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§1. The Philippines Today

Many dramatic changes are taking place in the Philippines once considered the center of trade in Asia. The economic and political crises in the early 1980s have left a great impact on the country. The country was burdened with high public debt and poverty, and her economic performance lagged behind the dynamic neighboring countries in Asia.

The country now is in its year of economic recovery after a decade of boom-bust instability. Now the Philippines is going through a transition. An IMF official stated that, “the groundswell of domestic confidence are rising and international respect is now prevailing in the Philippine economy today.” (The Nikkei Weekly, June 17, 1996, p.20)

The economy improved remarkably in 1995 with the Gross National Product (GNP) posting a growth rate of 5.8% in real terms during the first quarter of 1995 compared with 5.3% in 1994. Equally worth nothing is the 6.8% growth during the third quarter of 1995, the highest in 20 quarters. A demonstration that there is strong confidence on the improved prospects for sustained economic growth is the US$ 7.5 million international reserve, a result of the flowing back of foreign capital into the country. Confidence in the economy is further reinforced by the strong macroeconomic fundamentals. In 1994, the annual inflation
rate was 9%, dropping the subsequent year to 8.1%.

As of December 1995, foreign equity investments in the Philippines amounted to $12.5B, mostly directed to public utilities, energy, construction and mining industries. Employment trends have been favorable for the past three years. In 1995 an average of 765,000 new jobs were generated an increase of more than 50% to that created in 1994.

The real gross domestic product grew by 5% during the first three quarters of 1994. There was a sharp rise in domestic production during the 3rd quarter to 5.7% in spite of the poor performance of the agricultural sector. Industry and services were the driving forces behind the growth in the domestic economy which accounted for almost 90% of the growth in aggregate domestic production. In the industrial sector, utilities sector grew the fastest followed by the construction sector; manufacturing nevertheless contributed 70% to the growth of industry.

Public sector deficits have been reduced with consolidated public sector deficit (CPSD) falling to 1% of the GNP in 1994 which further declined in 1995. The current account deficit on the other hand rose to over 5% of GNP in 1993 but has declined since then attributed to the rise in exports and remittances from overseas. The big deficit in the past few years were in part due to the increasing demand for capital good imports.

Against this background, this paper intends to analyze the development policies of the Philippine government in its effort to sustain growth and development.
§2. Development Policies

1. Enabling Environment for Development

During the last two decades, productivity has lagged and private investment has stagnated. Growth rate went as low as −0.6% in 1991 and 0.3% in 1992. Policy changes, economic structure reforms, unleashing of the full capabilities of the private sector and enforcement of order in the country were implemented to correct this trend.

In 1993, for example gross domestic investments as a percentage of GDP was only 24.3% in the Philippines vis 34.4% in Korea, 43.5% in Thailand and 33.5% in Malaysia. The efficiency of private investment in the Philippines was much less compared with its neighboring nations.

As far as the industrial and service sectors are concerned, ownership are concentrated among a small number of family controlled conglomerates and MNCs that produce half of the value added in manufacturing. Few firms have been able to break through the entry barriers imposed by the monopolistic barriers. In light of this the government saw the need to correct these biases and promote competition and subsequently efficiency. It believes that private investment is an important stimulant to growth. Policy measures were introduced in recent years to improve the macroeconomics and political situation so as to provide the private sector with an enabling environment. These measures include new taxes and spending cuts, liberalization of import restrictions, relaxation of foreign investment restraints, privatization, liberalization of exchange and interest rates, restructuring of the Central Bank and dismantling of monopolies.
The importation of most commodities have been deregulated. As per the new multilateral trading system under the WTO, the Philippines will enjoy an average of 35% tariff reduction on 350 export products amounting to $2.4B with 14 of the country's top export products having been granted concessions. A few domestic infant industries that produce intermediate goods will still however enjoy protective tariffs. Tariffs on capital equipment and spare parts have been reduced from 10-20% to 3-5%.

Exports are greatly encouraged. Exporters may retain 100% of their foreign exchange earnings and export proceedings have been simplified. Due to the liberalized trade and finance, manufactured exports now account for nearly 80% of total exports in 1995 compared to the 1983 figure of 47%. The share of exports has increased from 22% to 35% of GNP during the same period. The value of exports increased by 29% to U$17.4B in 1995. Electronics is the biggest export component amounting to U$7B.

Foreign currency restrictions have also been liberalized. All types of investments whether direct equity or purchase of listed shares can now be immediately and fully repatriated through an authorized bank. Proceeds can also be fully remitted.

The Central Bank has allowed the free sale and purchase of foreign exchange outside the banking system. It also allowed the deposits in foreign currency accounts of receipts, acquisitions or earnings in the Philippines or abroad. The financial industry is deregulated that for the first time in more than 40 years foreign owned banks are allowed to operate in the country. Ten foreign banks have been allowed to do full banking operations with recent approval of the law liberalizing foreign banking. The liberalization of the banking sector has contributed
to the burst of business activity companies have more borrowing options and competition has forced down the interest rates.

2. Private Sector Participation

In addition to these policy changes, urgent initiatives are underway to bring about a more solid base for economic growth, this time with the active participation of the private sector in the context of competitiveness and efficiency. To this end, schemes such as privatization and the Build-Operate-Transfer (BOT) are being implemented. The Philippines has a history of protectionism and monopolies which the government seeks to eliminate through deregulation of the industry or privatization.

The privatization process have helped the government achieve a budget surplus 1994 and 1995, the first surplus in two consecutive years in the country's recent history. The 1994 proceeds of the government has relied on the Pesos 11.9 B and 1995 earnings of Pesos 44B due to the privatization of most of the 400 government assets and agencies including banks, oil refineries, and the state airline. Local enterprises as well as foreign investors are encouraged to compete with home grown business groups which have long enjoyed government protection. The impressive list of measures include the progressive deregulation of the telecommunications, airline and shipping industries. Mining was opened to foreign investors and soon the retailing sector. The retail sector is being deregulated to spur competition and improve consumer welfare by providing a wide variety of quality goods and services at reasonable prices.

A successful model for deregulation was that of the Philippine Long
Distance Telephone Co., a government protected monopoly until three years ago had no competitors to worry about (Far Eastern Economic Review, June 13 1996). Newcomers in the telecommunication industry have piled up, notably: Globe Telecom, Smart Telecom, BayanTel, Digital Telecom, etc. Upon being deregulated, nine new telecommunications firms entered the industry, as a result there was an increase in the telephone density to 2.48 lines/100 persons in 1996 from 2.27 lines/100 persons during the previous year. Similarly, the aviation industry was opened up by issuing permits to other airlines such as Air Philippines, Grand Air, and Cebu Pacific Airbus to challenge the national flag-carrier, Philippine Airlines.

What has prevented the Philippines from reaching a tiger growth status among others is the infrastructure bottlenecks (The Financial Times, October 2, 1995). As far as infrastructure is concerned the government now is enlisting private sector for public enterprise development. An Asian Development Bank (ADB) report states that the Philippine government needs U$50B for roads, water, electricity and irrigation projects for the next decade—a sum the government could not afford.

To ease the government of the financial, technical and managerial burden in its economic reforms plans to strengthen the infrastructure base, schemes such as build-operate-transfer (BOT) projects have been implemented. Private entities finance and build the infrastructure, operate them long enough to reap a profit and then hand control to the government. The scheme was a resounding success to solve the power shortage that plagued the country. Between 1992-1995, there were 23 privately built power plants that came on-line under the BOT.
The successful implementation of the BOT in the 1990s to solve the power crisis has encouraged the government to open up housing, education, health, and database and networking to such scheme. To further augment BOT scheme, the BOT guidelines for registration with Board of Investment (BOI) have been liberalized to decrease the conditions for repayment.

3. Outward-Looking Regulations

Direct foreign investment (DFI) driven industrialization has provided the engine for growth in many ASEAN countries in recent years. Policy reforms were implemented to improve business climate not only for local corporate activity but most specially to foreign investments. For future economic growth DFIs are essential in as much that the country has debts to service and low domestic savings rate. The government thus enforced policies to attract DFIs which are increasing but still fall short compared to the large inflow into other Asian neighbors. Comparative figures for 1993-1994 show that DFIs in Thailand and Indonesia tripled to U$14.74B and U$26.27B, respectively, whereas DFIs in Malaysia increased by 74.7% to U$42.7B and Philippines by 331% to U$2.46B in 1994 (The Japan Times, November 1995).

Various measures have been adopted to attract foreign investments. More areas have been opened to 100% foreign ownership and procedures for starting and doing business in the country have been simplified. Recently minimum equity requirement for investors was lowered from U$500,000 to U$150,000. Efforts are also directed towards the elimination of the “Negative list” which serves to protect some sectors from foreign investors except for media and broadcasting.
All investors and enterprises enjoy basic rights such as:
  i). freedom from expropriation without just compensation
  ii). the right to remit earnings from investments and capital gains and dividends within the guidelines set by the Central Bank
  iii). the right to repatriate the proceeds of the liquidation of investment
  iv). the right to obtain foreign exchange to meet principal and interest payments on foreign obligations.

Although the Constitution prohibits the ownership of land by foreign nationals, foreign companies may lease the land they occupy for a period of 50 years renewable for another 25 years. In the event that the Condominium Law is passed, foreign companies can own their plant facilities and become stockholders of the company in the areas designated as industrial estate. This assures the company of permanent tenure.

Enterprises earning at least 50% of its total revenues from exports are entitled to the incentives offered by the Board Investment (BOI), Export Processing Zone (EPZ) or Special Economic Zone including these additional privileges:
  i ). Exemption from advance payment of customers duties
  ii ). Zero percent duty on imported machinery and equipment and spare parts
  iii ). Tax credit on imported raw materials for a period of five years
  iv ). Tax credit for increase in current year
  v ). Tax credit of 25 percent of duties on local raw materials, capital equipment and/or spare parts for a period of 3 years
The government offers fiscal and monetary incentives to enterprises registered with the BOI (known as the Omnibus Investments Code of 1987), the EPZ or better known as the Export Development Act. Special packages are also provided if companies locate in special economic zones such as the Clark, Subic and John Hay which were all former American military bases. The fiscal incentives offered to DFIs that engage in activities as per the 1996 Investment Priority Plan (IPP) (See Appendix1) are:

i). Income tax holiday of 4 to 6 years.
ii). Tax and duty-free importation of capital equipment and spare parts
iii). Tax credit on domestic capital equipment
iv). Tax credit for taxes and duties on raw materials used in the manufacture, processing or production for exports

Whereas the non-fiscal incentives include:

i). Simplified customers procedures
ii). Unrestricted use of consigned equipment
iii). Employment of foreign nationals
iv). Waiving nationality requirements for regional ASEAN or multinational financial institutions

Aside from the Board of Investment incentives, enterprises locating at the EPZ will enjoy these other privileges:

i). Exemption from local taxes(except for real estate taxes), licenses and fees
ii). Exemption from real estate tax on production equipment and machineries
iii). Exemption from the 15 branch profits remittance tax
iv). 100% foreign ownership
v). Simplified import and export procedures

4. Regional Decentralization

In the Philippines, development is skewed heavily in favor of the urban areas. Cognizant of the impact of uneven growth in the regions to political and social stability, appropriate government actions such as regional decentralization to spur regional development are being adopted. For one the degree of concentration of DFIs and development that accompanies it are polarized in certain core urban areas leaving the hinterlands lagging behind. More often centers could provide the infrastructure facilities and institutions, and amenities necessary to conduct business, either domestic or international. Against this background, the government enacted the Local Government Code giving local officials greater authority in running their localities. This results in keen competition in attracting foreign investors to help the development of the regional economy. Taking the lead in this drive are regions that have opened industrial estates with facilities and amenities in place.

The government has also pursued countryside development projects. The Philippine Economic Zone Authority will soon establish 10 economic zones (Figure 1) all over the country. These zone will also deal with infrastructure development within the zones to serve the needs of industries and investors.

Enterprises who produce for exports can locate in export processing zones or industrial estates. They not only enjoy priority in infrastructure development but businesses here receive special assistance and
Figure 1. Existing Export Processing Zones, Philippines, 1996.

Source: DTI, Philippines, 1996.
Figure 2. The Regional Growth Centers of the Philippines.

Source: DTI, Philippines, 1996.
incentives. Ten industrial estates have been authorized by far to operate as export processing zones and several more are being developed.

There is also the identification of regional growth areas still yet with the purpose to spur infrastructure development in the countryside. At present there are 19 listed regional growth areas in the country (Figure 2). These regional growth centers will be developed through the implementation of the Regional Agri-Industrial Center Program (RAICs). One RAIC will be identified per region and will be given priority in terms of off-site infrastructure development by the government while on-site development in these areas will be private-sector led. Two or more of these growth centers are linked to come up with the growth network or corridor that include: Cavite-Laguna-Batangas-Rizal-Quezon (CALABARZON) Special Development project, Northwestern Luzon Growth Quadrangle; Panay-Negros Growth Pole; Cagayan de Oro-Iligan Corridor; Cotabato-Davao-Zamboanga Crescent; Zamboanga City RAIGAC; and Phividec Industrial Estate Phase I Expansion.

§3. Concluding Note

The Philippines, many development economist say, is heading in the right direction although there may be bumpy rides. Measures have been enforced to turn the economy around. The government tried first to regain credibility by strengthening law and order. It also established an independent Central Bank, launched a project to cut import tariffs to help make Philippine exports more competitive. A firm hand has been taken to boost the investment environment conducive to local and foreign investments. Moreover, moves were taken to dismantle the protectionist, close and highly regulated regime through deregulation, privatization.
and liberalization of the business environment. The entry of investors in many key industries are being eased; the operating environment enhanced, infrastructure system boosted and the financial environment improved. But the key issue now is how to sustain the current economic recovery. What are some of the key policy challenges at stake?

The factors the World Bank mentioned that served as obstacles to development in the past were uneven, macroeconomics management, weak implementation and insufficient infrastructure. There were amelioration in recent years on all three fronts. An enduring recovery however may not be assured given national savings and investment remain low, public debt remains big and privatization revenues declines and tariff reduced, risks are there that the fiscal position could deteriorate. Weak implementation of policies and projects is another challenge (e.g. tax evasion, weak role of local government units) that may obstruct the effectiveness of development programs. The rate of adjustments in these areas will likely determine the pace at which growth will be sustained.

With the end of protectionism and the onset of more openness in trade and investment, there will be greater competition. And to be more internationally competitive, quality of product/service has to be maintained or upgraded and enterprises should work for greater productivity. For example low labor cost is just a short term advantage for foreign investors; there is still the challenge of raising productivity.

Private participation in infrastructure development through the BOT program has partly helped the cash strapped government. But the private sector would not likely get involved in investments which are
not cost effective. Here lies the conflict between commercial and social objectives. No company would for instance involve itself with rural infrastructure or arterial highway network development that would help improve the social and economic conditions in the non-urban sector where more than 80% of population live but not its profitability.

There are still other issues that warrant policy attention such as poverty alleviation and rural development. How could the benefits of growth be distributed to as many members of the population as possible? How can a balanced agro-industrial program help raise the standard of living of people in the rural areas? What environmental problems have to be addressed now and in the future in light of economic growth and development?
Appendix 1. Activities Listed in the 1996 IPP.

ACTIVITIES LISTED IN THE 1996 IPP

Priority Investment Areas
(Countrywide)

*Export-oriented industries*
*Catalytic industries*
*Industries undergoing industrial adjustments*
*Support activities*
*Mandatory inclusions*

Additional Priority Investment Areas for the Autonomous Region of Muslim Mindanao (ARMM)

*Export activities*
*Agriculture, food & forestry-based industries*
*Basic industries*
*Consumer manufactures*
*Infrastructures and services*
*Engineering industries*

Source: BOI, Philippines, 1996.
References:
「5章 アジアの開発政策：フィリピンの事例(セリア・L・ウマリ)」の要約
以下は、編者による本文（英語版）の要約である。

1 フィリピンの今日
1980年代初期の政治経済危機から10年の低迷の後、経済回復に向かったフィリピンは、現在その4年目に入り、1995年の第3四半期のGNPは年率6.8％という過去20四半期中最高の成長を示した。信頼の回復によって外資流入が進み、1995年末では、フィリピンへの外国のエクイティ投資は、公益事業、エネルギー、建設、鉱業を中心に125億ドルに達した。雇用状況も過去3年間にわたり改善された。農業部門を除き国内生産は急成長を示し、なかでも製造業の成長の貢献度が大きい。財政赤字は1994年にはGNP比1％に減少し、1995年にはさらに縮小した。他方、経常収支の赤字が1993年にはGNP比5％を越えたが、以後、輸出と海外送金の増加によって縮小してきた。過去5年間の大きな赤字は資本財輸入需要の増加によるものであった。

2 開発政策
民間部門重視への政策転換が好結果をもたらした。
(1) 開発環境の形成：過去20年間、フィリピンの民間投資は近隣諸国に比べて低迷し、その効率性は低かった。工業とサービス部門では、少数の家族の所有するコンゴロマリットと多国籍企業が製造業付加価値生産の半分を占めた。この独占の参入障壁を乗り越え得る企業は存在しなかった。政府はこの状況を改め、競争と効率化を促進する必要を認めた。この数年間に、民間部門の活性化のために、マクロ経済と政治状況を改革する政策手段が導入された。それには、新税制、政府支出削減、輸入自由化、外国投資制限の緩和、民営化、為替と利子の自由化、中央銀行の再建、独占の排除が含まれていた。貿易、金融の自由化によって、1983年比で1995年の製造業製品輸出は総輸出の47％から約80％に増加し、対GNP輸出比率は22％から35％になった。外国銀行の規制解除など銀行部門の自由化によりビジネス活動が活性化し、利子率が低下した。
(2) 民間部門の参加：政策転換には、より強固な成長基盤を造るために、競争と効率化を進め民間活動の活性化を促す緊急政策が加わった。このために，
5章 アジアの開発政策：フィリピンの事例

国営部門の民営化とインフラ部門の建設・運営・委譲計画（ＢＯＴ）を進め
た。政府は、保護主義と独占の歴史を、産業開放ないし民営化によって除き
ようとしている。銀行、石油精製、国営航空を含む400の政府業務を民営化
し、電話や海運の独占を排除し、国内企業はもとより外国の投資家に対応
も、長らく政府の保護下にあった国内企業グループとの競争への参加を求め
た。また、フィリピンのＮＩＥｓ化を妨げている要因に、道路、水道、電力、
灌漑など産業基盤の不足がある。この整備のための政策がＢＯＴ計画である。
民間がインフラの金融、建設を行い、利益回収期間を経て、管理を政府に委譲
するシステムであり、92～95年に、23の発電所が民間で建設され操業を開始し
た。

(3) 対外制限：工業化に向けての外国直接投資（ＤＦＩ）は、近年、多くの
ＡＳＥＡＮ諸国にとって成長のエンジンとなった。改革政策は国内企業活動の
みならず、とりわけ外国資本の投資に対して行われ、政府はＤＦＩの誘政策を
強めた。100％外国所有資本に多くの分野を開放し、事業開始の手続きを簡略
化した。土地所有制限など様々な外資制限を緩和、撤廃した。旧米軍基地のク
ラーク、スビック、ジョン・ヘイなどに輸出加工区や特別経済区を設け、機
械設備や部品への無関税措置などの投資インセンティブを与えた。

(4) 地域分散化政策：フィリピンでは、国内外をとわす企業の地方誘致政
策を進め、農漁村地域などに地域開発政策を行った。10の経済区を設け、そこ
では産業や投資家の必要に応じてインフラ開発も進めることとした。さらに19
の成長地域を設定した。外的インフラ整備を政府の手で優先的に行いつつ、地
域の農産業センター計画を民間主導で進める計画である。これらは複数の地域
を特別計画により成長のネットワークに結ぶ構想と結びついている。

結　語

フィリピンは、今、以上のような様々な政策を介して発展の途上にある。しか
し問題は、現在の経済の回復過程を如何に持続させてゆくかということであ
る。マクロ経済の管理の不安定性、実行力の欠如そしてインフラの不十分さと
いったこれまでのフィリピンの弱点はなお過去のものとなったわけではない。