TECHNICAL EDUCATION AND SKILLS DEVELOPMENT AUTHORITY

LABOR MARKET INTELLIGENCE REPORT

PHILIPPINES: BACK IN THE GAME

(Culled from the Makati Business Club Research Report on World Economic Forums Global Competitiveness Report 2011-2012)

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Philippines: Back in the Game

On September 7, 2011, the World Economic Forum (WEF) released its Global Competitiveness Report 2011-2012. The Report is on the Philippine competitiveness taking into account each country's level of development.

The World Economic Forum's Global Competitiveness Report is the most comprehensive and authoritative assessment of the comparative strengths and weaknesses of over 130 major and emerging economies. The Makati Business Club (MBC) has been the WEF's exclusive partner institute in the Philippines for the preparation of their international competitiveness reports since 1993.

The WEF defines competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country. According to the WEF, the report "assesses the ability of countries to provide high levels of prosperity to their citizens. This in turn depends on how productively a country uses available resources. Therefore, the GCI measures the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity."

Since 2005, the Forum has based its analysis on the Global Competitiveness Index (GCI). The GCI is a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness. Competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country.

Out of the 15,000 business leaders polled around the world last year 2011, around 90 respondents participated from the Philippines. The country's survey sample was taken from among the members of the Makati Business Club, the management association of the Philippines, and the Semiconductor and Electronics Industries in the Philippines.

Highlights of the Report:

- The Philippines is back among the upper 53% of economies in terms of global competitiveness and has recovered the Global Competitiveness Index score of 4.1 that it first achieved in 2008.

- The country's unprecedented 10-step rise to number **75** out of 142 economies from number **85** out of 139 economies in 2010 is attributed to the following categories:
    1. Macroeconomic environment (up 14 places)
    2. Technological readiness (up 12 places)
    3. Institution (up 8 places)
    4. Financial market development (up 4 places)
    5. Business sophistication (up 3 places)
    6. Innovation (up 3 places)
    7. Higher education and training (up 2 places)
    8. Market size (up 1 place)

- The Philippines ranks no. 9 in overall competitiveness among the 24 economies in transition from the factor-driven stage to the efficiency-driven stage of development.

- Among eight Southeast Asian economies covered, however, the Philippines just ranks ahead of the region's bottom-dwellers, Cambodia and Timor-Leste. The country's institution and labor market efficiency are rated the worst in the region.

- Corruption, inefficient government bureaucracy, inadequate supply of infrastructure, policy instability, and tax rates are the top five problematic factors for doing business in the Philippines. The country, however, has managed to get out of the roster of top five, top ten, and even top fifteen most corrupt countries in the world.

Rise and Fall of the Philippines Economy:

The Philippines first appeared in the rankings of the World Competitiveness Report of the World Economic Forum in 1994. Below is the summary of the country's competiveness ranking:

Year	Philippine Ranking	Criteria/Metrics of Performance
1994	number 33 out of 44 economies	*Domestic economic strength, Internationalization, Government, Finance, Infrastructure, Management, Science and technology, and people.*
1996	number 31 across 49 economies	*Openness; Government, finance, infrastructure, technology, management labor, and institutions*
2000	number 37 out of 59 countries	*(Growth Competitiveness Index) Economic creativity, finance, and openness*
2001	number 48 out of 75 economies	*(reformulated Growth Competitiveness Index) technology, public institutions, and macroeconomic environment*
	number 54 out of 75 economies	*Coexisted with another Current Competitiveness Index*
2004	Number 74 out of 104 economies	*Parallel Global Competitiveness Index in 2004*
2006	Number 75 out of 122 economies	*Parallel Global Competitiveness Index in 2004*
2007	Number 71 out of 131 economies	*Rolling weighted average of the current and past year's Executive Opinion Survey results*
2008	Number 71 out of 134 economies	
2009	Number 87 out of 134 economies	
2010	Number 85 out of 139 economies	*Global Competitiveness Index (GCI)*
2011	Number 75 out of 142 economies	*Global Competitiveness Index (GCI)*

The GCI three stages of development:

a) *factor-driven economies (stage 1) – the GCI assumes that, in the first stage, the economy is factor-driven and countries compete based on their factor endowments: primarily unskilled labor and natural resources. Here is when the first 4 pillars (grouped under the category Basic requirements: institutions; health and primary education; macroeconomic environment; and infrastructure) play a role within what is been called factor-driven economies.*

b) *efficiency-driven economies (stage 2) - as a country becomes more competitive, productivity will increase and wages will rise with advancing development. Countries will then move into the efficiency-driven stage of development. They must begin to develop more efficient production processes and increase product quality because wages have risen and they cannot increase prices. At this point, competitiveness is increasingly driven by what's been called efficiency enhancers.*

c) *innovation-driven economies (stage 3) - wages will have risen by so much that they are able to sustain those higher wages and the associated standard of living only if their businesses are able to compete with new and unique products. At this stage, companies must compete by producing new and different goods using the most sophisticated production processes and through innovation*

Ten-Step Rise:

This year, the Philippines is one of only seven countries that posted double-digit advances in competitiveness standing among 142 economies. Sri Lanka, Rwanda, and Albania also rose in the competitiveness ladder by 10 steps. Ethiopia, Cambodia, and Tajikistan ascended by 13, 12, and 11 steps, respectively.

The Philippines also posted its biggest uptick in its global competitiveness ranking since the 4-step rise to no. 71 in 2007 from no. 75 in 2006. Moreover, after the 16-step drop in rank in 2009, this year the country regained its standing among the top 53% of countries covered, a feat first achieved in 2008 when the Philippines also posted the same GCI score of 4.1.

Among efficiency enhancers, the Philippines increased by 0.01 sub-index points and **rose by 8 steps to no. 70. In terms of higher education and training, climbed 2 places to no. 71 on account of gains in indicators for on-the-job training**.

In terms of technologies readiness, the Philippines **moved up to 12 places to no. 83 due to better technological adoption and ICT use, despite relatively weaker data on broadband Internet subscriptions and mobile telephone subscriptions** across 142 economies. In terms of market size, the country's domestic and foreign market sizes combined lifted it one place to no. 36 position.

The Transition Phase:

Since the Global Competitiveness Index (GCI) was launched, the Philippines was always classified among the factor-driven economies whose per capita GDP fell below US$2,000 a year. In this year's Report, however, the Philippines has started to enter the **transition phase from a factor-driven to an efficiency-driven economy,** given its GDP per capita of US$2,007 last year. Thus, there has been a slight change in the basis of the country's overall score. Basic requirements now account for 59.9% of the GCI score instead of 60%. On the other hand, efficiency enhancers comprise 35.1% of the GCI score, up from 35%.

Innovation and business sophistication continue to account for the remaining 5% of the index score.

Among 24 economies in transition between the first and second stages of development, the Philippines delivered a relatively average performance with a GCI score of 4.08 and a **no. 9 ranking**. Within the same group, the country's score in the basic requirements category fell below the average despite above average scores for the macroeconomic environment. The country got above average scores for the efficiency enhancers among stage 1 to stage 2 transition economies, **owing better score in higher education and training**, goods market, financial market development, technological readiness, and market size.

The Philippines also fared above average in terms of business sophistication among the 24 economies in the transition stage. The country's weaknesses relative to its development stage are in institutions, infrastructure, labor market efficiency, and innovation.

Based on government macroeconomic targets in the medium term, the country should be able to reach the next stage of development within the two years when its per capita GDP shall have crossed the US$3,000 mark which rest largely on the quality of its institutions and infrastructure, macroeconomic stability and progress in health and primary education.

Table 1A. Economies in Transition from Stage 1 to Stage 2: Ranking in Basic Requirements Sub-Index

Country/ Economy	Overall Index	Basic Requirements	Institutions	Infrastructure	Macroeconomic Environment	Health and Primary Education
1. Qatar	14	12	14	27	5	22
2. Saudi Arabia	17	16	12	25	12	61
3. Brunei Darussalam	28	24	34	56	1	30
4. Kuwait	34	34	47	50	2	77
5. Sri Lanka	52	65	50	60	116	45
6. Azerbaijan	55	59	68	73	16	105
7. Iran, Islamic Republic	62	51	72	67	27	50
8. Kazakhstan	72	62	94	82	18	85
9. Philippines	**75**	**100**	**117**	**105**	**54**	**92**
10. Botswana	80	81	32	92	82	120
11. Guatemala	84	93	129	70	76	100
12. Ukraine	82	98	131	71	112	74
13. Honduras	86	90	102	91	81	89
14. Algeria	87	75	127	93	19	82
15. Georgia	88	86	60	68	137	67
16. Armenia	92	94	83	77	114	94
17. Egypt	94	99	74	75	132	96
18. Mongolia	96	101	119	118	34	98
19. Syria	98	77	70	97	68	62
20. Jamaica	107	116	86	79	142	106
21. Guyana	109	104	93	102	119	76
22. Paraguay	122	117	132	125	100	107
23. Venezuela	124	125	142	117	128	84
24. Angola	139	141	135	140	110	142

Table 1B. Economies in Transition from Stage 1 to Stage 2: Ranking in Efficiency Enhancers Sub-Index

Country/ Economy	Overall Index	Efficiency requirements	Higher education	Infrastructure	Macroeconomic environment	Health and Primary Education
1. Qatar	14	12	14	27	5	22
2. Saudi Arabia	17	16	12	25	12	61
3. Brunei Darussalam	28	24	34	56	1	30
4. Kuwait	34	34	47	50	2	77
5. Sri Lanka	52	65	50	60	116	45
6. Azerbaijan	55	59	68	73	16	105
7. Iran, Islamic Republic	62	51	72	67	27	50
8. Kazakhstan	72	62	94	82	18	85

Country/ Economy	Overall Index	Efficiency requirements	Higher education	Infrastructure	Macroeconomic environment	Health and Primary Education
9. **Philippines**	**75**	**100**	**117**	**105**	**54**	**92**
10. Botswana	80	81	32	92	82	120
11. Guatemala	84	93	129	70	76	100
12. Ukraine	82	98	131	71	112	74
13. Honduras	86	90	102	91	81	89
14. Algeria	87	75	127	93	19	82
15. Georgia	88	86	60	68	137	67
16. Armenia	92	94	83	77	114	94
17. Egypt	94	99	74	75	132	96
18. Mongolia	96	101	119	118	34	98
19. Syria	98	77	70	97	68	62
20. Jamaica	107	116	86	79	142	106
21. Guyana	109	104	93	102	119	76
22. Paraguay	122	117	132	125	100	107
23. Venezuela	124	125	142	117	128	84
24. Angola	139	141	135	140	110	142

Table 1C. Economies in Transition from Stage 1 to Stage 2: Rankings in Efficiency Enhancers Sub-Index

Country/Economy	OVERALL INDEX	EFFICIENCY REQUIREMENTS	Higher Education	Goods Market	Labor Market	Financial Market	Techno-logical Readiness	Market Size
1. Qatar	14	27	50	17	22	19	33	59
2. Saudi Arabia	17	24	36	4	50	16	43	23
3. Brunei Darussalam	28	71	61	82	9	57	57	121
4. Kuwait	34	67	91	53	62	59	65	62
5. Sri Lanka	52	69	66	41	117	45	85	67
6. Azerbaijan	55	77	75	79	14	94	74	75
7. Iran, Islamic Republic	62	88	89	103	139	123	104	21
8. Kazakhstan	72	76	65	87	21	121	87	55
9. Philippines	**75**	**70**	**71**	**88**	**113**	**71**	**83**	**36**
10. Botswana	80	86	93	68	52	44	101	99
11. Guatemala	84	81	100	65	98	46	80	76
12. Ukraine	82	74	51	129	61	116	82	38
13. Honduras	86	104	108	85	135	56	91	91
14. Algeria	87	122	101	134	137	137	120	47
15. Georgia	88	89	88	74	32	99	100	106
16. Armenia	92	91	76	108	34	95	88	115
17. Egypt	94	94	107	118	141	92	95	27
18. Mongolia	96	105	84	92	31	129	102	124

Country/Economy	OVERALL INDEX	EFFICIENCY REQUIREMENTS	Higher Education	Goods Market	Labor Market	Financial Market	Techno-logical Readiness	Market Size
19. Syria	98	109	106	102	134	117	105	66
20. Jamaica	107	85	85	78	80	52	72	102
21. Guyana	109	110	79	94	91	93	97	135
22. Paraguay	122	114	116	83	127	88	112	92
23. Venezuela	124	112	67	142	142	132	92	41
24. Angola	139	136	142	138	109	136	129	62

Table 1D. Economies in Transition from Stage 1 to Stage 2: Rankings in Innovation and Sophistication Factors Sub-Index

Country/economy	Overall index	Innovation & innovation	Business sophistication	Innovation
1. Qatar	14	16	12	18
2. Saudi Arabia	17	24	17	26
3. Brunei Darussalam	28	73	85	68
4. Kuwait	34	66	62	84
5. Sri Lanka	52	34	32	42
6. Azerbaijan	55	67	73	60
7. Iran, Islamic Republic	62	83	92	70
8. Kazakhstan	72	114	109	116
9. Philippines	**75**	**74**	**57**	**108**
10. Botswana	80	94	101	79
11. Guatemala	84	63	55	91
12. Ukraine	82	93	103	74
13. Honduras	86	90	81	101
14. Algeria	87	136	135	132
15. Georgia	88	117	110	118
16. Armenia	92	110	107	112
17. Egypt	94	86	72	103
18. Mongolia	96	112	119	102
19. Syria	98	111	94	125
20. Jamaica	107	84	75	94
21. Guyana	109	87	82	99
22. Paraguay	122	125	111	133
23. Venezuela	124	128	124	126
24. Angola	139	142	142	140

Among Neighbors:

Table 2A be**lo**w shows that the Philippines is traditionally compared with its Southeast Asian neighbors, which are at various stages of development. Cambodia, Timor-Leste, and Vietnam are at the *factor-driven stage*. Brunei Darussalam is in transition to the *efficiency-driven stage*. Indonesia, Malaysia, and Thailand are at the *efficiency-driven stage*, while Singapore is at the *innovative-driven stage*.

Ranked no. 2 across the world, Singapore is Southeast Asia's most competitive economy in every aspect, save for market size. Indonesia has the region's largest market.

Excluding Myanmar and Laos, the Philippines performed below average when ranged against its neighbors. The country stayed in front of Cambodia and Timor-Leste but lagged behind the rest in terms of overall competitiveness and in the three sub-indexes, as well as in the infrastructure and health and primary education pillars.

The Philippines macroeconomic environment is only better than Vietnam and Cambodia, and its goods market efficiency and innovation is next to Timor-Leste at the bottom in the region. The country is rated the worst in terms of institutions and labor market efficiency. On the other hand, the country scored above average in the region in terms of **higher education and training**, market size, and business sophistication. In terms of **technological readiness**, the Philippines is rated better than Thailand, Indonesia, Cambodia, and Timor-Leste. The country also outranked Vietnam, Cambodia, and Timor-Leste in terms of financial market development.

Table 2A. Southeast Asian Economies: Ranking in Basic Requirements Sub-Index

Country/ Economy	Over All Index		Basic Requirements		Basic Requirements		Infrastructure		Macroeconomic environment		Health and Primary Education	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Brunei Darussalam	28	28	20	24	36	34	52	56	1	1	32	30
Cambodia	109	97	113	108	94	79	114	107	116	101	110	111
Indonesia	44	46	60	53	61	71	82	76	35	23	62	64
Malaysia	26	21	33	25	42	30	30	26	41	29	34	33
Philippines	**85**	**75**	**99**	**100**	**125**	**117**	**104**	**105**	**68**	**54**	**90**	**92**
Singapore	3	2	3	1	1	1	5	3	33	9	3	3
Thailand	38	39	48	46	64	67	35	42	46	28	80	83
Timor-Leste	133	131	127	119	110	116	138	138	29	14	132	133
Vietnam	59	65	74	76	74	87	83	90	85	65	65	73

Table 2B. Southeast Asian Economies: Rankings in Efficiency Enhancers Sub-Index

	Over All Index		Efficiency Enhancers		Higher Education and Training		Goods Market		Labor Market		Financial Market		Technological Readiness		Market Size	
Country/ Economy	2010	2011	2010	2011	2010	2011	2010	2011	2011	2011	2010	2011	2010	2011	2010	2011
Brunei Darussalam	28	28	67	71	64	61	78	82	10	9	55	57	49	57	118	121
Cambodia	109	97	103	98	122	120	81	58	51	38	92	74	115	110	96	93
Indonesia	44	46	51	56	66	69	49	67	84	94	62	69	91	94	15	15
Malaysia	26	21	24	20	49	38	27	15	35	20	7	3	40	44	29	29
Philippines	**85**	**75**	**78**	**70**	**73**	**71**	**97**	**88**	**111**	**113**	**75**	**71**	**95**	**83**	**37**	**36**
Singapore	3	2	1	1	5	4	1	1	1	2	2	1	11	10	41	37
Thailand	38	39	39	43	59	62	41	42	24	30	51	50	68	84	23	22
Timor-Leste	133	131	136	138	130	134	105	110	75	90	136	139	139	140	136	137
Vietnam	59	65	57	66	93	103	60	75	30	46	65	73	65	79	35	33

Table 2C. Southeast Asian Economies: Ranking in Basic Requirements Sub-Index

Country/ Economy	Over All Index		Innovation and Sophistication		Business Sophistication		Innovation	
	2010	2011	2010	2011	2010	2011	2010	2011
Brunei Darussalam	28	28	72	73	77	85	69	68
Cambodia	109	97	106	91	106	90	108	85
Indonesia	44	46	37	41	37	45	36	36
Malaysia	26	21	25	22	25	20	24	24
Philippines	**85**	**75**	**75**	**74**	**60**	**57**	**111**	**108**
Singapore	3	2	10	11	15	15	9	8
Thailand	38	39	49	51	48	47	52	54
Timor-Leste	133	131	136	137	135	138	136	136
Vietnam	59	65	53	75	64	87	49	66

Working on the Positive Findings:

Reports from the 2011 Global Competitiveness Report highlighted both the negatives and the positives on the Philippines. It is encouraging to note that the country got above average scores for the efficiency enhancers among stage 1 to stage 2 transition economies, **owing better score in higher education and training**, goods market, financial market development, technological readiness, and market size.

The present administration education policy agenda on the K to 12 education program is critical in pursuing higher education and training. The K to 12 education system seeks to produce high school graduates who have completed senior high school level (Grade 11 and Grade 12) are already equipped with skills for the world of work, possess the needed competencies for college education that can compete in the global labor market. The graduates of elementary level this school year (SY) will be the first batch of graduates who will go through K to 12, complete the 4 years in junior high and by 2016, they shall proceed to the additional 2 years or senior high school. Moreover, the 2 years for senior high school will have the options to proceed into 4-year degree programs or join the labor force as they already possess entry level skills and competencies needed by the employers.

This move will make our educational system comparable with the rest of the world. In addition, this would facilitate increase in the level of employment of Filipino professionals and skilled workers, thus ensuring increase in the level of productivity.

Coupled with this development, realignment and the shifting of policy directions both for higher education and technical vocational education and training (TVET) is vital. TVET in particular, has to focus into higher level competencies (NC III, IV and V) and technology. Additional funding and infrastructure support allocated for the educational system specifically in basic education is required. This calls for a genuine public-private partnership collaboration and arrangements.

Doing business in the Philippines make easier because the country is an English speaking nation. This one of the major reasons why business processing outsourcing (BPO) continues to grow at a faster pace than India. In fact, the Philippines is now the call center capital of the world and is second to India in non-voice services such as accounting, engineering and medical billing. The Philippines is unfazed by the United States aiming to bring back jobs to the US with its draft bill on call center and consumer protection. Much needed support from the government in the area of developing the much needed competencies, i.e, medical billing, game development, language programming and other back office services are necessary.