family called *Keeper of Stories, A History of the Cubillos, 1824-1996*, based on the memories handed down to her from her father. This will come out as a book in early 1999. In it she tells the story of George McKeddie senior, a baker, who came to Australia with his family in 1855. His son, George McKeddie junior, a mason and an educated man, came to Darwin in 1874. There he formed a relationship with Annie Duwun, a Larrakia woman. The 'cohabitation' (miscegenation) laws of the day meant that it was against the law for George to live with Annie. They lived apart but nevertheless maintained their relationship. Annie had two children by George, Jack and Lily. George lived in Darwin

⁶ The reconstruction of the family's history is based on the family history in the brochure and on interviews with Inez, Teresa, Frank and Mary Lee Cubillo and Gary Lee Cubillo, 13, 20 and 22 September 1998.

until his mid fifties and ran a successful hardware store and mining exploration office in Mitchell Street. He also owned land at present-day Belyuen, where he kept cattle and goats. He returned to Melbourne for medical treatment where he died on 6 April 1927.

George and Annie's son, Jack, never married. In 1895, their daughter, Lily, then sixteen, met Antonio Pedro Cubillo, a pearl diver working on her father's pearl lugger. They fell in love.

Antonio was from the town of Calape in Bohol in the central Philippines. His family were quite influential there but Antonio, at the age of 15, stowed away with his brother on a Spanish ship and eventually reached Spain and Portugal. He somehow got back to Singapore where he met 'Malays' who told him about the money he could earn as a pearl diver on the northern Australian coast. He managed to join a group of 'Malays' recruited by the pearlers and reached Darwin in 1895.

George McKeddie was not happy with the relationship but Lily and Antonio were married (after Lily was baptized and given the baptismal name, Magdalena). Antenna, one of ten children, fathered ten children. Because of their commitment to one another, their church wedding, and Antonio's formal status (he had an alien registration number and Lily got one too after they married) the couple were exempted from the Aboriginal Act of 1910. They managed to keep their children who escaped becoming victims of the stolen generation in the 1920s.

Antonio and Lily established themselves on land near the Police Paddock (in present-day Stuart Park). One of the sons was Delfin Antonio, who married Teresa and was the father of Inez. Many of the Filipino divers working from Darwin married Aboriginal women. The pearlers set aside some land there close to the city and the wharf.

Family members estimate that there are as many as 1,500 Cubillos in Australia related back to Antonio Pedro Cubillo (and another large Cubillo community in San Francisco). There have been longstanding contacts between the Cubillos and Bohol. Antonio himself regularly visited his hometown, travelling by the cattle boats which traded between Darwin and the Philippines.

He brought back a set of stringed instruments from one of these trips and encouraged his children to establish the Cubillo Brothers Guitar Orchestra which was a traditional Filipino Rondalla orchestra. The orchestra played at Government House functions and at private parties between the wars. Members of the Cubillo family in Darwin have visited Bohol. Teresa and her daughter Inez spent three months there and were surprised at the social standing, the wealth and the formal style of the Bohol Cubillos. Filipino traditions survive in the Cubillo family: in folk Catholic rituals, particularly the community novenas for the dead, in food, traditional dancing and songs.

The Cubillos are an important part of Darwin's history. As Mary Lee Cubillo remarked, they inherit three cultures: that of the Scottish McKeddies, that of the Larrakia people, and that of the Visayans of the central Philippines (the Melbourne McKeddies and the Cubillos eventually resumed contact).

Conclusion

The family history of the Cubillos illustrates very well, I think, the special relationship which northern Australia has had with the Philippines. In terms of scale, the Filipino presence in northern Australia has been quite significant. The Filipino contribution to the pearling and cattle industries goes back to the 1870s. Filipinos settled here and many married Aboriginal partners, creating a new community with roots in indigenous Australia and in the Philippines. These communities were joined by later migrants from the Philippines, including Filipinas who married men in northern Australia particularly from around the 1970s. In terms of northern Australia's multicultural history, the links with the Philippines are longstanding and run deep. These links provide a foundation upon which further relations can be developed between northern Australians and Filipinos.

Personal connections are very important in building links with the Philippines. President Ramos visited Darwin in 1995 in support of the Territory's involvement in BIMP-EAGA. His meetings with members of the local Filipino community were

important and created much goodwill.⁷ President Ramos was not the first Philippine leader to meet Filipinos in Darwin. In 1957, then Vice-President Carlos P. Garcia stopped over in Darwin *en route* to a SEATO conference in Canberra. Frank Cubillo remembers Garcia ignoring VIPs to greet the group of Cubillo family members waiting to welcome him during his stopover. It is the proliferation of personal contacts that gives flesh and blood to cultural, diplomatic and economic relationships. The Territory is fortunate that its Filipino communities help provide that human bond between the two countries.

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⁷ President Ramos addressed the Northern Territory Legislative Assembly, pointing out that as well as proximity, Australians and Filipinos shared the English language, a Christian tradition, and the defence of democracy. 'The Northern Territory with its strategic location, makes it the natural gateway of Australia to Asia. For us, the Territory is a natural trading partner, situated as it is in the area closest to the subregion of Brunei, Indonesia, Malaysia and the Philippines', quoted in Stone (1995:7).

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The Philippines Political Context

R.J. May

If any demonstration were needed, recent events in Indonesia and Malaysia have shown the critical impact which local political disturbances can have on a country's economic performance, and the consequent effects which political uncertainty can have on foreign trade and investment flows. At the same time, it is notable that the Philippines, long regarded as the sick man of Asia, has weathered the fallout from the Asian financial crisis rather better than some of its tigerish neighbours. Largely, it seems, this is because the Philippines experienced its own political upheaval over a decade ago and has since that time, at least partially, addressed the problems of corruption, collusion and nepotism (to borrow the catchcry of the reformist forces in Indonesia), and thereby provided a somewhat less uncertain political and economic environment for foreign traders and investors. For Australians engaging with the Philippines there are further attractions in the commonalities of broadly democratic systems and relatively open markets, and of English language usage, predominantly Christian religion, and exposure to Western cultural influences. Nevertheless, the Philippines and Australia *are* different places, and it is important to realize that the social and political contexts, as well as the market conditions, need to be understood.

This paper specifically addresses the political context. It is not a formal political risk assessment (though I have on occasion done such reviews for international risk assessors), but rather a broad overview of recent political trends and prospects in the Philippines.

It is worth recalling that when Ferdinand Marcos was elected to the Philippine presidency in 1966 he was generally well received – especially by the foreign business community, who saw him as a ‘man of action’, intolerant of politicking and keen

to get things done. There were still some who held to that view in the early 1970s, after the declaration of martial law, though by then the Philippine economy was already on a downward slide. Trade and investment flows between the Philippines and Australia in this period, however, were relatively small, and the stock of Philippine investment in Australia actually exceeded that of Australia in the Philippines (a situation which, with large investments in Australia by the Cojuangco family and the Ayala group, seems likely to be repeated in the late 1990s). On the other hand, two of Australia's largest development assistance projects in the 1970s were in the Philippines. Both of these were terminated as a result of the difficult political circumstances of the time: the Philippines-Australia Development Assistance Project (PADAP) in Zamboanga del Sur – an area of Muslim insurgency – came to an end shortly after two Australasian aid workers were kidnapped by a 'lost command' of the Moro National Liberation Front (one was killed and the other seriously wounded), and the Northern Samar Integrated Development Project was terminated in the face of threats from the Communist New People's Army. Critics of Australian aid to the Philippines in this period in fact argued that the Australian government had been duped into providing development assistance in these two areas, insofar as road building, which was a component of both projects, facilitated access by the Armed Forces of the Philippines to areas of insurgent operations.

Somewhat paradoxically, while the economic relationship was tenuous, the 1970s saw a substantial growth in Australian interest in the Philippines amongst human rights groups, trade unions, the churches, women's groups and other NGOs, and in the universities; accelerated immigration to Australia from the Philippines strengthened this tendency. Indeed, a good deal of the depth of the relationship between the two countries derives from this period when neither business nor government-to-government links were strong.

Following the demise of President Marcos in the 'People Power Revolution' of 1986, there was a pronounced expansion of development assistance from Australia, and a gradual growth in trade and investment (with, as the Consul General has observed,

an increasing trade imbalance in Australia's favour). But while the Aquino presidency initiated a period of economic and social reform, and provided a greater degree of political stability and administrative transparency, the political climate remained uncertain. The Communist insurgency appeared to diminish, but not to disappear, with perhaps even a rise in urban terrorism. The Muslim insurgency also appeared to decline, but the constitutionally-mandated Autonomous Region of Muslim Mindanao won little support, and attempts to persuade MNLF leader Nur Misuari to return to the Philippines were unsuccessful. The extremist Abu Sayyaf group emerged in Muslim Mindanao at this time. More seriously perhaps, President Aquino survived seven coup or quasi-coup attempts by renegade members of the Armed Forces and a declaration of independence in Mindanao by a group led by a renegade army officer, not to mention local resistance from recalcitrant warlords and power brokers.

Under President Aquino's successor, General Ramos, economic recovery gathered momentum, and trade and investment between the Philippines and Australia expanded. The strengthening of economic ties had a lot to do with improved general economic conditions in the Philippines and perceptions, on Australia's part, of greater political stability in the Philippines. The latter had some basis in the apparent decline of the NPA and increasing factionalism within the Philippines Left, and the signing of an agreement in 1996 between the Philippines government and Nur Misuari, who was persuaded to return to the Philippines to head a newly created Southern Philippines Council for Peace and Development (SPCPD) and subsequently also became governor of the ARMM. But it probably owed more to the policies, initiated by Aquino and pursued by Ramos, of trade and investment liberalization, notably in the banking, insurance and mining sectors.

Of course, the return to democracy, with its regularization of administrative regimes and wider processes of consultation, has not solved the Philippines' problems. A recently published Transparency International 1998 Corruption Perceptions Index

ranked the Philippines equal 55th (with Mexico, Ghana and Senegal) on a list of eighty-five countries – behind Malaysia (29) and China (52) but ahead of Thailand (61), Vietnam (74) and Indonesia (80). Apart from several recent allegations of corruption within government departments, the problems of ‘payoffs’ by businesses have been highlighted by the revelation that the Armed Forces of the Philippines, through its Retirement and Separation Benefits System, paid Communist New People’s Army guerillas some P4 million in 1996 to prevent the blocking of access to an army housing project in Pampanga. The Philippines was also ranked – controversially – as a ‘high risk country’ in 1998 by the US-based Pinkerton Global Intelligence Service; their report stated, ‘Though the risk of being a victim of terrorism is low, the crime rate is high and violence often plays a part in crimes in the Philippines’ (though a Pinkerton spokesperson subsequently described the Philippines as ‘a great place to visit and a great place to live’). (The Pinkerton response to criticisms from the Philippines is reported in *Philippine Daily Inquirer* 8 September 1998.) A more recent assessment by Political and Economic Risk Consultancy Services (reported by Reuters News Service 28 September 1998) suggested that the Philippines’ risk rating had improved, and that the country remained ‘far more stable than many of its neighbours’.

Moreover, some businesspeople, in unguarded moments, have observed that it is often easier dealing with highly centralized, even repressive, regimes than with the processes of a robust democratic government. The mining industry in the Philippines provides something of a case in point. At the first (1997) Philippines-Australia Dialogue in Manila, members of the Australian delegation referred to the ‘red-tape’ which was tying up prospective mining ventures in the Philippines. Members of the Philippines delegation, on the other hand, were quick to point out that what was delaying the processing of FTAA’s was not so much ‘red tape’ as the perceived need to review the Mining Act of 1995 in the light, first, of the demand for stricter environmental safeguards, following the Marcopper spill in Marinduque, and, secondly, the demands of indigenous people, whose concerns were expressed in the passage of the Indigenous

Peoples Rights Act of 1997. The Australian mining company WMC presently has a petition before the Philippines Supreme Court, seeking a confirmation of the validity of the Mining Act. Meanwhile, according to a recent report (*Philippine Daily Inquirer* 16 September 1998), the New People's Army, government military forces and officials have agreed in principle to support tribal people opposing foreign and local mining companies from exploiting mineral resources in Mountain Province, in northern Luzon. The Philippines government seems firm in its commitment to ensure that environmental impacts and indigenous rights are adequately safeguarded before the mining industry is fully opened up to new investment. Indeed if these issues are not satisfactorily addressed mining companies may face significant problems in their relations with local communities. As one mining executive commented to me (before the fall of Soeharto), these problems were much easier to deal with in Indonesia.

The election of President Joseph Estrada in May 1998 brings a new administration to office. President Estrada was elected on a populist mandate, and his cabinet, and caravan of advisors, spans a broad spectrum of politics, from former Marcos cronies (Estrada himself was quite closely linked to the Marcos family) to a former chairman of the Left's National Democratic Front. During the election campaign Estrada committed his administration to maintaining the broad policy directions of the Ramos administration, with continued emphasis on economic liberalization and the negotiation of peace with the National Democratic Front and the Moro National Liberation Front and Moro Islamic Liberation Front. President Estrada has also stated that he will give priority to measures designed to alleviate poverty and counteract crime and corruption. It is perhaps still too early to evaluate the Estrada government's performance in these and other areas. Within its first hundred days the Estrada government has faced several difficult situations (not including natural disasters): over the sacking of Subic Bay Metropolitan Authority chairman Richard Gordon, the grounding of Philippine Airlines (PAL), tensions between Defense Secretary Mercado and senior officers of the AFP, dissention within the

administration, and a new spate of kidnappings in Mindanao. Opinions differ as to how effectively the new administration has dealt with these challenges, but it has survived them. Other sources of concern to foreign investors centre on suggestions of a resurgence of cronyism (a suggestion strenuously denied by President Estrada), evidence of some support for the reemergence of economic nationalism, and a possible escalation of insurgency. On the latter, the Estrada government has inherited a mandate, as part of the 1996 agreement with Misuari, to conduct a new plebiscite on Muslim autonomy in Mindanao. The present SPCPD covers the (now) fourteen provinces included in the 1976 Tripoli Agreement (as opposed to the four provinces – the only ones which still contain a majority Muslim population – which voted in 1987 to join the ARMM); it seems inevitable that when a new plebiscite is held the Christian-majority provinces and cities will again vote against membership of an ARMM, and if that happens it will be difficult to maintain even the partial peace which was achieved by President Ramos through the agreement with MNLF leader Misuari in 1996.

I have listed some of the negative aspects of the political situation in the Philippines, not as a warning against engagement with the Philippines, but to point to the need for the prospective trader or investor, in the Philippines as anywhere else, to be aware of the particular, contemporary local circumstances.

For big companies, like the ANZ Banking Group and WMC, with personnel on the ground in the Philippines and access to consultants' reports, such intelligence is relatively readily available. For smaller operators, especially those attempting to break into new markets, it is not always easy to obtain up-to-date information on local circumstances. However, in addition to the services provided through the Department of Foreign Affairs and Trade and AUSTRADE, the Northern Territory's Department of Asian Relations, Trade and Industry and the NT International Business Council are useful points of reference; the Queensland government now has a Trade and Investment Office in Jakarta which also covers the Philippines, and the Western Australian government's Department of Commerce and Trade is building

up its contacts with the Philippines and in 1997 produced a strategy paper on 'Opportunities for Trade and Investment for Western Australian Companies'. More specifically, the Australia-Philippines Business Council provides a range of valuable services to its members (which are described elsewhere in this volume), and there is considerable expertise scattered around the Australian universities, where a number of scholars have been working on the Philippines for two to three decades (a *Directory of Filipinists in Australia*, published by the Philippine Studies Association of Australia, lists this expertise).

That said, the fact remains that the positive elements in the situation in the Philippines substantially outweigh any negative reservations. As stated above, the Philippines and Australia share not only some history and a working language but an openness and broadly democratic framework which contrasts with relations between Australia and some other Asian neighbours. This is supported by a substantial, and rapidly growing, Filipino population in Australia, including the Northern Territory and Queensland and growing social, sporting and cultural ties. For the Northern Territory, these ties were strengthened in 1995 by the visit of President Ramos to Darwin and the signing of a memorandum of understanding with the Northern Territory government, and through subsequent visits by the then Presidential Assistant on Mindanao, Mr Paul Dominguez. Australia is now the major source of educational and vocational training and of military assistance to the Philippines, having replaced the US in those roles. The Philippines does offer, and seems likely to continue to offer, a relatively stable political climate and one in which there seems likely to be a steady consolidation of accountable and transparent governance (something which cannot be said of other close neighbours who, only months ago, seemed to many to offer stability and a degree of certainty in the business climate seldom possible in a robust democratic system). Added to this, for north Australia, are the factors of geographical proximity (which will become more relevant if ever the long-awaited Darwin-Davao air link materializes) and the shared interest in BIMP-EAGA. In many respects, as the chairman of the Philippine Australian

Business Council, Raul Hernandez, said at the NT Expo earlier in 1998, the Philippines and Australia are 'natural partners'.

The Philippines Economic Context: Beyond the Crisis – Performance and Reform Priorities*

William E. Brummitt and Frances Perkins

Over the last decade, and particularly during the term of President Ramos, the Philippines embarked on a series of major economic reforms. The trade regime was substantially liberalized and by 2004 tariffs should be no higher than 5 per cent except for a few 'sensitive commodities'. The foreign investment regime and banking and financial markets were also substantially liberalized. Macroeconomic policy management was dramatically improved, an independent central bank created, and prudential controls strengthened. In addition, a strong regulatory framework for facilitating private sector provision of infrastructure was put in place. These reforms really started to pay off from 1994, with real GDP growth above 4 per cent per annum in each year between 1994 and 1997 and with inflation trending down.

However, the Philippines economic performance has been buffeted by the Asian financial crisis. This paper first assesses the Philippines' current economic performance. It then examines the health of the Philippine financial sector and the way the sector's present problems are feeding back on the real economy, which will be an important determinant of the Philippines' short- and medium-term economic prospects. The penultimate section outlines some major areas where further reform effort is needed to boost the Philippines' growth prospects in an increasingly uncertain world. The final section draws conclusions.

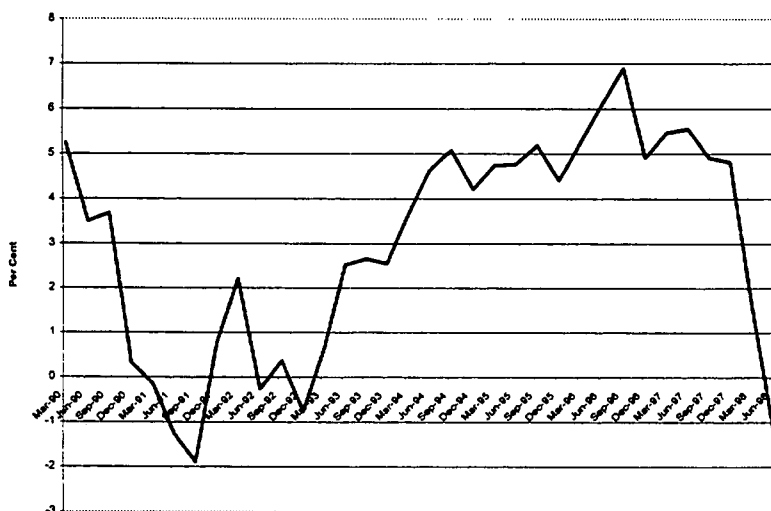
* The views expressed in this paper are those of the authors and should not be attributed to either the East Asia Analytical Unit, the Department of Foreign Affairs and Trade, or the Australian government.

Current performance

The Philippines' growth performance has been hit by the Asian financial crisis, with GDP growth falling sharply in through-the-year terms in the March and June quarters of 1998 (figure 1). On the demand side the main area of strength is private consumption, which grew by 4.3 per cent over the year to June 1998. Investment, as measured by fixed capital formation, fell by 6.8 per cent through the year to June 1998. At an industry level, agriculture contracted by 11.5 per cent due largely to the influence of El Niño, while manufacturing output slowed by 2.6 per cent. While the decline in manufacturing was quite broadly based, the areas suffering most were those, such as petroleum products, chemicals and transport equipment, that are most import-dependent. The main area of strength has been services, which grew by 3.6 per cent.

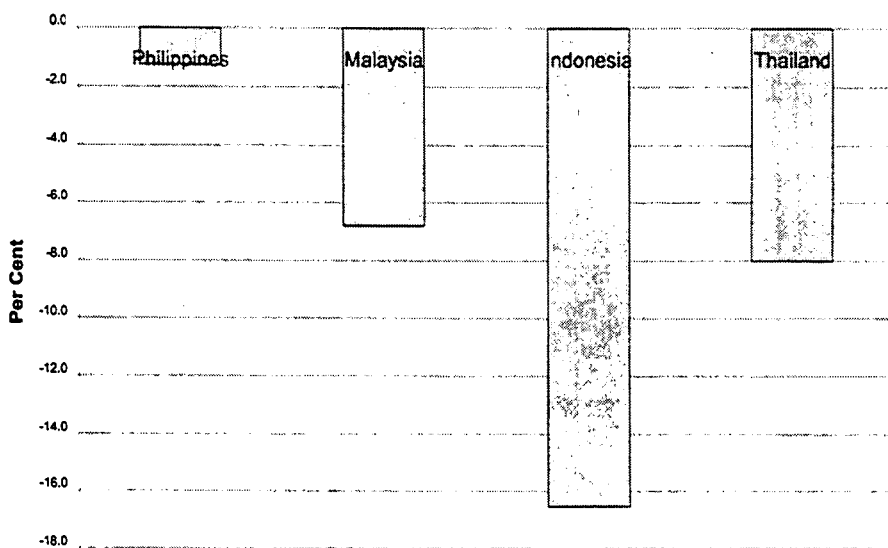
Nonetheless, among the other ASEAN-4 economies the Philippines could still be said to be the 'best of a bad lot' (figure 2).

Figure 1 – GDP Growth Decelerating
Philippine GDP Growth



Source: CEIC database.

Figure 2 – The Philippines: Faring better than some.
GDP Growth through the year to June 1998 in the Philippines,
Malaysia, Thailand¹ and Indonesia



Note: 1. The figure for Thailand is based upon ABN-AMRO's forecast for GDP growth in 1998.

Source: CEIC database.

The future prospects for the Philippine economy clearly depend in part on external events over which the country has little control. In particular, the pace of growth in the rest of Asia and the rest of the world will be critical in driving both exports and investment growth. However, the health of the Philippine financial sector, and the way it feeds back on the real economy, is also very important. Another vital factor is the pace of reform that the country sets itself.

Financial sector health

Thus far the Philippine financial sector remains in a reasonable state of health. As of May 1998 non-performing loans are 10.3 per cent, well up on their level of 4.0 per cent in June 1997 but still well below the levels recorded in the early to mid 1980s.¹

One factor contributing to the relatively sound state of the Philippine financial sector is that real estate lending has not been as much of a problem as in some other regional economies. There are two main reasons for this. First, 90 per cent of all Philippine commercial banks have kept their individual real estate exposure ratios at or below the 20 per cent ceiling set by the Monetary Board (Bangko Sentral ng Pilipinas 1997a). Secondly, with real estate demand flat between the coup attempt in 1989 and the resolution of the electricity crisis in 1994 a major excess supply of real estate in the Philippines did not develop and property prices have not fallen dramatically.

Foreign exchange exposure has also been manageable, despite bank foreign exchange liabilities rising to over 50 per cent of total liabilities by mid 1997 (figure 3). Strong prudential requirements have been a major factor at work here. In particular, since 1972 all foreign currency deposit liabilities have required 100 per cent foreign currency cover,² and the

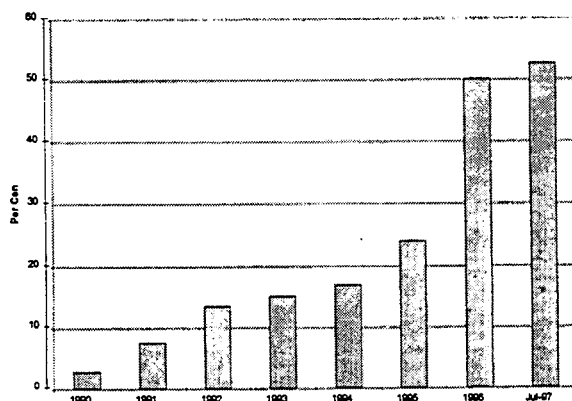
1 Between 1981 and 1987 non-performing loans ranged from 14 per cent of total loans to 23 per cent.

2 When in mid 1997 the Bangko Sentral ng Pilipinas noted that banks were diluting their foreign currency asset cover by borrowing foreign exchange using foreign currency deposits as security, then lending pesos to local firms,

amount by which foreign exchange liabilities could exceed foreign exchange assets (the oversold position) was limited. Until mid 1997 the oversold position was limited to 10 per cent of unimpaired capital. In July 1997, this increased to 20 per cent in an effort to encourage banks to sell more of their dollar holdings for pesos and thus boost the peso's value.³ In addition, about 60 per cent of foreign currency borrowers are exporters who should be naturally hedged against exchange rate changes.

Figure 3 – Foreign Exchange Liabilities Now Dominate Total Philippine Bank Liabilities

Share of Foreign Exchange Liabilities in Total Commercial Bank Liabilities



Source: Bangko Sentral Ng Pilipinas (1997b).

the Bangko Sentral ng Pilipinas required all banks to maintain at least 30 per cent of all foreign currency deposit unit liabilities in liquid foreign exchange assets from December 1997 (Bangko Sentral Ng Pilipinas 1998a).

- 3 There were similar limits on the extent to which foreign exchange assets could exceed foreign exchange liabilities (the overbought position). Until July 1997 this limit was 20 per cent. It then was reduced to 10 per cent, then to 5 per cent of unimpaired capital or \$US10 million, whichever is lower.

A further important point when considering the effects of foreign exchange exposure on the real economy is that over 60 per cent of Philippine banks' foreign exchange liabilities are Filipino residents' US dollar bank deposits with local banks, so the foreign exchange losses suffered by residents who borrowed US dollars from local banks are offset by gains by these Filipino depositors. This is causing a redistribution of national wealth, rather than a total loss of wealth as in Thailand and Indonesia, and is reducing the negative effect on overall demand (East Asia Analytical Unit 1998).

The main concern with respect to the impact of financial sector problems on the short-term performance of the real economy is the extent to which a credit contraction occurs. Between January and June 1998 loans outstanding of commercial banks fell by 2.5 per cent, although they were still 10 per cent above their level of June 1997. The fall in lending rates since early 1998 should help boost demand for new loans (figure 4). However, with banks wary of risking further increases in bad loans and of letting their capital adequacy ratios slip, supply of credit is likely to remain tight in coming months.

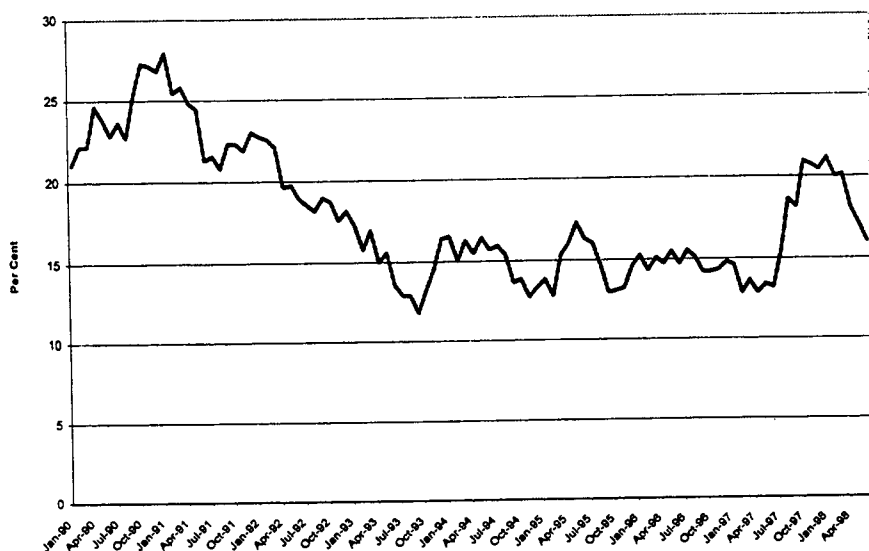
Medium-term challenges for financial sector reform

One priority for continued reform is the further strengthening of prudential controls. Priority areas include:

- moving to supervise banks on a consolidated basis to help reduce rapidly growing off-balance-sheet activity;
- strengthening efforts to incorporate a risk-weighting scheme into the definition of capital adequacy, including off-balance-sheet risks;⁴
- promoting stronger representation of outside shareholders on bank boards, including in small and medium-sized banks.

⁴ A bill to amend the General Banking Act currently submitted to Congress calls for this measure.

Figure 4 – Lending rates dropping since early 1998
 Philippine Lending Rates, 1990-June 1998

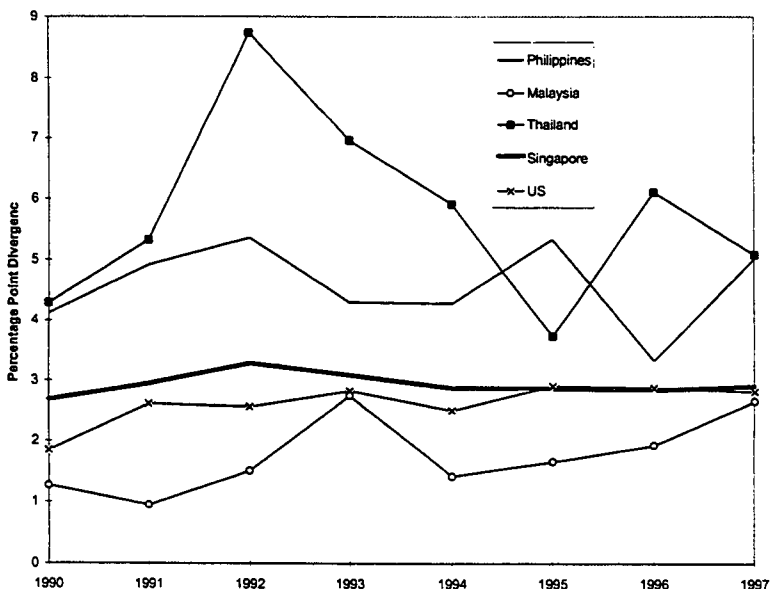


Source: CEIC database.

However, there is also a number of other challenges which are more medium-term in nature. One of the most important medium-term challenges facing the Philippine financial sector is reducing the wide gap between bank lending and deposit rates. In the 1990s, this gap ranged from 4.1 to 5.4 percentage points, well above the spreads in Malaysia, the USA and Singapore (figure 5).

Figure 5 – Philippine Lending and Deposit Rate Spread One of Region's Highest

Regional Lending and Deposit Rate Differentials, 1990-97



Note: In 1997 whole year data is generally not used. For Indonesia, deposit data are for January to November and lending data from January to August. For Thailand, deposit data are for January to November and lending data from January to April. For Singapore, deposit data are for January to September and lending data are for the full year. For Malaysia, lending data are for January to October and deposit data are for the full year. For the Philippines and the USA, both sets of data are for the full year.

Source: Bangko Sentral Ng Pilipinas (1998b); IMF (1998).

Many factors contribute to these wide spreads, including *de facto* taxes on the banking system imposed by high statutory reserve requirements. As banks get no return on 75 per cent of reserve requirements and only a 4 per cent return on the other 25 per cent,

reducing statutory reserve requirements is essential to lowering high bank intermediation costs. The Bangko Sentral ng Pilipinas has reduced the statutory reserve requirement from 25 per cent of bank deposits in July 1992 to 13 per cent by July 1997; the medium-term goal is to reduce statutory reserve ratios to single digit levels, in line with the regional average of 10 to 11 per cent (Ma 1997). Furthermore, since 1994 banks have been allowed to maintain their liquid reserves in short-term, market-yielding government securities; previously these reserves were included in overall statutory reserve requirements and earned low returns.⁵

Another contributing factor is mandatory credit allocations, which apply on top of the reserve requirements and force banks to lend 25 per cent of funds to agriculture and agri-processing and a further 10 per cent to small and medium-sized enterprises.⁶ These regulations are circumvented to some degree. For instance, any lending to a large corporation, such as San Miguel, with some food processing activities may count as lending for agriculture and agri-processing. However, preventing banks from allocating credit to maximize returns widens the spread between deposit and lending rates.

Abolishing mandatory credit allocations is also desirable because they increase default risks in the Philippine banking sector. The large commercial banks dominating the banking sector typically are not well informed about the agricultural sector or small and medium-sized enterprises, but must make substantial loans to these sectors, exposing themselves to unnecessary default risks. However, political pressures in Congress have prevented repeal of this requirement to date. The Bankers Association of the Philippines is pursuing an

⁵ Banks actually get market returns less half a percentage point. At November 1997, this liquidity reserve requirement stood at 4 per cent of deposit liabilities. Up until 31 July 1997 it had been 2 per cent. It then increased to 8 per cent before gradually being lowered.

⁶ Until 1983, banks could buy market based securities instead of lending to these sectors but in 1983 this alternative became unavailable, as the relevant (series T) Treasury Bill was abolished.

alternative strategy of encouraging institutions like the Land Bank of the Philippines and the Small Business Guarantee Finance Corporation, which have relevant sectoral expertise, to issue market-based securities for banks to buy in lieu of direct lending to these sectors. These institutions could then on-lend the funds to appropriate agricultural and small business clients.

A further medium-term challenge for the Philippine financial sector is to develop deeper and more liquid bond markets, particularly for corporate bonds, and to ensure that there are no unnecessary tax or regulatory impediments to new financial techniques, such as securitization, being used by Philippine corporates.

Further areas requiring reform

Another major factor affecting the Philippines' economic prospects is progress in pushing ahead with reform to address remaining major impediments to growth. Key areas requiring attention include:

- broadening the tax base and improving compliance;
- strengthening the agricultural sector;
- restarting mining sector reform;
- continuing to address inadequacies in infrastructure.

Broadening the tax base and improving compliance

The Philippines urgently needs to broaden its tax base and improve tax compliance. Out of a workforce of 27 million only 3.6 million file tax returns and only 1 million people actually pay tax. Moreover, corporate tax revenue grew only 1 per cent in 1997 although nominal gross national product (including inflation) grew at almost 12 per cent (Economist Intelligence Unit 1998).

Key steps that would assist in broadening the tax base and improving tax compliance include lowering tax rates and continuing to strengthen the Bureau of Internal Revenue and the Customs Department so that the rewards for tax evasion fall

while the risks rise. Simplifying the personal income tax system by streamlining the multiplicity of tax free thresholds that apply to different family sizes would also be of great assistance.

Strengthening the agricultural sector

Continuing inefficiency in the agricultural sector detracts from economic growth and is also a major contributor to the Philippines' poverty problem. Food costs the average Philippine family almost half their income; this is the same ratio as India, a much poorer country (East Asia Analytical Unit 1998).

A major initiative that could help strengthen the agricultural sector would be to rethink the policy on rice self-sufficiency.⁷ Emphasising rice self-sufficiency focuses government agricultural support on a low-return activity, slowing resource reallocation to more profitable, labour intensive crops and activities (Table 1).

⁷ Between 1990 and 1992 the Philippines supplied 98.2 per cent of its rice (East Asia Analytical Unit 1998).

Table 1
 Low Income Earning Corn, Coconut and Rice Dominate
 Production
 Total Production and Average Production Value per Hectare,
 Various Crops: 1996 (Preliminary)

Crops	Average Production Value per hectare (‘000 pesos per year)	Total production value (pesos billion)
Corn	10.0	27.4
Coconut	9.3	28.8
Peanut	9.9	0.5
Abaca	12.1	1.3
Mungbeans	18.6	0.6
Rubber	20.5	1.8
Palay rice	23.4	92.6
Leafy vegetables	25.1	4.5
Cassava	29.5	6.6
Tobacco	30.6	1.8
Coffee	36.0	5.0
Fruiting vegetables	37.3	12.5
Banana	38.4	12.4
Tomatoes	48.4	0.9
Other fruit	50.2	17.3
Spices	51.6	2.2
Sugar cane	57.4	21.5
Eggplant	66.4	1.2
Pineapple	96.0	6.7
Cabbage	98.5	0.8
Mango	146.1	1.8
Onion	213.0	1.7
Garlic	236.6	1.6

Source: National Statistical Coordination Board, 1997.

Greatly increased public investment in rural infrastructure, particularly farm-to-market roads, improved extension and research services, credit access, market information, and distribution and marketing infrastructure is also needed to help farmers move out of low-value, subsistence crops into more profitable activities.

Another factor that may be constraining productivity growth in the agricultural sector is the comprehensive agrarian reform program (CARP), which aimed to redistribute large landholdings by selling small farms to tenant farmers over the period 1988-98. However, new farm sizes are too small (averaging 2 hectares) to achieve economies of scale; prohibition on consolidation is inefficient; implementation has been slow; and debt burdens on new owners are high. Protracted legal battles over land valuations contribute to uncertainty regarding CARP outcomes, slowing new agricultural investment.

One factor that should be of assistance to the agricultural sector is the major depreciation of the peso in 1997-98. This should make agricultural exports more competitive and increase the price of agricultural imports. However, to maximize the benefits flowing from the depreciation, more broad-ranging reforms along the lines of those outlined above will be needed.

Restarting mining sector reform

The Philippines has potentially rich mineral deposits, particularly in gold and copper. In 1980 the mining industry contributed 20 per cent of the Philippines' total export revenue. However, mining has been in decline since the 1980s due to high taxes and the lack of large-scale international mining investment. The Ramos administration attempted major mining reforms, including opening the sector to foreign investors, with the Mining Act of 1995. But reforms have now stalled due to court challenges to the act's constitutionality, changes in the mining tax regime, the public outcry after the

disastrous Marcopper mine spillage,⁸ delays in issuing new exploration clearances and uncertainty over who owns mineral resources since the recent passage of the Indigenous People's Rights Act. The Philippines needs to resolve the issue of mineral resource ownership, restore investor confidence in the mining sector reform process and issue some new financial or technical assistance agreements to foreign mining companies.⁹ Getting just one world-scale mine into operation could give a major boost to the process of regenerating the Philippine mining sector as it would allow a clear demonstration of the economic and social benefits flowing from large-scale minerals investment.

Continuing to improve infrastructure

In the early 1990s the Philippines' infrastructure inadequacies were reaching crisis proportions, best illustrated by the 12 hour a day 'brownouts' in Manila in 1991 and 1992. From this position the Philippines has become an Asian market leader in appropriate and efficient forms of private sector participation, in telecommunications, road and rail transport, and electricity. However, with unmet infrastructure needs still large and with the Asian financial crisis making it more difficult to raise the necessary funds, the Philippines will need to continue to provide best practice frameworks for facilitating private sector infrastructure provision.

It is also necessary to increase the flow of funds into public investment. The public investment share of GNP fell from 3.7 per cent in 1992 to 3.0 per cent in 1996. Although this share is well above the levels of the late 1980s,¹⁰ it is still the lowest in ASEAN (Figure 6).

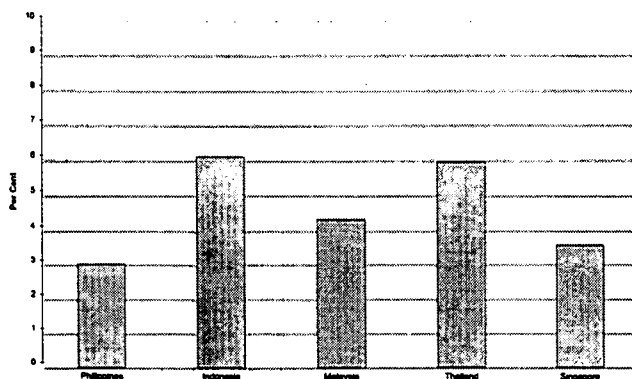
⁸ The Marcopper mine spillage occurred in March 1996 when a tailings dam at Marcopper mine on Marinduque island failed.

⁹ A financial or technical assistance agreement is a contract involving financial or technical assistance for large scale exploration, development and use of mineral resources. Philippine equity is not required.

¹⁰ Between 1987 and 1989, the share of public investment in GNP ranged from 1.9 per cent to 2.6 per cent.

Figure 6 – Philippine Public Investment Rate Still Lowest in ASEAN

Public Investment as a Share of Gross National Product in ASEAN, 1996



Note: Philippine public expenditure data are from World Bank (1997). Singapore data are for 1995.

Source: World Bank (1997); IMF (1998); IMF (1997).

As maintaining fiscal discipline is important it will be necessary to shift expenditure into infrastructure from other areas. One major area requiring attention is expenditure on personnel. Personnel expenditure rose 87 per cent between 1991 and 1996 to equal one third of national government expenditure, despite the transfer of about 70,000 national government health, agricultural extension, public works and social welfare staff to local government payrolls as part of decentralization under the 1991 Local Government Act.

Reinvigorating labour intensive manufacturing

The Philippine electronics industry has performed strongly over recent years. A major factor driving this growth has been the Philippines pool of relatively cheap skilled labour (East Asia Analytical Unit 1998). Exports of semiconductors and electronic microcircuits grew at an annual average rate of 37.6 per cent between 1994 and 1997. However, labour-intensive sectors such as garments and textiles, clothing and footwear are struggling. The key factor inhibiting the growth of these industries was the strong peso prior to mid 1997 and its appreciation in real effective (on a trade-weighted basis adjusted for inflation) terms between mid 1995 and mid 1997.¹¹ The overvalued peso made unskilled Philippine labour too expensive in foreign currency to produce labour-intensive goods competitively (Intal 1992).

A lack of domestic support industries was also a problem but this in turn was in large part a reflection of the strong incentive to import required raw materials imparted by the overvalued exchange rate.

This lack of a thriving labour-intensive export sector was a critical deficiency relative to other East Asian economies, where rapidly growing labour-intensive manufacturing for export markets pulled surplus labour out of low-productivity agricultural activities. Incomes rose across these economies as people moved into manufacturing jobs and as agricultural plot sizes increased.

If inflation can be controlled and thus a real depreciation of the peso can be sustained, then labour-intensive industries should face incentives to increase local content and value added and be more competitive on export markets. This can give the Philippines a fresh opportunity to pursue broad-based, labour-intensive, manufactured export led growth. It can also assist in

¹¹ The overvalued peso in the post-war period is traced by some commentators back to the decision to hold the peso at its pre-war exchange rate of 2 pesos to the \$US despite much higher inflation in the Philippines than the USA during and immediately after World War II (Intal 1992).

raising agricultural productivity (and reducing rural poverty) by allowing increased plot sizes as labour is increasingly drawn out of agriculture.

Conclusions

While being hit hard by the Asian financial crisis, the Philippines is faring better than other major ASEAN nations. Thus far the Philippine financial sector remains in a reasonable state of health. The main short-term threat to growth from the financial sector problems is a continued tightness in credit. Over the long term key challenges include reducing the wide gap between lending and deposit rates and developing deeper and more liquid bond markets.

To maximize the Philippines' growth potential the reform effort also needs to be stepped up. The tax base needs to be broadened and compliance improved. The agricultural sector needs to be strengthened and mining sector reform restarted. Both private and public infrastructure provision also needs to be expanded.

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A DARTI Perspective on Northern Territory-Philippines Links

Ian Watts

On behalf of the Minister for Asian Relations, Trade and Industry, thank you for the opportunity to participate in this seminar on North Australia-Philippines relations. The Northern Territory has a special association with the Philippines and I would like to present a departmental perspective on it.

I propose to say something about our engagement with the Philippines in the context of the Northern Territory government's overall objectives and provide some background on the current situation in the Philippines and the implications for our relationship. I will present a brief profile of the trade between the Northern Territory and the Philippines and conclude with a comment on the challenges and the prospects for Philippine-North Australia relations in business, trade and education.

DARTI is essentially a marketing department and, as with all marketing, a key element of the mix is getting the message to the marketplace and to a variety of stakeholders.

As does the Australian National University's North Australia Research Unit, we recognize the importance of sharing information and maintaining dialogue. NARU is an important conduit for conveying our message and a good partner to the department. We value the opportunity to participate in forums such as this.

The context

Our relationship with the Philippines should be seen in the context of the Northern Territory government's overall objectives. A key tenet of the government is economic

development, and the overriding objective is job growth and hence population growth. The Territory lacks the 'critical mass' of population to attract investment on the scale that our resources and strategic location should command.

Economic growth can be boosted by overseas and interstate migration and that will, in the main, follow the creation of jobs.

The Territory government maintains a tight focus upon economic development and that has as its central theme the need to comprehensively engage our northern neighbours.

Three years ago the Chief Minister set out his vision and his goals. He said that the government would place an even greater emphasis on business links with the Asia-Pacific region, and the delivery of services to Southeast Asia. Our relationship with the BIMP-EAGA countries was to be accorded high priority – the objective, of course, being to increase trade through the development of markets to our north.

The strategy the government adopted involved the development and implementation of multi-level contacts with the countries in our region, including the establishment of memoranda of understanding (MOUs) to assist in nurturing regional cooperation. The layers involve personal contact at head of government level, and in the case of the Philippines this has been very successful. Prior to the last presidential elections the Chief Minister and the Minister for Asian Relations, Trade and Industry travelled to Manila specifically to establish personal contact with the three leading candidates. Shane Stone and Daryl Manzie were pretty astute in spending a large amount of their time, including a big lunch, with now President Estrada. The next levels of interaction occur at the hands of government, departmental and industry agencies. The Department of Primary Industry and Fisheries, my own department, the NT Chamber of Commerce and Industry, and our International Business Council are all major participants in the relationship. Next are the linkages between communities and business.

It is of course self-evident that the big challenge for the Philippines now is to manage the current crisis while providing a basis for a lasting recovery. This is likely to include a

programme of ongoing reforms and the implementation of sound economic policies. The Philippines will need to accommodate reduced private capital inflows due to the regional crisis, and facilitate an early return to rapid economic growth.

In my humble opinion, the fact that the fundamentals of the Philippine financial system were in relatively good shape at the start of the present crisis has dampened the impact significantly. But I will leave this subject to the experts.

Despite the present regional situation, analysis by the Department of Foreign Affairs and Trade indicates that the medium- to long-term economic prospects for the Philippines remain good.

Those of you who attended the recent national conference in Tennant Creek, on economic prospects for the Northern Territory leading to the twenty-first century, would have heard from the Department of Foreign Affairs and Trade that while it is too early to predict when the region will recover from the current situation, there is confidence that eventually there will be a return to sustainable economic growth.

So what does this mean for the Philippines-North Australian relationship?

Changes in the trade profile

Trade between Australia and the Philippines is modest.

Northern Territory trade with the Philippines is totally dominated by exports of food and live animals. Prior to the regional crisis there had been a steady increase in the live cattle and food trade, from just over \$22 million in 1992/93 to nearly \$69 million in 1996/97. The live cattle trade to Southeast Asia has been seriously affected by the regional crisis. Exports of live cattle to Indonesia have fallen from 30,000 per month to zero, yet in the case of the Philippines, industry sources have advised me that the downturn has been in the order of 25 per cent and that there are realistic prospects for growth in the short to medium term.

Philippines-NT relations

The Philippines, as a democratic country with a long exposure to Western culture and a relatively well educated, English-speaking population, has much in common with Australia.

Australia has had an enduring and strong relationship with the Philippines and it is nowhere stronger than between the Northern Territory and the Philippines.

As indicated earlier, the Northern Territory has invested much effort in the relationship with the Philippines as it seeks to broaden the relationship. And this has been reciprocated.

Our bilateral links with the Philippines

A key strategy in our engagement with our near neighbour has been the signing of memoranda of understanding with a number of countries. In the case of the Philippines, the relationship between the Territory and the Philippines was formally cemented in 1995 when Chief Minister Shane Stone and Presidential Assistant Paul Dominguez signed the memorandum of understanding between the Northern Territory and the Philippines, witnessed in the Northern Territory parliament by President Ramos (the MoU is included as an appendix to this volume). Also during that visit President Ramos became the first foreign head of state to address the Northern Territory Parliament.

The BIMP-EAGA relationship

I also mentioned earlier that the Chief Minister's vision for our engagement with the region meant that our relationship with the BIMP-EAGA countries was to be accorded high priority.

While not formal members, we were invited in 1987 to participate in BIMP-EAGA working parties on tourism, transportation, and fisheries. Since then our observer status on trade issues has kept us close to the main game in our region. (And let us not be too parochial and underestimate the value of that linkage to the whole of Australia.) We will continue to develop our relations with the Philippines and the other BIMP-

EAGA countries, in large part because they will be a major marketplace for our goods and services in the future.

To be frank, these are not easy times in the BIMP-EAGA organization right now. When a country's focus is upon feeding its citizens it is naturally constrained in the resources available for the development of trade and relationship groups. But I am also pleased to advise that at a meeting in Mindanao last weekend the organization set itself a clear direction for the future that will allow it to navigate through the rough times. It would be a real tragedy if BIMP-EAGA fell apart, but I do not think there is any longer a serious prospect of this occurring.

Trade links

Trade links with the Philippines are supported by shipping services between Darwin and the Philippines provided monthly by Rooney Shipping and Trading Pty Ltd of Darwin. These services link Darwin, General Santos City and Subic Bay. They have capacity for live cattle, top deck containerized cargo, and bulk cargo. One of the strengths is that the ships can, and do, go into a variety of smaller ports, obviating transshipment. Arguably, inadequate distribution systems are the greatest restraint on development in Southeast Asia. Small ships operating out of Northern Australia can help to overcome this.

EAGA Frontier Trading has established a regional office in Darwin to link its Philippines-based operations in Davao, Cebu and Manila. The company offers a variety of products from computer hardware to high value scrap metal.

The department has assisted a Philippines plastics company in market assessment for the North Australian roofing market. It was also instrumental in brokering commercial arrangements between Telstra and the rapidly expanding Philippines telecommunications provider, PHILCOMSAT. With the strength of our business and government networks in the BIMP-EAGA region we are confident of brokering further such deals.

The Filipino community in the NT

The Filipino community is a proud and integral part of the Northern Territory's multicultural community – a fact highlighted in former President Ramos's address to the Northern Territory Parliament. Some 6000 Filipinos have made the Territory their home and there are some six social clubs and organizations in existence, ensuring the community is an active contributor to the diversity and vibrancy of not just Darwin but regional Northern Territory as well.

We support the Filipino community here in Darwin. Recently the government donated \$10,000 to the Filipino Australian Association of the NT for construction of an all-weather stage and change facilities at their Marrara Community Centre.

You would all be well aware of the current controversy over the continued operation of Philippine Airlines. It remains to be seen whether the threatened closure actually occurs or whether it is merely political brinkmanship in an industrial dispute. But should the worst happen and the airline close down, I believe it is important to think in terms of opportunities rather than adverse effects. There will certainly be short-term negative impacts on air links to the region. But the question has to be asked: could an overseas airline provide a service which was more relevant to the region? For example, if an overseas airline could part-operate a domestic route, would not a flight from Manila to Davao, on to Darwin, then to Townsville or Perth, be a step forward?

I am sure the minister for whom I work would be delighted to see an airline operating that route, and I believe many of the business people in the region (and this room) would agree with me.

Another manifestation of the fact that we are developing our linkages and not running away during hard times lies in the appointment from this week of a consultant from the Philippines, who has experience in both Mindanao and the East Asian Business Council, to work with the Department in Darwin.

This consultant will help improve understanding among the Territory's business community of trading with the Philippines and the potential opportunities in the area.

Another breaking story is that Raul Hernandez of the Philippines Australia Business Council (who will be known to many of you) and Michael Kilgariff of the Northern Territory's International Business Council are examining ways of establishing a framework to make the most of establishing an on-line business matching link. The Department will provide every assistance to this process.

In the education area, the Northern Territory University has a memorandum of understanding with Mindanao State University, which will be discussed by Chris Healy.

Conclusion – the opportunities

In conclusion, let me mention some of the other opportunities emerging from our relationship with the Philippines.

First and unambiguously, we see good prospects for future Philippines-NT trade.

The Philippines, prior to the current crisis in the region, was our largest buyer of cattle. And it still is. We are confident that once the present situation stabilizes the good work and relationships developed will again see the live cattle trade between the two countries flourish.

An indication of our commitment is that we are now proceeding with the establishment of an office in Manila, which we will open in three weeks, in conjunction with AUSTRADE and Western Australia.

From 17-20 November 1998 the Northern Territory government and business will participate in the Australian promotion 'All the best from Australia', in Manila. This is a major trade promotion and will showcase the best Australia has to offer in business, science and technology, culture and sport. Chief Minister Stone will lead a delegation of up to forty members to Manila to attend this event. The Northern Territory will participate in a

significant way, with a focus on agribusiness. The International Business Council is leading our business delegation.

We are furthering our ties with trade and education links, such as the Filipino language and cultural programme to be conducted at the Northern Territory University, and we are contemplating a trade training scholarship scheme to assist selected Mindanao tradespeople to do on-the-job training in Darwin.

Other opportunities for Australian exports to the Philippines will continue to grow and we must be astute enough to prepare them for the reinvigorated Philippines. These will include water and waste water treatment, telecommunications, IT software, power, and building and construction materials.

The Philippines maintains its interest in strengthening links, with particular emphasis on air and sea transport, joint tourism ventures and fisheries cooperation. We have to be mindful of the need to address the trade imbalance.

The Philippines also holds great potential for Australian investment.

The use of Darwin as a distribution hub for trade with the rest of Australia is in prospect – and if one were really going to chance his arm, he might suggest that the Philippines economy will be running at ‘full steam ahead’ in time to capitalize on the Darwin to Alice Springs rail link.

Doing Business Between the Philippines and Australia – A Filipino Perspective

Pascual Tantengco

Much of what I have to say has already been covered by speakers preceeding me. However, let me present the viewpoint of a small businessman trying to establish a business relationship between Manila and the Northern Territory.

My first encounter with the Northern Territory came when I was still in Manila, running a business in chemicals and pesticides. We do a lot of fumigation jobs for export products, and in the course of fumigating containers I came to learn that Australian requirements are very stringent, and they require much higher dosage than is normally required in other countries. I began to appreciate that these strict requirements mean that whatever goods come to Australia and conform to Australian standards, must be of high quality.

When I came to Darwin in 1986 I wanted to establish a business selling garments, initially to the Aboriginal communities. But I learnt that it is not easy to penetrate the Aboriginal market. Opportunities for importing goods from Manila to Darwin are also limited by the fact that the goods have to be shipped either via Perth or via the southern ports and transported to Darwin overland. While Perkins Shipping in Darwin is servicing Southeast Asia and Australia, there is no direct line between Manila and Darwin; goods must pass through Singapore, Kuala Lumpur, or elsewhere. That adds tremendously to the costs. These added costs made us think twice before going into such a business venture; we have now temporarily abandoned the idea until such time as the shipping services are available. I have not given up the idea, and look

forward to doing business more directly with the Northern Territory, sooner or later.

The Philippines has not been doing a lot of business with the Northern Territory, apart from the trade in livestock. The volume of trade and business between the two countries is small compared to that between the Philippines, the United States, Japan or Europe, and the trade with North Australia has been a small part of that. It is only in recent years that trade between the Philippines and North Australia has come into focus, with the advent of ASEAN and the identification of BIMP-EAGA as a growth area. With this development Australia has begun to align itself more and more with the Asia-Pacific region – logically, because North Australia has been identified as the gateway to the region.

I believe the visit of former president Fidel Ramos has been the highlight of the developing relation between North Australia and the Philippines, particularly the southern parts, including Cotabato, Zamboanga and Davao on the island of Mindanao. These areas are identified as a link between the ASEAN countries and Australia.

President Ramos in his travels has promoted the Philippines as a healthy investment area. Labour is relatively cheap and available. English, as a second language, is spoken widely and the Philippine government has provided incentives for investors. The Philippines has one of the highest literacy rates in Asia. Year in and year out the educational system produces graduates with tertiary degrees – doctors, engineers, lawyers, accountants, teachers, and so forth – but due to limited opportunities within the country, most seek employment overseas.

In view of the limited employment opportunities in the Philippines it is the policy of the Philippine government to encourage entrepreneurship. There is potential in this for Australians, especially North Australians, to go into partnership with Philippine capitalists in several areas where the local business people can readily be tapped.

Twin city or sister city arrangements for promotion of arts and culture and exchange of ideas bring communities in the two

countries closer together. I believe that Darwin and Katherine have sister cities in Cotabato.

By and large relations between Australia and the Philippines have been very good. Dr Shoesmith has pointed to the growing population of Filipinas married to Australians – surely the basis for an intimate relationship between North Australia and the Philippines.

With the ongoing development of the Northern Territory – the improvement of port facilities, the railway from Alice Springs to Darwin, imminent statehood – the Philippines can now look forward to increasing opportunities for trade with Australia. The Trade Expos held in Darwin have served as invitations to explore trade relations and at the same time expose Philippine products to Australian consumers. Although in the last two Expos there were few exhibitors from the Philippines (I would like to invite the attention of our good consul here to this matter) I am certain that in future there will be more. The Philippines has a lot more to offer to the northern parts of Australia than garments and some furniture!

The lack of the regular shipping services between the major ports of the Philippines and North Australia has been a deterrent to exporters and importers, as I have mentioned.

Apart from the cattle that North Australia exports to the Philippines, I believe there are other prospects for mutual benefit. I believe that North Australia has the manpower resources to offer technology and consultancy in the field of mining, energy generation, and infrastructure building which the Philippines is currently engaged in. The massive projects are being undertaken in response to the growing demand of an ever-increasing population, which at present stands at over 70 million or four times the population of Australia. If we measure the market in terms of population, there is a huge market for Australian products waiting in the Philippines.

One area for potential exports from Australia is in low-cost housing. As wood and wood products are becoming more and more scarce, not only in the Philippines but elsewhere, as a result of our growing awareness of conservation of the environment,

the technology in Australia for the manufacture of non-wood products for low-cost housing should be looked into. There is a big demand for low-cost housing in the Philippines because of the growing population, and I am sure there is a market for such enterprise.

Tourism is something else which the Philippines can offer to North Australia. Blessed by nature with abundant beaches and scenic spots, the Philippines beckons investors to develop facilities for tourists to enjoy. The proximity of North Australia to the Philippines, and the availability of air transport, make the Philippines an ideal place for holidaying. Costwise, the Australian dollar goes a long way in the Philippines at the current exchange rate.

The Philippines produces fine handicrafts, garments, shoes, and toys. A number of signature brands distributed world-wide are made in the country under manufacturing agreements with multinationals. Cheap labour has been the major consideration in manufacturing these goods in the Philippines. However, at present Thailand, China and other neighbouring Asian countries are offering stiff competition. Electronics, computers, and the allied products are also being exported from the Philippines. Because of the cheap labour, multinationals like Texas Instruments have based their manufacturing plants in the Philippines. As well as cheap labour, the government is extending tax incentives to these multinationals.

The North is truly Australia's gateway to the ASEAN countries. When facilities are truly developed, I am certain that Australia can fully tap the market not only in the East Asia Growth Area (BIMP-EAGA), but in the whole of Asia, extending up to Japan. With such development, the whole of Asia will be open to North Australia, and the North will be the gateway of the whole of Australia. The full development of North Australia is just a few years away.

Business Links with Mindanao

Michael Kilgariff

My presence here today is perhaps fortuitous, since I have just returned from the Seventh Mindanao Business Conference (the fourth Mindanao Business Conference I have attended) in Davao City, Mindanao.

The Mindanao Business Conference is organized annually by the Mindanao Business Council and is closely supported by the Philippines government. Former President Ramos has, in previous years, taken a personal interest in the Conference, viewing it as an important economic forum. This year's theme was 'Mindanao Responding to Global Challenges'.

Davao, a vibrant city of over one million people, is recognized as the capital of Mindanao, with many of the key administrative agencies such as the Mindanao Economic Development Council (MEDCo) based in the city. MEDCo is a government organization with strong business links that reports directly to the president on economic issues in Mindanao.

On the basis of my involvement with Mindanao, both in the Philippines and the Territory over the last four years, I will make a few general observations about Mindanao and the prospects for business between the Philippines and the Northern Territory.

The Philippines remains an agriculture-based economy, much of its agricultural output from Mindanao. President Estrada built an economic policy on this fact, undertaking during the recent election campaign to focus on developing the agricultural sector and to turn away from the industrialization policies favoured by former President Ramos. Such policy developments are yet to manifest themselves; but any policy change will be keenly observed.

The recent drought, induced by El Niño, has placed some pressure on the Philippines economy, at a time when the regional economic downturn was already imposing some stress. In consequence, agricultural output has declined by over 7 per cent, with a flow-on to Gross National Product. GNP is now growing at less than 2 per cent. This has impacted heavily on regions such as Mindanao, which rely substantially on agriculture for their economic strength. Because of this, the mood at the Mindanao Business Conference was a little subdued, but confidence in the economic prospects for Mindanao remains high.

Economic diversification has been recognized as the key to economic development in Mindanao, and, not surprisingly therefore, the focus of the conference was on the development of small to medium enterprises (SMEs).

A significant development has been the re-emergence of the former Presidential Assistant for Mindanao, Mr Paul Dominguez, as a key player in Mindanao and BIMP-EAGA. Other key figures once again important in promoting business in Mindanao are Mr Sebastian Angliongto, chair of MEDCo, Ms Joji Ilagan Bian, chair of the Mindanao Business Council and vice president (Mindanao) of the Philippines Chamber of Commerce and Industry, and Mr Protacio Tacandong, signatory to our Sister Chamber Agreement in 1995. The latter two are both past presidents of the Davao City Chamber of Commerce and Industry.

Although attendance was below the organizers' expectations, the Conference provided a good forum for catching up with economic and business developments in the Philippines, while reinforcing our existing networks. (A list of the delegates attending, by industry sector, will shortly be available on the Internet.)

East ASEAN Business Council

The Philippines has been the key driver of the Brunei, Indonesia, Malaysia, Philippines-East ASEAN Growth Area (BIMP-EAGA), which consists of Brunei Darussalam, most of the

eastern provinces of Indonesia, Mindanao and Palawan in the Philippines, and Sarawak, Sabah and Labuan in Malaysia.

Former President Ramos viewed Mindanao as having great complementarity with BIMP-EAGA and regarded Mindanao as the Gateway to BIMP-EAGA. BIMP-EAGA was seen in the Philippines as providing economic impetus to an otherwise depressed region.

President Ramos also believed that the Northern Territory could become an important contributor to the economic development of Mindanao and encouraged the Territory to actively participate in BIMP-EAGA. I recall a meeting in 1993 between Chief Minister Shane Stone and President Ramos, at which the president agreed that there was a role for the Territory in BIMP-EAGA. The size of the Territory posed no threat to Mindanao (or BIMP-EAGA); indeed the two complemented each other extremely well. He likened the situation to a wedding, where, although not related to the bride or the groom, we are seated at the front of the church. We know that is a privileged position and we take our responsibilities in the region exceptionally seriously.

The first conference to establish BIMP-EAGA, held in Davao in 1994, was attended by a delegation from the Territory. At this time, the East ASEAN Business Council (EABC) was established, and two years later the International Business Council was accepted as a member. Unfortunately the EABC has suffered the effects of the economic downturn and is experiencing some difficulty. It was the subject of discussion at the Mindanao Business Conference. The current chair, Senator Vicente Paterno, has indicated that he wishes to retire, and he will be replaced by former Presidential Adviser Paul Dominguez. While Senator Paterno has taken the EABC from nothing to a fully established secretariat, the appointment of Paul Dominguez will breathe a new life into the organization.

The location of the secretariat is yet to be determined; it seems clear that it is unlikely to remain in Brunei Darussalam, unless the Brunei government can be convinced to put some additional finance into the organization.

As I have said, the Territory recognized long ago that our future was with the Asian region, and in particular Southeast Asia. Our view of Mindanao as a natural complement to the Territory, is a product of the challenges that the Territory has faced, and is still facing, in terms of a large landmass and a small population, combined with a small manufacturing base and a narrow industry base. Our relationship has grown and matured over the years to the stage where we now have longstanding relationships and partnerships. Given the complementarities between the economies and climate of the Territory and Mindanao, one might ask, what potential exists for competitive advantage?

The fact remains that transport costs between the Territory and the Philippines remain very high compared to the costs of transport to other Australian ports. Conversely, livestock shipping has provided Territory importers and exporters with the direct links that would otherwise be cost-prohibitive. Livestock exports, with complementary services such as the provision of consultancy services for feedlotting and slaughter, has obviously been the big growth industry for the Territory in Mindanao. Despite the economic situation, at least one of our livestock exporters last year had its best year of exports to the Philippines to date.

It is true that Mindanao produces many of the primary products that we produce in the Territory (such as mangoes and other fruits). However, our technology and knowledge is superior, and that advantage can be utilized in consultancies. We also have a major competitive advantage in the adaptation of technology for remote communities to suit our climate and geographical location. Such factors may not be significant in markets such as NSW, but they are relevant in the Territory. For example, solar technology developed for the Sydney market may work well there, but may not function in a harsh climate such as that in Mindanao. A Territory product would.

The present currency difficulties have, of course, changed the short-term economic situation in the region. All the BIMP-EAGA countries, including the Philippines, are recording, in

varying degrees, lower demand for Australian exports. Although the Philippines has not experienced the same level of economic decline as many countries in the region, there is no denying that, for Territorians, the ongoing economic difficulties in the region have increased the risks of doing business in the Philippines. However, there are new opportunities in the fact that falling currency values have made many Philippines exports cheaper and more competitive. This could also lead to higher demand for inputs imported from the Territory.

The message we are giving to Territory business is that it makes sense to maintain a presence in the Philippines and BIMP-EAGA. Through the depreciation, niche opportunities for Territory products and services will continue to emerge in the Philippines. Opportunities will also emerge through the importing of products such as furniture and other more labour-intensive manufactured products not readily available in the Territory.

From an International Business Council perspective, the currency difficulties have thus posed both dilemmas and opportunities. We are not fair weather friends and we will continue to develop trade, business and investment with the Philippines. Taking up the opportunities presented in the Philippines will be profitable for the Territory, while making a positive statement about our faith in the long-term future of the region. In particular, we are advising Territory industry to look after those business relationships that have been formed over the years. We are encouraging our business people to continue to visit the market and to communicate with their business contacts.

It is our intention in the future to encourage Territory business from a wide range of industries to accompany our delegations to the Philippines. A large Territory delegation will attend 'All the Best from Australia', a major exposition to be held in Manila in November 1998, as part of the Philippines' Centenary of the Revolution celebrations. During this delegation the International Business Council will be signing a Memorandum of Understanding (MoU) with the Philippines-

Australia Business Council to progress business between the Philippines and the Northern Territory. The Board of the Council will shortly be ratifying a draft MoU which, following ratification and any amendments, will be sent to Manila for ratification. It is proposed that the IBC and the PABC formulate a plan of action to implement the MoU and to establish some strategic objectives.

Overall, the relationship between the Territory and the Philippines remains good. It has the potential to increase trade in the future. The International Business Council is committed to the relationship and is available to assist Territory businesses to pursue their activities in the Philippines.

Australia's Live Cattle Trade, the Asian Currency Crisis, and the Philippines

Bill Cordingley

During 1997 the live cattle trade rose to an all time high, confirming Australia's status as the largest over seas livestock exporter in the world. With exports of 882,636 head worth \$A397 million (FOB) the industry again defied its detractors and looked set for further expansion.

However, by the fourth quarter of 1997 the warning signs were clear that the live trade would feel the full force of the economic meltdown in Southeast Asia initially triggered by the devaluation of the Thai baht in July and followed by further currency devaluations in Indonesia, Malaysia and the Philippines. The Indonesian rupiah and Philippine peso were floated on 11 July and 14 August 1997 respectively and immediately lost up to 30 per cent of their value. Following the initial shock and the ensuing adjustment period some stability had returned to most currencies by the end of the year, albeit at much lower levels.

Our largest live cattle market, Indonesia, has been the hardest hit by the crisis. From monthly average imports of over 32,000, this vital market has fallen so dramatically that it imported only 3500 head in the first 10 months of 1998, a sobering indication of the gravity of the situation faced by north Australian producers in the dry season turn-off period. While the impact on other major live cattle markets has been less dramatic, they have fallen substantially, almost without exception.

Northern producers change focus

Over the past five years the growth in the live trade has been accompanied by a concomitant re-evaluation of management

strategies across the northern cattle industry. Increasingly, production has been geared toward higher volume, lower age turn-off, producing specifically for the feeder markets of Southeast Asia. While these management changes have assisted producers in taking full benefit of the opportunities offered by the live trade, it has also necessarily reduced their margin for error. With increased breeder numbers, they are vulnerable to the onset of drought and have less opportunity to hold young stock for sale the following year. Similarly, as producers no longer carry a profile of different aged steers, they have less flexibility to target alternative markets without a significant readjustment lag period.

It is therefore increasingly obvious that the 1998 dry season will be one of the most difficult experienced by Northern producers for many years. While there are some positive signs emerging in new and potential markets, it is unlikely that any of these will significantly alleviate the difficulties faced this year.

Asian live cattle trade

Whilst the Asian crisis has had an effect on all Australian industries with exposure to the region, the impact on the live cattle trade has been particularly severe. A number of unique factors have been at work in the live cattle trade throughout 1997, which have magnified the impact on the trade of the currency crisis.

Trading terms

Most live cattle contracts were written on 180-day terms (unlike beef contracts which are usually for 30 days maximum) through an irrevocable Letter of Credit (LC). Under the old fixed currency regime, there was little requirement for importers to manage currency risk as most Asian currencies were in some way fixed against the US dollar. Importers, unfamiliar with having to consider exchange rate fluctuations when designing their business risk management strategy, were faced (almost overnight) with falls of up to 30 per cent in their currency's purchasing power when their currencies floated.

Exacerbating the situation was the fact that few kept significant reserves of US dollars with which to trade. It was far more profitable for importers to invest local currency in the cash market, where prevailing local currency interest rates were far more attractive than those being offered for US dollars.

Asian importers now had to find up to 50 per cent more local currency to purchase US dollars for upcoming shipments as well as for previous consignments, as their long-term credit arrangements expired. With contracts written for up to \$US1 million per shipment, exposure to only a few loads was sufficient to cause serious liquidity problems for many Asian importers, and encourage importers to attempt to trade their way out of debt rather than accept the losses and consolidate positions.

With Australian banks questioning the solidity of their Asian counterparts, importers also found it increasingly difficult to obtain confirmation on LCs, further limiting their ability to trade their way through the crisis. Those that did continue to trade faced unexpected further currency devaluations and were even worse off.

Flooded markets

Prior to the currency crisis live cattle exports were strong, with the first seven months of 1997 characterized by record export growth. Thus, by the time the currency crisis hit, Asian feedlots were full to overflowing with Australian cattle. Unfortunately, the huge volume of cattle in the market and the inevitable panic selling at the time of the currency crash made it very difficult for the Indonesian and Filipino lot feeding sectors to force wet market prices upwards in order to pass on some of the increased costs.

With prices remaining stagnant, costs spiralling and excess cattle on hand, feedlotters faced having to turn off cattle immediately or risk heavy price discounts later for over-fat stock. The result was the combined effect of higher turn-off and lower market prices. The onset of the worst drought in memory throughout most of Asia further dampened Asian livestock markets at a time when the export trade could least afford it.

Stable cattle prices

Despite the difficult environment, the end of the northern turn-off and the fact that many exporters held long-term ship charters meant prices remained relatively stable. The end of the northern season and strengthening export beef markets through 1997 meant the Asian downturn did not initially have a great effect on farm gate prices, thus worsening the exporters' position.

The effect of this market distortion was to dramatically worsen the financial position of the exporting community as a whole. Exporters play a crucial, highly specialized and essential role in the live cattle export process providing the professional link to export markets, without which the trade would not exist. While some rationalization in any sector of an industry is often desirable, the complete decimation of such a sector is certainly not.

While this is not yet the case, only a fraction of the companies exporting to Asia in early 1997 are around one year later. In the long run, a lack of competition for cattle from exporters will have a negative effect on the price received by producers. With only one or two real exporters in the market, the producer has little bargaining power, particularly if highly geared to live export.

Export levels collapse in new year

Already in 1998, with exporters coming off long-term charters, importers unable to confirm credit lines, and the continued deterioration in regional exchange rates, there has been a dramatic decline in exports to Asia.

The situation is less severe in the Philippines with some profitability remaining in the industry. Exports reflect this and are running at slightly below 14,000 head per month for the first nine months compared to 21,000 per month for 1997.

Live cattle export markets

Total live cattle exports reached 882,000 head in 1997, a jump of 22 per cent over the previous year. Over the past five years, exports have grown by an annual average of 42.5 per cent, a phenomenal

performance in any industry. In forecasting what could occur in 1998 it is important to consider each market individually to examine the particular nuances of each and how each will react in light of the broader economic crisis.

Australian live cattle exports

	1996	1997	1998 (forecast [Sept 1998])
To:			
Indonesia	377,131	387,444	25,000
Philippines	203,010	253,215	180,000
Malaysia	44,842	64,120	45,000
Japan	15,039	19,533	18,000
Libya	7,712	97,525	115,000
Egypt	49,310	41,523	85,000
Middle East	10,853	4,375	40,000
Others	15,188	14,901	30,000
Total	723,085	882,636	538,000

Source: AMLC

Philippines

The Philippines has been a strong market for Australian cattle since the early 1990s. Last year's imports were a slight jump on previous year averages; however, the situation will inevitably be reversed in 1998.

Although exports slowed in the second half of 1997, numbers remained relatively strong, maintaining monthly levels similar to those of 1996. Aiding the increase in exports in 1997 were continued solid rates of economic growth, increased beef consumption, lower feed grain costs, entry of several new operators, the easing of the 10 per cent breeder cattle import requirement and, in the second half of the year, the long-term ship charter arrangements. In early 1998 tariffs on feeder cattle weighing over 330 kg were reduced from 30 per cent to 3 per cent in line with cattle weighing less than 330 kg.

Although suffering initially from the currency squeeze, what is now our largest market appears to be in reasonable condition. The slide of the peso, whilst severe, has not continued 'off the charts' like its Indonesian counterpart. Prospects for 1998 appear brighter than expected.

With the trading margins that existed last year now reduced, the industry will be almost entirely driven by the capacity of feedlotters to add value efficiently. Not all have the management or technical know-how and only a few will survive. Exports are forecast to fall to around 180,000 head in 1998. Whilst this is a major reduction, in the light of events elsewhere this result would be a major win for the northern industry.

The recent scrapping of the 30 per cent tariff on cattle weighing over 330 kg will further facilitate a relatively speedy recovery by allowing slaughter-ready animals to be exported. This will provide increased flexibility to the trade.

The gradual reduction in beef tariffs that will take place over the next couple of years (20 per cent in 1999 to 10 per cent in 2000) will test the viability and efficiencies of importing cattle. It is likely that past 2000 these tariff reductions will see a greater proportion of imported beef product enter as boxed rather than on the hoof.

Conclusion

Although suffering from tight trading conditions, the Philippine market remains viable, assisted by a weaker Australian dollar, lower export prices and reduced shipping fees.

The Philippines is now our largest and most important export market; without the Philippines the cattle export industry would have suffered much greater pain over the past twelve months.

The Philippines will remain our largest export market for the foreseeable future.

Exporting Live Cattle: from the Business End

Steve Ellison

I will give you a brief background of the live cattle trade in general, and how we (I am speaking as export manager of Austrex GRM) go about getting cattle from A to B, and all that goes on in between.

Austrex is a merchandizing arm of a consulting company, GRM International, which has big projects in the Philippines in smallholder development, education, health, and road-building (initially in Northern Samar). When the cattle trade with the Philippines got going, some went into smallholder developments and some targetted the bigger feed-lotter, the likes of Del Monte and San Miguel (Monterey). In those days, there was also a large breeding program, funded through the Philippine Development Bank. Unfortunately, smallholder developments – anywhere in the world – are never successful. For whatever reason, they just don't work; there are difficulties with credit and with expertise, having people on the ground who know what to do at a specific time; there are cultural problems (weddings, for example, necessitate having meat and if the cow is out there it is much easier to knock it off than buy meat).

In order to get cattle from A to B, we, as a company, go to AUSTRADE in whatever country we are in and ask if they have had any enquiries from feed-lotter or small farmers; this way we get a list of potential importers whom we go and see. We ask them what they want. Sometimes, especially with smaller importers, they are not quite sure, so we guide them. In the old days this was probably not the best way to do things, because we were telling them what we wanted to sell, not asking what they wanted to buy. It was a marketing strategy that Australians perfected. However, as time has passed, farmers and feed-lotter

have become more sophisticated; they now know what they want and they tell you.

This is documented in what is called a *pro forma* invoice. It tells you the number and weight of the cattle, the type of the cattle, when they can be expected to be shipped, when the letter of credit will open, whether the cattle are covered by insurance. The invoice is signed by both parties and forms the basis of a type of a contract. When that is signed, the exporter identifies the ship that can carry that number of cattle. He pays the freight (in US dollars) and specifies where the cattle will be loaded. From that time, it is my responsibility to make sure that everything is organized to load that ship. If that doesn't happen, we pay \$US10,000 a day to have the ship sit there whilst we get everything together.

I then have to go out and buy the cattle to fit the specifications. I have to organize the feed (which comes from Victoria). We have to provide sufficient feed for 2.5 per cent of the cattle body weight per day. Under marine orders we have to load that plus an extra two days feed just in case there is a ship breakdown or it gets held up in port. All that has to come together at a particular point in time. We have to coordinate the cattle in trucks, the fodder, the water on the ship (which comes from the Darwin Port Authority). We have to put a stockman on board who will look after the cattle. We have to make sure he has a passport (quite often boys from the bush just turn up and say, 'Here I am'). We have to make sure he has a return air ticket. When we have the ship organized and the cattle are on board, we know how long it is going to take to get from A to B. We always send somebody to the other end to make sure that the cattle come off in good condition.

On the financial side, when the letter of credit is opened, we have to present to the bank a health certificate, bills of lading and a manifest. Unless we can go to the bank with those three documents, we cannot get our money. It is therefore important that all the paperwork is up to date; if the spelling is wrong on the letter of credit, the spelling has to be wrong also on the bills of lading. Also, governments have health protocols, so that if the Philippine government says, 'We want this and this to happen to

these cattle before they go on the boat', that is put in writing between the Bureau of Animal Industries in Manila and AQIS (the Australian Quarantine and Inspection Service) in Canberra. The import protocols are written on the health certificate that we have to produce to the bank. These have been negotiated over a period of time, and often include a lot of really unnecessary conditions. Fortunately, representatives from exporters are now included in the missions which go to negotiate health protocols.

Each ship has a designated square meterage, and we have a table from which we calculate the total number of cattle we can put on the ship; that comes under marine orders and safety provisions. The weights on the ship are monitored, the AQIS officer is liable to send cattle back to the yards if there are more than there should be on the ship. Occasionally, cattle die in transit. In 1997 a few cattle died going to the Middle East. It is unfortunate, but, overall, total mortalities of cattle were 0.01 per cent on something like 750,000 head, which is pretty good.

Filipino Studies at Northern Territory University*

Chris Healey

This paper gives a brief overview of North Australian-Philippines relations in the field of tertiary education. The focus is on the institutional linkages between tertiary institutions in the Northern Territory and the Philippines, and the provision of education and training programmes concerning the Philippines for students of the Northern Territory University (NTU). I also add some information on the participation of Filipino students in tertiary education in the Northern Territory.

The Northern Territory University is the only tertiary institution based in northern Australia providing a full range of higher education (HE) and vocational education training (VET) programmes to the Northern Territory community and adjacent areas. It is one of the few Australian universities with fully integrated dual HE and VET sectors.

NTU sees its mission as meeting the demands for educational, training and research services of a diverse domestic and international community. The region we serve embraces northern Australia and nearby areas of Southeast Asia

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and the western Pacific. A particular focus of attention internationally is identified as the zone referred to as BIMP-EAGA.

The provision of educational services is currently regarded as an important 'industry' with considerable export potential. Australian universities are increasingly competing for access to domestic 'equivalent full-time student units' (EFTSU), as a basis for Commonwealth government operating grants, and to fee-paying overseas students. Despite the current economic downturn in Asia, there is enormous potential for Australian universities to tap into the Asian market for university education, and to capitalize on the high demand for overseas qualifications and the unmet domestic demand in many Southeast Asian nations for university places.

Strategic planning at NTU over recent years has seen the development of specialist courses in a wide range of professional and vocational areas of interest to students from the Philippines. In addition, NTU courses offer Australian-based students the opportunity to undertake specialist work in aspects of Southeast Asian studies, including subjects dealing specifically with the Philippines.

While current financial realities force Australian universities to be more conscious of the economics of the marketplace, the 'core business' of universities continues to be the growth and dissemination of knowledge. NTU certainly seeks to expand its 'export' services to the Philippines. But we also seek to provide opportunities for greater understanding of the Philippines *within* the north Australian region, and more generally nationally. We see this objective as important for a more effective and culturally sensitive engagement of Australia with the Philippines. Recent developments in cooperative relations between NTU and educational institutions in the Philippines greatly enhance NTU's capacity to provide a better understanding of the Philippines within Australia.

Since its inception in 1989 NTU has shown a strong interest in the Philippines. Indeed, this interest goes back further, to the activities of the Darwin Institute of Technology (founded in 1974

as the Darwin Community College) and the University College of the Northern Territory (founded in 1986), which merged to become NTU. Both institutions offered teaching programmes which included attention to the Philippines, and which attracted students from the Philippines. In addition, staff in both institutions maintained research interests in the Philippines.

The Centre for Southeast Asian Studies within the Faculty of Arts at NTU is one of the earliest research centres to be established within the university. It has always maintained a strong interest in the Philippines through the research activities of several staff members affiliated with the Centre. The School of Fine Arts within the Faculty of Arts has also promoted NTU-Philippine relations through hosting Filipino artists in residence and print-making workshops. NTU's focus on the arts in the Philippines will be further promoted by the recently-established Centre for Asia-Pacific Arts within the Faculty of Arts.

NTU and its predecessor institutions have attracted students from the Philippines in a number of areas, among them Business, Fine Arts, Health Sciences, Humanities and Social Sciences. Students have undertaken programs in VET, undergraduate and postgraduate courses. Nonetheless, numbers of Filipino students attending courses in Darwin have always been small. The Faculty of Science is currently developing programs to facilitate upgrading of nursing qualifications of Philippines-trained nursing personnel.

Rather than review the history of NTU-Philippines relations to date, and the participation of Filipino students in tertiary education in Darwin, I will concentrate on the present state of more formal relationships and their potential for the immediate future.

At institutional level, NTU has been involved in the following programmes in the Philippines:

- NTU currently has a Memorandum of Cooperation with Mindanao State University in the southern Philippines, signed on 31 August 1995. This is a generic agreement to engage in cooperation for mutual benefit and the advancement of knowledge and intellectual development

through exchanges of staff, students, materials and collaboration in research. Under the terms of this MOC the NTU director of the International Office has run several courses for MSU staff.

- Under an AusAID contract, NTU is managing the Australian training component for a Philippines Regional Municipal Project.
- Through local government connections in the NT, NTU is providing a consultant educator for a Local Government Capacity Strengthening Programme.
- In May 1998 NTU and the University of the Philippines (UP) signed a letter of intent to work towards a memorandum of cooperation by November 1998. The objectives of cooperation identified in this letter of intent include:
 - development of Filipino Studies at NTU, with assistance from UP;
 - in-country programmes for NTU students;
 - in-country programmes for UP students;
 - secondment of UP staff members to NTU to assist setting up Filipino Studies;
 - development of Southeast Asian Studies at NTU.

I will concentrate on this last programme as an illustration of the growing relationship between NTU and the Philippines in the education field.

In 1996 representatives of NTU held discussions with the NT Department of Asian Relations, Trade and Industry (DARTI) concerning potential development of the existing Asian Studies programme in the Faculty of Arts at NTU. DARTI raised the possibility of facilitating the introduction of studies in Filipino language and culture. The Faculty had already given priority to the introduction of Tagalog (Pilipino) as an addition to the Indonesian language programme, subject to adequate resources. Pilipino had been identified in recognition of the growing commercial and other ties between northern Australia and the

Philippines, and the importance of the Filipino community in Northern Territory, and especially Darwin, society. NTU therefore responded positively to DARTI's offer of assistance.

In July 1997, DARTI funded and arranged a visit to Darwin by Professor Pamela Constantino of the College of Arts and Letters, University of the Philippines. Professor Constantino had discussions with officers of DARTI, NTU staff, members of the Filipino-Australia Association, and others. Positive outcomes of Professor Constantino's visit were indications of further DARTI support and an agreement that the Faculty of Arts at NTU should develop a proposal for Filipino Studies drawing upon the expertise of the University of the Philippines.

In late 1997, the Minister for Asian Relations, Trade and Industry approved a grant to the Faculty of Arts at NTU of \$60,000 over two years for the development and initial delivery of a programme in Filipino Language and Culture. The Philippines-Australia Business Council indicated in-kind support through DARTI for this initiative.

In May 1998, I made a visit to the main campus of the University of the Philippines in Diliman, Manila, to further discuss the proposed NTU Filipino Studies programme. Discussions concerning cooperative educational activities were also held with other areas of UP. The main areas of potential cooperation between NTU and UP identified in talks were the following:

- Filipino Language and Culture, with UP providing curriculum materials, distance education packages, in-country study options, and staff exchanges;
- Australian Studies, with NTU providing assistance to the Asian Centre of UP in the introduction of an Australian studies stream at postgraduate level;
- Joint programmes in Tourism and Hospitality involving the NTU Faculty of Business and the UP Asian Institute of Tourism;
- Anthropology and Archaeology;

- Environmental Sciences, Geographic Information Systems, Marine Sciences, and Tropical Horticulture;
- 'enrichment' or 'sandwich' programmes at NTU for UP staff undertaking postgraduate studies through UP.

To date, programme development has concentrated on a working framework for the progressive introduction of Filipino Language, and more limited development of reciprocal delivery of postgraduate coursework subjects in Australian Studies.

The Faculty of Arts at NTU is currently undertaking a market survey of potential interest in Filipino Studies among current NTU students, year 11 and 12 high school students in the NT, and local and interstate commercial and other organizations. We are also drafting a sequence of language units from introductory to advanced (third year). The Faculty of Arts already offers a small number of undergraduate units dealing exclusively or substantially with aspects of Filipino Studies, especially history and politics, and further units are proposed for the future. New language units would be added to these units in Filipino Culture and Society to provide students in the Bachelor of Arts, Bachelor of Southeast Asian Studies, and other courses with a major sequence of studies in Filipino Language and Culture.

Consultations continue with UP for the preparation by UP staff of distance education materials in Filipino Language for use by NTU. NTU proposes to provide local tutorial support for on-campus students. UP is expected to make available a senior staff member to spend some time in Darwin to develop on-campus delivery and to train locally-recruited tutorial support staff. UP would also provide overall academic oversight of the programme.

The development of Filipino Language as a component of Bachelor degrees is a significant initiative for NTU. No other Australian university provides degree-level studies in Filipino language. The Philippines is growing in importance to Australia's economic and strategic interests, notwithstanding the current economic downturn in the region. Locally-available studies in language and other aspects of Filipino Studies is of

evident relevance to northern Australia's interests. We would also expect this initiative to meet a need for specialist language training nationally.

While the number of potential students of Filipino Studies may remain small in the short term, the Faculty of Arts considers this to be an important strategic development. Universities are increasingly operating in a national and international marketplace, rather than local and state-based markets. With appropriate marketing and quality control of the programme, NTU has the opportunity to become a specialist national provider of Filipino Studies, attracting cross-institutional enrolments from other institutions, especially from Asian Studies and Business programmes within Australia.

The Faculty of Arts assesses the potential for providing services in Australian-Philippines relations as oriented primarily to Australian 'consumers' wishing to enhance their business, human services, diplomatic and other dealings in the Philippines through better understanding of the language, culture and society. To this end, the Faculty wishes to identify the demand of commercial and government and non-government organizations for short courses in specialist areas. One of the objectives of the market survey currently underway is to obtain data on marketplace demand for special courses to meet the needs of industry, government departments, NGOs, the Defence Forces, and so on. Courses might include language and etiquette for special purposes, or aspects of Filipino culture, history, politics or religion relevant to the activities of Australian-based organizations operating in the Philippines.

Through the Centre for Southeast Asian Studies and other units in the university, NTU is also well-placed to provide consultancy services in a wide range of areas including the social and environmental sciences, agriculture, education services, business and management, technical services and trades. The potential relevance of training packages at degree levels and non-award courses is highlighted by the comments of Consul General Edwin Bael and Dr Ron May (this collection) indicating that Australia is now the major provider of military

training in the Philippines, and the continuing active engagement of Australian mining, telecommunications and other companies in the Philippines.

I have focused on current developments in Filipino Studies at NTU aimed at providing services primarily to an Australian market with interests in the Philippines. However, the university also recognizes its potential to provide appropriate teaching and training opportunities to students from the Philippines, and so further promote the growing relations between northern Australia and the Philippines.

Guidelines on Philippine Society, Culture and Business Etiquette

Kym Handberg

The following is a brief set of guidelines in summary form, for business people contemplating doing business in the Philippines.

Philippine Society: Values, Beliefs and Behaviour

Filipinos share a number of key beliefs and patterns of behaviour, namely:

- demonstrating family and kinship loyalty;
- honouring religious teachings and practices;
- respecting the public image of self and others;
- maintaining harmony in social situations;
- avoiding direct confrontation and conflict.

Philippine Business Culture: Values, Beliefs and Behaviour

- Business people will find a climate that is receptive to multinational business development;
- Filipinos are warm and friendly, and value relationships, especially friendships;
- the individual in the Philippines is not so much submerged in the group as a representative of it, deserving of individual as well as collective respect and attention;
- Filipinos will do everything they can to uphold their reputation as hospitable, concerned and friendly; they expect foreigners to be respectful, interested and polite in return;
- family and family life are valued above work and business;
- Philippine culture places a strong emphasis on fate.

Doing business in the Philippines

What Filipino businesspeople expect:

- because business is conducted on a personal basis, the international businessperson should be prepared to establish credibility and trust;
- the general pace is leisurely, and business is best done face-to-face in a convivial atmosphere; small talk is prolonged;
- above all, Filipinos are sensitive to – and value in others – sincerity, friendliness, concern, respect for self and others, trustworthiness, and a desire to maintain harmony in relationships.

The role of women in business:

- a woman's rights to legal equality and to inherit family property are unquestioned;
- the idealized Filipino woman is shy, demure, modest, self-effacing and loyal;
- Filipinas do not admire women who are aggressive or who mix freely and openly with men;
- despite this, there is no implication of female inferiority, and Filipinas have a good deal more visibility and participation in business than is typical among Asian cultures.

Business Etiquette

Greetings and forms of address:

- Filipinos greet each other by raising their eyebrows and then letting them fall as eye contact is made;
- this form of hello is usually accompanied by a friendly smile and, between men, an informal handshake;
- women usually greet each other with a kiss on each cheek;
- Filipinos should be addressed as Mr, Ms, Dr, or by their appropriate title;
- Filipinos address superiors with 'sir' or 'ma'am'.

Dress:

The foreign businessperson should dress carefully and neatly, with attention to quality and taste:

- a man should wear a jacket and tie to a business meeting and follow the lead of the hosts in removing it after arrival;
- a woman should wear a business suit or matching outfit, preferably with a skirt and stockings;
- a Filipino man will often go to work in a light, intricately embroidered shirt called a *barong*.

Gestures, body language and style:

- Filipinos do not speak in a belligerent, harsh or loud manner;
- a businessperson should never bark orders or scold someone in public;
- when beginning a conversation, especially with a new acquaintance, it is a good idea to speak slowly;
- the word 'yes' is indeterminate;
- laughter is a sign of enjoyment or pleasure, but also used to mask embarrassment or unease;
- beckon someone by holding your hand out palm down and moving your fingers in a scratching motion;
- standing with your hands on your hips indicates anger and confrontation.

Business interactions:

- business appointments should be made well in advance, with arrangements made by someone who knows both parties;
- business cards are exchanged;
- age and seniority are very much respected throughout the Philippine business world;
- 'Filipino time' generally means that actual starting time will be a half-hour to hour later;
- a business gift is appropriate in the Philippines if an important, established relationship is involved.

Business meals and entertainment:

- Filipinos are more likely to entertain you in a restaurant;
- although business may be discussed over dinner, it may also be neglected in favour of other, more personal topics;
- the foreign businessperson should avoid introducing political or religious topics;
- the host pays and an attempt to avoid this custom is useless and ultimately rude;
- the foreign businessman who has been entertained should reciprocate before returning home;
- include Filipino spouses in an invitation to dinner, but not to lunch, where the conversation is more likely to be strictly business.

The Australia-Philippines Business Council: Role and Functions

Objectives

Established in April 1975, the Australia-Philippines Business Council seeks to foster friendship, understanding, and mutual benefit between the business communities of both countries. Its primary aim is to promote trade, investment, and technical cooperation between Australia and the Philippines.

Membership

Membership of the Council comprises large and small companies, professional firms, government departments and enterprises, and individuals. Industries represented include mining, construction, port and other infrastructure development, telecommunications, transport, banking, energy, food processing, shipping and tourism. Members come from most states, as well as the Northern Territory.

Management

The Council is managed by an executive committee, elected annually, comprising a president, two vice presidents, a treasurer, and four other members. The patron (Sir Rupert Clarke Bt MBE, chairman, P & O Australia Ltd) and immediate past president are ex-officio members of the committee, which is serviced by a part-time secretariat based at the Australian Chamber of Commerce and Industry (ACCI) headquarters in Canberra, in addition to its full-time office working from the current president's address. The committee meets every eight to ten weeks; sub-committees responsible for membership, functions and other activities meet more frequently. Executive committee meetings are currently rotated between Melbourne, Sydney, Brisbane, Adelaide and Perth.

What does the APBC do?

In business to business relations, the APBC

- provides a primary forum and focal point for networking between Australian and Philippine business communities;
- co-hosts trade and investment missions from the Philippines, for example, infrastructure development, the BOT [build, operate and transfer] program, opportunities in mineral resources and mining;
- provides informed and influential business contacts in the Philippines via its sister body, the Philippines-Australia Business Council (PABC);
- organizes special business lunches in the major capital cities with prominent leaders as guest speakers;
- provides useful information, via the APBC newsletter, *UPDATE*, concerning business and economic developments in the Philippines as well as about Australia-Philippines trade, investment and aid;
- affords regular opportunities, via the annual APBC/PABC joint meeting, for top level contact with business counterparts, ministers and senior government officials;
- provides matching business opportunities for investment, joint venturing and export development.

In business to government relations, the APBC

- provides a primary forum for Australia-Philippines business/government issues and dialogue;
- liaises with Department of Foreign Affairs and Trade, Austrade and AusAID on relevant trade, investment and development aid matters, and with other Commonwealth and state government departments and agencies as appropriate;
- makes representations at senior official and ministerial level on specific bilateral issues as necessary;

- liaises with the Philippines Embassy, consulates, and trade representative in Australia, and Australian Embassy and Austrade in the Philippines;
- provides access for members, when required, to ministers and senior officials in both Canberra and Manila.

Australia-Philippines Trading Performance and Business Outlook

Don Cairns

There has been some discussion of Philippines-Northern Territory direct trade; I will therefore focus instead on the overall Australia-Philippines trading picture. I should say, however, that my office looks after North Queensland, Northern Territory and the Kimberley, as well as the BIMP-EAGA region. We think there is a natural synthesis here, that Northern Territory interests do not stop at its eastern and western borders. One of the recommendations that came out of the recent conference in Tennant Creek was that in future discussions – economic, social and other – people from at least Mt Isa to Kununurra and the Ord be brought in, because our joint interests are strong.

Until recent years, there was not a lot of business between Australia and the Philippines. The Philippines has not always had a good press in Australia and there was a feeling in the past that the Philippines was a very dangerous place to go to, and that doing business there was too difficult. Instead, Australians went to Singapore, Malaysia, Hong Kong, and so on, and conducted business there. In the 1960s it was rare to bump into another Australian in the Philippines; there were almost no tourists and very few business people. This started to change around the early 1970s. Since then there has been a rapid growth in trade. Last year our exports were \$1.16 billion.

A story in today's *Manila Bulletin* (23 September 1998) suggests that, even with the current economic problems in the Philippines, the Philippine economy is set to achieve a 5 per cent GDP growth in the year 2000, after steps have been taken to revive the economy. The government is predicting a 1 per cent growth in GDP in 1998 (last year they were predicting a growth rate of

3.5-5.0 per cent). Expectations are that growth will increase to 3.5 per cent in 1999 and around 5 per cent by 2000. Policy makers are hoping that the Philippines will be able to avoid a slide into recession. The government expects to be able to restrict inflation to 8 per cent in 1999 and 5 per cent in the years thereafter – compared with 10 per cent in 1998. To improve the fiscal position, the government will impose taxes on land conversion and on idle land, a road users tax, increases in registration fees for luxury cars, and a 3 per cent tariff on imports of capital equipment. The same newspaper quotes the Economist Intelligence Unit (EIU) as predicting a likely 2 per cent growth in GDP for 1998, with a 1 per cent growth as a 'worst scenario'. Agriculture will record negative growth in 1998, but should recover the next year. The EIU predicts that the Philippines will be one of the first five countries to recover from the Asian economic crisis, behind Taiwan, Singapore, Australia, and Thailand. The Philippine government's economic policies, such as liberalization and deregulation, point to an early recovery in the economy next year. Hopefully, they are correct. And from a selfish point of view, if the Philippines recovers quickly from the recession, its people will be in a better position to buy from Australia.

Making some basic comparisons: the Philippines has a population of around 74 million, compared to Australia's 18 million – that is, the Philippines has about four times Australia's population; yet if you look at overall GDP, Australia is close to \$US400 billion while the Philippines is around \$US83 billion – so, on this measure, the Australian economy is about five times the size of that of the Philippines. These considerations should be kept in mind when comparing prospective markets.

Table 1 – Australia's Export Markets 1996/97

Rank	Country	Amount (\$A billion)
1	Japan	15.3
2	Republic of Korea	7.1
3	New Zealand	6.1
4	United States	5.5
10	United Kingdom	2.4
16	Philippines	1.22
	1997/98	1.16

Table 1 shows where the Philippines ranked among Australia's export markets in 1996/97. Japan was Australia's largest export market, taking \$A15.3 billion worth of exports; Korea was second with \$7 billion, New Zealand third with \$6 billion (mostly manufactured goods), and the United States fourth with \$5.5 billion; the Philippines ranked sixteenth, with exports of \$1.22 billion. In 1997/98 exports to the Philippines were \$1.16 billion; a major part of the small decline would have been the drop in live cattle exports (there is also some element of exchange rate changes).

Table 2 – Australia's Southeast Asian Markets

	Percentage share of exports 1996/97
Singapore	30.0
Indonesia	23.5
Malaysia	19.5
Thailand	15.1
Philippines	9.1
Brunei	0.7
Indochina (Vietnam, Laos and Cambodia)	<u>2.1</u>
	100.0
Total exports	(\$A billion) 12.9

Table 2 shows the relative size of our exports to Southeast Asia in 1996/97. Singapore took about 30 per cent of our exports to Southeast Asia – remarkable for such a small country (less than 3 million people), though a lot of this is re-exported to Indonesia, Malaysia and elsewhere. After Singapore comes Indonesia with 23.5 per cent, Malaysia (19.5 per cent), and Thailand (15.1 per cent); Brunei accounts for 0.7 per cent, and Indochina (Vietnam, Laos and Cambodia) 2.1 per cent. The Philippines took 9.1 per cent, lower than all the other major ASEAN countries.

Below I have listed just some of the larger Australian companies that have a presence in the Philippines.

ANZ Bank	John Holland
ACI	Leighton
BHP Engineering	P & O Australia
Boral	Qantas
CMG	TNT
Colliers	Transfield
ICI Explosives	Webforge
James Hardie	WMC

The ANZ Bank has been there for quite some time; it has a retail banking licence, and has been considering moving into areas of the Philippines beyond Manila. Several contractors, including John Holland, Leighton, Boral, BHP Engineering, and of course P&O, are involved in construction work and infrastructure projects. ACI is producing bottles in the Philippines. Twenty years ago, none of these companies was there.

On the political front, a number of proposals have been announced by the Estrada government.

- *Tax reform.* The Estrada government plans to increase the tax base (whether or not it can do it is another thing); there are to be a number of changes to the company tax structure, still to be announced.

- *Deregulation and privatization.* The new government is committed to further deregulation; an oil deregulation bill is now before Congress; changes in the retail sector have been proposed but not yet implemented. Among industries slated for privatization is the National Power Corporation.
- *Fostering key industries.* Several industries will receive special assistance. The telecommunications industry is one set down for reform; this is an area which offers rich opportunities for Australian companies – Telstra has already made a successful entry to the Philippines market. There are plans for a lot of infrastructure work – highways, ports, and so on, and that is another area where Australian contractors, building suppliers and consultants can be involved. In agriculture, the government wants to improve the whole agriculture system, and that is a field in which Australia has very good technical expertise. So there is good news in those three areas for Australian exporters.
- *Poverty alleviation.* The Estrada government is strongly committed to reducing poverty and I am sure that AusAID will be quite busy in that area over the next five years.

Five broad priority areas have been identified by our office in Manila in its efforts to find market opportunities for Australian companies in 1998 and 1999.

- *The minerals industry.* We were hoping that proposed changes to the regulations of the *Mining Act* would be completed in 1997. A number of Australian companies is ready to move in, either operating as joint ventures or simply supplying equipment. The prospects in the Philippines are good, but changes to the *Mining Act* have yet to go through Congress (hopefully this will be done in 1998). If Australian companies commence operations in the Philippines that could be good for the Northern Territory; we have people who have expertise in that field and also people who can supply equipment.
- *Infrastructure.* As mentioned earlier, a lot of infrastructure work is planned, particularly in water

supply and construction generally. Australian companies should be able to profit from developments in that area.

- *Meat and processed foods.* An increasing range and volume of Australian foods is now found in the supermarkets of Manila and other major cities. Some Territory business is involved in supplying boxed beef, and this market is expanding.
- *Telecommunications* has been mentioned above.
- *Mindanao.* Mindanao is an area of expansion, and it is close to Darwin. There are exciting prospects there, particularly in mining and agribusiness.

Table 3 – Australia's Trade with the Philippines
(\$A '000)

Exports	1993-94	1994-95	1995-96	1996-97	1997-98
<i>Total Exports</i>	698,516	839,287	1,075,403	1,225,825	1,164,695
Milk & cream	134,921	169,536	205,225	206,248	187,631
Live animals	47,791	69,918	102,495	114,107	102,866
Coal	4,931	7,800	24,824	42,956	70,479
Copper ores	-	-	-	41,608	55,026
Bovine meat	17,861	21,359	38,212	39,938	49,064
Telecom equipment	5,784	4,322	28,592	32,465	48,935
Aluminium	23,010	39,669	30,555	36,761	43,481
Liq. propane & butane	-	-	24,250	43,076	41,318
Cereal preparations	37,741	32,110	40,847	43,550	39,411
Photographic supplies	130	284	64	5,756	27,486
Imports					
<i>Total Imports</i>	188,241	258,870	260,252	282,449	418,274
Computers	12,248	7,299	7,495	34,428	49,746
Iron/alum. structures	41	1	333	155	42,790
Electrical equipment	3,111	47,151	54,835	47,871	38,316
Integrated circuits	7,037	8,068	19,026	27,353	37,495
Heating & cooling equipment	-	12	14	127	34,657
Furniture	12,436	15,742	13,742	14,923	18,345
Mechanical handling equipment	114	4,866	22,742	418	16,505
Machinery & transport equipment	2,673	2,663	3,675	5,329	5,329
Cocoa	4,386	4,197	4,189	7,502	10,452
Telecom equipment	6,883	9,626	8,239	8,639	10,193

Table 3 gives figures of total Australian trade with the Philippines. As you can see, trade has expanded quite rapidly over recent years. Exports grew from around \$700 million in 1993/94 to \$1.2 billion in 1996/97. There was a slight drop in 1997/98 (mostly in live cattle exports), but the figures show that exports have about doubled over the past five years. Imports have also increased substantially, from \$188 million in 1993/94 to \$282 million in 1996/97 and then to \$418 million in 1997/98. But, as has been noted, this leaves a very large trade gap, of \$746 million in 1997/98.

This table also shows the major ten export and import categories. Dairy products head the list of exports, rising from \$135 million to over \$187 million over the five years. Exports of live animals rose steadily from around \$48 million in 1993/94 to \$114 million in 1996/97, before falling, by about 10 per cent, in 1997/98. Coal exports have risen substantially, from around \$5 million in 1993/94 to over \$70 million in this period, and the export of copper ore, which began only in 1996/97, brought in \$55 million in 1997/98. Frozen meat has risen strongly from about \$18 million in 1993/94 to \$49 million in 1997/98 – almost half the value of live cattle exports; this trend is likely to continue, with boxed beef becoming an increasingly large proportion of beef exports. Of the other major export categories, telecommunications equipment has grown strongly from around \$6 million in 1993/94 to \$49 million in 1997/98; aluminium exports continue to grow steadily and gas exports, which commenced in 1995/96, accounted for \$41 million in 1997/98; grains (mostly wheat and barley) have remained fairly steady over the past few years; exports of photographic supplies (mostly Kodak) have grown rapidly in the last two years.

Computers constitute Australia's principal import item from the Philippines, with computers, electrical equipment, circuits, and heating and cooling equipment together accounting for 38 per cent of total imports in 1997/98. Furniture, the largest import item in 1993/94 now ranks sixth.

If we look at the trade statistics for the Northern Territory and the Philippines, the trade gap is even more pronounced. As I have

suggested, there are a number of areas in which this trade gap might be addressed. However, this is a topic for other speakers.

Australian Aid to the Philippines

Australian Agency for International Development

Total aid allocated to the Philippines in 1998/99 is \$59.8 million. This makes the Philippines the fourth largest recipient of Australian aid behind Papua New Guinea, Indonesia, and Vietnam. Australian assistance is increasingly focused on the southern Philippines, particularly Mindanao, which forms part of the Brunei/Indonesia/Malaysia/Philippines East ASEAN Growth Area.

The distribution of Australian aid flows for 1998/99 (estimated) between major sectors was as follows:

	%
Education and training	39
Health	23
Governance	17
Infrastructure	11
Rural development	<u>10</u>
	100

Education – Australian aid is supporting major reform programmes to deliver universal elementary and early secondary education through the implementation of a \$27 million project in basic education, upgrading teaching skills in English, Mathematics and Science. The scheme will benefit about a million children in elementary and lower secondary schools. There is also a move to build stronger links between the basic education system, technical and vocational education and the employment market. Australia has assisted, and will continue to assist, efforts to upgrade technical and vocational education in the Philippines.

Health – The primary objective of Australia's health assistance is to reduce the high rates of maternal and child mortality and morbidity in rural communities due to preventable diseases. The objective is being pursued both at the grassroots and the national level through projects in maternal and child health, safe motherhood, community health, nutrition and malaria control. The aim of the recently commenced integrated Community Health Services Project, being co-financed with the Asian Development Bank, is to strengthen the capacity of local governments in six disadvantaged provinces to address the priority health needs of communities, including pneumonia, diarrhoea, tuberculosis, malaria and schistosomiasis.

Governance – In 1998/99, the programme will include a major new governance initiative. A study tour to Australia by senior Philippine government officials in July will identify possible areas for cooperation under this initiative. Possible areas include revenue collection/mobilization, health insurance, statistics collection and civil service reform. This initiative is in addition to projects helping to develop the capacity of local government units in the Philippines to improve planning and the delivery of services.

Rural Development – Assistance is being provided to improve and reorient agricultural education at provincial and regional levels. A new project commencing in 1998/99 aims to improve rural services in agricultural extension, and water supply and sanitation in Region X. Australia has helped fund a foot and mouth disease control project and funds ongoing research projects in animal sciences, crop sciences, economics and farming systems, fisheries, forestry, post-harvest technology, and land and water resources.

Infrastructure – A municipal solar infrastructure project will involve the installation of solar power systems in 400 barangays and 50 municipalities in the Visayas and Mindanao to supply electricity to community facilities such as district hospitals, rural health centres and clinics, and local government offices. The supply of a coordinated adaptive traffic system will reduce

travelling time, the severity and number of accidents at intersections, and air pollution in Metro Manila.

Other – The bilateral country programme includes a unique facility, the Philippines-Australia Community Assistance Program (PACAP). The highly successful PACAP programme supports community-based development projects which seek to raise the living standards of poor and marginalized Filipinos and is a major source of funding for microenterprise projects in the Philippines.

Non-bilateral activities – In addition to the bilateral country programme, Australia also provides funding for projects in the Philippines in a variety of sectors through programmes including the South East Asia Regional programme, the ASEAN-Australia Economic Cooperation Program, and the AusAID-NGO Cooperation Program.

Overview

R. Matthewson

Today I am wearing a number of hats: that of the Honorary Consul General for the Philippines in the Northern Territory of Australia (I have had the honour of representing the Philippines government and the Filipino community for the last fifteen years); that of importer of products from Southeast Asia through my company, Independent Building Products Ltd.; that of investor and exporter of products and technology from the Northern Territory through an associated company, Entindo Pty Ltd; and last but not least, that of a Territorian who has a genuine desire to enhance relationships through cultural understanding, mutual well-being and the deliverance of common justice and human dignity to all the people of our area.

In relation to my role as honorary consul general, I must first applaud the generous contributions of the Northern Territory government in support of the ethnic communities of the Northern Territory. I have served under every chief minister of the Territory since self-government, and can say with complete honesty that the international flavour of the Territory community, and its welfare and well-being, and the support for and preservation of the cultural identity of the ethnic communities have been prime concerns of each and every chief minister.

The current government of the Hon Shane Stone QC has done considerable work in enhancing relationships with the Philippines, in particular raising the image of the Northern Territory through its professional approach to creating a working environment of understanding which will go a long way to making it easier for businesses to interact.

We are not there yet. But the Department of Asian Relations, Trade and Industry under the direction of Minister Daryl

Manzie, and Chief Executive Officer Lyal Macintosh, is progressing at a rapid pace. In my opinion, the Northern Territory has no equal within Australia in forging meaningful relationships with our Northern neighbours.

The department has gained the respect of government officials in areas that count, because of its no nonsense approach, timely implementation of agreements, and true understanding of 'double happiness'.

The Northern Territory, for its population size, has made and continues to make a major input into the Philippines, strategically directing its energies to the southern Philippines, in particular Mindanao. The relationship forged with the first presidential special envoy for Mindanao, Paul Dominguez was especially fruitful, resulting in a number of benefits across a broad spectrum flowing from the NT to Mindanao. It is expected that this support will continue; as the chief minister has declared on a number of occasions, 'We are here for the long run, not just fair weather friends'.

In addressing the opportunities that have been created, and are appearing within the scope of the BIMP-EAGA framework, I believe that even though we are not a member of BIMP-EAGA, business people from the NT can act as promoters and consolidators, so to speak, of the opportunities. Eastern Indonesia has a wealth of natural resources, which the southern Philippines can match with a skilled, efficient workforce. I have in mind here, value-adding to raw material or partly processed products from Sulawesi and Halmahera, with further processing in Davao or General Santos for export to markets in Australia, the USA and northern Asia. This is only one example of the sort of opportunities that exist. The NT contribution could be consolidation, marketing, export quality control, and certification.

Opportunities exist for the importation of products such as canned fruits, and for the development of stockfeed from fruit processing waste. I was also interested in Consul General Bael's comment about mango production; the Philippines produces the best dried mango I have ever tasted, but I was unable to acquire

any to import into Australia. The bringing to fruition of these concepts is not easy; if it were, someone else would have done it. But where there is a will there is a way.

Another matter that needs to be addressed is the problems that seem to confront the small Australian businessman or investor who wishes to participate in joint ventures. With little or no experience in offshore trading, and used to the transparency of doing business onshore, the opaque nature of business transactions and networking procedures Asia is a major deterrent to grassroots level investment. The number of people to whom I have spoken who have had bad and costly experiences in an endeavour to establish in Asia is more than I care to remember. It may well be that their feasibility studies have been flawed, but a major concern is the lack of clear requirements for establishment and operation, and clear costing in relation to statutory charges and responsibilities and local government charges. These matters have to be addressed if we are to see more small business joint ventures established, and these are the types of business that will come from the NT and be directed to areas such as Mindanao.

The Philippines has done a lot under the Ramos regime in the attraction of capital investment. One of the great leaps forward, in my opinion, is the establishment and enhancement of a legal system that offers investors legal comfort not available elsewhere, except perhaps in Singapore. If long-term investment is to take place, investors must be able to work in an environment in which commercial practice and recourse in the event of infringements can be addressed if the need arises.

I believe that during and since the second world war there has been a very good relationship between the Philippines and Australia. That relationship has to a large degree been neglected and taken for granted, while Australia has pursued other relationships in areas perceived as not being so friendly towards us. It is only in recent times that the commonality that exists between the two countries, and the benefits that can flow from those common interests, have been taken seriously.

The movement from the paternalism of the USA, and the emergence of an independent and resolute spirit of the Philippines is starting to impact regionally; there is no doubt in my mind that the Philippines will assume its rightful place in the future of the Pacific rim. Australia needs to do much in strengthening its ties with the Philippines. A good neighbour policy, based on cultural, educational, and grassroots level assistance in solar power development, water supply, community health, and provincial infrastructure generally will provide aid where it is most needed and most apparent. And it is in line with the Estrada government's priorities.

There are numerous opportunities for small and medium businesses, with capital requirements that enable cross-matching and participation. If confidence can be established on both sides as to the integrity of the parties, and an environment created by local government to ensure smooth incorporation and establishment, the end result will be 'double happiness' which will flow to the regional areas of the Philippines.

Other opportunities that exist in a number of fields include:

- *tourism* – the Philippines is poised to be a major destination for eco- tourism, nostalgia tours relating to the second world war, and diving and reef exploring;
- *skilled labour* – a wealth of technically-trained workers is available in the Philippines, on contract basis, for major construction, such as LNG plants, for the oil industry, for shipbuilding, and as heavy duty fitters. These are skills that Australia could well use;
- *tertiary education* – enhancement of tertiary qualifications in Australia;
- *skills enhancement programs* – enhancement of technical qualifications to international standards at TAFE colleges in Australia;
- *agro-business* – small-plot economics, soil enhancement programs, conservation techniques, machinery pooling, seed

development, fertilizer utilization, output monitoring;

- tropical medicine – development of information exchanges, between, say, the Menzies School of Health and similar institutions;
- animal husbandry – transfer of information and techniques; Northern Australia is a leader in this field.

The list is almost endless, and so are the opportunities.

Thank you for the opportunity to participate in this workshop.
I look forward to being involved in the future.

Northern Territory Trade with Philippines

Exports (\$ '000)	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Food and live animals	22,463	30,771	48,094	55,049	68,888	60,218
Beverage and tobacco	0	0	0	0	0	0
Crude materials, inedible, except fuels	0	2	3	8	34	0
Minerals, fuels, lubricants etc.	0	0	0	0	0	0
Animals & vegetable oils	0	0	0	0	0	0
Chemicals and related products	5	0	15	64	13	98
Manufactured goods by material	5	22	58	97	53	60
Machinery & transport equipment	39	77	26	213	219	43
Miscellaneous manufactured articles	1	2	15	7	4	43
Not elsewhere classified / confidential	15	40	7	165	4	0
Total exports	22,529	30,916	48,217	55,601	69,216	60,463

Northern Territory Trade with Philippines

Imports (\$ '000)	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Food and live animals	1	2	2	0	0	1
Beverage and tobacco	0	0	318	0	0	0
Crude materials, inedible, except fuels	12	0	0	2	0	0
Minerals, fuels, lubricants etc.	0	0	0	0	0	0
Animals & vegetable oils	0	0	0	0	0	0
Chemicals and related products	83	46	413	102	102	56
Manufactured goods by material	18	20	9	2	5	10
Machinery & transport equipment	12	8	343	2	0	118
Miscellaneous manufactured articles	11	9	1	12	140	34
Not elsewhere classified / confidential	0	0	0	0	0	0
Total imports	137	85	768	120	246	219

The Filipino Community in the Northern Territory

Aurora Quinn

The Philippines is a multi-ethnic multilingual society with eight main indigenous language groups accounting for about ninety per cent of the population. These eight indigenous language groups contain in the order of ninety different dialect groups though Pilipino, a language derived from Tagalog, is the official national language (English is the main language taught in schools).

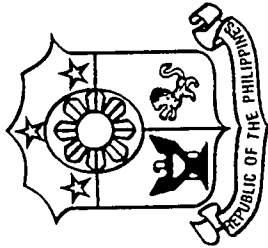
There is a strong female bias in immigration from the Philippines due to the dominance of spouse or fiancé reunion as a mode of migration. However, in the Northern Territory the number of Filipino-born males increased faster than females between 1981 and 1991 – from 77 to 463 compared with 285 to 1120. This may be due to increased chain migration of family members joining women who moved earlier. Nevertheless it is clear that the female dominance of Filipino migration to the Northern Territory has been maintained.

Population facts:

- The 1996 Census showed, as per 1991 Census, that Filipinos were the largest non-English-speaking background birthplace group in the Territory.
- As at the 1996 Census, 2,609 Territorians had at least one parent born in the Philippines. Hence, first and second generation 'Filipinos' numbered 4,324 persons. Current census data does not provide us with more detailed figures (e.g. ethnicity data which would include third, fourth etc. generations).
- As at the 1901 Census, there were 689 Philippines-born persons residing in Australia, in 1986 there were only 33,724; by the

1991 Census the figure had increased to 73,144. In 1991 New South Wales had the greatest number of Philippines-born persons at 37,124 – 50.8 per cent of the total (2.2 per cent were residing in the Northern Territory).

- As at the 1991 Census, 126,194 Philippines-born persons had Australian citizenship (65.1 per cent of the Philippines-born population).



Memorandum of Understanding

between
The Government of the Republic of the Philippines
and the
Government of the Northern Territory of Australia
on Economic and Cultural Co-operation



The Government of the Republic of the Philippines for the region of Mindanao and the Government of the Northern Territory of Australia hereinafter referred to as the Parties:

Acknowledge the established commercial, cultural, education and sporting links between their regions; and

recognise that increasing these links will be mutually beneficial for the future strategic and economic development of the regions.

In support of and to strengthen their existing linkages, the Parties agree to:

- Encourage the exchange of visits of government delegations to strengthen linkages and identify additional opportunities for co-operation
- Encourage and facilitate the exchange of at least one business delegation per year to participate in the key trade exhibitions of each other's region
- Facilitate government approvals and processing of private sector investments from one region to another
- Co-ordinate and promote development in the areas of:
 - Trade and support services
 - Professional services including health, education and training
 - Exchange of technical and advisory expertise and technology
 - Primary and tertiary industry including development of minerals, energy, agriculture, forest and fisheries resources and processing
 - Transport and Tourism services

- Physical infrastructure development and environmental management and rehabilitation
 - Promotion of teaching of each other's language, and
 - Cultural and sporting exchanges
- Establish a Co-ordination Committee to monitor activities and where appropriate facilitate investments and business ventures under the Memorandum of Understanding. This Co-ordination Committee will be made up of two representatives from each region, and will meet twice a year alternately in each region.

Both Parties recognise the importance of strong involvement from their respective private sectors and will endorse and support private enterprise initiatives which are aimed at achieving the economic and strategic development objectives of the respective regions.

The Parties also recognise the need to promote cultural and sporting contact between their regions as a means of fostering understanding.

IN WITNESS THEREOF the undersigned on behalf of their respective Governments have signed this Memorandum of Understanding at Parliament House, Darwin on the Twenty-third day of August 1995.

Paul G. ...

For the Government of the
Republic of the Philippines

Shane ...

For the Government of the
Northern Territory of Australia

Philippine Trade and Investment Opportunities

Extract from the address of Raul C. Hernandez,
Chairman, Philippines-Australia Business Council,
to NT Expo 98, Darwin, June 1998

Allow me to deliver my message in the form of a business presentation in a corporate boardroom. As a start, my description about my country, the Philippines, will be in a macro perspective. To quote world Bank President James Wolfensohn, 'it is very clear that in terms of the region, the Philippines is the least affected country and is not the extreme situation that we face in some other countries. The Philippines has a fundamentally sound situation — not without risk — but fundamentally sound'. A lot of basic fundamentals that are required for a stable and progressive economy are now in place in the Philippines. Also, per the *International Herald Tribune*, based on the 1997 data, the Philippines ranked fifth in the best economy category in the region after China, Hong Kong, Singapore and Japan. Meanwhile, according to the IMF, our country was only second to Hong Kong in having the best prospects buffeted by the currency crisis. The 23 per cent merchandizing growth rate was the highest in Asia. This indicates a vast potential in our manufacturing sector. Let me mention that the Political and Economic Risk Consultancy ranked the Philippines as the fourth highest investment place, next to Singapore, Hong Kong and Japan. And, a survey among the larger electronics companies revealed that among ASEAN countries, the Philippines is the first preference as the country to establish their facilities. This is in consideration of wages, productivity, workforce adaptability and ease of flow of products from factory to port.

The period in the 1990s witnessed the transformation of the Philippine economy. We are fortunate to have 1997 as a year of high growth considering the economic crisis that hit the Asian

region. The economy grew by 5.77 per cent. The export growth of 22.81 per cent, as I said earlier, is the highest in Asia. Our country was also able to maintain a single digit inflation of 5.06 per cent in 1997. As a conclusion, the Philippines grew the fastest in the last two to three years.

Regarding merchandizing export growth rates, the Philippines has led the ASEAN since 1995.

Annual investment in the country has been on the upward trend. The 365 per cent increase from 1993 to 1994 offset the slight decrease in 1995. Up till 1997, the annual investment growth rate has increased from 18 per cent to 33 per cent.

Concerning the reforms in the economic and operating environment as introduced by our outgoing President Fidel V. Ramos: our government wants investors to continuously enjoy the benefits of doing business in the Philippines, hence, the government is doing its best to implement reforms to support and sustain the already improved business climate in the country. The early statements of our new leaders under President Joseph Ejercito Estrada support FVR's business approaches, plus the focus of our new president is on: 1) food and agriculture, 2) while peace and order is considered the personal challenge of our new president, crime is to be addressed personally by President Estrada himself. There is a serious effort for economic liberalization to ease the entry of investors and enhance the operating and financing environment. The government has removed the barriers in key industries like telecommunications, banking, wholesale trade, domestic aviation and mining. Political stability, commitment to democracy, greater public/private sector cooperation have helped create a more conducive business environment. Infrastructure is a major priority in the country to support the business operations of incoming investments. The Build-Operate-Transfer (BOT) Law, which practically solved the power crisis, has been amended to include areas such as databases, networks, health, education and housing.

The Philippine government has also adopted a continuing policy rationalization in terms of fiscal and non-fiscal incentives, tariff, trade agreements and counter trade.

Investors will find distinct advantages in the Philippines for global exports, specifically in tapping potential markets in the region and in linking it to the world. Positioned as a gateway to Asia and for Australia in particular, the Philippines is strategically located between the two great seas of commerce — the Pacific Ocean and south China Sea and is accessible to anywhere in Asia within one and a half to five hours by air.

Business operations in the Philippines would be tapping a potential market of about 340 million young consumers with strong buying power and projected growth to about 500 million by the turn of the century.

While there is a crisis in the region that has affected the real estate business, opportunities in the real estate sector still exist in the Philippines. While prices of land and buildings have not dropped in the last fifty years, a very visible slowdown in the market is now being felt. However, there is still a 30-40 per cent ROI despite the economic turmoil and we expect a shortage of facilities by year 2000 due to tourism growth in preparation for the world trade expo in 2002.

Other opportunities arise from privatization of enterprises which includes state-owned/managed enterprises such as the National Power Corporation, one of the top ten companies in the Philippines. As one of the major government thrusts, the modernization of the military offers a wide range of investment opportunities. Also, for the past years, the Philippine government deregulated several industries: airlines, banking, shipping, insurance, oil, mining, steel, power and telecommunications. Such a move opened up a significant number of business opportunities to both local and foreign investors. Furthermore, with the AFTA, where the Philippines is an active member, the Philippines offers a large supply of labor and vast market.

Some fiscal incentives are also available, if qualified. These are: income tax holidays, taxation on gross income earned only, duty-free importation of capital equipment, tax credit on domestic

capital equipment, additional deduction for labor expense and support infrastructure development.

Non-fiscal incentives that will make Philippine business more globally competitive are also in place, such as unrestricted use of consigned equipment, special investors' residence visa and exemption from SCS inspection.

Meanwhile, as the currency crisis has now been felt in the ASEAN region (no less than in Japan and even here in Australia), let me say that the private business community in the Philippines still has a positive outlook in 1998. To quote *Time Magazine* (22 June 1998) 1998 inflation and GDP forecast show the Philippines to be the second after Malaysia in terms of inflation growth among ASEAN at 8.3 per cent and to have the highest GDP growth rate among ASEAN at 2.5 per cent. As a carry-over, our new president has publicly said that he will support and will improve further FVR's programs. My optimism is based on President Estrada's early messages and the people he has appointed to help him achieve his objectives, which are focused on improving the quality of life of our people. While our new president is an actor, he has good intentions and is a *doer*. He comes from an upright family and is a tough guy — both in his movies and in person.

Therefore, allow me to cite some advantages of doing business in the Philippines. You will be enjoying the following:

- Strategically located for Australia to expand in the region;
- the optimistic situation of political stability with President Estrada's commitment via peace and order plus addressing focus on the poor people;
- available manpower via education and technology development programs which Australia can explore as business opportunities that will ensure global competitiveness for business growth.

Therefore, ladies and gentlemen, and in particular the businessmen/entrepreneurs of Australia, let us hold hands and make things happen because your opportunities are not only

present in your own country but exist to a large extent, in the region. And your gateway is the Philippines.

Now, how will Australia link with the Philippines? One effective way is via the Philippines-Australia Business Council or in coordination with our counterpart here, the Australia-Philippines Business Council, in addition to government to government and some traditional networking systems. As the newly-elected chairman of the PABC, allow me to give you highlights of this organization. For your information, my term is for two years and will extend up to the end of 1999, next year, and I am available for re-election.

Thus, let me describe briefly PABC and its objectives. The PABC aims to promote trade, economic and technical cooperation, tourism and cultural relations between the Philippines and Australia and foster goodwill and excellent relations between their people. As I have said earlier, this is in coordination with our two governments and our counterpart in Australia, the APBC.

As a background, the PABC history dates back to 1975 as organized by the Philippine Chamber of Commerce and Industry and the Council for Economic Development to sustain improving business relations between the Philippines and Australia. The PABC has been designated by the Department of Trade and Industry to represent the private sector in matters between the two countries.

Since its formation, the PABC membership has been growing, with the most prominent personalities in Philippine business.

The highlight of each year is the joint meeting between the PABC and the APBC. The 19th Joint Meeting will be held in Manila in November 1998 in synergy with and to support Australia's contribution to the Philippines centennial celebration. This event is called 'All the best from Australia'. Business matching will be the focus aside from making sure we will all have fun — as there will be an effective synergy being planned via PABC, APBC and NT Asian Relations, Trade and Industry as well as the Australian embassy in the Philippines.

Let us explore opportunities that exist in your country and in mine. Let us all benefit from the vast business opportunities in our region. Our joint undertaking with partners in these regions will ensure the growth of our countries as we shall be globally competitive. This alliance will give us the future we deserve because we believe in continuously improving the quality of life of our peoples.

In recent years the Northern Territory, and to a lesser extent northern communities in Western Australia and Queensland, have come to see their futures inextricably linked to developments in the countries to their immediate north, and have sought to strengthen social, cultural and sporting, as well as commercial, ties. For Australians, some commonalities of language, predominant religion, Western cultural experience, and democratic traditions have contributed to making the Philippines especially attractive as a place to visit and to do business with; for Filipinos, Australia has been seen since the 1970s as a desirable destination for migration and, increasingly, as a source of education and training. Over the past decade, trade between Australia and the Philippines has grown substantially and the Philippines has become the fourth largest recipient of Australian development assistance. For north Australia, the possibilities for expanded trade and investment appear to be substantial.

This volume, which arises from a workshop organized by the Australian National University's North Australia Research Unit, in association with the University of the Northern Territory and the NT International Business Council, brings together a group of Australian and Filipino commentators from government, business and universities to review the context, substance and prospects of the north Australia-Philippines relationship.

**North Australia Research Unit
Research School of Pacific and Asian Studies
The Australian National University
Canberra & Darwin**

