

# The insulted economy

---

Economic and business policy reforms  
under the Duterte administration

Emmanuel S. de Dios

University of the Philippines  
School of Economics

6 July 2018

(The views are solely those of the speaker.)

# Setting the baseline

## **Ex ante developments justify high expectations**

### 1. “Demographic dividend”

- a growing population of working age
- expansion of a middle class

### 2. Favourable global environment

- global low interest-rate regime
- liberal migration and trading regimes
- low energy prices (shale oil revolution)

### 3. Technological developments, esp. in ICT

### 4. Reforms by past administrations (Arroyo and Aquino)

# Setting the baseline

## Ex ante developments justify high expectations

### Growth acceleration 2011–2018?

- eight years of per-capita GDP growth of 3.5% or more
- per-capita GDP growth 2% higher than the past period
- higher per-capita income than ever achieved before
- *actual record*: 4.46% v. 2.75%

### Absent economic crises

- current-account surpluses 2005–2016
- fiscal primary surpluses 2011–2015
- diminishing debt burden: interest/GDP fell from 5.3% (2005) to 2% (2017)
- inflation at low single digits

### Declining poverty incidence

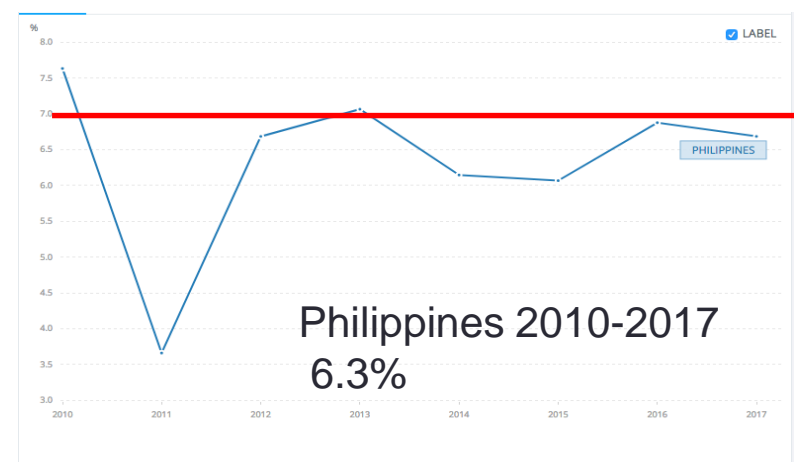
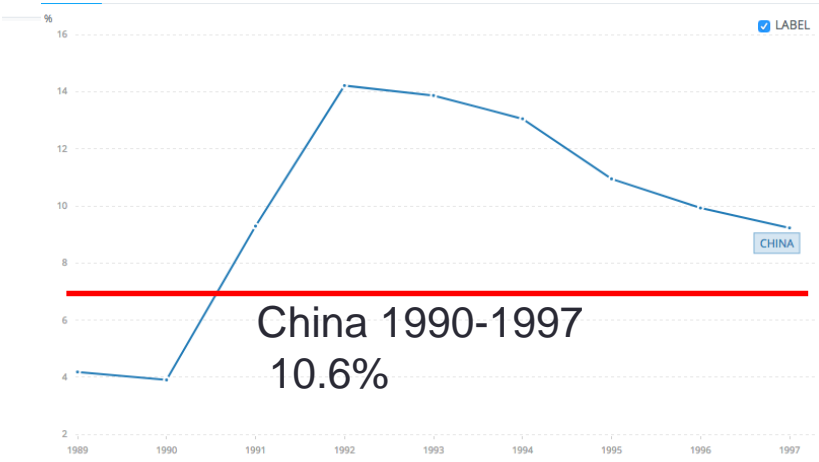
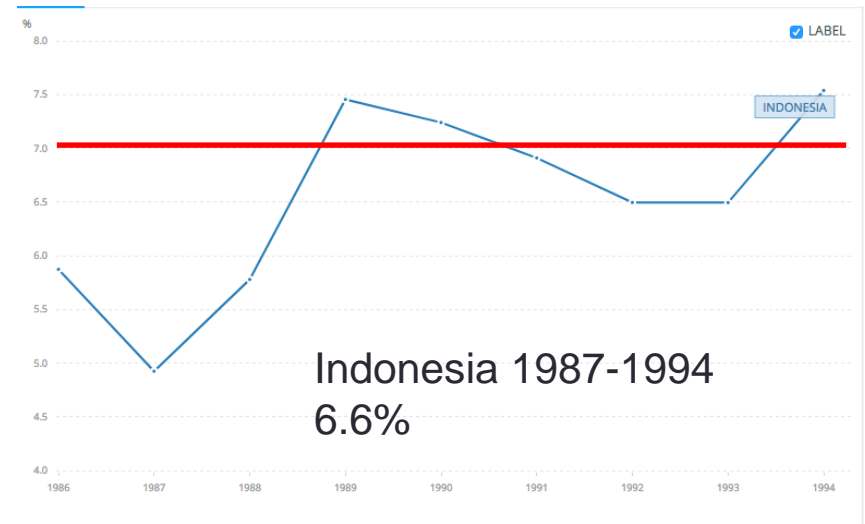
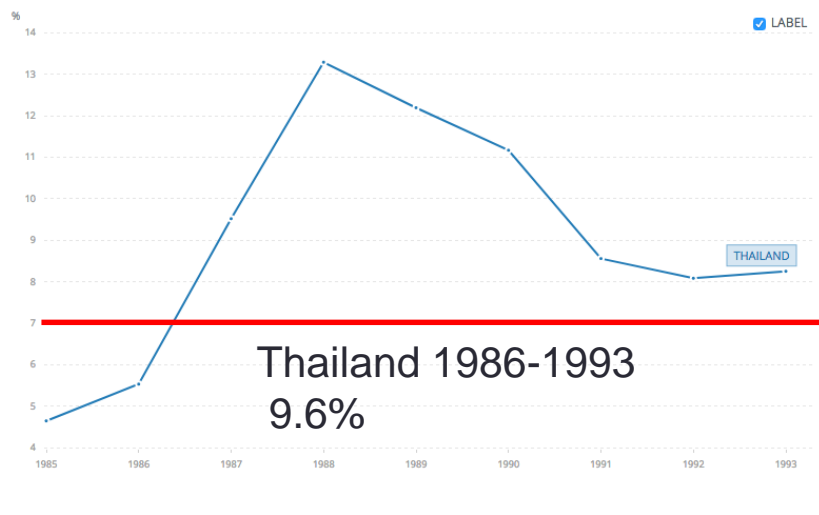
- from 26.3% (2009) to 21.6% (2015)

# Unexploited potential

Growth rates still substantially below what other countries achieved in similar episodes – and below government's own targets of 7-8 percent.

Demographic dividend not fully used: shrinking labour force and fewer jobs despite a growing population.

# Growth accelerations



STORIES FROM SCARBOROUGH: WHAT PANATAG MEANS TO



MONEY

Filtered By: Money

## AFTER CHINA AND VIETNAM PHL is 3rd fastest growing economy in Asia

The Sunday Times Special Reports Special Features Fast Times

Published January 23, 2018 1:28pm

YOU ARE AT: Home » Business » PH to be 'fastest-growing' economy in Asean – WB

### PH to be 'fastest-growing' economy in Asean – WB

0

BY MAYVELIN U. CARABALLO, TMT ON JANUARY 11, 2018

BUSINESS

 Like 94 Share

Philippines will continue to outpace many of its Southeast Asian neighbors in terms of economic growth, according to a new report from the International Monetary Fund (IMF), which projects that the Philippines will maintain this year up to 2020.

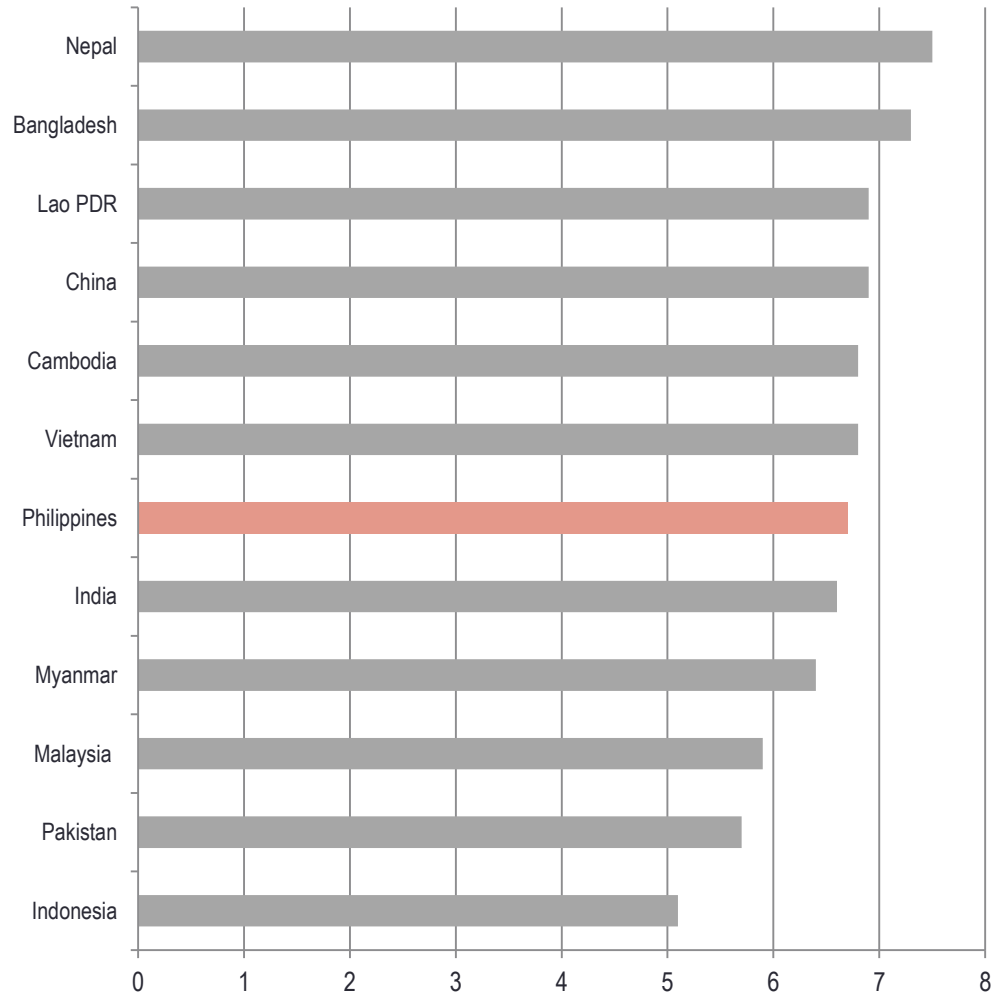
     

IMF: Philippine growth fastest in  
ASEAN, 2nd worldwide

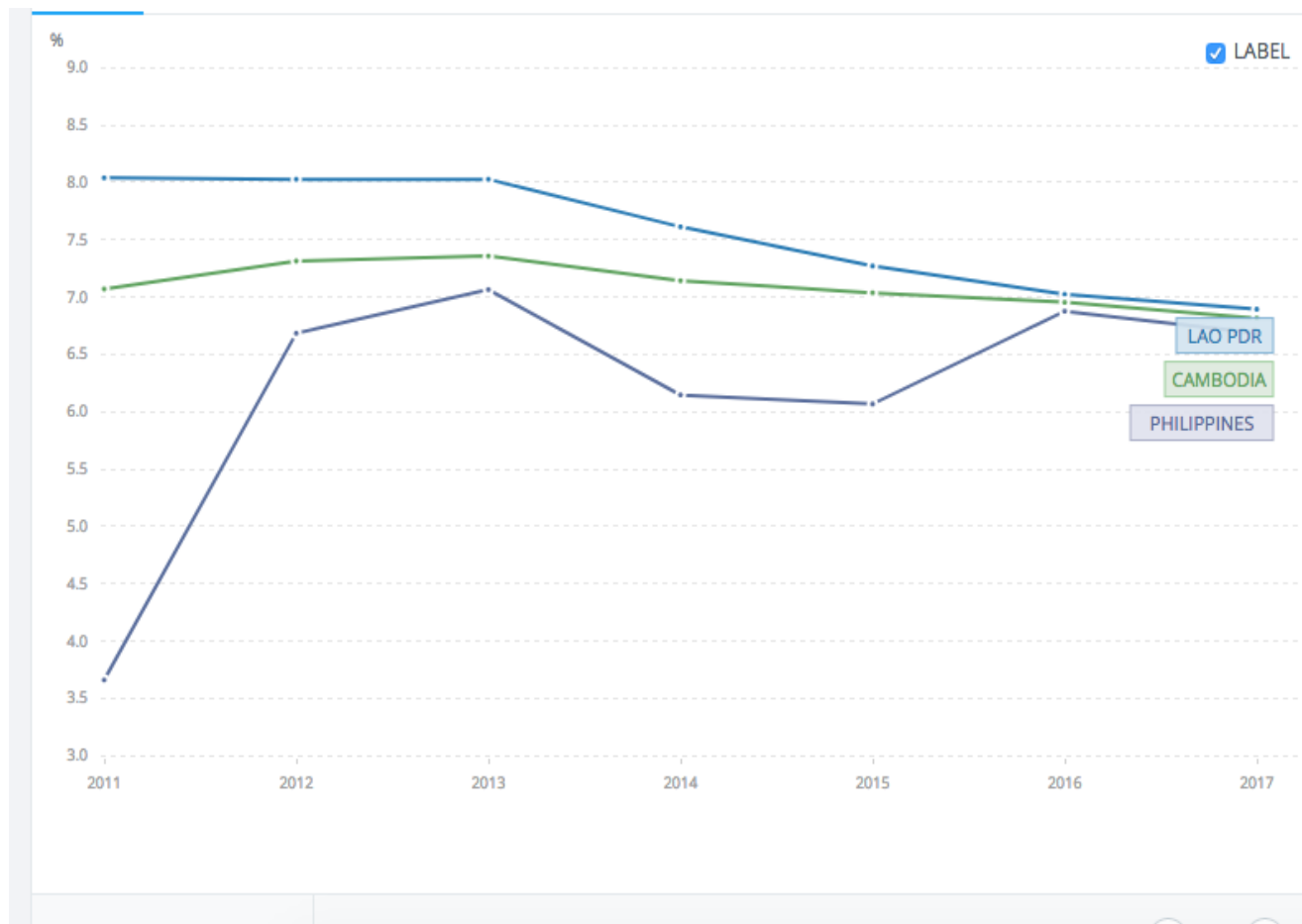
8K  
SHARES

 7.2K  22  10

# Seventh place, not third in 2017









# Even Laos and Cambodia grew faster





# Smaller labour force, fewer jobs?

	Employed	Unemployed	Not in LF	WAP
2015	38.760	2.606	23.572	64.939
2016	40.998 	2.363 	24.950 	68.311 
2017	40.334 	2.441 	27.116 	68.891 

Source: Philippine Statistics Authority

**664,000** fewer persons were employed in 2017 than in 2016.

**2,166,000** persons left the labour force in 2017.

# 0-10 point agenda

0. Fight crime and corruption.

1. Maintain macro, trade, fiscal, and monetary policies.

2. Progressive tax reform, effective tax collection; tax indexation

3. Competitiveness and ease of doing business.

4. Spend up to 5% of GDP on infrastructure; key role for PPP.

5. Rural and value-chain development.

6. Security of land tenure.

7. Invest in health and education; skills matching.

8. Promote S&T and arts.

9. Improve social protection and CCT

10. Strong implementation of planned parenthood

# The administration's analysis and strategy

- Identify infrastructure bottlenecks as main constraint to growth
- Hence the “3-Build” programme
  - Allowance for higher deficit ceiling up to 5% of GDP
  - Emphasis on public infrastructure spending
- To keep deficit in check (at 3% of GDP), a tax reform programme (TRAIN 1-5).

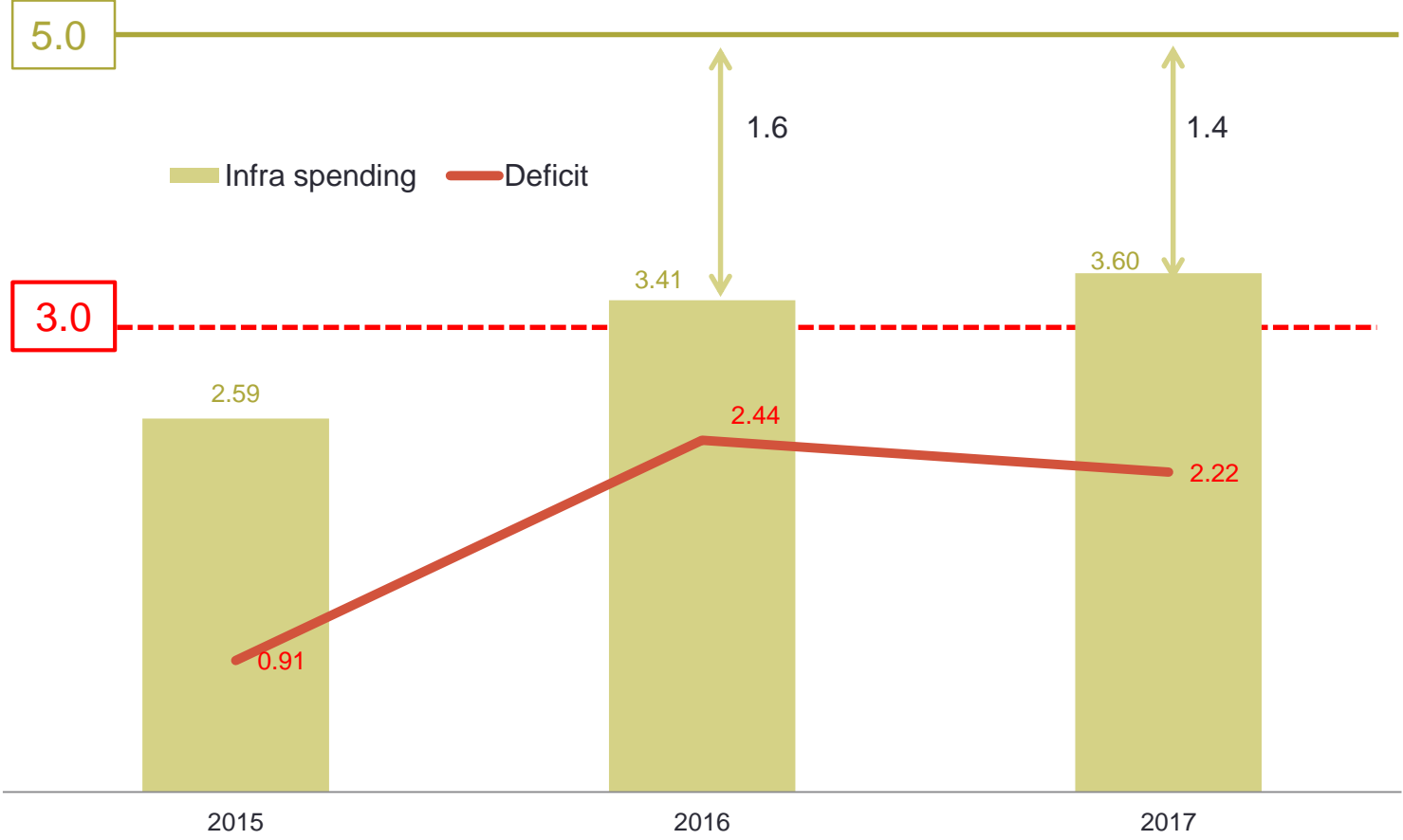
# Surprises

- Government continues to miss its growth targets.
- Government continues to underspend and fall below its total deficit and infrastructure spending targets.
- But current account and BOP surpluses have already been reversed.
- And inflation has broken through government targets.

# Deficits and infrastructure

- Government continues to underspend relative to its own infrastructure and deficit targets.
- Missed infrastructure and deficit targets undermine the case for new taxes.
- Few flagship projects have gotten underway (2018?); infra-spending mostly on maintenance and repair on standard projects, e.g., roads. (Q: How much is *net* investment?)
- A notable shift towards ODA and away from PPP (contrary to 10-point agenda).

# Public sector deficit and infrastructure spending (as % of GDP)



# Reasons for underperformance

Tedious government procurement procedures

Old problems still unsolved, including ROW, BAC rules

Technical deficit among government personnel

planning, project preparation, bid evaluation

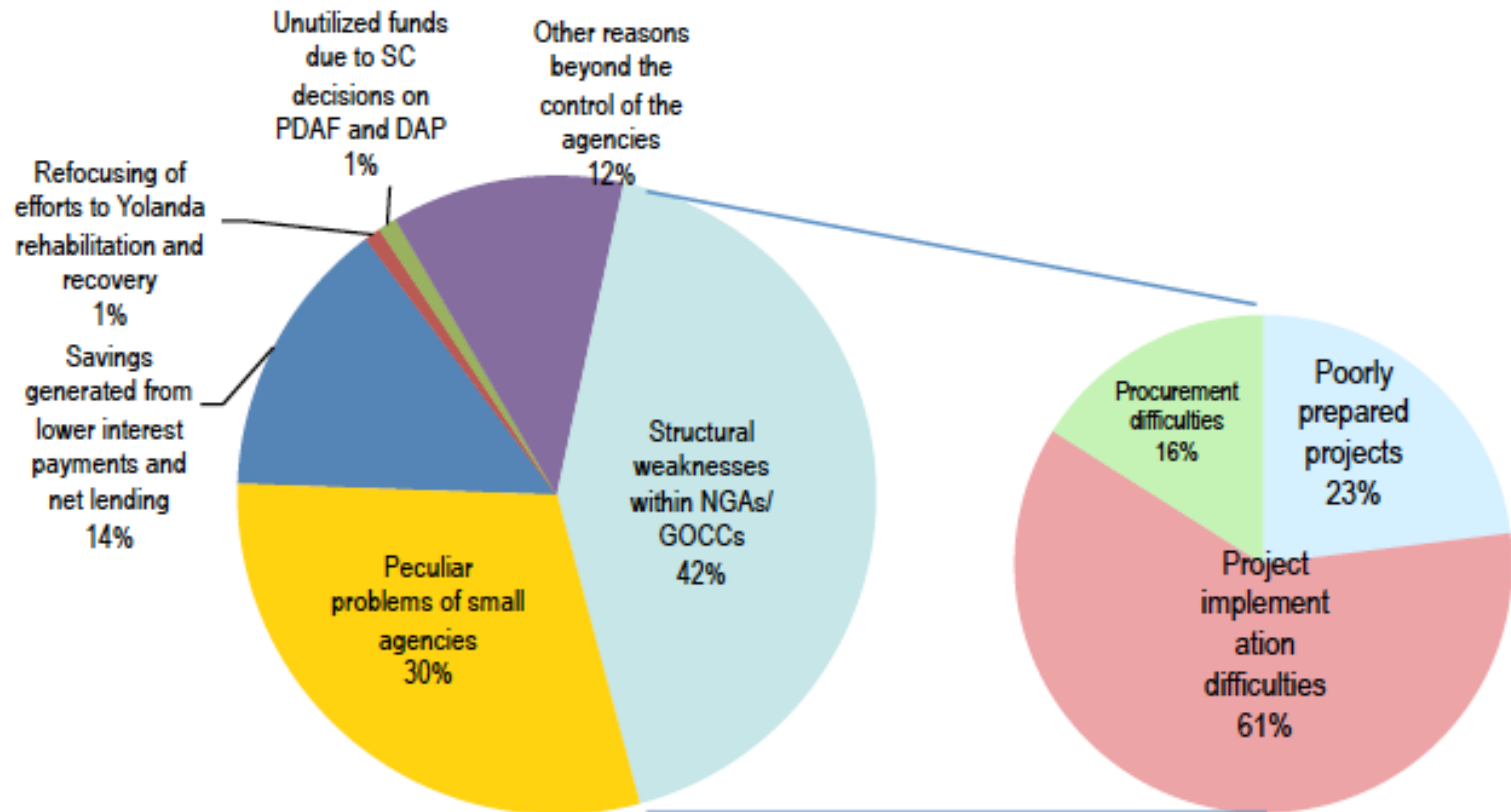
Supply constraints on private contracting sector

shortage of qualified local firms for big projects

shortage of skilled staff (engineers and planners)

Red tape even in ODA projects

# Old problems



Source: DBM [2015] Presentation to Joint Congressional Oversight Committee on Public Expenditures



# Unintended consequences

Fiscal space with additional revenues, combined with infrastructure underperformance provides opportunities for:

*Populist measures:* unconditional transfers (₱40 bn); free college tuition (₱40 bn); salaries for uniformed personnel (₱60 bn); universal health care improvements (₱90 bn); free irrigation services

*Feeding frenzy:* E.g., DOT, DepEd purchasing scandals, foreign and local trips among executives

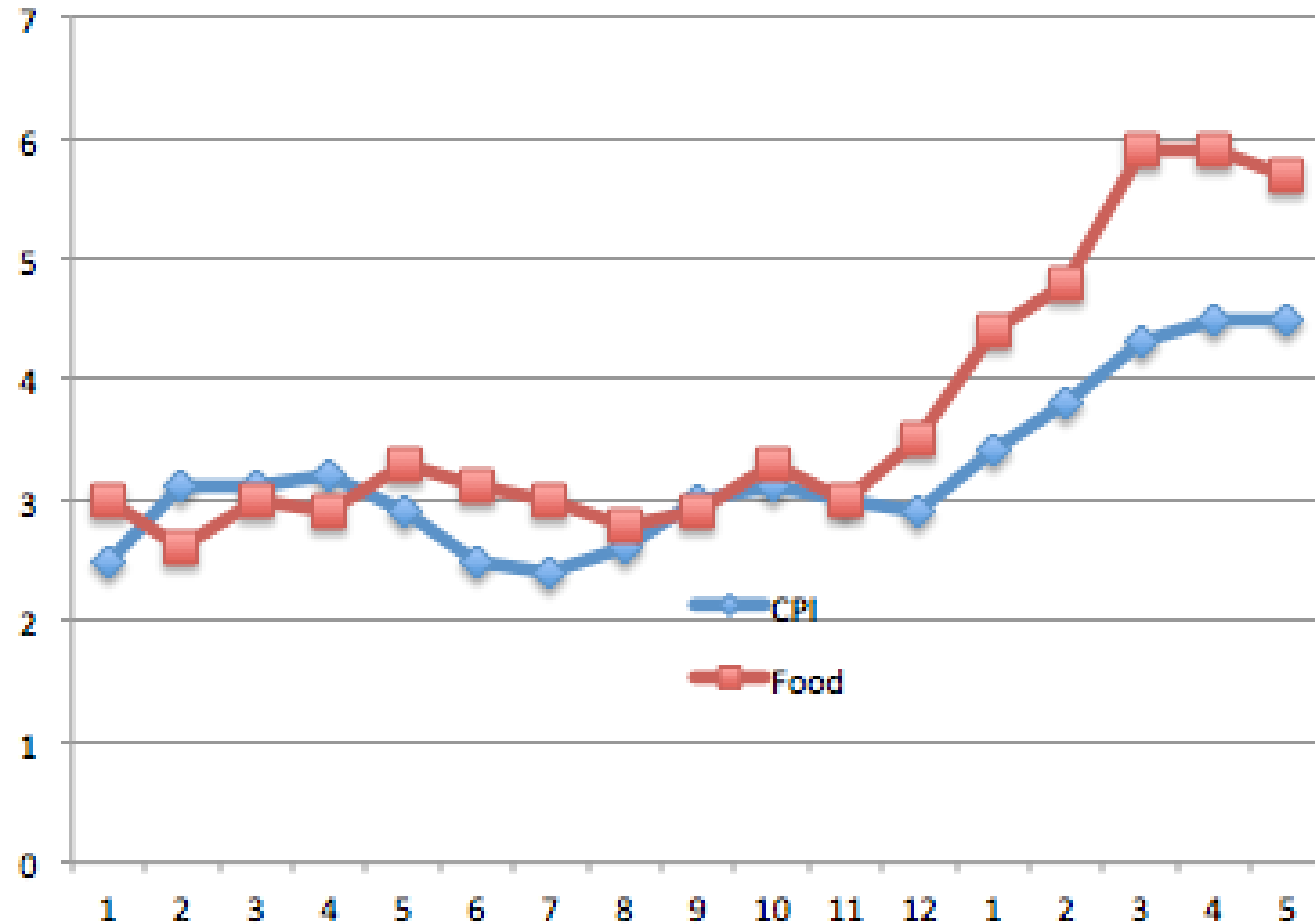
*Lax infra spending:* repair and replace versus new investment

Revenues intended for BBB may be pre-empted by consumption spending and waste. As a result revenue generation may have to run simply in order to stand still. A disruptive process.

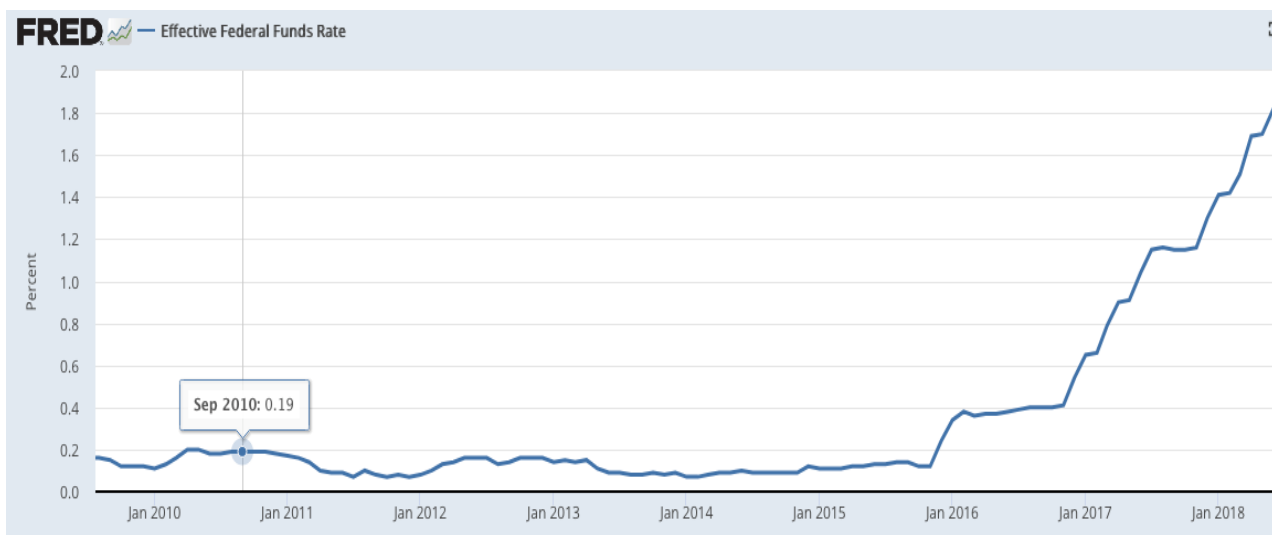
# New inflation (deed of many hands)

1. Impact of TRAIN through fuel and “sin” products
2. Exchange-rate movements because of capital outflows and behind-the-curve monetary policy
3. Muddled rice policy
4. Failure to account for inflation expectations

# Inflation in the CPI and food



# US Fed funds rate and BSP RRP rate



PHILIPPINES INTEREST RATE



SOURCE: TRADINGECONOMICS.COM | BANGKO SENTRAL NG PILIPINAS



1Y

5Y

10Y

MAX



Export Data



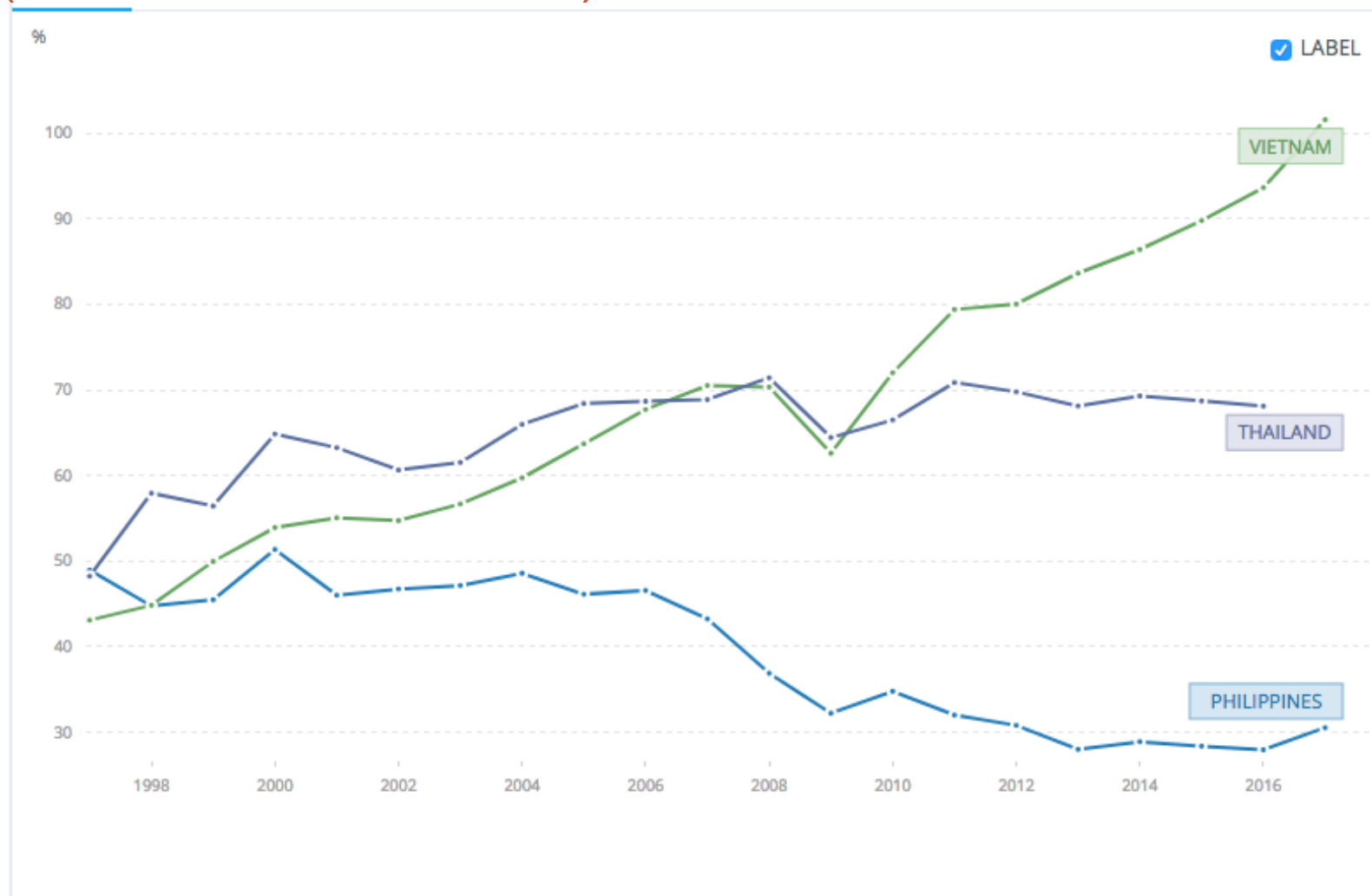
API Access

# Competitiveness and ease of doing business

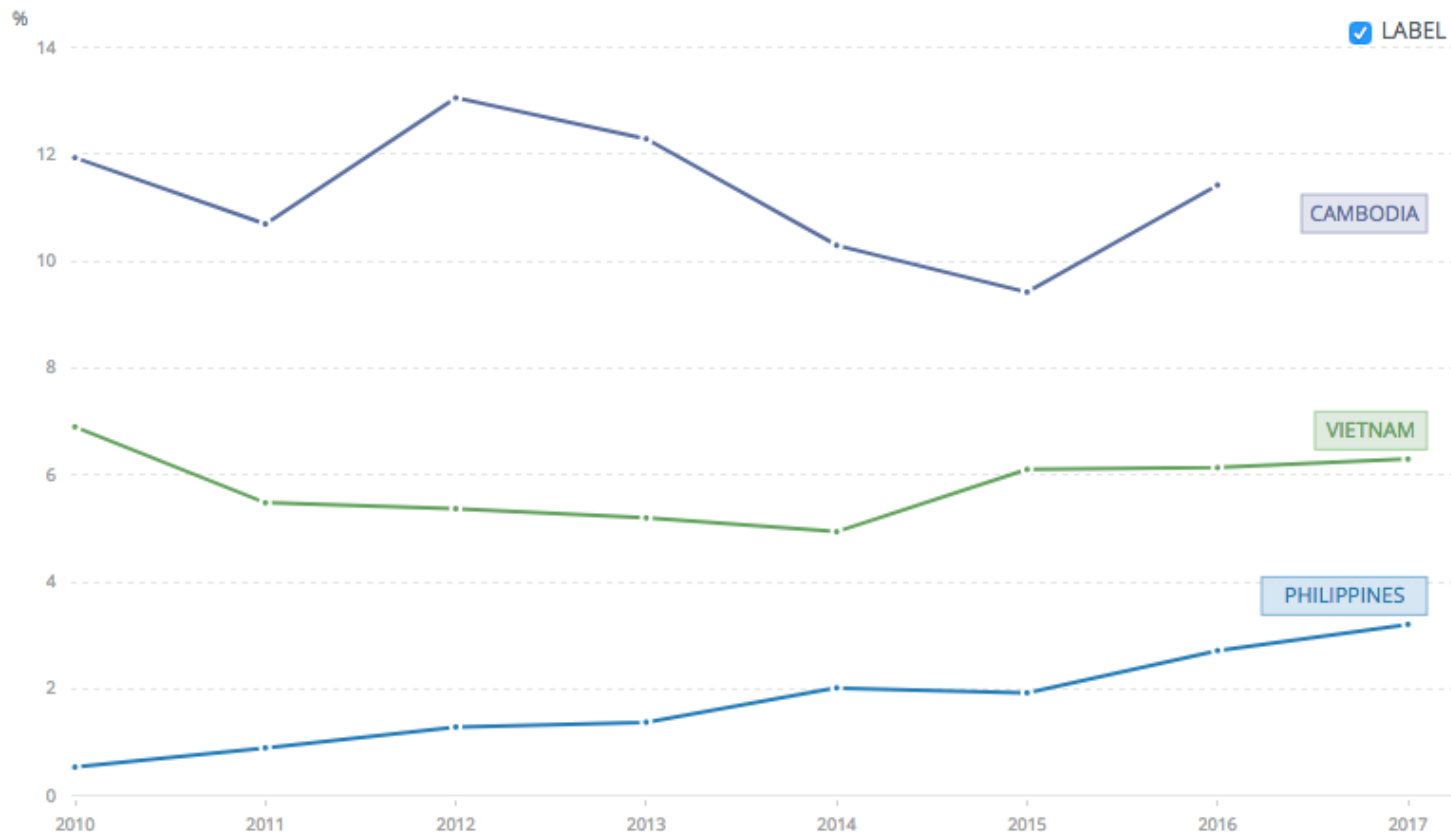
- Export competitiveness slight upward tick but well below comparators  
From 28.4% of GDP (2015) to 28.0% (2016) to 30.5% (2017)
- FDI rising but well below comparators  
From 1.9% GDP (2015) to 2.7% (2016) to 3.2% (2017)
- Ease of doing business rank has fallen  
from 99 (2016 and 2015) to 113 (2017)
- Corruption perceptions rank has fallen  
From 95 (2015) to 101 (2016) to 111 (2017)

# Exports of goods and services

(as % of GDP; 1998-2017)

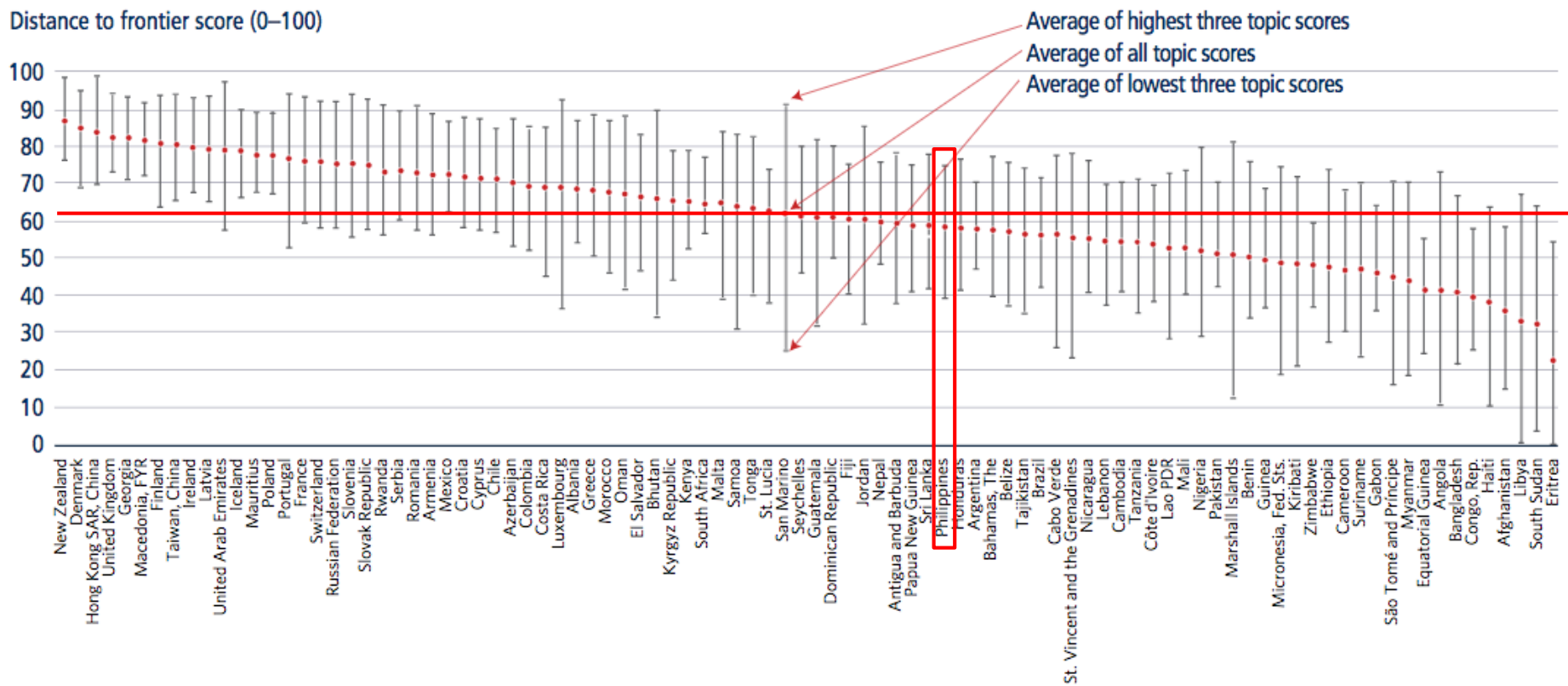


# Foreign direct investment inflows (as % of GDP; 2010-2017)



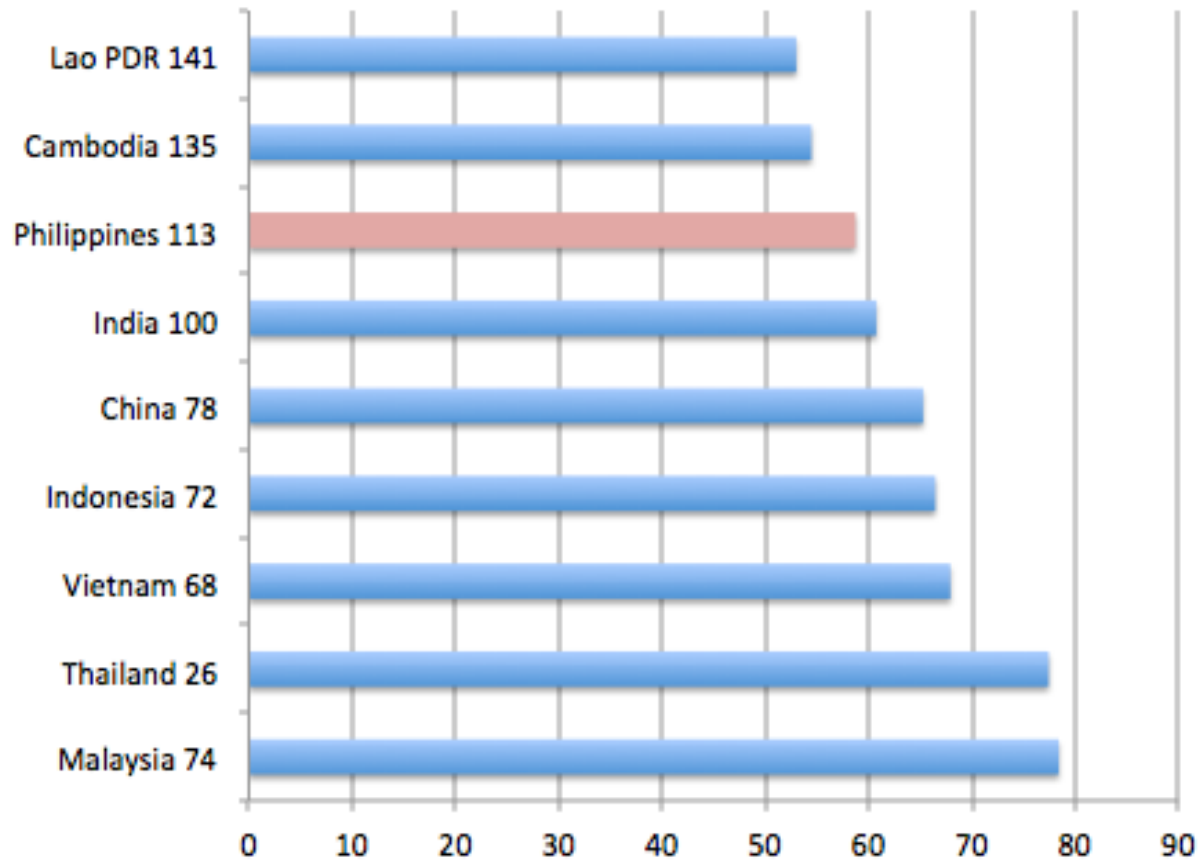
# Ease of doing business 2017

Distance to frontier score (0–100)





# Ease of doing business: “Distance to frontier” and (rank) [WB 2018]



# Ease of doing business [WB 2018]

<b>PHILIPPINES</b>		<b>East Asia &amp; Pacific</b>		<b>GNI per capita (US\$)</b>	<b>3,580</b>
<b>Ease of doing business rank (1–190)</b>	<b>113</b>	<b>Overall distance to frontier (DTF) score (0–100)</b>	<b>58.74</b>	<b>Population</b>	<b>103,320,222</b>
<b>Starting a business (rank)</b>	173	<b>Getting credit (rank)</b>	142	<b>Trading across borders (rank)</b>	99
DTF score for starting a business (0–100)	68.88	DTF score for getting credit (0–100)	30.00	DTF score for trading across borders (0–100)	69.39
Procedures (number)	16	Strength of legal rights index (0–12)	1	Time to export	
Time (days)	28	Depth of credit information index (0–8)	5	Documentary compliance (hours)	72
Cost (% of income per capita)	15.8	Credit bureau coverage (% of adults)	8.0	Border compliance (hours)	42
Minimum capital (% of income per capita)	3.0	Credit registry coverage (% of adults)	0.0	Cost to export	
				Documentary compliance (US\$)	53
<b>Dealing with construction permits (rank)</b>	101	<b>Protecting minority investors (rank)</b>	146	Border compliance (US\$)	456
DTF score for dealing with construction permits (0–100)	66.84	DTF score for protecting minority investors (0–100)	40.00	Time to import	
Procedures (number)	23	Extent of disclosure index (0–10)	2	Documentary compliance (hours)	96
Time (days)	122	Extent of director liability index (0–10)	3	Border compliance (hours)	72
Cost (% of warehouse value)	2.6	Ease of shareholder suits index (0–10)	7	Cost to import	
Building quality control index (0–15)	12.0	Extent of shareholder rights index (0–10)	0	Documentary compliance (US\$)	50
		Extent of ownership and control index (0–10)	5	Border compliance (US\$)	580
		Extent of corporate transparency index (0–10)	7		
<b>Getting electricity (rank)</b>	31	<b>Paying taxes (rank)</b>	105	<b>Enforcing contracts (rank)</b>	149
DTF score for getting electricity (0–100)	84.31	DTF score for paying taxes (0–100)	69.27	DTF score for enforcing contracts (0–100)	45.96
Procedures (number)	4	Payments (number per year)	20	Time (days)	962
Time (days)	37	Time (hours per year)	182	Cost (% of claim)	31.0
Cost (% of income per capita)	25.3	Total tax and contribution rate (% of profit)	42.9	Quality of judicial processes index (0–18)	7.5
Reliability of supply and transparency of tariffs index (0–8)	5	Postfiling index (0–100)	50.00		
<b>Registering property (rank)</b>	114			<b>Resolving insolvency (rank)</b>	59
DTF score for registering property (0–100)	57.55			DTF score for resolving insolvency (0–100)	55.22
Procedures (number)	9			Time (years)	2.7
Time (days)	35			Cost (% of estate)	32.0
Cost (% of property value)	4.3			Recovery rate (cents on the dollar)	21.3
Quality of land administration index (0–30)	12.5			Strength of insolvency framework index (0–16)	14.0

# Corruption perceptions (index and rank 2017)

PHILIPPINES CORRUPTION INDEX



SOURCE: TRADINGECONOMICS.COM | TRANSPARENCY INTERNATIONAL

PHILIPPINES CORRUPTION RANK



SOURCE: TRADINGECONOMICS.COM | TRANSPARENCY INTERNATIONAL

# 0-10 point agenda

0. Fight crime and corruption.

1. Maintain macro, trade, fiscal, and monetary policies.

2. Progressive tax reform, effective tax collection; tax indexation

3. Competitiveness and ease of doing business.

4. Spend up to 5% of GDP on infrastructure; key role for PPP.

5. Rural and value-chain development.

6. Security of land tenure.

7. Invest in health and education; skills matching.

8. Promote S&T and the arts.

9. Improve social protection and CCT

10. Strong implementation of planned parenthood

**insult** (noun): in medicine: an event which causes damage to a tissue or an organ

– Oxford English Dictionary

# Inglourious insults to the economy

## 1. *Uncertainty insult*

- precipitate policy changes (e.g., mining, online gaming, Boracay)
- threatened railroading of charter change

## 2. *Redistribution insult*

- 2018 inflation surprise (TRAIN, confused monetary policy, rice fiasco)
- reliance on indirect taxation (TRAIN)
- leaky-bucket entitlements (free college tuition, salary increases to the police and the military, pensioners, free irrigation services)

# Inglourious insults to the economy

## 3. *Selectivity insult*

- targeted weaponisation of laws and rules (tax laws, SEC rules, labour laws, franchises, civil service rules, etc.)
- revolving-door of discredited cronies and supporters
- opaque favouring of certain local and foreign business interests
- implicit bias against participation of (some) private sector interests (hence ODA and government procurement in lieu of PPP)

#### 4. *Impunity and threat* insult

- “homicide cases under investigation”: 23,518 in the period 1.7.2016-11.6.2018 (*Rappler*); recent LCE assassinations
- threats and actions against institutions, e.g., the Ombudsman, Chief Justice, the political opposition, media, HR workers, and the Church

#### 5. *War and disorder* insult

- Marawi and Mindanao martial law
- Threatened national emergencies
- On-off peace talks with the CPP-NPA-NDF



# Inglourious insults

Despite the president's seeming disinterest in economic policy, what throws a shadow over business and the economy is the demonstration of overarching power – power without checks, without accountability, and without regard for custom, values, or history.

More than the soundness of policy, it is unbridled power – and its selective application – that is the source of worry for business and the people under the Duterte administration.

# END

---

Thank you.