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Joseph J. Capuno
(University of the Philippines)

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Dutertenomics: Populism, Progress and Prospects

Joseph J. Capuno¹

University of the Philippines

Abstract

In 2016 when Rodrigo Duterte became the President of the Philippines the economy was experiencing a record spell of high growth. His election is widely considered as a populist revolt especially of the middle- and upper-class Filipinos whose daily lives have not improved under the previous government. From his initial 10-point economic agenda to the laws he approved since then, his core policies are liberal economics in orientation. This paper both distinguishes and relates Duterte's authoritarian-populist political style ("Dutertismo") and his economic agenda ("Dutertenomics"). The distinction follows from his lack of interest in economic affairs, which he delegated to his economic managers. That this team ably pushes liberal economic reforms, albeit slowly and not always successful, is largely due the president's style, which continues to earn him wide public approval. Growth has slowed down during the first half of his term, however. To shore up the growth momentum, he needs to accomplish the rest of his economic agenda. Duterte may yet persuade Congress to support him in the last three years of his term.

Key words: Economic policies, populism, macroeconomic performance, Philippines

JEL Codes: E20, E60, O53

¹ Correspondence: Joseph J. Capuno, School of Economics, University of the Philippines, Diliman, Quezon City 1101, Philippines. Email: jjcapuno@up.edu.ph

1. Introduction

In 2017 the Center for Economic Studies of the University of Munich polled over 900 economic experts from 120 countries on whether populism has influenced economic policy making in their countries in the previous five years (Boumans, 2017). The results for Asian developing countries, including Philippines, are revealing. Around half of those in the region claimed that populism led to surge in redistributive policies, rise in short-term spending, and restructuring of the economy. About a third declared tax cuts and trade restrictions, while a fifth said limits in migration are among the effects of populism. Seemingly populism now has greater influence on economic policies than several decades before when Dornbusch and Edwards (1991) noted in Latin America that:

” ... populist regimes have historically tried to deal with income inequality problems through the use of overly expansive macroeconomic policies. These policies, which have relied on deficit financing, generalized controls, and disregard for basic economic equilibria, have almost unavoidably resulted in major macroeconomic crises that have ended up hurting the poorer segments of society.”²

Thus, it may be asked, which recent populist policies in the Philippines may hurt the poor eventually?

In mid-2017 President Rodrigo Duterte was just over a year in his term. The economy then was growing robustly for six years under President Benigno Aquino III (Cabuay and Hill, 2019), whose policies cannot be aptly described as populist. While Aquino expanded in a big way the coverage (and budget) of the conditional cash transfer program for the poor that was initiated by his predecessor (Gloria Macapagal-Arroyo),

² The quote is from Acemoglu, Egorov and Sonin (2013).

this program, like those in Latin America and South Asia, is not populist. In fact, President Aquino's economic policies have liberal economic orientation. For his economic agenda, Duterte said he would simply copy his predecessor's. Yet, Duterte's ascent to presidency is seen as a "populist revolt" (Heydarian, 2018), and that he is an "authoritarian populist" (Juego, 2017a, 2017b). Thus, it may be asked, too, if his economic policies will derail the economy from its growth path.

Duterte is grouped among current world leaders described as strongman, including Orban of Hungary, Putin of Russia, Erdogan of Turkey, Maduro of Venezuela and Chaocha of Thailand (Bremmer, 2018). Also, he is classified among populist leaders such as Modi of India, Trump of the United States, and Bolsonaro of Brazil (Heydarian, 2018; Norris and Inglehardt, 2017, 2019). While a strongman may not be a populist, that Duterte is considered as both, however, makes him unlike any other president since Marcos. To those who voted for him, his campaign slogan "Change is coming" must have rung true.

Jones and Olken (2005) presents the case for why leaders like Duterte can impact, independently from institutions, a country's economic growth. Elaborating on Weber's theory, they said that autocrats emerge where institutional constraints (electoral competition, independent legislature or judiciary) are weak. To the extent that political institutions shape economic institutions, which in turn shape incentives and ultimately economic outcomes (Acemoglu and Robinson, 2019), then a weak state led by an autocrat is likely to have inefficient institutions, distorted incentives, or economic decay or

stagnation. To be sure, the Philippines has been described as a weak state (Fabella, 2018; Teehanke, 2016).

This paper both distinguishes and relates Duterte's authoritarian-populist political style ("Dutertismo") and his economic agenda ("Dutertenomics"). The distinction follows from his lack of interest in economic affairs, a task he delegated to his economic managers. That this team ably pushes liberal economic reforms (the core of Dutertenomics), albeit slowly and not always successful, is largely due to the president's style, which continues to earn him wide public approval. Accomplishing the rest of Duterte's economic agenda will reverse the recent growth slowdown. In this, he must persuade Congress to support him in the remaining three years of his term.

By relating Dutertismo and Dutertenomics, this paper complements previous studies that focus more on the former (e.g., Timberman, 2019; Thompson, 2019) or the latter (e.g., Clarete, Esguerra and Hill, 2018, Ibon Foundation, 2018; Gochoco-Bautista, 2019). It also includes relevant updates.

The rest of the paper is organized as follows: section 2 describes Duterte's brand of populism, while section 3 reviews his initial economic agenda and latter legislations and polices. Recent economic trends and some prospect for the near term are analyzed in section 4 and section 5, respectively. Some concluding remarks end the paper.

2. Duterte's populism

If a people always get the leader they deserve, how did the Filipinos in 2016 come to choose a president like Rodrigo Duterte, described as an authoritarian populist (Juego, 2017a, 2017b)? Despite being late in joining the race in 2015, Duterte soon overtook the frontrunning candidates Jejomar Binay (then vice president and early popular favorite), Manuel Roxas II (cabinet member and anointed successor of Aquino), and Mary Grace Poe (senator and sentimental choice of the fans her departed movie-actor father). Having won 39 percent of the popular vote, he is said to be the first local politician ever to be elected directly as president (Timberman, 2019). Winning over Roxas, was remarkable in that effectively the people did not credit the establishment candidate for the record period of high growth under Aquino.

Not the macroeconomy, but the microeconomy that apparently mattered to voters. The people were dissatisfied with the public services that should protect them from crimes, alleviate traffic congestion, assist them bring food on their tables, or shelter them from typhoons, floods and other calamities (Teehankee, 2016b). It did not help that some Aquino officials were perceived to be corrupt or uncoordinated. That Aquino was also reluctant to dismiss incompetent allies in his Cabinet did not convince many of his good governance slogan *Daang Matuwid* (straight path). While he did right by the poor when he extended the conditional cash transfer program in 2016 to about 4.4 million indigent households (i.e., by nearly 3 million more than in 2010), he was found wanting by the middle class, who perhaps expected the most for their taxes. When Roxas tried to charm them by ditching his elitist style, he did not come across as credible.

In contrast, Duterte's style – uncouth, irreverent, irresponsible even – was honed for decades as mayor of Davao City³ in Mindanao, and which he did not try to conceal or change as a candidate, but, in fact, uses unapologetically even now as president. He curses, threatens to kill, and makes politically incorrect jokes in his formal speeches, which often baffle or discomfit the media, foreign dignitaries, elite and the polite society. While another candidate may mimic Duterte's communication style, his allure as a strongman is inimitable.

His allure started when he first won as Davao City mayor by promising to restore peace and order, especially by eliminating drug trafficking and gambling. Reputedly, he accomplished all that through both legal and extra-judicial means. To be sure, he also implemented curfews, fixed traffic flows, streamlined the processes in the city government, dismissed or admonished incompetent or corrupt local bureaucrats, and roamed in the city to mingle with his constituents (Ranada and Casuya, 2016). In his weekly radio program, he spewed expletives, threats and bad jokes against his opponents and critics. Impatient for results, he is a strongman in that he willingly and openly challenges existing government rules and procedures, and even public officials and media people that get in the way.

Like the peacock's tail, Duterte's campaign pitches – especially his improbable claim to solve the country's drug problem in six months – were believable signals of his fitness to be the president. His style – *Dutertismo* – was initially more about his authoritarian manner (David, 2016a, 2016b). While it morphed to populism, it was not by

³ Davao City is one of five richest cities in the Philippines outside Metro Manila and the main economic center in Mindanao.

proposing an alternative political ideology or program of government. He did not distinguish himself from his rivals by claiming to be more pro-poor, pro-farmer, pro-women or for any disadvantaged group. Understandably, however, he appeared more pro-Mindanao and “anti-imperialist Manila”. Instead, he boldly identified the “them” he was against: drug traffickers, corrupt or inept officials, oligarchs, his rival and critics in the Dilawan camp⁴ whom he claimed accomplished nothing, and even the media and the Catholic Church that decried him. Apparently, his strategy appealed to a large, if silent, pivotal voters already frustrated with or angered by “them” (Teehankee and Thompson, 2016b). Eventually they constituted, as it were, Duterte’s “we, the people” against “them, the elite and the establishment”. His charisma worked especially well with the upper and middle-class voters (Teehankee and Thompson, 2016a; De Dios 2017a).⁵

Dutertismo does not easily fit the left-wing populism in Latin America or the right-wing populism in Europe. Not a left-wing populist, Duterte did not promise the lower class more than others. Prudently, he and the other contenders pledged to continue the extensive and well-regarded Pantawid Pamilyang Pilipino Program (4Ps), as the conditional cash transfer program is called. Also, at that time, foreigners were small minorities in local communities anywhere in the country. Those that become public nuisance are some known terrorists constrained to a few areas. So, unlike in Europe, xenophobic sentiments had no populist appeal in the country.⁶

⁴*Dilawan* means yellow, the party color of Roxas and Aquino.

⁵ Interestingly, it was the middle class who rallied to remove the populist President Estrada from office and elected the populist President Duterte.

⁶ According to Mudde and Kaltwasser (2017), populism is a very thin ideology. Given its many variations, their common feature is identification of the “people” and “the elite or establishment” in a social issue.

Although the recent rise of authoritarian leaders is attributed to the failures of globalization (e.g., Rodrik, 2018b), it is hard to believe the same failures led to Duterte's ascent. In the Philippines, globalization will find a wide support from the more than a million overseas Filipino workers (OFW). Their hefty yearly remittances – amounting to US\$32.2 billion in 2018 alone – benefit their families, keep the Philippine economy afloat, and stock up the country's international reserves, an insurance against the repeat of the balance of payment crisis in the 1980s. Globalization will likewise be supported by the domestic workers (and their families) in the large and fast-growing business process outsourcing (BPO) industry. Reportedly, the BPO sector already employed 1.7 million people in 2017. With revenues of US\$24.5 billion in 2018 alone, the BPO industry trails only OFW remittances in terms of contribution to foreign exchange reserves.⁷

Other contend that globalization led to increased imports that adversely affected domestic producers, especially those in the agricultural sector. Yet, despite the sector's dwindling share in total output and the million people dependent on it, their plight has not been a decisive election issue. While all candidates pledge to resuscitate the sector, none of the reformist or populist presidents elected thus far has done enough by it.⁸

According to Juego (2017), Duterteism is best described as “an emergent social-political process”. It may be asked thus: a process towards what? Fabella (2019) answers: towards “a solution to the public goods failure.” According to this view, Duterte is the strong, unwavering arm of the state that enforces agreements among social actors to do

⁷ <https://www.bworldonline.com/ibpap-says-revenues-grow-in-2018-but-falls-short-of-road-map-target/>

⁸ Seemingly, the outcomes of presidential races follow a cycle of reformist and populist winners. (Teehankee, 2016a; Thompson, 2010a, 2010b)

their parts in solving collective action problems. Those who renege on their commitments will surely be penalized, even by extra-judicial means if necessary, as it turns out. How, then, has Duterteism influenced recent economic policies?

3. Dutertenomics

Unveiled in 2016, Duterte's original 10-point economic agenda include mostly liberal economic policies (Teehankee and Thompson, 2016a; Timberman, 2019). It was not particularly more populist than his predecessor's. Since then, he has signed laws of fiscal and economic significance. Some of them are part of his original agenda. Others are accommodations to changing macroeconomic conditions or social demands. A few bills he approved or vetoed before the mid-term elections in May 2019 have populist provisions. Even as new elements are introduced, the core of Dutertenomics – the Build, Build, Build (BBB) infrastructure investment program and the Comprehensive Tax Reform Program (CTRP) – remains, however.

On top the 2016 agenda is the continuation of the outgoing president's "macroeconomic policies, including fiscal, monetary, and trade policies", which are liberal economics in orientation. Also included in the agenda are: enhancing the implementation of social protection programs, particularly the 4Ps, and of the reproductive health law; investments in health and education systems to develop human capital and achieve better matching of jobs and skills; support science, technology and the creative arts; securing land tenure by addressing problems in land management and

titling; promoting rural areas through value chain development in agriculture, rural enterprises and tourism; and enhancing competitiveness and ease of doing business. Many of these are also carried over from before.

The two distinguishing items in the agenda are the tax reforms, and the target public investments on infrastructures.⁹ The Comprehensive Tax Reform Program (CTRP) comprises four major reforms on personal income and consumption taxes, corporate income taxes and incentive rationalization, real property valuation, and passive income and financial taxes. The first of these tax reform packages, the Tax Reform for Acceleration and Inclusion (TRAIN) Act was signed into law by Duterte in December 2017. This law reduces personal income taxes, but raises consumption taxes, and earmarks some of the tax revenues towards the target five percent of GDP for the BBB infrastructure program.¹⁰ Also, a part of the revenues are reserved for cash transfers or other assistance to the poor to cushion the effect of higher excise taxes. Interestingly, the law also allocates revenues for sugar farmers and other qualified beneficiaries (like jeepney drivers) whose incomes are expected to decline following the raising of excise taxes on sweetened beverages and petroleum products. A similar provision for tobacco farmers was vetoed by the president, however.

Besides the TRAIN Act, Duterte by July 2019 has signed 28 other laws, including, the Pantawid Pamilyang Pilipino Program Act (RA 11310) and the Ease of Doing Business Act (RA 11032). The former makes the 4Ps a permanent program. While not part of his

⁹ <https://romepe.dfa.gov.ph/99-trade-and-investment-in-the-philippines/578-the-presidents-10-point-economic-agenda>.

¹⁰ <http://taxreform.dof.gov.ph/>

economic agenda, he also signed a law waiving the irrigation fees of farmers, reportedly his campaign promise.

Also passed were three other laws that may be close to his heart. These are the law providing for rank classifications in the Philippine National Police and the Congressional Joint Resolution No. 1 that mandates a higher pay scale for the military and other uniformed personnel favor the police that are at the forefront of his anti-drug campaign. A law that supports the aspirations of his fellow Mindanoans, the Bangsamoro Organic Act enables the extant Autonomous Region of Muslim Mindanao to be replaced.

Two recent laws are notable for their fiscal import. Sponsored by an oppositionist senator, the Universal Access to Quality Tertiary Education Act provides for free tuition in all state all colleges to all their students regardless of income class. Reportedly, Duterte approved this law, which required a budget of 40 billion pesos and 51 billion pesos in 2018 and 2019, respectively, despite the advice of his economic managers. Sponsored by an ally senator, the Universal Health Care (UHC) Act of 2019 mandates the automatic health insurance coverage all Filipinos and the provision of funds for upgrades of public health facilities, among others. Implementing this law in the first year alone would require an estimated 257 billion pesos, or more than twice the budget of the Department of Health in 2018.

Also noteworthy is the rice tarrification law that was issued following the spike in food prices in 2018. While TRAIN 1 was blamed in the media for the spike, the real reason according to the economic managers was the escalation in the global price of crude oil, and partly the continued mismanagement of the food sector by the National Food

Authority. In lieu of the then corruption-prone import quota system, this law imposes tariffs on rice imports, and as well as allots six billion pesos of the tariff revenues for programs to enhance farmers' competitiveness.

By July 2019 Duterte has already vetoed seven bills. In particular, he rejected a bill concerning the disposition of the P100 billion coconut levy fund due to its inadequate provisions for safeguards and weak governance mechanisms, This time heeding the advice of his economic managers, Duterte did not sign the security of tenure bill, which essentially forbids employers from hiring workers on short-term contracts and mandates them to offer permanent jobs instead.

To show how Duterte's economic priorities are evolving since 2016, it is useful to review his legislative agenda as mentioned in his State of the Nation Address (SONA) delivered to the 18th Congress in July 2019. Specifically, he enjoined Congress to pass the CTRP's other components beginning with Package 2 (the Tax Reform for Attracting Better and High Quality Opportunities Bill), and a new Salary Standardization Law for teachers and nurses. He proposes bills to establish the Department of Disaster Resilience, Department of Water Resources, and Water Regulatory Commission. Another bill will review and optimize size of the government. Connected to his "war of drugs" are the bills on the pensions of military and uniformed personnel, mandatory ROTC training for those in Grades 11 and 12, and the reinstatement of the death penalty for heinous crimes related to illegal drug trafficking and plunder. Interestingly, he also urges the Congress to issue an improved bill for the disposition of the coconut levy fund.¹¹

¹¹ <https://www.rappler.com/nation/236058-list-duterte-priority-bills-sona-2019>

In sum, Dutertenomics is a blend of liberal and populist economic policies. The core policies (BBB initiative and the CTRP), if completed, will push the growth momentum beyond the short-term and may sustain the fiscal drain of his populist programs. Anticipating that economic policy reforms will produce winners and losers, he placates the latter by building into the TRAIN 2 provisions for their relief. These built-in reliefs are decidedly limited and temporary to ease but not forestall their adjustment. The built-in reliefs are populist measures that, according to Rodrik (2018a), “are not necessarily bad economics.” Those legislations that favor the police force are understandable since he needs them for his “war on drugs.” His decision to ignore his economic managers and approve the bill to extend free tuition in state universities and colleges, however, is populist. The 4Ps and the UHC, while not populist, will remain major expenditure programs.

4. Progress so far

In giving in to demands for populist economic measures, Duterte at the start was possibly motivated by a comfortable fiscal space and expectations of continuous growth. Table 1 shows selected performance indicators of the macroeconomy from the four preceding years up to the first three of Duterte’s administration.¹² During 2012-2018, the economy generally stayed in its established course. Per capita gross domestic product (GDP), in 2000 prices, grew steadily, from 65337 pesos to 78676 pesos between 2012 and 2016, and

¹² More precisely, the period covers only the first 2.5 years of his term which started in June 2016.

then rose to 86370 pesos in 2018. In the same years, per capita gross national income (GNI), also in real terms, were around 78738 pesos, 94707 pesos and 103240 pesos, respectively.

[Insert Table 1 here.]

In terms of output composition, the service sector accounts between 57 and 60 percent of GDP during the period. The share of agriculture dropped from around 12 percent in 2012 to 9.7 percent in 2016 and then further down to 9.3 percent in 2018. The share of industry consistently hovered around 30 percent.

Perhaps the most striking is the steady, high rate of annual growth at over six percent during the period. Moreover, the rates in some years are even higher than those Vietnam and China, the perennial top performers in the region. This and makes the Philippines no longer an exception in the company of high-growth East Asian countries (Clarete, Esguerra and Hill, 2018).

Agriculture, too, grew slowest relative to industry and service sectors. It even shrunk by 1.2 percent in Duterte's first year (2016). However, it bounced back to 4 percent in 2017. Industry grew fastest, expanding by more than 7 percent in most years. Services grew slightly slower than industry in most years.

Among the components of aggregate demand, government final consumption since 2015 has been growing faster each year than household final consumption. It even reached 13 percent in 2018. Gross capital formation, however, outstripped both. This is

on account of continued boom in the real estate and construction businesses and, in recent years, of the BBB spending. Since 2015 exports trailed imports in terms of growth, somewhat a reversal of the trend in 2012 and 2014.¹³

In terms of government finances, revenues, mostly from taxes, are about 15-16 percent of annual GDP. Government expenditures are around 16-18 percent of annual GDP. The annual budget deficit is low, equivalent to 1-2 percent of GDP.

In terms of external position, the current account balance was positive in 2012-2015. It was negative since then and reached the equivalent of 2.4 percent of GDP in 2018. The overall balance was likewise negative in 2016-2018, on account of steady increase in imports and unsteady growth in exports, indicating a worrying trend (De Dios, 2019).

The country had around US\$ 8 billion in international reserves each year, exceeding the amount needed to service its external debts (both outstanding and disbursed) in the same year. The Philippine peso steadily lost its value against the US dollar. From around 42 to the dollar in 2012, it traded for 47.5 in 2016, and then fell further to 52.7 in 2018. Inflation has been below 4 percent up to 2017. Then, in 2018, it spiked to 5.2 percent.

Unemployment rate is mainly on the decline. It dropped from 7 percent to 5.3 between 2012 and 2018. This trend suggests that more Filipinos now participate in the expanding economy.

¹³Note the 2018 imports and exports figures(bold) are from a different series and not comparable to the rest.

Incrementally inclusive growth

But, do more Filipinos partake of the bigger economic pie too? Arguably the biggest credit to the Aquino government is the sharp reduction in the poverty rate. Prior to Aquino's term, the headcount ratio was around 26 percent in 2006 and 2009. By 2012, less than three years into his term, the rate fell slightly to 25.2 percent. Three years later it dived dramatically by nearly 4 percentage points, which translates to around 1.82 million fewer destitute Filipinos. (Figure 1)

Income inequality also improved in recent years. The Gini index dropped slightly from 0.4641 to 0.4605 between 2009 and 2012. Then it dropped steeply to 0.4439 in 2015. This trend is dramatic considering that the Gini index even worsened from 2006 to 2009.

In 2016, the Duterte government adopted the development aspirations contained in the Aquino-government's *Ambisyon 2040*, a vision of the life Filipinos want by 2040. To achieve "a prosperous, predominantly middle-class society", the Philippine Development Plan 2017-2022 aims to further reduce poverty, from 21.6 percent in 2015 to around 13-15 percent by the end of Duterte's term in 2022. With a headcount ratio of 21 percent in early 2018, Duterte's government appears to be on track. It must work harder than ever, however, to bring it down to 15 percent in three years.

[Insert Figure 1 here.]

5. End-game prospects

With the conclusion of the mid-term elections in May 2019, the second half of the president's term commences. In the end game when the incumbent usually becomes a lame duck, Duterte has two things going for him politically. He may yet wield them to fulfill his economic agenda. His first political advantage is the complete election shut-out of the opposition from the 12 contested seats in the Senate, widely considered the more independent of the executive than the lower house of Congress. Moreover, his three favored candidates – Christopher Lawrence Go, Ronald de la Rosa, and Francis Tolentino¹⁴ – all won. Also, he has close or strategic allies to defeat the reduced oppositionists in the Senate. Further, the new Speaker of the House of Representatives is Alan Peter Cayetano, his running mate for vice president and former Secretary of Foreign Affairs. These members of Congress proclaim to follow Duterte's bidding.

Another advantage is his unceasing high popularity. His initial +64 net satisfaction rating is higher than those of the two previous presidents (Figure 2). Bucking the trend, his ratings remain relatively high after the so-called honeymoon period. From lowest at +45 in June 2018, his net ratings steadily inched up since then, topping off at +68 in June 2019.

[Insert Figure 2 here.]

¹⁴ At various times when Duterte was mayor of Davao City, Go was his executive assistant and personal aide, while De la Rosa his chief of police. When Duterte became President, he appointed Go as Special Assistant to the President, and De la Rosa as Chief Superintendent of the Philippine National Police. Before becoming a Senator, Tolentino is best known a long-time mayor of Tagaytay City.

To many, however, Duterte's high rating only gives him excuse to infringe human rights and undermine democratic institutions further. Reportedly, his "war on drugs" has already resulted in 12,000 casualties, many of them poor.¹⁵ Reporters and editors critical of him were sued or imprisoned. For criticizing him, Senator Leila de Lima lost her freedom, while former Supreme Court Chief Justice Maria Lourdes Serreno lost position. Defying the public, he has allowed the remains of former President Marcos to be buried in the *Libingan ng mga Bayani* (Heroes Cemetery). He has declared martial law in Mindanao and, at one time, even considered to extend it in other parts of the country. That he did all these did not disabuse many about his authoritarian proclivities.

To be fair, he accomplished with his authoritarian style some things that his predecessors failed to do. Demonstrative of his political will, two accomplishments particularly impressive. On his order, the whole island of Boracay was closed for business for six months in 2018. Despite the foregone tourism revenues on which most residents depend, they soon realized the necessity to rejuvenate the island suffering from environmental stress, which the local authorities ignored, if not aggravated. This episode clearly illustrates Dutertismo as a solution to a public goods failure (Fabella, 2019).

Another remarkable accomplishment is that his constant announcement of officials that he is going to fire for corruption, incompetence or abuse of power. These officials were dismissed or told to resign even before their culpability is established in court. Some of these officials were his appointees, allies or friends. In contrast, previous presidents kept errant officials until the media exposed them, depended them when

¹⁵<https://www.hrw.org/tag/philippines-war-drugs>

attacked, or allowed them to stay long enough to protest their innocence and even cover their foul-ups.¹⁶

Quick to take advantage of the situation, the Department of Budget and Management on August 20, 2019 submitted the President's Budget for 2020 to Congress. The proposed government budget is about 4.1 trillion pesos, of which about 972.5 billion pesos are intended for the BBB program. The target is to raise to the annual share of infrastructure spending in GDP to at least five percent, a rate comparable to the best among Southeast Asian countries.¹⁷

Shortly after, the National Economic and Development Authority (NEDA), as the secretariat of the Legislative-Executive Development Advisory Council (LEDAC), convened the council members from Congress and the cabinet to agree on the priority bills to be considered in the 18th Congress. The LEDAC is also slated to resume its quarterly meeting to ensure that the bill passed will reflect the desired provisions of the executive and none of the provisions that will force the President to veto it.

The early budget submission and the regular LEDAC meetings are also meant to avoid the delays in Congressional approval. When Congress failed to pass 2019 budget by one quarter, it also delayed fund release for many of the on-going or planned infrastructure projects. Add to this the election ban on public works, the delay had

¹⁶And, while Duterte's 'war on drugs' may not pass legal scrutiny, that it led droves of drug users and pushers in many places to voluntary surrender astonished many.

¹⁷ According to then Budget Secretary Benjamin Diokno, "Based on historical data, infrastructure spending as percent of GDP was not a priority of previous administrations. It hit 3.0% under President B. Aquino, 1.6% under President Arroyo, 1.8% under President Estrada, and 1.7% under President Ramos—all well below the 5.0% of GDP target for developing countries (see Chart 1). The Duterte administration has turned this around by investing an estimated 6.3% of GDP for public infrastructure in 2017 and 2018." URL: <https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/1385-infrastructure-outlays-to-gdp-ratio-twice-the-deficit-to-gdp-ratio>

palpable effects on the economy. As shown in Figure 3, GDP growth slackened in the first quarter of 2019. Apparently, the election spending did not stimulate the economy enough, as the GDP continued to decline, albeit at a slower pace.

[Insert Figure 3 here.]

In fact, the growth decline started much earlier. As shown in Figure 3, economic growth has dipped for five consecutive quarters since early 2018. While it is still five percent, at this rate the government will not trim the poverty rate down to 13-15 percent by 2022. To spur growth now and beyond the medium term, the government must accelerate its infrastructure spending, among others.

According to the NEDA, the government lists under its BBB initiative 75 flagship projects with an estimated budget requirement of 2.42 trillion pesos. Official Development Assistance will be tapped for nearly 70 percent of the projects. The rest will be funded from government sources, private sources and public-private partnerships. Of the 75 projects, however, only 22 are expected to be completed by 2022. While Public Works and Highways Secretary Mark Villar claims the president's strong resolve will speed up the BBB execution, reportedly most concerned national government agencies and local governments are already reaching the limits of their absorptive capacity due to limited trained manpower. Another problem noted, however, is the slow pace of government approval, especially of PPP projects, on which government guaranty has also

been lifted. Reportedly, among the ODA sources, only Japan is already well placed. The Chinese ODA is just starting.¹⁸

Whether China will become a big source of ODA depends on other aspects of its relationship with the Philippines. The foremost concern is the territorial dispute over some islands and maritime resources in the West Philippine Sea. While Duterte has adopted a soft stance towards China, many considers some of his decisions violate the Constitution, as dereliction of his duties to defend Philippine sovereignty, and ignore the international arbitral ruling that upheld the Philippines' claim over the disputed territory. More recently, the unwarranted intrusion of a Chinese battleship in the southern waters of the Philippines added to the tension. Another growing concern is the influx of more than a hundred thousand Chinese nationals supposedly to work in the Philippine Offshore Gaming Operations (POGO) industry. While the influx leads to boom in the real estate sector, lately it has also result in social tensions in local communities. Since many Chinese POGO workers are undocumented, they are also a big leak in the income tax collections. While China has recently requested the government to clamp down the Chinese POGO outlets, the resolution of this and other issues will wait for the outcome of the meeting between Duterte and President Xi Jinping in Beijing in the last of week of August 2019. In the long term, how the ASEAN members choose to make their collective stance towards China's territorial or economic overtures may strengthen or undermine the Philippines'.

¹⁸ "Golder age of promise?" in Demand and Supply by Boo Chanco, The Philippine Star. August 26, 2019.

The brewing China-US trade war, of course, will impact the Philippine economy. After all, China, US and Japan are the country's top trading partners. According to some estimates, the Philippines will be adversely affected by a full-blown trade war between the two economic giants (Abrenica, Gochoco-Bautista and Guzman, 2019).

Besides completing its flagship infrastructure projects, the government wants Congress to pass the bills for the remaining CTRP packages. Crucially, these bills must be enacted within the next two years or they may be enacted at all. From 2021 until the elections in May 2022, legislators will hesitate to approve new taxes, lest they risk public disapproval. To illustrate the point, the TRAIN 1 was widely blamed in the media for the spike in inflation in 2018. Pressures to amend it or postpone its implementation mounted despite the government's pronouncements that it was caused more by the rise in oil prices than the additional excise tax on petroleum products. Thus, if pressed, Congress will either defer passing the CTRP bills or introduce distortions in them, to win voters. Passing the laws soon will also accord policymakers some time to smoothen their implementation.

Indeed, the Duterte government has a short time left. If it took 1.5 years to enact TRAIN 1 (signed in December 2017), it only has maybe 2.5 years for three more tax reform packages. The uncertainties in the tax regime is reportedly making prospective foreign investors in export processing zones wary, if not withdraw. It will assuage these investors the sooner the executive and Congress agree on the provisions of CTRP Package 2 (corporation tax and investments incentives) and pass the law. Now more than ever, Duterte's economic managers need Dutertismo.

Duterte's lingering charisma with the people is a political capital he can use to make Congress and all the concerned government agencies work faster, and perhaps also win some sceptics and critics. He need not revived his other campaign promise to turn the Philippines into a federal state, which, according to surveys, most Filipinos do not understand or support. Fixing the traffic (which has not abated in Metro Manila up to now), controlling inflation, producing more jobs, maintaining peace and order, protection from typhoons and floods, these are the quotidian concerns that his economic team can and should address. Short of this, the people will awaken from the spell of his charisma (De Dios, 2017).

6. Concluding remarks

By 2040, the Philippines is a prosperous middle class society where no one is poor. People live long and healthy lives and are smart and innovative. The country is a high-trust society where families thrive in vibrant, culturally diverse, and resilient communities.

When assessed in terms of contributions toward this Filipino aspiration (as stated in Ambisyon 2040), Duterte's economic agenda and accomplishments so far compare favorably with and enhance those of Aquino's. The previous government prioritized human development. It rolled out the 4Ps nationwide, extended health insurance

coverage to the poor, and, through the reproductive health bill, gave couples more choices and better information to manage their families. It secured the funds for these programs by passing the Sin Tax Law. By extending the basic education to 12 years, with the idea that anybody who completes it, should he or she decides, will be ready for work. The Aquino government also initiated some of the public works projects that the Duterte government completed or now implements. In 2016 it also bequeathed to the same a robust economy.

To sustain growth and make it further inclusive, the Duterte government prioritizes improving physical capital and reforming the tax system. Duterte assumed office as a strongman, impatient for results, and unencumbered by ties to or favors from the Manila establishment, His authoritarian style however also led him to infringe on human rights and weaken liberal democratic institutions. Notwithstanding his popularity, these unsavory observations will soon erode trust, in government and society (reportedly “Dilawans” and “Dutertards” are already fighting viciously in social media). In a sense, Duterte affirms Weber’s theory that autocrats emerge in state with weak institutions. However, he may conform with Jones and Olken’s findings: autocrats, among the different types of leaders, have the most effect on economic growth. He has the political capital to make it a net positive impact.

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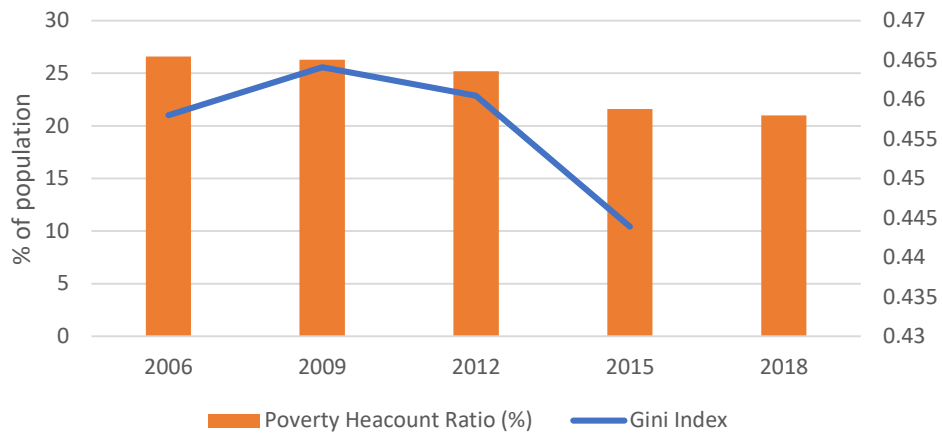
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Table 1. Key Macroeconomic Indicators of the Philippines, 2012-2018

Indicators	2012	2013	2014	2015	2016	2017	2018
Per capita GDP (at 2000 prices, in Philippine peso)	65337.06	68751.21	71749.77	74832.69	78676.03	82592.37	86370.00
Per capita GNI (at 2000 prices, in Philippine peso)	78738.13	83531.66	86940.34	90518.82	94706.84	99314.86	103239.62
Structure of output (% of GDP at current market prices)							
Agriculture	11.8	11.3	11.3	10.3	9.7	9.7	9.3
Industry	31.2	31.1	31.3	30.9	30.7	30.5	30.7
Services	56.9	57.6	57.3	58.8	59.6	59.9	60.0
GDP growth (% annual change)	6.7	7.1	6.1	6.1	6.9	6.7	6.2
By sector: Agriculture	2.8	1.2	1.7	0.1	-1.2	4.0	0.8
Industry	7.3	9.2	7.8	6.4	8.0	7.2	6.8
Services	7.1	7.0	6.0	6.9	7.5	6.8	6.6
Growth in Demand (% annual change)							
Household final consumption	6.6	5.6	5.6	6.3	7.1	5.9	5.6
Government final consumption	15.5	5.0	3.3	7.6	9.0	7.0	13.0
Gross capital formation	-4.3	27.9	4.2	18.4	24.5	9.4	13.2
Exports of goods and services	8.6	-1.0	12.6	8.5	11.6	19.5	13.4
Imports of goods and services	5.6	4.4	9.9	14.6	20.2	18.1	16.0
Government Finance (% of GDP at current market prices)							
Total revenue	14.5	14.9	15.1	15.8	15.2	15.7	16.4
Taxes	12.9	13.3	13.6	13.6	13.7	14.2	14.7
Total expenditures	16.6	16.1	15.6	16.7	17.5	17.9	19.6
Overall budgetary surplus/deficit	-2.3	-1.4	-0.6	-0.9	-2.4	-2.2	-3.2
Balance of Payments (% of GDP at current market prices)							
Exports	18.5	16.4	17.5	14.8	14.0	16.5	15.6*
Imports	26.1	22.9	23.6	22.7	25.7	29.3	30.4*
Current account balance	2.8	4.2	3.8	2.5	-0.4	-0.7	-2.4*
Overall balance	3.7	1.9	-1.0	0.9	-0.3	-0.3	-0.7*
International Reserves (as of end period, in \$ million)	83,831	83,187	79,541	80,667	80,692	81,565	79,193
Total external debt (outstanding and disbursed (as of end of year, in \$ M)	69,372	66,202	78,559	80,623	77,319	73,098	78,960
Exchange rate (P-\$, average of period)	42.23	42.25	44.40	45.50	47.49	50.4	52.7
CPI Inflation (%)	3.2	2.6	3.6	0.7	1.3	2.9	5.2
Unemployment rate (%)	7.0	7.1	6.6	6.3	5.4	5.7	5.3
Total population (as of 1 July, in million)	96.5	98.2	99.9	101.6	103.2	104.9	106.6

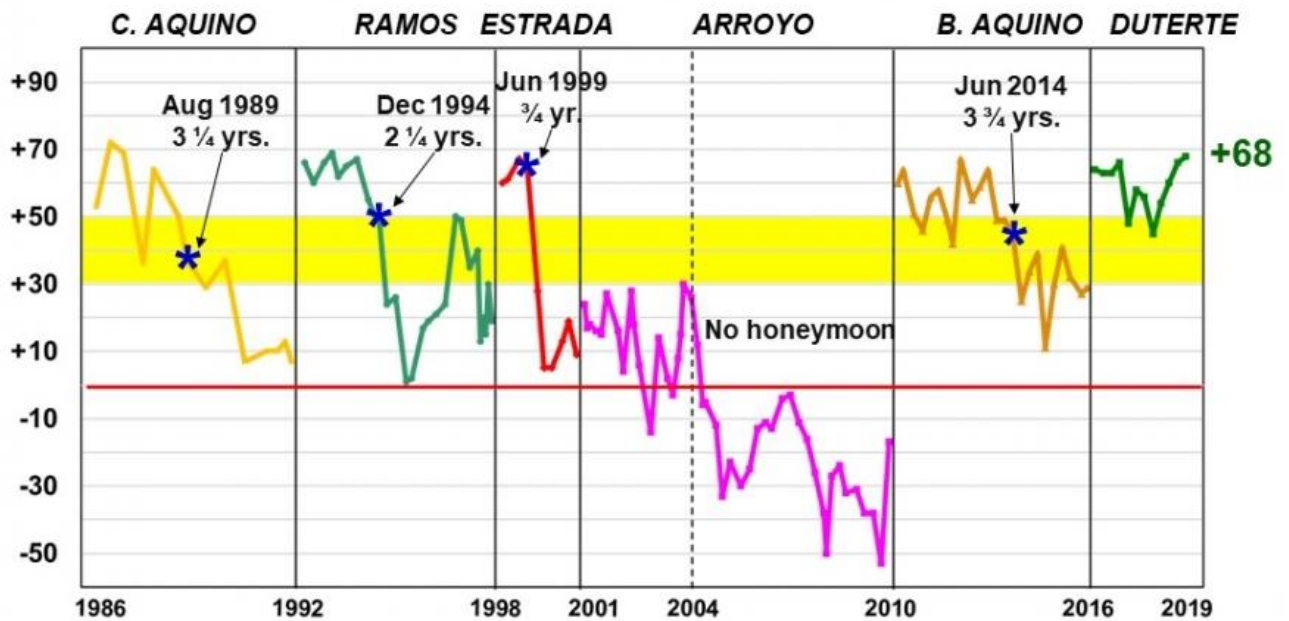
Source of raw data: For 2012-2017, Asian Development Bank Key Development Indicators 2019. *Preliminary

Figure 1. Poverty Headcount Ratio and Gini Index, 2006-2018



Source of data: Philippine Statistics Authority. The 2018 poverty headcount ratio is an estimate for the first semester. All other figures are full-year estimates.

Figure 2. Net satisfaction ratings* of Presidents: Philippines, May 1986 to June 2019

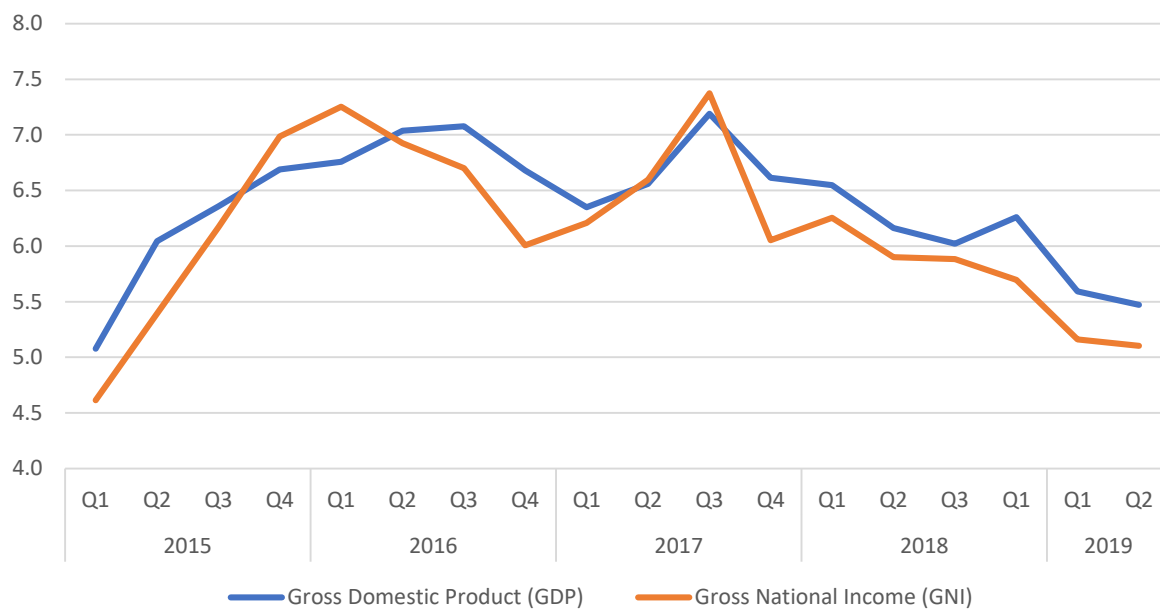


Source of figure: Social Weather Stations.

*% Satisfied minus % Dissatisfied correctly rounded. Ignores Don't Know and Refused to Answer responses.

Question: Please tell me how satisfied or dissatisfied you are in the performance of [Name] as President of the Philippines. Are you Very satisfied, Somewhat satisfied, Undecided If satisfied or dissatisfied, Somewhat dissatisfied, or Very dissatisfied?

Figure 3. Quarterly Growth Rate of Real GDP and GNI, 2015 Q1 - 2019 Q2



Source of raw data: Philippine Statistics Authority