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ATENEO CENTER FOR ECONOMIC RESEARCH AND DEVELOPMENT

REVIVING THE PHILIPPINE ECONOMY UNDER A RESPONSIBLE NEW NORMAL

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After the reclassification of areas under enhanced community quarantine (ECQ) to general community quarantine (GCQ), the urgent task for the Philippine government is to provide an exit plan to revive the Philippine economy. However, as the Philippine government begins to calibrate the opening of sectors, there remain concerns as to how this process will affect jobs and livelihoods now and beyond. **In this context, an economic recovery plan that talks about short-term, a transition, and full recovery phases— encompassing a revision of the current Philippine Development Plan without losing sight of the long-term goals envisioned in Ambisyon Natin 2040— is still needed. This recovery plan should also be accompanied by structural reforms to enhance its implementation.**

Moving towards a responsible new normal requires a strategy that addresses both people's wellbeing and the socio-economic weaknesses exposed by COVID-19, with the following eight elements:

1. Massive resources into mass-testing, containment, and health systems

Controlling the spread of the virus demands identifying those infected by COVID-19 and then keeping them isolated, alongside prevention measures. However, as of April 30, the reported testing capacity in the Philippines was stated by the Department of Health to be 6,300 tests per day— still lower than the 8,000 per day target. Expanding this capacity will require substantial investments not only in hospitals and testing centers, but also in the development of effective tracing, isolation, and quarantining. More generally and in the longer term, substantial investments in the health system are needed for the Philippines to raise its health expenditures per capita at least at par with ASEAN. A concrete step could be to incentivize investments for the modernization and expansion of hospitals and healthcare facilities.

2. Ensure survival of industries and workers

In both the modified ECQ and GCQ, the Philippine government has allowed certain industries to open. However, the industries that are most important for reviving jobs and economic growth are also at high risk for COVID-19 infection. Thus, workers in these industries will require testing for COVID-19. If the objective is to open as many sectors as possible, then the Philippine government should develop a strategy based on the results coming from the COVID-19 testing centers of the national or the local governments. At the same time, the Philippine government will need to provide assistance to industries that are affected by travel and physical distancing restrictions, but also too risky to neglect and allow to fail. These include:

- Travel and Hospitality industries (e.g., air and sea transport, hotel, dine-in restaurants, etc.);
- Entertainment and art industries (e.g. theater, dance, music, cinema, museum, literature, etc.)
- Retail stores and the corresponding manufacturing and other service industries (e.g. clothing, appliance, spa, gym, food court, etc.)

3. Change in the economic structure

Addressing the limited productivity brought about by the COVID-19 pandemic demands a restructuring of the economy away from business-as-usual. **Indeed, COVID-19 exposed the structural weaknesses of the Philippines, such as the overdependence of the economy on Metro Manila. This weakness can be addressed by channeling investments outside of Metro Manila, and deliberately shifting our development efforts towards agricultural areas and growth centers other than Cebu and Davao.**

Restructuring the economy entails reviving the whole supply chain that utilizes other seaports (i.e. move shipments away from Manila to Subic and Batangas). Putting up the logistical infrastructure and trading facilities to enable agricultural products to move seamlessly to demand centers in the country is imperative. Since roughly 80 percent of agricultural production comes from small farms, restructuring the economy means a transition from subsistence farming to surplus agriculture production. An example of short-run rural development strategy could be to increase the scale of household-based intensive farming systems. In the long run, however, the Departments of Agriculture and Agrarian Reform must promote a shift to cash crops and upscale farming to take advantage of scale economies.

4. Efficient but safe public transportation

Challenges in public transportation are among the hardest to solve. A coordinated response between DOTr and the private sector is imperative to provide transportation for workers in the essential sectors once the ECQ is lifted. Potential road congestion must be addressed by controlling non-essential travel, including by private car owners. The 'new normal' must also maximize work-from-home arrangements to keep people off the roads, while rationalizing public transport services to minimize congestion.

5. Improved Communications: ICT, Broadband Access and Coverage

Because physical distancing protocols are likely to remain over a few years, the Build, Build, Build program of the Philippine government can be partly reoriented to expanding and upgrading the digital infrastructure of the country. Among others, digital technologies can also be adopted to address challenges in not only in the supply chain, but in the retail, delivery services, and educational sectors.

6. Upgraded social protection programs

Under the modified ECQ/GCQ, social protection programs have to be extended beyond income transfers to minimize the exposure of workers to COVID-19 health risks. For poor communities, current social protection efforts can be improved by increasing flexibility with identification and qualification requirements, as well as harmonizing and unifying the fragmented delivery process of different social protection programs.

7. Empowered and accountable local governments units

The national government should increasingly shift the implementation of its targeted programs to the local governments, coupled with strengthened capacity improvement and accountability systems. The knowledge of local governments about their constituents and communities can potentially make them more effective in implementing (a) testing, contact tracing, and isolating the sick; (b) social amelioration programs; and (c) delivery of goods-to-market measures. At the LGU level, this shift must also be complemented by strengthening local institutions for public participation, communication, and consultation. To improve local performance, the national government can also calibrate the criteria of its Seal of Good Local Governance awards to incentivize LGUs to strengthen the effectiveness and accountability of their local health and social protection services in meeting the COVID-19 challenge and beyond.

8. A long-term stimulus program

To finance these requirements, the Philippine government will have to forego any growth targets, relax its deficit target, and borrow funds to augment its financial capacity. **The Philippine government will need to implement a debt-financed economic growth strategy over the next 2 or 3 years.**

Should tax reforms be pursued by government, their objective should be as an institutional reform for correcting incentives to help firms recover faster and facilitate improvement of revenue generation. There remains room for a monetization of the fiscal deficit and a reassignment of some large projects in the BBB portfolio for Public-Private Partnerships to increase available public resources for protection and recovery from the pandemic. As the threat of COVID-19 will most likely extend beyond this year, the Philippine government should not be constrained to spend whatever is necessary to protect Filipinos, and take the opportunity to undertake structural reforms to shield the country from various shocks now and in the long-term.