GOVERNANCE THE PHILIPPINES IN A GLOBAL CONTEXT – EVIDENCE FROM GLOBAL GOVERNANCE INDICATORS

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CONTENTS

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ABSTRACT

The paper assesses the state of governance in the Philippines by comparing it with other countries utilising nine indicators relating to political, economic and social governance. The main finding is that the Philippines receives high scores for economic governance and relatively low scores for political and social governance. The study also correlates these indices with GDP per capita and economic growth, so as to comment on the presumption that good political, economic and social governance is associated with these two variables. All the nine governance scores are positively associated with GDP per capita, but not with economic growth. The paper summarises the main findings derived from the indicators, on the basis of which it proposes a number of implications relating to the Philippine economy.

1. INTRODUCTION

The objective of this paper is to assess the state of governance in the Philippines by comparing it with other countries utilising nine indicators relating to political, economic and social governance.

The indicators relating to political and legal governance used in this study are (i) the Worldwide Governance Indicators, (ii) the Corruption Perception Index, and (iii) the Legal Structure and Property Rights Index of the Economic Freedom of the World Index.

The indicators relating to economic governance are (i) the Macroeconomic Environment Index (Pillar 3) of the Global Competitiveness Indicators, (ii) An average of areas 1, 3, 4 and 5 of the Economic Freedom of the World Index, and (iii) the Macroeconomic Stability sub-index of the Economic Resilience Index. The title of these three indices does not directly refer to governance, but they are strongly related to economic policy, which is itself associated with economic governance. It should be noted that the economic indicators do not include GDP per capita or economic growth, as these are considered to be outcomes of the policies utilised for the indices.

The three indicators that relate to social governance used in this study are (i) the Education sub-index of the Human Development Index (HDI), (ii) the health sub-index of the HDI and (iii) the Gini Coefficient as compiled by the World Bank. Again here, the titles of three social indices do not directly refer to governance, but they are directly related to government policies associated with health, education and distribution of income.

It should be stated here that there is some overlap between the nine indices presented in this study, with some of them drawing on similar sources, but they all have a degree of distinctiveness.

The study also correlates these indices with GDP per capita and economic growth, so as to comment on the presumption that good political, economic and social governance is associated with these two variables.

The paper is organised in five sections. Following this introductory section, a brief literature review is presented focussing on the connection between governance and economic performance as well as the governance situation in the Philippines. The three sections that follow will respectively examine the political, economic and social indicators, focussing on the scores of the Philippines relative to other countries globally. Section 4 summarises the main tendencies derived from the previous three sections. Section 5 concludes the study and proposes a number of implications that emerge from the analysis, with reference to the Philippines.

2. LITERATURE ON GOVERNANCE AND ECONOMIC PERFORMANCE

In this section, we consider two aspects of the literature, closely related to this study, namely (a) the correlation between good governance and economic performance and (b) the governance record in the Philippines.

2.1 Governance and Economic Performance

2.1.1   Governance and GDP per capita

Simple correlations between good governance indicators and GDP per capita of countries, as done in this study, indicate that there is a high degree of correlation between the two variables. This relationship is confirmed in more rigorous and complicated studies on this issue, notably in Kaufman and Kraay (2002).[1]

There is however some debate about the direction of causality. Kaufman and Kraay (2002) show that per capita income and the quality of governance are strongly positively correlated across countries. They propose an empirical approach in order to assess the causality of the relationship, that is whether governance leads to prosperity or whether increases in income per capita lead to good governance. They find a strong positive causal effect running from better governance to higher per capita income, and a weak and even negative causal effect running in the opposite direction from per capita income to governance.

2.1.2   Governance and economic growth

This study also presents simple correlation coefficients between governance indictors and economic growth, which generally indicate that the relationship is not positive, and possibly negative.[2] This is in line with neoclassical growth theory that predicts that low income countries should converge as theoretically they would tend to grow at a faster rate than higher income ones due to the law of diminishing marginal product with regard to capital, which is more abundant in developed countries. This neo-classical convergence theory is associated with Solow (1956),[3] which leads to the argument that a country's growth rate tends to be inversely related to its starting level of income per capita.

In addition, intuitively, one should think that economically backward countries can grow faster than advanced countries as the former countries can copy and adopt readily available technologies invented by countries that developed earlier. This catching-up technological laggards has been termed the "advantage of backwardness" by Gerschenkron (1952).

Several publications associate good governance, and the necessary institutions for this, with growth. A substantial body of literature consider good governance as a precondition for growth (Kaufmann, 2005; Reynolds, 1983), and similarly with regard to governance institutions (Acemoglu et al., 2005; North; 1990; Rodrik, 1999; Aron, 2000; Commission on Growth and Development, 2008). The direction of causation of economic growth and governance is also a matter of debate, with some authors arguing in favour of the theory that growth comes first and governance and the accompanying institutions later (e.g. Durlauf et al., 2005; Glaeser et al., 2004).

The connection between growth and governance has been questioned by Kurtz and Schrank (2007) who doubt whether such a connection exists and queries whether the data used to

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[1] See Baland et al (2009) for a discussion on this relationship.
[2] The correlation results produced in this study should be interpreted with caution as here we are not keeping control variables constant and not capturing the possible reverse casual effect of growth on governance. It is acknowledged that the approach adopted in this study is somewhat simplistic, and that regressing GDP per capita and economic growth against the governance indices listed in this study, together with a number of control variables would have produced more rigorous results. One suspects that a more rigorous approach would have yielded a similar outcome and as Rodrik (2008) argues, there is no strong econometric evidence that relates standard governance criteria to growth.
[3] See also Cass (1965) and Koopmans (1965).

measure governance as well as the methods used to estimate such a relationships are good enough.[4]

Rodrik (2008) argues that there are many countries that are growing rapidly despite poor governance to render suspect any general claim to the contrary and governance is generally not a prerequisite for getting growth going. Rodrik also opines that as a rule, broad governance reform is neither necessary nor sufficient for growth, and therefore a broad governance agenda rarely deserves priority as part of a growth strategy, except in rare instances where "weak governance is specifically identified as a generic area of binding constraints".

The literature on the effect of good governance on economic growth therefore sends contradictory signals, with some authors, notably Kaufman and Kraay (2002) arguing strongly in favour the connection and others, such as Rodrik (2008) and Kurts and Schrank (2007) arguing that there is no evidence that such a connection exists.

2.2 Governance in the Philippines

Given that this study focusses on the Philippines, it is pertinent to briefly discuss this matter with reference to the literature. There is a vast body of literature on the Philippine economy and the choice of studies considered here is extremely selective and focusses on governance aspects. Many authors identify weak governance, particularly corruption, as a main constraint on inclusive growth in the Philippine, meaning that even if the economy is growing fast, large sections of the population are not reaping the benefits of such growth.

In an interesting essay Polvorosa, Jr. (2014) argues that there is no guarantee that the current good performance of the Philippine economy will continue, and refers to a sense of déjà vu due to the fact that the economy had already experienced periods of rapid growth before which fizzled out, particularly after World War 2. When referring to bad governance in the Philippines, the author particularly mentions corruption and pork barrel scandals, non-payment of taxes, the bribery of officials for the creation ghost projects, bureaucratic red tape, bribery, lack of financing, and unsatisfactory infrastructure. The author rightly states that in spite of the country's rapid growth, the Philippine poverty rates as well as the unemployment and underemployment rates are very high.

Navarro and Llanto (2014), identify a number of positive features leading to economic growth in the Philippines, including the possibility that anti-corruption initiatives may have permeated government consciousness and have effectively influenced policymaking. Similar to Polvorosa (2014) they consider it necessary for the government to stay the course in this regard. The improvements recommended by Navarro and Llanto include heightened infrastructural investments, expanding the industrial base to create productive jobs, introducing a competition policy framework and reforming regulatory institutions. The same authors also refer to the high rates of poverty and unemployment as worrisome realities, therefore implying that economic growth is not permeating into the lower income population groups. The authors call for policies that lead to inclusive growth, which require the removal of an array of policies and regulations that negatively affect the efficiency of the labour market and that impede the growth of the industrial sector.

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[4] See also Sundaram and Chowdhury (2012) for studies that question the governance and growth connection.

The Global Competitiveness Report (2014-2015), with inputs relating to the perceptions of Philippine experts, also identifies positive and negative features of the Philippine economy, The Philippines gained of 33 places since 2010 in the Global Competitiveness Index, which is the highest improvement among all countries included in the Index. The report argues that this came about because of the reforms during the 2010-2014 period which have bolstered the country's economic fundamentals. However the report refers to a number of major economic shortcomings including poor infrastructural facilities and severe rigidities and inefficiencies in the labour market. According to the Global Competitiveness Report, the four most problematic factors for doing business in the Philippines are corruption, inadequate supply of infrastructure, tax regulations and inefficient government bureaucracy

Similar remarks relating to the Philippine economy are made by Usai (2012), who also refers to the solid growth performance of the economy during the 2000s, but points out that the country, however, has not yet succeeded in translating this into inclusive growth, given the high rate of poverty and of unemployment in the country, and considers this as the Philippine economy's main challenge. The author opines that the Philippines has a great potential and discusses the reasons why this has not been realised. Amongst other things he identifies the lack of industrial dynamism as a major culprit in this regard. The reason for this, according to the author, lies with bad governance, leading to several constraints such as under-provision of basic infrastructure and poor business and investment climate.

The author argues that in order to achieve inclusive growth, the government needs to play an active role in creating productive jobs by offering effective support to industry, since a stronger industrial sector would create job opportunities for the growing labour force. The author reminds us that industrial upgrading and diversification are unlikely to take place without public policy response due mostly to market failures.

3. THE PHILIPPINE POLITICAL GOVERNANCE SCORES COMPARED

This section considers three indices which relate to political governance namely (a) the Worldwide Governance Indicators; (b) the Corruption Perception Index and (c) the "legal system and security of property rights" sub-index of the Economic Freedom of the World Index. The scores and the rank of the Philippines in terms to these indices, compared to the rest of the world, are presented in Table 1.

Table 1: The Political Governance Scores and Rankings of the Philippines in a Global Context

Category of Countries	WGI		CPI		EFW-2	
	Score	Rank	Score	Rank	Score	Rank
Philippines score	-0.319	104	36.0	93	4.84	97
Best: all countries	1.846	1	91.0	1	8.90	1
Worst: all countries	-2.231	187	8.0	173	2.20	152
Average: all countries	-0.077	94	43.0	86	5.51	76
High-income average	0.974	34	64.9	19	7.10	31
Upper-middle-income average	-0.192	96	39.2	88	5.22	82
Lower-middle-income average	-0.510	119	32.5	111	4.68	101
Low-income average	-0.955	150	26.8	130	4.09	117

Table 2 presents the results of tests of simple correlations between the chosen political governance indicators and GDP per capita and real GDP growth for the periods 2003-2012 and 2010-2012.

Table 2: Correlations between Political Governance, GDP per Capita and Growth

Variable	Correlations with WGI	Correlations with CPI	Correlations with EFW-2
GDP PC	0.71*	0.75*	0.75*
Real Growth 03-12	-0.45*	-0.42*	-0.24*
Real Growth 10-12	-0.40*	-0.33*	-0.23*

3.1 The Worldwide Governance Indicators (WGI)

The 2013 Worldwide Governance Indicators (WGI)[5] cover 215 countries and has six dimensions of governance, namely (1) voice and accountability (2) political stability and absence of violence (3) government effectiveness (4) regulatory quality (5) rule of law and (6) control of corruption.[6] The data is first rescaled using the Max-Min formula[7] to render the data comparable across sources. The resulting estimates of governance are a weighted average of the data from each source[8] with scores assigned a value of approximately -2.5 to 2.5, with higher values corresponding to better governance. A detailed description of the methodology is given in Kaufmann et al. (2010).

3.1.1 The WGI: Global Comparisons

In this study we utilise the 2013 version of the WGI for 187 countries.[9] Table 1 shows how the Philippines fared in terms to the WGI when compared to the rest of the World. It can be seen that the scores of the Philippines is rather low, and is ranked 104th among 187 countries. Its score is on the high side when compared to the average of lower-middle income countries but markedly lower than that for upper-middle income, and high-income countries. In terms of the WGI therefore, one can conclude that the Philippines score is within the range of the lower-middle income countries, and therefore in line with its income classification.

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[5] The 2013 WGI scores are available at: http://info.worldbank.org/governance/wgi/index.aspx#home .

[6] The indicators are based on the views of persons involved in business, ordinary citizens and expert surveys, with sources derived from various institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.

[7] This rescaling method is based on the formula (Xi-Xmin)/(Xmax-Xmin) where Xi is an ith observation in an array of observations of a given variable. Xmin is the observation with the minimum value and Xmax is the observation with the maximum value in the same array of observations. Thus the observation with the minimum value will be rescaled to equal zero and the observation with the maximum value will be rescaled to equal 1. All other observations will have a value between 0 and 1. This method is commonly used in composite indices. Its main shortcoming is that outliers can give distorted results.

[8] The weights reflect the pattern of correlation among data sources. The method adopted by the authors assigns greater weight to data sources that tend to be more strongly correlated with each other. The authors argue that while this weighting improves the statistical precision of the aggregate indicators, it typically does not affect very much the ranking of countries on the aggregate indicators

[9] The 2013 WGI actually cover 215 countries and territories, but this study reduces the number to 187 independent countries for which data on GDP per capita and real economic growth was available.

3.1.2 The WGI: Correlation with Income and Growth[10]

Table 2 shows the correlation between the GWI and GDP per capita, which is positive and on the high side, being different from zero at the 95% level statistical significance.[11] This finding also applies to the Philippines, in that its GDP per capita and its GWI scores are both on the low side globally.

Table 2 also shows that the GWI is negatively correlated with economic growth, measured by two indices namely real GDP growth over ten-years (2003-2012) and over 3 years (2010-2012). The negative correlation between governance and economic growth has already been explained in the literature review above. The Philippines registered relatively high growth rates during the two periods under consideration (5.35% during the ten-year period and 6.03% during the three year period), even though its governance score was relatively low.

3.2 The Corruption Perception Index

The 2013 version of the Corruption Perception Index,[12] compiled by Transparency International, covers 177 countries and is based on perceived levels of corruption, as determined by expert assessments and opinion surveys with data expressed over a mapping scale of 0-100 where a 0 = highest level of perceived corruption, and 100 = lowest. The methodology follows 4 basic steps: selection of source data, rescaling the data, aggregating the rescaled data and then reporting a measure for uncertainty.[13]

3.2.1 The CPI: Global Comparisons

Table 1 shows that the CPI score of the Philippines is below average worldwide, and the country is ranked 93rd among 173 countries. [14] As is the case of the WGI, the CPI score of the Philippines is on the high side when compared to the average for lower-middle income countries but markedly lower than that for upper-middle income and high-income countries.

3.2.2 The CPI: Correlation with Income and Growth

The correlation between the CPI and GDP per capita is positive and statistically significant, as shown in Table 2. Again, this finding applies to the Philippines, in that its GDP per capita and its CPI scores are both relatively low. On the other hand the CPI is negatively correlated with economic growth, measured by two indices namely real GDP growth over ten-years (2003-2012) and over 3 years (2010-2012). This finding was also registered with regard to the WGI.

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[10] Data for GDP per capita and for economic growth were sourced from the IMF World Economic Outlook database available at: http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx .

[11] The test of significance was conducted by regressing GPD per capita and real GDP growth on the governance index and finding the t-statistic relating to the coefficient on the governance index. The asterix on the correlation coefficient indicates that it is different from zero at the 95% level of statistical significance and the superscript n on the coefficient indicates that it is not different from zero at the same level of significance.

[12] The 2013 CPI scores are available at: http://cpi.transparency.org/cpi2013/ .

[13] More information about this index is available see Transparency international (2012).

[14] The 2013 CPI actually cover 177 countries, but this study reduces the number to 173 independent countries for which data on GDP per capita and real economic growth was available.

3.3 The Economic Freedom of the World Indictors, component 2 (EFW-2)

The 2014 version of the Economic Freedom of the World Index (EFWI)[15] has five areas (sub-indices), namely (1) size of government; (2) legal system & security of property rights; (3) access to sound money; (4) freedom to trade internationally; and (5) regulation of credit, labour, and business.[16] In this section we use the Index relating to political governance, namely the second sub-index (EFW-2) entitled "Legal system & security of property rights". This index is composed of the following various components relating to judicial independence, impartial courts, protection of property rights, military interference in rule of law and politics, integrity of the legal system, legal enforcement of contracts, regulatory restrictions on the sale of real property, reliability of police and business costs of crime.

3.3.1   The EFW-2: Global Comparisons

Table 1 shows that the score of the Philippines is again below the average worldwide and the country is ranked 97th among 152 countries. The Philippine score is about the same as the average for lower-middle-income countries. It is markedly lower than the average score for high-income and upper-middle-income countries.

3.3.2   The EFW-2: Correlation with Income and Growth

Table 2 shows, as was the case of the WGI and the CPI, that the correlation between EFW-2 and GDP per capita is positive and relatively high. Again, this finding applies to the Philippines, in that its GDP per capita and its EFW-2 scores are both relatively low.

Table 2 again shows that the EFW-2 is negatively correlated with economic growth, measured by two indices namely real GDP growth over ten-years (2003-2012) and over 3 years (2010-2012). The correlation coefficients however are of a low magnitude.

4.   THE PHILIPPINE ECONOMIC GOVERNANCE SCORES COMPARED

This section will consider three indices relating to economic governance, namely (a) the Economic Stability Index forming part of the Resilience Index (b) an average of sub-indices 1,3,4 and 5 of the Economic Freedom of the World Index and (c) the third pillar (macroeconomic environment index) of the Global Competitiveness Indicators. The scores and ranking of the Philippines with respect economic governance scores are presented in Table 3.

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[15] The EFWI scores are available at: http://www.freetheworld.com/release.html .

[16] The Index is based on data sourced from surveys, expert panels, and generic case studies including sources such as the International Monetary Fund, World Bank, and World Economic Forum that provide data for a large number of countries. Data provided directly from a source within a country are rarely used, and only when the data are unavailable from international sources. Most of the scores utilise the Min-Max formula to rescale the data (1 to 10). The methodology is explained in the Explanatory Notes and Data Sources Appendix in Gwartney et al. (2012).

Table 3: The Economic Governance Scores and Rankings of the Philippines in a Global Context

Category of Countries	ERI-STB		EFW-1345		GCI-MCE	
	Score	Rank	Score	Rank	Score	Rank
Philippines score	0.63	45	7.91	21	5.76	26
Best: all countries	1.00	1	9.24	1	6.83	1
Worst: all countries	0.00	183	4.31	152	2.42	143
Average: all countries	0.54	92	7.18	75	4.76	71
High-income average	0.63	58	7.59	53	5.22	53
Upper-middle-income average	0.53	96	7.19	70	4.85	66
Lower-middle-income average	0.51	106	7.13	84	4.39	87
Low-income average	0.45	123	6.64	106	4.17	98

Table 4 presents the results of simple correlation tests between the chosen economic governance indicators and GDP per capita and real GDP growth for the periods 2003-2012 and 2010-2012.

Table 4: Correlation between Economic Governance and GDP per Capita and Growth

Variable	Correlations with ERI-STB	Correlations with EFW-1345	Correlations with GCI-STB
GDP PC	0.42*	0.37*	0.45*
Real Growth 03-12	-0.07 ^{n}	-0.15 ^{n}	0.11 ^{n}
Real Growth 10-12	-0.01 ^{n}	-0.18 ^{n}	0.17 ^{n}

4.1 Macroeconomic Stability Component of the Economic Resilience Index (ERI-STB)

The Economic Resilience Index, which was developed in Briguglio et al. (2006; 2009) and was recently updated in Briguglio (2014), contains three sub-indicators, namely inflation (measured by the GDP deflator), debt and current account imbalances, the latter two measured relative to GDP. All observations are rescaled using the Max-Min formula, so as to enable aggregation of variables measured in different scales. The data was sourced from the IMF World Economic Outlook database[17] and the three sub-indices were averaged using equal weights.

4.1.1 The ERI-STB : Global Comparisons

It can be seen from Table 3 that the Philippine score of the macroeconomic stability index is on the high side and comparable to the average for high-income countries. This tendency will also be seen in the two other economic governance indices, as will be shown below.

4.1.2 The ERI:STB Correlation with economic aggregates

The correlation of the ERI-STB with GDP per capita is positive, as shown in Table 4, possibly reflecting the tendency that the most developed countries enjoy more stability macroeconomically. This result is not in line with the Philippine reality, in that its GDP per capita is relatively low while its GCI score is relatively high.

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[17] The database is available at: http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx .

The ERI-STB is negatively correlated with economic growth although the magnitude of the coefficients are very small and not statistically different from zero at the 95% level of statistical significance.

4.2 Components 1,3,4 & 5 of the Economic Freedom of the World Index

4.2.1 The EFW(1345): Global Comparisons

The EFW index has already been described above with regard to its second component which relates to the legal system and security of property rights. The other components of the Index, namely the first, third, fourth and fifth sub-indices, are directly related to economic governance.[18] It can be seen from Table 3 that the score of the Philippines on this Index is even higher than the average for high income countries.

4.2.2 The EFW-1345: Correlation with economic aggregates

Table 4 shows that, as was the case of the previous indices considered, the correlation between EFW-1345 and GDP per capita is positive. Again, this finding is not in line with the Philippine reality, in that its GDP per capita is relatively low while its EFW-1345 score is relatively high.

As shown in Table 4, EFW-1345 is negatively correlated with economic growth, though the coefficients are again very small and not different from zero at the 95% statistically significance.

4.3 Macroeconomic Environment Index of the Global Competitiveness Indicators (GCI-MCE)

The Global Competitiveness Index is published as part of the Global Competitiveness Report.[19] The 2014–2015 version of the index covers 144 countries, with data pertaining mostly to 2013,[20] although in some instances earlier years' data was used. The authors define competitiveness as "the set of institutions, policies, and factors that determine the level of productivity of a country." The authors argue that "the level of productivity, in turn, sets the level of prosperity that can be earned by an economy." The scores are based on the Min-Max method, with scores ranging from 1 to 7. The methodology is explained in Global Competitiveness Report itself. The overall index is a weighted average[21] of many different components, each measuring a different aspect of competitiveness. These components are grouped into 3 sub-indices, with 12 pillars.[22]

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[18] The EFW-1345 indices measure (1) size of government as it affects the economy; (3) access to sound money; (4) freedom to trade internationally; and (5) regulation of credit, labour, and business.

[19] The 2014-15 version of the GCI is available at: http://www.weforum.org/issues/global-competitiveness .

[20] There are however other years from which the data was gathered. For a detailed description of the sources of the data see the section entitled Technical Notes and Sources in the Global Competitiveness Report available at: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf .

[21] The GCI utilise a somewhat complicated weighting procedure, depending on the stage of development of the country being considered, as measured by the GDP per capita. See Schwab (2014).

[22] The 3 sub-indices and the 12 pillars are: (I) Basic requirements subindex: 1: Institutions; 2: Infrastructure; Pillar 3: Macroeconomic environment; Pillar 4: Health and primary education. (II) Efficiency enhancers subindex: 5: Higher education and training; 6. Goods market efficiency; 7. Labour market efficiency; 8: Financial market development; 9: Market Size; 10:Technolgocial readiness. Innovation and sophistication factors subindex: 11: Business sophistication; 12: Innovation

The third pillar, namely "Macroeconomic environment" is used in this study as it is directly related to economic governance. This index is composed of five sub-indices namely (1) Government budget balance as a percent of GDP, (2) Gross national savings as a percent of GDP, (3) Inflation, annual % change, (4) General government debt as a percent of GDP and (5) the Country credit rating.

4.3.1 The GCI-MCE: Global Comparisons

The GCI-MCE scores of the Philippines compared to other countries are shown in Table 3. Table 3 shows that the Philippines ranks 26st out of 143 countries[23] in the overall index which is a very satisfactory score, placing the Philippines in the top half of the league, even higher than the average of high-income countries.

4.3.2 The GCI-MCE: Correlation with economic aggregates

Table 4 shows, as was the case of the two other economic governance indices considered above, that the correlation between GCI and GDP per capita is positive. As was argued before, this finding is not in line with the Philippine reality, in that its GDP per capita is relatively low while its GCI-MCE score is relatively high.

Table 4 also shows that GCI-MCE index is positively correlated with economic growth but these averages are not statistically significantly different from zero.

5. THE PHILIPPINE SOCIAL GOVERNANCE SCORES COMPARED

Three indices were utilised to assess social governance, namely (a) the Health Sub-index of the Human Development Index (b) the Education Sub-index of the Human Development Index and the Gini coefficient compiled by the World Bank. The scores and ranking of the Philippines with respect social governance scores are presented in Table 5.

Table 5: The Social Governance Scores and Rankings of the Philippines in a Global Context

Category of Countries	HDI-HLT		HDI-EDU		GINI	
	Score	Rank	Score	Rank	Score	Rank
Philippines score	68.7	117	0.554	103	43.0	92
Best: all countries	83.6	1	0.994	1	25.0	1
Worst: all countries	45.6	183	0.049	183	65.8	137
Average: all countries	70.4	92	0.558	92	40.4	69
High-income average	78.2	38	0.765	37	34.5	42
Upper-middle-income average	72.8	69	0.615	74	42.6	78
Lower-middle-income average	66.5	122	0.448	122	42.2	79
Low-income average	59.6	154	0.283	156	41.2	73

Table 6 presents the results of simple correlation tests between the chosen social governance indicators and GDP per capita and real GDP growth for the periods 2003-2012 and 2010-2012.

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[23] The GCI includes Puerto Rico which is left out from the present study.

Table 6: Correlation between Social Governance and GDP per Capita and Growth

Variable	Correlations with HDI-HLT	Correlations with HDI-EDU	Correlations with GINI
GDP PC	0.58*	0.62*	-0.286*
Real Growth 03-12	-0.30*	-0.33*	-0.024[n]
Real Growth 10-12	-0.32*	-0.34*	0.151[n]

5.1 The Health Sub-Index of the Human Development Index

The Human Development Index (HDI)[24] measures the average achievements in a country in three basic dimensions of human development, namely health (measured by life expectancy), education (measured by the average of years of schooling and expected years of schooling)[25] and the standard of living, measured by the log of GNI per capita (PPP $). All variables were rescaled using the Min-Max formula. The HDI is the geometric mean of the three dimensions. A description of the methodology is available at Klugman et al. (2011). The most recent index covers 187 economies.

5.1.1 The HDI-HLT: Global Comparisons

The Health Component of the Human Development Index (HDI-HLT) measures life expectancy at birth. It can be seen from Table 5 that in terms of the HDI-HLT, the Philippines is ranked 117th among 183 countries,[26] with a score comparable to the average of the lower-middle-income countries, markedly lower than the average for high-income and upper-middle-income countries.

5.1.2 The HDI-HLT: Correlation with economic aggregates

Table 6 shows the correlation between the HDI-HLT and GDP per capita, which is positive. This finding also applies to the Philippines, in that its GDP per capita and its HDI-HLT scores are both on the low side globally.

Table 6 also shows that the HDI-HLT is negatively correlated with economic growth. This finding is consistent with the other governance variables considered so far.

5.2 The Education Sub-Index of the Human Development Index

The Education Component of the Human Development Index (HDI-EDU) is measured by the average of years of schooling and expected years of schooling.[27]

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[24] The data for this study was sourced from the 2014 HDI, available at http://hdr.undp.org/en/data .

[25] Mean of years of schooling for adults aged 25 years and expected years of schooling for children of school entering age.

[26] The HDI covers 187 countries but Andorra, Liechtenstein, Palestine and Palau where left out in the index used for this study.

[27] "Mean of years of schooling" applies for adults aged 25 years and "expected years of schooling" applies for children of school entering age (data available at http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components). The values in years for the two indices were first rescaled using the max-min formula and then averaged as indicated at: http://hdr.undp.org/sites/default/files/hdr14_technical_notes.pdf

5.2.1 *The HDI-EDU: Global Comparisons*

It can be seen from Table 5 that in terms of the HDI-EDU, the Philippines is ranked 103rd among 183 countries, with a score on the high side compared with the average for lower-middle-income countries, but markedly lower than the averages for high-income and upper-middle-income countries.

5.2.2 *The HDI-EDU: Correlation with economic aggregates*

Table 6 shows the correlation between the HDI-EDU and GDP per capita, which is positive. This finding also applies to the Philippines, in that its GDP per capita and its HDI-EDU scores are both in the lower-middle-income category.

Table 6 also shows that the HDI-EDU is negatively correlated with economic growth, leading to the same conclusion as in the case of HDI-HLT.

5.3 The Gini Index of Income Inequality

The Gini Index (GINI) measures the deviation of the distribution of income among individuals or households within a country from a perfectly equal distribution. The index is theoretically based on the so-called Lorenz Curve, where a value of 0 represents absolute equality and a value of 100 absolute inequality. The data used in the present study covers 137 countries.[28]

5.3.1 *GINI Index: Global Comparisons*

It can be seen from Table 5 that in terms of the GINI the Philippines is ranked 92nd among 137 countries with a relatively low score compared to the average for all country categories.

5.3.2 *GINI Index: Correlation with economic aggregates*

Table 6 shows the correlation between the GINI and GDP per capita, which is negative. This finding also applies to the Philippines, in that its GDP per capita is relatively low while its GINI score is relatively high.[29]

Table 6 also shows the correlation of GINI with economic growth, between 2003 and 2012 and between 2010 and 2012 with mixed results.[30] The correlation coefficients were not different from zero at the 95% level of statistical significance.

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[28] Source: World Bank (2013). It should be noted that data is not available for about 50 countries and the results should therefore be interpreted in this light.

[29] OECD (2012) contends that the marked cross-country variation in income inequality is mainly due to differences in policies and institutions.

[30] A commonly held view is that inequality inhibits growth (Benabou, 1996). Studies produce contradictory results regarding the relationship between inequality and growth. Forbes (2000) asserts using empirical data that the relationship is positive, arguing that his results suggest that in the short and medium term, an increase in a country's level of income inequality has a significant positive relationship with subsequent economic growth.

6. THE MAIN TENDENCIES THAT EMERGE FROM THE INDICATORS

6.1 Overall Comments with regard to Philippine Political Governance

The three global indices relating to economic governance all indicate that the country's political governance scores are on the low side, significantly lower than those pertaining to the average for high-income and upper middle-income countries, as can be seen in Table 7. There is room for improvement in terms of political governance in all countries, but the indicators utilised in this study indicate that in the case of the Philippines, as is the case in other lower-income countries, deficiencies in political governance might be one reason for the relatively low GDP per capita.

Table 7: Philippine political governance score compared

Philippines score compared to average scores for:	WGI	CPI	EFW -2
All countries	Worse	Worse	Worse
High Income countries	Worse	Worse	Worse
Upper-Middle-income countries	Worse	Worse	Worse
Lower-Middle-income countries	**Similar**	**Similar**	**Similar**
Low-income countries	Better	Better	Better

6.2 Overall Comments with regard to the Philippine Economic Governance

The three economic governance indicators described above all indicate that although the Philippines is a lower-middle-income country, its economic governance scores are akin to those of high income countries, as can be seen from Table 8. This could be one reason why in recent years the growth rate of this country was one of the highest in the region and globally.

Table 8: The Philippine economic governance score compared

Philippines score compared to average scores for:	EFW-2	ERI-STB	GCI-MCE
All countries	Better	Better	Better
High Income countries	**Similar**	**Similar**	**Similar**
Upper-Middle-income countries	Better	Better	Better
Lower-Middle-income countries	Better	Better	Better
Low-income countries	Better	Better	Better

6.3 Overall Comments with regard to the Philippine Social Governance

The three global indices relating to social governance described above all indicate that the Philippine scores are significantly lower than those of high-income and the upper-middle-income country categories, as can be seen from Table 9. In particular, income-distribution in the Philippines is even worse than the average for low-income countries.

Table 9: Philippine Social governance score compared

Philippines score compared to average scores for:	HDI-HLT	HDI-EDU	GINI
All countries	Better	Worse	Worse
High Income countries	Worse	Worse	Worse
Upper-Middle-income countries	Worse	Worse	Worse
Lower-Middle-income countries	**Similar**	**Similar**	Worse
Low-income countries	Better	Better	Worse

6.4 Overview of the Nine Governance Indicators

The main finding of this study is that the Philippines receives high scores for economic governance and relatively low scores for political and social governance.

The correlation coefficients of these indices with GDP per capita and with economic growth, support the presumption that good political, economic and social governance is positively associated with high GDP per capita, but not with economic growth. These tendencies are commonly found in studies on this subject, as indicated in the literature review section of this study.

7. MAIN IMPLICATIONS AND CONCLUSIONS

7.1 Correlation between Governance, GDP per Capita and growth

7.1.1 Governance and GDP per capita

The indicators presented above, indicate first and foremost that desirable governance scores, be they political, economic or social, are correlated with GDP per capita. This would seem to suggest that good governance tends to lead to economic prosperity. This conclusion, also often found in the literature, supports intuitive thinking, given that good governance is likely to mean responsive administration, better institutional set-ups and more efficient utilisation of resources. However the causality of this connection has been questioned, as indicated in the literature section, given that, as one reason, it may be possible that economic development enables the country to better afford governance institutions.

7.1.2 Governance and Economic Growth

The governance indicators considered in this study do not seem to be positively correlated with economic growth. This conclusion applies to the Philippines which is one of the fastest growing economies worldwide, but is not among the best governed countries politically and socially. Conversely, many countries with the best political and social governance indicators tended to grow at a very slow rate in real terms in recent decades.

This would seem to contradict the commonly held view that growth and good governance go hand-in-hand. One could argue that the connection between growth on the one hand, and governance on the other, is not contemporaneous in that such governance precede economic growth, and tests of the interrelationship of these two variables should measure the governance variables lagged a number of years, as governance takes time to have an impact

on growth. It may also be that the causality runs from economic growth to governance in that countries that grow economically, for the same reason referred to above, are better able to afford improvements in their governance institutions than those that do not.

There may therefore be a two-way causation in this regard, as already explained in the literature review presented above, with some authors preferring the theory of good governance comes first and growth later, while other take the opposite view. If the latter version is true, we may expect improvements in political governance in the Philippines in the future.

The negative correlation coefficients between economic growth and good governance presented in this study were not all different from zero at the 95% statistically significance, but they do indicate that the best governed countries are not the fastest growing ones.

However this should not be interpreted as an indication that good governance is undesirable for growth, and that it should not, therefore, be pursued. On the contrary, the fact that good governance and economic prosperity are correlated, in that the best governed countries tend to enjoy the highest standard of living, can be seen as a sign that well-governed countries do reap benefits in the form of high income per capita, albeit this has occurred over a long period of time.

7.2 Implications for the Philippines

What are the main implications of this study for the Philippine economy? As indicated in this paper, the Philippines registered relatively high growth rates during the recent decade, but it is still a lower-middle-income country, according to the World Bank's classification. Typically, countries in that income bracket tend to have inferior governance structures when compared to richer countries. The political and social indicators described in this study support this contention, but the economic governance indicators do not.

As argued above, with reference to literature, it is not easy to prove conclusively as to the whether a lower-income country, such as the Philippines, is in such a situation because its governance leaves much to be desired, or whether the causal relationship is the other way round, namely that the Philippine governance is weak because the country does not afford the institutions that are needed for good governance.

Whatever the direction of the causality, there can be no doubt that good governance is desirable in itself, and remains an important characteristic of the countries which enjoy a high standard of living. The nine indicators described above all show the political and social governance scores of the Philippines are typical of those found in other lower income countries.

It is pertinent to ask in this regard whether the good economic governance indictors of the Philippines may explain the Philippine growth performance, in spite of the country's not-so-good performance in the social and political fields. Again here, it is difficult to answer this question, but if one compares the growth possibilities of two countries, A and B, with country A better economically governed than country B, everything else remaining equal, including

the stage of development, one would expect that country A would register a higher growth rate than country B.[31]

A related argument is that if country A is less developed than country B, its catching-up performance is likely to improve as economic governance improves, and that such governance can give rise to upward or downward shifts in steady state conditions of that country. As a matter of fact, convergence is not occurring in all developing countries and some countries are actually diverging in their income per capita from the high-income countries, possibly due to unsatisfactory economic governance.

The fact remains however, according to the indicators we selected, that the Philippine political and social governance leaves much to be desired, and this could possibly be one reason why the benefits of growth in that country are not being enjoyed by large sections of the population. As has been shown in Table 5, income distribution in this country is possibly among the worst worldwide. According to many authors of studies on the current situation in the Philippines, some of which were referred to above, good political and social governance in the Philippines is an imperative for inclusive growth.

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[31] Here, better governance can be interpreted as an outward shift in the steady state situation of two identical economies with one being better economically governed than the other.

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