

A glowing lightbulb is positioned on the left side of the cover, with its filament lit. The background is a bright blue sky with soft, white clouds. The title is written in large, bold, yellow capital letters.

# LEARNING TO REINVENT OURSELVES

*How To Make  
The Philippines  
A Winner In The  
21st Century*

**ROMEO O. ENCARNACION**

“Romy Encarnacion exhorts us to expand our perspectives not through home-run swings and overnight miracles but rather through step-by-step, fine adjustments in attitudes and a disciplined, long-term approach.”

—RICARDO LIM, *Dean of the Asian Institute of Management*

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By **ROMEO O. ENCARNACION**

*Edited by Jose A. Carillo*

centralbooks

Quezon City, Philippines

# 1

## The Philippine Economy Today

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Many things have been written about the economic edge enjoyed by the Philippines in the 1950s. It was second only to Japan in this respect and, unsurprisingly, the international community opted to make Manila the headquarters of the Asian Development Bank in 1966. And, as a former colony of the United States, the Philippines had the advantage of wide access to developments in the West aside from the preferential trade agreement between them.

The Philippines was under the colonial rule of Spain for over three centuries, making it the only predominantly Roman Catholic country in Asia. Eventually, the Filipinos saw how low they ranked in their own country's social and political hierarchy. Their resentment toward their colonial masters culminated in the Philippine Revolution of 1896, but that effort was thwarted when the Americans won the Spanish-American War and, in turn, colonized the Philippines.

During their 50 years of colonial rule, the Americans introduced Western-style education to the Filipinos, with English as medium of instruction rather than any of the native Filipino languages. This way, Filipinos later would say in jest, the Philippines embraced the Hollywood culture of the Americans. Unsurprisingly then, the modern-day *Pinoy* has a mixed cultural mindset. He is intensely

proud of his Roman Catholic faith. He greatly values hierarchy and readily submits to it. And because of his facility with the English language, he feels superior to his counterparts in other countries. But the nationalist in him blames the deterioration of the educational system to this preference for English as medium of instruction, so he would rather that Pilipino be made the official language instead.

It's clear that Juan de la Cruz carries the mental baggage of his resentments towards both his former Spanish and American colonizers. This explains his ambivalent perspective—an ambivalence that gets further compounded by his strong sense and respect for hierarchy. It's also aggravated by the fact that the Philippines has remained an underdeveloped economy. And a recurring question the Filipino asks himself is this: Are the Americans his true friends? Given our highly personalistic culture, he expects the Americans to be unequivocal in providing him assistance. At the same time, however, he wants unequivocal freedom especially from his former colonizers. And so the Filipino bewails how the Americans had exploited his country's natural resources and felt great pride when he finally got rid of the American military bases in the Philippines in 1991.

Unwittingly, the Filipinos disparage the economic advances of their neighbors and justify their own low standing on the economic development totem pole by pointing to this fundamental Christian admonition: "What does it profit a man if he gains the whole world but suffers the loss of his soul?" The sheltered culture that Juan de la Cruz has embraced explains this sour-graping for a *justification*. It is the Church that has encouraged if not preached outright parochialism, with Catholic schools steadfastly reinforcing the thinking that to be sheltered—to be protected from the influences of the secular world—is the proper way to develop and further deepen one's faith. (I am compelled to admit this despite my being a product of a Philippine parochial school, and my daughter that of a parochial school in the U.S.)

To be fair, however, Filipinos already valued hierarchy highly even before the coming of the Spaniards. They pay great respect and obeisance to their elders and to the established social structure. Their strong hierarchical mindset is, of course, reflective of Philippine society's evolution and development, so it's not surprising that Juan de la Cruz finds it difficult to embrace egalitarian values. (Thus, despite the modest means of my parents, for instance, the family had to have a maid and a laundry woman when I was growing up; later, when I raised my own family, my daughter grew up with a nursemaid. It was only when we were moving to New York that reality hit us hard—the U.S. embassy refused to grant a visa to the nursemaid for not being a family member.)

It is also no surprise that although it is already the 21st century, the Philippines still badly lags behind in innovation, a state of affairs reflected in the very few patents that have been granted to Filipinos. Indeed, hierarchy and parochialism have undermined their inquisitiveness and assertiveness. And this attitude is reflected by the restrictive economic provisions of the Philippine Constitution, which makes it national policy to give full support to local investors and reject foreign investments in core industries. This is a reality that strongly reinforces and perpetuates the country's oligarchic structure and system.

Compounding this problem is the fact that the nationalists among the Filipinos still insist that globalization is not good, and that the Philippines should focus its development efforts instead on the local market and economy. Of course, this isn't surprising from a nation that has not developed its technology and manufacturing base, and that's so instinctively diffident of its competitiveness. In fact, it has become part of this school of thought to question the fundamentals of economies of scale to justify our parochial bias, despite its being the very reason why the Asian tigers and other developed nations aggressively pursue and compete for global market leadership.

At the core of the Filipino's lack of competitiveness is the reality that even if many local enterprises are highly successful, Philippine

industry in general has yet to become globally competitive. Ours remains a consumption-driven economy with a very large and fast-growing population that's largely dependent on the remittances of some 10 million overseas Filipinos workers or OFWs. Owing to the Filipinos' instinct for harmony, competitiveness seems something they always have to struggle to internalize. Although this instinct is also shared by other Orientals in neighboring countries, many of these countries have actually become world-class, with Singapore and Hong Kong ranking at the top tier. On the other hand, we have been proudly focusing on the fact that our OFWs are remitting an estimated of \$20 billion dollars to the country annually. The reality, however, is that OFWs are simply the Philippine version of the so-called Dutch disease<sup>2</sup>—the Filipino's pride in the thought that he can earn over 10% of his country's GDP without having to invest in trade and industry as well as in basic infrastructure.

And because a handful of Philippine industrialists are able to benefit from the spoils of these OFW remittances, the vicious cycle is continually reinforced. To put it another way, even if poverty in the country remains at alarming levels, the Philippine economy is being perceived to be "in equilibrium" and even strong fundamentally. It is for this reason that poverty reduction programs have become central to the economic bag of tricks of the Philippines, which justifies its use of these programs because similar programs have been successful in Mexico or Brazil. Unfortunately, nobody is talking about the meager GDP per capita of the Philippines, which is a mere fraction of the GDP per capita of its neighbors that even these

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<sup>2</sup> "Dutch disease" is a figurative term that refers to the negative impact on an economy of anything that gives rise to a sharp inflow of foreign currency, such as the discovery of large oil reserves. The currency inflows lead to currency appreciation, making the country's other products less price competitive in the export market. They also lead to higher levels of cheap imports and can lead to deindustrialization as industries are moved to cheaper locations. The phrase arose from the Dutch economic crisis of the 1960s following the discovery of North Sea natural gas.

Latin American countries have used as benchmarks for poverty reduction. So the bottom line is clear: the Philippines is unable to drive industrialization, an area where the greater multiplier effect of investments can generate much greater economic output.

Given the soft Filipino heart, countless Filipinos want to focus instead on developing agriculture, a sector where poverty is more pronounced. What they don't recognize is that agribusiness can, in fact, be a major component of industrial development. The pressure to appease populist demands is so strong even if the shortsightedness of the Philippine land reform program is widely acknowledged. And so the requisite ecosystem to promote an efficient market economy beyond land distribution gets very little attention in the national conversation.

The good news, though, is that the budget of the agriculture department was recently given a very substantial increase so it could pursue market-driven and competitive initiatives in agriculture and fisheries instead of just focusing on a single productive activity. Still, Filipinos have to cross their fingers because we really don't have a history of making sound choices for or against programs and initiatives or in prioritizing them. Very often, compassion overrides objectivity and logic in our decision-making such that we are ultimately unable to put up the requisite infrastructure or ecosystem.

Thankfully, the Aquino administration has made investment generation central to its development agenda through its Public-Private Partnership (PPP) initiative, with President Benigno Aquino III himself also personally leading the fight against endemic corruption. But considering that corruption can't simply be wiped away, it's really too soon to expect the positive impact of these efforts. Its poor infrastructure still makes the Philippines the least preferred by foreign investors, and corruption in the country has been calculated by international agencies like the World Bank to directly and substantially reduce infrastructure investments.

We Filipinos are very proud in saying that we are one of the happiest people in the world. This comes from our instinct to be spontaneous, to be “in the moment.” And so, to Juan de la Cruz, the concept of time is like a process. When asked this question, “Aren’t you late for your appointment?”, his stock response is: “That is the next event after this one.” To counteract this strong tendency, in fact, the scientific community has launched an initiative to adopt a Philippine standard time, hoping that Filipinos would learn to observe one and the same time standard!

The problem is that this cavalier attitude towards time—a tendency that I have likewise seen among my Eastern European friends—gives us the false sense that our quality of life is superior to those of more developed countries. And this attitude is further reinforced every time we go to the United States to visit family and friends. We simply couldn’t fathom how the extremely fast-paced, do-it-yourself American lifestyle could be embraced by Filipino immigrants. And yet, in the same vein, we take such great pride in proclaiming our resiliency and our ability to adapt!

Another thing common to Filipinos and to my Eastern European friends is the ability to “make-do,” an ability that actually springs from underdevelopment. Among Filipinos, this “make-do” spirit has found proud expression in the *jeepney*—a passenger vehicle that they had cobbled together from surplus American military jeeps at the end of World War II. We have given a modern-day label for this trait: *self-sufficiency*. And so today, the Filipinos still tenaciously cling to the jeepney as a major means of transportation in the Philippines.

This “make-do” perspective, abetted by our parochial bias, is actually the driving force behind the Philippine economic policy of import-substitution. We have such a strong preference for tapping local investment sources for our industrial development efforts, to the point of effectively shutting out the rest of the world. And so we miss out on the reality that the more developed parts of the world don’t just bring investments to underdeveloped countries but also



technology and innovation as well. Indeed, our *cacique* background<sup>3</sup> makes capital the be all and end all and it makes us blind to the fact that without technology and innovation, capital would no longer be a guaranteed winner in the 21st century.

In the area of education, premier universities in the Philippines have been ranking poorly compared to the rest of the world. There is therefore heightened concern that something must be done about this problem, like strengthening preschool education, providing more classrooms, extending the basic school curriculum from 10 to 12 years (K-12), using the native tongue to facilitate learning, raising investments in research and development, and establishing partnerships between the government, the private sector, and the educational institutions. Yet the sad thing is that hardly any effort is being done to reexamine the nature and directions of Philippine education itself, particularly in the matter of academic freedom.

Academic freedom means inquisitiveness and expansiveness in the pursuit of knowledge, but in a culture that's parochial and hierarchical, education becomes teaching largely for conformity to established norms. In the United States, in contrast, there are concerted efforts in universities to promote equal opportunity, to encourage women to undergo assertiveness training, to train managers how to create a climate of respect and a welcoming team environment so that, as an example, introverted individuals would be encouraged to assert their views.

And being Orientals, Filipinos instinctively seek harmony. But the sad fact is that when one adds harmony to a hierarchical structure, problem-solving becomes less objective. This, as many would point out, is in fact the major reason behind Japan's "lost decade," when the Japanese economy, once the world's second largest, deteriorated.

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<sup>3</sup> *Cacique* is a term of Spanish origin that refers to the local boss who exercises excessive power. The Philippines was a colony of Spain for nearly 400 years, during which Spanish *caciques* dominated Philippine economic and social life.

Given these various elements that have shaped the Filipino psyche, and especially because the Marcos dictatorship and the People Power revolution that toppled it didn't translate into real economic gains for the Philippines, some Filipinos seriously entertain the idea that theirs is a *damaged culture*. But could it only be because the perspective of Juan de la Cruz is simply too complex for his own good?

Since human beings are not predisposed to accept their failings, it really won't be easy for Juan de la Cruz to objectively answer this crucial question: "Where are we?" In fact, although we keep on harping on our positives, we miserably fail to tee up to the real issues that need to be addressed if we are to move the nation forward from an underdeveloped to a developed economy.

For example, our GDP per capita is a mere fraction of that of our neighbors. Using the quarterly and annual GDP growth rates of the Philippines to track our economic progress, international agencies have confirmed that it would take over a generation for us to become a developed economy. In practical terms, therefore, we have a very serious structural issue! This structural issue is therefore something that should be dominating the national conversation. What this also means is that while we should be thankful to our OFWs for their foreign currency remittances, we shouldn't really be forever patting ourselves in the back for having them.

It is encouraging that beyond our shores, there's a broad positive reaction to the Aquino administration's focus on the public-private partnership (PPP) initiative as a means for stepping up infrastructure development. But beyond that, what else do we need to recognize as our starting point? Power is one; it is inadequate and expensive, thus making the Philippines unattractive to investors, particularly those in industries that require power at cost-competitive rates. And clearly, after infrastructure, we need a competitive industry base, for it is industry that drives economic activity especially in an underdeveloped nation like ours. In contrast, in advanced economies like the U.S. where industries are mostly developed, consumption becomes the driver. This is why the challenge to them

is to stay ahead in technology and innovation so they could create more contemporary industries.

But beyond all of these hard elements of economic development are the soft pieces that consist principally of our culture as a people. About this subject I would like to refer to the following passage in one of my blog postings:

Culture matters, says the annual global innovation study of Booz & Company, Winter 2011: "Spending more on R&D won't drive results [This doesn't apply to the Philippines because we're underinvested]... The most crucial factors are strategic alignment and a culture that supports innovation... Culture is the organization's self-sustaining patterns of behaving, feeling, thinking, and believing." They likewise identified the critical elements of innovation: (a) a focused innovation strategy; (b) a winning overall business strategy; (c) deep customer insight; (d) great talent; and (e) the right set of capabilities to achieve successful execution.

Culture matters. So how are we pulling together our behaviors, feelings, thinking and beliefs? They must all converge and take us to our nirvana, of sustainable economic development? And that means we aren't championing our favorite oligarchy whose interests may not be in sync with that of Juan de la Cruz—e.g., when they want special treatment versus foreign investors who could bring technology, innovation, and investments in talent, product and market development? It means growing up so that our personal preferences or feelings in politics are subordinate to the common good? And to reinforce those positive feelings we need to think and believe in support of Juan de la Cruz.

So is Juan de la Cruz now ready to stare reality in the eye?

# 4

## “Arangkada” May Not Mind Bloomberg

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Our best chance to get on the right economic path after decades of missteps may well be “Arangkada Philippines 2010: A Business Perspective,” the set of proposals by the Joint Foreign Chambers in the Philippines (JFC) on how, by giving priority to seven key industries, the country could realize its projected \$75-billion in foreign direct investments and 10 million jobs in the next 10 years. The *Manila Bulletin*, in its December 2, 2011 issue, reports about “Arangkada,” which is actually a local term that means to accelerate growth:

“Arangkada Philippines 2010” contains the consolidated 471 recommendations of the JFC from Filipino and foreign businessmen for building a more competitive economy, driven by ethical and sustainable practices, reform by reform, leading to high growth and millions of new jobs . . . The JFC conducted in late 2009 and early 2010 a series of Focus Group Discussions to identify implementable solutions to the challenges to propel each sector forward. Some 300 private sector experts from the Philippine and foreign business communities participated and put forward nearly 300 recommendations to accelerate the growth of these sectors.

In our efforts to meet the challenges posed by Arangkada Philippines, perhaps we can draw inspiration from New York City Mayor Michael Bloomberg's piece, "Ground Zero: out of the ashes," in the December 6, 2010 issue of *Time* magazine:

Never before have so many moving parts been required to fit together . . . Never before have so many...been involved in a single project. And never before have so many citizens felt such a deep personal connection... and taken such an active role in planning its future... [It] has not been smooth or quick as anyone would have liked. But today, the progress...is unmistakable – and that's incredibly heartening.... [It] is an affirmation of [our] spirit – of our faith in our future and in our freedoms... [The people behind it] recognize... that [what they are working on] symbolizes the openness and opportunity that have always defined [us]... And most important, they are helping... fulfill...our... principles and values.

The Philippines has had several decades of development missteps, so it behooves us to seriously ponder the great importance of "spirit, principles, and values" in pursuing such a mammoth undertaking as the Arangkada. And in that effort, we certainly wouldn't want to be blindsided by parochialism, hierarchy, and condescension.

The fact is that while we sincerely believe we care for the poor among us, we do, in fact, patronize them. What this means is that poverty being only a subset of a deficient economic engine, it actually serves the purposes of a few who then just make the motions of championing it to perpetuate a charade. As an ex-NEDA chief had observed: "[Given] the development track that the Philippine economy has treaded in the past 40 to 50 years, there is now no more room for resorting to old and tried and tested policies that only make matters worse."

The bottom line is that unless we embrace the requisite principles and values that could put us on the right path, Arangkada might

just join the countless derisory and failed efforts that we’ve had in the past.

We must also realize that corporate social responsibility (CSR), conditional cash transfer programs (CCTs), and overseas Filipino workers (OFWs) are clearly subsets of a GDP that’s unmistakably underdeveloped in its entirety; ours is, in fact, a measly 10% of the per capita GDP of developed economies. These poverty alleviation measures of ours would have a robust impact only if they are subsets of a truly well-developed GDP. On the contrary, as former President Fidel Ramos had succinctly put it, “The pie is too small” in the Philippines.

Lastly, we must realize that a developed economy can become highly competitive only when it is driven by investment and innovation. But how can this happen in the Philippines when investment and innovation are not even inside our national psyche? And when will we learn that this is also why it’s not the “old Filipino families” but our taipans that have become the pillars of the Philippine economy?

The good news, though, is that “Arangkada Philippines 2010” is now right in front of us. This time, it really would be sheer folly for us to be still the proverbial horse that’s brought to water but couldn’t be made to drink.

# 6

## Faith and Responsibility

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A friend of mine, being a committed Christian and staunch advocate of the emancipation of the poor, was the least I expected to be so critical of the typical Sunday homily he heard some time ago about giving charity to the poor. He told me after hearing that homily: "Sometimes I feel like walking out because we are giving credence to religion being 'the opium of the poor!'" And another friend of mine expressed a similar sentiment: "I wish it would, but Christian charity as we know it just won't suffice!"

This doubt about the value of charity projects in emancipating the poor is likewise expressed by this editorial in the August 17, 2011 issue of *Manila Standard Today*:

A delegation from the House of Representatives that visited Mexico to study its own version of the conditional cash transfer program has returned with a dire warning: get out of government handouts while we have time.

Significantly, the leaders of the delegation say, both the Mexican and Philippine version of the dole, designed to alleviate poverty, were planned as five-year programs. Mexico started its dole in 1994, and has been unable to end it 17 years later while more and more Mexicans came to depend on the

government largesse. Worse, the Mexican government has had to borrow heavily from foreign sources to continue what has become a politically charged program.

Nor has such charitable efforts worked even in the United States, where the Roman Catholic Church is the largest charitable institution outside the government (running soup kitchens, orphanages, and the like), and where, at over \$300 billion a year, charitable-giving has been institutionalized via tax breaks. And one even more telling example of the futility of using faith and charity in a nation's development effort is the story of three generations of a particular family in the American Northeast who had been totally dependent on Welfare. As described in articles in a number of community newspapers and as captured in photographs, that family has "lived the American dream without the corresponding responsibility of doing a fair day's work...for a fair day's pay."

So what should the Philippines be doing then to bridge the gap between its rich and its poor? I think that rather than use its scarce resources for charity, the government should take the extra mile and push economic development instead.

Take the case of the unresolved NAIA 3 problem, the unresolved downgrade of our NAIA 1, the unresolved North Rail project, the unresolved Ro-Ro ports deal and, worst, our highly expensive and yet unreliable energy supply. As we know, these infrastructure projects have been halted on suspicion of graft and corruption. But have we ever thought of how much incremental economic output would have already been generated if these critical infrastructure projects are now on-stream? Fighting corruption matters, of course, but why is it being used to justify the long inaction on these projects? There seems to be no sense of urgency at all, much less a bias, for efficiency and productivity, so the Philippines is driving away instead of attracting foreign investments to help develop the economy.



That's only one side of our development equation, of course. The other side is that the same half-a-dozen entities continue to dominate the Philippine economy. And then we wonder why the gap between the haves and the have-nots in the country is getting wider. We blame all and sundry instead of owning up the blame ourselves. Our neighbors are certainly no less patriotic than we are and are subject to the same 21st century reality, including self-serving ODAs from friendly nations, but they have admirably managed to develop their respective economies.

Let's admit it: Our Asian neighbors are outdistancing us not because they are smarter but because their economic fundamentals are stronger, and the robust investment levels in their respective economies have elevated their global competitive instincts. We may in fact be smarter than them, but we have allowed our inward-looking bias—our “jeepney culture,” in particular—to get the better of us. To us, the jeepney represents pride and compassion—pride because we believe that the jeepney is a symbol of our innate creativity, and compassion because the jeepney provides livelihood to countless of our marginal-earning countrymen. Little do we realize that on the contrary, the jeepney is a sad case—and a very blatant one at that—of the sub-optimization of our resources as opposed to their optimization.

All this time, we have been content to remain isolated in paradise, dearly holding on to our parochial and hierarchical worldview and social order. As the only Christian nation in the Asian region, we have resisted change and assumed a holier-than-thou posture. Although we are well aware that the human spirit is not meant to be limited, we simply refused to soar.

And so it will take time before we could become truly competitive. Because we remain less than committed to competitiveness, the Philippine economy will continue to be lopsided in favor of a few, with whom we have unwittingly gone to bed, so to speak. By effectively restricting competition and depriving ourselves of

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foreign investments and technology as well as access to the global market, we will continue to suffer from our self-inflicted wounds.

Even if we are proud of our faith, we shouldn't confuse it with responsibility.

# 7

## An Open Letter to President Benigno Aquino III

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His Excellency  
President Benigno Simeon C. Aquino III  
Republic of the Philippines

Mr. President:

Let me tell you about that wet Sunday morning in the New York metro area when countless people were reading the latest news about President Obama. According to the latest surveys, his popularity had dropped even lower than his unfavorable rating, and the feeling was that he was a president lost. I thought it was a pity considering that he won the U.S. presidency with “The audacity of hope” as campaign banner.

My reference to President Obama’s political dilemma, Mr. President, simply reflects my interest in developments beyond our borders. This is part of my mindset as a product of globalization, and I would like to take this opportunity to talk to you about “globalization.” I would like to explain it to you both as a concept and as a national goal because I believe that we Filipinos have yet to fully appreciate and embrace globalization as a 21st century reality or “given.”

Now, having been a lifelong observer of the world around us and also as a participant in the private sector, I have come to realize the immense value of these four fundamental precepts or givens in human affairs: the Pareto Principle<sup>6</sup> (from the Great Commandments), the need to optimize returns on resources (from the Parable of the Talents), the power of the human spirit (from the Lesson of Eden<sup>7</sup>), and the crucial importance of not confusing faith with responsibility (from Christ's invocation to the Jews to "Give to Caesar the things that are Caesar's"<sup>8</sup>). Of course, I can trace these core beliefs of mine to my Filipino upbringing under the strong influence of my Roman Catholic faith.

Over the years, Mr. President, I have watched at close range how the Americans and people in various other countries have renewed themselves. In contrast, all that we Filipinos had managed to do by way of change is to stage "People Power" and be hailed internationally for it. For this, your father Benigno Aquino Jr. had given up his life standing up for freedom, and for this both your father and your mother Cory Aquino would always be remembered by a grateful nation. Today, however, we need to stand up again for freedom—but this time freedom from the poverty that is gripping roughly a third of the Filipino people.

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<sup>6</sup> The Pareto principle, which is also known as the 80–20 rule or the law of the vital few, states that for many events, roughly 80% of the effects come from 20% of the causes.

<sup>7</sup> The Lesson of Eden, in the Douay-Rheims Bible, is this exhortation of God to Adam and Eve upon their expulsion from Paradise: "In the sweat of thy face shalt thou eat bread till thou return to the earth, out of which thou wast taken: for dust thou art, and into dust thou shalt return." (*Genesis: 3:19*)

<sup>8</sup> "Give to Caesar what is Caesar's and to God what is God's." This is from Matthew 22:21 in the New International Version of the New Testament, where Jesus Christ admonishes the Pharisees that they have separate obligations to their temporal rulers and to God.

Like President Obama's, your administration also started with a great message of hope. And we are truly grateful that you are tackling the scourge of corruption in government head on, for apart from destroying our moral fiber, corruption greatly undermines our efficiency and productivity as well as our economic output. But ours being an underdeveloped economy, Mr. President, we mustn't forget that we also badly need to drive our national revenue or GDP. This is why I thought of calling your attention to the simple roadmap recently developed by the Joint Foreign Chambers (JFC) for the Philippines. The strategic industries the JFC has identified would attract \$75 billion in investments to the Philippines—it would truly drive the country's economic output! And given the multiplier effect of these investments, we should be able to realize an incremental GDP of over \$100 billion. This would move us closer in GDP terms to Thailand, which has a much better poverty scenario than we have at present.

Mr. President, to the nagging issue of unemployment in the United States, President Obama met with a handful of CEOs some time ago to discuss ways and means of addressing it. Perhaps this problem-solving approach is something you may want to consider emulating. As the leader of the nation, you may find it advisable to meet with the JFC to appreciate the vital few initiatives that we must push to the highest levels. That way, the JFC roadmap can be translated into an action plan that can be brought to a successful conclusion.

Since I come from the private sector, Mr. President, I must admit that I have a bias for simplicity. I go for coming up with a simple roadmap, a set of priority initiatives, and the imperatives of execution. By doing this in the case of the JFC roadmap, we can achieve a couple of things that can make Juan de la Cruz a winner: dramatically lift the level of investments in the country, and dramatically lift its competitiveness as well. But for this to happen, Mr. President, we need to establish clear priorities, we need to decide which initiatives must be undertaken immediately. In the U.S., for example, former President Clinton took the bully pulpit for his "It's the economy, stupid" mantra, relentlessly pushing

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it with then Treasury Secretary Rubin while doggedly working with the U.S. Congress to balance the budget. There will always be barriers to execution, Mr. President, and this is why it's imperative to have a laser-like focus on driving investments and competitiveness. To keep this focus, I suggest that someone in your Cabinet should work as the taskmaster for you. Failure is not an option, Mr. President, so this taskmaster must be one who has no patience with "ifs and buts."

Please pardon me for this unsolicited advice and for my insistence on simplicity. Coming from the private sector, Mr. President, I know only too well that simplicity is the key to successful execution; it is the driver of efficient and effective performance. Both President Reagan and President Clinton understood this and succeeded in their respective development initiatives. By doing the same, Mr. President, I am sure that you can also be successful in pursuing ours.

Thank you for your attention.

Respectfully yours,  
Romeo O. Encarnacion

# 13

## Education is Tricky Business

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To someone from the private sector like me, the decline of education in the Philippines comes as no surprise. Even the United States faces a similar challenge despite the tons of money poured by the Americans into education. In sum, even if money helps, it's not only money that guarantees good education. And when we talk about the Philippine economy, it soon becomes clear that our levels of investment and competitiveness are closely intertwined with the quality of our education. We therefore ought not to wonder that we're economic laggards because we are sorely underinvested in education and competitiveness. The bottom line is that until we lift ourselves up and overcome our economic lethargy, education and the well-being of Juan de la Cruz will continue their downward spiral.

The good news is that we now appear to have gotten over our love affair with the remittances of our overseas foreign workers or OFWs. Still, we have yet to recognize the imperative of a broader-based economy, not one focused on just a few interests. We need to realize that our parochial instincts continue to get in the way of truly opening our economy so it can be in sync with the 21st century. Investment must be wedded with competitiveness; given our economic history, however, we simply don't have the capacity to drive competitiveness to world-class levels! Being economic

laggards, we are starved of technology and innovation. Without these elements, our ability to educate and develop talent is naturally limited. For instance, our MBA case writers dwell largely on studies of our top-tier companies that are principally domestic businesses instead of focusing on today's more globally competitive Filipino enterprises. Our limitations are so glaring and they clearly explain why we are unable to develop competitive products and thus also unable to develop a broader market. (This, as GE realized in the early 90s, is the price of being too parochial in outlook. They were too U.S.-centric for their own good, so they reinvented themselves to be a global enterprise, thus giving them the ability to pursue R&D without a U.S. bias.)

In our case in the Philippines, we have to stop thinking “Filipino *abilidad*.”<sup>9</sup> Doing so is synonymous to sidestepping reality. What we need to do instead is to stare reality in the eye and accept the fact that until we lift ourselves up economically, we shall remain poverty-stricken. It is through a robust economy that we can generate the means to upgrade our education to a level that will enhance our competitiveness and ability to attract investments. We have to wake up to the fact that our OFW-driven economy has created a true crisis—nothing less than a brain-drain—for the Philippines. Instead of reducing poverty, it is actually undermining the greater good by afflicting us with the “Dutch disease.” Look at how our trained teachers end up working as either maids or chambermaids in the most unimaginable places in the world! Every day, the dire reality of our economy is driving thousands of Filipinos away from their homeland just to eke out a living. And to add insult to injury, some business interests in the Philippines even run schools aimed at further expanding our OFW contingent!

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<sup>9</sup> *Abilidad* is a Filipino term of Spanish origin that refers to the Filipino's supposedly innate competitive superiority in talent over other peoples. Granted that he has this attribute, though, the author believes that it can only take the Filipino so far, for he needs to invest in science and technology to compete globally in the 21st century.



So how does our economic model really look? In the guise of championing patriotism, we have closed our economy to limit industry to a few companies that effectively control the economy. And the local industry is largely uncompetitive, selling at affordable prices products meant only for local consumption while “promoting” corporate social responsibility or CSR. For the elite, though, we use our precious dollar reserves to import products. So everyone’s happy? Why not if the Central Bank proudly proclaims that its efforts to raise our forex reserves and to fight inflation are spot on. And according to *Forbes* magazine, the system indeed works. It has made a handful of Filipinos among the world’s wealthiest!

Our economic model was our problem even before we had an education problem. And the solution to both problems is an open economy, one that would attract not just investments but also technology, innovation and talent, and product and market development. Indeed, many of our Asian neighbors are now prosperous because they accepted this fact and relentlessly acted on it instead of subscribing to an ism that doesn’t work.

For the Philippines to be able to push ahead, we have to struggle to leave our very strong parochial instincts behind. Take my particular case: I was raised inside parish walls where I went to school, went to church and joined the boys’ choir, played basketball, played softball, and had my first boy-scout camping experience. To me and my siblings, the parish was our life and it became an integral part of our psyche. It still is, so it’s not surprising that a sister of mine is a nun. And it’s not surprising either that even in the suburbs of New York, my daughter went to a parochial school! But I dare say that today, I have successfully struggled with my parochial ways and now have a much wider outlook.

So for now we can only console ourselves with the fact that Cambodia is still in our rearview mirror—but that might be only for now. Vietnam is meanwhile leaving us in the dust. It’s the sad, sad story of Juan de la Cruz—and he has only himself and not his educators to blame for it!

# 15

## Expectations, Paternalism, and Oligarchy

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Parochialism started us on the path of low expectations, and by nurturing it with paternalism we only further reinforced our country's *cacique* structure. And yet our rites of passage still scream hierarchy: gated communities, exclusive schools, proprietary country clubs, monopoly power. These are things we really shouldn't be proud of, yet we are—and unashamedly at that! We conveniently forget that hierarchy and abuse are simply two sides of the same coin.

One time, while flying from Eastern Europe to Munich, my wife was seated beside an American. Their conversation started with this typical icebreaker from my wife: "What brings you to this part of the world?" The American said that he was on a business trip for talks with his company's Eastern European partners. "Back in the States we think these are small, underdeveloped nations if not exactly in the Dark Ages," he explained, "but in this particular case, they now produce world-class armaments that we in the defense industry need." And then on the leg to Paris, a Frenchman in the energy business told me and my wife that he was on his way back from his regular visit of an Eastern European subsidiary. "They welcome us with open arms!" he said with genuine pleasure.

Although my wife and I are no longer as fit as we were 20 years ago when we last rode a bike, we thought we could still manage to bike around a town in Normandy. About a dozen others, mostly coming from the U.S., felt the same way and rode with our group of bikers. With them was a young Malaysian-Chinese who told us that he was on a weekend holiday from Berlin, where his company had acquired a German enterprise. I assumed that his company was a typical Asian conglomerate but he told me that it wasn't. He then explained to me what his company was up to: "We're quite focused and intent on developing global competitiveness and industry leadership, so we decided to acquire a similar business in the West. I am the only Malaysian in the Berlin office, and it's amazing how a truly developed environment like theirs could lull them into complacency. Their ways are consistent, which is probably what's demanded by their surroundings, but to explore something more innovative doesn't come naturally to them."

Aren't these stories of the businesspeople we met in Europe a straightforward lesson in "transparent competitiveness," as opposed to the Filipino bias for oligarchy? Like them, when will we learn that valuing hierarchy is inconsistent with economic development, and that authentic development promotes an egalitarian ecosystem? Isn't it unsurprising that only one Filipino enterprise made it to *Forbes Asia's* "Fab 50" or the best publicly traded companies?

How fast the world has changed! I had spent a decade covering Malaysia with my MNC employer, on my first visit to that country, I felt exactly the same way as that young Malaysian-Chinese I'd meet in Europe many years later. During that first visit, the general manager of the company told me: "We can use help, if you could focus on Malaysia in the meantime." That was around the time when an employer's group from the Philippines, on their return from a visit to Malaysia, told then President Ferdinand Marcos that the expanding road network of Malaysia—rubberized for a softer, more pleasant ride—was such a great sight to behold. Is it any wonder then that in the tropics, by simply providing the means to get from Point A to Point B, Malaysia would make itself tops in

tourism? Pondering this, my wife couldn't help but ask aloud: "How far are we in the Philippines going to tolerate being left behind?" Indeed, we are so parochial that we've set our expectations so low compared to the rest of the world, and our habitual expectation to be nurtured by paternalistic leaders makes us unwittingly perpetuate our anachronistic *cacique* structure.

Perhaps because we've suffered for so long, we turn against any initiative if it demands sacrifice. So the bottom line is that we'd rather maintain the status quo, then wonder why we're such economic laggards. We'd tell ourselves that "we're just the little brown brothers of the Americans," so it's farthest from our mind to imagine that we could be an industrial powerhouse ourselves. Our fondest expectation is merely to be left alone, never mind if it means running the country like hell. Our perspective actually hasn't changed over generations, yet we expect a different outcome every time. Don't we know what the famous physicist Albert Einstein said about this behavior? "Insanity," he said, "is doing the exact same thing yet expecting a different result."

Recently, the Irish prime minister made this arguably over-the-top criticism of the Vatican: "With the church failing in its moral responsibility, we can't allow them to have authority over our schools"! This is a clear signal that even the Irish are keen on moving on, in the same way that the Eastern Europeans, Malaysians, and most everybody else have moved on. Why is it that everyone in the world has moved on or wants to move on except Juan de la Cruz? No one in the Philippine media says that we are still in the Dark Ages, but no one says either that we're of the 21st century!

The truth of the matter is that there is dissonance in our perspective about an open economy and its ability to attract investments as well as technology and innovation, which in turn can elevate a nation's capacity to harness its talent in product and market development. Despite the glaring shortfall in our technology and innovation capability, we remain steadfast in our bias for local investment. Even more fundamentally, we're still overzealous in

wanting to protect our patrimony? Indeed, we'd rather be an island unto ourselves, an island that has everything we need and where we can freely dig for investments and achieve competitiveness without even fighting for it.

# 19

## The Two Subsets That's PHL

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Twenty years ago, speaking in confidence to friends of mine from India, I gave them this fearless forecast: The Chinese were going to leave them in the dust! But why? my friends asked. I chided them: “Have you considered that you could be too smart for your own good? The Chinese are talking about aggressively looking forward to the future, and here you are aggressively invoking the glories of your past?” Indeed, when the challenge for them at the time was to do problem-solving, execute programs, attract investments, and achieve competitiveness, the Indians made themselves busy engaging in ego-trips instead!

Those friends of mine from India were sophisticated people who were perfectly at home in their “own enclave,” which was a secluded section of a luxury hotel in Mumbai that wasn’t accessible to outsiders, not even to other hotel guests. One of them was visiting New York; on his itinerary was to have dinner in a Michelin-rated French restaurant and, more important, to see his daughter at Harvard. At any rate, the Indians are inherently smart and their facility with numbers is as good—if not better—as that of the Chinese or Eastern Europeans. Their expertise in numerology is to be expected because what the world calls Arabic numbers actually came from them. Of course they also have such bragging rights as Gandhi, their faith, their higher education, and several other

distinctions as a people, so it really wasn't surprising that they took so much pride about their heritage and their past. And one more thing: Because the West respected their talents, they also had the bragging rights to having numerous regional technology and R&D facilities built in India by multinational companies.

Yet despite having all these advantages, India itself was predominantly poor. Its poverty was so visual, so palpable that every time I visited India, I always had to change my perspective to reassure myself that I had not come to the wrong place. And yet, owing to India's strong IT capability, globalization came right up its alley and allowed its technologically savvy people to partake of its benefits. Still, not unlike the Philippines, there are two subsets in India—the "*arya*" (or of the establishment or participants thereof) on one side, and the "*pariah*" (the outcast) on the other.

Now let's look at our own situation in the Philippines. When the monetary authorities talk about our financial and economic stability, we need to put things in a proper perspective. This means that we need to recognize that PHL actually has two subsets. On one hand, given our *cacique* structure, some of us comfortably sit in as many as 50 corporate boards, shaming even the likes of GE's Jack Welch. On the other hand, because of massive poverty, what actually drives the economy is the overseas employment of about 10% of its 96 million population, along with the country's business process outsourcing or BPO sector that has been seeing robust growth in recent years. These two major sources of employment in turn have alleviated the country's housing issue, making property development a booming industry along with its allied industries. And as we have to make good on our commitments to the international community, we've opened the local market to imported goods. The net effect of this is that OFW remittances remain our primary economic engine, making the size of the local economy far greater than that of our export revenues!

Even so, we have now recognized that neither our OFWs and BPOs nor even their combination would make for a strong industrial

base in the Philippines. Our biggest export, electronics, remains only an input to the broader industry and has not brought us into competitive finished products. And so the Aquino administration is now beginning to entertain doubts about our once promising export targets! The bottom line: Even the engine that makes one of our economic subsets tick will not lift us from underdevelopment! Indeed, for as long as we are comfortable with our existing hierarchical structure, we would have to accept and live with this sad reality.

The fact is that our real challenge in the Philippines is problem-solving and execution as well as generating investments and achieving competitiveness. Sadly, we have no track record in successfully dealing with them. The telltale evidence: the white elephant that's NAIA 3, an inadequate but very costly electric power supply, and the absence of access roads to our biggest revenue-generating tourist attractions. And we talk about tourism being our natural strength, yet our taxes are so uncompetitively high as to make the one European airline that services us terribly unhappy. Even more galling, we argue that we need to impose higher taxes because we need to raise our tax receipts! We have fallen into the kind of internal conflict that's so common in many developing countries, "getting too close to the trees as to miss seeing the forest altogether."

We like being "holistic" and demand "inclusion and compassion" in most everything we do. True, the elimination of the restrictive economic provisions in our Constitution would be truly holistic and ideal, and for this reason we must indeed pursue it. But why is it that up to this time, we can't even do the far simpler thing of coming up with a world-class airport? From a strategic standpoint, the JFC's Arangkada proposal looks holistic enough to meet our standard of what holistic should be. But so as not to sow confusion and bring ourselves back to square one, we must get the basic things right, first and foremost. In particular, we must raise our efficiency consciousness and productivity consciousness, which are the



critical elements that can get us to the path to competitiveness. We have to learn to walk before we can run.

# 20

## Beyond Investments and Competitiveness

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Once upon a time ours was the gold standard in economic planning. The Philippine long-range plans we'd come up with were so well-thought out that our Asian neighbors would simply "copy and paste" them and implement them as their own. Indeed, foreigners see in Juan de la Cruz a very well-informed and sophisticated Filipino, and for this same reason, it really isn't surprising that so many of us have made good abroad. But then it shouldn't come as a surprise to us when Filipino expatriates say that the Philippine worldview is far, far different from those of developed economies. For instance, Gibo Teodoro, who as we know made an unsuccessful run for the Philippine presidency in 2010, was viewed by the business and foreign communities as an ideal leader. In an interview, Gibo said that perhaps they based this favorable assessment of him on the "daily blocking and tackling" instincts he had acquired from his work experience overseas. Indeed, in corporate America, success is such a pretty intense process and you need to hone your "daily blocking and tackling" instincts to succeed. And this is precisely the same reason why we think that Mar Roxas, who had the same corporate exposure in America as Gibo Teodoro, is the ideal right-hand man for President Benigno Aquino III.

Unfortunately for us, our instinct as Filipinos is to lead with our heart; “inclusion and compassion” is what Juan de la Cruz is all about. One columnist calls this trait of ours “*pusong mamon*”—literally “sponge-cake heart.” It’s not generally viewed as a desirable trait, though. In fact, a Filipino scholar who concentrated on “culture management” studies made this intriguing point about our inclusion-and-compassion syndrome: “If we’re meant to lead with our heart, it would be situated where our head is, perched above our shoulders.”

Socialism, too, is meant to be inclusive and compassionate. Yet after eight years in my second home in Eastern Europe, I must say that I haven’t heard at all that “inclusiveness and compassion” is what the young people want. To be sure, the older folks in Eastern Europe would rather have the “good old days” when they had their share of the community’s jobs or farms or such basic necessities as bread and vegetables. But as the world now knows, even Deng Xiaoping in China went against the socialist grain and embraced market economy.

The sheer length and breadth of Ukraine’s wheat farms still awe me, yet even with this vast resource, the region’s socialist system failed. The lack of bread caused riots across the region, proving that low pricing may be enticing but definitely not a viable long-term economic proposition. Today, for example, people in Bulgaria wonder why the Communist leadership had put up an aluminum plant and a truck factory—such inefficient enterprises!—in their town when the source of raw materials and target markets for the output of those factories were ill-defined, and job creation per se was unsustainable. And while no longer at the helm of Soviet satellite countries, Vladimir Putin, still banking on oil yet behaving like a modern-day czar, doesn’t seem to have learned from Russia’s failed socialist experience!

In the Philippines, when will Juan de la Cruz himself learn that lesson? When will he learn that an egalitarian society is one that’s driven by sound economic fundamentals, not by a lionized

oligarchy where livelihood efforts are done under an oppressive *cacique* structure?

A market economy demands problem-solving and execution as well as investments and competitiveness, but this fundamental given has not yet become instinctive to Juan de la Cruz. We put great premium to a high minimum wage but, as the International Labor Organization or ILO says, we missed putting a premium to skilled labor as well; conversely, we put a premium to slack despite the admonitions of our elders that we should guard against becoming Juan Tamads. We put a premium to our OFW deployments because they give jobs to millions, but in the process we missed putting premium to industrialization. We put a premium to patrimony, but in the process missed putting a premium to investments and competitiveness. And thus the Philippine economy continues to languish even as the Asian tigers as well as China and India have been getting a disproportionate share of technology, innovation, education, and talent development as well as product and market development.

According to Maslow, the human ego can go haywire by seeking higher needs even before building a strong foundation to attain those needs. This is what happened to the Soviets—they sought the lofty aims of an arms race but failed to build the fundamentals of their economy. And in our case, these fundamentals are just these to begin with: having a world-class airport, electricity, infrastructure such as roads to our biggest revenue-generating tourist attractions, and pursuing in earnest the strategic industries spelled out in Arangkada.

Indeed, in Arangkada, we now have a straightforward roadmap to push industrialization via a vital few industries that will deliver the biggest bang for the buck, so to speak. Here's our chance to generate \$75 billion in investments and lots of jobs over a decade and, in the process, achieve an incremental GDP of over \$100 billion. But what are we doing to get there?

# 23

## An Institution, Not a Fiefdom

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Many years ago my Eastern European friend told me: “I am Masking my older daughter to help me sell to the younger one the benefits of being disciplined particularly with schoolwork.” He had just taken away the laptop and the iPhone from the 14-year old girl to give her a lesson for not performing as well in school as she had done the previous term. And to sell her the idea that her priority should be in her schoolwork, he got her an ergonomic chair instead. Now he was telling me that it delighted him to hear the girl say that without her laptop and iPhone, she is able to do her homework straightaway upon getting home.

This was how my Eastern European friend explained why he was being tough on his daughters on the matter of discipline: “I don’t want them to simply follow my footsteps. I want them to pursue what would make them happy so they’d have the passion for it. So now that she knows English, she’s learning Spanish as well... And then my brother and I agreed that we should not position our children to run an operating company within the group. Sure, they could be involved with the holding company, so that as a family we could structure our investments as much as we like. But we decided that we must leave the operating companies to the professionals, who must be motivated and not have to worry about competition from family.”

It was now five years later and the day had come! The older daughter of my Eastern European friend had just completed her Harvard MBA and was now in the process of understanding the holding company. And the freshly minted HBS grad, who now has investment banking credentials under her belt, sat down with me and said: “As you know whatever little I know about industry I picked up in the West. I am a stranger in my own country and in our own company. But I agree we are building an institution, not a fiefdom.”

How time has flown! I still remember when the girl first approached me to review the curriculum vitae she was putting together. “I hope to get an internship in a good outfit either in New York or London,” she told me. She was then attending the university at Bath in the United Kingdom. To my mind, it was a scenario that could be straight out of Connecticut, where George W. Bush had grown up and would later attend Yale and Harvard. How did that Eastern European girl learn about modernity so fast, so soon?

This made me wonder how I myself could possibly “sell”—as opposed to impose—that same lesson to my 14-year-old daughter. Would I have the heart to also take away her laptop and iPhone? And why not simply give a plum job in my company to a family member who’s a Harvard graduate? That, in fact, is precisely what we Filipinos would do—personalize before we professionalize! By doing so, however, we unwittingly undermine transparency, if not engender corruption. For our brand of democracy, what this means is that we don’t get the best answers because we’re ruled by hierarchy. In sharp contrast, my Eastern European friends have recognized that until their culture is able to breed a Mark Zuckerberg or a Bill Gates or a Steve Jobs or a Larry Page and Sergey Brin, they’d remain closer to their socialist and dark communist roots than to the 21st century!

In the case of the Philippines, we will indeed remain in the Dark Ages until we learn to respect a 14-year-old, until we respect reward and discipline, and until our institutions learn that they have the

obligation to sell and not simply impose their will on our society. Until then the radical groups will remain boldly critical of our establishment, unwittingly romanticizing socialism as a cure for our social ills. Make no mistake about it, Deng Xiaoping isn't the model of our radicals, for his radicalism was to embrace market economy. He practically begged the West to bring money and technology to China! He knew only too well the harsh realities of a closed, socialist economy and what they had brought to the Chinese people. Yet our nationalists in the Philippines hyperventilate whenever they hear the word "foreign"! To them, nothing is more important than to put that pot of soil under lock and key? It's very clear that the Church ought to sell the idea of the Parable of the Talents better!

So in dealing with the United States, in particular, shouldn't we take a cue from how Deng Xiaoping did it? This is how a good number of less advanced countries have leapfrogged in technology to be able to compete even against Uncle Sam itself. This is how Singapore today ranks even higher in competitiveness than the U.S. Instead of blaming everyone and his uncle for our becoming an economic basket case, we should learn from their experience and change our worldview. We must grow up!