Rebuilding the Philippine economy

Beja, Edsel Jr.

Ateneo de Manila University

15 July 2012

Rebuilding the Philippine economy

EDSEL L. BEJA, JR.
Ateneo de Manila University

Published: http://opinion.inquirer.net/32589/rebuilding-the-ph-economy

Introduction

Following the adage "a picture is worth a thousand words," a collage of statistics, graphs, and sentences that highlight the key points are presented in this article to challenge the reader's impressions of the Philippine economy. This historical macroeconomic perspective can lead to an understanding of why the Philippines is performing the way it does today.

In terms of economic size, measured in terms of gross domestic product (GDP), data from the late economic historian Angus Maddison show that the Philippines ranked third after Japan in 1950 (Table 1), but Japan was not the largest economy in East Asia either. When the official statistics first appeared in 1950, the Philippines emerged as second to Japan only because data for the other "economies" in East Asia had yet to be collected. The Maddison data in table 1 also show that the largest economy in the region in 1950 was that of China, followed by Japan and Indonesia. The Philippines ranked fourth.

Table 1. Gross domestic product (in millions Geary-Khamis dollars), 1990=100

	1950		1960		1970
China	244,985	China	441,694	**Japan**	1,013,602
Japan	160,966	**Japan**	375,090	China	636,937
Indonesia	66,358	Indonesia	97,082	Indonesia	138,612
Philippines	22,616	**Philippines**	42,114	South Korea	69,877
South Korea	17,800	South Korea	30,395	**Philippines**	68,102
Thailand	16,375	Thailand	29,665	Thailand	62,842
Malaysia	10,032	Taiwan	14,697	Taiwan	36,868
Burma	7,711	Malaysia	12,899	Malaysia	22,684
Taiwan	6,828	Burma	12,871	Hong Kong	22,548
Hong Kong	4,962	Hong Kong	9,637	Burma	17,575
Singapore	2,268	Singapore	3,803	Singapore	9,209

Source of raw data: http://www.ggdc.net/MADDISON/Historical_Statistics/horizontal-file_02-2010.xls

Table 2. Gross domestic product per capita (Geary-Khamis dollars, 1990=100)

Country	1950		1960		1970
Singapore	2,219	**Japan**	3,986	**Japan**	9,714
Hong Kong	2,218	Hong Kong	3,134	Hong Kong	5,695
Japan	1,921	Singapore	2,310	Singapore	4,439
Malaysia	1,559	Malaysia	1,530	Taiwan	2,537
Philippines	1,070	**Philippines**	1,476	South Korea	2,167
Taiwan	916	Taiwan	1,353	Malaysia	2,079
South Korea	854	South Korea	1,226	**Philippines**	1,764
Thailand	817	Thailand	1,078	Thailand	1,694
Indonesia	803	Indonesia	1,012	Indonesia	1,181
China	448	China	662	China	778
Burma	396	Burma	564	Burma	642

Source of raw data: http://www.ggdc.net/MADDISON/Historical_Statistics/horizontal-file_02-2010.xls

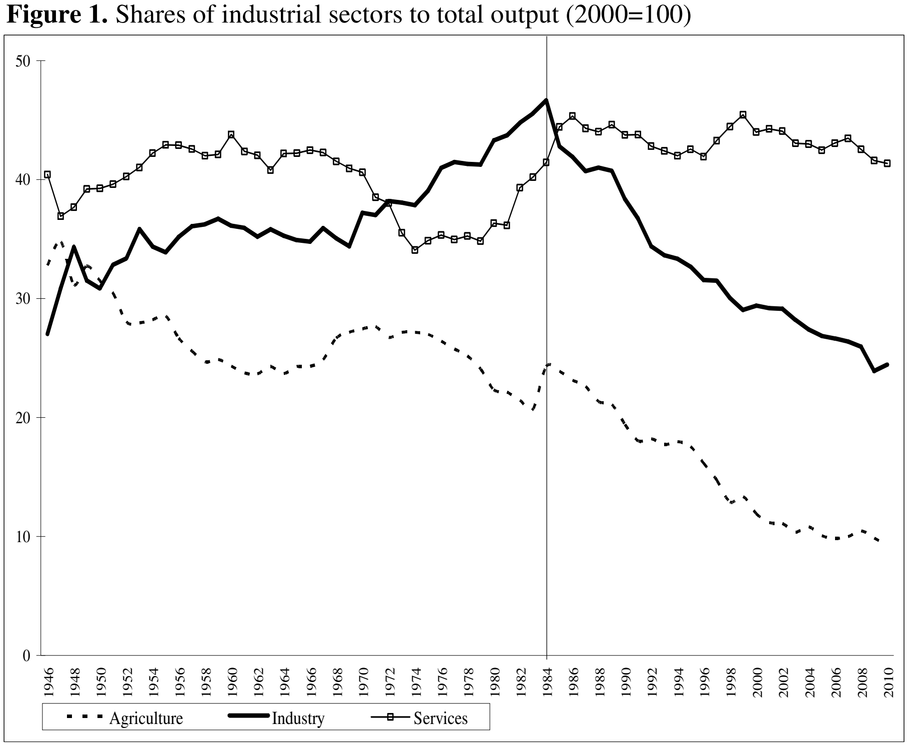
In terms GDP per capita, Table 2 indicates that the Philippines ranked <u>third</u> to Japan in 1950. It is remarkable that Singapore, Hong Kong, and Malaysia were already more affluent on average than the Philippines in 1950. In fact, the Maddison data reveal (not shown in table) that Taiwan became more affluent than the Philippines in 1965. South Korea accomplished the same thing in 1968.

Period of industrialization

A defining feature of the economic development of both the advanced and newly industrialized countries is a period of sustained industrialization—that is, an increasing share of industry output to total economy output and of industry employment to total employment. It did not matter if import-substitution was pursued first then export-oriented afterwards or vice versa or some combination. What mattered at least for the East Asian successful economies was that industrialization was pursued in a strategic way. The goal was to attain domestic economic progress and internal strength in order to overcome external threats and vulnerability.

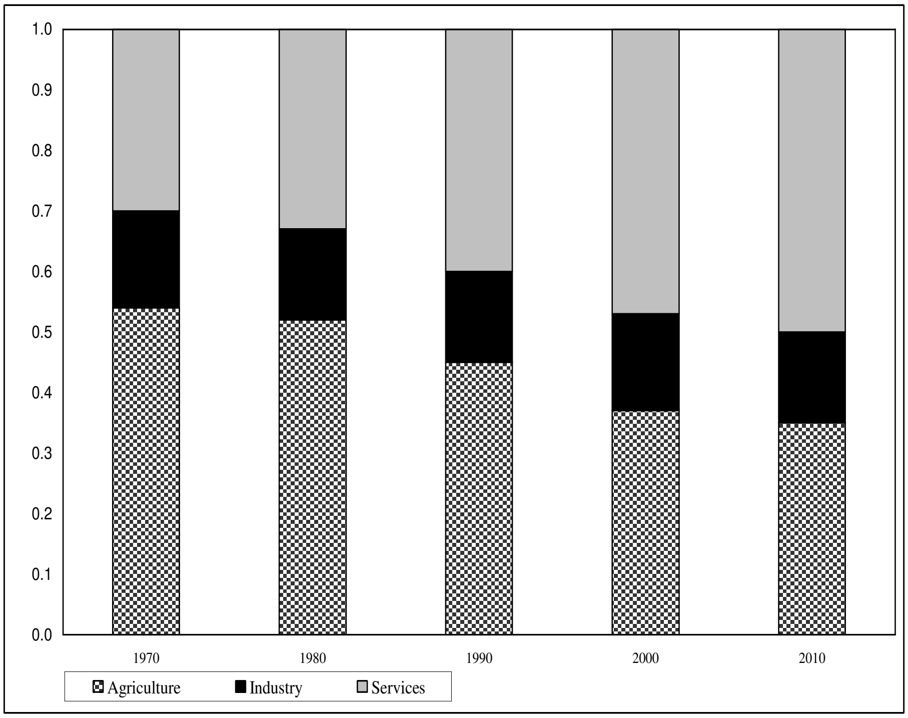
From 1946 to 1984, the Philippine economy experienced a period of steady industrialization, albeit it was not the strategic type. Since the mid-1980s, the Philippine economy has been already experiencing steady deindustrialization (notice the descending solid line in Figure 1). Another sign that deindustrialization has been occurring is the declining employment share of the industry sector to total employment of the economy (shown as the black area in Figure 2). Notice also the declining employment share of agriculture and the rising employment share of the service sector.

Figure 1. Shares of industrial sectors to total output (2000=100)



Source of raw data: http://www.nscb.gov.ph/sna/default.asp
See http://www.census.gov.ph/data/nationalaccounts/index.html for the major components of each sector.

Figure 2. Employment shares of industrial sectors



Source of raw data: World Development indicators online

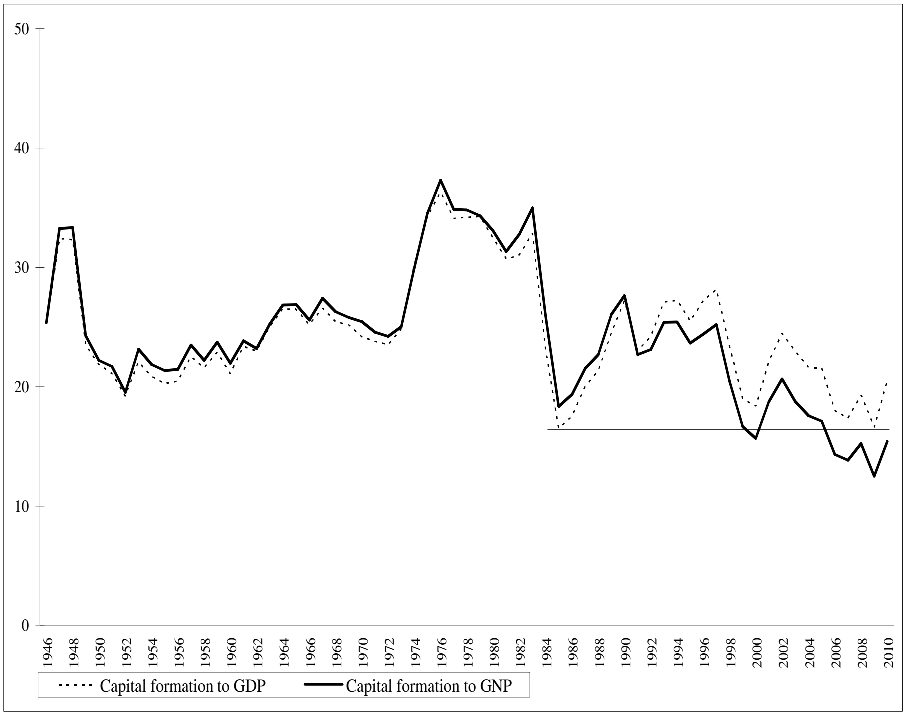
The consequence of deindustrialization is that the service sector had become the dominant sector in the Philippine economy. Now, agriculture and industry play the supporting roles rather than the leading roles.

Thus, the Philippine experience—becoming a service sector-led economy without undergoing real industrialization—deviates from the typical pattern that characterizes economic advancement. It is a problematic pattern because the service sector cannot generate sufficient economic surplus to back up an industrialization program. It cannot generate enough jobs to absorb the large army of unemployed Filipinos who have different skill levels and educational attainment. Moreover, it cannot on its own push the large number of poor Filipinos out of poverty. Ultimately, a service sector-led economy is not the kind that can produce an economic take-off, or a robust economic expansion that is sustained over decades.

Deindustrialization also coincided with the fall in investments in the domestic economy especially since the 1980s. Figure 3 shows that the GDP share of capital formation in 2010 is comparable to that in 1986—the figures for the recent decade are generally lower compared to figures in the earlier periods. All things the same, falling domestic investments over an extended period hollowed out the economy.

The "remedy" to the problem came in the form of a systematic deregulation and liberalization program that was implemented from about the mid-1980s to the mid-1990s. Of course, it had to be done, but in some ways deregulation and liberalization contributed to the further hollowing out of the economy. The irony of the situation is that the weakened domestic economic base cannot reap large gains from economic openness.

Figure 3. Share of capital formation to GDP and GNP (2000=100)



Source of raw data: http://www.nscb.gov.ph/sna/default.asp
See http://www.nscb.gov.ph/sna/2007/4thQ2007/2007tn_2007-Q4.asp for the definition of capital formation.

If the Philippines wishes to embark on a re-industrialization program, then the "steering wheel" of the economy must be swung toward the right direction and the "economic engines" pushed to full throttle in order to reverse the recent trends shown in Figures 1, 2, and 3.

The Philippines is not anymore the "sick man" of Asia

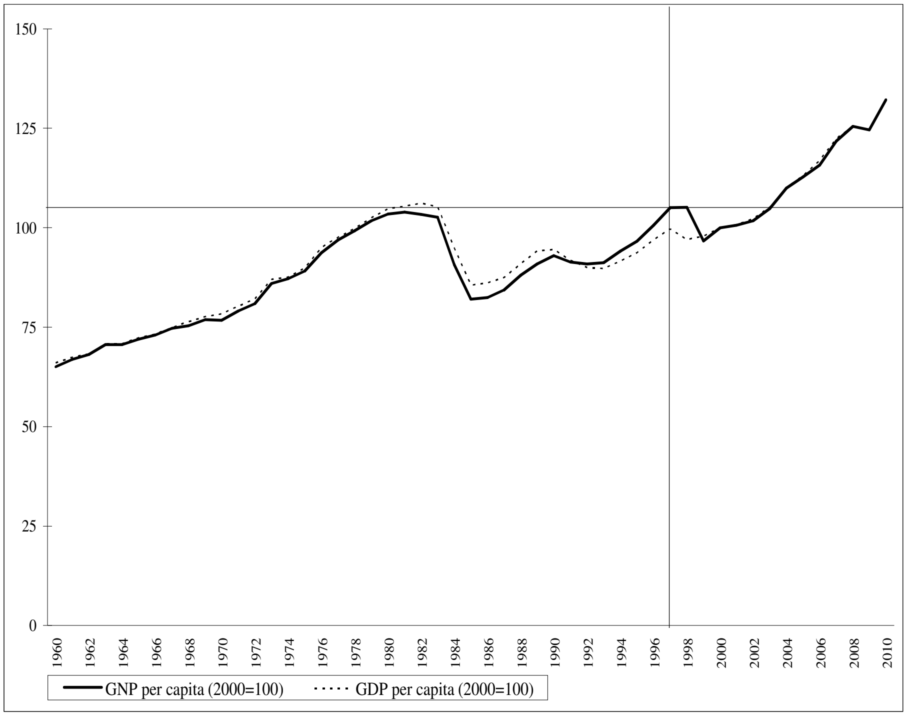
Figure 4 is clear that the trauma of the 1983-1984 Debt Crisis of the Philippines was conquered only in 2003-2004. In this regard, the Philippine economy is not anymore the "sick man" of Asia. The "recovery" would have been earlier (in 1997) if not for the 1997-1998 Asian Financial Crisis. What is more significant is that the two-decade struggle is equivalent to losing a generation worth of economic progress.

But the Philippines has ^not graduated from a "boom-and-bust" cycle of economic performance.

Modern economies undergo a form of "boom-and-bust" cycle. The character of the cycle for the Philippines is shown in Figure 6. Notice that the pattern coincides with the six-year term of a president in the post-1986 period with the turning point around the mid-term of the presidency. That is, each government loses ground in pushing reforms by the mid-term.

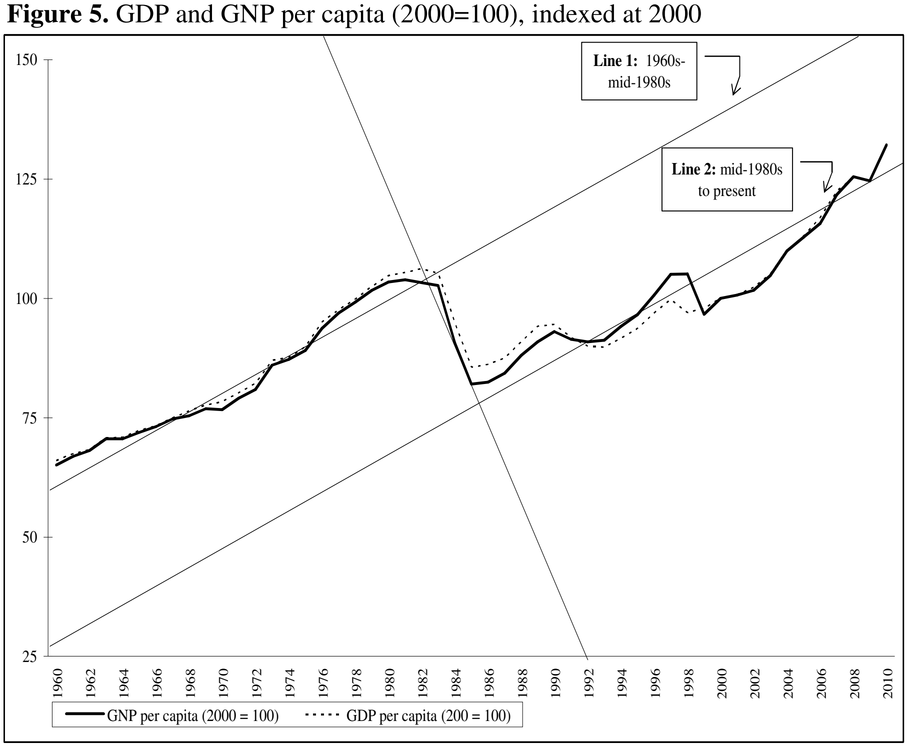
Arguably, the pattern in Figure 6 is consistent with the end-is-near psychology that produces an attitude similar to an expression like "there is not much that can be done in the remaining time." In the same fashion, a leader that counts its remaining months in office can be a bane to economy management.

Figure 4. GDP and GNP per capita (2000=100), indexed at 2000



Source of raw data: World Development indicators online

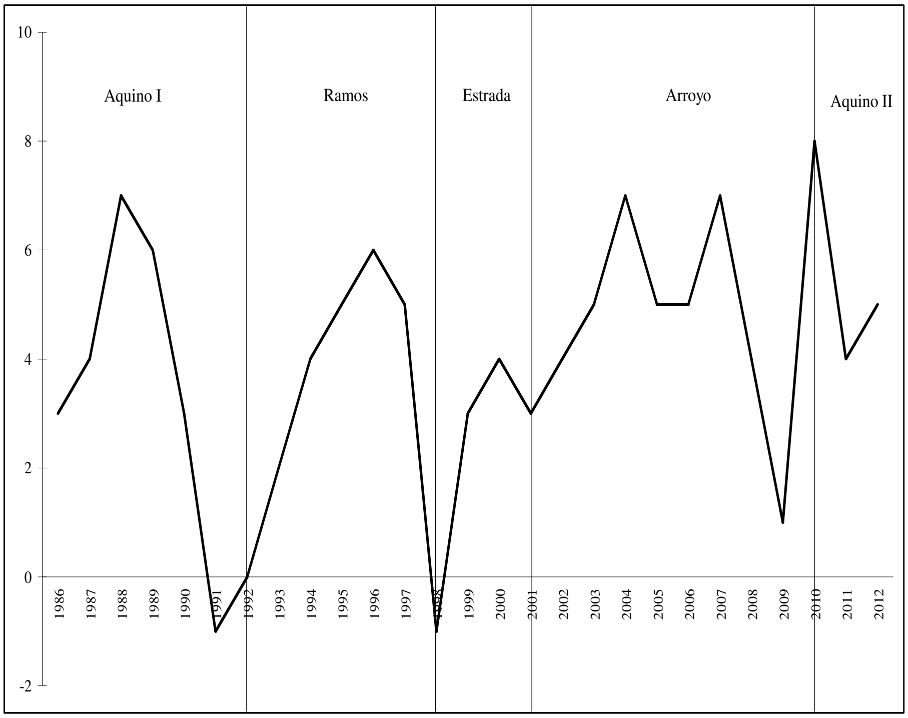
Figure 5. GDP and GNP per capita (2000=100), indexed at 2000



Source of raw data: World Development Indicators online

Note: A description of the methodology is available in E. Beja (2007), 'The tenth anniversary of the Asian crisis,' *Challenge* 50(5), pp. 57-72

Figure 6. GDP annual growth rates (2000=100)



Source of raw data: World Development indicators online. 2012 growth rate (5%) is the forecast of the author.
Note: A discussion on the boom-and-bust cycle of the Philippines is also available in E. de Dios (2000), 'The Boom-Bust Cycle (Will it Ever End?),' in Canlas & Fujisaki, eds., *The Philippine Economy: Alternatives for the 21st Century*, pp. 20-32

Notice also that the low point of each cycle in Figure 6 coincides with an external economic shock: 1990-1991, 1997-1998, 2001, and 2008. This pattern implies that the Philippines does not do well with external economic shocks. Arguably, because of its weak domestic economic base, the Philippines would not be able to endure an internally generated economic shock.

Whither Philippines?

A reindustrialization program is necessary to rebuild the Philippine economy. Every initiative—individual, private domestic enterprise (both local and foreign investors), and public sector—must be geared toward the goal of rebuilding the economy even as each pursues one's self-interest. It is a challenging project given the present configuration of the economy. The crucial element in such pursuit is a vision of a Philippines that Filipinos wish to achieve as a people. The government needs to spearhead the formulation of that vision. Of course, decades of sustained hard work are necessary to accomplish the project.

Filipinos should not be deceived with pronouncements like 'the Philippines is one of the "Breakout Nations"' because, as the data show, the Philippines is not.

About the Author

Dr. Edsel L. Beja Jr. is associate professor of economics at Ateneo de Manila University.

What are the duties of the government?

The first duty of the government is "that of protecting the society from the violence and invasion of other independent societies […] by means of [the] military [and the police]."

The second duty of the government is "that of protecting, as far as possible, every member of the society from injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice…" Now, this duty needs to be expanded to include the sound management of market and political power and effective handling of conflict associated with market competition and political contests especially because they affect the ability of the government to dispose of its duties.

The third duty of the government is "that of erecting and maintaining those public institutions and [ ] public works, which […by their nature] profit could never repay the expense to any individual or small number of individuals, and which it therefore cannot be expected that any individual or small number of individuals should erect or maintain." In addition to the public institutions and public works "necessary for the defense of the society, and for the administration of justice [ ], the other works and institutions of this kind are [ ] those for facilitating commerce [...those for managing the environment and natural resources,] and those for […educating] the people. The institutions for instruction are of two kinds; those for the education of the youth, and those for the instruction of people of all ages."

The reader might be surprised to discover that Adam Smith, the father of modern economics, was the one who outlined the above duties of the government. Regrettably, there is a misplaced notion that Adam Smith did not have anything to say about the duties of the government. The fact is that Adam Smith allocated about 25% of his 1,000+ pages *An Inquiry of the Nature and Causes of the Wealth of Nations* (1776) to a thorough discussion on the duties of the government. Viewed in terms of the amount of space devoted to present his ideas, the "helping hand" of the government is far more important than the notion of the "invisible hand" (which is mentioned once in the whole book; p. 485 of the Modern Library edition of the *Wealth of Nations*).

The duties of the government can be summarized as the formation of human capabilities and the creation and maintenance of an environment that enables all the individuals of a society to flourish on their own and to contribute to nation building. The task of weaving disparate activities into a meaningful whole is left for the government. Of course, the government needs to build up its capacity so it can govern fairly and act quickly to challenges that could disrupt the economy or the accomplishment of its mission. Certainly, mistakes would be committed along the way. Thus, it is impractical to demand that the government should not make a mistake in the pursuit of its mission but it is perfectly reasonable to expect that it should function well. ***Edsel L. Beja Jr.***