

INTRODUCTION

Arangkada Philippines 2010: A Business Perspective has a strategic purpose – to provide recommendations that lead to millions of new jobs for Filipinos and higher economic growth for the country. This document includes hundreds of recommendations for action by both public and private sectors in a great number of areas. Together they add up to an agenda for change to help

“If we want things to stay as they are, things will have to change.”

Giuseppe di Lampedusa in “The Leopard” his novel about Sicily

policy makers and business leaders to enable the national economy to compete in a world increasingly interlinked and competitive. In this world, keeping up is an imperative, not a choice. For too many years and in too many sectors of its economy the Philippines has lagged, losing competitiveness despite the nation’s immense potential.

The Philippines has the good fortune to be located in Asia. The region accounts for 28% of global GDP, 32% of global trade and has 60% of global population.¹ Three of the world’s largest economies – China, India and Japan – are in Asia, and two – China and India – are among the fastest growing. The other large economies in North America and Europe are readily accessible to the Philippines. Fast-growing China and India have longstanding economic and cultural ties to the Philippines. With new free trade agreements (FTAs) in effect or soon to come into effect for many of these markets, the Philippines has better opportunities than ever before to improve trade and investment ties with advanced as well as rapidly-developing economies.

The Joint Foreign Chambers of the Philippines (JFC) – comprised of the American, Australian-New Zealand, Canadian, European, Japanese, and Korean chambers of commerce as well as PAMURI – have prepared this advocacy paper to contribute the ideas of our Filipino and foreign members in the spirit of partnership with the people and government of the Republic of the Philippines (GRP). Our more than 2,000 members, of dozens of nationalities including Filipino, are deeply committed to the welfare of the Philippines and a brighter future for its citizens.

Our members include many of the largest investors, employers, taxpayers, and CSR supporters in the country, some who have operated in the Philippines for as long as a century as well as many who have arrived quite recently. Our hope is for our members to contribute increasingly to Philippine economic development and provide high quality jobs for the domestic economy, especially its export sector to take advantage of our members’ links to global markets. Our members are prepared to invest continuously and heavily in the Philippines and to create millions of new jobs. But we can only do this if the nation can create a better business climate to enable its future prosperity.

The many things that are working well in the economy could be further enhanced, while obstacles to sectors with high growth potential need to be removed. Many of our members believe the Philippines faces a crossroads, where it chooses between the status quo or an ambitious growth agenda with diversified strategies. As foreign investors and employers, we fully share the ambition of Filipinos for the country to become an advanced economy. The Philippines’ progress is ours, too; for many of us, there are emotional ties, as well.

¹ UNSD; As of 2008 (revised); 2009 World dataset is not yet complete.

We have contributed policy recommendations on several previous occasions. The American Chamber of Commerce (AmCham) prepared *The Roadmap to More Foreign Investment in March 2003* and *Roadmap II More Foreign Investment* in June 2004. In October 2006, we organized the *Workshop on Foreign Direct Investment: How the Philippines can attract US\$ 3 billion a year* in Makati attended by over 400 participants. Recommendations from the Workshop were included in the proceedings of the National Competitive Summit in 2006. On June 1, 2009 we released a paper entitled *Impact of the Global Economic Crisis on the Philippines: Preparing to Rebuild Foreign Investment Inflows*.

We are pleased that many of the recommendations made by foreign chambers in these and other papers, statements, and letters have been implemented and have contributed to the steady GDP growth of the country in the last decade, towards the end of which the Philippines reached the status of a Lower Middle Income country with a per capita income (PCI) approaching US\$ 2,000.

Yet there remains a widespread perception that the Philippine economy is growing at too slow a pace and that too much of its growth depends on remittances from the large economy of Filipinos working outside the archipelago, while more needs to be done at home to create quality jobs for Filipinos. Some Philippine economists liken this situation to a form of “Dutch disease.”²

In many international ranking surveys, the Philippines has slowly slipped. While the economy has improved in some areas, so have others and many at faster rates. Overall the Philippines has not improved its competitiveness as much as others and thus continues to slide down in relative terms despite its steady, positive GDP growth and rising PCI.

The main conclusion we have reached is that the **Philippines needs to reform its economy faster enough to become more competitive**. Since the country still has one of the fastest growing populations in Asia – a sizeable percentage of whom continue to live in extreme poverty – **accelerating the rate of reform is a critical factor for achievement of both faster growth and poverty reduction, as President Aquino in his inaugural speech**.

This advocacy paper represents a catalogue for change for the next decade. Its recommendations are neither revolutionary nor sweeping but incremental, focused, and often detailed. Building a better economy, reform by reform, has been compared to building a strong house, brick by brick. *Arangkada Philippines 2010 contains many bricks for the policy builders of the country to use to build its economy*, so that a stronger edifice for all Filipinos may emerge.

This advocacy paper has not been prepared in a vacuum; it has drawn extensively from a wide range of policy papers, workshops, and publications. Many of these were used and are recognized in the bibliography.

² Dutch disease is “The damaging effect on an economy as a result of the exploitation and export of natural resources. The term is also used to refer to the effects of other inflows such as remittances. Capital inflows cause currency appreciation. This increases the cost (in foreign currency) of exports making them less competitive. The classic case is de-industrialisation as manufacturing industries are made less competitive by exports of oil/natural gas.” Moneyterms.co.uk (April 20, 2010).

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However, we single out as a special source of recommendations that is the core of this document – a series of nine Focus Group Discussions (FGDs) organized by the JFC and three Legislative Workshops organized by the American Chamber of Commerce between September 2009 and April 2010, in which hundreds of experts participated. Many corporate executives and large investors joined these FGDs contributing their thoughts on needed reforms. They were guided by ten moderators, each an expert in the subject of the FGD.³ The legislative workshops involved public and private sector experts reviewing the accomplishments of the 14th Congress and identifying needed legislative reforms for future Congressional consideration.

The recommendations that emerged from the FGDs are described in the section that discusses the Seven Big Winners, while legislative recommendations can be found in a later section.

We have included many data-packed charts and tables and various relevant quotations highlighted in boxes throughout the text. Most of our charts include data from 2000-2009, so that the first decade of the 21st century is portrayed, as *Arangkada Philippines 2010* is published at the opening of the 2nd decade.

With its dynamic population and a land blessed with more natural resources than some Asian countries that have become rich, the Philippines has no credible excuse for perpetuating its lagging performance. We do not believe this is a “*Land of Permanent Potential*,” as some call it, but “*Vested Interests Block Reform*” and “*Still Trapped on the Threshold of Prosperity*,” titles of articles appearing in the Financial Times about Nigeria, which it termed a “land of bottlenecks,” could be descriptive of the challenges confronting the Philippines.⁴

This advocacy paper is titled *Arangkada Philippines 2010: A Business Perspective* because its recommendations originated from private sector experts from the Philippine and foreign business communities. Because our main message is that change has been too slow and needs to accelerate, we also created a slogan for this advocacy paper:

ARANGKADA!

MOVE TWICE AS FAST!

³ Participants were asked to address: (1) What specific reforms are needed to unlock investment potentials in this sector; (2) How to best address these reforms? Through the executive, legislative, or judicial branch? Which reforms can be addressed at department level? Which are the most concerned government agencies? Which reforms could the private sector address? and (3) What is a realistic time frame to accomplish each reform?

⁴ FT, July 21, 2009.