MEDIUM-TERM PROSPECTS FOR THE PHILIPPINE ECONOMY

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The Philippine economy weathered the East Asian financial crisis better than most of its Southeast Asian neighbors as Table 1 shows. During the depth of the recession in 1998, Philippine GDP dipped by only -0.5%, compared to -5 to –13 percent in other East Asian countries, including such tiger economies as Hong Kong and South Korea.

Table 1.
GDP Growth in East Asia

	1998	1999	2000
Philippines	-0.5	3.2	3.8
Thailand	-10.4	4.2	5.3
Malaysia	-7.4	4.5	5.5
Indonesia	-13.2	-0.5	4.0
Singapore	0.3	5.6	6.3
South Korea	-5.8	9.9	10.0
Taiwan	4.6	5.7	7.4
Hong Kong	-5.1	2.9	5.5
China	7.8	7.1	7.8
Japan	-2.5	0.3	1.5

The resilience of the Philippine economy can be explained by the following factors:

- **Political stability**: over the last twelve years, the country has had two peaceful changes of government. Democratic institutions are once more strongly entrenched.
- **Financial transparency**: Philippine banks have relatively low rates of nonperforming loans. Systems of surveillance, supervision, and monitoring have been in place since the serious financial crises of the early 1980s.
- **Moderate growth experience**: the economy has not suffered from overheating and has had time to overcome bottlenecks in infrastructure and governance.
- **Large pool of educated manpower**: the country has become a major source of knowledge workers for the Asia-Pacific region. Its exports are growing at about 15% yearly, mainly due to electronics and software products. It has taken over from Malaysia in chips exports and is following the lead of India in software development.
- **Improving infrastructures:** much has been done over the last ten years to address energy shortages, increase telecommunication density, improve inter-island shipping, and privatize water utilities. The over-all quality of infrastructure, however, still suffers in comparison with neighboring countries.
- **Strong civil society:** one of the largest networks of non-governmental organizations (NGOs) in the world provides the social safety net for those adversely affected by globalization and by previous anti-market policies of the Philippine government.
- **Filipino overseas workers:** close to six million Filipino workers abroad repatriate 6 to 8 billion US dollars yearly, greatly boosting international reserves and domestic purchasing power.

The above-mentioned strengths, however, are partly blunted by the following major weaknesses:

- **High poverty incidence**: with 32% of the population earning less than one US dollar a day, the Philippines has the worst poverty situation in East Asia. Mass poverty, especially in the countryside, limits the market for consumer products.

- **Low rate of domestic savings**: with a savings rate of less than 20% of GDP, the Philippines compares very poorly with the rest of East Asia, where the average savings rate is 32%, Singapore's is more than 50%, and even China's is above 40%.
- **High levels of corruption**: many government departments are plagued with corruption, a problem that has worsened with the decentralization of many functions to local governments.
- **Poor state of infrastructures**: Philippine infrastructure is still below standards in such countries as Malaysia, Thailand, China, Singapore, and Hong Kong. Energy, transport, and telecom costs are among the highest in the region.
- **Underdeveloped agricultural sector**: as a result of three decades of neglect, a by-product of inward-looking, import-substitution industrialization strategy, Philippine agriculture suffers from low productivity. Investments in irrigation systems, farm-to-market roads, post-harvest facilities, and other rural infrastructures are badly needed.
- **Ineffective bureaucracy**: some government departments are notorious for bureaucratic red tape that poses serious obstacles to investment. The situation is worsened by the litigiousness of Philippine society, a characteristic possibly inherited from the Americans.

Given these strengths and weaknesses, the economic prospects for the next five years can be gleaned from Table 2:

Table 2.
Medium-term Prospects of the Philippine Economy
(growth rates in %)

	1998a	1999a	2000	2001	2002	2002 - 2006
Personal consumption	3.5	2.7	3.1	3.4	3.8	4.3
Government consumption	0.9	8.8	1.9	1.1	2.0	2.4
Capital formation	-15.2	-8.0	5.1	8.3	10.2	11.3
Exports	-21.0	1.8	10.8	12.3	13.8	15.8
Imports	-14.7	-2.7	12.1	15.2	17.5	18.2
Agriculture	-6.6	6.6	2.5	3.1	3.6	3.4
Industry	-1.9	0.5	3.3	4.7	5.3	6.5
Services	3.5	3.9	4.7	5.4	6.1	7.9
Gross Domestic Product	-0.5	3.2	3.8	4.3	4.7	6.1
Net factor income from abroad	14.8	10.7	8.1	6.5	5.1	4.7
Gross National Product	0.1	3.6	4.1	4.5	4.9	6.2
Exchange rate (PhP/US$1)*	40.9	39.1	41.3	43.2	45.0	47.3
91-day Treasury bill rate (%)	15.0	10.2	9.1	8.6	8.0	7.4
Inflation rate	9.7	6.6	6.2	6.0	5.7	5.4
Trade deficit (US$ bil.)	0.0	4.3	0.8	-2.7	-3.6	n.a.
Merchandise exports (US$ % growth)	16.9	18.8	13.3	15.4	16.7	18.3
Current account (US$ % GDP)	1.9	5.3	1.3	-1.5	-2.3	-1.9

Note: 1998, 1999 are actual. Prospects are as of May 6, 2000.
Source: School of Economics, University of Asia and the Pacific, National Statistical Coordinating Board, Bangko Sentral ng Pilipinas.

- Personal consumption expenditures have been an engine of growth even during the worst period of the recession. Filipinos can hardly reduce their consumption even during a recession because they spend most of their incomes on basic necessities. Population growth at 2.3% annually also bolsters consumer spending.

- Merchandise exports will continue to grow at double-digit rates for the next five to ten years as the Philippines capitalizes on its educated manpower in knowledge-based industries. The country is becoming a major center for shared services for global corporations in the Asia-Pacific region. Several cyber-parks have already been established to attract IT-related projects that make use of the country's abundant educated and English-speaking manpower.
- Economic growth will be moderate at 5 to 6% because of still inadequate infrastructure and the slow pace of economic reforms. It will take time to remove constitutional constraints to more significant inflows of foreign investments.
- Agriculture will growat 3 to 3.5% per annum as long as there are no extreme weather disturbances. A faster rate is possible if the government makes good on its claims that the rural infrastructure program will receive the highest priority.
- Inflation will gradually decelerate to less than 6% per annum. The rate will be significantly higher than those of its major trading partners, necessitating a depreciation of the Philippine peso by 4 to 5% every year.
- Gross National Product (GNP) will grow faster than GDP because of the rem ittances from overseas workers. These foreign exchange receipts will continue to strengthen the foreign reserves position and the domestic market for goods and services.
- The Philippines is poised to be fully integrated into the ASEAN Free Trade Area (AFTA). It will continue to export electronic components and semiconductor devices to other ASEAN nations. It will import food, textiles, and steel products, among others, from its more industrialized neighbors. In the domestic market, logistics will be a major industry that will benefit from Information Technology.
- China's succession to the WTO will have minimal impact on the Philippine economy since the two countries hardly compete with one another. The Philippines' competitive advantage is in industries that require highly educated professional people, who are still relatively scarce in China. In the long term, the Philippines can be a major food exporter to China.
- Japanese corporations will continue to invest in the Philippines in the electronic components, semiconductor devices, and car parts sectors. Through the Obuchi and Miyazawa Funds, Japanese firms will be active in constructing major infrastructure projects like railroads, airports, and power plants. The Philippines will continue to import mostl y cars and appliances from Japan.