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Panel 2.3: EPDP Session--Power Sector in the Philippines: Theory, Policy, and Practice

The Role of Energy Policy in Economic Development

Traditional models of structural transformation point to the singular importance of steady industrial growth at early stages of development, especially within manufacturing, as a path toward long-term growth. Although the Philippines was an early leader in the region in this respect, industrial growth in the country lost ground in the mid-1980s. While previous studies attribute the Philippines' experience of "premature deindustrialization" to decades of protectionism, political instability, financial crises, and real exchange rate overvaluation, this paper focuses on the possible impact of energy costs (electricity in particular), which have become significantly higher in the Philippines in recent times vis-à-vis its regional neighbors. We explore such relationships and econometrically evaluate possible distortionary mechanisms using the latest data on electricity prices, electrical supply, and manufacturing output.