



The Political Economy of Economic Transformation in the Philippines and the role of the conglomerates

*Will this time
be different?*

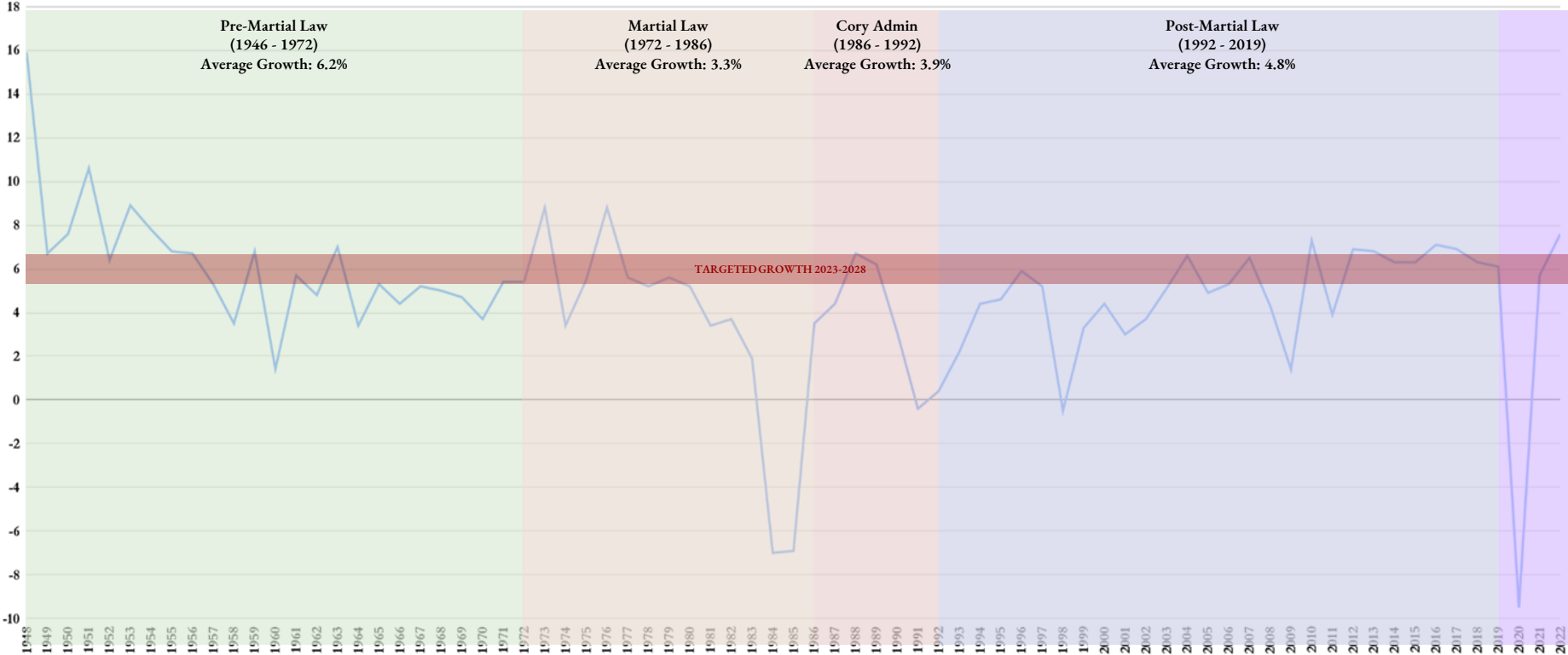
Jesus Felipe

Edgar Desher Empeño

Brendan Miranda

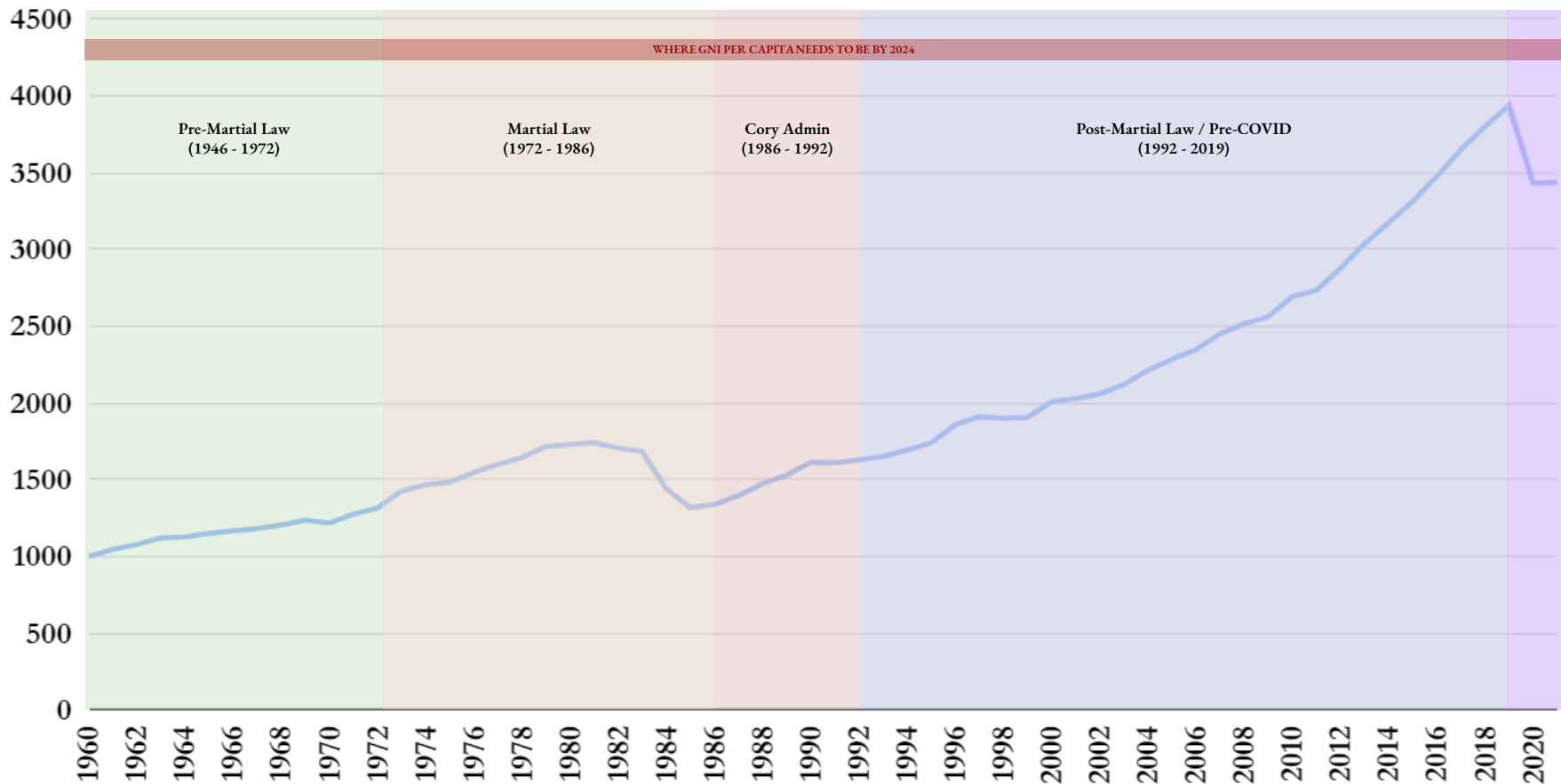
De La Salle University, School of Economics

GDP Growth (Annual %), Philippines, Constant 2018 Peso, 1948-2022



Source: Philippine Statistics Authority

GNI Per Capita Level, Philippines, Constant 2015 US\$, 1960-2021



The current administration has set ambitious targets...

Marcos econ team sees at least 6.5% growth until 2028; reveals debt, poverty reduction targets

By Pilar Manuel, CNN Philippines
Published Jul 6, 2022 6:23:15 PM
Updated Jul 8, 2022 8:12:00 PM



DBCC further narrows 2022 PH economic growth target to 6.5-7.5%

ABS-CBN News
Posted at Jul 08 2022 08:51 PM

Marcos admin expects Philippines to grow by 6.5% in 2023

By: [Doris Dumlao-Abadilla](#) - Business Features Editor / @philbizwatcher Philippine Daily Inquirer / 08:56 AM January 17, 2023

FULL TEXT: President Marcos' State of the Nation Address 2022

JUL 25, 2022 6:12 PM PHT

Measurable medium-term macroeconomic and fiscal objectives include the following headline numbers. These are based on forecasts that are consistent with the guiding principles of coherence of strategies, policy discipline and fiscal sustainability.

- 6.5 to 7.5% real gross domestic product (GDP) growth in 2022; 6.5 to 8% real GDP growth annually between 2023 to 2028
- 9% or single-digit poverty rate by 2028
- 3% National Government deficit to GDP ratio by 2028
- Less than 60% National Government debt-to-GDP ratio by 2025
- At least 4,256 USD income (GNI) per capita and the attainment of upper middle- income status by 2024

To evaluate if the Philippines can achieve the 6.5%-8% annual growth rate target set by President Marcos for 2023-2028

Need to understand:

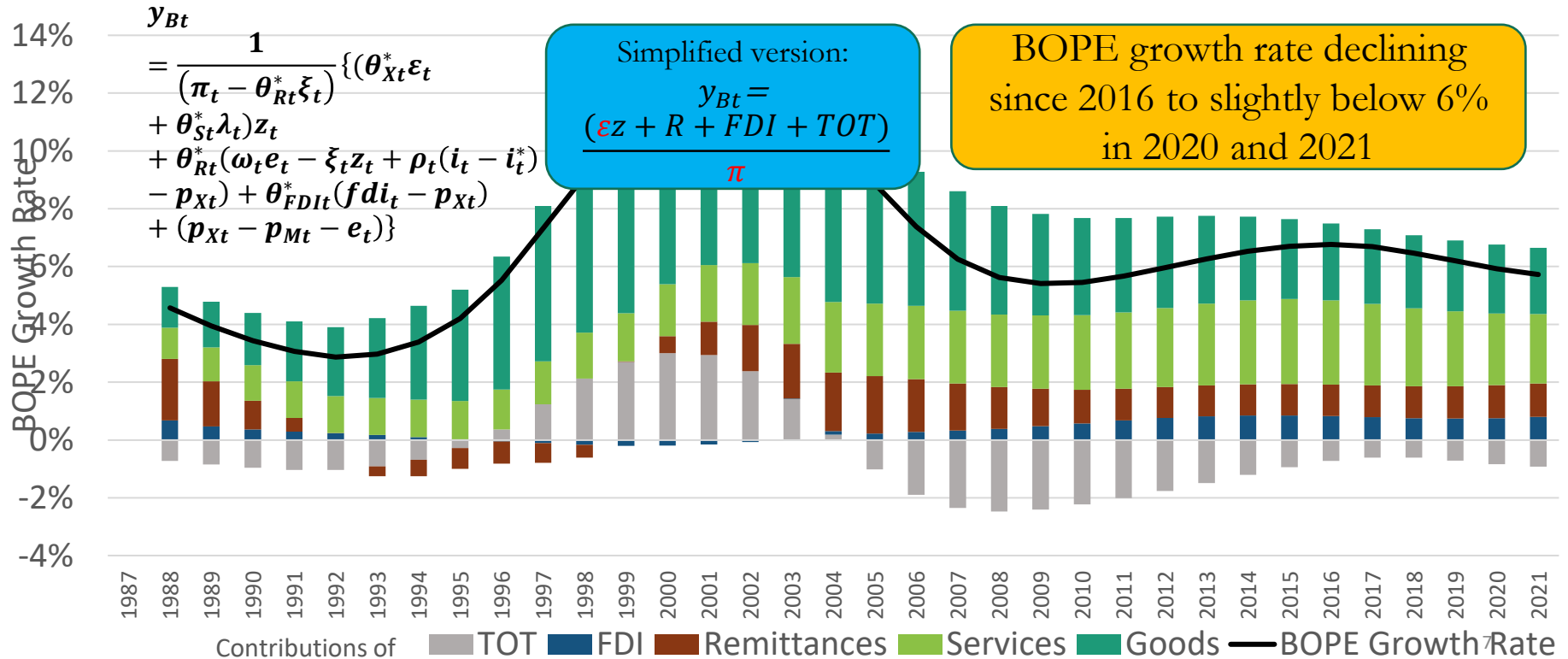
- *How* countries **grow** (model)
- The **constrains** to grow (supply, demand)
- The **limits** to growth (maximum)
- *How* a growth rate be can be **accelerated** and **maintained** (\neq ignated)

Is it possible to accelerate growth and maintain it?

Constraints

1. **Macroeconomic level** → need to avoid persistent current account deficits (growth rate consistent with BOP equilibrium – BOPE)
 - a. Emerging economies - current account balance → dependence on foreign exchange to finance imports
 - b. Growth is BOP-constrained: role of the income elasticities
2. **Institutional and political-economy constraints to transform the economy**
3. **Microeconomic level**
 - a. Lack of adequate organizational capabilities → low productivity

Growth Rate consistent with BOP Equilibrium (including Remittances, FDI, and Terms of Trade)



**Interpretation: very difficult to sustain
growth of 6.5%-8% during 2023-2028**

- The country's BOPE growth rate in 2020 and 2021 was below 6%
- If actual growth were above 6.5%, the country would run significant current account deficits.....
- The dependence on OFW remittances: contribute about 1.15 p.p. to BOPE growth rate (and FDI)

The imperative for the Philippines to move forward

- To grow faster without incurring BOP problems, the Philippines needs to increase its BOPE growth rate:
 - focus on the structural transformation of the economy to increase the ratio of the income elasticity of demand for exports to that for imports (ε/π)
- Key: income elasticity of demand for exports (ε) = proxy for the non-price characteristics of exports (type, quality, variety, reliability, speed of delivery of its distribution network) = key variable that determines the long-run performance of the economy

**Today's talk:
how can we move forward?**

1. The need to transform the economy

- **(i)** transfer of labor out of agriculture into manufacturing; diversification of the export structure; and
- **(ii)** increase the economic complexity of exports...

This leads to higher productivity and wages

2. A political economy framework

- Using a **political economy analysis** through the *Deals and Development* framework of P-S-W, we analyze what prevents the Philippines from going through such a process. Three dimensions:
 - Political environment
 - Economic environment
 - Approach to deals

Types of firms in the Philippines and how they derive their income

3. Who can lead the transformation that the economy needs?

- The **nation's conglomerates** hold the key to the transformation the country needs
- Only the large conglomerates can lead: the government can play an important role by supporting them.....but the conglomerates need to lead the transformation of the economy

Question: Why would the large conglomerates lead this process?



Rest of the presentation

- I. The Pritchett-Sen-Werker political economy (growth episodes) framework
- II. Analysis by subperiod since 1946
- III. What we expect during the Marcos Jr. Administration (2022-2028)
- IV. The conglomerates: their role in the economy
- V. Conclusions: can then the Philippines attain and maintain 6.5-8% growth rate through 2028?

**I. The Pritchett-Sen-Werker political
economy (growth episodes)
framework**

Deals and Development Conceptual Framework

Table 1. The Distribution of Horizontal and Vertical Power in Dominant and Competitive Settlements

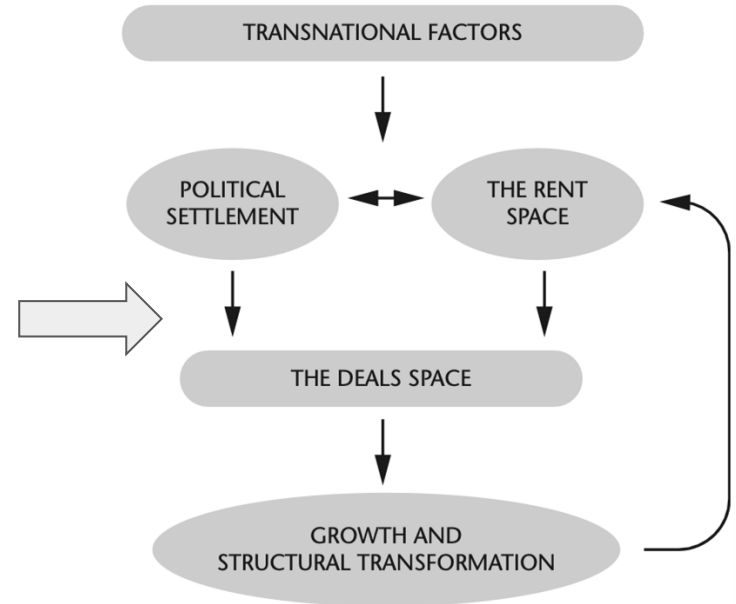
Vertical/Horizontal Distribution of Power		Horizontal distribution of power: the power of excluded factions	
		Weak	Strong
Vertical distribution of power: the power of lower-level factions	Weak	Strong Dominant Party	Vulnerable Authoritarian Coalition
	Strong	Weak Dominant Party	Competitive Clientelism

Table 2. The Rents Space

	Regulatory Rents	Market Competition
Export-Oriented	Rentiers	Magicians
Domestic Market	Powerbrokers	Workhorses

Table 3. The Deals Space

	Closed (Deals are available only to specific individuals/organizations)	Open (Deals depend on actions of agents but not identities)
Ordered (Once negotiated, deals will be honored)	Only those with political connections get to make deals, but they can be confident that officials will deliver	Anyone can make a deal, and they can be certain that officials will deliver
Disordered (Deals will be honored so long as they are in the short-term interests of political elite)	Only those with political connections get to make deals, and even they cannot be certain that officials will deliver	Anyone can make a deal, but no one is certain that officials will deliver



What each type of firm asks the government

	Transparent rules	Common infrastructure	Specialized infrastructure	Contract enforcement	Subsidies	Exclusivity
Magicians	x	x	x	x	x	
Workhorses	x	x		x		
Powerbrokers						x
Rentiers			x	x	x	x

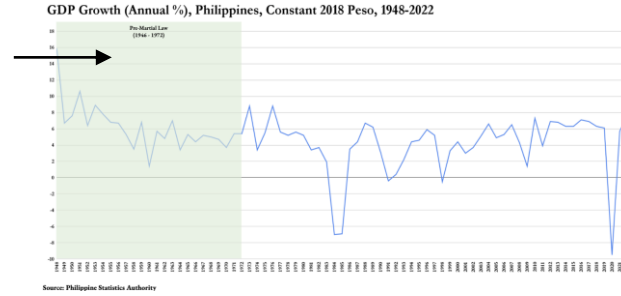
We are not saying that rentiers and powerbrokers are “bad” and magicians and workhorses are “good”. We need both. Powerbrokers provide bridges, energy, and roads for the latter so that they become more effective in producing goods and services

The problem with the Philippines is the lack of magicians

II. Analysis by subperiod since 1946

Pre-Martial Law (1946-1972)

Average Growth: 6.2%



Political Settlement

Rents Space

Deals Space

Vulnerable Authoritarian
Coalition

Rentiers and Workhorses

Closed and Disordered

Martial Law (1972-1986)



Political Settlement

Strong Dominant Party

Rents Space

Rentiers and Powerbrokers

Deals Space

Closed and Disordered

Aquino Administration (1986-1992)



Political Settlement

Rents Space

Deals Space

Vulnerable Authoritarian
Coalition

Powerbroker-Led

Closed and Ordered

Open and Ordered
(Attempt)

Post-Martial Law or Pre-COVID (1992-2019)



Political Settlement

Rents Space

Deals Space

Vulnerable Authoritarian
Coalition

Powerbroker-Led

Closed and Ordered

Competitive Clientelism
(Estrada)

Open and Ordered

The combinatins of **Political Settlement-Rents-Deals** in the Philippines
Pre-COVID (1946-2019) did not favor steady growth

- ❖ **Political Settlement:** Vulnerable Authoritarian Coalition (VAC)
 - The fact that a VAC persists suggests that multiple groups fight to claim power, with elites retaining control of laws and institutions against non-elites.
- ❖ **Rents Space:** Lack of export-oriented firms that thrive competing
 - **Majority of conglomerates' subsidiaries feed on regulatory rents**
- ❖ **Deals space:** Stronger involvement of oligarchs with powerful political clans
 - Extensive business interests are developed among the two players
 - **Lack of a clear distinction between government and business**

III. What to expect during the Marcos Jr. Administration (2022-2028)

COVID and the New Administration (2020-onwards)



Political Settlement

Rents Space

Deals Space

Vulnerable Authoritarian
Coalition

Powerbroker-Led

Closed and Ordered

Open and Ordered

Political Settlement in the Marcos Jr. Administration

- COVID-19 (2019-2022): strong growth collapse. The political settlement is classified as a **vulnerable authoritarian coalition**.
- **Horizontal power remains dispersed.** This is due to the increase in the presence of various sectors in government.
- **Vertical power remains concentrated.** Power is still heavily concentrated in the elites, as the majority of those in power is from the higher social classes and have connections that can all be tied back to the leaders of the government and the social elites (Timberman, 2019).

Rents Space in the Marcos Jr. Administration

- **Dominated by conglomerates:**
 - The Top 15 conglomerates' cumulative value-added contribution to the economy was P1 trillion (6% of GDP in 2018) up from P496 billion in 2012.
- **Powerbrokers:** Conglomerates **heavily engage in non-tradable services** (rely on regulatory rents and do not compete in global markets)
- Even if conglomerates do export (magicians/rentiers)... **EITHER they only export products with low complexity** (e.g. liquor and agricultural products) **OR they undertake low-wage activities (e.g. assembly)** for foreign companies

Deals Space in Marcos Jr. Administration

- **Context: Increasing percentage of government posts:**
 - Political Dynasties
 - Marcos Allies / PH Oligarchs
 - Distinction between government and business actors becomes more hazy
- **Closed and Ordered Deals Space**
- **Unlikely to change due to self-serving interests of those in power**

PhilWeb Case	<p>After President Duterte's tirade in August 2016 against oligarchs (particularly Roberto Ongpin and his gaming company PhilWeb) and online gambling, his consequent decision to not extend its franchise caused PhilWeb's share prices to fall, resulting in paper losses of nearly Php 14 billion by late August.</p> <p>Gregorio Araneta, former President Ferdinand Marcos's son-in-law, purchased Roberto Ongpin's 53.76 percent interest in PhilWeb in October for Php 2 billion. Following that, PhilWeb's franchise was renewed, which in turn led to large earnings for the new owner. It is also believed that the Marcoses had helped President Duterte's campaign.</p>
Manila Water Case	<p>After an international arbitration tribunal recently ruled that the government should compensate Manila Water and Maynilad for the losses they suffered when they were previously barred from raising water rates, President Duterte launched another tirade against the main water concessionaires in Manila. The President's public remarks directly influenced the decision to waive the rule – resulting to a shock in the private sector. After which, the Philippine stock market lost close to Php 130 billion. Philwater Holdings Company ended up selling its preferred shares in Manila Water. Inc. Holdings to Trident Water Co. Holdings, which is owned by Enrique K. Razon – a known close ally of the Duterte Administration</p>
Pharmally Plundemic Case	<p>Pharmally beat out competing vendors for contracts totaling Php 8.7 billion funded by the Bayanihan 1 and 2 legislation, which gave President Duterte emergency powers to address the pandemic. Pharmally was a company registered in late 2019 with Php 625,000 in financing. It was the largest number of contracts given out, and a Senate probe eventually turned up evidence that important players in the Pharmally deal were allies of the Duterte administration.</p>

IV. The Conglomerates: their role in the economy

- They are needed to lead the transformation of the economy and help relax the BOP constraint
- The need to get into tradables
 - But will they do it?

The Subsidiaries of the Top 15 Filipino Conglomerates and their classification in the Rents Space

Conglomerates	Rentiers	Powerbrokers	Magicians	Workhorses	Total
Aboitiz Equity Ventures	0	6	1	1	8
Alliance Global Group Inc.	0	4	1	2	7
Ayala Corporation	0	5	3	3	11
Cosco Capital, Inc.	1	6	6	6	19
DMCI	2	3	1	1	7
Filinvest Development Group, Inc.	1	5	1	1	8
GT Capital Holdings, Inc.	0	6	3	3	12
International Container Terminal Services, Inc.	0	0	10	0	10
JG Summit Holdings, Inc.	1	3	3	3	10
Jollibee Foods Corporation	0	0	0	8	8
Lopez Holdings Corporation	0	7	0	0	7
LT Groups, Inc.	0	5	3	3	10
Metro Pacific Investments Corp.	0	5	0	0	5
San Miguel Corporation	1	5	3	1	11
SM Investments	1	3	0	0	4
Total	7	63	35	32	137

Powerbroker Subsidiaries of the Top 15 Filipino Conglomerates and their Industries

Conglomerates	Energy/Oil	Construction	Finance	Real Estate	Telecom	Utilities	Airlines	Transport	Total
Aboitiz Equity Ventures	1	1	2	2	0	0	0	0	6
Alliance Global Group Inc.	0	1	0	3	0	0	0	0	4
Ayala Corporation	1	0	1	1	1	1	0	0	5
Cosco Capital, Inc.	1	0	0	5	0	0	0	0	6
DMCI	1	1	0	1	0	0	0	0	3
Filinvest Development Group, Inc.	0	0	1	3	0	1	0	0	5
GT Capital Holdings, Inc.	0	0	5	1	0	0	0	0	6
International Container Terminal Services, Inc.	0	0	0	0	0	0	0	0	0
JG Summit Holdings, Inc.	0	0	1	1	0	0	1	0	3
Jollibee Foods Corporation	0	0	0	0	0	0	0	0	0
Lopez Holdings Corporation	4	0	0	2	1	0	0	0	7
LT Groups, Inc.	0	0	1	3	0	0	1	0	5
Metro Pacific Investments Corp.	0	0	0	0	0	2	0	3	5
San Miguel Corporation	3	0	1	1	0	0	0	0	5
SM Investments	0	0	1	2	0	0	0	0	3
Total	11	3	13	25	2	4	1	3	63

V. Conclusions

-Can the Philippines attain and maintain
6.5-8% growth rate through 2028?

Our analysis indicates that it will be difficult to maintain a growth rate above 6% per annum

The “extra percentage point effort” (to 7%) might be attainable occasionally but not maintained as this would lead to unsustainable current account deficits

We needed Magicians

- The political settlement, rents space, and deals space of the PH, plus a historical reliance on families with economic and political capital, coupled with close government ties...
 - ...have led to closed and ordered deals that have not empowered **magicians**.

Where the country needs to be...

Table 1. The Distribution of Horizontal and Vertical Power in Dominant and Competitive Settlements

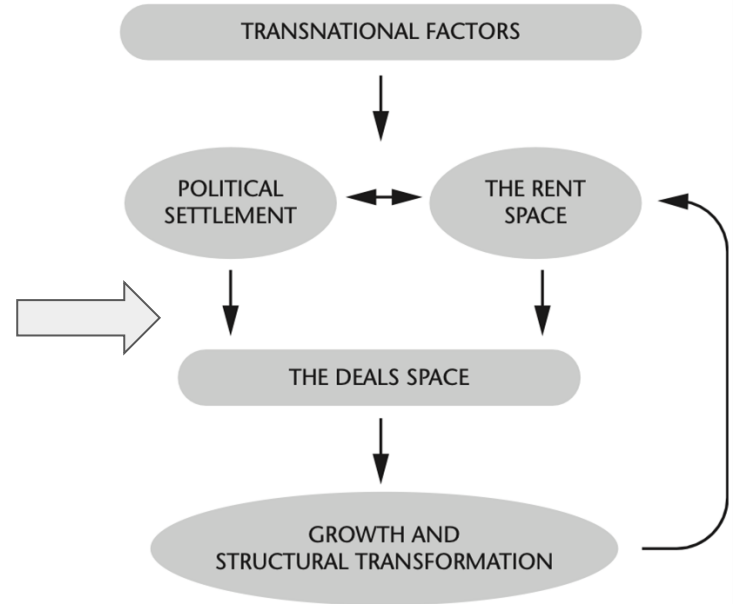
Vertical/Horizontal Distribution of Power		Horizontal distribution of power: the power of excluded factions	
		Weak	Strong
Vertical distribution of power: the power of lower-level factions	Weak	Strong Dominant Party	Vulnerable Authoritarian Coalition
	Strong	Weak Dominant Party	Competitive Clientelism

Table 2. The Rents Space

	Regulatory Rents	Market Competition
Export-Oriented	Rentiers	Magicians
Domestic Market	Powerbrokers	Workhorses

Table 3. The Deals Space

	Closed (Deals are available only to specific individuals/organizations)	Open (Deals depend on actions of agents but not identities)
Ordered (Once negotiated, deals will be honored)	Only those with political connections get to make deals, but they can be confident that officials will deliver	Anyone can make a deal, and they can be certain that officials will deliver
Disordered (Deals will be honored so long as they are in the short-term interests of political elite)	Only those with political connections get to make deals, and even they cannot be certain that officials will deliver	Anyone can make a deal, but no one is certain that officials will deliver



The conglomerates

- If they are to contribute to the nation's development, they have to help relax the BOP constraint by increasing the complexity (income elasticity ε) of the export basket
- This is what will allow the country to grow faster without BOP problems

Six-million-dollar question

-Why would the conglomerates get into manufacturing and tradables in general, and compete in the world economy?

-No incentives to do it

-Fear of a political/social crisis? Not enough

Government - Conglomerates

1. **Firms** decide what to produce and export. **Government**: (i) support firms; (i) intervene directly (industrial policy)
2. Filipino **conglomerates** could drive the country's progress if they decided to produce tradable goods and compete globally (magicians)
3. Deals must be more **open**, i.e., agreements regarding development and investment should be open to all investors

Government to provide support

- **Political settlement:** Talk to the conglomerates; identify their capabilities and opportunities; identify the market failures they face and provide the appropriate support
- **Rents Space:** Target some of the most sophisticated sectors (e.g., electronics and machinery) to increase the number of magicians in the Philippines, and provide the appropriate support, in exchange for a target, e.g., increase their exports
- **Deals Space:** Create open deals and agree to support the conglomerates, provided they empower subsidiaries that produce and export tradable goods

The need to seriously rethink “development” in the Philippines

-The Philippines can continue growing for some time at 5%-6% (115 million people) but

-.....it will continue being an uncompetitive economy, real wages will not grow, and it will continue depending on OFWs to avoid a current account deficit and struggling to attract FDI

THANK YOU