The Stock market boom

"Stock brokers these days," reported Business Day's Alfio Locsin recently, "have plenty of time on their hands to discuss the weather .... what with interest in stocks quite minimal and very selective."

The assessment, made in late January, was not entirely inaccurate. A few weeks later, however, the stock market slowly eased out of the pit, sputtered for a while, gradually gathered speed and finally raced to a full-blown boom — all in the span of one month. Nowadays, stock brokers hardly have time to glance at their watches, such is the frenetic pace of trading in the country's two stock exchanges (Manila and Makati).

And interest in stocks is anything but minimal: big-time investors, traders, brokers, gamblers, housewives and just about everybody else are excited over the day-to-day happenings at the stock market. The business section of newspapers, it seems, is fast upending the comics page in popularity. One lethargic class in a downtown business school suddenly perked up the moment a student asked his professor "what the fuss is all about."

What it is all about centers on that memorable Monday, the 26th of February. That day, 2.6 billion shares of stocks worth slightly over P100 million changed hands, almost doubling the record of P51.2 million set only on the Friday of the week before.(Until then the record stood at P30 million, established in 1969). In the process, stock prices skyrocketed by an average of 30 percent above that of the previous Friday's close, bringing the mining index 570.8 points up to 789.84; oils to 5.529, up by 1.246; and the usually stable commercial-industrial index to 43.91, gaining 3.9 points. In the day's honor roll were such "reliable buys" as Atlas (price increase: 18%), Marcopper (22%), Philex (23%), Marinduque (29%), Lepanto (32%) and Meralco (a C-I issue), which soared by 36 percent. At the small board, the more promising speculative issues like Triton, Oriental, Jinico and American Asiatic were among the big gainers.

Brokers and traders before had always regarded a P100 million turnover for a day like a pie in the sky — something to just dream about, not even wish for. When the pie, therefore, came crashing down, they were hard put to find an explanation. Among the more frequently mentioned reasons were the discovery of high-gas pressure somewhere in the Sulu Sea indicating the presence of oil, and the announcement of a plan of two Hongkong investors to pump into the market a cool HK$500 million (roughly P700 million) "within the next few days." In combination, these two, in the view of some, may have lured speculative local money into the market. The price spiral of Pioneer, POD-CO and Triton (the companies which reported the Sulu Sea find) seems to bear out that contention.

But market analysts do not share the view that it was all a speculative spree. Many believe that it was based on sounder foundations, that the boom was caused by several factors already obtaining before February. According to a high-ranking official of the Makati Stock Exchange, the boom was, in fact, long in the making.

Almost ironically, one factor cited as reason for the boom had its beginnings in a national disaster. With the economy still floundering in the wake of the July-August floods last year, the government loosened its reins on financial institutions so as to make credit easier for rehabilitation. Coupled with government spending for development, this introduced liquidity into the economy.

Then, with martial law, came a redirection of official policy along more responsive lines, specifically the adoption of a policy of investment attraction. The tax amnesty, for instance, enabled hidden wealth to surface honorably. The door was also thrown open to foreign investment, through such measures as the amendment of the Petroleum Act of 1949, which now allows "service contracts" for oil exploration and the lifting of the visa requirement for foreign traders and investors for a limited period (subsequently modified to give them permanent non-immigrant status). Even closer to the point was the presidential decree which reduced the tax on stock transactions from 2 percent to 1/4 of 1 percent.

Finally, there was peace and order, a virtual sine qua non as far as the investment climate is concerned.

All these factors telescope into what one economist calls "a confluence of conditions conducive to investment."

Developments on the foreign front also helped spur the boom. The dollar devaluation and a crisis spawned by miners' strike in Chile boosted the prices of copper and gold. Nearer home, the Hongkong and Singapore currency markets had become "overheated" and a spill-over into the Manila market was held almost inevitable. In fact, it was already beginning to trickle in.

So, the boom. But, is a bust not in the offing? Not so, experts believe. Although the stock market seems to be coasting along, carried by the momentum of the February 26 skyrocket, it is only the purely speculative money that has bailed out of the market. The market is still in orbit, constantly breaking each week the P50 million monthly average of 1972. What seems to be keeping it up there is institutional money laid on the undervalued blue chips, which are still priced low at a 5 or 6 to 1 price-earning ratio. With the intensification of drilling operations being undertaken by local and foreign combines, oil issues are likely to hold firm too.

In the meantime, nobody is seriously complaining — except the stock brokers. They are suing for time. "To pore over piles of paper and put order into portfolios," they say. And the Securities and Exchange Commission will perhaps oblige by giving them a Wednesday recess, as it did in 1969.

THE EXPORT PROCESSING ZONE

A haven for investors

Bataan, the scene of historic military battles three decades ago, is today on the forefront of another battle, this time against economic stagnation. Facing Mariveles Bay is a 1,600-hectare area designated as the Bataan Export Processing Zone. Now starting to rise in this area is a modern industrial complex expected to stimulate foreign commerce, help ease domestic unemployment, and speed up the country's economic growth.

The immediate objective is to encourage both foreign and local investors to set up within the zone industries that will process or manufacture goods destined primarily for the export market.

The attractions include tax-free and duty-free importation of capital equipment, spare parts, and raw materials; assistance in securing financing; assistance from the Central Bank or its authorized banks in obtaining foreign exchange; exemption from export tax; low-cost housing for workers and employes; assistance in manpower training and development of skills needed in the zone enterprises.

Additional incentives are the admission of fully-owned or controlled foreign enterprises and permission to employ foreign nationals, subject to certain conditions.

Thus far, 102 individual industrial sites are being prepared, work on five factory buildings is going full blast, and machinery for the first export-processing firm is being assembled. With this machinery, the first export shipment from the zone is expected to be made by the end of April.

Administering the project is the Export Processing Zone Authority (EPZA), a state corporation created under Presidential Decree No. 66.

The EPZA's forerunner was the Foreign Trade Zone Authority (FTZA), established under Republic Act 5490 and which administered the project when it opened in 1969. Defects in the old law, however, hampered operations right from the start. As a result, only an insignificant portion of the program could be carried during the first three years of its existence. A revised charter for the trade zone was passed by the House but was frozen in the Senate during the last session of the defunct Congress.

EPZA Chairman-Administrator Teodoro Q. Pena says the defects have been remedied by Decree No. 66, which gave the zone authority all the capabilities and flexibilities required of a corporate structure. In place of the old annual budget of P250,000. the EPZA is now capitalized at P200 million with authority to borrow P300 million locally and $100 million abroad.

President Marcos has said that the development of export industries will occupy top priority in the nation's economic program for the next decade and that the export processing zone will be a major contribution toward the accomplishment of this objective. The project, therefore, "will receive the fullest backing and support of the government," he added.

In a recent surprise visit to the zone, the President said the EPZA was not created to make money for the government, but to increase production, create jobs, earn dollars for the country, and give the common man a chance to earn a fairer share of the country's wealth.

"Get more factories going as quickly as you can — whatever it takes. Put together a better package of incentives. Use your borrowing authority. But get those factories going," the President told the EPZA officials.

The zone is only the first of a series of similar projects to be established in key points all over the country. Local and foreign firms may locate their manufacturing operations in the zone, avail themselves of the many benefits thereat, and use it as a base for supplying world markets with their products.

Within a few years, the export processing zone is expected to generate the direct employment of at least 40,000 workers. The 40,000 jobs are certain to have a multiplier effect, generating 85,000 indirect jobs in the form of ancillary services required by a dynamic and gainfully employed labor force. With an average family size of five, the 125,000 direct and indirect workers can mean a community of 600,000 who have to be fed, clothed, sheltered, entertained, kept in good health, educated and provided with all the amenities and conveniences of modern living.

To provide skilled manpower to zone enterprises, the EPZA entered into an agreement with the National Manpower and Youth Council for the establishment of one of the country's proposed ten regional manpower training centers in the Mariveles zone. Training programs have been started in the zone. With an allocation of P26,000, the two government agencies and a shoe-making firm conducted a ten-week training course, which turned out some 200 graduates in upper-shoe-making trades. This was followed by a course for construction skills, and 120 trainees enrolled for training in masonry, carpentry, wiring, plumbing, tinsmithing and painting.

The Authority has a big task ahead to help carry out the policy of encouraging and promoting foreign commerce.

But Administrator Pena is optimistic about the possibilities of the Bataan experiment. He cites the following favorable factors:

- The Philippines is strategically located in Asia and the Pacific.
- Martial law has resulted in a moratorium on politics and the concentration of efforts in reforms and developmental activities.
- An international currency fluctuation has helped improve the Philippines export position.
- A new era of peace in Asia and the increasing demand for food, clothing, shelter and ancillary goods in the region.
- Availability of relatively low-cost labor that is educated, dexterous and flexible.
- The generous amount of incentives open to investors.

Given these factors, and run by an agency free from the pressures of an old political order, the export-processing zone can be expected to attain the goals assigned to it in the country's overall program for development.