

The Philippine Economy: No Longer the East Asian Exception?

Hal Hill, Australian National University

Presentation to Philippine Institute for Development Studies & ANU Philippine
Project conference.

October 18, 2017.

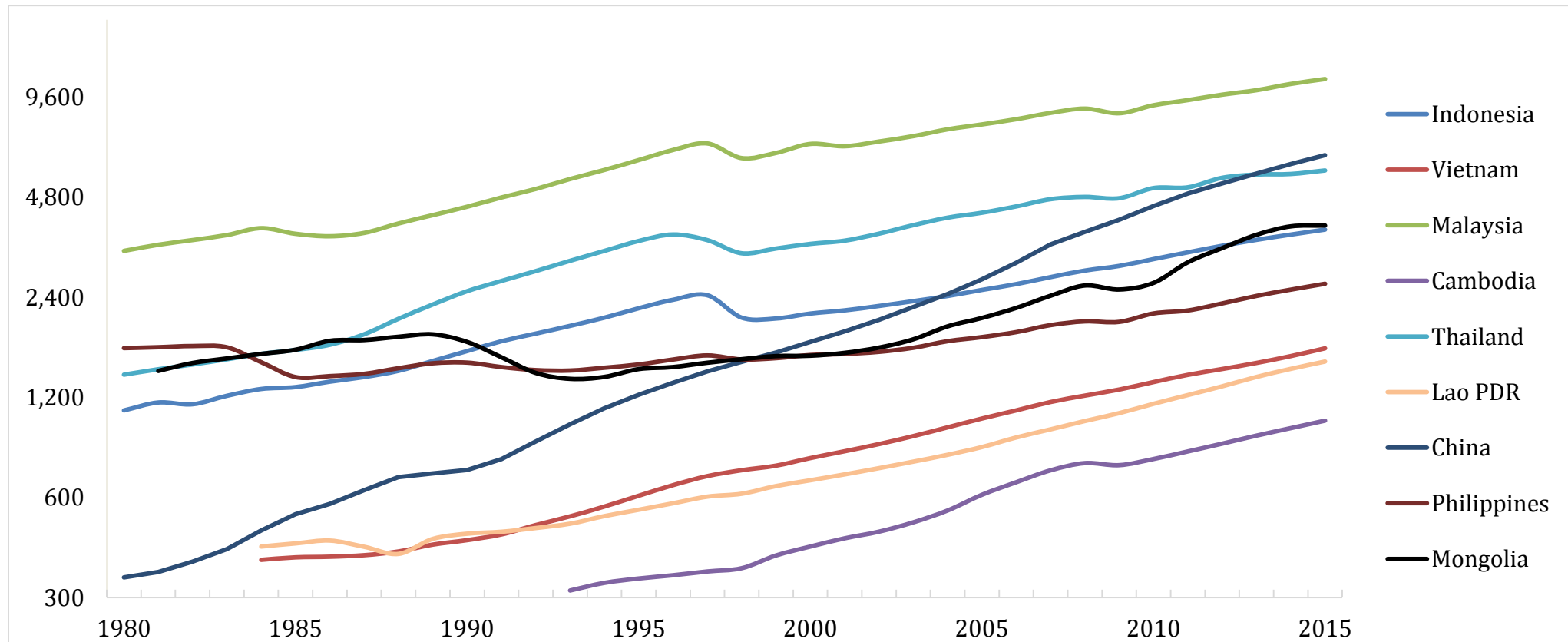
Based on a volume co-edited with Ramon Clarete and Emmanuel Esguerra.

Why is the Philippines considered the East Asian exception?

Ratio of GDP per capita, 2010/1961:

China	12.4
Korea	15.6
Singapore	12.4
Malaysia	7.9
Thailand	8.2
Indonesia	5.5
Vietnam	5.0
Philippines	2.1

Real GDP per capita (2010 US\$), Developing East Asia and Pacific



Source: World Development Indicators.

Key Question

Why has the Philippines been the 'East Asian exception'?

Favourable 'initial conditions', ahead of most East Asian countries in the 1950s.

But began to falter from late 1970s, deep economic-political crisis in mid 1980s, two lost decades, missed out on the 'East Asian Miracle'.

The Philippine-Thailand comparison revealing.

But also avoided worst of the AFC, only mildly affected by the GFC, strong growth since c. 2010.

Central question is whether current momentum can be sustained.

Depends importantly on how the issues examined in this volume are tackled.

Related, this paper develops an analytical narrative centred around ten stylized facts of Philippine development.

Comparative indicators: 'Initial conditions', 1960

Country	GDP per capita (constant 2010 \$)	Trade (% of GDP)	Years of schooling, for aged 15 and above	Years of schooling, for aged 25 and above	Life expectancy at birth (years)	Infant mortality (deaths per 1,000 lives)
Indonesia	577	11.6	1.57	1.11	47.0	166.7
Malaysia	1,408	85.7	2.83	2.26	57.9	81.1
Philippines	1,059	38.3	3.46	3.01	57.1	86.5
Thailand	571	34.9	2.55	2.07	53.3	108.9

Comparative indicators, 2015

Country	GDP per capita (constant 2010 \$)	Trade (% of GDP)	Years of schooling, for aged 15 and above	Years of schooling, for aged 25 and above	Life expectancy at birth (years)	Infant mortality (deaths per 1,000 lives)
Indonesia	3,834	41.9	7.61	7.26	68.6	25.0
Malaysia	10,878	134.2	10.44	9.75	74.5	6.8
Philippines	2,640	63.0	8.43	8.18	68.0	23.2
Thailand	5,775	126.8	7.99	7.30	74.1	11.2

Book Contents

1. Clarete, Esguerra & Hill, “The Philippine Economy: No Longer the East Asian Exception?”
2. Clarete, “Economic Growth and Poverty Reduction”
3. Corpuz, “Infrastructure and Urbanization”
4. Villamil, “Education and Training”
5. Banzon & Ho, “Universal Health Coverage, Health Security and Resilient Health Systems”
6. Roumasset, Ravago, Jandoc & Arellano, “Environmental Resources, Shocks and National Well-being”
7. Ravago, Fabella, Alonzo, Danao & Mapa, “Energy: Power Security and Competitiveness”
8. Llanto, “Development Finance”
9. Mendoza & Olfindo, “Governance and Institutions”

Ten Stylized Facts

1. Episodic Development Outcomes
2. Unusual Sectoral Growth Patterns
3. Major Macroeconomic Reforms
4. Gradual but Partial Liberalization
5. Infrastructure Deficit
6. Continuing but Shrinking Educational Advantage
7. Narrow Growth
8. Institutions: Progress and Complexity
9. Unresolved Conflicts
10. Environmental Fragility

1. Episodic Development Outcomes

Three main periods since 1960:

1. Through to late 1970's: moderate growth, quite volatile, slower than most neighbours.

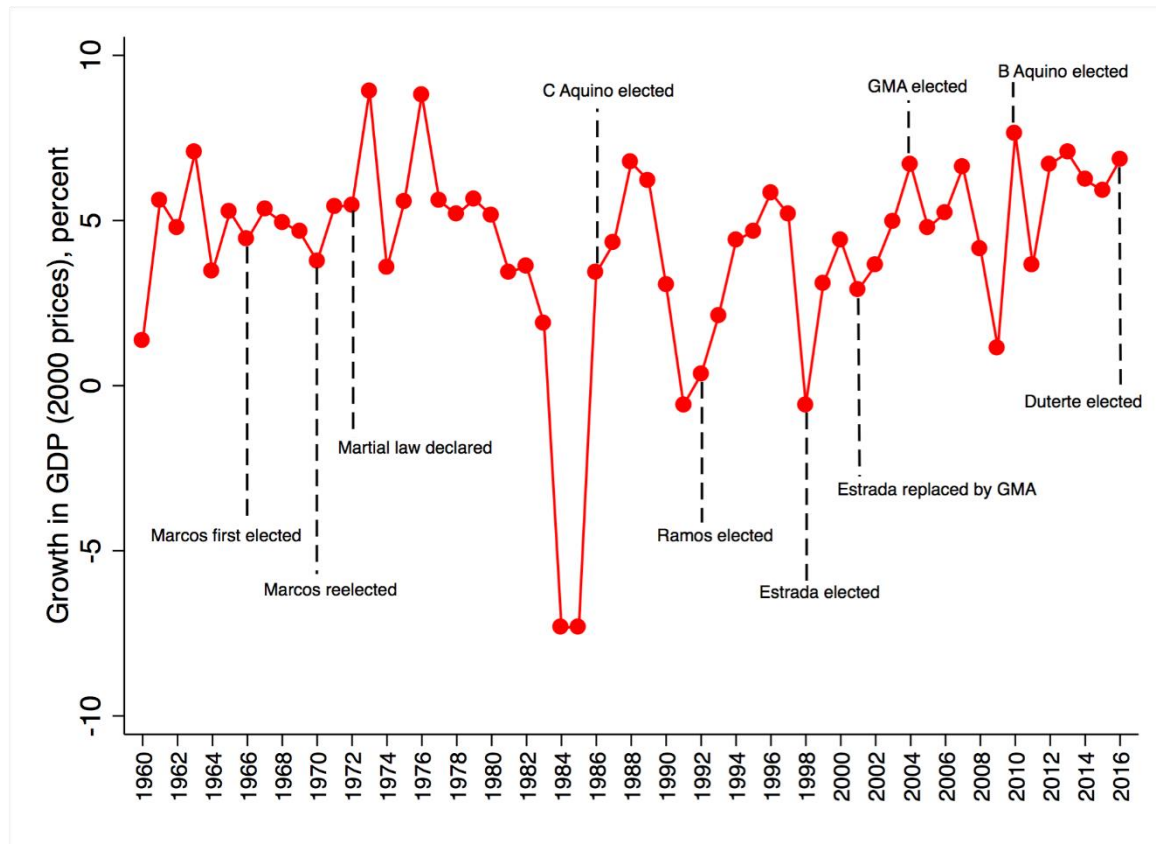
Debt-driven 1970's growth, limited reforms, rising 'crony capitalism', external shocks.

2. 1980-early 1990's, lost decades: deep economic and political crisis, 1984-6; end of Marcos regime; restoration of democracy; hesitant recovery after 1987.

3. From early 1990's: return to moderate growth, reforming Ramos administration; political impasses in the 2000's; but avoided worst of AFC and GFC; strong growth from around 2010.

These three periods interconnected.

Economic Growth, 1960-2016



Comparative economic growth

Country	2015 GDP per capita (constant 2010 US \$)	GDP per capita ratio between		
		2015 & 2000	2015 & 1980	2015 & 1960
Indonesia	3,834	1.8	3.5	6.6
Malaysia	10,878	1.6	3.3	7.7
Philippines	2,640	1.6	1.6	2.5
Thailand	5,775	1.7	4.1	10.1

2. Unusual Sectoral Growth Patterns

Conventional story: declining agriculture share (agricultural performance quite strong in 1960's-70's).

Hastened by hitting land frontier, Mindanao conflict, little investment in infra and R&D, policy distortions.

But manufacturing growth generally quite slow from the 1960's; declining share from 1980's.

Early and comprehensive import substitution. Industry share now similar to early 1950's.

Gradual shift towards export orientation, interrupted by 1980's crisis.

But supply-side factors – labour market regulations, restrictive FDI, logistics – held back growth.

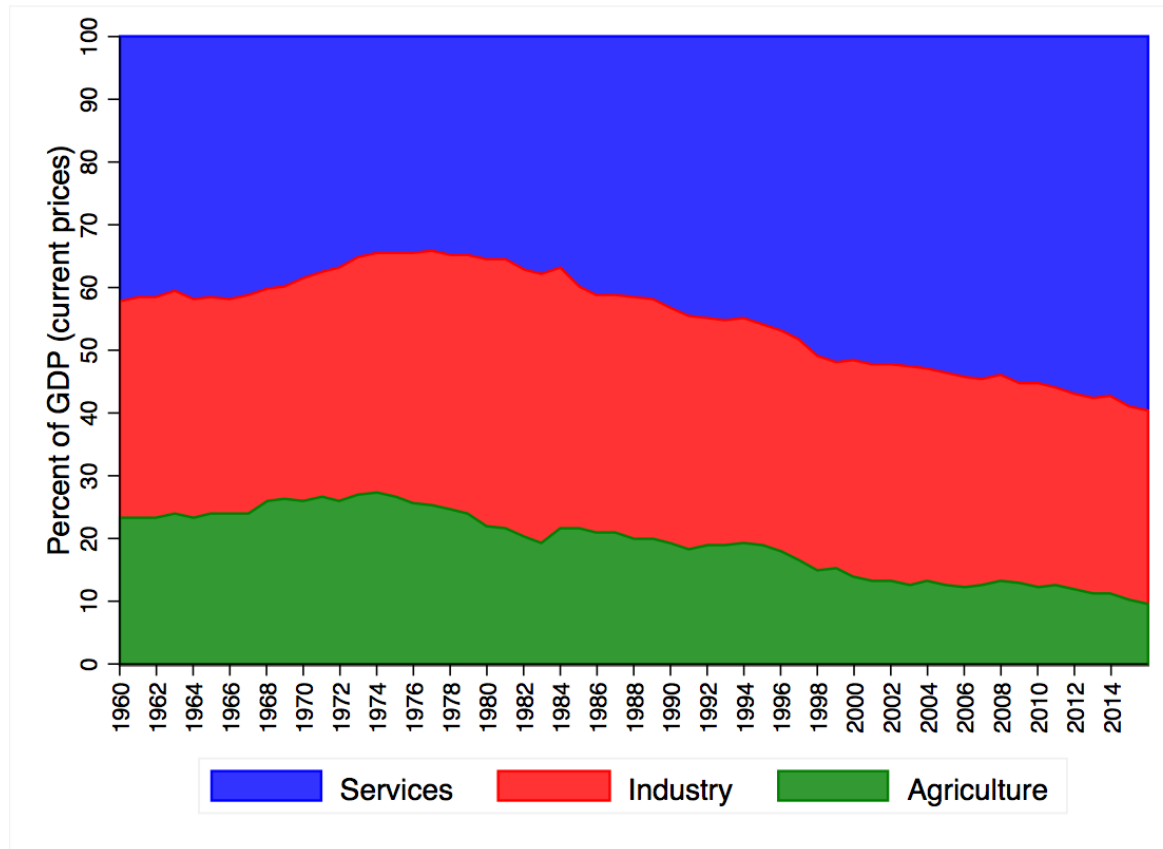
Missed out on mass East Asian, labour-intensive style industrialization; with some exceptions.

Mineral prospectivity under-exploited.

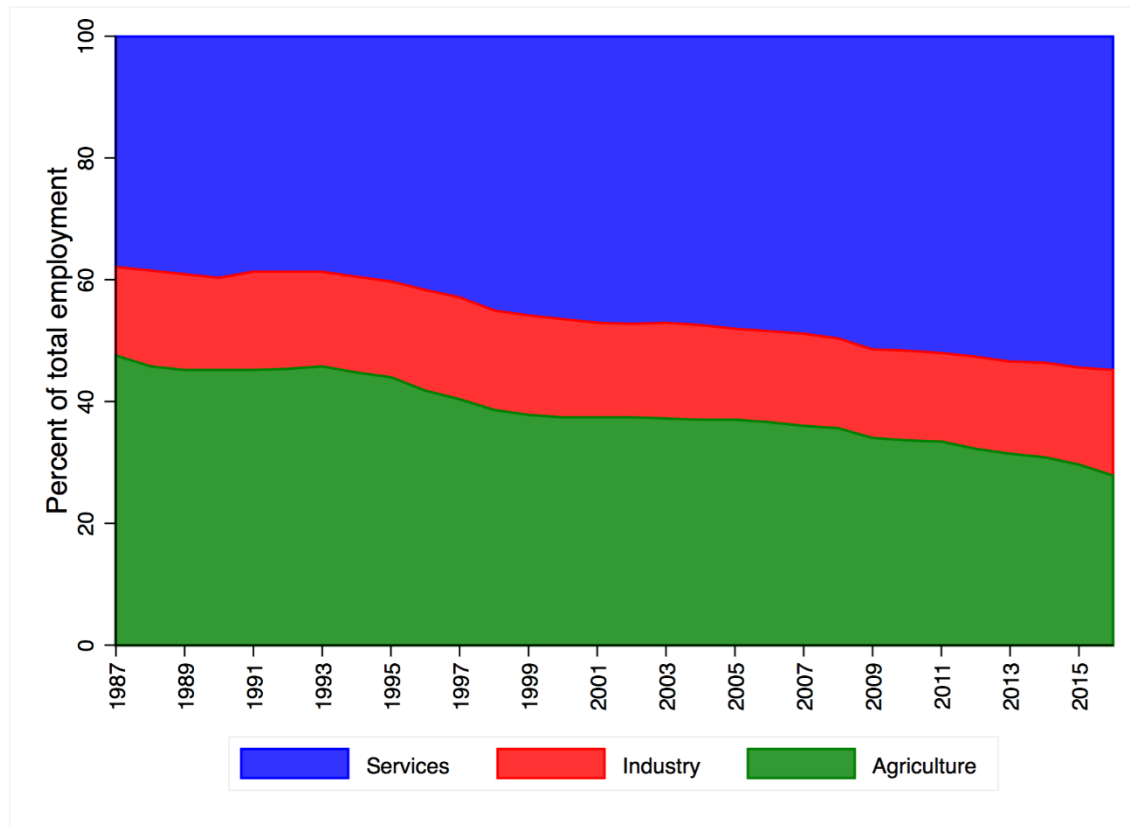
Hence services the main sectoral growth driver, ranging from 'last-resort' employment to dynamic modern-sector BPO's. BPO's the most important (and arguably accidental) growth dynamic since 1990's.

Hence also unusual export composition. Eg, 2015, merchandise exports \$58B; remittances \$27B; BPO's \$22B.

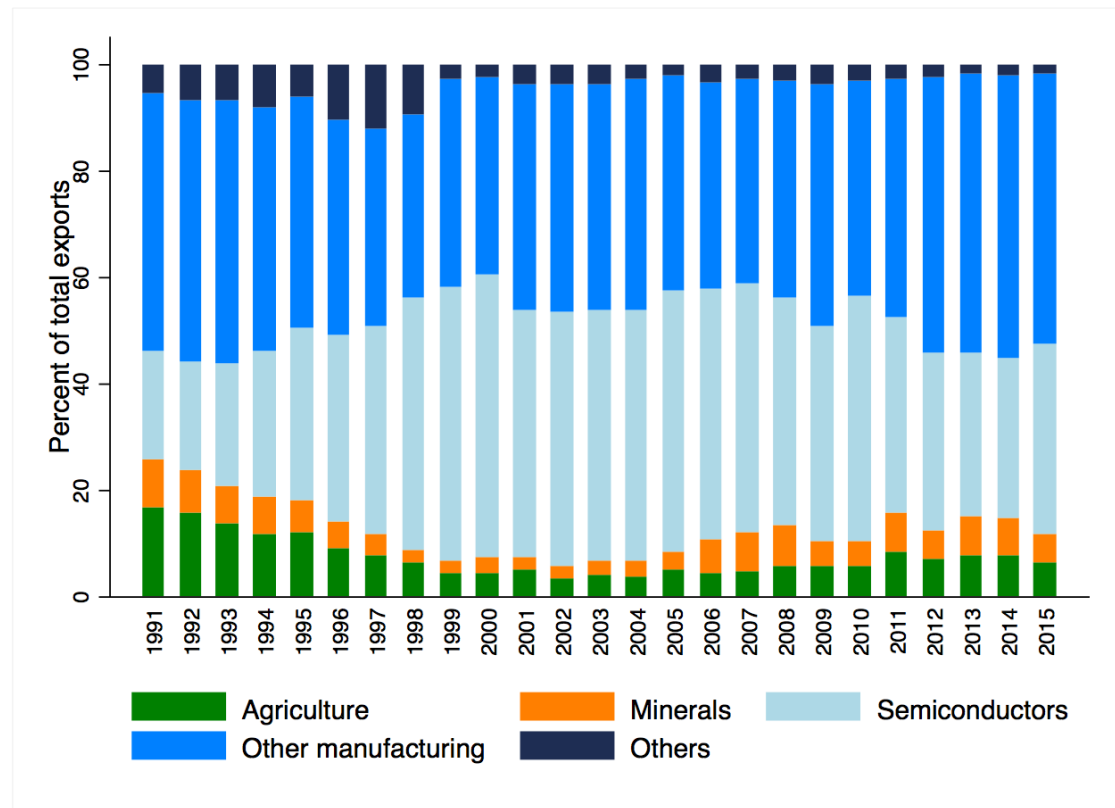
Sectoral Share of GDP, 1960-2015 (%)



Sectoral Share of Employment, 1987-2015 (%)



Export Shares, 1991-2015 (%)



3. Major Macroeconomic Reforms

The most important economic policy legacy from the 1980's crisis: establishment of high-quality central bank in 1993, the BSP. Successful transition to floating rate and inflation targetting regimes.

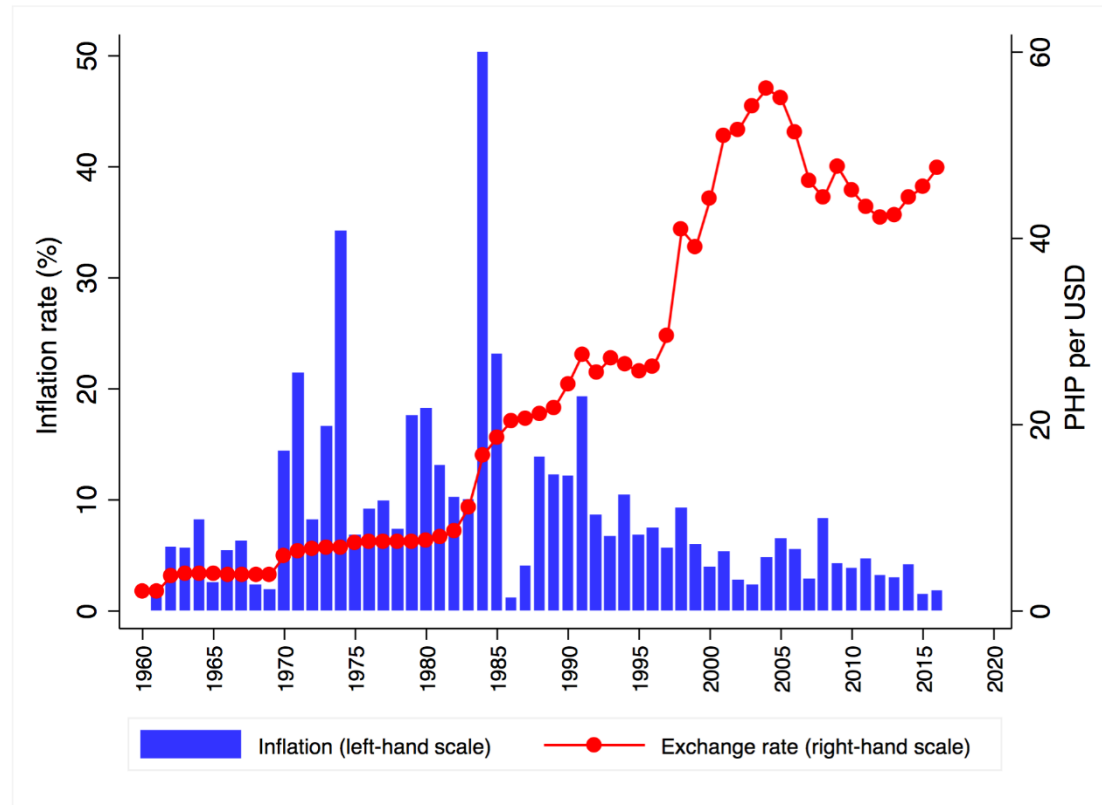
Replaced periodic boom and bust balance of payments episodes, which were largely conventional crises – fiscal profligacy, monetized, reluctance to depreciate, uneconomic investments.

No serious BoP crisis since the early 1990's, in spite of much external and internal volatility.

The Peso as a 'shock absorber'.

Financial supervision also greatly improved.

Inflation and the Exchange Rate, 1960-2016



4. Gradual but Partial Liberalization

Gradual, partial liberalization, especially for manufactures, reversed earlier anti-agriculture bias.

Interesting political economy story, extensively documented: analytical foundations (UPSE); neighbourhood effects; accommodating exchange rate; eventual bipartisan political support; low-key external support.

Some notable successes, especially participation in GPN's (see export shares), but:

- Missed out on 1980's industrial relocation from Japan, NIE's to Southeast Asia.
- Overshadowed by China dominance from 1990's.
- Incomplete reforms, as noted.

Continuing restrictive policies towards FDI, some services, and labour inflows (even though the country is the fourth largest remittance-recipient).

Comparative Economic Openness

	(X+M)/GDP	Stock FDI/GDP	MFN ave. Tariff	Economic Freedom Index
Indonesia	42	25.6	6.9	62
Philippines	63	19.9	6.3	66
Malaysia	134	40.0	6.1	74
Thailand	127	44.8	11.0	66

5. Infrastructure Deficit

Long-term under-investment in all forms of infrastructure, investing about half the high-growth East Asian norms as % of GDP. Serious implications for efficiency, equity and environmental amenities.

A subset of the general investment environment. In addition to specific determining factors:

- Long gestation periods, spanning single-term presidencies; fear of policy reversals.
- Large government role, both as provider and regulator. State of public finances and independent (public interest) regulatory capacities therefore important.
- Large infrastructure projects as potential sources of corruption; complex litigation cases.
- Difficult to set market benchmarks for evaluation; regulating natural monopolies.
- Coordination across multiple jurisdictions, especially after 1992 decentralization.

Additional challenges of archipelagic geography and prolonged conflict in Mindanao.

Global Infrastructure Competitiveness Ranking of Selected Southeast Asian Countries, 2015–16

Indicator	Philippines	Singapore	Malaysia	Thailand	Indonesia	Viet Nam
Quality of Roads	97	3	15	51	80	93
Quality of Railroads	84	8	13	78	43	48
Quality of Ports	103	2	16	52	82	76
Quality of Airports	98	1	21	38	66	75
Quality of Electric Supply	89	3	36	56	86	87
Fixed Telephone Connectivity	108	29	73	88	80	100
Mobile Telephone Connectivity	76	14	24	31	49	28
Overall	106	4	16	71	81	99

Source: World Economic Forum (WEF). 2015. *The Global Competitiveness Report 2015–2016*. Switzerland: WEF.

6. Continuing but Shrinking Educational Advantage

Historical headstart in education (see comparative indicators), plus widespread English-language fluency gave the country a strong comparative advantage in semi-skilled activities – overseas employment, BPO's, health services, education, entertainment, etc.

But the educational advantage is shrinking: other countries catching up; Philippine public investment waning; under-performance also highly correlated with socio-economic status and lagging regions.

Also missed out on the opportunity to become a major regional hub for higher education.

Though continues to perform comparatively well on gender equity.

Health indicators were never so relatively advanced, and the Philippine record has been mixed.

Limited public spending, not well targeted, decentralization adversely affected poorer regions.

Educational attainment rates, age 25-54, all levels, selected Asian countries (%)

Economy	Primary	Secondary	Tertiary
Cambodia	82.5	33.2	2.1
China	97.9	77.3	8.4
India	70.1	48	10.7
Indonesia	97.8	61.1	11.1
Korea, Rep. of	99.8	98.5	43.9
Lao PDR	100	98.2	22.3
Malaysia	95.9	83.6	19
Philippines	98.3	75.9	29.3
Thailand	95.8	51.9	20.5
Vietnam	94.7	38.2	6.2

Source: World Economic Forum, Human Capital Report 2015

Disability-adjusted life expectancy in selected countries, 1990 and 2013

Area/Country	1990		2013	
	Male population	Female population	Male population	Female population
Global	55.4	58.51	60.59	64.13
OECD	62.86	67.18	67.34	70.67
ASEAN	55.83	59.78	62.05	66.28
Brunei Darussalam	65.11	67.12	68.8	70.97
Singapore	65.26	68.49	70.75	73.35
Cambodia	39.74	47.15	54.62	60.23
Indonesia	56.2	59.01	61.33	64.51
Lao PDR	47.82	50.26	56.48	59.74
Malaysia	62.4	65.99	64.09	68.89
Myanmar	49.78	52.71	57.55	61.97
Philippines	54.96	62.28	58.76	64.59
Thailand	61.38	66.07	64.3	69.2
Viet Nam	55.6	58.75	63.77	69.33

Note: - OECD = Organization for Economic Co-operation and Development;
 - ASEAN = Association of Southeast Asian Nations; Philippines ranks 8th of 10 ASEAN countries.

Source: Institute for Health Metrics and Evaluation, 2010.

7. Narrow Growth

Colonial/agrarian origins and little effective redistribution policies (with partial exception of education, agriculture in earlier periods) resulted in continuing high levels of inequality.

Hence poverty less responsive to growth than neighbours.

Combined with slower growth, poverty has declined slowly. Underlying factors:

- Lack of agricultural dynamism since the 1980s.
- Limited large-scale labour-intensive industrialization.
- Labour regulations discouraged formal sector employment in the democratic era.
- Insufficient investments in 'egalitarian' public education and health.
- Few explicit redistribution measures: CARP limited; not much tax progressivity; CCT's hopeful.

Note also:

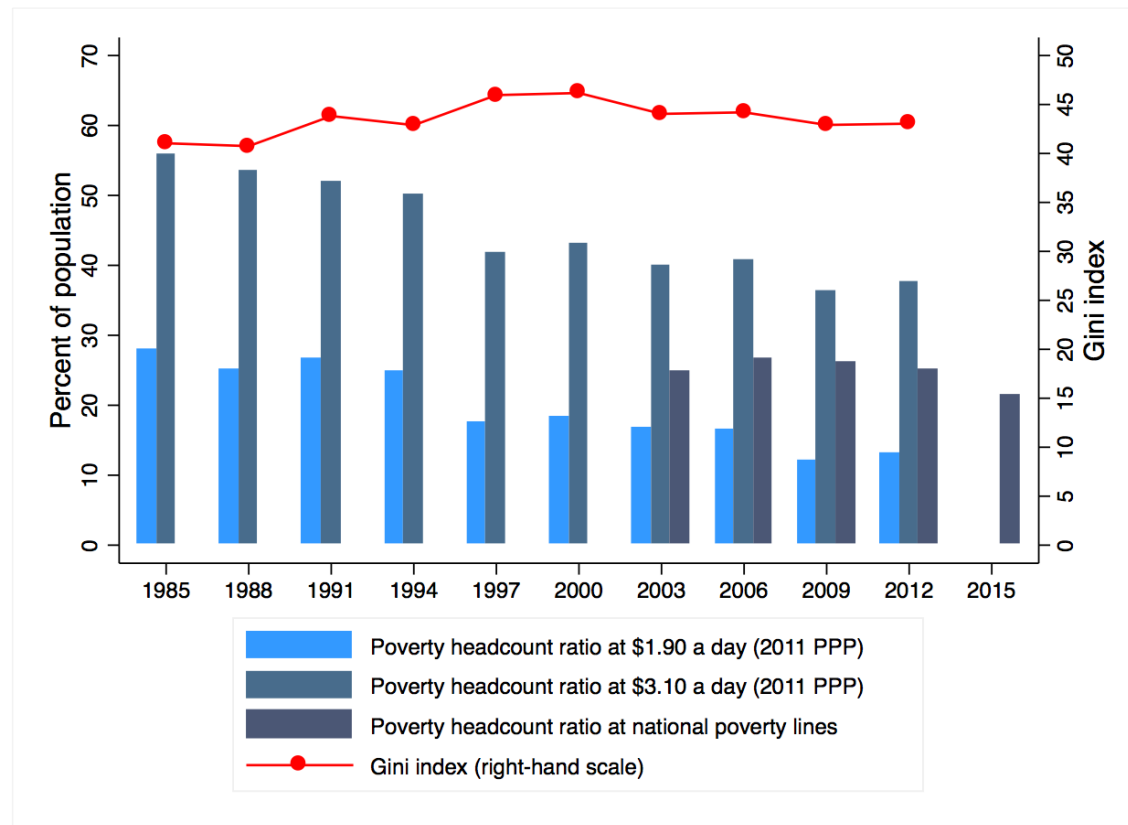
Gender inequality comparatively modest by developing country standards.

Spatial inequality very high; exacerbated by interaction between deprivation and conflict, especially in ARMM (Mindanao). Huge gap between Greater Manila and poorest regions.

High levels of business concentration; debates about extent of mobility/startups.

Poverty and Inequality, 1985-2015

Figure 8 –



8. Institutions: Progress and Complexity

Political reform since 1986 has proceeded faster than other forms of institutional reform.

Regular six-year national elections; ranks highest in ASEAN on democratic freedoms along with Indonesia; generally open media (with qualifications); significant decentralization in 1992.

But very slow reform of the bureaucracy, legal system, police, checks on corruption, etc.

See comparative indicators.

President Duterte's war on drugs illustrative of weak checks on executive authority.

Note also:

- Implications of presidential power (including appointments) and one-term presidencies.
- Oligarchs and dynasties; especially at the local level.
- Inside the bureaucracy: from job buying to international excellence.

Percentile rank of Worldwide Governance Indicators Scores of ASEAN countries, 2005 and 2014

Country	Government Effectiveness		Voice and Accountability		Control of Corruption	
	2005	2014	2005	2014	2005	2014
Singapore	99	100	51	45	98	97
Malaysia	84	84	43	37	63	68
Brunei Darussalam	70	82	24	29	62	72
Thailand	67	66	46	26	54	42
Philippines	56	62	49	53	35	40
Indonesia	39	55	45	53	20	34
Viet Nam	49	52	9	10	25	38
Lao PDR	10	39	6	...	7	25
Cambodia	17	25	19	18	10	13
Myanmar	3	9	1	17

Country	Political Stability		Regulatory Quality		Rule of Law	
	2005	2014	2005	2014	2005	2014
Singapore	87	92	100	100	96	95
Malaysia	65	59	69	76	66	75
Brunei Darussalam	92	95	76	80	59	70
Thailand	22	17	65	62	55	51
Philippines	13	23	51	52	42	43
Indonesia	7	31	31	49	25	42
Viet Nam	62	46	28	30	46	45
Lao PDR	30	61	9	21	13	27
Cambodia	35	45	35	37	11	17
Myanmar	20	12	1	6	2	9

Source: World Bank's Worldwide Governance Indicators

Institutional and business indicators

Country	Ease of doing business, 2016 (rankings: 1-190)	Stock of FDI, 2015 (% of GDP)	Corruption perceptions index, 2016 (rankings: 1-176)	Logistics performance index, 2016 (rankings: 1-160)
Indonesia	91	25.6	90	63
Malaysia	23	40.1	55	32
Philippines	99	19.9	101	71
Thailand	46	44.8	101	45

Source: - <http://www.doingbusiness.org/Rankings>
- <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>
- http://www.transparency.org/news/feature/corruption_perceptions_index_2016
- <http://lpi.worldbank.org/international/global/2016>

Summary

At the crossroads: will the strong recent growth be maintained given the past history of sometimes volatile domestic politics and in an uncertain global environment?

Important to keep in mind progress to date. Eg, perspectives from the early 1980s:

- How to reinvigorate the economy.
- How to improve macroeconomic management.
- How to achieve trade liberalization.
- How to overcome entrenched inequality.
- How to break out of the authoritarian politics.

Very significant progress on all these, except for inequality.

Summary (cont)

Duterte administration and markers for the future:

Economic momentum thus far maintained.

Effectively adopted most of the previous administration's policies.

Highly controversial presidential politics, especially the war on drugs.

Will polarized politics affect the business climate? Not so far.

Markers:

Presidential economics appointments – so far quite encouraging.

Fiscal space – highly constrained, no major progress on tax bills.

Federal system of governance?

Resolving Mindanao conflict; the lawless region of ASEAN?

Reforming food policy – no progress so far?

International relations – China, US, EU, etc.