



Reducing poverty, creating new jobs, and building capacity critical to securing shared prosperity—AIM Rizalino S. Navarro Policy Center for Competitiveness

With the Philippines' gross domestic product (GDP) rising to 7% and beating forecasts, the country is poised to stay on track as Asia's fastest-growing economy. Credit upgrades, a stable performance in competitiveness rankings, a young labor pool, and a growing middle class continue to make the country an attractive option for investors. For observers, one question remains: Can the Philippines build on its growth and ensure it is enjoyed by more people?

The Asian Institute of Management Rizalino S. Navarro Policy Center for Competitiveness (AIM RSN PCC) believes that competitiveness and shared prosperity are intertwined and that focusing on shared prosperity will allow the country to grow in a more sustainable manner.

"To sustain the developments that have boosted macroeconomic indicators and generated optimistic expectations about the economy, growth must be shared across all sectors. At present, the benefits of recent economic successes are yet to be broadly felt, especially among the poor and disenfranchised in society," said AIM RSN PCC executive director Prof. Jamil Paolo Francisco. "We need to move towards shared prosperity to ensure that more Filipinos benefit from the economic gains that we currently enjoy."

What is shared prosperity? The AIM RSN PCC defines shared prosperity as sustainable national economic growth that accelerates household income growth, enhances quality of life, and provides development opportunities not only for the country's elite and professional classes, but also for vulnerable low-income and marginalized groups.

The AIM-RSN PCC recently conducted a review of existing literature and analysis of publicly available data to determine the state of shared prosperity in the country, looking into three key areas: poverty reduction, income growth and equality, and decent and productive employment.

Poverty reduction

In their review entitled, "The State of Shared Prosperity in the Philippines," the AIM RSN PCC noted that around 25% of Filipinos remain poor, and that the country's poverty incidence is second only to Myanmar in Southeast Asia. As of the first semester of 2015, regions in Luzon, except for Regions IV-B (MIMAROPA) and V (Bicol), had smaller proportions of poor families than the national average of 21.1%. On the other hand, all regions in Visayas and Mindanao, excluding Region XI (Davao) had poverty incidence among families above the national average.

In terms of individual poverty incidence, regions in Luzon, excluding Region IV-B (MIMAROPA), Region V (Bicol), and the Cordillera Administrative Region (CAR), recorded poverty incidence below the 26.3% national poverty incidence in the population in the first semester of 2015. In Visayas and Mindanao, all regions had poverty incidence above the national average.

According to Francisco, the fluctuation of poverty incidence and its slow decline among families suggests that many poor families experience cyclical or transitional poverty, with individuals and families hovering near the poverty threshold. They may occasionally enjoy the benefits of economic growth, but are also likely to be vulnerable to external shocks.



“Given the nature of transitional poverty, individuals and families may at times find themselves disqualified from government assistance targeted towards the officially poor,” highlighted Francisco. “Those in transitional poverty are just as economically and socially vulnerable as poorer communities, if not more so, as they may not have access to services or support systems that would allow them to fully escape the poverty trap. Individuals and families in transitional poverty can easily fall back into poverty at the slightest setback or shock, whether from unemployment, sickness, or even natural disasters.”

Income growth and equality

The AIM RSN PCC also discovered that the top 10% of families control about 30% of total income, while the bottom 10% of families make do with only 3% of total income.

The average real basic pay for all occupations measured in constant 2006 prices declined from Php275.11 in 2001 to Php263.33 in 2014, dipping to as low as Php250.39 in 2008. Most major occupation groups experienced stagnant or declining wages. Only those in management, clerical support, and agriculture experienced growth in real daily wages.

Real basic pay declined at an average rate of 1% per year for service and sales workers from 2001 to 2014, despite the fact that a significant share of growth in the services sector had come from the trade and repair of motor vehicles, motorcycles, personal, and household goods.

“From the latest available data, we’ve seen that Filipino families spend about a third on food, and over a decade-long period, they’ve spent only 3.4% on education and 3% on health. Compared to Indonesia, Malaysia, and Thailand, the proportion of household expenditures on food for all deciles is the highest in the Philippines,” shared Francisco. “This implies that Filipino families still struggle to afford basic necessities, and that they’re unable to make the additional investments necessary to improving their own quality of life.”

Decent and productive employment

The AIM RSN PCC’s review revealed that labor force participation among the working-age population was constant at about 64% from 2005 to 2014, with the levels of participation varying depending on gender and age. Around 80% of working-age men were in the labor force, compared to only 50% of working-age women, and labor force participation among the youth averaged 45.8% from 2008 to 2014.

The unemployment rate in 2015 was at a historical low of 6.3%. Meanwhile, nearly all of our Southeast Asian neighbors posted unemployment rates of less than 4%.

The team also highlighted that there continues to be a gender gap when it comes to employment. From 2010 to 2015, there were only about two-thirds as many employed female workers as male, and the gap persists despite changes in the overall employment rate. This underutilization of half of the country’s human resource pool leads to significant losses in potential productivity.

Another area of concern is underemployment. From 2005 to 2015, about 20% of the employed population in the Philippines were underemployed or wanted additional hours of work. About half of the underemployed are visibly so, working less than 40 hours a week.



“We need more Filipinos to be more productive to sustain our economic growth. The slowdown in job creation and relatively high unemployment suggest that growth and expansion may not have been taking place in sectors that provide employment opportunities for the available labor force,” said Francisco.

AIM RSN Policy Center for Competitiveness Recommendations

The country’s future growth will depend not only on the establishment, but also on the expansion of a middle class that can shape both the business and political landscapes. The AIM RSN PCC highlighted the results of the National Economic Development Authority’s AmBisyon Natin 2040, a project which aimed to outline long-term goals for the Philippines, with its results guiding the country’s medium-term agenda. The AmBisyon Natin 2040 survey revealed that 79% of Filipinos want a simple and comfortable life by 2040, which means having a medium-sized home, enough money for everyday needs, at least one car for mobility, the financial capability to send their children to college, and the financial capability for recreational domestic travel.

To attain this vision, Francisco stressed the need to focus on four key areas: maintaining macroeconomic stability; addressing transitional poverty and vulnerable employment; building on the success of the services sector; and promoting entrepreneurship.

“Stable and low inflation and attractive interest rates are the foundation of the country’s economic growth. We’re only one to two notches into being rated investment-worthy. We need to manage inflation and interest rates to encourage both businesses and families to increase their investment and consumption,” emphasized Francisco.

Francisco noted that the government should review welfare assistance programs such as the Pantawid Pamilyang Pilipino Program, invest in reducing armed conflict, and expand access to quality basic and technical education and industry-specific training, to further reduce poverty and provide more meaningful employment.

“About 40% of the population is slipping in and out of poverty. Our welfare assistance programs should recognize and account for our near-poor, as they’re vulnerable to volatile food prices, unemployment, sickness, conflict, and natural disasters,” added Francisco. “These welfare assistance programs should then be complemented by quality basic and technical education and industry-specific training to equip workers with the skills required by businesses, which will allow them to earn better incomes and move to the formal sector.”

Francisco also recommended that the Philippines invest in the services sector, particularly in retail trade, information technology-business process outsourcing (IT-BPO), and tourism, and in encouraging entrepreneurship as a viable career option for more Filipinos.

“Retail trade, IT-BPO, and tourism have significantly contributed to job creation and revenue generation, and they demonstrate potential in upgrading business activity along their respective value chains and introducing value-adding innovation. The government, academe, and the private sector need to coordinate on how they will maximize the growth that can be generated from these industries,” said Francisco. “Some of the medium-term investments that they would have to make to sustain these industries include improving quality education and making it



more accessible, building quality infrastructure, and building networks to encourage knowledge sharing.”

“We also need to make entrepreneurship a viable career path for more Filipinos. Providing entrepreneurs with broader access to capital and training will encourage them to engage in more profitable and value-adding ventures. Within firms, encouraging entrepreneurship will also help enhance innovation and productivity, which are critical to sustaining our competitiveness over the medium and long-term,” he added. “These entrepreneurship programs should also be extended to overseas Filipino workers and their dependents to turn their remittances into long-term, income-generating economic activities. If we create an ecosystem of innovation and entrepreneurship, we create a society that is better poised to achieve shared prosperity.”