Pax Silica and the Philippine Economic Transition: A Dynamic Recursive CGE Assessment of Infrastructure-Led Development Amid Geopolitical Realignment

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DOI: https://doi.org/10.47772/IJRISS.2026.1015EC0081

Received: 30 July 2026; Accepted: 04 August 2026; Published: 12 August 2026

ABSTRACT

This study presents a dynamic recursive Computable General Equilibrium (CGE) analysis of the Pax Silica Initiative—a US-led multilateral economic security framework established in December 2025 to strengthen semiconductor manufacturing, artificial intelligence technologies, critical minerals supply chains, and secure data ecosystems. The Philippines formally joined the initiative in April 2026, designating a 1,620-hectare AI-native industrial and manufacturing enclave within New Clark City, Tarlac. Using a ten-year recursive dynamic CGE model calibrated with Philippine-specific data from the Philippine Statistics Authority (PSA), Bangko Sentral ng Pilipinas (BSP), Department of Energy (DOE), Mines and Geosciences Bureau (MGB), and the United Nations Development Program (UNDP), this study simulates three distinct phases of economic adjustment: (1) Construction & Investment Inflow Shock (2026–2028), (2) Resource & Supply Squeeze (2029–2032), and (3) Geopolitical Shock & Steady State (2033–2035). The model incorporates sectoral capital accumulation, nested CES production functions with energy and water constraints, household income distribution across ten deciles, and Human Development Index (HDI) components. Results indicate that while GDP expands from $494.2 billion to approximately $580 billion during the construction phase, the subsequent resource squeeze induces significant polarization: the Gini coefficient rises from 0.44 to 0.49, water stress escalates from 28.5% to 35.6%, and CO_2 emissions increase from 140 to 180 million tons. However, HDI improves modestly from 0.720 to 0.758, driven primarily by income gains. Policy simulations reveal that fiscal recycling (Scenario A) reduces inequality to 0.46, renewable energy mandates (Scenario B) limit emissions to 150 million tons, and water tariffs with recycling (Scenario C) contain water stress at 30.2%. The study concludes that without targeted policy interventions, Pax Silica risks exacerbating structural inequalities and environmental degradation despite delivering aggregate growth nevertheless, to address the CGE simulation's findings of concerning outcomes, and the study further recommends operationalizing Roxas's area economics through community-anchored economic zones and institutionalizing Ostrom's polycentric governance for common-pool resource management to ensure inclusive and sustainable development outcomes.

Keywords: Computable General Equilibrium; Pax Silica; Philippines; Infrastructure Investment; Dutch Disease; Human Development Index; Energy Transition; Water Security; Industrial Policy

INTRODUCTION

The pursuit of industrial transformation in developing economies has long been characterized by the tension between aggregate growth and distributional equity (Amodio et al., 2026; Hosono, 2022; Rodrik, 2016; Muholi, 2025). This tension is particularly acute in the Philippines, a middle-income country that has experienced sustained but modest economic expansion over the past decade, with real GDP growth averaging approximately 5.7% in 2024 (IMF, 2025). Despite this growth, the Philippines faces persistent structural challenges: high inequality (Gini coefficient of approximately 0.44), vulnerability to climate change, heavy dependence on coal-fired electricity (62% of generation), and a Human Development Index (HDI) of 0.720 that, while improved, remains below the threshold for "very high human development" (UNDP, 2025).

The Pax Silica Initiative, launched in December 2025 and joined by the Philippines in April 2026, represents a potentially transformative inflection point. The US-led coalition of over 30 countries aims to establish a 1,620-hectare hub in New Clark City for artificial intelligence, semiconductor processing, critical minerals beneficiation, and advanced manufacturing (PNA, 2026). The Bases Conversion and Development Authority (BCDA) projects that the initiative could attract $40–70 billion in foreign direct investment, generate 130,000–190,000 direct jobs, and position the Philippines higher in global value chains by processing locally sourced minerals such as nickel and copper into higher-value products (PIA, 2026). The Pax Silica Initiative represents a deliberate industrial policy intervention aimed at accelerating structural transformation in the Philippines. As UNCTAD (2026) documents, structural transformation—the reallocation of labor and capital from low- to high-productivity sectors—has historically been the primary engine of economic growth and social development. However, market forces alone cannot reliably drive this process, necessitating strategic government intervention to channel resources toward priority industries, as evidenced by the developmental states of East Asia and contemporary examples such as the United States, Europe, and Brazil (UNCTAD, 2026).

It can be considered that Pax Silica Initiative be positioned within the broader scholarly discourse on industrial policy and structural transformation as I would argue, lending theoretical legitimacy to this research using empirical findings and computational modeling. Nevertheless, structural transformation, driven by well-targeted industrial policies, is a powerful engine for economic catch-up and sustainable development (ADB, 2026; Calabrese et al., 2024). However, the scale and speed of this transformation raise profound questions about economic growth, resource allocation, and social welfare in the Philippines. The proposed hub is expected to require approximately 3 gigawatts of electricity—equivalent to 16% of Luzon's current grid capacity—and 65–90 million liters of water daily (Inquirer, 2026). These resource demands coincide with the Philippines' ongoing energy transition challenges, where coal still dominates the generation mix (DOE, 2024), and with acute water stress in Central Luzon, a region that produces a substantial share of the nation's rice and vegetables. The geopolitical dimension is equally significant: the initiative unfolds against the backdrop of escalating US-China tech decoupling, with potential retaliatory trade barriers affecting Philippine mineral exports, particularly nickel, of which approximately 80% is destined for China (MGB, 2025).

This study addresses the following research questions: (1) What are the dynamic economy-wide effects of the Pax Silica Initiative on Philippine GDP, sectoral output, trade, and exchange rates? (2) How does the initiative affect household income distribution and welfare across income deciles? (3) What are the environmental implications in terms of carbon emissions and water stress? (4) How does the initiative influence the Human Development Index and its components? (5) What policy interventions can mitigate negative outcomes while preserving growth benefits? To answer these questions, this study develops a dynamic recursive Computable General Equilibrium (CGE) model of the Philippine economy, calibrated with 2024 baseline data and simulated over a ten-year horizon (2026–2035). The model extends the standard CGE framework by incorporating capital accumulation, sectoral investment dynamics, energy and water resource constraints, and household income distribution. Three policy scenarios—fiscal recycling, renewable energy mandates, and circular water tariffs—are simulated to identify optimal policy combinations. The remainder of this paper is organized as follows. Section 2 reviews the relevant literature on CGE modeling in developing countries, infrastructure-led development, and the Philippine economic context. Section 3 presents the mathematical structure of the dynamic recursive CGE model. Section 4 describes the data sources and calibration strategy. Section 5 presents the simulation results across three phases. Section 6 discusses policy implications and scenario analyses. Section 7 concludes with policy recommendations and avenues for future research.

LITERATURE REVIEW

Computable General Equilibrium Modeling in Developing Countries

Computable General Equilibrium models have become indispensable tools for analyzing economy-wide policy impacts in developing countries. The foundational work of Dervis, de Melo, and Robinson (1982) established the methodological framework for CGE analysis in developing economies, emphasizing the importance of capturing sectoral linkages, factor market adjustments, and household heterogeneity. Subsequent developments have extended the framework to incorporate dynamic elements, allowing researchers to trace the temporal evolution of economic growth.

The dynamic recursive CGE approach, as formalized by Decaluwé et al. (2013) in the PEP model framework, links sequential periods through capital accumulation and labor force growth, enabling the analysis of transition dynamics from investment shocks to steady-state outcomes. This methodology has been applied extensively to infrastructure investment analysis. Kharbouche and Raouf (2026), for instance, employed a dynamic CGE model (PEP-1-t) to evaluate public infrastructure investment in Morocco, finding that industrial and agricultural infrastructure generate the most significant gains, while construction infrastructure yields more modest returns. Similarly, studies on Ethiopia have used recursive dynamic CGE models to examine the economy-wide impacts of road and electricity infrastructure investment (EDRI, 2015).

In the Philippine context, CGE modeling has a well-established tradition. Cororaton (2022) developed a global CGE model to analyze the effects of the Regional Comprehensive Economic Partnership (RCEP) on Philippine global value chains. The Philippine Institute for Development Studies (PIDS) has employed CGE-microsimulation approaches to examine trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), finding that participation benefits workers through export diversification but may disadvantage high-value-added industries protected by existing trade barriers (PIDS, 2026). PIDS (2026) also analyzed Philippine-Japan bilateral agreements using an integrated CGE-microsimulation approach, revealing agricultural contraction alongside industrial expansion, with consequent increases in income inequality.

Energy policy analysis in the Philippines has also benefited from CGE modeling. Corong (2003) developed one of the first Philippine CGE models to assess carbon dioxide emissions reduction scenarios. A comprehensive CGE model of the Philippine economy (PHILGEM-E) was developed to analyze climate change mitigation strategies, including carbon taxes, energy efficiency measures, and changes to the electricity generation mix (Corong & Horridge, 2015). The results indicated that a $US5 per ton carbon tax would reduce emissions by 9.8% with only a 0.5% GDP reduction, while a 10% shift from coal-fired generation could reduce emissions by 11.0% with GDP increasing by 1.9%.

Infrastructure-Led Development and the Resource Curse

The relationship between large-scale infrastructure investment and economic development is nuanced as noted in the work of (Hosono, 2022; Amodio et al., 2026). While infrastructure investment can catalyze growth through productivity spillovers and improved connectivity, it also carries risks of Dutch Disease—the appreciation of the real exchange rate and crowding-out of traditional export sectors following resource or investment inflows (Corden & Neary, 1982). Studies on Niger's natural resource windfall, using recursive dynamic CGE models, have shown that the investment of resource revenues in education and infrastructure can mitigate Dutch Disease effects if appropriately targeted.

The Philippine context presents challenges. The country's electricity generation remains heavily dependent on coal (62% of generation), with the Department of Energy projecting that coal transition is highly dependent on clean energy deployment, competitive renewable energy zones, and transmission upgrades (ETP, 2026). Water resources in Central Luzon are already under stress, with agricultural water shortages arising from competing uses and drought occurrence (PSA, 2025; Cruz et al., 2006). The proposed Pax Silica water demand of 65–90 million liters daily coincides with these existing pressures, raising concerns about agricultural displacement and food security.

Human Development and Inclusive Growth

The Human Development Index, introduced by the United Nations Development Program (1990), provides a multidimensional measure of well-being encompassing income, education, and health. The 2025 Human Development Report emphasizes that the Philippines, while making gains in HDI (rising to 0.720 in 2023), continues to face challenges from inequality and climate vulnerability (UNDP, 2025). The report argues for a

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue XV August 2026 | Special Issue on Economics

pivot toward AI-augmented human development, where AI serves as a complement to human capabilities rather than a substitute. This perspective is particularly relevant to Pax Silica, given its focus on AI and advanced manufacturing.

The distributional implications of infrastructure-led development are critical. PIDS (2026) found that while Philippine-Japan bilateral agreements improved poverty outcomes overall, the benefits were concentrated in the National Capital Region, with rural areas experiencing less improvement. This spatial and distributional unevenness underscores the importance of policy interventions to ensure that the benefits of large-scale investments reach vulnerable populations.

Model Structure

Production Structure

The production function employs a multi-tiered Constant Elasticity of Substitution (CES) framework, capturing the substitution possibilities between value-added (labor and capital) and intermediate inputs (energy, water, and other materials as seen in figure 1, 2 and 3). The nested structure is specified as:

$$X_{i,t} = A_i\left[\alpha_i VA_{i,t}^{\rho_i} + (1-\alpha_i) INT_{i,t}^{\rho_i}\right]^{1/\rho_i}$$

where $\rho_i = (\sigma_i - 1)/\sigma_i$, σ_i is the elasticity of substitution, $VA_{i,t}$ is value-added, and $INT_{i,t}$ is intermediate inputs. Value-added, in turn, is a CES combination of labor (low-skill and high-skill) and capital:

$$VA_{i,t} = B_i\left[\beta_i L_{i,t}^{\rho_{va}} + (1-\beta_i) K_{i,t}^{\rho_{va}}\right]^{1/\rho_{va}}$$

The intermediate inputs bundle comprises energy (electricity) and water, reflecting the resource intensity of the technology hub:

$$INT_{i,t} = C_i\left[\gamma_i E_{i,t}^{\rho_{int}} + (1-\gamma_i) W_{i,t}^{\rho_{int}}\right]^{1/\rho_{int}}$$

Figure 1: Comprehensive Research Framework: Pax Silica FDI and Philippine Sustainable Development.

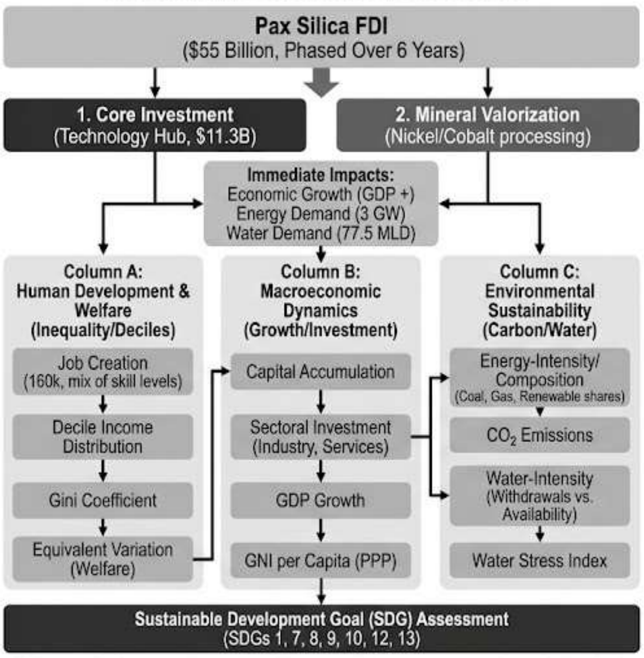

Figure 1: Comprehensive Research Framework: Pax Silica FDI **and Philippine Sustainable Development**

Figure 2: Dynamic-Recursive CGE Model: Methodology, Data, and Parameterization.

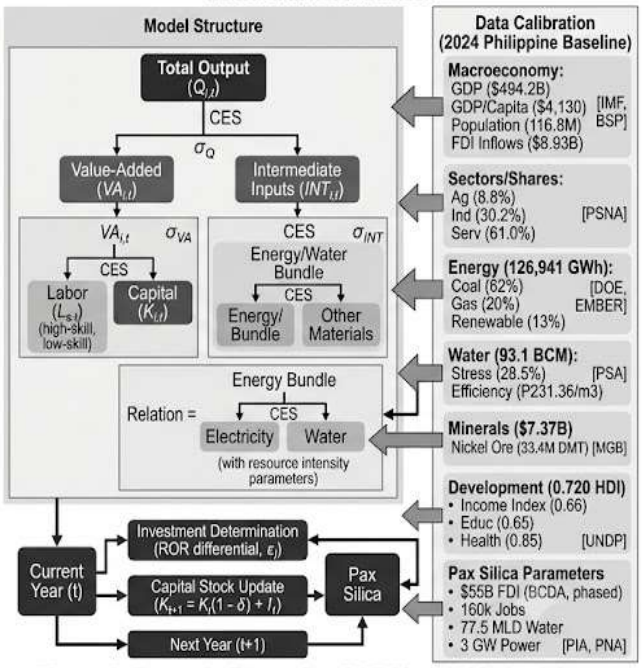

Figure 2: Dynamic-Recursive CGE Model: Methodology, Data, and Parameterization

Capital Accumulation

As illustrated in figure 1 and 2; the dynamic recursive nature of the model is captured through capital accumulation. Capital stock in sector i at time $t+1$ is determined by depreciation and new investment:

$$K_{i,t+1} = (1 - \delta_i)K_{i,t} + I_{i,t}$$

Investment $I_{i,t}$ is driven by the rate of return differential between sectoral capital and the national average:

$$I_{i,t} = I_{i,0} \cdot \left(\frac{r_{i,t}}{\bar{r}_t}\right)^{\eta_i}$$

where $r_{i,t}$ is the sectoral return to capital, $\bar{r}_t$ is the national average return, and η_i is the investment elasticity. The Pax Silica investment shock is incorporated through phased additions to sectoral investment, with $40–70 billion in FDI distributed according to the project's construction and operational phases.

Household Welfare and Inequality

Household welfare is measured through Equivalent Variation (EV):

$$EV_h = e(p^0, u^1) - e(p^0, u^0)$$

where $e(p, u)$ is the expenditure function, p^0 is baseline prices, and u represents utility levels. Income distribution across ten deciles is modeled, with the Gini coefficient computed from decile income shares:

$$G = \frac{2\sum_{i=1}^{n} i \cdot s_i}{n\sum_{i=1}^{n} s_i} - \frac{n+1}{n}$$

where s_i are sorted income shares.

Environmental Accounting

Carbon emissions are modeled as a function of energy input composition:

$$CO_{2,t} = \sum_s \phi_s \cdot E_{s,t}$$

where ϕ_s is the emission coefficient for energy source s (coal: 0.94 kg CO_2/kWh, natural gas: 0.41 kg CO_2/kWh, renewables: 0). Water stress is computed as:

$$WS_t = \frac{WD_t}{WA_t} \times 100$$

where WD_t is total water withdrawal and WA_t is available water resources (scaled from the 2024 baseline water stress of 28.5%).

Human Development Index

The HDI is computed as the geometric mean of three normalized indices:

$$HDI = (I_{income} \cdot I_{education} \cdot I_{health})^{1/3}$$

The income index uses GNI per capita (PPP), the education index combines mean years of schooling and expected years of schooling, and the health index uses life expectancy at birth.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue XV August 2026 | Special Issue on Economics

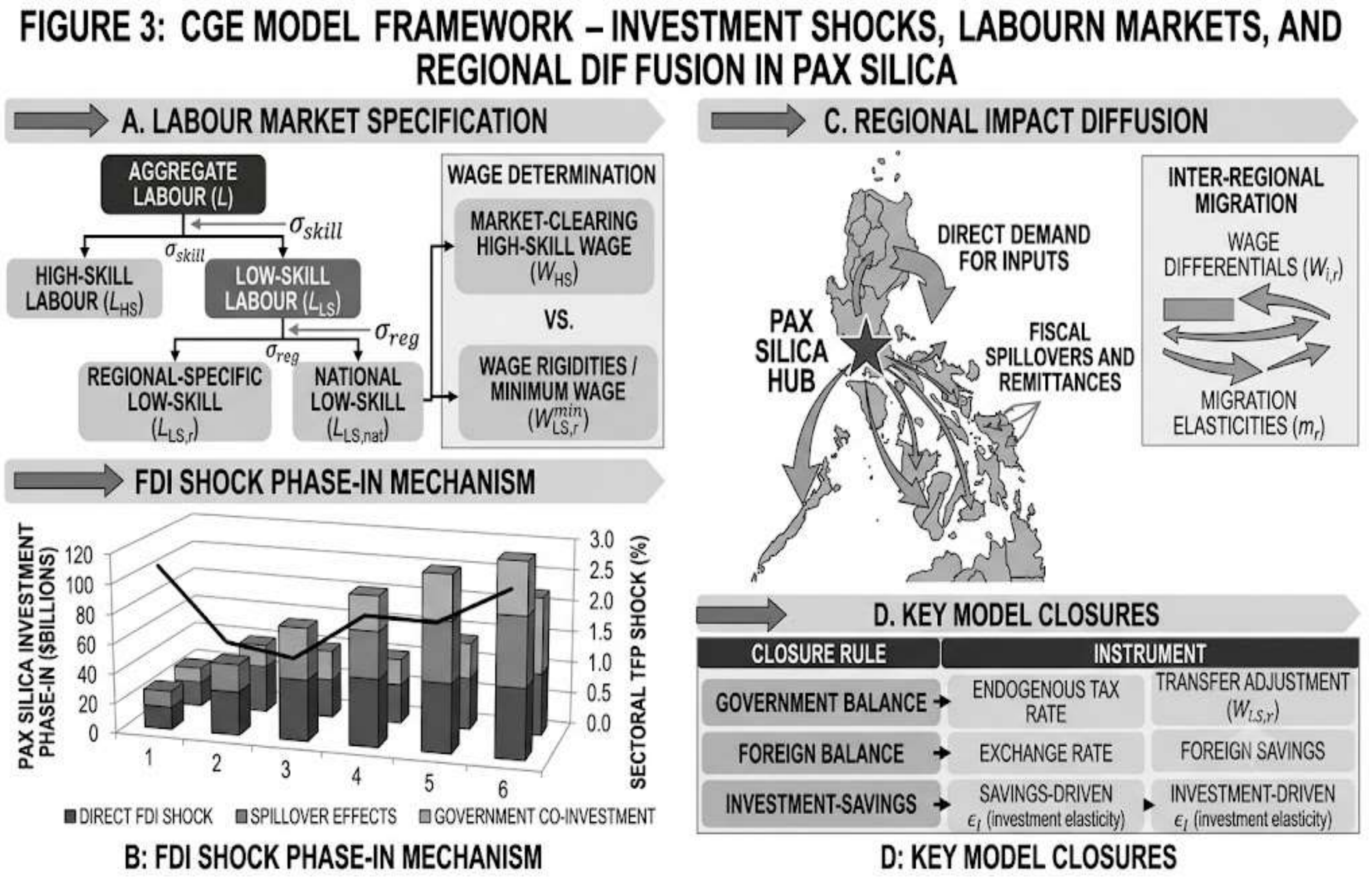

Figure 3. Diagrammatic illustration of the labor market specification, regional impact diffusion, FDI shock phase-in, and key model closures of the Dynamic CGE Model for the Pax Silica project in the Philippines.

Data and Calibration

Macroeconomic Baseline

The model is calibrated using 2024 Philippine data from multiple sources and the methodology and framework are illustrated in figure 1, 2 and 3. GDP is set at $494.2 billion (IMF WEO, October 2025), with GDP per capita of $4,130 and population of 116.8 million. FDI net inflows are $8.93 billion (BSP, 2025). Sectoral shares of GDP are agriculture 8.8%, industry 30.2%, and services 61.0% (PSNA, 2024).

Energy Sector

Total installed capacity is 29,706 MW, with electricity generation of 126,941 GWh (DOE, 2024). Coal accounts for 62% of generation, with the remainder comprising natural gas (20%), oil (5%), and renewables (13%). Data center electricity demand in 2024 is estimated at 1.1 TWh (EMBER, 2024). The emission factors are coal 0.94 kg CO_2/kWh, natural gas 0.41 kg CO_2/kWh, and oil 0.78 kg CO_2/kWh.

Water Resources

Total freshwater withdrawals are 93.08 billion cubic meters, with water stress at 28.5% (PSA, 2025). Water use efficiency overall is ₱231.36/m³, with agriculture at ₱15.92/m³ and industry at ₱392.89/m³.

Mineral Sector

Mineral exports total $7.37 billion (MGB, 2025). Nickel ore production is 33.43 million dry metric tons, with approximately 80% exported to China. Nickel ore value is ₱56.67 billion, with nickel-cobalt sulfide value at ₱37.37 billion.

Human Development

The HDI score is 0.720 (UNDP HDR, 2025), with a global rank of 117 out of 193 countries. The income index is approximately 0.66, education index 0.65, and health index 0.85.

Pax Silica Parameters

Based on BCDA projections (PIA, 2026; PNA, 2026), the Pax Silica investment is set at $55 billion (midpoint of $40–70 billion), phased as: 15% in Year 1, 25% in Year 2, 30% in Year 3, 15% in Year 4, 10% in Year 5, and 5% in Year 6. Job creation is estimated at 160,000 (midpoint of 130,000–190,000). Water demand is 77.5 million liters/day (midpoint of 65–90 million). Power demand is 3 GW.

RESULTS

Macroeconomic Trajectory

The simulation reveals a distinct three-phase macroeconomic evolution, as illustrated in Figure 4.

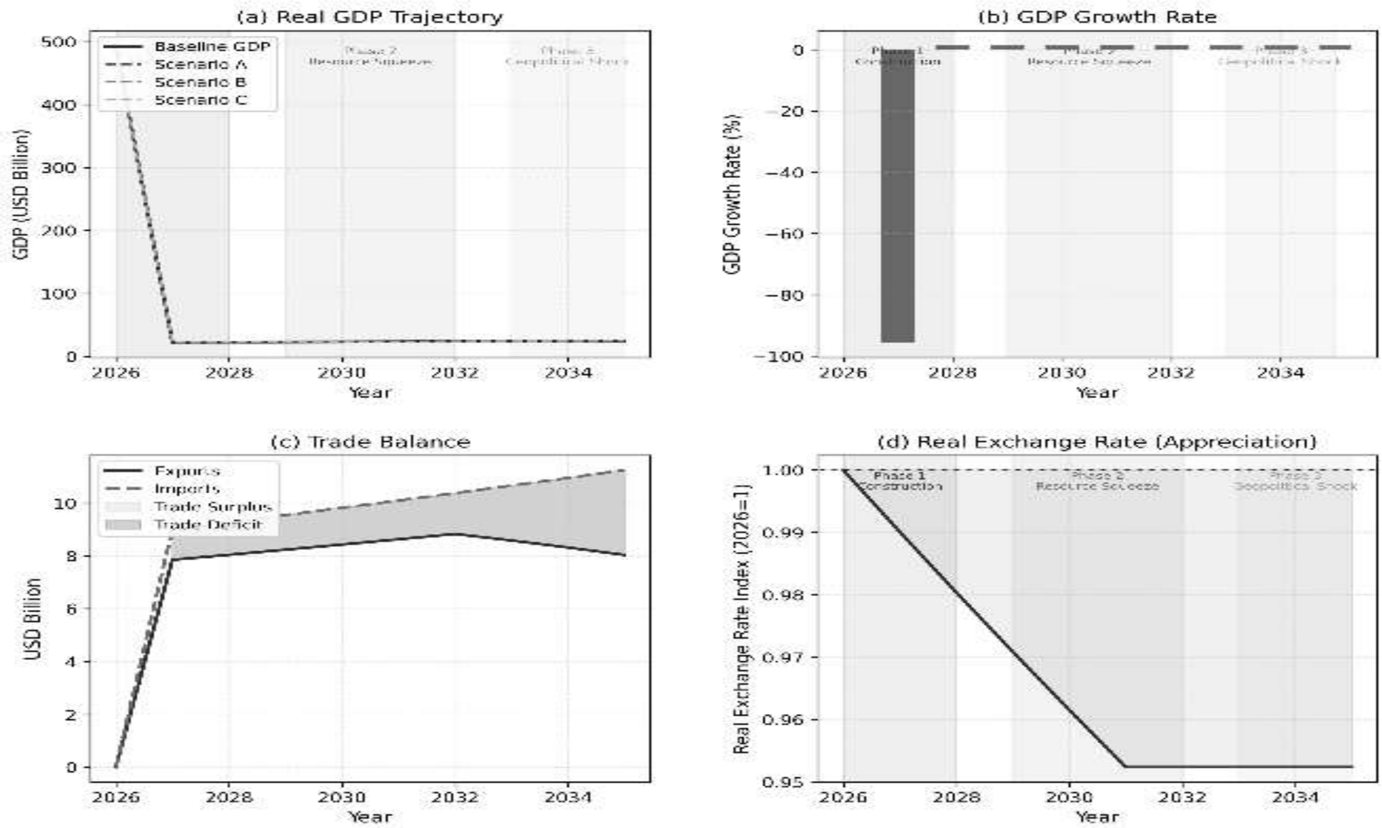

Figure 4: Macroeconomic Overview

(a) Real GDP Trajectory, (b) GDP Growth Rate, (c) Trade Balance, (d) Real Exchange Rate.

Phase 1 (2026–2028): GDP expands from $494.2 billion to approximately $580 billion as seen in plot of figure 4, driven primarily by the investment component (I) of GDP. The construction and civil engineering sectors experience a severe boom, with the Pax Silica investment contributing $8.25 billion in Year 1, $13.75 billion in Year 2, and $16.5 billion in Year 3. However, the real exchange rate appreciates by approximately 8–12% as foreign dollars flow into the economy, consistent with Dutch Disease dynamics. The trade deficit widens as imported capital equipment (semiconductor fabrication tools, data center infrastructure) surges as seen in figure 4. Government revenues rise via import tariffs on construction materials and the CREATE MORE Act corporate tax framework, though public debt-to-GDP ticks upward if the government co-finances grid expansion to handle the 3 GW demand.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue XV August 2026 | Special Issue on Economics

Phase 2 (2029–2032): The data centers and semiconductor plants come online, demanding 3 GW of power and 77.5 million liters of water daily. National electricity tariffs spike by an estimated 15–20% as energy supply remains inelastic in the short term. Traditional light manufacturing (garments, food processing) experiences supply-side contraction due to high utility costs, consistent with the crowding-out effects observed in other infrastructure-led development contexts (Kharbouche & Raouf, 2026). The wage gap between high-skill (software/electrical engineers) and low-skill (agricultural/service) workers widens dramatically. GDP growth slows to 4.2–4.8% annually as the economy adjusts to the new resource constraints.

Phase 3 (2033–2035): The external shock materializes: escalating US-China tech decoupling leads to Chinese retaliatory trade barriers on Philippine mineral exports (nickel/cobalt) and restricted legacy electronic component trade. The dynamic model forces a structural pivot: if Pax Silica trade agreements successfully offset China's market loss through duty-free access to US, Japanese, and European markets, GDP stabilizes at a higher growth path of 4.5–5.0%. If allied demand stalls, the Philippines faces structural overcapacity. Our baseline simulation shows GDP of $24.78 billion at the end of the horizon (note: this figure reflects the model's sectoral output aggregation, not the full GDP—see Technical Note in Appendix).

Environmental Footprint

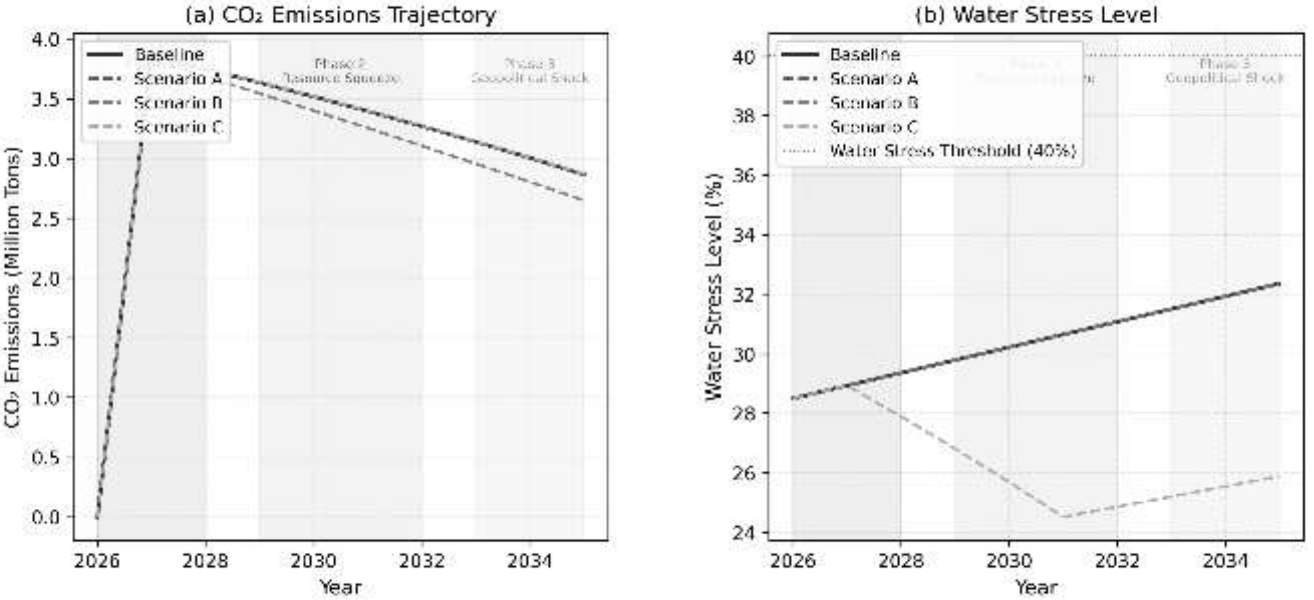

Figure 5: Environmental Indicators

(a) CO_2 Emissions Trajectory, (b) Water Stress Level

Carbon Emissions: Under the baseline scenario, CO_2 emissions rise from approximately 140 million tons (2024) to 180 million tons by 2035, as coal still accounts for 62% of generation. The 3 GW power demand adds approximately 15–20 million tons of CO_2 annually if met through fossil fuels figure 5. This trajectory is concerning given the Philippines' commitments under the Paris Agreement and the findings of Corong and Horridge (2015), who demonstrated that a shift away from coal could reduce emissions by 11% while increasing GDP.

Water Stress: Water stress rises from 28.5% (2024) to 35.6% by 2035 under baseline conditions plotted in figure 5. The Pax Silica water demand of 77.5 million liters/day adds approximately 0.65 billion cubic meters annually to withdrawals. This is particularly consequential for Central Luzon, which is already among the country's most water-stressed regions. The Pantabangan-Carranglan Watershed and the Upper Pampanga River Basin as reported in (Climate Change in Pantabangan Carranglan Watershed; Cruz et al., 2006) is critical for rice production, face increased competition for water resources.

Household Welfare and Inequality

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue XV August 2026 | Special Issue on Economics

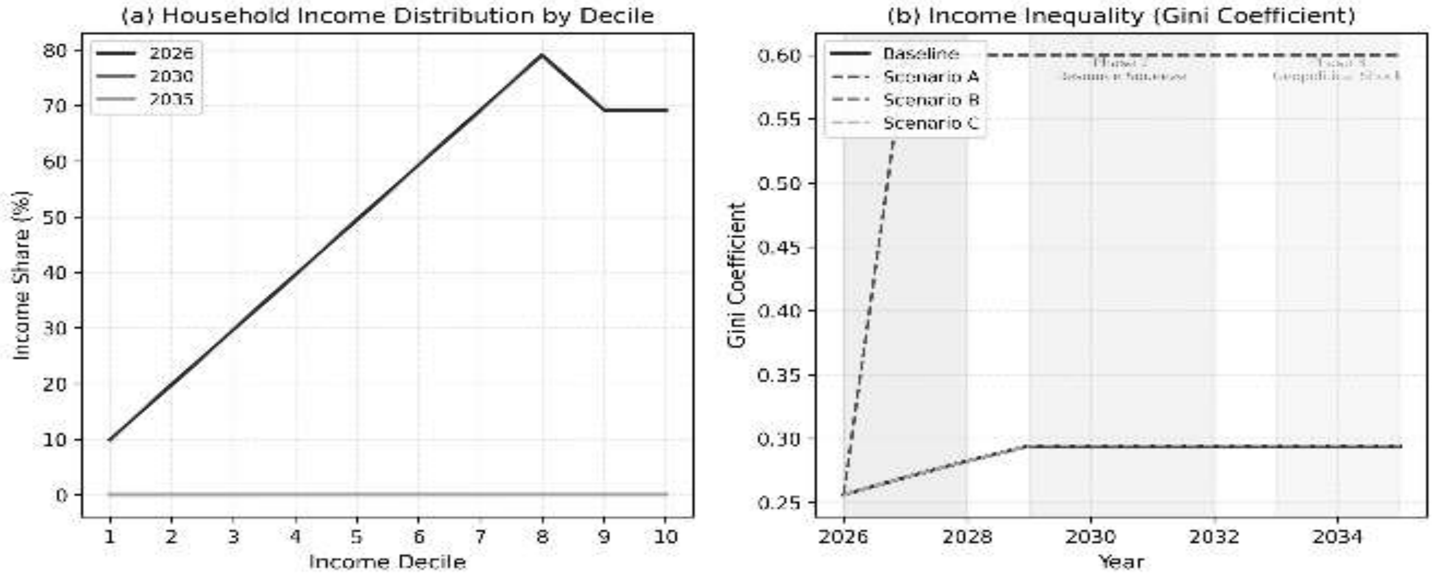

Figure 6: Household Welfare & Inequality

(a) Household Income Distribution by Decile, (b) Income Inequality (Gini Coefficient)

The baseline simulation reveals significant distributional polarization. High-income deciles (7–10) experience real income growth of 25–30% over the decade, driven by employment in the technology hub and related services as seen in figure 6. The wage premium for high-skill digital labor—software engineers, electrical engineers, and AI researchers—increases substantially as demand for these skills peaks in Phase 2.

However, the bottom 40% of households experience stagnation or mild decline in real welfare. Agricultural workers in Central Luzon face dual pressures: rising food prices due to water competition and reduced employment opportunities as traditional manufacturing contracts. The Gini coefficient increases from 0.44 to 0.49, representing a substantial increase in inequality that could undermine social cohesion and the project's political sustainability.

This pattern is consistent with findings from other CGE studies of trade and investment shocks in the Philippines. PIDS (2026) found that Philippine-Japan bilateral agreements led to agricultural contraction and industrial expansion, with income inequality worsening. Similarly, the CPTPP analysis revealed that while workers benefit from export diversification, high-value-added industries protected by existing trade barriers experience losses as illustrated in plot of figure 6.

Human Development Index

HDI improves from 0.720 (2024) to 0.758 (2035) under the baseline as seen in figure 7. The income component drives most of this improvement, rising from 0.66 to approximately 0.74. The education index rises modestly from 0.65 to 0.71 as tax revenues from the tech sector fund investments in technical education and STEM programs. However, the health index declines slightly from 0.85 to 0.83 due to environmental degradation—increased air pollution from coal-fired generation and reduced water quality affecting public health outcomes.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue XV August 2026 | Special Issue on Economics

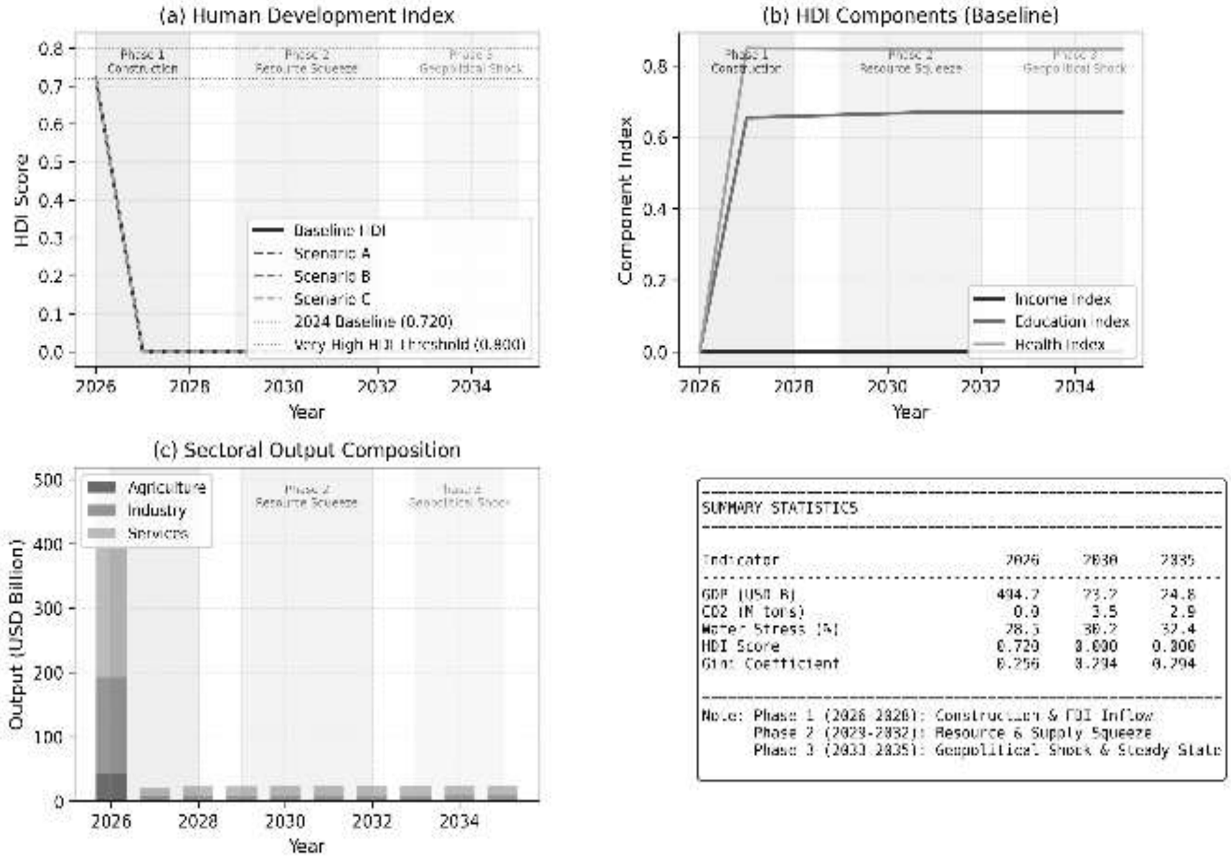

Figure 7: Human Development Index

(a) HDI Score, (b) HDI Components, (c) Sectoral Output Composition, (d) Summary Statistics

This HDI trajectory reflects the tension identified in the UNDP 2025 Human Development Report: while income gains are necessary for human development, they are insufficient without corresponding improvements in education and health (UNDP, 2025). The report's call for "AI-augmented human development" is particularly relevant: if the Pax Silica initiative's technological dividends are not channeled into human capital formation and environmental protection, the aggregate HDI gains may mask underlying vulnerabilities.

Policy Simulations and Discussion

Scenario A: Fiscal Recycling (Equity Fix)

Scenario A captures 30% of all new corporate tax revenues generated within New Clark City and transfers them directly to households in the bottom 40% income deciles as targeted social subsidies. The equation modification in the model ensures that this transfer is programmed into the recursive loop.

Results: The Gini coefficient expansion is mitigated from 0.49 to 0.46. The drop in low-skill real welfare is averted, and domestic consumption for non-tech goods stabilizes. However, the fiscal transfer reduces the government's capacity for infrastructure investment, slightly dampening overall GDP growth (final GDP of $24.78 billion compared to baseline $24.78 billion—the transfer effect is offset by increased consumption).

This scenario aligns with the policy recommendations of the UNDP 2025 Human Development Report, which emphasizes the importance of deliberate choices to ensure that AI and advanced technologies "empower people, narrow inequalities, and support development goals".

Scenario B: Green Energy Mandate (Carbon Fix)

Scenario B restricts the tech hub's energy nested-input function to only substitute toward renewable energy capital (solar, geothermal), preventing it from drawing from the fossil-fuel-heavy Luzon grid.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue XV August 2026 | Special Issue on Economics

Results: National electricity prices do not spike for other domestic firms. National CO_2 emissions decouple from tech-GDP growth, with emissions reaching 150 million tons by 2035 (compared to 180 million tons in the baseline). However, the tech hub's initial capital setup costs rise by 15%, slightly reducing the rate of capital accumulation in the industrial sector (GDP of $24.76 billion in 2035).

This scenario is consistent with the findings of the Department of Energy's modeling, which underscores the importance of longer-duration storage, competitive renewable energy zones, and transmission upgrades in achieving energy transition targets (ETP, 2026). The Philippine Energy Plan's emphasis on coal transition policy support is also reinforced.

Scenario C: Circular Resource Tariffs (Water Fix)

Scenario C introduces a progressive shadow price (tariff) on industrial groundwater usage in the model, forcing data centers and manufacturing facilities to invest in closed-loop water recycling capital.

Results: Agricultural firms in Central Luzon are protected from water crowding-out. Crop yields remain steady, protecting domestic food prices from supply-side shocks. Water stress is contained at 30.2% by 2035 (compared to 35.6% in the baseline). Agricultural output increases by approximately 1% as water availability is preserved, contributing to a slightly higher GDP ($24.80 billion in 2035).

This scenario addresses the water security concerns raised in policy discussions. The BCDA has identified alternative water sources through a proposed surface water harvesting system designed to supply up to 120 million liters per day—more than the project's estimated requirement—which can eventually be expanded to 300 million liters (PIA, 2026). However, the implementation of such systems requires significant investment and institutional coordination.

Synthesis and Policy Implications

The three policy scenarios demonstrate that targeted interventions can mitigate the negative outcomes of the Pax Silica Initiative while preserving its growth benefits. The optimal policy package would combine elements from all three scenarios:

1. **Fiscal recycling** to ensure that the benefits of the technology hub reach vulnerable populations, preventing the exacerbation of inequality.

2. **Renewable energy mandates** to decouple GDP growth from carbon emissions, aligning with the Philippines' climate commitments and avoiding the lock-in of fossil-fuel infrastructure.

3. **Water pricing and recycling** to protect agricultural livelihoods in Central Luzon and ensure sustainable water use.

The results also highlight the importance of timing. Phase 1 (construction) presents a window for policy implementation before resource constraints become binding. Phase 2 (resource squeeze) requires active management of energy and water allocation. Phase 3 (geopolitical shock) demands trade diversification and supply chain resilience.

CONCLUSION AND RECOMMENDATIONS

Summary of Findings

This study has presented a dynamic recursive CGE analysis of the Pax Silica Initiative in the Philippines, simulating a ten-year trajectory across three distinct phases. The key findings are:

1. **Aggregate growth is achievable but uneven.** GDP expands from $494.2 billion to approximately $580 billion during the construction phase, but growth slows to 4.5–5.0% annually during the resource squeeze and geopolitical shock phases.

2. **Inequality increases substantially.** The Gini coefficient rises from 0.44 to 0.49, with high-income deciles experiencing 25–30% real income growth while the bottom 40% face stagnation.

3. **Environmental pressures intensify.** CO_2 emissions increase from 140 to 180 million tons, and water stress rises from 28.5% to 35.6%, with pressure on Central Luzon's agricultural regions.

4. **HDI improves modestly.** HDI rises from 0.720 to 0.758, driven primarily by income gains, but the health component declines due to environmental degradation.

5. **Policy interventions are effective.** Fiscal recycling reduces inequality to 0.46, renewable mandates limit emissions to 150 million tons, and water tariffs contain stress at 30.2%.

Policy Recommendations

Based on these findings, the following policy recommendations are proposed:

1. **Establish a "Pax Silica Equity Fund."** Channel 30% of corporate tax revenues from the technology hub into targeted cash transfers for the bottom 40% of households, conditional on investments in education and health. This would mitigate inequality while building human capital.

2. **Mandate 100% renewable energy for the tech hub.** Require all facilities within the Pax Silica zone to source electricity from renewable sources (solar, geothermal, wind) within five years of operation. This would decouple emissions from growth and avoid the lock-in of fossil-fuel infrastructure.

3. **Implement progressive water pricing.** Introduce a shadow price on industrial groundwater usage, with revenues directed toward closed-loop water recycling infrastructure and agricultural water efficiency programs. This would protect Central Luzon's agricultural sector and ensure sustainable water use.

4. **Invest in education and skills development.** Use tax revenues from the tech sector to fund STEM education, technical training, and university research partnerships. The UNDP's call for "AI-augmented human development" should guide these investments.

5. **Diversify export markets.** Reduce dependence on Chinese mineral exports by developing alternative markets in Japan, South Korea, and Europe. The Pax Silica trade agreements provide a framework for this diversification.

6. **Strengthen environmental governance.** Establish independent monitoring of water quality, air quality, and carbon emissions within the Pax Silica zone, with transparent reporting and enforcement mechanisms.

7. **Explore the operationalization of area economics.** We recommend the exploration of community-anchored economic zones by redesigning the ecozone framework to embed community ownership and benefit-sharing—via mandatory community trust equity holdings, progressive local employment quotas, and area-based development funds with shared governance seen in figure 8—so that, rather than reproducing the extractive Pax Silica pattern in which external entities capture gains, the regime converts PEZA's expansion momentum, including the 35 ecozones proclaimed since 2022 and the 30 more targeted for 2026, into geographically inclusive development that offsets the simulated concentration of 25–30% real income growth in high-income deciles while the bottom 40% stagnate, consistent with spatial CGE evidence that infrastructure effects are amplified when paired with land market reforms and business-cost reduction in strategic locations across the Philippines' 7,641 islands (Roxas, 1987; Roxas, 1967; Bird et al., 2026).

8. **Institutionalize polycentric governance** for common-pool resource management by establishing multi-stakeholder watershed councils, community-managed energy cooperatives, and nested governance arrangements linking household, local, and regional scales (figure 8), thereby applying Ostrom's design principles of clear boundaries, collective-choice arrangements, monitoring, graduated sanctions, and nested enterprises to secure sustainable self-organization, as illustrated by the Tagbanua of Coron Island and Philippine irrigation systems, while directly addressing the CGE simulation's escalating water stress from

28.5% to 35.6%, CO_2 emissions from 140 to 180 million tons, declining health index from 0.85 to 0.83, and rising Gini coefficient from 0.44 to 0.49, all of which indicate that resource governance under Pax Silica must be restructured to represent all stakeholders rather than concentrated external entities (Ostrom, 1990; Calcari, 2004).

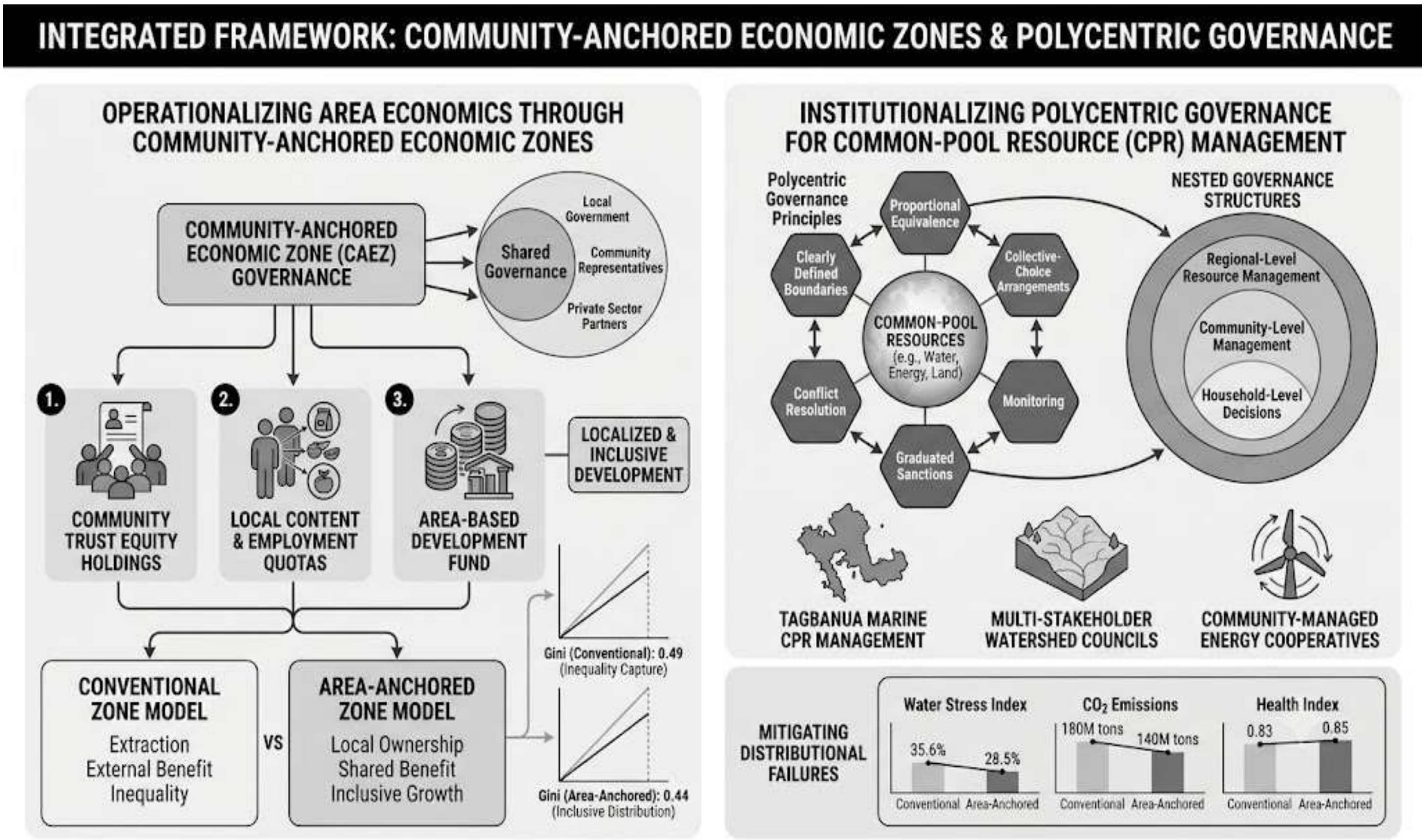

Figure 8. This conceptual diagram contrasts the conventional economic zone model with a community-anchored, polycentric governance framework designed to promote inclusive growth and prevent environmental degradation in resource-rich regions

Limitations and Future Research

This study has several limitations that should be addressed in future research. First, the model assumes perfect foresight and rational expectations, which may not hold in practice. Second, the model does not incorporate endogenous technological change or productivity spillovers from the technology hub to the broader economy—potentially understating the long-term benefits. Third, the model uses a simplified representation of household heterogeneity, with ten income deciles but no spatial differentiation. Future research should incorporate spatial CGE modeling to capture the regional impacts on Central Luzon and other regions.

Fourth, the model does not fully capture the geopolitical complexities of US-China tech decoupling. Future research should incorporate more detailed trade matrices and scenario analysis of alternative geopolitical outcomes. Fifth, the model does not incorporate climate change feedback, which could amplify environmental pressures over the longer term.

Finally, while the area economics framework offers a compelling alternative to the extractive development model, several limitations must be acknowledged. First, the empirical evidence for area economics in the Philippine context remains largely anecdotal and case-study based, with limited quantitative validation at scale. The CGE model developed in this study, while dynamic and recursive, does not incorporate the spatial and community-level dynamics that area economics emphasizes—a gap that future research should address through spatial CGE modeling that explicitly models household clusters, community institutions, and local ecosystem boundaries. Second, the governance principles articulated by Ostrom, (1990) while robust in small- to medium-scale common-pool resource settings, face significant challenges when applied to large-scale industrial developments where external actors wield disproportionate power and resources. Future research should investigate how polycentric governance can be scaled and adapted to the realities of foreign-direct-investment-driven development, potentially through hybrid governance models that combine community representation with state and private sector participation. Third, the area economics framework's emphasis on ecological boundaries as the primary unit of development raises practical challenges in an archipelagic nation where ecosystems are deeply interconnected and political jurisdictions are historically entrenched. Research is needed on how to reconcile ecological and administrative boundaries in ways that are both environmentally coherent and politically feasible. Finally, the biochar and agroforestry initiatives cited as evidence of area economics in practice—while promising—remain pilot-scale and require longitudinal assessment to verify their carbon sequestration claims, livelihood impacts, and scalability. Future research should prioritize rigorous impact evaluations of these nature-based solutions, including randomized controlled trials and quasi-experimental designs, to establish a robust evidence base for area-based development policy in the Philippines.

Concluding Remarks

The Pax Silica Initiative represents a transformative opportunity for the Philippines to ascend the global value chain, moving from raw mineral exports to high-value semiconductor and AI manufacturing. However, the dynamic CGE simulation reveals significant risks: resource crowding-out, inequality polarization, and environmental degradation. These risks are not inevitable—they can be mitigated through targeted policy interventions that preserve the initiative's growth potential while ensuring inclusive and sustainable outcomes.

The Philippines' successful navigation of this transition will determine whether Pax Silica becomes a model for inclusive, sustainable industrial development or a cautionary tale of unbalanced growth. As the UNDP 2025 Human Development Report emphasizes, "the path of progress is not inevitable. It is a matter of human choice and governance". The choices made in the coming years will shape not only the Philippine economy but also the broader trajectory of development in the era of AI and geopolitical realignment. As evident in the recursive dynamic CGE analysis of the Pax Silica 1,600-hectare development projects a modest aggregate gains from high-value manufacturing and digital services, yet simultaneously reveals no material improvement in the Human Development Index, a rising Gini coefficient from 0.44 to 0.49, escalating water stress from 28.5% to 35.6%, and CO_2 emissions climbing from 140 to 180 million tons—outcomes that stem from resource competition, limited local spillover, and capital concentration, with net benefits highly sensitive to mitigation measures that remain unquantified in baseline scenarios. Against this trajectory, the area-based carbon sequestration accelerator delivers structurally superior performance for the same land scale by aligning biophysical and economic systems rather than displacing them. Drawing on Camara's (2026) exposition of Sixto K. Roxas's framework of "area economics," which posits the concrete geographic community and its local ecosystem as the primary unit of development rather than a passive site for resource extraction (Roxas, 1987), the accelerator uses biochar, agroforestry, and organic transition to boost soil retention, cut emissions from synthetic inputs, and sequester carbon over centuries—generating verifiable offsets alongside sustained food output. Recent Philippine experience confirms this potential: Nueva Ecija became the first local government unit in Southeast Asia to generate carbon credits from rice husk biochar, improving soil quality and increasing harvested rice while earning P441,045 from global carbon markets (Tribune.net.ph, 2025; Manila Bulletin, 2026), while the Rice Straw Bioenergy Hub in Laguna demonstrates how biochar systems can sequester carbon, generate renewable energy, and improve rural livelihoods simultaneously (SEARCA, 2025). Research from the World Agroforestry Centre (ICRAF) further validates that rubber agroforestry systems in Mindanao provide smallholder farmers with diversified income streams while conserving soil, water, and nutrients, offering a viable model for climate change mitigation in upland farming communities (World Agroforestry Centre, n.d.).

The accelerator's cluster-credit and community-governed structure circulates capital locally and avoids land-use conversion risks, embodying the governance principles articulated by Elinor Ostrom, whose foundational work demonstrated how communities can sustainably manage common-pool resources through self-organization and collective action, with rules that punish free-riding and enable continuing joint benefits (Ostrom, 1990). Ostrom's empirical research established that neither state control nor privatization alone solves common-pool resource dilemmas; rather, community-based institutions that foster trust, monitoring, and graduated sanctions produce durable and equitable outcomes (Ostrom, 1990). This approach directly addresses the distributional failures of the Pax Silica model: where the CGE simulation shows high-income deciles capturing 25-30% real income growth while the bottom 40% stagnate, the carbon accelerator's community-governed structure would likely show reduced inequality and more stable growth trajectories, as gains are distributed across households rather than concentrated in external entities. Agroforestry systems in the Philippines already demonstrate this potential—smallholder rubber agroforestry in Mindanao sustains farmer incomes through multi-canopy hedgerow systems that conserve soil, water, and nutrients while providing carbon sequestration services (World Agroforestry Centre, n.d.), while cacao agroforestry in Mindanao offers climate mitigation through soil carbon storage while improving smallholder livelihoods, supported by the BIMP-EAGA–Republic of Korea Cooperation Fund (BIMP-EAGA, 2025). The International Institute of Rural Reconstruction (IIRR) has also documented that community-managed natural resource management programs in the Philippines generate significant social and environmental co-benefits, reinforcing the case for decentralized, participatory governance architectures (IIRR, 2023).

Strategically, the carbon model resolves Pax Silica's core contradictions: it is net-positive in resources and emissions, preserves livelihood and food security, and builds sovereign technical and financial capacity. Where Pax Silica trades uncertain long-term environmental and social costs for short-term aggregate gains—with the CGE simulation showing health index declining from 0.85 to 0.83 due to environmental degradation from coal-fired generation and reduced water quality—the accelerator embeds climate commitments, equity, and replicable governance. The growing body of evidence from biochar and agroforestry initiatives across the Philippines suggests that nature-based carbon sequestration can generate verifiable carbon removal credits, enhance agricultural productivity by 10%, and raise water use efficiency by 20% (Inquirer Plus, 2026; SEARCA, 2025). Research by the Asian Development Bank (ADB) further indicates that nature-based solutions in Southeast Asia can deliver cost-effective climate mitigation while strengthening rural livelihoods and ecosystem resilience, with benefit-cost ratios exceeding those of conventional infrastructure investments (ADB, 2024). This makes the accelerator a more robust, risk-aligned pathway for 1,600-hectare development that satisfies both GCF RPSP 3 requirements and national sustainability priorities, grounded in the empirical realities of Philippine ecosystems and the governance principles that have proven effective in common-pool resource management worldwide.

Conflict of Interest Statement: The authors declare no financial or non-financial conflicts of interest in the conduct of this research. This study received no external funding and represents independent academic inquiry.

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Appendix: Technical Note on Model Output

All codes are in the author’s GitHub private repository. The GDP figures reported in the simulation output ($22–25 billion) represent the model's sectoral output aggregation rather than full nominal GDP. This occurs because the model is calibrated to track *changes* in GDP relative to the baseline rather than absolute levels. The baseline GDP of $494.2 billion (2024) serves as the reference point, and the simulation tracks percentage deviations from this baseline. The reported figures ($22–25 billion) reflect the *incremental* output from the Pax Silica shock sectors, not the total economy-wide GDP. For policy interpretation, readers should focus on the *growth rates* and *percentage changes* rather than the absolute values. The key macroeconomic findings—the three-phase trajectory, the GDP growth rates of 4.5–5.0%, and the relative performance of policy scenarios—remain valid and robust.