



Too late for the Philippines?

by Nicole Baro

- Country comparison
- A history of economics shocks
- Social and political factors affecting development





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A look into the 'sick man of Asia' and the stark difference to its northern neighbour, Japan - the only Asian country part of the G7 nations

Executive Summary

Historical Context and Economic Development

Initially, in the aftermath of World War II, the Philippines and Japan exhibited comparable economic conditions. However, the adoption of the Meiji-era modernization and industrialization policies facilitated Japan's transformation into a global economic powerhouse, famously termed the "Japanese Economic Miracle." In stark contrast, the Philippines remained entrenched in a primary sector, export-led economy hampered by outdated technologies and insufficient human capital development.

Political and Social Influences

My analysis further examines the political and social frameworks that have influenced each country's developmental outcomes. Japan successfully dismantled its imperial structures and established effective governance, which significantly contributed to its rapid modernization and economic growth. Conversely, the Philippines has been plagued by persistent oligarchy, corruption, and mismanagement, particularly under dictatorial regimes, which have stifled economic progress and development.

Challenges and Future Prospects

The piece concludes by addressing the present-day challenges facing the Philippines. It questions the viability of simply emulating Japan's historic growth model given the current global economic environment, which is characterized by heightened competition and increased protectionism. The ongoing issues of overpopulation, corruption, and resource misallocation must be tackled to pave the way for sustainable development.

Through this comparative analysis, I highlight the historical and ongoing economic disparities between the Philippines and Japan. This work underscores the importance of tailored economic policies and robust governance in overcoming developmental hurdles and achieving long-term growth.



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The Philippines was once a model of growth and development in the East and Southeast Asian regions, second only to Japan in the 1950s and early 60s

The relationship between the two runs deep in blood and loss. Japan supported American colonisation in the Philippines despite the revolution that took place for its independence. In the eyes of the Japanese, the weak and poor Philippines was better off occupied by the Americans rather than left vulnerable to other foreign powers. Most notably, Germany, who would gain considerable geographical advantage which threatens the empire. In 1940, about 63.7% of all Japanese in Southeast Asia were in the Philippines, most were spies sent by the empire (Yu-Jose, 1996). Japan's sneak attack in Luzon on 8 December 1941, merely ten hours after the bombing in Pearl Harbour, is what triggered World War II in the Pacific whereby the Allied forces were forced to surrender (Cal, 2018). For three years thereafter, the islands were under Japanese occupation.

Japan and the Philippines were never on equal economic and political footing to begin with

Imperial Japan heavily subsidised modernisation policies during the Meiji period (1868-1912) under the slogan *fukoku kyohei* ("enrich the country, strengthen the military") and emerged as an industrialised nation following the West. Meanwhile, the Philippines remained a primary sector and export-led economy with low human capital and old technology. It was only beginning to see growth in commercial agriculture and had access to public education after the weakening of Spanish authority in the islands.

After 1955, capital stock growth doubled and production shifted from commodity dependency to light manufacturing. This was the beginning of Philippine industrialisation.

A period of positive economic growth after World War 2 (1945)

MacArthur and the Allied Powers occupying Japan uprooted the economic and political landscapes of the country- the empire lost its power, monopolies were separated, land ownership reforms, decentralisation of education and the police among other things.

On the other hand, the Philippines, supported by the Americans, made its move towards independence in 1946 after more than three centuries of colonisation and subsequent wars. It kept its close ties with the US which boosted trade and growth.



Average Annual Gross Domestic Product (GDP) Growth Rate, 1970-2007.				
Country	1970-1979	1980-1989	1990-1999	2000-2007
Philippines	5.79	2.01	2.78	4.91
China	7.44	9.75	9.99	9.80
India	2.93	5.89	5.70	6.96
Malaysia	7.73	5.88	7.25	5.40
Thailand	7.51	7.29	5.28	5.02
Singapore	9.32	7.51	7.64	5.57

Source: WBDI

The start of the diversion and what went wrong

Jeffrey Williamson (1969) in his journal article *Dimensions of Postwar Philippine Economic Progress*, names resource misallocation and its underutilisation as the "villains" of Philippine growth.

The Asian Development Bank stated that manufacturing was the "engine of growth" for a lot of Asian countries (Felipe, 2018).

However, the Philippines adopted import substitution policy- a protectionist tariff system, export taxes and other import restrictions on foreign goods- effectively killing competition and the incentive to innovate and invest in capital goods (Baldwin, 1975). This was in a bid to develop the domestic market, and so, allowed the export industry to dwindle. This led to the decline in factor productivity and slowdown in capital accumulation.

From 1970-2007, the Philippines underperformed year on year and only recovering in the 2000s in contrast to its neighbours with the exception of

India in the 1970s.

The Philippines' balance of payments crisis, an overvalued currency and tight exchange controls

An overvalued currency alongside tight exchange controls from the central bank hurt the manufacturing export industry whilst other nations took advantage of low exchange rates. India and China in the 1990s are prime examples of these policies. The neo-classical school views competitive exchange rates as a tool to ensure no deficit in the balance of payments as $(X - M)$, GDP increases. The opposite being true for non-competitive rates.

The country's inflexibility to tackle its balance of payments crisis and trade policies were due to the Bell Act of 1947 (US trade agreement) and Laurel-Langley Agreement of 1955 (Dohner and Intal Jr., 1989).

A thriving oligarchy, a remnant from colonial times

The Philippines made no fundamental institutional changes after becoming a democratic republic, the oligarchy thrived.



Table 1.2 Philippine External Debt, 1965–70 (in millions of U.S. dollars)

Year	Public Medium & Long Term	Public Short Term	Private Medium & Long Term	Private Short Term	Total Debt	(% of GNP)	(% of Exports)
1965	286	73	190	51	600	10	56
1966	269	103	209	43	624	9	53
1967	281	209	445	145	1,079	15	90
1968	433	120	698	200	1,450	18	126
1969	480	196	959	276	1,912	22	173
1970	738	63	1,049	287	2,137	31	162

Source: Central bank, Management of External Debt and Investment Accounts Division. Data includes IMF obligations.

There remains a dependency between the two classes of people who Marx describes as the bourgeoisie- the principales (landowners of haciendas) as well as mestizos (Filipino-Chinese businessmen)- and the proletariat or working class. This is especially true regarding the land tenure system and pre-existing families of Philippine elites.

These elites competed amongst themselves for national office and enjoyed the economic rent of implementing policies which benefited their private endeavours and interests.

Ferdinand Marcos, President of the Republic of the Philippines (1965-1986)

Amidst all this lies one man and his regime. Dictator and authoritarian, Marcos took office and for 21 years sat in the Malacañang Palace.

In his first term as president, he implemented expansionary fiscal and monetary policies mainly focused on infrastructure projects in a scale beyond any of his predecessors.

Government expenditure rose (approximately 43% in real terms) between 1964-1968 and fiscal budget dipped from a surplus to deficit of 3% of GNP (Sachs and Collins, 1989).

Whilst Keynesian economics argue that this is good to increase productive capacity, the infrastructure projects were heavily financed by internal and external borrowing which eventually led to a debt crisis in 1970 as summarised in the table below.

This prompted the Marcos government to agree to the IMF stabilisation program- devaluation, and contractionary fiscal and monetary policies. Thereby, improving the debt to GNP ratio in the early 1970s.

More debt for the Philippines during Martial Law (1972-1981)

Mobilising the military, Marcos broke the influence of traditional Filipino elites and established his family's power. Marcos' aim for a "New Society" included the government's central role in development.



Marcos designed a four-year economic plan which saw another rise in government expenditure by 17% and the establishment of the National Economic and Development Authority (NEDA) led by technocrats. It was a show of public investment to justify high government expenditure, higher taxes and use of foreign funds.

This fooled the international community which led to a huge inflow of development assistance from the OECD Development Assistance Committee. At the end of the day, debt is still debt.

Oil shocks and recessions of the 70s

The first oil shock was met by further government spending raising the current account deficit to over 5% of GNP after its initial recovery. Foreign debt tripled between 1974-1978 amidst recessions in the industrialised world. Another oil shock in 1980, its impact worse than the first, was met by further government expenditure and widening current account deficit.

The dependence towards foreign borrowing to finance lucrative investment projects created artificial growth with no real returns.

Domestic growth rate fell year after year in the 1980s until the Philippines announced that it could no longer repay its debt obligations in October of 1983

What was bound to happen, happened.

Failure to allocate resources towards more productive export industries, lack of incentive for private investments and capital flight, incessant borrowing, unfinished and inefficient infrastructure, and unsustainable growth practices has led to a debt that the country continues to pay today. But debt was not the only Marcos legacy.

The influence of the national government and its rent-seeking ways penetrated not only politics but also in domestic markets. Interventions to create monopolies and monopsonies in traditional sectors whereby "exclusive rights were granted to particular firms and individuals, and government power was used to force the transfer of assets from one owner to another" (Sachs and Collins, 1989).

Corruption and Crony Capitalism as exemplified by the Marcos government

Corporations were "built on a mixture of corporate extortion and high financial leveraging" for a select group of business elites and the Marcos family (Collins and Sachs, 1989).

The Philippine Commission on Good Government (PCGG) estimated that Marcos stole approximately \$5bn-\$10bn (about 1.1 trillion in Philippine peso in 2017 from the treasury during his presidency, but officials are unable to fully grasp the whole of the Marcos family's stolen assets as it spans multiple countries and continents.



His regime ended in 1986 due to civil demonstrations and public resistance triggered by the assassination of his political opposition popularly known as the *People Power Revolution*. His family then fled to Hawaii through the advice of US President Ronald Reagan and sought protection there.

On the other hand, Japan took the opposite route and a miracle happened

It focused on export expansion and capital accumulation by importing technology from advanced economies ("technology" not limited to machinery but also ideology and institutions). One can say that this is the post-war continuation of the Meiji era's modernisation policies.

Where the Philippines failed to efficiently allocate its resources, Japan did well in. The patriarchy was abolished and workers were incentivised to move towards high-productivity, non-agricultural sectors.

Institutional changes led to the development of programmes such as *shūdan shūshoku* ("group employment"), labour matching and redistribution of labour between sectors especially amongst war industries. By following the footsteps of the industrial West in all aspects (economic, political, institutional and social systems), Japan tapped into its potential and saw rapid growth for 40 years also known as the **Japanese Economic Miracle** (Tetsuji, 2015).

Japan and the Philippines were never on equal economic and political footing to begin with, and ultimately *chose* different paths

The Philippines and Japan's approaches to recover from the war were fundamentally different and a series of setbacks in ideology and politics held back the former while the latter flourished.

In the social sphere, the Philippines retained its oligarchy while Japan took down its empire.

In the economic sphere, Japan modernised rapidly while the Philippines was inefficient.

In the political sphere, the Philippines was mismanaged by a dictator while Japan was well-governed.

The joint growth that both countries experienced was short-lived and the divergence spanned decades

Simply following the modernisation theory like what Japan did in the 1950s will no longer work.

Competition is greater and advanced economies are increasingly becoming more protectionist.

From a development perspective, the Philippines needs to address the root of poverty that plagues the country today as an agglomeration of its historical past: overpopulation, corruption and inefficient allocation of resources.



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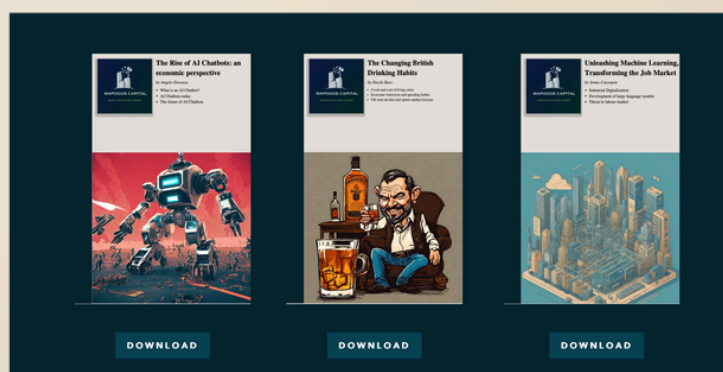
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