

# Philippines: Establishing Stability

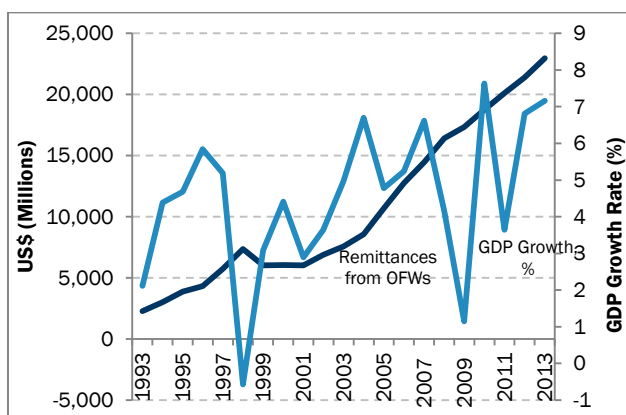
Once regarded as the laggard among the newly industrialising countries of Southeast Asia, the Philippines has seen a marked improvement in its economic performance over the past decade. The country's new-found status is still being consolidated — economic gains have not been equally distributed, hampering efforts to rein in poverty and corruption, despite noteworthy improvement efforts, remain a problem. As the 2015 deadline for the ASEAN Economic Community (“AEC”) approaches, the Philippines is expected to benefit from regional integration, provided certain conditions are met.

## From “Basket Case” to Asian Tiger

Labels previously attached to the Philippines — the “sick man” and “basket case” of Asia — have lost their relevance in recent years as it has emerged as one of the fastest-growing economies in Asia. Over the past decade, growth has averaged 5% every year in large part due to higher consumer spending.

The economy is not the only part of the country which is growing. The Philippines’ 40 million strong labour force is the youngest in Asia and is expected to record the highest growth levels in Asia over the next decade — the Filipino labour force is projected to increase by 35% between 2010 and 2025. The domestic workforce is also considered well-educated and is largely fluent in English.

The Philippines’ workforce has been a major advantage and a source of foreign exchange. Around 10% of the population or one-fifth of the workforce is employed overseas but continues to support the domestic economy. Remittances from overseas Filipino workers (OFWs) contribute around 10% of GDP.



Reforms launched by President Aquino — or PNoy, as he is colloquially known — earned the country an investment grade rating in 2013, after years of effectively junk status. These reforms, which include improving the management of

government finances and eradicating corruption, were launched by PNoy as part of his good governance drive. At the head of PNoy’s reform agenda is the catchphrase “no corruption, no poverty.”

## A Matter of Sustaining Growth

While recent economic growth has brought the Philippines back under the spotlight, the country suffered false starts in the post-World War II years, during the 1970s, and again in the years before the Asian Financial Crisis in 1997/1998. Initially promising, the strong growth recorded during each of these periods could not be sustained — the Philippines fell into a deep and prolonged recession in the mid-1980s and was slow to recover from the Asian crisis.

Observers point to crises of governance as the cause of the country’s historically turbulent growth. Two “People Power” revolutions in 1986 and 2001 overthrew unpopular and corrupt presidents at the cost of stability, but have not been able to keep the government clean. PNoy’s predecessor, Gloria Macapagal Arroyo was investigated and arrested for corruption after her term ended in 2010. Arroyo in turn succeeded a president who was convicted of various corruption charges.

## Transparency International’s Corruption Perceptions Index: Selected Southeast Asian Countries

Under PNoy, the Philippines has made admirable progress in curbing corruption. The country’s Corruption Perceptions Index (“CPI”) ranking has improved from 134th in 2010 — on par with countries such as Sierra Leone and Zimbabwe — to 85th in 2014, a ranking more aligned with that of regional peers like Thailand. These gains notwithstanding, PNoy’s administration has been hobbled by the loss of public support following a corruption scandal which involved the use of development assistance funds and the administration’s unfavourable response to this scandal.

	2010 CPI Rank	2014 CPI Rank	Change
Indonesia	110	107	↑ 3
Cambodia	154	156	↓ 2
Myanmar	176	156	↑ 20
Malaysia	56	50	↑ 6
Philippines	134	85	↑ 49
Singapore	1	7	↓ 6
Thailand	78	85	↓ 7
Vietnam	116	119	↓ 3

### Some Progress, But Challenges Remain

Congress has been shaken by the “pork barrel scam” with senators from both the administration and the opposition parties implicated in the misuse of public funds. The scandal led to widespread public outrage and protests over the misuse of funds and focused public attention on corruption in congress. PNoy himself was not initially blamed for the scandal, but his subsequent actions to limit investigations of the scandal to pre-2010, or before he took office, were seen as an attempt to shield his own allies in Congress and undercut his reform agenda. The dent that this made to PNoy’s public image was exacerbated when he proposed constitutional changes which would allow him to run for a second term — anathema to a populace wary of dictatorships. The Philippine constitution limits Presidential office-holders to a single term of six years, a clause introduced by PNoy’s mother after the Marcos dictatorship. While this clause is meant to prevent a regression into the Marcos era, it also presents problems for policy and reform continuity.

The Philippines’ challenges are not limited to a frequent change of leadership. Transport and public utilities infrastructure across the archipelago are in a poor state and have not kept up with economic growth. Electricity supplies are not only unreliable but also among the most expensive in the region. Infrastructure for trade logistics in the Philippines is poorly ranked, below even Indonesia and Vietnam. The country’s main port in Manila suffers from capacity constraints as it can take up to five days for vessels to get a berth at the port. The road network is of poor quality and up to 66% of national roads are unpaved. In densely populated Metro Manila, traffic congestion is notorious and costs the country an estimated US\$20 billion in productivity losses every year. The PNoy administration has increased government expenditure on infrastructure to address some of these problems but much more remains to be done.

Recent economic growth, while impressively high, has not been equitably distributed. Much of the gains have accrued to the richest families in the country while poverty reduction goals have not been met. The poverty rate has remained stubbornly high, hovering at more than 25% of the population for the past decade. This is perhaps PNoy’s single largest failure given his promise to eradicate poverty. The persistence of poverty in the country is linked to insufficient employment opportunities, which drives a large chunk of the labour force overseas in search of work. The Philippines’ unemployment rate is the highest in the region, standing at 7.3% in 2013.

In its external affairs, the Philippines is embroiled in a dispute with China over its claims in the South China Sea and is leading the regional effort to reject Beijing’s claims. PNoy’s government is pursuing an international arbitration case against China which has led to some tensions with the East Asian giant on the diplomatic front, although a broader impact on trade and investment relations between the two countries remains to be seen. China is expected to become the Philippines’ largest export market, overtaking Japan and the U.S. — so a downturn in trade relations between the two countries would adversely affect domestic industries.

### The Promise of the ASEAN Economic Community: Job Creation

The successful implementation of the AEC in 2015 would go some way towards alleviating the Philippines’ labour market woes. The country is expected to benefit from 3.1 million additional jobs as a result of the AEC by 2025, according to the International Labour Organization’s impact-simulation on the AEC. This is the equivalent of a 6% increase in employment opportunities compared to the baseline scenario without the AEC, with the biggest employment gains in the agriculture and trade and transportation sectors.

Mutual recognition agreements between ASEAN member countries will allow professionals from the participant countries to practice their occupations in other ASEAN countries when the AEC comes into play. The Philippines, with its educated work force, is positioned to benefit from such agreements, although these benefits may be limited by domestic regulations which govern professionals such as licensing and local language examination requirements.

The advantages of the AEC for the Philippines are conditional upon the creation of social safety nets to cushion the potentially adverse impacts of the AEC on vulnerable workers and providing technical education and vocational training to these workers. The Philippines says that efforts to intensify Technical Vocational Education and Training (TVET) programs have been underway. However, a change in political leadership and the jockeying that will precede the elections in 2016 could pose a threat to both PNoy’s reforms and the country’s readiness for the AEC.



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