

Re-examination of the Growth and Dynamics of the Philippine Net-exports Using the Import-Adjusted Approach (1961-2000)

Topic: The Impacts of Trade I

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In the 1960s when the East Asian economies successfully surpassed the growth of Latin and African countries using export oriented strategies, other countries followed suit. The change in views on the importance of international trade and exports as main engines of growth led to a rapid spread in the international production networks; thereby developing a new production paradigm – the global production networks (GPNs).

In the GPNs, a previously integrated production value chain is fragmented to different stages, which are allocated to different countries based on their comparative advantages. As a consequence, an evolving good towards its finished form, has to travel across borders of at least two countries before reaching its final consumer. The emergence of GPNs encouraged the trade of intermediate goods. As the value chain is widespread geographically, more and more intermediate goods are being imported and exported by countries. This undoubtedly affected the trade profile of a country participating in the global supply chain.

The Philippines, for one, joined this global supply chain with its export oriented trade policy in the late 1970s. Traditionally, the contribution of the net-exports to the country's economic growth during this transition period was examined using the net-export method. The net-export method (NEM) attributes the growth of the Gross Domestic Product (GDP) to the different components of final demand – Consumption Expenditure, Investment, Government Expenditure and Net-Exports – using the competitive Input-Output (IO) tables. However, recent researches emphasized that such measurement may be misleading when measuring the contribution of net exports to GDP growth. As the method attributes all the intermediate and final imports to exports only, it ignores the fact that imports are also used, in part, for domestic consumption and investment. Hence, it also fails to capture the changing import-intensiveness of exports due to GPNs.

In order to address the gaps of the net-export method, European economists Kranendonk and Verbruggen (2005) suggested the use of the Import-Adjusted Method (IAM). Using non-competitive IO tables, the IAM re-attributes import to the final demand components before it calculates for the contribution of each component to GDP growth. With this new methodology, a country can re-examine the historical contribution of net-exports to GDP growth more accurately. At present, IAM is mostly applied to European region only. Asian countries, including the Philippines, have difficulty in using the methodology since they have a more complete set of competitive IO tables,

In light of this, the study aims to (1) propose a means to enable the use of competitive IO tables when applying the import-adjusted methodology and (2) to employ such methodology in re-examining the growth and dynamics of Philippine exports in the four decades bounded by 1961-2000 using the available Philippine competitive IO tables. It specifically evaluates the changes in the composition of the country's export basket and the changes in the contribution of the net-exports to GDP growth pre and post Philippine's participation in the global supply chain. It finally juxtaposes the findings of the IAM with the NEM.

Applying the IAM to the modified Philippine competitive IO tables, it is found out that a decrease in the contribution of net-exports to GDP growth can be observed in the initial years of the country's participation in GPNs. Foreign Direct Investments directed toward the domestic manufacturing industry in the last two decades, nevertheless, helped increase the net-export's

contribution to GDP growth. This is reflected in the IAM findings. Furthermore, relative to the traditional NEM, the conclusions derived using IAM are very different. IAM reports positive net-export contribution to GDP growth for all years, whereas NEM results give mixed signs. The former also provides higher values than the latter and is more reflective of the global production reality and the country policy stance. These inferences drawn from this study may be used as a spring board for future academic research and for a more informed policy formulation and evaluation.