

What will it take to get the Philippines out of its poverty trap?

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Focus on agriculture and rural development

First, we must focus on agriculture and rural development. The Asian experience, well articulated in the recently launched Millennium Project Report, provides an important lesson in this aspect: investment in rural development has high social payoffs.

However, the agriculture sector has remained weak in generating respectable output growth. Among the major Asian economies, the Philippines had the lowest average agricultural growth rate during the past two decades, averaging only 1% per year in the 1980s and 1.6% in the 1990s. Although growth rates were slightly higher since 2001, it does not appear that these are sustainable.

The country, in its bid to win the war against poverty, using very limited resources, must be more aggressive in realigning and focusing on areas where the real difference will be most felt by the poor.

Move away from populist policies

Second, given the fiscal bind, we must move away from populist policies that do not really advance poverty reduction objectives but, in fact, merely serve political ends.

Address low productivity

The national strategy for poverty must focus on addressing the fundamental causes of low productivity, and these are: (1) low investment in rural infrastructure, human capital, agricultural R&D, and information; (2) poor governance of support services; and (3) high "cost of doing business" owing to inefficient and archaic regulatory systems.

Improvement in efficiency --

increases in total factor productivity (TFP) growth -- holds the key to successful cases of rural development. For all periods, from 1980 to 2000, the Philippines was the worst performer; its annual TFP growth rate was 0.2%, while that of Thailand was 1.2%, and Indonesia's was 1.5%.

These low growth rates translate to high food prices, low farm incomes, and demand for high nominal wages. It should be stressed that farmers do not necessarily benefit from high food prices since the large majority of them are net buyers of food.

Philippines' poverty level against that of other Asian countries

By all indications, the Philippines is on track as regards Millennium Development Goal One, which is to halve, between 1990 and 2015, the proportion of people under extreme poverty and to halve the proportion of people who suffer from hunger. Official poverty estimate in 1990 was roughly 40% of total families. This was down to roughly 25% in 2003. Given the current rate, it should be an easy ride to reach the goal of about 20% by 2015!

However, I believe that we should be doing better than simply halving extreme poverty, which is, to begin with, alarmingly high in the Philippines. World Bank data show that in recent years, the proportion of the population subsisting below \$1 a day is about 11%. By contrast, Vietnam



has only 2% and Indonesia, 7%. We note that these two countries have remarkably lower GDP per capita than the Philippines.

Equally troubling is the fact that progress on poverty reduction has been particularly sluggish in the Philippines. Notably, China and Vietnam have managed to reduce absolute poverty at remarkably rapid rates. From a level of about 30% in the early 1990s (based on a poverty line of \$1 a day per person), China has reduced its poverty level by almost half; it is now about 16% only. Similarly, Vietnam, whose absolute poverty level was about 15% in the early 1990s, managed to bring that figure down to close to 2% in less than a decade. A fantastic feat!

What does it take to hasten the reduction of absolute poverty and hunger? What policy inputs are required to win the war against poverty?

We need not look far nor invent

new approaches for answers to these questions. The Millennium Project Report offers a plethora of lessons and doable initiatives for addressing the poverty problem.

One such powerful lesson, especially from Asian experiences, is the primacy of rapid but sustained economic growth in a poverty reduction strategy. From a long-term perspective, there is no other way to win this war.

I conclude with three points. First, the obvious challenge is to achieve a rapid sustained growth. Second, it is crucial that we put our house in order, and directly tackle fiscal issues and the chronic deficit problem. Finally, with very limited resources, we must be more aggressive in realigning and focusing on areas where the real difference will be most felt by the poor. Let's end the practice of using scarce government resources to win political points.