

# The Philippines

**1. In which areas of structural reforms have the most significant progress been made in your economy in the past five years? Please describe in what way you think the progress has been significant? Any structural reform activity can be included here, and does not necessarily need to be restricted to the five LAISR themes.**

The potential for rapid growth from successful reform is illustrated by the experience of deregulating telecommunications in the 1990s, which not only transformed the industry from single operator dominance to one of competition dynamism and vastly improved service. It has paved the way for vital investments in telecommunications infrastructure, and facilitated the growth of broadband services; e-commerce; e-business; and, offshoring and outsourcing. The offshoring and outsourcing industry has become a significant contributor to economic growth, in terms of services exports and employment. The growth of the BPO industry also spurred the rise of private construction, as it increased demand for office spaces, and fostered the growth of IT hubs in other major cities.

Meanwhile, airport development and the liberalized air transport environment promoted domestic and international travel, with competition encouraging the growth of budget airlines offering cheaper airfares. This led to the development of regional centers and domestic tourism.

The last five years also saw significant reforms in the transport sector, as the government pushed for the development of the nautical highway system and the Roll-On Roll-Off Terminal System (RRTS), the various domestic and international airports, and the rail transport system. This has resulted in significant reductions of transportation costs and travel time. The RORO, in particular, facilitated trade especially for products from Mindanao and the Visayas to reach Luzon, particularly Metro Manila, increased tourism destination access and also increased access for social services.

Laws increasing excise taxes on tobacco and liquor products and establishing a system of rewards and penalties in revenue collection agencies and the expanded value added tax (which reduced the VAT exemption and increased the VAT rate from 10 percent to 12 percent) has helped to increase revenue generation and restore fiscal stability.

A December 2004 Supreme Court decision upheld the constitutionality by the 1995 Mining Act, thereby allowing up to 100 percent of foreign owned companies to invest in large scale exploration, development and utilization of minerals, oil and gas. Although world metal prices continue to fluctuate, this landmark development is seen to make a reality the tapping of the vast mineral reserves of the Philippines when needed, for the exports market and domestic industries; and bring in the expertise and investments from local and foreign investors.

The government is also pushing for energy independence, with the attainment of energy self-sufficiency level of 60 percent by 2010 and beyond, through the increased use of renewable, alternative, and fuel blends in the energy mix. This includes the development of hydropower, wind power, biomass, solar power, geothermal wave, and tidal energy technologies. In 2007, RA 9367 or the Biofuels Law was enacted, requiring blends of biodiesel and bioethanol in diesel and gasoline, respectively. This is expected to ease the pressure and external shocks due

to petroleum price fluctuations, and fulfil RP's efforts in clean development mechanism (CDM).

**2. Describe examples of successful reforms and lessons learned in your economy in implementing structural reforms in the five LAISR areas. Please indicate relevant websites or other reference material, preferably those written in English.**

Reforms to strengthen the financial infrastructure have been implemented. These include aligning domestic banking standards with international best practices to strengthen regulation and supervision of the banking system prescribed under the General Banking Act of 2002. The implementation of the Special Purpose Vehicle Act of 2003 has improved the asset quality of banks and has reduced the problem of assets of the banking system. A credit information system was likewise established to improve the overall availability of credit especially to micro, small and medium-scale enterprises, and provide mechanisms to make credit more cost-effective and reduce the excessive dependence on collateral to secure credit facilities (Republic Act 9510, 2008).

The Securities Regulation Code, meanwhile, prescribed mandatory tender offers, defined listing rules, provided prohibition on insider trading and separation of broker and dealer functions to prevent the exploitation of investors through the sale of unsound or fraudulent securities. A Pre-Need Code was established (RA 9829) in December 2009 to protect plan holders and ensure the viability of the industry. Moreover, a legal and regulatory framework was created to govern real estate investment trust (Republic Act 9856, 2009).

Together with the government procurement law, which redefined procedures in government purchasing, a government Electronic Procurement System has been implemented to create greater transparency, accountability, efficiency and equal opportunity.

The government has also enacted laws designed to curb corruption such as the Anti-Red Tape Act (enacted in 2007). The law aims to improve efficiency in the delivery of government service to the public by reducing bureaucratic red tape, preventing graft and corruption and providing penalties for those caught violating the law.

The regulatory capacity of the Bureau of Food and Drugs (now known as Food and Drug Administration) has been strengthened and rationalized with the enactment of RA 9711 in August 2009. The law provides among others, the establishment of adequate testing laboratories and field offices and upgrading its resource complement.

Documentation procedures have been simplified and export clearances and fees eliminated (Executive Order 554, 2006). In 2009, RA 9853, amending the Customs Brokers Act of 1994 (RA No. 9280) was signed into law. RA No. 9853 amends sections concerning further reduction of procedures, which could lower transaction costs.

*Sources:* Office of the President website for the specific laws: [http://www.neda.gov.ph/plans and reports/MTPDP/Updated MTPDP%202004%20to%202010.pdf](http://www.neda.gov.ph/plans_and_reports/MTPDP/Updated_MTPDP%202004%20to%202010.pdf)

**3. What in your economy's experience are the keys to the success of reform? (e.g. leadership, institutional framework, communication strategy, consultation process) What are the factors, if any, that impeded reform? What lessons can we learn from your experience?**

Leadership has foremost role in making credible development results that translate to lowering of uncertainties (government, business, consumer confidence) and poverty. Improving confidence in governance is top leadership issue especially in light of recent reports placing the Philippines in a precarious position in its perceived anti-corruption efforts. Such governance means consistent policy stance, improved government procedures, minimized regulatory capture and credible anti-corruption measures. Following the global crisis and apparent recovery, effective fiscal management through careful stimulus package exit strategies, tax revenue improvements and containing deficits are current governance challenges.

The government's communications strategy could complement its notable accomplishments through effective advocacy to make known to stakeholders and beneficiaries, what programs and projects are implemented. Seriously taking stakeholders' needs and suggestions, feedback mechanism, criticism management and proactively doing something to international perceptions surveys (e.g. competitiveness, ease of doing business, corruptions perceptions rankings) are examples of a good communications strategies where RP could do more.

Consultation process to effect reforms should go beyond mere consultation steps but through the higher stage of partnership and cooperation. Clear public-private partnership (PPP) is crucial. A case in point on partnership is the formation of the National Competitiveness Council (NCC)<sup>22</sup> in October 2006 as a Public-Private Task Force on Philippine Competitiveness through Executive Order (EO) No. 571, to address the improvement of the economy's competitiveness from the bottom third of competitiveness rankings to the top third by 2010.

**4. What are the impacts, both positive and negative, of the reform on the economy and the flow of trade and investment? Please provide data or statistics where available.**

The economy performed strongly, reaching a 7.1 percent growth in 2007. However, the global rise in commodity prices in 2008, and the global crisis in 2009 undermined gains in previous years, and the economy posted slower growths. Still, communications and business services showed significant improvement in the performance.

From 2005 to 2007, inflows of direct investments to the Philippines were growing briskly on account of several reforms implemented at the onset of the new administration in 2004. Approved investments for that period grew at an average rate of 22 percent, peaking at 54 percent in 2006. Likewise, foreign direct investments (FDI) and net foreign portfolio investments (FPI), as reported in the balance of payments, posted continuous net inflows during the same period. The economy also sustained the net inflow of FDIs in 2008 and 2009, albeit the steep decline of the global economy.

<sup>22</sup> Available in <http://www.dti.gov.ph/dti/index.php?p=483> (last accessed 23 March 2010).

**Table 5. Foreign direct investments (FDI) and net foreign portfolio investments (FPI) in the Philippines**

Year	Approved FDI (billion PhP)	Net FDI (billion US\$)	Net FPI (billion US\$)
2005	231.2	1.9	3.6
2006	357.0	2.9	4.6
2007	385.8	2.9	3.8
2008	182.7	1.5	-4.4
2009	121.8	1.9	1.8

Sources: Updated MTPDP 2004-2010, NSCB, BSP

Note: Net FPI for 2009 is for January-September only.

The improving trend may be partially attributed to the positive effects of different reforms instituted in the past years. In general, the more robust ability of the economy to attract investments from abroad may be broadly traced to the “relative strength of the economy’s underlying macroeconomic fundamentals and economic growth showing resilience amidst the strength in domestic demand”<sup>23</sup>. Moreover, “the positive performance could be attributed to the favorable investment climate during the period with investors citing improved fiscal performance”<sup>24</sup>.

However, there are still lots of rooms for improvement as the Philippines still ranks low in terms of the ease of doing business. From 2008 to 2009, the economy’s rank based on the World Bank-led study further slid to 144 from 141, with particularly low ranks in such aspects as starting a business, getting credit, protecting investors, and closing a business.

On the other hand, if not for the collapse of world trade in late 2008 up to 2009, the economy’s trade performance would have sustained the robust growth demonstrated in the previous years. Between 2005 and 2007, exports and imports of goods and services, increased at an average growth of 12 percent and 9 percent, respectively. In 2006, after consecutive years of trade-in-services deficit, the economy turned into a net service exporter, on account of the surge in receipts from travel and business services. Against the background of the weak global economy in the past two years, trade in services continued to buoy the economy’s external account position, with exports and imports of services staying relatively resilient compared to cross-border transactions involving merchandises. The relative strength of the services sector may be attributed to the intensified government and industry efforts to promote tourism in the Philippines, policies and programs supporting the business services sector (e.g., contact centers), and the competitiveness of human resources in the outsourcing industry. For merchandise trade, the pre-crisis years witnessed continuous growth of electronic exports. Emerging growth drivers like petroleum and mineral products also helped accelerate the rise of exports. Explicit government policies on promoting electronic exports (e.g., privileges in special economic zones and in customs), and more liberal rules on mining operations in the economy (e.g., the affirmation constitutionality of the Mining Act of 1995) supported the robust growth of said commodities. Continuous efforts to improve customs procedures also contributed to the easier facilitation of trading activities.

<sup>23</sup> <http://www.bsp.gov.ph/publications/media.asp?id=2282>

<sup>24</sup> Updated MTPDP 2004-2010

**Table 6. Exports and imports of goods and services in the Philippines**

Year	Exports of Goods and Services (billion US\$)	Growth	Imports of Goods and Services (billion US\$)	Growth
2005	44.8	4.6	53.9	7.2
2006	53.0	18.3	59.6	10.5
2007	59.3	11.9	65.4	9.8
2008	58.4	-1.4	69.9	6.9
2009	33.8	-26.4	39.5	-29.0

Source: BSP

Note: Exports and imports for 2009 are for January - September only.

Recent moves to improve customs procedure have a positive impact on the competitiveness of the economy's trade logistics system. The Philippines' global ranking based on the World Bank's Logistics Performance Index (LPI) improved from 65 (2007) to 44 (2010). The economy's scores in all aspects, namely customs (efficiency of clearance process), infrastructure (quality of trade and transport related infrastructure), international shipments (ease of arranging competitively-priced shipments), logistic competence (quality of logistic services), tracking and tracing (of consignments), and timeliness (in reaching destination within the scheduled or expected time delivery), improved.

**Table 7. The Philippines' global ranking on Logistics Performance Index (LPI)**

	Gobal LPI Ranking	LPI	Customs	Infrastructure	International shipments	Logistics competence	Tracking and tracing	Timeliness
2010	44	3.14	2.67	2.57	3.4	2.95	3.29	3.83
2011	65	2.69	2.64	2.26	2.77	2.65	2.65	3.14

Source: World Bank

**5. In what ways can APEC better promote structural reform in the region? What would be some possible next steps beyond 2010 based on the achievement of the LAISR process?**

By and large, APEC should continue initiatives it has started on structural reform. Further, it should continue to adopt best practices of other institutions, such as the OECD to achieve the LAISR goals.

APEC could complement the global surveillance work of organizations like the IMF, to anticipate crises, bubbles and other negative externalities. Maintenance of a good APEC information and database infrastructure is key.