EMPLOYMENT EFFECTS OF EXPORT EXPANSION IN THE PHILIPPINES

by

Romeo M. Bautista*

I

Foreign trade offers, at least in theory, a potentially significant avenue for employment generation in small, labor-surplus economies. It enlarges the market for the labor-intensive products of domestic industries, and exports of such commodities could pay for imported products that require in their production relatively more capital. In a typical less developed country (LDC) where capital equipment and machinery form a substantial part of total imports, the amount of exports would have a positive influence on the ability to expand productive capacity in the economy and hence absorb additional labor. This line of reasoning appears consistent with the classical argument for "trade as an engine of growth."

There are two dimensions to the expansion of exports that affect the amount of employment generation directly attributable to export growth.[1] One is the overall rate of

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increase of exports and the other is the direction of change in the commodity composition. Policy instruments to be used in promoting the employment-generating potential of export expansion would differ according to whether the LDC's exports are suffering from a general low rate of increase (which might be caused by external forces outside the influence of the authorities) or from an increasing concentration of exports in the least labor-intensive products. With respect to the latter, the prevailing policy environment in the labor-surplus economy might actually encourage a pattern of export growth favoring capital-intensive goods. Distortions in both factor and product markets are well known to exist in most LDCs, tending to impart a strong bias toward capital use that results in the inappropriate choices of capital-intensive techniques and industries. From the point-of-view of employment, it would seem necessary in such a case for policy makers in the labor-surplus LDC to take action in order to ensure that its comparative advantage in relatively labor-intensive products is being exploited.

The present study analyzes the role of merchandise exports in employment generation in the Philippines, with particular attention given to the employment effects of the growth of manufactured exports. The Philippine experience provides an interesting case study in view of the small open character of the economy shaped in large part by previous

colonial ties with the United States, the well-documented distortions in the domestic market, and the severe under-utilization of the labor force that has prevailed for some time now. Expansion of exports in labor-intensive products has been cited frequently, e.g., by Power and Sicat (1971), as a necessary ingredient in a successful design for Philippine economic development. There is an obvious need to examine quantitatively the growth and changing composition of Philippine exports in the past as they relate to the employment problem[1] if efforts to influence the future pattern are to succeed in promoting higher rates of labor absorption.

Official estimates of October unemployment and underemployment levels for the period 1956-1968 are given in Table 1. There is no evidence of any clear trend in the time series of unemployment and underemployment rates as percentages of the labor force. It can be taken however that the economy has not been able to absorb the increases in the active labor force over the years. Indeed, using May-October average values for 1957-1968, the labor force grew at an average annual rate of 3.20 per cent, while employment (full and partial) registered an annual rate of increase of only 3.16 per cent. If anything, therefore, the available data even suggest a deterioration of the employment situation over the period.

TABLE 1: Philippine Unemployment and Underemployment, October 1956-1968

Year	Open Unemployment[1] (1000s)	(% of LF)	Visible Underemployment[2] (1000s)	(% of LF)	Invisible Underemployment[3] (1000s)	(% of LF)
1956	859	10.0	1046	12.2	511	6.0
1957*	630	7.1	-	-	-	-
1958	647	7.2	991	11.0	719	8.0
1959	540	5.9	871	9.6	608	6.7
1960	577	6.3	1038	11.4	790	8.6
1961	618	6.4	1178	12.1	1010	10.4
1962	662	6.5	1211	11.8	1249	12.2
1963	469	4.6	1217	11.9	1642	16.1
1964**	-	-	-	-	-	-
1965	663	6.2	1001	9.3	1489	13.8
1966	821	7.0	955	8.1	1730	14.7
1967*	909	7.7	-	-	-	-
1968	900	7.9	1193	10.5	1609	14.2

NOTES:

1. Persons without work and actively seeking it are openly unemployed.
2. Persons working less than 40 hours a week and seeking to work longer are visibly underemployed.
3. Persons working 40 hours or more a week and seeking to work longer are invisibly underemployed.

*Questions on underemployment were not asked in the October surveys of 1957 and 1967.

**No October survey was undertaken in 1964.

SOURCE: Various issues of the BCSSH Labor Force Survey Series

The foregoing measures of unemployment and underemployment certainly do not reflect fully the extent of the employment problem in the Philippines. Some understatement is necessarily implied by the existence of an indeterminate number of so-called "discouraged workers" ("passive unemployed") -- persons not actively seeking work but would accept employment if it were available. Moreover, laborers whose employment is not productive enough to earn a reasonable minimum income are underemployed for practical purposes (e.g., policymaking), but are not considered as such in the usual measures. Finally, the mismatch of occupation and education is another manifestation of labor force underutilization which is neglected entirely in most data and analyses of unemployment and underemployment in the Philippines. Employing the recently developed ODA-CAMS labor utilization framework incorporating these additional considerations, Hauser (1973) calculates that about one-half (50.4 per cent) of the Philippine labor force in 1968 is utilized inadequately.

II

An increase in exports is achieved ceteris paribus by an increase in domestic output[2]; hence, in estimating the amount of employment generated due to export growth, a functional relationship between output and employment needs to be postulated at the outset. A simple assumption to make is that a linear relationship holds between output and the

labor input. This linearity assumption is commonly resorted to as an approximation to some unknown nonlinear form and/or on grounds of data availability. It does not necessarily imply a direct proportion between output and employment and hence the average ratio of employment to output is not the appropriate parameter to use in relating changes in the two variables. Invariably, however, the average ratio is used as a proxy for the incremental (marginal) employment-output ratio, again due to the limitations of available data. Clearly, unless careful attention is given to the reasonableness of the assumption that the employment-output ratio as measured truly reflects the incremental ratio, it could only represent the employment content of exports -- from which no quantitative inference can be made on the employment repercussions of the growth of exports.

The sectoral labor coefficient in input-output analysis usually denotes the ratio of the total number of laborers employed in the sector to the value of output produced. This measure of the employment-output ratio is used in common practice to determine the amount of employment forthcoming from a unit increase in output. Such procedure has severe limitations in the context of the LDCs. In the first place, the high levels of underemployment prevailing in these countries would seem to preclude having the number of workers rising in proportion to the increase

in output. Published annual data on industrial employment, for example, gives the average number of laborers employed during the year.[3] Surely, the same number of laborers working for a longer period of time during the year could produce a higher level of output, in which case using the ratio of the number of workers to the value of output to proxy for the incremental ratio would be misleading. The problem is even more severe in sectors engaged in primary production, which are characterized by a large number of self-employed and family workers in relation to the number of paid employees.[4]

Expressing the labor input in terms of man-hours or man-years would be ideal but the data are normally not available for most sectors of the economy. [A second-best solution might be to use the ratio of compensation of employees (e.g., as reported in an input-output transactions table) to the value of output, with proper adjustments on price and wage rate changes when making intertemporal comparison.] This is the employment measure used in the present study. It is supposed that the flow of labor services is closely associated to the earnings of paid laborers. Under existing conditions in labor-surplus LDCs such as those mentioned above, it would appear superior to the number of workers as a measure of employment under the assumption of a proportional relationship to the level of