

WHY LIBERALIZE THE ECONOMIC PROVISIONS OF THE CONSTITUTION

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I. The Provisions at Issue

(a) Restrictions

There are provisions in our Constitution that effectively slow down our national economic development. These are Article XII (National Economy and Patrimony) and some sections of Article XVI (General Provisions).

These provisions prohibit foreigners and corporations owned and controlled by them from participating in the following:

- the exploitation, development and utilization of natural resources (such as minerals, forests, lakes and rivers),
- the operation of public utilities (like electricity, water, transportation and communication),
- the ownership of educational institutions (like colleges and universities),
- the ownership and management of mass media (such as newspapers, radio, and television); and
- the conduct of advertising.

(b) Effects on the Philippines

At the sectoral level –

These restrictions have consigned our mineral resources including mines and other precious metals, to a state of underdevelopment.. These resources remain embedded in the depths of the earth but we are not able to bring them up because we do not have the means to do it. Despite our abundant natural wealth, we are poor.

Our electric power generating and distribution capacity is limited, not enough to meet the demands of an expanding economy and a growing population. We do not have enough roads, bridges and water ports to link up various parts of our country. Our transport system needs expansion and modernization.

Our educational system has failed to benefit from the potential contributions of foreign educational programs or systems.

Our newspapers and television networks are monopolized by a few families that use their monopoly to promote their economic and political interests.

The restriction on advertising has been rendered obsolete by technological progress. The internet has made this restriction not only academic but also ludicrous.

At the national level –

These restrictions have denied to our economy large amounts of foreign investment and deprived our industries of the superior managerial know-how and advanced technology that comes with foreign investment.

They have retarded the growth of our economy and frustrated the solution of critical social problems.

- Our GDP has grown only slowly.
- Our unemployment problem has remained serious.
- Poverty has remained endemic.

II. The Need for Liberalization

The need, in fact, is for the abolition, not just the liberalization, of these restrictive provisions: Article XII (National Economy) and certain sections of Article XVI (General Provisions).

(a) No to Imperialism

Will not liberalization subject us to the domination and control of foreign nationals and foreign imperialists?

The answer is an emphatic NO. As owners, foreigners and/or corporations controlled by them will be subject to the laws of ownership of our country. They will have to comply with these laws. In a worse case scenario foreigners can never take Philippine resources away with them. They can sell their right of ownership but they can never take away the resources from where nature has placed them.

(b) State Protection

To ensure that the rights of Filipino citizens and their business entities are protected in the context of a non-restrictive economic environment, the liberalization of the provisions must be accompanied by a new constitutional provision strengthening the power of the State to regulate all economic activities of foreign investments. Something like the following provision might be introduced into the Constitution:

“The State shall regulate and exercise authority over foreign investments in the national jurisdiction in accordance with national goals and priorities.”

III. Prospects After Liberalization

What then will happen after liberalization of the restrictive economic provisions of our Constitution?

We must factor in the current meltdown in the international financial system and the recession in the real economies of many countries with whom we have economic relations. Whatever the US Government does, this US-originated meltdown/recession will affect many countries on planet Earth in the next three or four years. It certainly will affect the Philippines, as it already has begun to do.

(a) Fearless Forecasts

Forecasting is a perilous occupation and is hazardous to the health of economists. Nevertheless some generalizations can be made.

Foreign Investments, 10-year Average 1996-2005 (in million US dollars)

| | |
|-------------|-------|
| Philippines | 1,300 |
| Indonesia | 3,320 |
| Malaysia | 3,470 |
| Thailand | 3,600 |

Source: ADB Key Indicators (2007)

Assuming current levels of foreign investment of some \$1,300 million per year -- our GDP will likely grow at an average 5 percent per year. At this rate it will double in 15 years.

Forecasts

| | 2008 | Annual Growth Rate (percent) | 2018 |
|-------------------------------------|-----------|------------------------------|------------|
| Gross Domestic Product (GDP) | | | |
| Without increase in FDI (\$1,300 M) | P 7,400 B | 5.0 | P 12,050 B |
| With increase in FDI (\$ 3,500 M) | 7,400 B | 7.0 | 14,550 B |
| Population | 90 M | 1.8 | 108 M |
| GDP/Capita | | | |
| Without increase in FDI | P 82,000 | | P 111,000 |
| With increase in FDI | 82,000 | | 135,000 |

Notes: Author's calculations

Assuming foreign investment increased to something like \$3,500 million per year – similar to Thailand’s and Malaysia’s –our GDP will likely grow by some 7 percent per year. At this rate it will double in 10 years.

If our population’s growth rate slows down to, say, 1.8 percent per year, our population will double in 42 years.

This will mean that --without an increase in foreign investment -- our GDP per capita will likely increase by some 35 percent in the next 10 years, rising from P82,000 in 2008 to some P110,000 in 2018.

With increased foreign investment, our GDP per capita will likely increase by some 60 percent in the next 10 years, rising from P82,000 in 2008 to some P135,000 in 2018.

(b) General Conclusions

The numbers are indicative rather than definitive. The point is that whatever the growth rates of our GDP at current levels of foreign investment, these rates would be higher by at least 2 percentage points (say, from 4 percent to 6 percent) if foreign investments are welcomed as a result of a liberalized economic environment. .

- **Our economy will grow faster.**
- **Unemployment will be wiped out faster.**
- **Our incomes per person will increase more decisively.**
- **Poverty will be reduced to a minimum.**

We must liberalize the economic provisions of our Constitution NOW, NOT LATER.