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Philippine Economic Development: A Turning Point?

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and

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PHILIPPINE ECONOMIC DEVELOPMENT: A TURNING POINT?

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Abstract

Notwithstanding its sometimes negative international image, the Philippine economy has been performing well in recent years. The country is currently experiencing its longest period – five years – of uninterrupted positive per capita economic growth since the 1970s. The key to the recent success is that, since the deep economic and political crisis of 1985-86, the reformers have been able to enact and institutionalize enough major policy victories to satisfy the business community that they are a more or less permanent feature of the country's political economy architecture. Two in particular stand out: an independent and high quality central bank, BSP, ensuring that monetary and exchange rate policy continue to function effectively, and trade policy reform that has resulted in a much more open economy. Against this backdrop, we examine the recent growth record, and link it to macroeconomic management, trade policy, microeconomic reform and governance. We also examine social indicators, drawing attention to the recent and puzzling disconnect between trends in economic growth and poverty, and to the large regional disparities in poverty incidence.

Key words: The Philippines, economic policy, economic reform, poverty.

JEL codes: N15, O53.

PHILIPPINE ECONOMIC DEVELOPMENT: A TURNING POINT?

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(1) Introduction

Notwithstanding its sometimes negative international image, the Philippine economy has been performing well in recent years, better than is commonly recognized. The country is currently experiencing its longest period – five years – of uninterrupted positive per capita economic growth since the 1970s. It seems to have moved on from the ‘two lost decades’, 1983-2003, when there was no net increase in per capita incomes. Business is beginning to insulate itself from the seemingly perennial curse of political machinations souring the commercial environment. That is, business and politics are apparently ‘decoupling’.

The Philippines has an unenviable history of politics nipping promising economic growth trends in the bud, resulting in a volatile development trajectory around a low average growth rate.¹ The country grew quite strongly in the 1970s under Ferdinand Marcos. But this was debt-driven growth, which became unsustainable when the debts came due and political instability set in in the early 1980s. One of Marcos’s enduring contributions to international polemics was the phrase ‘crony capitalism’.

Then, under arguably the country’s most successful president, Fidel Ramos, growth accelerated in the 1990s, until the onset of the Asian economic crisis. This was of course an event outside of Ramos’s control. It had the effect of slowing the economy but, unlike its high-growth neighbours, the Philippines did not experience a deep economic crisis. Ramos was then followed by Joseph Estrada – under the 1987 Constitution, the president is not permitted to serve more than one consecutive term – and political instability and backsliding again set in. Estrada had been under house arrest since his removal in early 2001, but in late 2007 he was pardoned and set free by his successor, the current president, Gloria Macapagal-Arroyo.

The key to the recent success is that, since the deep economic and political crisis of 1985-86, the reformers have been able to enact and institutionalize enough major policy victories to satisfy the business community that they are a more or less permanent feature of the political economy architecture. Two in particular stand out: an independent and high quality central bank, BSP, ensuring that monetary and exchange rate policy continue to function effectively, and trade policy reform that has resulted in a much more open economy. For some of this period, fiscal policy has become more prudent, although it remains hostage to Congressional intrigues. These reforms capitalize on what has always been one of the country’s great strengths, its

¹ For general overviews, see Balisacan and Hill (eds, 2003) and Sicat (2003).

educational advantage. Philippine professional and technical labour, well educated and English-speaking, has always been highly competitive.

The purpose of this paper is to examine the country's recent economic performance, and to relate these outcomes to the policy environment. Unless one believes in good luck or exceptionally favourable international circumstances as the explanators – and neither appears plausible – in recent years, this improved economic performance must be the result of domestic factors that propel economic growth. We examine these factors, focusing on macroeconomic management followed by trade policy, microeconomic reform and governance. Section 2 reviews recent economic performance, including the macroeconomic record. Next in section 3 we investigate microeconomic reform and governance, traditionally the most difficult areas of policy reform. Section 4 presents recent social trends, while in section 5 we summarize our main arguments.

(2) Growth and Macroeconomic Policy

Philippine economic growth in 2007 was 7.3%, the highest for almost 30 years and not far off Asia's high-growth economies. Most major sectors performed well, with services, growing at 8.2%, contributing 56% of the increase. On the demand side, consumption as always was the major engine of growth, contributing 65% of the total. But, encouragingly, investment grew strongly for the first time in a decade, at 9.5%, compared to the anaemic average for 1997-2006 of just 0.8%. Owing to slower global growth, and sharply higher energy and food prices, growth is likely to be more subdued in 2008, perhaps around 5.5%.

Four features of this recent growth performance deserve comment. First, the current economic expansion has been the longest in three decades (see Figure 1). Since 2000, growth has averaged 5.1% per annum, superior to both the two preceding decades. The comparison of average per capita growth rates underlines this point: 2.5% since 2000, compared to 0.3% in the 1990s and -0.8% in the 1980s. There is also evidence to suggest that the underlying 'potential growth rate' is rising, consistent with structural change in the economy.

(Figure 1 about here)

Second, the current growth episode is historically unusual, in that it has not been accompanied by either a fortuitous but temporary improvement in the terms of trade, or by unsustainable macroeconomic imbalances that would presage a balance of payments crisis. That is, unlike for example in the Marcos period, the current growth is occurring against a backdrop of monetary policy stability, relatively strong balance of payments (with remittances playing a major role) and the recently recovered fiscal prudence. Moreover, the growth is being achieved in spite of the continuing decline in the country's terms of trade, as its energy and food import bills mount.

The reform of the central bank, and the monetary policy regime set in place and progressively refined since the early 1990s, is a key factor in this

outcome.² A strategy of inflation targetting combined with a considerably more flexible exchange rate regime has guided Philippine macroeconomic policy through some major domestic and international shocks, with consistently moderate inflation (see Figure 2). In the past decade, these challenges have included the Asian economic crisis and its aftermath, an extra-legislative replacement of a president, a contentious general election, several near coup attempts, terrorist attacks, a major fiscal crisis, a severe loss of international investor confidence, protracted insurgency in the country's south, and a substantial increase in oil and food prices. On each occasion, exchange rate flexibility has essentially provided the shock absorber that has accommodated these events, without derailing growth or triggering a major bout of inflation. This is a key explanation for the Philippines having graduated from its earlier record of boom and bust economic growth. In these earlier periods, balance of payments crises typically resulted from the monetization of large fiscal deficits and an attempt to adhere to an uncompetitive exchange rate, precipitating a general economic slowdown.

(Figure 2 about here)

Third, in contrast to previous growth spurts, the past decade has witnessed positive total factor productivity growth (ADB, 2007).³ This marks a turning point from the long history of negligible or negative growth. The intuition for this outcome is obvious: GDP growth has accelerated, but investment and labour force growth have not. TFP has increased across the major sectors, the fastest growth being recorded in services, reflecting the importance of new internationally oriented services. For example, the Philippines is the second most successful operator of BPO (business process outsourcing) facilities in Asia after India, from call centres to a range of IT services. More generally, the increased TFP growth constitutes the reform dividend from the 1990s: trade liberalization and greater competition in non-tradables sectors (eg, telecommunications, financial services).

Fourth, international remittances have made a significant contribution to the recent growth performance. These hit record levels in 2007, about \$17 billion (including an estimated \$3 billion of informal remittances), increasing by 50% since just 2004. Remittances have kept the current account in strong surplus (about 5% of GDP), they partly explain the strength of the peso in 2007, and they now account for approximately 10% of household income, in the process pushing some above the poverty line. International remittances to the Philippines are the fourth highest in the developing world, after China, India and Mexico, all much larger economies. They are explained by the country's education advantage as noted above, as well as increasingly open international labour markets. There is of course a vigorous debate about the merits of such a large overseas Filipino workforce, OFWs as they are referred to locally. With international employment a ready option for many Filipinos, it may weaken the resolve of the nation's political leadership to push ahead with difficult policy reform. In the longer term, a key factor in the social cost-benefit

² The most sophisticated analysis of the current exchange rate and monetary policy regime is provided by Gochoco-Bautista and Canlas (2003).

³ That is, the residual of GDP growth, after deducting the growth of capital and labour inputs.

analysis of these remittances is whether the migration is permanent or temporary, and here the evidence is thus far inconclusive. But they are a critical determinant of household welfare, the benefits are reasonably widely distributed across all decile groups, and it has enabled at least four million Filipinos (about 5% of the population) to move out of poverty. Figure 3 provides estimates of these impacts, as indicated by the number of people who have moved across income groups as a result of remittances. That is, the data suggest that 0.9 million people moved out of the lowest income group to the second lowest income group, 1 million people moved out of the lowest to the third lowest (middle income), 1.1 million people moved out of the lowest to the second highest, and 1.3 million people moved out of the lowest group to the highest group.⁴

(Figure 3 about here)

The behaviour of investment in the Philippines since the Asian financial crisis has been a puzzle. After rapidly expanding in the first half of the 1990s, investment growth slumped following the crisis and has been slow to recover, a characteristic shared with all the other crisis-hit countries since 1998. The Philippines was investing the equivalent of 23% of its GDP before the crisis but by 2006 this had declined to just 14.5%. The decline in investment occurred in both the private and public sectors. However, investment spending picked up strongly in 2007 for the first time in ten years, growing by 11.8%, well above the average annual growth rate of 0.8% from 1997 to 2006. Overall, gross investment as a percentage of GDP increased from 14.5% in 2006 to 15.3% in 2007. The slow recovery in investment has occurred at the same time as the country has enjoyed its longest economic expansion. There are several factors that may help to explain this puzzle, although it is beyond the scope of this paper to disentangle the various factors quantitatively. First, economic efficiency has increased as a consequence of the 1990s reforms, resulting in less investment being required to generate the same amount of economic growth. This is illustrated by also by the increased TFP growth since 2000. Second, the lower investment rate may also reflect structural change in the economy, with a shift away from heavy investments in industry, the export sector and the energy sector in the early 1990s towards smaller-scale investments in the services. Third, the surge in remittances since the crisis complicates the measurement of investment, as some portion of remittances go to investments that may not be recorded in the national income accounts. Fourth, indifferent economic governance has affected investor confidence and hence the slow recovery in investment (see below). These indicators are not sufficiently fine tuned to be able to detect the impact of year to year changes in investor sentiment.

Fiscal policy has always been the weakest part of the Philippine macroeconomic policy framework. This reflects the political economy reality that it may be possible to insulate monetary policy from politics, but it is much more difficult to do so for revenue and expenditure, both in aggregate and in their composition. As Figure 4 shows, in most years fiscal deficits have been

⁴ The analysis is obviously limited by the fact that we do not have data on the breakdown of the remittances into consumption and saving.

contained to 2-3% of GDP. During the mid 1990s the Ramos administration achieved a rare feat in the country's history by handing down three consecutive fiscal surpluses. There have been two really serious episodes of large fiscal deficits in recent memory: in the mid 1980s, when then president Marcos attempted to unsuccessfully spend his way out of a political crisis, and in the 2000's, when Congress blocked successive budgets. By 2005, there was general agreement that near fiscal crises were damaging, and that fiscal prudence has to be the order of the day. Hence, the budget is now very nearly balanced, at less than 1% of GDP in 2007. The country will therefore be able to grow its way out of what looked like an alarming public debt scenario just a few years ago. Nevertheless, the fiscal position remains weak. First, national government debt is still high at over 50% of GDP, and non-financial public debt about 15 percentage points higher. There has been temporary relief from the recent peso appreciation (about 40% of national government debt is external) and improved credit ratings. However, the global increase in interest rates will place further pressure on debt service. Second, the revenue effort remains weak, and 'tax buoyancy' (the responsiveness of tax revenue to GDP growth) is low. Third, there is a large contingent liability problem in the broader public sector, particularly with regard to the unfunded pension liability.

(Figure 4 about here)

(3) Trade Policy, Microeconomic Reform and Governance

Microeconomic reform is generally politically more difficult to enact than the key macro reforms such as establishing an independent central bank or even imposing legislative restrictions on fiscal deficits. This is because the range of actors and vested interests opposed to reform is typically broader and more complex. While the Philippine record in this area has been patchy, there have been some notable achievements. We discuss the issues with reference to trade reform and governance.

The Philippines is now a durably open economy. It was the first ASEAN economy to adopt an import substitution strategy, in the late 1940s, and it got stuck in this inward-looking regime for the next 40 years. Beginning in the late 1970s, however, reformers – principally academics from the University of the Philippines – have become increasingly influential, and they have had major intellectual and policy victories. As Figure 5 shows, average tariff rates have fallen significantly, from over 30% to about 7%, and there seems very little likelihood of a reversal. As credible and gradual reforms, there can be little doubt that the lower tariffs have contributed to the observed increase in the country's total factor productivity growth. The Philippine average tariff compares favourably with that of its neighbours, including Indonesia (8%) and Thailand (16%). Importantly, the dispersion in its tariff rates has also fallen significantly, and thus there is not the distortion in resource flows that existed historically. The reforms have also been accompanied by other major liberalizations, for example in telecommunications, finance and transport, and they have been under-pinned by a supportive exchange rate regime for most of the period. Moreover, export-oriented firms have been effectively placed on a free-trade footing, through the operation of various drawback and export zone arrangements, principally under the auspices of the Philippine Export

Zone Authority. These reforms were implemented in a gradual, consensual manner, under the auspices of the Philippine Tariff Commission, which provides a forum for both expert technical information and public presentations by interested parties.

(Figure 5 about here)

Three features of the reforms warrant emphasis. First, they were almost entirely unilateral in nature. The Philippines is a foundation member of the Association of Southeast Asian Nations, and has participated fully in ASEAN trade policy initiatives, including those with its major trading partners. But until very recently, the government largely eschewed preferential trading arrangements, including BTAs. Secondly, in contrast to the historical pattern of a strong bias towards manufacturing protection, the trade regime now favours agriculture. The political economy reasons for this switch are complex, but three appear to be important: the major analytical work on reform was directed at dismantling manufacturing protection, while work on agriculture was somewhat neglected; the advent of democracy meant that the rural areas, and therefore rural voters, were empowered; and there are more opportunities to circumvent WTO and other restraints on trade in agriculture (eg, quarantine and other requirements). Third, the major trade issues now relate to the prevalence of non-tariff barriers. These remain principally in agriculture and related activities, such as rice, corn, coffee, hogs and processed meats. Although reform here has been slower, one advantage of the sweeping tariff reductions has been to put political pressure on these 'unreformed sectors'.

Unlike the indicators discussed thus far, governance is inherently difficult to measure. There is no widely agreed upon summary indicator, while composite indicators suffer from the usual calibration, weighting and aggregation issues. Measurement is typically undertaken through subjective opinion surveys, and even the most rigorous of these are subject to sample selection biases and sentiment swings. Governance indicators are generally input-based, and there is no guarantee that good institutions will necessarily ensure good policy outcomes. Moreover, history is replete with examples of economies introducing major reforms in the context of weak institutions formally defined (for example Indonesia in the late 1960s, Vietnam in the mid 1980s).

Nevertheless, as with investor surveys, carefully defined and measured governance indicators can be of some use in pinpointing a country's strengths and weaknesses. They can be useful in shedding light on the processes by which governments are selected, held accountable, monitored and replaced; on the capacity of governments to manage resources efficiently and to formulate, implement and enforce sound policies and regulations; and the respect of citizens and the state for the institutions that govern a society. These exercises are particularly useful for comparative surveys, where several countries are included according to a standard methodology and measurement techniques. Table 1 reports one widely used set of indicators, from the World Bank's Worldwide Governance Indicators released in June 2008. Countries are assessed according to six political, institutional and economic policy indicators, based on 276 variables measuring different dimensions of governance. The results are presented as percentile rankings,

in which a higher score indicates a higher ranking relative to the 212 countries in the study. The results are presented here for seven Southeast Asian countries, that is, excluding the special cases of Brunei, Myanmar and Singapore. Very high rankings would not be expected since the survey includes the high income OECD group of economies.

(Table 1 about here)

The results for the Philippines broadly accord with a priori expectations. It scores quite well for 'voice and accountability', where it is the highest in the sample, reflecting the country's media freedom and the scope for democratic participation. Regulatory quality is generally adequate, although below that of Malaysia and Thailand. Perhaps surprisingly, government effectiveness has a similar ranking. The country's weak points are political stability (the lowest in the sample), control of corruption (above only the emerging economies of Cambodia and Laos) and rule of law. Some of these results may not appear to be internally consistent: for example, can reasonably adequate government effectiveness and regulatory quality co-exist alongside perceived high levels of corruption? Nevertheless, the general picture to emerge is one of government performing moderately well, albeit in the context of widespread corruption, high levels of political instability and weak rule of law. Separately, the study presented estimates of governance quality over time. The Philippine rankings declined for most indicators over the period 1998-2004; thereafter there has been some improvement, except for those related to corruption and political stability.

These quantitative indicators need to be supplemented with detailed case studies of policy and institutional reform. It is beyond the scope of this paper to examine cases of reform, but it will be useful to briefly mention some salient Philippine examples since the 1990s. The outstanding case, as mentioned earlier, is the central bank, BSP. Under the Central Bank Act of June 1993, BSP was assigned an explicit policy objective, the maintenance of price stability, and it was guaranteed fiscal and administrative autonomy, including that related to staffing and salaries. The BSP has established an enviable record of technical competence and fiscal probity, unlike its predecessor institution. It has also been very successful with regard to inflation outcomes, as noted above.

Reforms since 2000 have been more difficult to identify owing to the constant political uncertainty and the sharp reduction in civil service salaries. But one reform that has been introduced over this period is the Government Procurement reform Act of 2003. This consolidated all rules of public procurement, mandated the use of an electronic procurement system (known as PhilGEPS), and required the participation of private and NGO observers in the procurement process. This reform is still in the implementation stages. Benchmarking exercises indicate that it performs very well with regard to its legislative and regulatory framework, well on integrity and transparency, but less well with regard to operations, monitoring and enforcement.

(4) Social Indicators

Philippine social indicators have always displayed mixed outcomes, reflecting on the one hand the country's educational strengths and on the other its deeply entrenched poverty. We focus here on two dimensions of the poverty challenge, the relationship between poverty and growth, and sub-national variations in poverty incidence.

First, the Philippines shows the usual inverse relationship between economic growth and poverty incidence. As Figure 6 indicates, for the comparable Family Income and Expenditure Series (from 1985 onwards), the percentage of the population below the nationally defined poverty line almost halved in the next two decades. The decline in poverty appears to be almost linear, but it is generally faster in periods of higher economic growth. The poverty indicators do of course have to be treated with caution, as the results are sensitive to the measures used. The country's leading poverty analyst, Arsenio Balisacan (eg, 2003), has produced a more finely measured series that differs somewhat from the official data. He finds for example that the incidence of poverty is slightly lower and there is greater variability between data points. The principal difference in methodology is that he applies province-specific price deflators to the data.

(Figure 6 about here)

There are two somewhat unusual aspects of the country's poverty story. The first is that poverty is less responsive to growth than in most other East Asian countries.⁵ Growth is always a necessary but not sufficient condition for poverty reduction, but in the Philippines the complementary policy inputs are more important. That is, additional strategies are needed to ensure that the poor can participate in the opportunities created by growth. One obstacle has been labour market policies that discourage a labour-intensive growth path. The country's minimum wage regulations have discouraged employment growth: in 2006, for example, Manila's minimum wage was equivalent to 153% of the country's per capita GDP. In contrast, those for Bangkok and Jakarta were 44% and 68% respectively. Minimum wages in the Philippines are now set locally, and some local governments have endeavoured to create more employment-friendly environments. But greater Manila accounts for about 55% of the national output, and therefore employment opportunities elsewhere are limited. Another factor explaining the lower poverty elasticities is the country's slow growth of output and productivity in agriculture, still the major sector of employment, since the 1980s. This slower growth reflects the under-investment in rural infrastructure (roads, irrigation, extension services) over this period, together with tenancy uncertainty created by the agrarian reform program. An additional factor is the limited targeting of educational subsidies, with the result that the quality of public schooling is skewed towards more affluent urban dwellers.

The other unusual aspect of poverty outcomes, as revealed in Figure 6, is that between the last two FIES's, in 2003 and 2006, poverty actually increased

⁵ See Balisacan (2007, pp. 417-418) for discussion of a range of estimates. He concludes that the elasticity for the Philippines is in the range 1.3-1.6, compared to the developing country average of about 2.5, and with several East Asian countries higher still.

marginally, even as growth was quite strong. What could explain such a puzzling outcome? One factor could be a sharp increase in inequality, but inequality typically does not move significantly over short periods, and anyway the gini appears to be relatively stable between the two years. Moreover, the calculated Lorenz curves are essentially identical for the two years, suggesting no structural break in the distribution of income. A more plausible explanation is the increase in energy costs in 2006 due to the hike in electricity tariffs, the increase in the VAT rate by two percentage points, and its extension to petroleum products. Family expenditure data from the FIES show that the share of household spending on energy and transport increased for both poor and non-poor households. Note however, that this period predates the very rapid increase in food prices, and so this latter factor could not have been the explanation. Moreover, inflation was anyway quite moderate. Yet another possible explanation is that the rapid increase in remittances over this period disproportionately benefited the rich. There is some, albeit limited, evidence of this occurrence, but such a phenomenon is anyway more likely to explain increased inequality rather than pushing more people into poverty. Finally, it may just be that the 2006 FIES results are incomplete. Income and expenditure have always been substantially underestimated in the series, but in the past it is thought that the degree of understatement was reasonably predictable, and therefore could be adjusted. Unfortunately, there is no independent means of checking these results. It is arguably therefore premature to reach any definitive conclusion about poverty trends.

The second important feature of Philippine poverty is the very large differences across administrative regions (see Figure 7). Such an outcome reflects mainly the very large differences in regional per capita income. The country's richest region, Metro Manila, has a per capita income of about 12 times that of the poorest, the ARMM (Autonomous Region of Muslim Mindanao). The differences in poverty incidence are of a similar order of magnitude. More generally, the regional poverty picture highlights the skewed nature of development in the Philippines, in particular between the more affluent regions of Manila and its surrounds, alongside the deprivation in the south of the country (Balisacan, 2007). Very high poverty (in excess of 40%) is found in Bicol (the most southerly region of the main island of Luzon), in nearby Eastern Visayas (principally Samar), and in the ARMM together with Western and Central Mindanao. The ARMM is by far the most serious, with a poverty incidence approaching 70%. This region also lags well behind the national average on other social indicators, with the lowest life expectancy and adult literacy rates.⁶ Such outcomes reflect a complex mix of factors, including historically entrenched deprivation, decades of conflict, and low quality local governance. It is difficult to see how these problems can be addressed without a comprehensive program of peace, security and development. In its absence, the region will continue to be a source of regional discontent and low-scale terrorism.

(Figure 7 about here)

⁶ For a detailed examination of development issues in Mindanao, see HDN/UNDP (2005).

The government has a wide range of social protection programs, including health insurance, education scholarships for the poor, school feeding programs, subsidized rice through the National Food Authority, public employment schemes and a community development program known as Kalahi. These programs are generally fragmented and the overall impacts on the intended beneficiaries are thought to be mixed. An unpublished ADB study found that they reach only one-third of the country's poor, compared to an East Asian for these programs of one-half.

(5) CONCLUSION

It is too early to judge whether the Philippines has decisively turned away from years of under-performance. Economic growth of 5-7% is not yet comparable to that of China, India or Vietnam, not to mention historically that of the other Asian tigers during their high growth phases. Nor is it yet durable enough to be having a major, broad-based impact on living standards.

More reform is needed. The agenda is a long one, comprising at least six core elements. First, fiscal prudence has been achieved in part by starving the public sector of much needed investments in schools, hospitals and other amenities. The public revenue effort needs to be intensified. Second, broad-ranging civil service reform is badly needed. The old adage about halving the number of civil servants while doubling their pay has more than a ring of truth about it. Third, infrastructure is inadequate. The country invests about half the East Asian average (as a percent of GDP) in this sector. Both public and private sector investment is needed, and each has distinct, complex constraints. Fourth, the government's social expenditures need to be better targeted, as well as increased. Social indicators for the poor, particularly in the Muslim majority region of the country's southwest, are slipping further behind the national average. Fifth, there needs to be a durable peace settlement in Mindanao, which remains the most important and protracted theatre of conflict in Southeast Asia. Although the conflict is confined to a relatively small area of the country, its broader repercussions are considerably larger. It tarnishes the country's international image, it distracts the government from other pressing reforms, and it diverts large flows of domestic and international resources from other very needy regions in the country.⁷ Sixth, the microeconomic and governance reform agenda, aimed at supporting a simple, de-politicized, business-friendly, transparent, and non-corrupt environment, is a large one.

It is true that the growth is heavily reliant on just a few sectors, notably remittances, some new international services (especially the so-called 'call-back centres'), and (for periods) export-oriented electronics. Additionally, there are distributional concerns related to how widely the benefits are being spread, both across households and regions. Poverty in the Philippines is falling less slowly than in almost any other East Asian economy, owing to its

⁷ More generally, the level of criminality remains high. Recently, the Philippines was ranked the second most dangerous country in the world for journalists, although the country enjoys an open and vibrant media. Election-related fatalities are high.

slower growth and to the fact that its poverty is less growth-responsive than elsewhere.

Moreover, there is little evidence of a consensus among the political, bureaucratic and business elite that rapid, broad-based growth is the nation's overwhelming policy priority, in the way that such a commitment drove economic success in much of East Asia since the 1960s. The 1987 Constitution has bequeathed an institutionally weakened government structure with many checks and balances, thus making reform a slow and difficult process. The election supervision process remains highly contentious. Political scandals and corruption allegations, big and small, continue apace, and allegedly reach up to the highest levels of the administration. Opinion polls (eg, those conducted by the respected Social Weather Station) consistently report that the public has a very low opinion of its political leaders.⁸

But it is important not to overlook the achievements to date. Achieving durable policy reform is never easy, the more so in a country like the Philippines with its unpredictable politics. The lesson is that 'Econ 101' – getting a few key policies 'right' – combined with 'Politics 101' – convincing the business community that they are here to stay – gets countries a long way. It is possible to be cautiously optimistic about the country's future, as it was in the 1950s and 1960s, and again in the 1990s during the reforming Ramos administration.

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⁸ Although note that, even though the national government may be slow to reform, some local governments are able to move more quickly. The Philippines was the first case of 'democratic decentralization' in East Asia, commencing in 1991, and the country is slowly beginning to reap the benefits of this program, at least in some of its better governed localities (see Balisacan and Hill, eds, 2007).

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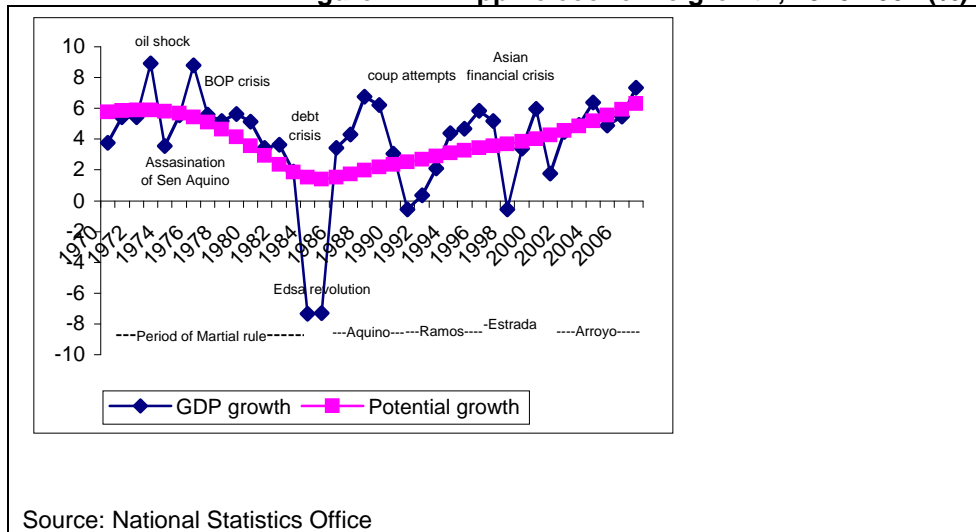
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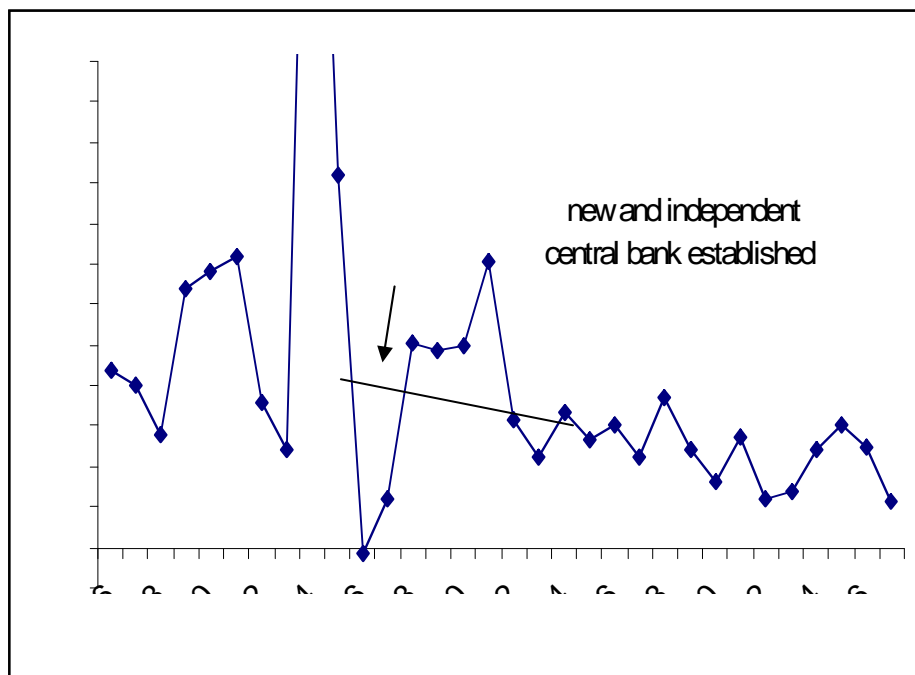
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Figure 1: Philippine economic growth, 1970-2007 (%)



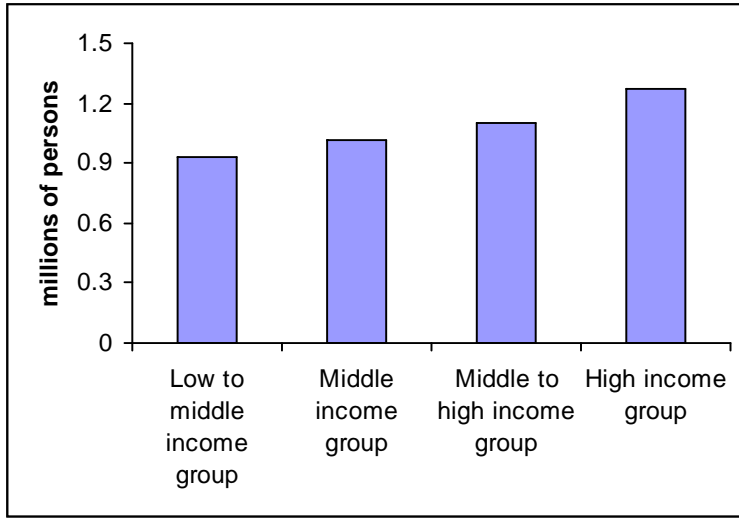
Source: National Statistics Office

Figure 2: Philippine inflation, 1976-2007 (%)



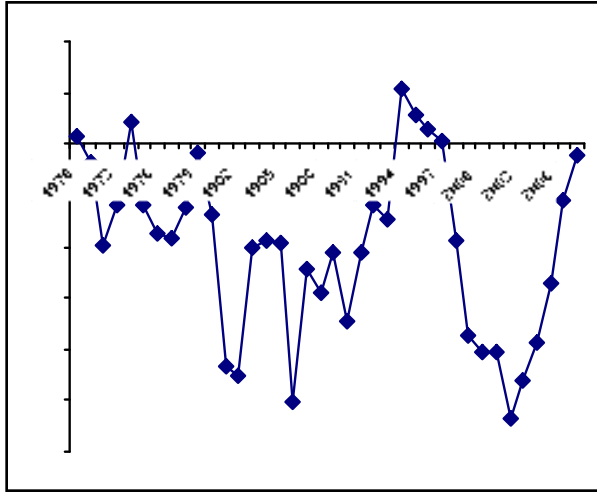
Source: Central Bank of the Philippines

Figure 3: The Effects of Remittances by Income Group, 2006



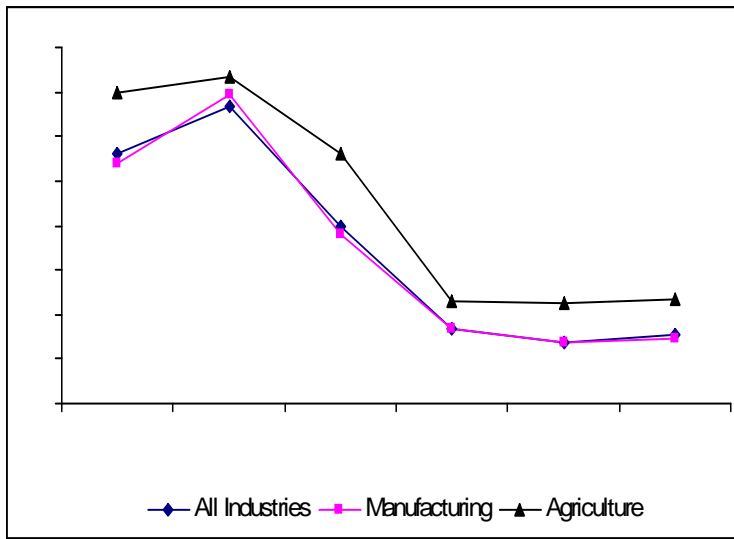
Source: 2006 FIES

Figure 4: The Philippines: National Government Fiscal Balance, 1970-2007
(% GDP)



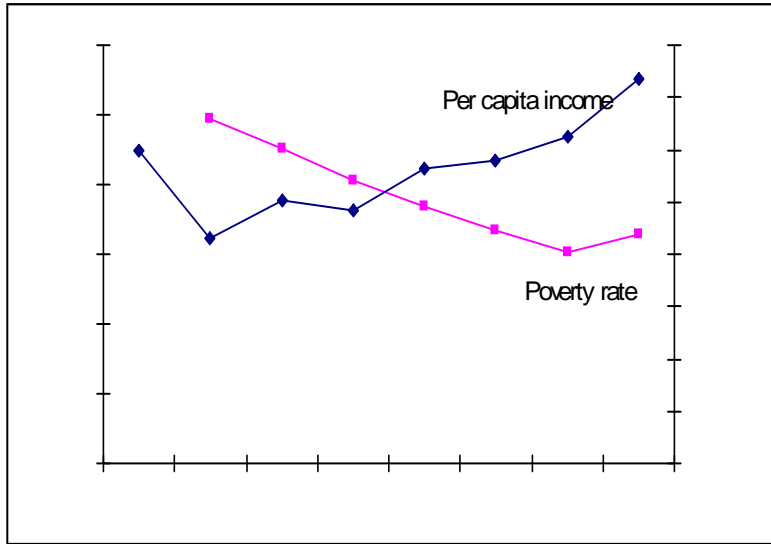
Source: Department of Finance.

Figure 5: Nominal Average Tariffs, 1985-2007



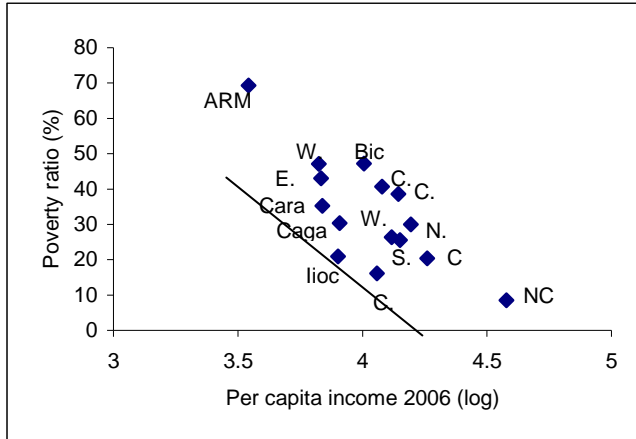
Source: Tariff Commission

Figure 6: The Philippines: poverty and per capita income, 1980-2006



Source: 2003 and 2006 FIES; CIEC. Note: per capita income adjusted for inflation and indexed to 100 in 1980

Figure 7: The Philippines: subnational poverty rates and per capita incomes, 2006



Source: 2006 FIES; CIEC

Table 1: Southeast Asian Governance Indicators, 2007

Country	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
1. Philippines	43.3	10.1	56.4	50.5	33.8	22.2
2. Indonesia	42.8	14.9	41.7	43.7	27.1	27.1
3. Malaysia	31.3	52.4	82.9	67.0	65.2	62.3
4. Thailand	29.8	16.8	61.6	56.3	52.9	44.0
5. Viet Nam	6.7	56.3	41.2	35.9	38.6	28.0
6. Cambodia	24.0	28.8	20.9	30.6	13.8	8.2
7. Lao PDR	6.3	42.8	21.3	15.0	17.1	13.0

Note: Percentile ranking is interpreted as follows: The Philippines has a rank of 43.3% for voice and accountability. This means that the Philippine score for this category is higher than 43.3% of the 212 countries included in the indicator, or conversely about 56.7% of the 212 countries have a higher score.

Source: World Bank 2008. *Governance Matters 1996-2007: Worldwide Governance Indicators*, Washington, D.C.

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