CHAPTER 1

THE CRUX OF THE CRISIS: A GOVERNANCE ANALYSIS OF PHILIPPINE UNDERDEVELOPMENT

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INTRODUCTION

With the current political regime, the Philippines is poised to make systematic economic and social change bringing an air of optimism among its people. President Benigno Aquino III enjoys an approval rating of 71 percent as noted by the Social Weather Station's survey on 3-6 June 2011, signifying a sustained high public trust and confidence in his leadership after a year in office (Lopez, 2011). The current administration's first budget emphasized education and other social spending programs which signaled a shift of focus to human development. While continuing to face budget shortfalls, the Aquino administration has relative ease in issuing both domestic and international debt to finance the deficits, apart from enjoying significant increases in investor confidence (ING Investor Dashboard, 2010). President Aquino was given the Public Affairs Asia's Gold Standard Award for Political Communications "in recognition of his administration's communications platform in promoting transparency and accountability in government."[1] This is widely seen as a new era of good governance and political leadership that would propel the Philippine economy to a more

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[1] Aquino won over Lee Kuan Yew, Minister Mentor and first Prime Minister of Singapore; Ambika Soni, India's Minister of Information and Broadcasting; British Prime Minister David Cameron; ASEAN Secretary General Dr. Surin Pitsuwan; and Indonesian Politician Anas Urbaningrum Yudhoyono at http://globalnation.inquirer.net/news/breakingnews/view/20110120-315635/Aquino-wins-Gold-Standard-Award-on-Political-Communications.

dynamic pace at par with Southeast Asian economic leaders such as Singapore and Malaysia.

Amid such optimism, however, is the same political landscape that is defined by decades of cataclysmic shifts in power and alliances among the ruling elites. The country continues to thrive amid a context of intense political rivalries and bloody elections, of a long tradition of local-based political dynasties, of wealthy landlords and corporate owners taking control over the reigns of the bureaucracy and policy machineries of the government. While there is much hope placed in the governance reform platform of the Aquino administration, compelling reasons to be cynical —such as these political constraints— remain. Essentially, the question is: "Would Aquino's brand of good governance reform succeed in promoting development in the midst of the political context of the country?" The objective is to understand the bottom line of the country's development problems. In an age where the prevailing theme in international development is that "governance matters", it remains uncertain what essentially constitutes governance and what can actually define its quality, i.e. to constitute as good vis-à-vis the political environment. It can be noted that the concept is all-encompassing and evolved to become more complex with ambiguous parameters and contours, often adjusted to address a particular agenda. Hyden and Olowu (2000: 6) contended as follows:

> "Governance was never allowed to become a conceptual straight-jacket but was expected to function as a rather loose framework within which each researcher could creatively explore political issues of significance. The problem that we encounter, therefore, is not the limitations stemming from the imposition of a confining concept, but rather the opposite: the challenge of making sense of the wide range of interpretations of governance that the authors bring to the agenda".

This paper revisits prevailing conceptual definitions and proceeds to argue that governance is fundamentally a political process —a process upon which power is controlled, exercised and allocated in society. It is about who controls what, how and for whom which is the very essence of politics. As a paradigm shift in the role of government, governance is a political process, which extends beyond the confines of, yet still predominated by, government. Drawing from the convergence of paradigms, it argues for a governance analysis that looks into the interweaving institutional and political economy factors that shape the economic and social development of the country. Taking off from this framework, it explores the various strands of analyses that explain the constraints to Philippine growth and development in the past decades. It then proceeds to drilling down to the crux of the crisis upon which it outlines a trajectory of governance reform that takes into account the requirements for the country's political development along with achieving economic and social development.

1. GOVERNANCE ANALYSIS: A FRAMEWORK

The concept of good governance emerged in 1989 in the World Bank report on Sub-Saharan Africa, characterizing the problems in the region as a "crisis of governance" (World Bank, 1989). It underpinned the persistence of widespread corruption in developing countries and the prevailing lack of commitment among recipient governments. It called into question the assumption that as economic growth is achieved, political development automatically follows. The World Bank then argued that political economy considerations should be given prominence. This political component of governance is clearly reflected in its original definition of the concept. However, over the past decades, the World Bank has been constrained by its technocratic ethos and restricted its measures of governance along institutional, administrative and procedural indicators. Santiso (2002: 12) noted that: "While recognizing the importance of the political dimensions of governance, the World Bank interprets the concept restrictively, arguing that the first aspect —the nature of the political system— falls outside the purview of its mandate enshrined in its Articles of Agreement. Governance has been defined in politically neutral terms focusing on its economic dimensions."

Bøås (2001: 2) explained that: "Governance is a difficult concept for the multilateral development banks that do not want to be seen as political and have, since their establishment, advocated a doctrine of political neutrality. They have embraced the functionalist logic that technical and economic questions can be separated from politics." Governance was then equated with "management of the development process" and good governance as "sound development management" regarded as critical for ensuring adequate returns and effectiveness of programs financed. From this perspective, the main thrust of governance-related activities has been public sector management, financial management, the modernization of public administration, and privatization. It encompasses the functioning and capability of the public sector, as well as the rules and institutions that create the framework for the conduct of both public and private business, including accountability for economic and financial performance, and regulatory frameworks relating to companies, corporations, and partnerships.

This framework was supported by succeeding discourses seeking to highlight the important developments in institutional arrangements emerging in the bureaucracy. Along the agenda of 'Bringing the Bureaucracy Back In', Meier and O'Toole, Jr. (2006) provided a benchmark to understanding the changing paradigms of the administration-politics relationship. They argued (2006: 2-3,148) that "today's realities of governance… often involved networked combinations of public, private and non-profit organizations jointly implementing public programs. These changes mean that the political-control literature underestimates the difficulty of controlling the bureaucracy." They postulated that bureaucratic actions can be driven by various motives and incentives, and thus, may not always coincide with political directions: "Bureaucracies might deviate from political goals because they are responding directly to the public, because they are considering issues of efficiency and effectiveness, because professional values dictate another course, because the political goal is difficult to achieve, or because those executing policy reject the notion of political control." They would then emphasize the need to recognize current developments in program design and consider the "processes and procedures" used by administrative agencies to generate outputs and outcomes (Meier and O'Toole, Jr., 2006: 147).

This functionalist approach to governance, however, continued to be widely criticized as giving governance a false sense of political neutrality, portraying development without politics and giving a sense that technical solutions can solve political problems. "Politics is treated as a negative input into policy decision-making" (Grindle, 2001: 370), as the politics of rent-seeking negatively distorts policy decisions. "It circumvents politics by negating it" (Santiso, 2002: 13). It fails to capture "the essence of policy making in political communities: the struggle over ideas" (Stone, 1989: 7). Thus, the "importance of government credibility and commitment to policy reform has been essentially neglected as a pivotal condition for effective economic reform" (Ahrens, 2001: 75).

The concept of separation of politics from administration, otherwise known as politics-administration dichotomy, has long been questioned as more evidences proved that the reality is characterized by the intricate influence of political structures in the administrative process. Lowi (1969) provided a characterization of bureaucratic subservience to political control by arguing that bureaucratic decision-making typically forges alliances with the most powerful interest groups and legislative committees to stabilize their jurisdictions. This is based on Robert Michels' "iron law of oligarchy" (1911), a dynamic in which bureaucracies engage in co-optive strategies to protect themselves vis-à-vis increasing power held by political leaders in the center of organizational action. Hutchcroft (2001: 27,46) asserted categorically that in the real world, there is a constant interaction between authority and power. He explained that, "the struggle for power is endemic in administrative relationships. Administrative structures of authority can be conceived of in formal terms but they are always imbued with informal networks that display their own dynamics… and patrimonial features that continue to pervade formal structures of authority."

Development is fundamentally a political process. It involves balancing of interests, the distribution and control over power and resources and thus should not be tackled in isolation from the political dynamics in a country or social context. Leftwich (2001: 121) stressed that, "all development is inescapably political, not managerial and administrative in current technical sense." So is governance essentially a political process. Governance always touches on politically sensitive areas because of its inherent political implications. Shepherd (2001: 318-19) would note that the "constraints on poverty reduction —among which resources, politics, and conflict— are not really confronted…The havoc wreaked by complex political emergencies —firmly on the international community's agenda now for over a decade— is not yet recognized as a major issue for would-be reducers of poverty." The table below shows the intrinsic political nature of governance as defined by different institutions. Notably, however, while there is emphasis in the role of the State and the importance of its capability, the indicators of good governance highlight more on institutional and policy measures without saying much on measuring actual political development of a state.

1.1 Bringing Politics Back In

Amid a growing criticism against depoliticizing development and governance, there emerged a trend in international development community in consciously putting politics back in the picture. Donors and analysts are encouraged to invest in governance and political economy (GPE) analysis to take into account a country's political and economic realities in pursuing development programs. The political economy analysis provides a tool to enable development practitioners to better understand key political dimensions in a particular context in which they operate. The Organisation for

Economic Cooperation and Development (OECD) is adopting a program on 'Making Reforms Happen,' intended to support member countries in better analyzing the political economy factors in reforms. This is based on a broadening agreement that accelerating growth depends on mustering the political will to overcome vested interests blocking reforms, along with governance and institutional factors. The UK's Department for International Development's (DfID) Drivers of Change and the Dutch Strategic Governance and Corruption Analysis conducted country assessments, which contribute to a better understanding of the political context in which donors operate.

Table 1.1. Governance: A Fundamentally Political Process Predominated by the State

Institution	Definition of Governance	Indicators of Good Governance
World Bank	Governance is the manner in which *power is exercised* in the management of a country's economic and social resources for development (1992). Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them (2010)	Good governance entails sound public sector management (efficiency, effectiveness and economy), accountability, exchange and free flow of information (transparency), and a legal framework for development (justice, respect for human rights and liberties). Six main dimensions of good governance: Voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption (Kaufmann, Kraay, Mastruzzi, 2006).
ADB	"GOVERNANCE is the manner in which *power is exercised* in the management of a country's social and economic resources for development. Governance means the way those with power use that power." (2005)	Good governance as "sound development management" based on four interrelated "pillars:" accountability, transparency, predictability and participation (1995). For the ADB, "good governance is good government" (1999). As of latest, adopts the World Bank's six dimensions of governance.

(*continued*)

Table 1.1 Governance: A Fundamentally Political Process ……… (*continued*)

UNDP	GOVERNANCE is the *exercise of political, economic and administrative authority* to manage a country's affairs at all levels. It comprises mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences." (1997)	Good governance is, among other things, participatory, transparent and accountable, effective and equitable, and it promotes the rule of law. It ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources. Recent emphasis on the role of the State in democratic governance (2010)
DfID	Governance is about the capability of governments to get things done, how they respond to the needs and rights of their citizens, and how, in turn, people can hold their governments to account. In short, *governance is about politics* —the way in which citizens and government relate to each other. (2006: 18)	Good governance requires three things: • State capability – the extent to which leaders and governments are able to get things done. • Responsiveness – whether public policies and institutions respond to the needs of citizens and uphold their rights. • Accountability – the ability of citizens, civil society and the private sector to scrutinize public institutions and governments and hold them to account. This includes, ultimately, the opportunity to change leaders by democratic means (2006).

Recognizing that political economy factors influence whether and how reforms happen and play a critical role in shaping development effectiveness and outcomes, the World Bank pursued a problem-driven approach to make the GPE analysis operationally relevant. A problem-driven approach comprises working through three layers: (i) identifying the problem, opportunity or vulnerability to be addressed, (ii) mapping out institutional and governance arrangements and weaknesses, and (iii) drilling down to the political economy drivers, both to identify obstacles to progressive change and to understand where a 'drive' for positive change could emerge from. This approach can be applied to analysis at country, sector, or project levels (Fritz, Kaiser and Levy, 2009). Specific World Bank programs such as Institutional and Governance Reviews and Poverty and Social Impact Assessments have included political economy content in their analyses.

While the GPE analysis made advances in bringing politics back in the development equation, governance analysis however is notably still treated as separate from political economy analysis. This paper rather argues for a governance analysis framework that combines the two into a single matrix to facilitate an integrated analysis that captures the complex interplay to which existing power structures, institutional and societal relations in a given context influence development outcomes. Governance being a fundamentally political process, this paper takes reference to the propositions by 1) Hirst (2000: 14) that good governance means "creating an effective political framework conducive to private economic action: stable regimes, the rule of law, efficient State administration adapted to the roles that Governments can actually perform and a strong civil society independent of the State"; and 2) Pierre and Peters (2000: 12) who argued that in governance "the State is still the centre of considerable political power… playing a leading role, making priorities and defining objectives." Taking off from such frameworks, this paper pursues a governance analysis that explores the complex interplay of institutional, administrative, societal and political factors —all governance factors— that influence the prevailing crisis in the country's development.

2. THE CRISIS IN PHILIPPINE DEVELOPMENT

The recent Philippine economy is not necessarily stagnating. Since 2000, the country registered an average annual GDP growth rate of 4.5 percent. While its economic growth slowed substantially during the global economic recession in 2008 and 2009 with minimal 3.6 and 1 percent growth, respectively, the country managed to avert a fiscal crisis.[2] In 2010, it registered a growth rate of about 7 percent, a sign of economic recovery. However, the country's economic growth is notably slow and steady rather than dynamic which constrains the Philippines from keeping pace with many of its counterparts in Southeast Asia. This can be gleaned from the country's GDP per capita growth relative to its neighbors from 1980-2010. For the past three decades, it has been advancing at a very slow pace with a compounded annual growth rate of only 3.72 percent, paling in comparison to its

[2] "These are due mainly to minimal exposure to securities issued by global financial institutions, lower dependence on exports, relatively resilient domestic consumption, supported by large remittances from overseas Filipino workers and a growing business process outsourcing industry." The World Fact Book, US-CIA, 14 February 2011.

neighbors with compounded growth averages between 6 to 8 percent. Even Myanmar is growing faster at 7 percent. The remarkable leaps of Vietnam with 8.13 percent compounded annual growth rate allow it to sit closely parallel to the Philippines in 2010 in absolute per capita income. It becomes increasingly evident that the Philippines is underperforming and not reaching its economic potential.

Table 1.2. Philippine GDP Per Capita (in PPP US$) vis-à-vis ASEAN counterparts

	Philip-pines	Singapore	Malaysia	Thailand	Indone-sia	Vietnam	Cambodia	Laos	Myanmar
1980	1247	7069	2350	1089	726	299	-	341	163
1985	1333	11,205	3420	1644	1058	491	398	564	241
1990	1751	17,843	4840	2903	1538	657	562	684	231
1995	1981	26,256	7520	4683	2264	1008	646	922	314
2000	2320	32,250	9169	4962	2441	1423	907	1179	458
2005	2934	43,975	11,610	6837	3207	2142	1456	1647	859
2010	3725	57,238	14,603	8643	4380	3123	2086	2435	1246
Total Growth	198.72%	709.70%	521.40%	693.66%	503.31%	944.48%	424.12%	614%	664.42%
Compounded Annual Growth Rate	3.72%	7.22%	6.28%	7.15%	6.17%	8.13%	6.85%	6.77%	7.01%

Data Source: http: //www.indexmundi.com or http: //www.indexmundi.com/philippines/gdp_per_capita_ (ppp).html (Total Growth and CAGR calculated by the author)

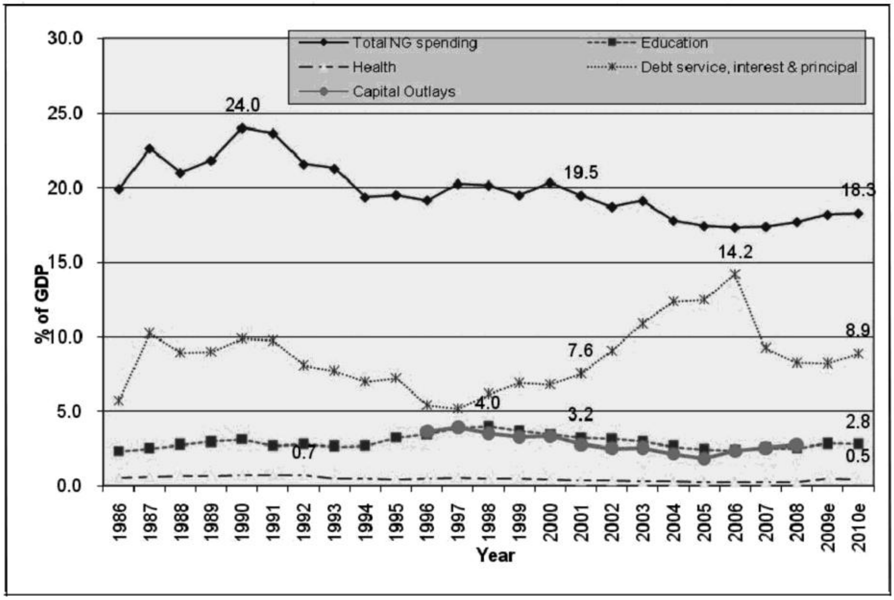
One major factor to which the slow economic growth trajectory of the Philippines can be attributed is the country's low rates of investment. Investment is critical in increasing productivity, in creating more job opportunities and in ensuring the economy's competitiveness. However, the International Monetary Fund's Philippine Country Report (2011: 5) noted that "both public and private investments have been anemic in the Philippines compared with other Asian economies." The report highlighted that the ratio of public investment to GDP declined from 5 percent in the 1990s to 3 percent in the 2000s (2000-2009) and the ratio of private investment to GDP declined from 17 percent to 13 percent during the same period. The gross fixed investment of the Philippines in 2010 accounts for only 16 percent of the country's GDP. Other countries in the region spend between 20 to 35 percent of their GDP in gross investment in the same year (see Table 1.2).

Investment requires increased revenues, improvements in institutional quality, business climate and basic infrastructure. However, the country's investments are dragged down by the interplay of factors including: 1) low revenues, 2) chronic fiscal deficits and 3) high external and public debts. First, the government's tax collection effort fails to match the expansion of the country's GDP. As of end 2010, it remains at a low 13.28 percent of GDP, a minimal growth from 2009's 12.8 and lower than the 14.2 collection rate in 2008 (Department of Finance in Agcaoili, 2010). Second, the government is running a large fiscal deficit of US$7.7 billion (about PHP320 billion), 2.2 per cent of GDP (PPP) as of 2010 (Domingo, 2011). These two factors make the country unduly dependent on foreign capital to augment low domestic capital accumulation and obtain foreign exchange needed to finance development. Thus, it created a chronic public sector deficit, which led to the stockpiling of the country's foreign debt. In 2010, the total external debt of the Philippines amounted to US$60.1 billion (31.8% of GDP) (Central Bank of the Philippines in GMA News, 2011).

The desperate need for foreign investment has pushed the country to lower tax rates and raise fiscal incentives for foreign capital. Its high dependence on foreign capital has made the Philippines highly vulnerable to currency speculation and external financial and economic shocks (Miral, 2009). IBON (2009: 2) would argue that the country's financial liberalization is "making (it) more prone to capital flight while conditionalities imposed by international financial institutions to loan packages impose sustainable debt servicing over sustainable development." The agency (IBON, 2009: 2, 6) also noted that debt service for interest payments alone has averaged around 25 percent of national government budget from 1986 to 2009. This has "trapped the country in a vicious cycle of debts and deficits as the debt service requirements of creditors contribute to the government's fiscal deficit which in turn leads to more borrowing. In effect the government borrows more to pay for older debts which keep on mounting." In 2009, 87 percent of the government loan of PHP 437 billion went to amortization, meaning that, for every PHP 100 in taxes collected, PHP 60 was spent for debt servicing.

Apart from engendering greater reliance on external funds, this diminishes the country's capacity to finance domestic development and social spending. The figure below shows that spending for education, health and capital expenditures decline every time debt service payment increase, leaving a negligible amount of budget allocated to promote the Filipino people's well-being.

Figure 1.1. National Government Expenditure Allocation, 1986-2010 (as % to GDP)



Source: Adapted from IBON (2009: 14), data from Department of Budget and Management

Limitations affecting public investment also themselves become disincentives to private investment. Sicat (2007) pointed out that public sector borrowing reduces the amount of loanable funds that can be used by the private sector for its own investment and operation. Consequently, the private sector's capacity to generate higher income and savings is stunted. Essentially, conditions of low national savings and macroeconomic instability have posed as major constraints to overall investment in the Philippines.

Another factor to the country's slow economic growth is its negative balance of trade, with imports still predominantly exceeding exports ($59.9Bn and $50.72Bn respectively in 2010) (CIA World Fact Book, 2011). This has been the general trend in the Philippines since the 1980s. With low levels of public and private investments and weak export growth, restoring the budget to a more sustainable foundation and creating a more dynamic growth prove to be challenging.

In the past decade, the country saw itself outperformed by its neighbors in terms of competitiveness as measured by the Centre for Global Competitiveness and Performance of the World Economic Forum. Evaluated in terms of institutions, infrastructure, macroeconomic environment, health, and primary education, the Philippines dropped to Rank 85 as of 2010, far behind many of its ASEAN counterparts. Indonesia has been making dramatic leaps particularly from 2006 and jumping ten steps to Rank 44 from 2009 to 2010. Vietnam also has made a radical stride from Rank 75 in 2009 to Rank 59 in 2010.

Table 1.3. Philippine Competitiveness Ranking vis-à-vis ASEAN counterparts (2000-2010)

Competitiveness	Philippines	Singapore	Malaysia	Thailand	Indonesia	Vietnam	Cambodia	Laos	Myanmar
2000-2001	46	9	30	40	47	53	-	-	-
2001-2002	63	7	30	37	69	62	-		
2003-2004	66	6	29	32	72	60	-	-	-
2004-2005	76	7	31	34	74	77	-	-	-
2005-2006	77	6	24	35	69	81	112	-	-
2006-2007	75	8	19	28	50	64	106	-	-
2007-2008	71	7	21	28	54	68	110	-	-
2008-2009	71	5	21	34	55	70	109	-	-
2009-2010	87	3	24	36	54	75	110	-	-
2010-2011	85	3	26	38	44	59	109	-	-

Source: The Global Competiveness Index 2010-2011, World Economic Forum http: //www.weforum.org/ Note: Competitiveness is defined as a set of institutions and policies that determine the level of productivity. Basic requirements/indicators of this ranking include institutions (public and private); infrastructure; macroeconomic environment; and health and primary education.

While the country maintains to have favorable Human Development Indicators (HDI) with medium range life expectancy, educational attainment and average income of its people, it is not making serious advancements throughout the decades. Long left behind by Malaysia's remarkable achievements since the 1980s, overtaken by Thailand in 1995, it is now tailed by Indonesia and Vietnam with their compelling achievements in human development promotion.

A contributing factor to the country's favorable HDI is the relatively high range of income averages. Despite this however, the Philippines is notorious for the inequitable distribution of income among its large population. The country has a GDP (PPP) of US$351.4 Billion in 2010 with a per capita of $3500, however its Gini index remains significantly high at 45.8 indicating the disparities in income and consumption capacity among its people (see Table 1.5). The poorest 20 percent of the population accounted for only five percent of total income or consumption (AusAID, 2010). With inequitable distribution of income, the slow growth of the Philippine economy could not translate to poverty reduction. Poverty incidence continues to be very high in the Philippines with 33 percent of its population living in poverty, notably the highest in Southeast Asia as of 2010.

Table 1.4. Philippine Human Development Index vis-à-vis ASEAN counterparts

	Philippines	Singapore	Malaysia	Thailand	Indonesia	Vietnam	Cambodia	Laos	Myanmar
1980	0.523	-	0.541	0.483	0.390	-	-	-	-
1985	0.527	-	0.585	0.518	0.434	-	-	0.323	-
1990	0.552	-	0.616	0.546	0.458	0.407	-	0.354	-
1995	0.569	-	0.659	0.581	0.508	0.457	0.385	0.388	-
2000	0.597	-	0.691	0.600	0.500	0.505	0.412	0.425	-
2005	0.619	0.826	0.726	0.631	0.561	0.540	0.466	0.460	0.406
2010	0.638	0.846	0.744	0.654	0.600	0.572	0.494	0.497	0.451
2010 Ranking	97 (M)	27 (VH)	57 (H)	92 (M)	108 (M)	113 (M)	124 (M)	122(M)	132 (L)

Source: Human Development Index, 2010 Rankings, Human Development Report, United Nations Development Programme at http: //hdr.undp.org/en/data/trends/1980-2010/ HDI measures development by combining indicators of life expectancy, educational attainment and income into a composite human development index, the HDI- serves as a frame of reference for both social and economic development. (Index: L- Low; M-Medium; H-High; and VH-Very High)

The country's poverty is most severe and widespread in rural areas. While rural population has gone down to 34 percent, urban-rural poverty gap ratio is widening to 1: 2.5, thus over 70 percent of the Filipino poor are in rural areas (Argonza, 2010). The poorest of the poor are the indigenous peoples, small-scale farmers, landless workers, fishers and upland settlers. Agriculture is the primary and often only source of income for the rural poor, most of whom depend on subsistence farming and fishing for their livelihoods. However, the Rural Poverty Report 2011 of the International Fund for Agricultural Development (IFAD) would reveal the decades-old slump of Philippine agriculture: agriculture's gross value-added (GVA) as a percentage of the country's GDP dropped from 23 percent in 1988 to 14.9 percent in 2008 (IFAD, 2010). Thus, the living standards in the rural areas continued to decline, leaving most of the peasant communities to subsist on a hand-to-mouth existence. The failure to solve rural poverty contributes to perpetuating insurgency.

The Philippine economic growth has also been primarily based on consumption and not on creating employment opportunities for the poor. The country continues to register the highest unemployment rate (7.5%) in the region. Adults under the age of 25 constitute about half of the unemployed (AusAID, 2011). A burgeoning population due to rapid population growth exacerbates the strain on the cost of household living and demand for basic services. For the last decade, the Philippines had the highest annual population growth rates in the Southeast Asian region, staying at about two percent average in the past decade.

These conditions push many Filipinos to continually migrate to urban areas or to other countries for better economic opportunities. Labor is increasingly becoming the largest export commodity of the country. As of 2009, there is a stock estimate of about 8.5 million Filipinos overseas (Commission on Filipino Overseas, 2010). Two-thirds of overseas Filipinos, either contract workers, permanent residents or irregular migrants, come from rural areas (Institute for Migration and Development Issues, 2011). Remittances accounted for about 10.76 percent of the country's GDP in 2009, which help fuel domestic consumption and provide a steady source of foreign exchange (Paderanga, 2010). However, while generally perceived as an important stabilizing factor for the economy, overseas labor export essentially becomes an external employment mechanism in the absence of development, as well as a factor to an eroding human capital base.

Table 1.5 Philippine Economy and Poverty vis-à-vis ASEAN counterparts (AO 2010)

	Philippines	Singapore	Malaysia	Thailand	Indonesia	Vietnam	Cambodia	Laos	Myanmar
GDP PPP ($) Bn	351.4	291.9	414.4	586.9	1.03 T	276.6	30.18	15.69	76.47
GDP per capita (PPP) ($)	3,500	62,100	14,700	8,700	4,200	3,100	2,100	2,500	1,400
GDP real growth rate (%)	7.3	14.5	7.2	7.8	6.1	6	6	7.7	5.3
Pop Growth (%)	1.903	0.817	1.576	0.566	1.069	1.077	1.698	1.684	1.084
Composition by Sector (%)									
Agriculture	13.9	0.1	9.1	10.4	16.5	20.6	33.4	29.8	43.2
Industry	31.3	30.2	41.6	45.6	46.4	41.1	21.4	31.7	20
Services	54.8	69.7	49.3	44	37.1	38.3	45.2	38.5	36.8
External Debt ($Bn)	60.1**	21.66	72.6	82.5	196.1	33.45	4.338	5.797	7.145
Public Debt (% of GDP)	56.5	102.4	53.1	42.3	26.4	56.7	-	-	-
Investment (% of GDP)	16	27.2	20.1	24.9	32.5	35.1	23	-	15.1

(continued)

Table 1.5 Philippine Economy and Poverty vis-à-vis…………………… (*continued*)

Balance of Trade ($Bn) (Export/Import)	50.72/ 59.9 negative	351.2/ 310.4	210.3/ 174.3	191.3/ 156.9	146.3/ 111.1	72.03/ 84.3 negative	4.687/ 6.005 negative	1.95/ 1.504	7.841/ 4.532*
Budget Balance (Revenue/ Expenditure) $Bn (deficit)	26.84/ 33.82 6.98	29.87/ 34.01 1.54	46.78/ 46.34	56.33/ 56.87 0.54	119.5/ 132.9 13.4	27.08/ 29.65 2.57	1.413/ 2.079 0.66	1.137/ 1.328 0.191	1.369/ 2.951 1.582
Inflation Rate	3.8	2.8	1.7	3.3	5.1	11.8	4.1	6	9.6
Gini Index	45.8	47.8	44.1	43	37	37	43	34.6	-
Unemployment (%)	7.3	2.1	3.5	1.2	7.1	2.9	3.5	2.5	5.7
Poverty Incidence (%)	32.9	NA	3.6	9.6	13.33	10.6	31	26	32.7

Note: *Myanmar's import figures are grossly underestimated due to the value of consumer goods, diesel fuel, and other products smuggled in from Thailand, China, Malaysia, and India.
** from Central Bank of the Philippines update

Source: The World Fact Book, US-CIA at https: //www.cia.gov/library/publications/the-world-factbook/geos/rp.html as of 17 July 2011

The lack of economic dynamism, pervasive poverty and inequality in the country are coupled with, triggered by, and can also be causing, continuing problems of instability and violence which have been affecting long-term development prospects and acting as disincentive for investment. Security situation remains a big problem in Southern Philippines continually made volatile by unabated kidnappings and killings that victimize civilians. The deteriorating peace and order in Mindanao are causing panic and anxiety among business owners and ordinary citizens. The notorious crimes of militant group Abu Sayyaf (renegade members of the Moro National Liberation Front) and the private armies employed by local warlords and political clans across the country, add to the insurgency problems posed by secessionist group Moro Islamic Liberation Front and the communist-led New People's Army (Mindanao Examiner, 2011). Bloomberg reported that the Philippines has overtaken Indonesia and Thailand as the country facing the greatest threat from terrorism. FTI-International Risk 2010, the leading risk mitigation organization in Asia, noted that while the Philippines has made progress in containing the threat from armed groups, it lagged behind other countries in the region (FTI International Risk, 2010). The Philippines now ranks 130 out of 149 countries in the 2010 Global Peace Index compiled by the Sydney-based Institute for Economics and Peace. Indonesia ranked 67, Thailand 124, and Myanmar 132. Clearly, the inability of the state to provide adequate security to its citizens is both a cause and effect of the widespread violence, which further fuels the country's cycle of violence and conflict in the midst of poverty (Bertelsmann Stiftung BTI, 2010).

Another major challenge for the country is its extreme vulnerability to the impacts of climate change. The Philippines' natural disasters are palpable and recurring. The country is hit by around 20 tropical cyclones a year. The recent calamities, the worst that the country has seen in decades, were sharp reminders of the high exposure and vulnerability of the country to the devastation of natural disasters. A tragic 2006 landslide wiped out the village of Guinsaugon in Southern Leyte, killing more than 1,000 people. In 2009, flashfloods devastated Manila in the aftermath of typhoons Ondoy and Pepeng, which poured down an alarming 455-millimeter rainfall in 24 hours, surpassing the 250-millimeter record of United State's Hurricane Katrina in 2005. These affected 9.3 million people, left around 1,000 dead and pushed almost 500,000 more Filipinos into poverty by having damaged thousands of homes and other infrastructure, and destroyed crops (Media Global, 2011). The Philippines incurred a damage bill equivalent to 2.7 percent of GDP —a substantial set-back to the cause of Philippine development (AusAID, 2011).

A new global ranking, calculating the vulnerability of 170 countries to the impacts of climate change over the next 30 years, identifies some of the world's largest and fastest-growing economies, as facing the greatest risks to their populations, ecosystems and business environments. The 2010 Climate Change Vulnerability Index (CCVI), released by global risks advisory firm Maplecroft, evaluates 42 social, economic and environmental factors to assess national vulnerabilities across three core areas. These include: 1) exposure to climate-related natural disasters and sea-level rise; 2) human sensitivity, in terms of population patterns, development, natural resources, agricultural dependency and conflicts; and 3) future vulnerability by considering the adaptive capacity of a country's government and infrastructure to combat climate change. The index rates 16 countries as 'extreme risk,' with the Philippines ranked 6th featuring in the highest risk category. Philippine vulnerability is due to acute population pressure and consequent strain on natural resources. A high degree of poverty, poor general health and agricultural dependency of much of the populace compound this. Clearly, the new regime faces the challenge of strengthening the fundamentals of the economy to ensure that growth becomes more dynamic and translates into poverty reduction; of establishing stability to address violence, conflict and social unrest; and of managing environmental risks, towards achieving the Millennium Development Goals (MDGs).

3. GOVERNANCE ANALYSIS OF PHILIPPINE UNDERDEVELOPMENT

There are various strands of analyses explaining the persistent underdevelopment of the Philippines. This section illustrates the interplay of institutional, administrative, societal and political factors that create the prevailing crisis in the country's development. It then argues that while the country's weak economic growth and pervasive poverty and income inequality are influenced by various governance-related factors, they are driven primarily by the state's lack of policy capability and lack of autonomy from private manipulations. Institutional and administrative constraints such as poor inter-governmental coordination, bureaucratic inefficiency and weak regulatory environment/legal framework/rule of law are largely dictated by the country's embedded political constraints. Such political constraints include patrimonialism, rent-seeking, patronage, state subservience to private interests, political cooptation and lack of political will and autonomy to raise revenues, allocate resources to the poor, pursue development-oriented policies and enforce them.

One can take reference from the country's low capital formation/ resource mobilization and low investment which are key factors to economic productivity. The Global Competitiveness Index of the World Economic Forum (2010-2011) identified 1) corruption; 2) inefficient government bureaucracy; 3) inadequate supply of infrastructure; 4) policy instability and; 5) tax regulations as the five most problematic concerns when doing business in the Philippines affecting private investment. It is immediately apparent that these constraints are closely interlinked and feed on each other in a vicious web. Poor infrastructure for example, which itself can be a direct result of corruption, can also be attributed to low public investment, low revenues, low national savings, budget deficits, and high external and public debt. Low revenues, budget deficits and high debt can be attributed to trade deficits, low private and public investment, low revenue base and weak tax administration. The country has a large shadow/informal economy beyond the reach of formal regulatory institutions and tax authorities which narrows its revenue base. High debt can also be traced to budget deficits, low revenues and low investments. All these result to the country's low economic productivity and widespread poverty.

It can be noted however that with such line of arguments, the analytical trajectory mainly revolves around the institutional and regulatory mechanisms. Along the prevailing governance paradigm, even corruption which is traditionally seen as a major culprit in the development crisis in the country, is also often attributed directly to the country's weak regulatory mechanisms (including lack of transparency, lack of policy predictability and mechanisms of acountability and inefficiency of bureaucracy). Such framework becomes problematic as it deviates analysis from the crux of the issues.

This study argues that the interlinking institutional, bureaucratic and policy constraints can actually be traced down to the political structures which define state capacity and decisions over policy, budget and revenues vis-à-vis political motives and considerations. Institutional, bureaucratic and policy factors are themselves infuenced by state and private mechanisms that involve power bargains among different power holders, over the generation, use and allocation of resources. Taking again the case of the country's low quality of infrastructure, while it is a result of institutional constraints as previously noted, it is also essentially due to the uneven spending by the government across regions, with the cities and urban areas getting much of the resources at the expense of rural areas (World Bank, 2008; Balisacan, 2007; Sicat, 2007). For a country not short of brilliant economic advisers, it is easy to see that such allocation decisions could be more politically defined than administratively misguided. It is also important to note that low private investment is caused by lack of political stability/ high incidence of violence that can be traced essentially to more systemic and structural issues of socio-economic equity, resource distribution and the broader framework of social justice vis-à-vis political power wielding and use of force to acquire or maintain the stronghold of power.

Thus, it can be argued that low revenues, budget deficits and high debt are essentially rooted from the lack of political will to generate revenues, particularly in taxing the state-backed elites or pursuing tax evaders. These are also due to the lack of political will to enforce policy regulations and the tendency to favor and condone non-transparent policies and give in to political accommodation in allocation procedures. The government tends to rely on consumption and indirect taxation that unfairly burdens low and middle income families while it provides tax breaks and subsidies for special interests. "Large corporations and high-income individuals are easily able to exploit loopholes in tax policy and take advantage of weaknesses in tax administration" (IBON, 2009: 2). The National Tax Research Center (NTRC) reported that one-third of the Bureau of Internal Revenue's annual potential tax take in the period of 1998-2002 (worth PHP127 billion per year) was lost through tax evasion (in Congressional Planning and Budget Department, 2004). "Uncollected taxes are highest among corporate tax-payers, averaging PHP 54 billion per year from 1998-2002 or a tax gap of 38 percent. The average tax leakage from Value Added Tax (VAT) is PHP 41.6 billion or around 30 percent of potential tax due" (IBON, 2009: 7). The NTRC (2005) noted that out of 1,204 large taxpayers in the country, 506 firms or 42 percent claimed to have incured losses or registered breakeven points, hence, contributed nothing in terms of corporate income tax in 2003. Moreover, large taxpayers in the manufacturing, trade, finance and real estate sectors claimed about 70 to 90 percent of their reported gross income as deductions" (in IBON, 2009: 7). It is evidently the combination of institutional, structural and political constraints, breeding low productivity which then translates to lack of economic and employment opportunities and social services that increases poverty among the Filipino people.

Capital formation/resource mobilization to finance development in the Philippines and to liberate itself from foreign capital dependence is clearly limited which makes it imperative for the country to create both the institutions and the political environment that are conducive to such ends. Stern (2001) argued that a key strategy for development is to build an economic climate[3] that facilitates investment and growth, particularly domestic capital through local enterepreneurhsip and productivity for micro, small and medium enterprises. The state thus, has to invest in infrastructure and build institutions that regulate corruption through transparent, consistent and reliable mechanisms of law. However, beyond this, the state and its leadership have to muster the political will and create political incentives so that competing elites and power holders enforce policy regulations and hold corrupt officials accountable. This entails a balance of power and state autonomy to enforce taxation non-arbitrarily and to establish a safe and secure business context that is rooted in addressing economic insecurity and social injustice among the poorest. Such political development becomes imperative

[3] The investment climate embodies the "policy, institutional and behavioral environment, both present and expected, that influences the returns and risks associated with investments" (in Stern "A Strategy for Development," Keynote Address to the Annual Bank Conference on Development Economics, May 2001.).

if the country expects a substantial increase in actual capital investment and revenues. The Philippine state however, continuously fails to do so.

3.1 Explaining the Country's Pervasive Cronyism and Corruption

The Philippine government is beset by perennial problems of cronyism and corruption. A World Bank (2008: 46) study estimates that about P30 billion annually or an average of 20-30 percent of every Philippine government contract is lost to corruption or inefficiency. Batalla (2000: 8) however notes that the "cost (of corruption) cannot be simply quantified in financial terms… because it also affects other factors such as "productivity, prices, incomes, and employment of an entire range of existing and potential economic sectors." Corruption is not limited to those who hold political power but also those from the bureaucracy who have access to it. The Department of Public Works and Highways (DPWH) is notorious for illicit payoffs in infrastructure projects. The list of corrupt transactions includes diverting public funds away from projects, bribe-taking, lack of transparent bidding process, overpricing, and carrying out substandard work on the projects (Procurement Watch Incorporated, 2009: 9-11). The Philippine Center for Investigative Journalism (PCIJ) reported that seven out of 10 donor-funded projects "failed to deliver their touted benefits and results." It cited a Commission on Audit report that stated at least 38 out of 47 projects were plagued with irregularities (in Global Integrity Report, 2008: 2).

While corruption is not unique to the Philippines, the breadth and depth of the country's corruption is so pervasive and systemic involving sophisticated networks of conniving forces across all levels of the administrative and political hierarchy in the grand scheme of division of spoils. Transparency International's 2010 Corruption Perception Index ranked the Philippines 134 out of 178 countries as among Asia's most corrupt with a 2.4 index, along the ranks of Bangladesh, Nigeria, Honduras, Sierra Leone, Zimbabwe, among others. Most recently, the Hong Kong-based Political and Economic Risk Consultancy, Ltd's (PERC) Asian Intelligence Report noted the Philippines as "the Asian country that has been hurt most by corruption" in a regional survey, with its overall score worsening, (8.9 with 10 being the worst, poorer than 2010's 8.25) (in Business World Online, 2011). The question always is: *why has corruption become so pervasive in the Philippines despite various institutional, policy and legal attempts to contain it?*

The Philippine Constitution established four special anti-corruption bodies including the 1) Office of the Ombudsman, which serves as the main anti-corruption agency authorized to investigate and prosecute corruption cases involving public officials and employees; 2) the Civil Service Commission (CSC) with anti-corruption functions, including the promotion of public accountability, enforcement of ethical standards and behavior; 3) the Commission on Audit (COA) with a role to examine government income and revenues as well as ensure accountability, regulate government operations, effectiveness and impact of programs; and 4) the *Sandiganbayan*, literally "pillar of the nation," (also stands to mean "people's advocate") is a special court with jurisdiction over civil and criminal cases involving graft and corruption. These offices enjoy fiscal autonomy, so they can act independently to fulfill their duties without fear of reprisal (Elliot, 2008). The country's fight against corruption has also been backed by a number of legislations including:

- Forfeiture Law (1955), authorized the state to forfeit any property found to have been unlawfully acquired by any public officer or employer
- Republic Act (RA) No. 3019 (1960), Anti-Graft and Corrupt Practices Act, requires that public officials file Statements of Assets and Liability and Net-worth (SALN) every two years. Presidential Decree (PD) No. 677 amended it to annual instead of every other year submission; PD No. 749 amended it by providing immunity from prosecution for those willing to testify against public officials or citizens accused of corruption
- RA No. 6028 (1969), provided for the formation of the Office of the Citizens' Counselor, but was not implemented
- PD No. 6 empowered heads of departments to dismiss guilty officials
- PD No. 46 prevented public officials from receiving and private individuals from giving gifts on any occasion including Christmas
- PD No. 1606 (1979) formed the *Sandiganbayan* (Special Anti-Graft Court)
- PD 1603 (1979) formed the *Tanodbayan* (Ombudsman)
- RA No. 6770 (1989) Ombudsman Act
- RA 9160 (2001), Anti Money Laundering Act, criminalizes attempted corruption, active and passive bribery, extortion, bribing a foreign official, using confidential state information for private gain, money laundering, and organized crime
- RA 6713 (1989), Act Establishing a Code of Conduct and Ethical Standards for Public Officials and Employees
- Revised Penal Code defines gifts as bribes (Art. 210)

- Republic Act 9184 (2003), Government Procurement Reform Act, aimed at making the government procurement process more transparent and predictable
- The Senate has passed the second reading of the Freedom of Information Act of 2009, concerns Right of the People to Information on Matters of Public Concern.

Various Presidents have created agencies to fight graft and corruption. A study by Quah (2010) documented that the Philippines is the Asian country with the most anti-corruption measures with 19 presidential anti-corruption agencies since the 1950s. Every change of political leadership tends to abolish and/or create new agencies (see Table 1.6 below).

As of the present, the four Constitutional bodies established to regulate corruption along with the Department of Justice, the Office of the Deputy Executive Secretary for Legal Affairs (ODESLA), and the Department of Budget and Management exercise anti-corruption functions. The Aquino administration, which recently abolished former President Arroyo's Presidential Anti-Graft Commission (PAGC), has pushed to establish a Truth Commission that would investigate accusations against Arroyo and members of her administration for rigged 2004 presidential election, misuse of government funds and profiting from government contracts. However, after being declared unconstitutional by the Supreme Court, discussions were held to either restructure the Presidential Commission on Good Government (PCGG) and take over the duties of the Truth Commission or create an Institute for Good Governance to take over the mandate of finding safeguards to prevent corruption.

Table 1.6. Presidential Anti-Corruption Agencies in the Philippines

Agency	President	Period
Integrity Board	Quirino	May–Nov 1950
Presidential Complaints and Action Committee	Magsaysay	Dec 1953–Jul 1958
Presidential Committee on Administrative Performance Efficiency	Garcia	Jul 1958–Dec 1961
Presidential Anti-Graft Committee	Garcia	Feb 1960–Dec 1961
Presidential Anti-Graft Committee	Macapagal	Jan 1962–Jan 1966
Presidential Agency on Reforms and Government Operations	Marcos	Jan–Sep 1966
Presidential Complaints and Action Office	Marcos	Sep 1966–Oct 1967

(continued)

Table 1.6. Presidential Anti-Corruption Agencies in the Philippines (*continued*)

Agency	President	Period
President Agency on Reforms and Government Operations	Marcos	Oct 1967–Feb 1970
Complaints and Investigations Office	Marcos	Feb 1970–Feb 1986
Special Cabinet Committee in Backsliding	Marcos	Oct 1973–Feb 1986
Tanodbayan (Office of the Ombudsman)	Marcos/Aquino	Jul 1979–Apr 1988 Reorganized May 1988
Presidential Commission on Good Government	Aquino	Feb 1986–present
Presidential Committee on Ethics and Accountability	Aquino	Feb 1986–1988
Presidential Commission Against Graft and Corruption	Ramos	Feb 1994–Jun 2000
Inter-Agency Anti-Graft Coordinating Council	Estrada	Aug 1999–present*[4]
Presidential Committee on Effective Governance	Estrada	Oct 1999–Sep 2004*[5]
National Anti-Corruption Commission	Estrada	Jul 2000–Apr 2001
Presidential Anti-Graft Commission	Arroyo	April 2011–Nov 2010*[6]
Governance Advisory Council	Arroyo	Jul 2001–present

*Source: Quah, Jon 2010: 21. *Updated by the author*

There are also broad-based initiatives among members of civil society. The National Coalition of Transparency, launched in 1989, was composed of over 30 anti-corruption NGOs, and highlighted the private sector's culpability in governmental corruption. Some organizations are specialized, like National Citizens Movement for Free Elections (NAMFREL) focusing on election irregularities, and the Anti-Police Scalawag Group (APSG) concerned with police corruption.

With all these anti-corruption measures and initiatives by both government agencies and NGOs, however, implementation and compliance continue to be elusive. Ironically, officials within anti-corruption agencies are

4 IAAGCC has been deactivated by former Ombudsman Merceditas Gutierrez by simply not convening the council due to strained relations with Civil Service Commission and Commission on Audit since 2006.

5 PCEG was abolished through Executive Order 355 under Arroyo administration and transferred its functions to the Department of Budget and Management.

6 PAGC was abolished through Executive Order 13 under President Benigno Aquino III administration and transferred its functions and powers to the Office of the Deputy Executive Secretary for Legal Affairs (ODESLA).

facing corruption charges themselves such as the case of former PCGG Chair Camilo Sabio with three graft cases for unnecessary expenditures. The former Ombudsman Merceditas Gutierrez, appointed by former President Arroyo, was forced to resign after two impeachment complaints filed against her in the House Justice Committee for alleged betrayal of public trust and culpable violation of the Constitution. While the country had made milestones when the *Sandiganbayan* convicted former President Estrada of plunder and corruption in 11 September 2007,[7] he was given Presidential pardon six weeks later, (25 October 2007) by Arroyo. The pardon was widely criticized as an act of political accommodation that defeats the judicial process and significantly heightened public disenchantment. Very clearly, anti-corruption laws are not enforced impartially as the rich, powerful and politically well-connected or the "big fish" appear to be immune from conviction. The lower probability of being convicted for corruption in the Philippines was confirmed by the former Ombudsman Simeon Marcelo (2004: 37), who revealed that the Office of the Special Prosecutor's conviction rate at the *Sandiganbayan* was "a dismal 6 percent" which means that "a high-ranking government official accused of graft and corruption has a 94 percent chance of walking away scot-free " (in Quah, 2010: 30).

It is evident that no amount of policy legislations and anti-corruption agencies can effectively contain corruption in the Philippines. What makes it so pervasive is the clear lack of political will, particularly of government's political and bureaucratic leadership in enforcing legal decisions and resisting political pressure from economic powers. A critical institutional constraint that allows politics to easily undermine anti-corruption efforts is the ad hoc creation of anti-corruption agencies that are short-lived, often co-terminus to the change of political leadership. The institutionalization of the Constitutional offices to form a coherent and coordinated anti-corruption system that is built, improved and sustained across administrations continues to fail. These define the lack of continuity of anti-corruption programs, which strains resources, duplicates functions and also allows the exercise of political influence over such agencies.

Another institutional failure is the lack of coordination by the current Ombudsman's office with partner organizations in the fight against corruption. The Solana Covenant —a covenant between the Ombudsman, Com-

[7] Estrada was found guilty of receiving payoffs from illegal gambling and taking commissions in the sale of shares to government pension funds and sentenced to life imprisonment after being in detention (house arrest) for six and a half years.

mission on Audit (COA), and Civil Service Commission (CSC)— was an agreement among "like-minded institutions" towards a more coordinated approach to fighting corruption. It outlined programs of the three agencies that should not duplicate but rather complement and strengthen each other's anticorruption efforts. Due to strained relations, however, Gutierrez deactivated the Inter-Agency Anti-Graft Coordinating Council, composed of the three agencies, which resulted to wasted resources due to uncoordinated efforts and duplication of programs such as the Oplan Red Plate, which should have been a CSC program under the Solana agreement (Quah, 2010). This lack of coordination clearly is a by-product of (strained) political relations and lack of political will that undermine the existing structures. The Ombudsman, while expected to be politically independent, proved to be instrumental in covering former President Arroyo in her corruption cases which illustrates her returning political favors to the President who appointed her.

Jon Quah (2010: 32) offered two reasons for the failure in combating corruption in Asian countries including the Philippines: the lack of political will of the government in curbing corruption and unfavorable policy contexts. This lack of political will is reflected in high staff-population ratios and lower per capita expenditures of their anti-corruption agencies and the selective enforcement of anti-corruption laws.[8] "Political will is the most important prerequisite as a comprehensive anti-corruption strategy will fail if it is not supported by the political leadership in a country" (Quah, 2003: 181). What is missing in Quah's study, however, is on how to promote such political will amid the unfavorable policy context of a big country like the Philippines with high and poor population, low revenues and capital, and unstable government.

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[8] Quah (2010: 32) highlights the difference between Singapore and Hong Kong's performance in curbing corruption versus that of Taiwan, Indonesia, India and the Philippines. The effective anti-corruption of the first two countries are due to their governments demonstrated political will by enacting comprehensive anti-corruption legislation, allocating adequate budgets and personnel to Singapore's Corrupt Practices Investigation Bureau (CPIB) and Hong Kong's Independent Commission Against Corruption (ICAC), both of which enforce the anti-corruption laws impartially, and without fear or favor. The CPIB and ICAC have also benefited from their favorable policy contexts in implementing the anti-corruption measures because of the smaller land areas and populations, higher GDP per capita, and stable governments.

4. CONCLUSION: PROSPECTS FOR PHILIPPINE GOOD GOVERNANCE AND DEVELOPMENT

It is evident that in the case of a developing country like the Philippines with entrenched patrimonial features —where the wealthy capitalists and influential elites predominate the political and bureaucratic structures of the state— requirements for reform would entail not just institutional strengthening but also the much needed political development. While institutional constraints reflect the limitations of the state for good governance, attempts to governance reform would have to drill down to improving the political context and structural constraints that define such institutional weaknesses. No amount of democratic participation can effect meaningful development when it thrives amid an embedded power structure predominated by competing, yet conspiring, private interests, controlling the state and holding the Filipino constituency captive. Addressing the problems of lack of political will and the state's subordination to private interests — issues of political development— cannot be overemphasized. Building a developmental state for the Philippines requires a fundamental balancing and reigning in of power wielders —where no single elite faction or conspiracy could subordinate the state's autonomy and capacity to pursue coherent development policy. It is only when these issues of power and political development are addressed can structures of good governance in the country be fully achieved, sustained and institutionalized.

The two-pronged development thrust for the country is clear: achieve a dynamic economic growth and reduce poverty. It is about boosting the revenue base and capital accumulation to finance development programs more autonomously (not overly reliant on foreign capital) and equitably allocate economic opportunities for the people. Recognizing that the country faces the pressure of catching up with the fast-changing demands of the global economy, this paper argues that it is important to act urgently on the immediate and more doable economic strategies for growth such as investment, capital accumulation and domestic resource mobilization and even population regulation. However, while doing that, it is imperative to simultaneously address the more strategic and structural political constraints for the country's long-term political development. Without this, the country will remain trapped —as it has already been in decades— in the vicious cycle of debt, low revenues, inequity, and widening poverty for as long as resource/revenue generation, use and allocation will remain partial to the privileged few.

Reforming the country's tax system, including broadening of revenue base, essentially requires the political development/political will to pursue tax evaders who usually are the large corporations and well-connected elites. IBON (2009: 10) argued that "tax reforms in the Philippines cannot work unless they form part of a more comprehensive public sector reform program. Fiscal policy must move away from prioritizing debt servicing and competing for foreign investment to active state promotion of the people's well-being above all." In the same manner, restructuring the budget requires the political will to resist international pressure against enforced debt servicing and the channeling of resources, including private capital, to autonomously finance social spending such as health and education. Pursuing land reform and agricultural development entails political will to redistribute landholdings and ownership and prioritize rural development to narrow the income and poverty gaps and address insurgency.

Bello *et al*. (2004: 304-305) argue that: "The answer, therefore, is to empower the state rather than to further weaken it, to fortify it rather than to roll it back. The relative autonomy of the state must be enhanced rather than diminished so that it does not just always remain a prize in the inter-elite struggle but also becomes a serious and more powerful contender in its own right." What remains a question however is on how we can actually address state capacity/empowerment and political development in the Philippines? How can we make the state independent from elite influence that finance electoral politics, or when the state is taken over by the capitalist themselves who are protecting their, their families' or their friends' financial/profit interests foremost in policy-making? How can we promote the incentives for political and bureaucratic leadership to be more responsive and accountable to development-oriented policies and budget? What are the incentives for power holders to reallocate resources (i.e. on issues of land reform) and reign in private interests that are dominating the government system? What are the pathways that can potentially lead a way out of the apparent political deadlock of the country?

There are certainly no clear-cut answers to this political conundrum. However, a political system that can encourage the creation of a viable and genuine opposition party and can effectively create a principle/platform-based check and balance would build the policy context by creating the incentives for performance and accountability. Moreover, a strong, competent and enlightened political leadership becomes critical particularly when backed by conscientious intellectual and highly trained bureaucrats and technocrats who are acutely conscious of their personal and professional integrity over and above personal greed. The Aquino administration has the advantage to be able to take-off from a broad support of the public, which is essential in pursuing his economic programs. His ability to pursue a population policy and resist the pressure of the church, focus his first budget allocation on social spending and pursue a clear strategy to attract investment in vital public infrastructure, signify an enlightened leadership. While much is yet to be seen, the political trajectory set by the current administration appears to be geared towards achieving good governance reform directly beneficial to the broad Filipino constituency.

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