

BTI 2010 | Philippines Country Report

Status Index	1-10	6.06	# 49 of 128	
Democracy	1-10	5.90	# 63 of 128	➔
Market Economy	1-10	6.21	# 49 of 128	➔
Management Index	1-10	4.09	# 94 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

More on the BTI at <http://www.bertelsmann-transformation-index.de/>

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Key Indicators

Population	mn.	88.7	HDI	0.75	GDP p.c.	\$	3369
Pop. growth	% p.a.	1.8	HDI rank of 182	105	Gini Index		44.0
Life expectancy	years	72	UN Education Index	0.89	Poverty ²	%	45.0
Urban population	%	64.2	Gender equality ¹	0.56	Aid per capita	\$	7.2

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, the Philippines continued to face two crises on the political and economic fronts. The administration of President Gloria Macapagal Arroyo hobbled from one political scandal to another, but her continued political survival emboldened her to consolidate other means of legitimizing her rule. Given her weakened political legitimacy due to the contested presidential election of 2004, she has embraced economic recovery as a justification for her continued stay in office. Under her administration, the country has experienced eight years of continuous economic growth. The country's GNP grew by an annual average of 5.5% since she ascended to power in 2001. The highest growth rate reached under her administration was that of 8% in 2007. She has adeptly managed the rise and fall in prices for rice and oil in 2008, and she has diligently prepared for the onslaught of the global economic crisis.

By fortifying her support in traditional loci of state and societal power, she has successfully forged a "manufactured legitimacy." Her administrative coalition, which is composed of the Lakas Christian Muslim Democrats (Lakas CMD) and the Kabalikat ng Malayang Pilipino (Kampi), accounts for about 70% of elected officials nationwide. She has utilized governmental resources – in the form of granting pork-barrel allocations to legislators and Internal Revenue Allocation funds to local government officials – in order to ensure support for her administration. She has appointed loyal officers to key positions in the military and police force. She has also secured the support of key leaders of the Roman Catholic Church, business organizations and portions of the middle class. By the end of 2009, she will have appointed a majority of the justices on the Supreme Court and, thereby, solidified her hold over the country's last bastion of institutional independence.

Nonetheless, her approval ratings in public opinion polls dropped to a record low in 2008. She continued to face street protests, new impeachment complaints and coup attempts. As the end of her term nears, she has kept her options open in order to avoid being perceived as a “lame duck” president. Her close political allies have continually given thought to amending the constitution so as to extend her term in office beyond 2010.

History and Characteristics of Transformation

The Philippines’ experience with the goals of democracy and economic development is characterized by a recurring economic boom-bust cycle that corresponds with a similar pattern of political development and decay. The economy has weathered a number of crises since the Philippines gained its independence in 1947. Until recently, the Philippines had not experienced a sustained period of growth since the 1970s. Growth momentum fell sharply in the 1980s and fluctuated erratically in the 1990s. Successive presidential administrations have tried to introduce reforms to spur growth in the wake of every crisis. However, these policy reforms have repeatedly encountered political and institutional obstacles.

Furthermore, these economic crises have been preceded by, or were the result of, repeated institutional breakdowns that have traditionally broken out into full-blown crises of legitimacy. Intense intra-elite competition, contested elections and the threat of armed revolution characterized the four major political crises, in 1953, 1969, 1986 and 2004. Except for a brief period in the mid-1990s, when economic growth was accompanied by positive political developments, elitist politics have continued to hinder the implementation of effective social and political reforms.

The Philippines re-democratized in 1986 after a peaceful popular uprising against the dictatorship of Ferdinand Marcos (1965 – 1986). President Corazon Aquino (1986 – 1992) presided over the restoration of formal democratic institutions. Her successor, Fidel Ramos (1992 – 1998), utilized liberalization and privatization to reorient the economy toward the global market. Movie actor Joseph Estrada (1998 – 2001) was elected with wide populist support but faced impeachment for corruption, and he was ousted in 2001 in a second popular uprising. Arroyo’s first term (2001 – present) has been marked by serious challenges to the legitimacy of her government; these began with a failed attempt at a popular uprising by Estrada’s supporters and ended with a mutiny led by junior military officers in July 2003.

Despite serious charges of fraud in the 2004 elections brought by the opposition, Arroyo was re-elected for a full term. The allegation of massive fraud was only substantiated in June 2005 with the release of recordings of wiretapped conversations between the president and a high-ranking election official. The taped conversations exposed a cabal of political operators who tampered with votes in order to help Arroyo. While the president has admitted to being one of the voices in

the taped conversations, she has denied any wrongdoing and profusely apologized for her “lapse in judgment.” The controversy highlighted the issue of ethics in politics and the failure of the 2004 election as an institutional mechanism to mitigate the Philippines’ continuing crisis of political legitimacy. The controversy threatened the Arroyo presidency from 2005 to 2008, during which time she faced another wave of massive street protests, four successive impeachment charges in Congress and two failed military uprisings.

Transformation Status

I. Democracy

1 | Stateness

The integrity of the Philippine state and its monopoly on the use of legitimate force continues to be challenged by the communist-led New People's Army (NPA), the secessionist Moro Islamic Liberation Front (MILF), the terrorist Abu Sayyaf group and private armies employed by local warlords and political clans. The inability of the state to provide adequate security to all citizens is both a cause and effect of the widespread use of firearms, which further fuels the country's cycle of violence and conflict. Recently, the Philippines has been classified as a "heavily armed society" by the Canberra Papers on Strategy and Defence. Data from the Philippine National Police indicate that 415,320 firearm licenses were not renewed in 2005, while 117,300 loose firearms are in the hands of insurgent groups or criminal organizations as of 2007. It is also believed that a much higher number of loose firearms are not reflected in the official government statistics.

Monopoly on the use of force

The majority of Filipinos continue to strongly identify with the Philippine state. In the Pulse Asia Nationwide Survey conducted in October 2008, a considerable majority of Filipinos (68%) disagreed with the view that the Philippines is a hopeless country. This reflects a marked increase compared to a previous survey, from October 2007, in which disagreement with the view that the country is hopeless stood at 54%. In the 2008 survey, 54% of respondents said that they would not emigrate to another country if given the opportunity to do so. The desire to emigrate is much lower compared to October 2007, when only 43% disagreed with the statement about wishing to emigrate to another country. Although there is no de jure exclusion of minority groups, de facto discrimination is evident (especially against minorities in the Cordilleras and Muslims in parts of Mindanao). Among Muslims, the sense of national identity seems weaker than it does among Christian Filipinos.

State identity

Despite the principle of separation of church and state enshrined in the 1987 constitution, the Roman Catholic Church continues to exercise strong political influence. The church has recently mobilized a strong political lobby to prevent the

No interference of religious dogmas

passage of the Reproductive Health Bill in the Philippine Congress, which it strongly opposes. The bill seeks to provide a comprehensive policy and programmatic framework for addressing the country's burgeoning population by funding and promoting both natural and modern family-planning methods. Aside from the Roman Catholic Church, other religious organizations have demonstrated strong political influence, especially in times of election. These groups include the homegrown Iglesia ni Cristo (Church of Christ), the Catholic charismatic group El Shaddai and the evangelical Jesus is Lord movement. As a result, the legal separation of church and state is sometimes (and in significant aspects of the policy process) restrained by the strong political influence of religious groups.

The scope of the state is extensive, as is manifested by its presence in 17 regions, 81 provinces, 118 cities, 1,510 municipalities and 41,995 villages (barangays). More than 1.4 million civil servants are employed in the Philippine bureaucracy. Of this number, 68% are in national government agencies, 25% in local governments and 7% in corporations owned and controlled by the government. The executive office accounted for 95%, or 951,120, of the total number of people employed by the federal government. The remaining 5.03% was distributed in the judiciary (26,931, or 2.7%), constitutional offices (117,606, or 1.76%) and the legislature (5,838, or 0.58%). Despite this seemingly well-developed and -differentiated public administration, most observers agree that the state administration in the Philippines operates with manifold deficiencies, especially in more remote areas, such as Mindanao and the Cordilleras.

Basic
administration

2 | Political Participation

The congressional elections of 2007 were marked by widespread violence, cheating and irregularities. Preparations are underway for the 2010 national and local elections. The next round of electoral exercises is largely viewed as an institutional safety valve that will bring closure to the legitimacy crisis that was triggered by the contested 2004 presidential election. The Congress has passed an Amended Automated Election Law, which seeks to fully modernize the country's electoral system. It is believed that the massive cheating that has taken place under the manual voting system will be greatly minimized by the full automation of voting, which will be implemented during the 2010 elections for the first time. Regarding the low quality of the 2004 and 2007 elections, it must be said that the Philippines is a borderline case in terms of qualifying as an electoral democracy.

Free and fair
elections

The effective power of elected officials to govern the country is often compromised by the competing and diverse social interests of dominant socioeconomic classes, political clans, powerful families and other entrenched particularistic groups. A total of 160 families have dominated both houses of the Philippine Congress for about a century. These families have had two or more members serve in Congress, and they

Effective power to
govern

account for nearly 424 out of the 2,407 men and women who have been elected to the national legislature between 1907 and 2007. In addition, the effective power to govern is also undermined by the veto powers of the highly empowered segments of civil society as well as by social movements that frequently engage in “street politics.”

After a brief period of crackdown on the political opposition between 2005 and 2006, the Arroyo administration has yielded to public pressure and lifted restrictions on rights of assembly. The Philippines has upheld a tradition of civil liberties; freedoms of association, of assembly, of opinion and of the press are sacrosanct and unrestricted. Thus, the dynamic between the Philippine state, civil society and the mass media is a tapestry of struggles for domination and transformation at all levels.

Association /
assembly rights

For two consecutive years, the Philippines has recorded one of the highest number of media killing in countries that are considered “peacetime democracies.” This was reflected by the 2009 Global Impunity Index compiled by the New York-based Committee to Protect Journalists (CPJ). The index is a list of countries where journalists are killed regularly and where governments fail to prosecute the killers. The Philippines ranked sixth on a list of 14 countries. Moreover, the Philippines has recorded 24 cases of unsolved killings in the past decade, which is second only to Iraq’s current figure of 88 unsolved murder cases. Indeed, the freedoms of the press and of expression have greatly deteriorated under the current administration. The International Federation of Journalists (IFJ) recorded 10 media deaths in the Philippines in 2008 and has warned that the Philippines has become more dangerous for reporters, especially for those covering corruption. Owing to these conditions, the 2008 Freedom of the Press Survey conducted by the Freedom House categorizes the Philippines as “partly free” and ranks it 97th out of 195 countries.

Freedom of
expression

3 | Rule of Law

The balance of power between the three branches of government continues to teeter as President Arroyo consolidates her power base in pursuit of regime survival. Through the astute use of government largesse, the president has enticed legislators in Congress and local government officials to rally around her administration. She has also secured the support of the Armed Forces of the Philippines (AFP) and the Philippine National Police (PNP) by appointing key supporters to top positions. Moreover, a close political ally has recently assumed the position of president of the Senate. The erosion of effective checks and balances on the executive dovetails well with plots to extend the president’s term of office beyond the constitutional limits.

Separation of
powers

Since 2006, the Supreme Court has valiantly rejected the executive branch’s encroachment on constitutional powers and violation of fundamental civil rights. However, the independence of the Supreme Court is imperiled by the scheduled

Independent
judiciary

retirement of seven justices beginning in December 2008. By the end of 2009, President Arroyo will have appointed a majority of the justices on the Supreme Court.

Article XI of the Philippines' 1987 constitution created the independent Office of the Ombudsman, which is mandated to "act promptly on complaints filed in any form or manner against public officials, or employees of the Government." The framers of the constitution envisioned the ombudsman to be "the protector of the people." Nonetheless, the current ombudsman, Merceditas Gutierrez, who previously served as President Arroyo's chief legal counsel, has been accused by civil society organizations of turning a blind eye to a series of corruption complaints against individuals closely linked with the president. No less than a World Bank investigation has implicated First Gentleman Jose Miguel Arroyo in attempts to rig public works contracts that involved the agency's funds. In recent years, the government has introduced some stronger measures for curbing corruption in the bureaucracy and the judicial system. As a consequence, the ombudsman's conviction rate went up from 16%, in 2001, to 73%, in 2008. Furthermore, the Supreme Court took action against a number of judges charged with corruption.

Prosecution of
office abuse

Since January 2003, the Asian Human Rights Commission (AHRC) has documented 139 cases of extrajudicial killings and 23 cases of the forced disappearance of activists and media practitioners. The AHRC documented an additional five cases of extrajudicial killings in 2008. None of the cases documented by the AHRC between 2003 and 2008 have been successfully prosecuted, nor have the authorities convicted any perpetrators. In August 2006, the government convened the Melo Commission, an independent body tasked with investigating cases of extrajudicial killing. By January 2007, the commission recommended a series of policy proposals to mitigate the rising incidence of extrajudicial killing in the country. The commission's findings were later confirmed by Professor Philip Alston, the special rapporteur on extrajudicial, summary or arbitrary executions of the United Nations Human Rights Council. Soon thereafter, the Supreme Court took the initiative of designating 99 special courts to hear cases related to extrajudicial killings. More importantly, on 27 October 2007, the Supreme Court also introduced two new peremptory writs, the Writ of Amparo (protection from the military or police) and the Writ of Habeas Data (access to military or police information).

Civil rights

4 | Stability of Democratic Institutions

Political institutions in the Philippines fundamentally perform their functions, although policy-making and -implementation are largely shaped by political considerations between the executive and legislative branches of government. The president has to rely on coalition-building to permanently secure majorities in both chambers and to push a legislative agenda through. Given the clientelist nature of

Performance of
democratic
institutions

the party system, the president also depends on local elites for electoral mobilization. Through Congress, the bastion of local power in the national government, local elites bargain with the president for access to state resources in exchange for legislative and electoral support.

Despite the damage to key democratic institutions brought about by the contested elections of 2004, the level of public interest in the scheduled May 2010 elections is very high. Of survey respondents, 90% expressed their interest in voting, and 87% are likely to do so. Overwhelming majorities – according to different surveys this ranges from 83% to 94% – registered across geographic areas and socio-economic classes have expressed their interest in the scheduled elections, according to the Pulse Asia October 2008 nationwide survey. Between 84% to 92% have signaled their intention to vote. On the other hand, one out of every 10 Filipinos is still undecided about whether to vote in the May 2010 elections. Another 10% of respondents were either not interested in voting or unable to say whether they will vote in the upcoming elections.

Commitment to democratic institutions

5 | Political and Social Integration

Political parties in the Philippines are personality-based organizations largely organized around dominant local political clans and warlords. They are anchored on clientelistic, parochial and personal inducements rather than on issues, ideologies and party platforms. Although the Philippines has had a century-long history of party politics, four party systems and a multitude of parties, it still seemingly suffers from a lack of institutionalized parties. In a survey on Philippine attitudes toward political parties conducted in 2006, two out of every three Filipinos (67%) said that no political party “truly promotes their welfare,” while only one out of every four (27%) could name a specific political party that does so. One out of every three (35%) said that they would join a party if they had an “opportunity to learn more about politics.”

Party system

In 2001, the *Kabalikat ng Malayang Pilipino* (Kampi), the political party founded by President Arroyo in 1997, only had one seat in the House of Representatives. By 2007, the party had increased its number of seats to 51, making it the second-largest party in the lower chamber. Over the past three decades, monolithic parties have dominated several presidential administrations – from the *Kilusang Bagong Lipunan* under Ferdinand Marcos, to the *Laban ng Demokratikong Pilipino* (LDP) during the term of Corazon Aquino, followed by the *Lakas NUCD-UMDP* founded by Fidel Ramos and the *Laban ng Makabayang Masang Pilipino* (LAMMP) of Joseph Estrada. Nevertheless, these parties were largely built around vast networks of well-entrenched political clans and dynasties, which constantly switch their affiliation from one administration party to another in order to gain access to state resources and patronage.

The Philippines has a long and rich tradition of interest groups with intermediary functions, such as trade unions, business associations and NGOs. From a functionalist point of view, however, the topography of interest groups is meager and remains dominated by a few players; important social interests are excluded or underrepresented.

Interest groups

The majority of Filipinos are satisfied with how democracy works. In the June 2007 Social Weather Stations (SWS) survey, 54% of respondents signaled their satisfaction with how democracy functions in the Philippines. More specifically, according to the December 2008 SWS survey, 52% of respondents are satisfied with the performance of the Senate, while 26% are dissatisfied, which means that there is a moderate net satisfaction (satisfied minus dissatisfied) of +26. On the other hand, 40% are satisfied with the House of Representatives, while 31% are dissatisfied, which means that there is a neutral net satisfaction of +9. The survey also found 41% satisfied and 33% dissatisfied with the functioning of the democratic process, which means that there is a neutral net satisfaction of +8. The government institution that got the lowest satisfaction rating was the cabinet, with 34% satisfied and 36% dissatisfied, or a neutral net satisfaction of -1.

Consent to
democratic norms

Aside from registering moderate-to-high satisfaction rates with how democracy works, Filipinos have also expressed their strong preference for democracy over authoritarianism. The June 2007 SWS survey found 53% saying that they preferred democracy to other kinds of government, contrasted with 19% who preferred an authoritarian government over a democratic one. Four SWS surveys conducted in 2007 consistently found Filipinos saying that “democracy is preferable to any other kind of government,” with the percentage of people believing this ranging from 52% to 58%. The June 2007 survey also noted that this is an increase over the 49% registered in September 2006 as well as what is more or less a recovery to levels of 2002 – 2005, when it ranged between 52% and 64%.

While the Philippines has a tradition of social self-organization in traditional and modern forms of social interaction and organization (with the latter reaching back into colonial times), social self-organization in civil society encounters numerous political, cultural, socioeconomic and other obstacles. Social capital is unevenly distributed in this generally low-trust society.

Associational
activities

II. Market Economy

6 | Level of Socioeconomic Development

Poverty remains a central developmental issue in the Philippines. Data from the National Statistical Coordination Board revealed a poverty incidence of 26.9% for all families in 2006. However, the proportion of Philippine families who considered themselves poor was significantly higher than the official poverty-incidence data. The Social Weather Stations (SWS) nationwide survey of subjective poverty for the same period reported that 54% of all families rated themselves as poor. This figure slightly declined, to 50%, in 2007 and increased again in 2008 to 53%. Self-rated food poverty figures also show that there is a large percentage of families in the country that have experienced involuntary hunger; in 2007, the figure was 38%, while it increased significantly in 2008, to 42%.

Socioeconomic
barriers

In the 2007/2008 UNDP Human Development Report, the Philippines registered a Human Development Index (HDI) value of 0.745, placing it 102nd out of 179 countries. In terms of the Human Poverty Index (HPI), the country registered a 12.5 value, which ranked it 54th out of 135 developing states. The high incidence of poverty and social exclusion can be attributed to income inequality, dominance by the elite and inadequate government responses, which continue to prefer short-term, visible interventions.

Unemployment decreased from 8.1% in 2006 to 7.8% in 2007. This figure further decreased, to 7.4%, in 2008. Underemployment, however, continues to be high; it stood at 22% in 2007 and 21% in 2008. According to the World Bank, it is difficult to estimate how high unemployment and underemployment will be for 2009 due to the “high uncertainty” of the situation.

According to data from the National Economic Development Authority (NEDA), more than 15,000 workers were laid off between January and February 2009, mostly in the electronics and garments sector, while 19,000 others experienced decreases in work (whether in terms of shifts or hours per week). NEDA also estimated that some 800,000 Filipinos are in danger of losing their jobs in 2009. This concern will be further compounded by the 900,000 estimated individuals graduating from universities and technical schools.

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	86930.1	98823.5	117533.8	144042.7
Growth of GDP	%	6.4	5.0	5.3	7.1
Inflation (CPI)	%	6.0	7.6	6.2	2.8
Unemployment	%	11.8	7.8	8.0	7.3
Foreign direct investment	% of GDP	0.8	1.9	2.5	2.0
Export growth	%	15.0	4.8	13.4	5.4
Import growth	%	5.8	2.4	1.8	-4.1
Current account balance	\$ mn.	1633.0	1984.0	5347.0	7119.0
Public debt	\$ mn.	35981.1	35364.1	36750.8	37894.8
External debt	\$ mn.	60967.5	61657.8	60281.8	65845.3
Total debt service	% of GNI	12.3	9.3	10.8	6.7
Cash surplus or deficit	% of GDP	-4.0	-3.0	-1.3	-1.5
Tax Revenue	% of GDP	12.4	13.0	14.3	14.0
Government consumption	% of GDP	10.1	9.7	9.8	9.8
Public expnd. on edu.	% of GDP	2.7	2.5	-	-
Public expnd. on health	% of GDP	1.4	1.3	1.3	-
R&D expenditure	% of GDP	-	0.1	-	-
Military expenditure	% of GDP	0.9	0.9	0.9	0.9

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Since the 1980s, the Philippine government has adopted major policy reforms aimed at trade liberalization. These include the removal of quantitative restrictions, privatization and deregulation, all of which are meant to improve the efficiency of domestic industries and encourage competition.

Market-based
competition

The country allows freedom of participation in the economy, and the emphasis is on investments, competition and business development. Although a market economy is

encouraged, it has historically been the exclusive arena of the privileged. While market competition rules are in place, there is still a very high concentration of ownership in the country; over the past 25 years, only 160 families have controlled political and socioeconomic power.

According to the 2008 Informal Sector Survey, 10.5 million people earn their livelihood in the informal sector. This amounts to more than 10% of the population and confirms that it is an important source of income for a significant portion of Philippine households.

There are a number of laws that promote competition in the Philippines. The constitution provides that the state shall regulate or prohibit monopolies when the public interest demands it. It further prohibits unfair competition and combinations that put restraints on trade. The Penal Code, Civil Code and Consumer Act impose penalties for unfair competition and deceptive, unfair and unconscionable sales practices. While the government has established the legal foundations for increased competition, the implementation of these laws has been only limited due to both their vagueness and their lack of comprehensiveness and the administrative mechanisms needed for effective enforcement.

Anti-monopoly
policy

The Philippines have entered into bilateral and multilateral agreements that promote trade liberalization. During the period under review, the Philippines became party to several regional and interregional free trade agreements, such as the ASEAN Single Aviation Market. In the coming years, this treaty will lead to an open-skies policy that will encourage more efficient exchange between neighboring countries. In 2008, the country also became party to the ASEAN-India Free Trade Pact, which seeks to take advantage of the growing consumer market in India. Free trade agreements with China, Australia and New Zealand were also in the process of being concluded. The Philippine Senate ratified the controversial Japan-Philippines Economic Partnership Agreement (JPEPA) in October 2008. Despite the fears of environmental activists that the country will become a dumping ground for Japanese toxic waste, the government supported the agreement because it saw its potential benefits, such as the opening up of Japan's local medical industry to the Philippines. The country has consistently highlighted the importance of trade liberalization, and steps are being taken to reach this objective.

Liberalization of
foreign trade

Philippine banks remain fundamentally sound and insulated from the current global turmoil. This is largely due to their domestic orientation and limited exposure to international capital markets. Despite the global financial downturn, the banking system exhibited a 20% increase in profits in 2008. Moody's Investors Service gave the country's banking system a stable outlook in 2008 and attributed its positive performance to the monetary and regulatory frameworks instituted by the country's central bank, the Bangko Sentral ng Pilipinas (BSP). The London-based credit-rating firm Fitch Rating Agency noted that loan activity in the country has been

Banking system

picking up, spurred mainly by consumer financing. It also cited an increase in fee-based income opportunities from business related to remittances, cash management and wealth management.

To cushion the full impact of the global crisis for 2009, the BSP will continue to apply the discipline of inflation targeting with the aim of achieving price stability. Furthermore, the BSP will continue its policy of using a market-determined exchange rate, which will allow the Philippine peso (PHP) to maintain its competitiveness against the currencies of the country's major trading partners.

2008 saw the highest rate of bank closures, particularly in the rural and thrift banks affiliated with the Legacy Group. However, it should be noted that these bankruptcies were not attributed to the financial crisis but, rather, to gross mismanagement and internal corruption.

8 | Currency and Price Stability

In 2007, the BSP registered notable achievements that brought the inflation rate down to a record low of 2.8%; interest rates sank to 3.36%, and the Philippine peso showed unusual strength against the dollar. This was largely attributed to the BSP's emphasis on price-stability policy. At the height of the oil and rice crisis in August 2008, inflation peaked to 12.5%, but it eventually leveled off at 9.9% in November 2008 amidst the global financial crisis. Since price volatility resulting from external shocks continues to pose threats, the BSP will maintain its focus on price-stabilization policies.

Anti-inflation /
forex policy

The country's foreign-exchange rate policy is anchored in market demand. The currency growth between 2007 and 2008, when the Philippine peso peaked at 40.671 to the dollar, was reversed when the currency retreated to the area of PHP 47 to the dollar. The BSP has gradually instituted foreign-exchange liberalization policies.

Foreign debt and debt servicing are impediments to development in the Philippines. Out of the proposed PHP 1.46 trillion national budget, PHP 700 billion would be allocated to interest payments and principal amortization. This figure is more than the combined amount that was given to social and economic programs. The outstanding debt of the federal government amount to PHP 121 trillion in December 2008. The country's development agenda is greatly impeded by the vicious cycle of debt and debt servicing, which gives the government little room to focus on socioeconomic programs.

Macrostability

9 | Private Property

The government recognizes the importance of private firms and businesses as partners in steering economic growth. As a result, property rights and laws are firmly in place so as to encourage further investment in the economy. The Global Competitiveness Report conducted for the World Economic Forum gave the Philippines a rating of four in terms of property rights; a rating of one means property rights are poorly defined, while the top rating (seven) indicates that property rights are well-protected by the law. Recent moves toward amending the constitution include lifting the restrictions placed on foreigners when it comes to full ownership of land and business enterprises within the country.

Property rights

Private companies are encouraged to invest or increase their pre-existing investments. Foreign and local investments are considered important for the country's economic development. The administration has repeatedly highlighted the importance of foreign direct investment (FDI) for growth in the country's economy. There is a high concentration of ownership among local elites, who dominate the economy. A World Bank report contends that 60-90% of the local equities market is controlled – or can, at least, be traced to – only 20 shareholding families. Although the government encourages investments and private enterprise, the problem of ownership concentration is not being addressed.

Private enterprise

10 | Welfare Regime

Although there are welfare mechanisms, the regime still fails to address broad issues of health care, poverty and other social concerns. The Social Security System (SSS) and the Government Service Insurance System (GSIS) provide social insurance and security services for private- and public-sector employees. The Philippine Health Insurance Corporation (PhilHealth) provides medical insurance services and medical subsidies to the general public. Although these welfare regimes have been operating for years, there are problems of implementation (e.g., the processing of benefits) that have been subject to bureaucratic red tape. Moreover, the coverage of benefits is often inadequate, as can be seen, for example, by the fact that PhilHealth only subsidizes a small percentage of personal medical expenditures. There have also been accusations of internal corruption. For example, the ombudsman has charged GSIS President Winston Garcia with corruption.

Social safety nets

Equality of opportunity is extended to women as well as to ethnic and religious groups. In terms of gender equality, the Philippines ranked sixth out of 130 countries in the 2008 Gender Gap Index of the World Economic Forum; it had the same ranking in 2007. This shows that the Philippines has placed importance on gender rights, for example, by giving women equal access to public office and

Equal opportunity

business opportunities. Nevertheless, indigenous groups have experienced marginalization, such as when their protected lands have become a source of property disputes. The country also places important on freedoms of religion and equal access to religious groups.

11 | Economic Performance

With record highs and unprecedented growth, 2007 saw promising improvements in macroeconomic indicators. This upward trend ended in 2008, when the country felt the effects of the global financial crisis, which resulted in contractions and economic declines. In 2007, GDP grew at its highest rate in 31 years, by 7.2%. This figure contracted to 4.6% in 2008 as a result of the global economic downturn and further contractions are expected as the economic crisis continues to take effect. Owing to the rice and food crisis that took place during the middle of the year, the inflation rate in 2008 was high, at an estimated 9.6%. The trade deficit increased from \$519 million in 2007 to \$617 million in 2008. The unemployment rate slightly increased between October 2007 and October 2008, from 6.3% to 6.8%. The decline in 2008 can be attributed to the global financial crisis and to increases in the prices of petroleum, rice and food. Owing to its relative isolation from international markets, the Philippine economy is expected to weather the global crisis better than other countries. Although the crisis will cause more economic declines ahead, monetary stability and strong fundamentals should keep the economy in decent shape. Moreover, the country is in a better financial position because its monetary and regulatory frameworks, which allow for interventions from the BSP. During the global turmoil, international financial and credit-rating institutions have recognized the resilience of the Philippine economy.

Output strength

12 | Sustainability

Over the past few years, initiatives aimed at addressing environmental concerns have had increased importance as issues of climate change and environment conservation have become items on platform agendas. For example, the Philippines has been a party to interstate treaties, such as the Cebu Declaration on East Asian Energy Security. The 2008 oil crisis forced the government to explore options for utilizing renewable energy sources and led it to convene the 2008 Philippine Energy Summit. Another landmark was the 2007 passing of the Biofuels Act, which calls for the use of alternatives to petroleum. The government also had several initiatives to address climate change. For example, it created a Climate Change Commission in the House of Representatives and the Presidential Task Force on Climate Change.

Environmental policy

Government spending on education is below average. The latest data (from 2005) reveal that government spending on education stood at only 2.1%, which is below the internationally prescribed standard of 6%. This figure is expected to decrease between 2007 and 2008 due to a corresponding decrease in the national education budget. In 2005, the government only allocated \$138 for every pupil, which is below the figure for most of its neighbors in Southeast Asia. Comparatively speaking, the country is also behind in terms of funding R&D efforts.

Education policy /
R&D

Transformation Management

I. Level of Difficulty

There are considerable structural constraints impeding the development of the Philippines. These constraints are rooted in the country's history, which has bred and maintained a system of elite politics, corruption and inefficiency. Political factionalism is especially pronounced in the country, where patronage politics has been the norm. These historical characteristics have been carried over to contemporary periods and led to institutional barriers to development. The country is in a vicious cycle of poverty and underdevelopment, and reform is systemically obstructed by the nature of its politics. Rural and urban poverty has increased over the years and remains one of the country's main social problems. In turn, the Philippines has eroded its global competitiveness, according to the World Economic Forum (WEF). The Philippines ranked 71st out of 134 countries covered by the WEF Global Competitiveness Report 2008 – 2009; this is the same ranking as in 2007 – 2008 report, which covered 131 countries. The report cited corruption as the top problem, followed by an inefficient government bureaucracy, an inadequate supply of infrastructure, policy instability, government instability, poor tax regulation and high tax rates, among other issues.

Structural
constraints

The Philippines has several social movements and a broad range of voluntary associations, NGOs and other manifestations of a relatively vibrant civil society. There is a strong tradition of civil society organizations with effective mobilization and organizational capacities, a long-term record of civic engagement and a deep reservoir of social capital. A recent study by Swansea University's Centre for Development Studies estimates the number of civil society organizations in the Philippines to be 115,967. Of this number, 81,436 are classified as non-stock corporations, 14,489 as trade unions, 19,937 as cooperatives and 103 as political parties.

Civil society
traditions

Government peace talks with the communist insurgents and Muslim secessionists have broken down, which has led to a further intensification of internal conflict in the country. Negotiations with the Communist Party of the Philippines-National Democratic Front (CPP-NDF) have stalled since 2004. Both the Armed Forces of Philippines (AFP) and the guerrilla New People's Army (NPA) have vowed to

Conflict intensity

defeat each other by 2010. According to AFP reports, the number of communist rebel fronts has been reduced over the years, from 107 in 2005 to 63 in 2008. On the other hand, the CPP Central Committee has claimed that they control over 100 guerrilla fronts in more than 70 provinces in the country. Meanwhile, the failure of the government and the Moro Islamic Liberation Front (MILF) to conclude the Memorandum of Agreement on Ancestral Domain (MOA-AD), an important component in the proposed final peace agreement, has triggered violent clashes and led to the collapse of peace talks.

II. Management Performance

14 | Steering Capability

The government has economic and political goals in place, but these are often overshadowed by short-term political priorities. The problems of legitimacy and the constant threat of impeachment have required the Arroyo administration to enter into short-sighted political bargains. This political bargaining has rewarded allies and persecuted opponents, and it has abandoned long-term strategies in policy decisions in exchange for political survival. The goals of fostering democracy and a free market are clear, but these are secondary to the personal political survival of the incumbent president. Responses to political and economic crises have questionable sustainability, as the benefits are short-term and limited.

Prioritization

The government's reform agenda had limited success during the period under review. The Comprehensive Agrarian Reform Law (CARL), which seeks the equitable distribution of agricultural lands in the country, expired in 2008. It was extended for six months, but the fate of the land reform program remains unclear thereafter. Land-owning legislators have lobbied for an end to the reform program, which has been widely unsuccessful in meeting its targets. This abandonment of agrarian reform shows the government's inconsistency in promoting social programs and confirms the influence of elite groups. Apart from this land-reform program, other government reform projects are inefficiently implemented.

Implementation

There was an inadequate response to the food crisis in 2008, which resulted in a further skyrocketing in the price of rice and the absence of an organized system of rice distribution. The government has targeted many reform initiatives, but there is what appears to be a lack of political commitment to implement these reform programs. Unfortunately, the government has been unable to provide adequate economic opportunities and social services to vulnerable sectors of Philippine society.

Amidst the global financial crisis, the government continues to face the challenge of sustaining structural reforms, including those of agricultural modernization, industrial restructuring and diversification, and continued innovation in the service sector. These reforms are important for achieving broad-based, labor-intensive and sustainable growth to enhance productivity and competitiveness. To this end, the government must focus on high-impact social-development programs and projects in health, education, housing and infrastructure development (e.g., roads, rural electrification and basic technology).

Amidst a contested legitimacy, the logic of regime survival has limited the administration's policy learning capacity. These "politics of survival" have effectively neutralized the gains of the Arroyo administration's much-vaunted economic reform policies. Political accommodation of known political allies has resulted in a series of corruption scandals. In response to allegations of scandals, the administration has mobilized its close allies in the Congress, in local government units and even on the Supreme Court. As a result, the government is trapped in a vicious cycle that jeopardizes effective policy-making in exchange for the president's personal political survival.

Policy learning

15 | Resource Efficiency

The government continues to grapple with the challenge of institutionalizing bureaucratic and resource efficiency. The bureaucracy is highly congested, with the number of political appointees having reached a record number during the Arroyo administration. This appointment process is not based on merit or competence; instead, the administration often uses it as a means of political patronage. In addition, the administration has been quick to disburse discretionary funds derived from additional value-added tax collection. In 2008, the president directed around PHP 4 billion to fund government subsidies and the piecemeal distributions of fuel and fertilizer targeted at low-income earners.

Efficient use of assets

According to the latest estimates, there are some 1.3 million civil servants spread throughout the Philippine archipelago. They are employed in all branches, subdivisions, instrumentalities and agencies of the Philippine government, including local government units, the military, the police force and government-owned and -controlled corporations. Financing the bureaucracy has caused additional strain on the PHP 1.415 trillion national budget for 2009. The total current operating expenditure (COE) for 2009 amounts to PHP 1,149.9 billion, or 81.3% of the budget. The budget for COE includes PHP 429.7 billion for personal services, which have increased by 11.9% compared to the 2008 national budget. Moreover, the approved 2009 national budget has allocated PHP 330 billion to stimulus packages aimed at countering the negative impact of the global financial crisis. Much of this amount, however, is rife with pork-barrel allocations and

discretionary funds resulting from political negotiations in preparation for the 2010 election. Government economic analysts have already projected that the budget deficit will rise to PHP 257 billion.

There is a lack of inter-agency coordination and long-term development planning in the government. Government agencies operate inadequately and inefficiently as result of high bureaucratic corruption, centralized decision-making and overlapping agency functions. A notable instance is the lack of coordination between the Philippine Drug Enforcement Agency (PDEA) and the Department of Justice (DOJ), which has led to a weak system of enforcing anti-trafficking laws. Government personnel do not meet proper competency standards as political appointments are the norm. There is also a limited understanding of the functions of government agencies, which results in overlaps between various branches of government. The government's lack of initiative when it comes to addressing corruption cases has forced the Senate to devote time to legislative investigations. Also, a top-down system of governance and a hierarchical bureaucracy, coupled with corruption and the lack of a system of implementation, results in low levels of coordination and efficiency.

Policy
coordination

Corruption continues to be rampant in the Philippines. Allocation of resources does not have transparency, and civil groups are excluded from participating in the process of drafting the national budget. Corruption consumes a considerable percentage of government projects, with bribery and red tape being rampant problems. Likewise, there are numerous problems in the bidding processes for government projects. Weak mechanisms for transparency and accountability encourage bureaucratic corruption. Institutions tasked with investigating and resolving corruption cases, such the Office of the Ombudsman and the Special Graft and Corruption Court (Sandiganbayan), have lacked efficiency. There have also been numerous scandals involving top government officials, such as that involving bribery charges over a contract with the China-based telecommunication firm, ZTE Corporation, which further tainted the government's credibility.

Anti-corruption
policy

16 | Consensus-Building

Strengthening democracy and economic development is a goal shared by the current political actors. Although the government is committed to maintaining the democratic system and the market economy, there are several contradictions to this objective, such as the exclusion of opposition groups from the decision-making process. Likewise, corruption, electoral fraud, legitimacy problems and other issues significantly hinder the achievement of this goal. The institutions of democracy are tainted by a degenerative political environment characterized by alliances, rent seeking and political conflicts.

Consensus on goals

The Philippine government experiences difficulty in managing anti-democratic actors. The political elites and dynasties dominate the government because they wield considerable political and economic clout. The control of the elites continues to be a barrier to reform. For instance, the future of the Comprehensive Agrarian Reform Program (CARP) became uncertain as a result of lobbying by land-owning politicians. Since the government has not been able to effectively implement anti-dynasty laws, it has perpetuated the political domination of the elites. Another anti-democratic actor problem is the insurgent groups threatening the country's security. Efforts to curb violence by insurgents have not led to any resolution, and peace negotiations have collapsed. Extrajudicial killings of politicians and journalists have increased to record highs. Accusations of military involvement and government inaction contradict the democratic system of the country.

Anti-democratic
veto actors

Although there are initiatives to address political cleavages, these efforts lack political will and efficient governmental solutions. There has yet to be any resolution to the secessionist problem in Mindanao, and the conflict has escalated after negotiations collapsed amidst increased violence. In 2008, the peace negotiations with the Moro Islamic Liberation Front (MILF) collapsed after President Arroyo cancelled the process and dissolved the government's peace panel. Nonetheless, efforts are underway to revive the stalled peace process, and a new panel has been appointed to negotiate with the MILF.

Cleavage /
conflict
management

There has been an increase in the incidence of violence in Mindanao. During the latter part of 2008, members of the International Committee of the Red Cross (ICRC) were kidnapped by the Abu Sayyaf group. The government continues to highlight the need to resolve the multifaceted problems of secessionism, terrorism and banditry in the southern Philippines, but the efforts aimed at achieving this goal have been inadequate. Moreover, the communist insurgency throughout the rest of the country has also added to the government's security burden.

The Philippines has a vibrant civil society, but these groups are loosely coordinated and are sometimes excluded from the decision-making process. By allowing freedom of organization, the constitution has bred the region's most dynamic civil society environment. Nevertheless, civil society organizations have had only limited influence on the policy-making process. Although regular consultations are conducted, the results of these consultations are not always taken into account. In addition, a lack of coordination between the numerous civil society organizations has often led to a collective action problem.

Civil society
participation

Recognizing the grave social and economic costs of waging long-drawn-out military offensives against insurgent groups in the Philippines, various administrations have initiated efforts aimed at finding a negotiated solution to these internal armed conflicts. These conflicts have resulted from historical socioeconomic and political inequities. In recent years, there has been a growing

Reconciliation

realization that the attainment of lasting peace in the Philippines should be anchored in two major premises. The first is that major reforms will have to be implemented to address the sources of discontent and create the conditions needed for lasting peace. The second is that armed responses to the insurgencies have not and will not put an end to the rebellion. The current breakdown of and impasse in the peace process reveals the inherent limitation of the statist approach taken by the leaders of both the government and the insurgent groups. Recently, there have been proposals to shift the focus of the peace process to the local level and highlight the crucial role of civil society organizations.

17 | International Cooperation

The Official Development Assistance (ODA) funds are an important part of the Philippine reform agenda, but these funds have not been efficiently maximized or properly allocated. During 2008, the disbursement of ODA funds dropped from \$1.949 billion to \$781 million. This decrease can be attributed to problems in procurement and financial issues. Projects funded through foreign aid have encountered a number of problems, including increased costs and delays, poor contractor performance, limited technical capabilities and other issues that have resulted in the mismanagement of ODA funds. Although the sources of foreign assistance are numerous and generous, the decline in 2008 reveals a lack of a proper system of financial utilization. The ODA-funded projects have also been exposed to corruption and bribery at both the national and local level. The administration has been repeatedly criticized for its inaction on numerous corruption cases, including those that involved ODA funds and World Bank projects. Although international support is available, the government has failed to harness this aid to address its development agenda.

Effective use of support

The country is an active member of the international community and continually pursues international cooperation. The government has entered into bilateral and multilateral agreements and treaties, and it has taken the route of diplomacy in conflict management. Sensitive issues, such as those related to the Spratly Islands in the South China Sea, have been revived in 2007 and 2008, as have calls to pressure Myanmar – as an ASEAN member – to democratize. The Philippines has committed itself to international dialogue in resolving these issues and discussing other important matters, such as energy security. Nevertheless, there are also problems of credibility owing to several issues, such as human rights and corruption. A World Bank report has documented instances of bid-rigging involving both the government and certain contractors. A number of corruption scandals exposed by the mass media have discouraged potential investors both within and outside the country. Likewise, international human rights organizations have criticized the government for its inability to put an end to extrajudicial

Credibility

killings. This has had an impact on the credibility of the administration's commitment to promoting international human rights law.

The Philippines has actively participated in regional multilateral initiatives, and it is an active member of the Association of Southeast Asian Nations (ASEAN). The country hosted the 12th ASEAN Summit in Cebu City, where the landmark Cebu Declaration on East Asian Energy Security was signed by member states. Additionally, the government has consistently highlighted the importance of regional cooperation, which remains foremost on its foreign policy agenda. In November 2007, the country became a party to the ASEAN Charter, which is meant to serve as ASEAN's constitution and effectively establish the group as a legal entity. Other international conventions, such as the ASEAN Single Aviation Market, were welcomed by the administration as a means of strengthening economic cooperation between regional partners.

Regional
cooperation

Strategic Outlook

The major threat to democracy and economic development in the Philippines continues to be the inability to bridge the gap between formal political rights and social equity. The political and socioeconomic costs of poverty and inequality are the main corrosive elements to freedom and liberty in the country. Four crucial challenges face the Philippines in 2010 and beyond.

First, the country needs to put its political institutions in order. The 2010 national and local elections will serve as an institutional safety valve that will address the lingering legitimacy crisis of the Arroyo administration. There is also a need to ensure clean, honest, orderly, peaceful and efficient conduct in the 2010 and successive elections. Almost a full decade into the 21st century, politics in the Philippine are still conducted using 19th-century technology. It is imperative to harness the available information and communication technology to modernize the electoral system. The full implementation of automation in the 2010 national and local elections should be a test case for effective electoral administration in the country. On the other hand, decentralization can bolster institutionalization of political parties by establishing stable links with civil society organizations and local communities so as to avoid the reliance on governmental resources (e.g., pork-barrel allocations) to oil local political machines.

Second, given the global economic crisis, there is a need to navigate the emerging threats and opportunities provided by a global environment, which is characterized by rapidly changing markets, disruptive technologies and knowledge-based competition. To realize this strategy, there is a need to address the weakest link in national developmental efforts – the bureaucracy.

Third, efforts must be made to strengthen the congruence between governance structures and the requirements of economic and social development. Greater attention must be given to the extent and quality of public goods and services oriented aimed at reducing poverty and fostering human development. A lack of access to education, health and justice inhibit the capacity of individuals to combat poverty and underdevelopment. In this regard, public-good provisions that guarantee equal access to participation in society – regardless of one's social background – play a central role. Social reform efforts must focus on the visible delivery of services and safety nets, especially in education, food security, health and jobs.

While education continues to be the largest single governmental budget item outside debt servicing, educational expenditure as a percentage of GDP is the lowest in the ASEAN region. There is a lack of a solid network to compensate for social risks, especially in the area of health care, and to prevent poverty in a well-focused way. While there may be institutional mechanisms for justice in place, for many citizens, accessing justice remains a theoretical right.

Lastly, there should be an end to the disruptive and elitist politics of the past. As a related issue, there must also be a negotiated peace settlement to the enduring conflicts with communist insurgents and Muslim secessionists. Negotiating a peaceful settlement of internal armed conflict is a complex political process. Possible outcomes of the peace process are contingent on the delicate interplay of international, regional and domestic political transformations and the internal dynamics of the social movements.