Competitiveness: Catching the next wave
The Philippines

May 2014
EXECUTIVE SUMMARY
The Philippines: Asia’s next tiger?

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The Philippines has emerged as one of the stellar economic performers in the Asia Pacific region. Over the 2009–13 period, the country’s GDP expanded at a 6.3 percent compound annual growth rate (CAGR), compared with 6% for the Southeast Asia region as a whole. Only China recorded higher growth.

The strength of the Philippine economy is even more remarkable given that across the region, China’s slowing momentum and the sudden flight of capital back to developed economies has slowed the pace of growth among its neighbors. Thailand, for instance, has suffered a significant slowdown amid continuing political turmoil, while Indonesia posted its weakest expansion since 2010. And confidence is high that this energetic growth will continue, as strong domestic demand will drive expansion. Philippine economic growth should remain firm at 6.3% in 2014, though slightly below the pace of 2013. Rising domestic wages and a strong flow of remittances from Filipinos working abroad are expected to boost consumer purchasing power. Expansion in the IT sector and significant infrastructure investments will also bolster growth.

Equally important is that recent government reforms to improve the business climate and reduce endemic corruption have already had a meaningful effect, leading to rising foreign direct investment (FDI) and improvements in Manila’s rankings on a variety of global indices.

In its most recent Global Competitiveness Ranking, for example, the World Economic Forum listed the Philippines as the world’s 59th most competitive nation, a tremendous leap from its ranking at 87 in 2010.1

Opportunities ahead

While the Philippines still must do more to reduce unemployment and create a path of long-term sustainable growth, there are opportunities in key industry sectors that are likely to propel the country’s growth for the next twenty years. As labor rates rise in China, the Philippines could become a more attractive manufacturing center, especially if the nation’s power supply is stabilized. The business process outsourcing (BPO) sector also has room to expand further. Smart investments in infrastructure could boost the construction sector and lead to higher productivity growth, as would improvements in the nation’s roads and harbors. All these efforts can be supported by continued reforms to make the Philippines even more competitive in the dynamic and fast-changing Southeast Asian region.

Figure 1: Southeast Asian growth 2009–2013

Source: Oxford Economics

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PART 1
The regional context: the “sick man of Asia”

Philippine President Benigno “Noynoy” Aquino III is fond of reminding business audiences today that his country is no longer the “sick man of Asia.” But for many decades, the moniker stuck. Throughout the 1980s and 90s, the Philippines remained mired in relative stagnation. These decades marked the ascent of a new manufacturing infrastructure across Asia as Japanese firms, followed by their European and American competitors, sought to develop a deeply integrated supply chain of component and assembly plants. Thailand, the recipient of major Japanese investment, became a prime source of automotive manufacturing. South Korea and Taiwan became hubs of electronic and semiconductor production. Malaysia sought foreign investment to boost its IT industry, and Vietnam, shedding its Communist past, gained foreign attention as a promising new economy for low-cost manufacturing.

During this period, the Philippines lost ground to its neighbors as major manufacturing investments went elsewhere. From 1980 to 2013, the nation’s GDP grew by just 3.3% per year, compared with over 5% in Malaysia, Thailand, and Indonesia; almost 7% in Vietnam; and close to 10% in China.

As manufacturing became a vital generator of employment and value-creation across many parts of the region, in the Philippines the industrial share of economic output dropped. Protectionist policies maintained throughout the 1980s—a period marked by protests against “crony capitalism” and a “People Power” revolution that ousted strongman Ferdinand Marcos—created large inefficiencies in the manufacturing sector and diminished the enthusiasm of potential foreign investors. Inadequate road infrastructure, frequent power shortages, and poor commercial transportation were frequently cited as key constraints to growth. As a result, the share of FDI in the Philippines, as a percentage of GDP, today remains much lower than among its regional peers.

From 1980 to 2013, the nation’s GDP grew by just 3.3% per year.

With manufacturing growth stunted, new generations of workers seeking to leave rural areas in search of higher living standards were consigned to work in low-skill jobs, where productivity and wages tended to be lower—or to leave the country altogether. Last year, Filipino workers who moved abroad to work sent home some USD$23 billion, compared with just $7 billion in 2002, a figure equivalent to about 8.5% of national GDP.

As a result, the Philippine standard of living deteriorated. In the early 1980s, for example, per capita GDP in the Philippines, measured at PPP exchange rates, was similar to or higher than many of its peers in Southeast Asia. Over the last three decades, however, living standards in the Philippines have barely changed, with per capita output currently just 40% above its 1980s level. By comparison, per capita GDP increased by some 300% in Malaysia and Indonesia, 400% in Thailand and Vietnam, and 800% in China.
PART 2
The tide is turning

Today, unmistakable signs of an economic turnaround are visible across the Philippines, including a marked improvement in the business climate and the successful conclusion of peace talks in Mindanao, a potentially important agricultural region. Investments in infrastructure, better governance, and a concerted effort to reduce corruption and red tape, have boosted economic performance and, in turn, sparked higher business confidence in the country’s growth potential. In 2009–13, GDP grew by a CAGR of 6.3%, compared with 3.3% for the 1980–2013 period.

Unmistakable signs of an economic turnaround are visible across the Philippines, including a marked improvement in the business climate. These positive developments have already increased the country’s attractiveness. The World Economic Forum now ranks the Philippines at 59 in its global competitiveness ranking—still behind neighbors Malaysia, China, and Thailand, but a giant leap from its ranking of 89 in 2010.2

The Philippines’ economic outlook remains strong and sustainable in the near term, driven primarily by increasing domestic demand. Rising domestic wages and strong remittances from Filipinos working abroad are expected to boost consumers’ purchasing power. Reconstruction of infrastructure destroyed by typhoon Haiyan will provide further stimulus. And a pact with the United States to rekindle military cooperation should further improve investor confidence and create some base-related employment. As such, GDP growth is forecast at a CAGR of 5.6% through 2018, and private investment is expected to be solid.

Another positive is that external risks to the economy are lower than in many emerging market economies. The nation’s large current-account surplus, now running at about 4% of GDP, and high foreign exchange reserves should help shield the economy from the adverse impact of further monetary tightening—the so-called “tapering”—in the United States, which has led to large capital outflows in some emerging economies. In addition, the Philippine budget deficit is set to stay below 2% throughout the next 20 years.

To fully appreciate the Philippines’ long-term growth story, however, it is important to first spell out its economic potential in a regional context. The country will continue to compete with nations like China, India, and its neighbors in Southeast Asia (Thailand, Malaysia, and Indonesia) for business investments that can generate well-paying jobs and fuel sustainable growth.

The manufacturing and construction sectors are key to developing economic strength in the Philippines. Like many Asian nations where vast populations have moved from the farm to the factory, the manufacturing and construction sectors are key to developing economic strength in the Philippines, as they lead to higher economic productivity. Indeed, the strong growth in global manufacturing through 2033 will be a major driver of world growth. This presents the Philippines with great potential to integrate more fully into what has become a global supply chain of high-value manufacturing. But it may also draw the country more directly into economic competition with its neighbors.
For the Philippines, construction and manufacturing are projected to grow significantly more than overall GDP, along with communications and business process outsourcing (BPO), which has not only begun to gain significant critical mass across the archipelago, but offers great potential to absorb many of the new professionals now graduating from universities. At just 23% of gross value added (GVA), manufacturing today remains a relatively small part of the economy. Expanding production in the manufacturing sector will be crucial to developing a more inclusive growth model, since manufacturing provides opportunities for high-skilled, semi-skilled, and low-skilled workers. As a result, the longer-term outlook depends fundamentally on the government’s ability to implement policies that improve the business climate.1 Relaxing limits on foreign ownership could boost FDI and increase efficiency through higher levels of competition. The use of public-private partnerships (PPPs) could help speed investment spending on infrastructure and reduce bottlenecks. Policies that promote inclusive economic growth should also help boost the Philippines’ long-term potential. The poverty rate remains stubbornly high, with about 40% of the population living on less than $2 a day. Although the unemployment rate has come down since the early-2000s, it has hovered around 7% since the global financial crisis, and is considerably higher than its peers. The rate of underemployment is stubbornly high, as well, at around 19%. Given its rapid population growth should also help boost the Philippines’ long-term potential. The poverty rate remains stubbornly high, with about 40% of the population living on less than $2 a day. Although the unemployment rate has come down since the early-2000s, it has hovered around 7% since the global financial crisis, and is considerably higher than its peers. 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PART 3
Industries driving the next wave of growth

The Philippines remains largely a service-based economy, with services accounting for about 50% of GVA in 2013. To achieve the next level of economic prosperity, other sectors will need to contribute stronger growth.

Manufacturing

The manufacturing sector in the Philippines is showing renewed strength. From 2009 to 2013, the sector expanded at a CAGR of 7.9% in value-added terms. Indeed, the country offers a number of advantages that should facilitate growth in the manufacturing sector, including strong English skills, a rising middle class, proximity to fast-growing markets in Asia, and rising labor costs in other emerging Asian economies, most notably in China.

Given rapid population growth, creating jobs must remain a high priority.

Improving its competitive position relative to China is particularly important, as many foreign firms operating in China are now seeking new or supplemental production platforms—the so-called “China plus one” strategy. China are now seeking new or supplemental production particularly important, as many foreign firms operating in China are now seeking new or supplemental production platforms—the so-called “China plus one” strategy. China are now seeking new or supplemental production platforms—the so-called “China plus one” strategy. For the Philippines, has estimated that wages in Vietnam today are about 50% lower than in the Philippines, and are lower still in economies like Bangladesh and Cambodia. Instead, Arangkada Philippines argues that government policy should focus on a two-pronged strategy. First, workers employed in the low-productivity intensive manufacturing sectors, such as textiles, furniture, and food processing. Second, underemployed workers in the service sector should shift into higher-value-added sectors such as electronics, chemicals, and transport equipment.

Given the existing Philippines’ wage premium over countries such as Vietnam and Bangladesh, it is unlikely the country can gain significant share in labor-intensive sectors, particularly textiles, as firms tend to locate where labor costs are lowest. Moreover, textile production has already fallen from 18% of manufacturing output in 2005 to under 5% in 2013. Food production, by contrast, serves the large domestic market, so strong growth in this sector can be expected to continue.

Rising costs in China create new growth opportunities for the Philippines.

There is a compelling case for the Philippines to specialize in high-value manufacturing. A successful core of high-value manufacturing requires low cost of capital, access to technology, an educated workforce, and spending on research and development. The Philippines holds a number of key advantages in these sectors, including a large English-speaking labor force, free trade agreements with large economies such as the United States, Japan, China, and South Korea, and rising domestic demand. Still, high electricity costs and an unreliable supply, red tape and regulation, and skill shortages pose challenges to growth in high-value manufacturing.

Source: Oxford Economics/Haver Analytics
A significant electronics manufacturing sector already exists in the Philippines, accounting for over half of the country’s merchandise exports. However, the high-tech sector is fairly isolated from the rest of the economy; it specializes in semiconductor assembly, which relies heavily on imported components that are then re-exported to be used as intermediate inputs in other electronic subsectors. Nonetheless, given its current specialization in electronics, the Philippines should be able to expand production into similar products up and down the supply chain, and should benefit from the off-shoring of Japanese and Chinese production facilities. Anecdotally, there is evidence that the Philippines is moving into other high-value sectors: a European components maker for Airbus has recently located in the Philippines, and U.S.-based B/E Aerospace has recently set up a factory there.

To help boost manufacturing initiatives, the government could introduce a number of special industrial zones that benefit from a combination of supportive government policies. Such measures could include low-cost and long-term land leases, relaxed terms on hiring and firing, training programs to help boost competitiveness, and better and more reliable access to low-cost electricity. These zones could also benefit from economies of scale through industry clustering, improved supply-chain efficiencies, and savings in transport costs.

Business Process Outsourcing

Over the last decade, a small but rapidly growing component of service sector employment has been in business process outsourcing (BPO). The sector consists of business services outsourced from developed economies, such as back-office services, call centers, data services, and software and IT support. The sector is centered in the Philippines’ urban areas, with 77% of workers based in metro Manila in 2011.5

From 2006 to 2011, the size of the market more than tripled; in 2011, it accounted for 9.5% of the global total. In 2014, metro Manila overtook Mumbai to become the second-largest global outsourcing destination for BPO.7 Indeed, from 2000 to 2013, the sector has grown by a CAGR of over 14%, rising from 1.4% of gross value added in 2000 to 4.3% in 2013.

The Philippines offers a number of advantages in the BPO market. In a survey of major BPO destinations conducted by the IT and Business Process Association Philippines and the Everest Group, the Philippines scored highest in the quality of its residents’ accents. In addition, the Philippines offers a large pool of qualified workers. After India and China, the Philippines has the third-largest annual graduate supply in subjects relevant to the BPO sector, such as finance, accounting and business, and IT.


Source: Oxford Economics/Haver Analytics

Source: Commission on Higher Education; Everest Group analysis (2011)


Source: Everest Group and Outsource2Philippines

Labor costs in the Philippines are also lower than in many other large BPO destinations. For example, average annual salaries in Manila are just $15,000–$16,000, compared with over $30,000 in Mexico City and $70,000–$72,000 in medium-sized U.S. cities. However, because BPO work requires a relatively advanced skill set, it employs only about 1% of the labor force and is unlikely to absorb mass quantities of low- and medium-skilled workers who are underemployed today. Nevertheless, the key components for continued growth in the sector remain in place, and over the next two decades, the BPO sector should contribute a CAGR of an additional 5.4% to GDP.

Figure 19: BPO workers annual salary

There is ample opportunity for construction—especially of roads, harbors, and other public infrastructure—to boost the nation’s employment, productivity, and economic output. Historically, public investment in infrastructure in the Philippines has been low relative to its Southeast Asian peers. From 2002 to 2008, infrastructure spending was just 2.7% of GDP, compared with an average of 6.6% among its neighbors. The current government has worked to address some of these gaps, raising the budget for public investment and working in conjunction with public-private partnerships (PPPs) to upgrade infrastructure. Currently, there are 47 PPP projects in the pipeline, covering transportation and road networks, as well as education and healthcare, although only seven contracts have been awarded to date.

Over the next few years, reconstruction efforts following the devastation of Typhoon Haiyan should boost construction spending. In the medium term, upgrades to existing infrastructure should continue to push up construction output to, in value-added terms, a growth rate of 5.2% per year from 2014 to 2033. However, if there are continued delays in turning ambitious plans into “shovel-ready” projects, this growth level could falter.

Figure 20: Infrastructure spending in Southeast Asia

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Source: Everest Group, Outsource2Philippines

Source: World Bank
Transportation and logistics

The poor overall quality of the transportation infrastructure has held back the economic development of the Philippines for many years and limited the growth of logistics and other transport-related services. Given the far-flung network of islands that make up the Philippines, the transportation sector is crucial to linking people and economic centers, and represents a key growth area. Furthermore, with the rapid population growth and migration into urban areas, mass transit is becoming critical. The chief means of public transport right now are the over-burdened light rail in Metro Manila and inefficient buses, jeepneys, and tricycles. The situation is fast becoming untenable in other parts of the country, specifically with respect to the antiquated railroad systems and sea transport, where mishaps can often turn deadly.

Though the quality of the infrastructure has begun to improve, the persistent challenges are illustrated in the World Economic Forum’s Global Competitiveness Report 2013–14, which indicated that compared to its peers, the quality of the transport infrastructure in the Philippines was poor. Of the 148 countries surveyed, the Philippines ranked 87th for roads, 89th for railroads, 113th for airports, and 116th for ports.9

In its Philippines Development Plan 2011–16, the Aquino government has laid out a four-point strategy to address ongoing transportation infrastructure issues. These include better integrating the transport network, consolidating and rationalizing the various transportation agencies, improving transport safety, and promoting development in impoverished and conflict-affected areas.10

The Aquino government has laid out a four-point strategy to address ongoing transportation infrastructure issues.

Assuming that the government successfully implements these strategies, a baseline forecast of 4.9% CAGR in the sector between now and 2033 can be expected. Despite delays in implementation that are creating lingering bottlenecks, these upgrades should be sufficient to promote sector growth, particularly as there is so much catch-up work to be done. In turn, this sector can serve as an important driver of growth in related sectors such as manufacturing, since the ability to transport goods is an important factor supporting both the domestic supply chains and expanding exports.

Information and communications

Ready access to high-quality information is critical for economic development and poverty reduction. Across the globe, the information and communications sector tends to be one of the fastest growing, as new and innovative devices lower the barriers for consumers to access the internet and empowers them to take their products and services to a global market.

While subscription levels for both fixed-line and broadband connections are extremely low in the Philippines, new technologies such as mobile and smartphones have increased internet access in recent years, rising sharply from six per 100 residents in 2008 to 36 per 100 in 2012. Since the early 2000s, policy and regulatory reforms have opened up the market for mobile service providers in the Philippines. These policies established interconnectivity between mobile networks, allowing consumers to connect to users of other service providers. As a result, mobile phone penetration is now high in the Philippines, with more than 100 mobile subscribers per 100 inhabitants.

Anti-bribery/anti-corruption

Corruption and bribery detract from social progress and economic growth by undermining the rule of law, distorting markets, and discouraging foreign direct investment. The annual cost of corruption to the global economy has been estimated to be more than 5% of global gross domestic product, or $2.6 trillion. Corruption and bribery have been shown to increase the cost of doing multi-national business by as much as 10% and add up to 25% to the cost of procurement contracts in developing countries. A recent European Commission study estimated that corruption costs the European economy around 120 billion euros per year. Regardless of the location, bribery and corruption is hurting economic growth and development.

Recommendations for continued reform and growth in the Philippines

Corrupting corruption has not been without effect, with legislative actions governing anti-corruption and anti-bribery being implemented over the past 50 years. For example, laws have changed to increase penalties for public officials found guilty of corruption or graft, provide for financial disclosure (by public officials), and revisit enforcement arrangements, including powers of various agencies responsible for addressing bribery and corruption. Nonetheless, corruption remains a major obstacle to economic growth and development in the Philippines. Changing this requires ongoing integrated action across a few fronts that will, ultimately, foster open and transparent procurement processes and mechanisms.

Government efforts: There are a number of steps that can be taken to improve the current legal regime to reduce the incidence of bribery and corruption. The main opportunities for reform include the procurement process, civil servant training and wages, and reporting and enforcement mechanisms. By making the process as transparent and open as possible, reducing the incentive for civil servants to solicit bribes, and enhancing deterrence with more vigorous oversight and penalties, the Philippines can continue to make strides in reducing the level of corruption and bribery in its economy. This might be achieved in the following ways:

• Improvements to procurement processes: by decentralizing decision-making authority and increasing the use of automated tools in the procurement process, internal controls and transparency can be enhanced, eliminating opportunities to solicit bribes.

• High-level reporting mechanism: The Basel Institute has advocated that the governments of developing economies adopt a high-level reporting mechanism (HLRM) as an additional measure for driving out corruption. An HLRM is separate from the agencies that manage procurement and regulate business but at a high-enough level to guarantee their cooperation. It provides a vehicle through which businesses and civil servants can report allegations of corrupt acts or bribery. The HLRM would be responsible for pursuing those allegations and, through inquiry, deter civil servants from soliciting bribes.

PART 4
Public policy and competitiveness

SOURCE: OXFORD ECONOMICS/HAVER ANALYTICS

Figure 23: Communications infrastructure growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Mobile phone subscribers (RHS)</th>
<th>Broadband subscribers (LHS)</th>
<th>Internet users (LHS)</th>
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<td>5.5</td>
</tr>
<tr>
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<td>35</td>
<td>120</td>
<td>40</td>
<td>7.5</td>
</tr>
<tr>
<td>2012</td>
<td>45</td>
<td>160</td>
<td>50</td>
<td>9.5</td>
</tr>
</tbody>
</table>

Source: Oxford Economics/Haver Analytics

Ready access to high-quality information is critical for economic development and poverty reduction. In a nation like the Philippines, boosting IT and broadband access can have especially powerful effects, since there is great opportunity to leapfrog to cutting-edge technologies and reap substantial network effects. Likewise, improved communication infrastructure also boosts the likelihood for deeper investments in BPO services. The communications sector is expected to grow at a 5.1% CAGR between now and 2033, signifying its continued importance in the growth of the Philippines.

The annual cost of corruption to the global economy has been estimated to be more than 5% of global gross domestic product, or $2.6 trillion. Corruption and bribery have been shown to increase the cost of doing business in multi-national business by as much as 10% and add up to 25% to the cost of procurement contracts in developing countries. A recent European Commission study estimated that corruption costs the European economy around 120 billion euros per year. Regardless of the location, bribery and corruption is hurting economic growth and development.

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Nonetheless, corruption remains a major obstacle to economic growth and development in the Philippines. Changing this requires ongoing integrated action across a few fronts that will, ultimately, foster open and transparent procurement processes and mechanisms.
Re-balancing incentives: When civil servants earn less than a living wage, there is an economic incentive to solicit bribes. In the Philippines, workers in the private sector, like electricity, gas, steam, and air-conditioning supply industry, for example, were paid 673.81 pesos (USD$15.48) per day, while the average worker in the public administration and defense industries only earns 533.66 (USD$12.23) pesos per day.1 When the average Filipino family has 3.5 children to feed, clothe, and educate, increasing a civil servant’s take-home salary mitigates the incentive to solicit bribes to make ends meet.14 Even a small bribe can go a long way when salaries are so low. Addressing salary on its own will not reduce bribery and corruption. However, incorporating this change alongside increased training and skills development and other process improvements may help diminish the incentive to solicit bribes.

Enhanced enforcement mechanisms: The Philippines already has a number of agencies responsible for enforcing anti-corruption/anti-bribery laws. However, the deterrent effect of existing enforcement mechanisms can be enhanced by increasing the rate of corruption/bribery prosecutions and levying financial penalties on individuals or corporations that have been found guilty of bribery and/or corruption.

Business efforts: Both multinational and local companies doing business in the Philippines have an interest in reducing corruption—as stated above, corruption greatly increases the cost of doing business both through reducing anti-corruption/anti-bribery risk and promoting fair and equal access to markets, businesses operating in the Philippines can adopt some of the following leading practices:

- Integrity pacts: There is power in numbers. Businesses can come together within their respective industries to agree to principles/codes of business conduct that help level the playing field in pursuit of government contracts, giving the private sector increased negotiating power with the government over future policy reform. So far, there have been fewer than 2,000 signatories to the Integrity Pledge sponsored by the Integrity Initiative spearheaded by private groups.15
- Improve ethics and compliance programs: The OECD, WEF, FAC, the UK’s Global Compact, APEC, and a number of other international organizations have researched and created definitive lists of leading ethics and compliance program practices. By adopting a compliance program appropriate to the size of the business, effective oversight and reporting mechanisms, setting a “tone at the top” that encourages compliance at all levels, and maintaining zero-tolerance for bribery, businesses can arm themselves with tools to help discourage employees from participating in corrupt behaviors, as well as discovering and ending those behaviors more quickly when they do occur.
- Integrated business, government, and civil society efforts: No one sector can combat bribery and corruption alone. Business, government, and society must continue to work together and develop new and innovative partnerships to effect change. There are a number of different ways to do this:
  - Collective action hubs: Collective action hubs allow businesses to work together to level the playing field and engage in dialogue with the government on policy development. These hubs improve the public’s trust in business, mitigate the “prisoner’s dilemma” that encourages business to pay bribes in order to stay ahead of their competition, and give businesses more influence over future policy by turning single voices into a chorus. Collective action hubs for NGOs and government are also effective in combating corruption. One example of a society-based collective action hub is Integrity Action, a network of NGOs, academic institutions, and policymakers. Integrity Action tackles corruption by working at the community-level to build anti-corruption measures and by educating people about corruption. 15 The group also works to ensure services are delivered and citizens are not subjected to demands for bribes and kickbacks in post-conflict, poor, and marginalized communities by monitoring local government, training government officials on anti-bribery/anti-corruption, and helping to build service delivery capacity.
  - Increased dialogue: Establishing working groups where businesses, government, and civil society organizations can share their anti-bribery and anti-corruption experiences, as well as their successes in effective corruption deterrence allows for collective action that can enhance outcomes. This is especially true for industry-specific challenges, as working groups can provide a forum where stakeholders can work together to arrive at a solution that is fit for purpose.
  - Accountability: By supporting the OECD’s Convention Against Bribery’s review mechanism and consistently evaluating the Philippines government’s anti-corruption/anti-bribery laws and enforcement, businesses, civil society, and governments can work together to ensure progress in battling bribery and corruption does not stagnate.

In the end, bribery and corruption will never be completely removed from the Philippines, or the world in general, but more can be done to reduce their incidence. Addressing them presents a significant opportunity to enhance the country’s economic and social progress.

Corporate governance

Corporate governance is a critical component to the international competitiveness of the Philippines. Study after study shows that better corporate governance eases investment in countries around the world. Not only do high standards of corporate governance help attract foreign direct and portfolio investment, they can inspire confidence among domestic retail and institutional investors, leading to a virtuous circle supporting higher levels of growth. Better corporate governance also brings about support for the rule of law. Strong corporate governance supports protection of property rights and is highly correlated with consistency in the application of rules.16

For investors of all kinds in the Philippines, it is important to know whether there is legal recourse if something goes wrong, to know that the rules of the game won’t suddenly be changed. It is precisely these improvements in corporate governance that can drive investment spending. For the Philippines, strong corporate governance is an opportunity within the government’s grasp.


3 Chain of command and procurement process oversight. Technology, appropriate systems of internal controls and supply industry, for example, were paid 673.81 pesos (USD$15.48) per day, while the average worker in the public administration and defense industries only earns 533.66 (USD$12.23) pesos per day. When the average Filipino family has 3.5 children to feed, clothe, and educate, increasing a civil servant’s take-home salary mitigates the incentive to solicit bribes to make ends meet. Even a small bribe can go a long way when salaries are so low. Addressing salary on its own will not reduce bribery and corruption. However, incorporating this change alongside increased training and skills development and other process improvements may help diminish the incentive to solicit bribes.

4 Enhanced enforcement mechanisms: The Philippines already has a number of agencies responsible for enforcing anti-corruption/anti-bribery laws. However, the deterrent effect of existing enforcement mechanisms can be enhanced by increasing the rate of corruption/bribery prosecutions and levying financial penalties on individuals or corporations that have been found guilty of bribery and/or corruption.

5 Business efforts: Both multinational and local companies doing business in the Philippines have an interest in reducing corruption—as stated above, corruption greatly increases the cost of doing business both through reducing anti-corruption/anti-bribery risk and promoting fair and equal access to markets, businesses operating in the Philippines can adopt some of the following leading practices:

6 Integrity pacts: There is power in numbers. Businesses can come together within their respective industries to agree to principles/codes of business conduct that help level the playing field in pursuit of government contracts, giving the private sector increased negotiating power with the government over future policy reform. So far, there have been fewer than 2,000 signatories to the Integrity Pledge sponsored by the Integrity Initiative spearheaded by private groups.

7 Improve ethics and compliance programs: The OECD, WEF, FAC, the UK’s Global Compact, APEC, and a number of other international organizations have researched and created definitive lists of leading ethics and compliance program practices. By adopting a compliance program appropriate to the size of the business, effective oversight and reporting mechanisms, setting a “tone at the top” that encourages compliance at all levels, and maintaining zero-tolerance for bribery, businesses can arm themselves with tools to help discourage employees from participating in corrupt behaviors, as well as discovering and ending those behaviors more quickly when they do occur.

8 Integrated business, government, and civil society efforts: No one sector can combat bribery and corruption alone. Business, government, and society must continue to work together and develop new and innovative partnerships to effect change. There are a number of different ways to do this:

9 Collective action hubs: Collective action hubs allow businesses to work together to level the playing field and engage in dialogue with the government on policy development. These hubs improve the public’s trust in business, mitigate the “prisoner’s dilemma” that encourages business to pay bribes in order to stay ahead of their competition, and give businesses more influence over future policy by turning single voices into a chorus. Collective action hubs for NGOs and government are also effective in combating corruption. One example of a society-based collective action hub is Integrity Action, a network of NGOs, academic institutions, and policymakers. Integrity Action tackles corruption by working at the community-level to build anti-corruption measures and by educating people about corruption. The group also works to ensure services are delivered and citizens are not subjected to demands for bribes and kickbacks in post-conflict, poor, and marginalized communities by monitoring local government, training government officials on anti-bribery/anti-corruption, and helping to build service delivery capacity.

10 Increased dialogue: Establishing working groups where businesses, government, and civil society organizations can share their anti-bribery and anti-corruption experiences, as well as their successes in effective corruption deterrence allows for collective action that can enhance outcomes. This is especially true for industry-specific challenges, as working groups can provide a forum where stakeholders can work together to arrive at a solution that is fit for purpose.

11 Accountability: By supporting the OECD’s Convention Against Bribery’s review mechanism and consistently evaluating the Philippines government’s anti-corruption/anti-bribery laws and enforcement, businesses, civil society, and governments can work together to ensure progress in battling bribery and corruption does not stagnate.

12 In the end, bribery and corruption will never be completely removed from the Philippines, or the world in general, but more can be done to reduce their incidence. Addressing them presents a significant opportunity to enhance the country’s economic and social progress.

13 Corporate governance

Corporate governance is a critical component to the international competitiveness of the Philippines. Study after study shows that better corporate governance eases investment in countries around the world. Not only do high standards of corporate governance help attract foreign direct and portfolio investment, they can inspire confidence among domestic retail and institutional investors, leading to a virtuous circle supporting higher levels of growth. Better corporate governance also brings about support for the rule of law. Strong corporate governance supports protection of property rights and is highly correlated with consistency in the application of rules.

14 For investors of all kinds in the Philippines, it is important to know whether there is legal recourse if something goes wrong, to know that the rules of the game won’t suddenly be changed. It is precisely these improvements in corporate governance that can drive investment spending. For the Philippines, strong corporate governance is an opportunity within the government’s grasp.
According to the most recent World Bank report on corporate governance in the Philippines, further progress in this area will require changes in a number of fronts, in particular with respect to shareholder rights and disclosure. These include:

- Improving the protection of minority shareholder rights through better enforcement. Many companies in the Philippines are good corporate citizens and treat shareholders fairly. However, those that do not are not always held to account by regulators or the stock exchange.

- Strengthening compliance monitoring with IAS/IFRS and requiring additional disclosure of internal controls and governance issues by listed firms.

- Encouraging the development of advocacy institutions to promote minority shareholder rights. The Philippines has only recently established a minority shareholder association to advocate on behalf of the rights of shareholders. The Shareholders Association of the Philippines (www.sharephil.org), which was recently formed in connection with the Management Association of the Philippines, is an early stage of development, but could become an important advocate for minority shareholders.

- Strengthening the enforcement of the existing laws and regulations by the SEC and Philippine Stock Exchange, particularly those involving insider trading, tender offer rules, and disclosure of related party transactions.

Beyond those recommendations of the World Bank, Deloitte further recommends additional reforms that would raise the level of good corporate governance in the country:

- Increased independence of audit committees on boards of listed Philippines companies. While all listed companies must now maintain audit committees, too few audit committees comprise a majority of independent directors. Independent audit committees can increase foreign investor confidence and provide a myriad of benefits to companies themselves, including independent oversight of the external auditor and the internal audit function, and a greater focus on the improvement of financial reporting, internal auditing and risk management, and internal controls, among other benefits.

- Further professionalization of the community of local and foreign directors, particularly among directors at family-controlled companies. The Institute of Corporate Directors (ICD) is well-respected, but will need to restructure itself and ensure sustainable sources of funding to remain sustainable over the long-term. The Institute can do more to propagate good corporate governance practices and to enhance the skills of existing and future board members, including in the critical areas of risk oversight, internal controls, skepticism, and business ethics. In particular, there is a great opportunity for professionalize directors who are family members serving on the boards of family-controlled firms. A separate organization or sector within the ICD that specifically addresses the requirements of family directors could do a great deal to increase the effectiveness of the boards where they serve.

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21 Ibid.

20 http://www.icdcenter.org/
The current Aquino government has taken major strides to boost the business climate, encourage investment, and improve the image of the Philippines among global investors and the business community. With the signing of a peace accord in Mindanao, there is hope that one of the nation's most important agricultural regions, which has suffered years of underdevelopment because of social unrest, can be linked more effectively to a broader strategy of economic growth.

But there is still much more to be done. A comprehensive and ambitious program to improve national infrastructure needs to be more rapidly implemented. This could not only provide a stimulus for jobs and investment in manufacturing, but also could help other sectors, such as tourism, reach their full potential. Becoming part of the Trans-Pacific Partnership trade pact would also make the country even more competitive by reducing trade and non-tariff barriers. Additionally, the government should continue to focus on reducing corruption and red tape, as well as addressing its longstanding problems around electric generation and transmission.

All of these efforts will help make the Philippines a more attractive location for business investment, agricultural processing, and manufacturing. Asia's economic future is bright, and the Philippines can be a leader in the region if it continues to build on its current success. No longer the "sick man" of Asia, the Philippines' time has come.
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