

Towards Sustainable Industrialization and Inclusion

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NAST and UP

Inclusion, Sustainability and Resilience

The Log Frame

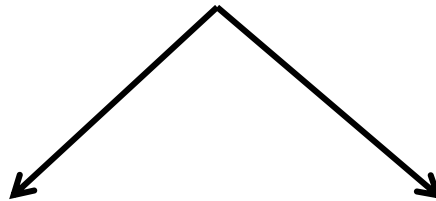
More Inclusive Industrialization



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 potential victims 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

The Immediate and the Recent Past

- First full year (2017) of Duterte:
 - GDP growth: 6.7%
 - Manufacturing growth: 8.8%
 - Services growth: 6.8%
- First quarter 2018 growth:
 - GDP growth: 6.8%
 - Manufacturing growth: 8.0%
 - Services growth: 7.0%

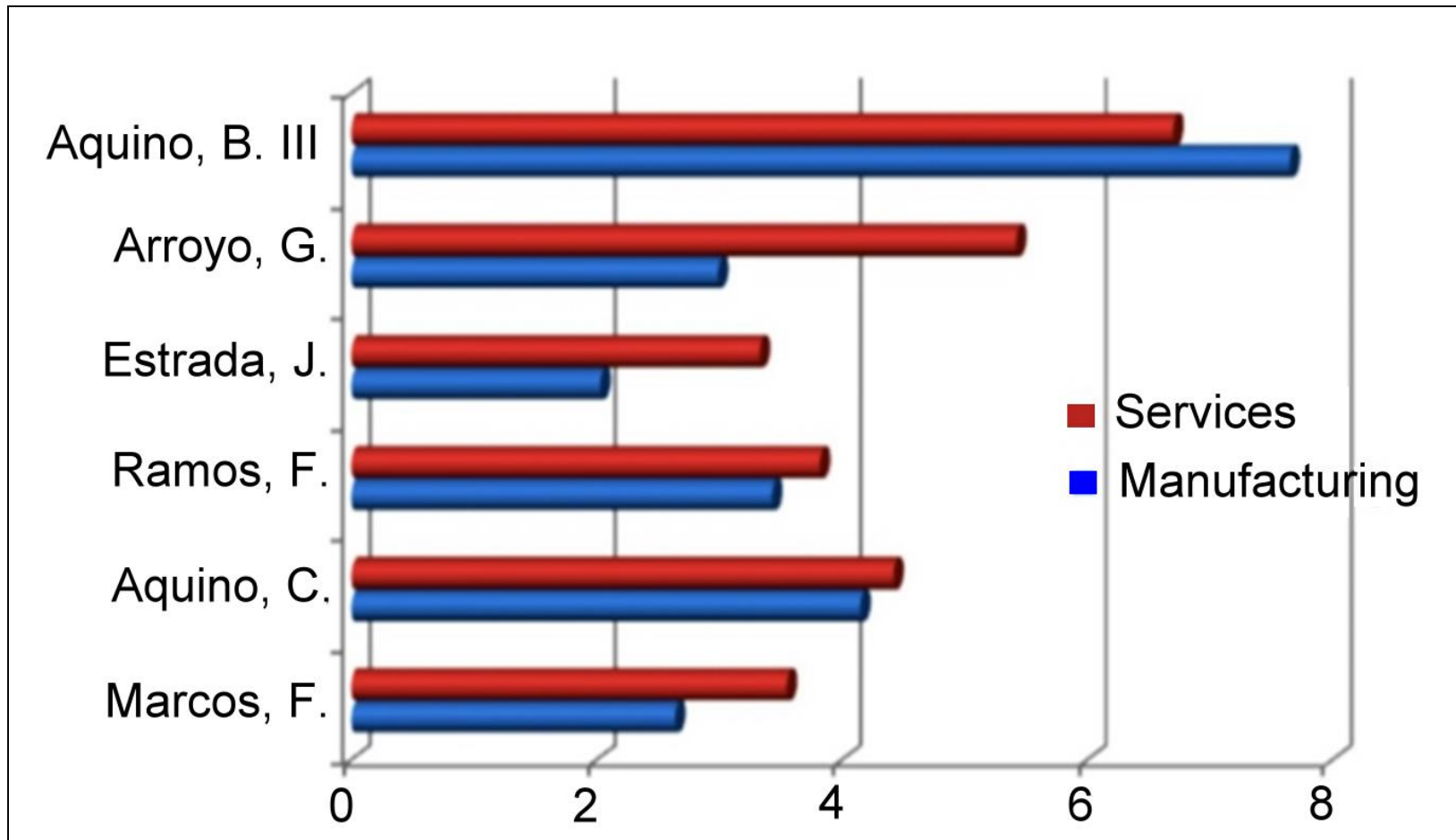
Quantity vs. Quality of Growth for LIC

For Low Income Countries (<\$10,00 per capita):

- Quantity Growth: low (2-3%) or high (5-7%) growth rate of GDP
- Quality Growth:
 - i. High GDP growth rate +
 - ii. Growth of Manufacturing exceeds Growth of Services

Why? → More poverty reduction
→ More sustainable

Comparative Presidential Performance



Presidential Performance for Manufacturing and Services

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

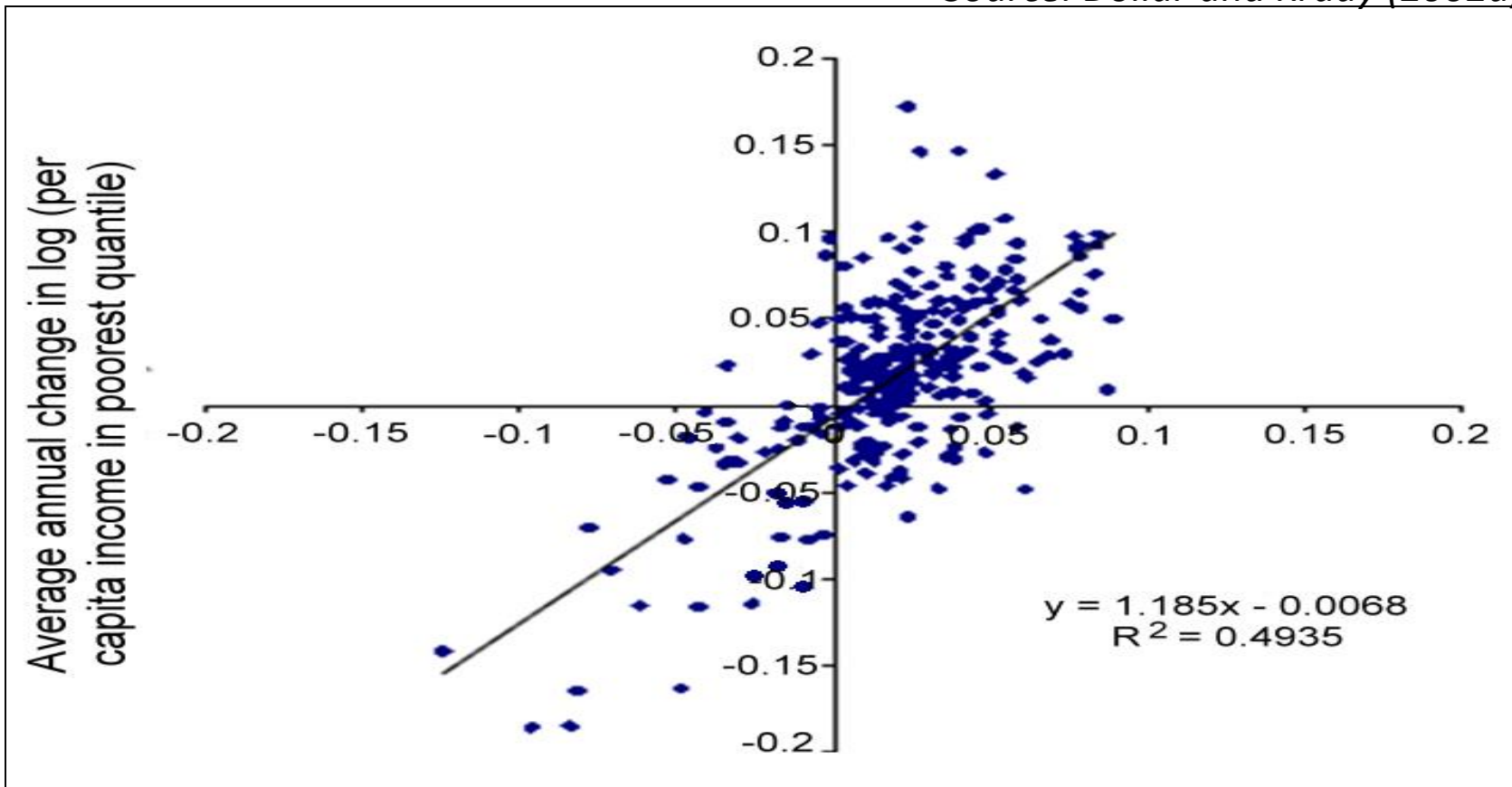
High Growth is Good for MDG

- Dollar and Kraay (2002): “Growth Is Good for the Poor”
- DFID (2008): “Both cross-country research and country case studies provide overwhelming evidence that rapid and sustained growth is critical to making faster progress towards the Millennium Development Goals.”
- (Rodrik, 2007): “Historically, nothing has worked better than economic growth in enabling societies to improve the life chances of their members, including those at the very bottom.”

Economic Growth Raises the Income of the Poor

Growth is Good for the Poor

Source: Dollar and Kraay (2002a)



Note: Figure shows average annual growth rates of indicated variables over non-overlapping periods of at least five years, in a sample of 285 observations covering 92 developed and developing countries.

High Growth is Good for MDG

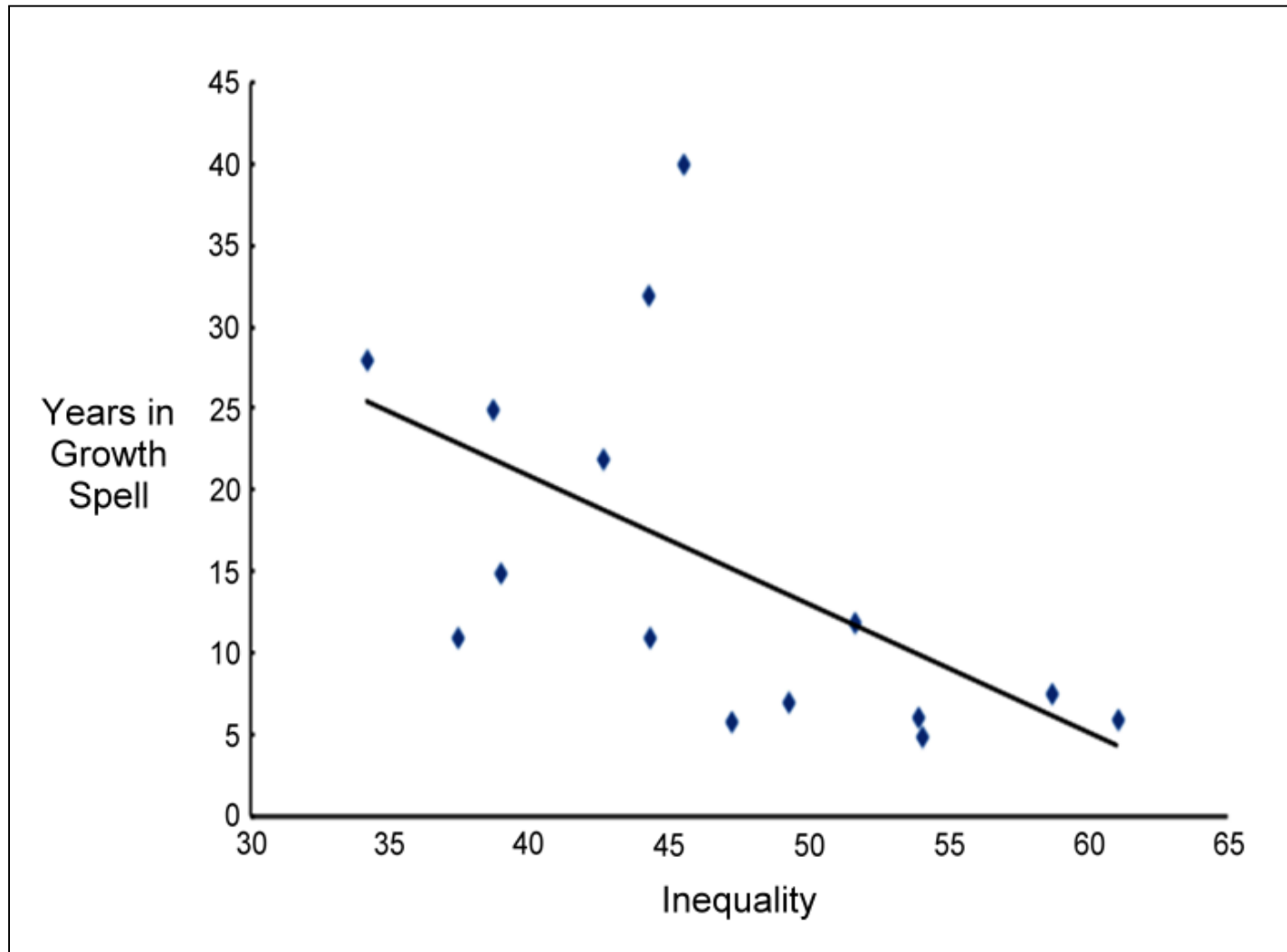
But Is High Growth Enough?

- Ostry and Berg (2011) “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.”
- What could serve MDG inclusion even better than economic growth?
- **Sustained economic growth is even better!**

Inclusion and Sustainable Growth

- Ostry and Berg (2011): “Some inequality is integral to the effective functioning of a market economy and the incentives needed for investment and growth.”
- “But (*severe*: mine) inequality can also be destructive to growth...by amplifying the risk of crisis or making it difficult for the poor to invest in education.”
- Ostry and Berg finding: More inclusive economies associate strongly with more sustainable the economic growth

Ostry and Berg: Growth Spells and Inequality



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



The Face of Past Philippine Growth: Development Progeria

Features of PHL Development since 1980s

- Domestic market-oriented and Consumption-led
- Non-tradables (Services) sector share increased; Manufacturing share retreated.
- Strong peso bias through high interest regime.
- Foreign Investment: Portfolio dwarfs DFI.
- Results: slow growth, low investment, slow poverty reduction

The Malady

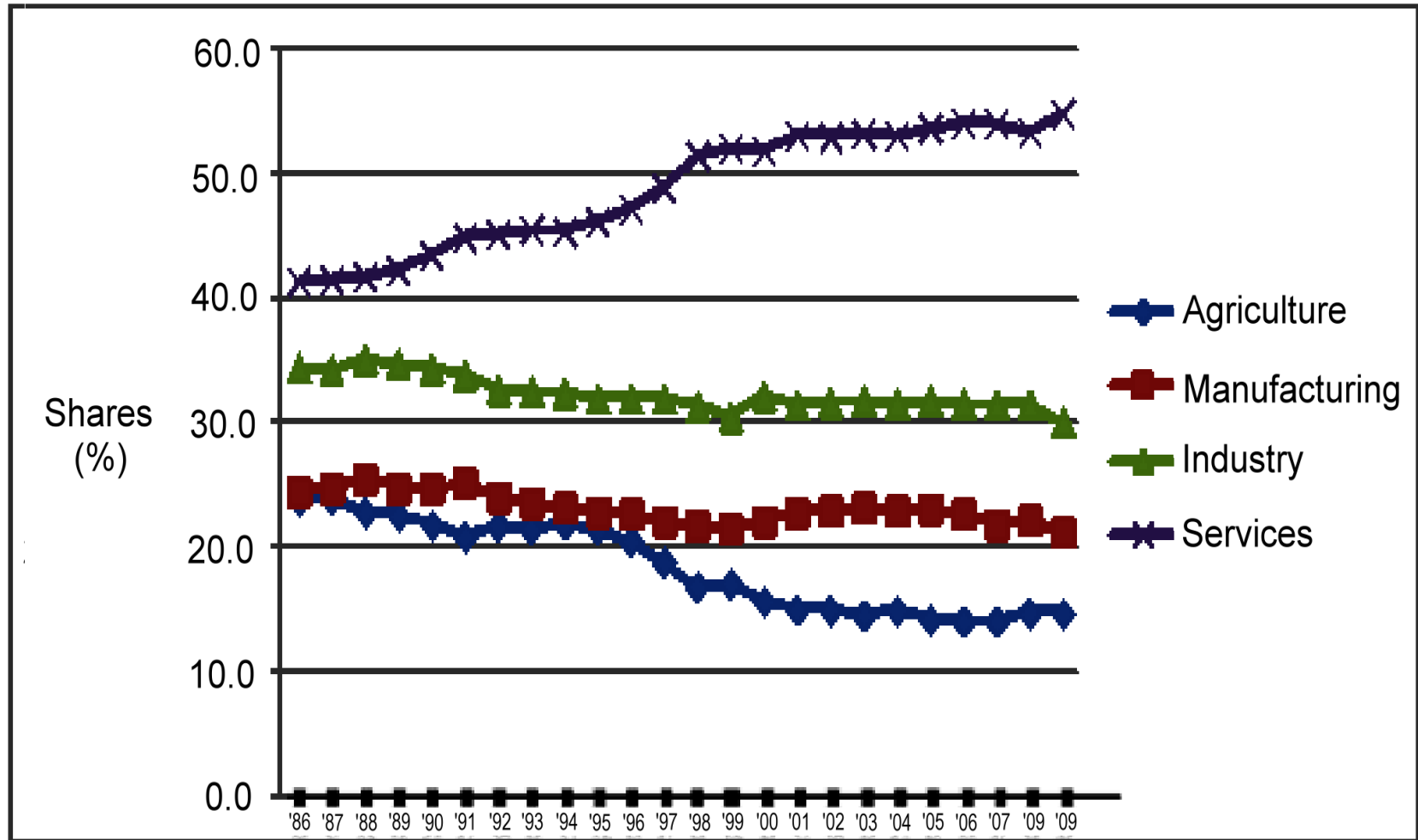


Development Progeria:
Service share grow faster
than Manufacturing share in
a low-income economy.

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

Trajectory of Philippine Value-Added by Industry

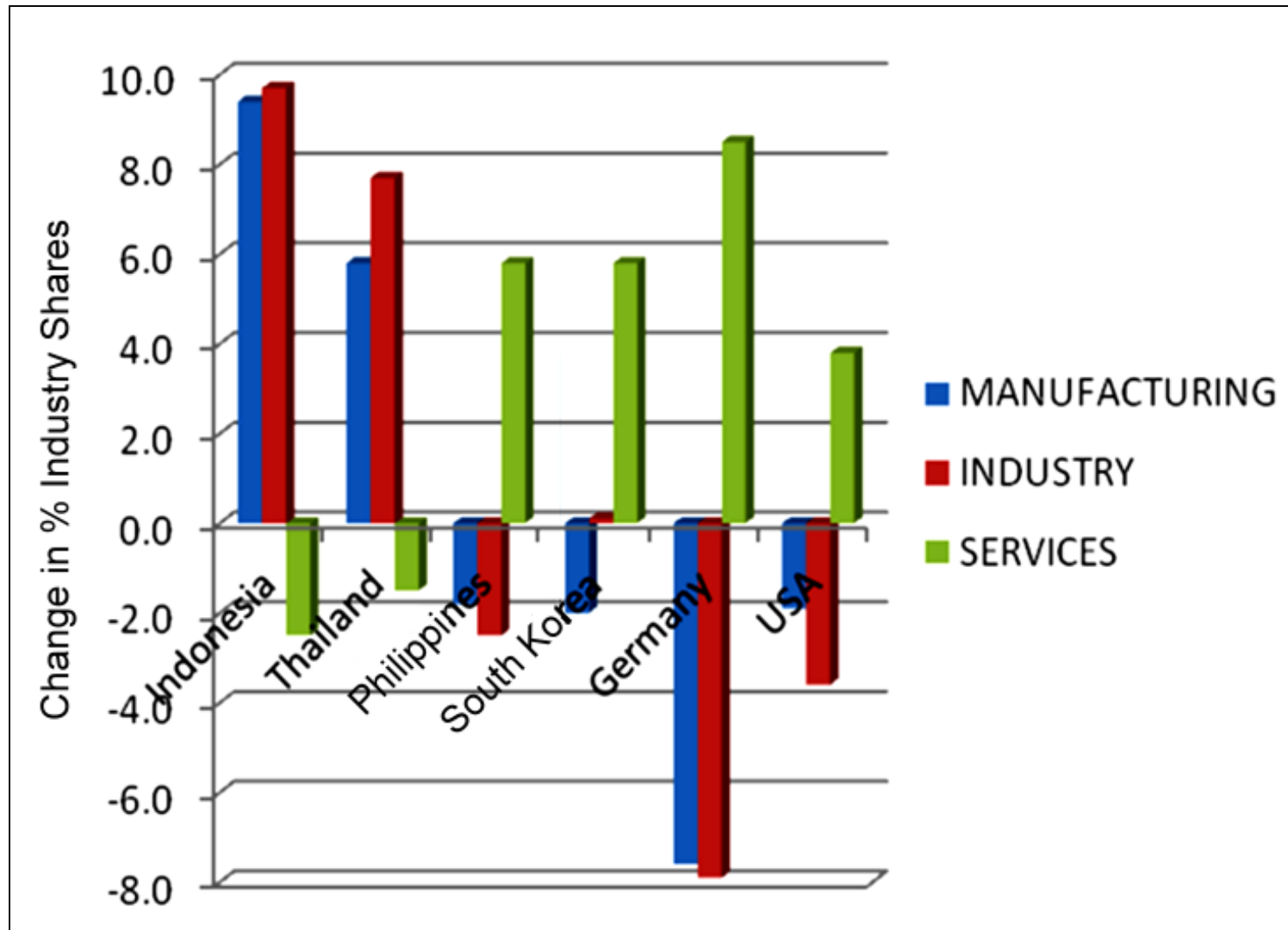
Data Source: World Bank World Dev. Indicators



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

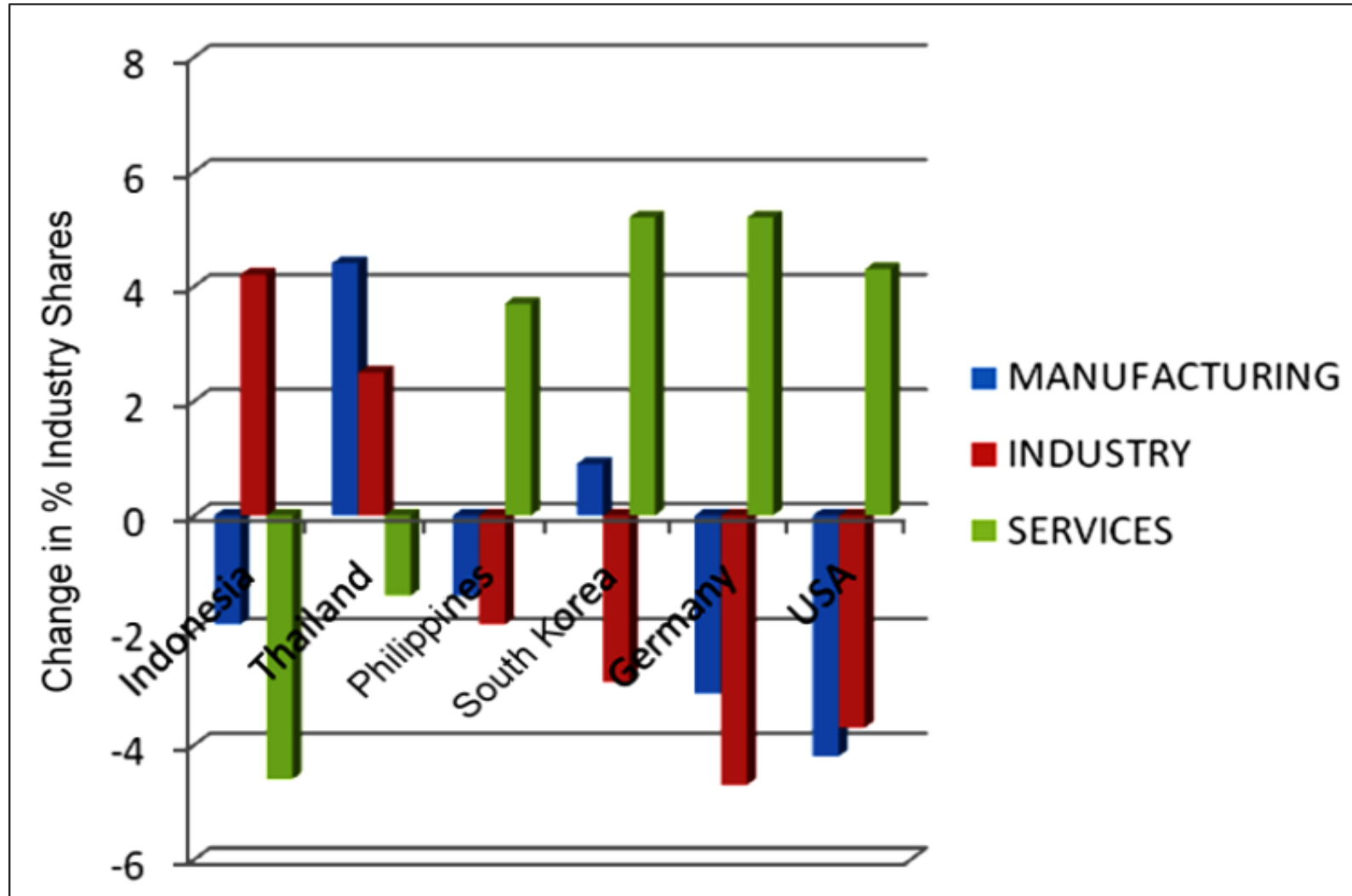
Change in % Industry Shares, 1986-1996

Data Source: World Bank World Dev. Indicators



Change in % Industry Shares, 1996-2009

Data Source: World Bank World Dev. Indicators



Why Development Progeria?

- Rodrik (2008): countries that deploy weak (undervalued) currencies perform better than those that don't.
- Why? Rodrik's answer: market and institutional distortions in low income countries harm Tradables **more** they do than Non-Tradables; thus
- Investment flows to Non-Tradables

Why Development Progeria?

- Undervalued domestic currencies level the playing field between Tradables (Manufacturing) and Non-Tradables (Services)
- Worse, many developing countries maintained overvalued currencies to cheapen imports (say, imported inputs)
- Many employed a high interest regime to prop up the local currency

Empirics

Why is development progeria bad for MDG?

We drill down on the following relations:

- Manufacturing and Services Shares on
 - (i) Income Inequality (Gini), and
 - (ii) Poverty Incidence

Data: Low income countries ($\leq \$10,000$ per capita), panel data (1987-2016), World Bank World Dev. Indicators

Method: Correlation (SGMM)

Source: Daway-Ducanes, Ducanes, Fabella (2018)

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 size	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

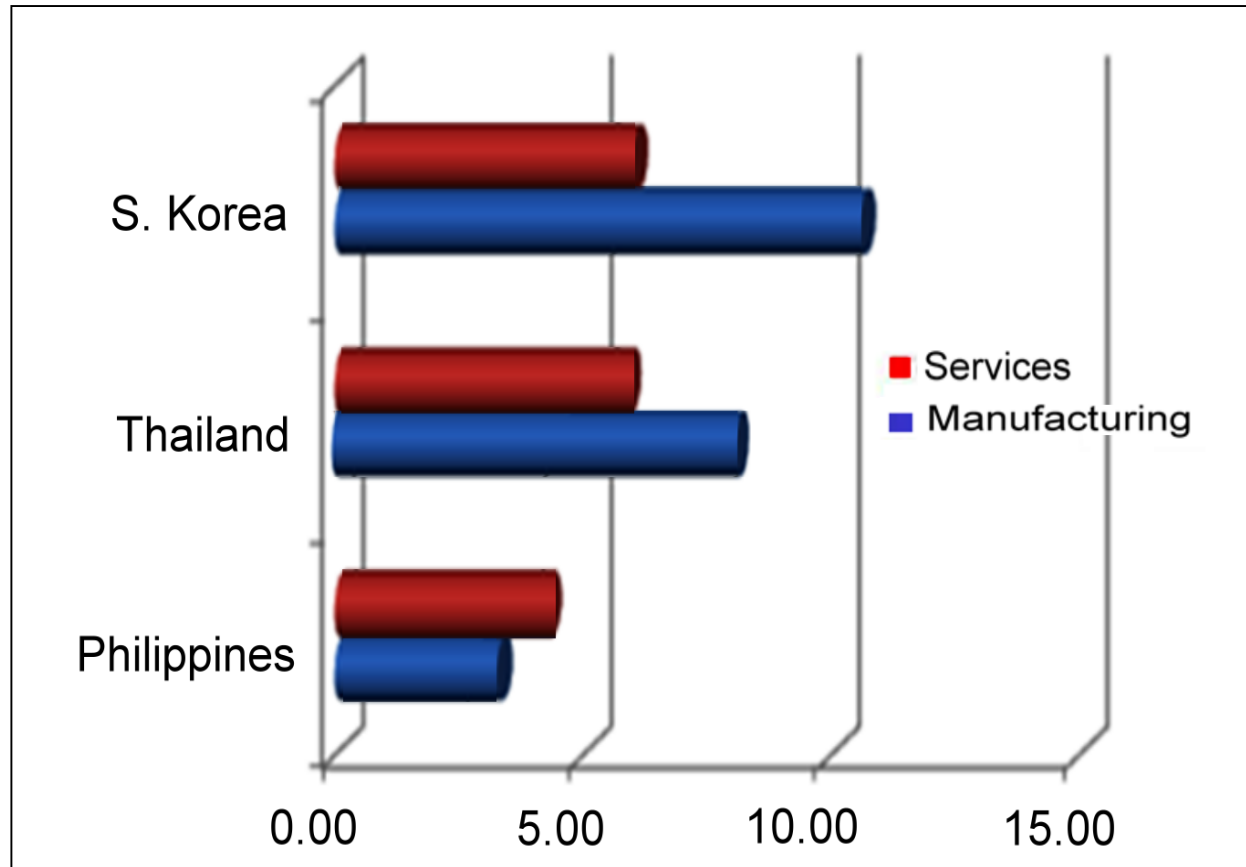
* significant at 10%; ** significant at 5%; *** significant at 1%

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

Observations and Limitations

- Not causation but only association
- The average tendency may not hold for individual country in the sample but only for the representative.
- For example: the average tendency has income GINI decreasing with greater share of Manufacturing, but for PRC, income GINI rose from 1990 to 2015
- Ergodicity does not hold: so we examine individual country experience.

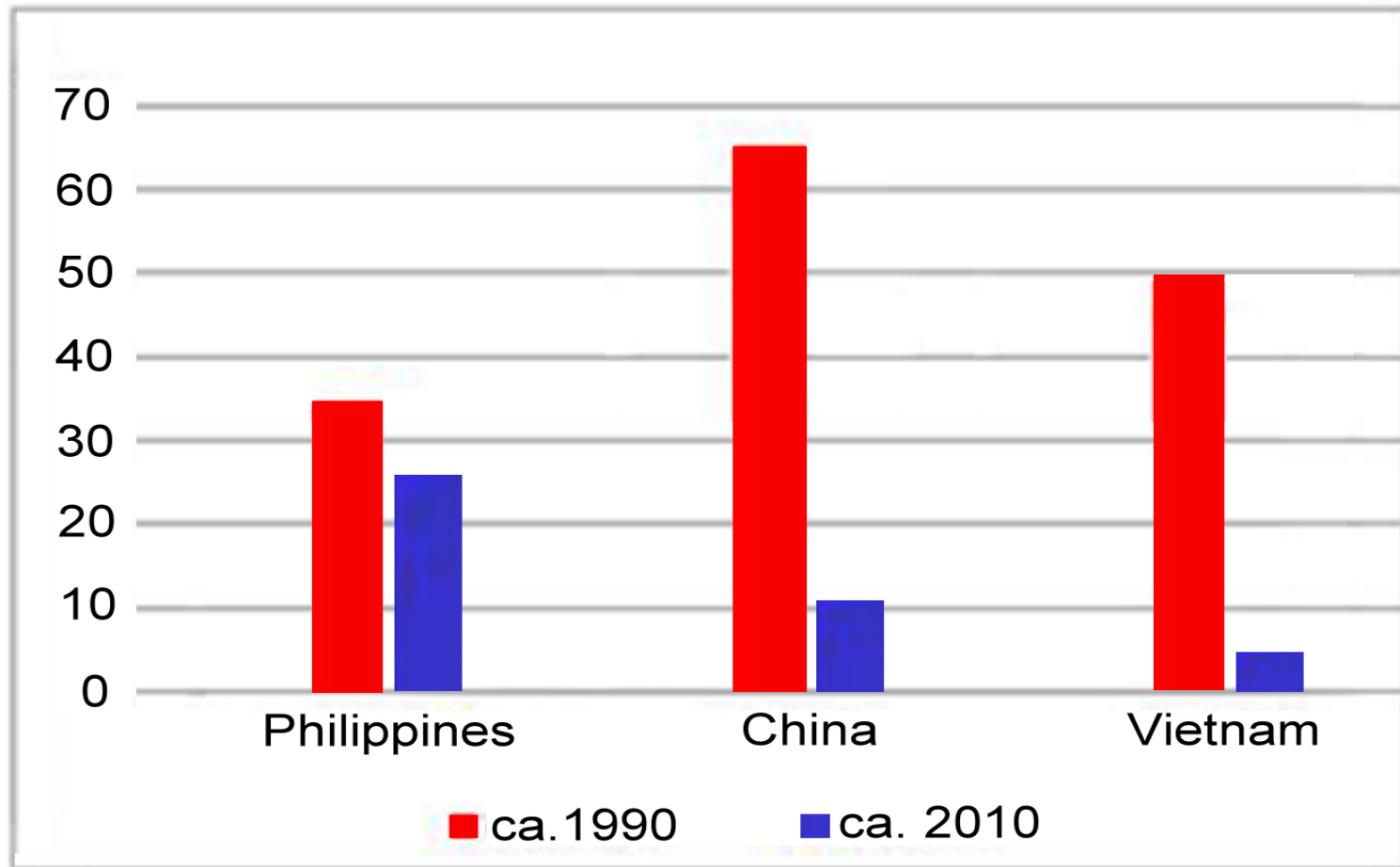
Services & Manufacturing Ave. Growth (1973-2016): RP, Thailand, S. Korea



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

Poverty Reduction: PHL, PRC, Vietnam

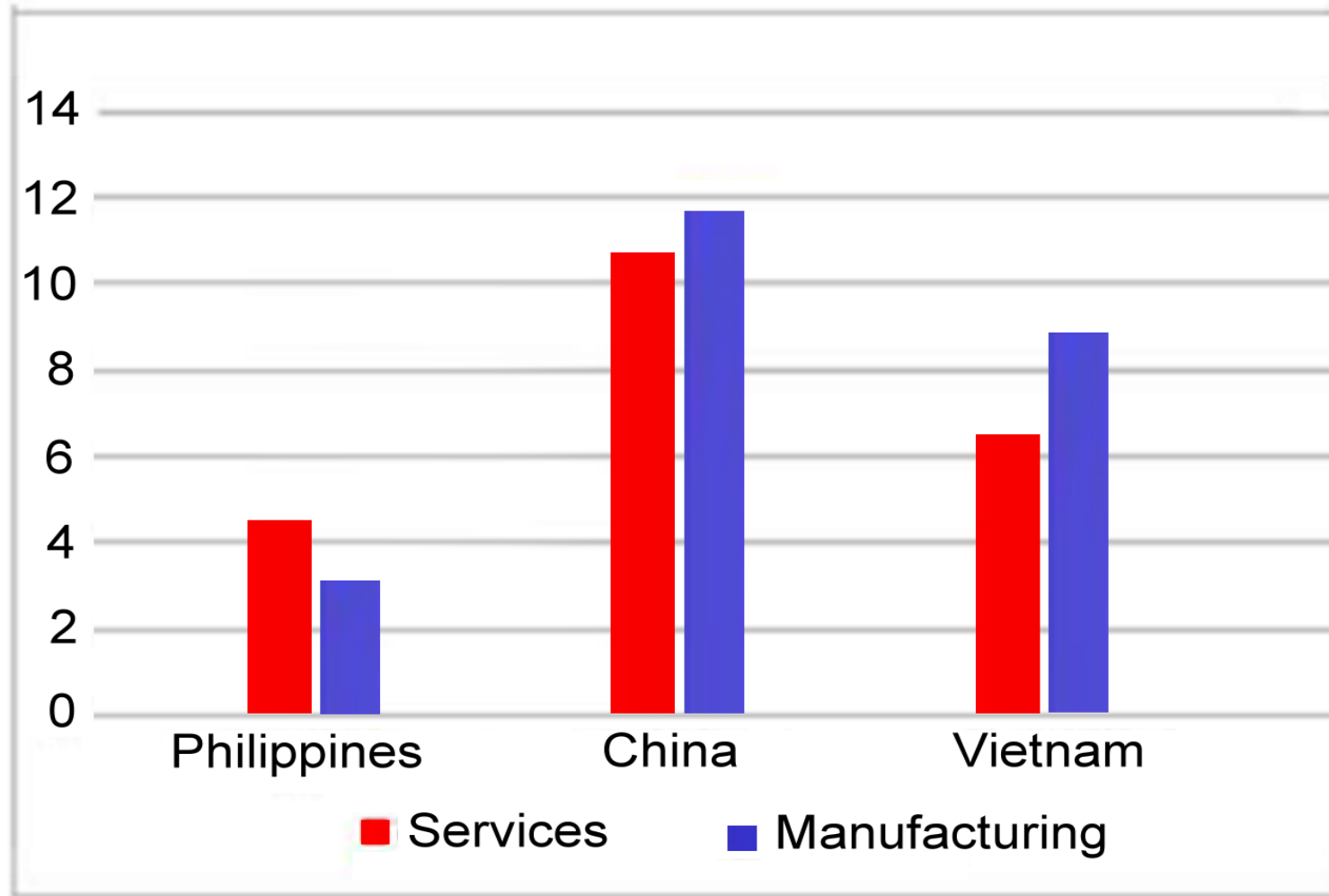
Data Source: World Bank World Dev. Indicators



Poverty Reduction, 1990-2010

Manufacturing vs. Services: Average Growth 1990-2010

Data Source: World Bank World Dev. Indicators



Red Flags in Philippine Growth

- Still a consumption-led growth
- Investment rate still puny (23-24%);
- Manufacturing in PHL remains shallow (missing middle)
- Remains concentrated in Calabarzon, Metro-Manila, Metro-Cebu.
- PHL share in ASEAN DFI still very low.

Pushing Back Development Progeria

- Raise Gov't Capital Outlay to 7-8% of GDP
- Raise the Investment rate to 25-30% of GDP
- BUILDx3 and TRAIN: Pushback on the Poverty of Public Infrastructure
- Improvement Required: greater outward orientation through:
 - ✓ Weaker Peso
 - ✓ Attract Export Platform DFI
 - ✓ Greater policy consistency: inconsistencies scare investors away

MARAMING SALAMAT!
MABUHAY KAYO!