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STRATEGIC THINKING for Robust and Inclusive Growth in the Philippines

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IN THIS ISSUE...

Economic growth in the country has not been as effective in reducing poverty. The ADB report found that for every 1% growth in GDP, poverty incidence has gone down by an average of 1.5% across the world and 2% within Asia. In contrast, poverty incidence in the Philippines had actually risen since 2003, a time when the economy is thought to have grown very well. According to the World Bank, poverty worsened from 2003 to 2009— an increase in the absolute number of poor people (an additional 3.4 million) as well as an increase in the percentage of poor people (from 24.9 % to 26.5% of total population). In short, not only is the country's growth record dismal. Its capacity to share the benefits of growth is also deplorable.

STRATEGIC THINKING:

Robust & Inclusive Growth for the Philippines

The country was the first republic in Asia, having fired the first shots against the Western colonialists. Filipino entrepreneurs established the first airline company—also in Asia, even ahead of Japan Air Lines. In the golden age of Philippine industry and manufacturing in the 1950s, the country was acknowledged as second only to Japan in terms of economic development; and the Northeast Asian NICs ('newly-industrializing-countries' such as South Korea, Taiwan, Hong Kong, and Singapore) of the 1970s and 1980s were without dispute considered 'back-waters' at the time. It goes without saying that the newer and more recent Asian economic stars such as—Malaysia, Thailand, the People's Republic of China (PRC), the Socialist Republic of Vietnam (SRV), and India—were considered the continent's rice paddies, mangrove swamps, and heavily-forested boondocks.

Why have the Philippines languished as a lower middle income country (LMIC) in recent decades after a trailblazing and pioneering start?

Why is the Philippines backward compared to our neighbors in Asia? Why was the country overtaken by the region's previous laggards?

Is this the classic case of *ningas kugon* (short-lived enthusiasm)?

Is the phenomenon indisputable evidence that Filipinos unfortunately are flashy starters but are not steady sloggers and great finishers?

Or is it because of the proverbial katamaran (sloth or laziness) induced by the hot weather and extremely-rich natural resources?

These were the common-place explanations for the country's backwardness at an earlier time. As backwardness persisted into politico-economic crises during the martial and post-martial law periods, additional explanations included graft & corruption, colonial mentality, US imperialism, 'dirty' politics or just 'too much politics'.

To trained and seasoned political economists, the blame put on politics was first puzzling and soon became a laughable matter!

Manila in the 50's

First of all, what is 'clean' politics?

When is politics 'just enough' and not 'too much'?

Perhaps, it is indeed a problem of politics with adjectives and other qualifiers. Politics—whether dirty or clean, excessive or just adequate—is an inevitable process of human existence and therefore, a ubiquitous aspect of any human society.

Including, of course, Philippine society!

Corruption, politics, and essentialised national traits such as sloth (*katamaran*) and *ningas kugon* obviously cannot adequately explain why the country is currently at the tail-end of the Asian race. As a background, the country's economic growth performance had been moderate and uneven and well below the post-war growth rates of several high performing Asian economies [such as the East Asian NICs and the ASEAN-3]. In a report written for the Asian Development Bank (ADB), former Economic Planning Secretary Cielito Habito noted that while East Asian economies averaged annual gross domestic product (GDP) growth rates from 3.6 % to 6.0% from 1960 to 2008, the Philippines only managed an annual average increase of 1.4%. With population still increasing at more than 2 percent per year, real per-capita incomes have risen only by about 20 percent from 1981 to 2009.

Mendoza and Tan (2001) established that Philippine total factor productivity (TFP) had diminished steadily since the establishment of the post-war 3rd Philippine Republic in July 4, 1946 after peaking in the late 1940s and the early 50s. After the so-called 'Golden Age', productivity has gone down steadily such that Asia's laggards overtook the Philippine 'idol' one after the other.

Economic growth in the country has not been as effective in reducing poverty. The ADB report found that for every 1% growth in GDP, poverty incidence has gone down by an average of 1.5% across the world and 2% within Asia. In contrast, poverty incidence in the Philippines had actually risen since 2003, a time when the economy is thought to have grown very well. According to the World Bank, poverty worsened from 2003 to 2009—an increase in the absolute number of poor people (an additional 3.4 million) as well as an increase in the percentage of poor people (from 24.9 % to 26.5% of total population). In short, not only is the country's growth record dismal. Its capacity to share the benefits of growth is also deplorable.

First, South Korea, Taiwan, and Singapore—all got their acts together in the 1970s. Slater et al. (2009) offers a novel explanation for the NEA-NICs and coined the term 'systemic vulnerability'. According to this explanation, the three faced existential threats (from North Korea, Red China, and Singapore's expulsion from the Federation of Malaysia, respectively) and suffered from poor natural resource endowments. The ruling elites of all three countries had to consolidate their home fronts by 'buying' broader political support. The South Korean and Guomintang elites implemented land reform to win the loyalty of the rural peasantry. It was not particularly difficult for the expatriated Guomintang since they were giving away land in Taiwan that they did not own.

Then, it was the turn of Malaysia and Thailand, and Indonesia (under the dictatorship of Suharto) in the subsequent decade when Japanese capital went southward as the yen appreciated due to the Plaza-Louvre Accords between the United States and Japan. Then the Peoples' Republic of China (PRC) after Mao's death invented 'socialism with Chinese characteristics' and invited foreign investments and overseas Chinese capital into the country's coastal zones even as the Communist Party of China (CPC) retained its political monopoly as the country's ruling party. Cross-Strait relations burgeoned during the 90s to the mutual benefit of the 'two' Chinas notwithstanding their diplomatic issues about which state should sit at the UN Security Council and which 'state' is merely a 'province' of the other. The Chinese 'business model' will be enthusiastically emulated by neighbouring Vietnam after the loss of the Soviet subsidy at the end of the Cold War.

The success stories in Asia suggest that a 'strong state' is necessary. But even such a state is not sufficient. The Chinese state under Mao was without dispute was a strong one as it was able to build its own nuclear bomb and stand up to the Soviet Union, one of the two acknowledged world's super-powers. However, these successes also encouraged the wrong conclusion that authoritarian dictatorships were better than democracies in the incubation of economic miracles. Post-Mao China had to allow 'capitalist' market forces to operate to help modernize its economy.

In the Philippines, policymakers, ordinary voters and all stake-holders must realize that state action and regulation is necessary to create vigorous markets (where there are none or where they are sluggish) and to keep them free and vibrant. The magic of the markets will be fully realized if markets are as free as possible. Left by themselves, however, many markets do not remain free. It takes competent state regulation to keep them free. Thus, our political leaders, in tandem with our economic planners, must abandon the sterile and false 'state vs. market' debate that has occupied academics and policy makers in the near past. The retreat of the state from direct intervention and involvement in the market economy requires new governance and regulatory capacities on the part of this same state.

However important these concerns above (such as the role of the state and markets) are, it is quite clear that the principal development challenge for the Philippines is inclusive growth.

The recently released Philippine Development Plan (2011-2016)[1], observed what was obvious all along—that economic growth in the Philippines had not been inclusive so far. The plan defined 'inclusive growth' as "growth that is rapid enough to matter, given the country's large population, geographical differences and social complexity". It warned correctly that inclusive growth was an ideal that the "country has perenially fallen short of" and that this failure has led to several negative results including "mass misery and marginalization, overseas exodus of skills and talents, political disaffection and alienation", leading finally to threats to the state itself.

To make inclusive growth possible, its elusiveness must be clearly understood. The Philippine Development Plan identifies the country's poor investment record and infrastructure constraints (inefficient transport system and costly but in many areas, unreliable power supply) as among the structural underpinnings of non-inclusive economic growth. The Plan also cites the role played by weak institutions and governance failures; and underscores the disincentives generated by property rights problems, especially in the countryside. Similar to the usual responses of macro-economists to the Philippine dilemma, the country is a backward and poor society blessed with rich natural resources and a friendly and talented people.

This analysis is echoed by multi-lateral financial institutions such as the ADB. In a 2007 study entitled An Agenda for High and Inclusive Growth in the Philippines, four critical factors inhibiting the Philippine economy's growth are identified: (1) tight fiscal situation; (2) inadequate infrastructure, particularly in electricity and transport; (3) weak investor confidence due to governance concerns; and (4) market failures leading to a small and narrow industrial base.

> *All four constraints are ultimately linked to weak governance manifested in various forms. Tight government finances results from poor tax administration, widespread tax evasion, and smuggling. Politicization of the budget process impairs the quality and impact of public expenditures. Lack of infrastructure is in turn a direct result of this. Weak investor confidence results from policy reversals and poor policy implementation and/or enforcement, which undermine the predictability of the policy and regulatory environment. Cumbersome government procedures and requirements significantly raise transaction costs for business, further negating the investment climate. Over-centralized decision-making leads to ill-conceived interventions, often unresponsive to actual local needs. Regulatory capture fosters monopolistic tendencies that lead to narrow benefits and higher costs in key industries, thereby undermining competitiveness in downstream economic activities and leading to the small and narrow industrial base. The economic reform agenda must thus be underpinned by governance and institutional reforms aimed at restoring the overall level of public trust in government, lack of which has abetted low tax compliance, inhibited investment, and ultimately stifled economic growth.*[2]

Indeed, the corrosive effect of weak institutions and governance failures on investments must be recognized. The country continues to suffer from a reputation of having an inefficient bureaucracy, excessive red tape, and widespread corruption. In the 2011 Doing Business ranking, the Philippines placed 156 out of 183 countries.

The Philippine Development Plan argues that a recapitulation is helpful not only to understand the problem but to know how to achieve inclusive growth. To recapitulate: inclusive growth is elusive because growth is low on average and because benefits of such growth bypass the country's poor. The poor also cannot cash in on growth due to the low level of human capital development.

Following such a succinct analysis, the current Aquino government proposes to achieve inclusive growth through these strategies:

- Massive investment in physical infrastructure
- Transparent and responsive governance
- Human capital development
- Job creation/employment

generation

These principal strategies are to be complemented by programs that will ensure macroeconomic soundness, ecological integrity, and an end to armed internal conflict.

- Broad targets of President Aquino's economic development plan include:

- Gross domestic product (GDP) growth rate of 7-8% per year during the plan period (this implies a tripling of per capita income to $5000 in two decades)

- Generation of 1 million jobs (net) per year (contingent on completion of agrarian reform and resolution of property rights issues in agriculture)

- Reduction of poverty incidence (by half) from 33.1% in 1991 to 16.6% in 2015 (partly through cash transfer programs)

In assessing the chances of these targets being met, performance indicators should be examined. A key area to be monitored would be investments as they fuel economic growth. A mid-term report of the World Bank entitled Generating More Inclusive Growth reports a robust trend for investments.

> *Investment is projected to continue strengthening in 2011 and onwards. As a ratio of Gross Domestic Product (GDP), investment is projected to rise from 20.5 percent in 2010 to 21.5 percent in 2011 in part due to improved medium-term economic prospects. While the investment-to-GDP ratio is higher with the revised and rebased GDP, that ratio remains at a relatively low level in the region and has been declining since 2003. Foreign investments have also been persistently modest, both in relation to GDP or total investment, but also as a proportion of the pool of FDI in the region. The government's ongoing Public-Private Partnership (PPP) program aims to address the low level of investment and boost potential growth as it would relieve key infrastructure bottlenecks and spearhead private investment. The good governance practices introduced in the 2011 budget contribute towards improving investor confidence. While business sentiment remains positive as of Q2 2011, the rise in commodity prices, geopolitical tensions in the MENA and the disaster in Japan dented the confidence of both consumers and businesses.*[3]

What are offered in this brief are the responses of a political economist. Such inefficiencies exist and persist because elites want them to continue; because their dominance over the country's politics and economy is maintained by these inefficiencies. Monopoly-control over political and economic 'markets' are crucial to elite rule in the Philippines, notwithstanding the democratic integument re-introduced in February 1986.
The principal flaw in the Philippine polity is the existence of a weak state that is, in turn, the object of competition among various elite fractions at various levels of governance—from national to the lowest local level. More perceptive Philippine watchers agree that the nature and character of the country's political economy will account for much of the reasons why it failed to develop despite a promising start in the late 40s and 50s. A good number of economists have pointed to the inappropriateness of economic policies adopted over the decades as the main culprit. The greater task remains: why were these erroneous and inappropriate policies adopted in the first place, especially since they were clearly inefficient?

Various interpretations of Philippine political economy (McCoy 1994; Hutchcroft 1998; and Sidel 1995) share a common emphasis on the characteristics determining the likelihood of the 'capture' of the state and its instrumentalities (not to mention its treasury) by private-regarding interests based on political clans and economic elite groups. Notwithstanding a certain amount of dissatisfaction and subsequent amendments to the theoretical model, most views have developed from an earlier tradition in Philippine political literature that came to be known as the 'factional patron-client' model of Philippine politics (e.g., Lande 1965). In this reading, the ruling elite is seen as being di-

vided into various factions formed out of historical alliances based on kinship and patronage. Factions are thought to be based on the political and economic power of local, meaning sub-national, elites (referring originally to landed interests). The resulting patron-client relationships cut across class lines; allied local interests and influences were then successfully consolidated upwards and ultimate found their expression in political factions contending periodically for direct control of government at the peak.

During the episode of 'centralizing authoritarianism' under Marcos from 1972 to 1986, the power of sub-national interests was weakened with the suppression of Congress and regular elections, which had served as the traditional channels for their expression. The post-dictatorship period beginning in 1986 is broadly regarded as a return to the previous era, although recent changes in economic structure, demography, culture, and the occurrence of economic crises as well as the growth of new social movements and so-called 'civil society' suggested that clan-based patron client relations (based largely on the system of large land-holdings) had been weakened. However, there is basis to conclude that even if weakened, patronage relations based on new sources of wealth and power at all levels have emerged over the last three decades, thanks to changes wrought to the political economy by increased integration into the global production networks, significant demographic changes, and shifts in land-use patterns.

The intensity of political contests in the Philippines stems from the fact that the government disposes a significant amount of resources and exercises discretion over a wide sphere. The implicit goal of elite struggles is control of the state's machinery and resources to skew their deployment in favor of special interests. Powerful incentives then work to persuade incumbents to retain power indefinitely in order to protect such interests. Conversely, turnovers, whether electoral contests or more fundamental challenges to legitimacy such as attempted coups or 'People Power'—may be viewed as chances to attain or to retain this power.

The intensity of these struggles nonetheless hides a basic unity amongst all competing elite fractions regarding their collective control of the polity. From 1946 to 1972, the unwritten rule was alternation of competing elites mediated through regular elections. The rule was broken by Marcosian authoritarianism but was restored and reinforced through the single-presidential-term rule by the 1987 Constitution. Competing elites have widened their political repertoire in capturing governmental control to include extra-ordinary politics (i.e. 'People Power') as manifested by the two EDSAs in a single year (2001) and the extra-constitutional challenges against the unpopular President Gloria Macapagal-Arroyo. Knowing however that 'EDSAs' may be likened to 'genies released from the bottle' or 'toothpaste squeezed from tubes', all elite competitors sought to douse and redirect popular political activism into regular politics when the limited objective of ousting the 'INs' had been achieved (as in EDSA 2) or to channel it to electoral politics when the 'ouster' objective was frustrated (as in EDSA 3).

Institutions and governance have taken greater salience in the development discourse, not because they were not important before but because of a belated recognition of their importance. Indeed corruption in general leads to lower investment levels and poorer economic growth records. However, some qualifications on this issue must be made. Similar (if not worse) levels of corruption and rent-seeking in other Asian countries have not stopped them from advancing up the development ladder. Again, the key variable here is state strength and competence. In South Korea, for instance, the state assigned rents (in the form of state-provided credits and protectionist trade barriers) to the chaebols instead of allowing the latter to engage in wasteful rent-seeking.
In return for such assistance from the South Korean state,

the chaebols adhered to a strategic industrial plan. To merit continued assistance, the chaebols had to succeed in an arena that cannot be controlled even by the South Korean state—the international export market. The submission to an impartial and objective market test is what was lacking in the Philippines—both during the 50s import-substitution-industrialization period and the dictatorship when Marcos sought to emulate the South Korean experience. In the latter episode, Marcos even decided to throw good money after bad when failed crony enterprises were bailed out by government financial institutions in the early 80s following the Dewey Dee financial scandal.

In the post-dictatorship period when democratic processes (including elections) were restored, corruption was and is the convenient and cynical issue-weapon of the 'OUTs' against the 'INs' in their bid to capture governmental control either through elections or extra-ordinary politics. This is a throwback to the pre-1972 polity. As in that past period, the 'OUTs' who become the 'INs' would cynically 'draw and drink from the public trough' providing similar ammunitions for the new 'OUTs' against them in the next electoral cycle. Unless this cynical cycle is broken, the political discourse in the country will resemble a broken record playing the same song endlessly.

Radical critics have asserted that the Philippine polity has not been responsive to the needs and interests of the under-classes. It could be argued that it is not even responsive to the collective interest of the capitalists themselves. Elite struggles and corruption have produced an unstable ('weather-weather') politics where elementary ground rules necessary for capital accumulation are either shaky or non-existent. In the country today, property rights are insecure or unstable, contracts are not inviolable, and the line between public and private property is unclear.

It was earlier noted that while the country grew since 2003, the benefits of such

growth were not shared with the poor. In fact, poverty incidence worsened during the growth years. The conditional cash transfer program of the Aquino government was designed to alleviate the short-term hardship of the recipients. One of the conditionalities is that the cash transfers continue as long as the children of the recipients are kept in school. In this sense, the program has both social alleviation and human capital development components. By end of 2011, the program is budgeted to cover 60% of the poor. Be that as it may, it is clear that the poverty reducing part of the program (enhancing the human capital of the poor's children so as to break inter-generational poverty linkages) will take time to be fully effective.

Of course, any government that embarks on a program of reforms (even one that seeks to achieve inclusive growth) must ensure adequacy of resources. The Aquino economic plan targets an increase in revenues of 4% of GDP from 2010 to 2016. The World Bank opines that improved tax efficiency, significantly higher equity and progressivity, and simplification of the tax system drive the revenue mobilization effort. This year, the Bureau of Internal Revenue (BIR) filed (test) tax evasion cases against several prominent professionals to remedy the situation of gross professional income understatement and payment. This is obviously an effort at enhancing equity and progressivity.

Nonetheless, improvements in governance and institutional arrangements will benefit both capital (domestic and foreign) and a broad coalition of domestic classes and interests (including the marginalized and powerless). A (strong) state that can protect property rights and yet undertake asset reform (for market-broadening purposes), secure a market environment friendly to profit-making (but not to rent-seeking), ensure compliance with electoral laws and fairly-honest elections, and provide police protection to its citizenry on an impartial basis will be welcome to all these parties.

However, one must recognize

that a counterpart coalition of foreign and domestic interests is keen to keep the Philippine state apparatus as weak and incompetent as possible. These include the grafters, rent-seekers, influence-peddlers, and the hoodlums in robes, business suits and uniforms. A particular concern is the syndicates that have transformed the country into one of the region's most important sources/ manufacturers of illegal drugs (particularly shabu) in recent decades. It is quite clear therefore that the building of a strong state that could help build genuine competitive capitalism in the Philippines will be the result of a grand and protracted political struggle.

In this grand process, foreign capitalists who want to operate in an even playing field will be our natural allies. In effect, foreign investments in industries and economic sectors that currently are monopolized ranging from retail banking to mobile telephony to IT hardware are welcomed. More particularly, for foreign capital to assist in making Philippine economic growth become inclusive, joint ventures and partnerships between foreign capital and medium and small-scale industries and firms, will have to be encouraged. While transaction-costs considerations logically push foreign capitalists to partner with their big local capitalists, they should not rule out other 'win-win' combinations apart from the usual 'big-big' alliances. Perhaps, the currently-preferred PPP-modalities may be tweaked such that the Philippine government or its instrumentalities can help organize and train small and medium-scale entrepreneurs for partnership with foreign counterparts.

In its latest report on the country's economic prospects, the World Bank believes that the Philippines may have moved to a new norm—a more robust growth. It also acknowledges that the pressing challenges are indeed to ensure that the growth that is to come is inclusive. There is optimism that the said objective will be met given the dismal record of the previous government. However, there is also some unease that said optimism is actually a masqueraded wish. The task of the current administration is to allay such misgivings.

What this paper suggests are areas where the current administration must initially focus on.

In order to achieve the expected inclusive growth, as laid out in the Philippine Development Plan, the key is to improve both local and foreign investor confidence in the country. It has been repeatedly explained that for a free and vibrant economy to succeed, a strong state is needed. This is the kind of state that is characterized by political stability, bureaucratic transparency and consistency. At the same time, to attract investors would mean that the economy is ready for these investments. This pertains to not only policies, regulations involved but also needed infrastructure that would make doing business in the country less cumbersome.

Especially for a lower middle income country, a developing economy such as the Philippines, investments in infrastructure are apparently necessary to foster needed growth and development. Infrastructure is essential in a country's development primarily for connectivity and accessibility. These two are likewise factors to achieve inclusive growth, the main theme of this paper. Hence to develop better infrastructure would mean getting close to achieving sought-after inclusive growth. A timely example is the centerpiece program of the current administration, the Public-Private Partnership (PPP) projects for big-ticket infrastructure projects such as airports and road development projects, for example. Further, extensive and efficient infrastructure is critical for the following reasons:

a. It ensures effective functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in a particular instance.

b. It reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions.

c. It significantly impacts economic growth and reduce income inequalities and poverty in a variety of ways.

Uncertainty of the global economy, mainly affected by the

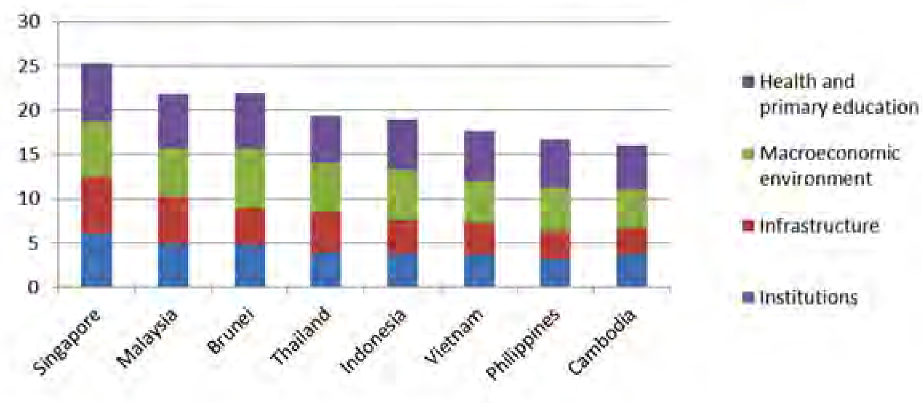
Table 1: Global Competitiveness Index Rankings 2011-2011
Of Southeast Asian Economies

Country/Economy	GCI 2011-2012		GCI 2010-2011 rank
	Rank/142	Score	
Singapore	2	5.63	3
Malaysia	21	5.08	26
Brunei	28	4.78	28
Thailand	39	4.52	38
Indonesia	46	4.38	44
Vietnam	65	4.24	59
Philippines	75	4.08	85
Cambodia	97	3.85	109

Source (Ibid)

Table 1: Global Competitiveness Index Rankings 2011-2012 Of Southeast Asian Economies

Graph 1: Global Competitiveness Index Rankings 2011-2011
Of Southeast Asian Economies In Terms of Institutions, Infrastructure, Macroeconomic Environment and Health and Primary Education



Source (Ibid)

Graph 1: Global Competitiveness Index Rankings 2011-2012 Of Southeast Asian Economies In Terms of Institutions, Infrastructure, Macroeconomic Environment and Health and Primary Education

devastating earthquake in Japan and sustainability of its debt together with Europe and the United States, undermines investor and business confidence over the economic outlook in these countries. Thus, explaining why businesses are keen on investing in developing economies that has so much untapped potential such as the Philippines. But before capital can be injected in the economy to spur growth, provide employment for the people, investors need to be assured that their businesses will grow and be protected. Security of property, clarity and consistency of rules or predictability, strong leadership and direction and more broadly, good governance are key factors to improve investor and business confidence.

According to the Global Competitiveness Report 2011-2012[4], infrastructure is one of the basic requirements for a competitive economy. While investments on infrastructure as already mentioned are a good opportunity for investors, this also has long-term benefits. In emerging markets, high growth rates provide a favorable environment for enhancing competitiveness through structural reforms and growth-enhancing investments in order to make economic development more sustainable.

The table shows that the Philippines is not economically competitive relative to its Asian neighbors. Meanwhile, out of 142 countries in the Global Competitiveness rankings, Singapore has moved up by one place to 2nd position, maintaining the lead among Southeast Asian economies.

Moreover, Singapore, Malaysia and Thailand are the best in terms of infrastructure. Philippines having improved by ten notches though is still far behind in terms of its competitiveness when it comes to these pillars. Although it has to be acknowledged that this is one of the largest improvements in this year's ranking. The country is shown to have improved on its macroeconomic environment. On the other hand, there are still challenges that have to be addressed. In particular, the country is markedly the lowest when it comes to the countries' institutions and only fared a little better than Cambodia when it comes to infrastructure, foundations of any competitive economy.

It is stated that "the quality of the country's public institutions continues to be assessed as poor: the Philippines ranks beyond the 100 mark on each of the 16 related indicators. Issues of corruption and physical security appear particularly acute (127th and 117th, respectively). The state of its infrastructure is improving marginally, but not nearly fast enough to meet the needs of the business sector. The country ranks a mediocre 113th for the overall state of its infrastructure, with particularly low marks for the quality of its seaport (123rd) and airport infrastructure (115th). Finally, despite an enrollment rate of around 90 percent, primary education is characterized by low-quality standards (110th). Then again, the macroeconomic situation of the Philippines is more positive.

The country is up 14 places to 54th with slightly lower public deficit and debt, an improved country credit rating, and inflation that remains under control. The Philippines also continues to have a vast opportunity for improvement. The country ranks a good 57th in the business sophistication category, due to a large quantity of local suppliers, the existence of numerous and well-developed clusters, and an increased presence of Filipino businesses in the higher segments of the value chain. Lastly, the sheer size of the domestic market (36th) confers a notable competitive advantage”.[5]

The country has a lot to learn from its neighbors when it comes to meeting the need for infrastructures. As has been expounded on in this paper, developing infrastructure will aid in the challenge of economic inequality in the country. It will also make businesses in the country operate smoothly and efficiently which will likewise contribute to improving investor confidence.

Table 2: Global Competitiveness Index Of The Philippines In Terms Of Infrastructure

Infrastructure	Value	Rank/142
Quality of overall infrastructure	3.4	113
Quality of roads	3.1	100
Quality of railroad infrastructure	1.7	101
Quality of port infrastructure	3.0	123
Quality of air transport infrastructure	3.6	115
Available airline seat kms/week, millions	867.0	28
Quality of electricity supply	3.4	104
Fixed telephone lines/100 pop.	7.3	103
Mobile telephone subscriptions/100 pop.	85.7	92

Source (Ibid)

Table 2: Global Competitiveness Index Of The Philippines In Terms Of Infrastructure (2011-2012)

The table shows that economic freedom in the country has been decreasing especially in the last couple of years. According to the recently released report, there are several theoretical reasons why institutions and policies guaranteeing economic freedom have the capacity to provide growth-enhancing incentives: “they promote a high return on productive efforts through low taxation, an independent legal system, and the protection of private property; they enable talent to be allocated where it generates the highest value; they foster a dynamic, experimentally organized economy in which a large amount of business trial and error and competition among different players can take place because regulations and government enterprises are few; they facilitate predictable and rational decision making by means of a low and stable inflation rate; and they promote the flow of goods, capital, labor, and services to where preference satisfaction and returns are the highest”.[7] Countries that enjoy high levels of economic freedom are those that are associated with higher levels of economic development. It also seems that the level of economic freedom contributes to improving investor confidence. Economic freedom involves the quality of governance, security of property rights and regulation.

“Civil and political freedom are expected to facilitate the functioning of the market economy by developing a more predictable and stable institutional framework. This is for engaging in productive transactions, including better protection of property rights. This has a positive influence on economic growth through higher savings and investment rates and through lower rents associated with corruption, government controls, and the lack of respect for the rule of law. Also, these liberties are usually conducive to faster economic growth because of the need for political legitimacy on the part

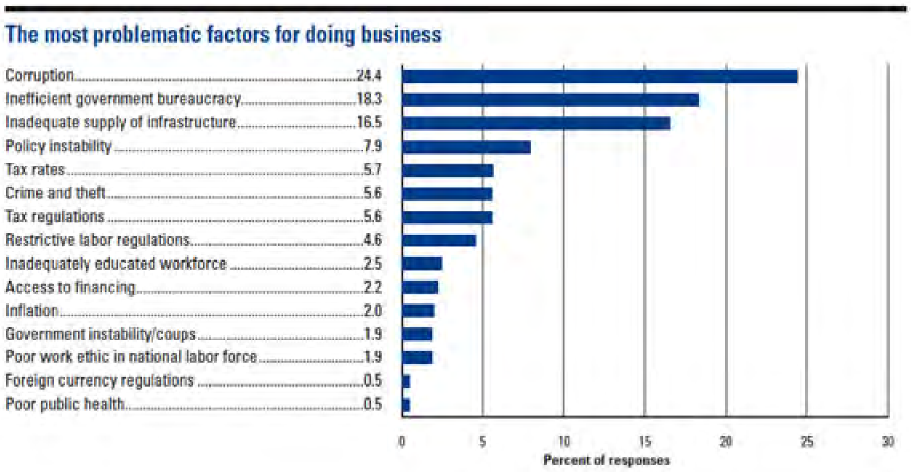
Table 3: Economic Freedom Ranking of the Philippines

Source[6]

Chain-Linked	1980 Rating (Rank)	1985 Rating (Rank)	1990 Rating (Rank)	1995 Rating (Rank)	2000 Rating (Rank)	2005 Rating (Rank)	2008 Rating (Rank)	2009 Rating (Rank)
Summary Rating (Rank) ➤	**5.42** (56)	**5.11** (68)	**5.85** (48)	**7.24** (24)	**6.98** (41)	**7.09** (45)	**6.77** (65)	**6.45** (80)
Area 1. Size of Government	6.49 (19)	6.75 (12)	8.00 (7)	8.20 (10)	6.87 (38)	8.61 (8)	8.06 (13)	7.77 (16)
Area 2. Legal Structure and Security of Property Rights	3.19 (68)	2.57 (99)	2.55 (102)	4.82 (85)	4.65 (81)	4.89 (85)	4.64 (89)	4.57 (91)
Area 3. Access to Sound Money	6.10 (60)	4.59 (95)	5.76 (80)	8.80 (35)	9.23 (33)	7.94 (71)	7.78 (73)	6.79 (97)
Area 4. Freedom to Trade Internationally	6.29 (36)	6.11 (41)	6.40 (44)	7.66 (25)	7.61 (39)	7.37 (32)	6.70 (69)	6.55 (65)
Area 5. Regulation of Credit, Labor, and Business	5.07 (60)	5.51 (50)	6.48 (24)	6.73 (21)	6.55 (38)	6.63 (56)	6.66 (56)	6.62 (58

Table 3: Economic Freedom Ranking of the Philippines

Graph 2: Most Problematic Factors For Doing Business In The Philippines



Source (Ibid)

Graph 2: Most Problematic Factors For Doing Business In The Philippines

of the government undertaking economic reforms with possible short-term costs, the need for an independent judicial system to carry out a successful economic liberalization, and the fact that respect for property rights is most often achieved in societies where civil liberties and political rights are guaranteed".[8]

Corruption, an inefficient government bureaucracy and an inadequate supply of infrastructure top the list of the Global Competitiveness Report 2011-2012 as the most problematic factors for doing business in the country. This is correlated with the findings of the recently released Economic Freedom Ranking in the World.

It is explained in terms of infrastructure that though there is an adequate number of airline seats which is a contributing factor for the tourism industry, what hinders the growth of the sector is the quality of the country's overall infrastructure particularly port and air transport infrastructure and not number of flights to the country.

The only way long-term investments will find its way into the country would be to improve investor confidence through good governance. In line with findings of the recent Economic Freedom Ranking, government must prove that crusade against graft and corruption in the bureaucracy will have concrete results. Doing business in the Philippines is hampered by the inefficient process and legal and under-the-table fees that businesses have to shell out. It also adds up to the negative perception of investors of the Philippines especially after the legacy of corruption left by the former administration. Having the support and trust of the private sector is a significant advantage that the government can use to attract investments in the country.

Lastly, the country to be made appealing or attractive to investors translates to a more business-friendly environment with clear policies and rules and efficient implementation. What increasing investor confidence calls for is predictability of rules and security for private property. Recurring experiences such as the Ninoy Aquino International Airport (NAIA) 3 deal with Fraport and Philippine International Airport Terminal Corporation should not happen. There needs to be an environment that does not hinder growth of businesses that would likewise translate to development of the society.

Nonetheless, most important factor that has to be considered is the quality of institutions and governance in the country. This is precisely why our other Asian neighbors are way ahead of the Philippines. Businesses are confident they will not be burdened by unnecessary costs that will only go to graft. Efficient bureaucratic processes and clear rules do not hinder how their businesses are run.

> *"Economic freedom leads to more investment, higher per capita incomes, and growth rates. It leads to entrepreneurial business activity; political allocation leads to crony capitalism and political corruption. Government attitudes toward markets and freedoms and the efficiency of its operations are also very important: excessive bureaucracy and red tape, overregulation, corruption, dishonesty in dealing with public contracts, lack of transparency and trustworthiness, and political dependence of the judicial system impose significant economic costs to businesses and slow the process of economic development. In addition, the proper management of public finances is also critical to ensuring trust in the national business environment").*[9]

Finally, investing in infrastructure is a good opportunity for local and foreign investors is not the only slogan that the administration has to sell. It has to provide concrete results or even the perception at the very least that in an uncertain global economy, the Philippines with its untapped potential, inherent competitive advantage particularly of its people and products and efficient bureaucracy, is an environment conducive for businesses. It is an environment wherein both investors and most especially, the people can benefit from. The issue of Charter Change has resurfaced still with opposition; however, economic provisions are seen to only be amended. Shortening the negative list, which specifies investments and their maximum allowed foreign ownership, are recently reported to be considered by the country's economic managers to attract foreign investors. However, these measures will not be sufficient without institutional improvements.

Elected leadership must firmly hold the line against vested interests and political machineries that are poised to advance their position to the grave detriment of the majority. A strong state, after all, requires strong leadership that upholds national interest and development above anything else.

The Integrity Initiative of the private sector, spearheaded by Makati Business Club and European Chamber of Commerce of the Philippines, with the government, is an initial step towards eradicating corruption in doing business in the country. This initiative is committed "to shun bribery in any form, maintain a code of conduct for employees to pursue ethical business practices, and implement internal systems that will prevent any unethical conduct within their firms."[10] Transparent and appropriate financial reporting mechanisms will be institutionalized. This will strengthen "integrity pacts" that will be signed with government agencies and other businesses, especially in the area of procurement. Eventually, government agencies will have to commit to accept only bids coming from these "integrity-certified" companies.

Second, local governments must be strengthened. The essence of good governance is to involve all sectors in the sectors. In involving local government units (LGUs) that basically provides business permits that operate in their respective areas, fight against corruption is made stronger. There will be efficiency in decision-making and at the same time, ensuring that only businesses that only have clean records will be allowed to operate. LGUs must also be involved in these integrity pacts with investors and businesses and agencies.

Third, transparency and accountability must be furthered. Information and feed-back mechanisms in government agencies and even in LGUs must be set up. Efforts of the national government to eradicate corruption must likewise be aligned with the actions pursued by LGUs. In the end, improving investor confidence does not only rely on economic policies that are put in place but that these are properly and efficiently implemented. Then the Philippines can really be, "Open for Business".

ENDNOTES:

[1] Philippine Development Plan 2011-2016 was formulated in accordance with the Constitutional provision of Section 9, Article VII, directing the Government's economic and planning agency to "implement a continuing integrated and coordinated programs and policies for national development." The Plan centers on five key strategies. First is to boost competitiveness in the productive sectors to generate massive employment. Second is to improve access to financing to address the evolving needs of a diverse public. Third is to invest massively in infrastructure. Fourth is to promote transparent and responsive governance, which is emphasized in all the chapters. And fifth, is to develop human resources through improved social services and protection.

[2] Asian Development Bank. (2010). An Agenda For High and Inclusive Growth in the Philippines. Retrieved from: www.adb.org

[3] The Philippines Quarterly Update provides an update on key economic developments and policies over the past three months. It also presents findings from recent World Bank work on the Philippines. It places them in a longer-term and global context, and assesses the implications of these developments and other changes in policy for the outlook for the Philippines. Its coverage ranges from the macro-economy to financial markets to indicators of human welfare and development.

[4] World Economic Forum has based its competitiveness analysis on the Global Competitiveness Index (GCI), a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness. Competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be earned by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. In other words, a more competitive economy is one that is likely to grow faster over time. The concept of competitiveness thus involves static and dynamic components: although the productivity of a country determines its ability to sustain a high level of income, it is also one of the central determinants of its returns to investment, which is one of the key factors explaining an economy's growth potential. The index based on 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.

[5] Global Competitiveness Report, Ibid.

[6] The main dimensions of economic freedom generally include the freedom to hold and legally acquire property; the freedom to engage in voluntary transactions, inside or outside a nation's borders; the freedom from government control of the terms on which individuals transact; the freedom from government expropriation of property (for example, by confiscatory taxation or unanticipated inflation); and the freedom to move freely within a country and across international boundaries.

[7] Economic Freedom Ranking in the World, Ibid.

[8] Economic Freedom Ranking in the World, Ibid.

[9] Economic Freedom Ranking in the World, Ibid.

[10] Ho, Abigail. (2011, October 3). PCCI to wage all-out war on corruption. Philippine Daily Inquirer. Retrieved from: www.inquirer.net

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