

Philippines

Status Index (Democracy: 6.95 / Market economy: 5.86)		6.40	Management Index		4.69
HDI	0.758		Population	80.2 Mio.	
GDP p. c. (\$, PPP)	4,321		Population growth¹	2.3%	
Unemployment rate	16.4		Women in Parliament	15.4%	
UN-Education Index	0.89		Poverty²	14.6	
			Gini-Index	46.1	
Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. ¹ Annual growth between 1975 and 2003. ² Population living below \$ 1 (1990-2003).					

A. Executive summary

This report delineates the Philippines' incremental development of a market-based democracy. It highlights the transition experienced by the country in its restoration of democratic political institutions and in the reformation of an underdeveloped and under-performing market economy. Despite its guarantee of a wide degree of freedom and political participation, the Philippines is still struggling to find solutions to its economic, social, and political problems.

The Philippines boasts a rich democratic tradition.. However, social and economic inequalities have contributed to the rise of an elitist democracy. More often than not, power brokers tend to have the upper hand in manipulating political as well as economic resources to their advantage. Patronage politics dominates the political system. This, in turn, hinders efficient management of political and economic resources.

The Philippines still lags behind its regional counterparts in ensuring a decent standard of living for its people. No dramatic changes have taken place since the Arroyo administration assumed power in 2001. Poverty and unemployment are still high and magnified by inflationary pressures that place particular pressure on those who work in the agricultural sector. There is a consistent move to further privatization and liberalization policies, which aim at increasing the welfare of more citizens.. There has also been consistency in the lowering of tariffs to guarantee the country's access to international and regional markets. The country has been successful in adhering to the principles of the ASEAN Free Trade Area in which it is a member.

This report also provides an overview of the ability of the government to pursue policies of a more liberalized and competitive democracy. The political leadership is

constrained by the current political constellation in government and has adopted inadequate measures to address social and economic problems. Despite these shortcomings, the Philippines is on its way toward a more liberal and market-based democracy. The level of transformation will be modest, not dramatic.

B. History and characteristic of the transformation

The historic peaceful uprising in 1986, which led to the restoration of a democratic government after fourteen years of Ferdinand Marcos' dictatorial regime, served as a template for similar transformations in 36 other countries in Asia and around the world. However, it failed to maximize the process of democratic transformation to bolster economic change. Despite its sterling democratic credentials, the Philippines continue to lag behind in terms of social and economic development compared to its neighbors in the South East Asian region.

Nonetheless, it managed to maintain its commitment to the democratic consensus amid the punctuated challenges of insurgency, secessionism, terrorism, and military adventurism. The post-Marcos democratic transition saw intermittent periods of political and economic stability amid domestic and regional instability. President Corazon Aquino (1986-1992) presided over the initial phase of the post-1986 democratic transition, which was devoted to the dismantling of the centralized authoritarian power structure and restoration of pre-martial law democratic institutions.

The most important aspect of the political reform was the restoration of the presidential system of government based on the principles of separation of powers and checks and balance among the three branches of government: the executive, legislative and the judiciary. *Democratic transformation* in the post-1986 period was further characterized by 1) the free election of legislators and local officials; 2) the strengthening of the legislature; 3) the reestablishment of an independent and credible judiciary; 4) restoration of a free press; and 5) institutionalization of a decentralized bureaucracy and local government autonomy. These were implemented as constitutional safeguards to prevent the resurgence of authoritarian dictatorship in the country.

President Aquino survived a series of military coup attempts, managed the drafting of a new constitution and oversaw the peaceful and democratic transition of presidential powers to her successor, Fidel Ramos (1992-1998). President Ramos placed into motion an ambitious peace initiative, which sought to resolve internal

armed conflicts with various political armed groups such as the communists, military *pustchists* and Muslim secessionists. He recognized the need for political stability in order to further economic development.

President Ramos also concentrated his efforts on *transformation towards a market economy* by utilizing programs of liberalization and privatization with the aim of greater competitiveness in the international market. His peace and development program provided a period of economic growth and political stability. Nonetheless, the 1997 Asian financial crisis decimated much of the economic gains of the Ramos administration.

The election of popular movie actor Joseph Estrada (1998-2001) to the presidency followed the economic turmoil of the Asian financial crisis. Estrada brought new challenges to Philippine democracy. Despite having been elected with the widest electoral margin in the post-1986 period, Estrada was plagued by allegations of abuse of power, a lavish lifestyle and corruption. This led to his impeachment and subsequent ouster in a second people power uprising in 2001. Gloria Macapagal Arroyo was then installed as president (2001-present). Arroyo's first term in office was punctuated by serious challenges to the legitimacy of her government.

The failed attempt of disgruntled Estrada supporters, largely drawn from the poverty-stricken masses, to mount their own people power uprising against President Arroyo in 2001 marked the reemergence of a potential legitimacy crisis that reflected the deep political and socio-economic divisions in the country. This was exacerbated by a mutiny led by junior military officers in late 2003.

Arroyo stood for re-election in the 2004 presidential election despite claiming numerous times she would not. The election was not only a referendum on the performance of the Arroyo administration, but was also an institutional mechanism for mitigating the potential crisis of legitimacy in the Philippines. However, flawed electoral administration, wanton use of government resources for partisan political purposes and allegations of fraud and massive cheating slightly diminished the election as a credible legitimating mechanism. Armed with a fresh, albeit disputed mandate, President Arroyo is poised to address the burgeoning fiscal crisis and other economic problems that have prevented the Philippines from attaining full transition to a market-based democracy.

C. Assessment

1. Democracy

1.1. Stateness

The Philippine Constitution, which was overwhelmingly ratified by almost 76% of the electorate in 1987, clearly defines citizenship and equally accords its rights and privileges to include the cultural minorities in the autonomous regions of Cordillera and Mindanao. The majority (84%) of Filipinos closely identify with the nation-state as reflected in a 2003 Social Weather Stations (SWS) survey. Possessing Filipino citizenship is among the important requisites for national identity, according to 96% of respondents; and 85% would rather be a citizen of the Philippines than of any other country in the world.

The 1987 constitution also outlines the institutional scope and functions of the state. The Philippine state is adequately established with differentiated power structures spread throughout the archipelago. The scope of the state is extensive as manifested by its presence in 17 regions, 79 provinces, 117 cities, 1,500 municipalities and 41,975 *barangays* (villages). More than 1,445 million civil servants are employed in national government agencies, government-owned and controlled corporations and local government units responsible for running the state machinery.

A total of 119,577 police and 106,000 military personnel are responsible for the country's internal and external security. However, even though the scope of the Philippine state is clearly established, its strength and capacity to perform its functions is often held in doubt. The communist-led New People's Army, secessionist Moro Islamic Liberation Front (MILF), terrorist Abu Sayyaf, and private armies employed by local warlords and political clans, continue to challenge the state's monopoly of the legitimate use of force in remote areas of the country.

While the principle of the separation of church and state is guaranteed in the 1987 constitution, the major religious groups and denominations exert considerable influence on political issues and policy. The dominant Roman Catholic Church's long-standing critique of the state's family planning policy has aggravated the rapid, massive and unsustainable population growth that is projected to double to 160 million by 2030. Other religious organizations, such as the homegrown Iglesia ni Cristo (Church of Christ), the charismatic Catholic El Shaddai, and the evangelical Jesus is Lord, exercise great influence on the selection of candidates to be supported by their members. The ability to generate religious command votes gives them the latent power to influence policy formulation and implementation.

1.2. Political participation

Generally, there are no restraints on the conduct of free and fair elections in the Philippines. The country has extensive experience with electoral democracy since the Americans introduced it in the 1900s. Election and party politics experienced a temporary hiatus during the authoritarian regime. The democratic transition since 1986 has witnessed twenty-two national and local elections.

The Philippine state has been characterized as being "captured" in competing and diverse social interests such as dominant socioeconomic classes, political clans, powerful families and other entrenched particularistic groups. It is caught between the predatory rent-seeking behavior of landed interests, monopolists and cartelists and the over vigilant and highly empowered members of civil society and mass media. Freedoms of association, of assembly, of opinion and of the press are sacrosanct and unrestricted. Thus, the dynamic between the Philippine state, civil society and mass media is a tapestry of struggles for domination and transformation at all levels.

1.3. Rule of law

The reintroduction of the bicameral legislature and the restoration of the pre-martial law Senate were constitutional mechanisms to balance the powers of the president and prevent the resurgence of authoritarianism. The Supreme Court oversees the administration of justice in the four-tiered Integrated Court System, collectively known as the judiciary. Serious issues and problems such as allegations of graft, corruption, incompetence and bias against the poor have encumbered the Philippine judicial system. Cognizant of the problem of inefficiency in the administration of justice, the Supreme Court has adopted the Action Program for Judicial Reform (2001-2006) to introduce the much-needed changes concerning institutional development, human resources development and reform support systems. Nonetheless, a negative perception of the judiciary remains, as reflected in the 2003/04 SWS survey that indicated 49% of lawyer respondents have knowledge of a case in their province or city where a judge took a bribe.

Corruption and criminality are among the major obstacles to the institutionalization of the rule of law in the Philippines. According to World Bank estimates, at least 20% of the annual budget is lost to corruption. This figure is equivalent to 3.8% of the country's Gross National Product. From 1995 to 2000, the total amount lost to corruption is estimated at 609 billion pesos. The Philippines has not improved its score in the annual Corruption Perception Index (CPI) survey of the Transparency

International (TI). The country ranked at the bottom 65th of 91 least corrupt countries in 2001; 77th of 102 in 2002; 92nd of 133 in 2003; and 102nd of 145 in 2004. Its average CPI for the past four years is a dismal 2.6. Through the years, several mechanisms have been designed to combat corruption in the Philippines. These include setting the legal framework and establishing anti-graft and corruption bodies like presidential committees, commissions, task forces and other units. Most of these bodies have performed miserably, so that corrupt officeholders are not prosecuted adequately under the law, but occasionally attract adverse publicity. Among the factors for the prevalence of corruption in the country is the low risk of detection of corrupt offenses and the low probability of punishment for such offenses.

Criminality remains a major problem in the country. In 2003, the Chinese-Filipino community reported that at least one victim was being kidnapped every three days. The U.S. State Department's "International Narcotic Control Strategy Report" released in 2004, said that the Philippines have become a major producer of crystal methamphetamine hydrochloride.

On a positive note, there are no blatant restrictions on civil rights in the Philippines in recent years. Although the Marcos family and their associates who were responsible for massive human rights abuses during their reign still manage to elude conviction. Civil society organizations such as Amnesty International (AI) have remained vigilant in the defense of human rights in the country. A minimal number of human rights violations resulting from military operations against the communist insurgency, Muslim secessionists and terrorist organizations; and incidence of extrajudicial killings in some local campaigns against criminality were reported by the AI in 2003. An extensive range of institutional and procedural safeguards, complaints mechanisms and legal sanctions have been institutionalized and guaranteed by the Commission on Human Rights - a constitutional body mandated to promote the protection, respect for and enhancement of human rights.

1.4. Stability of democratic institutions

Political institutions in the Philippines fundamentally perform their functions, although policy-making and implementation is shaped largely by political considerations between the executive and legislative branches of government. The president has to rely on coalition building to permanently secure majorities in both chambers and push a legislative agenda through. Given the "clientele-ist" nature of the party system, the president is also dependent on local elites for electoral mobilization. Through congress, the bastion of local power in the national government, local elites bargain with the president for access to state resources in exchange for legislative and electoral support.

There has been an absolute “democratic consensus” since 1986. Respect for the country’s political institutions and laws are considered among the most important requisites for national identity, according to 90% of respondents in a 2003 SWS survey. However, there are counter-state organizations and other potential veto players that continue to threaten this consensus. They include the communist insurgents, Muslim secessionists, criminal and terrorist organizations, and military adventurists.

1.5. Political and social Integration

The 1987 constitution mandates the shift from a two-party system to a multiparty system under a presidential form of government. The country’s multiparty system is gradually stabilizing around four major political parties, namely: Lakas Christian Muslim Democrats (Lakas CMD), Nationalist People’s Coalition (NPC), Liberal Party (LP) and the Laban ng Demokratikong Pilipino (LDP). All of the governing and opposition coalitions that have emerged since the 1992 synchronized national and local elections were formed around these political parties. In the 2004 synchronized elections, the ruling Lakas CMD, LP and a handful of minor parties formed the victorious Koalisyon ng Karanasan at Katapatan sa Kinabukasan (Coalition of Experience and Fidelity for the Future, K4). On the other hand, the LDP together with some minor opposition parties formed the Koalisyon ng Nagkakaisang Pilipino (Coalition of United Pilipinos, KNP). The NPC split its ranks to support both the administration and opposition coalitions.

The seeming resilience of these four parties is largely derived from the moderate polarization and volatility of the electorate. Nonetheless, political parties in the Philippines are personality-based organizations that organize primarily around dominant local political clans and warlords. They are anchored on clientelistic, parochial and personal inducements rather than on issues, ideologies and party platforms. A survey conducted by the SWS in June 2004 reveals that 67% of respondents do not consider any political party as representing their welfare. The weak party linkage in society results in a regular split and merger of these parties into ad hoc coalitions. This is exacerbated by constant party switching. Politicians have virtually institutionalized the practice of party switching.

The 1987 constitution introduced a list proportional representation scheme of electing one-fifth of the members of the House of Representatives to open legislative recruitment and represent other sectors in society. The party list system continues to thrive despite low voter awareness and confused implementation in 1998 and 2001. While the voter base for the party list election more than doubled from 6.5 million in 2001 to just under 15 million in 2004, the 20% seat allocation has yet to be filled in

the last three party list elections. Nevertheless, various interest groups and civil society organizations have taken advantage of this narrow pathway into the bastion of elitist politics.

There are a myriad of interest groups in the Philippines. However, only a handful of those representing dominant economic interests enjoy access and influence in the formal political system. Major organizations representing the interests of labor and farmers are divided along conservative, moderate and radical advocacies. The pent-up democratic impulses of the anti-dictatorial struggle evolved into a vibrant civil society. There is a strong citizens' consent for democratic norm and practices. A 2004 SWS survey indicated that though only 40% of respondents were satisfied with how democracy works, 57% still preferred it to authoritarianism.

Numerous voluntary associations and civic self-organizations have blossomed in the period of democratic transition and are actively involved in development work and issue advocacy. Trust and social capital among the population are cultivated and harnessed by these robust, albeit heterogeneous, civil society organizations. Conversely, some civil society organizations have been co-opted by personal, political and economic interests - the dark side of social capital.

2. Market economy

2.1. Level of socioeconomic development

The Philippines' level of socioeconomic development is challenged mainly by its inability to leapfrog from its long-term stagnation as a middle-income country. There are no indications of dramatic changes, as in the past, given its 2003 indicator, which posted a GNI of \$1,080 per capita, not a significant number compared with the previous review period.

While the poverty rating in 2003 was reduced by approximately 3%, to 24.7% from 27.5% in 2000, the manner of determining poverty statistics has been highly criticized, as it changed its benchmarks from a population basis to a family income and expenditure basis. During the review period, growth in agricultural incomes has not resolved problems of poverty and unemployment in this sector. The violence that escalated and resulted in the deaths of workers demanding an equitable share of pay in vast agricultural plantations in Central Luzon marked a grave failure of a long-standing issue on land reform in the country despite passage of the Comprehensive Agrarian Reform Law in 1987.

Overall, social exclusion in the Philippines is mainly poverty-driven, with gross income inequality, 52% of the national wealth seized by the richest 20% of Filipinos, while structural flaws are embedded in the system.

2.2. Organization of the market and competition

Competition in the market economy is institutionally in place. However, the risks for investments continue to affect market participants, as consistency of regulations and policies remains problematic, as typical of a predatory capitalist system. This remains a major hurdle in instituting market reforms. The absence of a clear policy to curb oligarchy persists, as ownership of major industries by clans is not yet regulated. Moreover, political interests persist in the implementation of big public investment projects. This scenario is exemplified by the case of the new terminal constructed at the Ninoy Aquino International Airport, which was allegedly muddled by judicial intervention in economic decisions.

There has been a consistent implementation of lowering tariffs, but a battle against its full implementation still exists as safeguard laws face resistance from a few local industries such as cement and glass. However, overall, foreign trade conforms to the principles of liberalization as the Philippines has structurally institutionalized a comprehensive restructuring of its tariff system, including its regional participation in the ASEAN Free Trade Area.

The banking system still lacks a stronger regulatory framework, financial sector restructuring and management of non-performing assets (NPAs). However, during the period under review, its central bank, the *Banko Sentral ng Pilipinas* (BSP) has relaxed the rules governing special purpose asset vehicles to speed up the sale of the banking sector's NPAs. Meanwhile, capital market development, which includes establishment of fixed income exchange, remains to be seen as an alternative cushion to external shocks. In essence, the banking system and capital market are oriented in principle to international standards, but they are still vulnerable to severe fluctuations from external factors.

2.3. Currency and price stability

Inflationary pressures continued to beset economic conditions in the country with average inflation for 2004 recorded at 5.5%, comparably higher than the 3.0% in 2003, yet still in line with the expectations set by the monetary institution, BSP. Nevertheless, there is confidence that the uptrend does not significantly affect the steady growth path of the economy and are within the bounds of controllable factors.

Meanwhile, a monetary policy that promotes low, stable inflation conducive to balanced and sustainable economic growth is a core economic goal being implemented by the country's highest government financial institution. However, a consistent and adequate institutional framework has not been established since the BSP is merely introducing core inflation. This inflation-targeting framework, established in January 2002, aimed at achieving its objective.

On the other hand, while the national government's budget deficit poses threats to economic stability, efforts to address the fiscal problem are entrenched in the policy agenda of President Arroyo's administration. The executive office urged revenue-generating schemes through taxation. However, these policies are not insulated from populist policy changes.

2.4. Private property

Despite a well-defined property rights law and regulation, major industries in the Philippines remain in the hands of clans and oligarchic corporations as concentration of market power is tolerated by the state. However, private companies represent the backbone of the economy. There is also growing support to develop small- and medium-sized enterprises through microfinance, especially in the rural and growing urban centers throughout the country.

2.5. Welfare regime

As far as the United Nations' Millennium Development Goal is concerned, the Philippines meet its target commitments in averting social risks. Poverty reduction programs implemented to address malnutrition and maternal health posted a minimal decline in the prevalence of malnutrition in 2003. However, sufficient responses to prevent threats are still needed. While the market price of medicine is addressed, institutional support for health services remains inadequate. The health sector is increasingly dependent and subject to market fluctuations; it cannot systematically combat poverty on its own.

Institutions that compensate for gross social differences often complain of a lack of funds, particularly in providing access to primary education. Despite improvements, the cohort survival rate, or the number of students completing schooling, remains low. Women, on the other hand, have significant access to higher education,

comprising 55% of enrollees in 2001-2002. However, the number of women occupying public office positions, particularly in parliament, fell below the 16% of the last Congress.

2.6. Economic performance

The GDP growth posted at 6.1% in 2004 has been considered a breakthrough in the country's economic performance since 1996, with significant contributions from the services sector. The judiciary's decision on the constitutionality of the Mining Act (1995) is considered responsible for bringing investments back into the sector. However, despite the creation of 3.2 million jobs from 2001-2003, unemployment remains high, at an average of 11%. Furthermore, the jobs created are greatly affected by higher underemployment, which is at 15%.

In 2004, the target budget deficit ceiling was achieved at 186.1 billion pesos, 5.9% below the program of 197.8 billion pesos and 6.9% lower than the 199.9 billion peso deficit level during the previous year. This indicates the persistence of a weak fiscal position, despite austerity efforts by the government. The imposition of new revenue-generating laws continues to face widespread disapproval.

2.7. Sustainability

Whereas sustainable development is key to the government's national strategy, the current situation shows under-utilized and mismanaged natural resources. During the period under review, the latest environmental indicators show poor or low ratings for environmental sustainability in the areas of forest resources and watersheds. Natural disasters have underscored these problems, as thousands died in landslides resulting from the recent typhoons that hit Southern Luzon in 2004. Loss of biodiversity was also recorded due to logging, pollution of coastal areas and over-extraction of biodiversity resources. Clearly, environmental issues are subordinate to growth efforts.

3. Management

3.1. Level of difficulty

Governance is integral to a functioning market-based democracy. However, there are problems associated with the process of full implementation of government programs in the Philippines. The Portfolio on Enabling Environment, prepared by the United

Nations Development Progra, noted difficulties in assessing and analyzing governance reforms. According to the Portfolio, governance, especially the performance of government and its instruments suffer from an absence of philosophy, approaches and methodology for meaningful monitoring and evaluation. The non-existence of this foundation also impedes the incisive identification of specific reform measures, related issues and future directions.

Although there are a number of policies addressing socioeconomic problems, the Philippines still suffers from weak and ineffective political leadership and institutions. Generally, constitutional as well as policy constraints characterize the structural make-up of the government. Consequently, the political leadership almost always seeks the most expedient solution to short-term problems instead of formulating reasonable and attainable long-term policies.

With respect to political dynamics, gridlocks between the legislature and executive are frequent due to strong party polarization, which is based more on personality politics rather than programmatic differences.

The national government regularly utilizes its control of Internal Revenue Allotment - the local government share of taxes - as a political tool to induce support and encourage dependence on the chief executive. Despite the institutional framework legislated to clear the path for decentralization, as embodied in the Local Government Code of 1991, the executive branch continues to exercise broad influence on local governance.

Beyond the structures of government, there is a tradition of civil society organizations with effective mobilization and organizational capacities. The Philippines has several social movements, a broad range of voluntary associations, NGOs, and other manifestations of a relatively vibrant civil society. The period of democratic transition saw the incremental growth of civil society organizations with varying issue advocacies. Nonetheless, these organizations remain for the most part isolated from decision- and policy-making processes due to minimal public consultation—despite the institutional mechanisms provided by the 1987 constitution, 1991 Local Government Code and other statutes.

Profile of the Political System

Regime type: <i>Democracy</i>	Constraints to executive authority:	4
System of government: <i>Presidential</i>	Latest parliamentary election:	10.05.2004
	Effective number of parties:	3.5
Head of State: <i>Gloria Macapagal Arroyo</i>		since January 2001
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>		

3.2. Steering capability

During the period under review, the government set strategic programs to improve the population's economic and social conditions. Privatization schemes were introduced more rapidly in response to the globalization challenge of catching up with the growing East Asian economy. Privatization schemes were implemented also to make the Philippines more competitive on domestic and international markets. Nevertheless, strong special interest groups persist in the political economic environment. Consequently, private businesses close to the political leadership benefit from favors and exemptions, preventing genuine market competition.

Although there are attempts to implement policy reforms, government efficiency is still relatively low. Most of the recommended policies are directed toward debt reparations, and fail to address very high unemployment and underemployment rates. There are barriers to expediting legislation on speeding up the privatization of inefficient government agencies. Such legislation often suffers from strong opposition from union members of the agency itself, activist groups and concerned citizens. Considered one of the most corrupt government agencies, second only to the Bureau of Customs, the Bureau of Internal Revenue (BIR) and its restructuring is one such example. Experts generally agree that an overhaul of this agency is necessary to make tax collection in the country more efficient and effective. There seems to be a lack of flexibility on the part of the leadership due to political and electoral considerations.

3.3. Resource efficiency

The Philippine government is characterized by a large bureaucracy and considered the largest employer in the country. Lacking sound policies to address the problem of

unemployment, the government is left to provide bureaucratic jobs to citizens with minimum salary range, which results in systemic problems like red tape, corruption and low quality services.

The lack of transparency mechanisms on government spending prohibits citizens and concerned groups from monitoring and evaluating where the people's money is being spent. Service delivery is low because of government failure to utilize the modernization trend of development, in which improved provisions of infrastructures are lacking and the complete computerization of agency systems has yet to be realized fully. Thus, government services incur a great deal of dead-weight loss shouldered by citizens, acting as consumers. Moreover, the government has had difficulty in solving the balance-of-payments problem. During the fourth quarter of 2004, the government nearly sunk into an Argentinean-type of financial crisis.

Although there is no actual budget deviation from any of the planned expenditures, the government's intent to pay debt premiums worsens citizens' environment. There is a lack of government information on how the state budget is planned and implemented. Many investors are concerned that the current fiscal situation is a result of the government's failure to significantly trim the deficit in the last few years. In fact, investor sentiment reportedly fell after the finance department in July of 2004 made public the deficit figures for January to May.

There is also difficulty in coordinating objectives into a coherent policy due to a lack of logistical funds. However, the president's ten-point agenda, which she presented after her re-election, constitutes a major step toward guided governance and administration.

There are solid attempts to eliminate corruption in the bureaucracy. Government initiatives to combat corruption have been institutionalized and follow-up implementation continues. Nonetheless, the government has difficulty in addressing this problem because it stems from the structural weaknesses of the government itself. Minimal measures, such as "lifestyle checks" are in place to monitor and evaluate the performance of government officials. However, they require more financial capital than the government has to ensure consistency.

3.4. Consensus-building

There is consensus among the majority of political actors to utilize the benefits of a market-based democracy. Almost all stakeholders involved in the process of governance and administration are given due attention with attempts to consider their respective interests. For instance, Business World reported that industry participants

in the financial system want the Arroyo administration to address graft and corruption, inconsistencies in taxes, conflicting and damaging laws, lack of tax incentives, high investment risk and the lack of support from the government. These are essential in market-based democracies because the financial sector mobilizes resources and allocates them to those investments that are capable of generating the highest return on capital. Moreover, these overarching issues are sentiments shared by the majority of the population. There have been efforts to generate a reform consensus and engage anti-democratic veto actors. However, it is difficult to co-opt them due to the lack of positive reform policy measures that will cover all stakeholders' interests.

In terms of socioeconomic issues, particularly agrarian reform, the government fails to show the necessary political will to address the long-term concerns of farmers, who are the poorest in the country's social demography. Violence broke out in December 2004 when farmers uprooted themselves from the Hacienda Luisita's farmland and went to the streets protesting their grave socioeconomic condition. To make matters worse, the government issued a return-to-work order through the Department of Labor and Employment while the disputes continued. Reflecting the nature of and environment in which the country's farmers work, this series of events constituted a blow to the current administration's image.

On a positive note, there are initiatives launched by various government agencies, such as the Department of Interior and Local Government, which provide incentives to local government units that are performing effectively in providing basic services to constituents. Recognition measures, such as the "Gawad Galing-Pook Award," encourage civic engagement and are growing in many cities and municipalities.

3.5. International cooperation

During the period under review, the political leadership relied extensively on the support of international partners. The Philippines has been a beneficiary of Official Development Assistance from foreign donors, which amounts to \$80 billion annually. This financial assistance is aimed at improving the country's basic infrastructure and social services for the population to improve their living conditions.

The Philippines persistently follows International Monetary Fund and World Bank policies to receive structural adjustment loans. It adheres to the banks' liberalization and privatization measures to guarantee market mobility of goods and services in the national economy. Furthermore, liberalization schemes make way for democratization with expectations of market competition and strong property rights.

The Philippine government also cooperates directly with all United Nations agencies. The United Nations Development Program's Governance division provides frameworks and principles on how to go about the process of administering development. It commissions local as well as international experts to benchmark the Philippine's performance. Comparisons with local regions and foreign countries are also made to identify which areas need specific interventions. When interventions are needed, local government units together with civil society organizations work together to address problems, and solutions are sought to solve them. International organizations help facilitate the promotion of local schemes.

The Philippines actively participates in regional cooperation. Philippine membership of the ASEAN Business Advisory Council, which aims to strengthen the regions' agricultural and tourism sectors, is one such example. The Philippines work closely with its ASEAN counterparts in the development of the ASEAN Pioneer Project Scheme to solidify the move towards regional integration.

4. Trend of development

4.1. Democratic development

Surviving the series of anti-democratic threats and challenges of the past four years and managing to stay on the path of democracy are already noteworthy achievements for the Philippines. However, democratic consolidation, in terms of stateness, political participation and the rule of law, has remained at their former levels of quality. A series of initiatives introduced by the state to address the problems of democratic consolidation have not yet come to fruition.

There have been consistent efforts to negotiate peace with the communist insurgents and Muslim secessionists with the help of international third party support. The main leadership of the terrorist Abu Sayyaf has been effectively neutralized. Sporadic eruptions of criminality and violence by the Abu Sayyaf and other groups, such as the breakaway faction of the Moro National Liberation Front (MNLF), have been pursued with the full force of the military. These groups have unleashed sporadic acts of terrorism, such as ambushes and bombings. The Philippine National Police (PNP) dismantled 80 of 114 private armed groups identified in 2001. However, the number grew to 125 by 2004, since private armed groups illegally provided security for political clans during the elections.

An estimated 32,347,269 (74.3% of registered voters) voted in the May 10, 2004 synchronized national and local elections. However, the electoral process was severely hampered by inefficient electoral administration, the sporadic outbreak of

election-related violence and allegations of fraud and cheating. Nevertheless, the election managed to provide President Gloria Macapagal Arroyo with a second-term mandate.

The Supreme Court continues to apply disciplinary measures on erring members of the judiciary. In 2004, 56 erring judges were either penalized or dismissed for a variety of offenses, and in 2002, the Supreme Court dismissed seven judges and punished 91 others. The high tribunal has disciplined a total of 582 judges since 1986. Recent efforts to mitigate corruption and crime and to establish the rule of law include the passage of the Anti-Money Laundering Act of 2003 and the adoption of a lifestyle check initiative, since 2002, by the Presidential Anti-Graft Commission. Lifestyle checks on all government officials, including the police and military, provide the means by which corruption may be detected through disparities between earned income and apparent lifestyle. In early 2005, the Philippines were taken off the blacklist of the Paris-based Financial Action Task Force for its effective implementation of anti-money laundering measures. The crime rate (incidence of crime per 100,000 persons) has generally declined from 313.6 in 1984 to 103.2 in 2003, according to the PNP. While several institutional problems remain to be addressed, democracy in the Philippines has further consolidated in some respects.

4.2. Market economy development

The country's level of development has improved slightly in the past five years. The Human Development Index value placed the Philippines in the 83rd rank in 2004, inching up minimally from recent years. The HDI value for the Philippines improved from 0.751 in 2001 to 0.753 in 2002. Its ranking moved from 85th of 175 countries to 83rd of 177 countries, as reported in the UNDP. In 2002, the Philippines GDP per capita rank was 105 and its GDP per capital value at \$4,170.

The institutional framework for a market-based economy has improved slightly because the government consistently pursues the privatization of significant sectors and continues efforts to lower tariff rates. A market-based economy is well entrenched in the political and economic life of the country. However, a significant share of the market has not trickled down to the majority of Filipinos, as major industries remain owned by clans and oligarchies. The small- and medium-sized enterprises backed by microfinance have not yielded much for small entrepreneurs as this sector has yet to develop the institutional mechanisms and strong foundations necessary to ensure long-term survival.

Overall, economic development has improved minimally during the period under review, both quantitatively and qualitatively. The Philippines continues its struggle to

escape economic stagnation, and infrastructural and institutional capabilities have yet to materialize, as growth in 2004 was based on factors susceptible to fluctuations, such as weather conditions, consumer-spending patterns and export market demands.

Table: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004
Growth of GDP in %	4.4	1.8	4.3	4.7	6.3 ^a
Export growth in %	17.7	-3.4	3.6	4.4	130.0 ^a
Import growth in %	4.0	3.5	4.7	10.2	5.7 ^a
Inflation in % (CPI)	4.4	6.1	3.0	3.0	4.5 ^b
Investment in % of GNP	19.9	17.8	16.5	15.5	NA
Tax Revenue in % of GDP	13.7	13.5	12.5	12.5	13.0 ^c
Unemployment in %	12.4	15.8	16.4	17.2	NA
Budget deficit in % of GDP	11.2	11.1	11.4	11.4	13.7 ^d
Current account balance in million \$	6258	1323	4383	3337	2906 ^e

^a National income figure as of First Semester of Fiscal Year 2003-2004; ^b Percentage change as of August 2004; ^c January 2004; ^d April 2004; ^e March 2004

Source: Asian Development Bank, *Bangko Sentral ng Pilipinas*, National Statistics Coordination Board, National Economic and Development Authority.

D. Strategic perspective

While the political environment is conducive for market-based economic institutions, the possibilities for dramatic improvements in the economic system remain limited.. Long-term commitments to institutionalize reforms, particularly in the political arena, are necessary. Economic-based institutions with market-economy principles are well established, but they still rely heavily on political actors and institutions to ensure that they function properly

The Philippines may be faced with challenges as it attempts to consolidate democratic and market-based values. President Arroyo faces accusation of fraud by the opposition party that supported the former actor Fernando Poe Jr. There is also a tendency among politicians to implement populist themes to win support in a poverty-stricken society.

President Arroyo dedicated the first 100 days of her term to economic growth and job creation in the fight against poverty. However, she is also concentrating on improving budgetary discipline and cutting bureaucracy. The influence of religious organizations in society has made it difficult for the government to pursue a family

planning policy. A comprehensive electoral reform is needed to improve the country's political system. The close relationship between political and economic interests must be addressed if the government hopes to ever establish a fair competition of interests in the political arena.

The growing support for more authority for local governments and micro-financing is helping to create an environment feasible for small and medium-sized businesses. This will also help to generate economic growth at the local level. This must remain a priority if patronage and money politics are to ever be dismantled.

Finally, a market-based economy requires the breakup of oligarchic structures and massive reform of land ownership laws. This has not been carried out since democracy took hold in 1989 and is key to creating a prosperous rural economy and to fairly distributing the country's resources.