

Subject: Gerry Sicat Article

## The Duterte administration after two years: Assessing prospects for higher growth

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[CROSSROADS \(Toward Philippine Economic and Social Progress\)](#) - [Gerardo P. Sicat](#) (The Philippine Star) - July 25, 2018 - 12:00am

In conjunction with this year's SONA (State of the Nation Address), which is the third for the Duterte presidency, we focus our commentary today on the administration's accomplishments during the first two years that are critical to the nation's economic and social development.

Focus on the engine of economic growth. Limiting the commentary to the vital issues that propel the engine of economic growth enables us also to see better the emerging issues of future economic growth. The economic achievements can also help to highlight the future foundations for further development.

Hence, it is possible to stress those factors that are likely to strengthen future growth based on plans and programs that are under consideration.

Most important among these factors refer to the draft political constitution. This project achieves some political objectives, but they can have far-reaching consequences on the capacity of the state to deal with its main functions of mobilizing economic resources for growth.

In short, this project is an important element determining the future of the nation's dynamism.

**Two-year record.** The first two years under the Duterte administration was marked by a high level of economic performance. The country's growth was among the highest in the East Asia region, notably within the ASEAN region.

This economic performance was backed by the maintenance of sound economic macroeconomic fundamentals that was fostered by steady and high levels of inward remittances from Filipino workers, the growth of BPO (business process outsourcing) service industries that set up in the country to employ the large pool of young, manpower skilled or literate in information technology, and further by steady export earnings.

The economic expansion in previous periods, however, was essentially driven by consumption and not by investment. In fact, there was underspending on public investments.

The remarkable achievement of the Duterte government was to turn the consumption-driven spending toward more investment spending. This has, of course, also included a higher tolerance for deficit spending.

In making economic growth investment-driven, the Duterte government decided to embark on expanding and prioritizing infrastructure construction. This was in part a response to correct the country's infrastructure gap. This is the so-called Build Build Build program.

This means the scale of investment spending has to increase. And in order to achieve scale, sufficient tax-financing has to be found.

**The comprehensive tax reform program, TRAIN.** Hence a comprehensive tax reform program that significantly raised government coffers had to be undertaken. This is the TRAIN (Tax Reform for Acceleration and Inclusion) program.

By the end of the second year of the Duterte government, Congress was able to pass the first part of the tax reform program. This is a milestone in raising the capacity of the government to finance its long-term public investment program.

However, there is a danger that some of the gains made in the tax reform program could be dissipated by the growth of revenue-sapping designed to placate populist demands that mainly represent new subsidies.

It is possible to lose perspective and finance programs that do not raise the economy's productivity. So great care has to be stressed in advancing the growth in government spending that only lead to subsidies.

The tax reform program is quite comprehensive. It includes a reordering of the investment incentives package, combined with a reduction of the corporate income tax, under Package 2 and two other packages that cover reforms in property and estate taxes and tax administration to include a tax amnesty.

In particular, Package 2 is highly needed to complement the already achieved Package 1 of TRAIN.. The timing for the passage of the second package is during the third year of the Duterte government.

All these components will lead toward the streamlining of the tax system and move it toward international "best practice." They will enhance further productivity and growth.

**Toward a federal political constitution for the nation.** President Duterte seems to endorse the draft constitution prepared by the committee appointed and headed by former chief justice Reynato Puno, which includes as member the local autonomy advocate, former senator Aquilino Pimentel.

The proposal is the definite draft for debate, review, and amendment. It is long, very detailed, and encompasses many aspects of government.

Although political documents need to be precise, they should also be simply stated, brief, architectural rather than detailed specifications. They should allow room for flexibility, as well as evolution of experience.

The inclusion of the restrictive economic provisions on foreign direct investments in the 1935 Constitution represents a major barrier in our economic development. I consider the provisions as the original sin of our major economic development policies when we started out as a young, independent nation.

Today, the same continues to exist in the proposed draft: to protect and place restrictions in the political document of our nation. We should specify our fears in ordinary laws rather than put them in permanent documents.

Yet, the draft constitution continues to include specific provisions on economic restrictions when these could be embodied in ordinary laws that could be subject to future adjustments.

There are many provisions on taxation and commerce that are included in this draft constitution when existing laws already provide them. General principles could displace specifics and details.

The coming into the picture of the Bangsamoro state entity within the nation is one justification for rewriting the constitution. Having the federal constitution would validate this new political entity and free it from constitutional challenge.

But I fear to have the nation broken up into so many federal units. In the draft plan, there are 16 such federal states. We will replicate federal bureaucracies into so many regions. We will waste hard-earned public resources setting up independent governments.

More important is that we will break up economically viable units and turn them into weak economic entities. Perhaps the nation could optimally be broken up into three strong federal units, dividing the country into three major island groups. In such a framework, there can be even a promotion of economic competition among the federal units.

Otherwise, a unitary state – one nation, plus the Bangsamoro entity – would present a better model. Within the unitary state, there could be a greater level of local autonomy. This will save resources for all the regional units concerned.

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