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# **The Paradox of Arrival: Philippine Upper-Middle Income Reclassification and the Unfinished Structural Transformation**

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## **Abstract**

*On July 2, 2026, the World Bank officially reclassified the Philippines as an upper-middle income country. This paper argues that the reclassification, while reflecting genuine macroeconomic progress, conceals a structural paradox: the Philippines has crossed the income threshold without completing the productive transformation that earlier countries at the same level achieved. The paper documents three structural deficits that make the upper-middle income phase particularly demanding: a manufacturing base that is the weakest among the ASEAN-6 economies, an export basket that has not diversified toward more sophisticated products, and productivity growth driven by within-sector efficiency rather than the cross-sector labor reallocation that characterizes genuine structural transformation. Central to the analysis is the overseas Filipino worker model, four decades of institutionalized labor export whose income-generating effects and structural consequences have become deeply intertwined in ways that complicate the next phase of development. The paper argues that the Tatak Pinoy Strategy, the country's first legislatively mandated industrial strategy, represents not just a policy framework but an opportunity to discover a distinctively Filipino development path through co-governance and adaptive learning, rather than through the import-and-replicate model that has repeatedly fallen short.*

*JEL Classification: O14, O25, O53, F22, J24*

*Keywords: Philippines, upper-middle income, structural transformation, OFW, industrial policy, middle-income trap, premature deindustrialization, Tatak Pinoy Strategy*

## **1. A Milestone and Its Discontents**

On July 2, 2026, the World Bank officially reclassified the Philippines as an upper-middle income country, placing it in the gross national income per capita range of \$4,466 to \$13,845 under the Atlas method. The reclassification reflects decades of macroeconomic stabilization, sustained if uneven GDP growth, and the accumulation of household income driven substantially by overseas remittances and service sector expansion. By the World Bank's most widely used operational measure, the Philippines has crossed a threshold that carries real practical consequences: changes in development finance eligibility, shifts in investor perception, and adjustments in how the country positions itself in international economic negotiations.

The milestone deserves acknowledgment. Sustained income growth in a country of 115 million people, managing repeated external shocks, political transitions, and persistent spatial inequalities, is not a trivial achievement. The macroeconomic management of the past two decades, the expansion of basic education access, and the demonstrated resilience of OFW remittance flows through the COVID-19 pandemic all contributed to arriving at this threshold.

And yet the income reclassification, considered against the structure of the Philippine economy, raises an immediate analytical problem. Countries that successfully converge to high income do so by continuously shifting the composition of their production and exports toward more sophisticated, higher-productivity activities, a process of structural transformation driven largely by the reallocation of labor from low- to high-productivity sectors (McMillan, Rodrik, and Verduzco-Gallo, 2014). The countries that preceded the Philippines into the upper-middle income band, Thailand in 2011, Indonesia in 2019, Vietnam approaching fast, did so predominantly on this basis. The Philippines arrives at the same income threshold via a fundamentally different pathway: services-led income growth, remittance-supported

consumption, and a manufacturing sector that accounts for only 17.6 percent of GDP and 7.3 percent of total employment as of 2024, the weakest industrial base among the ASEAN-6 (Tatak Pinoy Council, 2025).

This divergence in pathway matters because what a country brings to the upper-middle income band, the productive structure, the capability base, the institutional architecture, determines what is structurally available for the next and more demanding transition. The World Bank's World Development Report 2024 identifies that transition explicitly: moving from infusion of global technologies to genuine domestic innovation, a shift that requires the firm-level learning, domestic supplier depth, and research-industry linkages that manufacturing-led development typically generates. The Philippines enters this phase with significant deficits in all three dimensions.

This paper examines the paradox of arrival: the dissociation between income convergence and structural transformation that the reclassification makes visible, the mechanisms that produced it, the risks it generates for the upper-middle income phase, and the policy imperatives that follow. Central to the analysis is the role of the overseas Filipino worker model, the four-decade institutionalization of labor export as a de facto development strategy, as the primary mechanism through which income growth and structural transformation became decoupled. Remittance-driven income convergence and the systematic orientation of the country's human capital toward external rather than domestic labor markets are not coincidental features of the Philippine trajectory; they are structurally related. The analysis draws on recent diagnostic work on Philippine industrial development, the Tatak Pinoy Strategy's own structural assessment, and the broader middle-income country trap literature to argue that income reclassification marks not a development achievement to be consolidated but a structural inflection point that demands urgent

and qualitatively different policy responses from those that delivered the income growth of the preceding two decades.

## **2. What the Income Number Conceals**

Income reclassification is a statistical event, not a structural one. What changes on July 2, 2026 is the category in which the Philippines appears in World Bank tables; what does not change is the productive structure that generated the income growth those tables record. Examining that structure alongside the reclassification reveals three dimensions of an unfinished transformation that the income headline does not capture.

### **2.1 The manufacturing deficit**

The defining structural feature of the Philippine economy at the moment of its upper-middle income reclassification is the weakness of its industrial base. As of 2024, manufacturing accounts for only 17.6 percent of GDP and 7.3 percent of total employment, the lowest manufacturing share among the ASEAN-6 economies, at a time when Cambodia, Malaysia, Thailand, and Vietnam all maintain manufacturing at roughly one-quarter of gross output (Tatak Pinoy Council, 2025). The Philippines has the fewest manufacturing firms per million population in ASEAN. The structural shift out of agriculture over the past five decades has been not to industry but to services, a pattern documented by De Dios and Williamson (2014) as the country's deviant industrialization trajectory, the product of a perfect storm of protectionism, political instability, missed foreign direct investment opportunities during the 1980s surge of Japanese and Taiwanese investment relocation, and two financial crises that struck at precisely the moments when industrial consolidation was most needed.

The ideal path of industrialization involves a balanced approach in which industry-led growth supported by modern, high-skill services enables productive employment and inclusive growth

(Usui, 2012). Instead, while services account for 57 percent of total Philippine employment, 65 percent of Filipino workers are in low-value, low-wage occupations: petty retail, transport, accommodation, and food services (ILO-UNCTAD, 2021; Tatak Pinoy Council, 2025). Rodrik (2016) argues that this pattern of premature deindustrialization, in which countries shift to services before fully reaping the productivity gains of manufacturing, forecloses the structural transformation that has historically been the most reliable route to sustained income growth. The Philippines has reached the upper-middle income threshold through this foreclosed route, which is precisely what makes the reclassification paradoxical: the income is real, but the productive foundation that should underlie it at this level is not yet in place (Balaoing-Pelkmans and Mendoza, 2024a).

## **2.2 The export sophistication deficit**

The second structural dimension concerns the composition and trajectory of Philippine exports. Hidalgo and Hausmann (2009) demonstrate that a country's capacity to diversify into more sophisticated products is path-dependent: economies can most readily move into products that share underlying productive capabilities with their existing export base. Countries concentrated in peripheral, weakly-connected areas of the product space face structural barriers to upgrading that no single policy intervention can easily dissolve. The Philippines sits in precisely this position. Export-oriented manufacturing employment peaked at approximately 900,000 in 2015 and fell to 694,000 by 2022, a loss of more than 200,000 jobs in the economy's highest-productivity firms (Tatak Pinoy Council, 2025). The number of exporters has more than halved since 2000, export concentration has increased, and the export basket has not diversified toward more sophisticated product categories despite two decades of deep global integration (Balaoing-Pelkmans and Mendoza, 2024b). The electronics sector, which dominates export value, reflects a

pattern of high global value chain participation but arrested upgrading: high engagement in assembly, minimal deepening of domestic value-added.

### **2.3 The productivity structure deficit**

The third and most fundamental dimension concerns the source of whatever productivity growth has occurred. McMillan, Rodrik, and Verduzco-Gallo (2014) establish that aggregate labor productivity growth can be decomposed into within-sector efficiency gains and the structural reallocation of labor from low- to high-productivity sectors, with the latter being the more powerful driver of sustained convergence. Decomposition of Philippine aggregate labor productivity growth between 2002 and 2024 reveals that improvements have been driven predominantly by within-sector gains rather than cross-sector reallocation (Tatak Pinoy Council, 2025; Usui, 2012). This is precisely what Rodrik (2016) identifies as premature deindustrialization: the economy is moving toward a services-dominated structure not because it has completed an industrial transformation, but because manufacturing was unable to generate the employment and productivity dynamics that would have made the transition organic and sustainable.

Taken together, these three deficits define the paradox of arrival. The Philippines has crossed an income threshold that, for the countries that preceded it, signaled the completion of a first-stage structural transformation. For the Philippines, it signals the arrival at that threshold without having completed it. The income classification has changed; the structural challenge has not.

### **3. How We Got Here: The OFW Model as the Missing Mechanism**

The structural deficits documented in Section 2 did not accumulate randomly. They have a specific institutional cause that is undertheorized in both the Middle-Income-Country Trap (MICT) literature and in most domestic policy discussions: the four-decade institutionalization of

labor export as a de facto development strategy, and the systematic feedback loops through which that model has suppressed the domestic productive transformation that income growth might otherwise have demanded.

### **3.1 From crisis response to structural feature**

Prior to the early 1980s, overseas labor migration was a marginal phenomenon in the Philippines. Annual deployment represented less than one percent of the domestic labor force, and remittances were a minor component of current account receipts. The first decisive acceleration came in 1983, coinciding with the severe political and financial crisis that destroyed domestic urban employment opportunities at precisely the moment when the region's most consequential wave of Japanese and Taiwanese manufacturing investment was beginning to relocate across Southeast Asia. Unable to offer investors the political stability and institutional reliability that Thailand and Malaysia could, and with its manufacturing sector in crisis, the Philippines instead exported its labor force. A second acceleration followed the Asian financial crisis of 1997 to 1998, when registered deployment exceeded three percent of the domestic labor force. By the early 2000s, remittances had grown to represent twenty percent of total current account receipts (De Dios and Williamson, 2014).

Each crisis-driven surge in overseas deployment made the next surge more likely. The remittances generated by earlier waves of migration sustained household consumption, reduced poverty, and stabilized the balance of payments, outcomes genuinely beneficial in the short run but that simultaneously reduced the domestic political pressure for the structural reforms that would have generated competitive employment at home (Kapur, 2004). The government earned foreign exchange without building productive capacity. Private households invested in education for children who would work abroad. Firms in labor-intensive manufacturing faced both a

tightening domestic labor supply and, from the early 1990s onward, a peso under steady upward pressure from remittance inflows. This is a classic Dutch Disease mechanism, first formalized by Corden and Neary (1982): large inflows of foreign exchange through a non-tradable channel appreciate the real exchange rate and impose a direct competitiveness penalty on tradable manufacturing. In the Philippine case, this penalty fell on precisely the sector that should have been expanding (De Dios and Williamson, 2014). The equilibrium that crystallized by the 2000s is internally consistent: remittances sustain consumption, service exports sustain foreign exchange, the peso remains strong, and manufacturing remains weak. But it is a low-productivity equilibrium that forecloses the structural transformation the upper-middle income transition now requires.

### **3.2 The quiescence trap in domestic capabilities**

The OFW model's most consequential effect on the productive structure operates through human capital. The migration-development literature identifies a range of channels through which emigration affects origin countries, from remittance income and brain drain to behavioral responses in education investment (Docquier and Rapoport, 2012). In the Philippine case, the dominant channel is what Hausmann and Hidalgo (2010) call the quiescence trap: the paucity of high-skilled employment domestically discourages households, workers, and firms from investing in domestic capabilities, which perpetuates the paucity of high-skilled employment, a self-stabilizing loop from which neither side of the market can exit unilaterally. The large and persistent wage differential between domestic and foreign employment makes investment in skills rational primarily as a pathway to migration rather than as a foundation for domestic enterprise development.

The institutional expression of this dynamic is visible throughout the skills formation system. Most of the technical and vocational training course offerings explicitly reference overseas employment demand as a guide for training priorities. Curricula are often oriented toward external labor market requirements, caregiving, seafaring, construction trades, hospitality services, rather than toward the firm-level, sector-specific capabilities that domestic industrial upgrading requires. Paus (2017) shows, drawing on Latin American evidence, that this pattern, in which skills supply is systematically misaligned with domestic productive demand, produces neither sustained productivity growth nor export diversification. The result in the Philippine context is that expanded public investment in training functions as a de facto subsidy for employers abroad rather than a foundation for domestic productivity growth.

### **3.3 The timing contrast**

The analytical importance of the OFW model as an explanatory mechanism becomes clearest in comparative perspective. Thailand and Malaysia reached upper-middle income status on the basis of manufacturing-led structural transformation that preceded the entrenchment of large-scale labor export. Their domestic labor markets developed the density of manufacturing employment, the firm-level demand for skilled workers, and the supplier ecosystem depth that enabled organic capability upgrading. Remittances were never large enough to generate significant Dutch Disease effects, and the political economy of labor export never became a structural constraint on domestic industrial policy. The Philippines missed the critical window of manufacturing consolidation not through a single policy failure but through the nonlinear interaction of political crisis, external timing, and institutional failure, arriving at the upper-middle income threshold via a pathway that generated income convergence without productive

convergence, and that has left the domestic economy structurally less equipped for the next transition than the income classification suggests.

The national dynamics of this pathway are visible in concentrated and unmediated form at the sub-national level. In the Bangsamoro Autonomous Region in Muslim Mindanao, where the formal economy is thinner and institutional voids are deeper, the same feedback loop operates without the buffers that the national economy provides. Research on conflict-affected and fragile regions consistently finds that low industrial density, weak institutions, and limited labor market alternatives amplify the trap dynamics visible at the national level (World Bank, 2011). The BARMM case is an illustration of precisely this: the absence of a manufacturing or services base large enough to generate competitive domestic alternatives makes the quiescence trap more immediately visible and more deeply entrenched (Balaoing-Pelkmans, 2024). What the sub-national evidence adds to the national argument is precision: the binding constraint is not skills supply but skills demand, not the absence of trained workers but the absence of enterprises capable of absorbing and retaining them at competitive wages.

#### **4. The Risk Ahead: Entering the Upper-Middle Income Band Without the Requisite Foundations**

The upper-middle income reclassification places the Philippines at the threshold of what the World Bank's World Development Report 2024 identifies as the most demanding phase of the convergence process. For lower-middle income countries, the primary task is to combine investment with infusion, absorbing technologies and business practices from abroad and diffusing them domestically, reshaping the economy into a globally competitive supplier of goods and services. For upper-middle income countries that have successfully completed that infusion phase, the next task is to complement investment and infusion with genuine innovation,

not merely borrowing ideas from the global technological frontier but beginning to push it outward. This requires restructuring enterprise, work, and energy use, with greater emphasis on economic freedom, social mobility, and political contestability (World Bank, 2024).

The Philippines enters the upper-middle income band at a structural disadvantage relative to this framework: it must simultaneously complete the infusion transition it has not yet finished and prepare for the innovation transition that upper-middle income status now demands. It faces, in other words, a compounded challenge, not one transition but the residue of an incomplete first transition layered onto the requirements of a second. Three dimensions of this challenge are particularly acute.

#### **4.1 The innovation deficit**

Domestic research and development spending as a share of GDP stood at just 0.32 percent in 2018, far below Singapore, Malaysia, Thailand, and Vietnam, and a fraction of the levels that sustained innovation-led growth in the first-tier newly industrialized economies (Balaoing-Pelkmans and Mendoza, 2024a). Philippine manufacturing is characterized by heavy reliance on imported technologies, a dominant focus on process rather than product innovation, and weak public-private coordination around technological priorities. Paus (2017) argues that this pattern is not incidental but structural: market-led strategies in developing countries systematically underproduce domestic innovation capabilities because private returns to innovation are too uncertain and the complementary institutions, skills, finance, and research infrastructure, too underdeveloped to make innovation investment rational at the firm level without active state support. The WDR 2024 confirms this diagnosis at the aggregate level, documenting that upper-middle income countries have a technology index barely above zero relative to the global frontier. The innovation gap cannot be closed by R&D budget increases alone without

simultaneously building the domestic enterprise base capable of absorbing and deploying that investment productively.

#### **4.2 The automation threat to residual catch-up space**

The window for labor-intensive manufacturing catch-up, the conventional first rung of the industrialization escalator, is narrowing as artificial intelligence and automation substitute capital for labor in precisely the tasks that labor-abundant economies previously performed at cost advantage (Rodrik, 2016). Acemoglu and Restrepo (2018) show that automation technologies displace workers most rapidly in routine, task-intensive occupations, the same occupations that have historically provided the employment base for early-stage industrialization. Countries that have not yet consolidated a manufacturing base find the entry conditions progressively less favorable: the competition for remaining labor-intensive niches has intensified, lead firms in global value chains are increasingly able to automate tasks they previously outsourced, and the human capital profile required for competitive participation in higher-value manufacturing is shifting faster than domestic education systems can respond.

The information technology and business process management sector offers a partial alternative pathway: Filipino talent is demonstrably competitive in voice, back-office, and increasingly in knowledge process outsourcing. But the sector's continued competitiveness in an AI-augmented global services market depends on precisely the domestic innovation investment and capability accumulation that the quiescence trap has suppressed. Sustaining IT-BPM as a high-value-added sector requires upgrading from routine processing toward complex judgment, creative, and analytical tasks, and the current skills formation system is not designed to deliver this.

### **4.3 The political economy risk of premature satisfaction**

Income reclassification carries a political economy risk that is specific to the Philippine institutional context. The World Bank's WDR 2024 identifies forces of preservation, incumbent interests, spatial inequalities, and restrictive social norms, as the primary mechanisms through which middle-income countries fail to make the transitions that their income level demands. These forces are not weakened by a statistical reclassification. They may be strengthened by it, insofar as the reclassification provides a narrative of success that reduces the urgency of the structural reforms that the evidence documents as necessary. The country has produced well-designed industrial strategies at regular intervals, and none has been sustained through an electoral cycle long enough to compound its effects. The risk is not that the Philippines will misidentify what needs to be done; it is that the upper-middle income classification will reduce the political pressure needed to sustain the doing of it.

### **5. The Policy Imperative: What the Reclassification Must Now Compel**

The structural evidence assembled in the preceding sections points to a clear policy conclusion: the upper-middle income reclassification cannot be treated as a marker of transformation achieved. It is, more precisely, a marker of the income consequences of a particular development pathway whose structural limitations are now becoming binding constraints on the next phase of growth. The policy response must therefore be qualitatively different from the policies that produced the reclassification. Remittance-supported consumption, services-led income growth, and OFW deployment cannot be the foundation of a high-income transition. What is required is a deliberate, sustained, and institutionally grounded program of productive base reconstruction. The Philippines now has, for the first time, a legislative mandate for precisely this: the Tatak

Pinoy Act (Republic Act No. 11981) and the Tatak Pinoy Strategy it has generated. The question is whether the institutional architecture can deliver what the legislative mandate promises.

### **5.1 The TPS as the right diagnosis, institutionally incomplete**

The Tatak Pinoy Strategy<sup>1</sup> is the most comprehensive structural diagnostic the Philippines has produced. Its assessment of the binding constraints is accurate: manufacturing underdevelopment, export concentration, fragmented industrial policy implementation, skills misalignment, and the absence of enforceable inter-agency coordination mechanisms. The strategy's phased, sector-specific approach, its grounding in firm-level evidence, and its explicit theory of change represent a substantial advance on predecessor strategies that identified similar problems without the institutional architecture to address them.

The critical question is not the quality of the diagnosis but the durability of the institutional response. The Tatak Pinoy Council, mandated by the Act, must function not as an advisory platform but as a genuine central node of industrial governance with authority to enforce alignment across agencies, link performance targets to budget allocations, and maintain strategic continuity across political transitions. Legal enactment is a necessary but insufficient condition; without diagnostic systems, enforceable coordination mechanisms, and outcome-based monitoring, the TPS risks becoming the latest in a series of aspirational frameworks whose ambitions outpace their implementation capacity (Tatak Pinoy Council, 2025).

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<sup>1</sup> The **Tatak Pinoy Strategy** is the multi-year national industrial strategy mandated under Republic Act No. 11981, the Tatak Pinoy (Proudly Filipino) Act, which created the Tatak Pinoy Council and directed all national government agencies, GOCCs, and LGUs to expand and diversify domestic productive capacities and promote increasingly sophisticated, globally competitive Filipino goods and services through coordinated policy measures in human resources, infrastructure, technology and innovation, investment, and finance.

## **5.2 The horizontal-vertical imbalance must be corrected**

A well-established finding in the industrial policy literature is that effective industrial transformation requires a balanced combination of horizontal policies, covering infrastructure, education, and the business environment, and vertical policies that target sector-specific upgrading, firm-level capability development, and performance-conditioned incentives (Rodrik, 2004; Aiginger and Rodrik, 2020). Lin's (2012) Growth Identification and Facilitation Framework makes a related point: successful industrial policy identifies sectors where the country has latent comparative advantage and provides the targeted support needed to activate it, rather than relying on economy-wide incentives alone. Philippine industrial policy has historically been weighted too heavily toward the horizontal: broad business environment measures that are politically easier to legislate, and insufficient vertical depth in the performance-conditioned sectoral support that genuine transformation requires.

Regional experience confirms what is missing. Malaysia's National Industrial Development Council holds legal authority to monitor performance and enforce inter-agency budget alignment. Vietnam uses structured procurement plans as demand signals for domestic suppliers. Thailand's Eastern Economic Corridor Authority deploys firm-level diagnostics before granting access to targeted support. Indonesia integrates content requirements with digital compliance systems spanning multiple agencies. What these systems share, and what the Philippines has consistently lacked, is the alignment of industrial policy mandates with enforceable tools: cross-agency enforcement power, diagnostic instruments, medium-term planning horizons, and outcome-linked incentives. The TPS's institutional architecture points toward all of these; the test is whether they can be operationalized (Tatak Pinoy Council, 2025).

### **5.3 The skills-demand problem must be addressed alongside skills supply**

The standard response to the human capital dimension of the middle-income trap is to expand training supply. Paus (2017) argues persuasively that this is necessary but insufficient: when the domestic labor market fails to reward skills at competitive levels, expanded training produces not domestic upgrading but emigration, reinforcing the very dynamic it was meant to address. The analysis in this paper confirms that the binding constraint in the Philippine context is not the supply of trained workers but the domestic demand for them. Expanding technical and vocational enrollment in the absence of enterprises capable of absorbing graduates at competitive wages does not resolve the quiescence trap; it accelerates it. Skills development components must therefore be paired explicitly with demand-side industrial policy: building the domestic enterprise base in priority sectors that creates the employment absorptive capacity that makes staying home economically rational.

### **5.4 The geopolitical opportunity is time-sensitive and conditionality-dependent**

The reorganization of global supply chains following geopolitical tensions between the United States and China, and the specific positioning of the Philippines in emerging semiconductor and electronics investment flows, represents a genuine structural opportunity of the kind that has historically served as the proximate trigger for manufacturing-led transformation in comparable economies. But the window is time-sensitive and the outcome is not automatic. Without deliberate policies to deepen domestic linkages, build supplier capabilities, and embed technology transfer objectives into investment promotion, supply chain repositioning risks replicating the pattern of high global value chain participation with low domestic value-added that has characterized the electronics sector for three decades. Capturing the opportunity

requires precisely the vertical industrial policy instruments identified above as currently underdeveloped.

## **6. Conclusion: The Structural Meaning of the Reclassification**

The upper-middle income reclassification of July 2, 2026 is a factual event with real consequences. It changes how the Philippines is positioned in development finance frameworks, how it is perceived by international investors, and how its trajectory is narrated in comparative development discourse. These consequences are not trivial. But the reclassification does not change the productive structure of the economy, the institutional architecture through which industrial policy must be implemented, the misalignment between the skills formation system and the domestic labor market, or the political economy of a state that has struggled to coherently implement even well-designed strategies, not for want of intention, but because the interdependent nature of its structural problems makes coordinated action across the multiple domains that transformation requires genuinely difficult to assemble and sustain.

The argument of this paper can be stated plainly. The Philippines has crossed the upper-middle income threshold via a pathway that generated income convergence without productive convergence. The OFW labor export model, which was the primary engine of that income growth, simultaneously suppressed the domestic capability accumulation that the upper-middle income transition now requires. The structural deficits that result, documented across manufacturing, export sophistication, and productivity composition, are not residual problems to be addressed in due course. They are the central challenge of the development phase the country has now entered, compounded by the innovation demands of an upper-middle income economy and the narrowing window for traditional manufacturing catch-up as automation reshapes global production.

The World Bank's World Development Report 2024 is clear that the upper-middle income phase requires not one but two transitions: from investment to infusion, and from infusion to genuine innovation. Countries that stumble through the infusion phase, or attempt to leapfrog it without the productive foundations, find the next transition substantially harder. The Philippines enters this phase with the infusion transition incomplete, the innovation system underinvested, and the skills formation apparatus oriented toward external rather than domestic labor market needs. This compounded challenge distinguishes the Philippine case from Thailand and Malaysia, which arrived at the same income band with a deeper manufacturing base and a less structurally entrenched migration model.

A further complication is that the standard prescription for countries in this position, study what worked elsewhere and replicate it, runs into a fundamental limitation that the Philippine experience illustrates with unusual force. Development trajectories are deeply context-dependent. Rodrik (2007) argues that while economics provides a unified analytical framework, the institutions and policies that produce growth must be discovered through a process of experimentation and local adaptation rather than transplanted from elsewhere; the same reform produces radically different outcomes depending on the specific institutional context in which it operates. The policies that carried South Korea, Taiwan, or Singapore from middle- to high-income status were not generalizable formulas; they were historically specific responses to particular configurations of political authority, institutional endowment, and external pressure. Borrowing those configurations without the conditions that gave them traction, as the succession of Philippine industrial strategies drawing on international best practice has repeatedly demonstrated, produces imitation without transformation. What the behavior of complex, tightly coupled systems suggests, and what the Philippine development record confirms, is that

economies operating under accumulated institutional complexity and deeply entrenched feedback loops cannot be steered by a borrowed blueprint. They must be worked through, iteratively and adaptively, with continuous attention to the specific dynamics of the local system rather than to the templates of systems that operated under different conditions elsewhere.

This is where the Tatak Pinoy Strategy's most underappreciated potential lies. Beyond its diagnostic value and institutional architecture, the TPS represents an opportunity to move past the import-and-adapt model of development strategy toward something more genuinely indigenous: a co-governance process in which government, firms, workers, researchers, and communities discover together, through structured dialogue and adaptive implementation, a development path suited to Philippine conditions, capabilities, and constraints. Countries that successfully made comparable transitions often did so not by copying a model but by being compelled, through adversity or the absence of ready-made alternatives, to construct one that was distinctively their own. Singapore's abrupt separation from Malaysia in 1965 forced a small, resource-poor, newly independent state to invent an economic strategy from scratch. Vietnam's post-war reconstruction imperative concentrated national purpose in ways that made sustained industrial coordination possible. The Philippines has not yet faced that kind of forcing moment. What it does have, for the first time, is a legislated industrial mandate, a comprehensive structural diagnostic, and a co-governance architecture that could, if treated as a genuine learning process rather than a fixed program, serve as the institutional vehicle for discovering its own path. That is a more ambitious goal than industrial policy conventionally sets for itself. It is also, given the interdependent and deeply rooted nature of the structural problems the country faces, the only kind of goal adequate to the challenge.

The income reclassification of July 2, 2026 is therefore best understood not as a development achievement to be celebrated and consolidated, but as a structural inflection point that makes the unfinished work of productive transformation more urgent, more visible, and more consequential than at any previous moment in the country's post-war economic history. Income convergence is a necessary but insufficient marker of development progress. The more important question, which the reclassification brings into sharper focus, is whether productive convergence, the building of a domestic economy capable of generating high-quality employment, sustained innovation, and broad-based income growth from within rather than from abroad, can now be achieved before the structural gap between the two becomes a permanent feature of the Philippine economic landscape.

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### **Data Availability Statement**

No new data were generated or analyzed in this study. All data cited are drawn from publicly available sources referenced in the bibliography.

### **Declaration of Use of Generative AI**

The author used AI-assisted drafting tools during the preparation of this manuscript. All arguments, empirical claims, analytical frameworks, and conclusions are the author's own. The author takes full responsibility for the content of this paper and can defend all arguments independently.