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The Philippine economy: no longer the East Asian exception? Revisited

Hal Hill*

Australian National University

The Philippine economy has long been the East Asian outlier. In the early postwar period, with a per capita income higher than many of its neighbors, it was forecast to be one of Asia's most dynamic economies. However, beginning in the mid-1970s, its growth trajectory increasingly diverged from its high-growth neighbors. By 2000, its per capita income remained roughly the same as it had been in 1980. Nevertheless, in the 21st century, the Philippines rejoined the East Asian mainstream, growing at a rate comparable to that of other Southeast Asian counterparts and faster than its traditional comparator, Thailand. This paper explores these development dynamics and identifies key development issues that need to be addressed if the current growth trajectory is to be maintained and accelerated.

JEL classification: N15, O53, Z18

Keywords: Philippines, East Asia, macroeconomic policy, economic openness, living standards, institutions

1. Introduction

In 2018, a group of scholars produced a volume entitled *The Philippine economy: no longer the East Asian exception?* [Clarete et al. 2018]. The question mark was included because, although it was then clear that the Philippine economy had been performing quite strongly for more than a decade, there was still a widespread international perception that the country was underperforming relative to its neighbors.

This paper may be regarded as a sequel to the 2018 volume. The arguments in this paper are two-fold. First, it is now clear that the question mark can be discarded: as is evident from the Philippine growth record, the country has rejoined the East and Southeast (hereafter simply East Asia) Asian economic mainstream, growing at a rate that is broadly comparable to that of its neighbors, albeit not yet at the frontiers of the growth league. This is surely a major achievement,

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and one that reflects well on the country's leadership over the past four decades, and more importantly on their advisors, many of them drawn from the ranks of the Philippine Economic Society (PES). Second, as the country joins the ranks of the upper-middle income countries, can the growth momentum be maintained and indeed accelerated? As one of the country's leading economists, Cielito Habito, reminds readers in his *No Free Lunch* column, "the economy's economic growth had historically been narrow, shallow, and hollow."¹ Even during years of moderately strong growth, it is argued by many that living standards have risen relatively slowly, economic drivers remain narrow and vulnerable, and quality of governance remains indifferent.

This paper offers an analytical narrative of Philippine economic development, providing an outsider's perspective on these issues within a comparative regional context. It commences with a brief look backward in Section 2. Section 3, the main body of this paper, provides a narrative of achievements to date and the ongoing development policy agenda. It examines macroeconomic management, economic openness, trends in living standards, governance quality—a perennial challenge for all countries—and environmental fragilities.

This analysis draws heavily on the rich literature of the Philippine economics profession. It has been a pleasure to engage with and learn from its many enlightened and deeply knowledgeable members over the decades, dating back to 1980 as a visiting assistant professor at the venerable University of the Philippines School of Economics. In particular, I wish to record my gratitude to my long-time collaborator and friend, Arsenio Balisacan, who has been instrumental in all four volumes on the Philippine economy with which I have been involved, and which I draw upon in this paper. I also wish to thank many Filipino colleagues for their helpful advice in the preparation of the PES presentation and this paper, while absolving them from any of the views expressed below. This includes Nandy Aldaba, Roehl Briones, Dockoy Capuno, Monching Clarete, Noel de Dios, Manny Esguerra, Raul Fabella, Corina Gochoco-Bautista, Sharon Piza, J.C. Punongbayan, Majah-Leah Ravago, Gerry Sicat, Marites Tiongco, and Randy Tuaño.

2. A brief look backwards

Table 1 clearly supports the proposition that in the 21st century the Philippines is no longer the "exception", as it rejoined the East Asian mainstream. These are Maddison Project per capita income estimates based on international 2011 prices.

From 1970 to 2022, the Philippines lagged behind all the regional comparators in the table, except for Latin America. This was due to its performance in the latter part of the 20th century, when it also lagged global growth. It was not included in the World Bank's [1993] influential "Miracle" study. It also largely

¹ These and similar descriptors have been used frequently in Philippine economy literature. More than 50 years ago, the acclaimed Ranis report (ILO 1974) opened by characterizing the post-independence record as one of "narrow participation and unbalanced growth".

missed out on the massive 1980s relocation of economic activity from Japan (and later the newly industrializing economies) to Southeast Asia in the wake of the Plaza Accord and exchange rate realignment. India was then still closed. Vietnam had yet to embark on its *Đổi Mới* reforms. China's reforms were in their infancy. The beneficiaries were the Southeast Asian economies that were politically stable and had undertaken major economic reforms, notably Indonesia, Malaysia, and Thailand. By contrast, in the 21st century, the Philippines grew faster than its traditional comparator, Thailand, as well as the global and Latin American averages, and only marginally slower than the increasingly dynamic South and Southeast Asian average.

TABLE 1. Long-term Asian economic growth

	1970	2000	2022	2022/1970	2022/2000	2000/1970
Indonesia	1882	5384	12802	6.8	2.4	2.9
India	1384	2753	7786	5.6	2.8	2.0
China	1398	4730	19238	13.8	4.1	3.4
Philippines	2812	4034	8371	3.0	2.1	1.4
Thailand	2700	9627	16421	6.1	1.7	3.6
Vietnam	1172	2773	8050	6.9	2.9	2.3
World	5952	9915	16667	2.8	1.7	1.7
South and Southeast Asia	1546	3427	8377	5.4	2.4	2.2
Latin America	6286	10225	14028	2.2	1.4	1.6

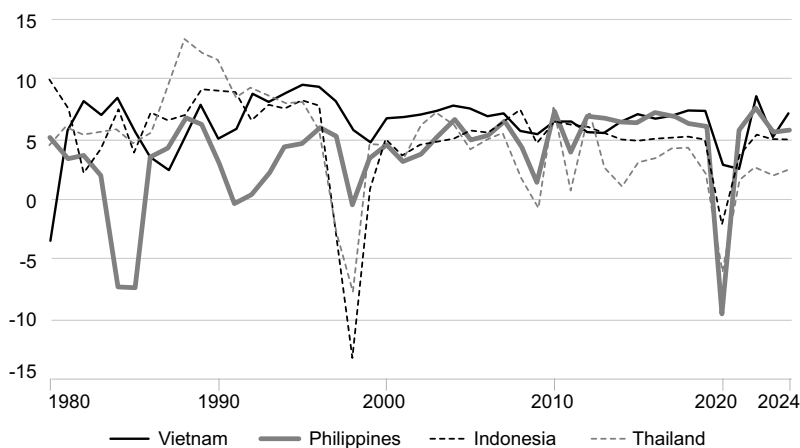
Source: Maddison Project dataset, '000, 2011 prices

This article is not the platform for revisiting the reasons behind the country's revitalized economic trajectory, which has been extensively documented in Philippine economic literature. However, three general observations are pertinent.

First, as Figure 1 illustrates, the Philippines' growth dynamics have differed from those of its neighbors. It has not experienced as distinct a break in the growth path—resulting from a major reform episode that ushered in a sharp transition from slow to fast growth—as occurred in China after 1978, India after 1991, Indonesia after 1966, and Vietnam after 1986. The Philippines was also the only major Southeast Asian economy to experience a deep economic crisis in the mid-1980s. This was the era of rising global interest rates, driven by the Volcker assault on inflation in the United States of America (USA) and declining commodity prices. These events pushed many developing-country commodity exporters into recession, but the East Asian economies—both net energy exporters and importers—largely avoided the same fate. For the Philippines, this was essentially a home-grown crisis (Punongbayan [2023] and Punongbayan and De Dios [2026]). Moreover, the Philippine growth record differs from its neighbors in two additional respects. It avoided the worst of the 1997 to 1998 Asian financial

crisis because it did not receive massive capital inflows on a comparable scale to those of its neighbors [Noland 2000]. By then, its stronger macroeconomic policy framework was in place. Though it is not as dependent on tourism as some of its neighbors—particularly Cambodia and Thailand—it was the most severely affected during the 2020 to 2021 COVID-19 pandemic because of its prolonged economic shutdown.

FIGURE 1. Economic growth, Philippines and its neighbors (1980-2024)



Source: International Monetary Fund (2025), OurWorldinData.org/economic-growth

A second observation is that the drivers of the Philippine economic revitalization are already well understood, making it unnecessary to run “two million regressions” [Sala-i-Martin 1992] to explain them. A casual inspection of Figure 1 clearly indicates that economic growth took hold from the mid-1990s. By this time, a semblance of political stability had been restored, an avowedly reformist administration was in place, a reconstituted and effective central bank had been established, and a program of economic liberalization was underway. The country was not the “democratic dud” that leading development economists viewed it as [Pritchett 2003]. Nevertheless, recovery remained uneven and narrowly based at the sectoral level. In the case of agriculture, for example, the problems that David [2003] identified at the beginning of the century persist, and this sector has continued to underperform, especially compared to the agricultural dynamism evident in most of its neighbors.

Third, equally important to major policy reforms were how they were formulated and implemented. Here, the seminal contribution provided by de Dios and Hutchcroft [2003] is illuminating, a point to which we return below. Additionally, it is important to note the role of the Philippine Institute for Development Studies (PIDS) as an originator and proponent of economic policy reform. A uniquely important policy-oriented think tank in Southeast Asia, it owes much of its success to its visionary founder, Dr. Gerardo Sicat. As he explains in his retrospective

memoir to celebrate the organization's 40th anniversary, he needed the analytical ammunition to win policy battles in Cabinet [Sicat 2017]. PIDS's influence has waxed and waned across administrations, but it is surely a credit to the country's leadership that it has been maintained. Credit also goes to successive PIDS leaders for the institution's successful transitions through the very different political environments of the authoritarian and the democratic eras.

3. Achievements and challenges

Can the growth momentum be maintained and accelerated? Can the benefits be more evenly shared? What factors could disrupt progress? The remainder of the paper addresses these questions under five headings.

3.1. The macroeconomic success story

Competent macroeconomic management has clearly been the cornerstone of the Philippine economic revival. The earlier boom and bust growth pattern had its origins in fiscal deficits (especially during election periods) being monetized in the context of a fixed exchange rate regime, resulting in periods of real effective exchange rate appreciation, loss of competitiveness, temporary import disruptions, and economic slowdowns [Baldwin 1975]. The establishment of the Bangko Sentral ng Pilipinas (BSP) in 1993, combined with generally greater fiscal prudence, was transformational. It led to a permanent reduction in inflation, as indicated in Table 2. The floating rate regime, progressively introduced, insulated the economy from external shocks, both positive and negative, and reduced borrowing costs. The professional integrity of the BSP has been maintained through the appointment of credible, well-regarded, and mostly apolitical senior staff.

The fiscal situation has also greatly improved. For example, the December 2024 International Monetary Fund (IMF) Article IV consultation reports positively. The public debt to Gross Domestic Product (GDP) ratio is relatively high—around 60 percent but manageable with substantial financing through longer term concessional and local peso-denominated sources. The Fund report also concludes that “systemic risks within the financial system are moderate, but pockets of vulnerability remain ... mainly in commercial real estate” [IMF 2024]. Philippine fiscal policy has also managed to avoid some of the problems that its neighbors are grappling with. Unlike Indonesia, it does not maintain fuel subsidies that have long burdened government budgets and proved so politically sensitive that reform has appeared impossible [Hill 2026].² Additionally, the Philippines does not face the Malaysian conundrum of a large, opaque public enterprise sector (termed “government-linked corporations”) that has essentially been captured by the political class, as graphically described by Gomez [2025].

² The fuel subsidies have typically been in the range 1.5 to 2.5 percent of GDP in a budget with a weak tax effort, usually around ten to 12 percent of GDP.

TABLE 2. Comparative “competitiveness” indicators

Indicator	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	Cambodia	India
Trade/GDP ¹	40	159	56	212	119	179	177	34
Inflation ²	6.0	2.1	3.9	1.8	2.0	6.0	3.9	6.2
Services openness ³	0.37	0.29	na	0.2	0.37	0.34	na	0.29
FDI openness ⁴	0.35	0.26	0.37	0.06	0.27	0.13	0.05	0.21
Economic freedom ⁵	64	66	59	84	59	63	55	53
Logistics ⁶	3.0	3.6	3.3	4.5	3.5	3.3	2.4	3.4
R&D/GDP ⁷	0.28	0.95	0.32	2.16	1.33	0.43	0.12	0.65
Test Score I ⁸	359	388	347	543	379	469	329	n/a
Test Score II ⁹	366	409	355	575	394	462	336	n/a
Corruption ¹⁰	96	62	117	4	110	87	157	85
Legal quality ¹¹	45	68	33	99	55	48	21	55
Governance quality ¹²	66	79	56	100	58	59	37	63

1. Trade/Gross Domestic Product (GDP): sum of exports plus imports divided by GDP

2. Inflation: annual average increase in the consumer price index, 2000-2023 (World Bank)

3. Services openness: Organisation for Economic Co-operation and Development (OECD) Services Trade Restrictiveness Index (A higher index denotes greater restriction.)

4. FDI openness: OECD Foreign Direct Investment (FDI) Restrictiveness Index (A higher index denotes greater restriction.)

5. Economic freedom: As defined by the Heritage Foundation (A higher index denotes better quality.)

6. Logistics: World Bank Logistics Performance Index (A higher index denotes better quality.)

7. R&D/GDP: Research and development expenditure divided by GDP, World Bank database.

8. – 9. Test Score I and II: Programme for International Student Assessment (PISA) OECD test scores for 15-year-olds in 2022 for reading and mathematics, respectively.

10. Corruption: Transparency International Corruption Perceptions Index, 2021, 180 jurisdictions ranked (A lower ranking denotes less corruption)

11. – 12. Legal and Governance quality: World Governance Indicators, rule of law, and government effectiveness, respectively, percentile rank (A higher number denotes higher quality.)

Of course, the unfinished fiscal policy reform agenda is a long one, as clearly articulated by Gochoco-Bautista [2025]. Major questions concern the efficiency and transparency of the ambitious (and sorely needed) public sector infrastructure program, the Maharlika Investment Corporation sovereign wealth fund (Malaysia's 1MDB and Indonesia's *Danantara* are cautionary tales for the Philippines), the egregious corruption revealed in the flood control projects, the unresolved issues in central and local government finances, and the probable contingent liabilities that are yet to be revealed. Going forward, there is a strong case for legislated fiscal rules, despite the rigidities they introduce,³ and rigorous anti-corruption measures, an issue to which we return below.

3.2. *Incomplete economic liberalization*

There are at least four distinct features of the Philippine approach to economic liberalization. First, it had a prolonged period of import substitution, from which it was extremely difficult to extricate, and in which the eventual liberalization lagged behind much of East Asia. Second, it is an excellent case study in the “power of ideas,” in which economic proselytizing, mostly by past and present PES members, finally won the day, albeit at a high cost. Successful models of export-oriented industrialization elsewhere in the region, and the associated country reputations that underpinned these successes, meant that the country lost out on huge investment, employment, and technology opportunities. Third, the country's major export success has been in services, notably through its business process outsourcing (BPO) industry. In some measure, this was an “accidental” success story, a spinoff from the telecommunications reforms that were enacted in the 1990s—a proposition that I appreciate will be controversial in some quarters. Fourth, the liberalizations have been incomplete, resulting in the country continuing to miss out on lucrative commercial possibilities.

Philippine BPOs have been a remarkable success story, arguably the country's most important business achievement over the past three decades. It is an illustration of the proposition that once countries liberalize, the results are inherently difficult to predict. Opening up exposes the country to global economic currents that may not have been foreseen at the time of the reforms.

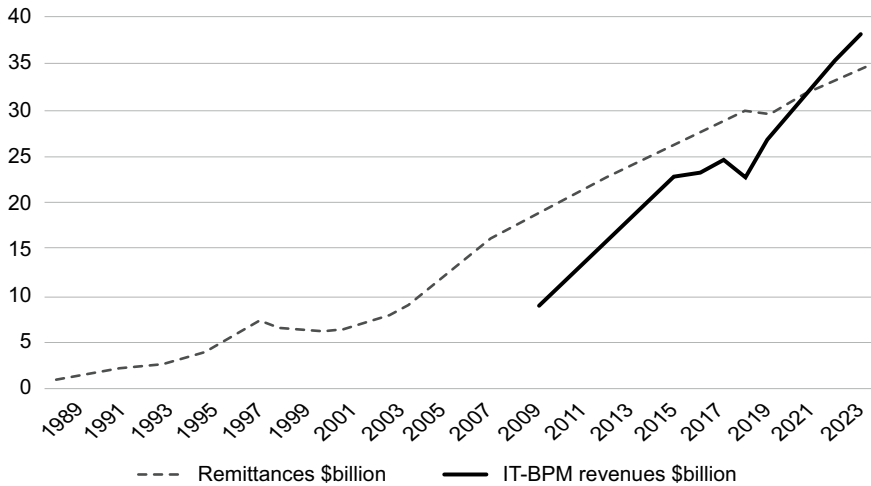
In a little over a decade, BPO revenues have overtaken remittances (Figure 2). In 2010, BPO revenues were 47 percent of remittances, while in 2024 they were 110 percent. To oversimplify greatly, remittances may be taken as a proxy indicator that the labor exporting country is not creating enough desirable jobs,⁴

³ That these fiscal rules have been increasingly popular is evident from their increasing adoption, as indicated in the IMF Fiscal Rules Database. For example, they have been helpful for successive Indonesian finance ministers since the introduction of that country's 2003 Fiscal Law, which capped the permitted deficits at three percent of GDP, and public debt at 60 percent at GDP. This is despite the fact that they have not supported stronger fiscal mobilization by eliminating the fuel subsidies and lifting the tax effort.

⁴ Of course, the issues are much more complicated than this. Labor markets are globalizing rapidly and increasingly across the skill spectrum. Moreover, recent research suggests that the local (i.e., in the Philippines)

while rising BPO revenues demonstrate that the host country is an attractive investment location.

FIGURE 2. Remittances and BPO revenues (1990-2024)



Sources: Remittances from Bangko Sentral ng Pilipinas; BPO revenues from the Philippine Statistics Authority and IT-Business Process Association of the Philippines. I am grateful to Kelly Bird for providing these data.

My reading of the BPO story is that its growth has been the fortuitous combination of four factors. First, the global telecommunications revolution got underway in the 1990s and transformed the international trade in back-office services. Second, telecommunications liberalization in the Philippines in 1993 transformed a system that, in the words of Abrenica and Llanto, had been characterized by “inadequate supply and poor quality of telephone services” with telephone density of just one percent and a de facto monopoly supplier (i.e., PLDT), into a sweeping liberalization such that “few developing economies have been as bold as the Philippines in its telecommunications market reforms” [2003:262, 265]. Third, the Philippines possessed a latent comparative advantage in this rapidly emerging industry, in particular, its large pool of college-level graduates fluent in English and employable at internationally competitive wage rates. Fourth, the telecommunications reforms were part of a general trade and investment liberalization that occurred during the Ramos presidency. These reforms also included the establishment in 1995 of the Philippine Export Zone Authority that streamlined regulatory procedures and provided investment incentives for firms operating within its zones. The liberal interpretation of the Special Economic Zone (SEZ) law from 2000 onwards allowed BPOs housed in metropolitan buildings to operate under its jurisdiction.

developmental impacts are more positive than many believe (see Khanna et al 2026). As always, much depends on whether the labor movements are permanent (“brain drain”) or return (“brain gain”).

Putting aside the question of how Artificial Intelligence (AI) will affect BPO operations—the subject of another paper—one puzzle is why the BPO success story has not been replicated in other sectors. If the Philippines is competitive in the provision of one semi-skilled, labor-intensive activity, why does it not perform well in others? The answer is a reminder that in the provision of heterogeneous goods and services, comparative advantage is the starting point of inquiry, but industry-specific information is also required. We illustrate this proposition with reference to two rapidly growing export-oriented sectors in which the Philippines could and should have performed strongly but, to date, has not. Like BPOs, these are sectors in which the country has strong latent comparative advantage but in which, unlike the BPO case, the necessary regulatory and other reforms have not been undertaken. In both cases, policy inaction has resulted in significant losses of employment, investment, and technology.

The first case is participation in global production networks. There has been a revolution in the industrial organization of global production networks since the 1980s, with much of the dynamism centered on China and the rest of East Asia. Much of global manufacturing and, increasingly, agriculture and services output is organized into complex multi-country supply chains, with tasks and intermediate inputs allocated across countries according to their comparative advantages and business environments. For example, simple labor-intensive activities will locate in lower wage economies, while more research & development-intensive activities locate in countries with the requisite technological capabilities. An open economy, including signing on to the World Trade Organization Information Technology Agreement,⁵ and efficient international logistics are essential for delivery to the next production stage.

These networks are the main drivers of the dramatic growth in total and manufacturing trade. For example, global manufacturing trade rose from US\$1.2 trillion to US\$12 trillion, much of it occurring within global manufacturing value chains (GMVCs) from 1988 to 2022. Over this period, Southeast Asia's share of total global trade rose from three percent to eight percent. Within manufacturing trade, GMVCs account for 70 to 80 percent over time., Within that trade, the Southeast Asian share has risen faster still, from 1.8 percent to 8.4 percent.⁶

Table 3 clearly shows that the Philippines has underperformed in this rapidly growing sector. In the 20th century, Singapore, Malaysia, and Thailand, were the main Southeast Asian participants, while in the 21st century, Vietnam has emerged as the largest exporter. In the latter period, Southeast Asian exports rose by about 250 percent (in nominal US\$ through 2019 to 2020), while the Philippines' total hardly increased. In fact, it was the lowest among the Association of

⁵ This agreement resulted in the removal of import duties on products, which were valued at roughly US\$1.6 trillion in 2013. Today, these products represent about ten percent of worldwide merchandise exports, making the information technology sector one of the most rapidly expanding areas of global trade.

⁶ For an analysis of Southeast Asian trade in GMVCs, see Athukorala and Hill [2026]; for a Philippine case study, see Athukorala [2022].

Southeast Asian Nations (ASEAN) Six, behind even fellow laggard Indonesia. Two additional features of the Philippine record deserve comment, as discussed further by Athukorala [2022]. First, the Philippine performance was moderately strong during the 1990s, indicating that the reforms of the Ramos era produced dividends. Second, like most of its neighbors, the Philippines heavily concentrated on GMVC products as manufactured exports, indicating that the problem is not the concentration in these items but that manufactured exports in total are so small.

TABLE 3. The Philippines and global manufacturing exports

	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	SE Asia
GMVC exports, US\$ billion							
1979/80	0.1	1.9	1.3	3.1	0.7	0	7.2
1989/90	2.5	11.7	4.1	19.8	6.5	0	45.8
1999/00	19	74.2	35.1	64.9	39	5.2	239.4
2009/10	35.6	72.4	24.6	62.9	86.2	30.7	317.9
2019/20	49.7	101.8	39.5	70.8	125.6	173	586.8
GMVC share in total manufacturing exports (%)							
1979/80	34.6	73.6	67.8	70.7	48.9	34.9	66.5
1989/90	40.8	83	77.2	84.4	58.6	46.5	76
1999/00	59.1	86.6	94.3	84.4	75.9	80.3	82
2009/10	62.6	74	85.5	64.7	71.5	70.2	70.5
2019/20	58.3	74.2	88.6	62.1	71.4	79.2	72.9
2019/20	64.3	91.7	93	99.2	94.5	63.4	78.8

Source: I am grateful to Arianto Patunru for providing these data. For more detailed statistics see the tables in Athukorala and Hill (2026).

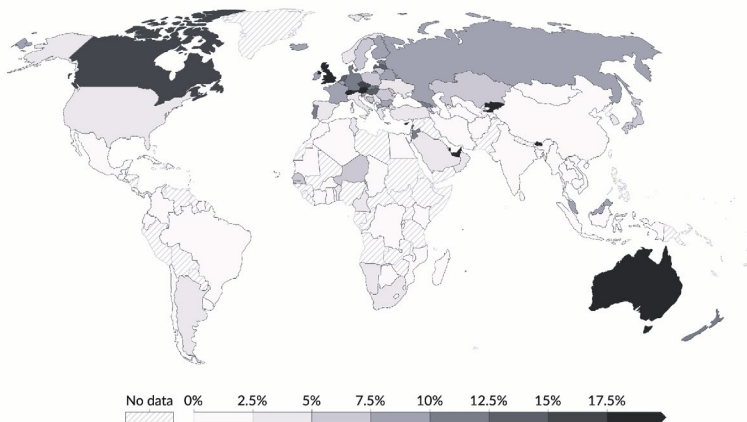
If latecomer Vietnam can succeed so spectacularly, why does the Philippines struggle to despite a more established industrial history?

From 1999 to 2000, Philippine GMVC exports were almost seven times those of Vietnam, but by 2019 to 2020, Vietnam's GMVC exports were four times larger. Success in global manufacturing production networks is no mystery, as multiple East Asian success stories have illustrated. These networks are also open to reforming latecomers like Vietnam. The comparative indicators in Table 2 help us to answer the question, as the Philippines lags in most of the policy areas that are key determinants of GMVC success: relatively restrictive foreign direct investment (FDI) policy, average logistics performance, and indifferent governance. It is also important to note here that, contrary to much popular opinion, these are not highly footloose "sweatshop" operations. GMVC enterprises usually pay above-average manufacturing wages, and they typically embed in the host country economy owing to the significant startup and local learning costs.⁷

⁷ See Athukorala and Hill [2026] for a discussion of these issues.

The second missed opportunity has been in tertiary education. United Nations Educational, Scientific and Cultural Organization (UNESCO) data document the rapid growth of tertiary education enrollments, with the global gross enrollment ratio now about 43 percent of the relevant age cohort. The number of students studying abroad is also growing rapidly, having tripled this century to about 6.9 million students in 2023. The Philippines could and should be a significant global player in this industry. It has a workforce and learners with strong proficiency in English (the lingua franca of international tertiary education). It has well-established universities. It is culturally open and welcoming. It is proximate to the fastest growing sending nations, particularly China and India. Host countries also benefit from foreign students: they create good teaching and research jobs, they contribute to the recipient country's "soft power" internationally, and there are spinoffs in tourism and other sectors.

FIGURE 3. Shares of foreign students by country (2023)



Source: UNESCO Institute for Statistics (2024), OurWorldInData.org/global-education.

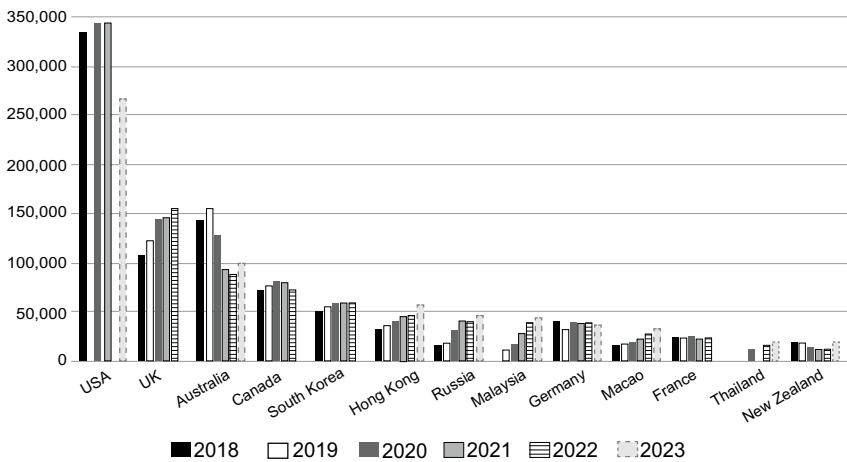
Note: Values can be greater than 100 percent when there are more international than domestic students.

However, the Philippines is a very minor player in this sector, as Figures 3 and 4 illustrate. Figure 3 indicates that, while foreign students generally go mainly to rich countries (the United States of America, the United Kingdom, Australia, and Canada are the major players), developing countries can also enter this market. A notable, if improbable, destination is Kyrgyzstan. It was the first of the former Soviet republics in Central Asia to undergo economic and political liberalization. It was able to build on its educational strengths developed during the Soviet era, and it welcomed foreign universities which also attracted international sponsorship.⁸ Closer to home, Malaysia is the major Southeast Asian player in the internationalization of higher

⁸ Notable examples include the University of Central Asia and the American University of Central Asia, both of which deliver internationally recognized English language degree programs. See Yamano, Hill, Ginting, and Samson [2019].

education, attracting students from all corners of the world (see Figure 4 for the destination of Chinese students). Tham Siew Yen and colleagues [2013] explain the drivers of Malaysian success: an open policy towards the establishment of private universities, both foreign and domestically owned; a liberal attitude towards international employment and student visas, a strong domestic education base on which to build; a widespread use of English; a safe living environment; and a multicultural society welcoming to students from China, Moslem majority nations, South Asia, and elsewhere. Perhaps in time, the Philippines will emerge as a significant player, especially after the enactment of Republic Act (RA) 11448 in 2019, which liberalized the entry of foreign universities.

FIGURE 4. Destination of Chinese students abroad (2018-2023)



Source: “Why are Chinese students choosing higher education in Asia?”, *Fulcrum* 2025/270, <https://sealionplus.iseas.edu.sg/nodes/view/97455>. Based on UNESCO data.

3.3 “Sharing in development”

Compared to most of its neighbors, Philippine living standards have risen more slowly and social mobility has lagged. “If we’re so smart, why aren’t we rich?” was the lament of De Dios and colleagues in 1995. Two decades earlier, the landmark International Labor Organization (ILO) entitled its influential report *Sharing in Development*.

I have little to add to the rich literature on Philippine living standards by Balisacan and his colleagues.⁹ In this section, I simply make three general observations.

First, increased economic growth has obviously translated into improved living standards, albeit not quite as fast as some of its neighbors but respectable, nonetheless. Table 4 shows trends over the 21st century according to the internationally

⁹ See, for example, the essays in Parts 3 and 4 of the Balisacan festschrift (Hill et al [2022]), and the references cited therein.

comparable World Bank PovcalNet estimates. Using the US\$3/day benchmark, Philippine headcount poverty has fallen significantly, from 25.9 percent to 5.3 percent, to a level that is comparable to middle-income peers India and Indonesia. However, even though its growth rate has been comparable (if somewhat slower), poverty has fallen at a much slower rate, especially compared to Vietnam. In other words, poverty has been less responsive to growth in the Philippines.

TABLE 4. A comparative poverty perspective

Country	Initial poverty (percent)	Final poverty (percent)	Difference	Difference/year
India	46.4 (2004)	5.3 (2022)	41.1	2.3
Indonesia	65.7 (2000)	6.7 (2023)	59	2.6
Philippines	25.9 (2000)	5.3 (2023)	20.6	0.9
Thailand	8.4 (2000)	neg (2023)	8.4	0.4
Vietnam	43.3 (2002)	1.6 (2022)	27.3	1.4

Note: Comparative poverty estimates, 21st century, \$3/day, 2021 PPP.
Source: World Bank, <https://pip.worldbank.org>.

What of education and health indicators? Here, too, there has been significant improvement, but here, too, the neighbors have mostly caught up to—and in some cases overtaken—the Philippines (Table 5). Among the same four comparators, indicators for 1960 draw attention to the Philippine initial advantages, in years of schooling (especially), life expectancy, and infant mortality. However, by 2020 the other countries had at least caught up to the Philippines. On education quality, according to the PISA test scores reported in Table 2 above, the Philippines performs poorly, with the lowest scores among the ASEAN Six. Perhaps the one distinctive advantage the country still retains is the absence of a gender gap in education, although Philippine female labor force participation remains relatively low, particularly among poorly educated women.

TABLE 5. Comparative education and health indicators

Indicator	India	Indonesia	Philippines	Thailand	Vietnam
Life expectancy 1960	46	47	59	51	58
Life expectancy 2023	72	71	70	76	75
Infant mortality rate 1960	151	145	61	113	60 (1965)
Infant mortality rate 2023	25	17	22	8	14
Years of schooling 1960	1.2	1.7	3.5	2.7	n/a
Years of schooling 2020	7.8	9.1	9.4	9.3	8.3
Male-Female gap 2020	2.2	0.7	-0.4	0.3	0.8
Gross Enrollment Ratio Secondary 2022	82	99	94	102	97
Child stunting 2022	32.9	22.6	27.7	12.3	19.2

Source: World Bank Development Indicators database.

Second, the reasons for the relatively low poverty-growth elasticity are fairly well understood. At least four factors appear to be relevant:

- a. The tax and transfer system is, at best, weakly progressive.
- b. The education and health systems have little, if any, redistributive impact.
- c. The labor market has not been providing enough decent, formal sector jobs.
- d. The persistence of severe regional pockets of poverty, some of which are conflict-related, continues.

Regarding education, the early Philippine advantage has largely evaporated, and the system also performs poorly on equity grounds. A leading education authority concludes as follows:

Access of the poor and other disadvantaged groups to education is a continuing concern ... Enrolment and completion rates are particularly low for children in depressed rural communities, urban slums, and among indigenous groups. In 2011 net enrolment rates in secondary education for the poorest quintile were 35 percentage points below that of the richest quintile. ... A tertiary education is also beyond the reach of most poor families [Villamil 2018].

In a similar vein, Kelly Bird and Sharon Faye Piza argue in an unpublished paper that “in studying the returns to education of Filipinos across the income distribution, we discovered that the returns were falling for workers in low-income groups and rising for those in high-income groups, indicating the diminishing effects of investments in education on income inequality.” The World Bank (forthcoming) largely corroborates these findings, in that children’s education outcomes closely track those of their parents.

A plausible conjecture, therefore, is that children from low-income households receive rather poor education in public schools, especially outside the major cities, and they enter a workforce that is characterized by continuing high levels of informality, insecurity, and low earnings. The latter occurs because Philippine labor regulations remain relatively restrictive and, owing to its indifferent industrialization performance, the country has generated too few low-skill formal sector jobs. By contrast, the booming BPO sector has created “good jobs,” but these are available only to college graduates who generally come from better-off families. Moreover, international employment opportunities are reinforcing this pattern, since the growth areas are in more skilled occupations such as nursing. In other words, it appears to be the interaction of the education system and the labor market that is contributing to the low poverty-growth elasticity in the Philippines.¹⁰

¹⁰ There is also a debate concerning the impact on educational outcomes of the proliferation of local (“mother tongue”) languages in the public education system since 2012. Igarashi, Maulana, and Suryadarma [2024] argue that it has contributed to weaker educational outcomes in certain regions. However, PIDS research by

Evidently, the health system is exacerbating these problems. Philippine health professionals are famous around the world, but the domestic public health system, which was decentralized in 1993, is severely under-resourced. Banzon and Ho [2018] conclude as follows: “Income, regional, and rural-urban differences [in infant mortality rates] are glaring, with some approximating the levels found in high-income and others low-income countries.” The prolonged COVID-19 lockdowns, presumably motivated in part by weaknesses in the public health system, not only resulted in a very severe economic contraction but also led to serious education scarring, as children from poor families attending public schools with rudimentary internet access had limited opportunities to transition to online education.

These conclusions may be too gloomy. The major World Bank (forthcoming) report paints a more positive picture. It observes that over the period 2012 to 2023, excluding 2018 to 2021, headcount poverty fell by 7.7 percent a year. Moreover, income growth since 2012 has been faster among the poor and rural dwellers, and some spatial convergence is evident. Nevertheless, 43 percent of the population is either poor or near poor/vulnerable, a proportion that is declining slowly. The report also confirms research suggesting that the country’s frequent shocks from natural hazards disproportionately affect the poor, compounded by incomplete social protection during these events.

A reasonable conjecture is that our third major observation, the introduction of the Pantawid Pamilyang Pilipino Program (4Ps) conditional cash transfers, is beginning to have positive distributional and economic effects. This is surely the most important social policy innovation during the country’s democratic era. Assessments of its impacts are generally positive (see for example Capuno [2025]). It is arguably time to scale it up and extend it to more near-poor, vulnerable households. For the conditionalities to be effective, investments in local-level public education and health facilities would also be necessary. The Philippines has the fiscal space to be able to aspire to these goals.

3.4. Has governance improved?

The following quotations from six expert authorities on Philippine political economy and institutions illustrate what a vexed issue governance has always been, as it is in practically all countries.

Mendoza and Olfindo [2018] offer an optimistic perspective: “In recent years the Philippines has made impressive strides in improving its governance and institutions...”

However, McCoy [2015] presents a critical assessment of the structural roots of the country’s persistent development challenges:

Abrigo et al. [2025] disputes this causal claim. While emphasizing the importance of the general education quality, they conclude that this policy increased student continuation rates by nine to 12 percentage points.

The country's recurring crises [have arisen] arguably from a fusion of political power and rent-seeking, reducing both opportunity and prosperity. For the foreseeable future it seems unlikely that the Philippines will undertake the broad institutional reforms and shifts in oligarchic control that would allow it to move beyond the [country's] corruption, poor legal protection, and perverse institutions.

De Dios and Hutchcroft share a scorecard on reform during the economically successful Ramos administration [2003]:

- a. Economic liberalization: "significant achievements"
- b. Institutions: "much 'harder' than the earlier 'easy' tasks of liberalization"
- c. Redistribution: "The social reform agenda was notably ineffective."
- d. Political system: The administration "consistently had to rely on old-style pork-barrel politics in order to promote new-style economics."

Gochoco-Bautista [2025] argues that the country's limited economic resilience stems primarily from weak institutions and poor governance:

The main reason for the lack of public (as well as private) investment [in critical public goods such as climate change adaptation, health, education, and IT connectivity] is the presence of weak institutions and poor governance, characterized by a political economy process which provides many opportunities for rent-seeking behavior that benefit a narrow set of interests, and where adherence and sensitivity to the rule of law is lacking. Overcoming the problem of weak institutions and poor governance requires a change in the incentive structure faced by key institutions, with clear criteria and targets set and performance tied to tenure in office, so as to make government officials more accountable to the people.

Whereas social scientists, as in this paper, can make informed assessments of macroeconomic management, economic openness, and poverty, evaluating governance quality—much less measuring it empirically—remains a fraught exercise. Reforming presidents come and go. The quality of cabinet appointments within and across administrations is highly variable. State institutions whether legal, financial, political—and the quality of appointments to them—also vary over time. At the local government level, leadership ranges from islands of excellence to entrenched dynastic capture. Press freedom waxes and wanes.

In thinking through these issues, two widely cited dictums provide additional analytical guidance. Shleifer and Vishny [1993] opine that "the only thing worse than organized corruption is disorganized corruption", while Klitgaard [1998] observes that "corruption = monopoly + discretion – transparency". The various comparative indicators reported in Table 2 above on governance quality, legal quality, and corruption portray a mixed but somewhat negative story.

The Philippines generally scores below its middle-income ASEAN neighbors, for example. Although the country scores better on press freedom (and has the region's only journalist to have received a Nobel Prize), the 2025 Reporters Without Borders (RSF) ranking is 116 for the 180 jurisdictions surveyed, albeit rising as compared to the Duterte years. These indicators are of course, at best, indicative. They are highly subjective, they reflect the biases of their sponsoring institutions, and they vary considerably over time. In particular, the evaluations on which estimates are based were generally conducted during the Duterte administration, at a low point in the quality of public administration.

Viewed in comparative Southeast Asian perspective, there are at least three observable features of Philippine governance to note. First, like most of its neighbors, the notion of "technocracy" is more evident in appointments to key economics portfolios such as BSP, Department of Economy, Planning, and Development, and Department of Finance. These institutions are at least partially "insulated" from political pressures (though technocratic appointees still need to be politically acceptable). This is central to the country's improved macroeconomic management. Other cabinet and senior appointments are more likely the domain of political parties and vested interests, regardless of particular administrations, and their quality, therefore, is more variable, within and across administrations.

Second, reflecting its distinctive political system, there appears to be greater turnover at senior levels in the bureaucracy between administrations in the Philippines. It remains an open question whether this has affected governance quality. For example, are there issues related to institutional memory and policy continuity? Are there transition issues related to the new executives familiarizing themselves with their portfolios and "lame duck" periods towards the end of their tenure? To the extent that senior civil service salaries lag behind those in the corporate and academic sectors and international organizations, is the talent pool from which bureaucratic appointments are drawn too restricted?

Third, the Philippines was the first ASEAN country to embark on a comprehensive decentralization program. More than three decades later, has there been any discernible improvement in local governance, beyond what might have been expected over the course of economic development? The fiscal federalism literature hypothesizes that local government quality should improve as these administrations are closer and more responsive to community aspirations especially when, as in the Philippines, decentralization was accompanied by democratization. In neighboring Malaysia, for example, which adopted a federal model at the time of independence, the state of Penang is the most dynamic local economy, thanks to its high-quality state government, in addition to inherited advantages of international orientation during the colonial era and good educational institutions [Athukorala 2014].

Yet the evidence on the quality of local governance in the Philippines appears to be mixed, with many local governments essentially controlled by "dynasties"

(see the essays in Balisacan and Hill [2007], especially de Dios and Capuno). The evidence for Indonesia, which likewise democratized and decentralization a decade later, also following a deep economic crisis, is similarly mixed [Lewis 2023].

There are no short cuts to improved governance quality. Effective anti-corruption drives start with rigorous and independent checks on government, transparency, media freedom, and deeper reforms of public sector incentives referred to above. Anti-corruption agencies have a mixed record in Southeast Asia, and no country has yet had the courage to establish an institution modelled on Hong Kong's Independent Commission Against Corruption (ICAC). Indonesia's *Komisi Pemberantasan Korupsi* (KPK) or Corruption Eradication Commission arguably came the closest in its early years. It successfully prosecuted ministers, regional governors, and senior bureaucrats, until it was muzzled by the political class during the second Jokowi presidency, which, it should be noted, remained popular throughout its decade in power [Jaffrey and Warburton 2025]. In addition to its professionalism and independence, the KPK had prosecutorial powers, an essential prerequisite according to long-time Thai anti-corruption campaigner Medhi Krongkaew [Khoman et al. 2012]. The remit of these agencies is particularly important in sectors that are prone to rent-seeking, such as large-scale infrastructure projects and land policy. Strong and independent competition commissions are crucial, especially for non-tradable sectors and where import protection is high. The work of the Philippine Competition Commission is, therefore, crucial.

3.5. Environmental challenges

The Philippines faces immense environmental challenges, ranging from deteriorating urban amenities to extreme climate change vulnerability. These challenges arguably cannot wait until the forces implicit in the transition through the environmental Kuznet's Curve take effect. We illustrate these issues with reference to two of the country's major environmental challenges: managing Metro Manila urban agglomeration and climate change.

Metro Manila and its surrounding provinces dominate the Philippines economically, politically, and culturally. Notwithstanding the 1992 decentralization, it is a quintessential primate city. Depending on which of the broader definitions of contiguous urban settlements is adopted,¹¹ its population in 2021 was at least 24 million people, while its economic output was at least 40 percent of national GDP. It is one of the world's most densely populated and congested cities, but comparatively not a high-rise city [Bird et al. forthcoming]. Air quality levels in Manila do not meet World Health Organization (WHO) advisory levels, even though other ASEAN cities reportedly have more severe air pollution [ADB 2026]. Although it is the country's major economic driver and job

¹¹ That is, the eight jurisdictions comprising the NCR and surrounding provinces. See demographia.com.

provider, the poor struggle to survive in it. According to one set of estimates, it is one of the world's most expensive cities, in which "quality flats" cost about 20 times the median household income, one of the highest in the world on this metric [*The Economist* 2026].

Like other major Southeast Asian cities, Manila's dominance is best understood as the interaction between a favorable geographic location and the political economy of governance in the independence era. History also matters. As Doeppers [1984] observes, the social, economic, and political evolution during the American colonial period resulted in an economy that "relied heavily on acting as a central node for imports and a bureaucratic hub, redistributing wealth from the provinces to Manila through government employment." Paul Krugman's [1992] *Geography and Trade* insights are also relevant: the incentives that built up during the Philippines prolonged import substitution era exerted a powerful centralizing bias as manufacturers sought access to the political and bureaucratic dispensers of rents. The partial transition toward export orientation might have been expected to lead to some industrial dispersal, especially depending on the location of export zones. However, the dynamic BPO sector has tended to cluster where the labor talent pool is concentrated and where telecommunications and power infrastructure are more reliable—primarily in Metro Manila and its surrounding areas, the country's main center of tertiary education.

Congestion and affordability reflect the complexities of urban planning in developing Asia's megacities. The prolonged economic and fiscal crisis of the late 20th century resulted in underinvestment in transport and related infrastructure, for which there are no simple solutions. One approach is high-speed transport connections that facilitate both mobility and decongestion. A case in point is the ambitious North South Commuter Railway (NSCR). These and other major infrastructure projects are presumably sound investments, providing rigorous cost benefit analysis is undertaken, bidding procedures are transparent and efficient, and land acquisition issues can be resolved quickly and equitably [Bird et al. forthcoming].

A radical approach to the comprehensive provision of public housing is another option. Here the obvious model is Singapore's Housing and Development Board (HDB). This is one of the world's great urban management success stories. Established in 1960, it houses almost 80 percent of Singapore's population. It features innovative financing and planning mechanisms, including a focus on equity with tailored capacity-to-pay arrangements and job-creation in the construction sector.¹² Obviously the HDB worked in part owing to Singapore's exceptionally tough and clean government.¹³ Singapore is currently among the world's wealthiest nations, although this was not the case when the HDB program was first launched. According to the Maddison Project database, the current Philippine per capita GDP is similar to that of Singapore in the early 1970s.

¹² Former Prime Minister Lee [2026] provides a retrospective on this and other Singapore policy innovations.

¹³ See <http://www.hdb.gov.sg/>.

The Philippines is highly vulnerable to climate change and natural disasters in general. Adaptation and mitigation strategies are, therefore, of paramount importance, notwithstanding the endemic corruption associated with the recent flood mitigation measures. Decarbonization is central to these strategies, one element of which is rapid electrification. However, for complex historical reasons, the Philippines has among the highest power prices in Asia, as reported for example in the annual Japan External Trade Organization (JETRO) business surveys.

Nevertheless, the Philippines is not without some advantages as it decarbonizes. For one thing, its CO₂ emissions are comparatively modest, reflecting its energy mix which historically includes hydro and geothermal [Ravago et al. 2018]. Moreover, thanks in large part to China's technological innovation and manufacturing prowess, the costs of solar power and batteries are falling dramatically. As a result, the cost of electric vehicles is falling rapidly in Southeast Asia both for automobiles and mass transit options [Kohpaiboon and Lee 2024]. It therefore makes sense for the government to aggressively support technological adoption and innovation across the board, from power generation and transmission to household and business adoption, using feed-in tariffs and other mechanisms. These measures will reduce Philippine energy intensity, contribute to cleaner air in the cities, and reduce the country's dependence on Middle Eastern and other oil suppliers. An additional advantage is that renewable energy production and distribution can be implemented on a decentralized basis and is therefore well suited to the Philippines archipelagic geography.^{14,15}

Over time the Philippines should be able to avail itself of contingent international climate finance mechanisms (i.e., contingent on preservation of forest and marine resources and biodiversity). Nevertheless, resource transfers under these programs have fallen well short of the rhetoric.¹⁶ The main driver of progress will always be domestic reform and technological innovation.

4. Summing up

Three main conclusions follow from this analysis.

First, to this outsider at least, and contrary to much gloomy public commentary, there is much to be positive about the Philippine economy. The country has achieved solid economic growth for most of the past three decades, with only one major interruption: the COVID-19 pandemic. Living standards have risen and the improvements have been somewhat broad-based. Head count poverty in particular

¹⁴ Given the country's unhappy experience with nuclear power and the very long investment lead times, one might expect that this energy source is no longer an option. Nevertheless, The Philippine National Nuclear Energy Act (RA 12305) of 2025 indicates that it remains a live policy option.

¹⁵ See World Bank [2022] for a useful summary of the climate change policy options and their likely costs.

¹⁶ For example, the Indonesia-Norway US\$1 billion REDD+ agreement was launched with much fanfare in 2010. However, it had mixed results and was later discontinued in 2021 despite useful lessons learned.

has been responsive to economic growth. On current projections, the Philippines will become a *de facto* G20 economy in the foreseeable future. Viewed from the 1980s, all these statements would have appeared to be wildly optimistic.

Second, the reasons for the economic revival are quite straightforward. Major policy reforms, of the type long advocated by the Philippine economics profession, have been enacted. More prudent macroeconomic policies have been introduced, especially in monetary policy where the reforms have been institutionalized. The economy has become more open, enabling Philippine talent to better exploit the country's comparative advantages. Notwithstanding recurring scandals, the political system has at least been able to deliver these major reforms.

Third, if indeed the Philippines is now basically a "five percent growth economy" (much like Indonesia it should be noted, and for broadly similar reasons), the major issue going forward is whether this growth momentum can be accelerated, and whether the benefits of growth can be more equitably distributed. What are some of the variables that assist in answering these questions? Putting aside a major environmental catastrophe, another pandemic, and other such events, at least four come to mind.

4.1. Are the current growth drivers sustainable?

Remittances and BPOs have been major drivers of Philippine economic growth. There are obvious threats to both—the rising global tide of anti-immigrant (and foreign worker) sentiment in the case of the former and related technological innovation for the latter.

Definitive predictions are inherently risky since so many factors are completely beyond the control of the Philippines. With that caveat, my sense is that global labor markets will continue to be relatively open for the sorts of skills that the Philippines offers. In particular, the rapid aging occurring in most rich countries will increase the demand for health and aged care professionals in which the Philippines is already a well-established provider (see Pritchett [2026] for a persuasive discussion of these issues). To be sure, there will be obstacles—the election of xenophobic political leaders, for example—which underlines the importance of Philippine labor attachés abroad to guard against abuse. These international labor market segments are also increasingly credentialed and skill-intensive and are, therefore, not generally open to unskilled workers. Labor exports may no longer be the poverty alleviation strategy they were once regarded as. Moreover, the Philippines is now beginning to age quite rapidly, and arguably these skills will be required at home, too.

The future of BPOs in the age of AI is even more difficult to predict, especially with respect to the extent to which it will be skill-augmenting versus labor-displacing. Technological change is always disruptive, but the fact remains that there will always be a hierarchy of skill intensities which create employment prospects. Robots have not displaced personal carers. The long-predicted automation that would eradicate labor-intensive sectors such as garments has

not occurred. The Philippines is in the fortunate position that BPOs have taken deep root in the country, establishing a major global reputation. The key to future growth will be adaptation to rapid technological innovation and supply-side investments to equip Philippine workers with the requisite skills.

4.2. Can the concentration of political and economic power be diffused?

Dynastic political power and high levels of corporate concentration cannot be easily and quickly overturned. As the quotes above remind us, voter vigilance and activism are ultimately the only sure guarantors of democratic quality. In the case of economic concentration, elements of the standard economic toolkits are as relevant as ever. Trade liberalization acts as a constraint on monopoly power in tradable goods and services. The Philippine Competition Commission (PCC) is empowered to foster the development of competitive market structures, and its work is therefore critically important (see the essays in Part 5 of Hill, Ravago, and Roumasset [2022] for an early look at the work of the PCC). The indifferent rankings of the Philippines in various comparative business surveys serve as a reminder of the importance of ongoing regulatory reform, since a complex and opaque regulatory system invariably favors incumbents. The Philippine workforce needs to be better equipped with the skills required for the mid-21st century, especially including greater ease for small and medium-sized enterprise start-ups.

4.3. Could global economic and political volatility derail growth?

In the evolving field of geoeconomics, there is a range of potentially difficult scenarios. The Philippines currently has an acrimonious relationship with China, the dominant economic locomotive in East Asia, and this has implications for international trade and investment flows. The Trump tariff madness may persist, and even if it diminishes, industry policy has returned to the global center stage and with it rising commercial barriers. The WTO continues to be on life support. The Middle East may experience ongoing conflict and instability. An era of global stagflation may be on the horizon. The principal safeguard response is to ensure that one's own house is in order. That means having fiscal and monetary policy buffers to smooth economic shocks, to protect vulnerable groups affected by these various shocks (environmental, health, and economic), and a flexible, diversified set of economic relationships. The Philippines is well equipped to handle some of these challenges, such as through its monetary policy settings, but much less so in others, as was clearly evident in its management of the COVID-19 pandemic. Membership in ASEAN, the most durable and influential grouping in the developing world, is an important advantage. Inevitably, the Philippines is largely a bystander in the global industry policy debates. As always, the challenge is to strengthen supply-side competitiveness, equip Philippine businesses and workers to manage diversity, and ensure policy makers keep in mind the country's earlier unhappy history with industry policy.

4.4. How can growth be more inclusive?

Perhaps this is the most intractable challenge facing the Philippines, but it is at least the one where the extensive research to date provides clear policy pathways. Reform arguably commences with the education system, which performs poorly on both quality (except at the upper end) and inclusivity. The labor market, the ladder of economic progress, needs to provide more and better jobs, principally through stronger productivity growth rather than more labor market regulations. Greater economic openness would provide more and better jobs for Philippine workers. The conditional cash transfer program needs to be strengthened, and the complementary conditional inputs of education and health services improved. A regional development strategy needs to be fashioned with a focus on lagging regions, particularly in conflict-affected regions such as Mindanao [Hutchcroft 2016], and with fiscal transfers to poorer regions that incentivize improved governance. There are few, if any, quick wins in these deeply complex areas of public policy, but as with the examples of policy success alluded to above, the essential prerequisite is policy-oriented reform and advocacy.

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