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The Philippines: Implications of Rapid Labor Force Growth [redacted]

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An Intelligence Assessment

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An Intelligence Assessment

This paper was prepared by [redacted] Office of East Asian Analysis. Comments and queries are welcome and may be directed to the Chief, Southeast Asia Division, [redacted] 25X1 25X1

The Philippines: Implications of Rapid Labor Force Growth

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Key Judgments

Information available as of 15 April 1984 was used in this report.

Creating jobs for a rapidly growing labor force will be as intractable a problem for Philippine economic policymakers over the next decade as coping with the country's precarious financial position. The working-age population is growing about 3 percent annually, faster than the population as a whole. Unemployment, by some definitions, is already approaching 30 percent in Manila, and underemployment is pervasive.

Almost one-third of the population—15 million people—is under 10 years old, and it is this group that will provide most entrants to the labor force between now and the year 2000. We have projected two paths for the labor force during this period. Our base projection places the labor force at 33 million in the year 2000—up from about 20 million currently. Improvements in adult mortality and slightly higher labor force participation rates could easily push this to 36 million, however.

For demographic reasons, the most rapid period of labor force growth will be between 1980 and 1990. Accordingly, we believe the rate of job creation will have to nearly double during the late 1980s if Manila is to contain the unemployment problem. This will require far-reaching changes in the structure of the economy, posing new political challenges for whatever regime holds power.

To make matters worse, foreign debt service problems simultaneously will force Manila to adopt policies that deemphasize industry in favor of agriculture. Thus the country's urban centers—unless IMF and World Bank mandated economic policy reforms succeed in rejuvenating a stagnant manufacturing sector—will be unable to shoulder their traditional share of the job-creation burden.

Manila's ability to increase investment will be the key to meeting the demographic challenge. Even with policy reform, enhancing long-term political stability by promoting job creation requires productivity improvement and considerable expansion of plant and equipment, and thus restoring investment to levels reached during the 1970s.

Such an investment push will probably require lower living standards during the 1980s. For now, the need for austerity is being magnified by the country's financial problems, which are devastating capital outlays. If the poor investment climate continues—and we believe it will—future governments will inherit far more serious unemployment problems than the country currently faces—a development we expect to undermine long-term political stability by weakening the mandate of any regime that holds power.

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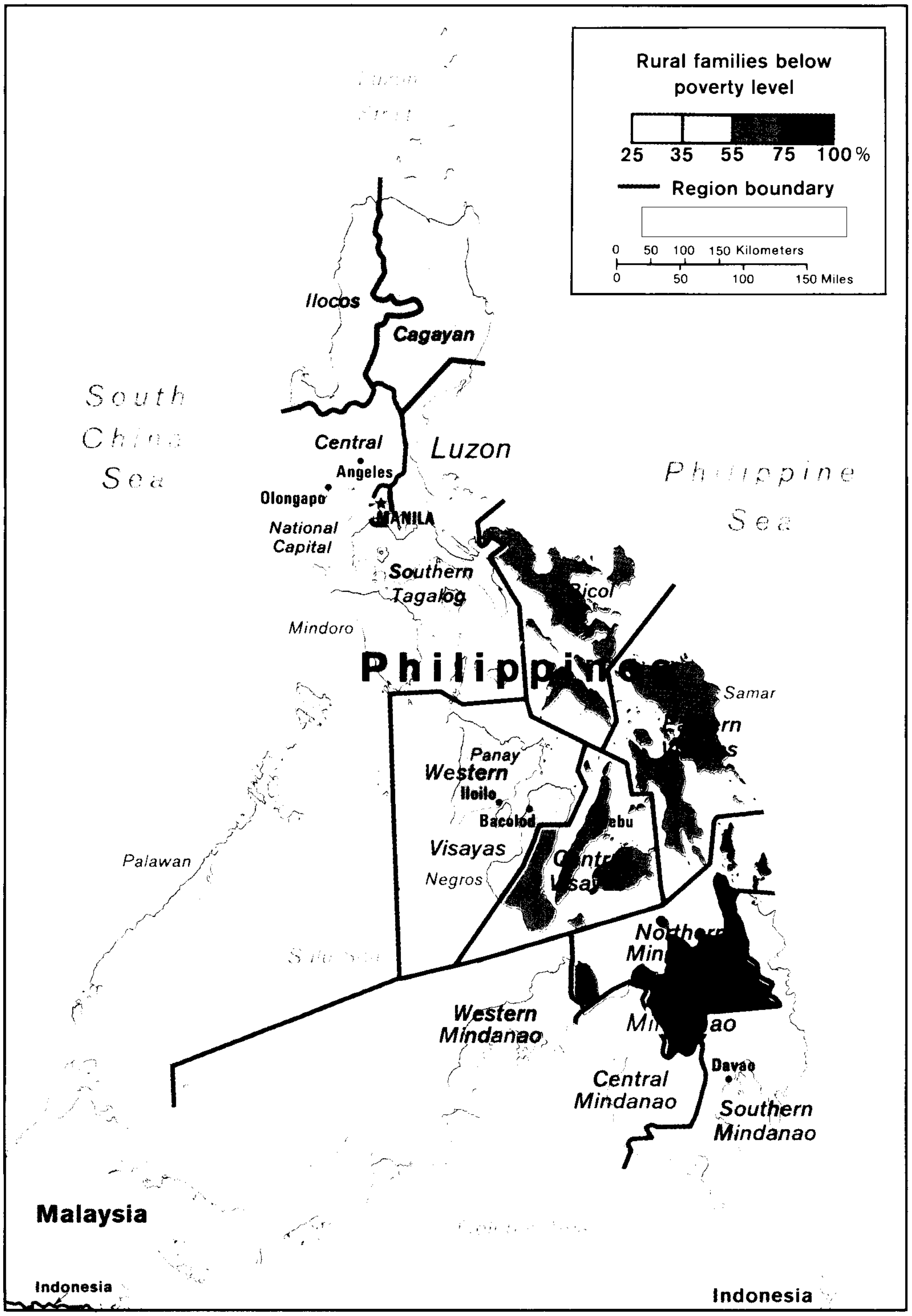
Contents

Figure 1
Rural Poverty by Region



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The Philippines: Implications of Rapid Labor Force Growth

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Population and Labor Force Pressure

Providing jobs for a rapidly growing labor force will be Manila's most difficult economic challenge between now and the turn of the century. Population growth of 2.6 percent annually has been among the highest in East Asia. More serious, the working-age population is growing about 3 percent annually—faster than the population as a whole. Moreover, because a greater share of the working-age population is seeking employment, the labor force itself is growing 3.5 percent each year (see figure 2).

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Underemployment: Already Straining the System
Population pressures have already saturated the labor market. The mainstay manufacturing and agricultural sectors have been hard pressed to cope with rapid labor force growth and have expanded job creation by at most 2.5 percent annually since the late 1950s, forcing many new workers into ill-paying jobs in the service sector. According to the commercial press, one-fourth of these jobs involved hawking or peddling—subsistence employment averaging more than 10 hours of work per day. The continued rapid growth of such menial employment underscores the inability of the economy to keep up with demographic trends.

Nevertheless, because half the labor force is employed in agriculture, there are few meaningful ways of measuring slack in the labor market. Rural labor markets distribute agricultural production among workers—an institution of shared poverty that is common in Asia and which precludes the existence of open unemployment in the countryside. Meanwhile, government statistics and surveys are constructed to assure that urban unemployment is understated (see box). The Ministry of Labor and Employment has shied away from extensive labor force surveys in manufacturing zones and official figures on layoffs are therefore incomplete. There is also considerable labor mobility between the urban and rural economies, so that openly unemployed urban workers easily become members of the employed, but seriously underutilized, agricultural labor force.

Table 1
The Philippines: Unemployment Rate by Educational Status, 1970

Percent

Schooling	Unemployment Rate [a]
None	4.4
Grade 4	4.5
Junior high school	6.8
Some high school	13.7
High school graduate	15.3
Some college	17.4
College graduate	7.2

[a] Open unemployment.

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Open unemployment of the sort found in urban industrial economies is a comparative luxury in the Philippines and paradoxically increased when labor was in relatively short supply. A 1970 survey, whose findings we believe remain valid, showed that most open unemployment was confined to those workers who could finance periods of job search (see table 1). The survey found that the rate of unemployment among high school graduates was three times the national average precisely because high school graduates could afford to be selective about job prospects. Workers from poorer families could rarely afford to be without even the most menial job, and the lowest category of unemployment in the survey was that category of worker with the least schooling.

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Economic Welfare

Population pressures are also playing a large part in preventing the Philippines from sharing the gains in living standards recorded by other Asian nations since 1960. A recent survey of wages for unskilled workers

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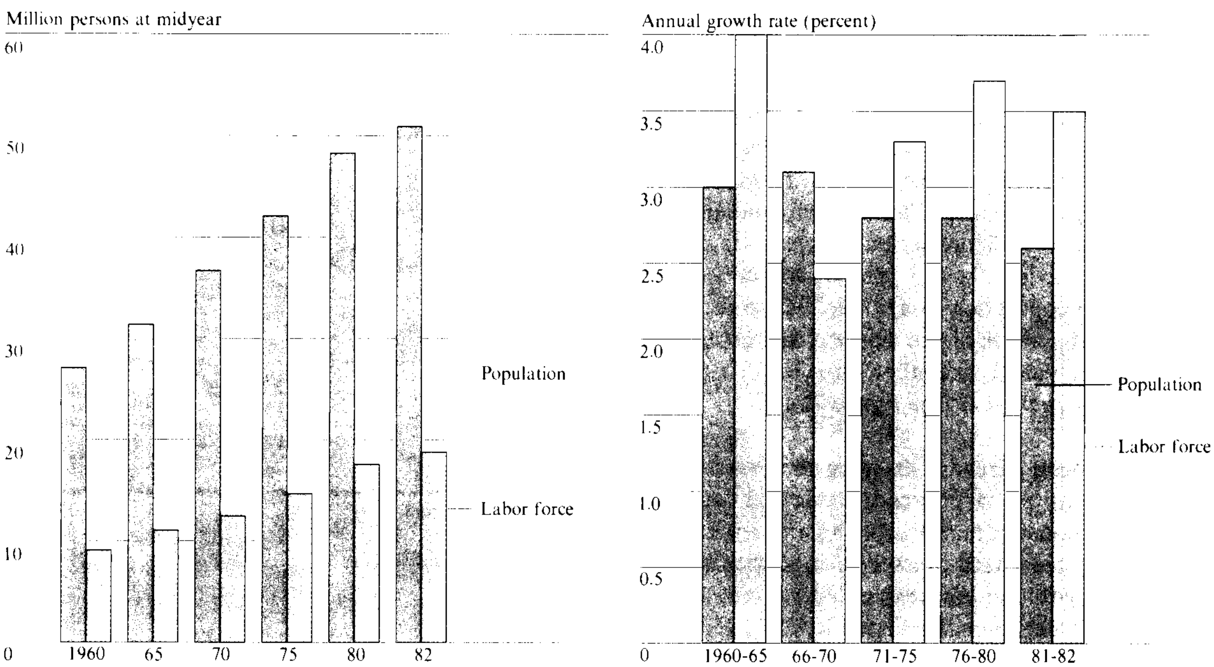
Figure 2
The Philippines: Government Estimates of Population and Labor Force, 1960-82



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in Manila shows that real wages are lower now than they were 25 years ago, even though government-mandated allowances have escalated sharply (see figure 3).

The true picture could be even worse. A 1976 study found that only about two-thirds of the firms surveyed complied with Manila's minimum wage and cost-of-living regulations, suggesting that Central Bank data on minimum wages overstate actual minimum earnings. More recent studies suggest that less than half the industrial firms comply.

Rural workers who migrated to the cities in large numbers in the late 1970s in search of higher living standards undoubtedly depressed urban wages (table 2). Convincing data on rural wages are lacking, but our best guess is that the countryside has not fared as badly. Wages for corn and rice workers in 1984 appear to be at least one-third higher than in 1972—a

Table 2
The Philippines: Population and Growth of Major Cities, 1970-75

	Population (*thousands*)	Annual Growth Rate (*percent*)	
		Population	Labor Force [a]
Total urban population	13,306	2.7	5.0
Metropolitan Manila	4,970	5.1	8.0
Cebu	413	3.8	6.0
Iloilo	227	1.6	2.5
Bacolod	223	3.8	6.0
Davao	201	2.6	4.1
Angeles	155	2.6	4.1
Olongapo	147	7.3	11.5

[a] Estimated.

Measuring Unemployment

The official government unemployment figure is derived from a labor force survey that asks respondents not whether they are employed but whether they have worked at all during the previous quarter. In 1980, 95.1 percent of the work force answered yes, producing an official open unemployment rate of 4.9 percent. In 1981, after heavy layoffs in the manufacturing sector, the government's unemployment rate rose only marginally, to 5.0 percent, prompting widespread cynicism about government labor statistics.

Because of the way Manila collects its data, however, it is almost impossible for the unemployment rate to reflect the degree of slack in the labor market. Because of widespread poverty, Philippine workers cannot afford to be without a job for long, and even middle-class families have great difficulty financing extended job searches. Thus open unemployment is a comparative luxury, and official surveys, which count only workers who have been unemployed for at least three months, are almost guaranteed to produce misleading figures.

The government-funded Development Academy of the Philippines has conducted its own surveys using a questionnaire patterned after the US model. When respondents were asked in 1981 whether they were employed currently, *rather than whether they had worked for any specific amount of time during the preceding three months, the data produced far fewer affirmative responses than the government survey, painting a far grimmer picture of the Philippines' unemployment. The survey pegged the unemployment rate at 9 percent for heads of households, 30 percent for all others, and 14 percent nationally for the labor force as a whole. Manila's open unemployment rate turned out to be 26 percent. Even this understates unemployment, however. Although 14 percent of the labor force may have been unemployed at any given time during 1981, many workers with jobs worked only briefly. The government admitted that, if it modified its questionnaire to count as employed only* 25X1 *those workers who had worked at least 30 days during the preceding quarter, the 1981 unemployment rate would have been 16 percent.* 25X1

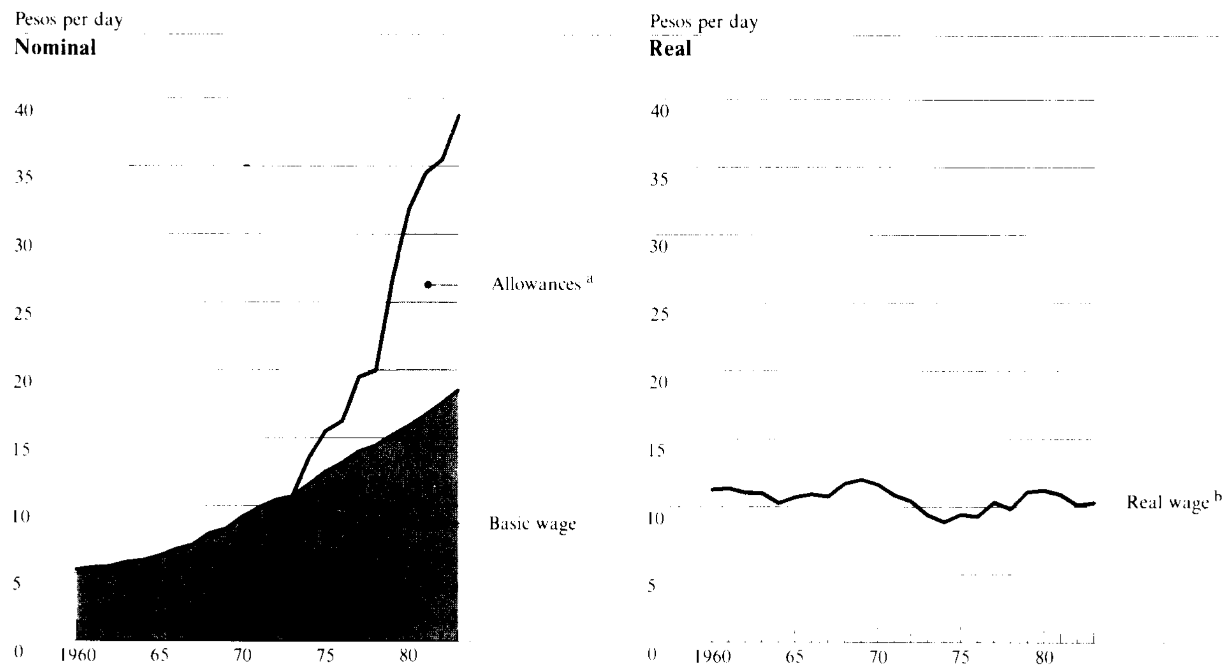
Measuring underemployment is even more sensitive to problems of definition. A National Statistics and Census Office study conducted in 1981 attempted to capture underemployment in two ways. Those workers with jobs were counted as underemployed by the standard of time worked if they worked less than 40 hours weekly but were seeking further employment at the prevailing wage. The survey pegged this form of 25X1 *underemployment at 10.7 percent of the work force. If the workers were working 40 hours or more weekly, but failed to earn a subsistence wage and sought further employment, they were counted as "invisibly" underemployed. These totaled 15.8 percent of the work force. Thus the survey pegged total unemployment and underemployment at 31.5 percent of the work force. It developed that half the workers underemployed had been so more or less permanently, in this case for at least six months.* 25X1

result of productivity improvements attributable to pressing ahead with the green revolution and introducing hybrid varieties. Accordingly rural-urban migration has slowed in recent years.

Population and Labor Force Trends to 2000: No Relief

Manila can expect virtually no relief from population pressures before the year 2000. The Philippines is in the middle stage of demographic transition; because mortality rates of children and adults improved before fertility rates were reduced, the population not only is growing rapidly but is also increasingly young. Half the population is under 18; almost one-third—15 25X1 million people—is under 10, and it is this age group that will provide most of the entrants to the labor force between now and the year 2000. Moreover, the government cannot slow the expansion. Reducing fertility rates through family planning programs

Figure 3
The Philippines: Real and Nominal Wages, 1960-83



[a] Allowances include the cost-of-living allowance granted annually by presidential decree and a mandated 13th-month pay.
[b] The real wage is calculated on the basis of the Central Bank's consumer price index and is expressed in constant 1972 pesos.

Source: Central Bank of the Philippines. Series for daily earnings of common laborers in metropolitan Manila.

[redacted] 25X1

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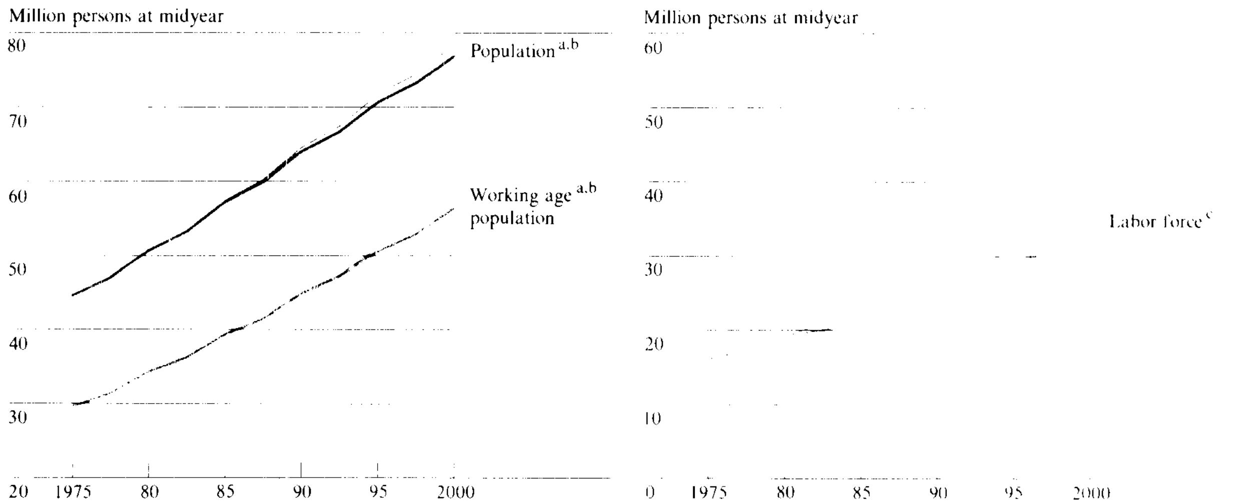
would not affect these age groups before 2000, and health programs that reduce adult mortality will boost labor force growth rates further. [redacted] 25X1

We have examined a variety of paths for population growth between now and the turn of the century that could provide a realistic account of what the Philippines is likely to experience (see figure 4). Our base projection, based on moderate improvements in adult mortality, places the turn-of-the-century population at 77 million people—up from 54 million now (appendix A contains our assumptions on fertility rates).[1] The population problem is more immediate than these figures suggest, however. The 1980-90 period will feature the most rapid growth because of the age structure of the present population.[2] In our base projection, the population grows by 2.3 percent annually until 1990, after which growth slows to 1.8 percent because of the population's changing age profile and reduced fertility rates. Moreover, the annual growth rate of the working-age population exceeds the growth rate of the general population in either scenario. [redacted] 25X1

[1] Rapid improvement in mortality rates, according to our calculations, would swell the population to about 79 million by the turn of the century. The potential labor force in such a case would exceed our base estimate by about 5 percent. [redacted] 25X1

[2] We have adjusted the government's census data to allow for measurement errors as discussed in appendix A. [redacted] 25X1

Figure 4
The Philippines: Population and Labor Force Projections, 1975-2000



[a] The high estimates for both population projections assume a rapid decline in mortality rates, with 80 percent of the decline coming before 1990. They also use the same rates of fertility decline postulated by the US Bureau of the Census (see appendix B). Emigration to the United States and Canada is assumed to grow at 1,300 a year through the year 2000. Additional labor emigration peaks in 1981 and remains constant through 2000.

[b] The base estimates for both population projections assume a moderate decline in mortality, but use the same assumptions on fertility and emigration as the high estimates.

[c] The base estimate for the labor force projection assumes historical participation rates and a moderate decline in mortality rates. The high estimate assumes a participation rate that is higher than the historical average—especially for women and a rapid decline in mortality. Both estimates use the decline in fertility postulated by the US Bureau of the Census.

[redacted] 25X1

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The Labor Force Explosion

The expansion of the labor force will be as sensitive to changes in labor force participation rates as it is to the demographic factors that will determine the size of the working-age population. As part of our projections, we have postulated labor force participation rates over the next two decades on the basis of their historical trends and the experience of other developing nations at a similar stage of economic development (see appendix A). We believe participation rates for males will change little over this period, but, according to the World Bank, female participation rates almost certainly will continue to increase (see table 3). [redacted]

Even under favorable conditions, the labor force could almost double during the next 15 years. Our high series, reflecting rapid growth of the working-age population and the higher of our participation rate scenarios, places the labor force at 35.6 million in the year 2000—up from about 20 million now (see figure 5). This represents about 900,000 new workers each year. Our low series, based on modest growth of the working-age population and the lower of our participation rate scenarios, places the labor force at 33.3 million at the turn of the century, nearly 800,000 new workers per year. [redacted] 25X1

Labor force growth could exceed these levels for brief periods with rapid economic growth, which traditionally boosts labor force participation rates by improving prospects for finding employment. Such expansion 25X1

Table 3
The Philippines: Projected Labor Force Participation Rates, 1981-2000

Percent

	1981-85	1986-90	1991-95	1996-2000
Males				
10 to 24 years old				
High	48.0	49.0	49.0	49.0
Low	45.0	45.0	45.0	45.0
25 to 44				
High	98.0	98.0	98.0	98.0
Low	96.5	96.5	96.5	96.5
45 to 64				
High	95.0	95.0	95.0	95.0
Low	93.0	93.0	93.0	93.0
Over 65				
High	57.0	57.0	57.0	57.0
Low	53.0	53.0	53.0	53.0
Females				
10 to 24 years old				
High	29.5	30.0	32.0	33.0
Low	27.0	27.5	28.5	29.5
25 to 44				
High	47.5	48.0	50.0	51.0
Low	45.5	46.0	47.0	48.0
45 to 64				
High	46.5	47.0	49.0	50.0
Low	45.0	45.5	46.5	47.5
Over 65				
High	22.0	22.5	24.5	25.0
Low	18.0	18.5	19.5	20.0

is not sustainable for more than several years, but it could compound the problem of meeting worker expectations. In addition, as with population, the most rapid period of labor force growth will be 1980-90; the labor force could grow 3.3 percent annually during the 1980s before falling off to 2.9 percent during the following decade.

If the Government Does Nothing

Without economic policy changes, rapid labor force growth, at minimum, would ensure that the Philippines' underemployment problem slowly worsens over the next decade. This would almost certainly fuel the Communist insurgency in the countryside and generate new inroads by the left in the urban labor movement. We cannot predict what level of urban unemployment would produce social unrest, and several social institutions in the Philippines, such as the extended family system, act as "shock absorbers" in a deteriorating labor market. At the very least, however, these institutions will undergo added strains for the near future, and we believe the risk of social unrest will increase as a result. 25X1

In addition, we believe that demographic change will have a stronger—and more politically explosive—impact on politically strategic cities than on the countryside. No area will feel the impact of change more acutely than metropolitan Manila, for example, which, despite economic recession, will draw a disproportionate share of internal migration because of its prevailing high living standards—three times the national average. Population growth and migration have already boosted the population to about 6 million, and metropolitan Manila contains 55 percent of the Philippines' manufacturing employment. If Manila gets its traditional share of national population growth during the 1980s, the metropolitan population would rise to 10.8 million by the end of the decade, and Manila would contain one out of every six Filipinos. 25X1

We think Manila's labor force growth will turn out to be far more modest, given the presence of over a million seriously underemployed squatters. A more likely scenario than continued population expansion along historical lines, we believe, is that the influx of 25X1 migrants will force real wages in Manila even lower than they are now—thus reducing the incentive for migration before it reaches critical proportions. In any case, the capital city appears destined for a particularly poor decade from the standpoint of economic performance. Increased open unemployment is almost certain, and by 1990 it appears that Manila's living standard advantage will be either eliminated or substantially reduced. 25X1 25X1

Figure 5. Squatter housing in Manila. The skewed distribution of income has provided grist for political analysts predicting social upheaval. 25X1

Camera Press ©

Economic Policy Options: What Manila Is Doing

Because the course of demographic change during the next two decades has been largely determined, Manila has few policy options that will affect the growth of the labor force. It could try to improve the quality, and thus the employability, of the work force—but this prospect is seriously diminished by the government's limited education budget and its ongoing financial problems. Nonetheless, we believe the rate of job creation will nearly have to double during the late 1980s if the government is to keep a lid on the unemployment problem. 25X1

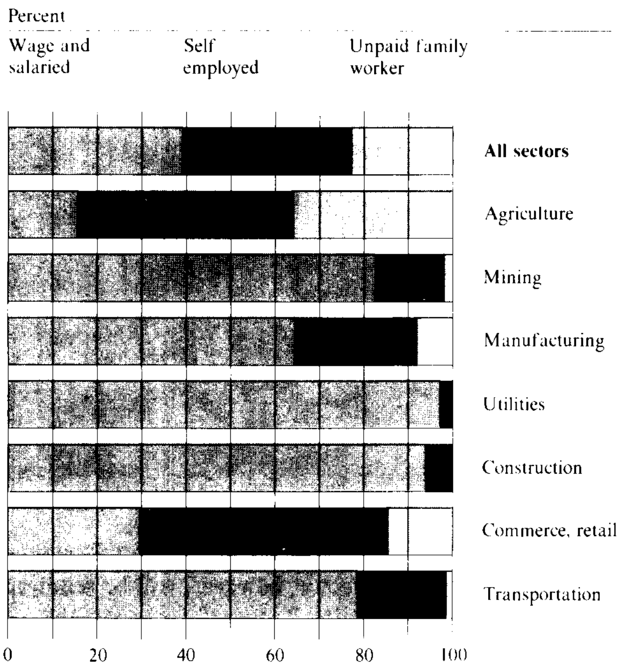
The Demand Side of the Labor Market

Promoting Capital Formation. Although much investment has been in capital-intensive enterprises that create few jobs, the Philippines' capital formation level over the last decade has been good. Investment, as a share of output, rose from 16 percent of GNP to 28 percent of GNP during the 1970s, reflecting the government's intensive efforts to increase public capital outlays. Government efforts to promote private saving through high interest rates—a move the World Bank recommended—are continuing and may provide at least some help enabling the Philippines to continue this high level of investment (see table 4). 25X1

Substantial improvement in the share of total savings created by the public sector, however, will be required to sustain this momentum. Tax performance—the chief source of public-sector savings—is 11 percent of GNP, a substandard level compared with other developing countries. In addition, public corporations satisfy little of their capital needs out of operating revenues and must compete with private firms in capital markets, thus draining the total supply of investable funds. 25X1

Manila may make progress on both these fronts if it implements requirements of the World Bank and the International Monetary Fund, with reform of budget techniques and fiscal policy as conditions of releasing balance-of-payments loans. The Philippines' balance-of-payments problems could, however, nullify the effects of reform if they persist. Capital formation has had a heavy foreign exchange cost, with imports of capital goods amounting to about 6 percent of GNP annually. The country's financial difficulties rule out continuing imports at this level. 25X1

Figure 6
The Philippines: Employment by Worker Category, 1974



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Wooing Foreign Investment. Capital imports financed by direct foreign equity give Manila an attractive alternative for promoting capital formation and job creation in the face of financial stringencies. Moreover, the Philippines would appear to be an excellent investment opportunity because of its literate work force and the government's relatively liberal foreign investment rules.

Manila, nevertheless, will have to resolve the foreign debt crisis and return the trade deficit to a sustainable level if it is to maintain historical levels of foreign investment. With IMF talks at an impasse and foreign debt rescheduling talks on hold, the shortage of import financing and the Central Bank's foreign exchange restrictions are making it difficult for foreign firms to either operate or to remit profits. In addition, firms producing for the local market are finding it almost impossible to import spare parts or raw materials. Ford Motor Company of the Philippines, for example, will shut down its assembly plant in August for this reason, costing the Philippines 2,000 jobs. If foreign investors conclude that Manila's foreign exchange problems are destined to recur through the decade—as seems likely—foreign equity participation may never regain its former level. 25X1

Liberalizing Exchange Rate, Commercial, and Industrial Policy. The pattern of job creation reflects the fact that the Philippines has lagged the more dynamic economies of East Asia—Taiwan, South Korea, Singapore, Hong Kong, and more recently, even Thailand and Malaysia—in developing an ability to manufacture for export. During the 1963-73 period, for example, manufacturing provided 42 percent of all new jobs in South Korea, compared with 8 percent in the Philippines. This occurred despite vigorous efforts by the Philippine Government to promote local industry. A 1979 University of the Philippines study found that the government's investment incentives during the 1970-77 period actually *reduced* the number of jobs in that sector by 41,000 because economic policy encouraged capital-intensive, as opposed to labor-intensive, enterprises. 25X1

The Philippines' recent capital-intensive growth pattern, according to the World Bank and the IMF, is 25X1 partly attributable to exchange rate and foreign trade policies that artificially cheapened capital good imports while penalizing labor-intensive exports. This, however, is changing. In 1981, the World Bank began a series of Structural Adjustment Loans designed to rehabilitate industries such as textiles through low-interest loans. The loans required that Manila lower tariffs, liberalize foreign exchange controls, and reform tax incentives to favor export-oriented enterprises—a series of moves meant to streamline the manufacturing sector by opening it up to international competition. Manila has already made considerable progress implementing the Bank's program, and further Structural Adjustment Loans are expected later this year when the new IMF program is completed. 25X1

Table 4
The Philippines: Sources of Investable Funds as a Share of GNP, 1979-83

Percent

	1979	1980	1981	1982	1983 [a]
Gross investment	**27.9**	**28.7**	**28.6**	**27.0**	**25.0**
Public fixed investment	6.5	7.8	8.2	7.6	6.0
Private fixed investment	18.2	17.9	17.8	16.4	16.0
Additions to inventories	3.2	3.0	2.6	3.0	3.0
Gross Savings	**27.9**	**28.7**	**28.6**	**27.0**	**25.0**
Foreign savings [b]	5.3	5.9	6.0	8.5	7.0
New foreign loans [c]	7.6	7.7	8.1	11.8	10.5
Debt amortization	−2.3	−1.8	−2.1	−3.3	−3.5
Domestic savings	22.6	22.8	22.6	18.5	18.0
Public sector	5.9	5.9	4.3	4.1	4.0
Private sector	16.7	16.9	18.3	14.4	14.0

[a] Estimated.
[b] Foreign savings equal the current account deficit.
[c] All maturities.

Source: World Bank

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The IMF, meanwhile, is insisting that Manila implement a more aggressive exchange rate policy in a bid to trim the current account deficit and promote labor-intensive exports. Manila devalued the peso twice in 1983, and further adjustments are expected later in 1984. We believe this, in conjunction with the World Bank program, will redirect investment toward the labor-intensive export sector of the economy, thus promoting job formation. The World Bank believes—and we agree—that if total investment outlays can be maintained, the reforms could triple annual job creation in manufacturing.

Expanding Overseas Employment. In recent years, Manila has touted overseas employment to ease the domestic unemployment problem. Labor Minister Blas Ople claims that as many as 614,000 Filipinos were employed overseas at the end of 1982—about 3 percent of the labor force. Because the government monitors new contracts but not returnees, it is difficult to evaluate this claim, but the Philippines' performance as an LDC labor exporter has been impressive by any standard. We estimate that between 1979 and 1982, overseas employment expanded by over 55,000 positions annually. By the end of 1982, there were over 250,000 Filipinos working in the Middle East alone. 25X1

Manila's ability to tap overseas labor markets will depend largely on the vagaries of the global oil market and the propensities of Persian Gulf governments to recycle their oil earnings on development projects at home. The Philippines is shielded from falling oil earnings to some degree by a concentration of projects in Saudi Arabia. Riyadh's large foreign reserves have 25X1
enabled the Saudis to escape the cutbacks common to other OPEC members. The current oil glut nonetheless has already produced several retrenchments, and the flow of new projects has slowed to a trickle. In any case, only another oil price runup is likely to enable Manila to resume its pace of labor export, and this seems unlikely soon. 25X1

Outlook: The Politics of Economic Change

We cannot predict the point at which labor force pressures would produce social unrest, but the foreign debt crisis is already causing Manila serious short-term unemployment problems. Comprehensive data are lacking, but Philippine private economists predicted layoffs in early 1984 of 300,000 in the capital region alone because of the shortage of imported industrial raw materials being induced by the financial crisis. [redacted]

In our judgment, the country has been cushioned from the effects of the financial crisis by a large buildup of raw materials in the fall of 1983 that delayed the effects of last winter's shortage of import financing. In addition, the government has manipulated economic policy during the last several months to minimize unemployment as the National Assembly election in May approached: government bailouts for financially distressed domestic financial institutions have kept credit available, and manipulation of Central Bank foreign exchange allocations in favor of labor-intensive firms has confined much of the strains in the economy to large capital-intensive projects. Unemployment will probably rise in June and July as the Central Bank implements announced plans to trim industrial imports further, but it is too soon to say if this will cause political problems for Marcos. [redacted]

We believe the long-term effects of the current poor economic outlook will be greater. For one thing, falling real wages are compromising the employability of the work force. Families are responding to incomes reduced by recession by placing school-age children in the work force. Although the new entrants are expanding household incomes, the future educational level of the work force is being eroded. [redacted]

Over the longer term, the policy reforms mapped out by the World Bank and the IMF will only succeed if the Philippines can maintain sufficient investment to develop labor-intensive enterprises. Capital formation faces a bleak future because of the country's financial problems, and only an extended period of austerity—during which per capita consumption expenditures would fall rapidly—is likely to improve the investment outlook. Over the longer term, investors must also weigh political factors, such as the possibility of a

Selected Remarks of the 1974 International Labor Organization Mission

In 1974, the ILO published the definitive work on the political economy of equity and employment generation in the Philippines. An article that summarized the Mission's findings contained the following:

> *The Mission is convinced that, from a technical point of view, major increases in output and employment are possible and that they would result in a simultaneous improvement in the distribution of income, both familywise and regionally. It is the Mission's belief that, in a labor surplus economy, the only reliable and sustainable way of improving equity is to make fuller use of the country's resources by adopting a more employment-oriented growth path. . . .* 25X1

> *To move the economy of the Philippines onto the new growth path proposed by the Mission requires both technical competence and the political will to bring together and secure agreement among the various parties to the social contract. That some groups in society—for example, landless rural workers, small farmers, and medium- and small-scale entrepreneurs—stand to benefit is clear. On the other hand, some sacrifice would be called for on the part of certain groups that benefit from the present narrow growth path. . . .* 25X1

> *Any reform raises problems in political economy, however, and it may well be that a country rich in natural resources (like the Philippines), while more* able, *may be much less* willing *to effect necessary policy changes because it is not pressed into such a course of action. Especially at a time when raw materials prices are on the upswing, there will be a natural tendency to avoid painful policy changes and maintain things as they are . . . This makes all the heavier, perhaps, the political burden of understanding that any such alternative is not really viable in the longer run. . .* [redacted] 25X1

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Table 5
The Philippines:
Trade Balance, by Sector, 1979-83

Million US $

	1979	1980	1981	1982	1983 [a]
Current account	**−1,576**	**−2,072**	**−2,589**	**−3,347**	**−2,700**
Merchandise trade	**−1,541**	**−1,939**	**−2,667**	**−2,805**	**−2,250**
Minerals (net)	**771**	**1,169**	**984**	**950**	**1,200**
Exports					
Copper	330	679	544	340	500
Imports					
Iron ore	49	74	60	60	70
Agriculture (net)	**1,568**	**1,563**	**1,137**	**1,180**	**1,100**
Exports	2,095	2,271	1,914	1,970	2,200
Coconut products	965	759	756	647	550
Sugar products	238	474	609	324	400
Forest products	484	433	383	340	400
Imports	527	708	777	790	1,080
Fertilizers	91	139	105	120	140
Foodstuffs	402	541	639	630	900
Capital goods	34	28	33	40	40
Manufacturing (net)	**−1,232**	**−991**	**−584**	**−560**	**−600**
Exports					
Nontraditionals	1,520	2,108	2,609	2,900	3,440
Imports					
Raw materials	2,279	2,267	2,570	2,910	3,370
Capital goods	590	650	623	550	590
Energy (net)	**−1,628**	**−2,484**	**−2,703**	**−3,.210**	**−3,220**
Imports					
Oil	1,385	2,248	2,458	2,396	2,090
Coal	14	22	30	30	100
Capital goods	280	290	301	850	950
Other sectors (net)	**−954**	**−1,077**	**−1,005**	**−870**	**−830**
Imports					
Consumer goods	200	246	192	260	310
Capital goods	882	1,018	972	680	700
Services and transfers (net)	**−35**	**−133**	**78**	**−542**	**−450**
Interest payments	−591	−846	−1,101	−1,811	−2,200
Worker remittances	365	421	546	690	830
Transfers	355	422	470	450	450

[a] Estimated.

25X1

change of regime and shifts in the regulatory environment, before committing capital expenditures to the Philippines. We see little prospect that investors' fears will be eased soon.

The demographic explosion during the late 1980s will coincide with two other notable transformations in the Philippines that, in our judgment, will make it difficult to deal with labor force pressures. On the economic front, we believe that the practice of using surplus sectors such as agriculture and mining to subsidize the import-dependent urban economy is over. The Philippines' development pattern has historically required large current account deficits and overvaluation of the exchange value of the peso. The dearth of commercial financing from foreign banks that will almost certainly linger even after resolution of Manila's current financial problems assures an end to this practice.

The countryside, rather than the politically strategic cities, thus will have to provide most of the new jobs during the next decade. The rural economy faces its own problems, such as increasing landlessness and the growing insurgency, that will weaken its ability to perform this task. The most fertile lands, according to the World Bank, have already been exploited. In addition, key cash crops, such as sugar and coconut, face bleak futures in the international marketplace, and new crops will have to be developed to take advantage of the shift in competitiveness. The cities' traditional role of relieving pressure on the countryside by taking migrants from the rural economy, meanwhile, will also end.

On the political front, the shift to agriculture will have far-reaching consequences, as new political-economic power centers emerge and traditional patron-client relationships are strained. Marcos, for example, will have to allow the development of a new class of politically independent agrobusinessmen if the economy is to succeed in shifting its center of gravity; his policy preference so far has emphasized reliance on cronies. In addition, he would have to allow a greater role for the foreign investor than the traditional Philippine business elite has tolerated. Finally, in the cities, bleak prospects for reducing unemployment will create a far more volatile political environment.

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Table 6 *Percent*
The Philippines: Sources of Farm Income

25X1

Type of Agriculture	Income Share Derived From		
	On Farm	Off Farm	
		Agriculture	Other
Irrigated rice	48	33	19
Rain fed rice	34	33	33
Rolling sugarcane	40	36	24
Upland	26	42	32

Source: *Philippine Government Survey of Western Visayas.*

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From the long-term perspective, we believe the Marcos era is winding down, and a change of regime appears virtually certain by 1990. Because future governments will require time to consolidate their power, stability requires that the economy be able to cope with the effects of demographic change during the political transition. This, in turn, will depend largely on policies in the next several years. If Marcos fails to carry through with austerity measures, future governments will inherit far more serious unemployment than the country now faces. On balance, we are pessimistic about Marcos's commitment to reform and the economy's ability to cope, and we believe that sharply higher unemployment is the most likely outcome of impending demographic change in the Philippines. 25X1

25X1

Appendix A

Vital Statistics: The Population and the Labor Force

The Population

The 1970 census placed the population at 36.7 million people, and preliminary results from the 1980 census suggest the 1982 population was about 50.9 million. A US Bureau of the Census analysis of 1975 intercensal data provides an upward revision of about 5 percent, resulting in an adjusted 1975 population of 44.4 million people and an adjusted 1982 population of about 53.2 million (see figure 8). A complete demographic breakdown of the 1980 census is not yet available, so our current projections are based on an adjusted 1975 demographic profile (see appendix B). [redacted] 25X1

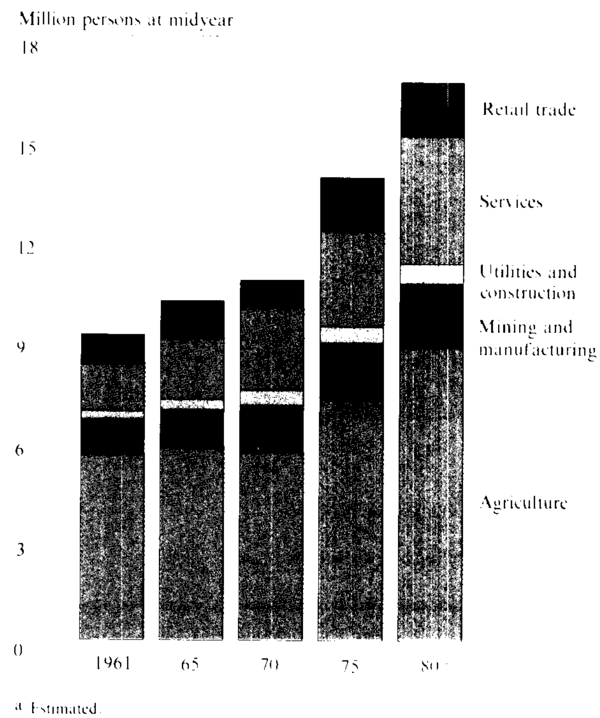
When 1980 data become official after analysis later this year, they will reflect some combination of three factors: improvements in mortality rates, more accurate survey techniques, and changes in the rate of fertility decline. In the meantime, the Philippines' population is almost certainly bigger than official data suggest, but the growth rate is probably close to 2.3 to 2.4 percent annually [redacted] 25X1

The Labor Force

Changing demographics and varying labor force participation rates have produced wide swings in labor force growth since 1960. From 1960 to 1970 the population expanded by almost 10 million but produced net labor force growth of only 3.4 million. From 1970 to 1980, however, a population increase of about 12 million produced a labor force expansion of over 5 million. Several factors account for the difference. A younger population provided more entrants to the labor force as it aged, and participation rates reached an average of 37 percent as a growing economy provided new job opportunities. [redacted]

Participation rates affect the size of the labor force in two ways. The size of the work force changes during the agricultural season, swelling the labor force by as much as 10 percent of its size during the slack season during harvests. This year, for example, 2 million Filipinos who are not otherwise economically active will look for harvest work. Multiple cropping moderated these swings in recent years, but seasonal variation can still be substantial. At the same time, for a given season, labor force participation rates also vary because of swings in the business cycle. [redacted] 25X1 25X1

Figure 7
The Philippines: Employment by Sector, 1961-80



a Estimated.

[redacted] 25X1

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Figure 8
The Philippines: Alternative Demographic Profiles, 1975

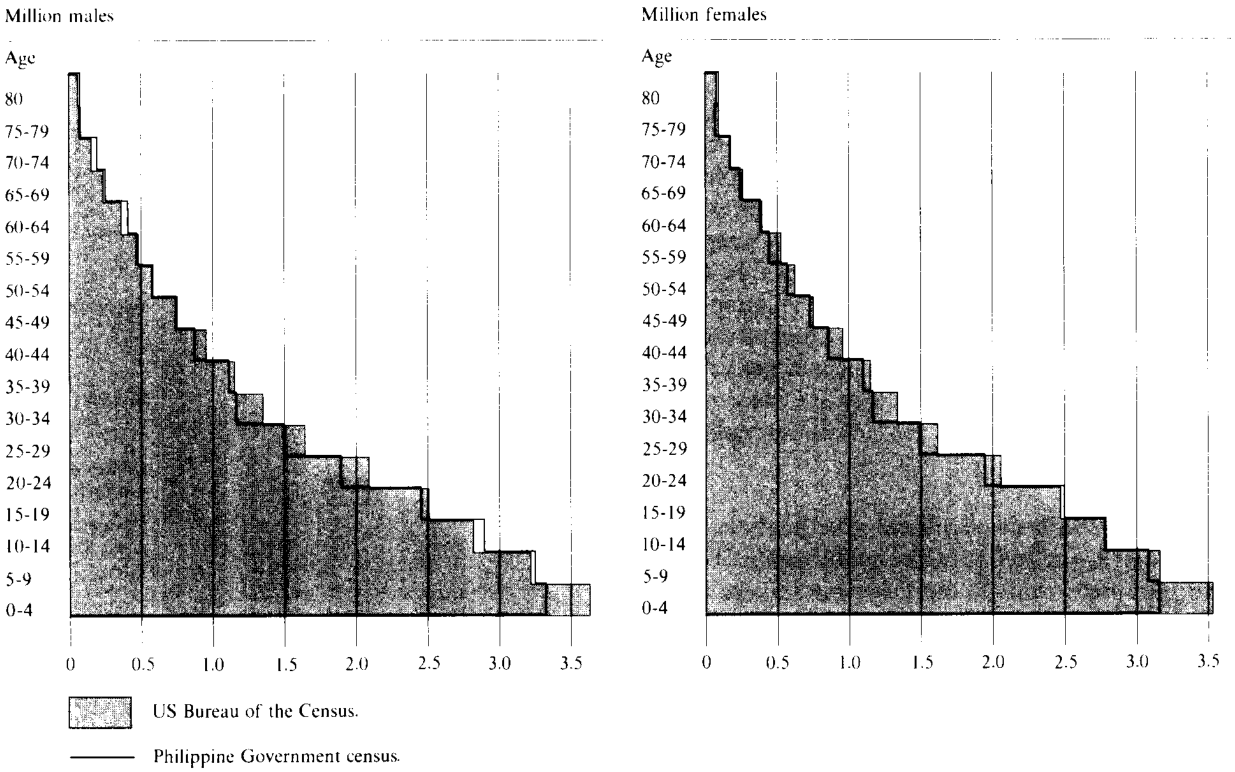

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Table 7
The Philippines: Labor Force Participation Rates, 1965-80

Percent

	1965	1971	1976	1980 [a]
Total [b]	53.1	49.5	51.8	53.8
Males				
10 to 24 years old	47.5	45.5	44.0	47.0
25 to 44	96.5	96.0	97.6	97.6
45 to 64	94.0	92.5	93.1	94.0
Over 65	56.5	53.0	56.8	56.0
Females				
10 to 24 years old	29.5	28.4	27.4	28.0
25 to 44	46.0	45.5	46.7	47.0
45 to 64	46.0	44.0	45.3	45.0
Over 65	20.0	18.0	20.3	20.0

[a] Estimated.
[b] Share of population 10 and older.

Source: Philippine Bureau of Census and Statistics

25X1

Labor force estimates are clouded by various problems of definition. Our current estimate of the work force, 21 million, includes a large, mobile informal sector of "own account" workers. These are people who move in and out of the work force—hawkers, street vendors, and peddlers. We also include a wide range of participants in rural labor markets who have multiple employer-employee relationships. 25X1

Appendix B

Assumptions Underlying Population and Labor Force Projections

To establish upper and lower bounds for both the population and labor force, we have derived a high and low series that contains their paths with reasonable certainty. Both assume roughly a 5-percent undercount of the 1975 population by the government census based on an analysis of the raw data conducted by the US Bureau of the Census. Both projections are based on an adjusted 1975 population of 44 million (see figure 9). [redacted] 25X1

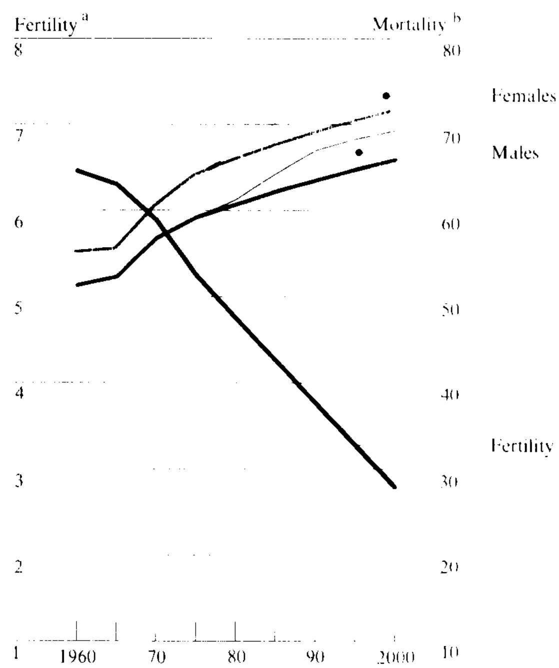
Fertility Rates

A number of demographic trends over the next two decades appear reasonable. The decline in fertility rates observed since the mid-1960s because of delayed marriages is expected to continue. The effects of modernization, we believe, will have a greater effect in the late 1980s and 1990s than the government's family planning efforts in any case. Critics contend that Manila is reluctant to press birth control programs because of the risk of offending a politically powerful Catholic Church, and we are inclined to agree. There is thus no reason to expect fertility rates to approach those of Singapore (2.2 children per woman), Japan (1.8 children per woman), or Western countries. The easiest portion of the reduction in birth rates has probably already been achieved. [redacted] 25X1

As a result, the more moderate of various forecasts of fertility rates is the most appropriate for our projections (see figure 9). Variations in fertility rates will in any case affect the size of the labor force with a 10-year lag, and even then will be confined to the first 2 five-year cohorts during this century. At most, these cohorts will constitute 15 percent of the labor force. [redacted] 25X1

To put our expectations in perspective, the Philippines' fertility rate will continue to exceed slightly that for Thailand and will not even approach that of Malaysia (3.8 children per woman) until 1990. If the number of children per woman were to fall to 3.3 in the year 1995, as we expect, it would still not match that of the rate for Singapore. [redacted] 25X1

Figure 9
The Philippines: Fertility and Mortality Projections



[a] Children per woman.

[b] Life expectancy at birth.

[redacted] 25X1

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Mortality Rates

Mortality rates will continue to improve over the next 20 years; life expectancy at birth stands at 62 for men and 67 years for women. We have considered two possible rates for mortality improvement. The degree to which these affect the labor force will depend on whether the improvements occur in adult or child mortality rates. We assume the former. Our moderate trend in mortality improvement would see male life expectancy rising to 66 years and female life expectancy rising to 72 years by the turn of the century. Alternatively, a rapid improvement in mortality would see life expectancy rise to 69 for males and 75 for females. [redacted] 25X1