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REVIEW ARTICLE

Is the Long-term Economic Decline of the Philippines Unstoppable? Trends, Reasons, Outlook

Peter Richter

Independant Researcher and Business Consultant, Berlin, 10711, Germany

ABSTRACT

The Philippines was in the 1960s a model of development in Asia and second to Japan, but occupies presently only the 11th position under South-East and East Asian countries in terms of GDP-per capita. The article explores why this important Asian country with a long colonial past and enormous economic potential still ranks under lower-income countries and has in the last decades let pass by many other Asian countries. In answering this question, the approach of external triggers for accelerated development is being applied. In stark contrast to the success stories of the strongly outward-looking Asian countries like the four Tigers, later of Thailand and Vietnam the Philippines never developed a vision of an open economy connecting pro-actively to the world markets. Trade is hampered by a non-competitive and highly protected national economy. The existing FDI is more oriented to the profitable local markets. Foreign debts were never effectively used and international tourism was never well promoted. Linking these failures to the existing power structures in the country, it seems very much that the backward forces like the big landowners, the local producers and industrialists never wanted and continue not to want to open up the economy to international competition and governments are complacent with these groups. Various indicators demonstrate the long-term decline of the Philippines: Among them the slow growth of the GDP and the continuously high poverty rates. As the alliance of big business and policy holds firm no change in the failing nationalistic economic model can be detected leaving the bleak outlook that the economic decline will continue.

Keywords: External triggers of accelerated development strategies; Promotion of exports; Protection of local industries; Foreign direct investments; Foreign indebting; International tourism; Concentration of the national economy; Failures of the development model

*CORRESPONDING AUTHOR:
Peter Richter, Independant Researcher and Business Consultant, Berlin, 10711, Germany; Email: eprichter2003@yahoo.com

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1. Introduction

Exploring the present economic status of the Philippines, an archipelago of over 7000 islands in the South-China Sea with a population of 117 million and of growing geo-political importance, one perceives a lower middle-income country—following World Bank standards—with a yearly per capita income of only around 3,500 US$. This income ranks the Philippines presently in the 11th position under East and Southeast Asian countries far behind neighbouring Singapore, South Korea, Malaysia and Thailand; even Indonesia with its over 270 Mio. inhabitants reports in the meantime a considerably higher income (4,800 US$) [1].

When Ferdinand Marcos Sr. became 1965 the president of the Philippines, the country could look back to relatively high growth rates in the 1950s and 1960s positioning itself as the third most important economy in the region after Japan and China in terms of gross GDP (China then because of its sheer size) following the path of import substitution, in these times popular under developing countries. "The Philippines was once a model of development and second only to Japan among East Asian economies. In the 1960s, when South Korea was a land of peasants, the Philippines was one of Asia's industrial powerhouses. It produced consumer goods, processed raw materials and had assembly plants for automobiles, televisions and home appliances. Chemical plants produced drugs. Scrap metal was imported and made into steel for ships and factories produced cement, textiles and fertilizer." [2].

Japan and the Philippines had suffered in World War II heavy damages in people and infrastructure. Both countries could in their fast reconstruction process build on solid institutional structures and educated players; the Philippines looks back to a long history of colonization, first by the Spanish crown (1565 to 1898) and later by the U.S. (1898 to 1946). The country was hereby left with a functioning administrative system and universal education.

In 1965 the Philippines counted with a promising economic and institutional platform for further development as it happened soon after in the case of the four Asian tigers Hong Kong, Singapore, South Korea and Taiwan by leaving import substitution behind and opening up their economies. However, the Philippines did not follow their development model. Consequently, one Asian country after the next passed the Philippines regarding economic dynamism, high growth rates and increasing income levels. The Philippines can be looked at today as a fallen-back and impoverished country. The cities are overpopulated and polluted, shanty towns can be seen everywhere, rules are not observed and the infrastructure of the country is deficient.

Consequently asked, why this important Asian country with a long colonial past and enormous economic potential including its huge and laborious population still ranks under lower-income countries and has in the last decades economically let pass by many other Asian countries? This article intends to document and analyse the process of failing growth and development. Our lead questions will be what caused this process and are there signs of a turnaround as well as what could be key elements of a sustainable path of socio-economic transformation in the foreseeable future? We will widely concentrate on the external triggers for economic development and link those to internal factors.

2. Hesitant export promotion and overall failure of trade policies

The success stories of the four Asian Tigers, also in later years Thailand, Vietnam and Malaysia, were based on outward-looking strategies combining intelligently export promotion and attraction of Foreign Direct Investments (FDI) [3]. As Donald B. Keesing said it once very bluntly: "An outward-looking strategy calls for a direct transition from a simple, open trade policy to vigorous promotion of manufactured exports by all internationally tolerated means, without going through an in-between phase of high protection." [4]. This strategy is based on a blend of basic economic knowledge with an outward-looking Keynesian approach. The well-known formula for the creation of National Income is $Y = C + I + S + (X - M)$. A nation can extend its

National Income beyond consumption, investment and governmental spending by creating a surplus of exports over imports which would result in a transfer of monetary resources to the export-oriented country. The Keynesian variation of this equation is the creation of additional income in an open economy by the extended production of exportable goods.

In the case of lesser underdeveloped and lower-income economies access to foreign markets, resources and currencies is likely to become the key factor for accelerated growth and development [5]. This at the time new approach to development theory and policy had been widely discussed in the 1960s and 1970s [6] and consequently applied: It was in fact one driving force for the globalization process. The approach of capturing additional resources for the development process through outward-looking economic activities can be further extended to Foreign Direct Investments, international tourism and other areas of external economic relations.

In 1965, when Marcos Sr.'s rule started, the time seemed to be right for the second most advanced economy in East Asia to change its development pattern. The former governments had left a good platform for take-off, specifically for the time-advanced industrial sector through prudent import substitution policies and a sound macroeconomic set-up. The country had vast experience in the export business, explicitly in the sectors of sugar and coconut. The country was equipped with good infrastructure including ports. Wages were low and internationally competitive. And the new success stories were in front of their eyes: Korea had just started the new model of an export-driven path and counted with first promising results.

However the new Filipino administration did not change the wheel to steer for an outward-looking development path. Marcos followed instead its own model: Huge infrastructure projects financed through foreign debts. The projects included roads and bridges, educational and cultural centres, hospitals and the famous Bataan Nuclear Power Plant, which never went into production. The idea had been to create spill-over effects on the national economy and community. His model ended in a total financial disaster and created great economic losses [7].

On the reasons for choosing the wrong alley can only be speculated. Marcos has not been a man of business nor economist, but a man of the military and has been used to think in terms of huge projects and budgets. He has been surrounded and influenced by the old class of landowners and exporters of traditional export products like sugar or coconut. These landowners had grown into bankers and manufacturers protected by high tariffs. They were not interested in losing dominance to a new type of creative exporters of competitive products for regional and international markets respectively to open their traditional markets to foreign competitors.

Correspondingly, in the first 10 years of the Marcos regime exports remained very low with between 1 and 2 billion US$ yearly [8]. This started to change only after 1975. The economic policy of Marcos driven by costly infrastructural projects had guided the country into a steep increase of external debts (from 2.3 billion US$ in 1970 to 24.4 billion in 1982) and into several related balance of payment crises [9]. Necessary stabilization measures mandated by the International Monetary Fund resulted in a certain shift away from the Philippines' traditional economic strategy of import substitution industrialization towards a more export-oriented approach including allowing the Philippine Peso to float and devalue [10].

The measures imposed to fight the different balance of payment disparities showed finally some impacts and the Filipino exports doubled from a low basis of 2.3 billion US$ (1975) to 4.6 billion (1985), which nevertheless is not at all a strong outcome. Only a small apercu: The exports of South Korea in the same year reached 27 billion US$. The "new" Filipino inclination to export promotion had not been accompanied by other supporting measures and did not follow a changed vision or conviction, it only followed financial and institutional pressures. A systemic change from an export-oriented policy to a real massive outward-looking approach never happened which would have been totally opposite to the mentality and thinking during the Marcos regime: inward-looking, project-driven, bolstered by foreign loans and entertaining a costly "crony capitalism". 1986 Marcos was forced to leave power by public outrage following national bankruptcy in 1983 and a related deep economic crisis.

The regimes of the following presidents Corey Aquino, Fidel Ramos and Erap Estrada can be described as heavily impacted by the political and socio-economic damages left over by Marcos' regime and therefore moving in permanent crisis mode. More reasonable economic policies could be observed under the presidencies of Gloria Arroyo, Noynoy Aquino and in the first years of Rodrigo Duterte. Basically, they all applied mainstream macro-economic policies, everybody with its own focus though. The Arroyo administration pushed "free market" policies for globalization, removing trade barriers, lowering investment controls, privatizing public utilities and forcing deregulation [11]. The Aquino administration focused on a stable and sustainable growth path, anchored on a good governance approach with more transparency, participation and accountability [12]. Duterte finally distinguished himself through the "Build! Build! Build!"—Infrastructure Program from which he expected spill-over effects for growth, competitiveness and poverty reduction. The years of the Arroyo- and Aquino-presidencies, also the first years of Duterte, were characterized by relatively high macroeconomic growth rates, with some ups and downs in the range of 5-6% [13].

Triggered by the described successive or better said hesitant liberalization of the economy, benefitting from a steadily growing global demand and a deepening regional integration (ASEAN) the exports of the country did indeed increase continuously. Product exports from the Philippines reached 2019 over 70 billion US$ which ranks the Philippines under the 40 biggest exporters of the world, in contrast with his population rank which is 13th. To put it in context: South Korea exported in the same year already goods in the amount of 648 billion US$ [14]. The composition of Filipino exports shows nowadays a very bizarre concentration to only one sub-sector, which is electrical and electronic components counting for around 55% or an even higher percentage of all exports. Another sector with some importance is machinery like transformers, printing devices and parts with around 15%, but not further specified in the statistics. Much less important with around 10% are today "traditional" products like copper, gold, fruits, coconut oil, wood and furniture. Back in 1970 traditional exports still accounted for nearly 80% of all exports, which demonstrates the diversification process which had happened in the meantime [15].

Exports are to a great extent directed to 5 countries: China with over 16%, the US with 13.5%, Japan with 12.9%, Hongkong with 12.9% and Singapore with 7.9% [16], which means that the Philippines serves as a kind of extended workbench for some far more developed industrialized countries near-by delivering to them electric and electronic components for further inclusion in technologically advanced final products like mobile phones, computer and electrical cars. Jose Tongzon concluded in 2005: "The economic benefits that the Philippines have derived so far from its participation in the global production network and trade have been minimal due to its role merely as a place for assembly operations with no significant linkages with the domestic sector and being at the low-valued and labour-intensive segments of the production chain." [17]. Therefore the Philippines should strive to move up the production chain to more high-value products using innovation, technology and local inputs resulting in greater domestic linkages and higher value added for the country. Till today such a process has never been initiated.

However, one interesting development can be observed: The export of services from the Philippines has nearly doubled since 2010 and stood in 2020 at over 31 billion US$ [18]. The greatest chunks of these services are business, information and computer services and the services in international tourism [19]. Maybe we see a new business model for the Philippines arising. The widespread knowledge of English is a strong supporting factor. Still, the related call centres are mostly located in Manila and Cebu and the economic benefits are very much concentrated in these locations.

To judge the importance of the trade sector for the economy of a country, exports of goods and services are put into relation with the GDP. Oscillating much in the last 20 years or so, this rate stood in 2021 at 25.7% [20]. This number means one-quarter of the country's economy is related to international trade, but in real successful exporting and outward-looking countries this rate stands at over 40%, like in Korea (41.7%), Germany (47.5%) and Thailand (58.2%).

A further hint to the structural failures of the Filipino export policies provides a look at the balance of trade in the country over the last five decades. We stated at the beginning of this section that higher exports than imports would create a valuable surplus transfer to the economy. But in the case of the Philippines, the balance of trade had been over time mostly negative, which means that significantly more products were imported than exported letting other countries produce and earn on goods that are consumed here. The last data from 2022 show a massive trade (in goods) deficit of over 58 billion US$, further extended from the 42 billion deficit in 2021 which means a huge transfer of monetary resources and loss of National Income. In the case of the Philippines one can speak of a structural balance of trade deficit with far-reaching consequences for the monetary reserves, to the exchange rate and to employment. Such a huge deficit must be balanced by other incoming transactions like foreign investment income, unilateral transfers like foreign aid, inward private investment like FDI or the flow of gold and currencies between Central Banks. The exchange rate will tend to devaluate. Employment opportunities for the country are getting lost.

The most important factor to offset the structural trade deficit in the case of the Philippines are the high remittances from the estimated 1.8 million Overseas Filipino Workers (OFWs) specifically in the Middle East and as seafarers they are sending to their families at home [21]. Cash remittances through banks sent by the OFWs amounted in 2022 to 32.5 billion US$ [22], which means these transfers compensated alone over close to three-quarters of the trade deficit of the country. This explains very well why the Philippines could sustain its structural trade deficit over so long time without greater economic policy consequences.

One last aspect to explain the failed path that the Filipino economy has taken since 1965 refers to the ongoing protection of many local sectors and a constant bias against exports inherent in the economic system. G. Tecson already in the 1980s pointed out that the liberalization programmes never went far enough to reduce the existing disparities in effective protection across industry groups. "Consumption goods will still be receiving the highest protection after the reform with average ERPs (Effective Rates of Protection) remaining … higher than those for intermediate goods, capital goods and inputs into construction." [23]. It is assumed that consumer goods or products of the light industry provided the Philippines in the first phase of an outward-looking strategy with strong competitive advantages and should have received therefore lesser protection as a strong incentive to get more competitive and start exporting. As this type of protection stretches out in the manufacturing sector till today, also inside the agricultural sector, a real diversification of exports and significant inclusion of other promising products had never happened. With estimated 80% the bulk of exports of the manufacturing sector consists of electrical and electronic parts which constitute a very noticeable concentration and hints clearly at a low international competitiveness of the rest of the manufacturing sector.

It must be concluded that the Philippines in no moment applied or even contemplated a truly radical outward-looking strategy. Rather it opted for an uninspired mix of import substitution and export promotion. We could also use the term shallow. If we compare the success stories of the strongly outward-looking Asian countries like the four Tigers, later Thailand, Malaysia and Vietnam with the limited results of the trade policy here, the development path the Philippines has taken is not just a different model but a clearly failed one. It seems very much that the backward forces like the big landowners, big businesses local producers and industrialists never wanted and continue not to want to open up the economy to international competition and governments are complacent with these groups.

Truly implementing a vision of an open economy would require a pro-active connection to the world markets, reinforced by foreign investments and counting with a long-term development plan which refers to a business-friendly environment, priority sectors with high potential to develop and export, sequential steps to follow and necessary activities and budgets. One example could be the every 5 years renewed Export Development Plan of Malaysia [24]. For giving some concrete examples: In the agricultural sector the Philippines could have developed a globally competitive soya production and export industry. Rice and sugar production could be upgraded, extended and sent to regional and global markets. Besides pineapple, banana and mango, the country could become a strong competitor in high-priced dragon fruits. In the mining sector, the prospecting for petroleum and gas could be vastly intensified. Copper and nickel could be prospected and exported. In the manufacturing sector, forward linkages for the electric and electronic parts sub-sector could be developed, and mobile phones and computers could be produced in the Philippines. Pumps and electrical motors as well as tools could be produced and exported from the Philippines. Garment and leather clothes as well as sports shoes are other examples. There are so many opportunities that cannot be mentioned here. As they were not exploited till nowadays, they constitute a huge welfare loss for the country.

3. Limitations of foreign direct investments

Investments from the private sector in companies in a foreign country, also called Foreign Direct Investments (FDI), are like the flip side of a coin in the context of an outward-looking economic strategy supporting strongly the export promotion efforts of a newcomer to the international markets. R. Mercado-Aldaba started her investigations into foreign investments in the Philippines with these basic considerations: "A considerable number of developing countries which were earlier sceptical about foreign direct investment (FDI) have, in recent times, become more receptive to the entry of transnational corporations (TNCs). Beginning in the late 1970s, their policies toward FDI have become more open. A central reason behind this is their need to expand exports. FDI is assumed to have the potential to make significant contributions to facilitating the marketing of exports. The knowledge and experience of TNCs in international marketing and their lobbying power in their home countries can help developing countries expand their exports. FDI can also contribute to their economic development through the transfer of financial resources, as well as of technology and improved management know-how." [25].

This means in other words, the success in attracting FDI is of crucial importance for the success of an outward-looking strategy. The success depends largely on the policies of the country which wants to attract foreign investment as well as, of course, on the behaviour of TNCs. Again, a liberal trade policy of the host country is essential for the realization of the export potential of international investments. The connection between FDI and an outward-looking trade policy is very close. Most successful in this path have been the four Asian Tigers, more recently Thailand, Indonesia, Vietnam and Malaysia. In other continents, successful cases present Chile and Mexico in Latin America and South Africa.

The Philippines were long time, more exactly till the 1990s, relatively unsuccessful in attracting FDI. In the 1970s and 1980s, the inflow stayed well below 1 billion US$ yearly. The international capital shied away from political instability, crony capitalism and widespread terrorism in the Philippines. Only in 1993 did the amount of foreign private investments jump over the hurdle of 1 billion US$. The highest inflow had been accounted for in the year 2017 with over 10 billion US$. Since then the inflow has again retreated. The last available numbers show for 2020, of course, the first year of the pandemic, FDI inflow of 6.8 billion US$ Format! [26]. The GDP ratio of FDI has since 1993 oscillated between 0.57

and 3.12% which does not hint to an overly high contribution of foreign investment to the economy in the Philippines. The stock of FDI stood in 2021 at nearly 114 billion US$ [27].

Although such a foreign investment stock seems notable, the factual failure of FDI attraction into the Philippines becomes much clearer, once we compare these numbers to the success stories of the competitors in Asia. In Singapore, the most successful country in South-East Asia and one of the biggest recipients of FDI in the world, foreign companies invested over the past 50 years close to 2 trillion US$, nearly 20 times more than in the Philippines [28]. Surely, Singapore with its unmatched location, its world-class infrastructure, and its technological capacities is a special case, but it demonstrates the enormous potential of FDI in the region. The second strongest recipient of FDI in Asia is Thailand with a stock of 272 billion US$. Close-by are Indonesia with a to the Philippine's comparable development level and FDI of 240 billion US$, Vietnam with 196 billion and Malaysia with 174 billion. These numbers demonstrate how far behind the Philippines are in relation to its competitors in Asia.

The key question is though, why the Philippines with its high number of inhabitants, cheap labour and the incentives they are offering, is less attractive to the international capital than most other East and South-East Asian countries. We will dwell here on two major explanations that lead again to the core of the failing Filipino economic model. The first point is the fact that despite all efforts to liberalize FDI access and to attract foreign investment the concrete barriers are in an international comparison extremely high. In 2020, the Philippines ranked as the third-most restrictive one out of the 84 countries in the Organization for Economic Cooperation and Development's (OECD) "Foreign Direct Investment Regulatory Restrictiveness Index" (FDI Index).

This Index measures the restrictiveness of a country's FDI rules by monitoring four main types of restrictions: 1) Foreign equity limitations; 2) Discriminatory screening or approval mechanisms; 3) Restrictions on the employment of foreigners as key personnel; and 4) Other operational restrictions, e.g., restrictions on branching and capital repatriation or land ownership by foreign-owned enterprises. The restrictions are evaluated on a 0 to 1 scale (1 being the most restrictive). "It is no surprise that the Philippines scored 0.374, as we have several laws restricting FDI and most of them are enshrined directly in the Constitution. The Philippines is just a few points behind Libya and Palestine." [29].

The second explanation for the relatively low FDI flow to the Philippines leads back to the already mentioned close link between the type of trade policy a country is committed to and the attractivity of the country for FDI. Except for a few emerging countries like maybe India, Indonesia and Brazil local markets are too small to be overly attractive to big multinational companies. Attractive for them are countries and sectors with a favourable factor endowment to create the necessary absolute or comparative advantages for successfully conquering global markets. It can be assumed that in the first place two sectors in the Philippines are interesting for global marketing: the light manufacturing of consumer goods and of lesser technologically challenging intermediate and machinery goods and the agricultural sector with its tropical products, fruits and vegetables. Just regarding these two sectors the trade policy of the Philippines proves to be counterproductive for a successful attraction of foreign investments. R. Mercado-Aladaba, the Filipina expert on trade and foreign investment, demonstrates a very convincing correlation: The existing data "reveal that FDI is concentrated in the highly protected manufacturing sector…(which) has received the highest effective protection rate (EPR) since 1965. Although this has been reduced over the years, the effective protection that it receives still remains relatively high compared with other sectors like mining and agriculture, fishery, and forestry… Although the EPRs were reduced in the late 1980s, effective protection still remains high particularly in textiles, chemicals, basic metal products and processed food." [25]. These subsectors consequently contribute very little to the country's exports same as the out of political reasons highly protected agricultural sector; the existing FDI is oriented mostly towards the demand in the local markets.

On paper, the policies of all governments since the 1980s were supposedly favouring export production. However, because of the high level of protection introduced by the trade and investment system, foreign competition was virtually eliminated. In the same direction, the constantly overvalued exchange rate of the Peso is acting. The result was and is an inefficient, internationally not competitive manufacturing industry that permanently needed and needs protection for survival. Furthermore, the high costs of domestically produced inputs discouraged manufacturers from sourcing their inputs in the country itself. To control their expenses, they had to rely on imported inputs, especially on those whose tariffs were relatively low. Since tariffs on capital equipment were typically low, capital-intensive investment in the local as well as the export sector was encouraged. Consequently, cheap labour which exists in abundance in the Philippines is not utilized intensively in the manufacturing sector further reducing international competitiveness. As the trade and investment policies were totally inappropriate for the goal of conquering international markets, foreign investors responded to the profit opportunities that were offered to them in the highly protected sectors of the local economy. By taking advantage of the effective protection offered by the tariff structure, investors—Filipino or foreigner—could earn extremely high profits, nourishing at the same time inefficiencies and high costs [30].

This judgement is devastating for the FDI policy of the Philippines. The two mentioned issues—the reigning restrictiveness towards FDI and the protectionism in the Philippines—aggravated by such factors as corruption, political instability and insufficient infrastructure, alongside high energy costs and a lack of juridical security explain well the relatively low level of FDI in the country and its composition.

As no reliable data on the sectorial distribution of the FDI stock in the Philippines exists, based on the literature and isolated statistics only a trend can be marked here [31]. The bulk of approved foreign investment projects is in manufacturing. It can be estimated that this sector accounts for up to 65% of total registered foreign equity investments. The share of services (predominantly business services and banking) has been on the rise over the most recent period and stands maybe at 25%, while mining and quarrying account for about 15 percent. The agriculture sector, where interesting comparative advantages could be predicted, counts with less than 1% of the foreign investments.

Although foreign firms are not equally present in all sub-sectors of manufacturing, they are strongly represented in some major industries. FDI in the Philippines is concentrated on sub-sectors like chemical and pharmaceutical products, refineries, food and beverages, machinery and appliances, transport equipment and electrical and electronic parts. As we have seen in the chapter on trade and exports all these sectors except for the last are ranking under the most protected industries in the Philippines. Their contribution to exports is minimal and as they satisfy in the first place the local demand in a country with high disparities and poverty, the attraction for foreign investment is in the end limited.

Electrical and electronic parts, whose global demand is on the rise, are widely used in telecommunication, industrial instrumentation, consumer electronics and office equipment. In South-East Asia the Philippines constitute with Taiwan, Vietnam, and Thailand one of the most important producers with global exports and standing [32]. It can be assumed that nowadays foreign investments concentrate to a high degree on this sub-sector as the local economy is passing after the COVID lockdowns through a deep crisis. Looking into the overall FDI stock in the Philippines our estimate is that probably 25-30% of all investments are directed to this sub-sector [33].

A specific of this sub-sector is the fact, that its production is happening nearly exclusively in so-called special economic zones which is a worldwide trend used by less advanced and less attractive economies as a tool to attract foreign investments in the light industry. The set-up of these zones (formerly EPZA, later PEZA) dates back to the times of F. Marcos Sr. during Martial Law when the country had to strive to solve its various balance of payments crises and intended to increase exports as one solution. PEZA counts today with over 400 fully operating economic zones over different sectors, a great number in the technology and information sector. 76 manufacturing zones are presently existing [34]. These are spread across the whole country. Aside from Manila and Clark, there are also economic zones in other cities such as Cebu, Baguio, Subic, Iloilo and more. PEZA offers both fiscal and non-fiscal incentives as well as ready-to-occupy business installations. There are nowadays a couple of thousand foreign companies in the different zones active. These companies provided 2021 impressing close to 1.8 million workplaces [35].

But is PEZA really an economic success story for the Philippines as it appears on a first glance? On the one hand, it must be granted that the concept attracted a great number of foreign companies into the country and that the sub-sector where the investments concentrate—electrical and electronic parts—is today a key sector for digital development in the world creating high exports and technological spillovers for the country. On the other hand, most inputs and machinery must be imported, and the value added-on for the country consists mostly only of salaries and fees. The economic zones function like islands in a wider environment without many linkages. Insofar the impulses for the local development that stem from these zones and the foreign investments are rather small.

Except for the sub-sector of electrical and electronic parts, FDI in the Philippines have not contributed much to the growth of its exports. With the distorted structure of foreign investments in the Philippines, with the great bulk invested in locally oriented sectors, the country could not make use of its true export potentials based on its factor endowment and comparative advantages. Among those are rich soils and the climate for the farming of tropical fruits and vegetables, as well as rich mining sources like gold and copper. Additionally, the Philippines has an English-speaking and well-skilled workforce, low salaries, a strong cultural proximity to the U.S. and a location within a dynamic region. If the framework conditions were rightly composed, the country could easily double the yearly inflow of FDI.

4. Two other external triggers: Foreign debts and international tourism

Both triggers can here only be treated shortly. One is foreign indebting to strengthen the national capital stock. For lower-income countries borrowing from international organizations like the World Bank is an essential option, as it can provide funding they might not otherwise be able to attain at attractive rates and with flexible repayment schedules, but also other financial sources like internazional banks can be considered.

Foreign debts of the Philippines have been in the 1960s with under 1 billion US$ and even at the beginning of the 1970s with then roughly 2 billion US$ relatively low. The situation changed drastically with Marcos' policy of big projects as vehicles to enhance growth and development by financing roads, representative buildings and public utilities with credits from foreign financial markets or from international institutions. "When Marcos became president in 1965, the total debt was $600 million; by the time he was ousted in 1986, it had ballooned to $26 billion…" [36]. From an economic perspective, these projects had been little productive and did not create the growth and income to repay the debts which led to the already mentioned balance of payments crisis and finally to the end of the Marcos regime.

In spite of the experiences, the following different governments continued the policy of external indebting, maybe at a slower rhythm. In September 2022 the foreign debt of the Philippines recorded nearly 110 billion US$ [37]. The outstanding debt level corresponds to around 62 percent of the GDP, a 17-year high [38]. "The Philippines continues to be one of the most indebted in the world. It currently spends almost 30 percent of government revenue on debt payments each year, more than is spent on public health and education combined… Since 1970 the

Philippines government has been lent $110 billion, repaid $125 billion, but is still said today to owe $45 billion." [39]. Definitely, foreign indebtedness because of a strong lack of project planning, weak implementation capacities and the in-build corruption did not trigger economic development in the Philippines, but turned out to create for the country a constant outflow of resources. Addressing these issues, the Philippines could do much to improve the effectiveness of foreign indebting.

A fourth, but not less important pillar of relations with the outer world: international tourism. This chunk of tourism—as we also count with another important contributor to GDP which is local tourism—creates a net inflow of international currencies to a country and contributes heavily to business turnover and employment, specifically in the preferred tourist regions like Boracay, Cebu and Palawan. To demonstrate these effects, we are turning one moment to two competitors of the Philippines in the region: Malaysia and Thailand. The pandemic broke the inflow of tourists in all countries which is why the year 2019 is chosen for comparison. That year Malaysia counted with 26 million international tourists. They channelled over 17 billion US$ into the country. The contribution of the total tourism sector, including local tourism, to the GDP was 13.3%. This makes the tourism sector in Malaysia the third biggest contributor to the country's GDP after services and manufacturing; the sector created over 2 million workplaces [40].

Our second reference: Thailand received 2019 astonishingly nearly 40 million tourists. The inflow of foreign currency corresponded to 62 billion US$. The contribution of the tourism sector to the national GDP was nearly 18% and tourism employment amounted to over 4 million people. These are huge numbers and demonstrate well the often-neglected economic importance of the tourism sector [41].

What are the corresponding numbers in the Philippines? Before the pandemic started tourism had been on the rise: after a steady growth of numbers of arriving tourists during the 2010s the country counted 2019 with 8.3 million inbound tourists; in 2014 the corresponding number had been close to only 5 million [42]. Travel receipts corresponded in 2019 to 9.3 billion US$. The contribution of the tourism sector to the GDP amounted to nearly 13%, higher than for example agriculture which contributed only around 10% [43]. The employment in the sector reached 5.7 million people, nearly 14% of the total employment in the country [44]. Although these parameters show once more the importance of the tourism sector for the national economy, the number of arriving tourists from abroad stayed far behind the ones of competitors in the region and with only 0.08 international tourists per inhabitant the Philippines is among the least tourism receiving countries in the world [45]. Again, the question is why is the Philippines so severely underperforming in this sector?

Four factors decide the success of a country in the global competition for international visitors: attractivity of the destination, tourism policy and promotion, national support programs and security issues. With regard to the issue of attractivity, the Philippines has a good tropical climate, is by countless flights connected to East and West, counts with many beautiful beaches, historical icons like old Spanish churches and streets, dance festivals, exotic food and a mostly English-speaking population. In recent years the diving sector developed into a world-leading tourist attraction [46]. In conclusion, the Philippines is a travel destination as attractive as Thailand, Malaysia or Indonesia.

The limiting factors must be in the other issues. It can here only be stated that governments never conceded to the tourism sector a high priority. Correspondingly insufficient are the existing institutional capacities to promote international tourism. Thirdly the infrastructure of the country with regard to airports, ports and roads does not correspond to the expectations of an international traveller comparing to Thailand, Malaysia or Bali. Fourthly the country counts with a long history of internal conflicts like the one with the communist New Peoples' Army, the terrorism of Islamic groups like Abu Sayyaf and related kidnappings and more recently the long siege of Marawi and related destructions. In this regard, security concerns are still reigning.

The status of these 4 key factors might explain well the still relatively low influx of international tourists into the Philippines: on the one hand the many attractions of the country, on the other hand, different severely limiting factors. As a direct effect of the local COVID policy and related restrictions and lock-downs introduced by the government, the tourist arrivals received a disastrous blow. In March 2020 the borders were closed for international tourists and only nearly 2 years later in February 2022 again opened. Meanwhile, in 2020 still 1.5 million international visitors were registered, in 2021 only around 150,000 foreign visitors could arrive. For 2022 the arrival of around 2.6 million tourists has been stated. This is, of course, still very far from the over 8 million tourists who arrived in 2019. It can be estimated that it will take at least 3-5 years to reach the old heights and recover the sector. With additional investments in the sector and necessary improvements in the frame conditions, the number of arrivals could increase to over 20 million in 10 years from now.

5. A view to the internal distorted structures: Highly concentrated economy, power of big business and economic nationalism

In the former chapters, it became evident that the Philippines—truly in need of accelerated development—did largely underuse its potential regarding its external economic relations like trade, FDI and international tourism respectively misusing it as in the case of international indebting. Countries such as Singapore, South Korea, Malaysia and Thailand have demonstrated it differently. The Philippines failed to follow the path of an open economy and fell and are falling further back behind most of the other Asian countries. The next question that arises is what are the root causes for the economic policy decisions the diverse governments of the Philippines have taken since 1965 when alternative options are at disposition. Here we are touching on the key link between external and internal economics.

The Philippines follow a conservative model of a private sector-led economy without considerable participation of the public sector in the creation of the National Social Product. If we are taking the tax revenue GDP ratio as a proxy for the public sector participation we can observe an average ratio of only 12.7% from 1985 till 2022. In September 2022 the Philippine tax revenue percentage of the GDP stood at 16.1 [47]. The data reached an all-time high of 16.8% in June 1997 and a record low of 8.1% in September 1986. These ratios are extremely truncated; a developed country like Australia reports 31% and a close neighbour like Taiwan 21%. Taxes are the basic instrument of a country to finance key tasks respectively public goods like general administration, infrastructure investments, security measures and of course social expenditures. It is no wonder though that all these services in the Philippines are delivered in a limited and low-quality manner.

The flip side of the coin is a predominant private sector which contributes far over 80% to the generation of the GDP. Even important strategic sectors like power, water, highways and ports are in the hands of the private sector. As usual to be found in developing countries, the structure of the private sector is dominated by a huge number of micro-enterprises and SMEs, not to mention the informal businesses. R. Aldaba counted 2008 on the other side only 2660 large enterprises which can be seen as a first hint towards the high concentration in the private sector in the Philippines [48].

To make this first assessment more substantial: The World Bank Group undertook 2018 a key investigation into the status of competition in the Philippines and related restrictive practices. The key findings are that the average four-firm concentration ratio across all sub-sectors in the Philippines rose from 71 percent in 1988 to 81 percent in 1998 with the most concentrated sub-sectors found in the production of intermediate and capital goods, such as machinery and transport equipment. Following these lines, the manufacturing sub-sectors appear to be heavily concentrated with a higher proportion of monopoly, duopoly or oligopoly markets, which are typically more prone to collusion and abuse of market power. New statistics confirm that a notable proportion of markets in the Philippines can be classified as highly concentrated, more than 40 percent in manufacturing, close to 50 percent in wholesale/retail, more than 70 percent in agriculture and more than 95 percent in transport/storage [49].

According to the results of this World Bank investigation, Philippine markets are characterized by higher levels of restrictiveness compared to the average across all countries, and more restrictive than other regional peers such as South Korea, and Japan. Restrictiveness means higher barriers to competition. The three issues where market regulation in the Philippines seems to create the most significant restrictions to competition are public regulations, administrative burdens to start-ups and non-explicit barriers to trade and investment; all in the wording of the World Bank study.

A dominant and highly concentrated private sector poses serious limitations to economic growth, development and sustainability: "These corporate conglomerates do not have an incentive to invest and expand their operations since their main source of profitability is a captured market. In turn, the resulting higher costs in these sectors discourage investment in sectors that have strong backward and forward linkages with them, particularly in manufacturing… These results corroborate what is well known about the Philippines, that is, the country is characterized by a lack of "culture of competition". Monopolies and cartels are accepted as a part of doing business, an attitude that can be readily explained by institutional factors." [50].

A first implication is the creation of a "closed shop" where competition is being inhibited by strong firms' attempts to prevent competition from entering the market aided by weak antitrust legislation respectively implementation. In this scenario, generally weakened competition leads to ever-growing market concentration, which would coincide with lower productivity growth and higher prices. These trends overlap with a falling labour share of income, declining private investment, and rising corporate profit rates [51]. In macro-economic terms the high concentration in many, among them key sectors, translates into lower growth rates, lesser national investment, lesser technological development, lower household income and growing disparities in the society.

A second implication is the formation of a big business community that dominates great parts of the economy. This relatively small group stands in the tradition of the crony capitalism of the times of Marcos and one or other will have made his fortune in these times. Although no official numbers are available, the combined wealth of the 50 richest tycoons on the 2021 Forbes list of the Philippines is indicated as US$ 79 billion. These numbers are based on the value of the stocks of the family-owned businesses and the reigning exchange rate [52]. Just to give 2 examples: The richest family in the country Sy owns the largest mall network SM or "Shoe Market" as well as SM Hypermarket, SM Investments and the BDO bank. The Zobel de Ayala family owns an unbelievable array of lead companies like Ayala Land, BPI bank, telecommunication giant Globe and Manila Water [53]. In conclusion, a few families in a country of more than 117 Mio. people own most of the biggest companies and hereby exercise a huge influence on the fate of the whole economy.

The equivalent on the political side are the few political families or clans in charge since the foundation of the Republic after the Second World War. The most famous presidential names are the Aquinos, the Macapagal/Arroyos, the Marcoses and recently the Dutertes. The rich families don't engage directly in politics; they don't want to direct the spotlight to their fantastic wealth. The political leaders are the vicarious agents of the private sector's interests: the protection of their national markets and domains against foreign competition. This socio-economic configuration reminds a lot of the economies of the Latin American countries due to the joint colonial Spanish Catholic roots and traces the failures of the national development back to these similarities [54]. Policy and big business have an identical goal: secure their positions and their assets; similarly the political clans in the Philippines have amassed huge wealth.

The described structures and conditions influence also strongly the situation in external economic relations. Exports are hampered by the extended protection of many sectors in the interest of the national capital. Although many changes in the trade policy had been undertaken, a basic change to an export-led development never happened. Foreign Direct Investments are still widely restricted as shown in the corresponding chapter. The reason is national big business wants to stay in control of certain sectors, specifically in public utilities, agriculture and manufacturing. Without any doubt, a nationalistic element is inherent in the Philippine economic and commercial policy.

In the context of economic nationalism, the following analysis of Gerardo P. Sicat is very worth considering: "The original sin of Philippine development policy began with the economic provisions of the 1935 Constitution. At the culmination of our nation-building, just ten years before promised independence, our constitutional forefathers thought that the control of capital and all natural resources should belong only and fully to our people… Influenced by the fear that foreigners—especially Americans—would continue to exploit the nation despite independence… To write those provisions in the constitution meant that those provisions would be difficult to change." [55]. G. Sicat draws back the failures of economic policies and development of the country to these constitutional restrictions and of the ready-made use of those by the national capitalists to benefit their own interests which fall into line with the analysis presented here.

6. Three indications for the economic decline of the Philippines

Before coming to the findings and recommendations some hard facts shall underlay the economic decline of the Philippines. Three indicators will be considered: GDP development, GDP per capita and poverty rates.

In nominal terms, the GDP of the Philippines demonstrates a seemingly impressive growth from only 6.5 billion US$ in 1965 to 394 billion in 2021 [56]. That makes the Philippines the 32nd largest economy in the world according to the International Monetary Fund [57]. However, when contemplating the nominal GDP over a span of nearly 60 years one must take into consideration inflation and the permanent US$ appreciation against the Peso to come to real comparable terms. Inflation has been always relatively high in the Philippines. "The inflation rate for consumer prices in the Philippines moved over the past 61 years between 0.7% and 50.3%. For 2021, an inflation rate of 3.9% was calculated. During the observation period from the 1960s to 2021, the average inflation rate was 8.5% per year." [58]. Besides inflation, strong population growth in the mentioned period from around 45 million people to over 110 million must be considered as the workforce base grew accordingly. Still, the country is today only ranked the 11th largest economy in Eastern Asia, a bit ahead of Malaysia, which has a population of roughly over 30 million. This is another strong indicator of the relative decline of the Philippines.

As the GDP depends besides other factors on the size of the population, normally the GDP per capita is used as an indicator of the wealth of nations. Again, the nominal growth seems impressive: The GDP per capita of the Philippines advanced in nominal terms from 211 US$ in 1965 up to 3,549 US$ in 2021 [59]. The same arguments that were mentioned discussing the validity of GDP as a proxy indicator regarding on-going inflation and population growth are also valid for the GDP per capita. The importance of the high population numbers becomes very clear when comparing the rankings of the nominal GDP in the world (32nd position) and of the nominal GDP per capita (128th from 192) [60]. The gap could not be bigger.

Latter ranking puts the Philippines among the poorer and lesser developed countries in the world close to countries like Bolivia, Papua New Guinea and Cape Verde. A calculation based on constant prices of 2010 puts the comparable real GDP per capita for 1965 as roughly 1,300 US$ [61]. The succession from this amount in real terms to the around 3,500 US$ reported for 2021 and the growth realized over a span of nearly 60 years in times of huge technological advances and globalization demonstrates again the very slow pace of advancement in the Philippines.

The third and most sensitive indicator for the development of a society is the poverty rate. Poverty is a long-lasting issue in the Filipino society. In the 1970s and 1980s poverty rates oscillated between 50 and 60% [62]. The situation has not really changed much. For 2021 the Philippine Statistics Authority (PSA) reports an official poverty incidence of 23.7%, meaning that close to one-fifth of the population is living in the poverty bracket [63]. But to put these numbers into context one must know that the PSA arbitrarily puts the threshold to meet basic foods and non-food needs to only 1.41 US$ a day per person. The United Nations places internationally the threshold for absolute poverty at 1.90 US$. Still, how these low amounts—1.41 US$ or 1.90—are enough to secure survival remains the secret of the Statistics Authority as well as of the World Bank given the lasting inflation in the country and exploding food costs in the wake of the COVID pandemic aggravated by the rising energy costs because of the war in the Ukraine.

The concept of relative poverty is not really discussed and statistically armoured in the Philippines. Relative poverty describes circumstances in which people cannot afford actively to participate in community life and benefit from the activities and experiences that most people take for granted. One has to help oneself in this situation with other surveys like the following: “Compared to the PSA report, the survey done by the private polling firm Social Weather Station (SWS) showed a higher number of Filipinos who rated themselves as poor and “borderline poor.” The report pegged the number of poor families at around 48 percent of the population, which is considered more accurate given the unprecedented loss of jobs and livelihoods in the past two years.” [64]. These data sound like the poverty numbers of the 1970s and 1980s, which means as a crystal-clear conclusion poverty incidence has in no way improved in the last 50 years. In sharp contrast, neighbouring countries like Thailand, Vietnam and Malaysia have practically already eliminated extreme poverty, and Indonesia will follow soon [65]. Here is another clear indication of the very slow development pace of the Philippines and its relative decline in Asia.

7. Conclusions and outlook

Our analysis has demonstrated in extension that the country could not make beneficial use of the external triggers for accelerated development linking these failures to the existing internal power structures:

- **Trade:** The research on the period from 1965 onwards revealed a sub-optimal use of the export potentials of the country and additionally in most of the years the existence of significantly higher imports than exports which incites a constant burden to the balance of payments of the Philippines. Instead of creating a surplus for development purposes international trade led and leads to a permanent outflow of financial resources. The country never counted with an effective export strategy or a supporting export promotion. Instead, the country nourishes an “artificial” export sector in the form of highly subsidised export zones. All this shows that the Philippines never took the road of an aggressive outward-looking strategy like many other Asian countries as South Korea, Singapore, Thailand and Vietnam which all passed over the years by far the development level of the Philippines.
- **Foreign direct investment:** This trigger represents an excellent tool for development acceleration referring to additional investment, technology transfer and market access. As in the case of trade the Philippines in difference to its competitors in South-East and East Asia could not make adequate use of the existing potentials. The on-going restrictions to foreign investments in the country and the distortions created by a basically protectionist national

economic policy followed by all governments differ strongly from their many public declarations announcing further liberalization.

- **Foreign indebtedness:** Many countries use this trigger to finance great development projects like roads and ports to promote infrastructure or to finance sector policies to improve education or social welfare. Since the 1970s the Philippines had followed a policy of heavily indebting on international markets to finance mostly politically motivated projects which had led to different balance of payment crisis and a situation of over-indebtedness today. As these projects showed little economic spill-over effects, one has to conclude that this valid instrument had been misused by the Philippines.
- **International tourism:** With its more than 7,000 islands and archipelagic structures in some parts, its beaches and its diversity, its icons from colonial times, also the general English knowledge, the Philippines have a vast tourist potential. Other countries in the region like Thailand and Malaysia have been in contast overly successful in the past decades. However, the lack of a strong tourism promotion policy and insufficient investments in adequate infrastructure (airports, roads, ports, etc.) prohibited faster growth in the Philippines. The general lockdown during COVID-times brought tourism to a virtual standstill with numbers in 2022 and 2023 showing a slow recovery process.
- **Internal structures:** The last brick to pin down the right explanations for a failed and failing economic policy of the country for identifying the root causes can be found in the internal socio-economic structures. The extremely high concentration in most economic sectors and the wealth in the hands of very few create the conditions and propensity to secure and protect these favourable conditions and the related high profits. Foreign competition is always seen as an "intruder" and has been from this perspective restricted in all possible and justifiable means. The political and institutional landscape of the Philippines has supported these tendencies. From this angle, a strong outward-looking strategy has never been an option and as a result, we can only state a mediocre mix of basically inward-looking policies with some patches of market liberalization and outward-looking fragments.

Our guiding question has been: Is the economic decline of the Philippines unstoppable? Can there any change mode to the characterized and failing economic policy be detected? In June 2022 Ferdinand Marcos Jr. was sworn in as the new President. In his inaugural address, Marcos Jr. postured himself as a radical reformer and proposed not to look back but forward to a better future with a—using his own words—"comprehensive, all-inclusive plan for economic transformation". Observing closely the first 6 months of the new government which can be only characterized as a zero-policy-phase, we fully agree with the following statement: "The first 100 days are the moment of change when a new government defines its trajectory over the next six years. In the specific context that so many of the country's troubles are chronic, the first 100 days are arguably the most crucial moment to make a break from the past—not just from the past administration but from poverty, inequality and underdevelopment. The Marcos Jr. administration failed to do anything with this moment and, if anything, confirmed that it is unable to even imagine any real fundamental change. It is extremely unlikely to chart any new directions in its remaining six years." [66].

As a result of our diagnosis of the failing development path of the Philippines over the last 50 years or more, a clear vision for the sooner or later inevitable transformation process is emerging. The only viable way out of the ongoing economic nose dive and prevailing poverty would be a radical opening up of the economy with the following key elements:

1) Ending the long era of protectionism with a clear schedule for lowering import taxes to an internationally comparable level in order to strengthen

competition and create the conditions for a strong up-swing of exports. This process should be supported by adequate institutional and fiscal means of export promotion as it happens in the regional context in countries like Thailand and Malaysia. Services exports should be seen as a new business model and receive special attention and support.

2) With respect to the attraction of FDI a radical screening of all concerning regulations should be undertaken, specifically about landownership and local majority rules with the necessary liberalization steps implemented fast. Foreign investments in more remote areas should receive additional incentives. It could be considered to create a foreign investment promotional office.

3) To make the best use of scarce foreign credits, a prioritised list of viable key infrastructure projects should be developed and the best conditions for financing the most priotized projects via international credits should be identified.

4) International tourism in the Philippines has a huge potential with enormous economic spill-overs which has first of all to be fully recognized by the authorities. Touristic infrastructure as well as advertisement and promotion on an international level must be vastly improved.

Additional key factors of a long outstanding authentic economic strategy for the indispensable transformation of the Philippines would be a general modernization of the infrastructure of the country, guaranteeing law and order and curbing the power of big business. On the meta-level, this would mean abandoning economic nationalism and acknowledging successful outward-looking growth models in other countries of the region.

A new view on economic reality and development perspectives would be required as well as the necessary political majorities and capable leaders to implement a radically change approach to reach a far deeper integration in the world economy. But our analysis shows very clearly that for the moment at least the existing close coalition between big business and the government will not allow significant changes to the existing in the first place inward-looking and nationalistic economic model of the Philippines. It is only imaginable that dramatic changes in the political internal landscape, specifically larger popular movements against poverty and social exclusion or dramatic international events such as geo-political conflicts in the region or drastic repercussions of the ongoing climate change could trigger a reform of the politico-economic system. Such events are in the moment not foreseeable or likely. This implicates a bleak outlook: The established economic policies will prevail, growth and development patterns will follow the described path, population growth will continue, and poverty at large scale not finish existing. Other Asian countries using a more advanced and sophisticated economic model will pass the Philippines in comparison. Its relative economic decline will continue for the foreseeable future. Still, any effort to demonstrate the shortfalls of the current economic model and to hint at different development options should not be given up.

Conflict of Interest

There is no conflict of interest.

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