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The Fork in the Road

The Philippines in 2050

THE FORK in the road – an overworn cliché but maybe, just maybe, we’ve arrived.

President Benigno Aquino III is an unusual president, perhaps laid-back for what we expect of a leader, but with a single-minded focus on one thing: cleaning up society.

It’s a clean-up that must happen if the Philippines is ever to take off, ever to achieve the success the early 1970’s promised but the country never achieved. Corruption, not just monetary but of power also, decimated that promise. There was/is no question that the Philippines will never take off whilst the corruption of society maintains.

Economists (and us) agree the Philippines must sustain a GDP growth of over 7% for many years, and that growth must permeate all of society, not just the top if the poor are ever to become not-poor. That is what they call inclusive growth, and that needs some fundamental changes in society and of the structure of the economy that had not occurred in the past, but just might be now.

Corruption is what the President has been, quite successfully, focusing on. He must now spend time on promoting business, the ONLY way to break the poverty trap. Jobs in huge numbers must be created. A clean society will be a massive start, but the reality of actually doing business must also be addressed. He has three years to do it. Some 11.7 million (SWS figure, the more realistic one) are without jobs; around 9 million are overseas, most because they couldn’t get an adequate job here. Let’s say conservatively 60% of them—that’s 5.4 million. Overall, that’s 17 million that need decent-paying, stable jobs at home they currently don’t have. And you can add to that 7.2 million that have jobs that pay negligible amounts, where a decent job is also needed.

If he addresses these two successfully the road to the future goes to the right and HSBC just might be correct in that the Philippines will be the 16th largest economy by 2050, 37 years from now. But if he doesn’t start, with some substantive progress, reform to the business environment, the country will meander down the road to the left; a rutted dirt road littered with the debris of illegal logs. The road to the left will repeat history. Growth doing little better than 4%, the average of the past 37 years, and the poor will be in even more massive numbers than today.
The road to the right must be paved not with good intentions but solid realities: a society that is no longer 105th (out of 176 countries surveyed) in Transparency International’s Corruption Perception Index, but in the top 25, and in the top 30% of countries surveyed in the World Economic Forum’s competitiveness ranking; a parliamentary system where the leader is a first amongst equals, dependent on doing well to keep his job; an economy that is truly open where there is no distinction between foreigner and Filipino, and there is no regulatory capture.

By June 30, 2016 we’ll know which road we’re pointed to. But whether we actually travel the paved road will be the responsibility of the next President. Three years is only enough time to get reforms started, not to fix them firmly in place. Reduction of corruption of money and power can be easily reversed. The experience in the previous regime shows this clearly. It started off very promisingly, but somehow sputtered along the way.

Will President Aquino’s successor then continue his reforms, or succumb to temptation? Finding and electing the right president must dominate society’s leaders from now till 2016. The long term success, or otherwise is critical to the choice made. It must be the right choice, not the popular choice.

The next president must be the right choice, not the popular choice

So, the Philippines could go one of two ways: Toward success or to another 37 years of trudging along the bottom. Our Southeast Asian neighbors overtook us in the past 37 years. Burma or Cambodia will be next to sail past if we choose the path to the left, or the Philippines will recover the leadership it had in Asia if it goes to the right.

If President Aquino fails to reform the business environment the way he’s reforming society, the highest likelihood is that it will be the narrow, crooked path to the left. Nothing for the economy will have changed so the desultory past will repeat itself.

To go to starboard (right for you landlubbers) he doesn’t have to have those economic reforms completed, only so firmly started as to be essentially unchangeable in the next administrations. Those reforms are well known and have been enumerated endlessly, with little effect in the past 15 years (you can figure which Presidents those are).

The HSBC report considered demographics in its forecast: A fast growing Philippine population was a major reason for the phenomenal jump in the country’ standing (from 43 to 16), the population being 155 million by then, from 93 million in 2010. Supporting this, it is argued by those against to the Reproductive Health Law (RA10354), including the Church, that a fast growing population is needed to achieve a fast growing economy. That countries like Japan are suffering because of their shrinking population. And this is true if (and it’s the “if” that matters) that population is productively employed. Adding to the population of the poor, the unemployed is a drag on an economy—money has to be expended to support them, instead of being used to build infrastructure, for example. So a population growing at a rate that can be supported is what must be aimed for.

The report also took into account such factors as rule of law, democracy, and education levels.
As to rule of law, the Philippines certainly has the laws, in fact far too many of them, it just doesn’t enforce them effectively, fairly, dispassionately. Philippine law is well established, the correct systems are all there (although I’d like to see a jury system introduced and the Supreme Court limited to constitutional challenges and cases of national impact). Reform of that system so that it is properly, fully implemented requires massive change—something Chief Justice Ma. Lourdes Sereno with 18 years of leadership could achieve if she can overcome the current resistance to her.

Time probably will achieve that. But the past 37 years don’t give much optimism. Funding is an essential beginning to that reform. Judges are underpaid (you don’t get the best, let alone enough). There are too few courts inadequately staffed and equipped. Prisons are purgatory on earth, and so on. And personal relationships still exert great influence on decisions. That must change. It’s societal change that President Aquino has started on corruption. But institutional dominance, not personal influence, is still far from introduction. That would need to be a prominent leg of the post-2016 president.

Democracy is well entrenched, but whether designed to hasten inclusive economic growth is questionable, although the passage of the Sin Tax and RH laws gives some hope. These were democratic decisions (although mind you, driven by dictatorial dictate – they would not have passed if the President hadn’t pressured for them) that give hope.

As to education, misplaced nationalism has led to a serious decline in the ability to speak English and more importantly, comprehend it. To boast that the Philippines ranks high in the world for its English speaking capability denies the reality that too many Filipinos cannot enter the global arena of business because of their lack of English.

In the wider context, education generally has been in decline. But there could be a reversal occurring; the 12-year curriculum was an important step forward. And there has been a substantial increase in construction of classrooms. So quantity is being addressed, but quality has yet to be. None of the country’s universities are in the top 50 in Asia, and there are too many colleges with questionable credentials.

An important criterion to examine is governance, something that can be quantified in some areas but is judgmental in others. On the quantifiable side is the speed and efficiency of the bureaucracy. Here government does not rank well. Some principal reasons center around the low salaries paid – which leads to mediocrity and encourages graft. Add to that systems designed decades ago when volume of transactions was smaller and everything was manual. On top of that, there are no deadlines for when action /decision must occur.

The other one, where the Philippine president seems to believe, “if it ain’t broke don’t fix” it is the constitution. Well, it is broke, and must be fixed if the Philippines is to even consider soaring to HSBC’s slot by 2050. President Aquino must address the flaws in the constitution. The restrictions on foreign investment need to be removed; there should be no distinction between local and foreign ownership of a business. It will be impossible to achieve truly inclusive growth without it. Foreign investment doesn’t just bring in money and create jobs, it also widens the number of players in the marketplace and introduces greater competition. Which leads to better products and services at a lower cost.
Today it is well accepted that foreign investment isn’t a threat; it’s an opportunity. Congress wants the change, and business accepts it: the President needs to be convinced.

Also, one of the current administration’s primary goals must be to give those less educated a job through the development of the manufacturing sector and agriculture/agribusiness. Here, the agrarian reform program needs to be modified to allow plantations to co-exist with small land holdings. Competitive, efficient, productive agriculture needs economies of scale.

Underpinning all this, and what the President must focus on is logistics, infrastructure. You must be able to move goods and people swiftly and efficiently. Well actually, on top of the list is corruption, but the President’s doing a good job in addressing that, a remarkable job, in fact.

Next is a much simplified, fast-acting, clean bureaucracy. This is a reason a Department of ICT is necessary (the other reason is so the Philippines will stay at the forefront of this sector that will dominate the future). A holistic, integrated computerized system of government for all branches of it is essential.

Next is policy consistency. You can’t change the rules of the game at half time and expect the players to perform well, or perform at all. The ill-considered review of the taxes on mining highlights this glaringly.

Also, contracts must be honored (see our Special Report, Contract Sanctity: A Government’s Honor http://www.wallacebusinessforum.com/research-services/analytical-reports/wbf-special-reports) if business is to join the government in its pursuit of infrastructure.

A fourth (fifth, if you include corruption) is labor. The labor laws are antiquated. They are archaic and far too rigid; they deter job creation, not encourage it.

If the President becomes successful in tackling these issues in the next three years, you won’t recognize the Philippines by 2016, and its path to HSBC’s Magic 16th place in the world by 2050 just might happen. But I’m not holding my breath (by 2050 I won’t be breathing anyway).

Will HSBC’s forecast eventuate? Certainly – if the reforms discussed here occur. China went from nowhere to be the world’s second largest economy after implementing crucial reforms. South Korea’s Park Chung Hee took the open market approach. The country is now the world’s 15th largest economy and continues to thrive. Singapore went from a tinpot port to a major global exporter and world financial center under Lee Kuan Yew. These successes were accomplished due to a total shift in the type of society.

2050

What then will the Philippines look like in 2050? One thing that will be now common to both paths is population growth—unless the Philippine Catholic church is successful in legally blocking the law, or not providing a budget, neither of which we expect. The President’s courageous and successful stand on reproductive health means that growth will slow to sustainable levels. The path to the right will find most people sufficiently employed; to the left it won’t, unemployment will remain unacceptably high as the massive levels of investment needed will be still hesitant.
2050 will be a vastly different time, and I wouldn’t dare guess what it will look like. Technological advancement is just too rapidly changing societies. But some trends seem probable to continue.

Getting jobs in manufacturing will become increasingly difficult as automation more and more takes over and designs simplify. This is, though, not just a national, but an international phenomenon as well. Unless artistic, hand crafted products are called for, which create jobs for quite a few talented people, “brawn” power will become a thing of the past. Traditional manufacturing will become obsolete, much of it replaced by automation. The automotive industry is a particular area where this will occur. Vehicles will be driven by electric motors, the internal (infernal?) combustion engine will have been a brief marvel of determination overcoming reality (vertical explosions creating rotary motion). Electronics too will have fewer and fewer parts to assemble, it will all be in some new generation of a chip.

Agriculture, where the alternative for low skill jobs lies has been decimated by a foolish agrarian reform program. Plantations need to be revived, but even on the road to the right doing this looks most unlikely, but commonsense may eventually prevail and allow plantation farming again. It will have to if the growing population is to be fed, and export demand met.

So a real challenge will be where will jobs come from. The service sector will dominate. This means the quality of education must be vastly improved and available to all Filipinos, with English as the principal language, but increasingly more Chinese and other, particularly Asian, languages for many as inter country trade and investment rises. Which path is taken is less relevant in this, choice of the leader in 2016 is. The importance the next leader takes to fully funding and supporting education, and taking it through to tertiary in more massive numbers.

National borders will be lower with customs duties eliminated so global competitiveness will be critical. The Philippines has not fared well here yet. With labor less of a factor the efficiency and cost of logistics and reliability and cost of power will ever more dominate. Shipping cost and efficiency will be an essential for an archipelagic nation, that has no land access to other countries.

What may help here is that many products will be smaller and lighter, particularly in electronics where nano technology will be the norm, and planes ever more efficient with a lower cost to fly. Air cargo will become a serious competitor to shipping. So airports will be needed. Both paths will probably have put them in prior to 2050

A critical difference will be bureaucracy. Honest leaders eliminating the multiple, often still manual, processes where bribery is rife will have been replaced with computerization. There will be an integrated, holistic system that covers all areas of bureaucracy, and it will be simpler.

The intrusion of the Catholic Church into the affairs of the State will be less as its influence in the world inevitably continues its decline. The Muslim war will have ended, but worldwide the conflict between Muslim and Christian could be even worse—if both religions survive, which, as knowledge of the world and the universe increases, they may not.
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Just one benefit of this is that the opposition to mining will decline. Mining will become a major contributor to the economy as recognition of its benefits becomes accepted, and world demand assures sale. And the principal products (e.g. copper and nickel) will be processed here, adding value locally. We see this as an inevitability on either path as world demand pressures availability of supply.

In 2050, the world will be dominated by computers – they’ll be smarter than us. The Philippines, if it treads the path to the right, could well be a leader here, both on the application side and the manufacturing side. Jobs will be more plentiful in areas involving how information technology can best be applied to everyday lives and how to utilize the massive information available in the internet for specific purposes.

If the path to the right is chosen it will be a country employing all but a few of the people at decently paying levels, particularly as slowing populations elsewhere will increase the demand for OFW’s. And in 2050, many will be allowed to bring their families with them, even settle permanently. More and more Filipinos may no longer need to leave their families to perform lucrative jobs abroad. All they’ll need to do is to use computers to work wherever they are. And to sell their output through the internet. A parliamentary system in an open, fair economy will be in place. Institutions will be professionally run, separated from personal influence. HSBC could well be proven correct.

But, similar opportunities of the past were lost as the leadership to institutionalize massive reforms couldn’t be sustained. The road to the left still beckons the politically avaricious. If they win the Philippines will remain near the bottom in Asia.

Essential to all this is a change in Philippine society. President Aquino’s revolutionary approach to leadership could be the catalyst for far greater change. For a society that has put ethics and the national good back as its base. It’s all up to leadership, and the choice of those leaders. It’s the fork in the road. The 16th in the world, or the 160th – it will depend on making the right leadership choices.