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Economic Transformation and Growth in the Philippines: An Analysis of Political Settlements, Rents, and Deals

by

Jesus Felipe
School of Economics, De La Salle University

Edgar Desher Empeño
School of Economics, De La Salle University

and

Brendan Miranda
School of Economics, De La Salle University

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Levy Economics Institute
P.O. Box 5000
Annandale-on-Hudson, NY 12504-5000
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ABSTRACT

The main gateway for the Philippines to develop and become an upper-middle-income economy—and eventually, a high-income economy—is to expedite the shift of workers out of agriculture and to produce and export more complex products with a higher income elasticity of demand. The actual growth rate is constrained by the balance-of-payments equilibrium growth rate, about 6 percent—the maximum the country can attain without incurring balance-of-payments problems. We use the Pritchett-Sen-Werker political-economy framework to analyze the roles of different types of firms and the deals environment from successive Philippine administrations until the current one. Due to their economic size and political power, only the nation's conglomerates will be able to lead the transformation of the economy. However, the country's large groups do not have incentives nor do they see the need to shift to the production and export of tradables. Without this transformation, the country will be able to register positive growth but will not become an internationally competitive economy, and will not be able to achieve, and especially maintain, the growth rate targeted by the current administration: 6.5–8 percent per annum during 2023–28.

JEL CLASSIFICATION: O11, O40, O43, O53

KEYWORDS: economic transformation, deals, Philippines, political settlements, rents

1. INTRODUCTION

For quite some time, the Philippines was referred to as "the sick man of Asia" by economists and political commentators, in reference to its problems attaining and maintaining high economic growth rates similar to those achieved by its East Asian neighbors during the 1970s–90s. Key reasons mentioned in the literature are, among others, inequality, wrong policies, and the failure to industrialize and participate in the most rewarding stages of global value chains. However, as Felipe, Estrada, and Lanzafame (2022) documented, Philippine growth started picking up around 2010, and prior to the COVID-19 pandemic of 2020–21, the country was one of the best economic performers in East Asia. This good performance raised questions about the possibility of the Philippines finally entering an era of relatively high growth that could be maintained for a significant period. Unfortunately, the pandemic derailed these prospects and submerged the country in a deep crisis, with negative growth of almost 10 percent in 2020 (many workers had to retreat to the countryside and many companies shut down), wiping out years of positive growth.

In May 2022, Ferdinand Romualdez Marcos Jr. won the Philippine Presidential election with an absolute majority. The administration of President Marcos Jr. is set on attaining a 6–7 percent growth rate for 2023 (actual growth ended up being 7.6 percent, in part the result of pandemic recovery) and a 6.5–8 percent annual growth rate for 2024–28. This is a very high growth target given current forecasts for advanced economies (about 3 percent for the coming years, predicted by the IMF) and the international political uncertainty (e.g., the Russia-Ukraine war). Can the Philippines attain and maintain such a high growth rate in this context? If yes, *how*?

During the last decades, the Philippines has achieved "modernization without development" (Fukuyama 2014), a situation such that social change occurs more by the push of rural poverty than by the creation of new industrial employment. Under this setting, people from rural areas move to urban areas but retain much of their rural social organization and values under extremely marginal economic conditions. Cities like Manila emerge in the absence of a vibrant industrial economy. Consequently, the Philippines does not have a large group of middle-class individuals with a high educational level;[1] and neither does it have a strong industrial working class. The Philippines has also democratized before, creating a modern state with the competent civil service needed by merchants and industrialists, who require increasingly complex services expected from the government. This has created a substantial amount of patronage and clientelism, with poorly educated voters rewarded with individual benefits, such as public-sector jobs, handouts, or political favors.

How will the Marcos Jr. administration achieve and maintain a 6.5–8 percent growth rate without industrializing, with still-significant clientelism, and with a relatively low growth rate in advanced economies? If the creation of appropriate institutions (rules) is crucial for development, as argued by Acemoglu and Robinson (2012) and by Fukuyama (2014), and yet these develop slowly, is there any way for the Philippines to accelerate growth and development? The problem the Philippines faces is that accelerating (and maintaining) its growth to a rate similar to that attained by the East Asian miracle countries decades ago will be very difficult today. In this paper, we develop the idea that the key to the Philippines' development and progress toward becoming an upper-middle-income—and eventually a high-income—nation lies in transforming the economy. This means that labor has to move away from agriculture (still employing about 25 percent of all workers) into manufacturing and advanced services, and that exports have to become more complex. The result of the two will be higher productivity and wages. However, the current political and economic environment and the approach to deals hinder this process.

A solid analysis of the nation's growth prospects requires an understanding of the major constraints to (accelerating) growth. There are three such constraints, all intertwined. At the macroeconomic level, it is the need to avoid persistent current account deficits as, in general, these will not be compensated by capital inflows. This leads to the notion of the balance-of-payments–constrained growth rate (Thirlwall 1979). This is the growth rate consistent with the

[1] Due to limited opportunities for high-quality employment domestically, many Filipinos seek work abroad to support their families by becoming Overseas Filipino Workers (OFWs). Typically, they get employed in healthcare, maritime sector, construction, and domestic work. Their contributions to the Philippine economy are through remittances, which serve as a vital source of income for many households. However, it is important to note that, for those who have a high level of education, migration leads to "brain drain," as the country loses talent and human capital that could otherwise contribute to domestic development.

current account equilibrium. The intuition is that, before achieving its potential growth rate, an economy's actual growth performance can be curtailed by macro constraints. For emerging economies, the external constraint associated with the current account balance is particularly significant, given these countries' dependence on the availability of foreign exchange to finance their imports. Current account deficits can be sustainable and, indeed, necessary in the short run—especially when they allow for faster capital accumulation. But countries cannot finance ever-growing current account deficits in the long run, as there is a limit beyond which the deficit becomes unsustainable (or is perceived as such by financial markets), and a balance-of-payments crisis ensues. Thus, countries that find themselves in balance-of-payments problems may be forced to constrain growth while the economy still has surplus capacity and surplus labor—that is, while the actual growth rate is still below the potential growth rate. This growth rate is related to the structure of the economy through the income elasticities of demands for exports and imports (Felipe and Lanzafame 2020). Felipe and Albis (2023) calculated this growth rate and concluded that it is below the administration's 6.5–8 percent target (at about 6 percent). They found that workers' remittances contribute about 1.3 percentage points to this growth rate, and foreign direct investment another 0.6 percentage points. This implies that it will not be possible to attain the administration's target, as pushing actual growth above 6 percent would lead to current account deficits. The main policy implication is that the economy needs to export products with a higher income elasticity of demand for exports with respect to the income elasticity of demand for imports. Unfortunately, in 2020 COVID-19 delayed efforts to transform the economy by forcing many workers to seek employment in the countryside (Biswas 2021).

Second, at the institutional and political-economy levels, the constraint is the political environment, the country's approach to deals, and the sources of firm revenues (Pritchett et al. 2018). This constraint, as it relates to the previous, is the focus of this paper. We offer a political economy explanation of how the Philippines can achieve structural transformation through a well-designed plan that involves both the government and the nation's conglomerates. To do this, we analyze the country's history from its independence in 1946 until the present day, using the conceptual framework proposed by Pritchett and Werker (2012), Sen and Tyce (2019), and Pritchett, Sen, and Werker (2018), and derived from Khan's (2010) political settlement theory. We refer to it as the Pritchett-Sen-Werker framework.

Finally, the third growth constraint is at the firm level, namely the lack of adequate organizational capabilities, which leads to low productivity (Khan 2019). This is not the focus of this paper, but we acknowledge it is an important part of the problem.

We argue that these barriers can potentially be overcome. First, although decisions affecting the country have traditionally been made by political and economic elites for their own benefit, this does not have to be incompatible with development. Even in this context, there is room for change. Second, Filipino conglomerates ought to drive the country's progress by producing tradable goods that are competitive globally. This requires an understanding of what development is about (i.e., structural transformation, relaxation of the balance-of-payments–constrained growth rate), together with a commitment to increase the production and exports of tradable goods that can succeed in international markets, and not just simple assembly and packaging. Third, deals must be more open. Agreements regarding development and investment should be open to all investors rather than being limited to just elites or their close associates. Though risks are involved in trying to produce and export tradables, there is much to be gained in the development process. The current administration's growth targets can be achieved, even without major changes to the nation's political dynamics, by making decisions that increase the Philippines' resilience to political and economic shocks. This would benefit the government, conglomerates, and the population at large.

The alternative is to project a business-as-usual scenario. In this case, firms catering to the domestic market and benefiting from regulatory rents will continue to grow while competitive industries will struggle. Firms in manufacturing will continue to lack organizational capabilities, producing simple products that are not competitive in international markets. This does not mean that the Philippines will not be able to grow. Indeed, it still has a relatively high labor force growth, and attaining productivity growth is possible (given that it is still far from the technological frontier). Although the country's potential growth (the sum of labor force growth and labor productivity growth) is still relatively high, at about 6 percent (Felipe, Estrada, and Lanzafame 2022), it remains vulnerable to global risks. Hence, a more resilient economy is crucial to avoid boom, stagnation, and bust episodes—and, as Hidalgo and Hausmann (2009) have noted, countries with more diversified economies are better equipped to survive such cycles. In essence, episodic growth will persist unless the structure of the economy changes. Even if positive growth episodes occur, growth will not be stable and sustainable in the long run, and strong booms and busts will continue to be likely.

The rest of the paper is organized as follows. Section 2 describes the conceptual framework from which our analysis draws. Sections 3 and 4 apply the framework to the Philippine growth experience from independence until now, including our assessment of what we expect during the Marcos Jr. administration (2022–28). We argue that the government must empower the country's largest conglomerates owned by the elite to engineer a process of structural transformation toward the production of tradables. This requires the commitment of the nation's largest groups and collaboration with the government. Short of this commitment and transformation, the country will continue registering growth, but it will not be an internationally competitive economy. Section 5 presents our conclusions.

2. CONCEPTUAL FRAMEWORK

Pritchett, Sen, and Werker (2018) examined the various growth episodes of a sample of developing countries through a political economy lens, using the frameworks developed by Khan (2010) and Pritchett and Werker (2012). The framework consists of two core variables, the *political settlement* and the *rents space*, and one intermediary variable, the *deals space*.

Political settlement refers to the balance of power among different social groups and classes. Khan (2010) argued that the group that holds power shapes the distribution of rents and uses institutional arrangements to maintain peace and economic stability within society. There are two dimensions of power in the political settlement, as seen in Table 1. The first is horizontal power, defined as the concentration of power in one dominant group or in multiple groups vying for power. The other is vertical power, defined as the distribution of power between elites and non-elites.

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

<table>
<tr><td colspan="2" rowspan="2">Vertical/Horizontal Distribution of Power</td><td colspan="2">Horizontal distribution of power: the power of excluded factions</td></tr>
<tr><td>Weak</td><td>Strong</td></tr>
<tr><td rowspan="2">Vertical distribution of power: the power of lower-level factions</td><td>Weak</td><td>Strong Dominant Party</td><td>Vulnerable Authoritarian Coalition</td></tr>
<tr><td>Strong</td><td>Weak Dominant Party</td><td>Competitive Clientelism</td></tr>
</table>

Source: Pritchett et al. (2018)

The second core variable is the rents space, which explains how economic opportunities are structured. This framework is divided into two dimensions where firms within an economy are analyzed against the standard of the target market and source of profitability. The first dimension is whether a firm only sells within the domestic market or exports to the global market. The second dimension refers to whether firms profit through discretionary rents (e.g., licenses for commercial use of a resource or bestowing firm-specific tax advantage) or through rents derived from normal market competition. This leads to four types of firms, as shown in Table 2.

Table 2: The Rents Space

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

Source: Pritchett et al. (2018)

Rentiers are firms that live off regulatory rents provided by the government and export natural resources to global markets. These firms act as sellers of commodities owned by the state in exchange for fees and taxes. These firms only invest heavily in machinery that extracts and packages resources because the products are already physically available.

Magicians are firms that compete in the global market through businesses operating in a competitive environment. They create a market "out of nothing" by producing complex products worthy of demand from other countries. Developing countries usually have firms that export garments, agricultural products, tourism, and processed items.

Powerbrokers are firms that live off of regulatory rents provided by the government but only sell to the domestic market. Most of these firms are regulated by the government, and entry is strictly limited. This happens in industries such as telecommunications, port operations, or petroleum refining. Governments ensure that these monopolies and oligopolies do not add extremely high markups on their services and products in a manner that negatively affects the consumer welfare of the public. Given this incentive, powerbrokers put a premium on forming relationships with politicians and regulators (they lobby for political favors) to keep their licenses.

Finally, workhorses are firms that only sell within the domestic market but operate competitively. They are largely the sources of goods and services in the market available to the public, such as food, beverages, and beauty services. Workhorses mainly comprise farmers, builders, restaurant owners, and livestock raisers.

This classification does not imply that rentiers and powerbrokers harm the economy because of their monopolistic tendencies, or that magicians and workhorses are good because they exhibit innovative characteristics. Indeed, rentiers can sustain growth during growth accelerations because they control a large portion of our export market. Meanwhile, powerbrokers can provide basic services to the public at the lowest prices and in the most convenient ways possible.

Different firms in each sector have varying demands from the government regarding policy implementation (Pritchett, Sen, and Werker 2018). These demands encompass contract enforcement, barriers to entry, infrastructure, subsidies or tax reductions, and clear rule-setting. All firms except powerbrokers prioritize contract enforcement, whereas powerbrokers favor barriers to entry instead of regulated competition due to the advantages they receive from the confusion of bureaucratic procedures and inconsistent enforcement. Magicians and workhorses equally require better infrastructure and clarity in contract regulations. Magicians and rentiers also advocate for specialized infrastructure, such as special economic zones and port facilities. Additionally, magicians and rentiers call for subsidies or lower taxes. It is important to note, however, that the motivation behind these demands varies. Rentiers seek subsidies for increased profits, whereas magicians aim for improved competitiveness and greater market presence overseas. Understanding these demands is essential for analyzing the interest of the elites in promoting growth.

The intermediary variable is the deals space, which refers to the informal and personalized relationships between those who make deals and those to whom deals are made available. These are not based on rules or how the deals are planned, but on how these planned deals are executed. This variable takes into consideration two factors. The first is to whom the deals are made available, that is, whether they are only open to a certain group of people (closed deals) or open to everyone (open deals). The second factor is whether these deals are honored (ordered deals) or not (disordered deals). This is shown in Table 3.

Table 3: The Deals Space

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

Source: Pritchett, Sen, and Werker (2018)

2.1 Toward a Theory of Episodic Growth

The previous section examined the variables that contribute to episodic growth according to the political economy theory presented. This framework suggests that economic growth is influenced by the openness and enforcement of deals in an economy, which is, in turn, influenced by the core variables of the political settlement and rents space. A growth episode creates a feedback loop that impacts the core variables and ultimately affects the openness of deals, influencing future growth episodes. For instance, a growth acceleration can occur when there is a shift in the deals space from disordered to ordered, as investors feel confident their resources will not be subject to corruption and the ruling elites will enforce contracts.

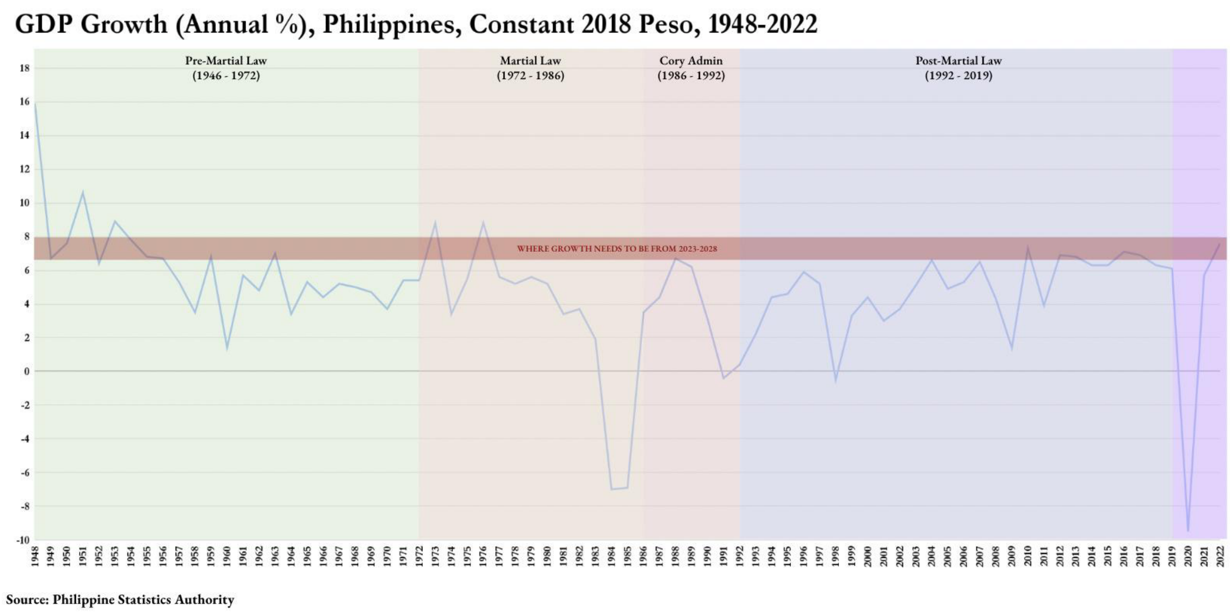
The evolution of institutions and the shift from closed deals to open and ordered deals is not predetermined. Growth can have a positive or negative impact on the deals space through the economic and political feedback loops. The economic feedback loop is influenced by the growth process by strengthening powerbrokers and rentiers or magicians and workhorses. If the power of powerbrokers and rentiers increases, the deals space may become closed as these groups benefit from closed deals. On the other hand, if the power of magicians and workhorses increases, the deals space may become more open due to these groups' dynamic nature and the potential for "creative destruction" to occur in these sectors. The political feedback loop is influenced by the evolution of the political settlement, which is affected by the relative power of different firms in the rents space and the constraints of the settlement. In cases where rentiers and powerbrokers hold more influence, it may negatively impact institutional quality unless there is a dominant party with strong enforcement capabilities that sees magicians and workhorses as important for maintaining growth.

If positive growth is fueled by closed, ordered deals that do not become open, both economic and political feedback loops will likely turn negative, and the closed-ordered deals may become disordered, ending the growth episode. However, if the deals space becomes more open and the magician and workhorse sectors become more prominent in the growth process, it can lead to sustained growth through positive feedback loops. Political elites may offer different deals to different groups of firms, such as closed, ordered deals to politically connected firms and open, ordered deals to magicians, depending on the political settlement and the relative power of different firms. This can impact growth and structural transformation.

3. THE GROWTH EXPERIENCE OF THE PHILIPPINES FROM INDEPENDENCE UNTIL THE MARCOS JR. ADMINISTRATION

Although the focus of this paper is on the analysis of the Marcos Jr. administration, it is important to note that there is path dependence in the deals and development framework of a country; that is, this is a function of the past. For this reason, it is imperative that we understand how the political framework and the deals space have evolved since the country attained independence in 1946 (going before this to the colonial period is beyond the scope of our analysis). In this section, we divide the period 1946–2022 into five episodes.[2] Figure 1 shows the growth rate, whereas Figure 2 shows how GDP per capita progressed through the growth episodes.

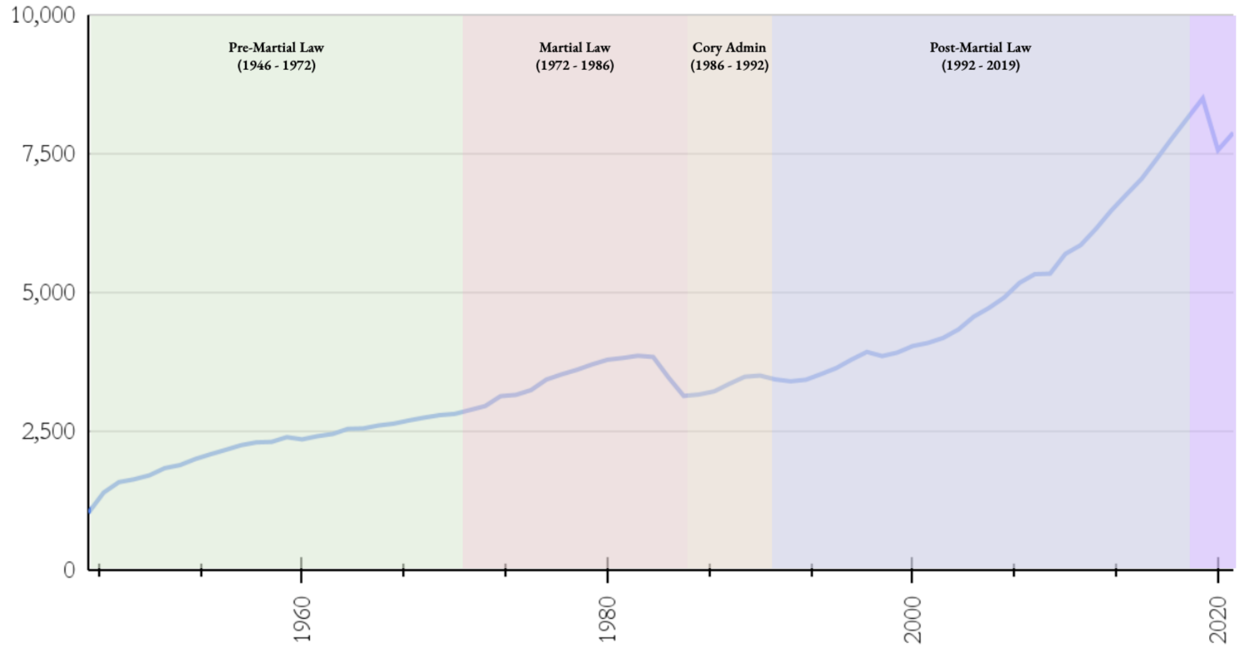
Figure 1: GDP Growth Annual Percentage, Philippines, Constant 2018 Peso, 1946–2022



Source: Groningen Growth and Development Centre (2022) and The World Bank (2023)

[2] Obviously, there is subjectivity in choosing these periods. Yet, we think that they are sufficiently homogeneous (and different among themselves) for the purposes of our analysis.

Figure 2: GDP per Capita by Growth Episode, Philippines, Constant 2011 USD, 1946–2021



Source: Groningen Growth and Development Centre (2022) and The World Bank (2023)

In what follows, we analyze each of them from the perspective of the Pritchett-Sen-Werker framework.

3.1 Pre-Martial Law (1946–72)

3.1.1 Political Settlement: Vulnerable Authoritarian Coalition with Two Major Ruling Parties

The average annual growth rate during this period was 4.14 percent. The settlement during this period could be classified as a vulnerable authoritarian coalition. The horizontal distribution of power was strong because power was never concentrated in one specific ruling party, as the Nacionalista and Liberal parties contended for seats in the national government. There was a periodic turnover of the ruling party whenever elections occurred (Thompson and Rawski 2008). Power alternated between the parties for the presidential and vice-presidential seats, as well as for Congress, during the seven national elections that comprise this episode. The same can be said for the senatorial elections, which have occurred every two years since the constitution was amended in 1947 (Teehankee 2002). Tables 4 and 5 show the split for such seats.

Table 4: Elected Philippine Presidents and Vice Presidents by Party Affiliation, 1946–72

Period	President	Party	Vice President	Party
1946–48	Manuel A. Roxas	Liberal	Elpidio R. Quirino	Liberal
1948–53	Elpidio R. Quirino	Liberal	Fernando H. Lopez Sr.	Liberal
1953–57	Ramon Magsaysay Sr.	Nacionalista	Carlos P. Garcia	Nacionalista
1957–61	Carlos P. Garcia	Nacionalista	Diosdado P. Macapagal	Liberal
1961–65	Diosdado P. Macapagal	Liberal	Emmanuel N. Pelaez	Liberal
1965-79	Ferdinand E. Marcos	Nacionalista	Fernando H. Lopez Sr.	Nacionalista
1979-72	Ferdinand E. Marcos	Nacionalista	Fernando H. Lopez Sr.	Nacionalista

Source: Teehankee (2002)

Table 5: Elected Philippine Legislative Branch by Party Affiliation, 1946–72

Period	Nacionalista		Liberal		Other Parties		Total Seats	
	Congress	Senate	Congress	Senate	Congress	Senate	Congress	Senate
1946	35	7	49	8	14	1	**98**	**16**
1947	-	1	-	7	-	0	**-**	**8**
1949	33	0	66	8	1	0	**100**	**8**
1951	-	0	-	8	-	0	**-**	**8**
1953	31	5	59	0	12	3	**102**	**8**
1955	-	8	-	0	-	0	**-**	**8**
1957	82	6	19	2	1	0	**102**	**8**
1959	-	5	-	2	-	1	**-**	**8**
1961	74	2	29	6	1	0	**104**	**8**
1963	-	4	-	4	-	0	**-**	**8**
1965	38	5	61	2	5	1	**104**	**8**
1967	-	7	-	1	-	0	**-**	**8**
1969	88	7	18	1	4	0	**110**	**8**
1971	-	2	-	6	-	0	**-**	**8**

Source: Hartmann, Hassall, and Santos (2001), as cited in Teehankee (2002)

The vertical distribution of power was weakly distributed as the personalities holding positions, even if they came from different factions, were mainly elites with access to economic and political capital (Nowak 1977). During this period, the strength of the working and middle classes to resist institutional arrangements perceived as illegitimate was particularly low, reflecting their willingness to cooperate with the ruling administrations at the time (Lande 2002).

There are two reasons for this. The first is in the context of this period: post-war reconstruction and independence as a nation-state. After being ravaged by World War II and granted independence, the ruling administrations under the Third Republic made it their priority to rehabilitate the economy, rebuild damaged public and private infrastructure, and reestablish key formal institutions. The newly attained freedom and the aversion to the horrors of war and conflict incentivized Filipinos to work hard and obey the administrations to come (Romulo 1961). Although some groups like the Hukbalahap (an anti-Japanese resistance group that became a larger anti-government guerrilla group, mainly composed of peasants) resisted the government, they ended up being neutralized by the government.

The second reason is the unique relationship formed between elites-turned-politicians and the non-elites of the country. This is to say that elite-formed, patron-client relationships have been evident in the Philippines, from small and local village-based elections to regional and national elections, legitimizing their control of the electorate. To build this point, it is important to note that, in Philippine politics, wealth shared by families often leads to political power (Melgar 2022). The control of key resources, particularly land, led to the consolidation of power during election time as it was leveraged against voters either by coercion or the promise of resources and opportunities once they were voted into power (Lande 2002). Voters across different socioeconomic classes then supported the landed elite (rather than fight them) to gain access to potential employment, money, and other resources, exhibiting what is termed patronage politics. All this is not to say that the administrations in this period had no traces of graft, corruption, or politically illegitimate actions—this is far from the truth. However, most Filipinos still viewed these governments as legitimate and politically viable because it is far more preferable to the alternative of not doing so. Overall, elites from different political dynasties dominated local posts and consolidated strong political connections and economic ties around the region they were serving, perpetuating their influence for generations.

3.1.2 Rents Space: An Economy Dominated by Rentiers and Powerbrokers

The landed elite, usually family-centric oligarchs endowed with generational wealth, dominated the rents space in the Philippines (something that endures today). Our analysis starts with the pre–martial law period, which initially empowered rentiers, and then powerbrokers and workhorses as the country transitioned to import substitution industrialization and implemented restrictive investment policies to favor the manufacturing sector (Aldaba 2013). Because the post-war political system of the Philippines was modeled after that of the United States, the economic elite gained political power from elections from the local-village level to the national level and subsequently controlled regulatory rents (Crowther 1986). As the economic elites now had the power to shape the country's economic policies, they were able to obtain concessions from the state for their major assets, empowering rentiers.

How did elites gain these concessions? During the postcolonial era, the country witnessed an "elite democracy" where a small group of influential families held sway over both the economy and politics. These families accumulated their wealth from the colonial periods of Spanish and American rule, primarily through extensive land ownership. The hacienda system favored large-scale farmers at the expense of the small-scale, resulting in the acquisition of "friar lands" by affluent corporations and Americans, further enriching the already prosperous landowners. This solidified the position of the Filipino landed elite, consisting of family dynasties with significant land titles, who not only supplied agricultural crops for export but also became crucial allies during American colonization, benefiting from their vested interests in the colonial enterprise and giving rise to rentiers. In return, the Americans supported these select elites through free trade agreements and tariff concessions.

In the 1950s, the US government proposed land reforms inspired by their success in Japan. However, the Filipino elites effectively opposed them. Consequently, the period preceding martial law was marred by a political system plagued by nepotism, bribery, and corruption. The economic elites wielded significant influence over the government, securing concessions for their private interests. Elections were dominated by the Nacionalista and Liberal parties, not due to ideological or partisan reasons but rather due to alliances formed by political families.

Because the Philippines was recovering from World War II, it relied on the United States for help, which the latter was willing to provide by signing into law the Philippine Rehabilitation Act of 1946. To receive the allotted $400 million corresponding to claims for damages and $120 million for the restoration of public infrastructure, however, the Philippines had to fulfill the conditions of the Philippine Trade Act of 1946. Two of these conditions included the fulfillment of quotas on Philippine exports to the US and the provision for free trade between the two countries for eight years. At the time, the Philippines depended on agricultural exports. The landed elite who got concessions from the state, therefore, had the capacity to produce them and were in control of their exports. This meant that rentiers were empowered at the start of post-war reconstruction.

At this point, payments from damage claims based on the 1946 Rehabilitation Act were not enough to solve a growing balance-of-payments crisis in 1949 (Laluna, Paras, and Soliva 2006), so import and foreign exchange controls were implemented, ushering in an era of development through Import Substitution Industrialization (ISI). Later on, import controls were removed in exchange for tariffication. This empowered powerbrokers mainly in the industrial sector, which served the domestic sector and thus prospered. Because family-based economic elites became political elites, their power as politicians shaped policies in ways that benefitted them and their families (Melgar 2022). The family-based economic elites that transitioned into political elites in the Philippines diversified their businesses by entering the manufacturing sector due to their resilience in capturing political power, their ability to adapt to new opportunities, and advantageous positions to exploit the incentives offered by import-substitution industrialization (Rivera 1994b). With their long-standing economic and political influence rooted in land ownership and agriculture, these elites had the resources and connections to take advantage of the favorable conditions and support provided by the government. By venturing into manufacturing, they expanded their sources of wealth and solidified their dominance.

However, the manufacturing sector later struggled for two reasons. The first was an overvalued currency that lowered the value of rentier-led agricultural exports; the second was lower profits from manufactured exports due to the tariff policy, which increased the price of raw-material inputs, slowing production. Nevertheless, the government tried to solve this by adjusting tariffs, imports, and foreign exchange policies. Furthermore, in 1967, the enactment of the Investment Incentives Act formalized the system of incentives geared mainly to support production for the domestic market (Llanto 2012). Notably, those who benefitted from these policy adjustments and new investment laws were still the landed elite, given their control of state policy as well as their economic resources.

Overall, there was a disconnect between the developmental goals of the state and the actual policies implemented. On the one hand, the country pushed for protectionist policies to grow its manufacturing sector. On the other hand, it heavily relied on importing costly inputs to build such a sector due to its tariff policy, not to mention the fact that it also had to export due to its obligations to the US despite being a free and independent nation. Efforts were made to offer tariff protection and inducements to domestic manufacturers, which involved granting exemptions or lowering tariffs on inputs essential for manufacturing operations (Laluna, Paras, and Soliva 2006). The Philippines also entered into free trade agreements that removed tariffs for American imports (Power and Sicat 1971). These initiatives aimed to stimulate the expansion of the manufacturing sector and foster self-reliance.

The balance-of-payments situation worsened during the second presidential term of Ferdinand Marcos as a crisis was triggered in 1969, largely due to the late president's massive campaign spending and debt hoarding (Balbosa 1992). This prompted talks with the International Monetary Fund (IMF), which created two major conditions for the country's debt payments to be restructured. The first major condition was the transition from a fixed to a floating exchange rate regime—including the peso's devaluation—to make the country's exports more attractive and improve the country's external position. The second was a shift to export-based industrialization. This came into being through the Export Incentives Act of 1970, which allowed industry-wide incentives like tax exemptions, deductions from taxable income, and tax credits. However, it is worth noting that the high tariffs remained (Llanto 2012). This discussion is important because, even if there was a goal to support competitive firms that export, this was not accomplished. Indeed, the contradictions in the implemented economic policies, coupled with the country's balance-of-payments crisis and its reliance on agricultural exports, hindered the creation of magicians and instead propped up elite-owned rentier firms.

3.1.3 Deals Space: Closed and Ordered

The Philippine government employed protectionist policies to restructure its economy following the devastation of the previous world wars because it wanted to promote its local industries before opening up to international markets. The Philippine administrations of the 1950s and 1960s decided to boost the manufacturing sector. To do so, they used import substitution strategies and quantitative restrictions on manufacturing imports (Aldaba 2013). These regulatory frameworks were implemented in the hope that higher tariff barriers on final goods would develop local industries and Filipino entrepreneurship (De Dios, Gochoco-Bautista, and Punongbayan 2021). Moreover, the country was also trying to emulate the rapidly growing success of its Eastern Asian neighbors, namely Japan, Taiwan, South Korea, and China, to industrialize. Although there were significant policies employed to promote said industries, there was a lack of regulatory frameworks dedicated to managing their implementation for over a decade. The lack of a competitive environment and production standards failed to efficiently meet national demand. Aldaba (2013) pointed out that the lack of competitiveness within the country was due to the government's lack of autonomy to curb corruption and to the exclusive deals made with the elites and the country's wealthiest families. This was in deep contrast to their East Asian neighbors, where government support was tied to an exporting company's ability to grow its production year by year (Rodrik, Grossman, and Norman1995).

Instances of monopolies and preferential deals were primarily driven by political connections and closed-door negotiations rather than by the productive capacity and organizational capabilities of businesses. The combination of high tariffs and a lack of regulation further exacerbated the issue, increasing physical and technical smuggling. Consequently, the state's efforts to promote successful import-substituting industrialization faltered, resulting in worsening trade deficits and the balance-of -payments position. This situation can be attributed to a closed and ordered deals space, where economic and political elites, often belonging to influential families, had intertwined relationships and significant influence over policies and projects. The alignment between the national development objectives and personal interests of the political elites fostered a mutually beneficial relationship. However, due to inefficient resource allocation, the government eventually had to open up the economy to imports to stabilize prices in response to monopolies. This marked the beginning of the country's struggle to establish a thriving manufacturing sector, as imported goods surpassed local products in terms of price and quality, leading to increased dependence on imports over the years.

On the other hand, the agricultural sector—the country's main source of currency at that time—was confined to agricultural goods and was prone to corruption, where politically connected individuals could secure deals (e.g., additional land, in exchange for bribes). This contributed to the country's balance-of-payments constraints because exporting low-value products was hurting the ability of the country to structurally transform its manufacturing sector as it did not have enough currency to purchase advanced-capital goods.

3.2 Martial Law (1972–86)

3.2.1 Political Settlement: Strong Dominant Party

With the enactment of martial law in 1972 to combat the supposedly looming threat of communism and social unrest in the country, the political settlement transitioned from a vulnerable authoritarian coalition into a strong dominant party. Both vertical and horizontal power strengthened, given that power was consolidated to Ferdinand Marcos Sr. and his key allies and relationships. The imposition of martial law was mainly established as a form of social control, limiting and removing the number of individuals and organizations who opposed Marcos's administration, often by force (Wurfel 1977). His administration, for instance, employed the military and police to jail political dissidents and coerce citizens to follow strict orders. Therefore, it assured Marcos of power, making it difficult for several political parties to vie for control, as the electoral system lost relevance and the two-party system weakened. With opposition members either being subdued or silenced or switching sides with the Marcos regime, groups that resisted the politically and economically questionable actions of the regime (for instance, debt dependence and monopoly legitimization) weakened. Thus, although the Philippines' per capita income increased in the initial years of this period, it eventually collapsed towards the era's end due to a balance-of-payments crisis, extreme crony capitalism, and the failure to grow exporting firms (Litonjua 2001). As a result, the average-annual-growth rate during this period stagnated at 0.48 percent. The strong patronage system meant that the regime prevented inclusive growth, which in turn created a negative feedback loop that undermined institutions. Due to this type of political settlement, it became easier for powerbrokers to flourish in this period.

3.2.2 Rents Space: Rentiers and Powerbrokers

Given the context provided by the previous subsection, with the development agenda now being export-oriented rather than protectionist, the Marcos regime attempted to gain investments by increasing the number of foreign magicians operating in the country and helping rentiers make it in the global markets. However, Llanto (2012) argued that, despite implementing investment incentives and industry-wide efforts to open the economy, the country failed to project an image of political and economic stability due to the present degree of social unrest, as well as the Marcos's selective provision of favors and exemptions to key individuals and relatives. Simply put, the attempt did not provide the desired results, leading to missed opportunities to gain foreign direct investments (FDI) relative to other Southeast Asian nation-states.

Furthermore, even if they were successful in subsidizing firms that took advantage of these laws, the administration did so without the necessary export discipline and benchmarking that countries such as South Korea implemented so successfully (Studwell 2014). After countless failed industrial plans to compete in the global markets, businesses preferred to rely on regulatory rents and specialize in non-tradable goods because of their high profitability and low risk. Although the country certainly exported, it did so by relying on rentiers. However, these exported agricultural goods and the sector (rentier companies) were corrupted and monopolized by Marcos Sr.'s cronies; hence, the term crony capitalism (Branigin 1984). For instance, the corruption of coconut levies—taxes placed on coconut farmers to raise capital for agro-industrial upgrading and to enhance their welfare—allegedly went into the pockets of Marcos Sr. and individuals close to him (Ramos 2019). Furthermore, powerbrokers and rentiers became even more emboldened as firm-specific benefits were provided to friends and relatives. The same groups established monopolies in certain industries, such as sugar, coconuts, and logging.

Overall, a moral-hazard problem was created because firms, whether they were domestic-oriented or export-oriented, were assured of protection that led to profits from regulatory rents due to the nature of their relationship with the late dictator. This protection also came at the detriment of potential magicians and workhorses because certain firms no longer had incentives to innovate.

3.2.3 Deals Space: Enforced Deals for Allies, Leaving Others in Chaos

At this point, the Philippines continued to suffer under a system of extreme wealth inequality, and politics was dominated by a handful of wealthy families. Elites in congress ensured that competing economic and political deals were successfully blocked while the influence of outsiders was restricted (Dohner and Intal 1989). In this period, it was difficult to oust Marcos Sr. and his allies. Martial law enabled him to disrupt the traditional political order and cemented power for his own family and cronies. The concentration of power meant that deals continued to be closed. These cronies tried to capitalize on their advantages by securing exclusive deals like managing enterprises subject to regulatory rents or public and private sector partnerships to expand their political and economic presence. Cronies kept receiving these closed deals as long as they explicitly showed support and expanded the political power of the Marcos family. Meanwhile, political opponents who tried to go against the administration were punished in an effort to displace regional power and centralize authority. A country that is founded on the rule of a handful of powerful people and not by law serves as a disincentive to foreign investors and non-allied domestic investors. It was virtually impossible to set up business deals and possible to even be imprisoned if one had political preferences that did not align with those of the administration. Consequently, deals were closed during the rest of the martial law period.

The scale of government rose significantly as a result of increased public investment expenditures that enriched Marcos' cronies (Dohner and Intal 1989). Deals and megaprojects such as investment and construction sites were strategically reserved to close associates. They were given many political and economic opportunities to ensure the success of said projects, even if it was at the expense of taxpayers' money, which included kickbacks from suppliers that inflated prices. With the government's backing, these cronies were given almost unlimited lines of credit, which were sourced from either foreign exchange or loans from multilateral institutions.

In essence, the Marcos administration used external funds to build a false edifice of a working government, giving it internal and external legitimacy. Because the Marcos administration controlled virtually all checks and balances within the government, cases of corruption were eventually unaccounted for. It was not until the 1980s that credit lines were pulled off and inflation was so rampant that the Philippine government was not able to live out of unsustainable borrowing, thus initiating a recession that eventually toppled the dictatorship. Until the macroeconomic crisis, the deals space was closed and ordered.

In terms of the framework, the factors that explained the 1986 Epifanio de los Santos Avenue (EDSA) Revolution were more political than economic. The restrictive and often violent nature of the political settlement was a threat to the interests of citizens, businesses, and those in power. A combination of economic crisis, the assassination of Ninoy Aquino, the fraudulent reelection of Marcos Sr. against Corazon Aquino, and the switch of key generals and elite families away from Marcos Sr.'s side (to protect their business and political interests) all built up to a critical mass, which manifested in the revolution.

3.3 Aquino Administration (1986–92)

3.3.1. Political Settlement: Vulnerable Authoritarian Coalition Amidst a Revival of Democratic Institutions

The 1986 EDSA People Power Revolution brought about the fall of the Marcos regime and, subsequently, the restoration of democratic and political processes through the ratification of the 1987 Philippine Constitution. The average annual growth rate during this period was 1.22 percent, a slight improvement with respect to that in the previous growth episode. With Corazon Aquino now leading the country, it was time to rebuild the economy, stabilize the currency, and deal with illegitimate snap elections. She also attempted to dismantle political dynasties through the introduction of term limits for congressmen and governorships in the new constitution. However, Querubin (2012) concluded that this only incentivized political incumbents to bring family members to replace them and take control of other offices as well. Although elites continued to dominate national and local posts, with Aquino herself coming from the powerful Cojuangco clan, she was able to democratize and strengthen the political and economic institutions debilitated by the Marcos regime. Thus, the political settlement returned to being a vulnerable authoritarian coalition, institutionalizing the fact that no power would ever be centralized in one dominant person or party again.

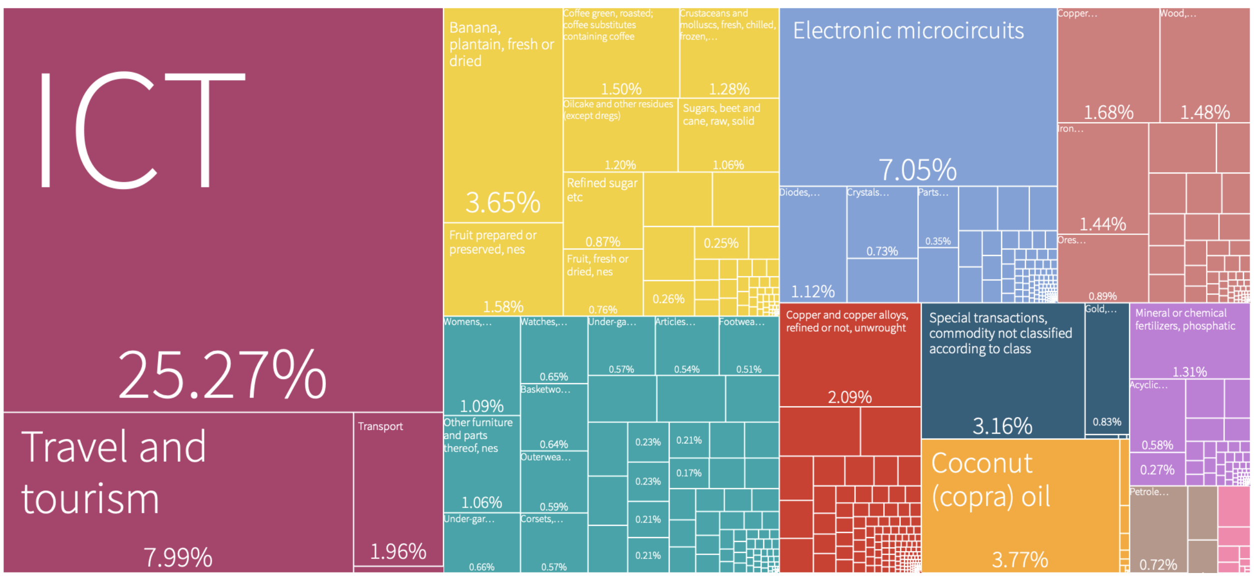
This is not to say that the administration of Corazon Aquino was perfect and spotless. There were many governance flaws during this period, including disunity among the various branches of government, six coup attempts against the administration by military members, and persistent elite rule at the expense of the working class (Overholt 1986). Numerous power outages and natural disasters also increased instability. This raises the question of whether such instability implies that the political settlement was, in fact, a competitive clientelist due to the power of neo-elites and non-elites resisting decisions made by the government. We argue that the settlement was still a vulnerable authoritarian coalition for two reasons. First, the administration remained largely intact, with Aquino completing her term without being replaced. Second, attempts at resistance were quelled, and we argue that those who led the resistances were not the middle and working classes but individuals already in power and who served the country, whether politicians or the military. Neo-elites and non-elites regained their faith in Philippine democracy post-martial law, despite their varying interests, to oppose authoritarian rule (Villanueva 1992).

3.3.2 Rents Space: Rentiers and Powerbrokers with an Incipient Presence of Magicians

After the fall of the Marcos regime came reconstruction. The first Aquino administration targeted Marcos-supported powerbrokers hoping to diminish their power. For instance, the Philippine Sugar Commission (PHILSUCOM) was abolished in favor of establishing the Sugar Regulatory Administration (SRA). The government also abolished monopolies in the livestock and fertilizer industries (Dohner and Intal 1989). Under the Marcos regime, assets, shares of media, and utility companies (including Meralco, Manila Chronicle, and ABS-CBN) were seized from the Lopez family. However, after the regime ended, control over these assets and shares was returned. Similarly, public utility companies previously authorized for takeover by Marcos Sr. were no longer under the regime's control. For instance, the Cojuangco family regained control of the Philippine Long-Distance Telephone (PLDT) Company. Her administration also favored export-oriented policies. For example, the Omnibus Investments Code of 1987 standardized investment incentives for domestic and foreign investors, and the Foreign Investment Act of 1991 allowed full foreign ownership in certain industries. After a deep slump during the last years of the

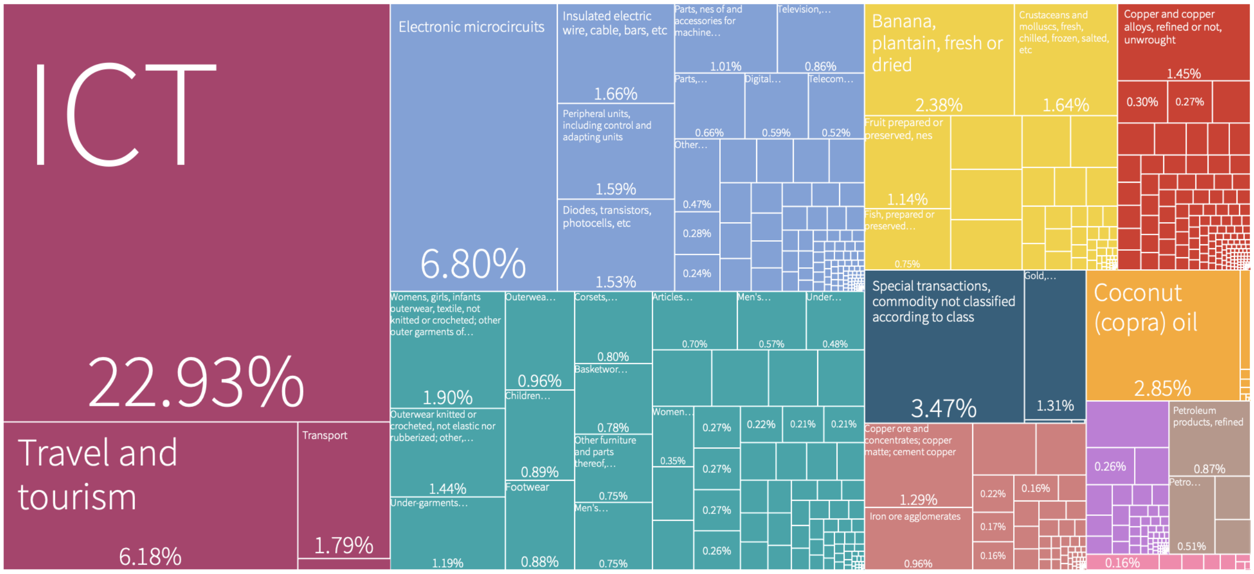
Marcos administration, foreign electronics firms were more willing to invest with the shift to a democratic system in 1986 (Department of Trade and Industry 2011). The rise of the electronics sector resulted in a significant increase in the number of magicians. A few years after the end of her administration, the electronics sector overtook agriculture as the top export earner of the country and has maintained this position ever since (Reyes-Macasaquit 2010). Additionally, the focus of export production with revealed comparative advantage shifted from textiles to electronics, machinery, and vehicles. Figures 3 and 4 depict the change in the Philippine export structure during the Aquino administration. The decline in the share of exports of agricultural products is evident, and the shares of both machinery and vehicle exports have increased.

Figure 3: Export Structure, Philippines, 1986, SITC Revision 2



Source: Harvard Atlas of Economic Complexity: The Atlas of Economic Complexity (harvard.edu). Accessed January 20, 2023

Figure 4: Export Structure, Philippines, 1992, SITC Revision 2



Source: Harvard Atlas of Economic Complexity. [The Atlas of Economic Complexity (harvard.edu)](). Accessed January 20, 2023.

However, one of the administration's main downfalls was the failure of the Comprehensive Agrarian Reform Program (CARP) to redistribute agricultural land away from elites and to poor farmers, a large composition of workhorses in the agricultural sector (Villanueva 1992).[3] Rentiers with access to agricultural land and the ability to raise the barriers to land ownership because of state concessions, therefore, still held power. Overall, although this period marked the first influx of magicians driven by competition rather than regulatory rents because of the promulgation of investment incentives coupled with a more relatively stable investment landscape, it is worth noting that the economy was still controlled by powerbrokers and rentiers. The only difference here is that they were now owned by other elites. This was only bolstered by the already-starting diversification strategies of these family-owned businesses to expand into various sectors such as utilities, real estate, beverage manufacturing, banking, and aviation (Gutierrez and Rodriguez 2013).

3.3.3 Deals Space: A Reversal Towards Ordered Deals for All

After the People Power Revolution, Corazon Aquino formed a new government dedicated to reversing the corrupted practices that the Marcos administration had employed. One of her

[3] For example, the Cojuangco-owned Hacieda Luisita.

administration's first political agendas was to remove the extractive institutions put in place by her predecessor. She started to reinstate the bicameral legislative body and the independence of the judiciary and introduced the 1986 Constitution to restore the democratic system (Rosenburg 1987). These reforms assured investors that deals were going to be honored regardless of political interest. Economic policies were more neutral in rewarding lines of economic activity, more transparent than they had been since the 1950s, and favorably compared with those of any other East Asian country (Dohner and Intal 1989). Despite efforts to democratize the public policy system, Villanueva (1992) pointed out how policy outputs did not address major concerns, such as the need for a proper land-reform program. The main reason behind this is simply the longstanding traditional political families dominating the legislative branch who have a vested interest in preserving and profiting from the feudal nature of the Philippines.

Economic inequality continued to persist in the Philippines because of ruling elites and landlords, such as the Cojuangco family, whose interests in land reform prevailed over those of peasant farmers (Villanueva 1992). As most members of the legislature relied on the support of these wealthy landowners to be elected and re-elected (something that persists until today), the latter had a strong influence on key political decisions both regionally and nationally. In turn, they also received most political and economic deals and opportunities. In short, it was the implementation stage of key projects held by the Aquino administration where most things fell short, which can all be traced back to the powerful grip and competing interests that landowners have (until today) on the development of the Philippines.

3.4 Post-Martial Law or Pre-COVID Era (1992–2019)

3.4.1 Political Settlement: Multi-Party-Based Vulnerable Authoritarian with a Touch of Competitive Clientelism

It is worth noting that an interesting characteristic of Philippine politics post–martial law is the increase in the number of political parties and the number of electoral candidates vying for power from such parties, as the nation transitioned from a two-party system into a multi-party system that formed coalitions during elections. The 1987 Philippine Constitution indirectly enabled the rise of these parties, often criticized for being ideologically similar to one another, weak, and incoherent (Hutchcroft 2020). This is linked to the patron-client systems that were prominent pre-martial law, where votes were cast based on personalities and family names rather than on ideology or platforms. This is relevant in the discussion of the Philippine political settlement post-martial law because it ensures its state as a vulnerable authoritarian coalition, only sometimes transitioning into a competitive clientelist settlement in certain administrations. Table 6 shows the Presidents between 1992 and 2019, from former presidents Fidel Ramos to Rodrigo Duterte.

Table 6: Elected Philippine Presidents and Political Settlement, 1992–2019

Period	President	Political Party Affiliation	Political Settlement
1992–1998	Fidel V. Ramos	Lakas ng Tao–National Union of Christian Democrats	Vulnerable Authoritarian Coalition
1998–2001	Joseph E. Estrada	Laban ng Makabayang Masang Pilipino	Competitive Clientelist
2001–2010	Gloria M. Arroyo	Lakas–Christian Muslim Democrats	Vulnerable Authoritarian Coalition
2010–2016	Benigno C. Aquino III	Liberal Party	Vulnerable Authoritarian Coalition
2016–2019	Rodrigo R. Duterte	Partido Demokratiko Pilipino–Lakas ng Bayan	Vulnerable Authoritarian Coalition

Source: Authors

The fourth growth episode, the pre-COVID era (1992–2019), saw two different political settlements. The first is a vulnerable authoritarian coalition in the Ramos, Arroyo, Aquino, and Duterte administrations. Horizontal power distribution in these administrations was strong, because power was distributed among different groups. These administrations were formed by individuals from various political parties. Individuals from the military, business sector, academia, and even the entertainment industry, also held government posts. Although power remained horizontally distributed as different parties and coalitions with elites jockeyed for political control, the power of non-elites grew, dispersing the vertical power. Individuals given representation came from non-elite sectors largely due to the party-list system created by the 1987 Philippine Constitution, and these administrations saw opposition members occupying seats in the government. Moreover, vertical power strengthened as people in power did not come only from the elites but also from the middle and working classes. Despite this improvement in vertical power distribution, we consider vertical power as leaning toward weak. This is because the improvement was, at best, marginal and, at worst, tokenistic, as power was still heavily concentrated in the elites, such that the majority of those in power were from the upper social classes and had connections tied back to the leaders of the government and the social elites (Rivera 1994a; Timberman 2019). Furthermore, attempts at resistance against these administrations—mainly launched by communist groups such as the Communist Party of the Philippines–National Democratic Front–New People's Army (CPP-NDF-NPA), separatist groups like the Moro National Liberation Front (MNLF), and terrorist groups such as the Moro Islamic Liberation Front (MILF)—were extinguished, keeping these presidents' rules and agendas alive.

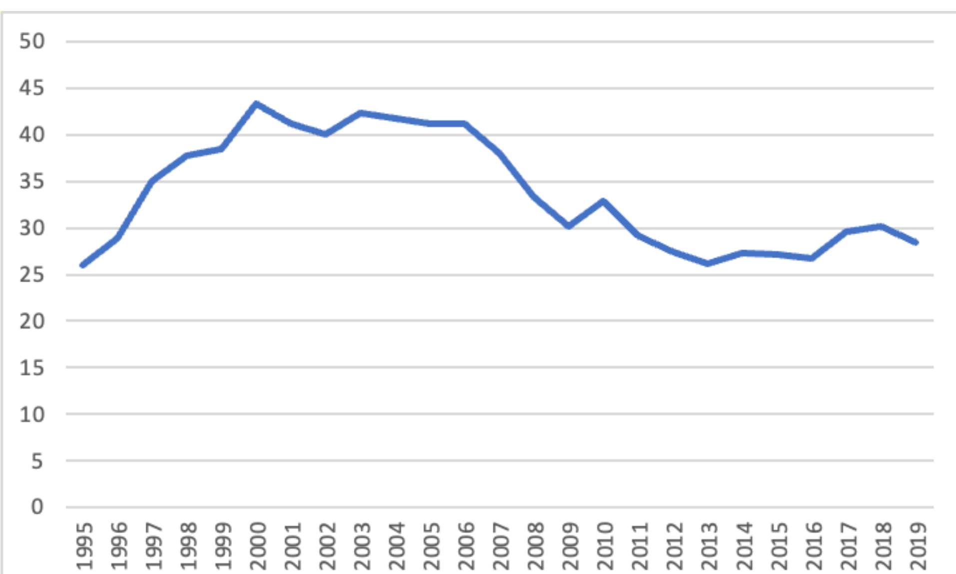
Further reasons these administrations cannot be described as competitive clientelist settlements are similar to those mentioned in the Aquino administration, with an additional note. Although representation for the non-elites through the party-list system became more prominent post-martial law, the reality of *who* gets represented was a different story. Initially, its failure was attributed to the lack of voter awareness in the Aquino and Ramos administrations (Tangkia and Habaradas 2001). However, as the process became more normalized, the problem became less related to logistics and more related to loopholes. Even though the largest political parties were disallowed from taking party-list seats in the House of Representatives, loopholes and Supreme Court legitimacy allowed these parties to create related and ancillary organizations. These were often mobilized by traditional politicians who occupied seats in congress and not by marginalized or excluded groups that usually represented the non-elites (Casiple 2003; Reganit 2019).

The other political settlement in this era was competitive clientelism from 1998–2001 during the Estrada administration. The main difference between this administration and the others is that this leader was impeached. Estrada's loss of legitimacy was attributed to a loss of constituent trust, many of whom marched in the second EDSA People Power Revolution in 2001, disavowing his corrupt practices. In this case, the power of the non-elites was manifested less through representation in Philippine elections but through a successful grassroots movement that ousted Estrada from the presidency due to the erosion of public trust (Teehankee 2002). Overall, the average annual growth rate during this period was 3.45 percent, a significant improvement with respect to the previous growth episode but below the country's growth rate in the first episode.

3.4.2 Rents Space: The Rise of Workhorses and Magicians

The following administrations implemented economic policies that situated the Philippines as an ASEAN nation with a low-cost service sector instead of reviving and upgrading the manufacturing industry. One of the driving forces behind the rise of magicians is the Business Processing Outsourcing (BPO) sector, which is globally the second-largest player for outsourcing services, next to India (Pacete 2022). The country was able to export labor-intensive services due to its access to a large, relatively cheap, and English-speaking labor force. Another contender, despite a premature decline in sectoral employment, is a diversifying industrial sector, particularly manufacturing, which has expanded into the export of machinery, electronics, and chemicals over the years. This is reflected in the change in the export structure and product space from the Ramos Administration to the Duterte Administration, as shown in Figure 5 (share of exports in GDP), Figure 6 (export structure in 1995), and Figure 7 (export structure in 2019). Although exports in agriculture and textiles declined from 22.77 percent in 1995 to 9.1 percent in 2019, exports in electronics, machinery, and chemicals increased from 33.56 percent to 47.65 percent during the same period.

Figure 5: Exports of Goods and Services, % of GDP, Philippines, 1995–2019

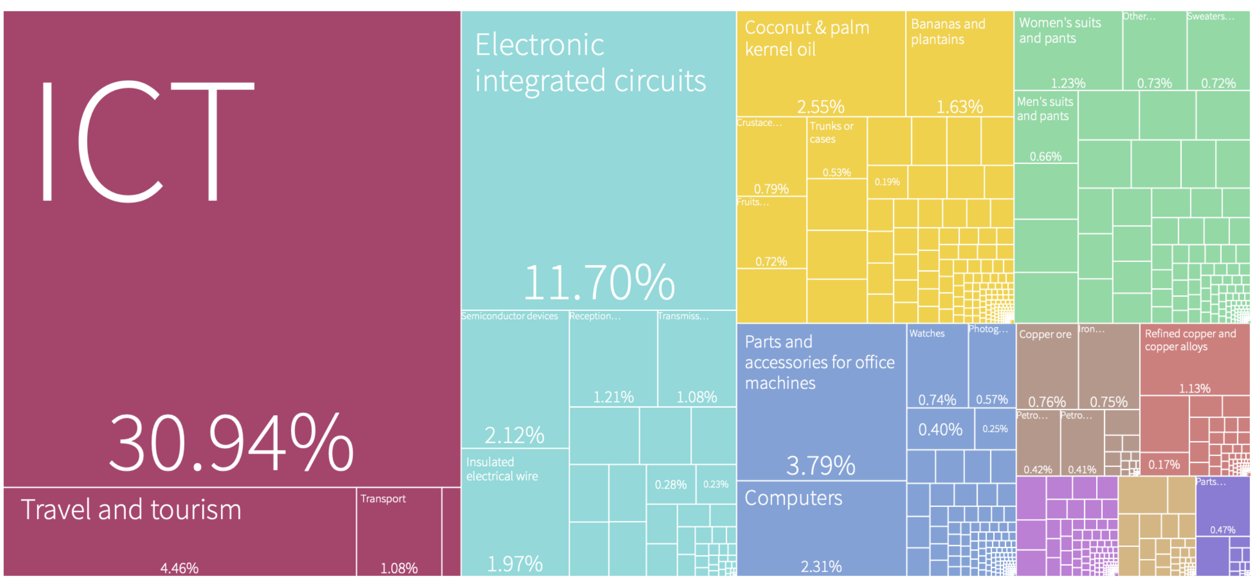


Source: World Bank (2023)

The goods-and-services export share of GDP declined during the past decade. The export-to-GDP ratio increased from 25.9 percent in 1995 to over 40 percent in the late 1990s and early 2000s, then declined to 28.4 percent in 2019. This shows that there is room for improvement, given that the relative importance of exports in the overall GDP has decreased potentially due to structural shifts, such as a decline in the competitiveness of traditional export sectors or faster growth rates in other demand-side components like imports or consumption.

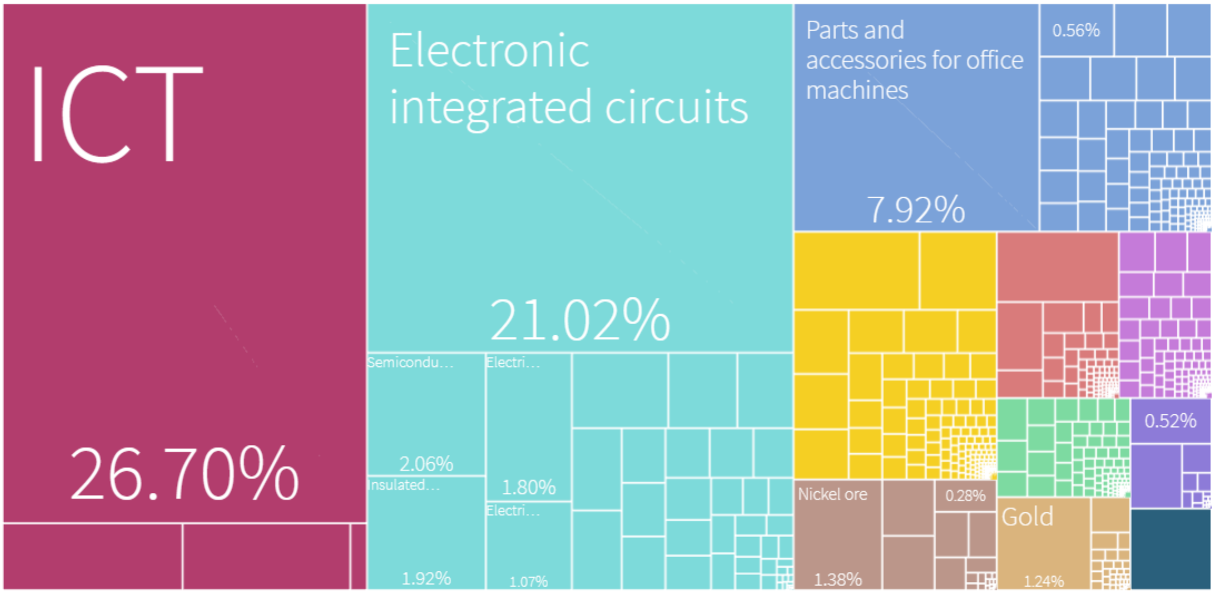
This shift from food and agriculture exports to mainly machinery and electronics is highlighted by Bayudan-Dacuycuy and Serafica (2019). The improvement in the diversification and uniqueness of the Philippines' exports is also reflected in its rise in economic complexity, as seen in its improvement in ranking from 65th in 1995 to 30th in 2019, according to the Harvard Atlas of Economic Complexity ([The Atlas of Economic Complexity (harvard.edu)](https://atlas.cid.harvard.edu)). However, there is still room for improvement in the Philippines' performance.

Figure 6: Export Structure, Philippines, 1995, Harmonized System, 1992



Source: Harvard Atlas of Economic Complexity. [The Atlas of Economic Complexity (harvard.edu)](https://atlas.cid.harvard.edu). Accessed January 20, 2023.

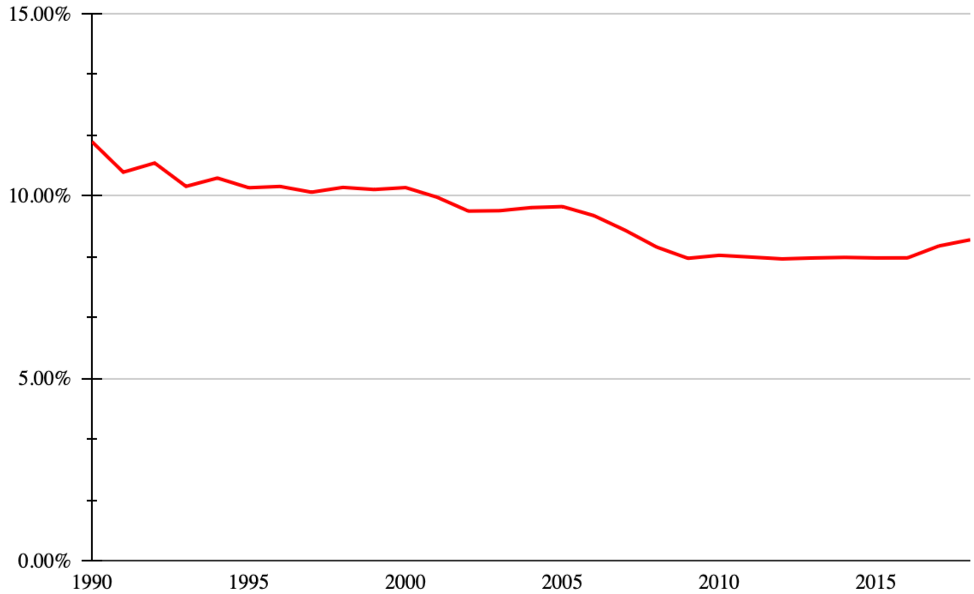
Figure 7: Export Structure, Philippines, 2020, Harmonized System 1992



Source: Harvard Atlas of Economic Complexity. [The Atlas of Economic Complexity (harvard.edu)](). Accessed July 15, 2023.

Felipe, Mehta, and Ree (2019) documented that the share of manufacturing employment in total employment peaks at significantly lower shares today than it did decades ago. Today's developed countries managed to attain manufacturing employment shares of at least 20–25 percent, some well above this figure. Today's developing countries hardly reach 15 percent. Figure 8 shows the manufacturing employment share of the Philippines. It is both low (less than 10 percent) and declining.

Figure 8: Manufacturing Employment Share, Philippines, 1990–2018, % of Total Employment



Source: Groningen Growth and Development Centre (2022)

Furthermore, Felipe and Mehta (2016) showed that rapid manufacturing-labor–productivity growth within countries had been offset by a continued shift of manufacturing jobs from highly-productive economies to lower-cost ones, such as China, resulting in manufacturing jobs spread more thinly across individual countries, making it difficult for them to sustain high levels of manufacturing.

With the entrance of the Philippines into organizations such as the World Trade Organization in 1995, approval of further tariff reforms, and implementation of more export-oriented policies such as the Export Development Act of 1994 (which mandated the creation of the Philippine Export Development Plan), the Special Economic Zone Act of 1995 (which established the Philippine Economic Zone Authority [PEZA], and lowered the requirements and red tape for tax incentives)—or Arroyo's Philippine Cyberservices Corridor Plan (which bolstered the IT-BPO industry)—more foreign and domestic investors were willing to invest in the country.

The economy in this period composed a mix of firms across all quadrants, with more magicians and workhorses capitalizing on Schumpeterian rents and competition-driven rents. Critically, workhorses now dominate the economy, with about 99 percent of the country's businesses, in number, being micro, small, or medium enterprises (Department of Trade and Industry 2020). Meanwhile, the remaining shares are conglomerates whose subsidiaries are mainly powerbrokers owned by elites and their families. These engage in non-tradable services such as banking and real estate. Finally, rentiers continue to remain surprisingly relevant, as the country still relies on agriculture owned by these elites to fund its development, indicative of a difficult process of land reform and structural transformation throughout the decades.

3.4.3 Deals Space: Elite Dominance Persistence in an Ordered Deal-Making Setting

The economic and political reforms of the Corazon Aquino administration continued to benefit the post–martial law era as it continued to reassure investors that deals would be honored and ordered. Still, the country's political system continued to be disproportionately dominated by elites and conglomerates. Teehankee (2012) formally called this system a patron-client factional framework (PCF), which means that politics in the country depended on interpersonal relationships and factions made up of family alliances. Teehankee (2012) added that more than a third of lower house representatives in Congress had switched parties to gain economic and political favors. In essence, the ability to determine whether one would have access to deals, may it be because of political or economic gain, depended on their political connections to the ruling elite. Under PCF, ruling elites offer exclusive deals to their fellow elites, who pledge allegiance from one political party to another, and the administrations ensure that deals are enforced because it is in their interest to remain a politically stable country and maintain the trust of investors who invest to grow the economy.

The Ramos administration nationalized public utilities such as telecommunications, oil, and water industries through the platform "Philippines 2000," because of inefficiencies in resource allocation. Not surprisingly, the same handful of conglomerates was awarded the contracts, expanding the presence of conglomerates in business activities reliant upon regulatory rents. In the following presidencies of Arroyo and Estrada, deal spaces continued to become more closed and less ordered as corruption was rampant within the two administrations. There is a strong argument to be considered that deals were becoming disordered during Arroyo's administration because the country became an unattractive place for both foreign and local investment as investors were scared that deals would not be honored and their investments would not gain a return.

The deals space did improve during the final two administrations before Marcos Jr., with both campaigning for an ultimate end to corruption and a promise of good governance. The Aquino administration employed fiscal discipline to lower the large budget deficit left by his predecessor. Having little room to employ expansionary fiscal policies, Aquino relied on foreign direct investments to bring economic growth and jobs to the country. FDI continued to grow year by year, growing from $2 billion in 2011 to $5.7 billion in 2015 (Ibon Foundation 2016). However, a large criticism during his regime was that most programs benefitted the elites rather than the poor, worsening wealth inequality.

On the one hand, close-ordered deals were offered to powerbrokers to bid for an infrastructure program known as the Public-Private Partnership (PPP), much like in Thailand and Malaysia (Sen and Tyce 2019). Here, 12 infrastructure projects worth P217 billion were only awarded to the top family-owned conglomerates, earning them billions of pesos as a result. On the other hand, open-ordered deals were offered to magicians to foster growth and employment. Aquino was able to help secure billion-dollar foreign investment deals from Japan to invest in the country's manufacturing sector (Legaspi 2011).

Aside from championing good governance like his predecessor, the Duterte administration also capitalized on a pro-people approach, making him popular among the majority who were dissatisfied with the previous administration and with lower-income voters. His administration also represented a closed-deals space, as political connectedness was necessary to make deals with him. Examples include the backing of allies entering the telecommunications industry and political opponents losing a broadcasting network. He had also continued Aquino's infrastructure projects, dubbing the endeavor the "Build, Build, Build" program. Although there was also an attempt to promote a dual deals approach, much of the investments he was able to secure from China went to powerbroker and rentier firms such as energy plants and infrastructure projects (Lopez 2019). Aside from this, he was able to sign the Corporate Recovery and Tax Incentives and Enterprises (CREATE) Law, which reduced taxes for export enterprises to address the trade deficit (Ong and Calam-Ibañez 2022).

Ultimately, the electronics and semiconductor industry grew rapidly during this phase as deals started to become more open, and foreign investors capitalized on the inexpensive wages the Philippines could provide. Over time, the country was able to adopt a dualistic-deals approach where large government infrastructure projects were limited to a few conglomerates that were mainly powerbroker-led, whereas some open deals were available for export-oriented industries. As a result, the country enjoyed one of its highest sustained growth periods in decades, as more open deals created a positive feedback loop.

The infrastructure deals in the Philippines were competitiveness-enhancing for the manufacturing sector to the extent that they helped reduce transportation costs and improved the efficiency of logistics for businesses operating in export-oriented industries. Well-designed infrastructure projects, including ports, airports, and transportation networks, played a crucial role in enhancing competitiveness by facilitating the movement of goods, reducing delivery times, and lowering transaction costs while maintaining reasonable pricing.

However, it is important to note that a comprehensive assessment of the direct effects of infrastructure deals on the manufacturing sector and whether the contracts primarily favored the infrastructure provider over the user has not been conducted. Despite the lack of precise studies or empirical analyses, both the government and multilateral agencies, such as the Asian Development Bank, have shown confidence in PPP as a means to address inadequate or deficient infrastructure and transportation networks. The reliance on PPP is driven by the argument of inefficient management, pervasive corruption within the government's operational framework, and, more dubious, limited funding.

4. THE COVID-19 ERA AND THE NEW MARCOS JR. ADMINISTRATION: WHERE ARE WE NOW?

In 2022, Filipinos participated in one of the largest and most significant elections in the country since the Snap Elections orchestrated by Ferdinand Marcos Sr. in 1986. Ferdinand "Bongbong" Marcos Jr., the son of the late president, won by a landslide, beating incumbent Vice President Leni Robredo. Critics feared the return of the former policies that plagued the country during his father's time.

Since the fall of the Marcos regime in 1986, the Marcoses gradually restored their reputation and built strong political ties with the ruling elite, paving their way for multiple seats in the legislative and executive branches. The new Marcos administration promised to recover from the pandemic, attain annual growth of 6.5–8 percent during 2023–28, and reduce the poverty rate from 18.1 percent as of 2021, to 9 percent by 2028. To do this, his administration would continue his predecessor's massive infrastructure program and implement a multitude of tax reforms to encourage foreign direct investment. He has even emphasized the importance of investing in the agriculture sector and improving value chains within it. However, unless there are plans to structurally transform the country, we argue that such economic goals will be unachievable.

4.1 Political Settlement: A Reinforced Vulnerable Authoritarian-Led Government?

The political settlement of the last years of the Duterte administration and the start of the Marcos administration remained a vulnerable authoritarian coalition given only minute differences in terms of horizontal and vertical power. Growth collapsed in 2020 as a result of the COVID-19 pandemic. Horizontal power remained strong because elections retained the feature of multiple groups aiming for political control. During the Duterte Administration, opposition members were given the opportunity to hold government positions. This included individuals from groups with differing interests, such as former Vice President Leni Robredo and Senator Risa Hontiveros from the opposition, Senator Lito Lapid and former Senator Tito Sotto from the entertainment industry, and several military officials appointed as department secretaries.

The main reason for this type of appointments is the continuation of patronage and personality politics present in previous eras, which makes it hard for one party or one person to dominate. Although it was good that many political parties and party lists vied for political control, the majority of those who eventually won belonged to the political and economic elite. Nonetheless, a weak vertical distribution of power remains intact, given that the middle and working classes have been willing to accept institutional arrangements if these help them recover from the ravaged effects of the COVID-19 pandemic.

4.2 Rents Space: Will Conglomerates Venture into Untapped Magician Sectors?

Philippine conglomerates have wielded significant influence in the business sector and have played a substantial role in the country's economic advancement. Torio et al. (2021) found that the top 15 conglomerates in the country generated approximately one trillion pesos of value added, equivalent to 6 percent of the total national output in 2018. [4] These conglomerates predominantly focus on the production of non-tradable goods and rely on regulatory rents, establishing themselves as key players in the powerbroker sector. Appendix Table A1 provides a comprehensive list of subsidiaries associated with conglomerates, as identified by Torio et al. (2021), along with their respective rents space classification, based on their primary business areas. Additionally, Appendix Table A2 presents the export activities of the subsidiaries of these conglomerates with the Product Complexity Index associated to product-export. The majority of these subsidiaries operate in sectors such as banking, finance, construction, utility generation or distribution, and real estate. However, it should be noted that some subsidiaries do engage in exporting to the global market, with a particular focus on food, beverages, and agriculture-related products.

This export composition has resulted in cycles of growth (relatively high growth attained for very short periods), as closed deals within the politically-connected powerbroker sector have stifled competition and hindered the development of more competitive industries through

[4] According to our estimates, the contribution to GDP of some of the leading conglomerates of developed nations is larger than those of Filipino conglomerates to the Philippines's GDP. For example, Torio et al. (2021) showed that the Philippines's San Miguel Corporation contributed 1.61 percent to the country's GDP in 2018, whereas our calculation for South Korea's Samsung is 5.73 percent of Korea's GDP. In the case of Japan, Toyota contributed 3.33 percent to GDP the same year.

negative feedback loops. Although Filipino conglomerates primarily export low-complexity goods, there are exceptions to this pattern, such as Ayala Corporation, which has successfully exported higher-complexity products such as electronics and vehicles. Ayala Corporation, an established company with a long history in the Philippines, began its journey as a real estate company and underwent a significant transformation in the 1950s to become a dedicated holding company (Werker et al. 2014). As a conglomerate, Ayala Corporation has invested in a range of publicly listed companies, such as Bank of the Philippine Islands and Globe Telecom, along with utility companies like Manila Water. Additionally, it established a subsidiary called Integrated Micro-Electronics Inc. (IMI), specializing in electronics. This subsidiary played a crucial role in providing foreign currency earnings for Ayala Corporation, allowing them to navigate challenging foreign exchange conditions and diversify their portfolio.

While attempting to expand its operations internationally, Ayala Corporation faced challenges during the 1997 Asian Financial Crisis. The crisis led to a significant depreciation of the peso, causing its dollar-denominated debt to artificially increase by 35 percent (Werker et al. 2014). This compelled the company to evaluate its business strategies when pursuing new opportunities. Recognizing the growing middle class and the availability of capital funds domestically, Ayala Corporation made a strategic decision to invest in capital-intensive, regulated sectors, such as power generation and infrastructure, to bolster its domestic operations. Concurrently, it maintained a focus on international expansion for its electronics division. Over the past few decades, the growth of its international presence has been driven by its electronics arm through acquisitions of companies from other countries and partnerships with foreign investors. Presently, Ayala Corporation is actively seeking to expand its operations within the ASEAN region, capitalizing on favorable trading agreements and the region's high growth potential.

In a significant development in May 2023, Ayala's IMI signed a $65 million deal with Zero Motorcycles, an American company, to manufacture battery-powered motorcycles for Europe and other Asian markets (Ramos 2023). This partnership is expected to drive employment and foster the growth of the country’s capabilities in electric vehicle development. Nonetheless, for the country to make substantial improvements in the complexity of its export basket, it is crucial to establish plans to upgrade and to venture into manufacturing higher-end and more complex vehicles. An approach similar to what VinFast, a Vietnamese automaker, has done could be considered. VinFast has successfully created its own electric vehicle production line and received multiple billion-dollar investment pledges in the US to build its own factory. The overall result is that, today, the export basket of Ayala Corporation is the most complex among those of the nation's major conglomerates. Ayala's is followed by that of GT Capital Holdings. At the other extreme, the export baskets of SM and DMCI are well below average complexity.

Although Ayala's collaboration with American companies in manufacturing highly complex products aligns with the country's structural transformation process, multinational companies still dominate a significant portion of the export market. In particular, multinational electronics firms, rather than local conglomerates, exert control over the semiconductor and electronics industries, which collectively constitute nearly half of the value of the Philippines' exports (Desiderio 2022). Companies like Texas Instruments, Intel, Philips, and Sanyo outsource low-paying and labor-intensive activities such as assembly and testing to the Philippines in order to reduce costs (Castillo 2005). From a national point of view, this outsourcing practice may not be the most optimal way to achieve structural transformation and compete effectively in the global market because it does not lead to the production of high-value activities like research and development in manufacturing, which pay high wages. The leaders of the Philippine private sector simply lack the organizational capabilities to create subsidiaries that produce high-wage products, which further exacerbates the challenge.

On the other hand, workhorses and magicians, who operate in low-complex goods like small- and medium-sized enterprises (SMEs) and retail, constitute 99.51 percent of businesses in the country and provide the majority of employment and income, particularly for vulnerable workers (Department of Trade and Industry 2021). The influence of social media and online shopping has helped the SMSE industry transition to the digital realm, making it easier for newly established entrepreneurs to open up a shop (Reyes 2021). The top industries they focus on are wholesale and retail trade, repair of motor vehicles and motorcycles, and food service activities, indicating that the country has become a service-led economy.

The BPO sector continues to be the fastest-growing sector in the Philippines and one of the largest in the world, primarily because of the abundance of English-speaking workers, competitive wages, and various economic policies that encourage the flow of jobs (Palisada 2010). Even though it has supported robust economic growth and created job opportunities, it will not be enough to ensure sustained growth of 6.5–8 percent in the next few years without developing a robust manufacturing sector. Unless the Philippine ICT sector moves into more sophisticated activities, it will not be able to pay higher wages. As it happens in manufacturing, it will stay in the lower echelons of the sector. Moreover, it does not have the capacity to absorb the 10 million poorly educated Filipino workers still employed in the agricultural sector.

4.3 Deals Space: Will Deals Finally be Open to Competitive Industries?

In line with the political settlement, we have discussed the prevalence of clientelism—or interpersonal, political relationships—for firms to gain access to exclusive deals. Even though the democratic reforms of the post-martial law era have maintained the ability of the government to enforce deals, the political system continues to be dominated by dynasties and oligarchs. This blurs the lines between government and business and has led to the emergence of crony capitalism (Mendoza, Bulaong, and Mendoza 2022). Business oligarchs, who often come from traditional economic sectors such as trade and agriculture before branching out into banking, manufacturing, retail, and logistics, rely on personal relationships with elites in the government to maintain their businesses. The stability of these businesses is often linked to the political influence and transactional deals cultivated over time with these government elites. The growth of business oligarchs is paralleled by a similar rise in political dynasties, according to Mendoza et al. (2022).

So far, the Marcos Jr. administration has also adopted a dualistic-deals approach by continuing the signature infrastructure programs of past administrations and by partnering up with multinational corporations to set up manufacturing plants in the Philippines. He is currently in talks with American, European, and Chinese companies to build a manufacturing plant for personal care products, develop the shipbuilding industry, and build an electric-vehicle facility. He has also added that he is keen to boost the country's manufacturing sector, particularly in the areas of high-value manufacturing activities such as battery manufacturing and mineral processing (Atienza 2023).

We conclude that past administrations have been slowly introducing reforms that benefit the manufacturing and export market, especially with the introduction of the dualistic-deals approach. They actively pursue talks with multinational corporations to set up investment pledges and sign laws and investment incentives. There was an attempt to open up deals with the rise of electronics firms, but it remained closed because politically connected families continued to have access to deals, profiting from rent-seeking behavior. During this time, the majority of conglomerates grew and diversified their subsidiaries into sectors that relied on regulatory rents, like banking and real estate. They are politically and economically well-established, enough to remain as partners of the government. They do not have incentives to move away from regulatory rents, shift into competitive industries, and make the deals space more open to everyone. However, it is worth noting that staying in these industries is not an unfavorable outcome in itself. Banking services, for instance, provided by conglomerates in a cost-effective manner, are needed. Even reforms introduced by the government to reduce regulatory rents are good. But is this enough to achieve high and sustainable growth? We do not think so. If the magician sector remains relatively weak—where firms remain stuck in activities such as assembly rather than upgrading and venturing into complex manufactures—it would still hinder the growth outcome of the country.

5. CONCLUSIONS

This paper has provided a political-economic analysis of Philippine growth following the Pritchett-Sen-Werker framework. Although we have undertaken an extensive analysis of the country's history since independence, the ultimate focus is on the current administration of Ferdinand "Bongbong" Marcos Jr., elected in 2022. For the Philippines to sustain a long period of high growth, economic policy needs to focus on the transformation of the economy by increasing its complexity, that is, by increasing its diversification and the uniqueness of its export basket. Are the conditions ready to jumpstart a significant process of structural economic transformation today? Who is going to lead this process? As argued in the introduction, the Philippines's actual growth is constrained in the long run by the need to avoid current account deficits (the balance-of-payments–constrained growth rate). This, in turn, depends (to a significant extent) on the non-price characteristics of the goods and services exported. This means that—unless the export basket of the Philippines becomes more complex, based on products with a higher income elasticity of demand for exports—it will be very difficult to increase actual growth and maintain it for a significant period. Economic transformation is the key to the nation's future. The question is, once again: who will lead this process?

The history and politics of the Philippines have created a system such that the future of the nation will remain in the hands of the economic-turned-political elites. Over each growth episode, the interaction of a political settlement that was mainly a vulnerable authoritarian coalition with a rents space dominated by powerbrokers and workhorses suggests three key points. First, no matter which group wins the elections, the reliance on a group of rich and powerful individuals will remain. Although multiple groups fight to claim power, the most prominent seats in politics are still occupied by the same elites and their family members, retaining control of Philippine laws and institutions.

Second, the majority of conglomerates' subsidiaries feed on regulatory rents, meaning that their ability to profit is not so much defined by their ability to compete in foreign markets through clear competitive advantages and brand differentiation than by their ability to gain exclusive deals and certain protections from the government. Because the growth episodes in the Philippines have promoted the rise of powerbrokers and rentiers, the implication for the future of the country's export structure is that the government needs to plan better incentives to induce the jump from non-tradable goods and simple products toward more complex products, most of which should be exported in global markets. Overall, the problem of the Philippines is not that it has too many powerbrokers and rentiers. On average, the same number of powerbrokers and rentiers can still exist in the most developed nations. The problem, ultimately, is the lack of magicians. This has been detrimental to the state of the country and its lack of competitiveness in the world economy.[5]

Lastly, the fact that the nature of deals strongly involves elite families implies a lack of clear distinction between those who control the government and those who control businesses. The integration of the interests of the political and economic elite led to a lack of export-oriented firms because they thrive on regulatory rents; hence there is a constant negative feedback loop that benefits powerbrokers and takes away the competitive sectors' opportunities for growth. When extensive business interests are developed among these two players, both sides' interests must be fulfilled to create solutions that enable the process of structural transformation.

In order to start a process of much-needed structural transformation of the Philippine economy, it is necessary to implement a comprehensive roadmap that guides the country's major conglomerates toward producing and exporting tradable goods. Only the nation's large companies have the capacity to lead this process. SMEs do not have the required financial and organizational muscle and knowledge to do it by themselves. A country like the Philippines needs to create a clear plan to attract the type of FDI the country requires, with a strategy to learn. Even if some SMEs are part of the value chain of multinational enterprises (MNEs), unless there is a clear program not only to link multinationals to domestic suppliers but also to acquire technology and upgrade it, these concerns are unserviceable, and the country will continue performing low-value activities such as assembly.

There are many discussions surrounding how to attract FDI. However, without a clear plan for attracting specific types of FDI, attaining high and sustained growth will be difficult. It is important to acknowledge that MNEs have been present for decades, yet they have only shown tendencies to set up shop, outsource tasks to low-cost labor, and engage in assembly activities. Therefore, it falls upon the conglomerates to take on the task of empowering the magician sector.

[5] Another factor that can be considered to understand the lack of competitive exports is poor trainability. It is not so much that consistently high levels of education are needed for the development of comparative advantage. In fact, Mehta and Felipe (2014) concluded that basic education, as long as it is of high-quality, matters more for export diversification than college attainment. The process of training workers is a "learning-by-doing" process, which coupled with good organizational capabilities, is crucial for creating high and sustained export-oriented growth, much like South Korea and Singapore in their emerging stages of development.

Although we are not implying that MNEs are incapable of doing so, it is even more challenging to convince them to undertake such endeavors relative to the conglomerates.

Despite this, the Philippines can still sustain a 5–6 percent growth rate. However, we repeat that the current administration has set a target of 6.5–8 percent growth. With the Philippines having a relatively low base level for GDP, a one percentage point growth difference over a two-decade period is substantial.

The involvement of the conglomerates in the transformation of the economy can be achieved through discussions and negotiations with them, with an analysis of each organization's current capabilities to identify potential product opportunities. In this process, it will be important to identify any market or contracting failures that may be preventing these companies from diversifying and producing more complex products so that the appropriate public goods can be provided. Deals should be made available to any able conglomerate willing to create a subsidiary that competes in export markets, produce non-tradable products, and continually improve its export quality (Gutierrez and Rodriguez 2013).

Non-market capabilities also make it easier for conglomerates to get into powerbroker industries because these offer certain advantages vis-à-vis manufacturing. The decentralized structure of service industries helps to equalize the competition for local conglomerates against foreign multinational rivals, as they do not need to make substantial investments in exclusive technologies that can ensure a lasting competitive edge. Furthermore, having non-market capabilities like strong political connections and the presence of regulations in many service sectors where Philippine business groups are involved gives local firms an advantage in navigating interactions with regulatory authorities.

Meanwhile, the government should focus on a select number of high-complexity sectors with promising returns to maximize the effectiveness of these efforts. It is important to avoid leaving conglomerates to their own devices, as this can result in the monopolization of deals within powerbrokers, depriving magicians and workhorses of the resources they need to succeed, leading to negative feedback loops. By investing in and cultivating these competitive sectors, positive feedback loops are more likely to emerge, leading to the openness of deals spaces. The first positive feedback loop results in the growth of magicians and workhorses as new investments and support from the government allow them to improve their production processes and organizational capabilities. In turn, the economy faces robust and sustainable economic growth. The second positive feedback loop is that government elites recognize the importance of investing in competitive industries, which is why politically connected powerbrokers slowly lose their economic significance and political lobbying prowess, transforming the deals spaces into more open and ordered ones. Although competitive industries can sometimes be detrimental due to the critique that they can hinder competition and impede innovation, as in the case of the Japanese keiretsu system, this is unlikely to happen in the Philippines. Competition policy can promote an environment that encourages innovation and efficiency rather than barriers. Additionally, a clear plan for integrating smaller firms into the value chain of conglomerates, as long as there is also a plan to acquire and upgrade the technology used in manufacturing, can foster healthy competitiveness within the economy.

Our analysis suggests that this is difficult and will first require an understanding of what development is ultimately about, structural transformation, and the key constraint the country has to relax the balance of payments. Second, it will require active participation and commitment from the country's main conglomerates leading the transformation of the economy, that is, the shift from non-tradables to tradables. Deals will have to become open to allow smaller players to participate. This is not to say that improving the service sector is the wrong strategy, but it is difficult to become a high-income economy without a burgeoning manufacturing sector. With about 25 percent of the labor force still employed in agriculture, the transfer of labor into higher-value services (e.g., professional services, logistics) is much harder than the transfer of labor into the manufacturing sector. Some conglomerates may be reluctant to do this. The conglomerates most likely to oppose any changes are those that engage in low-complex manufacturing activities, such as minerals and agricultural products, because a shift to more complex exports means losing a lot of perks they currently benefit from.

Recent economic growth in the Philippines has been attributable to non-competitive sectors, which are dominated by politically connected conglomerates and elites. As the deals space remains closed and ordered, economic growth will only likely bring negative feedback loops, where there is no impetus for deals to become open to less politically connected individuals and competitive sectors because the government is already satisfied with the fact that the economy is growing.

Short of a significant and lasting change in the structure of the economy, the country can still attain 5–6 percent annual growth rates without forcing macroeconomic imbalances, given that labor force and productivity growth rates are both positive. The Philippines can continue growing, but this growth is based on a still-high population-growth rate and through the provision of services to the domestic economy. Sooner or later, this growth will end as population growth converges to zero, much like in the case of China. When this happens, the economy will continue to be internationally uncompetitive. Because the differential in growth between the Philippines and advanced economies is very high, there will be some convergence. This convergence, however, will be slow. We have been asking the same questions regarding how the country can grow for the last 30 years, but it has not led to results. Moreover, if deals do not open up to competitive sectors, the Philippines will either face boom-bust periods of growth or stagnation, and a significant share of its workers will still be employed in the agricultural sector, or most output will be generated by regulatory rents prone to corruption and monopolization.

The current administration’s growth targets will still be feasible if, and only if, it makes a fast structural transformation the cornerstone of its economic policy. Much-discussed reforms (from addressing the high cost of electricity to competition policy) will not deliver what is expected unless they are embedded in a framework of economic transformation. Deals spaces must be open to everyone, especially the competitive sectors, as growth must move away from enriching politically connected powerbrokers and rentiers. Succeeding governments must create projects dedicated to supporting the private sector and ensure continuity by each administration, or else development will either stagnate or reverse.

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