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THE PHILIPPINE ECONOMY

No Longer the East Asian Exception?

EDITED BY
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Contents

List of Figures vii
List of Tables xiii
Foreword by Arsenio M. Balisacan xix
Preface xxv
About the Contributors xxvii

1. The Philippine Economy: An Overview 1
   Ramon L. Clarete, Emmanuel F. Esguerra and Hal Hill

2. Economic Growth and Poverty Reduction 53
   Ramon L. Clarete

3. Infrastructure and Urbanization 112
   Arturo G. Corpuz

4. Education and Training 151
   Winfred Villamil

5. Universal Health Coverage, Health Security and
   Resilient Health Systems 190
   Eduardo Banzon and Beverly Lorraine Ho

6. Environmental Resources, Shocks and National
   Well-Being 231
   James Roumasset, Majah-Leah Ravago, Karl Robert Jandoc
   and Clarisa Arellano
   Majah-Leah Ravago, Raul Fabella, Ruperto Alonzo, Rolando Danao and Dennis Mapa
   269

8. Development Finance
   Gilberto M. Llanto
   324

9. Governance and Institutions
   Ronald U. Mendoza and Rosechin Olfindo
   375

Index
   419
Figures

1.1 Philippines, GDP Growth, 1960–2016 21
1.2 Philippines, % of GDP from A, I, S Sectors, 1960–2016 (current prices) 23
1.3 Philippines, % of Employment from A, I, S Sectors, 1987–2016 (current prices) 25
1.4 Philippines, Export Composition, 1960–2016 (% of total) 26
1.5 Philippines, Annual Inflation Rate and Peso/Dollar Exchange Rate, 1960–2015 28
1.6 Philippines, Poverty and Inequality 29
2.1 GDP Annual Growth Rate of the Philippines, 1961–2016 (%) 55
2.2 Sector Shares in Gross Domestic Product, 1961–2014 (%) 59
2.3 Sectoral Composition of GDP in Selected Asian Countries (%) 60
2.4 Employment Share by Sector, 2006–14 (%) 62
2.5 Labour Unemployment and Underemployment, Philippines, 2006–14 (%) 63
2.6 Average Labour Productivity in the Philippines by Sector, 2010–14 (‘000 Pesos) 64
2.7 Average Annual Aggregate Labour Productivity Growth and Decomposition in Selected ASEAN Countries, 1980–2007 65
2.8 Average Growth of Labour Productivity in Selected Countries, 1991–2000 68
2.9 Share of Capital Formation to GDP in Selected Countries, 1991–2014 (%) 69
2.10 Accumulated Net FDI Inflows in Selected Countries, 1970–2013 ($ billion) 71
2.11 Annual FDI Inflows in Selected ASEAN Countries, 1990–2014 ($ billion) 71
2.12 Trade Openness of Selected Asian Countries, 1991–2014 (% of GDP) 73
2.13 Rice Yield and Per Capita Rice Area Harvested, ASEAN Countries, 2000–13 78
2.14 Crop Area Harvested in the Philippines, 1961–2013 (MH) 79
2.16 Unemployment by Age and Poverty Incidence of Employed Persons, Philippines, 2006–13 (%) 86
2.17 Unemployed and Underemployed Persons, by Educational Attainment, Philippines, 2006–13 (%) 87
2.18 Poverty Incidence of Employed Population, Philippines, 2006–12 (%) 88
2.19 Gini Ratio by Area, 2003–12 89
2.20 Poverty and Income Growth, Eighty Developing Countries, 1980–2007 92
2.21 Poverty and Income Growth in Developing Countries That Reduced or Increased Income Inequality, 1980–2007 92
2.25 Total Factor Productivity Growth Scenarios, Philippines, 1995–2040 (%) 99
Figures

2.26 Observed and Simulated Growth Scenarios of GDP, Philippines, 1995–2040 (billion pesos at 2000 prices)

2.27 Observed and Simulated Growth Scenarios of Per Capita GDP, 1995–2040 (pesos)

2.28 Structural Transformation, Weak vs. Strong Growth Scenarios

2.29 Scenarios of Eradicating Poverty, Philippines, 2015–40

3.1 Relationship between GDP per Capita and Urban Population Size in Selected Asian Countries

3.2 Relationship between GDP per Capita and Urban Population Size in Selected Asian Countries, with Japan, USA and Republic of Korea

3.3 Poverty Incidence in Selected ASEAN Countries, Selected Periods (%)

5.1 Schematic Representation of Financial Flows

5.2 Ranking of Burden of Disease, Selected Years

5.3 Mortality Rate for the Philippines, ASEAN and OECD Countries, 2003, 2008 and 2013

5.4 Infant Mortality Rate by Region and Income Quintile in Selected Countries, 2013

5.5 Health Expenditure by Source of Funds, 1991–2013 (%)

5.6 Budget of the Department of Health, 2007–14 (pesos)

5.7 Proportion of Households by Income Quintile Incurring Catastrophic Payments, Selected Years (%)

5.8 Proportion of Population by Socioeconomic Status Experiencing Illnesses and Visiting a Health Facility, 2013 (%)

5.9 Local Government Units Health Expenditure per Capita and Share to Total Expenditure by Region, 2011

5.10 Proportion of Patients Offered Generic Alternatives by Region (% of drugstores)

5.11 Total Hospital Beds and Bed Capacity per 10,000 Population, 1976–2012

6.1 The Environomy
6.3 Cost of Natural Resource Depletion and Environmental Degradation, 2000–2013 (million dollars at current prices)
6.4 Depletion and Degradation, 2003–13 (million pesos at constant 2000 prices)
6.5 Possible Scenarios on Depletion, Degradation and Green National Income, 2015–40 (billion pesos at constant 2000 prices)
6.6 Comprehensive National Income (CNI)
6.7 Natural Disaster Risk Management Framework
6.8 Relationship between Material Consumption and Environmental Amenities
6.9 The Economic Cost (Waste) of a Feed-in-Tariff
7.1 Electricity Tariffs in Selected Asian Economies (constant 2005 US$) (a) Residential and (b) Industrial
7.2 Manila Electric Company’s (Meralco) Breakdown of Tariff
7.3 Installed Capacity Mix by Share, 1991–2015
7.4 Luzon, Visayas and Mindanao Monthly Load Curve, 2013
7.5 Electricity Net Generation and Consumption Per Capita
7.6 Renewable Resources and Renewable Share to Total Energy
7.7 Renewable Resources and CO₂ Emissions
7.8 Strong and Weak Growth Scenarios of GDP per Capita, 2016–40
7.9 Strong and Weak Growth Scenarios of Electricity Consumption, 2015–40
7.10 Case 1 (Baseline constant fuel price) – Generation Price Projections
7.11 Case 2 – Generation Price Projection When Prices of RE Incorporate FIT Degression Rates (P/kWh)
7.12 Case 3 – Generation Price Projection with Annual Decrease in Average RE Prices by 3% (P/kWh)
Figures

7.13 Case 4 – Generation Price Projection with Annual Decrease by 8% in the Price of Solar and 3% in RE (P/kWh) 301

7.14 Case 5 – Generation Price Projection When All Fuel Prices Change Simultaneously (P/kWh) 301

8.1 Framework of Development Finance in the Philippines 325

8.2 Major Philippine Development Finance Flows, 2000–2013 (as % of GDP) 326

8.3 Tax Revenue to GDP Ratio in Selected Asian Countries, 1990–2013 (%) 327

8.4a Share of Direct and Indirect Taxes to GDP in Selected Asian Countries, 2002–13 (%) 330

8.4b Share of Direct and Indirect Taxes to GDP in Selected Asian Countries, 2014 (%) 330

8.5 Share of Philippine Financial Resources by Type of Institution, 2014 and 2015 (%) 335

8.6 Share of Philippine Financial Resources by Type of Institution, 2014 and 2015 (%) 340

8.7 Stock Market Transactions, 2006–14 (volume in million shares, value in million pesos) 344

8.8 Capital Raised to GDP Ratio, 2012 (%) 345

8.9 Sources of Small and Medium-sized Enterprise Financing in Selected Countries (%) 348

8.10 Number of PPP Projects and Amount of Investments, 1990–2014 357

8.11 Number of PPP Projects Reaching Financial Closure by Sector and Amount of Investments, 1990–2014 358

9.1 Framework on Governance, Institutions and Development 376

9.2 Philippines’ Scores in Governance Indicators, 2005–14 378

9.3 Philippines’ Scores in Global Competitiveness Index Basic Requirements, 2006–7 and 2014–15 380

9.4 Philippines’ Percentile Rank in Corruption Perception Index, 2005–14 382

9.5 Open Budget Index Scores of Selected ASEAN Countries, 2012 and 2015 383
Figures

9.6 Philippines’ Ease of Doing Business and Global Competitiveness Indices, 2010–15 385
9.7 The Role of Institutions and Governance in Achieving the Filipinos’ Vision by 2040 386
Tables

1.1 Comparative Socio-economic Indicators: “Initial Conditions”, ca. 1960 31
1.2 Comparative Socio-economic Indicators: “Initial Conditions”, 2015 33
1.3 Comparative Economic Growth 33
1.4 Comparative Institutional and Business Indicators 34
2.1 GDP Annual Growth Rates of Selected Asian Countries, 1961–2014 (%) 54
2.2 Weighted Contribution of Factor Inputs to Potential GDP Growth, 1989–2013 (%) 56
2.3 TFP Growth and Its Contribution to Output Growth in Selected Asian Countries, 1970–2012 (%) 58
2.5 Capital Accumulation Growth in Selected Countries, 1991–2014 (%) 70
2.6 Share of Net FDI Inflows to GDP (%) 71
2.7 Trade Intensities in Selected Asian Countries, 1991–2014 (%) 75
2.8 Net Trade for Various Food Groups, Averages A and B (US$ per capita) 76
2.9 Population Growth in Selected Asian Countries, 1960–2014 (%) 84
2.10 TFR in Selected Asian Countries, 1960–2013 (%) 84
2.11 TFR by Income Quintile, 2008 and 2013 Surveys (%) 85
2.12 TFR by Region, Philippines, 1998–2013 (%) 85
Tables

2.13 Poverty and Inequality in Selected Asian Countries in Recent Years (%) 90
2.14 Per Capita GDP Growth Rates of Selected Countries, 1961–2014 (%) 93
2.15 Estimated Poverty Elasticity to Per Capita Income and Inequality Growth (%) 104
3.1 Global Infrastructure Competitiveness Ranking of Selected Southeast Asian Countries, 2015–16 114
3.2 Key Indicators for Road Infrastructure 116
3.3 Key Indicators for Rail Infrastructure 117
3.4 Key Indicators for Port Infrastructure 119
3.5 Key Indicators for Airport Infrastructure 121
3.6 Key Indicators for Internet and Broadband Use in Selected Asian Countries 124
3.7 Average Internet Download Speed in Selected Countries (Mbps) 125
3.8 Key Indicators for Water Supply Infrastructure 126
3.9 Key Indicators for Housing 128
3.10 Scenarios of Future Growth, 2040 141
4.1 Educational Attainment Rates, Age 25–54, All Levels, Selected Asian Countries (%) 154
4.2 Enrolment Rates, Selected Asian Countries, 2010 and 2013 (%) 154
4.3 Government Spending on Education, Selected Asian Countries, 2010 (%) 155
4.4 Training and Employee Development, Selected Asian Countries 158
4.5 Employment by Education Requirement, Selected Asian Countries (%) 159
4.6 Cohort Survival Rates, Elementary Schooling, Selected Asian Countries (%) 160
4.7 Percentage of Out of School Children to Total Number of Children Aged 5–15 Years, 2008 and 2013, by Region 161
4.8 Incidence of Child Labour (aged under 15), Selected Asian Countries 162
<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.9</td>
<td>Population 5 Years Old and Over by Highest Grade Completed by Income Stratum, Philippines, 2011</td>
<td>163</td>
</tr>
<tr>
<td>4.10</td>
<td>Quality of Education, Selected Asian Countries</td>
<td>166</td>
</tr>
<tr>
<td>4.11</td>
<td>National Achievement Test, Mean Percentage Score, Elementary and Secondary, SY 2005–6 to SY 2012–13</td>
<td>168</td>
</tr>
<tr>
<td>4.12</td>
<td>National Achievement Test, Mean Percentage Score, by Subject, SY 2012–13</td>
<td>168</td>
</tr>
<tr>
<td>4.13</td>
<td>Ranking of Selected Asian Countries in Technological Innovation</td>
<td>174</td>
</tr>
<tr>
<td>4.14</td>
<td>Ranking by Labour Market Efficiency, Selected Asian Countries</td>
<td>179</td>
</tr>
<tr>
<td>5.1</td>
<td>Disability-Adjusted Life Expectancy in Selected Countries, 1990 and 2013</td>
<td>197</td>
</tr>
<tr>
<td>5.2</td>
<td>Key Health Expenditure Indicators in Selected Countries, 2013</td>
<td>203</td>
</tr>
<tr>
<td>5.3</td>
<td>Department of Health Budget and PhilHealth Premium Subsidy Allocation, 2010–16 (billion pesos)</td>
<td>209</td>
</tr>
<tr>
<td>5.4</td>
<td>Average Costs of Hospital Care (pesos)</td>
<td>214</td>
</tr>
<tr>
<td>5.5</td>
<td>Roles of Key Actors in Health System 2040</td>
<td>215</td>
</tr>
<tr>
<td>5.6</td>
<td>Scenarios for Service Coverage by 2040</td>
<td>218</td>
</tr>
<tr>
<td>5.7</td>
<td>Scenarios for Health Financing by 2040</td>
<td>220</td>
</tr>
<tr>
<td>5.8</td>
<td>Scenarios for Health Service Delivery by 2040</td>
<td>223</td>
</tr>
<tr>
<td>6.1</td>
<td>Total Depletion and Degradation (TDD) Values in Selected ASEAN Countries, 2010 and 2013 (billion dollars at current prices)</td>
<td>241</td>
</tr>
<tr>
<td>6.2</td>
<td>Levels of Disaster Management and Corresponding Thematic Areas and Agencies Responsible</td>
<td>252</td>
</tr>
<tr>
<td>7.1</td>
<td>Power Supply and Demand Indicators in Selected Asian Countries, 2014</td>
<td>277</td>
</tr>
<tr>
<td>7.2</td>
<td>Carbon Dioxide Emissions (million tonnes)</td>
<td>282</td>
</tr>
<tr>
<td>7.3</td>
<td>Assumptions on Fuel Mix Share for Policy Regimes 1, 2, 3 and 4</td>
<td>288</td>
</tr>
<tr>
<td>7.4</td>
<td>Fuel Prices for Case 1, 2015 Prices Constant for the Next 24 Years (P/kWh)</td>
<td>291</td>
</tr>
<tr>
<td>7.5</td>
<td>Price Assumption of Must-dispatch RE under Cases 2, 3 and 4 (P/kWh)</td>
<td>294</td>
</tr>
</tbody>
</table>
### Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.6</td>
<td>Price Assumption under Case 5 (P/kWh)</td>
<td>295</td>
</tr>
<tr>
<td>7.7</td>
<td>Generation Capacity in Strong and Weak Growth Scenarios, 2015–40</td>
<td>297</td>
</tr>
<tr>
<td>7.8</td>
<td>Measurable Indicators and Proposed Targets</td>
<td>305</td>
</tr>
<tr>
<td>7.A.</td>
<td>Parameters and Formulas Used in the Computations</td>
<td>319</td>
</tr>
<tr>
<td>8.1</td>
<td>Tax Rates in ASEAN Member States, Japan and Korea (%)</td>
<td>328</td>
</tr>
<tr>
<td>8.2</td>
<td>Key Baseline Indicators of the Banking System, 2010–15 (billion pesos)</td>
<td>336</td>
</tr>
<tr>
<td>8.3</td>
<td>Key Indicators of the Philippine Banking System, 2010–June 2015 (%)</td>
<td>337</td>
</tr>
<tr>
<td>8.4</td>
<td>Key Monetary and Financial Indicators in Selected ASEAN Countries, 2014 (%)</td>
<td>339</td>
</tr>
<tr>
<td>8.5a</td>
<td>Key Corporate Bond Market Indicators in Selected Asian Countries (I) (%)</td>
<td>342</td>
</tr>
<tr>
<td>8.5b</td>
<td>Key Corporate Bond Market Indicators in Selected Asian Countries (II) (%)</td>
<td>343</td>
</tr>
<tr>
<td>8.6</td>
<td>Market Capitalization of Listed Companies in Selected ASEAN Countries, 2008–12 (% of GDP)</td>
<td>345</td>
</tr>
<tr>
<td>8.7</td>
<td>Compliance with Magna Carta for Micro, Small and Medium-sized Enterprises, 2014 (billion pesos)</td>
<td>349</td>
</tr>
<tr>
<td>8.8</td>
<td>Major Reform Milestones in PPP in 2014</td>
<td>360</td>
</tr>
<tr>
<td>8.9</td>
<td>Public–Private Partnership Projects under the Aquino Administration</td>
<td>361</td>
</tr>
<tr>
<td>8.10</td>
<td>Annual Net Commitment of Active ODA Loans by Loan Type, 2005–14 ($ million)</td>
<td>364</td>
</tr>
<tr>
<td>8.11</td>
<td>Disbursement and Availment Performance of ODA Loans, 2013–14</td>
<td>365</td>
</tr>
<tr>
<td>9.1</td>
<td>Percentile Rank of Worldwide Governance Indicator Scores of ASEAN Countries, 2005 and 2014</td>
<td>379</td>
</tr>
<tr>
<td>9.2</td>
<td>Response Rates of Problematic Factors for Doing Business in the Philippines, Thailand and Malaysia, 2006 and 2014</td>
<td>381</td>
</tr>
<tr>
<td>9.3</td>
<td>Reasons for Moody’s Credit Rating Upgrade for the Philippines</td>
<td>384</td>
</tr>
<tr>
<td>Table</td>
<td>Description</td>
<td>Page</td>
</tr>
<tr>
<td>---------</td>
<td>-----------------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>9.4</td>
<td>Status of Key Political and Electoral Reforms as of 2015</td>
<td>405</td>
</tr>
<tr>
<td>9.5</td>
<td>Status of Key Social Development and Asset Reforms as of 2015</td>
<td>406</td>
</tr>
<tr>
<td>9.6</td>
<td>Status of Key Economic Competitiveness Reforms as of 2015</td>
<td>408</td>
</tr>
<tr>
<td>9.7</td>
<td>Status of Key Public Finance and Good Governance Innovations as of 2015</td>
<td>411</td>
</tr>
</tbody>
</table>
Foreword

It gives me great pleasure and honour to provide the introductory message for this rather impressive volume on the Philippine economy. Authored by renowned Filipino scholars and serious observers of the Philippine economy, the volume is arguably the most comprehensive reference work on the economy since at least the global financial crisis in 2008–9 and will likely shape the thinking and practice of Philippine development policy in the years ahead.

This volume had its beginning, albeit accidental, during my stint as Socioeconomic Planning Secretary and, concurrently, Director-General of the National Economic and Development Authority under the administration of President Benigno S. Aquino III. At that time, in early 2014, I got hold of the ADB Report entitled *Asia 2050: Realizing the Asian Century*, and it caught my interest. The report talked about how Asia is in the middle of a historic transformation. To quote the report: “If it continues to follow its recent trajectory, by 2050 its per capita income could rise six-fold in purchasing power parity (PPP) terms to reach Europe’s levels today. It would make some 3 billion additional Asians affluent by current standards. By nearly doubling its share of global gross domestic product (GDP) to 52 percent by 2050, Asia would regain the dominant economic position it held some 300 years ago, before the industrial revolution.”

It was an exciting prospect for Asia, except for the Philippines. In the Report, the Philippines was a slow- or modest-growth aspiring country, lumped in the same group as Afghanistan, Bangladesh, North Korea, Laos, Myanmar, Nepal, Pakistan, and many of the Pacific Island countries. Even the Report’s epic video-production did not make any reference to or show any significant Philippine landmark. That was, of course, understandable, given the country’s poor-growth record in
the three decades before 2010, which was the report’s database for its extrapolation of the future. In contrast, since at least 2010, the country’s economic performance has been quite stellar, impressively even earning the title “the rising tiger of Asia”, among other accolades bestowed upon the Philippine economy by various global development observers, e.g., the World Bank and HSBC.

Both pride and necessity prodded me and my colleagues at NEDA, including one of the editors of this volume, Emmanuel Esguerra, to help change the narrative on the Philippine economy and society. The conditions were ripe for such a change. We could not allow ourselves to be left behind, to remain a laggard in an otherwise highly dynamic, rapidly growing and prospering region. We needed to reshape our future, to become part of the Asian Century. We needed to have a positive long-term vision for the country.

Meanwhile, even before my stint as NEDA chief, there were already discussions in different fora and media pushing for the creation of a long-term development plan, apart from the medium-term development plan of each administration. Private sector and civil society organizations, even some members of Congress, had been clamouring for a long-term development plan that transcends the fixed six-year term of political administrations.

But then we also considered political realities. We were aware of the fixed six-year term of a president and the tendency of each new administration to abandon even good plans and programmes of its predecessor to signify change and create a new “brand”. A long-term plan crafted under one presidency runs the risk of discontinuity under the successor presidency.

Given all these, we thought that the best and the first thing to do was to have a common vision for ourselves over the long term. We need to define our long-term goals as a nation and unite around them such that medium-term plans of each administration will be guided by this set of goals — or our long-term vision — based on the standard of living that Filipinos want to have in twenty-five years or so. While people may differ on short- and medium-term objectives, as well as on approaches or strategies to achieve these goals, we believe it is important and possible to reach a consensus on a long-term vision.

The long-term vision exercise involved several activities intended to make it widely participatory, methodologically robust, and evidence-
based. We conducted several public consultations through focus group discussions and a national household survey to ensure that the long-term vision we arrived at would be truly representative of the aspirations of the Filipino people. Moreover, as part of the exercise, we commissioned research and technical studies on various thematic areas that are widely known to be key factors affecting a country’s economic development. These include growth and poverty, health, education, demography, innovation, infrastructure, environment, energy, finance, governance, and the global economy. A select set of the technical papers constitutes the chapters in this volume. Finally, we launched a communication plan to generate public awareness on the long-term vision, now dubbed Ambisyon Natin 2040 — a play of English and Filipino words “The Vision” and “Our Ambition”.

It was thus gratifying, to say the least, when the administration of the newly elected President Rodrigo Duterte embraced the long-term vision as the anchor for its socio-economic development agenda. Through Executive Order No. 5, President Duterte adopted the Ambisyon Natin 2040 as the long-term vision for the Philippines, enjoining all government offices and instrumentalities to develop and implement their plans consistent with the long-term vision. The order resonates in the administration’s recently crafted medium-term development blueprint, the Philippine Development Plan 2017–2022.

Let me now turn to another possible reason why I was given the honour to provide a foreword to this volume. My previous appointment as Socioeconomic Planning Secretary in the Aquino administration gave me a front-row seat to the country’s transformation in recent years, the highs and lows of high-level policymaking, as well as the transition of power from President Aquino to President Duterte. In keeping with the theme of this volume, let me humbly share some of my own observations and reflections on where the Philippines has been, and some ideas on where it might be headed under this new administration.

As I noted earlier, the Philippines has enjoyed a surge of growth and macroeconomic stability in recent years. The country’s economic growth rate averaged 6.3 per cent from 2010 to 2016 — the highest seven-year average growth since the late 1970s. This makes the Philippines one of the fastest-growing major emerging economies in the world today. The economy’s structure is also changing, with signs of investment spending and resurgence in the industrial sector, though
the economy is still very much consumption- and service-oriented. Such stellar economic performance has also been accompanied by strong macroeconomic fundamentals, an unprecedented level of confidence among players in the domestic and international business communities, improved competitiveness rankings, and a much stronger external position owing to the resilience of remittances and income from growth areas like business process outsourcing (BPO) activities and tourism, notwithstanding recent developments in the global political economy (e.g., Brexit, Trump’s “America First” populism). These, along with many other positive indicators, have led many to think that the Philippines has, finally, shed its moniker as the “Sick Man of Asia”, and is transforming into one of the region’s brightest economic hubs.

Such a transformation, of course, has had its fair share of hiccups along the way. One of the major challenges faced by the previous administration — and one that is also likely to be faced by the current one — is how to make such growth more inclusive; i.e., how to translate economic gains into a faster reduction of poverty and inequality in access to opportunities. To be sure, part of the challenge is that, globally, economic growth today has become less able to reduce poverty compared to two or three decades ago. For one, economic growth has become less employment-intensive than before. The widespread growth of information and communication technology (ICT), a labour-saving technology, and globalization has also tended to widen the gap between skilled and unskilled segments of the global workforce.

In the Philippines, attaining inclusivity and poverty reduction has been made even more difficult by a number of natural challenges, such as the onset of major earthquakes in the Visayas and Typhoon Haiyan in 2013 (considered one of the strongest typhoons in recorded history). More importantly, there were also a number of institutional and governmental bottlenecks that weakened the translation of growth to poverty reduction. For instance, food policy experienced several wrinkles that kept basic food prices, particularly rice prices, much higher than what they would have been if international trade on food was less restrictive. A number of industries have also experienced increasing education–skills mismatches, contributing to the persistently high underemployment rate, even among college graduates. The
country’s low level of physical capital formation was addressed by instituting public–private partnerships and reforms in budget spending, but various implementation and coordination failures prevented many projects from proceeding at a much faster pace.

The election of President Duterte into office offers a golden opportunity to implement reforms towards greater inclusivity, while at the same time continuing and maintaining the previous administration’s macroeconomic policies, including fiscal, monetary, and trade policies. For instance, there is now a deep-seated commitment to proceed at a more decisive and quicker pace when it comes to implementing projects and programmes and addressing bottlenecks, especially those on infrastructure. Many tax reforms aimed at improving tax administration and the progressivity of the tax regime are also in the pipeline. Peace and order, especially wars on drugs and crime, have also come to the fore of the development agenda.

But ensuring poverty reduction and greater inclusivity in the future requires nothing less than an acceleration of structural transformation — a shift of employment from low-productivity to high-productivity sectors, not only across agriculture, industry, and services, but also within each of these sectors. Evidence based on country experiences around the world in the past fifty years indicate that at the heart of the system driving poverty reduction is a structural economic transformation guided by efficiency-promoting policies and institutions. That is certainly the case in the country’s neighbours — in China, Vietnam, Thailand and Indonesia, where structural transformation was key to their dramatic success in reducing poverty in the past three decades.

One of the key components of the overall strategy to make economic growth more enduring and more inclusive is the Philippine Competition Act, which became effective in August 2015. This legislation seeks to deepen efficiency-enhancing competitive practices so that economic growth becomes more enduring and more inclusive, thereby fostering public welfare both in the short and long run. It aims to create a policy environment that promotes a fair and competitive market — a level playing field — by regulating business practices that unreasonably restrain competition.

We see this legislation as a game-changer for the economy. The law is meant to address the very restrictive economic policies and
anti-competitive business practices that have been too costly to the Philippine economy and public welfare. As evident in this volume, the economy had a comparatively poor performance over the last four decades. The highly unequal distribution of opportunities has perpetuated a condition of widespread poverty coexisting with growing affluence and prosperity in certain enclaves of Philippine society. Small and medium enterprises have found it extremely difficult to thrive and prosper in an economic environment where a level playing field is more of an exception than the norm, hindering the growth of employment opportunities. As is also evident in this volume, various anti-competitive business practices have their roots in certain laws, policies, regulations, and administrative issuances. Part of the reform effort has to involve deeply reforming governance to reinforce competitive market outcomes while achieving other societal goals, such as equity and health security.

All in all, the Philippines’ reform story is far from complete. Moving forward, crafting and honing the reform agenda will require the collective effort of policymakers, advocates, and academics not only in the Philippines but also colleagues and friends from abroad. This volume plays a crucial role in deepening the understanding and collaboration between Filipino and non-Filipino scholars by way of thoughtful and structured policy research and analysis.

Arsenio M. Balisacan
Chairperson, Philippine Competition Commission
Secretary of Socioeconomic Planning and Director General of
NEDA, 2012–16

Manila, 15 March 2017
Preface

It is a pleasure to thank the many people and institutions who contributed generously to this volume, and without whom it would not have seen the light of day.

First and foremost, we would like to express our deep gratitude to our good friend and colleague, Arsenio M. Balisacan, and his staff, for initiating this project during his term as Secretary of Socioeconomic Planning and Director General of the National Economic and Development Authority (NEDA) in the Government of the Philippines from 2012 to 2016. As he explains in the Foreword written for this volume, he and his senior colleagues in government oversaw a period of strong economic growth. But they were also conscious of the importance of maintaining the momentum. To this end, they set to work on crafting a forward-looking agenda, *Ambisyon Natin 2040*, which articulated a vision for an inclusive and prosperous Philippines. Some of the works commissioned for this endeavor provided the germ for the analytical papers that fed into this volume.

The Asian Development Bank (ADB) played a crucial supporting role in facilitating work on this project, including a workshop at which draft papers were presented and discussed. We are most grateful to the staff of the Bank’s Philippine Country Office, headed by Richard Bolt, for their enthusiastic support and wise counsel.

While thankful to NEDA and the ADB, we do wish to emphasize that the views and assessments in this volume are those of the contributors and editors alone, and should not be attributed to these two supporting institutions.
We are most grateful to our contributors for taking time out from their busy schedules to write stimulating papers, and to cheerfully endure the protracted editorial processes leading up to publication.

We thank Mr Ng Kok Kiong, Mr Stephen Logan and the ISEAS publishing team for their interest in our work, and an anonymous referee for very helpful and constructive comments on an earlier draft.

The current period is arguably one of the most significant in Philippine history. The country is frequently in the international news headlines, perhaps more than it would like to be. Behind these headlines is the question of whether the momentum of recent economic growth in the country can be sustained and its dividends enjoyed by more of the population. We hope this volume might be able to make some small contribution to the development policy debates directed at how to ensure continued socio-economic dynamism at this historic juncture in Philippine society.

The Editors
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