

WHERE TO THE PHILIPPINES?

(OR, DOES THE PHILIPPINES HAVE A CHANCE?)

SUMMARY

In the past 30 years the Philippines has averaged 3.1% annual GDP growth and a population growth of 2.5%. Which means almost no improvement for the Filipino over that 30 years. This is about half the rate achieved by other nations in Asia.

30-YEAR AVERAGE GDP GROWTH RATES OF SELECTED ASIAN COUNTRIES

CHINA	7.8%
KOREA	6.4%
SINGAPORE	6.3%
MALAYSIA	5.9%
THAILAND	5.7%
INDONESIA	5.3%
PHILIPPINES	3.1%

Why?

1. Politics - vested interest vs national good
2. Uncontrolled population growth
3. Weak educational system
4. Corruption
5. Inadequate infrastructure
6. An agriculture system that hasn't improved in 30 years
7. An inadequate focus on job creation
8. A judiciary in need of major improvement
9. Security
10. Good governance.

If these 10, and it must be all 10 of them, aren't fixed the Philippines will average 3.1% for the next 30 years too. The logic of this can't be denied.

This paper was developed from an earlier one: *"Does the Philippines Have a Chance"* written in October 2002. All the points made then are still relevant today. But this paper further advances the issues, and adds to them.

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There is an 11th but I've been hesitant to include it because of the strong emotions attached. But if the Catholic Church wishes to reflect it does seem to me to be opposed to too many things, rather than looking for pro-active ways in which it could perhaps help.

Let me give just one example, an important one: Mining.

The Church wants to stop mining because of the environmental damage it does. Fair enough if we look back on history. But if we are to consider modern mines that are properly run in a responsible manner we find environmental damage is minimised and transitory. A responsible mining company when it has finished mining puts the area back into a condition as good as, if not better than, when they started.

So the church should put its attention to ensuring mining is responsibly done so its rural flock can enjoy a decent standard of living.

And, when you think about it, the church can't be against mining per se just look at all the gold it uses. Not to mention the electronics industry (cel phones, TV's, computers, etc, etc.) that couldn't be built without the use of gold.

Middle Eastern countries are rich because they extract oil from the ground, and sell it. The Philippines is poor, in part, because it has not taken advantage of the wealth it owns.

The church needs to re-appraise its position on population too. (*see later*) At its present rate of population growth (2.4%), and the economy (4–5%) it will take 30 years for the Philippines to catch up to where Thailand is today. Some 25 years ago it was slightly ahead of Thailand. Go back 40 years and it was second to Japan. Soon it will be behind Vietnam (which is growing at 7 - 8%).

Is this what Filipinos want?

Mr. James Fallows was right when he said this is a damaged culture. It is a selfish culture where too many think only of themselves (and family) and care little for others, or the nation as a whole. And, as the numbers show, it is a failing economy that needs major change if it is to progress meaningfully.

I cannot emphasize too strongly that without fundamental change in these 10 areas (and greater church support), and the cultural change to go with it, the Philippines will be the basket case of Asia one generation from now. And this change won't occur if the culture, the attitude (of the leaders) doesn't change.

THE COUNTRY NEEDS A TOUGH, DETERMINED, VISIONARY LEADER
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Leadership is what it's all about. This country needs a tough, determined, visionary leader to force change.

It will not be easy, it will not be popular, it will need a skillful balancing act between pandering to politicians, generating public support and effecting major reform. Great leaders were so because they had a long-term vision, gambled their careers to achieve it and, were able to convince others to follow them.

The Philippines needs a great leader. And the active, involved support of the elite.

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Will it be done?

In 2002 I said: *“A nine-year presidency gives her a chance for that change”*.

Well, three years have gone and the President has not addressed those issues in a sufficiently meaningful way.

She'll argue she addressed some. I'll agree, but too few and it has not been in the fundamental way necessary to break the economy out of its desultory performance (first quarter '04 notwithstanding—it's still not the 7% + needed).

She now has a once-in-a-lifetime, six-year opportunity to effect that change. But she needs to move fast and more forthrightly, if possible with the public's support (something she should strive to obtain) but, if necessary, still act without it.

For the sake of those Filipinos who really care for their country. It's time to act.

IT'S TIME TO ACT

INTRODUCTION

The Philippines has had two revolutions in recent times but it has had no revolution. An unsatisfactory leader was twice kicked out, but the society remained essentially unchanged. And the basic problem still remains: An impoverished people.

The revolution of society hasn't happened. Does it need to? Yes, here's why.

In 1938 the Philippines had the highest per capita income in Southeast Asia. In 1952, the Philippines had twice the per capita income of Thailand.

Today, Thailand has twice the per capita income of the Philippines.

SOMETHING IS FUNDAMENTALLY WRONG

These numbers, these statements can't be denied, they are fact. And there are many, many more similarly dismal comparisons. So it's very, very clear something is fundamentally wrong. We must seriously reflect on what that is, and correct it if the Philippines is not to sink even further behind.

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In 1957 the World Bank said:

IN THE 1950'S, THE PHILIPPINES WAS THE BEST PERFORMER AMONG EAST ASIAN ECONOMIES AND WAS WIDELY REGARDED AS THE MOST PROMISING FOR THE LONG-RUN. THE BANK'S ECONOMIC REPORT IN NOVEMBER 1957 CONCLUDED,

"... THE PHILIPPINES HAS ACHIEVED A RAPID RATE OF ECONOMIC GROWTH IN THE POST-WAR PERIOD (SINCE 1949). PRODUCTION HAS CONTINUED TO GROW AT AN ANNUAL RATE OF 7 PERCENT, DESPITE THE DISRUPTING EFFECTS OF THE HUK MOVEMENT, WHICH HAMPERED ECONOMIC ACTIVITY UNTIL 1952... BY COMPARISON WITH MOST UNDERDEVELOPED COUNTRIES, THE BASIC ECONOMIC POSITION OF THE PHILIPPINES IS FAVOURABLE. IT HAS A GENEROUS ENDOWMENT OF ARABLE LAND, FOREST RESOURCES, MINERALS AND NORMAL POTENTIAL. THROUGH A COMPARATIVELY HIGH LEVEL OF EXPENDITURE ON EDUCATION, TRANSPORT, COMMUNICATIONS AND INDUSTRIAL PLANT OVER THE PAST 50 YEARS."

"THE PHILIPPINES HAS ACHIEVED A POSITION IN THE FAR EAST SECOND ONLY TO JAPAN, BOTH IN RESPECT TO ITS LEVEL OF LITERACY, AND TO PER CAPITA PRODUCTION CAPACITY... THE PROSPECTS OF THE PHILIPPINE ECONOMY FOR SUSTAINED LONG-TERM GROWTH ARE GOOD. APART FROM GENEROUS ENDOWMENT OF MATERIAL RESOURCES AND HIGH LEVEL OF LITERACY, OTHER FAVOURABLE FACTORS ARE THE GROWTH OF THE LABOUR FORCE, THE AVAILABILITY OF MANAGERIAL AND TECHNICAL SKILLS, THE HIGH LEVEL OF SAVINGS AND INVESTMENT, RATHER GOOD PROSPECTS FOR MOST OF THE PHILIPPINE EXPORTS, AND CONSIDERABLE POSSIBILITIES FOR IMPORT SUBSTITUTION"

Almost none of this can be said today.

What is urgently needed now is to not only find out what has gone so drastically wrong, but then take decisive action to effect the necessary change. EDSA DOS should not be wasted. And there should not be an EDSA TRES. We must answer this problem—and then solve it, or the Philippines, and Filipinos, except for a small elite, will remain desperately poor, and growingly so, throughout this century. And I cannot emphasize too strongly that action to effect that change must occur. Talking about it is not action. Writing innumerable plans is not action. Doing it is.

I have identified the areas that need attention, that need change. But, in many ways, all these can be reduced to one underlying cause: self-centeredness—caring too little about anything or anyone else. Coupled with unbridled population growth, and all the attendant difficulties that places on any economy.

In the main change will have to come with the next generation through a school curriculum that emphasises social responsibility, morals and ethics. A sense of being part of a whole, of a team. Team Philippines – not “family dela Cruz”. But a start can be made now through informational campaigns by government. And by addressing some of the issues contributing to the decline of the Philippines. Selfishness, unfortunately, is not something that can be changed overnight — but it can be changed.

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THE MAJOR BUSINESS DISADVANTAGES¹ (As identified by CEOs)

DISADVANTAGES	SCORE
Corruption	119
Political Instability	78
Peace and Order/security problems	68
Bureaucratic red tape/mess	52
Inconsistency of policies	49
Poor infrastructure	46

Nothing that is said in this report hasn't been said before, but I am hopeful that by tying it together in one concise report it may help focus attention on a serious rethink of Philippine society and the recognition this is possibly the last chance for a long time to effect that change.

Critical, and most difficult, will be explaining why drastic action is necessary—and will be to the benefit of all in society, particularly the poor and underprivileged.

Selling its policies and reforms is something the government (all of them) has been particularly poor at. Government seems unable to bring explanations down to the level of simple people and counter the emotional arguments of the opposition (the irrational, emotional arguments against the power bill, oil prices, and debt abrogation are just three current examples).

There will be antagonistic reaction to much of what I've said, but its said by someone who loves this country and is convinced after over 30 years of analysis and involvement fundamental change must occur if poverty is to be eradicated and the average Filipino is to have a chance for a decent life in his own country.

Poverty cannot be eradicated unless the economy grows at over 7% per annum on a sustained basis. The economy as presently structured can't do this.

To get poverty below 15% of households (it is currently 34% officially, certainly more realistically—on a self-rating, 58% consider themselves poor) at an average GDP growth rate of 5% (the best it will do in the current environment) will take 15 years. At 7% growth rate it falls to eight years. And only then if that economic growth translates into a better distribution of wealth and opportunity favoring the poor and disadvantaged. Under the current structure this is unlikely to happen so the 15 years would be only under the most ideal circumstances. The reality is it would be much more than that.

**POVERTY CANNOT BE ERADICATED UNLESS THE ECONOMY GROWS
AT OVER 7% PER ANNUM ON A SUSTAINED BASIS.
AS CURRENTLY STRUCTURED IT CAN'T DO THIS**

¹ A survey of MNCs by The Wallace Business Forum.

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The quality of life could be good in the Philippines—but only if we face up to the reality that the changes I've enumerated must occur.

IF YOU WANT TO GET THE 60% OUT OF THE MISERABLE POVERTY THEY LIVE IN —CREATE JOBS. AND CREATE THEM HERE NOT OVERSEAS, SO FAMILIES CAN STAY TOGETHER. AND REMEMBER IT'S BUSINESSMEN THAT CREATE JOBS – AND NATIONAL WEALTH. NO ONE ELSE DOES. SO, WHAT IS GOOD FOR BUSINESS IS GOOD FOR FILIPINOS.

The trouble is none of them show much in the way of short-term results, which is one (by no means the only) reason they've not been tackled before. Short-term, high impact solutions won't solve the Philippines problems. Addressing these issues will.

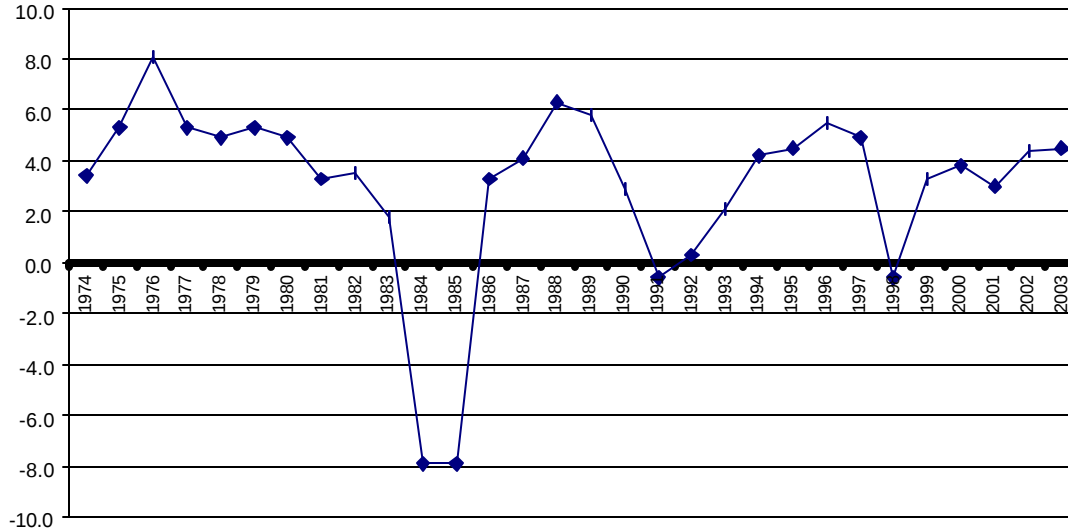
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THE SAD STATISTICS

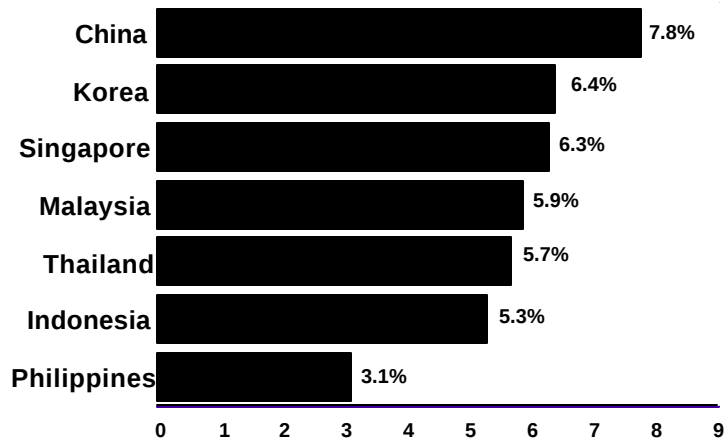
The Philippines has averaged a GDP growth of 3.1% over the past 30 years. (see chart)

PHILIPPINE GDP GROWTH RATE (%)



The best it ever did was 8%—and that for only one year (1976). From time to time it hit 5–6%, but couldn't sustain it. Political crises were the main “pull-down” factor, but so too were the economy's structural and physical weaknesses.

30-YEAR AVERAGE GDP GROWTH OF
SELECTED ASIAN COUNTRIES



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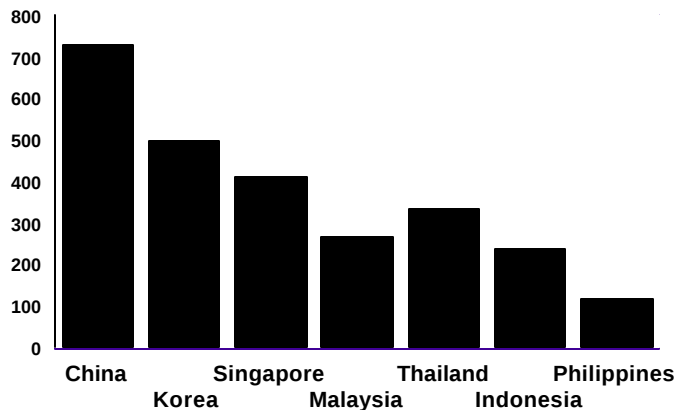
Clearly 3.1% is not good enough. All major Asian countries have done better. Even during the Asian Financial Crisis most did better than the Philippines 30-year average.

Worse, if you look at it on a compounded basis, calculating from a base of 100 in 1975 then China has grown five times more than the Philippines, Thailand (the country we can most reasonably compare with) has grown at least two times more. And on a per capita basis, the Chinese have become seven times richer than Filipinos, and the Thais three times.

COMPOUNDED PER CAPITA GDP INDEX (1975=100)

COUNTRY	COMPOUNDED GDP INDEX	COMPOUNDED POP'N INDEX	COMPOUNDED CAPITA GDP INDEX
CHINA	1012	138	733
KOREA	654	131	499
SINGAPORE	639	156	410
MALAYSIA	518	195	266
THAILAND	483	145	333
INDONESIA	372	156	238
PHILIPPINES	215	185	116

COMPOUNDED PER CAPITA GDP INDEX



The Philippines, as currently structured, cannot aspire to these growth rates and will remain Asia's laggard unless it makes massive, radical change. It cannot tinker at the fringes, the change must be radical.

Concurrently with this change is the need to focus on what you do best.

The Philippines has a built-in advantage in five areas:

Agriculture — Mining — Tourism — I.T. — Healthcare

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The Philippines has arable soil and a good climate; it has richness in minerals; it has beautiful places to visit and charming people; it has enough (for now) educated, English-speaking people adapted to Western culture; it is a society that cares for others where health is concerned.

If all effort is focused on being the best in these, it can be. It's called niche marketing, and when you're small (as the Philippines within the global market place is) it works.

For example:

The Philippines must concentrate on being a leader in the new IT world – the fastest growing sector in the world today. That means IT-oriented curricula, an emphasis on English and, a Department of Information and Communications Technology (DICT). This latter has been gathering dust in Congress as the current Administration shows an equally apathetic interest in it.

In the meantime, India, Ireland, South Africa, even Canada (all English speaking) are streaking ahead in attracting IT business. That is the second bill (emergency powers to deal with the coming power crisis is the other) that the President must encourage Congress to pass within weeks of sitting.

The call centers and business processing that has established here has been successful, the momentum needs to be maintained.

The lessons from the success of other countries can be learnt.

PASS THE DICT BILL — NOW

1. POLITICS AND POLITICIANS

Politics is at the heart of the problem. There are notable exceptions but, in the main, Philippine politicians are driven by their own agendas. Just one small example, we are proud that there were only two deaths during the May 1 rebellion. BUT there were over 140 deaths related to the recent elections! No developed democracy kills its opponents just to gain a position of power. If the killers (not just the assassins, but those who mastermind the assassinations) go to jail, the culture starts to change for the good—but very few of the assassins, and none of the masterminds have been tried, much less convicted, by the courts after any of the previous elections. And too many politicians are elected into power for no other reason but they are popular. The collapse of the economy under Mr. Estrada emphasises just how disastrous that can be—and almost could have been again.

Martial law, seven coup d'etat attempts, the rebellion at Oakwood are just the more extreme examples of wanting personal power regardless of what's good for the nation. Running for office when you are clearly untrained to handle it (as Mr. Estrada highlighted and Mr. Poe wanted to emulate) is another example.

The millions of pesos spent and cheating that were reported in the 2001 elections (and suspected in this one) are actions of people desperate for power, not actions of people genuinely wishing to serve.

No society is perfect in this regard, but the Philippines is at the bottom end of the scale.

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No business would put an inexperienced, poorly educated person in charge of a company, yet too many cities and regions, which are at least as complicated as a corporation to run, are run by people without adequate experience or training. And the low government pay ensures most of his/her support staff is of mediocre capability.

JOB CRITERIA TO BE A CEO

- UNIVERSITY DEGREE
- TOP MANAGEMENT EXPERIENCE IN RELATED FIELD (AT LEAST 10 YEARS)
- LEADERSHIP QUALITIES
- FINANCIAL SUCCESS IN PREVIOUS UNDERTAKINGS
- ABILITY TO GET ALONG WITH PEOPLE
- RESULTS ORIENTED
- STRONG WORK ETHIC

GOOD MORAL CHARACTER

JOB CRITERIA TO BE PRESIDENT OF THE PHILIPPINES

- MUST BE A FILIPINO
- MUST BE ABLE TO READ AND WRITE
- MUST BE AT LEAST 40 YEARS OLD
- MUST BE A RESIDENT OF THE PHILIPPINES FOR AT LEAST 10 YEARS

Politicians if they seriously care about their country need to start considering what's best for the country, not what's best for them. And Filipinos have to vote more wisely and demand honesty and competence from their leaders. Two facts that are confirmed by 1) EDSA 2 (the result of not voting wisely), and 2) the various rebellion attempts (power-hungry politicians uncaring about what impact their actions have on the country—and note, not one of those that incited the attempted coup at Oakwood have been charged in any way).

POLITICIANS SHOULD CARE ABOUT WHAT'S BEST FOR THEIR COUNTRY—NOT WHAT'S BEST FOR THEM

Education (*see more later*) is probably the basic solution. In three ways: First, if everyone is educated then those elected will be part of that educated lot; secondly, an educated populace will be more aware of the issues and vote more wisely. Thirdly, it provides social mobility as President Ramon Magsaysay Sr. so well demonstrated, rising from being a mechanic to president of the country.

On top of that is the need to clean up the political system by charging and convicting—and jailing—those guilty of illegal activities.

On top of it all is the president, and the most important characteristic needed of the president is leadership. An ability to lead, to encourage, to excite, to bring confidence to the people. Particularly the businessmen, whose investment is needed to create jobs and national wealth.

This is a skill that can't be learnt, but it can, perhaps, (I'm no psychologist) be improved by a determined focus on it. (and maybe some guidance counselling)

Leadership is defined as having a passion, a dedication to a vision. And working unceasingly at it regardless of the roadblocks encountered. And doing it in such a way that others want to follow.

A WEAK LEADERSHIP = POLITICAL INSTABILITY

The Filipino today is depressed, disaffected, disillusioned and needs some major morale boosting, needs to regain confidence and pride. The Philippines needs a leader.

A weak leadership = Political instability

And that leader must be prepared to listen—to the bad as well as the good. Ms. Arroyo has, in the past, been unwilling to listen to bad news. She reacts aggressively if the advice is critical—which means she only gets the sugar-coated inputs. People are scared to tell her bad news, particularly if it involves herself. Great leaders listen dispassionately, and then act for the common good. They don't care about themselves, or their image.

Perhaps with a secure mandate, she'll do that listening. Put around her a few trusted friends who can and will tell her the "naked truth". Then she could become a great leader. She's driven enough, hard-working enough, patriotic enough. And desperately wants to go down well in history. Well she has to change in the present for a better future if history is to be kind to her. We believe she can, but will she?

And then there's the opposition. It needs to support the President's reform agenda, even be a part of formulating it. Once the country is up and going it can revert to the more traditional opposition role. Today is a time of national crisis. A time to pull together not pull everything apart.

The media could also play a more responsible part by considering the consequences of the way in which they slant the news, —a recent headline warning of a coup (without substantive basis) does not encourage interest in the Philippines. But there was such a headline.

New coup plot bared

Ermita links destabilization efforts to FPJ citizenship case

KARL B. KAUFMAN

Reporter

ANTIGOVERNMENT forces are recruiting troops from the Armed Forces in an effort to incite an uprising similar to or worse than the July 22, 2003,

Defense Secretary Eduardo Ermita said on Thursday that the recruitment is part of a new destabilization scheme against the Arroyo administration.

"There is a continuing effort on the part of these people to convince those in the active service to form what we call as the military component [of their plans]," said

Citing the latest intelligence reports gathered by the Department of Defense, Ermita said the group is plotting to conduct "Part 2" of the failed Oakwood mutiny should the Supreme Court rule against Poe, the opposition's presidential candidate, whose citizenship is being questioned by several petitioners.

The Court is expected to render a decision early next month following the 12-hour oral arguments last week.

The military had implicated opposition Sen. Gregorio Honasan as the brains behind the Oakwood mutiny, which involved more than 300 Army junior officers and

The Armed Forces has assured the public it would not initiate a people's revolt even if large-scale cheating occurs during the May 10 election.

This goes against the warning of Alyson ng Pag-as presidential contender Raul Roco that the military would meet

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2. UNCONTROLLED POPULATION GROWTH

Successful countries became so, in part, because the growth of the population was at a pace that support services could provide for and, hence, individual wealth could grow more rapidly. Fewer people sharing the national wealth are richer—and so spend more on high value-added products, helping drive the economy up. Thailand had 38.9 million people in 1972, the same as the Philippines. Today, Thailand has 60 million people, the Philippines an official 82 million (and probably, almost certainly, considerably more). Thais average US\$1,980 per capita, the Philippines is struggling at US\$1,020. And it will be another 30 years before the Philippines meets the Thai's modest level.

A fast-growing population is a primary reason. And the correlation has been proven².

ECONOMIES GROW FASTER IF POPULATION GROWS SLOWER

I know this is a contentious subject and do not wish to discuss the theological view (although I disagree with the church on this aspect too). But the constitution clearly delineates between Church and State because the State must be responsible for the people's well-being/quality of life. And of all Filipinos, not just Catholics. The Church has the more limited responsibility for the moral values and religious beliefs of its flock.

What must be pointed out is what is inevitable if the current rate of population growth continues. And that is that there will be 160 million Filipinos by 2030.

160 MILLION FILIPINOS BY 2030

² *"The Population – Poverty Nexus: The Philippines in Comparative East Asian Context"*
—Dr. Arsenio Balisacan & Charisse Tubianosa

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POPULATION GROWTH - CATHOLIC COUNTRIES

COUNTRY	ROMAN CATHOLIC	POPULATION GROWTH	GNP/GDP GROWTH
PHILIPPINES	83%	2.5	(0.4)
VENEZUELA	96%	2.4	(1.0)
COLUMBIA	90%	2.0	1.5
MEXICO	89%	2.0	(0.1)
PERU	90%	2.0	0.6
BRAZIL	80%	1.7	1.1
CHILE	89%	1.6	4.0
ARGENTINA	92%	1.4	0.7
CANADA	42%	1.2	1.6
FRANCE	90%	0.5	1.5
IRELAND	92%	0.5	5.1
POLAND	95%	0.5	3.0
AUSTRIA	78%	0.4	1.7
GERMANY	34%	0.3	1.6
SPAIN	99%	0.3	2.3
BELGIUM	75%	0.2	1.6
ITALY	100%	0.2	1.6
PORTUGAL	94%	0.1	2.7
HUNGARY	67%	(0.3)	1.5

Source: Website of Selected Countries

The Philippines, demonstrably, can't support 82 million (over 4 million tons of rice was imported last year). 160 million will be, quite simply, disastrous.

Better education gives educated parents the capability of understanding the importance of education for their own children and the need to have only those children they can afford. Over time, this leads to lower population growth rates. However, it is very slow. The Philippines is in a population growth crisis, and cannot afford to wait a generation or two.

THE PHILIPPINES IS IN A POPULATION GROWTH CRISIS

The State should provide the option and accessibility to family planning **of all kinds** as a responsibility to the society it serves. It should then be up to the Church to convince its flock not to accept practices they believe go against God's wishes. But it has no right to stop the State as it is now doing. And the president is making a serious mistake in not providing assistance many Filipinos (that she swore to serve) want.

This is a responsibility the president, as president, must accept regardless of her personal beliefs.

But the Church should perhaps reflect on why other Catholic countries seem able to allow family planning—or, at least, not try to stop it so vociferously.

The home of Christianity, Italy, has a minimal population growth (a population growth rate of 0.2% versus the Philippines 2.4%) so why not the Philippines. On this issue, the Philippines seems to be at odds with its other Roman Catholic compatriots. It is the world's fastest growing population, outside of Malaysia, Nigeria and Pakistan.

And the fastest growing Catholic country, although Venezuela comes close, at 2.4% with Mexico and Peru slightly behind (each at 2.0%). Otherwise all other predominantly Catholic countries exhibit growths of a high of 1.7% to negative 0.3% (Hungary). With most below 1%. Catholic countries don't have to have high growth rates.

CATHOLIC COUNTRIES DON'T HAVE TO HAVE HIGH GROWTH RATES

No one can deny that Italy or Ireland aren't staunchly Catholic—yet their populations are growing at only 0.2% and 0.5% respectively. Even Rome the center for Catholicism is growing at less than half the Philippines rate –1.2%.

The logical conclusion is that the Philippine Catholic church could do more to help parents better plan their families—without violating Church strictures on how this should be done.

If the Church believes people are entitled to a decent life, as I certainly hope it does, then it ought to become a (very) active participant in reducing the population growth rate through methods it accepts. Otherwise it must accept part of the responsibility for the poverty that will remain unavoidable —and provide the jobs and support for that excess poor.

3. EDUCATION

The Philippines used to be at the forefront in Asia in high school enrolment (77%) and college enrolment (31%) ratios. Admittedly, these numbers have continued to improve but those for other countries have improved much faster, so the gap is narrowing. In a few more years, the Philippines will be overtaken if it does nothing.

But graduation is only a statistic. What matters is what is learnt. And here it is even more depressing. The University of the Philippines (UP) used to be among the top schools in Asia in the 60's through the 70's. Today, it is struggling to keep its place in the lower half of the Top 50. Ateneo and De La Salle are even lower, near the bottom of the Top 80 (number 71 and 72).

Bangladesh and Sri Lanka have schools ranked higher than these three. And no Philippine school is among the top science and technology schools in Asia. India has five in the Top 10.

Foreign students, mostly Asians, used to study in the Philippines to get a good education. Now they're going elsewhere, or staying at home to learn. The number of foreign students in Philippine schools has fallen to 4,000 in the late 90's from a peak of almost 12,000 (the 3rd largest in Asia after Japan and India) in the mid-70's.

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The educational system needs to be brought back to the pre-eminent position it had in the mid 70's. A first step is to get government out of funding the tertiary system and leave it to the private sector. It does not have the funds. Free education is essential for primary and secondary schools. And that must include provision of meals, books, and, possibly, transport, etc. As the numbers in the box show less than half (45%!) of kids finish secondary school. A primary reason is the ancillary costs of schooling. Everyone must have a basic schooling.

The numbers in the boxes below say it all, this is a situation that must be reversed with extreme urgency.

100	-	Enter primary school	100%
33	-	Drop out	33%
67	-	Finish primary school	67%

64	-	Enter secondary school	100%
19	-	Drop out	30%
45	-	Finish secondary school	70%

26	-	Enter college	100%
19	-	Drop out	73%
7	-	Finish college	27%

SAD STATISTICS ON THE STATUS OF EDUCATION IN THE PHILIPPINES	
1.7 million	number of 7-12 year olds that are not in school because of poverty
60-110	actual class size vs ideal of 25
10	number of years spent in elementary and secondary schooling (for other countries, it's 12)
7%	percentage of school entrants who finish college. Within which, 25% of the richest kids graduate, but only 1% of the poor do.
44	number of Filipinos, out of 726, who passed a Japanese I.T. certification exam
\$170	average govt spending on education per student vs \$550 in Thailand and \$930 in Malaysia
P22 billion	amount lost in overpriced materials = 45,000 classrooms or 180M books or 11M desks or 440,000 computers

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And that education must be in English. Language does not define a nation. Language has one, and only one, important function: to communicate between people. Or these days, machines too (the I.T. world is an English-speaking world) A common language gives mobility, gives choice. There are around five million to seven million Filipinos working overseas, supporting their families back home. Not one of them is there because they speak Tagalog or Cebuano or Ilocano.

ENGLISH SPEAKING IS MOSTLY A MYTH

While its English capability is still widely acknowledged as one of the key advantages of its workers this is mostly a myth based on historical record, not current reality. The Chinese, the Koreans, the Taiwanese are frantically learning English to join the IT world – ironically, learning it from some Filipinos who found jobs teaching English to workers in these countries. I read that China wants to hire 20,000 Filipino English teachers—now we're helping our competitors to advance—at our expense.

As columnist, Belinda Cunanan said (PDI November 2003) “ *But one thing this business of providing services as call operators will require is continued mastery of English, which is something our educators have to pursue. This is one of our advantages over other countries in Asia and we should not give it up but improve on it. In China, as I have mentioned, they are very systematic about learning English, especially now that they are preparing for the 2008 Olympics. Even taxi-drivers are learning the language from tapes while waiting for their fare. Here we still are wishy-washy about our language policy, and we are made to feel guilty about speaking English well, as if we can only be nationalistic when we speak only in the native tongue* “. The Philippines is throwing it away, there is only one English-speaking TV channel – and that's not all the time. And no local radio stations in the AM band. A complete reversal of what it used to be.

As to primary and secondary education, 25 years ago teachers earned P600 per month when the minimum wage was equivalent to a monthly rate of P300. Today they earn P9,000 compared to a minimum wage of P7,000. In other words teachers now earn only 29% more than a minimum wage earner where before they earnt double. You don't get the best people as teachers if you don't pay them.

Many public school classrooms are turned over twice in a day, and classes are held on weekends, especially in urban areas because of the lack of classrooms. Some schools hold classes in schoolyards. The average number of students per class today has doubled from two decades ago. Remote barangays have no schools at all.

The reform in basic education curricula, emphasizing maths and sciences, is a welcome change. But it should only be considered as the start of a comprehensive overhaul of the education system as more reforms are needed. Development of English language proficiency in public schools, for example, has not been restored. Yet must if children are to benefit in this English-speaking world.

TEACHERS MUST BE ABLE TO TEACH A FEW, NOT LECTURE TO MANY.

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Additionally the style of teaching needs to be changed. Children should be encouraged to question, not docily accept unquestioningly what the teacher says. People must be able to think for themselves, encouraged to display initiative and analyse the consequences of their action. This will require much smaller class sizes. Teachers must be able to teach a few, not lecture to many.

Although education has the biggest allocation in the national budget at 20% of the total, and has doubled in inflation-adjusted terms from P330 per student in 1980 to P700 today, it is still low. Thailand spends about three times as much, Malaysia five times. China and India are catching up.

GOVERNMENT SPENDING ON EDUCATION PER STUDENT: SELECTED ASIAN COUNTRIES: 1997 (US\$)

COUNTRY	US\$/STUDENT
Singapore	5,070
Hong Kong	4,180
South Korea	1,630
Malaysia	930
Thailand	550
Philippines	170
China	150
India	100
Pakistan	90
Indonesia	70
Vietnam	40

Sources of basic data: UNESCO; World Bank, World Development Report 2000/2001; ADB Key Indicators 2001

It's not just a question of money, it is also a question of money wisely spent. During the past 2 decades or so, there has been a shift in the education budget favoring tertiary or college education – at the expense of basic (elementary and high school) education. Yet it is the government support for basic education that provides the most significant impact on poverty alleviation, and is where government should focus its limited funds.

On top of that as the World Bank said: “*DECS is widely believed to be one of the most corrupt of the government departments.*” The textbook scandal in early 2000 could be just one of the manifestations. So addressing corruption is a must. People who steal a child's future should be locked up, and the key thrown away.

**PEOPLE WHO STEAL A CHILD'S FUTURE SHOULD BE LOCKED UP,
AND THE KEY THROWN AWAY**

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In this day and age, it's not labor, capital or natural resources that dictate a country's competitive edge—it is knowledge. Educated people get jobs or, at least, have a far better chance of doing so. An educated workforce attracts investment. That creates jobs, and national wealth.

AN EDUCATED WORKFORCE ATTRACTS INVESTMENT (PARTICULARLY TRUE IN THIS I.T. AGE)

As China dominates more and more in the manufacturing area (as they will) the Philippines will lose, as it already is, much of its manufacturing sector as a main driver of the economy and employer of people. This can be replaced by entry into the I.T. arena where the growth will be phenomenal and the need for educated people high. But the Philippines is drifting further and further behind in the quality of its education, and, hence, ability to take advantage of the blooming opportunity.

4. CORRUPTION

Corruption is easy, it must be stopped. The only people who don't agree with this are the ones doing it.

Every President has promised it, none has done it. Some have been involved in it.

Bad as its been throughout Asia, it's arguable that stealing (corruption) was less in the more successful countries. Whether it was, or not, at least much of what was stolen was directed back into the economy through corporate building, rather than exotic mansions and fancy motor cars and girl friends—and deposits overseas. And no other country in Asia can boast of having two of its leaders in the top 10 corrupt leaders in Asia. — Mr. Marcos and Mr. Estrada.

CORRUPTION

1. Thou shalt have no other gods before me
2. Thou shalt not take the name of the lord thy god, in vain
3. Remember that thou keep holy the sabbath day
4. Honor thy father and thy mother
5. Thou shalt not kill
6. Thou shalt not commit adultery
7. **THOU SHALT NOT STEAL**
8. Thou shalt not bear false witness against thy neighbor
9. Thou shalt not covet thy neighbor's wife or husband
10. Thou shalt not covet anything that belongs to your neighbor.

Based on the ten commandments one must presume many Filipinos end up in hell—for eternity.

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The current budget deficit that concerns everyone is due in part to corruption. The expected deficit this year equates to 23% of the budget. Most assessments of the level of corruption in government put it at 20-30% of government procurement and infrastructure spending. Although the larger part of the deficit is due to weak revenue collections, with an eroding tax base (which requires tax reforms) and revenue agencies that fail to collect the right amount of taxes. To a large degree, graft could be involved in the low collecting efficiency.

A Transparency International Report in 2002 put the Philippines 4th from the worst in Asia (out of 15 Asian countries rated).

TRANSPARENCY INTERNATIONAL CORRUPTION PERCEPTION INDEX 2002

GLOBAL RANK	COUNTRY	SCORE	
		2002	2003
5	SINGAPORE	9.3	9.4
14	HONGKONG	8.2	8.0
21	JAPAN	7.1	7.0
30	TAIWAN	5.6	5.7
37	MALAYSIA	4.9	5.2
50	SOUTH KOREA	4.5	4.3
66	SRI LANKA	3.7	3.4
66	CHINA	3.5	3.4
70	THAILAND	3.2	3.3
83	INDIA	2.7	2.8
92	PAKISTAN	2.6	2.5
92	PHILIPPINES	2.6	2.5
100	VIETNAM	2.4	2.4
122	INDONESIA	1.9	1.9
133	BANGLADESH	1.2	1.3

Putting Mr. Joseph Estrada in jail is a beginning of the clean-up —But why he is being treated with kid gloves is beyond me. It's an established rule that all are equal under the law. In fact, as president his crime is far worse. He is supposed to set an example and, as president, be more aware of what's right and wrong.

PANDERING TO MR. ESTRADA'S FOIBLES IS AN INDICATOR OF WHAT'S WRONG
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This pandering to Mr. Estrada's foibles is a good example of one of the things that's wrong with the Filipino culture. But it must be followed up with prosecution of the many other large-scale corruptors to get the message through very clearly: You can't get away with it.

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The World Bank in its report on corruption spelt it out very clearly: You must catch, and jail a “*big fish*”.

The president should prosecute someone close to her, and someone from the opposition (to be fair) that are known major corruptors. And ensure they go to jail. Quickly.

An example must be set of people who are believed to be untouchable. And the names are well known.

**AN EXAMPLE MUST BE SET OF PEOPLE WHO ARE BELIEVED
TO BE UNTOUCHABLE**

Anything less won't work. This can be done within the first three months.

Then the government system needs to be changed so that it is simple and transparent, with as few actions needed by government as possible.

Global Corruption Report 2004 (Transparency International)

Head of the Government		Estimates of funds allegedly embezzled	GDP per capita (2001)
Mohamed Suharto	President of Indonesia, 1967–98	US \$ 15 to 35 billion	US \$ 695
Ferdinand Marcos	President of the Philippines, 1972–86	US \$ 5 to 10 billion	US \$ 912
Mobutu Sese Seko	President of Zaire, 1965–97	US \$ 5 billion	US \$ 99
Sani Abacha	President of Nigeria, 1993–98	US \$ 2 to 5 billion	US \$ 319
Slobodan Milosevic	President of Serbia/Yugoslavia, 1989–2000	US \$ 1 billion	N/A
Jean-Claude Duvalier	President of Haiti, 1971–86	US \$ 300 to 800 million	US \$ 460
Albert Fujimori	President of Peru, 1990–2000	US \$ 600 million	US \$ 2051
Pavlo Lazarenko	Prime Minister of Ukraine, 1996–97	US \$ 114 to 200million	US \$ 766
Arnoldo Alemán	President of Nicaragua, 1997–2002	US \$ 100 million	US \$ 490
Joseph Estrada	President of the Philippines, 1998–2001	US \$ 78 to 80 million	US \$ 912

(I wonder why there are no prime ministers. Is it harder to be corrupt in a parliamentary system? If so it's a good argument for the shift)

There is no doubt in my mind that if Mr. Estrada now escapes conviction, or it's so delayed as to be ineffectual, (the Marcos cases are still unresolved after 18 years!) the Philippines will indeed be a “*banana republic*” for decades to come.

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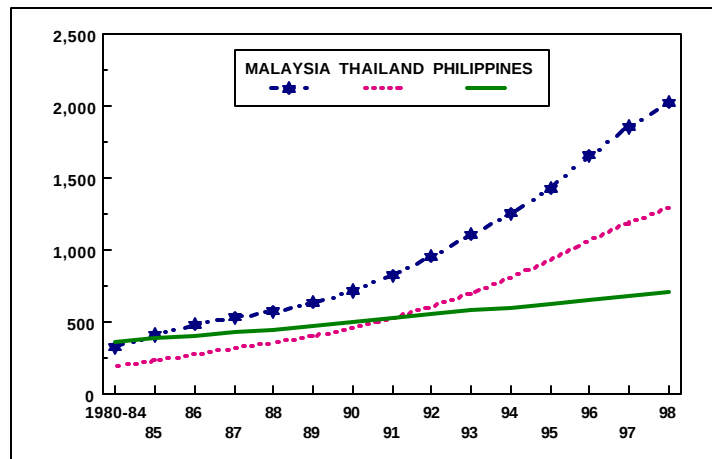
WHERE TO THE PHILIPPINES . . .

5. INFRASTRUCTURE

It takes too long, is too often too controversial, and mired in legal argument. Infrastructure is a “*no brainer*”. You put it in, you get business. You don’t, you don’t. It will go elsewhere.

In every survey we have done it lists as one of the top three disadvantages of the country. As of 1998, the Philippines was behind Malaysia by 24 years and Thailand by 5 years. If historical trends continue, i.e., Malaysia providing infrastructure to its people by 4.5x as much as the Philippines annually and Thailand by 3.3x, by 2008 the Philippines will be behind Malaysia by 50 years and Thailand by 20 years.

**CUMULATIVE LEVEL
OF INFRASTRUCTURE SPENDING
1980-1998 (US\$'000/HEAD-AT 1980 US)**



COMPLETION TIME OF WORLD BANK-FUNDED PROJECTS

PROJECTS	RP	REST OF REGION	% DIFFERENCE
WATER SUPPLY	9.29	6.04	53.8%
HIGHWAYS	7.41	5.89	32.6%
POWER	7.14	5.89	21.2%
IRRIGATION/DRAINAGE	8.48	7.85	8.0%
PORTS	6.58	6.73	—
AREA DEVT	7.63 YRS	7.05 YRS	8.2%

Right-of-way arguments, Congress probes, TRO's and court cases and, too often, the need to strike deals lead to excessive delay. Let alone just the incredible inertia and complexity of the bureaucracy.

YOU PUT IN INFRASTRUCTURE, YOU GET BUSINESS

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Given government's limited funds as much of it as possible must be done by the private sector. Government should be prepared to pick up the difference between what would be the normal charge for the service (based on achieving a reasonable, and agreed rate of return) and whatever fee is imposed due to social concerns. Government must guarantee a minimum rate of return if it is to attract investment into what is generally a regulated arena. Investors are going to be reluctant to invest the large capital cost for the many years of involvement at this time of uncertainty in the Philippines, so some strong "*inducement*" will be needed. This differential cost will be far less than shouldering the full cost of the project.

GOVERNMENT MUST GUARANTEE A MINIMUM RATE OF RETURN

Government also needs to provide assurance it considers contracts inviolate, and will no longer seek to renegotiate or, worse, abrogate them.

Otherwise, what's the point of a contract.

**GOVERNMENT MUST GUARANTEE A MINIMUM RATE OF RETURN
IF IT IS TO ATTRACT INVESTMENT**

And where ODA (official development assistance) funding is offered the government too often can't provide the 25% counterpart funding required. In October 2002, there was US\$11 billion of offered aid for infrastructure and other programs in the Philippines, US\$6 billion had not been used. The Philippines was only drawing down 62% of the amount scheduled for release.

Most donors are now holding back on offering aid. To get them back to the table will need a massive change in government's earnestness to get things done.

AND MUST HONOR CONTRACTS

The key word is "*action*", infrastructure just must be built, and built quickly. The 3 to 7, or more years just to get a project started is totally unacceptable. It should take no more than 1, from inception to project awarding. It's time to work fast. And not just prior to elections as we've recently seen with a flurry of projects initiated.

IT'S TIME TO WORK FAST

In Sydney, where I was recently, cars almost never have to stop because roads have been widened, tollways and freeways built and tunnels and bridges provided wherever needed. Plus sophisticated traffic management systems—and, importantly, disciplined, polite drivers. It used not to be like that, but action was taken.

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As the MRT down EDSA shows, and the Skyway (as far as it goes, which is not far enough) improving public transport and infrastructure and the ability of vehicles to move dramatically reduces travel time. Increasing economic productivity, and improving quality of life. Besides, infrastructure spending by itself stimulates the economy by creating jobs, as was shown by the massive spending on public works done by former U.S. President Franklin Roosevelt to stir his country out of the Great Depression in the 1930's.

55% of the country's economy is generated in the GMA, Central and Southern Luzon, and 38% of the population live there. Consequently, priority should be given to infrastructure in those areas. So that greater wealth can be created to build infrastructure elsewhere. In other words, the rest of the country won't be deprived, only that its needed infrastructure will come in a little later. A priority list of projects should be made and offered BOT for international funding.

But irrigation of farm lands should be included in the priority agenda as it can have a dramatic impact on agricultural productivity.

The new president needs to identify no more than a dozen infra projects that can be started immediately—and start them. Why on earth this can't be done I really don't understand. And when it comes to Right-of-way pay 50% over assessed market value, —to compensate for the inconvenience — and force sale immediately. The owner should have no option but to sell. The right of eminent domain must be enforced.

I would grant the Administration emergency powers (as was done to solve the electric power crisis in 1993) to award BOT projects for infrastructure and utilities and mandate specific deadlines for processing, awarding, completion, etc. I would have an international group handle it to ensure honesty and fast implementation—the current 3-7 years just to get a project started is too long. One year is long enough. I have detailed this a couple of years ago in a separate report entitled “A SEAMLESS INFRASTRUCTURE PLAN”.

Priority must be on ensuring adequate power. This means emergency measures must (again) be taken, and drastic solutions accepted. As a start, Transco must be privatized—fast. At almost any cost, and a government guarantee given to the buyer that he will get an agreed minimum return on his investment (ADB may be prepared to provide this, and government should explore this possibility) provided he meets an agreed schedule of upgrading and expansion.

The same with NPC, whose gargantuan debt will soon create a catastrophe for government if not stopped now—by privatization.

Similar guarantees and negotiated contracts will be needed to get new power plants built past (do we never learn?). Congress will need to quickly approve it. But whether anyone will be interested to invest is problematical.

6. ANTIQUATED AGRICULTURE

The biggest revolution for most countries was in agriculture. The sector that dominates fledgling economies (it accounts for 30% of the Philippine economy and directly supports 50% of the workforce, highlighting its importance to be first addressed). The trouble is it is too highly politicised in the Philippines. Commonsense has been thrown out the window.

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And, as in too many other comparisons, it performs poorly compared to most of its neighbours.

Average Growth in Agri Gross Value Added (Percent per annum)

	1970-1980	1980-1990	1990-2000	2001-2003	Average 1970-2003
Malaysia	6.5	3.8	1.4	1.2	3.7
Thailand	4.2	3.9	2.8	1.9	3.5
Pakistan	3.0	4.3	3.8	0.5	3.4
China	2.7	5.6	1.0	2.8	3.1
Indonesia	2.0	4.9	2.6	2.0	3.1
PHILIPPINES	4.9	1.0	1.6	3.4	2.6
India	1.8	3.2	2.6	1.6	2.4
Nepal	0.8	2.7	2.3	3.2	2.0
Sri Lanka	1.8	2.1	2.6	0.8	2.0
Bangladesh	1.4	1.9	2.7	1.9	2.0

If the more recent period: 1980–2003 is considered, which would be the more relevant thing to do, the Philippines sinks to 1.6% – or last!

Average Growth of Agri Gross Value Added

	Average 1980-2003
Pakistan	3.6
Indonesia	3.5
China	3.2
Thailand	3.2
India	2.7
Nepal	2.6
Malaysia	2.4
Bangladesh	2.2
Sri Lanka	2.1
PHILIPPINES	1.6

And yet it can do better as the 1970-80 period shows: investment in rural infrastructure and irrigation; adoption of high-yielding varieties and the better use of fertilizer were what did it.

The high growth rates in agriculture of Malaysia, Thailand and China brought them to a level of efficiency by 1990 that was well ahead of the Philippines. So the next decade saw only marginal improvement for those now well-developed agricultural sectors. The others continued to outpace the Philippines.

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DEVELOPED

COUNTRY	1991-2000
MALAYSIA	1.2
THAILAND	1.1
CHINA	1.1

STILL DEVELOPING

COUNTRY	1991-2000
PAKISTAN	3.8
INDIA	2.8
BANGLADESH	2.7
INDONESIA	2.6
SRI LANKA	2.6
NEPAL	2.3
PHILIPPINES	1.6

Rice, the primary crop, needs a 60% tariff protection against Thailand just to begin to compete—and even then Thai rice is of better quality.

And it is the same with all crops, hugely inefficient. Rice yields are half those in China, Australia produces 97 tons/ha of sugar cane versus the Philippines' 68, and so on.

In 1960 there were 27 million Filipinos to feed. Today there are 82 million. But the area of farmland increased far more slowly—from seven million hectares to 8.7 million hectares. So the population increased 180%, farmlands only 24%. That means more pressure on the farms to deliver with the people/hectare ratio rising from 3,860 in 1960 to 9,000 today. It's now approaching the point where there will be more people than can be fed, in fact it's already there—basic foods must be imported to meet demand.

THERE ARE MORE PEOPLE THAN CAN BE FED

This can be addressed by a serious effort at improving irrigation (only slightly above half of potentially irrigable farmlands are irrigated, and much of that is poorly maintained. El Niño becomes irrelevant if you can draw from a dam. But the users should pay for the service. Just as urban people do (or are supposed to) for the water used in their homes. Better post harvest facilities (for example, post harvest losses are huge—30% in rice, when it should be 5-6% as in other growing countries (no sensible nation dries its palay on the road), and more enlightened farm practices. Issues that have been discussed for two decades, with little improvement achieved. The introduction of genetically-modified crops (which the Arroyo administration is trying to do) would also help, not only to improve yields, but also have the added advantage of providing nutrients and other essentials, particularly for young children. And have the side advantage of reducing the use of fertilizer and pesticide. So why there is opposition to GMO's is a mystery hard to understand. But that opposition is making it difficult to produce more, better quality food people need. The Catholic Church, which opposes the use of hybrid seeds should be more concerned about the nutritional lack of its people.

THE CATHOLIC CHURCH, WHICH OPPOSES THE USE OF HYBRID SEEDS SHOULD BE MORE CONCERNED ABOUT THE NUTRITIONAL LACK OF ITS PEOPLE

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IRRI has done some excellent work on providing superior seeds and planting methods. And in developing low cost machinery and equipment that can dramatically improve efficiency. The Philippines is not taking advantage of this research.

But the biggest deterrent to efficiency is land reform. You just cannot be efficient on five hectares (seven for rice) of land. This is so obvious that it's frightening that politicians refuse to see it. Yes, it's nice to own your own land. But farmers on five hectares make up the bulk of those in poverty. And owning land doesn't pay the bills, a job does. I venture to suggest that many farmers would prefer to own a house on 500 sqm of land—and work for a plantation with a steady income for their family. Plantations can provide such jobs.

Unfortunately an uncompromising agrarian reform program that doesn't allow large plantation ownership necessary for efficient production of a number of crops has deterred all but a few existing agri-business companies. The law needs to be changed to allow both small plots and plantations to co-exist, and to allow agrarian reform beneficiaries to sell their land and banks to accept it as collateral. As it now stands, there will be no new plantations started, yet there needs to be. And with Philippine agricultural productivity generally the worst, or close to the worst, in Asia, a fundamental re-think is essential.

PLANTATIONS SHOULD CO-EXIST WITH SMALL PLOTS

Bananas, pineapples, mangoes, etc can be major export earners but no new corporation is going to invest under the present law. The law must be changed.

In 1950, based on official figures, there were 18 million hectares of forest. Today there are only about 8 million hectares. And these official figures are almost certainly overstated—hardly a million hectares of virgin forest stands today, while the reforestation program has been marked by scandals of money collected but no trees planted on deforested land.

A ban on logging is not the answer. Managed forestry is. New Zealand has shown very successfully how forestry, properly managed can be beneficial to a country. As a start, when you cut down a tree, plant two —or three, or four. Surely that can't be difficult.

WITH PHILIPPINE AGRICULTURAL PRODUCTIVITY THE WORST, IN ASIA, A FUNDAMENTAL RE-THINK IS ESSENTIAL

Allied to agriculture in that it also provides—or can provide—income in rural areas is the exploitation of natural resources. But, this is another controversial issue where the Philippines could generate significant wealth—and do so in the countryside where it could really help—but doesn't. Doesn't because of an inability to weigh benefits against disadvantages by far too many NGO's who don't understand the issues, and often have their own agenda. And (again, why does it oppose so many things that could help people have a better life?) by the Catholic Church, who opposes it on environmental grounds, instead of using their influence to see to it that mining companies act responsibly to minimise damage to the environment whilst mining and to restore the area afterwards. The church could play an important role in this manner. If, however, they continue to just block

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mining activity then they should, as we said earlier, be required to provide the jobs mining companies would have provided. Otherwise they are responsible for rural poverty.

The Philippines could export US\$5 billion as a minimum annually from mineral production, and it could be a lot more. But actually exports less than US\$700 million.

Australia exports US\$20 billion annually, and uses US\$5 billion domestically, and with little long-term damage to the local environment.

Modern mining techniques are environmentally compatible, weighing benefit to the people versus some degradation to the land. Maintaining pristine beauty is a nice concept, but look at a starving child and decide which is more important.

LOOK AT A STARVING CHILD AND DECIDE WHICH IS MORE IMPORTANT

Tourism also benefits the rural poor and deserves a closer look for the medium term (five-six years) because of the forex generating capability, potential investor-drawing possibility, and a more global outlook for the population at large. And it spreads wealth and creates jobs in the countryside. But it will call for reforms that will strengthen allied service sectors. One example is the airline industry, which should be fully “*open skies*”. Countries don’t need their own airlines, they need huge numbers of people coming in and out.

And, of course, the safety of the tourist is essential. Given the kidnappings and rise in MILF and NPA activity and terrorist attacks this has taken a predominant role that has deterred all but the most determined tourists. In the meantime encouraging Filipinos to tour their own country could well be a successful strategy to help develop the industry.

7. JOB CREATION

Addressing poverty directly isn’t the answer. Poverty is an outcome from other factors. There are only three ways to get people out of poverty: One, give them jobs. Not houses, not meals, not free medicines – but jobs. It’s the old saw, give a man a fish and he has a meal. Teach him how to fish, and he’s fed for life. Anything else is short term, and is a palliative that quite simply won’t solve the problem. Second is to properly educate people so they can do the jobs. Third is to slow the rate of population growth so there are enough jobs to go around.

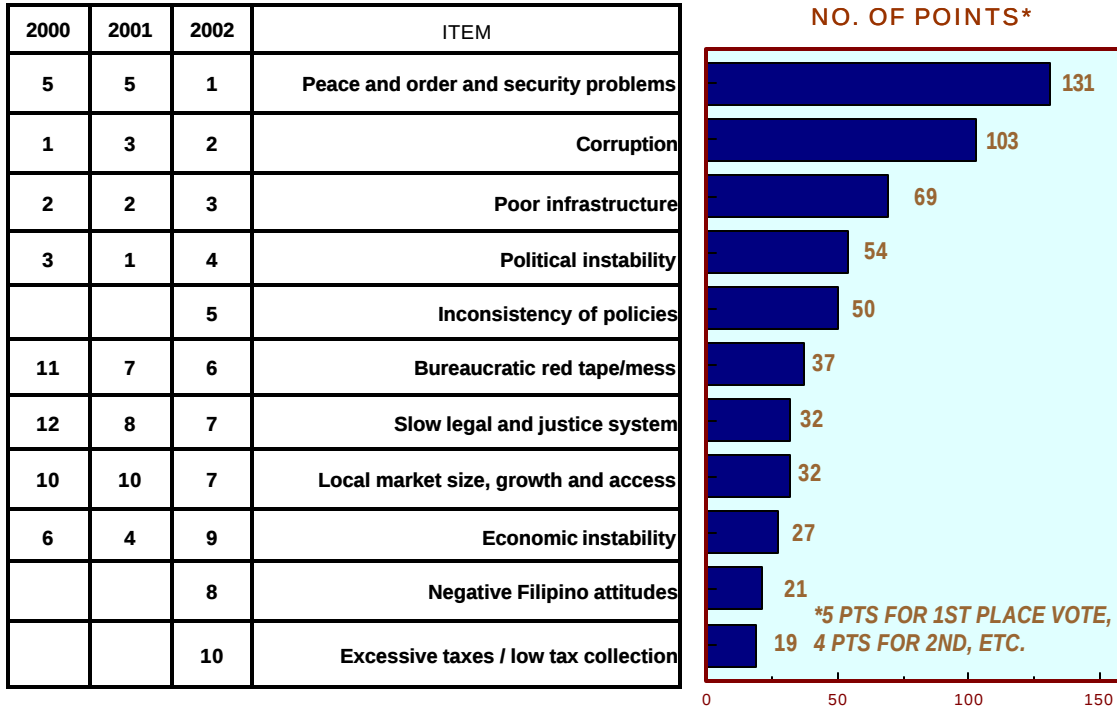
GIVE THE POOR A JOB, AND THEY ARE NO LONGER POOR

Give the poor a job, and they are no longer poor. So the focus should be on job creation by providing the environment that will attract investment. And this, as we’ve said a hundred times, must address what businessmen most complain about.

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... BARRIERS TO INVESTMENT



Up near the top always is the inadequate infrastructure. President Fidel Ramos understood this—look at what he did for power. And more. Lack of funds cannot be an excuse, the money must be re-directed—and the theft (corruption) stopped.

Corruption reduces the amount available to build by anywhere from 20% to 30%. Corruption occurs in two areas: “Commissions” from the contractors and, sub-standard construction. You pay more for a lesser product. This, too, is always a top concern of investors.

Then, stability, consistency, continuity. A businessman needs to be assured the environment within which he works will remain stable and predictable. And when there is change, as there must be in any society, it will be fair, have listened to all sides, and time given to adapt. Allied to it is the need to simplify and speed the bureaucracy

Lastly, a safe environment. The risk of being kidnapped does not attract people with money.

Do these five and watch the economy grow. Watch businessmen invest in businesses. Watch poverty disappear. Fixing this isn’t rocket science. Getting politicians to understand it does require a rocket though. Too often, they are the problem.

The Philippines is not attracting the investment it could because it has yet to make the changes enumerated in this paper. In five years (1998–2002) Thailand attracted US\$21.9 billion in foreign investment, the Philippines only US\$6.8 billion, less than 1/3 as much. Most of this was in manufacturing where it takes US\$70,000 to create one job. So this equates into 313,000 jobs in Thailand versus 97,000 in the Philippines. Some 217,000 Filipinos didn’t get jobs they should have got.

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NET FOREIGN DIRECT INVESTMENT (US\$B)					
	1998	1999	2000	2001	2002
China	43.8	40.3	40.8	46.8	224.4
Singapore	7.6	13.2	12.5	10.3	51.3
South Korea	5.4	9.3	9.3	3.5	29.5
Thailand	7.5	6.1	3.4	3.8	21.9
India	2.6	2.2	2.3	3.4	13.9
Indonesia	-0.4	-2.7	-4.5	-3.3	-12.4
Philippines	1.7	1.7	1.3	1.0	6.8
Malaysia	2.7	3.9	3.8	0.6	14.2
Vietnam	1.7	1.5	1.3	1.3	7.0

217,000 FILIPINOS DIDN'T GET JOBS THEY SHOULD HAVE GOT

8. THE COURT SYSTEM

The mining act sat in the Supreme Court for seven years, unacted upon. Billions of dollars of investments and exports and job creation were lost. Then, in a disturbing decision, it reversed the actions of its two co-equal branches (that had supported giving foreigners a major role) and threw out the Mining Act. The 8:5 decision showed that it was not a clear-cut legal case, but one of judgement. And I'd argue, that in making that judgement the court should have taken greater cognisance of its two co-equal (by the constitution) partners.

This is the 11th controversial decision the Supreme Court has made that has failed to take the business and economic impact of its decision into sufficient account.

We believe the Supreme Court should be required to invite independent experts to advise them of the technical, economic and social consequences of whatever decision they might then make. They did it when FPJ's citizenship was at issue. They can do it when business future is at stake. If they do it in reconsidering their decision on the Mining Act this would send a very positive signal to the business community.

**THE SUPREME COURT SHOULD BE REQUIRED TO INVITE
INDEPENDENT EXPERTS TO ADVISE THEM**

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Supreme Court Decisions with Negative Impact on Business

YEAR	CASE	RESULT
1991	Naptha cracker	Proponents wanted it in Batangas. SC said put it in Bataan
1995	Manila Hotel	overturned winning bid by Malaysian Renong group as hotel is part of RP heritage & should be offered 1st to Filipinos – at lower cost
1996	U.S. jeans-maker Lee	trademark ruling in favor of local manufacturer
1997	Oil deregulation law	watered down original law — introduced anti-competitive provisions: 4% tariff differential on crude oil and refined products and minimum inventory req't
2001	Keppel (Subic shipyard)	SC declared JG Summit as winner 5 years after Keppel won project, saying shipyards are a public utility and should be at least 60% Filipino. But shipyards are not in Foreign Investment negative list. Decision now reversed—but damage is done, and JG Summit appealing the case
2002	ISM	equal pay for Filipino & foreign teachers – retroactive
2003	Meralco	RORB BT not AT – retroactive
2003	Closure of UBP	CA suspended BSP Governor, 4 others
2003	Camp John Hay Redevelopment	Voided tax incentives on John Hay
2004	Meralco	Rejected ERC–approved P0.12/ kwh rate increase
2004	Mining Act of 1995	Declared FTAA “unconstitutional” as SC said it constituted a “service contract”

As to the lower courts, any society that wishes to be civilized must have a blind court system, one that looks dispassionately at each case. Yet no one I've ever talked to believes it is. The miniscule number of top level people in jail is sufficient proof of this. On top of that there are thousands of poor people languishing in jail for years under appalling conditions for petty crimes they've often not yet even been convicted of.

The courts accept too many nuisance and harassment cases. A survey we did showed that 64% of MNCs had an average of six cases per company, yet won most of those cases—highlighting the lack of legitimacy of so many of these cases.

There is a widely held perception that the courts often do not make impartial decisions.

The bedrock of any democratic society is a justice system that is fair, swift, and impartial. Deciding only on the facts. The Philippine court system is, it would seem, far from this.

There is now some hope with the current Supreme Court Chief Justice, but his task is monumental and it's doubtful one man can make the massive change necessary. It will need help.

9. SECURITY

Security and Development = Peace + Stability

This is the basic equation needed to address the problem of the secessionist Moro Islamic Liberation Front (MILF), and the rebel New People's Army (NPA).

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Peace talks with the NDF or MILF can never work if attempted in isolation. Economic development, uplifting of all in the community must go hand-in-hand with any attempt at peace. Getting people out of poverty is an essential ingredient in why young people join these movements. There's less reason to rebel if you're (relatively) well off.

**THE GOVERNMENT CANNOT WIN BY FIGHTING THEM.
AND CANNOT NEGOTIATE PEACE IN ISOLATION.**

The government cannot win by fighting them. And cannot negotiate peace in isolation.

The problem is, in part, idealism but in larger part, poverty. Too many youth are captured into these two groups for no other reason but that they are poor and jobless and the rebels offer to provide for them. Although in the case of Muslim youth most come from Islamic schools where they are only taught religious subjects—so they make easy targets for fundamentalists. And are not equipped to become productive members of the workforce.

So, economic development of the conflict areas and fuller education must go hand-in-hand with a firm hand by government, coupled with serious peace negotiation.

Only by addressing the twin problems of security and needed development can peace and stability be achieved.

The trouble is: On the security side there are now proven links to Jemaah Islamiyah and involvement of al-Queda has also been established. So the MILF and, more especially, the Abu Sayyaf Group (ASG) have become not just a domestic problem, but an international one, with the U.S. being particularly concerned. And if it were shown that the links were not just with elements of the MILF, but supported by its leadership the MILF would have to be branded as a terrorist organisation. Which means the Peace Trust Fund (US\$30 million from the U.S. alone) would be cancelled and the peace process shattered.

While on the economic side the failure of the Philippine government to develop the Autonomous Region of Muslim Mindanao (ARMM) and the inability of the Muslims to take proper advantage of the autonomy granted has led to the region being one of the least developed in the country. Which could be justification for the MILF to be wary of any promises of the government.

The fighting that has gone on, and the kidnapping (principally by the ASG) have given the Philippines an appalling image of insecurity and risk that has deterred investment not only in the ARMM but in the wider Mindanao as a whole, and the Philippines in total despite that the risks, with a couple of notable exceptions, have been limited to specific areas.

Resolution of the problem with the MILF can perhaps be attained, but only if its accompanied by economic development and an educational system re-focused to the modern secular world. Not easy, and not likely to happen for a long time. But it must be tried.

The ASG are just murderous thugs and must be treated accordingly. While the communist NPA must be neutralised by the Army, while at the same time economic development is brought to the countryside—a good argument for developing mining. And for accelerating improvement in agriculture and encouraging tourism. All activities located where the NPA are.

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In the short term all three must be fought to reduce their ability to inflict harm on the innocent populace. Armed people, no matter how just their cause, cannot be allowed in society.

**ARMED PEOPLE, NO MATTER HOW JUST THEIR CAUSE,
CANNOT BE ALLOWED IN SOCIETY.**

As to crime: First, legalise jueteng, as others have also recommended. It's a no brainer. Gambling can never be stopped, so bring it above ground. The government can even generate taxes from it.

For other crimes the solution is, as anywhere, catch the criminals and ensure they go to jail. Senator Lacson and, more recently, Secretary Reyes showed that with a determined, dedicated effort kidnapping could be curbed. Other crimes can similarly be addressed if the resolve is there.

All (all!) it needs is a tough, no nonsense approach by a tough, no nonsense leader. (there's that word again).

10. GOOD GOVERNANCE

First and foremost is consistency investors can't tolerate uncertainty and where it exists would rather go elsewhere where the environment is more predictable. A book published by the Princeton University Press in 2003 pointed out that the Philippines stagnated because of *"rising institutional uncertainty"*—not because of *"too many shocks"* (natural disasters), wrong policies, a decline in investment (which is just a manifestation of weak government control), weak institutions or corruption. The book added that Indonesia has overtaken the Philippines despite having relatively weaker institutions, because in Indonesia investors feel secure that their contracts will be enforced and are assured that their returns will be as expected.

Policy inconsistency means either the government declaring a particular policy (and having rules to support it) but acting otherwise, or bending rules to support favored groups, or changing rules in midstream.

BE CONSISTENT

To achieve policy consistency, the President must have a clear vision of what she wants the country to be at the end of her administration, or even beyond. It should be a practical, realistic vision. One possible suggestion is making the Philippines among the most investor-friendly countries in Asia in 6 years. This vision must be communicated to and followed by all levels of government —then let them work out the details. The leadership must not stray from this vision, otherwise, the commitment of the entire government machinery will break down.

BE TRANSPARENT

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The President must not succumb to populism especially if it means reversal of major beneficial policies. Gain cannot be achieved without pain (e.g., loss of a few businesses and jobs), and there is more to gain in making the policy environment more predictable, particularly to business. Investment thrives on stability. The pain can be eventually eased by greater productive opportunities created by stability.

BE PREDICTABLE

Avoid unsettling contracts, particularly those dealing with infrastructure. It is far better not to lose tens of billions of pesos in potential investments because of a perception that the government can't enforce contracts than to gain a few hundreds million of pesos in savings by amending or voiding live contracts. But make sure that future contracts are done with greater transparency and are equitable to all parties concerned.

ENSURE EQUITABLE RELATIONSHIPS

Rules can't be bent to favor supporters and friends of the President at the expense of other groups. Business entry approvals must be based on the intrinsic merit of the project, compliance with the mandates of the law, and transparency.

And then there's bureaucratic red tape.

Let's start at the top.

Firstly, no appointments as a thank you for supporters. Cabinet Secretaries should be chosen for one reason only: competence. That means some of the existing officials should be retained.

APPOINT ONLY THE SECRETARY AND UNDERSECRETARIES

Second, appoint only the Secretary and Undersecretaries. Although an interim exception could be made to retain the heads of the BIR and BOC, given their excellent performance. All other ranks should be promoted from the regular employees. If this doesn't drastically boost morale in the public service nothing will. And, in line with that, offer an attractive retirement/ resignation package with the aim of eliminating 20% of the government employees. That 20% personnel saving should then be translated into a 20% increase in salaries for those remaining. That should boost morale further. And vastly improve efficiency. But then demand performance.

The remaining public servants should then be given two ultimatums: 1.) Act within x days (x depends on the complexity of the action to be undertaken) or it becomes automatically accepted/ approved. 2.) Reduce the number of signatures needed for any one activity by a minimum of 50% with no more than six signatures needed for anything.

The E-procurement law should be put into full effect.

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But governments' can't operate without money.

This is a poor country, a failing economy (if you don't believe me, look at the numbers) —and it's been so for decades.

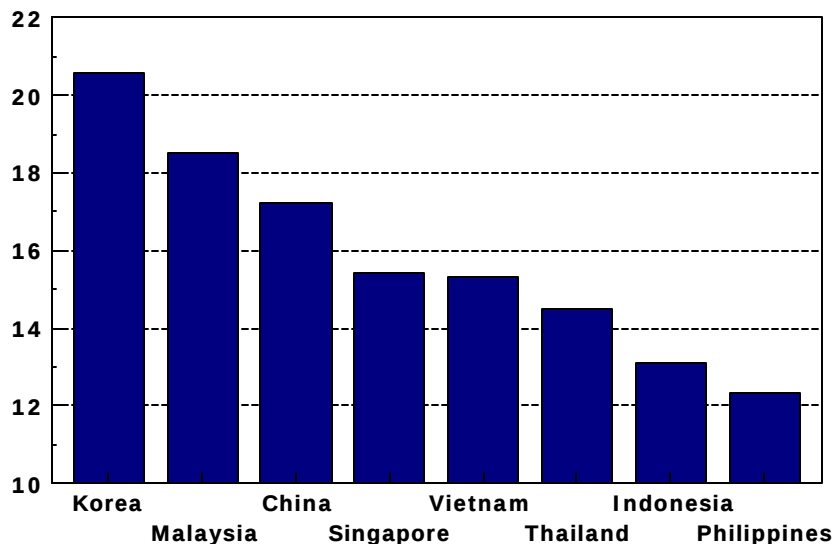
HOW WE COMPARE

Country	GDP ave	GDP/capita	Ave productivity	Net FDI	Budget deficit	% of population	Paved roads	Phone lines
	10 years	US\$	(US\$ per worker)	(US\$B)	as % of GDP	below poverty	(in %)	per 100 persons
	(1990-00)	(2000)	(2000)	(1999)	(1995-2000)	(Latest survey year)	(1998)	(2000)
China	10.4	855	1,518	38.8	2.2	4.6	-	11.1
Singapore	8.2	23,015	42,030	7.0	0.0	0.0	97	48.4
Vietnam	8.0	404	815	1.6	0.8	50.9	25	3.0
Malaysia	6.5	3,854	9,641	1.6	1.8	15.5	75	19.9
Korea, Rep	6.0	9,671	21,668	9.3	1.4	7.4	75	46.4
India	6.0	439	1,492	2.2	1.6	35.0	46	3.2
Indonesia	4.7	728	1,707	-2.7	1.0	20.3	46	3.1
Thailand	4.7	1,958	3,702	6.2	1.6	13.1	98	8.7
Philippines	3.3	959	2,688	0.6	2.0	40.6	20	3.9

➔ The Philippines equals Vietnam in being last (4 each), but Vietnam was/ is growing at 8%. The Philippines a little over half that

One reason (not the only, but a major one) is the lack of money. Government gets far too little (a mere 11% of GDP compared to its neighbours who average 16%)

Tax Revenues/ GDP 2002



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Government revenues are just too small. A major reason is the large number of people who don't pay taxes, or pay much less than they should.

In some cases the evasion runs into the billions of pesos. And the names are known. We don't need new or higher taxes. Although certainly on cigarettes and alcohol (except red wine—a health drink) we do—but this was blocked in Congress. A loss of around P12billion in revenues in 2004 alone that no one could have complained about. And, possibly extending it further by putting a modest surtax on luxury goods.

The recently passed law exempting lawyers from VAT should be rescinded. There is no justification for it (doctors, perhaps; lawyers, no).

What is needed is honest payment. That will only happen by throwing some of the biggest cheats in jail. Knowing you'll get caught is the reason in other countries why people pay their taxes. Not for love of country, but fear of jail. The budget deficit could be wiped out if the correct taxes were paid. Put two of the biggest in jail and watch tax payments escalate dramatically.

PEOPLE PAY THEIR TAXES BECAUSE OF FEAR OF GOING TO JAIL

And the budget deficit is a huge worry today. It is essentially a revenue problem, but exacerbated by corruption and inefficiency in the supply of public services. So the solutions are as detailed in suggestions one, four and seven. (*page 35*)

The government isn't collecting enough to support a more effective delivery of social services and to build the needed infrastructure.

The government needs to continue its programs for improving tax administration, which showed promising results in 2003. As mentioned previously, the BIR and BOC chiefs can, and should be, retained for doing a good job. And for continuing the initiatives that they are currently pursuing.

The leadership must, at the same time, show more resolve in persuading Congress to pass the proposed revenue enhancement bills. And congress must do so. And this includes the “*corporatisation*” of the BIR. This is a matter of national urgency if the Philippines is to avoid the risk of a debt crisis. Even with the heroic efforts of the BIR and the BOC to improve collections from existing taxes, the budget deficit problem won't be solved permanently without change to the system.

The debt issue is closely linked with the public sector deficit issue.

Solve the budget deficit problem and government borrowings (which recently was the main reason for rising foreign debt levels) will be reduced, so the debt problem is almost automatically contained. The rule of thumb is the budget deficit as a percentage of GDP must be well below the real GDP growth to achieve sustainable levels of national government debt.

VETO THE DEBT CAP BILL

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One thing that the President must not do is to allow Congress to pass the debt cap bill. It should be vetoed if Congress decides to pass it. It will not solve the debt problem, but only exacerbate it. The government will lose its flexibility in managing its cash flow, causing disruptions in its operations. It would be worse if a foreign–currency debt matures and the government can't borrow to pay for it. The country could be declared in default, creating a debt crisis instead of avoiding one.

The tax system needs to be overhauled to arrest the decline in the tax base (due, for example, to non-indexation to inflation of the excise taxes), and to capture the shift in the tax base (i.e., the tax system is heavily concentrated on the sluggish local manufacturing, while the more dynamic sectors like telecommunications are relatively lowly-taxed)

CONCLUSION

The crisis affecting the world since 9/11 has seen governments take bold steps to minimise the damaging impact of these dreadful attacks. It has prompted governments to do things they otherwise would not have done. And things that are vastly unpopular—like intrusive security searches. But people accept it, for the greater good.

The Philippines has, added to this, a domestic crisis of its own. This provides an excellent window to effect change, of a radical kind. And it must be radical. The history of the country, the sorry statistics this report highlights say without any doubt at all, that if fundamental change isn't done the Philippines has another 30 years of 3% growth, and a population that is double what it is today with almost no improvement in the quality of life.

Is this too harsh on the Philippines? I don't think so. The numbers say it all: The Philippines is behind. I know it can do better—but it must, really must change its culture. Develop a sense of national pride and doing things for society, not for the individual.

DO THINGS FOR SOCIETY, NOT FOR THE INDIVIDUAL

Unless fundamental change is made real improvement cannot be expected. Others may have other ideas, but what should now happen is active discussion on what these might be, agreement then on the key ones – and then action to make those changes.

**WHAT IS NEEDED IS ACTIVE DISCUSSION ON THE
CHANGES NEEDED —AND THEN GET IT DONE**

In 2001 I said: *“President Gloria Macapagal-Arroyo has the unique opportunity to effect that change. A possible nine years continuity to address the underlying root causes of Philippine failure to develop like its neighbours. To do better than its neighbours. At worst, three years to get it started. But I venture to suggest that getting these eight (the last is up to the courts) started will help capture the next six if properly explained”*

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Well, unfortunately, the eight weren't sufficiently addressed. And sometimes where unpopular, tough but necessary decisions were to be made they weren't because of strong public opposition. So there is a concomitant need to explain better and elicit that public support. With it the task would be far easier. But regardless of whether that support can be obtained or not the next 6 years must be devoted to tough, dramatic changes if the Philippines is not to slither along at the bottom in Asia.

There is unlikely to be as auspicious a time for change as there is now but it needs people who care for their country to stand up and be counted. To demand change.

And a leader that will do it.

WHAT THEN NEEDS TO BE DONE?

First; the leadership needs to think long term in effecting change and think about how to explain it so it gets support. The President must do what's right, and necessary and set the foundation for the long-term future. The tough decisions must be made now. The world's greatest leaders were the ones that *"bucked the trend"*. That had a vision pursued fanatically and with a sense of urgency.

Secondly; corollary to setting the long-term change, concentrate on doing (and again I stress, doing) the little things, the big ones will follow. As we've said above, visions are necessary - but not enough. Neil Armstrong, the astronaut, said it well: *"One small step for man, one giant step for mankind."* Societies are built step-by-step, each action building on the previous one until a complete whole is achieved.

And that raises another point: Change won't occur unless we all work for it to do so. The President can lead it, but can not do it alone. Each one of us must stand up and be counted. Each one must do his bit. Must help to effect positive change—and that especially includes the political opposition and leaders of the business community.

Thirdly; Related to the above, there is a need to develop a sense of nationalism and social responsibility—and that's where self-centeredness comes in. Self-centeredness (which equates to a lack of concern for society as a whole) is all around you. I suspect this is the truly fundamental, underlying problem in the Philippines. Because of it's past—of colonial domination—there was an understandable shift to ensuring the well being of you and your family. And no concern for a country that was ruled by foreigners.

But today Filipinos are ruled by Filipinos. Today they must shift to supporting their own leaders, their own country. They are now on their own and can prove to the world they can be just as successful as other Asian countries.

Everyone must be taught to take personal responsibility, to participate in the community in a responsible fashion if the Philippines is not to remain near the bottom of the Asian heap.

A jeepney driver must be so educated as to think automatically: *"Oh, I mustn't stop here, look at the disruption I'll cause behind"*. "I must help in my own small way to see to it that my country progresses." Today, it's a laughable concept. Tomorrow? Well, its up to you.

Fourthly, the population growth rate must be slowed. At 2.4% per annum, population growth in the Philippines is growing at almost twice the average in Asia, and three times the world average. If the Philippines had matched Australia's growth rate there'd be 39 million Filipinos earning \$1,900-double what they earn today. And that's the impact of just one factor.

Fifthly; stop talking, and act. Get things done and implement or enforce laws—without exception. If the rich and powerful break the law they are just as guilty as the poor. More so, because they know better, or should. Instilling discipline, addressing the immediate problems is part of achieving the overall goal. A country that can't dispose of its garbage, enforce discipline on its streets, make people pay taxes due, etc, etc and etc, will never also make the necessary, fundamental changes. And won't grow.

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But, sixth, far and away the most important thing is education, proper, well-structured education. Not just the three R's, but the teaching of morals and ethics too. And education that meets the country's needs: more science, less law (not that there's anything wrong with lawyers, but we need more technically oriented people). It must also encourage a sense of nationalism (in a positive sense), civic pride and involvement.

There is no question in my mind but that a far, far greater emphasis on education will do more good than almost anything else. But it must be education that meets society's needs. This is an area to focus ODA funds. Funds that are too often wasted, misused or controversial as to their benefit. No one, but no one will object to money spent to educate their children.

AS A START

In the first six months of the new presidency I'd suggest the following things can done, and if done would be an excellent start to making the fundamental changes necessary.

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IN A NUTSHELL

- Put 2 big, well-known corruptors in jail.
- Put 2 big tax evaders in jail.
- Legalise jueteng.
- Appoint only Secretaries and Undersecretaries, and select them for competence and expertise.
- Offer an attractive “*retirement*” package to all government officials. Use the money saved to increase salaries of those remaining.
- Mandate deadlines for all government actions—or it’s automatically approved.
- Reduce government signatures required by 50%, with 6 as the maximum.
- Put the E-procurement law into full effect
- Take emergency measures to get the power sector up to the level needed to ensure full supply at all times.
- Privatize NPC and Transco at any cost—and provide guarantees for “*political risk*”.
- Provide guarantees for all BOT projects for political risk.
- Reduce time to process BOT projects from 4 to 7 years to 1.
- Request aid agencies to reduce the counterpart fund needed from 25% to 10%—until government finances can be improved.
- Concentrate infrastructure development in the GMA, Central and Southern Luzon areas for now—where the best leverage into economic growth can occur. But do expand irrigations in the rural areas.
- Identify 12 infrastructure projects to start now.
- Index the excise tax on sin products—even increase it further.
- Consider a surtax on luxury goods.
- Remove the VAT exemption for lawyers just passed.
- Re-establish and strengthen the family planning clinics, to provide information and assistance on all kinds of contraceptions
- Provide free education for primary and secondary schooling—plus provide the funds for all ancillary costs. Remove the government funding for tertiary schools to pay for this.
- Ensure English as a primary language.
- Review the Constitution.
- Concentrate all efforts on promoting and supporting the 5 areas of “*natural advantage*”:
 - Agriculture
 - Mining
 - Tourism
 - I.T.
 - Healthcare.
- Do something at the beginning that can be done in a clear, demonstrable manner that shows the president can get things done. It becomes easier after that to get other things done.