

Foreword


The Philippine Government envisions all Filipinos to emerge economically and socially secure in the 21st century. Today, as the economy continues to grow and gain strength, hopes are high that this vision will be realized within the foreseeable future. This is a formidable challenge that involves several tasks in many fronts.

In this context, the Government welcomes this report on the “critical development constraints” that the Philippines faces. The growth diagnostic framework used in the study is an attempt to establish priorities among many candidate policies and institutional reforms aimed at sustained and broad-based growth. The analyses and the informed recommendations geared to overcoming poverty, income inequality, and other unwanted economic and social outcomes are of immense value to policy makers in Government and observers of Philippine development.

The Philippines, as the report notes, has implemented a number of important policy reforms over the past three decades. Today, it is integrated with the rest of the world not only in trade in commodities but also in securities and foreign currencies. It has privatized many large Government corporations and deregulated key industries. It is actively involved in the Doha Round of the World Trade Organization. In the area of social development, it adopted the Millennium Development Goals. All these and more have helped usher in economic growth and improvements in living standards of Filipinos.

The Government, however, is aware that poverty, unemployment, and regional income disparities are all constant reminders of the difficulties that some of our countrymen are still experiencing. The report is, thus, very timely and will be a source of valuable inputs in updating the country’s Medium-Term Philippine Development Plan.

Lastly, the report provides insights that can enrich development cooperation between the Philippine Government and the Asian Development Bank (ADB). The high priority given, for example, to fiscal strengthening, is bound to improve the conduct of official development assistance. The Government gratefully acknowledges ADB for the moral and financial support it extended to the report at hand.


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Preface

Philippines: Critical Development Constraints is the first report in a series that is planned under the Asian Development Bank (ADB) regional technical assistance project, “Strengthening Country Diagnosis and Analysis of Binding Development Constraints in Selected Developing Member Countries.” This report presents a diagnosis of the Philippine economy.

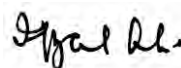
The Philippines’ development performance during the past several decades has been less impressive than that of many of its East and Southeast Asian neighbors. In the 1950s and 1960s, the country had one of the highest per capita gross domestic products (GDPs) in the region—higher than the People’s Republic of China, Indonesia, and Thailand. However, the Philippines has now fallen behind. Its growth has not only been slow but also erratic—with frequent booms and busts. As a result, household incomes have not risen significantly, poverty incidence has declined only slowly, and inequality remains high, which are constant reminders of the challenges that the Philippines faces in the new millennium.

In the past 5 years, growth has picked up and in 2007 the Philippine economy grew faster than at any point in the last several decades. However, domestic investment has remained low and its share in GDP has continued to decline. This raises the question of how the recent pace of growth can be sustained or even improved. Thus, the report attempts to identify the most critical constraints that are being faced by the country, which when removed can yield the highest welfare gains. It also attempts to answer how the constraints can be converted into opportunities for long-term growth, and how the benefits of economic growth can be translated into faster poverty reduction in the Philippines.

The study was led by Muhammad Ehsan Khan while Juzhong Zhuang, assistant chief economist, Economic Analysis and Operations Support Division, Economics and Research Department, provided the oversight and overall direction. The report, prepared by Dante B. Canlas, Muhammad Ehsan Khan, and Juzhong Zhuang with the assistance of Maria Rowena M. Cham, synthesized the findings of background papers commissioned under the study. The background papers were prepared by a team of experts comprising Gilberto M. Llanto, Emmanuel S. de Dios, Joseph A. Lim, Hyun H. Son, Arsenio M. Balisacan, and Clarence Pascual. The preparation of the report was assisted by Lawrence N. Guevara, Amador Foronda, Mary Jane F. Carangal-San Jose, Damaris Yarcia, and Marife Lou L. Bacate. The report was edited by Jill Gale de Villa, while production was coordinated by Cherry Lynn T. Zafaralla with the assistance of Joe Mark Ganaban and Mercedita P. Cabaneros in graphic design and typesetting, and Juliet F. Vanta and Fatima Christine R. Blanco in proofreading. Rana Hasan, Herath Gunatilake, William E. James, Donghyun Park, and Dalisay Maligalig provided constructive comments and support in finalizing the report.

During the study, ADB adopted a consultative process where first the framework and approach and then the study findings were discussed with representatives from key agencies of the Government of Philippines, academic and research institutions, and the private sector. Feedback received during these consultations greatly benefited us in preparing the report, which we believe will provide valuable inputs to the formulation of development policies and reform programs aimed at sustaining economic growth and poverty reduction in the Philippines. Tom Crouch, deputy director general, South East Asia Department; and Joven Balbosa, Philippine country team leader, helped in coordinating with the Government and other stakeholders in undertaking the consultations.

We are grateful for the support that was provided by the Government of Philippines. In particular, we would like to thank Deputy Director General Margarita R. Songco, National Economic and Development Authority, the Government focal point, for her keen interest in the study and guidance in completing this work. We are also grateful for the support and feedback from Undersecretary Gil S. Beltran, Department of Finance; Director General Rodolfo V. Vicerra, Congressional Planning and Budget Department of the House of Representatives; Assistant Director General Ruben S. Reinoso, National Economic and Development Authority; Director Gisela C. Lopez, Department of Budget and Management; and Alberto A. Lim, Makati Business Club. We look forward to a continued and productive dialogue with the Government in pursuing an agenda of sustained development in the Philippines.



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Contents

Chapter 1: Introduction	1
A. Objectives	1
B. Methodology	1
C. Organization of the Study	4
Chapter 2: Philippine Development: Performance and Policy	5
A. Synopsis of Philippine Growth	5
B. Accounting for Sources of Growth	7
C. Recent Trends in Poverty and Inequality	10
(a) Poverty	10
(b) Inequality	12
D. Evolution of the Philippines' Development Policy	13
(a) Development Policy before 1986	13
(b) Development Policy from 1986	14
Chapter 3: Critical Constraints to Growth	16
A. Cost of Finance	17
B. Social Returns to Investments	22
(a) Human Capital	22
(b) Infrastructure	25
C. Appropriability of Returns to Investments	30
(a) Macroeconomic Risks	30
(b) Microeconomic Risks	33
(c) Market Failures	36

Chapter 4: Critical Constraints to Poverty Reduction	41
A. Access to Economic Opportunities	41
B. Human Development	42
C. Access to Basic Social Services and Productive Assets	44
D. Social Safety Nets	46
Chapter 5: Summary, Conclusions, and Policy Implications	49
A. Critical Constraints to Growth and Poverty Reduction	49
B. Overcoming the Constraints to Growth and Poverty Reduction	50
(a) Expanding the Fiscal Space	51
(b) Accelerating Infrastructure Development	54
(c) Instituting Good Governance	56
(d) Supporting Expansion and Diversification of the Industrial Base	56
(e) Making Access to Opportunities More Equitable	57
C. Toward Inclusive Growth	61
Bibliography and References	62

Figures, Tables, and Boxes

Figure 1.1	Growth Diagnostics Framework	3
Figure 1.2	Diagnostic Framework for Poverty	3
Figure 2.1	Sector Share in GDP	7
Figure 2.2	Poverty Incidence in the Philippines	11
Figure 2.3	Poverty Incidence Based on \$1-a-Day in Selected Countries	11
Figure 2.4	Gini Coefficient for Per Capita Income/Expenditure for Selected Countries	13
Figure 3.1	Comparison of Investment Rates	16
Figure 3.2	Capacity Utilization of Small and Large Manufacturing Establishments	17
Figure 3.3	Comparison of Gross Domestic Savings, 1980–2006	17
Figure 3.4	Gross Domestic Savings and Investments	18
Figure 3.5	Comparison of External Indebtedness	18
Figure 3.6	Sources of Corporate Domestic Financing, End-2006	19
Figure 3.7	Comparison of Spreads between Lending and Deposit Rates	19
Figure 3.8	Comparison of Ratios of Domestic Credit to GDP	20
Figure 3.9	Available and Required Reserves Assets of the Banking Sector	20
Figure 3.10	Comparison of Per Capita GDP Growth Rates with Lending Rates	21
Figure 3.11	Comparison of Real Domestic Interest Rates	21
Figure 3.12	Trends in Lending Rates	21
Figure 3.13	Comparison of Sovereign Spreads	22
Figure 3.14	Public and Private Sector Investments in Infrastructure	25
Figure 3.15	Government Development Expenditures	25
Figure 3.16	Comparison of Road Network Coverage, 2003–2004	26
Figure 3.17	Comparison of Per Capita Electricity Consumption, 2000–2004	26
Figure 3.18	Comparison of Fixed Line and Mobile Phone Subscriptions, 2000–2005	26
Figure 3.19	Infrastructure Quality Ranking, 2006–2007	27
Figure 3.20	Annual Average Foreign Direct Investment, 2002–2006	27

Figure 3.21	GDP Growth and External and Internal Shocks	30
Figure 3.22	Inflation and Current Account Balance of the Philippines	31
Figure 3.23	National Government Deficits of the Philippines	31
Figure 3.24	Comparison of National Government Revenues	32
Figure 3.25	Comparison of Tax Revenues	32
Figure 3.26	Government Expenditures by Type of Services	32
Figure 3.27	Control of Corruption in Selected Countries, Percentile Rankings	34
Figure 3.28	Political Stability in Selected Countries, Percentile Rankings	34
Figure 3.29	Government Stability Index for Selected Countries	34
Figure 3.30	Foreign Direct Investment Flows for Selected Countries, 1980–1996	34
Figure 3.31	Comparison of Minimum Wage Rates and Labor Productivity in Selected Countries, 2003	37
Figure 3.32	Comparison of the Shares of Manufacturing in GDP, 2005	37
Figure 3.33	Comparison of Growth Rates of Manufacturing Exports, 2000–2005	37
Figure 3.34	Comparison of Manufacturing Subsectors by Technology Level of Production Process, 2005	38
Figure 4.1	Unemployment Levels in Selected Countries	41
Figure 4.2	Total Labor Productivity	42
Figure 4.3	Inequality in Average Weekly Real Wages of Urban Full-Time Employees	42
Figure 4.4	Opportunity Curve of Access to Primary and Secondary Education, 1998 and 2004	43
Figure 4.5	Opportunity Curve of Access to Health Facilities, 1998 and 2004	43
Figure 4.6	Access to Key Infrastructure Services, 2004	44
Figure 4.7	Access to Electricity and Potable Water, 2004	44
Figure 4.8	Regional Coverage of Roads, 2004	45
Figure 4.9	Regional Distribution of Active Microfinance Loans, 2007	45
Figure 4.10	Annual Average Social Expenditures as a Percentage of Total Government Expenditures for Selected Countries, 2001–2005	47
Figure 5.1	Three Pillars of Inclusive Growth	61

Table 2.1	Per Capita GDP in 2000 \$	5
Table 2.2	Annual Average Growth Rate of Real Per Capita GDP, 1950–2006	6
Table 2.3	Annual Average GDP Growth and Contribution of Major Production Sectors to GDP Growth	7
Table 2.4	Average Major Production Sector Shares in GDP, 2001–2006	8
Table 2.5	Share of Expenditure Components in GDP	8
Table 2.6	Contribution to GDP Growth by Expenditure Components	9
Table 2.7	Average Shares of Expenditure Components in GDP, 2001–2006	9
Table 2.8	Regional Contribution to GDP and GDP Growth	9
Table 2.9	Annual Average GDP Growth and Contributions of Factors of Production	10
Table 2.10	Annual Average Growth of Total Factor Productivity in Selected Asian Countries	10
Table 2.11	Inequality Decomposition by Region	12
Table 2.12	Inequality Decomposition by Education Level	13
Table 3.1	Comparison of Gross Domestic Savings with Neighboring Countries at Comparable Per Capita GDP in PPP Terms	18
Table 3.2	Unemployment Rates by Education Level in the Philippines	23
Table 3.3	Rates of Return by Education Level and Sector	24
Table 3.4	New Deployment of Overseas Workers by Occupational Group, 2006	24
Table 3.5	Governance Indicators for the Philippines, Selected Years	33
Table 3.6	Corporate Income Tax and Value-Added Tax Rates in Selected Countries	35
Table 3.7	Comparison of Labor-Related Regulations with Regional Countries, 2006	36
Table 3.8	Number of Graduates in Technology-Related Disciplines, 2002–2003	39
Table 4.1	Average Farm Size and Landholding Distribution	46
Table 4.2	Disasters and Related Assistance to Affected Persons	47
Box 1	An Endogenous Growth Model	2
Box 2	Unfinished Reform Agenda for the Power and Transport Sectors	28
Box 3	Major Tax-Related Reforms and Initiatives Since 1985	52
Box 4	Salient Poverty Reduction Programs, 1986–2007	60

Abbreviations

ASEAN	Association of Southeast Asian Nations
BIR	Bureau of Internal Revenue
BOT	build-operate-transfer
BSP	Bangko Sentral ng Pilipinas
CIDSS	Comprehensive and Integrated Delivery of Social Services
DOF	Department of Finance
EPIRA	Electric Power Industry Restructuring Act
EO	Executive Order
GDP	gross domestic product
LGU	local government unit
MDG	Millennium Development Goal
MTPDP	Medium-Term Philippine Development Plan
NCR	National Capital Region
NFA	National Food Authority
NIEs	newly industrializing economies
NPC	National Power Corporation
ODA	official development assistance
PRC	People's Republic of China
PSALM	Power Sector Assets and Liabilities Management Corporation
R&D	research and development
RA	Republic Act
RATES	Run After Tax Evaders
SMEs	small and medium enterprises
SSS	Social Security System
TFP	total factor productivity
VAT	value-added tax
WTO	World Trade Organization