Excerpts from advance reviews

"The book provides a rich and insightful collection of vignettes on issues that arouse the interest of a broad range of readers who have much at stake in Philippine society. Raising the right questions, highlighting the often-complex issues and breaking them down into analytical digestible pieces, viewing the issues from a scholarly perspective and finally discoursing with a courageous mind and at times coupled with a sharp wit, the book provides a pleasurable journey filled with thoughtful viewpoints, but always with a dose of social consciousness. Readers are in for a wonderful journey of learnings as well as thought-provoking insights.

"The book offers an excellent coverage of eminent authors who have provided selected pieces of their fine work for an incisive inquiry into the top issues of the day, and those that will influence our future which is bound to be characterized by radical uncertainty.

"There is a lot to chew on, intellectually, mindfully and even emotionally. Long live our beloved Philippines!"

Amando M. Tetangco, Jr.
former Governor, Bangko Sentral ng Pilipinas

"*Momen2m* charts the Philippines' road map to achieve AmBisyon Natin 2040, which envisions our country becoming a prosperous middle-class society by 2040. This is a must-read for our nation's leaders and industry captains. It discusses key aspects of legislation required in our current context to open up investments in infrastructure, competitive utilities, and natural-based resources. With globalization, national security and inclusiveness as pillars, it gives importance to empowering our human capital with skills needed to meet the 4th IR. Our more progressive ASEAN neighbors have shown that through competitive governance and collaboration with the private sector, much can be achieved. We can do no less. My congratulations to the efforts of our eminent thinkers and economists for authoring this book, which serves as a beacon for the challenges ahead."

George T. Barcelon
President Emeritus, Philippine Chamber of Commerce and Industry; Private Sector Representative, Legislative-Executive Development Advisory Council; Member, ASEAN Business Advisory Council, Philippines

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"The FEF team has been a consistent source of thought-provoking articles that analyze key issues that government and the public wrestle with on a day-to-day basis. Their analyses are based on a thorough review of facts and take into account various perspectives. Their columns have become required reading for the movers and shakers in the country so this compilation is a great way of ensuring they become reference material for years to come."

Edgar O. Chua
Chairman, Makati Business Club

"The first *Momentum* was a great book. This second volume is a reminder that their ideas did not arise in a vacuum. *Momen2m* collects some of the best and most timely of the recent essays by these first-rate economists and policy analysts. The Philippines' long slide from its status as an economic leader in Asia to one of the most prominent laggards was due to continuously implemented bad policy. These essays give us many good ideas about how to emerge from this trough so that the RP can finally join the ranks of the Asian tigers in the decades to come."

John V.C. Nye
Professor of Economics and Bastiat Chair in Political Economy, George Mason University

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"From the pre-Pandemic 2019 highs to the Pandemic 2020 lows to the hopefully post-Pandemic 2021 green shoots, we have six distinguished economists and FEF colleagues entertain us with a wide range of interesting topics in these unusual times in their latest sequel *Momen2m*.

Rather than long and complex scholarly treatises, they write 58 introspective punchy columns that are thought-provoking in this age of short attention spans. Whether they be policy dilemmas, current affairs commentaries, or simply "What Should the Philippines Do Better" prescriptions, their articles will catch your attention.

"Even better is the contrast in moods - *Momentum* in 2019 spoke of "Economic Reforms for Sustaining Growth" in a 5%-7% cruising GDP era, among the fastest in the ASEAN region. Little did the authors and the rest of us know that the COVID-19 pandemic would occur, and that Philippine health and economic officials would struggle to impose a well-intentioned longest lockdown *cum* (delayed) vaccination strategy *cum* measured economic stimulus that would leave us among the slowest in the ASEAN to recover. *Momen2m* in 2021 captures economic and social history in the making, and may become even more prescient in future years.

"Happy Reading!"

Aurelio R. Montinola, III
President, Management Association of the Philippines

"*Momen2m* provides a rich introduction to the ongoing policy debates on economic reforms and governance. This volume will give its readers a better grasp of the contours of Philippine economic policy that any wide-eyed reformer must navigate--especially as we recover from the COVID-19 crisis."

Karl Kendrick T. Chua
Socioeconomic Planning Secretary

"This insightful collection of essays provides prudent analysis of recent policies and issues that have, for better or worse, shaped our economic realities. In doing so, our country's top economists, many of whom are also active professors, not only share their ideas, but also provide an accessible methodology for scrutinizing policy that citizens and lawmakers should emulate."

Sergio R. Osmeña III
former Senator, Senate of the Philippines

MOMEN2M

More Reforms for Economic Growth

Kristine Alcantara
Romeo Bernardo
Calixto Chikiamco
Ramon Clarete
Emmanuel de Dios
Raul Fabella

Edited by **Roel Landingin**
Foreword by **Benjamin Diokno**

Momen2m: More Reforms for Economic Growth
By Kristine Alcantara, Romeo Bernardo, Calixto Chikiamco,
Ramon Clarete, Emmanuel de Dios and Raul Fabella

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Calixto Chikiamco, Ramon Clarete, Emmanuel de Dios and Raul Fabella

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Foreword

WHAT A DIFFERENCE almost two years could make. On October 23, 2019, I delivered the keynote remarks during the book launch of ***Momentum: Economic Reforms for Sustaining Growth***. As I write this foreword to a sequel to the book, wittily titled ***Momen2m,*** at the request of the authors, it is now the middle of July 2021.

That tells us a couple of things. I must have said something right at the book launch to merit the honor of writing the foreword for a new book of columns written by what former Supreme Court Chief Justice Artemio Panganiban christened as members of the "supreme court for economic matters."

More importantly, the short interval between the two books is a clear sign of the much quicker pace of life and times these days. Whereas it took the authors 10 years of writing columns before compiling a selection into a book, the second volume is now underway in under a couple of years. It's exponential, to use a word that has come in vogue in the past year or so.

Indeed, much has happened since ***Momentum*** was launched in late 2019. Just five months after we gathered together (no face masks and no social distancing yet) at the Fairmont Hotel in Makati, Metro Manila and the rest of Luzon came under lockdown in March 2020 following the onset of the COVID-19 pandemic. Lockdowns covering the rest of the country followed soon afterwards.

For me and a small group of fellow government officials, the lockdown experience came about 10 days earlier than many parts of the country, which were first placed on mandatory community quarantine on March 17, 2020.

The first confirmed local transmission of the virus occurred at around March 5, during the President's inspection tour of North Luzon

Expressway (NLEX) Harbor Link C3-R10 section, which I joined upon his invitation.

Two days later, all the attendees were advised to self-quarantine for two weeks because of possible exposure to somebody with COVID-19 during the event. Fortunately, I tested negative for the virus at the end of the quarantine period and was back at work on March 19.

The suddenness of the lockdown in March 2020 created tremendous uncertainty in the financial markets. Banks began selling their holdings of Treasury bills and other government papers. That pushed up yields and sharply cut trading volumes. Along with the slowdown in tax collections, the sell-off in the GS market reduced available sources of financing at a time when the government needed money for emergency activities.

In response, the BSP extended immediate financing to the national government through a repurchase agreement for the first time since the BSP's creation in 1993. In order to infuse liquidity into the system, we reduced policy rates, cut the reserve requirement and provided regulatory relief to banks to encourage them to continue lending to their clients.

In the midst of navigating our way through uncharted territory, it was enlightening to read many of the columns in this collection as they first appeared in print. Representing the views of some of the country's sharpest economic commentators, many of whom are my former colleagues at the UP School of Economics and acquaintances in government and reform advocacy circles, the columns served as crucial sources of independent insight on some of the most intractable problems facing policymakers as they faced a crisis unlike any in the past.

Ramon Clarete's column "Which curve to flatten over the next few months," published on April 12, 2020, succinctly summarized the trade-offs confronting government in managing what he called the infection curve and the recession curve. "Our leaders and health experts do not know with certainty how much time they need to flatten the infection curve for good. But the longer they force people to stay home, they end up sharpening the recession curve," Monching wrote.

We cannot agree more. As soon as health conditions permitted, the economic managers recommended the immediate easing of some of the quarantine restrictions in different parts of the country to revive economic activity.

Other writers provided timely commentary as the pandemic continued unabated and policymakers struggled to minimize the economic disruption in the rest of 2020 and 2021.

Romeo Bernardo's piece, "Legislation in aid of investments, jobs, recovery," published on December 27, 2020, persuasively argued for the passage of key economic reform measures, including Amendments to the Foreign Investments Act, Amendments to Retail Trade Liberalization Act, Amendments to the Public Service Act and the ratification of Regional Comprehensive Economic Partnership (RCEP), among others. While admitting that the pandemic may not be totally conducive to thinking about structural reforms, Romy also rightly pointed out that these measures "strung together would send a powerful signal of the Philippines' readiness to welcome foreign capital to help with post-pandemic recovery, offering a light at the end of a current gloomy tunnel."

In "*Patse-patse na, pitsi-pitsi pa* (and a way forward)," published on September 13, 2020, Emmanuel de Dios drew public attention to an idea whose time has come, thanks to the pandemic: unemployment insurance. It is a policy proposal that, as he described it, was "previously thought to be too contentious or too difficult to implement but which new circumstances have made urgent." Yet, he also demonstrated that the idea enjoys wide support. While touting UI's distinct advantages, Noel also pointed out that it must be "viewed as part of a broader spectrum of programs that address the heterogenous needs of an increasingly differentiated Philippine society." And he underscored the value of UI not only in ameliorating the short-term impacts of the pandemic but its potential long-term role in reducing "the social costs incurred when firms and industries must restructure to become efficient in the face of changing markets and technology."

Some of the writers highlighted innovative solutions to some of the country's long-standing problems. Raul Fabella's column, "Bottom-line and Mother Earth meet in the rooftop solar power array," published on September 15, 2019, is an excellent example.

In the piece, he drew his readers' attention to the potential of rooftop photovoltaic (PV) installations, especially by large companies that own buildings with idle rooftops, to address power shortages while reducing carbon emissions. Coming from a National Scientist, Raul's conclusion is worth considering by energy officials. "I dare say that if only 30% of the power needs of large public and private establishments with idle rooftops (factories, malls, schools and government buildings, supermarkets, gas stations, etc.) are generated by rooftop solar installations, the Philippines can kiss power outages goodbye. And we won't wait years to clear the jungle of right-of-way, environmental permits, and NIMBY issues," he wrote. As a one-time chairman of the state-owned Philippine National Oil Co. (PNOC) tasked with the responsibility to secure the country's energy needs, I wholeheartedly agree.

Similarly, Calixto Chikiamco's column "Let Forestry be our future," which came out on March 21, 2021, highlighted a recent Department of Environment and Natural Resources (DENR) administrative order that liberalized the rules governing tree plantations. The order allows qualified foresters to issue certifications and encourages tree farmers to integrate their operations, including setting up their own wood processing plants.

He said it is a good first step in attracting more private investments in tree plantations. He underscored the Philippines' potential as a wood exporter, pointing out that while Finland, Europe's leading wood producer, can only produce 5-15 cubic meters of wood per hectare, the Philippines, being a tropical country, could produce up to 100 cubic meters of wood per hectare. "The future doesn't belong only to the IT industry, but to forestry as well. Why? Climate change is making forests more critical in environmental sustainability. Forests are carbon sinks, capturing large swaths of carbon emissions," Toti wrote.

Kristine Francisco-Alcantara's column, "The Politics of an Open Economy and National Security: A Zero-Sum Game?" published on June 6, 2021 provided a useful framework for senators to think about some of the complex issues surrounding the bill amending the Commonwealth-era Public Service Act. Many lawmakers agree with the aim of the bill to differentiate public utilities from public services. In turn, this would allow greater foreign ownership of public services (that are not public utilities) such as telecommunications and transportation to attract investments, upgrade capacity, boost competition and improve services to consumers.

However, some are worried that opening these sectors to greater foreign ownership may also compromise the country's national security by handing over control of critical infrastructure to companies headquartered in countries involved in pending territorial and maritime disputes with the Philippines. Kristine's recommendations may prove helpful to address this dilemma in the minds of our lawmakers. She urged an update to the Philippine National Security Policy (2017 to 2022) and for the country's policymakers to develop a national economic security agenda. Specifically, she recommended the opening up of the economy to allow for capital inflows and balanced with investment screening. "Disclosures and financial transparency and the policing of rules is a more urgent and important concern than gatekeeping of investments," she wrote.

Having benefited from reading the columns when they first saw print, I welcome their publication in a new book for the benefit of new and old readers. It will complement the first volume as a handy reference for policymakers, lawmakers, business and civil society leaders, and economic reform advocates.

The book's publication is timely, too. It comes just as the nation is preparing for national and local elections in 2022 to choose new leaders for the next several years. I hope it will help inform and raise the quality of the debates and discussions in the various electoral races.

More to the point, I strongly urge all the candidates for national positions of leadership in the country and their advisers to read the book and seriously consider the views and recommendations of the authors.

As a former newspaper and web columnist myself, I know that writing op-ed commentaries is time-consuming and difficult. I therefore commend the authors for keeping at it for over a decade now and encourage them to continue writing to enlighten both decision-makers and ordinary citizens alike. Together, let us keep up and quicken the momentum of economic reforms to sustain growth for the benefit of the vast majority of Filipinos.

Benjamin E. Diokno
Governor, Bangko Sentral ng Pilipinas

Acknowledgments

IT MAY SEEM TRITE to say that a book is a collaborative effort, but it doesn't make the statement less true. While the words may be those of the authors, the ideas behind them have been shaped, tested, and improved on by family, colleagues, friends, mentors, and the reading public. Further, to see these words in print, as in this book, collaboration is the name of the game. A delicate dance among the authors, editor, art designer, reviewers, foreword author, sponsors, had to be orchestrated to publish this book in time.

We are therefore grateful to all those who have collaborated and contributed to the publication of this book.

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Ben is a friend and colleague of the authors. He is also a former professor of economics at the UP School of Economics, a former columnist, and former secretary of budget and management.

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About the authors

Kristine C. Francisco-Alcantara (@legalgorithm), a trade and technology lawyer, is the managing partner of Abad Alcantara and Associates (www.tradelawyers.ph) and a member of the board of the Foundation for Economic Freedom. She is a graduate of the Ateneo de Manila University with a Bachelor of Arts in Interdisciplinary Studies (2002) and Juris Doctor of Law (2006). A 2017 participant in the US Department of State's International Visiting Leaders Program (IVLP) and national delegate to the International Academy of Leaders (IAF), Kristine is a staunch advocate of inclusive economic growth and sustainable development through free trade, gender mainstreaming, and innovation exchange.

Romeo L. Bernardo pivoted to a career in financial and economic consulting as cofounder of Lazaro Bernardo Tiu and Associates after two decades in public service, including teaching in the University of the Philippines, assignments in the Philippine Mission to the UN and GATT/WTO in Geneva, the IMF, World Bank, and the ADB, and rising to the post of undersecretary in the Department of Finance (1990–96). Concurrently, he serves as a board director in leading private corporations, namely, Aboitiz Equity Ventures, BPI, Globe Telecom, PHINMA Corp., and RFM Corp., and is a board chair of the ALFM family of mutual funds. He is lead Philippine advisor of GlobalSource Partners (New York), senior counselor in Vriens & Partners (Singapore), senior adviser in The Wallace Business Forum, and a member of the Philippine World Bank Advisory Group. He serves on the Board of the Management Association of the Philippines, the Finex Foundation and the Foundation for Economic Freedom (FEF), where he is a co-founder. He did his studies at the University of the Philippines (Business Economics, *magna cum laude*), and Williams College (M.A. Development Economics). He has co-authored publications of the ADB, World Bank Growth Commission, and FEF on political economy, economic governance and fiscal reform.

Calixto "Toti" V. Chikiamco is a book author, political economist, and entrepreneur. He graduated AB Economics (*summa cum laude*) from De La Salle University and MPS in Media Administration from Syracuse University in New York. His previous books include *The Way Forward*, published in 2015 and *Momentum: Economic Reforms for Sustaining Growth*, where he's one of the co-authors. He's a co-founder and president of the Foundation for Economic Freedom, which received the international Templeton Prize from the Atlas Network in 2019 for its reform work on agricultural free patents.

Ramon L. Clarete is presently the chief-of-party of the B-SAFE Project, working for Winrock International. With a financial grant from the US Department of Agriculture, the project provides technical assistance to DA's SPS and food safety regulatory agencies and the Food and Drug Administration, as well as to private sector supply chain stakeholders. Before this, he was a professor and a former dean of the UP School of Economics, intermittently providing consultancy services to several government agencies. Still a professorial lecturer at UP, his teaching and research work are on trade and industrial policies, agriculture and food, and public sector policies. In his career, he had managed several USAID trade capacity building technical assistance projects and worked intermittently as a consultant for the ADB and the World Bank. He earned his doctoral degree in economics from the University of Hawaii in Honolulu.

Emmanuel S. de Dios is professor emeritus at the University of the Philippines, where he served as dean of the UP School of Economics from 2007 to 2010. He has written on institutions and economic development, political economy, the history of economic thought, international economics and the theory of individual choice. He is a sought-after editor of economic publications and some of his works received recognition from organizations including the Catholic Mass Media Awards (CMMA), the National Academy of Science and Technology (NAST), and the United Nations Development Programme (UNDP). He received his baccalaureate in economics (*cum laude*) from the Ateneo de Manila University and his doctorate in economics from the University of the Philippines.

Raul V. Fabella was elevated to the rank of National Scientist by President Benigno Aquino in 2011. He is emeritus professor of the University of the Philippines and still occasionally teaches at the UP School of Economics where he was a former dean. He is a member of the National Academy of Science and Technology, and an honorary professor of the Asian Institute of Management since 2019. He is a member of the editorial board of the *Philippine Review of Economics* and a regular contributor of *BusinessWorld* newspaper. His recent works include *Capitalism and Inclusion under Weak Institutions*, a book published by UP-CIDS in 2018; and *Competition Policy and Inclusion in the Philippines,* a monograph co-written with Senen Bacani and Andre Palacios and published by UP-CIDS in 2020. He obtained his Bachelor in Philosophy degree from Seminario Mayor-Recoletos in 1970 and his Master's in Economics degree from UP in 1975 and his PhD in Economics from Yale University in 1982.

From left: Ramon L. Clarete, Raul V. Fabella, Emmanuel S. de Dios, Romeo L. Bernardo, Kristine C. Francisco-Alcantara, and Calixto V. Chikiamco

PHOTOGRAPH BY MJ SALUMBIDES OF KEYLIGHT STUDIO

List of abbreviations

4Ps	Pantawid Pamilyang Pilipino Program
5G	5th generation
ACCRALAW	Angara Abello Concepcion Regala and Cruz Law Offices
ADB	Asian Development Bank
ADR	Appropriate Discount Rate
AES	Aboitiz Energy Solutions, Inc.
AEV	Aboitiz Equity Ventures, Inc.
AO	Administrative Order
ARA	Assessment of Reserve Adequacy
ARB	Agrarian Reform Beneficiary
ARISE	Accelerated Recovery and Investments Stimulus for the Economy Bill
ARMM	Autonomous Region in Muslim Mindanao
ASEAN	Association of Southeast Asian Nations
ASF	African Swine Fever
AWEN	ASEAN Women Entrepreneurs Network
BARMM	Bangsamoro Autonomous Region in Muslim Mindanao
BBB	Build, Build, Build
BDA	Bangsamoro Development Agency
BDO	Banco de Oro
BIS	Bank for International Settlements
BOI	Board of Investments
BoP	Balance of Payments
BPO	Business Process Outsourcing
BSP	Bangko Sentral ng Pilipinas
BTS	Bangtan Sonyeondan, a seven member K-pop group
BuCor	Bureau of Corrections
CA	Concession Agreement
CADT	Certificate of Ancestral Domain Title
CALAX	Cavite-Laguna Expressway
CARL	Comprehensive Agrarian Reform Law
CARP	Comprehensive Agrarian Reform Program
CARPER	Comprehensive Agrarian Reform Program Extension with Reforms
CBFMA	Community Based Forest Management Agreement
CBU	Completely Built-up

CCT	Conditional Cash Transfer
CE	Common Era
CEO	Chief Executive Officer
CIT	Corporate Income Tax
CITIRA	Corporate Income Tax and Incentives Rationalization Act
CLOA	Certificate of Land Ownership Award
CNBG	China National Biotec Group Company Limited
COA	Commission on Audit
COVID-19	Coronavirus Disease 2019
CPP-NPA	Communist Party of the Philippines – New People's Army
CREATE	Corporate Recovery and Tax Incentives for Enterprises Act
CSP	Competitive Selection Process
CSW	Complete Staff Work
CTRP	Comprehensive Tax Reform Program
CURES	COVID-19 Unemployment Reduction Economic Stimulus Bill
CWE	Carcass Weight Equivalence
DAO	Department Administrative Order
DAR	Department of Agrarian Reform
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DICT	Department of Information and Communications Technology
DITO	Dito Telecommunity Corporation
DOE	Department of Energy
DOF	Department of Finance
DOH	Department of Health
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DOTr	Department of Transportation
DPWH	Department of Public Works and Highways
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
E-BARMM	Expanded Bangsamoro Advanced Road Mapping and Management System
ECOP	Employers Confederation of the Philippines
ECQ	Enhanced Community Quarantine

EDSA	Epifanio de los Santos Avenue
EJK	Extrajudicial Killing
Endo	End of Contract
EO	Executive Order
EPIRA	Electric Power Industry Reform Act
EU	European Union
FB	Facebook
FC	Fractional Count
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FEF	Foundation for Economic Freedom
FIA	Foreign Investments Act
FIRB	Fiscal Incentives Review Board
FIST	Financial Institutions Strategic Transfer Act
FIT	Feed-in Tariff
FRS	Fiscal Risk Statement
FTA	Free Trade Agreement
GAA	General Appropriations Act
GDP	Gross Domestic Product
Genco	Generation Company
GFI	Government Financial Institution
GHG	Greenhouse Gas
GIR	Gross International Reserve
GIT	Gross Income Tax
GM	General Motors
GNI	Gross National Income
GPA	Government Procurement Act
GRDP	Gross Regional Domestic Product
GSIS	Government Service Insurance System
GUIDE	Government Financial Institutions Unified Initiatives To Distressed Enterprises For Economic Recovery Bill
GVA	Gross Value Added
GW	Gigawatt
HB	House Bill
HDI	Human Development Index
HDR	Human Development Report
ICU	Intensive Care Unit
ID	Identification
IDEA	Institute for Development and Econometric Analysis
IFC	International Finance Corporation
IFMA	Integrated Forest Management Agreement

ILP	Interruptible Load Program
IMF	International Monetary Fund
ING	Internationale Nederlanden Groep
INSPIRE	Integrated National Swine Production Initiatives for Recovery and Expansion
IPCC	Intergovernmental Panel on Climate Change
IPO	Initial Public Offering
IRR	Implementing Rules and Regulations
IT	Information Technology
ITH	Income Tax Holiday
kWh	Kilowatt-hour
LDIS	Land Distribution and Information Schedule
LGU	Local Government Unit
LIDAR	Light Detection and Ranging
LP	Liberal Party
M3	Broad Money
MAGA	Make America Great Again
MAP	Management Association of the Philippines
MAV	Minimum Access Volume
MDG	Millennium Development Goal
MECQ	Modified Enhanced Community Quarantine
MILF	Moro Islamic Liberation Front
MIT	Massachusetts Institute of Technology
MNC	Multinational Corporation
MoA	Memorandum of Agreement
MPK	Marginal Productivity of Capital
MPW	Ministry of Public Works
MRDP	Maximum Drug Retail Price
MRP	Maximum Retail Price
MSME	Micro, Small, and Medium Enterprise
MT	Metric Ton
MVP	Manuel V. Pangilinan
MWSS	Metropolitan Waterworks and Sewerage System
NAIA	Ninoy Aquino International Airport
NAIAX	Ninoy Aquino International Airport Expressway
NAMARCO	National Marketing Corporation
NCR	National Capital Region
NDC	National Development Company
NEDA	National Economic and Development Authority
NERA	National Economic Research Associates Economic Consulting, Inc.

NFA	National Food Authority
NGCP	National Grid Corporation of the Philippines
NIA	National Irrigation Administration
NIMBY	Not in My Backyard
NOAH	Nationwide Operational Assessment of Hazards Project
NOLCO	Net Operating Loss Carry-over
NPL	Non-performing Loan
NREB	National Renewable Energy Board
NRW	Non-revenue Water
NTF ELCAC	National Task Force to End Local Communist Armed Conflict
ODA	Official Development Assistance
OFW	Overseas Filipino Worker
PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services Administration
PCC	Philippine Competition Commission
PCCI	Philippine Chamber of Commerce and Industry
PCHRD	Philippine Council for Health Research and Development
PCID	Philippine Center for Islam and Democracy
PDR	Philippine Depositary Receipt
PEZA	Philippine Economic Zone Authority
PHDI	Planetary Pressures-adjusted Human Development Index
PhilHealth	Philippine Health Insurance Corporation
PhilJobs	Philippine Job Insurance Corporation Act
PhilWEN	Philippine Women's Economic Network
PIATCO	Philippine International Air Terminals Co., Inc.
PIDS	Philippine Institute for Development Studies
PIFITA	Passive Income and Financial Intermediary Taxation Act
PISA	Program for International Student Assessment
PITC	Philippine International Trading Corporation
PNoy	President Benigno Aquino III
PNP	Philippine National Police
POGO	Philippine Offshore Gaming Operator
PPP	Public-Private Partnership
PR	Public Relations
PSA	Public Service Act also means Philippine Statistics Authority
PSALM	Power Sector Assets and Liabilities Management Corporation

PSG	Presidential Security Group
PSRTI	Philippine Statistical Research and Training Institute
PUI	Person Under Investigation
PV	Photovoltaic
R&D	Research and Development
RA	Republic Act
RAND	Research And Development Corporation
RBOI	Regional Board of Investments
RCEF	Rice Competitiveness Enhancement Fund
RCEP	Regional Comprehensive Economic Partnership
RCOA	Retail Competition and Open Access
RCT	Randomized Controlled Trial
RE	Renewable Energy
RES	Retail Electricity Supplier
RevGov	Revolutionary Government
ROIC	Return on Invested Capital
RPS	Renewable Portfolio Standard
RRR	Reserve Requirement Ratio
RTA	Retail Trade Act
S&E	Science and Engineering
S&T	Science and Technology
SAP	Social Amelioration Program
SARS-CoV 2	Severe Acute Respiratory Syndrome Coronavirus 2
SGS	Société Générale de Surveillance
SHDA	Subdivision and Housing Developers Association, Inc.
SIPP	Strategic Investment Priority Plan
SMC	San Miguel Corporation
SME	Small and Medium Enterprise
SPLIT	Support to Parcelization of Lands for Individual Titling
SSS	Social Security System
STEM	Science, Technology, Engineering, and Mathematics
TPLEX	Tarlac-Pangasinan-La Union Expressway
TRAIN	Tax Reform for Acceleration and Inclusion
TV	Television
TWG	Technical Working Group
UI	Unemployment Insurance
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

UNESCO	United Nations Educational, Scientific, and Cultural Organization
UP	University of the Philippines
UPLB	University of the Philippines Los Baños
US	United States
VC	Venture Capital
VCO	Virgin Coconut Oil
VP	Vice President
VR	Virtual Reality
WACC	Weighted Average Cost of Capital
WESM	Wholesale Electricity Spot Market
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
WWII	World War II

"The COVID-19 pandemic has rewritten institutional and social narratives; it is also time we rewrite our economic and policy models."

MJ SALUMBIDES OF KEYLIGHT STUDIO

Kristine Alcantara

New job markets for the new normal

March 29, 2021

AT THE CLOSE OF 2019, in what seems to be a lifetime ago, the Philippines was one of the most dynamic economies in the Asia-Pacific region. With increasing urbanization, a large and young population, and a growing middle class, the vibrant labor market was supported by strong consumer demand. Both the unemployment and underemployment rates were at their lowest in contemporary history, at 5.3% and 14.8%, respectively. The spread of the contagious coronavirus disease (COVID-19) in 2020, however, led to an economic and labor market shock affecting not only the production of goods and services but also consumption and demand. Businesses of all sizes faced serious challenges and while the Philippine government deployed wage subsidy schemes to minimize job losses, most micro, small, and medium enterprises' (MSMEs) liquidity plummeted. Travel bans, quarantine restrictions, and costly sanitation measures as well as the loss of purchasing public due to the growing environment of uncertainty and fear led most firms to delay the hiring of workers, or worse, retrench their employees. As of January 2021, an estimated 17.6% of Filipinos were unemployed and without any source of income.

Even before COVID-19 accelerated the demise of archaic institutions and traditional ways of doing work, the fourth technological revolution has likewise challenged the Philippines' reliance on industrialization and its capacity to generate high-paying jobs as a path towards economic growth. The Philippine labor market, now more than ever, is in need of investment in training, skills, and support to help displaced workers transition into new and even better jobs.

It is time to build a new job market for the new normal.

Policy reform need not focus just on recovery alone. The Philippines needs a better labor market: an inclusive and sustainable one with a view towards the low-paid workers, young and inexperienced graduates, women, ethnic minorities, self-employed, informal, and fixed-term workers. The following strategies can be deployed as the Philippines needs a "whole of society" approach in combining quick-acting measures with lasting solutions involving government workers, private enterprises, and taxpayers.

Firstly, investment in skills development is a must – either in terms of reskilling, upskilling, and training in highly technical and soft skills. Current initiatives in Congress – such as the reforms in the Apprenticeship Program and "21st Century Skills Act" or House Bill No. 7671 by Albay Representative Joey Salceda – are good platforms in bridging the skills gap of Filipino workers to match the increasingly modernizing and technical labor demands. These programs need not be targeted to new entrants in the labor market only, but due to the layoffs caused by the economic effects of COVID-19, expanded to include the unemployed and underemployed. Government should invest in apprenticeship training, either in terms of reducing on-site training cost, providing incentives to companies that embark on upskilling programs, or employment facilitation to support those who cannot be hired by employers or looking to transition to new jobs.

Secondly, there is a need to strengthen unemployment insurance to improve income security while employees transition to new jobs or train to acquire new skill sets. Marikina Representative Stella Quimbo's House Bill No. 7028 or the "PhilJobs Act of 2020" can aid in providing a cushion of, at most, three months' salary payments to an employee to provide subsistence during job search or a training allowance during the upskilling or reskilling period. Tripartite dialogue measures should also be conducted to include and improve on the portability of pension benefits for retiring employees.

Finally, and similar to the business stimulus granted by Vietnam, the government can set up local economic zones called "Special Employment and Recovery Zones" to be placed in labor-intensive, relatively low-skilled plants in high-density and/or high-unemployment areas. Major features of these special recovery zones would be fiscal incentives for employers to invest in, or borrow loans from the government to set up, new enterprises within the zone, provide for flexible wages and tenure arrangements based on competency programs or certifications, with health and labor standards to be overseen by a zone commissioner. If pilot zones prove successful in generating investment and employment, nationwide deployment and labor reforms can be the next step.

The COVID-19 pandemic has rewritten institutional and social narratives; it is also time we rewrite our economic and policy models. While the current economic downturn has gutted obsolete and non-essential industries, it is time to usher in new labor markets for the new normal and not by ignoring structural inequalities but by forming an inclusive and sustainable skills market by "building back better".

Hanapbuhay and the case for sustainable employment creation

April 3, 2021

ON THE FIRST OF MAY in 1903, thousands of workers from the *Union Obrera Democratica de Filipinas* marched across Plaza Moriones demanding and advocating for independence as well as a fair day's wage for a fair day's work. From this movement sprung the official national May Day holiday and the signing of Presidential Decree No. 442 – the Labor Code of the Philippines. One hundred eighteen years since and while indeed, national policy planning mechanisms are in place to reach the national target for job generation, is the work (or *hanapbuhay*) available for Filipinos *trabaho* (labor) or *pagkakakitaan* (a means of securing the necessities of life)?

The most recent official labor statistics from the Philippine Statistics Authority for February 2021 show that the Philippine labor force participation rate is at 63.5%, with an unemployment rate of 8.8% and underemployment rate at 18.2%. Among the employed persons in February 2021, 7.9 million Filipinos declared themselves as underemployed and expressed their desire to have additional hours of work in their present jobs, have an additional job, or to have a job with longer hours of work. Apart from the double burden of unpaid domestic work, women also had a lower labor participation rate at 50.9% and unemployment rate at 17.6%. The number of unemployed Filipinos who are 15-year-olds and over was also posted at 4.2 million, at a figure steadily growing from the past months with the age group of those 15-24 years comprising 33% of the total number of unemployed.

While much has been said about the problem of unemployment, underemployment is the quiet and bigger unsolved issue – many workers have no choice but accept lower quality jobs or work in the informal sector. In fact, and despite the massive impact of the negative shock that the COVID-19 pandemic has brought on employment growth and participation rates, over time and albeit at a slower pace than needed, it is possible for the rates to go back to their previous levels. However, underemployment and casual wage jobs remain consistent at 16% to 22% in the last 20 years.

In analyzing the data by industry, the agriculture sector, industrial, and especially the services sector at 49.6% in February 2021 comprise the total of underemployed persons. This is significant as much of the labor force in the past two decades has been absorbed in the services sector, and while providing work, these employees remain casual, informal, and urban based.

Policy reform and action should then be inclusive and sustainable. More than the call to reach the target employment rate for the country, we need to increase the derived demand for labor – or the demand for goods and services in the sectors that need the workforce. As a start, better investor confidence in the agriculture sector is key to both job efficiency and food security. The Philippines needs to attract investors, both foreign and local, in infrastructure and research development for sunrise industries – agribusiness, creative industries, supply chain logistics, and health and wellness to name a few.

Enabling environments are also critical to allow for the main job generators in the country to grow – the small and medium enterprises (SMEs). Credit and financial access to SMEs, with a particular view to impact and gender investing, is a good start in leveling the playing field for the disadvantaged population. Small business and gender procurement from the government and inclusion of sustainability scorecards in corporate governance likewise reinforces the guarantee that capital flows can trickle down to the underserved.

Finally, educational models need to be adapted to modern markets. Strengthening technical training for the youth for in-demand jobs and occupation is a short-term need, with the goal of involving the private sector in curriculum development and apprenticeship programs to solve the mismatch through better demand and supply coordination.

The key to tackling this urgent concern is the recognition that *hanapbuhay* is a source of life and more than poverty alleviation, it also goes into the root of human needs – a loss of freedom, cynicism in relations, motivational learning, and gender and age discrimination. Perhaps, as an annual reminder, May Day is about the aspiration to promote inclusive and sustainable economic growth by providing productive employment and decent work for all. It is a celebration of the quiet dignity of labor and transforming work (*hanapbuhay*) to livelihood (*kabuhayan*).

Engendering a resilient and inclusive ASEAN[1]

April 10, 2021

IN 2017, on the 50th founding anniversary of the Association of Southeast Asian Nations (ASEAN), policymakers, women business leaders, entrepreneurs, and international organizations gathered for the first ASEAN Women's Business Conference in Manila and urged ASEAN leaders to recognize the importance of women's economic empowerment as a key strategy in achieving economic growth, stability, and prosperity in the region. In turn, the ASEAN leaders adopted the Action Agenda on Mainstreaming Women's Economic Empowerment, and encouraged all ASEAN member-states to mainstream women's economic empowerment through innovation, trade, and inclusive business.

Since then, efforts have been made to implement this agenda. But in the midst of ASEAN's burgeoning prosperity, the COVID-19 pandemic struck and laid bare the inequities on which the region's economic growth is founded. Despite constituting more than half of the population in ASEAN, women have less economic power, as they are generally earning less, saving less, holding insecure jobs, and performing double the unpaid care and domestic work than men.

With this in mind, the Philippine Women's Economic Network (PhilWEN), as the focal point of the ASEAN Women Entrepreneurs Network (AWEN), and Oxfam International will launch their collaborative briefing paper on April 22 titled "ASEAN Through a Gender Lens." This gendered policy analysis aims to make women visible in regional policymaking by providing a perspective on how structures put women at a disadvantage, and the ways these barriers can be removed.

[1] Published in the *Philippine Daily Inquirer's* **Women Who Lead** column

In terms of macroeconomic policymaking, the ASEAN Economic Community Blueprint does not acknowledge the gender gap in economic initiatives, incentives, and regulations in the region. In order to fully capture the needs of women workers and entrepreneurs, there must be a disaggregation of data on gender in the ASEAN Statistical Yearbook, to provide in-depth information on the extent of economic participation that women—urban, rural, or from indigenous populations—are allowed or have support in.

Societal norms limit women from developing skills and careers in science, technology, engineering, arts, and mathematics. Specific interventions, such as capacity-building, are needed in order for women to effectively use information and communication technologies as tools for economic advancement in their workplaces or businesses. Financial institutions and private equity funds generally favor men who have the financial and management training to solicit and grow investments in their enterprises. Women must also be given the same upskilling programs to be competitive in the capital flows market. Gender-responsive procurement by private companies will also help in equalizing the access of women to global value chains and international markets.

Gender-responsive indicators in the ASEAN Corporate Governance Scorecard are a good start in encouraging increased women's participation in the workforce and, later on, in executive and managerial positions.

ASEAN sectoral bodies need diverse representation; women must be adequately represented in economic policymaking. This ensures that women's concerns are communicated and addressed.

Women's business groups such as AWEN can represent women's concerns either as a separate interest group like a women's business council, or by institutionally participating as a member of the proposed ASEAN Gender Mainstreaming Committee.

The Action Agenda is a groundbreaking instrument in ASEAN; it enlarged the scope of gender policies from a framework of protection to economic empowerment as a cross-cutting concern. Now more than ever, it is time to put the Action Agenda at the forefront of policymaking. For ASEAN to truly and fully recover from the effects of the COVID-19 pandemic, access to the regional workplace and marketplace must be inclusive. Women must not be left behind.

The politics of an open economy and national security: A zero-sum game?

June 6, 2021

A MATHEMATICAL MODEL present in both economic theory and information security is the situation of a zero-sum game, where one participant's gain or loss is exactly balanced by the losses or gains of the other participant. Specifically, and in the context of economic security, it references a trade-off between investment and privacy. In the aftermath of the debates on opening the economy, we've seen a lot of commentaries and opinions that privacy wins the day; we do not want any large or foreign entity – government or corporation – to have too much power or control over our capital inflows and public utilities. Adam Smith himself, in a well-known passage in *The Wealth of Nations,* was concerned with the proper allocation of resources between "defense" and "opulence", in what led to the birth of literature on the economics of defense in the form of industrial mobilization, alliances, and recently – economic foreign policy.

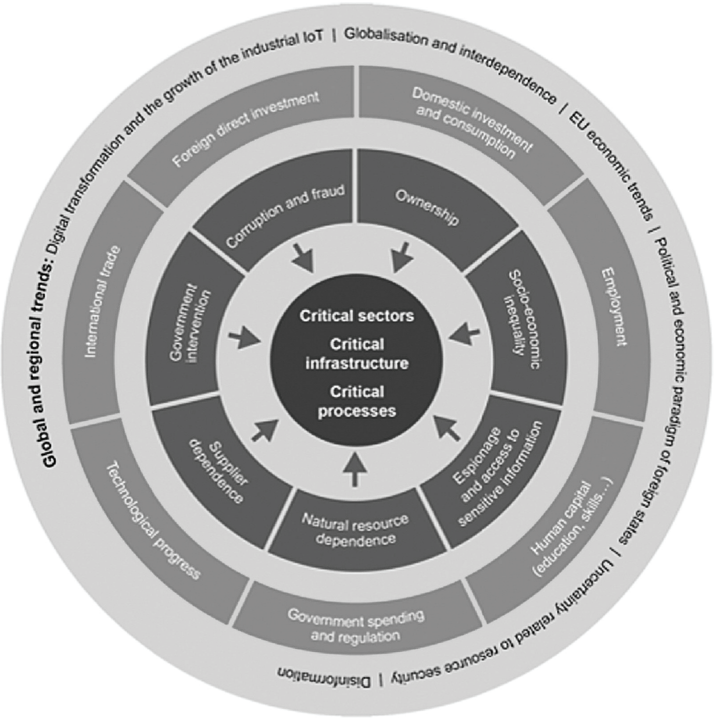
Much like free trade, can an open economy and national security evolve into a positive-sum game where increased capital inflow can be balanced with the strength of a nation's infrastructure, government, and institutions?

A study published by RAND Europe on 14 January 2020 examines the relationship between the economy and national security and proposed a conceptual framework on how to develop a national security policy. The key findings of the study by Lucia Retter, Erik K. Frinking, Stijn Hoorens, Alice Lynch, Fook Nederveen, and William D. Phillips, are as follows:

- Foreign direct investment or FDIs and ownership of critical infrastructure and sectors can increase the risk that foreign entities gain influence and control over operations. Espionage and access to sensitive information could be enabled by the proximity or ownership of critical infrastructure and sectors by a foreign body;

- Natural resources and supplier dependence on imports from foreign countries could give foreign actors undue influence on the national economy; and
- Corruption and fraud could undermine the resilience of critical infrastructure.

Figure 1. RAND Europe Analytical Framework of Risk Vectors


Global and regional trends: Digital transformation and the growth of the industrial IoT | Globalisation and interdependence / EU economic trends | Political and economic paradigm of foreign states | Uncertainty related to resource security | Disinformation
Foreign direct investment
Domestic investment and consumption
Employment
Human capital (education, skills...)
Government spending and regulation
Technological progress
International trade
Corruption and fraud
Ownership
Socio-economic inequality
Espionage and access to sensitive information
Natural resource dependence
Supplier dependence
Government intervention
Critical sectors
Critical infrastructure
Critical processes

Source: RAND Europe

Moreover, security risks are not dependent on FDIs and imports alone. Digital transformation and the implementation of the industrial internet of things in relation to supply chains, cybersecurity, and data management by critical sectors pose concerns on the integrity of political institutions.

It is indeed time to update the Philippine National Security Policy (2017–2022) to better manage the gains of foreign investment. A dynamic and secure Philippine economy must be driven by economic interdependence and the capacity to develop transformational technologies.

The Philippines needs a national economic security agenda.

Firstly, and like the model proposed by David H. McCormick, Charles E. Luftig and James M. Cunningham, the Philippines needs to develop and support a national innovation policy to be able to build a strong cybersecurity framework. Sectors that diversify supply chains, expand strategic reserves, or promote technology transfers should be promoted. Investment strategies should be implemented – from attracting foreign talent to raising foreign angel or capital venture funding or fanning private markets to invest on relevant technologies. *Secondly*, the economy should be opened first to allow for capital inflows and balanced with investment screening. Disclosures and financial transparency and the policing of rules is a more urgent and important concern than gatekeeping of investments. *Finally*, increased international cooperation should be developed and particularly on the promotion of open architecture networks.

It's time to recognize that development is not sacrificed at the altar of information integrity. With known and managed risks, a strong 21st-century economy can be built on the foundation of interdependence and economic security statecraft.

ImagineNation: Philippine creative industries for economic growth and social cohesion

July 12, 2021

IT WAS THE SECOND of July 1997; the Thai government floated the baht due to lack of foreign currency reserves and in a resounding crash, collapsed the financial system of the East and Southeast Asia region. South Korea's debt-to-GDP ratio rose to 40% as the International Monetary Fund stepped in to stabilize the won. With more than $55 billion neck deep in loans, South Korea undertook an intensive economic reform and in less than five years, repaid its debt. In full. Its ingenious plan to restart the economy? South Korea developed its entertainment industry to what is now known as "Hallyu" or Korean Wave – the sharp rise of production and consumption of the country's creative content. As of 2012, the Korean creative industry reported more than $5.02 billion total value in cultural exports and in 2020, BTS – a seven member K-Pop group – accounted for $4.9 billion in sales for the South Korean economy or almost as much revenue as Korean Air.

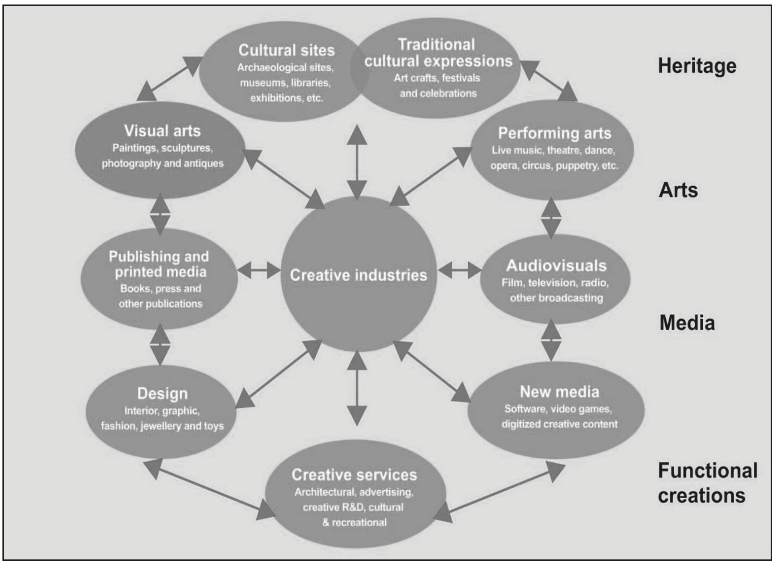
What is the creative economy, what comprises the gamut of creative industries, and most importantly, how can the Philippines harness the inherent creativity of Filipinos and use it as a driver for economic recovery?

In its Ministerial Conference in 2004, the United Nations Conference on Trade and Development (UNCTAD) defined creative industries:

- as cycles of creation, production, and distribution of goods and services that use creativity and intellectual capital as primary inputs;
- constitute a set of knowledge-based activities, focused on but not limited to arts, potentially generating revenues from trade and intellectual property rights;
- comprise tangible products and intangible intellectual or artistic services with creative content, economic value and market objectives;
- stand at the crossroads of artisan, services, and industrial sectors; and
- constitute a new dynamic sector in world trade.

Creative industries are vast in scope, ranging from traditional knowledge and cultural heritage to more technology and services-oriented subgroups such as audiovisuals and new media. UNCTAD broadly classifies these industries into four subgroups: (1) cultural heritage or the origin of all forms of arts; (2) artworks such as visual arts and performing arts; (3) media such as publishing, printed media and audiovisuals; and (4) functional creations such as design and new media or other digital related services.

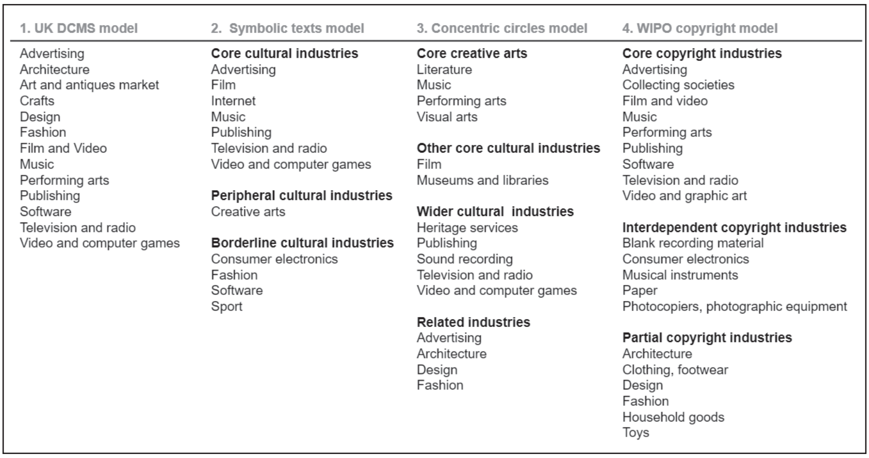
Figure 1. UNCTAD Classification of Creative Industries


Cultural sites
Archaeological sites, museums, libraries, exhibitions, etc.
Traditional cultural expressions
Art crafts, festivals and celebrations
Heritage
Visual arts
Paintings, sculptures, photography and antiques
Performing arts
Live music, theatre, dance, opera, circus, puppetry, etc.
Arts
Publishing and printed media
Books, press and other publications
Creative industries
Audiovisuals
Film, television, radio, other broadcasting
Media
Design
Interior, graphic, fashion, jewellery and toys
New media
Software, video games, digitized creative content
Creative services
Architectural, advertising, creative R&D, cultural & recreational
Functional creations

Source: UNCTAD

Other models by other development institutions expanded on the UNCTAD definition of creative industries and covered those that provide heritage and cultural expressions as included by the United Nations Educational, Scientific, and Cultural Organization (UNESCO), and copyright-based industries as included by the World Intellectual Property Organization (WIPO).

Figure 2. Classification Systems for Creative Industries from Different Models



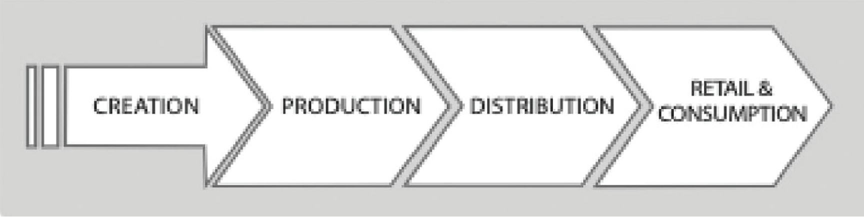
1. UK DCMS model	2. Symbolic texts model	3. Concentric circles model	4. WIPO copyright model
Advertising Architecture Art and antiques market Crafts Design Fashion Film and Video Music Performing arts Publishing Software Television and radio Video and computer games	**Core cultural industries** Advertising Film Internet Music Publishing Television and radio Video and computer games **Peripheral cultural industries** Creative arts **Borderline cultural industries** Consumer electronics Fashion Software Sport	**Core creative arts** Literature Music Performing arts Visual arts **Other core cultural industries** Film Museums and libraries **Wider cultural industries** Heritage services Publishing Sound recording Television and radio Video and computer games **Related industries** Advertising Architecture Design Fashion	**Core copyright industries** Advertising Collecting societies Film and video Music Performing arts Publishing Software Television and radio Video and graphic art **Interdependent copyright industries** Blank recording material Consumer electronics Musical instruments Paper Photocopiers, photographic equipment **Partial copyright industries** Architecture Clothing, footwear Design Fashion Household goods Toys

Source: UNCTAD Creative Economy Report (2010)

In 2018, the UNCTAD released its *Creative Economy Outlook* and estimates that in the Philippines, creative goods account for roughly $3.23 million in exports and $915 million in terms of creative services. While the values look encouraging, the Philippines lags behind in the Asia-Pacific cluster and accounts only 2% of the regional pie. The contribution of creative industries to the gross domestic product (GDP) and gross national income (GNI) is small or only at 2%-5%, far less compared to other emerging economies. For a service-oriented economy, the Philippines cannot afford to leave a major driver of economic growth, such as the creative industries, underdeveloped.

Now, more than ever, is the time to develop the potential of Philippine creative industries, and harness the potential of culture, indigenous knowledge, and innovation as economic resources. Along with the tourism industry, cultural and creative sectors are among the most affected by the COVID-19 crisis and yet, cultural and creative content are necessary in cultivating a sense of community and well-being to individuals locked down in their own homes. It's time for strategic policy interventions to strengthen the creative industries value chain and rebuild our nation upon the backbone of creative work, an *ImagineNation*.

Figure 3. The Creative-Industry Value Chain



Source: UNCTAD

Following the UNCTAD creative-industry value chain analysis, the Philippines can strengthen each vertical or stage of creative goods and services production and sale to build an operational model of the Philippine creative economy. *Firstly*, in terms of the creation or conception stage, the Philippines needs to build creative capabilities by embedding arts, design, and media in various levels of education. Creative industries should also be made part of the nation's investment priorities plan and interested businesses, accorded investment incentives. *Secondly*, in terms of production, the Philippines needs infrastructure support or shared service facilities to be made available to small enterprises to subsidize production costs. Funding flows for small and micro-creative entrepreneurs should likewise be made accessible to ensure continued capacity for production. *Thirdly,* digitization efforts should be improved so that creative industries can take advantage of online platforms to distribute their content digitally. Technical assistance and training on digital service distribution will also aid in the sale and export of creative goods and services. *Finally*, export promotion for creative goods and services can be made a topline executive policy direction. New brands, markets, and products should also be included in an industry development strategy. Trade facilitation issues, such as slow clearance of goods, should be addressed and handled.

The Philippine creative economy strategy, containing targets that improve on the creative value chain, can be the subject of policy action at the national level. This was the aim in the drafting and filing of House Bill No. 8101 or the "Philippine Creative Industries Act" – an endeavor headed by Rep. Christopher de Venecia and supported by all members of the House of Representatives Committee on the Creative Industry and

Performing Arts. Its passage, funding, and continued support is something that the Philippines urgently needs if it aims to return to the country's economic growth level. It is a necessity and can be a reality. Much of the Philippines' pride as a nation was decimated because of the onslaught of joblessness and business closures brought on by the pandemic. However, the distribution of creative goods and services has the soft power to bolster mental health and national pride. The generation of new resources for economic development, such as creative goods and services, can open markets and opportunities, bring about cultural expression, and even strengthen institutional partnerships between the public and private sector.

It is also a means for sharing our stories, our experiences, our culture to the world but retain our identity. *ImagineNation*, or the Philippines as a robust contributor of global wealth in the form of creative goods and services, is not just a pipe dream. It can be made our next reality.

Our brand is crisis: Controversies, challenges, and opportunities in pandemic procurement

September 27, 2021

FOR A NATION obsessed with *telenovelas*, there is nothing more gripping and trebly dramatic as the agony and ecstasy of a Senate Blue Ribbon Committee Hearing on questionable purchases and deficiencies in compliance with procurement audits. Apart from or maybe because of the escalating tensions brought about by the upcoming Philippine elections in 2022, corruption inquiries and allegations occupy the headlines and most of the chatter in social media. In the midst of a health crisis, the voting public wants to know one thing – did anyone profit from the pandemic?

Exchange of vicissitudes, public self-recriminations, and political power-mapping (or matrixing) aside, if anyone did unconscionably profit while people are literally dying on the streets, what is it with the current system that allows this to happen? Is there a means to make government purchases more efficient in an emergency where supply chains are broken, and lockdown restrictions affect suppliers' ability to implement contracts? Under normal circumstances, the market regulates itself but in times of crisis such as a global pandemic, the demand for goods and medicines exceeds supply causing unprecedented and uncorrected price inflation. Here, the search for the balance between fast-track purchasing through simplified and streamlined processes and *post-facto* supplier review has begun.

The Legal Framework on Government Procurement

The Philippines has a single law on procurement – Republic Act No. 9184, otherwise known as the "Government Procurement Act of 2003" (Philippine GPA). The Implementing Rules and Regulations were approved in 2003 and revised in 2009 to address, among others, deficiencies in domestic and foreign-funded procurements in government and again in 2016, to adopt good practices from development banks to achieve "procurement professionalism". In 2019, the Philippines went even further and submitted a request to become an observer in the Committee on Government Procurement of the World Trade Organization (WTO), in preparation for potential accession to the WTO Agreement on Government Procurement (WTO GPA). In broad strokes, the Philippines was poised to accede to the WTO GPA as the core principles of the Philippine GPA are in conformity – procurement processes are transparent, competitive, and efficient, and there is accountability. The Philippine GPA likewise makes direct reference to the direct application of the WTO GPA as the relevant procurement law in case the Philippines becomes a member.

The Philippine GPA also consolidates and standardizes procurement rules and procedures for all national government agencies including government owned and/or controlled corporations, local government units, the Senate and House of Representatives, as well as those made by all Courts in the Philippines wanting to purchase goods and services, including infrastructure and consulting services. To ensure implementation, the Commission on Audit (COA) evaluates the compliance of all government procuring entities with the requirements under the Philippine GPA by reviewing the bidding procedures and the manner by which the bid is awarded to the winning contractor.

Emergency Procurement in the Philippines

On March 8, 2020, President Duterte signed Proclamation No. 922 declaring a State of Public Health Emergency throughout the Philippines following a confirmed local transmission of the COVID-19 virus. On March 16, 2020, Proclamation No. 929 was declared, putting the Philippines in a State of Calamity thereby affording the national government and the local government units ample latitude to utilize and appropriate funds to contain the spread of COVID-19 and continue the basic services of government. The State of Calamity was extended until September 12, 2021 by virtue of Proclamation No. 1021 and again until September 12, 2022 by virtue of Proclamation No. 1218.

While in a State of Calamity, the Government Procurement Policy Board and COA confirmed the authority given to procuring entities to use negotiated procurement for the government to timely respond to the public health emergency. These Proclamations and guidelines were further affirmed by the enactment of Republic Act No. 11469 or the *Bayanihan* to Heal as One Act and Republic Act No. 11494 or the *Bayanihan* to Recover as One Act.

The Philippine emergency procurement system allows for shortened notices for health supplies, medicines, and vaccine procurement and conferred the authority upon procuring entities to make advance payments to suppliers or winning contractors. Aside from doing away with competitive bidding in some cases and allowing for negotiated procurement, splitting of contracts was allowed and a Notice to Proceed was no longer required for the purchase to be confirmed. The only safeguard in place was that the procuring entity should ensure that the purchase shall not constitute an "irregular, unnecessary, extravagant, excessive or unconscionable use of funds, as defined by existing accounting and auditing rules".

Gaps in the COVID-19 Procurement Policy

As evinced from the line of questioning by the Senators during the Senate Blue Ribbon Hearing on public protective equipment procurement, the following bottlenecks are common or faced during emergency procurement:

- Procurement was not coordinated between the national government and local government units;
- There is no central committee created for COVID-19 procurement; conflict or duplication of purchases was observed between the Department of Budget and Management (DBM), the Philippine International Trading Corporation (PITC), and the Department of Health (DOH);

- There is no formally defined emergency procurement governance structure in terms of accountability, approval requirements, and delegation of authority;
- A complaint handling mechanism for emergency procurement has not been convened or resorted to;
- There is a lack of clarity on the exact volume of procurement needed to meet market demands; and
- Aside from COA, there is no agency or committee responsible for the *post-facto* oversight or review of the procurement process.

Strategies in Approaching Urgent Procurement

In the recently concluded study on the *Opportunities and Challenges for Public Procurement in the First Month of the COVID-19 Pandemic: Results from an Experts Survey*, the World Bank Group recommended strategies for an improved emergency procurement system to combat the regression coefficients between efficiency and transparency in procurement:

- Assess the adoption of critical and high-risk procedures for emergency procurement and adjust the latitude on negotiated procurement accordingly;
- Improve on the regulatory framework on emergency procurement by amending the Philippine GPA;
- Strengthen and invest on e-procurement systems;
- Provide clear legal and regulatory guidelines around emergency procurement; and
- Build a transparent and accountable procurement system by reviewing the procurement process done through expedited modalities such as direct contracting.

Moreover, and despite the emergency concerns, the Philippine Competition Commission (PCC) can also look into and ensure that competition policy is not disregarded in times of emergency procurement. Procuring entities should opt for competitive tendering; focus should be on building a fast-tracked and simplified competitive procedure and not on negotiated procurement. Existing contracts should not be renewed or extended, and purchases made by direct award should be limited to what is necessary in terms of volume to address the emergency. It is also prudent to start building market intelligence to inform on emergency purchases and be vigilant against suspicious selling patterns or suppliers.

The Philippines should also strongly consider accession to the WTO GPA and allow foreign or more competitors in the government procurement market.

At the core of possible procurement solutions, technology once again occupies a central component. Big data and analytics can and should be used in the supply chain to manage the impact of COVID-19. Organizations, including government agencies that provide basic services, should lean towards data-driven decisions for an effective response to procurement by creating analytic models, building databases, and capturing and predicting the volume of demand for goods and services. Big data and analytics can bring about a new frontier with the premise of transformative changes in procurement such as risk analysis, real-time performance outputs or scorecards of suppliers, data mining on price trends, and predictive analytics on forecast spend and pricing. Investment in these technological structures by opening up market access to public services can also boost the nation's capacity in accelerating growth of industries that can improve on our way of doing business.

The COVID-19 pandemic has tested the legal and administrative framework of Philippine procurement, both in times of plenty and in times of urgency. The gaps in the law and the lack of accountability indicates that procurement can be further strengthened to ensure a more agile and honest response. The quality of institutions and the capacity of the State governance is truly tested in times of contagion and calamity. Responsiveness and accountability can co-exist in an emergency response and the behemoth that is the government, with all its moving parts, can work in both national and granular level. After all, as Jane Bodine famously ends the movie *Our Brand is Crisis*, "if you don't like the road you're on, start paving one".

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"When investors do not build new plants or do so slowly because the business environment has been riddled with regulatory uncertainty and risks, end-consumers and our entire economy lose."

MJ SALUMBIDES OF KEYLIGHT STUDIO

Romeo Bernardo

Citira, Pifita: Now na!

October 6, 2019

CONGRATULATIONS are due to House Speaker Alan Peter Cayetano and Ways and Means Chair Joey Salceda on the swift passage of the Corporate Income Tax and Incentives Rationalization Act and the Passive Income and Financial Intermediary Taxation Act in the House of Representatives. Memorably tagged CITIRA and PIFITA by Congressman Joey, it is now being heard in the Senate Ways and Means Committee, which is most ably chaired by lawyer and economist Senator Pia Cayetano.

At the last hearing, I was privileged to read the statement of support of former finance secretaries and noted economists in favor of these pending tax reform packages. Signatories included former Prime Minister Cesar Virata, former Senator and Finance/Executive/Foreign Affairs Secretary Alberto Romulo, former Finance Secretaries Roberto de Ocampo, Jose Isidro Camacho, Margarito Teves, and former Socioeconomic Planning Secretaries Cielito Habito and Arsenio Balisacan.

The collective wisdom and experience of this group in the field of fiscal and economic governance is unparalleled, gained not only during their years in office, but also in the leadership positions they now occupy.[1]

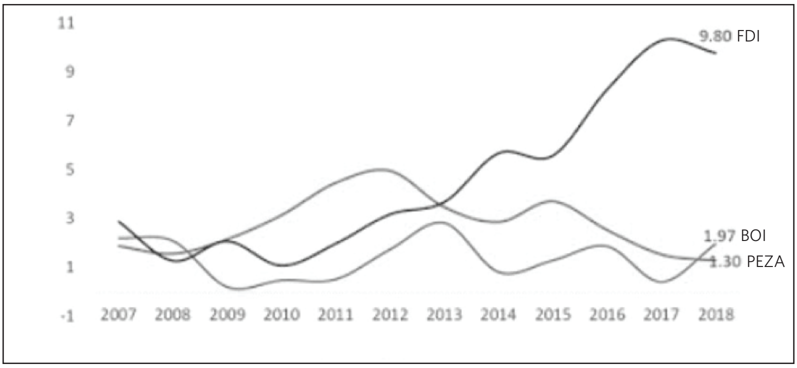
The last three sentences of our statement read: "All these reforms are necessary if the Philippines is to move forward to a future with no extreme poverty by 2040. Together, we stand ready to support these reforms in any way we can. We urge both houses of Congress to recognize the great merits of the Comprehensive Tax Reform Program and pass the remaining packages at the soonest possible time."

[1] Our full statement can be accessed on this link: www.dof.gov.ph/index.php/former-dof-secretaries-eminent-economists-join-top-legislators-in-seeking-urgent-passage-of-remaining-tax-reform-packages/

Urgency is truly called for, since this congress has less than a year before election fever grips the nation and everything is pushed back for at least three more years. And the country, especially the poorest citizens, cannot wait. Philippine poverty incidence stands at over 21% vs. 11% for Indonesia, 9% for Thailand, 7% for Vietnam.[2] Moreover, the world does not stand still. This is especially relevant for CITIRA which will affect the behavior of investors, the job creators. In the ASEAN, our corporate income taxes (CIT) rates stand out uncompetitively at a high 30%, even as our ASEAN peers, which now average 22%, are moving swiftly to further lower them.[3]

To lower the corporate income tax to 20% faster, quick action is likewise needed to rationalize fiscal incentives to cover for foregone revenues from there. The strongest objections are coming from locators in PEZA (Philippine Economic Zone Authority) zones, championed by the Joint Foreign Chambers of Commerce, and the PEZA Administrator (though disowned by its Chairman and Board). Though unsubstantiated by specific data, the apprehension has been sown that any departure from the status quo of "forever incentives" will lead to huge job losses. Recent data suggest otherwise. According to literature and research, incentives are not what drive FDI (foreign direct investment). And the fears of massive exit of FDI due to recent initiatives of the Department of Finance on incentives rationalization may be exaggerated.

Figure 1. Approved foreign investments by promotion agency and foreign direct investments (in US$ billions)



Sources: PSA and BSP

[2] ASEAN Key Figures, 2018, aseanstats.org

[3] See the column of Atty. Benedicta Du-Baladad, "CITIRA and the ASEAN Tax War," *BusinessMirror,* September 26, 2019

On this, the remarks of Prof. Renato Reside of the UP School of Economics during the Senate hearing are worth quoting. He and his UP colleague, then-former Socioeconomic Planning Secretary and now Monetary Board Member Philip Medalla, separately did the seminal work on the case for rationalizing fiscal incentives as early as the mid-1990s (Reside 2006). These have informed bold but sadly failed efforts of five administrations.

> … based on global experience with tax incentives, certain investors get benefits they may not need, certain incentives are redundant. And while certain benefits cannot be attributed to them, there will certainly be costs to granting them. But CITIRA aims to substitute inefficient for more efficient incentives, not take them away so the question is how adjustment will take place when shifting to lower tax rates, tax credits and tax allowances and accelerated depreciation to reward marginal additions to R&D, employment and investment levels. For sure, additional investment and hence employment will also be spurred by more efficient incentives, lower tax rates and more targeted incentives.

A possible compromise has been mentioned by Department of Trade and Industry Secretary Ramon Lopez. A UP and foreign-trained economist, he served as a director in NEDA (National Economic and Development Authority), as a top corporate executive, and as champion of SMEs at Go Negosyo, and is thus well-placed to see all sides. He is recommending a longer phase-in period for the new incentive scheme for well-defined PEZA locators.

The thinking of the Foundation for Economic Freedom (FEF) is aligned with this: "We support the phasing out of all incentives except temporarily for a small subset of labor-intensive industries which unless the CIT is 25% or lower are likely to move out to other countries without incentives. Such exemptions can be phased out when the CIT is aligned with the lower CIT rates in our neighboring countries."

Now a note on PIFITA. This well-studied bill, crafted by Department of Finance officials and consultants, goes a long way in simplifying and harmonizing taxation of financial instruments towards developing our capital market. The FEF has a reservation on the proposed presumptive capital gains tax of 0.1% per trade, as this will create friction costs that will impair liquidity and trading, and at the end hurt issuers, especially government, the biggest issuer, as well as savers. Taxing capital gains from debt securities trading as regular income would be more efficient and friendlier to the development of the market.

The other tax reform packages, including Package 2+ on Sin Taxes for Universal Health Care, and Package 3 on Real Property Valuation Reform, were likewise fully endorsed by the former finance secretaries and the FEF.

Hopes are high that under the committed leadership in the House and the Senate, the resolute Duterte team will succeed where their predecessors have floundered — just as they did in getting the game-changing rice tariffication law passed that has lowered inflation now and for the long haul, and is en route to upgrading Philippine agriculture and reducing poverty. On the other hand, further delay will mean more uncertainty; arguably the heaviest tax — on investments, job creation, and the public good.

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Reside, R. (2006). "Towards Rational Fiscal Incentives (Good Investments or Wasted Gifts)," UP School of Economics Discussion Papers 2006-01 (http://www.econ.upd.edu.ph/dp/index.php/dp/issue/view/42)

Momentum: Questions and introspections

November 10, 2019

The authors of *Momentum* (from left): Emmanuel de Dios, Raul Fabella, Romeo Bernardo and Calixto Chikiamco

ON OCT. 23, my three co-authors and I launched our book titled *Momentum: Economic Reforms for Sustaining Growth*.

Our book editor, noted veteran journalist Roel Landingin, explains what it's all about: "In this collection of newspaper columns published from 2008 to 2019, five of the country's leading economic commentators — Romeo Bernardo, Calixto Chikiamco, Emmanuel de Dios, Raul Fabella and the late Cayetano Paderanga, Jr. — put forward observations and recommendations on some of the most intractable problems facing economic progress in the Philippines. But the essays do not always dwell on economic analysis and prescription: they also delve into broader themes ranging from motorcycle riding, US-China rivalry; Mark Twain, basketball and working in government among others."

Why the title *Momentum*?

In the welcome remarks of the evening, Foundation for Economic Freedom President Toti Chikiamco explained on our behalf:

> Truth to tell, we kicked around a few ideas. Prof. De Dios suggested 'Wokenomics,' derived from the current urban slang, 'Woke,' which means to be awake and always conscious of perceived injustices. However, after a few discussions and several late night dinners, we settled on the more prosaic but more apropos 'Momentum,' with the subtitle 'Economic Reforms for Sustaining Growth.'
>
> The word is appropriately 'Momentum' because the Philippines has broken from its boom and bust cycle in the past. It's cruising along at 5%-7% GDP growth, which is among the fastest in the region, and no doubt due to reforms in the past. The big question now is: how to sustain and even accelerate economic growth? We hope this book supplies the answer. It's a curated collection of the authors' articles in *BusinessWorld*, which they wrote as members of the board of IDEA, or the Institute for Development and Econometric Analysis, the economic research organization that the late Dondon Paderanga founded and where he invited us to be board members. This book is also a loving tribute to our late friend Dondon.
>
> This book was made possible by friends and supporters. I don't have to cite them, but they know who they are. They may not exactly espouse the same ideas as the authors, but they share with us a love of country and desire to keep the momentum of economic growth. Thank you again. We promise to distribute the book as widely as possible, perhaps enter it into the public domain after a certain period, to enrich the discourse on the economic direction of the country.

At the launch at the Fairmont Hotel in Makati, we were most honored by the attendance of such public sector luminaries as former President Fidel Ramos, former Prime Minister Cesar Virata, Central Bank Governor Ben Diokno, former Chief Justice Artemio Panganiban, Monetary Board Member Philip Medalla, Representative and Professor Stella Quimbo, Philippine Competition Commission Chair Arsenio

Balisacan, Senator Serge Osmeña, former Secretaries Gerry Sicat, Roberto de Ocampo, Gary Teves, Romulo Neri, Popo Lotilla and General Joe Almonte; and business leaders and executives such as Endika and Montxu Aboitiz of AEV, Oscar Reyes of the MVP group, MAP President Riza Mantaring, ECOP President Serge Ortiz-Luis, SHDA Chair Jeff Ng, Bulletin Chair Basilio Yap, *BusinessWorld* Editor-in-Chief Roby Alampay, Harvard Alumni Association President Anthony Abad (who kindly and superbly emceed) and others too many to mention. The book enjoyed generous advanced praise — well deserved for 80% of the book — thanks to my four co-authors, in whose brilliance I happily bask.

Here are excerpts from some of our "reviewers":

From former Chief Justice Panganiban: "If ever there would be a Supreme Court for economic matters, I think the authors of this book easily constitute its members (or at least, some of the more sagacious) and the book would contain their landmark *ponencias* to be read, re-read and obeyed not only by lawyers and economists but more importantly by the policymakers of our country and the general public as well."

From Cesar Virata: "Can we present the writings of these 'raging incrementalists' before the Executive and Legislative branches as their certified agenda in July 2019? I encourage readers to adopt advocacies prescribed in this compendium of ideas."

From Stella Quimbo: "Dear policymaker, do the country a favor. Read this book. It contains the roadmap to economic Shangri-la."

From former President Ramos' National Security Adviser, Jose Almonte: "The nation is grateful to the talented economists who are the authors of this book. Their thoughts and writings in the last decade have helped form an intellectual consensus that paved the way for reforms to address the root cause why this country is among the least developed in this part of the world."

From House Ways and Means Committee Chair Joey Salceda: "A choice selection of illuminating columns from *BusinessWorld* written in the last decade by five of our country's most distinguished economists whose counsel I seek before providing advice to Presidents or House Speakers, or more so when I push legislation in Congress."

From Johanna Chua, Citibank Head of Economics for Asia: "What I find refreshing in these essays is that ardent partisan politics has not obfuscated the clarity of economic arguments. The most seasoned intellects of this country can look through the longer historical lens of experience to form a pragmatic assessment of policy trade-offs, regardless of who is running the country."

From Arsenio Balisacan: "Founded on decades of experience in policy advocacy and rigorous economic thinking, the ideas contained in this book show the way forward for the country to realize its development ambitions. Policy makers, program managers, reform advocate, practitioners, and teacher and students of development and the Philippine economy would do well to pay attention — and act."

And from Ben Diokno, himself an economics professor and opinion writer-leader, who spoke during the book launch: "The book *Momentum*, authored by some of our brilliant economists, will surely provide us with insights on the significance of economic reforms for sustaining growth… As I've always considered myself a reformist, I laud all the people involved in this book. May we keep the momentum going to achieve sustained, strong, balanced, and inclusive growth."

Our comrade-in-arms in the Foundation for Economic Freedom, former Finance Secretaries Bobby de Ocampo and Gary Teves, and former National Economic and Development Authority Secretary now Monetary Board Member Philip Medalla, wrote similarly glowing endorsements by way of an insightful extended foreword.

The closing remarks of National Scientist Raul summed the evening and the book: "On behalf of the authors of *Momentum*, Romy, Toti, Noel, Dondon, and myself, let me express our deepest thanks to all our donors and patrons; to our families; and to the dear friends who took the time to read and comment on the volume… Our thanks go as well to *BusinessWorld*, the op-ed home of our revolving column, 'Introspective'; to Roel and Neil who shepherded the publication of the book; to the collective Fellowship of FEF who, by joining the often strident policy debates, forced us to clarify our own policy stances; and to Dondon's baby, IDEA, of whose Board we remain members.

"This has been quite a journey, and I am extremely lucky to have had the company of Romy, Toti, Noel, and Dondon while undertaking it:

Romy of the boundless curiosity; Toti of the principled pugnacity; Noel of the serene profundity; and Dondon the visionary who roped us more or less willingly into the 'Introspective' family.

"Contrary to impression, however, we are not woven of the same ideological fabric: Noel is the committed liberal democrat; I am more of the Deng Xiaoping pragmatist; Toti and Romy are raging incrementalists. Noel's baccalaureate is Atenista, Toti's and Dondon's are La Sallista, Romy's is Maroonista and mine is Seminarista. Dondon, Romy, Noel, and I but not Toti are bound in the UP School of Economics. Still, the collective light of reason that we seek and that shines on us together is stronger by far.

"A few principles make up the collective light that guides us: that the market and the rule-of-law together can work miracles; that government is best that enables the market; that it is silly to trifle with [it].

"Once more, therefore, our profound thanks to all of you, friends and fellow travelers, who joined us in this milestone moment. With you, the journey, if still littered with more failures than triumphs, is itself already a reward. Together, we will continue — to quote Dylan Thomas — to 'Rage, rage against the dying of the light.'"

Postscript: The Foundation for Economic Freedom, a co-publisher of *Momentum*, won the prestigious 2019 Templeton Prize from the Atlas Network — a competition involving think tanks and public advocacy organizations worldwide — on Nov. 7 in New York City, for its work on the removal of restrictions on agricultural patents. The removal of restrictions on about 2.5 million agricultural patents is the subject in one of Calixto Chikiamco's articles in *Momentum*.

Water woes — just the facts

(First of two parts)

December 15, 2019

THE PRESIDENT UNLEASHED a torrent of expletives on the two Metro Manila water concessionaires for supposedly "onerous" contracts. I tried to understand why. After all, this major privatization, undertaken in 1997 during the Ramos administration to respond to a water crisis, was a celebrated case of a working public-private partnership and was awarded multiple times for the transparency and design of the bid process and for its success in addressing the core problem of poor water services provision, especially its inclusive business model of connecting millions of poor communities. The concession agreements were subsequently extended during the Arroyo term in recognition of this success and in order to enable more investments in water and sewerage services to be done, pursuant to the Clean Water Act.

So indeed, why? The best I can come up with is this: the President felt he was dealt a bad hand through no fault of his and has not been properly briefed on the background and history of this water PPP.

More specifically, the missteps and inactions of the last administration that have led to:

a. non-investment in raw water that resulted in the water shortage last summer; and,

b. non-adjustment in tariff rates in accordance with the contract based on a flawed re-interpretation of the treatment of corporate income taxes (which deviated from the practice over the past 17 years) that has resulted in government losing in international arbitration, which now this administration has to pay.[4]

On top of this frustration for being in the hot seat, the President's anger may have been driven by certain mis-appreciation of the facts about the water service business.

1. Is water free?

Yes, in its natural state. But to deliver safe drinking water to the taps in our homes require investments in storage and treatment facilities and underground distribution networks. These investments that yield high economic and social returns are not free.

Ask the 3.7 million mostly poor informal settlers who were unconnected to the pre-privatization water distribution system. They had to either take a whole morning going to a natural water source or buy their water by the pail at 10 times the cost of what they are now paying under the multi-awarded "*Tubig Para sa Barangay*" in the east zone where they were organized by Manila Water Co., Inc. into communities and connected to its network. Add to this the medicine bills and lost hours of work and missed classes when they get sick from dysentery due to poor water quality pre-1997.

The reality is that it takes billions of pesos of investments to bring clean potable water to our homes. And, unlike businesses that have declining costs with volume, water is the opposite. As the concessionaires try to connect farther communities in hilly areas with sparser populations, unit costs go up, especially with increased demand for sewerage service which, incidentally, costs three times that of fresh water to put in place.

What is the scorecard of the two concessionaires in connecting people and in reducing the wastage from leakages and theft (non-revenue water or NRW)?

[4] See my column: "Never waste a good crisis," April 1, 2019, *BusinessWorld* https://www.bworldonline.com/never-waste-a-good-crisis-2/

Here it is.

Table 1. Water Service Connections and Non-Revenue Water in MWSS Service Area

	Prior to Privatization (1994)	After Privatization (2019)	
		Manila Water	Maynilad
No. of water service connections	779,380	996,175	1,446,438
Non-revenue water	61%	11.5%	27%

Sources: Manila Water Corp. and Maynilad Water Services, Inc.

To achieve all these, Manila Water and Maynilad have had to invest ₱166 billion and ₱208 billion, respectively. Critics like giving out profit numbers of these companies without reference to the huge amounts of their investments. When that is done, the average return on invested capital (ROIC) is around 8%–10% annually during the past five years, which is comparable to water concessions in other emerging market countries.

And by reducing the NRW through these massive investments and more efficient management, they have prevented a water shortage despite the failure of past administrations to put up a single new water source. Indeed, not a single stone was turned or shovel lifted, after tying the hands of the concessionaires from making such investments.

The amount of incremental water provided by the two concessionaires by reducing NRW is equivalent to the water output of three Kaliwa dams. The one Kaliwa dam that the last administration has talked about for six years and this one for three, but which has yet to be started, will cost ₱12.2 billion using Chinese ODA.

2. Contracts were "onerous"?

The facts are that these contracts were diligently prepared and carefully reviewed by various agencies and professionals in government and expert consultants.

Preparing, reviewing, approving, and signing authorities for the original contract included: then MWSS (Metropolitan Waterworks and Sewerage System) management led by Dr. Angel Lazaro III, the entire MWSS Board led by Department of Public Works and Highways (DPWH) Secretary Gregorio Vigilar and his Chief of Staff Mark Dumol, Department of Finance Secretary Roberto de Ocampo and undersecretaries, the Cabinet-level Privatization Committee, the National Economic and Development Authority (NEDA) Board whose secretariat was headed by Socioeconomic Planning Secretary Cielito Habito, Justice Secretary Teofisto Guingona and his Usec Presbitero Velasco, Jr., Chief Presidential Legal Counsel Rene Cayetano, Corporate Legal Counsel Oscar Garcia, Executive Secretary Ruben Torres, and, finally President Ramos himself (who is known for demanding CSW — complete staff work). A similar though less lengthy process was followed on the contract extension which was signed by President Gloria Arroyo and Finance Secretary Gary Teves. Additionally, consultants were engaged — the key ones were International Finance Corporation/World Bank (as the principal adviser for privatization), which in turn engaged NERA from the UK (as economic advisers), Sogreah, a French engineering firm (as process consultants), audit firm Punongbayan & Araullo, and lawyers ACCRALAW (led by Attorney Eusebio Tan) and Cleary Gottlieb (led by Lee Buchheit) over a period of a year.

The concessionaires were asked to bid on this contract competitively in both 1996 (there were four highly qualified consortia involving the best names locally, and the leading global water companies which bid) and then again in 2007 when the original west zone concessionaire, the Benpres-Lyonnaise des Eaux consortium, went bankrupt and the contract for Maynilad had to be rebid. The fact that 50% of the original proponents failed is the best demonstration that there was absolutely no guarantee of returns, no sweetheart deal as contended.

Moreover, government tends to review PPP contracts with today's lenses without reference to the context at the time the contracts were entered into. This was done, I suspect, by the Department of Justice in the review reported in the news without consulting the many people then who were involved in drafting, reviewing, and approving the contract.

Had they reached out, they would have appreciated the dramatically different situation then versus now in the conditions of the country and the MWSS. Contract terms offered needed to be appropriate to these conditions and global standards and requirements to attract the best qualified bidders.

Let me just cite a few facts:

1. PPP then was very new. There were only a handful of contracts to serve as precedents in water or even other sectors, and thus the structure was perceived to be high risk considering especially regulatory uncertainty. The Philippines did not have a clear regulatory regime on water and thus had to develop an innovative "regulation by contract" scheme. A big part of the risk mitigation aspects of this depended on a performance undertaking by the Republic as represented by the Finance Secretary, and the provision of international arbitration for dispute resolution;

2. The Philippines' credit rating was below investment grade, interest rates on Treasury bills were at double digits, and our government debt-to-GDP and budget-deficit-to-GDP ratios were much higher, as was the external-debt-to-GDP ratio. The current account was in deficit, while foreign reserve coverage was only two months' worth of imports of goods and services versus eight today; and

3. The MWSS then was a mess, very inefficient. There was intermittent water supply, very high water leakage and theft (NRW over 60%). It was overstaffed but had low productivity, was highly indebted, and with high technical risks — nobody knew the condition of the pipes, so this added to the risk premium.

Insofar as "onerous" provisions, let me try to respond to some of the points reported in the newspapers:

1. The contention that "government interference" was not allowed under the contracts is completely false. The facts are that at every step, government is involved in rate setting in what is, after all, a public-private partnership.

These steps include: (a) setting the parameters in the concession agreements; (b) setting the service levels for both piped water and sewerage; (c) determining and auditing which expenditures are prudent and efficient; (d) determining the cost of capital that the concessionaires will receive, adjusted to market every five years; and, finally, (e) approval of the tariffs schedules after proper public hearings that derive from steps

(a) through (d). The Republic simply undertook in the Performance Undertaking to respect this procedure.

This is Part One of this column. The second and concluding part will cover other supposed "onerous conditions" relating to recoverability of the corporate income taxes from tariffs, the extension of the contract, and the possible consequences of government terminating the contract unilaterally.

For those who wish to understand the subject more fully, I would refer you to:

- *The Manila water concession: a key government official's diary of the world's largest privatization* by Mark Dumol[5]

- *Built on Dreams, Grounded in Reality: Economic Policy Reform in the Philippines* by National Scientist and Prof. Emeritus Raul Fabella[6]

- *Tap Secrets: The Manila Water Story* by Virgilio C. Rivera, Jr.[7]

- The video tape of the Senate Hearings on Dec. 11, chaired by Senator Grace Poe [8]

[5] Available at: http://documents.worldbank.org/curated/en/118971468776361965/The-Manila-water-concession-a-key-government-officials-diary-of-the-worlds-largest-water-privatization

[6] Available at: https://asiafoundation.org/resources/pdfs/BuiltonDreamsGroundedinReality.pdf

[7] Available at: https://www.gwp.org/globalassets/global/toolbox/case-studies/asia-and-caucasus/cs_450_tap_-manila.pdf

[8] Available at: https://www.facebook.com/sengracepoe/videos/845201489268434/

Water woes — just the facts

(Last of two parts)

December 22, 2019

THIS CONTINUES the discussion started on Dec. 15 on aspects of the Concession Agreements (CA), which have been tagged as "onerous" and "grossly disadvantageous" by the administration.

2. On the supposed illegal extension of the contract to 2037:

The extension of the original contract is allowed under the CA and by law. This had been the subject of analysis and review in government for over a year in 2008/09: at the Metropolitan Waterworks and Sewerage System (MWSS) all the way to the Board; by the Department of Finance under Secretary Gary Teves, assisted by Undersecretary Jeremias Paul, Jr. and Director Soledad Cruz; by the Department of Justice under Secretary Raul Gonzalez and Government Corporate Counsel Al Agra. It was also presented to the full cabinet and went through public consultations before final approval by President Gloria Macapagal-Arroyo.

The rationale for the extension is compelling:

a. New waste-water requirements set by the Clean Water Act and later by Supreme Court mandamus requiring 100% or full sewerage coverage for the concessions, and thus more investments for these; and

b. Tariff rate impacts had to be mitigated. By extending the contract through 2037, there is a longer period of recovery of these long-life investments, and thus lower annual tariff adjustments.

3. On the recoverability of the corporate income taxes from tariffs:

Much ink and paper have been spent on this subject in the course of the arbitrations. Let me strip it down to the basics.

a. All firms in any business, be it burgers or water service, look at after-tax returns when they decide to invest.

b. Considering this, the framers of the Concession Agreement allowed the investors to explicitly recover business taxes, as well as capital maintenance and investment expenditures efficiently and prudently incurred, and payments corresponding to debt service on the MWSS loans and concessionaire loans as part of its expenditures.

And for these to earn a rate of return after tax that is comparable to those of operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines. This rate of return, called "Appropriate Discount Rate" or ADR under the concession agreement, is a weighted average of the cost of borrowing and the return to equity, is REVIEWED AND RESET EVERY FIVE YEARS (emphasis mine) and arrived at using internationally accepted methodologies.

c. If now the MWSS/government changes its mind, as it did after 16 years of the concession agreement, or as a result of actions of courts past or prospective, and would not allow for corporate income taxes to be recovered via tariffs, then government is obligated to restore it in some other way to be faithful to (b). This was the verdict of the last arbitration panel that heard the Manila Water case.

Item (b) was how it was presented to the bidders in 1996, how it was implemented over the years until 2013, and how it was represented to the bidders again in 2007 when the west zone concession was rebid.

This was thus the basis upon which they gave their low water tariff bids. As the CEO of MWSS during the Ramos administration explained recently in his testimony at a hearing chaired by Senator Grace Poe: "income tax as part of the expenditures that the Concessionaires may recover from MWSS led to bids at lower water rates." In the case of Manila Water, the bid in 1996 was around ₱2.32 per cubic meter versus the then-prevailing MWSS rate of ₱8.78 per cubic meter.

Indeed, until the last administration (Aquino 2) came in, it was very clear to those appointed to the MWSS and the Regulatory Office that the ADR was an after-tax rate of return. It was also very clear to regulators and government authorities before the Aquino 2 administration that during the rate-rebasing process, there are only two ways to give the concessionaires an agreed-upon after-tax rate of return. One is to use what is stipulated in the concession agreement, i.e., an after-tax rate of return and include the corporate income tax in recoverable expenditures. The other is to use a before-tax (and therefore higher) rate of return and exclude corporate income taxes from the set of recoverable expenditures.

The second methodology was not given as an option in the concession agreement but is equivalent to the first, i.e., it can be shown numerically that the two methodologies will result in the same tariff. Hence, if government now wants to remove corporate income taxes from allowable recoverable expenditures, the simple solution is to adopt the second methodology from hereon. This is similar to how other regulatory regimes do it.

4. On termination:

This leads me to a final point, the consequences of a unilateral termination of the contract. Not being a lawyer, and based only on my recall of PPP (Public-Private Partnership) contracts in general, material adverse government action, obliges government to indemnify the private parties for actions it takes that harm, prejudice, or impair the rights and reduce the benefits of investors, i.e., shareholders and creditors. In this respect, the Performance Undertaking of the Republic is key—it guarantees performance of MWSS in accordance with the CA. The CA is truly the only real asset of the two concessionaires and upon which creditors rely; their loans do not enjoy concessionaires' parent company guarantees.

Thus, if government disregards its obligations under the CA, banks need to protect deposits by suspending disbursements of loans to the concessionaires. This will inevitably disrupt construction of projects meant to address looming water shortages.

Down the road, it will compound the burden on the tax-paying public of future snowballing arbitration awards. And much worse, it will devalue the worth of government's contractual commitments.

This cannot but prejudice government's "Build, Build, Build" program at a time when it has been gaining momentum. Besides infrastructure PPP, all other local and foreign investments that depend on the stability of government's commitments will be hurt. Already we have seen values of shares drop sharply in the stock market, not just of concessionaires, but all firms that are highly exposed to political and regulatory risks, thus dampening investment appetite.

This is most ill-timed. Now that opportunities are being opened up by the regional dispersion of foreign direct investments (FDI) due to the US-China trade wars, and in light of notable achievements of the Duterte administration in nurturing a more investment-friendly environment to create more jobs and improve our people's lives. These wins include the robust macroeconomic conditions, 30 places rank improvement in the IFC-World Bank ease of doing business index, wide-ranging reforms in the tax system, the passage of the Bangsamoro Act, the Rice Tariffication Act, the Ease of Doing Business Act, and many more. We might as well also say goodbye to the aspired for A-credit rating by 2022 of Finance Secretary Carlos Dominguez III and Central Bank Governor Benjamin Diokno.

Beyond these, I shudder to think about the future of the water system in Manila should the government continue on this termination course. Heaven deliver us from a repeat of the pre-1997 water service quality courtesy of MWSS. Their continuing decades-long failure to develop any new raw water source, even to start on a new one, hardly inspires renewed confidence. (Those of us old enough can already hear echoes of the plaintive cries of the '90s — "Tubig!")

Let me conclude with a quote from a letter of President Fidel Ramos to President Rodrigo Duterte counseling prudence, as reported in the newspapers:

"To achieve all this, the private sector mobilized funding from both foreign and local sources depending on the word of the Philippine government that the essential conditions of adherence to the sanctity of contracts and rule of law must be observed, These are the pillars that hold together any agreement, be it between governments and/or the government and the private sector. Our word must be our bond."

2021: Big bounce-back year?

December 13, 2020

WITH ESTEEMED FINANCIAL PRACTITIONERS and good friends, BDO Capital President Ed Francisco and ING Bank President Hans Sicat, I was recently asked to be a panelist in a *Philippine Daily Inquirer* 35th Anniversary forum. That question, the title of this piece, was posed by our moderator, Business Features Editor Tina Arceo-Dumlao.

Save for minor variations, we gave similar answers which I paraphrase thus: "Yes, we will see some bounce back, but largely due to base effects from the depressingly low level this year, and we won't be seeing the Philippine economy back to 2019 levels until 2022 at the earliest. The recovery shape won't be a V, may not even be a Nike swoosh or a U, but more like a 'dirty L' (Han's depiction) with features of a K, uneven across industries, firms, and the populace."

Characterizing the crisis as unprecedented and whose impact is sudden, severe, and globally synchronous, I was the most pessimistic among us three. I echoed what we wrote for GlobalSource Partners (globalsourcepartners.com) of a bounce back to only 5% next year, after a severe contraction of 9.5% this year. Moreover, that medium-term growth is unlikely to recover to the 6%-7%-range of the past seven years, and more likely to struggle at 4%-5%, closer to the long-term growth record of the Philippines.

I mentioned the following reasons for my pessimism:

1. Risk of more infections and stricter quarantines, possible second or third waves, notwithstanding success in flattening of the infection curve recently that has allowed some easing of the longest and strictest lockdowns.

This is thanks to the notable augmentation of Department of Health efforts by heavy hitters Secretary Charlie Galvez as National Task Force Chief Implementor, Secretary Vince Dizon as his Deputy, the three other czars (for testing, tracing, and quarantine facilities), and Presidential Adviser Joey Concepcion. They have also commendably mobilized the massive support of the private sector, too numerous to enumerate here, in what everyone appreciated to be an existential national undertaking.

However, major gaps exist, including execution of a more digital tracing system, much delayed payments by PhilHealth to labs and hospitals, and vaccine procurement where the Philippines is unfortunately at the end of the queue.

An expert I consulted considered that only 25% to 50% of our 108 million population will likely be inoculated by the end of 2022, a good two years away; quite understandable considering how massive and unprecedented such an undertaking is with enormous uncertainties on the approval process, which vaccines will work, for how long, inadequate cold chain and other logistical infrastructure, and the willingness of people to queue up given concerns over unknown long-term side effects. The fairly recent controversies regarding the anti-dengue vaccination program of the last administration is a further dampener.

All this means that physical distancing as a policy to prevent a resurgence in sickness will need to remain in place, especially in dense metropolitan areas that also account for a large share of output, as well as continuing constraints in public transportation and fearful public behavior.

Which brings us to the next concern.

2. Lack of domestic demand

a. Household consumption which accounts for 70% of GDP has dropped sharply, notwithstanding government cash transfers and wage subsidies in the hundreds of millions. A World Bank survey in August revealed that 24% of household heads employed in February were no longer working in August and of those still working, 57% reported reduced or no income. A separate Bangko Sentral ng Pilipinas (BSP) consumer survey also showed that the share of households with savings dropped from 38% to 25%. Meanwhile, the latest consumer and business sentiments showed negative indices, meaning pessimists outnumber optimists.

b. Investments have also plummeted. Reports indicate that firms have underutilized capacities with poor earnings prospects, with certain conglomerates mulling further cuts in capital expenditures next year. The World Bank July 2020 firm survey showed that 15% of over 74,000 respondents had permanently closed down, 40% had temporarily suspended operations (evenly split between voluntary and by government mandate), and job losses had been extensive with 48% of firms having laid off workers, especially in education, food services, and construction. (Uncertainties related to post-2022 national elections are a further reason for firms to "wait and see".)

We also need to be mindful of "scarring," output losses that are permanent due to damage to medium-term supply potential such as bankruptcies, lower labor-force participation from skills mismatch, impact on human capital due to disruptions in school attendance and health services, and obstacles to resource allocation such as supply-chain disruptions.

3. Policy constraints

a. Monetary policy has been timely and vigorous in providing the needed liquidity shot in the arm. But there are limits to monetary policy in lifting demand especially when interest rates are already at low levels, what economists call "pushing on a string."

Data thus far validate this. The BSP as of Oct. 27 had already injected ₱1.9 trillion into the financial system through its set of accommodative policy actions. But banks have understandably been cautious, mindful of their fiduciary responsibility to depositors who provide the bulk of their loanable funds. At the end of the third quarter, net domestic credits to the private sector increased by only 1.4% year-on-year compared with a 12% growth in M3. Meanwhile, monies parked in the BSP's deposit facilities stood at over ₱1.2 trillion as of end-October compared with less than ₱400 billion at the end of the first quarter.

The one area where the BSP can perhaps be more aggressive is in arresting the further appreciation of the peso, the only currency in our region that appreciated versus the dollar, by doing even more market interventions. This will help our exporters and OFW families, as well as support overall aggregate demand.

b. In fiscal policy, spending so far has been "middle of the pack" versus other countries. The Department of Finance's announced policy to "keep our powder dry" is meant to ensure that we do not compromise needed future access to finance. Already, programmed deficits for the next two years are estimated at 7% to 9% of GDP, two to three times normal prudent levels, and there is much uncertainty on how long this plague will last.

Moreover, I believe current spending has been constrained not so much by the size of the budget, but by limitations on: a.) distribution of income and wage support absent a national ID system that will enable "ayuda" with minimum of leakage; and, b.) slow releases and execution of projects, as shown in the poor disbursements of capital outlays.

The soon-to-be-signed CREATE (Corporate Recovery and Tax Incentives for Enterprises) bill which lowers corporate income taxes and rationalizes fiscal incentives will also provide immediate stimulus equivalent to over ₱250 billion in the next two years. This does not count the favorable effects this long-delayed structural reform will have in generating more investments, both foreign and local. (I congratulate Finance Secretary Carlos Dominguez III and Socioeconomic Planning Secretary Karl Chua and the sponsors of the bill for bringing this landmark reform to the finish line, building on the efforts of their predecessors, who publicly supported this bill.)

Against this dour prognosis, I also mentioned some green shoots that we all wish will bring early spring:

1. The unveiling of several vaccines and their much earlier rollout in rich-country trading partners, which will have some trade, remittance, and investment spillovers to us;

2. The robustness of our BPO sector, which has nimbly adopted working from home thanks also to our telco service providers;

3. The surprising resilience of remittances, which only declined by 1.4% in the year to September;

4. Some evidence of "revenge spending" by those in the upper leg of the K curve; and

5. Accelerated investments all around in digital technology.

I ended my remarks by saying, despite having a good track record in forecasting output growth, this is the one time I would love to be terribly wrong. And I quoted noted economist John Kenneth Galbraith: "The only function of economic forecasting is to make astrology look respectable."

Legislation in aid of investments, jobs, recovery

December 27, 2020

I AM PLEASED to share with our readers a piece based on our latest report for GlobalSource Partners, a subscriber-based network of independent analysts covering emerging markets. Christine Tang and I, assisted by Charles Marquez and Shanee Sia, are their local partners.

Since the pandemic, President Rodrigo Duterte's economic team has had its hands full trying to save the economy from slipping deeper and deeper into recession. Part of the job was to convince Congress to give the executive branch spending leeway to fight the pandemic, accomplished through the Bayanihan I and II Acts, while reigning in lawmakers' clamor for higher stimulus spending, done by capping the supplemental budget for this year to less than 1% of gross domestic product (GDP) and getting both houses to stick to its proposed ₱4.5-trillion national budget for 2021.

Economic managers needed also to persuade legislators to urgently act on the other elements of the Executive's economic recovery plan consisting of three proposed bills: the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, the Financial Institutions Strategic Transfer (FIST) Act, and the Government Financial Institutions Unified Initiatives To Distressed Enterprises For Economic Recovery (GUIDE).

It has so far gotten the green light of both houses on two of the three, i.e., CREATE and FIST, with the less contentious GUIDE still awaiting the Senate's nod. Although these bills still have some milestones to hurdle, notably reconciliation of differences between the versions passed by the two chambers, hopes are high that the 2021 budget, together with CREATE and FIST, will be done by early first quarter of 2021.

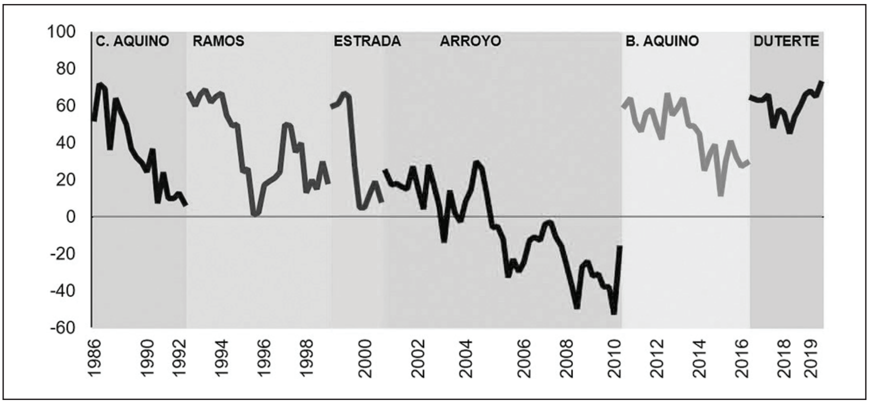
Many in the business community are rooting for the House to adopt as closely as possible the Senate version of CREATE to facilitate its quick passage. The Senate version keeps the structural reform thrust of the original Executive and House versions but tweaked to be more attuned to the impact of COVID-19 on MSMEs, hospitals and educational institutions, and the requests of PEZA locators for longer transition periods. It will also provide a needed fiscal stimulus of around ₱250 billion over the next two years (counting the retroactive application to July 2020), and most crucially, will lay to rest contributory uncertainty over Philippine tax regime deterring investments due to its delayed passage.

To optimize its impact in attracting investors, many of whom are looking for new destinations due to the disruptions from COVID-19 and the US-China trade and tech wars, it would be ideal to package CREATE with a critical mass of other investment reforms that will demonstrate resolve. But with less than 18 months to go before the 2022 elections, has the window closed?

Many are hoping not. After all, amidst the hardships brought about by the pandemic, the President still enjoys tremendous trust and approval with unparalleled popularity ratings of over 90% which ought to give him immense influence over Congress even at this late stage of his administration.

Moreover, with his economic team's track record of securing difficult reforms, some decades in the making (e.g., TRAIN, Rice Tariffication Act, Bangsamoro Organic Law, National ID Law), the hope is that more landmark laws can be pushed through the legislative mill in the narrow window between now and election season. Realistically, that's about six months' time.

Figure 1. Net satisfaction ratings of Philippine presidents



Source: SWS

While a pandemic may not be a good time to be thinking of structural reforms, there may be an opportunity to ride on the recently signed Regional Comprehensive Economic Partnership (RCEP). The RCEP binds its 15 signatories, i.e., the 10 members of ASEAN, Australia, China, Japan, Korea, and New Zealand, which together account for about 30% of global GDP and 30% of world population, to higher level commitments compared with existing free trade agreements (FTA).

Analyses of RCEP suggest that the agreement's immediate value lies not in the incremental tariff reductions, which may take up to 20 years to implement, but in the promise of seamless production networks among the members who will be tied to common standards, disciplines on intellectual property, rules of origin, customs processes, e-commerce, and competition policy. Within this framework of stable and predictable rules, the Philippines could aspire to become a regional manufacturing and services hub, thereby creating much needed domestic jobs.

RCEP with the lower tax regime under CREATE along with proposed amendments to the Public Service Act (PSA), the Foreign Investments Act (FIA), and the Retail Trade Liberalization Act (RTA) strung together would send a powerful signal of the Philippines' readiness to welcome foreign capital to help with post-pandemic recovery, offering a light at the end of the current gloomy tunnel.

The latter three bills have been approved by the lower House and are at varying stages of deliberations in the Senate, requiring the Executive's close shepherding to ensure speed. The RCEP too still needs the Senate's ratification, a process that based on past experiences could take anywhere from one to three years.

Former International Monetary Fund (IMF) chief Christine Lagarde used to counsel countries to fix the roof while the sun is shining. But for those who have spent a lifetime incrementally pushing reforms in the Philippines, one ought never to waste a good crisis.

List of Priority economic bills

A. Pending the President's Signature

1. NATIONAL EXPENDITURE PROGRAM. The Executive proposed a ₱4.5-trillion national budget for 2021 with spending priorities focused on pandemic response and recovery.

2. FINANCIAL INSTITUTIONS STRATEGIC TRANSFER (FIST). The Executive's proposal aims to facilitate the disposal of financial institutions' non-performing assets through tax and other incentives on the transfer of these assets to and from special purpose corporations created under the law. As with CREATE, the House of Representatives adopted the Executive's version while the Senate introduced regulatory and loan coverage amendments.

B. For reconciliation in Bicameral Conference Committee

3. CORPORATE RECOVERY AND TAX INCENTIVES FOR ENTERPRISES (CREATE).

C. Approved by the House of Representatives; Pending Second Reading in the Senate

4. AMENDMENTS TO FOREIGN INVESTMENTS ACT. The proposal seeks to exclude the "practice of professions" from the coverage of the law and to reduce the mandatory number of direct local hires of foreign-owned SMEs from 50 to 15.

5. AMENDMENTS TO RETAIL TRADE LIBERALIZATION ACT. The proposal seeks to lower the $2.5-million minimum paid-up capital for foreign retailers, among others. The bill approved in the lower House set the threshold at only $200,000.

D. Approved by the House of Representatives; First Reading in the Senate

6. GFI'S UNIFIED INITIATIVES TO DISTRESSED ENTERPRISES FOR ECONOMIC RECOVERY (GUIDE). The two main features of the proposal are to: (a) increase the capital of three government financial institutions, namely, Land Bank, Development Bank of the Philippines and Philippine Guarantee Corp., to enable them to assist in pandemic recovery efforts; and, (b) mandate the two banks to set up a special holding company to assist strategically important industries in various sectors.

7. AMENDMENTS TO PUBLIC SERVICE ACT. The proposal seeks to amend the 84-year-old law to exclusively designate as "public utility" the distribution and transmission of electricity and waterworks and sewerage systems. Under the Constitution, a public utility can only be operated by firms that are 60% owned by Filipinos. The aim is to allow more foreign participation in other public services (e.g., telecommunications and transportation) to enhance competition, improve service quality and lower the costs to consumers.

E. For ratification by the Senate

8. REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP).

Data watch:
Gross international reserves[9]

January 24, 2021

LAST YEAR, gross international reserves (GIR) surged 25% to end the year at close to $110 billion. This is remarkable considering the unprecedented global scale and severity of the COVID-19 crisis.

While short-term capital exited emerging markets as in past crises, this time around in the Philippines, the balance of payments (BoP) remained in surplus and even ballooned to nearly $12 billion in the year to November. The latter mainly reflects collapsed imports as the economy went into recession and, as tax revenues buckled, increased government borrowings with the overall external debt estimated to have risen by around $10 billion last year.

In an interview with the editor of the country's leading business paper last week, BSP Governor Benjamin Diokno highlighted this atypical but positive upshot of the crisis that kept depreciation pressure off the peso and allowed monetary authorities to aggressively cut policy interest rates. He added that he expects the GIR to continue growing this year, possibly reaching $120 billion.

Pre-pandemic, the Philippines already had one of the highest foreign exchange stockpiles based on the IMF's assessment of reserve adequacy (ARA). The ratio of reserves to ARA at end-2019 was at 2, higher than the 1-1.5 ratio considered adequate and above most countries' reported

[9] This column was a post to subscribers of GlobalSource Partners (globalsourcepartners.com), a New York-based network of independent analysts. Romeo Bernardo and Christine Tang are their Philippine partners.

ratios. Last year, the additional reserve buildup unarguably gave economic managers more wiggle room to manage the crisis, not least by helping to anchor the sovereign's credit rating and giving the government continuing access to international capital markets at relatively tight borrowing spreads. By the end of 2020, GIR could amply cover over 5.4x short-term debt plus principal payments on medium- to long-term loans due in the next 12 months, up from 3.9x at the end of 2019.

Going by this, the GIR will continue to amply cushion any external shock in the near term. Moreover, given our dimmer view of the economy's growth prospects, we think the current account will still register a modest surplus this year with moderate import growth, while private capital outflows are unlikely to be as massive as last year, with portfolio flows starting to return in the fourth quarter of 2020. We note too that although GIR was in large part boosted by increased government borrowings, these consisted of long-term loans, a significant portion of which is owed to official creditors who also provided long grace periods on principal repayment. One downside risk, given BSP's (Bangko Sentral ng Pilipinas) decision last year to actively trade its gold holdings, is lower gold prices.

However, holding excess reserves is not without cost. From a consolidated public sector viewpoint, the collateral value of these highly liquid assets needs to be weighed against the negative carry associated with their low returns as well as foregone productivity-enhancing domestic public investments. As pandemic risks subside with improved health management and the promise of vaccination, one could argue that keeping such high precautionary cash is no longer warranted.

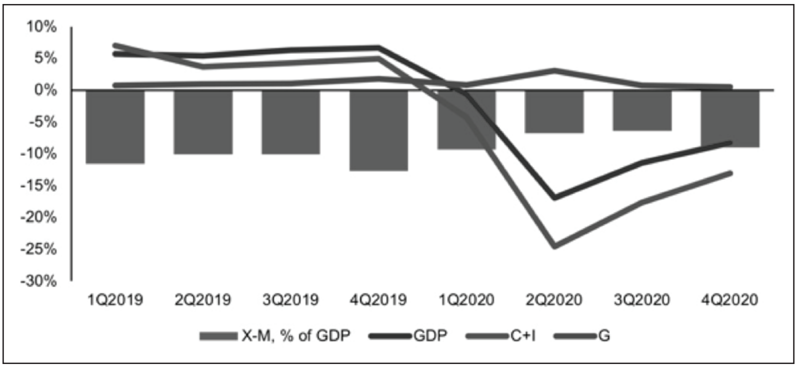
Too, with the peso having appreciated by 5% in real, trade-weighted terms last year, many in policy circles would argue for a more proactive government response to support the export sector. Realizing that the BSP could only do so much with its foreign exchange market interventions, the suggestion is for the government to perhaps forgo external commercial market borrowings altogether. As the argument goes, at a time when the government is looking to pass more of the burden of spurring economic growth to the private sector, raising the purchasing power of dollar earners, particularly overseas and BPO workers, will help significantly in reviving domestic consumption which accounts for about 70% of GDP. Government may also fret less about the impact on domestic interest rates of more local borrowings considering last year's aggressive monetary easing that injected close to ₱2 trillion of liquidity into the financial system, weak loan market (both demand and supply), and a two-year window to directly tap an additional ₱280-billion loan from the BSP.

There is thus scope for the government to nudge the GIR down this year rather than allow it to climb some more. For now, there are no signals that it intends to do so.

Slow crawl out of the trenches[10]

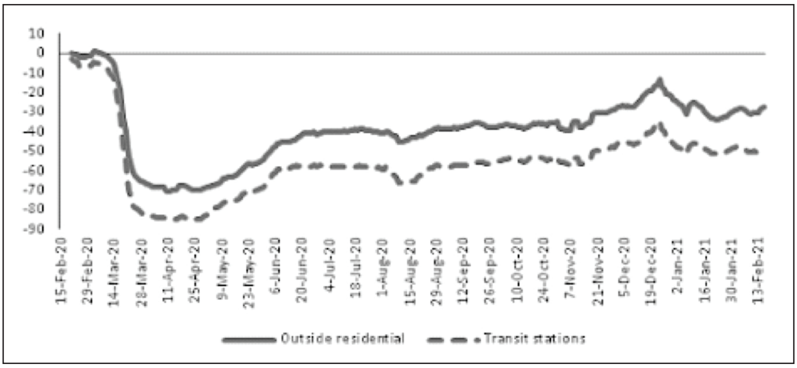
February 28, 2021

Figure 1. Contribution to GDP Growth, Q1 2019 to Q4 2020 (in %)



Source: PSA

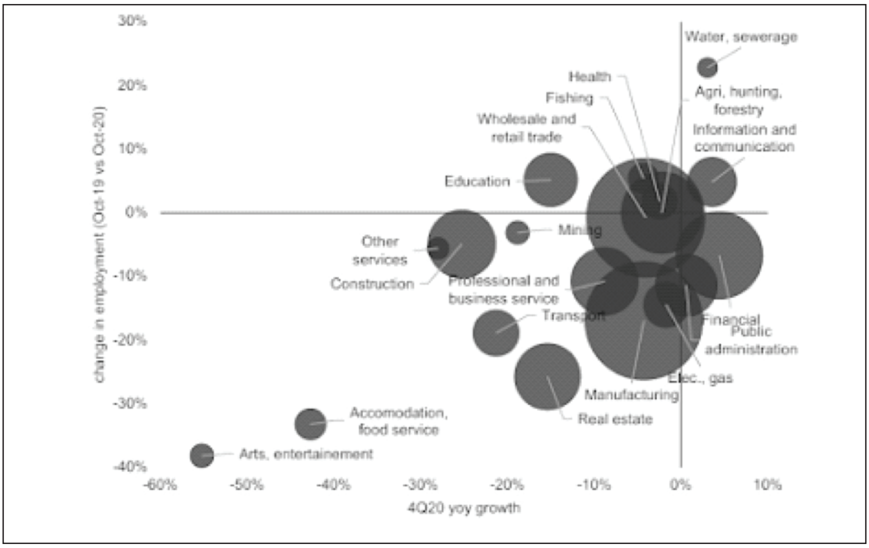
Figure 2. COVID-19 Google Mobility Index – Philippines, February 2020 to February 2021



Source: Google

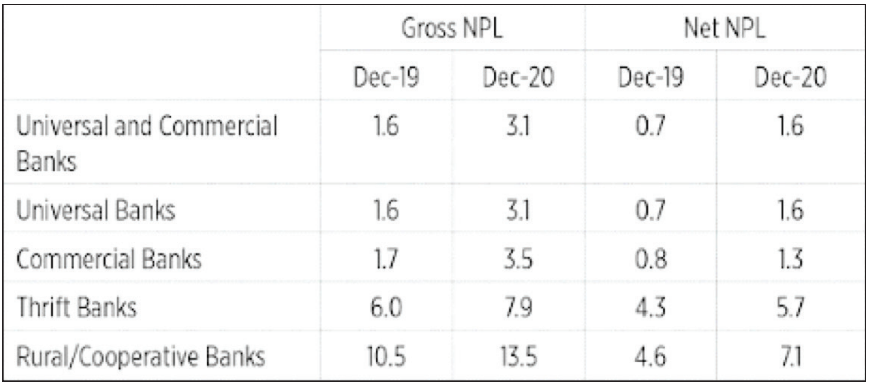
[10] Excerpted from a 20-page report dated Feb. 25, 2021 of the same title written by Christine G. Tang and Romeo L. Bernardo, for GlobalSource Partners (globalsourcepartners.com) where they are the Philippine Advisors/Partners. GlobalSource Partners is a New York-based network of independent analysts in emerging markets serving mostly fund managers and global banks.

Figure 3. Change in Philippine Employment by Sector, October 2020 vs. October 2019 (in %)



**Size of bubble proportional to sector share to GDP in 2020; Source: PSA*

Table 1. NPLs, gross and net, by type of bank



	Gross NPL		Net NPL	
	Dec-19	Dec-20	Dec-19	Dec-20
Universal and Commercial Banks	1.6	3.1	0.7	1.6
Universal Banks	1.6	3.1	0.7	1.6
Commercial Banks	1.7	3.5	0.8	1.3
Thrift Banks	6.0	7.9	4.3	5.7
Rural/Cooperative Banks	10.5	13.5	4.6	7.1

Source: BSP

GROSS DOMESTIC PRODUCT (GDP) contracted 9.5% last year, with the 15% fall in consumption and investments only partly offset by government spending and a significant narrowing of the trade deficit, itself a reflection of the demand collapse. Quarterly data show that as lockdown measures were gradually relaxed and mobility increased, there was a rebound in activity in the third quarter, in part reflecting pent-up demand, that softened in the fourth quarter (see Figure 1). The gains notwithstanding, the level of output in the fourth quarter of 2020 was still 8% lower than in same period in 2019. Expectations now of sustaining growth hinge on keeping infections down even as quarantine restrictions are progressively loosened.

Consensus forecast shows expectations of a sharp rebound in 2021 economic growth that is close to the upper-end of the government's 6.5-7.5% GDP growth target. Multilateral agencies, on the other hand, project economic growth nearer the lower-end of the range, with the World Bank forecasting it to fall slightly below 6%. Our outlook is still less upbeat, with GDP growing 5.5% this year. This is slightly up from the 5% projection in our report in early December, due mainly to expectations of stronger global economic recovery following the rollout of several vaccines. This is positive news for the export sector, particularly with the forecast upturn in the electronics cycle, as well as for BPOs, a job-creating sector.

Nevertheless, the overall outlook for domestic demand is still a grim one, reflecting both institutional/governance issues as well as the pandemic's uneven impact on sectors and income groups that will weigh on recovery prospects. More specifically:

1. Government's vaccine procurement program has encountered one problem after another such that following the current schedule that already reflects private sector assistance, major deliveries of vaccines (30 million-50 million doses) will only happen in the third and fourth quarters. A serious vaccination effort could thus only start thereafter which will be a slow process considering logistical challenges in distribution and the high proportion of Filipinos who, surveys say, are not willing to get vaccinated. Even without considering the latter, experts tell us that herd immunity will only happen only by the fourth quarter of 2022.

2. Given the above, capacity restrictions due to physical distancing requirements as well as mobility restrictions to protect the vulnerable will remain in place. Although economic managers appear to be doing their utmost to persuade decision-makers to balance risks from COVID-19 (coronavirus disease 2019) against those from hunger, poverty, unemployment, and income losses, they not only face opposition from their counterparts in the health sector but also state security forces and, more so lately, risk-averse local government officials. Google mobility data

so far this year are reflective of restrictions in place, with activities still well below pre-pandemic levels, especially for public transport that has a 50% capacity limit (see Figure 2). The President's reluctance to shift to a more relaxed quarantine level without a mass vaccination program in place necessarily caps near-term growth potential, something that economic managers recognize as well.

3. Apart from general restrictions, a more specific problem has to do with the fragmented COVID-19 guidelines issued by local governments that makes inter-provincial/city travel difficult and costly. The problem affects both movement of workers and recovery of domestic tourism, seen as an important interim solution for closing some of the demand gap. The tourism industry not only has high linkages with the rest of the economy (the sector's direct and indirect contribution to output is estimated at 12.7% of GDP in 2019) and employment potential (13.5% of total in 2019), but benefits significantly from domestic travelers (85% of total gross value added), a prospective growth area considering pent-up demand from higher-income groups for leisure activities. Aviation-sector experts report that Philippine passenger volumes by late last year were only around 20% of pre-pandemic levels, lagging behind neighboring economies where the gaps have closed more significantly.

4. Aside from the above government-related constraints, the recovery will be marked by unevenness in spending where recoveries in discretionary spending of those who have managed to preserve jobs and incomes and accumulate savings under lockdown are dragged by expenditure cutbacks and scrimping on the part of those who have suffered job loss and wage cuts. Unfortunately, job and wage cuts are continuing per the labor department's January report, even as survey data last quarter already showed worrying signs of discouraged job seekers and reduced work quality, i.e., more of the employed working less hours, and in less formal, lower-skilled/wage occupations (see Figure 3). Elevated food inflation lately is expected to lead to more scrimping.

5. At the firm level, recovery prospects are also highly uneven as may be seen in the fourth-quarter production accounts where outputs of 43 out of 60 non-agricultural sectors were still below pre-pandemic levels. With excess capacities running from industrial (manufacturing and construction) to services (real estate and close contact sectors) and firms grappling not just with profitability issues but with the timing of cash inflows to cover fixed overhead costs, including interest payments

on debts, business expansions will be limited especially given the run-up in the private sector's capital expenditures pre-pandemic. These lagging sectors will drag expected expansions in sectors that went through the pandemic relatively unscathed, especially telecommunications where continuing large capital expenditures are required to meet rising demand. Although there would be similar motivations for investments in utilities, e.g., water, power, toll roads, we expect more restraint given the approaching elections and increased regulatory risks.

6. The damage to households' and firms' balance sheets will in turn hurt the financial sector's asset quality and dampen their lending appetites, a drag to monetary policy effectiveness. The extent of the damage will only play out over time as moratoria imposed by law and regulatory forbearance measures are lifted. Current expectations are that non-performing loans (NPLs) of the big banks will double from the end-2020 ratio of 3.1% of total loans, with consumer loan portfolios expected to register larger credit losses (see Table 1). Small- and mid-sized banks with larger credit exposure to households and small and medium enterprises can also expect more significant increases in their NPLs. Systemic risks are, however, low considering the dominance of well-capitalized universal and commercial banks (17% capital adequacy ratio as of Sept. 20, 2020).

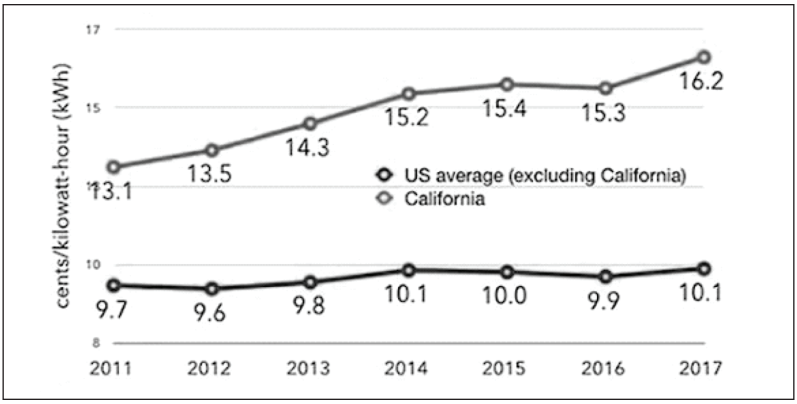
7. Given expected weak demand, the main burden of jumpstarting economic growth still falls on the government. With the stimulative impact of low interest rates running into banks' risk aversion and the need lately to anchor inflation expectations, fiscal policy will need to do the heavy lifting hereon. Despite relatively moderate new budget resources for 2021, the economy could still prospectively benefit from an additional 1% of GDP of spending authority carried over from last year's regular and supplemental budgets. However, the worry is still execution risk and government again underspending at a time when it needs to spend as much as it has on hand. The hope now is that early implementation of infrastructure projects to take advantage of the dry season could help to crowd in earlier any associated private investments. Considering, too, political pressure as the election nears that may overcome fiscal authorities' resistance, another fiscal stimulus package may be passed later in the year, a potential upside to our forecast.

Our 2022 GDP outlook, tentatively at 5%, is clouded by the uncertainties surrounding this year's forecast, particularly progress in vaccination efforts and effectiveness in disease control that affect confidence all around. The outlook also depends on the electoral process and election outcomes, vaccine efficacy versus virus mutations, and the impact on global economic recoveries, as well as timing of any withdrawal of accommodative macroeconomic policies globally and locally.

Renewable energy, a revisit

April 4, 2021

Figure 1. Electricity prices in California rose 5x more than in rest of US



Source: US Energy Information Administration (2017)

IN MY COLUMN a decade ago, "Renewable energy – reality check,"[11] I chided the private proponents of new renewable energy (RE) technologies (solar, wind, and biomass), the National Renewable Energy Board (NREB), and multilateral institutions for pushing an expensive feed-in tariff (FIT) program on the Philippines on the grounds that we need to do this as our contribution to averting a climate change catastrophe. This, notwithstanding our global carbon emission contribution being a rounding error (0.3 of 1%), and our RE mix then at 42% of total power generation capacity, is four times the global average.

I noted in my article then that this would have burdened us with 20-year supply contracts with power costs that were equivalent to ₱10-

[11] Available at: https://www.fef.org.ph/fef/renewable-energy-reality-check/

₱25 per kWh, twice to five times avoided cost. This is not even counting the cost of ancillary power standby to cover for RE intermittency (when there is no wind or when it is cloudy) and their needed transmission and distribution infrastructure.

Thanks to the advocacy on behalf of consumers and taxpayers by the Foundation for Economic Freedom, the PCCI, and the wise intervention of then-Senate Energy Committee Chair Serge Osmeña, the final FIT rates were negotiated down substantially.

Fast forward 10 years to today, and we find that, just counting the direct cost of FIT subsidy, payments to RE providers now run to ₱20 billion annually. For perspective, this is the equivalent to conditional cash transfer social assistance for 10 million poorest people in 2019, and is around the annual budgets of each of the following executive departments: Environment and Natural Resources, Finance, Foreign Affairs, Justice, and Science and Technology. And ₱20 billion is an annual number; for the long-run cost, multiply this by 20 years, the contract period.

Since then the prices for solar, especially of solar panels, have dropped; is it now time to embrace them unqualifiedly? And should government mandate them through quotas like Renewable Portfolio Standards (RPS), excise taxes like the recent coal tax insertions in TRAIN 1,[12] or restrictions on building new fossil plants?

Consider: If indeed the drop in RE prices and technology improvements now make them commercially competitive with fossil fuels as contended by their champions, there should be no need for more subsidies, direct or hidden – No FIT, no quotas and no taxes and bans on coal. (Riding on this lobby are the advocates of natural gas, passing it off as green and renewable, even while gas has half the carbon footprint of coal, and is not renewable.)

Precisely because such non-technology-neutral government interventions are an override on market competition, they have the effect of raising the cost of power, particularly immiserating for a country like the Philippines that has yet to develop a manufacturing base to absorb the

[12] See my column: "The Gravy TRAIN is leaving and common sense isn't in it," *BusinessWorld*, December 4, 2017, https://www.bworldonline.com/gravy-train-leaving-commonsense-isnt/

millions of jobless. Manufacturing requires base load plants, which today, setting aside controversial nuclear plants, can only be driven by fossil fuels.

How high is that cost burden now? To illustrate further, compare the current FIT rates for solar and wind of ₱8-₱10 per kWh for 20 years versus the competitively-bidded cost of ₱4.15-₱4.26 per kWh in the recent CSP bidding of Meralco.[13]

And what have we got to show for this heavy cost? Very little. This conclusion is validated by a study of Dr. Josef Yap, "Evaluating the Feed-in Tariff Policy in the Philippines,"[14] that even with energy subsidized through the FIT, end-users still face a net higher cost, despite this so-called merit order effect of RE. (Any power supply contract with lower marginal cost than peaking plants will have identical effect, and is not unique to RE).

Moreover, solar and wind generation together only account for 2.4% of total generation. The bulk of our RE still comes from traditional renewables, hydro and geothermal (20%) that do not enjoy, nor lobby for, such subsidies or quota mandates.

This heavy public cost of supporting such expensive RE is mirrored at the global level in states and countries that embraced such policies versus those who didn't.

Electricity prices in RE-supportive California rose five times more than the rest of the US (see Figure 1). German electricity prices rose 51% from 2006-2018, and now stands at twice the level of France which is mostly nuclear-powered. In fact, Germany now depends on France to stabilize their RE-heavy and thus unstable grid.

Don't get me wrong about RE. It has a role in energy provision for the Philippines – it already does! But poorly designed public policies to promote RE can have damaging effects on how our energy markets work, and that has led to higher prices for Filipinos, poor use of public funds, and misinformation about the necessary role thermal energy has in powering this country's economy. If the government wants to play a role, just be sure

[13] "SMC units submit lowest bids for 1,800 MW Meralco supply deal," *BusinessWorld*, Feb. 20, 2021

[14] Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3520401

to do so only where it is needed, and follow the Hippocratic oath of our caring doctors and nurses when designing public policy: "Do no harm."

Climate Change Adaptation Vs. Mitigation

On the point about "only where it is needed" let's consider adaptation versus mitigation, and what makes sense for the Philippines. In Paris in 2015, the Aquino administration committed our country to reduce our greenhouse gas emissions by 70% by 2030, an ambitious, costly and unrealistic target. The Climate Change Commission said the country needs to spend $12 billion to $15 billion, or ₱584 billion to ₱730 billion, to reduce up to 70% of its emissions — a staggeringly large number equivalent to 3.25% to 4% of our GDP.

This likely does not even fully reflect the higher cost of power and the cost of managing intermittency discussed earlier. And as I argued, this yields very little for the country and our people.

I have been following the Facebook page of Finance Secretary Sonny Dominguez, newly designated chairman of the Climate Change Commission. An astute fiscal manager of our country's scarce resources who deeply cares for our people, he quickly pivoted away from the climate change mitigation chorus and into grounded actionable climate change adaptation programs.

And I quote:

> Why does the Philippines focus more on climate adaptation rather than mitigation?
>
> Despite the Philippines being one of the lowest contributors to global Greenhouse Gas Emissions (GHGs) at around 0.3%, we are still one of the most vulnerable countries to the effects of climate change.
>
> This is why our climate action efforts focus more on climate adaptation rather than mitigation. We need to adapt and be prepared for the harmful effects of natural disasters (e.g., typhoons, drought, rising ocean temperatures, etc.) brought about by climate change."[15]

[15] Department of Finance Facebook page

Amen!

The Climate Change Commission may have reaffirmed, even strengthened, its 2015 commitments, perhaps before Secretary Dominguez assumed its chairmanship. My appeal: please review and align with your most recent sound pronouncements, Secretary Sonny?

The BARMM timetable: Another COVID casualty?

By Amina Rasul[16]

April 18, 2021

THE PHILIPPINES TODAY faces dire challenges from COVID-19 and regional security — violent extremism and Chinese incursion in the West Philippine Sea, among others. We from Muslim Mindanao worry that the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) will again be the last priority. This will surely be counterproductive.

Last Thursday, the World Bank hosted a Technical Working Group (TWG) on "Knowledge Sharing and Training Capacity" focused on Public Finance Management in the BARMM. Members of the TWG include development partners and selected organizations that are operating in BARMM in the field of knowledge and training. The TWG first met in October 2020.

We were honored to be joined by no less than the Chief Minister of BARMM, Ahod "Al Haj" Murad Ebrahim, a clear signal of the Regional Government's prioritization of Public Finance Management.

BARMM's challenges for transition are much greater now than before, particularly as precious time has been lost due to the pandemic. At the outset, we already knew that a three-year transition period was extremely tight as the Moro Islamic Liberation Front (MILF) leadership had to learn how to manage and steer the ship without the benefit of years of training

[16] President of the Philippine Center for Islam and Democracy and a former member of the Ramos Cabinet

in governmental processes and bureaucracy. They were "inheriting" the poorest, most conflict-affected and least served region of the country.

Over a decade ago, as the negotiators focused on the nitty-gritty of the peace process, we at the Philippine Center for Islam and Democracy (PCID) realized that it was important to start focusing on the economics of the region — business and investment, fiscal management, and introduce the MILF leadership to the private sector leaders of the country. No one, at that time, was working on this critical area. We convinced a distinguished group — the Foundation for Economic Freedom (FEF) — to help. Former Finance Secretary Gary Teves agreed to lead the initiative. This led to a fruitful partnership among FEF, the MILF, and PCID. We had a two-year project which focused on business and investments, fiscal matters, land issues, agriculture, and labor issues among others, including capacity building for the Bangsamoro Development Agency (BDA) management staff.

Our two-year project led us to the following observations:

- Weak fiscal management of the Autonomous Region in Muslim Mindanao (ARMM), resulting in poor performance as an autonomous region, was attributed to little control over fiscal resources from the National Government and expenditures as well as weak governance and accountability in ARMM.

- Poor implementation of available taxing powers complicated by politics and clan relationships interfering with local tax collection since taxation would erode the standing of local politicians.

- Revenues generated would be insignificant in a conflict-affected war-torn economy with a high poverty incidence dependent on a largely underground and informal economy.

- Budget processes in the ARMM were fragmented, complicated and thus unsound. Non-integration of the ARMM budget processes with the national budget processes leading to difficulties in promoting coherent policy goals through budget allocations.

- ARMM has a history of poor governance and accountability marked by misuse of funds and the lack of effective expenditure control systems and reporting.

Achieving fiscal autonomy is critical for overall autonomy to be effective. Institutions and capacity need to be in place to ensure that fiscal resources are mobilized efficiently and with transparency and accountability; and spent wisely, reflecting the needs for sustainable and inclusive growth in a still conflict-affected and war-weary region. (FEF and PCID had actually prepared a follow through proposal for this and other economic issues in 2019 but COVID-19 intervened.)

The TWG discussions also picked up the issues raised above, particularly as we were focused on Public Finance Management in a fragile state.

However, the BARMM Regional Government seems to have fared better than expected, less than two years after taking over with the budget left by the previous administration. BARMM was able to access the block grant only in 2020, as the COVID-19 pandemic raged. According to the Chief Minister's Report last January, the Regional Government has:

• strengthened revenue collection with the Ministry of Environment, Natural Resources, and Energy's ₱306-million collection in 2019 which is ₱101 million more compared to the highest annual remittance of ARMM.

• 28 Seal of Good Local Governance Awardees in the region, five more than ARMM achieved, making BARMM the No. 1 region in Mindanao and fifth in the entire country.

• increased level of transparency in infrastructure work with the Expanded Bangsamoro Advanced Road Mapping and Management (E-BARMM) System — an online repository of Ministry of Public Works (MPW-BARMM) projects using geotagged photos for data validation.

• registered an amount of ₱4.153 billion in 2019, exceeding the Regional Board of Investments (RBOI-BARMM) target by 180%.

• 5.9% growth rate in terms of Gross Regional Domestic Product (GRDP), ranked second among the regions in Mindanao and ranked seventh in the country.

All these accomplishments and more were attained even as the Chief Minister and his administration were learning the ropes of governance and bureaucracy. What makes these even more remarkable is the fact that the implementation of major programs and plans of the various ministries and offices were greatly affected by the pandemic, in the first year that BARMM accessed the block grant.

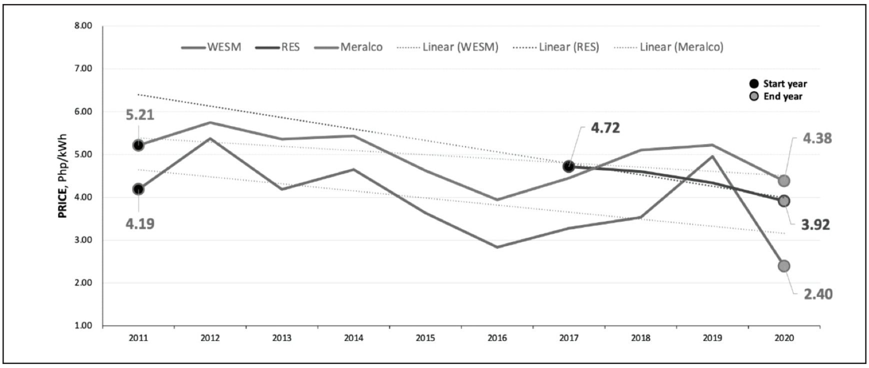
Clearly, the Chief Minister and his administration should be allowed more time and support to implement the transition. As the world, particularly Southeast Asia and the Philippines, still face security challenges due to violent extremism extension, the success of the peace agreement between government and the MILF is critical to ensure Muslim Mindanao's resilience to the lure of extremism and terrorism.

President Rodrigo R. Duterte should certify as urgent the extension of the term of the Bangsamoro Transition Authority and Congress should act on it before the political winds slow down legislative action. Government needs to ensure the success of the transition not only for the sake of regional security but because it is obligated to address the needs of the most conflict-affected, least-served region of the country. Government is best served to support the extension, bearing in mind that the transition mechanism is also designed to ease the MILF from revolution to bureaucratic evolution.

Red Alert and EPIRA

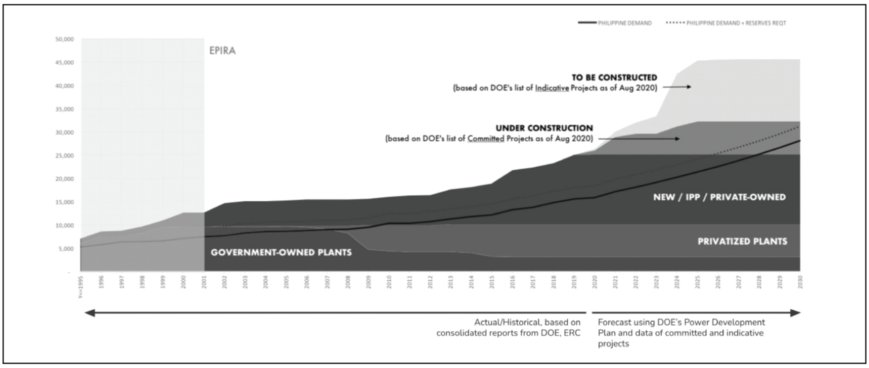
June 13, 2021

Figure 1. Average Electricity Prices, 2011-2020 (in ₱/kWh)



Sources: WESM data: Competitive Retail Electricity Market Report by ERC; Meralco data: https://company.meralco.com.ph/news-and-advisories/rates-archives; RES data: http://www.buyyourelectricity.com.ph/

Figure 2. Philippine Yearly Plant Capacity Additions (in MW)



Sources: DOE, ERC

FROM MAY 31 TO JUNE 1, thin power reserves resulted in the National Grid Corporation of the Philippines (NGCP) raising yellow and red alerts and hours-long rotational brownouts in some parts of Luzon. Understandably, this episode drew indignation from consumers and sharp criticism from pundits and politicians.

To me, this very much feels like déjà vu. On Jan. 27, 2014, I wrote an article, "The way forward for the power industry,"[17] on the then-price spikes and the hearings and investigations that ensued. Much like in 2014, the initial reaction and resulting discourse centered around shortcut solutions due to an oversimplified understanding of what is a difficult-to-understand industry. Much of the criticism was directed towards the Electric Power Industry Reform Act (EPIRA), which is the law passed in 2001 to reform the electricity industry.

I said then that a fair appraisal of EPIRA could be captured in the common idiom "so far, so good." Seven years later, I would now submit that EPIRA, "like fine wine, has grown better with age."

When discussing EPIRA, it is always important to start from the beginning. EPIRA was created to address long-term structural weaknesses in our power system that accumulated over time and resulted in crippling brownouts in the 1990s and a ballooning debt burden for the government. It was likewise meant to introduce competition to bring down power rates, give consumers more choice, and attract long-term private capital.

In 2014, I explained that EPIRA had advanced in the privatization of 80% of government assets. I mentioned that it had progressed, albeit at a slower pace than envisioned, in market formation with the Wholesale Electricity Spot Market (WESM) and Retail Competition and Open Access (RCOA), which has given businesses, and soon individual consumers, the choice of where they source their power and the ability to get better rates.

Since then, EPIRA has recorded more wins. From 2011 to 2020, we have seen a decline in the prices of electricity in most major markets. In this time period, WESM prices have fallen by 43%, Meralco generation rates by 16%, and RCOA (from 2017 only) by 17%.

We have seen the entry of new generation companies (gencos). The sale of assets to the private sector yielded the government ₱911 billion that reduced the obligations of the Power Sector Assets and Liabilities Management Corp. (PSALM), and, more importantly, unburdened

[17] See my column: "The way forward for the power industry," *BusinessWorld*, January 26, 2014, https://www.bworldonline.com/content.php?section=Opinion&title=the-way-forward-for-the-power-industry&id=82546

the government from spending to build new plants to keep up with growing demand.

Now, you may wonder, if EPIRA has been mostly a success, why are we still experiencing rotational brownouts? Surely this is not evidence of success. To be clear, EPIRA as a law laid the legal foundation for a sustainable and competitive electricity sector, but like any law, it is only effective if we implement it properly, if market participants play by the rules, and if our regulators enforce the rules effectively.

By most measures, the implementation of EPIRA has been incomplete and slow. A clear example of this is the RCOA Market. It was intended to provide all consumers with the power to choose their power supplier not later than three years after EPIRA enactment, but the implementation started only in 2013. Today, 17 years have elapsed and we have only partially implemented it.

EPIRA's implementation requires the private sector to carry a greater role in the mission of powering the country. On this front, we have seen a number of shortcomings. First, while we see significant growth in the generation side of the industry (capacity increased from 15 gigawatts [GWs] in 2003 to 26 GWs in end-2020), we still experience gaps in power supply. This is primarily because as a fast-growing economy, power demand is expanding at a pace that gencos are hard-pressed to keep up with. A contributing factor is that much of our existing generation fleet is old and thus given to breakdowns.

On the transmission side of the industry, we have seen bottlenecks in the construction of transmission lines. On average, transmission lines are three years to four years delayed in their implementation. Without certainty in transmission, generators are unable to build new power plants. We have also seen that the transmission line operator has not fully contracted firm power reserves. Where the system operator's role is to procure reserves, much like procuring a genset for your home, to call on in a time of power crisis, it has not procured sufficient firm reserves and so is unable to faithfully perform its role as an emergency backstop.

Finally, our regulators play an important role in seeing to it that the rules are properly enforced. On this front, I can only describe our regulator's approach as schizophrenic, where they have tended to over-regulate the competitive part of the industry and under-regulate the regulated part of the industry.

EPIRA designed the power generation side to be competitive, and allow competition to yield lower prices and higher reliability. There are rules in place, including market power restrictions, to keep any one player from unfairly prejudicing the consumer. Unfortunately, since then, the regulators have churned out regulation after regulation to curb the activities of generators. Each regulation is designed with the consumer in mind, but, as with many regulations and laws, they often carry unintended consequences that distort the behavior and incentives of market participants. When investors do not build new plants or do so slowly because the business environment has been riddled with regulatory uncertainty and risks, end-consumers and our entire economy lose.

On the other hand, the regulators have fallen short in their responsibility to enforce the rules over NGCP, which has the monopoly over the transmission lines in the country. NGCP over the past 10 years has been non-compliant with the rules that require it to build transmission line infrastructure to ensure that we have the power when and where we need it, especially during times of power shortage. The non-compliances come in the form of a lack of transmission lines, a lack of redundancies in our network, a lack of power reserves, and not meeting the IPO requirement under the law.

The schizophrenic approach to regulation is also apparent in the approach to regulating the weighted average cost of capital (WACC) allowed by different market participants. Where arguably the WACC used by regulators to regulate rates of competitive gencos should be higher than that of a monopoly, reflecting the higher risk environment, it is today the reverse. The monopoly (NGCP) earns a higher return in a market where it has no competitor.

Where do we go from here? If we want to avoid the power shortages that we just experienced, we need to first correct our regulatory approach. We have a strong legal and regulatory framework in EPIRA. Our regulators should focus on enforcing it rather than adding to it. More specifically, our regulators should focus on regulating the regulated business of transmission of power and consider simplifying the rules for gencos to allow the market to work, to de-risk the environment and to attract more long-term private capital.

In order to ensure that we have adequate reserves, the regulators should compel the Systems Operator to contract the full, firm reserve requirement. This can be done within 30 days, as there are genco offers today sitting on the desks at NGCP. This would ensure that we have the spare reserves the next time that the supply of power thins.

Lastly, we need to fast-track the implementation of the transmission line network. A three-to-four-year lag creates significant uncertainty and an imbalance in the market. Correcting this will de-risk the investment environment and will encourage the entry of more power capacity into the grid.

All in all, EPIRA has come a long way and has saved billions for consumers and taxpayers alike. Let's focus our efforts on making it work.

Emerging fiscal risks: Not a black swan, but a gray rhino

August 22, 2021

I AM PLEASED to share with readers excerpts from a note sent September 2020 to subscribers of GlobalSource Partners upon the release of the Development Budget Coordination Committee's Fiscal Risks Statement (DBCC FRS). Christine Tang and I, assisted by Charles Marquez, are their Philippine Advisers.

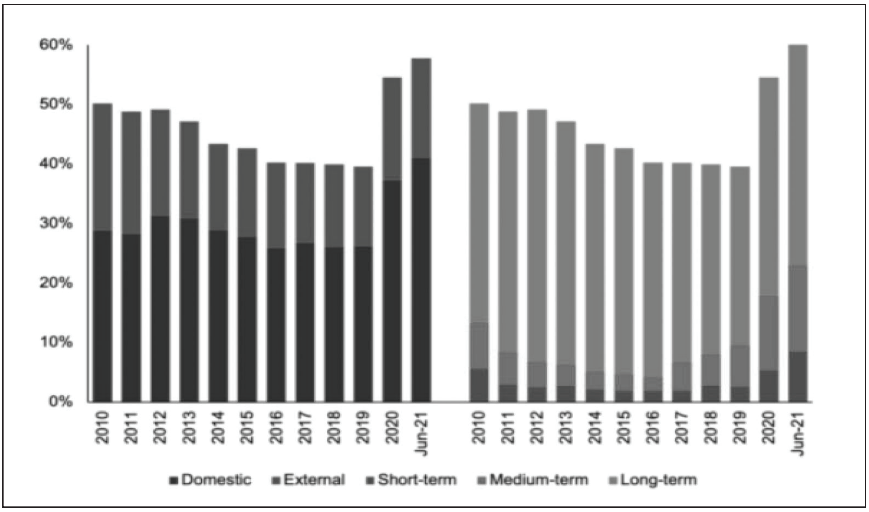
The 2020 DBCC FRS[18] expounded on the impact of the COVID-19 pandemic on government's fiscal health over the medium-term. Below are our key takeaways of fiscal risks to keep watch on over the medium-term. (Verily, the members of the finance/economic team of the next administration have their work cut out for them!)

1. The DBCC expects the National Government debt-to-GDP ratio to swell from below 40% in 2019 to 53% in 2020 due to the emergency borrowings made to finance the suddenly wider budget deficit. The debt ratio will continue to climb with "moderate risk" of exceeding 60% as soon as 2021. A reversal to a downward path for the debt ratio depends on GDP growth and the fiscal deficit returning to their pre-crisis averages over the medium-term.

The higher debt will need closer monitoring as it translates into much higher annual gross financing needs, exceeding 10% in 2020 and 2021. Rollover risks are partly mitigated by looser monetary policies everywhere that will keep interest costs low, with the foreign currency share making up only about a third of total National Government debt, a portion of which is held by residents. The Philippines also has a robust external payments position that provides fundamental support to the currency.

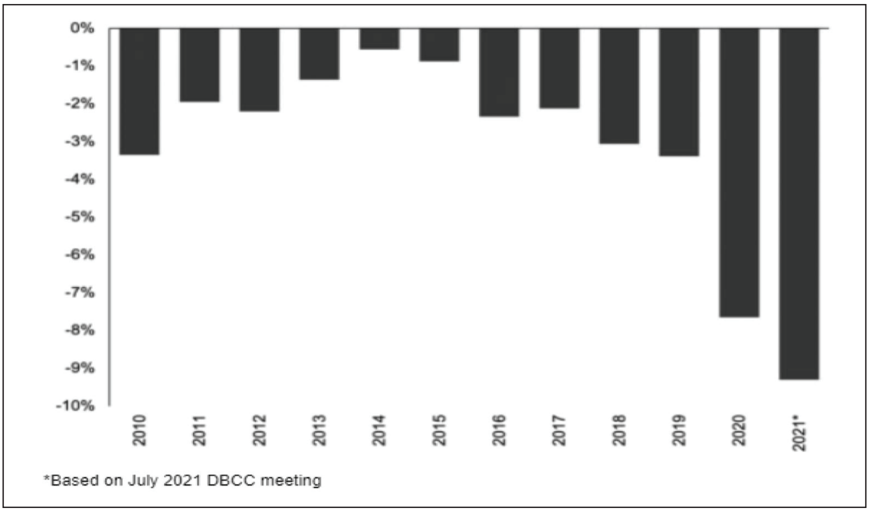
[18] See DBCC Fiscal Risks Statement at: https://www.dbm.gov.ph/wp-content/uploads/DBCC_MATTERS/FiscalRiskStatement/Fiscal-Risks-Statement-2021-for-Circulation.pdf

Figure 1. National Government debt as percent of GDP



Source: BTr

Figure 2. Fiscal deficit as percent of GDP



*Based on July 2021 DBCC meeting

Source: BTr

2. National Government revenues, forecast to fall to 13.6% of GDP in 2020 or 2.7 ppt below the pre-crisis level, will not return to pre-crisis levels in the foreseeable future. Following the declaration of a state of emergency, government was able to secure more than ₱100 billion (0.5% of GDP) in unprogrammed revenues from public corporations in the form

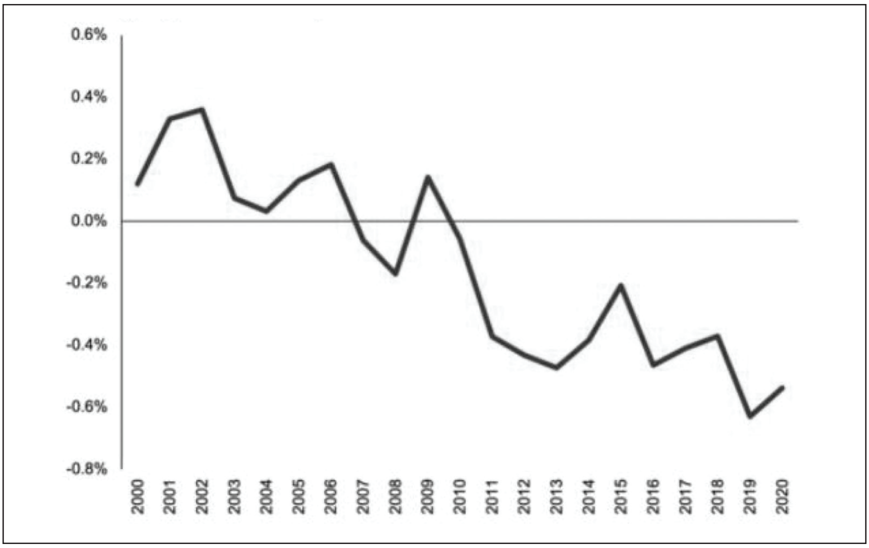
of dividends. This amount is one-off, with non-tax revenues expected to be lower by 1% of GDP by 2021. The passage of CREATE lowering corporate income taxes will further erode tax revenues with compensatory inflows from the rationalization of fiscal incentives expected to be pushed back. No new taxes are likely under the current economic crisis, especially with the administration in its penultimate year.

3. With lower revenues, the fiscal space for discretionary spending is expected to shrink further. Even before the pandemic, the National Government was already grappling with how to deal with (a) ballooning pension costs of military and uniformed personnel, estimated at ₱114 billion (about 0.6% of GDP) and growing by 3%-4% annually, and (b) a Supreme Court ruling (Mandanas case) requiring increased annual transfers to local government units amounting to 0.9% of GDP starting 2022. Moving forward, interest payments on the larger national debt will take up an increasing share of the budget (from 9.5% in 2019 to 12.9% by 2022) which however is well below the 30% share recorded in the mid-2000s. On the other hand, some cutback in infrastructure spending may already be seen in programmed disbursements falling to 4.5% of GDP by 2022 from over 5% next year. Proposals to address (a) and (b) will gain more urgency to enable government to do more to hasten post-crisis recovery.

4. Fiscal risks from other parts of the public sector have likewise risen due in part to off-budget financing of COVID-19 expenses. Social security institutions were the first to see surpluses reverse to deficits (close to 0.5% of GDP in 2020) due to substantially higher medical and unemployment insurance payouts, while the aggregate surplus position of frontline local government units is expected to halve in 2020 (from 1.3% of GDP in 2019) and further deteriorate in 2021 to 0.5% of GDP. Government financial institutions (GFIs), in addition to providing debt moratoriums and other temporary relief measures, are also being tapped to finance the post-crisis recovery effort with the financial impact of developmental lending and guarantee activities dependent on safeguards that will be put in place during program design. Other major corporations, particularly in the transportation (aviation, ports) and energy sectors, have also seen revenues from operations drop with economic contraction.

Although most of these represent contingent liabilities that may never materialize, some parts would require major reforms to correct structural defects and avoid recurring National Government subsidies, equity infusion or advances for debt service. (At risk of requiring more government support at this time, is the health insurance agency, which aside from a spike in COVID-related payables, will see revenues drop with corporate bankruptcies and higher unemployment to the detriment of universal healthcare goals.) Even before the pandemic, government had outstanding guarantees on public corporations' debts and contractual obligations equivalent to 3.3% of GDP which it was servicing through "advances" amounting to 1.4% of GDP in 2019. Over the last 10 years, net budgetary flows to the corporate sector have been negative, ranging from 0.1% to 0.6% (2019) of GDP.

Figure 3. Net budgetary flows to GOCCs as percent of GDP



Source: BTr

Local government units would separately need attention considering their high dependence on National Government transfers for operating income (60%) and with anticipated increases in revenues from the Mandanas ruling likely short-lived given the COVID-19 shock to the National Government's own revenues.

5. Contingent liabilities associated with contractual obligations under public-private partnership (PPP) projects likewise need monitoring as the risks are expected to be correlated with the state of the economy, with the downturn adversely affecting projects' revenue flows and/or proponents' balance sheets, thus potentially impacting project viability.

Based on the 41 projects for which information is available, a worst-case outcome involving termination payments will cost government the equivalent of 1.7% of 2020 GDP although an assessment of contingent liabilities based on project-specific probable risk factors yield an estimate that is only a tenth of that.

6. Aside from GFIs, government also has explicit (through deposit insurance) and implicit guarantees over the rest of the banking sector that require closer monitoring of individual and system-wide bank risks as asset quality and profitability deteriorate with weakened economic prospects. The risks are mitigated by ample capital buffers and increased provisioning for bad loans. Going into the crisis, the capital adequacy ratio of the big universal/commercial banks stood at 16% (consolidated basis) with high-quality Tier 1 capital at 14%, well above thresholds of 10% and 8% prescribed by the Bangko Sentral ng Pilipinas (BSP) and Bank for International Settlements (BIS) respectively. These banks have also increased loan loss provisions by 64% in the year to July 2020, providing over 1.2x coverage for bad loans, slightly up from below 1.1x at end-2019. While the risk of system-wide stress is low, it would nonetheless be impossible to discount problems at the individual bank level, especially those that have not developed strong credit disciplines. Separately, operational risks associated with cybercrimes have also gained prominence.

Bottomline View

Thanks largely to successive reforms since mid-2000 to strengthen public finances, the National Government was well-positioned to respond to the crisis and is able, moving forward, to assume a greater role in driving economic recovery without sacrificing fiscal sustainability. The challenge of course is to optimize the use of scarce fiscal resources to generate immediate employment, creating economic growth that can be sustained over the medium to long term. Moderately high sustained growth will help to lower the debt ratio through higher tax revenues (and lower primary deficit) and a more positive growth-interest rate differential. To this end, more urgent reform action is also needed to increase the efficiency of public spending and investments, including in addressing the imbalance between transfers to local government units and devolved functions.

At the same time, a more deliberate and comprehensive analysis of fiscal risks associated with needed new programs to hasten economic recovery and job creation, e.g., by providing liquidity to distressed firms, would help in managing and mitigating these risks over time and avoid abrupt and harmful threats on fiscal sustainability. Lastly, with the pandemic's harsh impact especially on the poor and with elections less than a year away, fiscal sustainability also requires extra vigilance on the part of economic managers to ensure that new social programs are not just timely and targeted but temporary.

“In the Philippines, populist authoritarianism is the fruit of a system where rentier capitalism and statism rule.”

MJ SALUMBIDES OF KEYLIGHT STUDIO

Calixto Chikiamco

Time for jukebox economics

June 14, 2020

BEFORE THE ASIAN FINANCIAL CRISIS in July 1997, a group of economists that included Dr. Raul Fabella of the UP School of Economics (now a National Scientist), the late former Socioeconomic Planning Secretary Dr. Cayetano "Dondon" Paderanga, Jr., former UP Professor and presently Bangko Sentral Governor Ben Diokno, and myself, were calling for a pre-emptive devaluation of the peso.

To our collective minds, the peso then was grossly overvalued. "Hot money" or volatile capital flows were propping up the peso artificially. The overvalued peso created a property bubble with the excess liquidity caused by these financial flows going into the non-tradable sector. The overvalued peso also created an environment conducive to the mismatching of risks. Banks and corporations borrowed cheaply in dollars and lent in pesos, profiteering from the interest rate differentials. Worse, a number of banks and corporations indulged in double mismatching, borrowing dollars short term and lending in pesos medium and long term.

The Bangko Sentral ng Pilipinas (BSP) then did nothing to discourage the hot money flows and the overvaluation of the peso. It allowed the peso to strengthen to ₱24 to $1, with implicit guarantees of the peso value. Exporters suffered. So did local manufacturers. However, the property boom made the factory land more valuable than the business assets, muting the pain for the tradable sector.

However, it was a crisis waiting to happen. That was the reason why the four of us wanted a devaluation of the peso — to discourage the hot money flows and the property bubble, to protect local manufacturers, to encourage exporters, and to curb banks' reckless lending behavior.

For making the call and sounding the warning, we became the target of vested interests. PR guns were hired and we were smeared as "jukebox economists," because presumably we didn't have "independent" minds but were singing the tunes paid for by some people, like a "jukebox." It was a lie peddled to defend the strong peso policy.

Well, the crisis we were warning about happened. We, the "jukebox economists," were vindicated. The Asian Financial Crisis blew up in July 1997 with the devaluation of the Thai baht. Financial panic – contagion no less – descended on other currency markets. The peso plunged from ₱25 to $1 to as low as ₱40 to $1. Hot money suddenly pulled out of Asian financial markets and currencies plunged, leading to huge losses and severe impairment of the balance sheets of major banks and corporations. The property bubble popped. Banks were saddled with a high number of non-performing loans. Economic recession followed.

A number of factors – hot money, the devaluation of the Chinese yuan in 1994, the depreciation of the dollar against the Japanese yen – all contributed to the Asian Financial Crisis. However, the weakness of regulatory institutions and inordinate belief in free capital flows were the major factors.

We felt vindicated, but only up to a point. The idea of a competitive exchange rate still did not take root.

The reason for this is that the political economy didn't favor a competitive exchange rate and an outward-looking economy. Firstly, the Philippine oligarchy is in non-tradable industries, primarily real estate and regulated service industries such as power, telecommunications, shipping, and ports. Secondly, about 40% of our exports are in import-intensive electronics with low domestic value-added. The competitive exchange rate didn't matter to most of them, particularly if they were enjoying PEZA incentives. Thirdly, farmers and small domestic manufacturers with a high domestic value-added, who would benefit from a competitive exchange rate, had a weak political voice. Fourthly, the OFW remittances accounted for a big part of the economy only in the last decade. Even then, OFWs didn't get the right to vote until the Overseas Voting Act was passed in 2003 and many haven't exercised that right (only about 3% vote). Finally, the economy is dominated by monopolists – we have the most concentrated economy in Asia, according to the World Bank – who don't have the stomach and the competence to compete in the world market.

That was then, but this is now. We are facing an economic crisis like no other. The economy is expected to contract 9%, rivaling the economic downturn after Ninoy Aquino's assassination in 1983. Unlike before, the overseas labor market can no longer act as a safety valve to the social volcano of high unemployment and mass hunger.

Furthermore, our institutions have proven to be wholly inadequate to cope with the effects of the pandemic. Despite all the talk of social amelioration and economic stimuli, government has been ineffective in distributing financial assistance to the 16 million households identified in the Bayanihan Act. Keynesian deficit spending is nice in theory but crashes against the reality of our weak institutions.

Perhaps it's time for some Jukebox Economics – an out-of-the-box solution to put money in people's pockets and to protect the economy. I'm referring to a deliberate policy to weaken the currency vis-à-vis the dollar. What are the benefits?

A depreciated currency will immediately put additional money in the pockets of the families of overseas Filipinos, who number about a tenth of the population or 10 million. Filipinos who are technically not OFWs because they have settled overseas continue to send money to their relatives here. Even if the peso would depreciate by just one peso, that would mean an additional annual income to millions of households of ₱29 billion! Their additional spending will have multiplier effects on the economy, benefiting also non-OFW families.

Moreover, the value of the dollar savings of our OFWs, a number of whom have lost jobs and have been sent home, will appreciate, increasing consumer confidence. Unlike the trouble-plagued Social Amelioration Fund, no bureaucracy is needed to distribute the additional money.

A weak or undervalued peso will also help exporters without government subsidies. On the other hand, there has been talk of self-reliance, especially in domestic food production. What better way to shield farmers and local manufacturers from foreign competition efficiently than through a weak peso?

Moreover, a weak peso will cheapen labor and make other domestic inputs more cost-competitive to foreign investors. It will foster labor-intensive industries.

Unlike bailouts, which carry moral hazard problems, a weak currency will boost the devastated tourism industry once international flights are back.

It will also immediately increase government revenue, since import value will increase.

In fact, government should remove the 10% oil import tax it recently imposed because that tends to strengthen the peso and is contrary to economic stimulus. (Additional taxes when there's a demand shock make no sense.) Undervaluing the currency is the better and more economically efficient way to generate additional government revenues at this time.

How to do it? There are fiscal and monetary tools to achieve a weaker peso, but the most effective way is for the BSP to buy dollars. This will not only infuse more peso liquidity into the system and thereby lower interest rates, but it will also help the BSP build more reserves and add to its ammunition to burn speculators.

Yes, the BSP is supposed to be inflation targeting and not exchange rate targeting. But these are extraordinary times that need an extraordinary response. We need a dramatic out-of-the-box solution. The truth of the matter is that the BSP has already violated tradition and crossed the Rubicon, as *Nikkei Asia Review* says, when it directly purchased ₱300 billion of Philippine government debt, effectively monetizing it. In other words, although it was once considered verboten for a central bank, the BSP helped the government print money to finance its budget deficit. (I don't doubt the wisdom and legality of the bond repurchase, however.)

Due to the collapse of the oil and commodity markets, the risk of inflation by weakening the currency is low. Rice import liberalization will keep food inflation in check. Targeted subsidies can be given to jeepney drivers or poor electricity consumers who will suffer a bit due to exchange rate adjustments.

In sum, Jukebox Economics says a weaker currency will: (a) immediately give additional money, stimulate demand and provide relief to the families of about 10 million OFWs and overseas Filipinos, without increasing our budget deficit or be distributed by an inefficient and corrupt bureaucracy; (b) protect agriculture and local manufacturing industries and create jobs in the countryside; (c) encourage more higher value-added exports without need for additional subsidies; (d) make the country more attractive to foreign investors; (e) promote and assist the beleaguered tourism industry once international flights are resumed; (f) generate additional government revenue without additional taxes; and (g) provide additional liquidity to the financial markets backed by additional foreign reserves.

Because of the pandemic, we face an unprecedented economic crisis. It's time again for Jukebox Economics.

Land reform land reform

July 19, 2020

OUR LAND REFORM PROGRAM has become so messy, so bad for agricultural productivity and economic growth, that it needs a land reform on top of the land reform. Moreover, because land reform in the Philippines took so long – more than 30 years – it has spawned second-generation problems that it will take another land reform to undo. I will explain a bit later.

What are the first-generation problems and what has been the result? One is the fragmentation of agricultural land. With a retention limit of five hectares, i.e., nobody allowed to own agricultural land beyond five hectares, and multiple hurdles to selling and leasing, the average land size of agricultural lands has been shrinking over time.

In 1985, the average farm size was 2.85 hectares. By 2002, the average size had dropped to 2.01 hectares. Today, the average size must have dropped even further. In Bohol, when I visited a few years ago, I was told the average farm size was less than a hectare.

The fragmentation has had deleterious effects on productivity. My fellow columnist, Dr. Raul Fabella, cited the excellent study by Tasso Adamopoulos and Diego Restuccia published in the prestigious *National Bureau of Economic Research Working Paper Series* (2019) on the Comprehensive Agrarian Reform Program (CARP) titled "Land Reform and Productivity: A Quantitative Analysis with Micro Data." It showed that due to CARP, average farm size has been reduced by 34% while agricultural productivity fell 17%. CARP had a significant negative effect on farm productivity, labor productivity, and total factor productivity.

Therefore, our agricultural sector is lagging services and manufacturing. It cannot even grow above the population growth rate (1.6%). The overall result: farmers remain poor (as Fabella described them, from poor peasants, farmer beneficiaries have become impoverished landowners), the country becomes more vulnerable to food price shocks and even more dependent on food imports. It's not a comforting thought during this pandemic when food security has suddenly become important.

Do-gooders say that cooperatives are the solution to the fragmentation of lands. I've been hearing about this since time immemorial, but the solution obviously hasn't worked, judging from our backward productivity. It's not hard to see why: the transaction costs are too high and without a market mechanism to settle differences (buy me out or I buy you out), farmers spend their time in political maneuvers to control the cooperatives.

Neither will a big brother-small brother arrangement work with an agri-processing firm because the agribusiness processing firm must contend with the practice of "pole vaulting," i.e., farmers not honoring their supply contracts and selling to a different buyer when they can get a better price elsewhere. The agribusiness firm must have the option to put up its own farm to assure the supply of raw materials. However, under the present CARP law, it can't buy more than five hectares.

The solution, short of revoking the five-hectare retention limit, is to allow farmer beneficiaries to lease their lands. As Adamapoulos and Restuccia state, "A well-functioning rental market for land can substantially mitigate the negative effects of imposing a ceiling on land holdings as these markets would tend to disassociate land use from land rights."

However, here's the rub: farmer-beneficiaries aren't allowed to lease their lands until the debt amortizations with a 30-year repayment period have been fully paid and 10 years have elapsed after being given the certificate of land ownership award (CLOA).

According to a PIDS study in 2003, these restrictions reduce the value of the awarded land by: (a) eroding the collateral value of land; (b) lowering the value of contracted land; (c) reducing the farmer's incentive to invest in land improvements; (d) constraining the transferability of land from less productive to more productive farmers; and (e) limiting the choice of more efficient contractual arrangements.

What's the solution? Let government condone the debt, as my friend and fellow columnist Dr. Raul Fabella said last week. Debt condonation is a social justice, economic stimulus, and productivity-enhancing measure all at the same time.

It's a social justice measure because the government degraded the value of the land when it imposed restrictions and yet demanded payment for the full amount.

It's an economic stimulus measure because freed from debt, the farmers will spend more to increase the productivity of their farms.

It's a productivity-enhancing measure because it will enable land to be consolidated via lease into more productive farms.

Leasing will give farmers a safety net in the form of an annual rental income while allowing more productive farmers to use the land. This is what's happening in China and Taiwan.

Leasing isn't the first-best solution. Lessees tend to overfertilize and downgrade the quality of the land since they don't own it. However, it's a good enough solution that satisfies both social justice and economic efficiency goals.

Debt condonation won't lead to moral hazard because there won't be another land reform program wherein landless peasants will similarly incur a debt from government.

Debt condonation won't hurt the finances of government inasmuch as 75% of farmers actually aren't paying their amortizations, but this is probably the government's fault. Farmers are unable to increase the productivity of their land with the restrictions imposed on them.

Aside from the fragmentation of lands and the restrictions on CLOAs, there's another huge problem bedeviling CARP: half of all CLOAs, mainly those that came from public lands, have a collective title. Without an instrument of individual ownership, farmers are saddled with "dead capital." They can't formally sell, lease or mortgage their farmlands.

Government issued these CLOAs because DAR wanted to claim accomplishments without going through the tedious task of land survey and issuance of individual titles.

Fortunately, after 33 years, government has recognized this problem. This year, the government borrowed $370 million from the World Bank for a project to parcelize the collective CLOAs under CARP. The project is called SPLIT (Support to Parcelization of Lands for Individual Titles). It's expected to benefit 750,000 farmers.

However, when that will be implemented and completed is still a big question mark.

The problems bedeviling CARP don't stop at collective CLOAs and restrictions. Because CARP is the longest running land reform program in the world, from 1987 to 2015, or more than 30 years, a second-generation problem has arisen. This problem is due to the fact that, as former DAR Secretary Gil de los Reyes describes it, the authors of the CARP Law assumed that farmers don't die. The CARP Law doesn't have any provisions for succession.

Therefore, when farmer beneficiaries die (and most probably have died since the CARP is over 30 years old), the law on succession under the civil code is followed. The heirs would have equal rights to the land. In most families, perhaps only one remains to till the land, if at all (or none, as the heirs dispose of the land illegally in the informal market). The other family members would probably have moved to another site, or worked overseas.

Imagine the problem for any transaction involving the land: all the heirs have to sign on the document. If the heirs are abroad, they would have to go to the nearest consulate to sign and notarize a special power of attorney. And this assumes that they can be contacted. That's already a huge burden for heirs from middle class families. What more for poor farmers without access to the Internet and good lawyers?

In a sense, these inherited farmlands have become mini-collective CLOAs, with multiple absent family members having ownership rights to the property. The original CARP was supposed to solve the problem of absentee landlords with a land to the tiller approach. Therefore, I said we may need to land reform land reform.

Frankly, I don't know the solution to this problem. In some countries, heirs lose their ownership or possessory rights if they don't till the land. However, I understand this would require an amendment to the civil code, which is an almost impossible undertaking.

In the meantime, condone the debt and free the farmer.

The oligarchy during the Marcos regime and its economic impact[1]

August 23, 2020

THE TOPIC GIVEN TO ME during this seminar on the 29th anniversary of the publication of *Some Are Smarter Than Others* by Ricardo Manapat is "Oligarchy During the Marcos Regime and its Economic Impact."

I would like to qualify the term oligarchy, however, with the term "rent-seeking" oligarchy. Oligarchy being defined as the small subset of people who control the economic and political power in a society is much too generic. Rent-seeking better describes the Marcos oligarchy since they accumulated wealth without adding any value to society. Rent-seeking is the non-market extraction of surplus. In layman's terms, crony capitalism. Not capitalism in the truest sense of risk-taking to produce goods or services that add value through the market, but rather primitive accumulation of capital using naked political power or connections.

Let me start by saying that oligarchy during the Marcos regime is historical and geopolitical.

It is historical because it was the product of the Philippines' historical past. It is also geopolitical because geopolitics had something to do with how it came about.

The root of Marcos's rent-seeking oligarchy can be traced to the Bell Trade Act. The Bell Trade Act defined the trade relations between the US and the Philippines after independence. The Bell Trade Act required parity

[1] Text of my speech during the relaunch of the book *Some are Smarter than Others* by Ricardo Manapat on August 14, 2020

rights for Americans and removed exchange rate sovereignty from the new Republic. That meant that the Philippine government wasn't free to set its own exchange rate.

Thus, despite the fact that the Philippines was the most devastated country after World War II after Poland, the United States decreed that the Philippines adopt the same exchange rate of ₱2 for every $1 after the war and after independence, the same rate that prevailed before the war as if no war or devastation had taken place. This was to ensure that Philippine exports could not compete with US agricultural products since the US and Philippines had free trade for eight years after independence.

This original sin – the gross overvaluation of the peso at the birth of the Republic – spawned huge consequences on our economy and our institutions, the effects of which we still feel today.

This gross overvaluation naturally led to foreign exchange crises. Therefore, even if the Philippines was given about $800 million in war damage reparations and for hosting the US bases after independence, the country shortly experienced its first foreign exchange crisis in 1949.

Because the country couldn't use the price system to allocate scarce foreign exchange, it had to resort to government making the allocations through quotas and import licenses. This is where rent-seeking came in. Politics came to dominate economic decision-making. Institutions were distorted toward rent-seeking.

Let us remember that the economist Anne Krueger coined the term "rent-seeking" to describe foreign exchange allocation in India.

It's not surprising then that we read this paragraph in Ricardo Manapat's book (page 69): "The principal way through which Marcos acquired money as a member of Congress was through the control he exerted over the black market for foreign exchange and the importation of goods into the country in 1963. Marcos authored a law which placed restrictions over the import of goods to the country. Those who wanted to import goods had to secure an import license. Marcos managed to control the granting of those permits, which he later peddled to importers."

Even before 1963, Marcos was already known as an influence peddler in the Import Control Board in the early fifties.

However, because of the economic crisis wrought by the foreign exchange crisis and agrarian unrest, the Hukbalahap became a force and threatened the Quirino government in the early 1950s. The Huks were already in Bulacan at the outskirts of Manila. In response to the plea of former President Ramon Magsaysay, who had succeeded Quirino, the United States agreed in 1955 to amend the Bell Trade Act to amend parity and give back the Philippines its exchange rate sovereignty in the Laurel-Langley Agreement.

However, the US extracted concessions in the Laurel-Langley Agreement. The most significant feature of the Laurel-Langley Agreement was to retain parity by giving US citizens the monopoly right relative to other foreigners to own land and establish businesses in the Philippines, principally in public utilities, for 25 years. US businesses, therefore, as monopoly foreign players in the domestic economy, became beneficiaries of the protectionist economic regime and reinforced the regime of rent-seeking.

If you remember the term "Filipino First," championed by former Philippine President Carlos P. Garcia, that nationalistic cry originally referred to the demands of Filipinos to be first in line in the allocation of foreign exchange, because US multinationals, due to their financial strength and size, were being given first dibs in the allocation of vital foreign exchange.

Because of this history of peso overvaluation and loss of exchange rate sovereignty, in the 1950s, we adopted an economic strategy of inward-looking, import-dependent industrialization characterized by import and exchange controls. Not surprisingly these economic policies led to periodic foreign exchange and balance of payments crises, which we had in 1959 and in 1971, shortly before Marcos declared martial law. It also accounts for why the Philippines went from being the second-richest country in Asia in the 1950s to being the "sick man of Asia" in the early 1980s.

The economic game, therefore, consisted primarily of rent-seeking with an economy chockful of licenses, protectionist legislation, monopoly barriers, statist rules and regulations. Over this economic game lorded an elite-dominated political system, characterized by an unwritten rule of political factions, represented by the Liberal and Nacionalista parties, to alternate in power to extract rents. No president was able to get reelected until Marcos broke that unwritten rule by using "guns, goons, and gold" to be the first Philippine president to win reelection in 1969. However, his wanton overspending to win re-election led to the severe balance of payments and foreign exchange economic crisis in 1971, which fueled further student unrest.

The political and economic crisis in 1971, however, led to an intense struggle among the elite factions and resulted in the declaration of martial law by Marcos in 1972 and the monopolization of political power and rent-seeking privileges by the Marcos faction. One can say that in rent-seeking, where politics is paramount, the logical outcome is for rent-seekers to seek a monopoly of political power. As I wrote in my article "The Political Economy of Martial Law," "martial law didn't just fall from the skies. It represented the logical development of the historical forces that had birthed and shaped the country's rent-seeking system."

Now that I have briefly described the history, let me discuss the geopolitics. The geopolitics during that era was the Cold War, the struggle between the Soviet Union and its allies on one hand and the US and so-called "Free World" on the other. In the context of the Cold War, the US promoted rent-seeking in the Philippines through the Sugar Quota. The US was able to cultivate Philippine pro-American politicians, such as Benedicto, Yulo, Lopez, Cojuangco, etc. through the Sugar Quota, but it also fostered a rent-seeking elite. As a result of the Laurel-Langley Agreement in 1955 and also after the fall of Cuba to Castro in 1959, the US kept increasing the Sugar Quota. My point is that the Philippine economic system was loaded with incentives for rent-seeking, with the US a major contributor to those incentives.

However, it was the geopolitical event of the Yom Kippur War in 1973, shortly after the declaration of martial law that enabled Marcos and his cronies to stay in power and steal billions. The quadrupling of oil prices led to the recycling of oil money, with the US money center banks recycling the oil money as loans to oil-dependent developing countries like the Philippines. These foreign loans gave the Marcos regime the financial foundation to maintain martial law. Oil money recycled as foreign loans to the Philippines enabled the era of "debt-driven" growth in the '70s under Marcos.

However, despite his claims of a New Society and "revolution from the center," Marcos didn't change the import-dependent, inward-looking protectionist nature of the Philippine economy. The system bred inefficiency. Marcos crony capitalists were just exploiting their monopoly positions in the domestic economy unlike, say, in South Korea, where the *chaebols* were disciplined by selling to the global market. Foreign loans plus the export of people as OFWs were for a while financing the recurring trade and payments deficits until the huge loan repayments themselves became the problem.

Another geopolitical event – the fall of the Shah of Iran in 1979, which dramatically increased oil prices once again – exposed the rottenness of the economic system under Marcos and ultimately led to another more severe economic crisis in 1983 and finally led to the People Power Revolt in 1986.

At the end of the book, Manapat asks why the Aquino administration failed to recover the Marcos stolen loot and why corruption has persisted after Marcos.

We can also ask why is it that 34 years after Marcos fell, we have this sense of *déjà vu*? We have another authoritarian with fascist tendencies as a leader and who like Marcos before him, had ABS-CBN shut down.

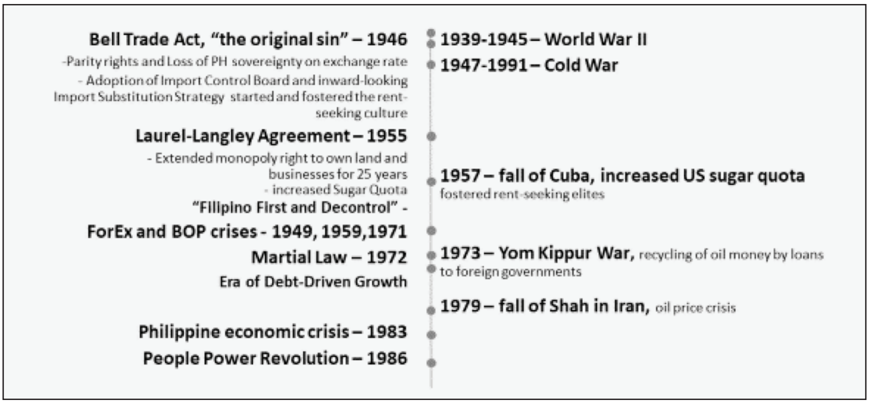
The answer is because the rent-seeking system persists. We still have an inward-looking economy. Our Constitution is protectionist, as were our previous Constitutions in 1973 and in 1935. Our percentage of exports to GDP is the lowest in ASEAN. Our oligarchy is mainly in regulated service industries, such as power, telecommunications, shipping, ports and in other non-tradables where their interest is in regulatory capture and weak government institutions.

Furthermore, monopolies dominate the economy. We have the most concentrated economy in Asia, according to the World Bank. Nothing much has changed in agriculture, despite land reform. Rural poverty and agricultural stagnation persist. In the political sphere, we only have formal democracy, but political institutions are controlled by political dynasties.

At the end of the book, apparently despondent that nothing much was being done about corruption, even by so-called reformists, Manapat poses the question whether corruption is inherent in human nature.

I will answer Manapat, if he were alive today, that no, the fault lies not in ourselves, but in our history. We are just path dependent. We are the creatures of our past.

Figure 1. History and Geopolitics


Bell Trade Act, "the original sin" – 1946
-Parity rights and Loss of PH sovereignty on exchange rate
- Adoption of Import Control Board and inward-looking Import Substitution Strategy started and fostered the rent-seeking culture
Laurel-Langley Agreement – 1955
- Extended monopoly right to own land and businesses for 25 years
- increased Sugar Quota
"Filipino First and Decontrol" -
ForEx and BOP crises - 1949, 1959,1971
Martial Law – 1972
Era of Debt-Driven Growth
Philippine economic crisis – 1983
People Power Revolution – 1986
1939-1945 – World War II
1947-1991 – Cold War
1957 – fall of Cuba, increased US sugar quota
fostered rent-seeking elites
1973 – Yom Kippur War, recycling of oil money by loans to foreign governments
1979 – fall of Shah in Iran, oil price crisis

Source: Author's presentation

Breaking out of Groundhog Day

September 27, 2020

GROUNDHOG DAY is one of my favorite films. The film is a fantasy comedy and tells the story of TV weatherman Phil Connors (Bill Murray) arriving in Punxsutawney, Pennsylvania to cover the annual Groundhog Day activities. Groundhog Day refers to February 2 when the town celebrates the tradition of observing whether the groundhog emerging from his burrow foretells the arrival of spring or six more weeks of winter.

Connors hated the assignment and viewed the town with contempt. He wakes up in a motel room on February 2 and goes about doing a perfunctory performance covering the day's activities. However, after going to bed, he wakes up to find himself on the same day, which goes on and on in a sort of time loop. Realizing he's in a time loop, Connors indulges in selfish, manipulative actions, including trying to seduce his TV producer Rita (Andie MacDowell), who turns him down.

Eventually, trapped in the time loop, Connors gets tired and depressed, engaging in suicidal attempts. However, he keeps waking up on February 2. Only when he becomes unselfish, using the loop to help people and to express his sincere love for Rita, does he break out of the time loop and wakes up on February 3.

For the Lopezes – and the Filipino people – it must have felt like Groundhog Day when ABS-CBN was shut down by President Duterte and his congressional minions. The media giant was also shut down when martial law was declared in 1972 by former President Ferdinand Marcos, who used the same rhetoric about going against the oligarchs.

Why do we keep reliving the nightmare? Why are the Filipino people trapped in a sort of time loop?

As I have said before, the causes of our time loop are the twin legislative landmarks of the Yellow Revolution: the 1987 Constitution and the 1988 Comprehensive Agrarian Reform Law (CARL).

On one hand, the 1987 Constitution restored pre-martial law electoral democracy, but on the other, it retained the protectionist provisions of the 1935 Constitution. While the people's freedoms were restored, their economic freedoms were not. The protectionist provisions protected and nurtured monopolies in key strategic industries and in mass media. These protectionist provisions virtually guaranteed that the economic aspirations of the people would not be met compared to the Constitution's political and democratic objectives.

These protectionist provisions, particularly those on public utilities, had a deleterious effect on the economy and on consumers. As protected monopolies, public utility companies passed on high prices and poor services to consumers. As strategic industries whose outputs are inputs to other industries, these protected monopolies made the economy uncompetitive and unattractive to investments.

The harmful effects on the public's quality of life caused by the anti-foreign investment provisions of the Constitution laid the groundwork for a populist-fascistic Duterte to harness the people's grievances and use them to win political points in denouncing the "oligarchs."

For the Lopezes, these protectionist provisions have a bittersweet irony. Although they were initially passed to protect their businesses (power, telecoms, and media), in the long run, these came back to bite them. With its over-the-air franchise denied, ABS-CBN's transitioning fully into the future with digital content is hampered by the unaffordability and unavailability of internet services in the country, a result of these protectionist provisions. ABS-CBN's use of Philippine Depositary Receipts (PDRs) to raise capital in foreign markets and Gabby Lopez's dual citizenship also became issues because of the 100% Filipino ownership requirement in mass media enshrined in the 1987 Constitution.

As for the Comprehensive Agrarian Reform Law, the other landmark legislation of the Yellow Revolution, on one hand, it did succeed as an anti-insurgency political program (the CPP-NPA armed insurgency has severely waned with the diminishing struggle being waged by ageing leaders). On the other hand, it failed to increase agricultural productivity and reduce rural poverty. In fact, it didn't only *not* increase agricultural productivity, it *reduced* it. As the study by the Canadian economists Tasso Adamapoulos and Diego Restuccia published in the prestigious *National Bureau of Economic Research Working Paper Series* showed, the CARL caused land fragmentation to increase by 34% and reduce agricultural productivity by 17%. This meant that farmers became *poorer* after CARL.

The failure of the CARL to improve the lives of farmers and rural residents in the countryside also seeded the appeal of the populism and anti-oligarchic message of Rodrigo Duterte. Furthermore, the widespread poverty makes it easier for a politician like Duterte to channel the people's frustrations, economic anxieties, and pessimism to a war against drug users and small-time drug dealers – the visible bad guys in street corners and community plazas.

The fact is that the present socioeconomic conditions will keep regurgitating a fascist-populist like Duterte. The Filipino people will be condemned to relive Groundhog Day again and again with a Marcos or a Duterte unless the evil twins of the protectionist provisions in the 1987 Constitution and the restrictive provisions in the Comprehensive Agrarian Reform Law are removed or amended.

The first-best solutions are undoubtedly to remove the foreign ownership restrictions in the Constitution and to remove the five-hectare retention limit in the Comprehensive Agrarian Reform Law. However, these seem to be politically infeasible presently. The administration has dissipated its political capital punishing its political enemies and pushing for non-solutions like federalism or RevGov.

The second-best solutions are to pass the Public Service Act (PSA) Amendment to remove telecommunications and transport industries from among those protected by the public utility provision in the Constitution and to pass a Debt Condonation law to reverse land fragmentation and enable land consolidation of agrarian reform lands via a vigorous rural land leasing market.

However, the PSA Amendment remains unacted upon in the Senate, the victim of unfounded fears of a Chinese takeover. In fact, the present lack of regulations and foreign investment vetting that the PSA seeks to address will make it easier for the Chinese to take over. (Foreigners already have effective majority ownership of the existing telecommunications firms using stockownership layering.)

The politicians and the monopolists, however, should take heed that retaining these protectionist provisions will come back and bite them. Former President Benigno "Noynoy" Aquino III, protective of his mother's legacy, killed an initiative by former Speaker Sonny Belmonte, who had the votes, to amend the economic provisions of the Constitution. That allowed poor telecom and transport services to fester and gave resonance to Duterte's promise of "change is coming." Ironically, therefore, former President Aquino seeded the anti-Yellow counterrevolution of President Duterte.

As for debt condonation, the country missed a historic opportunity when it was included in the Bayanihan 2 Act but was objected to by the administration on grounds of "moral hazard." The administration gives out tax amnesties to tax evaders and cash transfers to poor, unemployed people, seeing no moral hazard in them, but it couldn't imagine the government condoning the debt of farmers impoverished by the very restrictions imposed on them under the CARL.

For the Filipino people, they must realize that they aren't condemned to relive their Groundhog Day, i.e., of reliving the *déjà vu* nightmare of having their democratic freedoms curtailed and their lives impoverished. They can do something about it. For the TV anchorman Connors, his selfishness and self-centeredness were causing the time loop. True love broke the time loop.

The pandemic will be a passing affliction for the Filipino people. However, the effects of the twin evils will not be. Not doing anything about these twin evils means the Filipino people continuously experiencing the toxic politics, bad governance, and deteriorating quality of life – our Groundhog Day – forever and ever. Is that the future we want?

Why is President Duterte popular?

December 6, 2020

COMMENTATORS DROPPED THEIR JAWS when the latest Pulse Asia post-pandemic survey showed that President Duterte's trust and approval ratings soared to 91%. President Duterte seems to be defying gravity or walking on water since the country is the worst in Asia in handling the pandemic and the economy has gone in deep recession.

Some have suggested that fear may have colored the respondents' answers. However, even before the pandemic, President Duterte had been enjoying gravity-defying, sky-high ratings. What gives?

The same complex mysterious logic seems to be at work in the United States where US President Donald Trump garnered the highest number of votes ever for a Republican candidate and nearly won, save for hundreds of thousands of votes in some key states, despite his handling of the pandemic, his misogynistic and racist comments, his defiance of democratic norms, his attacks on the media and peddling of false stories, and his obnoxious tweets.

However, it can be said that President Trump retains the loyalty of his base because he has channeled the anger, anxiety, angst, and resistance of a significant number of Americans over globalization, technological disruption, and gut-wrenching changes in culture, power, and identity caused by urbanization, demographic and cultural diversity, and the shifting nature of work.

What about President Duterte? My theory is this: President Duterte has captured the political *zeitgeist*. He has channeled the people's anger and disappointment over the Yellow, People Power Revolution. More than 30 years after that revolution, which restored the pre-martial law electoral democracy, quality of life hasn't improved much for the majority, except for a dominant elite. Before he won, public services, from telecommunications to transport, were bad, if not getting worse. Poverty remained widespread, especially in rural areas. In the peripheries, especially in Mindanao, there was a sentiment of exploitation, of giving more resources to urban-based oligarchies, and getting nothing in return. Food prices remained high while agricultural growth had stagnated. The only hope for families was for the fathers, mothers, daughters, and sons to leave and go abroad but at great social cost.

The political institutions and the bureaucracy set up by the Yellow Revolution and the 1987 Constitution haven't lived up to the ideals of liberal democracy either. They have proven to be corrupt, inefficient, and incompetent. The political system is dominated by dynasties, with a revolving door of family members making a mockery of term limits and inclusive democracy. The party-list system has been corrupted and is a big joke. The political actors have proven to be insensitive, greedy, and selfish, rather than being the public servants they are supposed to be. And the greed isn't getting moderated, but intensifying, with billions, not just thousands, being lost in massive graft and corruption.

Comes now President Duterte, who sensed the people's disappointment with life under the Yellow Revolution and the 1987 Constitution and promised that "change is coming." He represented a populist revolt against the status quo.

Viewed from this perspective, his political moves acquire logic. He proceeded to degrade or dismantle the linchpins of Yellow political power, or the coalition that ushered in the People Power Revolution: the Catholic Church, the Yellow-linked anti-Marcos oligarchies, and the ABS-CBN media empire. He also wrenched foreign policy from the pro-Americanism of the Yellows. It must be remembered that the pro Americanism of the Yellows arose from US support to nudge the Marcoses from power (Senator Paul Laxalt famously told the former dictator Marcos to "cut and cut cleanly").

The people had become so disgusted with the status quo that they have excused Duterte with his profanities, his breaking of norms, his taking of shortcuts, his misogynistic remarks, and yes, sometimes his incompetence and trust in corrupt officials. The Yellow democracy hadn't improved their lives anyway.

What about Duterte's antidrug war?

Duterte correctly perceived that it was the poor who were primarily victims of the drug scourge, the destruction of families it causes, and the lawlessness it spawns. From the drug-addled *kanto* boys who harass the neighborhood to the drug dealers who prey on breadwinners and turn them into addicts, the drug menace is palpable to the poor. However, the authorities were not just doing nothing to stop the drug menace, but complicit in the lawlessness in communities.

One might say that Duterte applied shortcuts with the EJKs (extrajudicial killings) and the alleged violation of human rights to try to solve the drug menace. However, to a public who are used to failed institutions, shortcuts could be justified. The smart politician that Duterte is grasped this political reality and used it to nurture his tough-guy, problem-solver, action-oriented image.

However, also key to his popularity is that he has subdued inflation, in particular rice inflation. In this regard, rice import liberalization and dismantling of the National Food Authority (NFA) monopoly, which no President dared to do for the past 50 years, was the principal instrument. With rice import liberalization, rice prices stabilized. Prior to rice import liberalization, consumers were paying an implicit tariff of as much as 90% to 100% on imported rice and prices were highly volatile due to the slow and political decisions being made by the National Food Authority, which had the monopoly to import rice.

Furthermore, the rice tariffication law funded the Rice Competitiveness Enhancement Fund from the 30% tariff, which enabled government to compensate losing farmers.

Dr. Mahar Mangahas, President of Social Weather Stations, made an interesting presentation about Surveys on Inclusivity of Past and Future Trends in Quality of Life in the Pilipinas Conference of Stratbase Institute. According to Mahar, growth was inclusive only in the period of 2015 to

2019 with surveys of gainers less losers turning positive during that period. Net optimism also rose from 2009 to 2019 but marked by higher levels of net optimism above 30% during the last five years (except for a brief time when inflation rose in mid-2018).

When I asked Mahar to what he attributes the rise in perception of growth inclusivity and rising net optimism, he pointed out to two factors: the conditional cash transfer (CCT) program (which started under former President Arroyo, expanded under former President Aquino, and institutionalized under the law under President Duterte) and the benign inflation rate, which enabled real wages to rise.

Although the surveys on economic inclusivity and net optimism can't be directly related to the popularity of a President, it provides an understanding of why President Duterte could possibly be popular.

And while both former President Aquino and Duterte can bask in the CCT and Aquino can boast of high economic growth rates, contrast Duterte's dismantling of the NFA rice monopoly with former President Aquino's extension of quantitative restrictions on rice imports when it was supposed to be lifted in 2012 as a commitment to the World Trade Organization.

However, back to my thesis that Duterte builds his political capital from the resentments, disappointment, and anger at the failures of the Yellow revolution. The 1987 Constitution, with its protectionist provisions, enabled the development of monopolies in telecommunications, transport, and other key sectors of the economy. The Philippines has the most concentrated economy in Asia, according to the World Bank, resulting in high prices and poor service foisted on the public by the monopolists.

Hence, Duterte's tirades against "oligarchs." But apart from tirades, he has also decisively improved telecommunications services. In the telecommunications sector, where the public acutely feels the high prices and poor quality of the Internet, his administration, especially the Department of Information and Communications Technology (DICT), under former Acting Secretary Eliseo Rio, Jr., injected more competition in that sector (through a third telco, DITO Telecommunity), introduced public Wi-Fi, passed number portability, adopted a common tower program, cut the number of permits for cell towers, and got Facebook's submarine cable to go through the Philippines. The result has been palpable with telecommunication services improving and stable during the pandemic.

The problem with Duterte is that while he may have grasped the big political picture, his strategy and his execution have been incoherent. He flirted for a time with the Left, losing valuable time. His former Agrarian Reform Secretary tried to expand a clearly discredited Comprehensive Agrarian Reform Program. His leftist former Social Welfare Secretary tried to throttle the conditional cash transfer program. He has appointed incompetents and corrupt officials and continued to defend them. He makes a show of firing them only to recycle them.

Thinking like a mayor, he mistakenly believes in the power of government. Therefore, his administration pivoted away from PPP (Public-Private Partnership) perhaps in his mistaken belief that oligarchs were exploiting them and embraced ODA (Official Development Assistance) and GAA (General Appropriations Act). However, the bureaucracy has proven to be inefficient, incompetent and corrupt across a range of institutions – BuCor, PhilHealth, Bureau of Immigration, DPWH, DOTr, DOH, etc. Therefore, his signature BBB (Build, Build, Build) program is characterized by under-accomplishment.

Coming from Davao, he also thought federalism was the answer. He has only partially realized that it's not unitary government, but the concentrated, urban-based economic power of monopolies that's the cause of underdevelopment of the peripheries. His pro-China policy hasn't yielded much to the benefit of the country. He has so far failed to use his huge political capital to reform the two economic foundations of the Yellow Revolution: the protectionist provisions of the Constitution and 1987 CARL (Comprehensive Agrarian Reform Law). The former assured the dominance of monopolies and the latter caused land fragmentation, perpetuating agricultural stagnation and rural poverty.

Will the tanking economy and his mismanagement of the pandemic bring Duterte crashing down? At least, the post-lockdown Pulse Asia survey doesn't seem to indicate it, perhaps because people believe he cannot be faulted for the pandemic.

However, despite a mischaracterization that Duterte is populist, his administration is fiscally conservative. Despite the country having the worst management of the pandemic in Asia and suffering the worst economic contraction, the Philippines has the stingiest economic stimulus. With hunger, joblessness, and bankruptcies becoming more widespread (and the public's net optimism plunging), will the administration hold on to its tightfisted policy and perhaps suffer political consequences in the coming election period?

As for the Liberal Party (LP), its political future cannot be anchored on human rights or even decency in words and style alone. For a time, the Liberal Party was *illiberal*: going against the classical liberal ideas of open markets and free competition. Former President Aquino extended the National Food Authority's rice importation monopoly despite the country's commitment to liberalize the sector in 2012 and shot down the efforts of LP leaders former Senate President Franklin Drilon and former House Speaker Sonny Belmonte to amend the economic provisions of the Constitution, cementing the power of monopolies. Not surprisingly, it paid a political price in the polls. The LP's Mar Roxas, a conservative and member of a landed clan like former President Aquino, lost in the presidential elections in 2016. In 2019, the Liberal Party anchored its senatorial campaign on *Otso Diretso* (whatever that means) and human rights. It lost miserably.

The future of the Liberal Party is dependent on whether it can recognize the failures of the Yellow Revolution while holding on to its popular anti-dictatorship principles, and whether it can become a true *liberal* party. This means that the party should not only be seen as espousing democracy and human rights, but also be vocal for open markets and competition, which will drive down prices and improve services to the public. The Liberal Party may have to do so in the name of political survival, even if it means going against the oligarchy that may have helped propel it to power, and the reforming of corrupt institutions, created they may be under the 1987 Constitution.

President Duterte's soft spot, however, is that he has embraced China when surveys show that the public has much distrust of China (a weak spot that the Liberal Party didn't exploit in elections in 2019). However, as cunning a politician that Duterte is, he can be seen as making nuanced pivots to soften his China lover image. He pardoned US Marine Lance Corporal Joseph Pemberton for killing a transgender, upheld the country's victory over China in the Permanent Court of Arbitration's ruling in a UN Speech, postponed the cancellation of the Visiting Forces Agreement with the United States, and lifted the moratorium on gas exploration in the Reed Bank without an objection from China, possibly pointing to a peaceful resolution over the South China Sea dispute. He has also allowed the tax authorities to impose taxes on Chinese-run POGOs (Philippine Offshore Gaming Operators), which are unpopular, causing a number of them to leave.

Just as Trumpism will remain even if President Trump is gone from power, Dutertismo is likely to remain a powerful political idea and political force.

Institutional failures and economic growth

January 17, 2021

I WILL STATE HERE what is obvious – we are seeing governance and institutional failures that have impoverished Philippine society: PhilHealth, the Department of Health (DOH), the Philippine National Police, the Bureau of Corrections, Bureau of Jail Management and Penology, the Food and Drug Administration, the National Telecommunications Commission, the Bureau of Immigration, the Task Force Bangon Marawi, not to mention the usual culprits, Bureau of Customs, Department of Public Works and Highways, Department of Transportation, etc.

However, these governance and institutional failures are not particular to the Duterte administration, but range across the different administrations. Moreover, the failure is present not only in the executive department but also throughout the bureaucracy and other institutions of government, from the legislative to the judiciary.

Governance and institutional failures are one of the reasons the Philippines still lags its ASEAN neighbors and why a country like Vietnam, devastated by years of war, can catch up and even overtake us.

Economic underdevelopment, therefore, is both a policy and institutional failure. I laugh at the stupidity of some "leftist" analysts whose knee-jerk reaction to anything that deviates from their Amado Guerrero thinking as "neoliberal economics." They imply that all non-socialist economists are market fundamentalists who see nothing but deregulation, privatization, free trade, and globalization as the solution. The fact of the matter is that modern-day economics has recognized the role of institutions (a matter that Marx himself recognized, albeit from a class standpoint), the rule of law, culture, and human behavior in economic development.

How important are institutions? China's meteoric rise, for example, is wrongly attributed to economic reforms alone, according to Professor Yuen Yuen Ang of the University of Michigan.[2] In reality, China, under Deng, undertook political and governance reforms that made possible its rapid economic development. These reforms included term limits on China's rulers and performance ratings and competition in the bureaucracy. The result is that even Microsoft founder Bill Gates marveled at the excellence of China's bureaucracy. The fact that China's Xi Jinping is undoing these reforms is a different story altogether and may harbinger weaker economic performance ahead.

However, here in the Philippines, why are our institutions weak, inefficient, dysfunctional, and corrupt?

First, there's history. As I had repeatedly said, rent-seeking came early to the Philippines with the government allocating foreign exchange after independence in 1946 due to the loss of exchange rate sovereignty mandated by the Bell Trade Act. The politicization of economic decisions that came with foreign exchange control provided an incentive for weak and politicized institutions.

On top of these weakened and politicized institutions and rent-seeking in foreign exchange allocation, the country built a state guided by protectionism, economic nationalism, regulatory overreach, and statism that only worsened rent-seeking. (Did you know that the Philippine government went into the retail business itself in the 1950s with NAMARCO or National Marketing Corporation? Or that Marcos authored a law that required permits for all imports?)

Furthermore, the US, as the neocolonial power, extracted through the Laurel-Langley agreement a privileged position versus other foreign nationals that its citizens be treated on equal footing with Filipino citizens, including the ownership of land; therefore, US interests became perfectly aligned with that of domestic rent-seekers and weak institutions.

This history of weak and politicized institutions continues to this very day. The present is a product of its past. Neither have our institutions been

[2] Watch Prof. Ang's excellent YouTube video lecture on China's rise: https://www.youtube.com/watch?v=2_bNB4S_HTw&t=641s

tempered in war, such as in Vietnam or South Korea, nor of a long history, as in Thailand.

Second, political economy partially explains our weak institutions. Weak institutions are in the interest of our oligarchy, which derive much of their wealth in non-tradable, regulated service industries such as shipping, ports, banking, telecommunications, infrastructure, real estate or in unsolicited PPP projects. "Regulatory capture" is in their interest, even if they deny it.

Third, a monopolistic economy, i.e., one dominated by monopolies and oligopolies, make for weak institutions. For so long as monopolies can extract rent, there's little interest in innovation or for society to function well. Deteriorating peace and order, poor public education, corruption in Customs, etc. do little to reduce monopoly profit and therefore don't spur a demand for better governance and public institutions.

Lastly, the Philippine economy is still inward-looking. It is the last among ASEAN nations in the ratio of exports to GDP. Our export-to-GDP ratio is about 30% and declining, compared to Vietnam, whose exports are 100% of its GDP.

How does that affect our institutions? Export or outward-looking economies, such as Taiwan, Japan, South Korea, and Vietnam must have strong domestic institutions if their export champions are to compete in the world market. A country, for example, cannot hope to export pharmaceuticals if its drug authority is corrupt and allows substandard pharmaceutical drugs to proliferate. Its transport and port systems must be efficient for its export products to be cost competitive in the world market.

Here, unfortunately, our economic officials cheer a strong peso – a symptom of inward-looking orientation – rather than fostering exports and an outward-looking orientation. They reflect the elite view that exporting people, via OFWs, rather than goods will be the economy's savior and it's better to do nothing but be a service-driven economy.

Can we strengthen our institutions by changing our form of government to parliamentary or federalist? No, because the root causes of the dysfunction of our bureaucracy is in our political economy. Until that is changed, democracy and good governance will just be formalisms without substance.

So, what do we do? First, we must make rent-seeking less dominant in the economy. We need to introduce more competition into the economy by removing the foreign ownership restrictions in the Constitution, passing the Public Service Act Amendment, and dismantling all anti-competitive barriers in the economy. There are just too many barriers to competition in the economy, such as the requirement of franchises to offer satellite broadband and government being both regulator and operator at the same time, as in the Philippine Ports Authority.

Second, we must depoliticize the bureaucracy. Presently, the President can appoint officials down to the assistant bureau director. Perhaps the President shouldn't also be allowed to appoint more than two undersecretaries in a department. (In the Department of Natural Resources, for example, there are nine, of which only four are career.) The rest should be civil servants who must pass stringent regular performance ratings.

Presently, after every administration change, the bureaucracy has been used to reward political appointees and loyalist followers who have little or no competence.

Third, we must demand more from our civil servants. Our populist politicians are fond of giving our teachers and men in uniform generous salary increases without demanding anything in return. The result is that the Philippines scores last in the PISA (Program for International Student Assessment) ratings in math and science while our PNP's reputation is being corrupt and criminal, functioning as mere tools of public officials despite salary increases.

Lastly, given the reality of the weakness of our bureaucracy, we should resort to solicited PPPs (Public-Private Partnerships) as much as possible. PPPs are a way to harness the private sector to cover for the weaknesses of our bureaucracy in delivering infrastructure or public services. However, unsolicited PPPs must be discouraged because they are another form of rent-seeking and we see unsolicited project proponents try to stifle competition.

We should also try to outsource governance where feasible, such as getting SGS or other internationally recognized bodies to do customs inspection or an international organization to certify mining companies in environmental compliance. I will even be more radical and urge adoption of Nobel Prize winner Paul Romer's charter cities idea – outsource governance in a few export zones to other governments, such as islands north of Cagayan to the Taiwanese.

Political and governance reform – in short, institutional reform – are interlinked to economic reforms. Institutions matter in economic growth. However, the demand for institutional reforms will only rise if the political economy is right. The economy has got to be less dominated by monopolies and more outward-looking.

If nothing is done and the public sees failure after failure, the environment for authoritarianism and populist fascism – cutting democratic corners to produce results (as we are seeing now) – becomes even more favorable. The country could end up being both poor and unfree.

What the economy needs is oxygen

February 21, 2021

NO, THE PHILIPPINE ECONOMY doesn't need oxygen because of a COVID-19-induced pneumonia, although the metaphor could still apply given the severe economic recession caused by the pandemic.

The Philippines needs oxygen because it's suffocating from the dominance of monopolies and oligopolies in many industries. It is the most concentrated economy in Asia (see Figure 1).

In contrast, China is the least concentrated, which accounts for the dynamism of its economy. In *The Competitive Advantage of Nations*, Michael Porter made a similar observation about Japan in the '90s. Intense intra-domestic rivalry caused innovation and made Japan highly competitive.

What are the effects of this concentration on our economy and economic growth?

Artificially high prices, poor services, lack of innovation, and lower productivity. More importantly, it also results in low private foreign and local investment spending.

Since the dominance of monopolies is also strong in strategic industries, i.e., industries whose output is consumed by other industries, the effect is lower investment spending. In 2008, Alessandro Bocchi, an Italian economist, did a study for the World Bank on why investment spending in the Philippines continues to be low and he came up with this answer:

> "The capital intensive private sector expects low returns and does not want to expand investment at the economy's fast pace. Marginal productivity of capital (MPK) is low for two reasons: (a) the public sector does not invest enough to provide incentives for private investment (as the return to private investment depends on both quantity and quality of public capital spending); and (b) inputs are expensive because of elite capture in the traditional sectors of the economy (agriculture, sea and air transport, power, cement, mining, banking, etc.) which are critical inputs for both upstream and downstream sectors."

He also said that this is the reason why growth is happening mostly in non-capital intensive industries, such as BPOs.

This is also why our institutions are weak, an observation echoed by the former head of the Philippine Institute for Development Studies, Prof. Josef Yap: "Weak institutions and an oligarchic private sector are two symptoms of the same coin. A gridlock has evolved wherein stronger institutions are required to loosen the grip of the oligarchs, but at the same time the grip of oligarchs has to be reduced to strengthen institutions."

In my last column, "Institutional Failures and Economic Growth," I also traced the cause of our institutional failures to our political economy characterized by the dominance of monopolies.

Another effect of the oligarchic dominance is the absence of "animal spirits" in the economy. Animal spirits represent the entrepreneurial vigor that help drive investment confidence in the economy. It is what drives entrepreneurs to innovate and disrupt existing industries.

This explains why there has been no tech "unicorn" in the Philippines. Unicorns are startup companies that are valued at $1 billion or more. There's Grab (Singapore), Gojek (Indonesia), Bukalapak (Indonesia), Traveloka (Indonesia), VNG (Vietnam), Sea (Singapore), and Lazada (Singapore-based but owned by Alibaba) but none in the Philippines. Sea, the company behind Shopee, alone is valued at $55 billion.

The startup investment climate in the Philippines is pathetic. Most VC funds based in the Philippines invest outside of the Philippines.

Why are minimum wages high in the Philippines? My theory is that the monopolists allow them and don't resist them if proposed by populist politicians and labor groups. The reason is that they can afford to part with some of their monopoly or super profits to buy some industrial peace. Increasing minimum wages also serves another purpose: it prevents any insurgent from using a low-cost strategy to undermine the monopolists' position. (For example, companies like Walmart used a low-cost strategy to disrupt the existing players. The Japanese car companies did the same in the car industry when they first entered the US. Now, it's the Chinese doing the low-cost strategy disruption. It's also happening here in the Philippines and not surprisingly, the Department of Trade and Industry, in siding with the monopolists, imposed a safeguard duty against imported vehicles to protect the existing players. Consequently, the introduction of transport innovation, like electric vehicles, will suffer.)

Our high minimum wages and the dominance of monopolies in the economy are why the country hasn't industrialized. MSMEs in low-cost light manufacturing are constrained by the unrealistic labor regulations on one hand and the monopolies on the other, which impose high costs and poor service on their factory and service inputs.

Therefore, our surplus labor has no choice but to look for jobs abroad, producing stuff that we import. Or they continue to eke out a marginal livelihood in atomized, fragmented agricultural lands. Growth happens when surplus labor moves from low-productivity agriculture to high-productivity manufacturing, but that is prevented from happening.

Instead of innovating, monopolies or dominant players buy out emerging competition or pay out a large percentage of their profits in dividends or stock buybacks instead of investing.

What is to be done?

We need to remove the foreign ownership restrictions in the Constitution, and let foreign companies provide competition, especially in the strategic capital-intensive industries of telecommunications and transportation. The proposal of Speaker Lord Alan Velasco to introduce the term "unless otherwise provided by law" on the restrictive provisions is only a second-best solution because specific legislation must still be enacted. The first-best solution is to remove those restrictions by default and introduce the term "unless otherwise provided by law." In other words, the default provision is liberalization, but Congress can pass laws to restrict investment in specific areas as the situation may warrant.

Yes, Charter Change to remove these foreign ownership restrictions is the mother of all reforms. The dominance of monopolies is the single-biggest binding constraint to faster economic growth.

Short of Constitutional Change to remove the foreign ownership restrictions, the Public Service Act (PSA) must be passed. The Public Service Act will remove telecommunications and transport as "public utilities" where foreign control is barred.

However, in defense of the monopolists, critics of Charter Change and the PSA are using all sorts of fake arguments and scare tactics to argue for a delay or scrapping of these major initiatives to introduce more competition to the economy and raise foreign direct investment.

One argument is that the Chinese will use the friendlier investment environment made possible by removing these foreign restrictions to take over the Philippine economy. On the contrary, removing these restrictions will enable the Philippine economy to diversify sources of foreign investment, for example, investment from Arab to ASEAN investors, and improve the quality of foreign investment, rather than relying on POGOs to generate jobs and employment. Increased foreign investment will also lead to improved transport and telecommunications infrastructure, which will strengthen the country's national security posture.

The other argument is that it's not timely to do so. To these critics, there is never a good time. These Constitutional restrictions have been there since 1935 and account for why the Philippines keeps falling behind in comparison with its ASEAN neighbors. These critics want to kick the can farther down the road, but of course, their real motive is to keep the status quo intact where the economy continues to be controlled by monopolists.

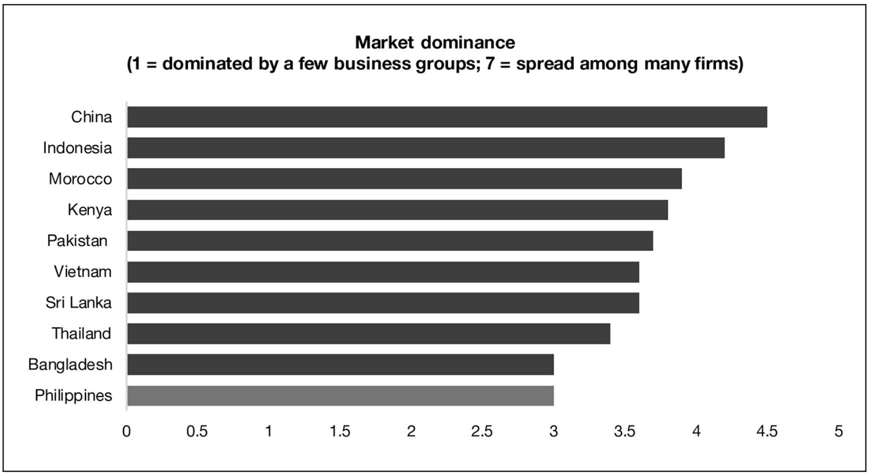
Ironically, some so-called progressives (who, by definition, should be anti-monopolists) are the ones calling for delays in removing the foreign ownership restrictions and introducing more competition to the economy. In the Philippines, in a bit of dialectical irony, the Left and the Right have a unity and identity of opposites. The Leftist and Rightist ideologies have become one and the same: protecting the oligarchy from competition.

The real reason why investment spending is low in the Philippines isn't the lack of infrastructure, or wrong tax incentives, or the weak rule of law (although those are the consequences when the economy is dominated by monopolists). It is low because investors see that there are legal and political hurdles to providing competition as Alessandro Bocchi observed. What the economy needs is oxygen or freedom from the suffocation of monopolies, which are protected by these Constitutional restrictions and other hurdles to competition.

Oh, how I wish we have a Teddy Roosevelt. US President Teddy Roosevelt ushered in the Progressive Era in the United States in the late 19th century. He used the Sherman Antitrust Act to dismantle, regulate, or break up trusts, or associations of monopolists. He took on the feared railroad trusts and won.

However, let's go back to reality. More than ever, the Philippine economy needs oxygen. It needs to open up the economy to more foreign investments, which will increase investment spending, generate jobs, lower prices, improve service, foster innovation, restore the animal spirits of the economy, and help strengthen our institutions.

Figure 1. Extent of Market Dominance for selected countries



Source: World Bank

Let Forestry be our future

March 21, 2021

ON OCTOBER 27, 2019, I wrote a *BusinessWorld* article, "Why Not Forestry?", arguing that forestry development should be a national priority and should be a focus for generating jobs, protecting the environment, and addressing the insurgency.

Forestry development had been neglected far too long. Nay, not just neglected but abandoned and subjected to all sorts of wrong policies to the extent that the country is now importing most of its wood requirements where once it used to be a major exporter. What a waste and lost opportunity! Being a tropical country, the Philippines could be a major wood producer and exporter. As a Finnish expert said, Finland, a wood superpower in Europe, can only produce 5-15 cubic meters of wood per hectare while the Philippines could very well produce 100 cubic meters of wood per hectare. We have the climate and the geography but have chosen to waste what God has given us with wrong-headed man-made policies and an uncertain property rights regime.

One of these wrong policies, formulated during the time of former President Noynoy Aquino, was a total log ban. It can be argued that the government is a poor steward of the forest and that the private sector has better incentives to sustain the forests with the right incentives. Moreover, the other problem with a total log ban policy was that it didn't make a distinction between natural forests and planted forests.

In other words, the regulatory overreach was applied even to what normally would be tree farms. Permits would be required for everything – to plant, to inventory, to harvest, to transport. The result was more extortion and difficulty to do business. Also, wood processing plants were given only short licenses to operate, with threats of raids and shutdowns, causing tremendous uncertainty among investors. As a result, in the CARAGA region, the number of wood processing plants fell from 23 to three, causing demand for trees to fall, impoverishing tree farmers and contributing to the unrest in the uplands.

However, I'm pleased to report that the Department of Environment and Natural Resources (DENR) under Secretary Roy Cimatu has seen the light, and due to the support of several sectors, has issued DAO (Department Administrative Order) 2020-18, titled "Promoting Tree Plantation Development and Liberalizing Harvesting and Transport of Planted Trees and Tree Derivatives for Inclusive Growth and Development." The DAO liberalizes the rules on tree plantation from inventorying and transport, allows qualified foresters to make certifications, and encourages tree farmers to integrate and set up their own wood processing plants.

This DAO is a good first step in attracting more private investments in tree plantation. However, for the forestry sector to truly boom and see the reforestation of millions of hectares of denuded lands, the uncertainty over property rights must be settled. Investment in forestry is truly long term – it takes anywhere from nine to 20 years, depending on the species, to grow trees to maturity. However, no investor in his right mind will invest if just before harvesting, he would not be allowed to harvest. His property rights must be secure.

The first problem is that the DAO doesn't have the stability of a law. It could very well be that the next DENR Secretary may reverse the Department Administrative Order. Therefore, a new law must be passed to codify the DAO and provide assurances to investors that the policies won't be easily reversed.

The other huge problem is that there's a giant cloud of uncertainty governing rights in forestlands. For one thing, the government has been issuing forest tenurial instruments – Integrated Forest Management Agreement (IFMA), Community-based Forest Management Agreement (CBFMA), Socialized Forest Management Agreement, Private Land Timber Permit – right and left but there's no central registry of those tenurial instruments. For another, the National Commission on Indigenous Peoples has also been issuing Certificate of Ancestral Domain Titles (CADT) with no survey and no due diligence on existing rights over the same area. Imagine, you are an investor and tree plantation owner, and then suddenly there's this ex-military claiming to be from this and that tribe brandishing his CADT and staking a right over your plantation. You will flee like Speedy Gonzales and abandon the farm to the elements.

What's happening now in the uplands is property rights mayhem, triggering conflicts. In the process, there's no development and no livelihood, but rather conflicts and unrest. This is one big reason why the NPA has moved into the uplands and is actively recruiting among the *lumads.* The agrarian unrest that used to stalk the plains of Luzon has been calmed by the land reform program, but social unrest, because of the government's mishandling of property rights in forestry, has moved into the uplands.

One solution, according to Atty. Erwin Tiamson, former head of the Land Management Bureau and a property rights lawyer, is the establishment of a forest cadastre. While a cadastre exists for agricultural and alienable lands in the country, administered by the Land Registration Authority under the Department of Justice, no such system exists for forest lands. A cadastre is a comprehensive record of all rights, claims, and ownership over a property, in this case, the forest. While theoretically the government owns all forest lands, in reality, it has been issuing tenurial instruments to communities and individuals over forest lands and CADTs as well. CADTs are qualified titles, i.e., their validity is subject to prior rights, but the holders treat them as absolute.

If a forestry cadastre exists, the whole world would know who has claims over what. It makes forest tenurial instruments bankable because there will be an official public record of all claims and titles. Financial institutions will have access to information to weigh financial risk.

According to Atty. Tiamson, "In addition to the establishment of a forest cadastre, some means of adjudicating claims must also be established in order to resolve conflicting rights. Conflict of rights in forest lands caused by the different policies and issuance of different tenure instruments had caused uncertainty that paralyzed economic activities in the forest. Courts should be the last resort as these are expensive and time-consuming. As the absolute owner of forestlands, government must be able to adjudicate the claims without judicial intervention."

Another possible temporary solution prior to the establishment of a forestry cadastre is for government to pinpoint certain areas and declare them special forest economic development zones. These zones must be cleared by government of any conflicting claims so that investors can just come in and plant trees.

The future doesn't belong only to the IT industry, but to forestry as well. Why? Climate change is making forests more critical in environmental sustainability. Forests are carbon sinks, capturing large swaths of carbon emissions. With the US rejoining the Climate Pact, the trading in carbon credits is expected to accelerate. Forests, including planted forests, will become more valuable for the carbon credits that they will generate.

Moreover, forests, for enabling the conservation of water, are vital to agriculture and to life itself. Forest regeneration is also a way to protect the entire planet from future pandemics because denudation exposes viruses from wild animals to come into contact with the general population.

As for fighting rural insurgency, instead of the government spending ₱16 billion to fund the National Task Force to End Local Communist Armed Conflict (NTF-ELCAC), it should instead focus on developing the forestry sector and generating livelihood for upland dwellers.

When we in the Foundation for Economic Freedom met with the Board of Investments (BOI) to discuss putting tree plantation under the Investment Priorities Plan, BOI officials pointed out that there's a worldwide shift from plastic packaging, which are non-biodegradable, toward paper packaging and cartons. However, paper comes from trees, but we don't have enough trees to produce pulp and paper for our own needs, much more, for exports.

Let our government leaders, from the President on down, start focusing on forestry. Not just on tourism or rice or car manufacturing. Let forestry be our future.

Our continuing collective action problem

May 30, 2021

I CAN’T HELP but admire the way the Biden administration has taken over and governed in its first 100 days. It has unleashed in rapid-fire fashion a series of plans and programs that are meant to address both the US short-term and long-term problems. Disagree you may with US President Joe Biden’s expansive view of government, but you can’t deny that he has submitted to the US Congress detailed plans, from dealing with the pandemic to rebuilding the US’s physical and human infrastructure. In other words, no learning on the job for President Biden. He had a running start.

I wonder, however, how the next Philippine administration will govern in its first 100 days. Whoever the next president will be – Davao Mayor Sara Duterte, Senator Manny Pacquiao, Sonny Trillanes, VP Leni Robredo, Manila Mayor Isko Moreno, Bongbong Marcos, or Senator Grace Poe – will he/she be off to a running start? Will he/she have the detailed plans and programs, including the specific legislation, that would enable the country to heal quickly from the effects of the pandemic and deal with the structural problems of Philippine society? Or, in the absence of a clear program, will the next administration instead go about exacting retribution from its political enemies and their business supporters, as had happened in the past?

I’m afraid that even though the country has lost two – maybe three – years to the pandemic, it will take the next president that much time to learn on the job and propose solutions. By that time, however, the next elections would be coming along and politics, rather than what the country needs to do to heal and bounce back, will drive the agenda.

A source of this problem is that the country doesn't have a genuine political party system. The winning candidate usually forges an unlikely coalition from among opportunistic politicians, personal and family dynastic supporters, and all sorts of vested interests. The result is a fragmented, incoherent vision without detailed plans. Absent a political party system, the winning presidential candidate also rely on either relatives (*Kamaganak, Kaklase, Kaibigan* during former President Aquino's time) or in the case of President Duterte, classmates (San Beda Law School), fratmates (*Lex Talionis*), Davao cronies, and ex-police and ex-military to staff the new government. Alas, no best and the brightest here.

Also, without a deep analysis of what ails Philippine society and government, the incoming president usually zigs and zags. Look at President Duterte. He started out with appointing leftists in his government, such as Rafael Mariano in the Department of Agrarian Reform and Judy Taguiwalo in the Department of Social Welfare and Development, but he has ended up red-tagging organizations and embarking on a hard, anti-communist crackdown.

I shudder to think what would happen if the next president tries to learn on the job while dealing with the lingering effects of the pandemic, a huge unemployment and hunger problem, a massive fiscal deficit, rising food prices and food insecurity, and businesses still reeling from pandemic-caused losses. If he or she also gets advisers with different economic and political philosophies without a clear action plan, we will have mayhem, conflict, and continuing uncertainty.

Let's face it. We have a continuing collective-action problem. This is very evident in the way we have dealt with the pandemic. For all the paeans to the whole-of-society approach, response has been haphazard, fragmented, and well, incompetent. Just look at the procurement and distribution of vaccines. In other countries, you have the government solely procuring the vaccines and distributing them for free. Here, you have the national government, the local governments, elements from the private sector, buccaneers and even smugglers getting in on the action. Sometimes, the vaccines are free. Sometimes you have to pay for them. Sometimes you even have to pay double the price, with half supposedly given to more needy patients.

Even the government contact tracing is incoherent and inefficient. There are as many contact tracing apps as there are LGUs.

Our continuing collective-action problem is symptomatic of a weak state. I'm wondering if somehow a protectionist, inward-looking economy is the cause of our continuing collective action problem and our weak state.

It's true, however, that states which have been forged and tested in war, such as Israel and Vietnam, have fared very well in managing the pandemic.

However, is there another common denominator? India and the Latin American states, which have both an economic history of protectionism and statism as the Philippines has, have fared very badly against the pandemic. States characterized by rent-seeking tend to be weaker because it's in the interest of the ruling groups for their respective states to be weak so as to generate rents and concessions.

In contrast, the outward-looking economies tend to have stronger states – Japan, South Korea, Taiwan, Singapore, Vietnam, and China. Outward-looking economies are those which are export-oriented. Rent-seeking is moderated by the need to compete in the global marketplace. A strong and efficient state is therefore needed for their respective export champions to win in the global marketplace. Bad roads, for example, will increase the cost of a country's exports and make it less competitive. Therefore, these countries with an outward-looking orientation have a need for stronger states and have fared relatively better in managing the pandemic. Here, where the oligarchy is in regulated domestic services, such as power, telecoms, shipping and ports, there is little or no incentive to demand an efficient state.

I, therefore, don't subscribe to the "damaged culture" thesis because I believe economic incentives foster and reinforce the "culture," rather than the other way around. You can substitute "outward-looking" to East Asian culture and you can get a similar result.

The absence of a strong state to solve our collective-action problem is the reason why community pantries have sprung up, or why the big private sector conglomerates have gotten involved in the vaccination program. However, this isn't the optimal solution. The country's pandemic response remains disjointed and incoherent. *Bara-bara*, in the vernacular. Even the private sector is feuding with government agencies on the use of the Nayong Pilipino site as a mega-vaccination center. The strong, vigorous state that will solve a public health problem is nowhere to be seen. There's no Hobbesian *Leviathan*, just Philippine *askal*.

In addition, the quality of the pandemic response can't be correlated with whether the country is authoritarian or democratic. Russia, which touted its Sputnik vaccine as the first vaccine against COVID-19 in the world, is struggling to vaccinate its population. It has administered 26 million doses so far, or just about 9% of its population, assuming two doses per person.

The United States, in contrast, has vaccinated about 61% of its population with one dose while 39.6% are fully vaccinated. COVID-19 infection rates and deaths are falling rapidly. US President Joe Biden is targeting to get 70% of the population vaccinated with at least one dose by July 4.

With its vaccination program on track and a $1.9-trillion American Rescue Plan being rolled out, the US economy is bouncing back vigorously. Economists expect the US economy to be back to pre-pandemic levels by the third quarter and to grow 7% annually, its highest growth rate in decades. One business magazine has called the US the next tiger economy.

We in the Philippines can only look in envy. We are still far from controlling the pandemic. To add insult to injury, President Duterte feeds the public red-tagging and tries to divide, rather than unite, the nation. The economy looks very shaky and may take years to recover. There seems to be no detailed plan, as US President Joe Biden has, to get the economy to bounce back strongly and for society to heal its wounds.

Sadly, there will be no *deus ex machina* for the Philippines, even after the May 2022 elections. No Superman can save the Philippines. What's lacking is effective collective action. Sadly, so far, we have no medicine for our continuing collective-action failure.

Capitalism will save Philippine democracy

July 5, 2021

I WAS STRUCK by the perilous state of democracy in the United States, as described by Harvard Professors Steven Levitsky and Daniel Ziblatt, in their bestselling book, *How Democracies Die*, and by how a similar situation is unfolding in many countries, from Hungary to the Philippines, but also by how different the solution will be for our own country.

The basic thesis of the book is this: The United States isn't unique in that democracy in America is not in peril. As in other parts of the world where authoritarianism has gained footholds, politicians in the US demonize the opposition, scold and intimidate the press, decry election outcomes, and seek to reverse them. This erosion of democratic norms has become mainstream with Trumpism. Social, racial and class polarization, group resentments, racial and cultural differences, and sharp income inequality have driven this movement to weaken democracy and delegitimize institutions. Something must be done to save democracy, but how?

The authors propose a social market model to attack the growing income inequality and class resentments, which are the root of growing polarization and the politics undermining democracy. They postulate that social policy in America relies heavily on means tests – available only to those who fall in a certain income threshold. And because race and poverty overlap in the US, these programs are stigmatized as given to the undeserving, and the middle class feel left out of social policy.

Instead, Levitsky and Ziblatt propose universalistic social policies or those that benefit everyone. "Social policies that benefit everyone – Social Security and Medicare are prime examples – could help diminish resentment, build bridges across large swaths of the American electorate, and lock into place social support for more durable policies to reduce income inequality – without providing the raw materials for racially motivated backlash."

This is exactly what US President Joe Biden is trying to do now – if the US Congress will let him. His $2.2-trillion Stimulus Plan, $1.9-trillion Infrastructure Plan, and $1.8-trillion Family Plan represent the kind of universalistic social policies that Levitsky and Ziblatt are talking about. Judging from the breadth and size of Biden's plans, we can describe them as social engineering by Big Government on a grand scale.

In the Philippines, as in other countries, a similar dynamic of growing authoritarianism and democratic decay is happening under President Duterte. He has attacked mass media and weaponized social media, militarized the bureaucracy, expressed disdain for human and civil rights in his war against drugs, demonized his political opponents, and strengthened his hold on the judicial system.

High income inequality, widespread poverty, failures of past governments to lift the lives of the masses, resentments against a Metro Manila-based elite, forced separation of families due to the need to seek greener pastures abroad, widespread criminality fed by illegal drugs that mainly affect the poor – all of these can explain the President's enduring popularity despite (or is it because of) his attacks on democratic institutions. Elite liberal democracy hasn't served the people well, so why not Duterte-style populist democracy?

The fact that these inequalities, institutional failures, and resentments exist tell us that democratic decay and the drift toward authoritarianism won't be halted once Duterte exits from power.

So, how do we save Philippine democracy?

Not through a turn toward socialism or a social market economy, but capitalism. Capitalism will save Philippine democracy. Why and how?

There's an absence of capitalism in the Philippines. Instead, what we have here is rentier capitalism and economic statism.

Rentier capitalism (or rent-seeking capitalism) is a system wherein monopoly control leads to extraordinary or "super profits" for a few without the system delivering any increased value or contribution to society. It's also the non-market extraction of surplus, i.e., political connections, legal impediments to competition, government-granted privileges, and captured regulators, are the basis for economic profit rather than innovation in serving the customer. It's creating wealth for the rentier capitalist without creating wealth for society.

Such a system is predominant in the Philippines, which is the most concentrated economy in Asia with monopolies and duopolies controlling the strategic sectors of the economy, and where political connection or "penetrating the state" is the basis of profit. Fake nationalism, characterized by protectionism, is used to solidify monopolistic control.

Rentier or rent-seeking capitalism explains the country's high income inequality, the deep resentments against "imperial Manila," the regionalism and tribalism, even the absence of the rule of law. Since monopoly power and political connections are the basis of profit, it's a system, as my friend Dr. Raul Fabella says, where the rules themselves are for sale, leading to malgovernance, economic chaos, investment uncertainty, and widespread corruption.

True capitalism, on the other hand, is a system where profit is derived from innovation (say, with a better product, such as a meat-free hamburger; system of distribution, such as online selling; technology, such as cloud computing, etc.) and the capitalist constantly reinvests profit to innovate to capture "extraordinary profit." This results in economic dynamism, or "creative destruction" in the words of economist Joseph Schumpeter.

In contrast to rentier capitalism, true capitalism prospers on the back of a "level-playing field" or rule of law.

Capitalism that's oriented to the global market is particularly dynamic, because competition is fierce. Monopolistic privileges are difficult (perhaps only with a patent or copyright) if not impossible to attain.

True capitalism is also absent in the countryside. Instead, what we have is statism, i.e., over-centralization and control of the state in economic affairs. Farmers aren't allowed to expand beyond five hectares. Agrarian Reform Beneficiaries (ARBs) aren't allowed to rent or sell their lands within ten years of grant or where they have unpaid amortizations (most haven't paid because these very same restrictions have eroded the value of their land). To rent out your land, you need government approval. Agrarian

Reform Beneficiaries can only sell to other ARBs designated by the central government. A good number still have collective titles issued by the government, robbing farmers of the incentive to improve their lands.

Statism explains why there's lack of capitalism in the countryside – the lack of agri-entrepreneurs who will use capital, management, science, and technology to increase productivity and therefore, improve the lives of farming communities.

Statism replaced feudalism in the countryside and made the farmers worse off. An incompetent, inefficient and corrupt state replaced the landlord.

Statism explains the lack of economic dynamism, poor productivity, and widespread poverty in the countryside and all the social and political evils they spawn. The result is income inequality, lack of economic opportunity, widespread hopelessness, drug addiction, and rural insurgency, all of which feed a hunger for populist authoritarianism. The lack of rural capitalists means the absence of a strong middle class, which could act as a check to political dynasties.

We are told that simply changing the persons in power with genteel leaders will save Philippine democracy. That is misleading and untrue. In the Philippines, populist authoritarianism is the fruit of a system where rentier capitalism and statism rule.

Democracy is under threat all over the world, even in the United States. However, in the Philippines, the solution to democratic retreat is different. Not a social market economy, but capitalism, will save Philippine democracy.

Small is not beautiful

August 1, 2021

IF YOU ASK agricultural economists what's wrong with Philippine agriculture, they will cite the following causes: (a) overconcentration of the agriculture budget toward a low-value commodity, rice; (b) failure to integrate with international supply chains and to enjoy the benefits of international trade, again due to protectionism and obsession with self-sufficiency in all agricultural commodities; (c) a meager agricultural budget; (d) lack of public goods, from farm to market roads to research and development, in the agricultural sector; and (e) historical policy bias against agriculture, from overvalued exchange rates to protectionism for strategic industries, such as shipping and ports, which raises the cost of transporting rural produce to the market.

However, they will also tell you that the single biggest structural problem of agriculture is land fragmentation. The average farmland size has been falling due to the Comprehensive Agrarian Reform Program (CARP), rapid population growth, and the death of farm owner-beneficiaries, which causes the already small farms to be subdivided among multiple heirs. The average farm size has been falling from 3.5 hectares in the 1960s to 1.2 hectares in 2012, for which the latest figures are available. It's not unreasonable to assume that the average land size is less than a hectare today.

So what, you say? Isn't small beautiful?

Perhaps not to the small farmer himself, who is unable to raise the productivity of his land and therefore remains shackled to poverty. For urban-based armchair do-gooders and bleeding-heart activists, anything big is bad, and automatically, exploitative. On the contrary, bigness is good if it raises productivity, because individual and community prosperity depends on productivity.

My friend and fellow columnist, National Scientist Dr. Raul Fabella, and I have been saying for the past 20 or more years that the restrictions imposed on agrarian reform land in particular, and the rural land market in general, have a deleterious effect on agricultural productivity. Simply put, presently, efficient farmers can't buy out or even rent, from inefficient ones.

Recent international economic literature is backing up our conclusions.

Canadian economists Diego Restuccia and Tasso Adamopoulos in an April 2019 publication in the prestigious National Bureau of Economic Research, titled *Land Reform and Productivity: A Quantitative Analysis with Microdata,* concluded that the 1988 CARP caused average land size to fall by 34% and farm productivity by 17%. In other words, CARP made farmers *poorer.*

Comes now another recent study by Keijiro Otsuka, a professor from the Graduate School of Economics of Kobe University, a member of the Japanese Academy of Sciences, renowned agricultural economist, and a former Chairman of the Board of Trustees of the International Rice Research Institute.

His January 2021 study is titled "Changing Relationship between Farm Size and Productivity and its Implications for Philippine Agriculture."

According to Otsuka, the observed inverse relationship (IR) between farm size and productivity, i.e., small farms are more efficient than large farms, holds true only when wage rates are low, and labor-intensive farming methods are adopted. In high-wage countries, where farm sizes are large and mechanization takes place, the opposite is true: there's a positive relationship between farm size and productivity. On the other hand, a U-shaped relationship occurs where small and large farms co-exist.

However, where wage rates are rising and mechanization (use of power tillers and combine harvesters) is taking place, as observed in a study of Central Luzon farmers, there's a positive relationship between farm size and productivity.

He warns that because small farm sizes are the norm in Southeast Asia and even in Japan, where average farm size is three hectares, compared to the average of 100 hectares or more in Europe, over time, agriculture will lose its comparative advantage in Asia, food production will fall, and from self-sufficiency, the region will see food shortages and rising imports, as can be seen presently in the Philippines.

According to Otsuka, "The decrease in farm size is particularly pronounced in the Philippines partly because of rapid population growth and partly because of the failure of growth of non-farm sectors, which can absorb rural labor. If this trend in farm size reduction continues and the economy sustains a fairly high growth rate, the agricultural sector's inefficiency can be a major constraint to further economic growth."

In a note on the need to redesign land reform in the Philippines, he says "In the face of the changing relationship between farm size and productivity, it is critical to recognize the role of land rental markets in reallocating land from the less productive to the more productive farms. It should not be government law but the market that ought to determine the desirable allocation of land. The Philippines is no exception, and if the land market continues to be distorted, increasing large and serious inefficiencies will arise because of inefficient land resource allocation in this country."

Otsuka doesn't provide the details, but to my mind, this is why the land market in the Philippines is distorted:

First, the land market is distorted due to the land retention limit of five hectares. Successful farmers are prohibited from expanding via ownership of land beyond five hectares. If farmers aren't allowed to expand, they have no incentive to mechanize and increase efficiency. Because of the restrictions in land transfer, inefficient farms will forever be inefficient farms, condemning its owner-cultivators to perpetual poverty.

Second, land misallocation is also due to a law that made share tenancy illegal. The law incentivized landowners to eject the peasants and be an owner-cultivator relying on hired labor. Share tenancy, however, is rational, enabling landless farmers to cultivate the land on a sharing basis, rather than on fixed rentals. Fixed rentals can be onerous and unjust in agriculture because of the vagaries of production due to weather disturbances or pestilence. Share tenancy used to be exploitative and feudal but that was when there was no labor scarcity and capitalist relations (industry and agribusiness) were absent.

Third, the Comprehensive Agrarian Reform Law (CARL) has put on so many restrictions on the rural land market and established an inefficient and corrupt Department of Agrarian Reform (DAR) to supervise these restrictions and overregulate the land market. CARL saddled the agrarian reform beneficiaries (ARBs) with debt, prohibited them from selling or renting the land without approval from DAR, and when they can sell, limited the market to those whom the DAR chooses they can sell to.

What do we do?

One is to remove the land retention limit of five hectares. Ideally, there should be no cap. The market should be allowed to determine what the most efficient size is. However, if there will be political resistance, especially from the Left and the politicians behind the Comprehensive Agrarian Reform Law, the upper limit can be set at 24 hectares, the old limit for homesteading in the 1935 and 1987 Constitutions. A progressive land tax can also be set to discourage large speculative land holdings.

Two is to increase land size by enabling a free and vigorous rural land rental market. It's about time to separate land ownership from farm management if the lessees will be more efficient.

One idea is to condone the debt of agrarian reform beneficiaries. Why? Because of the total unpaid debt of agrarian reform beneficiaries, amounting to ₱65.9 billion, ₱58.7 billion or 89% remain unpaid. The unpaid debt covers 1,224,737 hectares of rich, fertile land that can't be part of the rural land rental market because the rules prohibit leasing of lands with unpaid debt. Of the 1.2 million hectares, some 780,759 hectares representing 44% of ARBs don't even have LDIS/LAS (Land Distribution Information Sheet/Land Amortization Schedule), and therefore, the farmers can't even begin to start paying off their debt. The 10-year period under which agrarian reform beneficiaries are prohibited from selling and renting out the land hasn't even started yet!

One argument against debt condonation is the moral hazard argument. However, when it comes to tax amnesty, which benefits rich tax evaders, this argument isn't raised by these critics. On the contrary, the moral argument can be raised on behalf of the farmers because all those restrictions imposed by the government degraded the value of their lands and have prevented them from paying their debt. As for that small number of farmers who have paid some of their debt, a reverse mortgage program in Land Bank can be established for them.

The final reform is to remove DAR oversight of the rural land market. Make Certificate of Land Ownership Awards and all lands acquired through agrarian reform laws fee simple titles. Instead, the Land Registration Authority, which has a computerized data of all land records, should monitor the ceiling of land ownership, if there will be one.

Let's face it: the single biggest binding constraint to agricultural development is land fragmentation. The next administration must confront this fact, lest poor agricultural productivity and food insecurity act as a brake to our economic growth.

Small is not beautiful. It's ugly, if associated with poverty.

"If agriculture could recover its growth performance and contribute to a stronger and faster economic recovery, it has to become more open like the rest of the economy."

MJ SALUMBIDES OF KEYLIGHT STUDIO

Ramon Clarete

Finding our balance in modernizing our rice industry

September 22, 2019

PUBLIC SUPPORT is shifting from rice consumers in 2018 to rice farmers this year. Last year, the country's inflation rate breached the Central Bank's upper band. Analysts blamed that on rice price inflation, which carries among the largest weight in the consumer price index.

Policymakers in both executive and legislative branches reached the consensus that it was the decision — or lack of it — on the timing of importing rice by the National Food Authority (NFA) that caused it. The punishment was swift. In less than a year, Congress came up with the rice tariffication law getting rid of the NFA's monopoly in rice imports and other regulations, ending the agency's privileged status of being both a referee and player in the local rice market.

The rice tariffication law is a landmark reform. For decades, many had attempted to revisit the 1972 charter of the NFA to get rid of the NFA's import monopoly. They all failed. It was that single event in 2018, the high price of rice, which brought us rice import liberalization.

It was a big surprise indeed since price spirals are commonplace in the local rice markets. Sometimes they are due to the world market, but most of the time they are traceable to the NFA, in whom Presidential Decree No. 4 of the late President Ferdinand Marcos entrusted all our rice security.

Last year's price surge could have passed as one among the many. It is interesting to note that the 13% year-to-year price increase in 2018 was one of several. It ranked 13th place in the order of price increases from 1970. The highest was a 47% increase of rice prices in 1984. The 2008 rice-price crisis in the world market pushed up rice prices by 30%. But 2018 turned out to be memorable, because the spiral gave us the rice import liberalization law that some of us, including myself, had advocated.

Not all of us wanted the rice import liberalization and the stripping of the NFA's regulatory functions. Those who opposed the reforms might themselves have been caught by surprise at the swiftness by which the law was whisked through Congress. But when it passed, they were still hoping the President would veto it, but he respected the wisdom of our legislators and his Cabinet, with the exception of former Agriculture Secretary Emmanuel Piñol.

Keeping Rice Import Markets Contestable

Rice importers were all ready to import rice, which they prepared for even before the IRR was issued. In the first half of 2019, rice imports swelled to nearly two million metric tons.

But somehow that did not go very well. We all expected rice prices to go down to below ₱30 a kilo given the current level of world prices. However, the price of well-milled rice got stuck at ₱36 a kilo, and some of us have urged the government to go after the rice cartel, which is blamed for not passing most of the benefits of the reforms to rice consumers.

There are simpler explanations, other than the cartel, for the observed prices in the first half of 2019. One is a quality upgrade of imported rice. If importers are out there to maximize their profits, they would likely first buy the more expensive, better-quality rice varieties, which would be attractive to households in highly urbanized cities. Indeed, I talked to an NFA official who confirmed that they were having a hard time selling their own stocks in the market because imported rice had fewer "brokens" to say the least.

But more importantly, we may be looking at a rice market in the process of finding its equilibrium under the new rules. In a major reform like rice import liberalization, the big traders may be the first ones to enter and thus get the larger shares of the rice import business. Because of the large quantities they hold, their release and price decisions influence rice prices, and there is no longer an NFA to offset that. In economics, we call this market oligopolistic.

But for as long as the rice import business is open to us all, its profits attract new importers, and that process goes on until the above-normal profits are brought down to competitive levels. And that would then be the time that rice consumers start to enjoy rice at less than ₱30 a kilo.

Notwithstanding our disappointment, it is interesting to note that the decline of rice prices in the first half of 2019 relative to its 2018 average is the largest — 2.6% — since 1970. Indeed, annual prices fell in only eight of nearly 50 years.

But if prices remain stuck at levels significantly higher than what the 35% tariff rate implies, it may be time for the Philippine Competition Commission to compute rice import concentration ratios to check if the import business remains as strongly contestable as the rice tariffication law envisioned it to be. That inquiry should include those who continue to regulate the rice import business with the sanitary and phytosanitary import licenses for regulatory capture.

Safeguards and NFA Palay Procurement

Falling palay prices apparently kicked public's support from rice consumers to the rice farmers in 2019. The decline of farm-gate prices of palay in the first six months of 2019 was unprecedentedly sharp. If one measured the fall from its average price in 2018 to its lowest monthly level in 2019, that would be 22%. Its near second occurred in 2015, when prices fell by 19% from its average in 2014 to its lowest monthly in 2015.

Three percentage points worse, yet the intensity of the debate on the appropriateness of its cause is beyond measure. We hear muted calls of reversing the rice tariffication law, and Congress seems, for now, to prefer to give more time for the law to succeed.

The clearer message of concerned stakeholders to the government is to help rice farmers who are hurting from low palay prices. They apparently appreciate the importance of keeping rice prices low for the country's rice consumers, many of whom are likewise as poor as the farmers. About 20% of household expenditure of the poor is just on rice. Asking Congress to repeal the rice tariffication law without a good solution to keep rice prices low and predictable is unacceptable, even to many who are unhappy about the law.

There are three safeguards in the law to protect rice farmers. One is the tariff rate of 35% if we are importing rice from ASEAN. If one is importing from India or countries outside of ASEAN, he or she pays 180%. No one is likely to do that in commercial quantities.

Two, the tariff can be raised by up to 25% with the special safeguards law, which is all within the power of the Agriculture Secretary. There are two versions of it depending on the trigger mechanism used, the volume and price triggers. It is easier to invoke the volume safeguards, but it may also be lifted at the end of the calendar year.

But does that work well for us? It is very likely that the volume trigger is breached by the third quarter of the year. Private traders would have completed their importation in the first half of the year, so that by the time of the main harvest in the last quarter, import tariffs will be higher to discourage rice imports.

Three, the NFA can still procure rice from the local markets for buffer stocking. The relatively deep fall of palay prices indicates that traders and rice millers are not buying locally temporarily. They may first be assessing how the import liberalization would play out. Like the rice market, the palay market is in the process of finding its equilibrium under the new rules. Withdrawal of commercial rice traders and millers from the local palay market may be significant as to bring down palay prices sharply.

I support the contingent measure of stabilizing the farm-gate price of palay for this main harvest season, or for any other time when the low palay markets show some instability affecting incomes of rice farmers.

Two measures in support of procurement are in order. One, the NFA Council instructs the NFA to buy at an official farm-gate price, calibrated to provide incentives to plant rice to rice farmers. I believe this is done. The NFA Council had decided the procurement price to be at ₱19 a kilo.

Two, the national government gives the NFA a bigger budget for palay procurement to prop up demand for palay in the main harvest.

Historically, procurement has been about 2% to 3% of local production. But there were years when this reached 6% as in 1990. The higher this volume, the faster the NFA can arrest the free fall of palay prices in the main season.

Aside from cost consideration, we may also have to ask about the absorptive capability of the NFA. The NFA is limited by its logistics capacity. I talked to an NFA official who confirmed that they may go into leasing private sector warehouses to absorb more procurement, and that entails a cost to the national government.

We may start with a 5% procurement rate. This shift in demand for palay can benefit other farmers with a more stable palay price.

It is a contingent measure for when the private sector is finding its bearings following a fundamental change in the rules of the industry at a time just before the main planting season.

Conditional cash transfers to rice farmers could have been another way to help rice farmers. However, without the proper identification of rice farmers, and rules to ensure its integrity, NFA procurement is the less costly measure to mitigate the fall of rice farm incomes. In procurement, identification of intended beneficiaries is built into the program.

Creative Ways of Using RCEF

We look forward to Secretary William Dar putting in place out-of-the-box ideas in the use of RCEF or the rice competitiveness enhancement fund. RCEF, which can accumulate at least ₱10 billion a year, is expected to give the rice farmers the opportunity to retool and make rice farming in the country more productive. With the fund, adjustment costs of rice farmers can be lowered, resulting in fewer farmers exiting the industry — giving meaning to the phrase "inclusive trade reform." An ingenious way of using RCEF is key to modernizing the rice industry, and raising rice farm incomes.

A market-friendly way of reducing medicine prices

January 26, 2020

ABOUT TWO WEEKS AGO, President Rodrigo R. Duterte, in an interview with Ted Failon from ABS-CBN, said that he will sign an executive order imposing a limit on the prices of certain medicines. "That's good for the Filipino, reduced prices or maintaining a price. I will even sign the document twice over," the President said.

President Duterte referred to a draft of a Department of Health Administrative Order (DOH-AO) entitled "Guidelines for the Implementation of Maximum Retail Price (MRP) on Drugs and Medicines." Reportedly, the document is not on the desk of the President yet, and is presently being reviewed by the relevant agencies of the government.

As users, we are all for lower costs of medicine. I cannot say the same for the manufacturers, multinationals, or the local pharmaceutical generic companies. But I say that each of them should be for lower prices of medicines, not because their hearts bleed for the families who sink into poverty if a family member is stricken with a disease that can only be treated with very expensive medicines. Rather, they should favor lower prices because these increase their market share, and in a highly competitive medicines industry, reduced prices can be a good marketing strategy.

The industry is made up of monopolists. The right to sell a medicine in the market is protected with a trademark, which accords the owner the right to exclusively market its product. But — and this is an important difference with an industry with a single supplier — there are other medicines that are as functionally effective in curing a disease. The companies are monopolistically competitive. All the medicines in the market that are functionally equivalent in treating a disease are differentiated from each other to cater to a particular need or preference of a subset of buyers, and this makes each company in the industry a monopolist with respect to its own product, but it has to compete with other monopolists.

True, in the first 21 years of the commercial life of a useful pharmaceutical ingredient, the company that first developed the ingredient has exclusive right under our patent law to market the product containing it. The privilege is important to encourage research and development of new and useful medicines. But once the ingredient is off-patent, then other companies can use it and introduce slight differentiation on the ingredient to cater to the need or preference of a particular segment of the market, and produce a new product that can be protected with a trademark.

But because there are several medicines that contain the same pharmaceutical ingredient in the market, the firms are always competing with each other. Since they are monopolists, each of them decides at what price it sells its medicine. If the price is just too high, buyers can shift to competing medicines and the company's share in the market declines. It can reduce its price and gain more revenues. It is not a zero-sum game since the lower price induces more revenues but still market shares would differ.

An Opportunity Under the Universal Health Care Law

The government has the opportunity under the Universal Health Care Law to be innovative in solving the problem of high out-of-pocket costs on medicines — an approach that is more market friendly. It can induce more competition among the drug makers through the centralized procurement of medicines. Dividing the medicine procurement among scores of procuring authorities removes the government's leverage to negotiate the lowest price of a medicine in exchange for a larger volume.

A monopolistically-competitive firm can agree to lower its price up to its average cost of producing the product. Average costs go down with volume because the firm has sunk fixed cost in differentiating its product from other functionally equivalent medicines of other companies. Its capacity to bring down its price depends upon the cost it spent in coming up with its medicine.

Decentralized procurement of medicines by the public sector eliminates the opportunity for the government to make a good deal with the pharmaceutical company. A smaller volume by one procuring authority is not attractive for companies to participate in bidding. This and unrealistically low-ceiling unit bids prescribed by the health department would only attract a few bidders in the market, typically the smaller ones, which have relatively lower sunk or fixed cost in developing their respective products.

Medicine prices then continue to be high. Lower volumes sold would mean higher average unit costs of companies, and higher prices. Larger volumes sold through central procurement can bring down average costs as fixed costs are spread out, reducing medicine prices.

The solution is not that easy to do, particularly in an environment of imperfectly coordinated public bureaucracy in the health sector, not to mention the lingering problem of corruption. The central procuring authority has to plan out the government's requirements well. Gathering information on this is a challenge. We don't want a situation where some central procuring authority is procuring medicines that some of the public users do not want. An organization of the Department of Health family in coordination with the local government units is needed. The health department may want to know from experts how this can be done.

Then there is the problem of distributing the procured medicines. The good result is that the procured medicine is needed, delivered at the right time, and to the right place. The effective distribution of procured medicines is another challenge for the central procuring authority in addition to planning for an effective central procurement of medicines. Once again, the health department may want to know how the private commercial sector does this task.

The Universal Health Care Law gives the Department of Health this opportunity of a market-friendly approach of bringing down medicine prices, but it has serious challenges to overcome: planning the procurement, executing the bids efficiently, and timely and accurate distribution of medicines to the rest of the health sector bureaucracy.

Trend is Price Negotiations

As a solution to high out-of-pocket costs on medicines, maximum drug retail prices (MDRP) belongs to the past. It is, in the first place, premised on shaky ground: the assumption that we charge higher prices here compared to other countries. In a design following the guidelines of the health department to implement it, one of the criteria used for including medicines in the program is if their local prices exceed the external reference prices of medicines compiled by the World Health Organization (WHO). However, WHO failed to adjust prices of medicines of several countries for differences in time, exchange rate, health care policies, and other factors between countries (Cameron et al., 2011). This casts doubt on the validity of the price premia of medicines in the Philippines over international prices.

Long-term consequences of price controls have always been known to be bad for consumers and producers. As users of medicines, we may be happy to see the prices of medicines go down. But after some years, important medicines may disappear from the local market, and we would be forced to import those from abroad. There can be issues on timing and cost of access, and, more importantly, the efficacy of medicines. In the long run, users may be worse off with medicine price capping.

Policymakers often cited India as a model where drug prices are lower than in the Philippines. But according to one account published in *BusinessWorld*[1], Professor Amir Ullah Khan of the MCRHRD Institute, Government of Telangana, India enumerated several problems that India experienced with price capping. These included: (a) reduced consumption of medicines; (b) reduced access to medicines in rural areas; (c) decline of new drug launches; and, (d) out-of-pocket costs for healthcare did not go down as health care institutions recouped their losses from price capping by charging higher for use of facilities.

Recent trends in other countries are towards price negotiations. Two studies (one which appeared in Deloitte Insights in 2018 entitled, "A new view on market access and reimbursement: Launching innovative biopharma in China"; and another, which appeared in 2018 in the *Value in*

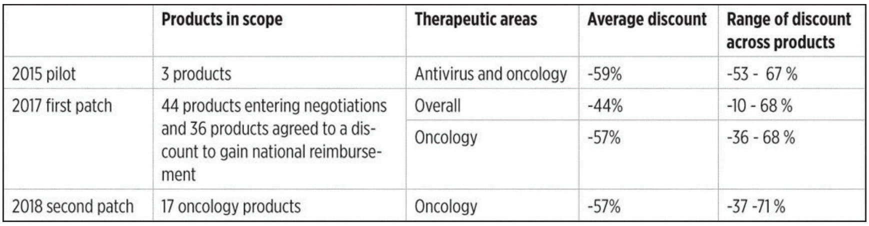
[1] See the column by Prof. Amir Ullah Khan, "Price controls on drugs are not a good idea," *BusinessWorld*, July 27, 2019, https://www.bworldonline.com/price-controls-on-drugs-are-not-a-good-idea/

Health Regional Issues, an Elsevier Journal, on "Recent Pricing Negotiations on Innovative Medicines Pilot in China: Experiences, Implications, and Suggestions," by several authors) documented the gains China had experienced by using price negotiations on innovative medicines.

In China, for users to benefit from medical insurance, the medicines have to be in its national drug formulary, of which there are two lists. List A contains the essential medicines that must be available in all health care facilities in China. List B may include new drugs following an extensive evaluation and price negotiations, including expensive innovative medicines for diseases like cancer which are normally excluded. The manufacturers can apply for inclusion in List B subject to several criteria including a mutually-negotiated price of the product.

Deloitte documented some of these gains. Medicine prices did go down significantly not because of price capping, but because of price negotiations. (See Table 1.)

Table 1. Results of China's price negotiations of recent products



	Products in scope	Therapeutic areas	Average discount	Range of discount across products
2015 pilot	3 products	Antivirus and oncology	-59%	-53 - 67 %
2017 first patch	44 products entering negotiations and 36 products agreed to a discount to gain national reimbursement	Overall	-44%	-10 - 68 %
		Oncology	-57%	-36 - 68 %
2018 second patch	17 oncology products	Oncology	-57%	-37 -71 %

Source: Deloitte (2018)

Perhaps, we can learn more from China and India on price capping and price negotiations.

Postpone CITIRA due to the coronavirus!

March 11, 2020

DAYS BEFORE the spike of local cases of infection with the SARS-CoV-2 coronavirus, which causes COVID-19, the Senate Ways and Means Committee was ready to approve its version of CITIRA (the Corporate Income Tax and Incentives Rationalization Act). The proposed law is the second phase of tax reform of the government, which reduces the corporate tax rate and reforms the investment incentives laws of the country.

The Department of Trade and Industry and the Department of Finance organized a consultation on it on March 3 at the Philippine International Convention Center, a prelude to its final push at the Senate. The proposed law was to be passed in the Senate this month or before Congress goes into recess until May of this year.

There is good basis to put off for now the enactment of CITIRA because of the coronavirus. While the WHO has yet to declare this outbreak as a pandemic, recent developments strongly indicate the world is in it already. As I finished this column, about 114,430 persons had been infected and 4,027 had died from the disease, according to Worldometer. While the fatality rate is low, it is however rising each day. When I started this article last week, Worldometer reported 85,721 infections and 2,933 fatalities.

COVID-19 has been regarded as a far more serious health crisis than the SARS outbreak in 2002 and 2003. The present coronavirus has, as of end-February, infected about 10 times more people in twice as many countries. While the final SARS fatality rate was 9.6% and current fatality rate of COVID-19 is estimated at 3.5 %, it is still too early to compare the two.

As more countries catch up with COVID-19 testing, the health emergency may rapidly deteriorate to a situation where authorities have to take very drastic moves to save lives. And these measures, like lockdowns and travel bans, would limit mobility of people, prohibit congregating, and disrupt economic activities worldwide, generating a global economic crisis and unemployment.

IMF Managing Director Kristalina Georgieva had recently said that the coronavirus crisis now gripping the world threatens to derail global economic growth. Her dire projection may not be a threat anymore. We are witnessing the unfolding of another global economic crisis of a dimension far more concerning than the 2008 financial and economic crisis or the economic slump in the early 2000s due to the SARS virus.

The markets reflect this outlook with equity prices plunging by nearly 8% in just one day. Investors are already considering an economic recession worldwide as likely just months away. Oil prices likewise have precipitously declined due to sharp cuts in demand, which in turn mirrors the slowing down of productive activities in the major economies of the world.

Information gathered as of last week here in our country is that exporters of electronic products, which employed their workers six days per week, had reduced work days by a day because raw materials from abroad are not coming in on time.

A large export company of electronic products, which employs thousands of workers, had to contend with the problem of rising freight rates. Cathay Pacific had to cancel flights going to China. Most of this company's raw materials come from China, and it exports to China. Its business is part of the global value chain in electronic products, which is now disrupted by the virus. Indeed, a quarter of the country's imports come from China, according to the Philippine Statistics Authority.

In February, this company had to honor its contractual obligations, and how costly that was. Last month, its freight cost increased by $171,188 because of the virus. How many more of our country's exporters are already in this situation? *At titirahin pa sila ng* CITIRA (And they will still be hit by CITIRA).

I am for reducing the corporate tax rate, and it can even be made better for the economy if the Congress considers cutting the rate in two or three steps.

I have, however, a strong reservation on the changes it is proposing on the investment incentives. These are not just fiscal measures. They are also trade promotion measures. Most of our exporters are locators in PEZA (Philippine Economic Zone Authority) zones. More than half of our exports come from the electronics and semiconductor sector. The incentives these firms enjoy insulate them from the uncertainties that firms selling to the domestic market contend with.

Why should we give them special treatment? Because they are exporting. They compete with firms in other countries, which have likewise treatments that make them competitive. By taking that treatment away from our exporters, we reduce our exports.

If authorities are concerned that some locators in these zones are no longer exporters, then PEZA should clean their ranks and exile the firms that do not deserve to be among the country's exporters.

Others may disagree with me that exports are placed at risk with CITIRA. If their concern is that the government is getting a raw deal with the 5% special income tax in PEZA zones, then let us recompute the special income tax rate so that the locators pay their due income tax rates. But it is important for the economy to spare these exporters from having to lose that special treatment. Because if they did, these businesses can relocate elsewhere. Look, Honda has left us and Vietnam gains from our loss. Once electronic or manufacturing exporters are gone, they are difficult to attract back.

These points are debatable, of course. I focus instead on the wrong timing of CITIRA and l go back to the virus. There are still many things we don't know about it. The little we do know so far is that this can be worse than the global financial crisis and global economic crisis we had 10 years ago.

COVID-19 is complicated because the production and logistics capacities worldwide are adversely affected. We live now in a world where countries are interconnected to produce anything of value. China now accounts for a fifth of the world's GDP, and millions of its people, most of them workers, have been told not to leave their houses to prevent the further spread of the virus.

The PSA reported that in January, our exports grew by 9.7%, year-on-year. But imports grew by only 1%. The January growth was better than in 2019, where the country's exports contracted by 6.7%. While electronic products continue to be the top commodity exports of the country, the January spike in exports largely came from minerals and mineral products.

Electronics are highly dependent on imports. If import growth slowed down in January, then we are likely to see a decline of exports in electronic products very soon. That would be 55% of our country's exports. The delays of imported raw materials are traceable to the COVID-19 outbreak.

The world is likely now to be at the start of a more complicated global economic crisis, the duration of which cannot be cut short by some financing or economic stimulus, but by the knowledge gained by humanity, with the help of the world's scientists and health experts, in containing the virus. CITIRA introduces another dimension of uncertainty to our exporters. Let us put this off for now and let the authorities like the PEZA and the other investment promotion agencies monitor the deteriorating situation and assist our country's exporters in saving jobs.

Which curve to flatten over the next few months?

April 12, 2020

THE WORLD BANK in its economic update of the East Asia and the Pacific dated April 2020 has COVID-19 as its theme. The update bears disappointing facts regarding significant slowing down of several growth drivers. While under a normal situation, global and national economic managers can take corrective actions to boost performance, the problem is we live in extraordinary times because of the COVID-19 pandemic. Given the unavoidable economic cost of containing COVID-19 and saving lives, the world may likely expect another type of a pandemic — a global economic recession.

The update talks about the infection and recession curves of COVID-19. Both are interrelated, flattening one steepens the other. The first is what we hear from health experts and national leaders. The UP COVID-19 Pandemic Response Team did mathematical simulations of the curve, and noted that the "epidemic in Metro Manila will happen between April and June 2020" as reported in *The Philippine Star*[2].

There are several measures to reduce the number of COVID-19 cases, but the most effective would seem to be what China had done in Wuhan: a city lockdown. Other measures are needed to make the lockdown even more effective, such as social distancing and temporary suspension of the school system at the community level, as well as lifestyle changes at the

[2] See "COVID-19 strategy: Here's how Philippines can combat the pandemic, according to a data scientist," *The Philippine Star*, April 3, 2020, https://www.philstar.com/headlines/2020/04/03/2005234/covid-19-strategy-heres-how-philippines-can-combat-pandemic-according-data-scientist

personal level to reduce the risk of getting ourselves infected. We have a similar response here to contain COVID-19, the enhanced community quarantine or ECQ for the island of Luzon.

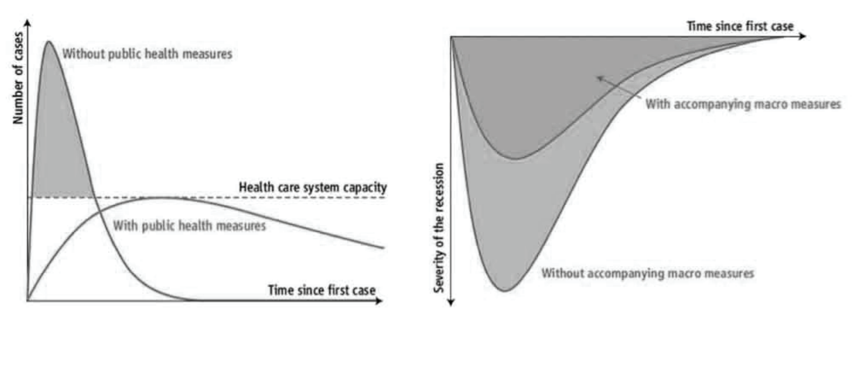
Lockdowns are by far the most aggressively effective and most countries are just forced to take it to flatten the infection curve, except Sweden. And that is because healthcare system capacity is fixed in the short run, although the Chinese government demonstrated that they can expand capacity in less than a month. Most countries have healthcare systems built for a normal situation, and the COVID-19 pandemic is extraordinary.

But lockdowns are economically costly, and this is what the recession curve is all about. People without jobs in an ECQ disrupt the circular flow of income and spending as earning members of millions of families have to stay out of work, and this slows down, if not reverses, economic growth. Other industries are affected adversely as the circular flow of income and spending is disrupted. What is demonstrably effective in flattening the infection curve has the undesirable effect of deliberately inducing a recession of the economy.

But admittedly doing nothing would steepen both curves. As more and more people get infected and the healthcare capacity is inadequate to cure them, productivity of the economy declines, boosting the recession curve.

If I may just use the two figures from the update, the two curves may look like this.

Figures 1 and 2. Flattening the pandemic and recession curves



Sources: Gourinchas (2020); East Asia and Pacific Economic Update, World Bank (April 2020)

The duration of the lockdown period is uncertain. We just know when it is no longer needed, when the curve is flattened to a level suited for the country's prevailing healthcare capacity. But not quite. The COVID-19 infection curve simulators of UPLB noted that even a flattened infection curve can rise again with new cases. Our ECQ was targeted to be lifted on April 15, after this Holy Week, three days from now. But last week we were informed Luzon needs two more weeks. But who really knows if that added duration is enough?

It is a quandary on the part of the government. Our leaders and health experts do not know with certainty how much time they need to flatten the infection curve for good. But the longer they force people to stay home, they end up sharpening the recession curve.

In practice, governments have to flatten both infection and recession curves. There has to be some capacity constraint that eventually compels authorities to flatten the recession curve, even as it reduces the number of new cases. The constraint may be the political capital of a country's leaders. As people lose their incomes for an extended period of time, the political support for the government declines. Before its political capital gets completely depleted, the government would have to do something to relieve the pain induced by lockdowns, i.e., flatten the recession curve.

Congress enacted its anti-COVID-19 emergency law, RA 11469, to help the poor cope with income losses due to the ECQ. According to the Finance Department, ₱200 billion is needed to sustain emergency assistance to millions of our countrymen, who are on "no-work, no-pay" arrangements over a period of two months.

Beyond May 2020, the government would have to borrow money to sustain the subsidy if the ECQ would still have to be continued by then, and quickly resuscitate the economy back to stronger growth. The World Bank has already provided the government a $100-million loan facility to help fight off COVID-19. Moreover, the government is negotiating with the World Bank and ADB for several hundreds of millions of dollars more in loans to flatten both curves.

The economy is expected to shrink by 0.6%, says National Economic and Development Authority Director-General and Socioeconomic Planning Secretary Ernesto Pernia, if no intervention is done by the government, including the emergency income assistance infusion of ₱100 billion a month.

Finance Secretary Carlos Dominguez III said that if the lockdown would last for only three months, the economy could still lock in a 4.3% GDP growth for 2020. But that is still recessionary compared to the stronger growth we had until COVID-19 hit us. With the base of the tax reform program reduced, the resources that the government can use to boost the economy are expectedly limited. The "Build, Build, Build" infrastructure program, which has been successful in sustaining high growth at 6% or above, can be slowed down.

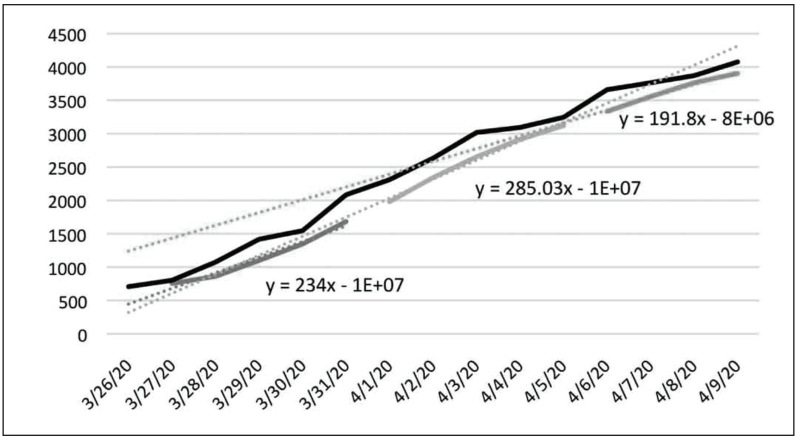
By the end of April, when the country is still before the peak of the curve, our leaders may consider extending the ECQ in Luzon. Because if they lift that prematurely to get the economy back up and running, the gain from staying at home in terms of fewer new COVID-19 cases in the last month-and-a-half could be neutralized with a new wave of infections, a concern of China now as it lifts the lockdown at Wuhan city. Scientists are even saying now that we may have to continue lockdowns and social distancing until we have the vaccine for COVID-19. But that is several months away.

But if that second wave in China turns out very weak, and if President Donald Trump has his way and would have restarted the US economy, these developments could persuade our leaders here to end the lockdown, or modify the social distancing rules. That would be great news if indeed the situation would have called for such a move.

Testing, testing, and testing for COVID-19 is really important. With more information about the enemy, we can adjust our policy responses with a lower cost to the economy. So what is it that we need to do to get us all tested at the same rate as we buy Chickenjoy from Jollibee?

Recent data from the Department of Health (DOH) appear to indicate that the infection curve is getting flatter. Obviously, the DOH data is selectively biased. It covers those cases that are only revealed to health authorities because they tested them. The sample is very small relative to the entire population. The data does not capture infections outside of the system, and we do not know how bad that is for now.

Figure 3. Infection curve appears to be flattening



Source: Department of Health (for basic data of new cases)

Table 1. Moving average of new cases

Day	New Cases	3-day MA	Moving average of New Cases		
			March	April	
			Last week	First week	Second week
3/26/2020	707.00				
3/27/2020	803.00	755.00	755.00		
3/28/2020	1,075.00	861.67	861.67		
3/29/2020	1,418.00	1,098.67	1,098.67		
3/30/2020	1,546.00	1,346.33	1,346.33		
3/31/2020	2,084.00	1,682.67	1,682.67		
4/1/2020	2,311.00	1,980.33		1,980.33	
4/2/2020	2,633.00	2,342.67		2,342.67	
4/3/2020	3,018.00	2,654.00		2,654.00	
4/4/2020	3,094.00	2,915.00		2,915.00	
4/5/2020	3,246.00	3,119.33		3,119.33	
4/6/2020	3,660.00	3,333.33			3,333.33
4/7/2020	3,764.00	3,556.67			3,556.67
4/8/2020	3,870.00	3,764.67			3,764.67
4/9/2020	4,076.00	3,903.33			3,903.33

Source: Department of Health (for basic data of new cases)

Given these caveats (and this is the only data I have), Table 1 shows the daily new cases from the last week of March to April 9. I took a three-day moving average to tone down the irregularities of testing and reporting. The daily new cases are plotted in Figure 3.

I broke down the number of observations into weeks and took linear trends of each set of data. In the last week of March, there were 234 cases per day. The number worsened in the first week of April to 285 cases. But in the second week of April, it dropped to 191.8 cases, which, if sustained in the following week, indicates that the ECQ may be working. But that may still change for the worse. Hopefully, the recent trend is going to be sustained.

I am not concluding at all that the curve is flattened or just about to be flattened. It is an observation given the limited data that I have. I agree with our UPLB scientists that this observation of the infection curve may go up again, or may stay flat for good. By April 30, the government would need as much evidence as it can mobilize to guide its policy on lifting or continuing the ECQ, whatever is necessary to flatten both the infection and recession curves.

Can CITIRA help revive the economy in the middle of this COVID-19 crisis?

May 24, 2020

IT IS DISQUIETING to read a news report about Senate President Tito Sotto promising to fast-track the passage of CITIRA (Corporate Income Tax and Incentives Reform Act) by the Senate, justifying it as an urgent measure needed to stimulate the economy. All agree that the economy needs to recover as fast as it can. It was already reported in the first quarter of this year that on a year-to-year basis, the GDP contracted by 0.2%.

In the middle of this crisis, it is likely that CITIRA can drive away existing investors and reduce the country's exports, without the offsetting gain of higher tax revenues and new investments.

CITIRA has two parts. One is lowering the corporate income tax from 30% to 20% in 10 years, the other to rationalize the country's investment incentives.

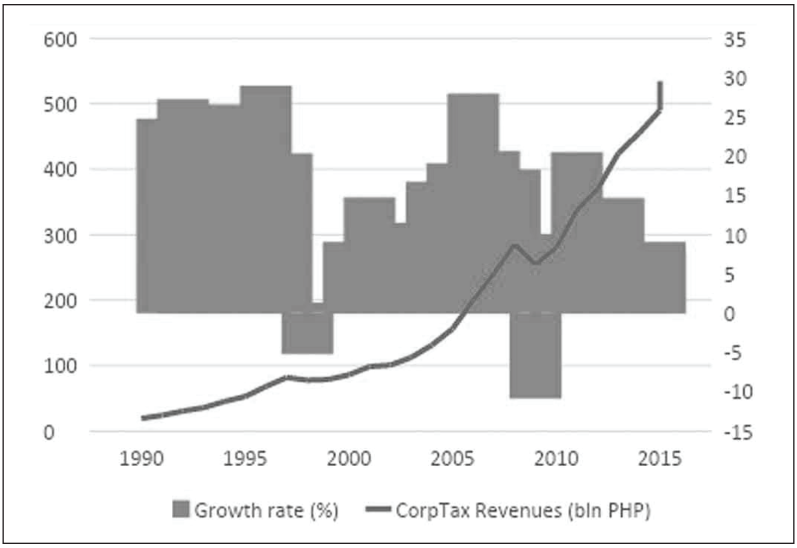
Since the 1990s, we have had two reductions of the corporate tax, in 1997 and 2009. Both reforms were taken to stimulate the economy. In 1997, the region was hit by the Asian financial crisis and its economies contracted or their growth slowed. The corporate tax was reduced from 35% to 32% over a three-year period, part of the comprehensive tax reform program (CTRP) of 1997. The second cut happened in 2009, and followed the global financial and economic crisis in 2008. Our Congress cut the rate from 32% to 30% then.

The CTRP was like the current tax reform program of the current government. The reforms covered income taxes including personal income tax, and the excise tax on alcohol and cigarettes. It failed in preventing the rise of the marginal tax rates on personal income tax brackets by not including inflation adjustments to personal income tax brackets. While it was touted to minimize revenue leakages, it did not succeed so in excise taxes on cigarettes, with specific tax rates and multi-tier rates that allowed producers to legally avoid their tax dues, resulting in the decline of excise tax revenues.

CITIRA forms an important phase of this government's tax reform program. It is designed to increase investments and promote economic growth, which Senate President Sotto stressed as urgently needed to reverse the decline of the economy due to the national government's COVID-related quarantine regulations.

That CITIRA can help in the middle of the pandemic is doubtful. Figure 1 charts the increase in levels and growth rates of corporate tax revenues. The figure is only up to 2016, but it suffices for this discussion. First, in both episodes of rate cuts, tax revenues fell. The rate cuts gave instantaneous relief to taxpayers, and that is all there is to it in so far as revenues are concerned. To a government in need of higher tax income as it has to spend for social protection of the poor and to revive the economy, the corporate tax rate cut of CITIRA would appear not to help.

Figure 1. Philippine Corporate Tax Revenues, 1990 - 2016 (₱ billion and % growth)



Source: Department of Finance

Revenues bounced back following the rate cuts, but they did so because the economy recovered. The regional and global economic crises in 1997 and 2008 were short in duration of one or two years, with sharp plunges and recovery.

Lower tax reduces the user cost of capital and increases investment demand. The tax reform in 1997 and 2009 might have contributed to the economic recovery. But will it deliver the same in 2020?

Unlikely. There are other factors that need to be considered. The effect on investments of a lower corporate tax will be outweighed by the uncertainty spawned by COVID-19. The health emergency has to end for good with the availability of vaccines and medicine that competent authorities have shown to be efficacious and safe. Absent that, we will still live as if we hide from our unseen enemy, the virus. That is not good for business. The last thing a new investor would want to be told is to close his new business to flatten some future wave of COVID-19 infections.

Access to effective and easy-to-use tests for COVID-19 can mitigate the uncertainty. But businessmen all over the world have to be persuaded that this pandemic is behind us.

Until the world has those medical antidotes, the prevailing risk to business can dampen, if not wipe out, the expected new investments that a lower corporate tax is expected to offer the economy. Without the expected rise in revenues due to lingering economic recession with COVID-19 still unchecked, reduced corporate tax will not help mitigate the fiscal deficit.

There is another factor to consider. Unlike its Asian or global counterpart, this global economic crisis is a pandemic as well. There is not a single country ready to become the engine of the world economy. All major countries and regions — China, US, and the EU — are reeling from COVID-19 and the economic fallout that it induces. Although increasingly they are starting to open up their economies, all are trying to restart growth behind a backdrop that at any time authorities can order their constituents to go back into isolation to stop a possible future wave of infections.

Exports and Incentives Reform

CITIRA is designed to remove the special 5% income tax privilege in lieu of national and local taxes in at least PEZA-administered economic zones. The exporters locating in these zones will be told to pay their national and local taxes the way all other taxpayers do. New projects of locators may still get a package of incentives, which proponents say are flexible and inclusive of non-tax measures to suit the requirements of companies that plan to invest in the country.

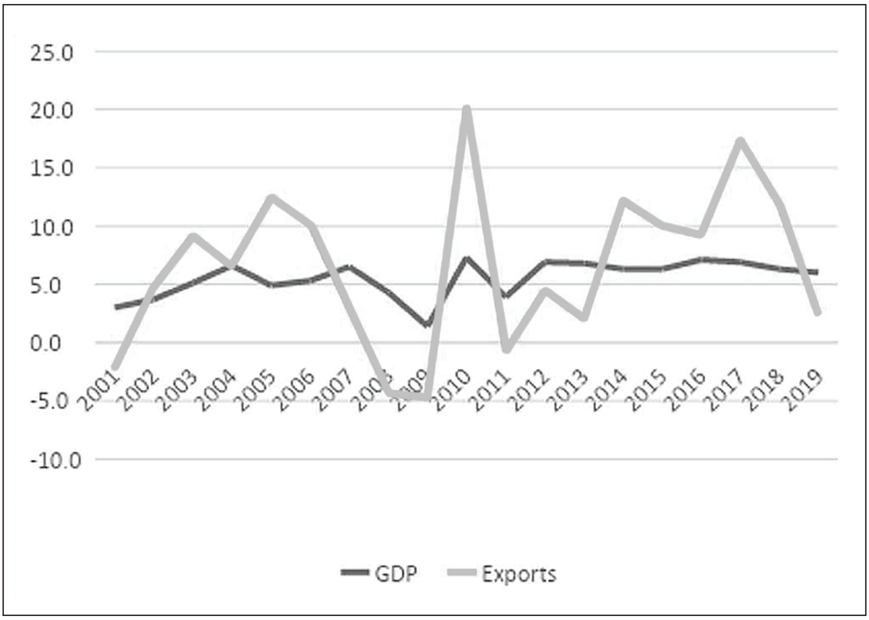
New projects of PEZA locators are eligible under the Strategic Investment Priority Plan (SIPP) with the Fiscal Incentives Review Board (FIRB) for incentives. Project owners would still have to show the FIRB that their projects bring in positive net benefits to the country. Some of these incentives include an income tax holiday (ITH) for two to six years, reduced corporate income tax rates after its ITH, or availment of special incentives such as tax deductions for expenses on training, research and development, and infrastructure facilities.

This planned reform of our investment incentives carries a great risk of us losing export competitiveness. The businesses in PEZA zones are all or mostly exporters, though some are indirect exporters. The businesses in PEZA zones make up our country's capacity to export.

Exports from PEZA zones account for at least half of the country's merchandise exports. In 2015, these businesses brought in about 59% of total merchandise exports, 65% in 2016, and 64% in 2017. Exports make up 29.2% at 2018 prices of the country's gross domestic product in 2019. This share has grown consistently since 2015, when it was only 25.3%.

Export growth is an important determinant of overall economic growth, as shown in Figure 2. In the global economic crisis in 2008 and 2009, GDP growth plunged from 4.3% in 2008 to 1.4%. The export contraction in those two years appeared to pull economic growth down. In the first half of the Arroyo government from 2000 to 2005, annual export growth averaged 6.8%, and that pulled up GDP growth, except that we had political crises in those years that dampened economic growth. Absent that, high export growth pulled up GDP growth in the Aquino 2 and the current government. When export growth jumped from 2% in 2013 to 12.1% in 2014 and stayed in the two-digit rate range, economic growth was at least 6%.

Figure 2. Philippine GDP and Export Growth, 2001-2019 (%)



Source: Philippine Statistics Authority

Export growth slowed down in 2018 and 2019, and with COVID-19 and the ECQ in 2020, export growth is likely to be in the red once again. The trend is likely going to pull down GDP growth. It was still up in 2018 and 2019 because of the government's infrastructure program. But the economy is likely to contract this year, as the first quarter GDP decline of 0.2% indicated.

PEZA businesses, the country's export engine, are already adversely affected by the COVID-related ECQ. Some reports indicate that only half of the workforce were actually employed in the first half of 2020 because of ECQ and lack of imported materials. Profitability had declined as the ECQ-related spending required additional expense to export products or import materials. In 2019, a total of ₱22.9 billion were invested by PEZA locators, and if not for CITIRA and COVID-19, more investments would have been realized in 2020. In February this year, investments declined by 28% on a year-on-year basis.

CITIRA, if passed by the Senate in the middle of the crisis, may just compel locators to reassess their location decisions. Some important businesses like electronics, which take up about half of the country's merchandise exports, are portable. If the tax perks under this new reform are not those that would give the best return, they may just move somewhere else. Rather than help stimulate economic recovery, which is unlikely while COVID-19 is still around, the proposed law could cut down our export capacity in years to come, dampening economic growth.

But there is still the opportunity to improve our proposed incentives reform law such that the country can sustain our export capacities and save jobs.

Coconuts and COVID-19

August 30, 2020

SCIENTISTS KNOW that virgin coconut oil (VCO) has anti-viral properties and strongly believe that our country can add value to VCO and produce a food supplement to strengthen our immune system against COVID-19 infection, or a medicine with its therapeutic claims *vis-à-vis* the disease approved by our Food and Drug Administration or other FDAs in the world.

Unfortunately, we seem to have misplaced our priorities. Our Department of Health (DOH) officials are apparently content to wait for developed countries (or even not-so-developed ones like Russia) to sell us that vaccine or an anti-COVID medicine, if and when they are available. With all the monies we are willing to spend to flatten our COVID-19 infection curve and save lives, does it not make better sense that we also spend a significant part of that money to undertake primary research and development (R&D) as part of a determined program to produce a useful anti-COVID product out of our VCO?

But a dearth of confidence of our government officials on the potential of VCO and the capability of our scientists to turn VCO into a game changer in the world's fight against COVID seems to hover above us, causing a drought of spending for COVID-related R&D on VCO. To check on the facts behind this claim, I asked Dr. Toby Dayrit, Professor of Chemistry at Ateneo de Manila University, about the level and make-up of public spending on R&D on VCO, particularly as it relates to fighting COVID-19. Dr. Dayrit is among our prominent scientists who have consistently believed in the potential of VCO and have quietly but consistently worked on finding out more about it. He is an Academician at the National Academy of Science and Technology, and President of the Integrated Chemists of the Philippines.

Dr. Dayrit says the Philippine Council for Health Research and Development (PCHRD) of the Department of Science and Technology

(DOST) has provided funds to undertake three research studies on VCO for fighting the COVID-19 virus.

The first is an in-vitro study which his team did in Singapore. The second was a randomized controlled trial (RCT) on persons under investigation (PUIs) in Sta. Rosa City, which the Food and Nutrition Research Institute did. Lastly, another RCT study was done by UP Manila on COVID-19 patients at the Philippine General Hospital.

These PCHRD-supported research studies are incidental, not part of a deliberate program of the DOH to create a food supplement or medicine out of VCO. PCHRD has funds to support this type of research, and as the COVID pandemic continues, allocating more funds to R&D related to COVID is compelling.

However, aside from a quarter-of-a-page list of COVID studies that the PCHRD is funding, there seems to be no new research money — out of the billions of pesos we spend for fighting COVID-19 — to finance a strategic R&D program for VCO-related research for fighting COVID. Dr. Dayrit says the DOST is willing to think more strategically about this effort and not just utilize existing PCHRD funds on this highly relevant and timely research. But it cannot, without a directive from the national leadership and substantial new funds and administrative support to undertake the program.

The DOST has got to have the mandate from the President to go all the way: from conducting primary research; to deepening our knowledge on promising leads from earlier research; to doing this progressively, iteratively up to refining an idea of what that anti-COVID VCO product might be made up of; to producing a prototype of it; to conducting FDA-approved tests of its safety and efficacy; to commercializing this research with private sector investors; to establishing the property rights of the marketable product; and to supporting product owners to get FDA approval to sell the product locally. Generally a linear process with one step building on an earlier one, the program could be packaged in a way that makes most sense. But if successful in the sense of having produced a product that would be widely accepted locally, the program could stretch to helping our exporters market the product abroad.

Look at what we are missing out on with incidental funding only! Dr. Dayrit, in his e-mail to me, says he co-authored a paper with Mary

Newport last January. They found that VCO "may have two mechanisms at work: antiviral and immunomodulatory… The immunomodulatory property of VCO is more interesting and potentially more powerful for me than the antiviral mechanism," he wrote.

"May have" are the words he used. The authors are not sure yet, but that's exactly the most honest statement unpretentious scientists would say. We caught them at the point of their study where they honestly disclose that they don't know … yet. Dr. Dayrit says in his e-mail "COVID-19 is a complex disease and the immune system is also very complex. If VCO works – and there are many reports of successful treatments – we should study this more deeply."

Yes, we should do that. But sadly Dr. Dayrit and scientists like himself cannot do more studies or better make their studies more systematic as they pursue a long-term goal without the mandate from the DOST, the DOH, and the President to work strategically about the whole thing. For now, all that our scientists can do with the existing funds from PCHRD, or occasionally from local governments like the province of Cebu, is to conduct a few random RCTs, or not even an RCT like that study on VCO's efficacy with inmates of the province of Cebu as its participants.

The scientists would all tell us that their studies strongly support the efficacy of VCO against COVID-19.

But we would never find out why that is. And because we remain ignorant about the science behind the claim that VCO is effective against COVID-19, product owners cannot not pass FDA approval, and the VCO product, dubbed by its owners to be good for COVID, remains to be considered just a food supplement with the underlying advice from the FDA that it has nothing to do about it. Then the global community would look elsewhere instead of here for COVID-19 antidotes.

Admittedly, this effort could be a long shot. But without funds, there is no way we can understand how far we are from our goal. We hope the private sector would invest in it. But venture capitalists would still need a minimum knowledge about the science behind the potential of VCO as a potential cure for COVID-19.

This is where public funds would need to be invested — to support primary research, to better understand this "immunomodulatory property," or to discover new properties of VCO, and know how these properties could be put to use to combat this complex disease.

With a mandate from the President himself, the DOST can lay down the primary research program that would be farmed out to scientists to undertake in several grants, including investing in post-graduate scholarships to deepen our pool of homegrown scientists. Some of the monies invested in the program could yield no return for us, but for as long as they were spent legally and in pursuit of honest scientific research, we just have to be prepared to accept that loss.

But out of the several primary research grants that could be given out, we may generate new knowledge that can be pushed up the next rung.

The program could also have unintended benefits: new knowledge that could give us ideas on other useful products we can make out of our coconuts; a deeper pool of scientists who become more experienced in pursuing biological research; more and better equipped research laboratories; industrial designers more adept in producing prototypes of food supplements or medicines out of VCO; and more matchmakers who would help scientists, their home research institutions, and venture capitalists structure new investments to commercialize VCO- or bio-related research ideas.

All these would make our country an ideal place for placing domestic and foreign capital to build a bio-industry. We could become a regional center for bio-industrial research. COVID-19 may still turn out to be a boon for our coconut industry, not just to produce a cure out of VCO, but by sowing the seeds of a future regional center for bio-industrial research.

Perhaps it is now time for our Secretaries of Science and Technology, Health, Finance, Trade and Industry, and Agriculture to persuade the President to authorize the undertaking of a strategic research program on coconuts and COVID, pouring a significant amount of public funds into it.

Despite the fact that other countries may already have their vaccines and medicines against this disease on the market as early as late this year, doing our own research is never too late. It could never be because of its intended or indirect benefits. Who knows, we may even produce a better product against COVID-19 from our VCO, and, importantly, give an income boost to our coconut farmers as well.

Another way of solving the pork price crisis

January 31, 2021

SEVERAL NATIONAL and local government agencies — the Department of Agriculture, the Department of Trade and Industry, the Metro Manila Development Authority, and the National Capital Region mayors — recommended that President Rodrigo Duterte order that pork prices be held below ₱300 a kilogram. Last I heard from household pork buyers was that the going retail price was reaching ₱400 a kilogram, about a 77% jump over its 2019 level.

That move, if taken by the President, is not a good start in solving the pork price crisis. As with price controls in the past — not just here but in other countries as well, and not just on food items but on other necessities like housing and medicines — a price cap does not solve the problem of rising prices of pork. On the contrary, it will only worsen it.

By fixing the price at below its market level, the government in effect taxes producers, causing supply to contract further and feeding more fuel to the price spike. The problem calls for assisting producers to produce more in order to restore normal levels of supply, and relieve pork buyers of high prices. Telling hog producers to sell scarce pork at below market value kicks them out of the pork business instead, and blows away our prospects of quickly normalizing production.

Price capping will not even help pork consumers, particularly the poorer ones, that it is intended to assist. Price freezes, particularly on essential food items, tend to be difficult to enforce. The measure will just create a parallel or black market for pork, the price of which exceeds their official level. If water seeks its own level, prices of essential food items will likewise gravitate to their respective equilibrium levels as dictated by the law of their respective supplies and demands. People will have to consume pork, and those who can find supply and afford its price will buy it.

Those who cannot switch to substitutes like chicken meat and vegetables, bringing up their prices.

In the past, whenever we had price fixes on food items, retailers in wet markets were selling price-controlled items at prices they thought made most sense. Buyers then just accepted them as their families needed to eat, trashing government orders of freezing those prices. Yes, there were a few buyers who, thinking that laws can moderate the working of the economic law of supply and demand, warned retailers against violating official prices or face the consequences of ignoring price controls. Retailers simply told them to buy their food from the Departments of Agriculture or Trade and Industry. No arrests were made.

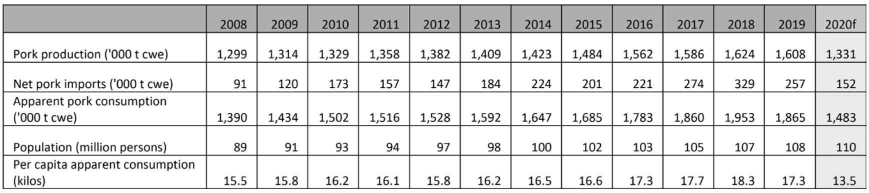
I am not condoning those acts against the law of the land, but I would not be surprised if the law breaking would be repeated should there be price controls imposed on pork, chicken meat, and vegetables. If they need to enforce price control on food items, the authorities would need to spend on enforcement, arresting violators. But that is like arresting jaywalkers on a very busy street that is heavily congested. It can be done if authorities have more informers and enforcers in every wet market and retail store. But what will it accomplish? It will only destroy the retailing of food items, aggravating further the shortage and price spike.

The more the government invests in enforcing the official price, the more the price cap looks like a wrecking ball destroying our pork production and marketing capability, evaporating the pork supply further in the process. In the end we all get a triple whammy with a price control on pork: pork producers will quit the business, pork buyers will be hungry and angry, and the authorities will waste public resources in enforcing an order that is difficult to enforce.

Addressing the Shortage

The current pork price crisis stems from a sharp reduction of pork production starting about two years ago. As Table 1 accompanying this column shows, the country then produced about 1.625 million tons of pork. A year later, output nosedived to 1.608 million tons of pork, which was not that bad and may have passed as one of those fluctuations we expect in agricultural production. But the fall persisted last year when output hit 1.331 million tons, a fall of about 17.23%.

Table 1. Apparent Supply and Use Table for Pork, Philippines, 2008-2020



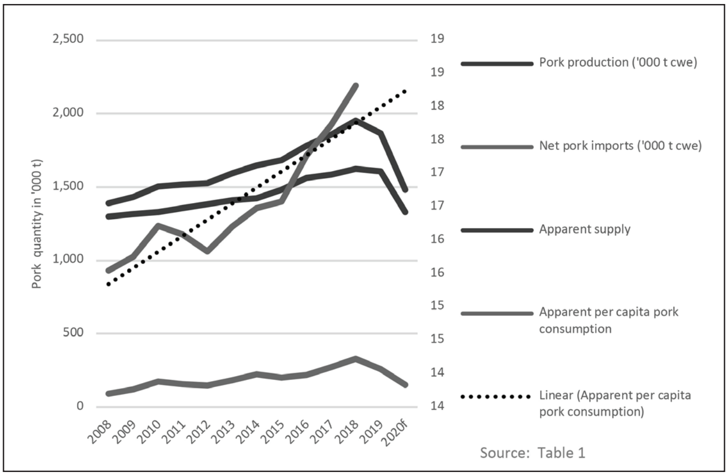
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020f
Pork production ('000 t cwe)	1,299	1,314	1,329	1,358	1,382	1,409	1,423	1,484	1,562	1,586	1,624	1,608	1,331
Net pork imports ('000 t cwe)	91	120	173	157	147	184	224	201	221	274	329	257	152
Apparent pork consumption ('000 t cwe)	1,390	1,434	1,502	1,516	1,528	1,592	1,647	1,685	1,783	1,860	1,953	1,865	1,483
Population (million persons)	89	91	93	94	97	98	100	102	103	105	107	108	110
Per capita apparent consumption (kilos)	15.5	15.8	16.2	16.1	15.8	16.2	16.5	16.6	17.3	17.7	18.3	17.3	13.5

Source of basic data: GIRA compilations

We of course know that that is because of the African Swine Fever (ASF) outbreak. The spread of ASF to all the major island groups of the country is unfortunate, and is a testament to the weakened capability of our authorities in protecting our country from such destructive and contagious disease affecting our hog population. Let that be for now as I focus on alternative approaches to solving the pork price crisis.

Using data from Table 1, the apparent per capita consumption from 2008 to 2018 is illustrated in Figure 1 accompanying this piece.

Figure 1. Apparent Supply and Use of Pork, Philippines, 2008-2020



Source of basic data: GIRA compilations

If there was no new supply of pork available in the market, per capita consumption would have fallen to 17.3 kilograms in 2019 and 13.5

kilograms in 2020. That would certainly induce a lot of instability in our country considering that pork is a staple meat of our people.

Suppose we get the linear time trend of average pork consumption from 2008 to 2018, and project what their values may be in 2019 and 2020. Based on the linear equation defining the time trend, the country's per capita consumption in 2019 and 2020 would be 18.001 and 18.243 kilos, respectively. Multiplying these numbers by the country's population in these years, the demand for pork would be 1.946 million tons and 1.999 million tons in 2019 and 2020 respectively.

Comparing these numbers with the apparent supply (local output and net imports), we have a shortage of 81,000 tons in 2019 and 516,000 tons in 2020. Those numbers may explain why pork prices have been spiraling. No price ceiling can remedy this problem. This problem has to be addressed with additional supply. Since local output cannot immediately expand because of ASF, we have to tap the rest of the world for additional pork.

The Department of Agriculture is aware of this solution and proposes to implement it with an expansion of the minimum access volume (MAV). This is the amount of pork our laws allow to be imported at a lower tariff of 30%. It is not really that low, but it is at least lower than the tariff on pork importation allowed without any volume constraints. The tariff on those imports is 40%.

Expanding the minimum access volume can help. But if the agriculture department expands the MAV by about 100,000 metric tons, the country will still have a deficit of about 400,000 metric tons. Pork prices will still go up, which in turn will put pressure on authorities to resort to an unenforceable price freeze.

Pork prices, even under this scenario, will still be at least 30% above world prices. That will not give consumers and processors enough relief. MAV may just moderate the price increases.

Why don't we get rid of the MAV system and bring tariff rates down to 5%? The problem with the MAV is its archaic allocation system. Most of it is allocated to existing players, some of whom, like producers and existing large traders, have a conflict of interest in importing pork. How fast can they bring in imports when it is in their interest to slow down the flow of imports to increase their profits? A better approach is to let market competition decide on a better equilibrium price. Let us open up the import market some more and predictably, and bring down pork prices quickly like what we did with the rice price increase in 2019.

What about our hog producers? Producers will adjust to the new price structure. This can be an opportunity for them to become more competitive as they produce local pork at near-world prices. Look at rice tariffication — there were those who said rice farmers would reduce rice output. So far, that seems to have not materialized. This year, despite the bad typhoons we had seen at the tail end of 2020, Agriculture Secretary William Dar announced that the country has a very good rice output. And rice imports, which spiked in 2019, started to moderate and adjust to the new equilibrium.

EO 128 is not that bad for producers

April 11, 2021

HERE WE GO AGAIN! Those who disagree with allowing more pork imports during this ongoing African Swine Fever (ASF) outbreak in our country are shouting "betrayal" by President Duterte of the interests of the hog producers.

This is 2019 all over again, except that this time no legislators have joined the reformers in keeping pork affordable to the Filipinos.

On April 7, the President issued Executive Order (EO) 128 lowering the tariff rate on pork imports from 30% to 5% on pork imported under the minimum access volumes, and from 40% to 15% for out-of-quota imported pork.

The *lastiko* (elastic) EO did not appease the critics. The lower tariffs will be kept down for only three months. After three months, the tariff rates go up to 10% and 20%. In a year's time, they revert back to their old rates.

This EO, even if it permanently lowered the tariff reform, which I hoped it should have been, will not "kill the industry" for two reasons. One is that the world pork market is itself affected by the ASF disease. Even if the world can supply all the pork that we need, the other reason why it cannot flood the local market is that we have limited cold chain capacity to receive all the imported pork. With this EO, imports are expected to increase. According to the President of the Meat Importers and Traders Association, Jess Cham, pork imports may double their present scale.

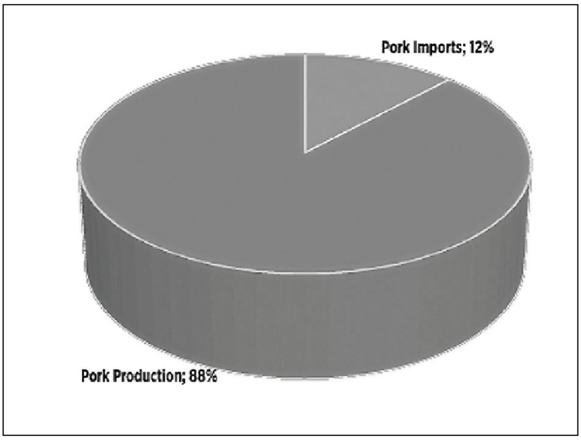
The world's pork market has its own supply constraints, particularly during these years that ASF is affecting not just the Philippines but also most of the countries in the Asia Pacific region. China, which had its first outbreak in 2018, is getting the biggest share of the import market. Because of the virus, we can only import from ASF-free countries.

We also have our constraints. Receiving additional frozen imported pork requires cold chain capacity, which we don't have. According to a national cold chain road map study that the Board of Investments commissioned, cold chain capacity in the country is at 400,000 tons. About a third of that is exclusive for onions, tuna, sardines, and bananas. The rest is general warehousing for which meats, other seafood, dairy, other fruits, and other vegetables compete for space.

According to Anthony Dizon, President of the Cold Chain Association of the Philippines, their services cover only 40% of all food traffic along the country's food supply chains. Without cold chain capacity, imported pork offers weak competition to local producers. International food safety standards on meats require that the product be sold off in no more than two hours under ambient temperature. Longer exposure makes the meat vulnerable to microbial contamination, which goes from bad to worse exponentially. Mr. Dizon estimates that the country needs another 300,000 metric tons of capacity from the present level.

Because of the rubber-band EO, additional cold chain investments would only be limited, likely made by the more risk-taking members of the cold chain industry. Statistics on projected increase in imports supply and use from the Philippine Statistics Authority indicate that in the last five years where data is available, 2015-2019, the average import penetration was 12% of gross supply (see Figure 1). In 2019, 286,502 tons of pork were imported and the average for the last five years (2015-2019) was 260,602 tons.

Figure 1. Pork production and imports (average for 2015-2019)



Source: Philippine Statistics Authority

Suppose we simulate what might happen because of this EO. With the current world market supply constraints and our cold chain capacity limitations, let us take Mr. Cham's projection that imports would double to 500,000 tons.

Average production in the last five years, following PSA's supply and use statistics, was placed at about 1.895 million tons. Because of ASF and the time it takes to arrest the disease so the country can re-herd and make up for lost inventory, Girag & Associates Sarl projects that local production would go down by 50% from 2020 to 2021, or about 537,000 tons.

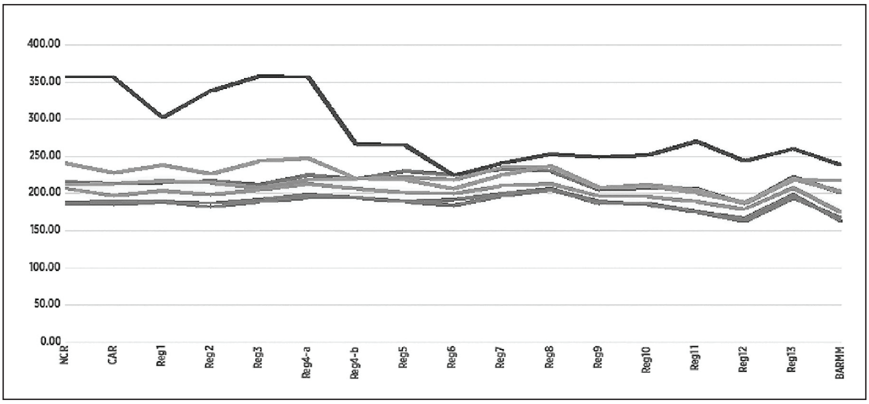
The expected imports would just make up for the loss of local output due to the ASF virus. The import penetration would have more than tripled from 12% to 38% of gross supply due to: (1) the doubling of imports to 500,000 tons; and (2) the decline of production by about 500,000 tons. This is no reason to be alarmed, even for local producers. The displacement of local production is not due to imports but because of our current problem with the ASF disease.

We should be alarmed if we did not expand our imports. Without this *lastiko* EO, we would have a shortage of about 200,000 tons, the difference between the expected decline of production of 500,000 tons and the current imports now of about 300,000 tons. In that situation, pork prices will increase, encouraging more substitution away from expensive pork to other sources of protein. This may sound ironic but imports will be helping producers keep the market for them while they are rebuilding their inventory.

It is possible, but improbable, that the other regions not currently hit at all or just mildly hit by the ASF virus can expand their pork production and export their surplus to the NCR, Metro Cebu, and other densely populated cities. That is not likely to happen, since ASF is still spreading and the culture of biosecurity has yet to sink in not just among producers but to all of us. Bringing pork or processed pork from one region to the other can spread the virus, and that is just part of our practice of *pasalubong* (bringing gifts home after a trip). Backyard farmers will have to cluster to rebuild their production in closed farms, which can more easily be defended from the virus.

That culture will take some time to sink in. In the meantime and in an environment with the ASF virus still spreading throughout the country, investments in added capacity in the regions now lightly hit or not at all by the virus, are not expected to grow as fast as the demand for pork in population centers.

Figure 2. Annual prices of lean pork by region (2015-Jan 2021)*



**Peso per kilogram of lean pork*

Source: Philippine Statistics Authority

Without this EO, prices are expected to increase further. The trend towards higher prices is illustrated in Figure 2. In January 2021, the last data on prices in PSA's website, one can see the prices to be significantly higher than the annual prices from 2015 to 2020. Higher pork prices can be avoided if imports would temporarily make up for lost production due to ASF. To me this is the benefit that EO 128 is offering all of us, not just consumers, but even pork producers. To me the benefit to producers is that the prices, if kept reasonably low, maintain the market for pork producers and dampen the substitution of pork with other sources of meat.

ASF crisis, an opportunity to modernize our pig industry

May 9, 2021

AGRICULTURE SECRETARY William Dar inherited the African Swine Fever (ASF) crisis, coming into office just as the country officially declared our ASF outbreak in August 2019. Nearly two years after his appointment, the ASF crisis is still felt. It was only last week that our leaders reportedly struck a compromise on what to do with pork tariffs and imports. I am not going into that issue. Though important in light of the current shortage, having more imports is a temporary measure. However, licking the ASF virus and modernizing our pig industry are the real solution, and helping the industry attain that is the most important assistance to producers.

Secretary Dar faces a tough problem as there is as yet no ASF vaccine that his administration can roll out effectively and quickly. The development of a vaccine may still take some time.

In the meantime, the country continues to bear the problems of a pork shortage and the current inability of the industry to recover lost inventory due to the ASF disease. The Department of Agriculture's (DA) estimate of the shortage is 388,000 metric tons (MT). Biosecurity measures appear as weak as the coordination between national and local government units (LGUs), good reason to believe the ASF virus may still be spreading in our country.

What's being done or planned to be done to help pig producers?

Late last year, the DA launched INSPIRE or the Integrated National Swine Production Initiatives for Recovery and Expansion. This swine recovery program aims to restore quality and genetically superior breeder stocks and finishers, modernize the production environment in ASF-free zones, and implement strict biosecurity measures. Ultimately the program aims to help producers recover lost incomes and make available pork supply at affordable prices to consumers.

Over three years, the recovery program targets to produce 738,805 MT of pig meat, valued at ₱157 billion. To attain this goal, 115,800 pig farmers have to raise 10.5 million finishers. This requires 62 breeder farms to produce 440,563 breeders, surpassing by 42% the country's breeder base that the industry lost to ASF. In turn, 33,500 grandparent breeder stocks would be needed. The private sector is expected to add 20 breeder farms, contributing nearly half of the breeder stock to be recovered.

The repopulation program is "calibrated," involving only ASF-affected areas released from quarantine. These so-called "pink" areas had gone through the program's sentinel protocol successfully. The protocol requires a rest period from production for a period of 50 days – 30 days of which are spent on cleaning and disinfecting the farm, and 20 days for bioassay to check if the area is ASF-free – after which sentinel pigs are raised on the farm for 40 days. If none of these pigs die from ASF during this period, the area is released from quarantine, and the repopulation program is started, with beneficiary farms getting access to ASF-free sows and finishers and related repopulation benefits.

The LGUs and the DA implement sentinel protocols, with the LGU having the authority to release an area from quarantine. Reportedly, seven barangays in the City of Lipa and two others in the town of Malvar, Batangas were recently declared "pink" areas. Sentinel protocols are currently implemented in other places in Batangas, Quezon, and Rizal. These towns – namely Montalban in Rizal, San Juan and Laurel in Batangas, and Mulanay in Quezon – are reported to be conducting bioassays.

The distribution of pigs to beneficiaries is conditional on the receiving areas having been declared ASF-free. Intended beneficiaries throughout the country should be informed that the repopulation program could not be started if their LGUs had not yet released the areas where their farms are from quarantine. This requirement makes good sense except that when it is not properly communicated to beneficiaries, failure to distribute repopulation benefits could be grounds for criticizing the program.

Let us define accountabilities. Assistance starts with implementing the sentinel protocol. If "red" or ASF-affected areas are not going through the sentinel protocol, then this may be taken to be a delay in the delivery of the assistance. According to the program, there are about 2,333 barangays that were hit by ASF. We are now in the middle of the first of the three years of the program, and the DA is only talking about a few scores of barangays going through the sentinel protocol.

In fairness, this program is not fully funded yet. Maybe the DA should now be asking Congress for the ₱27 billion it needs to implement its share in the cost of the repopulation program. This may start to be fully funded in 2022, that would only mean DA has to extend the program to 2024.

A performance measure of INSPIRE is the number of "red" areas that are undergoing sentinel protocols. A related measure is how long a "red" area waited before starting the protocol. It is possible that areas may fail in the program, and thus the re-herding program could not be started. This should not be taken against the program since repopulation benefits are conditional on the receiving areas passing the sentinel protocol.

A second performance measure is how many of the areas released from quarantine are receiving the benefits of the program, which has the related measure on the delay of receiving the benefits.

Program implementation can be slower than it should be if those in charge of the program do not have full control of resources, are weak in planning, and are overly cautious not to make a mistake for fear of being brought to the Ombudsman. But here's another important potential obstacle.

The INSPIRE program cannot fly without the cooperation of LGUs and industry. How many LGU officials are ready to take on the responsibility of implementing the sentinel protocol in their respective localities? Sentinel protocols can be delayed in localities where LGU officials are not adequately informed by the DA about the program, or are not ready yet to implement it. The responsibility is not just on the sentinel protocol but, more importantly, on enforcing biosecurity measures to protect the "pink" areas from the ASF-virus. This may take distributing mobile testing kits to pig farms undergoing the repopulation program and truck disinfection facilities positioned at entry points to a province or island.

LGUs should consider that lack of resources cannot be an effective alibi for inefficiency because of the added resources they have due to the Mandanas ruling.

The DA must produce and update a map of ASF-affected areas. The map should be effectively communicated to beneficiaries, who should know if they are entitled to receive the assistance under the repopulation program. The map may indicate if LGUs and the DA had already agreed to implement the program in ASF-areas. This is to clearly assign the responsibility of any delay of program implementation between the DA and the LGU.

The DA has a monitoring unit for its programs. Perhaps this can be mobilized to gather real-time information on program implementation.

For this very important program, perhaps a third-party evaluation of the program can be done in the middle of it to summarize all the information about the program's implementation, and compare that with the reports of the DA.

The agreement to implement the program should include representatives from the industry. Our pig industry is privately run, and for this program to succeed industry representatives must be involved, especially the commercial farms. These farms have the potential of accelerating the recovery of our pig inventories. Unlike backyard farms, commercial farms are easier to secure. The program's inputs can be quickly translated by these farms into outputs and outcomes.

Program implementation is handled by this tripartite body including the LGU, industry representative, and the DA. As soon as sentinel protocols and repopulation programs are started, this tripartite body should regularly meet to monitor the program and address any issues that may arise during the implementation.

Modernization of the Industry

A big challenge of the program is transforming the backyard sector of the industry. This sector comprises 60% of the industry. Experts have advised that traditional backyard farming is extremely vulnerable to highly contagious animal diseases. It is open and difficult to secure, especially if raising pigs is incidental work to generate extra cash for a household. The repopulation program in commercial farms could be vulnerable to highly contagious animal diseases like ASF with open backyard farms in operation, particularly in the same province and if biosecurity measures are not strictly enforced.

To address the problem, the INSPIRE program suggests the clustering of 50 to 60 backyard farms, to be operated and managed as a cooperative, association, or some other business entity. Clustered farms are easier to biosecure. The DA will provide the repopulation benefits including biosecured modern housing facilities and other support services.

The clustered pig farms are encouraged to centrally procure stocks, feeds, drugs, and other inputs; access credit facilities; raise pigs as one farm to ensure uniform application of technology; engage the services of slaughterhouses, logistics service providers; and market their products. If feasible, they may partly integrate operations. The LGUs are required to provide veterinary services and other administrative support to maintain area-wide biosecurity control measures to ensure the success of the program.

This is such an important modernization step for our pig industry. But are backyard farmers ready for this? There may be areas that are, such as I heard Lipa City is, but others may not be open to changing how they raise pigs, especially if they have to be in business with other farmers.

Perhaps, the LGUs can help facilitate this transformation by providing tax incentives and other benefits. A cluster of backyard farms can be declared by LGUs to be an agri-economic zone, receiving benefits from LGUs for a given period of time. With the Mandanas ruling, LGUs may be more able to finance these incentives for the economic development of their localities.

One important benefit that clusters of pig farms can receive from LGUs is the disposal of pig waste. Commercial farm operators had identified this to be costly and the cluster of backyard farms may not be able to afford this. But environmental rules require the proper disposal of pig waste. LGUs may offer benefits for the proper disposal of pig waste from farm clusters declared as local economic zones. LGUs can aggregate pig waste in their localities and operate a biomass energy plant, or contract out such a plant in their locality.

Let a study be done to identify how business clusters of former backyard farms ought to be formed. What incentives should they receive from local and national government agencies? How long should they receive such additional incentives? What does this mean for the individual backyard farmer? What safeguards are needed to protect the interests of all farmers concerned? Do we need a special law for this?

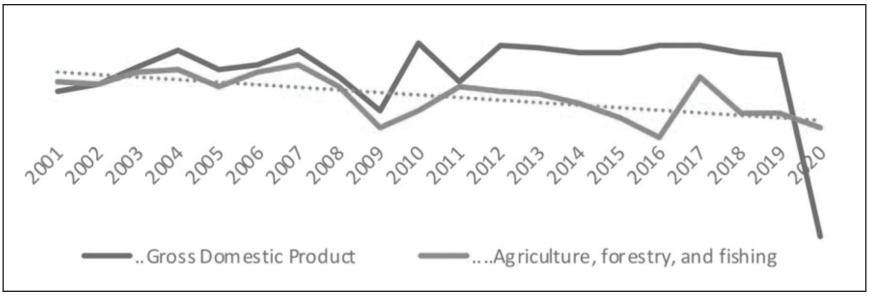
The LGUs and DA have to undertake an information program to make backyard farmers know of the advantage they may have if they clustered their farms. There may also be a need for training the members of a cluster on how to do a pig business as one farm. It may also be possible for the cluster to hire third-party professional managers to operate the farm.

Commercial farms as well in the first few years of the repopulation program should be made eligible for tax incentives under the new CREATE law. These farms may introduce modernization innovations in pig farming intended not only to biosecure their farms but also to increase productivity.

Agriculture and economic recovery

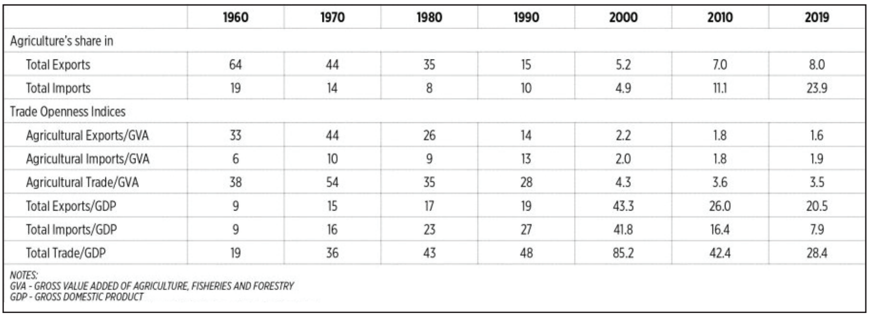
June 20, 2021

Figure 1. Economic Growth, Agriculture and GDP (at 2018 prices)



Source: Philippine Statistics Authority

Table 1. Changing Structure and Trade Openness of the Philippine Economy (selected years 1960-2019, in %)



	1960	1970	1980	1990	2000	2010	2019
Agriculture's share in							
Total Exports	64	44	35	15	5.2	7.0	8.0
Total Imports	19	14	8	10	4.9	11.1	23.9
Trade Openness Indices							
Agricultural Exports/GVA	33	44	26	14	2.2	1.8	1.6
Agricultural Imports/GVA	6	10	9	13	2.0	1.8	1.9
Agricultural Trade/GVA	38	54	35	28	4.3	3.6	3.5
Total Exports/GDP	9	15	17	19	43.3	26.0	20.5
Total Imports/GDP	9	16	23	27	41.8	16.4	7.9
Total Trade/GDP	19	36	43	48	85.2	42.4	28.4

NOTES:
GVA - GROSS VALUE ADDED OF AGRICULTURE, FISHERIES AND FORESTRY
GDP - GROSS DOMESTIC PRODUCT

Sources: Stirret, G., Agricultural Export Performance, Briefing Note (1960-1990 data); Philippine Statistics Authority (2000-2019 data)

THE ECONOMY is breaking out of recession. It is hard to believe that since GDP in the first quarter contracted by 4.2%. Just the same, the National Economic and Development Authority (NEDA) and the Department of Finance (DOF) are optimistic based on economic indicators. The unemployment rate in March fell from 8.8% to 7.1%

in just a month. The underemployment rate was down two percentage points also in March, to 16.2%. Labor force participation rate rose as well. According to the Philippine Statistics Authority (PSA), the economy had a net new employment in the first quarter of 2.8 million jobs.

Recovery this year is also hard to believe because of the lingering effect of COVID-19. The positive quarterly growth expected by our economic managers might just evaporate in the face of the second wave of COVID-19's new cases starting in the second half of March this year. Health authorities once again had to be the killjoy to the economic recovery. They placed NCR Plus areas under ECQ and MECQ — the two strictest quarantine levels — in most of the second quarter. And when the surge in the NCR seemed to have been brought under control, new cases spiked in other parts of the country.

The good news we now have is that this year we have access to the COVID-19 vaccines. The uncertainty and desperation that gripped us last year are slowly being replaced with hope of reducing COVID-19 to a manageable disease, getting the economy to generate jobs and incomes, and of seizing back the normal lives we used to have before the pandemic snatched those from us in the first quarter of last year. The authorities will increasingly do an even better and faster job of vaccinating the population to attain herd immunity, hopefully this year.

With reasonable hope, the economy may grow for three straight quarters this year despite the current wave of new COVID-19 cases. Economic managers had set their eyes on economic growth from 6% to 7% this year. However, the International Monetary Fund (IMF), noting the slow pace of economic recovery, downgraded its projected economic growth of the Philippines to 5.4% from nearly 7%.

Just the same, analysts take such forecasts with a grain of salt. No one knows the future exactly. Economic managers could hit their economic growth target if better things happen in the economy in the second half of this year that forecasters failed to put into their economic forecasting models. Equally possible, growth could even be lower than the IMF's projection.

We can define economic performance in the remaining quarters of the year the way we want it to be. It would be disappointing if we closed the year with an economic contraction, and if that happens, we deserve the hardships which that entails for not doing our part in rebuilding the economy from the recession.

I recall former NEDA Secretary and now Philippine Competition Commission Chairman Arsenio Balisacan telling a few of us that he told the Asian Development Bank (ADB) forecasters, who had always forecast the Philippines to be among the worst performers in Asia, to check their data and forecasting model they used. The ADB analysts had claimed that the projections they made were all based on existing data. That was in 2011, if I am not mistaken. Balisacan knew there were better developments in the economy and expected it to rebound.

Balisacan was right. Starting in 2012, the economy started to grow faster until it became the second-best performer in the ADB region after China. It stayed so even beyond the Aquino government, so much so that the NEDA had targeted to get rid of poverty in the country by 2040.

But of course, COVID-19 spoiled our chance of becoming a higher-income developing country, and, like Malaysia, of significantly alleviating our poverty problem. All countries had their share of the global economic recession from COVID-19. The Philippine economy nosedived to double-digit negative growth in the second quarter of 2020, to finish off that year with -9.5%.

Agriculture's Contribution

There are many things we can do to rebuild our economy better. I would just like to focus on agriculture. I examined agriculture's performance since 2000. Over the past two decades, its growth had significantly dropped. Figure 1 shows how the growth of value added from agriculture, fisheries, and forestry has been going down since 2000. In the last decade, the disparity between GDP (gross domestic product) and GVA (gross value added) growth had widened, when the economy had become one of Asia's best performers.

Agricultural growth failed to contribute to the higher growth of the economy. The resurgence of manufacturing and continued growth of the services sectors in the last decade failed to pull up agriculture's performance. The average growth of GVA was 3.5% from 2001 to 2010 and fell to 1.9% in the last decade, excluding the COVID-19 year of 2020.

In contrast, GDP expanded from an average growth of 5% in the earlier decade to 6.3% from 2011 to 2019.

If agriculture is going to make a significant contribution to economic recovery, it should recover its growth performance of several years back. But what should authorities focus on to realize that?

I associate this lackluster growth of agriculture to the falling tradability of the sector. Countries that tend to be more open to trade are those that are likely to succeed not only in increasing their agricultural exports, but also in garnering positive net exports. But progressively, our agriculture sector had increasingly lost its capability to export and import through the years.

In Table 1, agriculture's share in total exports used to be 64% in the 1960s. Two years ago, it had fallen to only 8%. It's true we now have a more diversified export basket compared to the 1960s. Let us look at another indicator, agricultural exports share in gross value added of the sector. In the 1960s, that used to be a third and dropped to only 1.6% in 2019.

Declining tradability is reflected as well in agricultural and food imports. The share of agricultural imports to the total had declined until 2000. But in the most recent two decades, agriculture's share to total imports climbed up because of rice imports. The National Food Authority (NFA) miscalculated its response to the 2008 rice crisis, and, in a panic, imported more rice than the country needed. In 2019, Congress enacted the rice tariffication law, liberalizing rice imports.

Falling importability of agriculture is better reflected in the share of imports to gross value added in agriculture. In the 1960s, that share was 6%. In the next three decades, it climbed up, reflecting falling productivity of the rice industry relative to food needs. Despite increases in rice imports in the last two decades, importability of the sector fell to less than 2%.

Summing it up, agricultural trade in proportion to GVA fell from 38% in the 1960s to only 3.5%. I associate this to falling sectoral growth, which I earlier noted. If the sector could recover its growth performance and contribute to a stronger and faster economic recovery, it has to become more open like the rest of the economy.

"The public sphere is being narrowed by direct suppression of its traditional venues made even worse by the physical isolation imposed by the pandemic and their superficial replacement by algorithmic engagement in social media. The net result is to foster social division and, worse, to make the majority of citizens lose interest in and turn away from substantive political issues altogether. This can only serve those whose agenda is to deprive ordinary citizens of initiative and to maintain the monopoly of information and power for themselves."

MJ SALUMBIDES OF KEYLIGHT STUDIO

Emmanuel de Dios

Why China is unlikely to go away anytime soon

(First of two parts)

July 22, 2019

THE LAST TASK undertaken by the famous economist John Maynard Keynes was to secure a huge bilateral loan (around $50 billion in today's terms) from the US to help a bankrupt Britain after World War II. The war had devastated the British economy, which until then was still adapted to wartime production, and the loan was badly needed to procure capital equipment and consumer goods and to maintain British military presence throughout its still-vast empire. The strain of the negotiations — the Americans driving a shockingly hard-nosed bargain — contributed to the untimely death of an already-ailing Keynes even before he had turned 63.

That Britain needed to muster (and indirectly cause the death of) its most brilliant economic mind to perform an essentially menial and mendicant function — negotiating a loan with US bureaucrats — was symbolic of Britain's post-war desperation and its decline as a world power. It was poignant and pathetic but an unmistakable sign that Britain's time had passed.

Fast-forward to today. Some thoughtful people wonder whether we shall now witness something similar in our lifetime (or our children's) in relation to the US. Perhaps the time of the US has also passed and it is China's turn at the helm? Which Nobel Prize-winning US economist will one day also travel to Beijing to plead with mere Chinese bureaucrats not to dump but rather to continue buying US Treasury bonds?

Nothing is certain, of course, and the US is still by no means a dead horse. But enough signs exist to give long-term historians pause.

Among these are the growing insularity and protectionism of the US (only exaggerated under Trump), its preoccupation with its domestic fiscal troubles and its race and culture wars, as well as its equivocation over foreign military entanglements (partly also a fiscal problem). These contrast starkly with the confident posture of China, which now styles itself, ironically, as the new champion of "free trade," globalization, and the multilateral trading system — even as it audaciously projects its economic and strategic influence in many parts of the world. (Hello, West Philippine Sea!) Indeed America's newfound scrappiness under Trump is itself an admission that the US was on its back foot all along. (Hence the second "A" in MAGA.)

Those who doubt the significance of China's rise can point to how the US is still the world's largest economy, China's GDP being only 65%-70% that of the US's. Chinese labor productivity is also only one-fifth that of the US, and US GDP per capita is three and a half times that of China's (in Purchasing Power Parity $ 2018). And finally, not to forget, the US is still by far the world's preeminent — if increasingly diffident — military power: it has 23 times the number of China's nuclear warheads; 24 aircraft carriers to China's one; and 14 nuclear submarines to China's seven (even neglecting quality differences).

So from this viewpoint — which may well be that of the Trump administration — one might think China's rise can still be stopped if only one could block the unfair advantages China has thus far enjoyed. These include its easy access to US markets, its industrial espionage and copycatting of US intellectual property, its burdensome restrictions on foreign investments, and its sporadic exchange-rate manipulation. MAGA indeed!

Two factors however work against this project, suggesting that this is like closing the door after the Chinese horse has already left the US barn, having eaten much of the hay.

One is the sheer size of China's middle class. Decades of rapid growth have resulted in a fact reported by Credit Suisse in 2015: that the number of Chinese individuals with the same net worth as a middle-class American ($50,000-$500,000) had exceeded the latter in number (109 million versus 92 million). But even that is an understatement. If we use a lower global threshold for middle-class net worth, say $10,000-$100,000, we get the results shown in Table 1. By this measure, Chinese persons already make up 40% of the world's adults who are middle class or richer. The US and Europe together constitute less than 30%.

Table 1. Adult individuals with net worth of $10,000 or more (2018)

Country	All adults (in 000s)	Mean wealth per adult ($)	Middle class and richer adults (in 000s)			Share in world middle or richer classes (%)
			($10,000-100,000)	($100k-$1 m)	More than $1m	
China	1,085,003	47,810	641,272	77,675	3,480	39.8
USA	242,972	403,974	82,940	95,177	18,763	10.9
Europe	589,373	144,903	181,788	143,201	12,439	18.6
World	5,025,085	63,100	1,335,293	436,417	42,155	100.0

Source: Global Wealth Databook 2018 by Credit Suisse Research Institute

The significance of this fact — which represents global market power — cannot be overstated. It is the reason China is already the world's largest consumer market for everything from smartphones, to washing machines and refrigerators, to automobiles, to air travel. It is even closing in on the US in film box-office revenues — which is why Matt Damon might continue to make bad movies set in China (viz. *The Great Wall*) and Hollywood can in good conscience produce mindless action flicks with minimal dialogue (*Furious 7* earned more in China than in the US).

That last bit is important. Part of US economic preeminence is built on a cultural hegemony — pop culture and the aspirational consumer lifestyle are still defined primarily in Western and American terms. When economic hegemony passed from Britain to the US, a cultural and linguistic continuity was nonetheless preserved that created a large market (e.g., witness the back and forth from Chuck Berry to the Beatles to the Monkees). This time is different, however. A US state department official recently described the rivalry with China as "the first time we will have a great power competitor that is not Caucasian" (Whoops!). For its part, China faces the hurdle that it cannot readily hitch its commerce onto the prevailing culture. Chinese is still not "cool." So its brand equity must be based solely on price and technology.

It is uncertain how far China's market dominance will ultimately reshape the world's cultural norms (or conversely how far the Chinese middle class itself will adopt Western tastes and values). We do know of course that it's already reshaping politics. But capitalism can and will always adjust itself to the paying customer, and enough money will always go a great way towards changing even the most established norms and cherished values. So there is bound to be some trend in world commercial culture to cater for Chinese tastes and even politics. Facebook, for example, has agreed to develop censorship software just to enter the Chinese market. To suit Chinese tastes, GM is said to have incorporated feng-shui principles, gone overboard on luxury, and used monotone colors (reminiscent of ink-wash painting). As the old German saying goes, *Wes Brot ich ess, des Lied ich sing* (Whose bread I eat, his song I sing).

Bottom line for us civilian bystanders who are neither big producers nor big consumers: it's time to get used to pesky Chinese subtitles in Hollywood films. Or, more culturally ambitious still, maybe it's time we learned to adorn our prose with lines from Chinese poets instead of Shakespeare or Whitman. Here's one by the way from Li Bai (701-762) that seems to describe the government's war on drugs:

"When the hunter sets traps only for rabbits, tigers and dragons are left uncaught."

Why China is unlikely to go away anytime soon

(Last of two parts)

July 28, 2019

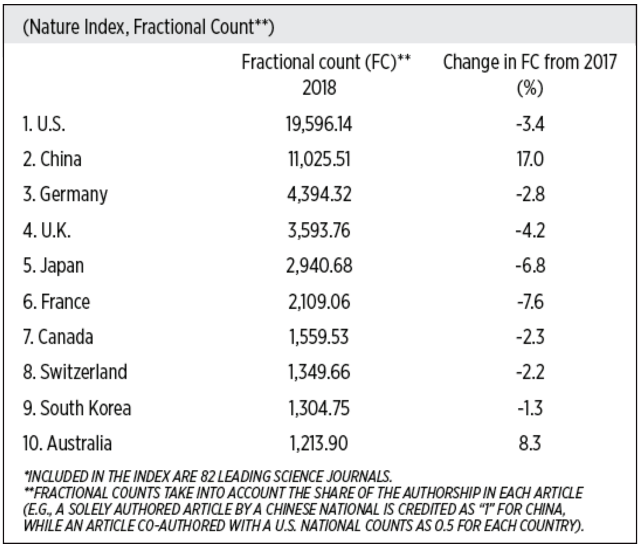
ASIDE FROM ITS SHARE of the global market owing to its burgeoning middle class, the second portent of China's inevitable rise is the rapid growth of its science and technology (S&T) capabilities. To be sure, China's S&T is still nowhere as established or prestigious as that of the US or Europe. As proof: there has still been only one entirely home-grown Mainland Chinese Nobel Prize-winner in science — Tu Youyou, a female scientist who established scientifically the effectiveness of a traditional cure for malaria. Significant and helpful but hardly the stuff of cutting-edge innovation.

But competing for strategic and economic dominance does not necessarily require one to accomplish breakthroughs on the commanding heights of science. Instead, one only needs access to the expanding global pool of useful knowledge and to be adept at applying it to commercial (as well as military) ends. For this purpose, it is not Nobel Prize-winning scientists one needs but rather many proficient applied scientists and engineers. This is the lesson learned by all industrial latecomers, including Germany and the US itself relative to Britain, Japan relative to the US and Europe, and, more recently, South Korea relative to the US and Japan.

China has been prolific in this regard. In terms of STEM graduates, China overtook the US in producing first-degrees (baccalaureates) in science and engineering (S&E) as early as 2000, then exceeded the totals for eight European countries sometime in 2004. In 2014, China produced 22% of the world's S&E baccalaureates. Fully 42% of all Chinese baccalaureates are in STEM fields. It is a similar picture for the even more important doctorates: China as a country now produces the largest number of science and engineering PhDs in the world (including Chinese nationals schooled abroad), having overtaken the US in 2007. It is telling that these statistics come from the US's own National Science Foundation, whose citation of these figures implicitly expresses its own anxiety over China's rapid catch-up and lead in S&T. The availability of this pool of scientists and engineers is what underpins Huawei's confidence that it can survive and continue its global 5G rollout despite a US embargo. Shenzhen itself, where Huawei is based, is reminiscent of Silicon Valley, a beehive of startups each trying to come up with the next big thing. A large domestic market, combined with technological capacity, gives Chinese entrepreneurs the confidence to experiment and innovate, with the prospect of ultimately attaining the economies of size and scope achieved by Alibaba and Tencent.

Besides achievements with commercial applications, the quality of China's S&T, though still not at Nobel-winning levels, is nothing to scoff at and by some measures has already caught up. Scientific publications are one indicator. The index compiled by the journal *Nature* for 2018 (see Table 1) still shows the US as the top country in terms of contributions to top science journals (equivalent to about 19,600 articles in so-called "fractional counts" or FC). But China is a close second (11,000 articles) outdoing Germany, the UK, and France combined. More ominously, China showed the largest increase in the *Nature* Index while the US and virtually all other countries (except Australia) showed declines. (For the curious, only Singapore, Thailand, and Vietnam even make the list in Southeast Asia.) The top institution producing high-quality scientific articles globally is the Chinese Academy of Sciences, with a fractional count of 1,679 — versus 846 for second-place Harvard. In mathematics and computing, Tsinghua and Harbin Institute outrank Stanford, MIT, and Berkeley in the top one percent of most highly cited scientific papers.

Table 1. Top countries producing high-quality research in top scientific journals* (2018)



(Nature Index, Fractional Count**)

	Fractional count (FC)** 2018	Change in FC from 2017 (%)
1. U.S.	19,596.14	-3.4
2. China	11,025.51	17.0
3. Germany	4,394.32	-2.8
4. U.K.	3,593.76	-4.2
5. Japan	2,940.68	-6.8
6. France	2,109.06	-7.6
7. Canada	1,559.53	-2.3
8. Switzerland	1,349.66	-2.2
9. South Korea	1,304.75	-1.3
10. Australia	1,213.90	8.3

*INCLUDED IN THE INDEX ARE 82 LEADING SCIENCE JOURNALS.
**FRACTIONAL COUNTS TAKE INTO ACCOUNT THE SHARE OF THE AUTHORSHIP IN EACH ARTICLE (E.G., A SOLELY AUTHORED ARTICLE BY A CHINESE NATIONAL IS CREDITED AS "1" FOR CHINA, WHILE AN ARTICLE CO-AUTHORED WITH A U.S. NATIONAL COUNTS AS 0.5 FOR EACH COUNTRY).

Source: Nature Index

Then there are the obvious publicity-grabbing results, as noted by the London *Economist* in a survey earlier this year, including such "big-science" feats as the first satellite landing on (and data transmission from) the dark side of the moon, the most powerful supercomputer, the largest radio telescope, audacious experiments in cloning (the latest being on monkeys) and gene-editing (including its unethical first application on human babies), and possibly the world's largest particle accelerator just to study the Higgs boson.

The US administration has recently sought to curtail this rapid Chinese catch-up by restricting access to its own advanced technology. This explains such measures as the restrictions on sales to Chinese firms like Huawei "for security reasons," the demand for China to stop compelling tech transfers as a condition for accepting foreign investment, the curtailment of contacts between Chinese and US academics and scientists, and even tighter restrictions on US visas given to Chinese students.

But all this may be too late. There are real signs that Chinese S&T may have — to use a physics simile — "gone critical," like a nuclear pile capable of a self-sustaining chain reaction. In short, Chinese S&T may be able to subsist on its own, thank you. This does not mean it can produce all the most fundamental results alone — no S&T system can do that. What it does mean is that Chinese scientists and engineers can take publicly available useful knowledge and fundamental results and then quickly adapt these and improve on these to serve their own strategic ends, whether commercial or military. They will also produce their own results that Western scientists will inevitably be interested in knowing (e.g., who would not want access to the world's largest particle accelerator or fastest supercomputer?) Fundamental science by its nature has an existential drive for publication (and therefore a public character), so it is difficult to prevent basic results from diffusing. The key lies not mainly in knowing fundamental principles — which can be learned from textbooks and journals — but in having the capability to apply them. The latter China can already do. The US's attempt to stop Chinese benefiting from Western science may, as Coleridge put it, be as futile as "drawing nectar in a sieve."

Bottom line: China will be around and in a big way for some time. To the Duterte administration's credit, it has quickly recognized China's rise and determined the importance of dealing with it beneficially rather than ignoring it or taking an openly hostile stance. Nor will China's importance for the Philippines begin and end with Duterte's presidency. Dealing with a confident and assertive China will be an imperative even, say, under a President Robredo.

The administration's specific conception of a China strategy, however, leaves much to be desired. Confronted with the reality of Chinese dominance, the only master plan the administration seems able to conceive of is that of the female baboon that presents its red swollen rump to the male's face. That has yielded neither respect nor benefits. For all that China's giant middle-class market, abundant capital, and technological prowess could have offered, all the country has gotten thus far under its baboon-strategy is permission to fish in our own shoals and the large-scale, often illegal, employment of Chinese nationals in what is an illegal activity (gambling) in their own country. (A remarkable export of labor rather than capital from a rich to a poor country!)

The realization that China is an economic and military superpower has instilled a natural feeling of awe in our leaders, a quite understandable reaction especially for those with small-town provincial origins. (Not the first time, though: Aguinaldo too was a mayor who failed to fully understand US imperialism and prematurely sought accommodation.) As a smelling salt to regain their consciousness, our leaders perhaps need to remember the words of a lesser-known Chinese poet, who wrote (caesura supplied):

> A weak nation can defeat a strong,
> A small nation can defeat a big.
> The people of a small country
> can certainly defeat aggression by a big country,
> If only they dare to rise in struggle,
> Dare to take up arms and grasp in their own hands
> The destiny of their country.
> This is a law of history.

Postscript: The economic, technological, and strategic competition between the US and China has not changed and may even have sharpened with the change in US administration. In his first foreign policy speech on February 4, 2021, newly-elected US President Joe Biden pledged to "take on directly" the challenges posed by China, which he termed "the most serious competitor" to America.

Patse-patse na, pitsi-pitsi pa (and a way forward)

September 13, 2020

AN IMPORTANT TASK of national leadership is to highlight information that would otherwise be ignored or set aside. Sometimes this can be as vital as telling the public that it is possible to sterilize their face masks with kerosene. At other times it is to place items on the national agenda that were previously thought to be too contentious or difficult to implement but which new circumstances have made urgent.

Unemployment insurance is one such item.

To be honest, I did not expect to write on this topic — at least not this soon. But I caught Vice-President Leni Robredo's televised address on Aug. 24 and was pleased to hear that among her suggestions to address the current health-cum-economic crisis was to institute an unemployment insurance system. She also pointed to the fact that a bill towards that end (HB 7028) had already been filed by Marikina Rep. Stella Quimbo. (Call me biased: but with two eminent alumnae of the UP School of Economics behind it, the idea cannot be ignored.)

Far from being a nefarious Opposition Idea, unemployment insurance (UI) is in fact buried somewhere in the government's 2017-2022 Philippine Development Plan (p. 158), which calls for an "unemployment protection system possibly in the form of unemployment insurance." (*Medyo nag-hesitate pa nang* slight. [With a bit of hesitation.]) Given the kilometric laundry-list that constitutes the government's "priorities" however, this proposal would likely have been left to shrivel and die if the vice-president and the Marikina representative had not picked up on the matter — and the pandemic had not happened.

The pandemic has shown up the shortcomings of the country's social protection system. At the height of the lockdown in April, more than 7.2

million workers were unemployed. Though this has come down somewhat to 4.6 million by July, the number is still 88% more than the unemployed in the same period last year.

The government response has been disjointed and patchy, to say the least. The Social Security System (SSS), the institution that comes closest to providing any formal unemployment benefits at all, gave a whopping one-time maximum grant of ₱20,000 each (i.e., ₱10,000 tops for two months) to an equally-whopping 60,000 members — a joke in the face of the millions who became unemployed. But one must remember this system itself was always far from being comprehensive: SSS membership even today covers less than one-fourth of all private sector wage- and salary-earners. The nonexistence of any formal unemployment insurance system has led instead to the exigency — some would say the excuse — of assistance having to be coursed in multiple forms through different channels. Hence we have cash assistance to formal workers through the Department of Labor and Employment (DOLE; ₱3.2 billion); SSS subsidy to small-business owners based on employment (₱51 billion); cash assistance from DOLE for overseas Filipino workers (OFWs; ₱1.5 billion); various loan programs and credit guarantees to small businesses (₱120 billion); support coursed through local governments (₱36 billion); training programs and livelihood kits through the Department of Trade and Industry (DTI; ₱1.2 billion); and of course the ₱250-billion biggie: the subsidy program distributed through the Department of Social Welfare and Development (DSWD) to low-income families.

There is not even a pretense that any of these programs would systematically cover the majority of their intended beneficiaries. Nor that the amounts given are sufficient for the scale of the problem and the urgency of need. Still, billions are given willy-nilly by agencies to this or that sector, following one or the other set of priorities or procedures, at times conflicting, at times overlapping, but never really quite scrutable with respect to how well they achieve their overall goals. Rep. Quimbo's bill — which is well argued and worth reading[1] — describes the system as "fragmented," "non-inclusive," and "limited." Or we might simply say: *patse-patse na, pitsi-pitsi pa* (not just patchy, but skimpy).

[1] House Bill No. 7028: "An act instituting a national unemployment insurance program for the Philippines and appropriating funds therefor" (PhilJobs Act of 2020). Introduced by Rep. Stella A. Quimbo.

How differently (and transparently) things might have gone if a comprehensive UI system had been in place instead. One must proceed from the presumption that the vast majority of the formally employed will have been covered (oh, and please do away with silly multiple IDs; just have a single and portable national ID). In any case, because it promises more proximate benefits than just distant retirement pensions (which is what SSS and GSIS — Government Service Insurance System — mainly offer today), a UI scheme would likely induce a stronger motive and pressure for membership, especially among "endo" workers who today are beyond the pale of the formal system. With UI, workers, once laid off, would simply file unemployment claims for predictable benefits that were theirs by right and by statute. This typically entails being paid at least half — in Stella Quimbo's bill it is 80% — of one's previous salary for three months.

The principal impact of such a social protection system is to eliminate rationing: no more lucky 60,000, no more favoritism, and no more cruel lottery of the devil-catch-the-hindmost until the budget runs out. If the crisis was more severe and lasted longer than anticipated, the government could simply pass a law topping up or extending unemployment benefits beyond what was normally stipulated. The US, for example, topped up its usual unemployment benefits by $600 a week and extended the payout for an additional three months owing to the pandemic. What is crucial, however, is that the same distribution system is used without arbitrarily changing the list of beneficiaries and by applying uniform criteria. In this way one minimizes arbitrariness and the dissipation of resources.

To be sure, even a UI system would not cover everyone — it is mainly a safeguard against income insecurity for the benefit of wage and salary workers, who in any case now make up almost 60% of total employment. But UI would not cover the informally employed; nor overseas workers; nor the self-employed, who must opt in and pay their share. UI is also not a substitute for the system of direct transfers for poverty-alleviation such as the 4Ps; or loans for returning OFWs to start businesses; or emergency employment for farmers in a province hit by a drought. Such programs exist for other objectives, or for other beneficiaries. Improving income security for the vulnerable and the middle classes — which is what UI does — is not the same as alleviating poverty for the bottom-30%. Tinbergen's iron rule prevails as always: thou shalt have at least the same number of instruments as you have objectives; only fools think they can kill two birds with one stone.

A UI system must instead be viewed as part of a broader spectrum of programs that address the heterogeneous needs of an increasingly differentiated Philippine society. Implied here is the need to move beyond a simple rich-poor dichotomy and, at a minimum, to distinguish between the poor, the vulnerable, the middle class, and the rich. While society is obliged to help all classes thrive, the extent and form of its support must differ for each.

In its normal functioning and short of a deep recession, UI is sustained by mandatory contributions (i.e., payroll taxes) shared between employers, employees, and the government. Much like a *paluwagan*, funds are shared and risks are pooled: since not everyone is likely to be simultaneously unemployed, those who are out of work at any one time can be supported by the cumulative past contributions of those who remained employed (i.e., plus of course employers' contributions, government subsidies, and earnings from system investments). Given the actuarial risk that one could be laid off at some point, it makes sense for an employed worker to pay a premium (say, 1.5% of salary) for compensation benefits in the off-chance she loses her job.

A payroll tax obviously cannot be imposed on the very poor — many of whom (e.g., small farmers and fishers, informal workers) are outside the formal employment system anyway — so such a program obviously makes sense only when applied to the vulnerable, the middle, and the upper classes who can afford it. It is not meant primarily as a poverty-alleviation measure. It would be wrong to think, however, that this makes the matter any less relevant or urgent.

First, it was already a fact — at least until this crisis — that the vulnerable and the middle classes made up the majority of the population. In practice, therefore, income security was and will remain a major problem for most of society. Indeed, the current pandemic shows that the failure to provide social protection in this form is what can pull back many into the ranks of the poor. Second, the fact that some classes in society can pool risks and pay part of their way towards their own income-security relieves the government of some of the burden of direct provision. This then allows the government to focus more of its resources where these are more urgently needed, i.e., direct poverty-alleviation and overall social and human development (e.g., improving the quality of public education, raising the standards of healthcare, providing better infrastructure, etc.). Third, a comprehensive UI system can mitigate economic fluctuations — as it could have done in the current recession — by automatically maintaining minimal levels of income and consumption when aggregate demand and employment fall off. It is, as old-style Keynesians called it, an "automatic stabilizer."

Finally, UI can reduce the social costs incurred when firms and industries must restructure to become efficient in the face of changing markets and technology. In most cases, affected firms must reduce or change the composition of their workforce. The current crisis, in particular, will likely entail large changes in the types of viable industries, skill requirements, employment size, and work-arrangements in a future "new normal." The absence of income-alternatives for current employees, however, increases the social resistance — and the pressure on both government and firms — to preserve employment even in what may likely to be "zombie firms" in the future. Absent UI, the resistance and conflict arising from the employment consequences of such structural changes would be far greater.

With UI, on the other hand, labor mobility is improved and the search for jobs that better match employee characteristics is facilitated. My colleague Ma. Cristina Epetia has found, for example, that college graduates from poorer families are more likely to end up in jobs that are inferior relative to their educational attainment.[2] An important reason for this mismatch is the lack of financial means to engage in a more thorough job-search — a constraint that unemployment insurance could relieve and from which society as a whole would benefit in terms of both higher productivity and lower poverty.

All the above are arguments meant to show that unemployment insurance brings advantages above all for the employee, but also for the government, the employers, the macroeconomy, and society as a whole. While further public discussion will no doubt produce counter-arguments and require thrashing out many details (for which the proposed PhilJobs Act is required reading), the more crucial step is to table an idea that is long overdue.

It would be foolish to wait for the next crisis to act.

[2] Epetia, Ma. Christina. (2018). "Overeducation among college graduates in the Philippine labor Market." PhD dissertation submitted to the UP School of Economics.

Agora:
The shrinking public square

October 18, 2020

THE 2009 FILM *Agora* depicts the tragic fate of Hypatia, the female philosopher and mathematician (portrayed beautifully, if historically inaccurately, by Rachel Weisz) who lived in Alexandria in the 4th-5th century CE. Even under a Christian Roman emperor, Hypatia's Alexandria was still the pluralistic, bustling, cosmopolitan Greco-Roman city it had always been, where various pagans (including Neo-Platonists like Hypatia herself) coexisted and transacted with Christians of varying stripes, Jews, and people of other religions. Hypatia's school itself, although a pagan establishment where she taught philosophy, mathematics, and astronomy, catered to both Christian and non-Christian students. The agora, the traditional Greek public square and marketplace, was a metaphor for this pluralism of ideas and beliefs.

The tide turned against Hypatia because she had become a close adviser of Orestes, the Roman (but likewise Christian) governor of Alexandria, who came into conflict with Cyril, its new bishop. Cyril's less tolerant and more militant brand of Christianity had caused civil disorder and did not shy from weaponizing mobs of fanatic Christian monks to shut down opposition to orthodoxy. These Christian mobs — much like the Taliban — publicly harassed and suppressed Christian "heretics," drove the Jews out of the city, and closed down synagogues, and at some point even assaulted Orestes himself. They ultimately set their sights on Hypatia, who though pagan, enjoyed a high social reputation.

Rumors were spread that her advice and influence over the governor were turning him away from Christianity and that she was to blame for the discord between governor and bishop. She was even alleged to have engaged in witchcraft and satanic practices. In the midst of such calumnies, which she largely ignored, she was ambushed in 415 CE by a mob of fanatic Christian clerics. The details of her murder are horrible: dragged out of her carriage, stripped naked, stoned, eyeballs cut out, body torn apart, pieces dragged through town, then set on fire outside the city limits. Thus ended the life of the editor of Ptolemy's *Almagest* and the great commentator of Diophantus' *Arithmetica*.

Through the ages, Hypatia's fate has served as a cautionary tale of how easily reason and science can be snuffed out by a wave of lies and false rumors, fed by a rich subsoil of intolerance and superstition, leading to tragic extremist violence.

One thousand six hundred years later, we must wonder whether a similar phenomenon is not upon us.

Various trends — both political and technological, and not only in this country — have shrunk the public sphere of tolerance and reasoned discussion.

The political scientist Shawn Rosenberg (2020) recently attracted attention for his pessimistic prognosis of the survival of democracy in the present era. His pessimism is grounded in the difficulties involved in fulfilling even the minimal requirements for liberal democratic governance, which demands a lot from a society's institutions, culture, and citizens. One such requirement is the peculiar way citizens in a liberal democracy ought to engage with each other in the public sphere.

What Rosenberg terms "communicative engagement" aims at arriving at "**a shared understanding of issues and circumstances** so that the individuals involved can come to agreement on the actions they should collectively take" (my emphasis). While citizens may differ in their personal frames of reference, they are still required to understand the bases for others' positions (that moral sentiment Adam Smith called "sympathy") and indeed remain open to the possibility of incorporating some elements of the others' viewpoint in one's own understanding. Hence, for example, Delawans should ideally not simply deny but seek to understand the Dutertard concern for the local peace and order and the drug problem.

Conversely, the latter should appreciate the former's concern that an indiscriminate drug war would violate human life and dignity, particularly among the poor and marginalized. In the ideal outcome, collective action could have resulted in addressing the drug addiction problem in a manner that respects human rights. Whatever shape of policy is finally adopted, however, what one seeks to avoid is a gravitation to extremes, encouraging instead a willingness to learn from errors and adjust future actions.

This is a far cry from today's political discourse, much of which consists of brickbats lobbed from a distance (e.g., through social media) by hostile camps that question each other's sincerity, mental competence, and fundamental honesty. To begin with, a "shared understanding of issues and circumstances" is hardly even possible when information is fragmented, manipulated, or even suppressed. The reasons are partly political, and partly technological.

Until some decades ago, the clear venue for "shared understanding" — the modern equivalent of an agora — was the mainstream media, curated and arbitrated by elites consisting of career journalists, political pundits, academics and other experts, governed by their respective Weberian professional ethics. Verified facts, structured political discourse, and informed commentary were commonly experienced by the public at large through "newspapers of record" (e.g., the *New York Times*, *Le Figaro*, or the *Times of India*) and major networks of television and radio (e.g., NBC or CBS in the US, ZDF in Germany, or ABS-CBN and GMA here at home).

A common trend in most countries that have drifted towards authoritarianism, however, has been the delegitimization and vilification of mainstream media. Trump in the US rails incessantly against the "lamestream media" for being systematically biased against him. Brazil's Bolsonaro and Hungary's Orbán sing the same tune, accusing their countries' independent press of spreading "fake news." Here at home the continuing campaign of Duterte and his supporters against the "yellow press" needs no long discussion. The greatest success of this campaign was reached with the shutdown of ABS-CBN, the country's largest radio-TV network with the widest nationwide reach, thus depriving millions of their source of news and thus the opportunity for "shared understanding." (Especially deprived has been Mindanao, since TV coverage was limited to begin with: while 85% of adults in Metro Manila obtain their news from TV, it is only 69% for those in rural Mindanao.)

Even without its active suppression and denial, however, the influence of mainstream media (e.g., print, broadcast) was already being vitiated by the rise of social media platforms such as Facebook, Twitter, Instagram, etc. This has coincided with the almost universal diffusion of smartphone technology and broadband access. Pew Research reports that some 62%

of Americans already get their news primarily from social media. The corresponding figure for the Philippines is far less (8% nationally but 15% in NCR; for that blame the slow and expensive broadband access), although it is significant and growing among the youth, the college-educated, and the more affluent — in short, the socially influential.

Offhand, one would have expected the availability of multiple sources of information and the ability to interact directly with one's fellow citizens (i.e., in contrast to the one-way experience of a TV or radio broadcast) to widen the chances for "communicative engagement" and to raise the quality of discourse. In practice, however, the commercial model underlying much of social media has proved an obstacle to the demands of liberal democratic governance.

The value-proposition of such platforms is to heighten the engagement of the individual consumer by indulging and amplifying her biases and preferences — which can be achieved only by gathering ever more information about the person. Amazon's "recommends" and "also-bought" strips are an innocent enough application (although Netflix's *Social Dilemma* has a more sinister take). Such a granular model of the customer is obviously more potent than advertising through mainstream broadcast, which at best addresses itself to the modal person or some broad demographic and is therefore diluted by diversity. Facebook's news feed feature, for instance, uses an algorithm that puts a premium on sites that you — or your FB friends who are similar to you — have "liked" or commented on in the past. This is quite unlike the plain old newspaper delivered to your door, or the linear evening newscast you must sit through that is curated and pitched to EveryPerson and contains both stories you may like or dislike. The big difference is that while the latter provides heterogeneous news and opinion (or at least tries to), the former cuts out diversity via algorithm. Thus, while sensible — if addictive — from a marketing perspective, granular marketing applied to politics runs counter to the cause of democratic engagement, whose purpose is not to reinforce biases and preconceptions but to see through and overcome them.

The marketing literature also recognizes a reinforcement of engagement from the creation of "brand communities." Community members built around certain brands or products derive benefits such as hedonic enjoyment, getting information, connection (to something bigger than themselves), self-expression, and getting validation, and others (Baldus et al. 2015). It becomes obvious then that engagement — and therefore potential ad revenue — increases when like is combined with like (not a pun). A similar principle is involved in Kremer's (1993) "O-ring" theory of production, where assortative matching of workers with the same skill levels produces more output than when mixed. This insight is harmless enough when implemented to stoke, say, a virtual community of Dyson hair-care device enthusiasts or of Montblanc pen owners.

Applied to political discourse and communication, however, the same algorithms for engagement encourage the formation of sectarian and highly opinionated groups that reinforce each other's biases and prejudices. As shown by recent experience (Facebook's removal of fake accounts associated with government and the military) it then becomes that much easier for political operatives and malicious state actors to "seed" the formation of such groups through fake accounts and troll farms that manufacture lies and propaganda. But as the adherents to the infamous QAnon conspiracy theories in the US show, the tendency is organic to social media and to human psychology and can thrive even without purposive encouragement by political operators. The net effect is the same however: the drawing of sharp battle lines between groups and the stoking of mutual animosity — which after all is clickbait nonetheless.

Here at home, Dutertards and Delawans on social media may "engage" each other by constructing the wittiest insults, jokes, memes, rumors, and fake news that provoke the opposite side and earn applause, likes, and retweets in their respective digital bubbles. (Earning clicks both ways.) But, for all the noise, and much like two mobs shouting at each from opposite sides of the street, these do little to serve democratic governance, much less "communicative engagement." Heckling is not persuasion; quarrels are not debates.

The public sphere is being narrowed by direct suppression of its traditional venues — made even worse by the physical isolation imposed by the pandemic — and their superficial replacement by algorithmic engagement in social media. The net result is to foster social division and, worse, to make the majority of citizens lose interest in and turn away from substantive political issues altogether. This can only serve those whose agenda is to deprive ordinary citizens of initiative — and to maintain the monopoly of information and power for themselves.

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Smokestacks in a storm

November 22, 2020

THE APPALLING HUMAN and economic toll of the recent typhoons has led to ritual finger-pointing and recrimination among government agencies. A prominent example is the argument over the role played by the release of dam water, particularly from Magat Dam, in exacerbating the floods experienced in Cagayan and Isabela. The provincial government of Cagayan has now threatened to sue the National Irrigation Administration (NIA), which operates Magat Dam, for the damage the flooding has caused.

And — as called for in the usual script — a congressional fact-finding investigation is also in the offing.

In their own defense, the dam operators point out that not being able to relieve the pressure on the dam would have led to a dam break and an even worse catastrophe. In a possible court case, the province would need to argue that the dam operator's behavior rose to a threshold of negligence that led to a strict liability. Against this, the dam operator will likely contrapose a defense of statutory privilege (Magat was ordered built by the dictator Marcos in 1978), *force majeure* (the fact of the typhoon itself), and processes beyond the dam owner's control (e.g., watershed denudation owing to logging, mining, and the river's meander).

On the narrow issue of negligence, the dam operators' main argument is that they followed the letter of the existing protocol for releasing dam water, that is, providing sufficiently early warning about the timing and volume of water about to be released (it is said, via email, text messages, and hard copy). This, after all, was all that was required under their "mandate."

All these narrow legal points however obscure a larger problem. This much became evident in an *Inquirer* interview with the Cagayan governor, Manuel Mamba, who was quoted as saying, "*Sa amin*, we don't know the extent of the effect on the flooding itself. *Kahit na sabihin mo sa aming* 6,000 [cubic meters per second of water], *kahit sabihin mo sa aming apat na* swimming pool per second *ang mailalabas niya… 'Di naman [kami] sinabihan na magpa-evacuate na kayo dahil mag-release kami ng ganito, ganito kasi ang mangyayari*, they do not even tell us *dahil hindi nila alam kung gaano kalalim.*'***Di nila alam kung anong epekto ng binibitawan nila***" (my emphasis). (Even if you tell us 6,000 [cubic meters per second of water], even if you say you will release four swimming pools per second… They did not tell us to start evacuating because we will release this much because this will happen, they did not even tell us because they did not know how deep. They did not know what the effect of what they released would be.) The newspaper report then goes on to speculate that the tragedy in question was due to "unclear communication" from the dam operators. But, really, it was more — and worse — than that.

The first and obvious failure was one of science — both its production and use. The governor was complaining that the factual and scientific information provided (i.e., cubic meters of dam water released per second) was insufficient data to act on. The dam operators provided an input into how much they were about to contribute to the river's flow. But the single crucial variable was the predicted overall rise in the river's flood level taking everything into account, i.e., not just the dam's contribution but also how much rainfall there had been, the river's present carrying capacity, the level of ground saturation, its meander, etc. — all of which in turn depended on longer-term processes such as siltation, changing forest cover, land use especially in the watersheds, and climate change (yes, Nonoy, that too).

A second piece of useful knowledge would have been the areas of settlement at various elevations that were at risk of, say, inundation or landslides given varying levels of rainfall and flood. None of these data were apparently readily available — not even now. Producing the data and making them available, but more importantly piecing them together in actionable form, was a task that fell between chairs: it was viewed as the responsibility of neither the dam operator NIA, nor the local government, nor PAGASA (Philippine Atmospheric, Geophysical and Astronomical Services Administration), nor DENR (Department of Environment and Natural Resources), nor of any single government agency for that matter.

Joel Mokyr, the doyen of the history of technological change, draws a distinction between "propositional knowledge" (*episteme*) and "prescriptive knowledge" (*techne*), i.e., the "what" as distinct from the "how." Propositional knowledge is knowledge of natural laws and of cause-and-effect relations in the abstract — say, that wind loads and wind uplift of a certain force will threaten the integrity of buildings of certain types. Elements of prescriptive knowledge, on the other hand, "consist of 'do-loops' replete with 'if-then' statements instructing one how to carry out activities…" (Mokyr 2002: 10). In the case of typhoons, which occur frequently, both types of knowledge are by now established and well-known. The propositional fact that winds of 100-185 kph will rip the roofs off most houses of light materials is coupled with the technological "routine" or prescription that tells people to take shelter in stronger structures once Signal No. 3 is raised in their area.

In the case of the Cagayan-Isabela floods, however, this type of science and technology — particularly the codification of propositional knowledge into prescriptive signals and routines — was clearly absent. There is still a gap in the country's warning system in that it fails to translate expected rainfall — particularly when typhoon signals are down, as they were in Cagayan — into predicted flood levels on which local governments can base actionable routines.

The type of integrative science required is not unknown, however, and was already exemplified by the late-lamented Project NOAH. That multidisciplinary project under the Aquino administration, led by UP's Mahar Lagmay and C.P. David and using LIDAR, produced ground-breaking disaster maps under various scenarios for 16 provinces, down to the barangay level. Among its achievements was the establishment of a storm-surge warning system (learning from Yolanda) apart from flood-, wind force-, and landslide-warnings. Unfortunately the program could not be expanded — and therefore did not include Cagayan and Isabela — before its funding support was cut by the incoming Duterte administration in 2017. (The current presidential spokesman cannot now even recall that it existed. Oh, well.)

The second and deeper failure however is one of governance. The government's typical disjointed approach to preparing for and mitigating disasters and other novel challenges reflects the widespread "silo mentality" or "smokestack syndrome" among its agencies. This refers to the inability or unwillingness of agencies to share information and responsibility. Instead, each entity routinely spews out its customary information or follows an inflexible routine as listed in its "mandate" — in the worst sense of the word bureaucratic — without much regard for whether these are still relevant or adequate to the tasks at hand.

While more or less present in all complex organizations with a division of functions, the smokestack syndrome is particularly acute in the Philippines owing to the deep politicization of the civil service. At the beginning of his term, the president personally appoints thousands of his erstwhile supporters into the bureaucracy — from cabinet secretaries down to bureau directors, a global idiosyncrasy — each claiming to have a more or less direct line to the chief and therefore entitled to their own autonomy and discretion in their own larger or smaller domains. Much like the Holy Roman Empire (i.e., medieval Germany), each prince, whether petty or great, has a direct franchise from the emperor which makes others loath to intervene or cooperate — for good or ill. No surprise therefore that in this environment, any initiative for a joint effort will be in short supply and always dependent on prior clearance from ever-higher-ups — and ultimately the president. More importantly, lower subordinates come to develop a parochial patriotism and servile loyalty towards their specific bosses that kills all initiative and makes cooperation and coordination tedious and long-winded.

Proof that this happens will be seen in the strange penchant among departments and agencies for signing MoAs (memorandums of agreement) not only with non-government entities but revealingly even with each other to accomplish some common function that should have been part of their duties anyway. MoA signings — the obligatory pomp and photo-ops are testimony to the arduous effort required to reach agreement — are homologous to treaties between sovereign states. Hundreds of these exist, e.g., between the NIA and the DENR; between the NIA and PAGASA; between the Department of Finance (DOF) and the money laundering council; the DOF and the Philippine Competition Commission (PCC); the Department of Trade and Industry (DTI) and the PCC; the DTI and the Department of Energy (DOE); the DTI and the telecoms commission, and so forth and so on, with even more for lower-level agencies. And here's one for the books: there are actually MoAs signed between a department and its own subordinate bureaus! One example is a MoA between the DOF, the Bureau of Customs and the Bureau of Internal Revenue — suggesting that the latter two are virtually independent kingdoms (which they are).

Apply this to the disaster at hand and view it from the vantage of a local mayor. The NIA operates the dam and has a MoA with PAGASA and the DENR but is concerned only with conditions affecting the structural integrity of its dams — not the total runoff and flooding of the local communities. There is a big data hole when it comes to the effects on a mayor's particular jurisdiction. Of course, local politicians are not blameless, either — they could have pushed politically for the information needed and shown initiative by themselves funding the studies required.

A rare exception that has made the rounds of social media is the case of Mayor Cristina Antonio of Alcala, Cagayan, who earlier on took the initiative to commission a study by UP scientists of the flooding hazards in her town. As even this exemplary case shows, however, although expert advice may exist, implementing it frequently requires powers that challenge the financial and logistical capacities of local governments, as well exceed their jurisdictional authority. The mayor's plea in her social media post in the midst of desperate flooding contained a gem of wisdom: "The problem being complex, the solution is also a **combination of interventions** that should be anchored on science and drawn after scientists have studied the Cagayan River itself" (my emphasis). Under the current system, if the mayor had to solve this problem on her own, apart from finding the finance to do it, she would probably have to work for and sign separate MoAs with PAGASA, the DENR, the Department of Public Works and Highways, the NIA, the Department of Agriculture, among others — not leaving much time till the next typhoon.

In any event, the government's solution to the complex multifaceted problem posed by the recent calamities thus far has been its other favorite response besides MoAs — forming a "task force." BAYAN's Rep. Carlos Zarate counts 15 task forces already in existence (the *Inquirer* counts 18). The so-called "Build Back Better" (actually a post-Yolanda slogan borrowed from the Aquino administration) task force has 24 members — which almost qualifies it to be the entire government. Other observers have rightly observed that the *ad hoc*, time-bound nature and propaganda imperatives of task forces give little opportunity for carefully considered solutions to what are in reality complex problems tractable only by well-founded science. The real impact (and danger) of including many agencies in a task force, however, is that it allows a reallocation of budgets to other priorities the task force may decide on. For good or ill, it overrides the priorities these agencies have set and substitutes for them the task force's own judgement.

In the worst case, a task force will choose and implement priorities that are haphazard and misplaced. As the mayor of Alcala warns, "It is not dredging every which way, it is not putting up a dike here and there. It is knowing, based on sound science, what to do and what not to do…" In the best case, a task force may indeed choose the right priorities for the moment. But task forces will ultimately disband, and once the crisis has passed or media attention dies, the various agencies will go back to emitting their own varicolored smoke — or resting under their own *kulambô* (mosquito net) — until roused by the next catastrophe. This is no way to build lasting institutions.

Postscript: The fragmentation of efforts discussed above has predictably carried over into the response to the COVID-19 pandemic. In the absence of a unified national effort, local governments have had to fend for themselves by devising their own, mutually incompatible, contact-tracing apps. They have also issued their own versions of vaccine certificates. This has been far from harmless. Hong Kong among others has reportedly refused to honor proofs of vaccination of returning overseas workers because these are not "connected to a single source."

Reference:

Mokyr, J. (2002). *The Gifts of Athena: Historical Origins of the Knowledge Economy.* Princeton, NJ: Princeton University Press.

Vaccine ethics

January 3, 2021

EVEN WITH THE HOPEFUL NEWS of successive vaccines being approved for use in various countries, a major issue confronting many societies is who should get vaccinated first. The problem exists since it will be months — and in poorer countries, perhaps years — before the supply of vaccines is actually enough to meet demand.

Even rich countries struggle with the issue. While there is a consensus that healthcare personnel ought to be among the first priorities, a good deal of debate and difference follows over who should be next. A good model of careful thinking however is set by the permanent commission on vaccination of Germany's Robert Koch Institute.[3] It first lays down the social objectives, namely: to minimize death and hospitalizations; to protect people who are professionally exposed to the disease; to minimize further transmission; and to sustain public life and the continuity of government functions. (Note that if the desired objectives had been different, e.g., minimizing economic disruption, the corresponding vaccination priorities would also have differed.)

In the event, with social objectives set, vaccination priorities consistent with them can be determined. These are roughly as follows: first in line are the elderly, with diminishing priority as age declines to 60; second in line are personnel in medical institutions with priority based on the risk of exposure (e.g., frontline doctors and nurses in hospitals ahead of those in private clinical practice or administration); third, persons with underlying conditions carrying a risk of serious illness, e.g., cancer, diabetes, cardiovascular disease; fourth, teachers, school personnel, and persons doing precarious work; fifth — note only the fifth — are key government personnel at national and local levels; and finally all other persons less than 60 years old.

[3] "STIKO-Empfehlung zur COVID-19 Impfung." Advance copy of *Epidemiologisches Bulletin* dated Jan. 14, 2021.

The science and ethics behind these priorities are clear. If the aim is to minimize deaths and hospitalization, immunizing the elderly is the most direct route, since the effects of infection are known to be most severe among the elderly. (In the Philippines, three-fourths of all infections are among the below-50 age group, but roughly 60% of hospitalizations and 80% of deaths occur in the 50-to-89-year-old age bracket.) The same logic holds for prioritizing frontline healthcare personnel, who must immediately be protected against the disease if they are to continue working and not infect the people they attend to. On the other hand, the lower priority given to teachers is also understandable, since their risk of exposure is lower and contingent on the mode of instruction to begin with. Of course, a diabetic 60-year-old teacher might still get higher priority, not because she is a teacher but because of her age and underlying medical condition. The fifth priority accorded to high government officials — quite apart from *delicadeza* — stems from their greater ability to avoid risk and their easier access to quality healthcare if they do get infected. Germany's chancellor Angela Merkel set an example in this regard during her New Year's address when she said: "I too will be vaccinated — when it is my turn."

Here at home, one must wonder whether the same thoughtful science guided by ethics and local conditions has gone into the government's own vaccine program. News reports thus far fail to give the impression of a well-thought-out plan. The public is presented instead with a hodge-podge enumeration of supposed priority groups with no detail regarding their relative importance or the sequence of the rollout. Beyond the clear case of medical frontliners, the list seems more attuned to a prioritization not of the civilian population but of government agencies and employees. Hence it first enumerates "personnel" from departments of education, social welfare, jail management, and customs (!) without distinction as to function.

But seniors and the poor "will also" be among the first, and — "based on President Duterte's wishes" — the police and the military as well. Where almost everyone is a priority, one wonders if anyone really is.

One wonders exactly how such priorities will be implemented in practice. Would an able-bodied soldier or policeman get the vaccine ahead of a 65-year-old with diabetes? Would a customs inspector be inoculated before a factory or transport worker? Or a school principal before an elderly urban poor person? More important than one or the other answer is: why or why not?

This need for a painstaking delineation of vaccine-priorities is based on an economic reality: for an extended period, the supply of vaccines will be inelastic and must be quantitatively rationed to those who are most in need. The invisible hand of the market fails to work its wonders in these cases, since even an above-normal price would do nothing to increase supply, nor is a suppression of demand acceptable on humanitarian grounds. For the same reason (i.e., one that should be taught more in Econ 11), price-controls in areas cut off by natural disasters are a justifiable departure from the otherwise reliable course of letting market forces decide the allocation of scarce resources. In such crises, the limited supply of life-preserving means must be allocated based on humanitarian need and explicit social-welfare criteria, rather than through accustomed privilege and buying power. Flouting social priorities during such times of national crisis, e.g., through hoarding or price-gouging, amounts to a crime.

Now zero in on recent events. A slowly-mushrooming scandal is the revelation that members of President Duterte's innermost circle — including some cabinet members, his own close-in Presidential Security Group (PSG), and some allege even Duterte himself — had surreptitiously secured the Chinese Sinopharm/CNBG vaccine and had themselves secretly inoculated. Various administration officials have since twisted and turned to play down the incident, seeking to limit the damage by painting it as a purely private matter, where: (a) the drug was just "donated" (later revised to "smuggled" so its origin is presumably no longer traceable); (b) the vaccine was "self-administered" by the soldiers themselves (so no physician or other accomplice can be called to account); (c) the vaccination was "purely voluntary" on the part of the soldiers (to pre-empt the obvious human-rights violation of coercing subordinates to be vaccinated with an unapproved drug); and (d) that neither the president nor any of the PSG's higher-ups knew anything about the matter until after the fact (which strains credulity given the president's vaunted omniscience and ₱4.5-billion intelligence fund). This leaves the PSG head to take sole responsibility and fall on his sword. (But not to worry, there's always a safety net and reward for the steadfast. Main thing is to stop the contagion of scandal right there.)

Much of the criticism of these actions has thus far centered on how the vaccine was still FDA-unapproved and therefore possibly unsafe or ineffective. Such criticisms miss the point however. It is precisely because the Chinese vaccine is possibly or likely to be effective that its hoarding, misappropriation, and private use — particularly by key officials — is objectionable.

At a minimum, the proper action should have been to entrust the vaccine supply — approved or unapproved, donated, smuggled or otherwise — to the health department for possible future distribution. (As an aside, the Chinese government has since approved the Sinopharm vaccine for general public use, and there is little doubt it will ultimately be approved by the FDA here as well.)

The incident is a scandal because it is a big slap in the face of a government that pretends to any attempt at a fair social prioritization and orderly distribution of scarce, life-saving vaccines. It is specious to reduce the matter to a private action that harms only the participants themselves: in the midst of dire scarcity, each private action has palpable social repercussions; every act of misappropriation is a deprivation of someone more deserving. The most cogent observation that goes to the heart of the matter came from a nurse who said: "*Parang inapi naman nila 'yung* health workers. *Talagang ipinakita nila na hindi priority*. (It is like they abused the health workers. They really showed that they are not a priority.)" To extend the metaphor of a calamity, these actions are tantamount to government workers hoarding and gorging on donated relief goods instead of distributing them to those most in need.

Unless the full truth is revealed and those truly responsible are held to account, this sordid event bodes ill for popular trust in the seriousness of the government's vaccine distribution plan. It is cold comfort that the plan itself to date is still murky in its principles, priorities, and operational implementation. Even before these details can be sorted out, however, the plan's credibility has already been tainted. The red flag has been raised that not only may safety protocols be breached, but that the orderly and fair vaccine distribution may be corrupted by queue-jumping, supply-diversion, patronage, deceit, and bribery, with priority given to the highest bidder — or the most connected to the center of power.

Rather than take this credibility issue dead-seriously, however, administration officials have pooh-poohed the matter and addressed it instead by: first covering up the incident and denying it even happened. Second, when that failed, disavowing any knowledge of it and shifting the responsibility entirely upon the lowly soldiers themselves. And finally, deflecting attention away from the embarrassing issue by throwing a smoke bomb regarding corrupt public engineers and congressmen (all noise, with little evidence anyway) meant to crowd out news of the matter.

Oh, well, at least now we know what "Mask, *Hugas, Iwas*" (Mask, Wash, Avoid) really means.

Anthropocene

February 7, 2021

TURNS OUT THE YEAR 2020 was even more of a turning point than just because of the COVID-19 pandemic. A fact arguably almost as significant was reported in an article published last December[4] in *Nature*, the redoubtable science periodical: "We find that Earth is exactly at the crossover point; in the year 2020 (plus or minus six years) the anthropogenic mass, which has recently doubled roughly every 20 years, will surpass all global living biomass."

In plainspeak this means that as of last year all the artificial stuff we have churned out and are using, including roads, skyscrapers, malls, churches, public monuments, kitchen appliances, textiles — and, yes, face masks — now weighs more than all living things put together. The authors estimate the overall living biomass (all trees, plants, and animals including humans) weighs 1.1 tera tons (i.e., 1.1 thousand billion tons). That is the milestone number our "stuff" has just surpassed. "On average," the authors led by Weizmann Institute's R. Milo estimate, "for each person on the globe, anthropogenic mass equal to more than his or her body weight is produced every week." At this rate, they figure that human-made artifacts will be three times the living biomass by 2040 and that — as that stuff falls into disuse — the world faces an avalanche of waste in the next two decades. That effect is aside from the destruction of natural habitats from urbanization, pollution and greenhouse gas emissions, industrial agriculture, the overexploitation of marine life, the wild animal trade, etc. — which scientists incidentally suspect bite us back in the form of novel diseases like COVID.

[4] E. Elhacham, L. Ben-Uri, J. Grozovski, Y. Bar-On, and R. Milo. (2020). "Global human-made mass exceeds all living biomass," *Nature*, 588: 442-444. https://www.nature.com/articles/s41586-020-3010-5

These and other findings only bolster the emerging idea that we now live in a qualitatively new geological epoch — the Anthropocene, in which humans have become the dominant force shaping the planet. If the findings in the *Nature* piece are right, we might half-seriously imagine some distant future when a thick layer of geologic rock will be identifiable not by plant or animal fossils but by an unusual amalgam of crushed concrete aggregates, iron beams, glass, and pure aluminum. Some future geologist, after some digging may find corroborating traces of plastic water bottles and sanitary pads and might then exclaim: "Aha, definitely the Anthropocene!"

The urgent problem of the human impact on the planet is the subject of two significant reports that appeared early this year: the first is the UNDP's 2021 Human Development Report (HDR) titled *Human development and the Anthropocene*[5]; the second is *The economics of biodiversity*, a review led by the eminent Cambridge economist Partha Dasgupta and commissioned by no less than the UK Treasury.[6] (We can only dream our own finance department might do something as enlightened — Finance Secretary Carlos "Sonny" Dominguez III chairs the climate change commission but he cheerleads for mining.)

Both reports question whether the current manner that humans relate to nature can be sustained. (Short answer: no.) They provide rich detail and scholarship for the argument and constructive approaches to a solution and are a definite must-read. But there is room here only to highlight a common plea by both, which is for a radical rethinking of how we understand and measure our well-being.

The 2021 HDR demonstrates this by reformulating its own well-known human development index (HDI). To recall: the original HDI is a composite measure of a people's health and longevity, living standards, and educational or literacy (i.e., the state of being "healthy, wealthy, and wise"). Those achievements, however, come at an inevitable cost to the planet because of the pressure on the environment caused by the production and consumption required to achieve "human development." If the index is adjusted to account for (a) the carbon emissions created by a country's output, and (b) the material extracted to meet the consumption by its

[5] Available at: http://hdr.undp.org/en/2020-report

[6] Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/957291/Dasgupta_Review_-_Full_Report.pdf

people, the result is the "planetary pressures-adjusted HDI" (PHDI), an HDI that takes into account the human impact on nature. (See Table 1.)

Table 1. Human development index (HDI) and Planetary pressure-adjusted human development index (PHDI)*

2019 (SELECTED COUNTIES)				
HDI rank	**Country**	**HDI**	**PHDI**	**PHDI Rank**
1	Norway	0.957	0.781	16
6	Germany	0.947	0.814	7
8	Australia	0.944	0.794	80
17	United States	0.926	0.718	62
9	Japan	0.919	0.797	17
79	Thailand	0.777	0.716	71
85	China	0.761	0.671	101
107	Indonesia	0.718	0.691	123
107	**Philippines**	**0.718**	**0.701**	**83**
117	Vietnam	0.704	0.664	110
131	India	0.645	0.626	123
133	Bangladesh	0.632	0.625	124

**HDI AND PHDI ARE VALUES BETWEEN 0 AND 1, WITH 1 REPRESENTING THE BEST SCORE.*

Source: Human development and the Anthropocene, UNDP (2021)

The predictable result is that virtually all countries' HDI must be adjusted downward (e.g., see the third and fourth columns of the table). What is significant, however, is that rich and high-HDI countries are demoted in PHDI rankings while poorer countries tend to rise. The erstwhile top HDI-performer Norway, for example, drops 15 ranks in the PHDI, most likely because its high living standards are based on huge oil and gas exports. The same explains the huge drop for Australia (a drop of 72 ranks), a good part of whose economy is based on mining.

The Philippines actually fares not too badly and actually rises 24 places in PHDI: its economic basis being in services rather than in manufacturing means it has lower carbon emissions; it has fewer extractive industries; and its lower income and consumption also means a lower material footprint. (This is at least one league table where we beat China and Indonesia.) All that notwithstanding, of course, one will still be hard-pressed however to convince present-day Filipinos that they are better off than the average Chinese.

The roughly negative correlation between HDI and PHDI raises the central question whether affluence and human expansion must necessarily be sacrificed to save the planet. Opinions on this diverge widely. But part of the dilemma, according to *The Dasgupta Review*, is a false one and stems from the wrong-headed way we measure wealth and well-being. The pissing contest among countries today is measured in GDP, but Dasgupta et al. say this is misleading. First, GDP is a flow, not a stock, and so says nothing about whether we are living off income in the true (Hicksian) sense and not just running down our assets. (After all, anyone can maintain a high-end lifestyle for a time by slowly pawning off one's inheritance.)

But second, the assets we value are themselves incomplete. Economists, who secretly know better, have complacently tolerated the shortcomings of GDP conventions inherited from a previous century. National-income accounting to this day includes only physical or produced capital (the artificial "stuff" that ends up in geologic strata) neglecting both human capital and natural capital. One obvious example is how education spending, which forms human capital, is still obtusely classified as consumption instead of investment. More perverse is the wholesale disregard for natural capital and the failure to value the services it contributes to real income (e.g., its provisioning, regulating, and aesthetic-spiritual functions). As a result, even the wanton destruction and degradation of natural assets and their transformation into artificial "stuff" can be justified as unalloyed gains in GDP and wealth. In contrast, reforestation, coral reef protection, and similar spending that preserves or expands natural capital are classified as consumption, not investment. This is because the flow of benefits from natural capital are unpriced, regarded as "free," and therefore ignored in favor of marketable "stuff."

While it is technologically possible at any time to turn natural capital into produced capital (e.g., by clear-cutting a forest to build a road, or strip-mining a mountain to extract aluminum for a building), it may not always make true economic sense to do so. A vigorous theoretical debate used to rage regarding how much physical capital ("stuff") and human capital ("smarts") might substitute for the loss of the natural environment ("setting"). But given the rapid deterioration in the biosphere in recent times — e.g., a species extinction rate that is 1,000 to 10,000 times what should be expected — that debate has subsided and a consensus now seems to emerge that the point of no return is fast approaching, if it is not already past.

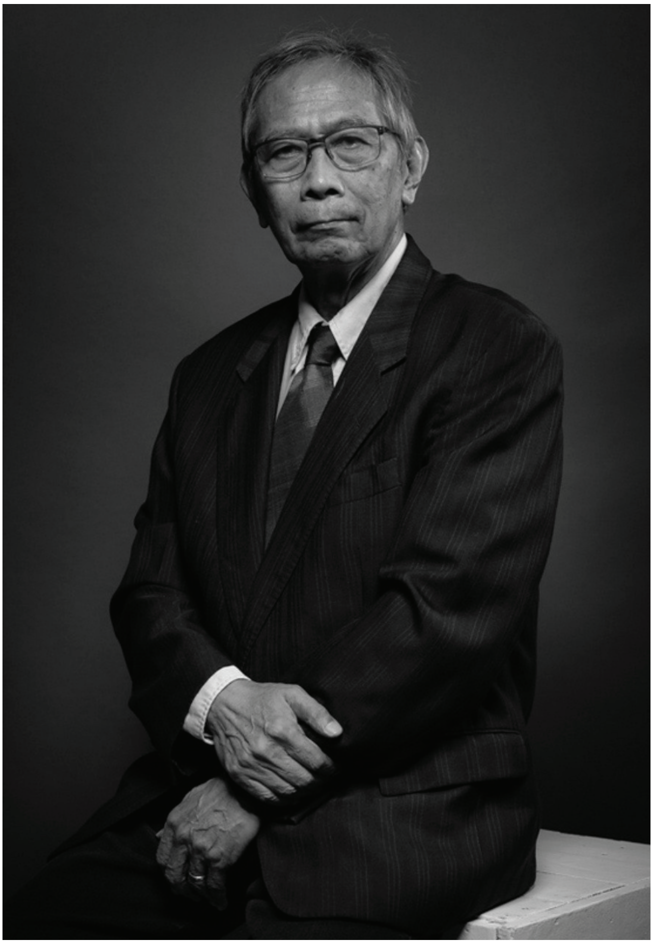
The Dasgupta Review therefore champions the use of "inclusive wealth" to measure welfare. This means valuing and monitoring the level of all capital — produced, human, and most crucially natural capital. By so doing, even when converting natural capital to produced capital or to human capital, society is at least forced to measure not only what it gains, but also what is lost. Dasgupta et al. make the point that the proper valuation of nature, far from being a mere sentimental choice, is in fact a hard-nosed economic one.

Adam Smith in his other great book wrote of how humans were inherently capable of empathy ("sympathy" in the original). Empathy is what allows us today to imagine ourselves in the shoes of our descendants, who in some far future might be confronted by a much-diminished natural environment — perhaps viewing a display of a solitary *balintong* (Palawan pangolin) exhibiting stereotypy,[7] pacing back and forth in its enclosure against the projected image of a rainforest visible only through a VR headset. At that point, our descendant removing her goggles may ask, like Oliver Twist, "Please, sir, I want some more." Then we may well wonder whether we made the right economic choices during our time.

Postscript: The Intergovernmental Panel on Climate Change (IPCC) in August 2021 issued a landmark report affirming the role of human influence in climate change, primarily through "growth"-related emissions of carbon dioxide and methane. The resulting rise in sea levels, more intense and prolonged heat waves, prolonged rainfall, and warming oceans are bound to change entire ecosystems affecting both human and other life-forms. Some effects are now deemed irreversible.

[7] "Frequent repetition of the same, typically purposeless movement."

"The private sector has for decades complained but left to government to resolve the poor quality and high cost of power in the country. Now is the time to step up and be part of the solution. What could be more comforting for private corporations in this age of stakeholder responsibility than marrying the love for Mother Earth and the bottom-line in rooftop solar photovoltaic farms?"



MJ SALUMBIDES OF KEYLIGHT STUDIO

Raul Fabella

The wisdom of the great unwashed?

June 10, 2019

FRANCIS GALTON, the great Charles Darwin's half cousin, first noticed a curious fact in 1907: the average of the guesses of members of the crowd on the weight of an ox in the Plymouth country fair proved more accurate than the opinions of each selected recognized expert among the crowd. There is wisdom in the crowd. "Consensus forecasts" is one modern reincarnation; but now it is the average of a "crowd of experts." The "Delphi method" goes further by using a crowd of experts who, in later rounds, are allowed to modify original predictions based on knowledge of results in earlier rounds with the expectation that the opinions will converge to the true value. The collective intelligence revealed by "social swarms" of networked players mediated by a collective intelligence platform follows the same logic in the digital space, and with surprisingly accurate predictions. The failures of collective rationality are, however, no less spectacular — booms and busts in stock market, Tulipmania, Ponzi schemes, Benito Mussolini, Hugo Chavez.

Surowiecki (2004) set down the conditions that make for one and not the other — members of the crowd must have their own pertinent private information (diversity) and coldly decide based on this information, not on how others decide (independence). These conditions are hard to satisfy in real life but seemed so in the Galton meat market experiment. On the other hand, the wisdom of the crowd becomes spectacularly wrong when decisions are subject to emotion (mobocracy), imitation, herd behavior or information cascades — that is, when individual decisions are made based on how others decide.

In a democracy, majority voting and one-man-one-vote is the platform that mediates collective decision-making. Socrates (*sic* Plato's *Republic*) attacked democracy as a prescription for chaos and advocated totalitarianism under an enlightened dictator as ideal, pointing to the

Spartan monarchy as evidence. This was the dominant opinion until the French Enlightenment philosophers, chafing under the absolute monarchy of the Bourbons, dared to reflect on democracy as the alternative to absolute monarchy. One result of enduring beauty is the Condorcet Jury Theorems due to French Academy member Marquis de Condorcet. He proved that with enlightened voters (competence of greater than even chance to be right), the decision of the crowd is likely to be more accurate than that of the monarch, more so with a larger polity. With unenlightened voters (mobs), the monarch beats the crowd and more so in larger polities. Condorcet paid the highest price for the truth of his own theorem — he was arrested and imprisoned by the rampaging Montagnards mob and died, some say poisoned, in his cell. The conditions for the validity of Condorcet are identical to those that validate Galton's "wisdom of the crowd." Galton, unbeknownst to himself, had stumbled on Condorcet a century later. It took another 50 years, around the 1950s, for the world, now beknownst to itself, to formally rediscover Condorcet.

Why are we in June 2019 harping over these rather abstruse if remarkable social science moments? In May 2019, the Philippine polity voted overwhelmingly to reaffirm its faith in President Rodrigo Duterte. The people dealt the opposition's *Otso Diretso* slate a 0-8 thrashing. And few will say that it was a flawed election; the results hued closely to pre-election surveys. Prominent journalist and respected social critic Vergel Santos' op-ed article entitled "The Philippines Just Became More Authoritarian, Thanks to the People" in the *New York Times* suggests that *vox populi* has been heard. It was not a stolen election and, however distasteful the result to some people, it is the people's decision.

One reading is that the people have reaffirmed its social contract with Dutertismo: less political space in return for more economic space. The people have voted to hand the last bastion of check and balance, the Philippine Senate, to Duterte. He now has a free hand. Did the Great Unwashed give the prim and proper of the Philippines a lesson in discernment? Only time will tell.

And what can this mean? For one, oppositionist obstructionism can no longer be blamed for meager progress in the economic space. Consequently, there is less call to extend a state of emergency in Mindanao to the whole country. Will this new boost of power be used to enable the market to expand economic space? Or will it be used rather to indulge in populist excess that stifles the market? This is the mother of all questions. Deng Xiaoping of China used his autocratic power to enable the market towards shared prosperity; Hugo Chavez of Venezuela used his electoral reaffirmation to pursue aggressive populism that killed the market and engendered shared poverty.

In its first three years, Dutertismo has hued gingerly to the shores of respect for the market; Duterte has largely, if with some slips, honored his promise to leave economic policy to his economic team. What will the next three years bring? Beware of populist excess either from Duterte or from his zealous appointees. It can empty the Treasury and leave little for growing the economic pie; it can sap the energy of the market as will the proposed "Endo" law. Populist excess was what first denied Metro Manila water concessionaires the rightful reimbursement for contracted income tax privilege and then penalized them for the water crisis not their making. But it was not Duterte's; it was the water regulators' altogether, perhaps misreading the boss' intentions *á la* Becket. When Duterte at first correctly concluded that the regulators should be fired for incompetence but then switched to threats to review and void the concession contracts, he was letting his populism trump the market. Unilateral dissolution of contracts without adequate compensation would stifle the market and usher in the twilight of the "rule of law." That is the Rubicon that not even the reaffirmed Duterte can cross without self-damage.

The great Enlightenment theologian and philosopher, St. Thomas Aquinas, identified the Rubicons that not even the Almighty God can cross — HShe cannot sin; HShe cannot clone Himerself, and HShe cannot make a triangle with more than 180 degrees. Either action will destroy the very essence of Godhead. Likewise, trifling with the rule-of-law will destroy economic progress and turn the triumph of the May elections into the curse of the Great Unwashed.

Bottom-line and Mother Earth meet in the rooftop solar power array

September 15, 2019

EVERY SUMMER, when the sun is beating down hard on the archipelago and dam water levels are low, a familiar visitor comes a-calling in the islands. Its name: Red Alert. It comes mostly in mid-afternoons and early evenings. Its message: be forearmed for a power outage is nigh. And when in some areas the warning blows real, economic activity slows down or stops altogether. With some untimely equipment failures, brownouts envelop more areas and a power crisis is declared, followed by the familiar howl and congressional hearings.

We know the terrain well. The Department of Energy will say it's because our power reserves are too thin and power generation must be augmented, preferably with nuclear power. Correct, but no longer newsworthy. The question is why we have let it fester for so long. One reason is that on the whole we have sought relief only in bulking up our centralized generation system.

The centralized system requires large initial and continuing deployment of capital and good regulations to run properly. Capital and good regulations are very deficient in many jurisdictions, resulting in frail and high-cost power service. Frail power systems lead to poor economic performance and poverty. End-users are limited to consumption.

But 21st-century technology has now managed to combine consumption and production of power among end-users at very competitive cost. In sun-drenched areas, the technical breakthroughs in solar photovoltaic (PV) and battery storage are breaking the grip of the traditional problem of intermittence from clouds, rain, and night hours. Battery-power storage is the missing key to unlocking the immense PV potential.

Grid-tying technology is one way out. Grid-tied PV systems use the existing power grid as storage — power produced with solar panels during daylight is exported to the grid when in excess of own consumption; power is imported from the grid when solar power is unavailable, at a price agreed upon with the local distribution utility. This now is a well-traveled territory with known technical and regulatory problems and solutions.

The problem for households is essentially capital constraint — the initial cost of a home PV system can be prohibitive for most households who face competing investment such as for a car. Easy bank financing for a car purchase exists although a solar PV installation is by far a better long-term investment than a car. Banks foot-drag because, unlike a car, solar PV installations are fixed *in situ* and cannot be readily repossessed and resold in a second-hand market.

Big companies or conglomerates are a different matter altogether. First, these are not capital-constrained, and they can readily secure bank financing if needed. Second, they have longer time horizons where solar PV installations are most advantageous. Third, most of these conglomerates already have hectares of idle rooftops in their possession currently earning nothing. If converted into extensive urban solar farms, these idle rooftops can become new revenue streams for these companies. Think about the Ayala Group, the SM Group, or the Gokongwei Group. They spend enormous amounts on purchased electricity and draw enormous amounts of power from the grid; thus, they contribute to the frequent yellow alerts. Some of these companies (SM, for one) already own Retail Electricity Supplier (RES) subsidiaries and thus are accredited electricity suppliers, if only RCOA (Retail Competition and Open Access) is not stuck in regulatory mess. I dare say that if only 30% of the power needs of large public and private establishments with idle rooftops (factories, malls, school and government buildings, supermarkets, gas stations, etc.) are generated by rooftop solar installations, the Philippines can kiss power outages goodbye. And we won't wait years to clear the jungle of right-of-way, environmental permits, and NIMBY issues.

When the grid is down, solar PV installations cannot supply power unless the system is equipped with battery storage capacity. So without battery storage, back-up generators still have to be run on "idling" mode or on rev-up, burning polluting fossil fuel. There are now grid-scale batteries that can deliver 5-100 megawatts of power for hours. These batteries can replace back-ups and peakers as well as feed power into, and stabilize, grid operation. Needless to add, off-grid systems become viable 24/7 only with batteries. The price of these grid-scale batteries is falling fast, what with technical advances, scale production, and competition.

An attractive feature of solar PV installations is that they are modular and scalable. The company can start with a small installation and scale up as the need arises. More importantly they economize on a scarce resource: regulatory quality. There is wisdom in the wit of savvy meat-eaters: "You don't buy meat by the cow; buy meat by the kilo."

Grid stabilization in our centralized power system depends upon pumped-hydro and peaking plants which are switchable at an instant. In the Philippines, an additional stabilizer is the Interruptible Load Program (ILP) — large establishments stop drawing power from the grid and run their own back-up generators when surges of demand threaten to overwhelm the current capacity. These establishments are then reimbursed by the grid operator for the difference in cost. Grid-scale batteries spread among many establishments or owned and operated by specialized battery companies can replace peaking plants and back-up generators as ILP grid stabilizers.

On the battery front, kudos to Aboitiz Power for initiating a 48-megawatt battery storage plant at its Magat Hydroelectric Plant. AES in Masinloc is building a 10-megawatt battery storage instead of a peaking plant to help stabilize the grid. Kudos, likewise, to SMC for committing to build a portfolio of 16 battery storage plants around the country for a total of 520 megawatts. Fossil-powered peaker and back-up plants beware — economics is out to get you. On the rooftop solar farming front, kudos to DoubleDragon Properties Corp. for committing to equip its CityMalls all over the country with solar PV-capacity and even to Celebrity Sports Plaza in Quezon City for being now so equipped.

These companies are retooling to become the disruptors rather than the disrupted in the solar PV revolution! About time the environment committees of Congress consider a contingent tax on idle rooftops — you become exempt only when you generate at least 30% of your power needs. All government-building plans should henceforth include solar PV facilities.

And, by the way, distributed and modular power greatly reduces our carbon footprint even as it raises our resilience to climate disasters. Bottom-line, resilience and Mother Earth meet in the rooftop solar PV!

The case for CITIRA lowering the Corporate Income Tax

Dedicated to amigisimo and contrarian thinker Ernest Leung

November 24, 2019

THERE IS NO QUESTION that the Philippines needs a boost to its dismal investment rate (22%-24% of GDP while our neighbors are punching at 25%-35%). But the question is how? The government's Corporate Income Tax and Incentives Rationalization Act (CITIRA) claims that a lower statutory corporate income tax has to be part of the mix! The subsequent strident debate on CITIRA mostly centers on how the replacement of gross income tax (GIT) at 5% with a corporate income tax (CIT) will impact locators and foreign investment in PEZA, the source of most of our manufactured exports. But truth to tell, this replacement issue, as important as it is, is a derivative one. While overstaying incentives are a legitimate issue, the major prior reason for the restructuring of PEZA incentives — including the replacement of gross with corporate income tax for locators — is to plug the potential fiscal hole punched by the proposed lowering of the statutory corporate income tax rate from 30% to 20%. The crucial claim is that lower statutory CIT will boost investment and growth — a claim, mind you, that is by contrast largely glossed over. Surely, the Department of Finance (DOF) team must have this issue well-covered. But merely pointing to the lower average CIT in our Asian neighborhood (average 20% today), where the investment rate today is higher, is no proof that higher investment rate will result in the Philippines. In 1980s when they were making their move, Malaysia's and Singapore's CIT was at 40% while Indonesia's was at 35%. Nor does it suffice to point to Sweden's and Denmark's corporate income tax at 22% in 2019, since Sweden's was at 60% in 1989 and Denmark's was at 50% in 1985. A cursory check of the evidence seemed in order if only to confirm the claim.

The CITIRA position finds support in Lee and Gordon (2004) who, over a panel data throughout the period 1970-1997 for 70 countries, found a negative and significant relation between growth per capita and CIT. However, Shevlin et al.'s (2016) cross-country regressions found that the association between statutory corporate income tax and per capita income growth for the period 1995-2011 disappears altogether when area-and-year-fixed effects are added — questioning the robustness of the Lee and Gordon result. Of even more interest is their result that statutory corporate income tax does not associate at all with long-run (two- to five-year horizon) economic or employment growth. Shevlin et al. however find that lower effective tax rate (what firms actually pay, accounting for tax avoidance and on average 7.2% lower than the statutory rates) does associate significantly with higher growth. Hunady and Orviska (2015) find a non-linear relation between economic growth and statutory corporate income taxation for the EU economies from 1999 to 2011: positive for lower corporate income tax rates but negative for higher rates (see also, Misuru and Nakamura, 2019). They do not say whether 30% is high. Rebelo and Jaimovich (2018), conceding at the outset that there is no relation between the long-run growth of the US economy and corporate tax rate, nevertheless argue that the 2017 Trump corporate income tax cut can still deliver a bump in economic growth in the short run if the initial tax rate is exceptionally high. They do not say where the high tipping point lies.

How about firm-level investment? Djankov et al. (2008) find that the statutory corporate income tax has no effect on the investment behavior of firms across the world. Foreign direct investments (FDIs) do fall with statutory corporate income tax rates, but the FDI issue in CITIRA is different — a switch from a 5% GIT (with CIT equivalence of 13% as per DOF computation) to a 20% CIT, an effective rise in statutory rates for FDI. By contrast, a higher effective corporate income tax rate (see also Ohrn, 2018, for the case of US firms) does have a negative effect on investment. While the number of studies cited here is limited, the overall flavor is clear: within a reasonable range, statutory CIT and growth/investment are not associated.

The Djankov et al. results draw from cross-country regressions for only one year, 2004. Most of the results in this area of study are for affluent developed economies such as the EU or USA with no allowance made for low-income economies as a group. The behavior of the poor is markedly different from the economic behavior of the rich

— ask the authors of *Poor Economics* and 2019 Nobel Memorial Prize winners Banerjee and Duflo.

That the link between statutory CIT, on the one hand, and economic growth and corporate investment, on the other, seems so tenuous was a surprise. In the long debate over low investment rate in the Philippines in the last two decades, the weak rule-of-law on property rights and contracts, the high power cost, the unstable regulatory environment, and the licensing hurdles for investors were the recognized binding constraints. The corporate income tax came up occasionally only because ours is higher than regional average. If there is no real progress in those other identified binding constraints, the envisioned growth and investment boost from lower CIT may be a mirage. Lower CIT may only finance higher dividends for shareholders, more spirited stock buybacks which reward shareholders, or, if higher corporate investing materializes at all among local firms, it may find its home not in the Philippines but in Vietnam, Indonesia, or Thailand. To embark on a reduction of the statutory CIT and make the export manufacturing sector foot the bill on such unsolid ground seems reckless. I hope I am mistaken and merely missed something really important in this cursory review.

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Venezuela East?

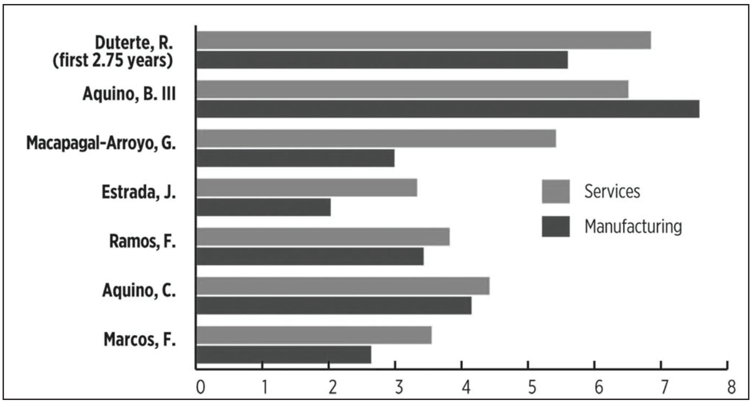
January 13, 2020

TIME WAS WHEN the Philippines held the dubious distinction of being a "Latin American country in the East." Its growth episodes were short and spasmodic; "boom and bust" aptly describes its longer horizon; investment was at a canter; its till was perennially made empty by waste and venality; and government encroached into the market mindlessly. That was also Latin America Post-WWII. The current development tragedy, Venezuela, is the latest and most virulent example of the Latin American disease presided over most times by populist caudillos who supplanted the imperfect market with their own populist-socialist mishmash.

Populist autocrat Hugo Chavez, riding the tailwind of the oil export bonanza, made fiscal profligacy a virtue and, for a while, Venezuela was the star of inclusion as poverty incidence fell by half. His rating was sky-high. Meanwhile he made life increasingly difficult for the market players by government takeover of oil facilities, utilities, banks and other commercial enterprises. When the world price of oil collapsed, successor Nicolas Maduro doubled down on Chavez's policies and resorted to price controls, rationing and massive printing of Bolivar Fuerte ("Bolivar Muerte" in Caracas jokes) to support the populist entitlements. This emptied the supermarket shelves as the cumulative inflation rate went haywire — 53 million percent since 2016. In 2014 and 2015, Venezuela topped off the global misery index; worker take-home pay dropped from $360/month in 2012 to $20/month in 2018; poverty incidence rose to 76% in 2018. As hunger became the norm, Venezuelans started for the border. Caracas earned the epithet "crime capital of the world." All the gains from 2000 and much more were lost in the ensuing two decades. The pattern on populist autocrats is reaffirmed: they buy short-term gains at the price of long-term misery.

Filipinos thought the Latin American Disease was behind us. The administration immediately preceding the current one had, for all its fumbling, managed a new normal growth: high GDP growth (6.5% on average) and with Manufacturing leading the way (7.58% vs. 6.51% on average) the latter no past administration had matched. The current regime promised to match or exceed this new normal. Its record? In the 2.75 years of the current watch, GDP growth, though still fast, has now slowed (around 6%) and Manufacturing even more so relative the Services sector (5.60% vs. 6.85%, see Figure 1). We hope this is just a hiccup in the new normal trajectory which is predicated on high investment rate. But with the investment environment headed for turbulence, who knows what the next three years will bring.

Figure 1. Manufacturing and Services growth performance under Philippine presidents (%)



Source: Philippine Statistics Authority

Since the Singapore arbitral court ruling awarding ₱11 billion to the concessionaires Manila Water and Maynilad, Malacañang now threatens to declare the contracts null and void and expropriate the two companies because of so-called onerous provisions. The concessionaires, under tremendous duress, offered to waive the damage award owed them. There was a rush to anoint Malacañang for being right again. But might does not make right! Nor does a waiver make evidence of guilt! The waiver in fact, even if accepted, is a bad precedent. If the government gets away with raping the contract today, what will keep it from a repeat rape tomorrow? No PPP contract is safe. Any investment of significance can be targeted. Only the cronies will invest.

The government is now out to force feed a new contract on the concessionaires. As press reports have it, the new contract will drop the income tax holiday and the resort to arbitral courts provisions. The government says it wants to have a say on the water tariff.

But government does have a say on the water tariff within the original contract. The rate-rebasing exercise every five years since 1997 is precisely to decide on tariff adjustment petitions based on performance. In 2002, the government regulator Metropolitan Waterworks and Sewerage System (MWSS) denied, on the basis of non-performance on NRW (non-revenue water) performance undertaking, the petition of Maynilad, then under the Lopez group, for a tariff increase to recoup a claim of ₱8 billion. Maynilad, unable to win its case in neutral venues and unable to procure further financing to meet obligations, went bankrupt in 2003. If the government backs its claim with hard evidence in an impartial court, it wins. If it only intimidates as it trifles with the rule of law, it will be rebuffed. Recall that our own Supreme Court in 2015 reaffirmed with finality the 2014 Philippine Court of Appeals decision, following government defeats in arbitral courts, that the Philippine government indemnify Piatco, the contractor for NAIA Terminal 3, the full amount ($327 million plus interest) for unlawful expropriation.

If the replacement contract violates property rights of some parties under the old contract, government must compensate the holders of those rights. "Unlawful expropriation" will cost us dearly as it did in the Piatco case. Incidentally, that the New Clark City airport concession contract has no similar "onerous" provisions is irrelevant: the Metro Manila concession contracts were signed in 1997, not in 2014; the concessionaires made a risky bet in 1997, not in 2014!

The chief architect of the 1997 water privatization, former President Fidel Ramos, stated in a letter to President Rodrigo Duterte that the government negotiated in good faith in 1997 and gave its word that it will respect the sanctity of the contract. On that promise, the bidders were able to successfully negotiate with creditors for financing. The income tax holiday and the arbitral adjudication were integral parts of the viability of the contract, which prompted an aggressive bid to give the consumers substantial discounts on their water tariff in 1997. In other words, they helped pave the way for the water service privatization and for better water service to the public.

On March 2019, Malacañang went ballistic over the water crisis in Metro Manila. But who is to blame for standing in the way of long-identified water impoundment projects? Not the concessionaires. Part of the blame was actually the current regime's as it waffled between PPP and ODA on the one hand and between Japanese and Chinese on the other on bulk water provision. But the government water regulator, MWSS, must take most of the blame for rebuffing or delaying the offers by the concessionaires to construct water security projects. The Cardona water treatment project was long delayed; the Tayabasan East Water Source was aborted; the Kaliwa Low-Intake and Kaliwa Long-Term-Source projects were rejected because MWSS decided that it will procure these facilities by itself! As chief regulator Patrick Ty acknowledged when asked about whose fault it was: "Yes, our fault, because we kept delaying these projects."

Would that the new decade sees the Philippines steer clear of the slippery slope to Venezuela East!

Create

May 27, 2020

CREATE MEANS making something out of nothing. CREATE (Corporate Recovery and Tax Incentives for Enterprises) is a new Department of Finance/National Economic and Development Authority initiative announced in the 14th of May Sulong Pilipinas e-Conference with stimulus in mind. It will replace CITIRA (Corporate Income Tax and Incentives Reform Act). Will CREATE make something out of nothing? Or will it make nothing out of something? Would that it be the former. CREATE's most salient provision reduces in an instant the corporate income tax (CIT) from 30% to 25% instead of gradually as in CITIRA. This move will punch a huge hole on government tax collection (₱625 billion in five years and ₱42 billion this year by government estimates). The authorities hail this as the "largest stimulus program for enterprises" to speed up recovery from the COVID-19 free-fall. The finance department argues that a massive multiplier effect will follow to recover the loss.

Whatever else CREATE is, however, it is not a stimulus boost out of the COVID-19 morass. A reduction in CIT to 25% from 30% qualifies as a stimulus to business activity only if private businesses will be making a profit in the years subsequent and paying 25% instead of 30%. With a looming U-shaped recovery, private businesses will almost surely operate in the red instead of in the black in the next few years. If so, the corporate tax liability will surely go from 30% of nothing to 25% of nothing, meaning a stimulus boost of nothing! Furthermore, when businesses are facing a depressed utilization rate of capital, the canonical response is "Wait" — no new capital investment going forward. Representative Stella Quimbo et al.'s 2016 research result[1] shows that lowering the tax

[1] Quimbo, S.A. et al. (2016). "Do Investments Respond to Taxation and Incentives? Evidence from the Philippines," *Public Policy Journal*, 15(2): 73-121. https://cids.up.edu.ph/wp-content/uploads/Do-Investments-Respond-to-Taxation-and-Investments-vol.15-no.2-2016.pdf

liability elicits new capital spending only when the firm is already in the capital spending mode before the CIT reduction — most likely when the economy is expanding. The expanded NOLCO (net operating loss carry-over) provision is beneficial for companies who will be around five years hence. Many firms will not survive that long. The massive multiplier argument parlayed by the Department of Finance (DOF) for CREATE seems dreamy in a free-falling economy.

There is a good reason why in 1936, at the height of the Great Depression, JM Keynes advocated a demand-side stimulus rather than a supply-side one. In an economy in free-fall, put money in the hands of the hungry poor and they will buy; by contrast, lower taxes for firms or lower the interest rate and nothing much happens. Why? That is like, as a popular quip goes, "pushing on a string." Firms can use the tax bonanza to, if at all, declare dividends to shareholders; they can shore up their balance sheet; they can engage in share buyback; new investment will be the last priority. Government is reeling from COVID-19-related cash burn and President Duterte has ordered the Department of Budget and Management (DBM) to slash other spending allocations to quench the monstrous appetite of the Social Amelioration Program (SAP). Already SAP has exhausted its ₱205-billion allocation and needs another ₱50 billion to include five million more indigents. Other tranches beckon. The central bank has begun the hitherto taboo action of purchasing government Treasuries in support. Fiscal deficit is racing to 8% of GDP as the economy and the tax base shrinks. Congress is scrambling for additional tax revenue from sin and digital products. Why forego much needed in-the-bag tax revenue now?

"A bird in hand is better than two in the bush," goes the old saying, and not without reason. In the pre-COVID-19 times, CITIRA's CIT reduction would have let go of ₱300 billion a year in sure revenue. Letting go was already imprudent when government faced only the financing bubble of "Build, Build, Build" — public and arterial infrastructure being the best use of a country's resources in good times; it is imprudence twice over with the COVID-19 financing boondoggle now staring the nation in the face.

In Socioeconomic Planning Secretary Karl Chua's presentation (at the May 14 Sulong Pilipinas e-Conference), one item in CREATE reads: "For existing investors: no change in present incentives for the next four to nine years." We understand "existing investors" to include existing

PEZA locators, and the grace period of the mandatory switch to CIT from GIT (gross income tax) will be extended by two years. This is a step in the right direction though decidedly paltry. Finance Secretary Carlos Dominguez III's welcome remarks identifies as among the recovery options: "Attract foreign investors to relocate from other countries; pass the CITIRA bill that will include flexible incentives." It is well-known that PEZA locators and the foreign chambers were opposed to the TRAIN 2 and successor CITIRA bill, specifically to the forced shift by all PEZA locators from GIT at 5% to CIT gradually falling to 20% in 10 years. CREATE rehashes the original TRAIN 2 plan of CIT reduction from 30% to 25% in one go. Since by the DOF's own calculation, the CIT equivalence of the 5% GIT is about 17% CIT, potential new foreign investors in PEZA in the next two years stand to pay a higher tax liability (25% GIT) than incumbents paying 5% GIT (17% CIT). Telling foreign investors how much you want them at the same time that you slap them with a higher tax liability does not make for "more fun in the Philippines." COVID-19 has weakened our bargaining position; our vaunted fiscal health is leaking out fast. As a rocket to blast us out of the COVID-19 black hole, CREATE strikes one as underwhelming. There is no echo of the courage shown in Franklin Delano Roosevelt's New Deal. Romy Bernardo, who commented in that same e-Conference, offered interesting and bolder prescriptions.

We are at the crossroads of the rebalancing of global foreign investment away from the People's Republic of China. Vietnam and Indonesia are openly courting with additional goodies and even flaunting their better anti-COVID-19 record. Indonesia especially has been winning the race for US multinationals, one at which we defaulted given Malacañang's overtly anti-US rhetoric. Chinese multinationals on the other hand are flocking to Vietnam despite our assiduous courtship of China.

At the crossroads of the global currency rebalancing in 1987-90, we badly missed the tsunami of Japanese foreign investment. This pulled down our economic standing in the ASEAN and elsewhere for decades. If by our actions, we treat foreign investors as if we don't really care, we could see a reprise of that deplorable rout in 2020-22.

Why not a debt condonation for CARP beneficiaries as stimulus?

July 12, 2020

WE FIRST SITUATE the proposal.

The Department of Finance (DOF), the National Economic and Development Authority (NEDA), and Congress are contesting how best to reverse the economic free-fall wrought by the COVID-19 pandemic lockdown. The DOF and NEDA contend that the best way is to grant private corporations breathing space via a corporate income tax reduction, the centerpiece of its CREATE (Corporate Recovery and Tax Incentives for Enterprises) program. Congress contends that the better recovery program is demand-oriented by saving jobs and income, especially among the SMEs, the focus of its ARISE (Accelerated Recovery and Investments Stimulus for the Economy) bill; and to create jobs by ramping up state infrastructure spending, the focus of its CURES (COVID-19 Unemployment Reduction Economic Stimulus) bill. The total cost of ARISE and CURES together could reach ₱2 trillion or about 10% of GDP. How about CREATE, the DOF/NEDA brainchild? It is a supply-side stimulus program. It seeks to reduce corporate income tax on firms from 30% to 25% and to extend the NOLCO (net operating loss carry-over) privilege to five years. It will also take from Philippine Economic Zone Authority (PEZA) locators to partly pay for the hole created by the CIT (corporate income tax) reduction. Will private firms convert the tax savings into new meaningful investment, create jobs, and put money in the hands of starving millions?

In 1936, at the height of the Great Depression, JM Keynes in his celebrated volume *The General Theory of Employment, Income and Money*, proposed the idea that supply-side initiatives such as lower interest rates for loans or lower income tax for firms in bad times are like "pushing on a string." Nothing happens. Firms batten down their hatches, boost their balance sheet, buy back shares or they pay down debts rather than make meaningful investment while effective demand is nowhere. Dr. Stella Quimbo, now Congressperson, and her team showed as much in their 2016 paper.[2] It's not that firms are greedy; they are just prudent.

Realistically, it is only demand-pulling stimulus mounted by a welfare-oriented, rather than profit-oriented, government that could arrest the negative feedback loop of a free-fall. Classical economists were horrified by Keynes' heretical position: "What? Pay people to dig holes in the ground only to refill them?" asked detractors. President F.D. Roosevelt initiated the New Deal along Keynes' lines — hired idled workers to replant America's forests, build dams and roadways — and this pushed back the crisis.

With the best of intentions, the Bangko Sentral ng Pilipinas (BSP) has weighed in by lowering the RRR for banks and the base interest rate in the hope that banks will lend to firms who will convert the cheaper loans and reserves into investments. Instead, banks and private firms are flocking to the BSP and government auctions for riskless placements. Lending to private corporations and SMEs remains deathly anemic because borrowers and lenders alike know that the returns to investment today do not cover the risk heightened by the slowdown. Both CREATE and the BSP liquidity efforts to stimulate will "push on a string."

But the BSP, buying national government Treasuries to enhance national government's expanded infrastructure spending, is at least thinking out of the box. Such purchases would have been anathema pre-COVID-19. The BSP purchases, through up-scaled government infrastructure spending, would indeed pull rather than push on the recovery string.

ARISE and CURES are more in keeping with demand-pulling but the DOF/NEDA is balking. "Not fundable!" they say. "No money!" beyond ₱140 billion or a ninth of the price tag of either CURES or ARISE. But their own CREATE proposes to condone forward the ₱625

[2] Quimbo, S.A. et al. (2016). "Do Investments Respond to Taxation and Incentives? Evidence from the Philippines," *Public Policy Journal*, 15(2): 73-121. https://cids.up.edu.ph/wp-content/uploads/Do-Investments-Respond-to-Taxation-and-Investments-vol.15-no.2-2016.pdf

billion in tax liability of firms in five years. When Thailand's and Malaysia's anti-COVID budget is 13% and 17% of GDP, respectively, we shouldn't scruple over 10%? The first task of government is to keep the economy alive by every means rather than dead by penny-pinching. Asks an old adage and appropriately, "*Aanhin pa ang damo kung patay na ang kabayo*? (Why harvest the grass when the horses are already dead?)" In the ICU, you "beg, steal or borrow," as the song goes, to save a life. Outpatient-clinic wisdoms may kill the patient.

The best stimulus policy sports both a quick energy boost but also a lingering boost for sustainable growth. These twin requirements are best met by the scaled-up infrastructure spending as, say, for a new dam. While it creates jobs and incomes now, it also ensures added bulk water and electricity supply for the future. There are others.

One stimulus spending idea that clearly meets these criteria is the debt condonation for agrarian reform beneficiaries. Land reform beneficiaries have, by Section 26 of CARP (the Comprehensive Agrarian Reform Program, which expired in 2014!), to amortize the debt they incurred for awarded land to repay the government for acquiring the land. The proceeds are a very small part of government revenues (0.008% of GDP). A hefty 82% of awardees with Land Distribution and Information Schedule (LDIS) are in default. But can one blame them for being in default?

No! For this repayment scheme is a raw deal: the government buys a 100-hectare farm at market price, subdivides it into effectively 50 two-hectare plots, and awards these on condition that the awardees amortize the government for the 85% of the purchase price of the 100 hectares. But 50 two-hectare plots are way less productive than the single 100-hectare farm because of scale economies, mechanization and innovation possibilities, and access to formal sector banking. If the productivity of land in large farms is higher than that in small plots by 15% or more, each separate plot is amortizing a debt much higher than its capacity to pay. That is a recipe for bankruptcy.

A good demand stimulus would be for the government to exonerate wrongly-indentured farmer-beneficiaries by writing off the agrarian-reform debt of beneficiaries. Apart from the short-run boost, condonation has a long-run boost to farm productivity: with full ownership, beneficiaries can now sell or lease their lands to consolidators who will either cultivate large farms themselves or attract large private capital to go into industrial scale farming. The beneficiaries become rentiers on top of having more stable employment in large farms. This is now being done in China and Taiwan.[3] Farm fragmentation is a terrible blight to farm productivity: Adamopoulos and Restucia (2019) show that CARP has reduced the average farm size in the Philippines by 34%, which reduced average farm productivity by 17% (note >15%). The cost to government is pittance (₱800 million) compared to the proposed forward condonation of CIT payments (₱625 billion in five years) for large corporations by CREATE; more importantly, it will justly restitute the farmer beneficiaries for wrongful indenture due to three decades of a wayward land law.

[3] Fabella, R., "Luizhuan: Small Steps to Farm Efficiency," *BusinessWorld*, Dec. 16, 2014.

Towards a fairer and more investment-inducing CREATE

September 20, 2020

THE GOVERNMENT'S CREATE (Corporate Recovery and Tax Incentives for Enterprises Act) recovery program, now a pending bill in Congress, proposes to reduce the corporate income tax (CIT) from 30% to 25% or a loss of an aggregate ₱625 billion in fiscal revenue in five years. This amount of pre-condoned CIT will only grow into the trillions in the future as the economy recovers and grows. This bonanza for business is granted to private registered corporations in the hope that they will then turn and invest the tax savings in jobs and income-creating projects to hasten the recovery. Unfortunately, as experience in past economic crises tells us, during an economic free-fall, risk-averse business will place much of this bonanza in riskless government Treasuries and central bank deposits, thus, defeating the avowed purpose. This profligate generosity to the rich in currently constituted CREATE contrasts with the resistance of the Department of Finance (DOF) to a true debt condonation for agrarian reform beneficiaries (ARBs), which has a large scale-up potential for productivity and investment in the farm sector (the condonation in Bayanihan II is only band aid). This unfairness is a moral stinker!

If we must have CREATE, we have to at least make it fairer and more investment-inducing by: (a) widening the bonanza net to include the condonation of the principal of ARB debt which amounts to ₱58 billion; and (b) make the bonanza for the top 1,500 corporations conditional on some socially beneficial, market sustainable, and quickly implementable investment to move the economy to a more efficient, more Mother Earth-friendly, and more resilient next normal. My friend and fellow op-ed writer Filomeno "Men" Sta. Ana also suggested some form of investment conditionality[4].

The aim of (b) above is to increase the overall supply of power, which has so long bedeviled our power quality, and improve its resilience while reducing our dependence on imported fossil fuel and our carbon footprint to boot. We should deploy CREATE to incentivize the adoption of rooftop solar photovoltaic (PV) generation by large private corporations. At present there are hectares upon hectares of idle rooftops already owned by large businesses. Besides keeping solar radiation and heat out of our work areas, these rooftops could be repurposed to host solar PV installations. They can become urban solar farms engendering a new revenue stream! All the evidence to date points to the market increasingly favoring solar PV power generation over fossil-based generation, even over other renewables. The cost of solar PV-generated power has achieved — and even surpassed — parity with fossil-fueled power generation in many solar radiation-rich jurisdictions, especially for large consumers who mind the levelized cost of electricity. The attraction of solar PV generation in 2020 no longer rests on good corporate citizenship alone but even more seriously on an attractive bottom-line proposition.

Being located on rooftops, solar PV installations have unique cost advantages: they will avoid the opportunity cost of alternative use of farm areas associated with large-scale land-based solar and wind farms; they avoid costly transmission losses and associated fees; they avoid miscellaneous charges such as the universal charge; they avoid NIMBY issues and many costly environmental regulatory and permitting hurdles. They are modular — you can build up capacity as needed. Being distributed, and especially when paired with local storage, means resilience and power can flow even when the grid is down. The rooftop solar PV market in the Philippines is now very competitive with many solar installers. An added bonus, we locally produce solar panel modules in Laguna. Solar PV investment is as close to being shovel-ready as one can imagine. Construction can start

[4] See the column by Filomeno Sta, Ana III "Is the tax cut a good stimulus?," *BusinessWorld*, July 5, 2020, https://www.bworldonline.com/is-the-tax-cut-a-good-stimulus/

tomorrow and workers are hired. The chief hurdle to rooftop solar PV installations is no longer economics but a mindset comfortable with the social ecology of the 19th-century fossil-driven centralized power technology and suspicious of the new.

How can CREATE help to usher in a new power revolution? Append a one-line eligibility requirement for the 25% CIT: a corporation in the top 1,500 will pay 30% CIT until it has installed a rooftop solar PV generation capacity the equivalent to at least x% (say, 20%) of its daytime power use backed up by a corresponding battery or other environment-friendly power storage (say, liquid metal storage already available in the market in lieu of back-up gas or oil-fired generators). For those firms without substantial idle rooftops, equivalent modalities to satisfy the socially beneficial and market-sustainable investment requirements may be found. They may, for example, rent idle rooftops from other firms who have them in excess or even from households and schools. Such rooftop solar PV rent contracts now exist in the country. For example, Solar Philippines rents the rooftop of SM North parking building and supplies power to its host. Or they can put up independent energy storage companies serving the grid, or an independent rooftop rental company. Grid-scale energy storage has the feature of avoided cost: Negros Island during the day now has surplus power from abundant solar and biofuel (bagasse-based) generation but the limited inter-island submarine cable capacity means this can't be exported; thus, these precious capacities are instead curtailed and wasted. Having grid-scale energy storage will avoid the cost of curtailment and avoid using coal-fired power at night. Having met the CIT reduction condition, these firms now qualify to pay the lower 25% CIT.

This will open up a new investment avenue for large and new businesses and provide a new growth spark for the recovering Philippine economy. The 5% tax differential will serve as a contingent tax on idle rooftops, and tax liability disappears as soon as the condition of solar PV installation and storage is met.

Private businesses will not invest to raise production in an economy of shrunken demand. But they can, and should, invest today to reduce the cost of producing output in preparation for the competitive marathon in full recovery. While this can be done in other ways, installing rooftop solar PV generation and storage ensures an investment that is socially beneficial, market-guided and of short gestation. The private sector has for decades complained but left to the government to resolve the poor quality and high cost of power in the country. Now is the time to step up and be part of the solution. What could be more comforting for private corporations in this age of stakeholder responsibility than marrying the love for Mother Earth and the bottom-line in rooftop solar PV farms? With, we hope, a little nudge from CREATE!

Vietnam rising: Does being a 'currency manipulator' matter?

October 25, 2020

THE GREAT BUZZ in the COVID-19 pandemic era apart from the COVID-19 crisis itself, and one that we will recall long after the COVID-19 crisis has receded, is how Vietnam is doing it. R. Sharma writes in the *New York Times* (Oct. 13)[5] the rhetorical question, "Is Vietnam the Next 'Asian Miracle'?" In 2020, Vietnam is set to grow at 3% while the Philippines is set to contract at 7%-9% along with other countries. But there is no mystery about how Vietnam is doing it. Sharma states it plainly: "For now, Vietnam looks like a miracle from a bygone era, exporting its way to prosperity." Bygone because Vietnam's recipe for success is the very same one that was ridden by the East Asian miracle economies: the East Asian model. In the wake of the 1998 Asian Financial Crisis, Western pundits and the Western thinking-dominated multilaterals, notably the IMF and the World Bank, silently rejoicing at the stumble of East Asian exceptionalism, had declared it dead.

Now multinational corporations (MNCs) of every stripe and color are flocking to Vietnam's export processing zones. Chinese MNCs — fleeing both the higher labor cost and US trade sanctions on China — have joined the frenzy. Ironic that Chinese MNCs are hardly a presence in the Philippines after all the courting of Xi by Malacañang. Vietnam knows China is the template and that means going big on slipstream

[5] See R. Sharma's column: https://www.nytimes.com/2020/10/13/opinion/vietnam-economy.html

industrialization as an export platform. Vietnam's exports grew on average 16% a year for decades now, twice the growth of Philippine exports of 8.6%. Today about 80% of Vietnam's exports come from companies with FDI elements. As late as 2005, about 50% of China's own exports were produced by foreign investors finding export platform comfort in the People's Republic of China! Salient among them was, and still is, Foxconn Corp., then a fledgling Taiwanese original equipment manufacturer that located in China in 1988 and is now the largest manufacturing company in the world. Even multinationals with a presence in Philippine economic zones are finding it congenial to expand in Vietnam. Philippine FDI contracted 33% from January to October while Vietnam's rose by $9 billion from January to June this year!

More indications that the East Asian Model is alive and kicking: Vietnam's infrastructure spending is 8% of GDP, which dwarfs the Philippines' at hardly 5%. Foreign capital pouring into Vietnam largely finances durable export factories creating durable jobs in Manufacturing, rather than fickle portfolio capital and debt instrument-based dollar inflows often celebrated as newsworthy in the Philippines. Vietnam is rapidly growing while exhibiting a growing trade surplus — the unfailing footprint of East Asian miracle economies! Never had a trade surplus graced the Philippine economy in recent memory.

In the past, Western developed countries took offense over growing trade deficits against other developed countries but hardly against poor countries. Now, in the twilight of the West's economic hegemony, retaliation is foisted even against poor countries. The US State Department has launched a currency manipulator inquiry against Vietnam[6] because of its persistent trade surplus against the US. Proof unfailing that Vietnam is doing right by its people. Would that someday the Philippines too will earn the coveted mantle of currency manipulator! Judging by the monetary and fiscal policies being laid down in 2020, it will be a long wait.

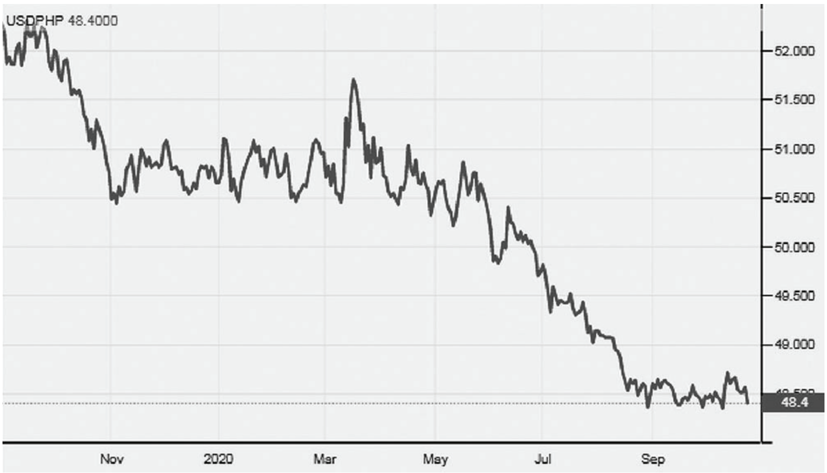
We now have the longest COVID-19-related lockdown; we are now top of the heap in prospective economic contraction between 2019 and 2025; our farm sector is top of the region in producing poverty.

[6] See "US launches currency manipulation inquiry against Vietnam," *Financial Times*, October 2, 2020, https://www.ft.com/content/ec3c8461-09ce-47dc-91fc-2e1473422685

We were the worst performing country in the last PISA (Program for International Student Assessment) math and science ranking. We seem to get great comfort from being top of the heap in the wrong things! Look at our exchange rate.

The Philippine peso leads the region in currency appreciation even as the economy confronts the worst economic contraction in history. Figure 1 shows the peso-dollar exchange rate falling from ₱52 per US dollar in late 2019 to ₱48.5 per US dollar in September 2020. The government spins this as spelling confidence in our economy. But it is just a simple case of the collapse in demand for dollars falling faster than its supply and resulting in a rising forex reserve (now at $100 billion): imports have collapsed but foreign borrowing has risen.

Figure 1. Trajectory of the Peso/US$ from late 2019 to October 2020

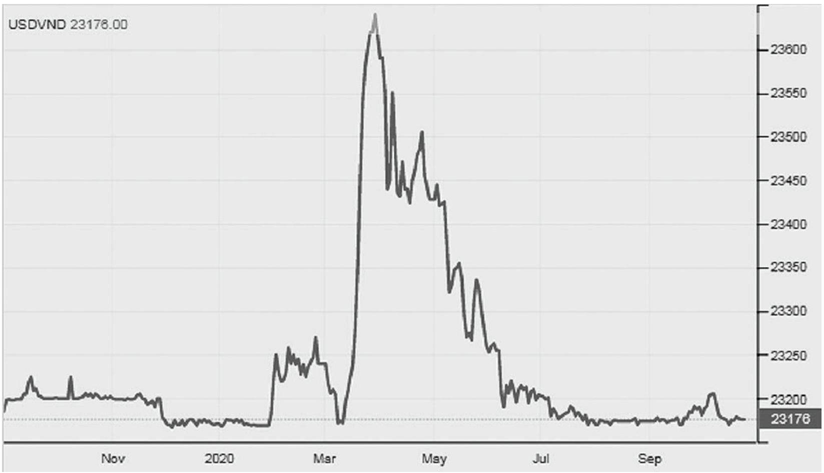


Source: Trading Economics (https://tradingeconomics.com/philippines/currency)

The stronger the domestic currency of an emerging economy, the weaker is its economic prospect. The stronger peso makes our exports less competitive, heftily rewards importers and smugglers, especially of basic products (chicken, *luya* or ginger, fruits), and makes foreign investors sneer at our export platform drive.

By way of contrast, Figure 2 from the same source gives the trajectory of the Vietnamese Dong against the US dollar during the same period. Despite the burgeoning trade surplus, the Vietnamese monetary authority not only kept the appreciation pressure of the Dong in check but even had a depreciation spell in April 2020. Reminiscent of what the Chinese did for the Yuan during much of the last two decades! Vietnam, following its mentor China, has now earned the "currency manipulator" label from the US — much coveted since it seems to predict subsequent success. Past currency manipulators according to the US State Department are South Korea, Taiwan, China, and India. Not for Vietnam is our Bangko Sentral and the US State Department's beloved mantra: "market-determined exchange rate." Like us, Vietnam enjoys monetary independence; but unlike us, it is aggressively deploying it to lift its poor from poverty!

Figure 2. Trajectory of the Dong/US$ from late 2019 to October 2020



Source: Trading Economics (https://tradingeconomics.com/vietnam/currency)

Moreover, our economic authorities are about to hit foreign investors with higher income tax with the mandatory shift to corporate income taxation of 25% in CREATE for Philippine Economic Zone Authority (PEZA) locators: the equivalent of the 5% gross income tax currently enjoyed by PEZA locators is 17% corporate income tax (CIT). The noise from the political center on the rule of law only makes matters worse: the Philippine government keeps foisting expropriation threats upon private companies who, though playing by agreed rules, do not fit its arbitrary definition of populist corporate behavior.

Indeed the Vietnamese and Chinese successes with relatively fixed exchange rates may not be the exception. New evidence now strongly suggests that "less flexibility" in exchange rate regimes does better for long-term growth than the so-called "market-determined exchange rate." J. Frankel et al. (2019)[7] reports that relatively fixed exchange rate regimes perform better than more flexible regimes in economic growth for a large panel data starting from Bretton Woods era.

How sad that the Philippines will soon be huffing and puffing in Vietnam's dust reprising the breathing problem we had when we moved into the rear-view mirror of Thailand and Indonesia. We still haven't learned our lesson!

[7] Frankel J, Ma X, Xie D. (2019). "The Impact of Exchange Rate Regimes on Economic Growth with Continuous Classification of de facto Regimes." Working Paper. https://scholar.harvard.edu/frankel/publications/impact-exchange-rate-regimes-economic-growth-continuous-classification-de-facto

Farm consolidation: Saving the Filipino taxpayer ₱17 billion

January 10, 2021

THE PHILIPPINES has secured a loan of $370 million intended to finance SPLIT (Support to Parcelization of Lands for Individual Titling), the Department of Agrarian Reform (DAR) program to subdivide Collective Certificate of Land Ownership Award (CLOA) into individual titles. The Collective CLOAs cover 1.36 million hectares of the 4.9 million hectares awarded by the Comprehensive Agrarian Reform Program (CARP). It covers 750,000 agrarian reform beneficiaries in 78 provinces.

There is a good reason to be dissatisfied with Collective CLOAs — the beneficiaries do not have secure land titles that facilitate many formal transactions; they have little incentive to adopt in-place technologies (such as irrigation) and new cultivation (say, tree planting) since one's parcel today may be someone else's tomorrow. A participating beneficiary under Collective CLOA cannot put his parcel up as collateral for a crop loan. No real property tax payment is made by beneficiaries without titles. Collective ownership is the open door to the tragedy of the commons. Financing will thus mostly come from informal lenders who are willing to accept risky usufruct payment in case of loan default. Needless to add, informal lending comes at an exorbitant interest rate, which guarantees continued poverty.

It is hoped that when individual titles are finally constituted, beneficiary behavior will change towards greater productivity. But hard evidence that beneficiaries with individual land titles behave significantly differently is still scant for the Philippines. The evidence to the contrary is from foreign climes where CARP strictures do not apply (see, e.g., Galang 2020). And there are reasons to believe that the behavior of titled small holders will not be any different here. First of all, access to formal banking sector financing at a lower interest rate will still be hampered because ownership of more than five hectares of farm land by banks or by anybody is legally prohibited by the Comprehensive Agrarian Reform Law (CARL). Banks will not accept as collateral titles to lands they cannot own in case of loan default. So titled small holders still have to resort to informal lenders. Since technology adoption is costly and risky and cannot be home-financed away from the formal banking sector, no significant technology adoption will be forthcoming. This is an interesting area for research: the hypothesis being that, given the land ownership ceiling by CARP, titled small holders as well as individual CLOA holders will fare no better than collective CLOA holders in terms of access to formal bank financing and overall land productivity!

A suggestion to this effect is clear from the result of the Philippine Statistical Research and Training Institute Survey (PSRTI, 2016) of agrarian reform beneficiaries (also cited by Galang 2020, p. 15): the average farm income and average total household income of agrarian reform beneficiaries (ARBs) under Collective CLOAs are actually higher than the average farm income and total household income of ARBs under individual CLOAs! Galang's own results contradict those of the PSRTI so the jury on the benefit of titled parcelization for which we are spending ₱17 billion is still out.

The biggest problem in the agricultural farm sector today is that most farms are too small to be economically viable and private capital is fleeing the sector because of the uncertainty and scale limitations imposed by CARP. Private capital will not weigh in when competitive scale requires hundreds, perhaps thousands, of hectares and none is available. As a result, the farm sector has become the ward of the state and/or of the informal lenders when it comes to capital. A prescription for persistent poverty!

Consolidation is now the byword in Asian agriculture (see, e.g., Le Thanh K., 2017). The romantic Jeffersonian notion of small independent yeoman farmers, the cradle of virtue and morality, is now very costly baggage from the past. The People's Republic of China, Taiwan, Vietnam, and Malaysia have programs to consolidate small landholdings into bigger more viable farm enterprises to attract formal sector financing and young and more dynamic actors to replace aging or dead farmers (see, e.g., Fabella, 2014). As usual, the Philippines, being more mired than most to old, dead ideas is, to paraphrase Alexander Pope, "the last to put the old aside." In 2021, aided and abetted by the World Bank, we are digging deeper into the old rabbit hole of parcelization which CARPER (Comprehensive Agrarian Reform Program Extension with Reforms or Republic Act No. 9700) of 2009 explicitly mandated.

Former LandBank President Alex Buenaventura was ahead of his time in trying to make LandBank the intermediary between foreign investors and local ARBs to engender larger estates where ARB family members are first on line for hiring. But Buenaventura was fired before the program could meaningfully take off. Do not expect the private investors to do the consolidating: they would like to sign a long-term lease contract with one — repeat, one — credible consolidator like the Land Bank of the Philippines, which will first iron out all the kinks with the ARBs and fashion a contract that protects the security of tenure and rights of farmers and their children. And the most convenient jump-off point for consolidation is lands awarded under Collective CLOAs.

Parcelization and titling are costly and painstaking because they involve much more than a cadastral survey. Stakeholders and claimants will dispute who gets what parcel. Features such as closeness to water, distance from the road, *mabato* or *mabuhangin* (rocky or sandy soil), all have profound economic implications for farming. In the process of parceling and titling, some, rightly feeling envy, will instigate roadblocks.

Unequal outcomes for households was why Deng Xiaoping was booted out by Mao Zedong in the 1960s in the wake of the Great Leap Forward debacle. That is why the government needs a ₱17-billion loan from the World Bank to negotiate the parcelization route.

An alternative route to higher productivity is just to offer the whole consolidated Collective CLOA-covered farm for lease to a private firm. A consolidated area of 1,000 hectares from 1,000 ARBs may go for ₱25,000 per hectare per year and every farm household in the list gets an equal and riskless ₱25,000 per year, the equivalent of much more in risky returns. Equal allocation is what economists call "envy-free." On top of that, the family members get hiring priority for stable jobs that open up. The 1,000 hectares will produce much more as a single unit than when cultivated as separate 1,000 one-hectare units (see Adamopoulos and Restucia, 2019 for how shrinking farm size due to CARP reduced farm productivity). Formal bank financing will now flock the land. A LandBank or NDC can do this service.

LandBank writes long-term contracts with ARBs specifying their and their children's rights and obligations and the private firm pays the land rental directly to LandBank with which LandBank pays the listed ARBs their rental claims and the real property tax to the municipality. If one reflects on this seriously, one realizes that this is no more than the famous Coase theorem in action.

And, *voila*, the Filipino taxpayer saves ₱17 billion!

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The author thanks the FEF Agriculture Team for hints and comments. Errors are the author's alone.

On the exodus of manufacturing and double dead agriculture

March 14, 2021

FOR MANY PEOPLE, the coronavirus disease 2019 (COVID-19) pandemic is an invitation to pivot to a better place. But what better place? Lest we pivot to nowhere and waste a good crisis, let's study the signs.

Nissan Philippines closed its Sta. Rosa, Laguna assembly plant in March 2021. Honda Cars Philippines shuttered its Sta. Rosa, Laguna plant, in operation since 1990, on Feb. 22, 2020 following a progressive decline in demand. Ford Motor Philippines closed its assembly plant in 2012. Though car assembly plants are headed for the door, Nissan, Honda, and Ford cars will still grace the showrooms, only now the cars are imported from Thailand and Indonesia. Likewise, there used to be three oil refineries in the country. The Caltex oil refining plant in Batangas owned by Chevron was shuttered in 2003 and converted into, you guessed it, a terminal for imported refined oil products! With the Pilipinas Shell refinery mothballed in 2020, the only refinery left is Petron, whose owners are threatening to close down unless accorded some tax breaks on imported feedstock. Meanwhile, refined oil importer and distributor, Jetti Petroleum, is set to open its third import terminal in Camarines Sur. Caltex is being strategic: if you can't beat the importers, you join them. This beeline to the door for manufacturers started long before the pandemic and nothing has transpired to stop it. For all manufacturing, not just car assembly and oil refining, the truth is the opposite of our vaunted tourism slogan, "It's more fun in the Philippines."

The closure of assembly plants and oil refineries is the typical harvest of a domestic currency that favors imports. The once vibrant Australian car manufacturing sector blipped out in 2020 in the wake of the strength of the Australian dollar occasioned by the massive growth of exported mineral products (largely coal) to the People's Republic of China. Dutch manufacturing declined (*The Economist*, Nov. 26, 1977) starting in the 1970s when the dollar inflows from export of Groningen gas pushed the Dutch guilder to record highs. The same fate befell Spanish manufacturing in the 16th century when gold flowing from Latin American colonies made the Spanish peseta so strong it cheapened imports so causing the wipeout of domestic production. The phenomenon — christened "Dutch Disease" by *The Economist* in 1977 — happens when the singular success in the export of extracted mineral and/or indigenous resources pushes the domestic currency so high it whiplashes all manufacturing. The export of overseas Filipino workers (OFWs) also administered a Dutch Disease whiplash on Philippine manufacturers. High-value added activities like Agriculture (grains, meats, fruits, etc.) are especially penalized. In the parlance of local pork, Agriculture ends up "double dead": killed first by Comprehensive Agrarian Reform Program (CARP) and then killed again by a pro-import ecology.

The interesting work of Bergsten and Gagnon (2012, 2017), lately revived by Schreiber (NYT, March 2021), revealed the massive loss for the US economy exacted by currency manipulators: one million to five million jobs! This is overlaid on a natural tendency for the US dollar to overvalue due to the foreign appetite for US bonds and Treasuries as safe haven instruments. Overvaluation is "a war on the workingman," observes Michael Stumo of the Coalition for a Prosperous America (*sic* Schreiber). Gagnon (2020) estimated the dollar overvaluation in 2020 at 10%-20%. All that translates into a massive trade deficit and massive debt obligation of the USA against the rest of the world. Manufacturing in the USA has been hollowing out so that between 2000 and 2010, manufacturing lost five million jobs. Since the massive debt is denominated in dollars, its repayment should not pose a problem for the USA as the issuer of the currency — it can just print greenbacks. But the US dollar is also the global medium of exchange for which the US collects massive seigniorage. Printing greenbacks willy-nilly will erode the primacy of the US dollar and reduce the associated seigniorage. The USA is thus walking a tightrope. Trump's MAGA fulminated against unfair traders and the bloating trade deficit but he obsessed over the wrong instrument — tariffs

— to do the job. The trade deficit has only grown since! President Biden has now pledged to narrow the trade deficit. But how?

Why not a technology-driven response to the challenge instead of a fiscal and/or a monetary one? After all, the USA is still a technology leader. That's the path favored by *Making Things: 21st Century Manufacturing and Design* (2012) by the National Academy of Engineering, following the three-decades-old view initiated by the famous MIT volume *Made in America*. The technology pathway has not worked. Why? US manufacturers faced two options: either stay and innovate with uncertain returns or relocate offshore and make almost sure profit. With the myopic horizon and shareholder impatience haunting US firms, relocation easily won.

Bergsten and Gagnon are more realistic: manufacturing will stay only if the US becomes a competitive venue for manufacturing. Their recommendation: a "dollar policy" to maintain a desirable value for the US dollar: use taxes to discourage demand for dollars and use tooth-for-tooth countervailing action to discourage currency manipulation. For example, when a foreign country aggressively buys dollars to depress the value of its currency, the US Treasury must aggressively buy that currency to prop it up. And further, the USA must lead a coalition of the supposed victims to confront the currency rogues. Good luck!

The list of countries identified by Bergsten and Gagnon as currency manipulators is interesting: Japan, China, Denmark, Taiwan, Hong Kong, Malaysia, Singapore, South Korea, India, Germany, Norway, and Switzerland. And in 2020, Vietnam. These countries deliberately leaned on a pro-tradable ecology to attract foreign direct investors, grow their exports resulting in large trade surpluses against the world. But look closely at this list — a veritable honor roll of countries in the pink of economic health! An unintended revelation from Bergsten and Gagnon: the global monetary system is a persistent tragedy of the commons where currency rogues win. With its monetary sovereignty and unhindered by the US-type dilemma, shouldn't the Philippines be aspiring to join the exalted ranks of currency rogues?

The Department of Trade and Industry, blaming imports of CBU (completely built-up) vehicles for the closure of local car assemblers, has imposed safeguard duties of from ₱70,000 to ₱120,000 per unit or about 10% tariff in 2021. Safeguard measures are additional tariffs against imports; but like the Trump tariffs, they don't address the root cause of the problem. In 2020 alone, the peso appreciated by about 10%, effectively pre-empting the imposed safeguard duties. The car assembly workers' union, the oil refiners and pro-agriculture lobby are barking for relief from the wrong agencies. They should be barking at the BSP!

Unless we pivot away from a pro-import to a pro-tradable ecology, the flight of Manufacturing and the double-dead Agriculture will continue and we shall have wasted a good crisis.

Resilience and East Asia: Did other regions waffle and miss the trolley?

May 23, 2021

THE *BLOOMBERG* COVID Resilience Ranking that came out on April 26 had seven East Asian countries among the top 12 performers. None of the big Western economies made the magic 12. Meanwhile, China's COVID deaths per million in the seven days before April 19 was zero. The record of other East Asian countries for the same seven days is also impressive: Vietnam's was zero, Singapore's zero, South Korea's 0.5, Malaysia's 1.4, Japan's 1.72, Thailand's 0.06, and Indonesia's 2.84. Despite the recent hiccups of infection in Taiwan, the morning of the post-pandemic era has broken in East Asia. By contrast, Western stalwarts fared worse in deaths per million for the same period: the USA's 139, Germany's 15.11, France's 23, the UK's was 10, Italy's 38.3, Sweden's 16.2, Austria's 21.6, and the Netherlands's was six deaths per million, although Australia and New Zealand seem to fare better (Statista.com).

Meanwhile, the Philippines ranked 45th of the 53 countries in the Bloomberg COVID Resilience Ranking. And the Philippines, at 7.5 deaths per million in that week, remains the exception that proves the rule of East Asian exceptionalism. How the government media platforms will, upon recent instructions, spin these facts to make the Philippines look better bears watching. One easy out: focus on India.

What seems to spring out of the data that is proving robust is that East Asia is once again proving exceptional (Ma, Wang and Wu, March 2021). Has East Asian exceptionalism, which once nurtured the East Asian miracle economies, once again reared its head as resilience against the COVID-19 pandemic?

Resilience has been thrust among the upper echelons of ideas in the post-pandemic economic recovery discourse (see, e.g., Folke, April 29, 2021, *Philippine Daily Inquirer*; World Bank, Spring 2021). How do we build greater resilience into our future? Resilience, simply put, is the capacity to bounce back from a misfortune or a stressful situation. There is more to it. In every stable system, there is enough built-in flexibility to survive minor disruptions. The human brain is endowed with a surprising amount of plasticity to maintain functions when some substrate becomes compromised. Bruneau et al. (2003) called this feature "robustness," a largely engineering feature. Bridges are equipped with redundancies or retrofitted to withstand wobbles from wind and traffic. I say "largely engineering" because robustness has a behavioral component as well: redundancies are costly and require a human decision as to when and how much additional capital to deploy. More costly double-hulled ships were known but did not become the norm before the single-hulled Titanic's disastrous encounter with an iceberg in the North Atlantic. Capitalists and insurers decided then that the time was now right to commit the extra investment.

But resilience is also the capacity to mend the damage quickly when the built-in robustness fails. Bruneau et al. call this "resourcefulness," which determines how rapid the system recovers some form of sustained normality, not necessarily the original one. Ecological resilience to Holling's (1973) is the capacity to absorb and survive catastrophes even when the old steady-state is gone for good ("new normal" in current parlance). The Operation Warp Speed vaccine program exemplifies Rose and Krausmann's (2013) definition of dynamic economic resilience: the capacity to hasten the recovery by redeploying human and non-human resources towards repair and/or innovation. It is likely that resourcefulness allowed *homo sapiens* to survive disruptions that wiped out other hominids, Neanderthals and Denisovans. Yuval Harari (2012) singles out the capacity to cooperate in large numbers as the special adaptation that allowed *homo sapiens* to survive adversities of, and eventually dominate, the biosphere. Resourcefulness is behavioral and cultural rather than engineering in nature.

Were East Asians more resilient during the pandemic? The observable outcome of less damage and quicker recovery suggests "yes." Was it due to greater robustness or greater resourcefulness? Conclude Ma, Wang and Wu: "Our analysis shows that East Asia's success, compared with the six selected Western societies, can be attributed to *stronger and more prompt* government responses, as well as *better civic cooperation*" (italics mine). These attributes lean towards greater resourcefulness coming after the outbreak. While Western liberal democracies waffled on whether to deploy lockdowns — that inevitably imply curtailments of individual freedoms — and how stringent they should be, most East Asian governments plunged into draconian measures on the firm belief that their publics would abide. Such boldness will, however, go begging if the government is not in tune with its public.

Why were East Asian publics more in tune with their governments, at least on the response to the pandemic? There are at least two possible sources: the first is experiential — in the last two decades, the most important pandemics were hosted by, and did most damage in, East Asia. What was merely vicarious to outsiders was a direct experience to East Asians. Gino, Argote, Miron-Spektor and Todorova (2010) showed that direct experience with tasks persists longer in the mind and spurs more creative responses than mere vicarious experience. K. Arrow's "learning by doing" and F. Nietzsche's "What does not kill you…" are well-known canons in social science.

The second is cultural: the cult of the individual has become much more dominant in Western liberal democracies than in East Asia. This is exemplified by the more intense debate on privacy in the West than in East Asia. Everywhere in Western societies one finds the Kantian view that every individual is an end in itself and should not be used as a means towards ends however collectively beneficial. It echoes the rigid Pareto ethic: a social state that makes many others strictly better off but leaves at least one member worse off is not to be preferred to the state where all stay put even in misery. The concept group has meaning only as ancillary to the individual.

In East Asia, however, the idea that the group and the individual are inextricably bound together remains a strong undercurrent; the welfare of the many cannot be held hostage to the welfare of some. The old, if now discarded, Japanese farming tradition of *Ubasute* illustrates this: When another child is born to a struggling farm family, the *Uba* (grandma) is carried by her son to the forest in winter and there left to die. No rancor, just sadness born with grim resignation. This intense loyalty to the group to the point of self-immolation is sometimes associated with Confucianism, of respect for authority and of the self as undefined apart from the group; the individual has meaning only if integrated. The latter is the oft-alluded to explanation for suicides in East Asia: one's failure brings shame to and dis-integrates one from one's group; suicide puts *finis* to the un-definition. The same explains why ostracism in Eastern Asian societies falls like a death sentence on the victims. De Tocqueville (1835) rightly worried that this cult of the group is a step towards the "tyranny of the majority," a mother to wars and pogroms.

When rubber of the famous "fat man and trolley paradox" met the road of the COVID-19 pandemic, East Asian governments did not think twice about, as it were, pushing the fat man under the trolley to save the 10 people down the line; Western governments by contrast became catatonic for a split second and missed the trolley. Did the Philippines also miss the trolley on the same hesitancy?

PNoy and Inclusion

June 27, 2021

ONE OF THE FEW EXPERIENCES of pure exhilaration and hope at the start of 2021 was negotiating the newly-opened Skyway 3. Those of us who have suffered through the travails and tribulations of the old normal EDSA on our way to south Metro Manila and NAIA feel like we are being teleported to the highways and byways of more affluent countries where these amenities are a common sight and which we, perhaps, sometimes and with reason, despaired of ever having. In my own mind I associate these amenities with economic abundance, which is why driving through Skyway 3 makes me feel like being at the door of similar abundance. Such buoyancy and exhilaration are becoming a more common experience, thanks to the presidency of Benigno Aquino III, popularly called PNoy.

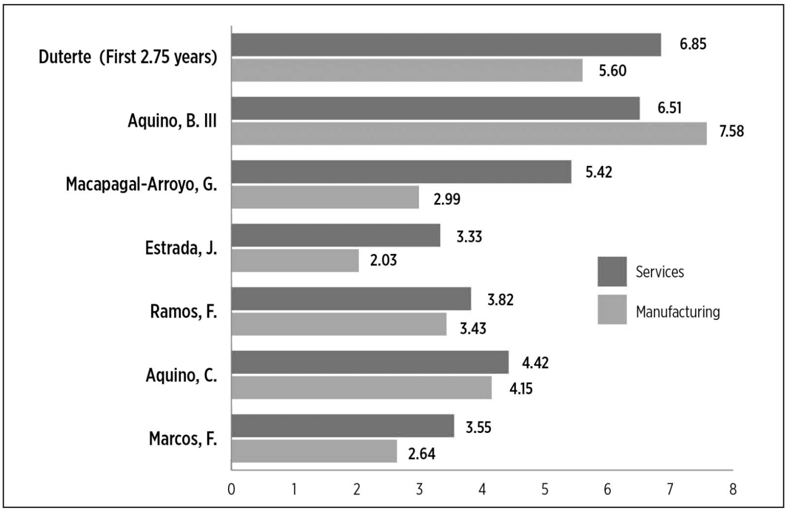
What do all the entries in the following list have in common — the newly inaugurated Skyway 3, the Tarlac-Pangasinan-La Union Expressway (TPLEX), the Ninoy Aquino International Airport Expressway (NAIAX), the Cavite-Laguna Expressway (CALAX), the North Harbor Link Project? First of all, they were constructed under the Public-Private Partnership umbrella and, second of all, the contracts for major phases of these projects were signed and work started in President Benigno Aquino III's watch. Finally, they will be operated by private groups making them more accountable and sustainable. They freed the national treasury of required funding apart from the right-of-way financing.

And they all make you feel increasingly like you belong to, rather than are being left behind by, the emerging Asian Century. When I was breezing through TPLEX for the first time on my way to Baguio, my heart skipped a beat and I stopped to acknowledge my debt of gratitude to PNoy's watch. Viewed from the lenses of 20 years ago, they seemed so improbable, they may as well have been "black swans." Thanks to PNoy's watch that made PPP the main powertrain to arterial infrastructure, they are slowly being dragged towards the center of our experience where they belong. And because they lower the cost of transported produce to both rich and poor, they are inclusive.

And how did we, PNoy's bosses, fare as a nation under his watch? The average rate of growth of the Philippine GDP during PNoy's watch was 6.2%, higher than the average during the watch of any president in our history. The puzzle in 2015 was why the rapid economic growth (7.3% in 2014) did not seem inclusive — the poverty incidence seemed stuck at 26%, which was where it was in 2010 when the PNoy watch started. So worked up was PNoy about this that he personally puzzled over it with Planning Secretary Dr. Arsenio Balisacan. Dr. Balisacan was, and still is, a strong proponent for riding economic growth to poverty reduction. This conundrum in 2015 proved premature when in November 2016 it was announced that the poverty incidence had declined from 26.3% to 21.6%, an almost 5% difference in six years, a remarkable achievement in our neck of the woods and even elsewhere. Had we chipped away at poverty at this rate during the Millennium Development Goal (MDG) Era (1990-2015), we would have more than attained the MDG target of 17% poverty incidence. As it turned out, we went from 34% to only 26% among those that fell short of the target. Dr. Balisacan was right: poverty reduction almost always tracks economic growth, if with a lag!

What made for this inclusion outcome during PNoy's watch? PNoy's watch scaled up the CCT Program (Conditional Cash Transfer or 4Ps) where targeted poor were accorded cash transfers to keep kids at school. That clearly should account for some improvement. But largely glossed over (PNoy himself was primarily concerned with why CCT did not seem to figure in the 2015 poverty statistics) was the marked change in the emerging structure of the Philippine economy in his watch. Everyone noticed the economy growing faster but few noticed that the quality of growth was also improving — growth was becoming more favorable to poverty reduction. This is because economic growth has two aspects: first is quantity of growth (whether it is high or low); the other is the quality of growth: whether its leading edge is markedly more pro-poor because it employs more people from low-income classes and pays higher and more stable incomes to the less-educated. Manufacturing is more pro-poor in low-income countries (< $10,000 per capita) than the Services sector as it does exactly those functions better. Thus, when Manufacturing leads growth, poverty incidence retreats faster than when the economy is growing with Services as the leading edge. The figures in the chart show the comparative growth performance of Manufacturing and Services sectors for all the presidential watches since Marcos.

Figure 1. Manufacturing and Services growth performance under Philippine presidents (%)



Source of basic data: Philippine Statistics Authority

The dark gray bar shows the growth of the Services sector and the gray bar shows the growth rate of the Manufacturing sector for each presidential watch. Note that the gray bar is always shorter than the dark gray bar except during PNoy's watch. Under Aquino III's watch, Manufacturing was leading the growth of the economy: it was a growth characterized not only by quantity but by quality. Neither the romanticized Marcos' watch nor the deservedly admired Ramos' watch could match.

If I may hazard a guess, it was foreign investment and especially Japanese foreign investment that made the big difference in the growth of Manufacturing. Foreign investment of just over $1 billion in 2010 grew to $8 billion by 2016. It was that time when super salesperson Director Lilia De Lima, having won the Japanese investors' trust, was herding investors to PEZA (the Philippine Economic Zone Authority) in numbers that were outrunning the available space. *Matuwid na daan* (the straight path) had struck a chord with foreign investors; they saw in PNoy the pedigree of one who sticks religiously to contracts — a chip, as it were, of the old petticoat. For wasn't it his mother, Cory Aquino, who as president decided that the Philippines will honor all its debts even those contracted (and squandered) by the Dictator Marcos over the objections of many left leaners in her cabinet who favored repudiation? And foreign investors flock to contract stability like bees to nectar. For PNoy was a true child of Cory: a principled but a reluctant leader, ever uncomfortable with the wielding of power. In macho circles, he would fit the description of a wimp.

A disturbing observation emerges from the figures in the chart: the Duterte watch, halfway into its term, had reverted to the old normal with respect to the Manufacturing-Services growth comparison. In the first full year of Duterte's watch, Manufacturing outpaced the Services sector, thus fulfilling the "continuity" promise of Duterte's economic managers. But into the first half of his watch, the economy seemed to revert to business-as-usual. This was even before the COVID-19 pandemic which only worsened the outlook for the economy and the reduction of poverty.

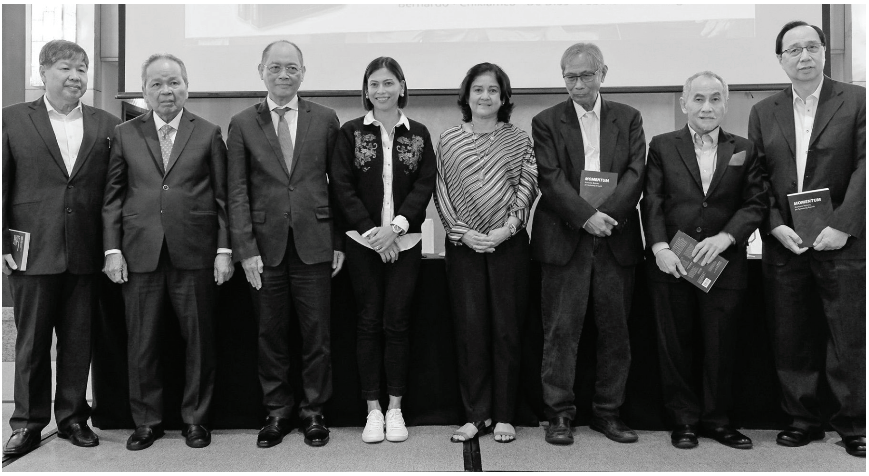
Yes, PNoy looks like a wimp in comparison to his successor. But only time will tell how PNoy's "mission accomplished" will compare in terms of measurable performance. From where we stand in mid-2021, we should be grateful if Duterte's watch will manage to match the Wimp's.

From left: Ramon L. Clarete, Raul V. Fabella, Kristine C. Francisco-Alcantara, Emmanuel S. de Dios, Romeo L. Bernardo, Roel R. Landingin, Calixto V. Chikiamco and Ranna Maih B. Pintor

PHOTOGRAPH BY MJ SALUMBIDES OF KEYLIGHT STUDIO

The authors at the book launch of *Momentum: Economic Reforms for Sustaining Growth* at Fairmont Hotel, Makati in October 2019. From left: Emmanuel S. de Dios, Raul V. Fabella, Romeo L. Bernardo and Calixto V. Chikiamco

Authors and guests at the *Momentum* book launch. From left: Cesar E.A. Virata, Romeo L. Bernardo, Gerardo P. Sicat, Former President Fidel V. Ramos, Former Chief Justice Artemio V. Panganiban, Arsenio M. Balisacan, Calixto V. Chikiamco and Emmanuel S. de Dios.



From left: Emmanuel S. de Dios, Former Chief Justice Artemio V. Panganiban, Bangko Sentral ng Pilipinas Governor Benjamin E. Diokno, Marikina City 2nd District Representative Stella Luz A. Quimbo, Delia Paderanga, Raul V. Fabella, Romeo L. Bernardo and Calixto V. Chikiamco.

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