IX Towards an Inclusive and Sustainable Philippines: Questioning Growth Strategies in a De-industrializing Economy

By Dr. Rene E. Ofreneo

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1960s

Philippines – hailed by WB in 1962 as 2nd most dynamic industrially in East Asia, after Japan:

"The major structural change since the war has been the growth of domestic manufacturing…which was limited to processing of agricultural products before the war…By 1960, it had become a significant segment of the economy, accounting for 12.7 % of the net domestic product…A vigorous entrepreneurial class has emerged and the nucleus of a skilled labor force has been formed."

But free trade economists in the '70s not happy (martial law technocrats, Gustav Ranis of Yale Growth Center, John Powers of Ford Fnd & Hla Myint of ADB)

Accordingly

Phl a developing economy w/ dualistic structure –

- ✓ a small organized sector (mainly Import-Substituting) &
- ✓ A large underdeveloped sector, largely agrarian

Hence, labor market also dualistic:
a small protected sector and
a large unprotected sector,
w/ mass unemployment & poverty persistent &
BOP crisis chronic

Solution:
shift from ISI to labor-intensive, export-oriented industrialization (LIEO) by opening up to FDI, building EPZs for re-export mfg, etc.

EOI deepening in the 1980s onward

1978-1979 WB mission:
LIEO economy not growing fast enough (mainly garments). Reason: economy not open enough.

Hence, WB sought deepening of LIEO through Structural Adjustment Program (SAP):

- Trade & Investment liberalization
- Deregulation of Industry, Agriculture, Finance, Services
- Privatization of GOCCs, Services, Assets

SAP liberalization backed up by Series of Structural Adjustment Loans (SALs) in Support of full-blown EOI

Yet, industrial employment going down from 1970 to 2010

Sector	1970	1980	1990	2000	2010
Agriculture	53.7	51.8	45.2	37.1	33.2
Industry	16.5	15.4	15.0	16.2	15.0
Manufacturing	11.9	10.8	9.7	10.0	8.4
Services	28.2	32.8	39.7	46.7	51.8

Source: NSCB

De-industrialization, De-agricultural development!!!

So why is industrial sector floundering under LIEO/SAP-EOI ?

PHL rated by UBS in 1997 as one of the most open in the world

Yet, Phl being left behind by Asia's export dynamos:

1970s – overtaken by the NICs
(SKorea, Taiwan, HK, Sing)
1980s – overtaken by Malaysia, Thailand
1990s – overtaken by China, India
today – Vietnam?

Why has EOI failed the Phl but succeeded elsewhere?
What is the impact of such failure on the labor market?

Weaknesses of LIEO/SAP-EOI modeling

First, Phl EOI model simplified economic realities by simplifying solutions:
expand organized sector thru LIEO & SAP-EOI,
encourage FDI through liberalization,
ignore rent-seeking ISI to promote competitiveness,
make markets efficient via deregulation & privatization

Yet,
flow of FDI to Phl lackluster & limited compared to other Asian countries.
Reason: FDI go where they can make money (not only on the basis of market openness). FDI expansion depends on global value chains.

Domestic industry ignored, domestic linkages undeveloped?

Under EOI,

-- role of local champions ignored or underdeveloped (Japan had zaibatsus, Korea chaebols, Taiwan Koumintangs, Singapore Temasek)
-- importance of building up industry linkages neglected -- enclaves industries in EPZs had no forward & backward linkages (electronics biggest exporter & importer at the same time; garments over-imported textiles & raw materials displacing local textile & other industries)

-- local industries punished by
uncoordinated liberalization,
high taxes directed mainly on locals (EPZ firms generally exempt)
rapid/uncalibrated liberalization,
weak infra support for the locals (PHL electricity now highest in Asia), unchecked smuggling (smugglers avoid VAT)

Limqueco, McFarlane, Odhnoff: potentials of "inter-sectoral growth" sacrificed in the name of "purely export-oriented" devt path

Industries that have collapsed

- Textile industry (from 250+ to 5)
- Rubber industry
- Foundry industry
- Steel industry
- Chemicals (organic and inorganic chemicals, fertilizers, petrochemicals – includes upstream and downstream products, dyeing, tanning and coloring materials)
- Shoes, Hides and Leather (handbags and belts, leather and non-leather goods, travel goods, hat and other headgear)
- Wood and wood articles, pulp and paper
- Cement, ceramics, tiles , etc., etc.

Exports too (now you see, now you don't):
Garments (men's and women's wear, boy's and girl's wear, baby wear) – from one million to > 100,000 workers
Toys, fashion accessories, footwear (rubber)

Overall, no industrial vision, no policy coherence

Issue not export orientation per se but wrong EOI modelling.
Weaknesses in model better understood by reading Rajah Rasiah's systemic quad model on 4 pillars of industrialization:

1. Basic infrastructure to promote systemic stability & efficiency (not consistently attended to in Phl)
2. Institutions to provide systemic support for learning & innovation (virtually absent in Phl)
3. Network cohesion to provide systemic price, technological & social relationships necessary to drive interactive & interdependent coordination (instead of cohesion & coordination in Phl, ISI industries pitted against EOI, linkages neglected, etc.)
4. Strategic integration in globalized production system (instead of careful positioning in global market, technocrats opted for sheer reliance on FDI liberalization & market openness)

But despite EOI failure - Phl growing – why?

Two major reasons:

1. Massive Philippine diaspora – overseas Filipino workers (OFWs)
2. Call center-business process outsourcing (CC-BPO) "accident"

Phl diaspora largesse

Country has become dependent on migrant remittances:

- 10 M OFWs & Overseas Filipinos (10 % of national population), sending $1.5 B/mo.
- At least 1/5 of population directly subsisting on remittances.
- OFW family spending explains why growth always described by economists as "consumption-led".

Accidents also happen!

Philippines competing w/ India today as global call center/BPO Address. Swanky buildings. Smart-looking
tech-savvy CC/BPO workers acculturated to American culture (cream of labor force)

2000 -- > 3,000 workers
2010 -- 500,000+ workers
Bad Phl has 40 million work force

But Can CC/BPO save PHL & grow whole economy?

Overall Reality: PHP has several economies co-existing w/ one another

EOI economy -- mainly electronics (now declining), garments in sharp decline, auto parts still puny
ISI economy – continuous decline
Agrarian economy – limited growth, huge crisis

Service Sector -- growing w/ large contribution of OFWs/OFs
CC/BPO economy -- also growing
But still limited employment (500k out of 40 M work force)

But numerically, biggest is Informal Economy
(estimate by ECOP – 77% of labor force)

Overview of labor force

Select Labor Force Statistics, July 2011

	Number	Percentages
Working age population (15 and above)	62 million	
Labor force	39.9 million	64.3% of WAP
Employed	37.1 million	92.9% of LF
Unemployed	2.8 million	7.1% of LF
Underemployed	7.1 million	19.1% of employed
Unpaid family workers	3.97 million	10.7% of employed
Working less than 40 hours/week	12.65 million	34.1% of employed

Massive joblessness in last three decades!

Year	Unemployment	Under Employment
1980	4.9	21.7
1985	6.8	21.8
1990	8.4	22.4
1995	9.5	20.0
2000	11.2	21.7
2005	**7.7**	21.0
2010	7.3	18.8

Declining agricultural sector, stagnant industrial sector, dominant service sector

Poverty - Overview 2009

Poverty incidence among families: 20.9%
Poverty incidence among population: 26.5%

Number of poor families: 3.86 M
Number of poor population: 23.14 M
Number of food-poor families: 1.45 M
Number of food-poor population: 9.44 M

One out of four Filipinos officially poor!

But if poverty threshold of US$1.10 raised to S$2.00/day, every other Filipino poor.

Conclusions

Narrow EOI model has failed the Philippines:

- to catch up with Asia, Phillipines must overhaul existing growth model
- clarify industrial vision & how to really forge inclusive growth & sustainable development.

X Land Distribution and Policy in Cambodia

By Ngo Sothath