Thank you very much to the OECD Development Centre and the AMRO for the invitation to this Asian Regional Roundtable. I really appreciate this chance to learn about new models of growth and development especially as it applies to real countries. We, in the Philippines, are working on a new one ourselves and we are learning as we go.

Our President, Benigno Aquino III, has promised us a good government. This platform was widely accepted, hence his decisive victory at the polls. On his first State of the Nation Address, he has promised to lead us to a righteous path and he has, since then, renewed this commitment every chance he gets. Majority of Filipinos, apparently believes in his sincerity and thus, the President enjoys very high satisfaction ratings even to this time.

This exercise of good government is the platform by which we hope to achieve rapid and inclusive growth. Our President has set the example, offering himself to be accountable, by writing down his promise of rapid and inclusive growth in what he calls his “Social Contract with the Filipino People.” Inclusive growth is not the kind of growth where the poor benefits from trickle-down effects because we now know that it does not work. Perhaps it did work before, but at this time when there is so much volatility, it is so difficult to sustain high growth long enough. Rather, we want the kind of growth where the poor participates in the growth process.

The emphasis on good governance addresses a major problem we had with the previous administration. Then, we saw our ranking with respect to competitiveness and governance go down to the bottom third. Now, we are seeing an improvement in these rankings; we moved up to rank 65 and to rank 129 in the latest competitiveness and transparency international surveys, respectively. And this, even though government has not really produced tangible results. Let me explain this a bit.

In 2010, our GDP grew by 7.6%, the highest we have achieved so far. Of course this needs to be taken in the proper context. First of all, we were coming from a low base where in 2009, GDP only grew by 1.1%. Second, 2010 was an election year. Elections have usually stimulated activity in a number of sectors - printing and publishing, advertising, media services, communications, transportation, etc.

Three quarters into the Aquino administration, GGCE contracted year-on-year, a very clear result of budgetary reforms. Even for the rest of 2011, GGCE was still very low. For the full year 2011, GGCE increased by only 1.1%; GDP increased by only 3.9%.

GGCE began to pick up in the first quarter of 2012, growing by 24% from the same period in 2011. As reference, the 2011 represents a 16% contraction over the 2010 figure. What this all means it that government did not yet have much to show by way of tangible results.
Sure, there was the reduction in deficit and debt stock to GDP ratio but these indicators show up in statistics and not in physical form. Nevertheless, GDP grew by 6.3% in the first quarter and 5.9% in the second. Unemployment rate went down a bit even as our labour force keeps growing. We think that this is the result of renewed confidence in our domestic and political situation, more than anything else. It had been driven by household consumption. Going forward, however, we know that we should be able to show tangible results in order to reinforce the optimism and we need private investments to achieve rapid and sustained growth.

We have also observed nuances in the behavior of private investors. Our current account has been in surplus since 2003, reaching a high of 5.5% of GDP in 2005. In 2011, it stands at 3.15%. Gross savings reached a high of 27.2 % of GDP in 2010, then went down again to 20.3% in 2011. Even in absolute levels, gross savings actually decreased in 2011. On the other hand, Gross capital formation went up to 20.5% of GDP in 2010, then down to 15.9%. This means that the slight reduction in the current account surplus was not really due to investments. Moreover, had there been an increased appetite for investments, domestic savings could have financed it.

We are then seeing a situation where confidence in the domestic situation is nuanced by confidence in the external situation. And we do not have much control over the latter. It is therefore very important to us that effective and sustainable solutions be found so we could have a stable global economy.

We are hoping, though, that if public investments come out in a big way, then confidence in the external situation would not matter very much. In the Philippines, we are putting a huge amount of resources in infrastructure. This is an area that has long been neglected and our competitiveness has suffered so much because of this. We are also adopting a pragmatic approach to this. We know that some infrastructure can be designed through some sort of public-private partnership which makes its viable to the private sector. Examples would be airports, ports, tolled roads, etc. These are then being financed using the PPP modality. This then frees up a substantial amount of scarce public funds which can be added to the provision of other infrastructure. For 2013, public investment in infrastructure has been increased by 19.5% from its level in 2012.

We also need to think strategic infrastructure. Over the short term, we think that tourism will be able to create jobs that could accommodate even the poor. For this reason, our DOT has been coordinating with the DPWH for the sort of infrastructure needed in tourism areas - ports, airports, roads leading to tourist spots. We also see tourism as a special type of export sector, alongside the BPO sector. For the latter, we have observed continuing private interest even without government intervention, perhaps even because there is no government intervention. Nevertheless, government is trying to provide the needed legal framework to promote the sector. Recently signed into law is RA 10173, the Data Privacy Act. This signals to the world that we are serious about protecting the integrity of data being transmitted into cyberspace.

Over the medium term, we know that sustained growth in manufacturing is needed for inclusive growth. At present, it is responsible for only about a third of output and absorbs only 15% of employment. This is what Norio Usui of ADB calls our "missing leg." Since the GFC, the sector has had to confront with much volatility. Output in the sector contracted in 2009, -4.9%, more than recovered in 2010, 11.2 and moderated in 2011, 4.7%. This essentially mirrors the inherent vulnerability of the supply chain systems of the sector. Since the sector is the most regulated in terms of labour practice, this means that
owners and shareholders of firms have been the ones absorbing the negative impact of
this volatility. There are bright spots though, mainly the growth in our neighboring
countries. What this means is that the sector requires an environment that facilitates
factor mobility. Of course this has to be balanced with the clamour for policies that
promote job security. We are currently experimenting with a 2-tiered wage system, where
the first tier ensures wage levels that could afford the MBN and second being triggered by
productivity improvements. Much work still needs to be done to facilitate capital mobility, or
what Schumpeter refers to as “creative destruction.” As it is, being part of a global supply
chain by itself, already introduces switching costs.

Our human capital is something that we have always been proud of. In fact, it is because
of this that we have been exporting human capital to the rest of the world, for about 4
decades now. Over time, however, we have seen this advantage slowly dissipating. We
think that we can still make up for lost ground, though. This year, we have adopted the
K+12 system of schooling which essentially requires 13 years of schooling. Note that this
recommendation has long been on the table, but this is a difficult reform to implement
because it requires a lot of private sector sacrifice. It is only now that we have a President
that is trusted by the people that we are able to implement this very important measure to
improve once again our human capital.

Climate change adaptation (CCA) is another aspect that requires serious consideration
going forward. The Philippines is one of the most disaster prone countries in the world,
but so is Taiwan and even Japan. This means that it does not have to be a binding
constraint. A UN study estimates the direct damage of disasters in the Philippines to be
about 0.3% of GDP on the average, from 1970 to 2000. We at the NEDA estimated the
direct and indirect impact of disasters in 2011 to be about 0.6% of GDP. Knowing also
that some of these risks have been internalised into production decisions, then these are
clearly under-estimates. Recently, flood control and mitigation projects have been
approved. We should also look at integrating the CCA framework in public and even
private investments.

In sum, we have an evolving model but we have not yet come up with a formal
representation. Roughly, it will still involve labour and capital. Innovations will still play a
huge role, but more importantly, political and administrative innovations. Not only does it
improve overall efficiency, we think that it exerts a secular impact on both labour and
capital. Over the medium term, we need to bring in technological innovations. Confidence
in institutions will have a big role, but this is nuanced by confidence in the external
environment as well. The perceived quality of institutions is partly determined by public
investments as well as fiscal discipline. There is also the matter of being able to
communicate this good news to the public. Of course, bad news also needs to be
communicated. If the news comes from the private sector and multilateral agencies, then
there would be more credibility. We also need a policy environment that accommodates
this phenomenon of creative destruction but with proper consideration to the welfare of
workers. Finally, there is the matter of managing and mitigating risks due to the physical
environment as well.

Thank you very much for your attention.