Measures of Economic Development: How the Philippines Fares

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If one will view economic development from a traditional per spective as the annual increase in the total production of goods and services in a country and how these increases in economic activities will trickle down to the masses in the form of wages, then the Philippines is economically developing.

This is the common assessment of those in the government - that the Philippines has not lagged behind in its annual growth vis-à-vis our Asian neighbors. They harp that our economy has performed well as evidenced by the continuing increase in consumer spending as shown by the increasing number of malls and other entertainment centers all over the land.

But the sad fact is, we have lost the status as the most developed country in the ASEAN region (D. Wurfel, 1959) next only to Japan in the 1950s. Today, we have to admit that Malaysia, Thailand, Hongkong and Singapore have all surpassed us.

Wurfel, citing the *Economic Survey of Asia and the Far East,* 1957 said that the Philippines was "already the most industrialized in Southeast Asia, with manufacturing now accounting for nearly 15 percent of the net domestic product. Manufacturing also provides jobs for about 13 percent of the employed labor force" (D. Wurfel, 1959).

Development Economics

Today's modern view of economic development is not merely focused on the changes in the economic structures but on the whole society itself including its socio-cultural and legal-political institutions. Most economists, including M. Todaro (1977) and B. Villegas (1973), point out that the goals of economic development and industrialization should be as follows:

1. it should result into a long-term, stable and sustained economic growth
2. it should be a "redistributive type of growth" or able to eliminate or reduce poverty, income inequality and unemployment and contribute to a stable IR system.

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The new outlook in economic development was brought about by a new field of study within the economics discipline — the development economics.

According to M. Todaro (1977), development economics differs from traditional neo-classical economics because it is "concerned with the economic, cultural and political requirements for effecting rapid structural and institutional transformations of entire societies in a manner that will most efficiently bring the fruits of economic progress to the broadest segments of the population."

Measures of Economic Development

For a less developed country like the Philippines, the goals of economic development, as mentioned earlier, are two-fold — to increase production via industrialization and to effect more equitable income distribution among classes and among regions.

The success or failure of economic development can be gauged from statistics on GDP, GNP, per capita incomes, income distribution indices like the Gini ratios, unemployment and underemployment, poverty incidence, housing backlogs and squatting, social services and education, environment, etc.

The Real Performance of the Philippine Economy

Based on the above criteria on economic development, our performance in the following areas need a lot of improvement:

1. The growth of the industrial sector has been declining since the 1970s which contradicts one of the recent statements of President Gloria Macapagal-Arroyo that the Philippines is already among the Newly Industrializing Countries (NICs) in Asia. Whatever structural changes that occurred since the 1960s have been towards increases in the service sector and not towards industrialization.
2. We have likewise failed in attaining "redistributive growth" in terms of poverty reduction, income inequality among classes and among regions, and the number of unemployed in the country.

The Performance of Philippine Industries

Structural changes in the economy (or the growth of industry and the decline in agriculture share to GDP) are also measures of economic development. The transformation of an economy from agricultural to industrial is an indication of a successful economic development.

The share of manufacturing however has continued to decline, since the 1970s, as shown in Table 1. What is increasing significantly is the service sector as indicated in Table 2. Hence the Philippine growth pattern is from agricultural to service industries.

Table 1. PERCENT SHARE OF MANUFACTURING, AGRICULTURE AND SERVICES TO GROSS DOMESTIC PRODUCT (in million pesos)

Sector	1970	1980	1990	1999
Agriculture	14,734 (28.8 %)	23,627 (25.6 %)	29,620 (26.9 %)	183,407 (19.9 %)
Manufacturing (incl. Mining)	15,048 (29.4 %)	25,633 (27.8 %)	28,862 (26 %)	234,403 (25.5 %)
Services	21,232 (41.6 %)	42,687 (46.4 %)	51,409 (46.7 %)	499,572 (54.4 %)
Totals	**51,014**	**91,947**	**109,890**	**917,382**

Reference: Philippine Statistical Yearbook, National Statistics Coordination Board

Labor is being absorbed not by industry but by the service sector. As of 2000, more than half of the country's employed labor force which used to be in agriculture in 1956 are now in the service sector.

Table 2. LABOR ABSORPTION OF AGRICULTURE, MANUFACTURING AND SERVICES (in percentage)

Sector	1971	1981	1991	2000
Agriculture	50.4	51.4	45.2	37.0
Manufacturing	12.0	10.5	11	10.3
Services	37.6	38.1	43.8	52.7
Totals	**100**	**100**	**100**	**100**

Reference: Philippine Statistical Yearbook, National Statistics Coordination Board

Contrary to one of the recent pronouncements of Pres. G. M. Arroyo that the country is already in the category of an NIC, there is instead a trend of reverse industrialization in the country.

In addition to structural changes in the economy, other qualitative measures on positive economic development are the legal-political and socio-cultural changes which include orderly electoral processes, low crime situation, absence of hostile religious and ideological conflicts. While we may have orderly electoral processes, we have not fared well on the other socio-cultural factors.

The Fight Against Poverty

Despite the vows of all past administrations to fight poverty, the outcomes always appear to be in the losing end. The Philippines, compared to other major countries in Southeast Asia has been faring badly in the battle to reduce poverty. The number of Filipinos considered to be living below the poverty line was estimated at 15.4 million in 1975, 17.7 million in 1985 and 17.6 million in 1995. A poverty line is a quantitative measure to delineate the number of population existing in the bare level of subsistence.

Another means to measure poverty is determining the incidence or the number of poor Filipinos as a percentage of the total population. From 1997 to 2000, overall poverty incidence increased from 25.1 percent to 27.5 percent. This means there were an estimated 3.3 million more poor Filipinos in 2000 than there were in 1997.[1]

Based on 2001 data, Ibon's estimate of daily cost of living for a family of six members is P430.99 while government's daily poverty threshold is P228.76. Daily minimum wage (based on 2000 wage orders) was at P209.24.[2] The estimates reveal that government's poverty threshold measurement is too low and that wages are highly inadequate compared to what a family needs to survive. A poverty threshold is the minimum amount a family of six needs every day to satisfy all its basic needs – food, shelter, clothing, transportation, etc.

UP Professor Joseph Lim of the School of Economics wrote in an earlier study that poverty reduction in the Philippines is the worst among all the major countries in Asia, many of which were able to reduce the absolute number of poor people across the years. Malaysia and Thailand, for instance reduced their poverty from 11 percent in 1985 to less than 1 percent in 1995, while Indonesia improved its record from 65 percent in 1975 to 11.4 percent in 1995. The UNDP 2002 Report also showed that Malaysia and Thailand surpassed the Philippines in terms of human development index, specifically on the measurement of poverty per country.

Income Inequality in the Philippines

In the Philippines, the distribution of income continues to be very inequitable as the poor fails to improve their lot. In the 1994 Human Development Report (HDR) of the UNDP, the Philippines was one of the 10 developing countries with the highest number of poor people.[3] While in the 2002 HDR, the Philippines maintained a low ranking of number 24 in the Human Poverty Index and number 77 in the Human Development Index, among the world's developing countries. Other Asian countries such as Hongkong, Singapore, Korea, Thailand and Malaysia fared better than the Philippines. (See Annex 1)

Income inequality in the country has two dimensions — inequality among classes and inequality among regions.

<u>Inequality Among Classes.</u>

Shown in Figure 1 are the average family income decile groups in 1994 and 1997 (National Statistics Office-NSO):

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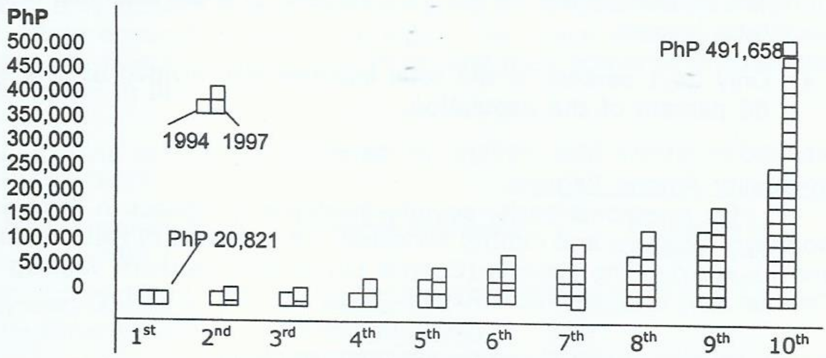
[1] Philippine Human Development Report, 2002 published by Human Development Network and UN Development Program

[2] Ibon Facts and Figures, Vol. 25, No. 24, Feb 28, 2002

[3] UNDP, *Human Development Report 1994,* New York Oxford University Press, 1994.

Figure 1. AVERAGE FAMILY INCOME BY DECILE GROUPS (1994 AND 1997)



The NSO's report on income distribution are summarized as follows:[4]

- The richest 10 percent of Filipino families is the only sector increasing its share of the total income.
- The income shares of families from the first to the 9th decile decreased from 1994 to 1997.
- Only families belonging to the 10th decile (richest 10 percent families) registered an increase of 4.2 percentage points in their income share. Their 1994 share in the national income of 35.5 percent increased to 39.7 percent in 1997, or nearly 2/5th of the national income.
- In 1994, the average income of the top 10 percent was 19 times of the poorest 10 percent. This increased further to 23.8 times higher in 1997.
- All sectors' incomes increased from 1994 to 1997 but those in the higher sectors enjoyed higher increases making the income distribution inequitable.
- Comparing the increases in incomes and expenditures, the average family incomes from 1994 to 1997 increased by 21 percent while the average expenditures increased slightly lower at 20.3 percent.
- Food expenditures during the period covered decreased from 47.8 percent of total expenditures in 1994 to 43.9 percent in 1997.

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[4] AFP, "Richest Filipinos Getting Richer", *Philippine Daily Inquirer,* July 15, 1998.

- The poorest 10 percent of the population got only 1.7 percent of the total incomes while the richest 10 percent got 39.7 percent. The richest 20 percent got 55.8 percent, or more than half of the total income.
- Only 24.1 percent of the total incomes was divided among the 60 percent of the population.

Inequality Among Regions

On a regional basis, poverty incidence is highest in Bicol and Northern, Western and Central Mindanao. It is lowest in Metro Manila and its surrounding regions (Central Luzon and Southern Tagalog or Calabar zon) and the Ilocos Region. This is shown in Table 3.

Table 3. POVERTY INCIDENCE AND GDP PER CAPITA BY REGION

Region		Poverty Incidence					GDP Per Capita		
		1985	1991	Rank	1997	Rank*	1991	Rank	1997**
NCR		23.0	14.9	1	7.1	1	8,001	1	14,360
I	Ilocos	37.5	49.4	3	37.6	6	7,485	3	11,981
II	Cagayan Valley	37.8	43.1	9	31.6	4	7,459	11	9,873
III	C. Luzon	27.7	33.0	2	16.8	2	7,595	4	12,837
IV	S. Tagalog	40.3	38.0	4	25.7	3	7,641	2	10,497
V	Bicol	60.5	56.1	13	50.1	13	7,403	13	10,558
VI	W. Visayas	59.9	46.7	7	41.6	10	7,548	7	8,725
VII	C. Visayas	57.4	42.4	6	34.2	5	7,591	5	8,726
VIII	E. Visayas	59.0	40.7	5	40.7	9	7,449	12	9,670
IX	W. Mindanao	54.3	54.5	11	39.8	8	7,467	10	10,455
X	N. Mondanao	53.1	55.2	12	468	11	7,582	6	10,489
XI	S. Mindanao	43.9	47.5	8	37.9	7	7,625	3	11,155
XII	C. Mindanao	51.7	51.0	10	49.1	12	7,515	8	11,214
	Philippines	44.2	40.7	-	58.1	-	-	-	-

Source: Philippine Human Development Report, 1994,
*1997- NSO
** Annual per capita threshold in pesos

Based on the GDP per capita, the poorest regions are Bicol (where the poverty incidence is also highest), Eastern Visayas, Cagayan Valley and Western Mindanao. Southern and Northern Mindanao, while ranking high or above average in terms of GDP per capita, performed badly in terms of poverty alleviation. These are cases where the fruits of increased production failed to trickle down to the poor.

Some Causes of Failed Economic Growth

Focus will be placed on two factors that contributed to our anemic growth- first, the lack of strong and progressive Filipino industrializing elites, and second, the wrong strategies adopted by these industrializing elites mostly in the government bureaucracy.

Role of Entrepreneurial Industrializing Elites

Economic development does not happen spontaneously or by luck. It is actually planned and executed (or 'engineered') by a group of entrepreneurial industrializing elites. The major categories of these elites (Kerr, et.al., 1964, Sibal, 1998) and their economic philosophies are shown in Box 1:

Box 1. THE MAJOR CATEGORIES OF ELITES AND THEIR ECONOMIC PHILOSOPHIES

Type of industrializing elite	**Economic Philosophy**	**Strategies of entrepreneur / bureaucrat**
Dynastic, Landlord type (Traditional Politician)	Mercantilism / Protectionist (Crony) Capitalism	"Rentier" / State Sector led
• Traditional Middle Class / Neo-Liberal • Neo-Classical Middle Class	Free Enterprise / Private Sector led Free Enterprise / Private Sector led but with State Planning & Intervention	Private Capitalist led / Weak State Mixed Economics but Private Sector led
• Traditional Socialist/ Revolutionary Intellectual • Reformed Socialist	Socialist/State Enterprise led Mixed Economics- State, Private & NGO Enterprises	State Initiative and Monopoly Mixed Economics but State Sector led
Colonial Administrators / Neo-Liberal Middle Class	Free Enterprise / Private Sector led	Private Capitalist led / Weak State

The entrepreneurial industrializing elites undertake technological innovation and are able to start, take risk and manage enterprises through state, private or non-government initiatives. According to B. Villegas (1973), entrepreneurship is a major factor of production and it accounts for more than half of the annual increase in production, or 2.7 percent of the 5 percent production increase.

The Filipino Industrializing Elites

The dominant Filipino entrepreneurial industrializing elites are a mixture of the dynastic landlord-type that have dominated the Philippine government, and the traditional neo-liberal middle class types and colonial administrators that have led state and private enterprises. The economic philosophy of this dominant coalition of industrializing elites combines mercantilism and protectionism through patronage political system and later, the neo-liberal philosophies of trade liberalization and privatization of selected state enterprises as espoused by the IMF-World Bank and the World Trade Organizations (WTO). These philosophies guide them in their approaches in economic development and industrialization.

Approaches to Economic Development

According to Todaro, there are four approaches to economic development as follows:

1. Linear stage of growth model
2. Structural change model
3. International dependence revolution
4. Neo-classical, free marke counter-revolution

Linear Stages of Growth Model

The main premise in this approach to economic development is the necessity of massive dose of domestic and foreign-sourced capital in order to generate sufficient investments to accelerate economic growth. Advocated by US economist W.W. Rostow, one example of this approach is the Marshall Plan type of external dose of capital to European countries after the Second World War.

Another example of this approach is the Harrod-Domar Growth Model whereby the increase in domestic savings and capital formation via increased taxation, forced savings and decreased consumption and foreign aid will bring about higher investments and GNP growth rates.

Structural Change Model

This approach to economic development puts more focus in investments in the modern sector (industry and services) rather than on the traditional sector (agriculture). The development of the modern sector will create jobs that will attract the surplus labor from agriculture. It will also increase the demand for agricultural products (raw materials and food) and due to decreasing supply of labor in the agriculture sector, it will, in the long run, shift to mechanization. Ultimately, the whole country will be industrialized.

This two-sector development model was patterned after the historical experiences of economic growth in Western countries.

International Dependence Model

This approach in economic development takes the point of view of less developed countries (LDCs) in their attempt to counter-act their exploitative relationship with developed countries.

According to this approach, underemployment in the LDCs is perpetuated by the tie-up between the multinational corporations (MNCs) of the developed countries with the "reactionary" local elites (landlords, military rulers, compradors, public officials, trade union leaders, etc.) through the international capitalist system that perpetuates income inequality ('trickle-down effect") and corruption. Likewise, according to this theory, some western educated local elites are encouraged to implement inappropriate development policies and programs.

LDCs within this model are able to maneuver from this dependency from the developed countries by institutionalizing reforms side-by-side with state and private entrepreneurship that will eventually compete, tie-up or take-over the businesses of the MNCs which will eventually lead to the economic development.

Neo-classical Counter-Revolution

The basic premise of this approach to economic development is that the cause of underdevelopment is too much state intervention, graft and corruption, inefficiency and lack of private sector initiative. Operating through the IMF and the WB, the advocacies of this approach range from the promotion of free trade, privatization of state enterprises, attraction of foreign investments, export promotion and less state intervention in prices and in the financial and capital markets.

The neo-classical advocates point out that this approach led to the success stories in the economic development of the Asian tigers — namely South Korea, Taiwan, Hong Kong and Singapore. This argument however was disputed by the fact that state intervention and state enterprises side-by-side with private enterprises were key features in the early development of industries in South Korea, Taiwan and Singapore.

The Approaches Taken by the Philippines

After the Second World War, the landlord dominated Philippine government applied the linear stages growth model through the doses of US-assistance to the country in trying to spur the economic recovery. Being mercantilists, the Filipino bureaucrats maintained and established state-owned enterprises that were shielded from too much competition from large American enterprises as a result of the free trade policy and parity rights imposed by the Americans. This strategy has made the Philippines the most industrialized country among the ASEAN nations during the 1950s, next to Japan. Local private enterprises however have to establish joint ventures with American enterprises or seek government favors in order to grow and survive.

The conservative Filipino dynastic elites of the 1950s have shortsighted development strategies. Due to their landlord interests, they did not institute land reform as Japan, Taiwan and South Korea did in order to develop and expand their local markets. They likewise did not take measures in enhancing the competitiveness of state and private enterprises in order to prepare them for the export markets. Instead, patronage politics and protectionism of these enterprises preoccupied the economic policies of the dominant Filipino industrializing elites.

This resulted in the continuing economic crises of foreign exchange deficits and a ballooning foreign indebtedness. Hence, the anti-control business interests, principally foreign business chambers and natural-resource-based exporters (gold, copper, timber, etc.) found an excuse to push for the reversal of the protectionist policy through decontrol, trade liberalization and other measures recommended by the IMF-World Bank.

The Philippines shifted to a neo-liberal model in its approach to economic development, with heavy reliance on foreign borrowings and foreign capital infusion. Instead of rethinking or changing the failed IMF-WB-initiated structural change model strategy which miserably failed to industrialize the Philippines, the neo-liberal economic administrators among the IMF-WB prodded our conservative dynastic and traditional middle class elites to blame instead graft and corruption in the government, inefficiency of state enterprises and protectionism as the main causes of the failed development strategies. Under the aegis of the World Trade Organization (WTO), the country's development strategy has been consolidated under the neo-classical counter-revolution.

The Failure of Free Trade under WTO

Free trade between developed and developing/ underdeveloped nations under the WTO has recently been receiving serious criticisms from both developed and developing nations. The benefits of free and unhampered trade, as was in the past, remained to be heavily in favor of the more developed nations.

According to Oxfam International[5], "the rules of the global trade system are rigged in favor of rich countries, allowing them to grab the lion's share of world export earnings... For every $100 generated by exports in the world, $97 goes to high and middle-income countries while just $3 end up in poor countries". Hence, Oxfam concluded that the "current trade rules prevent poverty reduction and urged radical changes in the rules to make them fair for all".

Even President Gloria Macapagal-Arroyo admitted the unfairness of protectionism practiced by industrialized countries that detriment trade with developing countries (Pablo, 2002).

"Wealthy countries have failed to practice what they preach to developing countries like the Philippines in the area of free trade, lamented the President in a speech before the 59th ASEAN Chamber of Commerce and Industry council meeting in Malacañang. The

[5] AFP, "Oxfam Targets 'Rigged' Global Free Trade Rules", *Philippine Daily Inquirer,* April 12, 2002, p. B9.

President lashed out at developed countries that blocked exports from poor countries while 'lecturing' them on the need to open their markets. "

The Philippines has now seen the realities of globalization and free trade. Beneath the WTO framework, regions have formed protectionist barriers in order to protect themselves from the abuses of developed countries. Europe has the European Union and North America, the NAFTA. In the Asian region, the Asian Free Trade Area (AFTA) is being accelerated among the nations of the ASEAN.

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Annex 1

Human development and human poverty indices of selected countries, 2000 *

High Human Dev't	Country	Human Poverty Index-1
Rank		Rank
23	Hongkong	ND
25	Singapore	5
27	Korea	ND
Medium Human Dev't		
59	Malaysia	ND
70	Thailand	21
77	Philippines	23
96	China	24
109	Vietnam	43
110	Indonesia	33
124	India	55
Low Human Dev't		
138	Pakistan	68
142	Nepal	76
143	Laos	64
145	Bangladesh	72

Source: Human Development Report 2002

*HDI measures the average achievements in a country in three basic dimensions of human development: a long and healthy life, knowledge and a decent standard of living. HPI-1 measures deprivation in three basic dimensions of human development: a long and healthy life, knowledge and a decent standard of living.