AN URGENT APPEAL
OF THE
CONFEDERATION OF PHILIPPINE EXPORTERS FOUNDATION (CEBU) INC.,
TO ADDRESS THE DOWNSIDE EFFECTS OF THE STRENGTHENING PHILIPPINE PESO ON PHILIPPINE EXPORTS

Organization Profile

Philexport Cebu is the umbrella organization of the major export industry sectors of the Central Visayas area such as: Electronics, Industrial Goods, Furniture, Food, Garments, Gifts Toys Housewares, Carageenan, Fashion Accessories and MEPZCEM. It is therefore the ***"voice"*** of the exporters in the region.

Background

On 21 February 2006, Philexport Cebu submitted its position paper on the surging Peso to DTI Secretary Peter Favila and BSP Gov. Amando Tetangco. From March 2006 onwards, the Peso stabilized between the P51 to P53 range, easing the pressure on exporters temporarily.

The Present Concern

The recent resurgence of the Philippine Peso, after it had stabilized between the P51 to P53 range vis-à-vis the US Dollar in the last six months, has caused grave concern among exporters. The pronouncements by distinguished government economists, that the Peso will break the P50 to $1 level and settle at around P48 to $1 at the end of the year, have escalated their concern from grave to dire. As of 7 September 2006, the Peso was seen trading between P50.17 to P50.40 range, well below the P51 to P53 band within which it traded in the last six months.

MicroeconomicImpact (at the firm level)

A lot have been said by many of our economic managers that belittle the efforts of the exporters and the effects of the strengthening Peso (from a high of $1 to P56 to the current $1 to P50.17), e.g. "why are the exporters relying on exchange rate gains, they should be more efficient"; "the exporters should be more creative and look for better markets," and more.

Maybe it is because of lack of understanding of actual manufacturing operations and of global market conditions that these statements are made. One however does not have to be manufacturing or export savvy to understand, as simple business math will show that, when one's pricing was based on an exchange rate of P56 to $1 and when he now has to deliver at P50.17 to $1, he immediately lose 10.41%. Simple economics will also tell you that, what goes up does not usually come down. While oil prices may have dropped a little and stabilized somewhat, cost of manufacturing inputs have not followed suit, power and labor for example continue to be high, as such raw materials among others continue to be high.

When an exporter quotes, he is expected to quote sharp prices and hold same for at least six months to a year. It is no secret that China out-prices its competitors, the Philippines included by no less than half, as such the Philippine exporter in order to compete, does not have the luxury of a 10% profit margin. It is also no secret that the Philippine exporter has over the years, held its ground by sheer creativity (in creating a product, in manufacturing & in marketing), this has been acknowledge many times by government officials when they grace trade fairs and other such privately-initiated events. There is a limit however to creativity and self help, the Philippine exporter is now asking the government to "intervene" before it is too late.

It might interest the government to note, that the most affected sector are the small and micro enterprises, which by their nature, employ the unemployables. It is also these sectors that utilize more than 50% of local value added into their manufactured products. Through the years the furniture, fashion accessories, gift toys and house-ware, garments and food sectors among others, have employed skilled but marginally educated labor, who will end up jobless if the exchange rate situation continues to prevail. The socio-economic impact on the foregoing sectors has been under-appreciated, and therefore appears to be treated as acceptable collateral damage in the pursuit of a strong economy, i.e. a strong peso is a strong economy.

<u>The Paradox</u>

The continued strengthening of the Peso is being attributed to robust export performance, strong inflow of OCW remittances, a resurgent stock market and the improvement of investors' confidence in the government's economic policies. In short, the leading economic statistics have indicated that the Philippine economy is performing well. However, the anticipated benefits of a well-performing economy have not really "trickled down" to the grassroots level or felt by small entrepreneurs and general populace. The question is ***"why is this so?"*** The bulk of the increase in export statistics may be traced to the electronics and industrial goods sectors. These are the sectors, composed mainly of foreign locators who book their FX sales abroad. They suffer too because they are getting less for their dollars when reinvested in the Philippines for the maintenance of their local subsidiaries and manufacturing facilities. However, the effect of the strong Peso on their RP operations is not very critical as compare to local counterparts. The local manufacturers, who do not enjoy any of the fiscal incentives enjoyed by their larger counterparts, are the ones who are "*receiving the telling blows"* in the currency issue. Aside from getting less Peso revenues, they have to reckon with rising production costs, labor costs and stiffer competition abroad. Yet, they are ones who nourish the local supply chain (those who use indigenous raw materials) and they are the ones who provide employment to millions of unskilled and semi-skilled Filipinos. The increase in exports will continue to add more upward pressure to an already buoyant Peso, but this positive development will be meaningless if it will just lead to the ultimate demise of the industry. OCW remittances will sustain its increases because overseas workers will continue to increase the amount of their remittance out of a need to do so precisely because the Peso proceeds their beneficiaries will receive will have decreased whenever the Peso appreciates. We are now in a very worrisome spiral or "vicious cycle" which will ultimately cause more harm than good for the country.

Exporters' Appeal

We appeal to the President, to our economic managers, to the Bangko Sentral and to Congress to address our concerns without delay.

Since the submission of our position paper our economic managers have claimed that the strong performance of the Peso shows that our economy has improved and that we should look forward to a further appreciation of the Peso. In his reply to our position paper the BSP governor stated several benefits of a strong Peso. It is safe to assume therefore, that our economic managers have settled on a policy for a strong Peso. Several known economists however have argued that a strong Peso policy is not necessarily a good policy for our country considering certain economic realities obtaining. The argument for or against can go on and on, but the reality is that if the Peso continues to appreciate as our economic managers would want it to, the Philippine exporter will eventually lose whatever remaining buyers it has to China and other well-supported export industries from our neighboring countries.

Given the foregoing, while we continue to reiterate our position of a P54 to $1 exchange rate, we the exporters would surely appreciate help in the following areas among others:

a) Bringing down the cost of doing business

- The exporters are grateful for the issuance of E.O. 554, which aims to scrap numerous government permits and fees affecting exports.

  In this regard the exporters would like to see more unnecessary government regulations, which only lead to unnecessary fees removed, e.g. BPI inspection charges (that includes overtime pay, meal and transportation costs of BPI inspectors).

- The exporters in the food sector are incurring additional costs and delays because they still have to secure BFAR clearances from the Manila office of BFAR instead of the local BFAR office.

- Some of the provisions in the draft bill of Sen. Ralph Recto entitled Fiscal Incentives Bill are anti-exports and could add unnecessary costs to exporters (e.g. up-fronting the payment of VAT and import duties and seeking cash refunds only after 30 days from shipment, etc….)

b) Financial Assistance to Exporters

- Accessibility - although there are numerous financing schemes available from government and private financial institutions, credit is not readily or easily accessible due to rigid collateral requirements and tedious loan application procedures.

- Tax Credits - exporters should be able to apply tax credits issued by BIR against customs duties while BOC-issued tax credits may be applied against BIR taxes. This is a financial rebate that the exporter has well-earned by following strict government regulations, and therefore they should be allowed to be able to use the same to settle tax liabilities with flexibility and without any hindrance.

We, the exporters are seemingly becoming victims instead of heroes of our looming economic success. We need the help of the government and to take issue on our plight to enable us to continue making our contribution to a sustained economic recovery that has so far been elusive in the past.

Signed:

APOLINAR G. SUAREZ, JR.
President-Philexport Cebu

Cebu City, 11th of September 2006