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**Socioeconomic Planning  
During the Macapagal-Arroyo Administration (2001-2003)**

**U.P. Public Lecture Series**

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When Gloria Macapagal-Arroyo assumed presidency of the country after a repeat of people power in January 2001, the economy was going through a turbulent period. Economic growth was modest, poverty continued to be a major problem, the government budget was getting out of hand, and investor confidence -- battered by incoherent governance decisions and issues, badly faltered.

With the transfer of power to the new administration, efforts were undertaken to set things right. Economic policies were anchored on market reliance and good governance to reinvigorate an environment conducive to sustained growth and equitable development. Reduction of poverty was stressed as a national priority. A strategic shift based on a tandem of peace and development was adopted for Mindanao. Moreover, a ceasefire with the Moro Islamic Liberation Front (MILF) was followed by relatively peaceful elections of local government officials in the Autonomous Region in Muslim Mindanao (ARMM) and the implementation of various infrastructure programs throughout the island.

With the National Economic and Development Authority (NEDA) in the lead, the Medium-Term Philippine Development Plan (MTPDP) 2001-2004 was formulated in coordination with the private sector and civil society. This Plan highlighted the Macapagal-Arroyo Administration's vision of winning the war against poverty within the decade.

As three years have passed, many now ask how has our economy fared since then? And what can we expect in the future?

A sense of reassurance that things will be better is naturally what our countrymen are looking for, especially now with the 2004 elections. On my part, I have always believed that the challenges we face as a country – whether political or economic – will always make us stronger. Such challenges will eventually help us mature further as individuals and as a people. Time and time again, Filipinos have shown the ability to bounce back and even thrive amidst times of difficulty.

A reason for optimism is that the Philippine economy has shown enough strength to sustain its growth, notwithstanding the economic and political hurdles. Global terrorism, for one, is an issue that we continue to face and it has made itself felt not only in Mindanao but in Metro Manila and other parts of the country. There is also the widening budget deficit, a problem that we are now bringing under control. We also contended with the spill-over effects of the US-Iraq conflict and faced the challenges of the SARS outbreak, El Niño, and the Oakwood mutiny. Through all these, the economy has managed to stand firm.

The latest indicators show that the country's macroeconomic environment is generally stable. Inflation rate is moderate at 3.1 percent, t-bill rate is still lower than assumption; and the government fiscal deficit fell below target due to the significant improvements in revenue collections. All these contributed to the 4.5 percent growth in GDP and 5.5 percent growth in GNP in 2003.

For 2004, growth is expected to strengthen with GDP expanding 4.9 to 5.8 percent and GNP by 5.2 to 6.0 percent. The positive outlook for 2004 is supported by faster growth worldwide (world GDP projected to grow 4.1% in 2004), normal weather conditions, and higher election spending in the first half of the year.

## **REDUCING POVERTY: THE MAJOR CHALLENGE OF DEVELOPMENT**

Increasing our growth rates is fundamental to achieving the country's overall development goals under the Arroyo administration.

The Philippines, under the present administration, continues to face certain development challenges despite some important socioeconomic reforms in the past two years. The most overpowering is the need to reduce the number and proportion of poor families.

In her inaugural address two years ago, the President declared her goal to see a Philippines without poverty by 2010. She declared that hers will be a pro-people government

responsive to the country's needs and which provides full access to government services by the poor. In the MTPDP, poverty reduction would be pursued mainly by supporting the growth in productivity of our farmers and businesses, including the micro, small and medium-scale industries. Growth of the private sector means more jobs, and this should ultimately lead to sustainable rises in the incomes of all Filipinos.

One main source of comfort is the 2002 Annual Poverty Indicators Survey (APIS) that shows that Filipinos are generally less poor in 2002 than in 1999. Released recently by National Statistics Office (NSO), this survey found out that 85 percent of Filipino families belonging to the poorest 40 percent of society have heads who are gainfully employed compared with the 57.6 percent in 1999. This means four out of five family heads have jobs, compared to slightly more than two out of five. Moreover, the percentage of families who felt improvements in their economic conditions in the past 12 months increased to 15.3 percent in 2002 from 13.8 percent in 1999, while those who felt that they were worse off declined from 33.9 percent in 1999 to 30.8 percent in 2002.

If we recall, an earlier survey in 2000 – the Family Income and Expenditures Survey (FIES) frankly stated that poverty incidence, or the percentage of families who did not have the income needed to buy basic food, has increased since 1997. The APIS tells us that, on the whole, Filipino families have been able to improve the quality of their lives in 2002 compared to that in 1999.

The results of the war against poverty is a reflection of how the overall economy has performed. The goal is clear: to eradicate poverty. The direction of the economy must thus be guided towards this goal, a direction that has become clearer and doable under the Macapagal-Arroyo administration.

## **AN ASSESSMENT OF SOCIOECONOMIC DEVELOPMENT UNDER THE MACAPAGAL-ARROYO ADMINISTRATION**

**Macroeconomic Stability, Growth, Employment and the Deficit.** The MTPDP during the past three years focused on the unfinished business of fighting poverty. President Macapagal-Arroyo herself advocated in her first State of the Nation Address how her administration would address the problems of the poor: *hanapbuhay, pagkain, pabahay* at *edukasyon*. These are not mutually exclusive: raising agricultural productivity lowers the cost of living among the poor and gives chances for higher-earning employment opportunities. Addressing the housing problem of the poor would boost the recovery of the labor-intensive construction industry. And lowering the costs of education and upgrading its quality improves the chances of poor children in getting out of the poverty trap.

Job generation is the underlying drive of the administration in confronting poverty. Through the Agriculture and Fisheries Modernization Act, an average of 341,000 jobs were generated annually by agriculture from 2001 to 2003 compared to the average of 49,000 from 1999 to 2000.

With the strong link of agricultural recovery to the growth of services and industries, more jobs were also added. The revival of construction also boosted job creation. In sum, total jobs generated in 2001-2003 averaged 1.06 million, or two-thirds more than for the period 1998-2000. The growth of GDP during the Macapagal-Arroyo watch averaged 3.9 percent, reversing what was considered the “job-less recovery” in 1999-2000.

The fiscal deficit continued to be the toughest task to handle. The national government’s deficit was initially maintained in 2001 at 4 percent of the GDP, the same as in 2000. An unexpected slippage in the tax effort, however, pushed the deficit to 5.24 percent of the GDP. Thus, the Bureaus of Customs (BOC) and the Internal Revenue (BIR) intensified their collection programs and reforms and trimmed the deficit to 4.6 percent of the GDP in 2003. This deficit could have gone down further had the legislative proposal to restructure our excise taxes been passed.

Bringing down further this deficit in the next six years and achieving a balanced budget by 2009 is the most formidable macroeconomic challenge for the next President. It has thus been suggested that a deficit-reducing fiscal policy for the next MTPDP be drawn up to avoid a high interest regime and to control the national debt to a sustainable level. As of September 2003, the government’s outstanding regular debt stood at PhP3.2 trillion, or 74 percent of the GDP. If this includes contingent liabilities, total national debt amounts to PhP3.9 trillion, or 90.24 percent of the GDP.

Congress plays a key role in pruning the deficit. Critical laws to plug leakages in the present excise tax system are among those that need to be passed by Congress. Other pending proposals include the organizational reforms in the BIR to minimize graft and corruption.

A reduced deficit is beneficial to the country, as this will ease off pressures for increases in domestic interest rates and halt further depreciation of the peso. Inflation will be kept to levels conducive to growth.

## **SETTING CLEAR DIRECTIONS FOR ACTION**

To understand how our economy has fared under the Macapagal-Arroyo administration, let us first recall what the President had directed. She said our focus must be on “pro-active microeconomic and structural reforms.” According to her, we cannot rev up the old engines of industry as global trends have already dismantled many of them. However, she said we can entice new investments in new technologies by seriously reducing the risks and costs and the bother of doing business in the Philippines.

### **Macro- to Microeconomic Reforms**

As many are aware, I have often spoken about how the country must shift its emphasis on microeconomic reforms which are basically the industry-to-industry type of reforms. I call these the “hard reforms” because at each stage, you have to face well-entrenched, vested interest

groups and bureaucratic inertia that stand in the way of these reforms. Macroeconomic reforms are the “easy reforms.”

## **Agriculture**

In agriculture, examples of microeconomic reforms would include the removal of quantitative restrictions for tariffs (rice, sugar and corn). The tariffication of rice, for example, is expected to lead to the stabilization of domestic prices at some price above world prices, the generation of tariff revenues that can be used to support farm productivity, and the enabling of the rice industry to become more responsive to market conditions.

Enhancing efficiencies in the food supply chain is another example. All our production systems and transport systems are rather inefficient so we need to do something about these sectors, i.e., removing restrictive regulations, working towards more efficient shipping, building more farm-to-market roads, and enhancing irrigation support.

Agro-processing activities are likewise important in increasing employment opportunities in the rural areas as these have strong backward and forward linkages. These activities also employ six times more labor than manufacturing activities. We should therefore continue to promote village level agro processing activities which aim to increase value added to farmers, and create off-farm employment and income opportunities.

Strengthening property rights to stimulate investments is crucial. Secure property rights provide incentives for long-term investments in land and other capital development, and adoption of sustainable management practices. Private property rights can also serve as collateral for credit, increasing the availability and lowering the cost of funds for long-term investments.

## **Industry**

In industry, more support for SMEs must be provided. Filipino micro-, small- and medium-scale enterprises (MSMEs) are collectively the biggest employer of Filipinos, but their contribution to national economic growth has hardly been maximized. MSMEs have the potential to contribute to higher output, widening of the export base and increased employment. Therefore, MSMEs should be provided access to adequate and low-cost sources of financing, assisted in establishing mutually beneficial linkages with larger enterprises, and supported by LGUs for business-friendly policies, among other measures.

Jumpstarting the housing construction sector also spurs economic growth, taking advantage of its multiplier effect. Housing has a high multiplier effect on the economy of 16.6 times, meaning that every P10 billion worth of housing units will contribute a total of P166 billion of economic activity for the country. It has been observed that poverty incidence seems to subside during episodes of high construction activities.

Efforts to revive the mining industry must be continued. The Philippines has great potential to become globally competitive in mining. In terms of mineral resources, the country ranks 3<sup>rd</sup> in gold, 4<sup>th</sup> in copper, 5<sup>th</sup> in nickel and 6<sup>th</sup> in chromite. If properly developed, the mining industry can bring in billions of dollars in revenues for the government. A revival of the mining industry will also help create new jobs for many people, especially those in the remote areas.

## **Services**

In services, further railway development is being undertaken. We recognize that a modernized railway system will accelerate the rate of growth of areas adjacent to Metro Manila, and strategically link Metro Manila to economic zones and industrial areas. Railway rehabilitation also encourages the formation of housing communities and the establishment of new businesses near the railways. And rail-linked construction activities also create much-needed jobs for our less skilled and poorer workers.

Efforts towards greater airline liberalization for tourism and OFWs continues. Deregulating the airline industry simply means allowing airlines to fly to the Philippines as many times as they wish and charge whatever price they like. This would enhance competition among airlines to give better service and prices for the traveling public and our OFWs. It would also boost our tourism industry and create more jobs because tourism has many industry linkages. And we would like to see the Diosdado Macapagal International Airport on Clark as an airline hub for the Asia-Pacific region.

The demonopolization of ports and the modernization of our shipping industry are also vital. The high cost of transporting goods from one region to another in the Philippines unnecessarily raises the cost of the goods themselves. For example, the high cost of transporting agricultural products from Mindanao to Luzon and other markets has hampered the development of Mindanao's economic potential. A modern shipping industry and higher port productivity (thru de-monopolization of ports) will lower the cost of transporting goods and the prices of goods. The reduced cost of doing business and having modernized shipping and port systems that are able to attract investments in turn generate jobs.

And developing our "highways of the sea" is imperative to reduce the cost of transporting goods and people from region to region. The Roll-on Roll-off System is a seamless way of "linking" our islands together, and it reduces transport costs because it eliminates cargo handling and other related costs. The RORO system must be promoted further to attract investments towards its development. This process has begun with the establishment of the Strong Republic Nautical Highway system.

### **Mobilizing Funds**

Domestic funds mobilization is likewise crucial. This entails a focus on tax collection (the BIR as a center of excellence) and tax evasion (the proposed Internal Revenue Management Act to jail tax evaders). With regard to the banking system and the private sector, non-

performing loans are starting to be tackled by the recently enacted law on special purpose asset vehicles, and the Securitization Bill can help raise counterpart funds for housing construction.

## **MAKING THE SHIFT**

I have often emphasized that these reforms are expected to create new jobs and new opportunities for income for many of our people. In other words, microeconomic reforms are expected to more directly impact upon peoples' lives and their quality.

This does not, however, mean that the macroeconomic side of development be shunted aside. Our macroeconomic fundamentals over the past few years have actually proven to be sound and what we actually need to achieve higher economic growth are strategic shifts in growth policies. We must shift, for example, from reliance on external sources of growth to internal sources. We cannot forever rely on foreign investment to spur growth. While our exports continue to do well, it is hardly under our control. Examples of tapping internal sources of growth, among other things, are boosting the agriculture, tourism and housing sectors.

The country must also shift from an emphasis on demand-side measures to supply-side measures. On the macroeconomic side, there is basically investments, government spending, money supply, interest rate, fiscal policy, government spending of taxes, and foreign exchange rate policy. We have done everything on these things. It is about time that we turn to the supply side – the microeconomic side, in order to find out how we can grow faster.

However, none of these reforms will eventually succeed unless reforms are made in the country's political economy. We need to reform the political economy by controlling vested interest groups, by having mechanisms to assure integrity of policies and eventually, by having constitutional reforms.

## **REFORMING THE POLITICAL ECONOMY**

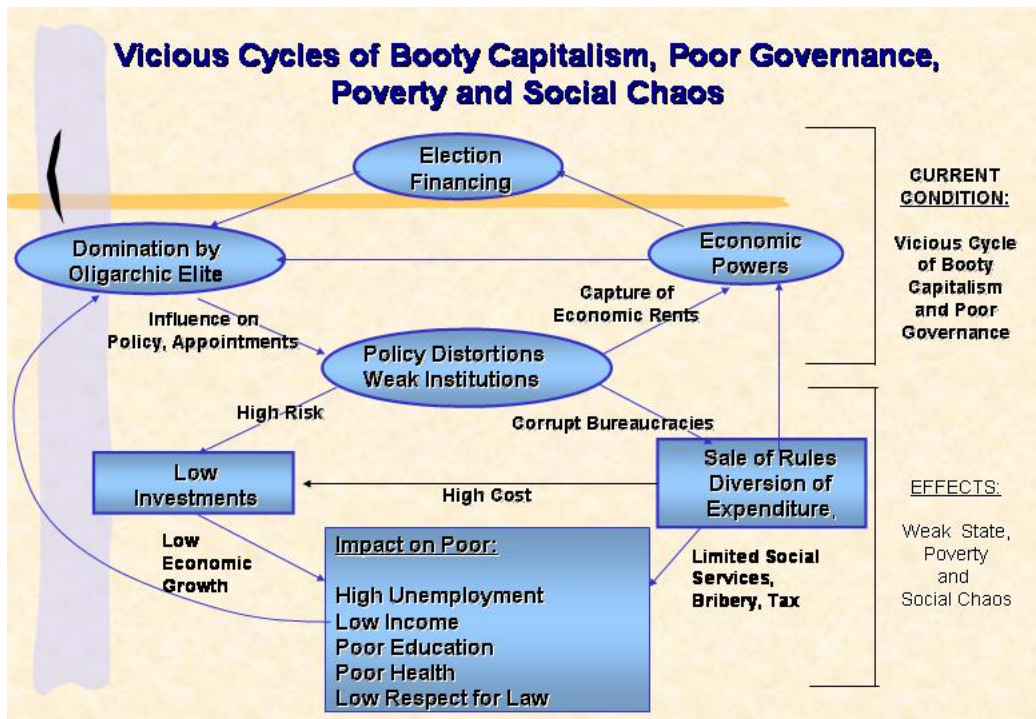
According to Dr. Paul Hutchcroft, a scholar from Yale University who wrote his doctoral thesis on the political economy of the Philippines, "Booty Capitalism" exists where the state is dominated by powerful business groups who finance electoral exercises and use politicians and the machinery of government to further their economic interests.

The vicious cycle of booty capitalism starts when vested interests including powerful business groups, finance their own candidates during elections. When their candidates win, the vested interest groups are able to add political power to their already vast economic power. This oligarchic elite is able to influence policies to the point of distorting them. And their very ability to distort policies allows them to capture economic rent, economic rent being extraordinary profits which make them extraordinarily rich. This gives them greater economic power which in turn allows them to finance our election.

The impact of policy distortions and having weak state institutions make it very risky for investors to come and invest in the country. And if you have low investments, you have low economic growth. The impact on the poor is high unemployment, poor income, poor education,

poor health, and low respect for law. On the State side, if there is a corrupt bureaucracy because of weak state institutions, the sale of rules occurs as well as the diversion of expenditures to graft and corruption. Social services are therefore limited and the bribery tax to the poor is very high. The cost of doing business here also becomes very high.

Political economists, both local and international, have blamed our lack of economic and social progress on the Philippine political and economic elite that fostered restrictive trade, fiscal and exchange rate policies. These policies entrenched oligarchic families while impoverishing the rest of the country. These policies favored capital over labor and import-substituting industries over agriculture, and led to underinvestment in the human capital of the poor.



## Dr. Paul Hutchcroft's Matrix

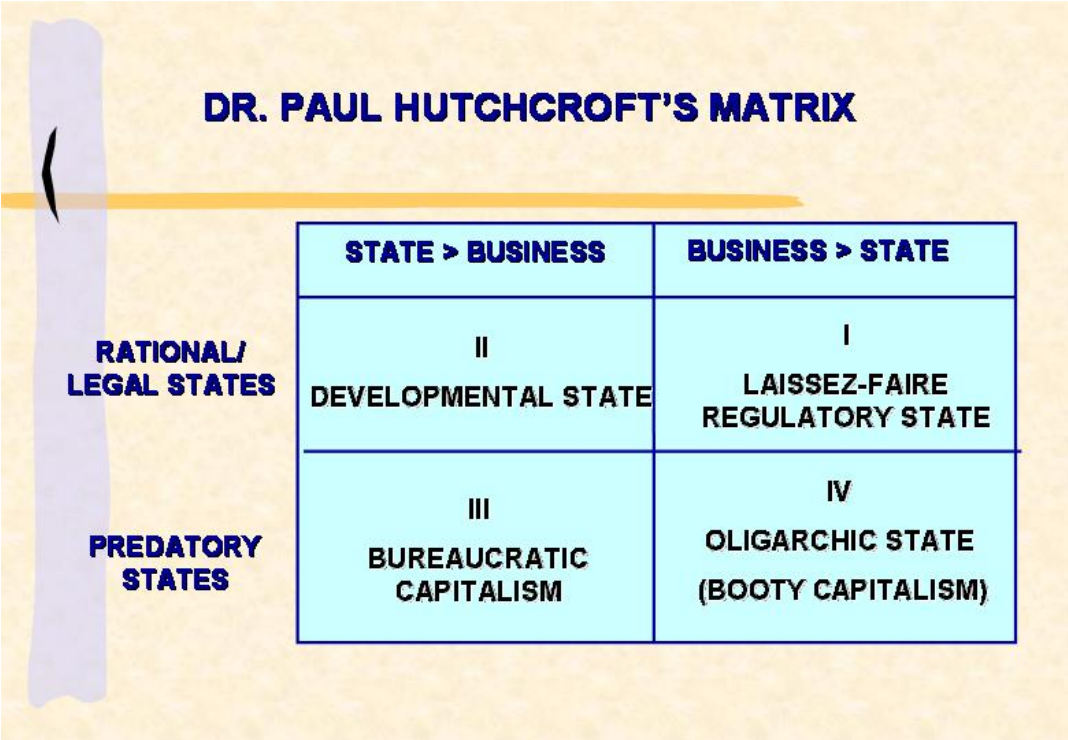
Dr. Paul Hutchcroft said that a state is either a rational-legal state or a predatory state. A rational-legal state makes rules for the good of everybody, while in a predatory state, those in power make rules to enrich themselves. We have a rational-legal state, as in the case of a *Laissez Faire Regulatory State* (Quadrant 1). Supposedly, the best condition is the laissez-faire regulatory state where business is greater than the state but where rules and regulations are enacted and enforced for the good of everyone. *Laissez faire* means to let business do its thing, but with very good regulations.

Another rational-legal state is the *Developmental State* (Quadrant II) where, on the other hand, the state is greater than business. An example of this is Singapore where the government is involved in a lot of activities, and also Japan, Korea and Taiwan in their early stages.

Among the Predatory States, one can have a *Bureaucratic Capitalist State* (Quadrant III) where bureaucrats are very powerful and enrich themselves at the expense of everybody. Or one can have the Philippines – an *Oligarchic* or *Booty Capitalist State* (Quadrant IV) where it is the oligarchs who determine policies – who in effect use the powers of the State to enrich themselves at the expense of everybody.

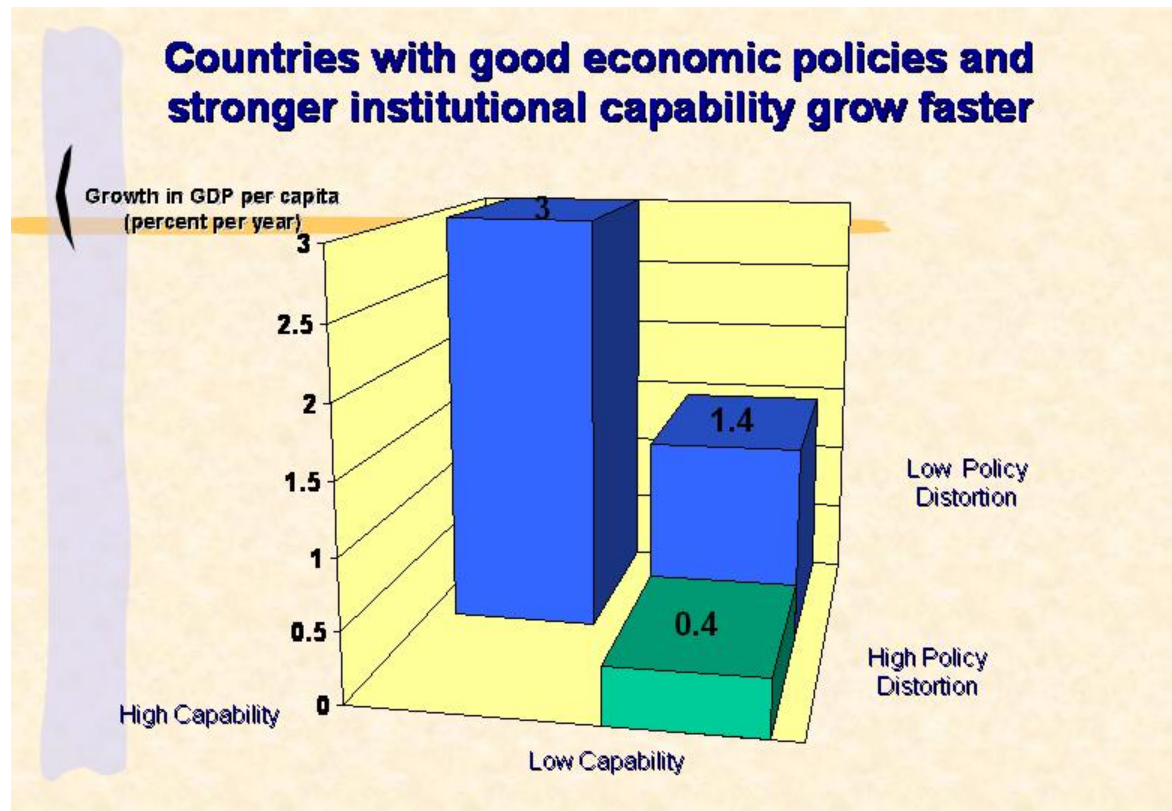
Now investors would like to invest in a Bureaucratic Capitalist State rather than a Booty Capitalist State because the former at least would be able to deliver and has enough powers to do so. In the latter, even if you bribed a bureaucrat, it would be very, very costly to do so, and you

may still not get what you want if there was someone you had forgotten to deal with, or if an oligarch decides to get involved and so on.



**Countries with good economic policies**

A World Bank study shows that in countries with weak state capability and poor economic policies, income per capita grew by only 0.4 percent. In contrast, income per capita in countries with high state capability and good economic policies grew by 3.0 percent. These differences in income growth have made a huge difference to the quality of people’s lives.

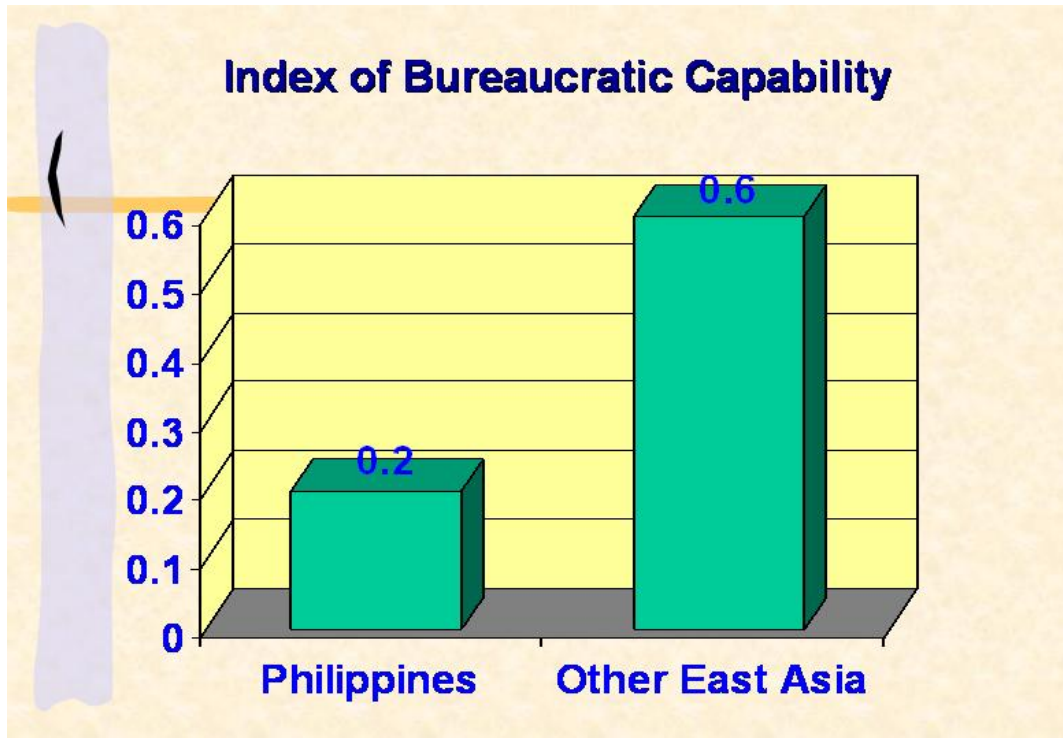


### Index of Bureaucratic Capability

The effectiveness of a state is in part dependent on the capability of its bureaucracy. Good policies will go to naught if the institutions that will implement them have very low capabilities. A highly capable bureaucracy can contribute so much in policy formulation and can promote growth and poverty reduction through efficient delivery of services.

A World Bank study has determined that the Philippine government has become the largest employer in the country. In terms of bureaucratic capability, however, the Philippines

lags behind its Asian neighbors. While the average index of bureaucratic capability in East Asia is 0.6, the country's index is at 0.2.



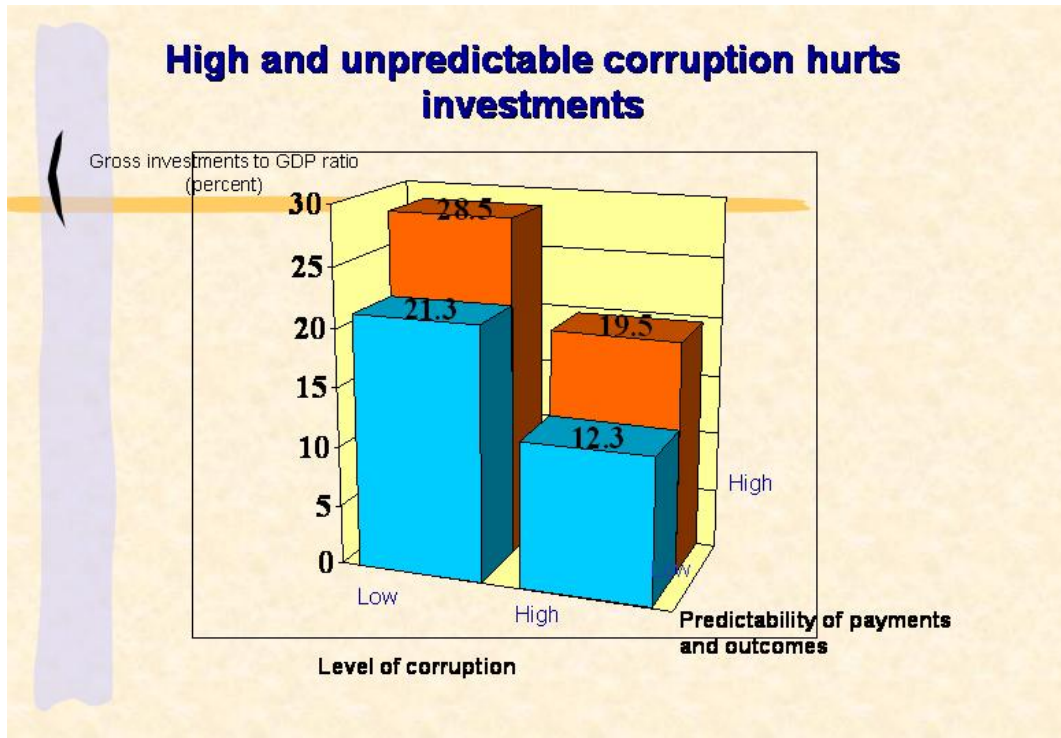
### **Depth of Political Appointments**

Political intervention in the recruitment process, which is based mainly on connections rather than on merit, has further aggravated the situation. This is visible in a review of the depth of political appointments where the Philippines has more political appointees in its bureaucracy compared to other East Asian nations.



### High and unpredictable corruption

Another study has showed that it is both the risk and high level of corruption that really deters investors. When corruption levels are low and predictability of payments and outcomes is high, there results a high liquidity ratio of gross investments to GDP – but if the level of corruption is high, the predictability is low even if you paid – then the ratio is significantly lower. This explains the Philippines’ low ratio.

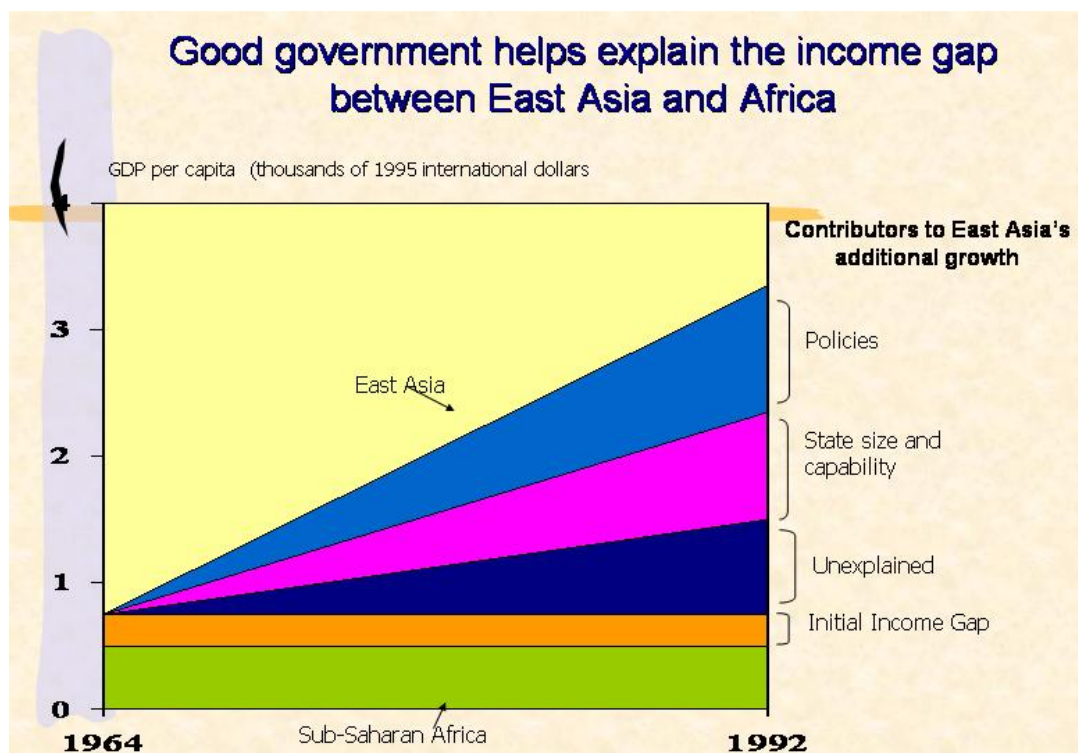


### Good government helps explain the income gap

The importance of having strong and capable state institutions can not be ignored in promoting economic development. It can be clearly seen in the experience of countries in Sub-Saharan Africa and East Asia as reported by the World Bank. In the 1960s, personal incomes in East Asia were only slightly higher compared to those in Sub-Saharan Africa. In the mid-1990s, however, the difference in incomes between the two regions had increased.

The World Bank report pointed out that the difference could be explained by the good economic policies adopted by the East Asian states and the effectiveness in the implementation of these policies. Another reason is that government consumption in the Sub-Saharan states

grew to one-and-a-half times compared to East Asia. This experience shows that good policies and strong and capable state institutions to implement them produce much faster economic development.



### Strengthening State Institutions

Strengthening our state institutions is necessary for greater economic development.

**Discouraging TROs and judicial intervention in business decisions** is important because investors will shy away from countries where the judiciary system is unpredictable. Moreover, a sound judiciary is essential to a properly functioning market economy. Meanwhile, giving a higher pay to judges will help reduce the risk of corruption.

**Strengthening the political party system** entails, among others, allowing for State financing for political parties. This will help ease “money politics” and minimize the influence of interest groups – and increasingly, of drug gambling syndicates – on public policy.

**The limiting of political appointments and the establishment of a credible merit system for appointments and promotions** are requirements for a strong bureaucracy. We urgently need to insulate the administrative service from political influence and to enhance its accountability, transparency and efficiency.

## **A FRAMEWORK FOR NATIONAL WEALTH CREATION**

Let us now turn to another major directive on the economy by the President, which is to attract new investments by seriously reducing the risks and costs and the bother of doing business in the country. As I have elaborated, investors make investment decisions on the basis of risk and return considerations. When financial returns are high and risks are low, they will invest. When risk perception is high or government rules are seen to be arbitrary, job-creating investors will avoid us

The ability of the economy to grow at a higher and sustained pace hinges on increasing investment spending. This entails efforts to improve investor confidence and reduce the political and economic risks factors that make investors hesitant to come in.

The 2002 investment ratio to GDP of the Philippines remains below the pre-Asian crisis levels of 1997, although other countries are similarly situated. To achieve a growth of around 6 percent a year, the share of investment spending to GDP would have to get back to around 24 percent. At present, this share – as of 2002, is 19.3 percent which is relatively low compared with 20.6 percent of Singapore, 24.4 percent for Malaysia, 26.1 percent for South Korea, and 38.5 percent for China. The increase in investment spending, however, will have to be supported by higher domestic savings to avoid an external debt-financed investment-led growth, similar to what happened in the 70s and 80s. This can be done, considering the country's savings rate since 1997 has improved in contrast to the savings rate of its Asian neighbors.

Another important factor that supports investments and sustained growth is the improvement of public governance and peace and order. The Administration continues to combat terrorism and maintain the rule of law and order. The modernization and professionalization of the police and the Armed Forces of the Philippines is ongoing and communication lines for peace talks with the MILF and the New Peoples' Army remain open. Clean and orderly elections for 2004 is necessary to ensure stability and stronger democratic institutions.

Corruption and inefficiency in the bureaucracy continues to be addressed. We are moving to rationalize personnel in government agencies and offices. Aside from reforms in procurement and bidding processes, efficiency is being improved through the use of information technology in most public transactions.

The risk factor is incorporated in my basic framework for national wealth creation where W is equal to P minus C divided by R minus G. Wealth is productivity minus the cost of production divided by the risk of doing business minus the growth factor, where P is productivity, C is cost of production, R is risk factor, and G is growth potential and expectations.

$$W = \frac{P - C}{R - G}$$

These factors explain why we are poor. With the P factor, we have low productivity; the C factor, we have a high cost of doing business, the R factor, we have a high risk or multiple risks, and with the G factor, we have a low growth potential and low expectations of growth. Our challenge is therefore clear.

To increase our national wealth, we need to increase our productivity. We need to produce more goods and services (and create economic value) so that we will earn more. When incomes increase, there will be greater spending which in turn will encourage the formation and growth of businesses.

The key to poverty reduction is generating greater economic value and higher incomes through higher productivity.

Apart from increasing our productivity, we need to reduce the cost of doing business, reduce the risk factor, and increase our growth potential. When we do all these, we will encourage productive investments and create new wealth for everyone – for our country, for our industries, for our firms, and even for our households. When a farmer, for example, increases his productivity, reduces his cost, reduces his risk, and increases his growth potential, he manages to create wealth.

This is why microeconomic reforms are crucial. Providing greater support for small and medium enterprises, boosting our tourism and mining industries, improving our supply chain management, reducing the power cost, and diffusing knowledge through ICT, among other measures, will address our productivity and efficiency or cost variables.

To minimize the risk factor, we need to have law and order, political stability, and consistency of regulations and policies. We need the courts to stop irresponsible TROs because it increases the risk of doing business, and Supreme Court decisions have to be more economically rational. Macroeconomic stability and institutional strengthening are also required.

To increase our growth potential, we need the right public and private investment choices, and of course, human resource development and education.

When we reduce the risk factor, growth will increase because there will be greater investments in the system. As we enhance productivity and reduce cost, growth will again increase because there will be more investments and more investments will lead to national

wealth creation. In turn, national wealth creation will lead to poverty reduction. Studies have shown that 90% of poverty reduction is due to economic growth and only 10% is really due to redistribution.

## **PRODUCTIVITY-ENHANCING REFORMS AND STRATEGIES**

The President is fully aware that one of the means to improve productivity is to provide a greater role for micro, small and medium enterprises (MSMEs). In fact, she has directed the formulation of the multisectoral National SME Development Agenda, with focus on a very important issue: financing. In this regard, the Macapagal-Arroyo administration has allocated substantial funding from government financial institutions for a unified lending program. Called the SME Unified Lending Opportunities for National Growth, or SULONG, this program simplified lending procedures and guidelines and provided for uniform interest rates for loans for SMEs.

As of November 2003, more than PhP24 billion has been lent to SMEs nationwide under the program. Credit costs have been lowered and more funds have been set aside for so-called micro enterprises under the Self Employment Assistance-Kaunlaran Program.

The Small Enterprises Technology Upgrading Program (SET-UP) was launched in 2002 to encourage SMEs to adopt productivity and competitive enhancing measures. As of the end of 2003, a total of 177 projects was approved for funding under this program. It is encouraging to

note that these SMEs who sought help under the program increased production by 38 percent and gross revenues by 28 percent on the average.

Another productivity-enhancing measure is the strengthening of the competitiveness of our tourism industry. Improved tourism facilities and intensified tourism promotion aim to increase tourism traffic in the country. More visitors from the Pacific Rim countries including Japan, South Korea, Australia, New Zealand, Taiwan and South China are being eyed to visit the country, as a result. Bilateral negotiations with these countries, including the United States, are being drawn up to increase air seat capacity for the airlines. North Luzon is also being developed as a major tourist hub for visitors from China and Taiwan where visa entry has been liberalized.

**ICT as A Key Development Strategy.** The Macapagal-Arroyo administration acknowledges information and communications technology (ICT) as a key to finding the country's niche in the global village of the 21<sup>st</sup> century. Thus, a separate chapter, entitled "Building on the Country's Strengths in Information and Communications Technology" has been included in the MTPDP, 2001-2004. Efforts in this sector focuses on five key strategies: (1) building the physical infrastructure to ensure wider, faster, reliable and more affordable access to ICT resources and the Internet; (2) enhancing the policy and legislative environment to promote ICT development; (3) developing the country's human capital by providing Filipino youths and students with the necessary skills to compete in the digital age; (4) promoting the development of business to make them more competitive in the global arena; and (5) promoting good governance

and making government services and information more accessible, transparent, and cost-effective to business and the public.

In December 2001, the National Socioeconomic Pact was forged among government, business, labor and civil society to reduce poverty and accelerate economic growth. ICT was identified to play a major role, through e-commerce and e-governance, to improve government efficiency and enhance the competitiveness and productivity of the economic sectors. The Government Procurement Act was passed in January 2003, installing an electronic procurement system to minimize graft and corruption in the procurement process and speed up documentary and processing work. The Commission on Information and Communication Technology was created in January 12, 2004 to oversee ICT development and applications in government.

The ICT industry has proved itself to be the fastest growing sector during the past decade, particularly in cellular mobile telephone systems development. In fact, the International Telecommunications Union (ITU) has dubbed the Philippines as “one of the most dynamic and closely observed mobile markets in the world.” Internet use in the country continues to grow. The International Data Corporation (IDC) puts the number of Philippine Internet users at 4.31 million in 2001, from 2.88 million users in 2000. This number continues to swell as the government continues to upgrade ICT education and increase the number of Filipinos with competitive ICT skills. Data from the Commission on Higher Education shows enrollment for SY 2001-2002 in ICT and ICT-related courses topped 619,099 compared to 559,438 for SY 1999-2000.

**Knowledge Networking.** Indeed, in this age of information, where the world has become one global village linked by advances in information technology, we must adopt a development approach aimed at leveraging knowledge or intellectual capital for greater efficiency and national productivity, especially among the country's entrepreneurs.

Knowledge on value creating and productivity enhancing technologies (intellectual capital) are disseminated through knowledge networks (structural capital) among beneficiaries including farmers, workers and entrepreneurs (social capital) Through knowledge networking, I envision small entrepreneurs to be able to reduce the risks and costs of doing business and increase their productivity, resulting in more wealth for Filipinos.

The NEDA has already established a Knowledge Web Portal, an Internet-based one-stop website to promote greater productivity in industry, farming communities, and among small and medium enterprises (SMEs). Users or visitors to the site can download or post their own best practices and success stories on enhancing productivity, which can then be shared with others across the Internet. It is a virtual market place for sharing and exchanging productivity enhancing technologies and experiences for the benefit of all.

An example of a practical use of this knowledge website is that it allows farmers to check on the local auction market conditions and sell their products directly to the agricultural trading firms. This practice eliminates middlemen and allows the farmers to have higher income.

The NEDA's partners in this undertaking include the Departments of Agriculture (DA), Science and Technology (DOST), and Trade and Industry (DTI); the Knowledge Management Association of the Philippines (KMAP); and the Asian Institute of Journalism and Communication (AJIC).

**Balanced Regional Development.** Crucial to the government's overall development agenda is the reduction of the disparity between Metro Manila and the rest of the regions. Government efforts in the past three years have been directed towards encouraging growth of urban centers outside Metro Manila while at the same time addressing problems related to the metropolis' development. Local government units (LGUs) were thrust at the forefront of local development, and their capabilities in governance, fund mobilization and program management have been strengthened.

Among the major reforms undertaken to spur regional development is the institution of transportation networks for the physical integration of the regions into the socioeconomic mainstream. The 919-kilometer Strong Republic Nautical Highway was launched, covering 17 cities, towns and islands to reduce travel time using the usual land and sea routes by 17 hours. A major feature of this nautical highway is the construction of roll-on roll-off facilities in major ports to connect adjoining islands and regional centers. Thus one can travel from Manila to the cities of Cagayan de Oro or Zamboanga without getting off from your vehicle. This highway system is also expected to reduce the costs of transporting goods and at the same time promote domestic tourism especially in the Visayas region and Mindanao.

Other activities that promise to open up the countryside to greater development is the Subic-Clark-Tarlac Expressway project north of Metro Manila and the rehabilitation of the south and north lines of the Philippine National Railways.

To enhance the roles of LGUs as economic units, the Local Development Watch project was put into place to complement the physical infrastructure programs being pursued in the areas outside Metro Manila. This project aims to measure the state and the level of socioeconomic development of LGUs. Appropriate interventions will thus be identified and developed to improve local economic conditions. This will be accompanied by the implementation of computerized tax revenue assessment systems to improve tax collections and identify alternative sources of funding for development projects.

**Peace and Development in Mindanao.** The Macapagal-Arroyo Administration's agenda for Mindanao consists of securing lasting peace and accelerating socioeconomic development. As long as there is no peace on this island, investors will always be hesitant to come in, despite the geographical distance from this place to the rest of the islands comprising the archipelago. Peace talks are currently being pursued while a ceasefire has been put into place.

The key development strategies for Mindanao have been put into place. These include: (a) full integration through greater infrastructure development; (b) enhancement of agricultural productivity; (c) cross-border trade and investment through the Brunei-Indonesia-Malaysia-Philippines East Asian Group Area (BIMP-EAGA); and (d) improved delivery of basic social services.

Aside from the regular government programs, the President launched the Mindanao National Initiatives (Mindanao Natin) program during the First Muslim Summit on April 24, 2003. This program focuses on the rehabilitation of Muslim Mindanao, specially the conflict-affected and potential conflict areas. The Autonomous Region for Muslim Mindanao (ARMM) has its own Social Fund for Peace and Development, with funding assistance from the World Bank, to sustain the implementation of local capability-building and livelihood projects in the conflict-wracked island.

## **PROSPECTS FOR 2004 AND BEYOND: SUSTAINING THE GAINS**

At the national level, the ability of the economy to grow at a higher and sustained pace hinges on increasing investment spending. We must improve investor confidence and reduce further the political and economic risk factors. To achieve this, I have pointed out the need to reform our country's political economy through a host of measures which includes allowing for State financing for political parties, discouraging judicial intervention in business decisions, and the establishment of a credible merit system toward a strong bureaucracy. On the economic front, the government is committed to fiscal discipline.

For 2004, policies will be geared to ensuring that the macroeconomic environment remains conducive to growth. Key to this is the control of the national government's fiscal deficit to 4.2

percent of GDP, and the management of the consolidated public sector fiscal position. Inflation is expected to rise although remaining manageable at 4 to 5 percent.

With the expansion of world GDP and the continuing recovery in the global electronics and IT sector, our dollar exports are likely to increase by 10 percent. Demand for overseas Filipino workers is also likely to pick-up after deployment suffered as a result of the US-Iraq war and the SARS outbreak.

Agriculture is projected to expand at a faster pace of 3.7 to 4.7 percent under normal conditions and as the sector further reaps the gains from programs under the Agriculture and Fisheries Modernization Act. The opening/re-opening up of export market for okra, pineapple, and tuna in New Zealand, Australia, and E.U. is also expected to boost agriculture and fishery.

Industry is also seen growing 5.0 to 5.8 percent, led by stronger growths in manufacturing and construction. These sectors are seen to benefit from higher global growth, increased election-related spending, and recovery in remittance inflow. Higher agricultural income shall sustain consumer demand.

The service sector is likewise expected to keep its pace of growth at 5.5 to 6.3 percent. Telecommunication is expected to be the fastest growing sector, propped up by strong consumer demand and sustained growth in IT-related businesses. The transport sector is also expected to benefit from the open skies policy at Subic and Clark and the use of roll-on roll-off facilities.

The financial sector is expected to improve on its performance in 2003, barring the occurrence of major shocks that will affect the cost of borrowing and the exchange rate.

Private services will continue to grow boosted by the expansion of IT businesses such as contact centers, business process outsourcing, software development, and medical transcription, which the government has been vigorously promoting.

Underlying the growth is the continued strength of private consumption which will complement the recovery of exports and the increase in government spending. Private consumption is expected to remain healthy as real incomes improve due to better employment conditions locally and the sustained growth in OFW remittances. Meanwhile, government consumption spending and public construction are expected to firm up, based on the proposed 2004 budget, under which, capital spending is expected to increase by 15.4 percent in 2004 while current expenditures are programmed to increase by 10 percent.

This positive outlook for 2004 may also be traced to the recent improvements in palay production, tourism, exports and the labor situation.

Creating the conditions for sustainable growth is essential to the success of our productivity-enhancing measures. And increasing our country's productivity particularly in the rural areas, as I have noted, is key to reducing poverty.

The resiliency of our economy for the past two years and the growth prospects for 2004 encourage us to continue with the microeconomic and structural reforms we have started. In other words, we have made progress in laying the foundations for higher and sustained economic growth – the kind of growth that will lead to more tangible improvements in our overall poverty situation.

Our direction has been set, and a determined focus on the task at hand will certainly go a long way towards promoting faster and sustained economic growth which is key to poverty reduction.