ARANGKADA PHILIPPINES 2010
A Business Perspective

ARANGKADA!
MOVE TWICE AS FAST!

ANZCHAM

eccp
EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

AMERICAN | AUSTRALIAN-NEW ZEALAND | CANADIAN | EUROPEAN | JAPANESE | KOREAN | PAMURI

AMERICAN

AUSTRALIAN-NEW ZEALAND

CANADIAN

ARANGKADA PHILIPPINES 2010

A Business Perspective

ARANGKADA! MOVE TWICE AS FAST!

EUROPEAN

KOREAN

JAPANESE

PAMURI

Published by:

The American Chamber of Commerce of the Philippines, Inc

2nd Floor, Corinthian Plaza, 121 Paseo de Roxas, Makati City, Philippines
Tel. No. : 63-2-818-7911
Fax No. : 63-2-811-3081
E-mail : amchamrp@mozcom.com
www.amchamphilippines.com

ISBN: 978-971-94998-0-0

Arangkada Philippines 2010: A Business Perspective

Principal Author : **John D. Forbes**
Editorial Coordinator : **Jan Matthew K. Neri**

Covers Designed by : **Zara Maria Castillo, Jan Matthew K. Neri, Ernesto C. Rivera**
Printing and color separation by : **Corces Printing**

CONTENTS

CONTENTS

PART 3
SEVEN BIG WINNER SECTORS 57

FIGURES, MAPS & TABLES

LIST OF FIGURES

LIST OF MAPS

LIST OF TABLES

ABBREVIATIONS

ACT	Alcohol, Cigarettes, Tobacco
ADB	Asian Development Bank
AdEPT	Advanced English Pre-employment Training
ADSPP	Ancestral Domain Sustainable Protection Plan
AFAS	ASEAN Framework Agreement on Services
AFP	Armed Forces of the Philippines
AFTA	ASEAN Free Trade Area
AIF	Asian Infrastructure Fund
AIM	Alternative Investment Market
AmCham	American Chamber of Commerce of the Philippines
AMLA	Anti-Money Laundering Act of 2001
ANU	Australian National University
ANZCHAM	Australian-New Zealand Chamber of Commerce Philippines
AO	Administrative Order
APEC	Asia Pacific Economic Cooperation
ARMM	Autonomous Region of Muslim Mindanao
ARTTF	Anti-Red Tape Task Force
ASA	Air Service Agreement
ASEAN	Association of Southeast Asian Nations
ASG	Abu Sayyaf Group
ATI	Asian Terminals, Inc.
ATIGA	ASEAN Trade in Goods Agreement
ATO	Air Transportation Office
AusAID	Australian Agency for International Development
BAP	Banker's Association of the Philippines
BAR	Board of Airline Representatives
BCDA	Bases Conversion and Development Authority
BI	Bureau of Immigration
BIR	Bureau of Internal Revenue
BIT	Bilateral Investment Treaty
BLES	Bureau of Labor and Employment Statistics
Bn	Billion
BOC	Bureau of Customs
BOI	Board of Investments
BOP	Balance of Payments
BOT	Build-Operate-Transfer
BPAP	Business Processing Association of the Philippines
BPO	Business Process Outsourcing
BSP	Bangko Sentral ng Pilipinas
CAAC	Citizens Action Against Crime
CAAP	Civil Aviation Authority of the Philippines
CAB	Civil Aeronautics Board
CALA	Cavite-Laguna
CALABARZON	Cavite, Laguna, Batangas, Rizal, and Quezon
CanCham	Canadian Chamber of Commerce of the Philippines
CARP	Comprehensive Agrarian Reform Program
CBCP	Catholic Bishops' Conference of the Philippines
CBD	Central Business District
CBI	Carribean Basin Initiative
CBRE	CB Richard Ellis
CBU	Completely Built Units
CCT	Common Carriers Tax
CCT	Conditional Cash Transfer
CDF	Countrywide Development Funds
CE	Certificate of Exemption
CEC	Chief Executive Consultant
CEDC	Cebu Energy Development Corporation
CEO	Chief Executive Officer
CEZA	Cagayan Economic Zone Authority
CFS	Container Freight Station
CGY	Cagayan de Oro
Cha-Cha	Charter Change
CHED	Commission on Higher Education
CHR	Commission on Human Rights
CIAC	Clark International Airport Corporation
CICT	Commission on Information and Communications and Technology
CIQ	Customs, Immigration, and Quarantine
CIT	Corporate Income Tax
CNG	Compressed Natural Gas
COA	Commission on Audit
CP	Charoen Pokphand Foods
CPI	Consumer Price Index
CPP	Communist Party of the Philippines

ABBREVIATIONS

CPSD	Consolidated Public Sector Deficit
CRC	Center for Research and Communication
CSC	Civil Service Commission
CSR	Corporate Social Responsibility
CTMA	Customs and Tariff Modernization Act
CY	Container Yard
DA	Department of Agriculture
DAO	DENR Administrative Order
DAR	Department of Agrarian Reform
DBM	Department of Budget and Management
DBP	Development Bank of the Philippines
DENR	Department of Environment and Natural Resources
DepEd	Department of Education
DFA	Department of Foreign Affairs
DHS	Demographic and Health Surveys
DICT	Department of Information and Communications Technology
DILG	Department of the Interior and Local Government
DMCI	D. M. Consunji Incorporated
DMIA	Diosdado Macapagal International Airport
DND	Department of National Defense
DOE	Department of Energy
DOF	Department of Finance
DOH	Department of Health
DOJ	Department of Justice
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DOT	Department of Tourism
DOTC	Department of Transportation and Communications
DPWH	Department of Public Works and Highways
DST	Documentary Stamp Tax
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
ECA	Employment Conditions Abroad
ECC	Environmental Compliance Certificate
ECC	Emigration Clearance Certificate
ECCP	European Chamber of Commerce of the Philippines
EDC	Export Development Council
EDC	Energy Development Corporation
EDSA	Epifanio de los Santos Avenue
EIA	Energy Information Administration
EIF	Entry into Force
EITI	Extractive Industries Transparency Initiative
EO	Executive Order
EP	Exploration Permit
EPIRA	Electric Power Industry Reform Act
ERC	Energy Regulatory Commission
ESO	Engineering Services Outsourcing
EU	European Union
EVAT	Expanded Value Added Tax
FAA	Federal Aviation Administration
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
FINL	Foreign Investment Negative List
FIT	Feed-in-Tariff
FMD	Foot-and-Mouth Disease
FOCAP	Foreign Correspondents Association of the Philippines
FPDIC	First Philippine Infrastructure Development Corporation
FPIC	Free and Prior Informed Consent
FTA	Free Trade Agreement
FTAA	Financial or Technical Assistance Agreement
FTI	Federation of Thai Industries
FTI	Food Terminal Incorporated
FY	Fiscal Year
GAA	General Appropriations Act
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GILAS	Gearing Up Internet Literacy and Access for Students
GIR	Gross International Reserves
GNI	Gross National Income
GNP	Gross National Product
GOCCs	Government Owned and Controlled Corporations
GOJ	Government of Japan
GPB	Gross Philippine Billings

GPP	Geothermal Power Plant
GPPB	Government Procurement Policy Board
GRP	Government of the Republic of the Philippines
GSIS	Government Service Insurance System
GVA	Gross Value Added
GWh	Giga Watt Hour
H2RSH	Hydrogen Hi-Speed Rail Super Highway
HB	House Bill
HDM-4	Highway Development and Management Version 4
HKG	Hong Kong
HMO	Health Maintenance Organization
HRAP	Hotel and Restaurant Association of the Philippines
IATA	International Air Transport Association
ICCRHC	International Chambers of Commerce Retirement and Healthcare Coalition
ICCs	Indigenous Cultural Communities
ICIP	Investment Climate Improvement Project
ICT	Information and Communication Technologies
ICTSI	International Container Terminal Services, Inc.
IDA	International Development Association
IEA	International Energy Agency
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFR	International Flight Rules
IIF	Institute for International Finance
IMD	International Institute for Management Development
IMF	International Monetary Fund
IOR	Importer of Record
IP	Indigenous People
IPA	Investment Promotion Agencies
IPP	Independent Power Producers
IPR	Intellectual Property Rights
IPT-3	International Passenger Terminal 3
IRA	Internal Revenue Allotment
IRRI	International Rice Research Institute
IRRs	Implementing Rules and Regulations
IT-BPO	Information Technology-Business Process Outsourcing
ITES	Information Technology Enabled Service
ITH	Income Tax Holiday
ITO	Information Technology Outsourcing
ITU	International Telecommunication Union
JBIC	Japan Bank for International Cooperation
JCCIPI	Japanese Chamber of Commerce and Industry of the Philippines
JETRO	Japan External Trade Organization
JFC	Joint Foreign Chambers of the Philippines
JI	Jemaah Islamiyah
JICA	Japan International Cooperation Agency
JORC	Joint Ore Reserves Committee
JPEPA	Japan-Philippines Economic Partnership Agreement
JV	Joint Venture
JVA	Joint Venture Agreements
KBPIP	Kapit Bisig Para sa Ilog Pasig
KCCP	Korean Chamber of Commerce of the Philippines
KEGs	Key Employment Generators
KEPCO	Korea Electric Power Corporation
KM	Kilometer
KOICA	Korea International Cooperation Agency
KPO	Knowledge Process Outsourcing
LARA	Land Administration Reform Act
LEDAC	Legislative Executive Development Advisory Council
LGU	Local Government Unit
LHS	Left Hand Side
LNG	Liquefied Natural Gas
LOLO	Lift-On/ Lift-Off
LPG	Liquefied Petroleum Gas
LRA	Land Registration Authority
LRT	Light Rail Transit
LRTA	Light Rail Transit Authority
LTFRB	Land Transportation Franchising and Regulatory Board
LTO	Land Transportation Office

ABBREVIATIONS

LWUA	Local Water Utilities Administration
MAP	Minerals Action Plan
MARINA	Maritime Industry Authority
MCC	Millenium Challenge Corporation
MDC	Minerals Development Council
MDG	Millenium Development Goal
ME	Middle East
MFA	Multi Fibre Agreement
MGB	Mines and Geosciences Bureau
MIC	Multiple Industry Cluster
MILF	Moro Islamic Liberation Front
MinDA	Mindanao Development Authority
MLD	Million Liters Per Day
MM2H	Malaysia My Second Home
MMDA	Metropolitan Manila Development Authority
Mn	Million
MNC	Multinational Corporation
MNL	Manila
MNLF	Moro National Liberation Front
MNTC	Manila North Tollways Corporation
MOU	Memorandum of Understanding
MOA	Memorandum of Agreement
MRP	Maximum Retail Prices
MRT	Metro Rail Transit
MSME	Micro, Small and Medium Enterprises
MTPDP	Medium Term Philippine Development Plan
MTPIP	Medium Term Public Investment Program
MVDP	Motor Vehicle Development Program
MW	Megawatt
MWSS	Metropolitan Waterworks and Sewerage System
NAIA	Ninoy Aquino International Airport
NAMRIA	National Mapping and Resource Information Authority
NASDAQ	National Association of Securities Dealers Automated Quotation
NASTF	Anti-Smuggling Task Force
NBI	National Bureau of Investigation
NBN	National Broadband Network
NCC	National Competitiveness Council
NCIP	National Commission on Indigenous Peoples
NCR	National Capital Region
NCTS	National Center for Transportation Studies
NDCC	National Disaster Coordinating Council
NDF	National Democratic Front
NEDA	National Economic and Development Authority
NEDA-ICC	National Economic and Development Authority Investment Coordination Committee
NEP	National Economic Policy
NEP	National Expenditure Proposal
NFA	National Food Authority
NGCP	National Grid Corporation of the Philippines
NGO	Non-Governmental Organization
NIA	National Irrigation Administration
NLEX	North Luzon Expressway
NLRC	National Labor Relations Commission
NMP	National Minerals Policy
NPA	New People's Army
NPC	National Power Corporation
NSCB	National Statistical Coordination Board
NSO	National Statistics Office
NTC	National Telecommunications Commission
NTT	Nippon Telegraph and Telephone
NWPC	National Wages and Productivity Commission
NWRB	National Water Resources Board
Nyd	Not yet drafted
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
OFW	Overseas Filipino Worker
OGCC	Office of the Government Corporate Counsel
OP	Office of the President
OWWA	Overseas Workers Welfare Administration
PADC	Philippine Agribusiness Development and Commercial Corporation
PAF	Philippine Air Force

PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services
PAG-IBIG	Pagtutulungan sa kinabukasan: Ikaw, Bangko, Industriya at Gobyerno
PAGCOR	Philippine Amusement and Gaming Corporation
PAL	Philippine Airlines
PAMURI	Philippine Association of Multinational Regional Headquarters, Inc.
PASG	Presidential Anti-Smuggling Group
PCA	Partnership and Co-operation Agreement
PCAHO	Philippine Council on the Accreditation of Healthcare Organizations
PCCC	Philippine Climate Change Commission
PCCI	Philippine Chamber of Commerce and Industry
PCGG	Presidential Commission on Good Government
PCI	Per Capita Income
PD	Presidential Decree
PDF	Philippine Development Forum
PDF-TWGs	Philippine Development Forum Technical Working Groups
PDI	Philippine Daily Inquirer
PEATC	Public Estates Authority Tollway Corporation
PEGR	Partnership for Economic Governance Reforms
PERA	Personal Equity Retirement Account
PERC	Political and Economic Risk Consultancy
PEZA	Philippine Economic Zone Authority
PHAP	Pharmaceutical and Healthcare Association of the Philippines
PhilHealth	Philippine Health Insurance Corporation
PHIVIDEC	Philippine Veterans Investment Development Corporation
PIATCO	Philippines International Air Terminals Company
PIDC	Private Infrastructure Development Corporation
PIDS	Philippine Institute for Development Studies
PLDT	Philippine Long Distance Telephone Company
PLLO	Presidential Legislative Liaison Office
PMS	Presidential Management Staff
PN	Philippine Navy
PNCC	Philippine National Construction Corporation
PNOC	Philippine National Oil Company
PNR	Philippine National Railways
PORTAL	Ports Transparency Alliance
PPA	Purchasing Power Parity
PPA	Philippine Ports Authority
PPP	Public Private Partnership
PRA	Philippine Retirement Authority
PRC	Professional Regulation Commission
PRC	People’s Republic of China
PSA	Pacific Strategies & Assessments
PSALM	Power Sector Assets and Liabilities Management
PSE	Philippine Stock Exchange
PSF	Passenger Service Fee
R&D	Research and Development
RA	Republic Act
RATS	Run After the Smugglers
RDC	Regional Development Council
RE	Renewable Energy
REIT	Real Estate Investment Trust
RGDP	Regional Gross Domestic Product
RH	Reproductive Health
RHS	Right Hand Side
RKC	Revised Kyoto Convention
ROHQs	Regional Operating Headquarters
ROK	Republic of Korea
RORO	Roll-on/Roll-Off
ROW	Right-of-Way
RP	Republic of the Philippines
RRTS	RORO Road Terminal System
RTC	Regional Transportation Commission
SB	Senate Bill
SBMA	Subic Bay Metropolitan Authority
SCTEX	Subic-Clark-Tarlac Expressway
SEA	Southeast Asia

ABBREVIATIONS

SEIPI	Semiconductor and Electronics Industries in the Philippines Inc
SEZ	Special Economic Zone
SFECO	Shanghai Corporation for Foreign Economic and Technological Cooperation
SLEX	Southern Luzon Expressway
SLTC	South Luzon Tollway Corporation
SMC	San Miguel Corporation
SME	Small-to-Medium Enterprises
SMS	Short Messaging Service
SNITS	Simplified Net Income Taxation Scheme
SONA	State of the Nation Address
SRA	Sugar Regulatory Administration
SRC	Special Return Certificate
SSME	Service Science Management Engineering
SSS	Social Security System
STAR	Southern Tagalog Arterial Road
SVEG	Special Visa for Employment Generation
SWS	Social Weather Stations
T-1	Terminal 1
T-2	Terminal 2
T-3	Terminal 3
TAF	The Asia Foundation
TAG	Transparent Accountable Governance
TCC	Tax Credit Certificates
TESDA	Technical Education and Skills Development Authority
TEU	Twenty foot Equivalent Units
TEZ	Tourism Economic Zone
THSR	Taiwan High Speed Rail
TIEZA	Tourism Infrastructure and Enterprise Zone Authority
TIFA	Trade and Investment Framework Agreement
TPLEX	Tarlac-Pangasinan-La Union Expressway
TPP	Trans-Pacific Partnership
TRANSCO	National Transmission Corporation
TRB	Trade Regulatory Board
TROs	Temporary Restraining Orders
TTCR	Travel and Tourism Competitiveness Report
TV	Television
UAE	United Arab Emirates
UHC	Universal Health Care
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNICEF	United Nations Children's Fund
UNWTO	United Nations World Tourism Organization
UP	University of the Philippines
UPOU	University of the Philippines Open University
US	United States
USAID	United States Agency for International Development
USc	US cent
USG	United States Government
VAS	Value Added Service
VAT	Value Added Tax
VILP	Various Infrastructure and Local Projects
VoIP	Voice over Internet Protocol
WB	World Bank
WEF	World Economic Forum
WESM	Wholesale Electricity Spot Market
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WQMA	Water Quality Management Areas
WTO	World Trade Organization
WTTC	World Travel and Tourism Council
WWII	World War II
YOY	Year-on-Year

ACKNOWLEDGEMENTS

Arangkada Philippines 2010 is the result of the efforts of a small team immensely assisted by a generous outpouring of support from countless stakeholders of Filipino and multiple nationalities. The *Arangkada* team was led by principal author, John D. Forbes, in partnership with Jan Matthew Neri, who performed yeoman service in editing the entire draft and coordinating publication details, and Ryan Jacildo, who made an otherwise dull document glisten with his multi-color, creative, data-laden graphs. Others who researched, drafted or edited sections were: Ray Cunningham, Neicy Nicdao, Maria Cherry Lyn S. Salazar-Rodolfo, and Gllian Virata. The *Arangkada* project was written under the guidance of Robert M. Sears, Executive Director, American Chamber of Commerce. Background studies for the paper were contributed by Krystle Bagay, Carla Marie G. Grino, and Adrian Lao To. Joan Orendain proofread the paper. Zara Castillo provided several original maps and colorful graphics.

Arangkada reflects extensive inputs from a series of nine focus group discussions organized by the Joint Foreign Chambers on the Seven Big Winner sectors: Agribusiness; IT-BPO; Creative Industries; Infrastructure (Airports and Seaports, Power and Water, Roads and Rail; and Telecommunications); Manufacturing and Logistics; Mining; and Tourism, Retirement, and Medical Travel. Over three hundred corporate executives, investors, and sector experts participated in the FGDs contributing their proposals on needed reforms. They were guided by ten moderators, each an expert in the subject of the FGD: Henry Basilio, President, REID Foundation; Ray Cunningham, First Vice President for Business Development, Aboitiz Power; Jon Lindborg, Advisor for Public-Private Partnership, ADB; Johan Raadsma, Manager for Asia, CGA Mining; Michael Raeuber, CEO, Royal Cargo Combined Logistics; Twinkle Rodolfo, Research Fellow, CRC Foundation; Oscar Sañez, President and CEO, BPAP; Henry Schumacher, Executive Vice President, ECCP; Philip Soliven, President and Country Representative, Cargill Philippines; and Arthur Tan, President and CEO, Integrated Microelectronics. Several FGD participants provided recommendations after the FGD including Steven Crowdey, General Manager for Australia, Micronesia, and Philippines, Delta Airlines; Doris Magsaysay Ho, President and CEO, A. Magsaysay, Inc; Atty. Roderick Salazar III, Managing Partner, Fortun Narvasa & Salazar Law Offices; and Avelino Zapanta, President and CEO, Southeast Asian Airlines.

Members of the dedicated AmCham staff who contributed to *Arangkada* included Divina Combes, Aurora Galvez, Analyn Grace Germo, Chet Guevara, Celine Laurel, Ben Millo, Ricardo Peji, Ernesto Rivera, and Carol Singson, and student interns Zara Maria Castillo, Mark Jason Espina, Maria Eunice Felipe, Maria Suzette Gamido, Edgar Joseph Tecson, and Jenica Camille Velilla.

Officers from the Joint Foreign Chambers of the Philippines and other Philippine business groups reviewed and commented on the paper, especially John Casey, AnzCham; Don Felbaum, PAMURI; Sean Georget, CanCham; Julian Payne, CanCham; Sally Monteiro, PIP; Oscar Sañez, BPAP; Henry Schumacher, ECCP; Ben Sevilla, PACCI; and Shameem Qurashi, PAMURI.

The *Arangkada* team thanks the presidents of the Joint Foreign Chambers for their continued support when this paper was being written: Austen Chamberlain, AmCham; John Daniel Casey, ANZCHAM; Julian Payne, CanCham; Hubert d'Aboville, ECCP; Edward Chang, KCCPI; Yasuhiko Arimitsu and Nobuya Ichiki, JCCIPI; Shameem Qurashi, PAMURI. The authors also thank the executive directors of each of the chambers for their support: Robert Sears, AmCham; Angelica Pettersson, ANZCHAM; Sean Georget, CanCham; Henry Schumacher, ECCPI; Daigo Hayashi, JCCIPI; and Iluminado L. Mendiola, PAMURI.

The more than 300 participants in the nine FGDs whose recommendations became the core content of Part 3 of *Arangkada* deserve heartfelt thanks for their contributions. While we have not listed them by name, we do include group photographs from each FGD at the end of each Seven Big Winner subsection. Also the recorders of the FGDs, AmCham staff members Jan Neri and Krystle Bagay, transcribed the proceedings and drafted ten matrices for the FGDs that contained background data and the FGD recommendations.

We also wish to recognize various contributions of other business associations and organizations without whose partnership in advocacy of business and economic reforms for the Philippines the *Arangkada* project would not have been possible: Bankers Association of the Philippines, Board of Airlines Representatives, Business Processing Association of the Philippines, Capital Market Development Council, Chamber of Automotive Manufacturers of the Philippines, Employers Confederation of the Philippines, Export Development Council, Federation of Filipino-Chinese Chambers of Commerce and Industry, Federation of Philippine Industries, Financial Executives Institute of the Philippines, Makati Business Club, National Competitiveness Council, Management Association of the Philippines, People Management Association of the Philippines, Petroleum Institute of the Philippines, Philippine Automotive Competitiveness Council, Philippine Chamber of Commerce and Industry, Philippine Contractors Association, Philippine Export Confederation, US-ASEAN Council, US Chamber of Commerce, the Wallace Business Forum, the Zuellig Foundation, and several American chambers of commerce elsewhere in Asia.

We can only begin to cite all the offices in the several branches of the Philippine government that provided information, joined meetings, and otherwise assisted the *Arangkada* project. Special contributions were made by the Presidential Legislative Liaison Office, Congressional Planning and Budget Department, Senate Economic Planning Office, Senate Secretariat for Legislation, DOF, DTI, and NEDA, among others. Contributions also came directly or indirectly from experts at the Asia Foundation, Asian Institute of Management Washington Sycip Policy Center, Ateneo University, the University of Asia and the Pacific, and the University of the Philippines. Staff members of the Asian Development Bank, Australian Aid, the International Finance Corporation, the Philippine Development Forum Technical Working Groups, Philippine Institute for Development Studies, UP Open University, US Agency for International Development, and the World Bank also participated. Other individuals who made helpful contributions include Jaime Faustino, Ruy Y. Moreno, Romeo Bernardo, and Peter Wallace.

Research for this publication was made possible with the financial assistance of the United States Agency for International Development (USAID) through its LINC-EG (Local Implementation of National Competitiveness for Economic Growth) project. The views expressed and opinions contained in this document are those of the authors and are not necessarily those of the Government of the Republic of the Philippines, USAID or LINC-EG.

To all partners, if we have used one or more of your original advocacies without appropriate credit, we hope you understand that good ideas seek multiple sponsors and success knows many fathers and failure none.

Arangkada Philippines 2010 can be a living document, evolving as reforms led by the new Philippine administration unfold in cooperation with the private sector, together encouraging stronger investment, economic growth, job creation, and reduction of poverty.

John D. Forbes
Principal Author

TRANSMITTAL LETTER

Joint Foreign Chambers of the Philippines

American Chamber of Commerce of the Phils., Inc. ♦ Australian-New Zealand Chamber of Commerce (Phils.), Inc.
Canadian Chamber of Commerce of the Phils., Inc. ♦ European Chamber of Commerce of the Phils., Inc.
Japanese Chamber of Commerce & Industry of the Phils., Inc. ♦ Korean Chamber of Commerce of the Phils., Inc.
Philippine Association of Multinational Companies Regional Headquarters, Inc.

AMERICAN

AUSTRALIAN-NEW ZEALAND

CANADIAN

EUROPEAN

JAPANESE

KOREAN

PAMURI

December 1, 2010

H. E. Benigno Simeon C. Aquino III
President
Republic of the Philippines
Malacañang
Manila

Dear President Aquino:

We are honored to transmit to you the first copy of *Arangkada Philippines 2010: A Business Perspective.* This advocacy paper has been prepared by the seven members of the Joint Foreign Chambers of the Philippines that represent over two thousand members and that are committed to improving trade and investment relations between the Philippines and our home countries.

The *Arangkada* presents the results of nine Focus Group Discussions. Each group was chaired by an industry expert who led research and consultations with the Philippine Government, local business, industry, and economic reform advocates, and domestic and foreign investors.

The overall conclusion is that the Philippine economy should focus on accelerating the growth of Seven Big Winner Sectors in order to increase investment and create jobs. These sectors are Agribusiness; Information Technology-Business Process Outsourcing; Creative Industries; Infrastructure; Manufacturing and Logistics; Mining; and Tourism, Medical Travel, and Retirement.

The recommendations in *Arangkada* are consistent with the messages of your administration that change is essential, that jobs must be created, that poverty must be reduced, and that corruption must be ended. Its recommendations support the theme that the Philippines should move *twice as fast* to compete successfully and catch up with fast-growing Asian economies.

We respectfully request to meet with you to discuss the recommendations in *Arangkada* and to continue and deepen the long-standing partnership between our chambers and the Philippine Government.

Sincerely,

AUSTEN CHAMBERLAIN
President
American Chamber of Commerce
of the Philippines, Inc.

JOHN CASEY
President
Australian-New Zealand Chamber
of Commerce of the Philippines, Inc.

JULIAN PAYNE
President
Canadian Chamber of Commerce
of the Philippines, Inc.

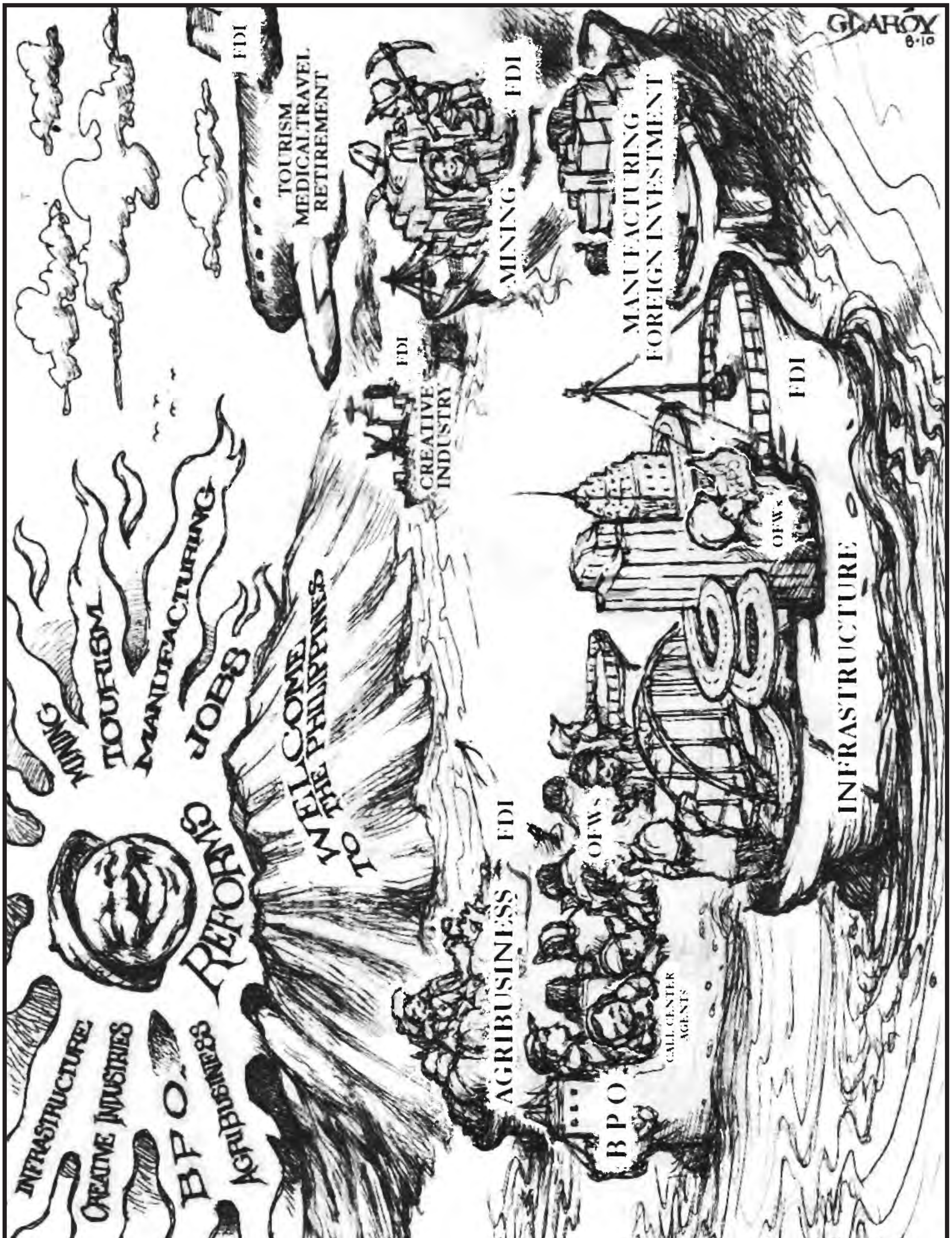
HUBERT D'ABOVILLE
President
European Chamber of Commerce
of the Philippines, Inc.

NOBUYA ICHIKI
President
Japanese Chamber of Commerce
& Industry of the Philippines, Inc.

EDWARD CHANG
President
Korean Chamber of Commerce
of the Philippines, Inc.

SHAMEEM QURASHI
President
Philippine Association of Multinational Companies
Regional Headquarters, Inc.

Enclosure: *Arangkada Philippines 2010: A Business Perspective*


INFRASTRUCTURE
CREATIVE INDUSTRIES
BPO
AGRIBUSINESS
REFORMS
MINING
TOURISM
MANUFACTURING
JOBS
WELCOME TO THE PHILIPPINES
FDI
TOURISM
MEDICAL TRAVEL
RETIREMENT
FDI
MINING
FDI
MANUFACTURING
FOREIGN INVESTMENT
FDI
CREATIVE INDUSTRY
FDI
OFWs
INFRASTRUCTURE
FDI
AGRIBUSINESS
OFWs
CALL CENTER AGENTS
BPO
BPO

Arangkada Philippines 2010: A Business Perspective is about creating a bright future for the Philippines, the 12th most populous country and probably the 10th or 9th by 2030. *Arangkada* is a guidebook to a better Philippines, with the Per Capita Income (PCI) of a middle-income economy, robust investment levels, better infrastructure and higher government revenues to pay for social services, especially education and health. Absolute poverty would be reduced by inclusive growth with less malnutrition, crime, and insurgency. With more rewarding opportunities at home, Filipinos would have less reason to work abroad.

Richly illustrated with numerous graphics including 350 figures, tables and maps, *Arangkada Philippines 2010* contains 471 recommendations from Filipino and foreign businessmen and women for building a more competitive economy, reform-by-reform, leading to high growth and millions of new jobs. Catching up and keeping up is an imperative, not a choice. The Philippines has lagged for too long, losing competitiveness, despite its immense potential and location in the fastest growing region with 60% of the global population. More than ever, opportunities abound for the Philippines to improve trade and investment ties in Asia and elsewhere and advance towards high-income status.

Despite a dynamic population and a land blessed with natural resources, economic progress has been slow. In most international ranking surveys, the Philippines is slipping. The country has not improved its competitiveness as much as others and continues to slide despite recent GDP growth and rising PCI. The country should strive to move twice as fast –"*Arangkada*" – which means "to accelerate."

PART 1. GROWING TOO SLOW: FASTER GROWTH IS ESSENTIAL

The biggest challenge facing the Philippines is to move the economy to a higher level of growth and job creation. PCI barely grew during the 1980s and 1990s, with boom-bust cycles triggered by political events and high population growth. Of the ASEAN-6, for the past five decades, the Philippines had the lowest GDP and PCI growth. But since 1999 through mid-2010, real GDP growth averaged 4.6%, raising PCI from US$1,019 to US$1,748 over a decade. Only recently, with rising remittances and slowing population growth, does Philippine GDP growth again come close to the ASEAN-6, except for Vietnam.

Philippine growth has not been inclusive. In 2006 there were 24 million poor Filipinos, about the same percentage of population as in 1986. By contrast, the other ASEAN-6 eliminated poverty or reduced it by half. In the fast-growing Asian region, the Philippine economy is becoming relatively smaller, in share of total GDP and in PCI, among the ASEAN-6. In 1960 Philippine PCI was second to Japan. In 2009 Indonesian PCI passed the Philippines, as Vietnam is projected to do in 2014, which will give the Philippines the lowest PCI of the ASEAN-6.

Although located in the world's fastest growing region (rising 8.9% in 2010), the Philippine economy has long grown slowly. China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore, Taiwan, and Thailand have grown an average of 7% for over 25 years. India and Vietnam may eventually join this group. The Philippines must have an 11.6% growth rate to reach a PCI of US$ 12,000*[1]by 2030, assuming a 2% population growth rate declining to 1.5%.

With a labor force of 38 million, up 50% since 1990 and projected to reach 54 million by 2030, creating new jobs and giving students and workers needed skills are major challenges. Combined unemployment and underemployment rates exceed 25%; 43% of the workforce is in the informal sector. The NCC has called for an industrial policy to create 15 million "quality" jobs, reducing unemployment to the regional average and ending underemployment.

Remittances of Filipinos abroad increased 187% in 9 years to approach US$ 20 billion and will soon be the country's largest source of foreign capital. They stimulate an increasing share of GDP growth and **shield**

* Defined by the World Bank as the threshold for high-income status.

the elite from pressure to reform. Global demographic trends favor the country, with its large and growing labor pool for overseas and domestic employment. Foreign labor markets in countries with aging populations and labor shortages remain open.

Investment is needed for higher growth, yet the investment rate has fallen from 25% in 1997 to 15% in 2009. FDI is weak, and government has inadequate revenue for capital spending. Doubling spending on physical infrastructure (to 5-6% of GDP) and social infrastructure (to 8-9% of GDP) would greatly improve the investment climate and support higher, sustainable rates of growth.

Philippine FDI inflows are the weakest of the ASEAN-6. Political instability deterred foreign investment in 1970-89, when net FDI averaged US$ 200 million. Net FDI rose to a US$ 1.4 billion average in 1990-2009, reaching US$ 3 billion in 2006 and 2007. From 1970-2009 the country received US$ 32 billion in FDI, but Indonesia, Malaysia, and Thailand each received 2-3 times as much. Over the last decade, the Philippines received only 4.5% of total FDI of the ASEAN-6. Many multinational firms not already present in the Philippines bypassed the country.

Philippine commodity exports reached a record high of US$ 50.5 billion in 2007, contributing 35% of GDP but face many challenges. The top exports are electronics (60%) and other manufactured goods (25%). Agro-based products (6%) and mineral products (4%) are underdeveloped. IT-BPO service exports – valued at US$ 8 billion in 2010 – could more than double to US$ 20 billion by 2015.

RECOMMENDATIONS (8): Adopt a plan to double GDP growth in 3 years and target US$ 7.5 billion in annual FDI and US$ 100 billion in exports. Prioritize job creation. Fund a branding/marketing campaign. Channel remittances into investment. Double public sector investment in physical and social infrastructure. Organize a Special Experts Group to recommend key reforms.

PART 2. THE PHILIPPINE INTERNATIONAL COMPETITIVENESS LANDSCAPE

While Filipinos are competitive in the world job market, the country's competitiveness has declined. Global rating surveys abound, with ever-expanding coverage, stimulated by the globalization of investment, trade, and information. *Arangkada Philippines 2010* summarizes 17 ratings appearing in recent years, including those by the IMD, UNDP, TI, WEF, and World Bank/IFC.

Data in Part 2 frequently compares the Philippines to the ASEAN-6 economies in percentile terms, which show the country relative to these economies in a consistent fashion and also measure trends. Specific relevant details of survey rankings are included in Parts 3 and 4. Data series go back to 2001 where possible. Resultant graphs can be an excellent planning guide for remedial projects to improve competitiveness.

Global competitiveness surveys in Part 2, ranking of Philippines

Survey Title	Years	Most recent RP ranking	ASEAN-6 position	Trend
ASEAN Regional Survey	2003-09	N/A	N/A	N/A
Best Countries for Business	2008-09	84 of 127	5 of 6	Improved
Failed States Index	2006-09	53 of 177	6 of 6	Deteriorating
Index of Economic Freedom	2001-10	109 of 179	4 of 6	Deteriorating
World Competitiveness Yearbook	2001-10	39 of 58	6 of 6	Improved
International Property Rights	2007-10	80 of 115	4 of 6	Deteriorating
Corruption Perceptions Index	2001-10	139 of 180	6 of 6	Deteriorating
Human Development Report	2001-10	105 of 182	4 of 6	Deteriorating
E-governance Readiness Survey	2002-10	78 of 183	4 of 6	Deteriorating
Doing Business	2007-10	144 of 183	6 of 6	Deteriorating
Investing Across Borders	2010	87 countries	N/A	N/A
Paying Taxes	2008-10	135 of 183	5 of 6	Deteriorating
Worldwide Governance Indicators	2002-09	212 countries	N/A	N/A
Global Competitiveness Report	2001-10	85 of 139	6 of 6	Deteriorating
Global Enabling Trade Report	2008-10	82 of 125	6 of 6	Deteriorating
Travel & Tourism Competitiveness	2007-10	86 of 180	5 of 6	Stable
Environmental Performance Index	2006-10	50 of 163	2 of 6	Improved

The Philippines is being left behind by most neighbors in too many measures of competitiveness. Indonesia and Vietnam, ranked lower in the past, are overtaking the country. The Philippines is on a downward trajectory in international competitiveness rankings during the current decade, especially for corruption, governance, and infrastructure. Focused efforts to reverse the trend underway for several years are not yet effective. Efforts to reverse the trend must be sustained and intensified to produce more positive results sooner. *Arangkada Philippines 2010* lists many recommendations to improve the competitiveness landscape of the Philippines.

RECOMMENDATIONS (3): Undertake aggressive efforts to improve rankings faster. Improve low and medium ranked areas most important to investors. Create a national psychology to improve country competitiveness. Government actions should take into account their impact on competitiveness. Join hands with the private sector to fight corruption; join the Integrity Initiative driven by the Makati Business Club and the JFC.

PART 3. SEVEN BIG WINNER SECTORS

A proven strategy to achieve higher investment and increase exports and jobs is to prioritize economic sectors with high growth potential. In 2009, the JFC released a study recommending the Philippines build up Seven Big Winner Sectors where the country has competitive advantages and high growth and employment potential. With its position within ASEAN, its large, youthful English-speaking population, and improved access through FTAs to fast-growing markets, the Philippines is situated to attract large FDI inflows that can create millions of new high-quality jobs in: (1) Agribusiness, (2) Information Technology-Business Process Outsourcing, (3) Creative Industries, (4) Infrastructure, (5) Manufacturing and Logistics, (6) Mining, and (7) Tourism, Medical Travel, and Retirement.

Nine Focus Group Discussions were held with the participation of Philippine and foreign investors to recommend next steps to accelerate growth of each Big Winner Sector. The results of these discussions are reported in Part 3. Each of its seven sections contains a narrative description with extensive data and graphics discussing background, potential, key issues, and recommendations. Part 3 contains 282 recommendations. Each has a suggested implementation period (immediate, medium-term, and long-term) and identifies public sector action agencies, as well as the private sector.

Agribusiness. Although 35% of the labor force is in agriculture, Philippine food exports are only 5% of the ASEAN-6 total. The Philippines has high potential to export large quantities of specialized food products exploiting a multitude of new market opportunities from FTAs. Filipino farmers face high domestic transport, labor, and other costs, and the Philippines lags in integrating small farms into larger enterprises. Mindanao has great potential, both to feed Luzon and to export. Long-standing farm infrastructure requirements need investment. CARP has discouraged corporate farming.

RECOMMENDATIONS (18): Use new FTAs to increase RP agricultural exports. Lower cost of farm inputs. Ramp up agricultural R&D, education, and training. Update old and develop new agribusiness models. Large corporate integrators should link small farmers to large markets. CARP and limits of landholding should end in 2014. Pass Farm Land as Collateral Act, and make the mandated lending policy in the Agri-Agra law optional.

Information Technology-Business Process Outsourcing is the biggest of the Big Winners, because of its large size, high growth rate, and potential to provide millions of quality jobs and earn high service export revenue. The Philippines has clear advantages: a large workforce of educated, English-speaking talent with a strong customer-service orientation and cultural affinity to North America; highly reliable low-cost international telecommunications; diverse and inexpensive site locations; and strong government support. These drivers for success must be strengthened, while new reforms are also needed to realize the high growth potential. A better industry legal framework requires retaining fiscal incentives, passing three non-fiscal laws (Cyber Crime, DICT, and Data Privacy), fixing labor legislation that makes it more difficult to compete in the global market, and reducing the high number of holidays, which cost industry millions of dollars of unbudgeted expenses for every new holiday declared. The Labor Code should be amended to remove the prohibition against female employees working at night, to allow subcontracting, and to make it easier to terminate employees.

RECOMMENDATIONS (30): Create a robust legal framework by passing DICT, Cybercrime, Data Privacy, Holiday Rationalization, and Labor Code amendments. Develop a highly positive, supportive environment for the industry. Adopt National Competency Test. Expand higher-speed broadband to more cities. Maintain fiscal incentive regime. Ensure LGUs are supportive. Promote industry with aggressive international marketing. Raise quality and quantity of labor supply. Implement educational reform to improve quality of graduates. Use English more in broadcast media and advertising, Internet cafes for English training, and place computers in public schools with English training software. Colleges should adopt curriculum for IT-BPO careers.

Creative Industries are very diverse, including advertising, animation, architecture, broadcast arts, crafts, culinary arts, cultural/heritage activities, design, film, literature, music, new media, performing arts, content development, mobile TV, publishing, and visual arts. Filipinos enjoy a well-deserved reputation for creativity. However, to better understand the sector, Philippine Creative Industries should be mapped and developed. There are legal issues that work against full development, such as limiting the practice of foreign professionals, the ban on any foreign equity in media, and the limit of 25% in advertising.

RECOMMENDATIONS (16): Create a Philippine Creative Industries Master Plan, Creative Industries Development Council, and organize the private sector in a Creative Industries Initiative. Stimulate the creative industries environment with HR development, rebrand the Philippine creative image, protect IP, organize awards, exhibits, and lectures, study foreign markets, reduce local costs, develop uniquely Filipino products, encourage tie-ups with foreign firms, establish incubators for creative entrepreneurs and link them to business 'angels,' and encourage Filipino talent to stay home and return home. Encourage foreigners to practice creative industry professions in the Philippines, resulting in technology transfer, investment, and job creation. Remove restrictions on foreign equity.

Infrastructure Policy Environment. The Philippines significantly underinvests in physical infrastructure, with spending averaging 2% of GDP for the last 30 years, far below regional norms. Poor infrastructure is a key inhibitor to higher investment. In the Global Competitiveness Report, among the ASEAN-6, the country's overall infrastructure quality ranks below Singapore, Malaysia, and Thailand and close to Indonesia and Vietnam. *Arangkada* contains lists of major projects completed (2001-10), under construction or being financed in 2010, and future projects (2011-20). Recommendations concern overall infrastructure policy and are followed by specific sub-sections for Airport, Power, Roads and Rail, Seaports, Telecommunications, and Water.

RECOMMENDATIONS (25): Double spending on infrastructure to 5% of GDP by bidding out a pipeline of PPP projects to local and international developers, investors, and banks. Legal and procedural reforms are needed to revitalize PPP programs. Assure that the NEDA-ICC reviews all major projects; rescind JVA guidelines. Discourage unsolicited project proposals. Speed up project approval process. Focus congressional pork barrel on needed infrastructure. Create and follow a 10-year infrastructure master plan. Implement the National Transport Plan. Increase transparency and reduce corruption and controversy over infrastructure projects. Protect investors from political risks (TROs, LGU interference, right of way problems). Develop on-line registry to track major projects.

Airports. With its archipelagic character, the Philippines depends on air and sea transport more than continental countries. Filipinos are flying more than ever, since affordable airfares have stimulated domestic tourism. New terminals and modern equipment are needed, as are more direct international flights to secondary cities. The absence of a modern international gateway airport restricts tourism, trade, and investment. Clark and Subic have great potential for passenger and cargo operations.

RECOMMENDATIONS (15): Prioritize investments in airport terminal, runway, and communication facilities. A Transportation Master Plan for Central Luzon until 2050 is needed. DMIA should be the primary international gateway, NAIA primarily a domestic airport, with a high-speed rail between NAIA, Makati, and DMIA. Settle the NAIA IPT-3 investor case with priority. Each region should have one international airport only. Rectify FAA and EU aviation downgrades. Prioritize international tourism; increase international carrier service through reduced costs and pocket open skies. Replace CIQ with 24/7 public service; end unwarranted taxes on foreign carriers.

Power. The Philippines is completing a long transition from a public sector power generation monopoly to a private sector-led "open access" competitive environment with enhanced regulatory oversight. Electricity prices are among the highest in Asia, and there are supply shortages in all three grids. Unreliable, expensive electric power is a major deterrent to foreign investment. Under the "open access" policy, rates will go up in the short-run, then down after more efficient generating plants are commissioned that are profitable at lower costs. Five conditions precedent to open access should be met by early 2011. Underinvestment in power will continue unless there is a clear energy policy indicating where the country will source future energy requirements and what will be provided as guarantees or credit enhancements. Renewable energy and nuclear technology offer excellent prospects for diversifying power sources. It is essential that the transmission and distribution expands in line with generation and growth in demand.

RECOMMENDATIONS (21): The DOE should formulate programs such as credit enhancements, guarantees, and incentives to reduce merchant plant risk, which most lenders do not accept in financing new powerplants. Because investment in new cost-effective power generation projects requires initiation of "open access" and retail competition, conditions precedent to declaration of Retail Competition and Open Access should be fulfilled in early 2011. The remaining condition, the transfer of management and control of 70% of IPP contracts from NPC to IPPAs, is almost met. Because investments in new generation projects require a viable WESM, initiate Visayas WESM without further delay, integrate it with Luzon WESM, and initiate Mindanao WESM no later than mid-2011. Formulate an integrated energy policy plan including all energy sources (including nuclear power), plant locations, investment/financing, and energy efficiency. Enhance the creditworthiness of distribution utilities and cooperatives. Revisit take-or-pay for baseload plants. Remove restrictions on foreign equity in power projects. Introduce LNG for cleaner power and transportation. Privatize Agus and Pulangi dams. Energy efficiency and energy conservation have to be declared as national policy and legislation is needed to provide incentives and penalties.

Roads and Rail. Modern, efficient ground transportation infrastructure facilitates the efficient movement of goods and people, while their absence increases transport cost and ultimately harms country competitiveness. Unfortunately, the race is being lost to improve public transport before traffic gridlock worsens. While DPWH greatly increased its budget in recent years, too much spending has gone into barangay roads, built for political purposes, while the national road network has barely increased in two decades, (although traffic on national roads has multiplied). There are seven limited-access toll roads operating or under construction, all in Central Luzon, totaling under 300 kilometers. Another 300 kilometers are planned by 2020, which is too little, too slow.

The Philippines ranks a distant last among the ASEAN-6 for quality of railroad infrastructure. Intercity rail, nearly abandoned, is making a slow return. The DOTC has sought unsuccessfully for two decades to restore rail service north of Manila, despite foreign assistance. Three light rail lines are located in Metro Manila. New lines, while planned, inexcusably take many years to implement. One vital new line is undergoing financing. As with roads, this is too little, too slow.

RECOMMENDATIONS (9): Build expressways and national roads twice as fast, using PPPs and DPWH funds. Build intercity rail and urban light rail, especially on Luzon, twice as fast, using PPPs and ODA (see lists pp 149-50). The national government budget should focus on the core road network. Major road and rail projects which government decides to fund as PPPs should be bid out competitively and evaluated and awarded transparently; unsolicited proposals should be minimized. Apply HDM-4 for roads. Create a single light rail agency for Metro Manila.

Seaports. Because the archipelagic Philippines depends on seaports to move most of its domestic and international commerce, efficiency of marine transport is critical to national competitiveness. Its high cost has long been a problem. Tourism growth is also influenced by seaport quality. Improving maritime safety is important given the high loss of life from the negligence of owners and government agencies. The volume of international container shipments is small compared to Asia's export economies and lowest of the ASEAN-6. The quality of port infrastructure rank is also lowest among the ASEAN-6. Manila is ranked 90th worldwide in tonnage volume and 36th in container traffic. Over the last decade, there have been significant investments in international ports of Batangas, Davao, PHIVIDEC, and Subic, almost doubling their combined capacity. Yet Manila is highly congested and Batangas and Subic underutilized. The RORO Nautical Highway, with three routes connecting Luzon-Visayas-Mindanao, can be expanded and made more efficient. Regional ports need modernization with feeder links.

RECOMMENDATIONS (20): A NCR/Central Luzon Transportation Master Plan up to mid-century is needed that fully utilizes Batangas, Manila, and Subic seaports, with modern ground transportation links to industrial and urban centers. Manila should be decongested gradually, shifting international container traffic to Batangas and Subic. Develop cruise business at Manila and other major ports. All major ports should have complete infrastructure using a hub-and-spoke system feeding goods by truck and RORO. Major RORO ports should have modern terminals. Allow chassis RORO. Reduce fees related to shipping; increase consortium arrangements with foreign lines. PPA should focus on being an independent regulator and promoting competitive private participation in port operations. Activate the National Port Advisory Council. Pass the new Maritime Law. MARINA should follow international shipping standards.

Telecommunications reform has been considerable. In a decade, Philippine telecommunications advanced from being monopolistic, high-cost, and inefficient to having considerable competition, enabling a majority of the population and businesses to communicate at home and abroad at much reduced cost. While fixed line penetration is lowest of the ASEAN-6, mobile phone penetration is high (80%), and digital fiber connections are robust. The next new technology for the country is high-speed wireless broadband. Within a few years many millions could have cheap Internet access on 3G cellphones. The benefit for national competitiveness of these changes could be enormous. Filipinos will be able to avail of global SMS, email, and Internet on mobile devices and "leap over" the low 21% household computer penetration level. In the UN E-governance readiness survey, the Philippine ranking has been declining.

RECOMMENDATIONS (11): Undertake programs to use broadband to empower Filipinos, providing inexpensive access to information and e-governance. Develop a national plan to double computer and triple Internet penetration, including a National Broadband Roadmap and free Wi-Fi access in crowded urban areas. Prepare for widespread use of mobile phones and devices to connect Filipinos inexpensively to the Internet. Provide fiscal or other incentives and pass necessary legislation, including the DICT bill and Telecommunications Policy Act amendments. Make e-governance a reality for most Filipinos, enabling Internet access for interactions with government and enhancing transparency. A presidential Task Force should prepare recommendations for an ambitious e-governance program. Use digital fund transfer technology for public sector payments. Create a national government data center and website. Promote national GPS mapping and information systems. Expand mobile phone service in remote areas.

Water. Dependable supply and distribution of water for cities and agriculture is critical to growth and everyday life. The Philippines is challenged to store and deliver sufficient water and dispose of wastewater without damage to environment and public health. Prospective investors note the lack of an economic regulator and the inadequate capacity of the resource regulator. There is immediate need for the proposed Water Reform Act to create an institutional and legal framework to guide private and public cooperation in developing water sources. The present framework of some 30 agencies with varying jurisdictions must be rationalized, as it discourages new entrants. The supply situation in Metro Manila and 8 other urban centers has been described as critical. Immediate solutions to cope with anticipated water deficits should be identified and implemented. Angat Dam currently supplies 97% of Metro Manila's water supply and water for irrigation and power. Additional dams are needed very soon, either Laiban or smaller ones, but the obstacle is financing. The ideal option is to bid out such projects, but the government lacks expertise to do this. Despite being the biggest consumer of water, the agriculture sector does not pay irrigation fees. Public sector irrigation systems are poorly maintained and inadequate. Flooding is common in low-lying areas of the archipelago, and is worsening with uncontrolled urbanization and climate change.

RECOMMENDATIONS (9): To support financing of new water supply projects, the GRP should enhance creditworthiness of water supply agencies with performance undertakings. Alternatively, concessionaires voluntarily can enter into take-or-pay contracts for bulk water supply projects supported by their balance sheets or fund major new water supply projects directly. Rationalize water supply administration and policy via a Water Reform Act; strengthen the NWRB. Establish a Department of Water and an independent water regulator. Develop a National Water Master Plan that identifies major water resources and treatment requirements with supportive policies and IRRs. Engage private sector to build new dams for the NCR through transparent bidding. Policy disallowing "take-or-pay" and sovereign guarantees needs to be reviewed. Smaller, less expensive Sierra Madre or Wawa projects should be moved ahead while larger Laiban project is decided. Encourage private sector to invest in irrigation using the BOT law or joint venture with NIA. Reduce flooding by implementing measures to reduce sediments and disposal of garbage in waterways. Prohibit development within the flood plain.

Manufacturing. Asia's developed economies had strong growth of their industrial sectors and large shifts of agriculture and services workers into manufacturing and exports. This has yet to take place in the Philippines, which has benefited less than Malaysia, Singapore, Thailand, and Vietnam from the globalization of trade and manufacturing. Unlike these four economies, which are strong exporters, the Philippine has not increased its export percentage of GDP for 30 years. Some 2/3 of total exports are electronics, involving about 1,000 firms and 400,000 employees. Without electronics, exports of manufactured goods would have grown very slowly, as garments exports have contracted. Another industry subsector declining in recent years is automotive manufacturing, undermined by used car imports. The high percentage of exports made up of electronics is a failure to develop a diversified mix of manufactured exports, creating a risk should the viability of electronics manufacturing decline. Domestic manufacturing in the country has never faced more challenges to its survival than today, such as high business costs, low import duties, and extensive technical smuggling. As long as smuggling provides better profits than manufacturing, the economy will be one of traders and smugglers rather than manufacturers. There appears to be no strong, unifying policy that manufacturing is a key component of economic and technological development. There is no industrial master plan, and funding for trade and investment promotion is small.

RECOMMENDATIONS (17): Increase priority of manufacturing. Working with private industry, government should: develop an industrial master plan, identifying best sectors for export of goods and services to new and old global markets; support plan with consistent policies, fiscal incentives, legal, administrative, and other reforms; and keep a strong economic team in the cabinet working closely with private sector leaders of targeted global industries. Improve the business climate and level the playing field by reducing business costs (see Part 4); increase E2M coverage for customs; allow industry to operate with minimal government interference, such as price controls; and reduce smuggling by sending smugglers to jail. Ramp up promotion of Philippine exports and investment: establish an export development fund to promote exports and investment; aggressively promote the Philippines at trade fairs. Allow duty and tax-free importation of capital equipment.

Logistics. Batangas and Subic have new port infrastructure that can lower international shipping costs for CALABARZON and develop an Asian regional freeport at Subic. Batangas needs connections with feeder ports of Singapore, Kaohsiung, and Hong Kong. The country is well located for storage/distribution of goods to Asia, North America, and to Europe through the Middle East. The Subic-Clark-Tarlac Corridor, if Subic were a true freeport, could create a regional distribution hub with cost advantages over the Asian freeports

(Singapore and Hong Kong). Container export cargo should begin to transfer to Batangas and Subic to reduce traffic congestion in Manila. A GRP decision is needed to close the Manila port to international cargo over 5 years. Turning Subic into a real freeport means allowing traded goods to enter and leave uncontrolled, except for controlled egress into Philippine customs territory. Using available air capacity of ME carriers, the Philippines is well located to act as a sea-air, or air-air transshipment hub to the ME. Logistics chain costs must be reduced to be more competitive, e.g. remove CIQ overtime charges. Open more logistics operations to international investors. Allow cargo deconsolidation to PEZA bonded warehouses. Product transformation in Philippines would enable tax/duty free distribution in ASEAN. Facilitate IOR services for Internet sales fullfillment. It is about 40% cheaper to transship a container from Manila to Cagayan de Oro via Hong Kong or Kaohsiung than shipping directly from Manila. Foreign companies are not allowed to provide maritime transport services. Domestic shipping industry is not competitive due to predominant use of small ships.

RECOMMENDATIONS (25): Promote Batangas Port for CALABARZON-destined shipments and Subic for Luzon-destined shipments by inviting feeder vessel operators to call, linking them through Singapore, Kaohsiung, and Hong Kong to worldwide shipping. Develop Subic as a true freeport for logistics in Asia for goods from the US and Europe. Decongest Manila port by gradually transferring international container cargo to Batangas and Subic. Reduce logistics chain costs. Allow direct deconsolidation of cargoes to PEZA bonded warehouses instead of using non-PEZA CY/CFS operators. Develop a transshipment industry similar to Dubai and Singapore. Allow transshipment of cargo in various modes, air-air, sea-air, and air-sea by asking the BOC to implement relevant transshipment rules. Facilitate IOR services. Continue recent reforms in customs practices (Kyoto Protocol, E2M, and national single window). Open the door to foreign investment and foreign shipping services along the entire multi-modal transportation chain. Take advantage of quick turnaround cycles and local BPO capability.

Mining. With an estimated US$ 1.4 trillion in reserves, Philippine mining potential ranks 5th in the world, covering an estimated 9 million hectares, but less than 2% has mining permits. After long stagnation, the sector is coming back following a 2005 SC decision affirming RA 7942, considered a world-class legal framework for sustainable development. Minerals development is a top government priority and has great potential for jobs and revenue. Government has identified over 60 priority PPP projects. Mining can support poor rural areas through high quality jobs, local tax payments, and community development. The national government receives substantial royalty and tax payments. Government revenue from mining increased 800% from 2002 to PhP 10.4 billion in 2007. However, full development of the sector continues to face significant challenges. Lengthy, tedious approvals for EPs continue to impede investment. Several LGUs have closed their provinces to mining. Industry is concerned that the Writ of Kalikasan might disturb lawful activities. An investor cannot tell easily if land is ancestral land. Skilled MGB personnel often leave public service.

RECOMMENDATIONS (33): Remove redundant approvals and non-performing claims. MGB should cancel permits after 2 years of non-performance. Grant exploration and similar permits transparently at regional level within 6 weeks. Renew them in a day at one-stop shops. Reduce ECC processing time. Allow pre-permitting access to potential project lands. MGB should adopt Philippine Mineral Ore Resources Reserve Reporting Code. Develop model best-practice regions. Work closely with indigenous peoples. Involve IPs as partners from project commencement. Achieve a 50% increase in direct mining and milling costs allocated for community development. Implement faster release to LGUs of their share of mining taxes paid to the GRP. Improve salaries and practical skills of MGB staff. Develop mining engineering programs at universities. Implement current Mining Act and avoid arbitrary application of the Writ of Kalikasan. Continue Minerals Development Council. Carry out a public information campaign and increase dialogue with concerned groups. Inform public about responsible mining that minimizes environmental impact. Find common-ground solutions with LGUs, NGOs, religious leaders, and local communities to issues raised against specific projects. National government should persuade LGUs not to have mining bans that conflict with national policy. Encourage downstream processing and manufacturing. Source supplies from local communities. Endorse the Extractive Industries Transparency Initiative.

Tourism, Medical Travel, and Retirement. Tourism can have strong poverty reduction and job creation effects. For every foreign tourist that spends US$ 1,000, one job for one year is supported. The range of direct and indirect income effects of tourism is enormous, involving agriculture, industry, and services. Travel and tourism is currently the 4th largest source of foreign exchange revenues. International arrivals exceeded 3 million in 2009, up by over 67% since 2001. Of 60 million international tourists recorded in SEA in 2009, only about 5% visited the Philippines. Domestic travel, the backbone of Philippine tourism, is resilient during times of external vulnerabilities, and doubled in 4 years to 14 million in 2009. Medical travel and retirement by foreign nationals are subsectors where the Philippines has high potential for competitive success. These are high yield markets since visitors stay longer and spend more. The government has offered a foreign retiree program for several decades, and in recent years the number of new participants has increased to 2,000-3,000 a year. The low cost of living, excellent weather, world-class medical care, recreational options, and warmth of Filipinos are plus factors supporting the high potential of the retirement subsector. The key to unlocking the job creation potential of tourism is investment mobilization, by both the public and private sectors.

RECOMMENDATIONS (34): Improve international connectivity by eliminating the CCT and GPB tax on foreign airlines; implement 24/7 operations at international airports and seaports. Reform the CAAP. Develop/implement masterplans. Protect property rights in line with Tourism Act. Promotional resources should be directed to key tourist regions with infrastructure and direct international flights. Reduce business costs and enhance mobility for travel/tourism enterprises and tourists across the value chain (e.g. implement sustainable tourism taxation, streamline procedures, travel tax, customs and immigration, licensing, amend Sanitation Code). Pursue negotiations of public insurance portability for international medical travel and retirement. Promote transparency of medical travel packages. Develop and implement a national policy on wellness and medical travel. Facilitate seamless visits of medical travelers and health professionals (exchange programs with overseas hospitals) by issuing longer visas for patients/companions. Liberalize restrictions on foreigners in tourism and retirement zones to allow foreign ownership of land and retail facilities and practice of professions. Until the constitutional limit on foreign ownership of land can be reformed, JVs with reputable Philippine corporations as well as GRP agencies and LGUs should be encouraged. Encourage PRA co-investment in infrastructure (integrated retirement villages and nursing facilities) and DOT to support long-stay tourism and retirement.

PART 4. OTHER IMPORTANT REFORMS

The final section discusses challenges related to the general business environment and provides recommendations. Many of these issues have been advocated in recent years, by the JFC, Philippine business groups, PDF-TWGs, and the NCC and include all of the problems on lists of concerns in investor surveys. Implementation of recommendations in Part 4, along with Part 3, will help improve rankings in global competitiveness surveys in Part 2.

Key problems need to be addressed to generate jobs

Business Mirror, July 1, 2010

The issues covered include (1) Business Costs, (2) Environment and Natural Disasters, (3) Foreign Equity and Professionals, (4) Governance, (5) Judicial, (6) Labor, (7) Legislation, (8) Local Government, (9) Macroeconomic Policy, (10) Security, and (11) Social Services (Poverty, Education, Health, and Population). A total of 177 recommendations are presented. Each has a suggested implementation period (immediate, medium-term, and long-term) and public and private sector action agencies.

Business Costs. Since 2006 the IFC has ranked economies on factors related to the ease of doing business. Of the ASEAN-6, the Philippines is the lowest ranked. This subsection includes: (1) Minimum wages. They are much higher in the Philippines than in competing regional economies; (2) Holidays. The Philippines had the highest number (21) among the ASEAN-6 economies in 2010; (3) Office rentals. Renting office space in Manila is a relative bargain; (4) Power. Costs which are twice or more than competing economies deter investment; (5) Telecommunications. Costs including broadband are higher than other ASEAN-6 economies, China, and India; (6) Transportation. Heavy traffic, dilapidated ports, limited competition, and small ships make ground and inland marine transport inefficient and costly; domestic air for both passengers and cargo is inexpensive; (7) Red tape. The Philippines has a reputation for excessive and corrupt bureaucratic impositions. In the Global Competitiveness Report's measure of the burden of government regulation, the Philippines ranked 113 of 133 countries. For burden of customs procedures, it ranked, lowest of ASEAN-6; (8) Expatriate living costs. The Philippines compares well. Manila is one of the least expensive major cities in Asia.

RECOMMENDATIONS (16): Public and private sector leaders should create a national culture of competitiveness. Strengthen efforts to improve competitiveness by reducing business costs. Prepare an annual presidential report on competitiveness. Adjust minimum wages to be more in line with similar regional middle income economies, allow relief from minimum wages or piece work for distressed industries or find other measures that maintain jobs instead of losing them to other countries, including developing new industrial zones with infrastructure that offer lower wage rates. Reduce the burden of high holiday payroll expenses by reducing the number of non-working holidays. Reduce power costs for firms needing to maintain global competitiveness to survive. Introduce open access and power discounts. Modernize ground and marine transport to achieve competitive efficiencies. Accelerate efforts to reduce the red tape burden.

Environment and Natural Disasters. The Philippine environment has been under assault for decades from a fast-growing population and practices that degrade the country's air, land, and water. Over half the country's population lives in urban areas, where polluted air can be a silent killer, and solid waste management and sanitation are highly inadequate. There has been growing recognition of problems such bad habits have created and an increasing desire to introduce sound practices. With inadequate disposal capacity, Metro Manila faces a solid waste crisis. Despite passage of the Clean Air Act, vehicles spewing noxious fumes still ply Metro Manila's streets due to weak enforcement. However, half of the 30,000+ taxis in Metro Manila have converted to LPG, and La Mesa watershed has been reforested. Extensive deforestation over a century contributed immensely to environmental degradation. Improved protection of watersheds, rivers, and estuaries is essential. Philippine urban areas have developed with little planning to mitigate the effects of natural disasters, despite their frequency. Storms and floods are the worst in terms of frequency and number of people affected. Earthquakes and volcanic eruptions are less frequent. As the world's second largest archipelago, the country's shores and estuaries are predicted inundated as seas rise from global warming.

RECOMMENDATIONS (14): Implement policies of the Solid Waste Management, Clean Air, and Clean Water Acts. Deal effectively with solid waste. Reduce air and water pollution. Clean rivers. Improve access to water and sanitation. Establish clear rules and standards that would allow modern incineration technologies. Amend the Clean Air Act to allow non-polluting clean incineration. Benefit tourism, agriculture, and fisheries by reforestation, and rebuilding damaged coral reefs. Emphasize disaster prevention as well as disaster relief. Reduce flooding by improving drainage, zoning, and infrastructure. Make cities safer against earthquakes. Plan effectively for the impact of climate change/global warming.

Foreign Equity and Professionals. Reforms allowing more foreign equity participation in restricted sectors of the economy have not been a government priority. The Philippines significantly lags behind the ASEAN-6 and ranks in the bottom third of all countries surveyed by the WB (98th of 139) in having a regulatory regime favorable to foreign investment.The Philippine constitution is rather unique in containing foreign equity restrictions on certain business activities (Two presidential commissions have recommended their removal). The only significant change in the FINL since limited foreign investment in retail trade was allowed (in 2000) was the opening of gambling casinos to majority foreign equity (in 2010). The Philippines also is restrictive of foreign professionals practicing. The constitution states "the practice of all professions… shall be limited to Filipino citizens, save in cases prescribed by law." There are 45 laws governing the practice of specific professions, and 40 contain "reciprocity" provisions allowing foreigners to practice. A Supreme

Court rule limits legal practice to Philippine nationals, but only 5 of the 45 laws limit their professions to nationals. Few foreign professionals take exams or apply to the PRC, and few are approved. It should be in the Philippine interest to seek reduced restrictions on professionals in other countries, e.g. in WTO/GATS and AFAS, and to have more foreign professionals in the country who can bring new skills and connections to global networks, create more jobs for Filipinos, and support sunrise sectors like R&D, medical travel and retirement.

RECOMMENDATIONS (12): A high-level commission should review current restrictions in the FINL and elsewhere, considering which will increase investment and create jobs, and propose remedial measures. Pending constitutional revision, apply creative but legal solutions, including the control test, to 60-40 ownership provisions, in order to increase investment and create jobs. The PRC should liberalize its procedures to accredit foreign professionals. The language regarding foreign nationals in the laws on professionals should be liberalized. The FINL should not include professionals. Philippine diplomacy should pursue global openness for Filipino professionals. Clarity is also needed to distinguish ownership of companies that provide professional services and the execution of medical services.

Governance. Filipinos and foreigners agree many problems of the country could be turned around with better governance. The reputation for political instability and widespread corruption persists. Of the ASEAN-6 it ranks lowest for *Political Stability and Absence of Violence*. During the decade (2001-2010), the TI rating of the Philippines fell to the bottom of a list of 14 Asian and South Asian countries. In the Global Competiveness surveys, corruption is cited as the top factor harming business. Smuggling is a major concern to business because it weakens the domestic market for manufacturers and for importers who pay duties and taxes. Domestic automotive production has been undercut by used car imports, negating the industry development plan. Huge sums that could build schools and provide better healthcare have been stolen through under-declaration of oil import volumes. The Philippines does not adequately protect IPR. While law is sound, sale of counterfeit goods remains widespread because of inadequate enforcement. The Ombudsman's office lacks resources. Government procurement practices should be more transparent. GOCCs should be reformed and rationalized.

RECOMMENDATIONS (16): Demonstrate firm, consistent political will to enforce laws against corruption forcefully in the public and private sectors, in revenue collection, and public expenditures. The government should join the Integrity Initiative of the private sector and submit government departments and agencies to the same tools, control mechanisms and integrity circles as the private sector. An impartial Ombudsman should be strengthened with trained staff. The private sector must do more to police its ranks and initiate compliance and integrity programs. Smuggling must be vigorously countered. The BOC with DOJ support should successfully prosecute smugglers. Further reform public sector procurement. Expand e-procurement, reform project selection process and bidding procedures, and intensify other efforts to reduce waste in public expenditures. Increase public sector transparency. Reduce the fiscal burden of GOCCs by fiscalizing, rationalizing, privatizing, and closing. Focus Congressional CDF on priority social infrastructure needs. Undertake civil service reforms to professionalize government. Reduce red tape. Strengthen corporate governance. Reduce IPR abuse. Legalize *jueteng*.

Judicial. Reforms in administration of justice should be intensified. Among challenges are clogged dockets, rulings that negatively impact on the business climate, the use of courts and sheriffs for legal harassment, and questionable TROs. Increased judicial salaries helped reduce the vacancy rate from 30 to 22% and, after peaking in 2000, the caseload for all courts declined from 1.5 to 1 million. The Alternative Dispute Resolution Act of 2004 encouraged more parties to arbitrate. The volume of new cases is down, and there is a 50% increase in their resolution. Caseload per judge has declined by half. With more judges handling fewer cases, the backlog should shrink and also the delay of justice. The number of graft and corruption cases filed before the Sandiganbayan has fallen since 2002, but the percentage of convictions increased. The Philippines rates poorly in the Global Competitiveness Report for efficiency of legal settlement, ranking far below other ASEAN-6 and 122 of 139 countries. The SC appears to have become more cautious about its decisions, harming the business climate. Its rulings supportive of the economy should be recognized. The SC should more often request *amicus curiae* advice in business-related cases. The SC docket is crowded with some 7,000 cases divided among 15 justices. The SC uses computers to track the status of cases. Greater selectivity would decrease the caseload and help the SC to meet the constitutional requirement to reach decisions within 24 months. The US SC only accepts some 150 of 10,000 petitions it receives each year.

RECOMMENDATIONS (12): Continue judicial reforms to speed up justice in all courts by hiring more judges and increasing salaries. Continue to reduce the caseload of all courts by more encouragement of arbitrated settlements in civil cases. Improve BIR, BOC, and Ombudsman legal staff to prepare better cases with better prospects of successful prosecution and conviction. The Supreme Court should request *amicus curiae* expert advice when ruling on issues that may adversely impact on the investment climate. The Supreme Court could reduce its caseload by being more selective in accepting cases. Rules of the Court should be changed to recognize foreign arbitration decisions without reopening cases. Create a special court for Strategic Investment Issues. Oversee environmental courts so that application of Philippine environmental laws strongly supports responsible mining practices.

Labor. The Philippine economy is not creating enough high quality jobs for the growing population and to improve economic growth. Of a labor force of 39 million, 36 million are employed. Unemployment stood at 6.9% and underemployment at 17.9%. Over 9 million Filipinos would like to work more or would like to have some full or part time work. Over the last decade, an annual average of 846,000 persons entered the workforce. As the economy does not create enough jobs, some go abroad and some are unemployed. Without the overseas market, unemployment/underemployment rates could be 2 to 3 times higher. The country has the highest brain drain of the ASEAN-6. Much needs to be done to match educational and training curricula to available jobs. More young Filipinos need to acquire specialized fields related to the Seven Big Winner sectors. DOLE is undertaking *Project Jobs Fit* to identify the new, emerging employment sectors and the skills needed. The Philippine Labor Code is 36 years old and out of tune with regional developments. Disruptive labor action is infrequent. The economy has been unable to raise labor productivity. Of the ASEAN-6 only the Philippines has not increased labor productivity.

RECOMMENDATIONS (9): Modernize the Labor Code. Rationalize holidays. Allow overseas service firm workers compensatory days off. Maintain the flexible working arrangements introduced in recent years. Focus on improving labor productivity. Create several million new direct jobs and many more indirect jobs. Attract manufacturers relocating from China. Reduce the unemployment and underemployment rates. Re-introduce the dual training system and support greater interaction between TESDA and the private sector. Allow self-regulation of companies with the support of chambers of commerce and industry associations. Continue to resolve differences without disruptive labor action. Reform the NLRC. Further narrow the skill-jobs mismatch by revising curricula and training.

Legislation. While the Philippines has many excellent laws, there is continual need to update old laws and legislate for new developments. Usually, the legislative process moves slowly, but sometimes bills move unexpectedly fast. 42 significant new business and economic reforms enacted in the 12th, 13th, and 14th Congresses are listed. Annex 1 lists more reforms over several decades. Speeding enactment of new laws and amending old ones should be a priority. With strong leadership, the 15th Congress can move twice as fast and pass many bills that improve the Philippine economy and competitiveness. 41 reforms for consideration in the 15th and 16th Congress are proposed. The list is organized into 8 categories according to the Seven Big Winners and General Business Environment. It has been endorsed by 5 PBGs and 7 JFC members, and recommended to the president and Congress. Annex 4 contains a list of 58 other potential reform laws. The private sector must be vigilant and oppose market-unfriendly proposals. Presidential vetoes are rare. The LEDAC used effectively during the Ramos Administration can be a good management tool for achieving the legislative agenda.

RECOMMENDATIONS (13)*:* The president should hold regular LEDAC meetings of executive and congressional leaders to prioritize the administration's legislative agenda and monitor progress through the Congress. Prioritize bills that improve competitiveness, increase investment and revenue, and create jobs, in order to accelerate economic growth. Use executive orders and revision of IRRs to start reforms, following up with legislation as needed. Pass legislation more rapidly, especially for business and economic reforms. Prioritize key legislation close to final passage in the 14th Congress or that reached 2nd/3rd reading in either House or Senate. Avoid market-inimical legislation. Seek to make the FINL more positive. Simplify the present 45 laws regulating 46 professions to relax restrictions on foreign professionals and redefine reciprocity. Develop a comprehensive Philippine Legal Code and Code of Regulations.

Local Government. LGUs should be supportive of investors who bring jobs and revenue to their communities. Complaints are rare when LGU processes are transparent, efficient, fast, and honest. When they are not, investors complain, and the image of the Philippines is harmed. Surveys of domestic and foreign investors have scored "corruption" as the #1 business problem, with "inefficient government bureaucracy" #2. A survey records a decline in LGU bribery required to obtain licenses and permits from 55% in 2000 to 32% in 2009, still high but a hopeful indicator. A solution for bureaucratic corruption is reducing the number of signatures and using e-governance. Ratings of LGU competitiveness can encourage cities and provinces to improve themselves. When LGUs impose taxes or fees contrary to national policy or ban mining, they can harm the investment climate. This is a serious issue requiring attention.

RECOMMENDATIONS (16): Intensify programs to improve LGU governance to make them more efficient and competitive, prioritizing LGUs in the fastest-growing regions. Expand e-governance services on LGU websites to enable routine transactions and to provide information on budgets and procurement. Increase efforts to correct issues identified in IFC Doing Business ratings and reduce solicitation of bribes. It is essential that the national government pay LGUs their tax share fairly and promptly. Intensify programs for LGU capacity building. LGUs should observe incentives and permits awarded by the national government to investors under national laws. The LGU Code, when amended, should include language to make the primacy of national laws clear. Declare certain investments, such as mining and power plants, as strategic to take them out of the influence of LGUs. LGUs should study which Seven Big Winner Sectors might be promoted in their localities to bring in more jobs and investments.

Macroeconomic Policy. Macroeconomic management of the economy has generally been sound since 1986 with the exception of periods of large deficits. Since the 2008-09 financial crisis, the biggest fiscal challenges are the unprecedented deficit and the weak tax effort. The tax effort peaked in 1997 at 17% and is currently 13%. In the WEF Global Competiveness Report, among the ASEAN-6 the Philippines places mid-way in the rankings for overall macroeconomic environment. Of the ASEAN-6 Philippine sovereign ratings and Vietnam's are the lowest. Part 4 presents data on inflation, exchange rate, national government debt, debt service, budget deficits, gross international reserves, tax effort and rates, savings, often in comparison with the ASEAN-6 and others. The country rates poorly within the ASEAN-6 for heavy taxation. In the World Economic Forum's 2010 rankings for the category *burden of government regulation*, the Philippines placed 126 of 139 countries, the lowest among the ASEAN-6 and near the bottom of the total ranked. Investors seek a stable and predictable policy environment with low risk, which has too often not been true in the Philippines. Many new FTAs present great opportunities to develop new export markets. Negotiations including the US are ongoing to expand the 4-country TPP to 9 or 10 members. The Philippine economy would be hurt if not included. The EU and the Philippines have agreed to negotiate a new, bilateral PCA.

RECOMMENDATIONS (29): Constantly improve financial sector management. Reduce the record-high public sector deficit, maintain low inflation, stable exchange rates, reduce debt service burden, increase capital spending, privatize more state assets, convey an austerity message, reduce congressional pork barrel. Maximize tax collection to raise the tax effort to 15%. Jail smugglers and big tax evaders, using RATE and RATS. Use transparency and e-governance, National Single Window, E2M. Simplify taxes and fees. Undertake comprehensive tax reform to reduce CIT and individual income tax, while raising VAT, ACT, and fuel excise taxes. Reduce or eliminate small taxes and fees that increase business costs. Increase the low savings rate and strengthen capital markets. Increase independence of regulatory agencies and reduce the burden of government regulation on the private sector. Maintain policy predictability and stability. Optimize new trading opportunities.

Security. Security issues are a serious investment climate concern, especially in some rural areas, for the mining and tourism sectors, and in parts of Mindanao. This section discusses: external security, internal security (insurgency, terrorism, and warlordism), military extra-constitutional actions, crime, defense and police capabilities, economic development of Mindanao/Sulu, and foreign government travel warnings. The World Bank measure *Political stability and the absence of violence and terrorism* shows the Philippines is lowest-ranked among ASEAN-6; however, Thailand and Indonesia also ranked low. In Global Competitiveness the Philippines ranked lowest of ASEAN-6 for *Business costs of terrorism* and *Business costs of crime and violence.* At 1% of GDP, military spending is the lowest of the ASEAN-6. The homicide rate is the highest of 10 Asian countries. Solutions for Mindanao/Sulu include (1) better governance and economic growth that undermines the appeal of local combatants, (2) an implementable political settlement with the MILF, and (3) military/police action against the ASG. Mindanao infrastructure, especially the unreliable supply of power, inadequate ground transport, and high domestic shipping costs, needs urgent attention.

RECOMMENDATIONS (15): Improve political stability and reduce violence, terrorism, and human right abuses. Use different strategies to deal with the MILF, NPA, and ASG. Negotiate with the MILF and NPA and use force to isolate/eliminate ASG. Reduce violence in Mindanao/Sulu and increase economic development in that island's poorest provinces. Develop then implement Mindanao 2020 Peace and Development Plan, emphasizing better infrastructure and lower shipping costs. Reduce/eliminate warlordism. Expand CCT, Kalahli-CIDSS, and other programs that reduce government neglect of population in remote areas. Modernize armed forces and police; increase their numbers. Avoid extra-constitutional actions by military personnel. Reduce crime, especially murders and kidnappings. Encourage balance in foreign government travel warnings.

Social Services: Poverty. As a percent of population, poverty has decreased from 41% in 1985 to 28% in 2006. In terms of actual population, however, it increased from 22 million in 1985 to 24 million in 2006. Among the ASEAN-6 the Philippines has the most persistent incidence of poverty (< US$ 1.25 a day). The poor are often hungry, their diet inadequate, and their children malnourished. The September 2010 SWS poll counted 16% of households – equal to 3 million families – claiming having had nothing to eat at least once in 3 months. The Philippines has the highest percentage of slum population as a percent of urban population among 6 Asian countries. The poor do not have PhilHealth insurance and most die without seeing a doctor. CCTs as a means of reducing future poverty are being introduced.

RECOMMENDATIONS (4): Steadily reduce the number of poor and poor as percentage of population. Reduce the incidence of hunger. Expand insurance coverage to include more poor. Expand the CCT program to include all 6.9 million poor Filipino families.

Social Services: Education determines the quality of tomorrow's workforce; appropriate skills are essential for a middle-income economy trying to increase its knowledge-based sectors. Philippine education needs both policy reform and greatly increased resources. All educational levels have deteriorated over several decades, faced with a young population that has outstripped resources. In the Global Competitiveness Report the Philippines ranks 69th of 139 countries for quality of the education system. While slightly behind Thailand and Vietnam, the country is declining and will stay lowest-rated in the ASEAN-6 without educational reform. Of the ASEAN-6 the Philippines spends the least per student. Malaysia, Thailand, and Vietnam spend more than twice as much. Graduate perform poorly. The 10-year basic education is the shortest in the Asian region. Competitors follow a 12-year basic education system, then four years of college. High school/college graduates are inadequately prepared for employment. Drop out rates are high; only 12% finish college. Classrooms in basic education are over-crowded. Pupil-teacher ratio is higher than most Asian countries. The WEF rating for quality of math and science education ranks the Philippines as 112 of 139 countries. Competitors, such as China are moving much faster. For example, over the last decade China has nearly tripled the share of GDP devoted to education (In the Philippines, the GDP share declined). Double the number of colleges and quintuple the number of college students. The Philippines cannot afford further deterioration of English in public schools and lose its main competitive advantage, its large English-speaking workforce.

RECOMMENDATIONS (12): Increase public education budget over several years to at least PhP 400 billion (3.5-4% of GDP) for better classrooms, more and better teacher quality, and reduced teacher/student ratio. Double average spending per student to ASEAN-6 average. Adopt K+12 model to extend basic education by two years and add a pre-elementary year. Constantly improve teacher quality and curriculum to produce graduates with skills required for higher quality jobs. Apply competency-based standards, more in-service training, maintain teacher welfare and morale. Increase study of math and science, technical/vocational skills training. Encourage college/post-graduate study in fields needed for specialized positions, including foreign languages. Intensify investment in technology for high school education to connect all 6,786 schools to Internet. Equip high school teachers with notebook computers and students with e-readers. Establish computerized English language centers in high schools. Strengthen higher education by providing more resources for worldclass centers of excellence. Expand scholarships and loans for higher education. Encourage more accredited foreign schools and foreign teachers. Undertake a vigorous public campaign to emphasize English language competency. Strengthen the Dual Education/Dual Technical System. Expand the internship period to prepare students better for employment.

Social Services: Health and Population. Good health is a concern of the business community. Healthy employees are more productive, have lower absenteeism, and cost less for health care premiums. Healthier children are better able to benefit from education and contribute to the economy. Good health supports increased labor productivity, which supports higher wages. The national government spent about 1.25% of GDP on public health programs in 2007, half as much as Thailand and Vietnam. Per capita spending is the lowest among the ASEAN-6. Better health care services are provided by private health care services for upper income groups. The goal of RA 7875 (1995) that created PhilHealth to provide social health insurance coverage to all Filipinos in 15 years has not been achieved. The total number of hospitals has barely changed in 20 years. The poorest segment of Philippine society has the least access to health care services and has serious health problems. The Aquino administration plans to introduce Universal Health Care.

Population determines the size of the workforce. Population policy supports the freedom of parents to choose family size. The debate is intense about whether the Philippines is over-populated and how many people the land and government can support Reproductive health policy should be everyone’s concern under the goal of responsible parenthood. It effects whether parents are well-informed in exercising their right to choose among alternative methods of determining family size and their ability to raise children who will become productive citizens. Official estimates show the Philippine population growth rate has slowed from 3.08% between 1960 and 1970 to 2.04% since 2000, a 34% decline, possibly as an effect of rising urbanization, more aggressive campaigns of health advocates, and increased access to information and methods of family planning. However, unless the growth rate continues to slow, the number of Filipinos could double again to 200 million.

RECOMMENDATIONS (9): Double national spending on healthcare to 2.5-3% of GDP. Direct spending to the poorest Filipinos. Government hospitals should be modernized, rationalized, expanded, and many thousands of additional village health centers built. Provide better equipment and staff. Expand PhilHealth eventually to become UHC. Include poorest Filipinos at no cost, financed by premiums on higher-income groups. Cease misguided healthcare legislation that does not achieve policy goals. Use PPP to encourage private capital to invest in healthcare-related services. Government should target an achievable population growth rate, set parallel targets to increase contraception prevalence rate and to lower fertility rate, and design and implement a reproductive health program to achieve targets. Congress should pass a consensus version of reproductive health legislation. The private sector should support reproductive health policy legislation and assist employees to have smaller families. Government should reward poor families who have fewer children. PhilHealth should introduce a family planning requirement for hospital accreditation.

PHILIPPINES: COUNTRY DATA

PHILIPPINES: COUNTRY DATA

			Base Year	Source
DEMOGRAPHIC DATA				
Population (Official estimate)	Million	88.5	2007	NSO
Population (projection)	Million	94.0	2010	NSO/PRB
Population Global Rank	Rk	12	Mid-2010	PRB
Population Growth Rate	%	2.3	1980-2007	NSO
Age group distribution				
<15	%	33.0	Mid-2010	PRB
15> and <65	%	63.0	Mid-2010	PRB
<65	%	4.0	Mid-2010	PRB
SOCIAL DATA				
Poverty				
Households	%	26.9	2006	NSO & NSCB
Individuals	%	32.9	2006	NSO & NSCB
Gini coefficient	%	0.458	2006	NSO
Life expectancy	years	72	2008	World Bank
ECONOMIC DATA				
Real Sector				
GDP (current prices) (Note 1)	Tn PhP	7.7	2009	NSCB
GDP per capita (annual, current prices) (Note 1)	PhP	83,155.4	2009	NSCB & NSO
Labor force (Domestic)	Million	35.1	2009	NSO
Annual number of college graduates (Note 8)	Units	458,106	2009	CHED
Computer Penetration, % of households	%	12.7%	2009	ITU
Estimated number of internet users	Million	5.9551	2009	ITU
Number of internet users per 100 inhabitants	Units	6.474124	2009	ITU
Proportion of households with internet	%	11.0%	2009	ITU
Main fixed telephone lines in operation	Million	4.1	2009	ITU
Main (fixed) telephone lines per 100 inhabitants	Units	4.45734	2009	ITU
Mobile cellular phone subscriptions - (Post- & Pre-paid)	Million	74.489	2009	ITU
Mobile cellular phone subscriptions per 100 inhabitants	Units	80.98118	2009	ITU
Electric power generation	GWh	61,934	2009	DOE
Annual new vehicle sales	Units	132,444	2009	CAMPI
Infrastructure spending, % of GDP (Note 2)	%	2.1	2009	DBM
NG infrastructure spending, % of GDP (Note 2)	%	2.1	2009	DBM
Public sector infrastructure spending, % of GDP	%	3.3	2009	DBM
Social spending				
NG education spending, % of GDP	%	2.9	2009	ADB
NG social security and welfare spending, % of GDP	%	1.2	2009	ADB
NG health spending, % of GDP	%	0.5	2009	ADB
NG housing and community amenities spending, % of GDP	%	0.1	2009	ADB
Fiscal sector				
Revenue Effort	%	14.6	2009	BTr
Tax effort	%	12.8	2009	BTr
Budget deficit	Bn PhP	298.5	2009	BTr
Budget deficit, % of GDP	%	3.9	2009	BTr
National Budget	Tn PhP	1.541	2010	DBM
NG actual debt	Tn PhP	4.4	2009	BTr
Debt ratio (Note 3)	%	57.3	2009	BTr
Debt service, % of GDP	%	8.1	2009	BTr

External Sector				
Goods exports, FOB, total value	Bn USD	38.3	2009	NSO
Goods exports, distribution				
Total agro-based products	%	5.5	2009	NSO
Forest products	%	0.1	2009	NSO
Mineral products	%	3.8	2009	NSO
Petroleum products	%	0.8	2009	NSO
Manufactures	%	86.0	2009	NSO
of which: Electronics (Note 4)	%	61.6	2009	NSO
Special transactions	%	3.7	2009	NSO
Export recipients (Top 10)				
Countries:				
US	%	17.7	2009	NSO
Japan	%	16.2	2009	NSO
Netherlands	%	9.8	2009	NSO
Hong Kong, China	%	8.4	2009	NSO
China	%	7.7	2009	NSO
Singapore	%	6.5	2009	NSO
Germany	%	6.4	2009	NSO
Korea	%	4.8	2009	NSO
Taiwan	%	3.5	2009	NSO
Thailand	%	3.2	2009	NSO
Others	%	16.1	2009	NSO
Economic Blocs				
East Asia (Note 5)	%	40.4	2009	NSO
EU (Note 6)	%	20.6	2009	NSO
ASEAN (Note 7)	%	15.2	2009	NSO
Import sources (Top 10)				
Countries:				
Japan	%	12.5	2009	NSO
US	%	11.9	2009	NSO
China	%	8.9	2009	NSO
Korea, Republic of	%	7.0	2009	NSO
Singapore	%	8.7	2009	NSO
Indonesia	%	4.0	2009	NSO
Taiwan	%	7.0	2009	NSO
Thailand	%	5.7	2009	NSO
Saudi Arabia	%	3.6	2009	NSO
UAE	%	1.8	2009	NSO
Others	%	29.0	2009	NSO
Economic Blocs				
East Asia (Note 5)	%	38.7	2009	NSO
EU (Note 6)	%	7.6	2009	NSO
ASEAN (Note 7)	%	25.4	2009	NSO
Number of foreign tourist arrivals	Million	3.02	2009	DOT
Remittances	Bn USD	17.3	2009	BSP
Stock estimate of Filipinos overseas	Million	8.2	2008	CFO
Gross International Reserves	Bn USD	44.2	2009	BSP
Monetary and Finacial Sector				
CPI (eop), 2000=100	Index	160.0	2009	NSO
Inflation rate, annual ave	%	3.3	2009	NSO
Inflation rate, 10-year ave	%	5.2	2000-2009	NSO
90-day T-bill rate, ave	%	4.2	2009	BSP
Domestic interest rate, all maturities, ave	%	4.5	2009	BSP
Overnight repo rate (eop)	%	6.0	2009	BSP
Overnight reverse repo rate (eop)	%	4.0	2009	BSP
Exchange rate average	P/$	47.6	2009	BSP
Exchange rate end-of-period	P/$	46.4	2009	BSP

Notes:

1 - As of Jan 2010 (4Q-09 report). This figure is subject to revision by NSCB.
2 - This refers to the national capital outlay for infrastructure (excludes corporate equity, capital transfer to LGU and other capital outlays.
3 - This only covers the actual debt and excludes the contingent debt
4 - Major electronic products and "other electronics"
5 - Includes China, Hong Kong, Japan, Macau, Mongolia, N. Korea, S. Korea, Taiwan
6 - Includes Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Latvia, and UK Great Britain & N. Ireland, Ireland, Italy, Latvia, Lithuania, Luxembourg
7 - Includes Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand, Vietnam
8 - Preliminary data

* ADB - Asian Development Bank; BSP - Bangko Sentral ng Pilipinas; BTr - Bureau of the Treasury; CAMPI - Chamber of Automotive Manufacturers of the Philippines, Inc.; CFO - Commission on Filipinos Overseas; CHED - Commission on Higher Education; DBM - Department of Budget and Management; DOE - Department of Energy; DOT - Department of Tourism; ITU - International Telecommunication Union; NSCB - National Statistical Coordination Board; NSO - National Statistics Office; PRB - Population Reference Bureau

Per capita GDP based on purchasing-power-parity (PPP), ASEAN-6

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Indonesia	2,441	2,552	2,674	2,825	3,005	3,207	3,449	3,727	3,985	4,151
Malaysia	9,169	9,135	9,579	10,159	10,902	11,610	12,478	13,449	14,149	13,800
Philippines	2,320	2,365	2,458	2,582	2,764	2,935	3,130	3,383	3,515	3,516
Singapore	32,251	32,281	34,702	36,618	40,330	43,976	47,319	50,130	51,247	50,180
Thailand	4,962	5,140	5,456	5,920	6,350	6,838	7,404	7,942	8,243	8,051
Vietnam	1,423	1,535	1,648	1,781	1,949	2,143	2,365	2,609	2,801	2,942

Source: IMF; As of Oct. 2010

Per capita GDP, current prices, US$

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Indonesia	807	773	928	1,100	1,188	1,300	1,636	1,916	2,238	2,329
Malaysia	4,030	3,864	4,112	4,409	4,898	5,319	5,951	6,967	8,143	6,950
Philippines	987	906	958	973	1,040	1,159	1,351	1,624	1,848	1,748
Singapore	22,791	21,001	22,028	23,029	26,419	28,498	31,616	36,527	39,266	36,379
Thailand	1,967	1,836	1,999	2,229	2,479	2,709	3,174	3,759	4,108	3,941
Vietnam	402	413	440	489	554	637	724	835	1,048	1,068

Source: IMF; As of Oct. 2010

Selected ASEAN-6 economic indicators and ASEAN trade profile

			Base year	Source
Population, ASEAN-6	Million	520.5	Mid-2010	PRB
ASEAN-6 GDP, current prices	Tn USD	1.44	2009	ASEAN Sec
ASEAN-6 average real GDP growth (Note 1)				
Indonesia	%	5.1	2000-2009	World Bank
Malaysia	%	4.8	2000-2009	World Bank
Philippines	%	4.6	2000-2009	World Bank
Singapore	%	5.6	2000-2009	World Bank
Thailand	%	4.1	2000-2009	World Bank
Vietnam	%	7.3	2000-2009	World Bank
Per capita income, PPP (As of Oct. 2010)				
Indonesia	USD	4,151	2009	IMF
Malaysia	USD	13,800	2009	IMF
Philippines	USD	3,516	2009	IMF
Singapore	USD	50,180	2009	IMF
Thailand	USD	8,051	2009	IMF
Vietnam	USD	2,942	2009	IMF
ASEAN Trade				
Total export value	Bn USD	802.7	2009	ASEAN Sec
Share per destination				
ASEAN	%	24.6	2009	ASEAN Sec
Japan	%	10.1	2009	ASEAN Sec
European Union (EU)-25 (Note 2)	%	11.1	2009	ASEAN Sec
China	%	9.7	2009	ASEAN Sec
USA	%	10.0	2009	ASEAN Sec
Republic of Korea	%	4.3	2009	ASEAN Sec
Australia	%	3.9	2009	ASEAN Sec
India	%	3.3	2009	ASEAN Sec
Rest of the world	%	23.0	2009	ASEAN Sec
Total import value	Bn USD	718.6	2009	ASEAN Sec
Share per destination				
ASEAN	%	23.8	2009	ASEAN Sec
Japan	%	13.3	2009	ASEAN Sec
European Union (EU)-25 (Note 2)	%	11.3	2009	ASEAN Sec
China	%	11.4	2009	ASEAN Sec
USA	%	9.2	2009	ASEAN Sec
Republic of Korea	%	5.6	2009	ASEAN Sec
Australia	%	2.2	2009	ASEAN Sec
India	%	2.0	2009	ASEAN Sec
Rest of the world	%	21.2	2009	ASEAN Sec

Notes:

1- 2009 growth estimates are preliminary and are subject to revision by the country sources
2- Includes Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, and United Kingdom

INTRODUCTION

Arangkada Philippines 2010: A Business Perspective has a strategic purpose – to provide recommendations that lead to millions of new jobs for Filipinos and higher economic growth for the country. This document includes hundreds of recommendations for action by both public and private sectors in a great number of areas. Together they add up to an agenda for change to help policy makers and business leaders to enable the national economy to compete in a world increasingly interlinked and competitive. In this world, keeping up is an imperative, not a choice. For too many years and in too many sectors of its economy the Philippines has lagged, losing competitiveness despite the nation's immense potential.

> "If we want things to stay as they are, things will have to change."
>
> *Giuseppe di Lampedusa in "The Leopard" his novel about Sicily*

The Philippines has the good fortune to be located in Asia. The region accounts for 28% of global GDP, 32% of global trade and has 60% of global population.[1] Three of the world's largest economies – China, India and Japan – are in Asia, and two – China and India – are among the fastest growing. The other large economies in North America and Europe are readily accessible to the Philippines. Fast-growing China and India have longstanding economic and cultural ties to the Philippines. With new free trade agreements (FTAs) in effect or soon to come into effect for many of these markets, the Philippines has better opportunities than ever before to improve trade and investment ties with advanced as well as rapidly-developing economies.

The Joint Foreign Chambers of the Philippines (JFC) – comprised of the American, Australian-New Zealand, Canadian, European, Japanese, and Korean chambers of commerce as well as PAMURI – have prepared this advocacy paper to contribute the ideas of our Filipino and foreign members in the spirit of partnership with the people and government of the Republic of the Philippines (GRP). Our more than 2,000 members, of dozens of nationalities including Filipino, are deeply committed to the welfare of the Philippines and a brighter future for its citizens.

Our members include many of the largest investors, employers, taxpayers, and CSR supporters in the country, some who have operated in the Philippines for as long as a century as well as many who have arrived quite recently. Our hope is for our members to contribute increasingly to Philippine economic development and provide high quality jobs for the domestic economy, especially its export sector to take advantage of our members' links to global markets. Our members are prepared to invest continuously and heavily in the Philippines and to create millions of new jobs. But we can only do this if the nation can create a better business climate to enable its future prosperity.

The many things that are working well in the economy could be further enhanced, while obstacles to sectors with high growth potential need to be removed. Many of our members believe the Philippines faces a crossroads, where it chooses between the status quo or an ambitious growth agenda with diversified strategies. As foreign investors and employers, we fully share the ambition of Filipinos for the country to become an advanced economy. The Philippines' progress is ours, too; for many of us, there are emotional ties, as well.

1 UNSD; As of 2008 (revised); 2009 World dataset is not yet complete.

We have contributed policy recommendations on several previous occasions. The American Chamber of Commerce (AmCham) prepared *The Roadmap to More Foreign Investment in March 2003* and *Roadmap II More Foreign Investment* in June 2004. In October 2006, we organized the *Workshop on Foreign Direct Investment: How the Philippines can attract US$ 3 billion a year* in Makati attended by over 400 participants. Recommendations from the Workshop were included in the proceedings of the National Competitive Summit in 2006. On June 1, 2009 we released a paper entitled *Impact of the Global Economic Crisis on the Philippines: Preparing to Rebuild Foreign Investment Inflows.*

We are pleased that many of the recommendations made by foreign chambers in these and other papers, statements, and letters have been implemented and have contributed to the steady GDP growth of the country in the last decade, towards the end of which the Philippines reached the status of a Lower Middle Income country with a per capita income (PCI) approaching US$ 2,000.

Yet there remains a widespread perception that the Philippine economy is growing at too slow a pace and that too much of its growth depends on remittances from the large economy of Filipinos working outside the archipelago, while more needs to be done at home to create quality jobs for Filipinos. Some Philippine economists liken this situation to a form of "Dutch disease."[2]

In many international ranking surveys, the Philippines has slowly slipped. While the economy has improved in some areas, so have others and many at faster rates. Overall the Philippines has not improved its competitiveness as much as others and thus continues to slide down in relative terms despite its steady, positive GDP growth and rising PCI.

The main conclusion we have reached is that the **Philippines needs to reform its economy faster enough to become more competitive**. Since the country still has one of the fastest growing populations in Asia – a sizeable percentage of whom continue to live in extreme poverty – **accelerating the rate of reform is a critical factor for achievement of both faster growth and poverty reduction, as President Aquino in his inaugural speech.**

This advocacy paper represents a catalogue for change for the next decade. Its recommendations are neither revolutionary nor sweeping but incremental, focused, and often detailed. Building a better economy, reform by reform, has been compared to building a strong house, brick by brick. *Arangkada Philippines 2010* **contains many bricks for the policy builders of the country to use to build its economy,** so that a stronger edifice for all Filipinos may emerge.

This advocacy paper has not been prepared in a vacuum; it has drawn extensively from a wide range of policy papers, workshops, and publications. Many of these were used and are recognized in the bibliography.

2 Dutch disease is "The damaging effect on an economy as a result of the exploitation and export of natural resources. The term is also used to refer to the effects of other inflows such as remittances. Capital inflows cause currency appreciation. This increases the cost (in foreign currency) of exports making them less competitive. The classic case is de-industrialisation as manufacturing industries are made less competitive by exports of oil/natural gas." Moneyterms.co.uk (April 20, 2010).

However, we single out as a special source of recommendations that is the core of this document – a series of nine Focus Group Discussions (FGDs) organized by the JFC and three Legislative Workshops organized by the American Chamber of Commerce between September 2009 and April 2010, in which hundreds of experts participated. Many corporate executives and large investors joined these FGDs contributing their thoughts on needed reforms. They were guided by ten moderators, each an expert in the subject of the FGD.[3] The legislative workshops involved public and private sector experts reviewing the accomplishments of the 14th Congress and identifying needed legislative reforms for future Congressional consideration.

The recommendations that emerged from the FGDs are described in the section that discusses the Seven Big Winners, while legislative recommendations can be found in a later section.

We have included many data-packed charts and tables and various relevant quotations highlighted in boxes throughout the text. Most of our charts include data from 2000-2009, so that the first decade of the 21st century is portrayed, as *Arangkada Philippines 2010* is published at the opening of the 2nd decade.

With its dynamic population and a land blessed with more natural resources than some Asian countries that have become rich, the Philippines has no credible excuse for perpetuating its lagging performance. We do not believe this is a *"Land of Permanent Potential,"* as some call it, but *"Vested Interests Block Reform"* and *"Still Trapped on the Threshold of Prosperity,"* titles of articles appearing in the Financial Times about Nigeria, which it termed a "land of bottlenecks," could be descriptive of the challenges confronting the Philippines.[4]

This advocacy paper is titled *Arangkada Philippines 2010: A Business Perspective* because its recommendations originated from private sector experts from the Philippine and foreign business communities. Because our main message is that change has been too slow and needs to accelerate, we also created a slogan for this advocacy paper:

ARANGKADA! **MOVE TWICE AS FAST!**

3 Participants were asked to address: (1) What specific reforms are needed to unlock investment potentials in this sector; (2) How to best address these reforms? Through the executive, legislative, or judicial branch? Which reforms can be addressed at department level? Which are the most concerned government agencies? Which reforms could the private sector addressed? and (3) What is a realistic time frame to accomplish each reform?

4 FT, July 21, 2009.

PART 1

GROWING TOO SLOW

The Philippine Economic Landscape in 2010: Faster Growth is Essential

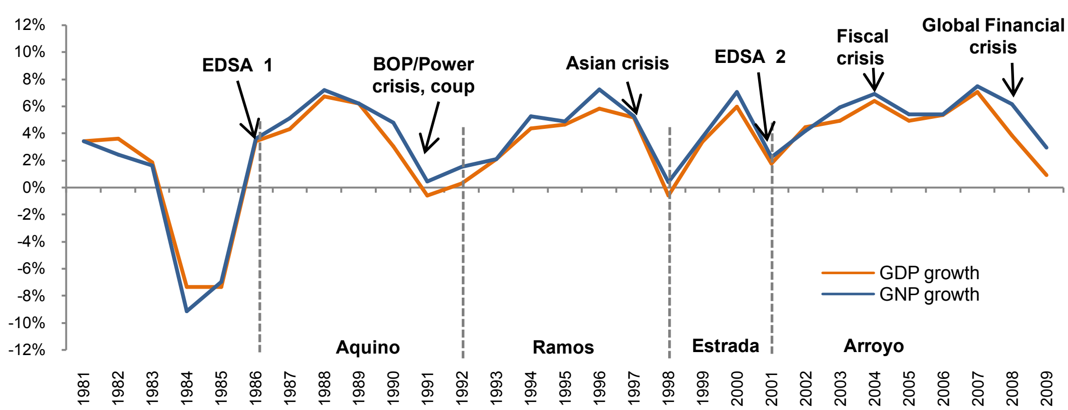
Decades Lost to Slow Growth

As it begins the second decade of the 21st Century, the **Philippines faces a major challenge to move its economy to a higher level of growth and job creation than it has experienced during the past often turbulent decades**.

Figure 1 presents Philippine economic growth rates from 1981 to 2009 and clearly shows the boom-and-bust cycles triggered by the brutal assassination of former Senator Aquino in 1983, the military coup attempt of December 1989, the power blackouts of 1991-1992, and the Asian financial crisis in 1997. Each crisis forced GDP growth into negative territory and significantly reduced the PCI for a fast-growing population.

However, the two shocks to the economy of the more recent decade, EDSA 2 in early 2001 – a setback caused by internal political instability – and the 2008 global crisis – caused by external financial instability – were cushioned by rising inflows of remittances from the fast growing diaspora of Filipinos seeking income opportunities abroad. Remittances were 8.5% of GDP in 2001 and reached 10.8% of GDP in 2009. While GDP growth did not become negative, PCI growth slowed after EDSA 2 in 2001 and also in 2008-2009 following the global financial crisis.

Figure 1: Philippine historical real GNP and GDP growth rates, 1981-2009



Sources: NSCB; Bernardo and Tang, 2008

President Gloria Macapagal Arroyo often pointed out that GDP grew every one of the 38 quarters since she became president in January 2001. In the 2nd quarter of 2007 the rate reached 8.3%,[5] its highest since 12.4% in the 4th quarter of 1988, a year before the December 1989 coup attempt scared off foreign investors and traders. For the 38 quarters through mid-2010, GDP growth averaged 4.6%.

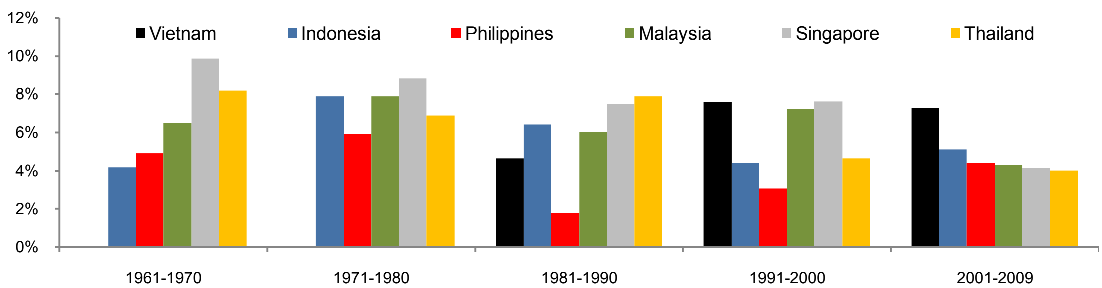
---

5 There is a break in the National Income Accounts series. Data from Q1-2004 going forward are not comparable to data from Q4-2003 back due to methodological revisions. Some Philippine economists also deem that growth rates are “overestimated” by 1-2 percentage points after the Asian Financial Crisis (particularly after 2000).

She also often refers to her vision for the Philippines to attain first world economic status in a generation. No one can disagree with this vision. The country certainly has the potential to grow at much higher rates and is in a region with an increasing number of first world economies. But the vision requires concrete detail within the framework of a master reform plan.

> "Much work remains to be done, but I am determined to turn over to the new government a new Philippines ready for the challenge of giving the nation First World status in 20 years."
>
> *President Gloria Macapagal Arroyo, February 5, 2010 Lipa, Batangas*

Figure 2: Average real GDP growth rates, ASEAN-6, 1961-2009



Sources: World Bank, IMF and ASEAN Secretariat statistics offices; Note: No data for Vietnam before 1985

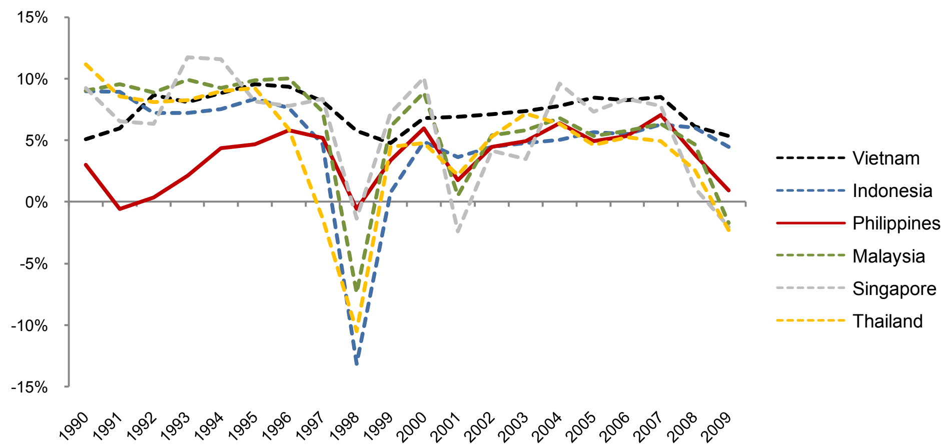
Among the ASEAN-6 economies over the last five decades the Philippines has been the poorest performing economy for both GDP growth and PCI growth. Figure 2 clearly shows Singapore's fast growth averaging around 8% for four decades, until reaching its current mature economy status during the present decade when average growth has slowed to some 4%.[6] The figure also shows that Malaysia and Thailand were the next two fastest growing ASEAN-6 economies until Vietnam commenced the high growth track it has maintained for the last two decades.

While the Philippines with average growth of 5-6% was respectably placed among these fast growers in the 60s and 70s, the political instability of the 80s pushed its average annual growth below 2%, lower than its population growth rate of 2.64% (1980-1990). In the 90s economic growth of 3% slightly exceeded population growth of 2.34% (1991-2000) (see Figure 9 average annual population growth, 1961-2008).

Only in the current decade does Philippine economic growth at 4.4% again - after two decades - approximate that of the other ASEAN-6 (except Vietnam) as remittances grow and the population growth rate declines to 1.90% (2001-2009). Figure 8 shows two decades of almost flat PCI growth in the Philippines, while the other ASEAN-6 economies steadily increased the average PCI of their citizens.

6 Highly dependent on exports, the Singapore economy rebounded in Q1 2010 with an all-time record increase of 32%.

Figure 3: Real GDP growth rates, ASEAN-6, 1990-2009

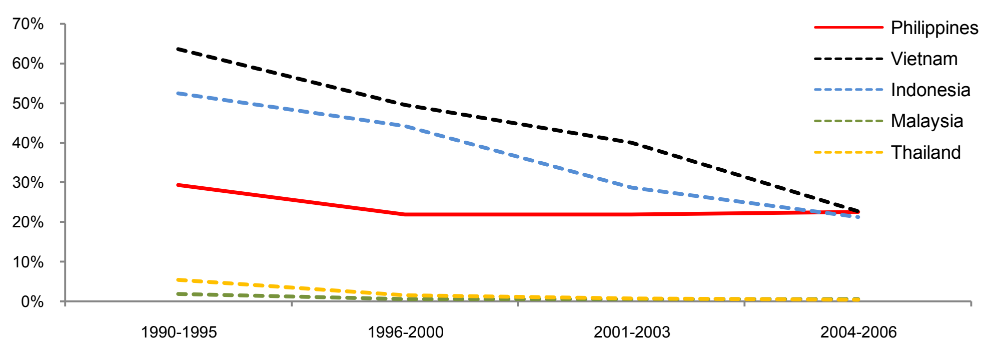


Sources: IMF

Philippine Growth Has Not Been Inclusive

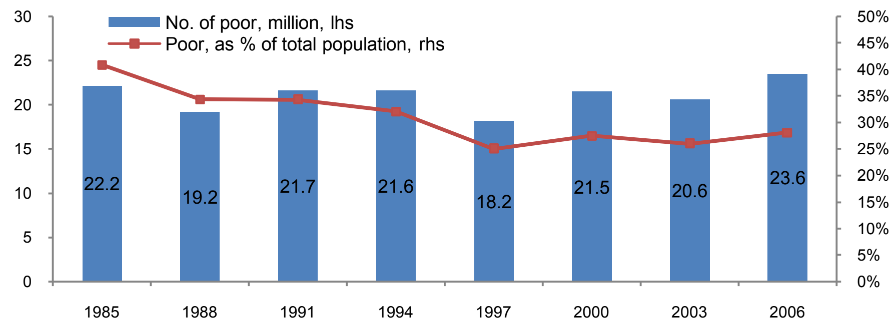
While growth has improved from the dismal levels of the 80s and 90s, the average GDP growth of the last decade will not be enough to address some major challenges the Philippines faces. Although the highest of the last three decades, growth has not been enough to achieve any significant reduction in the percent of the population living in poverty. Growth in the Philippines has not been inclusive. By contrast, Malaysia and Thailand, with comparable GDP growth rates in the decade but lower population growth rates, have nearly eliminated their lowest cohort of poverty. Indonesia and Vietnam have reduced their poverty incidence by roughly 50% from 1990 to 2006 (see Figures 4 and 5).

Figure 4: Poverty incidence, ASEAN-5, 1990-2006



Sources: PovcalNet (World Bank); Balisacan, Arsenio "Pathways out of Poverty." 2008; UNICEF for the urban-rural population distribution in Indonesia; Note: Indonesia's national poverty estimates are derived using the country's rural and urban poverty estimates of the World Bank.

Figure 5: Poverty trend in the Philippines, 1985-2006

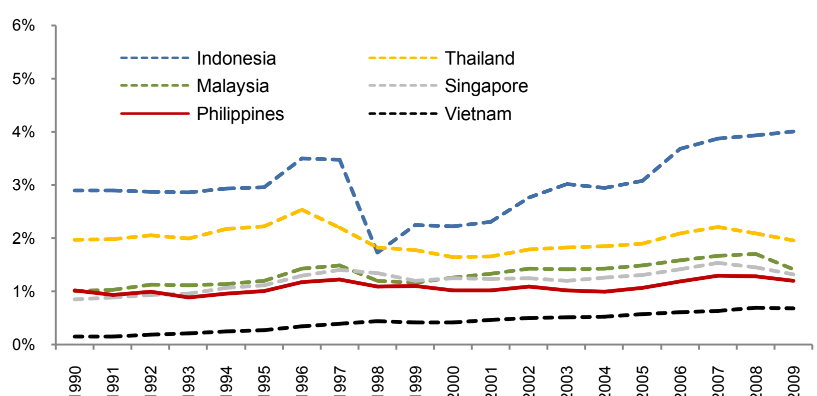


Sources: Balisacan, 2008; FIES, various years

> "My biggest frustration as presidential adviser is that 34 quarters of uninterrupted expansion in the past 9 years did little to reduce poverty and the number of poor people," Albay Gov. Joey Salceda said... While the Arroyo administration continued to crank out glowing economic growth data, "these rosy figures cannot hide the fact that there are more poor people now than when the President started her term." He cited data from the NSCB which showed that the number of poor Filipinos—5-member families living on a little more than P1,200 a month—rose to 27.6 million in 2006 from 25.5 million in 2001. In addition, the incidence of hunger nearly doubled from 11.4% in 2000 to 20.3% last year. "Given our average economic growth in the last four decades, it would take 37 years for these poor to get out of poverty."
>
> *Albay Governor Joey Salceda, PDI, March 8, 2010*

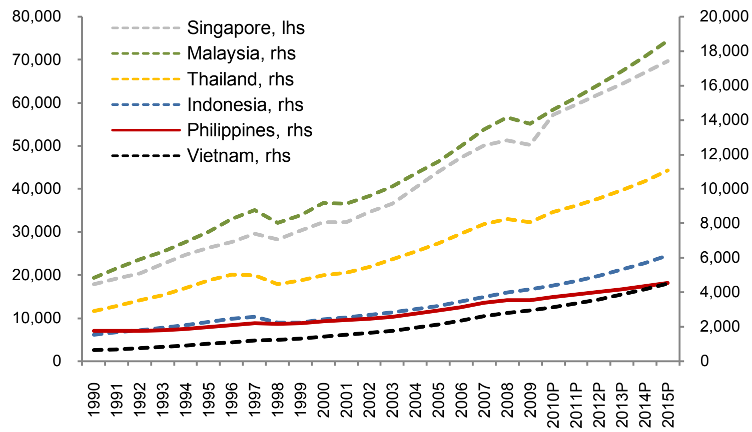
In the fast growing Asian region, the Philippine economy is slowly becoming smaller than the other ASEAN-5 in percentage share of GDP (see Figure 6) and in PCI (see Figure 7). Based on current trends, Vietnam's PCI may pass the Philippine in 2014. Indonesia's PCI (measured in dollars) passed the Philippines in 2009.

Figure 6: Share in ASEAN-6+4 GDP, 1990-2009



Source: IMF; Note: +4 includes China, India, Japan and S.Korea

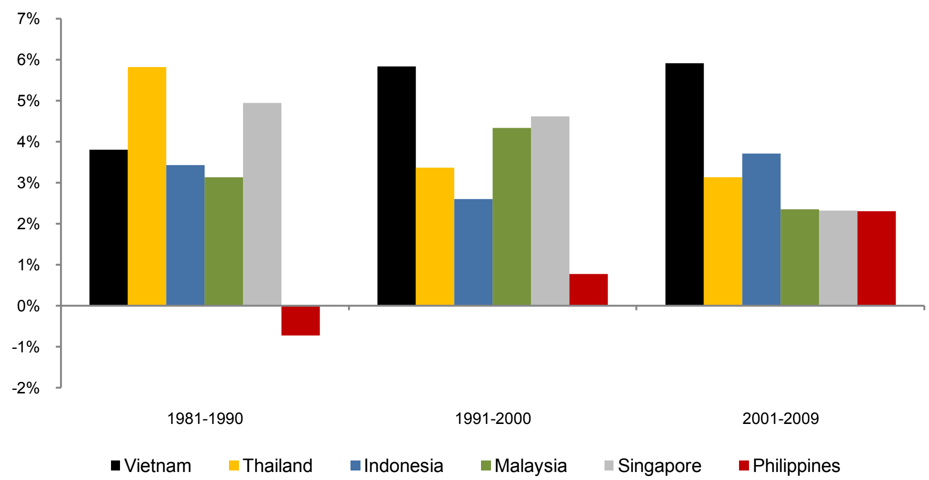
Figure 7: Annual GDP per capita, US$ PPP, ASEAN-6, 1990-2015P



Source: IMF; Note: Data for 2010 onwards are projections of IMF; As of Oct 2010

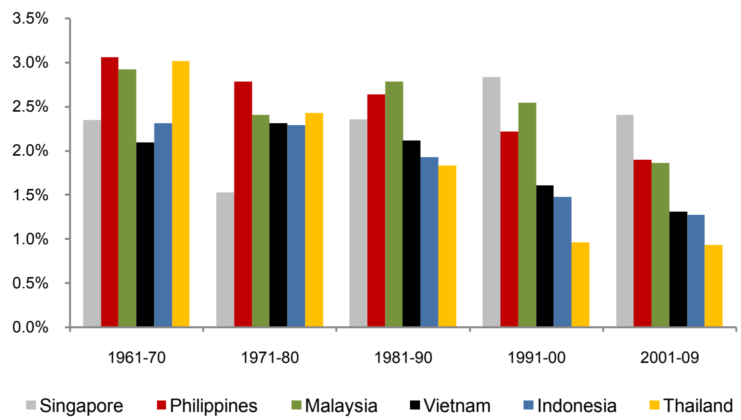
Figure 8 demonstrates how PCI growth in the Philippines lagged far behind the ASEAN-6 economies during 1981-2000 period when per capita growth was much higher in the other economies. High population growth and political instability dragged down PCI growth in the 80s and 90s. In the current decade PCI growth has increased in the Philippines to a level closer to the other five economies, except Vietnam. During this decade, inward remittance flows from an increasing number of Filipinos abroad rose to 10% of GDP and provided much of the 4.4% average annual GDP growth over the period. At the same time, the population growth rate eased from an average of 2.21% in 1991-2000 to 1.90% in 2001-2008, according to World Bank data (see Figure 9).

Figure 8: Real GDP per capita growth, average by decade, ASEAN-6, 1981-2009



Source: IMF; 2009 data are estimated figures

Figure 9: Average annual population growth, ASEAN-6, 1961-2009



Source: World Bank

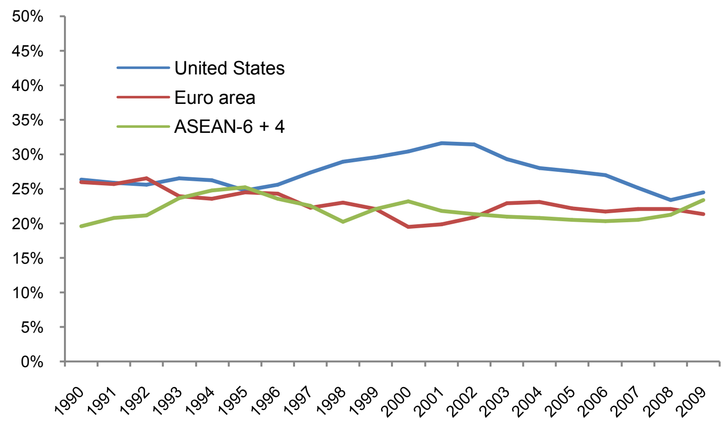
Figure 9 shows population growth rates of the ASEAN-6 over nearly a half century. Singapore is well-known for growing through immigration and Malaysia considers its population too small and encourages larger families. The other four countries have all experienced population growth rate declines over these five decades, with the Philippines still at a high rate near 2% per year, Vietnam and Indonesia below 1.5% and Thailand close to 1%, the only ASEAN-6 economy near the stable population replacement rate.

> "The world has been passing the Philippines by, literally. Back in 1960, the country had the second-highest per capita income in Asia, lagging behind only Japan. But by the following decade, South Korea and Taiwan had surpassed it, and by the 1980s, Malaysia and Thailand had, too. China overtook it in the late 1990s. And now – an event that many Philippine elite thought they would never live to see – Indonesia has sailed past the Philippines."
>
> *Ruchir Sharma, Newsweek, January 22, 2010*

Living in the High Growth Neighborhood

The Philippines is located in the world's fastest growing region. Figure 10 shows that the ASEAN-6 plus 4 (China, India, Japan, and Korea) in 2009 had about the same share 23.4% of world GDP as the United States (24.5%) and the EU (21.4%).

Figure 10: Share in world GDP, 1990-2009



Source: World Bank

In its April 2010 report Emerging Stronger from the Crisis, the World Bank emphasized the significance of China in keeping the region stable amid rough global economic conditions.[7] The report noted that "largely thanks to China, the region's output, exports and employment have mostly returned to the levels before the crisis." Accordingly, latest projections of the Bank show that, real GDP growth in developing East Asia is poised to rise to 8.9 percent in 2010 after slowing from 8.4 percent in 2008 to 7.3 percent in 2009 (see Table 1).

Similarly, in October the IMF projected real GDP growth for Developing Asia to be 9.4% and 8.4% in 2010 and 2011, respectively.[8] Better than expected trade recovery and wavering real sector risks have likewise prompted the multilaterals to revise short-term growth projections in the region upwards.

Table 1: Growth forecasts, East Asia, 2010-2011

World Bank	2008	2009	2010f				2011f		
Countries			Nov-09	Apr-10	Jun-10	Oct-10	Apr-10	Jun-10	Oct-10
East Asia	**6.3**	**4.7**	**6.4**	**7.6**	**...**	**8.4**	**7.0**	**...**	**6.8**
Developing East Asia	**8.4**	**7.3**	**7.8**	**8.7**	**...**	**8.9**	**8.0**	**...**	**7.8**
Developing East Asia ex China	**4.6**	**1.2**	**4.5**	**5.5**	**...**	**6.7**	**5.2**	**...**	**5.1**
China	9.6	9.1	8.7	9.5	9.5	9.5	8.7	8.5	8.5
Indonesia	6.0	4.5	5.4	5.6	5.9	6.0	6.2	6.2	6.2
Malaysia	4.7	-1.7	4.1	5.7	5.7	7.4	5.3	5.3	4.8
Philippines	3.7	1.1	3.1	3.5	4.4	6.2	3.8	4.0	5.0
Thailand	2.5	-2.2	3.5	6.2	6.2	7.5	4.0	4.0	3.2
Vietnam	6.2	5.3	6.5	6.5	6.5	6.5	6.5	6.5	7.0

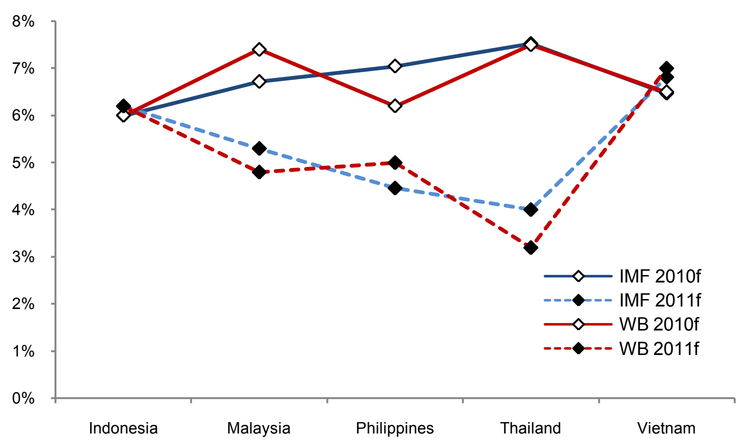
[7] "China's massive stimulus package was a major factor in the country's and region's economic resilience. The program was centered in government infrastructure spending, combined with increases in transfers, consumer subsidies and tax cuts. The surge in government-led investment boosted overall GDP by 5.9 points in 2009, though most of the spending was financed through quasi-fiscal measures such as lending by state-owned banks," (World Bank. Global Economic Prospects. June 2010)

[8] IMF. Regional Economic Outlook. Oct. 2010; IMF. World Economic Outlook. Oct. 2010.

IMF Countries	2008	2009	2010f Oct-09	2010f Apr-10	2010f Jul-10	2010f Oct-10	2011f Apr-10	2011f Jul-10	2011f Oct-10
Emerging Asia	**6.8**	**5.8**	**7.0**	**8.5**	**...**	**9.4**	**8.4**	**...**	**8.1**
Emerging Asia exc China	**4.8**	**2.5**	**4.3**	**6.8**	**...**	**8.2**	**6.6**	**...**	**6.4**
Emerging Asia exc China & India	**3.1**	**0.4**	**3.8**	**5.5**	**...**	**7.2**	**5.3**	**...**	**4.9**
Developing Asia	**7.7**	**6.9**	**7.3**	**8.7**	**9.2**	**9.4**	**8.7**	**8.5**	**8.4**
China	9.6	9.1	9.0	10.0	10.5	10.5	9.9	9.6	9.6
Indonesia	6.0	4.5	4.8	6.0	6.4	6.0	6.2	5.5	6.2
Malaysia	4.7	-1.7	2.5	4.7	6.7	6.7	5.0	5.3	5.3
Philippines	3.7	1.1	3.2	3.6	6.0	7.0	4.0	4.0	4.5
Singapore	1.8	-1.3	4.3	8.9	9.9	15.0	6.8	4.9	4.5
Thailand	2.5	-2.2	3.7	5.5	7.0	7.5	5.5	4.5	4.0
Vietnam	6.3	5.3	5.3	6.0	6.5	6.5	6.5	6.8	6.8

Sources: East Asia and the Pacific Update (Nov. 2009, Apr. 2010 & Oct. 2010) and Global Economic Prospects, Jun. 2010, World Bank; IMF's WEO and REO-Asia & Pacific, various periods; WEO database
Emerging Asia" refers to China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan Province of China, Thailand, and Vietnam. Singapore is not part of Developing Asia
2008 data for economic blocs (ex Developing Asia) were taken from Oct. 2009 REO-Asia Pacific; Country & Developing Asia data were taken from the updated WEO database as of Oct. 2010

Figure 11: Real GDP growth rate forecast, annual percent change, ASEAN-6, 2010-2011

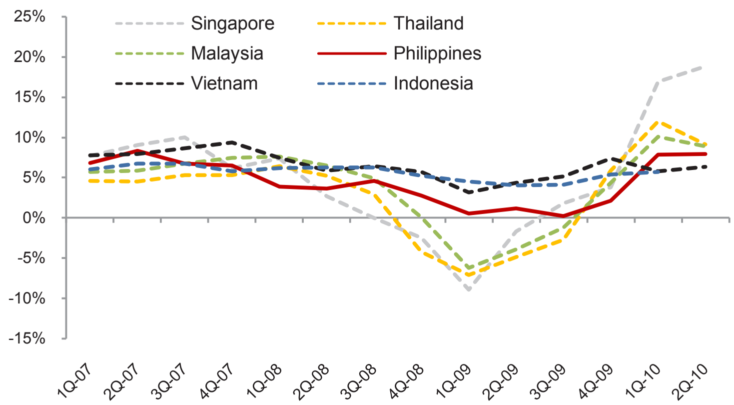


Sources: IMF and World Bank; As of Oct 2010

The World Bank uses US$ 12,000 per capita as the current threshold a country must cross to reach high income status in its country income classification. Per the World Bank, the Philippines has been classified as a "lower middle income" economy at least since 1975.[9] The average high income country in 2009, with a PCI of US$ 36,000, more than twenty times the level of the Philippines in 2009, is indeed an Impossible Dream. With an annual population growth rate of around 2%, growth of 5% means the PCI of the Philippines increases only 3% a year.

9 The USG Millenium Challenge Corporation (MCC), while using the same data as the WB, uses a different set of parameters to classify "low income" and "lower middle income" countries. According to MCC's authorizing legislation, parameters for "low income" candidate countries are whether PCI is equal to or less than the historical ceiling of the IDA for the FY involved (for example, US$ 1855 for FY10). "Lower middle income" candidate countries must be both classified as a lower middle income country by the World Bank and have an income greater than the historical ceiling for IDA eligibility for the FY involved. By contrast, the WB defines "low income" countries (in FY10) as those countries with a GNI per capita of US$ 975 or below and "lower middle income" countries as those countries with a GNI per capita between US$ 976 and US$ 3855. There is a subset of countries that MCC defines as "low income", based on the definitions in US legislation, that the WB considers "lower middle income." Source, email correspondence with World Bank and MCC offices.

Figure 12: GDP growth, ASEAN-6, by quarter, 2007-2010



Sources: Respective national statistics offices, ASEAN Secretariat

Figure 12 shows GDP growth of the three ASEAN economies (Malaysia, Singapore, and Thailand) with the highest exports as percentage of GDP declined the most with the impact of the global financial crisis and then recovered rapidly beginning in the second half of 2009. GDP growth of the three economies (Indonesia, Philippines, and Vietnam) not as integrated into global trade declined less but also are recovering more slowly.

A much higher rate of growth than 5% will be needed to reach the World Bank's current high income threshold of US$ 12,000 by 2030. Table 2 shows a growth rate of 11.6% is needed for the Philippines to reach a PCI of US$ 12,000 in two decades assuming a 2% population growth rate (declining to 1.5%). A declining population growth rate will reduce the number of years to reach the US$ 12,000 level.

Table 2: Growth Rate of 11.6% Needed for the Philippines to Reach High Income Status in 2030

Year	GDP billion US$	Per Capita US$	Population million
2010	179	1,905	94
2015	310	2,998	103
2020	537	4,747	113
2025	930	7,562	123
2030	1,600	12,087	133

Source: Amcham ICIP

World Bank Philippines Country Director Bert Hofman spoke about these different growth formulas in a speech[10] in early 2010:

10 Speech to the 13th Annual Foreign Correspondents of the Philippines Conference entitled "Making Growth Work for the Poor" on February 15, 2010, with most of the 2010 presidential candidates present.

"At current growth rates, the Philippines would be as rich as today's China in 25 years. In roughly half a century from today, it would reach income levels of Malaysia today to become an upper middle income country, and seventy years from now it will reach the US$ 12,000 per capita high income threshold that the World Bank uses…. The blessings of compounded growth imply, however, that higher growth more than proportionally eats into the time it takes to reach high income level. With 5 percent per capita growth, it takes a little over 4 decades to reach high income status and with 7 percent per capita income growth the same can be achieved in little over 3 decades. Moreover, international experience shows that as growth accelerates, fertility and population growth declines, so per capita growth can accelerate more rapidly than GDP growth."

In 2008 the World Bank released *"The Growth Report: Strategies for Sustained Growth and Inclusive Development"* prepared by the Commission on Growth and Development, chaired by Nobel Laureate Dr. Michael Spence. The commission studied 13 economies that have grown in the post WWII period for 25 years or longer at an average annual rate of 7% in order to learn what they did to achieve such high rates of growth. This high growth club of countries included Botswana, Brazil, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Malta, Oman, Singapore, Taiwan and Thailand, and members of the Commission were senior economic policy makers from these countries (see Table 3). In addition to this small group of 13 economies, the Commission judged that India and Vietnam were "on their way" to increasing the group.

Table 3: 13 Success Stories of Sustained High Growth

Economy	Period of high growth**	Per capita income at the beginning and 2005***	
Botswana	1960-2005	210	3,800
Brazil	1950-1980	960	4,000
China	1961-2005	105	1,400
Hong Kong, China*	1960-1997	3,100	29,900
Indonesia	1966-1997	200	900
Japan*	1950-1983	3,500	39,600
Rep of Korea*	1960-2001	1,100	13,200
Malaysia	1967-1997	790	4,400
Malta*	1963-1994	1,100	9,600
Oman	1960-1999	950	9,000
Singapore*	1967-2002	2,200	25,400
Taiwan, China*	1965-2002	1,500	16,400
Thailand	1960-1997	330	2,400

Source: World Bank
** Economies that have reached industrialized countries per capita income levels*
*** Period in which GDP growth was 7% per year or more*
**** In constant US$ of 2000*

Thus the Philippines does not have to look any further than Asia to find examples of sustained high growth. The Asian region is famous and admired for its economic tigers. Four of its ASEAN partners – Indonesia, Malaysia, Singapore, and Thailand – are in the group, while Vietnam is on a fast track to join them. Other Asian economies – China, Japan, Korea, and Taiwan – are also among the 13 economic success stories.

What policies did these countries have in common to achieve such economic success? The Growth Report listed several that these rapid growers did right. They:

- fully exploited the world economy;
- maintained macroeconomic stability;
- mustered high rates of saving and investment;
- let markets allocate resources; and
- had committed, credible, and capable governments.

During the recent decades of political and economic turmoil, it is clear that **these five key elements have not been consistently present in the Philippines**. On the positive side, the Philippines since 1986 has maintained macroeconomic stability under a succession of excellent finance secretaries and Bangko Sentral ng Pilipinas (BSP) governors. In the last decade remittances have improved currency stability, external debt has fallen as a percent of GDP, and international reserves have substantially increased to almost US$ 50 billion, enough for nine months of imports, up from four months previously. However, the country has only partially exploited the international economy (e.g. with its Overseas Filipino Workers) as exemplified by its low volume of exports - which are not well-diversified - and low levels of investment, especially foreign. While there are many committed and capable individuals in government, the Philippines has yet to create sustained good governance, and growth has not been inclusive.

> "Our great economic challenge is to grow by at least eight percent per annum; to raise per capita income of US$ 1,900 to US$ 3,200 when (my) term ends in 2016 and double by 2018. That's a tall order, but it must be our goal… to sustain growth in the face of competition."
>
> *Presidential candidate Gilbert Teodoro, Makati Business Club speech, February 18, 2010*

Another perspective on Philippine potential for economic growth comes from the American investment bank firm Goldman Sachs, which famously invented in a 2003 paper the term BRIC for the large emerging markets of Brazil, Russia, India, and China. In late 2005 Goldman Sachs identified the Next Eleven (N-11) countries with high potential of becoming the world's largest economies in the 21st century along with the BRICs. The N-11 are Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the **Philippines**, South Korea, Turkey, and Vietnam.

Inadequate Skills + Insufficient Jobs = High Unemployment/Underemployment

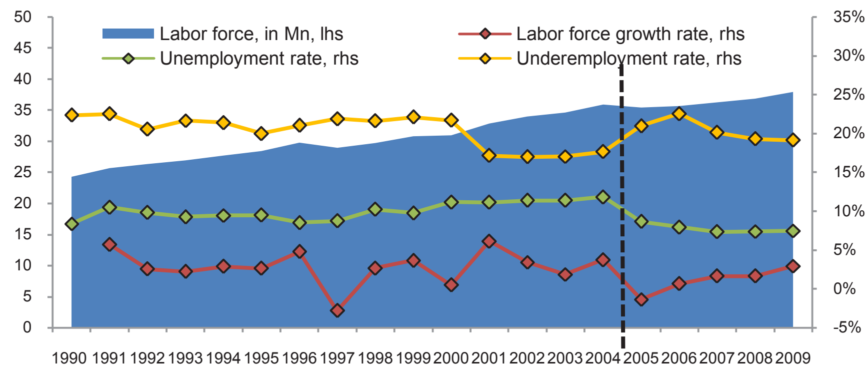
Creating new jobs and training workers and students with skills needed in existing and emerging labor markets are the two most serious challenges for the Philippine economy in the next two decades.

Figure 13 shows the Philippine labor force of 38 million has increased by more than 50% since 1990. The combined unemployment and underemployment rate exceeds 25%.[11] Figure 14 shows

[11] The definition of employed includes persons 15 years old and above who work at least one hour per week for pay or profit or in a family enterprise.

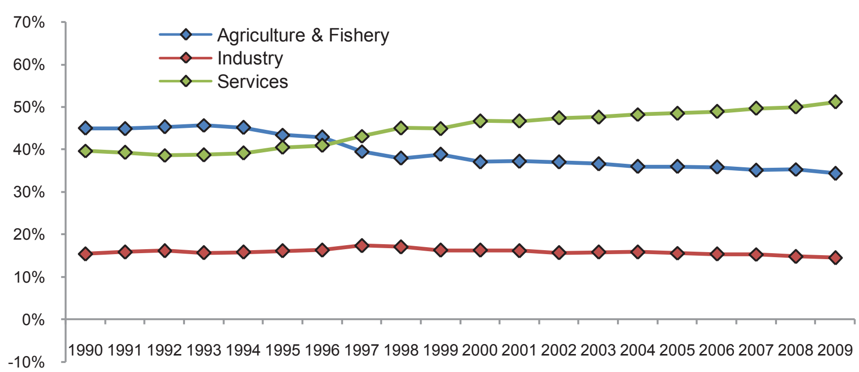
percentage changes in the distribution of the work force between agriculture, industry and services over the last two decades. As part of an economy's growth, industry usually absorbs excess labor from agriculture, but this is not happening in the Philippines. Instead the share of services is rising as a result of the growing retail sector supported by increasing remittances.

Figure 13: Labor market, key indicators, 1990-2009



Source: NSO; Note: Definitions changed in April 2005

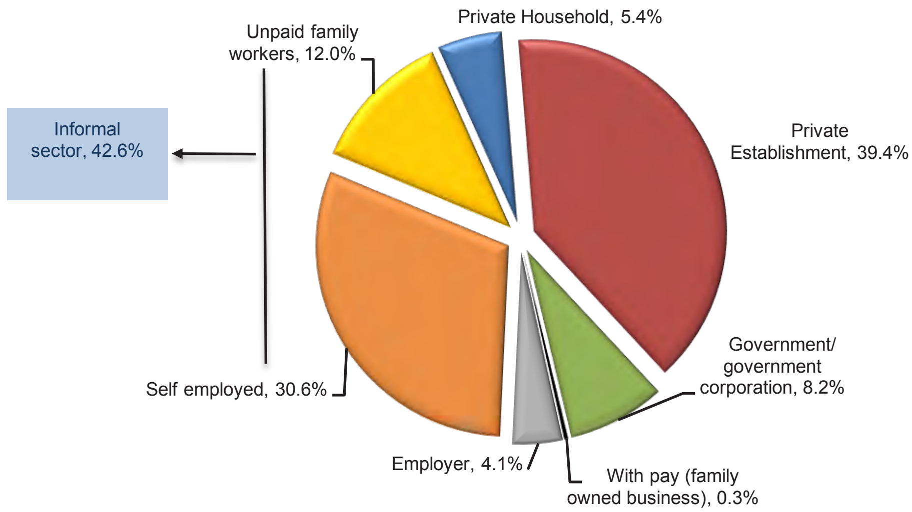
Figure 14: Labor market, sector share in total employment, 1990-2009



Source: NSO

Figure 15 shows that 43% of the workforce in 2009 is in the informal sector, where most work in low-paying or unpaid labor activities.

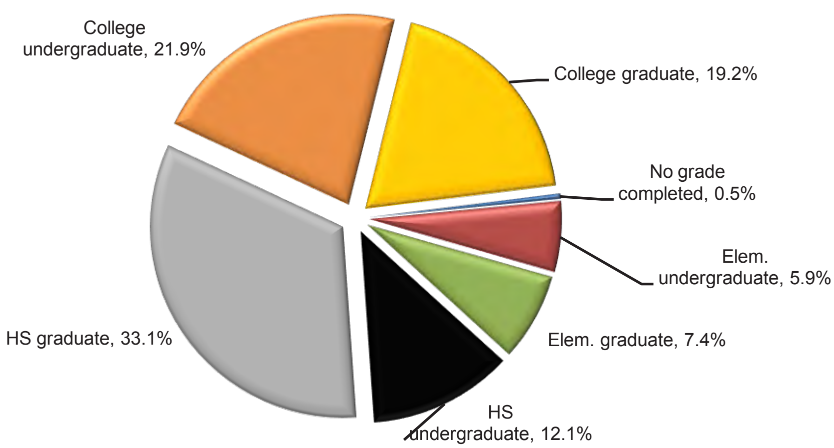
Figure 15: Employment by class of worker, 2009



Source: NSO; Informal sector - BLES definition

Figure 16 shows the level of education of the unemployed with very high percentages having attended college (22%) or being college graduates (19%). The high level of college students who are unemployed strongly suggests they are not acquiring the right skills needed by employers, that there is insufficient investment in the economy, and, possibly, that minimum wages are too high when compared with other countries in the ASEAN-6 (see Part 4 *Business Costs*).

Figure 16: Composition of unemployed by educational attainment, 2009



Source: NSO

In early 2010 the National Competitiveness Council (NCC) released a study calling on the country to create 15 million "quality" jobs in the next five years. The study observed 3-4 million new jobs a year are needed to reduce the unemployment rate to the East Asia average of 2-6% and to eliminate underemployment. The NCC urged that the GRP adopt a "sound industrial policy for job creation" with a focus on manufacturing.

A recent projection (see box below) forecasted a 50% increase in the country's labor force by 2030 to 52 million. Even with continued access to overseas job markets, the economy will need to attract substantial investments to create new domestic jobs.

The weak employment situation has prompted increased calls for social programs to support informal sector workers. In late April a coalition of non-governmental groups[12] proposed that the 15th Congress extend social protection to marginalized sectors under a People's Social Protection Agenda. The group claimed informal workers comprise 25 million or 77% of the workforce, are not covered by social security, and are inconsistently covered by health insurance. The group seeks decent jobs for all Filipinos, urging improved productivity in agriculture, which employs about a third of the country's workers. It recommended a Magna Carta for Workers in the Informal Economy who account for almost half of GDP. Also proposed were unemployment insurance, universal health insurance, emergency employment, grassroots microinsurance and microfinancing, strengthening of social security, and affordable housing for all.

"In the Philippines…unemployment is a 'time bomb'. Between 2005 and 2030, the labor force will increase by about 50 percent, that is, the number of people looking for a job will increase from about 34 million to 52 million...will the economy be able to provide jobs? Skills mismatch and the lack of human capital are the most commonly cited reasons of unemployment. In reality, the systemic failure of the economy to create enough jobs is the main cause of massive unemployment."

"Employment is a basic right and full employment should be the primary objective of economic policy… Nobody willing and ready to work for a just wage should be without a job. Society must be able to provide jobs for all… And they should be able to provide jobs for the workers they have and not for the workers they wish they had," Dr. Felipe added. "A full employment economy offers a great number of advantages…reduced need for a social safety net, lower social costs, and higher political stability…immediate policy priorities to achieve full employment should be population management and job guarantee programs. Industrialization policies are also crucial. Education does matter for long-term growth, but it is not a key constraint now… Individuals cannot be left out and stigmatized for being 'uneducated'."

Philippine Institute for Development Studies (PIDS) press release quoting Asian Development Bank (ADB) principal economist Dr. Jesus Felipe, author of Inclusive Growth, Full Employment, and Structural Change: Implications and Policies for Developing Asia, April 20, 2010.

12 The University of the Philippines School of Labor and Industrial Relations' Center for Labor Justice, College of Social Work and Community Development Social Protection Cluster, Fair Trade Alliance, Association of Construction and Informal Workers, Magna Carta for the Informal Sector Alliance, Homenet Southeast Asia and Homenet Philippines.

Remittances Are Important But Distort the Economy

Remittances from the nearly 10 million Filipinos abroad[13] are the biggest change of the past decade in the Philippine economy and are likely to have ever-increasing importance in the years ahead. Remittances from Filipinos working abroad have become the economy's second largest source of foreign capital and may eventually exceed the size of the largest source, the local value-added of exports. They have created an underlying floor for the economy that some economists believe accounts for about 4% annual economic growth and shielded the conservative Philippine elite from pressure to reform the status quo. The Philippines in 2009 was the world's fourth highest recipient of remittances from nationals, trailing only India (US$ 49 billion), China (US$ 48 billion), and Mexico (US$ 22 billion).[14]

Global demographic trends favor the Philippines. Its young, fast-growing population provides a large and growing labor pool for both domestic and overseas employment, so long as education is improved to provide the next generation entering the workforce with skills equivalent to their parents. During the last 9 years remittances increased 187 percent from US$ 6 billion in 2001 to US$ 17.35 billion in 2009 (see Figure 17). Predictions made in early 2009 that remittances would decline as much as 10% as substantial numbers of Overseas Filipino Workers (OFWs) lost jobs abroad and returned home proved to be inaccurate. By the end of 2009, remittances had increased by 5.65% year-on-year and Filipino workers abroad were often retained in preference to more expensive employees of other nationalities. In the first eight months of 2010 remittances grew 7.4% year-on-year.

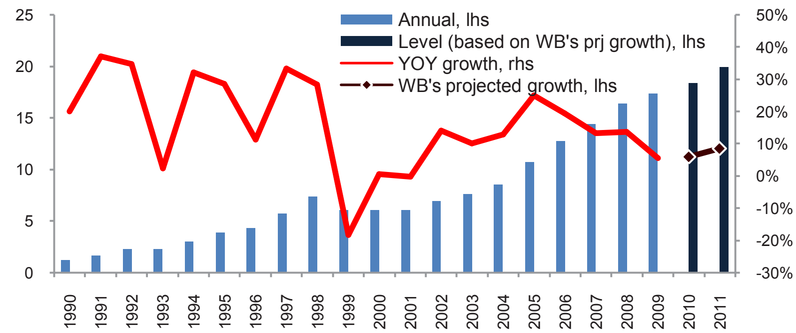
Foreign labor markets in wealthy countries with aging populations (Europe, Japan, Korea, Taiwan) or labor shortages (Canada, Middle East, US) are expected to remain open and welcoming to Filipinos. A recent and optimistic projection of remittance growth by Albay Governor Joey Salceda, an economic advisor to Philippine presidents, predicted remittances would reach US$ 42 billion by 2015 and approach 20% of GDP, a doubling of their current 10% of GDP (see Table 4). His projection assumes remittance growth rates for the next six years (2010-2015) will be very similar to the last six years (2004-2009). Such a huge increase in inward capital flows warrants serious study of their potential effects on the economy (e.g. on appreciating the peso) and how they can be captured and channeled into needed investment (e.g. bonds for infrastructure).

> "The Philippines has still never unleashed the full economic potential of its creative people thanks to multiple government barriers and corruption. Too many of its young people feel they must seek opportunity abroad."
>
> *Asian Wall Street Journal editorial, August 3, 2009*

13 In 2009 the major country sources of remittances were the U.S., Saudi Arabia, Canada, Japan, U.K., Singapore, Italy and the UAE.

14 The World Bank, Migration and Development Brief, April 23, 2010.

Figure 17: OFW remittance, Bn US$, 1990-2011



Source: BSP; World Bank for the projections

Table 4: Gov. Salceda's Projection of OFW Remittances (% of GDP)

Year	Levels US$	Rate of Growth	% of GDP
2010	19 B	12.2	11.15
2011	22 B	17.0	12.48
2012	28 B	24.0	14.79
2013	33 B	18.0	16.68
2014	37 B	13.0	18.02
2015	42 B	13.0	19.47

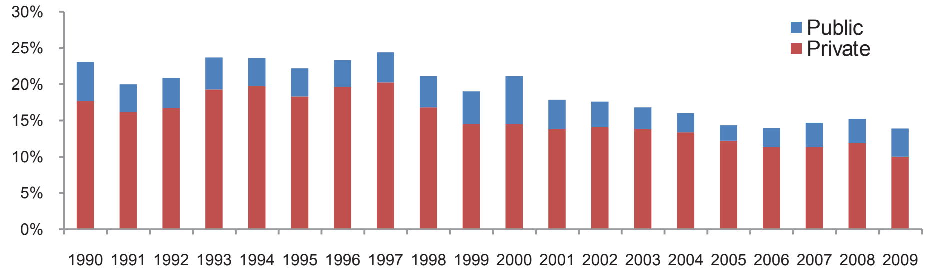
Source: Albay Gov. Joey Salceda

Twice as Much Investment Needed for Higher Growth

Many Filipinos believe that the Philippine economy should not rely to such an extent on the diaspora of its citizens for growth in the decade ahead. Much higher investment in the domestic economy – above the steady base of growth that remittances provide – is seen as a means to propel the economy to an increasingly higher rate of growth. Even **sustained double-digit growth of 10% or more is possible, if the investment climate can be greatly improved** to make the economy more attractive to both domestic and foreign investors. Subsequent sections of Arangkada Philippines 2010 spell out many recommendations that can enable this to happen, if the nation's leaders muster sufficient political will.

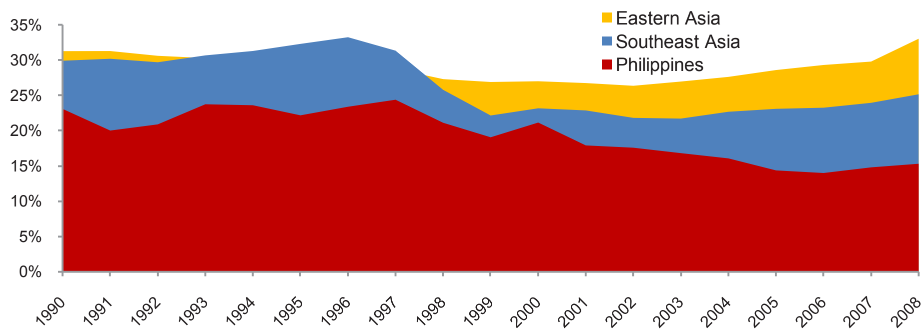
However, recent levels of overall investment in the Philippine economy have been very low. As a percent of GDP, public and private sector investment has fallen from 25% in 1997 to 15% in 2009, while in the East Asia and Pacific region the figure exceeds 30% and in Southeast Asia 25% both in 2008 (see Figures 18 and 19).

Figure 18: Fixed capital formation distribution, Philippines, % of GDP, 1990-2009



Source: NSCB

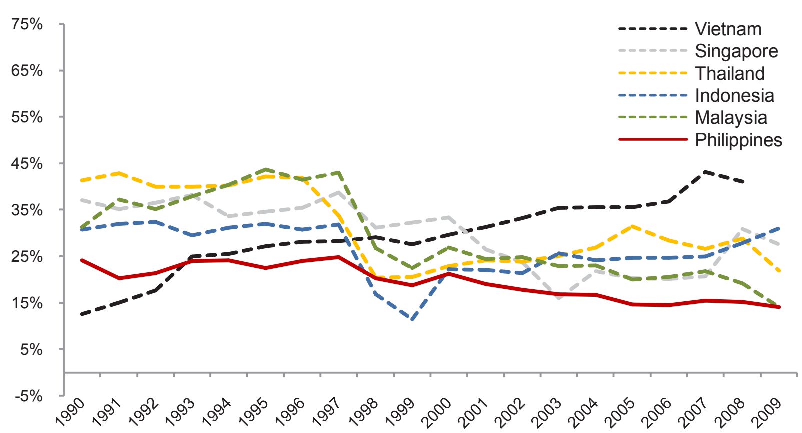
Figure 19: Gross fixed capital formation, East Asia, % of GDP, 1990-2008



Source: UN Statistics Division

Further, in comparison to the other ASEAN-6 economies, the Philippines is investing much less (see Figure 20 and Table 5). Over the last two decades the other five ASEAN economies have invested considerably higher percentages of GDP than has the Philippines. The investment ratio in the Philippines averaged 22.4% in 1990-1996 but declined to 14% by 2009.

Figure 20: Gross fixed investment, % of GDP, ASEAN-6, 1990-2009



Source: ADB; 2009 data from Asian Development Outlook 2010 (ADB); No data for Vietnam in 2009

Table 5: Domestic investment ratio, ASEAN-6, % of GDP, 1990-2009

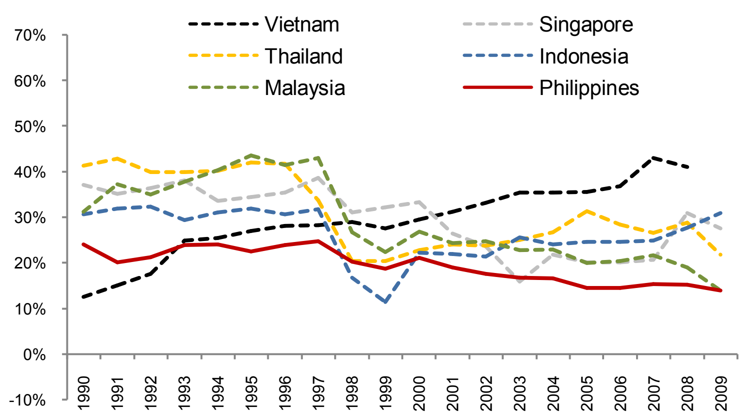
	1990-1996	2000-2008	2009*
Indonesia	31.2	24.1	31.0
Malaysia	38.1	22.6	14.5
Philippines	22.9	16.8	14.6
Singapore	35.8	23.7	27.2
Thailand	41.2	26.4	21.8
Vietnam	21.6	35.6	38.1

Source: ADB

Reasons for low gross domestic capital formation include low foreign direct investment (FDI), inadequate public sector revenues, anemic spending on infrastructure, weak domestic market created by low income consumers despite a large population, among others. While the savings rate in the Philippines has been growing to around 30% of GDP,[15] not enough is being invested in capital assets essential for sustained long-term growth. Furthermore, the country appears to be exporting capital which otherwise could be invested toward long-term growth at home.

Figure 21 shows that the Philippines almost 30 years ago had about the same 30% gross domestic investment ratio as other ASEAN-6 economies except Singapore. Investment fell sharply in the 1983-1986 period during the political crisis preceding the ouster of the dictator president Marcos and recovered under Presidents Aquino and Ramos and then declined steadily after the 1997 Asian financial crisis to its current level below 15%.

Figure 21: Gross domestic investments, as % of GDP, ASEAN-6, 1990-2009



Source: ADB; 2009 data from Asian Development Outlook 2010 (ADB); No data for Vietnam in 2009

15 According to data from the BSP, gross savings as a percent of GDP was 22.7 in 2001. In 2008, this grew to 27.7.

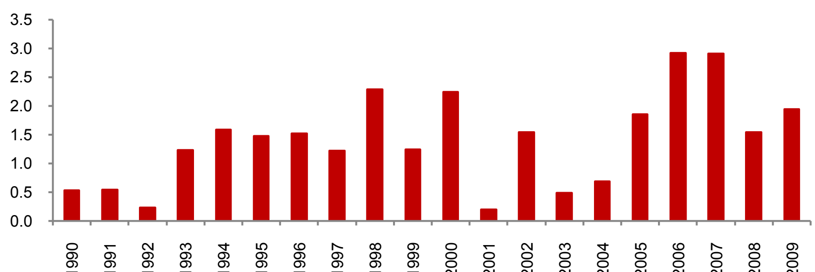
A major challenge for the Philippines is to funnel the abundant financial resources available to the country more into investment by creating better opportunities for the private sector through an improved investment climate. Higher revenue collection and more effective public spending will improve public sector investment. Doubling spending on physical infrastructure[16] (to 5-6% of GDP) and social infrastructure[17] (to 8-9% of GDP), thereby reaching levels of more developed East Asian economies would greatly improve the overall investment climate and would support higher and sustainable rates of growth. Doing so would give investors more confidence that a large and well-educated labor force will be available in the future and that the quality, cost and efficiency of power, transportation, telecommunications and water infrastructure would become more cost and quality competitive.

Low Foreign Direct Investment Flows

The figures and tables in this section contain data of the last two decades and show FDI flows into ASEAN-6 economies in relation to the ASEAN-6 with the Philippines ranking low in many of these measures of FDI.

Political instability deters foreign investment. Figure 22 shows the annual net FDI of the Philippines from 1990-2009. Over this period annual FDI averaged US$ 1.4 billion. During the two-decade period 1970-1989, which encompassed continuing political turmoil, net FDI of the Philippines averaged US$ 200 million (see Table 12). During the nearly two-decade period 1990-2009, net FDI of the Philippines has averaged a much higher US$ 1.4 billion. Net FDI reached nearly US$ 3 billion in 2006 and 2007, declined sharply to US$ 1.54 billion in 2008. 2009 saw an increase to US$ 1.95 billion.

Figure 22: Net FDI, Philippines, 1990-2009, Bn US$



Source: BSP

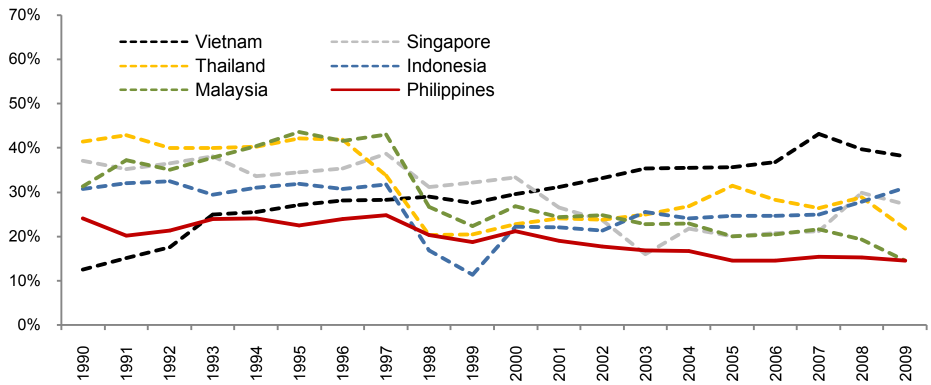
Figure 23 compares annual net FDI of the ASEAN-6 from 1990-2009. In most years, the Philippines received less net FDI than the other five ASEAN-6 economies. Table 6 provides the annual FDI flow amounts on which Figure 23 is based.

---

16 Government Capital Outlay (% of GDP, 2005): Philippines (2.5), Indonesia, (8.5), Vietnam (8.2), and Malaysia (6.5) per Dr. Raul V. Fabella

17 2009 levels of social spending as % of GDP: Education – 2.9%; Health – 0.5%; Social security and welfare – 1.2%; Housing and other amenities – 0.1% (Source: ADB Key Indicators, 2010)

Figure 23: Net FDI, ASEAN-6, 1990-2009, Bn US$



Source: ADB

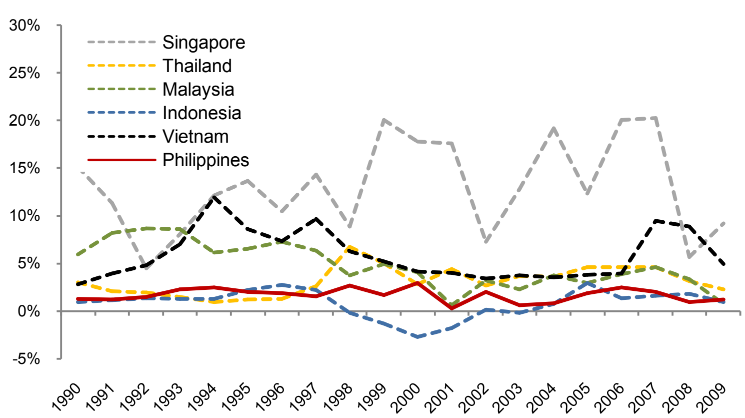
Table 6: Net FDI, ASEAN-6, 1990-2009, Bn US$

Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Indonesia	1.1	1.5	1.9	2.0	2.2	4.4	6.2	4.7	-0.2	-1.8	-4.5	-2.8	0.2	-0.5	1.9	8.3	4.9	6.9	9.3	4.9
Malaysia	2.6	4.0	5.1	5.7	4.6	5.8	7.3	6.3	2.7	3.9	3.8	0.6	3.2	2.5	4.6	4.1	6.1	8.5	7.3	1.4
Philippines	0.6	0.6	0.8	1.2	1.6	1.5	1.5	1.2	1.8	1.2	2.2	0.2	1.5	0.5	0.7	1.9	2.9	2.9	1.5	1.9
Singapore	5.6	4.9	2.2	4.7	8.6	11.5	9.7	13.8	7.3	16.6	16.5	15.1	6.4	11.9	21.0	15.5	29.1	35.8	10.9	16.8
Thailand	2.6	2.0	2.2	1.8	1.4	2.1	2.3	3.9	7.5	6.1	3.4	5.1	3.4	5.2	5.9	8.1	9.5	11.4	8.5	5.9
Vietnam	0.2	0.4	0.5	0.9	1.9	1.8	1.8	2.6	1.7	1.5	1.3	1.3	1.2	1.5	1.6	2.0	2.4	6.7	8.0	4.5

Source: UNCTAD

Figure 24 compares annual net FDI of the ASEAN-6 from 1990-2009 as a percentage of GDP. The Philippines (followed by Indonesia) has the lowest percentage – less than 2% in recent years – by this measure. By contrast for Singapore and Vietnam annual net FDI inflow exceeds 10% of GDP. Table 7 provides the annual percentages on which Figure 24 is based.

Figure 24: Net FDI, % of GDP, ASEAN-6, 1990-2009



Sources: UNCTAD and World Bank

Table 7: Net FDI, % of GDP, ASEAN-6, 1990-2009

Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Indonesia	1.0	1.2	1.3	1.3	1.2	2.2	2.7	2.2	-0.2	-1.3	-2.7	-1.8	0.1	-0.2	0.7	2.9	1.3	1.6	1.8	0.9
Malaysia	5.9	8.2	8.7	8.6	6.2	6.5	7.2	6.3	3.8	4.9	4.0	0.6	3.2	2.2	3.7	2.9	3.9	4.6	3.3	0.7
Philippines	1.2	1.2	1.5	2.3	2.5	2.0	1.8	1.5	2.7	1.6	3.0	0.3	2.0	0.6	0.8	1.9	2.5	2.0	0.9	1.2
Singapore	15.1	11.3	4.4	8.1	12.1	13.7	10.5	14.3	8.9	20.1	17.8	17.6	7.2	12.8	19.2	12.3	20.0	20.2	5.6	9.2
Thailand	3.0	2.1	1.9	1.4	0.9	1.2	1.3	2.6	6.7	5.0	2.8	4.4	2.6	3.7	3.6	4.6	4.6	4.6	3.1	2.3
Vietnam	2.8	3.9	4.8	7.0	11.9	8.6	7.3	9.6	6.2	5.2	4.1	4.0	3.4	3.7	3.5	3.8	3.9	9.5	8.9	4.9

Sources: UNCTAD and World Bank (for GDP)

Table 8 contains data for per capita FDI of the ASEAN-6 for 2009. The Philippines with US$ 21 per capita ranks with Indonesia with US$ 22. However, it should be noted Indonesia is receiving a strong inflow of FDI capital in 2010.

Table 8: Net FDI, ASEAN-6, 2008-2009, Bn US$

Countries	2008	Distribution	2009	Distribution	Population, mil	FDI per capita (2009)	FDI, % of GDP(2009)
Indonesia	9.32	15.8%	5.30	13.9%	243.30	22	0.9
Malaysia	7.24	12.3%	1.61	4.2%	28.30	57	0.7
Philippines	1.54	2.6%	1.95	5.1%	92.20	21	1.2
Singapore	22.72	38.5%	16.35	42.7%	5.10	3,205	9.2
Thailand	8.57	14.5%	6.15	16.1%	67.8	91	2.3
Vietnam	9.58	16.2%	6.90	18.0%	87.3	79	4.9
ASEAN-6 Total	58.98	100.0%	38.25	100.0%	524.00	73	2.7

Sources: UNCTAD, World Bank and Population Reference Bureau

Tables 9, 10, 11, and 12 show FDI accumulation and annual averages in intervals of 5 and 20 years for four decades 1970 to 2009. With the exception of Vietnam, which was at war and a closed economy until the 90s, the Philippines has consistently received less FDI than the other ASEAN-6. For the entire period the ASEAN-6 each received (in descending order of magnitude) Singapore US$ 286 billion, Malaysia US$ 103 billion, Thailand US$ 104 billion, Indonesia US$ 58 billion, Vietnam US$ 44 billion and the Philippines US$ 32 billion. During the period 2000-2009, the Philippines received 5.1% of total FDI flowing into the ASEAN-6, while Singapore received 45.6%, Thailand received 16.6%, Malaysia received 16.4%, Indonesia received 9.3%, and Vietnam received 7.0%.

Table 9: FDI accumulation, 5-year interval, Bn US$, 1970-2009

Countries	1970-74	1975-79	1980-84	1985-89	1990-94	1995-99	2000-04	2005-09	% Share, 2000-09
Indonesia	1.461	2.919	1.052	2.209	8.629	13.357	-5.714	34.373	7.9%
Malaysia	1.051	2.211	5.654	3.994	22.114	26.044	14.642	27.361	11.6%
Philippines	0.215	0.586	0.934	2.244	4.711	7.227	5.156	11.183	4.5%
Singapore	1.063	1.950	6.933	12.135	25.903	58.862	70.941	108.013	49.3%
Thailand	0.416	0.382	1.434	3.719	9.951	21.873	22.920	43.431	18.3%
Vietnam	0.003	0.004	0.033	0.022	3.900	9.355	6.849	23.710	8.4%
Total	4.209	8.051	16.041	24.322	75.208	136.718	114.794	248.072	100.0%

Source: UNCTAD

Table 10: FDI annual average, 5-year interval, Bn US$

Countries	1970-74	1975-79	1980-84	1985-89	1990-94	1995-99	2000-04	2005-09
Indonesia	0.292	0.584	0.210	0.442	1.726	2.671	-1.143	6.875
Malaysia	0.210	0.442	1.131	0.799	4.423	5.209	2.928	5.472
Philippines	0.043	0.117	0.187	0.449	0.942	1.445	1.031	2.237
Singapore	0.213	0.390	1.387	2.427	5.181	11.772	14.188	21.603
Thailand	0.083	0.076	0.287	0.744	1.990	4.375	4.584	8.686
Vietnam	0.001	0.001	0.007	0.004	0.780	1.871	1.370	4.742
Total	0.842	1.610	3.208	4.864	15.042	27.344	22.959	49.614

Source: UNCTAD

Table 11: FDI accumulation 20-year interval, Bn US$

Countries	1970-89	1990-09
Indonesia	7.641	50.645
Malaysia	12.909	90.162
Philippines	3.978	28.277
Singapore	22.081	263.718
Thailand	5.951	98.175
Vietnam	0.063	43.814
Total	52.624	574.791

Source: UNCTAD

Table 12: FDI annual average 20-year interval, Bn US$

Countries	1970-89	1990-09
Indonesia	0.382	2.532
Malaysia	0.645	4.508
Philippines	0.199	1.414
Singapore	1.104	13.186
Thailand	0.298	4.909
Vietnam	0.003	2.191
Total	2.631	28.740

Source: UNCTAD

Many analysts predict FDI in SEA will take several years to regain its robust levels prior to the financial crisis. However, the interest of large manufacturing firms in a China+1[18] strategy for ASEAN operations, the coming into force of ASEAN FTAs making ASEAN economies more attractive for international investment, the interest of the EU to enter into bilateral FTAs with some of the ASEAN countries, the appreciation of the yen and the growing interest of investors from China in the region are positive indicators for improved trans-border capital flows. Multinationals that reduced or postponed new investment decisions may decide to go ahead in 2010 and 2011.

With some important exceptions (i.e. business process outsourcing, consumer goods, mining, semiconductors, shipbuilding, tourism) many multinational firms not already present in the Philippines do not see the country as attractive for new investment, preferring to focus on opportunities elsewhere in Asia.

However, there are thousands of multinational firms that are investors in the Philippines – some for more than a century – who are quite familiar with the Philippine investment climate. Table 13 shows the top sectors where foreign capital has been invested. Most of these companies have steadily expanded their operations in the country, either for export or for the growing domestic

[18] China+1 strategy is followed by large multinationals that seek to have operations in the Asian region in China and at least one additional economy.

market. Only a few have left, usually to consolidate manufacturing within ASEAN in another ASEAN-6 economy, as ASEAN Free Trade Area (AFTA) established its zero tariff regime for the ASEAN-6.

Table 13: Philippine Net FDI, top six sectors, 1999-2009, Bn US$

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
TOTAL EQUITY	1,178.0	1,333.0	556.0	1,607.0	249.0	750.0	1,181.0	1,324.0	1,949.0	1,235.0	1,806.0	13,168.0
Manufacturing	149.6	237.5	275.1	744.4	89.5	83.6	531.6	408.7	548.6	311.9	887.8	4,268.3
Electricity, gas and water	18.0	0.0	0.0	0.0	0.0	8.6	-6.3	200.4	699.2	224.7	389.6	1,534.2
Financial intermediation (inc insurance)	291.1	38.6	67.8	68.8	-35.9	6.8	199.5	-20.1	-22.6	215.7	312.5	1,122.1
Real estate	0.0	2.6	6.7	0.0	27.5	54.8	111.9	120.5	137.7	158.3	89.1	709.1
Mining and quarrying	31.0	80.5	0.0	21.5	-7.2	0.2	0.4	32.4	154.6	154.9	6.2	474.4
Transport, storage and communication	12.1	360.0	104.0	0.0	0.0	1.6	-32.4	-8.5	12.8	-27.0	7.3	429.8
Others	676.3	613.2	102.4	771.7	174.8	594.1	376.3	590.6	418.8	196.6	113.6	4,628.2

Source: BSP (as of Mar 25, 2010)

Information Technology-Business Process Outsourcing (IT-BPO) is the fastest growing sector involving FDI in employment terms. An estimated US$ 700 million in new investment is expected in 2010 and 2011. The **electronics** sector, which has averaged almost US$ 700 million a year in new investment since 2000, counted US$ 400 million in 2008 and US$ 480 million in 2009, and should move back towards its average with the high growth in Asia in 2010 and the strong growth of the recovering US economy.[19]

Mining investment, despite its great potential and having attracted serious interest of global majors in several multi-billion dollar projects, is moving slowly due to local community opposition and depressed commodity prices. However, demand for minerals such as copper, gold and nickel (which the country has large deposits of) remains strong. The largest project to date, a leading global mining firm with a minority partner from China has confirmed plans to go forward with a potential US$ 5.2 billion 10-year investment in copper and gold in Mindanao.[20] New FDI in job-generating **shipbuilding** should resume when global demand for new ships recovers in several years.

As noted many multinationals already operating in the Philippine domestic market invest steadily to meet rising domestic consumer demand, but new FDI manufacturing is often deterred by high labor, logistics, and power costs, and bypasses the Philippines. Some new FDI in **infrastructure**[21] (power, telecommunications, transportation, water) continues but at levels far below the many

19 Semiconductor and Electronics Industries in the Philippines Inc (SEIPI) data is based on member surveys. Most electronic exporters are members.

20 The Chinese investor withdrew after the outgoing governor of one of the provinces where the mine is located signed a ban on open pit mining.

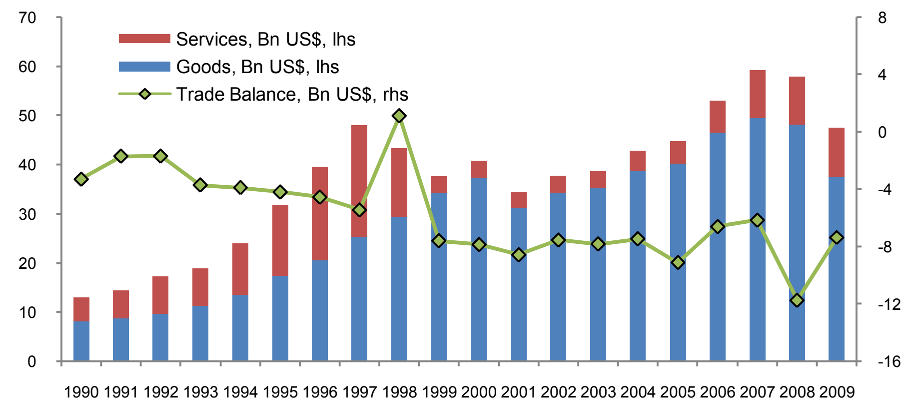
21 A large Hong Kong-based conglomerate is investing in hospitals, telecommunications, toll roads, and water. Foreign financing is being arranged for a US$ 1.4 billion light rail project and several power plants.

billions that could be attracted with a better investment climate. Some new FDI is entering from Kuwait and Saudi Arabia in **hotels** and **logistics** and from Asia in **agriculture**. Investment from China has remained weak due to local corruption.[22]

Weak Export Volume Lacks Diversification

Philippines exports (Figure 25), which reached a record high of US$ 50.5 billion in 2007, fell sharply in 2008 and 2009 in reaction to sudden reduced demand from all top ten export markets led by the US, Japan, China, and Europe. The top exports – electronics, garments, auto parts, and furniture/home furnishings – are produced for these markets, and the majority of employee layoffs and workweek reductions in manufacturing occurred in these industries in the late 2008 and early 2009.

Figure 25: Philippine goods and services exports, current prices, Bn US$, 1990-2009



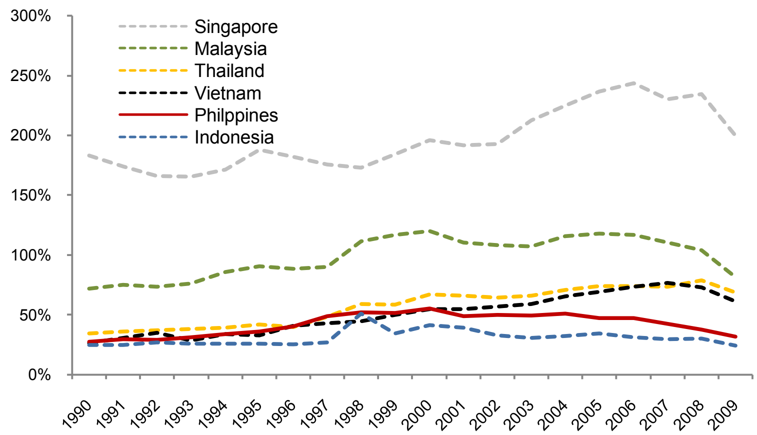
Source: BSP (BOP concept)

Fortunately, stronger-than-expected rebound in international trade this year provided a much needed breather to exporters. Official data for the first eight months show that value of trade flows (imports and exports) are on track to match revenues in 2007. Likewise, prospects for rapid growth of electronics exports to fill depleted inventories are excellent, and service exports from the fast-growing IT-BPO sector are projected to grow by some 25% annually (approximately US$ 2 billion) in 2010 and 2011.[23]

22 Chinese firms have reportedly had difficulty completing stand-alone business deals in mining and telecommunications and are beginning to acquire significant minority equity ownership in several foreign ventures operating in the Philippines.

23 Services exports projection is from Business Processing Association of the Philippines (BPAP).

Figure 26: Export of goods and services as % of GDP, ASEAN-6, 1990-2009



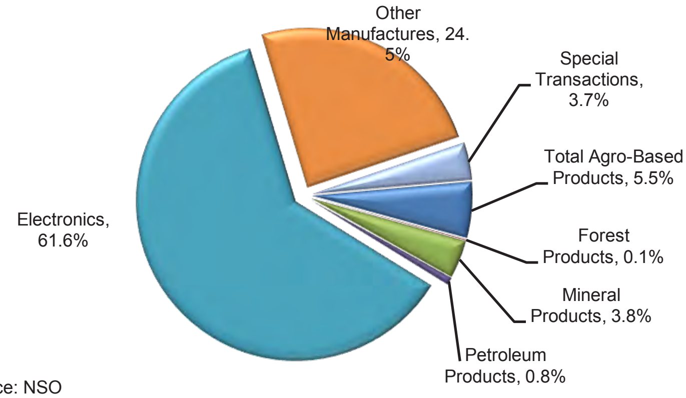
Sources: UN Statistics Division and ASEAN Secretariat

Because the Philippines is less dependent on exports than more developed Asian economies, the impact of the drop was less severe than in Asia's powerhouse export economies such as Singapore, where exports are more than 200% of GDP and Malaysia at around 100% (see Figure 26). However, by mid-2010 Singapore had largely recovered as had Malaysia, where the drop in palm oil prices was short-lived. Philippine exports net of imported raw materials have consistently contributed 10-14% of GNP over the last decade.[24] BSP data shows the value-added of exports was US$ 18 billion in 2008. Their reduced levels brought about by the crisis cost the economy perhaps US$ 5-10 billion dollars and reduced GDP growth by several percentage points from its high of 7% in 2007.

Figure 27 shows Philippine exports of goods in 2009 by product segment. Electronics have grown to over 60% of total exports, twice the value of other manufactured goods exports (24.5%) and far greater than agro-based products (5.5%) and mineral products (3.8%). If included, IT-BPO service exports valued at US$ 6.7 billion in 2009 would be about 15% of the total, with very high local content and value-added. Agro-based and mineral products also have high local content.

[24] Dr. Emilio Antonio, President, CRC, April 23, 2009

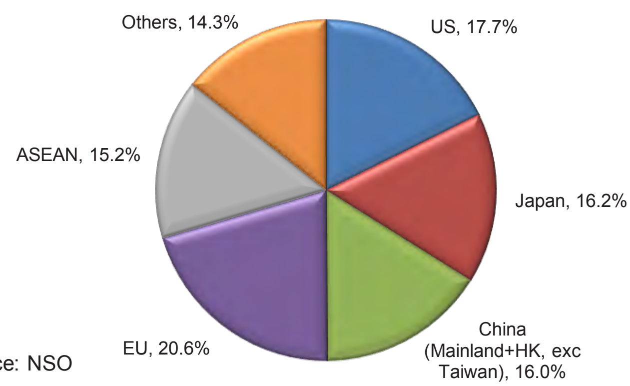
Figure 27: Philippine exports, product distribution, 2009



Source: NSO

Figure 28 clearly shows the high potential for export diversification if exports of the agribusiness and mining sectors can be vigorously developed. Similarly, the potential for increased revenue is high for services for medical visitors, retired foreigners, and international tourist visitors.

Figure 28: Philippine exports, by destination, 2009



Source: NSO

> "…ultimately accountability for a country's failure to attract investment must lie with its leadership and government institutions."
>
> *Oscar M. Lopez, Chairman, Lopez Group of Companies, FOCAP speech, January 15, 2008*

Gita Wirjawan (head of Indonesian Investment Coordinating Board) said that Indonesia should be able to achieve a “sweet spot” of total investment of US$ 25-35 billion a year.

Vice president Boediono…emphasized the need for more private sector investment. “To accelerate growth from 6 to 7 %, we need improved infrastructure, roads and railways without delay,” Boediono said. “This investment will not be possible without investment from the private sector as the government does not have anywhere near enough money.” “We have worked hard to reduce the hurdles to investment in infrastructure,” Boediono added. “…we have…a rather ambitious infrastructure-development plan for the next 5years.”

Reuters, Indonesia News, March 22, 2010

“The present dispensation’s horrible image is the biggest deterrent. Benigno Aquino III cited basics we must provide in order to increase FDI and local investments. Level playing field. Rule of law and predictable policies. Provide infrastructure, upgrade communications, secure reliable and reasonably priced power.”

Boo Chanco, The Philippine Star, February 24, 2010

“The primary incentive for investors will be the assurance of peace and order, especially in areas like Mindanao, and the setting up of systems that will guarantee less graft and corruption… such as increased private sector participation in government procurement by creating an Economic Coordinating Council that will review all bids for projects.”

2010 Platform of Joseph Estrada, erap.ph, accessed May 12, 2010

“If we allow foreigners to own land they can compete with our local realtors and once (they own land) they will develop that. Once they develop that, it will generate jobs.”

Joseph Estrada, Philippine Daily Inquirer, May 2, 2010

“When we started experiencing corruption in Subic… smuggling prospered, investments went down. All we attracted as investors were the minnows. The moment we removed corruption, we attracted Hanjin, and much more foreign investment.”

Dick Gordon, The Manila Times, April 25, 2010

“One cannot resolve poverty. One can only set the stage for people to get out of it… My goal is to make the Philippines a favorable platform for investments both domestic and foreign, with some conditions, for example protection of workers’ rights, of the environment, of our farmers. The goal is to provide proper government investments, such as infrastructure, and policies such as transparency, to afford confidence in our economy and in our people—basic education reform.

Gilbert Teodoro, The Philippine Star, January 10, 2010

“In his first 100 days, Manny Villar plans to set up a one-stop shop for foreign and local investors to encourage a healthy investment climate and eliminate red tape.”

Manila Bulletin, May 4, 2010

> "Rationalizing investment incentives both local and foreign to favor labor-intensive industries can be done. There is a mismatch in the availability of skills and the actual manpower requirements of employers... Entrepreneurship is a long-term solution to joblessness… We will focus on labor intensive industries like tourism, BPOs and the hospitality industries… key engines of economic growth."
>
> *Manuel Villar, Jr., Philippine Daily Inquirer, May 2, 2010*

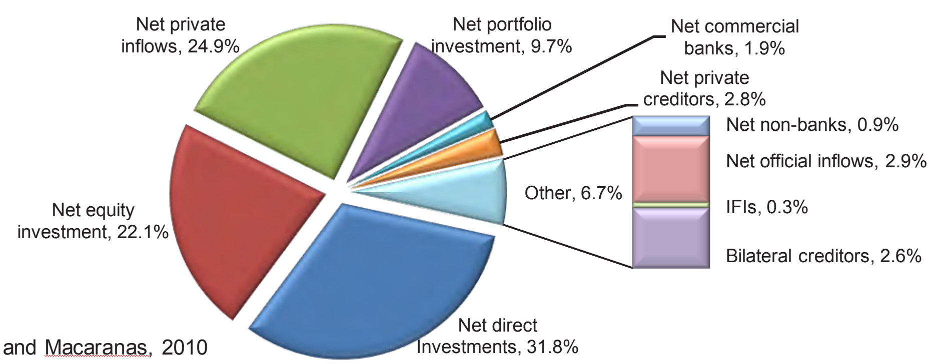
The Institute for International Finance (IIF) estimated in March 2010 that the Emerging Asia region will receive US$ 300 billion in total capital inflows in 2010 and 2011, almost twice as much as 2008 and more than other developing regions (Africa/Middle East, Emerging Europe, and Latin America) (see Table 14). Furthermore, one-third of this forecast capital inflow is expected to be in the form of direct investment and one-fifth in equity investment (see Figure 29). China received the majority of this FDI, over US$ 4,400 billion from 1997 to 2008.

Table 14: Private capital flows to emerging regions, Bn US$, 2008-2010 (F)

	2008	2009e	2010f	2011f
Private Inflows				
Latin America	130.6	135.7	176.5	172.5
Emerging Europe	267.4	20.3	174.6	243.5
Africa/Middle East	105.5	43	68.5	82.8
Emerging Asia	163.6	236.3	302	299.1
Official Flows	57.2	68	55.8	35.3
Latin America	14	21.8	14.7	17.3
Emerging Europe	20.7	33.8	18.4	-1.1
Africa/Middle East	3.5	1.8	6.3	4.8
Emerging Asia	19.1	10.7	16.4	14.2

Sources: IIF and Macaranas, 2010

Figure 29: Emerging Asia's external financing, by source, 2010



Sources: IIF and Macaranas, 2010

Philippine Government development plans targeted GDP growth in the 7-8% range when the global economy was growing robustly.[25] Economists and political leaders are confident that high growth is again possible with better governance, modern infrastructure, and much higher domestic and foreign investment. We suggest the GRP organize a Special Experts Group comprising leading economists, businessmen and senior government leaders to recommend key reforms that will help the economy recover and grow at least 9% by the middle of the next presidential term.

Headline Recommendations	
1.	The new Philippine administration should consider adopting as a major high priority policy goal **doubling the GDP growth rate to 9 percent** and adopt and implement a plan to achieve this within 3 years. This has to be supported by a clear long-term industry policy.
2.	**Job creation by the private sector should receive extremely high priority**, to reduce unemployment and underemployment by 50% and to give Filipinos more alternatives to working abroad.
3.	**FDI should be targeted to reach over US$ 7 billion**[26] a year in 3-4 years. FDI should also be measured in terms of job creation and exports (products and services) generated.
4.	An **export target of US$ 100 billion**[27] in 5-6 years should be set, with more diversified exports and new markets.
5.	**Adequate funds should be made available for international promotion** of Philippine exports, inwards investments and tourism, medical travel and retirement programs.[28]
6.	A significant share of **remittances should be channeled** into productive investments in the domestic economy through bonds and other funds.
7.	**Double funds available** for physical and social infrastructure, civil service quality improvement, investment, tourism and trade promotion, and other growth-promoting expenditures through **less waste in government spending, more effective tax collection, and selectively increasing the Expanded Value Added Tax (EVAT), before other taxes**.
8.	Public and private sectors should **organize a Special Experts Group** comprising economic, business, labor, and government leaders to recommend key reforms to make the economy grow at least 9%.

25 The current Medium-Term Philippine Development Plan (2004-2010) targeted 7.0-8.0% GDP growth for 2010. The economy achieved 7.2% GDP growth in 2007.

26 US$ 7.5 billion is 2.5 times the net FDI in 2006 and 2007.

27 US$ 100 billion is double the value of exports in 1987 and assumes a 20% rate of increase from 2010.

28 Department of Trade and Industry (DTI) launched a new Philippine Investment Promotion Plan in mid-2010 to coordinate the efforts of 11 investment promotion agencies (IPAs). However, no additional budget for promotion was announced.

PART 2

BECOMING MORE COMPETITIVE

The Philippine International Competitiveness Landscape

Filipinos have long been highly competitive in the world job market, yet perceptions of the Philippine investment climate have eroded in all major rankings of international competitiveness.

This has been a decade of expansion for international competitiveness rankings. More and more have appeared, with increasing coverage, literally from Afghanistan to Zimbabwe. The increasing number of international rankings has been stimulated by the globalization of investment, trade, and information. Companies moving manufacturing or business processing operations offshore want to know how potential locations rank. Multilateral banks see ratings as a tool to measure effectiveness of their development assistance and have created a measure – "Doing Business" – intended to help countries improve business efficiency by measuring red tape and other business costs. Anti-corruption advocates in Europe founded Transparency International in the belief of measuring perceptions of corruption would prod countries that rank poorly to be less corrupt.

Arangkada Philippines 2010 summarizes 17 ratings appearing in recent years including:[29]

- AmCham Singapore, *Regional Business Outlook Survey*
- Forbes Magazine, *Best Countries for Business*
- Foreign Policy Magazine/Fund for Peace Organization, *Failed States Index*
- Heritage Foundation/Wall Street Journal, *Index of Economic Freedom*
- International Institute for Management Development, *World Competitiveness Yearbook*
- Property Rights Alliance, *International Property Rights Index*
- Transparency International, *Corruption Perceptions Index*
- United Nations Development Programme, *Human Development Report*
- UN Public Administration Network, *E-governance Readiness Survey*
- World Bank
    - *Doing Business*
    - *Investing Across Borders*
    - *Paying Taxes* (with PricewaterhouseCoopers)
    - *Worldwide Governance Indicators*
- World Economic Forum
    - *Global Competitiveness Report*
    - *Global Enabling Trade Report*
    - *Travel and Tourism Competitiveness Report*
- Yale University and Columbia University, *Environmental Performance Index*

The figures throughout Part 2 show the percentile rankings of the ASEAN-6 countries. Aside from the overall rank of the Philippines among all the countries surveyed, its performance among the ASEAN-6 is highlighted in the text as well as its strength and weaknesses among selected

29 A recent rating of the Philippines (not included) is the 2010 State of the World's Mothers report in which the Philippines fell from 42nd to 48th position of 77 less developed countries. The survey rates maternal and child health care.

sub-categories of each survey.[30] Percentile rankings are used because they show the place of the Philippines in relation to other competing economies in a consistent fashion and better than simple numerical rankings. The population of countries included in major surveys changes from year to year, usually increasing as survey coverage grows. By the ranking method the Philippines could actually become more competitive when its ranking falls if more countries are included. Percentile rankings are a better guide when measuring trends in Philippine competitiveness.

Regional Business Outlook Survey

From 2003 to 2009, the ASEAN Regional Business Outlook Survey of American Chambers of Commerce in ASEAN identified areas of concern where member firms were dissatisfied or extremely dissatisfied. These concerns are listed below in Table 15 with the percentages dissatisfied or extremely dissatisfied.

Table 15: Areas of dissatisfaction, % of respondents, Philippines, 2003-2009

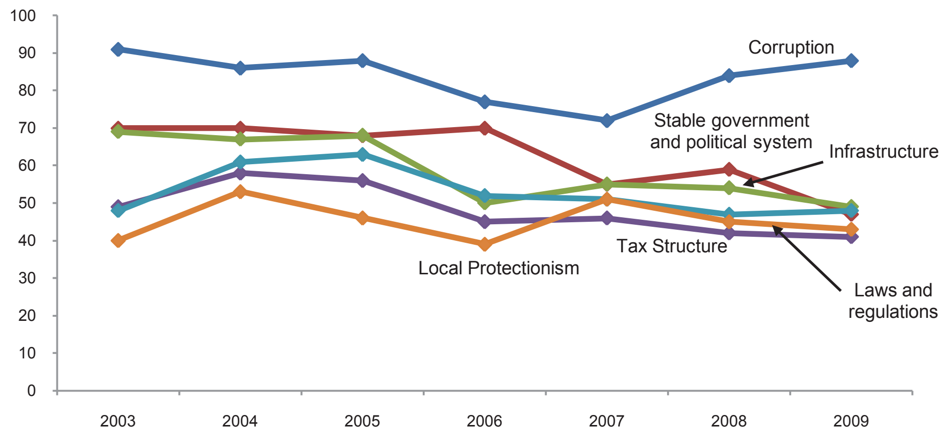
Issue	2003	2004	2005	2006	2007	2008	2009	Average
Corruption	91	86	88	77	72	84	88	84
Stable government and political system	70	70	68	70	55	59	47	63
Infrastructure	69	67	68	50	55	54	49	59
Laws and regulations	48	61	63	52	51	47	48	53
Tax Structure	49	58	56	45	46	42	41	48
Local Protectionism	40	53	46	39	51	45	43	45
Availability of raw materials	22	40	42	35	23	21	49	39
New business incentives by the government	45	57	48	30	30	22	31	38
Personal Security	44	39	45	22	31	30	20	33
Ease of moving products	29	33	26	14	15	39	36	27

Source: AmCham Philippines

The survey results point to key areas for improvement. Over the seven years of surveys, investors were always extremely dissatisfied with corruption (see Figure 30). Stability in government and political system was the second highest area of concern until 2009 when investors became slightly more dissatisfied with infrastructure. Other areas of dissatisfaction are laws and regulations, local protectionism and tax structure.

30 In each survey, the ranking of the Philippines is compared with its ASEAN neighbors Indonesia, Malaysia, Singapore, Thailand, and Vietnam.

Figure 30: Top areas of dissatisfaction, % of respondents, Philippines, 2003-2009



Source: AmCham Gallup Surveys

The survey respondents also indentified areas where they were satisfied or very satisfied (see Table 16). Satisfaction with the availability of trained personnel increased from 57% in 2007 to 77% in 2009.

Table 16: Areas of satisfaction, % of respondents, Philippines, 2003-2009

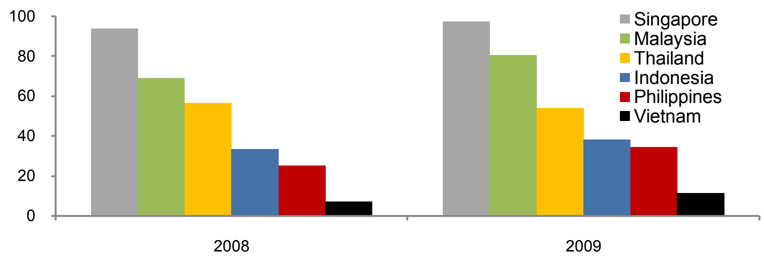
Issue	2003	2004	2005	2006	2007	2008	2009	Average
Availability of trained personnel	74	73	63	67	57	62	77	68
Sentiment towards the US	61	71	60	74	69	62	73	67
Availability of low-cost labor	65	58	58	71	55	62	67	62
Office lease cost	56	62	37	59	42	60	57	53
Housing cost	35	53	46	63	40	64	25	47

Source: AmCham Philippines

Best Countries for Business

The Best Countries for Business List is an annual list prepared by Forbes Magazine. The 2009 report is described as a ranking of countries according to "who is best equipped to bounce back" from the 2009 economic meltdown based on various indices and reports, including World Economic Forum's Global Competitiveness Report, Transparency International's Corruption Perceptions Index, and Property Rights Alliances' International Property Rights Index. In the report, the Philippines ranked 84th out of 127 countries and 5th among the ASEAN-6. Its percentile ranking improved from 25th to 34th the previous year (see Figure 31).

Figure 31: Forbes best countries for business, percentile rankings, 2008-2009

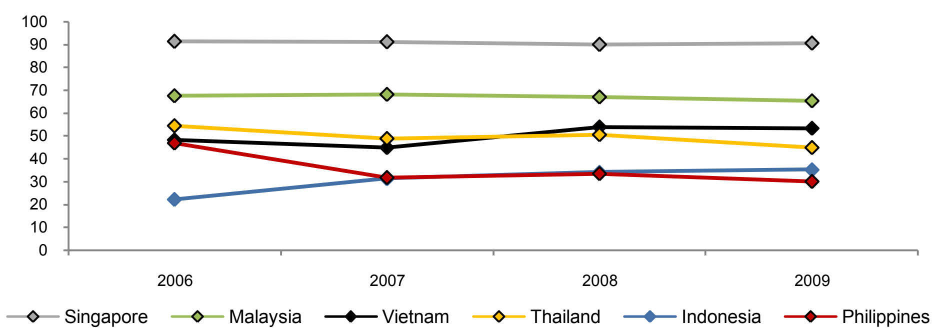


Sources: Forbes and author's calculations

Failed States Index

The Failed States Index is an annual report prepared by Foreign Policy Magazine and the Fund for Peace Organization, which provides details about risk indicators of 177 countries and ranks them based on their social, economic and political indicators. The higher the ranking, the more stable conditions in the country are. In the 2009 index, the Philippines ranked 53rd overall, the least stable among the ASEAN-6. It scored the worst ratings for Criminalization/Delegitimization of State and for Rise of Factionalized Elite. The country is currently categorized as having a Warning Country Alert and finds itself in the company of Angola, Bolivia and Cambodia. In percentile terms, the Philippines has fallen sharply since 2006, from 47th to 30th in 2009 (see Figure 32).

Figure 32: Foreign policy failed states index, percentile rankings, 2006-2009

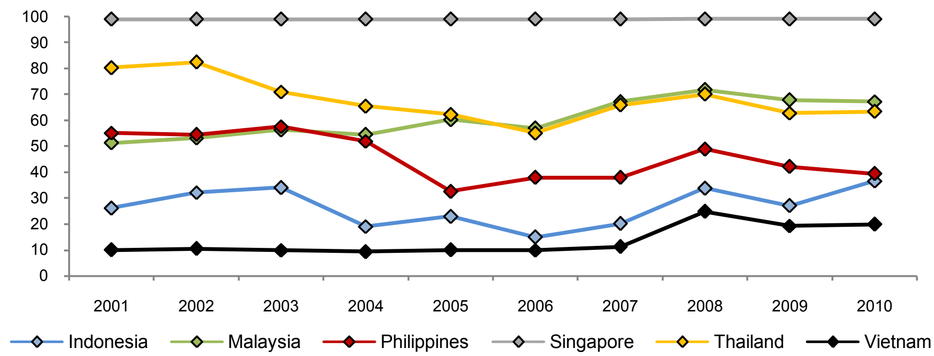


Sources: Foreign policy magazine and author's calculations; Note: Higher percentile means better position.

Index of Economic Freedom

The Index of Economic Freedom is an annual guide published by the Heritage Foundation, which ranks 179 countries based on their economic success as gauged by ten identified benchmark areas. In the 2010 index, the Philippines ranked 109th out of 179 countries and 4th among the ASEAN-6. The country ranked a poor 5th in labor freedom and 6th among the ASEAN-6 in business freedom and freedom from corruption. Philippine strengths are in government spending and investment freedom, where it ranked 2nd, and in monetary freedom and financial freedom, where it ranked 3rd. The percentile rank of the Philippines has fallen sharply since 2001, from 55th to 39th in 2010 (See Figure 33). Figure 34 portrays the steep fall of the Philippine ranking in 2010.

Figure 33: Index of Economic Freedom, percentile rankings, 2001-2010



Sources: Heritage Foundation and author's calculations

Figure 34: Editorial cartoon published on release day of Economic Freedom Ranking 2010

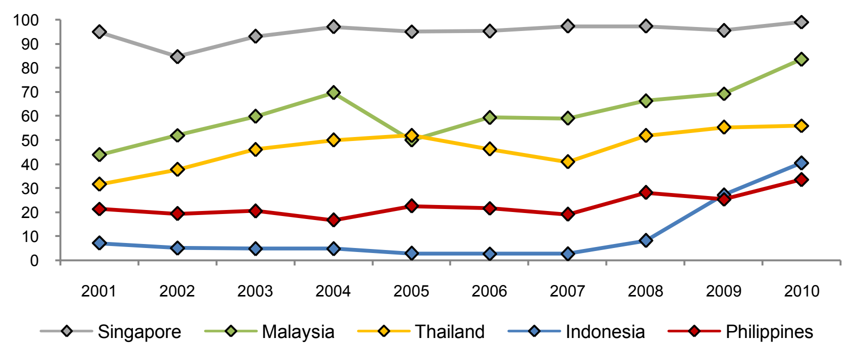
Source: The Philippine Star, January 30, 2010

World Competitiveness Yearbook

The World Competitiveness Yearbook is a yearly report on the competitiveness of nations published by the International Institute for Management Development. It evaluates the relative competitiveness of 58 economies based on economic performance, government efficiency, business efficiency, and infrastructure, ranking the economies in twenty areas of the competitiveness landscape and overall competitiveness.

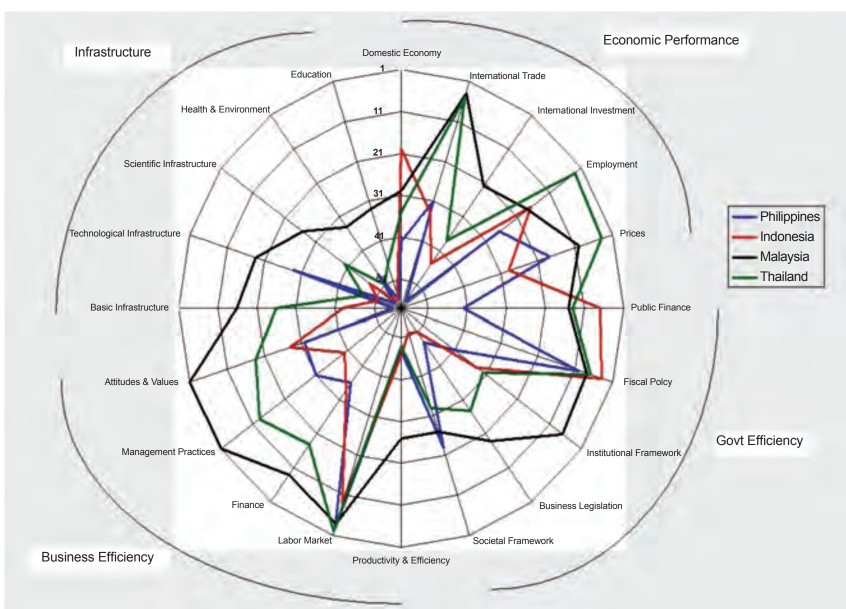
Although the Philippines ranked higher in 2010 than the previous year (39th overall compared to 43rd in the previous year), its rank is still last among the ASEAN-6.[31] From 2001 to 2008, Indonesia was ranked lower but in 2009 it overtook the Philippines. Although the Philippine percentile rank improved vis-à-vis the total group of countries rated, Indonesia, Malaysia, and Thailand also made progress against their peers (see Figure 35). The Philippines trailed in the areas of domestic economy, international trade, international investment, employment, prices, institutional framework, business legislation, management practices, public finance, fiscal policy, productivity and efficiency, faring very poorly in basic and scientific infrastructure, education and international investment, where it was ranked 56th out of 58 (see Figure 36). It led the ASEAN-5 in only one aspect of competitiveness – societal framework.

Figure 35: IMD world competitiveness, percentile rankings, 2001-2010



Sources: International Institute for Management Development and author's calculations

Figure 36: IMD world competitiveness sub-rankings, selected ASEAN countries, 2010

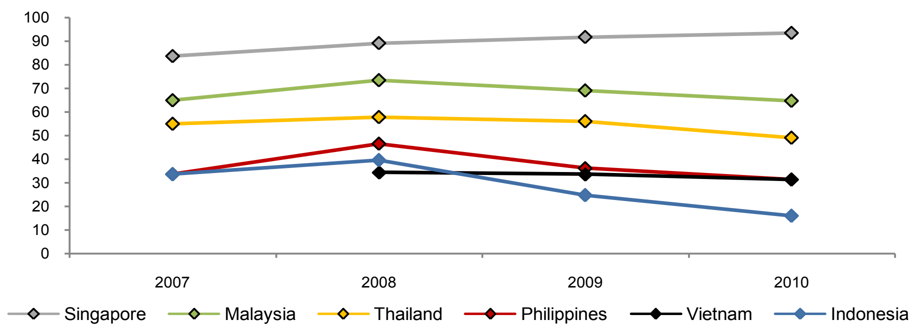


31 Vietnam is not included in this rating.

International Property Rights Index

The International Property Rights Index is a study that "measures the significance of both physical and intellectual property rights and their protection for economic well-being" prepared by the Property Rights Alliance. The 2010 index lists the Philippines as 80th out of 115 countries and tied for 4th with Vietnam among the ASEAN-6. The country's rank decreased from 62nd in 2008 to 80th in the 2010 index, a 18-rank difference in 3 years. Indonesia also declined since 2008, even more than the Philippines. Figure 37 shows the percentile rankings of ASEAN-6 from 2007-2010.

Figure 37: International property rights index, percentile rankings, 2007-2010

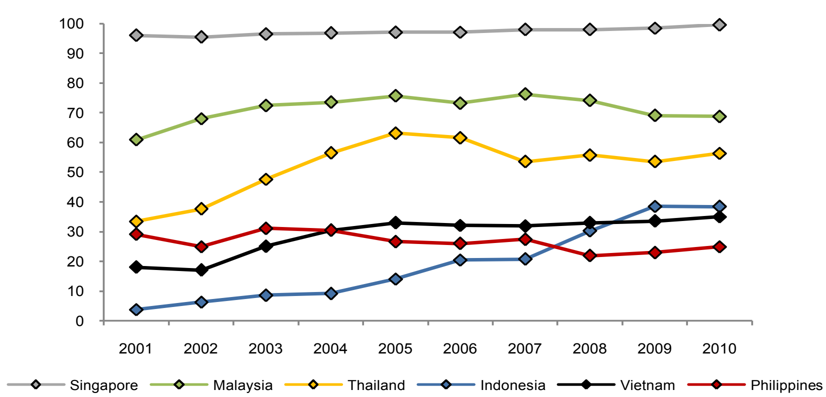


Sources: Property Rights Alliance and author's calculations

Corruption Perceptions Index

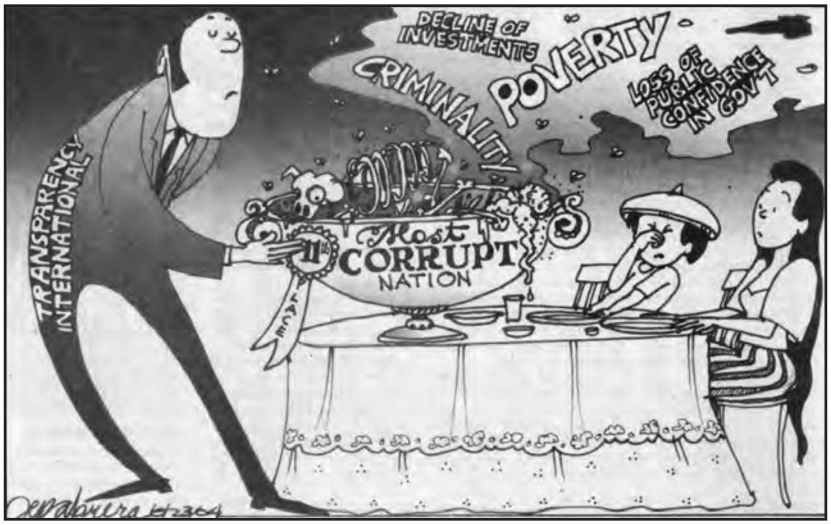
The Corruption Perceptions Index is a composite report prepared by Transparency International which measures the "perceived level of public sector corruption" in 178 countries and territories based on 13 expert and business surveys. In the 2010 index, the Philippines ranked 134th overall, below 75% of all the countries surveyed and last among the ASEAN-6 (see Figure 38). From 2001 to 2003 the Philippines, in terms of percentile rank, was better than Vietnam and Indonesia. Vietnam overtook the Philippines in 2004 and Indonesia in 2008. Figure 39 shows an editorial cartoon published in 2004 when the report was released. In 134th position alongside the Philippines were Bangladesh, Zimbabwe, and Nigeria among others.

Figure 38: Corruption perceptions index, percentile rankings, 2001-2010



Sources: Transparency International and author's calculations

Figure 39: Editorial cartoon published on release day of Corruption Perceptions Index 2004

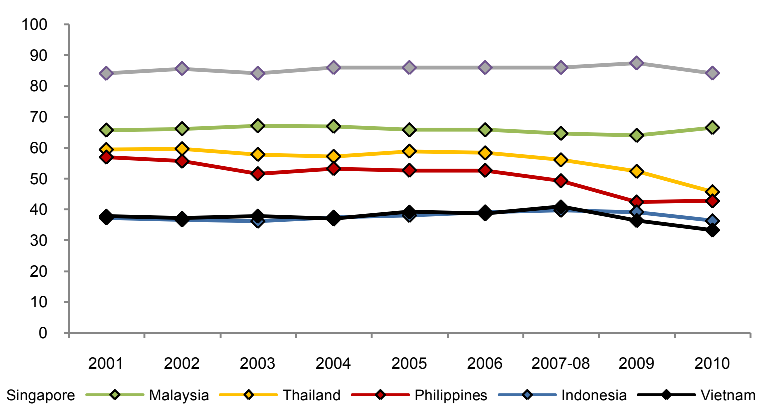


Source: Philippine Daily Inquirer, October 23, 2004

Human Development Report

The Human Development Report is an annual publication prepared by the United Nations Development Program (UNDP). Its main feature is the Human Development Index composed of statistics for life expectancy, education, and GDP used to rank countries as developed, developing, or underdeveloped. In the 2010 index, the Philippines ranked 97th out of 169 countries and 4th among the ASEAN-6 (see Figure 40) classified in the medium developing category, with Thailand, Indonesia, and Vietnam. Notably, percentile ranking of the Philippines dropped from 57th in 2001 to 43rd in 2010 while Indonesia and Vietnam have been generally keeping pace with the rest of the world in terms of enhancing human capital. If this trend continues, the country could end up at the bottom of the ASEAN-6 group in the next few years.

Figure 40: Human development index, percentile rankings, 2001-2010

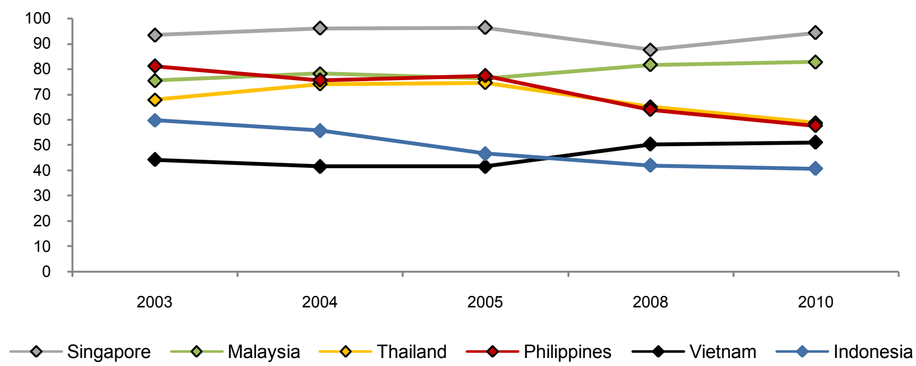


Sources: UNDP and author's calculations; Note: As a result of periodical revisions to data by international agencies, statistics and indices presented in different editions of the Report are not comparable (UNDP website). Components include life expectancy, education and income.

E-governance Readiness Survey

The Global E-government Survey[32] is a publication prepared by the United Nations Public Administration Network. Among its components is the E-government readiness index, which gives a comparative ranking of 183 countries based on two primary indicators: state of e-governance readiness and extent of e-participation. In the 2010 survey, the Philippines ranked 78th overall and 4th among the ASEAN-6 after Malaysia and Thailand. From 2003 to 2010 the Philippines' percentile ranking fell from 81st to 58th (see Figure 41).

Figure 41: UN E-governance readiness, percentile rankings, 2003-2010



Sources: United Nations and author's calculations

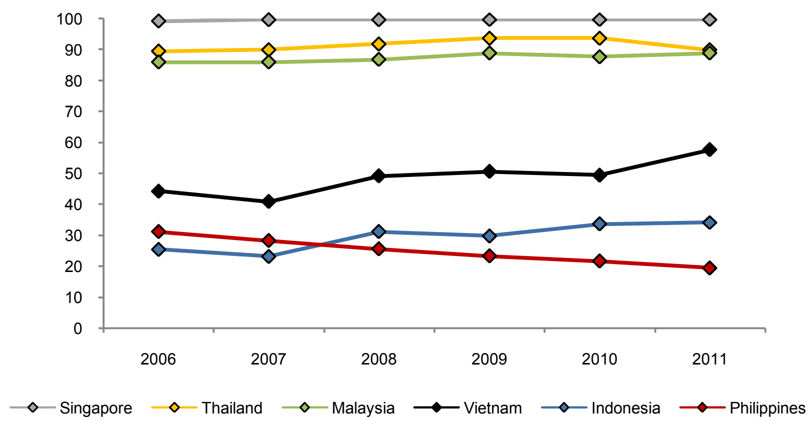
Doing Business Report

The Doing Business Report, a project of the World Bank, ranks economies on the basis of the prevalence and enforcement of business regulations – for starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, trading across borders, and closing a business. The Philippines ranked 148th overall of the 183 economies. Since 2008, the Philippines has ranked last among the ASEAN-6. Percentile rankings of the ASEAN-6 economies are shown in Figure 42.

The country ranked poorly in starting and closing a business, where it ranked 156th and 153rd respectively. Starting a business in the Philippines takes 38 days compared to the ASEAN-5 leader Malaysia's 17 days. Closing a business in the Philippines takes approximately 5.7 years compared to Malaysia's 2.3. The only area where the Philippines rated better was trading across borders, where it ranked 61st. However, compared to Malaysia's 37th rank on the same measure, the Philippines was unimpressive.

32 This survey does not appear every year.

Figure 42: Ease of doing business, percentile rankings, 2006-2011



Sources: World Bank and author's calculations

Investing Across Borders 2010

Prepared by the World Bank Group, Investing Across Borders 2010 measures how 87 economies facilitate market access and operations of foreign companies. The report presents cross-country indicators analyzing laws, regulations, and practices affecting FDI in 4 policy areas: investing across sectors, starting a foreign business, accessing industrial land, and arbitrating commercial disputes.

Table 17: Foreign equity ownership index, per industry group, ASEAN-6

Region or Economy	Mining, oil & gas	Agriculture forestry	Light manufacturing	Telecom	Electricity	Banking	Insurance	Transport	Media	Construction, tourism & retail	Health care & waste management
Indonesia	97.5	72.0	68.8	57.0	95.0	99.0	80.0	49.0	5.0	85.0	82.5
Malaysia	70.0	85.0	100.0	39.5	30.0	49.0	49.0	100.0	65.0	90.0	65.0
Philippines	40.0	40.0	75.0	40.0	65.7	60.0	100.0	40.0	0.0	100.0	100.0
Singapore	100.0	100.0	100.0	100.0	100.0	100.0	100.0	47.4	27.0	100.0	100.0
Thailand	49.0	49.0	87.3	49.0	49.0	49.0	49.0	49.0	27.5	66.0	49.0
Vietnam	50.0	100.0	75.0	50.0	71.4	65.0	100.0	69.4	0.0	100.0	75.5
East Asia & Pacific	**75.7**	**82.9**	**86.8**	**64.9**	**75.8**	**76.1**	**80.9**	**63.7**	**36.1**	**91.6**	**84.1**
World	**92.0**	**95.9**	**96.6**	**88.0**	**87.6**	**91.0**	**91.2**	**78.5**	**68.0**	**98.1**	**96.0**

Source: World Bank
Notes: The table shows foreign equity ownership indexes for 33 sectors, aggregated into 11 sector groups, including primary sectors, manufacturing, and service industries. This measures the degree to which domestic laws allow foreign companies to establish or acquire local firms

Under *Investing Across Sectors*, the report aggregated sectors into 11 industry groups and measured the degree to which domestic laws allow foreign companies to establish or acquire local firms. An index value of 100 indicates that full foreign ownership is allowed (see Table 17). Although the Philippines had an index of 100 in Construction, Tourism, and Retail; Insurance; and Healthcare and Waste Management, along with Singapore and Vietnam (except for the last industry group where Vietnam scored 75), it scored last in Mining, Oil, and Gas (40); Agriculture and Forestry (40); Transport (40); and Media (along with Vietnam which scored 0). In Light Manufacturing, the Philippines and Vietnam (tied at 75) are slightly more open than Indonesia (68.8) which was the most restrictive among the ASEAN-6. Similarly, the telecommunications sector in the Philippines (40) is as protected as in Malaysia (39.5), which was the least-open among the ASEAN-6.

Starting a Foreign Business has three indicators: the number of days to comply with procedures in establishing a foreign-owned subsidiary, the number of procedural steps involved, and the "Ease of Establishment Index," which measures the regulatory regimes for foreign business start-up. Countries that score well in this area have simple and efficient processes for foreign companies.

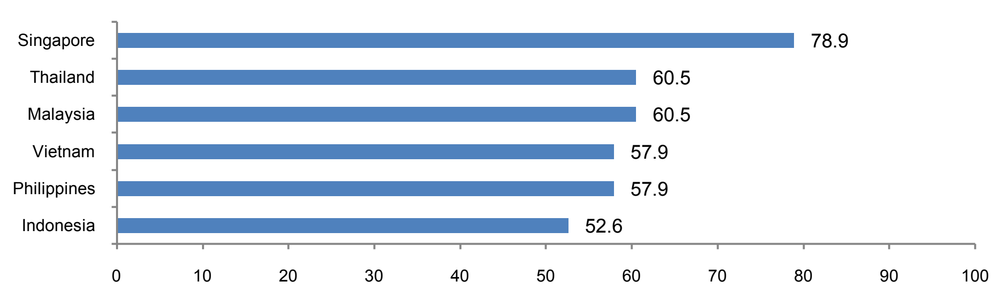
Table 18: Ease of business establishment, foreign companies

Countries	Procedures (number)	Time (days)	Days per procedure[1]	Ease of establishment index (0-100)
Indonesia	12	86	7.2	52.6
Malaysia	11	14	1.3	60.5
Philippines	10	108	10.8	57.9
Singapore	4	9	2.3	78.9
Thailand	9	34	3.8	60.5
Vietnam	12	94	7.8	57.9

Source: Investing Across Borders, World Bank; 1 - computed

Among the ASEAN-6, Singapore, Malaysia, and Thailand have the most efficient processes and regulations. It takes only 9 days to set up a foreign subsidiary in Singapore, 14 days in Malaysia, and 34 days in Thailand (see Table 18). While the Philippines has only 10 procedural steps – close to Thailand which has 9 steps and slightly higher than Malaysia which has 11 – it takes 108 days to establish a foreign subsidiary in the Philippines, the longest among the ASEAN-6 and 12 times longer than Singapore, 8 times longer than Malaysia, and 3 times longer than Thailand.

Figure 43: Ease of business establishment index, foreign companies (0-100)



Source: Investing Across Borders 2010 World Bank

In the ease of establishment index the Philippines was ranked 4th (tied with Vietnam) among the ASEAN-6, following Singapore, Thailand, and Malaysia (see Figure 43). However, four economies (Malaysia, Philippines, Thailand, and Vietnam) are ranked very closely and more aggressive reforms by the Philippines could move the Philippines closer to Singapore in future surveys.

Accessing Industrial Land quantifies aspects of land administration regimes important for foreign companies seeking to lease land. The "strength of lease rights index" measures the ability of foreign companies to lease land without entering into a partnership with a domestic company or individual. Singapore led the ASEAN-6 in this category with a score of 100, while Thailand and Malaysia (which tied with Indonesia) followed with 80.7 and 78.5, respectively (see Table 19). The Philippines was last among the six countries with a score of 69. However, for "time to lease private land," the Philippines led the ASEAN-6, taking only 16 days to lease private land. Thailand and Indonesia were second and third at 30 and 35 days, respectively, and Vietnam was last at 120 days.

Table 19: Accessing industrial land measures

Region/ Economy	Strength of lease rights index (0-100)	Access to land information index (0-100)	Availability of land information index (0-100)	Time to lease private land (in days)
Indonesia	79	21	85	35
Malaysia	79	23	85	96
Philippines	69	24	88	16
Singapore	100	55	80	56
Thailand	81	28	70	30
Vietnam	77	58	93	120

Source: Investing Across Borders 2010 World Bank

The fourth policy area, *Arbitrating Commercial Disputes* measures legal, institutional, and administrative regimes for commercial arbitration. The "strength of laws index" analyzes the strength of legal frameworks for alternative dispute resolution. Four of the ASEAN-6 (Indonesia, Malaysia, Philippines, and Singapore) were each rated at 95, while Thailand and Vietnam were at 85.

Table 20: Commercial disputes arbitration and enforcement of contracts

	Commercial disputes arbitration		
	Strength of laws index (0-100)	Ease of arbitration process index (0-100)	Extent of judicial assistance index (0-100)
Indonesia	95	82	41
Malaysia	95	82	67
Philippines	95	87	34
Singapore	95	82	93
Thailand	85	82	41
Vietnam	85	62	57

Source: World Bank

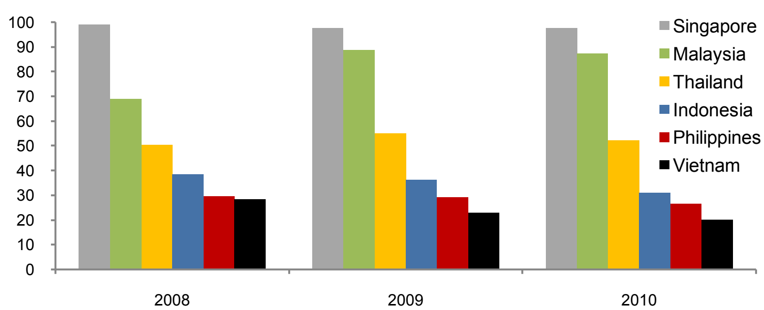
The "ease of arbitration index" assesses the ease of the arbitration process and whether there are restrictions that disputing parties face in seeking a resolution for their dispute. The Philippines ranked highest among the ASEAN-6 with an index of 87 (see Table 20). Indonesia, Malaysia, Singapore, and Thailand were tied at 82 and Vietnam at 62 was last.

The "extent of judicial assistance index" measures interaction between domestic courts and arbitral tribunals including the willingness of courts to assist during arbitration and their effectiveness in enforcing arbitration awards. In contrast with the two previous indices, the Philippines ranked last in this index with a rating of 34, while Singapore, at 93 led the ASEAN-6. This low-ranking in an otherwise high-ranked series suggests that Philippine courts can improve their processing of arbitration awards.

Paying Taxes Report

The Paying Taxes Report of the World Bank ranks 183 economies based on total tax rates, payment frequency, and the time needed to comply with tax regulations. In its 2010 report, the Philippines ranked 135th overall and 5th among the ASEAN-6 ahead only of Vietnam. A year before it was ranked 126th, a nine-notch slip being the largest decrease in ranking among the ASEAN-6 (refer to Figure 44 for the percentile rankings).

Figure 44: Ease in paying taxes, percentile rankings, 2008-2010



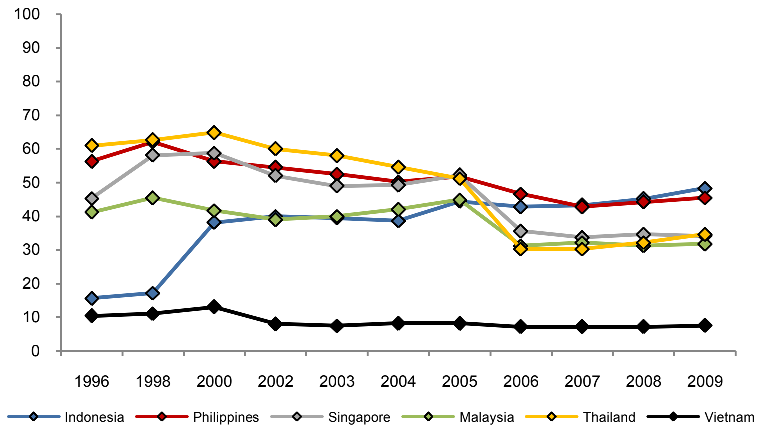
Sources: World Bank and author's calculations

Worldwide Governance Indicators

The Worldwide Governance Indicators is a project of the World Bank. It "reports the aggregate and individual governance indicators for 212 countries and territories over the period 1996-2008 for six dimensions of governance: voice and accountability, political stability, and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption."

Voice and Accountability. The Philippines fared positively in this area relative to its ASEAN neighbors, ranking second after Indonesia. However, its percentile rank has been decreasing from 56th in 1996 to 45th in 2009 (see Figure 45).

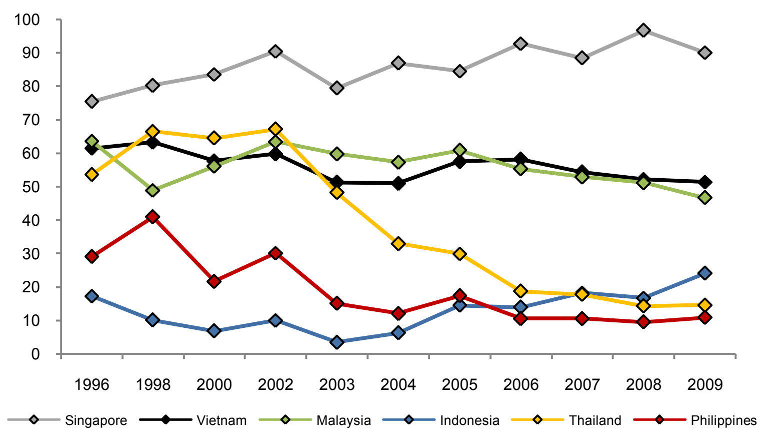
Figure 45: Voice and accountability, percentile rankings, 1996-2009



Sources: World Bank and author's calculations

Political Stability and Absence of Violence. The Philippines ranked last in the area of Political Stability and Absence of Violence among the ASEAN-6. Its already low percentile rank of 41st in 1998 even slid to 11th in 2009 (see Figure 46). With the Maguindanao massacre in 2009 receiving widespread negative international media attraction, the country's rating is expected to fall further.

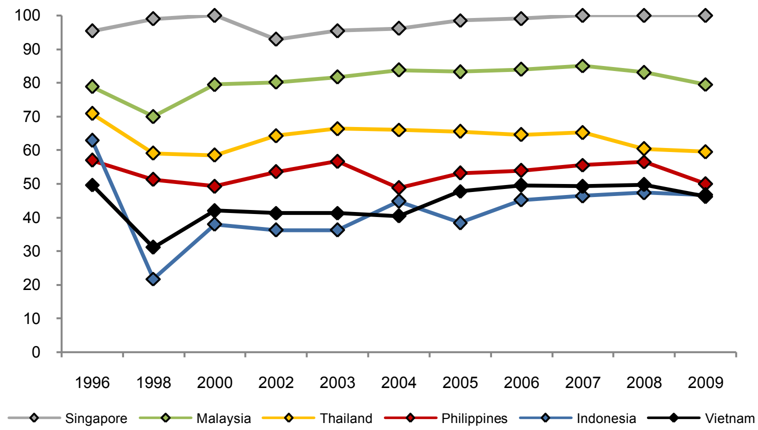
Figure 46: Political stability & absence of violence, percentile rankings, 1996-2009



Sources: World Bank and author's calculations

Government Effectiveness. The Philippines was 4th among the ASEAN-6 in the area of Government Effectiveness, in the middle between leaders Malaysia and Thailand and trailers Indonesia and Vietnam. From a six-year low percentile rank of 49th in 2004, the country improved to 57th in 2008, before slumping to 50th recently (see Figure 47).

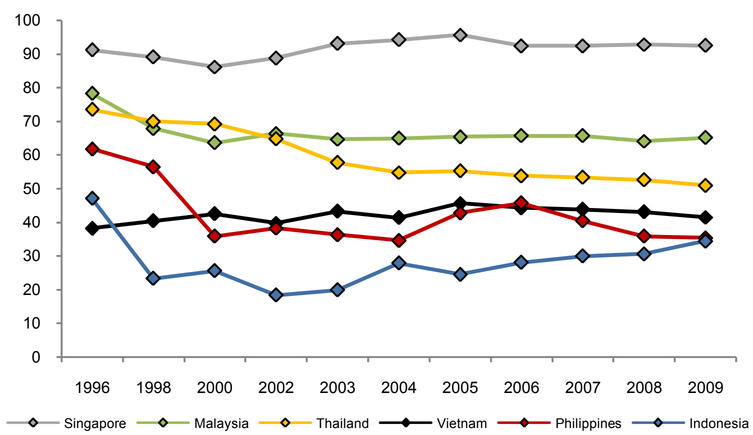
Figure 47: Government effectiveness, percentile rankings, 1996-2009



Sources: World Bank and author's calculations

Rule of Law. The Philippines ranked 5th among the ASEAN-6 in the area of Rule of Law only ahead Indonesia (see Figure 48).

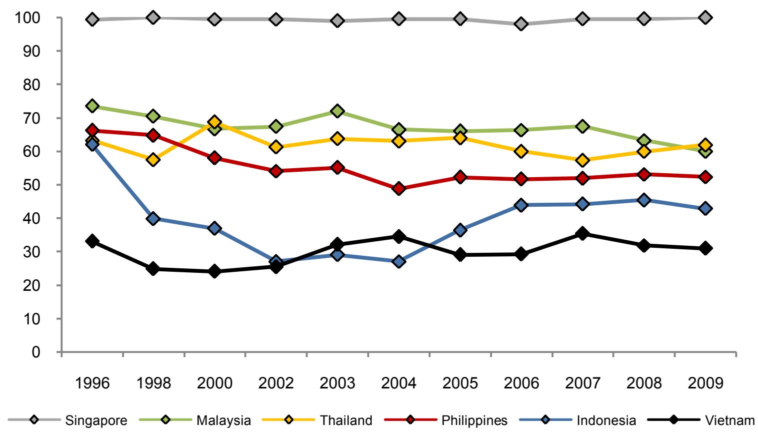
Figure 48: Rule of law, percentile rankings, 1996-2009



Sources: World Bank and author's calculations

Regulatory Quality. The Philippines ranked 4th among the ASEAN-6 in Regulatory Quality, improving from 49th percentile in 2004 to 52nd in 2009 (see Figure 49). Compared to Indonesia, which improved from 27th in 2002 to 43rd in 2009, and Vietnam, which improved from 24th to 31st over nine years, the Philippines improvement was trivial.

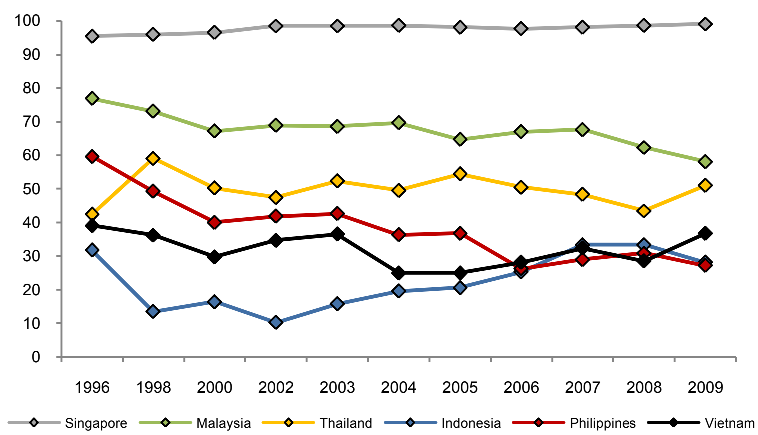
Figure 49: Regulatory quality, percentile rankings, 1996-2009



Sources: World Bank and author's calculations

Control of Corruption. The Philippines ranked 5th among the ASEAN-6 in Control of Corruption. In 1996 the country had a percentile rank of 60th, which fell by 33 places to 27th thirteen years after (see Figure 50).

Figure 50: Control of corruption, percentile rankings, 1996-2009



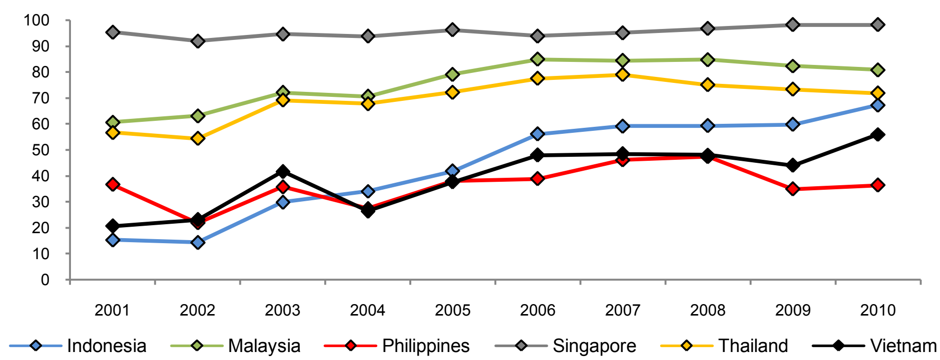
Sources: World Bank and author's calculations

Global Competitiveness Report

The Global Competitiveness Report is the annual publication prepared by the World Economic Forum, ranking 139 economies in 2010 based on what it calls “pillars of competitiveness”: institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods and market efficiency, labor market efficiency, financial market sophistication, market size, technological readiness, business sophistication, and innovation. In the 2010 report, the Philippines ranked 85th overall but last among the ASEAN-6 (see Figure 51).

Over the last decade, the ranking of the Philippines has been erratic, while Indonesia's percentile ranking steadily improved from 15th in 2001 to 67th in 2010. The Philippines' percentile position improved every year for four years since 2004 until plummeting in 2009. Based on the 2010 report, it performed worst in the areas of institutions (ranking 125th), labor market efficiency (ranking 111th), and innovation (ranking 111th). Its strengths were in market size, where it ranked 37th, and business sophistication, where it ranked 60th.

Figure 51: Global competitiveness, percentile rankings, 2001-2010

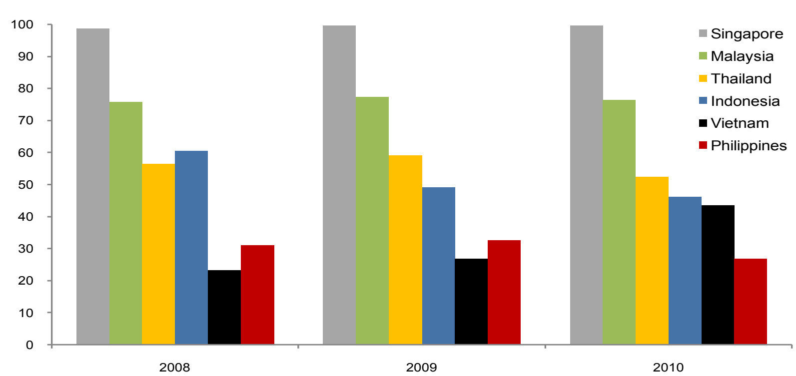


Sources: World Economic Forum and author's calculations

Global Enabling Trade Report

The Global Enabling Trade Report is a publication prepared by the World Economic Forum ranking 125 countries based on an index of factors "that facilitate the free flow of goods across national borders and to destination." In the 2009 survey, the Philippines ranked 82nd overall, ahead only of Vietnam among the ASEAN-6. In 2010, Vietnam passed the Philippines which ranked 92nd overall, down 10 places from 2009. The Philippines performed worst in business environment (the quality of overall governance impacting operations of importers and exporters) where it was 103rd overall. The country also did poorly in other areas, 77th overall for quality of transportation and communication infrastructure and 68th for border administration. Percentile rankings are shown in Figure 52.

Figure 52: Global enabling trade report, percentile rankings, 2008-2010

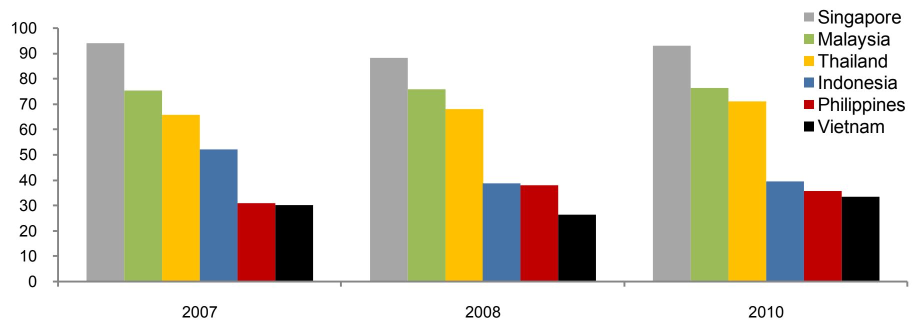


Sources: World Economic Forum and author's calculations

Travel and Tourism Competitiveness Report

The Travel and Tourism Competitiveness Report is prepared by the World Economic Forum ranking 180 countries on various regulatory and business-related issues considered to be levers for travel and tourism competitiveness. In the 2010 report, the Philippines ranked 86th overall and 5th in the ASEAN-6, performing worst in tourism infrastructure (96th) and best in prioritization of travel and tourism (59th) (see Figure 53 for the percentile rankings).

Figure 53: Travel and tourism competitiveness, percentile rankings, 2007-2010

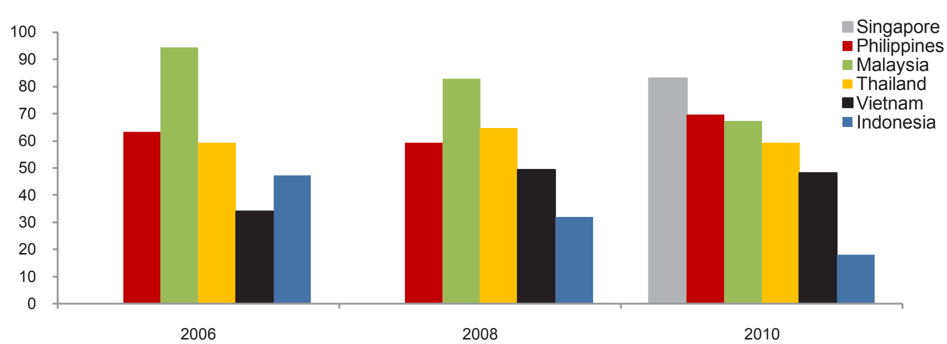


Sources: World Economic Forum and author's calculations

Environmental Performance Index

The Environmental Performance Index of Yale University and Columbia University evaluates the environmental performance of 163 countries. In the 2010 index, the Philippines did well, ranking 50th overall, 8th among the Asia-Pacific nations, and 2nd among the ASEAN-6 (see Figure 54 for the percentile rankings).

Figure 54: Environmental performance index, percentile rankings, 2006-2010



Sources: Columbia University and Yale University and author's calculations; No data for Singaport before 2010

The Philippines is being left behind by many of its neighbors in terms of competitiveness. In most competitiveness surveys, its ranking has been sliding while its ASEAN neighbors, particularly Indonesia and Vietnam, ranked lower in the past years, have been overtaking the Philippines. Figures 55 and 56 show the Philippines being left behind by other countries in attracting foreign investment.

Figure 55: Editorial cartoon showing Philippines left out of FDI in Southeast Asia

Source: The Philippine Star, October 26, 2004

Figure 56: Cancelled take-off

Source: 5th MAP International CEO Conference
11 October 2006, Makati Shangri-la
"Recipes for Competitiveness"

As these figures clearly demonstrate, the Philippines has been on a downward trajectory in international competitiveness rankings during the current decade, especially for corruption, governance, and infrastructure. Focused efforts to reverse the trend have been underway for more than three years but have yet to prove their effectiveness.

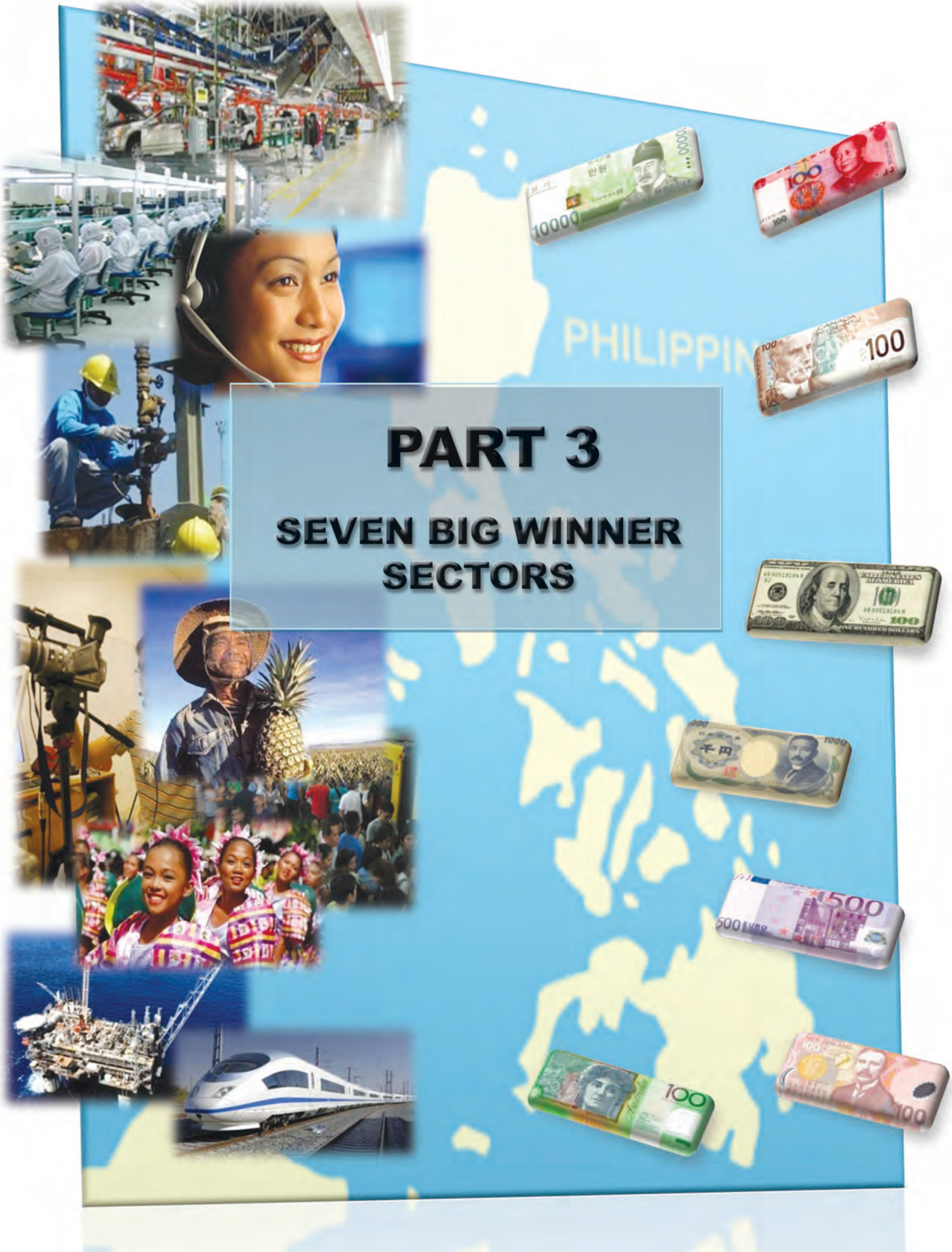
The rankings affect the levels of foreign investment the country receives. When potential new investors see from the rankings that infrastructure is poor, corruption high, rule of law weak, and political stability a major concern they are likely to look elsewhere. Some investors, such as in IT-BPO and mining, may have few other locations because they are seeking the English skills of Filipinos or to develop the country's large mineral resources. But most investors have wider choices and are likely to decide to invest in countries ranked better than the Philippines.

Efforts to reverse the trend must be sustained and intensified to produce more positive results sooner. *Arangkada Philippines 2010* lists recommendations to improve the competitiveness landscape of the Philippines.

Headline Recommendations	
1.	The Philippines should **undertake aggressive efforts to improve its rankings faster**. The government and private sector should **select areas of competitiveness (whether low or medium ranked) which are most important to investors and** where the Philippines can move up the most and the fastest and **focus resources on improving these**.
2.	The government and private sector should **identify areas where the Philippines is weakest** and plan effective strategies to improve rankings. The Philippines should **maintain and improve those high-rated strengths it has in competitiveness ratings**. Because corruption adds to business costs, most competitiveness surveys rank corruption as the most serious problem negatively affecting the Philippine investment climate. The government should join hands with the private sector to fight corruption through the Integrity Initiative driven by the Makati Business Club and the JFC.
3.	The country should **create a national psychology to improve international competitiveness ratings overall and in specific critical areas**, encouraging public discussion and support for solutions. Cabinet secretaries should be asked to formally incorporate competitiveness improvement into the programs of their departments. The **president could report to the nation in the State of the Nation Address (SONA) on the state of national competitiveness**. The Office of the President could prepare a public statement (after consulting with stakeholders) on new laws, before enactment, on whether the law will help or harm national competitiveness and veto the law if it is harmful.

PART 3

SEVEN BIG WINNER SECTORS



Seven Big Winners

A proven strategy to achieve higher investment, exports, and jobs is concentration on sectors of the economy where the Philippines has competitive advantages and high potential. Ireland, with a population of 4.4 million, followed such a strategy in four sectors after it joined the EU, marketing itself as a manufacturing location that provided easy access to much larger markets in the United Kingdom and continental Europe. Within a decade the "Celtic Tiger" experienced a boom, transforming itself from poor to rich. Irish schools were oriented towards graduating students with skills needed in the prioritized sectors, and foreign investment campaigns in North America and Asia successfully attracted multinational firms that hired these English-speaking graduates.

In the middle of the global financial crisis in 2009, the JFC released a study that recommended the Philippines build Seven Big Winners, sectors that have high growth and employment potential and in which the Philippines has demonstrated competitive advantage. With its position within ASEAN, with its large, youthful English-speaking population, and with improved access through new ASEAN FTAs with large and fast-growing markets, the Philippines is situated, as Ireland was, to attract large amounts of foreign investment and to create millions of new high-quality jobs in the seven sectors:

- Agribusiness
- Business Process Outsourcing
- Creative Industries
- Infrastructure
- Manufacturing and Logistics
- Mining
- Tourism, Medical Travel, and Retirement

The next several years are an ideal time to begin to introduce reforms to accelerate the growth of these seven sectors. Major issues and challenges are well known, and considerable remedial planning by firms in each sector, their industry associations, and the government has already occurred.

> "We will directly target industries with the greatest potential for growth and where the Philippines has a competitive advantage, industries that have already been identified by domestic and foreign business groups and include agribusiness, business process outsourcing, creative industries, infrastructure, manufacturing and logistics, socially responsible mining, and tourism and retirement."
>
> *President Benigno Aquino III, www.noynoy.ph, accessed May 9, 2010*

All Seven Big Winners are discussed in the following sections of Part 3 of *Arangkada Philippines 2010*. Each section contains a narrative description with figures and tables discussing the sector background and potential. This is followed by the recommendations that emerged from the FGDs, listed under a summary entitled "Headline Recommendations."[33]

Table 21 lists the number of recommendations made for each of the Seven Big Winners, totaling 283 recommendations. A suggested period for implementation (immediate, medium-term, and long-term) and the appropriate public sector action agency are indicated with each recommendation, including action by the private sector.

Table 21: Numerical summary of FGD Seven Big Winner recommendations

Big Winner Sector	Host	Date	# Participants	# Recommendations
Agribusiness	ECCP	December 3, 2009	15	18
Business Process Outsourcing	PAMURI	February 18, 2010	28	30
Creative Industries	CanCham	November 5, 2010	16	16
Infrastructure Policy Environment	AmCham	November 26, 2009	33	25
Infrastructure: Airports	AmCham	November 12, 2009	38	15
Infrastructure: Power	AmCham	November 17, 2009	48	21
Infrastructure: Roads and Rail	AmCham	November 26, 2009	33	9
Infrastructure: Seaports	AmCham	November 12, 2009	38	20
Infrastructure: Telecommunications	none	none		11
Infrastructure: Water	AmCham	November 17, 2009	48	9
Manufacturing and Logistics	JCCIPI	March 11, 2010	35	17 + 25
Mining	ANZCHAM	November 20, 2009	41	33
Tourism, Medical Travel, and Retirement	KCCP	September 23, 2009	36	34
Total				**283**

"My central concern is the welfare of my people. They need jobs. Our manufacturing industry has withered away... So what are our options... business process outsourcing… and tourism are critical growth areas."

President Benigno Aquino III, Jakarta Globe, Karim Raslan, March 3, 2010

"A key part of my platform is entrepreneurial revolution… we will focus on labor intensive industries like tourism, business process outsourcing, and the hospitality industries. These are the key engines of economic growth"

Manuel Villar, Philippine Daily Inquirer, May 1, 2010

The JFC estimates that in the next decade making important reforms benefiting these sectors could result in more than US$ 75 billion in new foreign investment, create around ten million jobs, and produce over one trillion pesos in new revenue for the government (see Figure 57).

33 Several recommendations were added by FGD participants and the FGD secretariat following the FGDs. For example, the recommendation regarding the future use of terminals at NAIA greatly benefited from the detailed recommendations made by the infrastructure committee of the Philippine Chamber of Commerce and Industry (PCCI). In another case, support for proposed US legislation to benefit garments imported from the Philippines made from US-origin textiles was added to the recommendations under manufacturing.

Figure 57: Estimated FDI, job creation if recommendations implemented, 2010-2020

Agribusiness

Sector Background and Potential

The Philippine agricultural sector comprised 19% of GDP in 2009 and employed 34% of the labor force. Yet agricultural products made up only 8.3% of total Philippine commodity exports and Philippine agricultural exports were the smallest of the ASEAN-5. Table 22 contains agricultural exports and imports of the ASEAN-6 (less Singapore) for 2009 and shows that the Philippines exported US$3.2 billion, a very small amount compared to Indonesia, Malaysia, Thailand, and Vietnam.[34] Of the five economies, only the Philippines imported more agricultural goods than it exported. Agricultural exports for the other four economies made significant, positive contributions to their trade balances.

Table 22: Agricultural goods exports per hectare, ASEAN-5, Bn US$, 2009[35]

Countries	Agricultural goods			Agricultural food exports, % of total agricultural exports	Agricultural exports, % of total merchandise exports
	Exports	Imports	Trade Balance		
Indonesia	25.3	11.4	13.9	79.2%	21.1%
Malaysia	20.9	12.3	8.5	84.5%	13.3%
Philippines	3.2	5.6	-2.4	92.7%	8.3%
Singapore	6.2	8.8	-2.6	90.1%	2.3%
Thailand	28.0	9.4	18.6	79.1%	18.4%
Vietnam	10.7	9.3	1.4	90.2%	18.9%

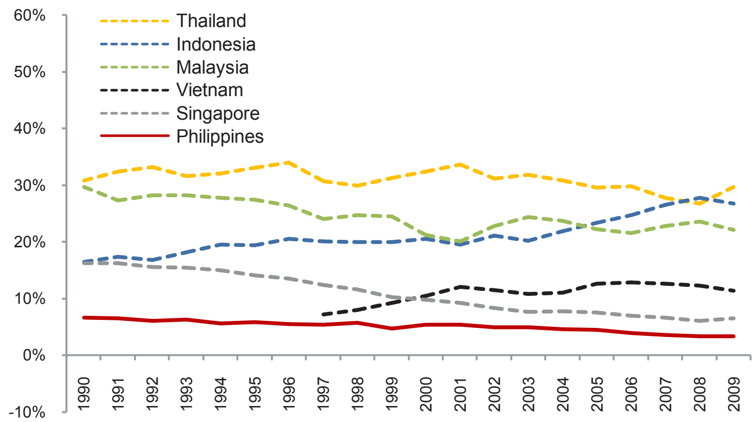
Sources: WTO and FAO (for agricultural land area)

34 The category is broader than the agricultural goods exports released by NSO (US$ 2.2 billion). This includes SITC sections 0, 1, 2, 4 minus 27 and 28 (WTO definition).

35 Ibid

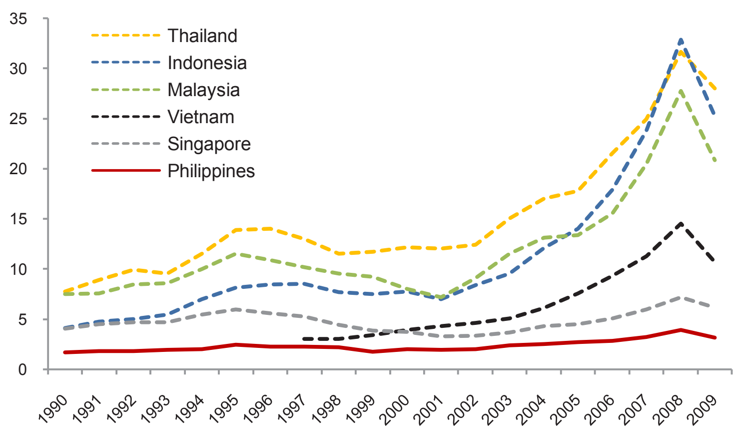
Figures 58 and 59 show agricultural exports of the same countries from 1990-2009. By comparison, Philippine agricultural exports declined from comprising about the same 20% share in 1970 of ASEAN-6 total agricultural exports as Thailand and Indonesia – while Malaysia held a larger 30% share – to being the lowest among the ASEAN-6 in 2009, around 3% of the ASEAN-6 total. During these nearly two decades (1990-2009) total ASEAN-6 agricultural exports grew strongly, increasing about 20-fold, while the Philippines fell behind Vietnam and Singapore.[36]

Figure 58: Agricultural goods exports, ASEAN-6, % of total, 1990-2009



Source: WTO; No data for Vietnam before 1997

Figure 59: Agricultural goods exports, ASEAN-6, Bn US$, 1990-2009



Source: WTO; No data for Vietnam before 1997

About 12 million Filipinos work in the agricultural sector. If the country can significantly increase its exports and imports of agricultural goods, agricultural provinces would generate much greater revenue, provide more employment opportunities, and lessen poverty in rural areas. This is especially important for Mindanao, the country's breadbasket that has great underdeveloped potential for agricultural exports.

36 Sources: FAO and WTO

New free trade agreements coming into effect in ASEAN present both challenges and opportunities to the agricultural sector. The ASEAN Free Trade Area (AFTA) will be fully implemented in 2010, others in subsequent years (see Table 23).

Table 23: ASEAN Free Trade Agreements, population of potential markets

Free Trade Agreement	Population of partner state/ potential market size, in million, 2009	Date of entry into force	Remarks
ASEAN Trade in Goods Agreement	578.6	May, 17 2009	With the coming into force of ATIGA, Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand will issue their legal enactments in 90 days, while Cambodia, Lao PDR, Myanmar and Viet Nam will do in 180 days. Thereafter, tariff liberalisation commitments under the ATIGA will be implemented retroactively from 1 January 2010.
ASEAN-China	1,338.6	Jan 1, 2010	Tariffs on almost all tariff lines in this category have been eliminated by ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) and China as of 1 January 2010. The remaining few products in this category (i.e. not exceeding 150 tariff lines) will have tariffs eliminated not later than 1 January 2012, as part of the flexibility provided in the modality. For Cambodia, Laos, Myanmar and Viet Nam, tariff elimination will have to be completed by 1 January 2015, with flexibility to eliminate tariffs on products not exceeding 250 tariff lines by 1 January 2018.
ASEAN-Japan	127.4	Dec 1, 2008	Under the trade in goods, Japan has to eliminate 92% of its tariff rates based on tariff lines and trade value for goods in the Normal Track within ten (10) years of entry into force (EIF) of the Agreement. Meanwhile, the ASEAN 6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) have to eliminate 90% of its tariff rates based on the tariff lines and trade value for goods in the Normal Track within ten (10) years of EIF of the Agreement. For Viet Nam, it has to eliminate 90% of its tariff rates based on tariff lines and certain percentage on trade value for goods in the Normal Track within ten (10) years of EIF. For Cambodia, Laos and Myanmar, certain flexibility was provided. Each has to eliminate 90% of its tariff rates based on either tariff line or trade value for goods in the Normal Track within 13 years of EIF.
ASEAN-Korea	50.1	Jan 1, 2010	Under this agreement, ASEAN exports would have free market access in 2010 as Korea eliminates tariffs for all tariff lines under the Normal Track. On a reciprocal note, the ASEAN 5 (Brunei Darussalam, Indonesia, Malaysia, the Philippines and Singapore) imports from Korea will be enjoying zero tariff rates as well for all tariff lines in the Normal Tack subject to limited flexibility. By 2012, tariffs imposed by ASEAN for all Korean products under the Normal Track would be eliminated. For the newer members of ASEAN, namely, Vietnam, Cambodia, Lao PDR and Myanmar, a longer transition period for tariff reduction and elimination had been agreed in recognition of their development status.

ASEAN-India	1,179.5	Jan 1, 2010	Under the Normal Track, tariffs imposed by Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand and India on originating goods from these parties will be eliminated by 2016. Tariffs imposed between the Philippines and India under the Normal Track will only be eliminated by 2019. Meanwhile, a longer time frame is given for Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) to eliminate their tariffs of goods under the Normal Track.
ASEAN-Australia and New Zealand	26.7	Jan 1, 2010	Under this agreement, tariffs will be eliminated on a high percentage of tariff lines, with phasing commencing early in the transition period, using as a starting point applied most favoured-nation (MFN) tariffs in the 2005 base period. High levels of tariff-free treatment - generally around 90% - will be achieved as early as 2013 for the more developed ASEAN markets, while exclusions from tariff commitments will kept to a minimum, and generally do not exceed 1% of a country's national tariff lines. The tariff outcomes provide for longer transition periods, and lower tariff elimination outcomes, for Vietnam and the three least developed countries (Burma, Cambodia and Laos), in recognition of their status as newer ASEAN members with less developed economies.

Sources: "ASEAN FTA Agreements." ASEAN Secretariat; "ASEAN Trade in Goods Agreement Fact Sheet." ASEAN Secretariat; FTA Agreements Fact Sheets; Australia Department of Foreign Affairs and Trade; and WTO

The total estimated population of these FTA economies is more than 3.3 billion (including the Philippines), giving Philippine exporters unprecedented access to extremely large markets, while also increasing the exposure of domestic markets to imported products from the FTA economies. On the one hand, the Philippines has the potential to provide large quantities of specialized food products to hundreds of millions of consumers with rising incomes. On the other hand, the survival of domestic producers will be jeopardized by inexpensive imported products.

Philippine agriculture needs to fully explore the multitude of new market opportunities these FTAs present. The Philippine Government has the means to inform the agricultural sector of the best new export opportunities, while also developing – in consultation with the private sector – strategies to deal with potential threats to domestic production. For example, what should be done when an influx of lower cost processed poultry and pork arrives from neighboring countries such as Thailand? Are there models for local farmers to enable them to continue their present businesses of raising chicken and pigs?

Competitiveness also requires a level playing field for Philippine exporters. By contrast with the EU – where there are constant efforts to level the playing field among member countries – the ASEAN region lacks appropriate policies and rules.

Filipino farmers are capable farmers. However, they face high domestic transport, labor, and other production costs (see Part 4 *Business Costs*). The cost of Philippine labor is many times Cambodia's.[37] Insecticide costs twice as much in the Philippines as elsewhere in the region.

[37] Cambodia is becoming a producer and potential exporter of ethanol, as is the Philippines.

Because the country is archipelagic, domestic transportation costs are high. Bureaucratic "overkill" is also a problem. Why does a new ethanol plant need Department of Agriculture (DA), Bureau of Internal Revenue (BIR), Department of Environment and Natural Resources (DENR), and other government personnel to often "inspect" it? Aggressive steps by both the public and private sectors are needed to solve these problems.

Some local Philippine poultry integrators and commercial hog raisers have the potential to export to new FTA markets. The Philippines enjoys an advantage because some parts of the country are free from Foot-and-mouth disease (FMD), and the whole country may be declared FMD-free in the future. The Philippines has also been free of Avian Influenza. Although production costs for hogs and poultry are relatively higher in the Philippines, the most efficient local commercial farms are able to reduce costs significantly and can be competitive.

Backyard farms, which raise only a few animals, face a more serious challenge under the new FTA trading regime. They are less efficient yet comprise 60% of the subsector according to industry experts. Their small scale deprives them of efficiencies needed for competitive export production and marketing.

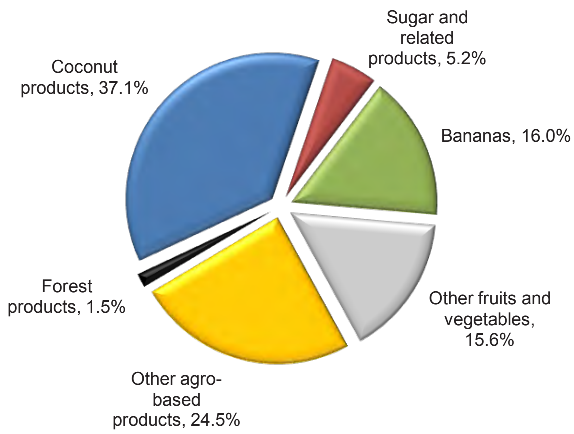
Although once ahead, the Philippines is now many years behind Thailand in integrating small farms into larger agribusiness enterprises. Nevertheless, the Philippines has successfully demonstrated that large agribusiness ventures that harness many small farmers are possible. SMC proved this form of partnership with its Cassava Assembler Program. Over 4-5 years, 30,000 hectares were put into production by small farmers, 80% in Mindanao and the rest in Luzon and the Visayas. SMC guarantees a floor price, facilitates bank financing for the growers, services the loans from cassava crops, and provides technical and some administrative support. In this model, the cassava may be used for ethanol for domestic fuel blending.

Thailand's leading agribusiness firm Charoen Pokphand Foods (CP) has started operations in the Visayas and is another example of how the model of integration with small farmers can succeed in this country. CP integrates small farmers within its corporate system. All farm infrastructure is in the hands of the farmers. CP owns the supply of hogs the farmers grow. Farmers are partners. This model has made Thailand an agricultural powerhouse. The integration is deep and extensive, and includes farmers sitting on corporate boards.

Another local example of integration is the business relationship of Nestle with 30,000 small Filipino coffee growers. A non-automotive division of Toyota Tsusho Corporation, which deals in energy and food products, is reportedly discussing with Dole the sourcing of biodiesel from jatropha plants to be grown on at least 200,000 hectares in southern Mindanao for export to Asian and European markets. Jatropha was chosen because it requires minimal water and does not compete with edible crops.

There is an interesting model in Mindanao in the middle of a conflict area. This model reverses the usual pattern of achieving peace before development is possible. Agribusiness firms Unifrutti and La Frutera brought development and peace to several municipalities of Sultan Kudarat and Maguindanao. They found local champions in the late Moro Islamic Liberation Front (MILF) leaders Hashim Salamat and Datu Paglas who wanted to see investment and job creation for their communities. Undeveloped lands were planted to export bananas and several thousand jobs were created and the project has prospered for over a decade. There are large tracts of agricultural lands in southern Bukidnon province and in the Autonomous Region of Muslim Mindanao (ARMM) where similar partnership projects could be initiated.

Figure 60: RP's agricultural and forest goods exports, distribution, 2009



Source: NSO

Another best practice model that can be followed for coffee exports is to partner companies with indigenous communities in the Mindanao highlands, where coffee growing conditions are ideal. Buyers provide free seedlings, training, and a conditional cash transfer connected to growing the crop. After the seedlings mature, they buy beans at a premium "fair trade" price and sell to the export market. Coffee production helps protect mossy forestlands and watersheds important for local irrigation. The end consumer of the coffee is willing to pay a premium to help save forests and support poor farmers. This model may apply to other upland crops.

Another export opportunity for small Philippine farmers is natural organic farming. Middle-income families will pay a premium for products such as free-range chicken or natural-grown tomatoes. Natural organic farming is well suited for small farmers who can partner with larger businesses to market their products. Filipinos can be competitive in such products for export to Japan, the US, and other large markets. Small farmers can work together in cooperatives and associations.

Oil palm trees and rubber trees are additional crops that large integrators can work with small farmers to grow, process, and export. However, security is a problem for farms in some areas ideal for growing these crops.

In recent years, interest from the Middle East and Korea in investing in food production in the Philippines has been growing. China, the Middle East, and Japan present promising new market opportunities.

Mindanao has the potential to feed Luzon and to export food. It is typhoon-free with excellent soil and weather. But moving produce from Mindanao to markets in other parts of the Philippines remains expensive. According to industry sources, shipping a container of corn from Taiwan to Manila costs US$ 100-200 on average, but from Mindanao to Manila the cost, as high as US$ 1,000-2,000, deters development. With lower transport costs, vegetables from Bukidnon could feed Metro Manila. In Cambodia, the World Bank conducted a thorough study of steps in the agricultural supply chain in order to suggest actions to reduce costs.

There are other long-standing farm infrastructure requirements needing continuing new investment: farm-to-market roads, post-harvest processing facilities, irrigation, phytosanitary inspection facilities, food terminals, cold storage, and food processing factories to allow more local value-added and to take advantage of the new international container port at the Phividec Industrial Estate in Northern Mindanao.[38]

There has been too little investment in irrigation since 1994. Tube wells are more efficient for irrigation than gravity. A tube well involves boring a 5-8” wide stainless steel pipe into an underground reservoir. An electric pump at the top (or small wind mill) lifts water for irrigation.

Despite the long-standing example of the International Rice Research Institute (IRRI) in Los Baños, the Philippines spends a tiny amount on research and development (R&D), only about 0.12% of GDP.[39] There are only three seed companies in the country. Taiwan and Thailand each have dozens of seed companies working on their local R&D. The UP Los Baños agricultural school produces excellent technical articles, but there is a long gap between writing papers and their application in production. There is also a gap between what is actually happening on farms and publishing research studies in journals. Information about best practices being followed in different regions, for example Region 11 in the banana and abaca industries, could be forwarded to other provinces in Mindanao.

The Philippines has little formal central planning seeking to create economies of scale for competitive agricultural export products such as the current leaders: coconut, fish, seaweed, sugar, and tropical fruits (e.g. bananas, mangoes, papaya, and pineapple).

Zoning should be done with the private sector, the people who use the land. Suitable crops should be chosen for the right areas. Products that are most likely to be exported should be prioritized. For example, the Region 11 Regional Development Council (RDC) has a good mixture of public and private sector representatives for planning and zoning in the region. It is composed of governors, regional directors, and the private sector. Businesses, NGOs, and the educational sector are represented and able to influence planning for agriculture.

Countries that are successful in agriculture are ones that have good land settlement and land reform policies, security of land tenure, and small farmers able to sell their land to larger farms. Currently this is not allowed in the Philippines given the 5-hectare ownership limit. In other countries that have instituted land reform, after the distribution of land to farmer beneficiaries has been completed and new owners have security of title, they are allowed to mortgage or sell their

38 Only 14% of local roads in the Philippines are paved. Local roads comprise 85% of the total road network in the country.

39 Latest data is 2005, World Development Indicators 2010, World Bank

land. As long as the small farmer is given a title, how he uses it – to farm, rent, or sell to someone else – should be up to him. The recent 5-year extension of the Comprehensive Agrarian Reform Program (CARP) will give the program a total life of 25 years, a quarter-century. Agrarian reform in the Philippines should end when this law expires after five more years to complete the task. Then limits on landholding should be lifted.

The Agri-Agra Law should be modified. Because mandatory lending does not work, there are few benefits for the agricultural sector. Most banks pay a small penalty not to lend.

CARP beneficiaries cannot sell nor mortgage their land for 10 years, and thus cannot capitalize on their property. Laws should be passed to allow them to do both.

The DA has been engaged for the last two years in preparing an inventory of agricultural lands that can be used for large agricultural export ventures.

The Philippine Agribusiness Development and Commercial Corporation (PADC) has set up a Philippine Agribusiness Center at the DA (www.philagribiz.com) which works with Department of Agrarian Reform (DAR), DENR, Board of Investments (BOI), Philippine Economic Zone Authority (PEZA), and others to develop two million hectares, a goal of the Medium Term Philippine Development Plan (MTPDP) include working with investors in biofuels, biomass, and other high value crops.

Financing is always a critical issue for agribusiness. Both Landbank and Development Bank of the Philippines (DBP) have underutilized financing programs for agriculture, yet the Agri-Agra law was recently amended to increase mandatory bank lending to agriculture from 10 to 25%. In the past, banks have not met the 10% level and will probably not meet the higher 25% level, and will instead pay the small penalty. The DA is in discussion with International Fund for Agricultural Development (IFAD) to develop a special fund that can tap OFW remittances (US$ 17 billion in 2009) to invest in agribusiness projects.

A study discussed by an FGD participant has recommended establishing an Agribusiness Investment Fund with a capitalization of PhP 50 billion. Majority (51%) of the funding should be private while the rest should come from the government, e.g. the Government Service Insurance System (GSIS) and Social Security System (SSS). It should be 60% Filipino-owned so there would be no issues over land ownership. At least 70% of the fund should be reserved for investment in agriculture, infrastructure, and education in Mindanao, while the other 30% could be reserved for other agribusiness regions in the country. Investment bankers familiar with Mindanao should manage the fund. At an average of PhP 100,000 to create one job, this PhP 50 billion could create 500,000 jobs. Grants or soft loans to the fund can be included as preferred stock redeemable over a long period of time, thus improving returns to the common stock and diversifying risk. The Agri-Agra law could be modified to make the fund an eligible investment for financial institutions. The fund can be an alternative investment for banks instead of lending money to farmers.

Agriculture has become less attractive to young Filipinos and to entrepreneurs. There is a shortage of farm managers with adequate entrepreneurial skills. Few college students major in agribusiness. Yet education remains a great enabler for increased agribusiness activity. Agricultural education programs in Mindanao should be improved to meet the urgent need for future agribusiness managers. Entrepreneurship should be a core subject in training programs.

France, Switzerland, and Germany have models for training programs that may apply to the Philippines. France has family farm schools, Germany has dual training centers, and Switzerland has agricultural entrepreneurship training. Short training courses should be available to farmers and students in high school. Foundations and educational/research institutions such as the MFI Farm Business Institute can develop, organize, and fund entrepreneurial and management training. Rice and corn development and proponents of genetically modified crops should expand their current agricultural education programs with high schools and universities in Mindanao.

The failure of agricultural cooperatives in the Philippines is due to mismanagement. Farmers have no formal entrepreneurial and managerial training. Fund management is usually a serious problem; senior managers in cooperatives are often paid unjustified high salaries. The government should assign a competent manager for every area of land given to farmers under the CARP. The Philippines can learn from the success of South Korean agriculture cooperatives.

Japan International Cooperation Agency (JICA) and Korea International Cooperation Agency (KOICA) are providing technical and training assistance. In Region XI JICA has supported eight cluster groups with funds to replant 50 hectares of barren land with falcata trees, intercropped with coffee, creating 150 jobs, reforestation, a means of livelihood, and carbon credits.

The Korean and Philippine governments have a Memorandum of Understanding (MOU) for the Multiple Industry Cluster (MIC) project that includes agribusiness. The Philippines will identify 100,000 hectares to be made available, and South Korea will invite investors to locate in the MICs. KOICA will provide technical assitance. Both governments will provide the data framework for possible Korean investors. A KOICA rural development project has completed a rice mill in the Aurora province; the rice is being sold as KOICA rice. KOICA has also put up a US$ 4 milllion job training center teaching farmers how to plant and harvest larger crops.

Headline Recommendations	
1.	**Multiple new FTAs present great opportunity** for RP agricultural exports. The farming sector should be made aware of these opportunities, as well as threats from imports, so the sector can adjust. **Lowering cost of farm inputs** – through improved infrastructure, lower ground and sea transport costs, less government red tape, cheaper fertilizer and insecticides – become even more essential. **R&D, agricultural education, and training** need ramping up.
2.	**Agribusiness must update old models and develop new ones**. By linking small crop farmers to global and domestic markets, **large corporate integrators (foreign and domestic) are proving the RP can compete**. The Philippine Agribusiness Center of DA should expand its export development projects.
3.	**CARP should end in five years** and limits on landholding lifted. The **Farm Land as Collateral law** should be passed, and the mandated lending policy in the **Agri-Agra law** should be made optional.

Recommendations (18)

A. Philippine agriculture needs to explore fully the immense new market opportunities that AFTA and other new **FTAs present for both traditional and new** agricultural exports. The farming sector should be made more aware of these enhanced export opportunities, as well as the principal threats from imports, so the sector can better adjust to increased competition. (Immediate action DA and private sector)

B. **Increased efforts must be made to reduce the cost of farm inputs,** such as labor, machinery, insecticides, fertilizer, and transport, to support the survival of current producers and to increase exports. Lowering the cost of farm inputs becomes even more important under a more competitive free trade regime. Road and port infrastructure must be improved in order to reduce ground and sea transport costs, irrigation must be expanded and better maintained. There must be less government red tape and lower prices for fertilizer and insecticides. (Immediate action DA, BIR, DENR, DOLE, DTI, and private sector)

C. The GRP should do more to **encourage ASEAN to develop common rules for their agricultural markets** and reduce behind-the-border barriers. (Immediate action DA, DFA, and DTI)

D. To reduce costs and increase efficiencies there **must be increased integration – backwards and forwards – in priority agriculture subsectors,** such as grains/feeds and livestock and poultry growing. Small crop farmers should increasingly be linked in consolidated or cooperative arrangements with large companies in order for their products to be more competitive, in domestic as well as export markets.[40] Integrator companies should provide a guaranteed market

[40] Other examples of integration models not previously discussed include Cargill (coconut oil and carrageenan), Del Monte and Dole (tropical fruit), bananas for export (grown on both large and small farms).

and guaranteed floor price and otherwise facilitate support to small farmers. Farmers need to observe their commitments under contract-type arrangements regardless of market conditions. (Medium-term action DA and private sector)

E. **Replicate the Unifrutti-La Frutera model** combining foreign capital, Filipino agribusiness expertise, and Muslim land and workers in other conflict-affected areas. Target areas should be identified for investment, with partial local financing, and promoted to domestic and foreign investors. Local infrastructure – ports, power, and roads must be improved. (Medium-term action DA, DOE, DOTC, DPWH, PPA, LGUs, and private sector)

F. Encourage firms and NGOs to engage in upstream **"fair trade" development for upland farming communities** (e.g. in coffee), which can protect and reforest areas, preserve watersheds, and enhance irrigation. (Immediate action DA, DENR, LGUs, and private sector)

G. **Development of new export crops and products must continually be encouraged.** Examples include biodiesel components (e.g. palm oil and jatropha), coffee, mariculture, organic food products, and rubber. (Immediate action DA and private sector)

H. **More zoning of agricultural lands** should be done with the close involvement of the private sector in selecting the most suitable crops, with **priority given to export winner crops,** such as banana, mango, pineapple, and other fruit and vegetables. Export crop production zones should be designated, supported by private sector post-harvest and processing facilities. The export cropland identification program of the DA should be strengthened. (Medium-term action DA, LGUs, and private sector)

I. **A detailed study of the agricultural supply chain should be made, followed by actions to reduce redundant and unjustified costs.** (Medium-term action DA and private sector)

J. **Seek to reduce domestic shipping costs.** The cabotage provisions of Philippine marine law should be reviewed, joint ventures between Filipino and foreign shippers should be duplicated, and the Roll-on/Roll-Off (RO-RO) system completed and expanded in order to increase competition and reduce domestic shipping costs. (Immediate action DOTC, MARINA, and private sector)

K. **Encourage more tube wells** powered by pumps and small windmills. Tube wells are more efficient than gravity systems.[41] (Immediate action DA and private sector)

L. **Increase research and development** programs and spending. Drought-resistant food and fodder crops and "floating rice" varieties should be prioritized. **Seed improvement** and development should be a priority, and more companies should engage in these activities. (Immediate priority DA and private sector)

M. Information on Philippine agribusiness **best practices should be better disseminated** to existing and potential farmers and investors. Persuasive case studies can interest and persuade

---

41 See *Infrastructure: Power and Water* below for other discussion of irrigation.

investors. Publish research studies on actual farm practices more rapidly. (Immediate action DA and private sector)

N. Put in place a more **effective network of analytical and testing laboratories in key regions.** Accredit these facilities to international standards to comply with the US Food Safety Enhancement Act, the Japan Food Safety Law, and others. (Medium-term action DA and private sector)

O. **Ramp up agricultural education and training** programs, focusing on entrepreneurial skills for high school and college students. Create a **stronger agribusiness development curriculum.** Prioritize schools in Mindanao. Foreign technical assistance should be provided to improve agricultural education. Training models from France (family farm schools), Germany (dual training centers), and Switzerland (agricultural entrepreneurship training) can be applied to the Philippines. (Medium-term action DA, DepEd, CHED, and private sector)

P. **Farmer groups need support to establish strong cooperatives**, especially through development of competent managers and financing. (Medium-term action DA, CHED, LGUs, and private sector)

Q. A working group comprising of public and private sector experts and donors should **study the Agribusiness Investment Fund concept**. (Immediate action DA, DOF, and private sector)

R. **Several legislative reforms should be undertaken. CARP should end in five years** and limits on landholding lifted. A subsequent law should allow large corporate farms based on acquisition of smaller farms. The **Farm Land as Collateral** law should be passed to allow agrarian reform beneficiaries to sell or mortgage their land. Mandated lending policy in the **Agri-Agra law should be made optional**, allowing the market to determine bank lending while government banks can be more active in lending to small farmers. (Medium-term action DA, Congress, and private sector)

Agribusiness FGD Participants, Moderator and Secretariat

December 3, 2009
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON AGRIBUSINESS

Business Process Outsourcing (BPO)

Sector Background and Potential

> "The Philippines can be the next India, with the right government support. The work ethic is strong, English skills are better. But the government should drive education around technology. Now is the time to move forward, to drive growth and innovation. The Philippines is in a strong position to do that."
>
> *Scott Murray, Chair and CEO, Stream, an American BPO firm quoted in the Philippine Daily Inquirer on February 13, 2010; he said Stream plans to grow its Philippine workforce from 11,000 to 50,000.*

Information technology and business process outsourcing (IT-BPO) is the fastest-growing employment and one of the highest revenue generating economic sector in the Philippines today.[42] IT-BPO is the biggest of our Seven Big Winners, because of its current size, high growth rate, and potential to employ millions of Filipinos.

The sector originated from data-entry and software-writing services in the pre-Internet years and has grown exponentially during the past decade (see Figure 61). Beyond call center services (including customer relationship management and technical support), a wide variety of other business processes are fulfilled over the Internet or leased lines by providers in the Philippines. These include finance and accounting, creative services, billing and collections, document digitization and search engines, engineering design, financial and legal research, human resource management, medical transcription and coding, and publishing.

[42] In general, IT-BPO describes the whole outsourcing industry in the Philippines, including information technology and engineering services outsourcing (also known as ITO or ESO). ITO includes software development, applications development and management, IT infrastructure management, and sometimes technical support. ESO includes engineering design for manufacturing, industry or construction, architectural design, construction management, building management, etc. BPO refers to customer service (voice and non-voice) including back-office, finance and accounting, human resources, transcription, legal processes, also known as knowledge process outsourcing (KPO), and other non-IT or non-ESO services. Animation and game development overlap these classifications and include "creative process outsourcing" elements.

The global financial crisis slowed employment growth in the industry in 2008-2009 to a still rapid rate of 25% per annum after an extremely fast annual pace of 43% in the previous four years. As of 2009, 442,000 Filipinos are employed in the industry (of whom 70,000 entered the industry workforce in 2009), and annual revenues reached US$ 7.2 billion (see Figure 62) or some 4% of GDP and are growing at 36% annually. Within a few years, one million Filipinos could be working in the industry.

Figure 61: IT-BPO industry, employment, in thousands, 2004-2011F

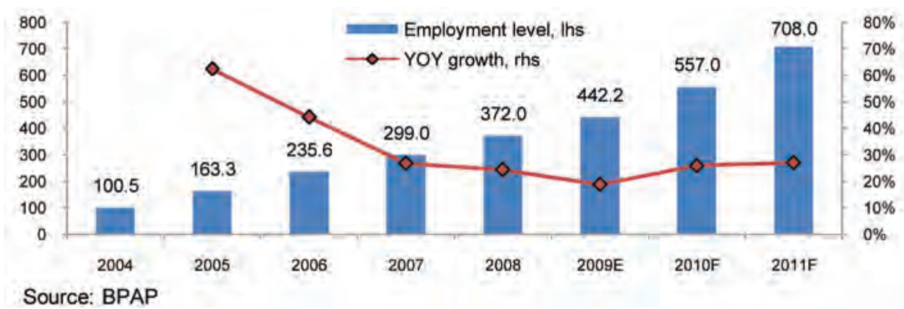
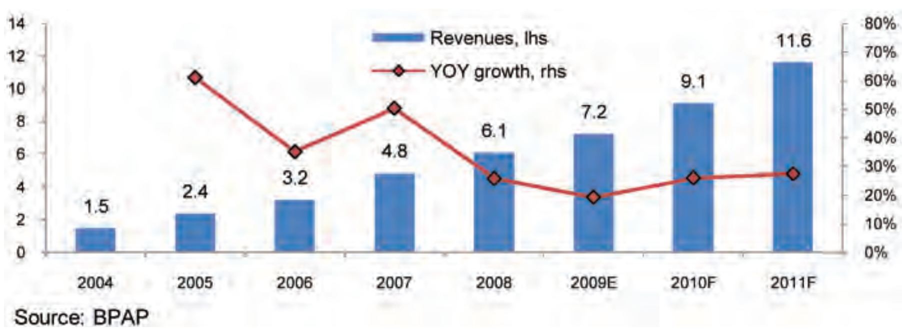
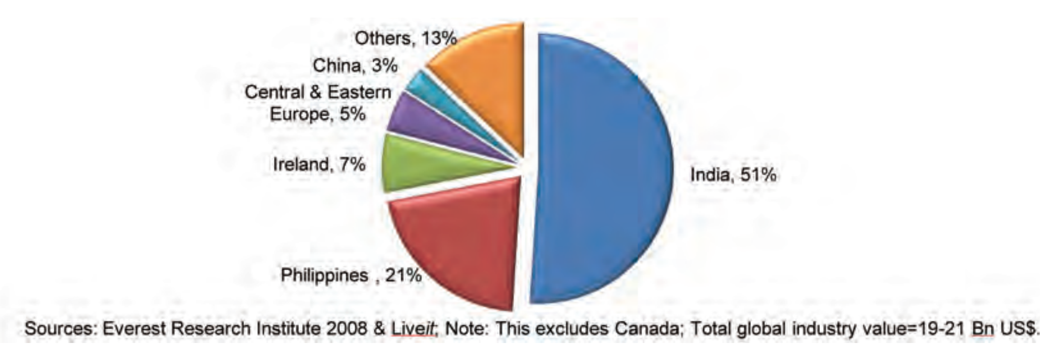


Figure 62: IT-BPO sector revenues, Bn US$, 2004-2011F



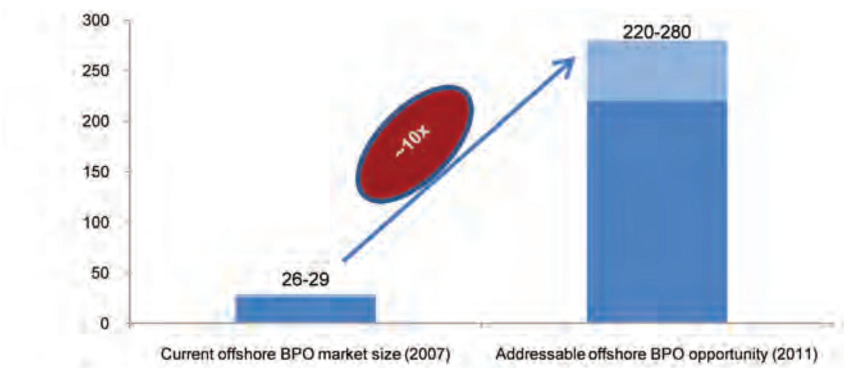
By 2008 (see Figure 63), the Philippines ranked second after India in the BPO industry outside North America, with 19% of the global offshore BPO market compared with India's 45%. While the Philippines has only a tenth of India's population, it has taken a fifth of the offshore market.

Figure 63: BPO delivery location outside N. America, global market shares, 2008



A leading industry research institute estimates current additional opportunities at over US$ 200 billion, eight times the value currently delivered from outside North America (see Figure 64). It is reasonable to describe industry potential in the decade ahead as capable of reaching as high as two million employees and US$ 30 billion in annual revenues. Non-voice employment is growing at a slightly faster rate than voice, and more and more large foreign firms are establishing in-house back-office operations in the country to join the outsourcing firms that are also here. Table 24 shows the rate of employment growth in 2009 of the IT-BPO subsectors showing that back-office or non-voice BPO is currently growing at 25% compared with call centers (23%).[43]

Figure 64: Current and potential BPO market, Bn US$, 2007-2011



Sources: Everest Research Institute 2008 and Liveit

Table 24: IT-BPO subsectors, revenues and employment, 2009

Segment	Revenues			Employment		
	Level, Mn US$	Growth vs year ago, %	Share in total, %	Level	Growth vs year ago, %	Share in total, %
Contact Center	5,000	22.0	69.2	280,000	23.3	63.3
Back-office/KPO (non-voice BPO)	1,118	35.0	15.5	86,000	24.8	19.4
IT (software dev't, application maintenance)	568	-5.5	7.9	35,300	0.0	8.0
Eng'g and design processes	228	0.0	3.2	12,000	0.0	2.7
Transcription	187	3.0	2.6	20,224	0.0	4.6
Animation	120	0.0	1.7	8,000	0.0	1.8
Game development	5	50.0	0.1	640	28.0	0.1
Total RP IT-BPO export	**7,225**	**19.0**	**100.0**	**442,164**	**18.9**	**100.0**

Sources: BPAP

The Philippines has several clear advantages: a large workforce; a large pool of educated, English-speaking talent with a strong customer-service orientation and strong cultural affinity to North America; 450,000 college graduates annually; highly-reliable low-cost international telecommunications infrastructure; diverse and inexpensive suitable site locations; and strong government support. In addition, a survey by a leading industry expert showed call center operating

43 In 2008, employment in back-office or non-voice BPO was at 72%, compared with call centers at 15%.

costs in the Philippines in 2006 were roughly the same as in China and India and about 75% less than in the US.[44]

These key drivers for success must be sustained and country competitiveness strengthened. There are, however, challenges and reforms needed to realize the country's high potential for continued growth.

Challenges and Issues

Legal Framework

There are four areas where the country's legal framework requires attention and, in some cases, reform to help the IT-BPO sustain its global competitiveness. These are retention of current fiscal incentives schemes, the passage of three non-fiscal laws that the IT-BPO industry has identified as priority, labor legislation (current or proposed) that makes it more difficult for firms to compete in the global marketplace, and the practice of declaring non-working holidays.

First, on the current laws providing fiscal incentives to firms registered with PEZA and the BOI, these laws are instrumental in many investors' decisions to set up operations in the Philippines. Almost all new IT-BPO locators establish their operations within PEZA zones in order to avail of initial tax holidays and low taxes after the expiration of their initial holidays. However, for several years, the Department of Finance (DOF) has worked with allies in the Senate to end these fiscal incentives. If DOF's proposal to eliminate incentives becomes law, the growth of the industry could be substantially slowed.

Government would, on the other hand, benefit substantially from further and faster growth of the IT-BPO industry in many ways including taxes from employees. The income of employees is usually taxed at normal income-tax rates, and the 100,000 new workers who will be hired in 2010, for example, will add billions of new government revenue from income, Value Added Tax (VAT), and excise taxes.[45]

Second, the industry was disappointed that the 14th Philippine Congress failed to approve three new non-fiscal laws important to strengthening the legal framework of the industry: the **Cyber Crime Prevention Act**, the bill to create a **Department of Information and Communications Technology (DICT)**, and the **Data Privacy Act**. The first two were approved by the House but had not completed the final stages of consideration in the Senate when the legislative session adjourned.

The Data Privacy Act did not pass the House, and **a bill to remove the prohibition in the Labor Code against female employees working at night was introduced** in the House but made little progress.

---

44 Everest Research Institute, 2008

45 An entry level employee earning PhP 15,000 a month pays PhP 22,500 a year in income tax. One hundred thousand new employees will pay PhP 2.25 billion. When the industry reaches one million, an estimated PhP 23 billion will be paid in income taxes, every year. If one million BPO workers spend PhP 10,000 on goods subject to a 12% VAT the government will collect PhP 14.4 billion. After expiration of ITH, firms located in PEZA zones pay 5% corporate income tax on gross revenues. The faster the industry grows, the more revenue the government collects.

These four bills will be filed again in the 15th Congress and repeat the legislative process. However, having reached advanced stages in the 14th Congress, passage of the Cyber Crime Prevention and DICT bills should be faster, as committee hearings can be completed quickly.

A reason why these bills were not passed was insufficient understanding of the IT-BPO sector and the importance of these bills to the growth of the industry. Although the Commission on Information and Communications and Technology (CICT) and industry leaders actively sought their passage, the harmful effects of non-passage were not well appreciated by legislators.

The DICT bill will elevate the current CICT – the primary regulatory body for information and communications technology in the country established by an executive order – to department status, which most ASEAN countries have done. This will deter a future president from abolishing the commission by executive action.

The lack of legislation on data privacy is a growing cause of concern for prospective investors and a substantial hindrance to the development of the sector in the Philippines. In the 14th Congress the bill was reported out of committee in the Senate but not in the House. Yet English-speaking IT-BPO competitor countries like Malta have legislated data privacy laws.[46] There is a real danger of losing investors to countries with a more favorable legislative framework for IT-BPO.

The absence of protection against data piracy is a key issue for IT-BPO companies that move large amounts of data across borders. The lack of punishment for violators is of great concern to stakeholders. Unfortunately, the importance and urgency of this issue is not understood by legislators.

The Philippines has existing laws including the E-commerce Act, the Consumer Protection Act and other trade and industry-related regulations, which arguably cover some concerns for data privacy. Though these laws do not address the entirety of the problem (they only cover about a fourth of what the data privacy bill covers), the sector can review and possibly amend these regulations in the meantime before the Data Piracy Act becomes law.

A "band-aid" solution could be created to at least address the primary concerns of industry stakeholders. A possible provisional solution may be to revise the IRRs of these laws through a DTI departmental order to address major issues of data piracy. Although guidelines alone do not have the authority to impose penalty provisions without legislation, revising the IRRs may help.[47] Sometimes guidelines can also be the basis for future legislation. There should to be an industry sub-group to study this.

Another potential stopgap measure can be the Revised Penal Code (PD 1718) "Restricting the Use of Documents and Information Vital to the National Interest in Certain Proceedings and Processes." The code is used by Philippine accounting firms to protect their clients from the

---

46 Data Protection Act XXVI of 2001.

47 With the issue of the Labor Code prohibition of night work for women employees, an exception was made in the IRRs allowing women to work at night provided that safety measures are met.

misuse of information when subjected to peer reviews by foreign entities. However, though certain provisions in the code can offer such protection, overall it is not considered to be very strong in protecting data piracy.

The Philippine medical transcription industry, working with practitioners from the US, UK, New Zealand, India, and Caribbean countries, is preparing an "ethical best practices manual" that includes templates for service-level agreements, acceptable business practices, marketing, solicitations, and data privacy guidelines, which the sub-sector hopes can be used to further explain how it works.

These bills for the IT-BPO sector need more champions and advocates in the Congress to support the key sponsors of the legislation in the 14th Congress who are returning in the 15th Congress. However, there is weak public understanding that the IT-BPO sector directly and indirectly provides jobs and contributes to the overall development of the country, and therefore there is little or no support for legislative reform that would benefit the sector.

As a new sector growing rapidly, the public is not familiar with how IT-BPO work compares with more traditional sectors. Some issues unique to IT-BPO companies are misunderstood. People are easily swayed by misconceptions and unproven issues, sometimes aggravated by the media. Misperceptions of the industry can harm support in Congress.

Third, another challenge faced by the industry is that legislation originating in the Congressional labor committees is often not in its interest. Philippine labor laws are oriented towards manufacturing rather than the IT-BPO sector, understandably since the latter did not exist when the laws were made.

Some legislative proposals are motivated by abuses of smaller firms with lower standards that can be rectified without passing a law that may harm the whole industry. (multinational corporations) MNCs have high standards and do not follow the practices such bills are intended to stop. Dialogue among concerned parties in the private sector, government, and labor is the more appropriate solution to prevent such abuses; not new laws, such as the proposed security of tenure bill.

The position of most legislators tends to be pro-labor because they think populism wins them more votes in elections. But pro-business measures increase jobs, which are what many Filipinos need. There is a need for general public education to address this lack of understanding.

In the 14th Congress, the House Labor Committee chairman proposed to review and amend every book of the Labor Code. But while it would be ideal to modernize the **Labor Code** to be like Singapore's, as a strategy it would be difficult to pass such a law. It is too easy for some groups to stop progressive legislation. Political resistance when amending the entire code is greater since a complete overhaul – compared with amending specific provisions – creates much more opposition. As a strategy, the best approach should be to focus on amending high-priority issues and not a complete revamp of the Labor Code.

The Department of Labor and Employment (DOLE) would like to form a tripartite council with the private sector and labor groups to revise parts of the Labor Code. This would consist of key government agencies, such as DOLE, and representatives of the private and labor sectors.

In amending the Labor Code, there are two key areas that the IT-BPO sector should focus on: subcontracting and termination of employment. There are proposed amendments to the Labor Code that would make it more difficult for employers to engage in subcontracting. The sector should advocate against this. In addition, the Labor Code should be amended to make it easier for companies to terminate employees in a reasonable manner.

Finally, the practice of declaring an excessive number of non-working holidays needs to be reviewed in the context of its effect on the productivity and competitiveness of Philippine firms. The Philippines has more non-working paid holidays than its country competitors. For the many firms in the industry operating nonstop, every holiday carries a cost for overtime and holiday pay (see Part 4 *Business Costs*).

New holidays have been legislated or declared (see box on the next page) without any consultation by the Congress or the Executive with the industry and other stakeholders and on extremely short notice, costing the industry millions of dollars of unbudgeted expenses for every holiday declared.

MALACAÑANG
Manila

BY THE PRESIDENT OF THE PHILIPPINES

PROCLAMATION NO. 2043

DECLARING MONDAY, MAY 3, 2010 AS A REGULAR HOLIDAY THROUGHOUT THE COUNTRY…

NOW, THEREFORE, I, LEANDRO R. MENDOZA, Executive Secretary, by authority of Her Excellency, GLORIA MACAPAGAL-ARROYO, do hereby declare Monday, May 3, 2010, as a regular holiday throughout the country.

The Department of Labor and Employment is hereby directed to issue appropriate circular to implement this Proclamation for the private sector.

Done in the City of Manila this 28th day of April, In the year of Our Lord, Two Thousand and Ten.

A new law to **rationalize holidays** should be considered that sets a limit on the total number of non-working holidays. The IT-BPO industry is unique in that its foreign clients observe different holidays than the Philippines and may require services to be provided on Philippine holidays. Rules should be made allowing these firms to pay regular wages for working on such days, as long as compensatory days off are given. Local city and provincial non-working holidays also add to business costs and affect industry competitiveness. Firms that export goods and services could be exempted in order to improve competitiveness.

India, which is the global IT-BPO leader and the Philippines' main competitor, has in contrast increased worker productivity and its edge in labor cost over the Philippines by simply declaring a nine-hour workday. This is an example of how countries with more flexible labor laws will be better able to compete in today's dynamic and hyper-competitive global marketplace. The Philippines will have to reform its legal and other systems with urgency if it wants to sustain its competitive advantage and remain a serious player in the global IT-BPO space.

Labor Supply

According to BPAP, the industry has experienced increasing employment growth rates from 2004 to 2007 for back-office processes and software development at average rates of 60% and 33% respectively, while voice-based services had a declining growth rate, although still averaging 52% in the same timeframe.

A robust talent supply is needed to sustain this growth, but supply continues to be a challenge in both quantitative and qualitative terms. Philippine **educational institutions are not providing a sufficient number of suitable graduates** to meet the labor demands of this rapidly growing sector.

The outsourcing industry's surge in the Philippines has resulted in stiff competition among outsourcing suppliers and buyers alike, with the country supplying low-end bulk services in the voice sector and to a growing extent, non-voice, back-office processes. While the labor supply is adequate, applicants most suited for the work are quickly engaged, contracted, and fought over by existing outsourcing companies. This is reflected in the high attrition rates – with a base range of 30-40% – reported by many voice BPO providers.

This trend may serve as a disincentive for industry players because of the **additional costs attrition entails** as providers are forced to increase spending on recruitment and training efforts. With high attrition rates, companies are also at risk of repeating costs simply to retain employee bases. Further, the competition which higher attrition rates causes has the tendency to put upward pressure on salaries across the industry. Attrition is a high cost that needs a solution.

The relatively high attrition rates may also reflect the intense competition for high-quality labor in established BPO hubs. While there is a steady influx of graduates, the **demand for a high-quality labor pool has been outpacing the supply** in zones of high industry concentration.[48]

The acquisition by non-voice service providers of talent that would previously have been taken by voice-based service providers, also contributes to increasing competition for talent. This is particularly true in the country's voice-based BPO sector in the National Capital Region (NCR) and other established hubs.

In addition, there is a **large gap in the supply of mid-level managers and senior level executives.** Being a relatively young and very fast-growing industry, there has not been

48 A BPAP online survey conducted February 2 to March 1, 2010 with 160 respondents showed that 34% of respondents rated the tight labor market their No.1 risk concern. To meet this concern, an increasing number of respondents said they are providing education and training.

time to nurture enough managers from within the industry to lead its large pools of young employees.

To help address these issues, stakeholders have implemented intervention programs.

For example, BPAP has created a National Competency Test for three broad competency areas applicable to the IT-BPO sector (that is, problem solving, English proficiency, and computer skills). This test will be rolled out nationwide to check core competencies for suitability in the industry among students, graduates, and jobseekers. BPAP has pilot-tested this initiative in a few universities and aims to test 10,000 applicants in 2010.

Test scores will be compiled in a database from which companies can search for suitable applicants according to their needs. This would help companies narrow their recruitment efforts by allowing them to select from pretested applicants whose scores for each competency match their specific requirements. As a more efficient recruitment process, this will save companies much time and resources and thus help sustain industry growth.

Results would also show testees the competencies in which they are strong as well as those which they need to improve to be hirable.

Results will also reveal both the weak areas of schools as well as their competencies, and this information can be used to rank the schools. Schools will find out how their graduates perform on the tests allowing them to take steps to address weaknesses.

If the tests are used by only a few schools and companies, the cost will be very high. But if the IT-BPO industry and universities partner to use the test, the cost would fall dramatically, perhaps to only PhP 200 per testee (from the current cost of about PhP 500).

The effectiveness of this testing and recruitment program will depend on the extent of participation by schools and companies. Participation can be encouraged in several ways including further subsidies from government, subscriptions of companies, affordable fees from test takers, or a combination of these contributions from primary stakeholders. Awareness campaigns and logistical support would also help make the program coverage more comprehensive and the program more effective.

Another education initiative to address the supply of qualified talent, is a program developed by IBM called Service Science Management Engineering (SSME). BPAP, CICT, and IBM are working to optimize the adoption of this program in schools for the IT-BPO industry. The Commission on Higher Education (CHED), which has formed a technical consulting panel to recommend changes in the curriculum, could help speed up the adoption process. However, while CHED assigned two seats to the IT-BPO sector on the panel for IT education, BPAP was not present in any of the panel's six meetings in 2009.

China is aspiring to be a world leader in the IT-BPO industry and is striving hard to improve its education system to cater to the needs of the BPO sector. The Chinese educational system has been very quick to adapt its curriculum to train youth in labor skills in high demand. The University of Beijing, for example, has developed a special degree program for SSME which is being replicated in other Chinese universities. This program qualifies students immediately for jobs within the sector. These initiatives in China indicate the type and level of support that countries are investing to become competitive in the IT-BPO industry; the Philippines should do no less.

Another challenge facing the IT-BPO industry is the **gap between the academe and industry**. While adequate numbers of graduates are produced by higher educational institutions, many graduates take courses not directly related or complementary to outsourcing. This requires companies to invest in training and retraining new hires so that skill sets better match industry needs.

In a forum convened by the Philippine Chamber of Commerce and Industry in 2007, a national sense of urgency to bridge the gap between the academe and industries in general was apparent. The forum acknowledged that the academe must drastically improve the proficiencies of graduates in the following skills sets: English, math, and science technology—the basic academic requisites needed in the outsourcing industry.

English proficiency is important even for non–call center jobs. **Some potential employees are not hired because they are uncomfortable speaking in English**. BPAP has found that when language-training methods used in schools are supplemented with more interactive methods that are typically used in basic training programs in IT-BPO companies, students are able to improve their English proficiency and significantly improve their chances of landing a job. However, these interactive methods can only be effectively provided in classes of no more than 25 students, a class size that is not viable for schools. In addition, classes need to be allowed to run for at least three hours at a time and schools that adopt these methods need to adjust to their class schedules to accommodate this requirement. Finally, schools need to identify teachers that can be trained in the methodology and allow them the time to train.

BPAP has rolled out an initiative called Advanced English Pre-employment Training (AdEPT) that helps schools implement the industry-based program in their curriculum. AdEPT has proved highly effective however it needs more support and cooperation from schools, companies, and other stakeholders to spread its reach and benefits.

Students also lack opportunities outside school to practice English. If students do not hear the language in their everyday lives and are not immersed in it, they cannot master English. Campaigns to increase the use of correct English in the media would go a long way in improving English proficiency on a wide scale for all Filipinos.

Greater IT literacy and access to computers could also drastically increase the number of suitable talent available to the IT-BPO industry. But **computer ownership penetration in the Philippines is very low**, though the number of users is 20 times higher. Most users gain access to computer and the Internet in Internet cafes and there is great potential to market or provide training programs at these sites. There is still a need, however, to increase computer ownership or access through less red tape in importing computers, discount and financing schemes, public computer centers in areas where there are no Internet cafes, and other initiatives.

Donating computers for schools for training programs (that is, science, English and math programs) would also improve education, especially in the 6,000 public high schools, most of which still lack computers. The IT-BPO industry discards large numbers of imported computers which are hard to donate directly to schools because they are required to pay duty on duty-free imported equipment not transferred to similarly privileged persons. BPAP can talk to the GRP to make an exception. The Department of Education (DepEd) is entitled to receive duty-free importation of goods.

Finally, one of the most effective ways of increasing the labor supply for IT-BPO is to sustain a comprehensive awareness campaign on the many benefits of a career in the industry. There is a **mistaken general view that call center work entails a low-end and dead-end job**. Hence, companies are not attracting a very large group of otherwise qualified talent. Students and the public in general should be made more aware of opportunities in the sector.

The awareness campaign could also attract talent from alternative pools such as graduate and labor pools in more remote areas of the Philippines who are not yet familiar with IT-BPO industry; retirees, housewives, and other unemployed or underemployed Filipinos; and employed persons wanting to shift careers or locations. Currently, for example, there are many Filipinos working abroad who can potentially be hired by the industry. India has already undertaken such an initiative. There is therefore an urgent need to reach out all these potential hires to inform them that the IT-BPO industry offers great career opportunities.

Policy Environment

There is **no clear and consistent national policy to support the IT-BPO industry** that is implemented by all levels of government. A few Philippine government agencies understand the benefits of the IT-BPO industry and support the inflow of investment, but others seek to tax companies more and create obstacles making it more difficult for firms to engage in their businesses.

For example, the scope of **BIR policy on 15% income tax for skilled employees of Regional Headquarters is unclear** and inconsistent. This affects potential entrants, employees, and existing companies. The BIR did not undertake a consultative process before certain policies were changed in 2009. There are also different interpretations of policies.

Another area where there can be some unanticipated cost challenges for MNC service providers is where **local government units (LGUs) seek payments in apparent contradiction of PEZA guidelines**. The 1991 Local Government Code gave cities and provinces authority to impose certain regulations, taxes, and fees on businesses. There has been some struggling with LGUs in regard to unclear policies, for example imposition of fees. There is no clear template on how to deal with LGU concerns. Some companies have entered into a MOA with cities to pay reasonable fees for basic city services such as garbage collection and the maintenance of peace and order. More clarity from the national level is needed and explanations given to LGUs in order to avoid misunderstandings and possible problems for IT-BPO locators, especially as they spread to more cities around the country.

Industry Promotion

The GRP does not do a very good job of international investment promotion. International outsourcing conferences hosted by the government, for instance, should be timed better and not be scheduled at the same time as other important events.

There is a **need for a better public information campaign or global advertising campaign** with the participation of the private sector. This is vital and timely because there currently is a window of opportunity to significantly increase the country's market share in the global IT-BPO market.

India is saturated and much of India's top-tier talent has already been hired by the industry or otherwise been taken up. In addition, India and other competing countries recently passed restrictive legislation and rules. Also, it is not a good business strategy to invest solely in one country. Therefore many global companies that have a large presence in India, such as IBM, are expanding and looking for alternative countries.[49] The Philippines, on the other hand, has very favorable prospects. The Philippine industry needs to get together with credible organizations such as BPAP, CICT, PEZA, and the JFC to start a more active information campaign.

LGUs in China are also developing into a real threat in the non-voice outsourcing market. The behavior and incentive structure for LGUs in western China contrasts sharply with the Philippines. In China, LGUs have studied what companies require. They understand that investors find going to several offices to be inefficient. So they have built buildings where key government agencies involved in setting up a new business are represented (e.g. tax, environment, and land registry).

There is also a well-crafted incentive system for LGUs in China. LGUs earn extra funding for their cities and provinces from the central government when they demonstrate their ability to attract IT BPO companies. Hence, there is a high incentive for LGUs to be knowledgeable about the industry and to entertain potential investors. In the Philippines, there is generally an **absence of LGU involvement in investment promotion** and too many **LGUs have even developed disincentives for investors** that operate in the Philippines.

Physical Infrastructure

Internet access is not widespread. Below 12% of the 18-20 million households have access to the Internet, a figure significantly behind other countries.

There is considerable ongoing construction by telecommunication companies to improve infrastructure. Some are focusing on improving wireless Internet services to improve business continuity in times of typhoons. However, wireless cannot completely replace wired Internet connections. There is a n**eed for an extensive higher-speed broadband network** as the Philippines' broadband infrastructure is insufficiently robust (see Part 3 *Infrastructure: Telecommunications*).

[49] In India, IBM went from 4,000 to 85,000 employees in just 5 years.

With the demise of the National Broadband Network (NBN) project of the GRP, the focus has been to work with the private sector to further develop the ICT infrastructure to achieve universal broadband access. CICT is formulating a broadband access plan that will increase Internet access throughout the country.

The **power situation in the Philippines is at a critical level** with demand nearly exceeding reliable supply. New baseload plants are needed (see Part 3 *Infrastructure: Power*).

PEZA was initially created to cater to companies manufacturing for export and locators receive discounted electric power. Although this may be difficult to apply to the IT-BPO sector because the companies do not share a common grid, the IT-BPO sector should explore ways of availing of this incentive.

Office Infrastructure

Rental costs are primarily driven by the market. Although there is plentiful supply of real estate for the IT-BPO sector until the second half of 2011, shortage thereafter will escalate rental rates. Many real estate developers were burned out by the oversupply created in the last three years and have ceased new construction until there is a deficit to push up their returns.

The PEZA rule on density for every seat is 70 square feet. However, some firms have gone to 50 square feet per seat. There is a need to **review the PEZA rule on density as an increased density will have substantial savings**. There is an 18% percent differential between a density of 70 square feet per seat and 50 square feet per seat. This has also been an issue in terms of getting permits especially in PEZA.

Exchange Rates

There could be an **exchange rate at which the Philippines is no longer competitive should the peso strengthen too much and too fast**. The IT-BPO sector should be vigilant and speak out against such a development. An economic advisor of the previous administration projected in early 2010 that remittances could grow to more than US$ 40 billion and 17% of GDP in five years, which could cause the peso to appreciate below PhP 40 to US$ 1. There is much debate over the future value of the peso. The industry should seek to shift to higher-value services to ensure a stable, competitive, and productive business environment supported by a good educational system and information campaign.

Headline Recommendations	
1.	**Strengthen the industry with a robust legal framework**. The 15th Congress should pass as soon as possible: (1) Department of Information and Communication Technology, (2) Cybercrime, (3) Data Privacy, (4) Holiday Rationalization, and (5) much needed Labor Code amendments (all of which improve country competitiveness). Avoid new laws discouraging investment and that make it more difficult to operate businesses.
2.	**Develop a highly positive and supportive environment for the industry**. Achieve wide public understanding of the industry's present and potential contribution to the economy and generate public support for the industry. Adopt the National Competency Test for hiring. Expand higher-speed broadband using new fiber-optic network in more cities. Maintain the fiscal incentive regime supportive of the sector and ensure LGUs are supportive of IT-BPO firms following the intent of PEZA/BOI guidelines. Promote the IT-BPO industry with an aggressive international marketing campaign.
3.	**Raise quality and quantity of labor supply available to the industry**. Implement educational reform to improve quality of graduates. Correct lack of exposure to spoken English by promoting **use of English language in broadcast media** and advertising. Use Internet cafes for English training. Increase computers in public schools and **use computers for English training**. Colleges should adopt curriculum that properly **prepares students for IT-BPO careers**, introduce integrated service, science, management courses and, industry-standard programs in English and technical courses. Expand more certification programs, scholarships, and management development programs.

Recommendations (30)

A. **Strengthen the industry with a robust legal framework, passing five key bills and opposing legislation that harms the IT-BPO investment climate**. The 15th Congress should pass as soon as possible: (1) Department of Information and Communication Technology Act, (2) Cybercrime Prevention Act, (3) Data Privacy Act, (4) Holiday Rationalization, and (5) Labor Code amendments, all improving country competitiveness. Avoid new laws discouraging investment, such as security of tenure. Continue fiscal incentives for IT-BPO. (Medium-term action CICT, DTI, DOF, DOLE, and private sector)

B. The concerned committees in the House and Senate should be asked to **quickly report out two bills – DICT and Cybercrime – which came close to final passage** in the 14th Congress. Stakeholders should urge the Congressional leadership to approve the bills early in the 15th Congress. Industry leaders must participate in committee hearings to inform legislators of the importance of such legislation. The Data Privacy bill will take longer for hearings to be held but should also move quickly. (Immediate action CICT, Congress, and private sector)

C. Draft and pass a **Holiday Rationalization Act** which (1) restricts the total number of national non-working holidays to a regionally competitive number, (2) allows firms servicing foreign clients on Philippine national and local non-working holidays to give employees substitute days off, and (3) exempts firms engaged in the export of goods and services from local non-working holidays. Malacañang should continue to release no later than mid-year the **schedule for the following calendar year of all national holidays**, both working and non-working. Alternatively (to 2), draft and approve DOLE administrative rules to permit IT-BPO companies to give alternative days off to employees who have to work on holidays, in lieu of holiday overtime pay. (Medium-term action CICT, DOLE, Congress, and private sector)

D. In the Rationalization of Fiscal Incentives bill, there should be **double deduction for training within the industry**, regardless of whether the firm paying for training hires the trainee. (Immediate action CICT, DTI, Congress, and private sector)

E. When the 15th Congress begins, **identify champions in both House and Senate who will sponsor key bills and work for their passage**. BPAP, the JFC, and other Philippine business groups and stakeholders should work together with these champions to urge the next administration and the new Congress to enact these bills within a year. (Immediate action CICT, DTI, Congress, and private sector)

F. **Request the next president to convene regular meetings of the Legislative Development Advisory Council (LEDAC)**, a strategy used effectively in the Ramos administration. The president should convene key cabinet officials and Congressional leaders bi-weekly during legislative sessions to decide priorities and strategies to advance the government's legislative agenda. (Immediate action OP and private sector)

G. Materials for the information campaign should **show how the Philippines is lagging behind competitors in terms of its IT-BPO sector business legal framework**. (Immediate action OP, DTI, CICT, and private sector)

H. Pending passage of the **Cybercrime Prevention and Data Privacy Acts, create interim solutions to address the primary concerns of industry stakeholders**. An industry subgroup should study possible revision of the IRRs of the E-Commerce Act and Consumer Protection Act to address major issues of data piracy. Before the Cybercrime Prevention bill is refiled in the new Congress, sector stakeholders should study whether some of its provisions on data protection can be promulgated in a DTI departmental order. (Immediate action CICT, DTI, and private sector)

I. **Review PD 1718 and explore how it can help companies on data piracy issues** in the interim until such a time as a Data Piracy Act is legislated. (Immediate action CICT and private sector)

J. BPAP and other private sector associations should **endorse the "ethical best practices manual" of the Philippine medical transcription industry** that includes templates for service-level agreements, acceptable business practices, marketing, solicitations, and data privacy guidelines.

Recommend to the DTI the manual's inclusion in the revised Administrative Order (AO) on data privacy guidelines and eventually in the Data Privacy Act. (Immediate action CICT, DTI, and private sector)

K. **Develop a highly positive and supportive public environment for the industry, informing the media, public, and Congress of its contribution to the Philippine economy and correcting misperceptions**. Industry and government – in partnership with universities – should undertake a broad-based public information campaign regarding contributions of the IT-BPO sector to the economy in terms of investment, jobs, and public sector revenues. A **special Task Force is needed** to plan and implement this campaign. IT-BPO companies could start the information campaign internally with their own employees. (Immediate action CICT and private sector)

L. The **Task Force should also propose ways to modernize the Labor Code** to make the Philippines more competitive as a destination for investment through revision of IRRs, issuance of department orders, and amendments to the Labor Code. Stakeholders should collaborate with law firms who will help the Task Force draft any needed amendments for introduction in the Congress. (Medium-term action CICT, DOLE, and private sector)

M. Propose **amendments to the Labor Code** that make it easier for companies to reasonably terminate employees and remove the prohibition on night work of women. Oppose amendments that make it more difficult to subcontract; flexibility is important for firms to survive. Work with DOLE to find ways to address abuses by smaller firms. (Medium-term action DOLE, Congress, and private sector)

N. Industry and government should **identify manpower requirement goals** by sub-sector, function, and specialty. There is need to develop more sophisticated quantification of IT-BPO manpower requirements. (Immediate action CICT, DOLE, and private sector)

O. **Adopt the National Competency Test at a regional (if not national) level**. The private sector should agree to use it as a basis for hiring new employees. There is a need for funds from the private sector to administer the test and for commitment from the GRP, if not the companies, to impose a testing requirement. (Immediate action CICT, CHED, TESDA, and private sector)

P. Adopt an **industry-wide technical and leadership management certification** to improve the quality of managers in the sector. (Immediate action CICT and private sector)

Q. **Accelerate development of local managers**. **Introduce SSME as a program/degree** in the Philippine educational system. Business s**chools should develop and train new service industry leaders**. Enhance and advertise the BPAP program to develop new managers; IT-BPO executives should participate as facilitators. The government and private sector should offer more **scholarships to develop managers**. (Medium-term action CICT, CHED, and private sector)

R. BPAP and other private sector leaders should participate in the CHED technical panel in 2010 to suggest **curriculum improvements**. (Immediate action private sector)

S. **Increase the use of English on local television**. Media, advertisers, and MNCs should rethink their strategies and practices. The BPO sector should urge manufacturing companies, advertising and marketing agencies, and television to use more English to improve English proficiency. If the public is exposed more to English on television they will absorb more. (Immediate action CICT, CHED, DepEd, and private sector)

T. **Develop an affordable Internet cafe English training program**. They are accessible, have computers, and are inexpensive. Arrange for high-quality English e learning access at Internet cafes, promote, and incentivize usage. The government can sponsor access to these programs. (Immediate action CICT, DepEd, and private sector)

U. **Develop a program to provide used computers to schools and install English software**. Obtain an agreement between BPAP, SEIPI, JFCs, and DepEd for MNCs to donate used computers to public schools. Seek funds from countryside development funds of congressmen and senators to provide English training software. (Immediate action CICT, DepEd, Congress, and private sector)

V. Organize real estate developers and BPO leaders to **build a university specifically for careers in the IT-BPO industry**. (Medium-term action CICT, CHED and private sector)

W. Totally **reposition the IT-BPO career opportunity as world class** to make it more appealing to applicants. Emphasize senior and middle-level positions in the industry with more developed skill levels. Invest more in training, including sending employees abroad for training programs. Organize BPAP-led internships for college students to expose them to IT-BPO work. (Medium-term action CICT and private sector)

X. **Develop a repatriation program for qualified Filipino talent overseas**, along the lines of the "Balik Scientist" program that attracted engineers from California in the 1990s. Create incentives including payment of moving cost and competitive salaries for executives.

Y. Continue to locate operations in **second and third-tier cities** and provinces. (Medium-term action CICT, LGUs, and private sector)

Z. **Promote the Philippine IT-BPO industry with a well-funded and aggressive international campaign** to better market and promote awareness of the industry. Focus on success stories. There is an urgent need for a sophisticated campaign with participation of the private sector and GRP financial support. As the global recession ends, many companies are deciding where to reinvest, and many decisions will involve outsourcing and offshoring to reduce business costs. (Immediate action CICT, DTI, NEDA, and private sector)

AA. **The Philippine government should publicize a clearer policy supporting development of the IT-BPO sector** that clearly explains the role of each branch of government. The GRP should implement a consistent and stable legal framework and policies to create the environment most conducive to business. GRP agencies should avoid abrupt policy changes and varied interpretations. (Immediate action OP, CICT, DTI, NEDA, and private sector)

BB. **LGUs should become more uniformly supportive of IT-BPO firms in their jurisdictions**. LGUs should follow PEZA/BOI guidelines. One-stop shops should be set up in key LGU sites that are and will become IT-BPO industry hubs. LGUs should be more involved in investment promotion. A common practice for the fees charged by LGUs for services should be established with clear, reasonable, and consistent policies. Publicize the best and also the worst practices of LGUs; reward progressive cities with new investment. Publicity can help correct bad practices and replicate good ones. (Immediate action CICT, DILG, DTI, LGUs and private sector)

CC. Introduce higher-speed broadband. New-generation fiber-optic technology is needed for heavy business tasks, such as transferring large amounts of information at very fast speeds. The **sector needs both wireless Internet and a higher-speed national broadband network**. Government and telecommunication companies should accelerate planning and implementation of higher-speed broadband. Capital investment by the private sector should receive fiscal incentives. (Medium-term action CICT, DOTC, NEDA and private sector)

DD. Take actions to **reduce operating costs**. Study ways for IT-BPO locators in **IT zones to access electric power discounts** granted to PEZA locators at horizontal zones. **Review current PEZA policy requiring density of 70 square feet per seat** and consider 50 feet, which can save 18% of set-up costs. Public and private sectors must **do more to reduce IT-BPO firm attrition rates** as a cost-saving measure. (Immediate action CICT, PEZA, and private sector)

BPO FGD Participants, Moderator and Secretariat

February 18, 2010
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON BUSINESS PROCESS OUTSOURCING

Creative Industries

Sector Background and Potential

The Creative Economy is defined as industries which have their origin in individual creativity, skill, and talent and which have potential for wealth and job creation through the generation and exploitation of intellectual property.

In the Philippines creative industries include a wide array of subsectors including advertising, animation, architecture, broadcast arts, crafts, culinary arts, cultural/heritage activities, design, film, literature, music, new media, performing arts, publishing, and visual arts (see Table 25).

Filipinos enjoy a well-deserved international reputation for creativity. Filipino musicians and singers have long been global troubadours and in recent years are entertaining luxury cruise passengers and appearing on stage in West End and Broadway musicals. Filipino designers and crafts persons have helped the country to be known as the "Milan of Asia" in designer circles. However, the once vibrant Philippine film industry has lost market share to Hollywood imports, while its products have failed to gain the international following enjoyed by East and South Asian cinematographers.

With such a rich and varied base of creative talent, the Philippines should develop the full potential of its creative industries, enhancing its competitive advantage and improving its reputation and becoming better recognized. Unfortunately, there is a lack of understanding and appreciation of these creative industries as a whole. This is partly because the creative cluster cuts across multiple economic sectors and does not yet constitute a cohesive or distinct sector in the traditional sense of an industry cluster. In order to nurture the creative industries, it is vital to recognize and improve its entire landscape. As a critical starting point, the Philippine Creative Industries sector could be mapped in the near future.

There are also several Philippine constitutional prohibitions that work against full development of the sector. The practice of foreign professionals in some sectors in the Philippines, e.g. architecture, engineering, interior design, landscape architecture, law, and others is prohibited or restricted administratively by the Professional Regulatory Commission. Provisions in the Philippine Constitution ban all foreign equity in media and limit foreign equity in advertising to 25%.

Countries that have pursued the creative economy agenda have found sector mapping to be an essential basic tool to develop and promote their creative industry sector. When mapping the sector it is essential to consider whether “creative services” should be expanded to include “Knowledge Industries,” as the two sectors share many inter-linkages.

Table 25: Examples of creative and knowledge workers

Clustered Industries utilizing Creative Workers:	Clustered Industries utilizing Knowledge Workers:
• Advertising	• Business process outsourcing
• Animation	• Engineering design
• Architectural and interior design	• Financial services
• Brand, product and fashion design	• Hardware and systems design
• Cultural exhibition and performance	• Legal services
• Digital gaming and entertainment	• Medical and healthcare services
• Industrial craft	• R&D and consulting services
• Mobile phone applications	• Software development
• Motion pictures	• Website development
• Music and performing arts	
• Radio broadcasting and TV	
• Toys and playthings	
• Visual arts	

Source: Cesar Tolentino, Framework for Clustering Creative Services, 2008

Table 26: Creative goods exporters, developing economies, 2005

		Value (US$ Mn)	Market share (%)	Growth rate (%)
Rank	Exporter	2005	2005	2000-2005
1	China	61,360	18.29	17.6
2	Hong Kong, China	27,677	8.25	0.8
3	India	8,155	2.43	21.1
4	Turkey	5,061	1.51	16.3
5	Thailand	4,323	1.29	5.1
6	Mexico	4,271	1.27	0.5
7	Malaysia	3,233	0.96	7.8
8	Singapore	3,067	0.91	17.5
9	Korea	2,942	0.88	-2.8
10	Indonesia	2,833	0.84	0.1

Source: UNCTAD

Headline Recommendations	
1.	Improve planning with a **Philippine Creative Industries Master Plan**, pass legislation to create the **Creative Industries Development Council**, and organize the private sector into a **Creative Industries Initiative**.
2.	**Stimulate the overall creative industries environment** with human resources development, rebrand the Philippine creative image, protect intellectual property, organize awards, exhibits and lectures, study foreign markets, reduce local costs, develop uniquely Filipino products, encourage tie-ups with large foreign firms, and encourage Filipino talent to stay home, as well as return home.
3.	**Encourage foreigners to practice creative industry professions** in the Philippines, as a key to attracting creative investments and R&D activities, resulting in technology transfer, investment, and job creation. **Remove restrictions on foreign equity in advertising**.

Recommendations (16)

A. **Create a Philippine Creative Industries Master Plan** that details where the industry should be going and steps that must be taken towards its goals. The Master Plan will create a consistent policy framework for the sector (mapping) and cost about PhP 5 million. (Immediate action DTI and private sector)

B. Pass Senate Bill (SB) 2131 (14th Congress) to **establish the Creative Industries Development Council. Ideally, the private sector will drive the council**. (Medium-term action DTI, Congress, and private sector)

C. The private sector should organize a **Creative Industries Initiative** and eventually an effective association/organization similar to BPAP to discuss key strategies to improve the Creative Industries sector and not wait for government to be the prime mover. All subsectors should be included. (Immediate action private sector)

D. The **GRP should** actively facilitate creative industries by **showcasing Philippine talent and releasing budgeted funds** for trade shows and sub-sector specific congresses.[50] (Immediate action DTI)

E. Be more alert and do more to **protect Philippine intellectual property**.[51] Government should not only create laws and rules but also implement and enforce them. (Immediate action DTI and private sector)

---

50 DTI funds budgeted for trade shows and technology development are released only after extreme delays. Many project proposals are not approved and funded.

51 Clients use an idea presented to them without compensation. Original designs from the Philippines are taken to China and Vietnam for mass production without compensation.

F. Re-**Create a Design Center of the Philippines**, where international designers lecture and advanced training for local designers is provided. The Design Center will promote interchange of American, Asian, and European design ideas, while informing potential investors of opportunities in the Philippines. (Immediate action DTI and private sector)

G. Regarding human resources, **improve design curriculum and training facilities** to foster talent development and entrepreneurial skills. Organize internship programs to train apprentices. Be **open to foreign ideas and travel** to understand markets abroad. (Immediate action DTI and private sector)

H. **Expand the Philippine design talent pool** by making better opportunities available to Philippine designers working abroad. Make Filipinos more aware of their design capabilities through awards, exhibits, and lectures. (Medium-term action DTI and private sector)

I. **Encourage foreign professionals to practice and invest in creative industries in the Philippines**, resulting in technology transfer, investment, and job creation. Correct the restrictions in existing laws that do not allow foreigners to practice architecture, landscape architecture, interior design, and other professions. They can own a company that provide those services and hire Filipinos to do the creative work but are not allowed to practice. (Immediate action NEDA, PRC, DTI, and private sector)

J. **Remove restrictions on foreign equity in advertising**. (Medium-term action, chosen method to amend Constitution)

K. **Re-brand** the country's creative products and coherently market them **abroad as distinctively Filipino**.[52] (Immediate action DTI and private sector)

L. **Create a Creative Center** mandated to show the best Filipino talent with events to showcase Philippine designs and conduct lectures. (Immediate action DTI and private sector)

M. Expand the small domestic market by **encouraging Philippine creative industry practitioners to sell what they create abroad**. Ideas and designs can be implemented or produced abroad and adapted to many foreign cultures. Encourage entrepreneurship and create incubators. Foster the export of creative services and products rather than the export of Filipino designers and creative people. Design a program to **bring overseas Filipino creative professionals back home** by providing incentives to work and establish their own companies in the Philippines. (Immediate action DTI and private sector)

N. To compete with lower-cost production centers abroad, **seek greater efficiency and cost savings in domestic production for export**. (Immediate action DTI and private sector)

O. **Conduct foreign market studies** to determine where the local Filipino input in design and/or materials has unique competitive value. (Immediate action private sector)

52 Hong Kong, Singapore, and Thailand are examples of governments promoting creative industries.

P. **Partner with larger foreign companies** abroad with distribution networks for Filipino designs and creative products. (Immediate action private sector)

Creative Industries FGD Participants, Moderator and Secretariat

October 6, 2009
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON CREATIVE INDUSTRIES

Infrastructure

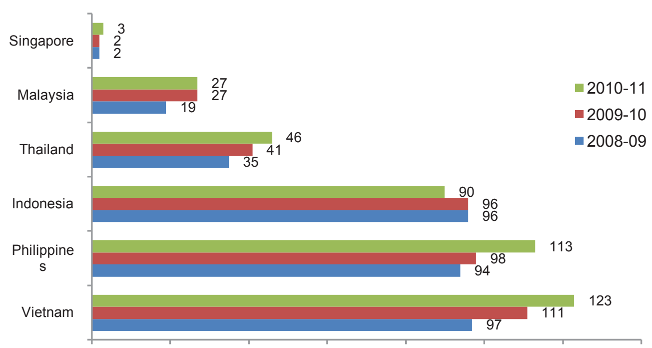
Sector Background and Potential

The Philippines is significantly underinvesting in physical infrastructure, with its public sector infrastructure budget consistently below 3% of GDP. Spending on social infrastructure for education and health is also inadequate at slightly over 4% of GDP.[53]

Polls of businessmen repeatedly show poor infrastructure as one of the top challenges facing the Philippine economy, second only to corruption. Like corruption, poor infrastructure severely weakens economic competitiveness.

In the last two WEF Global Competitiveness Reports, among the ASEAN-6 economies, the country's overall infrastructure quality ranked below Singapore, Malaysia, and Thailand and about the same as Indonesia and Vietnam (see Figure 65).

Figure 65: Quality of overall infrastructure rankings, ASEAN-6, 2008-2010



Source: WEF Global Competitiveness Reports; Note: Number of countries evaluated - 2008-09 (134); 2009-10 (133); 2010-11 (139)

53 Based on calculations from the Asian Development Bank (ADB), as percentage of GDP, the Philippines spent about 2.9% on education, 1.2% on social security, 0.5% on health, and 0.1% on housing and community amenities in 2008. The 2009 DepEd budget of PhP 158 billion represents a per student spending of PhP 8,000 for each of the more than 20 million students in basic education, one of the lowest spending levels in Asia.

Table 27 shows a similar pattern of the Philippines in comparison to the ASEAN-6 countries for measures of power quality, telecommunications, access to water and sanitation, and roads. The Philippines is ranked the lowest for fixed telephone lines per 100 inhabitants and percentage of total road network paved.[54]

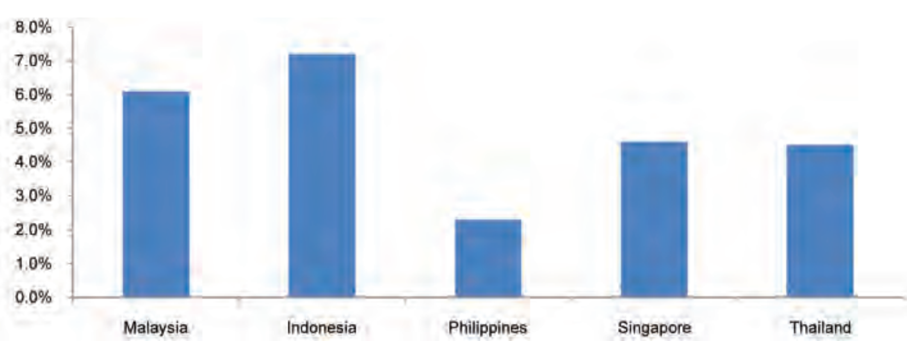
Table 27: Key Infrastructure Indicators, ASEAN-6

Country	Household electrification rate[1]	Quality of electricity supply score (WEF, 2010)[2]	Electricity dist & trans losses as % of total supply (2008)[3]	Main (fixed) telephone lines per 100 inhabitants (2009)	Mobile phone per 100 inhabitants (2009)	Population with access to improved water sources, % (2008)	Population with access to improved sanitation, % (2008)	Road density- Population per km of road	Paved roads as % of total road network[4]
Indonesia	91.1	3.6	10.1%	14.8	69.3	80	52	521.4	59.1
Malaysia	97.8	5.7	2.3%	15.7	110.6	100	96	220.0	79.9
Philippines	83.3	3.4	12.6%	4.5	81.0	91	76	425.7	22.2
Singapore	100.0	6.7	5.1%	39.1	140.3	100	100	1,455.5	100.0
Thailand	99.2	5.7	6.1%	10.4	122.6	98	96	683.1	99.9
Vietnam	96.1	3.6	10.1%	34.9	100.6	94	75	604.5	39.0

Sources: Demographic and Health Surveys, IEA, EIA, ITU, UNESCAP, UN Statistical Data, ASEAN Secretariat, WEF, World Bank and respective public works offices
1 - Indonesia -2007 data (DHS); Malaysia - 2005 (2009 Energy Outlook, ADB); Philippines - 2008 (DHS); Singapore - 2005 data (2009 Energy Outlook, ADB); Thailand (2009 Key Indicators, ADB); Vietnam - 2005 data (2009 Key Indicators, ADB)
2 - WEF GCR 2010-2011; Q: How would you assess the quality of the electricity supply in your country (lack of interruptions and lack of voltage fluctuations)? [1 = insufficient and suffers frequent interruptions; 7 = sufficient and reliable]
3 - Derived using International Energy Agency Data
4 - This refers to the entire road network; Indonesia - 2008 data (Public Works); Malaysia - 2006 data (Public Works); Philippines - 2005 data; Only national roads data are officially released after 2005 (Public Works); Singapore - 2007 (ASEAN

The Philippines spends a lower percentage of GDP on infrastructure than competing ASEAN economies, as shown in Figure 66. After reaching a low of 1% in 2005, the percentage increased to 2.1% of GDP in 2009 (see Figure 67). If spending on infrastructure continues to remain low, efficient modern infrastructure will not be built fast enough to meet the challenge of being an archipelago with a high and rising urban population density.

Figure 66: Infrastructure spending, ASEAN-5, % GDP, 1980-2009 (annual average)

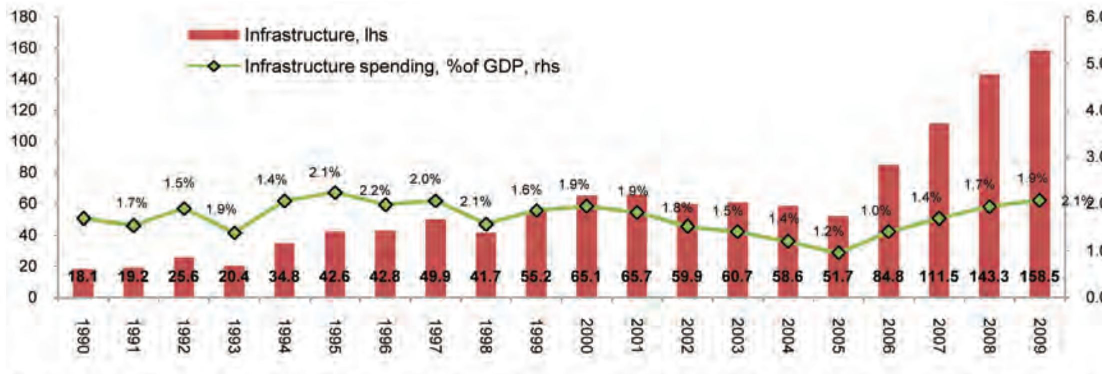


Sources: BusinessWorld May 13, 2010 (Other countries, per DOF Usec Beltran's statement) and DBM (for the Philippines)

---

54 While 70% of the national roads are paved, only 14% of the local roads, which comprise 85% of the total road network, are made of concrete or asphalt.

Figure 67: NG Infrastructure spending, Philippines, 1990-2009



Source: DBM, obligation basis; Note: Other capital outlays include capital transfers to LGUs (20% of IRA allocation for development projects), special shares to LGUs and other capital outlay items not classified elsewhere.

Inadequate funding for infrastructure during the last decade contributed to the weakened competitiveness ratings for the country's overall infrastructure as well as the continued listing of poor infrastructure as a major weakness in its investment climate. Despite the availability of external private and public sector financing, the government was unable to implement significant Public Private Partnership (PPP) projects nor could it avail of significant sums of low-interest loans for infrastructure from China. A lack of transparency and extraordinary levels of public controversy characterized what in most countries is routine infrastructure project development and implementation.

The administration of former President Macapagal-Arroyo in 2003 began a policy initiative to improve inter-island connectivity through the RORO Road Terminal System (RRTS). In her 2006 SONA former President Macapagal-Arroyo highlighted more than 400 projects (mostly related to air, ground, and marine transport) targeted for completion before the end of her term in 2010.[55] Some of the projects were criticized as politically motivated to dissuade congressmen from supporting an impeachment motion against the president.

The overall infrastructure record of the outgoing administration is weak, considering it had almost ten years to complete projects. It neglected to start many major projects and to utilize several which were completed. The administration expropriated the privately-owned international passenger terminal at the national gateway airport in December 2004. The Philippine-German joint venture that built the terminal has not been compensated after more than five years, despite the assurances of the Philippine government that all issues would be settled expeditiously. There are new ports in Batangas and Subic which are hardly used. The Department of Transportation took seven years to approve a US$ 1 billion light rail project in Metro Manila. For ten years it was unable to decide how to bid and award another large light rail project. Manila residents paid a terrible price in lives and property when one typhoon's torrential rains proved the high risk of neglecting

[55] Subsequently, the president issued several executive orders creating an Infrastructure Monitoring Task Force to oversee implementation of the projects and then renaming the Task Force as the Pro-Performance System Steering Committee and adding private sector representatives. The Presidential Management Staff serves as secretariat.

flood control infrastructure and unregulated urban sprawl. Maritime safety remains a major issue, highlighted by many small and several large disasters. Power blackouts became frequent in the Visayas and Mindanao in 2010.

The Philippines faces urgent infrastructure challenges. The most urgent is assuring an adequate supply of power, eventually reducing its cost through increased competition among generators. The second is improving the efficiency of transportation, by air, land, and sea, which is too crowded for a population growing in size and spending power. A third is the water supply, which is not enough for drinking and farming and too much during typhoon season, as well as poor sanitation and solid waste disposal systems. By contrast, telecommunications services, in the hands of competing private sector providers, are much improved following reforms initiated by President Ramos in the 1990s.

The three following tables list major infrastructure projects of both the public and private sectors. The projects in each are listed by category as airport, power, rail, road, seaport, telecommunication, and water. The tables cover three different time periods, with the later including several projects still at the conceptual stage.[56]

- Table 28: Completed projects (2001-2010)
- Table 29: Under construction or being financed in 2010
- Table 30: Priority future projects (2011-2020)

Table 28: Major infrastructure projects completed, 2001-2010

Project		Financing	Cost Est. Mn US$	Year completed
AIRPORTS				
Bacolod-Silay Airport		DOTC	81	2008
DMIA (Clark) Terminal Expansion/Radar		CIAC	11	2008
Iloilo Airport		DOTC	175	2007
NAIA (Manila) Terminal 3		BOT[57]	640	2008
POWER				
Mindanao coal STEAG	(232 MW)	BOT	305	2006
North Negros geothermal PNOC	(49 MW)	GOCC	155	2007
Panay coal Global Power	(164 MW)	private	164	2010
Sibulan hydro HEDCOR	(43 MW)	private	109	2010
Toledo coal CEDC	(2 x 82 MW)	private	328	2010
RAIL				
LRT-1 North Extension		DOTC	140	2010
LRT-2 Light Rail		DOTC (JBIC)	1,000	2004
South Rail Commuter (Tutuban-Sucat)		PNR (ROK)	50	2010

[56] Sources for the three tables vary but include media reports and government websites, data from the Pro-Performance System Steering Committee secretariat and industry experts. Project costs are approximated in dollar terms and may not reflect actual peso costs because of exchange rate conversion variations.

[57] Expropriated by the Philippine Government in 2004; the final amount of compensation due to the German-Filipino joint venture owner ($64 million has been paid) has been undergoing arbitration at the International Chamber of Commerce International Court of Arbitration in Singapore for several years, with final approval to be made by a Philippine court.

ROADS			
Bohol Circumferential Road	DPWH	50	2006
Southern Luzon Expressway (SLEX) widening/expansion	BOT	200	2010
Southern Tagalog Arterial Road (STAR) 2 (Lipa-Batangas City 2 lanes)	BOT	55	2008
Subic-Clark-Tarlac Expressway (SCTEX)	BCDA (JBIC)	500	2008
SEAPORTS			
Batangas International Container Terminal	PPA (JBIC)	120	2007
PHIVIDEC International Container Terminal	PPA (JBIC)	85	2004
RO-RO Road/Terminal System (12 projects)	PPA	14	2006-2008
Subic Bay Port New Container Terminal 1	SBMA (JBIC)	215	2007
Subic Bay Port New Container Terminal 2	SBMA (JBIC)	160	2008

Sources: Pro-Performance System Steering Committee, company and government websites, media reports, and direct verification

Table 29: Major infrastructure projects underway,[58] 2010

Project		Financing	Cost Est. Mn US$	Status
AIRPORTS				
Caticlan, Panay		Private	56	2012-2014
DMIA Passenger Terminal Expansion		CIAC	8	late 2010
San Vicente, Palawan		DOTC	13	2010
POWER				
Ambuklao hydro rehab SNAboitiz	(70MW)	private	280	late 2010
Bacman geothermal rehab EDC	(110 MW)	private	208	2012
Bukidnon biomass Global Green	(35 MW)	private	84	2012
Calaca coal rehab DMCI	(320MW)	private	320	early 2011
Iloilo biomass Global Green	(17.5 MW)	private	42	2012
Mariveles coal GNPower	(600 MW)	private	600	2012
Naga, Cebu coal KEPCO Salcon	(200 MW)	private	400	2011
Nasulo geothermal EDC	(20 MW)	private	50	2013
Nueva Ecija biomass Global Gr	(17.5MW)	private	42	2012
Toledo coal CEDC	(1 x 82 MW)	private	164	2011
RAIL				
MRT-7		PPP	1,200	2014
North Rail Phase 1		GRP (PRC)	500	2012
North Rail Phase 2		GRP (PRC)	500	NIA*
ROADS				
Cavite Coastal Road extension		PPP	NIA	Stalled
Manila Skyway Phase 2		private	400	late 2010
NLEX to C-5 Connector		Public	31	2010
NLEX to Tondo Connector		Private	NIA	NIA
SLEX to STAR (Calamba-Sto Tomas)		Private	NIA	2010
TPLEX (Tarlac to La Union) (89 kms)		PPP	400	2014
SEAPORTS				
RO-RO terminals and road connections		public	NIA	NIA*
WATER				
Manila Aqueduct		MWSS	117	2014

*Sources: Pro-Performance System Steering Committee, company and government websites, media reports, and direct verification *NIA stands for no information available.*

58 Underway includes projects undergoing financing and under construction.

Table 30: Major infrastructure projects to implement, 2011-2020

Project		Financing	Cost Est. Mn US$	Status
AIRPORTS				
Cebu airport terminal expansion		DOTC	NIA	NIA
Coron terminal and runway expansion[59]		DOTC	NIA	NIA
DMIA Passenger Terminal 2		CIAC	200	USB[60]
NAIA Terminal 1 modernization		NAIA	NIA	NIA
Puerto Princesa terminal expansion		DOTC	NIA	NIA
POWER				
Angat hydro rehab Korean Water	(28 MW)	private	28[61]	NIA
ASEA One biomass (4 in Visayas)	(72MW)	private	180	2013
Binga hydro rehab SNAboitiz	(120 MW)	private	120	late 2013
Bukidnon biomass Global Green	(36 MW)	private	36	2012
Burgos wind	(116 MW)	private	230	2011
Conal coal, Sarangani	(200 MW)	private	200	2012
Ilijan CCG expansion KEPCO	(300 MW)	private	300	NIA
Kalayaan expansion CBK	(360 MW)	private	360	2013
Leyte-Surigao transmission upgrade		private	NIA	NIA
LNG facility and power plant		private	NIA	NIA
Magat hydro expansion SNAboitiz	(180MW)	private	360	NIA
Mindanao hydro privatization/rehabilitation	(101 MW)	private	NIA	NIA
Mt. Apo III geothermal EDC	(50 MW)	private	138	2014
Nuclear power	(2 x 600 MW)	private	5,000	NIA
Pagbilao coal expansion	(350 MW)	private	350	2015
Pantabangan-Masiway hydro expn	(112MW)	private	224	NIA
Quezon Power coal expansion	(500 MW)	private	500	2015
Rangas geothermal EDC	(40 MW)	private	100	2015
Redondo coal Aboitiz/Taiwan Cogeneration	(300 MW)	private	550	2013
Sabangan hydro Aboitiz	(28MW)	private	56	NIA
San Gabriel gas FPP	(550 MW)	private	550	2013
Semeria large coal plant	(1,200 MW)	private	1,200	NIA
Sita hydro Aboitiz	(42MW)	private	84	NIA
Sorsogon-Samar transmission connection		private	NIA	NIA
Tanawon geothermal EDC	(40MW)	private	100	NIA
RAIL				
Cebu LRT		DOTC	NIA	NIA
High speed rail Clark to NCR CBDs		PPP	5,000	NIA
LRT-1 south extension Phase 1		PPP	1,400	NIA
LRT-1 south extension Phase 2		PPP	1,000	NIA
LRT-2 east and west extension		DOTC	350	NIA
LRT-4		PPP	1,000	NIA
LRT-8		PPP	1,000	NIA
North Rail extension north of Clark		PNR	500	NIA
South Rail rehabilitation to Bicol		PNR	500	NIA
ROADS				
Cavite-Laguna (CALA) Expressway (23km)		DPWH	300	NIA
Cebu-Mactan 3rd bridge		NIA	NIA	NIA
Cebu-Bohol bridge (18 km)		NIA	NIA	NIA
Davao to General Santos expressway		DPWH	NIA	NIA
Danao to Talisay expressway, Cebu		DPWH	NIA	NIA
LRT 1 provincial bus terminal to Cavite[62]		PPP	290	NIA

59 Any policy to declare Coron and Puerto Princesa as pocket open skies airports should include upgrading each airport's infrastructure to international standards including international flight rules (IFR) capabilities.

60 Unsolicited bids have been submitted.

61 Power generation cost estimates assume US$ 1 million per MW for coal and gas, US$ 2 million for hydro and wind, US$ 2.4 for biomass, and US$ 2.5 million for geothermal and nuclear.

62 Provincial bus operations to and from the North and South could start and terminate at these bus terminals. The light rail system will provide inter-modal connectivity to and from the metropolis.

Manila Connector (Skyway to Tondo)	PPP	400	NIA
Metro Manila Tollway C-6 (Lakeshore Dike to NLEX)	DPWH	850	NIA
MRT 7 provincial bus terminal to Bulacan	PPP	NIA	NIA
NAIA Expressway (Phase 2) (NAIA to Coastal Road)	NIA	NIA	NIA
North East Luzon Expressway (456 km)	PPP	190[63]	NIA
SLEX 4 (Calamba-Lucena)	PPP	450	NIA
STAR northbound lanes Lipa-Batangas City	PPP	NIA	NIA
SEAPORTS			
Batangas/Subic international container port utilization[64]	DOTC	NIA	NIA
Complete RO-RO with terminals	DOTC	NIA	NIA
Hub port facilities in regions	PPP	NIA	NIA
Manila cruise ship terminal	PPP	NIA	NIA
TELECOMMUNICATIONS			
Broadband, higher-speed expansion	private	2,000	NIA
National government data center & website	DICT	NIA	NIA
Wi-fi in large cities	PPP	NIA	NIA
WATER			
Cebu Bulk Water Manila Water (35 MLD)	PPP	NIA	NIA
Manila Aqueduct	MWSS/PRC	117	2013
Manila Bulk Water Laiban (1,900 MLD)	MWSS	630	NIA
Manila Bulk Water Sierra Madre (500MLD)	MWSS	165	NIA
Manila Bulk Water Wawa (550 MLD)	MWSS	180	NIA

Sources: Pro-Performance System Steering Committee, company and government websites, media reports, and direct verification

Arangkada Philippines 2010 does not analyze or make recommendations for the entire infrastructure of the Philippines.[65] This policy paper focuses on major projects in Central Luzon and the NCR, where most of the country's industry is concentrated and where one of the world's largest urban mega-regions is rapidly expanding (see Table 31). Manila presently is the world's 5th largest urban area with an estimated population of 20.8 million in 2010. By 2030 Manila is projected to be the world's 3rd largest urban area (after Jakarta and Tokyo-Yokohama) with a projected population of 34 million inhabitants. An increase of 13 million residents will require very large investments, not just to maintain the current poor condition of infrastructure but to achieve substantial modernization to improve national competitiveness.

63 US$ 190 million for Phase 1 6-lanes Quezon City to Baliuag, Bulacan; subsequent phases will traverse Nueva Ecija north to Tuguegarao, Cagayan.

64 Arangkada Philippines 2010 recommends a policy to decongest Manila Port by gradually shifting international container traffic to the ports of Batangas and Subic to utilize the completed facilities at both ports for international container shipping.

65 The World Bank's extensive 2005 study "Philippines: Meeting Infrastructure Challenges" contains data and recommendations still valid. More recently, the Philippines-Australia Partnership for Economic Governance Reforms (PEGR) prepared the Draft National Transport Policy Framework document dated October 30, 2009.

Table 31: Population of Urban Mega-regions, 2010 and 2030 (E)

Urban Area	2010 population, mil	Land sq. km	Density pop'n /sq.km.	2030 population estimate, mil
Tokyo-Yokohama	35.200	8,677	4,057	36.035
Jakarta	22.000	2,590	8,494	37.040
Mumbai, MAH	21.255	777	27,355	31.360
Delhi, DL-HR_UP	20.995	1,425	14,733	32.800
Manila	20.795	1,425	14,593	34.135

Source: Demographia. 2010 World Urban Areas and Population Projections. Jul. 2010.
Tokyo-Yokohama includes large areas Tokyo, Kanagawa, Chiba and Saitama prefectures and small areas of Gumma, Tochigi and Ibaraki prefectures.
Urban area of Jakarta includes Jakarta, and urban areas of regencies of Tangerang, Bekasi, Bogor and Karawang and the cities of Bekasi, Depok and Bogor.
Mumbai includes Kalyan, Bhiwandi, Virar, Vasai and Panvel.
Delhi includes Faridabad, Ghaziabad, Noida and Gurgaon.
Urban area of Manila includes Metro Manila and urban areas of Bulucan, Cavite, Laguna, Rizal and Quezon provinces.

COMPONENTS OF QUALITY MODERN INFRASTRUCTURE: CENTRAL LUZON

- An extensive, seamless **limited access road** network
- An extensive, seamless **light rail** network
- North and South **heavy rail** lines for passengers and cargo
- Two international **airports with modern terminals and high-speed rail** connection (NAIA and DMIA) extendable to Batangas and Subic
- Three **seaports with competing operators** (a decongested Manila with international cargo moved to Batangas and Subic)
- Reliable, more affordable **electric power**
- Reliable **water supply** and **flood control**
- Reliable, low-cost state-of-the art **telecommunications** with high-speed broadband and free public wireless coverage

Source: Presentation of John Forbes at a Transportation Workshop, January 15, 2010

Many of the recommendations made for the Seven Big Winner sectors require infrastructure in the country's other urban centers and rural areas. The Agribusiness sector needs better farm-to-market roads and post-harvest facilities, including cold chain storage, and ports. Mining require better roads and ports. Interisland shipping needs to be safer, more efficient, and less costly. Most of the country's most attractive tourist destinations need better air and sea access, improved roads, water, and sanitation. Increasing business processing investment at secondary and tertiary cities requires dependable telecommunication links, while reliable and lower-priced power is essential for the entire economy.

Turning this vision into reality in a decade can be possible if recommendations in the following sections are implemented. Funding in the tens of – perhaps as high as one hundred – billions of dollars will be needed (see Table 32). Such large amounts of funding are not available from the public sector and ODA, but can be provided by the private sector, both domestic and foreign, investing in PPPs. However, private investors will only participate in well-prepared projects in an investment climate that provides them contractual and regulatory confidence of fair returns on their equity.

Table 32: Infrastructure funding gap (Bn PhP), 2003-2010

Period	GDP (Current Prices)	Public Sector Infra Budget	Required Infra Spending at 5% of GDP	Infra Funding Gap at 5% of GDP	% Gap
2003	4,316	124	216	92	2.1%
2004	4,872	106	244	137	2.8%
2005	5,444	117	272	155	2.8%
2006	6,031	141	302	161	2.7%
2007	6,647	163	332	169	2.5%
2008	7,423	206	371	165	2.2%
2009	7,669	239	383	144	1.9%
2010	8,221	211	411	200	2.4%

Source: DBM

In the following pages, Arangkada Philippines 2010 presents recommendations developed at three FGDs on infrastructure hosted by the American Chamber of Commerce: (1) Airports and Seaports, (2) Power and Water, and (3) Road and Rail. With some exceptions, recommendations focus on the geographic area from Batangas north to La Union province, an area with a population of over 36 million and the highest PCI in the country at about US$ 2,468.[66]

"The Philippines is not just in a state of power crisis, or water crisis, it's in a state of infrastructure crisis. It is not just the blackouts and lack of water the next president should worry about. It's everything else—deteriorating roads, major railways not being built, a nautical highway that has one of the world's worst safety record (more than 200 maritime accidents every year), and an international airport that is a national embarrassment—to put it mildly. And one that's been so for eight long, unnecessary years."

Peter Wallace, Manila Standard, April 23, 2010

"We will level the playing field for businesses. We will encourage free and fair competition in a level playing field that stresses that one need not be a crony in order to be successful in this country. We will make our bidding and procurement policies and processes more transparent, and punish those who seek to circumvent procurement laws through collusion and other illegal means."

Benigno Simeon Aquino III, www.noynoy.ph, accessed May 5, 2010

66 Per capita income is computed using the 2008 Regional Gross Domestic Product (RGDP) of NCR and regions 1-4 divided by the 2008 population estimates of NSO covering the said regions. 2008 RGDP data are the latest figures available. The average exchange rate in 2008 which is PhP 44.4746 per US$ (BSP) was used to convert the value in current dollar terms. Total population of the area was computed by simply summing up the 2010 population estimates of NSO for the provinces of La Union, N. Vizcaya, Quirino, Pangasinan, Tarlac, N. Ecija, Aurora, Zambales, Pampanga, Bulacan , Bataan, NCR, Rizal, Cavite, Laguna, and Batangas.

"What we Filipinos should realize is the need for logical continuity in long-term infrastructure, and not these outright reversals and constant changes."

Gilbert Teodoro, GMANews.TV, March 4, 2010

Gilberto Teodoro said the construction of a Cebu-Bohol bridge will be given immediate attention if elected into office. The anchors of the bridge will be Getafe and Cordova towns in Bohol and Cebu, respectively. Passing through shallow waters, the bridge is estimated to be 18 kilometers long.

Philippine Star, January 22, 2010

Manuel Villar, Jr. said all infrastructure projects would be bid out in the first year of his administration so that the next five years would be devoted to construction and project monitoring. He cited in particular the interconnection of NLEX and SLEX, and the extension of NLEX from Pampanga up to La Union.

Business World, accessed May 5, 2010

"I am pushing for a live broadcast of the procurement processes of the government… This will have two desirable effects: first, it can minimize if not totally eliminate corruption in bidding out government contracts, and second, it would educate the citizenry on some important aspects of government operations."

Manuel Villar, Jr., www.senate.gov.ph, January 15, 2010

Reforming the Infrastructure Policy Environment[67]

Legal issues

- *Build-Operate-Transfer (BOT) Law*

The BOT Law (RA 6957), enacted in 1990 and amended in 1994 (RA 7718), is the legal framework for BOT and PPP projects. However, there is no single government agency in charge of BOT/PPP planning and project preparation, and very little is said in the law about the role of the government for project planning and preparation, principles and policies on risk sharing, and risk allocation.

- *Unsolicited Proposals*

Too many contracts are awarded under the unsolicited mode. RA 7718 states that the government may accept unsolicited proposals provided that the project involves a new concept or technology,

[67] Of the three FGDs devoted to infrastructure, the Road and Rail FGD spent considerable time discussing more general infrastructure policy issues applicable to most sectors. The recommendations are included here and the discussion specific to road and rail projects appears after the section on "Power."

requires no government funding, and/or is not part of the list of priority projects. Projects have been removed from the priority list to qualify for unsolicited proposals. The timeframe for developing a proposal under Swiss challenge (i.e. 30 days) is too short.

- *Joint Venture Agreements (JVA)*

The head of a government agency has full authority to sign a JVA. This process lacks transparency and competition. The public becomes aware of the project only after the agreement is done, and terms of the agreement are not usually disclosed. Other government agencies (e.g. DBM, DOF) learn of the project only when funds need to be released. NEDA has no oversight role in the approval process. The JVA has become a preferred mode of private sector participation in infrastructure projects, as the approval process is significantly shortened, and oversight is almost nonexistent.

- *Foreign Equity Restrictions*

In the Government Procurement Reform Act (RA 9184), a 25% cap on foreign equity is imposed on some infrastructure projects. In some projects where security is an issue, foreign equity is reduced to zero. Some projects require advanced technologies that may not be locally available. Foreign companies can provide such technologies but their participation is limited and opportunities to partner with local companies are limited.

Project Planning, Prioritization, and Approval

- *Long Term Planning*

There is lack of long-term planning for infrastructure development. Usually, project duration is co-terminus with the term of an administration. New projects that cannot be completed towards the end of a presidential term are no longer implemented nor prioritized.

- *Lack of Technical Capability to Plan and Prepare BOT Projects*

The government has not demonstrated the technical capacity to plan and prepare documents for potential BOT and PPP projects. As a result, many projects encounter problems that delay implementation and sometimes lead to cancellation.

The government must have the capacity to determine which projects are commercially viable for the private sector. At present, there is a BOT office in the DTI, but it has very limited staff and inadequate technical capabilities and financial resources. Project preparation requires technical expertise, commitment, and an adequate budget for the preparation of feasibility studies, bid terms of reference, etc.

The role of government is not limited to preparing the list of priority projects but extends to the preparation of necessary documents to make the BOT process work. For example, government hastily identified the Panguil Bay Bridge project in Mindanao for BOT financing without the benefit of a feasibility study. Three years later, the Department of Public Works and Highways (DPWH) determined it was not commercially viable for the private sector.

Senior government officials present brochures and power point presentations in meetings and conferences showing Potemkin-like projects "offered" to the private sector.[68] When the private sector enquires about their details, including bidding schedules, answers are evasive.[69] However, when projects are viable and well-prepared and the process is transparent, investors and lenders will come in (see "Transparency in Procurement and Implementation" below).

- *Politicized Project Prioritization*

The Office of the President has great discretionary power regarding the release of Countrywide Development Funds (CDF), which are often used to reward political support. A study shows that only 38% of CDF infrastructure projects came from Highway Development and Management Version 4 (HDM-4) generated projects.[70] Most (62%) are politically determined. HDM-4 is a framework that allows for the systematic prioritization of infrastructure projects. The CDF originated after the 1987 elections with an allocation of one million pesos per representative and has increased to PhP 70 million. Each senator is allocated PhP 200 million. These amounts are usually budgeted annually.

Slow Project Approval

Infrastructure project approval in the Philippines is very slow. Investors have to wait a minimum of five years before a project is approved. Immense time and effort are needed from the start of the planning stage to approval. Inefficiency adds to project expenditure, raising the cost of doing business and the cost of the project itself. To prove that the GRP is serious in improving infrastructure, there is a need for a faster, yet still reliable, project approval process.

Infrastructure Budget and Release

- *Congress re-allocates the DPWH budget*

Congress inserts, deletes, and realigns some of the projects submitted under the president's National Expenditure Proposal submitted to Congress each year. The list of approved projects in the General Appropriations Act (GAA) usually differs from the NEP. However, OP-DBM may

---

68 Potemkin refers to a pretentiously showy or imposing façade intended to mask or divert attention from an embarrassing or shabby fact or condition (Random House Unabridged Dictionary, 1997).

69 The former Secretary of Finance and the former Acting Director General of NEDA presented projects at the April 2008 Philippine Development Forum (PDF) at Clark. The same projects were presented at the Wallace Business Forum in Makati by the DTI Secretary in December 2008. At both fora the private sector was asked to invest, but JFC members were unable to obtain details of the bidding schedule in follow-on enquiries with government agencies.

70 HDM-4 provides a powerful system for road management, programming road works, estimating funding requirements, budget allocations, predicting road network performance, project appraisal, policy impact studies, and a wide range of special applications. Its development was sponsored by international funding institutions and supported by national governments, and other organizations, particularly: Department of International Development, UK; World Bank; Asian Development Bank; and the Swedish National Road Administration *(www.hdmglobal.com/AboutHDM4.htm)*.

impound the appropriated budget for some projects (listed in the GAA) and realigned to other projects (proposed by political allies).

- *Delayed submission of project requirements*

Payment of claims by the government is subject to submission of complete supporting documents. In foreign-funded projects, submission of all required documentation must be completed within the loan period for the financial institution to release funding. When delayed, all payables are borne by the GRP. This imposes an additional burden to its limited budget.

- *Delayed release of funds*

A major cause of delayed implementation is the slow release of funds by DBM to implementing agencies.

Lack of Transparency in Procurement and Implementation

Transparency is a problem in almost all types of government infrastructure projects – whether JV, BOT, or government funded – and at all levels of government. Resources are misallocated. There were two large tollway projects where variation orders worth a few billion pesos were approved, and the public was not informed. Even the Congress in its oversight function has only very limited access to accurate information.

The Freedom of Access to Information Act (when enacted) will require disclosure of details of government transactions, such as infrastructure projects. It allows the public to request further information from the responsible government agency. In other countries, such as the US, there is a Federal Register where hundreds of government actions are published online for stakeholder input. If the government does not comply, its actions may be subject to post-hoc judicial challenge.

DPWH and DBM are already required to post on their websites information on major projects (e.g. the project amount, releases, expenditure, information of contractors and suppliers, etc.). But this is not followed in practice, especially for Congressional infrastructure projects. When agencies such as the DPWH and DBM are asked about non-disclosure of their projects, they respond that the information is "sensitive." Information on suppliers and contractors is also not disclosed with government agencies explaining doing so would infringe on their "privacy."

Lump sum and Congressional Allocations

Some projects cannot be specifically identified ahead of time; thus the justification for "lump sum" budgeting. Emergency projects such as typhoon and flood control and subsequent infrastructure repair and maintenance cannot be predicted exactly (although the country experiences typhoons and floods every year). Lump sums also include budgets for right-of-way and preliminary detailed engineering.

However, the largest amount of lump sums is classified under Various Infrastructure and Local Projects (VILP) where Congressional allocations are included. Legislators identify specific infrastructure projects for financing under this fund. The amount of lump sum in the 2009 DPWH budget was PhP 25 billion, out of a total capital program budget of PhP 86 billion.

Some projects are deliberately classified under the lump sum budget to make the spending non-transparent. Of the estimated CDF (PhP 70 million per congressman and PhP 200 million per senator), PhP 40 million is spent for hard or infrastructure projects (most of these come under the VILP of DPWH). There is no system that shows how and where money is spent. Sometimes money is spent on "ghost" or non-existent projects. Even within Congress, there is very limited transparency.

Cost overruns

Poor project preparation and implementation can lead to high cost overruns. A major source of additional and unforeseen costs is the non-cooperation of LGUs. In one case, a mayor threatened not to issue a permit for the LRT-1 north extension between Trinoma and Monumento if there would be no station in his city.

Risk sharing

Risk allocation must be defined at the beginning of a project in order to clarify the responsibilities of each party (public and private) in BOT, PPP, and JV projects.

Poor Record of Unsolicited Projects

Unsolicited proposals have not worked well in the Philippines, whether financed bilaterally or by the private sector. An international financial specialist commented "In the 15 years that I've been in the sector, I've not seen an unsolicited proposal succeed. And success should be measured not in terms of the contract being signed, but in terms of the project getting financed, built and actually operated."

Example 1: NAIA IPT-3 has become an international case study in how NOT to do a PPP project. Almost two decades after the project was initiated, the structure has been built, expropriated, and is operating sub-optimally while the ancient terminal it was intended to replace is one of modern Asia's most dilapidated international gateway facilities.

Example 2: LRT-1 South Extension, badly needed by commuters in fast-growing Cavite, lost its Canadian development partner through right-of-way (ROW) delays. Following this, a WB-IFC proposal was undercut by an unsolicited offer from a Chinese firm with powerful domestic Philippine allies. Without any clear-cut policy to bid out the project, government incompetence and special interests have left commuters stuck in traffic for a decade.

Headline Recommendations	
1.	**Double spending on infrastructure to 5% of GDP with a pipeline of PPP projects**, professionally prepared and transparently bid and implemented. Draw on international technical assistance to move forward **nearly PhP 200 billion in viable road and rail projects. Draw on nearly PhP 1 trillion in available local funds.**
2.	**Legal and procedural reforms will be needed to revitalize PPP programs**. Amend the BOT law and its IRRs. Amend or rescind the JVA EO. Assure that the NEDA-ICC reviews all major projects. Strongly discourage unsolicited project proposals. Remove foreign equity restrictions. Speed up project approval process using timetables/deadlines. Release DBM funds in timely fashion. Use congressional CDF only for needed infrastructure. Create and follow a 10-year infrastructure master plan. Implement the National Transport Plan.
3.	**Increase transparency and reduce corruption and controversy over infrastructure projects. Protect investors from political risks (TROs, LGU interference, right of way problems). Pass the Freedom of Access to Information Act**. Develop a government on-line registry of projects and a private sector website to monitor the top 200-300 projects against guidelines. Disclose all JVA projects prior to MOA signing.

Recommendations (25)

A. **Double infrastructure spending to 5% of GDP with PPP**. Overcome the constraint of low tax collection and the high budget deficit by **harnessing available resources and capacities of the private sector for infrastructure development**.
(Medium-term action)

B. Prepare, bid out, award, and **implement with full transparency several large PPP projects** that are already viable. This can **create a pipeline of PPP projects** to attract domestic and foreign investors. (Immediate action NEDA, DOTC, DPWH, DOF, DTI, and private sector)

C. **Potential pilot PPP projects include two rail and three toll road projects**: LRT-1 South Extension and LRT-2 East Extension and the Cavite-Laguna Expressway, C-6, Expressway and SLEX 4 Calamba-Lucena. Total estimated cost of these five projects is PhP 173 billion. (Immediate action NEDA, DOTC, DPWH, and private sector)

D. To speed the process, **use foreign technical and financial assistance**; bring in experts who can be “embedded” in line agencies to prepare project bidding, evaluate proposals, and rank proponents with project monitoring to be done at PMS and final decisions made by the cabinet and the president. (Immediate action NEDA, DOTC, DPWH, and DOF)

E. Use available **domestic capital for infrastructure investment**. Interest rates are low and sustained growth in domestic liquidity indicates funds are available. Special Deposit Accounts and Reverse Repurchase Agreements total **nearly PhP 1 trillion**. (Immediate action private sector)

F. **Create a coalition** of the Philippine Bankers Association, investment houses, and the Philippine Constructors Association and agree **to promote good projects and good processes** (transparent and competitive). Foster participation between local and foreign contractors, investors, and banks. (Immediate action private sector)

G. **Amend the BOT Law**. The role of the GRP in planning and preparing infrastructure projects for BOT should be more clearly defined. GRP should determine and identify projects it will undertake and projects to offer to the private sector under BOT/PPP. Increase Swiss challenge timeframe from 30 to 180 days. Pending passage of amendments, review again and issue revised BOT IRRs. (Immediate and medium-term action NEDA, DTI, Congress, and private sector)

H. **Institute long range planning for infrastructure development**. Plans should not be limited to one president's six-year term of office. Infrastructure project planning should be depoliticized. NEDA should consider a **10-year plan**, rather than encouraging plans, such as its MTDP and MTPIP, which are always for only a single presidential term. (Medium-term action NEDA, implementing agencies, and RDCs)

I. Government should **minimize removing projects from its PPP priority list**. All priority projects **should be solicited** and awarded through public bidding. Require all major projects to undergo **review by NEDA-ICC**. (Immediate action NEDA and implementing agencies)

J. Study setting up a **Philippine Infrastructure Facility** with a World Bank (WB) loan, as Indonesia has done. Funds can be sought from donors, insurance companies, OFWs, and others. The fund could support project preparation and promote PPPs, as well as take equity and debt positions in projects. (Medium-term action NEDA and DOF)

K. **Rescind or amend the EO on JVAs**. Review all JV arrangements and ensure that they are consistent with NEDA Board policy that major projects (over PhP 500 million) should pass through the NEDA-ICC. (Immediate action NEDA and line agencies)

L. **Require mandatory disclosure of projects under JVA prior to the signing of an agreement**. Adhere to the principle "No decision is valid without pre-signing disclosure." Review rules on risk sharing in the EO on JVAs. (Immediate action NEDA and line agencies)

M. **Reduce cost overruns due to unsolicited inputs particularly from LGUs**. Clarify the limits of LGU authority regarding national projects, but also include LGUs and local communities in stakeholder consultations to explain project benefits. **Protect investors from political risks (TROs, LGU interference, right of way problems).** (Medium-term action NEDA, DTI, DILG, LGUs, and line agencies)

N. **Review foreign equity restrictions on infrastructure** with a view to maximizing foreign participation. (Immediate action NEDA, DTI, and DOJ)

O. **Implement the National Transport Policy Framework** and the **National Transport Plan** (2011-2016) that were prepared with the support of Australian Agency for International Development (AusAID). (Medium-term action NEDA and line agencies)

P. **Build technical and legal capabilities of government agencies to prepare BOT projects**, to have technical expertise to determine viability of BOT projects, to prepare feasibility studies, and to better allocate risks. More funding and technical assistance should be made available for such capacity building. (Medium-term action NEDA, DTI, line agencies, and private sector)

Q. **Government should create reasonable timetables to address the long registration period of BOT projects**. Upon submission of a proposal, there should be a 90-day deadline for approval. Information should be on agency websites with credible explanations when deadlines are not met. (Immediate action NEDA and DTI)

R. **CDF should be utilized for necessary infrastructure projects and not follow political considerations**. Strictly use HDM-4, which identifies and prioritizes project funding using objective technical and economic criteria. (Medium-term action DBM, DPWH)

S. Process and **submit supporting documents during the loan period** prior to expiration of loan, so the financing agency shares payment of obligations. (Medium-term action NEDA, DBM, DPWH, and private sector)

T. **DBM should release funds on time** to meet contractual obligations and diminish the backlog of payment obligations. (Medium-term action DBM)

U. Continue and **strengthen the Pro-Performance Team** that monitors infrastructure project implementation. (Immediate action OP and PMS)

V. **Pass the Freedom of Access to Information Act**. There should be a complete commitment to transparency. Create penalties for non-compliance of disclosure requirements and implement thoroughly. (Immediate action Congress)

W. **Develop an on-line registry for information on infrastructure projects**. Require permanent and updated online disclosure for priority projects, including timeline, status of project, proposed and actual expenditure, variation orders, etc. Foreign technical assistance should be requested to create a website to track major projects. When the Freedom of Access to Information Act is passed, it will be mandatory for government to fully disclose transactions. (Immediate action NEDA, DBM, and COA)

X. The **private sector can also create a website tracking the top 200-300 large infrastructure projects**, or find an independent government agency to create such a website (e.g. NEDA) without a need for legislation or an EO. (Immediate action private sector and NEDA)

Y. **Lump sum budgets should be kept to a minimum**, if not totally avoided, in order to promote transparency and accountability. (Immediate action DBM and DPWH)

Road and Rail FGD Participants, Moderator and Secretariat Members

November 12, 2009
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON ROADS AND RAIL[71]

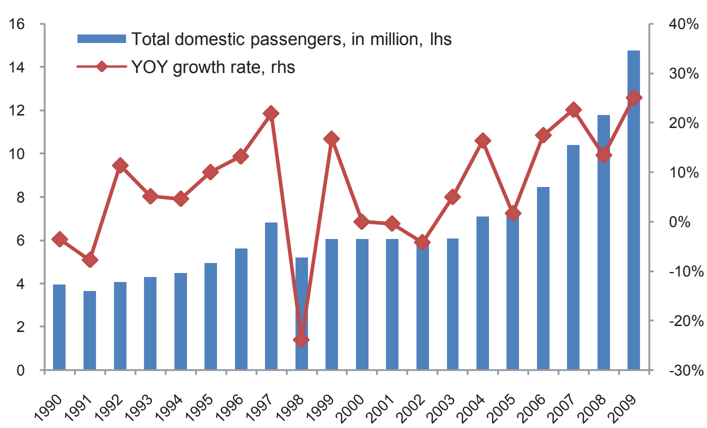
71 The FGD on Road and Rail spent much of its time discussing reforms in process, resulting in the recommendations listed above. It also discussed roads and rails, and its recommendations for these are described under the Road and Rail section below. Its members included several former senior officials and investors with considerable experience in the Philippines who made valuable contributions.

Infrastructure: Airports

Sector Background and Potential

With its archipelagic character, the Philippines depends on air and sea transport much more than countries with large continuous landmasses. Since a high percentage of domestic and international commerce and travel is by air and sea, the efficiency of aviation and maritime transportation has become increasingly critical to national competitiveness. There is much room to improve efficiencies and improve the logistics costs for goods and associated services. The high cost of domestic marine transport has long been questioned, while the enormous potential for tourism – both domestic and international – is greatly influenced by the quality of airports and seaports. Solutions to the numerous challenges involved in creating an efficient modern air and sea transportation system require addressing policy and regulatory impediments as well as upgrading and rationalizing airport and seaport infrastructure and networks.

Figure 68: Total domestic air transport passenger traffic, 1990-2009

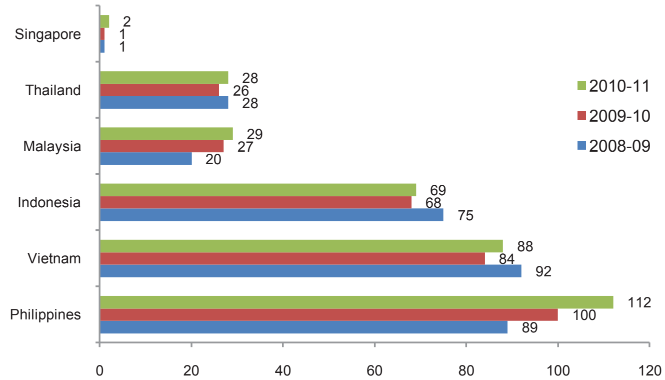


Source: CAB

Figure 68 shows the high rate of growth in passenger volumes for domestic air transport, tripling following the deregulation of the industry by former President Ramos in the early 1990s.

For several years (e.g. 1996-1997 and 2006-2007) annual increases were roughly 20%. Filipinos are flying more than ever, as competition in the aviation sector has provided affordable alternatives to maritime travel. More affordable air fares since the mid-1990s have also stimulated the growth of domestic tourism. Similar high rates of growth can be expected in the next few years, which will require more investment in modernizing airport infrastructure. Not only new terminals are needed. Few airports are equipped for night operations and most need navigational and radar improvements. Policies that encourage more direct international flights to secondary cities are urgently needed to relieve congestion at the Ninoy Aquino International Airport (NAIA).

Figure 69: Quality of air transport infrastructure rankings, ASEAN-6, 2008-2010



Source: WEF Global Competitiveness Reports; Note: Number of countries evaluated - 2008-09 (134); 2009-10 (133); 2010-11 (139)

Figure 69 shows the WEF ranking of air transport infrastructure for the ASEAN-6 with the Philippines ranked lowest, slightly lower than Vietnam and Indonesia and considerably lower than Malaysia, Singapore, and Thailand.

The Philippines lacks a modern showcase international gateway airport. Currently, the country has no airport even close to the quality of new facilities as regional competitors such as Bangkok, Beijing, Guangzhou, Hong Kong, Incheon, Kuala Lumpur, Nagoya, Narita, Osaka, Shanghai, Singapore, and Taipei. First impressions of foreign visitors arriving at the leading international gateways Manila, Cebu, and Clark are that terminal facilities are modest (NAIA Terminal 2 and Terminal 3 and Mactan), small, or dilapidated (Clark and NAIA Terminal 1 and domestic).

At NAIA, the airport master plan of the early 90s for three new terminals has not been followed. The cargo terminal has yet to be built, while new domestic Terminal 2 (T-2) and international Terminal 3 (T-3) terminals were built but have not been used for their original purposes. The new GOJ-financed domestic terminal that opened in 1999 has been used exclusively for domestic and international flights of Philippine Airlines (PAL) despite not being designed for requirements of international aviation (customs, immigration, and lounges).

The new international terminal, built by a Philippine-German joint venture, was expropriated by the GRP in 2004 when the owners were accused of corruption and overpricing. The two arbitration cases filed in the International Criminal Court in Singapore and International Centre for Settlement of Investment Disputes in Washington, have been decided in favor of the government in that the Anti-Dummy Law was violated. The DOF has given assurance that the government is committed to pay any amount the local Expropriation Court decides is due investors. Meanwhile, Cebu Pacific, the other major Philippine-owned airline, and Air Philippines and PAL Express have been allowed to relocate their NAIA flights from the ancient domestic terminal to T-3. International carriers, unwilling to move to T-3 until the ownership dispute is resolved, continue to operate from the very outdated Terminal 1 (T-1).

Full operation of T-3 will require the present taxiway to be closed so that only one runway will be available to all domestic, international, and general aviation flights. A fuel depot and lines must also be in place. Aside from T-3 being underutilized, the lengthy period since the government expropriation has created an irritant in RP-European relations and harmed the country's investment image abroad. Expansion of NAIA beyond its current area of 600-hectares would require extensive demolition of business and residential areas.

The 1991 eruption of Mt. Pinatubo and subsequent erosion of Philippine political support for American military bases gave the GRP operational control of two extremely large installations at Clark and Subic in Central Luzon. Two decades later the special economic zones together host almost 145,000 employees and are becoming increasingly integrated, with Subic the international seaport and Clark the international airport serving the adjacent provinces.[72] DMIA has room to build a 2nd and even a 3rd parallel runway adjacent to the two existing runways.

The Subic-Clark zone has tremendous potential for aircraft and ship assembly and maintenance, education, ITES, logistics, manufacturing, medical tourism, retirement, and tourism and could host many hundreds of thousands of more jobs with sound policies, promotion, and investment. Road connections from Manila to Clark and to Subic have greatly improved. In the decade ahead, the North Rail will become operational to San Fernando. A high-speed rail to link NAIA and DMIA has been proposed, and extension of rail service to Subic in the future should be considered, should the project be implemented (see Map 1).

Outside Central Luzon, airports in the various regions are being improved, although only a few have international service. Under the new National Tourism Act of 2009 (RA 9593), a province can be declared a Tourism Economic Zone, which could allow air or cruise ship service of any flag to operate with low taxes. Pocket open skies, which has stimulated tourism in several places in Asia, has not been tried in the Philippines, despite urging of such a policy for Clark from domestic business groups and foreign chambers.

However, the GRP negotiated bilateral air traffic rights agreements with 26 countries from May 2007 through February 2010, greatly expanding the potential number of flights between the Philippines and each country.[73] These agreements are effectively bilateral open skies agreements

---

72 Clark: 57,118 (2010) and Subic: 86,631(2010); total for freeports is 143,749.

73 Australia, Bahrain, Brunei, Cambodia, Canada, Finland, Hong Kong, Iran, Japan, Kuwait, Libya, Macau, Malaysia, Netherlands, New Zealand, Oman, Qatar, Russia, South Korea, Singapore, Spain, Thailand, Turkey, United Arab Emirates, United Kingdom, and Yemen.

since it will take many years to fully utilize the allowable inbound flights. Foreign airlines are burdened with the Common Carriers Tax (CCT) and Gross Philippine Billings (GPB), as well as customs, immigration and quarantine (CIQ) overtime charges, taxes and fees not imposed elsewhere and which make serving the Philippines less attractive for foreign airlines than more business-friendly regional destinations.

Map 1: High-speed rail connecting NAIA and DMIA

"I'm struck by Bali's example. Here's an island destination that's gone from a few hundred thousand visitors to three million in part because of an open-skies policy. We need to adopt the same approach in the Philippines."

President Benigno Aquino III, Jakarta Globe, Karim Raslan, March 3, 2010

"We have natural traits and skills for tourism. We can be the beach capital of the world… Our problem is we have to do some policy on certain airports to be declared open skies. Thailand, Cambodia and Vietnam have open skies."

Richard Gordon, Philippine Daily Inquirer, May 5, 2010

Foreign airlines and international courier delivery firms are currently considered public utilities and cannot serve the domestic market except as minority partners owning no more than 40% of equity. The two foreign courier delivery firms with hubs in the Philippines have shifted their hub flight operations from Clark and Subic to China to serve the latter's fast-growing market.

Headline Recommendations	
1.	**Prioritize investments in airport terminal, runway, and communication facilities**. A Transportation Master Plan for Central Luzon until 2050 is needed. DMIA should become the primary international gateway and NAIA primarily a domestic airport.[74] NAIA: renovate T-1 for wide-body international; connect T-1 and T-2; use T-3 for narrow-body domestic/international. DMIA will need a 2nd parallel runway, a new passenger terminal, and high-speed rail connection to NAIA/Makati. Settle the NAIA T-3 investor case.
2.	**Each region should have one international airport only** (convert existing airports). Prioritize Laguindingan. Expand Mactan. **Reform the Civil Aviation Authority of the Philippines (CAAP)** in order to reverse Federal Aviation Administration (FAA) and EU downgrades. Implement the Japanese government-funded Air Traffic Management Project of the Department of Transportation and Communications (DOTC).
3.	**Prioritize international tourism and increase international carrier service through reduced costs and pocket open skies** (starting with Palawan). Prepare for ASEAN open skies. Before more foreign airlines terminate Philippine service, replace Customs, Immigration, and Quarantine overtime, meal, and transportation fees with 24/7 government service and end unwarranted taxes on carriers (gross Philippine billings and common carriers tax), which other countries do not charge.

Recommendations (15):

A. The GRP should **prioritize investments in airport terminal, runway, and communication facilities**. There is a need for an **NCR/Central Luzon Transportation Master Plan** that includes a strategy for development, until mid-century, of the major gateway airport(s) as well as minor airports. The plan should include ground rail and road transport infrastructure linking the airports and cities, including major ports. (Medium-term action DOTC and NEDA)

B. There should be only **one international airport per region**, with existing airports converted into international airports, in preference over building new airports. (Medium-term action by DOTC and NEDA)

C. Outside Central Luzon, priority should be given to **Laguindingan** in Northern Mindanao. At **Mactan**, the runway should be extended and high-speed ferry links to Tagbilaran increased rather than creating a new airport at Panglao. (Medium-term action DOTC and NEDA)

---

74 There is another view that NAIA should remain the primary international gateway since transferring to a less convenient airport may curb the growth of carrier services through a decrease in demand and an increase in operating expenses. There will be a market for regional, domestic, and general aviation services in Clark but not a full scale international gateway, even with a high speed rail connecting the airport to the CBDs in Metro Manila. Instead, NAIA should be expanded by expropriating land around the airport, be improved through major upgrades, and be optimized through better terminal allocation and efficient airport use management.

D. Make Clark an alternative gateway to Manila/NAIA.[75] **Eventually make Clark the primary international gateway** and NAIA the secondary, but still the primary domestic hub.[76] **Connect with a high-speed rail line** (see Map 1). (Long-term action DOTC and NEDA)

E. **The local Expropriation Court should quickly decide the amount due to NAIA T-3 investors**. Subject to needed repairs and additional construction, begin to fully utilize the terminal for growing domestic traffic and for regional traffic using narrowbody aircraft. (If widebody aircraft are to use T-3, a new taxiway should be built separate form domestic runway 13-31.) (Immediate action DOT and DOJ with private sector)

F. Because T-1 is closest to international runway 06-24 and the international cargo terminals, **T-1 should undergo phased renovation** for continued use by long-distance widebody aircraft. T-1 should eventually be connected to T-2 to allow domestic to international transfer between buildings.[77] (Medium-term action DOTC)

G. A **new fuel depot for NAIA is needed** as the current depot leaks and is too close to T-1 and T-2. (Medium-term action DOTC)

H. If most international traffic is moved to **Clark, there should be a second parallel runway, a terminal with a 20-million passenger capacity, and a high-speed rail** connection.[78] (Long-term action DOTC and private sector)

I. Quickly **resolve the downgrading of the CAAP** from Category 1 to Category 2 status by the **US FAA and the 2010 EU decision** to prohibit Philippine carriers from European airports. (Immediate action DOTC and CAAP)

J. Improve the business and investment climate for international air carriers and enhance long-term connectivity, tourism, and trade competitiveness by setting the level of aviation taxes and charges to conform to international agreements and standards by **removing discriminatory tax burdens such as the CCT and GPB**.[79] (Medium-term action DOF, DOT, and Congress)

---

75 NAIA has a land area of only 600 hectares, while DMIA has 2,367 hectares. NAIA is hemmed in by roads and dense commercial and residential development; Clark is not. NAIA cannot expand; Clark can.

76 NAIA handles 90% of the country's international and 75% of domestic traffic. Manila Domestic Terminal is the oldest. Terminal 1 is the second oldest (1980s) and in an advanced stage of dilapidation. Over 20 foreign carriers use its 16 gates. Terminal 2 was opened in 1999. PAL, using 7 gates for domestic and 5 for international, has outgrown T-2. Terminal 3 has 20 gates but was built along the domestic runway which cannot handle wide-body aircraft.

NAIA runways are currently operating at full capacity from 7:00 am to 7:00 pm. Tourism is growing steadily, increasing the need for more international flights at Clark.

77 For T-1 and T-2 to connect, the fuel depot and NAIA cargo terminal must be relocated; the fuel depot at its current location is a hazard to both terminals.

78 Other Asian countries have relocated international gateway airports outside congested capital city airports. Hanoi, Hong Kong, Incheon, Jakarta, Kuala Lumpur, Nagoya, Shanghai, and Tokyo are examples. In some cases (such as in Nagoya and Tokyo) the older inner city airports have subsequently been allowed limited international flights. For residents of northern parts of the NCR, Clark is closer than Manila because of better highway connections to DMIA.

79 These tax burdens often exceed profit margins of international carriers and are not imposed in other regional countries. In the past decade Air Canada, Air France, British Airways, and United Airlines ended service to the Philippines, and Northwest Airlines dropped one of its daily wide-body flights.

K. Amend the Immigration Act of 1940, Tariff and Customs Code of the Philippines, and the IRRs of the Quarantine Act to **relieve the burden from customs, immigration, and quarantine overtime, meal, and transportation charges for airlines and shippers**. Declare 24/7 operations at all international airports and ports and make the State shoulder the overtime payments for CIQ personnel. (DOT, DOTC, DOF, DOJ, DOH, and Congress)

L. **Revise take off and landing fees**, make weight the main determinant, **charge the same fees to international and domestic** airlines.[80] (Immediate action by DOTC)

M. Modify equity rules to **allow Asian low-cost carriers to compete in the domestic market**.[81] (Medium-term action Congress)

N. Complete US$ 270 million GOJ-funded **Communications, Navigation, and Surveillance/ Air Traffic Management project** of the DOTC to modernize Philippine airports and improve air travel safety. (Medium-term action DOTC)

O. Make **Palawan a Tourism Economic Zone, adopting pocket open skies** supported by infrastructure and a favorable tax regime (e.g. relief of taxes and fees such as GPB and CCT)[82] (Medium-term action DOTC, DPWH, DOF, DOT, Congress, and LGU).

Airports and Seaports FGD Participants, Moderator and Secretariat Members

November 26, 2009
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON AIRPORTS AND SEAPORTS

---

80 International airlines pay double the take off and landing fees charged to domestic airlines even for the same aircraft types, in effect subsidizing the domestic carriers.

81 ASEAN is moving towards complete open skies and may someday adopt unrestricted ownership of airlines operating within ASEAN. Indonesia, Malaysia, and Vietnam permit up to 49% foreign ownership of an airline. Most bilateral air service agreements (ASAs) specify that beneficiary national airlines have substantial if not majority local ownership.

82 Successful pocket open skies examples in Asia include Hainan province in China, Kota Kinabalu in Malaysia, and Siam Reap in Cambodia. In 2009, each received 750,000, 562,000, and 2.2 million international visitors, respectively.

Infrastructure: Power

Sector Background and Potential

Electric power and water are essential needs for modern man, to survive, and to thrive. In the globe's fastest-growing region – Asia – they are especially critical to economic growth and competitiveness.

The Philippines is approaching the end of a two-decade transition from a public sector power generation monopoly to a private-sector-led "open access" competitive environment with enhanced government regulatory oversight. Yet its electricity prices remain among the highest in Asia, and supply shortages are present today in the Mindanao and Visayas grids and are possible in two years in the Luzon grid. Unreliable and expensive electric power is a serious deterrent to foreign investment.

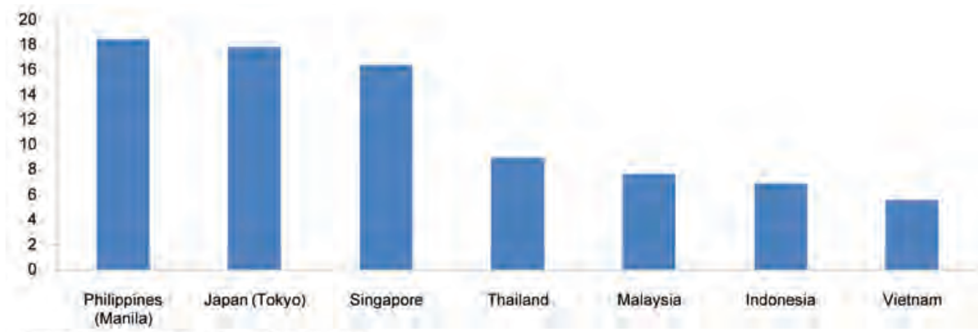
The main objectives of the open access policy in the Electric Power Industry Reform Act (EPIRA) that became effective in mid-2001 are (1) to build a sustainable and reliable power supply and (2) to lower electricity rates in the long run. To encourage new investment in power supply, electricity rates have to go up in the short-run (reflecting both the limited supply of power generation capacity and the need to dispatch oil-fired plants to meet the demand). Rates will go down only when new and more efficient generating plants are commissioned that are profitable at a much lower cost per kilowatt-hour, such as coal-fired plants, thereby creating an abundant and more competitive supply of power and minimizing the dispatch of oil-fired plants.

The conditions precedent to open access will have been met by year-end 2010: (1) the unbundling of generation, transmission, and distribution; (2) elimination of subsidies; (3) initiation of the Wholesale Electricity Spot Market (WESM); (4) privatization of at least 70% of the power plants owned and operated by the GRP; and (5) transfer of management and control of at least 70% of the contracts between Independent Power Producers (IPPs) and National Power Corporation (NPC) to IPP administrators. Conditions 4 and 5 were only met recently. The Energy Regulatory Commission (ERC) is expected to declare open access no later than 2011.[83]

83 As of April 2010, 3,318 MW representing 88% of the government-owned generation plants had been sold yielding $3.47 billion which has been used to pay down NPC's debt. National Transmission Corporation (TransCo) was privatized to a China-Philippine operating concessionaire in 2008.

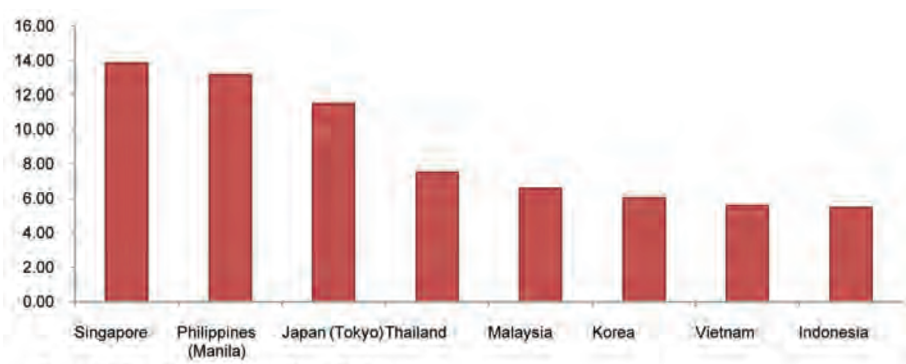
Eventually, open access should encourage more competition in the supply of electricity and lead to lower electricity prices. Electricity prices in the Philippines are the most expensive in Asia and harm competitiveness. Figures 70 and 71 show the cost of residential and industrial electricity in the Philippines and six other Asian economies.

Figure 70: Residential retail electricity tariffs, selected Asian economies, USc/KWh, 2010



Source: International Energy Consultants

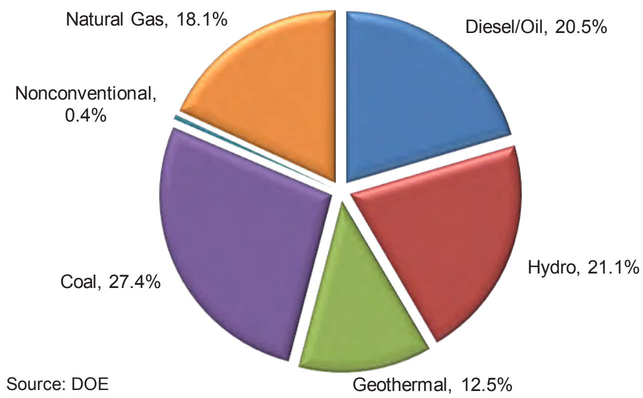
Figure 71: Industrial electricity tariffs, selected Asian economies, USc/KWh, 2010



Source: International Energy Consultants

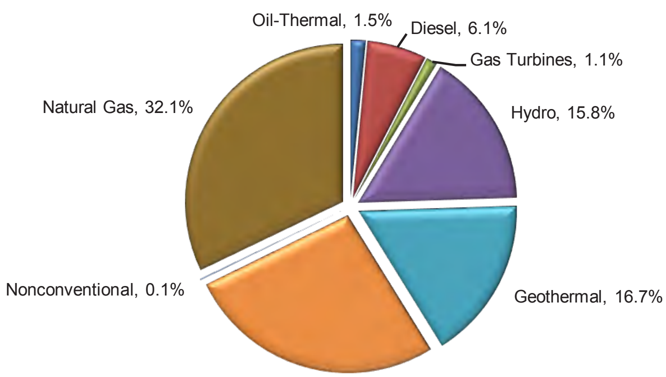
Figure 72 shows the percentages of installed generating capacity by type of power source. Hydrocarbon fuels (coal, gas, and diesel/oil) comprise 66% of the total. Figure 73 shows the percentage of the actual generation that comes from different fuel sources. Comparing Figure 72 to Figure 73 shows that the more expensive and more polluting diesel/oil capacity is not being dispatched by power regulators.

Figure 72: Installed generating capacity, by type of power source, 2009



Source: DOE

Figure 73: Power generation mix, by type of power source, 2009



Source: DOE

Renewable energy sources (geothermal and hydro) constitute 33.6% of generation capacity and 32.5% of the power mix. Unlike Indonesia, the Philippines does not have large unutilized geothermal fields to develop. A Renewable Energy Act of 2008 (RA 9513) was passed in 2009 providing generous fiscal incentives to investors. When the feed-in-tariff (FIT) is announced some of the many potential projects licensed in the past year with the DOE may begin to become real power generators.[84]

The current Administration could be the first to experience the positive effects of the EPIRA, i.e. a reliable supply of less expensive power. The policy it follows in this new environment will be critical to the success of open access. Unfortunately, as of early 2010, a serious policy deficiency exists. Without a clear energy policy that indicates where the country should source future energy requirements, taking into account its current power situation and what it is prepared to spend

84 Feed-in tariff is the minimum price distribution utilities are required to pay, which will be passed on to consumers as a renewable energy (RE) charge. The FIT is required for RE power plants – because of their higher construction costs than conventional plants using hydrocarbon fuels – in order to assure that investors receive a reasonable return on their investments.

(affordability) and/or guarantee (such as credit enhancements), there will be underinvestment in power. Only through a well-conceived master plan will investors know the areas in which they can invest with reasonable certainty.

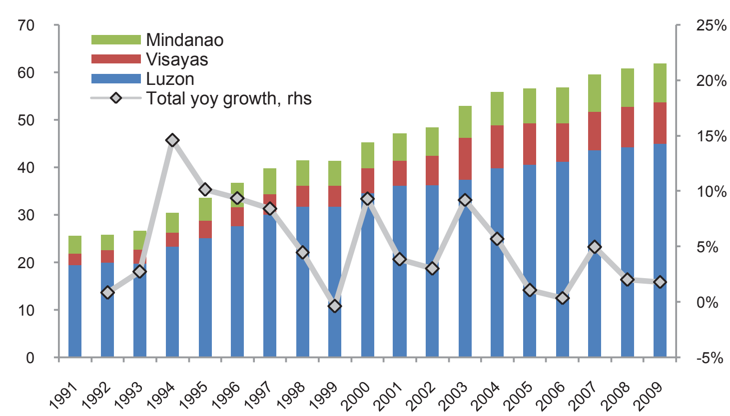
Table 33: Electricity supply and demand indicators, ASEAN-6, 2008

	Installed Capacity (Mil KW), 2008	Total domestic production (GWh), 2008	Total supply, includes net exports (GWh), 2008	Total consumption, includes use of energy sector but net of dist & trans losses (GWh), 2008	Population (million), 2008	Consumption per capita (kWh), 2008	Dist & trans losses as % of total supply, 2008[1]
Indonesia	27.8016	149,437	149,437	134,399	227.3	591.2	10.1%
Korea, South	79.859	446,428	446,428	429,052	48.7	8,801.6	3.9%
Malaysia*	22.973	96,916	97,392	94,721	27.0	3,506.3	2.3%
Philippines	15.680	60,821	60,821	53,140	90.3	588.2	12.6%
Singapore	10.950	41,717	41,717	39,610	4.8	8,184.9	5.1%
Thailand**	40.669	149,032	147,427	140,079	67.4	2,078.7	6.1%
Vietnam	13.850	76,269	73,049	68,907	86.2	799.3	10.1%

Sources: International Energy Agency and US Energy Information Administration; World Bank for the population
*Notes: * net energy exporter; ** net energy importer; 1-Author's calculation*

There is a limited supply of power in the Philippines (see Table 33). Thailand has 40,669 MW power capacity serving 67 million people. South Korea has 79,859 MW serving 49 million. The Philippines has only 15,680 MW (and not all is considered reliable) for 90.3 million people. Electricity consumption per capita in 2008 in the Philippines (588 KWh) was close to Indonesia (591) and Vietnam (799) but much less than Malaysia (3,506), Singapore (8,185), and Thailand (2,079).

Figure 74: Power generation by grid, '000 Gwh, 1991-2009



Source: DOE

- **Luzon**

The power situation in the Luzon grid has been relatively stable since the late 1990s. As of late 2009, there is a surplus in generation due to a slowdown in demand growth brought about by the global financial crisis. Yet there was still positive growth in kilowatt-hour sales during the entire year. According to the WESM, peak demand in Luzon grew 5.2% year-on-year reaching 6,886 MW. On a good day in late 2009, the power supply to the Luzon grid was only about 8,000 MW (15-20% of which came from oil), falling below the statutory reserve margin. Under open access, there are 5 to 6 generators in Luzon that have capacity that is not locked up or sold under contract, 55 distribution utilities, and 1,500 contestable customers. Having 5 to 6 generators with only 1,500 customers is not balanced.

The coal-fired GNPower 600 MW plant in Mariveles, Bataan, began civil works in early 2010 and is expected to become operational in late 2012 or early 2013. Other additional capacity is expected from the rehabilitation and expansion of the privatized NPC hydropower facilities. The construction of additional baseload plants is essential to provide adequate reserve and to avoid power blackouts. With piers, designated sites, and Environmental Compliance Certificates (ECCs) in place, Ilijan, Pagbilao, and Quezon Power plant expansions can be brought into operation considerably faster than new greenfield plants.

Figure 75: Power demand and supply outlook, Luzon, in MW

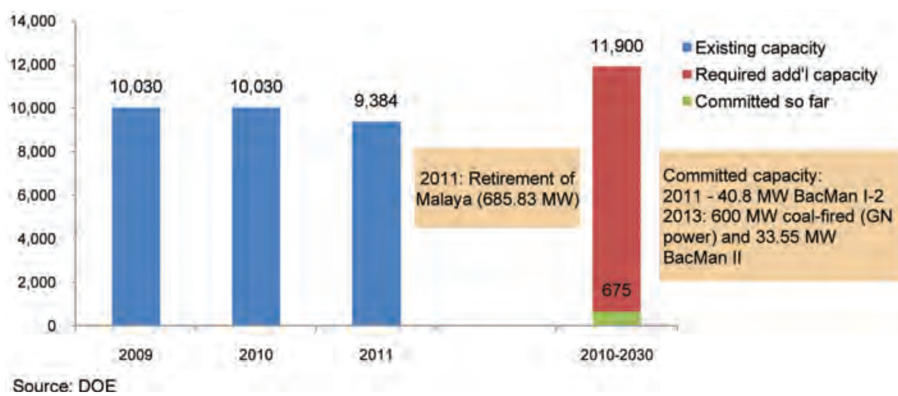
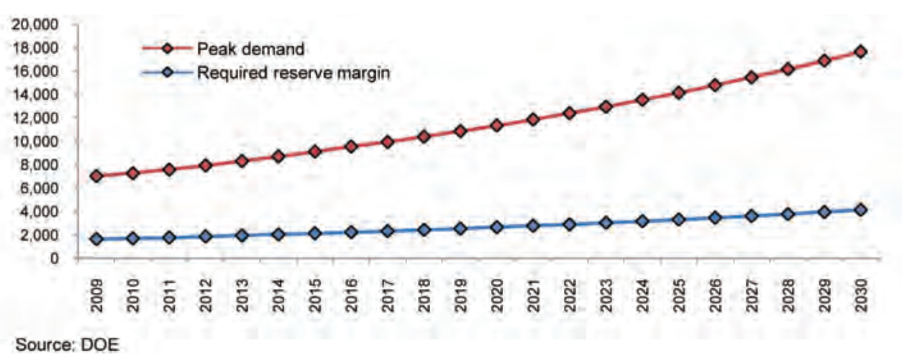


Figure 76: Required reserve margin and peak demand estimates, Luzon, in MW



- **Visayas**

The Visayas grid suffers from long-standing problems in power supply. However, ongoing construction of coal-fired power plants scheduled to come on line in 2010 and 2011 will ease the supply shortage problem by adding some 600 MWs to the grid. Cebu Energy Development Corporation has constructed two of the three new 82 MW coal-fired power units in Toledo, Cebu, the third of which is expected to be commissioned in early 2011.[85] Two of the partners in the same firm are constructing a 164 MW coal-fired plant in the Panay sub-grid in Iloilo City for completion in 2011. Another on-going development for the Cebu sub-grid is the 200 MW KEPCO-Salcon plant in Naga City to be operational in 2011.

Figure 77: Power demand and supply outlook, Visayas, in MW

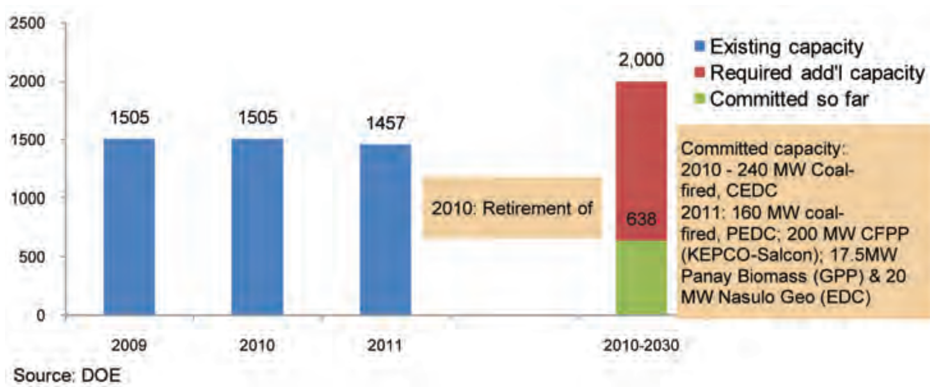
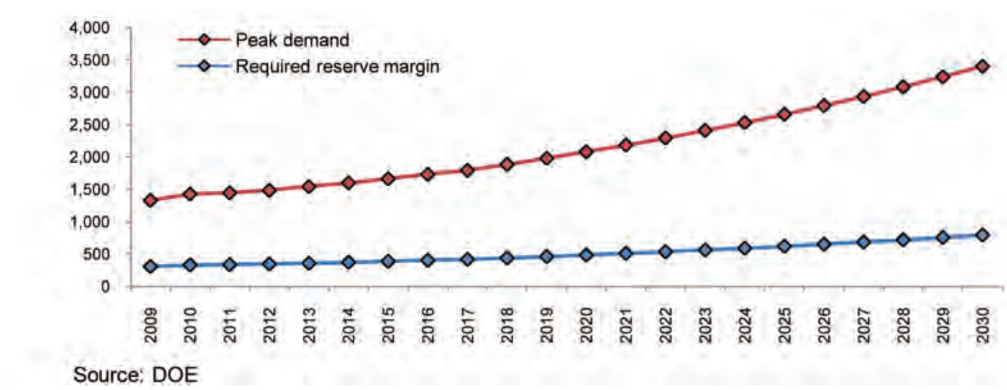


Figure 78: Required reserve margin and peak demand estimates, Visayas, in MW

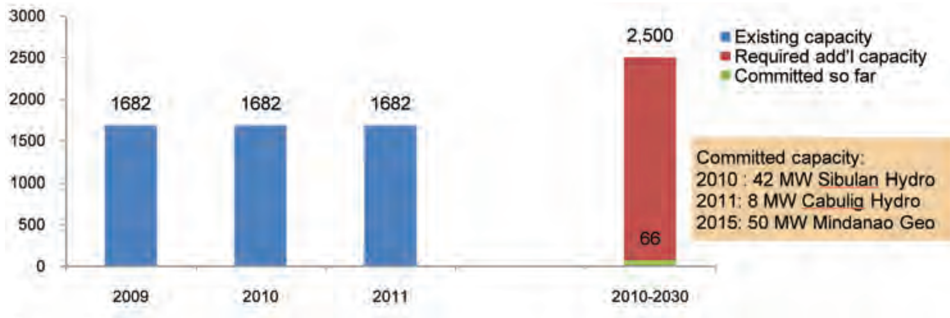


- **Mindanao**

Mindanao also has been plagued with power supply problems and transmission constraints. The latter are being addressed by the new transmission concessionaire, National Grid Corporation of the Philippines (NGCP). Too few generating projects are under construction in Mindanao, including the Sibulan hydropower project of HEDCOR Inc to serve the Davao Light & Power Company and the Conal Holdings Corporation (2 x 100 MW) coal-fired plant in Maasim, Sarangani.

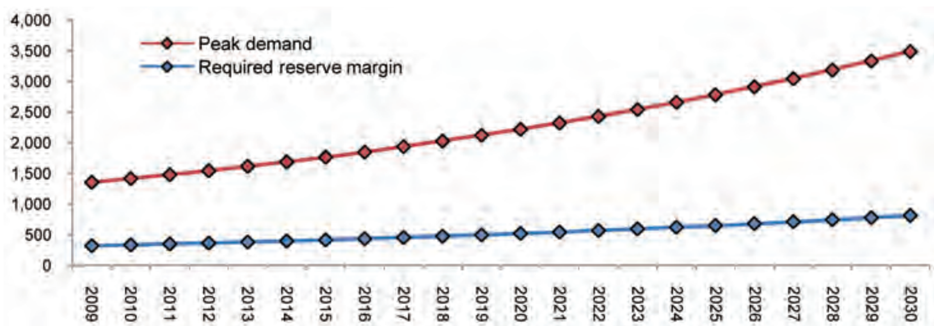
85 Since its groundbreaking on January 26, 2008, the first of the three 82 MW units was switched on March 5, 2010. The plant's second unit has been providing power to the grid since May 21 (Global Business Power Corporation website: www.gbpc.com.ph).

Figure 79: Power demand and supply outlook, Mindanao, in MW



Source: DOE

Figure 80: Required reserve margin and peak demand estimates, Mindanao, in MW



Source: DOE

Table 34: Expected new sources of electric power

Luzon	MW	Visayas	MW
Calaca Rehab	320	Kepco-Salcon Cebu Coal	200
Bacman Rehab	110	Global Panay Coal	100
Angat Rehab	28	Cebu EDC Coal	246
Ambuklao Rehab	70	Nasulo	20
Rehab Sub Total	*528*	Global Green	18
		ASEA One biomass	35
Pagbilao Expansion	400	*Greenfield Sub Total*	*619*
QPPL Expansion	500		
San Gabriel	550	**Mindanao**	
Pantabangan-Masiway Expansion	77	Conal Coal	200
CBK Expansion	360	Mindanao III/APO	50
Expansion Sub Total	1,887	*Greenfield Sub Total*	*250*
Burgos Wind	116		
GNPower	600		
Tanawon	40		
Greenfield Sub Total	*756*		
Luzon Total	3,171	Visayas-Mindanao Total	869
		Philippines Total	4,040

Source: First Gen, 2010

The Philippines should have an overabundance of supply for competition to work in lowering electricity prices. Is it realistic to expect that the new power capacity shown in Table 34 will be constructed in the near future (next five years)? Is it realistic to expect international financing absent take-or-pay contracts/guarantees?

It is difficult to find investors to construct a merchant plant. There is a very limited pool of deep-pocketed local investors who have made the effort to learn the Philippine energy market (e.g. Aboitiz, Ayala, First Gen, Metro Pacific, San Miguel, and SM) and limitations apply to foreign investment (e.g. the 40% minority public utilities and natural resources equity provision) for some forms of traditional and renewable energy projects. The poor reputation of Philippine courts and legal processes with respect to enforcing contract provisions on a timely basis further discourage investors.

Financial institutions conduct extensive due diligence investigations and do rigorous research to finance both merchant plants and those supported by off-take agreements. Banks look at creditworthiness (historical reliability in payment and sufficient cash reserves) and the ability of proposed power plants to produce reliable revenue and cash flows. In 2009 global credit markets shifted to short-term (5-7 year) financing. However, power plants require long tenors to make a project viable. Long-term (10-15 year) financing for generating projects with off-take agreements for a substantial percentage of their capacity is a challenge and becomes impossible if the merchant portion becomes too large.

Multilateral financial institutions such as the International Finance Corporation (IFC) and the ADB have been willing to finance merchant power plants under certain circumstances, if the technology is proven and operating risks are identified and mitigated. Both institutions emphasize climate change issues, making it difficult for them to finance coal-fired power plants. However, ADB is participating in financing the new coal-fired power plant in Naga, Cebu in light of the power crisis affecting the Visayas grid. At the same time, the ADB and the IFC are undertaking measures that would offset this decision, such as encouraging the development of renewable energy. The ADB is in discussions with the DOE to create a Clean Technology Investment Plan.

The creditworthiness of electric cooperatives as buyers of power is important for merchant plants for off-take. Cooperatives are being forced to be more disciplined in fulfilling their payment obligations now that Power Sector Assets and Liabilities Management (PSALM) has privatized much of the government-owned capacity serving the Luzon and Visayas grids. In their previous dealings with NPC, some cooperatives lagged behind in payments. Now dealing with the private sector, they risk being cut off if they do not pay their bills. Electric cooperatives face several challenges: (1) institutional preparedness to participate in WESM, (2) financial capacity or creditworthiness, and (3) technical capacity for power planning and maintenance.

Coal is a relatively inexpensive, plentiful, and reliable source of energy. If Europe, the US and other environmentally conscious countries still rely on coal to fuel their generating plants, then the Philippines should also be using coal to supply power to consumers. The main criticism of coal is it that is bad for the environment. To mitigate this, the Philippines can take advantage of its geography by choosing a small island that is not in close proximity with populous areas and make it a coal-fired power-generating island. For example, Semirara is an island with coal deposits and has very few inhabitants, making it easier to relocate affected families.

Contrary to public expectations, the Philippines does not have extremely high potential RE resources (hydro, geothermal, wind, solar, and biomass). The maximum capacity that can economically be extracted from RE sources may only be around 3,000 MW. The country has numerous run-of-river small hydro sites, but has limited undeveloped large hydro sites with seasonal storage capacity and has limited major undeveloped geothermal resources.[86] Renewable energy is not sufficient to address the energy needs of the Philippines. Restrictions on foreign equity in the RA 9513 IRRs – which are not specified in the law itself – that limit foreign ownership to 40% will discourage foreign participation and slow the development of RE projects, except for geothermal which falls into a separate category.

Table 35 shows estimated gigawatt capacity for biomass, geothermal, hydro, and wind for five Asian countries. While the Philippines already has significant current geothermal and hydro capacity and more potential to develop both resources, as well as biomass and wind, the potential resources are not sufficient to meet the country's future generation requirements economically.

Table 35: GW power capacity of renewable energy resources, selected East Asian countries, thousand MW

	China	Indonesia	Thailand	Philippines	Vietnam
Hydro	400.0	75.0	0.7	3.0	22.0
Wind	380.0	9.0	1.6	5.5	2.0
Biomass	60.0	50.0	4.4	0.5	1.0
Geothermal		27.0		3.0	1.4
Total	840.0	161.0	6.7	12.0	26.4

Source: Winds of Change, East Asia's Sustainable Energy, World Bank, 2010

Liquefied natural gas (LNG) is a viable power fuel solution for the Philippines. The LNG trade in SEA is a very large business – with Japan, South Korea, and China as the largest markets. The Philippines is close to the major LNG exporters (Papua New Guinea, Australia, and Brunei) whose tankers can pass by the Philippines. However, LNG requires a major investment in infrastructure – much more than any single power plant of a capacity suitable for the Luzon, Visayas, or Mindanao grids. No investor or lender is willing to risk a major investment in the billions of dollars without reasonable assurances of a stable investment climate and sufficient volume to support it.

The San Miguel purchase of the 620 MW Limay, Bataan combined-cycle gas-turbine asset offers the potential for LNG in the Philippines, provided other customers can be found (power, industrial, commercial, and institutional). Hundreds of millions of dollars are needed to create the initial plant, but the opportunities for gas are immense. The Dominican Republic originally

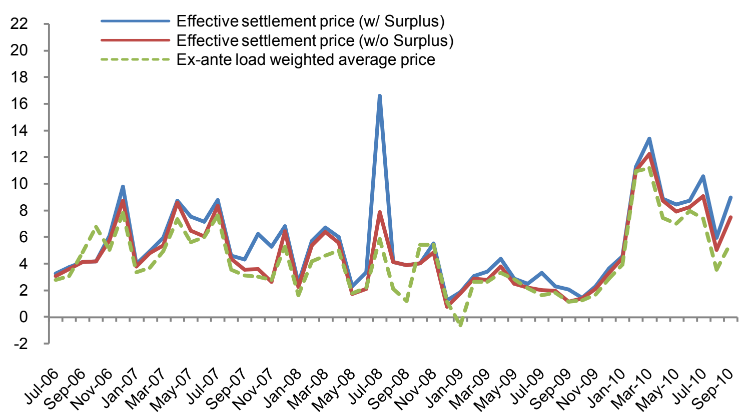
86 In contrast, many undeveloped geothermal fields in Indonesia have capacities of 300 MW or more, while in the Philippines they mostly range from 30 to 50 MW. Indonesia, with potential for 22,000 MW of geothermal power, recently received a large World Bank loan to develop RE energy.

started LNG in a power station, then it was extended to transportation, to other power stations, and to generation facilities burning heavy fuel. The country now has the most diverse fuel mix in the Caribbean/Central American region, generating high savings (US$ 160+ million after 3-4 years). To replicate this, the Philippines has to have clear policies to attract investment in LNG.

Retail power prices in the Philippines are among the highest in the Asia-Pacific region. How can the Philippines lower its power rates? Tariffs will not go down immediately after the declaration of open access because spot market prices must exceed the marginal cost of a new plant to encourage more investment in supply.

As of November 2009, the price of electricity at the WESM typically is PhP 2 per KWh, while the long range marginal cost of a new plant is about PhP 4 per KWh. Based on market studies, electricity rates in Luzon will not cross the long range marginal cost of a new plant until 2013 or 2014. Hence, there is minimal incentive to commit to building a new plant unless much of the infrastructure is already in place. When this happens two expansions may be the first to be financed and constructed: the Quezon coal-fired plant where additional capacity of 300-500 MW can be created by adding an additional unit using the same common facilities and, similarly, the Pagbilao coal-fired asset (also in Quezon province), where a third unit of 350 MW can be added.

Figure 81: Electricity spot market prices, PhP/KWh, 2006-2010



Source: WESM

Hydropower projects that were designed for capacity additions include the CBK pumped storage asset, with provisions for additional units 5 and 6 for about 350 MW; the Pantabangan hydro asset with provisions for another 112 MW; and the Magat hydro asset with provisions for an extra 180 MW. On the other hand, the development of the 600-MW coal-fired project of GNPower in Mariveles, Bataan is well advanced after its project financing closed in early 2010.

From the point of view of lender participants in power generation project financing, the main requirement is sustainable cash flows to cover debt service. A power generation project must have sufficient and reliable revenues from bilateral power supply agreements and spot market sales to make debt service payments and yield a return to its equity participants. Tariffs can decrease after the loans are repaid.

In the long run, nuclear technology offers the greatest prospect for cheaper power. But this option has been opposed by public concerns for the risk of accidents and the disposition of the wastes. However, experience around the world shows there are very few accidents. Furthermore, the technology for waste disposal is available and is only a small portion of overall operation costs. Both Japan and Taiwan have many nuclear plants and are considering building more. South Korea has 21 nuclear power plants serving 35 million people that account for 50,000 MW. Four more nuclear plants currently are under construction with two more planned within the next five years. China has nuclear plants and is building more in order to almost double its nuclear power capacity to 70 GW by 2020. Malaysia, Thailand, and Vietnam also have decided to introduce nuclear power in the next decade (see Table 36).

Table 36: Nuclear plants under construction, selected economies, 2009

	Number of plants	Net capacity in MW
China	20	19,920
Russia	9	6,996
South Korea	6	6,520
India	5	2,708
Taiwan	2	2,600
Japan	1	1,325
Iran	1	915

Source: IEA and IAEA PRIS

KEPCO was scheduled to submit a feasibility study to NPC at the end of 2009 to determine whether the Bataan nuclear power plant can be rehabilitated. Nuclear is a viable source of power supply for the Philippines, but not for at least 10 years. The smallest viable capacity for a nuclear power plant is 1,000 MW. At this time, the Luzon grid can only accommodate a maximum unit size of about 600 MW. The Bataan nuclear power plant would have operated at only 400 MW had it commenced operations in 1985. Measures were introduced in the 14th Congress to encourage operation of the Bataan Nuclear Power Plant.

Experts estimate that at least 15-25% of the consumption of electricity is wasted. Wastage can be mitigated significantly by reducing the system losses of distribution utilities and the national grid, including losses due to theft, as well as by implementing a wealth of energy efficiency and conservation measures. These can save most consumers 10-15%, yet recover associated costs within one to three years. The DOE is preparing to introduce an energy efficiency bill in the 15th Congress that will encourage and provide incentives for such measures. There are also ODA programs available to assist the Philippines to become more energy efficient. The IFC is working with local banks via a Sustainable Energy Finance Program to provide relevant technical knowledge to lend to energy efficiency and renewable energy projects. The IFC hopes to create energy savings by encouraging demand side conservation at private sector facilities such as factories, large offices, and malls.

Insufficient power transmission capacity (the transmission line transformers, reactors, and capacitors) affects system reliability, security, and stability. The Grid should remain stable after any Single Outage Contingency and should also remain controllable after a Multiple Outage

Contingency. There are instances when the outage of a single transmission line or transformer causes power interruptions or deloading of generators. Insufficient power transmission capacity forces generators to be constrained-off and unable to deliver full power because of limited capacity. This situation could allow a more "expensive" generator to be dispatched in favor of a "cheaper" generator, in effect increasing WESM prices. NGCP needs to ensure sufficient transmission capacity at all times, anticipating the load growth in each grid, to adequately serve Generation Companies, Distribution Utilities, and Suppliers requiring transmission service and ancillary services.

Headline Recommendations	
1.	Challenge: There is no substitute for long-term power purchase agreements (PPAs) between creditworthy parties to support financing of new power generation projects. Lenders cannot and will not accept merchant risk or PPAs involving parties that do not have financial wherewithal to fulfill their contractual obligations. **Solution: The Department of Energy could formulate policies and plans to address this challenge, such as credit enhancements, guarantees, incentives, and more.**
2.	Challenge: Investments in new cost-effective power generation projects require initiation of open access and retail competition. **Solution: Fulfill conditions precedent to declaration of Retail Competition and Open Access** within 2010. All but one condition precedent has been fulfilled, namely transferring management and control of 70% of IPP contracts with NPC to IPP Administrators.
3.	Challenge: Investments in new cost-effective power generation projects require a viable WESM. The Luzon WESM has functioned well since mid-2006, but initiation of the Visayas WESM has been deferred for more than one year. **Solution: Initiate Visayas WESM without further delay and integrate it with Luzon WESM. Initiate Mindanao WESM no later than mid-2011.**
4.	**Formulate an integrated energy policy plan** including all energy sources, plant locations, investment/financing, energy efficiency. Enhance creditworthiness of distribution utilities and cooperatives. Prepare for nuclear power in a decade. **Revisit take-or-pay** for baseload plants**. Remove restrictions on foreign equity** in power projects. Develop a large coal plant on a small island with domestic/foreign coal. **Introduce LNG** for cleaner power and transportation. Privatize Agus and Pulangi dams by 2011.

Recommendations (21)

A. Ensure that EPIRA targets for open access are achieved and **declare open access on schedule before the end of 2010**.[87] The ERC should promulgate the necessary and appropriate Rules and Regulations in a timely manner. (Immediate action DOE, PSALM, and ERC)

B. PSALM should solicit and **award bids from the private sector for the Agus and Pulangi hydro facilities during 2010** so that ownership can be transferred in June 2011 as currently authorized by EPIRA.[88] (Immediate action DOE and PSALM)

C. **Formulate an integrated energy policy and master plan giving clear direction for sources of energy, locations of power plants, capacity** each source generates (accounting for future demand), transmission of energy supply, policies to attract large investors and lenders (into LNG, nuclear, coal, renewable energy, and others) and importation of energy. The master plan must take into account the threats and/or **challenges of climate change, energy efficiency, and availability of new technology**. The priority power sources (biomass, coal, gas, geothermal, hydro, LNG, nuclear, wind, and others) should be strategically located throughout the country taking into account maximum capacity of each source. (Immediate action DOE, NEDA, and private sector)

D. The **National Renewable Energy Board should create a roadmap** to complement the overall energy master plan of the DOE recommended above. (DOE with private sector)

E. The weak creditworthiness of most distribution utilities and electric cooperatives likely requires some form of **credit enhancement to support project financing and power supply agreements of new generating projects with** off-take agreements with such parties. Revisit policy disallowing "take-or-pay" or sovereign guarantees, in light of what makes economic sense. (Immediate action DOE and DOF)

F. Strongly encourage industrial, commercial and institutional load customers, distribution utilities, and electric cooperatives to **establish their creditworthiness**. (Immediate action DOE, DOF, and private sector)

G. **Remove all foreign equity restrictions for power projects** to create a level playing field and attract more foreign energy players to invest.[89] (Medium-term action NEDA and DOE)

---

87 PSALM achieved privatization of 83.3% of NPC generation assets and 34% of the IPP administrator contracts as of November 2009. The target is to declare open access before the end of 2010.

88 The hydro generation facilities in Lanao del Norte and Bukidnon provinces were excluded from privatization for a decade when EPIRA was enacted in 2001. The El Niño experience during late 2009 and 2010 has clearly tested the capacity of these plants. They are excellent assets that will be better managed, maintained and expanded by the private sector, as evidence by hydro generating assets already privatized within the Luzon grid.

89 Restrictions on foreign capital placed in the IRRs of the Renewable Energy Act will limit the pace of development of RE power, contrary to the apparent intent of the law, which contains no such provision. Interpretations that dams cannot be foreign-owned, but turbines within them can, should also be re-examined with a view to promoting needed investment.

H. **Ensure that contracts are strictly enforced. Rules and regulations must not change** in the middle of project implementation or be reinterpreted retroactively. (Immediate action DOJ and DOE)

I. **Partners such as ADB, IFC, and JBIC can help finance the longer tenor** – the "tail risk" beyond 10-12 years – when international private banks are only comfortable with shorter tenor. (Immediate action ADB, IFC, JBIC, and private sector)

J. The RP must find ways to **comply with the requirements of lending institutions in dealing with climate change issues**. Create the **Clean Technology Investment Plan** and implement thoroughly. (Medium-term action DOE, ADB, and private sector)

K. The DOE needs to implement a policy with assistance from the private sector to **assist cooperatives in the transition to a privatized electric power industry**. Power generation companies should be interested in the creditworthiness of their clients. Strongly encourage electric cooperatives to establish their creditworthiness. (Immediate action DOE, NEDA, and private sector)

L. Develop a **power plant on an isolated island such as Semirara** with a supply of indigenous coal and deepwater access to international coal sources. Connect the island to a grid via submarine cables, for example to Mindoro and to Batangas. This will close the loop of Bicol, Samar, Leyte, Cebu, Negros, Panay, Boracay, Semirara, Mindoro, and Batangas. (Long-term action DOE, NGCP, and private sector)

M. **Study the potential of LNG** in the Philippines and create a comprehensive policy to attract investment in this sub-sector. LNG can be a **greener alternative source** of energy. Converting public transportation to LNG will generate large savings, have less negative effects on health, and reduce traffic congestion. (Medium-term action DOE and private sector)

N. **Merchant plants cannot succeed without a mature spot market to establish the correct price**. Investment will not occur in this market if the price is below the long-range marginal cost of a new plant or at or less than the variable cost of plant operations, including fuel. (Immediate action DOE and WESM)

O. **Implement open access**. EPIRA requires **removal of cost subsidies to reflect the true cost of electricity**. Over the short term, electricity prices are likely to increase. The only way to bring the price down is for new generators to enter the market with plants that are profitable at a much lower cost per kilowatt-hour, thereby creating an abundant supply of baseload, intermediate, and peaking capacity. This can happen only via open access.

P. The RP should **include the development of nuclear power in the national power development plan**. Preparations needed for this technology require at least 10 years, and infrastructure, power plant, and transmission require very large investments. The Philippines should come to a decision soon and then strategically prepare for the next 10 years. (Medium-term action DOE)

Q. **Congress should pass a resolution supporting consideration of the development of nuclear energy**, including small-scale nuclear power options currently under development, while leaving disposition of the Bataan Nuclear Power Plant for the Executive to decide. (Immediate action DOE and Congress)

R. Congress should pass an **Energy Efficiency Act** after full consultation with stakeholders. The RP should implement foreign donor and national projects to improve energy efficiency. Efforts of distribution utilities to **reduce system losses** due to theft must be strongly supported. Capital investment in the transmission and distribution systems to reduce systems losses should be incentivized. (Medium-term action DOE, Congress, and private sector)

S. Explore the possibility of **WESM sales of freely-tradable forward power supply contracts** in relatively small denominations (such as 5 or 10 MW) and applicable for specified timeframes (e.g. short, long, baseload, and peaking) for sale to load customers or investors. Investigate performance security options to protect parties to such forward contracts. (Medium-term action DOE, WESM, and private sector)

T. **Interconnect the entire grid to enable producers to transport electricity to other parts of the country via the WESM**. With a truly national grid, investors will be able to come in and take advantage of the growing demand for power supply. There must be an abundance of supply for the WESM to be effective in lowering costs of electricity. (Medium-term action DOE, WESM, and NGCP)

U. NGCP and the ERC should accelerate capital investments to **resolve constraints limiting the flow of power** from Luzon to the Visayas and from southern Luzon to the NCR and from northern Luzon to Metro Manila. NGCP should continuously evaluate the technical and commercial feasibility of **interconnecting the Luzon and Visayas grids via submarine cable with the Mindanao grid** and/or various isolated grids, such as Mindoro. (Medium-term action NGCP, ERC, and DOE)

Power and Water FGD Participants, Moderator and Secretariat Members

November 17, 2009
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON POWER AND WATER

Infrastructure: Road and Rail

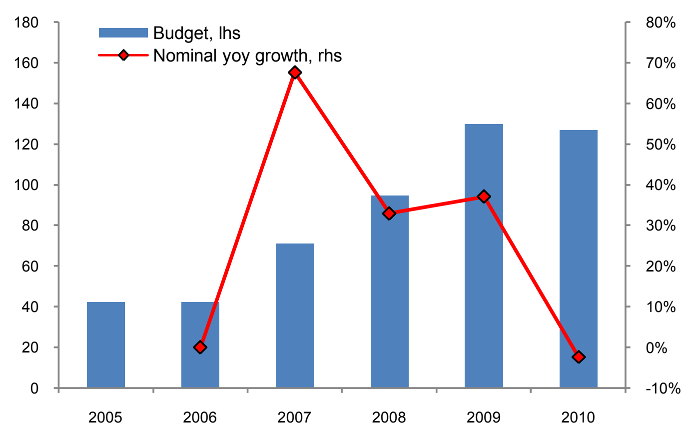
Sector Background and Potential

Ground transportation infrastructure is essential for investment and job creation which are necessary to reduce poverty in the Philippines. It is a "catalyst" for area development and economic growth. Transport-logistics infrastructure such as roads and rail facilitate the efficient movement of goods and people. Absence of such vital infrastructure impedes the efficient movement of goods, increases transport cost, and ultimately impacts negatively on the country's competitiveness.

Modern roads and rail support the high-growth sectors of BPO, manufacturing, and tourism. Modern toll roads and better farm-to-market roads provide tourists better access to destinations. In large urban areas particularly Manila a more extensive light rail system moves both employees and tourists more efficiently and eases traffic congestion on major thoroughfares.

The government allocated roughly PhP 889 billion to the development of transport infrastructure (roads, rail, light rails, airports, and seaports) under the 2006-2010 Medium Term Public Investment Program (MTPIP). For 2009, DPWH's budget reached almost PhP 130 billion, the largest amount in the national budget and the highest level ever for the department (see Figure 82). The DPWH builds roads and bridges, school houses, and other public works. However, Figure 81 suggests that this increased spending has not raised the overall quality of roads.

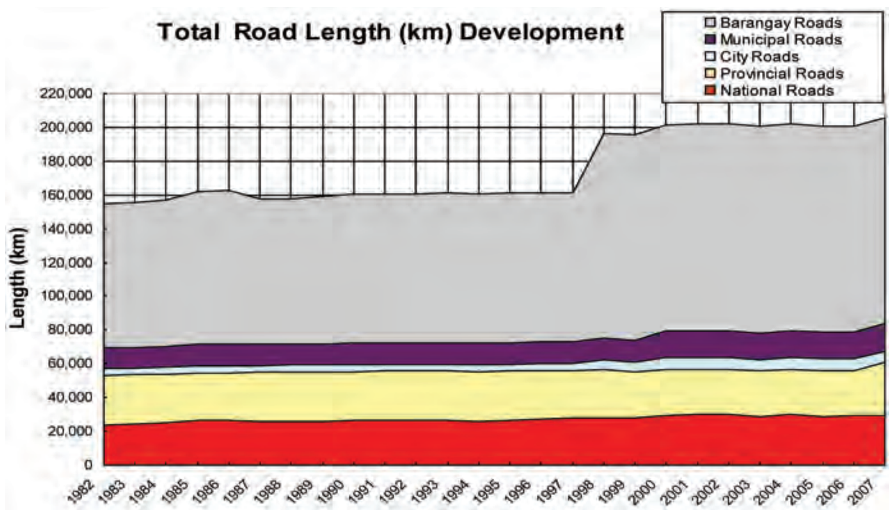
Figure 82: DPWH budget, Bn PhP, 2005-2010



Source: DBM; 2006 national budget was a re-enacted 2005 national budget.

One reason for the continued low rating of roads may be that much of the increased DPWH spending is going into CDF roads that are usually barangay roads (see Figure 83). As a result, national roads have barely increased in the last two decades. However, traffic on national roads certainly has. Anyone stuck for hours on EDSA or who tries to navigate the old MacArthur Highway north of Manila or the pre-SLEX road passing through the Laguna hometown of national hero Dr. Jose Rizal knows government funds are not improving these roads.

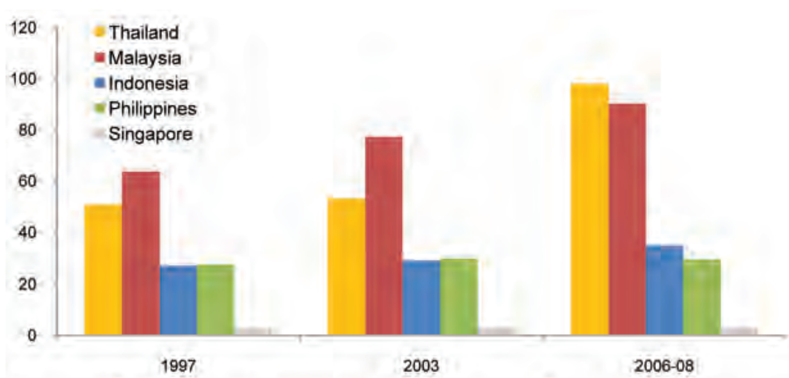
Figure 83: Total road length (km) development, 1982-2007



Source: DPWH

National roads are needed for efficient interprovincial movement of goods and people. One reason Philippine intercity traffic is becoming more congested is that the Philippines has not been adding to its stock of national roads for many years (see Figure 84).

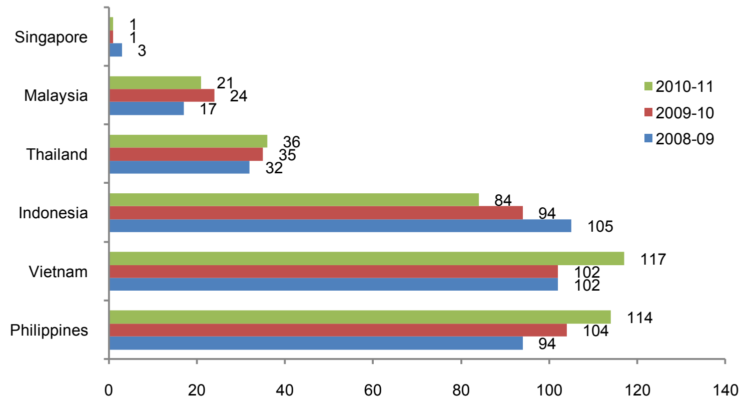
Figure 84: Length of national/state roads, in '000 km



Sources: ASEAN Secretariat and respective national statistics offices and transporation/highway agencies; Note: Latest available data for Malaysia are 2006 data while latest available data for Thailand are 2007 data. This chart excludes local, provincial and regency roads for comparability purposes.

A result of this distorted spending pattern is that Philippine roads are ranked poorly in international surveys (see Figure 85). Table 37 shows the percentage of paved roads and road density for Asian countries, showing the Philippines has a great distance to go before it can be ranked near Indonesia, Malaysia, and Thailand.

Figure 85: Quality of roads rankings, 2008-2010



Source: WEF Global Competitiveness Reports; Note: Number of countries evaluated - 2008-09 (134); 2009-10 (133); 2010-11 (139)

Table 37: Road quality and density indicators

Country	Total road network ('000 km)[1]	Paved roads as % of total road network[1]	Population per km of road	Population per km of paved road
Indonesia	437.8	59.1	521	882
Malaysia	122.7	79.9	220	275
Philippines	200.8	22.2	426	1,913
Singapore	3.3	100.0	1,455	1,455
Thailand	98.1	99.9	683	684

Sources: ASEAN Secretariat, respective public works offices, UN and World Bank (for population estimates)
1 - Indonesia - 2008 data (Public Works); Malaysia - 2006 data (ASEAN Sec); Philippines - 2005 data; Only national roads data are officially released after 2005 (Public Works); Singapore - 2006 (ASEAN Sec); Thailand - 2007 data (ASEAN Sec)

- **Expressways**

Modern efficient limited-access divided highways are essential for modern transportation around the world, some charge tolls, others do not. Some are owned by government, others by the private sector. We think of autobahns when driving in Germany and of interstate highways in the US. China has built the world's second longest expressway system after the US in less than two decades, with a total length of 65,065 km. Japan and Korea have excellent expressways. While India has only approximately 200 km of expressways, the government has an ambitious plan to add 15,600 km during the next twelve years.[90]

90 The figure was revealed by China's Minister of Communications as reported by Xinhua News < http://news.xinhuanet.com/english/2010-01/15/content_12817685.htm>. India has some 10,000 kilometers of four lane highways which are not limited access and can be congested and dangerous (National Highways Authority of India.).

Such modern efficient roads are new in Southeast Asia. Malaysia has set the gold standard for the region with 1,500 km of expressways in operation and 200 km under construction. Malaysian and Indian toll expressways were built and are operated using the BOT/PPP financing and operating model to avail of private sector capital and management.

> "To get rich, build roads first."
>
> *Old Chinese saying*

Vietnam plans to build roads to get rich faster. In April 2010 Prime Minister Nguyen Tan Dung approved a US$ 18.4 billion plan to build a network of expressways by 2020. A total of 5,800 km of expressways, half of which running north-south and having 4 to 8 lanes, will be built. With its low labor and power costs, such an efficient highway system could make Vietnam the preferred economy in Southeast Asia for the China+1 strategy of multinationals locating additional factories in Asia.

While the Philippines has been slow to build and improve its limited network of expressways, it has had some success. There are seven limited-access toll roads operating or under construction in the country, all in Central Luzon.

1. The Subic-Clark-Tarlac Expressway (SCTEX), the newest tollway, financed with a US$ 425 million Japan Bank for International Cooperation (JBIC) loan, opened in 2008. SCTEX, operated by a private concessionaire, is owned by Bases Conversion and Development Authority (BCDA). The road unites the two former American military bases and greatly reduces the travel time from Manila to both, as well as improving connectivity with Tarlac province, Region 1, and the Cordillera.

2. The Manila-Cavite Expressway (also known as the Coastal Road) is a 6.6 km tollway under the Public Estates Authority Tollway Corporation (PEATC), a GOCC under the Office of the President. It extends from Roxas Boulevard in Parañaque to General Emilio Aguinaldo Highway in Bacoor, Cavite.

3. The Northern Luzon Expressway (NLEX) was the first limited-access tollway in the Philippines, built by the Philippine National Construction Corporation (PNCC) formerly owned by a businessman close to president Marcos. Granted a broad franchise for all toll roads on Luzon, PNCC built limited-access tollways north of Manila to San Fernando, Pampanga and south to Calamba, Laguna in 1968 and the early 1970s. The owner of PNCC fled the country when Marcos fell in 1986, leaving behind a bankrupt company taken over and held by the government since.

   During the Ramos Administration, the Lopez Group was awarded a negotiated concession with PNCC to rehabilitate and operate the NLEX. Former president Ramos implemented a 2-lane extension by PNCC from San Fernando north to Dau, Pampanga in time for the 1998 Centennial Exposition at Clark. However, the Asian financial crisis delayed project financing until the US$ 371 million project was closed in 2003, and the rehabilitated and widened 84-kilometer tollway was opened in 2005 under the Manila North Tollways Corp

(MNTC) with a 25-year franchise.[91] In late 2008, the Lopez Group sold its 98% ownership of First Philippine Infrastructure, which owned 67% of MNTC to Metro Pacific Investments Corp, a Philippine subsidiary of First Pacific (Hong Kong), for US$ 278 million.

4. The Manila Skyway was built to relieve heavy traffic on the SLEX in the crowded southern suburbs of Metro Manila, after President Ramos during a 1993 visit to Jakarta arranged a joint venture between PNCC and Indonesian company PT Citra, owned by a daughter of President Suharto. PT Citra held a concession to build elevated expressways in Jakarta and a construction technology for building elevated freeways above crowded surface roads while allowing traffic to flow.[92] Phase 1 of the project (Nicols to Sucat) cost some US$ 450 million and was financed with the AIG Asian Infrastructure Fund as the lead debt syndicator. Financing closed shortly before the onset of the 1997 Asian financial crisis. Citra Metro Manila Tollways Corporation also rehabilitated the portion of SLEX under the Skyway.

   Financing for Phase 2 to Alabang was not arranged until a decade later, when local Philippine banks subscribed to US$ 400 million in loans. Philippine construction firm DM Consunji Inc (DMCI) expects to complete the Phase 2 project by the end of 2010.

   Metropacific Tollways Corporation in April 2010 submitted an unsolicited proposal to construct and operate a 13 km expressway from the northern end of the Manila Skyway to Tondo, where it would connect with an expressway connecting the port of Manila with NLEX.

5. The 30-year old Southern Luzon Expressway (SLEX) waited a decade for the implementation of the planned upgrading after completion of the Manila Skyway. Proposals by local and foreign proponents, government, and the private sector were made but abandoned. Finally, the SLEX Upgrading and Rehabilitation Project started in mid-2006 led by MTD Capital Bhd of Malaysia through MTD Manila Expressway Corporation in joint venture with franchise-holder PNCC in the South Luzon Tollway Corporation (SLTC). The SLEX upgrading project is near completion and will eventually connect to the STAR Tollway. Phase 1 of the project retrofitted and widened the Alabang Viaduct. Phase 2 rehabilitated and widened the Alabang-Calamba segment of SLEX. Construction of the Phase 3 Calamba-Santo Tomas segment will connect to the STAR Highway. When complete, the SLTC will take over management and operation of SLEX and STAR. Driving time from Makati to Batangas should be cut in half to only 90 minutes.

---

91 Four shareholders came together to put up MNTC: First Philippine Infrastructure Development Corporation (FPIDC), the infrastructure arm of the Lopez Group; Egis Projects S.A. of France, reputedly the world's biggest tollway operator; Leighton Asia Ltd. of Australia, a civil works specialist with an extensive track record in toll road construction; and Philippine National Construction Corporation (PNCC), the state-owned company that holds the franchise for the operation of the expressway. (From MNTC website www.mntc.com)

92 The concrete elevated roadbed supports were cast in the center divider parallel to traffic using the existing surface road, then raised hydraulically and rotated 90 degrees.

6. The Southern Tagalog Arterial Road (STAR Highway) was the third tollway project initiated by former president Ramos and connects SLEX to Batangas Port. A 4-lane section of the Star Highway built by the DPWH was opened in the late 1990s but right-of-way challenges prevented full completion during the subsequent decade. Two lanes were opened from Lipa to Batangas. STAR will eventually be a 4-lane 42 km expressway from Santo Tomas to Batangas City and is being completed by the DPWH.

7. In 2008, a BOT contract for the 85-kilometer Tarlac-La Union Expressway was awarded to the Private Infrastructure Development Corp (PIDC) following a reportedly solicited bid. Phase 1 (NEDA estimate PhP 17 billion) should start construction in 2009 to build two lanes; the remaining two lanes are to be built under Phase 2 by 2013.The government will provide the right-of-way. After the project is built, the GRP will grant the proponent a franchise to operate and maintain the road, and the Toll Regulatory Board (TRB) will issue a certificate to operate a toll road under a long term concession agreement.

A mixture of Philippine and foreign equity investors in tollway operating firms, Philippine government agencies, JBIC loans, and commercial debt have contributed to the significant activity in the construction and rehabilitation of toll roads over the last decade in Central Luzon. An estimated US$ 2 billion has been invested in these projects.[93]

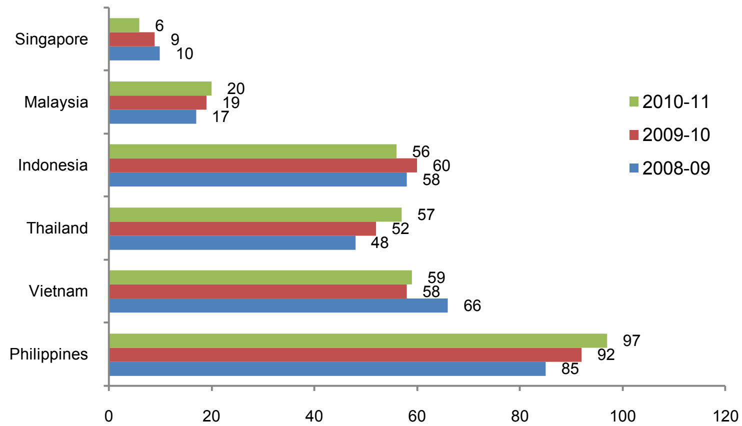
Due to the scale, number, and complexity of the infrastructure investments in the Philippines, a relatively small group of people and institutions understands how infrastructure investment decisions are made and implemented. As a result, at times, infrastructure investments can be misallocated and delayed. At worst, leakages from infrastructure projects sap the country of much-needed infrastructure investments.

- **Rail Transportation**

The geography of the Philippine archipelago does not lend itself to an extensive rail network. Only a few routes in heavily-populated regions would justify the expense of a railroad instead of a road system. Railroads require an considerable traffic of goods or passengers between stations and their place of origin or destination. However, light rail for passenger transport in large urban areas is an ideal investment in public transportation. No other system can carry more people in less space on a dependable time schedule at less cost.

93 Author's rough estimate of US$ 400 million each for SCTEX, NLEX, SLEX-STAR, and Skyway.

Figure 86: Quality of railroad infrastructure rankings, 2008-2010, ASEAN-6



Source: WEF Global Competitiveness Reports; Note: Number of countries evaluated - 2008-09 (120); 2009-10 (114); 2010-11 (116)

Figure 86 shows comparative railroad infrastructure rankings of the ASEAN-6. The ratings measure intercity rail service, which has long been extremely poor in the Philippines. Indonesia has managed to maintain its passenger service across Java, although crowded, and Vietnam has rebuilt its service from the Chinese border to Ho Chi Minh City that was destroyed during 40 years of war. Malaysia and Thailand have had reputable rail systems for many decades. Only in the last decade has the Philippines begun to improve its intercity rail service and to use more of its installed but abandoned right-of-way. However, the projects are not yet implemented and their benefits for the public not yet realized.

China has become not only the world leader in building railroads but also has leapfrogged in high-speed rail technology. Although the country had 86,000 km of rail at the end of 2009, much is overcrowded in light of China's huge population, carrying a quarter of the world's rail traffic on a mere six percent of the world's railroad tracks. In reaction to the global financial crisis, the government accelerated its plan to increase rail lines to 120,000 km, and six million new jobs were created under a massive program that has 33,000 km under construction. China is emphasizing high-speed rail. It has rapidly built the longest high-speed rail network in the world, which it hopes to double to 13,000 km by 2012. For example, the high-speed rail line under construction between Beijing and Shanghai will cut travel time to 4 hours from 10 hours.[94]

Korea has only introduced high-speed rail in recent years with a 240 km line from Seoul to Busan and Mokpo. Closer to the Philippines, the **Taiwan High Speed Rail** (THSR) runs 336 km from Taipei to Kaohsiung which carried more than 10 million passengers in 2007, its first year of operations. The THSR is one of the largest privately funded transport schemes; total project cost has reached US$ 15 billion.

94 "Inside Asia" by Alan Wheatley, IHT, April 13, 2010

The race to be the first country in Southeast Asia to build a high-speed rail has begun. Five countries have solid plans or proposals for high-speed rail:[95]

- **Indonesia:** The Hydrogen Hi-Speed Rail Super Highway (H2RSH) **train to the Jakarta Soekarno-Hatta International Airport is under construction** and due for 2012 operation. Caedz LLC a San Francisco-based economic re-engineering firm led by a consortium of multinational investors signed a Memorandum of Agreement with the Indonesian firm Kadin in December 2009 in Los Angeles, USA.

  Indonesia has expressed an interest in high-speed rail linking Jakarta, Bandung, and Surabaya. The Department of Transportation announced it was seeking investors for a 683 km high-speed line between Jakarta and Surabaya, expected to cost US$ 6 billion. Proposals had been submitted by Chinese, French, and German firms.

- **Malaysia and Singapore:** A high-speed rail to link Kuala Lumpur and Singapore was proposed in 2006 by YTL Corporation. It would cut travel time to 90 minutes, compared with 4 hours driving and 7 hours on the current rail line. A Bangkok - Kuala Lumpur - Singapore line has also been suggested. Siemens has expressed interest in being the technology provider.

- **Thailand:** The Thai Ministry of Transport has plans for several high-speed rail lines. In October 2009, it was reported that funding was being sought for four lines, linking Bangkok to Chiang Mai (711 km), Nong Khai (600 km), Chanthaburi (330 km), and Padang Besar (983 km). In November, the Thai cabinet approved the plan, with the shorter route to Chanthaburi intended for construction first. The total cost of all routes is US$ 25 billion.

- **Vietnam:** Vietnam Railways is planning a 1,555 km high-speed link from Hanoi to Ho Chi Minh City, costing US$ 33 billion and cutting current travel time from 30 to less than 9 hours. Funding is expected to come from Japan and would most likely involve Shinkansen technology.

- **Philippines:** The Department of Transportation has no plans for high-speed rail.[96] San Miguel Corporation has proposed a bullet train system connecting Laoag City to Manila to the Bicol region.

Despite some talk about high-speed rail, intercity rail in the Philippines remains closer to its 19th century origins than the 21st century. Philippine National Railways (PNR) originated in a Spanish privately owned rail line running north from Manila to Dagupan in Pangasinan and nationalized in 1916. Service was extended in 1938 to Legazpi in Bicol. After 1946, the US Army, which was rehabilitating the destroyed system, transferred the railroad to the Philippine

---

95 Information on Korea, Taiwan, and SEA are from Wikipedia's numerous entries under High-speed Rail especially "Planned high-speed rail by country."

96 Transportation Secretary Mendoza at a forum on airport and rail transportation in November 2008 pointed to the Northrail project as sufficient to connect Manila to Clark and said he did not believe high-speed rail would be possible in the Philippines.

Government. It remained a GOCC and only operated service on its southern Manila-Legazpi route, named the Bicol Express, but anything but that.

The DOTC has sought to restore rail service north of Manila since early in the Ramos Administration. A project with Spanish and Filipino investors was pursued in the 1990s but eventually abandoned for lack of financing. Subsequently, former House Speaker Jose de Venecia facilitated a People's Republic of China (PRC) loan of over US$ 400 million for the first Phase. The PRC has also financed Phase 2 of North Rail. There have been many allegations that corruption and overpricing were involved in the project, which has progressed slowly.

PNR's North Rail commuter rail project is designed to serve eight stations between Caloocan (Manila) and Clark (Pampanga). However, in October 2008 there were reports that the Chinese partners proposed a change in engine technology from diesel to electric and considerable cost increases that require NEDA ICC approval. Meanwhile, the COA determined government procurement bidding procedures were not followed.

All light rail lines in the Philippines are located in Metro Manila. While intercity rail in the country is extremely minimal, three lines currently operate giving the NCR a solid basic network. One additional line is approaching financial closure. There also are additional lines planned which can be financed and built whenever the government's slow transportation bureaucracy acts more decisively.

- The Light Rail Transit Authority (LRTA) operates the government-owned **LRT-1** (Yellow Line from Baclaran to Monumento) and **LRT-2** (Purple Line from Santolan to Recto). Some 30 years old, LRT-1 was financed with Belgian government trade credits and later received new JBIC-financed equipment.[97] LRT-2 (or Line 2) was built through a concessional loan of some US$ 1 billion from the JBIC. Line 2 began operations in April 2003 and became fully operational by October 2004. The DOTC is financing construction of a short line in the northern part of Metro Manila with four stations to link LRT-1 and MRT-3 (which are connected in the south at the intersection of EDSA and Taft Avenue) to begin operating in 2010.

- The only light rail line built as a BOT project, Metro Rail Transit-3 (**MRT-3**) (Blue Line from Taft to North Avenue) began operations in December 1999. MRT-3 was initially owned by a consortium of Filipino companies that lost the bid for the US$ 1.5 billion Fort Bonifacio land privatization and decided to invest in the rail project for its real estate potential. Its original Israeli proponent and American project manager held small equity positions. The original partners sold out and most equity is held by foreign private equity investors in London and New York. The public utility part of the MRT-3 project (which must be at least 60% Philippine equity) interacts with the public by ticket selling, scheduling, and the like. The foreign-owned company owns and operates the actual light rail system, for which it receives an annual fee from the DOTC at a rate of return of 15%. A 1995 Supreme Court decision supports this ownership distinction. The DOTC is in the process of acquiring the line from its investor-owners.

---

97 LRT-1 has sometimes carried over a half million passengers in one day. On January 9, 2009 582,989 passengers took Line 1 during the Feast Day of the Black Nazarene.

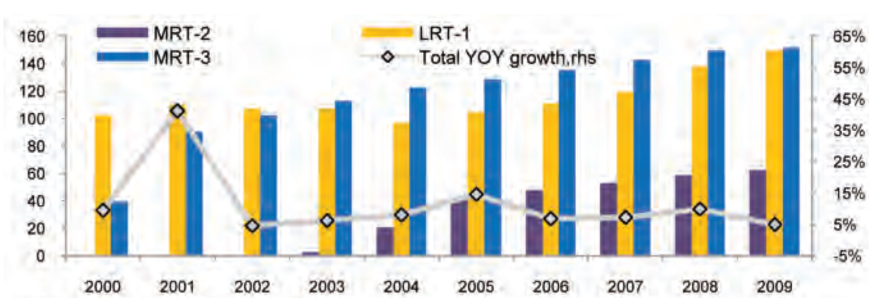
- A second BOT project, **MRT-7** light rail project on Commonwealth Avenue was contracted in mid-2008 by the DOTC after seven years of negotiation by its foreign developer. At US$ 1.2 billion, MRT-7 is the most expensive BOT project yet undertaken in the Philippines. Its present equity structure is majority Philippine.

- The long-delayed **LRT-1 South Extension Project** servicing fast-growing Cavite province is an excellent candidate for a solicited BOT to foreign operators and developers. For several years, a prominent Canadian company tried to undertake the project as a joint venture with the LRTA but eventually abandoned it because of lack of progress. Then the World Bank/IFC offered a loan for public works and technical assistance for an international bid. While the DOTC was considering this proposal, a PRC construction firm China Shanghai Corporation for Foreign Economic and Technological Cooperation (SFECO) proposed building the LRT-1 project under a government-to-government arrangement with Chinese concessional trade credits. LRTA chairman DOTC Secretary Mendoza, failed to decide which financing scheme to use, despite strong recommendations from foreign and Philippine business groups, foreign embassies, and NEDA to bid out the project. Such indecision demonstrates the adverse effect of PRC ODA on Philippine development plans and has been a disservice to Philippine citizens who otherwise could ride a modern transport system.[98]

LRT lines 1 and 2 are under LRTA, an attached agency of DOTC, while the MRT-3 is directly under the DOTC. The LRT-1 to MRT-3 connection is not seamless (due to technical issues, i.e., differences in signaling system, etc.). Also, differences in accounting systems prevent the issuance of one ticket that would work on all lines.

Figure 87 show the steady increase in ridership on the Metro Manila light rail lines. Over 350 million passengers traveled on the system in 2009, with MRT-3 nearly equaling the much older LRT-1 line. The most expensive line – LRT-2 – carries fewer passengers. The rate of growth in ridership has been strong. If the additional planned lines are constructed, annual ridership could reach one trillion within the decade.

Figure 87: Light rail ridership (LRT-1, MRT-2 & MRT-3), Mn, Philippines, 2000-2009



Sources: LRTA and Metrostar Express
Note: MRT-2 and MRT-3 only started operating in Apr 2003 and Dec 1999, respectively.

98 There were reports that influential private persons with strong connections to Malacañang favored a PRC government-to-government loan. The JFC wrote DOTC Mendoza on October 3, 2008 urging a transparent international BOT/PPP bidding.

Map 2 shows present and future light rail lines in the NCR. LRT-1 (yellow) now connects to MRT-3 (blue) at North Avenue, although passengers have to walk to transfer between the two lines, as they also have to do at Taft Avenue and EDSA. LRT-2 (purple) will have extensions to the east and the west. LRT-1 will extend south into Cavite (dotted yellow). Proposed MRT-4 (light blue) connects downtown Manila to MRT-7 along Commonwealth Ave in Quezon City. Proposed MRT-8 connects downtown Manila with the eastern suburbs of the megalopolis.

Map 2: Present and future light rail lines, NCR

Source: DOTC

Headline Recommendations	
1.	**Build expressways and national roads twice as fast, using PPPs as well as DPWH funds** (see list below). Cost: US$ 3+ billion (not including national roads).
2.	**Build intercity rail and urban light rail, especially on Luzon, twice as fast. Accelerate rail construction on Luzon, using PPPs as well as DOTC funds** (see list below). Cost: US$ 11+ billion.
3.	**National government budget should focus on the core road network**. Major road and rail projects which government decides to be funded as PPPs should be **bid out competitively and evaluated and awarded transparently.** Unsolicited proposals should be minimized.
4.	Apply **HDM-4 for roads**. Create **single light rail agency** for Metro Manila.

Recommendations (9)

A. **Start to build expressways and national roads twice as fast, using PPPs as well as DPWH funds**. Extend expressways North to La Union, North East to Nueva Ecija and South to Batangas, Lucena, and Cavite; extend Manila Skyways and build C-6 in NCR; also Davao to GenSan; Trans Cebu (Danao to Talisay); 3rd Cebu-Mactan bridge; consider Cebu-Bohol bridge (see Table 36). Relieve congestion on national roads by building more and through widening. Cost: US$ 3+ billion (not including national roads). (Immediate, medium and long-term action by NEDA, DOTC, DPWH, NEDA, DTI, and private sector).

Table 38: Targeted expressway and bridge projects, 2011-2020

Project		Financing	Cost Est Mn US$
Cavite-Laguna (CALA) Expressway	(23km)	DPWH	300
Cebu-Bohol bridge	(18 km)	NIA	NIA
Cebu-Mactan 3rd bridge		NIA	NIA
Davao to General Santos expressway		DPWH	NIA
Danao to Talisay expressway, Cebu		DPWH	NIA
LRT-1 provincial bus terminal to Cavite[99]		PPP	NIA
Manila Connector (Skyway to Tondo)		PPP	400
Metro Manila Tollway C-6 (Lakeshore Dike to NLEX)		DPWH	850
MRT-7 provincial bus terminal to Bulacan		PPP	NIA
North East Luzon Expressway	(456km)	PPP	190[100]
SLEX 4 (Calamba-Lucena)		PPP	450
STAR northbound lane Lipa-Batangas City		Private	NIA

Source: AmCham ICIP staff research

B. **Build large intermodal provincial bus terminals north and south of Manila**, near expressways and light rail. Bid out the project as PPP. Prohibit provincial buses from entering the NCR and close their present terminals which congest traffic. (Medium-term action NEDA, DOTC, and private sector)

C. The final **national government budget should focus on the core road network**. These are highly travelled roads with great economic and social impact. 85-90% of the total road infrastructure budget must be aligned to core roads and only 10-15% to other various projects. (Immediate action NEDA, DBM, DPWH)

D. Major road and rail projects which government decides to be funded as PPPs should be **bid out competitively and evaluated and awarded transparently**. Unsolicited proposals should be minimized. (Immediate action DOTC, DPWH, NEDA, DTI)

---

99 Provincial bus operations to and from the North and South will start and terminate at these buses terminals. The light rail system will provide inter-modal connectivity with the metropolis.

100 US$ 190 million for Phase 1, 6-lanes Quezon City to Gapan, Nueva Ecija; subsequent phases will traverse Nueva Ecija north to Tuguegarao City, Cagayan.

E. Strictly **use the modern planning tool known as HDM-4** in the identification and prioritization of road infrastructure projects for funding (using objective technical and economic criteria). HDM-4 should be strictly followed in determining amount budgeted for lump sum utilized for rehabilitation, construction, and upgrading of roads. (Immediate action NEDA, DPWH, and line agencies)

F. GRP **agencies should post on their websites the list of road and bridge projects programmed for funding, based on HDM-4**. They should also post the list of projects actually funded, actual releases, disbursements, and other project milestones on the web. (Immediate action NEDA, DBM, DPWH, and other line agencies)

G. **Build intercity rail and urban light rail, especially on Luzon, twice as fast. Accelerate rail construction on Luzon, using PPPs as well as DOTC funds**. Complete the MRT-7. Build the LRT-1 south extension, the LRT-2 west and east extensions, complete the Northrail and Southrail projects and their interconnection. Build the MRT-4 and the MRT-8 and a Cebu light rail. Build a high-speed connection between Manila business hubs and Clark airport by 2020. Cost US$ 12+ billion (see Table 37). (Immediate, medium and long-term action by NEDA, DOTC, NEDA, DTI, and private sector)

Table 39: Targeted Intercity and urban light rail projects, 2011-2020

Project	Financing	Cost Est Mn US$	Status
Cebu LRT	DOTC	NIA	NIA
High speed rail Clark to NCR CBDs	PPP	5,000	NIA
LRT-1 south extension Phase 1	PPP	1,400	NIA
LRT-1 south extension Phase 2	PPP	1,000	NIA
LRT-2 east and west extension	DOTC	350	NIA
LRT-4	PPP	1,000	NIA
LRT-8	PPP	1,000	NIA
North Rail extension north of Clark	PNR	500	NIA
South Rail rehabilitation to Bicol	PNR	500	NIA

Source: AmCham ICIP staff research

H. **Correct the different gauges of the Northrail-Southrail linkage**, which is not congruent with the gauge of both Northrail and Southrail projects. The former uses standard gauge, while the latter uses narrow gauge. To go to Southrail from Northrail, commuters will have to transfer trains twice on the linkage line. (Medium-term action DOTC, NEDA, and PNR)

I. Enact an EO to create a **single government agency** to manage operations, maintenance, and planning of **all light rail projects within Metro Manila** in order to ensure a seamless rail system. (Immediate action DOTC and LRTA)

Road and Rail FGD Participants, Moderator and Secretariat Members

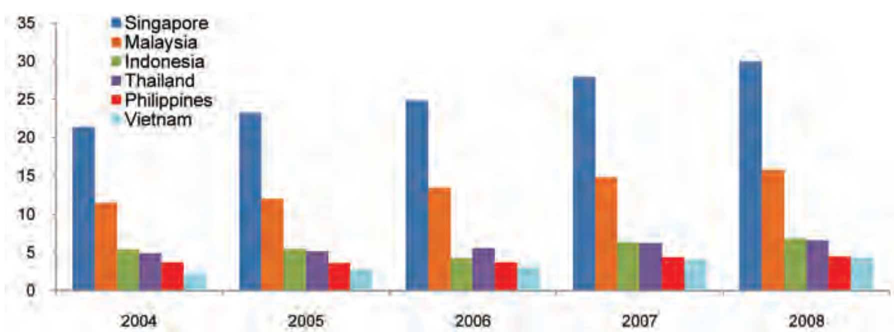
November 12, 2009
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON ROADS AND RAIL

Infrastructure: Seaports

Sector Background and Potential

With its archipelagic character, the Philippines depends on seaports much more than countries with large continuous landmass. Since a high percentage of domestic and international commerce and travel is by sea, the efficiency of maritime transportation has become increasingly essential to national competitiveness. The high cost of domestic marine transport has long been questioned, while the enormous potential for tourism (both domestic and international) is greatly influenced by the quality of seaports (as well as airports). Improving maritime safety is an important issue given the high loss of life from negligence of ship owners and government agencies, terrorism, and weather.

Figure 88: Container traffic per country, in Mn TEUs, 2004-2008



Source: International Association of Ports and Harbors

The volume of international container shipments in and out of the Philippines is low in comparison to Asia's major export economies (see Figure 88). Total Philippine container traffic is less than 5 million TEUs and is growing very slowly. Singapore, Hong Kong, and Kaoshung ports handle over 20 million TEUs/year; Laem Chabang (Thailand) and K'lang (Malaysia) ports each handle about 5 million TEUs/year. The terminals at Manila (MICT and South Harbor) handle about 3 million TEUs/year. Manila is ranked 90th in the world in tonnage volume and ranked 36th in container traffic (see Table 40).

Table 40: World Port Rankings, 2008

Cargo Volume, '000 Tons					Container Traffic, TEUs			
Rk	Port	Country	Measure	Tons	Rk	Port	Country	TEUs
1	Singapore	Singapore	Freight	515,415	2	Singapore	Singapore	29,918,200
20	Port Kelang	Malaysia	Freight	152,348	15	Port Kelang	Malaysia	7,973,579
43	Tanjung Pelepas	Malaysia	Metric	87,939	19	Tanjung Pelepas	Malaysia	5,466,191
90	**Manila**	**Philippines**	**Metric**	**45,230**	21	Laem Chabang	Thailand	5,128,057
96	Tanjung Priok	Indonesia	Metric	42,050	24	Tanjung Priok	Indonesia	3,984,278
					36	**Manila**	**Philippines**	**2,997,022**
					57	Saigon New Port	Vietnam	2,018,104
					78	Bangkok	Thailand	1,375,168
					99	Johor	Malaysia	934,767

Source: American Association of Port Authorities; Note: Total number of ports evaluated = 125 per cluster

Over the last decade, there has been significant investment in the development of the international ports of Batangas, Cagayan de Oro (PHIVIDEC), Davao, and Subic. Their combined capacity has almost doubled. GRP agencies have borrowed from JBIC to develop the new ports in Batangas, Subic, and Cagayan de Oro and will need to generate substantial port revenues to pay these loans and to avoid the new facilities becoming white elephants.

Historically traffic has grown around 5% annually, but volume is projected to increase by only 2-3% until world trade has fully recovered from the financial crisis. While the new ports have considerable capacity for future growth, the volume share of the main NCR ports is not spread efficiently.

Table 41: Cost of Exporting a Container, US$

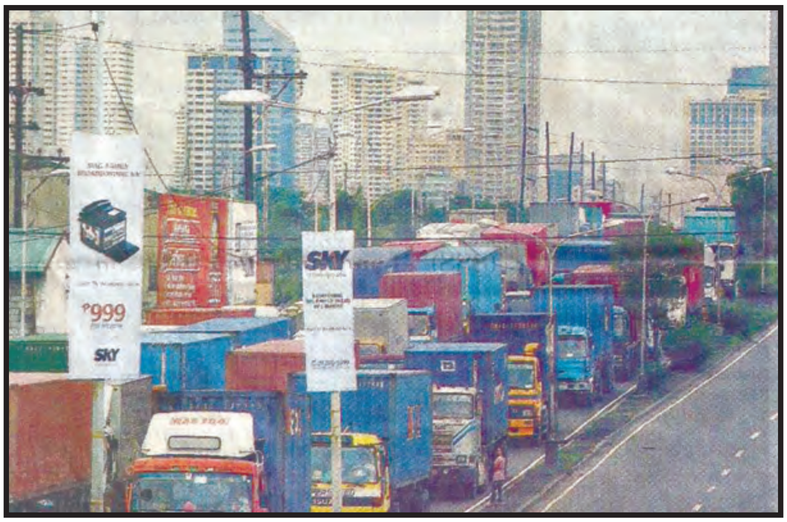
Item	Philippines	Thailand	Indonesia	Vietnam
Terminal Handling Charge*	96	74	95	60
Cargo Handling**	52	37	34	79
Port charges/Wharfage	6	22	0	1.6
Customs & Security Fee	45	37	23	50
Documentation	42	16	20	13
Trucking	100	126	100	138
TOTAL	**341**	**312**	**272**	**341.6**

Source: CRC, EDC, TAF, USAID, PCCI Study on the Cost of Exporting, 2007
** This applies to Inter-Asia trade; Ave terminal handling cost of 20-ft container from Asia to US/Europe is $104*
*** For the Philippines, figure reflects only the cost of arrestre. Stevedoring cost is embedded in the THC.*

Table 41 shows costs of exporting a 20-foot container at ports in Indonesia, Philippines, Thailand, and Vietnam. Studies have shown both international and domestic shipping costs can be reduced by efficiency improvements and reduction or removal of unnecessary charges lacking added value, especially those by government.

In Manila there are two ports owned by the Philippine Ports Authority (PPA) – International Container Terminal Services Inc (ICTSI) and Asian Terminals Inc (ATI) – with operations awarded to private operators and one privately-owned and operated (Harbor Center). Harbor Center only handles non-containerized cargoes. Batangas and Subic handle very low TEU volumes. The present NCR port usage has created traffic problems, adding to the extreme congestion of Metro Manila, and a contributor to passenger and cargo traffic as well as industrial concentration in the capital (see Figure 89). Competition among port operators is limited, especially in foreign containerized cargoes.

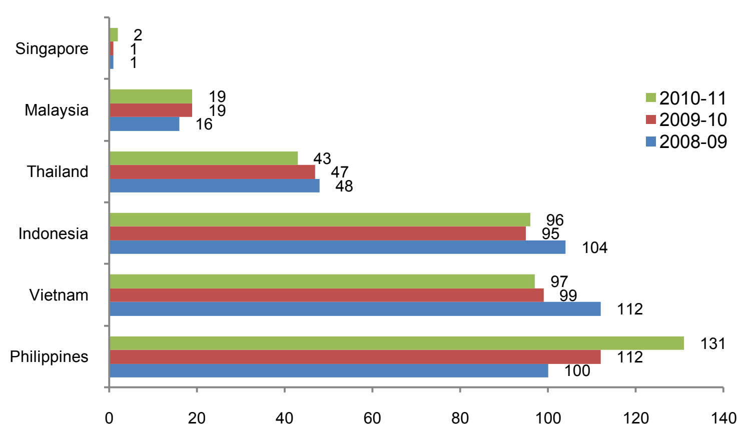
Figure 89: Truckers, motorists in private vehicles, and drivers of passenger jeepneys on their way to North Harbor



Source: The Philippine Star, July 16, 2010

As Figure 90 shows, the quality of port infrastructure rank for the Philippines in the WEF Global Competitive Report is the lowest among the ASEAN-6. As an archipelago with a very large number of ports, the Philippines faces a challenge, only shared with Indonesia in Southeast Asia, to undertake reforms and large investments to modernize as many ports as possible.

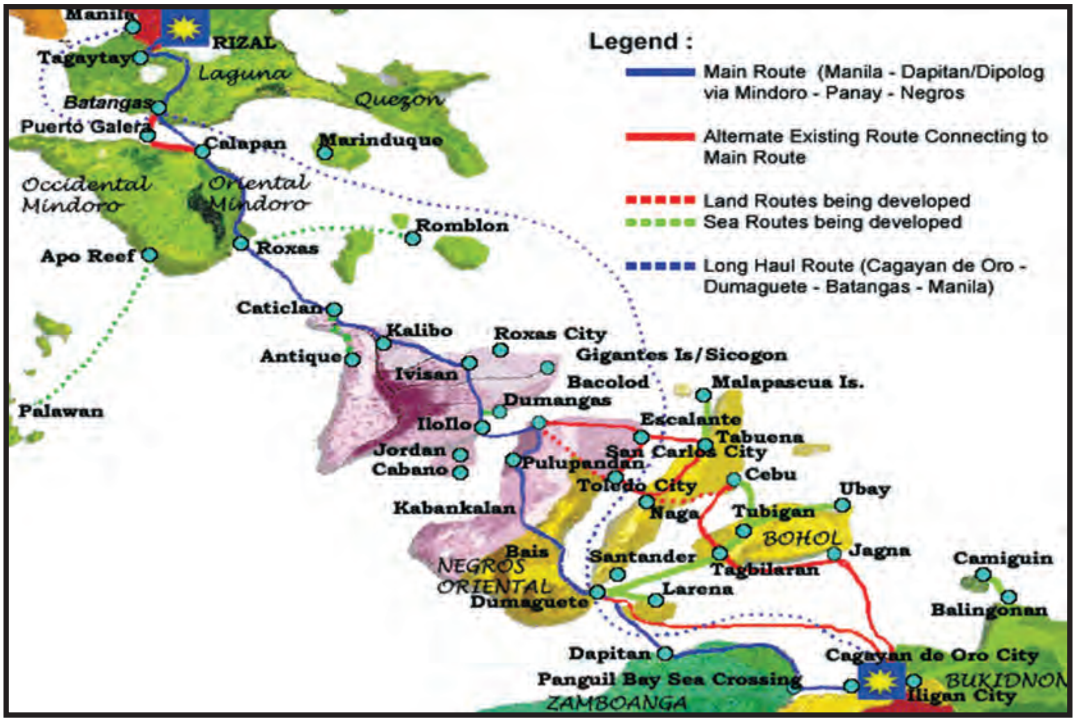
Figure 90: Quality of Port Infrastructure score, 2008-2010, ASEAN-6



Source: WEF Global Competitiveness Reports; Note: Number of countries evaluated - 2008-09 (134); 2009-10 (133); 2010-11 (139)

As it expands, the Ro-Ro transport system introduced by President Macapagal Arroyo is increasingly giving passengers and shippers an alternative to traditional air and marine shipping (see Map 3).

Map 3: RO-RO Network



Source: Philippine Ports Authority

Domestic shipping can be divided into three categories with different port and infrastructure requirements: (1) pure containerized lift-on/lift-off (LOLO) shipping for long-haul routes between main ports; (2) large Roll-on/Roll-Off (RORO) ferries with passengers on long-haul routes; and (3) bulk (dry and wet), break bulk, and small container shipping.

The Philippine constitution limits foreign equity in public utilities (e.g. transport) to 40% maximum. The concept of consortium shipping (foreign ships can carry each other's foreign cargoes within the Philippines) has been proposed as a means of increasing competition and lowering shipping costs.

Philippine ports suffer from a structural regulatory problem. The DOTC has limited jurisdiction over Special Economic Zone (SEZ) ports including Subic Bay Freeport Zone, Poro Point, and PHIVIDEC. Also, there is no uniform administration of RORO ports; some are under PPA, while others are under LGUs, and fees are not uniform. PPA is subject to political pressure to allocate funds for all ports, dissipating limited resources rather than developing major ports in a hub-and-spoke system.

Headline Recommendations	
1.	A **NCR/Central Luzon Transportation Master Plan up to mid-century** is needed and should include a strategy to utilize Batangas, Manila, and Subic seaports, with modern ground transportation links to industrial and urban centers. **Manila should be decongested gradually, shifting international container traffic to Batangas and Subic**. Develop cruise business at Manila and other major ports (see Map 4).
2.	**All major ports should have complete infrastructure** (terminals, cranes, yards, scales, silos, and discharging equipment and areas) under a hub-and-spoke system feeding goods by truck and RORO. Major RORO ports should have modern passenger terminals. Allow chassis RORO (cargo containers on chassis without truck). Reduce fees on all shipping. Increase consortium shipping arrangements.
3.	**PPA should focus on an independent regulatory role** and promote competitive participation in port operations. Activate the National Port Advisory Council. Pass the new Maritime Law. The Maritime Industry Authority (MARINA) should impose higher standards on shipping and follow international practice.

Recommendations (20):

A. The recommended **NCR/Central Luzon Transportation Master Plan** should include a strategy for future utilization and development, until mid-century, of the major international seaports in Central Luzon, the Visayas, and Mindanao. The plan should include ground transport infrastructure linking the seaports to airports and cities. The plan should set the capacity of ports in relation to the adjacent road networks and to overall domestic and international shipping demand. It should also include a seamless, integrated inter-modal transport system. (Medium-term action PPA, MARINA, DOTC, DPWH, NEDA, and private sector)

B. A **hub-and-spoke system is ideal** with major ports highly developed for larger ships with cargoes delivered from smaller production centers by truck or small RORO. (Long-term action PPA and DOTC)

C. **Major ports should include all needed infrastructure** including container terminals, cranes, truck marshalling areas, and weighing scales, which are not present at many ports.[101] (Medium-term PPA, DOTC, and private sector)

D. **Major RORO ports should have modern passenger terminals** with connected bus terminals, security systems, and berthing spaces with good road access.[102] (Medium-term action PPA and DOTC)

[101] A ship's crane adds as much as 30% to capital cost of the vessel and increases operating costs. Shipping companies in the Philippines usually have to provide infrastructure that in other countries is provided by the port operator. Some ports (e.g. Iloilo) have draft limitations preventing larger ships from servicing them.

[102] Currently, shipping companies at many ports have to provide passenger terminals and luggage screening equipment and berthing spaces may be shared with freighters.

E. Port infrastructure should **also include facilities to accommodate bulk and break bulk** cargoes (e.g. silos, discharging equipment, and discharging areas).[103] (Long-term action PPA, DOTC, and private sector)

F. Adopt a firm policy to **gradually shift international container shipment volume from Manila (South Harbor and MICT) to Batangas and Subic**.[104] (Immediate action PPA and DOTC)

Map 4: Decongesting the Port of Manila

G. As part of the recommended Master Plan, PPA should take the lead in a **transport study to identify the ideal capacity ports should have in relation to its adjacent road network** to avoid and to reduce congestion. A **cap on TEUs per port should be established**, with cargo above the limit moved to other ports. The study should also plan for the development of an **inter-modal system with rail, roads, and waterways**. (Immediate action PPA, DOTC, MMDA, and private sector)

H. **Retain North Harbor as a domestic port, shift foreign cargoes to Batangas and Subic and make Manila a cruise port**.[105] This will decongest Manila and make it unnecessary to invest as

103 Bulk wet services for oil distribution are privately owned and operated. Bulk dry and break bulk cargoes require separate facilities and discharge areas.

104 Manila South Harbor and MICT handles about 60% of the total Philippine international container shipment volume, while Batangas and Subic have very low volumes. When the Bangkok port in Thailand was overcrowded, congesting the city's urban core, the new port of Laem Chabang was constructed in an area 90 minutes away from the city. To decongest the Bangkok port, a container volume limit of one million TEUs was enforced. Anything beyond that cap were required to pass through Laem Chabang.

105 Cruise ship operations in Southeast Asia and Southern China are increasing, with two international cruises already visiting Manila in the first quarter of 2010.

much in road infrastructure for Manila port.[106] There should be a timetable for implementation and incentives for shippers to move.[107] Private port operators should creatively market the ports. (Immediate action PPA, DOTC, NEDA, SBMA, and private sector)

I. **PPA should consider creating a private corporation to develop ports and privatize the ports through an IPO** to create broad ownership.[108] (Medium-term action PPA, DOF, and Congress)

J. **Container shipping costs should be reduced by** (a) eliminating the double charging of separate stevedoring and arrastre charges by rationalizing them into one cargo handling charge;[109] and (b) no arrastre fee should be charged for RORO and LOLO which discharge directly onto the truck bed. (Immediate action PPA and DOTC)

K. **PPA must find innovative ways to cut costs and increase revenue aside from continuously increasing fees**, which make Philippine ports less competitive and adds to costs for cargo owners. (Immediate action PPA and DOTC)

L. **Domestic shipping costs can also be reduced** by the port modernization recommendations in B, C, D and E above.[110]

M. The practice of **extorting illegal fees from truckers should be stopped** by LGUs; lighted, safe and secure **rest areas should be provided** along the nautical highway. (Immediate action DPWH and DILG)

N. **MARINA must have greater political will to impose higher standards** on quality, safety, and environmental protection following international practices, which will help create a more mature and efficient Philippine shipping industry.[111] (Immediate action MARINA, DOTC, and private sector)

---

106 When the new Cavite coastal road is completed, cargo coming from the south could reach the Manila port through a tunnel under Roxas Boulevard. However, this proposal which was submitted to the DPWH in 2001 has not been acted on. DPWH and NEDA should undertake to study the proposed project if international cargo traffic stays at Manila. Also, a review of the truck ban in areas covered by the route of container trucks should take place when this project becomes final.

107 Challenges that need to be considered include: (1) existing contracts of PPA with ICTSI and ATI, (2) cooperation of the two port authorities – PPA for Batangas and Manila, and Subic Bay Metropolitan Authority (SBMA) for Subic, the later potentially gaining revenue from cargoes formerly handled at PPA ports, and (3) the needed road infrastructure (e.g. the additional two lanes of the STAR Tollway to Batangas should be completed as well as the road connection to the SLEX).

108 Creating competition among port operators has proven difficult because of low TEU volume and the perception that politics may overturn bid awards, as happened to one of Asia's largest port operators which was awarded the operation of the Subic port in the early 1990s. Thus few foreign port operators have participated in biddings. Port development is expensive, with a container berth costing more than US$ 100 million. The low volume, even in Manila where there are two operators, seemed unlikely to attract interested competitors, but a third operator (a Metropacific joint venture with Harbor Center) for privatization of the North Harbor operation has been approved.

109 A single charge is the common practice in other countries, which do not make a distinction between land and vessel cargo handling.

110 A foreign ship at ICTSI discharges at 30 moves per hour compared to even 50 moves in other countries, while a ship using its own cranes can discharge at 7 TEUs per crane per hour. The many inefficiencies of port operations, inadequate road infrastructure resulting in truck bans, illegal fee collections, inadequate infrastructure at ports all combine to increase domestic operating costs.

111 Because of high operating costs, many older ships are brought into the Philippines but are more costly to run. BOI incentives for newer ships are usually not enough to outweigh these costs.

O. **Amend the RORO policy to include chassis RORO** as part of the service. (Immediate action PPA, MARINA, and DOTC)

P. **Remove unnecessary (as well as unauthorized) fees** affecting RORO traffic.[112] (Immediate action DPWH, DOTC, and DILG)

Q. **RORO bills of lading should be more transparent**; currently they are prepared on ships and do not show port of origin, commodity, and value. (Immediate action MARINA and DOTC)

R. C**abotage restrictions require further discussion but should probably be eased** through Consortium Shipping. The Philippine Inter-Island Shipping Association argues that, because almost every country imposes cabotage, the Philippines should as well. The counter-argument is that removing cabotage will increase competition, improve service and safety, and reduce domestic shipping costs for exporters and consumers. (Immediate action DOTC and private sector)

S. **Pass and implement the new Marine Law**, which came close to final passage in early 2010.[113] The Marine Law addresses several areas intended to raise Philippine law to a level competitive with other flag states.[114] (Immediate action DOTC, Congress, and private sector)

T. Solve a serious structural regulatory problem by separating the policy-making body from port operations. **Create a National Port Advisory Council** that would define the policies of the ports and put jurisdiction of all ports under the DOTC. (Immediate action DOTC and OP)

Airports and Seaports FGD Participants, Moderator and Secretariat Members

November 26, 2009
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON AIRPORTS AND SEAPORTS

---

112 Provinces where trucks pass through require their own stickers, each cost as much as PhP 1,000 per year. In some areas, illegal toll fees are collected by LTO, highway patrol, PNCC and Coast Guard causing delay and adding cost to operators.

113 The bill consolidates maritime functions into a single government agency. Currently, there are many agencies regulating the maritime industry. The bill also: shifts registry from income taxation into tonnage dues (following other neighboring countries); turns the maritime agency into a fiscally-independent authority (which will raise its revenues through the collection of tonnage dues); gives better salaries to technical experts; creates a Marine Transport Safety Board (an independent investigating body reporting to the president with joint prosecutorial powers with the Department of Justice (DOJ) and able to file charges in courts); and creates a GOCC to lend money to ship owners at an interest rate 3% below market.

As the largest supplier of seafarers, the Philippines has potential to develop its overseas shipping industry as a cross-trader but has been held back by a faulty mortgage law which has not been accepted by international banks. Future development of the industry depends on cross-trading because of limited domestic cargo and trade, although growth of mining exports could provide new opportunities.

114 These include: (a) ownership at 51%-49% for overseas shipping; (b) an annual tonnage tax instead of income tax because most flag states provides tax incentives; (c) correction of the faulty mortgage law to conform with international convention; (d) adoption of international safety and marine environment protection standards; and (e) other provisions that will put the country at par with other flag states.

Infrastructure: Telecommunications and Information Technology

Sector Background and Potential

Modern telecommunications and information technology infrastructure are vital to the economic growth of the Philippines, serving multifarious purposes in daily life and enabling the rapid growth of the BPO sector, as well as enhancing the economy's overall efficiency.[115] Land lines, mobile telephones, Internet, and various cable and satellite technologies that carry voice and data connect Filipinos and foreigners alike, within the archipelago and around the globe. In recent years, Filipinos – including presidential candidates – have even become heavy users of social media communications.[116]

In a country where change comes slowly, reform in telecommunications during the last 15 years has occurred very quickly. In only a decade, Philippine telecommunications advanced from a backward, monopolistic, high-cost, and inefficient public utility to a sector with considerable competition, enabling a majority of the population to communicate at home and abroad at much reduced cost.

Almost 18 years ago former Singapore Prime Minister Lee Kuan Yew, addressing the annual PCCI business conference in Manila, commented "in the Philippines, 98% of the population is waiting for a telephone, while the rest are waiting for a dialling tone." More than a decade later, a majority of Filipinos have both.

115 An FGD for Telecommunications and Information Technology was not held, although issues and recommendations relating to the BPO sector were discussed in the FGD on BPO. The Telecommunications and Information Technology section was drafted by the principal author of Roadmap 2010 and commented on by telecommunication experts in AmCham.

116 Over 80% of the Philippine internet population uses social media networking sites. In Universal McCann's 2008 Wave 3 study on social media, the Philippines had the highest penetration of social networking among Internet users at 83%, compared with the global average of 58%. In the 2010 election buildup, a politician expected to be a presidential candidate advertised heavily on Yahoo, the most popular email browser for Filipinos at home and overseas.

There were 93.6 million Facebook users in Asia on August 31, 2010 (162.1 million in Europe and 149.1 million in North America). The top five Facebook countries in Asia are: Indonesia (27,338,560), Philippines (16,235,000), India (13,188,580), Malaysia (8,163,300), and Taiwan (7,052,660).

Source: www.internetworldstats.com

In one of the most consequential reforms initiated by former President Ramos, the control of Philippine Long Distance Telephone Company (PLDT) of Philippine domestic and international telecommunications was broken in 1993 by two executive orders, one mandating interconnection and the other requiring phone companies (in addition to PLDT) to install specified numbers of landlines and cellphones in their assigned areas. The executive orders were followed two years later by Congressional passage of a telecommunications reform law.

Today two large and two smaller companies are active in the local telecommunications market. All four companies provide mobile and landline telephone service as well as Internet broadband. Each holds a public utility franchise granted by Congress, as required under the colonial era Public Utilities Act. Their foreign partners have invested substantial equity in the sector.

In addition to increased competition and consumer choice, another critical factor in the country's improved telecommunications infrastructure has been rapid technological change. Landlines have been overtaken by mobile phones, and postpaid telephone accounts by prepaid. Today Filipinos have twenty times as many mobile subscriptions as landlines. The Philippines, called the text message capital of the world, is the world leader in Short Messaging Service (SMS) with almost one billion daily messages.[117]

While the country lags in many competitiveness indicators, mobile phone penetration is not among them. In 2009 the penetration rate per 100 inhabitants of the Philippines (81) was higher than China (56), India (44), and Indonesia (69), while lower than Malaysia (110), Singapore (140), Thailand (123), and Vietnam (101) (see Table 42).

Table 42: Mobile phone subscriptions, ASEAN-6 + 2, Mn, 1995, 2009

Country	1995 Total	1995 Mobile phone per 100 inhabitants	2009 Total	2009 Mobile phone per 100 inhabitants
China	3.63	0.30	747.0	55.5
India	0.08	0.01	525.1	43.8
Indonesia	0.21	0.11	159.2	69.2
Malaysia	1.01	4.88	30.4	110.6
Philippines	0.49	0.71	74.5	81.0
Singapore	0.31	8.79	6.7	140.4
Thailand	1.30	2.16	83.1	122.6
Vietnam	0.02	0.03	88.6	100.6

Source: ITU; Includes both pre-paid and post-paid accounts

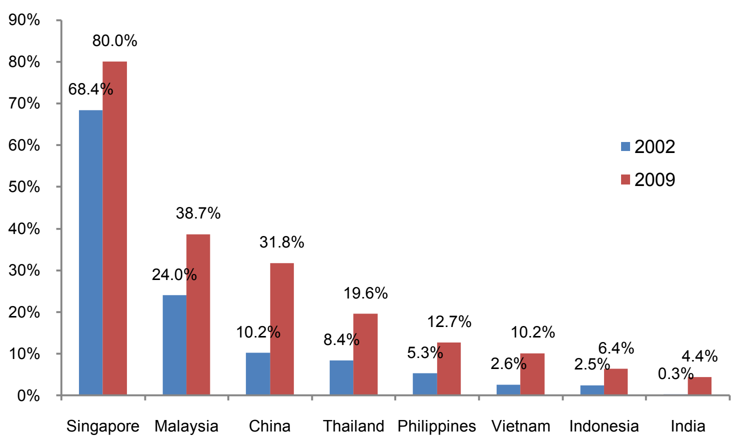
Digital fiber connects the Philippines inexpensively to the far corners of the globe, providing what American columnist Tom Friedman once termed the equivalent of an oil pipeline moving services of skilled Filipino workers to North American markets. The newest Voice over Internet Protocol (VoIP) telephone service via computers has brought the cost of communicating on the Internet almost to zero.

117 Source: Acision's Press Release, "The Future is Messaging Growth," September 7, 2008 (www.acision.com)

As the cost of accessing the Internet falls, the next new technology for the Philippines is the high-speed wireless broadband revolution. Although less than 5% of mobile phones in the Philippines have 3G today, within a few years many millions more could have cheap Internet access on their cellphones. In Asia, 3G penetration already exceeds 50% in Australia, Hong Kong, Japan, Korea, and Singapore.[118] One presidential candidate in 2010 suggested providing Filipino students with mobile digital reading devices, a visionary yet highly practical proposal.[119]

The benefit for national competitiveness of these changes will be enormous. Most Filipinos will be able to avail of global SMS and email communications on mobile devices. They will "leap over" the relatively low household computer penetration in the Philippines of 13% (see Figure 91).

Figure 91: Proportion of households with computer, selected countries, 2002, 2009



Source: ITU

The following provides a brief overview of the four major telecommunication companies in the country. The public sector role in the sector is limited to regulation through the National Telecommunications Commission (NTC).

Philippine Long Distance Telephone Company

Established by an act of Congress in 1928, 80-year old PLDT is the country's largest telecommunication company, measured by its annual revenue (PhP 147 billion in 2009) and subscribers (41 million cellphone subscribers with Smart and 1.8 million landline subscribers).[120] PLDT is one of the country's largest firms in terms of total revenue. In addition, PLDT is one of the largest BPO providers in the Philippines, with smaller operations in China, Europe, India, the US, and Vietnam.[121]

---

118 Frost & Sullivan briefing, *"Moving Beyond Messaging in the Philippines,"* November 6, 2009

119 Senator Richard Gordon authored this proposal. At least $2 billion could be required, a reasonable sum over a number of years if high-speed broadband wireless service is available.

120 PLDT 2009 Annual Report

121 Call center services are provided by ePLDT Ventus and BPO services by SPi Technologies, which together have more than 11,000 employees. Illustrative services include Content Editorial and Production, Content Coding, Abstracting and Indexing, Electronic Data Discovery, Content Transcription, Transaction Processing, Inbound Customer Care, Inbound Technical Support, Inbound Sales, Outbound Sales, Email support, and Website Maintenance.

Over a half-century, ownership of PLDT has changed from majority American then Filipino and now Filipino-Hong Kong-Japanese. Its shares have been traded on the New York Stock Exchange (NYSE) since before WWII. The current principal owner, First Pacific Company Ltd (Hong Kong), whose shares trade separately on American stock exchanges, is principally owned by the Salim family, once Indonesia's largest business conglomerate. PLDT lists its ownership structure as including the First Pacific Group (26%) and NTT (Japan) (21%).[122]

Since WWII, the style of management of PLDT and the business environment in which the company operates have changed significantly. First, PLDT was an American-owned public utility. In the mid-1960s, ownership and management became closely allied with the interests of business allies of then-president Marcos. Since 1998, new ownership has changed PLDT into an Asian-owned joint venture company. Management behavior has shifted from rent-seeking to dynamic competition, following sectoral reforms initiated by former president Ramos. The wait for a new landline is now weeks, not years, and most subscribers no longer want this older technology.

Globe Telecom Inc.

The second largest Philippine telecommunications firm, Globe, with revenues of PhP 62 billion in 2009 and over 23 million subscribers, is a joint venture between Ayala Corporation (Filipino) and Singapore Telecommunications.[123] SingTel currently owns 47% while Ayala Corporation holds 31% with the remaining 22% shared by public investors.[124] SingTel, one of the largest telecommunications company in Asia outside the PRC, is majority-owned by Temasek Holdings, the investment company of the Singapore Government, whose total assets exceed US$ 100 billion.

Like PLDT, Globe's franchise originated before WWII, in a 1928 law which granted a California-based American investor a franchise to operate wireless long distance message services, first named Globe Wireless Limited and later Globe Mackay Cable and Radio Corporation. In 2000, Globe merged with Islacom, and its principal foreign shareholder, a subsidiary of Deutsche Telekom AG, exited the country.

Beginning in the early 1990s, Globe began to grow market share by aggressively lowering prices. When Globe stopped lowering its prices, tariffs for all international calls had fallen to US$ 0.40 a minute from over US$ 3.00 a minute. Globe steadily gained market share through its price lowering strategy.[125]

---

[122] PLDT Notice and Agenda of Annual Stockholders Meeting, 2010

[123] Revenue and subscription data are from the Globe Telecom 2009 Annual Report. Ownership structure information was obtained from Globe Telecom's website: www.globe.com.ph

[124] Asiacom owns all of the 158.5 million preferred shares (www.globe.com.ph)

[125] Sun, a late entrant mobile phone competitor, has gained substantial market share by following the same price lowering strategy.

LiveIt, a sister company in the Ayala Group, invests in IT service providers. Its largest acquisition in October 2008 took NASDAQ-traded eTelecare private for US$ 270 million.[126] In 2009 eTelecare merged with Stream Global Services (US), one of the largest global call center operators with 50 sites and nearly US$ 1 billion in annual revenue. Integreon, another unit of LiveIt, in May 2010 signed a 10-year contract worth US$ 852 million to provide legal research and related office services to a UK law firm.

Digitel Telecommunications Philippines

The third firm Digitel commenced operations in 1992 to take advantage of the opening of the sector under President Ramos. By 2009, Digitel earned PhP 14 billion in total revenue from 13 million subscribers. Digitel's primary shareholder is JG Summit Group of the Gokongwei family (48%), one of the largest Filipino-Chinese conglomerates. TeliaSonera AB, the dominant telephone company and mobile network operator in Sweden and Finland, owns 9%.[127]

The Gokongwei group acquired and expanded an existing poorly-managed government telephone network, later obtaining a national franchise from Congress and adding mobile services. The DOTC awarded Digitel a 30-year contract to manage telecommunications systems owned by DOTC on Luzon. Later the contract was converted to a lease with the right to eventually own the government network. Digitel launched its wireless mobile services in 2003 under the Sun Cellular brand. It sought to gain subscribers with a 24/7 unlimited call and SMS set price subscription for Sun-to-Sun connections. Its two larger competitors responded with similar but higher-priced plans.

Bayan Telecommunications

BayanTel, the telecommunications sector venture of the Lopez Group, was first incorporated in 1961 as International Communications Corporation. It holds a public utility franchise and operates largely in Metro Manila and Bicol. BayanTel is 85% owned by the Lopez Group and sister firm Benpres with Asian Infrastructure Fund (AIF) – a foreign private equity fund – as the other major shareholder.[128] The company has struggled to gain market share. Its senior officer is a foreign national who carries the title Chief Executive Consultant (CEC). Philippine law requires that senior officers of public utility corporations be Filipino.

Currently, the Philippine telecommunication sector is highly competitive. Foreign capital needed to expand and modernize the sector has readily been available from equity, corporate debt, and bank loans. Exceeding the 40% limit on foreign equity by the two largest providers

126 eTelecare is an excellent example of the growth of IT in the Philippines. Barely a decade old, it was started by two American consultants from Los Angeles who picked the Philippines over India to establish their first call center, joining with a company headed by a New Zealand entrepreneur. eTelecare was eventually bought by Ayala after it was spun off from SPI (which was eventually bought by PLDT). The cost of the two fast-growing firms was almost US$ 400 million in total, in light of their rapid, successful expansion in the Philippines. In 2009 eTelecare merged with Stream (US).

127 Sources: Financial information - Digitel Telecommunications Philippines Inc's SEC 2009 Annual Report; Number of subscribers – Lectura, Lenie. "Sun Cellular Subscribers top 13 million." BusinessMirror. 25 May 2010.; Ownership structure (www.digitel.ph).

128 Source: www.bayan.com.ph

(while observing the Control Test) could be a precedent for future formal lifting of this limit should the current constitutional restrictions be removed. More entrants into the market should bring some additional downward pressure on prices to the benefit of consumers and reduced business costs.

Meanwhile, the Internet has greatly reduced telecommunication, postage, and courier costs for businesses. Email and VOIP allow voice communication, document, and other data transfer at little or no expense. Given the high capital costs required for market entry, future new entrants may find takeover of an existing operator an attractive option.

Table 43 shows four indicators of access to information and communication technology for the ASEAN-6 economies plus China and India. The table shows the Philippines was able to skip over the great expense of installing large numbers of landlines (where its penetration remains low) going straight to mobile telephones (where penetration is relatively high). The Philippines has a low level of Internet penetration (6.5 per 100 inhabitants) and a comparable level of computer penetration (21% of households) relative to Indonesia (8.7% and 6.4%) and Vietnam (27.3% and 10.2%) but not Malaysia (57.6% and 38.7%) and Thailand (25.8% and 19.6%). There is a tremendous upside for growth in both.

Table 43: Access to information and communication technology indicators, selected countries, 2009

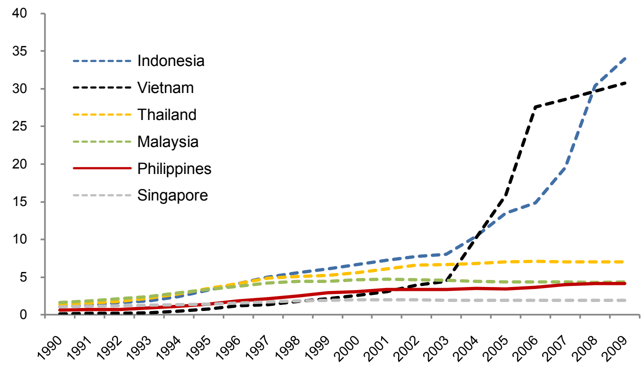
Country	2009 population, in mil	2009 Main fixed tel lines, mil	Main fixed tel lines per 100 inhabitants 2009	2009 Mobile phone subscriptions, mil[1]	Mobile phone per 100 inhabitants 2009	2009 proportion of households with computer	2009 proportion of households with Internet	2009 Estimated total Internet users, mil	Internet user per 100 inhabitants 2009
China	1,345.8	313.7	23.3	747.0	55.5	31.8	18.3	384.0	28.5
India	1,198.0	37.1	3.1	525.1	43.8	4.4	3.4	61.3	5.1
Indonesia	230.0	34.0	14.8	159.2	69.3	6.4	1.4	20.0	8.7
Malaysia	27.5	4.3	15.7	30.4	110.6	38.7	21.1	15.8	57.6
Philippines	92.0	4.1	4.5	74.5	81.0	21.0	13.8	6.0	6.5
Singapore	4.7	1.9	39.1	6.7	140.3	80.0	76.0	3.7	77.2
Thailand	67.8	7.0	10.4	83.1	122.6	19.6	8.6	17.5	25.8
Vietnam	88.1	30.7	34.9	88.6	100.6	10.2	6.5	24.0	27.3

Source: ITU; Note: 1 - Includes both pre-paid and post-paid accounts

Figures 92, 93, 94, 95, 96, and 97 present data on fixed and mobile telephone lines for the ASEAN-6 through 2008. The Philippines has the lowest penetration of fixed line subscribers per 100 inhabitants, while Vietnam has made a great leap upward increasing its penetration rate by around 1,000 percent in five years (see Figure 92). However, the Philippines did well with mobile phone penetration staying close to all the ASEAN-6 except Singapore and Malaysia. Penetration is Vietnam is rapidly increasing and has passed the Philippines (see Figure 95).

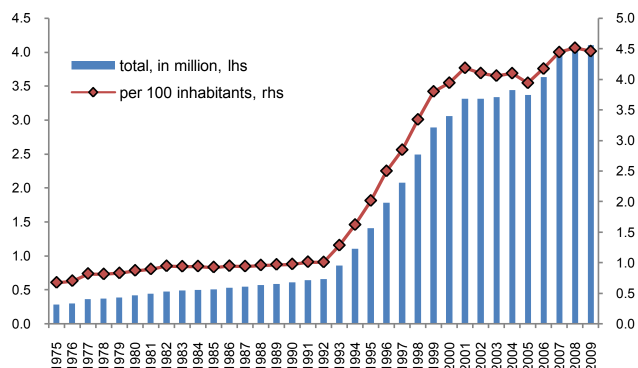
While billions of dollars have been invested by the private sector in mobile telephone infrastructure, there are still remote areas where coverage is weak or nonexistent or only covered by one provider. Some of these areas, such as Palawan, are popular tourist destinations, but are not commercially attractive to telecommunication companies. Fiscal or other incentives for capital investment for new cell sites can be used to encourage needed investment in these areas.

Figure 92: Fixed telephone lines, in millions, ASEAN-6, 1990-2009



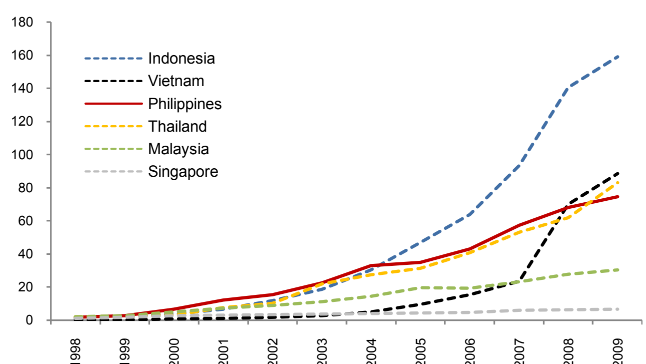
Source: ITU

Figure 93: Estimated number of fixed telephone lines, in millions and per 100 inhabitants, Philippines, 1975-2009



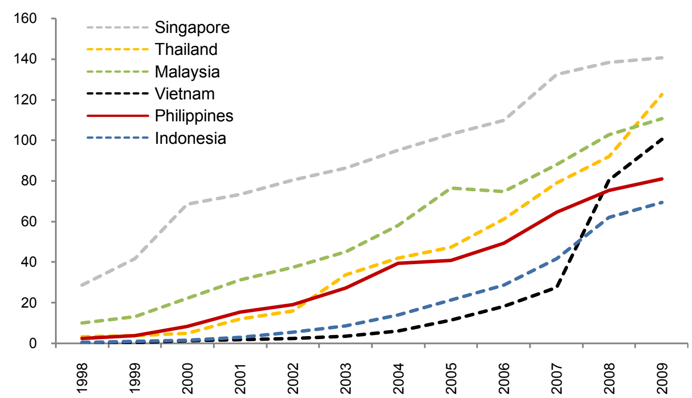
Source: ITU

Figure 94: Mobile phone subscriptions, in millions, ASEAN-6, 1998-2009



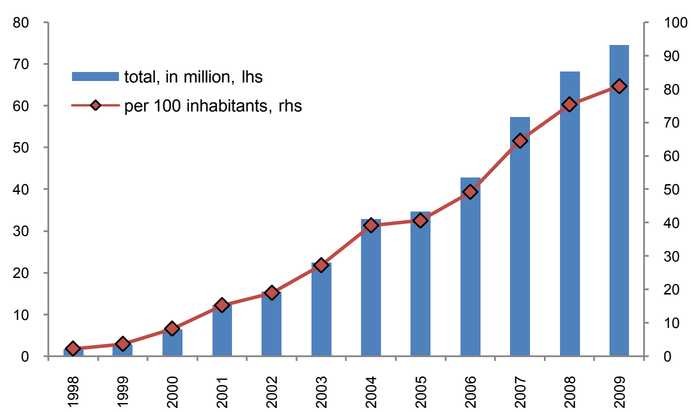
Source: ITU

Figure 95: Mobile phone subscriptions, per 100 inhabitants, ASEAN-6, 1998-2009



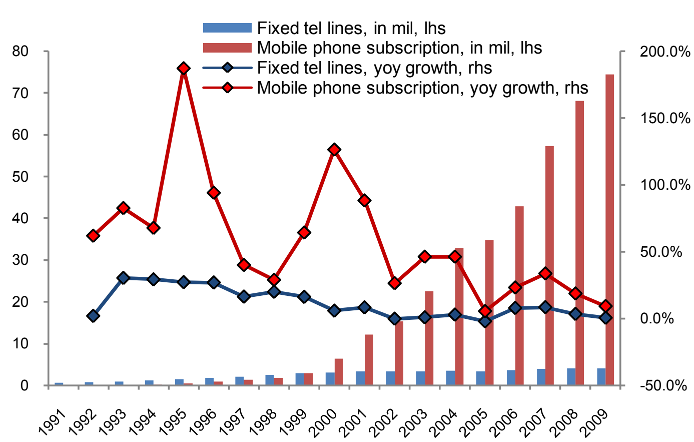
Source: ITU

Figure 96: Estimated number of mobile phone subscribers, Philippines, in millions, 1998-2009



Source: ITU

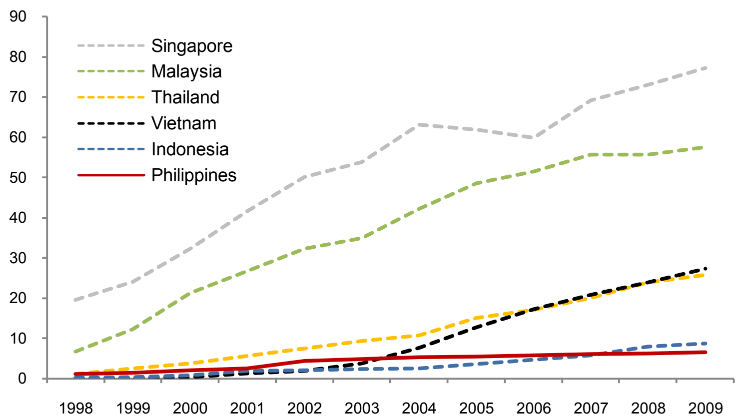
Figure 97: Fixed telephone lines and mobile phone penetration, Philippines, 1991-2009



Sources: UN and ITU

Figure 98 presents data on Internet use in the ASEAN-6. The Philippines has a low Internet penetration at 6.5 per 100 inhabitants, behind Indonesia (8.7) and far behind Thailand (25.8) and Vietnam (27.3), Malaysia (57.6), and Singapore (77.2).

Figure 98: Estimated number of Internet users, per 100 inhabitants, ASEAN-6, 1998-2009

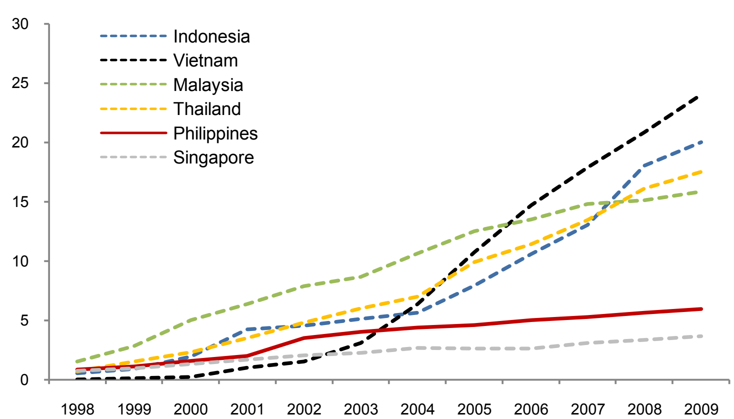


Source: ITU

Figure 99 shows the number of Internet users in the ASEAN-6 and Figure 100 shows the number of Internet users in the Philippines. Only Singapore with its small population has fewer Internet users than the Philippines (6 million), and the rate of growth in the Philippines is much lower than the other ASEAN-6, except Singapore. The growth rate of Vietnam is extremely high; Vietnam now has almost four times as many Internet users as the Philippines.

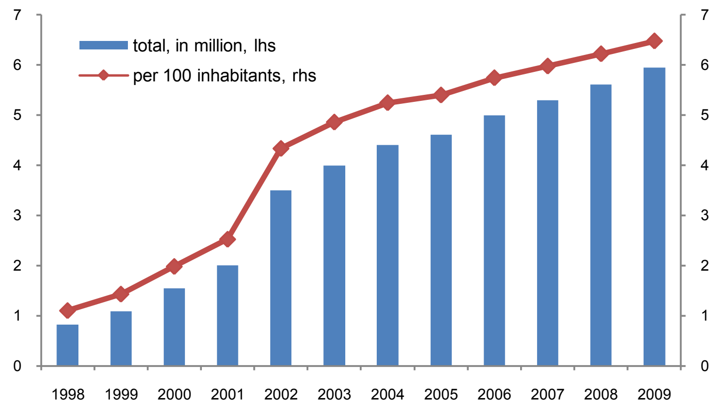
The low Internet penetration in the Philippines could be a function of poverty and poor education. Discussions by CICT and telecommunication providers with counterparts in the ASEAN-6 economies with higher penetration rates could learn more about programs that might be applied in the Philippines.

Figure 99: Estimated number of Internet users, in millions, ASEAN-6, 1998-2009



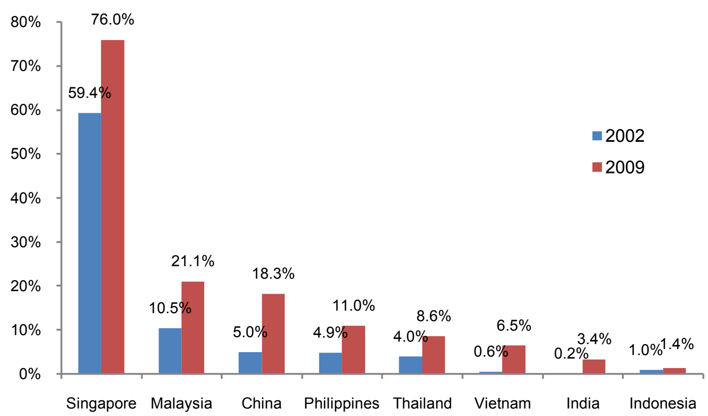
Source: ITU

Figure 100: Estimated number of Internet users, Philippines, 1998-2009



Source: ITU

Figure 101: Proportion of households with Internet, Philippines, 2002, 2009



Source: ITU

Expanded and higher speed broadband and higher computer penetration will bring a wealth of benefits to Filipinos and efficiencies for the economy, reducing business costs and helping the economy to become more competitive and meet its Millenium Development Goals. With mobile phone penetration in the country approaching 80%, new technology is available to link new generations of phones to the Internet on cellphones. This hybridization of mobile phones with computers is already happening in developed countries, where consumers are rapidly changing to reading digital books, magazines, and newspapers. Financial transactions are similarly facilitated over the Internet. Investing in such infrastructure is one of the most important actions in the near-term to increase Philippine competitiveness and move towards a knowledge-based service economy.

Wireless Internet service is increasingly commercially available in most Philippine cities at various "hot spots." A program to make free Wi-Fi available at national high schools and in densely populated urban areas can be considered as a means of encouraging greater use by Filipinos of new mobile technologies.

While the telecommunications industry in the Philippines has expanded considerably since deregulation, paving the way for local information technology related services to flourish, global ICT metrics suggest the country still has far to go to stay competitive in telecommunications with other developing countries in Asia.

The 2010 WEF Networked Readiness Index rankings show the Philippines ranks below 60% of more than 130 countries surveyed in terms of ICT infrastructure and preparedness in embracing a more technologically sophisticated system (see Table 44).[129] It is also the only economy in the ASEAN-6 group to be ranked lower than over half of the total respondents according to the report. In particular, the country fared very low in terms of infrastructure environment and readiness of the government to modernize its entire structure. Burden of government regulation, length of procedures in starting a business, performance of legal institutions, education investment, and quality of research institutions are cited as major dampeners to its relative global position.

Table 44: Networked readiness of selected Asian countries, percentile ranks

Country	China			India			Indonesia			Malaysia			Philippines			Singapore			Thailand			Vietnam		
	2002	2005	2009	2002	2005	2009	2002	2005	2009	2002	2005	2009	2002	2005	2009	2002	2005	2009	2002	2005	2009	2002	2005	2009
Overall networked readiness	48	57	73	55	67	68	23	40	50	62	80	80	25	41	36	97	99	99	51	72	65	14	35	60
Environment Component	38	55	58	59	66	61	21	46	51	65	81	73	31	37	29	91	98	94	52	67	63	12	30	48
Market	40	63	46	66	68	74	26	59	70	58	95	76	27	40	36	88	100	99	49	76	69	29	35	36
Political & Regulatory	37	53	65	81	74	66	34	45	55	92	86	82	45	42	32	99	99	100	53	68	62	13	37	64
Infrastructure	36	41	48	15	15	38	9	14	25	52	48	62	21	19	20	85	87	85	41	35	52	5	20	40
Readiness Component	58	57	86	52	74	84	25	48	68	65	80	92	15	35	41	99	100	100	57	73	66	34	33	73
Individual Readiness	16	44	94	15	57	95	27	42	83	63	81	92	24	13	58	98	100	100	53	63	72	18	27	68
Business Readiness	51	59	75	68	75	83	37	53	52	60	80	81	12	39	36	87	90	97	54	73	60	24	29	61
Government Readiness	84	66	90	60	77	74	25	54	52	79	89	92	23	69	21	99	100	100	53	76	52	48	40	82
Usage Component	38	59	73	48	60	52	23	35	36	54	80	79	35	49	46	98	99	97	43	70	63	7	41	50
Individual Usage	26	46	47	4	3	18	7	28	31	48	62	66	31	31	34	90	88	94	23	47	50	2	21	44
Business Usage	13	49	88	49	77	81	43	42	65	57	80	84	42	61	74	92	92	94	46	68	76	7	36	66
Government Usage	60	74	78	70	73	64	21	26	36	62	94	91	32	41	36	98	100	99	57	80	55	20	60	49
Total number of countries	82	115	133	82	115	133	82	115	133	82	115	133	82	115	133	82	115	133	82	115	133	82	115	133

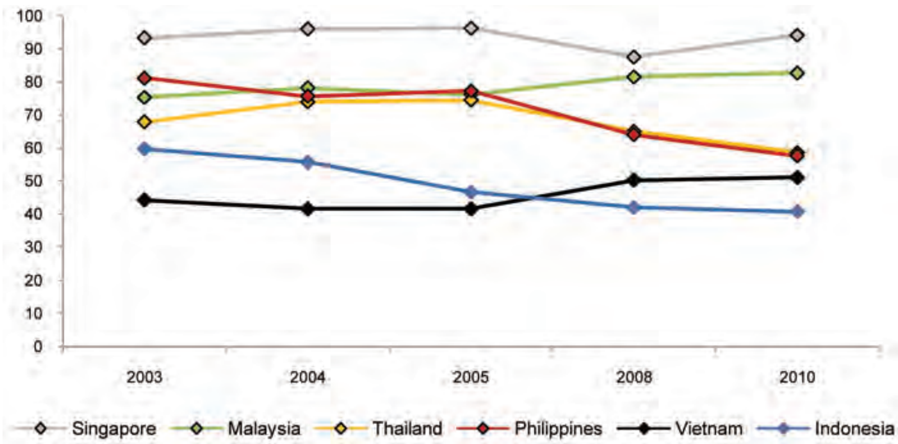
Sources: WEF and authors' computations

Another survey conducted by the United Nations showed that the Philippine world rankings concerning technological development to promote ease in government transactions and public service delivery have been declining in recent years (See Figure 102). Of the ASEAN-6, the

[129] The framework aims to measure: (1) the degree to which a national environment is conducive to ICT development and diffusion, by taking into account a number of features of the broad business environment, some regulatory aspects, and the soft and hard infrastructure for ICT; (2) the extent to which the three main national stakeholders in a society (i.e., individuals, the business sector, and the government) are inclined and prepared to use ICT in their daily activities and operation; and (3) the actual use of ICT by the above three stakeholders. The NRI builds on a mixture of hard data collected by well-respected international organizations, such as the International Telecommunication Union (ITU), the United Nations, and the World Bank, and survey data from the Executive Opinion Survey, conducted annually by the Forum in each of the economies covered by the Report.

Philippines ranks only above Vietnam and Indonesia, after being ranked just behind Singapore in 2002. The report showed the Philippine ranking is lower due to a poor telecommunications infrastructure component, while the human capital component was rated the highest.

Figure 102: UN E-governance readiness, percentile rankings



Sources: UN and authors' computations; Total countries: 2003 (173); 2004 (191); 2005 (179); 2008 (182); 2010 (183); No releases in 2006, 2007, and 2009.

"The public trust that is gained through transparency can be further enhanced through the free sharing of government data based on open standards. The ability of e-government to handle speed and complexity can also underpin regulatory reform. While technology is no substitute for good policy, it may give citizens the power to question the actions of regulators and bring systemic issues to the fore. Similarly, e-government can add agility to public service delivery to help governments respond to an expanded set of demands even as revenues fall short... governments have made great strides in development of online services, especially in middle-income countries. The costs associated with telecommunication infrastructure and human capital continue to impede e-government development. However, effective strategies and legal frameworks can compensate significantly, even in least developed countries. Those who are able to harness the potential of expanded broadband access in developed regions and mobile cellular networks in developing countries… have much to gain going forward."

2010 Global E-Government Survey, United Nations

Headline Recommendations	
1.	**Undertake programs to use broadband to empower a majority of Filipinos,** providing inexpensive access to information and e-governance. Develop a **national plan to double computer penetration and triple Internet penetration, including a National Broadband Roadmap** and **free Wi-Fi access** in crowded urban areas. Prepare for widespread use of mobile phones and devices to connect Filipinos inexpensively to the Internet. Provide fiscal or other incentives.
2.	**Pass necessary legislation** such as **amendments** to the **Telecommunications Policy Act** and the **DICT bill.** Use executive orders and pass other legislation needed to give most Filipinos access to information technology.
3.	**Make e-governance a reality for most Filipinos**, enabling Internet access for interactions with government and enhancing transparency. The president should appoint a Task Force to prepare recommendations for an ambitious e-governance program. **Use digital fund transfer technology for public sector payments.** Create a **national government data center and website**. Promote a **national GPS mapping** and information system.
4.	**Expand mobile phone service in remote areas** with more cell sites to benefit economic development and tourism. Provide fiscal or other incentives.

Recommendations (11):

A. Pass important legislation to update telecommunications policy with an **overhaul of R.A. 7925 (Public Telecommunications Policy Act), updating it to authorize full convergence** (telecommunications and broadcast) and make amendments strengthening the pricing methodologies and competition-related provisions. (Immediate action DOTC, CICT, Congress, and private sector)

B. Pass the long-overdue bill to **create a DICT** in order to deliver the full benefits of information technology and the Internet to Filipinos. (Immediate action CITC, Congress, and private sector)

C. **Develop a national plan to double computer penetration in Philippine households and triple Internet penetration** (see Table 43). Study how other ASEAN-6 economies have raised their penetration data more successfully than the Philippines. (Immediate action NEDA, CICT, and private sector)

D. Such a national plan should **include a National Broadband Roadmap**. (Immediate action NEDA, CICT, and private sector)

E. Establish targets to **upgrade the speed of broadband and expand coverage**. Provide fiscal or other incentives to private firms in order to accelerate achievement of targets and develop and implement a public sector program for last mile service in remote, missionary areas of the country. Any government procurement of broadband infrastructure should be transparent.

Achieve targets for faster and expanded broadband. (Medium-term action DOTC, CICT, and private sector)

F. **Create a plan for free wireless Internet services in public high schools and in densely populated areas** of the country's largest cities. This will enable future digital access for students with laptops, Internet-enabled mobile phones, and mobile digital reading devices. Implement the plan expeditiously. (Immediate action NEDA, CICT, DEPED, and private sector)

G. **Create a national government data center and website** to improve storage of and public access to government information and to centralize the growing number of government websites, creating more uniformity, and improving their quality. Digitally link the databases of government agencies. This will enable the government to be more efficient and effective. (Immediate action CICT, DOTC, and private sector)

H. **Make e-governance a reality for most Filipinos**. Enable easy access via the Internet for as many interactions with government as possible and many other government services now requiring inefficient paper processing.[130] Appoint by executive order a public-private sector Task Force reporting to the Executive Secretary that will make recommendations within six months and issue the recommendations by executive order. (Medium-term action OP, NEDA, CICT, all government agencies, Congress, and private sector)

I. As part of the e-governance report and program, study and **use digital fund transfer technology for various government payments to citizens**, such as conditional cash transfers, GSIS, SSS, and Philhealth benefits, **as well as payments to the government**, such as immigration, licensing, permit fees, duties, and taxes. (Medium-term action same as H above)

J. **Install a national GPS mapping and information system** to enable Filipinos using the next generation of wireless-equipped mobile phones, as well as tourists, to quickly obtain directions and practical information. A land traffic data capability should be included. (Medium-term action DOTC, CICT, NAMRIA, and private sector)

K. **Expand mobile phone service in remote areas with more cellular sites to benefit economic development and tourism**. Provide fiscal or other appropriate incentives to accelerate installation in areas that are not commercially profitable. (Medium-term action by DOF, DOTC, DTI, and private sector)

> "Bottom line: ICT is not only fundamental to growth and sustainability of the Philippine economy; it is also a basic human need."
>
> *Lauro Vives, Founding President/CEO, XMG Global (Asia–Pacific), a Canadian-based ICT research and advisory firm, from Letter to New President on ICT, MAP Insights column, Businessworld, May 25, 2010*

130 Possible e-governance services include voter registration, school registration, paying taxes, business registration, obtaining birth and death certificates, land titles, passports, and NBI clearances.

Infrastructure: Water

Sector Background and Potential

The dependable supply and distribution of water for urban living as well as agriculture is critical to economic growth and the everyday life of Filipinos. Fortunately, the Philippines has not been threatened by severe drought. However, the country is challenged to store and deliver sufficient water to its fast-growing population and to dispose of wastewater without damage to the environment or public health. Urban water supply has been privatized in Metro Manila and few other cities.

Prospective investors in the water supply sector have noted the lack of an economic regulator and the inadequate capacity and resources of the current resource regulator. This discourages foreign investors from entering the field. The absence of an independent regulator forced the Metropolitan Waterworks and Sewerage System (MWSS), Manila Water Company, and Maynilad Water Services to establish one by contract. While the arrangement is novel and apparently works, establishing an independent regulator via legislation will afford greater comfort and long-term stability.

Currently, the water resource developer (MWSS) is also the regulator. The regulatory office is under the supervision and management of the MWSS Board of Trustees. There is a need for a separate and independent Water Regulatory Commission.

More than a decade ago, the Senate Technical Committee on Energy introduced three bills to reform the power and water sectors in the Philippines: the Electric Power Industry Reform Act (EPIRA), the Water Reform Act, and the Electric Cooperative Reform Act. Of the three bills, only EPIRA has been passed. There is an immediate need to revisit the proposal for a Water Reform Act, an EPIRA for water. Currently there is no institutional and legal framework to guide private and public cooperation in developing water sources throughout the country.

Most of the country is dependent on separate local water districts each with its own plans, regulations, and policies. A private investor has to deal with individual local water districts to develop water supply projects to serve local communities. The present legal framework has some

30 governmental agencies (e.g. DENR, DILG, DOH, DPWH) with varying scopes and limited jurisdictions, in the water sector and also must be rationalized. The fragmented nature of regulation and policies diffuses focus and confuses and dissuades new entrants.

The water supply situation in Metro Manila and 8 other urban centers (Metro Cebu, Davao, Baguio, Angeles, Bacolod, Iloilo, Cagayan de Oro, and Zamboanga) has been described in various studies as critical. Immediate solutions to cope with the anticipated water deficit should be identified and implemented.

In Metro Manila, the two concessionaires source water at a subsidized rate enabling them to distribute it to consumers at a very low price. How much are consumers willing to pay to have a reliable and sufficient water supply? Wholesale water rates must be sufficient to pay for the development of new water sources to meet existing and future demand, which means at least PhP 18 per cubic meter, probably more.

Angat Dam currently supplies 97 percent of Metro Manila's water supply. In addition, the dam is used to supply irrigation water, together placing a serious strain on its capacity. Power is generated using the separate discharges for water supply to Metro Manila and to the 30,000-hectare Angat-Maasim Rivers Irrigation System and is not a factor in the consumption of water. In 2010 there is a shortage of 500 million liters per day (MLD) in Metro Manila, which is expected to increase to 2,000 MLD by 2015. The consensus is that (1) Angat is not capable of supplying the water supply needs of Metro Manila and (2) a new source for bulk water supply is essential. Another concern is the security of supply, as Metro Manila relies solely on a single source of bulk water vulnerable to damage from earthquakes.

MWSS continues to develop plans to increase the water supply to Metro Manila, albeit slowly due to political interventions. Four major projects have been identified:

(1) Wawa with a capacity of 50 MLD,
(2) Laguna de Bay with a capacity of 300 MLD,
(3) Sierra Madre with a capacity of 500 MLD, and
(4) Laiban with an initial capacity of 1,900 MLD, plus the option of an additional 3,400 MLD via a future transbasin diversion from the Kanan River.

The major obstacle for all four projects is financing, which depends on the creditworthiness of the buyer, MWSS, which in turn requires credit enhancement in the form of a GRP performance undertaking. The government of the Philippines has considered the Laiban proposal several times over the past 30 years and already spent substantial funds for physical data collection, engineering and environmental studies, and socio-economic surveys of the affected communities and indigenous peoples.

A financially viable solution for proponents, equity sources, lenders, and government must be found. The government's aversion to "take-or-pay" arrangements, sovereign guarantees, and performance undertakings, while understandable, must be reconsidered in light of what realistically is essential to finance new water sources and also makes economic sense. The question is not so much if the country can afford such projects, but rather whether it can live without them. The longer their development is delayed, the more costly the solution is likely to be, not only in terms of price but also in terms of socio-economic impact.

MWSS recently elected to consider public-private joint ventures under guidelines developed by NEDA, the Government Procurement Policy Board (GPPB), and the Office of the Government Corporate Counsel (OGCC). Recent administrations have not been willing to fund water supply projects. The private sector – in this case San Miguel Bulk Water Company – provided this proposal (or another) is implemented must finance the entire project, estimated to cost US$ 1.1 to 1.4 billion. The project as initially conceived 30 years ago has been studied thoroughly.

When Laiban was initially proposed in the early 1980s, there were only about 1,200 families living in the reservoir area upstream of the proposed dam and its immediate vicinity. Today, there are 4,500 families living in this area. After San Miguel Bulk Water Corporation submitted its unsolicited proposal these families formed a cooperative that passed a resolution demanding each be paid PhP 3 million to relocate. The relocation cost alone is estimated to be at around PhP 400 million, which MWSS insists be borne by the private sector. In a JV scheme, unsolicited proposals are subject to a competitive challenge by other proponents.

The ideal option is to bid out such major infrastructure projects, but to do so the government (MWSS) must collect extensive physical and environmental data and conduct technical studies that are costly and require several years to complete. The GRP lacks the resources and in-house expertise, moreover, to manage such a program. But without competitive bidding, how can the proposed cost be justified to consumers and taxpayers as reasonable and necessary? Under the JV approach, it is the implementing agency (MWSS) that decides. That agency should base its decision solely on the national interest, which in this case means a company that can most efficiently develop quality infrastructure that will result in an affordable, reliable supply of water for the long term. The success of this arrangement depends on good governance.

MWSS also has allowed the two concessionaires to develop minor new water sources. Both Maynilad and Manila Water currently are developing 100 MLD from various sources, such as treating water obtained from Laguna de Bay.

The Philippines has been myopic in its water policy over the last decade, focusing only on Metro Manila. MWSS only covers Metro Manila and portions of Bulacan, Cavite, and Rizal. What about the water supply to cities and communities not served by its two concessionaires? Even a major project like Laiban is not sufficient to service the requirements of other Luzon cities and towns. There is an urgent need for a national policy.

To address the water supply needs of local government units, particularly cities and towns, a water supply company must deal with countless local officials and organizations. Working with so many small administrative units is inefficient compared to dealing with a central agency.

The two Metro Manila concessionaires have prioritized their resources into upgrading the water distribution network. Their capital improvements have focused on improving the antiquated piping system. There is a great need to invest in wastewater treatment to reduce the problem of discharging sanitary wastes into flowing streams and other bodies of water, such as fresh water lakes and Manila Bay, polluting the environment. Targets on sewage and sanitation are laid out in the concession agreement drafted by the IFC.

Despite being the biggest consumer of water, the agriculture sector does not pay irrigation fees. Similar to other countries, almost 80% of the water supply is used in the agriculture sector, while the other 20% is spread among other sectors. Public sector irrigation systems (e.g. Angat-Maasim River Irrigation System, Upper Pampanga River Integrated Irrigation System, and Agno River Irrigation System) are poorly maintained and inadequate for the food requirements of a fast-growing population.

Heavy monsoon rains and severe typhoons have long caused flooding in Metro Manila and other low-lying areas of the archipelago. The rising ocean caused by climate change will increase the threat of flooding in coastal and river mouth areas where Filipinos have traditionally developed their towns and cities. Furthermore, urbanization has been accompanied by disruption of natural drainage systems through improper location of roads and buildings and poor disposal of solid waste. This has caused the lowering of the water-holding capacities of cities, resulting in more rainwater flooding low-lying areas accompanied by slower runoffs and increased flood damage.

Headline Recommendations	
1.	**Challenge:** There is **no substitute for long-term take-or-pay bulk water purchase agreements** between creditworthy parties to support financing of new water supply projects. **Solution: The GRP must enhance creditworthiness of water supply agencies such as the MWSS with performance undertakings.** **Alternatives: The MWSS concessionaires voluntarily enter into take-or-pay contracts** for bulk water supply projects supported by their balance sheets or **fund major new water supply projects directly**.
2.	**Challenge:** Public policies, rules, and regulations for water are administered by numerous departments and agencies thereby undermining its development. **Solutions: Rationalize water supply administration and policy via a Water Reform Act; strengthen the** National Water Resources Board (NWRB)**. Establish a Department of Water** and an independent water regulator. Develop a National Water Master Plan that identifies major water resources and treatment requirements; establish supportive policies, rules, and regulations.
3.	**Challenge: New dams to provide additional water supplies for Metro Manila should be built. Solutions: Engage the private sector,** preferably through transparent bidding. The policy disallowing “take-or-pay” and sovereign guarantees needs to be reviewed. Smaller and less expensive **Sierra Madre or Wawa projects** should be moved forward while the approach to the Laiban project is decided.

4.	**Challenge:** Irrigation and flood control desperately need reform and budgetary support. **Solutions: Encourage the private sector to invest in irrigation using the BOT law or joint ventures with National Irrigation Administration** (NIA). **Reduce flooding by implementing measures to reduce the accumulation of silts and sediments and disposal of garbage in waterways. Prohibit development** and construction of residences and commercial, industrial, or institutional structures **within the flood plain.**

Recommendations (9):

A. The NWRB's efforts towards adopting an integrated water resource management framework should be pursued and encouraged. Central to this is the **establishment of an independent water regulator. A Department of Water** (similar to the DOE) should be created to develop the country's water system. (Medium-term action NWRB and Congress)

B. Legislate a **Water Reform Act** that will establish the institutional and legal framework to guide cooperation by on private and government entities in developing water sources throughout the country as well as a **separate government agency for water regulation**. The proposed industry regulator ideally should be empowered to set water tariffs; set and monitor compliance with service levels; set policies, rules, and standards; enforce competition policy; and approve proposed investment in the sector. The proposed legislation would include the institutional framework for sustainable water resource development, require the formation of a long-term management plan, establish river basin organizations. The budget should provide funding for a realistic capacity building program. (Medium-term action NWRB and Congress)

C. The Water Reform Act should lead to a **master plan and integrated water policy on how to develop each water source**, the capacity each source creates taking into account future demand supported by technical feasibility studies, as well as policies to attract large investors and lenders. The Water Reform Act should clarify the limits of LGU authority regarding national projects. (Immediate action. OP, NEDA, NWRB, and Congress)

D. Until such legislation is enacted and implemented, the executive branch should **continue its current policy of strengthening the NWRB**. The agency's capacity to address water pricing or tariff issues and to establish and safeguard service standards should be supported. The present direction and mandate of the Local Water Utilities Administration (LWUA) should also be revisited. (Immediate action NWRB and OP)

E. Allow the **market to determine the wholesale price of water**. (Immediate action NWRB)

F. For PPP water projects, the **GRP should revisit its policy disallowing "take-or-pay" or sovereign guarantees**, in the light of what makes sound economic sense. Various PPP models (BOT, JV, or concession) may be used. A publicly tendered or solicited project is usually preferable. Whichever model is chosen will depend on the government's policy to attract investments and ensure contractual stability. (Immediate action DOF and NEDA)

G. While the GRP remains unable to resolve issues relating to developing the Laiban project, it must begin **working on plans for other alternatives – such as the water supply projects of Sierra Madre and Wawa**, which can be completed at reasonable cost. (Immediate action NWRB and NEDA)

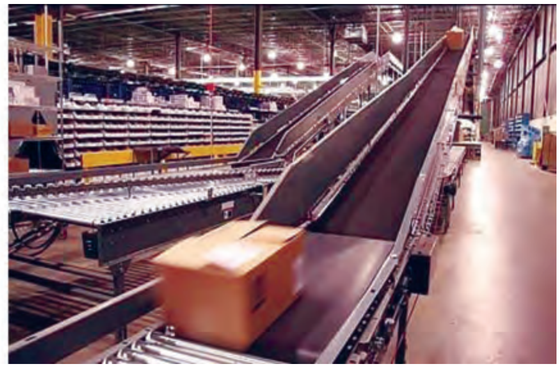
H. To better maintain and improve irrigation systems, **encourage private sector investment through privatization of irrigation**. (Medium-term action NWRB and NIA)

I. **Implement measures to reduce silt and garbage in waterways and prevent flooding**, including better drainage, sewage, dikes, spillways, and planting trees. (Immediate action LGUs, NDCC, DPWH, and private sector)

FGD Participants, Moderator and Secretariat Members

November 17, 2009
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON POWER AND WATER

Manufacturing and Logistics



Manufacturing

Sector Background and Potential

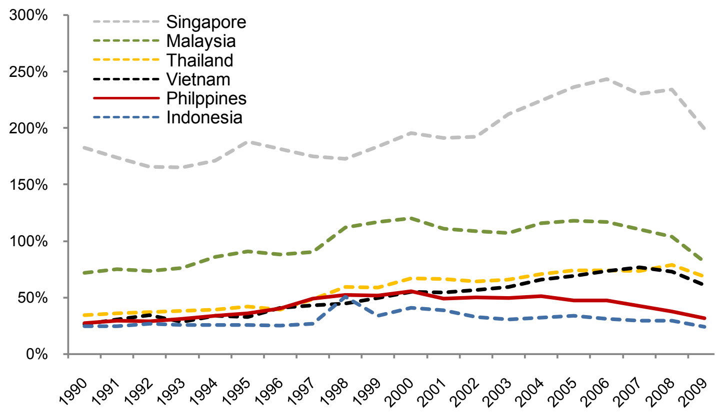
The development path of each of Asia's advanced and middle-income economies has been characterized by strong growth of the industrial sector and large shifts of workers from lower value-added agriculture and services into higher-value manufacturing and exports. This has yet to take place in the Philippines on a sufficiently large scale.

For much of the last century, industrialization in the Philippines consisted of import substitution and exports of agricultural and forestry products having limited value-added (e.g. coconut oil, copper metal, and plywood). Most factories set up by domestic and foreign investors in the Philippines made products primarily sold in the domestic market. Government protected their production with high tariffs, as well as quotas on imports. Elsewhere in Asia, beginning half a century ago, Japan, Korea, and Taiwan became manufacturing powerhouses with indigenous firms successfully exploiting global markets.

Over the last three decades, the Philippines benefited from the globalization of trade and manufacturing investment as multinationals from within and outside the Asian region moved into Southeast Asia to take advantage of lower production and logistics costs to serve global markets. However, primarily because of political instability in the 1980s, the Philippines benefitted less from these investment flows than Malaysia, Singapore, and Thailand. More recently, after joining the World Trade Organization (WTO), Vietnam has been attracting a large influx of foreign manufacturing investment because of its extremely low production costs.

Figure 103 and Table 45 show the export percentage of GDP of the ASEAN-6 countries over the last three decades. Malaysia (81% in 2009), Singapore (199%), Thailand (68%), and Vietnam (61%) have increased their export percentage of GDP during this period, while Indonesia (24%) and the Philippines (32%) have not.

Figure 103: Exports as % of GDP, ASEAN-6, 1990-2009



Sources: UN Statistics Division and ASEAN Secretariat

Table 45: ASEAN-6, exports of goods and services, % of GDP, 2007-2009

Country	2007	2008	2009
Indonesia	29.4	29.8	24.1
Malaysia	110.2	103.6	81.4
Philippines	**42.6**	**38.0**	**31.7**
Singapore	230.2	234.3	199.3
Thailand	73.2	78.5	68.4
Vietnam	76.8	73.2	61.1

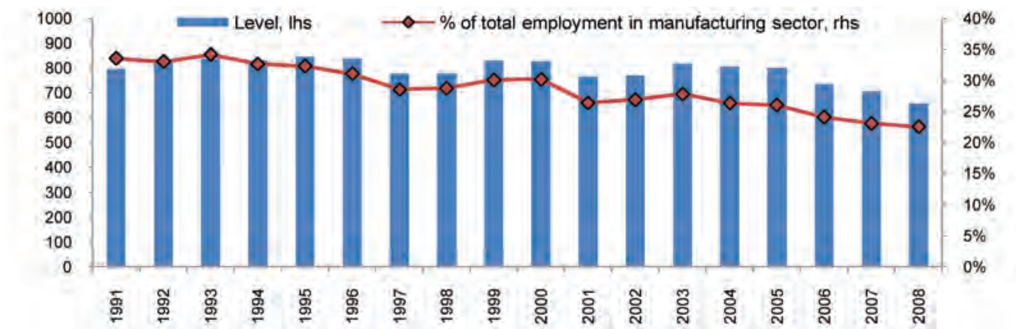
Sources: UN and ASEAN Secretariat

When global trade fell sharply in 2008 and 2009 during the global financial crisis, the Philippine economy was much less affected than the regional economies that became wealthy through manufactured exports. The Philippine government argued it avoided negative economic growth because it was "resilient," when in fact it had not developed its potential to be a major exporter and had instead become dependent on remittances for most of its economic growth. Strong exports usually create quality jobs at home in the manufacturing sector and increase direct revenue for the public sector, which overseas jobs do not.

Garment Exports: Philippine manufactured exports benefitted from the Multi Fibre Agreement (MFA) that governed world trade in textiles and garments from 1974 through 2004. The MFA controlled the growth of textile and garment imports by developed countries by assigning annual quotas each developing country could export. The quotas by category of garment usually grew each year, and many Filipino and some foreign firms went into garment export manufacturing based on their allocated quotas. Being protected from competition, their businesses were guaranteed to be profitable.

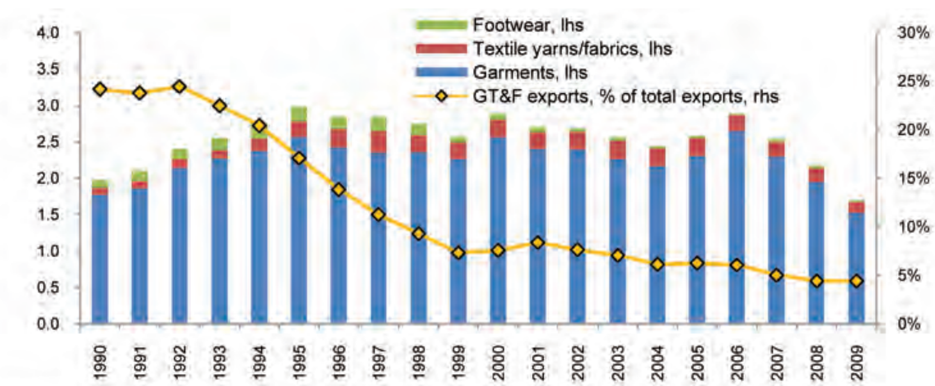
Figure 104 shows employment in the textile/garment sector in the Philippines, which grew to a peak of more than 840,000 in 1995. Since the expiration of the MFA in 2005, the Philippine textile and garment sector has lost some 150,000 jobs as guaranteed access to the American and European markets disappeared and competition from lower cost producers in Bangladesh, Cambodia, China, Indonesia, Vietnam, and elsewhere crowded out Philippine exporters, many of whom closed their operations. Figure 105 shows the share of Philippine garments in the total exports has declined since the early 1990s, as electronic product exports grew. In the last three years, however, the value of garments exports has dropped significantly. From an annual average of US$ 2.4 billion between 1995 and 2006, the industry only managed to take in just over US$ 1.5 billion in export receipts in 2009 – the lowest export revenue for the sector since 1988 in nominal terms.[131]

Figure 104: Employment in textile, garment, and leather industries, in thousands, Philippines, 1991-2008



Source: BLES-DOLE

Figure 105: Garments, textile and footwear exports, Philippines, US$ Bn, 1990-2009



Source: NSO

The Philippine garments industry, supported by the GRP, is seeking passage of the Save Our Industries Act (H.R. 3039 and S. 3170) in the US Congress.[132] Under the proposed bill, Philippine garments made from imported American textiles would be allowed duty-free entry into the US, an arrangement in effect for Carribean Basin Initiative (CBI) countries since 1983. For some categories of garments, the preferential tariff treatment would be sufficient to make Philippine

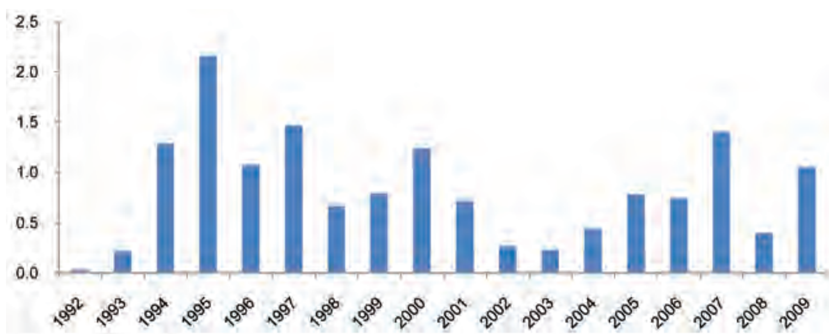
131 This is not yet adjusted to inflation

132 While attending a global summit on nuclear non-proliferation in Washington in April 2010, former president Macapagal Arroyo visited the US Congress to urge passage of the proposed legislation.

products competitive by removing the current US duty of more than ten percent. The Confederation of Garment Exporters estimates that, if passed, the law could add 100,000 jobs in the Philippines.

Electronic Exports: Beginning in the late 1970s, the Philippines developed a modest electronics manufacturing sector that has grown to nearly 1,000 firms employing over 400,000 Filipinos and producing about 2% of global electronics production.[133] Starting with two American firms – Intel in Makati and National Semiconductor in Mactan – many global semiconductor manufacturers located factories in the Philippines.[134] Texas Instruments (US), which operates two large facilities in Baguio and Clark, is the largest investor in the sector. Computers and computer components and accessories are also assembled in the Philippines by companies such as Acer (Taiwan), Epson (Japan), Lexmark (US), and Integrated Microelectronics (Philippines). More recently, several solar panel manufacturers have established factories in the Philippines. Figure 106 shows the value of investment in the electronics sector over the last two decades, exceeding US$ 1 billion in seven separate years.[135]

Figure 106: Investments in electronics, US$ Bn, 1992-2009



Sources: PEZA and BOI

Figure 107 shows the value of electronics exports over the last two decades. Figure 108 shows the high rate of growth of electronics exports, growing as fast as 50% in 1995, and the large share of electronics exports in total exports, reaching more than 70% in 1999. Without electronics, Philippine export of manufactured goods would have grown very slowly over the last decade. Conversely, the high percentage of exports made up of electronics products indicates a failure to develop a diversified mix of manufactured exports and creates a risk should technological change, cost, or other factors reduce the viability of manufacturing electronics in the Philippines. Other countries that are significant manufacturers of electronics have diversified their exports. Malaysia, for example, has strong agricultural exports in addition to electronics. Thailand also exports food, as well as automobiles, in addition to electronics.

---

133 Foxcomm Technology, the world's largest contract manufacturer, has 920,000 employees in China and will have as many as 1.3 million by the end of 2011 (International Herald Tribune, August 26, 2010). This single Taiwanese company, which supplies Apple, Dell, and Hewlett-Packard, employs more than the entire electronics sector of the Philippines, and has annual revenues larger than the value of total exports of the Philippines.

134 Intel closed its Philippine plant in 2009 along with a plant in Malaysia and several in the US following the sharp drop in global demand during the financial crisis.

135 1994, 1995, 1996, 1997, 2000, 2007, and 2009

Figure 107: Electronics exports, Bn US$, 1992-2009

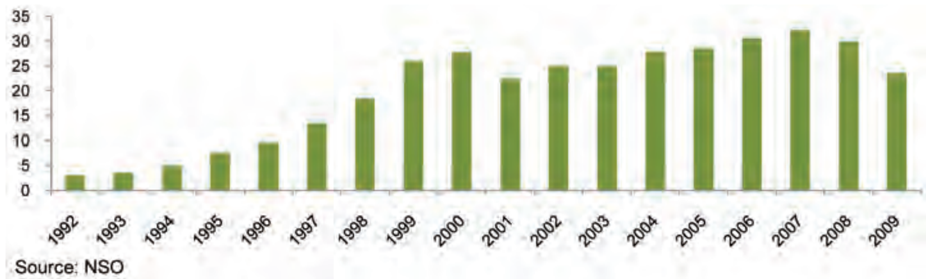
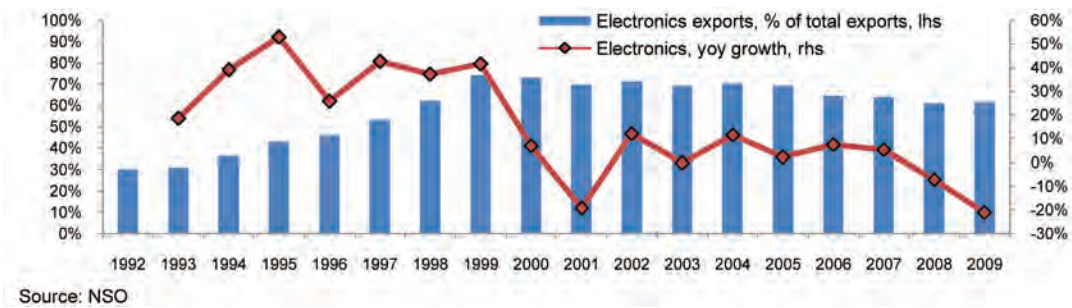


Figure 108: Electronics exports growth and share of total exports, 1992-2009



Other categories of manufactured exports are small in comparison with the dominant position of electronics exports. Garments are 3% of total exports, ignition wiring 2%, woodcraft and furniture 2%, and coconut oil 2%. Garment exports comprised 7% of total exports in 2000.

Automotive Manufacturing: Another industry subsector that has declined in recent years is automotive manufacturing. More than two decades ago the GRP established the Motor Vehicle Development Program (MVDP), which attracted one American and several Japanese manufacturers to invest some US$ 2 billion in Philippine factories, entirely for the local market, with the exception of one firm that exports. A small parts and components manufacturing subsector has developed to supply local assemblers and for export, notably electric wire harnesses, which reached a peak total of US$ 902 million in value in 2008.[136]

Over the last decade the government has failed to protect the domestic automotive manufacturing industry and was for years unable to prevent large volumes of used car imports despite their prohibition in 2002. The industry in 2009 produced only 48% of total new car sales in the country, while in 2002, 87% were produced domestically (see Figure 109 and Table 46). Imports of new cars have been liberalized, and some 200,000 "illegal" used cars have been imported through the Subic and Cagayan economic zones in less than a decade.

[136] In 2006, the country recorded its highest number of units sold at 62.3 million worth US$ 787.5 million (in 2006 prices).

Figure 109: Decline in locally manufactured vehicle share of car sales, 1991-2010

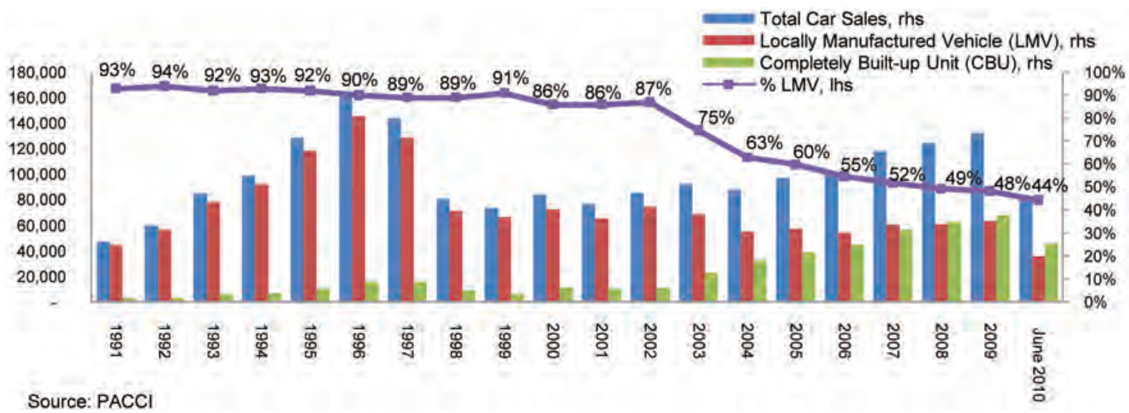


Table 46: Decline in locally manufactured vehicle share of car sales, 1991-2010

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Jun-2010
Total Car Sales	47,945	60,299	84,777	98,864	128,861	162,098	144,452	80,219	73,625	83,937	76,668	85,616	92,336	88,075	97,063	99,541	117,907	124,450	132,444	82,052
LMV	44,589	56,681	77,995	91,944	118,552	145,888	128,562	71,395	66,999	72,186	65,934	74,486	68,959	55,343	58,009	54,315	60,936	61,230	63,813	36,258
CBU	3,356	3,618	6,782	6,920	10,309	16,210	15,890	8,824	6,626	11,751	10,734	11,130	23,377	32,732	39,054	45,226	56,971	63,220	68,631	45,794
% LMV	93%	94%	92%	93%	92%	90%	89%	89%	91%	86%	86%	87%	75%	63%	60%	55%	52%	49%	48%	44%

Source: PACCI

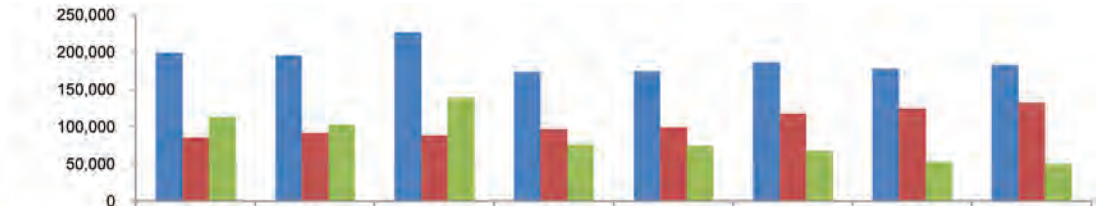
Although former president Macapagal-Arroyo issued EO 156 in 2002, which prohibited almost all used car imports, small used car importers at the Subic Bay Freeport Zone and later the Cagayan Special Economic Zone and Freeport obtained injunctions from local courts in Olongapo and Aparri that blocked implementation of national government policy (see Figure 110). During the years needed before the government succeeded in appealing the injunctions, huge sums of duties and taxes may have not been paid to government coffers, with "illegal" car importers profiting in the hundreds of millions of dollars. Figure 111 shows the number of cars newly registered which includes those sold by the industry and those legally, as well as illegaly, imported.[137] Critics, including a former SBMA administrator, pointed to extensive corruption to allow the imports to flow despite the ban.

Figure 110: Clash between national government policy and Aparri RTC injunction

Source: Philippine Daily Inquirer, July 26, 2008

137 In the Philippines a vehicle is registered only one time, after its importation or local production.

Figure 111: Industry sales versus new registration, 2002-2009



	2002	2003	2004	2005	2006	2007	2008	2009
New Registration	198,930	195,564	226,855	173,671	174,108	186,161	177,451	182,589
Industry	85,594	92,336	88,077	97,064	99,541	117,903	124,449	132,444
Others	113,336	103,228	138,778	76,607	74,567	68,258	53,002	50,145

Source: PACCI

Employment in the Philippine automotive manufacturing industry has declined from a peak of 130,000 in 1996 to 70,000 in 2010. By contrast, Thailand's automotive industry employs 150,000 people in assembly and auto-parts manufacturing, with the capacity to produce 1.5 million vehicles a year. In 1996, Thailand's automotive industry produced 555,821 automobiles. By 2008, production reached 1,391,728.

A new Comprehensive Motor Vehicle Development Program (EO 877) was signed in 2010 to create stronger support for domestic automotive manufacturing. Pointing to the higher cost of production in the Philippines, the elimination of tariffs on auto imports from ASEAN and Japan under the ASEAN FTA and Japan-Philippines Economic Partnership Agreement (JPEPA), and continued used car imports, some experts believe domestic automotive production is likely to further decline unless the government adopts a more supportive industrial policy.

In 2010 the Export Development Council (EDC) listed the following products as the sector's future revenue streams: electronics, textiles and apparel, automotive products and parts, food, home decor, organic products, and construction materials.

The construction materials sector has good prospects. Cement is an example of a domestic manufacturing industry that can survive because the transport cost of imports is fairly high. Beverages are a similar category, as are many food products. Food and beverage manufacturing comprised 58% of total manufacturing GVA in 2009 (see Figure 112).

Figure 112: Manufacturing GVA, distribution per segment, 2009

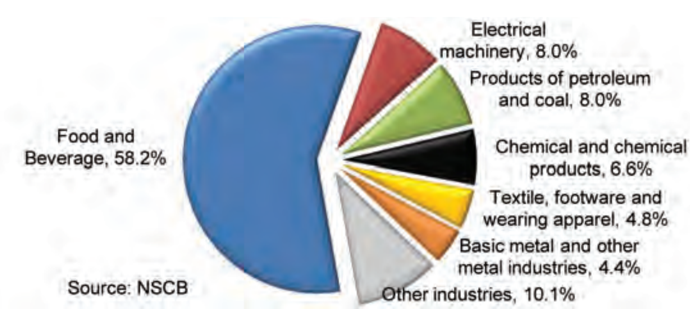
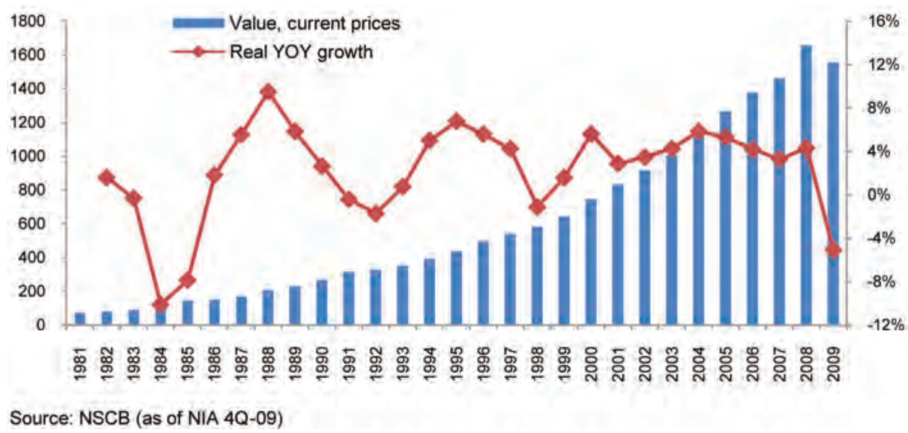


Figure 113 shows the total value of manufacturing in the Philippines and its rate of growth. With total value above PhP 1.6 trillion and a normal growth rate of 4-5%, the sector remains a very important part of the economy. Manufacturing growth rate fell to zero or less in 1991-92 (power crisis), 1998 (Asian financial crisis), and 2009 (global financial crisis), all years in which GDP growth was very low. In 2009, around 8.3 million workers were employed in manufacturing.

Figure 113: Manufacturing GVA, PhP Bn, 1981-2009



Manufacturing is the largest component of the industry sector (68%), which also includes construction (16%), electricity, gas, and water (11%), and mining and quarrying (5%) (see Figure 114).

Figure 114: Industry sector distribution per segment, 2009

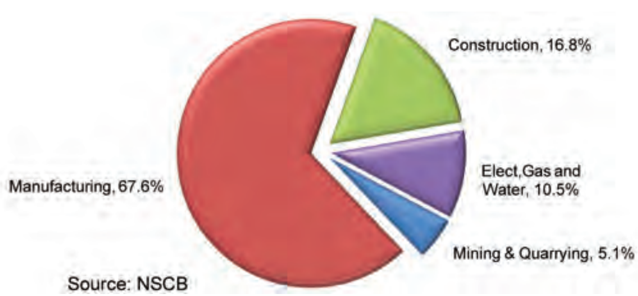
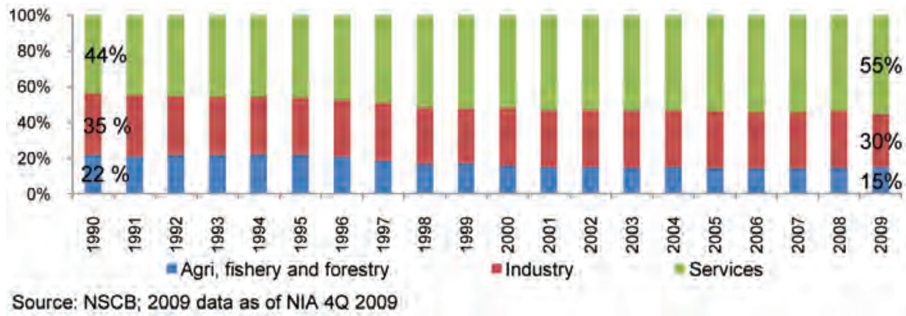


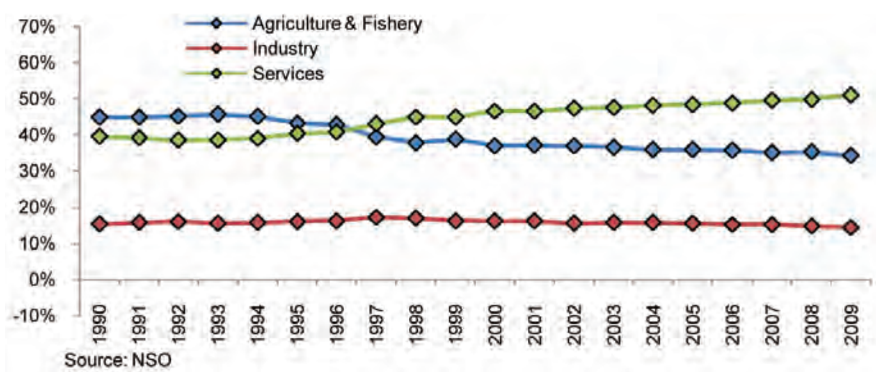
Figure 115 clearly shows the expansion of the services sector in the Philippine GDP since 1990 (from 44% to 55%) and the relative shrinkage of the industry sector (from 35% to 30%) and the agricultural, fishery, and forestry sector (from 22% to 15%). The services sector has grown steadily with increased remittances from overseas Filipino workers and the rise of business process outsourcing. This data also underlines the need to rebalance the economy by investing more in agricultural and manufacturing to create jobs in these sectors.

Figure 115: GDP distribution by sector, Philippines, 1990-2009



Employment in the industry sector in the Philippines, measured as a percentage of total employment, has failed to grow during the last two decades, remaining below 20%, while the relative shares of agriculture and services exchanged places as the country's fast-growing population moved into low paying service work (see Figure 116).

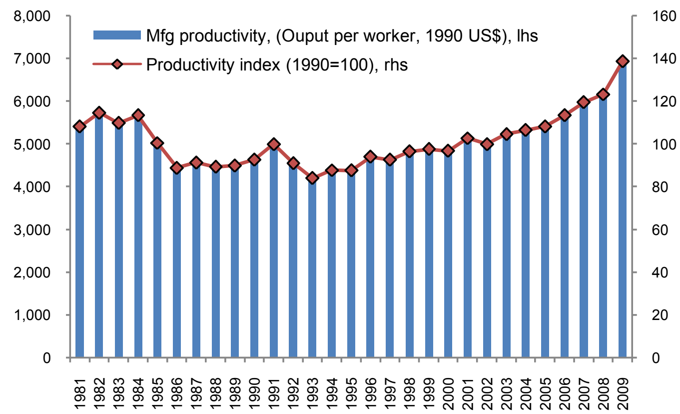
Figure 116: Employment distribution by sector, 1990-2009



Clearly, the development path of Asia's advanced and middle-income economies, with large shifts of workers from lower value-added agriculture and services into higher-valued manufacturing and exports, is not occurring fast enough in the Philippines.

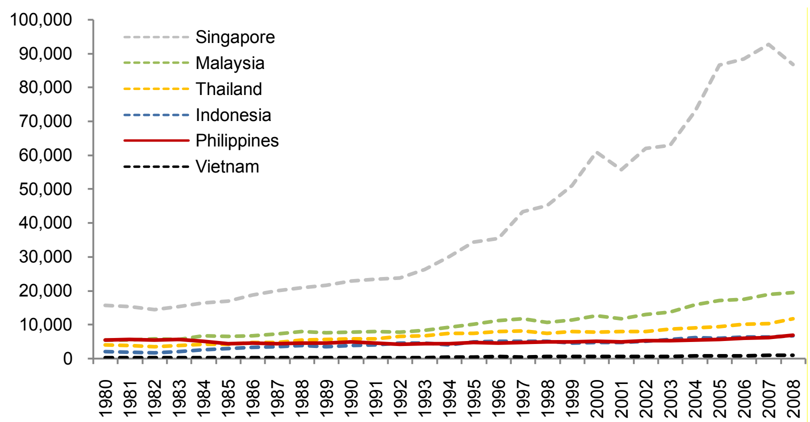
Labor productivity in manufacturing has not improved and remains only slightly above its index level in 1980 (see Figure 117). However, since 1980, total employment in the industry sector has doubled, but in Indonesia, Malaysia, and Thailand total employment in industry grew much faster, roughly tripling in each case (see Table 47).

Figure 117: Labor productivity in manufacturing, Philippines, 1981-2009



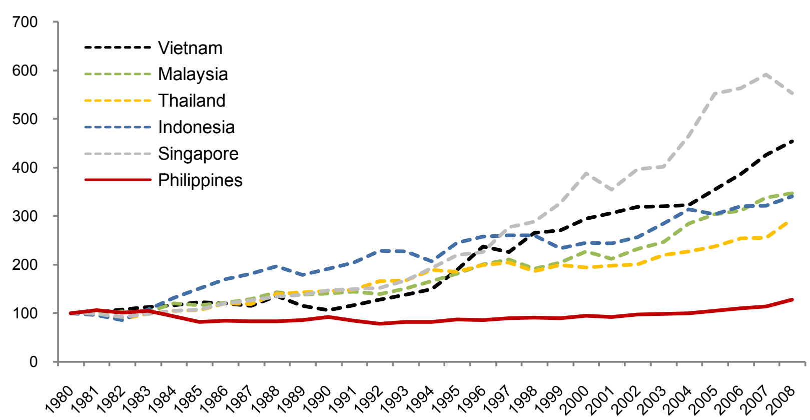
Sources: ILO, UN Statistics Division and author's calculations

Figure 118: Labor productivity in manufacturing, GDP per person engaged, constant 1990 US$ 1980-2008



Sources: ILO, UN Statistics Division and author's calculations

Figure 119: Manufacturing labor productivity index, ASEAN-6, 1980=100, 1980-2008



Sources: ILO, UN Statistics Division & author's calculations; Notes: This is based on manufacturing GVA per person engaged at constant 1990 $US. This measureshow the level of productivity changed relative to 1990 level.

Table 47: Workers in the industry sector, selected countries, 1980, 2007

Country	Industry (in mil)		Industry (% of total employment)		Differential, 000	Ave increment per year, 000
	1980[a]	2007[a]	1980	2007		
Indonesia	6.8	18.8	13.1	18.8	12,019	445
Malaysia	1.2	3.0	24.1	28.5	1,846	68
Philippines	2.6	5.1	15.4	15.1	2,441	90
Singapore	0.4	0.4	35.7	22.6	35	1
Thailand	2.3	7.7	10.3	20.7	5,369	199
Vietnam	3.8	7.3	10.6	17.4	3,576	447

Source: ILO; Note: a - Vietnam - 1996 and 2004

Since industry is more capital intensive than agriculture and services, one explanation for the slow growth of the sector can be found in the low levels of investment in the Philippines. As a percent of GDP, these have fallen considerably below 20% and are currently at 14% in the Philippines, while in the Asia region they are above 35% (see Figures 120 and 121).

Figure 120: Gross fixed capital formation, % of GDP, 1990-2008

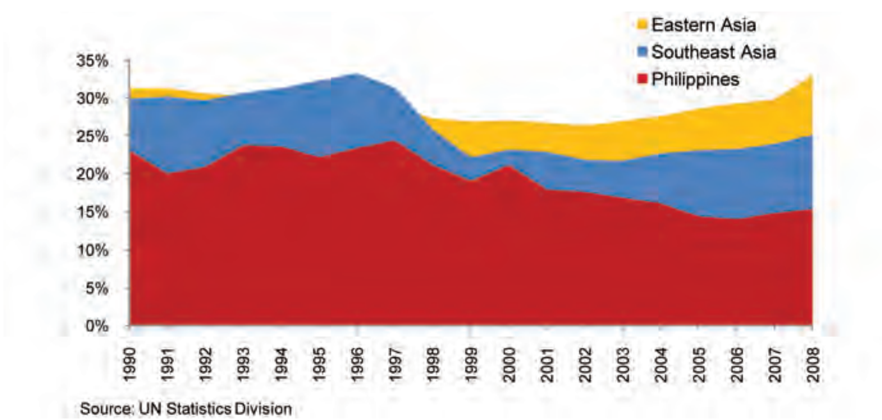
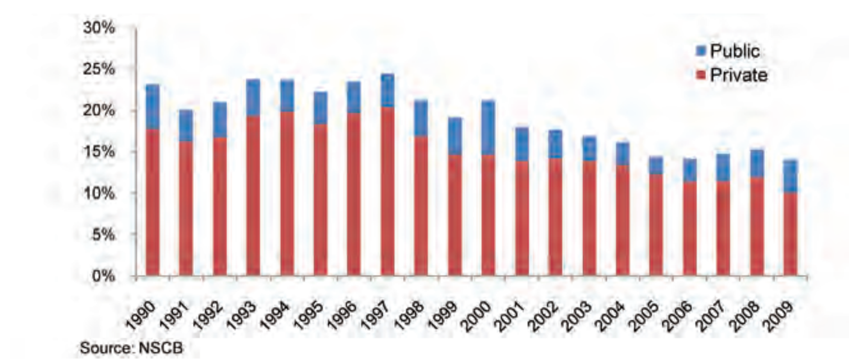


Figure 121: Fixed capital formation distribution, Philippines, % of GDP, 1990-2009



The relatively weak industry sector in the Philippines is reflected in the share of exports as a percent of GDP in comparison to more developed Asian economies. While the Philippines never became an export powerhouse, its exports have steadily grown, until the last two years when they fell sharply in tandem with the decline in global trade following the financial crisis in the United States and Europe (see Figures 122, 123 and 124)

Figure 122: Philippine manufacturing goods exports, value US$ Bn, 1990-2009

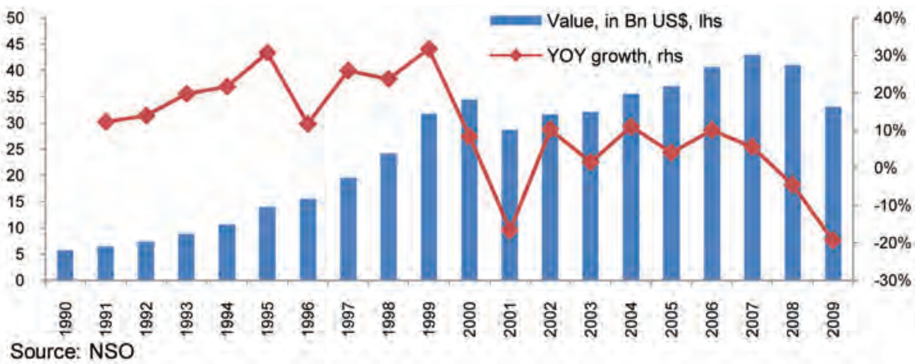
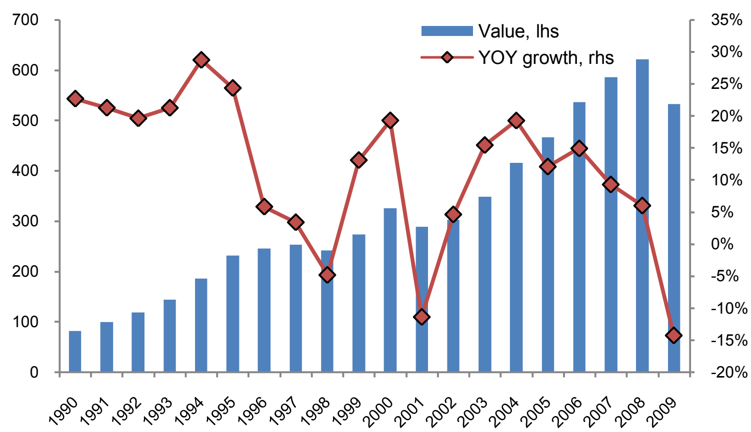
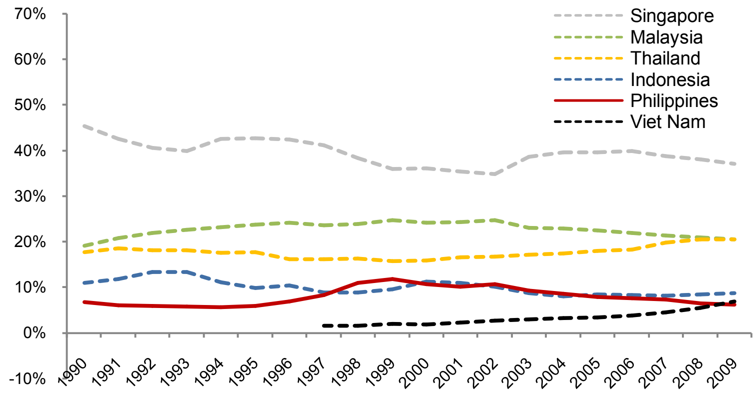


Figure 123: ASEAN-6 total manufacturing exports, US$ Bn, 1990-2009



Source: WTO

Figure 124: Philippine share in ASEAN-6 total manufactures exports, 1990-2009



Source: WTO; Note: No data for Vietnam before 1997

Table 48: International merchandise trade, ASEAN-6, 2009

Country	2009 total population, million	International merchandise trade, $US mn, 2009			International merchandise trade, $US per capita, 2009		
		Exports	Imports	Total trade	Exports	Imports	Total trade
Indonesia	231.4	116,508.8	96,829.2	213,338.0	503.6	418.5	922.1
Malaysia	28.3	156,704.3	123,183.8	279,888.1	5,536.1	4,351.9	9,887.9
Philippines	92.2	38,334.7	43,008.3	81,343.0	415.7	466.3	882.0
Singapore	5.0	269,191.1	245,226.5	514,417.6	53,972.1	49,167.2	103,139.3
Thailand	66.9	151,364.7	134,124.6	285,489.3	2,262.4	2,004.8	4,267.2
Vietnam	87.2	57,096.0	69,949.2	127,045.2	654.6	801.9	1,456.5
ASEAN-6	**511.0**	**802,709.6**	**718,571.2**	**1,521,280.8**	1,570.8	1,406.1	2,976.9

Source: ASEAN Secretariat

Domestic manufacturing in the Philippines has never faced more challenges to its survival than today. Smuggling has become been a serious threat to the operations of local manufacturers.[138] Costs of production of many goods are higher than in several competing Asian economies at a time when more and more free trade agreements are coming into effect with ASEAN, Australia, China, India, and Japan.

The sector's landscape has changed radically from the days of import substitution policies when investors (predominantly local) were protected from foreign competition by high tariffs and import quotas. Since millions of Filipinos are employed in manufacturing, the future of the sector is not only extremely important to them and future generations but to the overall economy and to government revenues.

[138] Smuggled goods include angle bars, cars, cement, clothing, flour, fruit, galvanized iron sheets, oil, rice, sugar, textiles, and vegetables.

Many in the private sector believe government agencies are generally complacent when major manufacturing investors close and exit the country.[139] Their attitude appears to be that eventually another investor will enter, because they believe there always are business opportunities in the Philippines given its domestic market and strategic location as a gateway to the fast-growing Asian region. These bureaucrats seem to believe businesses stay or leave regardless of what government does. However, by maintaining the status quo and standing passively by when companies leave, the Philippine economy risks stagnanting, while Asian competitors grow faster.

Government agencies are stymied by the lack of direction, commitment, and follow through from top Philippine leadership. There appears to be no strong, unifying policy that manufacturing is a key component in the nation's economic development. Other countries, such as Indonesia, Malaysia, and Thailand, were successful in developing industrial exports because they had clear policy direction from the top. As a result, Thailand became the leading automotive manufacturer in Southeast Asia and able to produce 999,378 vehicles in 2009 of which 535,596 units were exported, comprising over a quarter of the total shipments from the ASEAN region (1.9 million units).[140] In the same year, the Philippines only exported 7,277 vehicles. The Federation of Thai Industries (FTI) is targeting produce to 1.45 million units in 2010 on the back of a recovering global demand.[141]

During the global financial crisis, the Philippines lacked an industrial policy and the former DTI secretary was not effective in creating one. There has not been sufficient industrial sector planning for where the country wants to go and which sectors it wants to develop. The periodic BOI Investment Priorities Plan (IPP) is a mere list of sectors eligible for fiscal incentives and not a comprehensive industry sector policy development plan.

By contrast, in 1986, the government prioritized 11 sectors for economic growth. Each sector had a government-funded master plan created and headed by the private sector, whose leaders were called the G-11. All agencies of the government were guided by that plan. As a result, the sectors developed until the failed 1989 coup d'etat attempts damaged investor interest. In the last decade, the government implemented uncoordinated and immediate policy actions, rather than following a strategic plan.

Any future master plan should be private sector-led. The government may not have the resources to draft a master plan for manufacturing and logistics but can hire expert consultants. As major stakeholders, the private sector should take the initiative of recommending inputs, which the government should incorporate, support, and implement.

---

139 The Philippines was a first mover in Southeast Asia in the semiconductor electronics export sector in the mid-1970s and has grown consistently since. However, the government in recent years had no consensus policy to support the industry. There were champions at DTI and PEZA, but the importance of the industry was not well understood at the DOF and in the Congress. While the former president understood the sector and met with the CEOs of top American, European, Japanese, and Korean electronics firms to encourage them to invest in the Philippines, there was inadequate policy support to make the country more attractive to more electronics investors. The same situation has been repeated for automotive, petroleum, pharmaceutical manufacturing, and electricity generation. Companies that have closed manufacturing operations in the country include Chevron, Goodyear, Intel, and Toshiba.

140 ASEAN Automotive Market Report (May 2010). International Trade Administration.

141 http://www.export.by/en/?act=news&mode=view&id=19852

PEZA is an institution that has been successful in creating a competitive business environment due to an effective and consistent leadership. The PEZA staff, who develop and implement policies, understand the issues very well. PEZA was exempted from salary standardization over a decade ago, allowing it to pay professional level salaries to its personnel. There has been continuity in its leadership through several administrations.

The DTI did not support the pharmaceutical industry when the Department of Health imposed maximum retail prices (MRP) on several medicines and asked companies twice, in 2009 and 2010, to reduce prices voluntarily. When a similar policy was followed in New Zealand, the prices of some medicines were lowered so much that several companies pulled out. As a result, some medicines are not being sold in New Zealand. This may happen in the Philippines if the MRP policy continues.

Price controls also were extended to gasoline prices. After severe flood damage in Metro Manila and Central Luzon following two typhoons in 2009, the government imposed price controls on petroleum, arguing this would benefit citizens harmed by the floods. Since most of the people who were displaced did not own motor vehicles, any savings in fuel expenses could only benefit the small percentage of flood victims owning cars. Because petroleum retailers were buying imported fuel above the government-set prices, fuel imports were about to dry up and create shortages, which would have harmed the economy. Philippine politicians often appear oblivious to the realities of the international oil market, blaming oil companies for fuel increases, when the oil companies are passing on prices set by oil-rich governments.

The government's **funding for trade promotion is insufficient to participate in large international trade shows** to help market Philippine products. The private sector receives no DTI assistance to attend. The small budget for international marketing for tourism results in limited promotion of the Philippines compared to other countries in the region. In Hong Kong, a small tax was levied on exports to fund trade promotion and exhibitions abroad. The Philippines could consider this as an option to raise revenue for marketing. Industry associations could designate which trade exhibitions have the greatest impact and should have a Philippine presence. Each association can organize participation from among its members, and the government should provide some financial support, as is done in other countries.

Corruption in the Bureau of Customs (BOC), especially prevalent in provincial offices, **increases the cost of international transportation of goods**. In Manila, anecdotal evidence suggests that corruption in the BOC has declined in comparison to past years. In some provinces, so little cargo enters the ports that customs officials charge very high illegal fees per transaction. There should be a complete change in the attitude of the BOC towards trade facilitation.

There have been **efforts to reduce fiscal incentives** for investors, primarily led by the DOF. There should be a dialogue between the government and the private sector to make sure that incentives tied to export performance and other industrial policy priorities that are measurable and auditable continue to be provided.

The **cost of power is a serious competitive disadvantage** for the Philippines, especially for manufacturers. For example, over 10% of the expense of manufacturing an automobile in the Philippines is for electricity. A car assembly plant in the Philippines pays 50% more than its counterpart in Thailand and 100% more than in Vietnam, where power is government-subsidized. This is the case even with discounted power rates for firms in PEZA zones.

Minimum wages in the Philippines are higher than elsewhere in Southeast Asia, except Singapore (see Part 4 *Business Costs*). While it is appropriate to increase the minimum wage for industrial workers to keep up with the cost of living, there should also be concomitant **focus on improving labor productivity**. Industrial sector wages in different parts of the world increase as workers achieve higher productivity and better efficiencies.

The **minimum wage policy of Malaysia should be studied by the Philippines**. Prime Minister Mahatir prioritized manufacturing as a key driver of Malaysian economic growth. Because the government regarded manufacturing for export as a global industry, government policy allowed global market forces to dictate the price of labor in Malaysia. **Global manufacturing is exempt from the minimum wage**. By contrast in the Philippines, hundreds of thousands of jobs were lost when garment export firms became unprofitable because of high production costs, especially wages and power costs. **In the Philippines, the minimum wage is linked to inflation and living costs, rather than global wages and labor productivity**.

Smuggling is a major problem for many domestic industries. Foreign goods entering without paying proper duties and VAT compete with domestic goods that are taxed. Following complaints from the private sector, the government established the Ports Transparency Alliance (PORTAL) to discuss remedies. Within PORTAL, subgroups were established to devise anti-smuggling strategies and monitor compliance for oil smuggling, used car smuggling, vegetable smuggling, and other products.

Despite Supreme Court rulings affirming the validity of the prohibition against importing used cars, they continue to enter the country. In the Cagayan Freeport, some 600 cars each month are reportedly sold to buyers outside the freeport. Vendors there were previously located at Subic Freeport and relocated in anticipation of the Supreme Court decision that closed their business at Subic. The national government has rationalized that it can do nothing to stop imports at CEZA so long as the local judge who issued an injunction delays his ruling on whether the imports are legal.

Well-entrenched syndicates protected by elected politicians run smuggling activities. Until the politicians have the political will to stop smuggling activities, there will be little progress in curbing smuggling.

Oil smuggling in the last half decade deprived the national government of hundreds of billions of pesos in tax and duty revenue. There was no smuggling problem before the EVAT applied a 12% VAT to petroleum. But with the EVAT, large volume importations of refined gasoline, with paperwork that misdeclares the true volume, are processed with a much lower tax. This has been immensely profitable for a syndicate of gasoline retailers, their collaborators in the BOC, and their high-level protectors. Despite seizures of illegal imports and an oil-marking program funded by the oil industry to identify illegal petroleum being sold at retail stations, no prosecutions have resulted in imprisonment of smugglers.

As long as smuggling provides better profits than manufacturing, the Philippines will move towards becoming an economy of traders and smugglers rather than manufacturers. The auto industry has lost almost 50% of its manufacturing jobs in the past 10 years. Claims in the press that auto industry sales are rising fail to explain that only 48% of the vehicles are Philippine-assembled. Ten years ago, 90% of the vehicles sold domestically were built in the country. Currently, imported new cars from Japan, Korea, and Thailand are very competitive, even with a 30% duty. Legitimate businesses find it hard to invest in an economy lacking a level playing field.

FTAs make it easier to import less expensive foreign goods that compete with products manufactured locally. Consumers choose products based largely on price and rarely because of "buy local" campaigns. Duty-free importation of capital equipment should be allowed for local manufacturers; however, it currently is only granted to firms that export 70% of their production.

The **E2M program** depersonalizes doing business with customs, thus removing opportunity by custom officials to ask for bribes. In PEZA zones, automation has already been achieved in customs offices. However, some officials do not support these programs.

Headline Recommendations	
1.	**Increase priority given to manufacturing. Working with the private industry, the government should:** (1) develop an industrial master plan, identifying the best opportunity sectors for the export of goods and services to global markets created by FTAs; (2) support the plan with consistent policies, fiscal incentives, legal, administrative, and other reforms; and (3) put a strong economic team in the cabinet that works in tandem with designated private sector leaders of the targeted global industries.
2.	**Improve the business climate and level the playing field:** (1) reduce the costs of doing business including electricity, transport infrastructure, domestic logistics, corruption, and red tape; (2) increase E2M coverage for customs; (3) professionalize the bureaucracy; (4) allow industry to operate free of government interference, such as price controls; (5) link minimum wage policies to productivity enhancements; (6) rationalize holidays; and (6) eliminate smuggling by sending smugglers to jail**.**
3.	**Ramp up promotion of Philippine exports and investment:** establish an export development fund to promote exports and investment; aggressively promote the Philippines at international trade fairs**. Allow duty and tax-free importation of capital equipment.**

Recommendations: (17)

A. **The private sector should make a strong, collective statement to the government that reforms are needed for global manufacturing companies to remain in the country**. The private sector should urge an end to corruption and smuggling, an end to inconsistent rules, and an end to tolerating "businessmen" circumventing laws to earn money. In the absence of reforms, more companies will close and more jobs and potential revenue will be lost. (Immediate action private sector)

B. The Philippines must be prepared to **increase the priority given to manufacturing and to make serious efforts to offer a competitive business environment** to be able to keep existing companies and to attract new investors into the country. (Immediate action DTI)

C. There should be a **clear overall policy supportive of the manufacturing sector from the president**. There should be high level, dynamic **collaboration between priority industries and the government**. There should be a solid commitment from all government agencies to implement such policy. (Immediate action OP and DTI)

D. **Working with private industry, the next administration should**: (1) develop an industrial master plan, identifying the best opportunity sectors for the export of goods and services to global markets created by FTAs; (2) support the plan with consistent policies, fiscal incentives, legal, administrative, and other reforms; and (3) put a strong economic team in the Cabinet that works in tandem with designated private sector leaders of the targeted global industries to implement the plan. (Immediate action DTI and private sector)

E. **Professionalize the bureaucracy by limiting political appointees**. Public officials dealing with priority industry sectors should be highly qualified and competitively compensated. They must create long-term consistency in regulation and policy and in their application to manufacturers. (Immediate action OP, DTI, and CSC)

F. **Diversify Philippine exports** by giving priority to developing manufacturing export sectors (in addition to electronics) where the Philippines enjoys competitive advantage, such as creative industry products, manufactured goods, minerals, and processed foods. (Medium-term action DENR, DOST, DTI, NEDA, and private sector)

G. **Reduce costs of doing business**, where possible, including corruption, high electricity prices, inefficient domestic logistics, holiday overtime pay, red tape, and inefficient transport infrastructure. (Medium-term action DOE, DOJ, DOTC, DTI, Ombudsman, and private sector)

H. **Consider removing or reducing the EVAT on electricity and fuel for domestic manufacturers** who can establish domestic market loss from foreign imported goods. This 12% tax is not applied to export manufacturing because the products would be less competitive in export markets. (Medium-term action DOF, DTI, and Congress)

I. **Increase E2M coverage for customs**. The E2M program should be applied to all customs offices. (Immediate action BOC)

J. **Reduce unwarranted government interference in industry matters**, such as price controls. Experience everywhere demonstrates that populist price control policies harm the intended beneficiaries more than they help. (Immediate action DOH, DOJ, DTI)

K. **Link minimum wage policies to productivity enhancements**. Study the experience of Malaysia in exempting key global industries from minimum wages. Resolve wage policies in tripartite discussions with labor groups, the private sector, and government and not by legislation. (Immediate action DOLE and private)

L. On the issue of labor contracting and **security of tenure, government should continue to engage in tripartite discussions with labor groups and the private sector** to address the issue of abuses in the law rather than adopt arbitrary legislation. Regularization of employees should not be made at the expense of meeting labor quality and productivity standards. Contractual arrangements, when they comply with the existing law, should meet both business and employee needs. (Immediate action DOLE and the private sector)

M. **Rationalize holidays**. (Medium-term action DTI, OP, and Congress) (See recommendations under BPO and Part 4 *Business Costs*)

N. **Fight smuggling vigorously**; send smugglers and corrupt officials engaged in smuggling to jail. End official protection of smuggling syndicates. The private sector should lobby strongly against smuggling, emphasizing that it destroys jobs. Identify Congressional allies in districts where smuggling is creating unemployment. Expose smuggling syndicates and their protectors. (Immediate action BOC, DOF, DOJ, Ombudsman, private sector)

O. **Pass the Rationalization of Fiscal Incentives bill**, maintaining incentives to stimulate investments that produce multiple benefits of job creation, exports, and technology transfer. The private sector should show strong support for the legislation in the Congress. (Immediate action DOF, DTI, Congress, and private sector)

P. **Allow duty and VAT-free importation of capital equipment for manufacturing in priority industries**. Revisit the 70% output to export requirement for capital equipment to be imported duty free. (Immediate action DOF and DTI)

Q. **Increase funding for and promotion of Philippine exports, inward foreign investment, and tourism**. Establish an Export Development Fund to promote exports. Aggressively promote the Philippines at international trade fairs as recommended by industry associations. Increase the DTI budget for investment promotion and the DOT budget for tourism promotion. Target the major traditional markets of Europe, Japan, and the US, and new markets in China and India. (Immediate action DOT, DTI and private sector)

Logistics

Background

The ports of Batangas and Subic have substantial new investment in port infrastructure that should be utilized to lower international shipping costs for industry in CALABARZON and to develop an Asian regional freeport at Subic.[142] The Philippines is ideally located to manage the storage and distribution of consumer goods, spare parts, and equipment to surrounding countries, especially its ASEAN partners, but also Greater China, possibly even Korea and Japan, across the Pacific to North America, and even the Middle East and onwards to Europe.[143]

The Subic-Clark-Tarlac Corridor infrastructure inclusive of Subic as a true freeport enables such a regional distribution hub, as it has a significant cost advantage over the other two Asian freeports – Singapore and Hong Kong. Fedex and UPS have provided dedicated uplift capacities for manufacturers through Subic and later Clark.

Table 49: TEU capacity and utilization, ports of Batangas, Manila, and Subic

	TEU capacity	Utilization in TEUs (2008)
Manila International Container Terminal	1,500,000	1,519,077
Manila North Harbor	1,500,000	631,467
Manila South Harbor	850,000	846,478
Subic	600,000	
Batangas	400,000	1,809

Sources: PPA, websites of MICT, Asian Terminals Inc, and Subic Bay International Terminal Corp, and news reports

Improving logistics efficiency by using Batangas port[144]

The port of Batangas should provide services for the industrialized CALABARZON provinces, while Subic could service the requirements of domestic manufacturing hubs at the northern periphery of Metro Manila.

In Batangas, shipping companies have received invitations from PEZA and the GRP to provide service for the new container port. PEZA has helped address issues such as improper fees imposed by LGUs on truckers, encouraged incentives (e.g.15% lower port charges than in Manila), and facilitated an agreement with the BOC to process goods within 30 minutes and provide better service with shorter processing lines. But when shipping companies set up operations in Batangas, the export cargo volume was too small for the firms to make a profit. Only import cargo volume was sufficient. Consequently, four of the five international shipping lines that invested in Batangas ceased operations there.

142 CALABARZON is one of the regions of the Philippines which is composed of five provinces, namely: Cavite, Laguna, Batangas, Rizal, and Quezon.

143 Timex Philippines uses Cebu as its global distribution hub.

144 Also see discussion and recommendations under Infrastructure: Seaports

Most inbound cargo to Batangas arrives on intra-Asian ships because the supply chain for CALABARZON factories for raw materials and parts to manufacture export goods is predominantly within Asia. However, no matter how many intra-Asian ships service Batangas this will not attract export cargo as long as the right connections to the ultimate export markets are absent. Exported goods go to different destinations than the ports from which the imports come, so the **inbound ships lack export cargo when they depart Batangas**.[145]

Developing the port of Batangas depends on establishing interconnections with the two main Asian feeder ports of Singapore and Kaohsiung (including Hong Kong) to access export markets (See Map 5). The port of Batangas does not need direct service by major shipping lines going to Europe and North America. Connections to Singapore and Kaohsiung will open transshipment access to these markets. Once Batangas has these links, cargo exports will build volume. There is sufficient export volume at the factories in the industrial estates in CALABARZON, and it is relatively cheaper to transport these goods by road to Batangas port than to Manila. Seventy percent of the exports manufactured in Luzon originate from the southern part of the region, while 30% is from the north and very little from Metro Manila.

Improving logistics efficiency by reducing international cargo at Manila port

If current demographic trends continue, projections show the population of Metro Manila reaching 30 million in 2030 to become the 3rd largest metropolitan region in the world.[146] Heavy container trucks should not continue to transit the metropolis to the Manila port. **Container export cargo should begin to transfer to Batangas and Subic to reduce current and future traffic congestion in Manila**.

The auto manufacturing plant of a major global firm in Thailand is strategically located 20 minutes from the port of Lam Chaebang, where imported materials and parts and exported completely built units (CBU) pass. The situation for the firm is very different in the Philippines, where the plant is located in Santa Rosa, Laguna. Eighty percent of the materials and parts used to manufacture its cars are imported through the port of Manila, while all CBU vehicle exports leave through the port of Batangas on RORO vessels. Although the Philippines is competitive compared to Thailand in terms of the cubic meter cost for RORO vessel shipments, moving materials and parts through the port out of Manila is very inefficient, expensive, and slow. **The port of Manila is congested, equipment sometimes breaks down, and importers have encountered corrupt authorities blocking the entry of goods**. Compared to the seamless system in Thailand, the present arrangements in the Philippines are very uncompetitive.

---

145 Instead of transshipment in Manila, international carriers now go directly to ports in Davao, General Santos, and Cagayan de Oro, resulting in a significant reduction in international shipping costs from these ports. There was demand for more efficient shipping for tropical fruit exports from Mindanao. The shipping lines would not have initiated service to these ports had cargo volume not been sufficient to earn a profit.

146 Source: Demographia, see Table 31: Population of urban mega-regions, 2007 and 2030.

Map 5: Needed feeder lines from Subic and Batangas

Source: AmCham

Decision by shipping lines to set up operations at the port of Batangas will be commercially driven. If there are three ports serving Central Luzon, and import/export business is divided among the three, there will be no economies of scale. A high-level government decision will be required to close the port of Manila to international cargo. **There should be a 5-year plan to eventually phase out Manila, and government should have the political will to implement the plan**. A special fee for international cargo at the port of Manila would encourage a shift to Batangas and Subic.

Making Subic a true freeport

Subic can best survive and grow if it becomes a hub for the commercial distribution of goods to the Asian region. Studies show that the volume of cargo from the industrial belt north of Manila is insufficient to support an expanded port in Subic. Therefore, the freeport option for Subic should be seriously explored. There are three freeports in Asia: Hong Kong, Singapore, and Subic. Subic could be a less expensive alternative than the other two freeports, leveraging its lower rentals, salaries, and other operating costs. However, Subic has not yet been able to deliver its potential as a freeport because the unique services it can offer have not been clearly defined.

Subic could become a logistics hub to distribute goods from manufacturers in the US and Europe to the Asian region. Subic is not a freeport in the sense a freeport is defined internationally. **Turning Subic into a real freeport means allowing traded goods to enter more or less uncontrolled, as long as they will not leave the port. Access to and egress into Philippine customs territory from the designated freeport area must be strictly controlled**. Goods can enter the port for storage in warehouses for eventual distribution within Asia. For this to happen the smuggling issue must be solved.[147]

A true freeport is a port where cargo can be placed "to order of shipper" on the bill of lading and which maintains public warehouses. Customs remains at the perimeter of the freeport to collect applicable duties and or taxes. On ingress, customs only controls the import of banned substances but not the volume or value of normal trade goods, which can be freely imported and exported, without even registering a company. Transactions into and out of the freeport are tax and duty-free, except when sold to a Philippine non-tax-exempt company located in the Philippines. A typical example is the Freeport of Hamburg, operating in a special section of the greater Hamburg Port.

The original perimeter of Subic could be turned into a real freeport but not the entire Clark-Subic corridor, which is too large to control smuggling leakages. Outside the freeport the present rules and jurisdictions can be maintained.

Sea-air, air-air transshipment potential to Gulf and Europe

In combination with available air capacity from Middle Eastern carriers, the Philippines is geographically well located to act as a sea-air, or air-air transshipment hub. In Dubai there

[147] The so-called freeport of Bataan, being established under a recent law, is a potential smuggling entry port. It is not a true freeport. The public and private sectors must be vigilant that it is not misused for the entry of restricted goods or to evade taxes.

is a thriving multibillion-dollar transshipment industry. Cargo arrives from Asia in containers, is repackaged and transported via air to Europe. Since several Middle Eastern carriers are flying to NAIA catering to the OFW market, there is a large unused air cargo capacity out of the Philippines to Gulf region airports. Asian regional air cargo hubs experience uplift shortages during peak seasons, and there is not enough air uplift capacity in Hong Kong, Vietnam, and Southern China. Maritime access from their ports via sea to the Philippines takes only a few days. Cargo can arrive in Manila by sea transport and be distributed from NAIA to Europe via Dubai through air transport. Map 6 illustrates the potential sea-air transhipment industry in the Philippines. However, **transshipment is currently impossible due to the lack of political will. BOC regulations make it impossible**.

Other ways to reduce logistics costs

The cost of the entire "logistics" chain must be internationally competitive to support existing businesses in the Philippines as well as to attract new ones. Several reforms could reduce costs.

- *CIQ overtime charges*

Airline carriers pay PhP 300-400 million per year for Customs, Immigration, and Quarantine (CIQ) overtime charges. **Carriers should not pay for these services**; it is the duty of the government to provide customs and immigration services whenever needed. There was a court decision that enabled carriers to discontinue paying these charges. However, the new Immigration Act under consideration in the 14th Congress was passed in both the House and the Senate without consulting the industry that has been paying these fees. The proposed legislation would continue to allow CIQ overtime to be charged to airlines, retaining a 50-year old provision in the current law. The CIQ overtime charges make it more expensive for logistics companies to operate in the Philippines, affecting their competitiveness. As the bill did not receive final approval because of the lack of a quorum in the House, it is expected to be introduced again in the 15th Congress.

- *Open more logistics operations to international investors*

Greater involvement of expert foreign companies in the Philippine domestic logistics chain would improve the quality of service, lower costs, and result in faster transit or turnaround times for domestic transport.

International freight forwarding is not in the Foreign Investment Negative List, and is open to 100% foreign ownership. However, government agencies at times interpret the law differently. Whenever laws are subject to subjective interpretation, there are opportunities for corruption.

Map 6: Potential sea-air transhipment industry in the Philippines

Source: AmCham

- *Cargo deconsolidation to PEZA bonded warehouses*

Direct deconsolidation of cargoes to PEZA bonded warehouses is currently not allowed. Instead, non-PEZA Container Yard/Container Freight Station (CY/CFS) operators deconsolidate these cargoes. The number of these operators is few, resulting in less competition and higher costs. Allowing direct deconsolidation to PEZA bonded warehouses would reduce the shipping cost of less container load (LCL) shipments for manufacturers, increase competition, and decrease red tape and protection of a few operators.

- *Take advantage of quick turnaround cycles and local BPO capability*

Processes driven by the development of the electronics industry such as **quick turnaround cycles open the door to develop other products**, such as agro-based manufacturing. Sufficient transformation of products in the Philippines would enable the tax and duty free distribution of such goods to ASEAN countries. Many **processes of logistics companies can be outsourced to BPO companies** in the Philippines.

- *Facilitate IOR services*

Enhancing Importer of Record (IOR) services could trigger expanded access to Internet trade. IOR services provide a legal entity to act as the "importer of record" on behalf of an entity (the shipper) who does not have a registered company in the port or airport of destination of his cargo. This service has become a necessity to enable the expansion of Internet trade over country boundaries.[148] Internet trade is largely concen-trated within country or custom union boundaries, e.g. within the EU. IORs facilitate Internet trade across borders. EVAT applies on entry, but the IOR has no subsequent resale; this can cause problems with the BIR and needs clarification. IORs are still operating in a gray area with respect to VAT payments as their points of sales are abroad, but the shipments IORs handle are subject to VAT on entry without domestic resale.

- *Continue recent reforms in customs practices*

The ratified **Kyoto Protocol, E2M, and the national single window will make Philippine logistics more competitive**. The Customs and Tariff Modernization Act (CTMA) will implement these reforms and should be passed as early as possible in the 15th Congress. The de minimus of PhP 10 was set over 50 years ago and needs to be changed to allow its determination administratively.

[148] For example: "A" has internet "shops" set up in all countries in Asia, including the Philippines. The products are bought on-line and are paid through credit cards or PayPal. The point of sale is therefore abroad, e.g. in Singapore, where the central distribution warehouse of "A" is located (managed by a third-party logistics provider). If "A" shipped each individual order to the final consignee in the Philippines as an independent shipment, the cost of transport and clearance would be prohibitive. Also bundling orders through appointed agents also adds cost. "A" therefore appoints an IOR company, to act as Importer of Record for a nominal fee, whose main job is to get commodity clearances, if necessary, and maintain transaction papers for a period of 5 years.

- *Reduce domestic shipping costs*

Domestic shipping costs are high. It is cheaper to transship a container from Manila to Cagayan de Oro via Hong Kong or Kaohsiung than to ship directly from Manila to Cagayan de Oro (see Table 50). Yet **foreign companies are not allowed to come in to provide cheaper and good quality transportation services**. Domestic shipping is nearly cartelized. However, there is a reciprocity issue; other countries are not easing their cabotage rules and Philippine ships cannot carry domestic cargo in Indonesia, Japan, the United States, and elsewhere.

Table 50: Costs of foreign transhipment of domestic cargo vs. cost of domestic shipping, Manila (MNL) to Cagayan de Oro (CGY), US$

Basis	Domestic Shipping	Foreign transhipment		Difference
via Hong Kong (HKG)				
	MNL-CGY	MNL-HKG	HKG-CGY	
20 FOOTER	1,120.00	144.00	500.00	**476.00**
40 FOOTER	1,860.00	244.00	900.00	**716.00**
via Kaohsiung (KHH)				
	MNL-CGY	MNL-KHH	KHH-CGY	
20 FOOTER	1,120.00	159.00	360.00	**601.00**
40 FOOTER	1,860.00	274.00	770.00	**816.00**

Source: Data gathered by Royal Cargo; as of October 2010

A recent development has been the joint venture between Maersk Line and Aboitiz. New ships have been introduced which are reliable and cheaper. Such joint venture agreements can be a solution to lower domestic marine transportation costs and also to improve service.

The Philippine domestic shipping industry is not competitive due to the **predominant use of small ships** (i.e. 200-300 TEU container ships compared to the more efficient 5,000 TEU foreign container ships). Aboitiz is bringing in larger ships (1,500 TEU) from Singapore and Japan; this should reduce transportation costs.

Currently, any shipping company can bring in ships regardless of how long they have been used. This lack of regulation allows companies to bring in old, inefficient ships that may also be unsafe.

Consumer industries can pool their imported products and charter their own ship by industry association. Pooling shipments to obtain better trade terms makes sense for bulk and possibly break-bulk cargo. There are a number of shippers associations in the United States doing this. For container shipments, industry associations can pool their cargo for better bargaining power with shipping lines.

Headline Recommendations	
1.	**Promote Batangas Port for CALABARZON-destined shipments and Subic for Luzon-destined shipments** by inviting feeder vessel operators to call, linking them through Singapore, Kaohsiung, and Hong Kong to worldwide shipping.
2.	**Develop Subic as a true freeport for logistics to the Asian region** for goods from the US and Europe.
3.	**Allow direct deconsolidation of cargoes to PEZA bonded warehouses** instead of using non-PEZA CY/CFS operators.
4.	Develop a transshipment industry similar to Dubai and Singapore. **Allow transshipment of cargo in various modes**, air-air, sea-air, and air-sea by asking the BOC to implement relevant transshipment rules.
5.	**Open the door to foreign investment along the entire multi-modal transportation chain**.

Recommendations: (25)

A. **Promote the port of Batangas for CALABARZON-destined shipments and Subic for Central Luzon-destined shipments**. Batangas should become the primary port for manufacturing companies in CALABARZON, which are mostly export-oriented. Develop the port of Subic to cater for companies in Central Luzon and the northern periphery of Metro Manila.

A1. **Invite feeder vessel operators to call** at Batangas and Subic to take on CALA-BARZON manufactured exports, linking them through Singapore, Kaohsiung, and Hong Kong to worldwide shipping. (Immediate action DTI, PEZA, and private sector)

A2. **Request port operators to offer special promotional rates for feeder ships** calling at Batangas and Subic. (Immediate action DTI, PEZA, SBMA, and private sector)

A3. **Promote the use of both ports** with PEZA and SBMA. (Immediate action DTI and private sector)

A4. **PEZA should organize a meeting** of export companies from CALABARZON, shipping lines, customs, PPA, and the operators of Batangas port **to coordinate actions to increase export cargo volume at Batangas**. (Immediate action PEZA, PPA, and private sector)

B. **Modernize port operations in Batangas to serve automotive companies in CALABARZON** in order to significantly reduce the competitiveness gap in automotive production costs between the Philippines and Thailand, Asia's third largest automotive industry. Automotive materials and parts should be imported through the port of Batangas instead of the port of Manila. (Immediate action PPA and private sector)

C. **Create a plan to eventually phase out international cargo at the port of Manila over five years.** The government should have the political will to implement the plan. Study the possibility of making it more expensive for ships to use Manila to encourage a shift to Batangas and Subic. (Immediate action PPA, PEZA, DTI, and private sector)

D. **Develop Subic as a true freeport for logistic**s to distribute goods from the US and Europe to Asia. (Medium-term action SBMA, BOC, DOF, DTI, and private sector)

D1. **Allow cargoes to freely enter** uncontrolled assigned "to–order" of bearer as long as goods will not leave the freeport.

D2. **Move customs out of the Subic freeport** to a perimeter defined by SBMA.

D3. Before allowing goods to enter the port uncontrolled, **put in place tight safeguards against smuggling**.

D4. Organize and convene a public-private planning group to **promote an Asian Distribution Center of Goods**.

E. **Allow transshipment of cargo in various modes**, air-air, sea-air, and air-sea by requiring the BOC to implement relevant transshipment rules (1) to capitalize on the capacity of Middle East carriers delivering cargoes from surrounding countries to Europe and Africa, (2) to invite additional carriers to the Philippines, and (3) to develop a trans-shipment industry similar to Dubai and Singapore. (Immediate action BOC, DOF, and private sector)

F. The **government should provide CIQ services whenever needed**; overtime charges should not be paid by carriers.[149] (Immediate action DOF, DOH, and DOJ)

G. **Open the door to foreign investment along the entire multi-modal transportation chain**, including domestic forwarding and distribution to (1) reduce domestic distribution cost and (2) increase service levels. In domestic distribution there are some grey areas. Review to what extent these restrictions make sense in the age of multi-modalism and international service supply chains. (Immediate action DOJ, DTI)

H. **Allow direct deconsolidation of cargoes to PEZA bonded warehouses** instead of using non-PEZA CY/CFS[150] operators, thereby (1) reducing shipping cost of less con-tainer load shipments for manufacturers, (2) increasing competition, and (3) decreasing red tape and protection for a few operators. (Immediate action BOC and PEZA)

I. **Take advantage of quick turnaround cycles and local BPO capability** to develop new export products and labor-intensive business processing jobs. (Medium-term action private sector)

---

149 This issue is also discussed under Tourism, Medical Travel, and Retirement below.

150 Container Yard/Container Freight Station

J. **Facilitate IOR services to develop expanded access to Internet trade**. Clarify EVAT rules as points of sales are abroad, but shipments IORs handle are subject to VAT on entry without domestic resale. (Immediate action BIR)

K. **Continue to implement recent reforms in customs practices** (ratified Kyoto Protocol, E2M, and national single window) that will make Philippine logistics more competitive. **Extend E2M** to all customs offices. **Pass the Customs and Tariff Modernization Act** (CTMA) as early as possible in the 15th Congress. Remove the de minimus limit in the law and allow it to be set by the Executive Branch. (Medium-term action BOC, Congress, and private sector)

L. **Reduce high domestic shipping costs**.

L1. **Liberalize rules that do not allow foreign companies to operate** in order to provide cheaper and better quality transportation services. **Encourage more joint ventures** between foreign and domestic shipping firms. (Immediate action DOJ, Marina, and private sector)

L2. **Introduce more reliable new ships** with larger TEU capacity that are less expensive to operate. (Medium-term action Marina and private sector)

L3. **Limit the age of ships that can be imported** to operate in the Philippines. (Immediate action Marina and DOTC)

M. **Groups of importing companies should explore chartering ships** and pooling container shipments in order to save international transportation costs. (Medium-term action private sector)

N. **Develop better data for the logistics sector** in order to be able to chart and analyze its growth. (Immediate action NSCB, NEDA, and private sector)

Manufacturing and Logistics FGD Participants, Moderator and Secretariat members

March 11, 2010
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON MANUFACTURING AND LOGISTICS

Mining

Sector Background and Potential

With an estimated US$ 1.4 trillion in mineral reserves, especially gold, copper, nickel, aluminum, and chromite, the mining potential of Philippines is one of largest in the world (see Table 51). According to the Mines and Geosciences Bureau (MGB), the archipelago is second in the world in gold and third in copper resources. The country is ranked top five in the world for overall mineral reserves, covering an estimated nine million hectares, although less than 2% has received mining permits.

Table 51: Estimated value of Philippine mineral reserves, US$ Bn

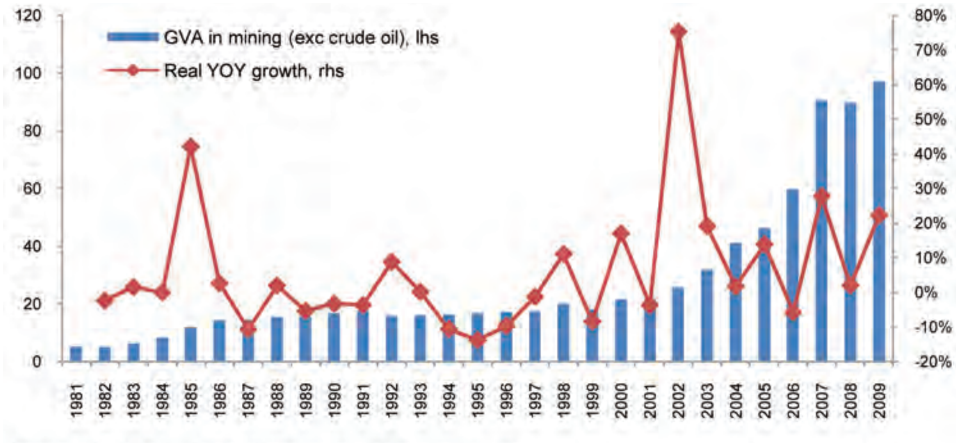
Mineral	Tons (Mn)	Average Grade	Value (US$B)
Gold	3,869	2.68	367
Copper	5,051	0.9	318
Nickel	783	2.62	328
Chromite	38	24.55	1
Iron	483	42.05	103
Manganese	3	45.31	0.1
Aluminium	434	27.5	263
Zinc	11.4	2.66	1
Molybdenum	306	0.08	6
Total			1,387

Source: ANZCHAM

The Philippine mining industry is fortunate to have, aside from the country's substantial mineral resources, a regulatory framework favorable and attractive to investment. After stagnating for almost a quarter century, the mining sector of the economy is making a comeback following a Supreme Court decision in 2005 affirming the Philippine Mining Act of 1995 (RA 7942) (see Figure 125).[151]

[151] The optimistic welcome extended to the legislation was short lived, as the constitutional issue against the Mining Act and the Financial and/or Technical Assistance Agreement (FTAA) was raised by concerned indigenous people to the Supreme Court. Protracted litigation caused mining companies attracted to come in 1995 to move away due to the uncertain business climate. The industry stagnated from 1995-2004 due to this constitutional issue.

Figure 125: Mining GVA, Bn PhP, 1981-2009



Source: NSCB; Note: Crude oil extraction activity is netted out.

The Mining Act was intended to resuscitate the industry and replace a martial law presidential decree. It opened the doors to potential developers of mining projects. By providing significant social and environmental safety nets, the law is considered to be a model legal framework for sustainable development and among the best in the world. Mining must respect the community and environment, which proper implementation of the Philippine Mining Act will achieve. In comparison to other mining laws of other countries like the UK, US, Australia, and Canada where mining plays a strong role in the growth of their first world economies, the Mining Act is deemed as being at par, if not better, in including social and environmental obligations of mining companies.

Legal challenges delayed implementation for a decade until the Supreme Court in 2005 ruled with finality that the law is constitutional. Under the law, foreign investors can enter into Financial and/or Technical Assistance Agreements (FTAA) and be granted permits for exploration and mineral processing. Given the very significant capital requirements and long lead-times to develop large mines, this ruling opened the way for the industry to grow. In recent years, most of world's largest mining companies have expressed serious interest to invest in the Philippines, with target investments ranging from hundreds of millions to several billion dollars.

Metallic minerals development is a major government priority with great potential for job creation and revenue generation. Mining can support poor rural areas through creating high quality jobs and through various local tax payments and community and social development projects. The national government receives substantial royalty and tax payments.

In 2009 the mining and quarrying employment, totalling 167,000 workers, was about 0.5% of total employment in the country. Government revenue from various fees, royalties, and taxes paid by mining firms has increased from PhP 1.4 billion in 2002 to PhP 10.4 billion in 2007 and PhP 7.6 billion in 2008, many times the amount of revenue before the new policy was put into effect.[152]

[152] Revenues fell in 2008 as mining industry activity slowed during the financial crisis. Source: MGB

In 2009, metallic mining activities accounted for 1.3% of GDP or PhP 111.5 billion, and the value of mineral exports reached US$ 1.5 billion, but only 3.8% of the total value of goods were exported (see Figure 126).[153]

Figure 126: Philippines mineral products exports, Bn US, 1990-2009

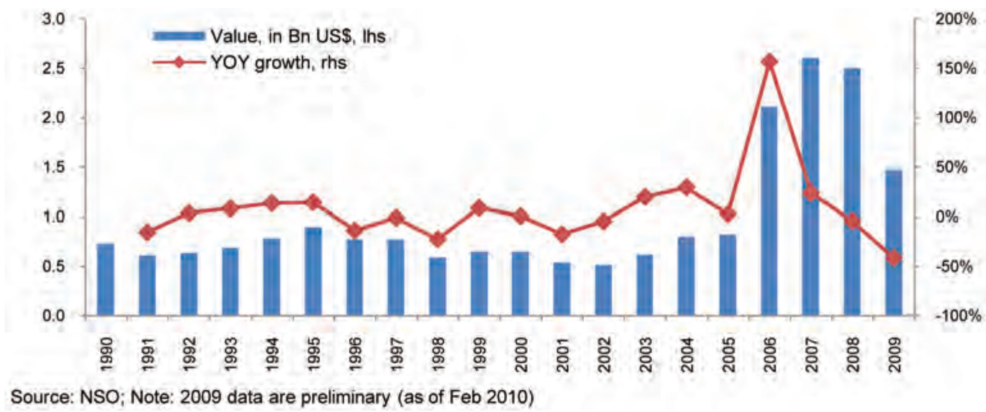
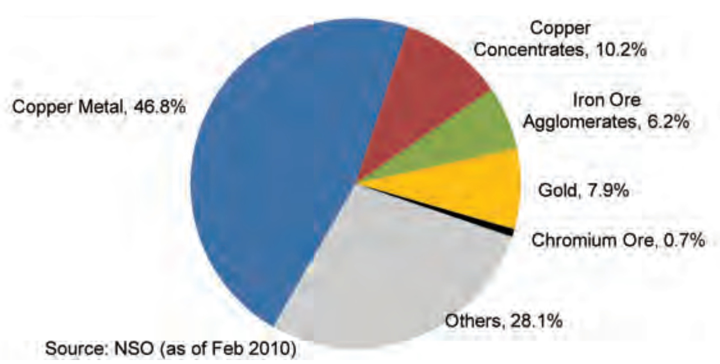


Figure 127 shows the distribution by metal type of Philippine mining goods exports in 2009. More local value could be added and more jobs created if mineral ores are processed more in the Philippines. While labor costs are competitive, processing is power-intensive, and the high cost of electricity, except in Mindanao, may discourage such investments. However, copper metal which already accounts for nearly half the value of total exports, is a good example of processing in the country.

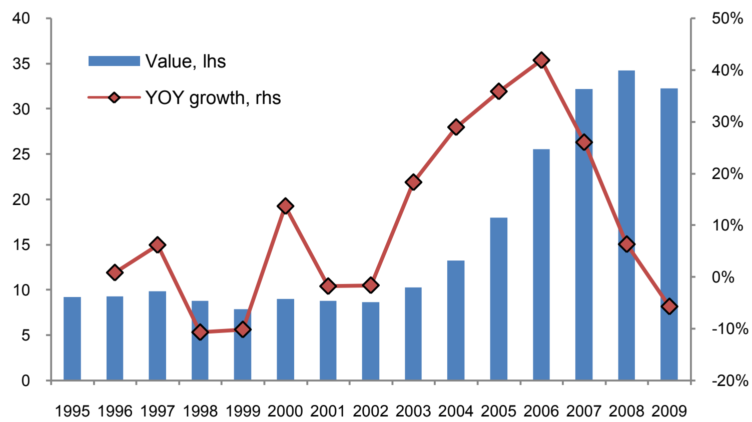
Figure 127: Mining products exports distribution, 2009



While Philippine exports have been increasing in line with those of ASEAN in response to rising external demand, the country's share in total ASEAN-6 exports dipped to 5% in 2005 before returning to its long-term share closer to 10% prior to the trade slowdown in 2009. The Philippines exports considerably more than Vietnam, but less than the other four countries (see Figures 128 and 129).

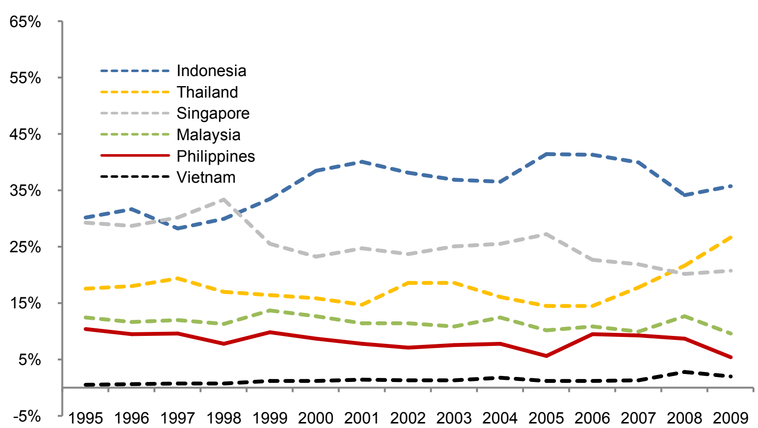
[153] NSCB and NSO

Figure 128: ASEAN-6 total mineral products exports, Bn US$, 1995-2009



Source: UNCTAD; Includes ores, metals, precious stones and non-monetary gold

Figure 129: Share in ASEAN-6 total mineral products exports, 1995-2009



Source: UNCTAD; Includes ores, metals, precious stones and non-monetary gold

The current mining policy framework of the country, based on the 1987 Constitution and the 1995 Mining Act, is spelled out in three other documents.

- The government adopted a detailed **National Minerals Policy** (NMP) in December 2003, shifting "from tolerance to promotion of the mining industry."

- In January 2004 EO 270 put in place the **National Policy Agenda on Revitalizing Mining** for sustainable development. The new policy "aims to promote responsible mineral resource exploration, development, and utilization to enhance economic growth in a manner that adheres to the principles of sustainable development and with due regard for justice and equity, sensitivity to the culture of the Filipino peoples and respect for Philippine sovereignty."[154]

- The **Minerals Action Plan** (MAP), which identified special issues and concerns, was finalized and issued in September 2004 and is gradually being implemented.

- The creation of **Minerals Development Council** (MDC) contributed to a greater coordination among various government agencies and the private sector.

The government has identified over sixty priority mineral projects with major mineral deposits throughout the country. The projects are divided (2008 data) into (a) operating/expansion stage (12), (b) first tier priority projects construction/development stage (8), (c) feasibility/financing stage (9), (d) advanced exploration stage (11), (e) second tier priority projects (3), and (f) priority exploration projects (22).

Investment under the MAP in mining priority projects has reached US$ 2.8 billion. The inflow in 2009 was reported to be US$ 640 million, and the MGB forecasts US$ 1.4 billion in 2010, US$ 3.4 billion in 2011, and US$ 3.9 billion in 2012. The 2004-2013 cumulative investment level target of US$ 13.5 billion after five years (2004-2009), however, has fallen short and has achieved US$ 2.8 billion in actual investments.

If these investments continue to be realized, the benefits to the economy in terms of exports, jobs, and national and local revenues will be substantial. However, full development of the mining sector continues to face very significant challenges, described below and the subject of the recommendations that follow.

While the recent softening of world prices has taken some of the glitter from the mining sector, long-term prospects for the industry remain strong. Economic growth in Asia is the fastest in the world, and the region is quickly recovering from the effects of the global financial crisis. With recovery, the Philippine mining industry should position itself to better satisfy the world's appetite for metallic minerals.

Legal framework and policies

Long-standing complaints about the lengthy, tedious approval process for exploration permits (EPs) continue to impede investment in the mining sector. The practice of having the MGB central office review and validate approvals done at regional offices appears to be redundant and is one of the main factors causing delay. What are being applied for are only EPs, without assurance that the project is viable. There is no reasonable justification for such a lengthy bureaucratic process.

Further, when there are conflicting claims, the process becomes lengthier. Arbitration and adjudication still depends on the legal strategies and maneuverings of the conflicting parties, and the speed with which the Mines Adjudication Board and eventually the courts decide such cases.

[154] Business World, January 22, 2004

While the Mining Act promotes the national policy of mining in provinces with mineral deposits, several LGUs have closed their provinces to mining (see Part 4 *Local Government*). There is a policy inconsistency between the Mining Act and the authority of LGUs in the Local Government Code. These LGUs have advocated a moratorium on mining and closed the door to mining. The DOJ and the MDC have asserted the authority of the GRP, stressing the obligation of the LGU to support the national policy agenda. Provisions in the Mining Act and also the Local Government Code stipulate that management and administration of mining is a national activity handled by the DENR.

A related issue is small-scale mining permits granted by LGUs without coordination with the MGB, leading to conflicts with legitimate mining claim holders and contractors.

The local government's share in mining revenues has also been an issue and a reason some LGUs object to mining in their provinces. LGUs usually have problems collecting real property taxes and income from mining companies. This is one reason some LGUs resist mining projects.

While the Mining Act allows FTAAs, there are other laws which provide for a mining contractor's access to auxiliary rights.[155] FTAAs give rights to foreign-owned companies to develop large-scale projects, to access land, to cut trees, and to exploit water resources, yet the Philippine Constitution has a 60-40 equity limitation clause on ownership of land and natural resources.

There is an inconsistency between the Mining Act and the Indigenous Peoples Rights Act (IPRA) on the issue of request for free and prior informed consent.

The Supreme Court has completed and issued new Rules of Procedures for Environmental Cases. The main features of the rules include the Writ of Kalikasan ("Nature") which is effectively a cease-and-desist order against supposed violators of environmental laws and government officials who issue licenses for these projects.

The concern of the industry is that the rule might cover and disturb lawful activities. This could result in serious differences between procedural rules and legitimate acts of the Executive and Legislative branches of the government. Under these rules a mining contractor operating under a valid permit could face a court order to stop operating on the basis of a mere allegation of environmental damage.

---

155 Among the auxiliary rights granted to a holder of an FTAA are (i) timber rights or the right to cut trees or timber within one's mining areas that are necessary for the mining operations; and (ii) water rights or the privilege granted to appropriate and use water. In the case of timber rights, a private land timber permit can only be issued under the relevant forestry laws to owners of private lands covered by titles or other recognized certificates, who are necessarily Filipino citizens or corporations. Thus, in the case of a foreigner holding an FTAA, it is still unable to qualify for such timber rights. Similarly, for water rights, only Filipino citizens or corporations may be granted such under the Water Code of the Philippines, and consequently, a foreign FTAA contractor will not qualify to be granted such rights.

These examples show a seeming disconnect between an innovative legislation such as the Mining Act that allows foreigners greater rights and earlier nationalistic provisions found both in the Philippine Constitution and the forestry laws and water code that limit the enjoyment of certain rights relating to the country's natural resources to the State and to its citizens. Moves may thus be directed at studying how to reconcile liberal statutes with those that impose nationality restrictions.

The rules also violate the long established doctrine of primary jurisdiction that asserts that where an issue can be determined by a specialized agency – such as the MGB – the courts will not involve themselves. But the proposed rules presume equal jurisdiction between the judiciary and executive branch agencies over complicated technical problems.

There is an Alternative Mining Bill known as the Philippine Mining Resources Act of 2009 introduced in the 14th Congress. This proposal seeks to cancel all existing mining permits, licenses, and agreements and declares all ancestral lands and all mineral reserves within such areas as belonging to indigenous peoples (IPs). The bill also creates a Multisectoral Council (but does not require any scientific background on mining for membership) that will decide which lands can be used for mining. The MGB will be reduced to a subsection of the Department of Science and Technology (DOST).

Whenever there is a change of president and DENR secretary, there is a possibility of policy change. The current policy of supporting growth of the mining sector should be continued in future administrations, as should the Minerals Development Council.

Indigenous Peoples

At the heart of IPRA are the rights of the indigenous cultural communities (ICCs) and IPs to their Ancestral Domains and lands, which include:

a. The right of ownership sustained by the view that ancestral domains and all resources therein serve as the material basis of the IPs' cultural integrity. These lands and resources are the IPs' private property that they consider to be community property that has belonged to all their generations.

b. The right to develop and manage lands and natural resources of their Ancestral Domain Sustainable Protection Plan (ADSPP), which they formulate themselves. This right however does not preclude other persons from undertaking business or other activities in ancestral domains, especially those involving the exploration and extraction of natural resources.

c. The condition precedent of Free and Prior Informed Consent (FPIC) of the ICC or IP owning the domain should be secured and be certified to by the National Commission on Indigenous Peoples (NCIP) with a Certification of Compliance. The FPIC is very important. Gaining the FPIC from the concerned community is often seen by exploration companies as the most difficult part of the final process of acquiring a valid EP, or one of the other forms of mining agreements.

The NCIP has no budget. It is currently under the DENR. Almost all the ancestral lands exist only on paper. The NCIP lacks the capacity to map all ancestral lands and make this data available online. A mining investor cannot tell easily if the land he is considering is ancestral land. The NCIP also lacks a legal framework for an appeals process.

Another issue that needs to be addressed by mining companies is the proposed resettlement of IPs from their ancestral lands, with which they have a long-held spiritual bond, to areas outside the mining operation area.

Security

Actions of the New People's Army (NPA) can hinder access to mining sites and can be a real security problem if a company is not attentive.

Land issues

Another inhibitor to growth of the mining industry is the access to land/ground. It would be helpful and conducive to industry growth for companies to be allowed free access to conduct initial geological studies, mapping, soil sampling, and limited testing either via channel sampling or use of non-intrusive man-portable drilling rigs during the pre-permitting process. The ability to carry out this work gives the company confidence in raising new capital and assists in training people within the community to undertake such skill functions as survey line markers, soil samplers, road maintenance workers, and environmental field assistants. Work accomplished would be reported in a timely fashion and would assist company applications through the bureaucratic process to the award stage.

Human resources

Because the MGB is tasked to manage the mineral resources of the country, their personnel must have the skills to implement and understand the technical details of the mining industry. Too many good geologists are leaving the MGB to seek higher salaries and more attractive working conditions than are offered by government service. This results in an understaffed MGB and a growing lack of confidence by the senior staff towards building their careers and their future.

Many applications are filed by parties who are not genuine exploration companies hoping that by applying for an EP it will be valuable to someone else after it has been granted. Consequently, the MGB is inundated with applications from parties who lack funding and their own technical staff who are competent to prepare mining documents.

Financing

A challenge for financing mining development in the Philippines is the negative perception of the industry among financial institutions. Banks often view corruption, policy inconsistency, and church intervention in secular issues as serious impediments to mining development.

Another challenge is the creditworthiness of Philippine mining companies and mining projects. Many local companies hold mineral rights to good mineral prospects, but their balance sheets do not support their financial capability to develop their projects. Some local approved claimants have no prior experience in mining. With no mining background and lacking the data package from initial project investment (drilling, feasibility studies, resource definition) that are needed for banks to review against their project loan checklist, these claimants are rarely eligible for bank financing.

A third challenge arises from the scale of junior mining players moving from exploration to extraction projects. While there may be good mineral prospects, these are usually small scale projects compared to large scale projects, which mining companies in Indonesia are developing, and are thus less interesting to large banks.

Perceptions

The prevalent external perceptions are of corruption, Church intervention on mining issues, and inconsistent policy. These perceptions deter new investors.

Headline Recommendations	
1.	**Increase the growth of the mining sector by removing redundant approvals and non-performing claims.** Exploration and similar permits should be granted transparently at the regional level within 6 weeks and renewed in one day at one-stop shops. Reduce environmental compliance certificate (ECC) processing time. Allow pre-permitting access to potential project lands. MGB should cancel permits after two years of non-performance. MGB should adopt Philippine Mineral Ore Resources Reserve Reporting Code. **Develop model best-practice regions.**
2.	**Work closely with indigenous peoples; develop mining HR skills; monitor legal developments.** Since most mines are in ancestral domains, involve IPs as partners from project commencement. Achieve a 50% increase in direct mining and milling costs allocated for community development. Implement release to LGUs of their share of mining taxes paid to the GRP. Improve salaries and practical skills of MGB staff. Develop mining engineering programs at universities. Implement the current Mining Act and avoid arbitrary application of the Writ of Kalikasan. Continue the Minerals Development Council.
3.	**Carry out a public information campaign and increase dialogue with concerned groups.** Inform the public about responsible mining that minimizes the environmental impact. Find common-ground solutions with LGUs, NGOs, religious leaders, and local communities to issues raised against specific projects. LGUs should not have mining bans against national policy. Encourage downstream processing/manufacturing. Source supplies from local communities. Endorse Extractive Industries Transparency Initiative.

Recommendations (33)

A. **Speed up the growth of the mining sector by removing redundant approvals and non-performing claims.**

A1. **Further streamline the exploration permit approval process**. Exploration and similar **permits should be granted transparently at the regional level within 6 weeks and renewed in one day** at one-stop shops. Impose and enforce a deadline at the regional level for EP approvals, with close coordination among agencies. The issuance of EPs and the grant of a mineral agreement for initial exploitation should be reduced from 4 months to 6 weeks. Renewals should take one day, subject to submission of all pertinent requirements needed within 15 days from receipt of a renewed EP. (Immediate action DENR)

A2. At the same time, **applicants should be vetted strictly** to ensure they have both the required funding and the technical staff to undertake the work. (Immediate action DENR)

A3. **Reduce ECC processing time** and certificates of non-coverage. Strengthen implementation of DENR environmental responsibilities under the Mining Act for environmental protection, and the enhancement program for progressive rehabilitation and the mine rehabilitation/decommissioning plan for mine closure. (Immediate action DENR)

A4. **Allow pre-permitting access by firm to potential project lands** to conduct initial geological studies, mapping, soil sampling, and limited testing. Doing this gives the company confidence in raising capital and trains local people in mining-related skills. (Immediate action DENR)

A5. **Continue processing of mining applications involved in mining cases** or subject to protests or oppositions, subject to certain conditions. (Immediate action DENR)

A6. **MGB should stricly monitor compliance by mining companies** with the Mining Act and related departmental orders. MGB should **cancel permits after two years of non-performance**. Permits specify PhP 500/hectare minimum expenditure. Failure to implement 3-year development program for two consecutive years should be cancellation grounds, as should failure to present proof of FPIC. Strictly implement three letters of notice policy against inactive applicants. There should be a comprehensive field inspection to confirm compliance prior to commissioning a mining project. (Immediate action DENR)

B. **Establish regional level one-stop shops** to process applications. (Immediate action DENR)

C. **Develop model best-practice regions**. Look for model regions to showcase best practices for LGUs working with the mining industry. Strengthen mining regulatory oversight in several key regions and encourage development therein of 3-5 world-class mines as showcase for best practices. Their success and economic growth should impress other regions. (Immediate action DENR)

D. MGB should **adopt Philippine Mineral Ore Resources Reserve Reporting Code** patterned after Australia's Joint Ore Reserves Committee (JORC) guidelines. (Immediate action DENR)

E. **Seek to end LGU mining moratoriums**. The private sector should request the Solicitor General to file a case against any LGU that declares mining moratorium. According to a DOJ order, LGUs cannot stop or go against a national policy. (Immediate action DOJ and private sector)

F. Provide LGUs with additional funds for community projects by **implementing the simplified joint circular regarding release of mining taxes to LGUs**. (Immediate action DOF and DENR)

G. **Continue dialogue** with the various local government leagues, the religious sector, and non-government organizations **to find common-ground solutions to issues being raised against specific mining and exploration projects**. (Immediate action LGUs and private sector)

H. As a stakeholder, the industry should **actively monitor developments in the Congress and judiciary**, such as the Rules of Procedure on Environmental Cases and the Alternative Mining Bill. The industry should present its positions and appear at committee hearings and other public consultations. (Medium-term action private sector)

I. Continue to **support revision of the 60-40 equity restriction provision in the Constitution** with respect to land ownership and water, forest and mining rights, when an appropriate occasion arises. (Continuing action by private sector)

J. **Continue implementation of the MAP**. Continue active private sector participation in **the MDC**. The government needs to be proactive in supporting responsible mining with stakeholders in local communities. (Immediate action DENR and private sector)

K. Government should work on four **programs to move mining industry up the ladder of industrialization**: (1) promote downstream processing and manufacturing for copper, nickel, gold, and chromite; (2) develop community-based supplier industries and services; (3) improve government benefits from mining; and (4) better control exports of small scale mining and unprocessed minerals. (Immediate action DENR, DTI, and NEDA)

L. **Community building should commence from the first day** a company takes interest in an area for mining. It should inform local people about the company and what it plans to do on their land. Bring IPs into the mining project as partners from day one. (Immediate action private sector)

M. **Mining firms should support labor intensive, community-run enterprises** such as fish farms and vegetable gardens for the IPs. (Immediate action private sector)

N. Complete the MGB review of regulations (DAO 2000-99) to **increase the allocation of direct mining and milling costs for community development from 1% to 1.5%**. The DAO also permits the use of these funds for information, education and communication campaigns, and the development of mining and processing technology and geosciences. (Immediate action DENR)

O. The private sector should help **build the capacity of IPs**. Help them understand and exercise their rights, what their claims are, and how investors should interact with them. (Medium-term action private sector)

P. **Increase the budget and technical capacity of the NCIP**. (Immediate action DENR, DBM, and Congress)

Q. When **resettling people** living in an area to be included in mining operations, find a site that allows **habitation as close as possible to their traditional lands**, without endangering the safety requirements of the mining operation. (Medium-term action private sector)

R. Companies should **not pay stipends or occupation fees to local NPA** but instead partner with the IP community. (Immediate action private sector)

S. The **private sector should work closely with the MDC committee** on mining security, the **DILG undersecretary** for peace and order, **and the AFP to establish a joint mining security protocol** to guide mining companies in dealing with local security threats and to formulate short and long-term preventive measures that can be implemented by companies. (Immediate action DENR, DILG, DND/AFP, and private sector)

T. **Exploration companies should conduct security and social assessments in their areas** of operations. Mining security and assessment seminars were organized in most regions in 2009. (Immediate action DENR, DILG with private sector)

U. The **mining industry should work closely with the MGB**, providing regional offices with appropriate technical as well as financial support (if permitted), including assisting MGB staff to attend industry workshops to increase their skills, without leaving the MGB. (Immediate action DENR and private sector)

V. Geology and mining engineering **students following graduation who enter government service should be assigned to work with a local exploration or mining company** to gain further practical experience, after which they should be offered sufficient incentives to return to the MGB. (Immediate action DENR and private sector)

W. Government, in partnership with exploration and mining companies, should **encourage more students to study subjects needed in the mining community**, such as environmental management, social infrastructure management, geology, and community development, including agri-business venture building. (Immediate action DENR, CHED and private sector)

X. **Encourage mergers of local mining companies and list more** local companies on the Philippine Stock Exchange (PSE). (Action private sector)

Y. **Carry out a public information campaign regarding mining and increase dialogue with concerned groups**. Inform public about responsible mining that minimizes environmental impact. (Immediate action DENR and private sector)

Z. Support the Mining Museum project in Baguio to establish a museum to educate Filipinos on the importance and uses of mining. Establish smaller museums in other regions where mining is concentrated. (Medium-term action DENR and private sector)

AA. Mining companies in the Philippines should **endorse the Extractive Industries Transparency Initiative (EITI)**. Eventually, the Philippines should apply to become an EIT Compliant Country. Mining companies operating in the Philippines, mining associations, and EITI supporting countries should explain the initiative to the Philippine public. (Immediate action private sector)

FGD Participants, Moderator and Secretariat Members

November 20, 2009
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON MINING AND EXPLORATION

Tourism, Medical Travel, and Retirement


Sector Background and Potential

Given the natural, cultural, and human resource endowments of the Philippines, tourism has been identified as an important sunrise, globally competitive industry by the national government under the MTPDP 2004-2010 and by the NCC (created by EO 571). The new Tourism Act of 2009 offers opportunities to develop the sector at a more rapid pace.

Health and wellness tourism, medical travel, and retirement are priority sectors under EO 372 whose development are expected to generate investments, employment, and foreign exchange and create more opportunities for retirement and health professionals in the Philippines.

Tourism development can have strong poverty reduction effects in remote and rural areas. It has been calculated that for every foreign tourist that visits the country and spends about a thousand dollars, one job for one year is supported. Each US$ 1 spent by a tourist to pay for accommodation services gets multiplied 2.1 times. Thus, a dollar spent by a tourist on accommodations generates a total of US$ 2.1 for the Philippine economy. The range of direct and indirect income effects of tourism is enormous, involving agriculture, industry, and services. Tourism is also a pull factor to medical travel, long stay, and retirement markets. Tourism (specifically medical travel) serves as an entry point for potential retirees, who need to visit and positively experience the Philippines first before deciding to come back on a long stay or permanent basis.

Tourism

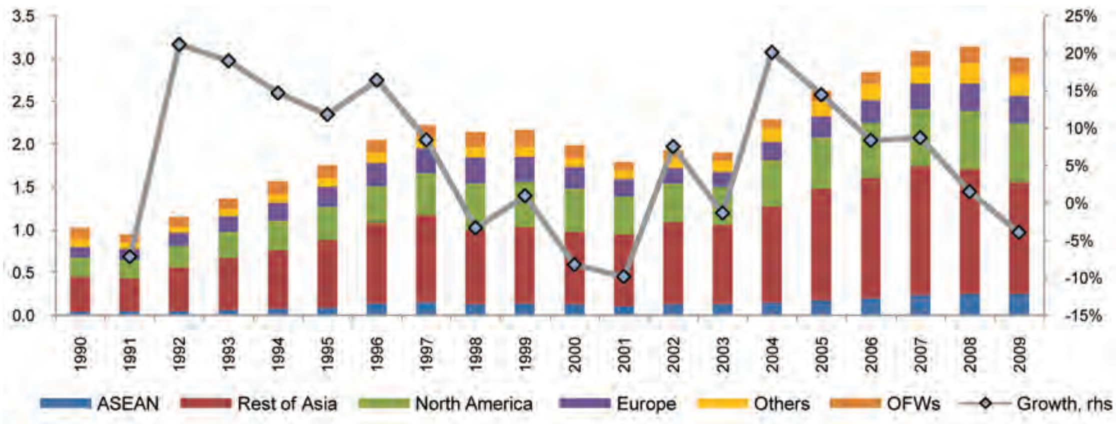
Travel and tourism is currently the fourth largest source of Philippine foreign exchange revenues.[156] From 2000 to 2009, the average annual spending of US$ 2.2 billion by international visitors contributed 43.5% and 4.8% to the service export and total export revenues of the Philippines, respectively.[157]

156 The top three are electronics, remittances, and IT-BPO.

157 In computing the shares to total service exports and total Philippine exports, the adjusted values of tourism receipts (from the DOT visitor expenditure data) for the years 2006 to 2008 were used.

Philippine international arrivals reached 3.145 million in 2009, a small decrease of 1.5% from 2008 after several years of stronger growth that increased the total by some 50% since 2001 (see Figure 130). The number of foreign visitors is expected to climb modestly during the next few years, as the country's three largest markets Northeast Asia, North America, and Europe recover from recessions.

Figure 130: Foreign tourist arrivals in RP, by origin, Mn, 1990-2009



Sources: DOT and NSCB

Fortunately, the Philippines is strategically located in the heart of the Asia Pacific region, which showed strong recovery in 2009 and is expected to receive 5-7% more visitors in 2010 according to the United Nations World Tourism Organization (UNWTO).[158] The International Air Transport Association (IATA) also expects the region to be the world's fastest growing area for tourism.

In 2009 intra-Asia Pacific travel surpassed North America as the world's largest aviation regional market; IATA expects 217 million more travelers to fly within Asia by 2013. The UNWTO's Tourism 2020 Vision forecasts that international arrivals are expected to reach nearly 1.6 billion by the year 2020. Of these worldwide arrivals in 2020, 1.2 billion will be intraregional and 378 million will be long-haul travelers.

Total tourist arrivals by region data shows that by 2020 the top three receiving regions will be Europe (717 million tourists), East Asia and the Pacific (397 million), and the Americas (282 million), followed by Africa, the Middle East, and South Asia. East Asia and the Pacific is forecasted to have record growth at rates of over 5% a year, compared to the world average of 4.1%.

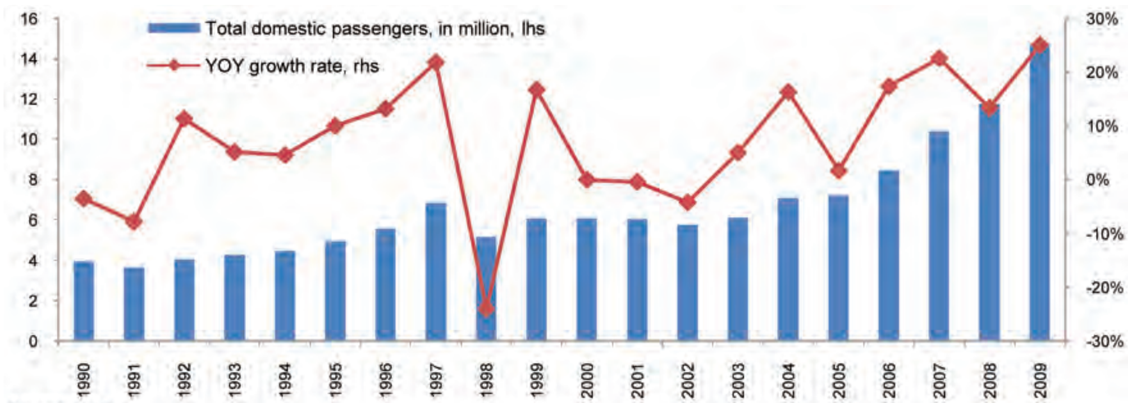
Domestic travel is the strong backbone of Philippine tourism, making it resilient during times of external vulnerabilities to health scares, terrorism, and global financial crisis, among others. In 2009 a group of 12 tourism destinations in the Philippines recorded a volume of 7.2 million arrivals with domestic travellers accounting for 79% of the total.[159] Another indicator of the robust domestic

158 www.wto.org

159 Baguio City, Bohol, Boracay, Cagayan de Oro, Cagayan Valley, Camarines Sur, Camiguin, Cebu, Ilocos Norte, Davao City, Negros Oriental, and Palawan

travel market is the volume of domestic air passenger traffic, increasing by 25.1% in 2009 (see Figure 131 and Table 52).[160]

Figure 131: Domestic air travel, Philippines, millions, growth, 1990-2009



Source: CAB

Table 52: Domestic air travel, Philippines, millions, growth, 1995-2009

Year	Domestic Passengers	Dom Pax Growth
1995	4,948,540	
1996	5,603,877	13.2%
1997	6,831,431	21.9%
1998	5,382,029	-21.2%
1999	6,072,439	12.8%
2000	6,073,873	0.0%
2001	6,051,828	-0.4%
2002	5,798,842	-4.2%
2003	6,093,004	5.1%
2004	7,090,704	16.4%
2005	7,211,473	1.7%
2006	8,469,511	17.4%
2007	10,388,708	22.7%
2008	11,784,381	13.4%
2009	14,746,438	25.1%

Source: CAB

Of the 68 million international tourists recorded in Southeast Asia in 2008, only 4.8% visited the Philippines (see Figure 132). While the Philippines offers tourists many attractions, other Southeast Asian destinations are more favored by visitors: Thailand (14 million in 2008), Malaysia

160 Given the varied means of transportation and many purposes of domestic travel, precise data for domestic tourists does not exist.

(21 million), Singapore (6 million), Indonesia (6 million), and Vietnam (5 million). Cambodia with 2 million and even Sabah (both destinations with open skies airports) could eventually move ahead of the Philippines. The speedy implementation of the new National Tourism Act should improve prospects for this high-potential sector with its high job creation coefficient.

Figure 132: Distribution per country of international visitor arrivals in the ASEAN region, 2008

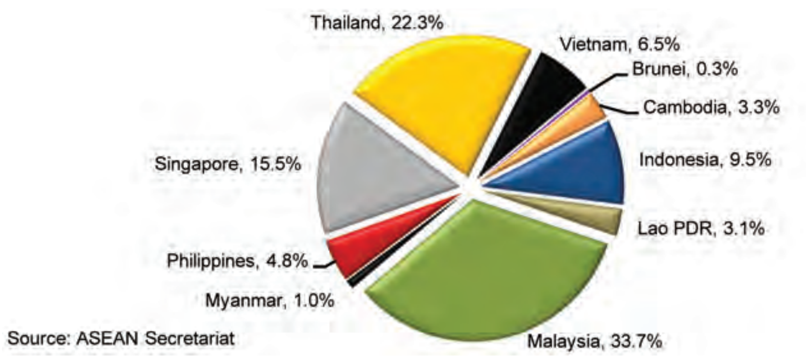
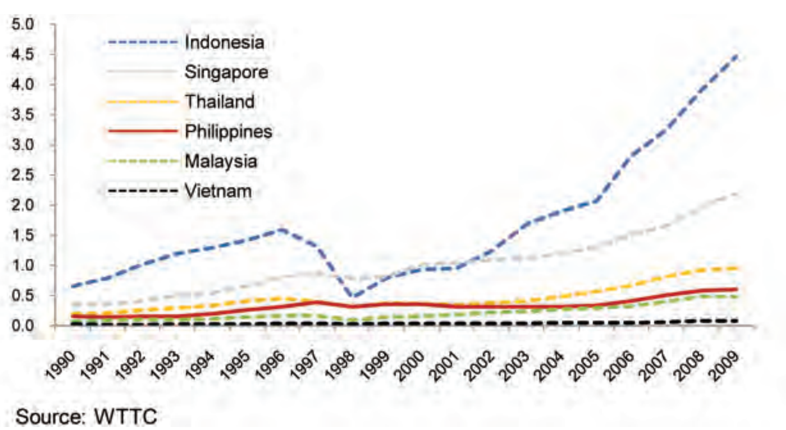


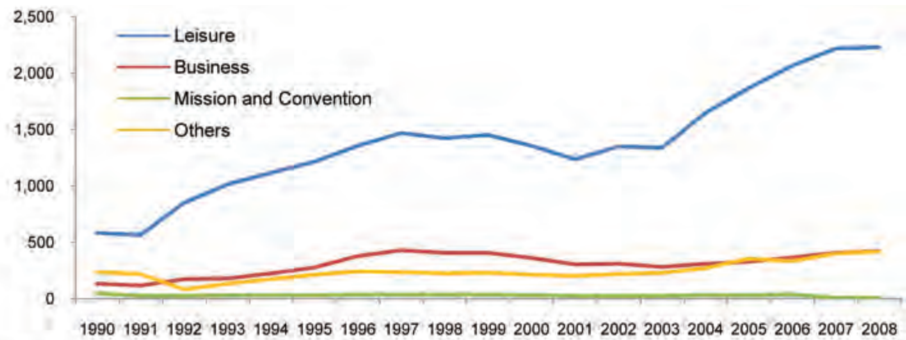
Figure 133 shows data for government consumption and investment spending on travel and tourism. The Philippines is spending more than Vietnam, the same as Malaysia, but less than Indonesia, Singapore, and Thailand. Government spending on travel and tourism includes estimates of government purchases, current and capital expenditures to provide travel and tourism services to the public on a collective basis (i.e. expenditures on highways and roads) and on an individual basis (i.e. budget for museums). These expenditures also comprise travel and tourism-related spending on equipment, land, buildings, and infrastructure. Travel and tourism public investment corresponds to the investment made on Travel and Tourism government programs.

Figure 133: ASEAN-6 government travel and tourism expenditure, US$ Bn, 1990-2009



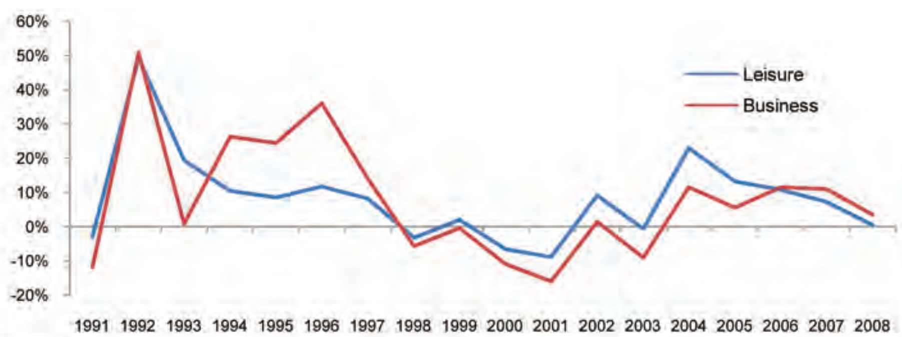
Figures 134 and 135 shows data on air visitor arrivals in the Philippines by purpose of visit. Tourists top the list of followed by those who come in for business reasons.

Figure 134: Foreign air visitor arrivals, by purpose of visit, in '000, 1990-2008



Source: DOT; Note: Leisure includes the following purposes: to spend holidays, to visit friends & relatives and incentive travel.

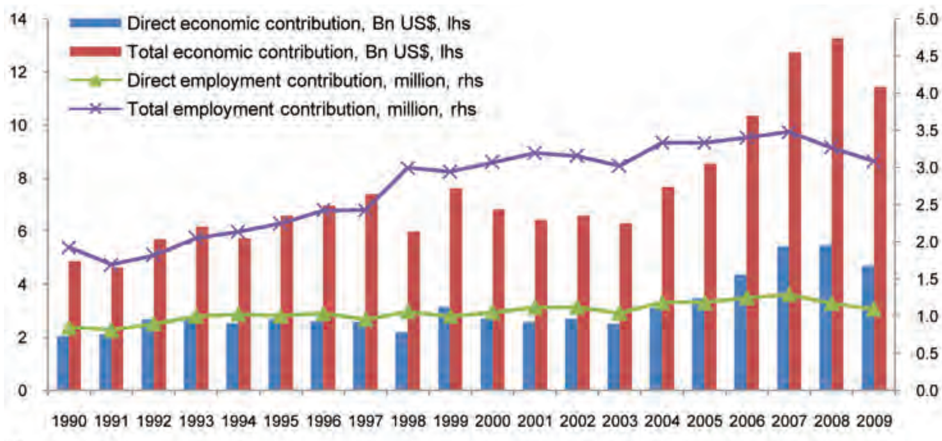
Figure 135: Growth of foreign air visitor arrivals, by purpose of visit, 1991-2008



Source: DOT; Note: Leisure includes the following purposes: to spend holidays, to visit friends & relatives and incentive travel.

Figure 136 provides data on the direct and indirect economic and employment contribution of the travel and tourism industry to the Philippine economy based on estimates by the World Travel and Tourism Council (WTTC). In 2008 the WTTC estimated that tourism in the Philippines (both domestic and international) contributed 8.8% of GDP and 10.3% to national employment (3.3 million persons). The estimates by WTTC for 2009 reveal lower contributions of 6.9% to GDP and 8.5% to national employment due to the impact of the global financial crisis. The NSCB and the DOT jointly produced a Tourism Satellite Accounting System for the Philippines; the results showed an impact of 6.2% to GDP and 9.3% (3.2 million persons) national employment. Both studies by the WTTC and the NSCB confirm the important role of tourism in economic growth and development. Being labor intensive and drawing many of its inputs from the local economy makes tourism an excellent industry for meeting the imperative for employment creation in the country.

Figure 136: Estimated economic and employment contribution of travel and tourism industry, 1990-2009



Source: WTTC

Medical Travel and Retirement

In addition to standard tourism, medical travel and retirement by foreign nationals are two areas where the Philippines has high potential for competitive success. These are high yield markets since these visitors stay longer and spend more during their visits. Patients, for example, are accompanied by their families or friends who consume local goods, pay for non-invasive treatments (i.e. eye and dental check ups), visit spas and wellness centers, and tour various destinations in the country.

The growth of the medical travel market is driven by external developments in the global health care industry. Foreign patients travel overseas for a number of reasons. One, the treatments and facilities are not available at home or close to home, as in the case of developing countries. Second, they seek less expensive treatments and services, especially when they have to pay out-of-pocket for significant portions of their treatments. The US population, for example, includes an estimated 43 million medically uninsured and 120 million dental uninsured, and both numbers are likely to grow. Third, there are longer waiting times for treatment in the developed economies due to the relative lack of healthcare professionals and facilities. The Philippines offers a growing number of world class medical care facilities – although only in the national capital area – that currently serve foreign patients (see Table 53). Medical travel creates new opportunities for health care professionals and tourism suppliers through bundling of leisure, rejuvenation, and medical services.

Table 53: Number of foreign patients and revenue generated, US$ Mn

Country	Number of Foreign Patients Admitted	Revenue Generated Mn $US	Year	Remarks
India	500,000	480	2007	www.health-tourism.com
Philippines*	100,000	340	2008	DOT estimates in press release for October 2010 International Wellness, Medical Travel and Retirement Summit
Singapore	400,000	915	2006	Official Statistics (survey) by Singapore Medicine
Thailand	1,300,000	1,000	2008	58.6% foreign patients, 41.4% expats (Ministry of Health)

**official statistical system to capture international medical travel market in the Philippines still has to be developed*

Higher healthcare costs, declining fertility rates, and increasing longevity have exerted pressures on pension systems of a number of developed economies. Governments are seeking ways to take care of their growing elderly segment of the population. Incentives have been given to the younger population to build families and have more children. Immigration policies are being relaxed. Alternative solutions such as long stay programs and retirement communities overseas are also being explored. Foreign nationals are now moving to these countries with relatively lower costs of living and where they are socially acceptable.

The Philippines is one of those destinations seeking to attract foreign nationals to live in the country on a long stay or permanent basis. The government has offered a foreign retiree program for several decades, and in recent years the number of new participants has increased to 2,000-3,000 a year, based on data from the Philippine Retirement Authority (PRA). The low cost of living, excellent weather, world-class medical care, recreational options, and the care and warmth of the Filipino people are pluses that support the high potential of the retirement subsector.

Context of Recommendations

Tourism's contributions to the economy can be magnified considerably if the country can increase the volume of international visitors, which is still extremely low in comparison with top Asian country destinations, and domestic travelers, make them stay longer in a destination, and spend more. The key to unlocking the job creation potential of tourism is investment mobilization, by both the public and private sectors, individually or through public-private partnerships. From 2000 to 2009, cumulative tourism investments registered with the BOI reached PhP 38 billion, 81 percent (PhP 31 billion) of which was generated during the period 2005 to 2008. Tourism economic zone approved investments by the PEZA reached about PhP 25 billion with an employment impact of 13,576 for the period 2005 to 2007. Foreign direct equity investments in hotels and restaurants and real estate likewise jumped significantly from US$ 91.6 million in 2000-2004 to US$ 640.6 million in 2005-2009. These developments definitely contribute to sector capacity building in time for global recovery.

Note however that the country has to catch up with the capacity of its regional neighbors (in terms of airport, seaport, and road infrastructure, tourism accommodation facilities, and services) in order to realize the vision of the Tourism Act of 2009 to transform the Philippines into a premier tourism destination in Asia, particularly for high yield markets such as international conferences, meetings, and exhibitions. Some popular tourist destinations are unable to meet demand for rooms.

How can more investment be generated? The 2009 World Economic Forum Travel and Tourism Competitiveness Report enumerates issues that have also been raised by industry stakeholders in past years (see Table 54). The 2009 report shows that the Philippines has become less competitive (from 81st in 2008 to 86th out of 133 countries in 2009). The biggest decline is in the area of policy rules and regulations (from 58 to 72) and infrastructure, both critical for investment mobilization and sustainability.

A logical strategy to improve the tourism investment climate would be to focus on improving the areas of competitiveness ranked the lowest in order to improve future rankings.

Table 54: Competitiveness rankings, Philippines, 2007-2009

Category	2007	2008	2009
Overall country ranking	86	81	86
Price competitiveness	7	9	16
Tickets and airport charges	14	17	17
Extent and effect of taxation	40	57	65
Hotel price index	--	9	12
Policy rules and regulations	--	58	72
Property rights	70	75	92
Business impact of rules on FDI	78	92	97
Time required to start a business	--	106	114
Cost to start a business	--	83	94
Tourism infrastructure	93	97	96
Quality of roads	86	91	94
Quality of port infrastructure	87	102	100
Quality of airport infrastructure	76	72	89
Quality of domestic transport network	92	74	115
Total Number of countries evaluated	124	130	133

Source: WEF, Travel and Tourism Competitiveness Report, various years

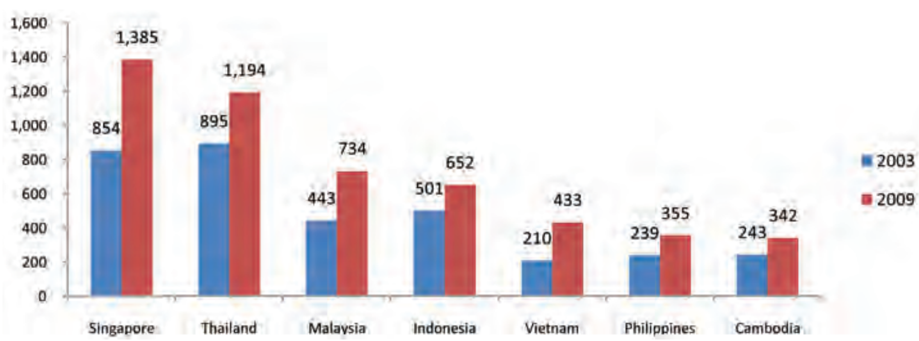
International Connectivity

The most basic and crucial infrastructure for international tourism is air access. A high level of international airline connectivity is important to increasing the inflow of foreign visitors, whether they are tourists, patients, or retirees. An increasing number of direct flights by foreign airlines from major foreign airports to Manila, Cebu, Clark, and other international airports convenient to the most popular tourist destinations, medical facilities, and retirement communities are essential for foreign visitors to come and go from the Philippines as easily and inexpensively as possible. Open air access will enable airlines to develop more efficient route networks and to quickly respond to market demand growth, offer more competitive fares, and offer services that will expand consumer choices. Promotional resources should also be largely concentrated in gateways and destinations that have the available infrastructure to accommodate more visitors and brands of tourism products to sell.

However, the Philippines has yet to catch up with its Asian neighbors in terms of the quality of its air transport network. According to the WEF Travel and Tourism Competitiveness Report, the country's international air transport network rank declined from 62 in 2007 to 76 in 2009 (see Part 3 *Infrastructure: Airports*). This situation is not likely to improve as long as the US Federal Aviation Administration (FAA) downgrade and the EU blacklisting of RP carriers that have constrained the development of the North American and European tourism markets are in place. Furthermore, while liberal traffic rights have been negotiated in the past three years, foreign airlines, especially the long haul carriers, are not likely to significantly increase capacity to the Philippines given the current costs of doing business and investment climate.[161]

In fact, the Philippines is increasingly isolated from key tourism markets such as North America and Europe. Delta Airlines has reduced capacity from 24 (including 3 freighters) in 2001 to 12 in 2009. In 2001, there were 22 incoming flights per week by European carriers such as British Airways, Lufthansa, and Air France. Today, only KLM is left with daily services from Amsterdam. Vietnam has overtaken the Philippines in terms of attracting foreign carriers. It experienced the highest growth (106%) in flights by foreign air carriers from 2003 to 2009 (see Figure 137). Foreign carriers have significantly improved capacity in support of inbound tourism to Singapore, Indonesia, Vietnam, Malaysia, Indonesia, Thailand, and Cambodia but not to the Philippines (where increases in flights by foreign carriers in recent years primarily served the Overseas Filipino Worker traffic).

Figure 137: Incoming flights per week by foreign air carriers to ASEAN, 2003, 2009



Source: Orient Airline Guide and airline schedules

161 From 2000 to 2009, the number of incoming seats per year increased from approximately 10 million to 30 million, largely due to the liberal bilateral air agreements signed in the past three years. The throughput number was 20 million in 2000 to 60 million in 2009.

Costs of doing business and of travel

The relatively poor connectivity provided by foreign airlines operating in the Philippines can be partly attributed to the investment climate in the country. The Philippine government charges a number of taxes and fees that should be reviewed, reduced, simplified, or eliminated. IATA and the Board of Airline Representatives (BAR) have communicated strong opposition against the Common Carriers Tax (CCT) and the Gross Philippine Billings (GPB) imposed on foreign airlines operating in the Philippines. These taxes are not imposed by other countries and raise costs for foreign visitors vis-à-vis competitive destinations such as Malaysia, Thailand, and Vietnam. A tax regime comparable to international standards and practices will make the Philippines more attractive for foreign airlines as an investment destination, increase foreign tourism to the country, benefit the airline business (plus auxiliary services such as catering, maintenance and repair, food manufacturing) of PAL, Cebu Pacific, Zest Air, and SEAir, and expand the income streams of local tourism destinations.

Furthermore, the Philippines imposes overtime and special CIQ charges on airlines rather than providing these services at no cost or at low cost built into the ticket price. Airport landing fees charged foreign airlines are also much higher than the fees charged domestic flights (see Infrastructure: Airports). Travel tax-related procedures require some airlines to spend on additional manpower to handle about 34,000 travel tax documents per month.

Foreign airlines are already operating in Philippines at low profit margins, and these fees and taxes raise the risk that their services to the Philippines will be reduced, suspended, or terminated (see Table 55).[162]

Table 55: Taxes and fees charged airlines and travelers, 2010

Agency	Fee/Tax	Amount	Payee	Comment
Customs	Overtime, meals, and transportation allowances	PhP 216 million (2008 data)	Airline	This issue calls for a review of these agencies' mandate, rationale and practice of collecting overtime charges and other fees from international airlines. These services are rendered by the government for the State and specifically for passengers and not directly for the airlines. The personnel requirements of these three agencies must be reviewed in light of the growth of air transport and tourism sectors and their 24/7 operations. The existing laws and regulations – Tariff and Customs Code, 1940 Immigration Act, and Quarantine Act – need to be amended in order to improve the investment image and competitiveness of the Philippines.
Immigration	Overtime, meals and transportation allowances	PhP 166 million (2008 data)	Airline	
Quarantine	Overtime, meals, and transportation allowances	PhP 42 million (2008 data)	Airline	
Tourism Department	Travel tax	PhP 1,640	Resident	The Tourism Act of 2009 states that the Department of Tourism should consider other sources of revenues in the event that the travel tax is phased out as a result of international agreements.

162 A number of foreign airlines have ended service to Manila in the last 15 years, including Air France, British Airways, United, and more recently Lufthansa.

				An international air carrier with global operations or network is burdened with about 34,000 travel tax documents, cumbersome collection procedures, and additional manpower costs of about PhP 300,000 per year.
DOTC	Airport tax	Up to PhP 750	Traveler	Queries on the usage of these fees were raised by stakeholders in light of the CIQ fees and quality of airport facilities and services.
BIR	CCT	3% of flown revenues from tickets, cargo, and excess baggage carried ex-Manila up to the final destination regardless of the country of sale and/or issuance of the ticket	Airline	Both taxes are estimated to yield around PhP 3.2 billion (2008 data). Prior to 1997, only tickets sold in the Philippines were subject to tax. This tax is a major reason behind the lack of international flights by foreign airlines, especially long haul carriers, operating in the Philippines. Significantly raises costs of doing business and negatively impacts on connectivity. They do not conform to international standards and practices
BIR	GPB	2.5% of flown revenues from tickets, cargo, and excess baggage carried ex-Manila up to the final destination regardless of the country of sale and/or issuance of the ticket (can be 1.5% depending on tax treaties)	Airline	
DOTC	Landing fee		Airline	There are different charges for foreign airlines and domestic airlines despite the same aircraft characteristics.

Travelers also waste time and money due to airport and tax-related procedures. For foreign residents of the Philippines departing an international airport is an inhospitable hassle. For example, at Clark there are three lines (DOT, CIAC, and Immigration), credit cards are not valid, and only Philippine currency is accepted. Philippine residents exempted from the travel tax or entitled to reduced taxes need to spend extra time and money in order to secure certificates of exemption from the DOT.

For the Philippines to become an attractive foreign investment destination, especially for services such as tourism, logistics, IT-enabled, tele-health, backroom operations of companies, and the like, the government must facilitate the seamless placement and mobility of regional staff, support teams, and their families. This service economy stimulates the growth of international tourism – especially high yield business tourism. Foreign executives and staff based in the Philippines are required to pay fees for Special Return Certificate (SRC), Emigration Clearance Certificate (ECC), and Certificate of Exemption (CE) before each departure, head tax, legal research fee, fast lane fees, etc. The same fees are charged to family members. These procedures increase transaction costs (opportunity cost of time and funds) for investors in the Philippines. The Philippines has complex immigration processes relative to premier investment destinations in Asia. The strength of the Philippines in terms of quality of human resources is reduced and even nullified by the costs of doing business and burdensome government administrative procedures.

For day and destination wellness centers such as spas, especially those located in the countryside, enterprise owners have to send all their massage therapists to the DOH regional centers for their monthly venereal disease check up as required in the Sanitation Code of 1976 (Presidential Decree 856). Under the code, the term wellness center or spa is not used and defined. The facilities are classified as massage parlors and sauna baths. This code requires the owners of spas to allocate PhP 1,000 per message therapist to cover for transportation expenses and costs of the medical tests.

Many challenges must be overcome to make both medical travel and retirement grow robustly. For many foreign patients, their health insurance is not portable outside their home country. Fees charged by Philippine hospitals and doctors can often be non-transparent and confusing.

Current immigration policy allows visas of arriving foreigners a 59-day stay. The Bureau of Immigration (BI) is considering a proposal to allow longer stays, for example for medical visitors who require longer periods for doctors consultations, tests, operations, recuperation, and check-ups and also for potential participants in the retiree program who may wish to experience the Philippines and different provinces for one or more periods lasting several months before deciding to take up retirement residence in the Philippines.

Thailand offers such a long-term stay visa of unlimited one year multiple entry for the member and his/her partner. In Thailand, ease of entry and exit by the retirees is facilitated by the Longstay Management Company, a public-private partnership between the Tourism Authority of Thailand (30 percent ownership) and private stakeholders, set up to support the Longstay Tourism Development and Promotion project by the government. The Malaysian government introduced Malaysia My Second Home (MM2H) program in early 2000 as an international residency plan to allow foreigners to reside in the country on a long-stay visa of up to 10 years, and renewable.

Investment rules and regulations

Under the Tourism Act of 2009 (RA 9593), tourism economic zones can be designated by the newly created Tourism Infrastructure and Enterprise Zone Authority (TIEZA), upon the recommendation of any local government unit (LGU) or private entity, or through joint ventures between the public and the private sectors. Lands identified as part of a Tourism Economic Zone (TEZ) shall be exempt from the Urban Development and Housing Act (1992) and the Comprehensive Agrarian Reform Law but subject to rules and regulations to be crafted by TIEZA.

This provision means that the lands will be exempt from the coverage of Section 4 of Article II of Republic Act 7279 (which states that the LGUs may identify all lands in urban and urbanizable areas, including existing areas for priority development, zonal improvement sites, slum improvement, and resettlement sites, and in other areas as suitable for socialized housing). However, most lands with high potential are not prezoned and titled, thus increasing the lengthy land acquisition and conversion process.

Foreigners are not allowed to own 100% of Philippine lands and certain businesses. In the case of tourism, they can lease land for 50 years, renewable for another 25 years (as stated in RA 9593). Under the Retail Trade Liberalization Act of 2000, up to 100% foreign equity participation in restaurants is allowed for enterprises with a paid-up capital of US$ 2.5 million or more. Foreign equity participation of up to 40% is allowed in the operation and management of utilities (i.e.

land, air, and water transport) including tourist transport operations. Executive Order No. 63 grants incentives to foreigners investing at least US$ 50,000 in a tourist-related project or in any tourist establishment.

There are two perspectives on this issue of allowing 100% foreign ownership of land and other businesses currently limited to Filipino nationals. There are stakeholders who expressed the view that foreign land ownership may be allowed but the size of land relative to the total land area of the country should be at the same level as other countries. It will be easier for the Philippines to attract foreign investment in tourism if 100% foreign ownership of land and certain businesses is allowed. On the other hand, 100% foreign ownership may not be a critical requirement for foreign investors, especially in LGU-based projects. The key is to pursue joint ventures and find a highly reputable partner who can expedite/facilitate investments (as in the case of Microtel and the Ayala projects). Joint venture (JVs) rules and regulations for government projects need to be reviewed in order to attract competitive players to tourism projects.

In the creation and operation of tourism economic zones under the Tourism Act of 2009, the rules and regulations for investors/locators must be simple, transparent, and consistent. They must be shielded from unnecessary interventions by LGUs. These rules must reflect the common or shared vision to promote tourism development as a vehicle for poverty reduction and sustainable development between the national and local governments and across all agencies. The investment climate will not improve if the vision is not supported by all agencies such as the DENR, DILG, DA, DAR, and the Land Registration Authority (LRA) that are critical in ensuring property rights protection for investors and local communities.

There are reforms that can be made that will increase the number of participants in the Philippine retirement program. These include clarifying land ownership, working privileges, visa categories, and building a network of retirement facilities and communities where foreigners of various cultural backgrounds are comfortable and cared for properly. Several foreign chambers of commerce have organized the International Chambers of Commerce Retirement & Healthcare Coalition (ICCRHC) to assist in the promotion or retirement and healthcare in the Philippines.[163] This group also focuses on standards, international accreditation and cooperation, human capacity building, and provides a seal of good housekeeping to protect the interests of foreign retirees and patients.

> "The current crisis has further highlighted that the Philippines is still a very small player (in tourism)…(and)…will continue to be the same small player even after the crisis in the absence of timely…and strategic responses to address the areas that have persistently contributed to low competitiveness in tourism. …Now is the time to remove the obstacles to mobility and to competitiveness."
>
> *CRC paper, August 2009*

163 Founding members are the American, European, Japanese, and Korean chambers.

Headline Recommendations	
1.	**Improve international connectivity** – eliminate the Common Carriers Tax and Gross Philippine Billings tax on foreign airlines (not practiced elsewhere); implement 24/7 operations in international airports and seaports; reform the CAAP.
2.	**Develop and implement national and destination masterplans** and protect property rights of investors and communities in line with the Tourism Act of 2009. **Promotional resources should be directed to key tourist regions with infrastructure** and direct international flights, including Cebu/Bohol, Clark/Subic, Davao, Laoag, and Cagayan de Oro.
3.	**Reduce costs of doing business and enhance mobility for travel and tourism enterprises and tourists** across the value chain (e.g. implement sustainable tourism taxation (national and local), streamline procedures, travel tax, customs and immigration, licensing, amend Sanitation Code).

Headline Recommendations	
1.	**Pursue negotiations of public insurance portability** for international medical travel and retirement; **promote transparency** of medical travel packages; **develop and implement a national policy** on wellness and medical travel.
2.	**Facilitate seamless travel of medical travelers and health professionals** (as part of exchange programs with overseas hospitals) by issuing longer medical tourism visas for patients and their companions and streamlining procedures.

Headline Recommendations	
1.	**Restrictions on foreigners should be liberalized in designated tourism and retirement zones** to allow foreign ownership of land and retail facilities and the practice of professions. Until the constitutional limit on foreign ownership of land can be reformed, joint ventures with reputable Philippine corporations as well as GRP agencies and LGUs should be encouraged; rules and regulations for JVs with the government should be reviewed accordingly.
2.	**Encourage co-investment by the Philippine Retirement Authority in infrastructure development** to support long-stay tourism and retirement programs.

Recommendations (34):

A. **Property rights should be facilitated for the new Tourism Enterprise Zones (TEZs)** that will be designated under the Tourism Act of 2009 through pre-zoning and titling of lands for tourism development.[164] Existing land titles within designated TEZs should be digitized at

[164] The MTPDP 2004-2010 states that to remove the barriers to investment and tourists, lands with high potential shall be prezoned and titled in order to reduce the lengthy land acquisition and conversion process, i.e. a land-banking program should also be undertaken.

LGU registry offices. These actions will help investors avoid otherwise lengthy process of land acquisition and conversion. (Immediate action DOT and LGUs)

B. **Restrictions on foreigners should be liberalized in designated tourism and retirement zones to allow foreign ownership of land and retail facilities and the practice of professions**, such as medicine and nursing. Until the constitutional limit on foreign ownership of land can be reformed, joint ventures with reputable Philippine corporations as well as GRP agencies and LGUs should be encouraged; the rules and regulations for JVs with government should be reviewed accordingly. (Immediate action DOT, DTI, PRC, and LGUs)

C. **Rules in the new TEZs should be consistent, simple, and stable and shielded from unnecessary intervention from LGUs**. All agencies must share the vision of tourism as a driver for job creation and poverty reduction. There should be **One Stop Shops in each TEZ** with all relevant government agencies represented, along the lines of the PEZA model, which works closely with the private sector to reduce the time and cost of doing business. (Immediate action DOT/TIEZA and concerned agencies)

D. **Reduce the time and cost of doing business for tourism enterprises**. There is a high risk of more long-haul carriers ending their Philippine service because high taxes and fees make their operations to the country barely profitable.[165] Tourism is one of the globally competitive industries being developed and promoted under the National Competitiveness Council, Tourism Act of 2009, and Medium-Term Philippine Development Plan in order to expand the Philippine's export market share, generate investment, foreign exchange receipts and jobs. Unfortunately, the current policy on taxes and charges on foreign airlines, that provide 50% of total incoming capacity per week, is not aligned with these visions and strategies. A number of amendments to laws will need to be passed to achieve this goal, including:

D1. Amend the National Internal Revenue Code of 1997 (RA 8424) to **eliminate the discriminatory Common Carriers Tax (CCT) and the Gross Philippine Billings (GPB)**[166] which are not imposed by other countries and contravene the principles of the International Civil Aviation Organization to which the Philippines is a signatory.[167] (Medium-term action DOT, DTI, DOF, BIR, and Congress)

---

165 The MTPDP 2004-2010 chapter on tourism states that charges/fees imposed on international carriers shall be rationalized to encourage them to mount additional flights.

166 Foreign airlines are subject to the 3% CCT and 2.5% (or 1.5% depending on the tax treaties) GPB, levied as a percentage of flown revenues from ticket, cargo and excess baggage carried ex-Manila up to the final destination regardless of the country of sale and/or issuance, i.e. the revenue associated with a ticket sold in Europe, returning to Europe, would be included in the basis for taxation. Previously restrictive aviation bilateral environments such as Japan and China are opening up in line with supporting infrastructure from markets in Europe and the US. China and Japan need to be overflown at expense to reach Manila which is less competitive. (Letter submitted by the BAR to the Export Development Council Networking Committee on Transport and Logistics July 2009).

167 It is highly likely that Philippine carriers will eventually be taxed similarly abroad, the impact of which would greatly impact their ability to offer current levels of air services. Tourists avoid the Philippines due to higher prices of tickets and packages and the lack of non-stop services from USA and Europe relative to Asian competitors. The government earns approximately PhP 3.2 billion (US$ 70 million) but the continued erosion of foreign and eventually Philippine carrier flights that support Philippine trade and economic growth will benefit the other Asian economies in terms of business and employment opportunities.

The IATA estimated that the removal of the CCT and the GPB would increase the number of international arrivals and departures in the Philippines by 230,000. This represents an increase of 1.9%. Removing the CCT and the GPB taxes would mean a potential gain of between US$ 38-78 million for the wider Philippine economy from increased tourism. Lower cargo transport costs could give a boost to export earnings in the order of US$ 1 billion.

D2. **Cease overtime CIQ charges to airlines** by declaring 24/7 operations at NAIA, requiring CIQ personnel to work shifts and be paid proper overtime from their departmental budgets.[168] Support exemption of CIQ personnel from the salary standardization law. (Immediate action DOT, BI, BOC, and Congress)

D2.1 **Amend the 2010 Immigration Act** to remove airlines and passengers from the enumeration of sources of overtime charges.[169] (Immediate and medium-term DOT, DOF, BOC, DOJ, DOH, and Congress)

D2.2 Amend the Tariff and Customs Code to **eliminate overtime charges to shippers** and other persons.[170] (Medium-term action DOT, DOF, BOC, and Congress)

D2.3 Amend the IRRs of the 2004 Quarantine Act to remove **overtime charges for Quarantine personnel**. (Immediate action DOT and DOH)

D3. Review the need for the **travel tax** as revenue for public sector tourism and ease the burden of travel tax collection and administration on airlines and travel agencies (Immediate action DOT)

D4. For the wellness sector, work at the DOH to **amend the Sanitation Code (PD 856)** so that spa owners are not required to send their **massage therapists** to DOH regional centers for monthly venereal disease check up. Amendments should also **include a correct definition of wellness spa** and massaging techniques. Currently wellness spas are classified as massage parlors and spa owners are required to allocate PhP 1,000 per month per therapist for transport and medical test. (Medium-term action DOH and Congress)

E. Increase the mobility of international business travelers/passengers/medical travelers and retirees by:

E1. Reviewing and **reducing the cost in time and money of bureaucratic immigration policies and procedures**. Foreign executives and staff based in the Philippines are

---

168 BAR has a pending case with the Court of Appeals on the payment of overtime charges, meals and transportation allowances to the Bureau of Customs personnel. The Court ruled that overtime pay was unconstitutional in its preliminary decision last year. While awaiting the Court's final decision, BAR has collaborated with CIQ agencies the implementation of a Memorandum of Agreement aimed at establishing an administrative mechanism for the collection of a Passenger Service Fee (PSF) that will be used to cover the CIQ overtime pay, meal, transportation allowances, and other charges currently collected from the airlines.

169 BAR submitted a position paper during the bicameral conference committee last February 2, 2010. The main arguments against the proposed Immigration Act of 2010 are: (1) passage was done without notifying the stakeholders, such as the BAR members, and therefore in violation of the right to full public disclosure and to be informed on matters of public concern, (2) violation of the constitutional guarantee of due process of law, (3) proposed legislation, particularly provisions authorizing the Immigration office to require airlines to pay overtime, does not have a valid governmental objective. The means employed to compensate the Immigration employees is totally unrelated to the services that airlines render and is therefore unduly oppressive on the aviation industry, (4) proposed legislation unjustly enriches the Immigration employees at the expense of the airlines, and (5) proposed legislation violates the equal protection of the laws for categorizing airlines as "persons served."

170 The Tariff and Customs Code does not explicitly enumerate airlines. The Customs Administrative Order No. 92 interpreted the phrase other persons served to include airlines.

required to pay fees for Special Return Certificate, Emigration Clearance Certificate, and Certificate of Exemption before each departure, head tax, legal research fees, special lane fees, etc. These same fees are also charged to family members. Such fees (about PhP 2,170 for each departure) and the time spent to secure clearance for travel are not conducive to placement of regional staff and their employment generating support teams.[171] (Immediate action BI)

E2. **Introduce long term stay visa for two new categories of foreign nationals**: foreigners undergoing lengthy medical treatment and foreigners who are potential retirees who have not yet decided on joining the retirement program.[172] (Immediate action DOT, DFA, BI)

F. **Develop the meetings, conventions and exhibits market** with improved air transport infrastructure and hotels by **promoting key tourist regions** with infrastructure and direct international flights, including Bicol, Cagayan de Oro, Cebu/Bohol, Clark/Subic, Davao, General Santos, Laoag, and Palawan. Road networks to and from tourism sites must be improved and expanded. Access to/from tourism economic zones must be part of the overall development plans of investors and LGUs. This will facilitate the movement of tourists within and outside of the TEZs. Such infrastructure is also crucial in linking neighboring communities with the TEZs to generate business partnerships between TEZ locators and local enterprises (e.g. catering, laundry services) and helps to reduce poverty. (Medium-term action DOT, DTI, DOTC, DPWH, and private sector)

G. **Reduce differential and discriminatory charges that are higher for tourists** than local residents by issuing ordinances to prevent exploitation of tourists and implementing accreditation rules under the Tourism Act.[173] (Immediate action TIEZA, LGUs, and private sector)

H. **Correct human resource competitive disadvantages** identified in the WEF TTCR in lack of local tourism research and training services, hiring and firing practices, and ease of hiring foreign labor.[174] (See recommendation E1) (Immediate and medium-term action TIEZA, PRC, DOLE, and private sector)

---

171 These procedures increase transaction costs (opportunity cost of time and funds) for investors in the Philippines. The strength of the Philippines in terms of quality of human resources is nullified by the costs of doing business and procedures. Some schools have explored the Asia-Pacific market for educational tourism. Others have positioned themselves as regional centers open to foreign students to generate export revenues. Enabling immigration rules and policies are critical in ensuring that these institutions deliver their commitments and services, especially if these schools are located in the provinces.

172 This is also an issue among APEC-member economies. The proposal is for the medical tourism visa to also cover the relatives of the patients. (Source: workshop proceedings of the February 9-10, 2010 APEC Trade in Health Services Workshop held at Shangri-la Mactan, Cebu.)

173 Tourists in general are viewed by some local destinations as lucrative and immediate sources of income. Foreign tourists usually end up paying more for the same activities/services enjoyed by local tourists. Exorbitant charges are imposed on high yield activities such as diving.

174 There is a need to develop a network of academic and research institutions that will support the research agenda of the DOT and respond to the needs of local communities. At the same time, this network will foster long term human capital development. Successful tourism destinations are strongly anchored to such national tourism research networks.

I. **Increase efforts to meet the manpower demand of hotels and restaurants**.[175] Encourage more training providers and more dual training, apprenticeship, and on-the-job training. Promote worker certification in food and beverage safety. **Make local examination standards for massage therapists appropriate to high school graduates**, rather than for medical schools as is the current practice.[176] (Immediate action TESDA, DOLE, DOH, and LGUs)

J. Provide technical and marketing **training for LGU tourism officers** who are required under the Tourism Act to meet certain criteria. **Improve services of tourism workers**, especially guides, in local destinations. (Medium-term action DOT, LGUs, and private sector)

K. **Improve quality of data on tourism sector**, especially at the LGU level, by hiring qualified personnel and implementing sustained training for data collection, analysis, utilization, and dissemination. (Immediate action TIEZA, DOT, LGUs, and private sector)

L. **Improve sanitation and waste management in local communities**, especially at world heritage natural and cultural sites. LGUs should lead in environmental protection by issuing and enforcing local protective ordinances. (Medium-term action TIEZA and LGUs)

M. Encourage the Professional Regulation Commission (PRC) and Philippine health sector professionals to **allow more foreign dentists, doctors, medical technologists, nursing, optometrists, physical therapists, and teachers to practice their professions** in the Philippines, in line with but not limited to the reciprocity provisions of RA 9484, RA 5527 (as amended), RA 2382 (as amended), RA 7164, RA 5680 and RA 7836. (Immediate action PRC and private sector)

N. Improve the transparency of medical tourism packages by **unbundling and standardizing hospital and doctor fees**. In competing providers India, Malaysia, Singapore, and Thailand foreign patients can easily access published information, which they cannot do in the Philippines, where they often "negotiate" physician fees. Create a quality management system that involves both hospital and physician services. (Immediate action private sector)

O. **Increase availability and capacity of hospital services** for medical tourism through incentives and investment promotion.[177] (Medium-term action private sector)

---

175 The Philippines needs competent manpower to meet demand both in the Philippines and abroad. In 2006 Technical Education and Skills Development Authority (TESDA) estimated a gap of about 150,000 workers in hospitality services (bartending, cooking, front desk services, housekeeping, room attendant, and waitering). In 2007 the Hotel and Restaurant Association of the Philippines (HRAP) reported only about 8% of graduates in hotel and restaurant management courses are fully qualified without retraining (NCC Meeting on Human Resources at Dusit Hotel, Makati).

176 The minimum requirement for hiring therapists is a high school diploma. Stakeholders revealed that high school graduates make very good and credible therapists, sometimes better compared to licensed physical and occupational therapists. In the countryside where destination spas are being developed and promoted, the more sustainable source of manpower is this pool of high school graduates, mostly from less privileged families who lack resources for college studies but have the attitude, heart, and motivation to become competent in their work as massage therapists.

177 Hospitals especially in Metro Manila have expanded capacity and built centers of excellence that also cater to international patients. These projects have been entitled to incentives under the BOI and PEZA even before the passage of the Tourism Act of 2009. There is a separate section on health and wellness in the BOI Investments Priorities Plan. The more crucial work is investment promotion, given the presence of incentives. Issues such as social equity impact and internal migration (from public to private facilities) have been raised in relation to the development and promotion of medical tourism in the country.

P. **Improve modern technology-driven documentation systems in hospitals** serving medical tourists, including centralizing patient information for sharing by various hospitals and doctors.[178] (Medium-term action private sector)

Q. A system of **accreditation of tourist, medical travel, and wellness facilities (both physical and human resources) should be developed** under the Tourism Act. In the past accreditation has been voluntary, but in the future will be mandatory for primary tourism enterprises. The Philippine Council on the Accreditation of Healthcare Organizations (PCAHO) and international accreditation should be used for medical facilities. The private sector should be involved in monitoring compliance. The capabilities of LGUs, which also issue permits and licenses, should be strengthened. (Medium-term action TIEZA, DOH, LGUs, and private sector)

R. **Non-controversial medical procedures should be promoted** (health screening, executive check-ups, eye care, dental treatment, aesthetic, reconstructive, and other surgeries, cancer treatment, and the like) to overcome the image of the Philippines as a primary destination for organ transplantation.[179] (Immediate action DOH, DOT, and private sector)

S. **Pursue negotiations of public insurance portability**, lack of which is a major barrier to international medical travel and retirement. (Long-term action DFA, DOH, NEDA, and private sector)

T. **Encourage partnerships between Philippine hospitals and leading hospitals** in target medical travel markets. Partnerships should involve joint research, exchange of doctors and nurses and, eventually, patients.[180] Immigration rules should facilitate exchanges. (Immediate action BOI and private sector)

U. **Develop Philippines as regional medical center of excellence** with research, tele-health, and health sciences education. (Medium-term action TIEZA, DOH, and private sector)

---

178 Accreditation requires resources and most hospitals are not ready for international accreditation. However, hospitals can improve their standards and services for patient care and safety by investing (in human and financial resources) in proper documentation and measurement of systems. This hospital-based initiative is important to provide legal protection to the practitioners and institutions and facilitate collection system from health maintenance organizations (HMOs).

179 On the other hand, there are fears that the Philippine medical schools will produce more graduates who will specialize only in these fields since they are being promoted and "commercialized."

180 Countries such as the United States, Singapore, and Australia have strongly positioned themselves as centers for medical and health sciences education. Their experiences have shown that exchange programs (for students and post-graduate training) can stimulate investments into the country, help transfer expertise with the entry of foreign medical professionals in critical areas of specialization or for educational and research purposes, provide opportunities for the local institutions to engage in tele-education and medical research outsourcing, and later attract foreign patients to the affiliated local hospitals and clinics.

Singapore, Malaysia, and Thailand are strongly linking the development of their healthcare brand with education and research. They have seen this opportunity as a way to establish critical mass of doctors needed to support their local healthcare systems, health tourism, and retirement programs. Some Philippine hospitals have already pursued institutional arrangements with foreign counterparts to make the stint abroad of Filipino health professionals a part of their professional development. They go abroad, get trained, and can come back to the local hospital.

V. **Develop commercially viable local wellness products** for tourism enterprises and export.[181] (Medium-term action TIEZA, DTI, DOST, and private sector)

W. **Develop horizontal condominium projects** where foreign retirees can own residences. (Immediate action private sector)

X. **Develop assisted-living facilities for retirees to meet international standards**. Current programs focus on independent living retirees. (Immediate action DOT/PRA and private sector)

Y. **Develop integrated retirement facilities that meet international standards**. Current facilities cannot compete with retirement villages in competing countries. (Immediate action DOT/PRA and private sector)

Tourism, Medical Travel, and Retirement FGD Participants, Moderator and Secretariat Members

September 23, 2009
Joint Foreign Chambers of the Philippines
FOCUS GROUP DISCUSSION ON TOURISM, MEDICAL TRAVEL, AND RETIREMENT

[181] The Philippines has relatively abundant natural resources that can be explored to develop the products and services used in spas and in complementary and alternative medicine. The industry needs assistance in developing, packaging, and commercializing these products. The virgin coconut oil is already being used in most spas. 60% of oils used are locally sourced. 40% of oils are imported, particularly, aromatherapy oils, scents, and other essences from countries like Australia. The Philippines does not have steady supply of scented oils such as the ylang-ylang and peppermint scents. One recommendation is for the DOST to become more involved in addressing the backward linkage requirements of the wellness sector in order to also help reduce poverty in provinces with abundant supply of these resources.

PART 4

GENERAL BUSINESS ENVIRONMENT

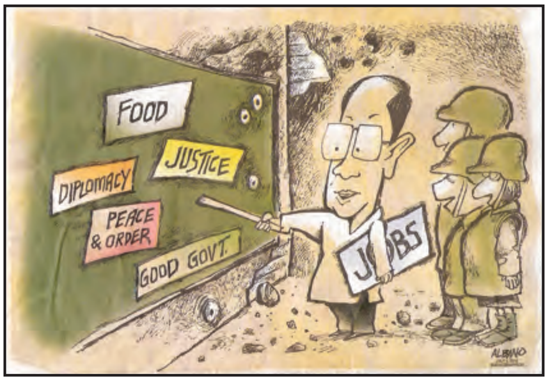
Business Costs
Environment and Natural Disasters
Foreign Equity and Professionals
Governance
Judicial
Labor
Legislation
Local Government
Macroeconomic Policy (Fiscal, Markets, Trade)
Security
Social Services: Poverty
- Education
- Health and Population

Introduction

The final section of the *Arangkada Philippines 2010* discusses a group of challenges the Philippines faces that are not otherwise discussed in the other sections and makes recommendations accordingly. Most of these issues have been discussed in public in recent years, some from the JFC, but many others from Philippine business groups, several of the Philippine Development Forum Technical Working Groups (PDF-TWGs), the National Competitiveness Council (NCC), and other policy advocates.

These issues complete the picture of the Philippine investment climate and include many of the problems which are highest on lists of concerns in investor surveys, including corruption, laws, judicial decisions, local government actions, and others.

Figure 138: Key problems need to be addressed to generate jobs



Business Mirror, July 1, 2010

Implementation of recommendations suggested in Part 4, done in parallel with Part 3, will improve the Philippine rankings in the global competitiveness surveys described in Part 2.

Implementation of recommendations will also greatly contribute to achieving the recommended targets in Part 1 of doubling GDP growth to 9%, exports to US$ 100 billion, FDI to US$ 7 billion and reducing unemployment and underemployment, giving Filipinos more options to working at home rather than abroad.

Table 56: Number of recommendations in Part 4 of Roadmap 2010

Issue	Number
Business Costs	16
Environment and Natural Disasters	14
Foreign Equity and Professionals	12
Governance	16
Judicial	12
Labor	9
Legislation	13
Local Government	16
Macroeconomic Policy (Fiscal, Markets, Trade)	29
Security	15
Social Services: Poverty	4
- Education	12
- Health and Population	9
TOTAL	177

Business Costs


The Philippines measures poorly in most competitive comparisons with the ASEAN-6 economies (see *Part 2 Becoming More Competitive*), and business costs are an important factor underlying these rankings. The following discusses areas where the country has relatively high business costs, as well as some cost factors where the country is more competitive.

Business operating costs are an important part of Philippine national competitiveness and are constantly being evaluated by investors in deciding where to locate, expand, or close business operations. Cost factors affect the calculations of both domestic and foreign investors, although foreign investors usually scan a broader international horizon when making investment decisions.

Export firms may find it difficult to maintain overseas markets vis-à-vis competitors in other countries if their production and logistic costs rise too much. Peso appreciation can make all costs (except imported inputs) more expensive to foreign customers, while the converse occurs with peso depreciation. Foreign investors may choose to invest or disinvest in a country based on relative business costs, including international transportation.

Business location decisions also include considerations other than operating costs, such as local market size, regulatory, and political risk. In the late 1980s, new investors bypassed the Philippines because of perceived political instability. However, in mid-2010 the Philippines was perceived as more stable politically than Thailand, following violent demonstrations by government opponents in Bangkok. Currently, a "China Plus One" strategy is being followed by multinationals manufacturing in China seeking a second investment location in Asia. Rising labor activism in China is pushing multinationals to look increasingly outside China.

> "…manufacturing in China is about to get far more expensive. Soaring labor costs caused by worker shortages and unrest, a strengthening Chinese currency that makes exports more expensive and inflation and rising housing costs are all threatening to increase sharply the cost of making devices like notebook computers, digital cameras, and smartphones. Desperate factory owners are already shifting production away from the dominant Chinese electronics manufacturing center in Shenzen toward lower-cost regions far to the west, even deep in China's mountainous interior."
>
> *David Barboza, In iPhone's Path, a Map of China Labor Patterns, International Herald Tribune, July 7, 2010*

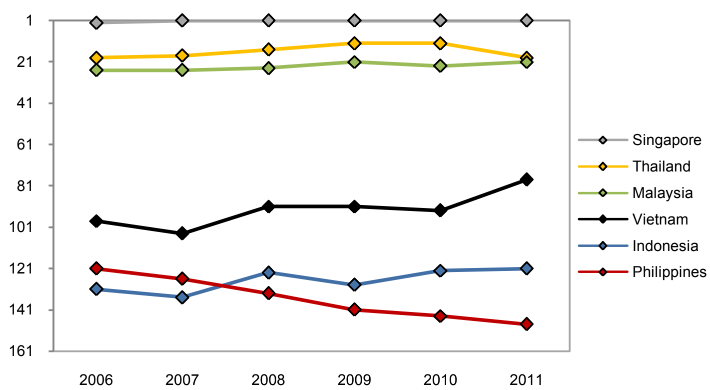
Another example of non-cost considerations is the impetus for BPO outsourcing firms to locate in both India and the Philippines, created when large US firms began to require bidders for their outsourcing contracts to have operations in at least two separate countries.

Business costs vary considerably by industry. For example, in semiconductor assembly, the cost of machinery, materials, and power make up most of the price of the final product while labor cost is less important. By contrast, call centers have low capital costs, but labor and telecommunication costs are critical country selection criteria. The low-margin garment industry shifts quickly to locate factories in economies with low-cost labor.

This Roadmap does not provide a comprehensive comparison of business costs in the Philippines and its regional competitors.[182] Instead, we discuss several major costs which harm national competitiveness and advocate that (a) the highest level of government be conscious of competitive business costs and (b) maintaining and improving cost competitiveness be an important public sector priority because of its close relationship to employment creation.

Since 2006 the World Bank Group's International Finance Corporation (IFC) has ranked economies on factors related to the ease of doing business. Of the ASEAN-6, the Philippines was the lowest ranked for 3 of the 5 surveys (see Figure 139). The high rankings in 2010 of Singapore (1), Thailand (19), and Malaysia (21), sharply contrast with the poorer performers Vietnam (78), Indonesia (121), and the Philippines (148). The survey could offer motivation for Philippine government leaders to review and reform processes for interacting with businesses, especially those related to permits and licenses, which present opportunities for corruption (see Figure 139 for percentile rankings).

Figure 139: Ease of doing business rankings, ASEAN-6, 2006-2011



Source: World Bank; Total number of countries evaluated: 2006-175, 2007-175, 2008-183, 2009-183, 2010-183

The National Competitiveness Council (NCC) established in October 2006 and co-chaired by the DTI Secretary and a former DTI Secretary – both veterans of business sector careers – has

182 The Japan External Trade Organization (JETRO) periodically issues reports on comparative business costs in Asia.

endeavored to identify and reduce business costs, including red tape and shipping fees, but with mixed success.[183] One of the drawbacks facing the NCC has been limited resources (from both the public and private sectors) and a lack of authority to direct government agencies to take actions to improve competitiveness. A review of the structure and mandate of the NCC would be appropriate at the beginning of the new presidential administration.[184]

In addition, an Anti-Red Tape Task Force (ARTTF) chaired by the DTI, was organized in 2006. The ARTTF held a series of interagency meetings focusing on 10 "worst" red tape processes identified in a survey of the American Chamber of Commerce (AmCham) but with limited success in reforming bureaucratic behavior. The ARTTF has worked closely with the WB/IFC to improve the low ranking of the Philippines in the "Ease of Doing Business" survey.

In 2007 the Anti-Red Tape Act (RA 9485) was enacted, adopting the concept of a Citizen's Charter for the public to be informed of regulations and to receive prompt service from government offices. As the IRRs were promulgated through Civil Service Commission Resolution No. 081471 only on July 24, 2009, there has been insufficient time to judge the law's effectiveness in reforming the bureaucratic culture that has contributed to repeated low competitiveness rankings. An AmCham membership survey in 2009 asked members if they were aware of the Anti-Red Tape Act; most respondents answered in the negative, indicating a need for more publicity to inform the business community about the law.

The following data examines several types of business costs in selected Asian countries, including daily minimum wages, paid holidays, office rental costs, electricity prices, telecommunications expenses, transportation costs, red tape, and expatriate living expenses.

- **Minimum wages**

Most multinational investors in the Philippines pay above the minimum wage. More advanced industries, such as electronics firms, pay entry level and legacy workers considerably more than the minimum wage. The fast-growing business process outsourcing industry pays several times the minimum for new hires but rejects around 90% of applicants. Demand from new entrants is often so high that pirating of workers has become an industry issue. For such industries, market forces set wage rates.

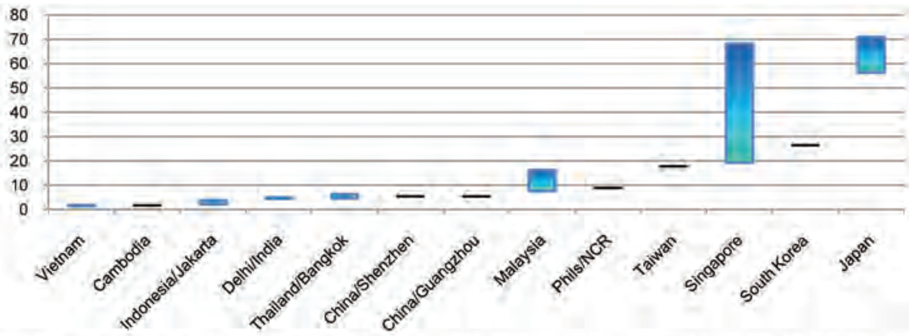
But for a large part of the workforce and many export firms the minimum wage is a critical business cost. **Minimum wages in the Philippines – while low by developed country standards – have steadily risen to become much higher than regional competitor economies, including Cambodia, China, India, Indonesia, Thailand, and Vietnam** (see Figure 140 and Table 57). Most ASEAN governments, including the Philippines, have minimum wage policies. Three

183 The NCC was organized following deterioration of the international competitiveness rankings of the Philippines into the lower third of economies; its announced but unrealized goal has been to raise the country's rankings to the top third.

184 The NCC has recommended creation of a Presidential Council on Governance and Competitiveness chaired by the Executive Secretary (public sector) with a private sector co-chair. National Competitive Council Performance Report, mid-2010.

exceptions where market forces determine minimum wages are Singapore,[185] Malaysia,[186] and Hong Kong.[187]

Figure 140: Daily minimum wage range, selected Asian countries, 2010, US$



Sources: BLES-DOLE; As of August 2010 and related news reports; Note: Singapore does not have a legislated minimum wage. The figure here pertains to the lowest range of existing agreed wage levels as wages are decided arbitrarily by the parties involved; Malaysia, on the other hand, has statutory minimum wage only in some sectors, leaving wage determination to market forces in other segments of the economy.

Table 57: Comparative wages, selected countries, US$ per day

Country/City	Daily min wage, US$	
	Min	Max
Vietnam	1.39	1.74
Cambodia	1.67	1.67
Indonesia/Jakarta	2.00	3.73
Thailand/Bangkok	4.55	6.24
Delhi/India	4.45	4.93
China/Shenzhen	5.37	5.37
China/Guangzhou	5.43	5.43
Malaysia	7.56	16.20
Philippines/NCR	8.80	8.80
Taiwan	17.96	17.96
Singapore	19.23	68.15
South Korea	26.53	26.53
Japan	56.31	70.82

Sources: NWPC; As of August 2010 and related news reports, www.qppstudio.net, AmCham offices and respective national agencies
Note: Singapore does not have a legislated minimum wage. Malaysia has statutory minimum wage only in some sectors.

Formerly, the Philippine minimum wage was legislated or issued by presidential decree. Since enactment of the Wage Rationalization Act (RA 6727) in 1990, the current system of minimum

185 "There is no minimum wage/salary in Singapore. Salary is subject to negotiation and mutual agreement between an employer and an employee or the trade union representing the employees." Singapore Ministry of Manpower website, July 2, 2010.

186 Malaysia has statutory minimum wages for several trades, but in 2010 the national government rejected a parliamentary proposal to establish a national minimum wage.

187 Hong Kong in July 2010 decided to establish a minimum wage for the first time. Press reports stated the new minimum wage will be set between US$3 and US$ 4 an hour.

wage setting following tripartite consultations among representatives of government, labor, and management appointed to the Regional Tripartite Wages and Productivity Boards in each region has been followed.

The minimum wage was raised in 1990 and almost every year since to its current mid-2010 level of PhP 404 in the National Capital Region.[188] Raises in the other regions will follow.

The minimum wage "seeks to provide the income required by a family of six to meet its basic food and non-food requirements and savings for social security."[189] This definition makes it almost inevitable that the minimum wage will be higher than in competing regional economies, where families are smaller and often have more than one adult member with full-time employment.

In addition, the price of rice and other food in China, Thailand, and Vietnam is lower than in the Philippines. The Philippine worker must earn more than his regional counterpart to feed a larger family, with less help from income earned by other employed family members.

Over the last two decades, the Filipino worker has faced rising living costs. Figure 141 shows Consumer Price Index (CPI), minimum wage, and productivity index. While the average national minimum wage rose by 279% during the last 20 years in nominal terms, prices more than tripled (up 256%) between 1990 and 2009. Food (50% of CPI) rose 225%. Clothing (3% of CPI) rose 168%. Housing (17% of CPI) rose 325%. Fuel, light, and water (7% of CPI) rose 306%. Services (16% of CPI) rose 404%. Minimum wage, when measured in real terms, has closely tracked productivity.

"The National Wages and Productivity Commission (NWPC) is reviewing existing wage-fixing mechanisms. (Labor Secretary) Baldoz has ordered the commission to come up with guidelines in implementing a two-tier wage-fixing system. Under the system, the minimum wage, considered a floor wage, is added to performance-based wage increases and bonuses.

"The idea is to determine additional wage increases on top of a new minimum wage that will keep body and soul together, which will be in the form of incentives, profit sharing, bonuses… on the basis of productivity and company viability," Baldoz said.

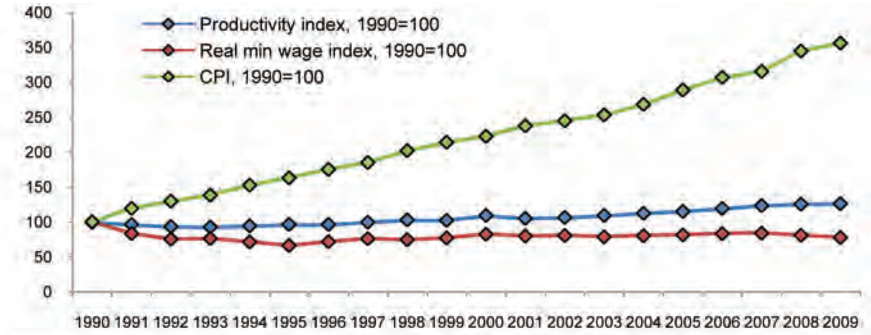
Baldoz said the current system discourages foreign investors from hiring Filipino workers. "Compared to other countries…Filipinos are no longer competitive in terms of wages. **Our minimum wage is too high compared to other countries," Baldoz said.**

Philippine Star, July 12, 2010

188 An increase of PhP 22 in the non-agricultural minimum wage in the NCR became effective July 1, 2010, raising this wage from PhP 382 to PhP 404 or almost US$ 8.80.

189 NWPC presentation during an AmCham symposium at AIM, June 9, 2010

Figure 141: Productivity, real minimum wage, and CPI, 1990-2009



Sources: The Conference Board, NWPC, BLES-DOLE, BSP, NSCB and authors' calculations; Productivity is defined as GDP at constant prices per person employed; Minimum wage used was the mid point of upper and lower limits of non-agriculture minimum wage range (NWPC).

If wages, adjusted for inflation, have maintained a strong correlation with productivity, then other factors may be responsible for the relatively higher minimum wage in the Philippines. Inefficiencies in the economy increase prices of domestic goods (e.g. electricity, rice, and transportation), and the high population growth rate and absence of an effective population management policy create an environment that challenges the ability of Filipino workers to earn enough to support their often-large families. Unfortunately, the market forces of international competitiveness do not take such local factors into account. Other policies than regular increases in minimum wages could be considered to support the lowest-paid workers, such as conditional cash transfers, food stamps, and exemption from income taxes.[190]

The process for setting the minimum wage by the National Wages and Productivity Commission includes a provision for the exemption of "distressed establishments" to provide temporary relief to such firms in order to preserve jobs. A financially distressed firm may avail of the exemption, but only for one year. If this policy was liberalized for specific export industries – such as footwear and garments – it might be possible to end the gradual disappearance of these industries and restore hundreds of thousands of jobs lost over the past decade.

An alternative could be to allow compensation in such distressed export industries on the basis of piecework. Under this model, motivated workers would increase their productivity and could often earn more than the daily minimum wage. However, should new policies such as these be adopted, they should not be short-term. Investors need longer-term horizons in order to invest with confidence.

Labor-intensive export industries, such as footwear and garment manufacturing, have moved out of the Philippines during the last decade for lower production cost economies, such as Bangladesh, Cambodia, China, Indonesia, and Vietnam. As discussed in Part 3 *Manufacturing and Logistics*, the garment export industry in the Philippines has lost nearly 200,000 jobs in the last decade and hundreds of factories have closed, following the end of the garments export quota system.

190 Since July 2008, the income of minimum wage earners is exempted from income tax.

- **Holidays**

> "Too many holidays make the country less competitive."
>
> *President Benigno Aquino III, Philippine Star, August 8, 2010*

Countries celebrate important cultural, historical, and religious days that occur on working days as paid holidays. The Philippines has quite a few more than its competitors, imposing added costs of doing business and reducing national competitiveness.

The Philippines has national and local holidays, which are variously designated as "working" or "non-working" and "regular" and "special."[191] The "non-working" category increases business costs and affects national competitiveness when its number exceeds competing economies with fewer paid holidays. Every paid non-working holiday means the employer has to pay a salaried employee for a day his working services are not rendered. And if his services are required on the holiday, the employee must be paid a substantial premium of 100%.

Every paid holiday goes to the bottom line of the balance sheet and, like minimum wages, can pressure firms that operate on low profit margins to reduce their workforce, close, or move into the underground economy, especially for SMEs.

In recent years, more special non-working days were created by legislation and proclamation. The government rarely consults business stakeholders, although each holiday adds tens of millions of dollars to their payrolls.[192] Sometimes non-working days are declared by the national government on very short notice, disrupting schedules and adding unexpected and therefore unbudgeted sums to corporate budgets.

Table 58 and Figure 142 summarize the history since 1987 of paid holidays in the country. Former President Corazon Aquino by executive order in 1987 rationalized Regular Holidays at 10 and Special Non-Working Days at 2. Additional paid holidays in each category were created in 2002, 2008, and 2009, and several non-recurring non-working holidays were declared for the internment of a former president and a religious leader, for national elections, the inauguration of the new president, Nationwide barangay and Sangguniang Kabataan elections and other purposes.

---

191 Some Philippine cities have an annual non-working holiday, e.g. Manila Day (June 24), while others do not require businesses to close on their local holiday, e.g. Makati Day. The first proclamations under the Aquino Administration (no.1, 2, 3, and 4) signed by Executive Secretary Ochoa on July 7 declared special non-working holidays in Isabela City, Basilan for the town fiesta (July 8), for the anniversary of the founding of the Cordillera region (July 15), for the golden jubilee of the city charter of Gingoog, Misamis Oriental (July 23), and the anniversary of the foundation of Batangas City (July 23).

192 In one case, two industry associations, whose members employ nearly one million Filipinos, became aware of the imminent presidential proclamation of a paid holiday for the funeral of the leader of a religious sect to whom the former president seemed indebted for political support. They separately protested to the Trade Secretary, who intervened at Malacañang to exempt their sectors from the holiday, thus assisting the competitiveness of these firms but not others, who would have requested similar treatment had they been consulted.

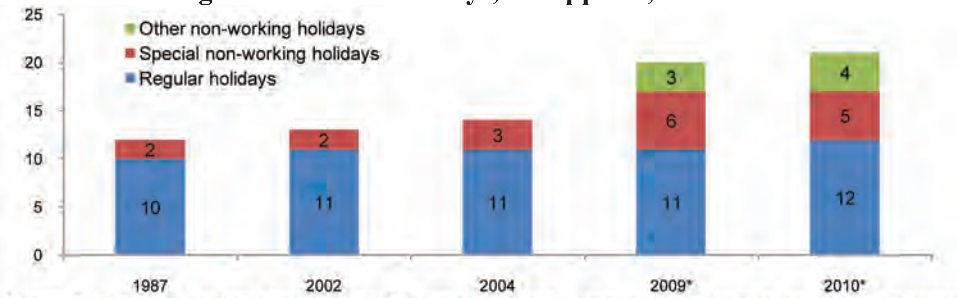
Table 58: Paid holidays, Philippines

HOLIDAY	1987	2009	2010	Legal Basis
REGULAR HOLIDAYS				
New Year's Day	Jan 1	Jan 1	Jan 1	EO 203 (Jun 30, 1987)[193]
Maundy Thursday	Apr 16	Apr 9	Apr 1	EO 203 (Jun 30, 1987)
Good Friday	Apr 17	Apr 10	Apr 2	EO 203 (Jun 30, 1987)
Araw ng Kagitingan	Apr 9	Apr 6	Apr 9	EO 203 (Jun 30, 1987)
Labor Day	May 1	May 1	May1	EO 203 (Jun 30, 1987)
Independence Day	Jun 12	Jun 12	Jun 14	EO 203 (Jun 30, 1987)
National Heroes Day	Aug 30	Aug 31	Aug 30	EO 203 (Jun 30, 1987)
Bonifacio Day	Nov 30	Nov 30	Nov 29	EO 203 (Jun 30, 1987)
Christmas Day	Dec 25	Dec 25	Dec 25	EO 203 (Jun 30, 1987)
Rizal Day	Dec 30	Dec 30	Dec 27	EO 203 (Jun 30, 1987)
Eid'l Fitr		Sept 21	Sep 10	RA 9177 (Nov 13, 2002)
Eid'l Adha			Nov 16	RA 9849 (Dec. 11, 2009)
SPECIAL NON-WORKING DAYS				
All Saints Day	Nov 1	Nov 1	Nov 1	EO 203 (Jun 30, 1987)
Last Day of the Year	Dec 31	Dec 31	Dec 31	EO 203 (Jun 30, 1987)
Ninoy Aquino Day		Aug 21	Aug 21	RA 9256 (Feb 25 2004)
All Souls Day		Nov 2		Proc. No. 1699 (Dec 24, 2008)
Black Saturday		Apr 11	Apr 3	Proc. No. 1752 (Apr 08 2009); Proc. No. 2029 (Mar 24, 2010)
Christmas Eve		Dec 24	Dec 24	Proc. No. 1699 (Dec 24, 2008); Proc. No. 1841 (Jul 21, 2009)
OTHER NON-WORKING DAYS				
Honoring Corazon C. Aquino		Aug 5		Proc. No. 1851 (Aug 1, 2009)
Internment of Erano G. Manalo		Sep 7		Proc. No. 1874-B[194] (Sept 5, 2009)
National and Local Elections			May 10	Proc. No. 2020 (Mar 1, 2010)
15th President Inauguration Rites			Jun 30	Proc. No. 2085 (Jun 16, 2010)
Nationwide barangay and Sangguniang Kabataan elections			Oct 25	Proc. No. 48 (Oct 6, 2010)
LOCAL NON-WORKING DAYS				
Varies by locality	1	1	1	Various proclamations
TOTAL	**13**	**20**	**21**	

193 Also see Executive Order 292, "Administrative Code of 1987", Book 1, Chapter 7, Section 26

194 The BPO and electronics sectors were exempted from this non-working holiday.

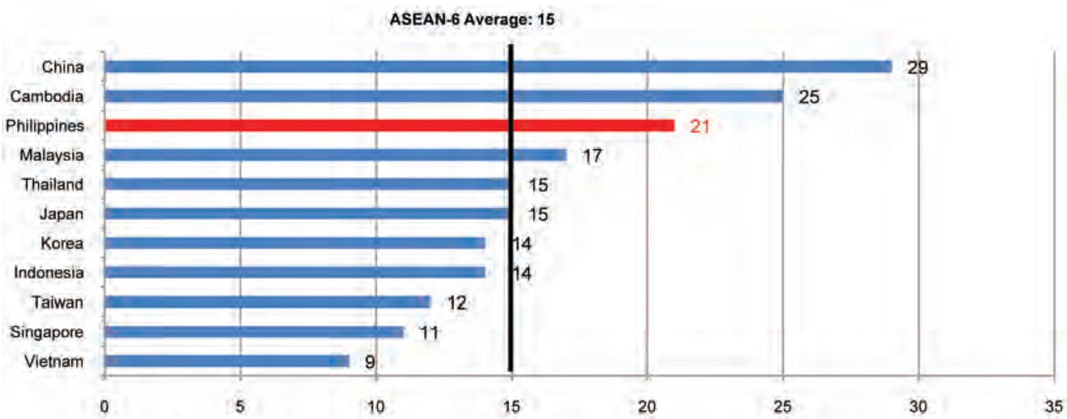
Figure 142: Paid holidays, Philippines, 1987-2010



Source: RAs, EOs and holiday proclamations. The authors adjusted the number of holidays to include non-recurring holidays / sudden holiday declarations and 1 local holiday.

A recent study (see Annex 2) shows that the Philippines will have the highest number of non-working holidays among the ASEAN-6 economies in 2010 (see Figure 143).[195] From this data it is clear that investors in the Philippines bear a heavier cost for labor than in countries with fewer paid holidays and comparable wages. At the two extremes, Vietnam has only nine paid holidays, while firms in the Philippines are expected to have as many as 21 paid holidays in 2010, counting Regular Holidays, Special Non-Working Days, and one local Non-Working Day. The average annual number of paid days off for the ASEAN-6 was 15 days, which the Philippines exceeded by 6 days.

Figure 143: National and special non-working paid holidays per year, selected Asian countries, 2010



Source: AmCham offices
Note: In China workers are required to make up some of the holiday days off beffore or after the holiday. According to a government-mandated holiday schedule that took effect in 2008, workers were given 3 consecutive days off for the Mid-Autumn Festival, but they were required to make up two of those by working the Saturday and Sunday on either end of the holiday. This give-and-take arrangement is repeated for the National Day holiday, with employees enjoying seven straight days off except only three of those are official free days. The other four days will be made up over the weekends before and after. (China's Mandatory Vacation With a Catch, International Herald Tribune, October 1, 2010)

[195] The study was conducted by a student of the College of Saint Benilde at De la Salle University during his internship at AmCham in 2010.

Congressional proposals for new holidays continue (see Table 59). In the 14th Congress, at least 19 bills to create new holidays were introduced but not enacted into law. Eight of these were for non-working holidays. The creation in recent years of new holidays and proposals for more has created a worrisome competitiveness issue for the economy. It may be difficult for the government to reduce the number of holidays. Just as the frequent declaration of holidays by the former president may have been intended to increase her low popularity ratings, the incoming administration may not be willing to take the unpopular step of reducing the number of paid holidays, although such a reform would improve competitiveness and contribute to creating more jobs. A final argument in favor of fewer holidays is the burden too many holidays place on SMEs, which often have less resources than large firms to meet additional payroll expenses created by more holidays (as well as ever increasing minimum wages) and may be forced into the informal economy.

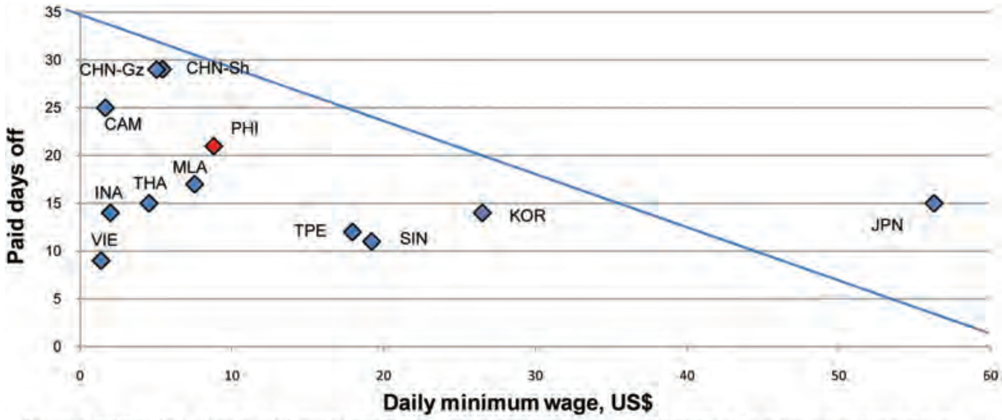
Table 59: 14th Congress, pending bills to create new holidays

No	Bill	Proposal	Status
		Non-working holidays (8)	
1	HB 1127	February 4, Fil Am War Heroes	P2R
2	HB 1703	September 1, Filipino Family Day	PIC
3	HB 5408	June 19, National Hero's Day	A3R
4	HB 547	November 22, National Children's Day	PIC
5	HB 5881/SB 3569	Chinese New Year	A3R/PIC
6	HB 6438/SB 3284	April 27, Lapu-Lapu Day	PIC/A3R
7	HB 6647	January 25, Cory Aquino Day	PIC
8	HB 6653	1st Monday of August, Cory and Ninoy Day	PIC
		Working Holidays (8)	
1	HB 1725	January 22, National Farmers Day	A2R
2	HB 2543	September 19, Leandro Alejandro Day	P2R
3	HB 2618	September 21, Martial Law Heroes and Martyrs	P2R
4	HB 2641	January 23, 1st Philippine Republic	A3R
5	HB 7063/SB 3485	October 4, National Pet Day	PIC/PIC
6	SB 3569	Chinese New Year	PIC
7	SB 2886	March 1, Farmers and Fisherfolks Day	PIC
8	SB 2956	December 10, Human Rights Day	PIC

Abbreviations: HB – House Bill; SB - Senate Bill; PIC - Pending in Committee; P2R - Pending 2nd reading; A2R - Approved on 2nd reading; A3R - Approved on 3rd Reading

Philippine competitiveness is adversely affected when **the country has both more non-working holidays and a higher minimum wage than its competitors**. The scatter diagram (Figure 144) shows that the Philippines is competitively disadvantaged by exactly such a situation. By this measure, the Philippines is not among the five most competitive countries, which are clustered nearest the intersection of the two axis of the figure.

Figure 144: Daily minimum wage and paid non-working holidays, Selected Asian countries, 2010



Sources: NWPC; As of August 2010 and related news reports, www.qppstudio.net, AmCham offices and respective national agencies ; Note: Singapore does not have a legislated minimum wage. Malaysia has statutory minimum wage only in some sectors

The following hypothetical calculation (Table 60) is the kind that could be made by a multinational firm comparing the Philippines with Thailand and Vietnam for a factory employing 5,000 workers. The table shows that the higher minimum wage and the higher number of holidays in the Philippines would add significantly to annual operating costs and could discourage the firm from further consideration of an investment in the Philippines, especially if profit margins are low.

Table 60: Holiday payroll comparison, Philippines, Thailand, Vietnam, 2010

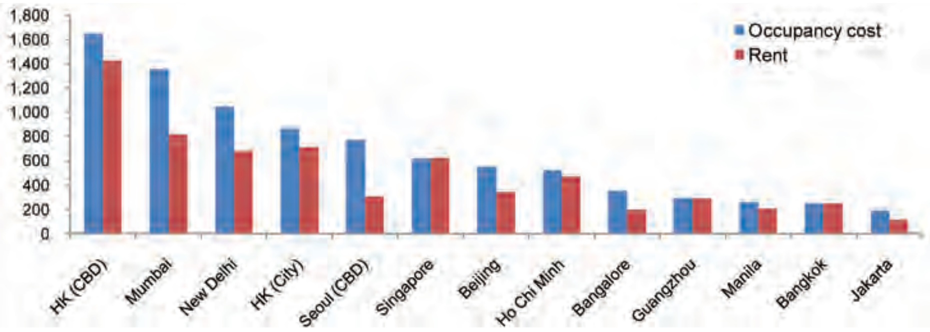
Country	No of holidays (p.a.)	Minimum wage (US$)[196]	Holiday payroll (1 worker)	No of workers	Total holiday payroll (US$)
Philippines	21	8.80	184.80	5,000	924,000
Thailand	15	6.24	93.60	5,000	468,000
Vietnam	9	1.74	15.66	5,000	78,300
difference (RP > Thai)					456,000
difference (RP> VN)					845,700

- **Office rental costs**

Renting office space in Manila is a relative bargain, according to the latest data from the CB Richard Ellis publication Global Office Rents, May 2010. Rentals in Manila (US$ 24.38 per square foot) are higher than in Jakarta (US$ 17.89), similar to Bangkok (US$ 23.54) and Guangzhou (US$ 27.50), and less than Bangalore (US$ 33.28), Ho Chi Minh City (US$ 48.56), and Taipei (US$ 45.09). Rents in Singapore (US$ 57.49), Shanghai (US$ 60.14), Seoul (US$ 71.82), Hong Kong (US$ 80.27), are two to three times higher than Manila, while Tokyo (US$ 143.99) is six times more (see Figure 145).

196 Higher range of minimum wage used in calculations.

Figure 145: Office rents and occupancy costs, US$ p.a. per sq ft



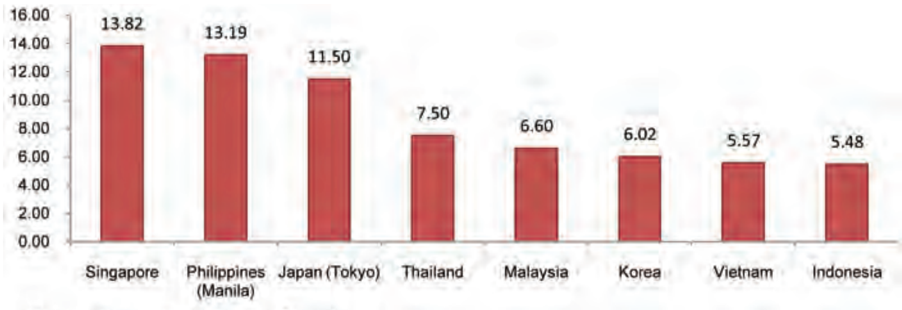
Source: CBRE; Rent - computed using CBRE's rent in local currency, May 2010

- **Power costs**

The very high cost of power remains a common complaint of businesses in the Philippines and a very important negative factor for national competitiveness. As Figure 146 shows, in 2010 a factory in the Philippines could pay more than twice as much for power than a factory in Indonesia and Vietnam and almost twice as much as a factory in Malaysia and Thailand.

> "The most important urgent economic issues that would need to be addressed by a new President are infrastructure development and lowering power costs."
>
> *Gilbert Teodoro, The Philippine Daily Inquirer, January 24, 2010*

Figure 146: Asian industrial electricity tariffs, USc/kwh, 2010



Source: International Energy Consultants

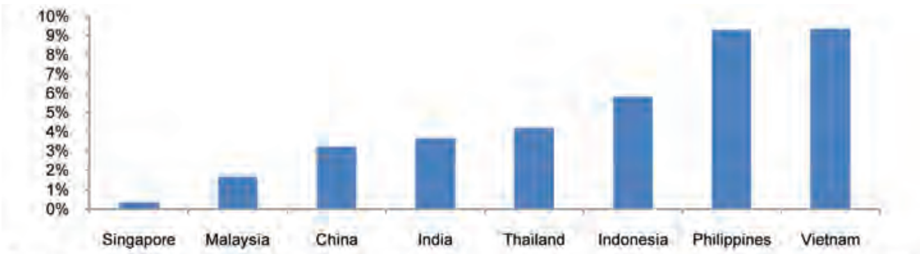
Reform of the Philippine electricity sector has been underway for nearly a decade and is eventually expected to produce somewhat lower prices through creating contestable markets and replacing old inefficient plants with new more efficient baseload plants. The inefficient and corrupt public sector power monopoly built under the Marcos dictatorship has been steadily dismantled through the privatization of government-owned generation assets, as well as the operation of the national transmission grid. A wholesale market for surplus electricity has been created for Luzon. Open access, which will allow competing private sector generators of electricity to sell directly to large customers, is expected to begin in the second half of 2010 or 2011 at the latest.

Despite these reforms, electricity prices are not expected to become significantly lower in future years. The country has limited additional geothermal and hydropower sources to develop. Wind power has strong potential but currently costs more than twice as much as coal per megawatt to build. Solar is even more expensive, and the country has considerable cloud cover during the rainy season which reduces potential power generation. New efficient baseload coal plants can provide less expensive power, so long as the price of coal does not increase significantly. Nuclear power, which China, India, Japan, and Korea, are using increasingly, was abandoned as an option in 1986 when former President Corazon Aquino decided not to operate the 600MW BNPP (which ultimately cost the country US$ 2 billion including interest). Any nuclear plant the government may approve will not become operational until late this decade.

- **Telecommunication costs**

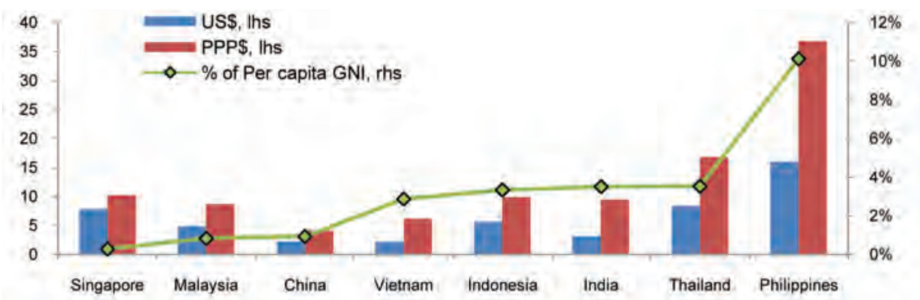
Telecommunication costs are also higher in the Philippines than other ASEAN-6 economies and China and India, whether measured in US$ or Purchasing Power Parity (PPP), according to International Telecommunication Union (ITU) data. The four figures below (Figures 147, 148, 149, and 150) show the Philippines is the most expensive of eight economies for the monthly costs of a fixed line, a mobile phone, and broadband.

Figure 147: ICT Price basket, % of per capita GNI, 2009



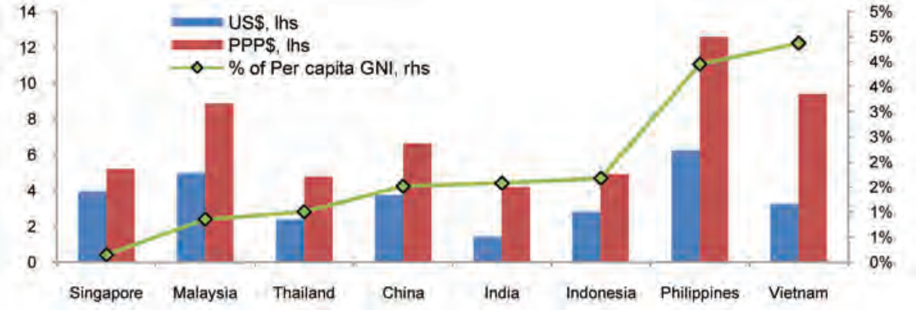
Source: ITU; ICT Price Basket is a composite basket that sums the prices for fixed telephone, mobile cellular and fixed broadband services. The value of the ICT Price Basket should be interpreted as an indication of relative cost as it is calculated as the simple average of the three sub-components, expressed as a percentage of average monthly GNI per capita.

Figure 148: Fixed telephone monthly cost, 2009



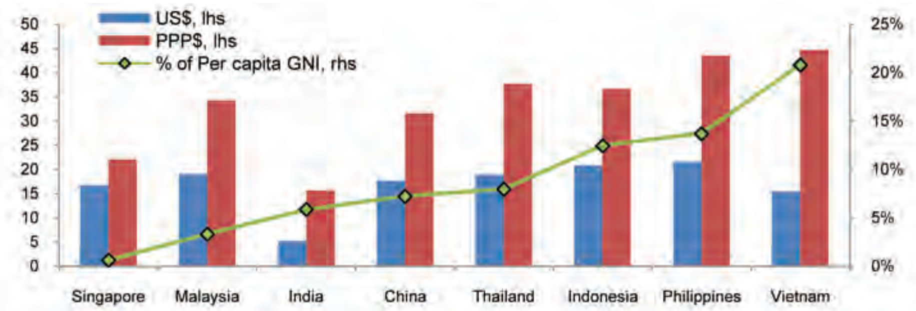
Source: ITU; The fixed telephone sub-basket represents the cost of local fixed residential telephone service. It includes the fee of the monthly subscription, plus the cost of 30 local calls to the same (fixed) network (15 peak and 15 off-peak calls) of three minutes each.

Figure 149: Mobile phone usage cost, 2009



Source: ITU; The mobile cellular sub-basket corresponds to the price of a standard (low-user) basket of mobile cellular monthly usage determined by the OECD. It includes 25 outgoing calls per month (on-net, off-net and to a fixed line), in predetermined ratios, plus 30 Short Message Service (SMS) messages.

Figure 150: Fixed broadband monthly cost, 2009



Source: ITU; The mobile cellular sub-basket corresponds to the price of a standard (low-user) basket of mobile cellular monthly usage determined by the OECD. It includes 25 outgoing calls per month (on-net, off-net and to a fixed line), in predetermined ratios, plus 30 Short Message Service (SMS) messages.

- **Transportation costs**

In addition to power, the cost of ground and marine transportation is cited in investor surveys as adding to business costs. Philippine ports, with some exceptions, are dilapidated, inefficient, and require massive modernization (see Part 3 *Infrastructure: Seaports*). Inland marine transportation is costly, with observers (especially from Mindanao) commenting it can be cheaper to ship from a foreign port to Manila than from Mindanao, as well as cheaper to ship refrigerated goods by land from Manila than by sea.

By contrast, domestic air transportation for both passengers and cargo is inexpensive, the result of domestic civil aviation deregulation initiated during the Ramos Administration and the resulting competition from new airlines that entered the market.

Creating efficient ground transportation infrastructure remains a major challenge to the government, especially on Luzon and in the densely crowded National Capital Region (NCR), predicted to grow to 30 million by 2030, when it could be the world's third largest megalopolis. Traffic in Manila and many surrounding provinces is often extremely congested and likely to increase in volume with higher economic growth. Vehicles often average well under 10 kilometers an hour moving through NCR traffic.

Figure 151 shows average travel speeds in seven Asian capital cities. Singapore, which boasts of one of the world's ultra-efficient limited access road and light rail networks, has the best flow of traffic, and Bangkok the worst. Since this data was researched, however, Bangkok has opened new light rail systems and a subway, and its traffic flow has improved. Jakarta, which has no light rail, is now the most congested of this group and is predicted to be approaching serious traffic paralysis, as strong economic growth puts more vehicles on its inadequate roads.

Figure 151: Average travel speed, km/hr, selected Asian Cities, 2001

Source: World Bank , Metro Manila Urban Transportation Integration Project, Appraisal document, 2001

The road network of Metro Manila exceeds 5,000 kilometers. Almost two million vehicles (buses, cars, motorcycles, tricycles, trucks, utility vehicles) are registered in the NCR, according to the DOTC Land Transportation Office (see Table 61).

Table 61: Registered Vehicles in the NCR in '000, 1990-2009

Year	Cars	Utility Vehicles	Trucks	Buses	Motorcycles/ Tricycles	Trailers	Total
1990	307.0	251.6	44.9	5.2	66.6	9.5	**684.8**
1991	309.3	277.5	45.3	6.3	73.9	9.5	**721.8**
1992	333.2	313.2	52.2	10.2	80.4	10.6	**799.8**
1993	370.4	355.9	59.0	6.8	97.0	12.1	**901.3**
1994	397.0	389.2	62.1	8.6	102.7	14.0	**973.6**
1995	438.1	421.4	63.9	8.3	107.5	16.5	**1,055.7**
1996	493.5	463.0	74.0	8.8	131.8	17.7	**1,188.7**
1997	513.3	487.7	78.8	9.8	145.0	19.1	**1,253.7**
1998	502.1	491.9	65.2	9.5	150.6	15.2	**1,234.4**
1999	507.1	511.1	68.4	11.2	158.8	14.6	**1,271.2**
2000	492.1	534.3	67.1	12.2	167.8	13.6	**1,287.2**
2001	445.2	553.9	64.2	8.9	171.7	11.3	**1,255.1**
2002	463.3	648.8	64.5	11.7	191.0	11.3	**1,390.6**
2003	448.5	647.9	60.6	9.7	211.5	11.6	**1,389.8**
2004	478.5	650.4	59.8	13.8	290.9	12.1	**1,505.4**
2005	467.9	660.6	62.9	10.4	366.4	12.6	**1,580.8**
2006	442.7	627.2	66.3	8.3	399.0	11.7	**1,555.2**
2007	413.2	645.5	59.2	10.0	452.6	11.6	**1,592.0**
2008	423.8	638.2	61.3	9.5	525.1	12.2	**1,670.2**
2009	415.6	648.9	68.1	12.3	608.8	14.3	**1,768.0**

Sources: NSCB and LTO

Over the last decade several studies have estimated the annual economic costs of traffic in Metro Manila at more than PhP 100 billion.[197] One study by two UP professors estimated the value of time lost in traffic by executives and other professionals and workers. According to the DOTC, some PhP 140 billion is lost each year counting direct and indirect economic losses due to traffic congestion. These studies considered the costs to the economy caused by traffic jams and accidents, fuel wasted in stop-and-go and snail-paced traffic, lost productivity of workers and managers stuck in traffic, wages and salaries of larger than necessary numbers of police officers and traffic aides during rush hours, increased wear and tear on motor vehicles traveling in slow traffic, and the ill health of persons exposed to toxic-air while commuting in jeeps and buses.

While there are short-term traffic management solutions that the Metropolitan Manila Development Authority (MMDA) has applied, such as building more overpasses, special U-turn lanes, the Uniform Vehicular Volume Reduction Scheme and color-coding, new light rail lines and limited access expressways must be built to enable efficient traffic flow and avoid future gridlock. Figure 87 in Part 3 *Infrastructure: Railroads* shows the steady increase of passengers riding on the three light rail lines in Metro Manila. More lines will move millions more passengers, giving them options to commuting through Metro Manila in vehicles on crowded surface streets. Limited access expressways, especially if elevated, will also provide the means to move faster through the city.

- **Red tape**

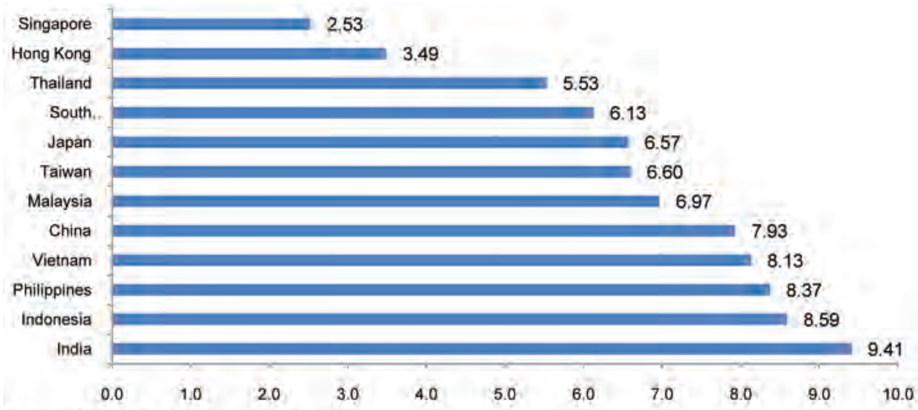
All governments impose bureaucratic controls on citizens, but the Philippines has long had a reputation for excessive and corrupt bureaucratic impositions. In the absence of red tape, government employees would have no opportunity for receiving small amounts of extra income for granting their approvals of the many forms citizens and businesses must complete.

Over the years, efforts have been made to reduce red tape, such as the creation of the ARTTF to improve Philippine rankings in the WB/IFC Doing Business reports and enactment of the Anti-Red Tape Act. Other examples of anti-red tape actions include the 2001 order of former President Macapagal to reduce red tape for Philippine maritime workers by 50% and various programs to train LGUs to improve their business services and to compete in annual ratings of the Philippines most competitive cities.

Respondents to a 2010 survey by the Political and Economic Risk Consultancy (PERC) in Hong Kong on the efficiency of bureaucracy in Asia rated the quality and efficiency of the civil service in Singapore as the best in Asia and the Indian bureaucracy the worst. The civil services of China, Indonesia, the Philippines, and Vietnam were each graded poorly, but not as bad as India (see Figure 152).

[197] Paper entitled "Economic Impact of Traffic Congestion in Metro Manila" by Professors Ricardo Sigua and Professor Noriel Tiglao of the University of the Philippines' National Center for Transportation Studies (NCTS), reported in November 2007.

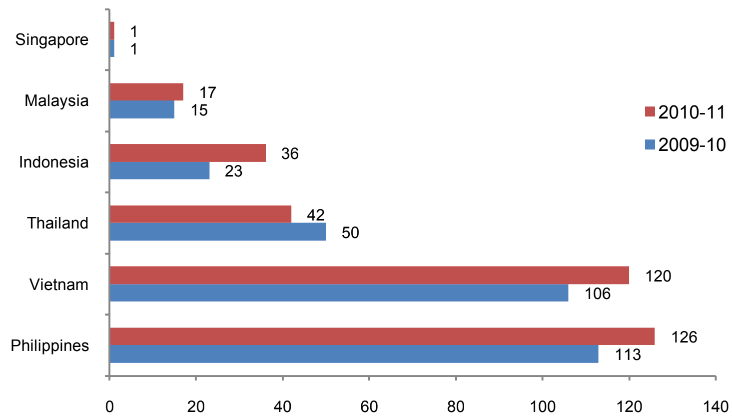
Figure 152: Efficiency of bureaucracy scores, PERC 2010 report



Source: PERC: Scale: 10-worst. 1-best

The WEF Global Competitiveness Report measures the burden of government regulation. The Philippines was ranked 126 of 139 countries (see Figure 153).

Figure 153: Burden of government regulation, rank, 2009-2010



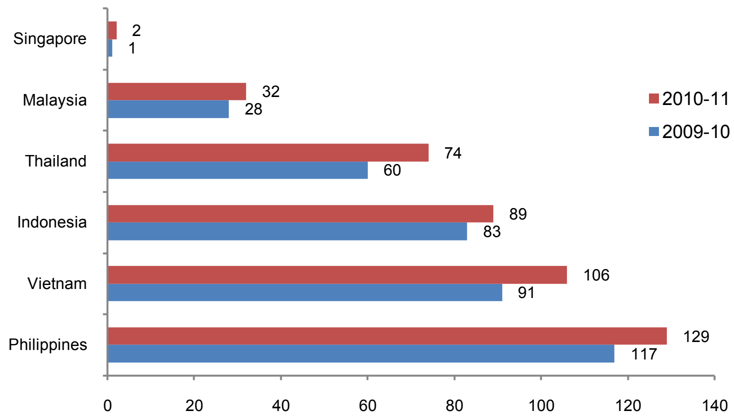
Source: WEF; Number of countries evaluated: 2009-10 (133); 2010-11 (139)

> "Regulatory burden and corruption can appreciably raise business transaction costs. Such costs include… time spent dealing with bureaucratic hurdles, delays in processing of government requirements for business, and direct costs of irregular payments... Corruption can impair the government's ability to exercise appropriate regulatory controls and inspections to correct market failures… firms have to deal with public officials regarding regulations and administration, entailing considerable management time that could otherwise be used more productively. According to the World Business Environment Survey in 2000, about 80% of firms report that up to 10% of management time is spent for this purpose, while 20% of firms spend more than 10% of management time."
>
> *Philippines: Moving Toward a Better Investment Climate, pp. 20-21. ADB.*

Experts agree a strong correlation exists between bureaucracy and corruption. Countries considered to have the most inefficient bureaucracies are also considered to be the most corrupt. When civil servants are paid well and penalties for corruption are implemented, then bureaucracies are more efficient. Singapore pays its civil servants very well, while punishing infractions severely. By comparison, the Philippines pays poorly and rarely punishes corruption. Corruption is so ingrained, some argue, that the only way to motivate workers in some government agencies is to pay a bribe to cut through the red tape. These agencies are often characterized by the presence of many "fixers" or facilitators.

One of the worst agencies for paperwork and corruption has long been the Bureau of Customs. The poor performance of this agency is recognized with a low rating by the World Economic Forum, 129 of 139 countries, and the worst among the ASEAN-6 (see Figure 154). Technical smuggling through the BOC during the past decade has resulted in estimates of hundreds of billions of pesos of lost revenues and required at two different periods the president to establish anti-smuggling task forces, separate from the BOC, to combat smuggling.

Figure 154: Burden of customs procedures rank, 2009-2010



Source: WEF; Total number of countries evaluated: 2009-10 (133); 2010-11 (139)

Another measure of the paperwork burden on Philippine firms is the number of hours per year spent complying with tax payments, as measured by the *Paying Taxes 2010* survey of the World Bank. While Singapore requires 84 hours to complete payment of consumption, corporate, and labor taxes, the Philippines requires 195 hours (see Table 62). The Philippines, however, is mid-ranked among the ASEAN-6 between the better performing Singapore and Malaysia, and ahead of the worst performing Thailand, Indonesia, and Vietnam (see Table 63). The Philippines also has, among the ASEAN-6, the highest total fees rate.

Table 62: Tax payments, number of hours per year, 2010

	Hours per year				
	Total tax time	Corp income tax time	Labour tax time	Consumpton tax time	Tax time, rank
Indonesia	266	88	97	81	106
Malaysia	145	28	87	30	47
Philippines	195	37	38	120	72
Singapore	84	34	10	40	17
Thailand	264	160	48	56	105
Vietnam	1050	350	400	300	180

Source: Paying Taxes 2010 by World Bank, PriceWaterhouseCoopers and IFC
Total number of economies evaluated = 183

Table 63: Ease in paying taxes, overall and per sub-category, rankings, 2009-2010

	Overall ease of paying taxes		Tax payments		Time to comply		Total tax rate	
	2009	2010	2009	2010	2009	2010	2009	2010
Indonesia	116	127	151	154	103	106	72	76
Malaysia	21	24	33	37	49	47	53	58
Philippines	129	135	145	147	67	72	131	132
Singapore	5	5	6	6	18	17	25	29
Thailand	82	88	76	82	102	105	74	74
Vietnam	140	147	99	100	177	180	82	85

Source: Paying Taxes 2009 & 2010 by World Bank, PriceWaterhouseCoopers and IFC
Total number of economies evaluated: 2009=181; 2010=183

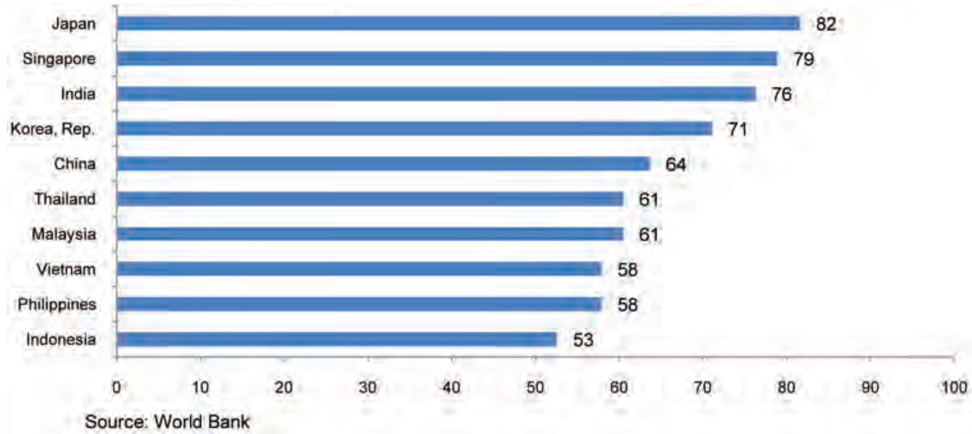
The World Bank Foreign Investment Advisory Service global rating of 87 countries *Investing Across Borders* measures the ease for foreign companies to start a business. Among the Asian economies covered by the survey, the Philippines was low-ranked along with Vietnam with ratings of 58 each, while Indonesia with 53 was slightly worse (see Table 64 and Figure 155).

Table 64: Ease in starting a business for foreign companies, 2010

Region/Economy	Starting a business				Commercial disputes arbitration		
	Procedures (number)	Time (days)	Days per procedure[1]	Ease of establishment index (0-100)	Strength of laws index (0-100)	Ease of process index (0-100)	Extent of judicial assistance index (0-100)
China	18	99	5.5	63.7	95	76	60
India	16	46	2.9	76.3	89	68	53
Indonesia	12	86	7.2	52.6	95	82	41
Japan	10	25	2.5	81.6	95	78	66
Korea, Rep.	11	17	1.5	71.1	95	82	70
Malaysia	11	14	1.3	60.5	95	82	67
Philippines	10	108	10.8	57.9	95	87	34
Singapore	4	9	2.3	78.9	95	82	93
Thailand	9	34	3.8	60.5	85	82	41
Vietnam	12	94	7.8	57.9	85	62	57
East Asia & Pacific	11	68	6.2	57.4	83.8	66.1	46.6
World average	10	42	4.2	64.5	85	71	58

Source: Investing Across Borders, World Bank; 1 - computed

Figure 155: Ease of establishing business index, foreign companies, ASEAN-6, (0-100), 2010



Salaries at several government agencies, e.g. at PEZA, have been exempted from salary standardization, allowing these agencies to compensate employees closer to private sector levels. PEZA renders efficient, professional, and honest services to locators, making its export processing and information technology zones preferred locations for export manufacturers and BPO locators.

The Anti-Red Tape Act, if fully implemented, has the potential to become a major reform for the Philippine bureaucracy. Processing time for documents should be reduced greatly, since the law directs government offices to act upon a simple request within 5 days and complex ones within 10 days. The new law also limits the number of signatories of officials or employees directly supervising frontline services to a maximum of five. Government offices are required to draw up a Citizen's Charter, identifying the frontline services they offer, documents that must be presented, the amount of fees, and procedures for complaints. The charter must be posted at a prominent place in the government office building.

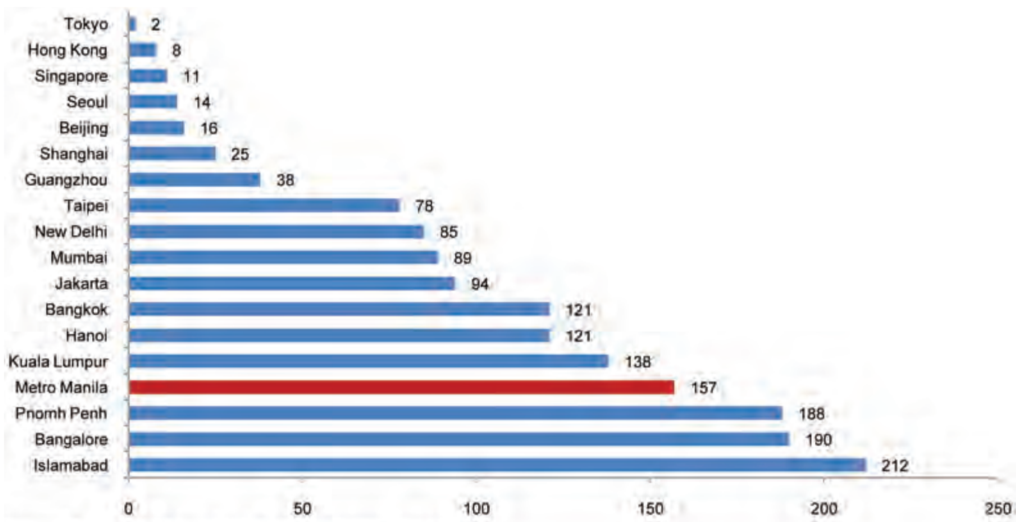
A proposal has been made for a single government call center that links all frontline government. Under this scheme, a citizen or firm making an enquiry about a government service or document will only have to call one hotline number, where an operator would redirect the call to the concerned government agency. Physical follow-up at agencies would be reduced, saving citizens time and money.

- **Expatriate living costs**

In addition to office rental and telecommunications, another category of business costs where the Philippines compares well to most competitors is the affordable cost of living for executives. Manila remains one of the least expensive major cities in Asia for expatriates, according to the *2010 Cost of Living Survey* by American consulting firm Mercer LLC. The Mercer survey is often used by multinationals to decide levels of compensation for employees outside the US.

The total cost of housing, transport, food, and other goods and services in Metro Manila was rated 157th most expensive among 214 cities in the world, placing the Philippine capital in the bottom third among the least expensive (see Figure 156). Metro Manila was the least expensive for expatriates among the ASEAN-6 capitals. Several similar surveys not reproduced here assign Manila the same approximate rank.[198]

Figure 156: Executive cost of living survey, Asia, 2010



Source: Mercer Cost of Living Survey 2010; Coverage = 214 cities

Headline Recommendations	
1.	**Senior levels of public and private sectors should create a national culture of competitiveness.** Strengthen national efforts to **improve competitiveness by reducing business costs,** including the NCC, and prepare an annual presidential report on competitiveness.
2.	**Adjust minimum wages to be more in line with similar regional middle income economies**, allow relief from minimum wages or piece work for distressed industries or other measures that maintain jobs instead of losing them to other countries, including **developing new industrial zones with infrastructure that offer much lower wage rates**. **Reduce the burden of high holiday payroll expenses** by reducing the number of non-working holidays.
3.	**Reduce power costs** for firms needing to maintain global competitiveness to survive. Introduce open access and power discounts. **Modernize ground and marine transport** to achieve competitive efficiencies.
4.	**Accelerate efforts to greatly reduce the red tape** burden on citizens and firms.

198 Three other cost of living surveys examined were those of ECA, the Economist Intelligence Unit, and UBS.

Recommendations: (16)

A. The most senior levels of government and the private sector should **create a national culture to improve Filipino competitiveness**. The leadership could make citizens more aware of the competitive environment in which the nation exists, calling for behavioral reforms that will enable the Philippines to become more competitive. Improving cost competitiveness should be an important public sector priority because of its close relationship to employment creation.

B. **Continue and strengthen the National Competitive Council following a review of its mandate**. Provide the NCC with adequate resources and authority to direct government agencies to take actions to improve competitiveness. The NCC could be asked to draft an annual comprehensive State of National Competitiveness Report for the president to submit to the Congress. (Immediate action OP, DTI, NCC, and private sector)

C. **Introduce a more flexible minimum wage and/or piecework policy for distressed industries**, in jeopardy due to foreign competition, to be more globally-competitive. Such new policies may be able to slow and perhaps reverse the decline of the garment, footwear, and other export industries threatened by more efficient foreign competitors. Consider using the provision to exempt "distressed industries" from the minimum wage. **Develop new industrial zones with infrastructure that offer lower minimum wage rates.** Any new policies should be long-term and not short-term measures. (Immediate action DOLE, DTI, and private sector)

D. **There should be an absolute moratorium on new non-working holidays**. The president could announce his intention not to proclaim any special non-working holidays and to **veto any legislation creating any new non-working holidays**. He could direct DTI, NEDA, and the NCC to make a study of the effect of non-working holidays on national competitiveness and to make recommendations on how to rationalize non-working holidays. **Some non-working holidays should be changed to working holidays** to improve national competitiveness. (Immediate action OP, DOLE, DTI, NEDA, and NCC)

E. **Implement the open access provision of EPIRA** to allow more competition among generating firms in the provision of electric power (see Part 3 *Infrastructure: Power*). (Immediate action DOE, ERC, and private sector)

F. As part of industrial policy, **consider expanding power cost relief/discounts** that are being provided for certain strategic investors, possibly using Malampaya gas royalties received by the government. (Immediate action DOE, NPC, PEZA)

G. Continue and **intensify the ARTFF and projects to improve the WB/IFC Doing Business ratings**. (DTI, NCC, and private sector)

H. Continue aggressive efforts to **reduce red tape by assiduously implementing the Anti-Red Tape Act**. Undertake a national campaign to inform the public of the law and to change gradually the culture of civil servants so that they become better public servants for the Filipino people. (Immediate action OP, CSC, and all departments and agencies)

I. **Encourage citizen feedback over the internet and through call centers at all major government agencies**. Implement the Civil Service Commission (CSC) proposal for a central government hotline connected to frontline government agencies for persons and firms to obtain information and follow-up. (Immediate action OP, NEDA, and each agency)

J. **Anonymously validate the effectiveness of implementation of the Anti-Red Tape Act** by assigning a team of checkers (perhaps from a consumer rating agency) who visit frontline agencies acting as ordinary citizens and rate their experiences.[199] The ratings would be published on the agency website and in newspapers. Media could be encouraged to publicize the best and the worst agencies. (Immediate action CSC, DTI, and NEDA)

K. Apply computer and internet technology to **increase the provision of government services through e-governance**, following the example of the BIR and DTI. (Immediate action CICT and all government agencies)

L. **New rules and regulations** of the national government should not be issued without the **approval of a central office** (e.g. the ARTTF and/or the CSC) and many of them should **contain a sunset provision to expire** within a set number of years unless rejustified. (Immediate action OP, DTI, and CSC)

M. **Exemptions from salary standardization could be made for more critical front-line agencies**, such as the BIR, BOC, and LTO. As revenue collections improve and rationalization of government agencies advances, **civil service salaries may be brought more into line with the private sector**. (Medium and long term action DBM, CSC, NEDA, and Congress)

N. **Reduce ground transport costs** (see Part 3 *Infrastructure: Roads and Rail* for specific recommendations).

O. **Reduce telecommunications costs**, especially for mobile telephones and broadband, in order to better avail of modern communications and internet technologies.

P. **Reduce marine transport costs** (see Part 3 *Infrastructure: Seaports* for specific recommendations).

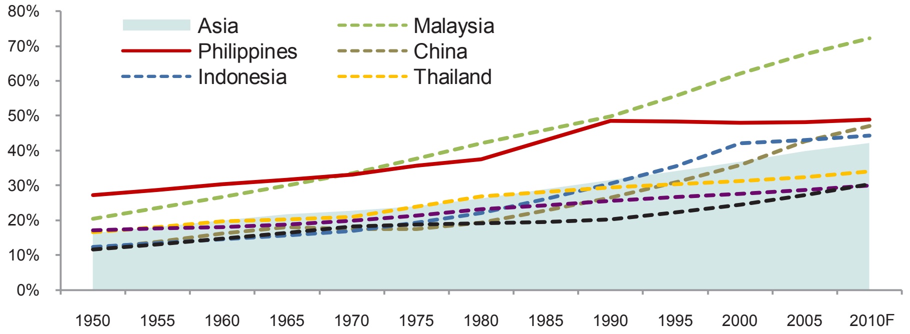
---

[199] This recommendation is inspired by a suggestion of Philippine Star columnist Boo Chanco who wrote on July 7, 2010 "P-Noy can have somebody put together a kind of mystery shopper program used by the big retailers in the US to see how the consumer is being treated by the staff. Such a program will give the President a direct feel of how things are at the frontlines where it matters the most. Are people getting fast courteous service when they apply for passports or try to secure copies of birth certificates? Are people being asked for bribes when they register their cars or get driver's licenses?"

Environment and Natural Disasters

For decades the Philippine environment has been under assault from a fast-growing population and practices that have degraded the country's air, land, and water. Despite laws requiring trees to be replanted, forests were clear cut and denuded areas abandoned, damaging watersheds and silting farmland and estuaries. Coral reefs were destroyed by dynamite blasting and the use of cyanide to stun tropical fish. Mangroves and their fish spawning shallow waters were converted to prawn ponds. Over half the country's population lives in urban areas, where the air is often polluted and a "silent-killer," and solid waste management and sanitation are highly inadequate. The percentage of the total population living in cities in the Philippines has long been higher than in other Asian countries (see Figure 157).

Figure 157: Proportion of urban population, selected Asian countries, 1950-2010F



Source: UN, World Urbanization Prospects 2009

Fortunately, there has been growing recognition of the problems such bad habits have created and an increasing desire to introduce sound environmental practices. More coastal communities understand that preservation of marine natural resources is critical for tourism and fishing. The costs of polluted air in terms of death, disability, and medical care have become better understood. Logging continues, but at much reduced levels, as less forest remains, and enforcement of restrictions on illegal logging have increased. Several landmark laws have been passed: the Ecological Solid Waste Management Act, the Clean Air Act, and the Clean Water Act. These laws are, however, under-funded and poorly implemented.

Environmental degradation harms the nation's investment climate when it results in unhealthy living conditions, which deter foreign residents and visitors. The most adverse effects may be on tourism, when marine and mountain environments are degraded, making tourist destinations unattractive and sometimes unhealthy. Financial and economic cost of pollution is estimated at about US$ 8.6 billion annually.

Table 65: Estimated cost of air and water pollution in the Philippines

Source of pollution	Amount, billion $US	Amount, billion PhP	Year	Amount, billion PhP (2009 prices)	Amount, billion US$ (2009 prices)	% of GDP	Source
Air pollution[1,3]	2.28	105.38	2007	119.0	2.5	1.55	WB-CEA-2009
Water pollution	1.24	67.00	2003	94.2	2.0	1.23	WB-PEM 2003
Water supply, sanitation and hygiene	3.49	167.73		193.5	4.1	2.52	
Health[1]	2.77	127.90	2007	144.4	3.0	1.88	WB-CEA-2009
Water in terms of usage[2]	0.65	35.56	2005	43.8	0.9	0.57	WSP, 2008
Other welfare impacts[2]	0.04	2.07	2005	2.5	0.1	0.03	WSP, 2008
Tourism[2]	0.04	2.21	2005	2.7	0.1	0.04	WSP, 2008

Sources: WB-PEM, 2003, "The Philippines: Country Environmental Analysis" WB-2009, Economic Impacts of Sanitation in the Philippines WSP-2008, NSCB (for GDP) and BSP (for ex rate)

Note: 1-includes mortality and morbidity cost; 2-includes economic and financial impacts; 3-indoor and outdoor air pollution

- **Solid Waste**

Metro Manila faces a solid waste crisis and is running out of disposal capacity.[200] Under the Solid Waste Management Act (RA 9003), barangays are responsible for collecting and separating biodegradable, compostable, and reusable materials, while the municipality collects non-recyclable and special materials. Sanitary landfills must be built to contain the future solid waste of the metropolis. Once in place and better waste management is achieved at the barangay level, the current sites can be closed. Because of leachate leaking hazardous chemicals into ground water and streams, the current dumps will still need to be cleaned.

Under the 1999 Clean Air Act (RA 8749), all incineration is banned to prevent air pollution. However, the law ignored modern incineration technologies, which are non-polluting and can produce energy and construction materials as by-products. Aside from an imminent solid waste crisis, medical and chemical wastes are not properly disposed of or need to be shipped abroad. Metro Manila generates many tons of medical waste daily, but the law forced medical incinerators to close without providing an alternative.

A Supreme Court ruling in January 2002 (GR 147465) affirmed that not all incineration is banned. The decision reads "Section 20 [of the Clean Air Act] does not absolutely prohibit incineration as a mode of waste disposal; rather only those burning processes which emit poisonous and toxic fumes are banned."

200 Asian Development Bank (ADB), The Garbage Book: Solid Waste Management in Metro Manila. ADB, 2004.

Despite the Supreme Court ruling, uncertainty remains, and incineration is not taking place. Environmental groups still claim that all incineration is banned to prevent air pollution. To avoid a solid waste crisis, the DENR should establish clear rules and standards that would allow modern incineration technologies. There is also a need to amend the Act to allow modern incinerators that meet clean air emission standards.

- **Air quality**

Despite passage of the strict Clean Air Act, many vehicles, especially trucks, buses, jeepneys, and two-stroke motorcycles, spewing noxious fumes still ply Metro Manila's streets due to weak enforcement of pollution standards and corruption of mid-level officials. Licensed private emission stations have operated for more than a decade, but smoke-belching vehicles with up-to-date stickers on their license plates that "passed" the emission test remain on city streets. National and local government should demonstrate greater political will to reduce air pollution in the megalopolis and lessen this serious public health hazard.

Bangkok, Beijing, Dhaka, New Delhi, and Seoul, cities where natural gas is now widely used for many public transit vehicles, are good examples for the Philippines to learn from. A Natural Gas Vehicle Program for Public Transport, started in 2004 under EO 290, allowed bus companies to import and operate 200 buses fueled by Compressed Natural Gas (CNG). However, the program has not been successful, reportedly due to technical difficulties accessing the CNG from the country's only natural gas field.

Many taxis in Metro Manila are converting from gasoline to Liquefied Petroleum Gas (LPG) fuel in order to save fuel costs. Since 2006, over half of the more than 30,000 taxis in Metro Manila have converted to LPG.

Much firmer enforcement by local authorities is essential to rid the streets of the principal causes of air pollution. Polluting two-stroke engines should be replaced by 4-stroke, as has happened elsewhere.

Overall, these various efforts are reportedly preventing Manila air from getting dirtier but have not been sufficient to improve it to healthy levels. The DENR reports the quality of air may have slightly improved. According to the Total Suspended Air Particulates Air Quality survey released by the DENR in 2009, the air quality of the metropolis in 2008 averaged 138 micrograms of pollutants per normal cubic meter, far above the 90 micrograms target set by the DENR. The air quality of the metropolis improved from 160 micrograms in 2004 to 132 micrograms in 2007. Epifanio de los Santos Avenue (EDSA) continues to have the dirtiest measured air in the country with 282 micrograms, over twice the Metro Manila average. Tests conducted by the DENR in the first quarter of 2010, however, showed an increase of suspended particles in the air to 190 micrograms per normal cubic meter.

- **Water Infrastructure**

In July 2010, the United Nations General Assembly passed a resolution declaring access to clean water and sanitation a basic human right. Whether an urban or a rural resident, every Filipino would like to have ready access to clean, inexpensive water, but does not. There are also problems involving the disposal of wastewater and a need to better educate the public about the growing problem of sewage pollution, which can have grave effects on health.

The Philippines faces two major challenges in improving water resources: supply and quality. In large urban areas such as Metro Manila, adequate supply in the future is an issue in the absence of large expenditures on infrastructure. In remote rural areas, distribution is poor. Years of deforestation have reduced watersheds. Over-population is shrinking aquifers. Some are threatened with salt-water intrusion.

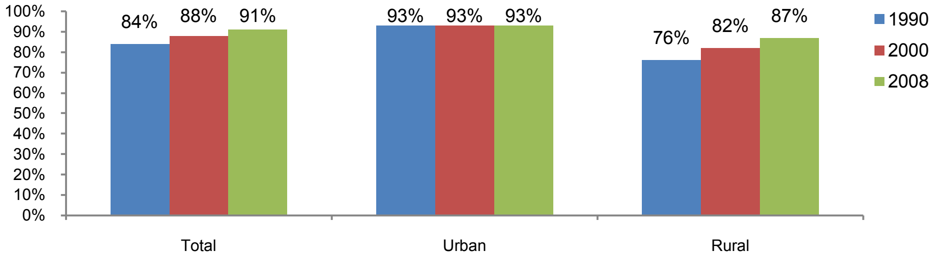
Another problem is declining water quality due to sewage pollution in many rivers and coastal areas. Except for some areas of Metro Manila, only a few (Bacolod, Baguio, Cebu, Davao, Vigan and Zamboanga) out of more than 100 cities and 1,600 municipalities have sewage systems. In addition to the runoff of raw sewage into clean water resources, open pit dumpsites used for solid waste throughout the country create leachate (concentrated organic and inorganic pollutants) that seeps into groundwater, rivers, and lakes. As a result, water in some bays and coastal areas is becoming unsuitable for swimming, tourism, and fish spawning.

The Clean Water Act (RA 9275), signed in 2004, is a beginning to solving sewage pollution. The law: (i) requires designation of multi-sectoral Water Quality Management Areas (WQMA) to monitor and upgrade local water resources; (ii) mandates preparation of a national sewage and septage program and requires interconnection of all existing sewage lines; (iii) requires implementation of a wastewater charge system for all industries located in WQMAs that discharge wastewater and a financial liability mechanism under which new factories and infrastructure will put up an environmental guarantee fund, insurance, or bond; and (iv) provides investment incentives for compliance in the form of fiscal and non-fiscal incentives under the Investment Code for projects involving wastewater treatment and water pollution control.

The most important public utility privatization undertaken in the Philippines was that of MWSS in early 1997, with technical assistance from the International Finance Corporation. The privatization resulted in two concessions and was internationally recognized as a major accomplishment. After 13 years of operations, the two concessionaires – Manila Water Company (a Filipino-UK-Japan joint venture) and Maynilad Water Services (initially a Filipino-French joint venture and now Filipino-Hong Kong) have demonstrated the effectiveness of the PPP model.

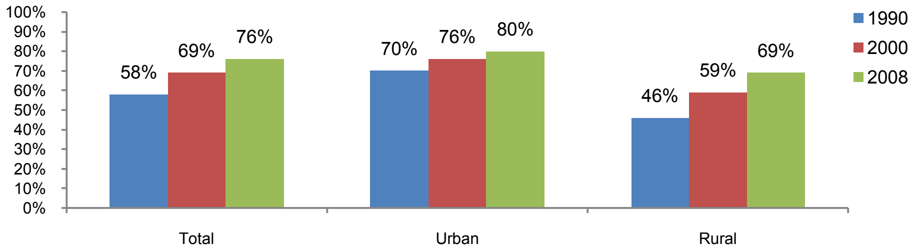
One of the Millenium Development Goal (MDG) targets by 2015 is to reduce by half the proportion of the population without sustainable access to safe drinking water and basic sanitation. To meet this MDG target, the Philippines must raise water access to over 92% by 2015 (that is reducing the "waterless" by at least half between 1990 and 2015). The Philippine data were based on the National Demographic and Health Survey (NDHS) and Multiple Indicator Cluster Survey (MICS) of UNICEF. Given the data of the WHO and UNICEF, the country is on track of surpassing that goal as it is already at 91% as of 2008 (see Figure 158).

Figure 158: Proportion of population with access to safe drinking water sources



Sources: Joint Monitoring Program reports of UNICEF and WHO, 2006 and 2008 issues

Figure 159: Proportion of population with access to sanitary toilet



Sources: Joint Monitoring Program reports of UNICEF and WHO, 2006 and 2008 issues

However, anecdotal evidence suggests these figures are overestimated. At present, there are still about 400 municipalities (out of more than 1,600) that remain "waterless" (defined as less than 50% of the population has access to potable water).[201] Moreover, a World Bank expert on water and sanitation has expressed concern that high urbanization and underinvestment in water and sanitation in urban slum areas means the Philippines may not meet this MDG target. As many of these urban residents are informal settlers, local government is usually reluctant to provide such infrastructure.[202]

- **Deforestation**

The extensive deforestation of the country over a century has been the largest contributor to the contemporary degraded environment. Improved protection of watersheds, rivers, and estuaries is essential, as are programs of reforestation and developing sustainable upland agriculture practices.

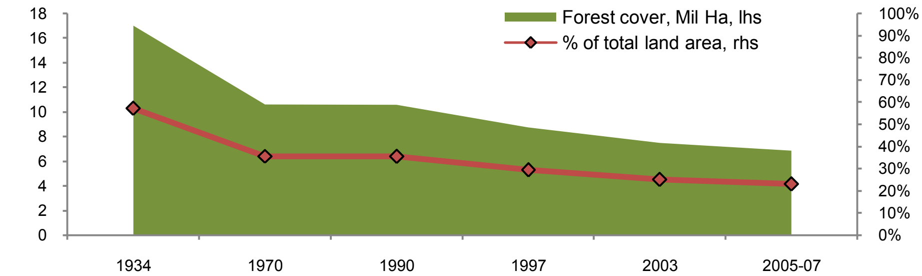
---

201 The President's Priority Program on Water (P3W) launched in 2005 to address the potable water needs of then 432 municipalities identified as "waterless," was marred by technical, administrative, and bureaucratic problems resulting in little improvement in the welfare of target areas. Insertions of municipalities not included in the established target list was made possible by influential political figures and constant changes in the leadership of the National Anti-Poverty Commission (NAPC), which is the lead agency, are only some of the concerns the program encountered. The program was given PhP 5 billion by the National Government to finance water projects between 2005 and 2010.

202 Article by Michelle Remo, Philippine Daily Inquirer, April 28, 2010

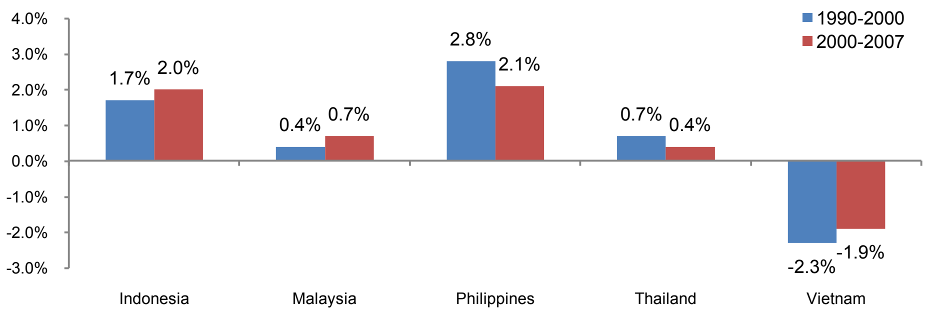
Figures 160 shows the decline of Philippine forest cover from 90% of the country's total land area in 1934 to around 20% in 2007.[203] Figure 161 shows that the rate of deforestation in the Philippines from 1990 to 2007 was significantly higher than in Indonesia, Malaysia, Thailand, and Vietnam. That rate, 3% between 1990 and 2000, declined to 2% since 2000. The Philippines must work harder to reduce it further and reverse the decline as the present forest cover is critically low. In Vietnam the reforestation rate has been 2% over the past two decades.

Figure 160: Philippine forest cover, 1934-2007, mil has, % total land area



Sources: CEA 2009, Bureau of Forest Management and FAO

Figure 161: Deforestation rates, selected countries, 1990-2007



Source: ADB; Negative values mean reforestation (e.g. in the case of Vietnam)

Disaster Prevention

Philippine urban areas have developed with very little planning to mitigate the effects of flooding, landslides, earthquakes, and other potential disasters, despite the frequency of these events in the country. During the dry season, fires are common in slum areas of cities.

Storms and floods are the major types of disasters in the Philippines, both in terms of frequency and the number of people affected (see Figures 162 and 163). Earthquakes and volcanic eruptions, while more dramatic, are infrequent.

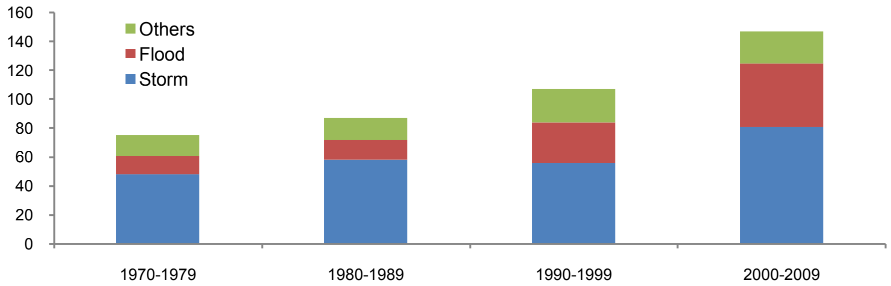
> "In the wake…of Haiti and Chile, earthquake experts have been scanning the globe for other high-risk areas and most agree that the likelihood of a major earthquake in Manila is high."
>
> *PSA report, August 2010*

[203] "Forest" is a minimum area of land of 0.05-1.0 hectares with tree crown cover of more than 10-30 per cent with trees with the potential to reach a minimum height of 2-5 metres at maturity in situ. (FAO, 2006)

Metro Manila has grown rapidly but has not experienced a serious earthquake since 1968, when the Ruby Tower apartment building collapsed killing 268 sleeping residents during an intensity 7.3 earthquake. In 1990 an earthquake of intensity 7.8 struck north of Manila and killed 1,621 persons in Cabanatuan and Baguio. A recent study assessed the probability of extensive damage to the capital in the event of a major earthquake on the scale of those in recent years in Sichuan, China (intensity 8.0 killed at least 68,000 persons) or Haiti (intensity 7.0 killed an estimated 230,000 persons).[204]

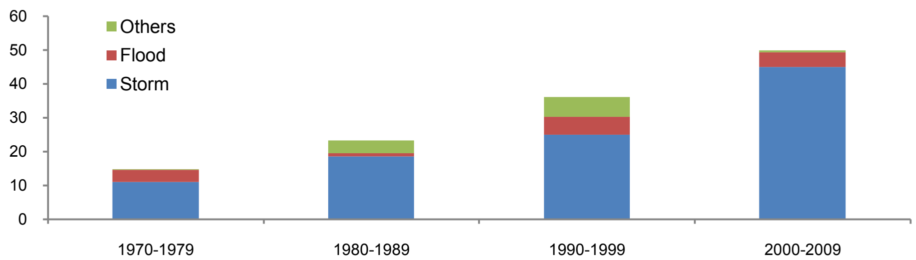
Figure 162 shows the frequency of natural disasters for the current and three previous decades. The frequency of natural disasters has doubled over 40 years to an average of 15 each year. During the same period, the number of persons affected by natural disasters has more than doubled to some 50 million (see Figure 163). Damage from natural disasters has averaged around US$ 300 million a year (see Figure 164).

Figure 162: Total frequency of natural disasters, Philippines, per decade, 1970-2009



Source: CRED International Disaster Database; Note: Others include earthquakes, epidemics, extreme temp incidents, insect infestations, wet & dry mass movements, volcanic eruptions, and wildfires.

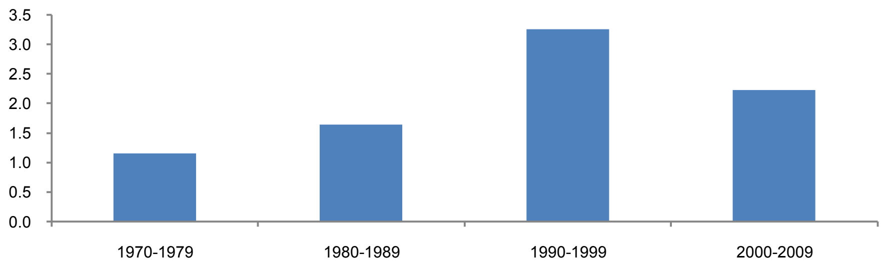
Figure 163: Number of people affected by natural disasters, Philippines, in Mn, per decade, 1970-2009



Source: CRED International Disaster Database

204 *Metro Manila Earthquake Vunerability Assessment*, Pacific Strategies and Assessments, August 2010

Figure 164: Estimated damage of natural disasters, Philippines, in US$ Bn, per decade, 1970-2009



Source: CRED International Disaster Database

Urbanization has reduced the drainage and storage capacity of creeks, rivers, and lakes to hold water, as they become clogged with garbage and mud, making inhabited areas nearby more vulnerable to flooding. Typhoon Ondoy (Ketsana) in September 2009 documented a record-high amount of rainfall in 24 hours of 18 inches (in Quezon City). The storm killed 464 persons and caused damages estimated at US$ 237 million.

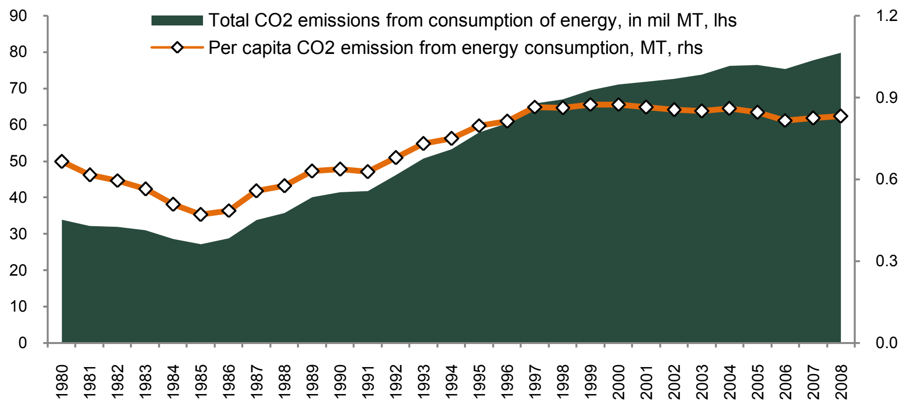
> "It is necessary not only to make buildings safer, earthquake-resistant, flood-proof, and fireproof, but also to improve roads, open spaces, and parks that can prevent the spread of fire, while at the same time raise government and citizen preparedness for disasters in order to minimize the potential loss and damage to life and property."
>
> *Architect Jun Palafox, urban planner,MAP Statement, February 2, 2010*

- **Global Warming**

As a relatively small developing economy, energy consumption in the Philippines is a minor contributor to global warming. Its level of CO2 emissions per capita, after doubling over the period 1986 to 1996, has been stable in the subsequent decade and is the lowest of the ASEAN-6 (see Figures 165 and 166). However, continuing deforestation in the country is adding to global warming.

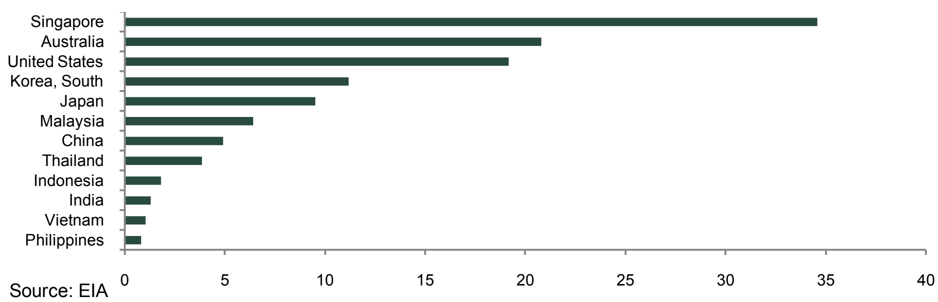
As the world's second largest archipelago with a total coastline of 36,289 kilometers, the country's shores and estuaries will be subject to inundation as seas rise. As throughout Southeast Asia, much of the population lives near river mouths, since marine travel was prevalent for millennia, and modern land and air travel are less than a century old. As the sea rises, flooding of these littoral communities will increase and force their inhabitants to relocate to higher ground, which could reduce available land for agriculture.

Figure 165: Philippines' CO2 emission from energy consumption, 1980-2008



Source: EIA

Figure 166: Per capita emission from energy consumption, 2008, in MT, selected countries



Source: EIA

Headline Recommendations	
1.	**Implement policies prescribed by the Solid Waste Management Act, Clean Air Act, and Clean Water Act.** Deal effectively with the solid waste challenge. Reduce air and water pollution. Clean rivers. Improve access to water and sanitation. **Establish clear rules and standards** that would **allow modern incineration technologies. Amend the Clean Air Act** to allow non-polluting clean incineration.
2.	Benefit tourism, agriculture, and fisheries by **ending deforestation, beginning reforestation, and rebuilding damaged coral reefs**.
3.	**Emphasize disaster prevention** as well as disaster relief. Reduce flooding by improving drainage, zoning, and infrastructure. Make cities safer against earthquakes. Plan effectively for the impact of climate change/global warming.

Recommendations: (14)

A. **Environment: Solid Waste**. Implement the Solid Waste Management Act (RA 9003). Build sanitary landfills to contain the future solid waste of the metropolis and clean up existing dumpsites. Improve garbage collection and recycling. Establish clear rules and standards that would allow modern incineration technologies. Amend the Clean Air Act to allow non-polluting clean incineration. (Medium-term action by DENR, MMDA, LGUs, and private sector)

B. **Environment: Air**. Implement the Clean Air Act (RA 8749). Clean Manila's air faster by removing all vehicles that fail to meet pollution standards. Crack down on corrupt emission stations. Replace 2-stroke with 4-stroke engines. Convert jeepneys and buses from diesel to natural gas. (Medium-term action by DENR, DOTC, and DTI)

C. **Environment: Water**. Implement the Clean Water Act (RA 9275) to increase sewage systems and water treatment plants in all cities and municipalities in order to reduce water pollution. (Long-term action DENR, DPWH, LGUs, and private sector)

D. **Environment: Rivers**. Replicate the KapitBisig Para sa Ilog Pasig (KBPIP) project to clean and restore the Pasig River for other polluted waterways. (Medium-term action private sector)

E. **Environment: Water**. Increase access to water and sanitation facilities for more Filipinos, in "waterless" municipalities and for residents of slums in urban areas. (Long-term action DENR, DPWH, LGUs, and private sector)

F. **Environment: Reforestation**. Reduce the rate of deforestation to zero. Protect remaining forests effectively and increase reforestation of damaged watersheds. (Long-term action DENR, LGUs, and private sector)

G. **Environment: Reefs**. Continue to fight illegal fishing methods that destroy reefs. Expand reef restoration programs and education of coastal communities. (Immediate action DENR, LGUs and private sector)

H. **Environment: Plastic Bags**. Educate the public to use reusable non-plastic bags and consider laws to reduce the widespread use of plastic that pollutes the marine environment and clogs waterways. (Immediate action DENR, Congress, LGUs, and private sector)

I. **Disasters: Prevention**. Incorporate disaster prevention, not just disaster reaction, into planning, development, and education. (Medium-term action NEDA, LGUs, and private sector)

J. **Disasters: Typhoon Warning Systems**. Install Doppler radars, capable of predicting rainfall, with coverage of Luzon and Visayas. Improve alert systems when typhoons are approaching and when full dams need to spill water. (Immediate action PAGASA, DOST, DILG, LGUs, and private sector)

K. **Disasters: Flood**. Seek to create flood-proof cities by undertaking extensive flood-control measures, improving drainage, building dikes and water retention facilities, and planting trees. (Medium-term action DENR, DPWH, DILG, LGUs, and private sector)

L. **Disasters: Earthquakes**. Develop and implement a program to make cities safer against major earthquakes. Make gas, electric, and water supply facilities more secure and make codes for building construction stricter following best practices to more advanced countries. Audit buildings and infrastructure for safety. (Medium-term action DENR, DILG, LGUs, and private sector)

M. **Disasters: Hazard Maps**. Prepare and publish Hazard Maps for earthquakes, flooding, volcanic eruption, tsunami, fire, and rising water levels due to climate change and other hazards. (Medium-term action concerned agencies)

N. **Global Warming**. Implement the planning, educational and other tasks of the Philippine Climate Change Commission (PCCC) created in 2010 by the Philippine Climate Change Act (RA 9729) especially making the country better prepared to deal with natural disasters. (Medium-term action OP and concerned agencies)

Foreign Equity and Professionals

All countries allow, prohibit, or restrict foreign economic activity within their territory to varying degrees. Even extremely open economies such as Singapore and Hong Kong maintain some restrictions.[205] In the 21st century, the movement of workers and professionals remains highly restricted throughout the world and is a sensitive political issue in many capitals. In contrast, equity capital and goods move across borders with fewer barriers than ever before. And ideas and information can move almost instantaneously with modern communications, albeit sometimes blocked by the few governments that attempt to control online access of their citizens.[206]

The Philippines is increasingly linked to these global flows – of goods, ideas, money, and people. The Filipino economy depends heavily on remittances from nationals whose labor other countries need. Some products made in the Philippines are in use throughout the world.[207] Filipino capital also crosses borders into a considerable variety of corporate investments and private bank accounts.[208]

With such strong and growing global ties, the people of the Philippines have moved ahead of their government and the mindset of some public and private sector leaders who support restrictions on the participation of foreigners in the Philippine economy. In an economy with high unemployment and underemployment, the paramount national interest should be creating jobs in the domestic economy. It follows

"In an age when growth is the result of free movement of investments across borders to areas of greatest efficiency, we have restricted investments. A native oligarchy has used economic nationalism to inhibit trade and prevent investors to come in and compete. The oligarchy, ironically, enjoys ideological sup-port from the political Left which is hopelessly trapped in a 19th century view of economic processes."

First Person, Alex Magno, Philippine Star, March 11, 2010

205 E. g. Hong Kong does not allow gambling casinos. Nor did Singapore until recently.

206 Facebook cannot be accessed in China and Vietnam.

207 E.g. Watches and automotive wire harnesses made in Cebu, semiconductors made in Baguio and Clark, aviation parts for Airbus and Boeing made in Baguio, transmissions and cars made in Laguna, and garments made on Luzon.

208 ICTSI operates ports in many countries. Ayala owns call centers in the US and Central America. Jollibee and other Filipino retailers have foreign outlets.

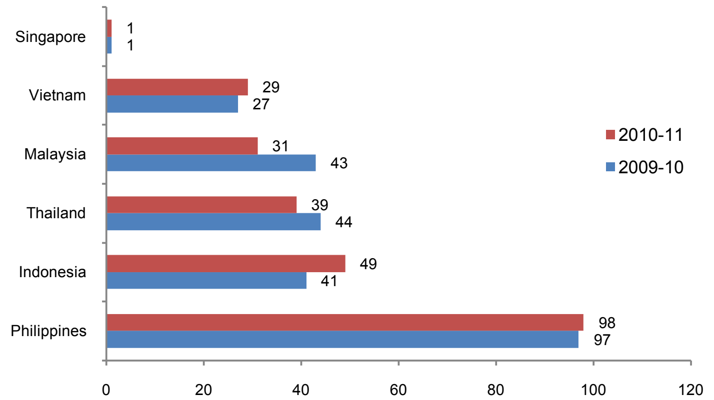
that attracting more foreign capital, professionals, and technology to create jobs should be a high priority.

There has been considerable public discussion of constitutional restrictions on foreign equity, including by two commissions appointed by two presidents, but proposals to change other restrictive practices are rare.[209] The only change in the Foreign Investment Negative List (FINL) since limited foreign investment in retail trade was allowed in 2000 was the opening in 2010 of gambling casinos to majority foreign equity.[210]

Reforms that should result in more foreign participation in the economy have not been a priority for the government. Several JFC recommendations to the DTI, DOF, and NEDA to liberalize the FDI regime and professions have not gained traction for lack of senior policy direction. The JFC in December 2008 wrote former President Macapagal Arroyo to suggest a government study to recommend policies and actions to make the FINL less negative. Although DTI and NEDA subsequently met with the JFC, none of the suggested changes in the FINL have been made.

In addition to constitutional restrictions, there are dozens of other restrictions on foreign equity and foreign professionals as well as discriminatory taxes and fees, from which Filipinos but not foreigners are exempt, that should be reviewed to see if they meet the national interest of creating jobs. Figure 167 shows the Philippines significantly lagging behind the rest of ASEAN-6 and ranking in the bottom third of all countries surveyed (98 out of 139) in having a regulatory regime favorable to foreign investment.

Figure 167: Business impact of rules on FDI, ASEAN-6 rank, 2009-2010



Source: WEF Global Competitiveness Reports; Total number of countries evaluated: 2009-10 (133); 2010-11 (139)

209 December 1999, *"Report of the Preparatory Commission on Constitutional Reforms"* and December 2005, *"The Proposed Revision of the 1987 Constitution by the Consultative Commission, with Highlights and Primers on the Major Proposals and Background Information on the Consultative Commission."*

210 An AmCham-ICIP 2008 study "Significant Changes Made to the FDI Negative Lists from 1996-2007" compares 6 successive versions of the FINL. Executive Order 858 dated February 2010 modifies the ban on foreign equity in gambling in Section 8 of RA 7042, as amended by RA 8179, from the previous maximum of 40% foreign equity to full foreign ownership as long as they are "covered by investment agreements with PAGCOR (RA 9487) operating within special economic zones administered by the Philippine Economic Zone Authority (RA 7916)."

> "The process of change is never easy and there will be painful moments. But for the long-term strength of our nation, we cannot afford to duck these issues any longer… While the NEP's [national economic policy] original policies are still relevant, it is time to review its implementation. We will chase the same goals but transform the way we do things. Affirmation action policy will be market-friendly, merit-based, transparent and needs-based"
>
> *Malaysian Prime Minister Razak, March 2010*

Several ASEAN-6 countries are reforming their restrictions on foreign investment. Malaysia's new prime minister Najib Tun Razak in March 2010 announced a "New Economic Model" that would reform the extensive system of investment and hiring restrictions discriminating in favor of the majority ethnic Malays but which were keeping away capital. For the past few years, foreign direct investment in Malaysia has slowed to a trickle in an economy that used to be one of Southeast Asia's dynamos. Prime Minister Najib wants Malaysia to increase per capita income from the current US$ 7,000 to US$ 15,000 in 10 years.

Indonesia in June 2010 issued Presidential Regulation No. 36 regarding the List of Businesses Closed or Conditionally Open for Capital Investment which made important changes to its negative investment list, which limits foreign ownership in companies. Health care and education are among the sectors in which increased foreign investment is permitted. The new decree opened to varying degrees some 40 sectors to increased foreign investment.

Constitutional restrictions

Constitutional restrictions on land ownership and public utilities in place since 1935 are the most formal barriers to foreign participation in the Philippine economy. Relaxing them would ease the entry of foreign capital needed for further modernization and growth and could increase competition in these sectors, benefiting the entire economy. Other constitutional restrictions limit foreign investment in advertising, education, media, and natural resources.

While there appears to be a consensus to remove these and other constitutional restrictions on foreign equity and to replace them with legislation, these reforms have become enmeshed with controversial political proposals to shift from the presidential system (in place since 1935) to a unicameral parliamentary system and to reduce central government authority under a new federal system. The timing and method of amending the foreign equity restrictions of the constitution will remain controversial as long as there is a perceived probability that any single political group will employ the so-called "cha-cha" to increase its political power.[211]

- ***Education***

Education is increasingly globalizing, with American and other foreign universities opening campuses and establishing educational alliances with schools in other countries. China is reported to have more than 700 such arrangements. Singapore is attracting Asian students to programs at their campuses partnered with top American universities. Major US universities are opening campuses in Abu Dhabi and Doha.

211 "Cha-cha" is a popular abbreviation for "charter change."

Foreign equity, foreign management, and foreign national teachers are restricted in the education sector in the Philippines. However, a large opportunity exists for the Philippines to provide educational services to many more foreigners than currently studying in the Philippines. The country can be cost-competitive for students in the region who cannot afford the high tuition and living expenses to study in developed countries.

Liberalizing restrictions could involve allowing foreign investment in educational institutions, permitting foreign management to accompany such investment, and inviting foreign teaching staff to complement teaching and research capacities of Philippine universities.

English proficiency in the Philippines gives the country a special advantage in offering educational programs for students from the fast growing middle classes of the Asian region to study English as a second language. Educational tourism, where studying English and local tourism are combined, is already popular among Korean visitors. The Philippines can also write and publish English teaching materials for export as well as on-line use.

While a key to creating an important hub for English and other programs is to liberalize restrictions, this should be accompanied by a regulatory program to assure high standards and quality of foreign education providers, while also respecting Philippine cultural and social values.

- ***Land***

The ban on foreign ownership of land, in Article XII of the 1987 Philippine Constitution, is total. However, foreigners may lease land for up to 50 years, renewable for another 25 years.[212] Still, leasing land involves legal expenses and complications, and as a result some foreign companies have either left the Philippines or not made investments. Allowing foreigners to own land for industrial and commercial purposes and limited ownership for residential purposes would simplify current arrangements and benefit the economy by increasing investment in businesses using land, such as manufacturing, property development, and tourism. Within ASEAN, Philippine land ownership policy is viewed as more restrictive. The Filipino business community generally supports some foreign ownership of residential, commercial, and industrial lands. Foreign ownership of agricultural land is more sensitive.

- ***Public utilities***

The 1987 Philippine Constitution states that only firms owned at least 60% by Philippine nationals or corporations may be approved to operate a public utility.[213] The pre-war Public Utility

---

212 Investors Lease Act (RA 7652) allows foreign investors to lease land for a maximum of 50 years, renewable once for up to 25 years, for the "establishment of industrial estates, factories, assembly or processing plants, agro-industrial enterprises, land development for industrial, or commercial use, tourism, and other similar priority productive endeavors."

213 "Article XII, Section 11. No franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least sixty per centum of whose capital is owned by such citizens; …The participation of foreign investors in the governing body of any public utility enterprise shall be limited to their proportionate share in its capital, and all the executive and managing officers of such corporation or association must be citizens of the Philippines."

Act was originally intended to reserve 60% majority ownership in public utilities to American and Filipino investors. After 1946, American owners had to sell down to 40% equity.

There is variance, through legal solutions to the restrictions in ownership of public utility sectors, with foreign equity sometimes exceeding the 40% ceiling in the law and the constitution. Foreign equity capital has invested in some public utility sectors, particularly telecommunications. The 60-40 ownership rule is nominally observed, so long as Philippine citizens and firms exercise 60% of voting rights. Under the Control Test, more than 40% equity in a firm may be foreign owned, a practical solution when local capital is insufficient to finance large infrastructure projects.[214] However, the legal fees required to set up these arrangements and erratic judicial and administrative application of laws and rules often discourage foreign investors who prefer a legal regime with more predictability.

While the eventual removal of the current 60-40 ownership rule from the constitution is highly desirable, policy planners should not wait for "cha-cha" to improve the environment for domestic and foreign investors in large infrastructure projects. Extensive studies by AusAID, the ADB, and the WB provide recommendations for an improved institutional, legal, and regulatory framework for increased infrastructure investment. As a prerequisite, large infrastructure firms must be offered sufficient incentives including confidence in the fairness of the investment climate.

The limit on foreign owners in the management of public utilities is also found in Section 11 of the Philippine Constitution and its removal also requires a constitutional amendment. The 1999 and 2005 constitutional commissions recommend removal of both the equity and management restrictions from the constitution.

- ***Professions***

The constitution creates a policy bias in favor of Philippine citizens, but not a strict legal barrier to the participation of foreign professionals. Most of the laws regulating professions contain reciprocity provisions. However, the provisions are administratively difficult to satisfy, and very few foreign professionals apply to the Professional Regulatory Commission (PRC) other than for temporary permits. With Filipino professionals leaving the country in great numbers for higher-paying jobs abroad, few foreign professionals are likely to work in low-paying professions in the Philippines, even if the current restrictive practices are relaxed.

Although the constitutional language states that "the practice of all professions in the Philippines shall be limited to Filipino citizens," this statement is immediately followed by "save in cases prescribed by law." There are 45 laws governing the practice of specific professions, and 40 contain "reciprocity" provisions allowing foreigners to practice their profession in the Philippines, provided their countries of origin also allow Filipinos to practice these (see Annex 3). In addition, a Supreme Court rule limits the practice of law to Philippine nationals. Five laws regulating

[214] The 60-40 limitation originates in several colonial era laws. A 60-40 limitation in the old foreign investment law for firms that were not exporting was removed in 1991 when the FINL was introduced in RA 7042, amended in 1996 by RA 8179.

criminologists, environmental planners, foresters, pharmacists, and radio and x-ray technologists state the profession is restricted to Philippine nationals and contain no reciprocity provision.

Because millions of Filipinos work abroad and support the Philippine economy with their remittances, it should be in the national interest to seek the reduction of restrictions on professionals in other countries, for example, in the negotiations on the General Agreement on Trade in Services (GATS) under the WTO and the ASEAN Framework Agreement on Services (AFAS).[215] At the same time, having more foreign professionals practicing in the Philippines can bring new skills, ideas, connections and integration into global networks of service providers, and support sunrise sectors like R&D, medical travel and retirement.

All of the Seven Big Winner sectors will benefit from having foreign professionals working with Filipino professionals to develop the high growth potential of the sectors. In short, more foreign professionals practicing in the Philippines will mean more jobs for Filipinos at home.

Restrictions in legislation

While constitutional restrictions on foreign capital and foreign professionals are hard to change, restrictions in legislation should be easier to liberalize through amendments to the restrictive provisions. Many such restrictions are scattered through various laws, some quite old. Most have rarely if ever been reviewed to determine whether they are still in the national interest, especially whether they do or do not meet the goal of creating jobs.

The introduction of the FINL was a major reform in 1991, improving transparency for foreign investors with a negative list of business activities foreign investors could not engage in or would be allowed to invest in for less than 100% equity. While the list is reissued every two years, it has become static. Only two substantive changes (retail trade and gambling) have been made in the last decade. Separate legislation governs the banking sector; restrictions on foreign banks are not listed in the FINL.

Despite a requirement in the Foreign Investment Act that the minimum equity for a foreign investment project should be US$ 200,000 (only US$ 100,000 if employing at least 50 persons or using new technology), EO 758 created a Special Visa for Employment Generation (SVEG) which allows foreigners who invest in businesses employing ten Filipinos and their spouse and children to receive a SVEG.

There has been no reform program in government to review the FINL to determine whether existing restrictions continue to be necessary. While two commissions have reviewed the constitution's foreign equity restrictions and recommended they be removed and instead be addressed in legislation – or not at all – no such review has taken place for other legal restrictions. Year after year, government departments apply the same laws without taking any initiative to change them. Such a review is overdue.

---

215 AFAS opens ASEAN economies for seven professions on a reciprocal basis but only for nationals of the participating ASEAN members.

Headline Recommendations	
1.	**A high-level commission should review current restrictions in the FINL and elsewhere and propose remedial measures,** considering which will most increase investment and create jobs.
2.	Pending constitutional revision, **creative but legal solutions, including the control test, should be applied to 60-40 ownership provisions**, in order to increase investment and create jobs.
3.	Because foreign professionals can enhance national competitiveness and create jobs, **the PRC should liberalize its procedures to accredit foreign professionals.** The FINL should not include professionals. **Philippine diplomacy should pursue global openness for Filipino professionals. Distinguish ownership of companies that provide professional services and execution of medical services.**

Recommendations (12):

A. **Create a commission, with NEDA as its secretariat, to review various restrictions on the participation in the Philippine economy of foreign equity and professionals**, taking into consideration whether the restrictions impede job creation and competitiveness. The commission should consider the recommendations of the 1999 and 2005 constitutional review commissions, study the current FINL and banking laws, consult with stakeholders, and make recommendations to the president for reforms within six months. (See Table 66) (Immediate action OP, DOJ, PRC, and NEDA)

B. At the appropriate time, **support practicable efforts to remove all economic restrictions from the 1987 Philippine Constitution**. To achieve a level playing field, consider zero or minimal successor restrictions, after their removal from the constitution. (Private sector)

C. In order to develop the country as an education hub, especially for English, **encourage foreign investment in education and more foreign teachers and researchers to practice in the Philippines**. Find a way to do this in a legal and practicable manner. Grant longer single-entry visas for tourists and students coming to the Philippines for short-term study purposes. (Immediate action BOI, DOT, and CHED)

D. Anticipating that foreign ownership of land will be allowed when the constitutional restriction is removed, **prepare a list of principles governing future foreign ownership of agricultural, commercial, and residential land** to be followed in enabling legislation. (Medium-term action by DOJ and private sector)

E. **Adjust the FINL to make explicit that foreign ownership of land in horizontal condominiums**, industrial estates, tourism estates, retirement villages, and similar real estate arrangements **is allowed**. (Immediate action NEDA)

F. The commission should also conduct a **review of laws and IRRs for all regulatory agencies to determine the extent to which each can authorize exceptions to 60-40 public utility equity rules** (as in the MARINA special permit authority). (Immediate action OP, DOJ, NEDA, and regulatory agencies)

G. **Maintain the "control test"** not "grandfather rule" in respect to the 60-40 rule for equity in public utilities. **Consider language for regulated public utility sectors similar to Section 6 of the EPIRA** (RA 9136), which clearly states that power generation shall be competitive, not be considered a public utility, and not require a franchise. (Action DOJ)

H. **Remove the practice of professions from the FINL**, where it is not a germane provision in a document created by the Foreign Investment Act and intended to catalogue limitations on foreign equity in non-banking business sectors. **Clarity is also needed to distinguish ownership of companies that provide professional services and the execution of medical services.** (Immediate action NEDA)

I. **Encourage the PRC to relax its interpretation of reciprocity provisions** and announce a new policy to invite foreign nationals in professions that are needed to support the Seven Big Winner sectors to apply to work in the Philippines. (Immediate action PRC with support of appropriate departments, including DA, CICT, DENR, DOH, DOLE, DOT, and DTI)

J. **File bills to open the practice of professions now closed by law to foreign nationals** (criminology, environmental planning, foresters, pharmacists, radio, and x-ray technology). (Long-term action PRC, Congress, and private sector)

K. Encourage Philippine legal associations and the Supreme Court to support **changing the rule of the court** limiting the practice of law to Philippine nationals to **allow foreign lawyers to practice**. (Immediate action SC and private sector)

L. Consistent with the current role of Philippine professionals in the global workplace, **Philippine diplomacy should seek increased opportunities for Philippine professionals to work abroad**, pursuing these in negotiations on the GATS and AFAS. (Immediate action DOF, PRC, DOLE, and DTI)

Table 66: Legal restrictions on foreign equity for possible amendment

Sector	Law	Possible amendment
Adjustment firms	Insurance Code of the Philippines (PD 612)	Allow 100% foreign investment
Agriculture	Authorizing foreign corporations to engage in the rice and corn industry (PD 194);	Remove divestiture requirement
Banking	Foreign Banking Liberalization Act (RA 7721)	Allow more foreign banks to operate
	Foreign Banking Liberalization Act (RA 7721)	Remove branch limitations on foreign banks
	Rural Banks Act (RA 7353)	Allow foreign ownership of rural banks

		Allow foreign banks with full branching authority to apply for BSP approval for government deposits
	Mortgage of real property (RA 133	Allow foreign banks to bid and take possession of land (w/o transfer of title)
	Providing agrarian reform credit through banking institutions (PD 717) and Micro, Small and Medium Scale Enterprises Act (RA 9501)	Relieve foreign banks of mandated Agri-agra and MSME mandated lending requirements
General	Omnibus Investments Code of 1987 (EO 226); Foreign Investments Act (RA 7042)	Lower minimum paid-in capital for foreign equity
		Reduce foreign investment employment requirement Remove discrimination against foreign investors for BOI incentives
		Remove requirement for BOI-registered foreign firms to hire two Filipinos to understudy positions occupied by foreigners
		Remove divestiture requirement for foreign investors
Manufacturing	Act regulating the manufacture of firecrackers and other pyrotechnic devices (RA 7183)	Allow 100% foreign investment
Marine	Philippine Fisheries Code 1998 (RA 8550)	Allow 100% foreign investment in deep sea commercial fishing vessels
Mining	People's Small-scale Mining Act of 1991 (RA 7076)	Reduce US$ 50 million threshold for large/small-scale mining
Petroleum	Oil Deregulation Act (RA 8479)	Remove divestiture requirement for foreign investors
Radio communication	Regulation of radio stations and communications (RA 3846)	Allow 100% foreign investment
Recruitment	Labor Code (PD 442)	Allow 100% foreign investment
Retail trade	Retail Trade Liberalization Act (RA 8762)	Allow foreign investment in domestic retail enterprises subject to restrictions in RA 7042
Senior Citizen	Senior Citizens Act (RA 9257)	Extend discounts to resident foreigner retirees and others for reciprocity
Telecommunications	Public Telecommunication Policy Act (RA 7925)	Allow 100% foreign equity in Value-added service provider (VAS) firms to make clear VAS is not subject to 60-40 rule

Governance

Governance in its broadest sense relates to the quality of national and local government, including the executive, legislative, and judicial branches. Good governance in East Asia is often cited as a critical factor in economic development. In the Philippines, everyone from the president to the poorest citizen knows that the quality of governance has great room for improvement.

Students of the Philippines have often observed that the country is an example of a weak state but is not a failed state. The leading global ranking by the Fund for Peace in its 2010 Failed State Index places the Philippines towards the low end of its "warning" category (see Part 2 *Becoming More Competitive*).[216]

Filipinos and foreigners agree that many of the problems of the Philippines could be solved with better governance. The country has long had a reputation for widespread corruption at all levels of government. Two former presidents of the country are included in the Transparency International list of the world's ten most corrupt leaders, in which the Philippines is the only country included twice.[217]

- **Corruption and political instability**

Former president Ferdinand Marcos was forced into exile after 21 years in power, when he was overthrown by the civilian/military EDSA Revolution in 1986, also known as People Power, and died abroad in exile. Former president Joseph Estrada was likewise forced out of office in 2001, after only 30 months, by popular protests supported by the national military leadership. He was arrested and convicted of economic plunder but was later pardoned and placed second when he ran for president in the 2010 elections.[218]

---

216 Among East Asian countries, only Burma, East Timor, and North Korea are rated with 37 countries in the lowest "Alert" category, while the Philippines is included with 92 countries in the "Warning" category, along with Brunei Darussalam, Cambodia, China, Indonesia, Laos, Malaysia, Mongolia, Papua New Guinea, Thailand, and Vietnam. "Prognosis: On the whole, the Philippines is relatively stable, although the Muslim and Communist insurgencies are a serious issue and have worsened in recent years. High inequality combined with extreme environmental degradation in some areas also made life extremely difficult for the country's rural poor. The public's trust in government has also been seriously damaged by the fraud allegations and continuing institutionalized corruption. Further details can be found at www.fundforpeace.org.

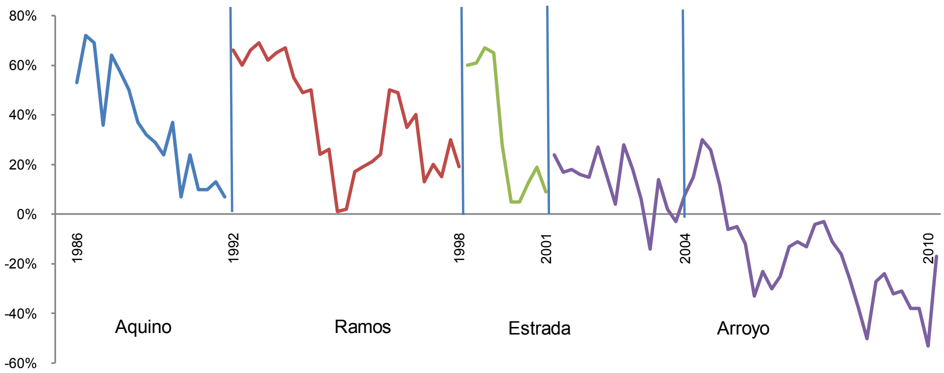
217 Ferdinand Marcos is #2 and Joseph Estrada #10. Transparency International Global Corruption Report 2004.

218 Estrada received 9.5 million votes, 26% of the total votes.

The vice president who succeeded Estrada, Gloria Macapagal Arroyo, served as president for nine and a half years from January 2001 until June 2010. Although the economy grew every quarter, her administration was marred by allegations of corruption, including alleged vote-buying that led to the resignation of ten cabinet secretaries in 2005, and record low public opinion approval ratings (see Figure 168). For much of her presidency, she fought to defend her political legitimacy, having come into office in 2001 through "people power" and having won the 2004 presidential election by a very thin plurality.

> "No pardon for anyone convicted of corruption."
>
> *Richard Gordon, Philippine Daily Inquirer, January 23, 2010*

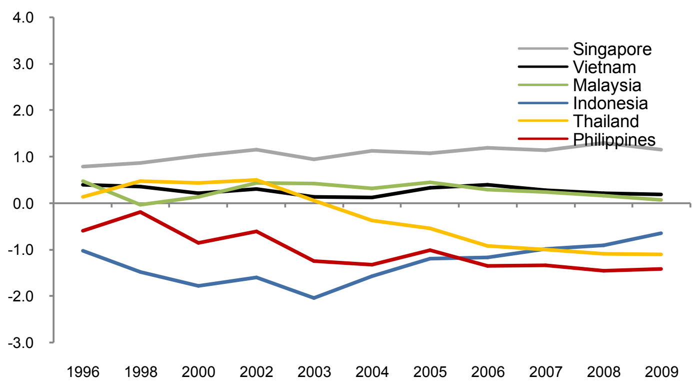
Figure 168: Net satisfaction ratings of Philippine presidents, 1986-2010



Source: SWS; Latest survey conducted: June 25-28, 2010

These periods of political instability – particularly 1983 to 1986 and 2000 to 2001 – discouraged domestic and foreign investment and weakened economic growth, while more politically stable regional economies moved forward much faster. Although there are no comparable socio-political upheavals in recent years in terms of magnitude, business perception on the Philippines' political stability remains gloomy. This only means that in order for the country to get back under the investors' radar, the government needs to undertake more economically beneficial reforms and maintain longer period of more tranquil business environment (see Figure 169).

Figure 169: Political Stability and absence of violence, point estimates, 1996-2009



Source: World Bank's World Governance Indicators; 0 (vertical axis) represents the mean point estimate of all countries evaluated

- **Political will essential**

Voluminous analysis and commentary have been written about corruption in the Philippines with numerous recommended solutions. However what has often been absent in past decades has been political will to control and reduce corruption. Unlike foreign funds and advisors, political capital cannot be imported but can only come from Filipinos with the leadership of a president strongly committed to improving governance.

The new president, Benigno S. Aquino III, was elected with a plurality of 42% percent from a field of nine candidates, and received a very high popular trust rating of 88% in a poll conducted immediately before his June 30 inauguration.[219] Expectations are extremely high that he and his cabinet will demonstrate the political will to achieve better governance. Campaigning on an anti-corruption theme, the president created high expectations for improved governance and began office with highly positive political capital.

"Kung Walang Corrupt, Walang Mahirap." ("If no one is corrupt, no one will be poor.")

Campaign slogan of President Benigno Aquino III in the 2010 Presidential Elections;
President Aquino's Inaugural speech, June 30, 2010

"Corruption basically robs government of the ability to positively affect the lives of every Filipino."

"An honest President becomes the role model. He has the moral suasion to tell everybody to toe the line and in fact can go after everybody who does not toe the line. But we also have to be practical. We give them salaries and packages that would practically guarantee that they will not be corrupt."

"We don't want a 20-percent success rate in our anticorruption cases. Once charges are filed, it must be ensured that someone will be found guilty and punished. It shouldn't be enough that the police arrest suspects. There should be a strong conviction rate because success breeds success."

President Benigno Aquino III, Philippine Daily Inquirer, May 9, 2010

219 In a Social Weather Stations poll conducted June 25 to 28, 88% of respondents indicated they had "high trust" in the president-elect.

Figure 170: Roadblocks to the fight against corruption

The Philippine Star, June 27, 2010

> "Filipinos, hoping to do something about the problem, picked a presidential candidate who appeared to have the strongest anti-corruption platform. The road to fulfillment of that campaign promise is littered with colossal roadblocks that the incoming president cannot hurdle by himself. He will need the support of many sectors to deal with a problem that has become a way of life in this country."
>
> *Editorial: Roadblocks, The Philippine Star, June 27, 2010*

- **Businessman rank corruption as biggest problem**

Because corruption adds to business costs, most opinion surveys of businessmen and investors rank corruption as the most serious problem negatively affecting the Philippine investment climate (see Part 2 *Becoming More Competitive*). It logically follows that reducing corruption will improve the investment climate. Table 67 shows the rank of the Philippines among other Asian countries in the annual Corruption Perceptions Index published by Transparency International at intervals of four years in 2001, 2005, and 2009. During the decade, the Philippines dropped to the bottom of this list of 14 Asian and South Asian countries, falling behind India, Indonesia, and Vietnam, receiving the same score in 2010 as Bangladesh, Zimbabwe, and Nigeria and just a tenth of a point above Pakistan. The Philippines was rated above all five Asian countries in 2001.[220]

Table 67: Transparency International Corruption Perceptions Index, 2001-2010

2001			2005			20010		
Rank	Country/Territory	CPI	Rank	Country/Territory	CPI	Rank	Country/Territory	CPI
4	Singapore	9.2	5	Singapore	9.4	1	Singapore	9.3
14	Hong Kong	7.9	15	Hong Kong	8.3	13	Hong Kong	8.4
21	Japan	7.1	21	Japan	7.3	17	Japan	7.8
27	Taiwan	5.9	32	Taiwan	5.9	33	Taiwan	5.8
36	Malaysia	5.0	39	Malaysia	5.1	39	South Korea	5.4
42	South Korea	4.2	40	South Korea	5.0	56	Malaysia	4.4
57	China	3.5	59	Thailand	3.8	78	China	3.5
61	Thailand	3.2	78	China	3.2	78	Thailand	3.5
65	Philippines	2.9	88	India	2.9	87	India	3.3
71	India	2.7	107	Vietnam	2.6	110	Indonesia	2.8
75	Vietnam	2.6	117	Philippines	2.5	116	Vietnam	2.7
79	Pakistan	2.3	137	Indonesia	2.2	134	Bangladesh	2.4
88	Indonesia	1.9	144	Pakistan	2.1	134	Philippines	2.4
91	Bangladesh	0.4	158	Bangladesh	1.7	143	Pakistan	2.3

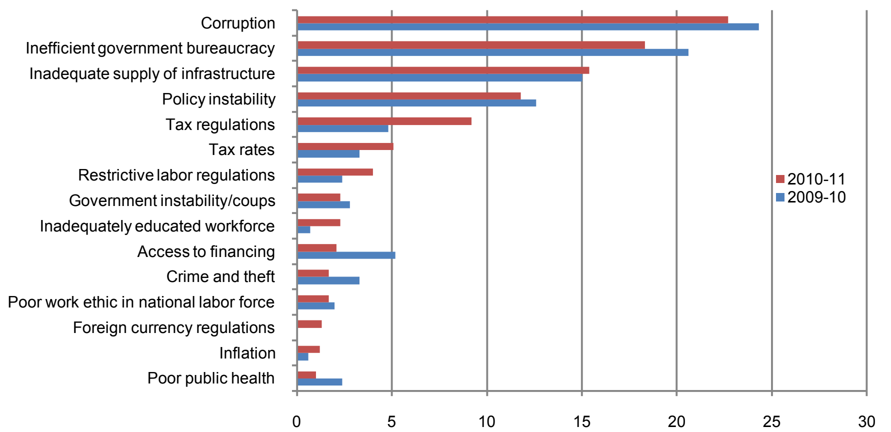
Source: Transparency International; Total number of countries evaluated: 2001=91; 2005=158; 2010 = 178

220 Bangladesh, Pakistan, and the Philippines were given the same score in 2009.

> "We must contain corruption because this evil is not only the burden of our citizens, but the scourge of good business and economic productivity. Corruption thrives because there is no transparency and openness in governance."
>
> *Erap Estrada, The Philippine Daily Inquirer, May 9, 2010*

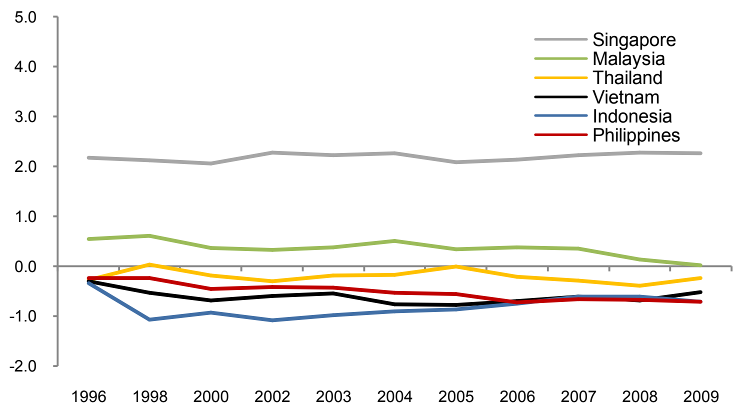
The WEF's global competitiveness and the World Bank's governance indicators echo a similar trend (see Figures 171 and 172). Data suggest that: (1) corruption remains on top of business sector concerns, (2) authorities are perceived to be ineffective in curbing the problem relative to regional counterparts, and (3) the problem has become more severe.

Figure 171: The most problematic factors for doing business in the Philippines, 2009-2010



Source: "GlobalCompetitiveness Reports" WEF: Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country/economy and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Figure 172: Control of corruption, point estimates 1996-2009



Source: World Bank's World Governance Indicators; 0 (vertical axis) represents the mean point estimate of all countries evaluated

At the national level, corruption results in lost revenues, when taxes and fees are not properly collected or not collected at all, and waste in public sector expenditures when the government spends on unneeded projects and programs and overpriced goods and services. It has been estimated that around a third of government procurement spending is wasted. An example often cited is that the private sector can build the same classroom for much less than what the government spends!

"We must make our position clear…this is a fight not only against public-sector corruption but also a commitment to clean our own ranks in the private sector. Thus, we cannot count on the Aquino administration to take on this fight alone. We must do our part."

Ramon del Rosario Jr., MBC Chairman, MBC-ECCP Joint Membership Meeting, June 25, 2010

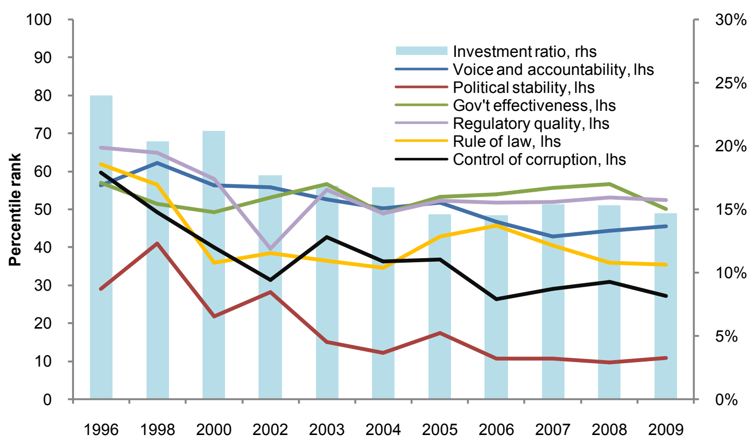
Congress has also been criticized for misuse of its Countryside Development Funds (CDF). Each congressman receives PhP 70 million and each senator PhP 200 million, for a total CDF budget of about PhP 250 billion each year.

"A sister of mine gave up on her restaurant business because she was being constantly harassed by fire inspectors who wanted her to buy fire extinguishers from them, inspectors from the labor department as well as from DTI who gave broad hints on how they can be appeased…I imagine the hurdles for investors in more controversial enterprises, like mining, would be more daunting."

Boo Chanco, Demand and Supply, Philippine Star, June 28, 2010

Widespread and deepening concerns on the quality of governance in the Philippines have clearly hampered the country's ability to maximize its economic potential. In addition to deadweight losses and financial wastes, a simple mapping of relevant data reveals that over time, the declining strength of governance measures has been accompanied by deteriorating investment ratio – a finding that has been validated and re-validated by extensive literature (see Figure 173).

Figure 173: Governance indicators and investments, 1996-2009



Sources: NSCB and World Bank

- **Some suggested solutions**

> "You have to incentivize good behavior and at the same time punish bad behavior. We lack incentives for good behavior in public service."
>
> *Gilbert Teodoro, The Philippine Daily Inquirer, May 9, 2010*

In addition to adequate political will, suggested solutions include to pay civil servants comparably to the private sector, to reduce, depoliticize and professionalize the bureaucracy and punish severely public officials proven to be corrupt. Strengthening of the Ombudsman and "lifestyle checks" of officials with fiduciary and procurement responsibilities are a good beginning but clearly have been short of the effort needed to end corruption.

Government processes should be simplified, streamlined, and privatized to reduce the cost of bureaucracy as well as opportunities for corruption by underpaid civil servants. The total number of government employees can be reduced through voluntary retirement incentives, performance reviews, and layoffs. Past plans to do so have often failed because of resistance from government employees.

Government agencies should only be headed by qualified, adequately-paid technocrats. Patronage politics makes government less efficient and prone to policy reversals when administrations change. There are more political appointees in the Philippine government than in the US federal government. Political appointments are often made three or four levels below department secretary. Only competent persons should be named to important posts. Experienced bureaucrats with continuity should be used more and paid fairly.

Government owned and controlled corporations (GOCCs) have long been criticized for creating red ink and being poorly managed. Many of their directors and senior officers were appointed as political favors, and abuses have often been reported in the press and investigated by Congress. The National Food Authority (NFA) is at the top of the list for losing money, PhP 37 billion in 2008 and PhP 63 billion in 2009, and undermining the market price for local rice farmers by subsidizing imported rice. A reform under President Ramos requiring all departments to justify or close down GOCCs was not successful. Many of the reported 143 GOCCs need to be fiscalized, rationalized, privatized, or closed. Abuses by GOCC managers in procurement, salaries, bonuses, and other perquisites have received considerable negative media attention. Such overspending took place while the GOCCs reportedly still owe the national government some PhP 24 billion.

- **The smuggling curse**

Smuggling is a major concern to domestic and foreign business because it weakens the domestic market for investors in manufacturing and importers who pay the proper duties and taxes. Counterfeit copies of over one hundred well-known brand names are marketed in the Philippines, most imported with the cooperation of customs officials. Following loud complaints from the legitimate business sector, presidents have periodically established special task forces against smuggling, e.g. in 2004 the National Anti-Smuggling Task Force (NASTF), under former Defense Secretary Reyes, and in 2006 the Presidential Anti-Smuggling Group (PASG). The only lasting solution, reform of the Bureau of Customs, has proven extremely difficult to achieve.

Domestic automotive production has been undercut by smuggling (see Part 3 *Manufacturing and Logistics*). Considerably more vehicles are registered in the Philippines each year than are manufactured and legally imported. The difference is comprised of a large proportion of illegal imports, mostly of used vehicles, many having arrived at special economic zones and some converted without adequate safety inspections. For several years, some used vehicle importers, conspiring with local courts, resisted and undermined national government policy in EO 156 to increase annual domestic automotive production and to eliminate used car imports. Along with negligible job creation, the used vehicle sector also negatively impacts on the government's import duty and excise tax revenue, since minimum taxes are collected.

Imported oil smuggling increased after the 12% EVAT was applied to petroleum imports and sales. Huge illicit sums that otherwise could build schools and provide better health care are being stolen through under-declaration of oil import volumes. An industry association has estimated annual public revenue losses at PhP 25-30 billion a year in diesel and Avturbo fuel alone. Incredibly, official statistics on oil imports declined in several recent years when GDP grew substantially.

A program was initiated in 2008 to mark petroleum products, either imported or locally refined, that had paid correct taxes with a fluid that could not be detected. Random testing was then made at various gas stations, which, if found to be selling the unmarked product were to be investigated for selling improperly taxed goods.

However, all reports of unmarked products, after being sent to the BOC were referred to the Legal Division, where no action had been taken as of August 2010. Even worse, the BOC's entire Run after the Smugglers (RATS) program, which developed cases against more than 100 suspected smugglers over five years, did not win a single case, suggesting a severe lack of political will to check smuggling.

China has been a source of many smuggled manufactured goods and food products. China's statistics for exports to the Philippines are a multiple of comparable Philippine data for imports from China. The Philippine Chinese community, which has contributed many respectable hard working taipans to Philippine commerce and industry, could do more to police its own ranks.

- **Strengthen IPR**

The Philippines does not adequately protect intellectual property rights (IPR). While the country's IPR law is fundamentally sound – and strengthened in 2003 with the Optical Media Act – the sale of counterfeit goods remains widespread because of inadequate enforcement and high demand.

IPR cases move slowly through the courts and are subject to judicial irregularities. It can take 5 to 10 years for a simple indictment against a person caught dealing in counterfeit items to be tried. An appeal can add another 2 to 5 years. Consequently, there have been no convictions in the Philippine courts for IPR offenses! This problem can be corrected if the Supreme Court would enforce its rules for courts to expedite such cases.

Enforcement will be most effective when focused on cutting off the supply of counterfeit goods by destroying illegal copying machines, confiscating smuggled contraband from wholesalers, and successfully and quickly prosecuting criminal offenders.

Continued or further deterioration of IPR protection could jeopardize the duty-free Generalized System of Preferences (GSP) entry into the US market of almost US$ 1 billion in annual exports, should the provisions of Section 301 be applied. For many years, the Philippines has been on the US Government Section 301 "watch list" of countries with inadequate IPR enforcement.

> "Every transaction must pass the test of transparency. Every act shall be subject to the glare of public scrutiny. Every contract must pass through established rules of public bidding."
>
> "We must be able to defend in the halls of Congress or in the bar of public opinion everything and anything we do in the privacy of our rooms and cubicles."
>
> "Every Filipino must have access to our services without the aid of fixers. Every license must be processed and issued with the same care and speed of service we render to everyone."
>
> "Every franchise shall be given only to qualified applicants and meritorious proponent. In all processes, everyone will play by the same rules."
>
> *DOTC Secretary Jose de Jesus, addressing DOTC employees, Philippine Daily Inquirer, July 6, 2010*

Headline Recommendations	
1.	**Demonstrate firm, consistent political will to enforce laws against corruption forcefully** in the public and private sectors, in revenue collection, and public expenditures. **Government should join the Integrity Initiative** and submit government departments to the same control mechanisms as the private sector. An impartial Ombudsman should be strengthened with trained staff. **Private sector must do more to police its ranks** and initiate **compliance and integrity programs**.
2.	**Smuggling must be vigorously countered**. The BOC with DOJ support **should successfully prosecute smugglers.** Further reform **public sector procurement.** Expand **e-procurement**, reform **project selection process and bidding** procedures, and intensify other efforts to **reduce waste in public expenditures**. Increase public sector **transparency**.
3.	**Reduce the fiscal burden of GOCCs** by fiscalizing, rationalizing, privatizing, and closing. **Focus Congressional CDF more on priority social infrastructure needs**. **Undertake civil service** reforms to professionalize government. **Reduce red tape**. **Strengthen Corporate Governance**; reduce abuse of **intellectual property rights**; **Legalize *jueteng***.

Recommendations: (16)

A. **The government must demonstrate through consistent example that it has the political will to greatly reduce corruption**. Example includes regular application of lifestyle check programs and investigations of government officials in agencies that collect revenues and approve large expenditures and their suspension and prosecution, when warranted. Example includes investigating, bringing charges against, and successfully prosecuting private sector persons and corporations guilty of not paying proper taxes, bribery, and other major corrupt acts. **The government should join the Integrity Initiative of the private sector** and submit government departments and agencies to the same tools, control mechanisms, and integrity circles as the private sector. (Immediate action DOF, BIR, BOC, DOJ, Ombudsman, judiciary, and private sector)

B. Public officials, in all branches and all levels of government, and private **persons found guilty of major corrupt activities should, after a fair trial, be punished with heavy sentences, including imprisonment and seizure of assets**. The cases against them should be widely publicized. Laws should be amended periodically to assure that penalties are sufficiently heavy to serve as a deterrent to corruption when enforced. (Medium-term action DOJ, Ombudsman, judiciary, and Congress.)

C. The **Ombudsman must be impartial** and willing to investigate thoroughly all major allegations of official corruption, without favoritism or political considerations. The **resources of the Office of the Ombudsman should be substantially increased** in terms of salaries, staff, and operating budget. (Medium-term action Ombudsman, DBM, and Congress)

D. Government agencies, including the Congress, should **establish websites where citizens can anonymously email information** about suspect or known corrupt activity for investigation. (Immediate action major departments and Congress)

E. The **private sector should do more to police its ranks** to discourage corrupt relations with government agencies, in revenue collection and procurement. **Compliance and integrity programs for businesses** to pledge not to bribe public officials, to report corruption, and to embed such behavior as standard corporate practice should be undertaken. (Medium-term action private sector)

F. **Smuggling must be vigorously countered** to protect legitimate businesses and collect tens of billions of pesos of public revenue that is being lost, especially in the petroleum sector. The RATS program should be properly implemented to correctly prosecute and convict smugglers. Suppliers of unmarked oil (which has not paid taxes) should be convicted for tax evasion. (Immediate DOF, BOC, DOJ and private sector)

G. **Further reform public sector procurement**. Expand the **public sector e-procurement system**. Reform the **project selection process and bidding** procedures to reduce potential corruption. Otherwise intensify efforts to **reduce waste in public expenditures**, estimated as high as 30% of total discretionary spending. (Medium-term action all government agencies, Congress, and private sector)

H. **Increase public sector transparency**. Issue an executive order instructing all government agencies to release appropriate information on government policies and procurement, when requested by the public; support passage of the Freedom to Information Act in the Congress. Expand e-governance. (Immediate action OP, DOJ, CICT, and Congress)

I. **Reduce the fiscal burden of GOCCs** by setting and enforcing limits on their salaries, fees, and perquisites, rationalizing their continued operations, privatizing where the private sector can perform their function better and closing those which no longer serve a public purpose. (Immediate action DBM, DOF, and departments and agencies managing GOCCs)

J. **Focus congressional CDF more on priority social infrastructure needs** by require a higher percentage of each CDF to be spent on education (e.g. classrooms, computer centers with English software) and public health (e.g. nutrition, essential medicines, operations). (Immediate action DBM and Congress)

K. **Undertake civil service reforms**, reducing the number of political appointments and strengthening career civil service professionals in more senior positions. Pay competitive salaries to employees of critical agencies and improve all public sector salaries when budgets allow, while rationalizing positions. (Medium-term DBM, CSC, and all executive departments)

L. Continue programs to **reduce red tape and speed up bureaucratic decisions**. Implement the Anti-Red Tape Act that establishes deadlines for bureaucratic actions under the Citizens Charter (see Part 4 *Business Costs*). (Immediate action CSC and all government agencies)

M. **Strengthen Corporate Governance**. Intensify reforms in recent years to improve corporate governance through training directors, requiring independent directors and compliance with higher standards of corporate governance. (Immediate action private sector)

N. **Reduce abuse of intellectual property rights**, including brand name forgery. This will encourage more FDI and eventually will remove the Philippines from the US Section 301 priority "watch list." Enforcement is most effective when it focuses on cutting off supply of contraband goods by destroying illegal copying machines, confiscating smuggled products, and quickly sentencing criminal offenders. (Medium-term action DOJ, DTI, BOC, and courts)

O. **Legalize jueteng**. Making the popular numbers game legal would eliminate a major source of corruption for local police and politicians and could increase government revenues by taxing transactions. (Medium-term action by DOJ, DOF, and Congress)

P. **Strengthen the anti-corruption legal framework by passing** (a) Anti-Graft and Corrupt Practices Act amendments, (b) Ombudsman Act amendments, and (c) Whistleblowers Protection Act. (Medium-term action DOJ, OP, and Congress)

Judicial

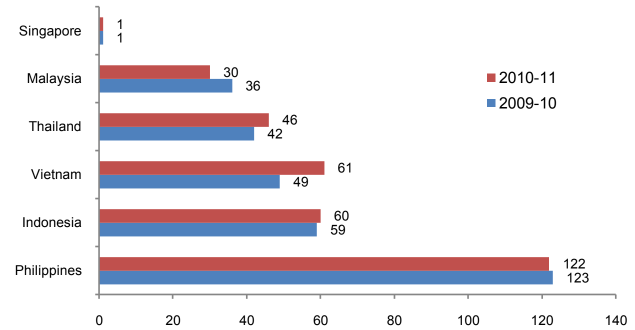
Filipinos and foreigners alike have long urged reforms in the administration of justice in the Philippines. Among the most common observations are clogged dockets resulting in long periods before decisions are promulgated, Supreme Court rulings that negatively affect the business and investment climate, the use of courts and sheriffs for legal harassment, including the questionable issuances of Temporary Restraining Orders (TROs).

The Supreme Court is responsible for administering the judicial system and has for some years been implementing foreign donor assisted projects that have assisted the court's reform priorities in several areas. Judicial salaries were increased under RA 9227, which helped reduce the 30% vacancy rate for judges. Increasingly, judges are being disciplined for infractions. The incidence of issuances of arbitrary TROs against foreign companies has fallen. The total caseload of all courts peaked in 2000 and has since gradually declined. The Alternative Dispute Resolution Act of 2004 has encouraged more parties to arbitrate their cases rather than using the courts.

> "The Supreme Court…all cases or matters filed…must be decided or resolved within twenty-four months from date of submission, twelve months for all lower collegiate courts, and three months for all other lower courts."
>
> *Article VIII, The Philippine Constitution*

Despite this laudable progress, the Philippines remains very poorly-rated in the Global Competitiveness Report 2010 for its efficiency of legal settlement, ranking very far below the other ASEAN-6 and 123 of 133 countries globally (see Figure 174).

Figure 174: Efficiency of legal framework in settling disputes, rank, 2009-2010



Source: WEF Global Competitiveness Reports; Total number of countries evaluated: 2009-10 (133); 2010-11 (139)

Another comparative measure, in two World Bank reports, shows the Philippines requiring 37 procedures taking 842 days (more than two years) for enforcement of contract, which required 21 procedures and 150 days in Singapore. However, the Philippines was the highest-rated among the ASEAN-6 + 4 Asian group for the strength of its laws for arbitration of commercial disputes and the ease of the arbitration process. Unfortunately, the commercial arbitration process was extremely low-rated for the extent of judicial assistance, suggesting that courts prefer to decide themselves cases brought to them. These ratings argue that more disputes should be arbitrated and that the courts should encourage the arbitration process (see Table 68).

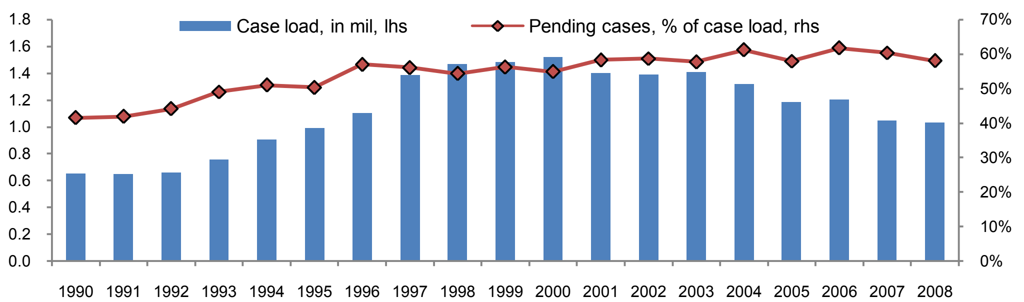
Table 68: Commercial disputes arbitration and enforcement of contracts, ASEAN-6 + 4

	Commercial disputes arbitration			Enforcement of contract		
	Strength of laws index (0-100)	Ease of process index (0-100)	Extent of judicial assistance index (0-100)	Procedures (number)	Time (days)	Cost (% of claim)
China	95	76	60	34	406	11.1
India	89	68	53	46	1,420	39.6
Indonesia	95	82	41	39	570	122.7
Japan	95	78	66	30	360	22.7
Korea, Rep.	95	82	70	35	230	10.3
Malaysia	95	82	67	30	585	27.5
Philippines	95	87	34	37	842	26.0
Singapore	95	82	93	21	150	25.8
Thailand	85	82	41	35	479	12.3
Vietnam	85	62	57	34	295	28.5

Source: World Bank, Investing Across Borders 2010 and Doing Business 2010

The total caseload of Philippine courts more than doubled to 1.5 million in the decade ending in 2000. Since then, the caseload has declined significantly to around one million (see Figure 175).

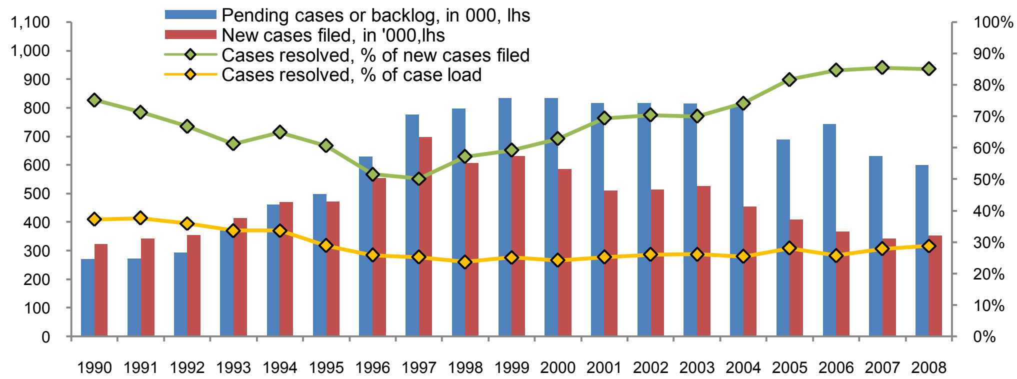
Figure 175: Caseload, in Mn, 1990-2008



Source: Supreme Court of the Philippines and NSCB; Note: Official data for 2005-2008 are incomplete, thus, adjusted based on past figures to make the series comparable.

Figure 176 shows a decline in the case backlog beginning in 2000, a decline in the volume of new cases filed, and a fifty percent increase in the percentage of new cases resolved.

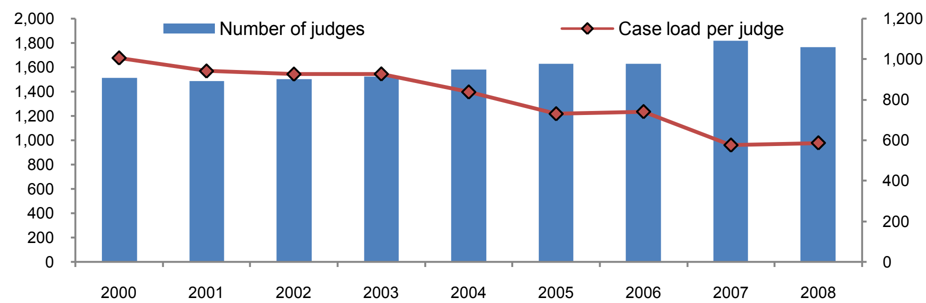
Figure 176: Pending cases and new cases filed per year, 1990-2008



Source: Supreme Court of the Philippines and NSCB; Note: Official data for 2005-2008 are incomplete, thus, adjusted based on past figures to make the series comparable.

Figure 177 shows that the number of cases per judge has declined by about 50% as the number of judges has increased. With more judges handling fewer cases each, then the case backlog should shrink and the delivery speed for judicial decisions should improve. In a mid-2010 speech, Chief Justice Corona reported that there are 1,771 judges serving out of a total of 2.29 positions with total vacancies numbering 519 or 22.7%.

Figure 177: Caseload per judge, annual average, 2000-2008



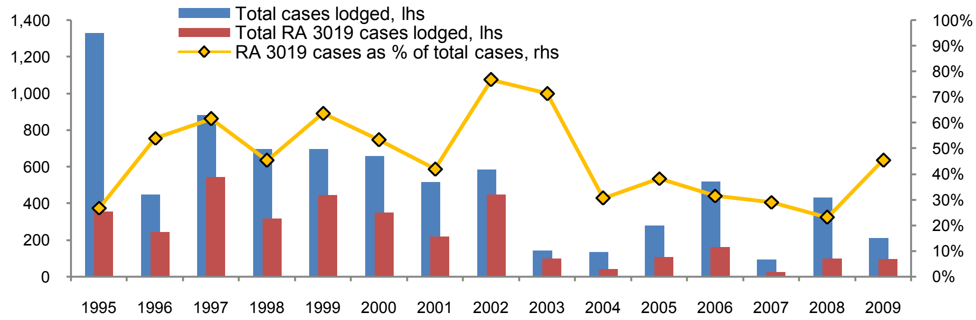
Sources: Supreme Court of the Philippines and NSCB

Data on court convictions proved difficult to research. However, the Sandiganbayan provided statistics for a period of 15 years for cases involving RA 3019, the Anti-Graft and Corruption Act (see Figures 178 and 179). The Sandiganbayan is the special court for trying government officials, whose most famous case was the trial and conviction of former president Estrada in 2007. The total number of cases filed before the Sandiganbayan for graft and corruption violations has fallen consistently since 2002 and has remained lower than under previous presidents Ramos and Estrada. However, in recent years, the percentage of total cases disposed of resulting in convictions increased to 20%.

Public Officials and Busine
Martha Stewart
American: business magnate, TV host, and author, convicted of conspiracy, obstruction of justice and making false statements. Sentenced to 5 months in prison and a 2 year supervised release.
Bernard Ebbers
Canadian: former CEO of WorldCom (American) convicted of fraud, conspiracy, false financial reporting and subsequent loss of US$100 B by investors. Sentenced to 25 years in prison.
Kwame Kilpatrick
American: Former Mayor of Detroit (2002-2008) charged with felony. Sentenced to 4 months in jail. Later, he was sentenced to 18 months to 5 years in prison for violating his probation.
George H
American: Former Illinois g
felony), including rackete
tax fraud and making fa
Sentenced to 6 years
Jeffrey Skilling and Kenneth Lay
American: Former CEOs of Enron Corp convicted of security and wire fraud and insider trading. Lay could have faced a sentence of up to 45 years in prison but died. Skilling was sentenced to 24 years and 4 months in prison with with a $630 M payment.
William Jefferson
American: Former representative (Louisiana; 1991-2009) convicted of bribery, money laundering, wire fraud and racketeering. Sentenced to 13 years in prison.
Dennis Kozlowski
American: Former CEO of Ty
International convicted of
misappropriation of corporate f
Sentenced to 25 years in pris
Marion Barry
American: Former Mayor of Washington, DC arrested on drug charges in sting operation. Sentenced to 6 months in prison.
Rod Blagojevich
American: Former governor of Illinois (2003-2009) accused of fraud and bribery. Impeached in 2009 for corruption and misconduct and banned from holding public office. On August 2010 Blagojevich was convicted on one count of lying to investigators.
James Traficant
American: former representative (Ohio; 1985-2002) convicted of taking bribes, filing false tax returns, and racketeering. Sentenced to seven years in prison.
Randy Cunningham
American: Former representative (California; 1991-2005) accused of obtaining government contracts with bribes. Pleaded guilty of bribery, mail fraud, wire fraud, and tax evasion. Sentenced to 8 years and 4 months in prison with a $1.8 M fine.
Manuel Noriega
Panamaian: Former military dictator accused of drug-trafficking by the U.S. In 1992 he was sentenced to 17 years. In 2010 Noriega was convicted in France for allegedly using French banks to conceal profits from the Colombian cocaine trade and was sentenced to seven years in prison.
Arnoldo Aleman
Nicaraguan: Former Pres
(1997-2002) convicted for
laundering, embezzleme
corruption. Sentenced
years in prison.
Rafael Angel Calderon Fournier
Costa Rican: Former president (1990 - 1994) convicted and sentenced to 5 years in prison for embezzling funds ($520,000) intended for hospital equipment .
Raúl Salinas
Mexican: Businessman and brother of former President Carlos Salinas found guilty of plotting the murder of a top official of the ruling party and sentenced to 27.5 years in prison. Salinas was acquitted and liberated with a posted bail of $3 M.
Angelo Calmon de Sa
Brazilian: Former minister of Industry and Commerce found guilty of mismanaging Banco Econômico leading to its bankruptcy . Sentenced to 13 years and 4 months in prison.
Alberto Fujimori
Peruvian: Former president (1990-2000) charged with corruption and human rights abuses. Sentenced to 25 years in jail in 2009.
Winnie Madikizela-Mandela
South African: Former Deputy Minister of Arts, Culture, Science and Technology (1994) and ex-wife of former President Nelson Mandela found guilty of fraud and theft. Sentenced to 5 years in prison. Case was appealed to 3.5 years suspended sentence.

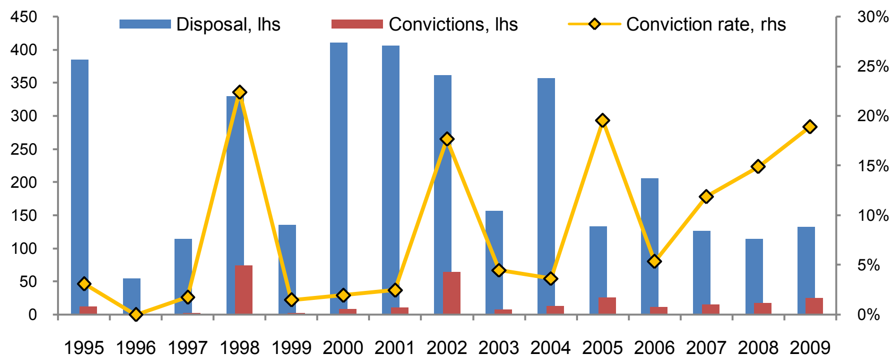
nessmen Convicted of Corruption

Figure 178: Violation of RA 3019 charges filed at Sandiganbayan, total number of complaints per year, 1995-2009



Source: Sandigan Bayan; RA 3019 - Anti Graft and Corruption Practices Act

Figure 179: Violation of RA 3019, charges filed at Sandiganbayan, conviction rate, 1995-2009



Source: Sandigan Bayan; RA 3019 - Anti Graft and Corruption Practices Act

> "A corrupt judiciary is totally unacceptable as it severely handicaps the legal and institutional mechanism designed to curb abuses in government."
>
> *Chief Justice Renato Corona, quoted in Manila Bulletin, June 28, 2010*

Supreme Court Decisions. As the ultimate interpreter of Philippine law, the Supreme Court has a critical role to play in decisions that can impact on the country's business and investment climate. In the course of their legal careers, justices have little opportunity to become very familiar with the economy and business affairs. Some observers have criticized the court for decisions with harmful consequences for the business environment.

However, the court appears to have become more cautious about potentially harmful consequences to the nation's business and investment climate of major legal decisions. Its rulings that are supportive of the economy should also be better researched and recognized. Too often decisions with negative consequences are remembered better than those with positive ones. Examples of the latter include the Supreme Court's interpretation of the Clean Air Act that incineration can take place so long as harmful gases are not released (2002); its reversal of its position on the Mining Act (2004); and its order to several government agencies to clean up and rehabilitate the polluted Manila Bay (2008).

Nonetheless, there were cases in which the Supreme Court appeared to favor domestic interests over foreign investors, and the Supreme Court has issued a number of controversial decisions having negative effect on the business and investment climate of the country (see Table 69).

As a possible ameliorative measure, the Supreme Court could more frequently request *amicus curiae* expert advice in cases impacting on the business environment. In making various decisions where the court believes it lacks expertise, the Supreme Court has sometimes requested experts to provide testimony. This same procedure should be followed when important economic issues are decided.

Table 69: Supreme Court decisions with negative impact on business

Year	Case	Impact
2008	Manulife	Supreme Court ruled that an agent of a life insurance company was an employee and not an independent contractor, which is the standard practice internationally. Upon the motion for reconsideration by Manulife the court changed its decision.
2008	Pandacan terminal LGU spot zoning	Supreme Court sustained an LGU decision rezoning an oil storage area from industrial to commercial and forcing its relocation.
2003/05	Subic Shipyard	Supreme Court reversed its 2000 decision that a shipyard is a public utility; in a 2003 SC Resolution it upheld that a shipyard is not a public utility and reaffirmed this decision in 2005.
2004	Mining Act of 1995	1st decision prevented needed foreign capital from investing; 2nd decision in Dec 2004 reversed previous decision and allowed foreign investment in large-scale mining via FTAA.
2003	Meralco	Disallowed a 20-year old accounting practice; ordered retroactive refunds that impair creditworthiness of the country's largest distribution utility; discouraged foreign bank lending to power projects.
2003	PIATCO	Nullified a government contract of a consortium, involving US$ 350 million German investment, which built the new passenger terminal, leaving it largely unused and deteriorating. Subsequently, two arbitration panels decided in favor of the government in that the Anti-Dummy Law was violated.
2002	International School Manila	Reaffirmed a lower court decision that foreign-hired and local-hired employees should receive same salaries, citing UN Universal Declaration of Human Rights.

2000	Subic Shipyard	Declared a shipyard a public utility and awarded contract to losing bidder 5 years after it awarded to Singaporean-led Keppel group (with foreign equity above 40% minimum for public utilities).
1997	Manila Hotel	Nullified a competitive tender for the privatization of a government-owned hotel awarded to a foreign investor, declared the hotel national patrimony, leaving the award of the contract to the only domestic bidder.
1991	Taiwan Naptha Cracker Plant	Overruled the approval by the Board of Investments of foreign investor group project originally in Bataan then moved to Batangas; the proponents abandoned the US$ 1 billion project losing US$ 25 million.

Source: AmCham

In August the Supreme Court ordered a TRO on the national government applying the VAT to toll road fees, with the opponent arguing that only the Congress can initiate this taxation. A Malaysian company which had completed an extension of a heavily-used toll road that connects it to another toll road and saves time for travelers refused to open the new road until it knows what its revenue stream will be like. Such judicial intervention come at a time when the new Aquino administration intends to promote investment by the private sector in infrastructure projects and the decision of the Supreme Court will be carefully watched by domestic and foreign investors.

The docket of the Supreme Court is one of the most crowded in the country. According to a former Chief Justice, the court has some 7,000 cases divided among its 15 members.[221] New cases arrive every month. The Supreme Court now uses computers to track the status of cases with the goal of delivering justice faster.

> "[T]he Supreme Court has struggled to speed up the delivery of justice by…ordering continual trials for certain cases, filling up (judicial) vacancies, encouraging the use of arbitration and mediation, increasing the compensation of judges, computerizing court processes…etc.
>
> *Speeding up Quality Justice, Artemio V. Panganiban, PDI, September 12, 2010*

The heavy load of cases of the Philippine Supreme Court could be reduced through greater selectivity. Compared to many countries, the court assumes a tremendous burden of cases, so that it is challenged to meet the constitutional requirement to reach decisions within 24 months. By contrast, each year, the US Supreme Court receives approximately 10,000 petitions for certiorari. But only less than 100 are granted plenary review with oral arguments, while an additional 50 or so are disposed of without plenary.

[221] When he arrived at the Supreme Court in 1995, he found a case among the 1,200 assigned to him that had reached the Supreme Court ten years before, involving a man convicted of murder. Upon review the evidence against him was found weak, and he was released from Bilibid Prison after 20 years there. Former Chief Justice Artemio V. Panganiban in a column in the PDI, September 12, 2010.

Headline Recommendations	
1.	Continue judicial reforms to speed up justice in all courts by **hiring more judges and increasing salaries.** Continue to **reduce the caseload** of all courts by more **encouragement of arbitrated settlements in civil cases**. **Improve BIR, BOC, and Ombudsman legal staff to prepare better cases** with better prospects of successful prosecution and conviction.
2.	The **Supreme Court should request *amicus curiae*** expert advice in ruling on issues that may adversely impact on the investment climate. The Supreme Court could reduce its caseload by **being more selective in accepting case.** Rules of the Court should be changed to **recognize foreign arbitration decisions without reopening cases.**
3.	Create a **special court for Strategic Investment Issues.** Oversee the environmental courts so that **application of Philippine environmental laws strongly supports responsible mining practices**.

Recommendations: (12)

A. Continue to **increase judicial salaries and hire more judges**, encouraging new judges to reduce the case backlog even more. Steadily raise the budget for the judicial branch from the present 0.008% of the national budget. (Medium-term action Supreme Court, DBM, and Congress)

B. **Discipline errant judges** who do not follow the rules of the court or the laws of the land. (Medium-term action Supreme Court)

C. **Avoid capricious and arbitrary TROs**, which too often are unfair to one party in a dispute. (Medium-term action all courts)

D. The **Supreme Court should request *amicus curiae*** expert advice in cases impacting on the business environment. (Immediate action Supreme Court)

E. Make greater use of **alternative dispute resolution and arbitration to resolve** civil disputes outside of courts, which should reduce the backlog of cases and hasten justice. (Immediate action all courts and the private sector)

F. In order **to strengthen foreign arbitration it will be essential to change the "rules of the court."** While Philippine law provides that all arbitration awards have to be confirmed by Philippine courts for execution, it is necessary that the courts not reopen the cases but just confirm them. Reopening of cases should be limited to proven gross negligence of the arbiters. (Medium-term action Supreme Court)

G. **Reduce the caseload of the Supreme Court** by limiting acceptance of cases largely to cases involving national issues. (Medium term action Supreme Court)

H. Create a **special court for Strategic Investment Issues** where the justices have been chosen based on familiarity with international investment and business issues and laws. (Immediate action Supreme Court)

I. Oversee the environmental courts in administering the Writ of Kalikasan so that **application of Philippine environmental laws supports responsible mining practices** and results in substantial socio-economic benefits for the Philippines. (Medium term action Supreme Court)

J. The Ombudsman should increase its investigations of allegations of corruption against public officials. The **Sandiganbayan** conviction rate should continue its **increasing rate of convictions for graft and convictions**. (Immediate action Ombudsman and Sandiganbayan)

K. The legal divisions of the **BOC and BIR should be given the resources** and management leadership to **prepare smuggling and tax cases more thoroughly** to increase the chances for successful prosecution and conviction. (Medium-term action BIR, BOC, DOF, DOJ, and courts)

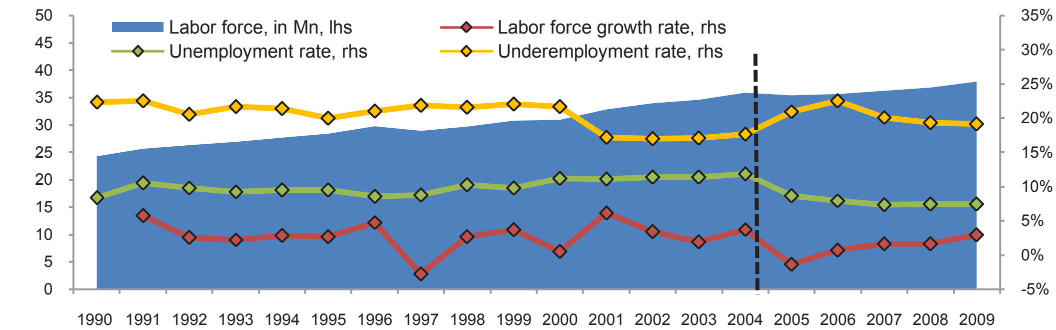
L. **End harassment seizures of private businesses by sheriffs**. (Immediate action all regular courts)

Labor



With a population of nearly 100 million growing at 2%, the Philippine economy needs to create many more jobs, as well as better quality jobs, than it has been doing. The size of the labor force as of July 2010 was 39 million, out of an estimated 61 million population aged 15 years and over. Of this total, some 36 million persons were employed. The unemployment rate stood at 6.9 percent, representing 2.7 million persons, and the underemployment rate was 17.9 percent, representing 6.5 million persons. Over nine million Filipinos would like to work more or would like to have some work, either full or part time (see Figure 180).

Figure 180: Labor market, key indicators, 1990-2009

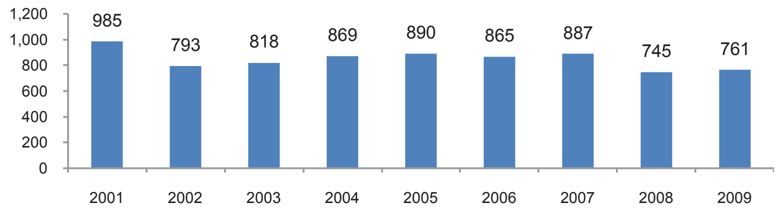


Source: NSO; Note: Definitions changed in April 2005

Filipinos who enter the workforce each year averaged 846,000 for the past decade (see Figure 181). The economy does not create enough quality jobs to employ them all. Some of those seeking jobs instead go abroad to join the more than 8 million Filipino immigrants and overseas workers, while others remain unemployed and underemployed in the Philippines, often assisted by remittances from relatives working abroad.[222] A significant percentage of college graduates cannot find employment until some years after they leave school; 19% of the unemployed in 2009 were college graduates (see Figure 16). Without the demand for Filipino employment overseas, the country's unemployment and underemployment rates could be two to three times higher.

222 Remittances to relatives in the Philippines are expected to reach US$ 20 billion in 2011.

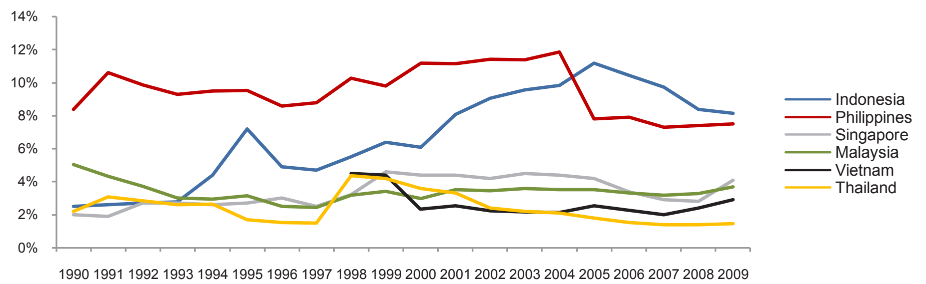
Figure 181: New entrants to the labor force, in '000, 2001-2009



Source: DOLE-BLES

Indonesia and the Philippines have the highest unemployment rates among the ASEAN-6 (see Figure 182). The other four ASEAN-6 had employment rates at around four percent and below with Thailand at two percent.

Figure 182: Unemployment rates, ASEAN-6, 1990-2009

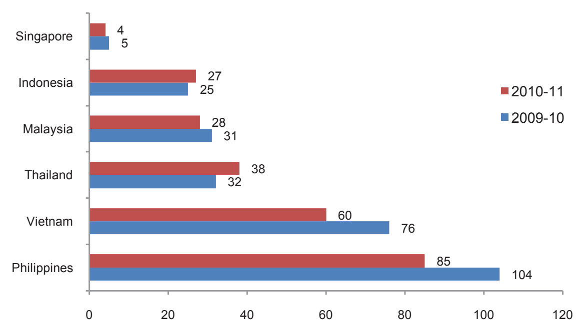


Sources: ADB and respective national statistics offices; Note: no data for Vietnam before 1997; Philippines revised the its definition of "unemployed" in April 2005

Figure 183 shows that the Philippines has the highest brain drain of the ASEAN-6, with Singapore, Indonesia, Malaysia, and Thailand ranked among the top 30% of the 139 countries covered in the Global Competitiveness Survey. A reason for the low rank of the Philippines is that the economy does not provide sufficient jobs to allow them to remain at home.

Longstanding emigration relationships with Australia, Canada, New Zealand, and the US and their English-speaking skills provide many Filipinos with better access to foreign job opportunities than workers in the other ASEAN-6 economies.

Figure 183: Brain drain rank, ASEAN-6, 2009-2010



Source: WEF Global Competitiveness Reports; Total number of countries evaluated: 2009-10 (133); 2010-11 (139)

Some find employment abroad because they lack the skills for locally available jobs. For example, in the BPO sector demand for qualified applicants is very high, but only a few qualify. While a customer relations agent in Manila earns as much as a household help in Hong Kong, a Filipino in the latter category may lack the skills to qualify for BPO employment at home.

Despite considerable efforts undertaken by the private sector, education officials, and government, much remains to be done to match the educational and training curriculum to available jobs. In recent years awareness has increased of the need for schools to revise their curricula to address the mismatch of skills and jobs. Until this challenge is solved, inadequate skills (e.g. English, math, science, engineering, entrepreneurship, logical thinking, research, writing, and blue collar training) will prevent many young Filipinos from qualifying for available jobs in the private sector.

More young Filipinos need to acquire specialized fields related to the Seven Big Winner sectors, especially in agribusiness, creative industries, manufacturing, and mining. The fast-growing BPO sector, which is expected to hire 100,000 more employees in 2010 (and require commensurate new office space), would grow even faster if new college graduates and older applicants had better skills.

The Department of Labor (DOLE) is undertaking Project Jobs Fit to identify the new, emerging employment sectors for the next decade and the skills needed for future jobs in these sectors.[223] Educational institutions and other stakeholders should develop the curricula and teaching materials that will train students in order to increase their chances of being employed in the new sectors, thus reducing the job mismatch and unemployment.

The DOLE categorized the emerging employment sectors as (1) Key Employment Generators (KEGs), (2) Emerging Industries, (3) Hard-to-fill Occupations, (4) In-demand Occupations, and (5) Overseas Employment KEGs.

(1) Key Employment Generators

a. Agribusiness
b. Cyberservices
c. Health and Wellness
d. Hotel, Restaurant, and Tourism
e. Mining
f. Construction
g. Banking and Finance
h. Manufacturing
i. Ownership Dwellings and Real Estate
j. Transport and Logistics
k. Wholesale and Retail Trade
l. Overseas Employment

[223] DOLE's Bureau of Local Employment headed a multi-agency team that prepared a 200-plus page study available at http://ble.dole.gov.ph or at http://www.dole.gov.ph.

(2) Emerging Industries

a. Creative Industries
b. Diversified/Strategic Farming
c. Power and Utilities
d. Renewable Energy

(3) Hard-to-fill Occupations

a. Agribusiness - Food processors/Food technicians
b. Cyberservices - Animators
c. Health and Wellness - Spa/Massage therapists
d. Hotel, Restaurant, and Tourism - Cooks

(4) In-Demand Occupations

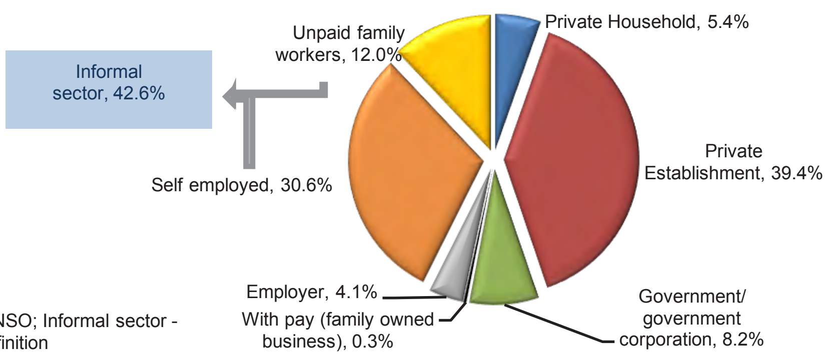
a. Agribusiness - Aquaculturists
b. Health and Wellness - Opticians
c. Hotel, Restaurant, and Tourism - Bakers

(5) Overseas Employment KEGs

a. Healthcare
b. Building and Construction
c. Petroleum/Oil and Gas/Energy
d. Hotel, Restaurant, Tourism, and Gaming Industry
e. IT/Cyberservices
f. Manufacturing
g. Seafaring
h. Electronics
i. Household Services
j. Production and Production-related Work

Since job creation requires investment, the government should pursue high growth policies that maximize investment and improve productivity. This in turn will create better quality jobs in the formal sector that pay better, offer more job security, and yield increased payroll tax revenue for the BIR.

Figure 184: Employment by class of worker, 2009



Source: NSO; Informal sector - BLES definition

In Figure 184, showing employment by class of worker, the informal sector was 42.6% of the workforce in 2009. By developing programs to improve the quality of jobs, policy makers hope to substantially increase the share of full-time employment with private firms from its current 39.4% of the workforce.

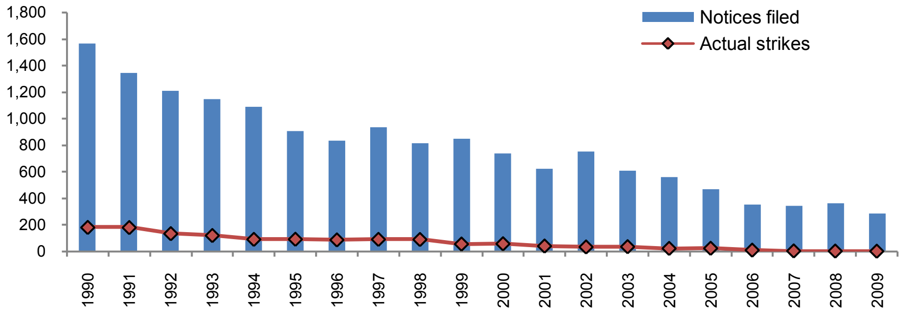
Minimum wages and holidays are discussed in Part 4 under Business Costs, and Part 3 *Manufacturing and Logistics* discusses the decline of Philippine export industries based on low-cost labor manufacturing in the Philippines. Investment in such manufacturing for export has concentrated within Asia over the last decade in China, Indonesia, and Vietnam. Falling tariffs from global and regional trade liberalization and weak anti-smuggling enforcement have exposed Philippine manufacturers to competition from cheaper imports in the domestic market, causing loss of market share for Philippines exports in international markets as well as for Philippine-produced goods in the domestic market. Consequently, hundreds of thousands of jobs in manufacturing have been lost.

However, with wages rising in the fast-growing coastal areas of China, manufacturers are moving inland, where wages are 30% less, or to other Asian countries. Potentially, millions of manufacturing jobs may shift away from these provinces in the next few years. The Philippines may be able to attract some of them to relocate to industrial estates in Central Luzon and Cebu if a competitive package for electricity, labor, and other operating costs can be created. The Clark/Subic SEZs and Mactan, with their logistics connections and large populations, should be able to offer an opportunity to set up new zones with special incentives, such as discounts, for exporters who relocate to the Philippines and are willing to hire large numbers of workers.

The Philippine Labor Code is 36 years old, out of date, and out of tune with regional developments. Efforts to reform it have been objected to by militant labor groups and their allies in Congress, who advocate amendments that would make the Philippines less attractive to private sector investment relative to regional competitors. Foreign observers have commented that the statist advocacies of leftist groups in the Philippines have learned little from the success of China and Vietnam becoming integrated into the global logistic chain and attracting high volumes of FDI to build strong export manufacturing industries that have created millions of jobs.

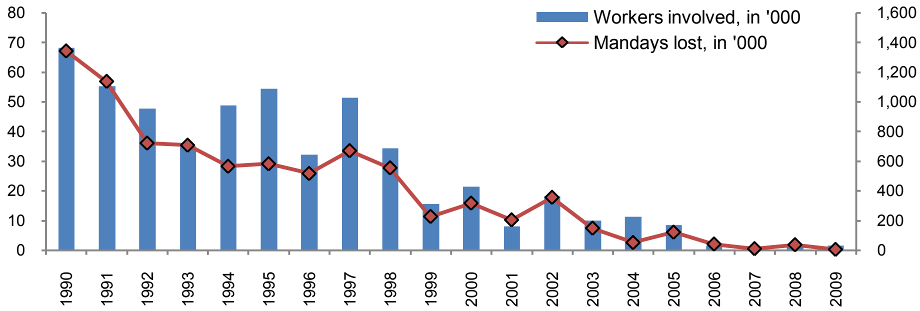
Disruptive labor action has almost disappeared in recent years, as shown in Figures 185 and 186. The incidence of labor strikes has declined steadily since a high in the years immediately after the fall of the dictator president Marcos in 1986. In recent years, very few actual strikes have taken place, and most lasted for only a few days. Notices of strikes have been much higher than actual strikes. However, preventive mediation action has usually resolved issues without workers going on the picket line. Increasingly, labor and management in the country have been able to resolve differences without the disruption of business operations.

Figure 185: Notices of strikes filed and actual strikes, 1990-2009



Source: BLES-DOLE

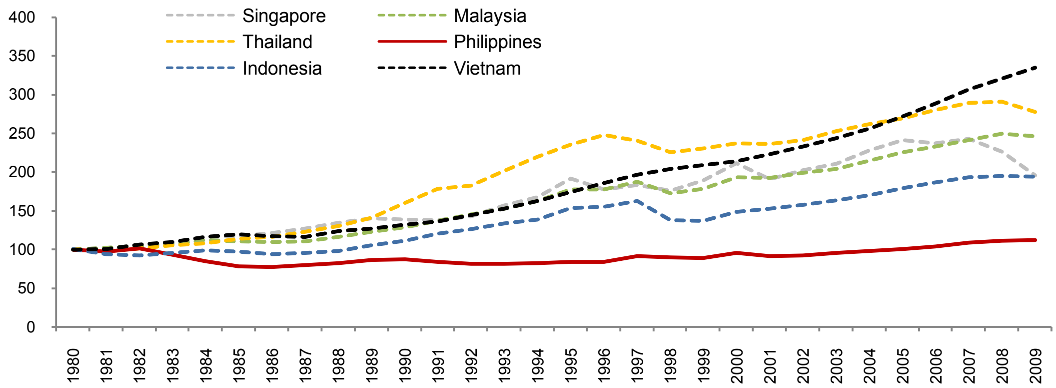
Figure 186: Workers involved in strikes and mandays lost, 1990-2009



Source: BLES-DOLE

Economists comment on the inability of the Philippine economy to raise labor productivity over many decades, as shown in Figure 187 comparing the Philippines within the ASEAN-6. All five of the other ASEAN economies have increased productivity since 1990. It more than doubled in Thailand and more than tripled in Vietnam. Productivity is GDP divided by the workforce.

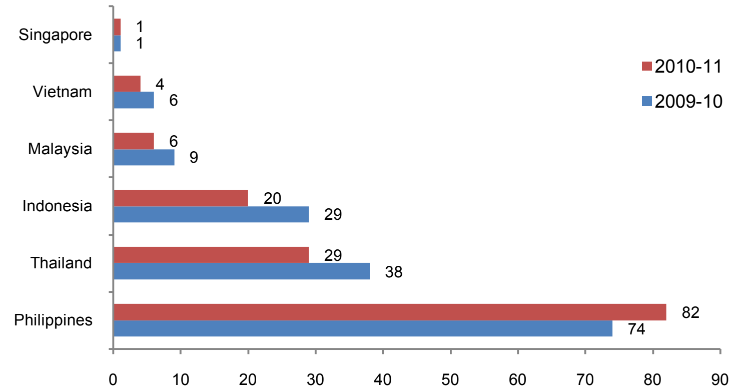
Figure 187: Labor productivity index, 1980=100, 1980-2009



Source: The Conference Board; Note: The index was based on labor productivity per person employed in 2009 US$ (converted to 2009 price level with updated 2005 EKS PPPs); EKS stands for the originators of this PPP formula, Eltoto, Kovacs and Szulc, which essentially is a multilateral Fisher index.

As a consequence of its comparatively high minimum wage (see Part 4 *Business Costs*) and flat productivity, the Philippines is low ranked among the ASEAN-6 in the pay and productivity category of the WEF Global Competitiveness Report (see Figure 188).

Figure 188: Pay and productivity rank, 2009-2010



Source: WEF Global Competitiveness Reports; Total number of countries evaluated: 2009-10 (133); 2010-11 (139); Q: To what extent is payin your company related to productivity?

Headline Recommendations	
1.	**Modernize the Labor Code. Rationalize holidays. Allow overseas service firm workers compensatory days off. Maintain the flexible working arrangements introduced in recent years.**
2.	Focus on **improving labor productivity. Create several million new direct jobs and many more indirect jobs.** Attract manufacturers relocating from China. Reduce the unemployment and underemployment rates.
3.	Continue to **resolve differences without disruptive labor action. Allow self-regulation of companies** with support of chambers of commerce and industry associations. **Reform the NLRC**. Further **narrow the skill-jobs mismatch by** revising curricula and training. **Re-introduce dual training system** and **support greater interaction between TESDA and private sector**.

Recommendations: (9)

A. **Modernize the 36-year** old Labor Code to end the disadvantage it has created for the Philippines with regional competitors. Areas for possible amendment include allowing night work for women, making it easier to dismiss employees for sound business reasons and poor performance, non-diminution clause of wages and benefits and revising rules on labor contracting. (Medium-term action DOLE, DTI, Congress, trade unions, and private sector)

B. **Rationalize holidays to approach ASEAN average of 15 paid days** without reducing income of full time employees and increasing income of casual workers (see Part 4 *Business Costs*). (Medium-term action DOLE, OP, and Congress)

C. In order to increase competitiveness, continue to allow firms providing same day services to overseas clients to **provide employees, who have to work on Philippine holidays, substitute days off with pay in lieu of paying holiday premium**.[224] (Immediate action DOLE and private sector)

D. **Make wage increase consistent with inflation and productivity**. Redefine the basis for the minimum wage to take into account smaller families and more than one wage earner. Create industry-specific minimum wages. (Medium-term action DOLE, Tripartite Regional Wage Boards, Congress, and private sector)

E. **Further narrow the skill-jobs mismatch by revising curricula and training** and retraining the workforce and older students better for the hard-to-fill jobs of the present and future economy. Ensure that skills required for the successful growth of the Seven Big Winner Sectors are included in the curricula; involve the private sector in curriculum development and re-promote dual technical training. **Support greater interaction between TESDA and the private sector.** (Long-term action DOLE, DTI, DEPED, CHED, TESDA, Congress, and private sector)

F. **Create millions of new jobs, many of higher quality, through increased investment**. Reduce the annual shortage of jobs and give Filipinos better choices of domestic and overseas employment. (Immediate action all concerned public and private sector entities)

G. **Develop a package of incentives to attract manufacturers relocating from China**, with a target of creating several hundred thousand new jobs within five years. Promote the package to potential investors. (Immediate action DTI, DOF, DOLE, CEZ, SBMA, and private sector)

H. **Maintain the low level of labor disruption of business operations** through good communications and cooperation between labor and management. **Allow self-regulation of companies** with the support of chambers of commerce and industry associations. (Immediate action DOLE and private sector)

I. **Improve the speed and fairness of the adjudication of labor cases** before the National Labor Relations Commission (NLRC). (Immediate action DOLE and NLRC)

224 This scheme is already in place and needs to be maintained. Companies are required to convince more than 50% of their employees to accept this scheme. When that is achieved, DOLE certifies.

Legislation


The Philippines has been praised among developing countries as having good laws, ones that others have copied. A good example is the Philippine Mining Act of 1995 (RA 7942), considered by international authorities as among the best anywhere. But there also are some laws that have changed little over many decades, such as the Flag Law regarding government procurement, the Public Service Act (CA 146 signed in 1936) concerning public utilities and franchises, and the Philippine Immigration Act of 1940.

There is continual need to update old laws through amendments and periodic omnibus revisions, as well as to legislate for new issues not covered by existing laws. Examples would be the Rationalization of Fiscal Incentives, a comprehensive reform of 92 incentives scattered through many old laws, and information technology bills dealing with issues that hardly existed a decade ago.

The pace of legislation is usually measured, deliberate, and slow. See Table 70 for examples. A bicameral legislative body is not designed to legislate rapidly. Bills must be passed separately by both House and Senate, their differences reconciled in bicameral committee, and approved in plenary before enactment. Speeding up legislation is cited by proponents of constitutional change as one of the main reasons to return to a unicameral parliament.[225]

Only in the absence of a legislative body are laws passed quickly. Under martial law (1972-1980) and the post-EDSA people power revolutionary government (1986-1987) presidential decrees and revolutionary executive orders, respectively, could be drafted, signed, and promulgated much faster than under the post-1987 process. The Filipino people restored a bicameral Congress when they approved the current constitution in a referendum in April 1987.

225 When former president Marcos lifted martial law in 1980 he restored a legislative body, which he had suspended in 1972, but made it unicameral (the Batasan Pambansa).

Occasionally bills can move through the Congress in surprisingly short periods. Sometimes these are bills introduced in successive Congresses over many years without advancing, such as the Civil Aviation Authority Act (RA 9497), neglected for 15 years and enacted only after a foreign government downgraded Philippine pilot training under the old Air Transportation Office (ATO). More recently, after the Organisation for Economic Co-operation and Development (OECD) in April 2009 put the Philippines on a blacklist of countries uncooperative in providing foreign tax authorities access to bank accounts of their nationals, the Tax Information Exchange Act (RA 10021) was introduced and passed in only a year.

Figure 189: Editorial cartoon showing Congressional failure to pass a long-standing reform bill

Source: Philippine Star, May 26, 2010

Table 70: The pace of legislation, 12 bills in the 14th Congress

Bill/Act	Year Introduced	Date enacted/ legislative status	Years to enactment/ years pending
Bataan Freeport Zone Act	2006	October 23, 2009	3 (to pass)
BSP Charter Amendments	1997	H-1st R, S-2nd R[226]	13 (pending)
Civil Aviation Authority of the Philippines (CAAP)	1993	March 4, 2008	15 (to pass)[227]
Department of Information and Communications Technology (DICT)	2001	H-3rd R, S-2nd R	9 (pending)
Eidul Adha Holiday	1998	December 11, 2009	enacted w/o consultation
Financial Rehabilitation and Insolvency Act	2000	July 18, 2010	10 (to pass)
Freedom to Access of Information	1992	H-failed to approve bicam report	18 (pending)
OECD Tax Information Exchange	2009	March 5, 2010	1 (to pass w/ external pressure)[228]
Rationalization of Fiscal Incentives	1995	H-3rd R, S-2nd R	15 (pending)
Renewable Energy	1995	December 16, 2008	13 (to pass)
Reproductive Health	1995	H-1st R	5 (pending)
Red Tape Act	1988	June 2, 2007	19 (to pass)

Source: House and Senate Bills and Index offices

Investment Climate Legislation 2001-2010

Table 71 identifies significant business and economic reform laws enacted during the last three Congresses from 2001 to 2010. The 12th Congress enacted 14 laws, the 13th Congress 6 laws, and

226 R = reading; all bills must pass three readings in committee and plenary in both House and Senate before they can be sent to the president for signature.

227 After the US Federal Aviation Administration (FAA) downgraded the RP ATO, the CAAP passed the Congress rapidly, reportedly following advocacy activity by Philippine airline companies.

228 In April 2009 the Philippines was included on a small list of countries that the OECD did not consider had adequate laws requiring compliance with investigations by international tax authorities. The Secretary of Finance assured the OECD that remedial legislation would be quickly passed, met with the House and Senate leaders, introduced DOF draft bills, which completed full congressional hearings and readings and were enacted in less than one year.

the 14th Congress 22 laws, for a total of 42 new business and economic reform measures. Figure 190 illustrates this data.

Table 71: Business and economic reforms laws, by Congress, 2001-2010

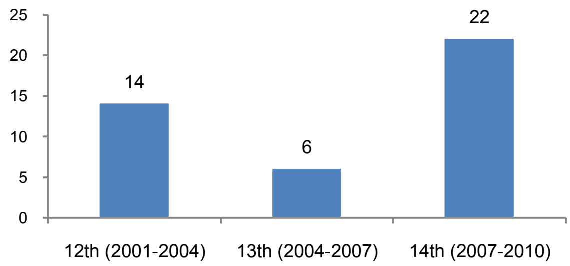
	Law	Law No.	Date Enacted
	12th Congress (2001-04)		
1	Alternative Dispute Resolution	RA 9285	April 2, 2004
2	Anti-Money Laundering Act of 2001 (AMLA)	RA 9160	Sept 29, 2001
3	AMLA amendments	RA 9194	Mar 7, 2003
4	Clean Water Act	RA 9275	Mar 22, 2004
5	Documentary Stamp Tax Rationalization	RA 9243	Feb 17, 2004
6	Domestic Shipping Development Act	RA 9295	May 3, 2004
7	Dual-Citizenship Act	RA 9225	Aug 29, 2003
8	Electric Power Industry Reform Act	RA 9136	June 8, 2001
9	Government Procurement Reform Act	RA 9184	Jan 10, 2003
10	Judiciary Compensation Rationalization Act	RA 9227	Oct 23, 2003
11	Optical Media Act	RA 9239	Feb 10, 2004
12	Restructuring Excise Tax on Automobiles	RA 9224	Aug 28, 2003
13	Securitization Act	RA 9267	Mar 19, 2004
14	Special Purpose Vehicle Act	RA 9182	Dec 23, 2002
	13th Congress (2004-07)		
15	Anti-Red Tape Act	RA 9337	June 2, 2007
16a	Bases Conversion and Development Authority (BCDA) Amendments	RA 9400	Mar 20, 2007
16b	Amnesty for Businesses in Special Economic Zones and Freeports	RA 9399	Mar 20, 2007
17	Biofuels Act	RA 9367	Jan 12, 2007
18	Expanded Value Added Tax	RA 9337	May 24, 2005
19	Lateral Attrition Act	RA 9335	Jan 25, 2005
20	Special Purpose Vehicle Act extension	RA 9343	July 25, 2005
	14th Congress (2007-10)		
21	Anti-Camcording Act	RA 10088	May 13, 2010
22	Bureau of Food and Drugs Act Amendments	RA 9711	Aug 18, 2009
23	Civil Aviation Authority	RA 9497	Mar 4, 2008
24	Cooperatives Code	RA 9520	Feb 17, 2009
26	Credit Information System Act	RA 9510	Oct 31, 2008
27	Customs Brokers Act Amendments	RA 9853	Dec 15, 2009
28	Documentary Stamp Tax Exemption (PSE)	RA 9648	June 30, 2009
25	Financial Rehabilitation and Insolvency Act	RA 10124	July 18, 2010
29	Individual Income Taxes Rate Exemption	RA 9504	June 17, 2008
30	JPEPA Ratification		Oct 8, 2008
31	Magna Carta for MSMEs Act Amendments[229]	RA 9501	May 23, 2008
32	National Grid Corporation Franchise	RA 9511	Dec 1, 2008
33	National Tourism Policy Act	RA 9593	May 12, 2009
34	Personal Equity Retirement Account (PERA) Act	RA 9505	Aug 22, 2008
35	Philippine Deposit Insurance Corp. Amendments	RA 9576	Apr 29, 2009
36	Pre-need Code	RA 9829	Dec 3, 2009
37	Real Estate Investment Trust (REIT) Act	RA 9856	Dec 17, 2009
38	Renewable Energy Act	RA 9513	Dec 16, 2008
39	Residential Free Patent Act	RA 10023	Mar 9, 2010
40	Revised Kyoto Convention (RKC) Ratification		February 1, 2010
41	Tax Information Exchange Act	RA 10021	Mar 8, 2010
42	Tax on Life Insurance Premiums	RA 10001	Feb 23, 2010

Source: House and Senate Bills and Index offices

229 The bill allows foreign banks the same five year period as domestic banks to obtain optimal value in foreclosure proceedings involving real estate, while respecting the constitutional provision on land ownership. Other provisions of the bill requiring mandatory lending are disadvantageous to foreign banks.

Speeding up the pace of enactment of new laws and amending old ones should be a goal of the new Philippine administration. If in the 14th Congress 22 business and economic reform bills were enacted, perhaps this is a good reason to believe that the 15th Congress will pass many more than that number. While this would be a remarkable amount of progressive legislation, it could improve the Philippine economy and its inter-national competitiveness rankings, while inducing investment and creating jobs. With strong leadership and cooperation between the executive and legislative branches, it should be possible to vastly improve the pace of legislation.

Figure 190: Business and economic reforms laws, by Congress, 2001-2010



Source: AmCham Philippines

Table 72 lists 6 laws that almost reached enactment in the 14th Congress. Because hearings and floor consideration for most of these were completed in the 14th Congress, it may be possible to enact them early in the 15th Congress. Six Philippine business groups and the seven JFC members wrote President Aquino in July 16 recommending early pass of these six measures.

Table 72: Priority bills nearly-enacted, 14th Congress

	Bill	Final status
1	Cybercrime Act	Passed H; S – pending 2nd reading
2	DICT	Passed H; S – pending 2nd reading
3	Freedom of Access to Information	Passed S; no H quorum to approve bicam report
4	Immigration Bill	Passed S; no H quorum to approve bicam report
5	Rationalization of Fiscal Incentives	Passed H; S – 2nd reading
6	Simplified Net Income Taxation Scheme (SNITS)	Passed H; S – pending Committee

Source: House and Senate bills and index offices

Table 73 is a list of 41 reforms for consideration in the 15th and 16th Congress. The list is organized into eight categories according to the Seven Big Winner sectors and General Business Environment. It was arrived at by a group of five Philippine business groups and the seven JFC members and has been recommended to the president, the Senate president and the House speaker. As explained below, some could first be addressed in executive orders, with laws to follow. Most of these proposals are not controversial, and could, with strong executive and legislative leadership, be enacted over the next few years. Annex 4 contains a list of other potential reform laws.

Table 73: Proposed legislation for the 15th Congress[230]

	Legislative Priority	Description[231]	Proponent
		Agribusiness	
1	Agri-Agra and MSME Magna Carta Amendments	Makes 25% mandatory lending optional. Relieves foreign banks, (which are not located in rural areas) of mandated Agri-agra/MSME loans. (nyd)	FGD, BAP
2	Comprehensive Agrarian Reform Program (CARP) reform	Allows aggregation of land for corporate farming. (nyd)	FGD, PCCI
3	Farm Land as Collateral Act	CARP beneficiaries may borrow, using their land as collateral (HB 32, 2707, 3368)	FGD, CSPW, Philexport
4	Land Administration Reform Act (LARA)	Rationalizes agencies dealing with land titling.	MBC, JFC/PBG, CSPW
5	Rice and Corn Trade Amendment (PD194)	Removes divestiture requirement. Draft available	
		Business Process Outsourcing	
6	Cybercrime Act	(H passed HB 6794;SB 3553 2nd R)	FGD, CICT, BPAP
7	Data Privacy Act	(HB 2682; SB 3129)	FGD, DTI, JFC, BPAP, CSPW
8	Department of Information and Communications Technology (DICT)	Strengthens CICT and raises public sector focus on e-governance. (H passed HB 4300; SB 2546)	FGD, CICT, BPAP, CSPW, UPOU
9	Holiday Rationalization	Limits total number of non-working holidays. (nyd)	FGD, BPAP, Philexport
10	Labor Code Amendment (Art 130)	Removes prohibition on nightwork by women. (HB 2071)	FGD, JFC, BPAP, ECOP, PCCI
		Creative Industries	
11	Creative Industries Development Council	(SB 2131)	FGD, DTI
12	Foreign Professional Omnibus Amendments	Simplifies 45 laws regulating 46 professions to relax restrictions on foreign professionals and redefine reciprocity. (nyd)	JFC
13	WIPO Copyright Treaty Act	Amends IPR Code to conform with the World Intellectual Property Organization (WIPO) Copyright Treaty and the Performances and Phonograms Treaty (HB 3471; SB 880)	
		Infrastructure	
14	BOT Law Amendments	(HB 3763)	FGD, JFC/PBG, MBC, DTI, CSPW
15	Convergence Act	Amends RA 7925 Telecom Policy. (HB 7151; SB 608, 2145)	
16	Energy Efficiency and Conservation Act	Institutes initiatives as well as application of technology on efficient energy use. (nyd)	DOE, FGD, JFC
17	EPIRA Amendments	(HB 3124; S passed SB 2121)	DOE
18	Natural Gas Bill	Promotes natural gas as an efficient and economical source of energy and facilitates private sector participation. (HB 4754)	DOE

[230] Not all proposed bills cited in the list have been fully reviewed and may not be completely supported in the cited versions of the proposed laws. “Nyd” means not yet drafted.

[231] When not clear from common title. Bills cited were introduced in the 14th Congress. When no bills are cited, authors are unaware of any draft legislation.

19	Maritime Law (cabotage)	(HB 87, 76, 6828; SB 1378, 844)	DTI, Philexport
20	Public Utilities Act Amendments	Amends definition of public utilities to exclude certain activities currently subject to foreign equity restrictions. (nyd)	JFC, two presidential commissions[232]
21	Water Reform Act (Water Code PD 1067 - 1976)	Creates Department of Water. Rationalizes numerous water institutions. Ensures efficient management of water resources. (nyd)	DTI, FGD, CSPW
	Manufacturing		
22	Clean Air Act (RA 8749) Amendment	Allows high tech incineration (revise standards) (nyd)	JFC, PCCI,FPI
23	EVAT on Fuel and Power Exemption Eternal taxes rebate	Increases competitiveness of local manufacturers for export and other purposes. (nyd)	FGD, Philexport
	Mining		
24	Mining Act Amendments	Disallows LGUs from banning mining; reduce US$ 50 million threshold for large/small-scale mining. (RA 7076) (nyd)	FGD
25	LGU, Automatic Retention of LGU Shares in Mining, Taxes, Fees, and Royalties bill	(HB 3993; SB 3381)	FGD, PCCI
	Tourism		
26	CIQ Amendment (Immigration Act and Customs Code)	Customs, Immigration and Quarantine (CIQ) overtime charges should be no cost to private sector. (nyd)	FGD, PCCI
27	Common Carriers Tax Amendment (Section 118)	Amends Internal Revenue Act of 1997 to remove tax on foreign, but not domestic airlines. (nyd)	FGD, PCCI
28	Gross Philippine Billings Amendment (RA 9294/9337)	Amends Internal Revenue Act of 1997 to remove 2.5% tax on international flights (nyd)	FGD, PCCI
29	Senior Citizens Act Amendment	Allows foreign residents to avail of same discounts as Filipinos. (nyd)	FGD
	General Business Environment		
30	Anti-Trust Act (competition policy)	(S passed SB 3197)	DTI, CSPW, UPOU
31	Bank foreclosure law (RA 133), Foreign bank entry liberalization law (RA 7721), Rural Act of 1992 (RA 7353) amendments	Allows foreign banks to bid and take possession of land (w/o transfer of title). Removes limit on number of branches of foreign banks. Allows foreign banks to own rural banks. Partial draft available.	CMDC
32	BSP Charter Amendments	(HB 5958, 6334; SB 871)	JFC/PBG, CSPW
33	Customs and Tariffs Modernization Act	Replaces Anti-Smuggling Act. (HB 5342)	FGD, DOF, DTI
34	Fiscal Responsibility Act	Specifies principles of responsible financial management in public sector revenue, spending, and borrowing.	DOF, JFC, UPOU, CSPW, Philexport, OP-PPLO
35	Foreign Investment Act Amendments	Removes several rules placed only on foreign equity. Lowers minimum paid-in capital. (nyd)	
36	Labor Code Amendment (Art 106 to 109)	Revises contracting/ subcontracting policy. (nyd)	ECOP

[232] December 1999, *"Report of the Preparatory Commission on Constitutional Reforms"* and December 2005, *"The Proposed Revision of the 1987 Constitution by the Consultative Commission, with Highlights and Primers on the Major Proposals and Background Information on the Consultative Commission."*

37	Labor Code Amendment (Art 278 to 286)	Facilitates termination of employees w/o showing cause on payment of a severance benefit based on legislated formula. (nyd)	FGD, PCCI
38	Procurement Law Amendments	Improves procedures for transparent public sector procurement of goods and services. Reduces discrimination against foreign suppliers.	MAP, OP-PLLO
39	Rationalization of Fiscal Incentives[233]	Rationalizes incentives granted by 92 different laws; establishes rules for future fiscal incentives. (HB 5241; SCR 784)	FGD, DOF. DTI, JFC, PBG, UPOU, CSPW, OP-PLLO
40	Retail Trade Act Amendment	Allows foreign retail trade investment when meeting conditions in Foreign Investment Act (RA 7042). (nyd)	
41	Tax Sector Neutrality Act	Rationalizes numerous small fees and taxes on financial transactions. draft available	JFC/PBG, CSPW

Sources of cited measures include past positions of the JFC and Philippine business groups; JFC Seven Big Winner focus group discussions conducted in late 2009 and early 2010; Focus Group Discussion: Philippine Investment Climate (PCCI, May 20, 2009); Barriers to Foreign Participation in the Philippine Economy: Formal and Informal Discrimination Against Foreign Investment, Professionals and Trade, (unpublished study, 2008); Gearing Up the Nation for Growth and Competitiveness (Congress Secretariat Planning Workshop, House of Representatives, July 2007); Sustaining the Growth, Spreading the Benefits (Office of the Speaker, House of Representatives, March 2008), Legislative Measures and Their Status, 14th Congress (Department of Finance, February 2010); Economic Reforms for Philippine Competitiveness (University of the Philippines Open University, 2010); and presentations at three Legislative Workshops held at AmCham in February, March, and April, 2010 by experts from the House, Senate, Office of the President, DOF, DTI and the University of the Philippines.

Use of a presidential executive order or a department administrative order can hasten the introduction and implementation of a reform. Often within months of the executive branch decision, a new policy can be implemented by the bureaucracy. For important issues enactment of a law should eventually follow.

Congress also sometimes legislates market-unfriendly laws. These have been enacted by the president in most instances, often allowing the measure to lapse into law by not signing. Presidential vetoes are rare, as objections by the executive branch to a bill moving through the Congress are usually accommodated during the legislative process. Table 74 lists market-inimical laws enacted in recent congresses.

Table 74: Market-inimical business and economic reforms laws, by Congress, 2001-2010

	Law	Law No.	Date Enacted
	12th Congress (2001-04)		
1	Legislated Wage Hike	HB 2605	
	13th Congress (2004-07)		
2	Strengthening Workers' Right to Self-Organization	RA 9481	May 25, 2007
	14th Congress (2007-10)		
3	Agri-Agra Law Amendments	RA 10000	Feb 23, 2010
4	Aurora Pacific Economic Zone Act	RA 10083	Apr 22, 2010
5	Bataan Freeport Area Act	RA 9728	Oct 23, 2009
6	Cheaper Medicines Act	RA 9502	June 6, 2008
7	Eidul Adha Holiday[223]	RA 9849	Dec 11, 2009

233 Common name for *"Investment and Incentives Code of the Philippines Act"*

8	EPIRA Amendments	SB 2121	
9	Expanded Senior Citizens Act	RA 9994	Feb 15, 2009
10	Income Tax Exemption and Condonation of Unpaid Taxes of Local Water Districts	RA 10026	Mar 11, 2010
11	Milk Code Amendments	HB 7022	
12	Reducing Malampaya Gas Royalty	SB 3282	
13	Security of Tenure	HB 6532	
14	Uniform Franchise Tax on Utilities	SB 3147	

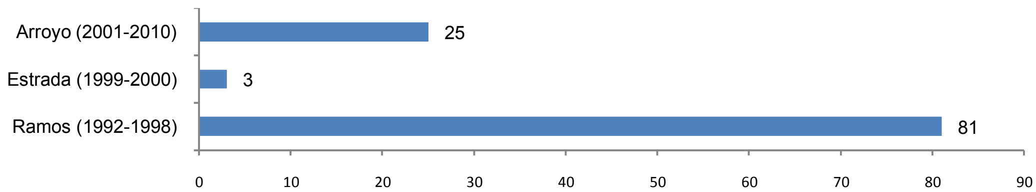
Source: House and Senate Bills and Index offices

LEDAC

The Legislative Executive Development Advisory Council (LEDAC) was initiated during the Ramos Administration. The president and cabinet secretaries usually met with congressional leaders every two weeks both to establish legislative priorities and to discuss the status of the priority legislation in the House and Senate.

During the two subsequent administrations the LEDAC met less regularly. The Executive Secretary's office nevertheless maintained a list of LEDAC priority legislation, and the president continued to designate bills as "urgent" in order to speed their passage. However, for the last 12 years, the LEDAC has been less active than during the Ramos Administration (see Figure 191). Its revival should be considered as an effective means of advancing the legislative priorities of the new administration during the 15th Congress (2010-2013) and the 16th Congress (2013-2016).

Figure 191: Number of LEDAC meetings per administration, 1992-2010



Source: LEDAC Secretariat

Figure 192: Editorial cartoon showing need for Congress to address the country's woes

Source: Philippine Star, July 28, 2010

Headline Recommendations	
1.	The **president should hold regular LEDAC meetings** of executive and congressional leaders. LEDAC should prioritize the administration's legislative agenda and monitor its progress throughout the legislative process.
2.	**Prioritize bills that improve competitiveness, increase investment and revenue, and create jobs**, in order to accelerate economic growth. **Use executive orders and revision of IRRs to start reforms,** following up with legislation as needed. **Deter market-inimical bills.**
3.	**Pass legislation much more rapidly, especially for business and economic reforms.** Prioritize key legislation that was close to final passage in the 14th Congress or that reached 2nd/3rd reading in either the House or the Senate.

Recommendations: (13)

A. The **president should hold regular LEDAC meetings** of executive and congressional leaders. LEDAC should prioritize the administration's legislative agenda and monitor its progress throughout the legislative process. (Immediate action OP and Congress)

B. **Prioritize bills that improve competitiveness, increase investment and revenue, and create jobs**, in order to accelerate economic growth. The chairs of the committees to which such bills are referred can be asked to conduct hearings and complete their committee reports in the early months of the 15th Congress. **Deter market-inimical bills.** (Immediate action LEDAC and Congress)

C. **Pass legislation much more rapidly, especially for business and economic reforms**. Prioritize "low-hanging fruit" legislation that was close to final passage in the 14th Congress or that reached 2nd or 3rd reading in either the House or the Senate. (See Table 72) (Medium-term action Congress)

D. Set a target to **pass many more investment climate reform bills in the 15th and 16th Congress**. (See Table 73 for potential bills) (Medium-term action Congress)

E. **Use executive orders to introduce reforms quickly**. Follow-up as needed with laws to make the reforms more permanent. (Immediate action OP and executive branch departments)

F. **Revising Implementing Rules and Regulations (IRRs)** of laws and executive orders is another way to achieve reform. For example, removing the 60-40 equity provision of the Renewable Energy Act and completing the amendments of the BOT Act can encourage more investment in renewable energy projects and public-private partnerships. (Immediate action NEDA, DOE, DOF)

G. The Executive Secretary should assess **how a bill passed by Congress affects competitiveness and job creation**. The assessment should be made public. (Immediate action OP)

H. **Seek to make the Foreign Investment Negative List (FINL) more positive**, thereby leveling the playing field for foreign investors. Review all restrictions in the FINL to determine which continue in the national interest and recommend changes in those considered to be out of date. Implement the recommended changes. (Medium-term action OP, NEDA, DTI and other agencies, Congress, and private sector)

I. **Simplify the present 45 laws regulating 46 professions to relax restrictions on foreign professionals and redefine reciprocity**. Draft and seek passage of an omnibus law amending the present restrictions and establishing a uniform policy consistent with the current role of Philippine professionals in the global workplace. (Immediate action PRC and Congress)

J. **Clarify that foreign investors can own firms providing services** of PRC-certified professionals as long as the requirements of the Foreign Investments Act of 1991 (RA 7042) are met (US$ 100,000 paid-in capital and 50 employees). (Immediate action DTI and PRC)

K. Seek to reduce and **remove discrimination against foreign firms in Philippine government procurement** laws, regulations, and practices, bringing them into conformity with international best practice.[234] Encourage the GRP to adhere to the WTO Agreement on Procurement. (Immediate action NEDA, DTI and Congress)

L. **Encourage new investment in selected regulated public utility activities by using language similar to Section 6 of the EPIRA** (RA 9136), which clearly states that power generation shall be competitive, not be considered a public utility, and not require a franchise. (Immediate action NEDA, DOJ, and relevant departments)

M. **Develop a comprehensive Philippine Legal Code and Code of Regulations** to create an inventory of laws and regulations. Make the inventory accessible on the internet. The Civil Code (RA 386) was signed in 1949. (Medium-term action by DOJ, Congress, and private sector)

---

234 The Government Procurement Reform Act of 2003 (RA 9184) covers procurement by all government offices and corporations. RA 9184 designates competitive bidding as the method of procurement. While goods may be obtained from either local or foreign suppliers, preference may be given to domestically-produced and manufactured goods that meet the specified standards (Article XII, Section 43). GOCCs can be awarded government contracts without going through the bidding process. The IRRs for RA 9184, revised in 2009, contain provisions regarding procurement which favor local goods and service providers.

For infrastructure projects contracted to the private sector, the BOT Law of 1990 (RA 6957) provides for the employment of Filipino labor in different phases of the construction phase (Section 2-a) which is re-affirmed in the Amended BOT Law of 1994 (RA 7718). Moreover, for infrastructure projects that require a public utility franchise, the facility operator must be at least 60% Filipino-owned (Section 2-a).

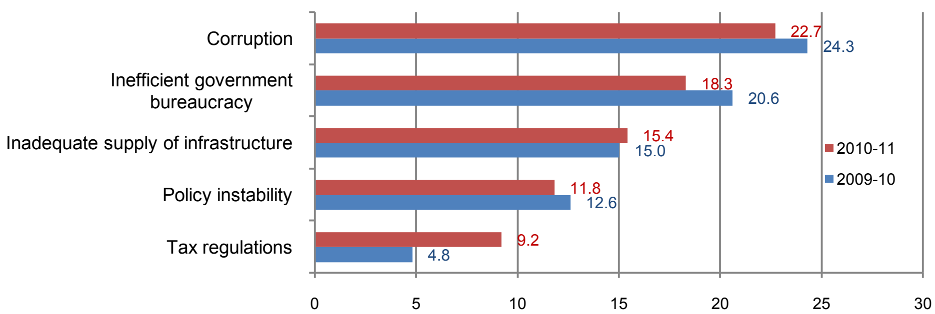
CA 138 (also known as the Flag Law of 1936), wherein the procurement of supplies, materials or public works for public use shall be purchased from domestic suppliers. In the case of public bidding, the award shall be given to the domestic entity making the lowest bid (Sections 3 & 4).

Local Government

Foreign investors not only deal with national government agencies but also with local government units (LGUs) where their business facilities are located.[235] These are usually the provincial, city, or municipal office, and generally not the next lower level of barangay (village). An exception is when the facility is located in a PEZA zone or SEZ/freeport, the investor does not deal with the LGU but with the national PEZA authority or the administrator of the SEZ/freeport, for example, at the former American military bases at Clark and Subic, who are appointed by the national government.

Like LGUs throughout the world and like the national government, LGUs in the Philippines levy certain taxes and fees and require various licenses and permits for business operations. Complaints are rare when these processes are transparent, efficient, fast, and honest. When they are not and when bribes are hinted at or even demanded, investors complain of "red tape" and corruption. Various surveys of domestic and foreign investors in the Philippines over many years have rated "corruption" as the top business problem, with "inefficient government bureaucracy" as the second-most concern (see Figure 193).

Figure 193: Top five concerns for doing business, Philippines, 2009-2010



Source: "GlobalCompetitiveness Reports" WEF; Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country/economy and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

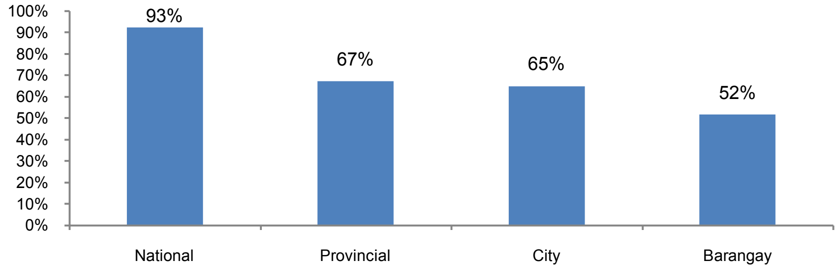
235 As of June 2010, the Philippines has 80 provinces, 138 cities, and 1,496 municipalities (Source: NSCB).

- **Reducing LGU corruption and red tape**

Reported corruption in LGUs has been measured in surveys, conducted by the leading public opinion survey firm Social Weather Stations (SWS) for eight years, on behalf of The Asia Foundation and the Transparent Accountable Governance (TAG) project. The surveys show a continuing high level of corruption in LGUs.

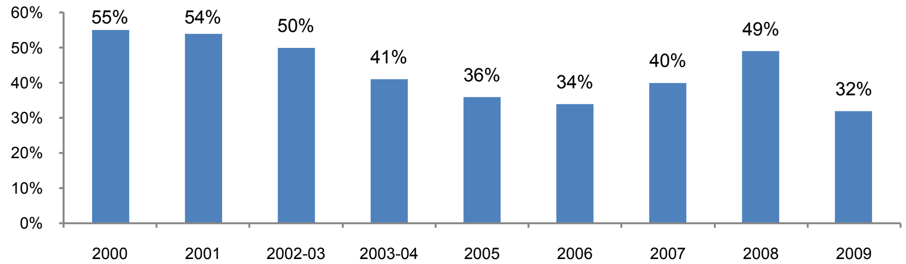
Figure 194 shows a majority of respondents confirming there is corruption in their local government at the provincial, city, and barangay level. Figure 195 shows the percentage of enterprise respondents who report being solicited to pay bribes when applying for local permits and licenses. The percentage, which was an astounding 55% when the surveys began in 2000, has declined to 32% in 2009, a very hopeful sign, especially if progress can be continued.

Figure 194: Levels of government where corruption happens, 2009



Source: SWS; Total respondents: 550; Areas: NCR; Cavite, Laguna, Batangas (CALABA) ; Metro Cebu; Metro Davao; and Cagayan de Oro

Figure 195: Percentage of enterprises receiving bribe solicitations for obtaining local permits and licenses, 2000-2009



Source: SWS Survey of Enterprises on Corruption, various years

The solution most often recommended for bureaucratic corruption, in which numerous small fees are requested to process paperwork, is to reduce the number of signatures required and to introduce e-governance.[236] This saves what is very valuable for businessmen – their time and money – thus reducing business costs.

236 The Anti-Red Tape Act of 2007 (RA 9485) mandates government agencies to streamline their frontline services by limiting the number of required signatures to five and establishing a standard processing time (maximum of five days for a simple process and 10 days for a complex process).

The World Bank Group annual survey "Doing Business" tracks the number of steps and time needed for a variety of business processes at the national level. Since the first survey in 2004, various efforts have been undertaken to work with local governments to increase the efficiency of these processes.[237] Programs to measure and rank cities for their "competitiveness," ongoing for several years, are intended to encourage more cities to improve their business services and to become more investor-friendly (see Table 75). Although they are slowly showing positive results, the Philippines still appears to be more inefficient than most members of the ASEAN-6.

Figure 196: Philippine Cities Competitiveness Ranking Project, 2009

Source: Asian Institute of Management Policy Center, July 19, 2010

Table 75: Philippine Cities Competitiveness Ranking Project, 2009

Metropolitan Growth Centers	Growth Centers	Emergent Centers
Cebu	Baguio	Dagupan
Davao	Olongapo	San Fernando
	Batangas	Santiago
	Iloilo	Tuguegarao
	Bacolod	Angeles
	Mandaue	Lucena
	Lapu-Lapu	Puerto Princesa
	Zamboanga	Naga
	Cagayan de Oro	Legaspi
	General Santos	Tacloban
		Surigao
		Ormoc
		Pagadian
		Iligan
		Tagum
		Cotabato
		Butuan
		Surigao

Source: AIM

237 The World Bank Group also released "Subnational Doing Business" reports which captures differences in business regulations and their enforcement across locations in a single country. "Doing Business in the Philippines 2008" compared business regulations across 21 Philippine cities in three key areas: starting a business, dealing with licenses, and registering property.

"Other local government units should follow the simplified registration and licensing procedures of cities like Marikina, Mandaluyong, Quezon City, and Manila to attract more investors," said Donald Dee, PCCI Chairman Emeritus, commenting on cities identified by the WB/IFC as models in simplifying business registration by substantially cutting the average 18 stages to 2 – filing and payment.

Business World, May 18, 2010

Another approach might be to improve the quality of LGU governance in the regions that contribute the largest percentages of economic activity to make them more efficient and transparent, thereby reducing business costs and improving competitiveness (see Table 76).

Table 76: Regions contributing largest percentages of GDP, 2009

Region		Reg'l GDP, in PhP mil, current prices, 2009	Share in National GDP	Agri, fishery and forestry GVA, in PhP mil	Share in national total (AFF)	Industry GVA, in PhP mil	Share in national total (Industry)	Services GVA, in PhP mil	Share in national total (Services)
	Philippines	7,678.9		1,138.334		2,318.9		4,221.7	
NCR	Metro Manila	2,813.8	36.6%	0.005	0.0004%	789.3	34.0%	2,024.5	48.0%
4A	CALABARZON	802.8	10.5%	152.8	13.4%	270.6	11.7%	379.4	9.0%
3	Central Luzon	576.6	7.5%	114.4	10.0%	185.8	8.0%	276.4	6.5%
6	Western Visayas	543.1	7.1%	100.6	8.8%	176.4	7.6%	266.1	6.3%
7	Central Visayas	518.3	6.8%	45.5	4.0%	153.6	6.6%	319.2	7.6%
Total		**5,254.7**	**68.4%**	**413.3**	**36.3%**	**1,575.7**	**68.0%**	**3,265.6**	**77.4%**
	Other regions	2,424.3	31.6%	725.0	63.7%	743.1	32.0%	956.1	22.6%

Source: NSCB; Totals may not add up due to rounding

The Aquino Administration Secretary of Trade and Industry Greg Domingo has announced that the DTI will introduce in October 2010 on-line registration for new businesses that can be completed in 15 minutes. He has also announced that a new Philippine Business Registry service will begin operations by the end of 2010, providing a single website where a business can register with the BIR, pag-IBIG, Social Security System (SSS), and the like. The plan of the DTI is to make it possible for procedures that are now taking several weeks to accomplish to be done in 20 minutes. LGUs will be encouraged to follow the example of the DTI to put more of their procedures on-line.

- LGU actions can damage the investment climate

In most cases, LGUs and foreign investors work well together in their local communities, with the investors complying with local regulations and paying all taxes and fees that are legal under national law. The investors also usually contribute to the local community by hiring local residents, procuring goods and services locally, and supporting CSR projects.

However, there have been enough instances of provinces and cities taking actions having negative effects on existing foreign investors to create a perception that LGUs are a potential risk to investing in the Philippines. These incidents are usually reported in the local press and can receive worldwide coverage through business reports and consultants. Their unfortunate consequences can be to discourage existing investors from additional investment and to deter new investors from locating in a particular LGU or even from considering the Philippines.

"The attitude of many bureaucrats, specially at the local government level, is to screw the business entrepreneurs, because they can afford it."

Boo Chanco, Demand and Supply, June 28, 2010

When LGUs impose taxes or fees contrary to national policy, they sometimes can harm the investment climate. Headquarters of multinationals made decisions to invest in the Philippines based on assurances and approvals from the national government and on the advice of their lawyers. If after an investment is made, an LGU imposes unusual taxes or fees that were not anticipated and for which the investor does not feel liable, an impression of policy instability is given.

Some types of foreign investors are granted an exemption by the national government from local taxes and fees as a fiscal incentive to invest in the Philippines. There have been instances in which an investor has had to go to court to oppose what it considers illegal taxation expense to defend their position. Section 202 of the Local Government Code of 1991, which authorizes local governments to assess real property taxes against corporations whose properties are in the territory of the local government, has been cited in several claims against foreign investors.

Table 77 describes several of these cases that have taken place over the last decade. They fall into several categories: (1) tax issues, (2) local corruption, (3) LGU does not follow national law or policy, (4) local court actions, and (5) infrastructure support.

Table 77: Instances where LGU actions harmed investment climate

Issue	Description
1. Tax issues	
1a. Makati City, Quezon City tax on Regional Operating Headquarters (ROHQs)	RA 8756 states ROHQs are exempt from all local taxes. After Makati and Quezon City requested payment of local business taxes, several ROHQs (including Fortune 100 firms) had to go to court, which made a decision in their favor.
1b. Nueva Vizcaya province real estate taxes on hydro-electric plant 	The province levied real estate taxes on a subsidiary of American firm California Energy, which operates a 150 MW hydroelectric plant in the province and has also irrigated or improved irrigation for 137,000 hectares of rice lands. The firm paid the taxes under protest, pending resolution of the case. Its payments are reimbursed by the National Irrigation Administration (NIA) and the DOF.

1c. Palawan province real property taxes on the Malampaya gas project 	In 2005 the Palawan provincial government filed a complaint in a local court against two foreign owners of the Malampaya gas project, seeking payment for alleged delinquent real property taxes (with accruing interest) of US$ 8.6 million on the offshore Malampaya gas field structure. The claim violated the 1990 agreement of the companies with the national government. The Provincial Treasurer based his complaint on the Local Government Code of 1991, which authorizes an LGU to assess real property taxes on properties within their territorial jurisdiction. Palawan Province claimed that *"the plant and equipment built and used for operations under Service Contract No. 38, which includes the concrete gravity structure, the topside, and the pipeline traversing the Palawan waters, are all located within the territory and taxing authority"* of the province. The province also sought a TRO to stop the companies from continuing their operations, which if granted and enforced would have cut off fuel for 2,700 MW of electric power on Luzon.
1d. Fees on BPOs	Locators in PEZA zones are exempt from local taxes and fees. Most call centers are co-located with non-PEZA businesses in high rise buildings. The jurisdictions where they are located often want to charge them for services, e.g. garbage collection, health checks of employees, and other similar fees.
1e. Manila ship tax	In mid-2010 the Manila City Council considered imposing a tax of PhP 5,000 on all ships entering the Manila Port.
2. Local corruption	
2a. Mayors insist on providing employees and civil works contractor	In mid-2008, the mayor of a northern Mindanao town where a large Asian shipbuilder was planning to invest US$ 2 billion and hire over 20,000 workers insisted that the foreign investor use a certain gravel supplier. A second mayor insisted all persons he recommended be hired. They told the investor he could not go ahead without complying with their demands. These problems and the global recession have delayed project start-up.
2b. A mayor in Cebu province	A foreign computer animation firm located in a PEZA zone considered moving its operation because the mayor was attempting to extort money.
2c. Batangas City	A relative of a politician set up an illegal association for tuckers to join. Truckers who did not pay their dues had their tires shot as they approached the Batangas Port.
2d. Mining opportunism	As the mining sector has revived in the last decade, there are increasing reports of local officials seeking illicit favors from mining investors.
3. LGU does not follow national law or policy	
3a. Open-pit mining ban	In June 2010, the governor of South Cotabato, on her last day in office, signed a provincial ordinance banning open-pit mining. Unless reversed, the action will stop a US$ 5 billion mining project that has already taken 20 years to get close to a start of construction. The proponents had complied with national government approvals and local consultations.
3b. Mayors and LRT-7	The LRT-7 light rail project is a US$ 1+ billion priority infrastructure project which has taken proponents eight years to complete GRP approvals. In 2010, while in the stage of obtaining project financing, several newly-elected mayors of municipalities through which the rail line will pass requested that they approve the design and locations of stations.

3c. Pandacan oil terminal	Citing alleged safety concerns, the Manila City Council decided to require major oil companies to relocate their oil storage depot in Pandacan, Manila, along the Pasig River in an area long zoned as industrial. The oil firms appealed to the Supreme Court, which supported the City Council. However, upon reconsideration the City Council reversed its position.
4. Local Court Actions	
4a. Olongapo Regional Trial Court	After EO 156 banning most used car imports was signed in late 2002 by former President Gloria Macagapal Arroyo, used vehicle auction firms in the Subic Bay Freeport Zone obtained a TRO from the Olangapo regional trial court (RTC) against its enforcement against their operations. The government appealed first to the Court of Appeals and later to the Supreme Court, which eventually affirmed the validity of the EO 156 prohibition. During these legal proceedings about 150,000 vehicles were imported, converted to right-hand drive, and auctioned, depressing the domestic market both for new and used cars and leading to large job losses at auto manufacturing factories, which operated far below capacity, and harming the investment climate.
4b. Aparri Regional Trial Court	A number of the used car auction firms at Subic relocated to the Cagayan Special Economic Zone and Freeport and were soon importing and selling 4,000-7,000 used cars annually. Upon commencing their business, they obtained the cooperation of the local court in preventing the application of EO 156. Some two years passed after the Solicitor General ruled that EO 156 applied to Cagayan Freeport before the RTC in September 2010 finally affirmed the national government policy and ordered CEZA to cease issuing gate passes for used cars to exit the freeport.
5. Infrastructure Support	
Road to a power plant was deteriorating	The only road access to a large foreign-owned power plant in Quezon province, deteriorating from heavy rains, needed repair. The road was a provincial not a national road, but the governor did not act on repeated requests, perhaps because the local residents were not his supporters. After many letters and meetings, the road was repaired by the local Congressman with his CDF.

Source: AmCham

Headline Recommendations

1.	**Intensify programs to improve LGU governance** to make them more efficient and competitive, prioritizing LGUs in the fastest-growing regions. **Expand e-governance services on LGU websites** to enable routine transactions and to provide information on budgets and procurement. **Increase efforts to correct issues identified in IFC Doing Business ratings and reduce solicitation of bribes. It is essential that the National Government pays LGUs their tax share fairly and promptly. Intensify programs for LGU capacity building**.
2.	**LGUs should observe incentives,** such as exemption from local taxes, **awarded by the national government** to investors under national laws. **The LGU Code, when amended, should include language** to make the foregoing application of national laws clear. **Declare certain investments as strategic to take them out of the influence of LGUs.**
3.	**LGUs should strongly support the Seven Big Winner sectors:** Agribusiness, BPO, Infrastructure, Manufacturing and Logistics, Mining, and Tourism, Medical Travel, and Retirement.

Recommendations: (16)

A. **Programs to make LGUs (provinces and cities) more efficient and competitive in attracting investment should be continued and even intensified**. Develop model LGUs – with better management, governance, and reduced red tape – that are transparent and investor-friendly. (Immediate action DTI, DILG, NCC, and LGUs)

B. Such programs should **give priority to the fastest-growing regions**, while allowing for the encouragement of model cities in other regions. (Immediate action DTI, DILG, NCC, and LGUs)

C. LGU websites in the Philippines are well-developed, colorful, and varied. LGUs should **expand e-governance services on their websites from providing information to enabling routine transactions and to providing information on budgets and procurement**. A basic template should be available so that similar information and services are provided on most websites throughout the country. (Medium-term action CICT, DILG, and LGUs)

D. LGUs should **increase efforts to correct the issues identified in the IFC Doing Business ratings**, in order to improve efficiency and reduce business costs and also to improve Philippine competitiveness rankings within ASEAN-6 economies. (Medium-term action DTI, DILG, LGUs)

E. Through improved governance, LGUs should achieve a **steady reduction in the solicitation of bribes for bureaucratic services**, as recorded in the annual SWS survey. (Long-term action LGUs)

F. LGUs should **observe incentives, such as exemption from local taxes, awarded by the national government to investors under national laws**. A mechanism should be created to coordinate the approval and implementation process of investment projects between the national government and LGUs, including tax incentives, right-of-way acquisition, and the like. (Immediate action DTI, DILG, other department, and LGUs)

G. **When the LGU Code is amended, language should be included to make the foregoing application of national laws clear**. **Declare certain investments,** such as mining and power plants**, as strategic to take them out of the influence of LGUs.** LGUs should model their support for investors on PEZA; a major reason investors prefer PEZA registration is the insulation provided against LGU corruption, as well as more efficient bureaucratic interface with multiple government agencies. (Immediate action DTI, DILG, LGUs, and Congress)

H. **DILG and other departments should intensify programs for LGU capacity building** (e.g. data collection and analysis), streamline and set standards for business permits and licenses, and implement its Working Group on Local Investment Reform (regulatory processes, governance, investment promotion, information and data support, and consumer welfare) (Medium-term action DILG and LGUs)

I. **LGUs should choose which among the Seven Big Winner Sectors could be significantly promoted in their localities** to bring in more jobs and investments.

I1. **Agribusiness**. LGUs in key agricultural areas should strengthen their agricultural extension and training services for farmers and improve farm-to-market roads. (Immediate action DTI, DA, LGUs, and private sector)

I2. **BPOs**. LGUs should respect the status of investor operations established in PEZA/IT zones. At the same time, guidelines should be developed and followed on which fees for local services (e.g. garbage collection) are acceptable. (Immediate action CICT, DTI, DILG, LGUs, and private sector)

I3. **Creative Industries**. LGUs should fully support the development of the creative industries in their locality and encourage them to export their products/services. (Immediate action DTI, LGUs, and private sector)

I4. **Infrastructure**. LGUs should strongly support rapid implementation of priority infrastructure projects, including PPP projects, that will develop their regions, e.g. for tourism. (Immediate action DTI, DILG, various departments, and LGUs)

I5. **Manufacturing and Logistics**. LGUs should fully support manufacturing, and logistics, which provide local jobs, procurement, and LGU revenue, and prioritize reducing and minimizing business costs. Investments are long-term, done on the basis of existing rules and based on established zoning regulations. It is essential that LGUs maintain the rules long-term too and that LGUs avoid rezoning developed industrial zones. (Medium-term action DTI, DILG, DOTC, LGUs, and private sector)

I6. **Mining**. LGUs should help develop local community support for national government policy to develop mining projects that observe social and environmental regulations. (Immediate action DTI, DENR, LGUs and private sector)

I7. **Tourism, Medical Travel, and Retirement**. LGUs can help mobilize local communities to make the local tourism experience better through a clean and safe environment, more efficient transportation, and the like. LGUs will have a greater role under the Tourism Act, becoming involved in master planning, tourism zone site selection, implementation of standards, putting one-stop shops in place, upgrading local infrastructure, and the like. (Medium-term action DTI, DOT, LGUs, and private sector)

Macroeconomic Policy (Fiscal, Regulatory, Trade)



This section discusses macroeconomic and fiscal management at some length, regulatory and other market interference policies, and trade.

The two principal economic managers of the Philippines (the Secretary of Finance and the BSP governor) have been recognized by the international financial community for over two decades for responsible macroeconomic management. Inflation, exchange rates, debt management, budget deficit control, foreign exchange reserves, and the like have – with significant exceptions – been well-managed.[238] In recent years, the biggest challenges have been large deficits and a declining tax effort. Philippine reactions to exogenous shocks, such as the 1997 Asian financial crisis and the 2008 global financial crisis, were also generally well-managed.[239]

- **Rating macroeconomic management**

In the WEF Global Competiveness Report, among the ASEAN-6, the Philippines places mid-way behind Singapore, Malaysia, and Thailand but ahead of Vietnam and – until recently – Indonesia in the rankings for overall macroeconomic environment. The category measures national government deficit and debt, savings rate, inflation, interest rate spread, and sovereign credit ratings.

The rating of Indonesia advanced past the Philippines in 2009, and both Malaysia and Thailand in 2010 and was almost ranked at the level of Singapore. Thus the Philippines must do better to manage its tax effort and fiscal deficit challenge to catch up with the four better-ranked ASEAN economies (see Figure 197).

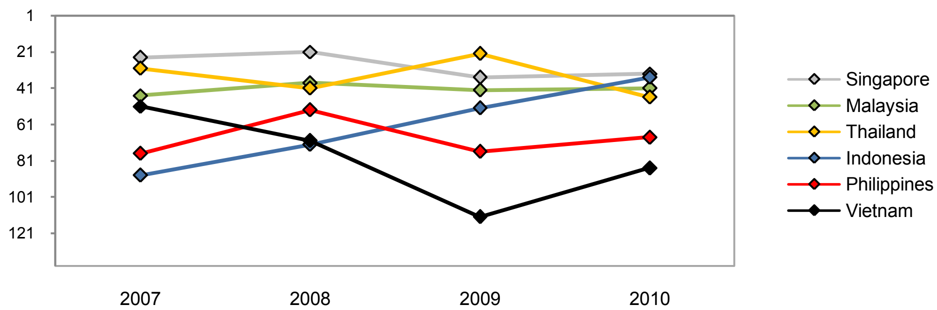
---

[238] A significant exception was the period before the 2004 elections when the deficit grew unexpectedly to around PhP 200 billion in 2002, 2003, and 2004 and the Consolidated Public Sector Deficit rose to 5.6% of GDP. A prominent group of economists at the University of the Philippines warned of an impending financial crisis. After the elections, losses of the NPC ended and the EVAT was passed yielding essential new revenues for the government.

[239] Oil and rice prices are both politically sensitive issues in the Philippines because of their effect on the local cost of living. Like many governments, the GRP has traditionally sought to moderate their impact through interventions in the free market. The oil market was deregulated in 1998 after more than two decades of regulation.

In contrast, the influence of the National Food Authority (NFA) on the rice market has long been controversial, both from an economic and a governance viewpoint. In economic terms, NFA competes with private traders in buying local rice, imports rice to avoid shortages, then sells into the local market, usually at a loss. In governance terms, NFA's foreign purchases provide opportunities for corruption, and its heavy losses have been criticized as wasteful. DOF Finance Undersecretary Jeremias Paul, Jr. in September 2010 said in a press briefing that NFA deficit could reach PhP 72 billion in CY 2010. The Aquino Administration is seeking to reduce such government budget liabilities in the future.

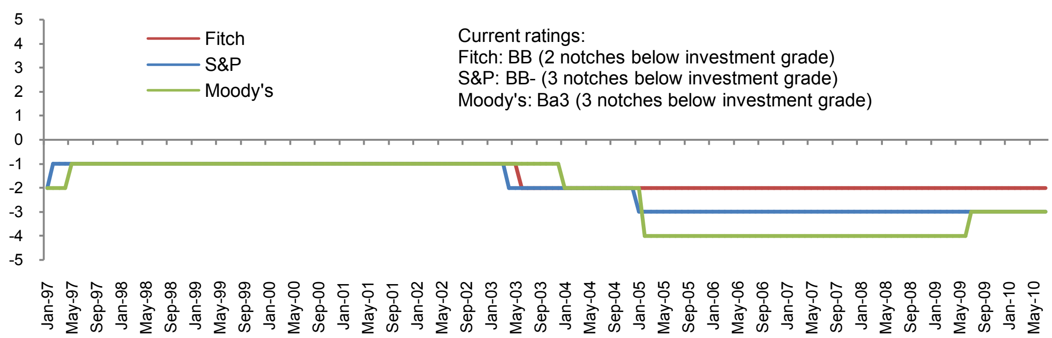
Figure 197: Macroeconomic environment/rankings, ASEAN-6, 2007-2010



Source: WEF; Number of countries evaluated: 2007-131; 2008-134; 2009-133; 2010-139

Other measures of macroeconomic performance are sovereign ratings of Philippine government long-term foreign currency bonds by leading rating agencies, which judge the factors that determine the quality of debt instruments in terms of notches below or above investment grade. Because the ratings reflect the agencies' assessments of the macroeconomic management of the economy, they influence the interest rate the government pays to borrow foreign currency. The ratings for the last decade by Fitch, Moody's, and Standard & Poor's appear in Figure 198. Table 78 shows the ratings for the ASEAN-6 in mid-2010, when the Philippines was rated the lowest, close to Vietnam.

Figure 198: Sovereign ratings, Philippines, notches from investment grade, 1997-2010



Sources: S&P, Fitch, Moody's and BSP; As of Jul 2010

Table 78: Sovereign credit ratings, long-term foreign currency bond, ASEAN-6, 2010

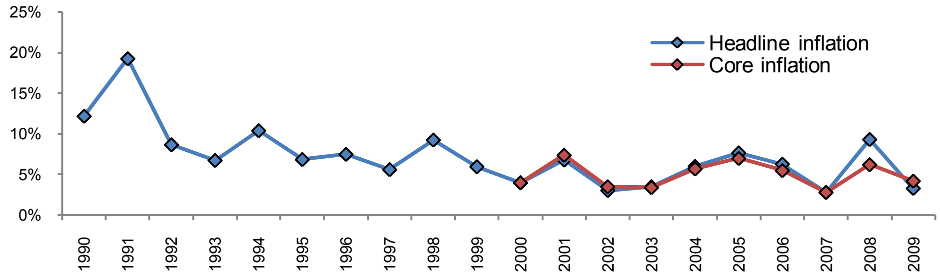
Country	S&P			Fitch			Moody's		
	Ratings	Notches fr invest grade	Outlook	Ratings	Notches fr invest grade	Outlook	Ratings	Notches fr invest grade	Outlook
Indonesia	BB	-2	Positive	BB+	-1	Stable	Ba2	-2	Positive
Malaysia	A-	4	Stable	A-	4	Stable	A3	4	Stable
Philippines	BB-	-3	Stable	BB	-2	Stable	Ba3	-3	Stable
Singapore	AAA	10	Stable	AAA	10	Stable	Aaa	10	Stable
Thailand	BBB+	3	Negative	BBB	2	Stable	Baa1	3	Negative
Vietnam	BB	-2	Negative	BB-	-3	Negative	Ba3	-3	Negative

Source: Asia Bonds Online (ADB), S&P, Fitch and Moody's; Note: As of end of June 2010

- **Inflation and exchange rates**

Figure 199 shows annual inflation in the Philippines since 1990, during which period it averaged 7.2%. Inflation was highest at 19.3% in 1991 and lowest at 2.8% in 2007.

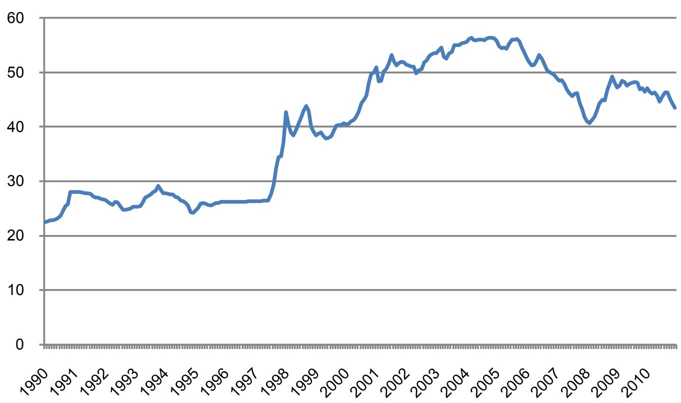
Figure 199: Domestic inflation, 1990-2009



Source: NSO; Core inflation excludes food and energy-related components of the CPI

Figure 200 shows the more than 150% depreciation of the Philippine peso against the US dollar over almost 15 years, from 22.5 PhP/US$ in January 1990 to 56.3 in October 2004. The peso then began to strengthen over a 5-year period to 46.4 at the end of 2009. In 2010 it further strengthened to below 44.

Figure 200: Exchange rate, PhP/US$, 1990-2009

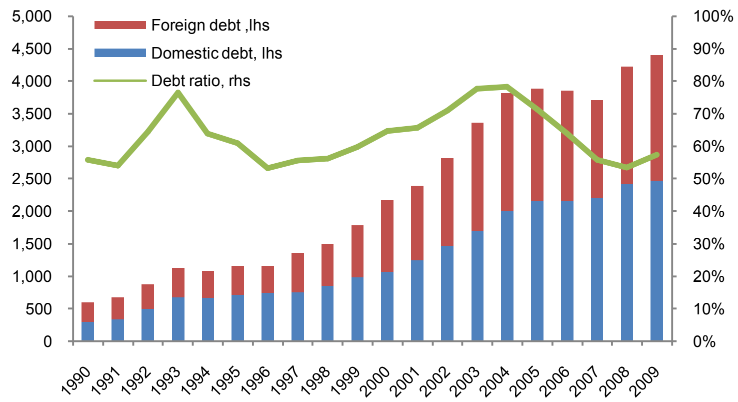


Source: BSP (monthly averages, Jan 1990-Oct 2010)

- **National government debt**

The Philippines has managed its national government debt reasonably well in the quarter century since a moratorium on payments of its foreign currency debt of US$ 24.4 billion was declared on October 17, 1983, near the end of the Marcos administration, eventually leading to debt restructuring and IMF support. The issue of debt is sometimes controversial in the Philippines, with some advocates urging a complete moratorium, without considering the dire consequences on future government financing, as well as the ethical issue of not meeting contractual financial obligations. Figure 201 shows a steadily rising total national debt (both foreign and domestic) in peso terms, increasing greatly in absolute terms but not very much in percentage of GDP terms over two decades.

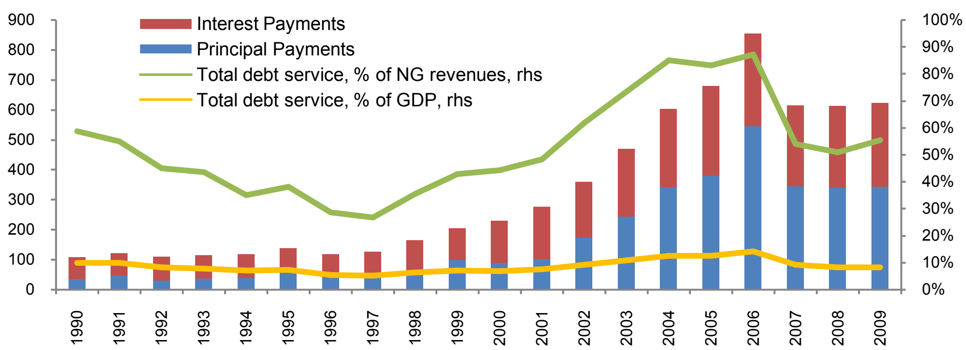
Figure 201: National government, actual debt, PhP Bn, 1990-2009



Source: BTr; This excludes NG's contingent debt.

Figure 202 shows the burden of debt service and how deficit spending in recent years has added to debt service as more money was borrowed to finance borrowings. Debt service as a percent of national government revenue reached some 87% in 2006, before being reduced to 54% in 2007, while debt service as a percent of GDP has fallen below 10% since 2006. If the economy is able to sustain higher GDP growth rates and increase national government revenue collection, the debt service burden should ease further in the future.

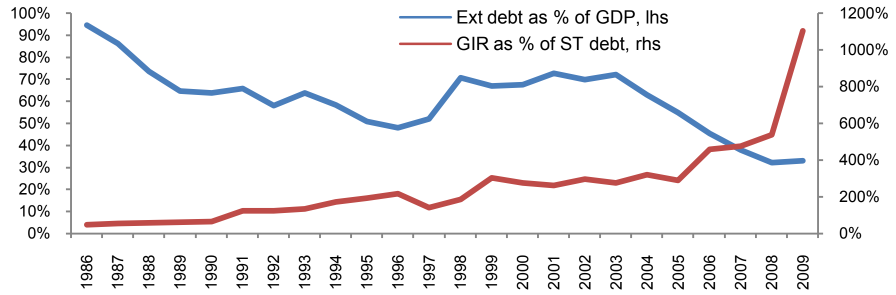
Figure 202: Debt service, PhP Bn, 1990-2009



Source: BTr

Figure 203 shows external debt as a percent of GDP and gross international reserves (GIR) since 1986. Both data graphs show positive trends. External debt has fallen from nearly 99% of GDP at the end of the Marcos administration to a much lower percentage close to 30% in 2009. With the appreciation of the peso in recent years (see Figure 200), the cost of servicing some of the external debt has fallen. In addition, the low global interest rate regime benefitted the country, and total debt service as a percent of GDP declined in 2009 despite the budget deficit reaching nearly PhP 300 billion, the highest in Philippine history.

Figure 203: External debt as percent of GDP, 1986-2009



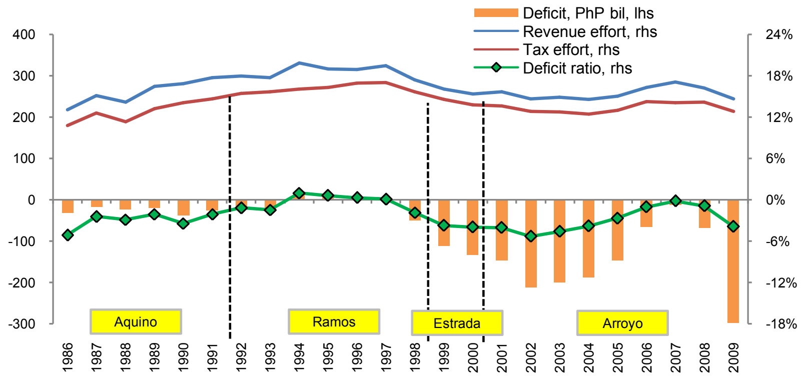
Source: BSP; Note: ST debt (original maturity)

- **Budget deficits, the CPSD, and GIR**

Budget deficits and tax collections are the two most worrisome aspects of current national fiscal management. Figure 204 shows (1) budget deficits, (2) revenue effort, (3) tax effort, and (4) deficit ratio, all from 1986 to 2009, and is divided into the performance of each of the four presidential administrations since Marcos. The green line indicates the deficit ratio and is different than the Consolidated Public Sector Deficit (CPSD) (see Figure 205).

The first Aquino administration began with a deficit ratio close to -6%, which gradually improved until becoming positive in 1994 for three years during the Ramos administration. From the Asian financial crisis in 1997 until a decade later in 2007 it remained negative, again approaching -6% in 2002, largely driven by a weakened tax structure. The global financial crisis in 2008-2009 moved it once again towards -6%.[240]

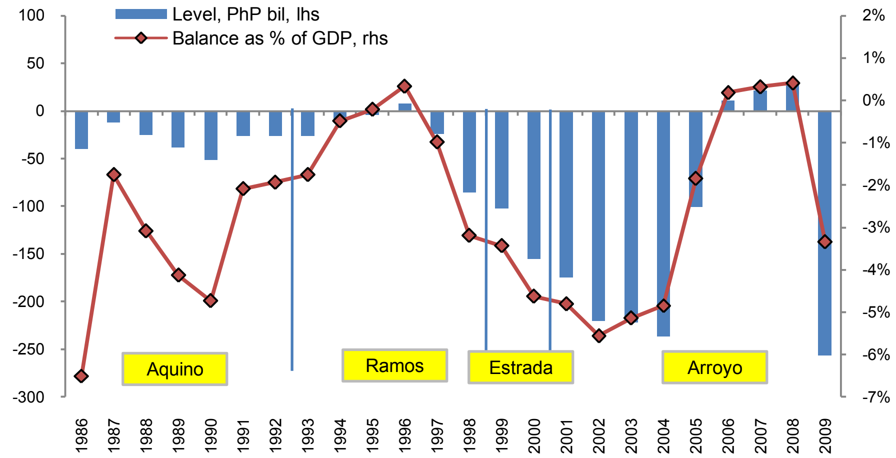
Figure 204: National government budget deficits, 1986-2009



Source: BTr; Deficit ratio = NG deficit as % of GDP; Revenue effort = total revenue as % of GDP; Tax effort = tax revenue as % of GDP

240 Heavily-indebted European countries in mid-2010 had higher deficits ratios: Greece (-13.6%), Spain (-11.2%), France (-7.5%), and Italy (-5.3%).

Figure 205: Consolidated Public Sector Balance 1986-2009



Source: DOF; Note 2009 data - preliminary and subject to revision

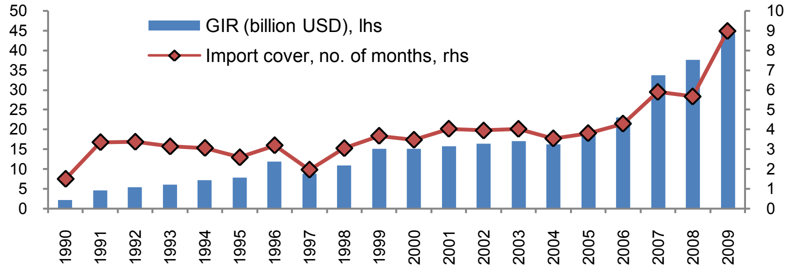
Political maneuverings during and after the 2004 elections prompted the government to disburse resources and compromise fiscal discipline in exchange for political loyalty of some in the Congress and local government for projects with only marginal benefit, pushing the balance deeper into the red. Following passage of the EVAT the deficit improved steadily in an effort to avert a looming fiscal crisis, regaining budgetary balance in 2006.

In the following two years four factors combined to drive it back into negative territory: (1) as observed by the International Monetary Fund in 2007, imports may have been under-recorded by as much as 2 percent of GDP for election-related purposes and which local observers estimated cost the government PhP 20-30 billion annually in duties and taxes; (2) in 2008 the global financial crisis depressed economic activity and tax revenues, and required increased government relief and recovery expenditures; (3) in 2009, two severe typhoons caused severe damage in Central Luzon, and (4) concurrently, the Congress (see below) passed numerous revenue-depleting tax measures, which the former president did not veto despite recommendations by the Secretary of Finance.

The results of this budgetary "perfect storm" was a deficit of PhP 298.5 billion (3.9% of GDP) in 2009, the largest deficit in Philippine financial history.

Philippine gross international reserves have grown steadily to a total approaching US$ 50 billion. More importantly, the import cover has more than doubled over the last decade from four to nine months, providing a greater margin of protection in a crisis (see Figure 206).

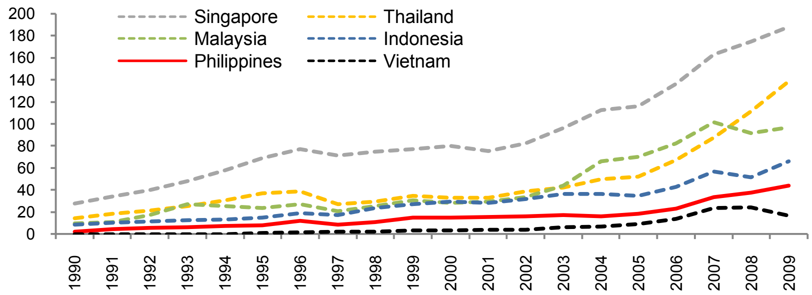
Figure 206: Gross international reserves, US$ Bn, 1990-2009



Source: BSP

Figure 207 shows the GIR for the Philippines compared to the ASEAN-6.

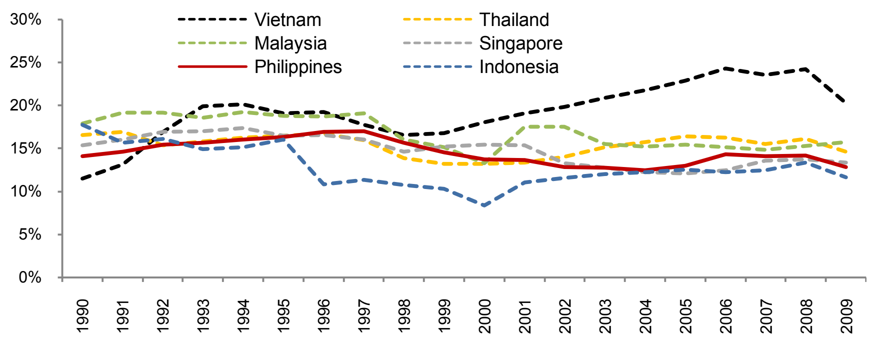
Figure 207: Gross international reserves, ASEAN-6, 1990-2009



Source: ADB

The Philippine tax effort as a percent of GDP peaked in 1997 at 17% and is currently only 12.8%. While this is not greatly different than the other ASEAN-6 economies except for Vietnam (see Figure 208), when combined with low private sector investment, it restrains economic growth. With a population soon to reach 100 million and crowded and dilapidated physical and social infrastructure, there is inadequate funding available in the budget for physical and social infrastructure. Also, the tax effort in 2009 is only 0.4 percentage point higher than the rate in 2004 when the country almost slumped into a full-blown fiscal crisis.

Figure 208: Tax effort as % of GDP, ASEAN-6

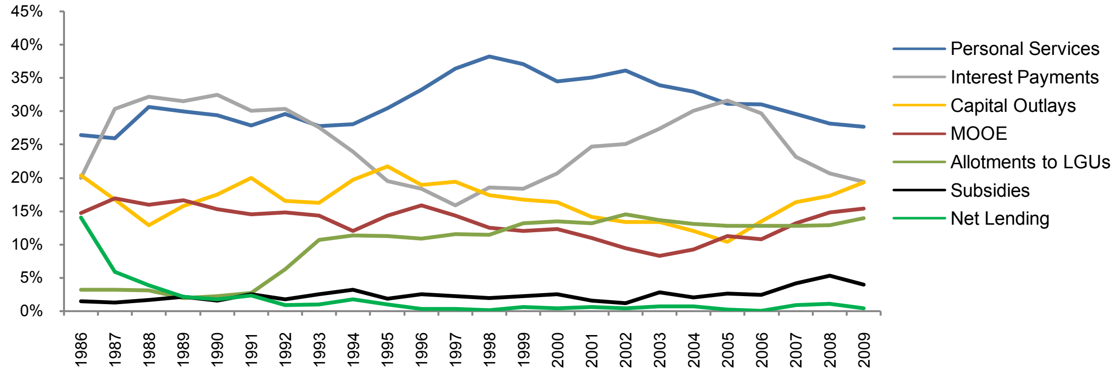


Sources: ADB and respective national statistics offices

- **National government budget and gross domestic savings**

Figure 209 shows how the national government budget is divided among personal services, interest on debt, capital outlays, maintenance and other operating expenses, allotments to LGUs, subsidies, and net lending categories.

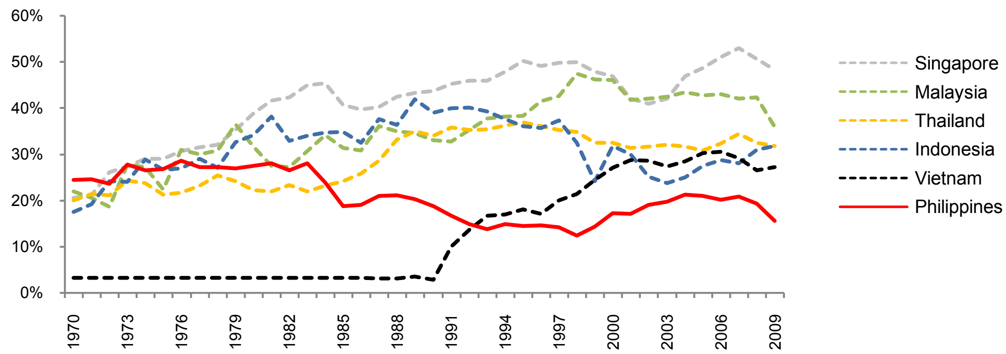
Figure 209: National government expenditure items, % of total spending, 1986-2009



Source: DBM; Obligation basis

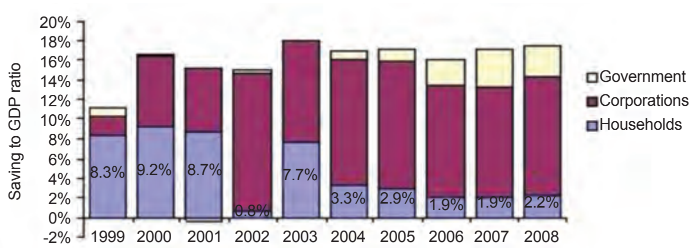
From being the most financially "risk-aware" member of ASEAN, Filipinos now have the lowest saving rate of the ASEAN-6. Total domestic savings declined to only 16% of GDP in 2009 from an average of 27% before 1983 and far below the 25-50% present range of the other five ASEAN-6 (see Figure 210). Recent data show that corporations and government have raised their savings rate. A decade ago personal savings accounted for more than the other two combined but have fallen sharply.

Figure 210: Gross domestic saving, % of GDP, 1970-2009



Sources: UN Data, ADB, author's computations

Figure 211: Disaggregation of Philippine savings, 1999-2008

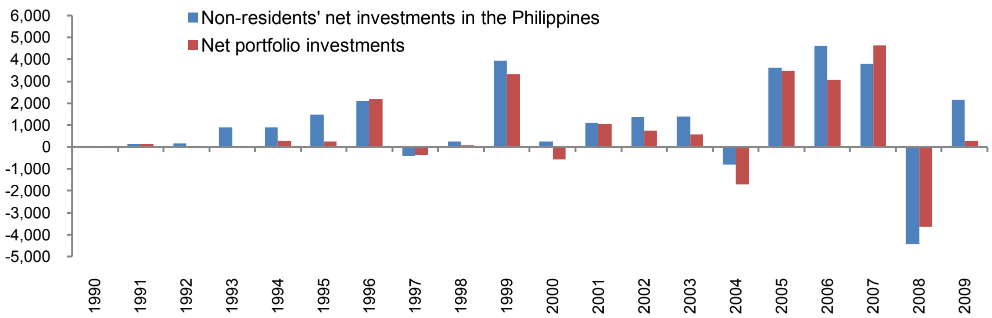


Source: Pasadilla, Gloria O and Prayoga Wiradisuria. ADB Annual Conference. Tokyo. 4 Dec 2009. (data compiled by CEIC

The low savings rate limits the ability of households to take advantage of investment opportunities, causes difficulties in adapting to sudden changes that necessitate expenses (e.g. natural calamities or income shocks) and makes it difficult for families to rise above poverty. Sources of funds for many Filipinos go beyond the formal financial system. Relatives usually provide assistance whenever financial problems arise.

A higher capital inflow is needed to achieve higher rates of economic growth. Official development assistance, foreign borrowing, and foreign investment in the Philippine Stock Exchange (PSE) total about US$ 4-5 billion a year, while FDI and the value added of exports adds roughly US$ 15 billion. But much more should flow in for faster economic growth. Remittances have grown steadily to almost US$ 20 billion but are largely spent on consumer goods, which have a large import component.

Figure 212: Portfolio investments, US$ Mn, 1990-2009



Source: BSP; Note: Non-residents' net investments in the Phils = placements minus withdrawal; Net portfolio investments = Non-residents' net investments in the Phils minus Phil resident's net investments abroad; Definitions changed in 2009.

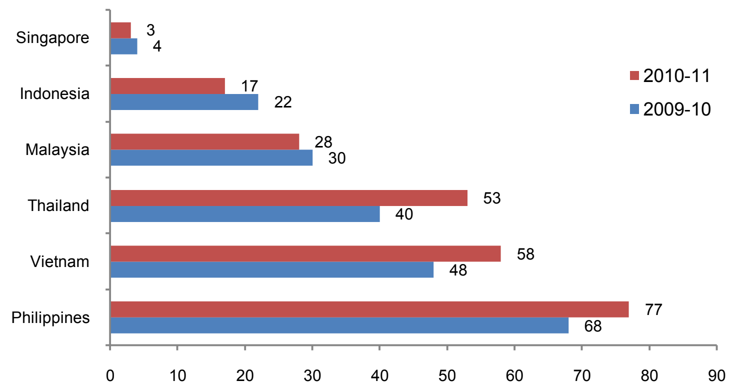
The savings rate can be improved by strengthening domestic capital markets and providing savers more options and incentives to save. There should be more listings on the PSE, which has one of the lowest capitalizations and daily turnovers in Asia. Total deposits in the Philippine banking system are not large, even by developing country standards. More foreign banks should be licensed to operate and allowed to operate more branches. There is potential to create new investment vehicles for the increasingly better-off overseas Filipino community to invest in the Philippines. Educational curricula do not include financial planning, and the local culture reinforced by extensive advertising provides consumption rather than savings.

Markets for bonds and mortgage-backed securities have developed since the passage in early 2004 of the Documentary Stamp Tax (DST) Rationalization Act and the Securitization Act. More credit for micro-finance and small-to-medium enterprises (SMEs) is needed to stimulate small and micro businesses.

- **Taxation**

Compared to the ASEAN-6, taxation in the Philippines significantly limits incentives to work and invest. The Philippines is ranked 77th of 139 countries, while Vietnam is 58th, Thailand 53rd, Malaysia 28th, Indonesia 17th, and Singapore 3rd. This rating clearly suggests the Philippines should consider ways to restructure its taxes and make collection more efficient and less corrupt (see Figure 213).

Figure 213: Extent and effect of taxation, rankings, ASEAN-6, 2009-2010



Source: WEF Global Competitiveness Reports; Total number of countries evaluated: 2009-10 (133); 2010-11 (139); This measures the effect of taxes on the incentive to invest (higher rank - does not significantly limit incentives to work or invest)

The Philippines imposes some of the highest taxes among the ASEAN-6. The Philippine Corporate Income Tax (CIT) is 30%, while Vietnam is 35%, Thailand is also 30%, Indonesia and Malaysia are both 25%, and Singapore is 17%. The personal income tax in the Philippines is 32%, while Thailand is 37%, Vietnam is 35%, Indonesia is 30%, Malaysia is 26%, and Singapore is 20%. The VAT/sales tax in the Philippines is 12%, 16% in Vietnam, 10% in Indonesia, 5-10% in Malaysia, and 7% in Singapore and Thailand (see Table 79).

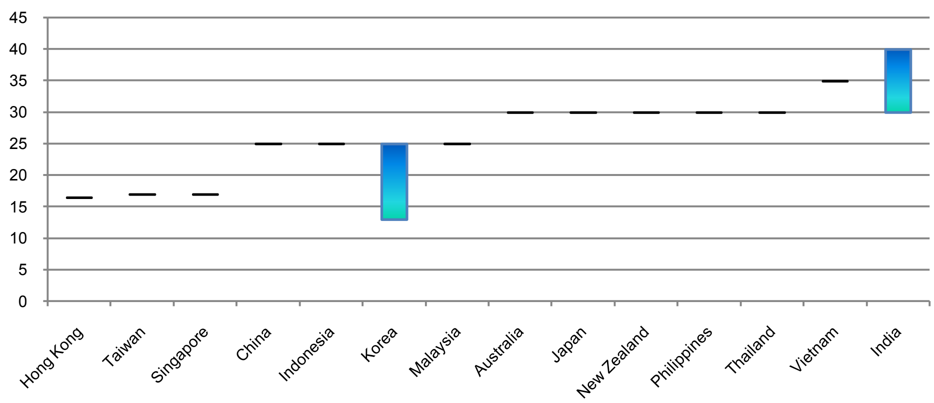
Table 79: Tax rates in selected Asian economies, 2010

	Corp. income tax	Personal income tax		VAT/Sales Tax
		Min	Max	
Australia	30.0	17.0	45.0	21.0
China	25.0	5.0	45.0	17.0
India	30.0-40.0	10.0	30.0	12.5
Indonesia	25.0	5.0	30.0	10.0
Japan	30.0-40.0	5.0	50.0	5.0
Korea	13.0-25.0	9.0	36.0	10.0
Malaysia	25.0	0.0	26.0	5.0-10.0[a]
New Zealand	30.0	0.0	39.0	12.5
Philippines	30.0	5.0	32.0	12.0
Singapore	17.0	3.5	20.0	7.0
Thailand	30.0	5.0	37.0	7.0
Vietnam	35.0	0.0	35.0	16.0

Sources: Deloitte International Tax Source, International Correspondents of Lawyers and Financial Experts, www.worldwide-tax.com
a-There is no VAT in Malaysia. 5% is the current service tax rate and 10% is the current sales tax rate (both are narrowly applied); The Malaysian government in looking to impose a 4% comprehensive sales tax in 2011.

Figure 214 shows Philippine corporate income taxes in comparison with other Asian countries. They are near the higher levels, which tend to discourage investment as well as compliance.

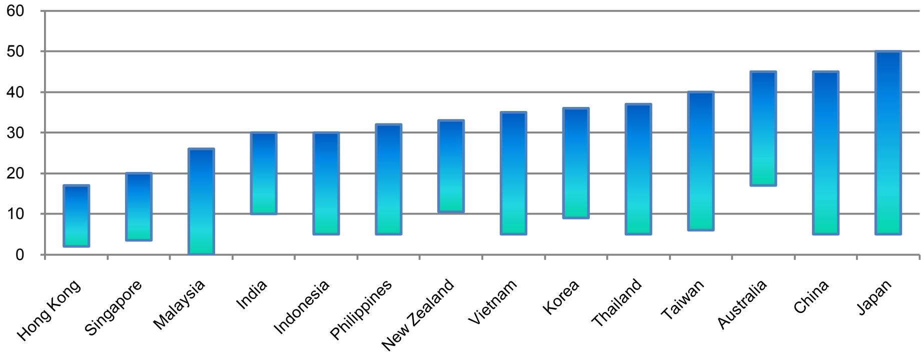
Figure 214: Corporate income tax rates, selected Asian countries, 2010



Sources: Sources: Deloitte International Tax Source, International Correspondents of Lawyers and Financial Experts, www.worldwide-tax.com, World Bank and respective national tax agencies

Figure 215 shows Philippine individual income taxes in comparison with other Asian countries. Top rates in the Philippines are in the middle of the region.

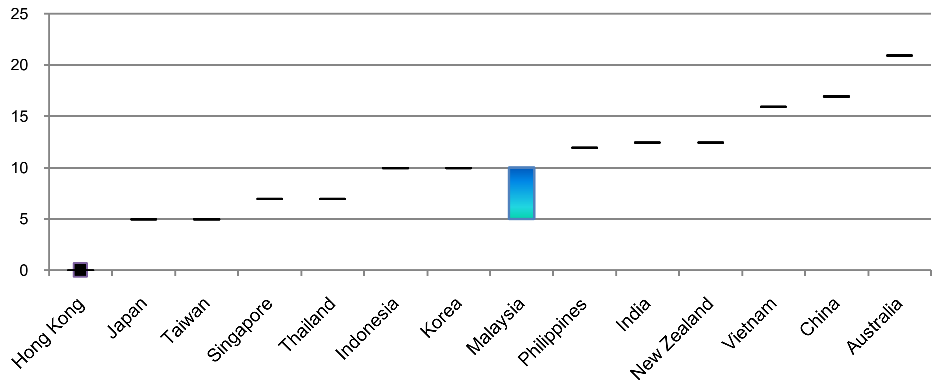
Figure 215: Individual tax rates, selected Asian countries, 2010



Sources: Sources: Deloitte International Tax Source, International Correspondents of Lawyers and Financial Experts, www.worldwide-tax.com and World Bank.

Figure 216 shows VAT or sales tax rates in selected Asian countries, with the Philippines, among the ASEAN-6, lower than Vietnam but higher than Singapore, Thailand, Indonesia, and Malaysia.

Figure 216: VAT or sales tax rates, selected Asian countries, 2010



Sources: Sources: Deloitte International Tax Source, International Correspondents of Lawyers and Financial Experts, www.worldwide-tax.com and World Bank. There is no VAT in Malaysia. 5% is the current service tax rate and 10% is the current sales tax rate (both are narrowly applied); The Malaysian government in looking to impose a 4% comprehensive sales tax in 2011.

In the World Bank rating *Paying Taxes, 2009 and 2010*, the Philippines is rated behind Malaysia and Thailand and about the same as Indonesia and Vietnam (see Table 80). A concerted effort to simplify the number of taxes and the processes for paying them should improve these ratings of the Philippines.

Table 80: Ease in paying taxes, overall and per sub-category, rankings, 2009, 2010

	Overall ease of paying taxes		Tax payments		Time to comply		Total tax rate	
	2009	2010	2009	2010	2009	2010	2009	2010
Indonesia	116	127	151	154	103	106	72	76
Malaysia	21	24	33	37	49	47	53	58
Philippines	129	135	145	147	67	72	131	132
Singapore	5	5	6	6	18	17	25	29
Thailand	82	88	76	82	102	105	74	74
Vietnam	140	147	99	100	177	180	82	85

Source: Paying Taxes 2009 & 2010 by World Bank, PriceWaterhouseCoopers and IFC
Total number of economies evaluated: 2009=181; 2010=183

The new Secretary of Finance has estimated annual tax leakage at PhP 250 billion, or more than US$ 5 billion. The majority of this amount is caused by smuggling and tax evasion, which requires better enforcement to correct. Also, of this total the DOF estimates PhP 84 billion a year is being lost as the result of tax-eroding measures enacted in the 14th Congress, negating most of the revenue gains from the EVAT. The EVAT, which went into effect in November 2005, was the major tax reform of the Arroyo administration.

Among these tax-eroding measures were:

(1) Individual income tax relief (RA 9504),
(2) Corporate income tax reduction (RA 9337),
(3) Abolition of DST on secondary trading stocks (RA 9468),
(4) Tourism incentives (RA 9593),
(5) Personal Equity and Retirement Account (RA 9505),
(6) Real Estate and Investment Trust (RA 9856),
(7) EVAT Exemption for Senior Citizens (RA 7432), and
(8) Bataan and Aurora Freeport Zones (RA 9728 and RA 10083).

While several of these had sound rationales, compensatory increases in taxes were not legislated thus creating a negative impact on public sector revenue collection. The GRP tax effort consequently declined from 14% in 2007 to 12.8% in 2009.

In recommending a moratorium on the passage of legislative proposals to establish more special economic zones and freeports, Finance Secretary Cesar Purisima said "This is in line with our policy of deficit-neutrality which we would seriously like to advocate in the current administration, based on the principle of responsible fiscal resource management. We need to control the erosion of the tax base or exercise control over spending so that we can secure the necessary resources to fund the basic socio-economic needs of the people."

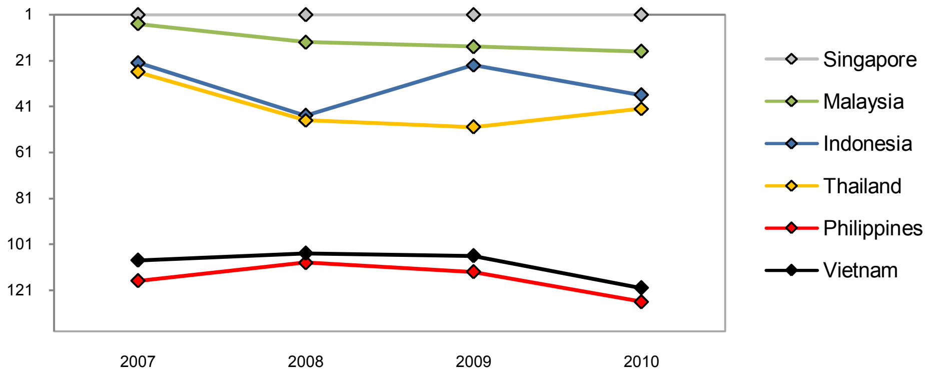
Philippine Star, October 8, 2010

- **Regulatory practice**

Government regulations place a heavy burden on the private sector. Numerous surveys have identified dealing with the government as a leading complaint of businessmen. In the World Bank

2010 rankings for the category burden of government regulation, the Philippines placed 126 of 133 countries, not just the lowest among the ASEAN-6 but one of the lowest of the total countries ranked (see Figure 217). While Vietnam (ranked 120th), a heavily-regulated communist state, was rated about the same as the Philippines, Thailand (42nd), Indonesia (36th), Malaysia (17th), and Singapore (1st) made the country look very bad in comparison. Clearly, this indicator needs urgent and sustained efforts to improve until it catches up with Thailand and Indonesia.

Figure 217: Burden of government regulation, rankings, 2007-2010



Source: WEF; Number of countries evaluated: 2007-131; 2008-134; 2009-133; 2010-139

Government regulatory agencies have been subject to influence and even capture by the industries they are charted to regulate. Historical examples include the Civil Aeronautics Board (CAB), Energy Regulatory Commission (ERC), Land Transportation Franchising and Regulatory Board (LTFRB), Maritime Industry Authority (MARINA), National Food Authority (NFA), National Telecommunications Commission (NTC), Philippine Ports Authority (PPA), Sugar Regulatory Administration (SRA), and the Toll Regulatory Board (TRB). Strict separation between regulators and those regulated is essential to reduce oligopolistic practices and conflicts of interest in these sectors.

> "How can regulators best engage with the industries they regulate? How can they produce "smart regulations" that protect health and safety without slowing economic development and job creation?…Too often, divergent regulatory frameworks around the world unnecessarily raise the cost of doing business, close markets to competition, choke off innovation, produce unintended consequences, and fail to achieve the desired regulatory outcome."
>
> *John Murphy, vice President U.S. Chamber of Commerce, speech in Santo Domingo, DR, March 4, 2010*

- **Policy stability and predictability**

It has been stated many times that investors seek a stable and predictable policy environment with low risk that enables expected return on investments. Yet in the Philippines, such stability has often not been a consideration in policy making by government, despite assertions of the importance of foreign investment.

Five illustrative examples in recent years that received international attention include: (1) IBM was loudly accused of providing bad software products on national radio and in the press by the head of a large public sector agency, (2) when oil companies raise prices following global price rises, they have often been accused of price collusion, (3) after a severe typhoon flood, the government imposed oil price controls to assist the victims when most did not own cars; oil imports nearly ceased, (4) under a law known as the Cheaper Medicines Act pharmaceutical companies were ordered to reduce their prices "voluntarily," and (5) cement companies were accused by the DTI of selling at prices much higher than imported cement despite very high local costs of production.

Market distorting policies also originate in legislation from the Congress. Examples include: (1) legislated minimum wages that are popular with some workers but which discourage investment and force some companies into the underground economy, (2) legislated new holidays which are popular with regular employees but prevent casual workers from having a day's work and add to business costs, (c) the Customs Brokers Act, which prevented companies from handling their own customs paperwork and slowed down the movement of goods, and (d) proposed amendments to the Milk Code law that would restrict marketing of products in ways not done elsewhere.

- **Trade**

With a considerable number of major free trade agreements entering into force (see Table 81), the Philippines is presented with great opportunities to develop new markets for its exports. Philippine firms need more information on these opportunities and assistance from the government with cutting business costs in order to increase their competiveness.

Table 81: ASEAN Free Trade Agreements, population of potential markets

Free Trade Agreement	Population of partner state/ potential market size, in million, 2009	Date of entry into force
ASEAN Trade in Goods Agreement	578.6	May 17, 2009
ASEAN-China	1,338.6	Jan 1, 2010
ASEAN-Japan	127.4	Dec 1, 2008
ASEAN-Korea	50.1	Jan 1, 2010
ASEAN-India	1,179.5	Jan 1, 2010
ASEAN-Australia and New Zealand	26.7	Jan 1, 2010

Sources: "ASEAN FTA Agreements." ASEAN Secretariat; "ASEAN Trade in Goods Agreement Fact Sheet." ASEAN Secretariat; FTA Agreements Fact Sheets; Australia Department of Foreign Affairs and Trade; and WTO

The agreements listed in Table 81 are all with Asian economies. The Philippines cannot afford to be left out of free trade agreements that other Asian countries are negotiating with the United States and Europe.

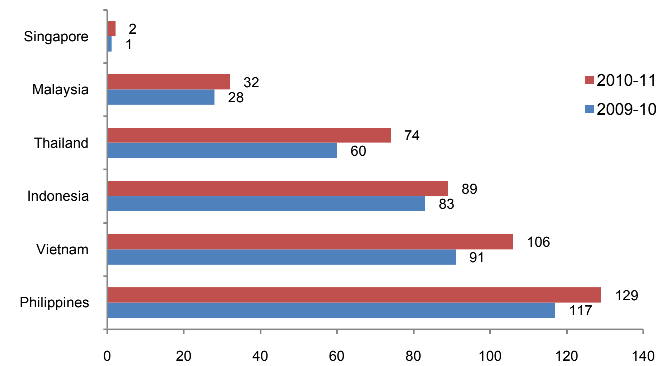
The Philippines and the US have a Trade and Investment Framework Agreement (TIFA) but not a Bilateral Investment Treaty (BIT). The US is negotiating to expand the Trans-Pacific

Partnership (TPP) with current members Australia, Brunei, Chile, New Zealand, Peru, Singapore, and Vietnam. The goal is to include additional Asia-Pacific countries in successive clusters eventually to cover a region that represents more than half of global output and over 40 percent of world trade. Malaysia has announced its application to join the TPP, and Japan was reported in the press as very interested in joining but unsure it would be able to open its highly-protected agricultural sector.

The EU and the Philippines have agreed on a new, bilateral, Partnership and Co-operation Agreement (PCA). This agreement builds on and updates the 1980 EC-ASEAN Cooperation Agreement. Building on the PCA, discussions are underway regarding a possible Free Trade Agreement between the EU and individual ASEAN members, including the Philippines.

As shown in Figure 218, the Philippines should also work on improving the burden of its cumbersome, bureaucratic and reportedly corrupt customs procedures, where it is ranked by the WEF as last among the ASEAN-6.

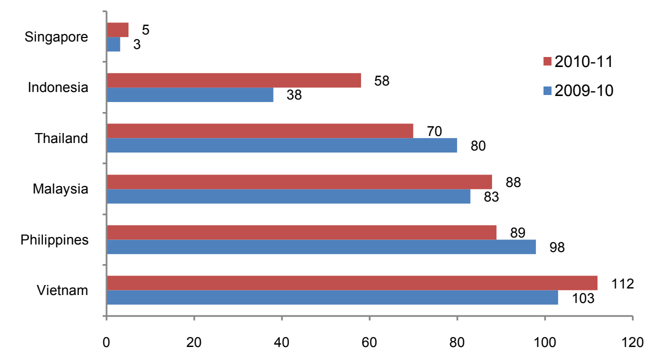
Figure 218: Burden of customs procedures rank, ASEAN-6, 2009-2010



Source: WEF Global Competitiveness Reports; Total number of countries evaluated: 2009-10 (133); 2010-11 (139)

The Philippines is also low-ranked among the ASEAN-6 for its prevalence of trade barriers rank (see Figure 219).

Figure 219: Prevalence of trade barriers rank, ASEAN-6, 2009-2010



Source: WEF Global Competitiveness Reports; Total number of countries evaluated: 2009-10 (133); 2010-11 (139)

Headline Recommendations	
1.	**Constantly improve financial sector management. Reduce the record high public sector deficit**, maintain low inflation, stable exchange rates, reduce debt service burden, increase capital spending, privatize more state assets, convey an austerity message, reduce congressional pork barrel.
2.	**Maximize tax collection,** jail smugglers and big tax evaders, using RATE and RATS. **Use transparency/e-governance,** National Single Window, E2M. **Simplify taxes and fees.** Undertake comprehensive tax reform to **reduce CIT and individual income tax, while raising VAT, ACT, and fuel excise taxes.** Reduce or eliminate small taxes and fees that increase business costs.
3.	**Increase the low savings rate and strengthen capital markets. Increase independence of regulatory agencies and reduce the burden of government regulation** on the private sector. Maintain policy predictability and stability. Take advantage of new trading opportunities.

Recommendations: (29)

A. **Improve macroeconomic policy management and raise sovereign credit ratings**. Seek to maintain relatively stable inflation and foreign exchange rates. (Medium-term action DOF and BSP)

B. **Gradually reduce the national budget deficit to below PhP 100 billion and the Consolidated Public Sector Deficit to below 3%** through improved revenue collection, followed by tax reform. (Medium-term action DOF, DBM, BIR, BOC, and Congress)

C. Through prudent debt management, **reduce the public external debt as a percentage of GDP ratio and reduce interest payments as a percentage of government expenditures**. (Medium-term action DOF)

D. **The political leadership, with strong multisectoral support, should convey an austerity message, in word and by example**. The political leadership should establish its credibility for following taxing and spending politics that are frugal and avoid waste and difficult to sustain populist policies. (Immediate action OP, cabinet members, and Congress)

E. **Privatize more state assets**. While major privatizations have been made over two decades (e.g. PAL, MWSS NCR water, NPC power plants, TRANSCO, and PNOC-EDC), many government assets remain to be sold or leased (e.g. Food Terminal Incorporated (FTI) in Taguig, military facilities in NCR, SMC shares of Coco Levy Fund, other assets sequestered by the Presidential Commission on Good Government (PCGG), and GOCCs that could be better run by the private sector). (Medium-term action DOF, PMO, PCGG, and courts)

F. **Reduce corruption in public sector revenue collection and expenditure** through more transparency, e-governance, competitive bidding, and enforcement at all levels of government. (Medium-term action all government revenue collection and procurement agencies)

G. **Continue the BOC's National Single Window Program** interconnecting 40 government agencies involved in licenses, clearances, and permits for import/export transactions **and the E2M Project**, which will fully automate import/export processing at all major ports in the country. (Immediate action DOF and BOC)

H. **Reduce and rationalize congressional pork barrel**. Persuade Congress to do its part to control waste in government by reducing pork barrel and spending it better on national priority projects. (Medium-term action DBM, DPWH and other departments, and Congress)

I. **Improve collection of current taxes**. (Immediate action DOF, BIR, BOC, DOJ, courts, and Congress)

   I1. All taxes due to the national government should be collected from all taxpayers to reduce the huge losses from smuggling and tax evasion.

   I2. Increase computerization of relevant data to enable BIR and BOC to better estimate taxpayer liabilities.

   I3. Enable more e-transactions to reduce direct interaction between taxpayers and BIR personnel, especially outside BIR offices.

   I4. BIR and BOC should maintain the Run After Tax Evaders (RATE) and Run After the Smugglers (RATS) programs and regularly initiate cases against tax evaders and smugglers, accompanied by publicity and successful prosecution.

   I5. Pass Simplified Net Income Taxation (SNITS) legislation.

J. **LGUs should be more efficient in updating and collecting** local real estate and other taxes to improve their revenue base. (Medium-term action DILG and LGUs)

K. **Implement new revenue-enhancement legislative measures and cease passing unwarranted tax leakage laws. Implement the Revised Kyoto Convention**. Pass the Fiscal Responsibility Act, Rationalization of Fiscal Incentives bill, Tariff and Customs Modernization Act, and slow down if not cease the passage of unwarranted tax-eroding measures. (Immediate Action DOF and Congress)

L. **Comprehensive reform of taxes should be considered after revenue collection efficiency results are achieved**. Fees that increase business costs should be avoided and existing ones reduced or eliminated. (Medium-term action DOF, BIR, BOC, DBM, all government agencies, and Congress.)

   L1. Taxes and fees and their collection should be greatly simplified.

   L2. Taxes should be more progressive than regressive. The poorest sector should be provided relief through conditional cash transfers and discount programs (e.g. Residential Electricity Lifeline Rate).

   L3. Taxes on corporate and personal income should be reduced (eventually to 25%) to incentivize working and compliance.

L4. Taxes on consumption should be increased (eventually to a 15% EVAT).[241] Other consumption taxes including alcohol, cigarettes, tobacco (ACT) and fuel excise taxes should be increased.

L5. Reduce or eliminate many of the fees and taxes that increase the cost and efficiency of doing business (e.g. airport fees, travel tax, CCT, CIQ charges, BOC de minimus, financial transaction fees, GPB, and port charges.)

M. **BIR and BOC Reform**. Exemption of BIR and BOC employees from the Salary Standardization Act should be implemented. (Medium-term action Congress)

N. **Settle TCC arrears due foreign investors** who have paid taxes that were to be credited to subsequent tax liabilities or to be refunded and for which sufficient funds have not been appropriated. Allow the cross-application of TCCs of the BOC and the BIR. Design policies that will address future TCC refunds. (Medium-term action DOF)

O. **Increase the savings rate and strengthen domestic capital markets**. Encourage more PSE listings. Build bond and secondary markets for mortgage-backed securities. Allow more foreign banks and insurance firms to operate and ease restrictions on foreign bank operations. Introduce financial planning in school curricula and increase efforts to build a culture of savings. (DOF, BSP, Insurance Commission and Congress)

P. **Increase the independence of regulatory agencies**. To increase competition in regulated industries, reduce the "capture" of regulatory agencies by the appointment of independent directors and managers, with transparent agency decision-making and strict monitoring by the public. (Medium-term action various agencies and supervisory departments, and private sector)

Q. **Reduce the burden of government regulation on the private sector**. Encourage the executive branch and Congress to become "smarter" regulators in their writing and administration of laws, protecting health and safety without slowing economic growth and job creation and avoiding undesirable effects on business costs, competition, and innovation. (Medium-term action all government agencies)

S. **Maintain policy predictability and stability**. Once policies are well-established through debate and implementation, maintaining them in a predictable and stable fashion creates a more positive climate for investors, who prefer that unpredictable risks are minimized. (Long-term action all government agencies and Congress)

T. **Take advantage of new trading opportunities** under the various new Asian regional free trade agreements. Negotiate new free trade agreements with Europe and the US. Study changes needed to be able to conclude these agreements, organize workshops about their expected benefits, otherwise educate local leaders about changes the Philippines should make for compliance. (Medium-term action DTI and Congress)

---

241 Reducing income taxes to 25% and increasing the EVAT to 15% has been recommended by many Philippine economists and by former Secretary of Finance Margarito Teves, e.g. in his DOF Terminal Report to the President dated June 21, 2010.

Security

Security issues in the Philippines can be a serious concern for the investment climate, especially in some rural areas, for the mining and tourism sectors, and in parts of Mindanao. This section discusses several key areas of security: external security, internal security (insurgency, terrorism, and warlordism), military extra-constitutional actions, crime, defense and police capabilities of the government, and foreign government travel warnings.

- **External security**

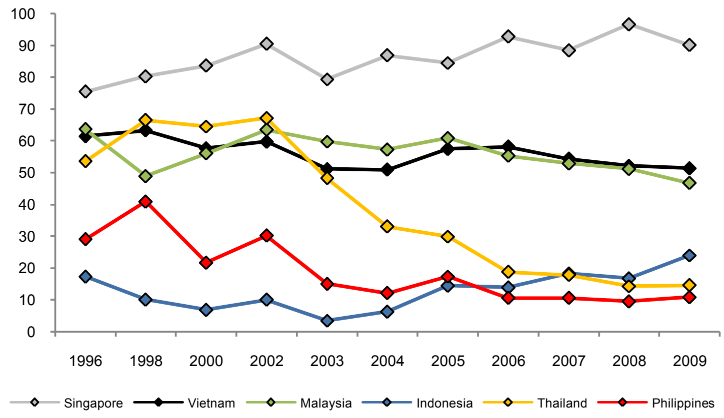
The Philippines faces no external security threat in traditional military terms and has not experienced armed conflict involving foreign military forces in the country since WWII.

Southeast Asia has been free of major international military conflict since the end of the Second Indochinese War in 1975 and the Vietnamese invasion of Cambodia that overthrew the Pol Pot regime in early 1979, followed by heavy Chinese cross-border incursions into Vietnam. Vietnamese forces remained in Cambodia for a decade.

- **Internal security**

The World Bank measure Political stability and the absence of violence and terrorism shows the Philippines falling to the lowest ranking among the ASEAN-6 in the post-9/11 era. The Philippines, however, is in the company of Thailand and Indonesia; the three are ranked closely together. Thailand and Philippines have declined the most over the last decade, the result of 9/11 and continuing challenges from various armed elements and persistent criminal violence. Indonesia began the decade ranking the lowest and has since then improved. Ratings of the other three – Singapore, Malaysia, and Vietnam – have remained relatively steady (see Figure 220).

Figure 220: Political stability/absence of violence and terrorism, percentile ranking, ASEAN-6, 1996-2009

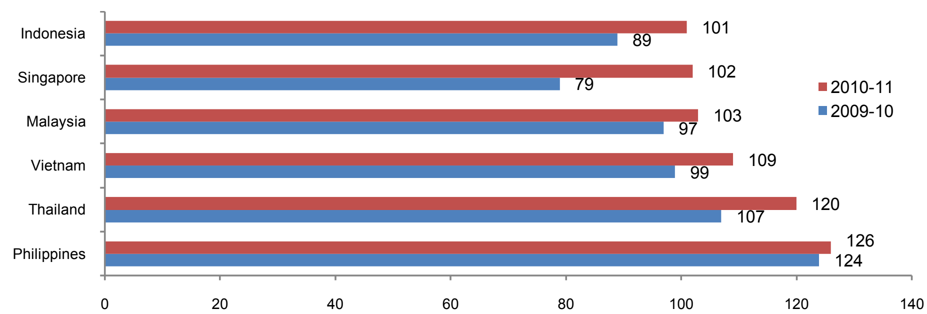


Source: World Bank

The above ranking clearly shows how badly the Philippine international image suffers from international media reports and Western government travel advisories that leave an overall impression of a land that is a battleground of terrorist activity and widespread mayhem and murder. But were this true, no tourists would visit and foreign businessmen and diplomats would have left the country. They have not left, but they do – and should – pay careful attention to personal security.

The threat of terrorism imposes costs on business operations, which are rated by the WEF in its Global Competitiveness Report. For the ASEAN-6 these are towards the higher end of the 139 countries ranked in 2010 (see Figure 221). For comparison, the US is ranked next to the Philippines at 125 and the United Kingdom at 99. In the Philippines, many private businesses employ private security guards and other security services, creating a business cost which would not be necessary if there were no terrorist activity, less crime, and better police protection.

Figure 221: Business costs of terrorism, rank, 2009-2010



Source: WEF Global Competitiveness Report 2009 & 2010; Total number of countries evaluated=133 (2009), 139 (2010); Survey question: To what extent does the threat of terrorism impose costs on the businesses in your country?

The Philippines faces internal security threats from the communist New People's Army (NPA), which operates in most areas of the Philippines, the Moro Islamic Liberation Front (MILF), which is confined to Central Mindanao, and the Abu Sayyaf Group (ASG), operating in Basilan and Sulu provinces in south-western Mindanao.

The costs of the nation's internal security problems over the last four decades have been enormous. Probably as many as 200,000 Filipinos – military and police, insurgents, and especially civilians – have lost their lives. Millions of persons have been temporarily and even permanently displaced as the result of fighting. The economic development of conflict-affected areas has long been neglected by both the public and private sectors, with the consequence that such areas remain among the poorest in the country. Among the 77 provinces, 12 of the 14 poorest are in Mindanao.

- **Internal security: NPA**

Founded in Tarlac in 1969, the NPA today numbers less than 10,000 – down significantly from its peak in the late-1980s. While in decline, the communist insurgency remains a security problem in scattered rural areas on all main islands in the archipelago. Deadly clashes with government forces are common. The NPA and its political action allies espouse an anachronistic communist economic ideology abandoned long ago by their former patrons in China. Often, local NPA guerillas are more bandits than ideological revolutionaries.

Despite a half-century of experience with communist insurgency, the Philippine government has failed to successfully implement a strategy combining steady military pressure on the NPA with economic and social justice for the rural poor. The Philippines in the 1950s, against the Hukbalahap, and Malaysia and Thailand in the 1960s, succeeded in defeating communist insurgencies with such strategies. Yet the Philippine government has had limited success during the 40-year long NPA insurgency. Former president Macapagal-Arroyo ordered the Armed Forces of the Philippines (AFP) to wipe out the NPA before the end of her term. An increase in military operations and assassinations of unarmed militants followed, but armed rebellion continues.

The government has negotiated sporadically since 1986 with leaders of the Communist Party of the Philippines (CPP)/National Democratic Front (NDF) without significant result, given extreme political demands by Philippine communists leaders who have lived for decades in exile in Europe. It is especially difficult to negotiate with an extremist political movement whose main objective is replacing the elected government.

- **Internal security: MILF**

The MILF armed political separatist movement is largely based in Maguindanao province. In 1981 it broke away from the Moro National Liberation Front (MNLF), which entered into a settlement with the GRP in 1996 ending its state of belligerency and creating the Autonomous Region of Muslim Mindanao (ARMM).

Like the NPA, the MILF leaders have been fighting the central government for 40 years, first seeking independence and, more recently, a greater degree of autonomy than is found in the ARMM. Malaysia has facilitated discussions between the government and the MILF leadership for over a decade, and a structure is in place with international observers that subdues the level of violence between the AFP and MILF armed groups. A ceasefire standoff has prevailed for 30 years, interrupted by brief periods of fighting, the worst initiated by former president Estrada, who in 2000 ordered an "all-out war" against the MILF. The campaign captured MILF camps and caused mass evacuation of civilians, then was followed by the return of the status quo ante.[242]

Former president Arroyo pursued a negotiated political settlement strategy. However, the GRP-MILF Memorandum of Agreement on Ancestral Domain agreed to in August 2008 was met with vitriolic political opposition, including an adverse Supreme Court ruling, and was withdrawn by the national government. Talks have not resumed since.

Like his predecessor, President Aquino hopes to achieve a negotiated political settlement during his term that is acceptable to a majority of Filipinos. But bringing lasting peace to the affected areas of Mindanao will not be easy. Settling this long-standing insurgency would improve the overall national Philippine image and could lead to increased investment and more economic growth in Mindanao.

- **Internal security: ASG**

The ASG is a radical Islamic separatist terrorist group operating since the 1990s from bases in Sulu and Jolo provinces. While its strength has declined to a few hundred, its periodic violent actions have greatly contributed to the image of Mindanao as highly dangerous.

A decade ago the ASG gained worldwide attention when it kidnapped European and American tourists from resorts in Sabah and Palawan. ASG also conducted fatal bombings in Manila and Mindanao, including sinking an inter-island ferry near Manila with 116 fatalities in the worst terrorist incident in the country. The ASG, which has partly financed itself with ransom money, has also been responsible for kidnapping Filipino and foreign journalists. The ASG is considered linked to Jemaah Islamiyah (JI), the Al Qaeda-supported group responsible for bombings in Indonesia that advocates a pan-Islamic state.

- **Better infrastructure may help improve Mindanao's security**

Mindanao is one of the poorest yet most promising regions of the Philippines, where the presence of communist insurgents, private armies, and moderate and radical separatist groups have long created impediments to investment and development. Solutions involve (1) better governance and economic growth that will undermine the appeal of local combatants using a strategy of violence, (2) an implementable political settlement with the MILF, and (3) military/police action against the ASG.

A parallel path to a brighter future for Mindanao is to improve its infrastructure to support faster economic growth. Priorities include an end to the current serious power blackouts, much better air, ground, and sea transportation infrastructure, and less expensive freight costs for exports.

---

242 Although most firms are adverse to the risks of investing in conflict-affected areas, one multinational has started export agribusiness operations in Central Mindanao with the full support of the local MILF leadership. The Datu Paglas project represents what can occur for investors wishing to take advantage of incentives available in the ARMM.

The national government has long been less responsive to Mindanao's infrastructure development than for other regions, especially Manila. Several presidents have committed to bringing over 30% of national infrastructure funds to Mindanao but have not delivered. Mindanao should get more than its share considering past neglect, its size, population, role in food production, and strategic role in bringing peace and a reduction of terrorism to the country.

An updated Master Plan for Mindanao Infrastructure is needed but must be properly conceptualized, planned, supported, and implemented at a high level with help from a champion in Manila. A number of plans have been prepared, but a single plan that takes the best from each probably does not exist.[243]

The Mindanao Development Authority (MinDA) is preparing the 2020 Peace and Development Framework Plan for Mindanao for completion in late 2010, which contains an infrastructure section. This plan should address the very high cost of shipping and logistics for Mindanao products (see Part 3 *Manufacturing and Logistics*), prioritize the lists of all projects in the infrastructure subsectors, especially an integrated transportation network and power supply.

- **Warlordism**

The massacre in November 2009 in Ampatuan, Maguindanao of 57 persons shocked the world for its brutality, adding to the prevailing external image of the country as a lawless land. Thirty-four journalists died in the massacre, the worst attack on newsmen ever recorded, in a country already labeled as the most dangerous for journalists after Iraq.

The massacre also brought into public view the continuing problem of private armies of politicians in the Philippines. These were an issue before martial law; several hundred thousand weapons were collected and many private armies disbanded after 1972. In recent years, private armies have returned in some rural areas, where local politicians feel the need to protect themselves and intimidate opponents. These groups are responsible for much of the political killings that have long accompanied Philippines elections.

An Independent Commission on Private Armies appointed after the Maguindanao massacre reported that 72 private armed groups were active in May 2010 in nine provinces: Abra, Masbate, Nueva Ecija, Samar, Basilan, Maguindanao, Lanao del Norte, Lanao del Sur, and Sulu. The most active private armies were reportedly in the ARMM. The Commission recommended an Anti-Private Armies Act be passed and EO 194 of former president Estrada allowing civilians to own an unlimited number of firearms be rescinded. Also noted by the Commission were reported death squad and similar vigilante activities in Davao and several other cities.

- **Military extra-constitutional actions**

While the Philippine military was largely uninvolved in Philippine politics before 1972, its role as the enforcer of martial law until 1986 increased its internal power and introduced many senior

[243] Examples include the Mindanao 2000 Plan, an ADB Intermodal Development plan, and a JICA Logistics study/plan. There are plans prepared by line departments such as DOTC and DPWH, as well as by JICA for ARMM.

officers to corruption. During the following quarter century there have been repeated incidents of political interference, usually by mid-ranking officers, some mistakenly termed "coups" but better called mutinies.

The two People Power revolts that forced former presidents Marcos and Estrada from office in 1986 and 2001, succeeded because the AFP withdrew support for the constitutional president and backed the demonstrating civilian opponents of the incumbent regime, presidential candidate Aquino in 1986 and Vice President Arroyo in 2001. Neither was a true "coup d'etat" in which military leaders turn against civilian government leaders, usually violently, to attempt to seize state power. There are many historical examples of successful coups in Asia, in Burma, Indonesia, Japan, Korea, Thailand, and Vietnam. However, a purely military coup d'etat has never succeeded in the Philippines.

The most serious attempted military coup in the Philippines occurred in December 1989, in a year when GDP growth reached 7 percent, and caused considerable harm to the economy by damaging business confidence. The July 2004 takeover of an apartment tower in Makati, the nation's premier business district, by a small group of mutineers was an unwelcome reminder that ill-disciplined soldiers can be as disruptive to security as terrorists and guerillas. The leader of this group subsequently seized a leading hotel in November 2007, whose assault by government forces was broadcast live around the world.

President Arroyo faced incipient military disobedience in February 2006 from a Philippine Army Scout Ranger general and a decorated Philippine Marine colonel, who plotted a coup but were exposed, arrested, and were still imprisoned in May 2010, when each ran unsuccessfully for the Senate. Two former military rebels have been elected to the Senate, suggesting a degree of popular support for their actions.

The application of firmer discipline by the military against internal dissidence and the election of a highly-popular president in May 2010 have reduced the prospect for serious military coup plotting and actions. Corruption within the armed forces and high levels of civilian government have in past years motivated mid-level officers to attempt extra-constitutional actions. For a period after 1986, a Marcos loyalist faction in the military also maneuvered against his successor. The passage of time and prospects for improved national governance appear to have attenuated inclinations within the military to serious rebellion and the threat of recurrence, although mutinous incidents by small groups may yet occur.

> "The Oakwood mutiny of July 2003 and the takeover of the Manila Peninsula in November 2007, both occurring smack in the central business district, portrayed the Philippines in a Wild, Wild West scenario and drove away considerable investments. (The coup attempt mounted by Honasan and his comrades in December 1989, also in Makati, resulted in financial loses anywhere between PhP 800 million and PhP 1 billion! And we're not even talking about the body count.)"
>
> *Editorial, Philippine Daily Inquirer, October 15, 2010*

In the long-run, if the democratic system cannot meet the development needs of an exploding population, then the risk of greater political instability may increase, whether from an interventionist military, a resurgent guerilla movement, or both.

- **Human rights violations**

The Commission on Human Rights (CHR) is a constitutional body created under the 1987 Constitution. Its offices throughout the country record reports of serious illegal incidents believed to be political in nature, in which government persons or political opponents may be the suspected perpetrators. From the data in Table 82 below (1990-2009) it is clear the Philippines still has a high incidence of human rights complaints.

While investigated, few cases are brought to trial and few responsible parties are sentenced for their crimes. This lack of an effective system of justice has been commented on frequently by foreign governments, the UN, and international NGOs and remains an area that the nation should strive to improve to bring better rule of law to its citizens. The Ampatuan massacre is the worst incident, and it and the subsequent trial have received extensive international publicity. Until the guilty are punished, however, assassinations of journalists and political activists, judges and local officials, and others, will continue, with relative impunity.

Table 82: Human rights violation cases filed at the Commission on Human Rights, 1990-2009

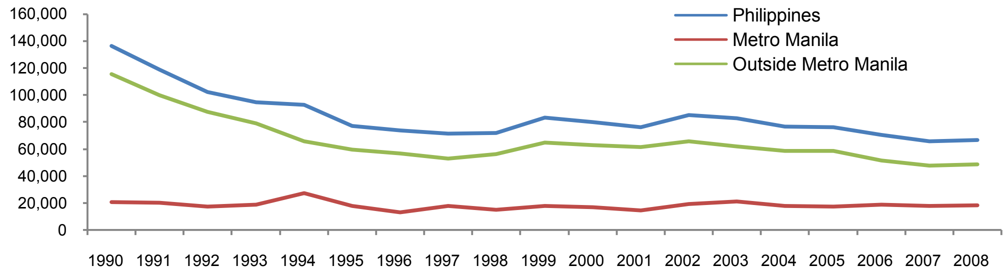
Year	Murder/ Homicide/ Execution	Arbitrary/ illegal arrest and/or detention	Disappearance	Torture	Other Complaints	Total
1990	665	242	58	25	841	1,831
1991	525	195	41	10	844	1,615
1992	472	175	38	13	818	1,516
1993	319	148	18	5	715	1,205
1994	253	140	14	8	857	1,272
1995	235	139	18	4	858	1,254
1996	248	162	13	7	997	1,427
1997	195	100	11	1	916	1,223
1998	206	166	9	2	1,037	1,420
1999	260	192	17	7	1,224	1,700
2000	206	166	9	2	1,037	1,420
2001	198	149	3	4	808	1,162
2002	207	124	8	7	816	1,162
2003	233	176	7	16	878	1,310
2004	282	98	7	6	727	1,120
2005	443	111	15	10	754	1,333
2006	351	118	40	20	630	1,159
2007	229	80	14	5	558	886
2008	209	82	10	8	491	800
(Jul) 2009	58	34	6	4	222	324

Source: Commission on Human Rights

- **Crime**

The Philippines has a serious crime problem. Poverty and joblessness create an incentive for petty crime which the average Filipino is very likely to encounter in his daily life. According to an SWS survey in 2008, almost 10 percent of respondents stated they had lost property or suffered physical violence in the previous six months. Government statistics as of 2008 measured the crime rate per 100,000 persons for the country at 0.074% (74 persons in every 100,000), while in Metro Manila it was twice as much at 0.155% (155 persons in every 100,000) (see Figure 222).

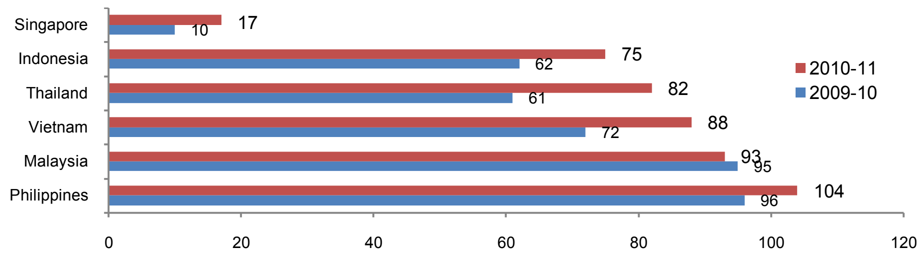
Figure 222: Crimes committed, index+non-index, estimated, 1990-2008



Sources: Author's calculation based on data of PNP and NSCB; Index crimes: Murder, homicide, physical injury and rape (crimes against persons) and robbery and theft (crimes against property); Non-index crimes: crimes against persons (parricide/ infanticide, maltreatment, kidnapping); crimes against property (estafa and falsification, malicious mischief and damage to property); crimes against morals and order (prostitution, vagrancy, alarm and scandal, assault/resistance to authority, corruption of public official, gambling, slander and libel, threat and coercion and trespassing), crimes against chastity (abduction, seduction, lascivious acts) and other crimes (illegal possession of firearms, explosives and ammunition, concealment of deadly weapons, smuggling, carnapping and prohibited drugs)

Crime and violence has a business cost, which is measured in the Global Competiveness Report, in which the Philippines ranks lowest, surprisingly alongside Malaysia (see Figure 223). The United States ranked 84.

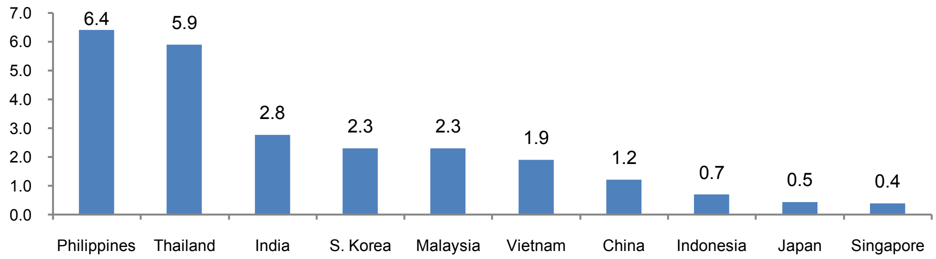
Figure 223: Business costs of crime and violence, rank, ASEAN-6, 2009-2010



Source: WEF Global Competitiveness Report 2009 & 2010; Total number of countries evaluated=133 (2009), 139 (2010); Survey question: To what extent does the incidence of crime and violence impose costs on the businesses in your country?

The prevalence of weapons also results in a high level of gun violence. Among the ASEAN-6+4, the Philippines has the highest murder rate, followed closely by Thailand (see Figure 224). The Philippine murder rate is three to 15 times higher than the other countries, except Thailand. There are an estimated 1.2 million unlicensed firearms in the country, contributing to the Philippine rank as number 10 worldwide for gun homicide. Despite the rise in political killings during elections, the gun ban that is generally enforced during campaigns results in lower levels of non-political gun-related violence.

Figure 224: Homicide rate per 100,000 population, ASEAN-6+4



Source: UN Office of Drugs and Crime (Crimal Justice Sources); Data: Philippines (2008); Thailand (2008); India (2007); South Korea (2008); Malaysia (2006); Vietnam (2006); China (2007); Indonesia (2004); Japan (2008); Singapore (2006)

Kidnapping for ransom, long a problem in the Philippines, has often victimized Filipino-Chinese, who reputedly pay large sums to be released and often do not report the crimes nor the ransom amount. Foreigners have also been kidnapped, most frequently by Islamic radicals and bandits in Mindanao. An unusual and sensational incident occurred in Manila in August 2010 when a busload of tourists from Hong Kong of several nationalities was seized by a disgruntled former policeman. The botched assault – broadcast live to the world – left eight dead and was a blow to the government's tourism promotion plan.

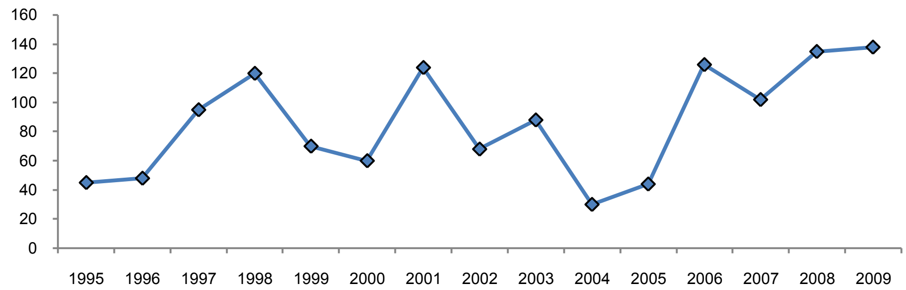
The largest kidnapping incident involving Filipino terrorists was at Sipadan Island Resort, Malaysia in 2000 when the ASG seized 21 tourists from Germany, France, South Africa, Finland, Lebanon, Malaysia, and the Philippines, moving them to their base in Jolo. After surviving many months under harsh conditions, they were released upon the intervention of Libyan leader Gaddafi, US$ 25 million in "development aid," and after military offensive. Such incidents have given the Philippines the reputation as the "Kidnap Capital of Asia."

Figure 225: When authorities ramp down their guard, kidnapping becomes rampant

Source: Philippine Star, October 18, 2010

Data on kidnap incidents vary, as many are not reported. The government figures are considerably lower than those reported by the Citizens Action Against Crime (CAAC), an anti-kidnapping advocacy group organized by the Filipino-Chinese community. Figure 226 provides data that shows incidence of kidnapping since 1995, with the level in the last four years being consistently higher than average.

Figure 226: Number of reported kidnapping incidents, 1995-2009

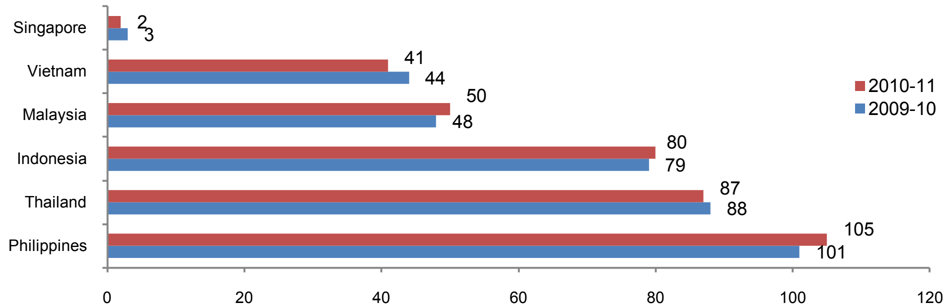


Source: PSA

Most incidents (60%) occur in Mindanao and are perpetrated by terrorist groups. Kidnapping elsewhere is most often done by criminals interested in ransom. About 10 percent of the persons kidnapped in incidents reported in 2009 were killed.[244] Periodically, the government mounts anti-kidnapping campaigns against suspect kidnap-for-ransom syndicates.

It is not surprising that the perception of the reliability of police services is ranked lower in the Philippines than the other ASEAN-6 countries (see Figure 227).

Figure 227: Reliability of police services, 2009-2010



Source: WEF Global Competitiveness Report 2009 & 2010; Total number of countries evaluated=133 (2009), 139 (2010); Survey question: To what extent can police services be relied upon to enforce law and order in your country?

- **Defense and police forces**

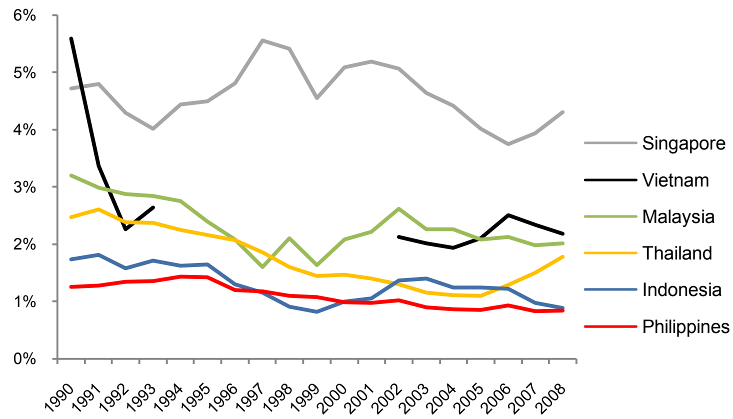
In the absence of an external threat, the AFP has long given the highest priority to internal security, disaster relief, and search and rescue operations. Its total force strength of 106,000 is small for a country with a population of nearly 100 million. Funding for new equipment has been very

244 Data provided by Pacific Strategies & Assessments (PSA)

limited for many years and certain missions, e.g. air defense or maritime patrol, are inadequately performed for lack of any jet fighters or maritime patrol aircraft.

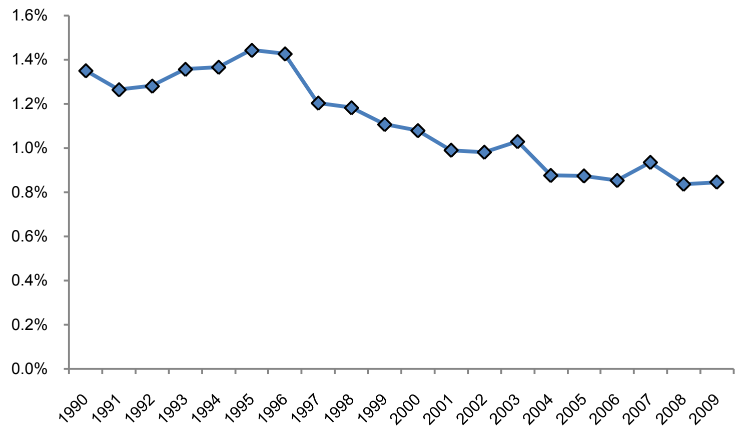
The Philippines spends only 0.85% of GDP on its military, less than any ASEAN-6 country; this amount has slowly declined over the last 20 years (see Figures 228 and 229). A modernization program for the AFP, which started in the mid-1990s, has been very slow to use funds available for the procurement of new equipment.

Figure 228: Military spending, % of GDP, ASEAN-6, 1990-2008



Sources: Stockholm International Peace Research Institute, ADB (GDP); Note: No data for Vietnam from1995 and 2002.

Figure 229: Philippine government defense spending, % of GDP, 1990-2009

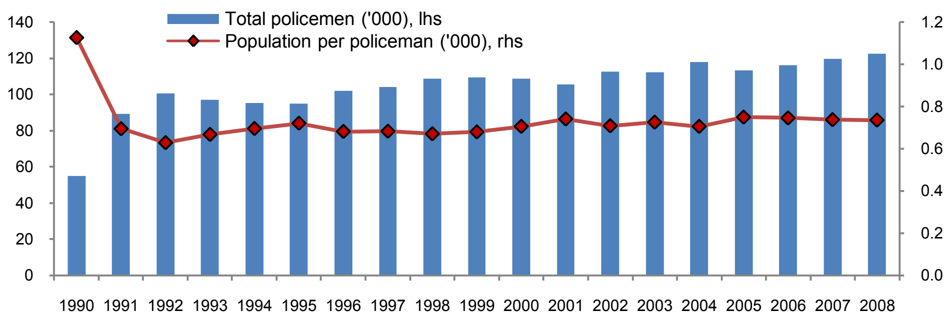


Source: ADB

> "The need to modernize is most glaring in the PAF [Philippine Air Force], which is often described in jest as all air and no force…That situation would be laughable if it did not put public safety and national security at risk. The lack of a credible air defense capability means the Philippine military cannot effectively patrol the country's territory and deter intruders, including poachers and foreign forces building structures on Philippine-claimed areas in the South China Sea...[D]efense requirements cannot be given low priority. Military capability is needed not just for fighting insurgents and terrorists but also for rescue and relief efforts…At his inaugural, President Aquino vowed to hire more military and police personnel to match the boom in the country's population…Credible defense capability is a reasonable goal."
>
> *Editorial, Philippine Star, July 7, 2010*

A modern, efficient police force is essential to improving the peace and safety conditions of the country. The current police force strength of 120,000 is too small for a country with a population of 100 mllion (see Figure 230). In 2008, there was just under one policeman for every 1,000 persons. Equipment for the police is poor, especially in rural areas.

Figure 230: Number of policemen, 1990-2008



Sources: PNP, NSO and NSCB

- **Foreign government travel advisories and warnings**

A number of foreign governments, including Australia, Canada, the UK, and the US, issue travel advisories and warnings to their citizens on travel to the Philippines. Sometimes the warnings are geographically broad and use language that leads readers to avoid any travel to the country or the part of the country that is referred to in the warning. For example, the US often warns of the risks of travel to Mindanao. While no one would dispute that there are very dangerous parts of Mindanao, there are also quite safe areas, where criminal and terrorist activity has been no worse than Manila or Cebu.

"The State Department warns U.S. citizens of the risks of travel to the southern Philippine islands of Mindanao and the Sulu Archipelago, and urges extreme caution if traveling there."

Website, US Department of State, Bureau of Consular Affairs, April 2, 2010

"There is a high threat from terrorism throughout the Philippines. Attacks could be indiscriminate, including in places frequented by expatriates and foreign travellers." Around 70,000 British tourists visit the Philippines every year (Source: Philippine Ministry of Tourism). Most visits are trouble-free.

UK FCO, October 14, 2010

Headline Recommendations	
1.	**Improve political stability and reduce violence, terrorism, and human right abuses throughout the Philippines.** Use different strategies to deal with the MILF, NPA, and ASG. Negotiate with the MILF and the NPA and use force to isolate/ eliminate the ASG.
2.	**Reduce violence in Mindanao and increase economic development in the island's poorest provinces.** Develop and implement the Mindanao 2020 Peace and Development Plan, emphasizing better infrastructure and lower shipping costs. Reduce/**eliminate warlordism**. Expand CCT, Kalahli-CIDSS and other programs that **reduce government neglect of population living in remote areas.**
3.	**Modernize the armed forces and police and increase their numbers. End extra-constitutional actions by any military units** through reforms and discipline. **Reduce crime,** especially murders and kidnappings.

Recommendations: (15)

A. **Improve the Philippine country rating in the World Bank measure *Political stability and the absence of violence and terrorism***, presently lowest among the ASEAN-6, to be ahead of Indonesia and Thailand. Also improve the Philippine country rating in the WEF category Business costs of terrorism, where the country is last among the ASEAN-6. (Medium-term action AFP, DILG, DOJ, LGUs, and private sector)

B. **Minimize conflict in Mindanao with the MILF** and **negotiate a settlement agreement** consistent with the Philippine Constitution and supported by the Congress and local communities in Mindanao. (Medium-term action OP, LGUs, Congress, and private sector)

C. Continue aggressive military action to **contain and eliminate the ASG and minimize/prevent any presence of JI militants** in the country. Maintain training and intelligence cooperation with friendly foreign military forces. (Immediate action DND, AFP, and LGUs)

D. **Reduce poverty faster in the poorest provinces in Mindanao**. Increase the national government allocation of resources to Mindanao to at least 30%. (Medium-term action NEDA, DSWD, DBM, DTI, DILG, LGUs, and private sector)

E. **Complete and implement the Mindanao 2020 Peace and Development Plan** containing a Master Plan for prioritized infrastructure projects that will provide reliable power supply, integrated road and port transportation, and less expensive transport costs to and from Mindanao. The Plan(s) must have a champion in Manila. (OP, MinDA, various departments, and private sector)

F. **Warlordism, primarily in Mindanao, must be suppressed**. An Anti-Private Armies Act should be passed. Local police and armed civilian auxiliary units should be better managed by the national government, so that they do not commit abuses and become "captured" by local warlord politicians. Over time the local auxiliaries should be reduced. (Medium-term action DILG, LGUs, AFP, DOJ, and Congress)

G. **Hold talks and negotiate with Philippine communist political representatives and seek longer cease-fire periods** but do not expect success in view of the historical goals of the CPP/NPA. (Immediate action OP, DOJ, and DND)

H. To counter the appeal of the communists **in rural areas, extend government services, including health and education, and improve infrastructure** and livelihood programs. Increase the conditional cash transfer program. Better governance and economic growth will undermine the appeal of local combatants who use violence. (Medium term action DILG, DSWD, DPWH, DEPED, DOH, LGUs, and private sector)

I. **Successfully investigate and prosecute human rights abuses** in order to reduce such violations and improve the international image of the Philippines. Financial rewards for information leading to arrests should be adequate. The witness protection should be strengthened and applied effectively. The **Ampatuan massacre trial**, which is under close international scrutiny, must be **conducted in an expeditious and legally correct manner** and be a model of rule of law in the country. (DOJ and courts)

J. **Implement defense modernization faster**. The extensive Philippine coastal seas, vulnerable to smuggling of weapons, terrorists, and goods, need more patrol and interdiction activities by Philippine or regional patrol forces. (Long-term action DND, AFP, and DBM)

K. **Increase the size of and better equip the national and local police forces**. (Long-term action DBM, DILG, and LGUs)

L. **End extra-constitutional actions by any military units** through reducing military corruption, meeting equipment concerns especially in Mindanao, maintaining chain-of-command discipline, and promoting military professionalism. Court martial and otherwise deal firmly with all military mutinies. (DND, AFP, DBM, and DOJ)

M. **Limit firearms in civilian hands and reduce loose firearms**. Purchase loose firearms, repeat amnesty, and increase penalties for unlicensed possession. **Pass Anti-Deadly Weapons Act**. (Medium-term action DILG, DOJ, and Congress)

N. **Do more to discourage kidnapping** through breaking up kidnapping syndicates and arresting, prosecuting, and sentencing kidnappers. (Immediate action DILG, DOJ, and LGUs)

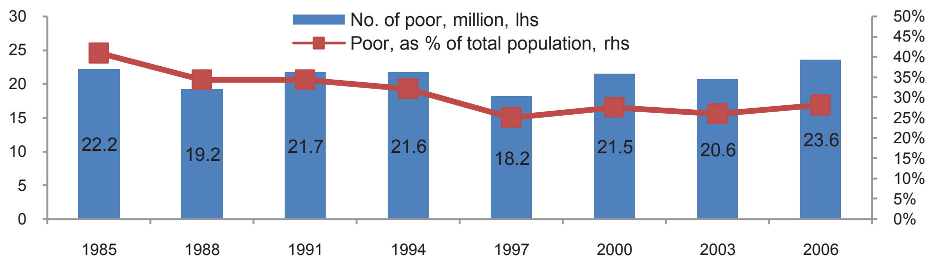
O. **Encourage more balance in foreign government travel advisories**, so that the wording recognizes that most foreign residents of the Philippines live safely and peacefully in the country. The warnings are useful for both residents and newcomers to be aware of different threats, but the threats should not be described in alarmist tones. (Medium-term foreign citizens and groups and their governments)

Social Services: Poverty

This section will discuss three important policy areas that affect the business and investment climate. Education determines the quality of tomorrow's workforce. Health determines fitness of workers. Population determines the numbers of the workforce. The quality of each is extremely important. Well-educated citizens are better qualified for jobs in a modern economy emphasizing knowledge-based services. Good health, aside from being a basic human right, supports increased labor productivity, which in turn supports higher wages. Population policy supports the freedom of parents to choose family size.

Before discussing each of these policy areas, a look at the statistics of poverty in the country is in order. The latest official survey data is for 2006 (the updated data for 2009 will not be available until 2011). Figure 231 shows the trend over two decades in both the number of poor and poor citizens as a percent of total population. The number of poor declines from 1985 to 1997 from 22.2 million to 18.2 million and then increases to 23.6 in 2006, an increase of 1.4 million over the 1985 level. As a percent of the population, however, there has been progress in a decrease from 41% in 1985 to 28% in 2006.

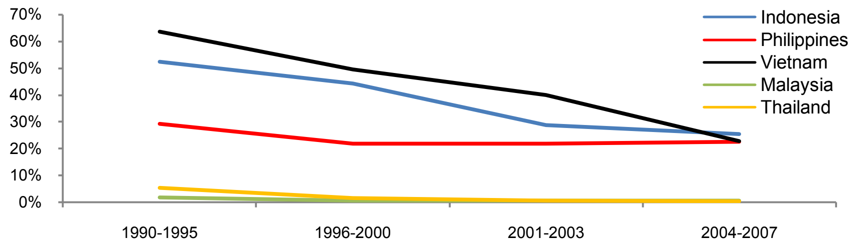
Figure 231: Poverty trend, official estimates, Philippines, 1985-2006



Source: FIES, various years

Among the ASEAN-6 the Philippines has the most persistent incidence of poverty (defined as living on less than US$1.25 a day). The other five ASEAN countries have shown steady progress in reducing poverty at this level, but the Philippines, since 1998, has not. By extrapolating the trend direction, the Philippines now has a higher poverty incidence than Vietnam and possibly Indonesia (see Figure 232).

Figure 232: Poverty incidence, <US$ 1.25-a-day, ASEAN 6, 1990-2007



Sources: PovcalNet (World Bank); Balisacan, Arsenio "Pathways out of Poverty." 2008; UNICEF for the urban-rural population distribution in Indonesia; Note: Indonesia's national poverty estimates are derived using the country's rural and urban poverty estimates of the World Bank.

A profile of the poor in comparison to all Filipinos is in Table 83. Poor Filipinos are mostly rural, have less access to electricity and water, are mostly farmers, less educated, and have larger families.

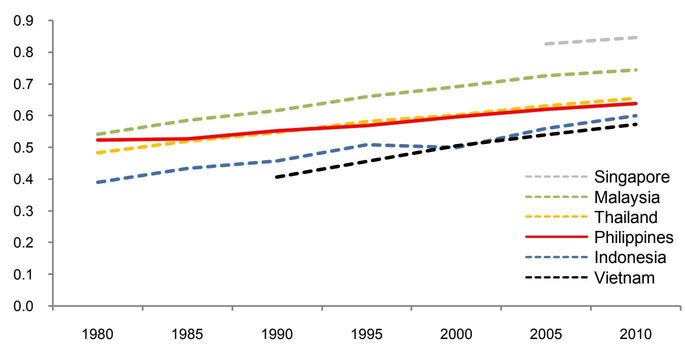
Table 83: Profile of the poor in the Philippines, 2006

	As % of Filipinos	As % of poor Filipinos
Live in rural areas	51	71
Do not have access to electricity	18	40
Do not have their own water source	52	78
Belong to male-headed households	85	90
Belong to families with more than 5 members	52	71
Belong to families whose head works in agriculture	35	59
Belong to families whose household heads are informal sector workers	44	55
Belong to families with unemployed household heads	15	8
Belong to families whose household heads did not attend school	3	6
Belong to families whose heads did not reach high school	44	66

Source: "Philippines: Fostering More Inclusive Growth." World Bank, Aug 2010.

The Human Development Index prepared by the United Nations Development Program (UNDP) measures on the scale of 0.0 to 1.0 (a) life expectancy, (b) education, and (c) per-capita income. While all the countries in Figure 233 below showed improvement, the Philippines was the slowest, ranked with Indonesia and Vietnam in 2007 and lower than the other three ASEAN-6 economies.

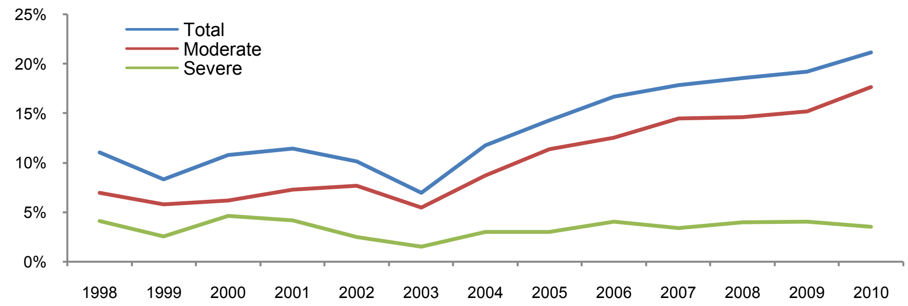
Figure 233: Human Development Index, ASEAN-6, 1980-2010



Source: UNDP HDR 2010; Note: As a result of periodical revisions to data by international agencies, statistics presented in different editions of the Report are not comparable. This time series uses the latest HDI methodology and the most up-to-date trend data for each component of the index (UNDP website). Components include life expectancy, education and income.

The poor are hungry. Their diet is inadequate. Their children are malnourished (see Part 4 *Health and Population*). SWS measures self-rated moderate and severe hunger by asking respondents if they have had nothing to eat. The September 2010 poll counted 16% of households – equivalent to some three million families – claiming to have had nothing to eat at least once in the past three months, down from 21% in the previous survey June 2010 (see Figure 234).

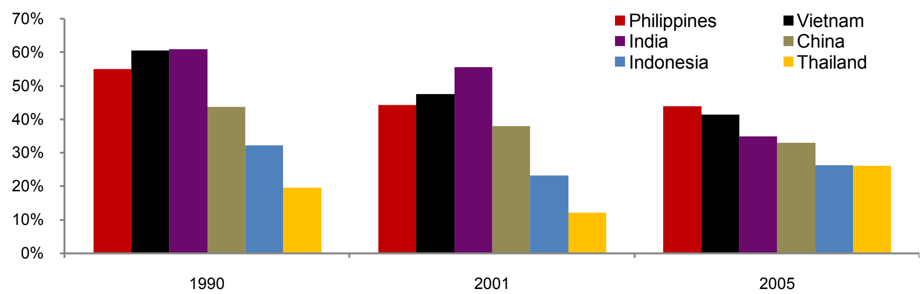
Figure 234: Degree of hunger in households, 1998-2010



Source: SWS; Annual averages

The Philippines has the highest percentage of slum population as a percent of its urban population among six Asian countries. However, most poor Filipinos live in rural areas and migrate to urban slums, where they have better income opportunities than in the countryside (see Figure 235).

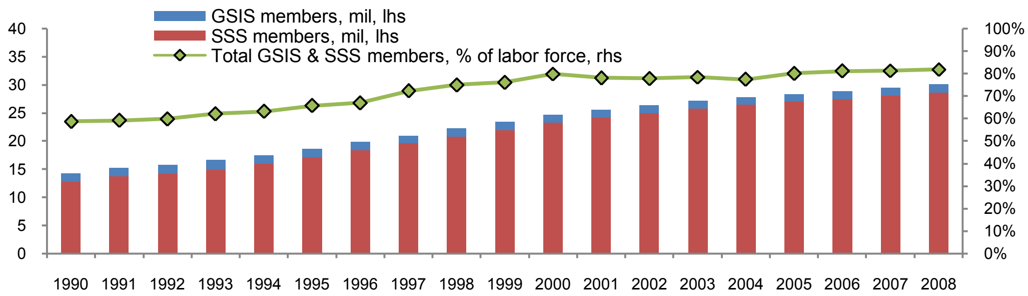
Figure 235: Slum population as percent of urban population, 1990-2005



Source: UN Stats Div

Most Filipinos needing financial assistance approach better-off relatives, who offer better "terms" than banks. Private life and health insurance is not widespread. However, government insurance coverage in the Philippines has gradually expanded to include higher percentages of the total population, as shown in Figures 236. The GSIS and SSS provide retirement payments and loans to public and private sector employees and together cover 80% of the workforce in terms of enrollment. However, the figures for SSS are deceptive. A very large number of persons working in the informal sector (e.g. tricycle drivers) have been enrolled by local politicians in order for them to receive funeral benefits. However, since they do not have regular deductions remitted from their income, they are not entitled to retirement benefits.

Figure 236: GSIS and SSS coverage, 1990-2008



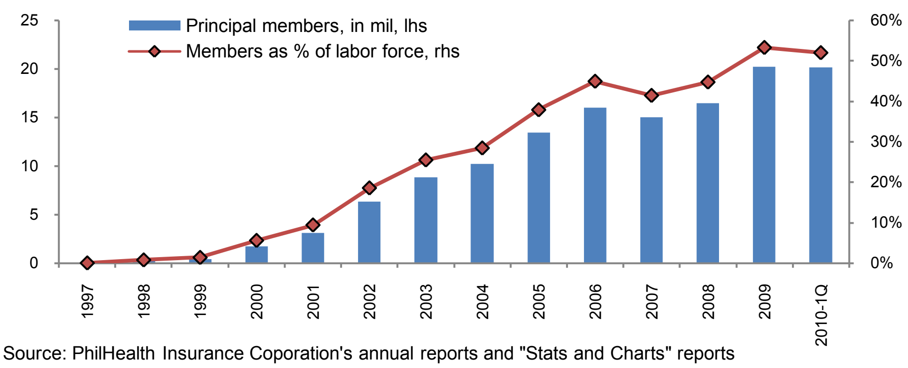
Sources: SSS, GSIS and NSCB

The Philippine Health Insurance Corporation (PhilHealth) membership has grown steadily since 1997, reaching 50% of the labor force in 2008 after a decade of operation (see Figure 237). Expansion of membership continues under the National Household Targeting System, which is currently issuing PhilHealth cards to 800,000 families.

> "Of course, the ideal public policy is to provide universal basic health care, when citizens get medical attention based on needs rather than on their income or political color."
>
> *Benjamin E. Diokno, Will CCT help or hurt the poor?, Business World, October 12, 2010*

Benefits from these three programs are very modest by developed country standards. However, the poor, who dominate the informal economy, remain the population cohort still largely excluded from coverage.

Figure 237: PhilHealth membership, 1997-2010



Source: PhilHealth Insurance Coporation's annual reports and "Stats and Charts" reports

Conditional cash transfers (CCTs) are a new policy instrument in the Philippines intended to improve the lives of the poor, especially children in poor families. They have been used successfully in over 30 countries, beginning in Brazil and Mexico a decade ago. The World Bank in 2009 loaned US$ 2.9 billion for CCT programs in 13 countries, including the Philippines.

CCTs are a social safety net used to incentivize poor families with cash payments for meeting certain requirements that improve the education and health of their children. The intended results are for their children to go to school for a minimum number of days, eat better at school feeding programs, and be healthier. Visits to health center for immunizations and pre- and post-natal care, including counseling for family planning and breastfeeding, are also required. Achieving MDG goals for improved maternal health and reduced infant mortality are supported by CCT programs.

CCTs will not work if the intended government programs are not available to beneficiary parents. Classrooms with teachers and health clinics with health workers must be in place.

The program, which began in 2008 under former president Macapagal-Arroyo, will be expanded by President Aquino to eventually add 4.6 million families (an estimated 23 million persons) by the end of his term in 2016. His first budget included a PhP 21 billion allocation to assist 2.3 million families (an estimated 11.5 million people or one-third of the country's poor population).

An advantage of the CCT is that the money will reach poor families directly and more efficiently than many past programs that had large leakages, such as benefits going to non-target beneficiaries among political supporters of politicians and the pockets of bureaucrats. Beneficiaries will be carefully selected and their names will be posted on the website of the Department of Social Welfare and Development (DSWD), the implementing agency.

If CCTs are effective in the Philippines, they will reduce school dropout rates (see Part 4 *Education*) and improve the health of mothers, babies, and children and also will reduce the poverty of the poorest of the poor. In Brazil, along with strong economic growth, CCTs have helped reduce the poverty rate to 15.3% in 2009 from 33.8% 15 years before.

Recommendations: (4)

A. **Steadily reduce number of poor and poor as percentage of population**. (Medium-term action DSWD, DILG, DTI, DepEd, DOH, DOLE, NEDA, and Congress)

B. **Reduce the incidence of hunger**. (Medium-term action DSWD, NEDA)

C. **Expand insurance coverage to include more poor**. (Medium-term action SSS, PhilHealth)

D. Successfully **implement the expanded CCT program** to include all 6.9 million poor Filipino families. (Long-term action DSWD, DBM)

Education

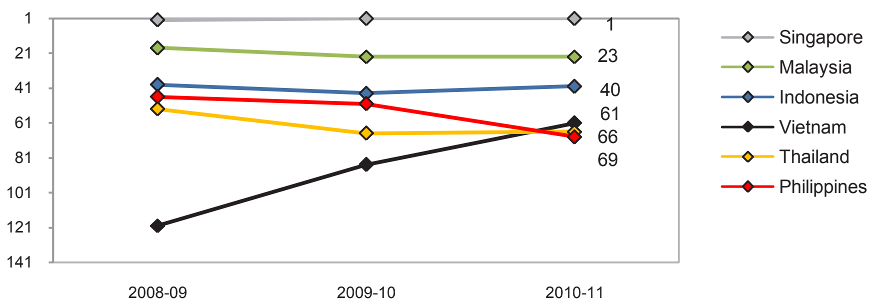
Education in the Philippines is inadequately robust to support high economic growth and needs extensive reform including greatly increased resources. All levels of education in the Philippines have deteriorated over several decades, faced with an increasing young population that has outstripped available resources. Yet rapid economic progress, attracting high levels of investment, and moving into knowledge-based services, require a well-educated workforce with appropriate skills for a middle income economy. Maintaining and improving national competitiveness also requires much improved education.

Having a large pool of skilled manpower is an attraction to foreign direct investments, which in turn improves economic activity. Policy makers should focus on enhancing the country's competitive edge by improving its educational system.

> "The quality of Philippine education and its output are deteriorating to such distressing levels that the country now ranks among the poorest performers in East Asia."
>
> *Gearing Up the Nation for Growth and Competitiveness, Congress Secretariat Planning Workshop, House of Representatives, July 2007*

The WEF Global Competitiveness Report ranks the quality of the education systems of 139 countries. The Philippines ranked 69th, just behind Thailand and Vietnam, but is declining and will remain the lowest rated in the ASEAN-6 if it does not pursue strong educational reform (see Figure 238).

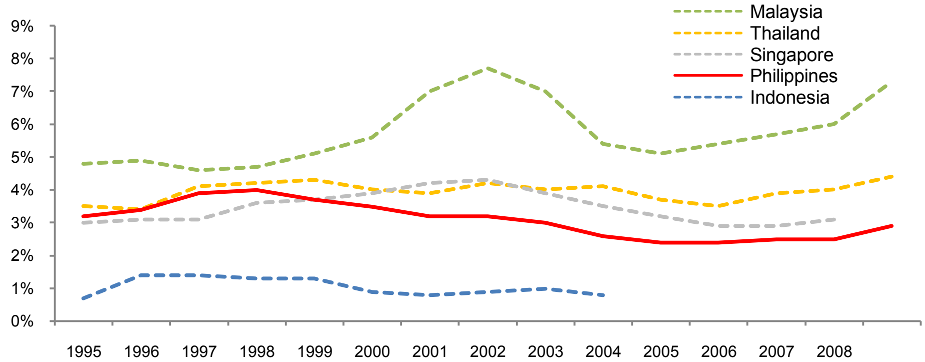
Figure 238: Quality of education system, rank, ASEAN-6, 2008-2010



Source: WEF; Total countries evaluated: 2008-134; 2009-133; 2010-139

The national government spends only 2.5% of GDP on education, less than Malaysia, Thailand, and Singapore (but more than Indonesia) while the East Asian average was 3.6% in 2005 (see Figure 239). The education budget proposed for 2011 totals PhP 207 billion, an 18.5 percent increase, which will include building 18,000 more classrooms, buying 32 million textbooks, and hiring 10,000 more teachers.

Figure 239: National government spending on education, % of GDP, ASEAN-5, 1995-2008



Source: ADB Key Indicators, various years; Note: No data for Vietnam; Indonesia - latest is 2004; Singapore - latest is 2008.

Of the ASEAN-6 the Philippine government spends the least per student (see Table 84). The amounts are shockingly low, with Malaysia, Thailand and Vietnam spending more than twice as much and Indonesia 65% more. With so little public sector investment in education, the poor performance of graduates should come as no surprise.

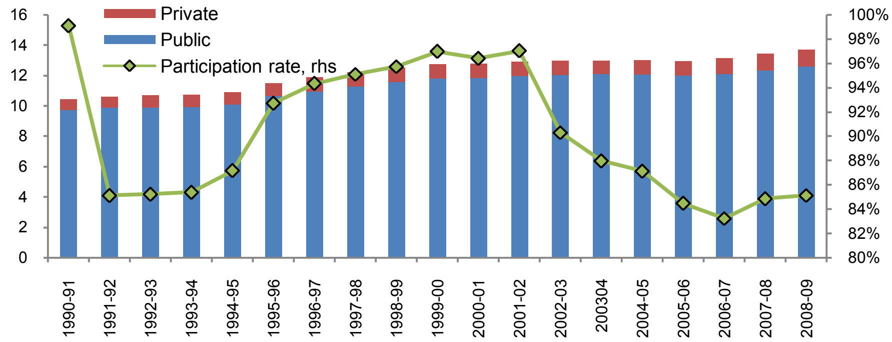
Table 84: Public expenditure per student as % of GDP per capita, ASEAN-6, 2005-2009

	All levels	Primary	Secondary	Tertiary
Indonesia	15.1	15.7	13.9	16.1
Malaysia	17.3	11.6	14.2	49.4
Philippines	9.1	8.6	9.2	11.6
Singapore	14.1	11.2	16.6	26.9
Thailand	22.0	21.4	22.1	23.0
Vietnam	22.2	19.7	17.3	61.7

Source: UNESCO

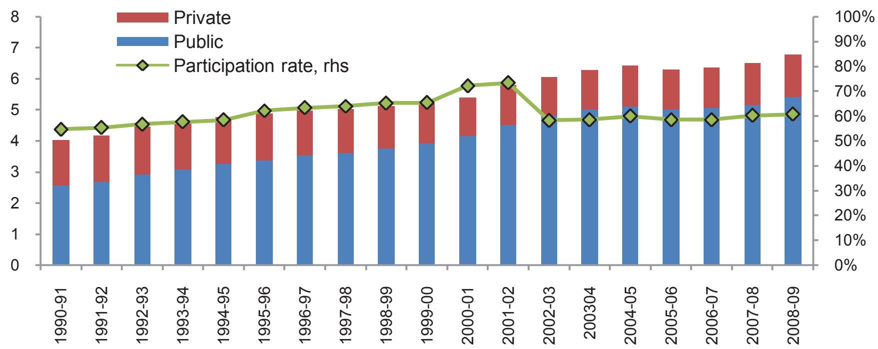
Over 20 million Philippine children are enrolled in basic (elementary and secondary) education (see Figures 240 and 241). Elementary school lasts for six years and secondary for four. In the American colonial period, elementary was for seven and secondary was for four.

Figure 240: Elementary enrollment and participation rate, 1990-2009



Source: DepEd; This includes both public and private schools

Figure 241: Secondary enrollment and participation rate, 1990-2009



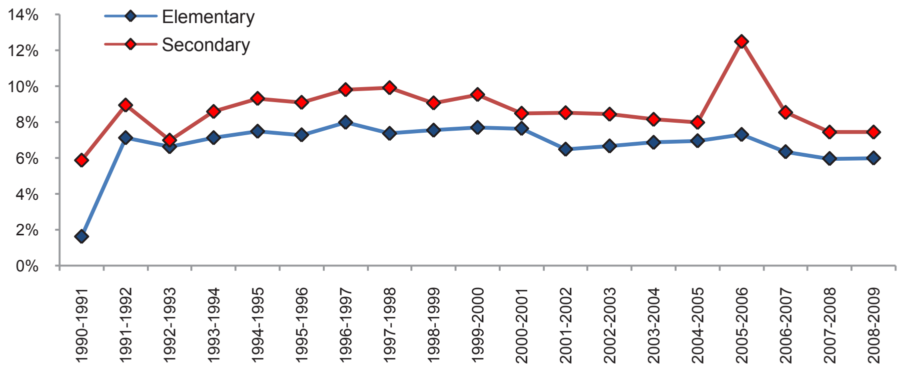
Source: DepEd; This includes both public and private schools

The 10-year total for basic education is the shortest in the Asian region, which follows a 12-year basic education system, followed by four years of college. In the Philippines, high school and college graduates are in school for two years less than their counterparts elsewhere and graduate at 16 often inadequately prepared and too young for fulltime employment. Because their first year in college is often used to repeat their high school curriculum, colleges are increasingly adding a fifth year, which adds to the financial burden on families.

High-drop out rates of 6% for elementary and almost 8% for secondary mean many students do not complete their education and do not acquire skills needed for jobs in a modern middle-income economy (see Figure 242). From 1,000 students who begin schooling at Grade 1, only 650 complete elementary school. Of these, only 430 graduate from high school, and 230 enter college, but only 120 will get a degree (12% of the number who started).[245] Most who drop out are among the poorest and cannot afford the costs associated even with free basic education and college. Like their parents, the drop-outs are destined for low-skill jobs and unemployment, repeating the cycle of a life of poverty.

245 Philippine Human Development Report 2008/2009, UNDP

Figure 242: Drop-out rates, elementary and secondary, 1990-2009



Source: DepEd

Classrooms in basic education in the Philippines are very over-crowded. The pupil-teacher ratio is higher than most Asian countries and has been increasing (see Table 85). By contrast, elsewhere in Asia, the ratio has been declining. In Philippine primary schools in 2008, the ratio was 33.7 and in secondary schools it was 35.1. Both were the highest of the ten countries included in Table 85. The combination of less attention from teachers and a shorter basic education cycle means Philippine students are likely to be less well-educated than students in other Asian countries, where students study longer and receive more attention from teachers.

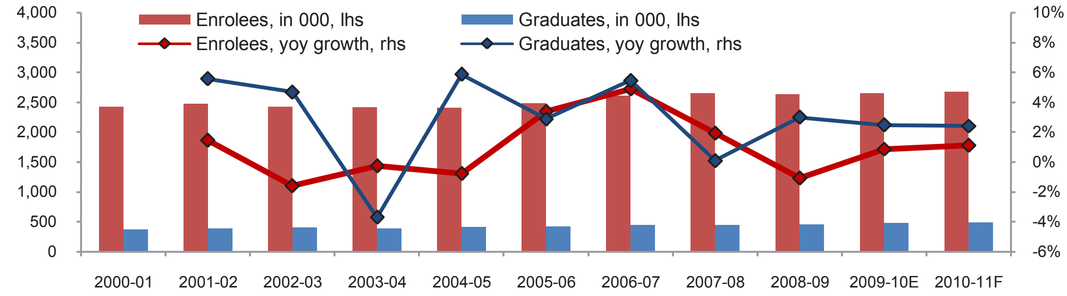
Table 85: Pupil-teacher ratio, selected Asian countries, 1990-2008

	Primary			Secondary		
	1990	2000[a]	2007-2008[b]	1990[c]	2000[d]	2007-2008[e]
China	22.3	19.4	17.7	14.6	17.1	16.4
India	46.0	40.0	32.7	28.7	33.6	32.7
Indonesia	23.3	22.4	18.8	12.9	15.8	13.0
Japan	21.2	20.7	18.5	17.1	14.0	12.2
Malaysia	20.4	19.6	15.7	19.3	18.4	17.0
Philippines	32.7	35.2	33.7	33.3	36.4	35.1
Republic of Korea	36.3	32.1	25.6	27.7	21.0	18.1
Singapore	25.8	25.6	19.3	17.9	19.4	16.4
Thailand	20.3	20.8	16.0	16.2	24.0	21.2
Vietnam	34.2	29.5	19.9	18.0	28.0	20.7

Sources: ADB and UNESCO
Note: a - China 2001, Philippines 2001; b - India 2004, Malaysia 2006; c - Singapore 1991; d - China 2001, Philippines 2001, Singapore 1999, Thailand 2001; e - India 2004, Malaysia 2005

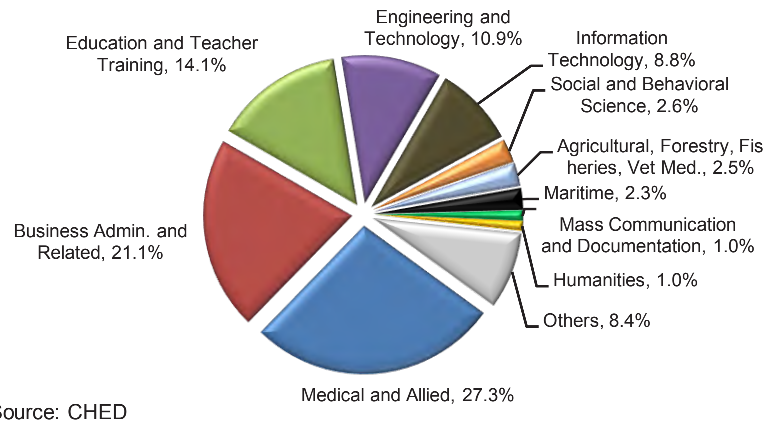
The number of students declines considerably at the tertiary level, where the total enrollment of 2,700,000 is only about 40% of the total number of secondary students. Only a half million students are forecasted to receive their college degrees in 2011 (see Figure 243).

Figure 243: Tertiary enrollment and graduates, 2000-2011



Source: CHED

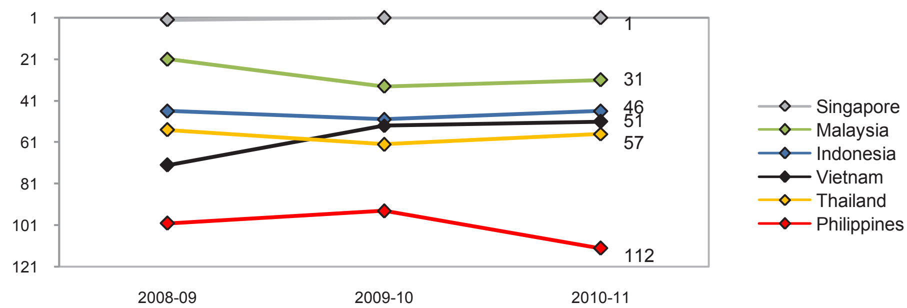
Figure 244: Distribution of college students by field of study, 2008



Source: CHED

The WEF rating for quality of math and science education ranks the Philippines as 112th of 139 countries, far behind Thailand (57th) and Singapore (1) (see Figure 245).

Figure 245: Quality of math and science education, ASEAN-6, 2008-2010

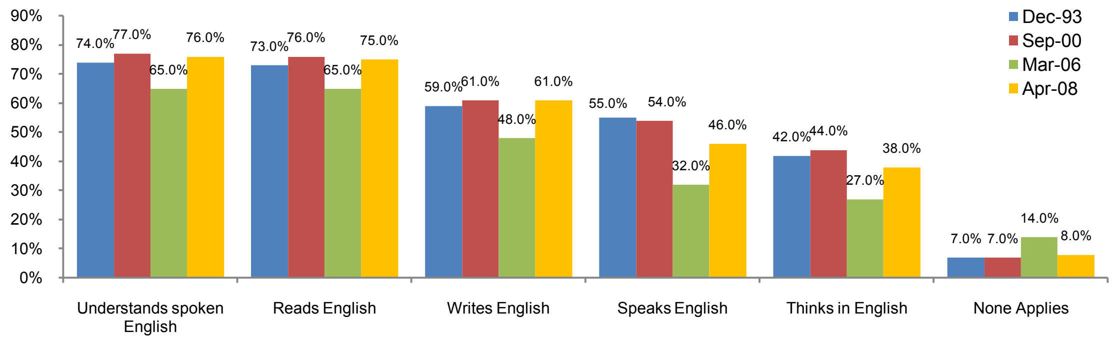


Source: WEF; Total countries evaluated: 2008-134; 2009-133; 2010-139

The Philippines is moving too slowly to reform it educational system and should accelerate reforms as soon as possible. Budgetary restraints in 2010 are holding it back. By contrast, over the last decade China has nearly tripled the share of its fast-growing GDP devoted to education. (In the Philippines the opposite happened as the GDP share declined). China has doubled the number of colleges and quintupled the number of college students to 5.5 million in 2007. China has identified its nine top universities and singled them out as its version of the Ivy League. Chinese colleges have relationships with more than 700 foreign universities. Yale president Richard Levin observed, "This expansion in capacity is without precedent. China has built the largest higher-education sector in the world in merely a decade's time."[246]

With a debatable claim to be the world's third-largest English speaking country, the Philippines cannot afford to lose one of its main competitive advantages, its large English-speaking workforce.[247] The only reliable survey of the extent of English language skills is a series of SWS polls taken in 1993, 2000, 2006, and 2008 in which respondents were asked to self-assess their ability to understand, read, write, speak, and think in English. In 2006 only 32% responded that they could speak, but this rose to 46% in 2008 for reasons that were not researched (see Figure 246).

Figure 246: Self-assessed English competence in RP, 1993-2008



Note: Question - Which of the following applies to you? (Showcard; allow multiple response) (Reads English, Writes English, Understands spoken English, Speaks English, Thinks in English, None Applies)
Source: Social Weather Stations; Legends represent survey periods

Philippine leaders have acknowledged the deterioration of spoken English among younger Filipinos and the importance of reversing this trend to maintain international competitiveness (see Part *3 BPO*). Based on data from public schools for the school year 2003-04, for every 1,000 entrants to Grade 1 only seven graduated Grade 6 with sufficient mastery in English, math, and science required to succeed in high school and college.

Former president Macapagal-Arroyo realized the English skills of basic education and many college graduates were inadequate, especially for employment in the BPO sector. In January 2003 she restored English as a primary medium of instruction in public schools. The Department of Education (DepEd) has subsequently sought to improve the English skills of teachers, but its success

246 With some paraphrasing from The Real Challenge from China: Its People, Not Its Currency, Fareed Zakaria, Time, October 7, 2010
247 After India and the US and ahead of the UK.

has not been measured with international testing. More can be done, especially using computerized training software.

The base of English speakers in the Philippines remains sizeable. Most students know some English but need more opportunities to listen to and speak English. Philippine radio and television media predominantly use Filipino, while 30 years ago more of their broadcasts were in English.

> "In Bangalore, knowing English is equal to having food. If you don't have English you can't survive in your job."
>
> *Rajeev Chamoli, software programmer, quoted in India's Aspiring English Speakers, AWSJ, March 3, 2010*

Headline Recommendations	
1.	**Increase public education budget** over several years to at least PhP 400 billion (3.5-4% of GDP) for better classrooms, more and better teachers quality, and reduced teacher/student ratio. **Double average spending per student** to ASEAN-6 average. **Adopt K+12 model** to extend basic education by two years and add a pre-elementary year.
2.	**Constantly improve teacher quality and curriculum** to produce graduates with skills required for higher quality jobs. Apply competency-based standards, more in-service training, maintain teacher welfare and morale**. Increase study of math and science**, **technical/vocational skills training.** Encourage college/post-graduate study in **fields needed for specialized positions**, including foreign languages. **Intensify investment in technology for high school education** to connect all 6,786 schools to Internet. Equip high school teachers with notebook computers and students with e-readers. Establish computerized English language centers in high schools.
3.	**Strengthen higher education** by providing more resources for world class centers of excellence. **Expand scholarships/loans for higher education. Encourage more accredited foreign schools and foreign teachers.** Undertake a vigorous public campaign to **emphasize English language competency. Strengthen the Dual Education/Dual Technical System. Expand the internship period** to prepare students better for employment.

Recommendations (12)

A. **Commit to a large increase in the public education budget** over several years to at least PhP 400 billion and 3.5-4% of GDP to build, repair, and equip new and old classrooms, eliminate the teacher shortage, raise teacher salaries, and reduce the teacher/student ratio. **Double the average spending per student** to be closer to other ASEAN economies. (Long-term action DepEd, DBM, NEDA, and Congress)

B. Over a period of several years, **extend basic education by two years and add one year before elementary school (the K+12 model)**. Students should graduate high school at age 18 prepared either to enter the workforce or college. Increase technical/vocational skills training in the high school curriculum. (Long-term action DepEd, DBM, and NEDA)

C. **Empower teachers by constantly improving their quality and their curriculum** to help students acquire the knowledge and skills required to enable them to get higher quality jobs. **Apply competency-based standards** for teachers and provide more in-service training, while **maintaining their welfare and morale**. (Medium term action DepEd and CHED)

D. Basic education and college **curricula should be adjusted to increase the study of math and science**. Encourage more college students to study fields needed for specialized positions in the economy (e.g. agribusiness, computer science, engineering, environmental science, mining, and physics). Teach more foreign languages in colleges to support the BPO and tourism sectors. (Medium-term action (DepEd, CHED, DOLE, DTI, NEDA, and private sector)

E. **Intensify investment in technology for high school education**. Complete the private sector Gearing Up Internet Literacy and Access for Students (GILAS) program to connect high schools to the Internet (of 6,786 high schools, 3,892 remain to be connected). Equip high school teachers with notebook computers and students with e-readers. Place more computers in high schools using grants, donations, and purchases. (Long-term action DepEd, DBM, NEDA, and private sector)

F. **Strengthen higher education by providing more resources for world class centers of excellence and expanding scholarships and loans for higher education**, while reducing national government subsidies for low quality state and local universities/colleges. Make government student loans available through SSS, GSIS or banks to be repaid after employment for tertiary and technical/vocational education students to enroll in accredited public and private higher education institutions. (Medium-term action CHED, SSS, GSIS, and private sector)

G. **Encourage qualified foreign schools to operate and foreigners to teach** in the Philippines. Solutions to the educational deficit should include foreign as well as domestic resources. (Immediate action DTI, CHED, DOLE, and private sector)

H. **Install English language computer training labs in high schools**, supplementing teacher resources with English training software. Each lab should have ten computers. The private sector can donate large numbers of used computers, while the government can purchase the software and handle logistics. (Long-term action DepEd, LGUs, and private sector)

I. To advance bilingualism, **undertake a vigorous public campaign to emphasize the importance of English competency** to entering and existing workforce members. Such a campaign should point out that mastery of English enables access to global knowledge and wider economic opportunities. **Encourage television and radio stations to use more English in their programs**. (Immediate action OP, DepEd, NEDA, and private sector)

J. **Recognize high schools and tertiary schools and students who score well on English tests**. Schools should be assessed for their capacity to deliver quality English-language instruction **given quality scores** based on test results of their graduates. (Immediate action DepEd and private sector)

K. **Strengthen the Dual Education/Dual Technical System** by expanding scholarships and involving the private sector in curriculum development and internships. (Immediate action DOLE and TESDA)

L. Universities and Colleges should allow students in the second half of their studies to spend longer periods in companies **(expand the internship period) to prepare them better for employment**. (Immediate action CHED and private sector)

Health and Population


The quality of public health is a major policy issue in every country, whether developed or developing. Citizens demand that a portion of the taxes they pay be returned to them in government hospitals and clinics staffed by government doctors and nurses, immunizations and protection against epidemics, inexpensive drugs, health insurance, and other public health services. The international community, both public and private, also assigns high priority to improving health conditions in developing countries. Three of the eight UN Millennium Development Goals concern public health challenges.[248]

Reproductive health policy should be everyone's concern under the goal of responsible parenthood. It effects whether parents are well-informed in exercising their right to choose among alternative methods of determining family size and their ability to raise children who will become productive citizens.

Good health is also a concern of the business community. Healthy employees are more productive, have lower absenteeism, and cost less for private health care plan premiums. More broadly, healthier children and youth are better able to avail of the benefits of education and participate in and contribute to a modernizing economy.

- **Public health issues**

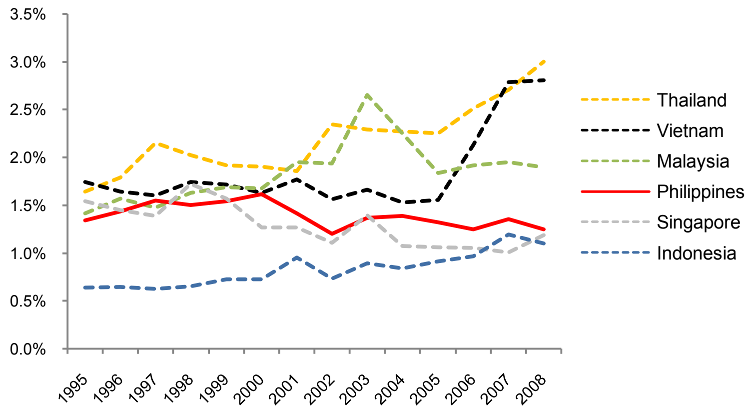
The Philippine national government spent about 1.25% of GDP in 2008 on public health programs in 2008, according to the most recent WHO data (see Figure 247).[249] Thailand and Vietnam spent more than 2.5% of GDP, while Indonesia spent less than the Philippines. Although Singapore also spent less as a percent of GDP, it spent the most in per capita terms. Per capita spending in PPP (US$) by the Philippines declined from 2000 to 2008 to be the lowest among the ASEAN-6 (along with Indonesia) (see Figure 248).

248 Goal #4 Reduce child mortality; Goal #5 Improve maternal health; Goal #6 Combat HIV/AIDS, malaria and other diseases

249 Data from the World Health Organization (WHO) includes not just resources channeled through government budgets to providers of health services but also the expenditure on health by parastatals, extrabudgetary entities, and compulsory health insurance payments. It includes resources expended by all these public agencies regardless of source, thus including external donor funding for these agencies.

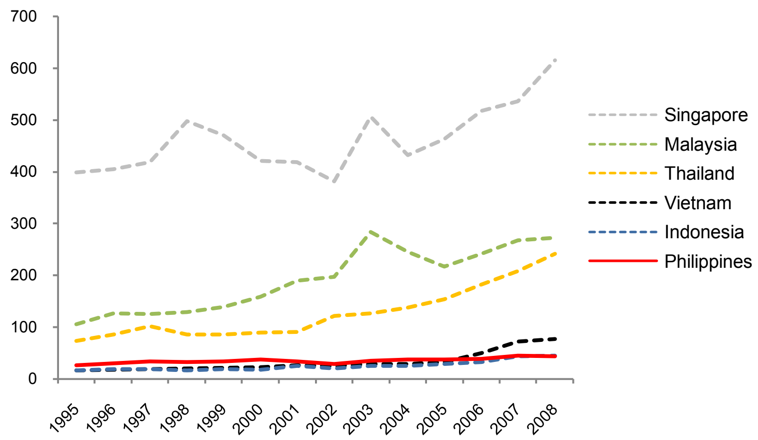
China, which is not included in these figures, announced in 2009 a plan to spend US$125 billion over three years to build tens of thousands of clinics and hospitals in order to extend health to almost every citizen.

Figure 247: National government health spending, % of GDP, ASEAN-6, 1995-2008



Sources: WHO and author's calculations

Figure 248: Per capita government expenditure on health, PPP (US$), ASEAN-6, 1995-2008

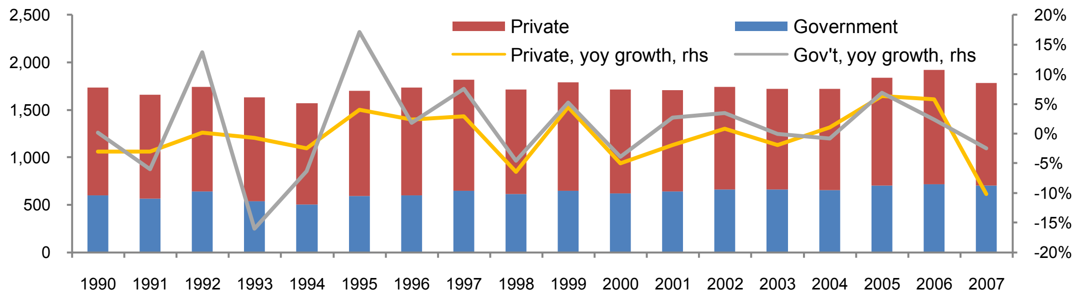


Source: WHO

WHO data show the Philippines has 12 doctors per 10,000 persons, 6 dentists, and 61 nurses and midwives. It has often been observed that a sizeable percentage of the population rarely or never sees a health care practitioner. Hospital beds are also scarce with only 5 per 10,000 persons in 2009, compared to 6 in Indonesia, 18 in Malaysia, 22 in Thailand, 28 in Vietnam, and 32 in Singapore. The number of hospitals in the country has barely increased in almost two decades (see Figure 249).

Upper income groups in the Philippines have much better health services than the poor, and there is a concentration of better private sector health care services for this market, especially in Metro Manila and Metro Cebu. An estimated 70% of all health workers are in the private sector. Several new modern hospitals in Manila are among the best in Southeast Asia outside of Singapore. The upper 20-30 percent of the population is able to access these services, but 70-80 million Filipinos are excluded by their low income.

Figure 249: Number of hospitals in the Philippines, 1990-2007



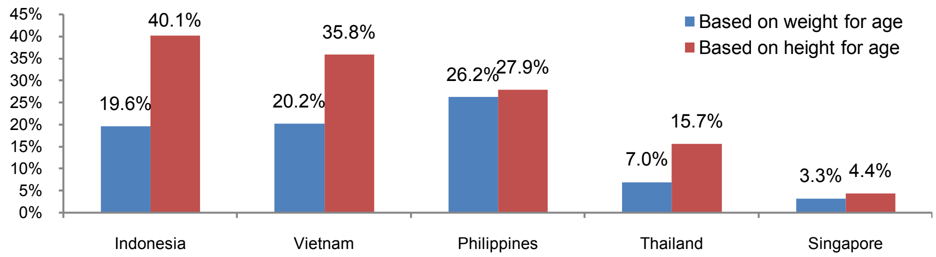
Source: DOH

With low government spending on public health and a large population, it is the poorest segment of Philippine society that has the least access to health care services as well as some of the most serious health problems. Examples include:[250]

- The life expectancy of 70 years at birth is 15 years shorter than in developed countries; for babies born to upper income parents, life expectancy at birth is 80 years, while for the poor it is only 60 years;
- An infant mortality rate of 35 per thousand live births means 80,000 Filipino babies die per year, many being preventable; for high income urban families the rate is 10, while for low income rural families it is 90;
- The maternal mortality rate remains above 150 per 100,000 live births, resulting in over 3,000 mothers dying each year; among higher income mothers the rate is 15 per 100,000;
- Less than half the children from the poorest 10% of homes are immunized, compared to 80% from the wealthiest 10% of homes;
- Most medicines are beyond the capacity of most Filipinos to afford; and
- Malnutrition (weight for age) among young children in the Philippine is much higher than Indonesia, Singapore, Thailand, and Vietnam. Malnutrition (height for age) is not (see Figure 250).

[250] Several of these examples are taken from a presentation in June 2010 Health Equity in the Philippines by former DOH secretary Dr. Alberto Romualdez, dean, Graduate School of Health Science, Pamantasan ng Lungsod ng Maynila.

Figure 250: Malnutrition prevalence, % of children under 5, 2000-2008



Source: World Bank; Latest data available: Indonesia - 2007; Philippines-2008; Singapore -2000; Thailand-2006; Vietnam-2006

- **Universal Health Care (UHC)**

Expanding the current Philippine Health Insurance Corporation (PhilHealth) system to provide coverage and services to poor Filipinos and expanding government health care infrastructure to reach deeper into remote areas are two priority objectives of the Aquino Administration. The new Secretary of Health has announced the ambitious goal of achieving UHC within three years.

> "We will go beyond ensuring that each Filipino has a PhilHealth card. Universal Health Care should mean that every PhilHealth cardholder will get not merely the card; but more important, the essential health services, basic medicines and appropriate quality health cards."
>
> *Senator Benigno Aquino III, Press Release, Senate of the Philippines, February 19, 2010*

The National Health Insurance Act of 1995 (RA 7875), signed in 1995, created PhilHealth, mandating it to provide social health insurance coverage to all Filipinos in 15 years, a goal that has not been achieved. PhilHealth took over responsibility of administering the former Medicare program for government and private sector employees from the GSIS in 1997, from the SSS in 1998, and from the Overseas Workers Welfare Administration (OWWA) in 2005. In 2010 PhilHealth had 20 million registered members.

According to a SWS survey conducted in early 2010 and commissioned by the Pharmaceutical and Healthcare Association of the Philippines (PHAP):

- 86% of respondents said that the government should provide quality healthcare for everyone, including those who cannot pay;
- 53% do not have any public or private health insurance;
- 93% were worried about getting sick, but 67% said they never visited a doctor or health facility for a general check-up when they did not feel sick;

- Of respondents who went to doctors at health facilities, 72% said that they paid fees themselves, 16% went to a free or public doctor, 8% used PhilHealth and 5% were helped by family or friends.

To date PhilHealth covers well under half of the population and only pays for hospitalization.[251] It provides no out-patient benefits. Membership coverage and benefits have not reached poor Filipinos.

> Senator Aquino added that his administration will strive to improve the local health infrastructure by building "22,000 more barangay health stations, 3,000 more outpatient rural health units, and at least 150 more district hospitals." If elected, he will also increase the health budget to 5%.
>
> *Senator Benigno Aquino III, Press Release, Senate of the Philippines, February 19,*

PhilHealth is financed by premiums from the first PhP 30,000 income of salaried employees and a portion of the ACT and EVAT taxes. However, the latter has not been fully remitted to PhilHealth because PhilHealth has accumulated over PhP 100 billion in funds. The current reality of PhilHealth is that the higher income segment of the population receives benefits partially financed by the less fortunate segments of the population, many of who receive no benefits. Persons earning more than PhP 30,000 per month do not pay any premium on their income above that amount. Many professionals do not pay premiums, nor do employers pay premiums for their domestic helpers.

- **Population**

The debate is intense about whether the Philippines is over-populated and how many people the land and government can support.[252] Wealthy Japan, with a similar land area, has a larger population of 128 million, stable and aging due to a low birth rate. But no one believes the Philippines can catch up with Japan economically. Is it moving instead in the direction of Bangladesh and Pakistan, with their populations of 162 million and 170 million, growing at 1.6% and 2.3%, respectively? Probably not, as the Philippine birth rate has been falling, by half over the last three decades. But with over two million births a year and half its population under the age of 21, the Philippines will certainly become more crowded in the decades ahead.

With a population soon to cross the 100 million threshold, the Philippines has overtaken Vietnam to become the world's 12th most populous country (see Table 86). Within the next two decades, the Philippines could overtake Japan (not growing) or Russia (also not growing) and possibly Mexico (growing at half the rate of the Philippines) and become the world's 10th or even 9th most populous country.

---

[251] Only 38% are covered according to the National Demographic and Health Survey of 2008.

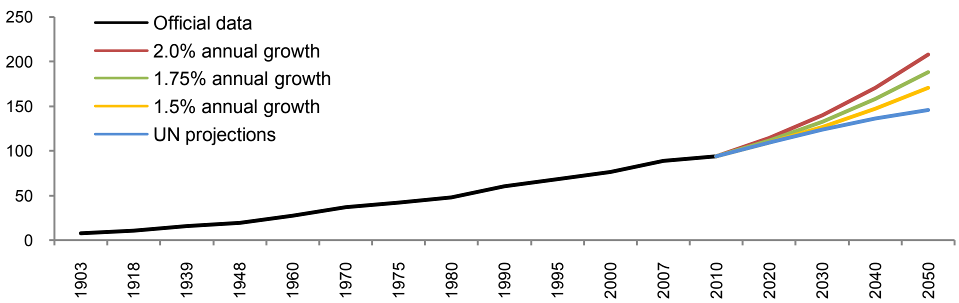
[252] The population of Metro Manila has grown nearly 10 times in 60 years from 1.5 million in 1950 to 14 million in 2010.

Official estimates show the Philippine population growth rate has slowed from 3.08% between 1960 and 1970 to 2.04% since 2000, a 34% decline, possibly as an effect of rising urbanization, more aggressive campaigns of health advocates, and increased access to information and methods of family planning. However, unless the growth rate continues to slow, the number of Filipinos could double again to 200 million. At a 2% annual growth rate, this would take 35 years. It is more likely, however, to slow gradually. The UN has projected the population to increase over 50% by 2050 to reach 146 million (see Figure 251).

"Thirty years ago, when Noynoy and his family were in exile in Boston, the population of the Philippines was 48 million. It is now an estimated 95 million, and thirty years hence (in 2040) it is projected to reach 140 million."

Noynoy Takes the Helm in Manila, Paul D. Hutchcroft, Director, School of International, Political, and Strategic Studies, ANU College of Asia and the Pacific, July 4, 2010

Figure 251: Philippine population growth/ projections, in mil, 1900-2050



Sources of basic data: NSO and UN

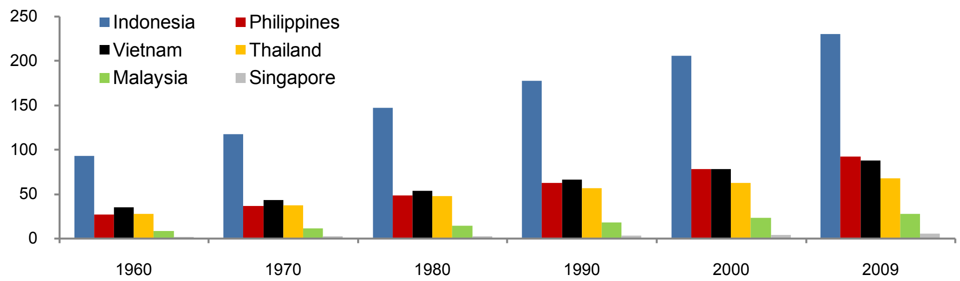
Table 86: 20 most populous countries, 2009

Country	2009 Population	Rank	Average annual growth			
			1970-79	1980-89	1990-99	2000-09
China	1,331,460,000	1	1.9%	1.5%	1.1%	0.6%
India	1,155,347,678	2	2.3%	2.2%	1.8%	1.4%
United States	307,007,000	3	1.0%	0.9%	1.2%	0.9%
Indonesia	229,964,723	4	2.3%	2.0%	1.5%	1.3%
Brazil	193,733,795	5	2.4%	2.1%	1.5%	1.2%
Pakistan	169,708,303	6	3.2%	2.7%	2.5%	2.3%
Bangladesh	162,220,762	7	2.7%	2.5%	2.0%	1.6%
Nigeria	154,728,892	8	2.8%	2.7%	2.5%	2.4%
Russian Federation	141,850,000	9	0.6%	0.7%	-0.1%	-0.3%
Japan	127,560,000	10	1.2%	0.6%	0.3%	0.1%
Mexico	107,431,225	11	3.0%	2.1%	1.7%	1.0%
Philippines	91,983,102	12	2.8%	2.7%	2.2%	1.9%
Vietnam	87,279,754	13	2.3%	2.1%	1.8%	1.3%
Egypt, Arab Rep.	82,999,393	14	2.2%	2.7%	2.0%	1.9%
Ethiopia	82,824,732	15	2.1%	3.1%	3.1%	2.6%
Germany	81,879,976	16	0.1%	0.1%	0.4%	0.0%
Turkey	74,815,703	17	2.5%	2.0%	1.7%	1.3%
Iran, Islamic Rep. of	72,903,921	18	3.2%	3.5%	1.6%	1.5%
Thailand	67,764,033	19	2.4%	1.9%	1.0%	0.9%
Congo, Dem. Rep. of	66,020,365	20	3.0%	3.1%	3.3%	2.9%

Source: World Bank

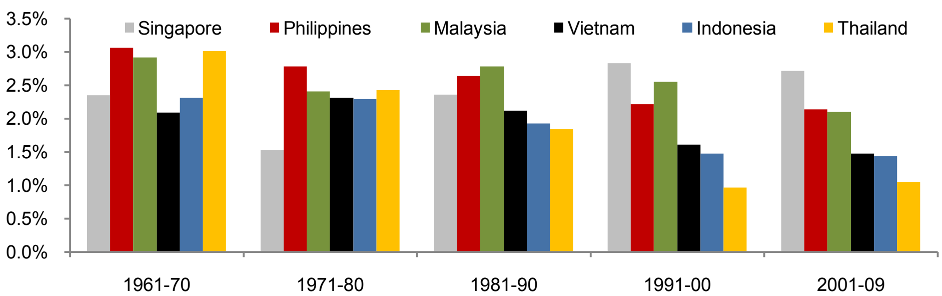
Within the ASEAN-6, the Philippines has overtaken Vietnam to be the second most populous country (see Figure 252). While all the five larger ASEAN-6 countries had population growth rates between 2% and 3% in 1960-1970, by 2001-2009, Indonesia and Vietnam had dropped to 1.5% and Thailand to 1% (see Figure 253).

Figure 252: Population, in millions, ASEAN-6, 1960-2009



Source: World Bank

Figure 253: Average annual population growth, 1961-2009



Source: World Bank

Since 1960 the population density of all the countries in Table 87 has at least doubled. For the Philippines, it has tripled to 308 persons per square kilometer in 2009. Among the ASEAN-6, the Philippines is higher than Malaysia (84), Indonesia (126), Thailand (132), and Vietnam (268), and lower than Singapore (7,306).

Table 87: Population density (per sq. kilometer), ASEAN-6+3, 1960-2009

	1960	1970	1980	1990	2000	2009
China	71.52	87.74	105.21	121.72	135.38	142.76
India	146.26	184.17	231.18	285.73	341.69	388.59
Indonesia	50.95	64.02	80.26	97.12	112.39	125.91
Korea, Rep.	254.64	325.11	388.27	436.59	478.75	496.46
Malaysia	24.78	33.03	41.89	55.10	70.84	83.60
Philippines	90.74	122.64	161.36	209.37	260.55	308.49
Singapore	2,411.02	3,039.40	3,535.96	4,463.16	5,899.96	7,305.70
Thailand	54.01	72.66	92.35	110.74	121.83	132.41
Vietnam	106.78	131.33	165.05	203.47	238.61	268.26

Sources: World Bank and CIA World Fact Book (for land area)

The Philippine population is young, with a significantly higher age-dependency ratio in 2010 than the other five ASEAN-6 economies (see Table 88).

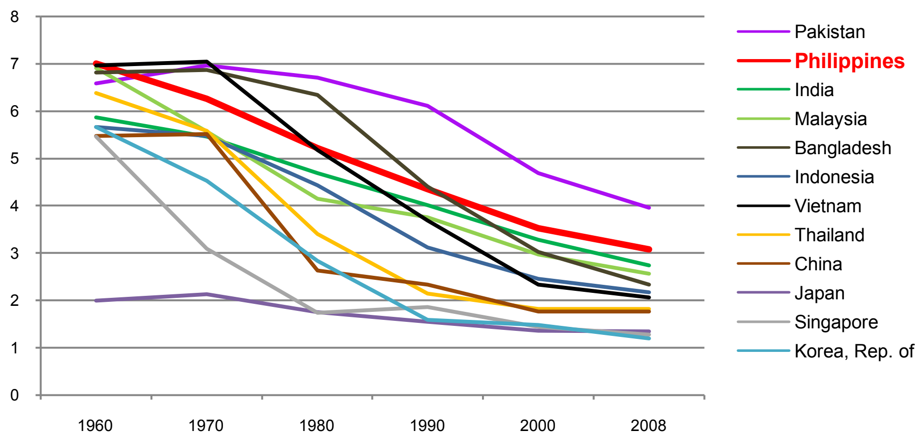
Table 88: Age-dependency ratios, 1980-2010

	Population aged 0-14 as % of aged 15-64					
	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
1980	72.1%	69.0%	80.3%	39.7%	69.6%	81.2%
1985	66.3%	67.2%	75.9%	34.5%	55.8%	74.5%
1990	59.3%	63.5%	72.6%	29.4%	45.9%	70.6%
1995	52.7%	60.0%	68.8%	31.2%	40.6%	64.7%
2000	46.8%	53.4%	64.3%	30.6%	36.7%	55.0%
2005	43.0%	48.7%	58.7%	27.2%	32.8%	45.1%
2010	39.7%	44.0%	53.8%	21.0%	30.3%	36.6%
	Population aged 0-19 as % of aged 20-64					
	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
1980	112.9%	111.4%	127.4%	69.2%	113.4%	131.9%
1985	104.9%	105.2%	119.7%	54.8%	91.2%	121.0%
1990	94.4%	96.5%	113.4%	46.2%	74.6%	110.1%
1995	83.9%	90.8%	107.8%	44.2%	64.0%	102.1%
2000	74.6%	83.1%	100.6%	43.3%	56.2%	87.3%
2005	66.8%	75.6%	92.6%	40.1%	50.2%	73.8%
2010	60.7%	68.3%	84.7%	35.0%	46.5%	60.3%

Sources: UN Population Division and author's calculations

Fertility rates for Asian countries, except for Japan, have been declining since 1960. The Philippines was then one of the highest, at seven births per woman, and almost a half century later remains one of the highest at three births per woman (see Figure 254).

Figure 254: Fertility rates (total births per woman), selected Asian countries, 1960-2008



Source: World Bank; Total fertility rate represents the number of children that would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.

Many Filipino leaders have become increasingly concerned about the negative consequences of the country's large population. How will the growing population be better fed, kept healthy, educated, and employed? The fertility rate of the poorest Filipino mothers is high because they have little knowledge of or access to family planning. The national average fertility rate is three children per woman but rises to six children for the poorest women. With very low incomes, their families can spend very little for the education and health of each child, perpetuating the cycle of poverty. In developed countries, fertility rates dropped substantially when the state provided social services (healthcare and retirement benefits). In other words, social services have to be improved.

High population growth also affects many investment climate concerns discussed in *Arangkada*. With four Filipinos born every minute, high population growth creates congestion, requiring accelerated development of infrastructure. Meeting the fiscal demands to satisfy basic needs of a rapidly growing population makes improved governance more critical. Underinvestment in basic education is the major reason most students finish high school unprepared for decent jobs. And the accumulated effects of poverty, congestion, and crime and conflict that rapid population growth exacerbates make security more difficult.

The debate over population policy has intensified with two schools of thought. One argues that the high growth rate must be slowed because the country is overburdened dealing with mass poverty. The second contends that fertility will fall without government interventions, that the population could peak at 110 million in 2025, and that the Philippines must protect its "demographic dividend" and avoid the aging population trend of advanced countries and China.

Some economists point out that no economy has achieved developed economy status with a population growth rate above one percent.[253] The Philippines could be in what economists term a low-level equilibrium trap, which "simply means a chain of low economic growth, high unemployment, low productivity, persistent poverty, depleting human capital, and high fertility feeding back into low economic growth, high unemployment, low productivity, persistent poverty, and so on and so forth."[254] If this is true, then lowering the birth rate through a different population policy may break out of the trap, moving the Philippines faster toward developed country status and catching up with the ASEAN-5 economies.

- **Reproductive health**

The population policy of the national government has for the last decade only advocated birth spacing and natural family planning, while devolving to LGUs all provision of and information about contraception. No national government funds have been earmarked for the purchase of family planning supplies. This policy has

> "Poor women face barriers to contraceptive use such as costs, poor-quality services, lack of awareness of or access to a source of contraceptive care, and lack of awareness of methods."
>
> *Recent study cited in footnote 3 as quoted by Rina Jimenez David column, Philippine Daily Inquirer, June 5, 2010*

253 Thurow, Lester, Fortune Favors the Bold, Harper Collins, New York, 2003, p185. "with population growth rates much above one percent, it is essentially impossible to catch up."

254 Dr. Ernesto Pernia, former head economist, ADB in a paper "Population: Does it Matter?"

been strongly influenced by the Roman Catholic Church. Funding for local government services has been insufficient.

A result of a national policy that does not encourage so-called modern contraceptive methods is a low contraceptive prevalence percentage of 50% and a high unmet need for family planning (see Table 89). The contraceptive prevalence rate appears not to have increased and women of childbearing age want to have two children on average but are having three. Poor women are having two more children than they would like.[255]

Table 89: Reproductive health indicators, selected Asian countries

	Unmet need for family planning, %	Contraceptive prevalence, %
	2000-2007	2000-2008
Cambodia	25.1	40.0
China	2.3	86.9
India	12.8	56.3
Indonesia	9.1	61.4
Korea	...	84.5
Philippines	17.3	50.6
Thailand	3.1	81.1
Vietnam	4.8	79.0

Sources: WHO, World Bank and UNICEF; no data Malaysia and Singapore
1 - The proportion of women of reproductive age (15-49 years), married or in union, who have an unmet need for family planning, i.e. who do not want any more children or want to wait at least two years before having a baby, and yet are not using contraception.
2 - The percentage of women aged 15-49 years, married or in-union, who are currently using, or whose sexual partner is using, at least one method of contraception.

Surveys by Pulse Asia and SWS in 2008 and 2010 also reveal a high level of public desire for a stronger government reproductive health program (see Table 90). For example:

- 82% agreed it is the duty of the government to provide knowledge and materials for modern methods;
- 76% agreed there should be a law requiring government to teach family planning to the youth;
- 44% agreed the government should pass a law specifying the number of children.

255 Facts on Barriers to Contraceptive Use in the Philippines, Guttmacher Institute and health advocacy group Likhaan.

Table 90: Results of surveys on the public's opinion regarding family planning and reproductive health

Couples: Education, information and assistance	Agree	Undecided	Disagree	Source
Agree/Disagree: "All of the legal means of family planning that a couple might choose to use, at a particular time, should be available from the health service	68%	22%	10%	1
The government should educate couples regarding modern methods of family planning, which includes both natural and artificial family planning methods	82%	10%	8%	4
It is the duty of the government to provide knowledge, services and materials on modern methods of family planning not only of natural family planning	82%	13%	6%	4
Promote information and access to natural and modern family planning	47%	32%	21%	4
The use of government funds to support modern family planning methods	44%	33%	23%	4
Youth: Education, information and assistance	Agree	Undecided	Disagree	Source
If family planning would be included in the (school) curriculum, the youth would become sexually promiscuous	25%	19%	54%	2
There should be a law that requires government to teach family planning to the youth	76%	13%	10%	3
Inclusion of sex education in the school curricula	36%	29%	35%	4
RH Bill	In favor	Undecided	Not in favor	Source
Opinion on the RH bill	71%	21%	8%	3
Whether or not infavor of the RH Bill	63%	29%	8%	4
Others	Agree	Undecided	Disagree	Source
The usage of legal contraceptives like condoms, IUDs and pills can be considered as abortion	33%	15%	50%	2
The government should pass a law specifying the number of children	44%	19%	36%	4
Recognize the rights of women/couples to choose the family planning method that they want	69%	20%	10%	4
	Important	Undecided	Not important	Source
Importance of having the ability to plan the family for the welfare of the family	93%	6%	1%	4
Importance of having the ability to plan the family for the welfare of the country	90%	9%	1%	4

Sources:
1 - SWS (Module for the Forum for Family Planning & Development); Survey: January 21-24, 2010
2 - 2; Survey: September 24-27, 2008
3 - SWS (Third Quarter 2008 Social Weather Survey); Survey: September 24-27, 2008
4 - Pulse Asia (2008 Nationwide Survey on Reproductive Health and the RH Bill); Survey: October 14-27, 2008
Note: Figures may not add up to 100 due to rounding

Legislation to require human sexuality education in both public and private schools and the government to assist parents with information about and access to contraceptive methods of family planning has been proposed in the Congress for more than a decade. The bill only reached second reading in the House in the 14th Congress. Supporters intend to press for passage early in the 15th Congress.

Comments below on policy show very different views.

- "A strong national family planning program is needed – a program that will not only inform and educate, but instill in everyone a bigger sense of responsibility as parents or would-be parents, and as members of a bigger community. The need is not really to stop population growth, for that would create a different problem altogether, but to slow down population momentum so that in the coming years, the government can be given a chance to provide better services for a manageable number of people."[256]

- "Ours is the fourth most crowded place on earth…It is one of the massive weaknesses of the Philippine state – its failure to provide the means for Filipinos to control their lives by being able to choose in the most important decision in a couple's life, which is having or not having children…We are among the very few countries…whose governments as a matter of policy eschew a population program that provides contraceptives to the poor."[257]

- "The Church sees in the bill serious flaws that can lead to violations of human rights and freedom of conscience. It would not be acceptable to pass it in its present form. Total rejection of the bill, however, will not change the status quo of high rates of infant mortality, maternal deaths, and abortions. It is a moral imperative that such dehumanizing conditions should not be allowed to continue. What is needed is a third option: critical and constructive engagement. By working together to amend the objectionable provisions of the bill and retain the provisions that actually improve the lives of the Filipinos, both the proponents and opponents of the bill can make a contribution to protection of the dignity of Filipinos and an improvement of their quality of life."[258]

- "We Bishops from all over the country call on President Aquino to listen to the call of the Church that the program of the government to promote a contraceptive mentality through education and medical practices is immoral…."[259]

For all couples to achieve their desired family size, contraceptive use rates should increase to be close to those of Indonesia and Vietnam, from the present 50% to 70-80%. A target population growth rate of 1.5% by 2016 would make a huge difference in the future poverty incidence in the country. This can only be done by helping the poor to have fewer children through education,

---

[256] MBC research paper on population, January 2004.

[257] *There are 100 million of us now*, Rigoberto Tiglao, PDI, August 12, 2010.

[258] Business World column by Jesuit scholar and former Constitutional Convention commissioner Joaquin Bernas, October 19, 2010.

[259] Catholic Bishops Conference of the Philippines statement, July 11, 2010.

providing appropriate information, and modern method materials. Over time, the number of abortions, estimated at close to 500,000, and the maternal and infant mortality rates should also decline.

President Aquino has expressed his support several times for the right of women to choose their family size and methods of family planning. His administration's policy is to make available information and materials that would, in effect, reduce the unmet need, increase the contraceptive prevalence rate and reduce the fertility rate, especially of poor women.

The 2011 national government budget for the Department of Health (DOH) proposes an appropriation of PhP 931 million for family health, of which PhP 400 million would be spent on family planning, largely for modern methods of contraception, primarily for birth control pills. Such spending has never been formally proposed nor funded by the national government in the past and has met with objections from senators arguing that it preempts the reproductive health legislation policy debate.

More national government resources and greater public advocacy are needed to help reduce the country's fertility rate and slow the rate of population increase as soon as possible. The longer the population challenge is not faced squarely, the more extreme poverty will continue and possibly grow.

Headline Recommendations	
1.	**Double national spending on healthcare** to 2.5-3% of GDP. **Direct spending to poorest Filipinos**. **Government hospitals** should be modernized, rationalized, expanded, and many thousands of additional **village health centers built. Provide better equipment and staff.**
2.	**Expand PhilHealth eventually to become UHC.** Include poorest Filipinos at no cost, financed by premiums on higher-income groups.
3.	**Cease misguided healthcare legislation** that does not achieve policy goals. **Use PPP to encourage private** capital to invest in healthcare-related services.
4.	**Government should target an achievable population growth rate**, set parallel targets to increase **contraception prevalence rate** and to lower **fertility rate**, and design and implement a reproductive health program to achieve targets.
5.	**Congress should pass a consensus version of reproductive health legislation. Private sector should support** reproductive health policy legislation and assist employees to have smaller families.
6.	**Government should reward poor families who have fewer children**, PhilHealth should introduce a family planning requirement for hospital accreditation.

Recommendations: (9)

A. The Philippine Government should **double national spending on healthcare** to 2.5-3% of GDP. **Direct spending to poorest Filipinos**, who cannot afford any healthcare. **Government hospitals** should be modernized, rationalized, and expanded, and many thousands of additional **village health centers built. Better equipment and staff** are also needed. (Long-term action DOH, DBM)

B. P**hilHealth should be expanded to become Universal Health Care (UHC). Enrollment in Philhealth should be made mandatory** so that more professionals, domestics, and informal workers are included. **The poorest Filipinos should be enrolled with no co-payments for services required**. Outpatient services and free medicines should be added. Premiums should be progressive with income. (Long-term action DOH, DBM)

C. **Cease healthcare legislation that does not achieve desired policy goals of improving health of the poorest**. The cheaper medicine law has lowered prices for better-off Filipinos, but prices remain out of reach for the poor. Proposed stringent milk code amendments would limit women's right to choose and do nothing to reduce malnutrition. (Immediate action PLLO, DOH, and Congress)

D. **Use the PPP model to improve public sector health services**. Opportunities include information technology services (including telemedicine), patient and staff lodging, and air ambulance services. (Medium-term action DOH, NEDA)

E. **Government should set a target for an achievable population growth rate** (e.g. 1.5% by 2016), set a parallel target for **increasing the contraception prevalence rate** (e.g. 70% by 2016) and **lowering the fertility rate** (e.g. to 2.5% by 2016), and design and **implement a reproductive health program to achieve the targets**. (Immediate DOH, LGUs, and Congress)

F. The **private sector should support reproductive health policy legislation and assist employees to have smaller families**. The business community should be vocal and visible in the public arena to support government when it acts vigorously to manage population. (Immediate action private sector)

G. **Congress should pass a version of the Reproductive Health bill** that mandates human sexuality education in schools and provide information and materials for family planning in all government clinics. (Immediate action PLLO, DOH, and Congress)

H. **Government should reward poor families who have fewer children**, perhaps by adding an amount to monthly CCT payments after the birth of a second child that would be forfeited if a third child is born. (Immediate action DOH and Congress)

I. **PhilHealth should introduce a family planning requirement for hospital accreditation**. Accredited hospitals would have to make available to parents a full range of legal family planning methods. (Immediate action DOH)

BIBLIOGRAPHY

Abueva, Jose V. *The Proposed Revision of the 1987 Constitution By The Consultative Commission, With Highlights and Primers on the Major Proposals and Background Information on the Consultative Commission, Submitted to the President and the Congress,* (KC Institute of Federal-Parliamentary Democracy Center for Social Policy and Governance, Marikina: December 2005).

Action for Economic Reforms. "Making the Philippines Investment Friendly for Growth and Employment." Policy Reforms to Address the Binding Legal Constraints to Investments, forum on legal barriers on investment in the Philippines, Quezon City, April 23, 2010.

American Association of Port Authorities. Online data. www.aapa-ports.org

American Chamber of Commerce. "Matrix of Issues and Recommendations." FGD on Tourism and Retirement, Makati City, Philippines, September 23, 2009.

American Chamber of Commerce. "Matrix of Issues and Recommendations." FGD on Creative Industries, Makati City, Philippines, November 5, 2009.

American Chamber of Commerce. "Matrix of Issues and Recommendations." FGD on Infrastructure – Roads and Rail, Makati City, Philippines, November 12, 2009.

American Chamber of Commerce. "Matrix of Issues and Recommendations." FGD on Infrastructure – Power and Water, Makati City, Philippines, November 17, 2009.

American Chamber of Commerce. "Matrix of Issues and Recommendations." FGD on Infrastructure – Airports and Seaports, Makati City, Philippines, November 26, 2009.

American Chamber of Commerce. "Matrix of Issues and Recommendations" FGD on Agribusiness, Makati City, Philippines, December 3, 2009.

American Chamber of Commerce. "Matrix of Issues and Recommendations." FGD on Business Process Outsourcing, Makati City, Philippines, February 18, 2010.

American Chamber of Commerce. "Matrix of Issues and Recommendations." FGD on Manufacturing and Logistics, Makati City, Philippines, March 11, 2010.

Arcenas, Agustin. (2009). *An Economic Valuation of Climate Change in Southeast Asia: The Effects of Temperature Changes on Agricultual Production and Human Health (Unpublished).* Mandaluyong City: Asian Development Bank.

-----. (2008). *Environmental health: economic costs of environmental damage and suggested priority interventions-A Contribution to the Philippine Country Environmental Analysis.* Manila: World Bank.

ASEAN Secretariat. Online data. www.aseansec.org

-----. ASEAN FTA Agreements. www.aseansec.org

-----. ASEAN Trade in Goods Agreement Fact Sheet. www.aseansec.org

Asian Development Bank. (2004). *Country Environmental Analysis for the Republic of the Philippines.* Mandaluyong City.

-----. (2004). *The Garbage Book: Solid Waste Management in Manila*. Mandaluyong City, Philippines.

-----. (2005). "*Philippines: Moving Toward a Better Investment Climate.*" Mandaluyong City, Philippines.

-----. (2005). *Philippines: Private Sector Assesment 2005.* Manila: Asian Development Bank. Mandaluyong City, Philippines

-----. (various years). Key Indicators for Asia and the Pacific 2006. Mandaluyong City, Philippines

-----. (2007). Country Diagnostics Studies. *Philippines: Critical Development Constraints*. Mandaluyong City, Philippines

-----. (2009). Background Note on the Justice Sector of the Philippines. Mandaluyong City, Philippines

-----. (2009). *Poverty in the Philippines: Causes, Constraints and Opportunities*. Mandaluyong City, Philippines

-----. (2009). Process map Execution on the Criminal Prosecution of Tax Evasion in the Philippines. Mandaluyong City, Philippines

-----. (2010). *Bridges Across Oceans: Initial Impact Assessment of the Philippines Nautical Highway System and Lessons for Southeast Asia*. Mandaluyong City, Philippines.

-----. Online data. www.adb.org

-----. AsiaBondsOnline. asianbondsonline.adb.org/

-----. (various issues). *Asian Development Outlook 2010*. Mandaluyong City, Philippines. Mandaluyong City, Philippines

Asian Institute of Management (2009). Philippine Cities Competitiveness Ranking Project

Australia Department of Foreign Affairs . Australia's Free Trade Agreements. www.dfat.gov.au

Australia-New Zealand Chamber of Commerce of the Philippines (2010). Estimated value of Philippine mineral reserves.

AYC Consultants, Inc. (2010). Formulating Policy Reforms to Address Barriers to the Entry of Investments into the Philippines.

Badan Pusat Statistik (Indonesia). Online data. www.dds.bps.go.id

Bangko Sentral ng Pilipinas. Online data. www.bsp.gov.ph

Balisacan, A. M. and H. Hill. (2003). The Philippine Economy: Development, Policies and Challenges. Manila, Philippines: Ateneo de Manila University Press.

-----. (2008). *Pathways Out of Poverty: Fancies, Facts and Challenges.* University of the Philippines School of Economics and Southeast Asian Regional Center for Graduate Study.

-----. (2009). Pathways Out of Rural Poverty: Is Agrarian Reform Passé? *6th Ayala Corporation-UPSE Economic Forum.* University of the Philippines School of Economics.

Bernard, Romeo L., and Marie-Christine G. Tang (2008). The Political Economy of Reform During the Ramos Administration (1992-1998). Commission on Growth and Development.Bersales, Lisa Grace and Dennis S. Mapa (2006). *Patterns and Determinants of Household Saving In the Philippines*. USAID and Bangko Sentral ng Pilipinas.

-----. (2008). *Population Dynamics and Household Saving: Evidence from the Philippines*. Munich Personal RePEc Archive.

Board on Investments and Philippine Economic Zone Authority. Electronics Sector Investments. Provided: 2010.

Bochi, A. M. (2008). Breaking the "Low-Capital-Stock" Equilibrium. *Rising Growth, Declining Investment: The Puzzle of the Philippines*.

Business Processing Association of the Philippines. (2007). *Offshoring and Outsourcing Philippines: Roadmap 2010.* Makati City: Business Processing Association of the Philippines.

Business Processing Association of the Philippines. (2007). *Roadmap 2010: Offshoring and Outsourcing.* Makati City, Philippines: Business Processing Association of the Philippines.

-----. Business Process Outsourcing Statistics. 2008-2011F.

BusinessWorld. *Infrastructure spending urged: Incoming gov't should tap private sector, raise revenues*. 13 May 2010.

Bureau of Labor and Employment Statistics. Online data. www.bles.dole.gov.ph

Bureau of the Treasury. Online data. www.treasury.gov.ph

Campbell, G., C. Hubo, and P. Wallace. *Moving Forawrd: Philippine Mining Resource Book*. Aotea Risk Consultancy.

CB Richard Ellis Global Research and Consulting, Global Office Rents, CBRE Inc., May 2010.

Chamber of Automotive Manufacturers of the Philippines, Inc. Vehicle Sales Statistics.

Civil Aeronautics Board. Domestic Air Transport Industry Statistics.

Contingency Plans for the Global Financial Crisis, 2009 (Nov 24 2009)

Commission on Human Rights. Human Rights Violations Statistics. Provided: June 2010.

Commision on Information & Communications Technology. (2006). *Empowering a Nation Through ICT.* Quezon City: Commision on Information & Communications Technology.

Commission on Growth and Development - The World Bank. (2008). *The Growth Report: Strategies for Sustained Growth and Inclusive Development.* Makati City: The International Bank for Reconstruction and Development / The World Bank.

Commission on Growth and Development. (2008). *The Growth Report: Strategies For Sustained Growth And Inclusive Development.* Washington DC: World Bank.

Central Intelligence Agency. CIA World Fact Book Online. www.cia.gov

Centre for Research on the Epidemiology of Disasters. Online data. www.cred.be

Commission on Higher Education. College Graduates Statistics. Provided: March 2010.

Council, National Competitiveness. Government enables, Business Drives. Performance Report, 2007-2010.

De Dios, E. S. (2010, February 24). How do institutions constrain Philippine growth? Quezon City, Philippines.

Delloite International. Tax rates. Online. www.dits.deloitte.com

Demographia. Online data. www.demographia.com

Department of Budget and Management. Online data. www.dbm.gov.ph

Department of Energy. (2008). *Summary Report: Crisis or Opportunity?.* Taguig: Department of Energy.

-----. Online data. www.doe.gov.ph

Department of Education. Elementary and Secondary Education Statistics. Provided: June 2010.

Department of Finance. Online data. www.dof.gov.ph

Department of Health. Online data. www.doh.gov.ph

Department of Statistics – Malaysia. Online data. www.statistics.gov.my

Department of Tourism, et. al. Number of foreign patients and revenue generated. 2010

Department of Trade and Industry. Foreign Trade Agreements Information. Provided: 2010

Department of Transportation and Communication. Transportation Maps Online. www.dotc.gov.ph

DOF-Research and Information Office. REPUBLIC ACTS SIGNED BY THE PRESIDENT 14th Congress (as of March 17, 2010). http://www.dof.gov.ph/report/matrix%20-%20RAs.pdf

Dutta, Soumitra, and Irene Mia. Global Information Technology Report 2009-2010 ICT for Sustainability. SRO-Kundig, Geneva, 2010.

Dy, R. T. (2009). *Food for Thought: How Agribusiness is Feeding the World (with special focus on the ASEAN).* Pasig City: University of Asia and the Pacific.

Everest Research Institute (2008). BPO Delivery Location Outside North America – Global Shares

First Gen Corporation. Expected New Sources of Electric Power. Provided: 2010

Fitch Ratings. Credit Ratings. Online. www.fitchratings.com

Food and Agriculture Organization. Online data. www.fao.org

Forbes Magazine. (various years). *Best Countries for Business.*

Forbes, J. D., and C. M. Griño. (2008) Barriers to Foreign Participation in the Philippine Economy. *Formal and Informal Discrimination Against Foreign Investment, Professionals and Trade.*

Forbes, J. D., & Grino, C. M. (2008). Barriers to Foreign Participation in the Philippine Economy. *Formal and Informal Discrimination Against Foreign Investment, Professionals and Trade*.

Freedom House (various years). *Freedom in the World.* www.freedomhouse.org

Fund for Peace (various years). *Failed States Index.* www.fundforpeace.org

Global Integrity (various years). *Global Integrity Report.* report.globalintegrity.org

General Statistics Office of Vietnam. Online data. www.gso.gov.vn

Guevarra, M. C., Aguas, R. B., Alampay, L. P., Aldaba, F. T., Barbaza, R. E., Dy, M. B., et al. (2008). *CATHOLICS CAN SUPPORT THE RH BILL IN GOOD CONSCIENCE (Position paper on the Reproductive Health Bill).* Quezon City: Ateneo De Manila University-Individual Faculty.

Heritage Foundation (various years). *Index of Economic Freedom.* www.heritage.org

Huang, Crystal. Legal Provisions Restricting FDI (American Chamber Investment Climate Improvement Project: 2008

Huang, Crystal. *Significant Changes Made to the FDI Negative Lists from 1996-2007*: 2008

Institute of Management Development. *World Competitiveness Yearbook 2009.*

International Association of Ports and Harbors. Online data. www.iaphworldports.org

International Atomic Energy Agency. Online data. www.iaea.org

International Correspondents of Lawyers and Financial Experts, Tax rates. Online. http://www.icl-directory.com

International Energy Agency. Online data. www.iea.org

International Energy Consultants. Electricity Tariffs. Provided: Mar 2010

International Finance Corporation. (2006). *Doing Business in 2006: Creating Jobs.* Washington DC: The World Bank and the International Finance Corporation.

International Finance Corporation. (2007). *Creating Opprtunity: IFC Annual Report.* Washington DC: The World Bank.

International Institute for Management and Development (various years). World Competitiveness Yearbook. World Competitiveness Index. www.imd.org

International Labor Organization. Online data. www.ilo.org

International Monetary Fund Philippines. (2010). Staff Report for the 2009 Article IV Consultation.

-----. (various issues). *World Economic Outlook*. Washington DC: World Economic Fund.

-----. Online data. www.imf.org

International Telecommunications Union. Online data. www.itu.int

Jha, Sikha, Eswar Prasad and Akiko Terada-Hagiwara (2009). *Saving in Asia and Issues for Rebalancing Growth*. ADB Economics Working Paper Series – No 162.

Kellog Brown & Root Pty Ltd (in association with Transport Traffic Planners Inc.). (2009). *Draft National Transport Policy Framework.*

Land Transportation Office, Metro Manila Development Authority and NSCB. NCR Vehicle Registration Statistics. 2010.

Labonne, J., & Chase, R. S. (2009). The Power of Information: The Impact of Mobile Phones on Farmers' Welfare in the Philippines. *Impact Evaluation Series No.33*.

LEDAC Secretariat. Number of LEDAC meetings per administration. Provided: 2010.

Light Rail Transit Authority. LRT Statistics. Provided: March 2010.

Macaranas,____. (2010). 7BW presentation

Management Association of the Philipines. MAP International CEO Conference. Recipes for Competitiveness Graphic. 11 October 2006.

Mercer (2010). Cost of Living Survey 2010. http://www.mercer.com

Metropolitan Waterworks and Sewerage System Regulatory Office. Metro Manila Water Service Indicators. Provided: March 2010.

Metro Rail Transit and Metrostar Express. MRT Statistics. Provided: March 2010.

Ministry of Trade and Industry Singapore. Online data. app.mti.gov.sg.

Moody's. Credit Ratings. Online. www.moodys.com

National Economic Development Authority. (2004). Medium-Term Philippine Development Plan. Manila, Philippines: National Economic Develoipment Authority.

-----. Online data. www.neda.gov.ph

National Statistical Coordination Board. Online data. www.nsc.gov.ph

-----. (various years). Philippine Statistical Yearbook.

National Statistics Office. Online data. www.census.gov.ph

-----. (various years). Family Income and Expenditure Surveys.

-----. (various years). Philippine Yearbook

National Statistics Office Office – Thailand. Online data. web.nso.go.th.

National Wages and Productivity Commission. Online data. www.nwpc.dole.gov.ph

Ofxord Business Group. (various years). *The Report: The Philippines.* London: Oxford Business Group.

Orbeta, Ancieto, Jr (2006). *Children and Household Savings in the Philippines*. Discussion Paper Series No. 2006-14. Philippine Institute for Development Studies.

Orbeta, A. C. Jr., and M. R. Abrigo. (2009) *Philippine International Labor Migration in the Past 30 Years: Trends and Prospects.* Philippine Institute for Developmental Studies.

Pasadilla, Gloria O and Prayoga Wiradisuria. Social Policy Reforms in ASEAN: Some Considerations. ADB Annual Conference. Tokyo. 4 Dec 2009.

Pernia, E. M., Alabastro-Quimbo, S., Abrenica, M. J., Alonzo, R. P., Arcenas, A. L., Balisacan, A. M., et al. (2008). *Population, Poverty, Politics and the Reproductive Health Bill.* Quezon City: University of the Philippines School of Economics.

Philippine Automotive Competitiveness Council Inc. Vehicle production statistics. Provided: 2010.

Philippine Chamber of Commerce and Industry. FGD Philippine Investment Climate. Philippine Chamber of Commerce and Industry Downloads. http://www.philippinechamber.com/index.php?option=com_docman&task=cat_view&gid=235&limit=5&limitstart=0&order=name&dir=ASC&Itemid=179

Philippine Daily Inquirer. Editorial Cartoon (Corruption Perceptions Index 2004). 23 October 2004.

-----. Editorial Cartoon (Clash between national government policy and Aparri RTC injunction). 26 July 2008.

Philippine Institute for Development Studies, Online data. www.pids.gov.ph

Philippine Investment Promotion Plan (PIPP), 2010-2014 (March 2010)

Philippine Long Distance Telephone Company. *Notice and Agenda of Annual Meeting of Stockholders and Information System, annual meeting of stockholders of the company, Makati City, Philippines, June 8, 2010.* http://www.pldt.com.phPhilippine Medical Tourism Task Force. (2008). *Guide to Philippine Medical Tourism.* Quezon City: Ineractive Canvass Media Inc.

Philippine Health and Insurance Corporation. PhilHealth Statistics. Provided: September 2010.

Philippine Ports Authority, et al. Roll-On-Roll-Off Network Map. www.ppa.com.ph

-----. TEU capacity and utilization, ports of Batangas, Manila, and Subic. www.ppa.com.ph; www.mictweb.com; www.sbitc.net

Political and Economic Risk Consultancy, Ltd. (2008). *Corruption Perceptions Index 2008.*

Population Reference Bureau. Online data. www.prb.org

Property Rights Alliance. (various years). *International Property Rights Index.* Washington DC: Property Rights Alliance.

Preparatory Commission on Constitutional Reforms, *Report of the Preparatory Commission on Constitutional Reforms* (Office of the President: December 1999).

Pulse Asia (2008). 2008 Nationwide Survey on Reproductive Health and the RH Bill.www.pulseasia.com.ph

Royal Cargo. Costs of foreign transhipment of domestic cargo vs. cost of domestic shipping, Manila (MNL) to Cagayan de Oro (CGY), Provided: 2010.

Salceda, Joey. OFW Remittance Projections. 2010

Sandiganbayan. Violation of RA 3019 – Total cases, Disposal and Conviction Statistics. Provided: July 2010

SGV & Co. (2006). *Doing Business in the Philippines.* Makati: SyCip Gorres Velayo & Co.

Social Weather Stations. (2008). Third Quarter 2008 Social Weather Survey. www.sws.org.ph.

-----. (2008). Survey for the Forum for Family Planning and Development. www.sws.org.ph.

-----. (2010). Module for the Forum for Family Planning & Development. www.sws.org.ph.

-----. (various years). Hunger Survey. www.sws.org.ph.

-----. (various years). Net Satisfaction Ratings of Philippine Presidents. www.sws.org.ph.

---- (various years). Survey on Enterprises of Corruption. www.sws.org.ph.

Songwe, V., Eijbergen, B., & Kristensen, J. K. (2009). *Philippines: Transport for Growth (An Institutional Assesment of Transport Infrastructure).* The World Bank.

Standard and Poor's. Credit Ratings. Online. www.standardandpoors.com

Statistics Singapore. Online data. www.singstat.gov.sg.

Stockholm International Peace Research Institute. Online data. http://www.sipri.org/

Strategy Paper for Japan Investment Market, 2010-2014 (March 2010)

Supreme Court of the Philippines. Judiciary System Statistics. Provided: July 2010.

Tax rates. Online. www.worldwide-tax.com

Terada-Hagiwara, Akiko (2009). *Explaining Filipino Households' Declining Saving Rate.* ADB Economics Working Paper Series – No 178.

The Conference Board. Online data. www.conference-board.org.

The Philippine Star. Editorial Cartoon (Economic Freedom Ranking 2010). 30 January 2010

-----. Editorial Cartoon (FDI). 26 Oct 2004nk The World Bank. (2005). *Philippines: Meeting Infrastructure Challenges.* Wasington DCnk

-----. (2005). *World Development Report: A Better Investment Climate for Everyone.* Washington DC: The World Bank and Oxford University Press.nk

-----. (2008). Accelerating Inclusive Growth and Deepening Fiscal Stability. *Draft Report for the Philippines Development Forum 2008*.

-----. (2008). *Economic Impacts of Sanitation in Southeast Asia: A four-country study in Cambodia, Indonesia, the Philippines and Vietnam.* Water and Sanitation Program-Economics of Sanitation Initiative, Washington DC.

-----. (2008). East Asia Environment Monitor 2007: Adapting to Climate Change. Washington DC.

-----. (2008). Land Reform, Rural Development, and Poverty in the Philippines: Revisiting the Agenda. *Technical Working Paper* .

-----. (2009). *Economic Impacts of Sanitation in the Philippines: A four-country study in Cambodia, Indonesia, the Philippines and Vietnam.* Water and Sanitation Program-Economics of Sanitation Initiative, Washington DC.

-----. (2009). *Philippines Transport for Growth: An Institutional Assessment of Transport Infrastructure*

-----. (2009). *Logistics Performance Index 2010: Connecting to Compete: Trade logistics in the Global Economy.* Washington DC.

-----. (2009). *The Philippines: Country Environmental Analysis.* Washington DC.

-----. (2010) East Asia and Pacific Region East Asia Infrastructure Unit. *Winds of Change: East Asia's Sustainable Energy Future*. Washington DC: World Bank.

-----. (2010). *Philippines: Fostering More Inclusive Growth*. Washington DC.

-----. (various years). *Doing Business 2010: Comparing Regulation in 183 Economies*. Hampshire: Palgrave McMillan.

-----. (various issues). *East Asia and Pacific Economic Update.* Washington DC.

-----. (various issues). *Global Economic Prospects*. Washington DC.

-----. (various years). *Logistics Performance Index.* www.worldbank.org

-----. (various years). *Paying Taxes.*Washington DC.

-----. (various years). *Philippine Environment Monitor*. Manila

-----. (various years). *Worldwide Governance Indicators.* www.worldbank.org
World Economic Forum. (various years). *Global Competitiveness Report.* Geneva, Switzerland: SRO-Kundig.

-----. (various years). *Travel and Tourism Competitiveness Report: Managing in a Time of Turbulence.* Switzerland: World Economic Forum.

-----. *Global Enabling Trade Report 2009.*

-----. Online data. www.worldbank.org

Timberman, D. G. (1991). *A Chnageless Land: Continuity and Change in Philippine Politics.* Singapore: Institute of Southeast Asian Studies.

Transparency International. (various years). *Global Corruption Report*. Cambride UK: Cambridge University Presx

-----. (various years). *Corruption Perceptions Index*. www.transparency.o.

Tolentino, Cesar (2008). *Framework for Clustering Creative Industries*.Presentation. 25 April 2008.

United Nations Children's Fund. Online data. www.unicef.org

United Nations Conference on Trade and Development. Online data. www.unctad.org

----- (2009). World Urbanization Prospects 2009 Online. http://esa.un.org/unpd/wup/index.htm
United Nations Development Programme. (2009). *Philippine Human Development Report 2008/2009.*

----- (various years). *Human Development Report (Global Report).* Hampshire: Palgrave McMillan.

-----. Online data. www.undp.org

United Nations Children's Fund and World Health Organiation. (2006). *Meeting the MDG Drinking Water and Sanitation Target: The Urban and Rural Challenge of the Decade.* Joint Monitoring Programme for Water Supply and Sanitation.

-----. (2008). *Progress on Drinking Water and Sanitation.* Joint Monitoring Programme for Water Supply and Sanitation.

-----. (2010). *Progress on Sanitation and Drinking-Water 2010 Update.* Joint Monitoring Programme for Water Supply and Sanitation.

United Nations Economic and Social Commission for Asia and the Pacific. Online data. www.unescap.org

United Nations-Energy. Online data. esa.un.org/un-energy

United Nations Statistics Division. Online data. www.unstats.un.org

United States Energy Information Administration. Online data. www.eia.doe.gov

Wholesale Electricity Spot Market. Electricity Spot Market Prices. Provided: Nov 2010

World Health Organization. Online data. www.who.int

World Trade Organization. Online data. www.wto.org

World Travel and Tourism Council. Online data. www.wttc.or.

Yale University Center for Environmental Law and Policy, and Columbia University Center for International Earth Science Information Network.10 (various years). *Environmental Performance Index.*

ANNEX 1: SIGNIFICANT REFORMS THAT HAVE INCREASED OPPORTUNITIES FOR FOREIGN INVESTMENT AND ENHANCED THE INVESTMENT CLIMATE

Successive Philippine Government administrations have introduced significant reforms to improve the overall investment climate. Those which specifically increased opportunities for foreign investment, trade, and professional participation have been fewer, but among them are:

1966 – The Condominium Act (RA 4726) allows foreigners ownership of up to 40% of the total capital stock of condominium units and shares in condominium corporations. Recommendations made more recently to amend the law to apply it to industrial estates have not been adopted.

1969 – Bataan Trade Zone Authority (RA 5490) created the first free trade zone in the Philippines located in Mariveles, Bataan, allowing entry of foreign merchandise without being subject to Philippine taxes and duties. The law was intended to accelerate economic development by promoting of foreign commerce.

1972 – Export Processing Zone Authority (EPZA) (PD 66) created the EPZA to manage the export processing zone in Bataan and other such zones that will be established. Several fiscal incentives were provided for locators to encourage foreign export manufacturing in these zones, wherein three additional zones were established in Baguio, Cavite and Mactan (Cebu).

1980 to 2001 – Tariff Reform. Beginning with President Marcos through the next three presidents, the Philippines moved from quotas to tariffs (Import Liberalization Program) and reduced tariffs (Tariff Reform Program). President Macapagal Arroyo agreed to local industry pressures to raise tariffs somewhat. Average MFN tariffs declined from 9.7% in 1999 to 5.8% in 2003 then increased to 7.4 % a year later. Agricultural goods are more protected than manufactured products. Tariff quotas applied to 14 product categories as of 2005.

1986 – Privatization of Government-Owned and Controlled Corporations (GOCCs) (Presidential Proclamation 50) established a policy of privatization and prompt disposition of a large number of non-performing assets of government financial institutions or government owned or controlled corporations. This resulted in the sale of large (i.e., Petron, Philippine Airlines, Philippine National Bank) and many small government corporations and properties over the last two decades. Foreign interest in many of these assets was not high, especially when only minority equity ownership was possible. In two high profile transactions where the assets were awarded to foreign investors (Subic Shipyard and Manila Hotel), discrimination against foreign participation was imposed by the Supreme Court, which interpreted 1936 laws on public utilities and bidding on government procurement in favor of rival Philippine bidders who brought suit against the foreign investor.

1987 – Value Added Tax (EO 273) rationalized the then current system of taxing goods and services by imposing a multi-stage value-added tax to replace the tax on original and subsequent sales tax and percentage tax or certain services.

1987 – Restoring Private Sector Generation of Electricity (EO 215) restored the right of private corporations, including foreign-owned corporations, to construct and operate electric power generation plants. Billions of dollars have since been invested by independent power producers (IPPs) in new power plants. Since the first contract in 1988, more than 40 IPP contracts have been signed.

1987 – Omnibus Investments Code (EO 226 amended by RA 7918) created the Board of Investments and the annual Investments Priorities Plan (IPP). Up to 100% foreign equity in export enterprises is permitted. More generous fiscal incentives, including an Income Tax Holiday (ITH) of up to six years, are provided. Foreign investment in domestic market activities is limited to 40% foreign equity in order to qualify for incentives unless consider a pioneer project or willing to commit to divest to 40% within 30 years.

1987 – Special Investor's Resident Visa for Tourism-Related Projects (EO 63) grants incentives to foreigners investing at least US$50,000 in a tourist-related project or in any designated tourist establishments.

1990 – Philippine Build-Operate-Transfer Act (RA 6957, amended in 1993 by RA 7718), provides the legal framework which allows the private sector to build, finance, lease, maintain, operate, and own a variety of infrastructure projects such as power plants, highways, ports, airports and telecommunications regulated by government that support economic development. The law allows investors in BOT projects and similar arrangements to engage the services of Philippine and/or foreign firms for the construction of BOT infrastructure projects.

1991 – Foreign Investments Act (RA 7042 amended in 1996 by RA 8179) liberalizes the entry of foreign investments into the country by opening the domestic market more to 100% foreign investment project except in areas/sectors identified in the Foreign Investment Negative List (FINL). Allows 100% foreign ownership in domestic market activities above a minimum investment of $100,000 (with advanced technology or employing 50 direct employees), otherwise $200,000.

1992 – Bases Conversion Development Act (RA 7227) created the Bases Conversion Development Authority (BCDA), the Subic Bay Metropolitan Authority (SBMA) and the Subic Special Economic and Freeport Zone (SSEFZ), formerly known as the Subic Special Economic Zone and the Clark Special Economic Zone. The BCDA supports the commercial conversion of the former American military bases at Subic and Clark and their extensions (i.e., John Hay, Wallace, O'Donnell and Poro Point) to contribute to the economic and social development of central Luzon and the rest of the country. Fiscal incentives for registered enterprises include a tax of 5% of gross income earned.

1992 – Lifting of exchange controls on most current-account transactions.

1992 – Privatization of government ownership of Philippine Airlines.

1993 – Electric Power Crisis Act (RA 7648) gave the president "emergency" powers to increase electric power generation to solve the power supply shortage and brownouts that began in 1992.

1993 – Investors Lease Act (RA 7652) allows foreign investors to lease private land for up to 50 years, renewable once for an additional 25 years, for the establishment of factories, processing plants or the development of land for industrial or commercial use. Leases must conform with the Agrarian Reform law.

1993 – Telecommunication Competition (EO 109) increases competition in providing telecommunications services in order to expand coverage to underserved and unserved areas. EO 109 created an opportunity for new firms to enter the industry. Foreign investment up to 40% is allowed. After 15 years, one large firm and two smaller firms are competing vigorously against the previously single dominant service provider for the nation's growing telecommunications market. Service has greatly improved while prices have fallen dramatically.

1994 – Insurance Sector Liberalization increased the number of foreign firms licensed to operate in the Philippines. Department of Finance (DOF) Order No 100-94 allows wholly-owned foreign insurance and re-insurance companies to operate in the country either as branches, newly incorporated subsidiaries or through the acquisition of existing domestic firms. Minimum capital requirements increase with the degree of foreign ownership.

1994 – Export Development Act (RA 7844) develops the export sector by granting incentives such as tax credits and exemption from duties for imported inputs and raw materials used in production.

1994 – Foreign Banking Liberalization Act (RA 7721) allows ten new foreign banks (in addition to the four existing foreign banks) to open full-service branches in the Philippines with a maximum of six branch offices. However, the law limits foreign ownership in locally incorporated banks to 60%. It allows new entrants to set up subsidiaries or buy into existing banks.

1994 – Ratification of the GATT and Accession to WTO wherein the government committed to remove import restrictions on sensitive agricultural products except rice, replacing them with high tariffs. The Philippines committed to bind tariffs in 2,800 industrial tariff lines, which represents 50% of total tariff lines. It also committed to reduce 66 tariff lines (42 agricultural and 24 in textiles and clothing) by the year 2004.

1994 – Domestic Shipping Deregulation (EO 185 and 213) which allows new operators to enter existing routes already served by franchised operators (EO 185) and; deregulates shipping passenger and freight rates (i.e., (EO 213).

1994 – Privatization of 60% equity in state-owned oil refinery.

1995 – Extension of land-lease period for foreigners from 50 to 75 years.

1995 – Special Economic Zone Act of 1995 (RA 7916, amended by RA 8748) created the Philippine Economic Zone Authority (PEZA) which establishes and regulates public and private sector economic zones for exports of goods and services. Locators may import free of duty and taxes; their income is subject to a 5% gross receipts tax, shared between national and local government.

1995 – National Water Crisis Act (RA 8041) gave the president “emergency” powers that assisted his reform policy to privatize the MWSS.

1995 – Domestic and International Civil Aviation Liberalization (EO 219) promoted greater competition within the Philippines and from the Philippines to other countries by Philippine carriers (at least 60% Philippine-owned). The monopoly long enjoyed by state-favored Philippine Airlines (PAL) was broken with the entry of Cebu Pacific, which today equals PAL in the domestic market and increasingly operates regional flights. There are three other domestic passenger carriers operate in the market. However, since airlines remain public utilities, foreign-owned carriers cannot enter the domestic market.

1995 – Mining Act (RA 7942) allows foreign investment by instituting a new system of mineral resources exploration, development and utilization through agreements known as Financial and/or Technical Assistance (FTAA). Fiscal benefits under the Omnibus Investments Code are specified

1997 – Manila water system privatized through two 25–year franchises

1997 – Investment Houses Law (RA 8366) increased foreign equity participation in investment houses from 40% to 60% and allows foreign citizens to sit on board of directors corresponding to the extent of foreign equity participation in the enterprise.

1998 – Oil Industry Liberalization Act (RA 8479) increased competition in the petroleum products market by allowing new entrants, including foreign oil retail firms, in the downstream oil industry (i.e., importing , refining, storing and distribution of petroleum products).

1998 – Financing Company Act (RA 8556) increased allowable foreign equity participation in a financing company from 40% to 60%, provided that reciprocal rights are given to Filipinos in the country of origin.

1999 – Regional or Area Headquarters, Regional Operating Headquarters and Regional Warehouses Act (RA 8756) amends the Omnibus Investments Code to allow multinational firms to set up an office to perform qualifying services for its affiliates, subsidiaries or branches and to derive income in the Philippines. RHQs are not subject to income tax and are exempt from value-added tax (VAT). ROHQs are subject to an income tax rate of 10% and the VAT. They are allowed to establish regional warehouses and foreign personnel working for RHQs receive tax and other privileges.

2000 – Retail Trade Liberalization Act (RA 8762) allows foreign investment in retail trade business under certain conditions and subject to minimum capital requirements. Foreign ownership of stores selling luxury products is allowed with minimum capital of $250,000 per store. Other foreign ownership up to 100% is allowed with an investment of at least $2.5 million, but foreign retailers in this category whose ownership exceeds 80% must offer their shares to the public (minimum of 30% of equity) within 8 years from start of commercial operation. Qualified foreign retailers are barred from engaging outside their stores in mobile stores, carts, door-to-door selling, the use of sales representatives, restaurants and sari-sari stores.

2000 – General Banking Law (RA 8791) further liberalized the banking industry by allowing foreign banks to acquire up to 100% equity of a local commercial or thrift bank within a given period.

2001 – Anti-Money Laundering Act of 2001 (RA 9160) and amendments (RA 9194) protects and preserves the integrity and confidentiality of bank accounts and ensures that the Philippines shall not be used as a money laundering site for the proceeds of any unlawful activity. This law extends cooperation in transnational investigations and prosecutions of persons involved in money laundering activities wherever committed

2001 – Electric Power Industry Reform Act (RA 9136) liberalized the electricity sector by providing for the restructuring of the electric power industry and requiring privatization of most government-owned generation assets, IPP contract administration and transmission lines, followed by an open access regime. In the seven years of implementation, the concession for operation for 25 years the TRANSCO lines was awarded to a PRC-RP consortium

2002 – Special Purpose Vehicle Act (RA 9182) was enacted to improve financial liquidity by providing tax incentives and privileges to encourage the rapid sale of non-performing bank assets. RA 9343 was signed in 2006 extended the deadline for the establishment and registration of SPVs. Foreign investors were among those who purchased SPVs in order to subsequently dispose of them at a profit.

2003 – Judiciary Compensation Rationalization Act (RA 9227) granting additional compensation in the form of special allowances for justices, judges and all other positions in the judiciary with the equivalent rank of justices of the court of appeals and judges of the regional trial court.

2003 – Government Procurement Reform (RA 9184) was enacted to improve bidding procedures and introduce efficient web-based internet procurement practices to help reduce leakage and waste in government procurement. However, discrimination against foreign goods and firms remains.

2003 – Dual-Citizenship Act (RA 9225) allows natural-born Filipinos who had become foreign citizens to re-acquire Philippine citizenship and be entitled to own land, reacquire professional certification (if applicable) and other benefits of citizenship.

2003 – Restructuring the Excise Tax on Automobiles (RA 9224) rationalizes the excise tax on automobiles.

2004 – Alternative Dispute Resolution Act (RA 9285) promotes the freedom of the party to make their own arrangements to resolve their disputes. This law encourages and actively promotes the use of Alternative Dispute Resolution (ADR) as an important means to achieve speedy and impartial justice and declog court dockets.

2004 – Optical Media Act (RA 9239) ensures the protection and promotion of intellectual property rights through the regulation of the optical media as well as providing penalties for violating such act.

2004 – Domestic Shipping Development Act (RA 9295) supports the country's shipping industry including ship-building and repair which provides much needed infrastructure for economic activity, and development by encouraging a modernized and safe domestic merchant marine fleet through fiscal incentives.

2004 – Securitization Act (RA 9267) promotes the development of the capital market by supporting securitizaiton, by providing a legal and regulatory framework for securitization and by creating a favorable market environment for a range of asset-backed securities. It rationalizes the rules, regulations, and laws that impact upon the securitization process, particularly on matters of taxation and sale of real estate on installment and pursues the development of a secondary market, particularly for residential mortgage-backed securities and other housing-related financial instruments, as essential to its goal of generating investment and accelerating the growth of the housing finance sector, especially for socialized and low-income housing.

2004 – Philippine Clean Water Act (RA 9275) mandates the protection, preservation and revival of the quality of our fresh, brackish and marine waters

2004 – Documentary Stamp Tax Elimination on Secondary Trading of Financial Instruments (RA 9243) exempts long-term insurance policies and pre-need plans from DST and imposes a DST on other evidences of indebtedness such as special savings accounts.

2005 – Lateral Attrition Act (RA 9335) provides for a system of rewards/incentives which shall cover all officials and employees of the BIR and the BOC whenever they surpass their collection targets.

2005 – Special Purpose Vehicle Act extension (RA 9343) extends RA 9182 (see above).

2006 – Expanded Value-Added Tax Law (RA 9337) replaces the more burdensome and cascading sales tax to increase effectivity of tax collection. EVAT is a tax on consumption levied on the sale of goods and services and on the imports of goods into the Philippines

2007 – Anti-Red Tape Act (RA 9485) promotes integrity, accountability, proper management of public affairs and public property as well as establishing effective practices aimed at the prevention of graft and corruption in government. This law promotes transparency in each agency with regard to public transactions adopting simplified procedures to reduce red tape and expedite transactions in government

2007 – Amnesty for Businesses in the Special Economic Zones and Freeports (RA 9399) declaring a one-time amnesty on certain tax and duty liabilities incurred by certain business enterprises operating within the special economic zones and freeports created under proclamation no. 163, series of 1993; proclamation no. 216, series of 1993; proclamation no. 120, series of 1994; and proclamation no, 984, series of 1997, pursuant to section 15 of Republic Act no. 7227.

2007 – Bases Conversion and Development Act amendments (RA 9400) converts Subic into a Special Economic Zone, same with Clark Military base, Poro Point Freeport Zone, Morong Special Economic Zone and John Hay Special Economic Zone. These aforementioned zones are to be managed by a separate customs territory ensuring free flow or movement of goods and capital within, into and exported out of the two economic zones

2007 – Biofuels Act (RA 9367) mandates the development and utilization of indigenous renewable and sustainable-sources clean energy sources to reduce dependence on imported oil and to mitigate toxic and greenhouse gas (GSG) emissions

2008 – Civil Aviation Authority (RA 9497) provides safe and efficient air transport and regulatory services in the Philippines by providing for the creation of a civil aviation authority with jurisdiction over the restructuring of the civil aviation system, the promotion, development and regulation of the technical, operational, safety, and aviation security functions under the civil aviation authority

2008 – Foreclosure Period Extended for Foreign Banks (RA 9501) is provided for in the Amended Magna Carta for Micro, Small and Medium Enterprises Act (RA 9501) which allows foreign banks the same period (5 years) to obtain optimum value as domestic banks in foreclosure proceedings involving real estate. Foreign banks will be allowed to bid for real estate in foreclosure proceedings, thereby avoiding undercutting of prices and failed auctions and encouraging foreign banks to lend, while respecting the constitutional provision on land ownership.

2008 – Individual Income Taxes Rate Exemption (RA 9504) exempts minimum wage earners from paying income tax, increases the exemption for all earners and allows additional exemptions for individuals with dependents and children.

2008 – JPEPA Ratification. The JPEPA seeks to promote a freer trans-border flow of goods, persons, services, and capital between the Philippines and Japan reinforcing existing bilateral economic relations.

2008 – National Grid Corporation Franchise (RA 9511) grants the National Grid Corporation of the Philippines a franchise to engage in transmitting electricity through high voltage interconnected transmission lines, substations, and relate facilities.

2008 – Credit Information System (RA 9510) creates a centralized credit information system which is expected to lower the risk of defaults and at the same time, improve the availability of credit, especially for small- and medium-sized enterprises. The implementation of this new law, creates a stronger and more transparent financial system.

2008 – Personal Equity Retirement Act (PERA) (RA 9505) encourages millions of Filipinos, at home and abroad, to save for retirement and will make more financial resources available to build the domestic capital market.

2009 – Special Visa for Employment Generation (SVEG) (EO 758) allows foreigners who invest in businesses which employ ten Filipinos and their spouse and children to receive a SVEG.

2009 –Renewable Energy Act (RA 9513) accelerates the development and utilization of renewable energy such as biomass, solar, wind and ocean energy thereby minimizing dependence on fossil fuels.

2009 – Philippine Deposit Insurance Corporation reform (RA 9576) increases the guarantee for each depositor from Php 250,000 to Php 500,000.

2009 – National Tourism Policy Act of 2009 (RA 9593) declares a national policy for tourism as an engine of investment, employment, growth and national development.

2009 – Documentary Stamp Tax Exemption of Stock Transactions (RA 9648) seeks to permanently exempt from DST any sale, barter or exchange of shares of stock listed and traded through the stock exchange. This makes the Philippine Stock Exchange more competitive and increase transactions.

2009 – Bureau of Food and Drugs Act Amendments (RA 9711) strengthens the regulatory capacity of the Bureau of Food and Drugs (BFAD) by establishing adequate testing laboratories and field offices, upgrading its equipment, augmenting its human resource complement, giving authority to retain its income, converting it into the Food, Drugs, Cosmetics and Devices Administration (FDCDA) and amends certain sections of Republic Act 3720

2009 – Cooperatives Code (RA 9520) encourages the creation and growth of cooperatives as a practical vehicle for promoting self-reliance and harnessing citizens towards the attainment of economic development and social justice.

2010 – Customs Brokers Act Amendment (RA 9853) Amends RA 9280 which removed the prohibition on corporate practice of customs brokerage as long as the company hires licensed customs brokers.

2010 – Residential Free Patent (RA 10023) provides residential owners efficient, effective and affordable methods to title their lands by means of securing property rights, facilitating land transactions and to use their land titles as a guarantee for loans.

2010 – Real Estate Investment Trust (RA 9856) encourages the development of the capital market and expanding the participation of Filipinos in the ownership of real estate in the Philippines. Also, the Act enables Filipinos to use the capital market for infrastructure development by facilitating a regulatory framework.

2010 – Pre-Need Code (RA RA 9829) establishes a new regulatory framework for the operation of pre-need companies and to protect plan holders. This measure seeks to address the growing problems of the pre-need industry such as the trust fund deficiencies.

2010 – Tax Information Exchange (RA 10021) amends sections 6(F), 71 and 270 of the National Internal Revenue Code of 1997 which allows the exchange of information between the Bureau of Internal Revenue and foreign governments regarding tax matters following internationally-agreed tax standards and imposing penalties for violators.

2010 – Revised Kyoto Convention (RKC) is the accession of the Philippines to the harmonization of the international customs measures and procedures embodied in the Revised Kyoto Convention.

2010 – Anti-Camcording Act (RA 10088) prohibits and penalizes the unauthorized use, possession and/or control of audiovisual recording devices for the unauthorized recording of cinematographic films and other audiovisual works and/or their soundtracks in an exhibition facility.

2010 – Corporate Recovery Act (RA 10142) provides regulations for the rehabilitation or liquidation of financially distressed enterprises.

ANNEX 2: PAID HOLIDAYS IN SELECTED ASIAN ECONOMIES

In mid-2010, the American Chamber of Commerce of the Philippines conducted a study on paid holidays and minimum wages of the ASEAN-6 (Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam) and other Asian economies (Cambodia, China, Japan, Korea, and Taiwan). Results of the study show that China, Cambodia, and the Philippines have the highest number of paid holidays. Those with the least number of paid holidays were Taiwan, Singapore and Vietnam. The average number of paid holidays of the ASEAN-6 is 14. The Philippines is above the average with 20 paid holidays in 2010 (See Figure 1).

Tables 1 to 11 present the lists of paid holidays for each of the 11 economies covered in the study.

To supplement this study, the minimum wages of the selected economies were also examined. Among the ASEAN-6, the Philippines has one of the highest minimum wages. China, Thailand, and Indonesia have lower minimum wages. Vietnam and Cambodia have the lowest minimum wages. Taiwan, Singapore, Korea, and Japan have the highest (See Table 12).

Figure 3 combines these two factors of labor costs into a scatter chart. The closer an economy is to the lower left corner of the chart, the more competitive it is with respect to minimum wages and paid holidays. Vietnam, Indonesia, Thailand, and Malaysia are the most competitive among the 11 economies studied.

Figure 1: National and special non-working paid holidays per year, selected Asian countries, 2010

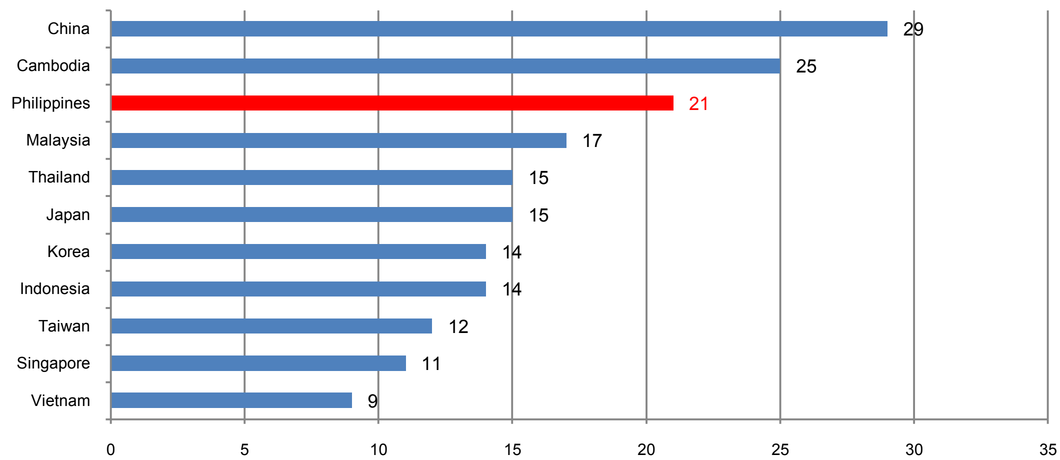


Table 1: Paid Holidays, Cambodia

Holidays	Days	Date
New Year Day	1	Jan 1
Day of Victory over the Genocidal Regime	1	Jan 7
Meaka Bochea Day	1	Jan 30
International Women's Rights Day	1	Mar 8
Khmer New Year Day	3	Apr 14 - 16
Visaka Bochea Day	1	Apr 28
Labor Day	1	May 1
Royal Ploughing Ceremony	1	May 2
King Norodom Sihamony's Birthday	3	May 13 - 15
Ex-Queen Norodom Monineath's Birthday	1	Jun 18
Constitution Day and Recoronation of King Norodom Sihanouk	1	Sep 24
Pchum Ben Day	3	Oct. 7 - 9
King Norodom Sihamony's Coronation Day	1	Oct 29
Former King Norodom Sihanouk's Birthday	1	Oct 31
National Independence Day	1	Nov 9
Water Festival	3	Nov 20, 22, and 23
International Human Rights Day	1	Dec 10
TOTAL	**25**	

Table 2: Paid Holidays, China

Holiday	Days	Date
New Year's Day	3	Jan 1 - 3
Spring Festival	7	Feb 13 - 19
Tomb-Sweeping Day	3	Apr 3 - 5
International Labor Day	3	May 1 - 3
Dragon Boat Festival	3	Jun 14 - 16
Mid-Autumn Festival *	3	Sep 22 - 24
National Day*	7	Oct 1 - 7
TOTAL	**29**	

Note:
** According to a government-mandated holiday schedule that took effect in 2008, workers were given three consecutive days off for the Mid-Autumn Festival, but they were required to make up two of those by working the Saturday and Sunday on either end of the holiday.*

This give-and-take arrangement is then repeated for the National Day holiday, with employees enjoying seven straight days off — Friday through Oct. 7 — except only three of those are official free days. The four "gifted days" will be made up over the weekends before and after. (China's Mandatory Vacation With a Catch, International Herald Tribune, October 1, 2010)

Table 3: Paid Holidays, Indonesia

Holidays	Days	Date
New Year's Day	1	Jan 1
Chinese New Year	1	Feb 14
Mouloud (Birth of the Prophet)	1	Feb 26
Nyepi (Hindu New Year)	1	Mar 16
Good Friday	1	Apr 2
Ascension Day	1	May 13
Waisak Day (Buddha's Birthday)	1	May 28
Lailat al Miraj (Ascension of the Prophet)	1	Jul 10
Indonesian Independence Day	1	Aug 17
Eid al-Fitri (Feast of the Sacrifice)	2	Sep 10 – 11
Eid al-Adha (Feast of the Sacrifice)	1	Nov 17
Islamic New Year	1	Dec 7
Christmas Day	1	Dec 25
TOTAL	**14**	

Table 4: Paid Holidays, Japan

Holidays	Days	Date
New Year's Day	1	Jan 1
Coming-of-Age Day	1	Jan 11
National Founding Day	1	Feb 11
Vernal Equinox Day	1	Mar 22
Day of Showa	1	Apr 29
Constitution Memorial Day	1	May 3
Greenery Day	1	May 4
Children's Day	1	May 5
Marine Day	1	Jun 19
Respect-for-the-Aged Day	1	Aug 20
Autumnal Equinox Day	1	Aug 23
Health-Sports Day	1	Oct 11
Culture Day	1	Nov 3
Labor Thanksgiving Day	1	Nov 23
Emperor's Birthday	1	Dec 23
TOTAL	**15**	

Table 5: Paid Holidays, Korea

Holidays	Days	Date
New Year's Day	1	Jan 1
Lunar New Year's Day (Seollal)	3	Feb 13 - 15
Independence Movement Day	1	Mar 1
Children's Day	1	May 5
Buddha's Birthday	1	May 21
Memorial Day	1	Jun 6
Independence Day	1	Aug 15
Chuseok (Korean Thanksgiving Day)	3	Sep 21 - 23
National Foundation Day	1	Oct 3
Christmas	1	Dec 25
TOTAL	**14**	

Table 6: Paid Holidays, Malaysia

Holidays	Days	Date
Chinese New Year	2	Feb 14 – 15
Prophet Muhammad's Birthday	1	Feb 26
Labour Day	1	May 1
Wesak Day	1	May 28
Agong's Birthday	1	Jun 5
National Day	1	Aug 31
Hari Raya Puasa	2	Sep 10 – 11
Deepavali	1	Nov 5
Hari Raya Qurban[1]	1	Nov 17
Awal Muharam	1	Dec 7
Christmas Day	1	Dec 25
Non-Working State Holidays[2]	4	
TOTAL	**17**	

1 Only two States (Kelantan & Terengganu) celebrate this holiday as a two-day event.

2 This is the average number of paid state holidays for the sixteen states of Malaysia.

Table 7: Paid Holidays, Philippines

Holidays	Days	Date
New Year's Day	1	Jan 1
Maundy Thursday	1	Apr 1
Good Friday	1	Apr 2
Black Saturday	1	Apr 3
Araw ng Kagitingan	1	Apr 9
Labor Day	1	May 3
Independence Day	1	Jun 14
Ninoy Aquino Day[3]	1	Aug 21
National Heroes Day	1	Aug 30
Eid'l Fitr	1	Sep 10
Nationwide barangay and Sangguniang Kabataan elections	1	Oct 25
Eid'l Adha	1	Nov 16
All Saints Day	1	Nov 1
Bonifacio Day	1	Nov 29
Christmas Eve	1	Dec 24
Christmas Day	1	Dec 25
Rizal Day	1	Dec 27
Last Day of the Year	1	Dec 31
National and Local Elections	1	May 10
15th President Inauguration Rites	1	Jun 15
PAID LOCAL HOLIDAYS[4]	1	
TOTAL	**21**	

3 Ninoy Aquino Day was enacted by virtue of RA 9256 of 2004 signed by President Gloria Macapagal Arroyo and was set at August 21. In 2007, RA 9492 (Holiday Economics Law) was enacted and the holiday was moved to the Monday nearest August 21. Ninoy Aquino Day was moved back to August 21 by order of President Benigno Aquino III by the virtue of Proclamation 13 enacted on August 11, 2010.

4 Further research is needed to determine how universal local non-working days were rationalized in 1987. We do know that in recent years they have become common in most parts of the Philippines. Accordingly, this table counts one such holiday per year.

Table 8: Paid Holidays, Singapore

Holidays	Days	Date
New Year’s Day	1	Jan 1
Chinese New Year	2	Feb 14 - 15
Good Friday	1	Apr 2
Labour Day	1	May 1
Vesak Day	1	May 28
National Day	1	Aug 9
Hari Raya Puasa	1	Sep 10
Deepavali	1	Nov 5
Hari Raya Haji	1	Nov 17
Christmas Day	1	Dec 25
TOTAL	**11**	

Table 9: Paid Holidays, Taiwan

Holidays	Days	Date
New Year’s Day	1	Jan 1
Chinese New Year	5	Feb 15 - 19
Peace Memorial Day*	1	Feb 28
Tomb Sweeping Day	1	Apr 5
Labor Day*	1	May 1
Dragon Festival	1	Jun 16
Mid-Autumn Festival	1	Sep 22
National Day*	1	Oct 10
TOTAL	**12**	
* The noted holidays fall on a Sunday and will not be moved to the nearest weekday.		

Table 10: Paid Holidays, Thailand

Holidays	Days	Date
New Year’s Day	1	Jan 1
Makha Puja Day	1	Mar 1
Chakri Day	1	Apr 6
Songkran Days (Thai New Year)	3	Apr 13 – 15
Labour Day	1	May 3
Coronation Day	1	May 5
Wisakha Bucha Day	1	May 28
Asarnha Bucha	1	Jul 26
H.M. The Queen’s Birthday	1	Aug 12
Chulalongkorn Memorial Day	1	Aug 13
H.M. The King’s Birthday	1	Dec 6
Constitution Day	1	Dec 10
New Year’s Eve	1	Dec 31
TOTAL	**15**	

Table 11: Paid Holidays, Vietnam

Holidays	Days	Date
New Year's Day	1	Jan 1
Têt (Lunar New Year)	4	Feb 15 - 18
Hung King's Festival Day	1	Apr 23
Liberation of Saigon	1	Apr 30
Labor Day	1	May 1
National Day	1	Sep 2
TOTAL	**9**	

Figure 2: Daily minimum wage range, selected Asian countries, 2010, US$

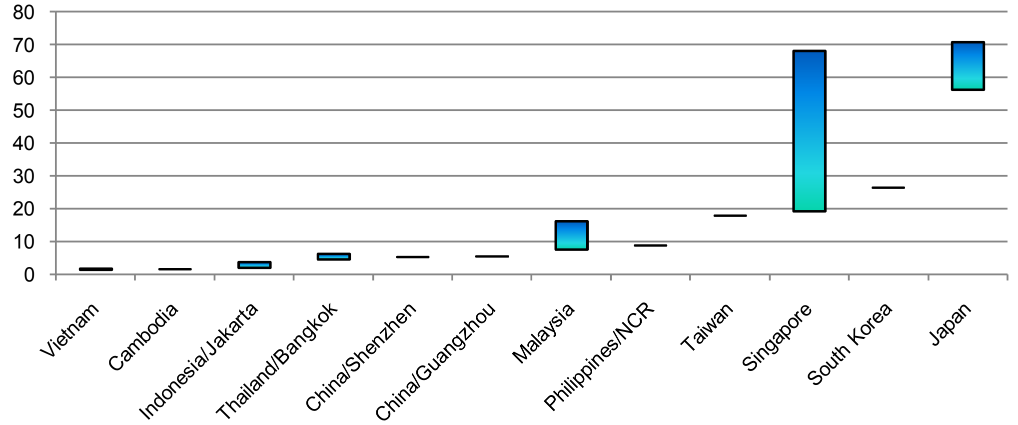
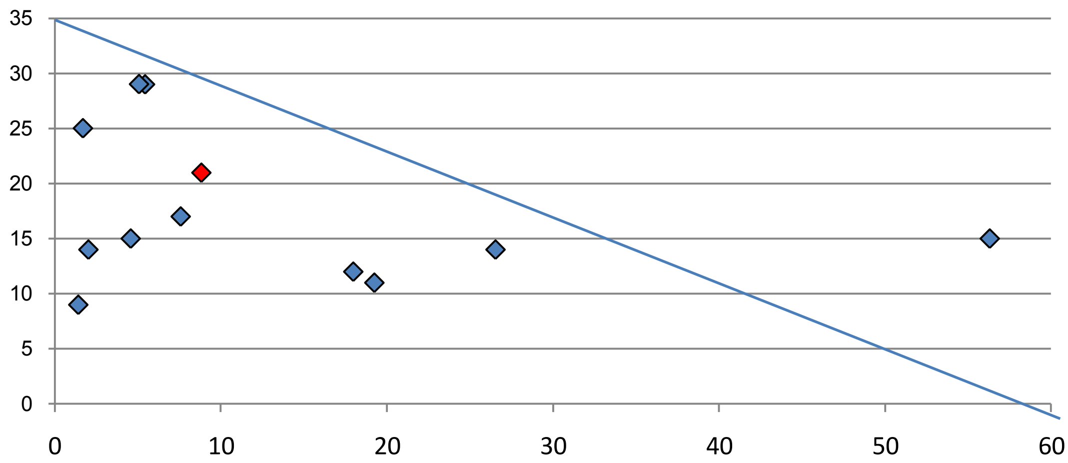


Table 12: Comparative wages, selected countries, $US per day

Country/City	Daily min wage, $US	
	Min	Max
Vietnam	1.39	1.74
Cambodia	1.67	1.67
Indonesia/Jakarta	2.0	3.73
Thailand/Bangkok	4.55	6.24
Delhi/India	4.45	4.93
China/Shenzhen	5.37	5.37
China/Guangzhou	5.43	5.43
Malaysia	7.56	16.2
Philippines/NCR	8.80	8.80
Taiwan	17.96	17.96
Singapore	19.23	68.15
Korea	26.53	26.53
Japan	56.31	70.82

Sources: NWPC; As of 29 June 2010 and related news reports, www.qppstudio.net, AmCham offices and respective national agencies.
Note: Singapore does not have a legislated minimum wage. The figure here pertains to the lowest agreed wage as wages are decided arbitrarily by the parties involved; Malaysia, on the other hand, has statutory minimum wage only in some sectors, leaving wage determination to market forces in other segments of the economy.

Figure 3: Daily minimum wage and paid non working holidays, ASEAN-6 +5, 2010



Note: Singapore does not have a legislated minimum wage. The figure here pertains to the lowest agreed wage as wages are decided arbitrarily by the parties involved; Malaysia has statutory minimum wage in only some sectors, leaving wage determination to market forces in other segments of the country.

Sources: AmCham Offices and respective national agencies
Drafted by AmCham ICIP – Adrian Lao To

ANNEX 3: LEGISLATION ON PROFESSIONS

	PROFESSION	LAW	RECIPROCITY	FORMATION OF CORPORATIONS
1	Accountancy	RA 9298	Sec. 34	Citizenship not specified
2	Aeronautical Engineering	PD 1570	Sec. 14	No provision
3	Agricultural Engineering	RA 8559	Sec. 27	Citizenship not specified
4	Agriculture	PRC Reso. 2000-663	Sec. 27	Unknown
5	Architecture	RA 9266	Sec. 27	Filipinos only
6	Chemical Engineering	RA 9267	Sec. 30	Citizenship not specified
7	Chemistry	RA 754	Sec. 25	Citizenship not specified
8	Civil Engineering	RA 1582	Sec. 25	Citizenship not specified
9	Criminology	RA 6506	X	No provision
10	Customs Brokers	RA 9280	Sec. 25	No provision
11	Dentistry	RA 9484	Sec. 38	No provision
12	Electrical Engineering	RA 7920	Sec. 38	Citizenship not specified
13	Electronics and Communications Engineering	RA 9292	Sec. 33	Citizenship not specified
14	Environmental Planning	PD 1308	X	Filipinos only
15	Fisheries Technologist	PRC Reso. 2000-664	Sec. 27	Unknown
16	Foresters	RA 6239	X	No provision
17	Geodetic Engineering	RA 8560	Sec. 26	Citizenship not specified
18	Geology	RA 4209	Sec. 11	Citizenship not specified
19	Interior Design	RA 9258	Sec. 29	Citizenship not specified
20	Guidance Counseling	RA 8534	Sec. 29	Citizenship not specified
21	Landscape Architecture	RA 9053	Sec. 29	Citizenship not specified
22	Librarians	RA 9246	Sec. 28	No provision
23	Marine Deck Officers	RA 8544	Sec. 28	No provision
24	Marine Engineer Officers	RA 8544	Sec. 28	Citizenship not specified
25	Master Plumber	RA 1378	Sec. 21	No provision
26	Mechanical Engineering	RA 8495	Sec. 39	Citizenship not specified
27	Medical Technology	RA 5527	Sec. 27	No provision
28	Medicine	RA 2382	Sec. 9	No provision
29	Metallurgical Engineering	RA 1536	Sec. 11	Citizenship not specified
30	Midwifery	RA 7392	Sec. 22	No provision
31	Mining Engineering	RA 5677	Sec. 28	No provision
32	Naval Architecture and Marine Engineering	RA 4565	Sec. 27	Citizenship not specified
33	Nursing	RA 9173	Sec. 20	No provision
34	Nutrition and Dietetics	RA 1286	Sec. 29	No provision
35	Optometry	RA 8050	Sec. 34	No direct provision
36	Pharmacy	RA 5921	X	No provision
37	Physical and Occupational Therapy	RA 5680	Sec. 21	No provision
38	Psychology	RA 10029	Sec. 24	
39	Professional Teachers	RA 7836	Sec. 24	No provision
40	Radiologic and X-Ray Technology	RA 7431	X	No provision
41	Real Estate Service	RA 9646	Sec. 24	
42	Sanitary Engineering	RA 1364	Sec. 32	Citizenship not specified
43	Social Workers	RA 4373	Sec. 18	Citizenship not specified
44	Sugar Technologist	N/A	N/A	Unknown
45	Veterinary Medicine	RA 9268	✓	No provision
46	Law	Rules of Court 138	Dual citizens only	Unknown

* Reciprocity column verified by the Professional Regulatory Commission
N/A – not available

Drafted by AmCham – Krystle Marie Bagay and Carla Grino

ANNEX 4: OTHER LEGISLATIVE PRIORITIES

	Bill	Description[5]	Proponent
	Agriculture, Environment, Natural Resources		
1	Environmental Impact Assessment System	Update PD 1586 (1978) HB 960, 4961, 2778	CSPW
2	Land Use Code	Defines and delineates the uses of land; multiple House bills; SB 3426	CSPW
3	Plastic Bag Reduction Act		
4	Sustainable Forest Management Bill		
	Constitutional Successor Foreign Equity Laws		
5	Advertising Ownership Act	Redefine allowable foreign ownership	JFC, PCCI, 2 commissions[6]
6	Education Ownership Act	Redefine allowable foreign ownership	JFC, PCCI, 2 commissions
7	Land Ownership Act	Redefine allowable foreign ownership	JFC, PCCI, 2 commissions
8	Media Ownership Act	Redefine allowable foreign ownership	JFC, PCCI, 2 commissions
9	Public Utilities Act Amendments	Redefine allowable foreign ownership	JFC, PCCI, 2 commissions
	Fiscal, Financial, Capital Markets, Corporate Governance		
10	ACT Excise Tax Restructuring	Move from multi-tiered to unitary system; remove preference for alcohol products made from indigenous materials; index tax to inflation; HB 6079; SB 2980	DOF, UPOU
11	Amendments to Export Development Act of 1994		
12	BIR/BOC exemption from Salary Standardization	HB 5283; SB 620	
13	Collective Investment Schemes Act (previously known as Revised Investment Company Act)	Updates 1960 law (RA 2629) SB 1181	CMDC, CSPW
14	Collateralization of Moveable Property Act	Use personal property as collateral for loans	
15	Financial Rehabilitation and Insolvency Act	H passed HB 7090; S passed SB 61	JFC, CSPW
16	Immigration Code Act	HB 6568; SB 3404	
17	Insurance Code Amendments (PD 612 and 1460)	Updates 1974/1978 laws	
18	Simplified Net Income Taxation Act (SNITS)	Closes loopholes for self-employed/professionals HB 5521	DOF, CSPW, UPOU
19	Stock Market Competitiveness Act	HB 7111	PSE
20	Tax Code Amendment	Remove 5-year recovery of input tax paid on capital equipment	
21	Tax Reform (increase EVAT, reduce CIT)	Rewards productivity, taxes consumption	UP economists
22	Tax Reforms to close fiscal leakages	Calling a halt to revenue-eroding acts prevalent in 14th Congress	DOF, UPOU

5 Relevant bills introduced in 14th Congress are cited. When no bills are cited, Roadmap authors are unaware of any draft legislation.

6 December 1999, "Report of the Preparatory Commission on Constitutional Reforms" and December 2005, "The Proposed Revision of the 1987 Constitution by the Consultative Commission, with Highlights and Primers on the Major Proposals and Background Information on the Consultative Commission."

23	Valuation Reform Act	Creates National Valuation Authority to harmonize valuation systems and have current real property data; SB 3519	DOF, CSPW
		Human Capital Development, Health	
24	Asbestos Ban	H passed HB 6095	JFC
25	Government Assistance to Students and Teacher in Private Education (GASTPE) Act Amendment	Expands to private elementary schools current funding program to send HS students to private schools; 5 House bills	
26	Labor Code Omnibus Reform		FGD
27	Labor Code Reform (Rectifiy RA 9481)	HB 2112	DTI
28	Labor Code Amendment (Art 100)	Revise policy on wage determination	ECOP
29	Reproductive Health and Population Development	HB 5043	JFC, PCCI
30	Sanitation Code (PD 856)	Remove requirement for spa owners to send massage therapists to DOH regional centers for monthly check up.	FGD
		Infrastructure, Information Technology	
31	Corporation Code/Securities Regulation Code Amendments	Updates older laws HB 2522, 5270; SB 509, 1759	UPOU, PSE
32	Downstream Oil Amendments	Encourages the private sector to participate in the strategic infrastructure build-up that will transport natural gas from its source to the end users and facilitates the inclusion of incentives for natural gas in the Investment Priorities Plan	DOE
33	Electric Cooperative Reform Act	Restores tax exemption privileges of electric cooperatives; SB 508	
34	Flag Law Amendment	Moves RP towards compliance with WTO Agreement on Government Procurement	JFC
35	Liquefied Petroleum Gas Bill	Sets the regulatory framework for the LPG industry and penalizes prohibited activities	DOE
36	Nuclear Power Resolution	HB 6300	
37	Voice Over Internet Protocol Act	HB 1328; SB 2188	
		Public Sector Governance	
38	AMLA Amendments	Amends Bank Secrecy law	JFC, AMLC
39	Anti-Corruption Amendments	HB 5816; SB 318, 935	JFC
40	Anti-Private Armies Act	Recommended in 2010 by Independent Commission Against Private Armies	
41	Anti-Smuggling Act	HB 6995	JFC/PBG, CSPW
42	Anti-Smuggling, small shipments duty and tax free de minimus provision (currently P10)	Allows DOF/BOC to determine de minimus	JFC
43	Career Executive Systems Act	Promotes a professional bureaucracy by limiting number of presidential appointments SB 1649	MBC
44	Condominium Act (RA 4726)	Allows foreign ownership of land in horizontal condominiums, industrial estates, tourism estates, retirement villages.	JFC
45	Freedom of Access to Information Act	Compels government offices to comply with requests for information; HB 3732; SB 3308 Bicam report	FGD, JFC/PBG, CSPW, UPOU

46	Government Classification and Compensation Act	Rationalizes positions and improves compensation for merit in addition to longevity; HB 183	CSPW, UPOU
47	Government Employees Lifestyle Act Amendments	No bill pending	
48	Human Security Act Amendments	Characterizes terrorist financing as a standalone crime HB 7041	
94	Intellectual Property Code Omnibus Amendments		DTI
49	Jueteng Act	Legalizes jueteng under PAGCOR HB 3689	
50	Lemon Law	Provides protection and remedies to buyers of new and used motor vehicles HB 5115; SB 89, 107, 3540	
51	Local Government Code Omnibus Amendments		
52	LGU Code – clarify authority to tax investors	Draft available	JFC, PAMURI
53	Ombudsman Act Amendments	Deputizes private lawyers to investigate and prosecute cases; allows Ombudsman to examine bank deposits of public officials	MBC, CSPW, UPOU
54	Philippine Transportation Security Authority	HB 474	DOTC, GOA
55	Political Party Funding Reform Act	Provides for political party development, campaign finance reforms HB 3655; SB 67, 227, 587	CSPW
56	Safeguard Measures Amendments (RA 8800)		DTI
57	Whistleblowers Protection Act	SB 1972	CSPW
58	Trade Representative Office	Establishes the Philippine Trade Representative Office	PCCI

Sources of cited measures include past positions of the JFC and Philippine business groups; JFC Seven Big Winner focus group discussions conducted in late 2009 and early 2010; Focus Group Discussion: Philippine Investment Climate (PCCI, May 20, 2009); Barriers to Foreign Participation in the Philippine Economy: Formal and Informal Discrimination Against Foreign Investment, Professionals and Trade, (unpublished study, 2008); Gearing Up the Nation for Growth and Competitiveness (Congress Secretariat Planning Workshop, House of Representatives, July 2007); Sustaining the Growth, Spreading the Benefits (Office of the Speaker, House of Representatives, March 2008), Legislative Measures and Their Status, 14th Congress (Department of Finance, February 2010); Economic Reforms for Philippine Competitiveness (University of the Philippines Open University, 2010); and presentations at three Legislative Workshops held at AmCham in February, March, and April, 2010 by experts from the House, Senate, Office of the President, DOF, DTI and the University of the Philippines.

BLANK PAGE

INSIDE BACK COVER

Arangkada Philippines 2010:
A Business Perspective

ISBN: 978-971-94998-0-0