

**TREND IN COMPETITIVENESS RANKINGS**  
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Good morning, everyone. Thank you for this privilege and opportunity to give the integrated government response to the AIM Presentation on the State of Philippine Competitiveness 2009.

Overall, 2009 will be about achieving a flat trend in competitiveness rating due to the global financial crisis. The National Competitiveness Council normally looks at 7 rating institutions in getting a snapshot of Philippine competitiveness. It's not an easy and straightforward process since it is like comparing apples and oranges.

For instance, WB-IFC focuses only on bureaucratic red tapes during business transactions with government agencies, although we know that competitiveness of local industries and services is not solely dependent on this. World Economic Forum and IMD, on the other hand, combine manifestations of a poor economy (called the soft factors such as quality of life, environment, and health education benefits) or what some call the manifestations of social weakness. However, I suggest that we pay closer attention to the solid causes of non-competitiveness as identified earlier by Harvard Business School using the Porter's Diamond Model.

Recently the results of the IMD World Competitiveness Yearbook 2009 were announced by AIM. The Philippines slid marginally from 40<sup>th</sup> to 43<sup>rd</sup> position out of 57 – not good but not dreadful considering the adverse environment which dropped Taiwan, Greece, Ireland, Spain, among others by 5 to 10 slots. We should also note that the number of countries included in the survey increased by 2, with the inclusion of Qatar and Kazakhstan, and that one of our neighbors, Indonesia, improved its ranking by 13 notches. Take note, too, that both Qatar and Kazakhstan have relatively smaller population than the Philippines and have oil and natural gas revenues to perk up their economy.

Most of our weaknesses are in the so-called social indices brought about by the low level of economy, jobs, markets, and savings. These are Infrastructure, Health, Education, and Environment. However, the Institute for Management and Development (IMD) ranked the Philippines 32<sup>nd</sup> out of 57 in Stress Test on Competitiveness, indicating our economy's robustness. We are ahead of UK, Indonesia, Belgium, Mexico, France, and Italy among others. This is the result of the right mix of fiscal and monetary policies that the national government has been implementing which has significantly helped to mitigate the adverse impact of the global economic crisis on the Philippine economy.

Aside from the IMD and the World Economic Forum (WEF), there are other institutions looking into critical competitiveness indicator. For example, eStandardsForum of New York rates the Philippines very good in its compliance with 12 key standards for sound financial system: No. 26 out of 81. Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Philippine Stock Exchange (PSE), Insurance Commission (IC), etc., policy settings and their enforcement, control of public corporations, accounting/updating systems, government effectivity - these were all seen to be quite good. However, we are not as highly rated in Business Indicator Index: No. 64 out of 81 – although ahead of our neighbors Malaysia, India, Indonesia, Vietnam and Thailand. The eStandardsForum uses only information that is public and authoritative – it stays away from anecdotal tales and surveys of dubious values.

The annual FORBES Best Countries for Business is eagerly awaited by big businesses especially in the West who are looking for investment opportunities. This year, Forbes ranks the Philippines No. 91 out of 127 – ahead of Argentina and other South American countries and Vietnam. Our good trade balance and the potentially big market attract investors, although they take note of the high unemployment rate. Joblessness is the main threat to our economy – hence our market remains small despite our huge population because of the “low buying power” of Filipinos. Please take note that just last week, according to Bloomberg, the United States and Europe are experiencing 9.4% unemployment rate, the highest in more than a decade that is considered a major factor in market recovery assessment.

Jobs are important even in China, where the youth who fought for democracy at Tiananmen Square 20 years ago now rank “jobs” higher in their list of priorities. The weakness of social indices is a manifestation of the imbalance between our big population and the low revenue collection, which makes it difficult for government to carry out its basic obligations effectively. Additionally, there are “inefficiencies” or “leaks” that need to be addressed to ensure that the precious revenues collected are spent judiciously. But ultimately, all three functions—high population, low revenues, and inefficiencies—must be addressed to achieve an improvement in social indices.

The Organization for Economic Development and Cooperation (OECD) is doing an annual evaluation of corporate governance practice with several countries worldwide. The hypothesis is that good corporate governance is a prerequisite for business to grow and take more responsibility for the country’s credibility. After all, bribery and corruption are two sides of the same coin. The worst situation takes place when the line of business interests intercepts with the line of government authorities, per study of AIM.

Lately, the OECD finds the Philippines among the top in corporate governance in Asia and will showcase this experience in their Asia Business Roundtable later this year. This acknowledgement has ramifications on the maturing trend of our corporations and their ability to bring public governance to a higher plane in the spirit of private-public-association.

Depending on how soon and how well the world economy recovers, the aggregate Competitiveness Rating for the Philippines may be even higher in 2010. With the active role of the private sector in working with government agencies to improve processes in certain key agencies, we are confident that the Philippines is on its way to competitiveness recovery.

As this Conference would focus on critical elements of infrastructure (specifically, energy, transportation and logistics, and human resources), where the Philippines ranks in the 50s (that sad to say, pulled down our overall competitiveness), allow me to provide critical information that I believe were not imputed by those surveyed for inadequacy of awareness or worst, for being skeptical in terms of planning and implementation of these infrastructure projects.

Long before the 2009 WCY results came out, the government was already addressing the infrastructure gaps by implementing the super region strategy as the development blue print. The “super region” strategy groups regions and provinces by their economic strengths and provides for massive infrastructure investments to stimulate economic growth, spread development away from an inequitable concentration in urbanized areas, and set the country in step with its Asian neighbors.

The following super regions were formed with their respective development themes:

- The North Luzon Agribusiness Quadrangle (NLAQ), shall focus on agribusiness development;
- The Luzon Urban Beltway (LUB) shall serve as a globally competitive logistics and services hub;
- The Central Philippines, with its central theme of tourism development;
- The Mindanao Agribusiness super region, shall also focus on agribusiness development; and

The Cyber Corridor shall promote information and communications technology and the knowledge economy.

As outlined in the 2004-2010 Medium-Term Philippine Development Plan (MTPDP), infrastructure development ranks high in the Philippine Government’s priorities, as it is vital to accelerating the country’s economic growth and global competitiveness. In recognition of this persistent challenge, the government, through the coordination of NEDA, has formulated a Comprehensive and Integrated Infrastructure Program (CIIP), which was presented to the Philippine Development Forum (PDF) in March 2008. The elements of a work plan for this year, under the thematic issue, “Addressing Infrastructure Bottlenecks”, had been affirmed in a multi-sectoral infrastructure workshop held prior to the conduct of the PDF last year which involved four (4) types of initiatives that need to be pursued in the infrastructure agenda: policy reforms, institutional initiatives, administrative improvements, and public investments in the form of specific programs and projects.

Five major thrusts have been identified which include the following:

1. Fast track-implementation of infrastructure bottlenecks;
2. Implement clear competition policies in infrastructure provision;
3. Undertake capacity building in infrastructure development;
4. Improve the linkage between planning, budgeting and funding process;  
and,
5. Pursue the triple bottom line (economic, social and environmental) in infrastructure development.

The immediate imperative is to implement key infrastructure projects under the updated 2008-2010 Comprehensive and Integrated Infrastructure Program (CIIP) and huge funding estimated at P2 trillion is required. According to NEDA, P1.15 trillion of CIIP's financing would come from the national government and P613 billion from the private sector.

The government's strategic measure to minimize the impact of the global economic slowdown on the country includes spending trillions of pesos to finance infrastructure projects up to the end of the current administration.

Of CIIP's total fund requirements, the transportation sector has the highest share at 38 percent or P755 billion followed by power electrification, P611 million; water resources, P347.53 million; social infrastructure, P167.91 million; communication, P56.49 million and relending program, P36.69 million.

#### Road Transport Network

Of the whole transport sector, roads and bridges and rail transport with shares of 44 percent and 39 percent, respectively, comprise the biggest investment requirement. Roads are being linked with the roll-on roll-off ports of RORO ports.

The P94 billion will be funded by the government-owned and -controlled corporations; P26 billion by government financial institutions; P10 billion by local governments and P118 billion will be funded through other sources such as grants and Universal Charge for Missionary Electrification.

Given the huge investment associated with transport projects, the government would continue to tap the private sector in the development of priority projects under the BOT (build-operate-transfer) law and public-private-partnership (PPP) programs. Through these, the government can harness private sector finance and efficiency in the provision of the much-needed infrastructure and development requirements.

Projects such as the Tarlac-La Union Toll Expressway, Panguil Bay Bridge, Manila-Cavite Toll Expressway Extension, Daang Hari-SLEX Link Road, South Luzon Expressway Extension Project, and Southern Tagalog Arterial Road Project, among others, are being proposed for private sector financing.

In order to implement an integrated urban rail-based mass transport system project like the LRT Line 1 North Extension (Closing the Loop) is being fastracked. Further, to provide efficient mass transportation, the government plans to increase capacities of existing railway lines through projects like MRT3 Capacity Expansion, and existing rail facilities will be extended through LRT Line 2 East Extension to Masingag and Line 1 South Extension Project.

Moreover, in line with decongesting Metro Manila and spreading development in the countryside, are the Northrail-Southern Linkage Project, Phase 1 (Caloocan to Alabang) and Phase 2 (Alabang – Calamba), North Rail Project Phase 1, Section 1 (Caloocan-Malolos) and Section 2 (Malolos-Clark), Mainline South Railway Project (Southern) Phase IA (Calamba- Lucena), Phase 1B (Lucena-Legaspi) and Phase II (Extension to Sorsogon).

#### Strong Republic Nautical Hi-way (SRNH)

This nautical highway system in the Philippines is an integrated set of highway segments and vehicular ferry routes which, considered in combination with other road and inter-island ferry routes not formally part of the SRNH, forms the backbone of a nationwide vehicle-accessible transport system. The government has already completed the third component of the nautical hi-way. The hi-way network is comprised of western, central and eastern routes starting from Southern Tagalog region and concluding in Central Mindanao. The system reduces the usual travel time by 17 hours to the different key cities, enhances the accessibility of the prime

tourist destinations, and minimizes the handling expenses of goods, all over the country.

### **Energy Infrastructure**

The government is forging ahead with plans to realize energy security and optimal energy mix. It is pushing exploration and development of resources like geothermal, wind, solar, hydro, tidal and biomass at the same time increasing the utilization of alternative fuels like biodiesel, LPG and compressed natural gas (CNG) in the transport sector and strengthening energy efficiency and conservation programs across sectors.

The implementation of critical and strategic energy infrastructure projects is the key strategy towards achieving energy independence. With the signing of Renewable Energy Act (RA 9513), the government has already taken strides in pursuing energy independence and saving reforms package that seeks to achieve a 60% self sufficiency level in energy requirements by 2010, and thus shield the country from the adverse effects that may result from world's oil price instability. Complementing these objectives, renewable energy activities are listed as priority projects under the 2009 Investment Priorities Plan (IPP). Priority projects concerning efficient utilization and conservation of energy are given fiscal and non-fiscal incentives.

The Philippines remains the world's second largest producer of geothermal energy with installed power generation of 1.958 megawatts (MW), which was already boosted by the operation of three service geothermal contracts in Leyte, Batangas, and Compostela Valley. The operation generated a combined 100 MW electricity. Moreover, the country's installed hydropower capacity of 3, 289 MW will be greatly increased with operation of mini hydro plants with total capacity 13.5 MW.

## Logistics

Pursuant to the MTPDP and IPP, the government is promoting investments in the logistics sector. The 2009 IPP has included logistics as among the priority areas for investments. This covers development and operation of ports, terminals, machineries, and post harvest facilities. In line with framework of Super Regions, the government with the support of private sector is continuously promoting and developing the Subic and Clark as major international service and logistics center in the region. The thrust is to explore and identify areas for development and establishment where logistics companies can be encouraged to locate thru grant and incentives and other privileges.

The Subic port expansion began in 2008. In Clark, the government is implementing an open skies cargo policy coordinating with logistics operators like UPS and Asia Overnight, expanding cargo-handling facilities and upgrading the passenger terminal and facilities. SCTEX, a 94-kilometer expressway between Clark and Subic has been operating for a year to accelerate logistical mobility in the region.

Moreover, the government is proud to cite that work will soon start to develop a 167-hectare prime property adjacent to the Diosdado Macapagal International Airport into the \$1-billion Global Gateway Logistics City (GGLC) in Clark. The project will be the first fully integrated master-planned center for airport and aviation-oriented operations and businesses in the Philippines; it will be a crucial hub as envisioned to be the best service and logistics center in the region. The state-of-the-art facilities including excellent infrastructure, a comprehensive security system, which is just the phase I and sophisticated communications networks, along with many other physical amenities. And we count on Global Gateway to be managed and maintained to the highest international standards, befitting the international companies who will be locating here.

## Conclusion

The global economic situation puts a lot of challenge to the country to be able to sustain these measures in terms of resources given the effects of the global financial crisis. But there is a silver lining in the horizon as I am happy to note that confidence in the Philippine economy remains as pointed out by the World Bank in its latest East Asia and Pacific Update titled "Battling the Forces of Global Recession." However, this should not give us reason to be complacent or contented. On the contrary, we should always be in a state of constructive discontent, which moves us to always make things better.

Thank you.