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The Philippines under new leadership

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On 9 May, Rodrigo Duterte, the mayor of a city called Davao in the southern Philippines, was elected as the new President with a large majority of the vote. Both during and after the electoral campaign, Duterte focused mainly on socio-political issues, which can best be summarised under the heading of "law and order" (B. Seemann, "Wahlen auf den Philippinen: Mit harter Hand für 'Recht und Ordnung'" [Elections in the Philippines: Leading with an iron fist in the name of "law and order", Konrad-Adenauer-Stiftung, country report, May 2016, www.kas.de/philippinen). His often very blunt wording as well as his aim to make fighting crime and corruption a priority have been met with strong approval. However, there is also fear that Duterte could become an authoritarian ruler or even a dictator (Associated Press, "New Philippine leader seen as both an emancipator and looming dictator", Japan Times, 10 May 2016).

Observers are also unsure about how Duterte will proceed with his economic policy. An eight-point plan, presented by the new President's transition team on 12 May 2016, provides an initial insight into his policies ("Transition team bares Duterte's 8-point economic agenda", 12 May 2016, www.rappler.com). Since then, cautious optimism has been spreading in the country and abroad that Duterte will largely be retaining the policies of his predecessor, Aquino. However, he intends to take a more vigorous approach towards reform measures than before in order to create higher-quality jobs as quickly as possible and to ensure higher income levels. On this issue, the president is in agreement with the World Bank, which also called for quicker reforms in its most recent report on the state of the country (World Bank, "Philippine Economic Update - Moving Full Speed Ahead: Accelerating Reforms to Create More and Better Jobs", April 2016, www.worldbank.org). The reason for this is that although the Philippines has become one of the most economically dynamic countries in East Asian and South-East Asia over the last few years under Aquino, the benefits have not filtered down to the poorer people in the country. Duterte repeatedly pointed this out in his election campaign, which is one of the main factors that explain his victory.

A mixture of high and low points – a look back at President Aquino's time in office

During President Aquino's time in office (30 June 2010 until 29 June 2016), the economy in the Philippines gathered a lot of momentum. The country, which was labelled the "sick man of East Asia" for many years, was transformed into an economic role model for the region. The economy grew during those six years at an average rate of over six per cent, the highest increase since the end of the 1970s (National Economic and Development Authority, "Statement of Secretary Balisacan on the 2015 Fourth Quarter and Full-Year Performance of the Philippine Economy", 2 February 2016, www.neda.gov.ph). At the same time, the financial situation of the country improved.

For example, the government debt ratio fell between 2010 and 2015 by over seven and a half points to just short of 45 per cent of gross domestic product (GDP) (Bureau of the Treasury, "National Government Debt Recorded at P5,954 Billion as of end-2015", press release, 4 February 2016, www.treasury.gov.ph). At the same time, the budget deficit in 2015 was as little as 0.9 per cent of economic output (Department of Finance, "National Government Posts Deficit at 0.9% of GDP for 2015", press release, 17 March 2016, www.dof.gov.ph). This positive development was also acknowledged by international credit rating agencies: S& P for example reaffirmed the country's investment grade in April 2016 ("Standard & Poor affirms Philippine's stable credit rating", The Philippine Star, 21 April 2016, www.philstar.com).

The economic strength gained by the country over the last few years became very apparent in 2015. Despite the weakening global economy, the various problems in China and adverse weather conditions as a result of the El Niño phenomenon, real GDP increased by 5.9 per cent (Philippine Statistics Authority (PSA), "Q4 2015 revised upward at 6.5 percent", annex, summary table, press release, 18 May 2016, https://psa.gov.ph/). The economy was driven primarily by high domestic demand: Consumer spending in the country increased by almost 8 per cent, and public and private investment even went up by more than 15 per cent in comparison to the previous year. Thanks to positive effects on income and employment as well as low inflation rates, private consumption also increased by 6.3 per cent. Transfers from Filipinos working abroad also had a positive effect on consumption within the country. In 2014, 27.3 billion US dollars were transferred, amounting to 9.6 per cent of GDP. This figure continued to grow in 2015 (World Bank, "Migration and Remittances Data: Annual Remittances Data (as of April 2016)", www.worldbank.org).

The increase in exportation of goods slowed down to 7.5 per cent according to the balance of payments as a result of the unfavourable situation in many importing countries (PSA, "Q4 2015 revised upward", loc. cit.). In contrast to this, the value of service exports increased by almost eight points to 15.3 per cent. Business involving business process outsourcing (BPO), e.g. call centres, increased sharply (PSA, loc. cit. NEDA, "Statement of Secretary Balisacan", loc. cit.).

Forecasts for 2016 are positive. Considering a very strong growth rate of 6.9 per cent in the first quarter, the current government is predicting an increase of between 6.8 and 7.8 per cent for the full year (NEDA, "Statement Emmanuel F. Esguerra, Socioeconomic Planning Secretary, Press Conference on the 2016 Q1 Performance of the Philippine Economy", 19 May 2016, www.neda.gov.ph). The World Bank is forecasting 6.4 per cent ("Global Economic Prospects: Divergences and Risks", June 2016, www.worldbank.org), and the Asian Development Bank (ADB) predicted six per cent in a report published slightly earlier ("Asian Development Outlook 2016: Asia's Potential Growth", March 2016).

The conditions for a significant increase in economic output are in place: Inflation is low, public finances are in order, the trade balance shows excesses and the foreign exchange reserves are more than sufficient. According to the World Bank, all of these factors provide political leaders with sufficient scope to deal with the consequences of a weak global economy and to advance reforms for domestic policy (World Bank, "Philippine Economic Update", loc. cit., p. 3).

The biggest problem that the new government will have to deal with is the fight against poverty. Despite high levels of growth in the past few years and some reform measures, more than 26 per cent of the 100 million inhabitants of the Philippines lived in poverty in mid-2015 (Philippine Statistics Authority, "Poverty incidence among Filipinos registered at 26.3%, as of first semester of 2015 - PSA", press release, 18 March 2016, https://psa.gov.ph). Furthermore, many young people remain excluded from this economic success; according to the World Bank, the unemployment rate for young people between the ages of 15 and 24 has consistently remained above 16 per cent since 2011 (http//data.worldbank.org/indicator). Overall, only 5.8 per cent of the total labour force was unemployed in January 2016 (PSA, "Employment Rate in January 2016 is Estimated at 94.2 Percent", press release, 11 March 2016, https://psa.gov.ph).

Corruption is another major problem, but some progress was made in this area under Aquino, as Transparency International's Corruption Perceptions Index indicates, for example. The latest rankings from 2015 put the Philippines at position 95 of 168 countries, whereas the country ranked 134 in 2010 (Transparency International, "Corruption Perceptions Index", www.transparency.org). However, this is only relative. Corruption is widespread and affects the everyday lives of both ordinary citizens and businesses (JC Ansis, "Cayetano: PH's problems all linked to corruption", CNN Philippines, 9 March 2016, http://cnnphilippines.com). Against this background, it comes as no surprise that corruption is still identified as one of the greatest obstacles standing in the way of all attempts to become more competitive on an international level, as it is deterring other countries from taking their business to the Philippines (e.g. World Economic Forum, "The Global Competitiveness Report 2015", www.weforum.org).

Duterte's economic programme

So far, Duterte has only provided an outline of which direction he will take in terms of the economy. The eight-point plan presented on 12 May 2016 provides some important information, but besides that, his objectives can mainly only be deduced from opinions and estimates of the new President's leading economic advisors.

In his eight-point plan, Duterte commits himself in principle to the economic policy of his predecessor, Aquino, but he is also keen to add his own spin to the programme. His programme primarily focuses on poverty and economic growth that reduces inequality, according to Ernest Pernia, the future Planning Minister for the Duterte cabinet. The new government's objective, Pernia states, is an average increase in economic output of between 7 and 8 per cent per year. But despite this, there would still be poverty. Pernia states that gains under Aquino were "very little and insignificant" given that the proportion of poor people among the population did not decrease ("Duterte's economic planner - 'Pro-poor policies' can achieve inclusive growth", Nikkei Asian Review, 30 May 2016).

A realignment of the development model is necessary, he adds. Instead of creating growth primarily through consumption as before, the focus should be on investments and exports, as this is the only way to create new jobs, according to Pernia. He is of the opinion that private consumption is important, but the focus on this factor as a driver of growth is too heavy ("we need consumption, but there is too much consumption"). In terms of sectors, the new government will turn to agriculture and industry in particular, where it will be possible to create many jobs. In contrast to this, the service sector has much less to contribute in the way of employment opportunities, according to Pernia.

It is not yet known in detail which steps the Duterte government will initiate in terms of agriculture and industry. Agricultural productivity and, as a result, income from farming should obviously increase through the creation of value chains, among other factors, which will connect small farming households more closely with the agro-industry which processes products. Aside from this, the government wants to provide support in terms of market access ("Transition team bares Duterte's 8-point economic agenda", loc. cit.). Moreover, the agricultural sector is set to receive more money from the government. Benjamin Diokno, who will be the budget minister under Duterte, has already announced his intention to go beyond the 300 billion pesos (5.7 billion euros) that Aquino's budget provided the sector with between 2011 and 2016. Improved agricultural infrastructure is to benefit from these funds first and foremost ("Agri spending to expand, with focus on infra, R&D - Diokno", Business World Online, 1 June 2016, www.bworldonline.com).

Ideas for industry have remained extremely vague up until now. Pernia, Head of Planning, indicated a desire to follow the successful example of other countries in South-East Asia to promote exports. In this context, the shift in China's development model towards more consumption could mean many new export opportunities for the Philippines' food industry ("Duterte's economic planner", loc. cit.).

Despite promoting agriculture and industry, the services sector will also provide a major contribution to economic growth under Duterte. It is precisely business involving BPO that is currently in full swing: Revenue reached almost 22 billion dollars in 2015, with the result that the industry contributed more than 6 per cent of economic output. The target for 2016 is a revenue of 25 billion dollars ("Philippine's back office shines in 2015, exceeds targets", Rappler, 3 February 2016, www.rappler.com). The sector also employs more than 1 million workers. This is about 2.5 per cent of the total labour force. However, employees in this sector are predominantly well-educated, English-speaking people. "Inclusive" growth can therefore only be achieved to an extremely limited extent within the BPO industry, according to the ADB ("Inclusive growth in Philippines? Not with BPO, remittances" Rappler, 11 April 2012, www.rappler.com).

Infrastructure to be modernised

The outdated infrastructure is one of the biggest obstacles to the country's economic development. For this reason, Duterte wants to raise spending for infrastructure to 7 per cent of GDP as early as 2016 ("Duterte admin to hike infrastructure spending to up to 7% of GDP", Inquirer.net, 3 June 2016, http://newsinfo.inquirer.net). The target rate of his predecessor, Aquino, was around 5 per cent for this year while in 2015, the rate was just over 2.5 per cent (J. Wagner, "Philippines: President-Elect Duterte Prompts Concern Over Economic Policy", The Diplomat, 25 May 2016, http://thediplomat.com). It will be crucial to obtain the funds on time. This has often not been the case in the past and has lead to numerous project delays. One reason for this, Budget Minister Diokno explains, is that some ministries set too high a budget, which in the end is never implemented: "They bite off more than they can chew" ("Duterte admin to hike infrastructure spending", loc. cit.). The new government wants to get the underuse of funds under control through reforms in the budget process, for instance.

For faster project implementation, changes are also set to be made to what has until now been a very complicated and time-consuming bidding process for public-private partnerships. The idea here is apparently to let a team of experts examine bids and subsequently award the contract to the best project ("Duterte's economic planner", loc. cit.). However, critics fear that a loss of transparency in the bidding process could go hand in hand with this kind of procedure (Wagner, loc. cit.).

A lack of foreign involvement

During Aquino's time in office, the Philippines made some progress in terms of foreign direct investment (FDI). According to UNCTAD, the total FDI going into the country in 2010 was almost 26 billion US dollars, increasing to just over 57 billion dollars in 2014 (http://unctadstat.unctad.org). The number of greenfield projects also increased over the last few years. According to fDi Intelligence, around 4.7 billion dollars were invested in 100 projects in 2010, while in 2015, just under 8.74 billion dollars flowed into 179 projects (J. Porter, "Philippines energises as FDI powerhouse", Financial Times, 28 April 2016, www.ft.com).

According to other sources, such as the Spanish bank Santander, it would have been possible to reach even higher figures, as the Philippines had a number of comparative advantages, such as well-educated, English-speaking workers, a close cultural proximity to the USA as well as a geographical location in an economically dynamic region ("Philippines (The): Foreign Investment", country profile, May 2016, https://en.portal.santandertrade.com). But many potential investors have held back until now. One of the main reasons for this is an article written into the 1987 constitution restricting foreign ownership of property to 40 per cent (P. Tacujan, "Protectionist clauses in the Philippine constitution restrict the flow of foreign direct investment", The Philippine Star, 3 June 2013, http://beta.philstar.com). Corruption, political instability, inadequate infrastructure and legal uncertainty also play a major role (Santander bank, loc. cit.).

Duterte and his economic advisors now want to change this. The eight-point plan states that the government intends to address these restrictions mentioned in the constitution. There have already been efforts to this effect in the past, but President Aquino was clearly not prepared to make amendments to the constitution ("Investment drag", Editorial, Philippine Daily Inquirer, 24 July 2015, http://opinion.inquirer.net).

Good framework conditions required

Without a change to framework conditions, the implementation of the economic programme will certainly fail. This is why Duterte wants to take special action against corruption among the authorities; the eight-point plan is an expression of this promise, designated Minister of Finance Dominguez has stated. The first point outlined in the economic programme is tax collection reforms. While this may sound completely harmless, it has caused a lot of controversy. Tax evasion is widespread ("Duterte's economic planner", loc. cit.). Many problems arise from the taxation system, which is based on outdated scales, according to Dominguez. "Reforms in the tax collection are a politically acceptable way of saying we will focus on eliminating corruption in the revenue-generating agencies", Dominguez has stated ("Transition team bares Duterte's 8-point economic agenda", loc. cit.). In particular, the national tax authorities and Bureau of Customs, who are responsible for the majority of government income, are suspected of corruption.

One of Duterte's most important political objectives is a federal system. The stark contrast between the capital city of Manila and the regions badly hinders the overall development of the country, he explained in his campaign. The regions need to be receiving more power and money to be able to determine the direction of their economic development by themselves, which in turn would help to increase competitiveness and strengthen the fight against corruption ("Duterte's pitch for federalism: Centralized system holds back PH", Rappler, 2 March 2016, www.rappler.com). Critics such as Senator Grace Poe, who was defeated in the election, recognise the danger that "political dynasties" could develop in the regions as a result of federalism, among other problems (ibid.). There is also a growing possible risk for foreign investors with regard to tax policy or regulatory differences in cross-regional infrastructure projects (Wagner, loc. cit.).

Regardless of this discussion, the country's largest company, San Miguel, is already adapting to the new power relations in the country. On 17 May 2016, the company stated its intention to invest 1 billion dollars in the southern island of Mindanao (C. Venzon, "San Miguel sacrifices mobile dream to Philippine politics", Nikkei Asia Business, 5 June 2016). Mindanao is also Duterte's home.

Whether or not and to what extent Duterte and his government are able to implement these plans remains to be seen. What is clear is that the new President will face many complicated tasks. Judging by his time in office as the Mayor of Davao, he will want to tackle and solve these issues consistently. If he manages to achieve fast, positive results, he is certain to gain a lot of support. However, achieving results in Davao, which he has taken as a model for the rest of the country, is not as great a task as success on a national level. An "iron fist" alone is unlikely to be sufficient and arbitrariness will attract criticism from abroad but especially from his compatriots. Duterte will also have to make compromises, but no indication of whether he is prepared to do so has been evident so far from his drastic language. If he is, however, able to convince his critics without just silencing them, the economic outlook for the Philippines seems rather positive.

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