



THE REVIVAL of the Philippine Economy

The former Secretary of Finance for the Philippines and Chair of the Economic Development Cluster from 2010 to 2016, Cesar V. Purisima, talks about the turning around of the Philippine economy and restoring investor confidence, in this interview with Philip Zerrillo.

The Philippine economy has been averaging six percent growth over the past five years. What needs to be done to maintain the momentum?

To answer the question, we have to first recall what held us back. After all, it was only about 50 years ago that the Philippines was considered as one of Asia's top economies, alongside Japan. I think what curbed our growth was a lack of the right leadership and economic management, which gave rise to persistent fiscal constraints, infrastructure issues, challenges in governance, a very narrow industrial base, limited human development, and the reining in of the structural growth capacity of the country.

But then you fast forward to the Aquino administration, which ran a programme of good governance and walked its talk. So when we said that we were going to cap the fiscal deficit at 2 percent of Gross Domestic Product (GDP), we did so, and it averaged about 1.8 percent. Similarly, we said that we would increase investment in infrastructure, and from less than 2 percent of GDP in 2010, we increased it to 5 percent.

We sent a clear signal that we would not tolerate corruption, and implemented reforms such as zero-based budgeting that made it more difficult to have wastage and corruption. We filed cases against corrupt people, and joined the global open data initiative where people can look at the budget on the Internet, and then actually drill down to their own locations and see how much money is allocated to their districts.

All these measures resulted in increased market confidence. When that took place, it allowed us to borrow at a lower cost and we were able to reduce the interest component of our budget to about 15 percent from a high of 29 percent back in 2004. The resultant savings could then be devoted to increasing investment in education, healthcare and future infrastructure without having to add new taxes.

Our investors started believing in us and ramped up their own capital investments. Then our consumers became more comfortable about their own future, and also the future of their country, and started spending more on durables, motorcycles or condominiums. So we entered a virtuous cycle of confidence, investment, growth, consumption, and optimism that we are currently enjoying; and over the past six years from 2010 to 2016, the Philippines has witnessed its highest average growth in over 40 years. We were the most upgraded sovereign economy, having been upgraded 24 times by different rating agencies. Suddenly, we were no longer the 'sick man', but the bright spark in Southeast Asia. Hence, I always say this: good governance is great economics!

As of 2013, the agriculture sector employed about a third of the workforce and accounted for 12 percent of GDP. What kinds of reforms do you feel are needed in this sector?

This sector is a major area of poverty. With 33 percent of our workforce contributing to only 12 percent of GDP, the cost of food becomes higher and therefore the wages become even higher, because the people demand higher wages to be able to feed themselves. So clearly, we have to address the situation by addressing the various dimensions of the problem. Access to finance and access to the latest technology are two areas where efforts have to be made. Even simple things like access to ice is critical, as a fisherman can lose between 40 and 80 percent of his catch because he does not have access to ice.

Access to market is another key challenge. For example, before harvested vegetables reach the ultimate consumer, they can go through seven or eight middlemen—and they are the ones who make money from it while the producer and the end consumer pay the price for that.

I always say this: good governance is great economics!

So one of the things that we tried to do is to encourage large companies to work with and help small entrepreneurs. The programme, called 'Kapatid' (Big Brother), is already showing success, with companies' own programmes like Jollibee's Farmer Entrepreneurship Program (FEP) actually proving that this can work. Rather than buying from the local farmers, Jollibee used to import all its onions, as they would be of the same size and same quality with assured delivery. But then Jollibee began to work with farmers, and provided them with training to produce the variety of onions it needed. Those who participated were given purchase orders against which they could borrow from banks. The programme was so successful that today, Jollibee sources all its requirements locally. Nestlé is another example, which has gone from zero to around a quarter local sourcing for coffee beans. Unilever, too, is trying to do the same with coconut procurement.

We have also introduced microfinance opportunities. Instead of paying 100 percent a year in interest, farmers now pay 20 to 30 percent, which is still high, but much lower than before. So efforts are taking place, but there is no single magic bullet—it takes different ideas and solutions to really

solve the issue. Today, the farmer population is very old, the average age is about 57, and we need to try to attract young people to return to agriculture and bring in new innovations.

Along with increasing the budget for irrigation, farm-to-market roads, etc., we also need a shift in policy. An example of this would be to adjust the rice self-sufficiency programme from 100 percent self-sufficiency to perhaps 90 percent of our requirement, accepting the fact that certain parts of the Philippines are not able to compete with the cost efficiencies of say, the Mekong river delta. It would hence be better to reposition the former rice areas as sites for higher-value crops. So we need to move away from commodity-centric Department of Agriculture programmes to area-centric programmes.

Natural disasters play havoc in the Philippine economy annually. What steps have been taken to respond to such unplanned events and prepare for climate change?

While in administration, one of the issues that we really pushed for was the involvement of the finance minister in the fight against climate change. Earlier, and for the longest time, it was just the climate experts who were at the forefront of this fight, but then at the 2015 United Nations Climate talks, finance ministers from 20 vulnerable countries came together to set a target of mobilising US\$20 billion in new investment for climate action by 2020. This was critical as, ultimately, the fight against climate change won't be serious unless you bring in the finance ministers and resources.

The Philippines is the fourth most disaster-prone country in the world and under serious threat along with several other island nations. Therefore, this debate on whether climate change is real or not needs to end. We must work together as a community of nations to address this problem and make it mainstream. We have an added challenge—along with climate change, the overutilisation of artesian wells has also resulted in salt water intrusion of the water tables. So for example, we used to have a very vibrant tobacco industry, but the quality of tobacco has been affected by the high level of salt in the soil. Hence, there is an urgent need for us to invest in climate-resilient crops and agricultural infrastructure.

While in administration, one of the issues that we really pushed for was the involvement of the finance minister in the fight against climate change.

Shifting gears a bit, what are your thoughts on the ASEAN Economic Community, and the opportunities and challenges that it would bring to the Philippines?

I am a big believer in the AEC because, apart from Indonesia, all the other nine ASEAN countries are small and live in the neighbourhood of giants—so we really need to get together in order to attract investment on an economic scale. If we do so, we can actually attain the vision of the founders of ASEAN to make this the hub for Asian business. The opportunity is there, given the geography and the history of the region.

Although we have not moved as quickly as we would like to, I think substantial progress has been made. For instance, the electronic industry is one of its successes. It was one of the 10 industries that was integrated ahead of time, and had we not become part of a more integrated ASEAN sector, the Philippines would have lost this sector because our industry was focused on assembly and there was no supplier cluster whatsoever. Today, we produce up to 12 percent of the world's semiconductors, but that's only because it is now the ASEAN electronics industry—and that is the true potential of ASEAN. I hope we will continue to go back to the original idea, which is complementation, because if we try to do too much concentration, such as producing cars in one area only, then what are the other areas to do?

If we continue to make ASEAN important globally, there is much in the way of upside for all the countries because intra-ASEAN trade now sits at only around 25 percent of total ASEAN trade. Moreover, a lot of this is still in intermediate goods. Also, given the threat of the U.S. and other large markets looking inward, going slow on globalisation and becoming more protectionist, we countries that are dependent on exports to outside bigger markets will have to look for alternative markets. Hence we have to look inward as well, and by increasing intra-ASEAN trade from 25 percent to say 40 percent, and focusing more on final consumption goods, we can actually replace a lot of what we might lose from the United States. So it offers great opportunities for us to really fulfil the potential of the region.

However, what we must not lose sight of is the centrality of ASEAN. We can be pulled by the great powers in one direction or the other, so we have to stick together and agree that this is good for us. There will be challenges down the road, and the Trans-Pacific Partnership (TPP) was one such big challenge. In fact, I believe the United States' withdrawal from the TPP was a blessing in disguise for this region. Because the TPP invited only four ASEAN countries, and so if it became effective,

it would have posed a major issue for all the other ASEAN countries. For example, Vietnamese garments would have suddenly gained a 20 percent advantage in the U.S. market vis-à-vis garments from the Philippines or Indonesia. Hence, instead of ASEAN becoming more integrated, there would have been further issues to deal with.

Digital disruption, protectionism and climate change are just some of the megatrends taking place globally. What are your thoughts on how these megatrends would impact the economy in the medium to long term?

I believe the greatest opportunity and challenge for the Philippines is in the technology space. For example, our business process outsourcing industry has been one of the pillars of economic growth, employing 1.3 million Filipinos and contributing at least 9 percent of GDP with revenue reaching US\$25 billion in 2016. But it is under immediate threat from technology given the rapid advancement of artificial intelligence. And that is only the beginning. What worries me about artificial intelligence is that I used to think that only manual labour is under threat, and you were safe if you had cognitive labour—but not anymore. So even if you go up the value chain, I believe that down the road, technology will affect your business model.

In a country like the Philippines, we still have to catch up in terms of reducing the equity gap, educating our people and alleviating poverty. Technology can give us the opportunity to leapfrog towards the front, or it can push us further behind. Therefore, I hope that the government and the private sector will be smart enough to realise that we need to make investments in education, infrastructure and other policies, which would then address these problems down the road. Ultimately, although I think jobs will be destroyed, entrepreneurship would be a useful skill. We need to think about the kind of education and skills we impart to our children. This will give them a chance to be engaged productively 15 to 20 years from now in a very different world.

Singapore is very good at this—it is always ahead of the curve. Singapore not only see things, but it does something about it even before you realise it. For instance, it got into the biotechnology space way before most other nations. And the advantage a country like Singapore has is its continuity of policy over a long time. But how do you maintain continuity in a U.S.-style democracy like the Philippines? Our administration has just six years, and six years is not enough.

Without the support of the head of state and the allocation of political capital, it would be very hard to push for reform.

You have been named 'finance minister of the year' seven times in six years. What strategies and leadership insights can you offer others to learn from your experience in these campaigns on creating change?

First of all, it must be noted that the finance minister is just one part of the team, and in government, 'political capital' is the currency. Without the support of the head of state and the allocation of political capital, it would be very hard to push for reform. Thus the key to my success is that I had the support of my president, whose agenda was aligned with our fiscal agenda. That alignment is crucial, and once you have it, it is just a case of using the political capital judiciously and accepting the fact that you cannot do everything in one administration. You accept that this is a journey, and that you must take many steps with the goal to bring you to a better position than when you started. It has to be a team effort, and one that is led not by the finance minister, but by the head of state.

Second, it must be noted that you are only as good as the people around you. So I believe in recruiting the best talent, and hiring young people who bring in fresh perspectives and energy.

In essence, the finance minister has a marketing job that must start at the top, where the head of state believes in what you are doing. If that happens you will not have an issue in pushing reform with your cabinet, and you will have a better chance of selling it to the legislature and then ultimately to the other stakeholders. And you must be ready for compromise, because without compromise, you cannot get anywhere.

Cesar V Purisima

was the Former Secretary of Finance for the Philippines and Chair of the Economic Development Cluster from 2010 to 2016.

Philip Zerrillo

is the editor-in-chief of Asian Management Insights and the Executive Director of the Centre for Management Practice, Singapore Management University