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Making sense of the failure of rapid industrialisation in the Philippines

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Abstract

This paper examines the reason(s) for the inability of the Philippines to achieve rapid industrial and economic growth. The examination is developed against the backdrop of long-term historical evidence provided by early (US and UK) and late (Japan, South Korea, and Taiwan) industrialised economies. Technological capability and productivity (or lack of it) in a few strategic industries lie behind the profound contrasts in performance between the Philippines and the other countries. This finding goes beyond the current debate in the Philippines over trade policies, that is, whether to adopt an open or protectionist regime. I posit that what is needed is a deepened industrial structure produced as a result of innovation and learning, and most importantly, a coherent innovation and production system.

Keywords: Philippines; Industrialisation; Productivity; Trade policies; Innovation

1. Introduction

The Philippines, like its neighbours, has become an exporter of manufactured goods—a considerable achievement for a country that was first linked to the global economy only in the late eighteenth century. Nevertheless, the country is not yet considered an industrialising economy for two reasons. First, the country has failed to achieve a sustained period of rapid growth. Instead, its attempt toward industrialisation is characterised by alternating patterns of boom and bust. Second, it is currently undergoing a process of de-industrialisation. These factors make the Philippines an outlier in a region filled with dynamic, high-performing economies.

Why has the country failed to industrialise and achieve a sustained path of economic progress? Scholars of various disciplinary persuasions have offered explanations. This paper offers one more explanation, arguing that what separates the Philippines from other high-performing Asian economies, such as Japan, South Korea, and Taiwan, is its inability to develop dynamic and progressive industries and to sustain its technology and innovation gains. By "dynamic and progressive" I mean industries that are highly productive and capable of producing new and globally competitive products across sectors such as consumer goods, component parts, and intermediate goods.

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I will investigate the industrial situation in the Philippines against the backdrop of long-term historical evidence provided by early (UK and US) and late (Japan, South Korea, and Taiwan) industrialised economies. The profound contrasts between the experiences of these countries and that of the Philippines lie most notably in the: (a) high productivity levels of strategic industries in the early phase of industrialisation of the present developed economies, (b) the major role of technology in the highly productive industries, and (c) the role of small- and medium-enterprises in that rapid growth, especially in the Asian economies. It is, however, curious why well-respected Philippine economists continue to blame a protectionist policy, and instead call for further opening the economy as a solution to the problem. What is equally disturbing is the apparent lack of understanding among prominent scholars and experts of Philippine development of the crucial role of technology and innovation in moving the country into rapid economic growth.

2. Industrialisation and the Philippine puzzle

During the 1950s, the Philippine economy performed better than that of South Korea, which would later become one of Asia's "tiger economies." However, the Philippines was not able to sustain that performance; indeed, the country began lagging behind its Asian counterparts in the 1960s, and the gap has become even wider since the 1980s.

Many observers attribute the rapid economic growth of neighbouring Asian countries to successful industrialisation [1–3]. Manufacturing has played a major role in these economies as manufactured products have steadily increased over many years. As is typical of industrialising economies, there has been a consistent upward trend in the contribution of manufacturing to these countries' national gross domestic product from the 1960s onward [1,4,5]. The manufacturing sector's share in overall employment has also increased as the employment structure evolved, moving from informal jobs in traditional sectors to many more formal jobs in higher productivity sectors.

By contrast, in the Philippines a different and quite puzzling situation has emerged. In many respects the manufacturing sector's performance since the 1960s has been dismal. In fact, even in the 1950s, there were doubts about the country's growth performance given that a sharp deceleration of manufacturing growth was already evident in those years. By 1960, the 13% average annual growth that had occurred between 1952 and 1956 was cut in half [6]. Although it was evident that general growth trends in the manufacturing sectors of its neighbours had also slowed during the mid-1960s through the 1990s, the situation in the Philippines was more serious because the decline was very sharp: from a high of 7% per annum between mid-1960s and 1980 to a low of 2.0% between 1980 and 1999 [3].

Historically, the Philippine manufacturing sector contributes slightly more than 20% of the national gross domestic product—a figure that has remained at the same level for more than four decades [7]. Since the 1960s there have been only small changes in the distribution of the labour force. This means that the proportion of labour in agriculture has declined very little. And the small shift in employment is not even from agriculture to the manufacturing sector but rather from agricultural self-employment toward informal employment in urban services [8]. With agriculture still the key player in overall employment, and with very low productivity in that sector, it is no surprise that there is low per capita income in the Philippines compared with other industrialising Asian economies. For example, in 2000 Malaysia's gross national income per capita was almost twice (US$8200) that of the Philippines (US$4150). Moreover, the Philippines' export performance has diverged dramatically from other Asian economies since late 1980s. By 1999, Malaysia's exports were already twice (US$68 billion) those of the Philippines (US$32 billion).

Although the Philippine economy grew at reasonable rates in the 1990s, it was "jobless growth" because of stagnating labour productivity in the face of relatively high increases in average wages. While some multinational corporations have chosen to transfer their operations to more competitive economies such as China, those that remain in the Philippines have found it more profitable to invest in capital. Lanzona reports a sharp increase in capital investment between 1991 and 1998, from an average of 0.6% to 4.6%. He points out that in real terms, the average daily wages in the Philippines increased by 55% from 1987 to 1999 [9].

A 2002 IMF-sponsored study recommended moderate increases in real minimum wages rather than improving labour productivity through technology and human resources development and suggested an improvement in economic growth, but the study lacks any concrete suggestion as to how economic growth can