Philippines – Socioeconomic prospects: Year 2 of President Duterte

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THE popularity of Asia's newest and most colorful strongman keeps soaring. The Social Weather Station (SWS) reported that 78 percent of the population gave President Duterte positive satisfactory rating in June 2017; Pulse Asia, SWS's rival in public opinion polling, submitted an even higher percentage: 83-percent approval and trust rating.

These figures have stunned and puzzled the Filipino and foreign critics of the President and his "war on drugs". The war, carried out by the police force and a shadowy group of antidrug vigilantes, has resulted in thousands of killings, both legitimate and "extrajudicial". Most of the victims come from poor families who can ill afford to seek legal redress.

But why is Duterte highly popular among the masses?

The reasons are not difficult to find.

First, the drug war has brought peace of mind for the non-drug-using majority in most communities. Second, he has created the image of an honest leader working hard for his people as reflected in his non-ostentatious lifestyle, his visits to injured soldiers and police in various camps and his trips to various Asian countries to promote trade relations and strengthen protection for the Overseas Filipino Worker (OFW) communities.

Third, his irreverent language, outlandish jokes and endless curses against the "enemies" of the state are endearing to a large majority of the public. Even the perfumed members of Congress were so enthralled at the manner the President delivered his second State of the Nation Address (Sona), uttering expletives every now and then in a two-hour reporting on his administration's achievements and plans, war on drugs, Marawi crisis and the rationale for martial law in Mindanao and so on and so forth.

Fourth, he is seen as a graft-buster who does not allow friendship to stop or sway his campaign against corruption. In fact, he did not think twice in firing very close associates because of their reported involvement in some shady business transactions.

Finally, the economy also happens to be cooperative.

GDP growth for 2016 was 6.8 percent. This sustains the high GDP growth rate for 2010 to 2015, which averaged 6.2 percent and which puts the Philippines in the Asian league of dynamic economies that includes China, India and Vietnam.

Statistics on employment tend to support these data on GDP growth. The Philippine unemployment rate, one of the highest in Asia, went down from 6.3 percent in 2015 to 5.5 percent in 2016. This is projected to go down further to 4 percent in 2017.

So what are the social and economic prospects for the Philippines in the next five years of the Duterte administration? Some areas are worth examining.

Dividends from an 'independent foreign policy'

INSTEAD of stopping Duterte in prosecuting the war on drugs, the criticisms by the US and the European Union (EU) provided the President a platform to launch his "independent foreign policy". His public rants against the US-EU tandem were accompanied by his friendly gestures toward China and Russia, the traditional "enemies" of the Philippines during the Cold War era of the 1950s to 1970s.

In pursuing warmer relations with China, Duterte set aside an international arbitral ruling issued by The Hague declaring that China has no historic title and sovereignty over the disputed islands and waters separating China from the Philippines and other Asian countries, notably Vietnam and Malaysia. In return, China rewarded Duterte with pledges worth $24 billion in deals, promised assistance in building a railway system in Duterte's home island of Mindanao and announced China's readiness to buy more products from the Philippines.

As to Russia, the President enthusiastically welcomed the visit of Russian naval ships in the Philippines. He went to Moscow in May to ink trade agreements on oil, agriculture and purchase of munitions, as well as promotion of tourism.

Not to be outdone by China, Japan, the country's largest source of official development assistance (ODA), offered to fund a number of big-ticket infrastructure and development projects. Japan pledged $8.8 billion to support three major rail projects in congested Luzon. In January Japan Prime Minister Shinzo Abe had a friendly two-day visit in Duterte's home city of Davao, during which he was given a tour of Duterte's modest house by the President himself.

Duterte's livid curses against the US and EU did not affect the level of trade the Philippines has with them, except for reports that some American and European would-be investors have shied away from the Philippine market. There are no reports of American and European divestment.

Moreover, US President Donald J. Trump's threat to bring back outsourced jobs to America has not stopped the continuing expansion of the Philippine call-center and business-process outsourcing (BPO) sector. The BPO sector is fueled largely by the American, European and Australian demand for the numerous outsourced information and communications technology (ICT)-based services the industry provides, such as payroll, accounting, reservations, telemarketing and so on. New BPO buildings in "new wave" cities or ICT sites in the archipelago keep on sprouting. The sector employs roughly 1 million Filipinos and has not stopped hiring.

Finally, Duterte took his job as the chairman of the Asean for 2017 with great enthusiasm. He renewed ties with all the Asean member-states by personally visiting each country, renewing government-to-government ties and meeting with the communities of OFWs based in the region. He has also maintained high visibility in the various activities lined up by the Asean bloc, which is marking its 50th this year.

In summary, there is more than a grain of truth in the observation in a magazine editorial: "In foreign policy, it seems it pays to quarrel with your longtime friends and allies and to make friends with what were once perceived to be your enemies."

Drivers of Philippine growth process

NONETHELESS, it cannot be denied that the main drivers of economic growth are still the OFW remittances and the call-center/BPO sector. Both continue to grow despite Trump's "America First" policy, the Brexit crisis in the United Kingdom, the rising xenophobia in the EU and the tensions in the divided Middle East.

Proof No. 1: The Philippine balance of trade continues to be in the red. The country imports more than it exports every year. And yet, the country's gross international reserves keep growing and now amount to $12 billion, enough to cover a year's imports.

Proof No. 2:Growth continues to be consumption-led. A study by nonprofit group Labor Education and Research Network shows that consumption accounts for the bulk of the GDP. Who then does the consuming? The OFW families and the call-center/BPO workers. The latter gets compensation higher than the minimum-wage earners.

And where do the bulk of consumption goods, such as personal and household items, come from? Imports.

In short, the structure of the economy is still basically dependent on two legs: OFW remittances and call-center/BPO earnings. The capacity to consume of Filipino families connected to these two legs keeps growing year by year. This is spurring the growth of service industries. This has not escaped the attention of the Japanese International Cooperation Agency (Jica), which is advising the Philippines to develop industries tied to the growing purchasing power of the rising Filipino "middle class".

Neda's long-term vision

ECONOMIC pessimism is in short supply in the Duterte administration. In a Social Development Summit in Davao last year, the National Economic Development Authority (Neda) formally declared that the Philippines shall barge into the ranks of developed countries by 2040. Accordingly, the 2016 per capita GDP of $3,500 shall rise to $4,100 in 2022 and, eventually, to $12,000 by 2040. Poverty shall be reduced to 14 percent by 2022 from the present 21.6 percent. By 2040, extreme poverty shall be just a bad memory.

AmBisyon 2040 means the Philippines shall become a middle-class society by 2040. In turn, a middle-class family is defined as one with at least one family car, a medium-sized house of their own, college education for the children and a decent living standard.

However, environmentalists question the harsh impact if every Filipino family shall have a car or two. As it is, the country is drowning in the pollution caused by carbon-emitting vehicles of all types.

A Jica study put the daily economic loss from traffic congestion at P2.4 billion in 2012 (now estimated to be over P3 billion daily). The nightmarish traffic, in turn, is rooted in the absence of an efficient and affordable public mass-transport system.

The bigger question, however, is how would the Philippines attain the developed country status.

To note, the World Bank has declared the Philippines as a middle-level developing country as far back as 1975. Today, it is still a middle-level developing country. It has been bypassed in the development process by its neighbors—first by Japan in the 1960s, then by the original Asian tigers (Hong Kong, Singapore, South Korea and Taiwan) in the 1980s, followed by China, Malaysia and Thailand in the 1990s. The Philippines has been caught in what the Asian Development Bank (ADB) calls the “middle-income trap” for over four decades.

More CCT, economic liberalism and infra spending

AS the foundation for AmBisyon 2040, the Neda crafted a 300-page Philippine Development Plan (PDP) 2017-2022, which amplifies the original 10-point socioeconomic agenda released by the administration in 2016. In essence, the agenda and the PDP preach continuity from the previous PDP 2011 to 2016.

Under the PDP of the Aquino administration, growth was anchored on how to maintain the macroeconomic framework that promotes openness in the economy based on continuing adherence to the structural adjustment program (SAP), introduced by the World Bank in the 1980s, and to the various trade and economic liberalization commitments of the country to the World Trade Organization (WTO), Asean Economic Community and a number of regional and bilateral free-trade agreements.

To hasten the growth process, the Aquino administration’s technocrats pushed for the more forceful promotion of privatization. They sought not only the privatization of public services and government assets but also the greater involvement of big private corporations in infrastructure construction and maintenance. Hailed as public-private partnership (PPP), the infra privatization component enticed big private investors to build various projects, such as expressways and airports, with assurance of profitable returns by giving them the opportunity to collect tolls and other forms of payment for a guaranteed period of time.

PDP 2011-2016 also simply institutionalized and expanded the Conditional Cash-Transfer (CCT) Program. The CCT was adopted by former President Gloria Macapagal-Arroyo following the advice of the World Bank, which helped develop the Latin American “Bolsa de Familia”.

Is the Duterte administration deviating from the above development framework outlined in the Aquino PDP? The answer is No.

The three policy thrusts—maintaining the macroeconomic liberal framework, expanding the PPP Program in infrastructure development and extending CCT to the poorest—remained.

In the case of the CCT, a monthly rice allowance of 20 kilos has been added to the monetary package, as suggested by Duterte himself. The government is also mulling over how certain vulnerable sectors, such as displaced OFWs, can be integrated into the program.

As to the overall macroeconomic framework, the Philippine commitment to economic openness in trade and investment has been reaffirmed in the Duterte administration’s 10-point agenda and in the

PDP 2017-2022. This openness is being further widened with proposals for the further shortening of the short "negative list" of areas where foreign investors are not allowed to have 100-percent full ownership or equity, specifically in the ownership of media and operation of public utilities. These may entail Constitutional changes because the charter sets limits on foreign-equity participation in areas included in the negative list.

As to the PPP-driven infrastructure development, the government has transformed it into a "hybrid" one, meaning PPP financing is now complemented with ODA funding and straight government budgetary allocation. The rationale: to speed up infrastructure development and to increase total national infra spending to at least 5 percent of the GDP so that the country's high GDP growth trajectory can be sustained at 7 percent or even higher. The trillion-peso infra program—called "Build!, Build!, Build!" or 3Bs—is now considered the country's high-growth path leading eventually to AmBisyon 2040.

A work in progress

BUT will the Duterte administration's macroeconomic framework and 3Bs bring about the unrealized industrial and agricultural transformation of the economy?

On the industrial front, there are promising initiatives.

The Department of Trade and Industry (DTI) has continued the manufacturing revival program instituted by the previous Aquino administration. From 40, there are now around 200 "industry road maps" toward global competitiveness. A Comprehensive National Industrial Strategy (CNIS) emphasizes niching in the global market and interindustry linkages, such as bigger auto assembly targets to promote more auto parts manufacturing. In addition, Trade Secretary Ramon M. Lopez of the Duterte administration has been advocating entrepreneurship among the youth and the micro, small and medium entrepreneurs (MSMEs).

However, much more needs to be done.

Some doables include: 1) the development of consumer and light industries keyed to the domestic market as outlined in a strategic Jica paper; 2) the development of industries aimed at improving life and commerce in the country's long coastal areas, such as a boat-building industry; and 3) extending assistance in value chain upgrading to homegrown industries, MSMEs and agricultural producers of various crops.

Of these, there are two major doables. First is decisive government action ala-Duterte to end or reduce smuggling and the high cost of Philippine electricity, which is virtually equal in cost to that of Japan. Second is the mobilization of OFW savings for productive investments.

In the case of the latter, imagine the transformation of at least 10 percent of the $30 billion or so remitted annually by the OFWs into productive capital. This is much higher than the productive investment brought in by foreign capital, usually a fraction of the total foreign direct investment (FDI) inflows consisting mainly of "hot monies" invested in short-term security investments.

As to agriculture, the tasks are enormous. The sector accounts for 8.5 of the GDP, a third of what it used to contribute in the 1980s. And yet, about one-third of the labor force are in agriculture. The resulting low income per capita explains why poverty wears a predominantly rural face. The Philippine dependence on agricultural imports has been growing since 1995, the first year of Philippine membership in the WTO.

So what can be done? Again, there are promising developments.

The secretary of the Department of Agriculture (DA) has insisted on the importance of the rice-sufficiency program and the extension of more assistance to farmers, such as free irrigation and palay-price support. To help farmers adjust to market demand and climate-change challenges, the government put in place a national "color-guided" map on soil and crop suitability.

However, the Neda and the DA do not see eye to eye on the role of the National Food Authority, which is supposed to buy high from the farmers but sell low to consumers. The former believes in agricultural sufficiency through the free-market mechanism; the latter, through a guided market and enhanced productivity.

Also, the full implementation of the 30-year-old Comprehensive Agrarian Reform Program (CARP) is still an unfinished business, particularly its thorny land-distribution component. Duterte did not even mention the Carp in his Sona. Rafael V. Mariano, the Department of Agrarian Reform secretary nominated by the Communist Party of the Philippines-New People's Army, proposed a sweeping ban on the conversion of agricultural land for nonagricultural uses. This was promptly turned down by the economic cluster of the Cabinet.

The fuller implementation of the various programs on agricultural modernization, competitiveness enhancement, small farmer development and sustainable farming are also work in progress, even if they have been instituted years or decades ago. One concrete example: The 2010 law promoting organic agriculture has been carried out only in around 2 percent of the total farming area.

In the meantime, there are two major challenges on the agricultural front. First, what to do with the sugar industry given the collapse of the world sugar price due to the flood of cheaper high-fructose corn syrup from the US and Latin America and the availability of cheaper sugar from other Asian producers, such as Thailand and Australia? Second, how to proceed with the tarrification of rice, after two decades of postponement based on negotiations with the WTO and failures in making the country rice sufficient.

Mesmerizing infra program amid debt fears

THE infra projects mentioned in the country's flagship 3Bs program are huge and mesmerizing: railway upgrade and expansion in Luzon, railway development in Mindanao, expressways and bridges connecting major urban and commercial areas, provincial airport modernization and bus rapid transit projects. But so is the total amount that these projects would cost.

Accordingly, infra spending is projected to reach 5 percent to 7 percent of the GDP annually, or twice the annual rate in the last three decades. For 2017, the government budget for infra spending is P847.2 billion. Budget Secretary Benjamin E. Diokno describes it as "down payment to our grand plan to spend some P8 trillion to P9 trillion—roughly $160 to $180 billion—for the next six years."

The problem, however, is that the 3Bs invites comparison to the big infra push in the 1970s pushed by another strongman in a martial-law setting (1972-1985). After the World Bank declared the Philippines as "an area of concentration", huge amounts of infra-focused ODA provided by ADB, Jica, United States Agency for International Development and various credit institutions under the Paris Club flowed into the country. The Marcos administration used these ODA money to build new dams, bridges and ports, including the country-wide Pan-Philippine Highway. ODA funds were also used to propagate the "Green Revolution" in rice production, which enabled the country to achieve rice sufficiency in 1977 to 1980.

However, not all the ODA funds were used wisely and efficiently, as there were numerous allegations of corruption under the Marcos regime. Above all, the assurances made by the Marcos technocrats that the infra ODA loans could easily be repaid with the expected expansion of the economy did not happen. The labor-intensive export-oriented industrialization program did not take off. Instead, a full-blown debt crisis erupted in the first half of the 1980s, which led to the collapse of numerous firms and the termination of the Green Revolution in rice production. This debt-economic crisis was compounded by the assassination of opposition leader Benigno S. Aquino Jr. in 1983. In the end, the debt-economic-political crisis contributed to the downfall of the Marcos administration in 1986.

Thus, numerous questions are now being raised as to how the 3Bs shall be financed. Will the 3Bs become debt-debt-debt? Anders Corr of Forbes Asia (June 2017) wrote that the total projected budget spending of $167 billion for the 3Bs hall more than double the present national government debt of $123 billion to $290 billion. If interest is included, the total debt could reach as high as $452 billion, “bringing Philippines’s debt/GDP ratio to 197 percent, making it the second worst in the world.”

Corr also singled out China, a major infra creditor listed by the government, as the worst possible source of loans because China loans are more expensive than those offered by the World Bank and other creditors. He warned the Philippines’s inability to pay loans could be used by China to extract economic and political concessions in the future, such as more Chinese rights in the exploitation of the disputed sea territory of the Philippines.

The government dismissed the above fears by explaining that 80 percent of the total borrowing shall come from domestic sources, not foreign. Instead of higher debt/GDP growth, the Department of Budget and Management (DBM) projects a declining ratio. Also, the government explained that the borrowings shall be complemented by “higher revenue efforts resulting from tax policy and tax administration reforms”. These tax reforms were dubbed initially as the ‘Comprehensive Tax Reform Program (CTRP)’ but they are now renamed as the Tax Reform Acceleration and Inclusion (TRAIN).

TRAIN: To reduce or deepen inequality?

AS to the TRAIN, the government expects to earn additional revenues of more than P1 trillion from the new taxes in the next five years. In turn, the Train shall be able to support the massive “Build, Build, Build” program and social spending for the poor such as the CCT, universal health insurance and education, as well as improvements in public services, such as public transport.

The government also claims the TRAIN is redistributive in favor of the poor. Low-income earners shall have reduced taxes. The more capable car owners shall pay higher excise taxes for their vehicles and the gas and diesel that they use. Sugar-sweetened beverages, deemed consumed largely by the elite, shall, likewise, be given higher excise taxes.

Debates over the Train have become intense.

The call-center/BPO sector claims the expanded value-added tax (VAT) threatens its growth if the VAT exemption on gross sales or rentals on office units is removed. Similarly, there is a howl of protest from builders of low-cost and socialized housing, particularly targeting OFW families. Civil-society organizations (CSOs) assert the oil and sugar taxation will affect prices of transport, food, drinks, liquefied petroleum gas, electricity and other basic goods and services.

Finally, there is the contentious lower estate and donor’s taxes, which is considered a gift to the ultra-rich. One financial analyst wrote that the wealthiest 0.1 percent of the families in the Philippines, roughly around 23,000 households, shall benefit from this tax “reform”. The economic argument for this tax cut for the rich is similar to the argument raised by Arthur Laffer in support of the tax cuts made by fromer US President Ronald Reagan and now by Trump—reduce the taxes of the wealthy so that they can invest more and create more jobs.

Climate change and mining

CARE for the environment and regulation of the mining sector are two other contentious areas. At the beginning, Duterte himself had vague policy positions on how to deal with the two.

In the case of climate change, environmentalists were disappointed when Duterte declared his opposition to the Paris Agreement binding UN members to a global commitment to reduce their individual carbon emissions. The President’s argument: the agreement prevents the country from further industrializing. But after hearing the wise counsel of his own officials and the appeals of various CSOs, he reversed himself and signed on to the agreement in February 2017. Obviously, he saw the great advances and potentials of renewable energy in the country and the threats of global warming on the archipelago.

As to the mining sector, Duterte made a bold decision by appointing to the Department of Environment and Natural Resources (DENR) a well-known anti-mining activist in the person of Regina Paz L. Lopez. This did not sit well with the Chamber of Mines of the Philippines which launched a blistering campaign against her confirmation by the Committee on Appointments (CA).

The CA nonconfirmation of Lopez was widely interpreted by some quarters that Duterte surrendered to the mining lobby with a failure to sway the CA to vote for her. However, the doubting CSOs were surprised, when in the Sona on July 24, the President spent considerable time castigating mining companies for despoiling the environment. He also declared a policy in support of value-adding mining, meaning promoting the establishment of processing and manufacturing plants to create more jobs and values. This means he is adopting an Indonesian-style ban on the export of raw ores.

To slay inequality, poverty and social unrest

GIVEN the foregoing outline of the country’s overall socioeconomic program, can the Duterte administration sustain high GDP growth and reduce poverty and inequality as envisioned in the PDP 2017-2022 and AmBisyon 2040? The answer is uncertain and doubtful.

On inequality, it should be pointed out that the Philippines has one of the most unequal distribution of wealth in Asia.

In 2012 the top 20 percent of families had a 46.8-percent share of the total income of the country, while the bottom 20 percent shared a mere 6.8 percent. Among the rich, the 40 richest Filipinos on the Forbes list had the lion’s share ($13 billion, or 76.5 percent) of the overall income growth ($13 billion) in 2011.

With the Train favoring lower taxes for the ultra-rich, this pattern of inequality, which has been the pattern since the country acquired political independence in 1946, is likely to be maintained, if not deepened. With the construction and development of the big-ticket infras under the 3Bs likely to be auctioned off to the members of the 40 families, this pattern of inequality will be further reinforced.

It should be noted that the identification of urgent infrastructures needed by the urban- and rural-poor communities is hardly mentioned. Hence, there is no list of priority infra for them under past and present administrations. Neither are the people consulted on what are the most important infrastructures for their survival, growth and development.

On poverty reduction, the 3Bs, once it gets fully under way, can, indeed, spur growth and help create more jobs. However, the challenge to the Duterte Administration is how to avoid a debt-driven infra development as what happened in the 1970s. Industry and agriculture must grow at a similar pace as that of the 3Bs.

The truth is that the poverty situation is much more serious than what the official statistics seem to suggest.

For 2015, the poverty rate for the country was estimated to be 21.6 percent. However, the poverty threshold was fixed at a very low P60 per capita, or roughly $1.15. This amount is not enough to buy one piece of chicken at a Jollibee restaurant.

While the unemployment rate went down by a full percentage point, labor participation rate also went down. In short, unemployment remains big. More important, the huge informal economy, the catch basin for almost two-thirds of the labor force, has remained and continues to expand in absolute number. The huge unemployment and the bigger underemployment problem, especially among the informal sector, explain why the endo system of short-term hiring has flourished and will continue to flourish for some time.

The point is that poverty reduction requires not only faster infra development and FDI mobilization. Poverty reduction also entails the implementation of bold social and economic measures, such as asset reform (land, housing and so on) and various capacity-building programs aimed at their own economic empowerment. Unfortunately, little was said on this in the Sona and even in the PDP 2017-2022. This brings us to the twin issues of social unrest and armed rebellion.

The Philippines has a long history of rebellion led by various ideological groups, which keep on sprouting in the country. The latest is the rise of the ISIS-inspired Maute armed force, which took over the city of Marawi and which engaged the Philippine military in a war that has lasted for more than two months. A deeper analysis of the base of the Maute Group reveals that most of the armed partisans are young, idle and out-of-school Muslims. This shows that the root causes of rebellion, whether launched in localized areas like Marawi or nationwide, like what the New People's Army has been doing, are still poverty, unemployment and inequality.

In response to the ISIS and other similar threats, Duterte promised to purchase modern weaponry that the military and the police need to wipe out rebellion anywhere in Mindanao and the rest of the archipelago. But where are the weapons to wipe out unemployment, poverty and inequality? Where are the programs to help empower the idle, the out-of-school youth, the poor and the marginalized to become productive citizens of an independent Republic they can all be proud of?

The challenge to the Duterte administration is how to revisit its 10-point agenda, PDP 2017-2022, AmBisyon 2040, TRAIN, its peace-making framework and its overall program to contain rebellion by the various alienated members of the population. It should determine whether all these programs fully meet the needs of the country and the yearning of the people for a just and lasting peace, as well as sustainable human development.

Dr. Rene E. Ofreneo

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