

**THE FUTURE OF
COOPERATIVES IS BRIGHT**

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REAL STATE OF THE ECONOMY; OPPORTUNITIES OF COOPERATIVES

- **Let me start by describing the ‘real’ state of the economy. It might not look as rosy as what our government officials would like us to believe. It is not meant to scare you. Rather it is meant to allow you to prepare for the future accordingly.**
- **Forget about the issue of whether we are ready for the ASEAN economic integration in 2015. That should be be least of your concerns. Your immediate concern is how to develop your organization from within, how to harness your productive capacity and your purchasing power. That’s a more manageable problem.**

ASEAN and the Global Economy

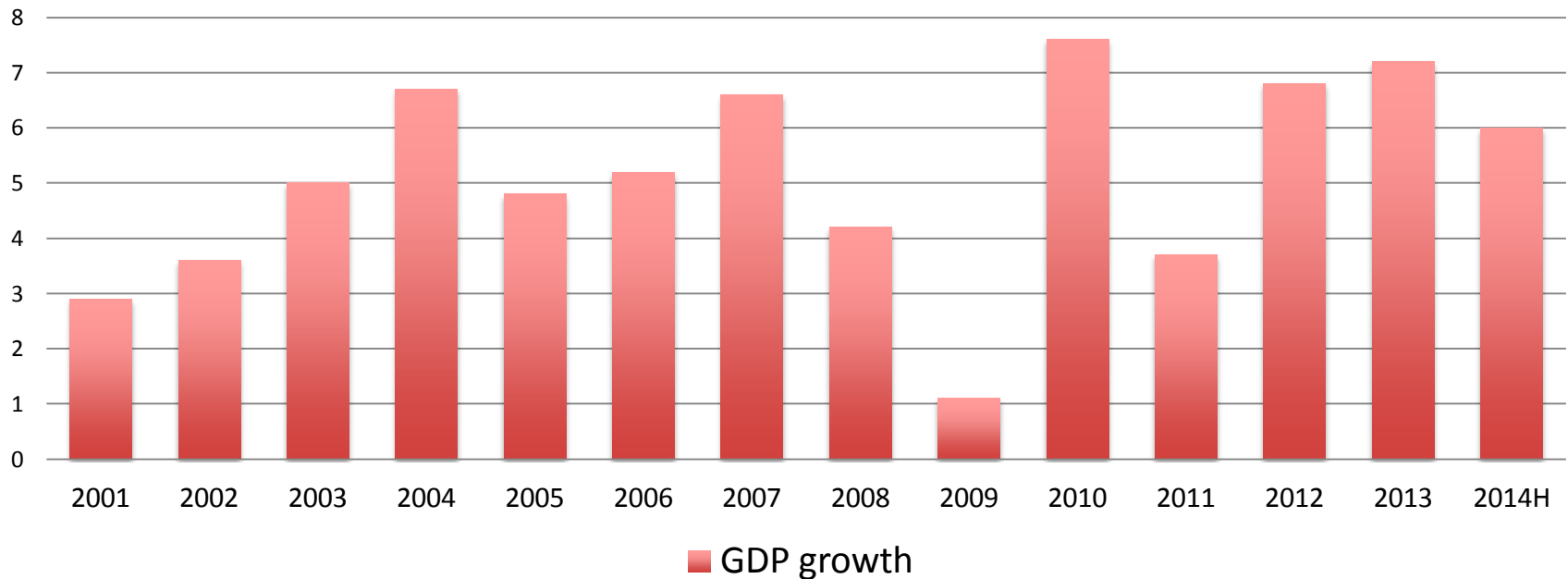
As the world economy recovers, no matter how weakly, the ASEAN-5 region will continue to grow. Its growth will be supported by rapidly expanding middle-income households and massive growth in infrastructure spending and urban development across Asia.

Particulars	2012	2013	2014	2015
World output	3.2	3.0	3.6	3.9
Advanced economies	1.4	1.3	2.2	2.3
United States	2.8	1.9	2.8	3.0
Euro Area	-0.7	-0.5	1.2	1.5
Emerging markets and developing economies	5.0	4.7	4.9	5.3
Developing Asia	6.7	6.5	6.7	6.8
China	7.7	7.7	7.5	7.3
India	4.7	4.4	5.4	6.4
ASEAN-5	6.2	5.2	4.9	5.4

THE PHILIPPINES: Is it finally on a sustainable growth path?

The average GDP growth rate in recent years (2011 to 2013) is one-percentage higher than the average growth rate in the previous decade, 2001-2010: 5.87% vs. 4.77%. Is the difference significant? Is the economy starting to slow down?

Economics and Politics



In Q2/2014, Agriculture grew 3.6%, much faster than its historical average of less than 2%, suggesting that such growth is not sustainable. Manufacturing looks promising. Construction is slowing sharply.

	2010	2011	2012	2013	First Qtr		Second Qtr	
					2013	2014	2013	2014
I. Agriculture	-0.5	2.6	2.8	1.1	3.2	0.9	-0.2	3.6
II. Industry	12.1	1.9	7.3	9.3	11.3	5.3	10.5	7.8
A. Mining	2.0	7.0	2.2	1.2	2.1	9.0	0.3	1.9
B. Manufacturing	19.9	4.7	5.4	10.3	9.5	6.9	10.3	10.8
C. Construction	4.5	-9.6	18.2	9.6	31.1	0.2	16.6	1.4
D. E,G, WS	2.7	0.6	5.3	4.9	0.6	1.0	7.0	2.8

Top 5 manufactures

Food manufactures top the list of 5 top manufactures. That's expected: we're feeding 100 million mouths. The growth trajectory of furniture and fixtures, the fourth largest in terms of value added, is impressive.

Manufactures	2012-13		2013-14
	H1	H2	H1
1. Food manufactures	8.6	4.1	9.1
2. Radio, TV and other communications equipment	6.1	3.9	11.5
3. Chemical and chemical products	46.6	12.4	3.6
4. Furniture and fixtures	-7.1	66.9	29.0
5. Beverage industries	1.6	6.5	14.2

The construction sector decelerated in the first half of 2014 (0.9% growth in Q1 and 1.4% growth in Q2). Public construction contracted by 12.9% in the second quarter of 2014. With the onset of the rains, the outlook for the second half of the year is bleak.

	2010	2011	2012	2013	First Quarter		Second Quarter	
					2013	2014	2013	2014
Public	-14.3	-29.4	32.4	14.9	45.6	22.3	31.1	-12.9
Private	14.6	6.3	8.6	9.3	30.7	-6.0	9.0	12.7
GVA	12.0	-4.1	14.4	9.6	32.5	0.9	17.4	1.4

In Q2/2014, the service sector which accounts for more than half of the economy showed signs of slowing down. In the second quarter, public administration grew the least at 1.2%.

	2010	2011	2012	2013	First Qtr		Second Qtr	
					2013	2014	2013	2014
III. Services	7.1	4.9	7.4	7.2	6.5	6.8	7.8	6.0
A. Transportation	1.9	4.3	8.1	5.6	1.4	7.7	6.6	6.3
B. Trade, Repairs	10.7	3.4	7.6	5.7	4.2	6.0	6.3	6.6
C. Financial	6.5	5.2	8.2	12.6	18.0	5.7	10.3	5.9
D. RE, Rent, BA	6.8	8.4	6.4	8.7	5.8	9.5	9.5	8.9
E. PA, Defense	6.8	1.9	5.7	3.8	5.3	6.3	5.9	1.2
F. Others	1.7	5.6	7.6	7.1	7.6	5.5	8.3	4.1

In the first half of 2014, the contribution of government consumption (GFCE) to the economy is flat. The external trade sector remains weak, making it an unreliable source of economic expansion.

	2010	2011	2012	2013	First Qtr		Second Qtr	
					2013	2014	2013	2014
HH Final Cons	5.3	5.6	6.6	5.7	5.5	5.9	5.1	5.3
GFCE	2.7	2.1	15.5	7.7	10.0	1.9	12.1	0.0
Gross Domestic Capital Formation	17.0	2.8	-5.3	29.9	49.8	9.5	33.6	-2.4
-- Fixed K Formation		-1.9	10.8	11.9	17.3	11.0	13.6	4.0
Exports	25.6	-2.5	8.5	-1.1	-10.6	14.2	-7.7	10.3
Less: Imports	20.7	-0.6	4.9	5.4	2.8	7.5	-4.6	1.4
Expenditures on GDP	7.3	3.7	6.8	7.2	7.7	5.6	7.9	6.4

The proportion of poor population in 2012 has remained basically unchanged during the last six years. But in terms of warm bodies, poverty has deepened. There are about 1.1 million more poor people now than in 2006.

Source: National Statistics Coordination Board

	2006	2009	2012
Proportion of poor population	26.6	26.3	25.2
Annual per person poverty threshold	13,357	16,871	18,935
Population, actual and projected	86,972,500	92,226,600	96,200,000
Poor population	23,134,685	24,255,596	24,242,400
Difference	-	1,120,911	1,107,715

The government has to be more engaged; it has to quicken project implementation.

The emerging consensus is that the economy will decelerate to a GDP growth rate of 6.0% in 2014. A rebound cannot be ruled out. But the government has to show greater resolve in moving its public-private partnership (PPP) projects and its rehabilitation program

		Government Forecast			IMF Forecast, WEO		
	2013	2014	2015	2016	2014	2015	2016
GDP growth rate, %	7.2	6.5-7.5	7.0-8.0	7.5-8.5	6.5	6.5	5.5
364-day T-bill rate	1.0-3.0	2.0-4.0	2.0-4.0	2.0-4.0			
Inflation, %	3.0	3.0-5.0	2.0-4.0	2.0-4.0	4.4	3.6	3.25
Unemployment rate, %	7.1	6.7	6.6	6.5	6.9	6.8	6.8

Among the ‘original’ ASEAN-5, the Philippines has the worst unemployment record. While unemployment was successfully being reduced by its ASEAN-5 neighbors, it has remained unchanged in the Philippines

Source: Bangko Sentral ng Pilipinas

	Phil	Malay	Indo	Thai	Sing
2010	7.3	3.3	7.1	1.0	3.1
2011	7.0	3.0	6.7	0.7	2.2
2012	7.0	3.0	6.4	0.7	2.1
2013	7.1	3.2	6.1	0.7 _{Q2}	1.9
2014	7.25 _{H1}	3.2 _{Q1}	5.7 _{Q1}	n.a.	2.1 _{Q1}

Unemployment could get worse before it gets better

- According to a World Bank study, by the time President Aquino steps down in 2016, the state of unemployment in the country will be as dismal as it was before he assumed the presidency -- if not worse. The study forecasts that **12.4 million Filipinos, or 11.5% of projected population** by then "would still be unemployed, underemployed, or would have to work in the informal sector where moving up the job ladder is difficult."

But the key to inclusive economic growth is the ability of the economy to create a lot of decent jobs

- With the current state of joblessness and given that some **1.2 million new workers** join the labor force every year, the challenge for government authorities is how to create **14.6 million jobs** in the next four years.
- In addition, they should make available **better** jobs for the other **21 million Filipinos** who are informally employed -- those who were self-employed, unpaid family workers, and wage workers with no written contract, social insurance or protection from dismissal.

Among the ASEAN-5 peers, the Philippines has received the least foreign direct investments (FDIs) during the last four years. Foreign investors are ‘voting with their feet’ -- away from the Philippines.

Source: Bangko Sentral ng Pilipinas

	Phil	Malay	Indo	Thai	Sing
2010	1,298	10,886	13,771	9,112	48,619
2011	1,816	15,119	19,241	8,999	55,998
2012	2,797	9,734	19,404	10,697	56,652
2013	3,860	11,582	18,444	12,826	59,903
2011-03	8,473	36,435	57,089	35,522	172,553

Why aren't we attracting as much FDI as our ASEAN-5 neighbors?

- Poor public infrastructure which includes unreliable and costly power
- Uncompetitive tax system
- Strong government

POOR QUALITY OF PUBLIC INFRASTRUCTURE

Among the ‘new’ ASEAN-5 economies, the Philippines has the second poorest quality of overall infrastructure. And it has the poorest quality of infrastructure in terms of port and air transport facilities.

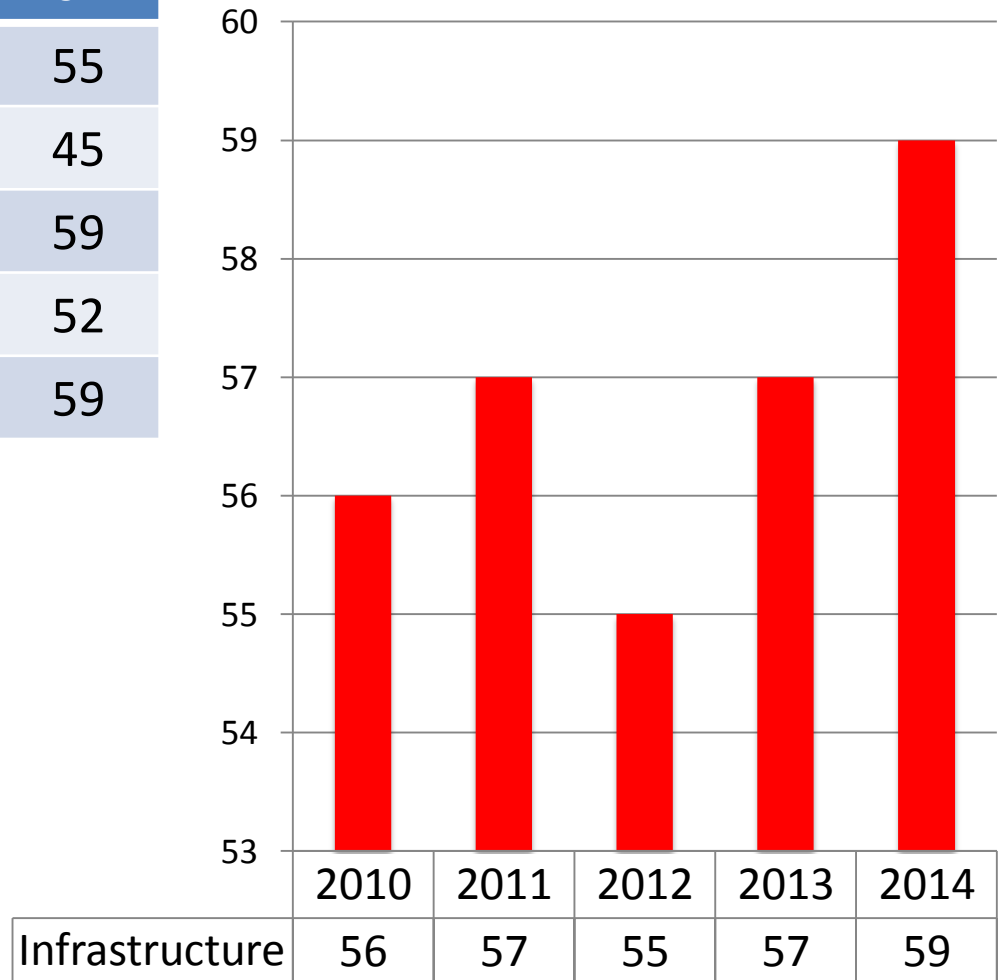
Source: WEF (2013) Global Competitiveness Report.

Particulars	IND	MAL	PHI	THAI	VIETNAM
Quality of overall infrastructure	92	29	98	49	119
Quality of roads	90	27	87	39	120
Quality of port infrastructure	104	21	120	56	113
Quality of air transport infrastructure	89	24	112	33	94
Quality of electricity supply	93	35	98	44	113

Infrastructure Ranking

The higher, the poorer

Sub-factor Rankings	2013	2014
Basic infrastructure	54	55
Technological infrastructure	40	45
Scientific infrastructure	59	59
Health and environment	51	52
Education	59	59



Infrastructure

Extent to which basic, technological, scientific and human resources meet the needs of business

Source: IMD World Competitiveness Yearbook 2014

Country	2014		2013	Change
	Score	Rank	Rank	
Singapore	62.774	10	12	+2
Malaysia	45.229	25	25	0
Thailand	16.069	48	48	0
Indonesia	9.978	54	56	+2
Philippines	1.700	59	57	-2

PHL energy situation is key to competitiveness in an ASEAN single market

- The looming energy crisis will affect the competitiveness of the Philippines in the ASEAN economic integration
- “For the Philippines to survive and do well in this situation is competitiveness, and key part of competitiveness is energy,” according to Jesse Ang, International Finance Corp. Sustainable Energy Finance Operations Expert

High Taxes Discourage FDIs, Employment

Among ASEAN-5 economies, the Philippines has the second lowest tax effort but the highest tax rate on commercial profits

Source: The World Bank

Country	Tax Revenue % of GDP	Total tax rate % of commercial profits
Indonesia	11.8 (2011)	32.2 (2013)
Malaysia	16.1 (2012)	36.3 (2013)
Philippines	12.9 (2012)	44.5 (2013)
Singapore	13.8 (2011)	27.1 (2013)
Thailand	17.6 (2011)	29.8 (2013)

High Corporate Income Tax Rates

When the AEC Declaration was signed in 2007, some member countries began to lower their corporate tax rates

Highest marginal corporate tax rate; usually uniform

Country	2010	2011	2012	2013
Cambodia	20	20	20	20
Indonesia	25	25	25	25
Malaysia	25	25	25	25
Philippines	30	30	30	30
Singapore	17	17	17	17
Thailand	30	30	23	20
Vietnam	25	25	25	25
Asia average	23.96	23.1	22.89	22.49
Global average	24.69	24.5	24.4	24.08

Personal Income Tax Rate

Philippines has one of the highest personal income tax in ASEAN-7

Top marginal tax rate for individuals

Country	2010	2011	2012	2013
Brunei	0	0	0	0
Indonesia	30	30	30	30
Malaysia	26	26	26	26
Philippines	32	32	32	32
Singapore	20	20	20	20
Thailand	37	37	37	37
Vietnam	35	35	35	35

Fragile States: RP is one of biggest losers

Top 10 most worsened 2013-2014, By rank

Source: Fund for Peace

Move	Country	2013	2014
13	Libya	54	31
10	Thailand	90	80
9	Mozambique	59	50
8	Micronesia	99	91
7	Philippines	59	52
7	Turkmenistan	81	74
6	Central African Republic	9	3
6	Peru	103	97
6	Saudi Arabia	102	96
6	Syria	21	15
6	Venezuela	89	83

Failed States Index for ASEAN-6: 2010 and 2014

The ranking of the Philippines, the most fragile among ASEAN-6 countries, has remained unchanged

Source: Fund for Peace

Overall rank 2014	Country	Score		Rank	
		2010	2014	2010	2014
82	Indonesia	83.1	76.8	5	5
117	Malaysia	69.2	66.2	2	2
52	Philippines	87.1	85.3	6	6
158	Singapore	34.8	35.9	1	1
80	Thailand	78.8	77.0	4	4
98	Vietnam	76.6	72.7	3	3

What Needs to be Done

Translating vision into action

- Reform the tax system in order to improve resource allocation, make it fairer, and more harmonized with the tax systems of its ASEAN neighbors

CORE OF NEXT TAX REFORM

- **Reduce personal income tax rate; increase the VAT rate:** the focus of taxation should be on consumption (what one takes away from society) rather than income (what one contributes to society)
- **Reduce the 20% final tax on interest income:** the current tax system penalizes savers. No wonder, the country has the lowest savings rate in the region

CORE OF NEXT TAX REFORM

- **Reduce the corporate income tax rate:** align it with other Asian economies. This is one way of attracting FDIs.
- **Impose a nationwide real property tax (RPT) piggybacked on local RPT.** As a society, we have overinvested in expensive houses and condos and shopping malls, and less on factories and modern farms. With the reform, there will be a shift in resources from nontradeable goods (real estate development, example) to tradeable goods (manufactures, exports), hence strong likelihood of creating decent, stable jobs.

Spend more for public infrastructure, but choose the right projects

- **Invest in public infrastructure of all types:** large, capital-intensive projects in urban centers, and medium- and small-scale, labor intensive projects in rural areas.

Deficit and infrastructure spending

In percent of GDP

National Government Disbursement: Program versus Actual, 2011-2013

	2011				2012				2013			
	Prog	Actual	Devi	%Dev	Prog	Actual	Devi	%Dev	Prog	Actual	Devi	%Dev
Expenditures	1711.4	1557.7	-153.7	-9	1839.7	1777.6	-62.1	-3.4	1983.7	1880.1	-103.6	-5.2
Revenues	1411.3	1359.9	-51.4	-3.6	1560.6	1534.9	-25.7	-1.6	1745.9	1716.1	-29.8	-1.7
Surplus/Deficit	-300.1	-197.8	102.3	-34.1	-279.1	-242.7	36.4	-13	-237.8	-164	73.8	-31
In percent of GDP	-3.3	-2			-2.5	-2.3			-2	-1.4		
Infrastructure, actual, based on BESFt+2	170	152.1	-17.9	-10.5	215.2	186.1	-29.1	-13.5	265.7	222.5	-43.2	-16.2
Infrastructure in percent of GDP	1.9	1.6	-0.3	-16.9	2	1.8	-0.2	-9.9	2.2	1.9	-0.3	-13.3
Gross Domestic Product, nominal, P billion	9045	9735.5			11011.2	10564.9			11951.9	11546		

Particulars	Jan to June		Deviation	
	Program	Actual	Amount	%
CURRENT OPER EXP	928.1	805.0	-123.1	-13.3
Personal Services	325.6	292.8	-32.8	-10.1
MOOE	191.1	152.4	-38.6	-20.2
Subsidy	85.7	49.5	-36.1	-42.2
Allotment to LGUs	136.6	136.6	0.0	0.0
Interest Payments	171.0	159.7	-11.3	-6.6
Tax Expenditures Fund	18.1	13.9	-4.2	-23.3
CAPITAL OUTLAYS	239.8	176.3	-63.5	-26.5
Infrastructure & Other CO	195.3	136.6	-58.7	-30.0
Equity	2.1	0.4	-1.6	-79.2
Capital transfers to LGUs	40.3	39.2	-1.2	-2.9
CARP	2.1	0.0	-2.1	-100.0
NET LENDING	11.0	6.5	-4.5	-41.2
TOTAL	1,178.9	987.7	-191.2	-16.2

Where are we going to get the money? Borrow if needed.

- **Increase planned budget deficit by one percentage point.** Use higher deficit to finance additional P130 billion spending for public infrastructure. Finance the higher deficit by borrowing from domestic sources.

Invest in aggie infrastructure

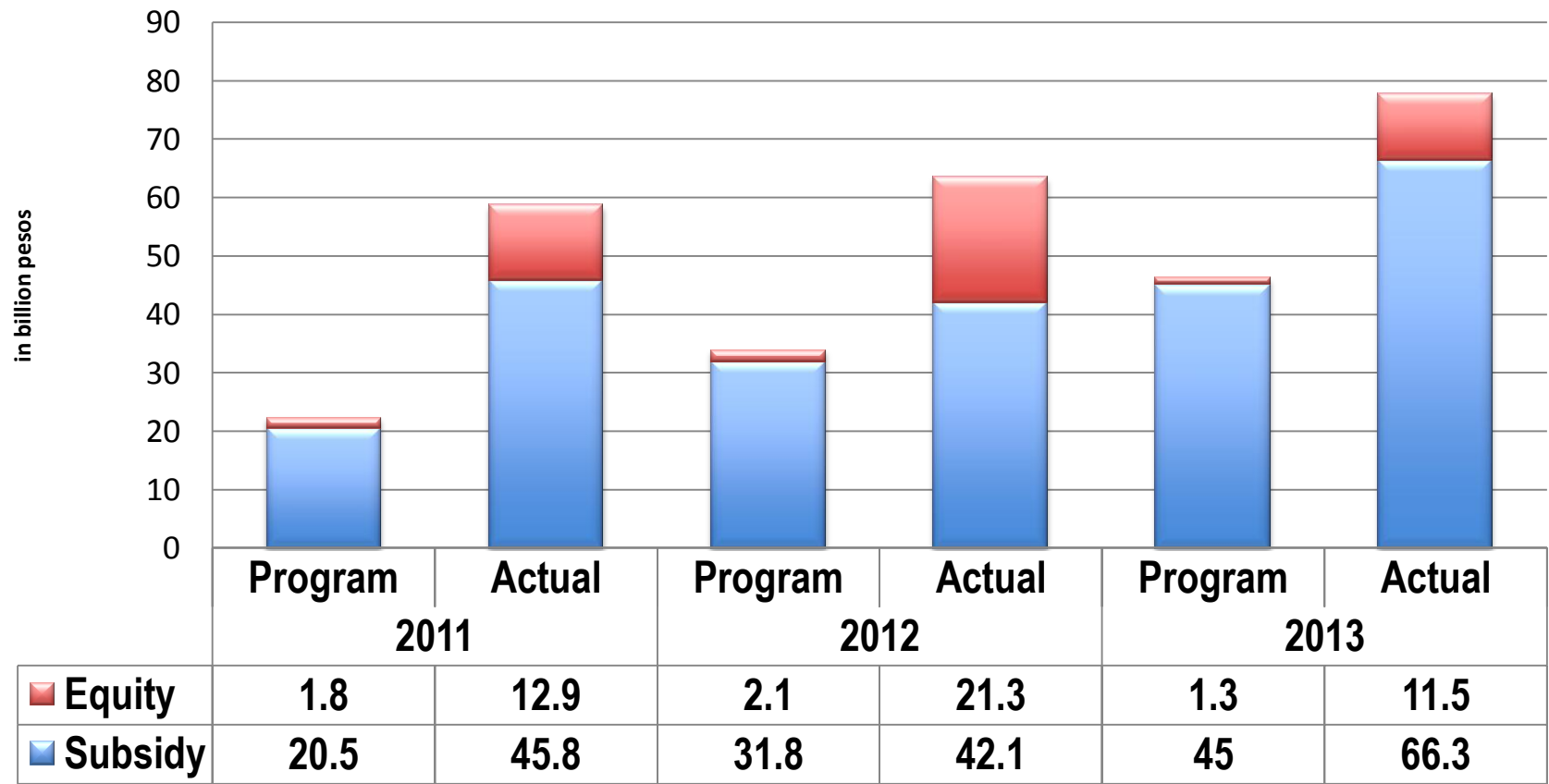
- **Modernize agriculture.** Invest in productivity-enhancing, small-scale infrastructure projects that will reduce cost of production. Get serious with agrarian reform: the focus should be on giving individual titles to land reform beneficiaries.
- A strong, productive agricultural sector means more dynamic agricultural cooperatives

Reduce budget support to GOCCs

- **Rationalize budgetary support to government-owned and controlled corporations (GOCCs).** A large chunk of the budget that goes to GOCCs crowds out essential public goods and services. Adopt the ‘shape-up-or-ship-out’ approach in order to force fiscal discipline and fiscal accountability.

The promise and the reality

The large deviations suggest poor budget planning. The high level of support to GOCCs means funds taken away from public infrastructure and investment in human capital.



Build and strengthen political institutions

- President Aquino III should embrace, not defy, the Supreme Court decision on the Disbursement Acceleration Program (DAP). Fighting it weakens the Judiciary, already the weakest of the three branches of government
- Conflicting statements on the president's future plans (charter change, term extension, etc.) add to political uncertainty
- The Philippines remains the most politically fragile country in ASEAN-5. Our national leaders should do something about it.

Transition

- The discussion of the real state of the economy is not meant to depress you. Rather it is to drive the point that all is not well. We can do better. And we better do something about.
- Unemployment is high. Poverty is widespread and unchanging. Our public infrastructure is crumbling. Power plants are sputtering. We are attracting the least foreign direct investments. Investors perceived the Philippine state as fragile, not stable.

Role of the Cooperatives Movement

- Your movement is diverse, but a significant one. You are in consumerism, rural credit, agricultural production, transport sector, power sector, and many other areas. Some of you are represented in Congress. So you have a voice in policy making.
- Your group contributes about 5% to economic output or GDP.
- Your group directly employs close to 260,000 officials and workers.

The Future of Cooperatives is Bright

- Your future is bright. But you should not accept things as they are. You should put pressure on our national leaders to do better, and to implement projects faster.
- You should put pressure on our national leaders to spend more for public infrastructure. Not only in mega projects in urban centers, but also in small- and medium-sized projects in the countryside. In projects that would improve the productivity of agriculture.

Agriculture should be a source of growth, not corruption

- You should put pressure on our national leaders to make the agricultural sector a strong source of growth – not a fertile source of corruption.
- Isn't it ironic that such a critical sector, which employs one-third of total workers, and which provides food for the 100 million Filipinos has been the parade ground of corrupt public officials? Remember the fertilizer scam, the irrigation mess and the NGO scams for agriculture.

Address climate change

- You should put pressure on our national leaders to spend more money to prepare us for climate change.
- Why can't the government spend for better, more permanent facilities on higher, safe grounds in preparation for typhoons and other natural calamities? Why do we have to use classrooms and disrupt normal classes every time there are typhoons?

Address climate change

- You should put pressure on our national leaders to spend more money to relocate Filipinos in endangered areas to higher, better facilities.
- You should put pressure on our national leaders to provide employment and training for nurses who have, on their own financed their education, and have passed board examinations. Sadly, a great number of Filipinos die without seeing a doctor or nurse while hundreds of thousands of nurses remain unemployed. That is unacceptable.

Final Words

- I have barely scratched the surface of what the government should be doing for you to make growth stronger, sustainable and more inclusive.
- But you ask: where are we going to get the money? In the near term, the government should simply borrow money. I have not seen such low cost of borrowing in my entire life.
- Follow the Golden Rule: Borrow money to invest in a project if it will yield a rate of return higher than the cost of borrowing.

Final Words

- In 19 months, you will elect a new President. Vote a doer, not a talker. Vote someone who might be able to unite rather than divide us as a people **Vote wisely and vote well.**

- Great men, great nations, have not been boasters and buffoons, but perceivers of the terror of life and have manned themselves to face it. ---Ralph Waldo Emerson

THANK YOU

Revenues: 6 Presidents

In percent of GDP

The Aquino III administration has the lowest tax effort (defined as taxes as percentage of GDP).

	1981-1985	1986-1992	1993-1998	1999-2000	2001-2010	2011-2013
	Marcos	C. Aquino	Ramos	Estrada	Arroyo	B. Aquino
Revenues	11.7	15.9	18.7	15.7	15.0	14.5
Tax	10.3	13.1	16.2	14.1	13.0	12.9
Non-tax	1.4	2.7	2.4	1.6	2.0	1.6

Expenditures: 6 Presidents

In percent of GDP

	1981-1985	1986-1992	1993-1998	1999-2000	2001-2010	2011-2013
	Marcos	C. Aquino	Ramos	Estrada	Arroyo	B. Aquino
EXPEND	14.5	18.6	18.9	19.6	18.0	16.4
COE	9.0	14.9	15.3	15.9	15.3	14.3
PS	3.5	5.2	6.2	6.8	5.6	5.3
MOOE	3.1	2.7	2.3	2.4	4.2	9.0
Interest	1.5	5.6	4.0	3.9	4.5	2.9
ALGUs	0.6	0.6	2.2	2.5	2.6	2.9
PPSF	0.0	0.1	0.1	0.0	0.0	0.0
Subsidies	0.3	0.4	0.3	0.2	0.2	0.5
Tax Exp	0.0	0.2	0.2	0.1	0.2	0.2
CO	4.9	3.1	3.5	3.6	2.6	2.4
Infra/OCO	2.6	2.4	2.7	2.9	1.9	1.7
Others	2.2	0.6	0.8	0.7	0.7	0.7
Net Lend	0.6	0.8	0.1	0.1	0.1	0.2

Fiscal Balance: 6 Presidents

In percent of GDP

The Aquino III administration has one of the lowest productive budget (total expenditures less interest payments), and the second to the lowest average budget deficits. The Ramos administration has the lowest budget deficit, but owing largely to the sale of government's major assets (Petron, Bonifacio property, and others) and the deferred payment to suppliers and contractors.

	1981-1985	1986-1992	1993-1998	1999-2000	2001-2010	2011-2013
	Marcos	C. Aquino	Ramos	Estrada	Arroyo	B. Aquino
Surp/(Def)	-2.8	-2.8	-0.2	-3.9	-3.0	-1.9
Exp less Interest	12.9	13.1	14.9	15.7	13.5	13.5
Primary surp/def	-1.3	2.8	3.8	0.0	1.6	1.0