Transforming the Philippine Economy

Industrial Upgrading and Diversification

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Presentation

• Recent economic situation and observed structural weaknesses
• Why could the Philippines not be like other ASEAN countries?
• Can the recent service-led growth, particularly booming BPOs, resolve development challenges of the country?
• What is an adequate long-term development model for the country?
• What is your role? Government and entrepreneurs
Growth and Structural Change: The two sides of a coin

**Growth**

is not just more of the same

“A growth miracle sustained for a period of decades...must involve the continual introduction of new goods, not merely continual learning on a fixed set of goods” (Robert Lucas)

**Structural change**

is about the transformation of the economy by:

- transferring resources from less productive activities to more productive ones
  1. **Diversifying** production
  2. **Upgrading** production
  3. **Increasing labor productivity**
Solid growth over the 2000s

GDP growth in the past 5 decades
(annual average, %)

- 1960s: 4.9%
- 1970s: 5.9%
- 1980s: 1.7%
- 1990s: 2.9%
- 2000s: 4.8%
Weak labor market indicators

Real GDP growth
Unemployment
Underemployment

Series break

19.4
7.2


Real GDP growth
Unemployment
Underemployment
Persistent poverty

Poverty incidence
(%)

by Population  by Families

1991  33.1  28.3
2003  24.9  20.1
2006  26.4  21.1
2009  26.5  20.9
Growth and investment paradox
A Sharp drop of exports

Philippines’ exports
($ million)

Global semiconductor sales and
Philippines’ semiconductor exports
(% change, year-on-year)
How about your neighbors?

Total exports
(3 month moving average, % change, year-on-year)
Long-term growth performance

Once upon a time……..

After five decades……..

Real GDP per capita **1960**
(constant 2000 $)

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Real GDP per capita **1960 – 2010**
(constant 2000 $)

- China
- India
- Indonesia
- Malaysia
- Philippines
- Thailand
Was it because of high population growth?

GDP per capita growth (% annual average)

1960 - 2008

1990 - 2008

INO
MAL
PHI
THA

GDP (constant 2000 US$)
Population
Per capita GDP
Krugman came and recommended trade liberalization

Tariff rate, applied, simple mean, manufactured products

Chronic problems

Slow poverty reduction
(headcount ratio at $2 a day PPP, % of population)

High unemployment
(% of total labor force)

Stagnant investment
(gross fixed capital formation, % of GDP)
You have depended more on services

% Contribution to GDP Growth: 1980-2008

INO  MAL  PHI  THA  IND  PRC


- Industry
- Services
- Agriculture
Economy-wide labor productivity (Y/L)

Constant 2000 $

Annual average growth rate, %


Indonesia 2.5 2.2 3.4
Malaysia 3.4 2.7 2.0
Philippines 1.8 1.1 0.3
Thailand 3.6 3.6 2.5
Viet Nam 4.4 4.8 5.7
Centrality of structural transformation

Labor productivity by sector

Employment by sector
Labor productivity by sector

- Agriculture
- Industry
- Service
- Manufacturing
Decomposition of labor productivity growth
ASEAN 4, 1980 – 2009
“Lego” Theory of Development

Products

Capabilities

Country
Product Space by Regions

 denotes where region has RCA
Diversification

Charts showing economic diversification trends in the Philippines, Indonesia, Malaysia, and Thailand from 1965 to 2008.
Unexploited Products:

How far the new products?
Business process outsourcing
A new growth engine?

Export (million $)

Employment (persons)
Labor market by educational attainment

Labor force in 2009

<table>
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<tr>
<th>Education Level</th>
<th>Employed</th>
<th>Underemployed</th>
<th>Unemployed</th>
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<tr>
<td>Primary education</td>
<td>9.0</td>
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Unemployment & Underemployment rate in 2009

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<tr>
<td>Tertiary education</td>
<td>13.1</td>
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Assessment

• The Philippines’ past growth has been largely led by services

• Lagged growth is mainly rooted in persistent productivity growth deficit due to stagnant industrialization, in particular lack of product diversification

• Limited job opportunities resulted in the slow poverty reduction

• The service-led growth did not require a relatively high investment

• Booming BPOs provide jobs, but the impact is limited given the scale of still utilized workforce, and its bias toward educated labor

• To join the growth club in the region, the country needs to “walk on two legs” instead of “leapfrogging” the development process
Taking the Right Growth Road
Manufacturing and Modern Services
What the government can do?

• Does the government have a strategy?

• What are the priority sectors/industries/products? PDP and IPP

• What the government is doing for industrial development?

• How effective the current policies?

• What products does the country have “nearby”?

• What the government can do to empower entrepreneurs and help them to solve problems?

• *Product identification (targeting) and diagnostics of binding constraints for the targeted products*
How do we “choose”? 

Key dimensions for “choosing”

– Easiness to jump

– Above average sophistication (direct effect)

– Opportunities for further structural change (spillover effects)

– Capacity to absorb labor
Unexploited products

Nearby       Middle       Far away

Leamer's Classification

- Petroleum, petroleum products
- Raw materials
- Animal products
- Cereals
- Machinery
- Forest products
- Labor intensive
- Chemicals
- Tropical Agriculture
- Capital intensive
- Lower-bound
- Upper-bound

Distance space (mean): 2.076590061187744
For example, Electronics......have you fully exploited the opportunities?
If your targets are far away......

foreign direct investment

($ billion, cumulative)

Indonesia  Malaysia  Philippines  Thailand  Viet Nam

1970s  1980s  1990s  2000s

42  51  18  71  43

1970s  1980s  1990s  2000s

Indonesia  Malaysia  Philippines  Thailand  Viet Nam

($ billion, cumulative)
What are binding constraints?

• Long-standing issues:
  – Infrastructure
  – Business and investment climate

• Horizontal intervention: Is that all?

• Critical importance of focusing on product-specific constraints

• Public and private dialogue (joint diagnostic exercise)
High electricity price
Is it a real headache for all?

Share of electricity cost in total input cost
(not include labor cost, depreciation, net tax)

simple average: 5.9%
Structural transformation, by its nature, is a long process. Challenges may look overwhelming. It cannot happen tomorrow, but in some future within our reach.

Strategic public support that embodies a long-term vision of the economy makes it possible to change the economic structure that drives inclusive growth in the Philippines.

Success is not always as far away as it looks.
Thank you

For further information, please contact:
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The findings, interpretations, and views expressed are entirely those of the author, and do not necessarily represent the views of the Asian Development Bank, its executive directors, or the countries they represent.
Producing (& exporting) mango requires:
• a certain type of soil
• mechanized farming equipment
• agribusinesses firms that know the market, etc.,

but also “public goods” such as:
• specific property rights
• port infrastructure
• road system
• cold-storage facilities
• phytosanitary regulations
• market access agreements, etc.