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At a Crossroads: Progress or more of the same?

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Letter to the Economic Team

By **Jesus Felipe, Mariel Monica Sauler, Gerardo Largoza, Susan Kurdli, Alellie Sobreviñas,** *and* **Christopher James Cabuay**

(First of three parts)

IN A SERIES of articles and presentations, members of the Economic team have expressed their (the government's) views regarding how fast the Philippine economy can grow and the prospects going until 2050. With all our deference to the Secretaries, we offer a constructive reply and comments in this letter. For reasons of space, we do not touch upon "everything." We focus on three key themes: (i) why the Philippine economy cannot grow at 6-8% and sustain this rate; (ii) why our GDP in 2050 will not be $2 trillion; and, (iii) the role of the government.

We want to make it clear that our interests are identical to those of the Philippine administrations, the present one, as well as past and future: we want the Philippines to move forward, progress, and develop, not just from an economic point of view but also along social dimensions, as fast as possible.

We also stress that our overall assessment of the economy is that it is "doing fine." The Philippine economy has a myriad of problems, but it is moving forward. There is no economy in the world that does not have problems, and governments are always criticized. It is impossible to please everybody.

Having said this, let's not exaggerate the fiesta, what the government often does. Our disagreements with the administration lie in how well we are doing and in how we understand progress happens. These are important disagreements.

Our arguments do not mean that we are negative about the economy. We just believe that we need to infuse a greater sense of realism into the discourse of how the economy is doing and how far it can go. We do understand what a high-level position in government requires and the messages that have to be sent. Yet, going into irrational exuberance when it is very difficult to justify it does not do any good. Public policy is also about realism. Over-enthusiasm raises expectations. If these are not met, millions of Filipinos will be disillusioned. It is also about credibility.

Reality check 1: Today's GNI per capita (what the Philippine Development Plan 2023-2028 uses) is about $4,300. We are still a lower middle-income economy.

Reality check 2: Our neighbors, Thailand, Indonesia, China, and Vietnam, all with significantly lower income per capita than the Philippines not long ago, have overtaken us.

I. UNDERSTANDING GROWTH

We start by noting that we raised a red flag as soon as the Philippine Development Plan 2023-2028 was published. We immediately questioned the capacity of the economy to grow between 6.5% and 8% from 2024-2028. We could not find where these numbers came from. We were told that they are not "forecasts." We were also told that the figures are an "aspiration." In another meeting, we were also told that they are an "assumption." Finally, we have also been told that they are a "target." How is this possible? Three years later we are still wondering where these numbers came from. What we know is that the growth rate range was revised to 6-8% late last year. These numbers probably come from the same oracle consulted now and again by our major banks and conglomerates.

The point is that we are still not growing at 6-8% and there are good reasons why: our potential growth, or the maximum sustainable growth rate that technical conditions allow, is about 6%. This is the rate toward which our economy gravitates in the long run. There can be deviations in either direction in the short run, but we get back to it. Growth above 6% and sustained for a long time? We do not think so. Our actual growth rate is below this figure.

It is imperative to understand that to increase actual growth significantly above 6% and sustain it, we need to increase potential growth. As long as the administration continues having a forecast, target, or assumption — whatever it wants to call it — out of sync with potential growth (i.e., significantly higher), the assessment will be that the economy is underperforming. We need to be realistic and ask sensible questions, e.g., would it be possible to reach 6.5%?

We have also concluded that the administration's growth assessments lack depth because all they contain is analyses of growth based on writing the national income accounts in growth rates and then arguing over and over that we are a consumption-driven economy. While the algebra of the income account is correct and it is true that consumption represents about 70% of GDP (it reached this level because it grew faster than the other components of demand for a long time), this is not informative about what really drives the nation's growth. Consumption growth is driven by income growth, mainly wages. Are these increasing or not? If yes, why? What is the effect of remittances? If wages are increasing, is it because productivity is increasing? In what sectors?

Exports, another component of the demand side, are different from consumption because they are totally autonomous from domestic income (their demand is generated abroad, and they pay for their import content) and they are a key determinant (constraint) of our growth through the balance of payments. Exports are driven by price (how cheap and the exchange rate) and non-price factors (the latter being the characteristics of the products we export, bananas or machines?). Is our export basket changing? What matters for our long-run growth is not the price factor but the characteristics of the products we export (is our export structure changing?).

A proper analysis of the sources of growth requires looking into the productive structure of the economy, where incomes are generated. Hardly do we hear terms such as "productivity," "manufacturing," "exports," or "firms," in the assessment of the economy. We insist: these are the true drivers of growth, and what the analyses of DEPDev (Department of Economy, Planning, and Development, formerly NEDA) should focus on.

Looking into the productive structure of the economy, we have argued and shown that manufacturing is the engine of growth, even in the Philippines. It is true that aggregate services account for a significant portion of GDP growth ex-post and in an accounting sense (the same as consumption on the demand side). Yet, we make two clarifications. One is that most of the productivity growth of services is the result of two subsectors: Finance, and Wholesale and Retail Trade. Productivity growth in other services is low. Second, and more subtly, causality in many service sectors goes from growth of the economy as a whole to growth of the service activity, not the other way around. Think of credit card use, call centers, transportation of goods, delivery services (riders, messengers), or bank loans. Does their growth cause overall GDP growth, or does GDP growth (the overall state of the economy) cause the growth of these activities? We think it is the latter: it is the growth of the economy (possibly manufacturing — think of bank loans) that causes these sectors' growth.

To understand the above, we have shown in our analyses (DLSU May 2025 report, section on Growth and Economic Transformation) that overall productivity growth can be decomposed into the sum of the productivity growth rates of each sector (within effect) plus another component that captures the shift of workers across sectors (structural transformation effect). Most of our aggregate productivity growth comes from three sectors: Manufacturing, Wholesale and Retail Trade, and Finance. Manufacturing registers the highest within-sector productivity growth in the country but the contribution of this effect to overall productivity growth is dampened because the employment share of the sector has declined (i.e., the economic transformation contribution effect of this sector is negative). Finance and Wholesale and Retail Trade register both positive within-sector productivity growth as well as positive structural transformation effects because their employment shares have increased.

The irony of agriculture is that while the sector registers positive within-sector productivity growth, this effect is offset by the negative contribution of economic transformation (the result of a declining employment share). The result is that overall agricultural productivity contributes zero to aggregate productivity growth. Within-sector productivity growth needs to accelerate to compensate for the negative economic transformation effect. How? Modernization and technology. Keep in mind that the transformation effect of this sector will remain negative for quite some time.

When the economy is analyzed this way, one learns a lot about our reality: where workers are employed, how much they earn, and how productive they are. It is the income structure of the economy and the income side of the economy that tells us who we are as a nation. Over 50% of our workers are engaged in low-productivity sectors (all sectors in the Philippines are low-productivity by international standards) such as agriculture, wholesale and retail trade, and construction. Nearly 88% of the workforce earns, on average, only P20,000/month. This is nowhere near what can enable people to live a decent life.

The government also claims that our future is bright because we have a young labor force. However, this is not what we want to hear. In a modern economy, what drives growth is productivity, not labor force growth. Since the mid-2000s, productivity growth accounts for about 75% of potential growth. Labor force growth, which is declining, is the other 25%. So why insist on the demographic component? We do not want an economy with many workers in low-productivity, low-wage jobs. We want a highly productive economy that can guarantee better pay and working conditions. It is not about opening new drivers of growth (whatever this means). It is about their productivity. Moreover, in an economy like ours, with almost a quarter of all workers in agriculture (about 10 million), it is clear where the low-hanging fruit of growth lies.

Given our productivity and labor force growth rates, the characteristics of the products we export, and the growth rate of the world economy (barely 3%), our potential growth rate is about 6%. What this means is that if actual growth exceeds 6% and this persists (this is the meaning of sustained), import growth shoots above export growth and we run a trade deficit. This situation cannot be sustained for a long time, and it is corrected (GDP growth decreases and import growth decelerates) with the result that we go back to about 6%. Even without the tariff war, we would find it very difficult to grow significantly above 6% for a long time. The structure of our economy does not allow a growth rate much higher than 6%. And on how "sustainable" a high growth rate can be, there is work that shows that very high growth rates do not last for decades.

The government needs to understand the potential of the economy and its determinants. These lie in the structure of the economy. We do not have an 8% growth-rate economy. The reason? Look at the products that we produce and export — and take into account the growth rate of the world economy. To grow faster, we need a "different economy." We need a manufacturing sector that makes quality products that can compete in the world economy. To do this, we need firms. Reality? We do not have them. Though there are pockets of excellence (e.g., though we have not seen it, we have read good things about our steel industry, solid progress), most of our firms have low organizational capabilities and hence they cannot produce products that meet international standards and compete.

Since independence in 1946, we have grown above 6% (which is very high growth in any country) in only a few instances. The first stretch was between 1946 and 1972. This long period spanned the Administrations of Presidents Roxas, Quirino, Magsaysay, Garcia, Diosdado Macapagal, and Marcos Sr. (pre-Martial Law). The average annual growth rate was 7.25%. Then we had the long period (1972-2000) of low growth during the Administrations of Presidents Marcos Sr. (during Martial Law), Corazon Aquino, Ramos, and Estrada, with average growth rates slightly above 3%. Things started picking up during the 10 years of Gloria Macapagal, 5.02%, and Benigno Aquino, 6.22%. High growth continued with President Duterte but the pandemic derailed the good run. Actually, growth peaked at 7.1% in 2016 but then it came down in the next three successive years: 6.9% in 2017, 6.3% in 2018, and 6.1% in 2019. Yes, growth was above 6% for several years but it then came down to about our potential. Now (President Marcos Jr.) we live under the uncertainty caused by the tariff war with growth rates below 6%. Claiming that we can go back to the days of higher growth rates is tantamount to not understanding that those days are gone with the wind because the conditions that led to higher growth are no longer here.

The government's magic pill to attain higher growth is a series of initiatives (the ones recently passed…) in the form of tax breaks for our firms. These won't be a game changer if the objective is to transform the economy: most of our firms will do "more of the same" (MOTS) although it is true that they will be more profitable.

Simply "giving" without significant "effort" is unlikely to result in meaningful change. These recent measures will not lift our potential growth.

The same goes for the 207 major infrastructure projects the government highlights, which include roads. Of course, we need them, by all means. Yet, roads alone without trucks transporting products to ports to be exported will not do much in the long run (creation of more productive capacity) to increase wages and income per capita. This will not propel growth to 8% for 20 years. The problem we have is that we do not have enough factories to employ productively the labor force. This is why we have a low capital-labor ratio. This is a form of underemployment, where people are willing to work but cannot find productive employment — not because machines are idle, but because there simply aren't enough of them.

And finally, the same goes for initiatives like the Maharlika Investment Fund… which has absolutely nothing to do with development…. despite what its proponents claim. Don't bait and switch. Development is not anything that sounds popular. Investment banking ain't development.

We have checked every single Philippine Development Plan (PDP) since independence and concluded that these documents tend to be cheerleading exercises instead of decisions about which potential priorities have to be sacrificed in the current plan period. This mode of planning permits private interests to justify almost any project as being consistent with the current development plan. The PDP 2023-2028 contains over 350 objectives, many of them without quantitative targets. Either many of the targets are meaningless or they will not be attained. We need to focus.

(To be continued.)

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University (DLSU). This letter represents the views of the authors and not necessarily those of DLSU.

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At a Crossroads: Progress or more of the same?

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Letter to the Economic Team

By **Jesus Felipe, Mariel Monica Sauler, Gerardo Largoza, Susan Kurdli, Alellie Sobreviñas,** *and* **Christopher James Cabuay**

(Second of three parts)

II. HOW FAR CAN WE GO?

We all dream of a better country as stated in Ambisyon Natin 2040: "Filipinos enjoy a strongly rooted, comfortable, and secure life. In 2040, we will all enjoy a stable and comfortable lifestyle, secure in the knowledge that we have enough for our daily needs and unexpected expenses, that we can plan and prepare for our own and our children's future. Our family lives together in a place of our own, and we have the freedom to go where we desire, protected and enabled by a clean, efficient, and fair government" (*https://tinyurl.com/249ngsr4*). We need to be realistic: this will not materialize. Still in 2040, not everybody will enjoy a stable and comfortable lifestyle, not everybody will be able to meet daily needs and unexpected expenses, and we will not be an advanced nation in 2040, 15 years from today.

At a meeting in Milan in early May, the economic team announced that the Philippines' GDP will reach $2 trillion in 2050. We beg to disagree. The presentation indicated that today's GDP is $392 billion. This implies that to go from today's GDP to the one in 2050 (that is, in 25 years) requires an annual growth rate of 6.7%. This will not happen. It is too high. Historically, only a few countries have grown at almost 7% for 25 years. These countries are in

Asia but they did it in a different world context, and their growth was manufacturing-cum-export-led.

For years, we have worked with a model of the Philippine economy. This is a very complex structure that relates hundreds of variables and that allows us to understand how the economy operates. We used it to project our GDP in 2050 (version run at the end of 2024, before the current tariff turmoil). This will be about $1.7 trillion. Average growth during the period of 2025-2050 will be 4.8%, with a slight declining trend until 2050, when growth will be 3.6%. This is just the result of “progress.” We cannot become richer and grow as fast as today.

We also question the claim made in other government presentations, that the Philippines will be a $6.6 trillion economy by 2075, the 14th largest economy in the world. This exercise was not done by the government but taken from very suspicious estimates concocted by Goldman Sachs for a large number of countries. It is another extrapolation, in this case assuming (guessing) some figures for labor force growth, investment rates, productivity convergence, and PPP-based exchange rate adjustments. This is wrong economics and wrong thinking. Don’t we have in the country the capabilities to estimate future GDP properly without taking it from an investment bank?

Our models do not reach 2075 but we are certain that this estimate is too high. The Goldman Sachs 2075 estimate implies an average growth rate of GDP of 5.6% for the next 50 years, 2025-2075. It takes an understanding of growth to refute this claim: supposedly (according to the government rhetoric) we would be an advanced economy by then, like Japan, Korea, or the European nations. Check what their actual growth rates have been for the last decades. Much lower than in the 1970s. The reason? Their potential growth is much lower — the contribution is labor force growth zero in some cases (even negative); all growth is the result of productivity growth, but since these economies are on the technological frontier, productivity growth is low. That’s why their growth rates are so low (but they have a very high per capita income).

We could certainly be wrong, but we are willing to bet that our economy will not register an average growth rate of 6.7% for the next 25 years, or 5.6% for the next 50. Using our models, we have estimated that in 2050 the share of work in agriculture will have declined significantly (this is good news). The bad news is that our major employer will be Wholesale and Retail Trade. This means low wages. Hence, our income per capita will be much lower than the $18,000 announced in Milan last May (not clear how this figure was calculated).

Our estimate is that our GNI per capita will be about $12,500 to $13,000, three times today's (under a very favorable scenario of no major shock in 25 years). This shows progress but much less than what the administration claims. To do better, we need a very different economy. Unfortunately, our workers will not be engineers who design (or providing consulting services for) high-speed trains, airplanes, robotics equipment, satellite systems, intelligent buildings, submarines, dams, luxurious yachts and cruise liners, or nuclear power plants; and who earn P1 million/month, because we do not have such companies. We are very far from that. The government does not create these jobs and the government cannot tell the private sector what jobs it has to create and what wages to pay. Yes, our companies hire engineers but they do not create the products mentioned above. Most of the jobs being created in our country (by firms) are in low-productivity service activities. Let's please stop the rhetoric about "quality jobs."

Development happens in firms, in the productive sphere of an economy. This is what allows citizens to consume as wages increase. Our "industrial policy" initiatives should focus on the creation of the companies that will eventually manufacture such products, not on giving tax breaks. This industrial policy requires firm-level effort, especially crucial for developing organizational capabilities, as this process requires continuous adjustments in firm structure, entails adjustment costs, and often encounters internal resistance. We insist: this requires an industrial policy centered on firms' learning so that they reach international standards and can compete by exporting high-quality products.

The government highlights tourism and Artificial Intelligence (AI) as new sources of growth. Yet, the reality is that neither one will be a game changer. Tourism, like any other activity that contributes to the nation's GDP, is certainly welcome. But this will not be the "industry" that will make us a first-world nation. Advanced nations are not high-income economies because of this sector, which is a "follower" service of low productivity by its own nature (very labor intensive). The predictions about the sector are far-fetched and unrealistic: we have read that the government expects the value added of the sector to reach 20% of GDP — really? This is a very large share.

It is important to understand that tourism is a business of the advanced economies: with a few exceptions, virtually all major tourist destinations in the world, by country and by city, are advanced economies. Think of Paris, London, Rome, New York, Madrid, Bangkok, or Istanbul. People do not travel there because of their beaches (which many countries have too) but because of the "package" these places offer: culture (monuments, museums, opera), parks, restaurants, and public transportation to commute. We do not have these.

Likewise, people do not travel to those cities as tourists because receptionists and waiters smile. We need much better infrastructure but, more importantly, we have to upgrade our tourism package to compete with Thailand or Mexico first… then think about competing with the world's largest tourist destinations, France and Spain. Let's get the story right: tourism can be a springboard to develop infrastructure, to bring in foreign income, and to help create decent employment — hotel managers, receptionists, accountants, and chefs. This will help us reach upper middle income. High income requires much more than tourism.

We have also read as we finish this letter that the government, together with local industry groups, is aiming to boost sales of *sari-sari* (sundry) stores in the country to P2.4 trillion by 2030 as part of a strategy to develop the country's wholesale and retail sector. If this is true, we are wordless. First, because this is incompatible with the objective of becoming an advanced economy. These stores (of low productivity and low wages) will have to disappear from our streets, the same as jeepney drivers, and the still large number of domestic helpers and security guards, amongst other professions that still exist in the Philippines. Why? Sari-sari stores are inefficient places to shop, the graphic sign of the nation's poverty. People in developed countries shop in well-organized, very large, and cheap, supermarkets. And to become an advanced nation, wages will have to increase dramatically, for everyone. Who will hire a helper or a guard when their salaries reach P70,000/month (of course, these will have to be formal jobs, and with a contract that includes benefits, paid holidays, etc.). There is a second reason why this objective does not make any sense: P2.4 trillion in 2030 would represent, depending on whether this figure refers to nominal or real pesos, between 5% and 8% of our GDP in five years, a ridiculously large percentage.

Summing up: at least 25% of our GDP will come in the next few years from tourism and *sari-sari* stores. We implore the Economic team to put some order here.

Artificial Intelligence (AI) matters but it will not be either the game changer of the Philippine economy at large because we are very far from the technological frontier, because 10 million workers are still employed in backward agriculture, and because 19 million Filipinos are functionally illiterate. Certainly, many of our companies (surely the large ones) will use it and see some benefits. Indeed, using AI in chatbots, to detect fraud in banks, as voice assistants, to generate text and images, or to manipulate big data, is a step forward and important in order not to be left behind. At this level, AI is already being used everywhere. AI can also help companies in manufacturing. Yet, we doubt this will revolutionize the Philippine economy, as long as we do not have the capabilities to generate the advanced technologies of the so-called Fourth Industrial Revolution, including robotics.

What we should care about is aggregate productivity, and this is much more than using ChatGPT to summarize meetings or to do a quick search. For a particular technology to have a significant impact on society, including an improvement in productivity, it has to become a general-purpose technology (GPT), that is, it has to be used across a wide range of industries and activities, it evolves over time, it leads to complementary innovations, and it alters how people live, work, and interact. Electricity, indoor plumbing (the best invention ever), penicillin, and airplanes are examples of GPTs of the 20th century that changed our lives.

Time will tell us if AI becomes a GPT. Recall what economist Nobel Prize winner Robert Solow said in 1987: “You can see the computer age everywhere but in the productivity statistics.”

(To be continued.)

Jesus Felipe, Mariel Monica Sauler, Gerardo Largoza, Susan Kurdli, Alellie Sobreviñas, and Christopher James Cabuay are Faculty at De La Salle University (DLSU). This letter represents the views of the authors and not necessarily those of DLSU.

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At a Crossroads: Progress or more of the same?

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Letter to the Economic Team

By **Jesus Felipe, Mariel Monica Sauler, Gerardo Largoza, Susan Kurdli, Alellie Sobreviñas,** *and* **Christopher James Cabuay**

(Last of three parts)

III. NEEDED: AN ACTIVE GOVERNMENT

The history of development also tells us that, besides attaining a high manufacturing employment share, no country has reached high income status without an active government. The most obvious aspect of such a government is the provision of all public goods that make a nation egalitarian: infrastructure, public education and public health, and to address malnutrition. We are told that we need the assistance of the private sector in the form of Public-Private Partnerships (PPPs), on the grounds that the government does not have "resources," as if pesos (to fund these expenditures) were a resource. We have also heard from the government that "the private sector has more money than the government." This statement is not even wrong. It is deceptive and flawed. There might be reasons for certain PPPs, e.g., the need to build classrooms because we need to school all our children and the government cannot build all the classrooms that are needed immediately (acknowledging that this is not a financial constraint).

Our sovereign government is not financially constrained to fund all these expenditures. We may have other constraints (e.g., real resources), but not pesos (foreign debt is a different story). The finances of our government are not like those of a family. Terms like “deficit” or “debt” mean very different things to both: while private debt is a liability of the private sector, government debt is an asset of the private sector. Moreover, in a country that runs a current deficit and the private sector wants to net save (the Philippines!), the government will have to run a fiscal deficit. The government’s rationale (e.g., consolidate the fiscal deficit, reduce it to 3% of GDP) is bad economics, and it amounts to not understanding its own finances. It is one thing to argue that we need to rethink what we spend on and what the priorities are — correct. It is another thing, quite different, to repeat the mantra that we have “limited resources” or that we have a “limited fiscal space.” Pesos are not a resource because they are not scarce, and so-called limited fiscal space is a self-imposed constraint. This does not mean that the government should spend as if there is no tomorrow. It simply means that the government can spend in its own currency (and of course a government does not need to collect taxes to spend) and tackle the pressing problems of our society. Naturally, the private sector can supply some of these (public) goods. Indeed, the private sector can build a hospital or a teaching institution. But this cannot be a substitute for the public good provided by the government. In the hands of the state (government), public goods are “rights” of 115 million Filipinos. In the hands of the private sector, public goods are “businesses seeking returns.”

We are told often that our development has to be “private sector driven” (what does this term mean?), and that exporting manufactures is not crucial because we have the BPO sector (exports of services) and OFWs (who send remittances). The BPO sector certainly matters but thinking that we can become a high-income economy without exporting (which means competing in the world economy) high-quality manufactures (which means innovation, R&D), is not true. The almost 2 million OFWs we have is the vivid indicator that things are not so good in the Philippines.

Naturally, firms, and the private sector in general, matter in a market economy. Yet, labeling a development model as private sector driven is very misleading because it seems that there is a strange and wrong dichotomy: private- versus public sector-driven development (like in a centrally planned economy?). Such a term gained significant traction during the 1990s, particularly in the context of the Washington Consensus. The term became more prominent in the early 2000s, as international development agencies and donors advocated for market liberalization, privatization, and reduced government intervention in developing countries. It is just a euphemism for less government, more business for the private sector, on the putative grounds that the private sector does it better. It is also true that today’s conservative wave in advanced economies is pushing for a smaller government and for the privatization of many public services. Yet, citizens in many advanced economies are complaining. Do we just accept the same for us without asking questions? Are we sure this is the way to go?

As we said earlier, most of our firms do not have the capacity to compete in international markets because they have low capabilities. We certainly need firms (a thriving private sector) but to manufacture and compete in the world economy, and not just to build a few roads. We need an industrial policy focused on firms to increase their capabilities. We also need to create a capital goods (machinery) cluster to support our manufacturing (what are engineers for?). Otherwise, we will continue importing machines, which have to be paid for in hard currency.

Our development model is very different from the one our neighbors had when they reached growth rates of 10% per annum. The role of the state has been historically fundamental to develop, and this does not mean that development was public sector driven. It simply means that the state provided all fundamental public goods; that it guided the economy toward certain key sectors that do not appear naturally (e.g., manufactures); and that it helped firms in the private sector thrive by creating a level playing field. Yes, the road was not easy but it was clear. We want to imitate the Sweden of today… but we are at the stage that Sweden was 100 years ago. This is wrong.

The result of a development model different from that of our neighbors and from that of the Western economies is the economy and the country we have today. Neither our firms nor our public sector are up to the standards that our society demands and needs. The solution is not to give up and ask the private sector to do what governments are supposed to do, but to build a modern and efficient public sector. If we reach high income with the current development model, it will be a new case study in the history of development. There is no single relevant example of a nation that reached high income without a significant manufacturing employment share (at least 20%-25%, compared to ours, about 8%) and a government that led and did not retreat. And, yes, we need a strategy to help the private sector create a (small version of) Philippine Siemens, Toyota, or Philips, and not simply thrive in non-tradable activities where there is no competition. What we argue is not manufacturing fetish or fantasy. While it will be impossible to create a much larger manufacturing sector (we are of course aware), it would be important to carve a few niches in some advanced products/areas and to try to increase the share of manufacturing employment — prevent its decline.

The government talks about Vietnam, which aims for at least 8% annual growth to become a high-income economy by the middle of this century. Let's see if this very high wish materializes — we have doubts. In any case, let's not forget that Vietnam is a substantially more industrialized economy than the Philippines and that the Vietnamese government is much more involved in the development of the nation than ours. Two important differences.

We note that our assumptions (exogenous variables in our model) are quite positive (e.g., we assume a growth rate of the world economy slightly higher than the recent estimates of the IMF or the World Bank). To be on the optimistic side, we also assume that the Philippines will not be affected by any crisis, domestic or international. However, who wants to bet that no crisis will occur in the next 25 years?

SUMMING UP

We agree with you that the Philippine economy is at a crossroads. In our view, the dilemma is: Progress or more of the same (MOTS).

We are in the same boat as you and the rest of the administration of President Marcos Jr., but we wish we could be as optimistic as you are. We think the reality will be that we will prosper but not at the speed you claim. We sincerely hope the remaining three years of the current administration bring a new era of growth and development to the Philippines, East-Asian-Miracle style (1970s, 1980s, and 1990s until the Financial Crisis). To achieve this, we will need a serious industrial policy (to change the structure of the economy, that of all sectors, agriculture, industry, and services) led by a credible government, together with significant public spending (not incorrectly thinking that we have "limited resources" and a small "fiscal space"). This will crowd in the private sector. Only then can meaningful progress be made. If we choose not to do these two because our moral principles dictate otherwise, so be it. Then you should bring us down to earth and stop making us dream. Let's accept what we have. It is not bad, but it is not heaven.

Just don't forget that the Philippines has bet on essentially the same development model for 80 years now and all it has gotten us is $4,300 per capita — which Vietnam surpassed two years ago. No serious plan to industrialize, to push firms to learn and conglomerates to export, and no commitment to spend what is needed to provide basic public goods. What did we think was going to happen? No more MOTS please.

Oo, kaya natin 'to! (Yes, we can do this!) But we need to push a development model (this is the role of government) that focuses on: productivity (what matters for long-run growth), manufacturing (the true engine of growth; not consumption), exports (the only component of demand that can pay for the import requirement of growth) and their quality (products that other nations want to consume as their income increases because they value them), and firms (yes, firms matter but we need to improve their capabilities so that they manufacture products that compete in international markets).

Unfortunately, some of us will probably not witness 2050, or will be relaxing at home. We hope those who are younger today keep track of what is being said in 2025 and bring it back 25 years from now to see who was right. We would be more than happy if the events proved us wrong. If this is the case, it will be only because we changed the development model along the lines we suggest.

*Read parts 1 and 2 here **https://tinyurl.com/255v365o** and here **https://tinyurl.com/25lxxazp**.*

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