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Jobless Growth, Trade and Globalization

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With its considerably large population, labor should be the key component of Philippine development. It is surprising then that employment has declined recently, even as the economy has improved. Annual growth in the Philippine Gross Domestic Product increased from 3.3 percent in 1999 to 3.9 percent in 2000. However, the unemployment also rose from 9 percent in the January 1990 to 9.5 in the same period in 2000 and then to 11.5 in 2001. How can we account for the fact that the increased economic growth recorded has resulted in greater unemployment? Could this be the dreaded "jobless growth" that everyone keeps talking about?

By far the most puzzling aspect of this negative relationship between growth and employment is why this occurred only after the Asian financial crisis in 1997, whose full effects were really experienced in 1998. In the last ten years, the highest employment registered was 92.6 percent in 1996 when the economy also grew fastest at 5.8 percent. Perhaps, part of the explanation for the strange negative relationship between growth and unemployment maybe the poor administrative performance of the Ejercito government as compared to the previous administration, and the political uncertainty associated with the former period.

However, despite the lamentable performance of the Ejercito administration, a key element of the puzzle is still the ebullient growth of 6.4 percent recorded in the agricultural sector in 1999, and the impressive growth of 3.6 percent of the industry sector in 2000, which made up for the somewhat slackened growth of 3.4 percent in the agricultural sector. Furthermore, in both years, the growth rate of the service sector, which comprises the largest bulk of the country's employment, was steady at roughly 4.0 percent.

This paper will provide an explanation to the observed loss of jobs despite the economic growth. The first section will look into some conventional approaches in explaining this

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phenomenon, and indicate their lack of empirical support to explain this event. The second and third section will discuss the possible roles of the Philippine trade liberalization and globalization in this issue, factors that are not associated with unemployment. The paper argues that despite discriminatory trade policies, the Philippines is still affected by increasing international market integration mainly because of the increased mobility of capital. This situation ultimately leads to greater capital intensification and ultimately reduced employment. The last section then provides policy directions to address these problems.

Possible Explanations to the Puzzle

There can be three possible related answers based on conventional theory to this unemployment question. First, labor force participation may be growing more rapidly than in the past, but unemployment is increasing more speedily because that part of the population that is ready to work is increasing. The jobless growth can be attributable to the relatively higher rate of population growth, as well as to the prospect that the new entrants, particularly female, are not able to find jobs.

This argument, if this is true, should however imply that the employment rate is increasing, but at a much rate lower than the increase in labor force participation. Unfortunately, this view is not supported by official data. Table 1 shows that the employment rates in January 2000, and January 2001 were 0.3 and 2.4 percentage points lower than January 1999. Furthermore, the labor force participation has not changed significantly since 1999. The labor participation rate evidently has remained constant at around 65 percent.

January 1999, 2000, 2001					
Sex	Employment Status	1999	2000	2001	
Both Sexes	Labor Force Participation Rate	65.32	65.07	65.46	
	Employment Rate	91.0	90.7	88.6	
	Unemployment Rate	8.98	9.27	11.35	
Male	Labor Force Participation Rate	82.24	81.63	81.21	
	Employment Rate	91.0	90.6	88.6	
	Unemployment Rate	9.02	9.35	11.39	
Female	Labor Force Participation Rate	48.55	48.64	49.90	
	Employment Rate	91.1	90.9	88.7	
	Unemployment Rate	8.93	9.14	11.30	

Table 1. Household Population 15 Years Old and Over By Employment Status and Sex

Notes:

1. Data were taken from the preliminary results of the January rounds of the Labor Force Survey (LFS) using past week as reference period.

2. Details may not add up to totals due to rounding.

Source of Basic Data: National Statistics Office

The almost steady labor force participation rates in the data for both males and females places a damper on the possibility that increased female labor force participation rate (LFPR) may have resulted in more unemployment. Historically, male LFPR is always higher than female LFPR. In 2000, Filipino males have a higher LFPR at 82 percent while female LFPR is close to 50 percent. Culturally, women are expected to stay at home. Economic theory indicates that the division of labor between spouses may result in the woman specializing in household activities if the prospective wage returns from employment are lower.

Recent studies using the Annual Poverty Indicators Survey (APIS) data for 1998 also shows that female employment in non-poor households was higher than that in poor households. This may possibly be explained by the fact that relatively well-off women were drawn into the labor market by the Asian crisis to compensate for the lower or lost earnings of their husbands, principal breadwinners in the household. However, because the economic factors differently affect the employment probabilities of males and females across incomes, the higher unemployment rate for women among the poor households during a recession may have offset the increased employment rate of women in the higher income class. The second possible explanation may be the theory that increased economic growth in the late 1990s has not led to many more jobs because the growth is ultimately traceable to an upturn in labor productivity. This explanation has been commonly used to explain "jobless growth" in Latin America and Europe. In the 1980s, factor productivity in Latin America fell 2.4 percent on average each year, but in the 1990s factor productivity has been increasing at an annual rate of 0.4 percent. What's really surprising is how, in Latin America, the economies managed to create so many jobs with so little economic growth in the 1980s. An annual growth rate averaging 1.1 percent throughout the 1980s sustained average annual increases in employment of 2 percent. This was perhaps possible because wages were depressed, a situation that changed in the 1990s.

The data for the Philippines however again do not support this higher productivity argument. . Graph 1 shows that the average productivity of labor (measured by output per worker) declined in 1990 to 1992. While there has been some increase in 1994, the productivity index has failed to reach the levels reached in the late 1980s. The average Filipino worker produced some P55,800 worth of output in 1987 and some P59,500 in 1999, both based on 1992 prices, pointing to only a 6 percent increase in labor productivity over a 12-year period. In this case, the reduction in jobs cannot be attributed to the greater worker productivity.



Graph 1: Labor Productivity, 1987-1999

Source: E. Esguerra and D. Canlas, Raising the Quality of Life through the Workplace in the New Millennium (2001).

A third explanation is that the fluctuations in employment within each economy may be affected by the country's own business cycle. As a rule of thumb, the unemployment rate rises during a slowdown and falls during a boom. However, other people can argue that it will be naïve to claim that this general rule can be used to deduce the rate of economic growth needed to bring the unemployment rate down to a particular level. In any given country, the unemployment rate is expected to fluctuate around an average that is determined by socio-demographic, political and institutional factors. Consequently, even if a sharp decrease in unemployment could be achieved, in all probability the unemployment rate would tend to return to its average (or natural) levels.

While the recent political events of the country may not be favorable to the economy, the present trend is a clear deviation from the country's previous levels. The key issue is in identifying the factors that influence average employment rate, which seems to be moving downward. Historically, the macroeconomic environment, as opposed to institutional and social factors, has been a more crucial, if not the most crucial, variable in shaping the employment situation. From 1994 up to the 1998, the rate of growth of employment is significantly and positively associated with the economy's performance. In some cases, the reduction in labor demand cannot even be noted during recessions if instead of terminating workers, employers resort to shortened work hours as what some establishments did during the 1997 Asian crisis.

In any case, the previous data has shown increased employment or increased work hours, or both, accompanied by a positive output growth. However, the present situation is not only that of a lagging employment rate, but an actual decline in employment, clearly a case not borne from the previous experience of the country.

The Effects of Persistent Protectionism

Despite the revolution in information technology and the substantial progress made in trade liberalization over the last decade, the government has remarkably protected a number of key industries. This means that the country has not nearly been shackled by globalization as is commonly believed.

Trade policies in general have been met with some resistance. So far, there have been four major programs that resulted in substantial reduction in tariffs. The first phase of the Tariff Reform Program (TRP-I) was implemented in 1981 covering a five-year period, aimed at leveling-off protection rates across industries and at achieving effective protection rates (EPRs) within the range of 30-80 percent. The second phase of TRP became effective on August 1991. Under TRP-II, locally produced and imported raw materials would have a tax of 10% and 3% rates of duty, respectively, while intermediate goods were levied at 20% and finished goods at 30%. TRP-II (EO 470) was supposed to end by December 1995, but was overtaken by the third phase of TRP in

August 1995. TRP-III liberalized further the trade environment by reducing the level and spread of tariffs towards a uniform level of EPRs across all sectors, in order to promote global competitiveness and simplify tariff structure for ease of customs administration, and providing a level playing field for local manufacturers vis-à-vis foreign competitors. Finally, because TRP-III led to a number of objections from the business sector, the government considered a tariff calibration scheme to serve as a framework for TRP-IV vis-à-vis the pace of liberalization in the ASEAN countries. The next tariff adjustments, TRP-IV, provided a structure of 30-25-20-15-10-7-5-3 tariff reduction scheme, instead of the previous 30-20-10-3 structure in response to the business sector's clamor for further protection to "assist them compete globally."

The country actually committed to bound 64% of all tariff lines during the Uruguay round. However, a schedule of tariff bindings can be adjusted on a yearly basis up to 2004. The effect of a variable schedule is the possible emergence of temporary and chiefly provisional policies the government can use to deal with specific problems, in the process leading to the removal of tariff bindings from a large of products and for the remaining products to reduce bound rates. In the year 2000, some 3,880 tariff lines of the total 5,673 lines (68%) were subject to bound rates. However, for 2001, bindings were removed for a substantial number of tariff lines such that only 45 % of all tariff lines have been bound from 2001 to 2004.

The main source of the problem is the wide range of tariff bounds from a minimum of 0 to a maximum of 66%. Clearly, bound rates of 0% denote a commitment to trade liberalization for the products concerned, but for a much larger range of products, bound rates are above actual tariff rates. This creates some flexibility for the Government to significantly raise current tariff rates should it choose to do so. Since the average bound rates for 2000 were 27.2% higher than the unweighted average of the tariffs for the same year, the Government can actually continue to set higher tariff rates.

What this discussion demonstrates is the great difficulty in liberalizing trade. While it is accepted that protection is harmful to the economy, the present industrial sector is characterized both by the lack of understanding of the economic costs of tariff and the presence of powerful political-social forces that strongly oppose any change in the status quo. This system of protection creates substantial rents to the producers of import-competing goods, to the importers that benefit from the allocation of (non-marketed) import rights, to organized labor that is sharing part of the monopoly rents resulting from the protection, and to the government bureaucracy that was administering the restrictive trade policies.

Apparently, the Philippine tariff structure significantly favored a number of industries. Many of the highly protected sectors are categorized as sensitive agricultural and food products that in some cases are also the inefficient ones (e.g., processing of agricultural and food products), mostly possessing significantly higher rates of nominal protection. A number of manufacturing industries, such as garments, transport equipment, and furniture, have also enjoyed high effective rates of protection.

Table 2 shows estimates of Effective Protection Rate (EPR) for selected sectors and industries. The ERP takes into account the effects of protection on the outputs and inputs of an industry by getting the difference of its value added based on domestic (protected) prices and its value added using international (unprotected) prices. The estimation can also include calculations of the implicit tariff protection on non-tradable inputs. For example, prices of road transport services and their costs to users are affected by tariffs on their inputs. If there are substantial tariffs on fuels and vehicles, then these will raise the costs and prices of this non-tradable service.

Sector/Industry	Year	
	2000	2001
Agriculture and Food Sector		
Fishing	9.4	7.3
Agriculture and Forestry	39.2	38.9
Food Manufacturing	10.6	23.5
Beverages	16.1	16.1
Tobacco	12.4	12.4
Manufacturing Sector		
Textile	20.3	23.1
Apparel	42.4	42.6
Paper and paper products	29.7	29.7
Furniture and fixtures	36.7	36.6
Rubber products	10.0	10.0
Transport equipment	37.2	37.2
Service Sector		
Electricity, Gas and Water	12.0	12.0
Construction	-9.7	-9.7
Transportation, Communication and Storage	-0.3	-0.3
Information Technology Services	-3.2	-3.2

Table 2. Effective Protection Rates by Sector2000-2001

Sources: A. Webster, Trade Policy (2001); Maxwell Stamp PLC GINSIM

Table 2 clearly indicates some degree of protection given agricultural and manufacturing sectors, registering high EPRs or higher value added at domestic prices relative to their value added at international prices. For some selected industries in the service sector, the pattern is mostly the opposite. This table suggests the presence of heavily protected sectors as well as the discriminatory nature of this type of liberalization.

The difficulty with this incentive scheme is that, given limited economic growth, resources given to some industries will mean lesser resources available to other industries. The basic economic principle is that eventually things add up. In the case of labor, higher employment in import-competing industries, for example, must come feasibly either through a reduction in unemployment, or at the expense of jobs elsewhere in the economy, resulting in no overall job gain. If higher protection in one sector leads to a higher wage rate for workers without higher labor productivity, the gain must truly come at someone else's expense. Since it is hard to see why foreigners will pay for more expensive Philippine outputs, protectionism can only redistribute the benefits of productivity from one set of workers to another, not increase the total gains. In their haste to assign great importance to international competition, the government may have failed to realize these equilibrium conditions that economic principles must have.

Graph 2 shows the unit labor cost (derived by taking the ratio of labor costs per employee and the value added per employee) by key industrial sector. This variable is an indicator of competitiveness, with a low value suggesting competitiveness for enterprises and a high value, otherwise. The figure shows that on the average the Philippines' unit cost of labor increased by 9% for the period from 1995 to 1999. However, disaggregating unit labor cost by sector changes the picture. Note that the service sector has a unit labor costs higher the average for all industries, growing by 23% from 1995 to 1999. In contrast, labor unit cost for agriculture and manufacturing decreased by 24 and 4 percent, respectively, for the same period.





Source of Basic Data: PDC-DAP Data Bank (Labor Costs deflated by CPI)

The important finding here is that industries, which for a period of time have received some protection from the government, end up eventually with lower their unit labor costs, thereby becoming more competitive and having greater value added than others. Agriculture and manufacturing industries, which are also the more tradable of these sectors, are essentially those that were given greater access to resources through the protectionist measures of the Government. At the same time, the service sector, which is the more skill-intensive and whose outputs are the least traded, is also the least protected of these sectors. Thus, the result is a bias against skill-intensive, and primarily non-tradable but potentially productive, sectors. This means that export growth can also lead to lower employment particularly for the skilled workers in the service sector.

The Role of Globalization

Despite the strong level of protectionism, it is a mistake to conclude from this evidence that globalization is irrelevant. Due to the increasing importance of trade in the economy, the options available to the policymakers have narrowed appreciably over the last decade, and most particularly after the Asian financial crisis. The imperative to be "internationally competitive" has become part and parcel of decisions and reflects a particular bias in industry decisions.

In the labor market, it has become more and more difficult to maintain labor market policies that increase the cost of labor. Globalization has been raising the overall cost of choosing this option. While the country hopes to provide generous minimum wages and benefit levels and even if it chooses to pay the costs, the stakes in the form of higher unemployment levels have been raised by the increased mobility of multinational firms.

The consequences are apparent everywhere, especially after the Asian financial crisis in 1997. Foreign corporations that were distinctive features of the Philippine economy in many decades have dismantled and transferred to other countries. Unions have been fighting the flexible labor arrangements which business have recently used more frequently. To businessmen and government officials, these changes have often been attributed to the need to remain "competitive in a global economy."

For the remaining industries, the end result is also an increase in capital investment relative to labor. The increased wage incomes of individuals with skills suggest that the globalization has favored skill intensive industries. However, in the absence of institutions that promote the upgrading of skills and the presence of biased protectionist industrial structure, the firms have found it more profitable to invest in capital. In effect, growth will be accompanied not by increases in jobs, but increases in the use of capital. Table 3 provides some Philippine data on the average growth rate of labor and capital, and the labor-capital ratio, showing a trend towards increased use of capital in the period, 1991-98.

	Select	ted Years	
Years	Average Labor Growth (Percent)	Average Capital Growth (Percent)	Labor/Capital Ratio ('000/P Million
			1985 Prices)
1991-1993	3.6	0.6	0.01837
1994-1998	2.7	5.7	0.01796
1997-1998	1.3	4.6	0.01755

 Table 3. Average Labor and Capital Growth, and Labor-Capital Ratio

Source: C. Cororaton and J. Cuenca, *Estimates of Total Factor Productivity in the Philippine*, (2001)

The recent "jobless growth" phenomenon can be thus explained by the surging increases in average nominal wages in the face of stagnant labor productivity. Actually, in real terms, average

daily wages increased by 55 percent from 1987 to 1999, and growth in real wages have relatively has been generally flat. But the long-term increases have it more difficult for the country to compete with other countries. Table 4 shows the comparative wages across several Asian countries

Country/City	Daily Minimum Wage (in US\$)	Monthly Wage (in US\$)	GDP/Labor Force (in US\$)**	
Thailand/Bangkok Indonesia/Jakarta Philippines/Metro Manila* Malaysia Singapore South Korea China/Beijing Vietnam	3.35-4.17 ^{a/} 0.83 ^{b/} 5.28 ^{c/} 5.26-7.89 ^{g/} 7.75-31.01 11.45 1.21 1.04	100.49-125.23 ^{d/} 24.79 ^{c/} 158.51 ^{d/} 157.89-236.84 ^{d/} 232.56-930.23 ^{e/} 322.90 ^{f/} 36.23 ^{h/} 31.25-31.28 ^{i/}	5692 2892 2818 12098 5220 n.a. n.a. 23.5	
b/ April 1998 b/ Minimum Wage; data based on prevailing wages for unskilled laborer b/ April 1998 b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskilled laborer b/ Minimum Nage; data based on prevailing wages for unskil				
/ Effective October 31, 1999 i/ Monthly salary for workers in Dong Nai (Dong Nai Confederation of Labor)				
d/ Monthly Equivalent of DMW computed using 30 day	days Source of data: Internet web page of respective countries			
/ Median commencing basic wage for general workers as of June 1998 *National Wages and Productivity Commission			1	
f/ Minimum wage eve beginning Sept. 1, 1999 to August	Sept. 1, 1999 to August 31, 2000 **ASEAN webpage			

TABLE 4: COMPARATIVE WAGES AND LABOR PRODUCTI	VITY
IN SELECTED ASIAN COUNTRIES	

As of June 5, 2000

The following noteworthy points can be seen in Table 3. First, the monthly wages in the Philippines are 25-50% higher than Thailand, less than Malaysia, much less than Singapore, and much more – five or six times more – than China or Vietnam. Minimum wages in the Philippines conceptually have a similar ranking compared to the wages of this group of countries. Second, the Philippines has lower labor productivity (measured in terms of GDP/labor force) than its main Asian competitors – half that of Thailand, just smaller than Indonesia, and one quarter of that of Malaysia. Third, in the light of lower labor productivity in the Philippines, the monthly wage is clearly a disincentive to investing in labor, since the returns to labor are quite low.

Average labor productivity is thus lower in the Philippines than in some comparable Asian countries, say, Thailand, but average monthly wages are much higher. Is the Philippines then worth the additional premium to the foreign investors? A short answer is yes. Nevertheless, various extenuating factors may be relevant. First, average labor productivity is low perhaps because the initial level of technology and/or capital intensity is lower in the Philippines. Second, the Philippines has a significant advantage over Thailand both in

terms of education and possibly skill. Third, as discussed in the previous section, the Philippines may not have taken full advantage over much of its skilled resources because of the system of protectionism incorporated in the industrial structure.

The main conclusion is that Philippines competitiveness has been eroded over the past twenty years when labor productivity growth, average labor productivity and real wages are compared. Highlighted further in the years following the Asian financial crisis, these same factors in recent years have also led to lesser employment as foreign investors have found it more viable to invest abroad or to invest domestically in more capital. Definitely, in terms of the unskilled labor intensive products, the country can no longer compete with labor surplus countries, such as China and Vietnam.

However, there are some compensating factors – availability of skills being a main one and a high level of education being another. The continued globalization should thus eventually favor capital-intensive and skill intensive industries. The benefits from this liberalization process then can be maximized if we set our sights towards improving and developing the level of skills.

Skill Development and Safety Nets, Not Trade Impediments

One need not be alarmed by the growing liberalization, but one should not also take a naively optimistic view of it. The removal of existing protectionism should enhance the opportunities available to those who have skills and mobility to flourish in world markets. It can help the country escape poverty by expanding opportunities and possibly minimizing inequality. At the same time, globalization does exert downward pressure on the wages of unskilled workers, exacerbate economic insecurity and weaken safety nets.

International economic integration poses a serious dilemma: Globalization increases the demand for social insurance while simultaneously constraining the ability of the governments to respond effectively to that demand. This process of marketization favors the use of capital-intensive and skill intensive industries, leading in the process to greater unemployment in unskilled labor. Because the Government cannot provide the necessary jobs for these workers through increased government expenditures and money supply, the natural response has been increased protection in labor-intensive industries, particularly in agriculture. However, as noted, this policy can be only implemented at the expense of the other industries.

Because of this, it would be better for the government to focus on the social development, as opposed to relying on the protectionist policies to address these problems. By social development, I refer to

the creation of institutions and structures that will institute incentives for the accumulation of skills and onthe-job training. The Government should be involved in particular types of skills: those that are specific enough that present educational system cannot provide, and at the same time generic enough that industries will not be willing to finance voluntarily. In other words, these are skills that cannot be supplied optimally by the market and the present educational system. This will provide a clear rationale for Government intervention.

Another key component of social development is the formation of safety nets. In this case, one view safety nets not as costs, but rather, as one type of investment in human capital formation. A key element of this concept involves helping the poor keep access to basic social services, avoid social exclusion, and resist coping strategies with irreversible negative effects during the initial period of further trade liberalization. The main idea behind safety net is that certain individuals, households and communities are vulnerable to the multiple risks associated with trade liberalization. In the absence of adequate training programs, these shocks may hit the unskilled individuals more particularly, possibly causing and deepening poverty. Hence the provision and selection of appropriate safety net instruments becomes an important device in order to reduce vulnerability as well as provide a means out of poverty.