EUROPEAN

POLICYBRIEF

COMPETING INTEGRATIONS IN SOUTHEAST ASIA

The Duterte Administration on Year 3

This policy brief reviews the general economic outlook of the Philippines, and the Duterte administration's federalism initiative. The goal is to tackle some of the key accomplishments and failures of the administration on year three of the Duterte presidency. The brief concludes with possible scenarios moving forward, notably after the 2019 midterm elections.

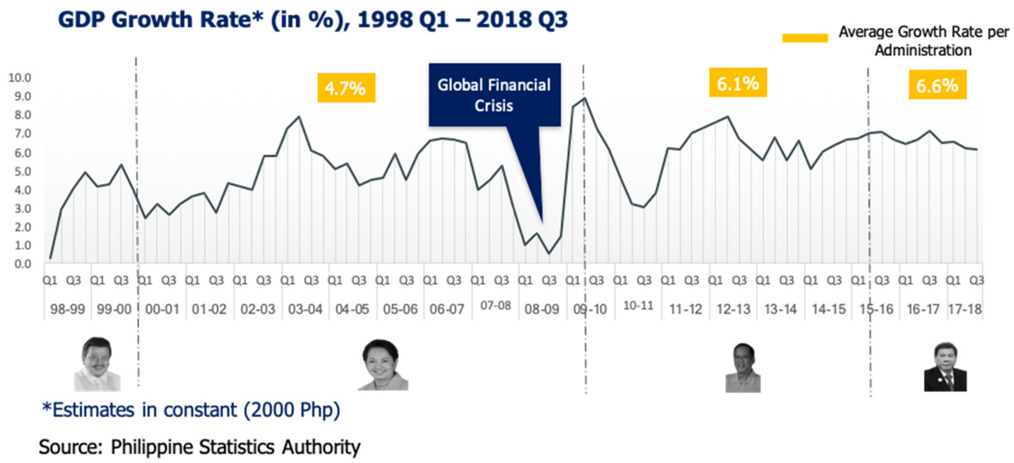
Ronald U. Mendoza, April 2019

EVIDENCE AND ANALYSIS

1. THE ECONOMY: Good but not great

Early on, the Duterte administration adopted Ambisyon2040—the country's long term development vision--which was actually an initiative commenced during the previous administration. By adopting this, a strong signal of continuity and stability was successfully achieved early on. President Duterte inherited an economy which was poised to continue its impressive expansion, and would later (by the time of writing this report) post 80 straight quarters of uninterrupted growth (see Figure 1).

Figure 1. 80 Quarters of Uninterrupted Growth



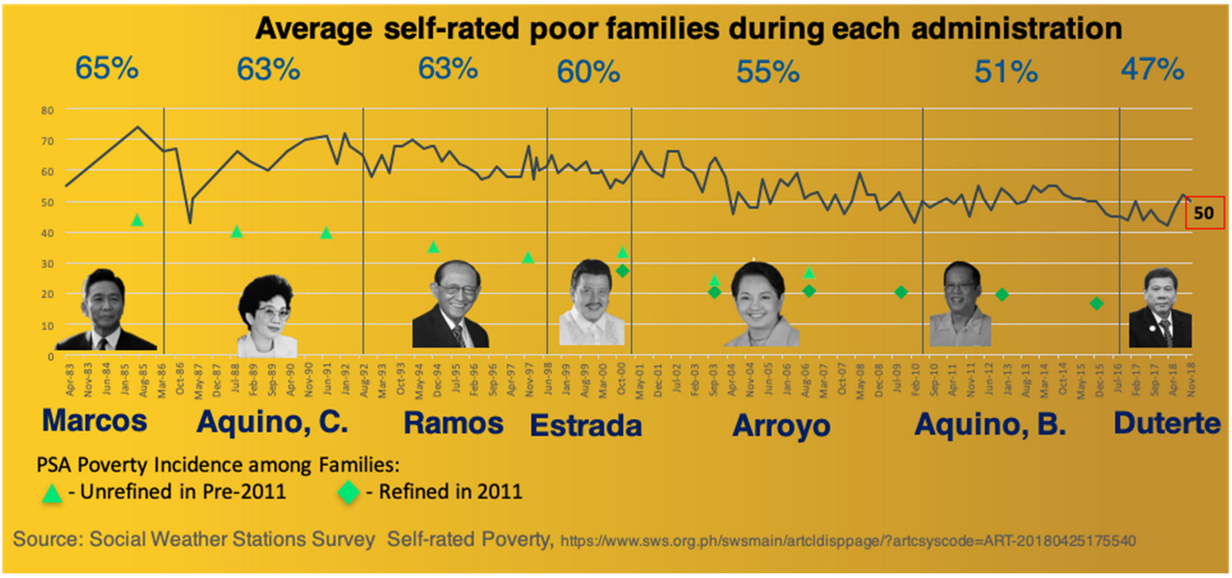
Some of the key legislative reforms of the administration include the Tax Reform for Acceleration and Inclusion (TRAIN1) Act (Republic Act No. 10963; the Ease of Doing Business Act (RA No. 11032), "which shortens the number of days in processing permits and licenses for all business-related transactions; the Universal Access to Quality Tertiary Education Act of 2017 which provides free tuition and other school fees in state universities and colleges; the agricultural free patent law and the rice tariffication law (Avendaño, 2018; Chikiamco 2019).

At the time of writing this update, the Philippine economy remains generally strong. The Asian Development Bank maintained its growth projection for the Philippine economy at 6.8 percent and 6.9 percent for 2018 and 2019, respectively. The World Bank in its recent *Philippines Update Report* similarly acknowledges that the country's growth prospects remain robust. Nevertheless, if realized, these recent projections would fall below the government's 7-8 percent goal set for 2018 until the end of President Rodrigo Duterte's six-year term (Cigaral, 2018; World Bank 2019).

Moreover, the Philippine Statistics Authority reported in April 2019 that in 2018 the share of poor Filipinos dropped from 27.6% (in 2015) to 21%, representing almost 5.7 million Filipinos lifted out of poverty in a mere three years. Few, even in government, saw fit to celebrate, however, since many now understand that the country's poverty threshold – the line that defines who is poor and who is not – is draconian. On average, any income above P10,481 per month for a family of 5 members is already considered non-poor. That's P2,620 per week (US$50) or P374 per day (US$6), for a family of 5.

Triangulating the official poverty figures against self-rated poverty indicators provides a slightly fuller long-term snapshot of whether Filipinos consider themselves poor (see Figure 2). Self-reported poverty has declined since the Marcos years, when about 2 in 3 Filipinos considered themselves poor. Now it is down to 1 in 2. Clearly, this has not declined dramatically enough—particularly in later years characterized by high growth.

Figure 2. SWS Self-Rated Poverty Indicator, April 1983- November 2018

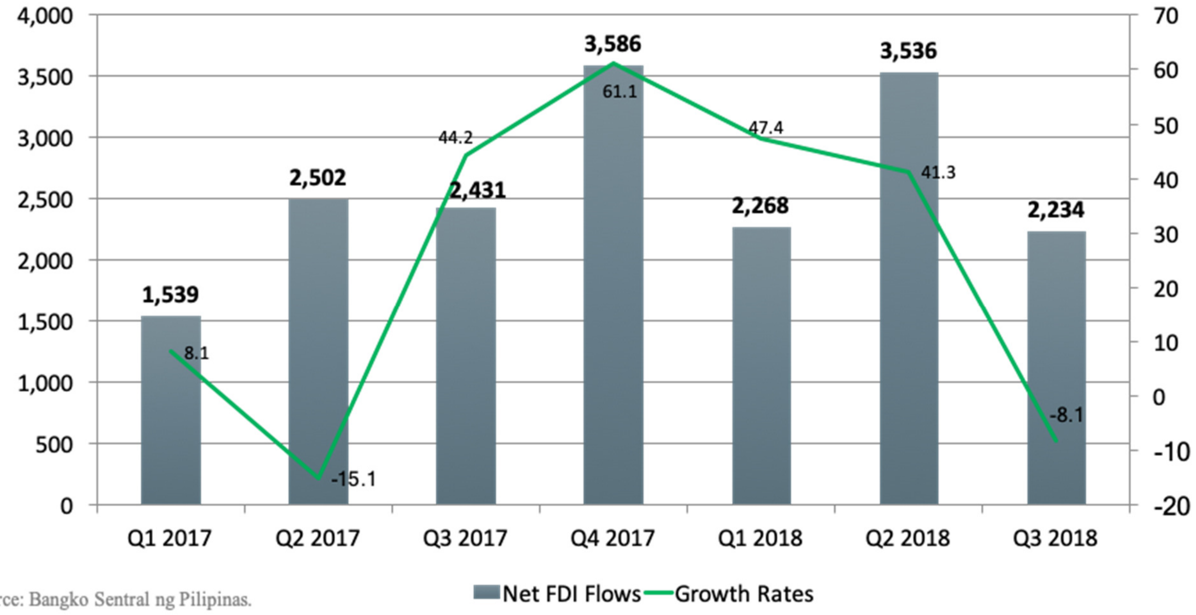


There is also a mixed picture on the investments' and job creation front. As of January 2018, roughly 2.3 million unemployed and 7.5 million underemployed added up to around 10 million unemployed or underemployed workers in the country. This is out of 44 million workers in the labor force. Annual new jobs created in the first two years of the Duterte administration reached roughly over 800,000. But this does not yet account for job destruction, which appears to be a risk thanks to trends such as automation of manufacturing and service sector jobs. The "net job creation" rate needs to be monitored by the government, particularly in the context of the 4th industrial revolution.

Analysts see the Philippines as a potential leader in Asia on economic sectors leveraging big data analytics and IOT (internet of things)—both part of the expected expansion of the 4th industrial revolution. However, it remains to be seen whether and to what extent the Philippines will be able to compete given its infrastructure and logistics issues, as well as uncompetitive energy prices.

On the other hand, foreign direct investments hit a near-term high of about US$10 billion in 2017 (Bangko Sentral ng Pilipinas, 2018). This may reflect the growth momentum built up over past years, and not simply the accomplishments under the Duterte administration, but the continuity is reassuring. Nevertheless, this remains small relative to the Philippines' regional neighbors—over US$20 billion for Indonesia, over US$12 billion for Vietnam and US$10 billion for Thailand in 2017 alone.[1] More worrying, perhaps, is the emerging wait-and-see attitude by many investors (or potential re-investors) due to the government's proposed TRAIN2 (second tranche of) tax reforms, particularly focused on fiscal incentives for investors.[2] Also complicating matters are the downside risks attached by credit rating agencies and analysts to the possible switch to federalism, which is also discussed below (Cordero, 2018) (see Figure 3).

Figure 3. Net Foreign Direct Investments: Inflows and Growth Rates 2017-2018



Source: Bangko Sentral ng Pilipinas.

2. FEDERALISM: Towards a new constitution?

Chaired by former Supreme Court chief justice Reynato Puno, the Consultative Committee to Review the 1987 Freedom Constitution had less than 6 months to produce the draft Bayanihan Constitution (the name given to the proposed new Constitution), which was submitted to President Duterte on 3 July 2018 (shortly before the President's State of the Nation Address).[3] The Bayanihan Constitution contains important self-executory reforms that the 1987 Freedom Constitution had in aspirational form but left to Congress to enact. These include a clause to regulate political dynasties, provisions for promoting political party reforms, and rules to punish turncoatism. These are now contained in the proposed Bayanihan Constitution and are self-executory. These political reforms are actually not directly about federalism, but they address the longstanding reforms to democratize that should have been passed by Congress. It is clear that Congress failed to enact these reforms, to the detriment of the full implementation of democratic aspects of the 1987 Freedom Constitution.

The Bayanihan Constitution also attempts to open the door for lifting the economic restrictions embedded in the 1987 Constitution, as well as provisions to form a layer of regional governments aimed at creating region-based agglomeration that could generate both positive and negative side effects. The formation of regional governments (as well as other government agencies such as more courts), however, has triggered a strong response from economists, including from within the Duterte administration.

1 https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=ID-TH-VN-PH
2 https://businessmirror.com.ph/upbeat-on-long-term-fdi-rise-43-5-in-q1/
3 Full text available here: https://www.philstar.com/headlines/2018/07/09/1832024/full-text-consultative-committees-draft-federal-constitution

National Economic and Development Authority head Secretary Pernia noted how federalism might wreak havoc on the Philippine economy by pushing up spending and the fiscal deficit (Rivas, 2018). Finance Secretary Dominguez later added more fuel to this critique by noting how the country's current investment grade credit-rating status along with its stable interest rate environment "will go to hell" under the draft federal Constitution (Leyco, 2018). Recent analyses by credit rating agencies like Moody's and Fitch have also raised concerns around federalism—considering the possible credit downgrade risk from this initiative.[4]

Beyond substantive discussions on the content of the draft, there are also concerns over the process and the governance environment under which federalism is being pushed. Perhaps muddying the prospects for reform, in late 2018, the Philippine House of Representatives passed on the third and final reading of the "house version" of charter change—one that does not include an anti-dynasty regulation, and removes term limits for politicians. Yet, these are among the key reforms pushed by President Duterte's constitutional review commission. This exposed rifts in the ruling administration's broad alliance, and is one of several signs of cracks in the so-called "super majority coalition". (Another sign of cracks in the coalition is the much delayed passage of the 2019 budget, and the President's veto of so-called pork barrel provisions in the budget).

POLICY IMPLICATIONS AND RECOMMENDATIONS

3. QUO VADIS?

For the Duterte Administration, perhaps the most pragmatic and fruitful way forward involves continuing progress on strong economic reforms with a view towards promoting more inclusive development and growth; and course-correcting on some policies that have clearly begun to show deep failures. And for the Philippines' EU partners in development, the following policy recommendations may be considered:

1. Focus support on the Philippines' economic reforms—notably those addressing poverty and inclusive growth—such as by building on the passage of the rice tariffication and agricultural free patent laws, and strengthening the governance of key agencies involved in boosting the agricultural sector. It is not enough to liberalize this sector and expose it to greater economic discipline (e.g. rice trade liberalization)—what the Philippines clearly misses now is an effective roadmap (and its full implementation) to boost farmers' productivity in ways that will help them compete in international and domestic markets. Beyond agriculture, similar pro-poor reforms could be explored in the areas of energy, water and housing/infrastructure.

2. Assist the Philippines in re-invigorating investments and trade coming from traditional economic partners of the Philippines, notably the EU, but also the US and Japan. Along with Australia, Malaysia and Indonesia, all these countries offer the Philippines strong possible partnerships not just on the economic front, but also on the national security front. Chinese trade could be useful—but Chinese involvement in gambling-related investments and infrastructure less so, due to weak (Filipino) job creation prospects. The EU can support policy research and evidence based discussions on broader issues such as job creation under the 4th industrial revolution, and the role played by FDI, thus helping to clarify in the Philippines the quality and importance of a broader investment base.

3. Support efforts by academia and civil society in the Philippines to generate a stronger evidence base for possible federalism and other political and economic reforms. Deep democratizing reforms should be focused on passing an anti-dynasty law, political party reforms, and campaign finance reforms—in turn supported by an array of economic reforms that will strengthen inclusiveness in the Philippine economy to further empower citizens not just politically but economically as well. The latter may include institutionalizing the country's flagship social protection program, the Pantawid Pamilyang Pilipino Program or 4Ps; and continuing to enhance Ease of Doing Business and other reforms that create a stronger

4 https://www.moodys.com/research/Moodys-affirms-Philippines-Baa2-rating-maintains-stable-outlook--PR_385740

attraction for foreign investors, notably those focused on Mindanao and sectors like agriculture and the "blue economy" (i.e. the sustainable development of the maritime sector). By helping to promote evidence based discussions on these reform options, it could become clearer that federalism need not be rushed, and that the solutions to the countries challenges may be further unpacked, discussed and supported by the public, and pushed by reformists.

RESEARCH PARAMETERS

Competing Regional Integrations in Southeast Asia (CRISEA) is an interdisciplinary research project that studies multiple forces affecting regional integration in Southeast Asia and the challenges they present to the peoples of Southeast Asia and its regional institutional framework, ASEAN.

CRISEA innovates by encouraging 'macro-micro' dialogue between disciplines: global level analyses in international relations and political economy alongside socio-cultural insights from the grassroots methodologies of social sciences and the humanities.

Coordinated by the Ecole française d'Extrême-Orient (EFEO) with its unique network of ten field centres in Southeast Asia, the project brings together researchers from seven European and six Southeast Asian institutions, with three objectives:

1. Research on regional integration
Multiple internal and external forces drive regional integration in Southeast Asia and compete for resources and legitimacy. CRISEA has identified five 'arenas of competition' for the interplay of these forces, investigated in the project's five research Work Packages. It further aims to assess the extent to which they call into question the centrality of ASEAN's regional model.

2. Policy relevance
CRISEA reaches beyond academia to engage in public debate and impact on practitioners in government and non-government spheres. By establishing mechanisms for dialogue with targeted audiences of policymakers, stakeholders and the public, the project furthers European science diplomacy in Southeast Asia and promotes evidence-based policymaking.

3. Networking and capacity-building
CRISEA reinforces the European Research Area (ERA) in the field of Asian Studies through coordinated EU-ASEAN academic exchange and network development. It connects major research hubs with emerging expertise across Europe and Southeast Asia. CRISEA also promotes participation of younger generation academics in all its activities, notably policy dialogues.

PROJECT IDENTITY

PROJECT NAME	Competing Integrations in Southeast Asia (CRISEA)
COORDINATOR	Yves Goudineau, EFEO, Paris, France, direction@efeo.net.
CONSORTIUM	Ecole française d'Extrême-Orient – EFEO – Paris, France University of Hamburg – UHAM – Hamburg, Germany University of Naples l'Orientale – UNO – Naples, Italy Institute of Social and Political Sciences – ISCSP - Lisbon, Portugal University of Lodz - UL – Lodz, Poland University of Oslo – UiO – Oslo, Norway University of Cambridge – Cam – Cambridge, UK Chiang Mai University – CMU – Chiang Mai, Thailand The Centre for Strategic and International Studies - CSIS – Jakarta, Indonesia

Ateneo de Manila University – ADMU – Quezon City, Philippines
University of Malaya – UM – Kuala Lumpur, Malaysia
Vietnamese Academy of Social Sciences – VASS – Hanoi, Vietnam
The University of Mandalay – MU – Mandalay, Myanmar

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DURATION

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BUDGET

EU contribution: €2,500,000.00

WEBSITE

www.crisea.eu

FOR MORE INFORMATION

Contact:
Jacques LEIDER, CRISEA scientific coordinator – jacques.leider@efeo.net
David CAMROUX, CRISEA dissemination coordinator - david.camroux@sciencespo.fr
Elisabeth LACROIX, CRISEA project manager – ideas.lacroix@gmail.com

FURTHER READING

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