The Philippine Growth Momentum, Services, and Contentious Politics*

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Much has been said about the relationship between the Philippine economy and politics, with many studies examining how politics impacts economic growth. There is indeed some cause for concern. Today, the country is witness to the growing polarization between the Duterte administration and the mainstream opposition, giving rise to a state of constant political agitation that many anticipate would have some chilling effect on investment.

In the short term, however, the impact has yet to translate into declining growth. Various reasons have been given for the economy's resilience: one is the time lag before the economy shows the consequences of political decisions and actions; another is reportedly the economic managers' relative autonomy in policymaking. In this presentation, I will approach the question of the relationship between political developments and the growth momentum by reversing the causal arrow with the question: how has the country's pattern of high growth impacted politics?

Drawing on my previous studies on the country's changing development pattern, I argue that the dramatic growth of the Philippine economy owes much to its booming international trade in services, which has worked to free the economy from the structural constraints that had held it back in the past (Raquiza 2017). Specifically, the country's labor export and business processing outsourcing (BPO) industries, mainly servicing foreign markets, and the surge in private consumption supported by services export receipts have helped insulate the economy from political shocks.

In order to discern how this works, one needs only to retrace the dramatic growth of the services export industries to the period between 2004 and 2007 when the country, saddled with a record national debt of PhP3.36 trillion, was headed toward a fiscal crisis (De Dios et.al. 2004). During this period, the ruling party was also reeling from allegations of having won the 2004 national elections through massive electoral fraud. Yet, two years after what was widely seen as a crisis of legitimacy, the country began an economic take-off.

Factors for this turnaround include the imposition in 2005 of the reformed value-added tax or R-VAT on oil and electricity, which provided much needed state revenues. More strategic, however, was the policy to more seriously promote trade in services: notably, labour export and the business process outsourcing or BPO industry

In the 2000s, government's fully embraced labour export as integral to the national development program. This shift saw government agencies – led by the Bangko Sentral ng Pilipinas (in charge of foreign currency transactions, notably remittances flows) as well as the departments of labor and employment and foreign affairs – set up interagency mechanisms to facilitate labor migration. In 2005, the Philippine Overseas Employment

Authority (POEA) decentralized its recruitment services to reach provincial labor markets and forged government-to-government recruitment and placement programs. Due to such efforts, the country's remittances skyrocketed, from US$8.55 billion in 2004 to US$26.9 billion in 2016.

This period also saw the government aggressively promoting the BPO industry. In the early 2000s, partly in recognition of the booming global outsourcing industry and partly in response to the lobby of domestic property developers, government began to provide fiscal and non-fiscal incentives to facilitate the setting up world-class IT parks as special economic zones (Raquiza 2015). This and the country's large English-speaking, college-educated workforce, saw investments in the industry soar, from US$329 million in 2005 to more than US$1.8 billion in 2008.

The Philippine case suggests that the service sector, which by nature is fragmented and less capital-intensive than the manufacturing sector, may thrive amidst political instability (Raquiza 2017).

In this light, there is a need to interrogate how the country's pattern of growth – which has become so much more tied to global markets through services – might change the relationship between the economy and politics. Two distinct areas come to mind:

1. The massive flow of services export receipts is changing the nature of the middle class and the source of wealth creation in the country, delinking politics and economic development.

Democratization literature argues that with a rising middle class and domestic business sector comes greater public demand for a more accountable, participatory, and responsible government. The Philippines, which boasts of the being the region's oldest democracy, seemed to conform to this view when, in 1986, middle class-led street protests in combination with a military rebellion tipped the balance in favor of a 14-year anti-dictatorship struggle against the Marcos regime.

Over the past decade, however, there has been a sea change in the nature of the middle class, whose expansion owes much to the booming trade in services. With more than 10 million Filipinos living and working permanently or temporarily abroad, the Philippine middle class has been characterized as being "deterritorialized," and, partly because of its geographic dispersal, politically weaker than its counterparts in Thailand, Malaysia, and Indonesia (Shiraishi 2008). In fact, such an analysis may extend as well to the one million Filipinos working in the domestic BPO industry, mainly servicing foreign clienteles.

On the other hand, the Philippine development pattern that draws its dynamism from external markets has strengthened the economic elites whose business lies in the circulation of goods, capital, and labour. To capture the windfall gains from remittances, the Philippine business elites have gone into banking through which billions of dollars of remittances are coursed and in education, housing, health care, leisure, and retail businesses. For its part, the rise of the BPO industry, which has linked the country's skilled workforce to multinational service providers, has opened new rental streams for property developers. Largely due to diversifying commercial interests, the net worth of the nine of the country's wealthiest business families grew from about US$11 billion in 2006 to US$43.4 in 2013 (Raquiza 2014). The flow of services export receipts has thus given Philippine business an alternative source of wealth creation that is less vulnerable to political instability.

2. At the same time, however, high growth has had limited impact on poverty alleviation and the reduction of income inequality.

To be sure, the number of those living below the poverty line and income inequality has decreased. Yet, despite sustaining a growth rate of six or more percent throughout the decade, more than 26 million remain poor, and of this staggering number, 12 million live in grinding poverty (Yap 2016). Income inequality went down but only slightly: specifically, the Gini index went down from .46 in 2000 to .43 in 2012 (WB 2017). According to a Brookings Institute study, the country's Gini index would go as high as .60 if the "missing data of the top one percent" was taken into account (Ordinario 2017).

As such, more than two decades since the ouster of President Marcos, political democracy has yet to translate into equitable development. Rather, what we are seeing is the deepening of a dual service economy, where the most dynamic businesses are those that are fully integrated into global markets, with very limited linkages to the domestic economy while the vast majority are micro enterprises, many of which belong to the informal sector. Indeed, since wealth creation relies less on agriculture and manufacturing, the growth momentum has failed to create dividends among the lower classes.

In this connection, the development pattern has contributed to widening political polarization. As middle and upper classes become deterritorialized, they also become less available politically for cross-class alliances for democratic and responsible governance. On the other hand, there is very little buy-in among the lower classes on the so-called EDSA state, named after the street where the broad democratic forces dealt the final blow to the authoritarian rule in 1986.

Such trends suggest the need for the country to deepen the service sector's linkages to domestic agriculture and manufacturing industries that generate productive and quality employment for those largely left behind by the so-called growth momentum. Working to deepen the real economy would contribute to restoring the feedback mechanism between politics and the economy– a link that would go a long way in promoting an accountable government and engaged citizenry.

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