

# Towards Sustainable Industrialization and Inclusion

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# Inclusion, Sustainability and Resilience

## The Log Frame

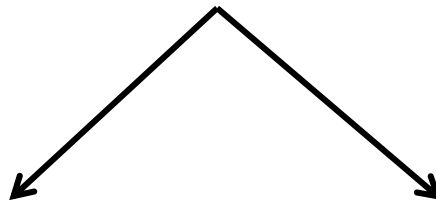
More Inclusive Industrialization



More Sustainable Growth



Less Poverty Incidence



Less Disaster  
Victimization

More Resilience of  
Disaster Victims

# Inclusion and Resilience

- Most (not all) victims of weather disasters are poor, informal settlers: need outside help to rebuild.
- In CDO, most were living illegally in the dry riverbed against the local ordinance; in the Leyte Yolanda disaster, victims were mostly informal settlers in prohibited areas.

# Inclusion and Resilience

- Disaster victimization and poverty incidence are strong correlates.
- With higher incomes, most would move out of disaster-prone areas and circumstances.
- Resilience: the more affluent victims of disasters are able to access private bridge-financing and rebuild their lives.

# Disaster Damage Management

- Short term: disaster risk management
  - (1) *ex post*: mobilization of resource flow to victims (shelter, food, electricity, credit)
  - (2) *ex ante*: prevention (zoning laws, forecasting, shelters)

# Poverty Reduction as Disaster Damage Reduction

- Longer term: disaster damage reduction should be: Poverty Reduction

*Poverty reduction* ↔ *sustained economic growth and industrialization*

# Sustainability of Growth and Inclusion

# Quantity vs. Quality of Growth

- Quantity Growth: low (2-3%) or high (5-7%) growth rate
- Quality of growth: For a low income economy (< \$10,00 per capita):

Quality Growth → Growth of  
Manufacturing (Tradables) >  
Growth of Services (Non-Tradables)

Quality Growth → More poverty reduction  
or less poverty incidence.

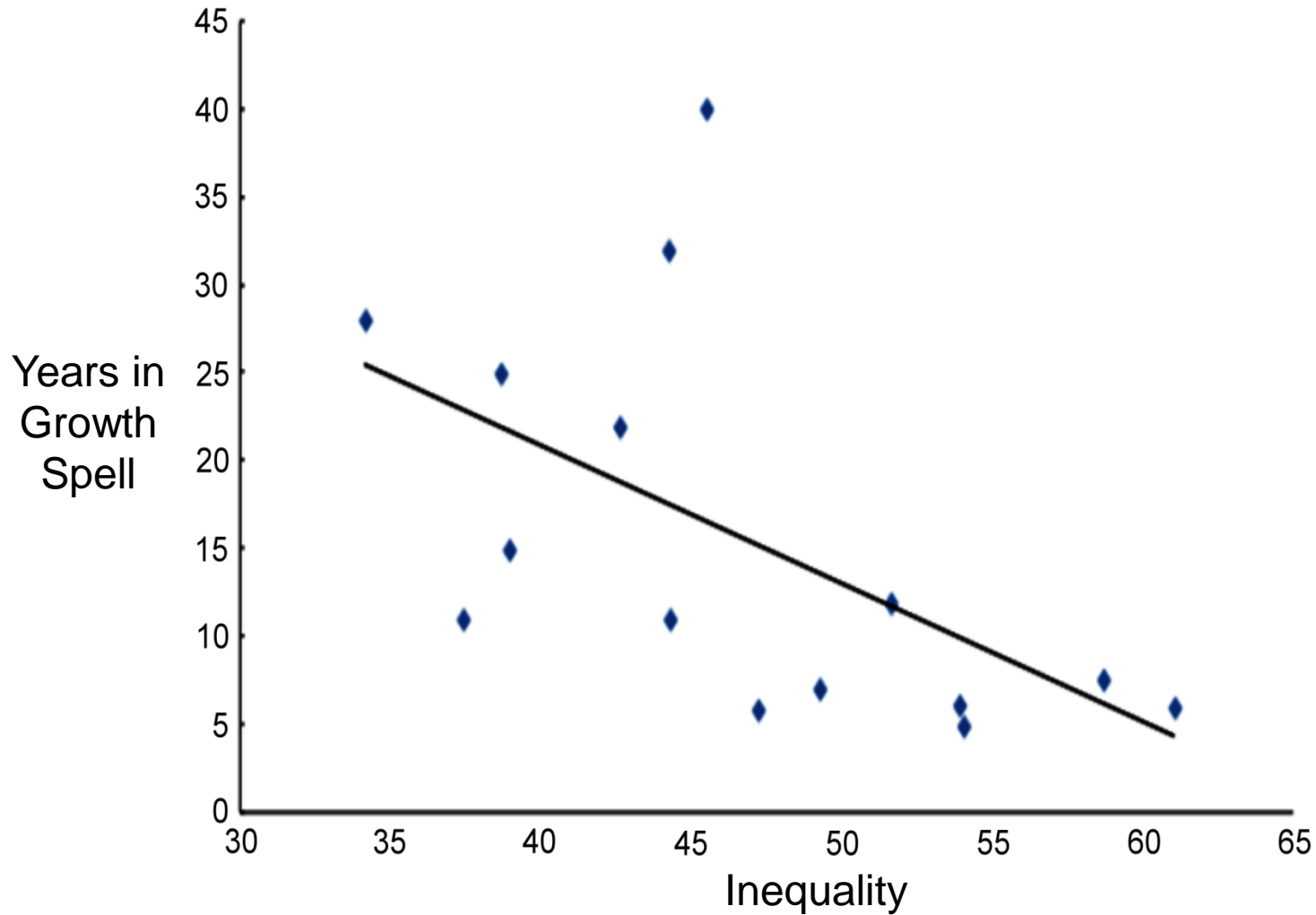
Quality Growth → More sustainable



# Sustained Growth and Poverty Reduction

- “It turns out that many of even the poorest countries have succeeded in initiating growth at high rates for a few years. What is rarer...is the ability to sustain growth.” (Berg and Ostry, 2011)
- Dollar and Kraay (2002): “Growth Is Good for the Poor”
- Sustained growth is even better!

# Berg and Ostry: Growth Spells and Inequality



Source: Penn World Tables and Wider World Income Inequality Database.

# Flavors of Industrialization

# East Asian Miracle Economy Growth

- Global market-oriented
- Sustained investment-led
- Traded goods sector as engine
- Weaker domestic currency (Peso)
- Platform Export DFI
- Convergence with OECD: rapid growth, rapid poverty reduction

# The Malady



Development Progeria: when Services grow faster than Manufacturing in a low-income economy.

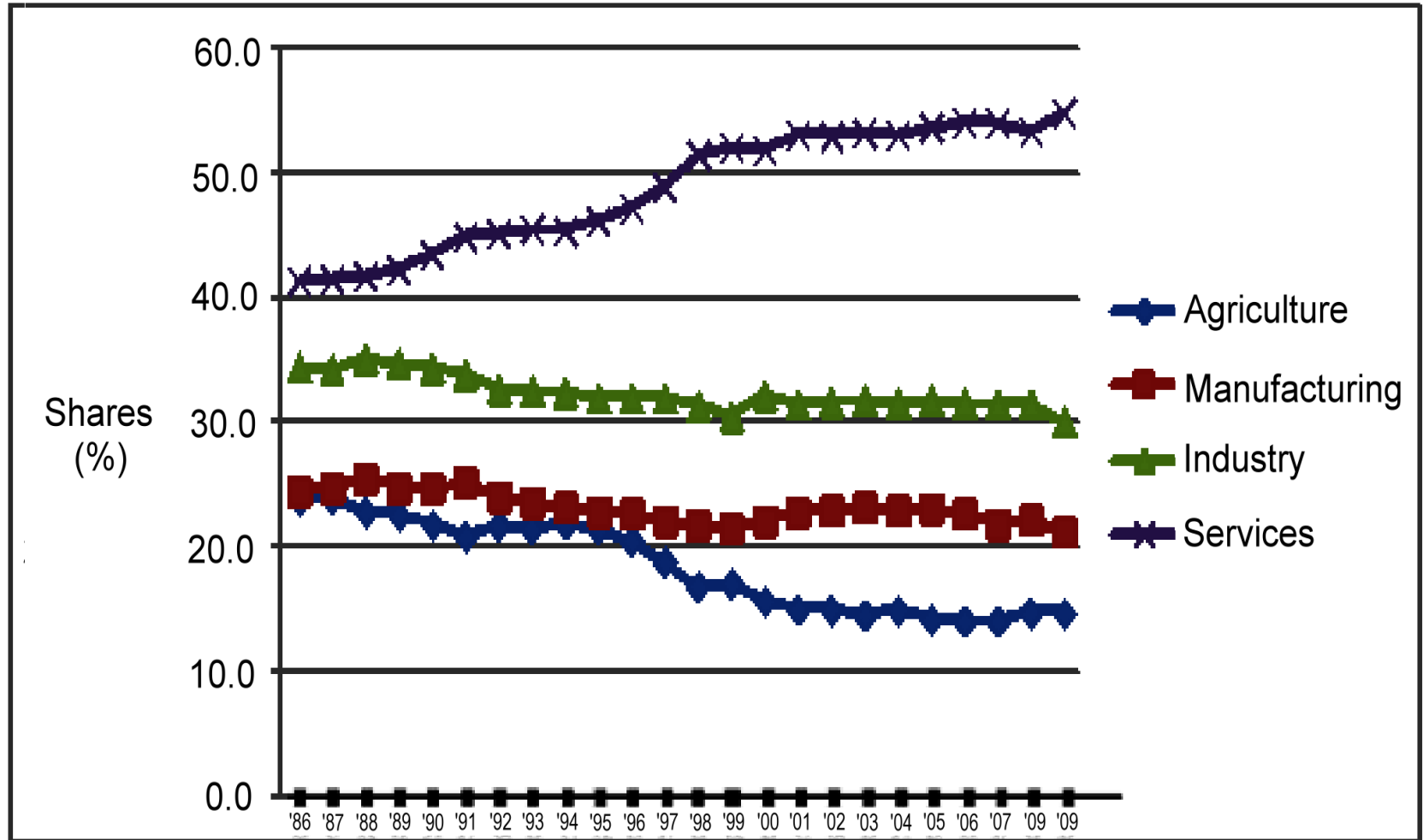
**Progeria** is a genetic malfunction where children 3 years of age display the physical features of a person of 60.

# Development Progeria Growth

- Domestic Market-Oriented and Consumption-led
- Non-tradables (Services) sector as engine of growth: Prone to real-estate busts
- Strong peso bias
- Portfolio Foreign Investment
- Results: slow growth, low investment, slow poverty reduction

# Trajectory of Philippine Value-Added by Industry

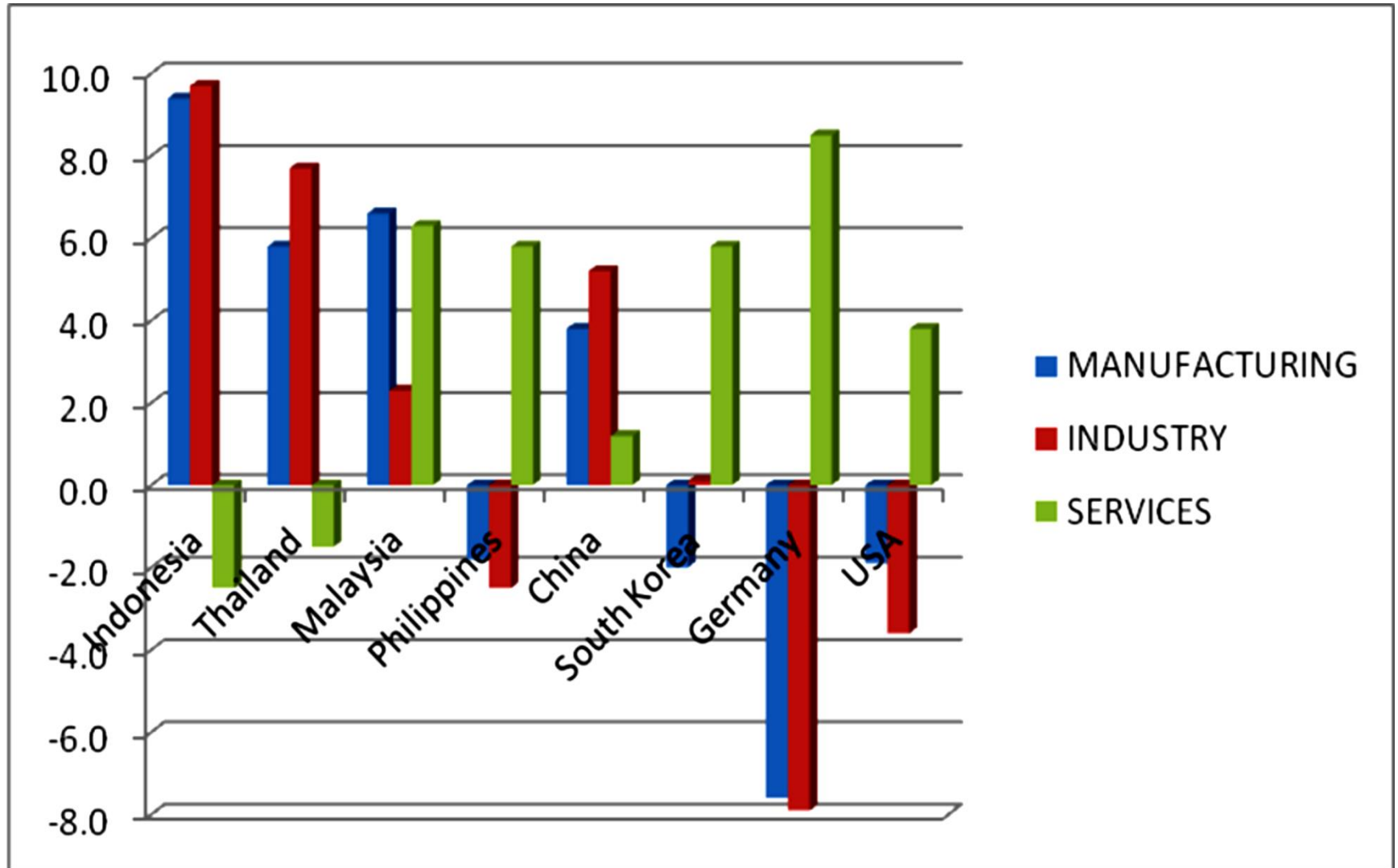
Data Source: World Bank World Dev. Indicators



Trajectory of Philippine Value-Added by Industry as % Shares of GDP, 1986-2009

# Change in % Industry Shares, 1986-1996

Data Source: World Bank World Dev. Indicators





# Whence Development Progeria?

- Rodrik (2008): market and institutional distortions (nee Poverty of Public Goods) abound in low income countries and
- Overvaluation of Peso favors Non-Tradables, Hurt Tradables
- Rodrik finding: countries that level the playing field by a weaker currency do better in growth

# Empirics

1. Manufacturing Share and Income Inequality
2. Manufacturing Share and Poverty Incidence

Data: Low income countries ( $\leq$  \$10,000 per capita), Panel Data, WB World Dev. Indicators

Method: Correlation

# Income Inequality and Manufacturing

*Dependent variable: Gini coefficient*

Determinant	Coefficient	Std. error	t-statistic	p-value
Gini coefficient (-1)	0.54	0.02	24.86	0.00
Manufacturing value added (% GDP)	-0.54	0.04	-12.72	0.00
Manufacturing value added-squared	0.02	0.00	18.13	0.00
Services value added (% GDP)	0.43	0.04	10.05	0.00
Services value added-squared	0.00	0.00	-8.14	0.00
Access to electricity	0.25	0.02	11.23	0.00
Access to electricity-squared	-0.0001	0.00	-12.88	0.00
GDP growth	1.03	0.06	18.50	0.00
GDP growth-squared	-0.08	0.00	-21.24	0.00
Developing economy dummy	-0.71	0.49	-1.44	0.15
Trade openness	-0.02	0.00	-12.82	0.00
Central Asia	-2.08	0.48	-4.33	0.00
East Asia & the Pacific	0.05	0.36	0.13	0.90
Latin America & the Caribbean	5.19	0.37	13.84	0.00
Middle East & North Africa	-0.39	0.33	-1.19	0.24
South Asia	-2.73	0.34	-8.11	0.00
Sub-Saharan Africa	5.91	0.62	9.49	0.00

# Correlates of Poverty Gap and Poverty Head Count Ratio: The Role of Manufacturing

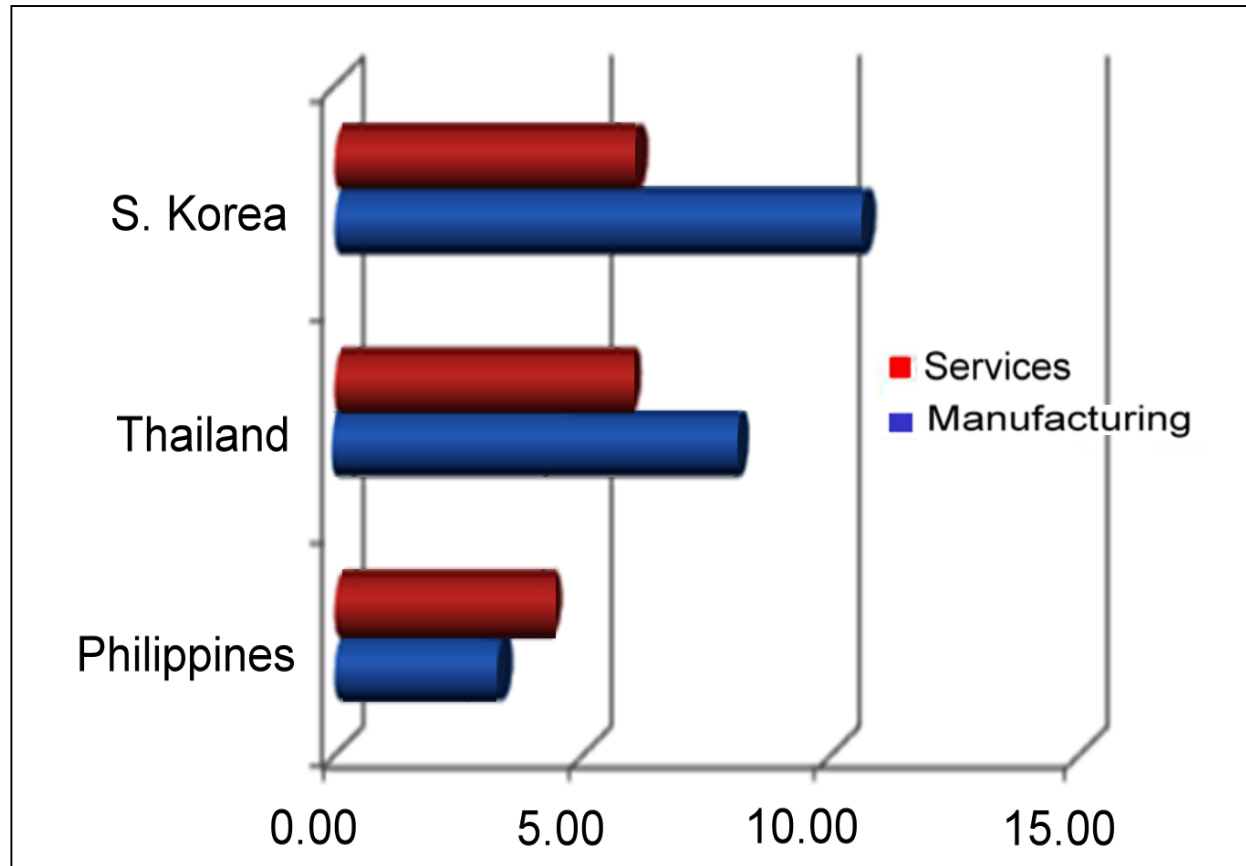
	System-GMM			
	Poverty gap		Poverty headcount ratio	
	\$1.9/day	\$3.1/day	\$1.9/day	\$3.1/day
	1	2	3	4
Poverty measure (-1)	0.528 [0.010]***	0.685 [0.011]***	0.724 [0.012]***	0.872 [0.010]***
Manufacturing share	-0.063 [0.022]***	-0.077 [0.029]**	-0.155 [0.036]***	-0.059 [0.035]*
Services share	0.106 [0.009]***	0.145 [0.013]***	0.192 [0.033]***	0.262 [0.025]***
ICRG	-0.042 [0.008]***	-0.096 [0.006]***	-0.106 [0.012]***	-0.258 [0.013]***
Real GNI per capita	-0.001 [0.000]***	-0.001 [0.000]***	-0.001 [0.000]***	-0.001 [0.000]***
Number of observations	195	195	195	195
Number of countries	65	65	65	65
AR(2) Arellano-Bond test	0.753	0.715	0.419	0.423
Hansen p-test	0.477	0.54	0.54	0.582
Number of instruments	64	64	64	64

Robust standard errors in brackets

\* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%

*Note:* The set of regressors included Period 2 to Period 6 (dummies) which are not shown.

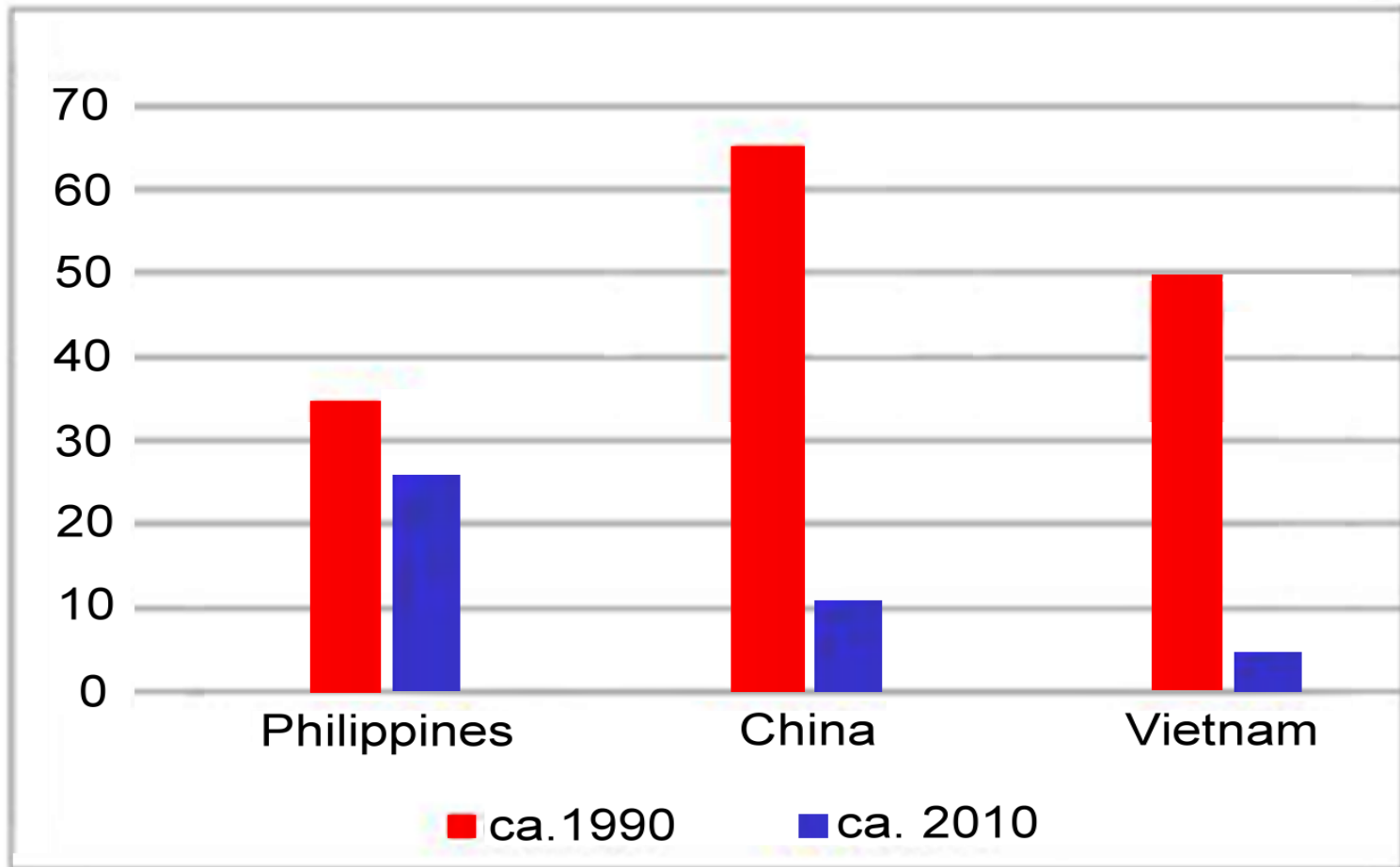
# Services & Manufacturing Ave. Growth (1973-2016): RP, Thailand, S. Korea



Sources: World Development Indicators (WB) and Philippine Statistics Authority

# Poverty Reduction: PHL, PRC, Vietnam

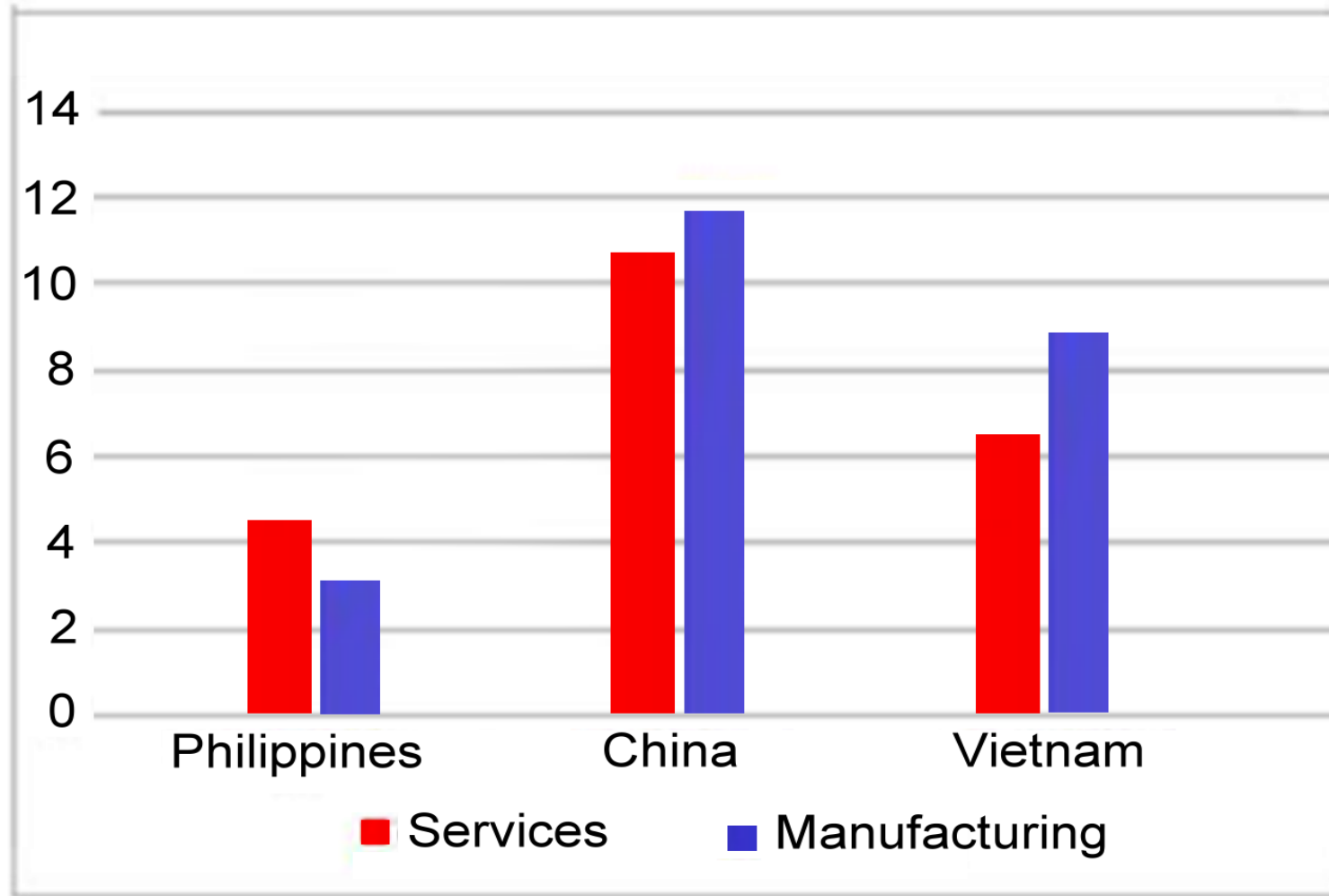
*Data Source: World Bank World Dev. Indicators*



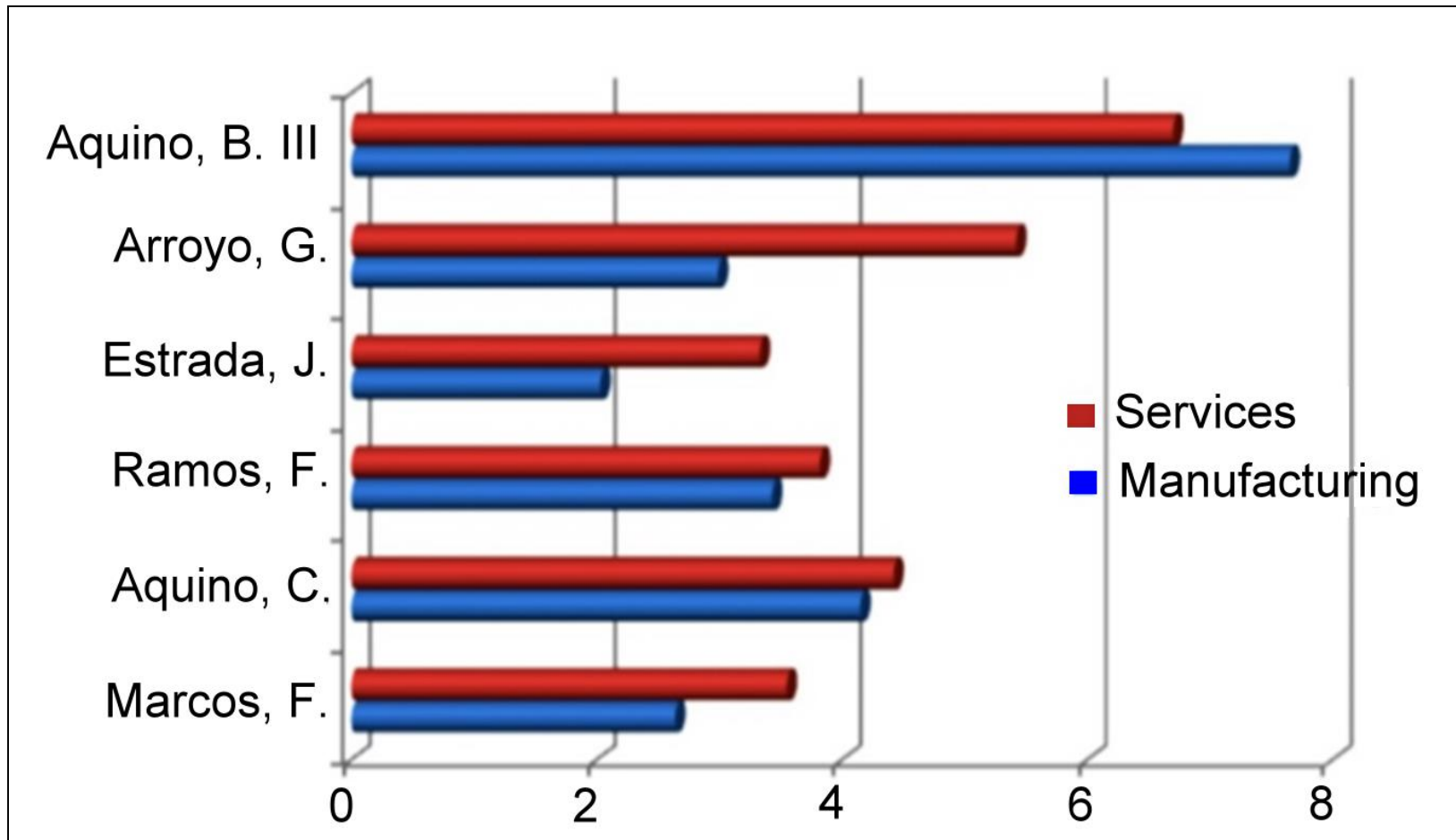
Poverty Reduction, 1990-2010

# Manufacturing vs. Services: Average Growth 1990-2010

*Data Source: World Bank World Dev. Indicators*



# A Good Start



Presidential Performance for Manufacturing and Services

Sources: World Development Indicators (World Bank) and Philippine Statistics Authority



# Pushing Back Development Progeria

- BUILDx3 and TRAIN to Reduce the Poverty of Public Goods:
- Raise Gov't Capital Outlay to 7-8% of GDP
- Sustain High Investment Rate by
- Weaker Peso for Outward Orientation to attract
- Export Platform DFI

# Takeaways

- Quality growth goes with Poverty Deduction (PD)
- Quality Growth: Manufacturing grows faster than Services for low income countries
- Development Progeria (DP) bad for PD!
- Poverty of Public Goods goes with DP
- BUILDx3 to reduce the Poverty of Public Goods
- TRAIN1 and TRAIN2 to support BUILDx3

**Salamat Guid!**