Reality check

While the Philippines is considered by many as Asia's fastest growing economy, experts warn against overconfidence and advise keeping an ear to the ground to sustain growth

by **Irene Fernando**
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During the latest Asia Finance Summit organized by the Asia CEO Forum, some of the nation's most influential finance and entrepreneurial leaders gathered and shared their views on the future of the Philippine economy. The discussion ranged from teeming optimism to understandable doubts on whether or not the country can sustain, if not surpass, its current position.

For renowned Filipino economist Dr. Bernie Villegas, the Philippines has everything it takes to be the new "Asian Tiger," projecting a growth rate ranging from five to 10 percent in the next decade.

While the economy grew by 7.2 percent last year, Villegas forecasts that "GDP in 2014 and for the next five years will be eight percent."

The growth drivers

Dr. Bernie Villegas

The surge of OFW remittance—$25 billion from around 10 million OFWs all over the world—continues to drive growth. This figure is compounded by the still booming industry of contact centers.

Villegas explains that said industry will be a source of growth since it not only demands manpower but also requires infrastructure, so the real estate industry stands to benefit as well."And it's not something that is exclusive in Metro Manila...Cebu, Davao, Dumaguete, Bacolod and Iloilo, among others, have also joined in the BPO/KPO industry," he adds.

He also expects greater spend by the government in infrastructure. "You finally see the government fulfilling its resolution to increase the percentage of GDP spent on infrastructure. From the measly 1.5 to two percent we had for decades, to five percent by 2016," he says. And with the PDAF no longer in the hands of lawmakers, we can expect the money to really go to much-needed public works.

"As long as we see more of these PPPs implemented together with the government's budget on infrastructure, nine percent growth is very achievable in the next five to 10 years," he says. However, he is quick to caution that a lot of work still needs to be done. "We still have the worst airport in the world today," he states.

Once resolved, the synergy of government spending and PPPs will enable us to expect growth from domestic tourism. Villegas says there are 20 million Filipinos who are now financially capable of traveling and are doing so because of improved infrastructure. He believes once we have secured our domestic tourism, it will be easier to attract foreign tourists.

He also sees great potential in the manufacturing sector and says what we need to do is compete with Vietnam and Indonesia, especially now that these countries are both going through labor

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activism, unlike the Philippines which has been enjoying labor peace for the last few years."It's no longer true that the Philippines will just be a service-oriented economy," he asserts. "We see a t

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Still, changes are not going to happen overnight. "There will be a lot of hitches, a lot of protectionist moves,"says Villegas, which is why he urges Filipino companies to think more global and shed off the "Filipino First" mentality. The need to compete with international markets is inevitable. He sees the Constitution's economic provisions being amended so that more foreign direct investments can come into the Philippines.

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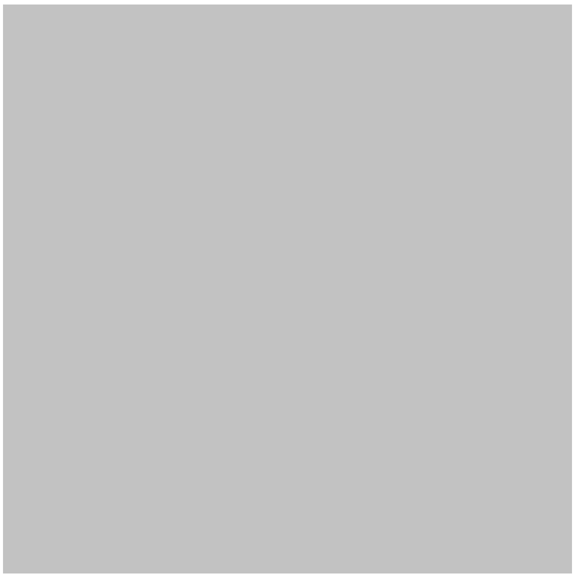
To this, IdeaSpace Director for Ventures Dustin Masancay, has this piece of advice: "Come up with products that emerging countries need."



Dr. Maria Cyd Amador (leftmost), assistant governor for Monetary Policy at BSP, together with the rest of the panelists during the Finance Summit's open forum.

Sustainable and inclusive growth

While Villegas is very optimistic, most experts who attended the summit are more cautious. With both external and internal threat risks hovering above the projected growth rate, the country must protect itself from overheating and from a bubble. Just this past month, the World Bank cut down its growth forecast for the Philippines this year to 6.6 percent, a bit lower than the 6.7 percent it gave the country last October.

"Seven to nine will be a bit challenging," admits Dr. Maria Cyd Amador, assistant governor for Monetary Policy at BSP. While there has been a considerable and cumulative progress, she says it pays to be cautious, especially against overheating and possible inflation.

Growth, she says, is sustainable only when it is inclusive. "I think it's really the issue about sustainability," she points out. "When you say that growth is becoming sustainable, growth is becoming more broad-based. You don't just look at the magnitude of growth but you also look at the nature—it's not only dependent on consumption, there should be a shift towards a greater capital formation and possibly a rising export," she explains.

Job creation remains an integral part of the equation. IFC Resident Representative Jesse Ang shares that in 2012, Filipinos looking for jobs already hit 10 million and that the country needs to generate 14.6 million jobs. According to him, the exodus of OFWs is not sustainable and that we should look into other sectors where we can generate employment.

"We skipped manufacturing and just went straight to services," he says. Agriculture remains a sector that needs to be developed. Beyond the challenges of high transport costs, poor farm-to-market roads, lack of appropriate storage facilities and low production leads, Ang says the country must find ways to make agriculture more competitive.

A healthy financial system that will be able to efficiently intermediate funds, a very solid external debt payment position, improved competitiveness and governance—all of these should spell a better medium-term economic outlook while acknowledging the risks, Amador shares.

“We have the policies in the monetary front, as well as the fiscal front, to overcome these challenges and sustain a growth that is hopefully inclusive,” she ends.

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