Economic Reform & Development in the Philippines

The Philippines has averaged 4.4 percent GDP growth over the past decade, which is slower than many Asian countries. The latest government survey reports that in 2006, 27 out of 100 Filipino families live in poverty. Progress in poverty reduction is constrained by a low-growth, low-investment equilibrium, due to political instability, corruption, poor governance, and inward-looking market policies.

GOVERNANCE AND POLITICAL ECONOMY APPROACH

The Asia Foundation takes a governance and political economy approach that focuses both on technical solutions and on understanding the domestic political and economic context and how power and resources are distributed and contested.

At the national level, the Foundation and its partners identify reform opportunities and build “reform coalitions” of government agencies, private sector associations, and civil society organizations in a range of areas such as civil aviation, property rights, infrastructure, and sea transport. At the local level, the Foundation works with local governments to improve government processes, resulting in a more business-friendly environment.

LINKING THE ISLAND ECONOMIES

As an archipelago of 7,000 islands, connecting the “island economies” of the Philippines is critical for growth and development. To create the connections, The Asia Foundation and its local partners provided analysis and recommended the introduction of a policy to shift away from a “container box” shipping system to a system that allows trucks, buses, and cars to “roll-on, roll-off” (RO-RO) the vessel.

To pursue the RO-RO policy reform, the Foundation and its local partners worked with those affected by the high cost of sea transport: Department of Agriculture, Development Bank of the Philippines, National Economic Development Authority, Mindanao Business Council, Philippine Chamber of Commerce and Industry, and Supply Chain Management Association of the Philippines.

In 2003, the RO-RO policy was signed. As a result, inter-island transport logistics costs have been reduced. Among five different product categories (fish, live cattle, liquid CO2, dry goods, and beer) transport costs were reduced by 20 to 60 percent. The RO-RO network also changed business and logistics practices. For example, Nestle reduced its distribution centers from 36 prior to the policy to three. Using the extensive RO-RO network, Nestle delivery trucks can now act as rolling “distribution centers.”

COMPETITION IN CIVIL AVIATION

With no land connection to other countries, air access is critical for the Philippines to engage and reap the benefits of global trade and tourism. To promote the liberalization of civil aviation, The Asia Foundation and its local partners helped to inform a coalition of users including overseas

PHILIPPINES PERFORMANCE SNAPSHOT

Average GDP Growth since 2000: 4.4%
Nominal GDP Per Capita 2009: $1,745
Foreign Direct Investment 2008: $1.4B
Overseas Remittances 2009: $16B
Private Short-Term Capital Accounts 2009: $18.5B
Average % GDP Road Infrastructure Funding since 2003: 2.6%
contractor workers, exporters, tourism-related businesses, and local and national government officials. As a result, air access through bilateral air service agreements and competition has grown significantly. Since 2007, the Philippine government, with assistance from the Foundation, has signed 25 bilateral air agreements. Clark airport, north of Manila, is a major beneficiary of these agreements. In 2004, Clark recorded 50,000 passengers; by 2009 Clark passenger traffic had reached almost 600,000 and was the only Philippine airport to grow during the global financial downturn.

SECURE PROPERTY RIGHTS

Secure property rights is essential for promoting growth and investment and reducing social conflict.

According to the estimates, nearly eight of the 24 million land parcels are untitled residential lands. Cumbersome and expensive judicial titling procedures are a major barrier to proper titles. A study by La Salle Institute of Governance supported by The Asia Foundation recommended a new law to establish a titling program to issue titles for already occupied residential parcels on public lands.

The research informed key constituents such as the Rural Bankers Association, the Chamber of Thrift Banks, and associations of local government officials about the benefits of the reform. These organizations worked closely with legislators and their staff during deliberations.

In March 2010, the Philippine government passed the landmark legislation called the Residential Free Patent Law. In partnership with local governments, the Foundation will assist to effectively implement the titling program.

BETTER INFRASTRUCTURE

Poor-quality infrastructure is a significant barrier to growth and investment. In the Philippines, a major barrier to effective implementation of infrastructure projects is poor inter-agency coordination that leads to delays and cost overruns.

To improve government efficiency, The Asia Foundation and its local partner helped the Office of the President establish an effective mechanism for monitoring the implementation of infrastructure projects. By providing independent and up-to-date accurate information on the status of project implementation, the monitoring body resolved many inter-agency issues such as delayed budget releases, permits, and licenses.

Since 2006, major high-impact projects have been completed, including three major toll roads, two international ports, two international airports, and a light rail line among others. The completed projects have a total value of over $2 billion in new infrastructure to propel growth and development.

IMPROVING LOCAL GOVERNANCE AND BUSINESS CLIMATE

Bureaucratic procedures at the local level in the Philippines are often cumbersome and difficult for the private sector to understand. The Asia Foundation worked with local governments to improve government processes, responsiveness, and efficiency to better service local constituents. Reforms included streamlining business registration, thereby increasing the number of formal businesses and improving local business tax revenue collection efforts. Across six different cities throughout the Philippines there was an average increase of 54 percent in the number of formally registered businesses between 2005 and 2007 leading to an increase in local government business tax revenue of 126 percent.

In the Philippines, The Asia Foundation programs are also funded by the United States Agency for International Development, the Australian Agency for International Development, the Canadian International Development Agency, the United Kingdom’s Department of Foreign and Commonwealth Office, and the Asian Development Bank.

The Asia Foundation is a private, non-profit, non-governmental organization. Through its programs, the Foundation builds leadership, improves policies, and strengthens institutions to foster greater openness and shared prosperity in the Asia-Pacific region. It is funded by contributions from corporations, foundations, individuals, and governmental organizations in the U.S., Europe, Canada, Australia, and Asia, and an annual appropriation from the U.S. Congress.

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