

ASEAN Community 2015: Managing integration for better jobs and shared prosperity



International
Labour
Organization

Will greater regional integration reduce poverty and vulnerability and create better jobs in the Philippines?

The Philippines Country Brief | October 2014

During the past decade, the Philippines experienced formidable economic growth of 5.4 per cent on average each year, driven largely by the rise of the service sector and sustained inflows of foreign remittances from migrant workers abroad which have supported domestic demand.¹ In spite of these achievements, the overall labour market scenario is less positive, thus limiting progress on social development and inclusive growth.

As a member of the Association of Southeast Asian Nations (ASEAN), the Philippines accounts for nearly one in six of the region's labour force.² By 2015, the ASEAN Economic Community (AEC), envisioned as a single common market and production base, is expected to be realized. Deeper regional integration under the AEC could increase flows of trade and investment, spur changes in the country's economic structure and create new jobs. However, the benefits of the AEC may be distributed unevenly and if poorly managed, integration could add to existing weaknesses in the labour market.

This is of particular concern for the Philippines given recent labour market trends. The number of workers living on less than \$2 per day rose from 11.2 million to 13 million between 1991 and 2009. Over the same two decades, inequality, as measured by the Gini coefficient, remained high at around 43.0. Poverty reduction is impeded by poor job quality, which is often associated with low earnings and high vulnerability. Vulnerable employment, measured as the share of own-account and contributing family workers, has steadily declined but still accounted for 38.4 per cent of total employment in 2013, with the share for women six percentage points higher than that of men (see Table 1). The gender gap in labour force participation also remains significant at 28.2 percentage points.

An overarching goal of the AEC is to ensure a stable, prosperous, and highly competitive region with equitable economic development and reduced poverty and socio-economic disparities. The Philippines Development Plan 2011-2016 and its Midterm Update target inclusive growth, defined as poverty reduction in multiple dimensions, and massive creation of quality employment. To achieve these related goals, coordinated and coherent policies are required to: foster productive jobs for women and men in industry and services; enhance coverage and implementation of social protection programmes; promote universal basic education and develop vocational training; improve the protection of migrant workers; and strengthen the link between wages and productivity.

Table 1: Selected economic and labour market indicators in the Philippines

	2011	2012	2013
GDP growth rate (%)	3.6	6.8	7.2
Merchandise trade (% of GDP)	49.8	46.9	43.3
Output per employed person, PPP (constant 2005 international \$)	9 168	9 571	10 026
	Total	Male	Female
Total employment (thousand)	37 917	23 023	14 894
Labour force participation rate (%)	63.9	78.1	49.9
Unemployment rate (%)	7.1	7.3	6.8
Agriculture share of total employment (%)	31.0
Vulnerable employment rate (%)	38.4	36.2	42.0
Average monthly wages (US\$)	206	202	212

Note: "..." indicates data are not available; all labour market indicators cover the population ages 15 and above and reflect 2013 data except average monthly wages (2012); vulnerable employment defined as own account and contributing family workers.

Source: ADB and ILO: *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, 2014), Annex F.

¹ This country brief is based on ADB and ILO: *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO,

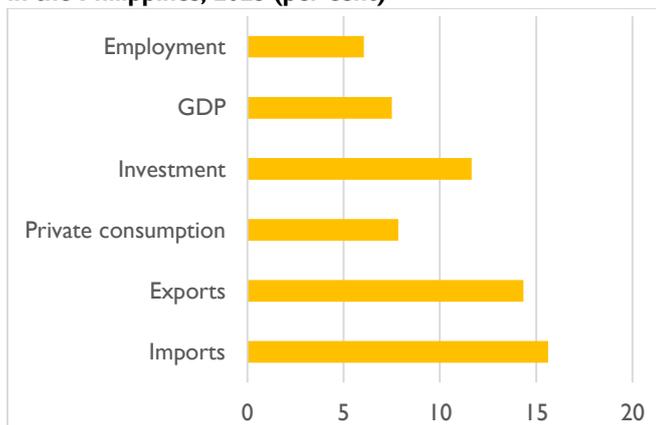
2014). GDP growth estimate based on IMF: *World Economic Outlook Database* (Apr. 2014).

² Labour force figures are based on ADB and ILO, op. cit., table FI-1.

The AEC could create 3.1 million more jobs

Model simulations suggest that deepened trade integration under the AEC could lead to considerable economic and job gains in the Philippines (see Figure 1).³ Fully adopting AEC trade measures could expand the country's GDP by 7.5 per cent by 2025, compared to a baseline scenario without deeper integration. In addition, simulations show a net gain of 3.1 million jobs over the baseline, representing a six per cent increase in total employment. However, around 38 per cent of these would be vulnerable jobs, and women account for just 35 per cent of expected job gains.

Figure 1: Change in various economic and labour market indicators under the AEC scenario relative to the baseline in the Philippines, 2025 (per cent)



Source: ADB and ILO, op. cit.

In the past twenty years, the labour market has undergone structural shifts. There has been modest deindustrialization, a sharp decline in the significance of agriculture, and a corresponding rise in the service sector. From 1992 to 2013, the share of industrial employment contracted slightly from 16.0 per cent to 15.2 per cent. By comparison, the share of agricultural employment fell from 45.4 per cent to 31.4 per cent, while the share in services increased by 14.8 percentage points to 53.4 per cent.

The AEC is projected to slightly reverse existing sectoral patterns of structural change in the Philippines (see Table 2). Industrial employment would increase to 17.5 per cent in 2025 (compared to 17.3 per cent under the baseline), with construction and food processing accounting for 7.1 per cent and 2.4 per cent of total employment, respectively.

Likewise, the share of agricultural employment would be slightly higher under the AEC (29.0 per cent) relative to the baseline (28.6 per cent) in 2025. This is a result of the AEC creating 1.1 million more jobs in the sector by 2025, and points to the continued importance of agriculture as a dominant source of employment and income in rural Philippines. The close association between poverty and agriculture suggests that policies directed at increasing agricultural productivity and promoting off-farm agribusiness can help ensure gains in agricultural employment translate into reductions in rural poverty.

Despite decreases in the overall share of the service sector under the AEC compared to the baseline, the trade and transportation subsector is poised to expand by almost one million more jobs. While productivity in this subsector is double that in agriculture, it is also prone to vulnerable employment. The prospect of large gains in such jobs calls for coordinated labour market policies to improve working conditions and reduce vulnerability. To this end, industrial and sectoral policies can steer the pattern of structural change towards higher value-added agro-industries and service sectors, such as the case of the business process outsourcing industry (see Box 1).

Table 2: Employment by sector as a share of total employment under the baseline and AEC scenario in the Philippines, 2025 (per cent)

	Baseline scenario	AEC scenario	AEC impact (percentage points)
Agriculture	28.6	29.0	0.4
Industry	17.3	17.5	0.2
Services	54.0	53.5	-0.6

Source: ADB and ILO, op. cit.

³ See ADB and ILO, op. cit., chapter 3.

Box 1. Industrial policy and the burgeoning business process outsourcing sector in the Philippines

The business process outsourcing (BPO) sector in the Philippines saw remarkable growth in the past decade. Export revenues from the sector grew ten-fold from \$1.3 billion in 2004 to \$13.3 billion in 2013, while employment in the sector grew nine-fold from around 101,000 in 2004 to over 900,000 in 2013, representing around three per cent of total employment. An industrial policy aimed at supporting the growth of the sector played an important role in its development.

As the BPO sector in the Philippines began to grow, the Government in 2001 established the Information Technology and E-Commerce Council to develop the country as an e-services hub. In 2005, the Government launched the Philippine Cyberservices Corridor, covering a number of urban centres. In 2006, the Training for Work Scholarship Programme significantly focused on the information technology industry by providing educational grants for the training of BPO applicants. In addition, the Government worked closely with the Business Processing Association of the Philippines to highlight the country as a prime destination for BPO investors while also providing a number of incentives including income tax holidays, tax and duty exemption on imported capital equipment, the ability to employ foreign nationals, and simplified export and import procedures.

While call centres have contributed the most to the growth of the sector, the Government recognizes the need to nurture higher productivity segments including back-office services, design process delivery, and services for transcription, animation, and game development. This involves strengthening the skills base, developing infrastructure and offering targeted fiscal and non-fiscal incentives.

Shifting demand for skills calls for upgrading education and training

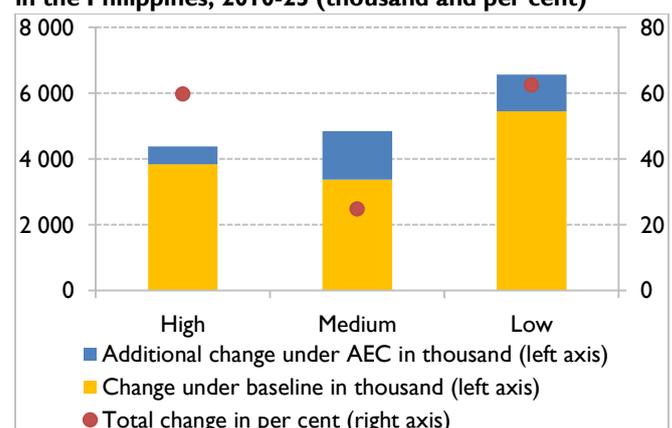
These patterns of structural change will also drive demand for different skills. Projections indicate that between 2010 and 2025, demand for high-skilled employment could increase by nearly 60 per cent (see Figure 2). In comparison, medium-skill employment would grow by around 25 per cent, but would account for the largest impact of deeper integration (nearly one-half of the additional jobs created by the AEC). This highlights the need to improve the quality and relevance of upper secondary education and technical and vocational education and training (TVET).

Moreover, projections also show that the demand for low-skilled workers will increase significantly by more than 60 per cent, underscoring the continued importance of a sound primary education in the Philippines. Yet, 11.4 per cent of primary school aged children (1.5 million) are not in school. Ensuring universal access to basic education and enhancing social protection can help break the intergenerational cycle of poverty and provide a pathway to decent employment (see Box 2).

Enhanced education and skills development policies would also provide a smoother pathway for young

women and men in the Philippines to transition from the classroom to the workplace. Unemployment among young people is 16.6 per cent, more than twice the overall unemployment rate. The Philippines is currently in a demographic transition where it has a high working-age population relative to its ageing, dependent population. To optimize this demographic dividend, it is essential that young people have the appropriate skills required by the labour market.

Figure 2: Estimated change in employment by skill level in the Philippines, 2010-25 (thousand and per cent)

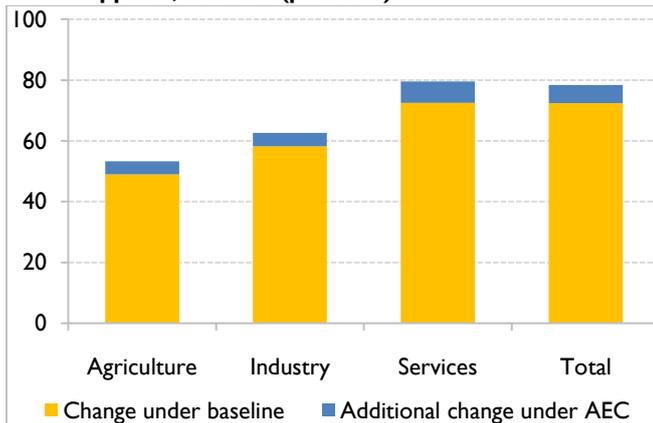


Source: ADB and ILO, op. cit.

Stronger collective bargaining can ensure workers benefit from higher productivity

In the Philippines, the share of wage employees has been growing over the past decade, from 50.1 per cent of total employment in 2003 to 58.2 per cent in 2013.⁴ Real wages have also risen in recent years, in large part due to increases in minimum wages. Average monthly wage levels in 2012 were \$206 (or 9,005 pesos), placing the Philippines ahead of Lao PDR (\$119), Cambodia (\$121), Indonesia (\$174) and Viet Nam (\$181). By contrast, average monthly wages were \$3,547 in Singapore, \$609 in Malaysia, and \$357 in Thailand.

Figure 3: Change in labour productivity under the AEC in the Philippines, 2010-25 (per cent)



Source: ADB and ILO, op. cit.

Wage differences between countries partly reflect differences in labour productivity. Model simulations indicate that labour productivity in the Philippines could increase by more than 75 per cent from 2010 to 2025 under the AEC (see Figure 3). This creates significant potential for sustainable wage growth, but requires strong wage setting institutions.

One key component critical for protecting low-paid workers is the setting of minimum wages. In 2012, the Department of Labour and Employment, implemented a two-tier wage system, consisting of a mandatory regional floor to protect vulnerable workers, and a productivity-based pay system. The two-tier wage reform maintains the existing policy of regional minimum wage setting by the Regional Tripartite Wages and Productivity Boards. This policy of decentralization has led to some of the lowest and highest minimum wages in the ASEAN region – ranging from \$120 in parts of Region IV-B (MIMAROPA) to \$273 in the National Capital Region (NCR).

⁴ See ADB and ILO, op. cit., chapter 5.

⁵ ILO estimates based on data from the Department of Labor and Employment, Bureau of Labor Relations and the Bureau of Labor and Employment Statistics.

The productivity-based pay system is comprised of bonuses and incentives based on agreements between workers and management. Balanced and effective agreements can only be achieved by ensuring a conducive environment for social dialogue. In this regard, collective bargaining can be an effective method of wage negotiation. These arrangements can standardize employment conditions across enterprises and reduce the potential for a downward spiral of wage competition between enterprises. In the Philippines however, only around 10 per cent of wage workers (225,183) were covered by collective bargaining agreements as of December 2013, with collective bargaining strongest in the manufacturing and transport, storage and communications industries.⁵ Better mechanisms to strengthen collective bargaining in all sectors is crucial to the success of the two-tier wage system.

Box 2. Advancing education and social protection programmes in the Philippines

Cognizant of the importance of basic education and social protection in breaking cycles of entrenched poverty, several policies have been enacted to combat the large number of out-of-school children and youth. Investing in the future of children not only reduces vulnerability and promotes inclusive growth but also creates a solid basis for a high-quality workforce.

One of the key social protection programmes is the Pantawid Pamilyang Pilipino Program. This conditional cash transfer programme identifies households below the poverty line with children and/or a pregnant woman. Targeted households receive monthly cash grants conditional on a series of health and nutrition measures, and mandatory school enrollment. Other components include a series of school-based feeding programmes, such as the Department of Social Welfare and Development's Supplementary Feeding Program, which is designed to prevent dropping out of school by addressing malnutrition. The Special Program for Employment of Students provides students from poor families with an opportunity to pursue employment at least at the minimum wage, during summer and Christmas vacations. These social policies act in conjunction with the recent K-12 reform extending basic education from 10 to 12 years, to comprehensively enhance both access and quality of basic education.

Moreover, in addition to contributory social insurance, other social protection initiatives include subsidized health insurance coverage, cash for work and emergency employment for victims of disasters, self-employment assistance, vocational training, and community-driven development programmes, among others.

Economic and demographic factors point to continued outward migration

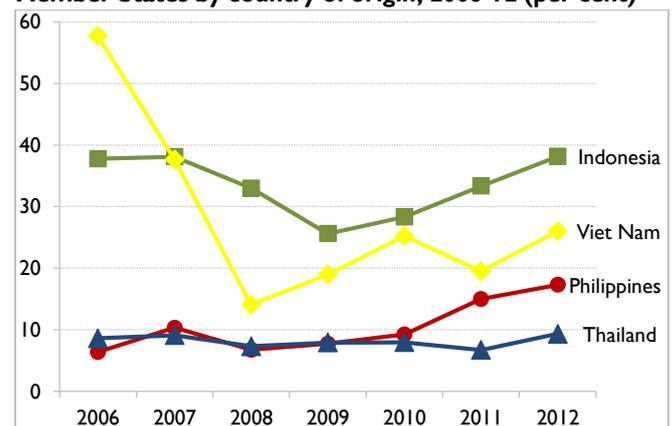
Economic and demographic disparities are driving labour migration trends.⁶ The Philippines features as one of the top countries of origin for international migrants, and overseas Filipino workers are among the most important sources of export earnings. Remittances from the two million Filipinos abroad play an important role in augmenting family income and mitigating poverty back home. The overwhelming destination of workers from the Philippines is to the Gulf States and parts of China. However, during the past five years the share going to other ASEAN Member States has increased (Figure 4).

Structural factors point to a continued outflow of migrant workers over the medium term. Between 2010 and 2025, the Philippines labour force is anticipated to grow by 10.3 per cent. With high youth unemployment, the continued expansion of the labour force will lead to further outmigration of young women and men. Other structural factors include the large differences in wages between countries. Within ASEAN, wages in Singapore, for example, are approximately 17 times those in the Philippines.

Current AEC policies for managing migration are confined to a few high-skill occupations such as

dentists, accountants, and engineers. In total, these occupations account for around one per cent of total employment in the Philippines. This suggests the AEC's provisions on labour mobility may have limited short-term impacts overall. However, the continued importance of labour migration, particularly for low- and medium-skilled workers, necessitates collective regional action to safeguard the rights of migrant workers, extend the coverage and portability of social security, and expand mutual skills recognition.

Figure 4: Share of migrant workers in other ASEAN Member States by country of origin, 2006-12 (per cent)



Source: ADB and ILO, op. cit.

⁶ See ADB and ILO, op. cit., chapter 6.

Conclusion

The AEC has the potential to generate higher output, employment, and productivity and could help the Philippines achieve its goal of inclusive growth and poverty reduction if decisive policy action is taken now. To this end, five priority areas are particularly relevant.

(i) Create better jobs, including through industrial policies that target agro-industry

The Philippine Development Plan 2011-2016 recognizes that structural shift towards industry has been limited in recent decades and aims to support the agro-industry, manufacturing and construction sectors, in addition to information technology, business process management and logistics. With more than 30 per cent of workers employed in agriculture, higher value-added activities in agro-industry can in particular provide a stepping stone to workers leaving agriculture. Through backward linkages with agriculture, agro-industries can provide more productive employment opportunities.

Creating a market for high-value farming products also requires integrating agriculture into domestic and international supply chains. This also entails confronting coordination failures through strategic industrial policy, involving all relevant stakeholders. Moreover, more investment in irrigation, infrastructure and transport in rural areas can help farmers and enable participation of small and medium firms in the supply chain.

(ii) Enhance social protection programmes

Structural change inevitably increases demand for some jobs while decreasing demand for others with. There is a risk that displaced workers will be unable to gain employment in more productive sectors. Given already high unemployment, mitigating adjustment costs of structural transformation requires the implementation of robust social protection floors. Total public social protection expenditure in the Philippines accounts for just 1.6 per cent of GDP.⁷ Beyond greater expenditure, effort must also be made to increase coordination among government agencies in the design and delivery of social protection benefits, reach out to informal sector workers, improve the implementation of existing schemes, and enforce better disaster preparedness and response measures.

(iii) Upgrade skills to meet shifting demand

The recent K-12 legislation entitling all Filipinos to a 12-year basic education must be implemented effectively

in order to cultivate a higher skilled workforce. Further efforts are needed to address the significant proportion of out-of-school children by increasing enrollment, minimizing early dropout and expanding the number of schools in remote areas. Also critical is to improve the quality of TVET institutions to meet growing demand for medium-skill employment under the AEC. This includes expanding partnership with the private sector and reforming curricula to be more demand-driven.

(iv) Improve protection for migrant workers

Existing bilateral agreements with key countries of destination do not provide adequate mechanisms for enforcing compliance on wages and terms of employment. Future negotiations should make it mandatory for countries of destination to provide legal and social protection to overseas Filipino workers. Within bilateral agreements, particular emphasis should be placed on upholding the provisions of the Household Service Worker Reform Package to ensure domestic workers receive their monthly minimum wage. Also, social security coverage for overseas Filipino workers can be increased by enhancing payment mechanisms and offices in destination countries. At home, further enforcement is needed to fully expunge recruitment malpractice.

(v) Strengthen collective bargaining to improve the productivity-wage link

In recent years the union density rate and collective bargaining coverage have remained low. While new mechanisms for industrial relations have arisen, collective bargaining remains key for the country's industrial relations policy. Better mechanisms for collective bargaining can help translate the benefits of closer economic integration into shared prosperity. As such, more action is needed to offer training activities for workers and employers on collective bargaining and provide a common bargaining platform for informal and contract workers.

The full report "ASEAN Community 2015: Managing integration for better jobs and shared prosperity" can be accessed at: www.ilo.org/asia.

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⁷ ILO: *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice* (Geneva, 2014), table B.13. Includes expenditure on health care and social protection for older persons,

working-age persons (including social benefits, unemployment, labour market programmes, sickness, maternity, employment injury, disability and general social assistance), and children.