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**Direction or Drift:
Philippine Economy After 2004**

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Abstract

“What are the prospects of the Philippine economy after the presidential election of 2004?” Before speculating on this question, the paper discusses four major problems of the economy that the new president will face after the elections. These are (a) the weak long-term performance; (b) the high population growth; (c) the fiscal deficit and the low national saving rate; and finally, (d) the need to reinforce the investment climate. Each of these represents a big challenge. The last issue, in particular, requires dealing with inherently difficult economic reforms. The revision of restrictive economic provisions of the Philippine Constitution will open undercapitalized and high cost sectors of the economy to risk investments in critical infrastructure and allow greater economic exploitation of land and natural resources. The reforms of labor market policies will enhance the country’s competitiveness and raise employment. The essay then discusses the Philippine economy under alternative economic scenarios. Gloria Macapagal Arroyo, the incumbent seeking election, had three years of lead time as successor to deposed Joseph Estrada to establish a track record. However, that record is undistinguished. On the other hand, Fernando Poe Jr. adds greater risk and uncertainty, given his lack of track record on what he could do on a national scale. The country is headed towards an unpromising future, unless the new president displays unusual leadership ability that is not predicted by the objective information available at the moment.

Key words: Philippine economic development; political economy; public finance; population.

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Gerardo P. Sicat*

The big question

The big question on people's minds in these days is: "What are the prospects of the Philippine economy after the presidential election of 2004?" No one can give a crystal clear answer. But I can at least analyze beyond what the candidates are saying and think about what they would do if elected.

But before this, it is necessary to give a good account of the real economic problems that the president faces once given the mandate to govern after May 10, 2004.

Philippine economic problems

Below I list a few critical problems that currently afflict the economy. This list could be longer. In the interest of brevity only a few critical problems will be discussed. They are summarized under four headings: (a) business and investment climate; (b) fiscal deficit and low saving rate; (c) high population growth rate; and (d) weak long term performance.

To some extent, these problems are interdependent. Fix the business climate and some improvement in the economy would happen. Further, fix the fiscal deficit, and the economy could improve further. But the point is that these problems are not as easy to solve as talking about fixing them.

I will discuss these problems in reverse order.

Weak long term performance

Philippine long term economic growth has lagged behind those in East Asia and other leading economies in ASEAN. One characteristic of this long term performance is that it has not been steady. Episodes of instability interspersed with periods of good growth characterize this performance. Such episodes mask periodic macroeconomic weakness.

Philippine real economic growth of around 4 percent per year over a long period of time has meant relatively slow growth of per capita real output. With population growth per year still at a rate among the highest in Southeast Asia, at around 2.3 percent per year, only a little is left to lift the standard of living.

Many Filipinos disagree on the causes of the poor economic performance. Some blame politics and weak institutions. They trace these problems to the collapse of the

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Marcos years, the bickering of the succeeding years, the electricity crisis of Aquino, the years of economic promise cut short by poor leadership. Others advance with the problems of cronyism and corruption. But the same problems also afflict these successful countries.

Since politics account for the making and the implementation of economic policy, these explanations are partly correct.

Economists – I include myself in this group – offer a diagnosis that is often different from this simple enumeration of causes. They analyze that the long regime of industrial protectionism and discriminatory policies that favored nationals over the years had been excessively inward looking and failed to produce export winners. These policies were not wrong in themselves. In fact, all countries pursue some form of protection and favor for their citizens at one time or another. The rhetoric of policy making is often justified to favor the citizens of the country.

The economic policies in the Philippines had taken much longer to reform. But by the 1990s the critical changes in reorienting trade and industrial policies had been instituted. The succeeding governments in the post-Marcos years pulled the economy towards a genuine liberalization of economic policy. These policy directions in terms of trade and industry are inevitable if the country is to benefit from the ASEAN Free Trade Agreement that is the future regional goal. Membership in the WTO further assures the commitment to the principles of open trade.

These directions would still require strong complementary domestic policy measures to assure the growth of investments. The creation of export processing zones brought about the growth of manufacturing export industries over the course of at least three decades now. Yet the mainstream domestic economy has faltered in turning out competitive industries or has continued to complain about lack of support. In fact, the highly protectionist and discriminatory policies have produced firms that are essentially weak when opened to the market.

Policy weaknesses (to be discussed later, below) continue to impede progress in taking advantage of the economic liberalization program. For the moment, these policies form major stumbling blocks to the domestic economic integration essential to the strengthening of the internal economy and the broadening of export growth.

The challenge posed by this problem is how to raise the growth rate so that the Philippines expands along the same path as the rest of East Asian countries if not achieve more. This would mean essentially raising the growth rate of GDP (not GNP, which is higher than GDP because of remittances of overseas Filipino workers) to around 6 percent per year, a challenge of large proportions. It would also mean addressing the problem of macroeconomic instability. To remove the sources of instability, the macroeconomic fundamentals need to be strengthened (the subject of later discussion below).

High population growth rate

The country's population is growing at a rate that is quite high especially in relation to the population growth rates of neighboring countries. These countries are, in one sense, in respect to the hosting of industries and production for the world and the region, economic competitors.

The high growth rate of the population is a problem simply by itself in relation to job creation. The simple arithmetic of improving the standard of living requires that the number of jobs created be ahead of the population growth rate.

In fact, employment growth has to be greater than the rate of growth of the dependent, young members of the population. Otherwise, the pool of the unemployed persons would increase. This is already being persistently demonstrated by Philippine labor force statistics.

The unemployment rate in the country has been recorded at around 8 percent of the labor force. The labor force excludes the population of young people from 15 years and below. But the official statistics track down underemployment and it occurs at the range of 16 to 20 percent of the labor force with visible underemployment at 10 percent.

In short, too many people are seeking jobs that government policy fails to provide. This failure to provide all the needed jobs contributes to greater poverty among the poor, often leading to instability of life's provisions. This produces insecurity for the already poor and aggravates the already skewed distribution of income.

The growth of the base of young people ultimately creates a large demand on the government and the population of adults to provide resources for food production, for housing, for social services like education, health and nutrition, and for the expansion of the social overhead just to maintain existing living standards. The resource demands on the government are large. Instead of devoting resources to improve physical infrastructure, the government is perennially faced with resource demands for economic and social services to help provide for the needs of the young, the poor and the unemployed.

The challenge posed by this problem is for the national leader – the president – to raise efforts in family planning more widely adopted, educating the nation in its pursuit, and getting the private sector to work fully on such a program. Candidates for president see family planning as an explosive issue that could reduce votes (a highly debatable judgment). Only one credible candidate (Panfilo Lacson) has truly made it into a platform statement. The rest of the candidates are evading the issue with generalities, afraid of retribution from the highly influential Catholic Church in terms of votes.

Fiscal deficit and low domestic saving

The fiscal deficit needs to be put under rein. In recent years, after 1998, the deterioration of the fiscal deficit has raised concerns about its sustainability. In 2003, this was 5.3 percent of GDP, while in 1998, it was 1.9 percent of GDP.

The presence of fiscal deficits has caused the government to be a net consumer of domestic private saving instead of being a source of public saving. As a result, the country has become heavily dependent on foreign savings to finance its development needs. Therein lies the other problem, the external debt that depends on the public account.

The fiscal problem is further aggravated by debts of government entities (public corporations) that are unable to pay for their own operational upkeep. Often, and in the case of the large government entities, these debts are raised through the foreign capital markets.

In some cases, the need for funds is to help finance operational deficits of these state enterprises. Because they carry government guarantees, they comprise a part of the contingent debt of the national government. The fiscal shakedown of the 1980s and 1990s meant that the country had to cover future needs with relatively less resources.

The same problem extends to parts of the private sector today, especially the highly indebted segment. Many domestic industries are still dependent on industrial protection. Some of these enterprises have difficulty generating profits and are in dire financial straits. Thus, they produce low savings if at all. This is another explanation for the poor saving rate of the Philippine economy. Poor private domestic saving is part of the story of industrial protectionism in the Philippines.

The contrary experience has been observed elsewhere. When industries are competitive internationally, they make profits. These industries contribute to a growth of saving. Their employees are also often prosperous. The personal earnings of wage earners add further to the flow of domestic saving. This describes the main story of the so-called Asian miracle.

Today, the Philippines is now far ahead in the reorienting of industry. Companies with export markets have gained a foothold in the country. Some continue to expand their operations. These are mainly foreign direct investments. Companies come into the country with enormous fiscal incentives. And their profits constitute also as foreign profits even though some of these profits are plowed back to the firm to expand their operations in the country. However, their workers and the secondary effects of their operations in the domestic economy help to generate growth and saving via the multiplier principle.

There are other reasons for the problems arising from the fiscal deficits.

Domestic reasons for the fiscal deficits are tied to tax reform issues. The revenue effort in recent years fell and only recently has this trend been reversed. A shift in tax structure of excise taxes and problems related to tax administration helped to reduce the revenue effort. (Highly revenue productive excises that used to have ad valorem basis were restored to per physical unit taxes, and once inflation set in, the tax rates were not adjusted because this required legislation.) The revenue effort has deteriorated from above 15 percent of GDP to around 10 percent of GDP. The current government of Macapagal Arroyo in part inherited these problems from the previous government.

Another face of the fiscal deficit arises from the expenditure side. Many observers criticize the government for wasteful spending, from having too large a payroll, and for being unable to deliver services efficiently. This problem is endemic. It is related to the weak state of institutions in the country. This problem requires long term efforts at correction.

A third face of the fiscal deficit problem is the growing contingent liability arising from government corporations. These corporations are often public utilities that should be able to recover their costs. They continue to run operational deficiencies partly as a result of inability to get approval for their tariff rate increases. Moreover, there are cost inefficiencies associated with operational processes in these firms.

The privatization program was supposed to take care of these problems to improve cost efficiency and to remove the problems from government responsibility. But the privatization program got held up during the time of Estrada. And Macapagal Arroyo, instead of actively pursuing it, delayed the program. She has not pursued any major privatization activity in three years.

The fiscal deficit can be fixed more quickly than the other problems. But in recent years, it is the one that has worsened. It is true that peace and order and other kinds of crises related to the new climate of anti-terrorism that has redirected some public finances. But the story about taxes and other aspects of public resource mobilization cannot put blame on these problems.

When the deficit unravels and becomes large, it could also be the source of the most damaging of problems. Even though it is sustainable in the short run, it could lead to undesirable outcomes. The fiscal deficit competes with private use of resources – credit being lifeblood to the private economy. This could upset expectations about its sustainability. For instance, external analysts often look at the fiscal deficit as the bell-weather indicator for sovereign debt evaluation. It could upset domestic prices, and further contributes an impact on the peso exchange rate.

When the government has good control over budgetary expenditures, the fiscal sector is perceived in favorable ways. The government would no longer compete with private domestic credit. Private investors could be more actively be engaged in the country's future. And this would by itself help to attract new investments. This would stimulate interest among foreign direct investment, a resource that is being attracted not only to create new export industries but also to help in providing critical investments in the mainstream domestic economy.

Until the fiscal sector is brought under control, the domestic rate of saving (which at around one-fifths of GDP is not anywhere close to the high saving rates in East and Southeast Asia) would continue to be low. What the country needs is to stimulate private domestic saving, and clearly, domestic saving rises only under a period of rising incomes. It helps when the fiscal sector is put towards balance, and if possible, with a surplus, so that state finances add to the domestic rate of saving. The fiscal sector ought to be able to contribute toward raising the total level of saving in the economy, through an increase of public saving.

Reforming the fiscal sector poses a serious challenge to the country's leadership. It has to raise taxes, boost public expenditure cost effectiveness, and require public corporations to produce resources for the public coffers rather than serve as a source of drain. This requires a leadership that is able to form sufficiently strong coalitions of followers in the legislative branch to produce the necessary laws to improve fiscal performance.

Business environment and the investment climate

The business environment needs to improve in many dimensions. Of course, it would be useful to add that many problems encountered here are no different from those that are found in other countries. Where negative perceptions are deep, some of that might actually be partly due to the freewheeling media found in our country, a condition that is often not found in other developing countries.

Among the unique problems challenging any incumbent president are the following: the separatist insurgency in Mindanao, the communist NPA (New Peoples' Army) revolt, and – from the right – the clandestine elements in the military that, in the past, wanted to force a change in the government. A leader capable of forging national unity would use political leverage to solve these problems politically. Sometimes, these problems appear to be blown out of proportions, especially in the perception among the international community. [In part, this is due to the openness of the Philippine press that tends to sensationalize news events, especially when adverse or negative.]

Perceptions and psychology often lead to over-reaction to adverse news arising from these problems. Market irrationality often results from knee-jerk reactions to developments about the country. They translate in terms of perceptions about the country's stability and the sustainability of its policies sometimes affecting the value of the peso.

In my view, the most important problems affecting the business and investment climate go beyond the above problems. The nation's leaders have to address two major areas of reforms. These issues are very sensitive politically. We have yet to see a brave politician – not the current president because she has not done so – take up the cudgels to get them discussed.¹ This, to some extent, is quite disappointing, because this is the true political season in the country. All the candidates are dancing around these issues, not with them.

Addressing these issues correctly after the elections could produce the greatest impact on the economic future of the country. Working on them half-heartedly could assign the Philippines to low economic performance in development for many decades further.

¹ Actually, only Estrada brought up one of these issues – the Constitutional provisions –early in his presidency. As soon as the brickbats of criticisms began arriving, he assigned the problem to a commission.

Economic provisions of the Philippine Constitution

The economic provisions of the Constitution need to be re-examined. They were the handmaidens of an extremely nationalistic economic sentiment during a time when independence was approaching. These were crafted way back in 1935.

These economic provisions relate to the nature of equity ownership of public utilities and the exploitation of natural resources reserved to Philippine corporations having a minimum limit of 60 percent equity ownership. In addition, no foreigners can own land in the country.

These provisions have become the binding constraint that prevents the entry of foreign direct investments in public utilities, participation in land ownership, and investments in natural resource exploitation. The nationalistic economic provisions were imbedded in the 1935 Constitution. These provisions have continued to remain sacrosanct despite many constitutional changes undertaken in the past. The economic provisions represent the hard core economic issues of stimulating more efficient financing of investments in the economy.

There is an active discussion of constitutional issues in the country that requires amendment. But the focus of the public discussion – mainly brought forward by politicians – is on the political structure of the country and not on the economic provisions. The scandal of a finished modern airport that is not used is intertwined with the complicated problems of financing infrastructures for the country. The slow development of the waterfront of Manila that represents a large investment in real estate reclamation is another example. The decline in mining activity in the country has been the result of lack of capital and technology.

The country today faces the binding constraints of insufficient domestic saving. The build up of external debts to finance current investments is a simple illustration of the binding financial constraints facing Philippine development efforts. The country has to finance requirements for building the investments for a modern economy built on the convenience of physical infrastructure, efficient and well-financed public utilities, and highly capital intensive industries that would integrate the existing domestic industries with the growth of export industries.

Many decisions of the Philippine Supreme Court on investments that have to do with land ownership, with exploitation of natural resources, and those that may yet come on the ownership of public utilities have affirmed the basic provisions of these nationalistic provisions. One consequence of inaction on the constitutional front would be for the country to be by-passed by foreign direct investments at a critical time when the country needs to finance large scale infrastructure investments to energize the economy. In recent decisions, the Supreme Court declared unconstitutional the participation of a foreign company in the land reclamation and development. Recently, the court also declared unconstitutional a law on the mining industry on the ground that service contracts with the government did not meet constitutional prerequisites. .

The inadequacy of risk capital in these public utilities and in the provision of infrastructure services has contributed to high external debts to finance much of these

projects. When public utilities are poorly financed, the owners make short cuts in their services, and they are badly hampered in expanding these. The electricity crisis of the 1990s is a reminder that lack of a vibrant private sector provision of public utilities in electricity service had caused untold economic costs to the country.

The nationalistic provisions of the constitution led to perverse results. It enabled generations of national leaders to deed vast areas of the country's natural resources to undercapitalized cronies – many political and others economic supporters – that encouraged the unmitigated and indiscriminate exploitation of the country's natural resources. Today, the country's need to finance the large requirements of physical infrastructure – transport and port facilities, water resource management, and energy investments – depend on an ability to help mobilize foreign risk capital to participate in these investments.

The key to the unlocking of the participation of foreign risk capital in the country's economic development depends on how fast these constitutional provisions can be amended. When this is undertaken, it would relieve the country of the huge constraint that it now faces. The lack of domestic saving could be supplemented by foreign private risk capital. In this setting, foreign loan capital will likely further supplement private foreign ventures.

Not only will the loan be for the account of private investors, thus relieving the government of fiscal responsibility. If the foreign ventures are well capitalized, they can borrow from world markets or from their own financing partners more cheaply than a sovereign borrower that is subject to high borrowing costs above prime rates if its credit rating is not sufficiently high (as is the case with Philippine sovereign credit ratings over the years as long as it is subject to fiscal tightness).

This will free a lot of resources to the government. It can then undertake a better management of the country's fiscal resources. It would not be under pressure to seek large financing demands. It would make the government reduce the burden from foreign borrowing in the public accounts. An effective leader in charge of the nation's destiny could educate the politicians and the people on this very important issue.

The fact that it is not being discussed at present does not mean it is a dead issue. The huge demand on fiscal resources today requires the government to alternative means of financing the country's continuing infrastructure needs. A prime candidate for imaginative solution is to open foreign direct participation in these economic activities. It means facing to the politics of amending the economic provisions of the Constitution.

Reform of labor market policies

Accepting globalization means opening to the risks and rewards of international trade competition. But this requires a review of labor market policies because this is one area that has not been touched upon in the many reforms undertaken by the government. For many years, the main bulk of labor intensive export operations in garments, shoes, textiles, and articles for the home made the countries in East and Southeast Asia richer, more prosperous, and paved the way for their deeper industrialization. That stage evaded the Philippines.

Philippine labor policies have built a body of laws that has pushed abundant Filipino labor out of labor-intensive industries. The welfare provisions of the labor laws also introduced great rigidities that have robbed enterprises in decisions affecting the adjustment of employment size in their operations.

The unit labor cost of Philippine labor is one of the highest in the region. At the same time, unemployment and underemployment rates are also among the highest as already stated.

Where industries have employed manufacturing labor and brought these into highly competitive export industries, the experience with the growth of labor productivity has been in general a solid one. In these firms, labor productivity grows because of higher investments in capital.

Like the issue of the revision of the economic provisions of the Constitution, no politician talks about this important issue. The reform measures would appear on first hand to be charged against labor. And that would be how they would be played out in the battle for change. Yet, these reforms would favor labor especially in the long run. The reform still carries enormous opportunities for the country to exploit. What is needed is to design a way by which the short run costs can be overcome in order to gain headway in promoting greater flexibility in the labor market.

With flexibility in the labor market, the country can improve the attractiveness of labor both in the mainstream domestic market and, of course, in the export industries. It would strengthen competitiveness of Philippine labor in the market place. This would encourage investments in small and medium industries and help speed up the hiring of more labor for domestic industry. The danger of the current situation of highly rigid provisions of the labor laws is that loss of competitiveness would increase poverty because of the exodus of jobs and continued high unemployment rates in the country.

When the future of the ASEAN Free Trade Agreement became clear and the country joined the rules of world trade under WTO, foreign direct investments, including those already operating within the country, looked for cheaper sites for directing their manufacturing and trading operations. Quite a number of them closed shop in the Philippines and moved to Thailand and to Indonesia to transfer manufacturing operations. Moreover, some of the companies that used to employ labor for the assembly of some semi-conductor parts moved their operations to China and other countries.

It could be further concluded that companies that had planned to put manufacturing operations in the region had considered the Philippines. But the same factors that made other companies move out might have caused them to migrate elsewhere. For how do we explain that the increases in foreign direct investments in the countries just cited – and to the list we have to add Vietnam – had been more buoyant than the investment flows to the Philippines?

The government needs to refocus labor policies to deal with all of the labor force and not only to employed labor in particular. A capable leader should be able to educate, inform, and change the directions of debate on these issues and therefore redirect and reform these policies. Such a leader could address the larger issues of forging social

compacts with labor to assure industrial peace while securing more investments in the country. It is possible to design severance package and retraining of workers within the firm to minimize the costs of the adjustment in reforming labor contracts.

In short, the future leader would need to address very difficult national economic issues that challenge long held beliefs about economic nationalism and labor welfare in order for the country's investment climate to improve immensely.

Who will win in 2004?

Given the evolution of the present election dynamics, the 2004 election is essentially a contest between the incumbent president, Gloria Macapagal Arroyo, and Fernando Poe Jr., the opposition challenger. This is what the political polls say. These polls are credible.

The candidacies of Panfilo Lacson and Raul Roco, both promising national leaders, are legitimate. As long as they have no national political machinery to back them up, theirs would essentially be long shots to the presidency. At best, these candidates play the role of spoilers. In that role, they could be very potent in determining the outcome of the election.

We therefore have to imagine that the only realistic alternatives scenarios involve a presidency of GMA or of FPJ.

The GMA scenario and the Philippine economy

Gloria Macapagal Arroyo has a track record of more than three years. This experience speaks for itself. As they say it, what you see is what you get. This presidency has been rocky. Would another six years mean better results? Her track record represents decisions that she has made in the course of her presidency, and that quantity leaves a trail of past actions.

If she wins the presidency, the country's economy would continue to move according to its natural course: rocky but forward. How would she face the major problems that were discussed above? In the three years that she was in charge, she has not pointed out the major issues as stated above. Perhaps she considers these issues as too divisive. By avoiding the hard issues no progress would move forward in correcting them. Is this political expediency or simply tactical?

GMA projects the strict schoolmaster image. Her choice of economic issues has been to avoid the controversial reform issues. She has taken risk averse attitude to them. But she works hard on the basis of office visits to critical government offices and projects, travels to provinces, and meetings of the cabinet that she herself presides (a marked contrast to Estrada when he was president).

But she has not been the cementing type of leader. She has failed to make Congress work for her program effectively. Her leadership is essentially locked in gridlock with the legislature. The legislative output of Congress on economic issues is

few, and on the most critical, on the need to reform the ill-performing tax system, the output of Congress is zero.

To some extent, this meager outcome might have emanated from her need for a true electoral mandate. But she had the powers of the office to implement the programs of government. She succeeded in the shoes of Estrada who was driven out by a second people power revolt.² She is competent and understands what she does. But she tends to be more political in her decisions, with economic issues often in retreat for political accommodation. Her program has not put forward major discussion of reforms that the nation needs for further development.

She has reversed the liberalization program – raising tariffs across a wide range of industries. Her excuse: the tariff liberalization went too far. She was courting support of the protectionist industrial class. She has postponed programs tied up with the liberalization of trade in agriculture.

Under her care, the fiscal deficit has become a problem again. In addition, contingent fiscal deficit keeps rising. The privatization program called for under a law designed to reform the energy sector and the programs related to food grains marketing did not materialize – not yet any way. Such delays have contributed to the slowed flow of larger foreign direct investments in some sectors.

But she has made inroads in some sectors of the economy. Recent lifestyle checks of public officials in the critical and often presumed to be corrupt public agencies had put some teeth to the anti-corruption efforts. There is need for the government to follow up these efforts with convictions. There is an apt term that Filipinos use to describe half-hearted efforts – *ningas cogon*. Follow through is what counts, but *ningas cogon* often leaves agenda unattended once the main splash on public attention is made. If only these were made early in her presidency and not during an election period, then we would know whether some results are bearing fruit.

There is one strikingly successful program for which she can with good reason claim credit. The government has provided much significant support to the development of the IT sector. Here, the facilitation by government has promoted essentially market-driven strategy and it is working. It did not require government resources to be redirected, as the government is hard up financially. But by allowing the private sector to move together with the government in opening the way, the industry has accomplished much to foster the enabling environment.

As a result, the information and telecommunications sector has become a growth industry in the IT service industry. The growth of the IT sector is essentially market-driven, with the private sector taking the lead and foreign direct investments taking into

² This arose during the vote in the Senate impeachment proceeding which prevented the opening of an incriminating envelope that was to provide smoking gun evidence against Estrada in the impeachment for corruption and plunder. After Estrada's supporters in the Senate won the vote by a margin of one vote, the nation broke into a political protest that brought down the government.

account the excellent opportunities offered by the competitive segment of the labor force of which the country has abundant resources.

Metropolitan Manila area has become a haven of IT parks growing amidst the old commercial development, led by an impressive growth of one pioneer IT Park – the Eastwood Cyberpark in Quezon City. Recent developments in this sector has provided a major slice of the IT outsourcing market that has been migrating to countries where capacity in the IT sector has enormous potentials. In this, the Philippines has shown a major potential, and that growth is being demonstrated.

In general, however, Macapagal Arroyo's handling of the major economic issues had been wanting. My reading is that the business sector is lukewarm to her accomplishments, but it is more inclined to support her because it is afraid of the alternative (FPJ).

Would she be more successful if she gets her very own mandate? (Remember that she just took over what was left of Estrada's electoral mandate when the latter's presidency collapsed.) That is possible. But if she does not take risks on the need to get the proper economic issues dealt with, the economy would grow only along the historic modest levels. It would not be extraordinary.

When she assumed the presidency, she said, she wanted simply to be a good president, not a great president. It is a low ambition. What the Philippines needs today is a great president with a clear vision to make up for some disastrous presidencies in the past. If she wins a new mandate, she could aim higher.

The FPJ scenario and the Philippine economy

Little is publicly known about Fernando Poe Jr.'s ability, except that he had no background in government and that his educational attainment is quite deficient, he having dropped out of high school.

Experience is his ultimate strong point. As a movie actor, he built his own success. His movie production business grew through adroit marketing of his acting. He built a good portfolio of selected roles that endeared him to his fans and prolonged his box office life. In this way, he created his own success. From what is known of him, he is more disciplined and much more focused in his work than Estrada was. Estrada had loose and undisciplined work habits.

His decision to run for the presidency was a carefully staged entry into electoral politics. It started with a signature movement to assess the pulse for his candidacy. Not until the last moment prior to the deadline for candidacies to be filed did he finally make his plans public. This reveals a gift for stage-managing an important event. If this is an introduction to the way policies might be crafted, it could give a hint of the future when a major policy would be contemplated.

FPJ had an hour-long interview on television on a one-on-one format with newspaper publisher and commentator Max Soliven. It was FPJ's chance to show his ware and his own thinking on various issues. His answers to the various questions were a

letdown however. He merely gave telegraphic answers to questions on national issues and even less so on economic issues. These answers consisted of one-liners repeated, to lengthen the answer. Soliven posed his questions patiently. The interviewer spoke longer than the subject of the interview.

On economic issues, he intimated his willingness to listen to ideas. But he gave no ideas of his own. He could have rattled off some homespun wisdom and platitudes that people want to hear to be reassured. But he did not.

That television interview showed FPJ who desires to become president as a timid public person, a man of few words. He appeared to be driven by a desire to serve. But the main question is whether he has the equipment to deal with the intricate problems that a president confronts on a daily basis. Do his qualities as potential leader exceed his vote-getting appeal? So little is yet known about the ideas of a man who seeks to lead more than 80 million Filipinos.

Could he deal with complex issues of economic policy and development? Of course, complex economic issues could be passed on to experts for study and proper guidance. Besides, the legislature would be there to craft the laws. If he does not give strong guidance, the politicians would enact laws that will contradict many state policies.

He who approves and selects policies that need change also guides the process of change. And he who approves also chooses who his advisers would be. Bad handling of those issues and wrong choice of advisers could spell the difference between good outcomes or disasters.

Who would he depend on for advice? A number of economists with good credentials were mentioned in other news items. Who would he rely on for political and other advice? Many economic policies have their political dimensions. In the shifting moods and pressures of nation building, sometimes the last adviser of the day is the most influential. And often, that is not the solid and disinterested adviser but the one with the most selfish motives.

Since FPJ's following is among the mass of laboring voters, might he not be tempted to be a populist leader who would promise undeliverable benefits at the risk of bankrupting government resources? A populist would simply espouse policies for their mass appeal and pursue these (sometimes at great cost).

A good leader is one who would help to educate the general public on the benefits arising out of long term policies that matter for growth and development. Many of these cannot be labeled with populist appeal until their benefits are fully realized. Is he equipped for this? His supporters say that the hardships that FPJ had experienced had given him sufficient preparation for this. A partial proof of his tempered ability is that he has succeeded mainly by himself in the volatile movie business.

His political supporters and handlers come from all walks of life. This is a sign of a politician having a wide base aside from a solid popular base. But when it comes to defining what he might do in office, it would be useful to know who would form the inner circle of advisers and co-workers. In part such a scenario would begin with the

members of his senatorial slate, especially those who might win in the election. The makeup of the senatorial candidates aligned with FPJ however is a mixture of personalities who do not have converging policy stands. (The same, however, could be said of the senatorial slate of GMA.)

FPJ's entry in the field of presidential seekers has introduced an element of uncertainty into the equation about the future. Given that he has a good chance of winning the presidency because of his popularity, his entrance into the picture has also raised the element of risk in the way the economy would be handled.

As is known, risk and uncertainty are two different things. Risk can be appropriately discounted and approximated. If investors are evaluating risks, the main elements that need to be studied would be the likelihood of certain events happening and the associated judgment about the possibility that the certain events happen and that the guess would be correct. Uncertainty is unpredictable.

Three alternative scenarios of what might happen are elucidated below. The middle scenario appears more likely, but a chance of excellent results could be tempting as a wish.

Excellent scenario. FPJ wins with a substantial mandate. He chooses and fully supports a reform minded economic team that focuses on economic liberalization, fiscal restraint, reform of the constitutional provisions, and reform of labor market policies. He mobilizes his political supporters and Congress to get the program implemented. These reform directions are not easy and there will be enormous opposition. Only a president with strong mandate can push hard reforms. These will improve the economy's path and will raise investments in the country, both from domestic sources and from foreign direct investments. It will make the Philippines into a "tiger" economy.

So-so scenario. This scenario is one of benign development. The economy would plod along under a leadership that has an uncertain vision and who relegates the main direction of policies to a few advisers and political allies. The rest of the economy would move forward. There would be no major damage, but there would also be no spectacular advance. The economy's constraints continue to operate and growth would be mild and unimpressive.

The disaster scenario. This scenario allows us to think of the worst possible events happening. The country drifts, is beset by periodic crises, and the dire predictions materialize. Policies and actions are inconsistent.

Conclusion

The country is headed towards an unpromising future. The economy will grow. But it would not be impressive progress. The downside scenario is that this would make the economy more prone to crisis. Sometimes, lack of good leadership brings about the crisis.

It is altogether possible that the new president – the incumbent or the challenger – would display unusual leadership ability after owning an electoral mandate. This lucky

accident does happen in the history of nations. After all, a real mandate could inspire an elected leader to greatness. Sometimes, track records belie what lies ahead. However, little of these possibilities can be discerned from what is known so far about the leading candidates.

Assuming that luck is on our side, the right choice of policies to reform could be placed in the national agenda. The new president would be convinced of their urgency and would pursue them relentlessly. Under this kind of leadership, the investment and business environment would definitely improve. And the country could well be put on the path towards a brighter future.

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