

Reproduced from *The Philippine Economy: No Longer the East Asian Exception?*, edited by Ramon L. Clarete, Emmanuel F. Esguerra and Hal Hill (Singapore: ISEAS – Yusof Ishak Institute, 2018). This version was obtained electronically direct from the publisher on condition that copyright is not infringed. No part of this publication may be reproduced without the prior permission of ISEAS Publishing. Individual chapters are available at

<http://bookshop.iseas.edu.sg>.

# THE PHILIPPINE ECONOMY



**The ISEAS – Yusof Ishak Institute** (formerly Institute of Southeast Asian Studies) is an autonomous organization established in 1968. It is a regional centre dedicated to the study of socio-political, security, and economic trends and developments in Southeast Asia and its wider geostrategic and economic environment. The Institute’s research programmes are grouped under Regional Economic Studies (RES), Regional Strategic and Political Studies (RSPS), and Regional Social and Cultural Studies (RSCS). The Institute is also home to the ASEAN Studies Centre (ASC), the Nalanda-Sriwijaya Centre (NSC), and the Singapore APEC Study Centre.

**ISEAS Publishing**, an established academic press, has issued more than 2,000 books and journals. It is the largest scholarly publisher of research about Southeast Asia from within the region. ISEAS Publishing works with many other academic and trade publishers and distributors to disseminate important research and analyses from and about Southeast Asia to the rest of the world.

# **THE PHILIPPINE ECONOMY**

**No Longer the East Asian Exception?**

**EDITED BY**

**RAMON L. CLARETE  
EMMANUEL F. ESGUERRA  
HAL HILL**

**ISEAS** YUSOF ISHAK  
INSTITUTE

First published in Singapore in 2018 by  
ISEAS Publishing  
30 Heng Mui Keng Terrace  
Singapore 119614

*Email:* [publish@iseas.edu.sg](mailto:publish@iseas.edu.sg)

*Website:* [bookshop.iseas.edu.sg](http://bookshop.iseas.edu.sg)

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the ISEAS – Yusof Ishak Institute.

© 2018 ISEAS – Yusof Ishak Institute, Singapore

*The responsibility for facts and opinions in this publication rests exclusively with the authors and their interpretations do not necessarily reflect the views or the policy of the publisher or its supporters.*

---

#### ISEAS Library Cataloguing-in-Publication Data

---

The Philippine Economy : No Longer the East Asian Exception? / edited by  
Ramon L. Clarete, Emmanuel F. Esguerra and Hal Hill.

1. Philippines—Economic conditions—1946-1986.
  2. Philippines—Economic conditions—1986-
  3. Poverty—Philippines.
  4. Infrastructure (Economics)—Philippines.
  5. Urbanization—Philippines.
  6. Education—Philippines.
  7. Public health—Philippines.
  8. Philippines—Environmental conditions.
  9. Energy security—Philippines.
  10. Investments—Philippines.
  11. Philippines—Politics and government—1986-
- I. Clarete, Ramon L., editor.  
II. Esguerra, Emmanuel F., editor.  
III. Hill, Hal, 1948-, editor.

HC455 P568

2018

ISBN 978-981-4786-50-8 (soft cover)

ISBN 978-981-4786-62-1 (e-book, PDF)

---

Typeset by International Typesetters Pte Ltd  
Printed in Singapore by Mainland Press Pte Ltd

# Contents

<i>List of Figures</i>	vii
<i>List of Tables</i>	xiii
<i>Foreword by Arsenio M. Balisacan</i>	xix
<i>Preface</i>	xxv
<i>About the Contributors</i>	xxvii
1. The Philippine Economy: An Overview <i>Ramon L. Clarete, Emmanuel F. Esguerra and Hal Hill</i>	1
2. Economic Growth and Poverty Reduction <i>Ramon L. Clarete</i>	53
3. Infrastructure and Urbanization <i>Arturo G. Corpuz</i>	112
4. Education and Training <i>Winfred Villamil</i>	151
5. Universal Health Coverage, Health Security and Resilient Health Systems <i>Eduardo Banzon and Beverly Lorraine Ho</i>	190
6. Environmental Resources, Shocks and National Well-Being <i>James Roumasset, Majah-Leah Ravago, Karl Robert Jandoc and Clarisa Arellano</i>	231

7.	Energy: Power Security and Competitiveness <i>Majah-Leah Ravago, Raul Fabella, Ruperto Alonzo, Rolando Danao and Dennis Mapa</i>	269
8.	Development Finance <i>Gilberto M. Llanto</i>	324
9.	Governance and Institutions <i>Ronald U. Mendoza and Rosechin Olfindo</i>	375
	<i>Index</i>	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
2.15	Poverty Headcount Ratios by Region, 1991, 2006, 2009 and 2012	82
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
2.22	Average Growth of GFCF, Selected Asian Countries, 1995–2014 and Observed Growth and Projected Growth Scenarios of GFCF, Philippines, 1995–2040 (%)	96
2.23	Average Growth of the Labour Force (1996–2014) and Labour Productivity (1990–2000) in Selected Countries (%)	97
2.24	Observed Growth and Projected Growth Scenarios of Effective Labour Force, Philippines, 1995–2040 (%)	98
2.25	Total Factor Productivity Growth Scenarios, Philippines, 1995–2040 (%)	99



2.26	Observed and Simulated Growth Scenarios of GDP, Philippines, 1995–2040 (billion pesos at 2000 prices)	100
2.27	Observed and Simulated Growth Scenarios of Per Capita GDP, 1995–2040 (pesos)	101
2.28	Structural Transformation, Weak vs. Strong Growth Scenarios	102
2.29	Scenarios of Eradicating Poverty, Philippines, 2015–40	106
3.1	Relationship between GDP per Capita and Urban Population Size in Selected Asian Countries	130
3.2	Relationship between GDP per Capita and Urban Population Size in Selected Asian Countries, with Japan, USA and Republic of Korea	130
3.3	Poverty Incidence in Selected ASEAN Countries, Selected Periods (%)	131
5.1	Schematic Representation of Financial Flows	195
5.2	Ranking of Burden of Disease, Selected Years	198
5.3	Mortality Rate for the Philippines, ASEAN and OECD Countries, 2003, 2008 and 2013	200
5.4	Infant Mortality Rate by Region and Income Quintile in Selected Countries, 2013	200
5.5	Health Expenditure by Source of Funds, 1991–2013 (%)	201
5.6	Budget of the Department of Health, 2007–14 (pesos)	201
5.7	Proportion of Households by Income Quintile Incurring Catastrophic Payments, Selected Years (%)	202
5.8	Proportion of Population by Socioeconomic Status Experiencing Illnesses and Visiting a Health Facility, 2013 (%)	202
5.9	Local Government Units Health Expenditure per Capita and Share to Total Expenditure by Region, 2011	209
5.10	Proportion of Patients Offered Generic Alternatives by Region (% of drugstores)	211
5.11	Total Hospital Beds and Bed Capacity per 10,000 Population, 1976–2012	213
6.1	The Environomy	232

6.2	Gross National, National, and Green National Income, 2008–13 (billion pesos at constant 2000 prices)	236
6.3	Cost of Natural Resource Depletion and Environmental Degradation, 2000–2013 (million dollars at current prices)	236
6.4	Depletion and Degradation, 2003–13 (million pesos at constant 2000 prices)	240
6.5	Possible Scenarios on Depletion, Degradation and Green National Income, 2015–40 (billion pesos at constant 2000 prices)	243
6.6	Comprehensive National Income (CNI)	246
6.7	Natural Disaster Risk Management Framework	250
6.8	Relationship between Material Consumption and Environmental Amenities	254
6.9	The Economic Cost (Waste) of a Feed-in-Tariff	255
7.1	Electricity Tariffs in Selected Asian Economies (constant 2005 US\$) (a) Residential and (b) Industrial	271
7.2	Manila Electric Company's (Meralco) Breakdown of Tariff	272
7.3	Installed Capacity Mix by Share, 1991–2015	275
7.4	Luzon, Visayas and Mindanao Monthly Load Curve, 2013	276
7.5	Electricity Net Generation and Consumption Per Capita	279
7.6	Renewable Resources and Renewable Share to Total Energy	280
7.7	Renewable Resources and CO <sub>2</sub> Emissions	281
7.8	Strong and Weak Growth Scenarios of GDP per Capita, 2016–40	283
7.9	Strong and Weak Growth Scenarios of Electricity Consumption, 2015–40	285
7.10	Case 1 (Baseline constant fuel price) – Generation Price Projections	299
7.11	Case 2 – Generation Price Projection When Prices of RE Incorporate FIT Degression Rates (P/kWh)	300
7.12	Case 3 – Generation Price Projection with Annual Decrease in Average RE Prices by 3% (P/kWh)	300

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

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
2.4	Labour Force Annual Growth, Selected Asian Countries, 1991–2014 (%)	67
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

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

4.9	Population 5 Years Old and Over by Highest Grade Completed by Income Stratum, Philippines, 2011	163
4.10	Quality of Education, Selected Asian Countries	166
4.11	National Achievement Test, Mean Percentage Score, Elementary and Secondary, SY 2005–6 to SY 2012–13	168
4.12	National Achievement Test, Mean Percentage Score, by Subject, SY 2012–13	168
4.13	Ranking of Selected Asian Countries in Technological Innovation	174
4.14	Ranking by Labour Market Efficiency, Selected Asian Countries	179
5.1	Disability-Adjusted Life Expectancy in Selected Countries, 1990 and 2013	197
5.2	Key Health Expenditure Indicators in Selected Countries, 2013	203
5.3	Department of Health Budget and PhilHealth Premium Subsidy Allocation, 2010–16 (billion pesos)	209
5.4	Average Costs of Hospital Care (pesos)	214
5.5	Roles of Key Actors in Health System 2040	215
5.6	Scenarios for Service Coverage by 2040	218
5.7	Scenarios for Health Financing by 2040	220
5.8	Scenarios for Health Service Delivery by 2040	223
6.1	Total Depletion and Degradation (TDD) Values in Selected ASEAN Countries, 2010 and 2013 (billion dollars at current prices)	241
6.2	Levels of Disaster Management and Corresponding Thematic Areas and Agencies Responsible	252
7.1	Power Supply and Demand Indicators in Selected Asian Countries, 2014	277
7.2	Carbon Dioxide Emissions (million tonnes)	282
7.3	Assumptions on Fuel Mix Share for Policy Regimes 1, 2, 3 and 4	288
7.4	Fuel Prices for Case 1, 2015 Prices Constant for the Next 24 Years (P/kWh)	291
7.5	Price Assumption of Must-dispatch RE under Cases 2, 3 and 4 (P/kWh)	294

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



9.4	Status of Key Political and Electoral Reforms as of 2015	405
9.5	Status of Key Social Development and Asset Reforms as of 2015	406
9.6	Status of Key Economic Competitiveness Reforms as of 2015	408
9.7	Status of Key Public Finance and Good Governance Innovations as of 2015	411



# 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  
Manila and Canberra  
September 2017

## About the Contributors

**Arsenio M. Balisacan** is the first Chairman and CEO of the Philippine Competition Commission. Previously, he served as the Socioeconomic Planning Secretary in the Cabinet of President Benigno S. Aquino III and, concurrently, the Director-General of the National Economic and Development Authority (NEDA). Prior to his appointment in NEDA, he was the Dean and Professor of the University of the Philippines (UP) School of Economics and Director-Chief Executive of the Southeast Asian Regional Centre for Graduate Study and Research in Agriculture (SEARCA). Before joining the UP faculty, he was a Research Fellow at the East-West Center in Honolulu and Economist at the World Bank in Washington, D.C. He holds a PhD in Economics from the University of Hawaii and an MS degree in Agricultural Economics from the University of the Philippines Los Baños.

**Ramon L. Clarete** is a Professor and a former Dean of the University of the Philippines School of Economics in Diliman, Quezon City. His research interests are on trade, agriculture and food policies. For several years he managed the delivery of technical assistance programmes of the USAID/Philippines to the Philippine government, primarily on trade capacity building, and he has provided policy advice to the government and business support organizations in the Philippines. Under the Asian Development Bank (ADB), he led a team of experts who conducted the background studies for the National Economic Development Authority's long-term vision of the Philippine economy. The ADB had engaged him to give advice to and conduct training on food and trade policy to the members of the ASEAN Food Security Reserve Board. He currently is in the Advisory Board of the

Asian Rice Bowl Index (RBI) and until just recently in the Board of Advisors of the WTO Chairs Programme. He has published several papers on food policy, the latest being on “Deepening ASEAN Rice Trade”.

**Emmanuel F. Esguerra** is Professor of Economics at the University of the Philippines School of Economics (UPSE). A member of the UPSE faculty since 1993, he was seconded to the National Economic and Development Authority (NEDA) in July 2012 where he served as Deputy Director-General for Policy and Planning and subsequently as Director-General and Secretary of Socioeconomic Planning from February to June 2016. Prior to his secondment at NEDA, he was chair of the Department of Economics at UPSE. He obtained his PhD in 1993 from the Ohio State University in Columbus, Ohio, USA. His research interests include labour economics and development microeconomics.

**Hal Hill** is the H.W. Arndt Professor Emeritus of Southeast Asian Economies at the Australian National University. His research interests focus on various aspects of the economic development and political economy of the Southeast Asian countries. He is the author or editor of eighteen books and has written about 150 academic papers and book chapters. He is an occasional op-ed contributor to Australian and Asian newspapers, magazines and websites, and a radio/TV commentator. He has worked as a consultant for the Australian Government, the Indonesian Government, the World Bank, the Asian Development Bank, and several United Nations agencies. He has held visiting academic appointments at institutions in ten countries, including the University of the Philippines. He is a Fellow of the Academy of Social Sciences of Australia, and has been an official guest of Indonesia as a “Presidential Friend of Indonesia”.

**Ruperto P. Alonzo** was a Professor at the University of the Philippines School of Economics and had been with the faculty since 1968. He was also a Research Fellow at the Energy Policy and Development Program. He served as a Deputy Director-General of the National Economic and Development Authority from 1998 to 2001. He was also the Vice-President for Development for the University of the

Philippines System and a Commissioner for the UNESCO National Commission of the Philippines. He graduated magna cum laude from the Ateneo de Manila University with the AB degree in Humanities. He took his MA in Economics at the University of the Philippines and did doctoral studies at the University of Chicago. His fields of research interests were in Public Economics (Project Evaluation, Investment Programming, Public Expenditure Management), Human Resources Economics (Education, Health), and Development Economics (Informal Sector, Impact Assessment, Decentralization Studies).

**Clarisa Joy A. Arellano** is a research assistant at the World Bank Philippine Office under the Macroeconomics and Fiscal Management Global Practice. She is currently part of the team preparing the Bank's next flagship report, the "Mindanao Jobs Report". Prior to joining the World Bank she was part of the Energy Policy and Development Program research team, where she learned more about energy and environment issues and helped in writing the Filipino 2040 study on the environment, climate change and disaster resiliency. Issa is a graduate student at the UP School of Economics and is completing her masters' thesis on the effects of the IT-BPM industry on the Philippine labour markets. Her research interests include development economics, labour, trade and environmental economics.

**Eduardo Banzon** MD, MSc is Principal Health Specialist of the Sustainable Development and Climate Change Department of the Asian Development Bank (ADB). Dr Banzon champions Universal Health Coverage and has long provided technical support to countries in Asia and the Pacific in their pursuit of this goal. Before joining ADB he was President and CEO of the Philippine Health Insurance Corporation, a World Health Organization (WHO) regional adviser for health financing in the Eastern Mediterranean region, World Bank senior health specialist, WHO-Bangladesh health economist, and a faculty member of the University of the Philippines' College of Medicine, Ateneo Graduate School of Business, Ateneo School of Government and Asian Institute of Management. He holds a Doctor of Medicine degree from the University of the Philippines and an MSc in Health Policy Planning and Financing from the London School of Economics and the London School of Hygiene and Tropical Medicine.

**Arturo G. Corpuz** is an Urban-Regional Planner involved in private practice and public planning and policy studies. He received his baccalaureate from the University of the Philippines and his master's and doctoral degrees in urban and regional planning from Cornell University, where he was a recipient of an APA-AICP Award, a Sage Graduate Fellowship, and a John D. and Catherine T. MacArthur Foundation Grant. He also served as Lecturer at the Department of City and Regional Planning of the same university. He received an award from the Philippine Regulations Commission as Most Outstanding Environmental Planner, and from the University of the Philippines School of Urban and Regional Planning as Most Outstanding Teacher. He is a former President of the Philippine Economic Society; a Fellow of the Foundation for Economic Freedom and the Philippine Institute of Environmental Planning; a Member of the American Planning Association and the Philippine National Historical Society.

**Rolando A. Danao** is Professor Emeritus at the University of the Philippines School of Economics and a Research Fellow at the Energy Policy and Development Program. He has written various papers and books, particularly in the field of mathematical economics and econometrics. He graduated BS Geodetic Engineering and MS Mathematics from the University of the Philippines Diliman. He obtained his MA in Mathematics and PhD in Mathematics from the University of California at Berkeley and completed his Postdoctoral Studies in Econometrics at the University of Pennsylvania. His research interests are in Mathematical Economics, Operations Research, and Econometrics.

**Raul V. Fabella** is one of the Philippines' National Scientists and is a Professor Emeritus of the University of the Philippines School of Economics. He is also a Research Fellow at the Energy Policy and Development Program. He obtained his PhD in Economics at Yale University. He took his Master's Degree in Economics at the University of the Philippines, where he served as Dean from 1998 to 2007. He has written articles in both theoretical and applied fields: political economy and rent-seeking, the theory of teams; regulation; international

economics; and mathematical economics. Notable concepts associated with him are the “Olson ratio” in rent-seeking, egalitarian Nash bargaining solutions, and the debt-adjusted real effective exchange rate. His current fields of interest are economic theory, agricultural economics and international economics.

**Beverly Lorraine Ho MD MPH** is Chief of the Health Research Division of the Philippine Department of Health’s Health Policy Development and Planning Bureau. Prior to this, she was a consultant for the Asian Development Bank’s Health Sector Group working on health financing, health security and health impact assessment in the Greater Mekong sub-region. Dr Ho teaches health policy in the Ateneo de Manila University, co-founded the Alliance for Improving Health Outcomes, and actively works with Bagumbayani Initiative, a loose collaboration of young civil servants. She has worked for the Philippine Health Insurance Corporation (PhilHealth) and Qualimed Health Network; conducted research on health informatics and maternal and child health; and provided technical assistance to the Philippine government through WHO and UNICEF. She holds a Doctor of Medicine degree from the University of the Philippines and a Master of Public Health in Health Policy and Management from the Harvard T.H. Chan School of Public Health.

**Karl Robert L. Jandoc** is an Assistant Professor at the University of the Philippines School of Economics. He earned his PhD in economics at the University of Hawaii at Manoa in 2016 and his MA in Economics and BS Economics at the School of Economics, University of the Philippines. His research interests are in microeconomic theory, resource and energy economics. Apart from his academic position, he has also engaged in consultancy work for the Asian Development Bank, World Bank and the Energy Policy and Development Program.

**Gilberto Llanto** was President of the Philippine Institute for Development Studies. He is Regional Coordinator of the East Asian Development Network, a network of East Asian research institutes conducting policy research and capacity building; Country Coordinator for the Philippines of the Network of East Asian Think Tanks (NEAT);

Lead Convenor of the Philippine APEC Study Center Network; Associate Editor of the *Philippine Review of Economics*; Chairman of the Editorial Board of the *Philippine Journal of Development*; Member of the Academic Steering Committee on Financial Inclusion of the International Cooperative and Mutual Insurance Federation (ICMIF United Kingdom); and Member of the Advisory Council, Microfinance Council of the Philippines, Inc. (MCPI). He was formerly Deputy Director-General of the National Economic and Development Authority, and President of the Philippine Economic Society. He has a PhD in Economics from the School of Economics, University of the Philippines. He has a Master's Degree in Economics and a Bachelor's Degree in Philosophy. His research interests include public economics, growth economics, financial inclusion, microfinance, regional integration and infrastructure regulation. His most recent publication is "Philippine Infrastructure and Connectivity: Challenges and Reform", *Asian Economic Policy Review* 11, no. 2, July 2016.

**Dennis S. Mapa** is the Dean and Professor in Statistics at the School of Statistics, University of the Philippines in Diliman. He also serves as an Affiliate Professor in Economics at the UP School of Economics, and Research Fellow at the Social Weather Stations (SWS). He is also a Research Fellow at the Energy Policy and Development Program. He was a visiting scholar at the International Centre for the Study of East Asian Development (ICSEAD) in Kitakyushu, Japan. A multi-awarded researcher, Dr Mapa is the SEARCA Regional Professorial Chair holder for 2015 and a University of the Philippines Scientist for 2012–14. In 2008 he received the Outstanding Young Scientist (OYS) Award from the National Academy of Science and Technology (NAST) for his research contribution in the areas of Econometric and Financial Time Series Analysis, Empirical Economic Growth, Poverty Analysis and Impact Evaluation. He obtained his PhD in Economics at the UP School of Economics and holds a Master's Degree both in Statistics and Economics from the same university.

**Ronald U. Mendoza**, PhD is Dean and Associate Professor at the Ateneo School of Government. From 2011 to 2015, he was an Associate Professor of Economics at the Asian Institute of Management (AIM),



and the Executive Director of the AIM Rizalino S. Navarro Policy Center for Competitiveness. Prior to that, he was a Senior Economist with the United Nations in New York. His research background includes work with UNICEF, UNDP, the Federal Reserve Bank of Boston, the Economist Intelligence Unit (EIU), and several Manila-based non-governmental organizations. His work has appeared in various peer-reviewed economics and policy journals; and he has also published several books on international development, public finance and international cooperation. His work includes *Providing Global Public Goods: Managing Globalization* (2003), *The New Public Finance: Responding to Global Challenges* (2006), *Children in Crisis: Protecting the Vulnerable and Promoting Recovery for All* (2012) and *Building Inclusive Democracies in ASEAN* (2015; and Winner of the NAST Outstanding Book Award for 2016). Mendoza obtained his Bachelor's Degree in Economics (Honors Program) from the Ateneo de Manila University in the Philippines, his Masters in Public Administration and International Development (MPA-ID) from the John F. Kennedy School of Government, Harvard University, and his MA and PhD in Economics from Fordham University. He is a recipient of various awards, including the 2012 National Academy of Science and Technology's Ten Outstanding Young Scientists (OYS) in the Philippines (in Economics), the World Economic Forum's Young Global Leaders in 2013, and Devex 40 Under 40 Development Leader in 2013.

**Rosechin Olfindo** is consultant in the World Bank and non-resident research fellow in the Ateneo School of Government. In the World Bank, she is involved in analytical work on social protection, labour regulations, employment programmes, and education. In the Ateneo School of Government, she participates in research on governance, social protection, and housing. She was also non-resident research fellow in the Asian Institute of Management, consultant to the Asian Development Bank, and a staff member of the Philippines' National Economic and Development Authority. She holds a master's degree in public administration in international development from Harvard University and a master's degree in economics from the University of the Philippines.

**Majah-Leah V. Ravago** is Assistant Professor at the University of the Philippines School of Economics (UPSE). She is also the Program Director of the USAID grant – Energy Policy and Development Program (EPDP) at the UPEcon Foundation. Her research interests include resource economics, development economics, energy economics, and economics of natural disasters. She has published papers on resource management and sustainability, climate change, agriculture, and experimental games. She has received research grants from the University of the Philippines, East-West Center, and the Metrobank Foundation. She is a Board Member and Secretary of the Philippine Economic Society (PES). In July 2016 she received the National Academy of Science and Technology (NAST) Outstanding Young Scientist (OYS) Award in the field of Economics. She obtained her BS in Business Economics and MA in Economics degrees from the University of the Philippines. Her PhD in Economics is from the University of Hawaii (UH) under the East-West Center (EWC) Graduate Degree Fellowship Program.

**James A. Roumasset** is a Professor of Economics at the University of Hawaii Manoa, where he has been on the Economics faculty since 1976. He received his PhD in economics from the University of Wisconsin-Madison in 1973 and also has economics degrees from the University of Hawaii (MA) and the University of California-Berkeley (BA). He has taught and conducted research at the University of California-Davis, University of the Philippines (both Diliman and Los Baños), Australian National University, Yale University, University of Maryland, International Rice Research Institute, and World Bank. From 1978 to 1979, he led the Agricultural Development Council, Philippines programme. He is a member of the Board of Directors of the Western Economic Association International and a member of the American Economic Association, American Agricultural Economics Association, Association of Environmental and Resource Economists, and International Society for New Institutional Economics. He has published widely on agricultural development, environmental and natural resource economics, transaction cost economics, risk and decision-making, and the nature, causes, and consequences of public policy.

**Winfred M. Villamil** is an Associate Professorial Lecturer at the De La Salle University School of Economics. He earned his bachelor's degree at the Ateneo de Manila University and his MA and PhD degrees in Economics at the University of the Philippines School of Economics. He has published locally and internationally in the fields of human resource economics and regional development.

