Dialogues

ASEAN Economic Community 2015

Issues and challenges for the Philippines
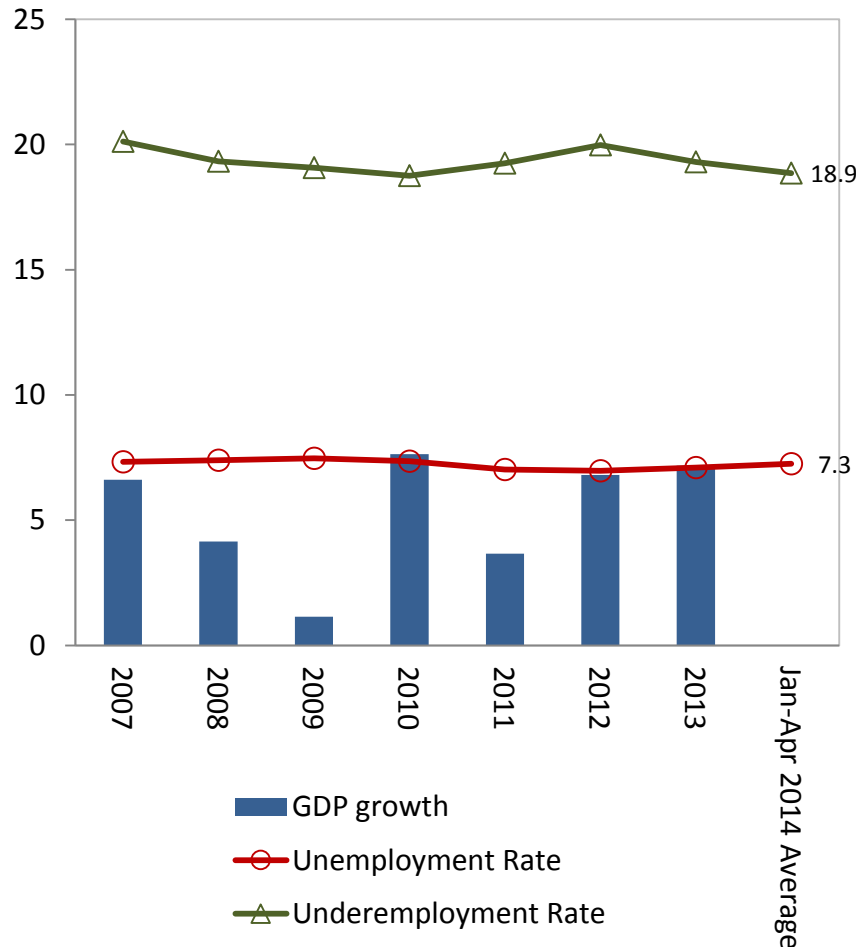
Norio Usui

26 June 2014, AIM

Presentation

- *The key challenge of the Philippine economy*
  - Missing link between growth and development

- *ASEAN Economic Community 2015*
  - Trade liberalization in the 1990s
  - What lessons can we learn?
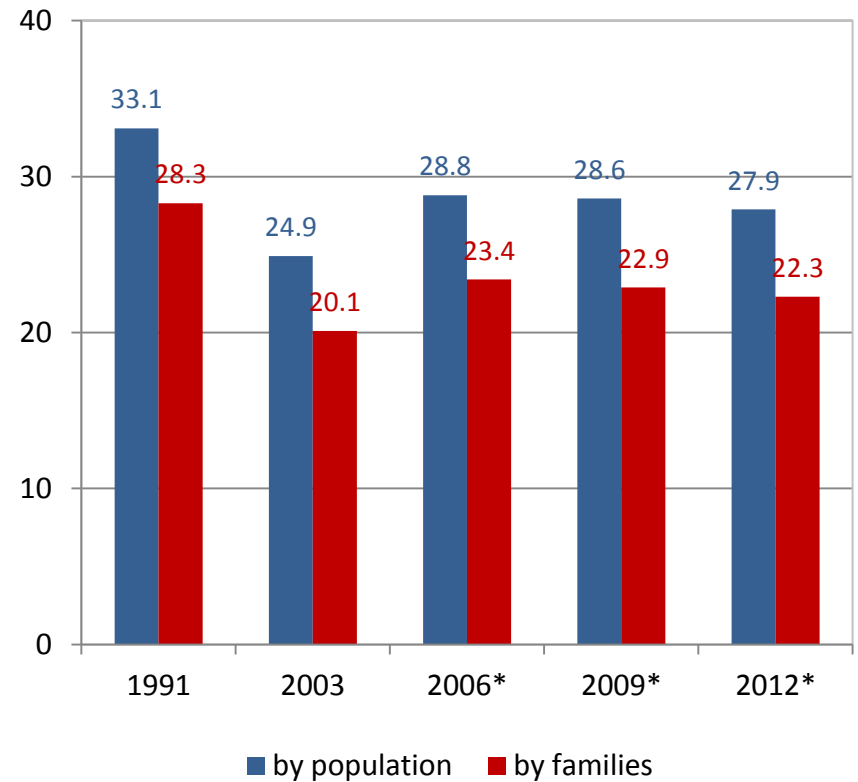 - Can globalization benefit all of us?

Statistical facts

Weak Labor Market Indicators
(% of total labor force)

Legend:
- GDP growth (blue bars)
- Unemployment Rate (red line)
- Underemployment Rate (green line)

Years: 2007, 2008, 2009, 2010, 2011, 2012, 2013, Jan-Apr 2014 Average

Labeled values: 18.9, 7.3

Slow Poverty Reduction
(%, poverty incidence)

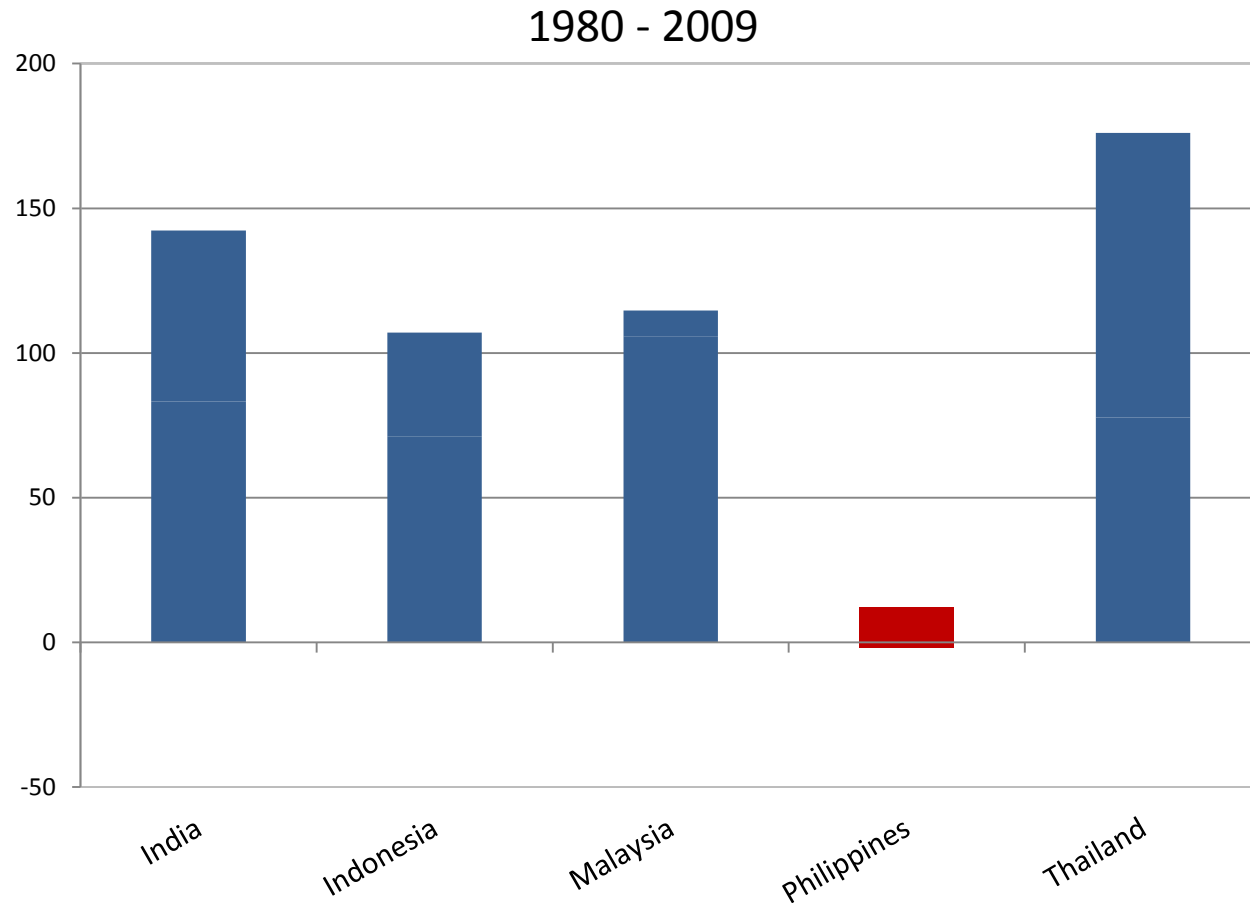| Year	by population	by families
1991	33.1	28.3
2003	24.9	20.1
2006*	28.8	23.4
2009*	28.6	22.9
2012*	27.9	22.3

Note: * 1st semester 2013

Three key dimensions of job creations

- *Size*: more jobs

- *Type*: a variety of jobs

- *Productivity*: productive jobs

Unemployed by educational attainment

PRODUCTIVITY is everything in the long run

1980 - 2009

Productivity growth and trade liberalization

Economists' assumption: Improving efficiency in production of the tradable sector through competition with foreign suppliers

Implications for productivity growth:

- Some losers are inevitable: They should die since they are not efficient enough to survive the global competition

- Economy-wide productivity can rise through productivity growth in the tradable sector and resource reallocation toward productive tradable sectors

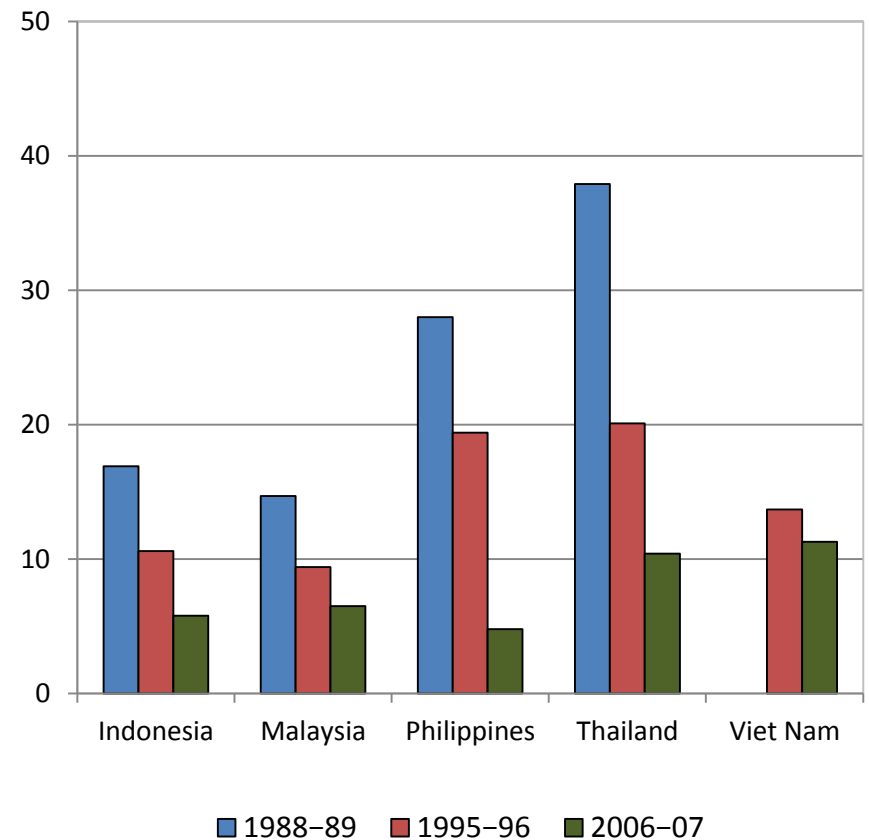**What happened?:** *McMillan, M., and D. Rodrik (2011)*

- *Growth (productivity) reducing structural change*

- *Growth (productivity) enhancing structural change*

Trade liberalization and labor productivity growth

Economy-wide productivity
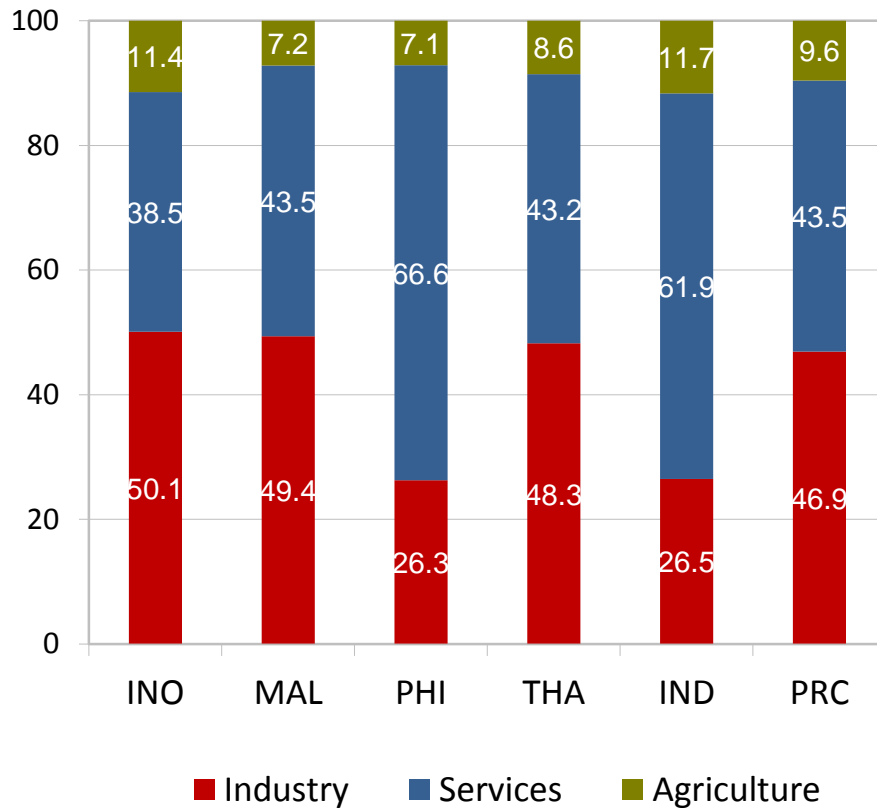(Logarithm, constant 2000 $)
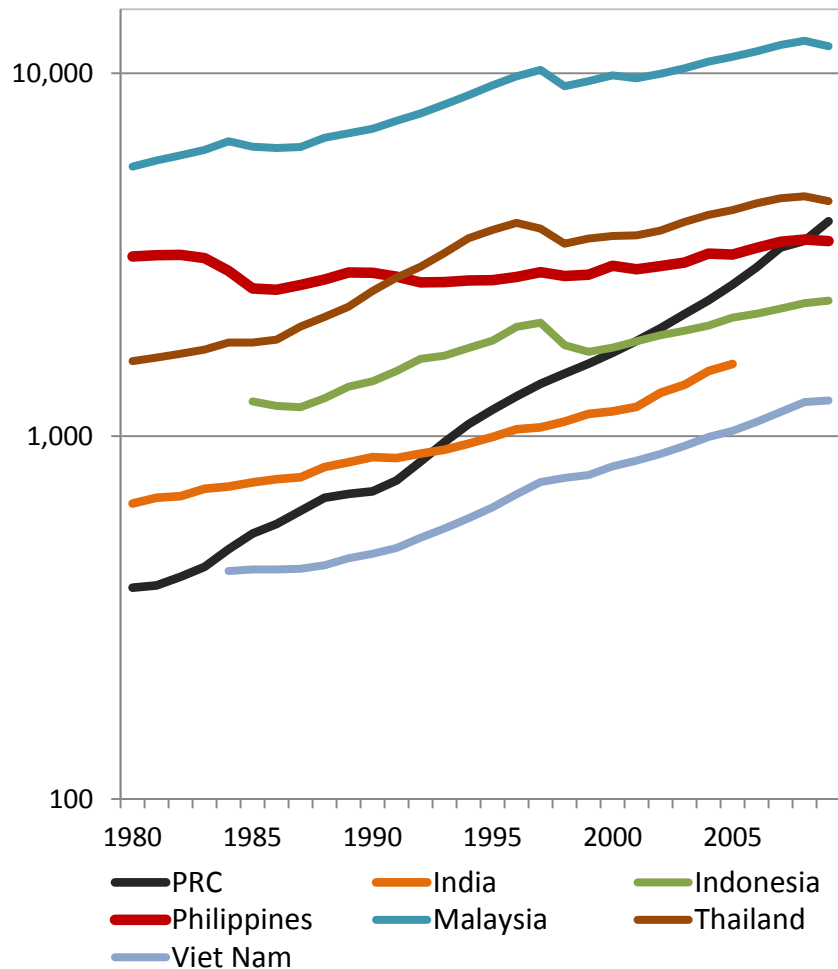
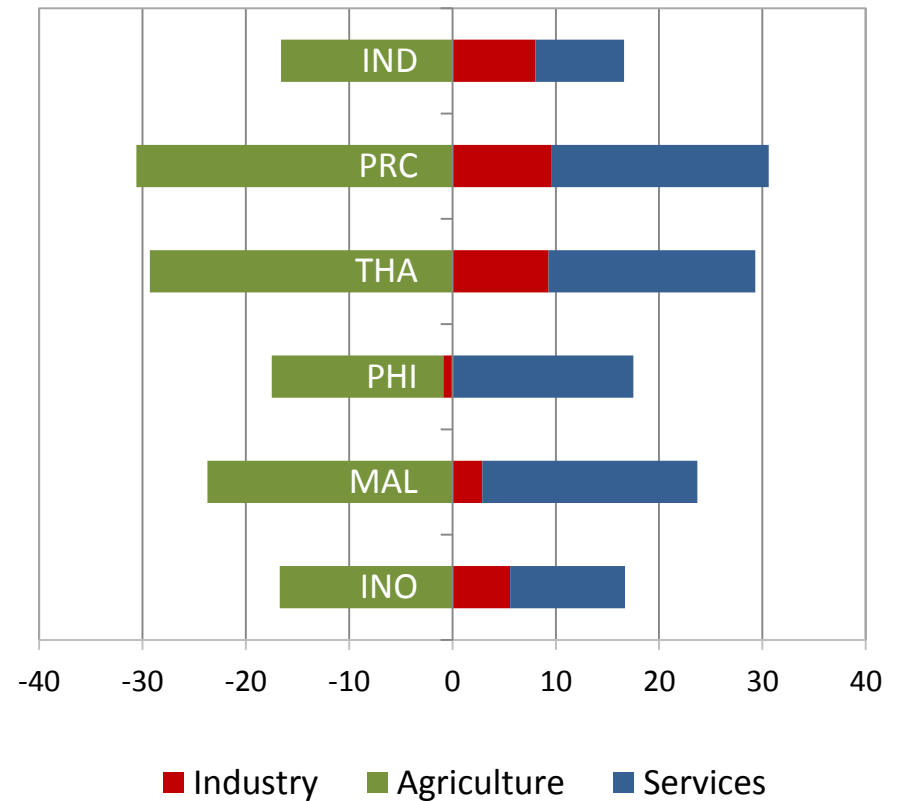Tariff rate, applied, simple mean,
manufactured products (%)

Structural transformation

Sector contributions to GDP growth (1980-2009, %)

Changes in employment structure (1980-2009, % point)
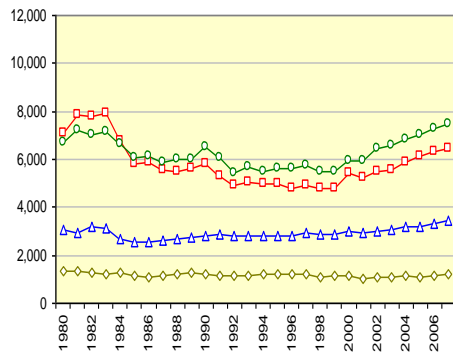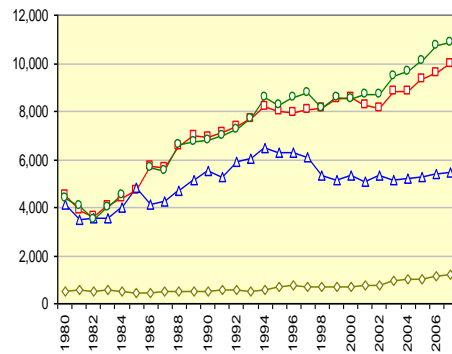
Centrality of structural transformation
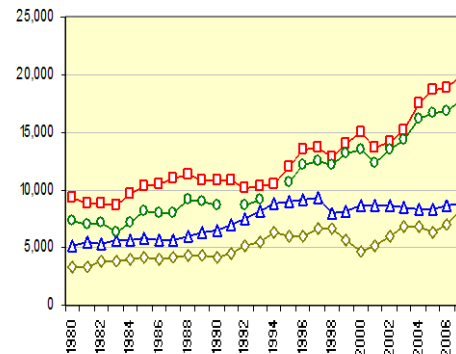
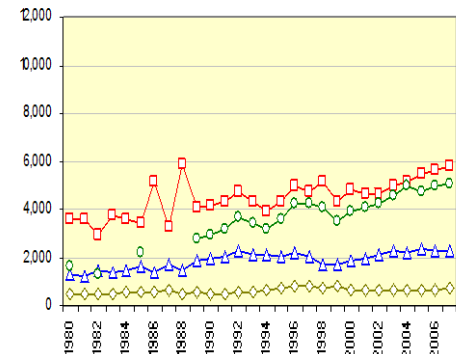PHI   THA   MAL   INO

Labor productivity by sector

Employment by sector
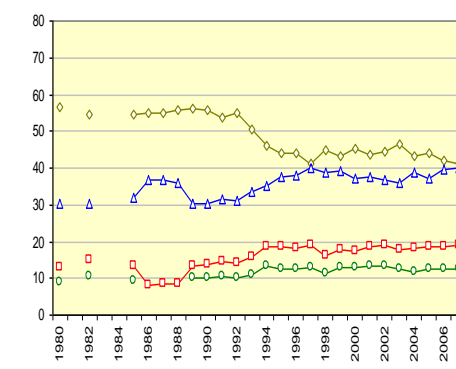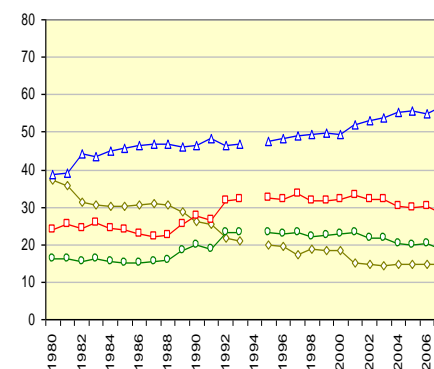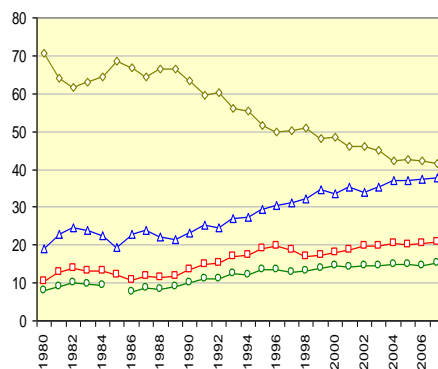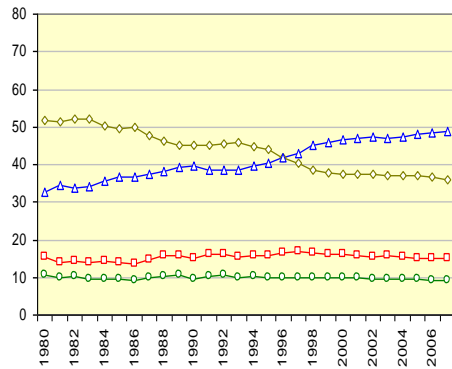
Walking on two legs
in modern services and industry

Taking the Right Road to Inclusive Growth

Average GDP Growth
solid economic growth

1960s	1970s	1980s	1990s	2000s
4.9%	5.9%	1.7%	2.9%	4.8%

MISSING LINK

Poverty Reduction
poverty rates stagnated

2003	2006	2009
24.9%	26.4%	26.5%

7.3% unemployment

18.7% underemployment

The Philippines **needs to industrialize** to generate more productive jobs to Filipinos

INDUSTRY

INDUSTRY   MODERN SERVICES

INCLUSIVE GROWTH

Inclusive growth involves creating productive jobs, expanding access to education and health, and building strong social safety nets

MODERN SERVICES

Business Process Outsourcing provided an important boost to the economy, but it employs limited number of people

How can the Philippines do this?

Identify products the country can develop with relative ease

Better infrastructure

Stronger governance

Meet with the private sector to identify obstacles and solve the problems

ADB Asian Development Bank
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ASEAN Common Market 2015

Opportunities

- Create new demands both within and outside the region

- Facilitate technology transfer and contribute to efficiencies in production

Challenges

- Some "losers" are inevitable

- Establish a solid position in the regional production network

# Why the country could not develop a strong industry base?

- Resolving long-standing issues:

  - Deficient infrastructure (inc. high power prices)

  - Poor business and investment climate (ownership regulations, red tapes, labor laws, corruptions etc)

  - High wages…

- Horizontal interventions (*a la* development institutions)

  - How many years have we talked the same issues?

  - Much better than before….then what happened?

- Critical importance of focusing on product-specific constraints

High electricity price!?

Share of electricity cost in total production cost
(including labor cost, depreciation, net tax)
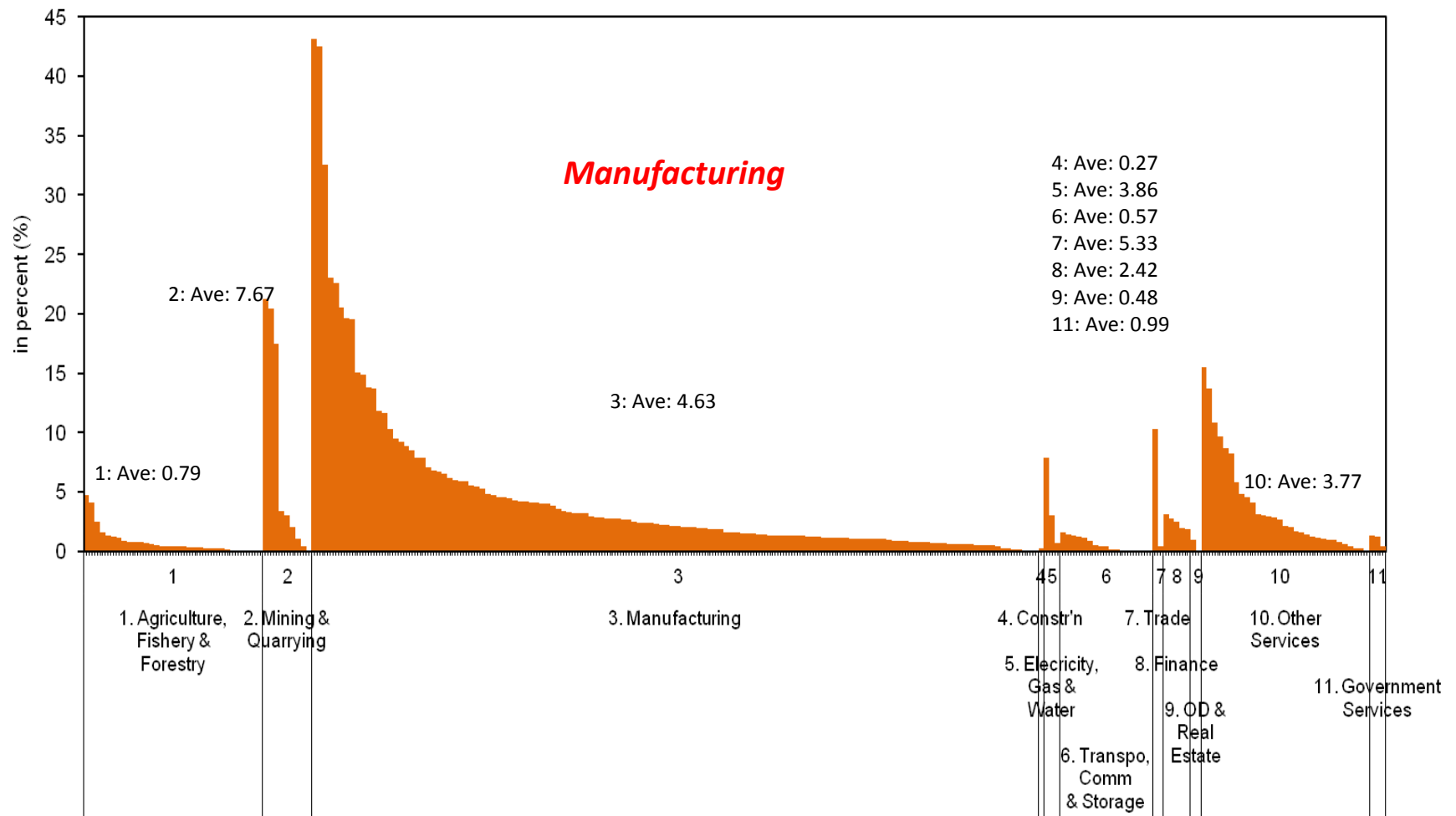
Electronics......have you fully exploited the opportunities!?
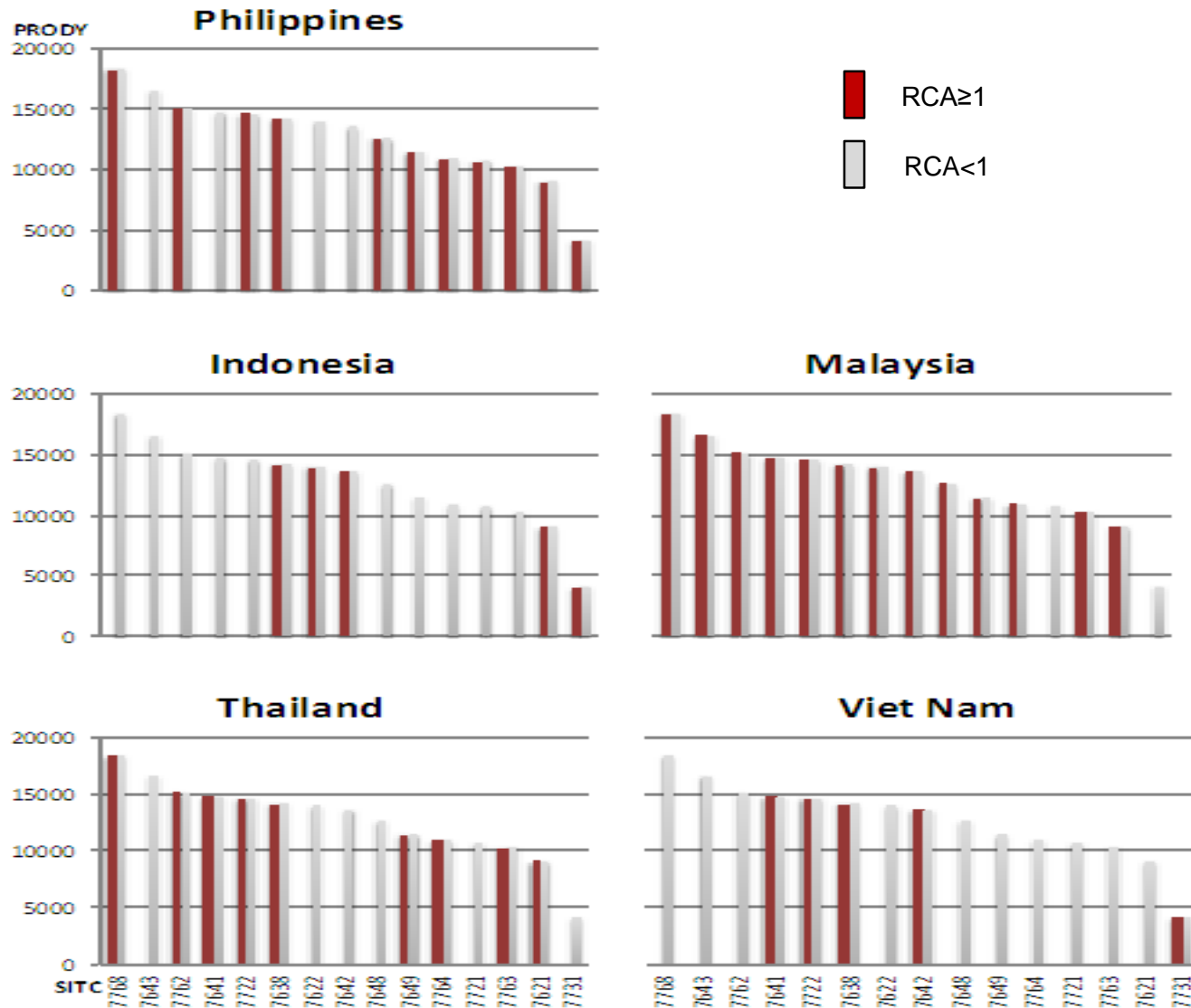
What can we do?

1. Sector neutral interventions

Creating a level playing field for the private sector without targeting specific products

2. Targeted interventions

Identifying target products and diagnosing product specific constraints

Two-step Approach

Step 1: *Identifying Products (targeted)*

Norio: *nearby, middle, far away* + policy priorities (job creations etc)

Fita: *RCA* → DTI's roadmap initiative

Step 2: *Diagnosing binding constraints specific to the targeted products*

What are key impediments for a specific product?

Then, how can we fix the identified impediments?

"*Lego*" and *Development*

Products

Capabilities

Country

Lego parts *needed for Mango*

Producing (& exporting) mango requires:
- a certain type of soil
- mechanized farming equipment
- agribusiness firms that know the market etc.,
- loans
-

but also "**public goods**" such as:
- specific property rights
- secured and predictable land lease system
- port infrastructure
- road system
- (quick) customs
- food safety certificates
- cold-storage facilities
- phytosanitary regulations
- market access agreements
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The findings, interpretations, and views expressed in the presentation are entirely those of the presenter, and do not represent the views of the Asian Development Bank, its executive directors, or the countries they represent.