Despite the challenging global economic environment, the Philippines has achieved notable economic expansion, driven by the economy’s strong export performance and inflows of remittances that have bolstered private consumption. The absence of entrepreneurial dynamism, however, still makes long-term economic development a challenging task.

The government is pursuing a series of legislative reforms to enhance the overall entrepreneurial environment and develop the stronger private sector that is needed to generate broader-based job growth. Progress has been mixed, although some fiscal reforms have been accomplished. Deeper institutional reforms are required in interrelated areas: business freedom, investment freedom, and the rule of law. The judicial system remains weak and vulnerable to political influence.

**BACKGROUND:** The Philippines’ diverse population, speaking more than 80 languages and dialects, is spread over 7,000 islands in the Western Pacific. During the six-year term of President Benigno Aquino III (2010–2016), the Philippines became one of the region’s best-performing economies. Now the question is whether his successor, longtime mayor of Davao City Rodrigo Duterte, will maintain and expand his predecessor’s successful policies. While agriculture is still a significant part of the economy, industrial production in areas like electronics, apparel, and shipbuilding has been growing rapidly. Remittances from overseas workers are equivalent to nearly 10 percent of GDP.
Implementation of laws protecting property rights is weak. Judicial independence is strong, but the rule of law is generally ineffectual. Courts are hampered by inefficiency, low pay, intimidation, and complex procedures. Corruption and cronyism are pervasive. A few dozen leading families hold a disproportionate share of land, corporate wealth, and political power. A culture of impunity is reinforced by the strong-arm tactics of the new president.

Gradual improvement of the business regulatory environment includes reduction of the time and cost involved in fulfilling licensing requirements. The labor market remains structurally rigid, but existing regulations are not particularly burdensome. In 2016, the government used its authority to grant special agriculture subsidies in response to El Niño drought conditions. There are price controls on pharmaceuticals and some food and household fuel items.

Trade is important to the Philippines’ economy; the value of exports and imports taken together equals 61 percent of GDP. The average applied tariff rate is 4.3 percent. Many agricultural imports face additional barriers. Investment in several economic sectors is restricted. The financial sector remains relatively stable and sound. In 2016, the central bank announced that it would end a 17-year moratorium on the granting of new banking licenses.