Philippine Economy: Moving Forward

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Over the years, the economy of the Philippines has been through a roller coaster turnaround and rapid transformation. According to Sec. Arsenio M. Balisacan (2014), Philippines was once known as "the sick man of Asia", but it is now one of the fastest growing economies in the region. Amidst the devastation of the Super Typhoon Haiyan in November 2013, the economy is steered to becoming Asia's next rising star posting economic growth of 7.2% in 2013.

Overall, the development of the country boosts not only its rising GDP, but more so, improving human welfare catering to multidimensional aspects such as health, education, and standards of living. As cited by Mahbub – ul – Haq (1934 – 1998), the founder of the Human Development Report, the objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives. Indeed, human development is concerned with …. advancing the richness of human life, rather than the richness of economy in which human beings live… (Amarta Sen, Nobel Laureate in Economics, Harvard University, 1998).

Looking into the key development outcomes and challenges, it can be deduced that there is a big promise for the country to boost its current economic condition, but there is so much to be done. While the country has enjoyed remarkable growth, there is still a high level of inequality and a large proportion of the population is still living below the poverty line. The big challenge is to reduce poverty and to create employment opportunities. "The updated Philippine Development Plan provides the framework and strategy for ensuring that our growth is sustainable and that it comes with strong job creation and poverty reduction."

Based on the updated plan framework of the country, the expected outcomes for inclusive growth are the following: national security, good governance, and ecological integrity. These can be achieved if there is poverty reduction in multiple dimension vis-à-vis massive quality employment creation. There is a dire need for equal development opportunities along with sustainable and climate – resilient environment. To achieve national security, focus should be geared towards enhancement of science, technology, and innovation; modernizing infrastructure, and the development of education, skills and health workforce. For good governance, macroeconomic stability is salient which would cascade to competitiveness of productive sectors and accessibility to financing yielding to investments and market demands thereby opening job placements. On the whole, there is a need for ecological integrity to ensure that whatever investments the government has shall be shielded.

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Secretary Balisacan explained that the Philippines has managed to achieve a remarkably solid level of growth for the last couple of years despite the downside developments in the global economy, as well as domestic challenges, particularly natural disasters such as Super Typhoon Haiyan. The country is well on its way to achieving its development targets for 2016. He further states that, "We are aiming for an average of 7 to 8% growth for the whole six – year term of President Aquino. This we achieve with strong macroeconomic fundamentals—healthy fiscal and external balances, price stability, etc. We expect to achieve as well significant improvements in social outcomes, especially in health, education, and social protection."

As it is, there are key constraints or challenges to growth which include: huge backlog in infrastructure and human capital development; weak and fragmented regulatory systems; high vulnerability to natural disasters and extreme events; and conflicts and human insecurity, especially in Mindanao (Asian Development Bank, 2007).

As reported by the Asian Development Bank (2009), the main causes of poverty in the country include the following: low to moderate economic growth for the past 40 years; low growth elasticity of poverty reduction; weakness in employment generation and the quality of jobs generated; failure to fully develop the agriculture sector; high inflation during crisis periods; high levels of population growth; high and persistent levels of inequality (incomes and assets), which dampen the positive impacts of economic expansion; and recurrent shocks and exposure to risks such as economic crisis, conflicts, natural disasters, and "environmental poverty."

What then are the lessons learned from Philippine development experience in the past 30 years, as well as from international development experience? The Philippines graduated to "middle-income" status in 2009, following in the footsteps of its more prosperous neighbors Thailand and Malaysia. But to reduce poverty to the relatively low levels seen in Thailand and Malaysia, Secretary Balisacan believes that the Philippines needs to maintain stable economic growth for decades to come, as its aforementioned neighbors have done.

"These two countries have achieved high levels of economic growth generally sustained for three to four decades. In contrast, we have been growing at the standard of our neighbors for just a couple of years. To ask for our poverty level to be comparable with our neighbors without us having a long history of economic growth and social investment is asking for miracle. What we do is that we facilitate the creation of growth opportunities, keep the growth at a high level in the next ten to twenty years, and sharpen the links between growth and poverty reduction."

According to Balisacan and Hall (2003) Economists answered this question by focusing on policy weaknesses. Political scientists highlight flaws in the structure of government, both during and after the Marcos period. Sociologists draw attention to the power of vested interests, rooted in the highly inequitable colonial past. Others simply point to extraordinary misfortune.

Specifically, in the book "The Philippine Economy", the following challenges to development in the past decades are highlighted:

Brain Drain. The Philippines is obviously well endowed with human capital, but an uncomfortably high proportion of its best and brightest aspire to employ their talents abroad, often never return. With the offering of the K-12 program, brain drain might be solved. Expectedly, the country needs to expand its job creation and open industries so graduates can be accorded better employment. With the ASEAN integration, there can be massive trade of expertise from peoples around the ASEAN and even the globe.

Oligarchs. Simbulan's study has found that several wealthy families based on land had diversified interests in industry. His study mentioned such names as the Elizaldes, Lopezes, Madrigals, Aranetas, Cojuangcos, Osmeñas, Jacintos, de la Ramas, Zobels, Sy Cips, Sorianos, and Ayalas – names composing the Constellation of the political and economic oligarchy (Doronila, 1992). Recently, there has been an influx of small scale and medium scale enterprises supported by government offices such as the DTI, DOST, TESDA, and CDA among others. Accountancy, Business and Management (ABM) and skilled work are tracks of the K-12 program which would open doors for more entrepreneurs in the country.

"Lost decade" of the 1980s. During those years, political and an economic crisis set in. It was triggered by the assassination of former opposition leader Benigno Aquino in August 1983. Ferdinand Marcos was deposed after 20 years of rule. There were high oil prices due to the Gulf War in 1980s. It created oil push-inflation in the prices of commodities. Meanwhile, for the last few years, prices of oil and commodities have been stabilized.

Large Overseas Borrowings. From the mid-1970s the Marcos administration embarked on strategy of aggressive overseas borrowing. According to Balisacan and Hill (2003), this strategy was unsustainable since the funds were generally not invested productively. Currently, it is amazing to note that the country is able to maintain payment of foreign debts and even allow other nations to loan from the funds of the Philippines. In fact, recent reports show under spending of the country which can be deduced that it has enough funds to sustain its needs.

Coup. A succession of coup attempts in the early 1990s. These somehow discouraged foreign investors and lowered down the value of peso over dollar. It weakens the stability of the government and affects the economic operation of the country. Indeed, there is a need to stabilize peace and order situation in our country because this would affect economic growth especially on its impact to tourism.

Natural Disasters. Some particularly destructive natural disasters (especially the eruption of Mt. Pinatubo in 1991) and a very serious drought in 1990s. Currently, the country has been ravaged with numerous disasters: typhoon, tsunamis, earthquake, and conflagration. Purportedly, intensive efforts have been done to combat horrific aftermaths of these disasters. In the last few years, there have been very strong linkages with private and public establishments here and abroad.

Removal of U.S. Military Bases. The removal of U.S. military bases in 1992 must have affected the tourism of the country which is one of income generating agencies of our country. Although there are negative effects with the presence of the US Military Bases in the country, there can also be potential benefits for the economy of the country.

Power Shortage. A chronic and severe power shortage during the Ramos Administration must have caused crises. Recent development in power supply shows that the country has better condition.

Regional Economic Crisis. Regional economic crisis of 1997 – 98. Agricultural sector was the most affected. Recently, agriculture, manufacturing, and services have been given much attention as perceived significant areas for economic boom of the country.

Poor Leadership. There was a widespread disenchantment with the administration of President Estrada (1997 – 98). Estrada's cabinet was known for "midnight cabinet - drinking sessions presided over by Estrada himself (Tordesillas 2000). The president was also known to be the head of a national syndicate running an illegal numbers game (jueteng). This eventually resulted in his removal from office in January 2001. Estrada was followed by President Macapagal – Arroyo who also faced scams and later jailed. Even the incumbent president who bannered for "Matuwid na Daan" is stoned with issues of corruption and malpractices.

Political Instability and Lack of Security. Political instability and lack of security (among the Philippine Chinese community, for instance) have no doubt contributed at the margin. This continues up to the present time.

Poor Infrastructure and Security. It held back growth in the tourism sector. With the elimination of the PDAF, the government might have better procurement processes for capital outlays.

Ineffective Trade Policies. Shortly after the borrowing commenced, the country experienced a large negative shock in the terms of trade.

Weak Leadership in Economic Matters. Gerardo P. Sicat and Rahimaisa D. Abdula (Chapter 4) pointed out that Growth in public expenditure has largely been constrained by the scarcity of fiscal resources. Recently, the government has enough funds to sustain the needs of the country.

Neglect of Land Reform Program. Emmanuel S. de Dios and Paul D. Hutchcroft (Chapter 2) make it clear that land reform was not a major priority of the Ramos administration (1992 – 98).

Asian Financial Crisis of 1997. Maria Socorro Gochoco – Bautista and Dante Canlas (Chapter 3) described how the Asian financial crisis affects the Philippine economy, which was triggered by the sharp depreciation of the Thai baht in the second half of 1997.

Poverty has been persistently high based on the lesson of recent economic history: structural transformation drives poverty reduction. From East Asia's experience, there has been rapid and sustained growth in the last 3 – 4 decades which may be due to the shift of employment from agriculture to industry and services, facilitated by robust agricultural productivity growth. Philippines had a very low growth for most of post 1970s due to poorly performing agriculture, and the industry, particularly manufacturing, was saddled by high production costs and low productivity.

Year 2000 was considered to be a lost decade owing primarily to low income growth and to the high inequality of access to employment and social development opportunities. The country had a very weak performance in poverty reduction relative to its neighbors. Poverty reduction has been slow over time, though recent gains have been made. Similarly, self – rated hunger has somehow been abated in recent years.

Employment has been a big challenge. Although recently, about one million new employments were generated in the last two years; quality of jobs is improving with rising share of wage and salaried workers in total employment.

Over the last three years of implementation of the PDP, there have been evident developments perceived according to Balisacan (2015). Good governance is an effective platform for the strategies' implementation. Macroeconomic and political stability fuel positive expectations leading to growth. Economic growth is necessary but not sufficient for poverty reduction. Growth strategies need to have spatial and sectoral dimensions to ensure inclusivity. Disasters can negate gains and even push back development.

There are certain priorities to address the key constraints to economic growth and sustainable economic development of the country. As delved on the classical theories of development, these can be the priorities to address the key constraints to economic growth and sustainable development: linear stages of growth; structural change; and international dependence.

It is perceived that in linear stages of growth, shortage of capital is seen as a cause of underdevelopment of poorer countries. As written by Walt W. Rostow (1960), there are five stages of economic growth: traditional society which focuses on subsistence living and agriculture; preconditions for take-off which highlights specialization, capital formation, surpluses, and structural shift; take-off stage focused on industrialization, investment growth, and political change; drive to maturity which looks into diversification, innovation, and less import reliance; and high mass consumption where it's consumption-oriented, durable goods, and dominant services.

In structural change or transformation, it is a mechanism by which economies transform from heavy emphasis on subsistence agriculture to industry and manufacturing services. To understand why some countries are rich or poor, people must understand the forces shaping the allocation of resources between agriculture, industry, and services (W Arthur Lewis, 1954; Fei and Ranis, 1961).

For international dependence, its essence is that developing countries are beset by institutional, political, economic rigidities locally and internationally, leading to power play with developed countries. The three strands include: neocolonial dependence model, false – paradigm model, and dualistic – development thesis. As stressed by Hausmann – Rodrik – Velasco (2008), different countries are held back by different things. As quoted by Anna Karenina, "Happy families are all alike; every unhappy family is unhappy in its own way." However, these are crucial points for international dependence: economic growth is the "most direct route" to achieving improvements in social and human indicators; one-size-fits-all policies applied to all countries are unproductive since different countries face different opportunities and constraints; and since government face administrative and fiscal constraints, resources should be targeted to policies addressing the most binding constraints to growth, rather than to all possible policies.

In a nutshell, the key to poverty reduction is job creation. According to Balisacan (2014), the government has an ambitious plan to create "high quality jobs" by revitalizing the manufacturing sector, expanding tourism into new areas, linking small agriculture producers with the high value and global-supply chains, and creating a sound environment for massive investment in infrastructure and logistics. In addition, it endeavors to maintain our position as a world leader in Business Process Management (BPM) and call – centers".

Verily, public-private sector coordination plays a potent role to polevault national development. Private consumption, on the demand side, and services, on the supply side, have been the main drivers of growth. This growth is fuelled partly by the Overseas Foreign Workers' remittances which comprise over two-thirds of the GDP and services which composes over one-half of GDP. On the demands side, there is a need to drive for investments and net experts. While on the supply side, it is important to drive resurgence if industry, particularly manufacturing and revival of agribusiness. These initiatives are now intensified partnerships of private and public sectors. Some corporations are now partly managed by private corporations to improve delivery of services. Worldwide, our country has been popular to be engaging into PPP especially after the onslaught of disasters where the nation needed strong support.

Based on the Philippine PPP Program and the Role of the PPP Center (Elcazar E. Ricote, 2015), there is an institutional evolution of the PPP Center which is involved in every part of the project cycle, ensuring that projects are bankable, transparent and advancing public interest. A revolving pool of funds is made available to enhance the investment environment for PPP and to develop robust pipeline of viable and wellprepared PPP infrastructure projects. "In the ASEAN region, Philippines ranked highest in terms of PPP readiness…" (Infrascope Study, 2001). The ranking criteria looked in the legal and regulatory framework, institutional framework, operational maturity, investment climate, financial facilities, and sub-national adjustment factor. Indeed, Philippines was the lone ASEAN entry to Partnerships Award in 2013. To date, there have been critical steps to promote PPP programs: project identification, selection, and prioritization project management and improvement measures; legal and regulatory framework enhancements; project and contract monitoring and evaluation, and capacity development interventions….

Economic growth has gone through boom and bust cycles, and recent episodes of moderate economic expansion have had limited impact on the poor. Great inequality across income brackets, regions, and sectors, as well as unmanaged population growth, are considered some of the key factors constraining poverty reduction efforts (Asian Development Bank, 2009).

During the poverty reduction conference, Sec. Arsenio Balisacan, director-general of the National Economic and Development Authority (Business World, September 23, 2015), said previous conferences have highlighted the importance of developing agriculture and manufacturing, but the task at hand has shifted towards "pursuing the necessary policy tools and interventions that are focused on improving the country's long-term competitiveness."He stressed for the development of a "strategic industrial policy to improve industries' competitiveness and productivity and continuous increase in investments in human capital development, especially in health, education, and social protection." Pursuing such measures "will enable us to enhance the productivity of our people and our economic sectors, which in turn, influence income levels, returns to investment, and growth potential."

As depicted in the Consultation Draft for the International Framework (2013), the public sector plays a major role in society. In most economies, public expenditure forms a significant part of gross domestic product (GDP) and public sector entities are substantial employers and major capital market participants. The public sector determines, usually through a political process, the outcomes it wants to achieve and the different types of intervention. These include enacting legislation or regulations; delivering goods and services; redistributing income through mechanisms such as taxation or social security payments; and the ownership of assets or entities, such as state owned enterprises. Governments also have a role in promoting fairness, peace and order, and sound international relations. Effective governance in the public sector encourages better decision making and the efficient use of resources and strengthens accountability for the stewardship of those resources. Effective governance is characterized by robust scrutiny, which provides important pressures for improving public sector performance and tackling corruption. Effective governance can improve management, leading to more effective implementation of the chosen interventions, better service delivery, and, ultimately, better outcomes. People's lives are thereby improved. Characteristics of the public sector In order to fulfill its wide range of functions, the public sector must satisfy a complex range of political, economic, social, and environmental objectives. This subjects it to a different set of external and internal constraints and incentives from those in the private sector, all of which affect its governance arrangements. Generally, the main objective of public sector entities is to achieve outcomes—enhancing or maintaining the well-being of citizens – rather than generating profits. Public sector entities often: have a coordinating and leadership role to draw support from or foster consensus among all sectors and society; possess the power to regulate entities operating in certain sectors of the economy to safeguard and promote the interests of citizens, residents, consumers, and other stakeholders and to achieve sustainable benefits; and undertake activities on a basis other than by fair exchange between willing buyers and sellers because they have the ability to exercise sovereign powers. For example, pursuing social policies may sometimes call for issues of equality and fairness to be given greater weight than financial performance. Financing public sector activities also has an important impact on governance: the principal source of revenue for governments and, indirectly, many other public sector entities is generally taxation; taxation and other income streams are often separate from, and have little causal relationship with, expenditure and service streams; public sector services may be provided in a non-competitive environment because alternative providers often do not exist, and the bottom line does not normally determine the types of goods and services to be provided; and service recipients, unlike consumers in the private sector, may have little or no option to use a different service provider or to withhold payment. Stakeholders are therefore interested in issues such as (a) whether the planned outputs have been delivered and outcomes achieved, and (b) whether this has been done in an efficient, economic, effective, and equitable manner. They will also be interested in maintaining the entity's capacity, as reflected, for example, in the entity's financial performance and financial position at year end. Public sector entities should, therefore, be highly transparent, and provide high quality information about all aspects of performance.

Moreover, governing the public sector for sustainable development is essential for national development. As cited by Secretary Balisacan, "One key feature of the Philippine economic performance during the past half-century is the regularity of boom-bust growth, i.e., a period of economic boom followed by a crisis." He added that "The economic and political fundamentals required to sustain economic growth were missing every time we had economic growth. We believe now it's different. President Aquino's economic management and governance reforms, particularly his fight against corruption, have created a favorable climate for investment and sustainable growth."