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Comment on “Philippine industrial policy? Why not?”

Felipe M. Medalla
University of the Philippines

I think that before going into a detailed discussion of what has been referred to as the new industrial policy literature, it is important to ask if it is relevant to the Philippines. For instance, one can argue that from standpoint of the Philippines, it is not very relevant since, as I shall explain later, there is hardly any manufacturing in the Philippines. In particular, it is more important to ask whether policies that are meant to protect or support the agricultural sector and regulate wages in the formal or organized sector have more powerful negative effects on the manufacturing sector than the explicit policies that are meant to promote the sector. In other words, policies that are not mainly targeted at the manufacturing sector but hurt such sector may be more important than the incentives granted to the sector by the government. Moreover, protection from imports of uncompetitive products or subsectors can be seen as a tax on domestic firms that export or compete with imports.

The best indicator that this is a serious problem is that the share of manufacturing to GDP in the Philippines is actually smaller than the share of wholesale and retail trade and repair of motorcycles. Moreover, when one looks at the manufacturing industries that do exist, a significant portion is food processing. This includes processing of agricultural products (e.g., sugar and coconuts) which is not really “hardcore” manufacturing. Taking out food processing industries, manufacturing will account for only four percent of total employment.

A personal experience serves to illustrate the state of manufacturing in the Philippines. When I was buying shirts for office use, I decided to buy only Philippine brands. I found a well-known brand that said “buy local” and I bought them, only to find out later that they were made in China. This turns out to be the general case: even domestic brands sold only in the Philippines are manufactured outside the Philippines. A different but related problem is the fact that big foreign companies that were in the Philippines for decades have left the Philippines (e.g., Intel and Mattel). And we could probably learn more by looking at the case of Texas Instruments, which was thinking of leaving the Philippines. Fortunately, it decided to stay, and many years later, put up new plants in Clark. I asked then Department of Trade and Industry (DTI) Secretary Peter B. Favila (during the time of President Gloria Macapagal-Arroyo) what convinced Texas Instruments to stay.

* Address all correspondence to fmmedalla@gmail.com.

He said the President herself met them and addressed their main concern (high cost of electricity) and informed them that they can locate their new factories and offices in Clark.

It is also important to stress that what makes the Philippines a less attractive location for foreign manufacturing firms (e.g., compared to other ASEAN countries) may not be the absence of industrial policy or the failure of government to grant them significant incentives. In other words, improving policies that affect only the manufacturing sector may not have significant effects on the manufacturing sector, unless the government is willing to give huge (and fiscally unaffordable) subsidies to attract investment.

In agriculture, market competition does not apply; weaker farmers are not allowed to be taken over by better farmers, so there is no land consolidation. Moreover, non-tariff barriers and government regulations make it nearly impossible for the private sector to import agricultural products that are much cheaper in other countries that are also trying to attract foreign investment in the manufacturing sector.

Given that food costs are an important determinant of labor cost and the minimum wages set by government are much higher in the Philippines (e.g., measured by the ratio of annualized daily minimum wage to per capita GDP), it is not surprising that the Philippines is not competitive. All these, alongside very poor infrastructure and poor logistics, condemns manufacturing and the producers of tradeable goods. "Progeria" is the term used by Raul Fabella to describe a developing economy wherein services prematurely overtake industry. Can we become a middle income country or a relatively prosperous country by relying completely on remittances and exportable services, unlike other countries that walked on the two legs of industry and services? Will the Philippines prove that progeria is not necessarily a problem? For instance, will there be a larger global market for service exports, or will AI reduce its growth in the future?

On a final note, if we look at the pioneering industries that the Board of Investments (BOI) supported, how many of them actually succeeded? And in cases where critical government agencies are established to promote technological progress (e.g., information and communication technology) or managing important resources (e.g., water), will they be able to justify their budgets? It's very hard to give optimistic answers to these questions, which is another reason why I am doubtful if industrial policy will work. That is why I think it is a wonderful coincidence that we just got the news that Acemoglu, Johnson, and Robinson won the Nobel Prize in Economics. What kind of institutions do we have? Do they get the best out of people or make them more creative and productive, or do they result in less corruption? Or do we have institutions that promote rent seeking which reallocate resources to unproductive activities?

The Philippine Economic Society

Founded 1961

The Philippine Economic Society (PES) was established in August 1962 as a nonstock, nonprofit professional organization of economists.

Over the years, the PES has served as one of the strongest networks of economists in the academe, government, and business sector.

Recognized in the international community of professional economic associations and a founding member of the Federation of ASEAN Economic Associations (FAEA), the PES continuously provides a venue for open and free discussions of a wide range of policy issues through its conference and symposia.

Through its journal, the *Philippine Review of Economics* (PRE), which is jointly published with the UP School of Economics, the Society performs a major role in improving the standard of economic research in the country and in disseminating new research findings.

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