BusinessWorld

https://www.bworldonline.com/opinion/2024/11/15/634965/the-2024-imf-world-bank-meetings-and-their-recommendations-for-asia-an-assessment/

The 2024 IMF-World Bank meetings and their recommendations for Asia: An assessment

November 15, 2024 | 12:04 am

By **Jesus Felipe** *and* **Joaquin Sevilla**

THE 2024 IMF/World Bank Annual Meetings were held in Washinton, DC, last October. This year, we got four major general conclusions out of the discussions. First, the high uncertainty created by geopolitics, including the US elections and their impact on the global economy. We now know who the next president will be. Concerns were raised about possible new tariffs on Chinese products, which could be followed by a depreciation of the Chinese yuan. This would add stress on emerging-market currencies.

Second, debt is a pressing issue across many economies, with growing recognition that it needs urgent attention and correction through fiscal consolidation. This assessment is unfortunate in our view, for it reflects misunderstandings about the risks and vulnerabilities that both developing and developed countries face. Debt is not a problem in general if it is issued in the domestic currency. Developing countries face a debt problem when this is incurred in a foreign currency. This continues to be unclear in debt discussions.

Third, we are delighted that employment took a prominent place on this year's agenda. The World Bank assembled a High-Level Advisory Council on Jobs, chaired by Singapore's President Tharman Shanmugaratnam and former Chilean President Michelle Bachelet.

Finally, we were disappointed by the overly simplistic treatment of development. The World Bank framed the global economic landscape in terms of high-income countries facing secular stagnation, middle-income countries stuck in a middle-income trap, and low-income countries caught in a debt trap. The policy prescriptions were naturally disappointing: investment for the low and lower-middle-income countries (and poor countries should not, and cannot, allocate too much to social protection), and innovation for upper-middle-income countries. These generalizations are oversimplifications that overlook the complexity of real-world challenges — and risk sending misguided messages in the process.

We also followed the special session on the Asia-Pacific region, held in Tokyo. This one was most disappointing. The IMF forecasts that the region will continue growing faster than the rest of the world. In terms of analysis, the main take was that Asia's economies can embrace services to boost growth and productivity. The basis for this recommendation was the claim that Asia's past engine of growth was manufacturing. Indeed, IMF economists claimed that the Asia-Pacific region prospered by becoming the source of more than half of global factory output. Since this is history, the region needs a shift into higher-productivity services, a transition to modern, tradable, services. This could be Asia's new source of growth and productivity.

In our view, this assessment is incorrect. First, only a few Asian economies have industrialized, if by this we mean attaining high shares of manufacturing output and employment, especially the latter (over 25% of total employment), which is what differentiates advanced from developing nations[1]. The only Asian economies that industrialized in both manufacturing output and employment were Hong Kong, Japan, Korea, Malaysia, Singapore, and Taiwan. These economies industrialized before China became the elephant in the room and flooded the world with its manufactures[2]. Even in China, the share of agricultural employment is still high today, and the share of manufacturing employment is much lower than that mentioned above. The share of manufacturing employment in other Asian countries is low, less than 10% in the Philippines (it was never much higher). Moreover, this share is declining in most countries, a process called premature deindustrialization. This is happening while manufacturing labor productivity in Asia is far from the level of the global leaders, not close as the IMF indicated.

The reality is that most Asian countries have been service economies for quite some time now, if one lumps together all service sub-sectors. The reality is also that Asia's economic transition today is from agriculture into services of low productivity (with the exceptions of the advanced Asian economies mentioned above). This is the sad situation of the Philippines too. The reason? For over 300 years, Spain created a colonial economy. Afterwards, since the early 20th century, and much more so since independence in 1946, the Philippines has not been able to create a manufacturing sector. The independence arrangements with the US forced it to become an agricultural nation. As a result, it did not industrialize, and the attempts made during the Marcos Sr. administration failed. Surely many economists in the country recognize that it will be difficult to progress without manufacturing, but neither the government nor the private sector act upon this. Large Filipino conglomerates do not manufacture and do not export. They are mostly into non-tradable activities such as real estate or banking.

Far from what the IMF claims, workers are not shifting into high-paying jobs in services. In the Philippines, the largest employer is agriculture (23% of total employment, about 10 million workers), followed by the wholesale and retail trade (21%), and construction (9%). Overall, 36 million workers (75% of the workforce) are employed in sectors that pay low wages. By 2050, we project that the largest employer will be the wholesale and retail trade, with close to 25% of total employment.

So-called “modern services” such as Finance, and Information, and Communication technology, are small employers. In the Philippines, the employment share of the Finance sector is just 1.3%, about 617,000 workers. We project that, by 2050, the share of employment in the Finance sector will be 1.5%, equivalent to about 1,050,000 workers. Other service sectors like Information and Communications are also small, and will continue to be so, not the major employers.

Naturally, the productivity of services such as tourism or distribution services is low, and so are wages in these sectors. Wages in finance are higher everywhere, but not because workers in this sector are more productive. It is difficult to understand the IMF’s recommendation that Asian countries should shift into sectors such as Finance. Who is going to tell Metrobank, BPI, etc. that they should hire many more workers and pay them P200,000/month? This is absurd. Even in developed economies, the share of the finance sector in total employment is low. In Japan, it is a mere 2.4%.

Productivity in services is not higher than in manufacturing simply because the notion of productivity is extremely fuzzy in most services. Typical comparisons of productivity across sectors should be viewed with caution because they do not use a physical measure as can be done in manufacturing, for example, number of automobiles per worker or per day. Since the notion of physical output does not exist in services, comparisons are made in terms of value added (wages plus profits) per worker. This is not the same. What is the productivity (measured as physical output per worker) of the Finance, Real Estate, Education, Restaurant, or Health, sectors?

Finally, let’s be wary of claims that policymakers should recognize that workers leaving agriculture and manufacturing need high skills to find good jobs in services. The number of high-paying jobs in services is small all over the world. Most future jobs linked to the use of much-talked artificial intelligence will end up being very simple jobs (in the 1990s, there were similar claims regarding the use of computers). We will still need bus drivers, plumbers, carpenters, policemen, barbers, etc. These categories will comprise most of the employment in the Philippines in the future. These workers will not need PhDs, will not need high computer skills, and will not earn high wages. Their wages will increase only if the economy creates a significant pool of workers in tradable activities in manufacturing and services (as happens in developed countries) that pushes salaries in non-tradable activities up. Who will create these jobs in the Philippines? Manufacturing is a very small employer and the services that pay high wages will not become major employers, or simply do not exist in the Philippines (e.g., engineers who design high-speed trains). This will continue exacerbating our already high inequalities.

For quite some time, the IMF and the World Bank have done a poor job when it comes to advising developing countries. Either they repeat over and over the need to undertake endless lists of reforms that do not seem to take developing countries very far, or recommend to them policies that denote lack of understanding, e.g., to embrace services. The best developing countries can do is to ignore them.

[1] *"Manufacturing matters… but it's the jobs that count" by Jesus Felipe, Aashish Mehta, and Changyong Rhee,* Cambridge Journal of Economics *2019, 43, 139–168,* https://bit.ly/4etx5xF

[2] *"Deindustrialization? A global perspective" by Jesus Felipe and Aashish Mehta*

Jesus Felipe is a distinguished professor of Economics and research fellow at De La Salle University, while Joaquin Sevilla is an Economics student at De La Salle University.