Divided politics and economic growth in the Philippines
Batalla, Eric Vincent C.

Veröffentlichungsversion / Published Version
Zeitschriftenartikel / journal article

Zur Verfügung gestellt in Kooperation mit / provided in cooperation with:
GIGA German Institute of Global and Area Studies

Empfohlene Zitierung / Suggested Citation:

Nutzungsbedingungen:
Dieser Text wird unter einer CC BY-ND Lizenz (Namensnennung-Keine Bearbeitung) zur Verfügung gestellt. Nähere Auskünfte zu den CC-Lizenzen finden Sie hier: https://creativecommons.org/licenses/by-nd/2.0/deed.de

Terms of use:
This document is made available under a CC BY-ND Licence (Attribution-NoDerivatives). For more Information see: https://creativecommons.org/licenses/by-nd/2.0
Batalla, Eric Vincent C. (2016),

URN: http://nbn-resolving.org/urn/resolver.pl?urn:nbn:de:gbv:18-4-10145
ISSN: 1868-4882 (online), ISSN: 1868-1034 (print)

The online version of this article can be found at:
<www.CurrentSoutheastAsianAffairs.org>
Divided Politics and Economic Growth in the Philippines

Eric Vincent C. Batalla

Abstract: As the 2016 elections drew near and the prospects of a Rodrigo Duterte presidency became stronger, there were concerns that the economy might be adversely affected by the expected political volatility under the new regime. Since the start of the campaign season, Duterte had been rocking the establishment through controversial pronouncements and outbursts, attracting the enmity of leaders of the Catholic Church, the United States, and the United Nations. Based on a review of recent political and economic performance, this article argues that unless there are significant changes in the major sources of macroeconomic growth and stability, the Philippine economy would likely withstand the impact of a “Duterte shock.”

Keywords: Philippines, Philippine politics, economy, macroeconomic growth, stability

Eric Vincent C. Batalla is a professor of political economy and current chair of the Political Science Department, De La Salle University, Manila, Philippines. His current research focuses on governance and development issues in the Philippines.
E-mail: <eric.batalla@dlsu.edu.ph>
Introduction

In the run up to the 2016 national elections, the spectre of authoritarianism rose to haunt the Philippines’ EDSA democracy. In the vice-presidential race, the son and namesake of the late dictator, Ferdinand Marcos, Jr., led the polls as of late March with a 6 per cent margin over the administration candidate, Leonor Robredo. The lead prompted anti-Marcos forces to campaign vigorously and denounce martial law with the slogan, “Never again.” The partial exit poll of the Social Weathers Station released in May still showed a Marcos lead, although it had been narrowed down and practically tied to Robredo, with 34.9 per cent to Marcos and 32.5 per cent to Robredo. Robredo, the wife of a former Naga City mayor and later secretary of local government who had died in a plane crash a few years ago, was tapped at the last minute by the Liberal Party after failing to secure Senator Grace Poe as the running mate to its presidential standard bearer, Mar Roxas. Robredo’s victory over Marcos, although by a small margin and tainted by electoral fraud allegations, represented a repudiation of the Marcos family’s return to presidential power, of which the vice-presidency was perceived as a stepping stone.1

In the race to the presidency, Rodrigo Duterte emerged as a surprise candidate. The former Davao City mayor, running under the banner of the Partido Demokratikong Pilipino-Lakas ng Bayan (PDP-Laban or Philippine Democratic Party – Power of the People), quickly led the polls after the first presidential debate held in February. Some observers saw the presidential race as a battle between continuity and change. Duterte represented change (in fact, his campaign slogan was “Change is Coming”), a repudiation of the Aquino government, and even of the EDSA establishment upheld by the 1987 constitution. Aside from popular appeal, his campaign benefited from the support given by former presidents Gloria Arroyo and Fidel Ramos and their allies. On the other hand, administration candidate Mar Roxas (of the ruling Liberal Party) symbolised continuity of the Aquino government’s platform, Daang Matuwid (Straight Path). Despite suffering from a lack of popularity and from the administration’s own political track record, Roxas managed to land in second place, with massive support coming from old elite families, while benefiting from the operations of the government machinery.

---

1 The original work for this article was conceived before the 9 May 2016 presidential elections and the preliminary findings were presented at the International Studies Association conference held in Hong Kong from 25–27 June 2016. The author is grateful to Professor Mark Thompson of the City University of Hong Kong for his support for this work.
Duterte is seen as an honest and hard-line politician, but brash and irreverent, whose leadership style best fits city politics in the conflict-ridden, southern island of Mindanao. However, these qualities have endeared him to a large segment of the voting population. Moreover, Duterte’s rise reflects public resentment of the existing establishment’s inability to effectively control crime, corruption and drug trafficking. On 9 May, under this platform of reform, Duterte won by a landslide, garnering a historic record of 16.6 million votes, higher than the 15.2 million votes received by his predecessor, Benigno Aquino III, in 2010.\textsuperscript{2}

The new president has been a controversial leader, even from the very outset. His public statements including invectives had an antagonising effect, alienating leaders of the Catholic Church, mass media, the United States and the United Nations. During the campaign period, he openly toyed with the idea of establishing one-man rule, further alarming establishment forces. Following his election, a spate of drug-related killings believed to be endorsed by the new government has added to the anxiety, even among the president’s supporters.

Thus, the situation in the first half of 2016 broke away from the relative stability enjoyed under Aquino’s administration, even if the latter had its share of corruption scandals and political controversies. The economy under Aquino expanded remarkably since 2010, with gross national income (GNI) growing at an average of over 6 per cent per year in real terms – the country’s best economic record since the early 1980s.

There was little assurance about whether this record could be kept or improved in the next administration given that Duterte, like other presidential candidates, did not lay down an economic programme during the campaign season. In June 2016, amidst growing anxiety over the country’s economic future, Duterte’s economic team unveiled a 10-point socio-economic agenda (see Appendix 1). This agenda essentially gave the assurance of continuing previous macroeconomic policies while seeking changes necessary for economic expansion and social development. Nevertheless, some unease remained as drug-related killings and controversial pronouncements continued.

Therefore, it is reasonable to expect some political turbulence under Duterte. However, it is not entirely clear how such adversity could drag down the economy. One could draw lessons from the recent past in order to produce a more plausible prognosis. In this sense, it would be interesting to examine how the economy has performed under varying

\textsuperscript{2} However, Aquino topped Duterte (and even Estrada and Arroyo) in relative terms, with 42 per cent of the total number of votes in 2010 against the latter’s 39 per cent in 2016.
conditions of political stability. Here, economic performance focuses on the average rates of growth of the economy at certain periods of time. Excluded from the performance analysis are issues of economic development such as poverty and economic distribution, which could be tackled elsewhere.

As the experience under the presidencies of Joseph Estrada (1998–2001) and Gloria Arroyo (2001–2010) would show, the economy gradually accelerated despite bouts of political turmoil and serious economic shocks. However, the evidence is only suggestive. While the country’s divided politics may have had some economic repercussions, other factors have operated to account for the improved economic performance. Particularly, financial and economic reforms that have gradually been put into place since the 1990s, as well as professional economic management, have led to strong fundamentals that have borne fruit in recent years.

### Divided Politics and the Economy under Estrada

The presidencies of Joseph Estrada (1998–2001) and Gloria Macapagal-Arroyo (2000–2010) depict a polity seriously divided. Both Estrada and Arroyo were popular leaders at the start of their administrations. Before getting elected as president, Estrada was already popular as a movie actor. His chances of being president were enhanced by a successful track record in government, first as city mayor, then as senator and finally as vice-president who headed President Fidel Ramos’ Presidential Anti-Crime Commission (PACC). The PACC has been credited for bringing down the alarming incidence of kidnappings, especially of rich Chinese Filipinos. His participation in the Senate’s decision to remove US military bases endeared him to Filipino nationalists. Estrada’s populist slogan, “Erap para sa mabirap” (Erap for the poor), helped to earn him 39 per cent of the total votes during the May 1998 elections.

Arroyo was a member of the political elite but became even more popular through her personal credentials and experience in government since 1986. The daughter of a former president, she had a PhD in economics and taught at prestigious universities. She served in high official capacities at the Department of Trade and Industry (as assistant secretary and undersecretary) under the Corazon Aquino government before being elected as senator in 1992. She successfully ran for vice-president in 1998 and served in the Estrada cabinet as secretary of social welfare and development. In 2001, she replaced Estrada after a coup d’état dubbed as ‘People Power 2’. In 2004, Arroyo was elected president, breaking
Estrada’s record of 10 million votes (39.86 per cent) with 12.7 million (39.99 per cent of the total votes).

Despite their initial popularity and majority legislative coalitions, the two presidents experienced significant slumps in public trust ratings, divided governments, destabilisation and takeover attempts during their terms of office. Estrada assumed the presidency at a time when East Asia was reeling from the effects of the 1997 Asian financial crisis. The peso (PHP) suffered from sharp depreciations in its value from 1997 to 2000. The peso fell from PHP 26.28 to the US dollar in 1996 to PHP 39.97 in 1997, PHP 40.25 in 1999, and PHP 49.95 in 2000. The currency slide in 2000 had been attributed to the exodus of investments from the Philippines, which media and some economists blamed on Estrada’s political and economic leadership.

After enjoying a 60 per cent net satisfaction rating from Social Weather Stations (SWS) in September 1998, Estrada’s public approval plummeted and registered a net of 5 per cent by December 1999. Apparently, media exposure of his work habits and shady associations compounded by high fuel prices affected public approval. While public ratings recovered slightly months after, the president suddenly was caught in a serious corruption scandal. In October 2000, a close friend and associate, Luis Chavit Singson, confessed to having given large sums of money to Estrada as payoffs from jueteng, an illegal numbers game. The ‘Juetengate’ scandal led to prolonged Senate Blue Committee hearings, which were broadcast nationally. In November, despite the pro-Estrada majority in the Lower House, a group of congressmen supported by House Speaker Manuel Villar successfully impeached Estrada. The impeachment was the first in Philippine history but still required conviction by the Senate for the president’s removal.

However, the Senate was dominated by Estrada allies who apparently did not favour the president’s conviction. In one of the trial hearings held late in January 2001, on the strength of a testimony of a top official of a private bank, opposition senators moved to open an envelope containing financial details of an account allegedly owned by Estrada. This move was frustrated by administration coalition senators. One of them was caught on television dancing in joy on the Senate floor over the victory. The incident infuriated the public, leading to a spontaneous mass gathering the following morning. After days of demonstration, military generals and the defence secretary withdrew their support for the president and joined the demonstrators. Estrada was forced to step down from office. This was People Power 2, which led to the government takeover by Vice-President Arroyo.
During the period surrounding Estrada’s ouster, media and other local economists pointed out corruption and economic mismanagement. For instance, an article from the *International Herald Tribune* reported:

Mr. Estrada, a hard-living former movie actor, was ruined by accusations that he had taken $11 million in bribes. He left behind a nation staggering under a greater burden: spiraling budget deficits, a battered stock market, a de-valued currency, and a new reputation for chicanery that sent even the most loyal investors packing. [...] What makes the collapse all the more painful is that the Philippines had emerged from the Asian economic crisis in better shape than most others in the region. In part that was because it never experienced the vertiginous growth or asset inflation of countries like Thailand and South Korea. But it was also a result of Manila’s fiscal discipline, which produced budget surpluses from 1994 to 1997. (Landler 2001, as cited in Yap 2001)

Economists Sicat and Abdullah (2003: 132) also attributed large fiscal deficits incurred to Estrada’s leadership in economic affairs, noting its inability to pursue stronger tax administration and privatisation. They said:

Although the Asian financial crisis made economic conditions difficult, the Philippines was in a good position to take advantage of potential gains from the opportunity to install deeper economic reforms. However, the Estrada administration plunged the country into further, self-inflicted, pain through numerous mistakes that served to undermine investment confidence.

The claim that heightened political risk under Estrada explained both the peso’s drastic slide in 2000 and the fall in stock market activity is partly true and partly exaggerated. Yap (2001: 4) pointed out that, apart from external factors, there was “no other concrete evidence of the impact of the political crisis, especially in the real sector.” However, Yap also speculated that the difference between the upper limit of the government’s GDP target of 4.5 per cent and the 3.9 per cent estimated growth in 2000 could be due to the anti-Estrada sentiment of most local business people. Comparing the depreciation of certain currencies in the region suggests the currency effects of political instability. In 2000, both the Philippines and Indonesia were marked by political volatility. Table 1 shows that the rate of peso depreciation was only surpassed by that of the Indonesian rupiah. The weakening of the Indonesian rupiah in 2000 was caused by social unrest and political instability following President Suharto’s fall the year before (Bank Indonesia 2005).
Table 1. Depreciation of National Currency vis-à-vis US Dollar, Selected Asian Countries (1996–2007; in %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Indonesia</th>
<th>Korea, Republic of</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>-3</td>
<td>-9</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>-2</td>
</tr>
<tr>
<td>1997</td>
<td>-95</td>
<td>-101</td>
<td>-54</td>
<td>-52</td>
<td>-20</td>
<td>-84</td>
</tr>
<tr>
<td>1998</td>
<td>-73</td>
<td>29</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td>1999</td>
<td>12</td>
<td>5</td>
<td>0</td>
<td>-3</td>
<td>0</td>
<td>-2</td>
</tr>
<tr>
<td>2000</td>
<td>-35</td>
<td>-11</td>
<td>0</td>
<td>-24</td>
<td>-4</td>
<td>-15</td>
</tr>
<tr>
<td>2001</td>
<td>-8</td>
<td>-4</td>
<td>0</td>
<td>-3</td>
<td>-7</td>
<td>-2</td>
</tr>
<tr>
<td>2002</td>
<td>14</td>
<td>10</td>
<td>0</td>
<td>-3</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>2003</td>
<td>5</td>
<td>-1</td>
<td>0</td>
<td>-5</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>2004</td>
<td>-10</td>
<td>13</td>
<td>0</td>
<td>-1</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>2005</td>
<td>-6</td>
<td>2</td>
<td>1</td>
<td>6</td>
<td>-2</td>
<td>-5</td>
</tr>
<tr>
<td>2006</td>
<td>8</td>
<td>8</td>
<td>7</td>
<td>8</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>-4</td>
<td>1</td>
<td>6</td>
<td>16</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: International Finance Statistics (IFS) online.

In hindsight, the Philippine economy performed well in 2000 compared to the years immediately following the Asian financial crisis. Gross domestic product (GDP) grew by 4.4 per cent in real terms. After a standstill in 1999, net primary income grew by 31.7 per cent, leading to a 7.7 per cent growth in GNI in 2000. This performance came against the backdrop of high fuel prices and sharp peso depreciation. Amidst external economic volatility and domestic political strife, the economy under Estrada grew respectably, on average.


Gloria Macapagal-Arroyo’s succession as president in January 2001 was legitimated by the Supreme Court, led by its chief justice, Hilarion Davide, Jr. Unfortunately, judicial legitimation did not earn Arroyo sufficient trust from the larger public. The March 2001 SWS survey showed Arroyo receiving only a 24 per cent net satisfaction rating, the lowest at the beginning of the term of any Philippine president from Corazon Aquino to Rodrigo Duterte. Then, from late 2003 to the end of her term in 2010, Arroyo’s net ratings were all negative. The Arroyo years were littered with corruption and political scandals. As expected, serious challenges to Arroyo’s rule were raised, including destabilisation and impeachment attempts. The embattled president survived these challenges and successfully ended her term in June 2010.
The first serious challenge came days after Estrada’s arrest for plunder charges in April 2001. For two days, Estrada supporters, including key members of the Senate, massed up at EDSA in an attempt to replicate People Power 1 and 2. Marked by riots and vandalism, ‘People Power 3’ ended unsuccessfully on 1 May. The outcome of the mid-term elections held in May strengthened Arroyo’s hold on government as her People Power Coalition (PPC) defeated Estrada’s Puwersa ng Masa (Force of the Masses) coalition. The PPC’s victory somehow stabilised Arroyo’s transition to power; however, the electoral defeat of former 1980s coup leaders, Senators Juan Ponce Enrile and Gregorio Honasan, encouraged restiveness within the military.

At least three incidents of military belligerence occurred but failed during the Arroyo administration. The first was the 2003 Oakwood Mutiny, in which military rebels protesting against corruption seized a luxury serviced apartment facility in the Makati Central Business District (CBD). In 2007, military officers being tried for the mutiny laid siege to the Manila Peninsula hotel, also in the Makati CBD. The siege ended several hours later. Perhaps the most serious threat was the coup attempt in February 2006 in time for the People Power 1 celebration. Mass protests were planned to demand Arroyo’s ouster. On 20 February, bombs exploded in different places in Metro Manila. The discovery of military participation led to the immediate replacement of top ranking officials of the Scout Rangers and the Marines. The thwarted coup was the culmination of the political tensions that had built up since the 2005 controversial Hello Garci scandal, which implicated President Arroyo in electoral fraud. The scandal led to the withdrawal of support to Arroyo by former ally and friend, Corazon Aquino, key members of the Arroyo cabinet (the so-called Hyatt 10), and Liberal Party allies in Congress.

Apart from extra-constitutional means, the opposition also pursued legal channels for removing the president. From 2005 to 2008, impeachment complaints were filed at the House of Representatives, although none of these prospered. Arroyo had effective control of the Lower House but opposition members dominated the Senate.

The political instability that characterised the Arroyo administration did not prevent the Philippines’ economy from expanding in the 2000s. Economic performance was more vulnerable to shocks from abroad, such as high fuel prices, export demand slowdowns, and the global financial crisis that began in 2007. During the administration’s most politically trying period (2003–2007), the domestic economy grew by an average of 5.6 per cent per year in real terms, while income from abroad increased by 6.2 per cent per year. The Philippine peso, gradually appre-
associated from PHP 55.5 per USD in 2003 to PHP 41.7 in 2007, largely due to a weaker US dollar.

At the outset, the Arroyo administration faced a difficult economic situation, carried over from the past. Increased debt servicing led to ballooning fiscal deficits, as well as a decreased share of economic and social services to overall government spending. Consequently, austerity measures were imposed. In addition, the government passed the Electric Power Industry Reform Act (EPIRA) in 2001, which alleviated the power-related debt service burden by imposing a universal charge to consumers. Then, in 2005, the government adopted more revenue-enhancing reforms, including the expanded value-added tax (VAT) law that was implemented in early 2006. These reforms significantly relieved the fiscal pressure (see Figures 1 and 2).

*Figure 1. Consolidated Public Sector Financial Surplus/Deficit, 1996–2010*

Source: Bureau of Treasury (n. y.).
Figure 2. National Government Surplus/(Deficit) as a percentage of GDP, 2000–2014

Source: Bureau of Treasury (n. y.).

Figure 3. Debt Service Burden as a Percentage of GDP and GNI 1985–2015

Source: Bangko Sentral ng Pilipinas.
The Philippines found itself in the contagion of the global financial crisis of the late 2000s. However, the economy managed to stay out of recession and register a GDP growth of 3.9 per cent in 2009. The Arroyo government kept the country’s economy afloat through massive deficit spending in order to stave off the effects of the global recession. On average, the economy grew by an average of 5 per cent per year during the Arroyo administration. By most indicators, the economy was healthy and poised for higher levels of growth in succeeding periods.

Figure 4. Debt Service Burden as a percentage of Current Account Receipts, 1985–2015

Source: Bangko Sentral ng Pilipinas.

Stronger Fundamentals

The country’s external debt increased from USD 24.6 billion in 1985 to USD 77.5 billion in 2015. Unlike in earlier times, when the country was caught in a debt trap, increased debt in recent years has somehow been manageable. The economy in the latter half of the 2000s experienced substantial relief as the country’s external debt-service burden exhibited a pattern of decline. In 2006, the debt-service burden registered only about 5 per cent of GDP compared to 9.5 per cent in 2002–2003. By 2015, the debt-service ratio had fallen to 1.6 per cent of GDP (see Figure 3). Figure 4, which shows the debt service burden as a percentage of current...
account receipts, further suggests that the country has escaped the external debt trap since the 2000s.

Under President Benigno Aquino III, the Philippine economy enjoyed an impressive performance record. Real GDP growth averaged 6.1 per cent per year between 2010 and 2015. This recent economic performance was based on the expansion of domestic demand rather than on foreign trade, which had been largely affected by the global economic slowdown. As such, except for exports of goods and services, the average growth of all demand expenditure items accelerated at their highest levels compared to previous periods (Table 2). Economic growth during the Aquino years has been fastest in the secondary and tertiary sectors, especially financial intermediation, construction, real estate, manufacturing, transportation and communication, and trade industries (Table 3). However, agriculture registered a relatively disappointing performance, growing at an average of only 2 per cent per year in real terms.

Table 2. Average Annual Growth Rates of Gross National Income by Expenditure Shares, by Presidential Administration (1986–2015, at Constant 2000 Prices, as a Percentage)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Household Final Consumption Expenditures</td>
<td>4.3</td>
<td>3.6</td>
<td>4.6</td>
<td>4.4</td>
<td>5.9</td>
</tr>
<tr>
<td>II. General Government Consumption Expenditures</td>
<td>4.3</td>
<td>4.0</td>
<td>-2.3</td>
<td>4.5</td>
<td>6.9</td>
</tr>
<tr>
<td>III. Gross Domestic Capital Formation</td>
<td>9.1</td>
<td>5.3</td>
<td>-6.3</td>
<td>1.6</td>
<td>9.3</td>
</tr>
<tr>
<td>IV. Exports of Goods and Services</td>
<td>7.2</td>
<td>9.7</td>
<td>11.9</td>
<td>5.7</td>
<td>5.1</td>
</tr>
<tr>
<td>V. Less: Imports of Goods and Non-Factor Services</td>
<td>12.1</td>
<td>10.7</td>
<td>6.6</td>
<td>3.3</td>
<td>6.4</td>
</tr>
<tr>
<td>Expenditures on Gross Domestic Product</td>
<td>3.5</td>
<td>4.1</td>
<td>3.7</td>
<td>5.0</td>
<td>6.1</td>
</tr>
<tr>
<td>Net Primary Income</td>
<td>24.2</td>
<td>14.8</td>
<td>8.7</td>
<td>6.8</td>
<td></td>
</tr>
<tr>
<td>Expenditures on Gross National Income</td>
<td>5.9</td>
<td>5.6</td>
<td>5.2</td>
<td>5.7</td>
<td>6.2</td>
</tr>
</tbody>
</table>

Source: Basic data: Bangko Sentral ng Pilipinas.
Table 3. Average Annual Growth and Shares of Gross Value Added by Industrial Origin (1998–2015 at Constant 2000 Prices, in %)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share of Total Gross Value Added</th>
<th>Average Annual Growth Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Agriculture, Fishery and Forestry</td>
<td>13.3</td>
<td>9.5</td>
</tr>
<tr>
<td>II. Industrial Sector</td>
<td>35.3</td>
<td>33.4</td>
</tr>
<tr>
<td>A. Mining and Quarrying</td>
<td>0.7</td>
<td>1.1</td>
</tr>
<tr>
<td>B. Manufacturing</td>
<td>24.5</td>
<td>23.2</td>
</tr>
<tr>
<td>C. Construction</td>
<td>6.5</td>
<td>5.9</td>
</tr>
<tr>
<td>D. Electricity, Gas and Water</td>
<td>3.6</td>
<td>3.2</td>
</tr>
<tr>
<td>III. Service Sector</td>
<td>51.4</td>
<td>57.1</td>
</tr>
<tr>
<td>A. Transportation, Storage and Communication</td>
<td>5.8</td>
<td>7.7</td>
</tr>
<tr>
<td>B. Trade and Repair of Motor Vehicles, Motorcy-cles, Personal and Household Goods</td>
<td>14.6</td>
<td>16.7</td>
</tr>
<tr>
<td>C. Financial Intermediation</td>
<td>5.3</td>
<td>7.2</td>
</tr>
<tr>
<td>D. Real Estate, Renting and Business Activities</td>
<td>9.9</td>
<td>11.3</td>
</tr>
<tr>
<td>E. Public Administration and Defence; Compulsory Social Security</td>
<td>5.6</td>
<td>3.9</td>
</tr>
<tr>
<td>F. Other Services</td>
<td>10.2</td>
<td>10.3</td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Basic data: Bangko Sentral ng Pilipinas.

As the global economic crisis extended, the country’s revenue effort declined, bottoming out at 13.4 per cent of GDP in 2010. Improved revenue collections, particularly tax revenues, were experienced during the Aquino administration. The revenue effort regained its pre-crisis level in 2015. Likewise, the economy continued to exhibit a strong balance of payments position despite a negative USD 2.8 billion deficit in 2014 that was caused by capital outflows reacting to the US Federal Reserve’s decision to end its six-year quantitative easing policy. The Fed’s policy was intended to lower interest rates and boost economic activity in the United States. By late 2015, the Philippines showed healthy macroeconomic fundamentals, with low inflation rates as well as primary budget and current account surpluses.

As is now widely acknowledged, the growth in domestic demand has been fuelled by overseas remittances as well as the expansion of the information technology and business process outsourcing (IT-BPO)
industries. Remittances from abroad amounted to USD 6 billion in 2000 but rose to USD 25 billion in 2015 at an average growth rate of about 10 per cent per year (see Figure 5). The 2015 Philippine Statistics Authority survey estimates that there are approximately 2.4 million overseas Filipino workers (OFWs) most of whom are contract-based. This represents more than 5 per cent of the Philippine labour force. However, the Commission on Filipinos Overseas has revealed that more than 10 million Filipinos lived overseas in 2013. Earnings remitted from abroad have supported the growth of household consumption expenditures, which has contributed to the expansion of the fiscal space via the VAT and other forms of government revenue. Further, according to Paderanga (2014), the massive inflows of remittances benefited the economy in other ways. First, a large and continuous supply of foreign exchange lowered exchange rate uncertainty. Second, remittance inflows of the 2000s increased liquidity, which kept interest rates low. Third, the peso’s appreciated exchange value maintained low inflation rates.

Following overseas remittances, the IT-BPO industries serve as an important source of employment and foreign exchange revenues. These industries include contact (call) centres, transcription, software development and animation and their total revenues in 2004 registered USD 1.3 billion, rising to USD 15.3 billion in 2013. News reports revealed revenues of approximately USD 22 billion in 2015. Export receipts constituted 92–93 per cent of total revenues, with more than half attributed to contact centre activities. In 2004, IT-BPO industries employed almost 95,000 people; by 2013, this number had increased to 851,782. Recently, the IT-BPO industry association announced that total employment had already breached the one million mark in 2015, representing approximately 5 per cent of all employment in the services sector.

The Philippines’ escape from a debt trap to a path of accelerated growth can be largely attributed to the reforms instituted since the 1990s, as well as the professional management of the economy. Following the economic debacle of the 1980s, market-oriented reforms were decisively instituted, especially during the administration of President Fidel Ramos. The Ramos government’s reform policies established renewed confidence in the economy and laid the foundations for future macroeconomic growth and stability. After the successful (but costly) resolution of the energy crisis that hit the Philippines in 1989, the government began levelling the playing field and raised the country’s international competitiveness.
Privatisation and deregulation policies freed a number of sectors from monopolies and cartels while significantly reducing the number of government-owned and controlled corporations (GOCCs). Banking, civil aviation and telecommunications were opened for greater competition.

Banking and financial system reforms from 1993 to 1995 were critical. Prior to that time, the financial system was weak and poorly regulated, making the economy highly vulnerable to domestic and external shocks. The most painful memory was the banking and financial crisis of 1981 triggered by the Dewey Dee scandal. Dee, an industrialist, fled the Philippines leaving a huge pile of debt from banks and other financial institutions. The discovery of his departure caused bank runs and the failure of several banks and large firms. The Marcos government decided to bail out some large firms, including those owned by cronies. This decision widened the fiscal deficit, which was largely financed by foreign borrowings of the Central Bank (Lamberte 1989). With international credit tightening and terms of trade remaining unfavourable, the Philippines eventually fumbled into a debt crisis.

The painful experience of the 1980s necessitated an institutional framework to strengthen the banking and financial sector. In July 1993, a new monetary authority, the Bangko Sentral ng Pilipinas (BSP), was established to replace the old and financially strapped Central Bank. The new law gave the BSP fiscal and administrative autonomy to effectively pursue its mandate of maintaining price and monetary stability inde-
Another reform policy was the liberalisation of the banking industry. The reform allowed new entrants to participate and open branches in both urban and rural areas. Also, foreign banks were allowed to participate in the domestic financial market on a limited basis. A third area of reform involved ensuring the sound operation of financial intermediaries. The BSP improved its prudential supervision and regulation of financial intermediaries. It raised the minimum capital requirements of banks; imposed restrictions on bank policies regarding single-borrower limits and loans to directors, officers, stockholders, and related interests (DOSRI); and required banks to observe stricter risk reporting practices. These measures were necessary since prior bank lending and reporting practices had led to the industry’s collapse in the early 1980s. As a result, the financial system’s health became sounder than it had been.

Equally critical to the economy’s improvement was the liberalisation of the foreign exchange market and of the capital account. Although foreign exchange market controls were gradually eased during Aquino’s tenure, the Central Bank’s issuance of Circular 1353 in September 1992 virtually removed restrictions on inward and outward capital flows. This had at least two important consequences. First, it encouraged overseas Filipinos to easily remit earnings from abroad. Second, it encouraged foreign debt and equity funds to enter the country. Soon after Circular 1353 was issued, the Philippines experienced a boom in lending and real estate based on overseas remittances and supported by external short-term debt and portfolio investments. Although the disadvantages of capital account liberalisation were felt during and after the 1997 Asian financial crisis, its overall benefits could not be discounted, as billions of dollars in remittances and foreign investments continued to flow in.

Public finances took a heavy toll from the economic slowdown and sharp depreciation of the peso when the Asian financial crisis struck. Despite tax reform legislation in 1997, the economic downturn led to a declining tax effort in 1998, which became evident after the new government led by President Joseph Estrada was elected. Former Estrada Budget Secretary Diokno (2010) argued that the comprehensive tax reform program (CRTP) of the Ramos government had in fact contributed to the decline by producing a narrower tax base. Accordingly, the CRTP reduced the corporate income tax rate while granting new fiscal incentives and increasing personal and other tax exemptions.

The Asian financial crisis caused the value of the peso to depreciate by about 40 per cent. One consequence of this was higher repayments on foreign-denominated obligations. Incidentally, in the first year of the
Estrada administration, the government began to settle large amounts of foreign payables, some of which had been contracted by the Ramos government in order to address the power crisis (Diokno 2010). Among the hardest hit by the peso depreciation was the National Power Corporation (NPC), a government-owned monopoly engaged in power generation and distribution. In the past, the NPC was among the country’s most profitable firms. However, since 1998, it had started to suffer losses annually as foreign debt repayments nearly doubled in peso terms. From PHP 3.6 billion in 1998, losses peaked to PHP 117 billion in 2003 (Cham 2007). Along with the deteriorating tax effort, NPC losses widened the public sector deficit (Lim 2009) and ushered another serious round of fiscal imbalances in the early 2000s.

Economic management during Arroyo’s term caused the improvement of public finance. The enactment in 2001 of the Electric Power Industry Reform Act (EPIRA) helped alleviate the NPC’s financial woes. The NPC turned around in 2005 and by 2006 the company generated a net income of close to PHP 90 billion. Further in the backdrop of a declining tax effort, a number of measures were adopted. First, government procurement processes were streamlined, which resulted in substantial savings. Second, revenue administration at the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) was strengthened. Third, a reformed value added tax (RVAT) law in 2005 was passed despite widespread opposition. The law increased the VAT from 10 to 12 per cent in 2006, expanded its coverage, and lifted previous VAT exemptions. The measure resulted in the increase of tax revenues by 22 per cent and of the tax effort from 12 to 14 per cent of GDP in the following year.

Improved public sector finances were accompanied by favourable current account balances realised in much of the 2000s. From 2003 onward, the Philippines enjoyed current account surpluses based on billions of dollars in current transfers (principally worker remittances) and service income (including business process outsourcing operations).

The independent BSP adopted inflation-targeting as a monetary policy rule in 2002 in anticipation of a strong peso regime. Inflation-targeting was deemed a more responsive tool for promoting price and macroeconomic stability than the old tools that had been based on exchange rate targeting and monetary aggregate targeting paradigms. The new approach, in which the government announces a range of inflation targets in order to condition inflationary expectations, involved active coordination between fiscal and monetary authorities. Except for a few
years since the policy’s adoption, actual inflation rates generally fell below inflation targets.

The role of country’s economic managers could not be discounted when accounting for the economy’s performance. Unlike in an earlier era, when it was highly vulnerable to political caprices, economic management has been generally left to professionals during the post-authoritarian period. Monetary policy is overseen by the BSP through the Monetary Board, which is composed of seven members led by the BSP governor. Admission to the Monetary Board follows strict standards of professionalism and integrity. BSP governors from Gabriel Singson (1993–1999) and Rafael Buenaventura (1999–2005) to Amando Tetangco Jr. (2005–present) have been recognised internationally as being among the world’s top central bankers. While they are sometimes led by political personalities, the Department of Finance (DoF) and the Department of Budget and Management (DBM) are usually headed by professionals who mostly come from the business sector and academia (Table 4).

Table 4. Finance and Budget Secretaries (1998–2016)

<table>
<thead>
<tr>
<th>President</th>
<th>Department of Finance</th>
<th>Department of Budget and Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duterte (2016–present)</td>
<td>Carlos Dominguez</td>
<td>Benjamin Diokno</td>
</tr>
</tbody>
</table>
Initial fears of economic decline have been allayed by the new government’s reiteration of its socio-economic agenda and also by indications that the economy is doing well. The Philippine Stock Exchange index (PSEi) was down to about 7000, just days before the May 2016 elections and even the day after on account of heavy net foreign selling. The mood then reversed and the PSEi climbed by 500 points a week later and reached 8000 by July.

However, anxiety over the economy continued because of political volatility arising from controversial domestic and foreign policies of the new government. An initial source of discomfort was the appointment to cabinet and other government posts of people from different parts of the political spectrum, including those from the radical Philippine Left. Duterte, who during the election campaign had flaunted communist leader Jose Ma. Sison as his teacher in college, appointed militants to head the labour, agrarian reform, social welfare, education, and anti-poverty portfolios of government. The appointments were expected to produce domestic conflict on key issues in these areas.

Another source of uncertainty relates to the government’s pursuit to end the major insurgencies. The government has resumed peace talks with the Communist Party of the Philippines (CPP) and the National Democratic Front (NDF) and it is not clear what concessions the government is willing to make, particularly in the area of economic reforms, where government and communist rebels have staked diametrically opposed positions. In regard to the Moro insurgency, the government’s proposal to shift to a federal system of government seemed to have been welcomed by major insurgent groups such as the Moro Islamic Liberation Front (MILF) and the Moro National Liberation Front (MNLF). Duterte, who had advocated for federalism during the presidential campaign, believed that peace with the Moros could be better achieved with a Moro federal state rather than an autonomous region dependent on the central government. However, as in the past, attempts to change the constitution, either in whole or in part, have been difficult to achieve and have generated much opposition.

Perhaps a more controversial project, which has generated a lot of media and international attention, is Duterte’s war on drugs. Similar to Thailand’s experience under Prime Minister Thaksin Shinawatra in 2003, Duterte launched an anti-drug war that resulted in over 2500 deaths during a five-month period. The killings were highly criticised locally and internationally and were, arguably, a primary cause of the recent souring in Philippine–American relations. While the bloody war had received
massive but silent public support, the US government has expressed in no light terms its concerns about extrajudicial killings and the disregard of due process. Duterte, in turn, resented foreign intervention in his response to the drug problem.

During the ASEAN Summit held in Laos in September, Duterte’s encounter with President Barack Obama did not reflect the warm friendship that had existed between the two countries, particularly during Aquino’s term. Originally scheduled for a one-on-one meeting, Duterte had warned Obama that if he was not “respectful” vis-à-vis Duterte’s anti-drug war, he would “curse” him in the forum. The US president then decided to cancel his appointment with Duterte. In response, Duterte did not attend Obama’s group meeting with leaders of Southeast Asia.

In early October, in an apparent reaction to a threat of aid withdrawal, the Philippine president again lambasted the US and other international bodies, saying,

We have a problem here trying to preserve our society and you mess up by [raising] human rights [issues]. You threaten us using your assistance. How do you look at us? Mendicants? (as quoted in Romero 2016).

Duterte then reminded local officials, including Vice-President Robredo, not to sacrifice the country’s dignity for “crumbs of foreign aid.” It was clear that Duterte had wanted what he perceived to be better and fairer treatment of the Philippines by the US. At one point, he even broached the idea of requiring US citizens to obtain a visa to the Philippines since Filipino citizens do the same (and at high cost for applying) when going to the United States. Duterte also wanted to secure an “independent” foreign policy that was less dependent on the US, which, while criticised by some, has also stirred nationalist sentiments anew. Despite wrangling with the Obama administration and issuing provocative anti-American statements, Duterte still received trust and approval ratings of 86 per cent from the September–October 2016 Pulse Asia survey. The survey also indicated that the president received the trust of at least 85 per cent of Filipinos from all socio-economic groups.

Still, the rants against Obama and the US have drawn concerns regarding the fate of American firms, especially BPO companies, in the Philippines. There was speculation that American BPO companies would pull out of the country, which would hit the domestic economy hard. News reporters worked on this spin through interviews with contact centre workers. However, there were no official indications of either pull-out or expansion of BPO firms. Policy ambiguity and confusion
reached a high point during the president’s state visit to China, when he announced a “separation” from the US, both militarily and economically. This made BPO workers worry about losing their jobs. Certainly, it alarmed the BPO industry association and the American Chamber of Commerce (AmCham), which immediately sought clarification from the government. US firms dominated the BPO industry in the Philippines. Duterte and cabinet leaders later assured the two associations that US firms would continue to receive government protection. Following a top-level meeting with Finance Secretary Carlos Dominguez, the AmCham, which had earlier criticised the Philippines government for drug-related killings, reaffirmed its support of Duterte’s socio-economic agenda.

Duterte’s visit to China signalled the return of friendly ties between the two countries. Relations between the two had become antagonistic during the Aquino administration over maritime territorial disputes in the South China Sea. Following a naval stand-off in April 2012, China seized control of Scarborough Shoal and imposed economic sanctions (tourism, fruit exports, etc.) on the Philippines. The occupation was legitimated by its nine-dash line policy, which officially demarcated China’s maritime territories. The Aquino government then filed a suit before the Permanent Court of Arbitration (PCA) at the Hague, Netherlands, which in July 2016 rendered a decision favouring the Philippines in its complaint against China’s nine-dash line policy. By the time the decision was rendered, Duterte had taken over the reins of government. However, the new government took care not to greet the PCA decision with official fanfare, and instead called for restraint and sobriety. This was consistent with Duterte’s policy of warming to China. During his state visit, Duterte was warmly welcomed by Chinese state leaders, including President Xi Jinping. The visit generated more than USD 24 billion in Chinese pledges of investment and funding.

The China visit signified the initial success of Duterte’s attempt to broaden the Philippines’ economic partnerships and diffuse military tensions in disputed territories. Following the visit, China relaxed its restrictions on Filipino fishermen in Scarborough Shoal. It also indicated the lift of restrictions on importations of Philippine fruits, particularly bananas, most of which come from plantations in Duterte’s home island of Mindanao. The success of the state visit encouraged the president to announce his “separation” from the US, which government officials later repackaged as a “rebalancing” of Philippine foreign policy. The “rebalancing” policy suggested the end of the “special relations” between the two countries and the country’s pursuit of a foreign policy independent
from its former coloniser and ally. Aside from China, the government also moved to forge closer ties with Russia.

The unfolding of the government’s rebalancing policy did not sit well with the pro-US business establishment, as well as the Philippine military, which depended on the US for its modernisation and other development programs. This discomfort within the military probably led to the Duterte government’s later clarification that the Philippines intends to continue its military alliance with the US (contrary to the president’s statement in China) and that the so-called alliance with China would only be for trade and investments.

Amidst the political controversies under the Duterte administration, the Philippine economy managed to grow by 7.1 per cent during the third quarter of 2016. Although portfolio investments produced a net inflow in October, the stock market had dropped to its pre-election low of around 7000 based on investor speculations on the US bond market and the election of Donald Trump as US president. Likewise, the peso exchange rate fell to close to PHP 50 to the US dollar. Overseas remittances during the January–September period exceeded USD 22 billion, an improvement of approximately 5 per cent from the same period in 2015.

Conclusion

Prospects of a Duterte presidency grew stronger as the May 2016 elections approached. This raised fears of the return to authoritarianism, which was further amplified by the strong showing of Ferdinand Marcos Jr. in the polls for vice-president. After the elections, these fears subsided somewhat but political uncertainty continued arising from the new president’s controversial actions and pronouncements. The early months of the new regime saw the country strongly divided over several issues, the most recent of which was the “surprise” burial of the late dictator Ferdinand Marcos at the Libingan ng mga Bayani (Cemetery of Heroes). Anti-Marcos advocates were adamantly opposed to “revisionist” claims of Marcos heroism and staged mass protests in protest of the burial and of the government’s complicity in it. Such incidents demonstrate the continuing unpredictability of political risks under a Duterte presidency and its effects on economic stability and performance.

In view of this, a review of the political and economic record of the past three decades suggests that macroeconomic performance has somehow been insulated from the divisiveness of Philippine politics. Despite the political turbulence that characterized the Estrada and Arroyo presi-
Divided Politics and Economic Growth in the Philippines

In the past 15 years, the Philippine economy has increasingly become stable and has achieved faster growth. As this paper has highlighted, economic stability and accelerated performance amidst political divisiveness are due to a number of factors. First, the increasing supply of foreign exchange revenues, especially from overseas remittances and the IT-BPO industries, has contributed greatly to economic expansion and stability, providing the means to cover payments of foreign obligations, helping lower interest and inflation rates, stimulating the domestic economy, and increasing the country’s international reserves. Second, the Philippines’ banking and financial system has been strengthened based on economic growth and stability, enabling a more robust and resilient financial sector. However, this is not an argument for the absence of economic repercussions in times of political volatility. One could speculate that higher levels of growth could have been achieved under conditions of political stability. In the context of political uncertainty under a Duterte leadership, the Philippine economy could be expected to expand further, assuming the foundations of growth and stability cited earlier remain intact. The rate of expansion depends partly on what government does or does not do to spur private entrepreneurial initiatives.

In the past 15 years, the Philippine economy has increasingly become stable and has achieved faster growth. As this paper has highlighted, economic stability and accelerated performance amidst political divisiveness are due to a number of factors. First, the increasing supply of foreign exchange revenues, especially from overseas remittances and the IT-BPO industries, has contributed greatly to economic expansion and stability, providing the means to cover payments of foreign obligations, helping lower interest and inflation rates, stimulating the domestic economy, and increasing the country’s international reserves. Second, the Philippines’ banking and financial system has been strengthened based on economic growth and stability, enabling a more robust and resilient financial sector. However, this is not an argument for the absence of economic repercussions in times of political volatility. One could speculate that higher levels of growth could have been achieved under conditions of political stability. In the context of political uncertainty under a Duterte leadership, the Philippine economy could be expected to expand further, assuming the foundations of growth and stability cited earlier remain intact. The rate of expansion depends partly on what government does or does not do to spur private entrepreneurial initiatives.

Table 5. Political Stability and Economic Performance by Presidential Administration since 1992

<table>
<thead>
<tr>
<th>President</th>
<th>Election Year</th>
<th>Number of Votes</th>
<th>Percentage of Total Votes</th>
<th>Political Situation</th>
<th>Average Real GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fidel Ramos</td>
<td>1992</td>
<td>5,342,521</td>
<td>23.58%</td>
<td>Generally Stable</td>
<td>4.1%</td>
</tr>
<tr>
<td>Joseph Estrada</td>
<td>1998</td>
<td>10,722,295</td>
<td>39.86%</td>
<td>Unstable</td>
<td>3.7%</td>
</tr>
<tr>
<td>Gloria Arroyo</td>
<td>2004</td>
<td>12,905,808</td>
<td>39.99%</td>
<td>Unstable</td>
<td>5.0%</td>
</tr>
<tr>
<td>Benigno Aquino III</td>
<td>2010</td>
<td>15,208,678</td>
<td>42.08%</td>
<td>Generally Stable</td>
<td>6.1%</td>
</tr>
<tr>
<td>Rodrigo Duterte</td>
<td>2016</td>
<td>16,601,997</td>
<td>39.01%</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

However, this is not an argument for the absence of economic repercussions in times of political volatility. One could speculate that higher levels of growth could have been achieved under conditions of political stability. In the context of political uncertainty under a Duterte leadership, the Philippine economy could be expected to expand further, assuming the foundations of growth and stability cited earlier remain intact. The rate of expansion depends partly on what government does or does not do to spur private entrepreneurial initiatives.
on reforms started in the 1990s. Third, liberalisation reforms have led to
greater participation in the economy by domestic and foreign actors.
Fourth, various administrations have instituted revenue enhancement
and related reforms that improved the national government’s financial
position. Lastly, skilful professionals have generally managed the econo-
my through various domestic and external shocks. These factors con-
tinue to sustain rapid economic growth despite Duterte’s controversial
leadership. While political risks are unpredictable, the country’s econom-
ic fundamentals remain strong. Nevertheless, there is still much work to
be done in order to address fundamental problems of mass poverty and
economic inequality.

References

Bank Indonesia (2005), Foreign Exchange Intervention and Policy: Bank
Market Intervention in Emerging Markets: Motives, Techniques and Implica-
tions, BIS Papers No. 24, Basel, Switzerland: Bank for International
Settlements, 177–187, online: <www.bis.org/publ/bppdf/bispap24
.pdf> (12 December 2016).
Bangko Sentral ng Pilipinas (various years), Annual Report, online: <www.
Bangko Sentral ng Pilipinas (various years), Key Statistical Indicators, online:
Bureau of Treasury (n. y.), Statistics, online: <www.treasury.gov.ph/?
page_id=746> (12 December 2016).
Cham, M. R. M. (2007), The Philippine Power Sector: Issues and Solu-
Diokno, B. E. (2010), Philippine Fiscal Behavior in Recent History, in:
International Financial Statistics (n. y.), Exchange Rates, online: <http://
Philippine Case, Philippine Institute for Development Studies Working
Paper Series No. 89-18, Makati: PIDS.
Lander, M. (2001), Daunting Task for Manila’s Finance Chief, in: Interna-
tional Herald Tribune, 10-11 February.
Lim, J. (2009), Macroeconomic Management, Chapter 4, in: D. Canlas et
al. (eds), Diagnosing the Philippine Economy: Towards Inclusive Growth,


Appendix 1

Duterte Government’s 10-point Socio-Economic Agenda

1. Continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies.
2. Institute progressive tax reform and more effective tax collection, indexing taxes to inflation.
3. Increase competitiveness and the ease of doing business.
4. Accelerate annual infrastructure spending to account for 5 per cent of GDP, with public–private partnerships playing a key role.
5. Promote rural and value chain development toward increasing agricultural and rural enterprise productivity and rural tourism.
6. Ensure security of land tenure to encourage investments, and address bottlenecks in land management and titling agencies.
7. Invest in human capital development, including health and education systems, and match skills and training to meet the demands of businesses and the private sector.
8. Promote science, technology, and the creative arts to enhance innovation and creative capacity towards self-sustaining, inclusive development.
9. Improve social protection programmes, including the government’s Conditional Cash Transfer programme, to protect the poor against instability and economic shocks.
10. Strengthen implementation of the Responsible Parenthood and Reproductive Health Law to enable especially poor couples to make informed choices about financial and family planning.