

PRE-SONA COMMENTARIES ON THE PHILIPPINE ECONOMY: HURLING TOWARDS A MIDDLE-INCOME TRAP?

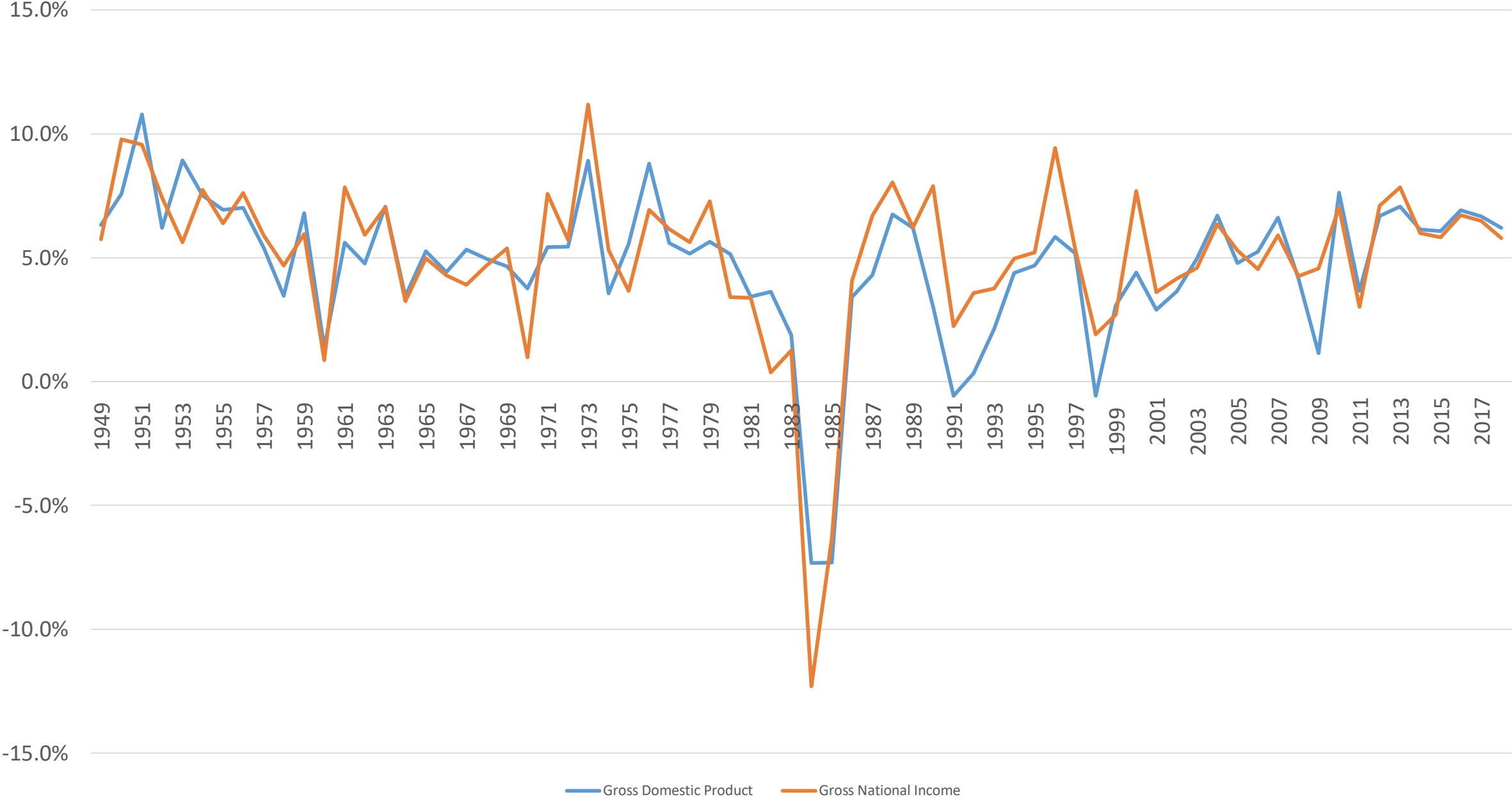
Presentation for NCPAG

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For CenPEG SOP

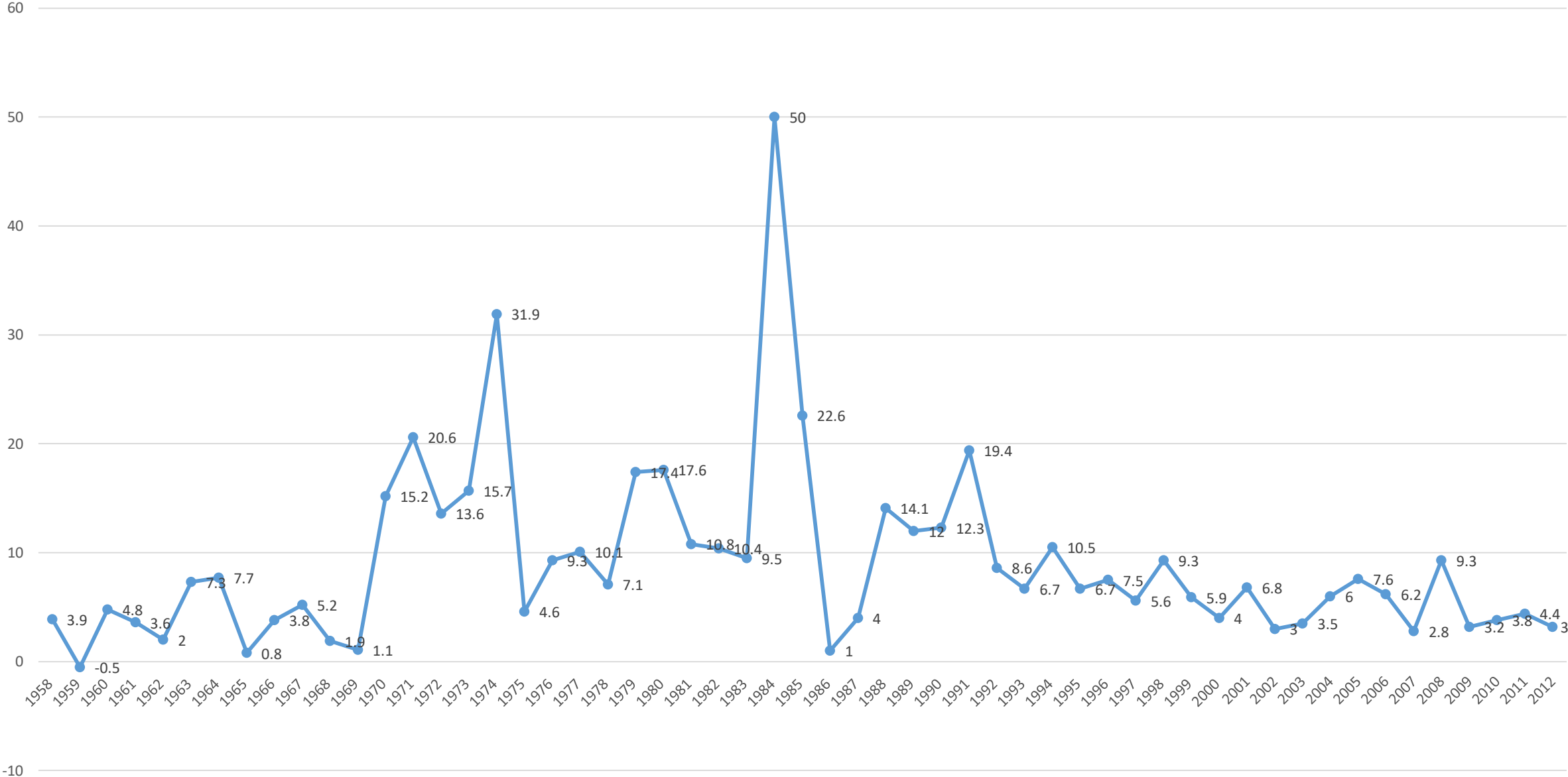
Growth Rates of GDP and GNI



- High growth years
 - Import-substitution period: 1949 – 1958
 - Early martial law years 1972-1979 (except 1974): debt-led growth
 - Current period: GMA period, P'Noy period, Duterte period
- Biggest collapse years
 - 1984-1985: Marcos years after Aquino assassination: debt default because of loss of confidence, capital outflows, Latin American debt crisis abroad

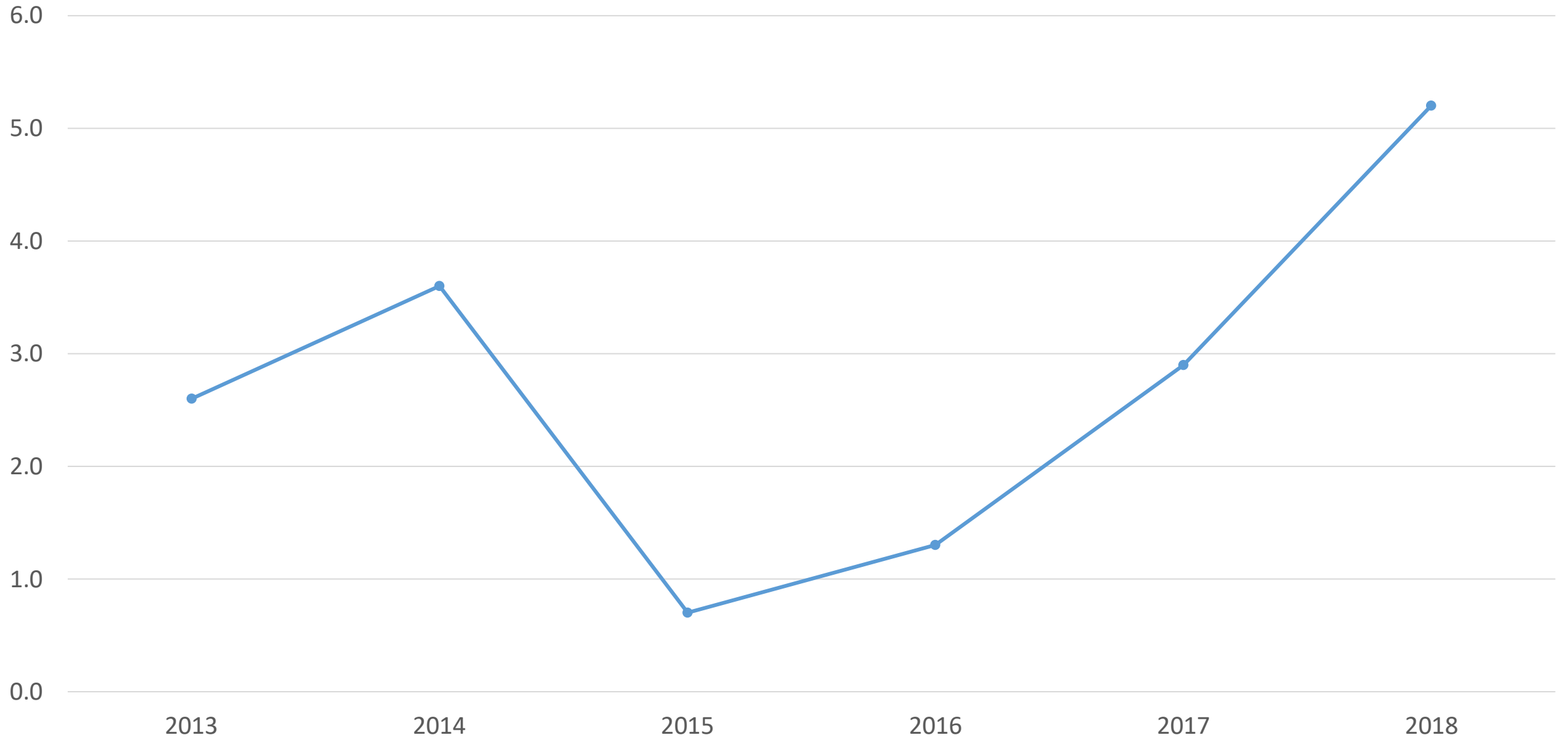
- The Philippines has had at least 5% growth since 2003 to 2018
- Except in 2005, 2008-9 and 2011.
- Since 2010, we had been growing at more than 6% per annum except in 2011.
- The Philippines therefore is one of the fastest economies in this part of the world.

Fig 2: Inflation Rate 2006 Base Year: 1958-2012

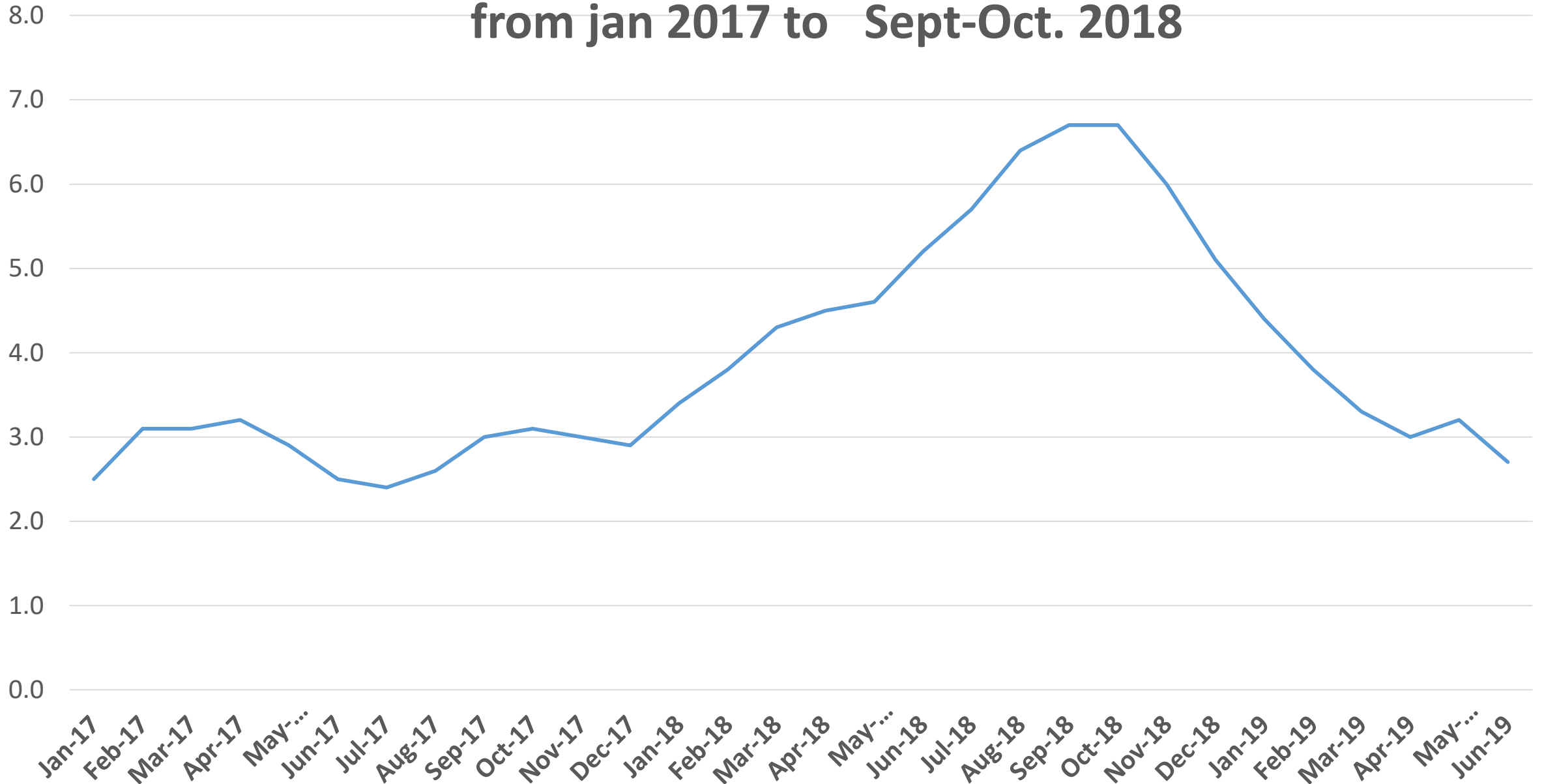


- Note Marcos economic collapse in 1984-85 worst in our post-war history. It brought our economy back 20 years!!! Tell that to the fake newsmakers that Marcos economy was the best one
- Note Marcos inflation also the worst in our history. Tell that to the world – 1974 (32%), 1984-5 (inflation reached 50% in 1984 and 22% in 1985 because of massive devaluation!!!!)

P'Noy and Du30 Inflation Rate (Base Year 2012)

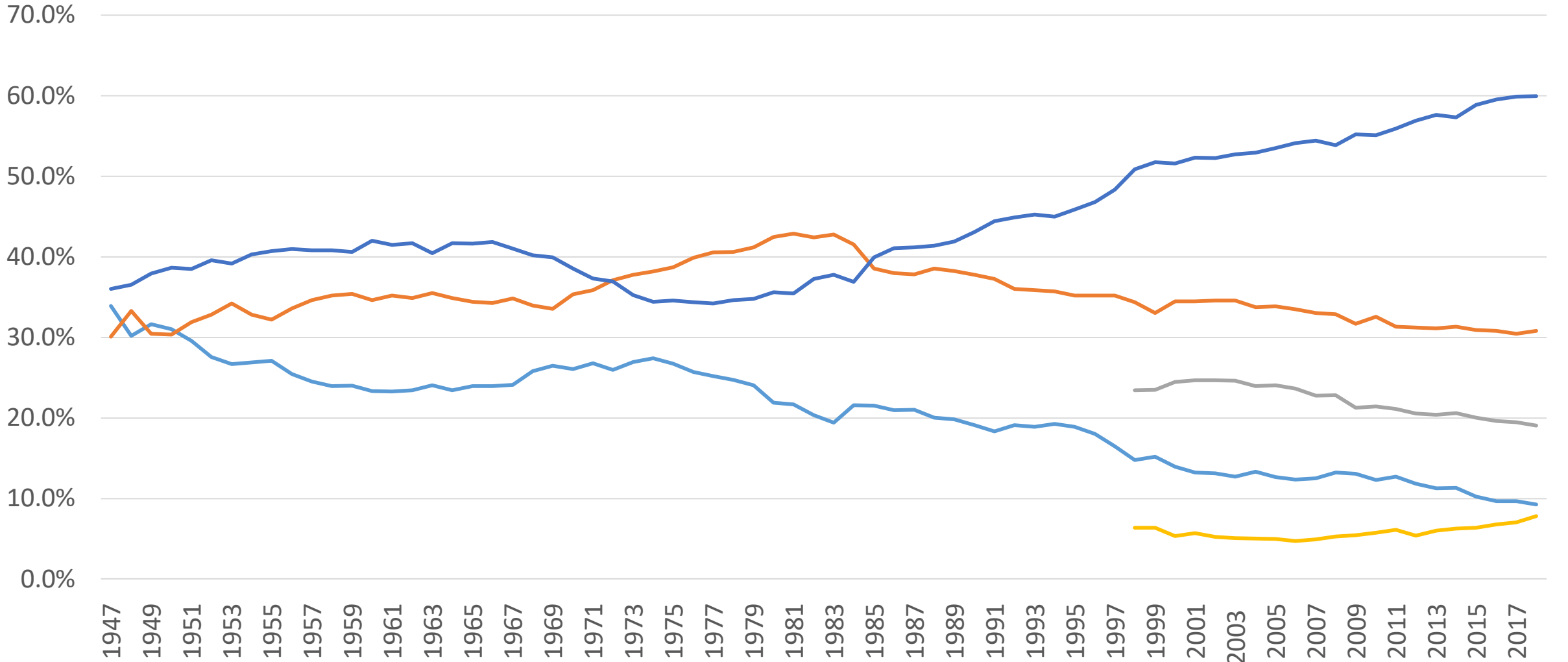


Month to month inflation Rate, rate more than doubled from jan 2017 to Sept-Oct. 2018



- I believe one of the main reasons why Duterte's rating shot up recently was the taming of inflation. Medyo mahina tayo dahil ang inflation ng 2018 was the gov't's fault in the first place!
- Biggest increase in Du30 rating class D and E
 - Mindanao
 - Taming of inflation

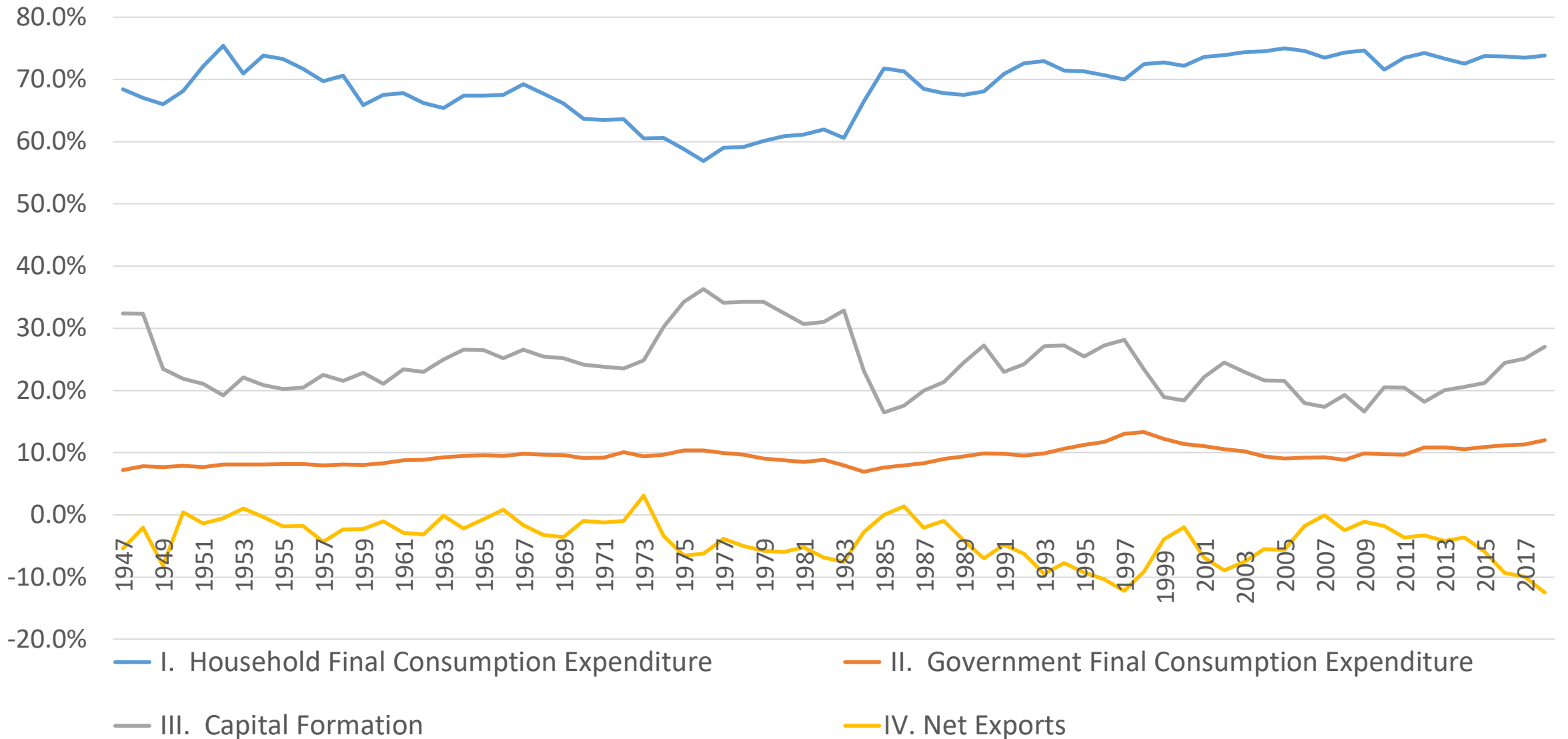
Share of GDP by Industrial Sectors



I. Agriculture, Hunting, Forestry and Fishing
Manufacturing
III. Services Sector

II. Industry Sector
Construction

Shares of GDP by Expenditures



- It was the 1984-85 economic collapse of Marcos that led to the continuous downfall of the manufacturing sector
- It was also the 1984-85 collapse that led to our low capital formation (investments – infrastructure, durable equipments/ machines, construction)
- GMA contributed to fall in capital formation during her reign because of the scandals and lack of confidence they generated

The PNoy Economy: 2010-2016

- PNoy gov't came in when global trade was very weak (after GFC)
- The strategy was to spur domestic demand, mainly thru government investments and expenditures (recall the DAP) -- rebalancing away from export dependence towards domestic demand
- The Pnoy economy significantly increased GDP growth (compared to GMA) – average of 5% GDP growth for GMA and 6.1% for PNoy
- Compared to GMA economy, PNoy GDP growth was led by domestic demand with consumption and investments growing faster and net exports contributing negatively to growth (low exports and trade deficits).

The PNoy Economy: 2010-2016

- Industry and manufacturing also grew faster in PNoy compared to GMA
- The economy grew partly because of higher economic confidence partly due to credit sovereign upgrade from international ratings agencies (Fitch, Moody's, S&P). The Phil reached investment grade: BBB & BBB-
- Upgrade came mainly due to: 1) improvement in fiscal position (with the sin taxes), 2) improved perception on governance
- The Global Competitiveness Index for the Philippines improved.

So far, the Duterte economy is a continuation of the PNoy economy

- The GDP performance in the second half of 2016 was a hangover of election frenzy and high spending. This explains the high GDP growth in the whole of 2016 (6.9%)
- The GDP growth rate of 6.7% in 2017 fell to 6.2% in 2018, and down to 5.6% in the first quarter of 2019 (because of Senate/Congress budget standstill)
- The main economic strategy of the Du30 government is the same as Pnoy government: 1) get a tax reform package done to increase gov't revenues, 2) use funds to pump prime the economy through infra building and other gov't spending

Du30 economy just a continuation of PNoy Economy:

Positive Aspects

- This building of infrastructure and pump-priming of the domestic economy to rebalance our growth is a positive aspect
- Contrasts with strong dependence on the global economy (OFWs, BPOs, global trade) under GMA
- Global economy too unstable and volatile today with threats of serious trade wars, global downturns, oil price increases, possible global interest rate hikes, etc., etc.]

Negative Aspects

- **Infrastructure spending mostly in growth areas, lacking in poor provinces**
 - **OK to build needed train systems, ports and airports in congested and growth areas**
 - **But should balance with integration of poor provinces and municipalities to these growth areas via transportation, market-linkaging, better irrigation, water and sanitation**
 - **Need to address regional disparities**
 - **Need infrastructure for social services: hospitals, health clinics, day-care centers, schools, wider and bigger non-corrupt PhilHealth insurance**

Negative Aspects

- **Tax reforms very regressive.**
 - **Doesn't tackle underpayment of income taxes by corporations and individuals due to collusion with BIR collectors**
 - **Doesn't tackle the BOC mafia that allow many imports to come in illegally, including large shipments of illegal drugs.**
 - **Rely mainly on sales – excise and VAT– taxes on sin goods (cigarettes – ok lang), fuel (unpopular), soda – sugary drink (nobody cares), many others**
 - **Result is very regressive since the rich do not pay the main brunt of the taxes, but the citizenry (majority very unrich) purchasing goods and services**

Gov't revenue and tax revenue to GDP ratio in percent of GDP: Phil compared to poorer economies

- **As % of GDP (2017)**
- **Country Gov't Revenue Tax Revenue**
- **Vietnam 25.6 18.6**
- **Philippines 15.7 14.2**
- **Cambodia 18.9 16.2**

Negative Aspect: Political instability, intermittent crises of confidence, private sector not dynamic – needs gov't infra spending

- The first quarter growth fell to 5.6% in the first quarter of 2019 after achieving a 6.2% growth in 2018, which was lower than the 6.7% growth in 2017**
- The 'low' 5.6% growth in the first quarter this year is due to the months-long budget impasse between the Senate and the Lower House – fight over pork!**
- This shows that the private sector does not yet have enough dynamism of its own, and depends on government's BUILD BUILD BUILD injections to bring life to the economy.**

Positive and Negative Aspects

- **The current growth program focuses on macroeconomic fundamentals**
 - **Strong fiscal position**
 - **Low inflation (which it failed to do in 2018)**
 - **Low government and foreign debt**
 - **Low default on loans**
- **This has earned the PNoy gov't several international rating upgrades from S&P, Fitch and Moody's. Last year we got a one-grade upgrade from S&P from BBB rating to BBB+ after inflation started to wane.**
- **All these are good but ignores one very important aspect of economic development: industrial and agricultural policies to improve the economic sectors and upgrade the products and technology.**

Negative Aspects: Lack of good agricultural and ind'l policies

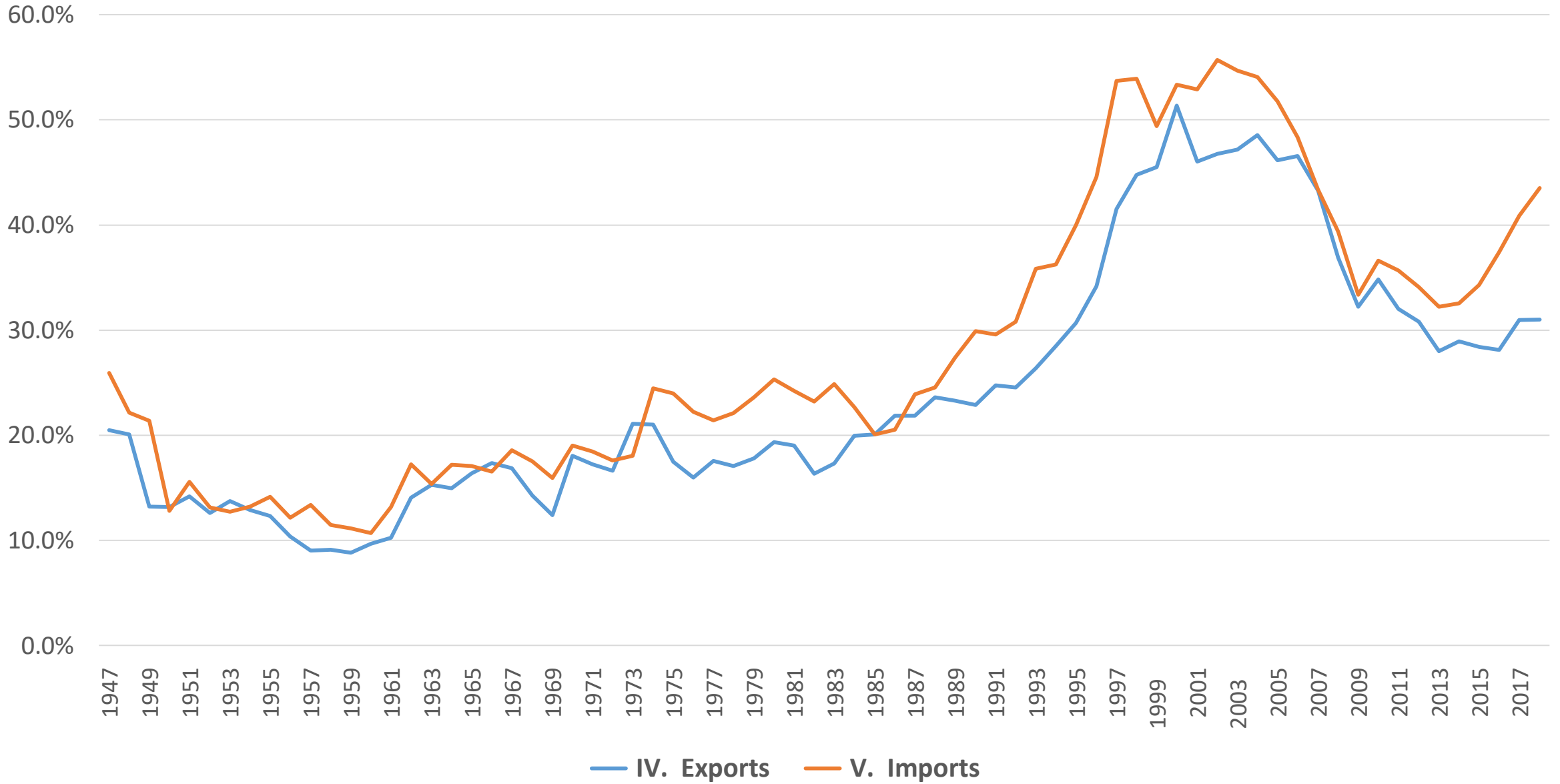
- **The lack of good agricultural policies had led to high inflation in 2018 mainly because of food shortages and only secondarily because of external oil price increases.**
 - **Palpak NFA policies led to rice shortage, corruption under Jason Aquino, kinampihan pa ni Du30. (No more Evasco..natalo pa sa Bohol to Arthur Yap, GMA's anak-anakan)**
 - **Lack of irrigation, need to mechanize some processes in agriculture, esp. rice**
 - **Depletion of our fishes (tapos ibubukas pa to Chinese fishermen),**
 - **Expensive feeds to pigs, cows, chickens**
 - **DA said to be corrupt – Sec. Berna Romulo Puyat after moving from DA to DOT.**
 - **Pinol taken out of DA because he wants NFA to stay on despite rice tariffication law, and because of his protection of the corrupt Jason Aquino**
 - **Lahat internal domestic problems not externally driven – because gov't concentrating on the macro fundamentals not industrial policies!!**

- Let's discuss rice tariffication law – it IS institutionalized by a law and IS an industrial (agricultural) policy. Will it work?

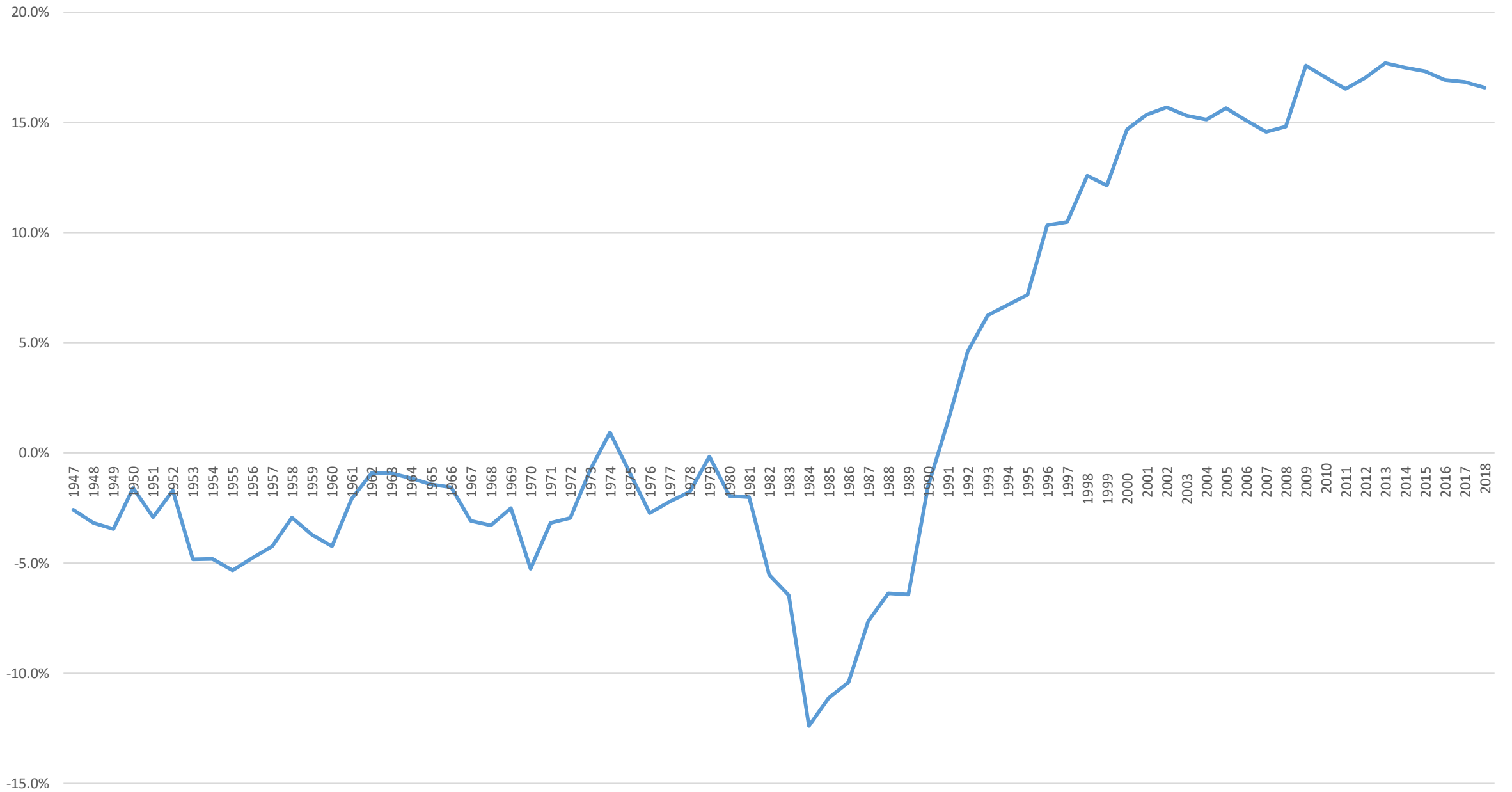
Negative Aspects: Lack of good agricultural and ind'l policies

- Inflation waned in late 2018 and in 2019 mainly due to imports of rice, fish, meat products -- **not improvements in domestic agricultural outputs** -- and decline in world oil prices.
- The lack of industrial and agricultural developmental policies have made us import dependent. Our products are not improving so we import! – cellphone, cement, steel, clothes, name it we import it.
- The infrastructure building in P'Noy and Du30 governments has made imports even zoom higher. The unstoppable fast rise in imports is threatening our international reserves

Exports and Imports as % of GDP



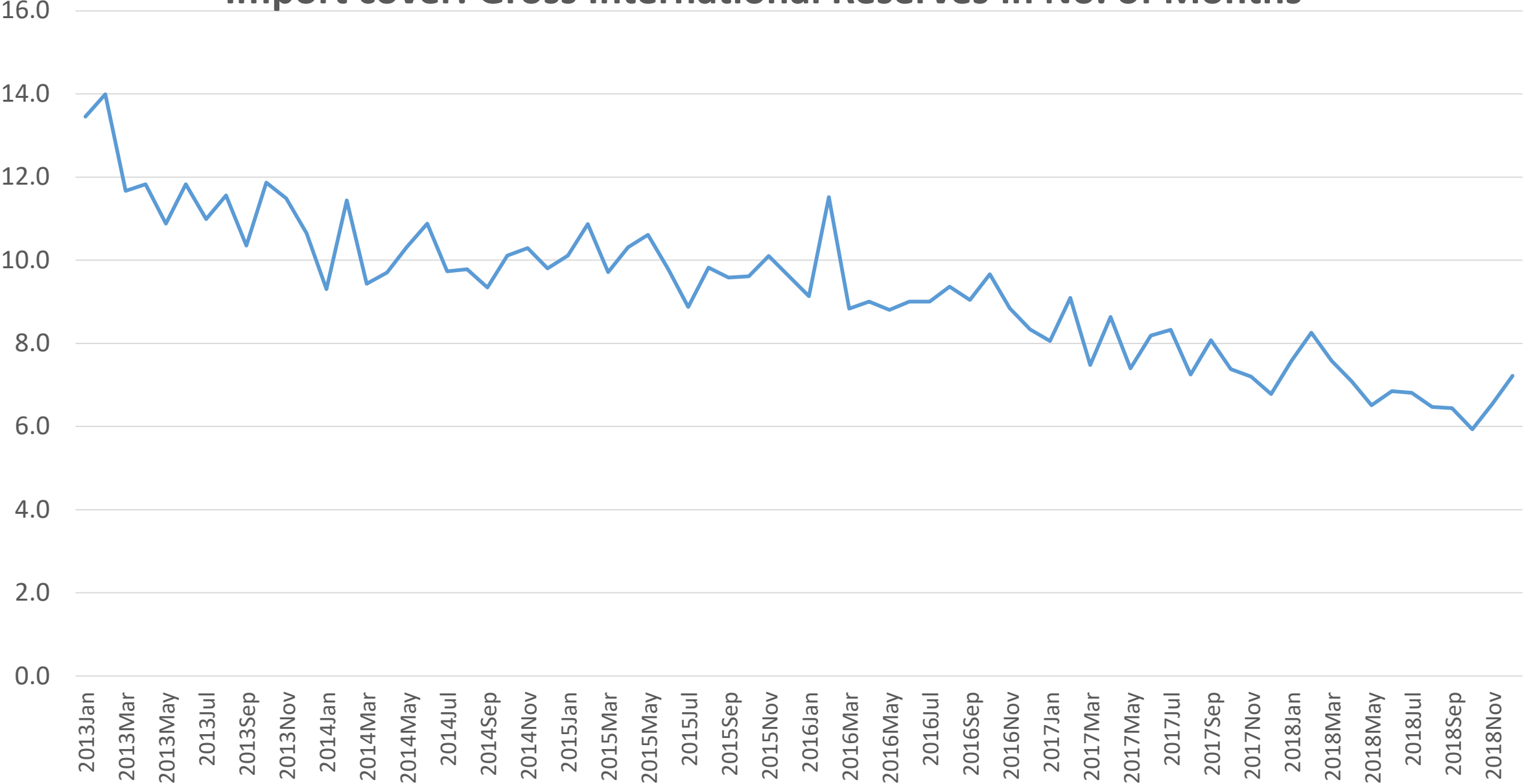
Net Primary Income, % of GNI



Negative Aspects: Zooming Imports and Trade Deficits Overshooting OFW Remittances – International reserves threatened

- Trade deficits is ballooning to drastic proportions – more than 12.7% of GDP in 2018. The trade deficit has been HIGHER than the entire OFW remittances since 2017 and is accelerating fast. Our foreign exchange reserves is decreasing, threatening serious deterioration of the peso
- The situation improved temporarily now as OFWs remittances surged again.

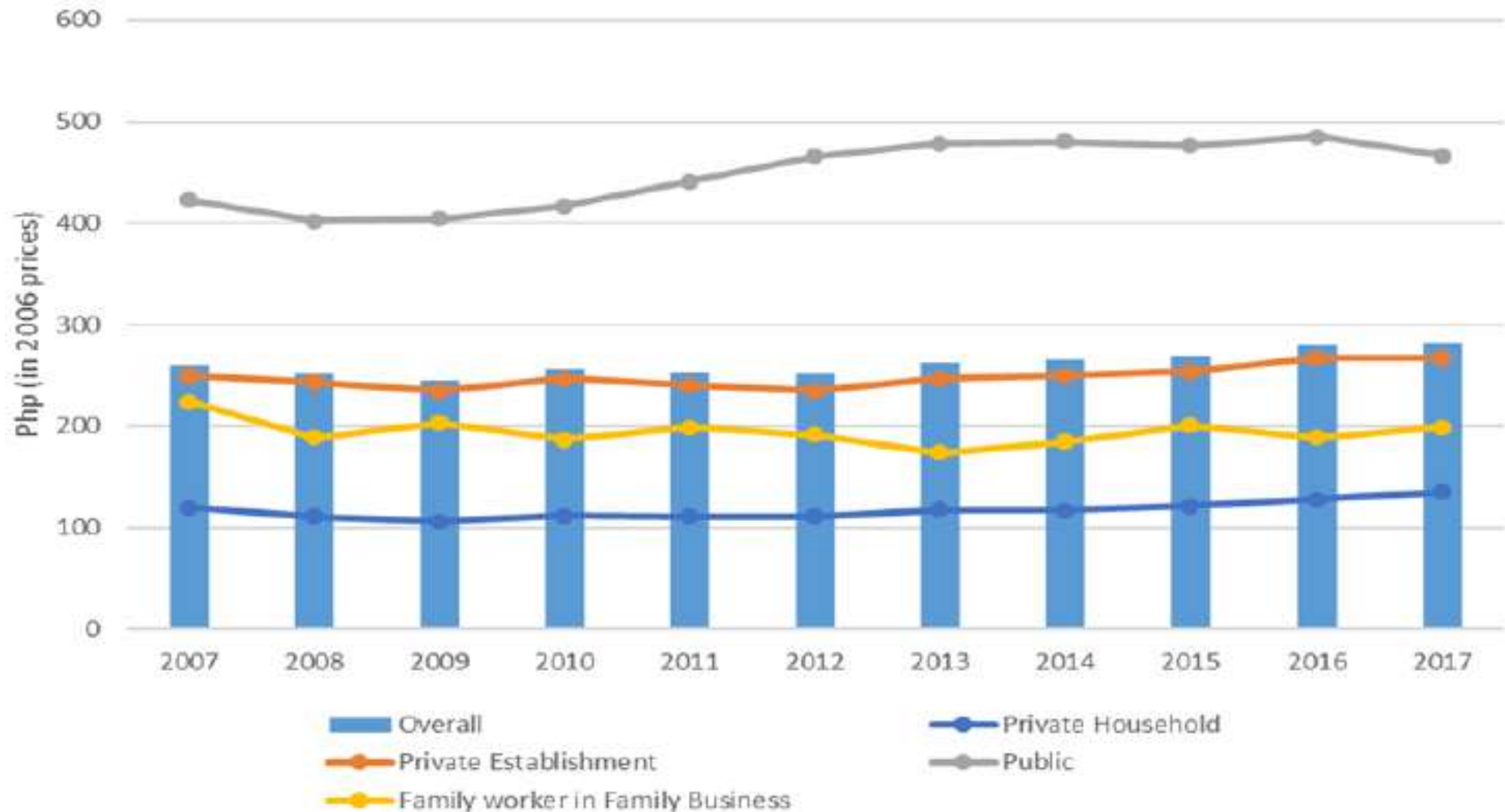
Import cover: Gross International Reserves in No. of Months



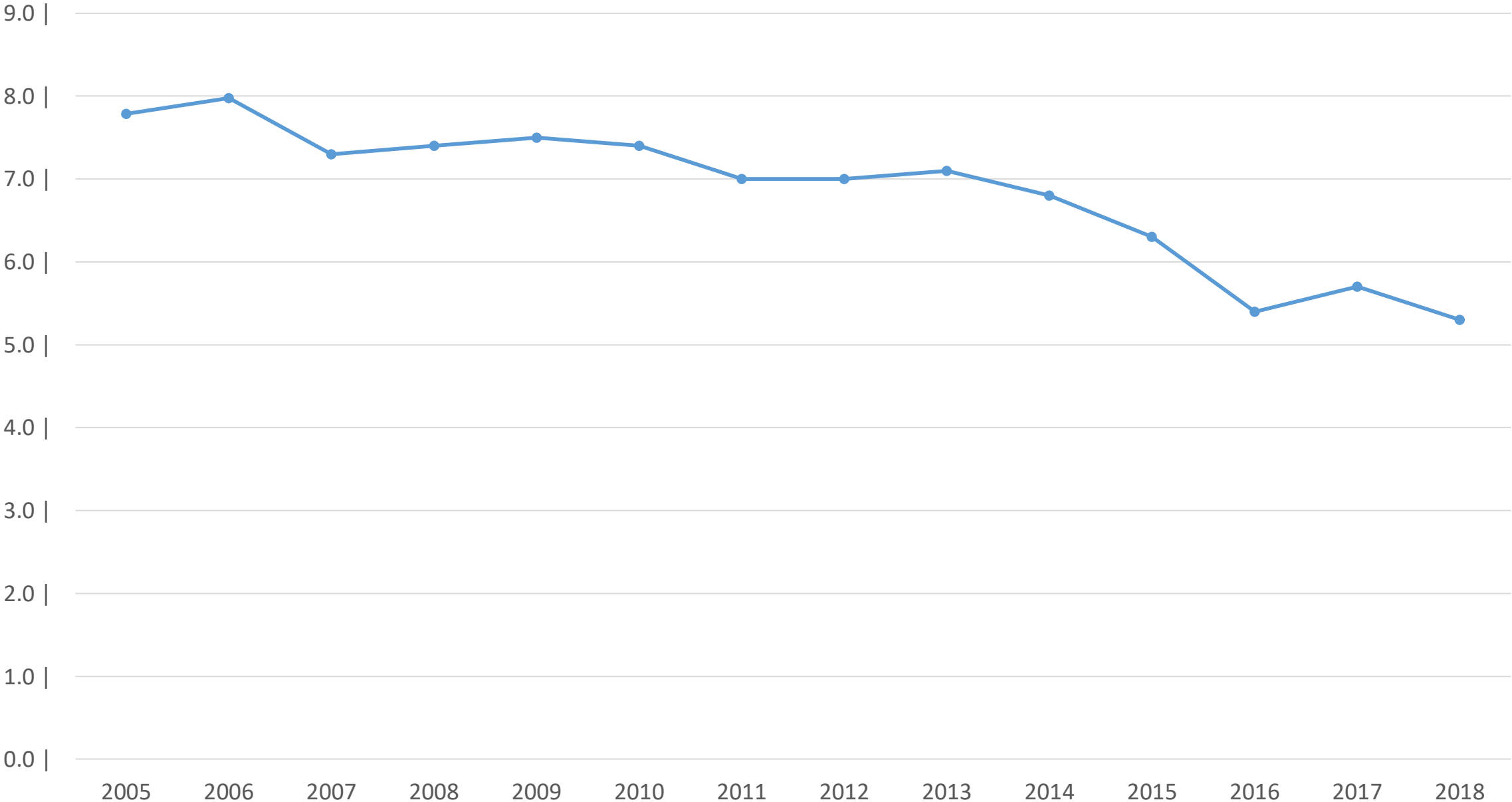
Economic and social deprivation as root causes of drugs, criminality and social conflicts

- Economic deprivation should be seen as a strong contributor to social problems: criminality, drugs, youth recruitment to terrorist groups, social anomie, dysfunctional families
- Lanao and Marawi wars are not simply due to ISIS infiltration. Drug use not just a problem of drug-pushing and zombie addicts
- The focus on solving economic and social deprivation to solve criminality and rebellion is very weak, compared to the focus on force and vigilantism in the drug war and the war against terrorism and ISIS.
- If current mentality does not, economic and social policies will get second-hand treatment and drugs, criminality and social conflicts will be incorrectly (and violently) addressed. Both social and economic programs will fail.

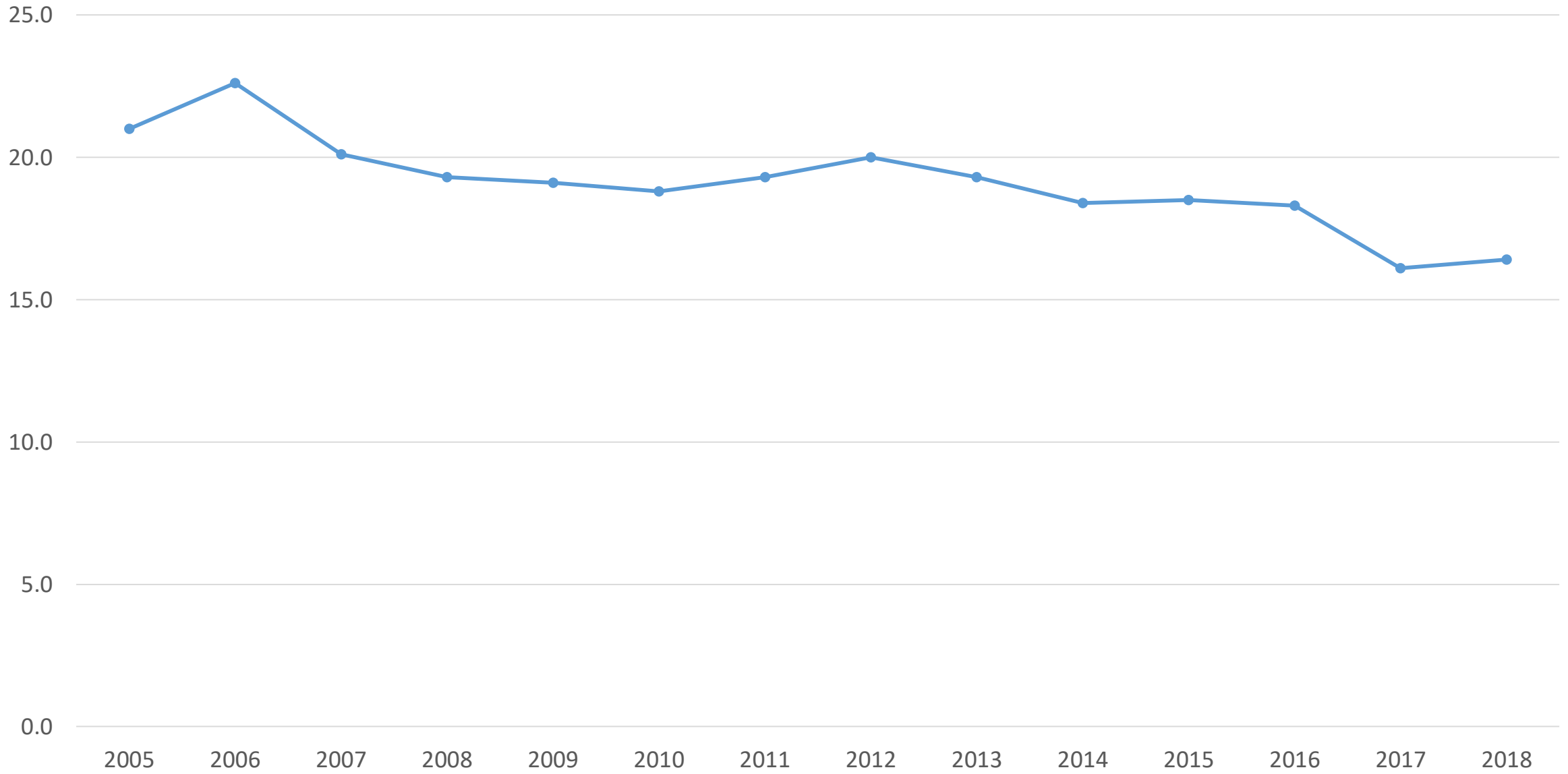
Real Daily Wages from WB (2018) study



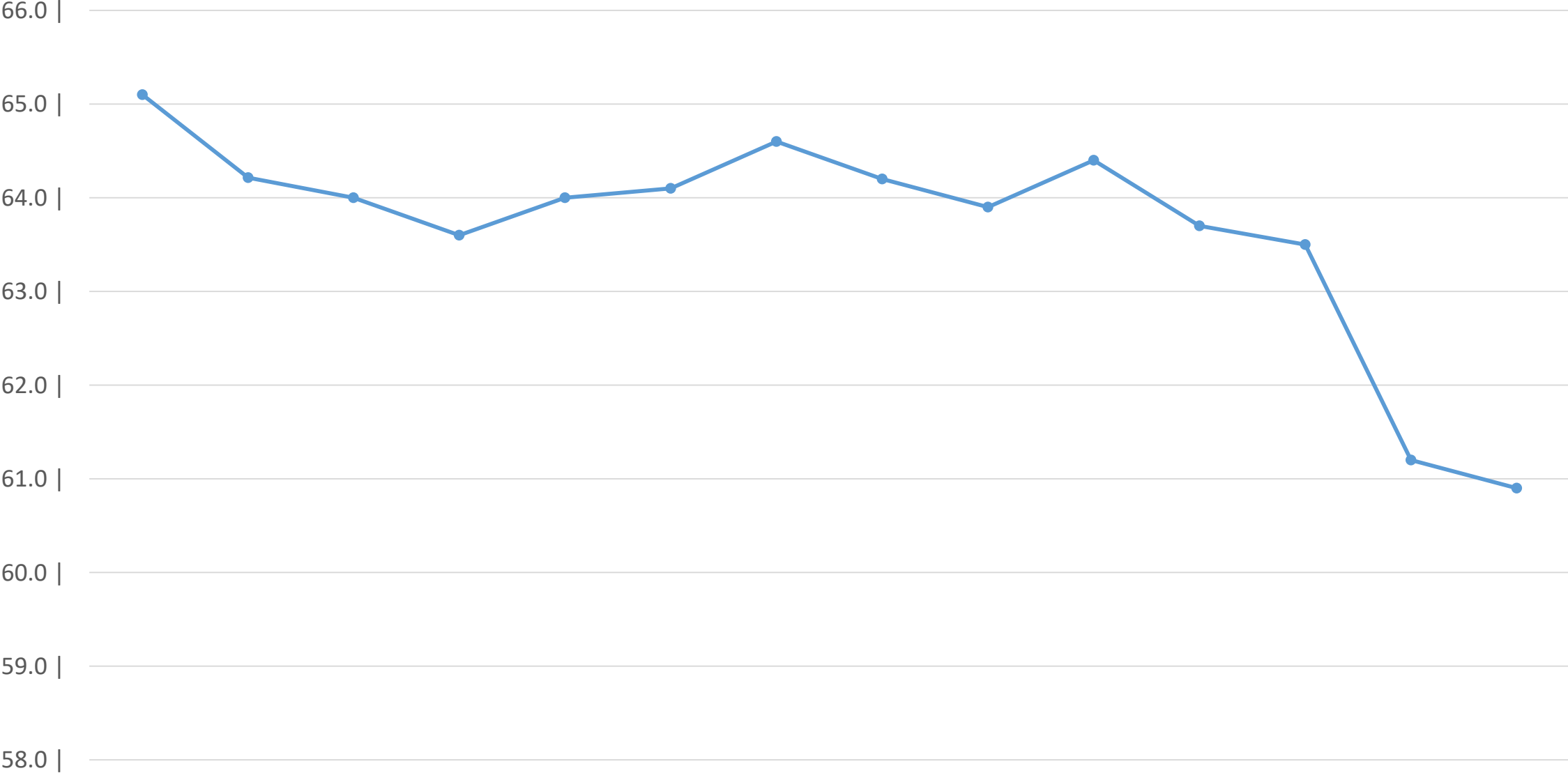
Unemployment Rate



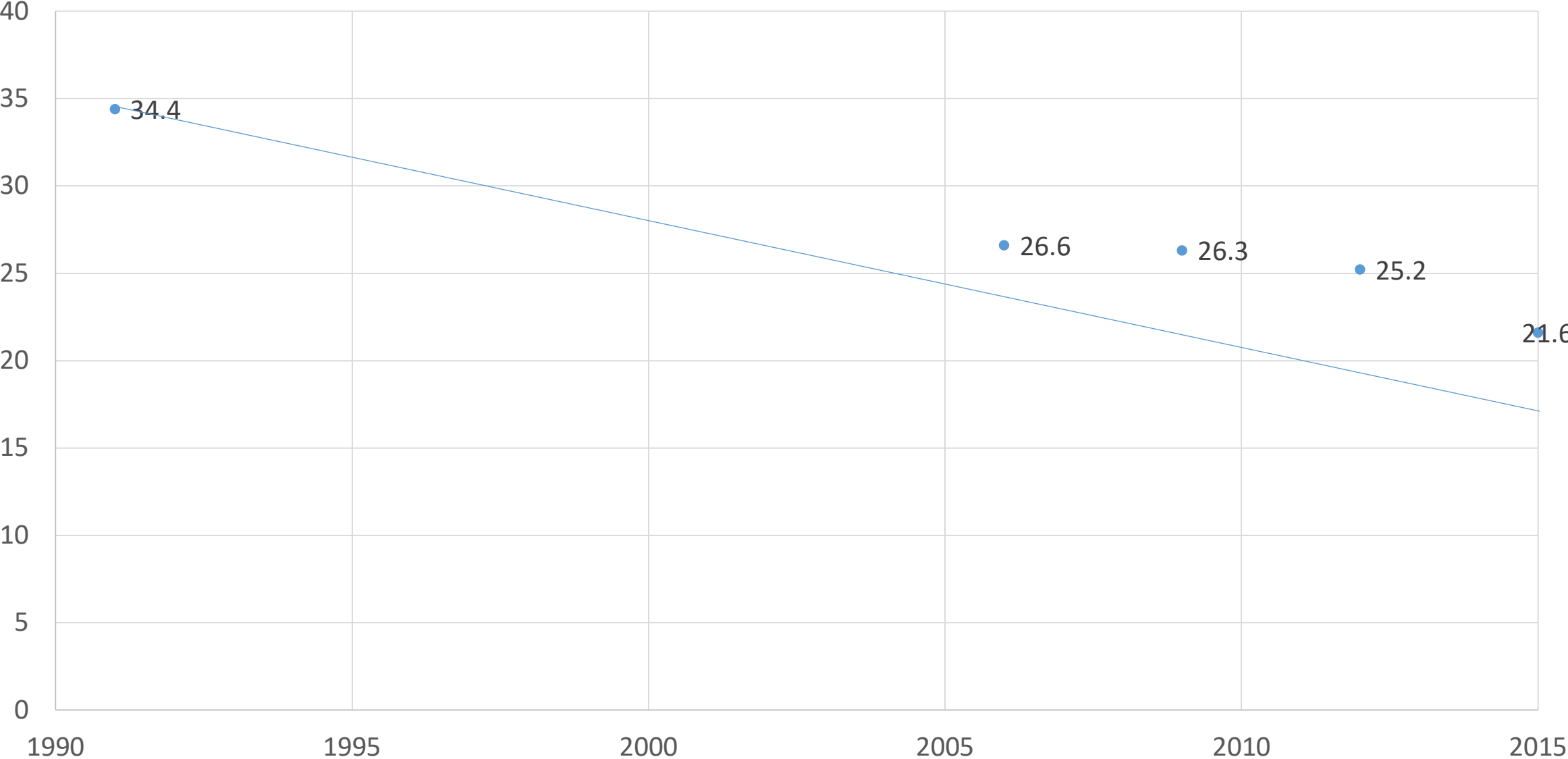
Underemployment Rate: Philippines



Labor Force Participation Rate



Actual Poverty Incidence vs. Line If MDG Was Achieved



Poverty incidence supposed to have fallen from 27. % in first semester 2015 to 21% in first semester 2018

- But second semester 2018 is where inflation increased much and peaked.
- Using PSA data, the BusinessMirror computed that the highest increases in poverty incidence were recorded in Basilan and Isabela City, where it worsened to 65.3 percent and 52.6 percent in the first semester of 2018, respectively from 28.8 % and 31.97% in the first half of 2015.
- Other provinces and cities that recorded increases in poverty incidence were Tawi-Tawi which recorded an increase of 6.34 percentage points; Bataan, 5.79 percentage points; Davao Oriental, 4.68 percentage points; Batanes, 3.26 percentage points; Zamboanga del Sur, 2.02 percentage points; Biliran, 1.96 percentage points; and Zambales, 1.91 percentage points.

- Let's discuss institutionalization of 4P's or CCT. Good or bad?
- Policies on social services? PhilHealth?

- Economic managers and CS should analyze very carefully why the P'Noy high growth was not felt by the majority of ordinary Filipinos
 - Regional and income distribution of that growth
 - The quality of employment generated, job stability and job security
 - Inadequate social services – need for strong push for PhilHealth for the indigents, better social/ health/ education infrastructure and services for the low-income
 - Assess the conditional cash transfer (CCT) program as the main anti-poverty strategy of the country – long-run vs short-run effects
 - Assess the quality of the indicators produced by PSA

Philippine Gini Coefficient

1997	0.488
2000	0.486
2003	0.471
2006	0.466
2009	0.463
2012	0.461
2015	0.444

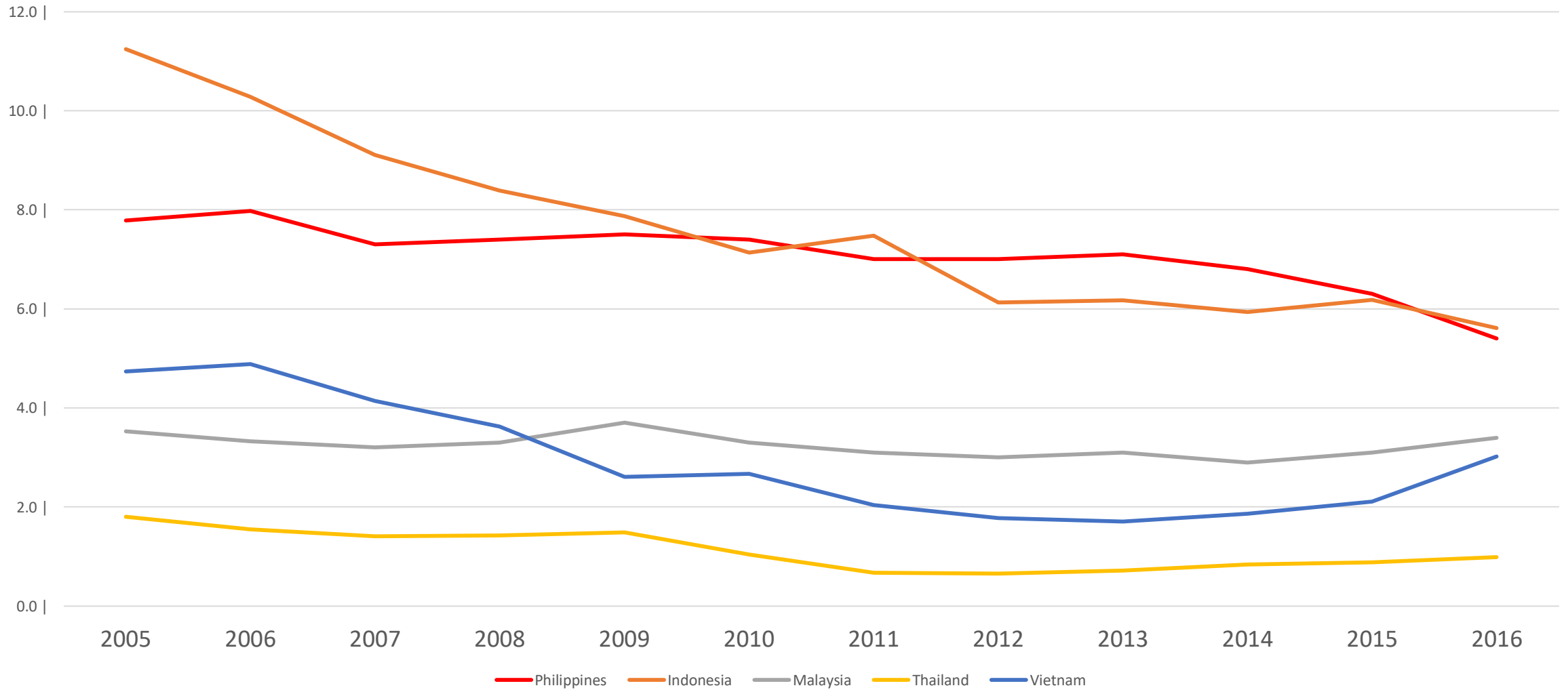
2015

Region Per Capita Income Decile	Income	
	Value	Percent
Philippines	6,068,162	100.0
First Decile	195,504	3.2
Second Decile	259,566	4.3
Third Decile	302,287	5.0
Fourth Decile	355,524	5.9
Fifth Decile	414,255	6.8
Sixth Decile	495,068	8.2
Seventh Decile	587,817	9.7
Eighth Decile	727,235	12.0
Ninth Decile	943,727	15.6
Tenth Decile	1,787,178	29.5
National Capital Region	1,282,823	100.0
First Decile	52,482	4.1

2012

Region Per Capita Income Decile	Income	
	Total	Percent
Philippines	5,026,798	100.0
First Decile	146,984	2.9
Second Decile	197,980	3.9
Third Decile	231,134	4.6
Fourth Decile	277,621	5.5
Fifth Decile	328,517	6.5
Sixth Decile	390,886	7.8
Seventh Decile	490,002	9.7
Eighth Decile	613,665	12.2
Ninth Decile	817,204	16.3
Tenth Decile	1,532,805	30.5

Unemployment Rate: Philippines, Indonesia, Malaysia, Thailand, Vietnam



Labor Force Participation Rate: Philippines, Indonesia, Malaysia, Thailand, Vietnam

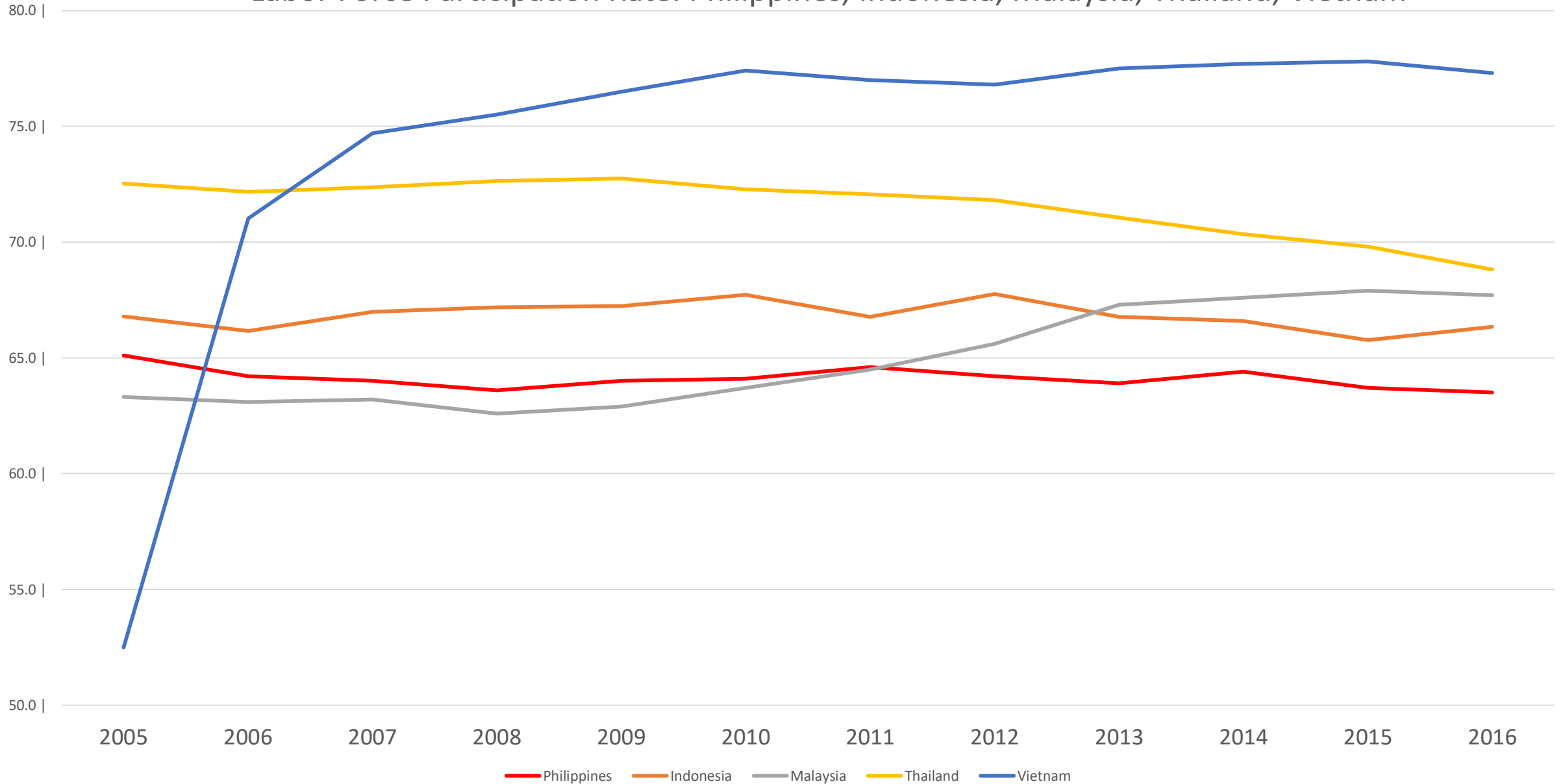


Table 1: HDI Indicators in 2015: Philippines vs. Selected ASEAN Countries

HDI Rank 2015	Country	HDI Index	Life Expectancy	Expected Years of Schooling	Mean Years of Schooling	GNI per capita \$ (PPP)	GNI per capita rank minus HDI rank	Previous HDI Rank 2014	Status
59	Malaysia	0.789	74.9	13.1	10.1	24,620	-13	59	High human development
87	Thailand	0.74	74.6	13.6	7.9	14,519	-11	88	High human development
113	Indonesia	0.689	69.1	12.9	7.9	10,053	-8	113	Medium human development
115	Vietnam	0.683	75.9	12.6	8.0	5,335	18	115	Medium human development
116	Philippines	0.682	68.3	11.7	9.3	8,395	-7	114	Medium human development

Table 1: HDI Indicators Calculated in 2017: Philippines vs. Selected ASEAN Countries

HDI Rank 2017	Country	HDI Index	Life Expectancy	Expected Years of Schooling	Mean Years of Schooling	GNI per capita \$ (PPP)	GNI per capita rank minus HDI rank	Previous HDI Rank 2016	Status
57	Malaysia	0.802	75.5	13.7	10.2	26107	-11	57	High human development
87	Thailand	0.755	75.5	14.7	7.6	15516	-7	86	High human development
116	Indonesia	0.694	69.4	12.8	8.0	10846	-19	115	Medium human development
116	Vietnam	0.694	76.5	12.7	8.2	5859	14	115	Medium human development
113	Philippines	0.699	69.2	12.6	9.3	9154	-7	111	Medium human development

Fall in our competitiveness rating in 2017 but improved in 2018 (dahil binago ang index)

Global Competitiveness Index: Rank/ Score: Philippines, Indonesia, Vietnam							
Country	2012	2013	2014	2015	2016	2017	2018 (new index)
Indonesia	50/ 4.4	38/ 4.5	34/ 4.6	37/ 4.5	41/ 4.5	36/ 4.7	45/ 64.9
Philippines	65/ 4.2	59/ 4.3	52/ 4.4	47/ 4.4	57/ 4.4	56/ 4.4	56/ 62.1
Vietnam	75/ 4.1	70/ 4.2	68/ 4.2	56/ 4.3	60/ 4.3	55/ 4.4	77/58.1

Low global competitiveness index in institutions, infrastructure, health, strong in macroeconomic environment

Global Competitiveness Rank for Selected Categories: 2018						
Country	Institutions	Infrastructure	Health	Skills	Innovation	Macroecon Environ
Indonesia	48	71	95	62	68	51
Philippines	101	92	101	67	67	43
Vietnam	94	75	68	97	82	64

- **In Conclusion:**
 - **Hurling Towards Middle Income Trap**
 - **Good signs**
 - **Growth still high, but the very low 5.6% 1st Q 2019 growth should return to more than 6% in the second quarter or else confidence will fall?**
 - **Inflation tamed (sana hindi bumalik bec of El Nino and water shortage)**
 - **Infrastructure building should bring some boost to the economy**
 - **Poverty incidence going down, but poverty figures for inflation period in 2018 not out yet**
 - **Hopefully rice tariffication law will improve agriculture and rural areas (BIG IF)**

- **Some not so good development problems**
 - **Regional disparities (can be solved by federalism? How abt infra?)**
 - **No good planning and blueprint yet for agricultural, industrial and service product upgrades, low R&D emphasis; economy's import dependence growing**
 - **Vietnam preferred by foreign investors, Vietnam catching up, we falling behind**
 - **No social cohesion, last election saw majority support Du30, but intellectuals and artists plus international entities protest against his killings and dictatorial ways and misogyny. Result of elections – stronger hold of Du30 on legislative/ judicial. Sino maging fiscalizers?**
 - **Global headwinds: trade war, Trump playing games, Brexit problems, slowing global economy and trade, oil prices going up again – global economic volatilities**
 - **Hurling towards ?????**