

Philippines

Status Index (Democracy: 3.0 / Market economy: 2.7)		5.7	Management Index		4.2
System of government	Presidential democracy		Population	77.2 mill.	
Voter turnout	85 %		GDP p. c. (\$, PPP)	3,840	
Women in Parliament	17.2 %		Unemployment rate	11.1 % (2000)	
Population growth^a	2.3 %		HDI	0.751	
Largest ethnic minority	4 %		UN Education Index	0.90	
			Gini Index	46.1 (2000)	
Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

This report covers the years between 1998 and 2003, years in which the Philippines endured considerable turbulence both politically and economically with negative effects overall on the stabilization of the market-based democracy. Joseph E. Estrada, a former actor and candidate representing primarily the poor population, was elected president of the Philippines by an overwhelming majority in 1998. He succeeded Fidel Ramos, a career officer. During Ramos' term a coherent transformation strategy led to some political and economic advances, which were then jeopardized when the Philippines were "infected" by the Asian economic crisis in 1998.

Successes in consolidating democratic processes under Ramos were forfeited due to the political crisis that ensued after Estrada's removal from power, a process that was highly questionable under the constitution. As a result, Estrada's successor, Gloria (Macapagal) Arroyo, faced many political and economic problems when she took office in 2001. Numerous reform initiatives during her term have produced only a few tangible results so far. Yet her announcement that she would not run in the 2004 presidential elections appears to be lending new momentum to her presidency.

At present, democratic institutions are weak and both economic development and expansion of free-market structures are stagnant. At the beginning of 2003, the Philippines continue to exhibit considerable deficiencies with respect to state identity, the rule of law, institutional stability and political integration. Economically, they continue to suffer from an unsatisfactory level of development, a lack of economic structural reforms and a completely inadequate social net along with massive social inequality of opportunity.

Combined with adverse regional and global economic conditions, this very much jeopardizes the sustainability of interim gains in growth. Political management of the consolidation of a market-based democracy was decidedly weak.

2. History and characteristics of transformation

The economic transformation process took hold in the Philippines much earlier than the political one. Ferdinand Marcos was elected president in 1965 and 1969, and remained in power from 1972 until 1985 as a result of declaring martial law. Though democratic institutions were abolished during his dictatorship, the most important free-market institutions continued to exist, at least formally, during his tenure.

The actual democratic transformation commenced with a movement called People's Power, which resulted in Ferdinand Marcos' exile in 1986 and Corazon Aquino's assuming the presidency. In contrast to many other transition countries, the Philippines claim a democratic tradition that reaches back in part to the American colonial period (1898–1941). The re-democratization of the Philippines began at a time of economic decline due to unrestrained plundering of the country by Marcos' protégés. Thus, re-democratization did not come about in the course of or as a result of successful economic modernization. A crucial factor in overcoming the Marcos dictatorship was a political about-face by the United States, which withdrew support for its long-standing ally.

The first post-Marcos president was Corazon Aquino, widow of the opposition politician Benito Aquino, who was assassinated in 1983 upon his return to the Philippines. Her personal authority was based primarily on her legitimacy as a co-organizer and guiding figure of the revolutionary People's Power. However, Corazon Aquino lacked a broad basis of support within the political elite, which had survived the overthrow of the Marcos regime intact. Nevertheless, Aquino was successful in quickly establishing a new constitution by linking it to the country's democratic tradition. She fixed the term of the powerful office of president at seven years without the possibility of consecutive re-election.

Fidel Ramos, a career officer under President Marcos, succeeded her in office in 1992. Ramos had played a considerable part in Marcos' removal from office by attempting an amateur *coup d'état* and thereby involuntarily contributed to Aquino's takeover of power. As defense minister under President Aquino, Ramos was able to contribute to reconciling, to some extent, the military with the new president. There were important reform projects during Ramos' term in office despite the fact that he was unsuccessful in making breakthroughs with two central structural problems: reforming the ownership of land and reforming the tax system. In 1998 Ramos was followed by Joseph Estrada, who in turn was replaced by his vice president, Gloria Arroyo, in 2001, in a constitutionally

questionable manner. At the time, Estrada was being prosecuted for allegations of corruption and plundering state property.

Although the economic development of the Philippines followed formal free-market ideas, Marcos' nepotism along with oligarchic structures in rural areas resulted in numerous monopolies and cartels, and inadequate integration of the Philippines into the world economy. Despite notable advances in the opening, privatization and decartelization of the Philippine economy, these fundamental problems remain unsolved. Nevertheless, models of export-oriented growth were successfully adapted from other East Asian countries, at least to some extent, and good growth rates were achieved at the beginning of the 1990s. Although the Asian economic crisis affected the Philippines more slowly and less severely than it affected Thailand or South Korea, it was enough to seriously hamper the process of economic development and to emphasize the urgent need for structural reforms.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

Compared with the administration of Ferdinand Marcos, the current government in the Philippines exhibits the formal fundamentals of a democracy. After Marcos was overthrown in 1985, Corazon Aquino assumed the presidency at the head of a revolutionary government and governed by decree until a new constitution was adopted in 1987. With the elections of presidents Fidel Ramos in 1992 and Joseph Estrada in 1998, the Philippines met the criterion of two changes in national leadership for a consolidated democracy.

Nevertheless, there are significant deficiencies in terms of establishing state identity and realizing the rule of law. On the other hand, political participation is decidedly well developed. However, there is no system that allows the approximately 7.4 million Filipinos working abroad to vote. All in all the Philippines were not successful in making any appreciable advancements in establishing democracy during the period under study.

3.1.1 Political regime

(1) *Stateness*: The government's monopoly on the use of force is prevalent in the central parts of the country, but there are functional organizations (communist guerillas, Muslim separatists, citizen militias, paramilitary organizations) that are challenging the government's monopoly on the use of force in several areas of the country. The definition of who qualifies as a citizen is being called into question by the separatist movements in some parts of the country, but in principle all

citizens possess the same civic rights. The nation's constitution is generally accepted by an overwhelming majority of citizens.

With the exception of Islamic-influenced parts of the Muslim separatist movement, church and state are separate for the most part. While religious, particularly Catholic, dogma only has a notable effect on politics in individual cases such as birth planning and fighting AIDS, the Catholic Church has considerable power in the area of politics as a moral authority and a political actor. Constitutionally, the Philippines are a secular republic. The state's fundamental infrastructure is present throughout the country, but it is insufficient on the local level and in crisis regions. This infrastructure does not reach the entire population, which in many rural areas is still subject to oligarchic structures and dependent on the ruling families.

(2) *Political participation*: General elections take place as the accepted mode of transfer of power. At the same time, not everyone is treated equally, especially with respect to the right to run for office. These inequalities can be attributed to the central role that money politics play in election campaigns. Weak party structures and the high cost of conducting an election campaign favor wealthy candidates and place poorer ones at a disadvantage. In addition, violence, intimidation and manipulation frequently occur. In 2001, for example, a state of emergency was declared, and opposition candidates were temporarily arrested.

Even though all officeholders are elected, the lack of opportunities for Philippine citizens living abroad to vote by absentee ballot, and a voting method requiring the voters themselves to write the names of the candidates on the ballots, give rise to criticism. Reforms have been announced but not implemented. In addition, extra-constitutional transfers of power such as the one that occurred in 2001 undermine the significance of elections. Thus, the democratically elected representatives do have the power to govern in principle, but policies opposing the political establishment, especially those opposing the powerful family clans, have been almost impossible so far.

The military and the Catholic Church have also emerged as important actors with temporary veto power. In principle, there is freedom of association and freedom of assembly within the framework of the fundamental democratic order. Even if real conditions, particularly for trade unions, are repeatedly criticized, there are no open prohibitions on parties and social organizations. Ethnic-religious cleavages overlap with economic conflict lines, especially in the South, and are the breeding-ground for terrorism and guerilla. The party system is unstable. The founding of new parties is often the result of current interests or meant to support single politicians. Ethnic and religious conflicts hardly play a role here.

The military disputes with the guerilla hinder the development of the civil society especially in rural areas. The press, which is quite dynamic in the Philippines, is largely free, but it is the target of manipulations due to its orientation toward

tabloid or scandal journalism and dependent business relationships. Particularly under Estrada, meddling by the government or persons close to Estrada gave rise to criticism. There are also considerable limitations in those regions where guerilla and separatist movements prevail.

Still, civil society played a vital and important role in the political transformation process in the assessment period and also during the whole period of the 1990s. Thanks to the engagement of these civil society groups did the decentralization reform of 1991 (Local Government Code) succeed and were peace negotiations with single factions of the Maoist rebels and the Muslim resistance also a success.

The commenced discussion on land reform or the modernization of election laws (Election Modernization Law) as well as the fulfillment of the constitutional order to guarantee absentee voting to the Pilipinos working abroad, (Overseas Filipinos Absentee Voting Law, impl. 2004) were a result of the pressure exerted by different civil society groups.

(3) *Rule of law*: Money politics and resorting to the extra-constitutional assertion of claims to power restrict the separation of powers. The weakness of the parties and the weight of forces outside the formal political process (Catholic Church, demonstration movements) strengthen the executive, especially the presidency. The president normally depends on the cooperation of the legislative branch in implementing policies. The power and function of the constitutional court are still not adequately consolidated. In principle a balance is sought between the powers.

The judiciary and constitutional court are formally independent, but they suffer from a lack of qualified personnel, massive corruption and insufficient territorial coverage. This results in one of the greatest challenges in the political and economic system: ensuring law and order. Although Estrada's abuse of authority was confronted judicially, his removal from the presidency by a movement (People's Power II) bordered on the unconstitutional. As a whole, corrupt elected officials are not adequately prosecuted, even if they are subjected to public criticism. In addition, violations of human rights by citizen militias, paramilitary groups and the military in conflicts against guerilla units remain commonplace. Civil rights are frequently violated, and in some parts of the country they are practically nonexistent. Furthermore, it is practically impossible for the poor to use normal legal channels to defend their rights.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The democratic institutions basically fulfill their intended functions, but are not completely free of corruption. The role of the judiciary and the implementation of policies on the local level are particularly problematic. The relationship between the president and Parliament is questionable in any case because the weak party system does not offer a stable

basis for effective cooperation between these two important organs. Principally, democratic institutions are met with strong support among the population. However, the tradition of military intervention in politics and the dominance of the rural oligarchy are cause for concern.

(2) *Political and social integration:* The Philippines suffer from a highly unstable party system in which parties “rise and disappear like soap bubbles” (*The Economist*). The degree of fragmentation is high, the most important parties have little ability to develop their platforms, voter volatility is strong, and anchoring within society is weak. Parties are primarily voting organizations and, with the exception of LAKAN, weakly organized and heavily dependent upon the personalities of individual leaders. In this context, it is not uncommon for new parties and party alliances to form, and for representatives to change parties immediately after an election.

The constitution guarantees the right of free association. In practice, the Philippines have innumerable interest groups and several thousand trade unions. In the case of labor relations, however, representatives of workers’ interests continue to be systematically thwarted. Thus, although the network of interest groups is densely woven, it is severely hampered by both government and private interests in asserting rights and responsibilities. As a result, fragmentation and deficient legal protection are greater problems than polarization.

Approval of democracy is high as evidenced by the regularly high voter turnout (most recently 85 %) and the relatively low number of votes for parties opposed to the system. There is a robust but heterogeneous web of autonomous groups and organizations that enjoy a high degree of confidence among the population. There is a multitude of NGOs especially in the areas of human rights, health and education.

3.2 Market economy

3.2.1 Level of socioeconomic development

With per capita GDP of more than \$3,800, the Philippines are a middle-income country. Nevertheless, 40 % of the population lives just above or below the poverty line of \$1 per day of available family income. Growth rates of approximately 5 % facilitated successes in reducing poverty during the mid-1990s. However, the fight against poverty has stagnated since 1997. Any land reform worth mentioning has not occurred since Spanish colonial times. Consequently, social exclusion is very pronounced quantitatively and qualitatively and is structurally entrenched.

3.2.2 Market structures and competition

The market economy in the Philippines is institutionally stable, but the same rules of the game do not always apply for all market participants: Crony capitalism continues to characterize economic life. In addition, influential family clans enjoy a variety of legal and illegal privileges. Therefore, the battle against oligopolies and monopolies is still an important aspect of Philippine economic policy. So far, however, there is no coherent and effective cartel policy, despite a number of attempts at establishing one.

As part of the ASEAN Free Trade Area (AFTA), the Philippines have made great progress in liberalizing foreign trade in the last few years. Thus, tariffs dropped from an average of 20 % in the 1980s to an average of 6 %. In the course of industrial policies, and as a reaction to the Asian economic crisis, the government is intervening purposefully in free trade, however. Important imports such as rice are a government monopoly. In addition, President Arroyo has proven to be susceptible to political pressure from those who are potentially as well as directly impacted by liberalization. Consequently, though foreign trade has been liberalized in principle, there are notable regulatory exceptions, in particular differentiated tariff rates and special regulations for individual branches of industry.

The financial system is bank-centered and has been open to foreign investors since the 1990s. However, Philippine banks have the lowest capitalization among East Asian countries and are considered less stable than their counterparts. The capital market is well differentiated, but in view of the great significance of banks it is primarily important to government as a source of funding. Trade in company shares is weak and has further declined in the last few years. Supervision is oriented to formal international standards, but their implementation cannot be guaranteed. Government intervention also does not follow any coherent pattern.

3.2.3 Stability of currency and prices

President Arroyo in particular has made great progress in battling inflation, not least due to the liberalization of foreign trade. Controlling inflation and formulating a reasonable exchange rate policy are recognized economic goals that have not been sustained consistently since 1997, however. Even if it is too soon to speak of a “culture” of stabilization policies in the Philippines, important progress in the direction of a continuous stabilization policy can indeed be noted. This is in no small part due to the important role of the IMF and the incorporation of the Philippines into AFTA. The danger of populist changes in policy still exists, however, as developments during Estrada’s term in office emphatically demonstrated.

3.2.4 Private property

Property rights and the regulation of property acquisition with respect to purchase, use, utilization and sale are defined in principle, but there are problems related to legal enforcement. The deficient judicial system is one of the greatest obstacles to private economic activity. Private companies have clearly gained in significance even if the state continues to retain an important role in several key sectors. In addition, the state still tolerates strong market concentrations in certain branches of industry.

3.2.5 Welfare regime

Philippine society is segmented, and the institutions that are intended to compensate for gross social discrepancies are weak. Precautionary measures to avoid social risks are rudimentary and much segmented territorially as well as in terms of class and economic sector. It does not appear that the Philippines will be able to systematically fight poverty on their own. For women, access to education and a career depends very much on social class. However, all in all women do have access to higher education and the highest public offices, albeit to a considerably lesser degree than men.

3.2.6 Strength of the economy

The growth of per capita GDP has only reached 0.8 % since 1998. The overall increase in GDP is also unsatisfactory in view of structural problems and high population growth. According to international organizations such as the World Bank and the IMF, targeted average growth rates of 5 % can only be realized if international conditions are favorable and rapid and effective reforms are implemented. In this context, the national debt and the predicament of the financial system are as much a cause for concern as the extremely low investment ratio, the slump in export growth and the weakness in government revenues.

Unemployment of approximately 11 % conceals the high degree of underemployment in the agricultural sector. Foreign debt has already clearly exceeded the 1997 level. The high inflation rate, however, which stimulated the economy in 2000 and 2001 in the course of an expansive monetary policy from the central bank, has clearly dropped in 2002. Despite an adverse international economic environment, the Philippines have achieved surpluses in the balance of trade and the current account balance.

3.2.7 Sustainability

In reality, the aspect of ecologically compatible growth receives only slight consideration despite various initiatives. Education expenditures in the time period from 1995 to 1997 were only 3.4 % of GNP, and expenditures for research and development for the period between 1990 and 2000 were only 0.2 % of GNP. Corresponding institutions are present in important segments of society. They are very heterogeneous as a whole and show evidence of clear deficiencies in research and development.

4. Trend

(1) *Democracy*: The Philippines are stagnating with respect to several essential aspects of state coherence, e.g., the enforcement of the state monopoly on the use of force or the establishment of workable administrative structures. The Philippines have suffered setbacks with respect to other aspects, especially the anchoring of democratic norms among the population and the independence and reliability of the jurisdiction of the constitutional court. The proclamation of a brief state of emergency (“state of rebellion”) by President Arroyo after the demonstrations on May 1, 2001; an increase in terrorist activities; and the effects of the proceedings against ex-President Estrada have as a whole damaged the consolidation of democracy in the Philippines as compared with 1997.

The enforcement of law and legislation and the safeguarding of government revenue, as well as fair access to political and economic resources, have deteriorated. The degree of consolidation of the democracy with regard to institutional stability (constitutional court) and sociopolitical integration has diminished. For these reasons, the Philippines can still be characterized as an oligarchy disguised by democratic institutions.

(2) *Market economy*: The Philippines have recovered well from an economic slump in 1998. However, the growth data have stabilized at a level that is too low for their stage of development and population growth. The distribution of profit from growth breaks down very unequally: While there are great differences in regional growth rates, both the absolute number of people living in poverty as well as the number of those living just above the poverty line has increased as compared with 1997. The HDI in the Philippines improved slightly between 1995 and 2000 from 0.733 to 0.754. The free-market system improved slightly due to the liberalization of foreign trade, privatization and reform programs.

Overall economic development clearly improved in absolute terms since 1997, with growth rates between 3 % and 4 %, but due to a population growth rate of 2.4 % it has scarcely improved on a per capita basis (approximately 0.8 %). In view of the adverse conditions during 1998 and the severe political crisis of 2001,

overall economic development is surprisingly positive. However, it corresponds in no way to what would be required to effectively reduce poverty.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP Index	UN Education Index	Political representation of women	GDP per capita (\$, PPP)
1998	0.744	0.739	0.60	0.91	17%	3,555
2001	0.751	0.748	0.61	0.90	17.2%	3,840

Source: UNDP Human Development Report 2000, 2003.

Table: Development of macroeconomic fundamentals

	1998	1999	2000	2001	2002
GDP growth in %	-0.6	3.4	4.4	3.2	4.0
Export growth in %	16.9	19.1	9.0	-16.2	3.0
Import growth in %	-18.8	4.2	3.8	-6.2	2.5
Inflation in % (CPI)	9.66	6.67	4.30	6.11	4.5
Unemployment in %	10.05	9.73	11.10	11.15	11.4
Budget deficit / GDP	1.83	3.60	3.98	4.07	-3.2
Current account/GDP	2.36	10.39	11.30	6.30	2.0

Sources: EIU; ADB; World Bank

5. Transformation management

5.1 Level of difficulty

During President Ramos' term of office the Philippines experienced good progress in the consolidation of the market economy and democracy until 1998. However, ethnic, religious and ideological conflicts were still awaiting resolution. In addition, structural reforms were lacking in rural areas. Important political institutions such as the constitutional court had gained in authority even if the range of the administrative apparatus still had territorial and sectoral deficits. The

relatively high level of education and the beginnings of a developed civil society actually offered good prerequisites for the consolidation of democracy and market economy.

With respect to anchoring democratic institutions, the subsequent governments of Estrada and Arroyo were again faced with the challenge of reducing the imbalance in the political and economic possibilities for participation, an imbalance that was based on an unequal distribution of power and wealth. Instead of tackling the problem with determination and a coherent strategy, the Estrada and Arroyo governments proved to be part of the problem. Domestic and international economic conditions were definitely adverse. The Philippines profited from the international fight against terror through stronger military and economic support from the United States. With a per capita GDP of \$3,471 (PPP) the Philippines were ranked as a middle-income country in 1998 (the figure for 2002 was \$3,840). The United Nations Education Index of 0.91 indicates a high level of education in the Philippines. Slightly less than 92 % of the population is Christian Malay. This homogeneity, however, camouflages massive ethnic and religious tensions between Christians and Muslims, particularly on the island of Mindanao.

Establishing a clear distinction between ethnic and religious conflicts, and those related to poverty is not easy. There are numerous NGOs, especially in the urban centers, most notably Manila. Hence, compared with other countries, civic tradition is quite strong, evidenced by the dynamic media and diverse protests and demonstrations. On the other hand, rule of law and institutional stability exhibit considerable deficits.

5.2 Reliable pursuit of goals

Along with managing current problems resulting from the dispute with former president Estrada as well as those resulting structurally from serious poverty, the Arroyo government is pursuing a stabilization policy with medium- and long-term goals, the reduction of poverty, and administrative reforms. These policies are defined in coordination with the World Bank, the IMF and other international organizations. However, under Arroyo as well, there is a considerable discrepancy between rhetorical objectives and actual implementation of policy.

In important individual sectors—land reform and tariff reductions—she has so far only been successful in challenging established interests in individual cases. There have also been no essential improvements in the administrative sphere as yet. No comprehensive strategy for political and structural reform has been noted, i.e., with respect to parties, equality of opportunity and the state monopoly on the use of force.

In addition, important parts of the government, Arroyo's vice president for instance, are openly opposing the government in implementing reforms. In view of the poverty, terror and political violence, the government is not able to guarantee its citizens any fundamental reliability of expectations. Assurance of justice does not exist, especially for the poor. In an international comparison, the Philippines performed miserably with respect to the work of the judicial system (see World Bank 2002). The institutional economic framework is relatively stable in contrast to Estrada's government. The repeated promises of reform by Arroyo's government, for the most part without any follow-through, have intensified political instability since Estrada's removal from power. As a result, social as well as political actors must continue to expect politically induced uncertainty.

5.3 Effective use of resources

Two central problems for the Philippine government are financing the budget and administrative reform. The budget deficits and the indebtedness of public authorities are still within a manageable range, but are receiving increasing criticism from international observers such as the IMF or EIU. After surpluses at the end of the 1990s, budget deficits continued to rise again. Total public-sector debt rose from 99 % of the GDP in 1996 to more than 106 % in 1997 and then to 126 % in 2000. During the same period of time, total revenue (as a portion of GDP) dropped from 18.3 % (1997) to 14.5 % (2000).

Corruption, nepotism, cronyism, misappropriation and a general institutional weakness are the most important causes for the Philippine government's inability to attain the required revenues. Even after very considerable decentralization in 1991, there are still substantial deficiencies on the local administrative level as well in the implementation of governmental initiatives. The extent of corruption in the Philippines is serious. Estrada's term in office is considered a massive relapse to the crony capitalism of the Marcos era. In the same way, the Arroyo government has already come under criticism due to suspicion of corruption—despite all official campaigns to stem the tide of corruption.

The budgetary situation under Arroyo improved only slightly in 2001, and only temporarily. The outlook in the medium term is grim. The budget deficit planned for 2002 had already been exceeded after seven months. Government effectiveness and the rule of law were rated very poorly in comparison with other East Asian nations. In this sense, the government uses the country's resources highly inefficiently. It has also only been successful launching a small portion of Arroyo's announced projects. It is evident that the quality of government services is one of the biggest hurdles for successfully reducing poverty as a prerequisite for consolidating the market-based democracy.

The political and economic damage caused by the transition from Estrada to Arroyo has not yet been overcome. The Philippine government is officially

promoting the work of organizations to keep corruption in check. Nevertheless, corruption is so widespread that together with the political and economic hegemony of the old families it arouses the impression that the state is under the thumb of a small economic and political elite. Though this elite moves on a national level in the formal institutions of the democracy, it does not shy away from illegal and extra-constitutional behavior and so far has been successful in blocking the most important reforms.

5.4 Governance capability

With Estrada's removal from office in 2001 by People's Power II, which was a coalition of the urban middle class, the traditional political elite, the Catholic Church and important parts of the military, a window of opportunity for realizing structural reforms opened for a short time. However, this window of opportunity was not utilized.

President Arroyo's announcement at the end of 2002 that she would not run for president in 2004 awakened the hope, on the one hand, that the vested interests of important interest groups could be chipped away. On the other hand, it threatened to consign the president to a lame-duck fate since her ability to recruit political support through the distribution of the resources of power had now been diminished. To implement reforms, she is now dependent to an increasing degree on the cooperation of precisely those political heavyweights who are themselves entertaining ambitions of becoming president. It remains to be seen whether the reform initiatives concerning foreign economic policy and energy policy will be successful.

The government's efforts toward reconciling with the guerilla movements as well as keeping terrorism in check are not very promising either. So far the government has hardly been able to hold its own against the interests of important stakeholders. Successful policies are lacking in central areas—reducing poverty, corruption and terrorism. As a whole, the Philippine executive branch has forfeited much respect and authority under presidents Estrada and Arroyo.

President Arroyo does not appear to have the wherewithal required for far-reaching change, due to the manner in which she succeeded Estrada and because of her family background as well as her weak power base. The Arroyo government has not been able to solve the misallocation problem, as a result of its policies, nor has it been able to improve the allocation efficiency of the markets in a sustained way. The attempts at clever governmental action in the fields of external economic relations and regulation stand in sharp contrast to the failures in battling poverty and terrorism. Cooperation with the World Bank and the IMF has clearly improved.

5.5 Consensus-building

While there is far-reaching agreement about democracy, with the exception of the Communist Party, the closely associated New People's Army (NPA) and the Muslim separatists, the question of the extent and pace of developing market-economic institutions and above all opening to the world market is strongly disputed. A rudimentary agreement exists among the most important actors about democracy and a market economy. There is no end in sight to the separatist movements or the communist guerillas.

So far it does not appear that a change in the structural oligarchy and an improvement in political and economic equality of opportunity can be achieved against the interests of the traditional elite. So far the government has not been able to ease the central lines of conflict. The inherited political burdens of Marcos and Estrada are not being dealt with efficiently or successfully. Prosecution of human rights violations committed by government security forces and paramilitary groups is absolutely inadequate.

5.6 International cooperation

As a result of the Asian economic crisis in particular, the Philippines improved their cooperation with bilateral and international donors. Important liberalization steps and reforms are being pushed ahead proactively in cooperation with external actors. According to the most recent statements by the World Bank, a certain readiness to learn was ascertained in this regard. The extra parliamentary change in government in 2001 further reduced confidence in the Philippine government. Along with the growing budget deficit, this is also reflected in higher risk premiums.

6. Overall evaluation

In view of the originating conditions, current status,  evolution and political management achievement of the actors, this report concludes the following:

(1) *Originating conditions*: The originating conditions for successful transformation were adverse. To a certain extent, the country was able to fall back on democratic and civic institutional traditions that were established before the Marcos dictatorship. The demonstration movement against Marcos gave President Aquino a high degree of legitimacy. At the same time, however, she inherited a deeply divided oligarchic society with considerable problems of structural poverty.

Parts of the military as well as communist and Muslim separatist guerillas openly opposed her in a hostile manner. Politics, the courts, business and administration

were riddled with a tight network of Marcos' protégés. The economy was characterized by a lack of international competitiveness and by cartels and monopolies. Quasi-feudal structures were prevalent in rural areas. Integrating forces opposed to the system as well as overcoming poverty as a prerequisite for the political and economic participation of wide parts of the population presented the democratic administrations with considerable problems.

(2) *Current status and evolution:* The Philippines formally show evidence of all characteristics of a democratic market economy. Two changes in government effected by elections actually speak for a consolidated democracy. On the other hand, gross deficiencies pertaining to the rule of law, the implementation of government policies down to the local level and the oligarchic structure of the political elite make clear that there has been little progress in anchoring democratic institutions within the population. As to corruption and the strength of the constitutional court, there has even been some backsliding compared with 1997. Economically, further steps toward liberalizing foreign trade and deregulating primarily the energy sector have improved the market-economy framework. Even here, deficiencies in the judiciary, for instance in terms of protecting investors, raise significant problems. The risks of the financial system and the weakness of governmental revenue, in combination with a renewed relaxation of budgetary discipline, do not allow for an overall positive assessment in terms of the consolidation of the Philippine market economy, either.

(3) *Management:* Political transformation management can only be rated as decidedly weak for the period under consideration. Though the Philippines were successful in rapidly returning to a moderate course of growth after the economic slump in 1998, no clear positive progress can be noted. On the contrary, the aftershocks of the Estrada government and Arroyo's lack of coherent policies have not produced an improvement in the political and economic framework. While dealing with the Asian economic crisis has led to structural changes in other Southeast Asian countries, the Philippines have shown no signs of attempted solutions to the most important structural deficiencies.

7. Outlook

The uncertain anchoring of democratic and market economic values and institutions in Philippine society provides little occasion for a positive outlook. On the contrary, the political crisis after Estrada was forced out of the presidency, massive military conflict with separatist and communist guerillas, and the lack of comprehensive reform of rural society, in particular, do not point to a successful continuation of the transformation.

The key tasks for the next few years are closely connected: A reduction of poverty requires medium- and long-term reform of land ownership. This would affect one of the most important resources of power of the Philippine oligarchy, who form an

absolute majority in Parliament across all party lines. The catastrophic deficiencies in securing revenues, which hardly improved under Arroyo, allow little latitude for urgently needed reforms in the judiciary and administration. However, without fundamental improvements in the work of the courts, the framework for economic activities and assurance of justice for political activists will remain unsatisfactory.

Nevertheless, smaller signs of a possible positive change can be identified. Arroyo's announcement not to run for president in 2004 offers the possibility of overcoming the social wounds that were opened up in the dispute with Estrada. In addition, not running for election makes President Arroyo more independent of the complex negotiation patterns in Philippine politics and increases her scope for action. Her notable concentration on reforming the electoral system and reducing poverty is a step in the right direction. A profound change in the political parties appears to be of central significance for political stabilization.

In view of the power structures in rural areas and the significance of money politics in election campaigns, it appears that a change in the right to vote alone will not be sufficient. In this case political regulations would also have to be accompanied by sweeping social change. It is doubtful whether the political elite that is so closely intertwined with the economic elite can be expected to make real improvements with respect to land reform without massive external pressure for change. The chances of consolidating the market-based democracy in the Philippines in the sense of solid anchoring within society and congruity between formal and informal democratic institutions appears therefore to be slight even in the medium term.