

INVESTMENT CLIMATE IMPROVEMENT PROJECT (ICIP)

ADVOCACY PLAN

APRIL 1, 2006

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SUMMARY:

The ICIP plan will seek to achieve investment climate reforms in the following REFORM CLUSTERS and SECTORS. These reforms closely follow the analysis and recommendations of the AmCham *Roadmap II More Foreign Investment* released in June 2004¹. Each is described in more detail beginning on page 16.

METHODOLOGY

The ICIP plan implementation methodology will include a variety of techniques to advance the ICIP reform advocacies. Within AmCham, firm members and committees and the American Desk at the Board of Investments will use their resources. Outside AmCham, reform alliances partnerships will be joined with other foreign chambers of commerce, Philippine business associations, foreign governments and multilateral aid groups, influential individuals and firms and the domestic and international media. Information regarding ICIP reform advocacies will be disseminated in multiple forms and through multiple channels. Meetings with senior GRP officials will be held to explain the importance of advocated reformers to investment. The Philippine media will be an important channel through which to communicate to decision makers by various means. As many as four workshops will be held with published recommendations. Regular reports and a final report will be made, and all reports will be publicly available. Metrics/measurables will chart ICIP results.

ICIP REFORM CLUSTERS AND REFORM TASKS**1. Bureaucracy/Corruption.**

- 1a Reduce, simplify and make regulations transparent;
- 1b Urge GRP to establish Anti-Red Tape Program with “wardens” in agencies where corruption/red tape most hurt business;
- 1c Enforce fixed deadlines to approve paperwork after which approval is automatic;
- 1d Implement eGovernance;
- 1e Intensify lifestyle checks and RATE program and operations of Ombudsman;
- 1f Report incidents of corruption to Ombudsman and DOF and place on website.

¹ The population issue, while still critical to the nation’s future prosperity, is not included in the ICIP plan, because significant progress is unlikely in the short-term. Although AmCham and many other business associations advocate major reforms, opposition of the Roman Catholic Church and lack of political will by the highest political authority make the probability low of soon reducing the rate of growth below its present 2.36%.

2. Education

- 2a Triple per capita spending on education by 2010; improve education quality;
- 2b Achieve better quality spoken English among high school/college graduates;
- 2c Improve engineering, math and science skills among graduates;
- 2d CHED to approve a call center curriculum for colleges and universities.

3A. Infrastructure: Power

- 3Aa Implement EPIRA; accelerate sale of NPC GENCOs and privatize TRANSCO;
- 3Ab Lower industrial power rates through open access for consumers of 1+MW;
- 3Ac Start operations of WESEM;
- 3Ad Allow IPPs to import coal directly.
- 3Ae Fully dispatch Malampaya gas to maximize GRP royalty revenue.

3B. Infrastructure: Transport: Subic-Batangas Corridor

- 3Ba Open NAIA IPT 3 and adequately compensate owners;
- 3Bb Rapidly develop Clark airport for cargo and passenger traffic;
- 3Bc Connect Subic to Batangas in smooth road system
- 3Bd Award contracts for long-delayed NCR rail projects;
- 3Be Recruit the most-experienced private sector manager to serve as Special Assistant to the Chairman of NEDA for Major Infrastructure Projects;
- 3Bf Identify and resolve bottlenecks of key projects;
- 3Bg Decide which projects to fund with JBIC or PRC loans and which should to offer as PPPs. Fund pre-feasibility studies and assure transparent bidding;
- 3Bh Amend BOT law IRRs and seek BOT law amendments.

4. Judicial/Regulatory/Enforcement

- 4a Introduce continuous trial;
- 4b Intensify anti-smuggling enforcement and BOC lifestyle checks; jail smuggling big fish and GRP protectors;
- 4c Increase IPR enforcement, especially for optical media.

5. Legislation

- 5a Revitalize LEDAC;
- 5b Seek removal from Constitution of all restrictions on foreign investment and professions; work for early passage of any required implementing legislation;
- 5c Reduce minimum foreign equity thresholds in Retail Trade Act and Foreign Investment Act; otherwise reduce restrictions on FDI in Negative List;
- 5d In future laws concerning FDI, seek waiver provisions to provide flexibility to approve projects especially beneficial in technology, capital or employment;
- 5e Correct discriminatory or unenforced foreign investment regime rules, e. g. --incentives only for firms with at least 60% Filipino equity;

- projects receiving incentives asked to divest 10% equity as IPO;
- foreign firm w/export incentives divest to be 60% Filipino after 30 years;
- RA 8762 requires 30% divestment after 8 years of operations.

- 5f Pass priority legislation:
- Biofuels/renewable energy
 - BOT amendments
 - Clark SEZ
 - Corporate Recovery Act
 - Credit Bureau
 - DICT
 - EVAT Amendments: 70% Cap; 5-Year Amortization
 - Rationalization of Fiscal Incentives
 - IPR amendments
 - Personal Equity Retirement Account (PERA)
 - Pre-need Code
 - SPV Extension
 - Anti-Smuggling
 - Anti-Terrorism
 - Tourism

6. Security/Political Stability

- 6a Modernize COMELEC for faster, less controversial election results;
- 6b Complete and implement GRP-MILF accord.

7. Other (if any)

ICIP SECTORS AND REFORM TASKS

8A. Health/Retirement

- 8Aa Allow foreign doctors to practice at medical/retirement facilities used by foreign nationals;
- 8Ab Permit foreign ownership of land for commercial, industrial residential purposes;
- 8Ac Develop foreign retirement communities in Central Luzon and Cebu;
- 8Ad Improve transportation infrastructure in Metro Manila and Cebu;
- 8Ae Promote medical tourism and retirement.

8B. ICT

- 8Ba See Cluster 1 (education and English);
- 8Bb See Cluster 2 (create DICT);
- 8Bc Modernize Labor Code.

8C. Manufacturing

- 8Ca Reduce costs of doing business (labor, regulatory, transportation, utilities);
- 8Cb Limit minimum wage increases;
- 8Cc Modernize Labor Code;
- 8Cd Allow foreign ownership of commercial, industrial and residential land.
- 8Ce Reduce smuggling and hijacking;
- 8Cf Train more engineers and scientists;
- 8Cg Develop electronics testing and R & D subsectors

8D. Mining

- 8Da Resume Rapu Rapu mining project with better safeguards and local consultation;
- 8Db Support MAP consultation initiative;
- 8Dc Train workers near mining sites in skills for better jobs;
- 8Dd Provide/discuss information on sound mining practices and benefits.

8E. Tourism

- 8Ea Improve infrastructure of key tourism areas (e.g. Bicol, Bohol, Cagayan de Oro/Camaguin, Cordilleras, Davao, Palawan, Subic/Clark)
- 8Eb Pass Tourism Act of 2006 with amendments to encourage foreign investment in tourism and open skies;
- 8Ec Advocate more open skies and discount airlines to increase flights;
- 8Ed Advocate more international flights to destinations outside Central Luzon;
- 8Ee Seek more balanced travel advisories;
- 8Ef Improve surface traffic flow.

END SUMMARY

METHODOLOGY

Implementation of the plan will be guided by AmCham's ICIP staff, using its resources in combination with other supporters of reforms in the public and private sectors. EMERGE resources may also be called upon. A variety of methods will be

employed, including:

1. ***AmCham Committees and Members***. Where appropriate, individual AmCham member companies may be best placed to advocate a reform using their contacts in the GRP, the media or other means. The following AmCham committees may also harness their members in different sectors to pursue relevant reforms:

- Agribusiness
- Consumer Goods
- Energy
- Environmental Quality Management
- Financial Services
- Industrial Relations
- Information and Communications Technology
- Intellectual Property Rights
- Legislative
- Pharmaceutical
- Philippine Business Environment
- Strategic Issues
- Taxes and Tariffs
- Tourism
- Trade and Investment
- Transportation and Infrastructure

2. ***The American Desk at the Board of Investment*** is in a key position to identify investment trends and problems having a negative impact on actual investment. The Amdesk is in direct contact with investors, both existing and prospective, on a frequent basis and has access through counterparts from other nations to the views of their investors.
3. ***Alliances with organizations*** including the Joint Foreign Chambers, Philippine business associations, multilateral banks, foreign embassies, academic centers, media and others will be organized as needed. The following are among the groups and organizations who may partner with AmCham to support reforms.

- Asian Institute of Management (AIM), Washington Sycip Policy Center
- Asian Development Bank (ADB)
- Asia Society Philippine Foundation, Inc.
- Ateneo University, School of Economics
- The Asian Foundation (TAF)
- Australian Embassy
- Australian-New Zealand Chamber of Commerce of the Philippines, Inc.

Bankers Association of the Philippines (BAP)
Bishops-Businessman's Conference
British Chamber of Commerce of the Philippines (BCC)
British Embassy
Business Processing Association of the Philippines (BPA/P)
Canadian Chamber of Commerce of the Philippines
Canadian Embassy
Capital Markets Development Council
Catholic Bishops Conference of the Philippines (CBCP)
Cebu Chamber of Business and Industry
Center for Research and Communication, UAP
Chamber of Automotive Manufacturers of the Philippines Inc. (CAMPI)
Chamber of Mines of the Philippines
China (Taiwan) Office
Chinese Embassy
Chinese Filipino Business Club, Inc.
Clark Investors and Locators Association (CILA)
De la Salle University, Angelo King Institute
El Shaddai
Employers Confederation of the Philippines (ECOP)
Export Development Council (EDC)
European Chamber of Commerce and Industry of the Philippines (ECCP)
European Union Embassy
Federation of Filipino Chinese Chambers of Commerce (FFCCC)
Filipino Indian Chamber of Commerce (Phils), Inc.
Financial Executive Association of the Philippines (FINEX)
Foundation for Economic Freedom (FEF)
Foreign Correspondents Association of the Philippines (FOCAP)
Friedrich Eibert Stiftung
Friedrich Naumann Stiftung
French Chamber of Commerce of the Philippines
French Embassy
German Embassy
Hotel and Restaurant Association of the Philippines
Iglesia ni Kristo
Indian Embassy
Information Technology Association of the Philippines (ITAP)
International Finance Corporation (IFC)
International Monetary Fund (IMF)
Independent Power Producers Association
Institute of Corporate Directors
Israeli Embassy
Japanese Chamber of Commerce and Industry of the Philippines (JCCIP)
Japanese Embassy
Japan External Trade Organization (JETRO)
Konrad Adenauer Stiftung

Korean Chamber of Commerce and Industry of the Philippines (KCCIP)
 Korean Embassy
 Management Association of the Philippines (MAP)
 Makati Business Club (MBC)
 Mindanao Business Council
 National Movement for Free Elections (NAMFREL)
 Personal Management Association of the Philippines (PMAP)
 Philippine-American Chamber of Commerce of New York
 Philippine Association of Multinational Companies Regional Headquarters, Inc
 (PAMURI)
 Philippine-Association of Private Schools, Colleges and Universities
 Philippine Chamber of Commerce and Industry (PCCI)
 Philippine Economic Society
 Philippine Exporters Confederation
 Philippine Franchise Association
 Philippine Ecozones Association
 Philippine Institute for Development Studies
 Philippine-Israel Business Association
 Philippine Retailers Association
 Philippine Software Association
 Pulse Asia
 Rotary Club of Makati
 Rotary Club of Manila
 Semiconductor and Electronics Industries of the Philippines, Inc. (SEIPI)
 Singapore Embassy
 Singapore-Philippines Association
 Social Weather Stations
 Spanish Camara Official Espanola de Comercio
 Taiwan ROC Chamber of Commerce and Industry of the Philippines
 Trade Union Congress of the Philippines
 UN Development Program
 UP School of Economics
 US-ASEAN Business Council (Washington, DC)
 US Chamber of Commerce (Washington, DC)
 US Embassy
 World Bank

4. ***Alliances with prominent individuals and firms*** may also be sought to explain the ICIP reform advocacy and request support. Possible individuals and firms include:

Roberto Aboitiz, chairman, Aboitiz Group
 Emily Abrera, chairman, McCann-Erickson
 Jose Almonte, former National Security Advisor
 Rafael Alunan, former DILG and DOT secretary
 Cesar Bautista, former DTI secretary
 Stephen Bosworth, former US ambassador, dean, Fletcher School,

PGMA International Advisory Board
Cesar Buenaventura, former chairman, Shell Philippines
Lito Camacho, former DOE and DOF secretary
Dante Canlas, former NEDA director general
Aloysius Colayco, chairman, Jardine Mathieson
Eduardo Cojuangco, chairman, San Miguel
Rufo Colayco, former BCDA chairman
Jose Concepcion, former DTI secretary
Jose Concepcion, Jr., president, Concepcion Industries
Raul Concepcion, president, Consumer and Oil Price Watch
Gerald Corrigan, Goldman Sachs, PGMA International Advisory Board
Tessie Sy Coson, president, SM Prime Holdings
Hilario Davide, former Chief Justice
Corazon de la Paz, chair, SSS
Roberto de Ocampo, former DOF secretary
Helen Dee, president, House of Investment
Gregorio Domingo, former DTI/BOI undersecretary
Paul Dominguez, former Presidential Assistant for Mindanao
Jesus Estanislao, former DOF secretary
Fitch Ratings
Jorge Garcia, founder, Asian Hospital
Lance Gokongwei, president, JG Summit Holdings, Inc.
Thomas Hubbard, former US Ambassador, Akin, Gump, Strauss
Daniel Lacson, Jr., former governor Negros Occidental
Narzalina Lim, former DOT secretary
Federico Lopez, vice chairman, First Gas
Oscar Lopez, chairman, Benpres
Guillermo Luchangco, president, ICCP
Felipe Medalla, former NEDA director general
Solita Monsod, former NEDA director general
Moody's
Rizalino Navarro, former DTI secretary
Bienvenido Nebres, president, Ateneo de Manila
Cayetano Paderanga, former NEDA director general
William Padolina, former DOST secretary
Manuel Pangalinan, president, PLDT
Jose Pardo, former DTI and DOF secretary
Felicito Payumo, former SBMA chairman
Vincente Perez, former DOE secretary
Ernesto Pernia, UP School of Economics, former ADB chief economist
Nicholas Platt, former US Ambassador and president, Asia Society
Cesar Purisima, former DTI and DOF secretary
Raul Rabe, former Phil Ambassador to US
Fidel Ramos, former president
Melito Salazar, former DTI/BOI secretary
Gerardo Sicat, former NEDA director general

Standard and Poor's
Hans Sy, President, SM Prime Holdings, Inc
Washington Sycip, founder, SGV Group
Cesar Virata, former prime minister
Frank Wisner, Vice Chairman AIG, PGMA International Advisory Board
Laura d. Andrea Tyson, dean, London Business School, PGMA International
Advisory Board
Jaime Zobel de Ayala, chairman, Ayala Corp.
Peter Wallace, president, Wallace Business Forum
Stephen Zuellig, chairman Zuellig, PGMA International Advisory Board

5. ***Alliances with media*** will also be pursued to seek publicity for the advocacy of ICIP reforms in news reports, columns and editorials. Among the media to be informed of ICIP advocacies are:

ABS-CBN television
Agence France Press (AFP)
AP Dow Jones
Asian Wall Street Journal (AWSJ)
Bloomberg
Business World
Business Mirror
Christian Science Monitor
Financial Times
GMA television
International Herald Tribune (IHT)
Kyodo News Service
Malaya
Manila Bulletin
Manila Standard
Manila Times
National Public Radio (NPR)
Newsbreak
Newsweek
New York Times (NYT)
Philippine Center for Investigative Journalism (PCIJ)
Philippine Daily Inquirer (PDI)
Philippine Star
Reuters
Time Magazine
Voice of America (VOA)
Washington Post

6. **Information on ICIP reform** advocacies will be provided to appropriate audiences in various ways, through letters, reports, statements, emails and website postings. To the greatest extent possible, ICIP advocacy documents will be transparent and available to anyone interested.
7. **Meetings with GRP Officials** will be held to discuss key reforms. Among those with whom ICIP intends to meet are:

Executive Branch:

President Gloria Macapagal-Arroyo (PGMA)
Executive Secretary Eduardo Ermita
Chief of Staff Michael Defensor
Presidential Advisor for Job Creation Arthur Yap
Presidential Advisor on Competitiveness Roberto Romulo
PMS Chief Renato Velasco
Presidential Legislative Liaison Office Senior Deputy Executive
Secretary Joaquin Lagonera
Mindanao Economic Development Advisor Jesus Dureza
MMDA chairman Bayani Fernando
Budget and Management Secretary Rolando Andaya

CICT Secretary (vacant)

Education Secretary Fe Hidalgo
TESDA Director General Augusto Syjuco
CHED Chairman Carlito Puno

Energy Secretary Raphael Lotilla
NAPACOR President Cyril Del Callar
TRANSCO President Allan Ortiz
PSALM President Nieves Osorio

Environment Secretary Angelo Reyes

Finance Secretary Margarito Teves
Assistant Secretary Roberto Tan
BOC Commissioner Napoleon Morales
BIR Commissioner Jose Mario Bunag
Central Bank Governor Armando Tetangco
Development Bank of the Philippines chairman Simon Paterno

Foreign Affairs Secretary Alberto Romulo
Ambassador to the US Albert del Rosario

Interior and Local Government Secretary Ronaldo Puno

PNP Chief Arturo Lomibao

Labor Secretary Patricia Sto. Tomas

National Defense Secretary Avelino Cruz
AFP Chief of Staff Generoso Senga
NEDA Director General Romulo Neri

Public Works and Highways Secretary Florante Soriquez

Science and Technology Secretary Alabastro Estrella

Tourism Secretary Joseph Ace Durano

Trade and Industry Secretary Peter Favila
DTI Undersecretary Tomas Aquino
DTI/BOI Undersecretary Elmer Hernandez
DTI/NDC General Manager Art Aguilar
DTI/NDC/PIC Noel Kintanar
PEZA Director General Lilia de Lima

Transportation Secretary Leandro Mendoza
Undersecretary for Land Transportation Ricardo Alfonso
Assistant Secretary Roberto Castanares
Civil Aeronautics Board Tomas Manalac
LRTA Administrator Mel Robles
LTO Chairperson Aneli Lontoc
LTFRB Chairperson Ma. Elena Bautista
NAIA General Manager Alfonso Cusi

CICT Ver Pena (retiring)
CDC Chairman Rizalino Navarro
CDC President Antonio Ng
Clark Airport President Bienvenido Manga
SBMA Chairman Feliciano Salonga

Judicial/Regulatory/Enforcement:

Supreme Court Chief Justice Artemio Panganiban
COMELEC Chairman Benjamin Abalos
ERC Chairman Rodolfo Albano
Ombudsman Mercedes Gutierrez

Congress: House

Speaker	Jose de Venecia
Majority Leader	Prospero Nograles
Minority Leader	Francis Escudero
Appropriations	Joey Salceda
Basic Education and Culture	Edmundo Reyes Jr.
Constitutional Amendments	Constantino Jaraula
Economic Affairs	Joey Sarte Salceda
Energy	Alipio Badelles
Higher and Technical Education	Cynthia Villar
Information Communications Technology	Simeon Kintanar
Labor and Employment	Roseller Barinaga
National Defense and Security	Roilo Golez
Railways and Ro-Ro Systems	Augusto Baculio
Rules	Prospero Nograles
Science and Technology	Antonio Diaz
Tourism	Edgar Chatto
Trade and Industry	Junie Cua
Transportation	Monico Puentevella
Ways and Means	Jesli Lapus

Congress: Senate:

President	Franklin Drilon
Majority Leader	Francis Pangilinan
Minority Leader	Aquilino Pimentel
Banks, Financial Institutions & Currencies	Edgardo Angara
Constitutional Amendments, Revision of Codes & Laws	Richard Gordon
Economic Affairs	Mar Roxas
Education, Arts and Culture	Juan Flavier
Energy	Miriam Defensor Santiago
Finance	Manny Villar
National Defense and Security	Rodolfo Biazon
Science and Technology	Ramon Magsaysay
Tourism	Richard Gordon
Trade and Commerce	Mar Roxas
Ways and Means	Ralph Recto

8. ***Media will be an important channel*** for ICIP to use by means of press interviews, press releases, press conferences, ICIP-authored columns, emails to key columnists and the like. Philippine leaders pay attention to and are influenced by news and commentary in the printed as well as the electronic media. The Philippine media is

diverse and challenging to work with but can convey important reform messages to audiences of decision makers in both the public and private sectors.

Possible topics for a bi-monthly column which might be titled “Foreign Investor Point of View” include:

1. The Boom in Electronic Exports; Is It Over?
 2. Foreign Investment: Why Not \$3B a Year?
 3. Constraints on the Philippines Becoming Back Office to the World
 4. Tourism: Can Growth Continue?
 5. Infrastructure: Falling Apart
 6. Mining: Underground Wealth Can Enrich the Philippines
 7. FDI: A Tale of Three Countries: Philippines, Thailand and Vietnam
 8. Smuggling and Corruption Deter FDI
 9. The Challenge of Reforming the Power Sector
9. **Workshops on key reforms** will be organized by ICIP and/or participated in. An events management firm will be contracted to publicize and manage the workshops. Attendance fees will be charged to spread expenses. Initial plans are for the following:

(a) Foreign Investment Workshop

The Foreign Investment Roundtable would be day-long session to gather recommendations from interested groups on how the Philippines could attain a FDI level of \$3B a year. Invitations would be sent to ICIP alliance partners listed in paragraph 3 above, local and foreign media, GRP officials and other interested parties.

A draft program might include:

- ICIP Speaker: Opening Remarks: A Holy Grail \$3B FDI a year
- ADB Economist: Regional FDI Overview, Philippines in Perspective
- BOI Undersecretary: Philippine Priority Investment Sectors
- NEDA Director General: Raising Infrastructure Spending to 5% of GDP
- Foreign Investor Recommendations: (a series of speakers presenting papers, perhaps to include ICIP, JETRO, IFC, Peter Wallace, AIM, UP and Ateneo economists)
- Breakout sessions for several key issues and sectors
- Luncheon Keynote Speaker: Former President Ramos
- Conclusion

A report of the workshop will be prepared and submitted to participants, GRP leaders and the media. Task forces for key issues and sectors will be formed as needed to continue meeting, advocating reforms and monitoring their progress.

(b) Energy Sector Reforms Review

A request is pending with Energy Secretary Lotilla for a session between the JFC and DOE officials to discuss power sector developments and reforms. Multinational banks and others would be invited to attend.

(c) Red Tape and Corruption Workshop

This workshop would seek to lay the groundwork for a program to reduce red tape and the corruption accompanying it, which is often cited as a drag on business efficiency and business costs in the Philippines.

The workshop could be the platform to launch a GRP Anti-Red Tape Program led by a special assistant to the president with Anti-Red Tape Monitors in key departments and agencies.

Participants will include officials of agencies most notorious for their red tape, representatives of business associations, media. An advance poll of businesses will be conducted to identify the worst red tape offenders.

(d) Subic to Batangas Transportation Corridor Workshop

This workshop will bring together public and private sector officials to embrace the goal of an integrated, efficient ground transportation system for goods and people between Subic and Batangas. Participants will include GRP transportation and economic officials, representatives of business associations, managers of industrial estates, operators of existing transportation links within the Subic to Batangas Corridor, infrastructure project development and management firms, local government officials and domestic and foreign media.

10. **Reports.** In addition to weekly reports, ICIP will prepare Investment Climate Monitoring Reports (monthly and quarterly), Investment Climate Briefs (occasional and on topics related to workshops) and a final report in March 2007 on ICIP project accomplishments. Most reports will be posted on the AmCham website and available to the public.
11. **Metrics/Measurables.** Project results may be measured by specific reforms as they are achieved (e.g. passage of legislation, amendment of IRRs, issuance of an E.O.), specific significant investment projects as well as increased investment levels in terms of Central Bank data, both in absolute numbers and as a percentage of GDP.

REFORM CLUSTER 1

REDUCE BUREAUCRACY AND CORRUPTION

PROBLEM DESCRIPTION

Excessive bureaucracy creates serious inefficiencies, raising the cost of doing business, reducing national competitiveness and providing opportunities for corruption. The 2003-04 Global Competitiveness Ranking of the World Economic Forum (WEF) placed the Philippines 98th of 102 countries in red tape. A 2005 Asian Development Bank poll of 1,000 private sector firms operating in the Philippines revealed firm managers spend an average of 9% of their time dealing with bureaucrats. Red Tape and corruption are among the main reasons for the low ranking of the Philippines in the World Bank/IFC global ranking *Doing Business in 2006: Creating Jobs*. Transparency International (TI) ranks the Philippines in the bottom third of countries for overall corruption, while WEF's 2003-04 Global Competitiveness Ranking rated the Philippines second from worst for corruption of 102 countries. TI commented "Corruption is already perceived to be systemic and widespread across all levels of the bureaucracy."

RECOMMENDED REFORM TASKS

- simpler and more transparent regulations should be implemented, especially in regard to business registration, customs, immigration and BIR procedures;
- ask the GRP to appoint an Anti-Red Tape Assistant to the President and Anti-Red Tape wardens in key departments and agencies where extensive red tape is most likely to lead to corruption and create inefficiencies for business operations;
- set and enforce fixed deadlines for agencies to approve. Require automatic approval if the agency does not act before the deadline;
- implement eGovernance to allow more essential regulatory requirements to be met using the internet;
- continue lifestyle checks and RATE programs, while expanding the budget and operations of the Ombudsman;
- report suspected corruption and lifestyle abuses to Ombudsman and DOF.

STRATEGY/REFORM LEADERS AND ALLIES

- organize a broad alliance of business groups and donors to discuss advocated reform;
- enlist ADB and World Bank support;
- one domestic and one foreign chamber of commerce should each take the lead in gathering a list of red tape to recommend to be eliminated or reduced;
- the lead domestic and lead foreign chamber begin polling coalition chamber members to prepare list of desired red tape procedures to be eliminated or reduced;
- make initial approach to government to obtain GRP support;
- hold Red Tape and Corruption Workshop;
- roll out Anti-Red Tape Mentors in key agencies;
- ask Ombudsman and lifestyle and RATE program officials to speak at ICIP events;
- establish a Corruption Website to list allegedly corrupt government procurement projects; list Ombudsman and lifestyle and RATE program activities; link with other anti-corruption efforts; link with GRP websites;
- publicize anti-red tape campaign.

INTENDED REFORM RESULTS

- less red tape;
- reduced corruption;
- improved government service to business;
- reduced cost of doing business;
- increased economic competitiveness;
- increased investment and jobs;
- more direct and indirect tax revenue.

REFORM CLUSTER 2

EDUCATION

PROBLEM DESCRIPTION

A plentiful, skilled, educated and reasonably-priced workforce has long been considered the principal attraction of the Philippines for foreign investors, especially those engaged in export manufacturing and services. Thus, the accessibility of quality human resources is the most important factor in the competitiveness of the Philippine economy.

Unfortunately, the Philippines spends less per capita on public education than other countries in ASEAN and per capita spending on education has declined for several years. The quality of public schools (attended by 91% of students) is in steady decline, in terms of physical crowding, maintenance, new constructions, teacher quality and the like.

Philippine students perform poorly in international tests of English, math and science. The quality of spoken English - the country's first national language - has fallen among students leaving school since the late 80s when the medium of instruction shifted from English to Filipino. The proficiency of public school teachers of English has also declined; a shockingly low percentage is able to pass minimum scores on DEPED English proficiency tests. Many of the most fluent teachers have taken higher-paying jobs abroad. Private schools are also affected by limited family budgets for education and the emigration of teaching staff. Science, math and engineering education is weak.

Challenges in the education sector are well-recognized, and remedial efforts are underway, with especially strong efforts by the country's strong NGO sector and the World Bank. While PGMA restored English as a medium of instruction in public schools in 2003, it will take time and resources to reverse the two-decade shift away from English. At the PDF, NEDA stated plans to increase investment by P1.4B in education in 2006-2010, considerably less than it plans to increase investment in health and housing. TESDA has announced a P500m scholarship program for 100,000 beneficiaries for the ICT sector, where the GRP very ambitiously projects employment growing from 233,000 to 2,000,000 by 2010. Better English skills are also needed for the growing tourism sector, as well as manufacturing, and to avail of foreign employment opportunities.

RECOMMENDED REFORM TASKS

- triple per capita spending on education by 2010 (to at least half that of Thailand);
improve education quality;
- achieve better quality spoken English among high school and college graduates as
measured by benchmarked testing;
- improved engineering, math and science skills among graduates as measured by
international scores;

--CHED to approve a call center curriculum for colleges and universities.

STRATEGY/REFORM LEADERS AND ALLIES

--ICIP will advocate - in cooperation with other business groups - for raising per capita spending on public education to ASEAN average and improved math, science and English courses;

--ICIP will support the Promoting English Proficiency and English is Cool projects of AmCham, ECCP and other partners;

--ICIP will consult with Jobs Generation Secretary Yap on meeting skills requirements for the ICT, manufacturing and tourism sectors.

REFORM RESULTS

- better scores on basic English, math and sciences tests;
- better HR skills of entering workforce;
- supply of qualified skilled workers better able to meet demand;
- more investment and jobs created;
- more direct and indirect tax revenue.

REFORM CLUSTER 3A

INFRASTRUCTURE: POWER

PROBLEM DESCRIPTION

Investors – concentrated on Luzon - have long recommended a less expensive and more reliable electric power supply in the Philippines as a critical component of improved economic competitiveness. In the early 1990s, the economy suffered from severe power shortages, solved by one of the most successful private power programs among developing countries. However, after the 1997 financial crisis reduced electricity demand growth, oversupply in the Luzon grid (which has 80% of the country's total capacity and demand) and sharply higher costs of imported fuel and debt service for foreign-financed power plants pushed electricity prices up sharply leading to controversy over private power contracts.

The EPIRA, signed in 2001, a significant major reform law to privatize the state-owned NPC, was an encouraging sign of political will at the start of the Macapagal-Arroyo Administration. However, contract “renegotiations” forced by the GRP the following year created negative attitudes towards further investments in the Philippine generation sector. Since then, the failure to privatize the GENCOs and TRANSCO, as called for under EPIRA, has created uncertainty about future power supplies.

Predictions made two years ago of blackouts in the Luzon grid by 2007-08 are being proven incorrect because of flat electricity consumption growth resulting from high demand elasticity. Yet progress in implementing EPIRA is increasingly urgent given the long lead time needed to build new power plants. New base load plant projects continue to face a “bankability” challenge due to the failure of the GRP to implement EPIRA.

The AmCham Roadmap in mid-2004 urged that:

“Implementation of the landmark power reform law must be accelerated to privatize NPC and TRANSCO. The subsidy of NPC rates must gradually be brought in line with the cost of power generation to avoid a fiscal crisis and restore investor confidence. The phase-out of industrial cross-subsidies to consumers is essential to prevent factory closures. Distribution utilities should be restored to creditworthiness. Rates will initially increase but, in the medium-term, reforms will result in lower power rates and higher government revenue – and no blackouts.”

Over the last two years, the GRP has made progress in removing cross subsidies -under which industry overpaid for power - and ending NPC losses (which had exceeded P100B) incurred by charging less than generation cost and absorbed by taxpayers. In addition, several transmission line upgrades now enable fuller dispatch from lower-cost IPP plants in Batangas, Pangasinan and Quezon.

After years of petitions by domestic and foreign manufacturers that the cost of power in the Philippines is one of the highest in Asia, a significant potential reform was announced in April 2006 in a letter from MERALCO to PGMA stating its agreement to allow open access within its franchise for power consumers using 1KW and more a month.

Although details remain to be worked out by the ERC, this reform should make introduction of the WESM more feasible by its mid-2006 target. An operationalized WESM may provide sufficient restored confidence for the market to finance a merchant plant soon enough to provide new power to the Luzon grid before demand exceeds supply in 3-4 years with consequent blackouts. By early 2007, however, the GRP should determine whether to declare a state of emergency under Section 71 of the EPIRA so that NPC can contract for power from a new power plant with partial government/ADB guarantees to compensate for high market risk.

Privatization of the concession to operate the transmission system has also been stalled pending issuance of revised terms of reference.

NPC requires its coal-fired IPP plants to burn coal which NPC alone can import. In 2004 coal stocks at several large plants reached critically low levels before NPC was able to contract for additional supplies. To avoid inefficiency and the possibility of corruption, IPPs should be allowed to contract fuel supplies directly.

The Supreme Court has played an influential part in the Philippine power sector, not always to the long term benefit of either the power sector or the consumer. One consequence was that the RORB of Meralco RORB fell to 5%, much below the 8% required by creditors and the 12% allowed by law. A strengthened and more efficient ERC should reduce Supreme Court interventions in the future. The ERC must have competent and experienced staff so that regulators can act independently from outside influences. Rates must strike a balance between industry viability and consumer interest which can best be accomplished if ill-advised intervention from various branches of the government and public interest groups is avoided.

If multinational firms project high power rates and a high probability of blackouts in their business cost planning, we expect more of these firms will postpone expansion plans at their factories in the Philippines on even close in favor of regional locations which provide less expensive, more reliable power. While recognizing that some reforms are being made, the prevailing view among country managers of such firms is that the GRP has moved too slowly to improve the electric power conditions their firms face.

RECOMMENDED REFORM TASKS:

- more fully implement EPIRA by accelerating the sale of NPC GENCOs and by full privatization of TRANSCO;
- continue to seek to lower industrial power rates through open access for power consumers of 1MW and more a month;
- start operations of WESEM on schedule;
- allow IPPs the option of importing coal directly;
- fully dispatch Malampaya gas, accelerating GRP royalty revenue.

STRATEGY/REFORM LEADERS AND ALLIES

- continue to present JFC views to the GRP urging EPIRA implementation;
- participate in periodic reform status workshops with GRP energy leaders, donors and other interested parties, including Congressional leader;
- issue statements urging early accomplishment of reform tasks;
- establish a POWER REFORM TASKS website where the progress of reform is reported, with timelines for implementation.

REFORM RESULTS

- avoid the severe economic losses of a repeat power crisis;
- reliable supply of electricity on Luzon after 2010;
- less expensive electricity for exporters and large consumers;
- improved competitiveness for Philippine economy;
- increased investment and jobs;
- more direct and indirect tax revenue.

REFORM CLUSTER 3B

INFRASTRUCTURE: TRANSPORTATION SUBIC-BATANGAS CORRIDOR

PROBLEM DESCRIPTION:

Roughly one third of the Philippine population lives in the highly congested Central Luzon, NCR and CALABARZON regions, an area where industry, commerce, services, education and government are concentrated. Most foreign investors, large domestic firms, foreign governments and multilateral organizations have their headquarters in the national capital. Per capita income in these regions is also much higher than the national average. Manila's location on a narrow strip of land between two bodies of water present a challenge to transportation, creating congested north-south movement. Ground and air transportation inefficiencies add to the cost of business, create long commutes for workers and pollute the air.

Plans have long existed for a continuous high speed road corridor from Subic to Clark to Manila to Batangas, complimented by a network of light rail lines to efficiently move millions of commuters. International finance is available to fund suitable projects within the corridor, ultimately to connect the Subic SEZ and port to the Clark SEZ to Metro Manila to the industrial estates of CALABARZON and the port of Batangas.

The Skyway, MRT 3 and NLEX upgrade have been financed by private funds. LRT 2 and the Subic-Clark highway have been financed with low-interest JBIC loans. The SLEX upgrade has recently started with private foreign funding, and the Northrail project to Malolos is underway with a low-interest PRC loan.

Yet important large transportation infrastructure projects in the region have remained mired for years in bureaucratic delay and indecision. An unsolicited joint venture proposal for the LRT 1 extension to the fastest-growing province of Cavite was rejected after many years by a decision of the presidential legal advisor. An unsolicited proposal for LRT 7 has been under consideration for five years. MRT 3 phase 2 has been stuck within the bureaucracy for almost as long, despite presidential instructions to advance the project. While the government has lacked the funds to finance these projects, private funds have been available for properly-structured BOT projects but GRP project leadership has long been absent.

The NAIA IPT 3 project has been underway since late 1992. After 12 years, it remains an embarrassing white elephant, with a reputation for corruption and non-transparency, a case study in how NOT to do a private-public partnership and a deterrent to foreign investment. IPT 3 highlights the political risk to PPPs in emerging economies from the executive, legislative and judicial branches of government, whose decisions and policies are inconsistent and unpredictable.

RECOMMENDED REFORM TASKS:

- open NAIA IPT 3 and adequately compensate owners;
- rapidly develop Clark airport for cargo and passenger traffic;
- connect Subic and Batangas with a smoothly-flowing road system supplemented with light rail lines;
- recruit a prominent high-level manager from the private sector to serve as Special Assistant to the Chairman of NEDA for Major Infrastructure Projects;
- identify key projects that are slow in implementation. Analyze problems. Advocate acceleration or implementation;
- decide which projects should be funded by JBIC and PRC low-interest loans and which should be offered as public-private partnerships. Fund pre-feasibility studies for PPP projects and assure transparent bidding;
- amend BOT law IRRs and seek BOT law amendments.

STRATEGY/REFORM LEADERS AND ALLIES

- form a Subic-Batangas Advocacy Group with membership from JFC, MAP, PCCI and others, including governors;
- meet Executive Secretary Ermita and NEDA Director General Neri to propose the appointment of a Special Assistant and the holding of a workshop.
- hold a workshop involving responsible GRP agencies and business groups to discuss the status of each element of the Subic to Batangas corridor and the rail lines and to identify remedial actions and a suggested timeline for implementation.
- establish a TRANSPORTATION CORRIDOR website where the progress of each project is reported, with timelines for implementation.

REFORM RESULTS

- greater transportation efficiencies in the region;
- lower business costs;
- increased national competitiveness;
- cleaner air;
- reduced commuting time and increased workforce efficiency;
- more investment and jobs;
- more direct and indirect tax revenue.

REFORM CLUSTER 4

JUDICIAL/REGULATORY/ENFORCEMENT

PROBLEM DESCRIPTION:

Justice delayed is justice denied, allowing violators to “get away with it” if not forever then for many years. Without continuous trials and with lawyers allowed to delay cases for minor reasons, Philippine courts face a large backlog of cases. Inefficiencies in the disposal of assets, free movement of litigants and the like are common. Delays in IPR cases effectively encourage continued piracy. A reform to encourage mediation was introduced in 2003.

Smuggling through major ports is common and exists because of corruption in the BOC reportedly allied with influential persons with well-placed political connections. Smuggling reduces government revenue and allows inferior and dangerous goods to enter local markets. Smuggling permits large quantities of pirated copies of patented goods to be sold at cheap prices, in violation of IPR protection commitments and undermining local manufacturing and employment.

The Philippines has been on and off of the USTR Watch List for IPR violation for many years. In February 2006 the Philippines was recategorized from the Priority Watch List category to the less worrisome Watch List category. This change reflects greater GRP efforts in recent years to increase enforcement, especially of pirated optical media. These efforts have included passage of the Optical Media Act in 2004, which *inter alia* better protects the IPR of Philippine nationals. Nevertheless, extensive piracy continues and greater efforts to protect IPR are required. Stronger IPR enforcement will improve the investment climate for foreign manufacturers and ICT service providers.

RECOMMENDED REFORM TASKS:

- create special courts where continuous trial can be introduced, either at the request of litigants or the direction of court administrators;
- intensify anti-smuggling enforcement efforts, increase lifestyle checks of BOC employees and expose, arrest and prosecute prominent smugglers in the private sector and their protectors in government;
- increase IPR enforcement, especially for optical media.

STRATEGY/REFORM LEADERS AND ALLIES

- meet with Chief Justice to urge continuous trial;
- hold periodic workshops with enforcement authorities with media present;
- report positive and negative events on a dedicated Corruption Watch website, linked to GRP websites.

REFORM RESULTS

- better international reputation as a country that respects IPR;
- increased investment, jobs and technology transfer;
- increased direct and indirect revenue.

REFORM CLUSTER 5

LEGISLATION

PROBLEM DESCRIPTION:

Although the Philippines has enjoyed a reputation for having some model laws (although compliance and enforcement are frequently weak), many laws are outdated and out-of-step with best international practice. Some date back to the American Commonwealth.

Since the bicameral Congress was restored under the 1987 Constitution, the rate at which each successive Congress has passed significant legislation has slowed. At the midpoint of its three-year life, the 13th Congress is setting a post-Marcos record for its low level of final passage of legislation. The Senate, where the administration no longer enjoys majority support, is legislating at a slow pace, while the House has expended much of its energy on political issues - the unsuccessful mid-2005 impeachment debate and presently constitutional change – and delayed passage of the national budget. Meanwhile, the progress of many important bills has stagnated. The LEDAC, a successful coordination mechanism in the Ramos and early PGMA administrations, seems no longer to function.

No liberalization of the foreign investment regime has taken place since passage of the Retail Trade Act in 2000. With the exception of grandfathered firms, prior to 1989 the foreign investment regime in the Philippines was closed to majority foreign investment outside the export sector, leaving foreign investors either in a minority ownership position or having to resort to subterfuge. The Foreign Investment Act of 1989 introduced a major reform, opening most sectors to majority foreign equity investment and establishing a Negative List of investment restrictions. Under the Ramos Administration, new foreign banks and foreign insurance firms were allowed to operate. The 1986 Constitution places restrictions on foreign investment in advertising, education, land, media, natural resources and public utilities and the practice of regulated professions by foreign nationals.

RECOMMENDED REFORM TASKS:

- revitalize LEDAC as the administration's legislative reform coordination mechanism;
- seek removal from the Constitution of all restrictions on foreign investment and the practice of professions by non-Filipinos; work for early passage of any required implementing legislation;
- encourage reduction of minimum foreign equity threshold in the Retail Trade Act and Foreign Investment Act and otherwise seek to reduce restrictions on foreign investment contained in the Negative List;

- in future laws concerning foreign investment, seek waiver provisions to provide the Chief Executive with flexibility to approve foreign investments which may be especially beneficial to the national economy in terms of technology, capital or employment;
- correct non-level playing field foreign investment regime rules, such as:
 - the BOI practice of only granting incentives to firms with at least 60% Filipino equity;
 - divestment requirements for foreign firms, e.g. firm that receive export incentives must divest equity after 30 years to become 60% Filipino;
 - RA 8762 requires 30% divestment after 8 years of operations;
 - projects receiving incentives asked to divest 10% equity as IPO;
- Biofuels/renewable energy.** These bills promote alternative energy options to petroleum imports, seek to enhance energy security and reduce the impact of climate change. The bills contain providing for fiscal incentives to developers of renewable energy sources.
- BOT amendments.** Filed by House Economics Committee Chairman Salceda, HB 5002 seeks to enunciate a clear-cut policy on government support, adhere to best practices on risk allocation, set the reasonable rate of return for solicited or unsolicited or negotiated projects, institutionalize a fair, honest and competitive procurement process, establish a BOT Authority to rationalize the program implementation, and provide penal provisions for violations of specific offenses.
- Clark SEZ.** A July 2005 Supreme Court decision (appealed by the GRP) cancelled fiscal incentives under which investors located at the Clark SEZ. Corrective bills (HB 4900 and 4901) providing fiscal incentives and extending a tax amnesty to present locators are pending second reading.
- Corporate Recovery Act.** This proposal seeks to improve the process of corporate restructuring and bankruptcy by increasing legal options for distressed indebted enterprises. The proposed Corporate Recovery Act offers different means of relief namely Court Rehabilitation, Pre-negotiated Rehabilitation, Fast-Track Rehabilitation, and Dissolution and Liquidation.
- Credit Bureau.** Endorsed by the BSP, HB 3819 and SB 1936 seek to create the first centralized credit bureau in the Philippines to address the lack of reliable credit information for both individual and corporate borrowers, including credit card users.

--**DICT.** Most ASEAN countries have a Ministry of Information Technology. HB 3218 and SB 1795 seek to create the DICT and establish it as the primary agency in charge of promotion and development of integrated and strategic ICT systems and cost-efficient communications facilities and service. As of April 2006, HB 3218 was approved by the House Committee on ICT, while SB 1795 is still in committee.

--**EVAT Amendments: 70% Cap on Creditable Income Tax, 5-Year Amortization.**

The EVAT law, fully implemented in early 2006, includes several provisions of concern to the business sector. At issue are the 70% cap on input VAT credits and the 5-year recovery treatment of VAT for the purchase of capital equipment costing above P1 million. Pending with the Ways and Means Committees of both chambers are amendments to the above objectionable provisions. While cautious, the Department of Finance will not oppose amendments if they are revenue neutral.

--**Rationalization of Fiscal Incentives.** Approved by the House in January 2005, HB 3295 seeks to rationalize fiscal and non-fiscal investment incentives, ending incentives that are inefficient and inconsistent with WTO rules. The bill creates a more focused fiscal incentive regime. It remains in the Senate Ways and Means Committee, whose chairman considers the bill too conservative.

--**IPR amendments.** Filed by Rep. Joey Salceda, HB 3308 seeks to modernize the Philippines' copyright protection and enforcement system and fully implement key international copyright agreements.

--**Personal Equity Retirement Account (PERA).** HB 118 and SB 1343, pending in committee in both chambers, seek to create a tax-free individual retirement program similar to the US IRA. PERA accounts can be managed by a BSP-accredited bank or trust company, investment companies, investment houses accredited by the Securities and Exchange Commission, and life insurance and pre-need companies accredited by the Insurance Commission. PERA would strengthen the capital market and provide an investment for remittances of overseas Filipinos.

--**Pre-need Code.** HB 4343 and SB 2169 propose to establish a new regulatory framework for the operation of pre-need companies and to protect plan holders. These measures seek to address the growing problems of the pre-need industry such as the trust fund deficiencies encountered by prominent pre-need companies. The proposed Pre-Need Code mandates the Insurance Commission, not the SEC, to exercise supervise pre-need firms.

--**SPV Extension.** This AmCham priority legislation was approved on third reading by both House in March and are awaiting presidential signature. It extends the Special Purpose Vehicle Law which expired in April 2005. The BSP estimates the extension will enable the banking industry to dispose of P100 billion more of non-performing assets by granting tax exemptions and reduced registration and transfer fees. SPVs acquire non-performing assets at substantial discounts and seek to sell them later for a profit.

--**Anti-Smuggling.** Approved by the House in June 2005, HB 4069 seeks to provide stiffer penalties, both fines and imprisonment, for outright and technical smuggling and other violations of the Tariff and Customs Code. It also calls for the establishment of a special body to curb smuggling. The measure requires advance transmission of inward foreign manifests to allow the Bureau of Customs to verify the value of imported goods.

--**Anti-Terrorism.** HB 4839 (passed April 2006) and SB 2137 enact The Anti-Terrorism Act of 2005 to enhance Philippine capability to meet threats from regional and global terrorism. Both bills define terrorism, establish various mechanisms to prevent terrorism from being committed and set penalties. SB 2137 has been pending on 2nd reading since October 2005 due to concerns over its restrictions on civil liberties. There is long-standing resistance in the Philippines to internal security laws.

--**Tourism.** Filed by Sen. Gordon, SB 2138 proposes to create Tourism Philippines, a corporation consolidating the functions of the Philippine Convention and Visitors Corporation, and the Philippine Tourism Authority, which would also include tourism marketing and promotion sections of the DTI. This bill seeks to encourage investments in new hotels, resorts and other tourism enterprises through tax breaks and efficient governance to create world-class establishments in the most beautifully, historical and culturally significant areas of the country.

STRATEGY/REFORM LEADERS AND ALLIES

--AmCham members and committees, in coordination with selected ICIP allies, will meet and otherwise communicate with the Executive Secretary, appropriate cabinet officers, senior Congressional leaders and committee chairs to urge passage of ICIP priority legislation;

--create media coverage in support of passage of ICIP priority legislation.

REFORM RESULTS

--further liberalize the foreign investment regime to bring needed capital, skills and technology into the country;

--improve the country's image with foreign investors;

--improve the quality of existing laws;

--reform sectors/activities to which new laws apply;

--more investment, jobs and tax revenue.

REFORM CLUSTER 6

SECURITY/POLITICAL STABILITY

PROBLEM DESCRIPTION:

Internal security, crime and political instability have deterred both domestic and foreign investment and tourism in the Philippines. Extra-constitutional political maneuvers by the political opposition, military officers and communist and irredentist insurgencies have impeded internal security for three decades, with cross-border terrorism presenting a more recent additional security threat. After several serious incidents of kidnappings and bombings, several Western governments have issued strict travel advisories warning their citizens against visiting the Philippines. Cargo hijackings and other forms of theft and fraud often are a concern for foreign investors and residents. By highlighting security issues, international media coverage of the country makes some potential foreign investors and visitors avoid the Philippines as too risky, although foreign investment and residents have not left the country and the inflow of tourists from within Asian is growing.

The conduct of national elections in 1986 and 2004 involved widespread allegations of fraud and subsequent controversy, the first leading to the ouster of President Marcos and the second to a failed impeachment attempt against President Macapagal-Arroyo and continuing efforts to shorten her term which ends in 2010. In both elections, the counting of votes was very slow and widely seen as corrupt. A project to modernize the COMELEC prior to the 2004 election was marred with charges of fraud and its contract invalidated as improper by the Supreme Court. While voting is generally secret, serious abuses in counting occur from the precinct level and above.

RECOMMENDED REFORM TASKS:

- modernize the COMELEC for faster and less controversial election results;
- early completion of a workable GRP-MILF accord.

STRATEGY/REFORM LEADERS AND ALLIES

- meet with former Supreme Court Justice Davide and support appropriate recommendations in his report to PGMA regarding reforms of COMELEC and the political process;
- express support for a cleaner, faster election process, explaining the high cost in the past of political instability resulting from COMELEC's failure to correctly count votes;

- with ICIP partners, express support for a GRP-MILF agreement;
- propose and organize an investment survey visit by the JFC and others to conflict-affected areas following a GRP-MILF agreement.

REFORM RESULTS

- cleaner, faster and less controversial elections;
- increased political stability;
- relaxation of foreign travel advisories;
- greater tourism and foreign investment
- more jobs and tax revenue.

REFORM CLUSTER 7

OTHER

(This is a category for reforms which may arise during the period of ICIP but have not been identified at the time this plan was drafted.)

REFORM CLUSTER 8

SECTOR FOCUS

ICIP also seeks sector-specific reforms to encourage investment in five leading sectors where the Philippines enjoys comparative advantage, global competitiveness and/or unrealized potential. Each sector, Recommended Reform Tasks, Reform Allies and Reform Results are described below.

8A. HEALTH/RETIREMENT

OPPORTUNITY DESCRIPTION:

A number of tropical developing countries (e.g. Costa Rica, Mexico, Thailand) have been successful in hosting retirees from developed countries and a few (India and Thailand) are attracting increasing numbers of visitors seeking inexpensive dental and medical services. Tourism may also be combined with wellness and medical treatment. With demographic aging in developed countries, the growth potential for retirement and medical tourism in tropical countries is considerable.

The Philippine retiree program has enjoyed limited success, while medical tourism is just beginning. With more than 1,200 hospitals and many medical and nursing schools, the country has a considerable health infrastructure, including several modern facilities in Metro Manila. Still, few non-resident foreigners receive treatment in the country. Higher incomes in developed countries have long attracted a significant portion of Filipino health workers to migrate.

Restrictions on foreign ownership of land and colleges and on foreigners practicing medicine are a disincentive to foreign investment in this promising sector.

RECOMMENDED REFORM TASKS:

- pass a law to allow foreign doctors to practice at medical and retirement facilities visited by foreigners;
- permit foreign ownership of land used for commercials, industrial and residential purposes;
- develop foreign retirement communities in Central Luzon and Cebu;
- improve transportation infrastructure in Metro Manila and Cebu;
- promote medical tourism and retirement.

8B. INFORMATION AND COMMUNICATIONS TECHNOLOGY

OPPORTUNITY DESCRIPTION:

PGMA in March 2006 committed the country to prepare 2 million Philippine workers by 2010 for jobs in the rapidly-growing call center and business process outsourcing sector, up from the 200,000 currently working. While such a ten-fold increase is unrealistically optimistic, the GRP has made a good start by establishing a remedial training scholarship fund for 100,000 ICT near-hires who failed to obtain jobs because of deficient language or IT skills. DTI/PEZA has licensed smaller and smaller areas as IT SEZs to provide new investor incentives at multiple locations. DOLE has consistently granted waivers for female employees to work at night.

The Philippines is considered a far second to India in the growth of this internet-enabled industry; many new locations in low-cost countries are starting to enter the market, adding to global competitiveness. Nevertheless, the demand for such work to be performed in the Philippines exceeds the supply and will only be met by improvement in the HR skills of the workforce, both short-term and longer term through reversing the decline of education in the country. See Reform Cluster 2 – Education.

RECOMMENDED REFORM TASKS:

--see Reform Cluster 1 (education and English);

--create DICT;

--modernize the Labor Code.

8C. MANUFACTURING

OPPORTUNITY DESCRIPTION:

The import quotas and high tariffs which long protected Philippine manufacturers have been removed over the last two decades, requiring greater efficiency in order to compete with other ASEAN economies, China and elsewhere and the serious challenge of smuggling. Manufacturing for export has grown sporadically since the 1970s, with electronics and textiles now comprising over 75% of total exports. The Philippines produces 2% of global electronic production but has been unable to grow its share. An industry association roadmap to increase employment to 1 million and exports to \$100 billion prepared at GRP request has gone largely unimplemented. Garment exports appear to be barely surviving the end of quota market access. Philippine wages, while never as low as Bangladesh, Cambodia or Vietnam, are competitive with Thailand and increasingly with coastal Chinese provinces. However, labor productivity has stagnated for decades.

RECOMMENDED REFORM TASKS:

- reduce costs of doing business (labor, regulatory, transportation, utilities);
- limit minimum wage increases;
- modernize Labor Code;
- allow foreign ownership of commercial, industrial and residential land.
- reduce smuggling and hijacking;
- train more scientists and engineers;
- develop electronics testing and R & D subsectors.

8D. MINING

OPPORTUNITY DESCRIPTION:

For more than a century, American firms have been involved in developing Philippine natural resources in mining, petroleum and natural gas, the later involving the largest investment project in Philippine history. A 2004 Supreme Court decision that affirms foreign participation in mining has kindled considerable international interest in several dozen potential projects. Mining has potential to create considerable numbers of jobs and provide the GRP with large royalty income. While the GRP is supportive, there is strong distrust of the mining industry among local communities include Roman Catholic bishops in dioceses where the mining projects are located. Based on widespread abusive environmental practices of extractive and logging mining activities in the past, the bishops remain to be convinced that future projects will benefit local communities and protect the environment. A waste dam overflow at a foreign mining project in Bicol in early 2006 created considerable negative publicity. Other foreign projects in Nueva Ecija and Zamboanga have elicited local protest. MAP has proposed that some of its experienced members work with local communities to improve consultations.

RECOMMENDED REFORM TASKS:

- resume the Rapu Rapu mining project with better safeguards and local consultation;
- support the MAP consultation initiative;
- local workers should be trained in mining skills in order to get better jobs;
- provide and discuss information on sound mining practices and the benefits to the Philippines.

8E. TOURISM

OPPORTUNITY DESCRIPTION:

The potential for tourism in the Philippines has remained largely unrealized, while neighboring Malaysia, Thailand and Vietnam have experienced dynamic growth. The Philippines holds only one percent of the global tourist market. However, with tourism rising within Asia, the Philippines is experiencing growth in overall tourist arrivals of more than 20%. The job multiplier from tourism is high, with an estimate that one job is created from the spending of every visitor to the country.

While the country offers great natural beauty, good weather, eco-tourism and varied recreational activities, there are major challenges to tourism growth. Poor infrastructure reduces mobility. Hotels, food and service are often below international standards. There are too few international flights and points of entry. English in the hospitality sector is deteriorating and many workers with better skills take overseas jobs. Internal security concerns and negative travel advisories discourage many potential first-time visitors. Foreigners cannot own land for resorts.

RECOMMENDED REFORM TASKS:

- improve infrastructure at key tourism areas (e.g. Bicol, Bohol, Cagayan de Oro/Camaguin, Cordilleras, Davao, Palawan, Subic/Clark)
- seek passage of the Tourism Act of 2006 with amendments that encourage foreign investment in tourism and open skies;
- advocate more open skies and discount airlines to increase flights;
- advocate more international flights to destinations outside Central Luzon;
- seek more balanced travel advisories;
- improve ground traffic flow.

STRATEGY/REFORM LEADERS AND ALLIES

- AmCham will partner with other domestic and foreign chambers and business associations to urge implementation of reforms for each of the five sectors;
- a Task Force for each sector lead by the industry association will be supported;
- hold breakout sessions to review each sector at the Foreign Investment Workshop;
- Task Forces will be asked to issues semi-annual status assessments.

SECTOR REFORM RESULTS (for all five sectors)

- growing retiree community;
- increasing number of medical visitors;
- many new ICT jobs;
- expansion of manufacturing investment and new locators;
- large increase in investment in mining;
- large increase in GRP mining royalty revenue;
- growth on tourist arrivals above 3 million;
- significant increase in investment and creation of jobs;
- transfer of technology;
- more direct and indirect tax revenue.