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On Industrial Policy and Economic Growth

I. Introduction

In 1985, Nobel Laureate Gary Becker wrote an article in Business Week entitled: The best industrial policy is none at all. Becker's statement reflects the general perspective of the time that permeated post-World War II national economic policies of letting the market decide under the premise that the government is hardly efficient in selecting winning sectors.

The Philippines, for one, has embraced this school of thought and has taken the policy direction of opening up the economy, thereby, creating very specific country specializations in various sectoral value chains. These country specializations currently form part a major chunk of the country's economy. As an illustration, it could be observed that the country performs very well in the export of raw materials, as well as in the assembly, maintenance, repair, and overhaul process of various sectoral value chains. In the same manner, the Philippines also became the host of outsourced business, processing and outsourcing services with various call centers being established in several locations all over the country. While it could be said that the country's specializations definitely helped in generating employment and boosting the Philippine economic growth, this also made the country more vulnerable to unforeseen circumstances that affect the global value chains.

In the aftermath of the 2008 global financial crisis that impacted major economies all over the world, a reassessment of the role of the government in steering policies that would improve particular sectors came into light. One key proponent of this alternative economic school of thought is Justin Yifu Lin of World Bank. In a December 2010 article written by him entitled, Industrial Policy Comes Out of the Cold, he posited that one of the best economic secrets is the pursuit of an industrial policy to restore growth in the economy.[1]

This is the resurgence of an alternative discourse and the birth of industrial policy. This policy is said to be a viable option to generate more economic growth and generate more employment in the country through the government's active intention to propagate growth in particular sectors. This viable option is further strengthened by successful experiences of economies that have implemented industrial policies that propelled their nation to become new industrialized countries.

Accordingly, despite international pressure against the active role of the government to favor particular sectors to prosper, Lin argues that major post-war economies such as Japan, and even the United States have actively steered policies aimed at prioritizing particular sectors in their respective economies. Economist Robert H. Wade explains in his article the role that the US government has in place to actively pursue industrial development by saying:

> *The Government of the United States has, been vigorously undertaking a form of selective industrial policy for several decades, especially since the 1990s. Agencies such as the Defence Advanced Research Project Agency, National Institutes of Health, National Institute of Standards and Technology and the Central Intelligence Agency have taken the initiative to create and steer knowledge-pooling networks,*

[1] *Industrial Policy Comes Out of the Cold; Justin Yifu Lin; December 2010; accessed at: https://www.project-syndicate.org/commentary/industrial-policy-comes-out-of-the-cold?barrier=accesspaylog*

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linking (a) firms that otherwise compete with each other, (b) sources of finance and (c) universities, public labs and private labs. (Wade, 2015

As the Philippines is setting its sights on higher productivity in various sectors, the plausibility of putting in place industrial policies that are aimed at inducing growth in particular sectors is very timely to examine. Amidst the ongoing economic, political, and social circumstances that continue to disrupt the country's economic and technological ecosystem, the government has to be able to adopt appropriately to ensure the country's sustained growth. In light of the above, this paper attempts to provide the context of the feasibility of an appropriate industrial policy in the country.

II. Setting the Policy Direction: Prospects for the Philippines

The need for an industrial development policy direction is tied to a nation's future aspirations. The Philippines, as a country with a growing population and as a country that is part of an increasingly important ASEAN economic bloc, needs to plan ahead in order to sustain a level of growth that is attuned with the future goals of the country. Likewise, setting the right policy direction would also help in ensuring that the country's macroeconomic fundamentals are appropriate for wherever the country is heading to.

In the Philippine context, the country's long-term plan is catapulted under *Ambisyon Natin* 2040. Accordingly, the Philippine long-term vision and aspiration is for Filipinos, in general, to have a *matatag, maginhawa at panatag na buhay* or Strongly-rooted, Comfortable, and Secure Life.[2] The Table below outlines the specific goals that the government, through its various instrumentalities, aims to achieve by year 2040.

Table 1. Ambisyon 2040 Goals[3]

Matatag (Strong Rooted)	Maginhawa (Comfortable)	Panatag na Buhay (Secure Life)
Family is together	Free from hunger and poverty	Enough resources for day-to-day needs
Time with friends	Secure home ownership	Peace and Security
Work-life balance	Good transport facilities	Long and Healthy Life
Volunteering	Travel and vacation	Comfortable Retirement

As shown above, some of the specific goals that the country is aspiring to achieve in the near future are freedom from hunger and poverty, enough resources for day-to-day needs, and long and healthy life.

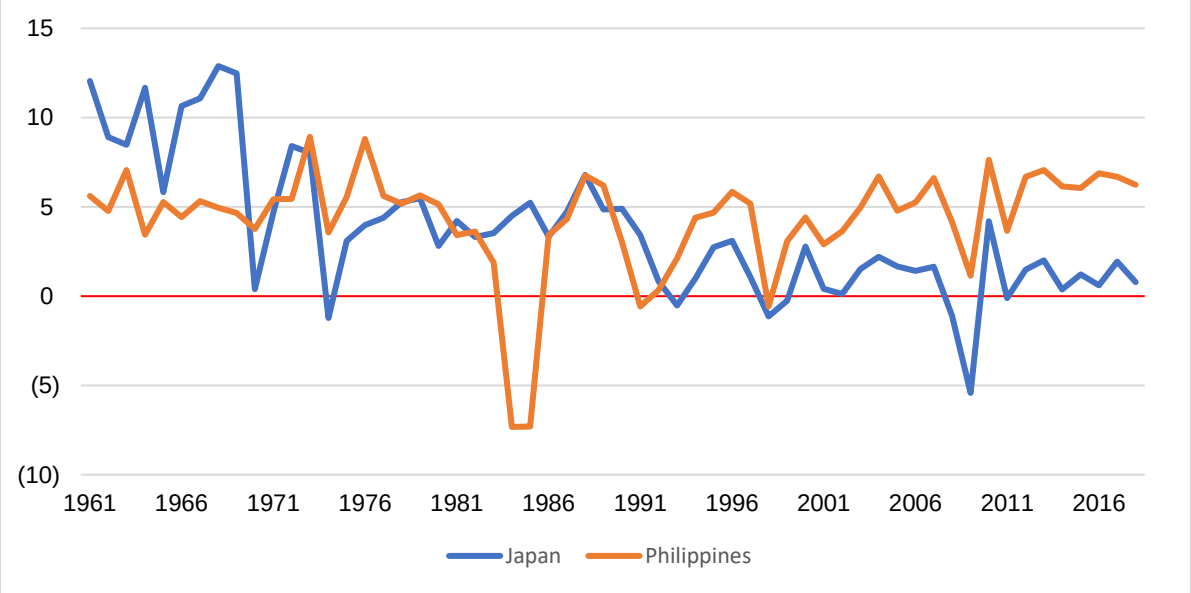
Solving the intertwined problems of unemployment, underemployment, and economic growth in the country is definitely a good avenue to ensure the country's prospects for the future to contribute to the goal of achieving the collective vision of a strong-rooted, comfortable, and secure life. The policy alternative of implementing a particular industrial policy that is fit or appropriate to the countries aspirations is a viable option to go as evidenced by the various success stories that our East Asian neighbors have achieved through steering policies that are aimed towards developing particular sectors in the country that are foreseen to be major drivers of growth.

Examples of economies that have been argued to be very successful in putting in place industrial policies amidst public scrutiny is Japan and United States. (Wade, 2014; Mazzucato, 2013; Lind, 2012; Block and Keller, 2011; Schrank and Whitford, 2009) Post World War II,

[2] *Ambisyon Natin 2040*
[3] *National Economic and Development Authority, Ambisyon Natin 2040, 2016, accessed on 31 December 2021 via https://2040.neda.gov.ph/about-ambisyon-natin-2040/*

Japan's economy consistently grew at an unprecedented pace. The table below compares the Philippine GDP growth as compared to Japan in the from 1961 to 2018.

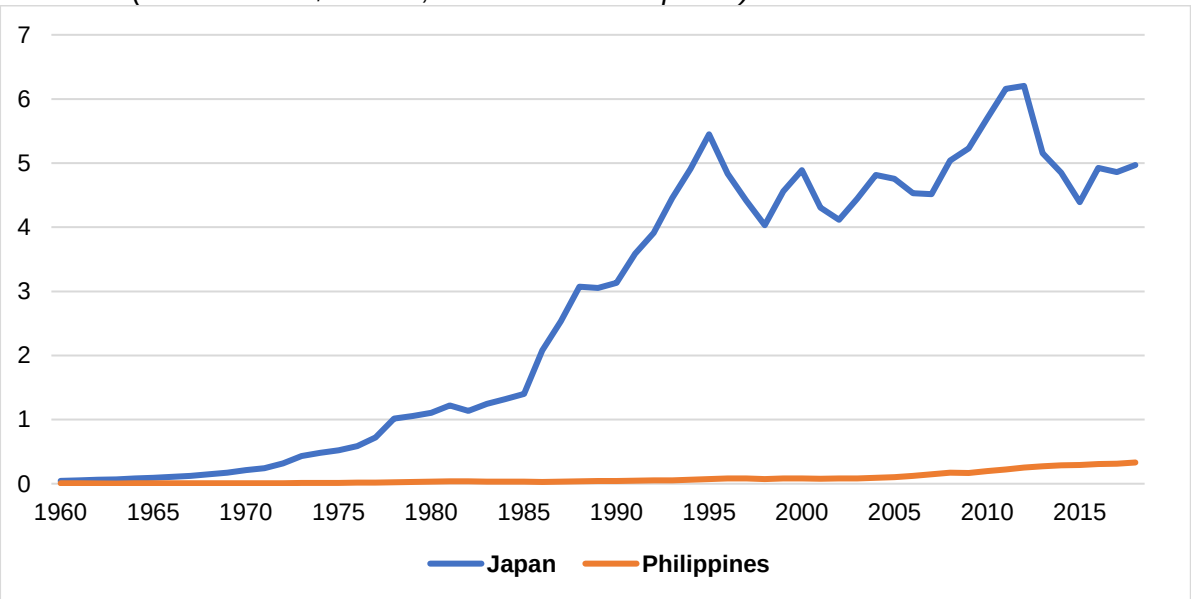
Figure 1. Philippines vs. Japan GDP Growth, 1961 – 2018
(Growth in percent)



Source of Data: World Bank

As presented in the data above, in the so-called 'lost decade of growth' of the Philippines (years before 1970), Japan has consistently been growing its economy at an unprecedented rate. Note that a decade before 1960, Japan's economy grew at around 20% annually. Years after that, the GDP growth of the Philippines and Japan has been comparable with each other except for the immediate years preceding the EDSA Revolution in 1986. In the aftermath of the 1997 financial crisis, it could be noticed that the Philippines started to gain ground and has registered an average of around +4% growth than that of the Japan. Despite this level of growth, the Philippines is still far from catching up Japan in GDP. The figure below shows the GDP of Philippines and Japan from 1960 to 2018 at 2010 prices.

Figure 2. Philippines vs. Japan GDP, 1960 – 2018
(Values in US$ Trillion, in constant 2010 prices)

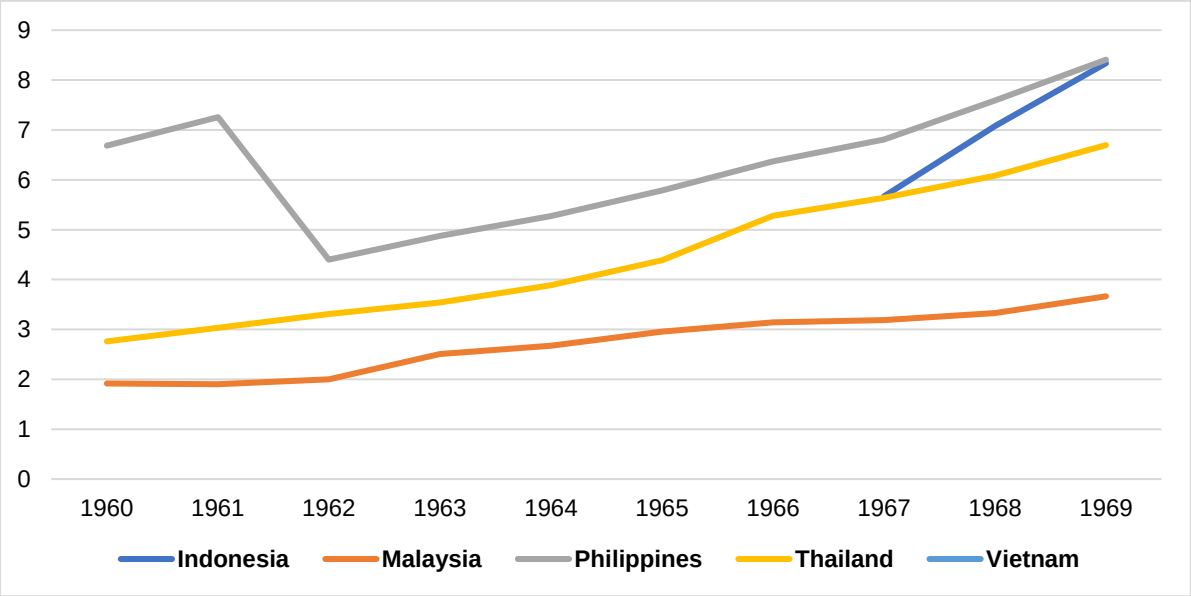


Source of Data: World Bank

The Philippine economy has been growing more than Japan for almost two decades now, however, the country continue to fail to catch up to the GDP level of Japan. Clearly, despite our recent economic growth, we are still unable to replicate the level of growth that Japan has achieved in its earlier years that transformed it (Japan) into what it is now. Thus, in a situation where the Philippines is in a lower economic level than other countries, it stands to lose under status quo if we are to let the market decide as it has definitely limited options in the production cycle. In fact, it could be argued that only a few middle-income countries can maneuver or move into better opportunities in the world's value chain.[4] (Wade, 2015)

It can also be noticed that the gap between Philippines and Japan has definitely ballooned out of proportions. In 1960, the GDP of Japan is six times that of Philippines, fifty-eight years hence, Japan's GDP is now 15 times that of the Philippines. The country's underperformance can also be remarked when we compare its economic performance with its counterparts in the ASEAN. Figure 3 below shows that during the period of 1960 – 1969, the Philippines actually leads all Southeast Asian Nation in GDP and it was not until 1970 when Indonesia was able to overtake Philippines. Fifteen years hence, we see in Figure 4 that the Philippines is the third largest economy behind that of Indonesia and Thailand. Today, despite the country's GDP growth, the Philippines has also been recently overtaken by Malaysia as the third largest economy among its similarly-situated neighbors. Even from an average equity perspective, the Philippines is also slowly lagging behind its neighbors with Malaysia consistently performing better and with Thailand and Indonesia overtaking the Philippines in 1985 and 1990, respectively, as shown in Figure 5.

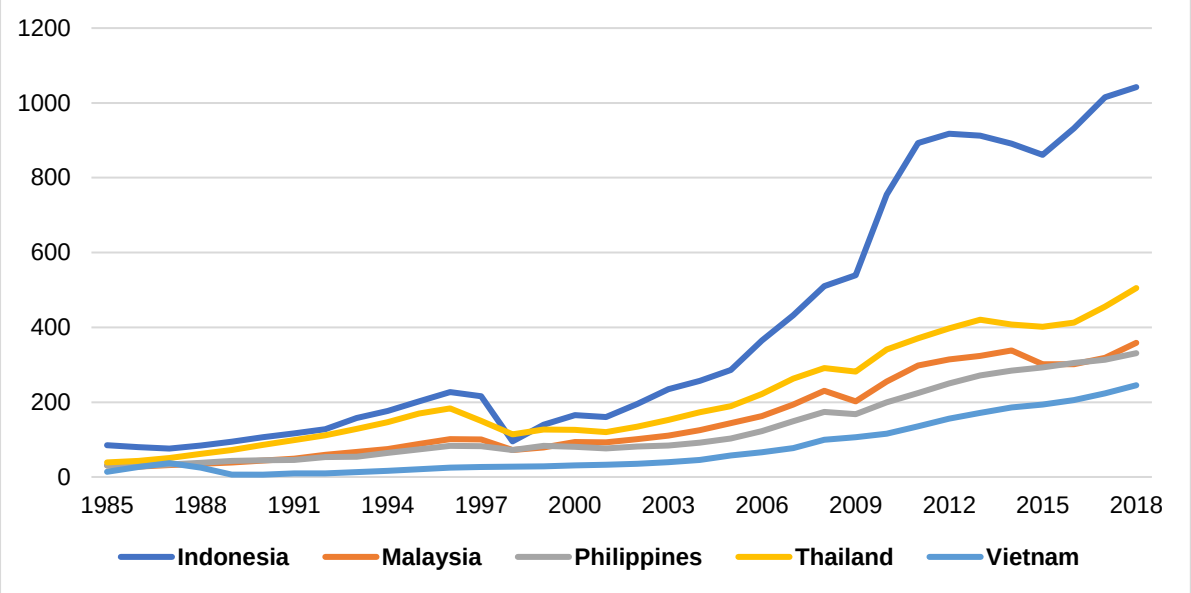
Figure 3. ASEAN GDP, 1960 - 1969
(Values in US$ Billion, in constant 2010 prices)



Source of Data: World Bank

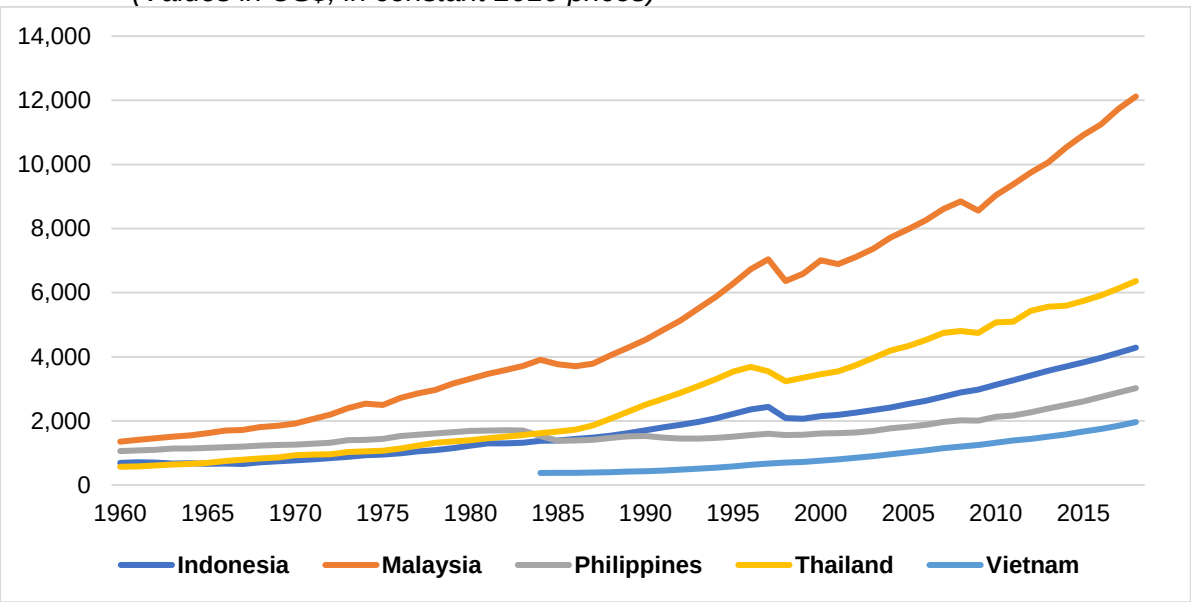
[4] *The classic developmental State focused on developing the capacities of indigenous firms across a broad range of major global industries, capable of acting as first-tier suppliers to TNCs and even competing head-to-head with them. Today, only a few economies with very large internal markets − China, India and Brazil most obviously – have this as an option. High entry barriers in the face of existing TNC dominance and neoclassically-inspired trade and investment rules make such an objective nonviable for most (Pirie, 2013).*

Figure 4. ASEAN GDP, 1985 - Present
(Values in US$ Billion, in constant 2010 prices)



Source of Data: World Bank

Figure 5. ASEAN GDP Per Capita, 1960 – 2018
(Values in US$, in constant 2010 prices)



Source: World Bank

In light of the above data, there is definitely a necessity for the country to evaluate and consider various alternatives that could be implemented in the hopes of jumpstarting the Philippine economy to a level that is appropriate to the nation's aspirations. Implementing a viable industrial policy presents an opportunity for the country to implement a structural reform that will guide the country's growth. Implementing such is an opportunity for the country to generate more and better jobs and reduce poverty but also take advantage of the market opportunities and face the challenges arising from the ASEAN Economic Community. (Aldaba, 2014)

III. A Model for a Philippine Industrial Policy Amidst Technological, Political and Social Changes

The financial crisis of 2008 has opened anew the debate on the role that the government should play in trying to forge a path for its development. The birth of industrial policy as a viable alternative that any state could take presents an opportunity for countries like the Philippines to steer policies that are aimed towards achieving its long-term goals. This is so much so as we live in very uncertain times characterized by changing technological, political, and social dimensions. The outbreak of the novel Coronavirus that has engulfed the whole world and has forced various sectors across the world to be put on lockdown challenged many nations to think of independent ways or contingency plans to put in place mechanisms that would make their respective nations more self-sustainable- able to withstand future pandemics.

Likewise, the disruptions caused by the Industry 4.0 technologies such as Artificial Intelligence, 3D Printing, and Blockchain Technology also challenges the today's policymakers to forecast its effects into the global value chains. With the potential of these various technologies to change the way how things are done and produced, developing countries are then again challenged to ensure that potential job displacement and reshoring are addressed. According to Justin Yifu Lin of World Bank, comparative advantage itself will evolve over time as endowments change. Accordingly, investing in line with today's comparative advantage alters tomorrow's endowment structure, which alters tomorrow's comparative advantage and permits sustainable (because privately profitable) production diversification and upgrading relative to today (Wade, 2015). This condition is apparent more so now than ever.

With changing and unpredictable comparative advantages over time, nations that are entirely dependent on the liberalized economy are constricted with potential disruptions that would alter the country's specializations over time. We also have to consider that there are environmental limits to growth. Any discussion of the economic growth and catch-up of developing countries has to acknowledge that endless growth on a finite planet is impossible – short of revolutionary changes in technology. (Wade, 2015)

In view of the above, it is high time to consider various alternatives that could be taken in complement with an industrial policy, as follows:

- To ensure that any form of industrial policy would work, the political leadership and governance should be strengthened in a manner where the selection of sectors are strictly based upon perceived strengths or needs. The government should also be flexible enough to discontinue unresponsive sectors to limit inefficiency and to ensure that any program to be set up is performance-based. Sectors with backward and vertical linkages with existing sectors in the country are good candidates for industry development;
- Intended focus on sectors that produce more and better jobs for Filipinos should be prioritized to ensure that the growth in the sector is trickled down to the economy. On another note, producing more jobs for Filipinos in the country would also present an alternative against the country's brain drain and export of labor (OFWs), this way Filipino labor would be used for growth and production of their own products;
- Lastly, the country needs to have an indigenous capacity to design and should envision to create a regional brand (ASEAN, Asian). To do this, innovation and entrepreneurship should be emphasized and investments in research and development in and out of the academe should be provided to ensure that a pipeline of competent graduates would be tapped in the system.

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