A mixed bag

by Michael Alan Hamlin

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US Secretary of State Hillary Clinton urged Filipinos-particularly the young, for some reason-to use social networks to fight corruption during her brief visit to the Philippines last week. Ms. Clinton also said the US government looks unfavorably on governments whose leaders take their personal welfare more seriously than that of their people. Her comments came as the Philippines posted a slightly improved overall corruption rating in the latest Millennium Challenge Corporation (MCC) scorecard from 39 to 33.

MCC, established during the administration of George W. Bush, funds development projects in developing economies that are considered to be well-governed. Currently, it is headed by Ms. Clinton. Although the Philippines improved its ranking, it still failed to meet the minimum standard set by the MCC for progress in fighting corruption. Foreign Affairs secretary Alberto Romulo said the Philippines fell short because it was reclassified from a Low-Income Country to a Lower Middle-Income Country.

While the reclassification did raise the MCC assessment hurdle in some categories, that wasn't the case in the corruption category, however. According to one report, even if the Philippines improves its scores in other categories, it will be difficult or impossible to qualify for funding of anti-poverty and anti-corruption programs the Philippine government says it hopes to undertake with MCC funding.

The MCC scorecard evaluates five indicators in each of three categories: Ruling Justly, Investing in People, and Economic Freedom. The Philippines does reasonably well in indicators falling under Economic Freedom, but fails in health expenditures and primary education under Investing in People. Corruption falls under Ruling Justly, and based on the scorecard available on the MCC website, was falling until this latest assessment.

The Foundation for Economic Freedom (FEF) also launched its latest annual report on economic freedom last week. The 2009 report actually covers 2007, and key ingredients of economic freedom are: 1) personal choice; 2) voluntary exchange coordinated by markets; 3) freedom to enter and compete in markets; and, 4) protection of persons and their property from aggression by others.

While the MCC generally looks favorably on the Philippines in terms of economic freedom compared to other developing countries in the program, FEF's assessment is less positive, in part because the Philippines and other developing economies are lumped in with the world's strongest developed economies. The Philippines ranks 69-tied with Namibia right after Mexico-among 141 countries. Two Asian places, Hong Kong and Singapore, top the list in that order.

The FEF report ranks the Philippines particularly low in Legal System & Property Rights, where it falls to 95. It also ranks 95 in a Regulation subcategory, Business Regulation. Both of these areas are launching pads for corruption. Alarmingly, from 2005 to 2007, the Philippines' overall FEF rank has steadily declined. Based on talk within the business and investment community, it seems unlikely that this trend will improve in the next report, despite the latest MCC showing.

Reports like these communicate sentiment, but don't demonstrate the cost associated with poor corruption ratings. The real fallout is increasingly apparent. Earlier this week, French oil firm Total Philippines announced that public policy instability and smuggling are at the core of a decision by the company's principals in Paris to reassess its operations in the Philippines. The company's president and managing director, Ernst Wanten, told *Manila Bulletin* reporter Myrna M. Velasco, "If you invest somewhere, you look for a number of factors. One of them is stability, the other is the hope that you get an acceptable return; and another is the assurance that you will be operating on a level playing field."

In response to a Department of Finance moves to realign and eliminate investment incentives for investors in the Clark and Subic free ports, the Joint Foreign Chambers (JFC) of the Philippines wrote the department early this month warning that companies already operating there are rethinking future investments, and may even leave the Philippines. "Since foreign investors believe investments should be for the long term," the JFC wrote, "potential investors may regard (the free ports) as unacceptable for future investments."

A select group of investors and I met with one of the confirmed presidential candidates in next year's national election late last week. When asked what job number one will be if elected, the aspiring candidate answered back, "Jobs." But just who will be creating those jobs? The only way for the Philippines to get on track to build a strong, fast-growing economy and better lives for 92 million Filipinos is to create an environment that encourages investors to create and sustain jobs.

Providing a mixed bag of regular policy reversal, endemic corruption, and an unlevel playing field is not the way to accomplish that task.

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