Global Economy

Philippines Economy

Group 9

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Introduction

The Philippines' economy has experienced significant growth. Historically centered around agriculture, the country's economic landscape has diversified to include substantial contributions from the service and manufacturing sectors. Key industries driving this growth include electronic assembly, aerospace parts assembly, agribusiness, IT and business process outsourcing, pharmaceuticals, petrochemicals, mining, shipbuilding, textiles, and tourism. The primary sectors contributing to the GDP are agriculture (8.6%), manufacturing industries (29.1%), and services (62.3%).

Since 1993, the Philippines has experienced rapid economic growth. The country faced a minor financial crisis in 1998 due to a recession but recovered in subsequent years. Between 2010-2019, the Philippines was classified as a "tiger economy" due to its rapid growth. The economy slowed during the COVID-19 pandemic in 2020 but has rebounded since then.

As depicted in Figure 1, the Philippines' GDP per capita has steadily increased over the past 30 years, currently standing at approximately $3,700. The GDP annual growth rate has been around 6% since 2022 per figure 13, indicating robust economic performance and expansion. According to the rule of 70, the Philippines' economy will roughly double every 12 years. In comparison, the US, growing at around 2.5%, is expected to double every 30 years.

As shown in Figure 9, the country exports services such as call centers and support centers and exports electronic integrated circuits. It also produces agricultural products like coconut, banana, and oil. Additionally, it is a producer of minerals such as nickel, copper, and gold, as well as manufactured goods, machinery, and transportation equipment. The main export destinations for its services and products are the USA, Southeast Asia, China, Japan, and Hong Kong.

According to Figure 10, the country holds a significant share in the electronic market, with around 1.4% of the global share in 2024. Other sectors, including services, machinery, agriculture, and minerals, each have approximately 0.5% of the global market share.

Inflation over the past 30 years has fluctuated, with the highest rate around 10.5% in 1994 and approximately 6% since 2022, as shown in Figure 2. Population growth has steadily declined since 1997, with a slight increase around 2014 before declining again after 2017, as per Figure 3. This decline could pose future economic challenges, as a lower fertility rate and an aging population may increase government spending on healthcare and pensions.

The Consumer Price Index (CPI) has steadily increased since 1994, rising from around 40 to approximately 120 in 2024, as illustrated in Figure 4. Youth unemployment has fluctuated, peaking at around 9.5% in 1994. The rate decreased from 2014, spiked to 8.5% during the COVID-19 pandemic, and has since fallen to around 6.5%, as shown in Figure 5.

The employment-to-population ratio was high at around 59%, per Figure 6. This ratio sharply declined in 2020 due to high unemployment rates and mortality during the COVID-19 pandemic but has steadily risen since, returning to around 59%.

According to Figure 7, purchasing power parity (PPP) has steadily risen since 1994. The national currency required to purchase 1 USD was around 13.75 pesos in 1994, and this rate is currently at 25 pesos. This indicates that the peso currency has weakened over time when compared to the US dollar.

Figure 8 shows that total factor productivity (TFP) has steadily increased over the past 30 years, currently contributing around 1%. According to the Cobb-Douglas production formula, output is a factor of TFP, capital, and labor. Both TFP and labor have steadily increased, contributing to economic growth. As a developing nation, increases in capital and education (human capital) will enhance productivity and GDP. Developing countries often lack capital, so increases in capital can boost productivity. Providing education will improve the skill levels of emerging market workers, aiding in productivity growth.

Figure 11 illustrates that the three major sectors contributing to the economy of the Philippines are services, industry, and agriculture. Figure 12 shows that exports from the Philippines have steadily risen over the years, while imports have fluctuated but have generally grown since the 1960s. Figure 14 shows that the debt-to-GDP ratio has steadily declined since 2004, indicating a strong economy. A lower ratio not only allows the government to borrow more for economic growth but also attracts foreign investors, further fueling economic expansion.

Analysis of country's growth accounting

Growth was a bit erratic in the beginning; however, by 1991, the political situation had stabilized, and the Philippines began to see their currency become worth more and positive effects of trade were being brought about. An analysis of our growth accounting shows the growth of the economy in this period can be mainly attributed to trade reform and institutional changes. From 1992 to 1998, the government was a big proponent of capital account liberation, opening up foreign relations for trade and investments. Big institutional changes such as privatization and deregulation did also help with growth. Privatization led to selling of government assets to private companies, increasing capital, and deregulation led to increased spending by consumers. Looking at the growth equation, we can see that an increase in foreign investment and increased capital brought about by institutional reforms drove growth here.

The period of the next 3 years were slower and controversial, however, the slight growth here was mainly driven by population policy, i.e. helping couples reach their fertility goals. This population increase plays into the labor force part of the growth accounting equation. Therefore, by working to increase fertility, the population should grow and stimulate the economy. We see that a lack of fertility and decreased birth rates lead to economic slowdown for many countries. In 2008, similar to the rest of the world, the Philippines did not see its growth trend continue. The lack of growth here was affected by external sources, but internally, the Philippines saw migration out of the country, decreasing its workforce. Again, the importance of the workforce in growth accounting led to decreased growth. Additionally, output saw a sharp drop as well, further hurting growth. Finally, a lack of trust from foreign investments led to a decrease in capital, another crucial part of economic growth using growth accounting.

In 2010, after another period of political unrest and the 2008 financial crisis, the Philippines became the fastest growing economy in the world. This was due to the myriad policy responses that were put into place after the financial crisis. These policies focused heavily on increased government spending. The Filipino government invested in education and healthcare and growth started to hasten as the governmental institutions increased government spending. These policy reforms were also meant to reduce poverty; however, these reforms proved to be unsuccessful in that realm.

Growth in the Philippines economy is most impacted by the policies and reforms its governmental institutions put into place. Therefore, moving forward, looking at different political leaders as well as the policies they enact, we should be able to accurately predict growth. One example would be a change in power in governmental institutions that could reverse the increased spending, which would decrease growth.

Economic Strengths and weakness of the country today

The Philippines' economy has a variety of strengths and weaknesses. One of its defining characteristics is its robust growth rate of 5.6%, making it the fastest-growing economy in Southeast Asia (Canto, Renz, Villanueva, 2024)(Figure15). Its young population and a rapidly expanding middle class also have positive impacts. With a median age of 25, the country benefits from a strong and increasingly skilled labor force, particularly in industries such as business process outsourcing (BPO) and manufacturing. Its overall top-performing sectors are BPO, wholesale and retail trade, real estate, and tourism. The BPO industry, in particular, is the most significant, growing exponentially year over year and employing nearly 1.3 million Filipinos. It is estimated to account for 10-15% of the global BPO market and they offer talent for back-office functions like HR, finance, and IT, as well as front-office roles such as customer service and call center operations. The middle class in the Philippines has been growing at a rate of 5% annually, outpacing population growth and currently accounting for 25-30% of the population. This growth can be attributed to improvements in education and employment opportunities. Remittances also contribute largely to the country's GDP. After China, the Philippines is the largest recipient of remittances in East Asia, accounting for $38 billion and 8% of the country's GDP in 2022 alone (Figure 16). The country has also managed to successfully reduce poverty. Between 1985 and 2018, poverty has declined by approximately 66%. This continued decline is expected to continue to drive domestic consumption, which is at 70-75% of GDP, and rapid urbanization which will also continue to boost consumption levels.

A lot of the Philippines' economic strengths also pose risks. For example, the large young population requires significant investments in human capital training and job creation to be able to ensure a healthy “demographic dividend”. The country's heavy reliance on remittances also poses a risk to economic stability because it makes their economy heavily dependent on the success and prosperity of other nations’ economies. Though the Philippines has many domestic industry sectors that are growing, its lack of infrastructure, particularly in transportation, logistics, and energy, drive an increase in costs for businesses and therefore deters investments. Currently, the country’s fixed investments is at 20% of GDP which is lower than regional peers such as Vietnam and Indonesia, where investments are around 30% of GDP. Lastly, although the country’s location provides convenient access to key markets in Asia and wider for trade Philippines advantageous location provides them access to key markets for trade and suitable trade agreements, it is unfortunately ranked the fourth most vulnerable country to climate change and are estimated to have climate-related economic losses of $3.2 billion annually.

Despite these challenges, the Philippines maintains a positive economic outlook. The World Bank projects that the middle class could comprise 35% to 40% of the population by 2030 which would increase domestic consumption. This is all tied with its continued rapid urbanization which will also continue to drive an increase in jobs, demand for real estate, and infrastructure development. Also, although investments are relatively low, the government continues to implement reforms to attract business and drive growth. This can be seen with the corporate income tax that was recently reduced from 30 % to 25 %.

Conclusion

We strongly recommend the Philippines as an opportunity for long-term retirement investment. According to S&P Global, the Philippines is on track to be a billion dollar economy by 2033, with an average annual GDP growth rate of 5.8% over the next ten years. The World Bank has also recently reported that it expects the nation to reach middle-income status by 2026. Major contributing factors for this astronomical expected growth include a young and growing population and related robust consumption, infrastructure investment, and a booming business process outsourcing industry. According to PWC's *The World in 2050 Report,* the Philippines is one of three counties expected to make the largest strides in average annual GDP growth rankings. It is expected to move up 9 places, from 28th to 19th (Figure 17).

Projected working age population growth is expected to consistently be 2% until 2050, while in comparison, many OECD countries in Europe will experience population decreases up to -1.5%. This population growth will lead to an increase of citizens of working age. Compared to countries that are its peers in this respect, such as Nigeria and Pakistan, the Philippines has the significant advantage of a burgeoning business process outsourcing industry. This industry is expected to grow, keeping pace with population growth and in turn ensuring jobs for their desirable educated and english speaking workforce. According to Statista Market Insights, we can expect an annual growth rate of 9.04%, resulting in a market volume of US$1.11bn by 2029. The successful contribution to GDP growth of these two factors – population growth and business process outsourcing are inextricably linked. Currently, the political landscape is very favorable for increased growth of business process outsourcing. Infrastructure investment is also tied to the growth of this industry, as new roads, office parks, housing, and public transportation are required to transport this new workforce to their in office jobs, which are often located in massive call centers.

All major political parties look upon it favorably and advocate for further investment in the business process outsourcing sector, as they recognize that much of the country's other areas of economic growth hinge on this vital industry. Currently, the nation's government is heavily influenced by both the Catholic Church (the Philippines is a deeply religious nation) and the United States. It is widely accepted that elections have widespread corruption that benefits these two external institutions– particularly the United States which is deeply interested in the growth of business process outsourcing in the country. As diplomatic and industry relations expand with the United States, the Philippines is increasingly susceptible to retaliation from the Chinese government, which does not look favorably upon the country's relationship with the United States. The country's close proximity to mainland China and location in the South China Sea may also make it susceptible to China's political campaigns and territorial disputes in the area. Despite these potential pitfalls, the Philippines' has incredible potential for economic growth over the next 20 years and is a suitable space for future investment.

Appendix:

Figure 1 - GDP per capita - Philippines.

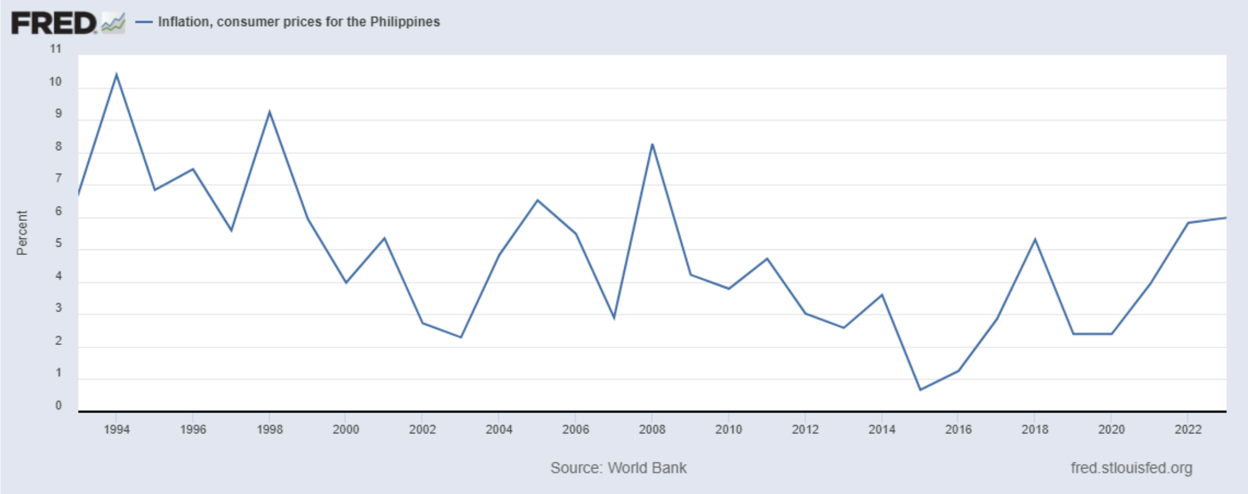

Figure 2 - Inflation

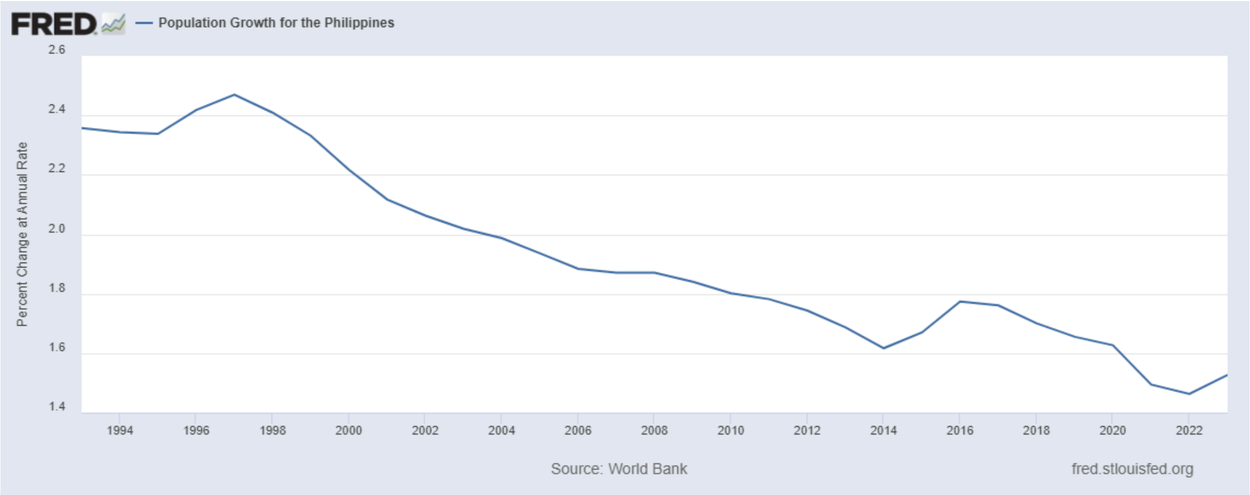

Figure 3 - Population Growth

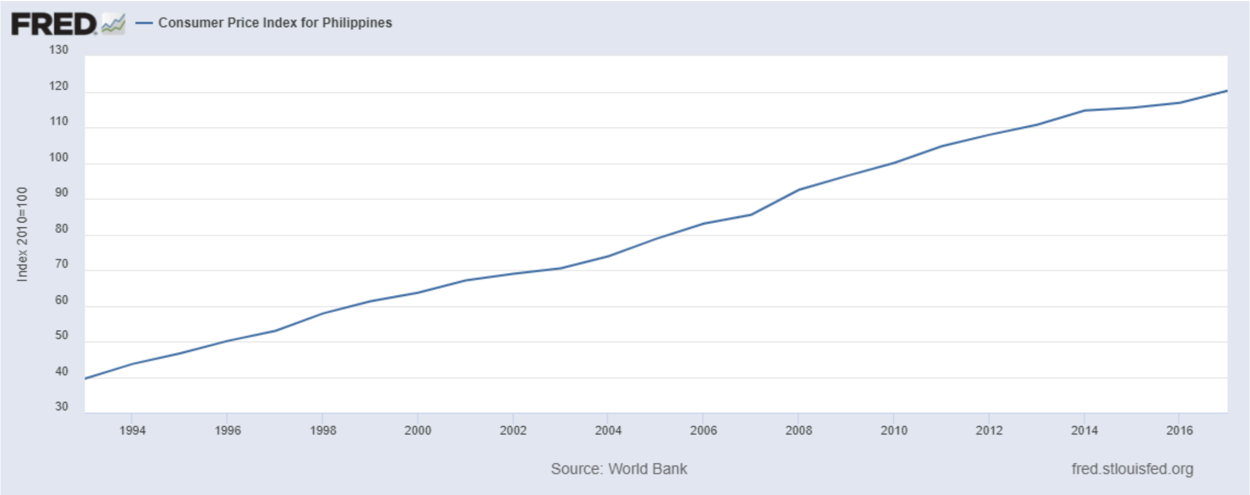

Figure 4 - CPI

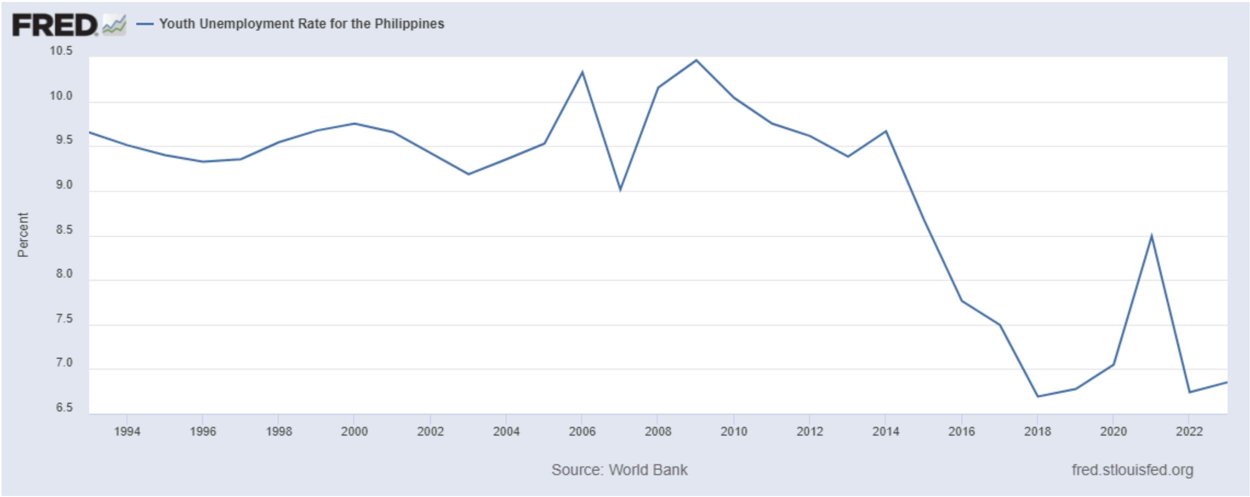

Figure 5 - Youth Unemployment Rate

Figure 6 - Employment to Population ratio

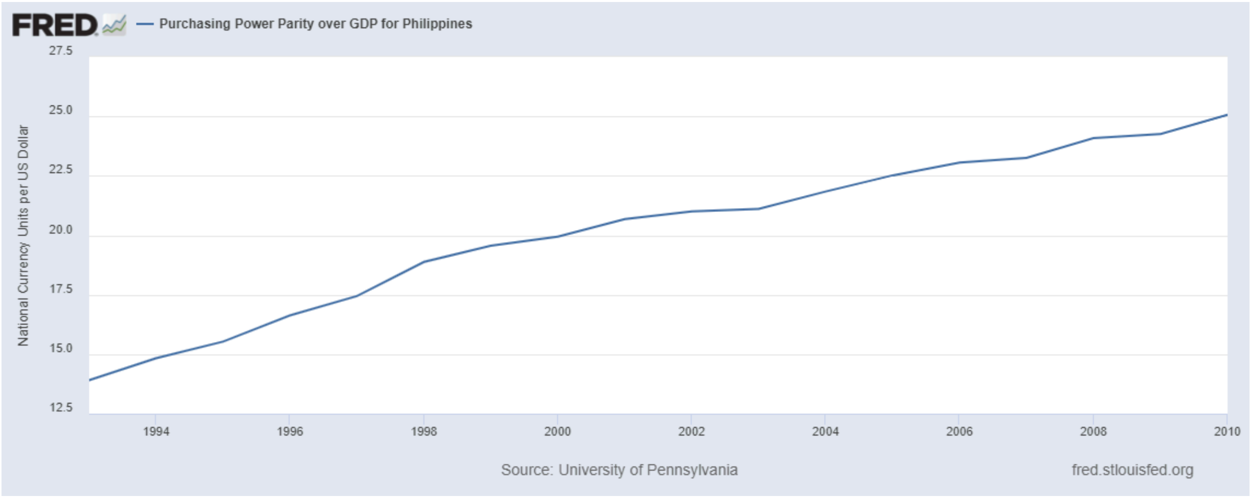

Figure 7 - PPP

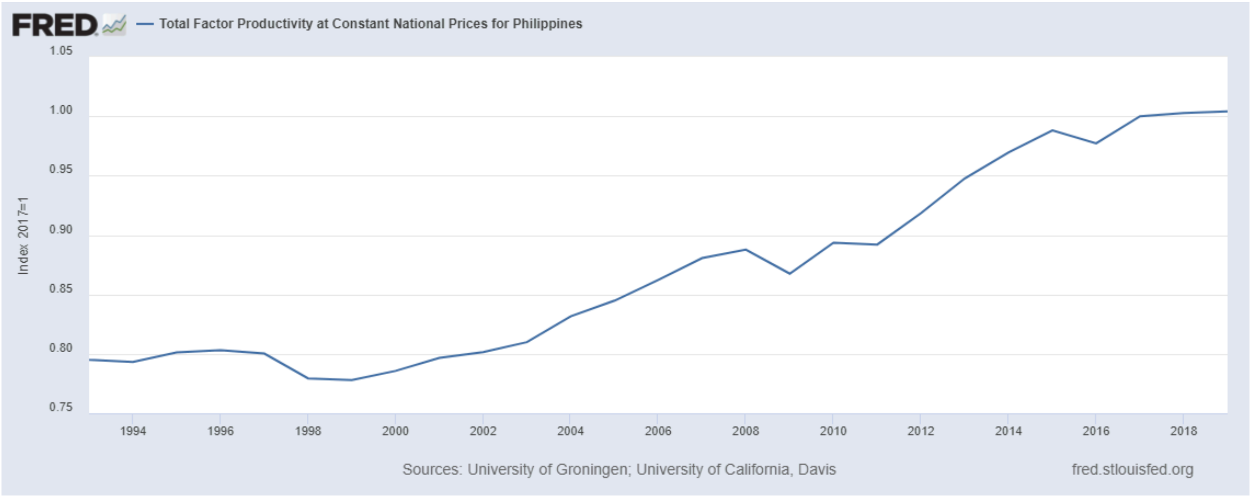

Figure 8 - TFP

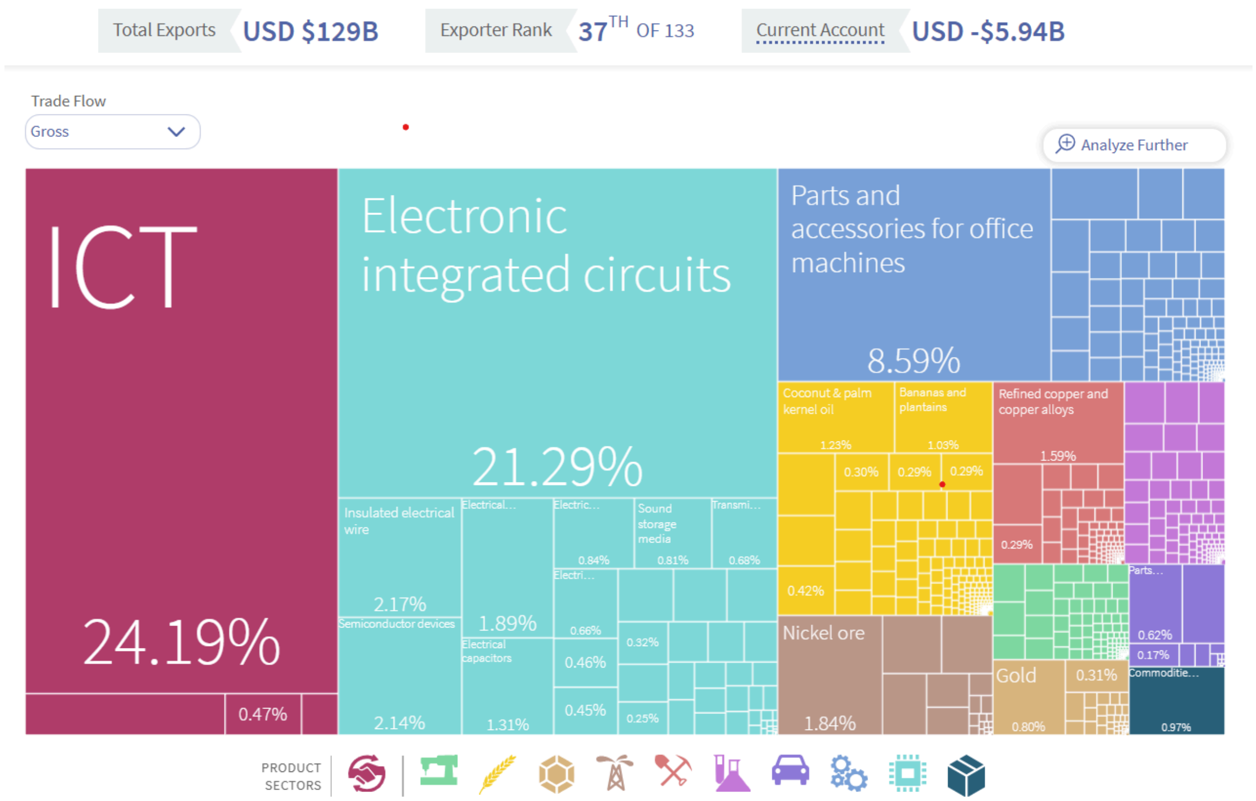

Figure 9 - Trade Flow

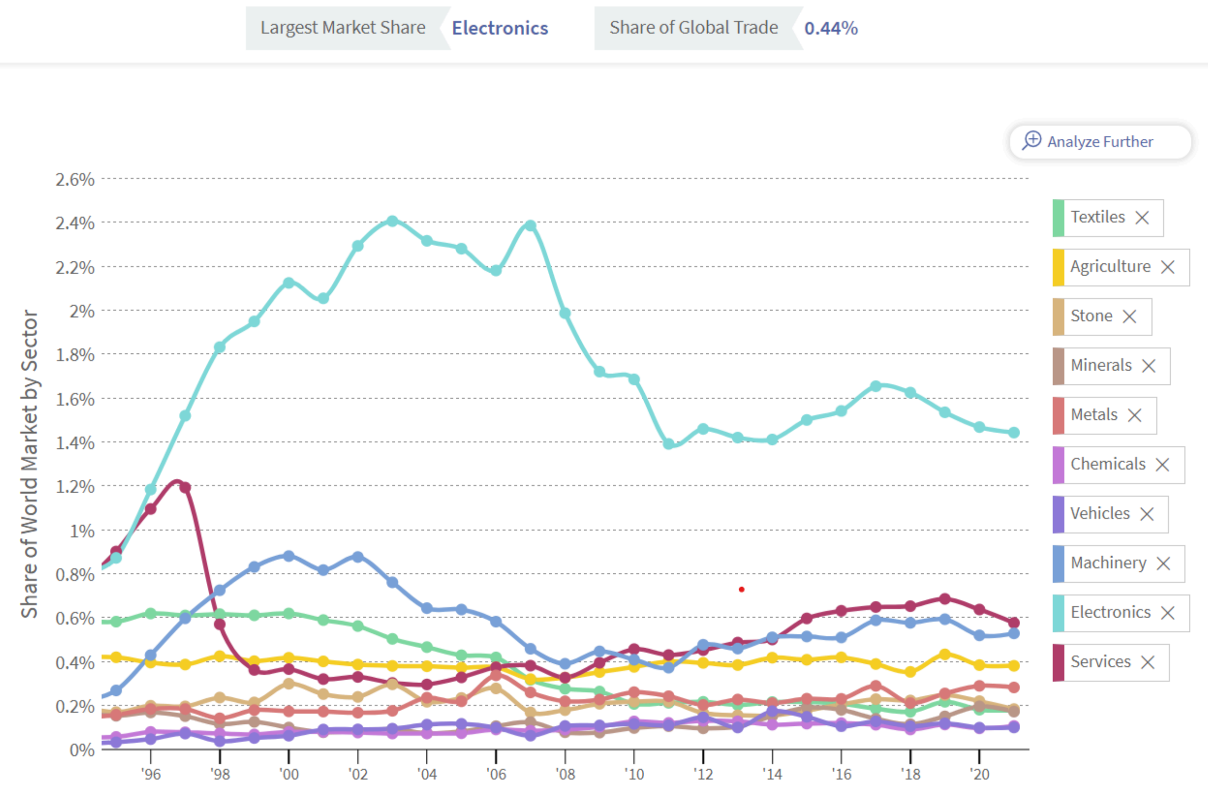

Figure 10 - Market Share

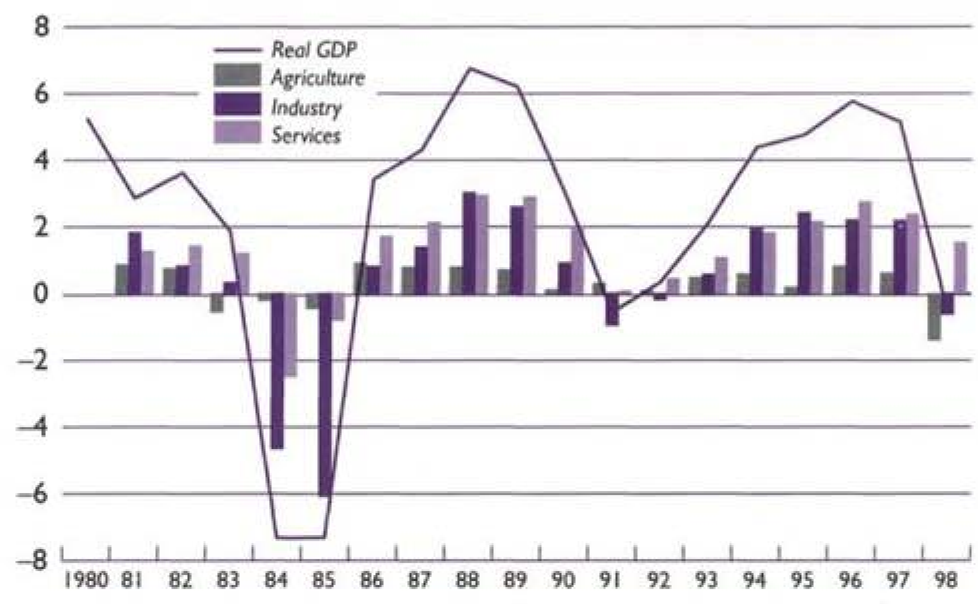

Figure 11 - Real GDP and major sectors

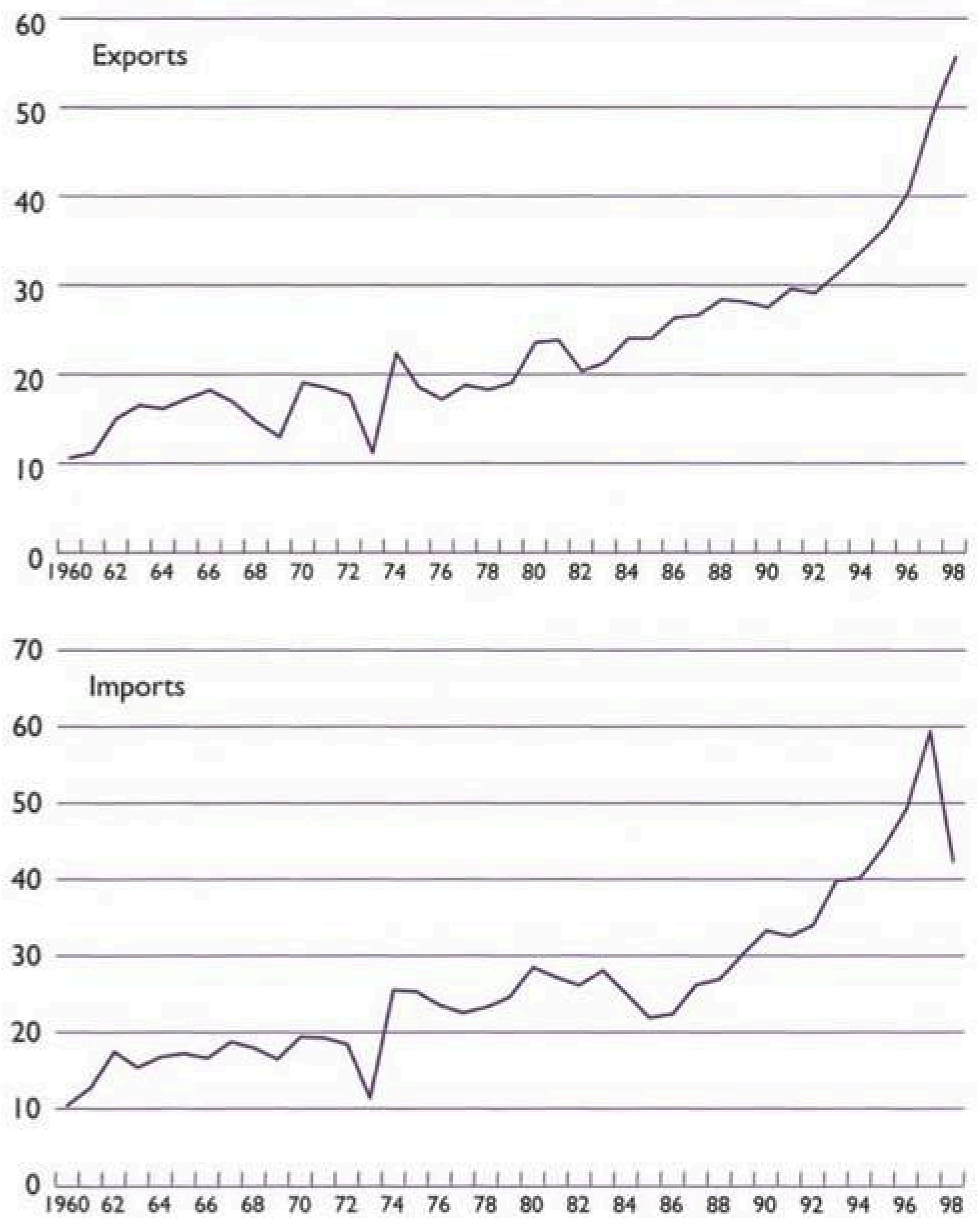

Figure 12 - Import and Export

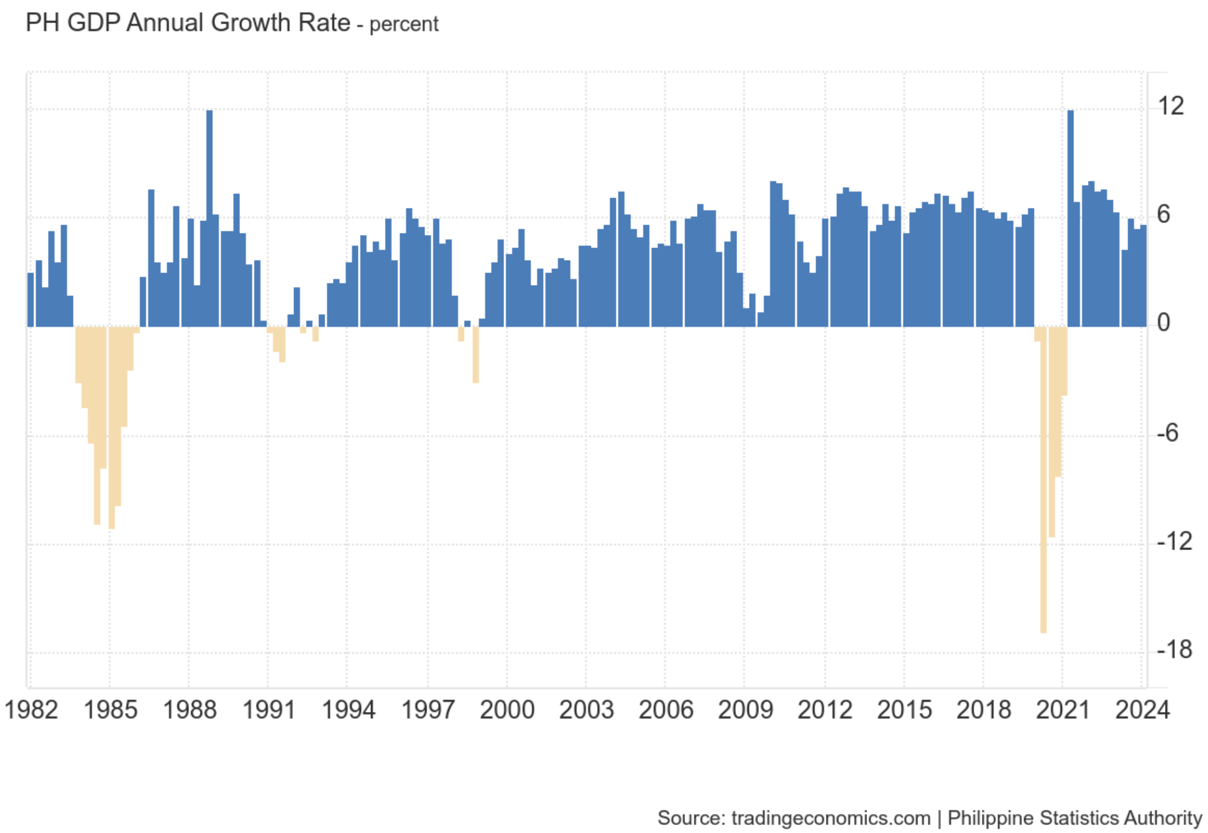

Figure 13 - GDP growth rate

Figure 14 - Debt as a % of GDP

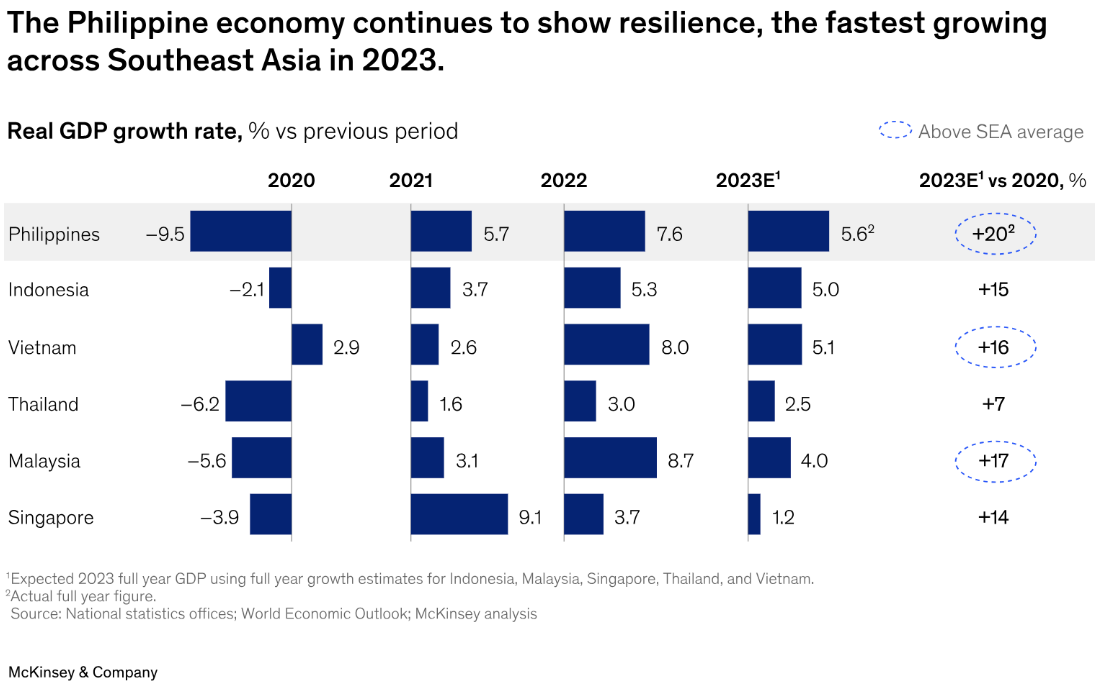

Figure 15 - GDP growth rate

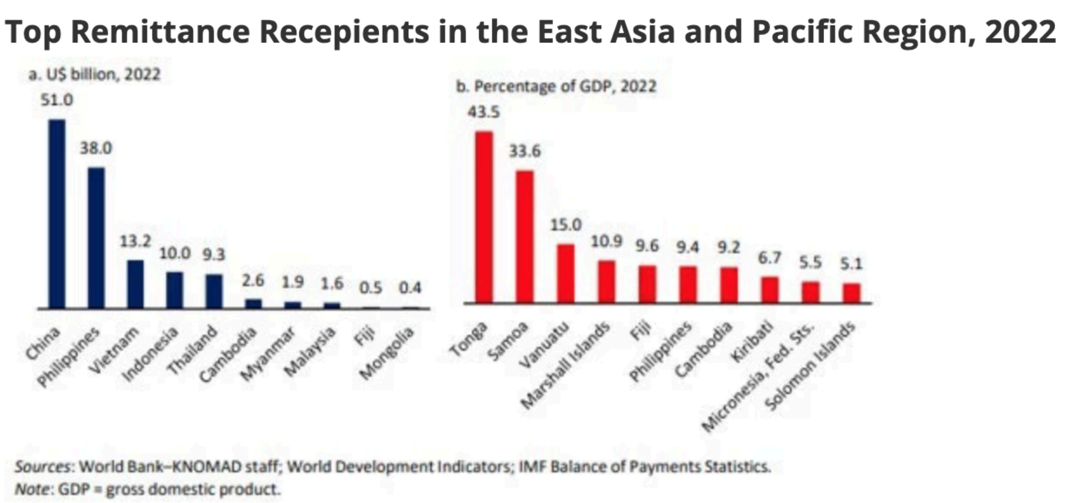

Figure 16 - Remittance recipients of East Asia and Pacific region

Figure 17 - Top three ranking for fastest growing world economies from 2016-2050

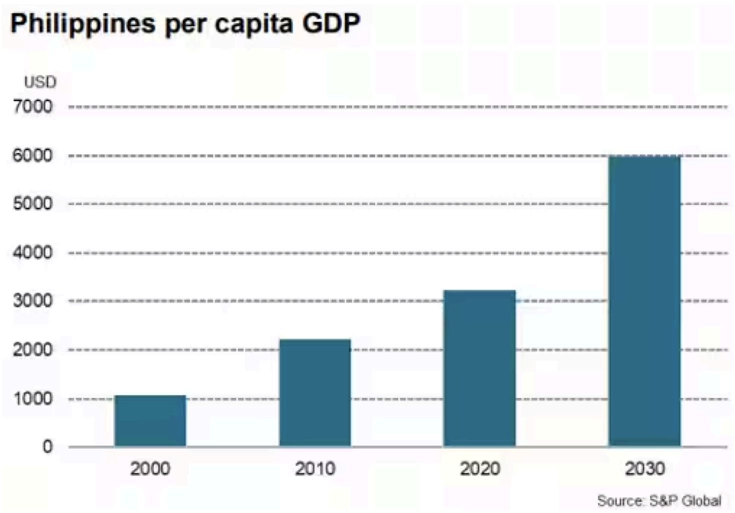

Figure 18 - Philippines per Capita GDP from 2000 to 2030

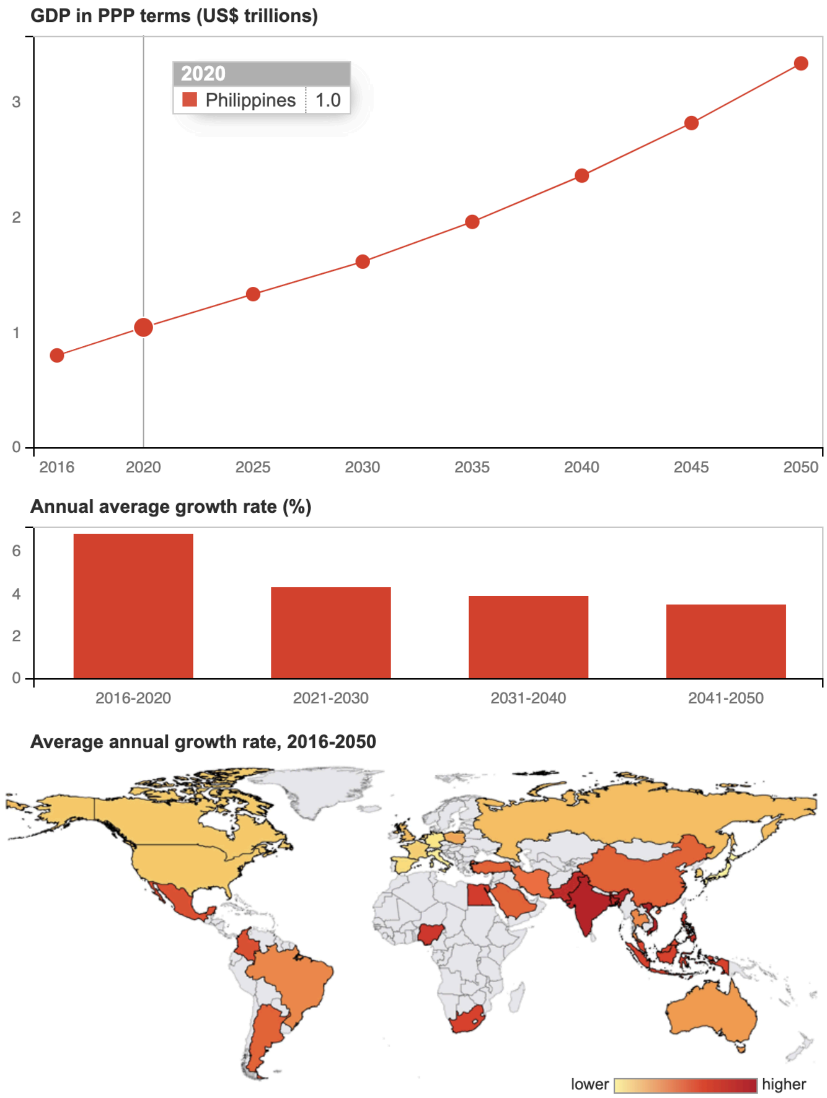

Figure 19 - GDP in PPP terms and average annual growth rate from 2016-2050

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