

# **The Philippine Economy: Structural Issues**

**The Philippine Manufacturers and  
Producers Summit**

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# OUTLINE

- **Snapshot of Philippine Economy**
- **Critical Development Constraints**
  - **Low Investment**
  - **Poor Infrastructure**
  - **Weak Institutions**
  - **Narrow Industrial Base**
  - **Inadequate access to basic services**
  - **Tight Fiscal Situation**
- **Addressing these issues:**
  - **Philippine Development Plan**
  - **The importance of the manufacturing sector, firm-level competitiveness**

# **Where does the Philippine Economy Stand?**

# Comparing Per Capita GDP (constant 2000 USD)

	1960	1984	2010
Hongkong, China	1,960	14,163	35,671
Indonesia	196	467	1,180
Korea, Republic of	1,110	4,147	16,372
Malaysia	784	2,161	5,264
<b>Philippines</b>	<b>612</b>	<b>908</b>	<b>1,378</b>
Singapore	2,251	11,042	32,111
Taipei, China	1,468	3,169	19,260
Thailand	329	933	2,751

Source: ADB; WB, IMF WEO

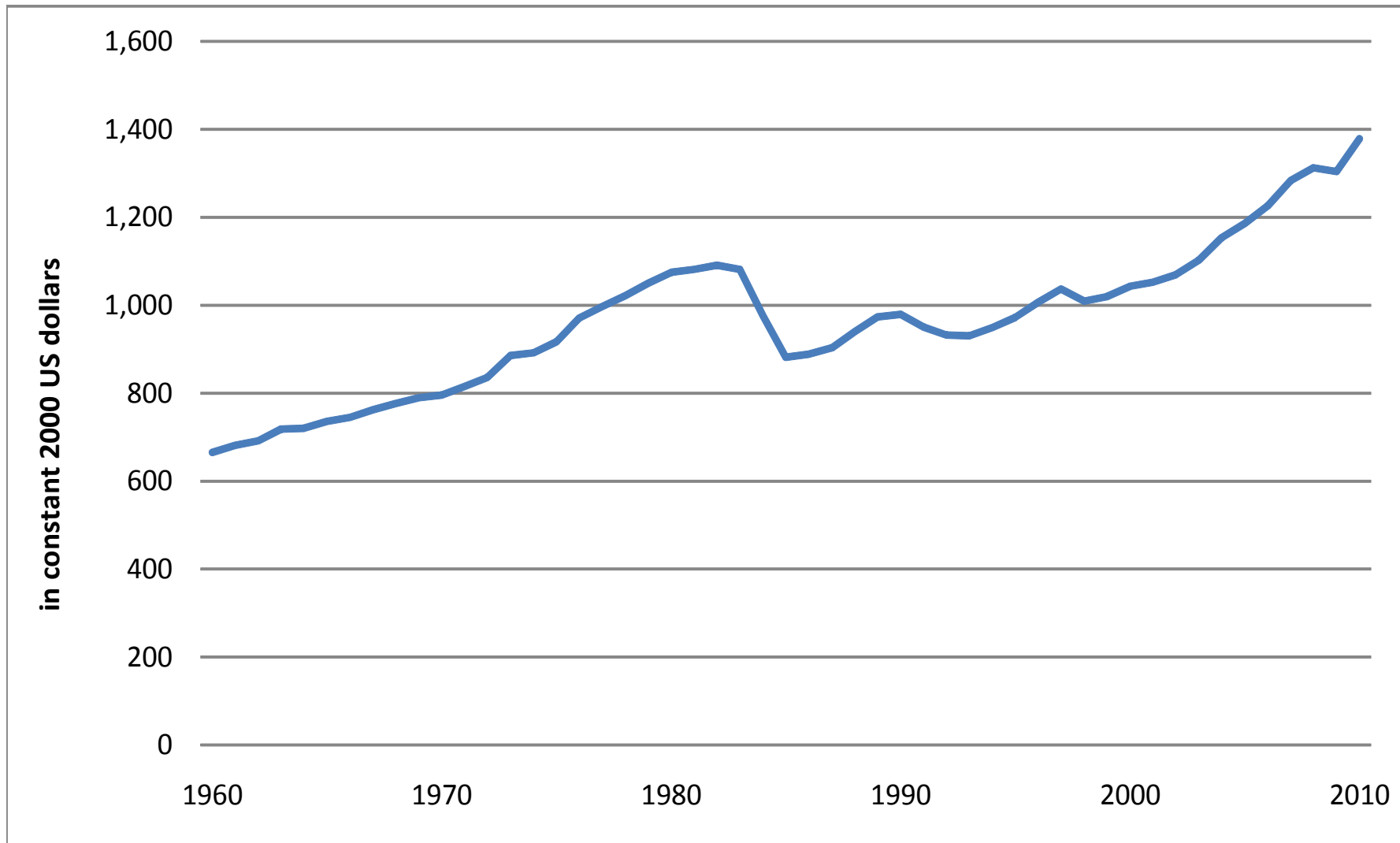
# Per Capita GDP (PPP\$)

	Japan	Philippines	Malaysia	Thailand
1950	3,157	893	-	1,029
1951	3,421	904	-	952
1952	3,765	992	-	900
1953	3,966	1,037	-	788
1954	4,118	1,105	-	836
1955	4,369	1,112	1,360	751
1956	4,618	1,227	1,390	760

Source: Penn World Tables

# Philippines lost 2 Decades

GDP per capita in the Philippines



Source: World Bank

# Poverty Situation is dismal

**Table 13: Poverty and Inequality in East Asia**

	Population in Poverty (in percent) <sup>1/</sup>	Proportion of Population Below \$1.25 (PPP) a Day (%)	Gini Coefficient <sup>2/</sup>
PRC	4.2 (2008)	15.9 (2005)	0.415(2005)
Indonesia	14.2 (2009)	18.7(2009)	0.368(2009)
Malaysia	3.6 (2007)	2.0 (2009) <sup>3/</sup>	0.462(2009)
Philippines	26.5(2009) <sup>4/</sup>	22.6 (2006)	0.448(2009) <sup>4/</sup>
Thailand	8.5 (2008)	10.8(2009)	0.536(2009)
Viet Nam	13.5 (2008)	13.1(2008)	0.376(2008)

# Below the Median in terms of HDI

	2011	
	Rank out of 187	Value of Index
Korea	15	0.897
Singapore	26	0.866
Bahrain	42	0.806
Cuba	51	0.776
Libyan Arab Jamahiriya	64	0.760
Malaysia	61	0.761
Iran	88	0.707
Tunisia	94	0.698
China	101	0.687
Thailand	103	0.682
<b>Philippines</b>	<b>112</b>	<b>0.644</b>
Egypt	113	0.644
Indonesia	124	0.617
Syria	119	0.632
Viet Nam	128	0.593



# **Explaining the Philippine Development Puzzle**

**Critical Development  
Constraints**

# **Major Challenges/Constraints**

- **Low investment rate and lack of entrepreneurship**
- **Inadequate infrastructure, particularly in electricity and transportation; and**
- **Weak institutions that give rise to governance concerns.**

# **Secondary Challenges/Constraints**

- **Inability to address market failures leading to a small and narrow industrial base;**
- **Inequitable access to development opportunities, especially education, health, infrastructure, and productive assets; and**
- **Tight fiscal situation**

**LOW INVESTMENT RATE**

# Investment-GDP Ratio (%)

	Indonesia	Korea	Malaysia	Philippines (1985)	<b>Philippines (2000)</b>	Thailand
1994	31.1	37.0	41.2	24.1		40.3
1995	31.9	37.7	43.6	22.5		42.1
1996	30.7	38.9	41.5	24.0		41.8
1997	31.8	36.0	43.0	24.8		33.7
1998	16.8	25.0	26.7	20.3	<b>22.9</b>	20.4
1999	11.4	28.9	22.4	18.8	<b>20.2</b>	20.5
2000	22.2	30.6	26.9	21.2	<b>21.6</b>	22.8
2001	22.5	29.2	24.4	19.0	<b>20.3</b>	24.1
2002	21.4	29.2	24.8	17.7	<b>20.1</b>	23.8
2003	25.6	29.9	22.8	16.7	<b>20.2</b>	25.0
2004	24.1	29.9	23.0	16.1	<b>19.8</b>	26.8
2005	25.1	29.7	20.0	14.4	<b>19.4</b>	31.4
2006	25.4	29.6	20.5	14.0	<b>19.7</b>	28.3
2007	24.9	29.4	21.6	14.7	<b>19.5</b>	26.4
2008	27.8	31.2	19.3	14.7	<b>19.3</b>	28.9
2009	31.0	25.9	14.5	14.7	<b>18.6</b>	21.8
2010	30.7	29.4	20.0	15.7	<b>20.2</b>	25.5
2011S1					<b>20.4</b>	

Source: UN Economic and Social Survey of Asia and the Pacific 2011, Philippine NIA

# **Philippine Development Plan**

- **Improve governance (e.g. red tape)**
- **Strengthen economic zones**
- **Strengthen national brand/identity (awareness about the Philippines as investment destination)**
- **Intensify culture of competitiveness (mindset of achieving excellence)**
- **Promote entrepreneurship among overseas Filipinos**

# **Issue of Property rights**

**Investment in agriculture hampered by delay in agrarian reform—6 decades by 2014. Conclusion of agrarian reform program will reduce uncertainty with regard to property rights.**

# **Philippine Development Plan**

- **Magna Carta bill for domestic workers**
- **National Land Use Law: expected to provide legal mechanisms to resolve conflicts in land use and govern opening of land market, in anticipation of the end of the agrarian reform program.**



**POOR INFRASTRUCTURE**

# **Philippine Development Plan**













- **PPPs – refer to Llanto (2010)**
- **Operation and regulatory functions should be separated**
- **Prioritization of maintenance and rehabilitation**
- **Integrated multimodal logistics and transport system**
- **Development contracts through Philippine Energy Contracting Round**
- **90% HH connection by 2017 (includes missionary electrification)**

Infrastructure - Basic Infrastructure

**Electricity costs for industrial clients**

US\$ per kwh

**2010**

1	Korea		0.06
2	Indonesia		0.06
	New		
3	Zealand		0.07
4	Thailand		0.08
5	Taiwan		0.08
6	Malaysia		0.09
7	India		0.11
8	Hong Kong		0.12
9	Singapore		0.15
10	Japan		0.15
11	Philippines		0.18
-	Australia		-
	China		
-	Mainland		-

**Sources**

OECD Energy Prices and Taxes 1/2011 (International Energy Agency)

National sources

© IMD WORLD COMPETITIVENESS ONLINE 1995-2011 (Updated: Jun 2011)

Notes

# **Why is cost of electricity so high?**

- **Universal charge for stranded contract costs and stranded debts**
- **Losses from transmission and distribution**

**(Philippines – 12.6%; Thailand – 6.1%;  
Indonesia – 10.1%; Malaysia – 2.3%)**

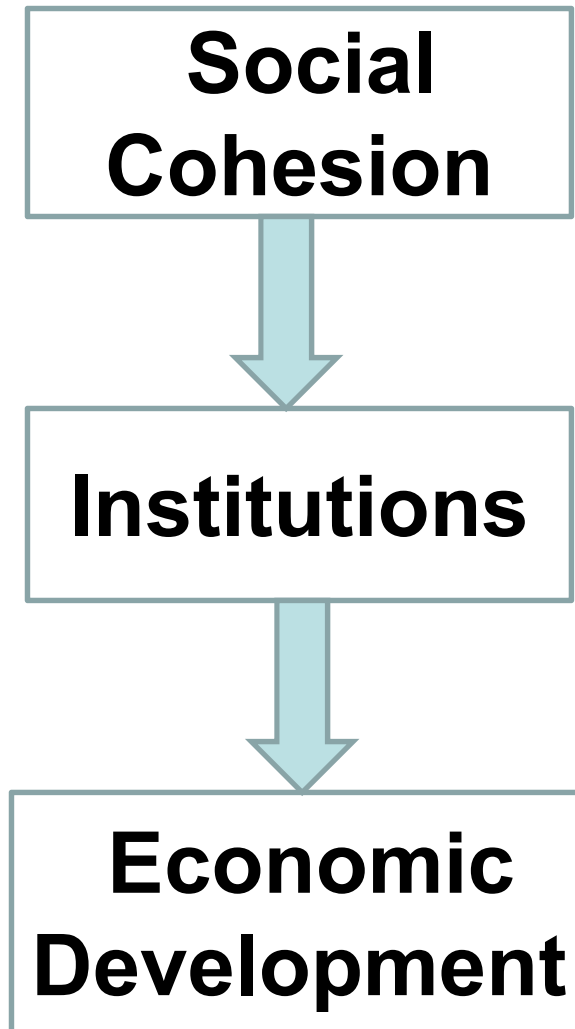
- **Do other countries subsidize their power rates?**

# **INSTITUTIONS AND GOVERNANCE**

# **Philippine Development Plan**

- **Governance and transparency**
  - **Organizational Performance Indicators (OPIF)**
  - **Performance Management System (PMS)**
  - **Government Integrated Financial Management and Information System (GIFMIS)**

# Alternative Framework for Analysis



# **Why is social cohesion important for Institutions?**

- **Page 389: “A market system depends on non-legal ties and rules of conduct between individuals which are based on trust and on which one can rely”**
- **“Without the weak ties, the strong ties of the law quickly become inadequate.”**



**Why is the Philippines lacking  
in social cohesion? How do we  
overcome this fundamental  
constraint?**

# **DIVERSIFYING THE INDUSTRIAL BASE**

# Lack of Economic Transformation

**Table 6: Share of Manufacturing in GDP (%)**

	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2009</b>
China	43.9	37.0	35.5	40.6	40.5	42.1
Indonesia	13.5	18.1	23.0	26.6	27.7	26.4
Malaysia	21.6	19.3	22.9	24.8	29.9	25.1
Philippines	25.7	25.2	24.8	23.0	22.2	21.4
Thailand	21.5	21.9	24.9	28.6	33.6	34.1
Viet Nam	16.1	16.4	12.3	15.0	18.6	20.9

*Source: UN Statistics Division. [<http://unstats.un.org/unsd/snaama/dnlList.asp> ; accessed, (*

# Dichotomy between Exports and Domestic Manufacturing

Economy	Per Capita GDP in PPP dollars	Share of MVA in GDP (Percentage)		Share of Manufactured Exports in total Merchandise Exports		Share of Medium- and Hightech Value Added in total Manufacturing Value Added		Share of medium- and high tech Exports in Manufactured exports	
		2008	1993	2005	1993	2005	1993	2005	1993
China	5,963	31.8	34.1	95.1		46.9		57.5	
Hong Kong	43,811	7.9	3.2	98.1		27.7		64.2	
India	2,762	14.7	14.1	87.3		39.3		22.6	
Indonesia	3,987	22.6	28.1	64.5		29.8		33.1	
Japan	34,100	23.2	21.7	94.2		56.9		82	
<b>Korea</b>	<b>27,647</b>	<b>23.7</b>	<b>28.9</b>	<b>98.4</b>	<b>97.9</b>	<b>46.7</b>	<b>60.3</b>	<b>54.8</b>	<b>75.1</b>
Malaysia	14,072	25.5	32.2	85.5		49.8		72.1	
<b>Philippines</b>	<b>3,546</b>	<b>22.4</b>	<b>22.0</b>	<b>61.3</b>	<b>95.7</b>	<b>30.7</b>	<b>40.1</b>	<b>39.4</b>	<b>81.4</b>
Singapore	51,142	22.5	26.1	94.6		77.6		72.1	
Thailand	8,225	29.0	36.1	87.4		37.8		61.6	
Argentina	14,413	18.3	17.2	55.7		25.9		32.1	
Brazil	10,326	20.5	20.4	72.8		33.5		47.9	
Chile	14,510	17.0	17.0	52.4		22.7		11.7	
Mexico	14,560	18.8	16.7	82.2		45.2		74.6	

Source: UNIDO Website, Industrial Development Report 2009; IMF World Economic Outlook Database

# Larger role for Small/Medium Enterprises

## Status of SMEs

SME as a % of total	Japan (2006)	South Korea (2006)	Malaysia (2006)	Philippines (recent)
Establishments/enterprises	99.70%	99.80%	99.20%	99.60%
Employment	69.50%	85.60%	56.00%	61.20%
Contribution to GDP	55.30%	49.10%	32.00%	35.70%

Source: [http://www.npc.gov.ly/doc/documents/Dr\\_hamw\\_male.pdf](http://www.npc.gov.ly/doc/documents/Dr_hamw_male.pdf)

# Philippine Development Plan

- **Enhance Firm-level support to MSMEs**
  - Provide business development services
  - Provide access to financing (Aldaba[2009]: credit bureau will be helpful)
  - Develop livelihood programs into sustainable microenterprises
- **Expand Industry Cluster Development**

Aldaba (2008): Expand, sustain ECOP big enterprise, small enterprise (EBESE) program

# Participation in Regional Production and Distribution Networks

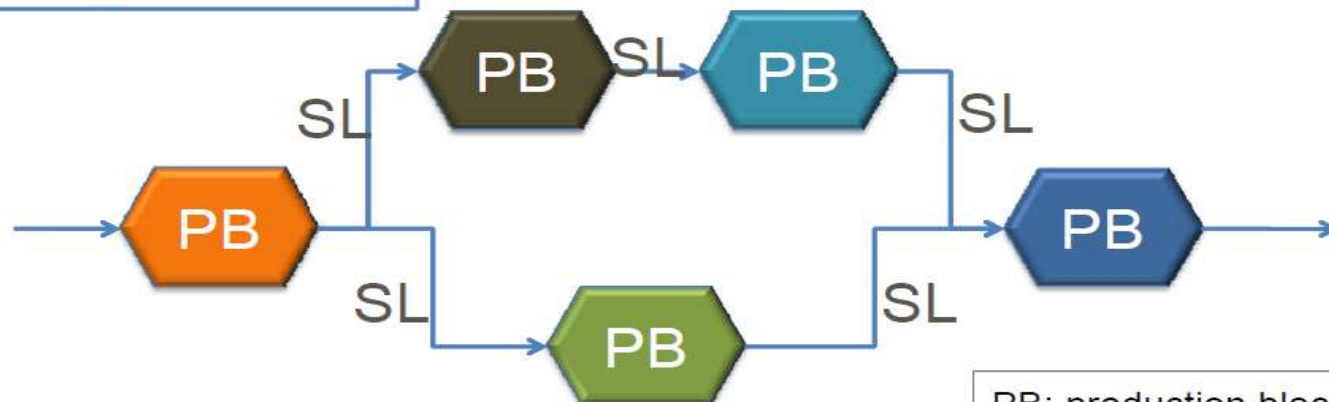
➤ The fragmentation theory: Production blocks and service links

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Before fragmentation



After fragmentation



PB: production blocks  
SL: service links

# **SMEs and Regional Production and Distribution Networks**

- **Improve technological capability of SMEs: incentives and grants to encourage cooperation between academe and industry**
- **Engineering Research and Development for Technology consortium (ERDT)**
- **Clustering between SMEs and multinationals (e.g. LIUP of Singapore)**
- **Lower network costs or costs of logistics, facilitate supply chain management**



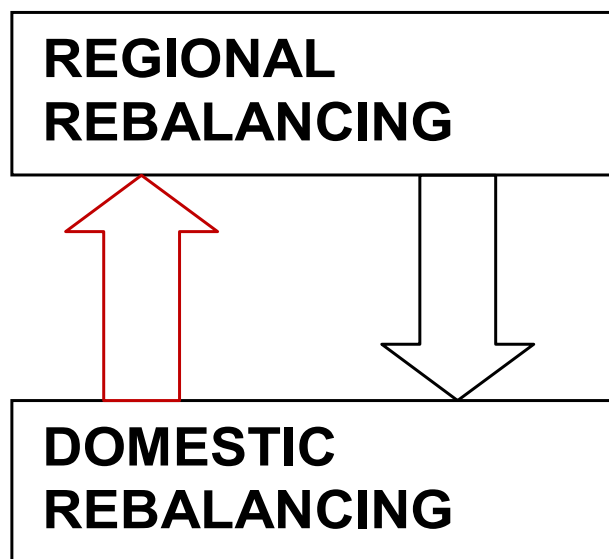
# **Regional Responses to Crisis**

- **Accelerate intraregional trade and investment**
- **Strengthen local and regional financial markets**
- **Rebalance Economic Growth**

# What is meant by “Rebalancing Economic Growth”?

- $Y = C + I + G + X - M$
- **Singapore, Malaysia over-reliant on exports**
- **Philippines over-reliant on consumption**
- **China over-reliant on investment**

# Framework for Rebalancing



Linking Regional and Domestic Rebalancing

**REGIONAL REBALANCING – EAST ASIA CAN MAINTAIN ITS OUTWARD ORIENTATION, RELY ON EXPORTS BUT MORE MARKETS IN THE REGION**

**DOMESTIC REBALANCING – INCREASE DOMESTIC DEMAND TO ABSORB INCREASED INTRA-REGIONAL TRADE**

# **REGIONAL REBALANCING**

- **Main theme: increase intra-regional trade and investment and reduce dependence on Western markets**
- **Strategy 1: Infrastructure to support increased intra-regional trade**
- **Recent book: “Infrastructure for Seamless Asia”**

# REGIONAL REBALANCING

- **Strategy 2: Revival of flying geese model**
  - **Korea, China and middle-income countries also as hubs of production networks**
  - **Japan, Korea, China as major markets**
  - **More “wage goods” and less “luxury goods”**

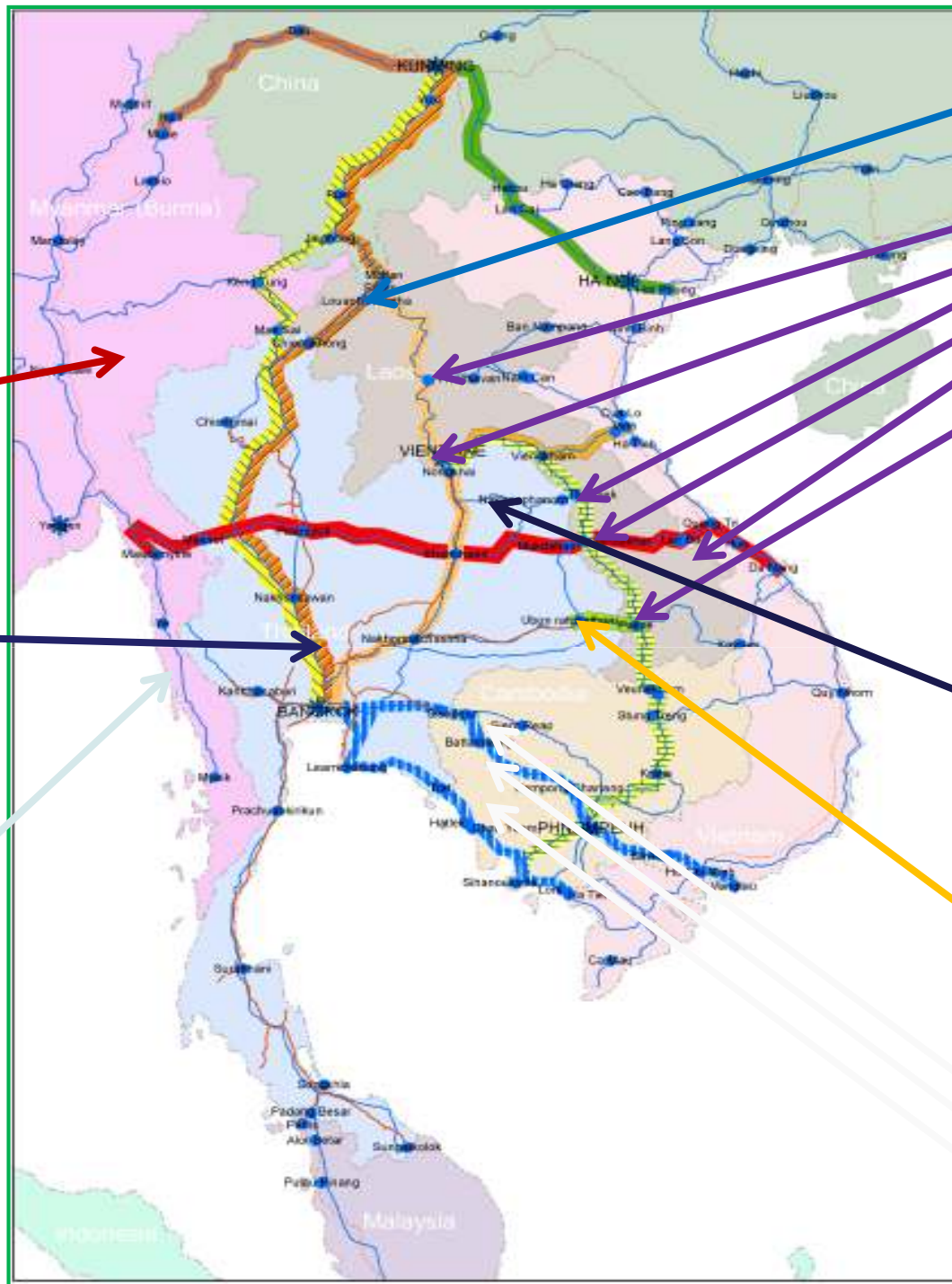
**Food manuf'g HUB based on "Contract farming"**

**Mandalay:**  
sugarcane,  
cassava,  
soybean

**Central part of Thailand:** fresh fruits (especially banana, mango steen and mango)

**Dawei:** palm oil,  
soybean

Source: TDRI (2010)



**Luang namtha:**  
soybean

**Luang phrabang, Vientiane, Khammuane, Savannakhet, Saravane, Champasak:**  
tapioca, palm oil,  
sugarcane, soybean  
and rubber

**North-East of Thailand:**  
tapioca, sugar,  
palm oil

**Ubonratchathani**  
tapioca, palm oil,  
sugarcane, soybean  
and rubber

**Oddar Meanchey, Banteay Meanchey, Battambang:**  
sugarcane, palm oil,  
cassava, soybean

# **What can the Philippines learn from Korea?**

- Industrial policy can also be used to integrate domestic SMEs—which are more labor-intensive than large firms—to growth areas. One successful case is the Republic of Korea. While industrialization in the 1970s and 1980s is largely attributed to large-scale enterprises, subcontracting with small and cottage producers was practiced widely especially in later years.**

# **What PH can learn from Malaysia and Singapore: Strategic Industrial Policy**

**Local Industries Upgrading Program; the government encouraged transnational corporations to adopt a group of SMEs and transfer technology and skills to them. LIUP covered the salary of full-time procurement expert to work for specific periods with the 'adopted' firms and help them upgrade their production and management capabilities to international standards and precision norms.**



# **Summary: “Regional Rebalancing” and Rebalancing in the Philippines**

- Increased investment in response to better infrastructure**
- Opportunities for SMEs because of new production networks**
- Link MNCs and large domestic firms to SMEs, need for an Industrial Policy!!!**
- Focus on the Rural Non-Farm sector to accelerate poverty alleviation**

# **EXPANDING ACCESS AND QUALITY OF SOCIAL SERVICES**

- Focus on the demand side:  
population issue**

# Population Trends in East Asia

**Table 1.1- Population Trend (UN Data): 1980-2030**

(Million people)

<b>Economies</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2010*</b>	<b>2020*</b>	<b>2030*</b>
Brunei Darussalam	0.2	0.3	0.3	0.4	0.5	0.5
Cambodia	6.7	9.7	12.8	15.1	17.7	20.1
Indonesia	146.6	177.4	205.3	232.5	254.2	271.5
Lao PDR	3.2	4.2	5.4	6.4	7.7	8.9
Malaysia	13.8	18.1	23.3	27.9	32.0	35.3
Myanmar	33.6	40.8	46.6	50.5	55.5	59.4
Philippines	48.1	62.4	77.7	93.6	109.7	124.4
Singapore	2.4	3.0	4.0	4.8	5.2	5.5
Thailand	47.3	56.7	62.3	68.1	71.4	73.5
Viet Nam	53.3	66.2	78.7	89.0	98.0	105.4
<b>ASEAN</b>	<b>355.2</b>	<b>438.8</b>	<b>516.4</b>	<b>588.4</b>	<b>651.9</b>	<b>704.4</b>
PRC**	980.9	1,142.1	1,267.0	1,354.1	1,431.2	1,462.5
Japan	116.8	123.2	126.7	127.0	123.7	117.4
Republic of Korea	37.5	43.0	46.4	48.5	49.5	49.1
<b>ASEAN+3</b>	<b>1,490.4</b>	<b>1,747.1</b>	<b>1,956.5</b>	<b>2,118.1</b>	<b>2,256.2</b>	<b>2,333.4</b>

# Age-Dependency Ratio

Table 8.1 - Age dependency ratio (% of working-age population): 1980-2009

Economies	1980	1990	2000	2009
Brunei Darussa	70.8	59.2	52.0	43.2
Cambodia	78.5	90.0	81.3	58.1
Indonesia	78.3	65.6	54.3	49.2
Lao PDR	90.5	89.4	87.3	70.0
Malaysia	75.4	69.7	59.6	52.0
Myanmar	81.1	71.0	55.0	47.6
Philippines	86.2	78.3	70.3	61.5
Singapore	46.6	37.1	40.8	35.3
Thailand	76.4	53.0	46.0	41.4
Viet Nam	90.3	78.9	64.2	47.2
<b>ASEAN</b>				
PRC	67.4	51.2	48.2	39.4
Japan	48.4	43.5	46.7	54.5
Republic of Kor	60.7	44.1	39.2	37.9
<b>ASEAN+3</b>				

# Family Size and Poverty are Related

## Poverty Incidence (%)

<b>Family Size</b>	<b>1985</b>	<b>1994</b>	<b>1997</b>	<b>2000</b>	<b>2003</b>	<b>2006</b>
National	44.2	35.5	28.1	27.5	24.4	26.9
1	19.0	14.9	8.0	7.1	5.4	4.3
2	20.0	19.0	11.9	10.6	8.7	10.2
3	26.6	20.7	14.8	13.4	11.6	12.9
4	36.4	25.3	19.7	18.1	17.0	18.5
5	42.9	31.8	26.4	24.7	24.0	27.4
6	48.8	40.8	33.9	33.4	31.9	36.8
7	55.3	47.1	40.9	41.2	39.6	44.1
8	59.8	55.3	46.5	48.4	46.0	47.8
9 or more	59.9	56.6	49.0	50.7	50.7	52.3

# **FISCAL CONSOLIDATION**

**Revenue and Expenditure Reforms  
(Please refer to Manasan (XXXX) and  
PDP)**

# **GLOBAL AND REGIONAL DEVELOPMENTS**

**Beyond the Philippine  
Development Plan**

# **Issue #1**

**Delayed recovery in US, economic stagnation in Europe, instability in Middle East**



# **Main Areas of Concern**

- **Capital Flows (PIDS PN 2011-12)**
- **Commodity prices**
  - **Fuel prices**
  - **Food prices**
  - **Financialization of commodity markets (UNCTAD, 2009; Songwe, 2011)**
- **Exports**

# **Issue #2**

**Shift to greater  
consumption in China**

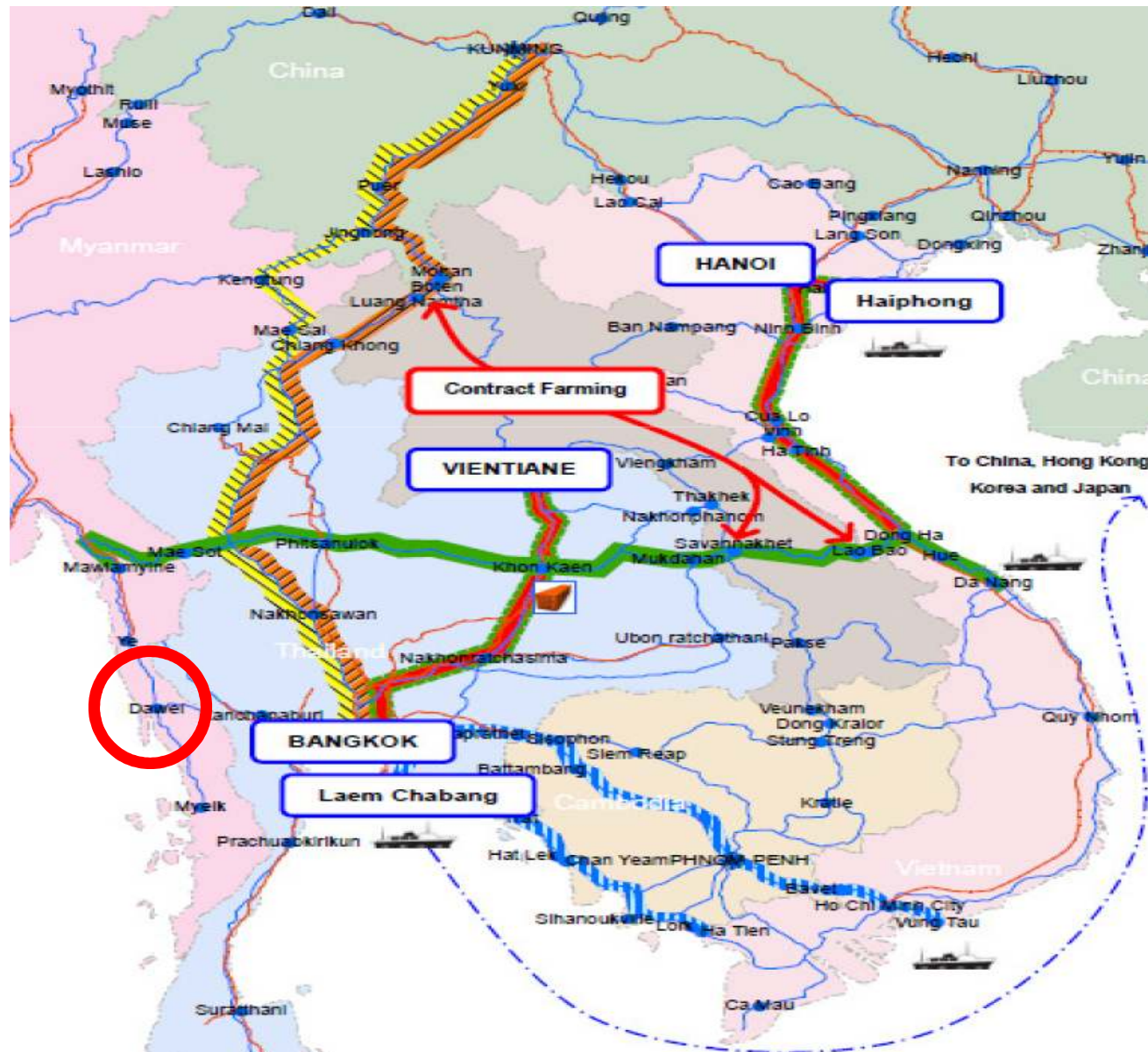
# **Main Areas of Concern**

- **Restructuring of regional production and distribution networks**
- **Outflow of Chinese FDI**
- **Q: Is the Philippines poised to benefit from these changes?**

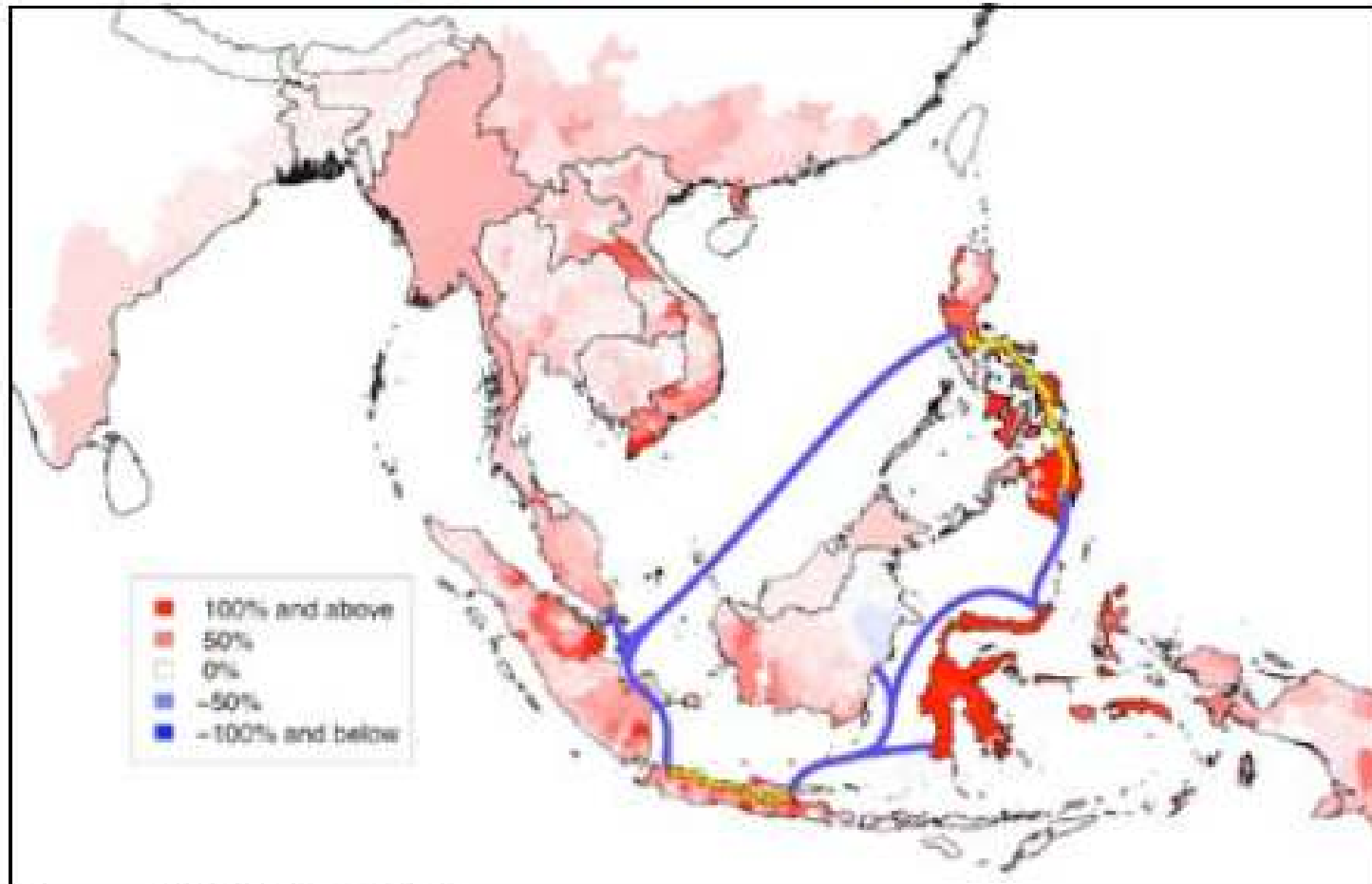
# **Issue #3**

**Massive cross-border  
infrastructure across East Asia**

# EWEC sub network (Laem Chabang Gateway to Hai Phong Gateway)



**Figure 3.2: "Ring" Shipping Route**



Source: ERIA/IDE GSM Team

- ***Maraming Salamat!!!***
- ***Dios ti Agngina!!!***
- ***Dios mamajes dinio!!!***
- ***Dacal a salamat!!!***
- ***Salamat tunon!!!***
- ***Saeamat kimo!!!***
- ***Daghang Salamat!!!***
- ***Thank YOU very much!!!!***