

ASIAN PERSPECTIVES SEMINAR

## **Focus on the Philippines**

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## Introduction

*by Steven Rood*

Our timing could not have been more propitious in terms of providing us with grist for an interesting meeting. Recent events in the Philippines—and particularly the change in government that occurred on January 20, 2001—present us with a unique opportunity to discuss an array of issues that are central to both countries and to the U.S.-Philippines relationship.

During a visit to Washington, D.C. last October, I had an opportunity to talk about concerns related to the Estrada presidency that were building at the time. In fact, Estrada's administration was in a state of chronic decay. Policies were in disarray. Accusations of corruption were rampant and public surveys were reporting that pessimism was reaching nationwide levels not experienced since the crisis surrounding Ferdinand Marcos in 1984.

At the time, observers in Manila and elsewhere wondered whether the Estrada presidency would survive until the end of the term in 2004. My point then—and I will defend the same point today—was that the military would not be responsible for a change of administration. Indeed, the military, the last institution to defect to Vice President Arroyo in January, was not a significant factor in the downfall of President Estrada.

Back in October, I also speculated that unless some truly egregious developments occurred, Estrada would finish up his term. Well, that very day in Manila, Teofisto Guingona, then a senator and now vice president to Gloria Macapagal-Arroyo, made a privilege speech on the Senate floor and ignited a firestorm. He addressed certain accusations aired by Governor Luis "Chavit" Singson, who indicated that Estrada had taken bribes paid from gambling proceeds.

Once the bribery and gambling allegations were out in the open, the impeachment process gathered momentum quickly. In fact, it turned into a rushed proceeding, gathering a surprising amount of steam. Up to that point, it had appeared difficult to even get support for three

impeachment articles that were drawn up in September, because no member of Congress was willing to step forward and file the articles to initiate the impeachment process.

All of that changed once the accusations were aired in the Senate. It became easy to find sponsors for the articles (a fourth article drew upon Governor Singson's allegations). In fact, so many representatives signed on that the petition moved forward with hardly any modification. The House did not even need to schedule hearings, and the Senate suddenly found itself faced with having to decide whether or not to convict President Estrada on the four articles of impeachment.

Because the charges had been drawn up so quickly, the Senate ended up in long and heated debates over which parts of the evidence were acceptable. Meanwhile, the entire nation was following the impeachment trial as it was broadcast live on television. According to polls, between 60 and 80 percent of Filipinos watched or listened to the proceedings.

Proceedings lasted throughout the week, and were riveting. On the last day of the trial before Christmas break, a senior vice president at a Philippine bank testified that she witnessed President Estrada forge the name "Jose Villarde" on a very large deal. It was one of the more sensational moments in the proceedings.

The critical debate over evidence and what could be admitted got underway after the new year. On January 16—four days before Estrada actually resigned—the Senate cast the dramatic 11 to 10 vote against admitting new evidence related to the bank official's disclosures. The decision essentially blocked the case against Estrada. But that's when People Power II kicked in.

Just past 9 p.m. that evening, the word went down in Manila. Virtually anyone with a cell phone received a text message announcing a 10 p.m. noise barrage to protest the Senate vote. Sure enough, at ten o'clock Manila erupted in raucous noise. Thanks to technology, the demonstration was

organized in one hour.

If people in Manila did not know what all the commotion was about, all they had to do was turn on a radio or television. People everywhere were banging on pots and pans. They banged on gongs. They honked their car horns. It was pandemonium. Only when the noise began to die down—about ten minutes after it started—those with cell phones received another message with instructions to go to Epifania de los Santos Avenue (EDSA). No one needed any more information. People knew exactly where they were supposed to go next—to the “People Power Shrine” commemorating the 1986 ouster of Ferdinand Marcos.

And that’s what happened. By midnight, hundreds of thousands of people were milling around EDSA. The spontaneous course of events seemed to suggest that people were feeling a measure of relief from the outrage that had built up over several months. People who had invested emotional energy in the proceedings of the impeachment trial could now unleash their pent-up anger over the Senate’s refusal to admit the bank’s evidence.

This detailed exposition should help explain why Filipinos have been more than a little surprised by the international community’s reaction to these events. It should be noted that Filipinos are extremely proud of what happened in Manila over the four days leading to Estrada’s ouster. They refer to it as EDSA II. Nobody was injured. Not a single person was killed—and as many as 800,000 people demonstrated.

Filipinos have been particularly surprised at questions asking if Estrada’s ouster was constitutional. In evaluating these events, it is helpful to take note of opinion polls at the time. Filipinos, like Americans, don’t mind taking part in surveys. The Social Weather Stations, a well known local research group in Manila, conducts at least four nation-wide surveys every year. They conducted three special ones during the course of EDSA II. Pulse Asia, a survey firm which also produces polling data, providing a crosscheck. In this instance, polls showed that the overwhelming majority of Filipinos accepted the transfer of power as legitimate.

Of those polled, 72 percent said they regarded People Power as the majority voice. When asked whether Arroyo’s accession to power was legitimate, only 9 percent thought Arroyo had no right to hold the office. Fifty-five percent said People Power provided legitimacy, while another 27

percent said they thought the Supreme Court legitimized the transfer of power.

The Supreme Court also ruled on the legal question of People Power. The justices said the difference between People Power I (in 1986) and People Power II is that People Power I was extra-constitutional. It resulted in the overthrow of the entire government. The essence of People Power II was the exercise of freedom of assembly and free speech—in this case to protest against a president who ended up resigning, albeit under pressure.

The high court said that in its opinion, Estrada actually resigned, even though he did not sign a piece of paper spelling out, “I hereby resign.” The court’s reasoning is parallel to the logic applied in certain labor cases when attempting to determine the legitimacy of a resignation. The court said that to be legitimate, the totality of actions has to show that an individual has resigned. Furthermore, the court viewed Estrada’s protests that he did not resign as merely a device to extend the immunity he enjoyed while president.

In the final analysis, both the Filipino people and the Supreme Court declared that the transfer of power to President Arroyo was legitimate.

So here we are, with every intention of trying to explain this interesting and compelling set of circumstances. Indeed, we hope we can shed some light on what happened over the past few months so that all can have a better understanding of the state of affairs in the Philippines today.

Looking forward, the Arroyo government faces a number of challenges. The most immediate is an election scheduled for all members of Congress, 13 members of the Senate, and all provincial, city, and municipal officials on May 14. May 14 will be a major election, with a large number of seats contested, and results that will point the country in one or another direction. In the meantime, those of us here are ready to discuss the events that led to President Estrada’s ouster, the immediate aftermath, and the many challenges currently facing the Philippines.

So, we’ll go ahead with our presentations, starting with Florian Alburo. Dr. Alburo is former deputy director general of the National Economic and Development Authority, and an economics professor at the University of the Philippines School of Economics. He is also the team leader at the Asian Development Bank’s Asian Recovery Information Center,

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which is a very useful web site for those interested in the economics of the Asia-Pacific region.

Elena Haw is next. She is a board member of the Mindanao Business Council and the Southern Mindanao governor for the Philippine Chamber of Commerce and Industry. She is a businesswoman from Mindanao.

Finally, Federico Macaranas will wrap things up before our question and answer session. Dr. Macaranas is the director of the Washington SyCip Policy Forum of the Asian Institute of Management and a former under secretary of the Department of Foreign Affairs.

## Political Economy in the Philippines: New Directions

by Dr. Florian Alburo

It is a pleasure to have the opportunity to address a forum like this, particularly when I think back to the era of Ferdinand Marcos and the difficulties we had at the time getting the government's permission to appear before any audience. My task here is to map out the future direction of political economy in the Philippines. To that end, I have a three-fold message. First, there is a need for a renewed commitment to long term structural reforms. Necessary reforms have been on the backburner for far too long. Second, what I call "new politics" is essential to the success of a sustained structural reform agenda. The new politics must also be responsive to the recent outcry from People Power II. Third, the new government that is now in place must set the standards and raise the stakes for the country as a whole.

With this three-fold message in mind, I would like to highlight what I see as the elusive nature of sustained economic growth in the Philippines. I will address the country's long term economic performance and the cumulative nature of the economic problems inherited by President Gloria Macapagal-Arroyo. Finally, I will turn to our globalizing world and then, briefly, to the economic relationship between the Philippines and the United States.

In the period right after World War II, the Philippines' growth rate was comparable to that of the so-called Asian Tigers. Back in the 1950s, the Philippines even bested countries like Malaysia,

Singapore, and South Korea. But by the 1980s, the Philippine growth rate had deteriorated to an annual 1.2 percent per capita.

Meanwhile, other countries in the region were achieving growth rates of nearly 10 percent.

The growth rate is only one part of the story. The Philippines' vast natural resources and our educated labor force are reflected in our exports, and that's another point of comparison. Even as late as the 1970s, Philippine exports were besting the Tigers' exports. We exported \$1.1 billion in merchandise compared to only \$800 million in exports each for South Korea and Singapore.

Then the gap began to widen in favor of the Tigers. By 1980, the Philippines was exporting \$5.7 billion in goods, compared with South Korean exports of \$17.5 billion and Taiwanese exports of \$20 billion. The most recent figures show that in 1998, the Philippines exported \$29 billion in goods and services while South Korean exports jumped to \$132.3 billion and Singapore's to \$110 billion.

Again, during the Asian financial crisis in 1997, the Philippines was actually poised to turn the corner sooner and faster. But again, a sustained economic recovery proved elusive, and our recovery path fell far short compared to our neighbors.

The circumstances we are seeing do not represent isolated instances. To the contrary, they fit in with a 40- year trend of lower

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than potential growth rates and an expanding population. It seems we are never quite able to push ourselves into the next orbit, where faster economic growth is possible. This is partly due to a habit of new regimes reversing whatever economic policies are in place when they take over. Another explanation is related to the Philippines' inability to successfully withstand either external or internal shocks.

Take, for example, the government of Diosdado Macapagal, the father of President Arroyo. Macapagal was the first Philippine president to systematically carry out structural reform. By the way, he held a PhD in economics. Unfortunately, after Macapagal, Ferdinand Marcos refused to build on these reforms. In fact, slowly but surely, he reversed them. Yes, the Marcos era did realize growth spurts, but the growth was not the result of true structural reform. It was the result of a debt-driven bubble, and eventually, the bubble burst. When it burst, it spared only those who had already benefited from the bubble.

Then, the government of Corazon Aquino had a rare opportunity to again pursue reforms. Instead, President Aquino focused on restoring democracy. That was an important choice, but it meant that the next administration—that of Fidel Ramos—had to start at virtually ground zero with the economy. The Aquino administration had pursued economic reforms but in piecemeal fashion. Ultimately time ran out.

When the Estrada regime took over in 1998, at first President Estrada made sensible pronouncements and advocated very worthy causes. The regime made a credible start. But then, when the government started to pursue reforms in a collective fashion, Estrada personally reversed the reforms!

It seems new presidents rarely, if ever, build on what has gone before, particularly when we look back over the last 40 years in the Philippines. Each administration seems to prefer to make highly selective decisions about what it likes as opposed to what the country actually needs. In almost every case, new administrations that began with a bang, ended in despair and crisis. In the process, the institutions of government also suffered.

Let me go back to the 40-year time span. Every president in the

Philippines, starting with Diosdado Macapagal, began his or her administration at ground zero. Macapagal came into office following a crisis in 1960. Marcos began his term at about the time the economy was poised to reverse itself and climb out of the dip. But what was the first thing he did in 1970 after his election in 1969? He raised the value of the peso.

When Aquino took over, she inherited an economy that was again headed into the pits. Both Ramos and Estrada began their tenures in office when the economy actually was in the pits. In each and every case, the new administration started with a bang but ended up in crisis.

The cumulative effect of this penchant to reverse whatever policies preceded a president in office has held back the Philippine economy. A colleague at the University of the Philippines says that the individuals who have dominated the Philippine economy have been engaged in value extraction and not value creation. Saying these people are all guilty of being rent seekers, or looking for a fast buck, is another way to put it.

So it should not be shocking that President Arroyo has inherited the cumulative effects of 40 years of poor management. Here we should also take note of the fact that this cumulative effect has the potential of exacerbating two very serious problems, namely the widening inequality in income and wealth, and the country's staggering unemployment rate.

In the Philippines, the richest families represent 20 percent of the population and account for more than 55 percent of the overall income. That means that the remaining 80 percent of families receives 45 percent of the overall income. This is a case of deteriorating income distribution and was most noticeable from 1991 to 1997. This is not a recipe for alleviating poverty. To the contrary! It is a recipe for accelerating poverty. It means that our country is sitting on top of a social volcano.

Our unemployment rate is another cause for concern. The overall picture shows unemployment increasing—not decreasing. It also highlights a classic difference between the Philippines and other countries in the region. When quarterly rates are compared, the

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Tiger countries have actually reduced unemployment, and have begun their climb out of poverty and away from a widening inequality gap. The Philippines, on the other hand, is experiencing rising unemployment and greater inequality.

The problems are inter-related. A country manages to lift itself out of poverty if it is able to increase employment. In turn, social inequality is reduced when employment opportunities grow. The solution is painful reform, not economic palliatives. This, then, is what President Arroyo now finds on her doorstep.

What are the implications now and for the future? It's possible President Arroyo will end up being a transition figure. But it's also quite possible her administration could be critical to an improved Philippine economy. She has experience. She served for three and one-half years under President Estrada. She now has a rare and even historic opportunity to deliver a complete package of reforms and, in the process, do what she can to ensure that reforms take root.

There may never be another time quite like the current one, when the president has so much potential to bring closure to a decade of truly questionable governance. I am not campaigning for President Arroyo, but I am underscoring the fact that she has a rare opportunity to put our country on a new path, and to close out the last decade.

It took the Asian Tigers a decade to build up their economies to where they are now. The same is roughly true for Japan. If reforms

can take hold in the Philippines and be nurtured over a period of time, they will go a long way toward positioning the country to become a more effective and influential global player. We ignore the globalizing world at our own peril. We need structural reforms to get our economy into the shape it has to be in order to compete internationally. The returns on that investment will facilitate our recovery, boost employment growth, and help improve income distribution.

To be sure, trade is the Philippines' largest growth sector—and has been ever since the Asian crisis. Currently, we are experiencing a slowdown, but it's possible the slowdown is in part a reflection of a structural change resulting in the favored trade of services over goods.

In the meantime, the United States continues to be an important trading partner for us. Some 20 percent of our exports are earmarked for the United States. In return, the United States accounts for more than 20 percent of Philippine imports. Americans also are a source of capital and know-how.

To conclude, President Arroyo has a rare opportunity to complete the process that her father started almost four decades ago. To do so, she must raise the political stakes and, in the process, build a strong constituency for long term economic reform. That is her task. It is also the task for Filipinos now, and for the rest of this decade.

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## Prospects for Peace and Prosperity in Mindanao

by Ms. Elena Haw

**M***abuhay*. That is our official greeting in the Philippines. First, I would like to express my gratitude to The Asia Foundation for inviting the Mindanao Business Council to present in this forum, and to share the perceptions of the Mindanao business community regarding the contribution and importance of Mindanao in the political and economic development of the Philippines under the Gloria Macapagal-Arroyo administration.

Next, let me brief you a little about the Mindanao Business Council (MBC). It was organized as an umbrella organization for the 42 local chambers of commerce that are located on the island of Mindanao.

Last year, its membership was expanded to include various industry associations, like the Mindanao Fruit Industries, the Trees Consortium, and the Fishing Federation. Today, we are regarded as the voice of the business community, particularly where policy advocacy issues and the islands' economic development are involved. The organization annually organizes fora and conferences on issues affecting the development of specific regions or industries. Solutions and recommendations are then submitted to government agencies—including the office of the president.

Known as the land of promise, Mindanao is located at the southern end of the Philippine Islands, about an hour and a half flight from the country's capital and seat of power, Manila. It is one of the country's three major island groups, and it is the second largest island after Luzon. The economy is primarily based on

agriculture. We are blessed with abundant year-round rainfall and sheltered in a virtually typhoon-free zone. For all these reasons, Mindanao is considered to be the country's food basket. Mindanao's

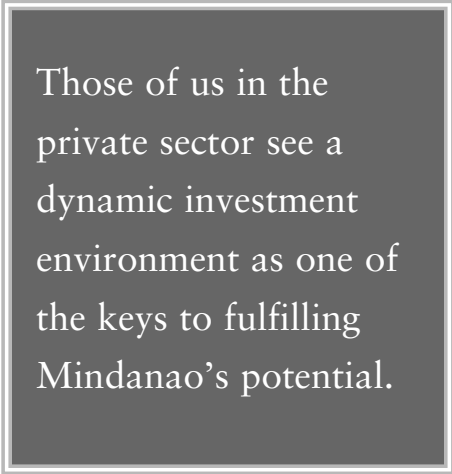
102,000 square kilometers of land comprise a third of the Philippines total land area, and its population of over 16 million people makes up a quarter of the country's total population.

Such natural endowments, complemented by a skilled labor force of more than eight million, enable Mindanao to lead the country in the production and export of a wide variety of food and commercial crops. Pineapple, coconut, bananas, asparagus, carrageen, and tuna are

among the leading exports.

While agriculture and the commercial food industry currently dominate our export sector, Mindanao is doing what it can to rapidly diversify its industrial and agricultural product mix. Mindanao's industries export cement, construction materials, jewelry, furniture and fixtures, and a variety of light engineering and metalwork products. As for agriculture, Mindanao is trying to tap its potential to produce and export sugar, processed fruits and vegetables, and oleo-chemicals.

In 1999, the region's exports totaled approximately \$1.6 billion. The 8 to 10 percent decline in 1998 and 1999 was due to adverse weather conditions related to El Niño and La Niña, which had severe impacts on the island's agriculture. But prior to those years—for example in 1997—exports totaled \$1.9 billion, a 31 percent



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increase over the previous year.

The region is also the country's lead producer of a number of agri-industrial crops, fish, and livestock. Its contributions include 100 percent of the Philippines' rubber supply; 92 percent of its cacao; 89 percent of the pineapples; 74 percent of bananas; 73 percent of coffee; 69 percent of the cassava; 61 percent of corn; 59 percent of coconut; and 30 percent of the livestock.

Following are some further economic indicators:

- Our economy grew by 1.8 percent in 1999, about 1.5 percent lower than the national GDP. We managed a positive growth rate in 1998, reflecting our ability to bounce back from virtually any crisis.
- Currently, the economy is undergoing a structural shift from an agricultural to an industrial base.
- Growth has been geared to develop more value-added activities such as canning fish and pineapples, and producing dried fruit and fruit juices.
- The service sector is mainly focused on transport, communications and storage, trade, finance, real estate, and private as well as government services. Industrial activities include mining and quarrying, manufacturing, construction, electricity, and power.
- The region continues to register a trade surplus, as it has for the past 10 years. Since 1995, the surplus has represented approximately 40 percent of total exports.
- Air cargo has grown an average of 6.44 percent annually since 1994. In 1999, air cargo totaled 55,990 metric tons. In the first half of 2000, air cargo registered 33,412 metric tons. The number of air passengers has grown about 4.8 percent annually since 1994. In 1999, there were 2.1 million air passengers. In the second half of 2000, there were 1.12 million. The number of sea passengers has grown an average of approximately 2.73 percent annually.
- Tourism has grown at a rate of 10 percent annually since 1994. In 1999, the total number of tourists was 1.94 million. The majority (over 80 percent) are local tourists. The second largest group comes from Japan, followed by the United States, South

Korea, China, and Germany.

- The employment rate in the second quarter of last year was 91.4 percent. The minimum wage on the island is 160 pesos a day, which at the present exchange rate is a little over three dollars a day. In 1995 and 1996, before the Asian crisis, the employment rate reached a high of 94.3 percent.

Mindanao still has a long road ahead, from being the land of promise to becoming the land of fulfillment. Our national government is fond of making promises to the island, but too often it doesn't fulfill them. Despite its vast and fertile land, and its excellent climate, inadequate infrastructure prevents Mindanao from reaching its full potential as the country's "food basket." Of the 959,020 hectares of potential irrigable land available for food production, only 28.4 percent—or roughly 273,262 hectares—have operational irrigation systems. Lack of all-weather farm-to-market roads, arterial roads, and bridges mean it's sometimes difficult to move goods and people from place to place.

As I mentioned earlier, Mindanao—which represents one-fourth of the country's population—has the highest incidence of poverty in the Philippines. In 1997, there were 8.45 million people living in poverty—or one-half of the population in the region. In fact, 18 of the 25 Philippine provinces that have been identified as being deprived are in Mindanao. They include Surigao, Agusan, and Lanao provinces in the north; Maguindanao, Sultan Kudarat, Sarangani, Cotabato, and Davao provinces in the south; and Zamboanga and the islands of Jolo in the west.

In addition to all this, some isolated parts of the island are besieged by internal strife. To some degree, the conflict stems from the problematic relationship among three groups—the Christians, the Muslims, and the Lumads (the hinterland and indigenous people like the Tiboli, Bilaan, and Manobo tribes)—who share the same resources and dominion over the island.

The armed struggle that continues today can be linked to the oppression, exploitation, neglect, and discrimination felt by many Muslims when efforts are made to incorporate them into Philippine society.

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It is clear we must address all these issues, and above all pursue peace, since peace is the prerequisite to Mindanao's future socio-economic development.

Last year, the scene in Mindanao was gloomy, as two crises hit the island—the intense armed conflict in the central and western parts of the Island, and the negative economic effects of the political crisis at the national level. The media's focus on the negative or sensational news further contributed to the negative perception of the island as a whole.

The media could be an issue unto itself. But let me say that we in the private sector have made and continue to make a concerted effort to appeal to our media to report conflict accurately, and to avoid using sensational headlines like "War in Mindanao." Coverage like this gives fellow Mindanaoans, our friends, families, and relatives who live elsewhere in the Philippines, the mistaken impression that the whole island is at war. In truth, the conflict remains isolated to the parts of the island that have been historically problematic. But because bad news sells better than good news, positive development and accomplishments did not get the same media coverage as the conflict.

The bright spot, as far as we are concerned, is the peaceful transition in power that has taken place at the national level. We continue to believe that the administration of President Arroyo will deliver bright prospects both for peace and economic development in Mindanao. Already, the new administration has abandoned the previous administration's all out war policy and seems to be going all out for peace. The president has reconstituted the Government of the Republic of the Philippines (GRP) peace panel to include civilians, a mixture of Muslim and Christian representatives from local government units, civil society, and the women's sector.

As the peace panel moves forward, we anticipate that the negotiating process will be significantly different, with socio-economic development projects undertaken even as political negotiations are moving forward. This was not the case during the Estrada administration, which waited for the ink to dry on the peace agreement before undertaking development projects in the

area. Moreover, the focus of the negotiating efforts has been expanded to include both the Muslims and the Lumads. The appointment of Mindanaoans to executive positions in the national government is another important development that shows the Arroyo administration's commitment to focus on Mindanao. Teofisto Guingona, the vice president and the second highest official in the government, is a Mindanaoan, as is the Senate president, Senator Aquilino "Nene" Pimentel. The president has also appointed a Muslim, Representative Simeon Datumanong from Maguindanao, secretary of the Department of Public Works and Highways. Representative Pantaleon Alvarez from the Davao Province was appointed secretary of the Department of Transport and Communication (DOTC). We believe Arroyo made the latter two appointments in large part as an attempt to reverse the poor state of Mindanao's infrastructure.

Also, presidential assistant Paul Dominguez, a Mindanaoan, has been named presidential adviser for regional development. The office of the presidential assistant for Mindanao is being revived also.

We are delighted with all these developments and see them as the fulfillment of the president's commitment to focus on our region, and particularly to help Mindanao become the country's food basket. As we go forward, we anticipate being able to make major strides toward fulfilling the promise of Mindanao and turning it into the country's food basket. We do not intend to be the country's basket case!

In the meantime, it is imperative that we do whatever we can to increase productivity through agricultural and infrastructure development. We need to keep our focus on both the domestic and global economies and maintain constant vigilance to maintain peace and order in all parts of the region. It is also up to us to develop our human resources and institutions.

The national government allocates less than 30 percent of the national budget for Mindanao's development. A recent study conducted with assistance from the U.S. Agency for International Development (USAID) through its Growth with Equity in

Mindanao program, shows that for Mindanao to fulfill its potential for economic development, it will need at least a 33 percent allocation from the national budget. Currently we receive around 28.8 percent of the national budget, a favorable increase compared to the previous years—when the allocation was less than 25 percent of the total budget. The increase is at least in part due to the constant lobbying by the private sector and by government officials from Mindanao.

The passage of the local government code of 1991 decentralized decisionmaking away from Manila to the local government units (LGUs). The intent was to fast track development in the country—especially in the countryside and rural areas. The local government code provides local governments with a freer environment to operate and chart their own course for economic developments. Clearly, instances of centralized control still abound. But the general feeling is that local governments are now able to make decisions that they could not make, say 10 years ago.

Those of us in the private sector see a dynamic investment environment as one of the keys to fulfilling Mindanao's potential. A strong emerging partnership between the private sector and the government is yielding a dynamic advocacy strategy that is helping shape national policies. The following economic data underscores the dynamism that is unfolding as a result of recent efforts:

- Since 1994, there has been an eight-fold increase in the number of telephone lines rolled out.
- Power consumption is growing at an annual rate of 5.28 percent.
- Despite the Asian financial crisis and other problems in Mindanao, the number of financial institutions increased by 13 percent in 1998 and 5.7 percent in 1999. We feel this further validates the perception among the business community that the only business doing well and making money even after the crisis is the banking sector.

Business registration has grown 3.7 percent annually since 1994. New business ventures include retail stores, banks,

pawnshops, computer centers, convenience stores, gasoline stations, auto shops, service centers, and food processors.

Mindanao is also preparing to become the next information and communications technology hub in the Philippines, following in the footsteps of Manila and Cebu. It is also expected to serve as the educational and service training centers for the Brunei-Indonesia-Malaysia-Philippines (BIMP) Growth Region.

For the time being, agriculture, agri-industries, and related activities, will continue to shape the region. But in the long term, we feel the region's potential goes beyond agricultural products. We feel Mindanao should strive to become a major trade center. We can strengthen our competitive advantage if we do what we can to keep up with local and global competition. In the meantime, we also know we have to respond effectively to changes in demographics, as well as emerging supply and demand trends in domestic and international markets. These challenges must be addressed through programs to sustain our growth and competitiveness. Again, a key factor will be improvements in infrastructure, and political support to sustain the next round of growth. The rapidly growing awareness for IT in Mindanao, is also worth noting. We recently concluded the very first Mindanao Communication and Information Technology Congress in Davao City, and worked with a large number of IT professionals who are based in Mindanao. In our schools, curricula increasingly include IT applications. This is because we see IT as strategic in and of itself and because we see it as a way to boost our agricultural potential.

Mindanao's long term development agenda is to promote peace and development based on the principles espoused by President Arroyo. Those principles include making Mindanao a major center for growth, trade, and tourism in the BIMP and Asia-Pacific regions. In the short term, our agenda is to bring Mindanao back onto the path of growth—with an emphasis on agriculture and infrastructure development.

We are expecting support from accelerated public investment programs and projects. We also anticipate success in part because we are counting on President Arroyo's vision—to promote effective and

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productive local governance based on strong moral leadership, transparency, and the effective implementation of programs and projects pursuant to the general welfare clause of the basic services and facilities provisions (under Section 16 and 17 of RA-7160 of the country's legal framework).

Historically, Mindanao has succeeded in weathering the storms.

With each challenge, we have managed to climb the ladder of development in spite of the perceived fragility of peace and order. Our vision is to make Mindanao's agriculture and agri-industries vibrant, integrated, and globally competitive, and to use these as a basis for industrialization in the 21st century.

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## Philippine Relations with the United States and the Region

*by Professor Federico M. Macaranas*

Filipinos share with Americans a passion for progress, free enterprise, social openness, freedom, and democracy. We feel our commitment has been shaped by traditions that are specifically our own as well as by historical forces that have involved our two countries. First, our declaration of independence from Spain on July 12, 1896, went a long way toward establishing the tone for a truly colorful relationship.

Two years later, in the Battle of Manila Bay, Admiral Dewey defeated the Spanish fleet, resulting in the Philippine-American War from 1898 to 1902. The colonial period that followed culminated in the Commonwealth period and then World War II, where Bataan and Corregidor should not be forgotten. The nationalist struggles that took place throughout the decades of the 19th century also are noteworthy.

During the Korean War, Filipinos participated in the United Nations forces that fought on the U.S. side in Korea. Filipinos also stood firm during successive crises, like the OPEC oil shocks of the 1970s; El Niño and other weather-related disturbances; and the Asian financial crisis that started in July 1997.

A heartfelt commitment to democracy and freedom in the Philippines informed the grassroots support to overthrow an unwanted leader, Joseph Estrada.

My point here is that since our independence, we Filipinos have felt that our relationship with America has continued to grow stronger in a variety of ways. Exchanges have taken place at the very highest levels: Filipino Presidents Manuel Roxas, Elpidio Quirino, Carlos García, Diosdado Macapagal, Ferdinand Marcos, Corazon Aquino, Fidel Ramos, and Joseph Estrada, all paid official state visits to Washington, D.C. And from the U.S. side, Presidents Dwight Eisenhower, Lyndon Johnson, Richard Nixon, Gerald Ford, and William Clinton all visited the Philippines.

The two countries work side by side in the United Nations, most notably on peacekeeping operations. As an Asian country, the Philippines stays engaged in the ASEAN Regional Forum (ARF) and in the Asia-Pacific Economic Cooperation (APEC). In fact, we hosted the 1996 APEC summit in Subic. When it comes to multilateral dialogue in the name of regional and global peace, security, economic development, and prosperity, we pursue goals that are very similar to Washington's.

The three million Filipinos and Americans of Filipino descent who live in the United States are another vital link in this bilateral relationship, as are the 100,000 Americans who live in the Philippines. The individual, family, and community connections created by citizens living in each other's countries go a long way toward creating a true trans-Pacific bridge.

When it comes to trade, the United States is the number one destination for Philippine exports, even though diversification is taking place, especially related to our trade with the ASEAN countries, and with South Korea and Taiwan, which are gaining importance as markets for Philippine goods. Also, when it comes to import sourcing, the split is even between the United States and Japan and has been so ever since Japan emerged as the dominant provider of aid and manufacturing investment in the Philippines.

While the United States remains our number one export destination, a number of trade matters—some more problematic than others—currently influence the Philippine-American relationship. They include:

- Semiconductors and other electronic and electrical products, together with garments, constitute about 60 percent of Philippine exports to the United States.
- Top imports from the United States include electronic circuits, electronic parts and materials, machine parts, mechanical

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appliances, and wheat.

- Manila remains on the U.S. Trade Representative's (USTR) Special 301 watch list. An issue here concerns U.S. allegations of intellectual property rights infringement. Manila argues it has made a major effort to curb piracy related problems. In fact, a recent report from the Business Software Alliance notes a trend to curb piracy in the Philippines, and indicates that the Philippines is the Asian country that least violates intellectual property rights, rules, and regulations.

- The Philippines continues to benefit from the U.S. Generalized System of Preferences (GSP), providing for duty free import on eligible products. The GSP has been renewed, retroactive to June 30, 1999, and remains in effect until September 30, 2001. Manila is now lobbying for a multi-year extension of the program.

- The Philippines continue to supply a major part of the U.S. quota for sugar imports. We are America's third biggest supplier of raw sugar—after the Dominican Republic and Brazil. This is an industry that provides more than a half million jobs in the Philippines.

- The preferential price the United States pays on sugar imports is about three times higher than the world price, which could prove to be a problem if the Philippine sugar industry is forced to restructure. For the time being, the U.S. Department of Agriculture and the United States Trade Representative are assuring our sugar exporters that traditional duty free access for Mexican sugar will not affect the amount of sugar imports allowed under minimum access rules.

- After unilaterally changing its rules of origin on textile imports, the U.S. government was obliged to provide compensation to the Philippines. A memorandum of understanding recognizes that the change—according to which products finished in the Philippines with imported fabrics could no longer be considered “made in the Philippines” exports — adversely affected Philippine trade. The memorandum is valid until 2002 and may be further extended.

- The United States remains our biggest market for garment

and textile export, accounting for 76 percent of exports in 1999.

Still, the Philippines is a small player, accounting for only about 3.4 percent of U.S. textile imports. That compares with 9.6 percent for China; 7 percent for Hong Kong; and 3 percent for India.

- The United States also extends generous quotas—quotas that are higher than quotas for traditional suppliers including the Philippines—to smaller Southeast Asian countries such as Cambodia. This disadvantages the Filipino textile and garments industry.

- The Philippines joins other countries in disagreeing with the process for annual U.S. certification of shrimp exporting countries. The certification is designed to protect sea turtles. Automatic certification is extended to those countries that harvest shrimp using excluder devices. Even though most of the shrimp exported from the Philippines is aquacultured, which is acceptable under U.S. rules, the Philippines is nonetheless subjected to the regular review process, hence adding to exporters' time and costs.

- U.S. efforts to link trade and noneconomic issues are likely to become more and more intrusive in our opinion. For example, the Clinton administration moved toward making workers' rights a determinant of market access. In the Philippines, we regard the issue as a domestic concern. It involves the complicated question of labor relations and workers' rights. It should not involve overseas inspectors. In the Philippines, we believe that domestic representatives are the best judges of the ideal balance between the rights of workers and the requirements of industry.

- Child labor in developing countries is another issue gaining ground in the United States with future implications for the Philippines. Our two countries signed a trade and investment facilitation agreement in November 1989, whereby we agreed to utilize consultative mechanisms to address trade, investments, and other economic concerns. On this score, the Chambers of Commerce in both countries are actively engaged in finding initiatives that can expand business links and cooperation.

U.S. Chamber representatives who recently visited the Philippines reported significant progress. I must add that this is a

source of inspiration for many of us in the Philippines.

- The Philippine high-tech sector continues to be a favorite destination for many U.S. companies—despite the outbreak of the Love Bug virus last year. We credit this interest and influx of investment to the fact that our electronic exports continue to increase in value.

Philippine competitiveness can also be attributed to a set of inter-linked factors, such as the recent rapid increase in investment; our focus on more technically-advanced products; a ready supply of skilled labor; and an education system that places emphasis on electronics and information technology. I also note here that while the emphasis on high-tech curricula has been relatively inexpensive, it will soon require investments to ensure upgrading.

Allow me to turn to certain foreign policy goals that President Gloria Macapagal-Arroyo has identified as anchors for our foreign relations.

First, the United States, Japan, and China will continue to influence—and to a large degree determine—the economic evolution in the Philippines and East Asia. The same is true when it comes to security interests. Meanwhile, ASEAN will remain the central context for the Philippines as it deliberates on foreign policy decisions. In addition, we will factor in the interests expressed by the international Islamic community in regards to the situation in Mindanao.

Because multilateral organizations can promote both regional and global common interests, these organizations will continue to gain importance in the Philippines. However, this does not mean we will neglect our responsibility when it comes to defending our sovereignty or protecting our environment and natural resources.

The Philippines intends to remain open to both domestic and foreign investment. We have also taken note of the fact that our country stands to benefit from a greater emphasis on international tourism. Meanwhile, Manila continues to recognize the critical role played by Filipinos living abroad and their contributions to the country's economic and social stability.

Now, with this international framework in mind, I would like

to return to the idea of People Power II actually echoing the democratic tradition we share with Americans. I would like to do this because I believe the recent episode is the cause of misunderstanding between our peoples. I'll begin with the recent history.

On March 6, Ambassador Thomas Hubbard, now acting assistant secretary of state for East Asian and Pacific affairs, testified before the U.S. Senate Foreign Relations Committee about circumstances in the Philippines when President Estrada left office. He said that a number of senators actually applauded the Filipino people for conducting themselves peacefully when they learned of the transfer of power.

Hubbard further noted the peaceful transition when he expressed his good wishes to our new president, Ms. Arroyo, and welcomed the opportunity to work with her. He also underscored his belief that President Arroyo intends to do what she can to bolster Philippine-U.S. relations on all fronts and to work toward the goal of achieving long-lasting peace and prosperity in the Philippines. He also noted that the U.S. government tried not to take sides during the transition. My point here is that People Power I and People Power II are vastly different events. In fact, People Power I (EDSA I) actually provided many lessons for the Philippine people. I'll start with the media.

I'm reminded of the investigative reporting by the *San Jose Mercury News* that exposed Imelda Marcos' sizeable acquisitions made with questionable resources. These articles planted seeds that encouraged several other American journalists to do their own investigations at the time. With EDSA II it was Philippine journalists working as part of the Philippine Center for Investigative Journalism (PCIJ) that took the lead and included allegations that Estrada had set up his mistresses in expensive mansions.

In the early days, few listened to the PCIJ—and those who did, tended to dismiss the articles as political. Everything changed as events gave rise to the call for impeachment. A similar series of events led up to the call to impeach Ferdinand Marcos, but back then, the threat only lasted one day. Somehow, Marcos managed to

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keep the process at bay while wielding his considerable powers as a dictator.

In Estrada's case, events took a dramatic turn when the House Speaker told a stunned Congress that he intended to present the Senate with the terms of reference necessary for an impeachment trial. This meant the speaker had to speak very fast so the Congress could not object to what he was saying! It was also important that the public was kept apprised of what was happening inside the Senate's august halls. If messages had not gone out via television and radio, there would have been no moral outrage when the Senate voted 11 to 10 against admitting critical evidence to the impeachment hearing.

Estrada himself was a factor also. As Marcos had done before him, Estrada decided to call for snap elections while still in office. But his appeal went nowhere—thronges of people taking to the streets to protest graft, corruption, and an attempt by their elected president to act like a dictator were the only results.

Both times, things ended peacefully, which is why we were especially gratified when the Nobel Peace Laureate Foundation commended the Filipino people for ensuring a peaceful transition. At the same time, the Foundation's tribute seemed to be in sharp contrast to what we perceived as skepticism from the Americans, many of whom questioned whether democracy could last in the Philippines. Some even went so far as to suggest that the behavior in the Philippines was characteristic of an immature democracy.

Such skepticism was not consistent with the facts. I would like to quote from the Supreme Court's ruling in regards to the Estrada case to show that we were very much in line with our constitution:

"The legal distinction between EDSA People Power I and EDSA People Power II is clear. EDSA I involved the exercise of the People Power of revolution, which overthrew the whole government. EDSA II is an exercise of People Power of freedom of speech, freedom of assembly to petition the government for redress of grievances, which only affected the office of the president."

In summary, the Supreme Court said that EDSA I was extra-constitutional, meaning that the question of the new government's

legitimacy was not a subject for judicial rule. EDSA II, on the other hand, was intra-constitutional, in that the process of one president resigning and a vice president assuming power is subject to judicial review. While EDSA I involved a political question, EDSA II presented a legal issue.

The court also said that the constitutional right to assembly for the purpose of petitioning the government for redress also informed EDSA II. In its finding, the court said it relied on an overall review of whether Estrada had resigned:

"There must be an intent to resign, and the intent must be coupled with acts of relinquishment. The validity of resignation is not governed by any formal requirement as to form. It can be oral. It can be written. It can be expressed. It can be implied. As long as the resignation is clear, it must be given legal effects."

The question that keeps coming up during our visits with American audiences is whether our institutions are sustainable in light of People Power II. There are concerns about EDSA III, IV, ad infinitum, along with worries that People Power could become the country's ruling game and ultimately the wrong role model for the rest of Asia.

I admit the questions leave me wondering why there is this general refusal to evaluate recent events in terms of a democratic transition. Support for that point of view can be found in the events themselves. President Arroyo has laid out her core beliefs. Her first objective is to eliminate poverty. Her second imperative is to promote good governance and high moral standards for government and society. Her third stated intention is to replace the politics of personality and patronage with the politics of party programs and consultation. Her fourth objective is to provide leadership by example.

It could be argued that a critical question remains unanswered: did the elites actually lead the demonstrations? But even if elites were in the vanguard, it need not be a negative indication, provided their motives were not selfish, but directed toward the greater good. With revolutions, it is often those who do not need to worry about food and shelter who are in a position to effectively address the

needs of the rest of society.

Civil society was at the root of EDSA I and EDSA II. In addition to the investigative work by the Philippines Center for Investigative Journalism, a number of nongovernmental organizations (NGOs) patiently debated the central issues of the impeachment trial and the presidential transition. Religious groups and prayer rallies also raised various issues early on and during the dramatic events of EDSA II.

Here, one might ask whether these religious groups are effective, especially when it comes to prodding the Philippine conscience. Are there still priests and nuns who can rally the country behind causes that cross political, economic, and societal lines? It's a fact of life that organized groups, religious and otherwise, can be expected to support candidates who convincingly reach out to them. Another side of the coin, however, is that some of Estrada's own spiritual advisors may have compromised themselves when they made no attempt to curtail the apparently illegal numbers games and other scandals that later figured in the impeachment proceedings. Some, however, managed to distance themselves from Estrada—out of disgust.

The role played by the military—which was the last, not first to withdraw its support from President Estrada—was also noteworthy. The Philippine military does not push civil society into second place. In fact, the rule of law specifically puts civil government over the military. This is ingrained in our military's thinking. It is taught in the early stages of military education. In fact, President Arroyo extended deserved praise to the military for adhering to our constitutional process. In effect, she thanked them for being the last to support her and the last to withdraw their

support from Estrada.

Young people also figured prominently in EDSA II, even though many are disenchanted with traditional politicians these days. Many question whether the values they are learning in the classroom are the values that govern politics today. After EDSA II, the very first queries raised at the Center for Servant Leadership, which I started eight months ago, indicated a desire for selfless leadership. So far, there has not been much evidence of selfless

leadership, but I feel confident the pressure to make that happen will continue to grow, especially from young people. The alternative is that more and more young people will withdraw from mainstream politics.

We have learned many lessons in the Philippines. More reform still is needed, particularly in arenas such as the media. Still, our core beliefs are firm, and we continue to believe that we embrace the same democracy as you do in the United States. We can continue to believe that, provided we have the support of the world around us.

When it comes to multilateral dialogue in the name of regional and global peace, security, economic development, and prosperity, we pursue goals that are very similar to

I'll conclude with another quote from the Supreme Court ruling. It is a word of caution to the hooting throng:

To be sure, the duty of a prosecutor is more to do justice and less to prosecute. His is the obligation to ensure that the preliminary investigation of the petitioner shall have a circus-free atmosphere. He has to provide a restraint against what Lord Bryce calls the impatient vehemence of the majority. Rights in a democracy are not decided by the mob, whose judgment is dictated by rage and not by reason, nor our rights necessarily resolved by the power of numbers. For in a democracy, the dogmatism of the

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majority is not and should never be the definition of the rule of law. If democracy has proved to be the best form of government, it is because it has respected the rights of the minority to convince the majority that it is wrong.

Tolerance of multiformity of thoughts, however offensive they may be, is the key to man's progress, from the cave to civilization. Let us not throw away the key just to pander to some people's prejudice.

## Questions and Comments

by *Focus on the Philippines* Panel

**Steven Rood:** This is a very exciting time in the Philippines, and our speakers have attested to that. Together, they have offered us challenging and provocative insights into the range of issues currently on the minds of Filipinos, particularly as their country makes another transition at the presidential level. Their insights also are helpful in pointing us toward May 14, when there will be another election and presumably a much clearer picture of the direction the new government intends to take.

**Q Do certain cultural issues hold the Philippines back? For example, are there elements that actually facilitate corruption, perhaps more so than in other Asian countries?**

**Florian Albuero:** This damaged culture syndrome is something the foreign press likes to write about. The short and simple answer is Filipinos are not genetically corrupt. The success of Filipino-Americans is proof of that. Filipinos do well in other settings—in this case, America—because they can avail themselves of opportunities that contribute to their success.

But that begs another question. Why are opportunities not as widespread in the Philippines as they are elsewhere? The answer is our economy is still based on a kind of feudal structure that promotes little, if any, opportunity for succeeding outside it. In addition, the majority of people are simply not equipped to do the kinds of tasks that the landed and monied people can do. Workers in the United States, on the other hand, are able to take advantage of opportunities in a very mobile society and are therefore able to move up faster and with greater ease.

These are not necessarily issues of culture. Culture may play a part, but what we're really talking about refers to the country's

prevailing economic system. Take globalization. It has already created more opportunity for Filipinos to move around. As they take advantage of that opportunity, they will begin to realize more and more that they are not genetically inferior. Filipinos do well in the United States. They also do well in Saudi Arabia, Hong Kong, Japan, Europe, and in South Africa. Filipinos do well wherever they go because the systems that are in place outside the Philippines extend opportunities that allow them to move up professionally, economically, and socially.

Another way to look at the issue of culture is to look at economic foundations. For example, some make the comparison between the economy in the Philippines and economies in Latin America. It seems to me that if cultural aspects are taken into account, then we have to consider the influence of the Catholic Church in the Philippines.

**Q Can President Arroyo run again in 2004? What outcomes are expected as a result of the May 14 elections? Also, how is ASEAN perceived?**

**Florian Albuero:** Yes, President Arroyo can run again. Concerning the larger question about politics, many of us frequently find ourselves thinking that we deserve the government we vote for. We get that feeling particularly when we look at the political leaders we have put in the House and Senate. During the last Senate contest, we elected a basketball star and defeated a candidate who happens to be a very respected lawyer. Although qualified, the lawyer did not even come close to getting the votes he needed to win. So, we get the kind of government we deserve.

But we're not a political system that's out of control. And that is precisely the message that President Arroyo sent out during her

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inauguration. The president wants new politics, and politics that are based on a policy platform. She does not want the politics of celluloid. This is why I said earlier that Ms. Arroyo has made it quite clear that she personally has a vested interest in doing whatever she can to promote the so-called new politics in the May 14 election.

There is another factor. Young people like the focus on new politics. They see their own stake growing, and the result is that they are more interested in pursuing a political role for themselves. The rest of us also feel encouraged and end up rooting for the so-called civil society candidates—those who refuse large corporate donations among other reasons because they want to avoid even the appearance of a quid pro quo.

There is also growing support for politicians who have a policy platform and who are able to make a commitment to a long term plan for the country. It is here that I expect People Power II can play an ongoing role as a bellwether of the government's success, or lack thereof, in moving away from the old patronage system and toward greater political maturity. In fact, many are already stepping forward as volunteers to support the candidates of their choice.

True, the real test will be on May 14. I for one, hope very much that those who succeed are strong politicians with the intellect and ability to raise the level of debate, particularly in the Senate.

**Federico Macaranas:** One indicator that we are on the way to political maturity is the fact that Filipinos tend to guard ballot boxes with their lives. We also turn out to vote in far greater numbers than the mere 50 percent who typically vote in the United States. Why would poor people cling to the ballot box, you might ask. Well, the reason is we learned from you that democracy is a way of life—and we know it's a way of life that we in the Philippines want to follow.

My suggestion to those Americans who question whether we are on the road to political maturity, is to remember that we are not as old as the United States. There is a lot we still have to learn. So,

please do not be impatient with our democracy. If we are measured solely by your yardstick, we never will succeed in winning allies in America or anywhere else in the world.

Consider here the young boy who asked his father why he, the son, had no beard. Sympathetic to his son, the father put him on hormones. Yes, the kid grew a beard, but he also grew to a monstrous size. What's worse, he ended up the butt of his classmates' jokes. So, the moral here is to give us the time we need to grow up and find ourselves. Help us improve our democratic institutions rather than complain about an irreverent democracy in the Philippines.

I'd like to make another point. Filipino nationals who live overseas are not able to vote. Consequently, many remain disenfranchised. They cannot exercise their constitutional right because the government has no budget to make that happen. The Congress is another roadblock because it remains opposed to facilitating their right to vote. They argue that such a program is too vulnerable to corruption and graft. That leaves it up to people like myself, social scientists, economists, and political scientists, to devise an affordable voting system that minimizes the opportunity for graft.

This is something we could use America's help on. The United States has had more than 200 years' experience with democracy. Joining us in a project like this could also yield a spirit that reenergizes the relationship between our two countries. Already, we are a model for other parts of Asia—Malaysia, Singapore, and the very large country of Indonesia. Next it will be China and Vietnam. All these countries are watching to see what happens next in the Philippines.

**Q Steven Rood: Can someone address the question about ASEAN?**

**Federico Macaranas:** Of course. ASEAN is at a crossroads, among other reasons because the leadership of the organization has come principally from Indonesia, and since President Suharto is no longer

on the scene, the country has not been able to lead ASEAN as it used to. Indonesia's economic problems, brought on by the Asian financial crisis, are a big factor also.

Meanwhile, multiple issues of great importance relative to ASEAN continue to surface. One key issue has to do with the timetable that's now in place for setting up a free trade zone in the region. Another issue concerns the investment arena, and whether that sector can become open and free by the year 2020. Preferential agreements are another issue. But perhaps most important is the question about whether ASEAN even matters as a voice in the region. We in the Philippines believe that ASEAN does indeed matter.

Security issues also play a role with the ASEAN Regional Forum. And ASEAN Plus Three, which includes the ASEAN countries in dialogue with China, South Korea, and Japan, is a factor also. As it turns out, ASEAN Plus Three is a very important development because for the first time, countries in Southeast and Northeast Asia are dialoguing about important regional issues.

There is yet another factor taking shape that we need to keep in mind, because it will be important over the next decade: it has to do with the Chinese and their intentions in Asia. The Chinese premier, Jiang Zemin, has organized the so-called Boao Forum on Hainan Island in the South China Sea. Patterned after the annual World Economic Forum, the forum intends to attract the same sort of people as the Davos, Switzerland meeting, but with the objective of addressing Asian issues from an Asian perspective. The Asian financial crisis is a good example of the type of issues the forum would like to address, because many felt we in Asia were not able to talk with each other the same way that others talked about us!

It is unfortunate that Asians seem to know less about their own internal problems than say, people in the United States and Europe. One reason may be the media's propensity to co-opt issues. The Boao Forum wants to turn all this around so that Asians can look at Asian problems from an Asian perspective. Multinationals from other parts of the world are invited but the focus is on Asia. The inaugural event took place last February, attracting some 25 Asian

leaders, and Malaysian Prime Minister Mahathir as the keynote speaker.

**Q What is the best way to make sure news about the Philippines makes its way to the news pages in the United States? And what should be done to improve the quality of information that comes out of the Philippines?**

**Federico Macaranas:** Last December, it was clear to us that the Florida drama over who would win the U.S. presidency dominated the news in America, even while People Power II was taking place. That goes a long way toward explaining why the U.S. press paid so little attention to events in the Philippines. On the other hand, the media from other parts of the world covered People Power II extensively.

There were English-speaking journalists in Manila at the time, although not as many as during People Power I. All the same, there was good follow-through on the coverage because of the questions raised by EDSA II. The publicity generated by EDSA II actually helped spur the interest of the foreign media in addressing fundamental issues about democracy in the Philippines.

In regards to better dissemination of information from the Philippine side, the emphasis should be on Filipino-Americans. During the years of martial law, I lived in self exile in the United States, and was a contributor to a magazine that routinely raised questions about what was happening in the Philippines. Our point of view was fairly unique. We were writing for an American audience and in the process, trying to convince Filipino Americans to be more critical about events back in the Philippines. We saw our job as selling our message—Out with the dictator!—to the Filipino American community first, and then to Capitol Hill. If I may say so, we were pretty successful. During the last days of People Power I, we actually had people marching in the streets in New York and Washington. Thanks to an organized telephone brigade, we turned out hundreds of thousands of supporters across the country.

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That approach worked for us. We got our message out to the Filipino American community faster than ever before. We also had some help from a number of Philippine journalists who were based here at the time and who agreed to broadcast news live from Manila. Unfortunately, our finances were limited, so we could not spread our point of view as far and as fast as we had hoped. That said, I assume that technology will get cheaper and that when that happens, there will be a competition to rush news about events in the Philippines into the homes of Filipino Americans.

**Steven Rood:** I would like to add here that The Asia Foundation believes deeply in the importance of the role played by Asian-American communities generally, and the Philippine-American community in particular. We feel it is important that people become involved, and we look for ways to facilitate that, by hosting meetings like this one, for example.

## **Q Have decentralization reforms in the Philippines been successful?**

**Steven Rood:** Let me give you an example: President Arroyo appointed Governor Joey Lina to head the Department of the Interior and Local Government. He had a very strong commitment to decentralization. Arroyo also instituted procedural reforms to facilitate decentralizing away from Malacañang Palace. For example, she decided to stop signing travel orders for mayors and governors! She rightly recognized this was a rather silly task for the president of the country. But let's hear what things are like in Mindanao.

**Elena Haw:** With the passage of the Local Government Code in 1991, the national government recognized that in order to fast track development in the country, especially in rural areas, decisionmaking had to be decentralized to local government units (LGUs). The code indicates the strong commitment of the national government to decentralize at least some of its functions to the local government units. In effect, the Local Government Code grants all

local government units in the country the authority to create and implement local laws and ordinances to help further development in their locality. The only requirement is that local laws not contradict national laws.

The outcome is that local governments have more authority than ever before to undertake policies and programs to fast track development in their area. The problem, however, is that most local governments are not fully aware of how to effectively use the Local Government Code to their advantage. For example, the Local Government Code allows LGUs to seek partnerships with the private sector to generate additional income for their local treasury. But not all local governments know about this, so most of them just come up with new tax schemes to impose on the already overtaxed business people. The latter seems quicker and easier. An example is the imposition of an annual vehicle tax on trucks that deliver goods. Businessmen who deliver goods to neighboring municipalities and provinces have to pay the vehicle tax for every municipal and provincial locality to which their trucks deliver, because when other LGUs heard that some municipalities and provinces were doing this, they soon implemented the same vehicle tax. So businessmen using delivery trucks end up having to pay several vehicle taxes to different local governments, with an obvious increase in the cost of business operations.

Another issue is that different LGUs interpret the Local Government Code in different ways, which sometimes confuses people doing business in multiple localities in the region.

Thus, one of the code's original authors, Governor Hilario de Pedro, is saying that the code should be improved, and that when he runs for Congress again, he plans to be involved with making specific changes. His point is that the current code was adopted too quickly—hence the variety of interpretations.

On the upside however, the adoption of the Local Government Code is allowing the private sector to play a more important and active role in influencing the LGUs to draft policies that could encourage development. The LGUs are tapping into their business community to help formulate policies to attract investment and

business development.

**Q** I would like more detail about the upcoming elections, and about how President Arroyo is preparing for what may be a period of transitional instability.

**Steven Rood:** Virtually all offices nationwide are up for election on May 14. That said, in the Philippines, there is little to distinguish one political party from another. Parties simply offer a way of keeping track of who is on whose side. It also means that the political make-up of Congress is not really relevant. Usually, most members of Congress immediately join the president's party once elections are over. For example, in 1992 and 1998, only about 25 percent of Congress was elected on the president's ticket. But by the time Congress had organized itself two months later, the president's party held a majority in both houses.

In the Senate, political lines are drawn more firmly. On May 14, 13 Senate seats are up for election. Typically, only 12 seats are up, but this time there is one extra because Senator Guingona left his Senate seat to become Ms. Arroyo's vice president. It is likely that President Arroyo will win her slate of senators, unlike Estrada, who in the last election failed to get a full slate, and had to adopt three candidates.

At the time of the filing deadline, polls showed eight prospective senators favoring Arroyo; four favoring Estrada; and one for the independent candidate, ABS-CNN newsman Noli De Castro. Having someone like De Castro in the race is a little like having Walter Cronkite run for the U.S. Senate!

A closer look at the slates suggests that the four who are for Estrada are actually at the bottom of the list. In other words, the count appears to be eight-four-one in Arroyo's favor. That's enough to give her control of the Senate and the ability to move her projects through.

**Q** How much difference does foreign investment really make?

**Elena Haw:** It can make a big difference. Mindanao has an agriculture-based economy, and our needs today are greater than ever, in large part due to the series of events that left the private sector in shambles. First it was the Asian financial crisis in 1997, then the devastation of our agricultural sector (the rice and corn industries in particular) because of El Niño and La Niña. Banks have foreclosed on up to 90 percent of the private investments in the area. What we need now is a rehabilitation program to revitalize the assets and agri-industrial factories that were foreclosed by banks needing to recover from the effects of the economic crisis.

For the last three years, I have lobbied the national government and the Department of Agriculture, in particular, for just that. What we need is a plan that will allow existing facilities to be fully utilized. If Mindanao is to become a food basket for others, it cannot have under-utilized facilities.

Our concerns with the banks also are an issue. A number of local banks suspended credit in the area because of non-performing loans that started to accumulate after 1998. Until today, some banks continue to refuse any credit in certain areas. We feel this is one area where the private sector should do what it can to help Mindanao gain access to foreign investment because without it, we will not be able to rehabilitate the agriculture sector.

Let me give you an idea of what a business faces today because of lack of access to formal credit. Most have to rely on informal lenders who charge truly usurious rates. I'm talking about 5 to 10 percent per month, which is 60 to 120 percent annually! At 10 percent, lenders get an annual return of 120 percent on their money! Despite this usurious interest situation, most SMEs (small and medium enterprises) were able to survive. But because most of the income goes to service the high interest, there is practically no money left for them to expand and upgrade their business practices and to compete globally. An influx of fresh funds from foreign

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investment would help alleviate this situation, and would allow Mindanao to take a big step toward becoming globally competitive.

**Federico Macaranas:** Again on the subject of foreign direct investment, many foreigners ask whether things will be different in the Philippines with Estrada no longer in power. The answer is yes, of course. We expect quality governance—government that does its best to incorporate reforms in all areas, including those areas where Estrada failed.

In the meantime, President Arroyo is trying to make sure strong macroeconomic policies are put in place and that the infrastructure in certain key sectors is attractive to foreign investors. For example, tourism is particularly attractive to the administration because it can generate a quick influx of foreign exchange. It also relies on streams of goods and services that promote further development. The information technology sector is another area that could attract foreign investment. Our skilled labor force is one of our major resources, but we must continue to nourish it, to make it really strategic.

Here, two issues come into play. First, we recognize that we have to move fast if we are going to educate future generations and keep our labor supply replenished. Second, we must remain aware that there is an international demand for high-tech workers. Foreign companies are more than willing to recruit our specialists without investing in our country. And if we lose these specialists, we also lose important trainers and teachers, and the Philippines ends up with a generation of inferior specialists, who are less desirable to recruiters because they are more expensive to train.

The ideal would be for recruiters to recognize these people as strategic resources and invest in the Philippines to help sustain the flow of high quality labor over the next several decades. That would mean investing in both people and infrastructure. To that end, the government is reviewing a strategy to attract more foreign investors like America Online (AOL). AOL has invested in the Philippines and continues to reap the rewards of that investment. Because it has invested in the country, it can expect to have access to a steady

stream of skilled workers now and in the future.

**Q** **How should the government in Manila handle concerns such as the culture of patronage, a system of government that is highly personalized, an inadequate civil service tradition, and a less than perfect tax system? What should the priorities be?**

**Florian Albuero:** Indeed, it is an enormous task. Adding to the complexity of the situation is the fact that the Philippines cannot be expected to be revolutionary in its approach to change. In 1986, President Aquino had an opportunity to truly revamp government, but she refused. Instead, she bowed to the demands of holding together a shaky coalition.

In Ms. Arroyo's case, success will depend on whether she is able to push forward with reforms aggressively. She must prioritize, but also see priorities in the context of an overall package of policies crafted to respond to current problems. She cannot proceed in piecemeal fashion. She already has taken one step in this direction by announcing in her inauguration speech that poverty alleviation would be her number one priority. But so far, she has not distinguished herself from other administrations. This is unfortunate.

In fact, we don't need any more summits or studies. The Philippines must be one of the most studied countries in the world. There are volumes of writing on what should be done in the Philippines. I'm talking volumes, not papers! I know, because I have been a contributor to some of those volumes. What is important is that the president give us a sense for what the entire package contains—and for how we should view it.

**Federico Macaranas:** Yes, there are many volumes about the Philippines. But many elements in these studies are now a part of President Arroyo's priorities. As an economist, she believes that the Philippines must produce more goods and services. She sees clearly that the production of goods is the source of income, jobs, and all

the good things that economies look for, including social stability and regional prosperity.

When it comes to long term versus short term, we have asked her to think of the longer term, up to a nine-year span. That means we can keep the pressure on to maintain continuity in our policies, which will help her fend off criticism domestically. Our bureaucracy also needs to be strengthened. As of now, we have a weak bureaucratic infrastructure. A stronger civil service would go a long way toward helping sustain policies. Without a sound bureaucracy, civil servants risk turning into the puny victims of political patronage.

**Elena Haw:** In Mindanao, we in the private sector believe many of the problems of the island can be addressed through education. The Muslim-Christian conflict is an example. Mindanaoans recognize that to deal with this issue effectively, we would have to address it starting with children in primary school. We recognize the importance of teaching children in primary and secondary school to live in harmony with people of diverse cultural backgrounds. The education system on the island should be upgraded, so that children in Mindanao can have access to quality education. While less of a problem in the urban areas of Mindanao, the quality of education is an issue in the rural areas. In fact, with my colleagues in the business community I can attest that the majority of graduates from these rural schools are not able to solve the simple algebraic problems they must solve for job interviews and exams. Thus, as much as we would like to employ graduates from our area, we have no choice but to look elsewhere—especially for key positions. All this indicates public school teachers need more training, and need to be assessed through examinations.

The importance of education is also evident in relation to knowledge of voting procedures and constitutional rights. Because 50 percent of our people live below the poverty line, voting based on patronage systems is all too common. People vote for candidates they think can help them financially or who they can approach for money. Hence, “3G” candidates (guns, goons, and gold) are the

common winners.

A democratic system cannot discriminate against the uneducated electorate by denying them the right to vote. But unfortunately, those with little education form the majority of the electorate. The consequence is that entire communities, and the country as a whole, suffer because unqualified individuals are elected to public office.

We feel that uneducated portions of the electorate could be influenced by the children they send to school. Since people in the rural areas — who are mostly farmers — place so much importance on their children’s education, they will do anything, even mortgage their last asset, just to be able to send their children to school. And when they return to their communities, children studying at colleges and universities can influence their elders to vote responsibly.

The low rate of tax collection is an area we have not yet been able to address. Most business people are willing to pay their fair share of taxes. But they feel that even if they pay their taxes, the tax collectors will simply demand more money — what we call grease money — in exchange for a clearance indicating that for that particular year, taxes have been paid in full. And if you don’t comply, well, then they’ll put someone in your store or office to monitor your daily sales and business volume. And if you report this practice of collecting extra taxes, you end up being a tax collector’s target for investigation on tax evasion and fraud, and you end up paying more just to come to a settlement.

Through the Chamber of Commerce, we have been able to temper some of the graft and corruption that I’m describing. Chamber threats to report corrupt practices to the national office have produced results, though they have not solved the problem altogether. Even if we manage to have a head person replaced, it doesn’t necessarily mean that those below him will clean up their act. Problems with graft and corruption persist from administration to administration because they have become institutionalized. Trainings and seminars on morality and responsibility for the lower levels of the tax collection bureaucracy are one way of moderating,

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if not completely eliminating, graft and corruption.

On another level, we hope to fast track Mindanao's development. To do that, we need more Mindanaoans appointed to high level positions in the national government. President Arroyo has already appointed some Mindanaoans, but we continue to hope for an undersecretary slot in each of the line agencies. On still another level, those of us in the private sector continue to promote infrastructure investment in Mindanao. We feel we shouldn't have to wait for our national government to undertake all these infrastructure projects because we all know the constraints faced by our national government. Instead, the private sector in Mindanao is pushing for arrangements to allow the private sector to initiate infrastructure projects thanks to coordination with the government—through the “build, operate, transfer” (BOT) scheme or thanks to tax breaks, and tax credits to recover funds invested in infrastructure.

**Steven Rood:** For the government to be on track with an agenda that addresses the country's critical problems, two things must be dealt with right away. And the Arroyo administration is doing just that. The first has to do with corruption, a subject in which The Asia Foundation is keenly interested. The second is the question of peace in the Philippines, and here there has been some progress, thanks to talks arranged by the Arroyo administration with both the Communist and the Islamic separatist insurgencies.

As was noted at the beginning, it is an interesting time in the Philippines. It is also a hopeful time. True, many daunting problems lie ahead. But many people are working hard to solve these problems. And the country now has a president who has pledged herself to certain values and to certain ways of looking forward progressively.

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## Seminar Participants

### **Dr. Florian A. Albuero**

Dr. Florian A. Albuero is professor of Economics at the University of the Philippines, Diliman, Quezon City, and a research fellow at the Institute for International Policy at the University of Washington in Seattle, Washington. He is also the Asia program director of the International Center for Economic Growth in San Francisco, California, and a member of the Advisory Committee of the ASEAN Economic Research Unit of the Institute of Southeast Asian Studies in Singapore. In addition, he is a consultant (team leader) of the Asia Recovery Information Center of the Asian Development Bank. Dr. Albuero held previous posts as deputy director general of the Philippines National Economic and Development Authority; as trade specialist of the Greater-Mekong Subregion Unit of the Asian Development Bank; and as a panel member of the Pacific Economic Outlook of the Pacific Economic Cooperation Council. Dr. Albuero has written extensively for professional journals and newspapers. He holds MA and PhD degrees in economics.

### **Ms. Elena Haw**

Ms. Elena Haw is the regional governor for the Southern Mindanao Area of the Philippine Chamber of Commerce and Industry, and a member of the board of trustees of the Mindanao Business Council. She has extensive experience in marketing and business development and has served as a consultant to companies in the agribusiness and livestock sectors. In 2000, Ms. Haw served as conference

director and chair of the Steering Committee of the 9th Mindanao Business Conference. She also represented the private sector in organizing the Central Cotabato Peace and Development Council in 1996. The Council is composed of 21 municipalities from the three provinces of Sultan Kudarat, North Cotabato, and Maguindanao. Ms. Haw holds a BS degree in business administration from the University of the Philippines.

### **Professor Federico M. Macaranas**

Professor Federico M. Macaranas is the executive director of the Washington SyCip Policy Center, the Asian Institute of Management's think-tank on public policy. Professor Macaranas' professional career spans the business, government, and academic sectors. He was the president of Clemente Holdings (Asia) Ltd. from 1997 to 2000, where he still serves as senior adviser on direct investments and mutual funds. He is also an Economic Adviser to the First Philippine Fund (New York). From 1993 to 1997, Professor Macaranas was the undersecretary for economic affairs at the Department of Foreign Affairs. He also served as assistant secretary for Foreign Affairs from 1988 to 1993, and helped formulate and implement President Corazon Aquino's development diplomacy initiative. Professor Macaranas holds a BA in economics from the University of the Philippines, and MS and PhD degrees in economics from Purdue University. He has published extensively on international affairs, economics, and trade.