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Date	**29 Jun 2011**	Language	**English**
MediaTitle	**BizNewsAsia**	Page No	**26to29**
Section	**News**	Article Size	**2320 cm^2**
Journalist	**Nick Legaspi**	Color	**Full Color**
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Arangkada: How the Philippin

The Philippines has grown so slow for so long a time, millions of its people are poor, jobless and hungry, that it would need to "move twice as fast" to eliminate poverty, create jobs and catch up with its faster-growing neighbors.

"Catching up and keeping up is an imperative, not a choice," says a joint report of seven chambers of the Joint Foreign Chambers of the Philippines representing more than 2,000 members.

The report, titled *Arangkada* Philippines 2010: A Business Perspective, points out: "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."

Seven big winners

The report, which contains 471 recommendations, says the government 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 report makes the following recommendations:

Competitiveness

Undertake aggressive efforts to improve rankings faster; create a national psychology to improve country competitiveness; and join hands with the private sector to fight corruption; join the Integrity Initiative driven by the Makati Business Club and the JFC.

Agribusiness

Use new free trade agreements to increase agricultural exports; lower cost of farm inputs and ramp up agricultural R&D, education and training; update old and develop new agribusiness models; and end CARP and limits of landholding by 2014.

IT-BPO

Create a robust legal framework by passing DICT, cybercrime, data privacy, holiday rationalization and Labor Code amendments; adopt national competency test; expand higher-speed broadband to more cities; raise quality and quantity of labor supply; and adopt curriculum for IT-BPO careers in colleges.

Creative industries

Create a Philippine creative industries master plan, creative industries development council and organize the private sector in a creative industries initiative; encourage foreigners to practice creative industry professions in the Philippines, resulting in technology transfer, investment, and job creation; and remove restrictions on foreign equity.

Arangkada says the Philippines significantly under-invests 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," the report relates. "In the Global Competitiveness Report, among the ASEAN-6, the Philippines' overall infrastructure quality ranks below Singapore, Malaysia, and Thailand and close to that of Indonesia and Vietnam.

Infra recommendations

- Double spending on infrastructure to 5% of GDP by bidding out a pipeline of PPP projects to local and international developers, investors and banks.
- Assure that the NEDA-ICC reviews all major projects; rescind JVA guidelines.
- 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).

Transportation

The Philippines, which is an archipelago, depends on air and sea transport more than continental countries.

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:

- Prioritize investments in airport terminal, runway and communication facilities.
- DMIA should be the primary international gateway, NAIA primarily a domestic airport, with a high-speed rail between NAIA, Makati, and DMIA.
- Rectify FAA and EU aviation downgrades.
- Prioritize international tourism; increase international carrier service through reduced costs and pocket open skies.

The Seven Big W

1 AGRIBUSINESS

5 MANUFACTURING

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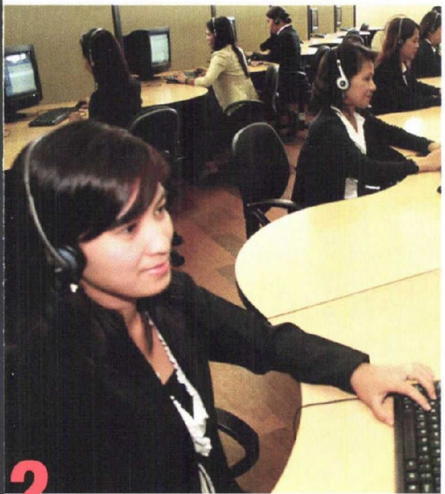
nner Sectors for the country, according to *Arangkada*



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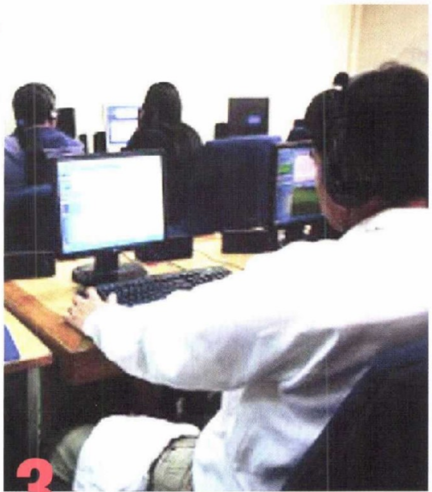

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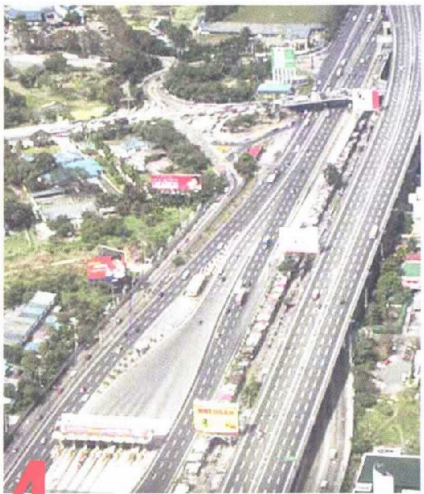

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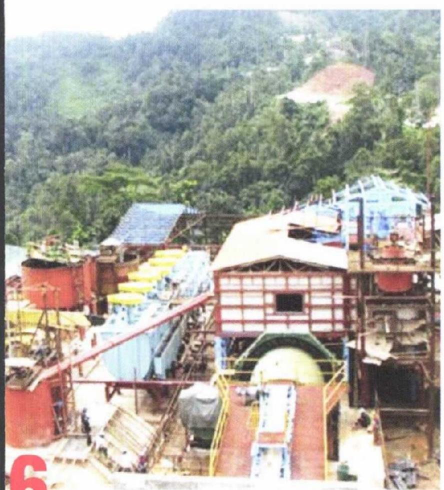
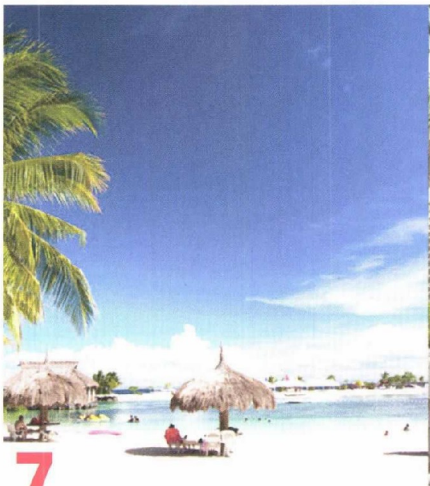


6 MINING



7 TOURISM

MEDICAL

Manufacturing

Working with private industry, the 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; 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; and allow duty and tax-free importation of capital equipment.

Mining

With an estimated $1.4 trillion in reserves, Philippine mining potential ranks fifth in the world, covering an estimated nine million hectares, but less than 2% has mining permits.

A Supreme Court decision in 2005, which liberalized foreign ownership of mining projects, paved the way for the mining industry's rebound.

Arangkada notes that minerals development is a top government priority and has great potential for jobs and revenue. The government has identified over 60 priority PPP projects in mining.

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Government revenue from mining increased 800% from 2002 to P10.4 billion in 2007. However, full development of the sector continues to face significant challenges.

Recommendations:

- Remove redundant approvals and non-performing claims.
- Reduce ECC processing time.
- Develop model best-practice regions. Work closely with indigenous peoples and involve them as partners from project commencement.
- Implement faster release to LGUs of their share of mining taxes paid to the national government.
- 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.
- 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. *Arangkada* estimates that every foreign tourist that spends $1,000, which is turn supports one job for one year.

Travel and tourism is currently the fourth largest source of foreign exchange revenues. International arrivals exceeded three million in 2009, up by over 67% since 2001. Domestic travel doubled in four 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 because visitors stay longer and spend more.

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.

Recommendations:

- Improve international connectivity by eliminating the CCT and GPB tax on foreign airlines; implement 24/7 operations at international airports and seaports.
- 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).
- 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.

Energy

The Philippines is now completing a long transition from a public sector power generation monopoly to a private sector-led "open access" competitive environment with enhanced regulatory oversight.

However, 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.

Arangkada urges the Department of Energy to formulate programs such as credit enhancements, guarantees and incentives to reduce merchant plant risk, which most lenders do not accept in financing new power plants.

Other recommendations for the power sector:

- 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.

Rail service

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.

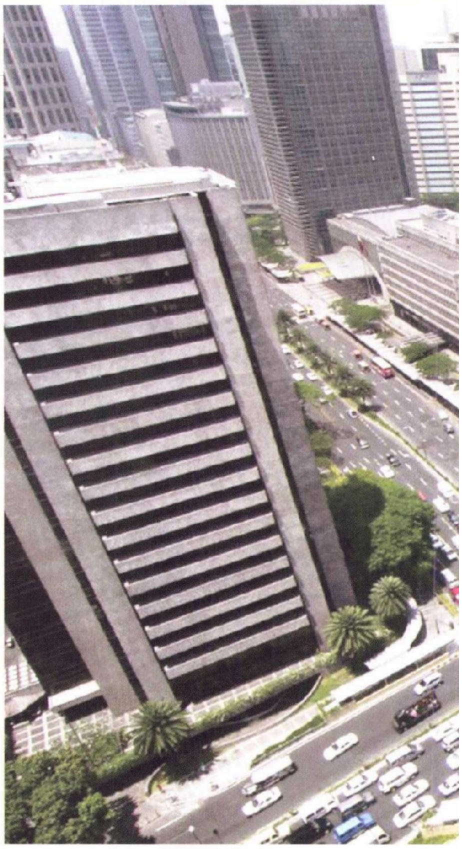
Three light rail lines are located in Metro Manila. New lines, while planned, inexcusably take many years to implement. One vital new line is undergoing financing. As with roads, this is too little, too slow.

Arangkada says major road and rail projects which the government decides to fund as PPPs should be bid out competitively and evaluated and awarded transparently; unsolicited proposals should be minimized.

The report also proposed a single light rail agency for Metro Manila.

Telecom

On the plus side, *Arangkada* acknowledges that reforms in the telecommunications sector have 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," the report relates.

For further improvements in the telecom sector, *Arangkada* recommends the following:

- 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 road map 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.
- 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.

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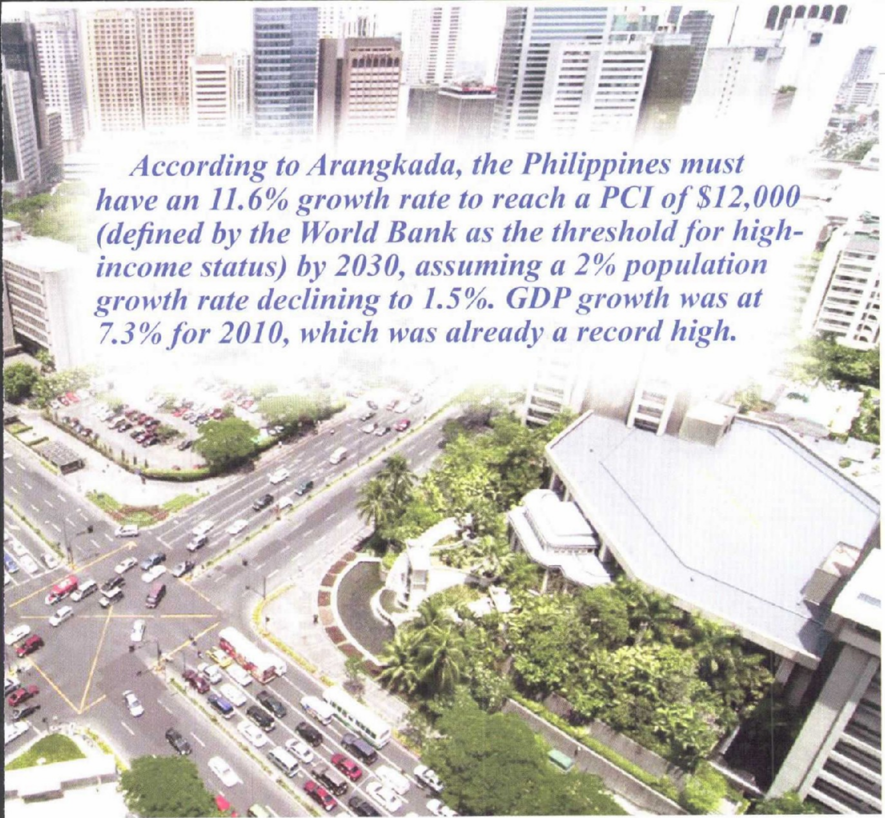

Water

Prospective investors in the water sector note the lack of an economic regulator and the inadequate capacity of the resource regulator. This is significant because the water supply situation in Metro Manila and eight other urban centers has been described as critical.

Recommendations:

- 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.

The *Arangkada* report was submitted to President Aquino last December. It was signed by the presidents of the seven chambers—Austen Chamberlain (American Chamber of Commerce of the Philippines), Julian Payne (Canadian Chamber of Commerce of the Philippines), Nobuya Ichiki (Japanese Chamber of Commerce & Industry of the Philippines), John Casey (Australian-New Zealand Chamber of Commerce of the Philippines), Hubert D'Aboville (European Chamber of Commerce of the Philippines), Edward Chang (Korean Chamber of Commerceof the Philippines) and Shameem Qurashi (Philippine Association of Multinational Companies Regional Headquarters).

Creating a bright future

"*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 ninth by 2030," the report's executive summary states.

"*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."

Slow income growth

According to the report, the Philippines' per capita income (PCI) barely grew during the 1980s and 1990s, with boom-bust cycles triggered by political events and high population growth. 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.

Of the ASEAN-6 (Indonesia, Malaysia, Thailand, Singapore, Vietnam and the Philippines), for the past five decades, the Philippines had the lowest GDP and PCI growth.

Since 1999 through mid-2010, real GDP growth averaged 4.6%, raising PCI from $1,019 to $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, however, 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.

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.

According to *Arangkada*, the Philippines must have an 11.6% growth rate to reach a PCI of $12,000 (defined by the World Bank as the threshold for high-income status) 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 work force is in the informal sector. The report cites the National Competitiveness Council (NCC) call for an industrial policy to create 15 million "quality" jobs, reducing unemployment to the regional average and ending underemployment.

Inflow of foreign direct investments (FDI) into the Philippines is the weakest among the ASEAN 6. Political instability deterred foreign investment in 1970-89, when net FDI averaged $200 million. Net FDI rose to a $1.4 billion average in 1990-2009, reaching $3 billion in 2006 and 2007.

From 1970-2009 the Philippines received $32 billion in FDI, but Indonesia, Malaysia and Thailand each received two to three times as much. Over the last decade, the Philippines received only 4.5% of total FDI of the ASEAN 6.

Philippine commodity exports reached a record high of $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 $8 billion in 2010 – could more than double to $20 billion by 2015.

— *Nick Legaspi*