

# MBC FORUM

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## THE DUTERTE ADMINISTRATION'S TEN-POINT AGENDA: TOWARDS ECONOMIC REBALANCING AND GROWTH

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### AMB. JOHN D. NEGROPONTE

2016 MARKS THE 70TH ANNIVERSARY OF FORMAL DIPLOMATIC ties between the United States and the Philippines. In observance of the anniversary, a mural (by renowned Filipino artist Dominic Rubio of Laguna) was unveiled in June at the newly renovated former Philippine Embassy chancery building in Washington, entitled "The Great Promenade of Philippine-American Friendship." More than a century of people-to-people ties are illustrated in the art as depicted by migrants, who represent the diaspora of Filipino professionals arriving in the US to become part of the American fabric and form a nexus that continues to bind our two nations. Fast-forward and you will see that the building blocks put in place over the decades have served well as a foundation for an enduring, modern, 21st century relationship.

Looking forward, political currents will, of course, shape the tenor of those relations here and in the US. However, regardless



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*A special joint meeting of the Makati Business Club, the Carlos P. Romulo Foundation, the US-Philippines Society, and the Philippines-United States Business Council was held on 23 June 2016 at the Peninsula Manila in Makati City.*

*Former US Ambassador to the Philippines John Negroponte and Socioeconomic Planning Secretary Ernesto Pernia were the guests of honor. A panel discussion was also held with Ms. Teresita Sy-Coson, Mr. Manuel Pangilinan, and Mr. Guillermo Luchangco.*

of the election outcome in America, our two countries will continue to stand together against a range of global threats and challenges, including terrorism, cyber threats, climate change, narcotics and people-trafficking, and the principle of freedom of navigation.

Cooperation also extends to other areas, including work on development through the Millennium Challenge Corporation, and in areas of marine biodiversity, student exchanges, and high-tech innovation.

There is much to build on as we move forward. The Philippines has been on an upward trajectory, with steady high rates of economic growth, and a commitment to good governance, development and enhanced security. With a solid foundation in place, we see every reason for new leaders in both the Philippines and the United States to commit to more progress as partners on trade and investment, peace and stability, innovation, and people-to-people exchanges.

## DR. ERNESTO M. PERNIA

THE CURRENT SITUATION, AS MENTIONED by Ambassador Negroponte, is that the Philippine economy is on a high growth trajectory. In fact, that has been the case since the start of the Aquino administration. Investment and industry are becoming significant drivers of growth, which is a very healthy development. However, our economy remains consumption-driven, and about two-thirds of GDP is consumption on the demand side.

On the supply side, the contribution of industry to economic growth is rising, while the contribution of services remains dominant. However, agriculture has been very lethargic and negative in the first quarter of 2016; net exports have been down, and government spending was also rather anemic, before rising in 2015 and throughout the first quarter of 2016.

In terms of inequality, it is not only present across income classes but also across regions. NCR still dominates the eco-

nomics landscape, with Calabarzon and Central Visayas also contributing to the inequality. If we combine these three regions, they account for two-thirds of GDP.

In terms of population, these three regions have only 37% of the population. The per capita incomes of these regions also dominate the rest of the regions. ARMM is, of course, the poorest region, with the lowest share of GDP.

In terms of economic growth over time across these regions, growth performance has been uneven. Regional economic growth is the main thrust of the development strategy of the incoming administration, and I also happen to be a regional economist, so I am really interested in doing something about the severely unbalanced or unequal regional development across the country.

In terms of poverty, we have the highest poverty incidence compared with our ASEAN neighbors; this is poverty incidence as officially defined by the respective countries, and not by the World Bank, which is two dollars a day.

### THE NEED FOR ECONOMIC REBALANCING

We are in need of economic rebalancing.

First, our economy is consumption-driven, (but) we would like it to be driven by investments and exports. Our economy is also services-oriented, but we should go towards an economy also driven by agriculture and industry, especially manufacturing. We need to produce at least a couple of millions of jobs a year and these jobs can be generated better by investment, exports, agriculture, and industry. Second, we need to rebalance our economy from being Manila-centered, to becoming regional and rural development-oriented. Lastly, in due course, we need to rebal-



DR. ERNESTO M. PERNIA

ance the economy from being (dependent on) fossil-fuel to renewable energy, but that will take longer because we will still need some baseload plants.

As we move forward, this rebalancing can be achieved through the 10-point agenda of the Duterte administration.

### THE 10-POINT AGENDA OF THE DUTERTE ADMINISTRATION

Before President Duterte went out to speak before the business community in Davao (in June), he met the Economic Cluster of the Cabinet and asked, "Why is there is no law and order in the 10-point agenda?" Now, I'm adding it as item number zero because it's obvious that law and order has to be the bedrock, the foundation of any economy. Without law and order, nothing happens – very little happens. With law and order, there is peace, there is safety, there is security, and investors are going to be attracted almost automatically.

**MACROECONOMIC POLICIES.** We are going to maintain good macroeconomic fundamentals, which include addressing the issues of tax evasion, corruption, and smuggling. By reducing tax evasion, corruption

and smuggling, revenue generation will be boosted substantially, even if we reduce tax rates, for example.

**TAX REFORM.** We also aim to make the tax system more equitable and more progressive, meaning lighter burden for lower-income groups and higher tax rates for higher-income groups. Our tax system should be more competitive with our ASEAN neighbors, at least, and other neighboring countries in Asia.

**INFRASTRUCTURE.** Infrastructure spending has to be accelerated. I think 5% has already been achieved in the 2016 budget, but that may not be enough because our infrastructure deficit is just so huge.

**CONSTITUTIONAL AMENDMENTS.** Priority amendments include easing constitutional restrictions on foreign investment and foreign ownership.

**AGRICULTURE.** Trying to improve farm level productivity to raise the incomes of small farmers and raise the value chain between agriculture and business, including SMEs, forms part of a broader rural and regional development strategy.

**LAND REFORM.** There is a need to review the land reform program, which has a checkered kind of performance.

**BASIC EDUCATION.** To address the problem of mismatches in jobs and skills, we aim to strengthen basic education and provide scholarships for tertiary education.

**INNOVATION IN SCIENCE, TECHNOLOGY, AND THE ARTS.** To enhance innovative and creative capacities, which are needed for self-sustaining inclusive development and for participation in the global

economy, we need to prioritize innovation in science, technology, and the arts. We are also lagging behind in terms of knowledge capital, which is needed in the global knowledge economy to be competitive.

**CONDITIONAL CASH TRANSFER PROGRAM.** The CCT program needs to be improved, especially in terms of administration and targeting, to make sure that there are no leakages.

**RESPONSIBLE PARENTHOOD AND REPRODUCTIVE HEALTH LAW.** Vigorous and sustained implementation of the Responsible Parenthood and Reproductive Health Law will result in good childcare, human capital investment, workforce quality, and a more buoyant and brisk labor market. This has not been included in previous Philippine Development Plans, but is going to be the centerpiece of the new Philippine Development Plan, which we have to craft for 2017-2022.

### **POVERTY REDUCTION: THE CORE OF THE 10-POINT AGENDA**

To the extent that economic development is of, by, and for the people, the population must be at the center of any

development plan, strategy and policy.

The problem is when children are not educated and given proper healthcare, they are most likely not going to move beyond the poverty of their parents when they grow old. It is important that the youth, a dependent population, are properly given quality healthcare and education.

What we aim to achieve is to bring down poverty incidence by 1.25-1.5% point a year. It will potentially bring down our poverty incidence from 25% to 16% by 2022, the end of President Duterte's term, if we are able to do that.

### **A NEED FOR BEHAVIORAL CHANGE**

We, Filipinos, are generally a patient people – forbearing, and tolerant of very high levels of suffering. We always say, "Okay na lang" or "Pwede na iyon." (It's alright.) And that mindset leads to mediocrity in what one does and what the country becomes, so I now consider our patience, which is supposed to be a virtue, vicious. What we need is to replace vicious patience with virtuous impatience to help bring us out of low-level equilibrium in terms of economic growth,

### **ABOUT THE SPEAKER**

## **ERNESTO PERNIA**

Prior to being appointed as Director General of NEDA and Socioeconomic Planning Secretary, Dr. Ernesto Pernia was the chairman of the Department of Economics at the University of the Philippines, a visiting research fellow at the East-West Center Resource Systems Institute in Hawaii, and a regional adviser on population and employment policy for Asia and the Pacific with the ILO. He has close to 18 years of experience with the Asian Development Bank, being involved in projects covering improving the investment climate and productivity; economic growth and poverty reduction; education, health, and human resource development; and regional economic integration. He was part of a team that crafted a seven-volume study back in 1996 on the Brunei, Indonesia, Malaysia, the Philippines – East ASEAN Growth Area (BIMP-EAGA). ■



poverty reduction, and inclusive growth.

We have three diverse branches of government, but the problem is they do not complement each other. They can argue and act according to their respective roles, but in the end, they should also be complementary and always aim for a common goal. This is what I call "diversity towards unity," an example that could be followed by all towards achieving poverty- and inequality-reducing economic growth. ■

## PRIVATE SECTOR PANEL

### TERESITA SY-COSON

*Director, US-Philippines Society*

One President would usually build from the previous President's work or policy, and I'm glad to hear that this incoming administration is going to continue the macroeconomic policies of the past president. The two engines of growth have been remittances and the BPO (industry) and I hope that they will continue to be so. I have heard from Dr. Pernia that the economy will eventually go from service-oriented towards agriculture- or investment-driven, and while I think that is good, we should also emphasize on remittances and the BPO industry as drivers of growth.

There have been talks about bringing economic development from NCR to rural areas, and with the roads, infrastructure, and government funding in agriculture, among others, I think we will be able to increase the movement in the rural sector. From our banking experience, rural activities have increased and in some areas, the economy has been robust. Government can perhaps look into how else it can help the economy grow, with the cooperation of the LGUs.

In terms of agriculture, I have been looking into the different

plans of the government to increase agricultural productivity; perhaps, what the government can also look into are SMEs in rural areas, as they serve as the conduits for farmers.

Lastly, please have more empathy and have the people at the heart, including businesses, as they too, are composed of people, as well.

### PERNIA:

The only thing about rebalancing is it is often misunderstood; it is not a zero-sum game. In other words, if we increase agriculture and industry to generate more jobs, for example, it does not mean that we are going to stifle the service sector. It means we want the contribution of Agriculture and Industry to grow faster than the growth of Services. The growth rate of these sectors will be different, so that the shares will also change. That is really what rebalancing is about.

### MANUEL V. PANGILINAN

*Co-Chairman, US-Philippines Society*

From 2010-2015, there is a good basis for what you call a breakthrough approach to the economy, and that's solid foundation, which the incoming administration could work on. The business sector would certainly cooperate and support the incoming administration in that respect.

With respect to exports, we would like to know which exports we could develop. As you know, we are dominated by these biggest exports: coconut oil and bananas for agriculture, and electronics. I think we need to diversify out of those (in order to help expand the economy).

It comes as a surprise how much manufacturing has accounted for in terms of the overall growth of 6.9% for the first quarter of 2016. Frankly speaking, I did not expect that, but we do need to dialogue with the government as to which parts of manufacturing we could get into, from an investment standpoint. We also

need to know to what extent manufacturing could address the issue of job creation. I have had several dialogues with your colleagues at the University of the Philippines, and they pointed out that whilst manufacturing is clearly an area to focus on, the extent of job creation, which the industry could account for, would probably be around 13%-16% of total employment.

I think it is gratifying to note that one of the focus points of the incoming government is Science & Technology. That is something that we should really look at because everybody knows that the future is in intellectual capital. Filipinos are quite good in creative arts, but rather weak in Science & Technology, specifically the behavior of people with respect to being more intellectually- and logically-oriented.

My final point is, again, an expression of support for the incoming administration. Apart from the LEDAC, I believe that business should engage the government and not be afraid to speak up, because we have to engage. It is a common goal we share with the government, in terms of promoting welfare.

### PERNIA:

Regarding exports, I am sure you are also referring to mineral exports. This is a sensitive matter because I have been seeing the stocks of mining and oil tanking. Let me tell you that a single cabinet member does not make a cabinet. It does not make a policy, and certainly, we are going to agree on what policies, specifically what exports, other emphasis, and other areas are going to be given emphasis.

In a discussion among Sec. Sonny Dominguez, the President, and myself, I suggested that we split DENR into the Environment and the Natural Resources Departments, and include the blue (marine) economy as natural resources. The blue economy is a big thing; it is just that we are

not aware of it, and we have to raise public awareness on its importance. Also, note that natural resources are quite different from the environment.

Of course, all departments are interactive, but in terms of administration, Environment is really for regulation and promotion, while Natural Resources are more about production and output. I think it would make sense. As I have said, one Cabinet member will not make a policy. That was my suggestion, and the President did not object when I mentioned it.

#### **GUILLERMO D. LUCHANGCO**

*Trustee, Makati Business Club*

On an overall basis, what I like to say is that, the way I look at it, the Aquino administration performed admirably in building up the Philippines in terms of its economic growth. It brought us to a point where we are, at times, the second fastest-growing nation in Asia. It also certainly brought us out of the doldrums when we were considered the "Sick Man of Asia" to our position today, where we are one of the candidates in Asia favored by foreign investors. Also, while doing that, an important part of it was the fact that the Aquino administration mounted the cam-

paign against corruption, which convinced not only Filipinos, but the world, that they were serious about fighting corruption.

Having said that, I think it gives the incoming administration an excellent platform on which to build for the future. And in that sense, I was heartened by Dr. Perna's very first point, which was to maintain and continue the economic programs of the Aquino administration. New thrusts and areas of innovation, which he also mentioned, can now serve to improve and further enhance the economic achievements that have already been achieved. It now seems to me that, from here on, the business sector should be seeking to support and cooperate with the government to the fullest extent possible.

In the case of consumerism, given the structure of our economy and the large amount of OFW remittances which make up the economy, it seems to me, again, that it is inherent in the structure of our economy that consumerism is an important portion of the sector, but obviously, he just wants to push the manufacturing and the agricultural sectors.

Lastly, I would like to congratulate the Secretary on this 10-point program. I think we should all be



*The Makati Business Club invites guest speakers to its General Membership Meetings and MBC Briefings to discuss public issues and trends, whether local or global, that have an impact on Philippine development. MBC Forum highlights the speeches and discussions at these gatherings. The full text of speeches and other presentations may also be found at the MBC website, [www.mbc.com.ph](http://www.mbc.com.ph).*

in full support. You have to remember that the Davao business community very strongly and overwhelmingly supported President Duterte as their Mayor because of what they saw he could do in Davao, and because of his determination to wipe out corruption and achieve fast results through his programs. I think we should rely on that to guide us in the coming days of his administration. ■

Excerpts edited by  
**Elizabeth A. Bautista**  
Programs Officer

## Q&A

**One of the challenges we face is the continuing high power cost, which has been pointed out by many businessmen. How will the new administration address that challenge?**

**PERNIA:** I think there are coal-fired plants already under construction and they should be operating not only in Mindanao and in the Visayas, but also in Luzon. In the short-run, within the next couple of years, this should be alleviating the thin reserves that we have.

**Taking note of the Millennium Challenge Corporation and the First Millennium Program, which was completed during the Aquino administration and that the Philippines is in consideration of a second compact, how is the incoming administration looking at assistance from the United States, in general, and the Millennium Challenge, in particular?**

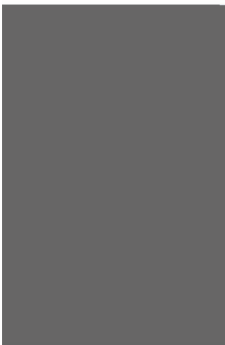
It is going to be an extension of that program. I have seen the proposal and I do not see any problem with the extension. The thrust is actually rural and regional development, so it is still in accord with our own predisposition, in terms of economic planning and policy.

**Last May, President Duterte said that as far as he is concerned, the CARP Law has passed and that there would be no more pursuit of agrarian reform. However, President Duterte appointed Sec. Rafael Mariano to the DAR, and his pronouncements signify that he wants agrarian reform to be pursued with minimum exemptions. What will be the policy of the administration?**

Yes, I'm aware of what the orientation of Rafael Mariano is, but he is just one among many in the Cabinet. There are many of us who are not too excited about agrarian reform, including myself, so we are certainly going to try to temper his (Mariano's) enthusiasm about it and what he plans to do. ■



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