The Sound and Fury: *Duterte's First Year in Office*

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Outline

- Emerging Markets and Political Cycles

- Duterte's Rise and What it Means

- First Year in Office

- Dilemmas and Opportunities Ahead

The Politics of Emerging Markets

- Political cycles key to investment flows and macroeconomic trajectory (Sharma 2012; 2013;2016)

- Aquino: Most popular retiring PH president in recent memory - 55% approval rating heading into twilight months in office

- Continued best practices of his predecessor in macro-economic reforms (e.g., Tetangco in BSP).

- Peace process and good governance initiatives – mixed results, but signal reformist intention

PH recent success story

- **Serendipitous convergence of 5 factors:**

1. Advent of post-recession QE and inflow of "hot money" into EM;

2. Descent of BRICS and tier-1 EMs, placing spotlight on tier-2 Ems;

3. Denouement of macro-prudential reforms, beginning in mid-200s;

4. Political stability brought about by Aquino's administration;

5. Resilience of remittances and dynamism of services sectors (i.e., BPO, retail, real estate);

Reference Bias

- Aquino's approval ratings bounded back, despite major setbacks (i.e., Mamasapano), so shows the elasticity of public support;

- Benefited from reference bias – juxtaposed to perceived blunders of predecessor (i.e., Arroyo)

- Instituted "just good enough" institutional reforms to place the PH on the map

Aquino's Successor

- Critical, because a question of continuing reforms or returning to business-as-usual patron-client politics

- Could (partially) redirect PH foreign policy and dampen reformist momentum

- Fear of an Arroyo 2.0 scenario – **reversion to the mean.**

Key Challenges

- Primary challenge: Prove that recent gains are beginning of a new chapter, not a sui generis;

- More than victory of his preferred candidate, Aquino should ensure credibility of elections;

- Next president should have enough mandate to translate recent reforms into structural transformation -- balance continuity and innovation;

Four possible post-Aquino Scenarios

- Thaksin scenario: A candidate with a core base confined to D & E, but not favorable reception among ABC;

- Jokowi Scenario: An inexperienced but popular leader could struggle to initiate major reforms, partly due to absence of strong base constituency

- Abhisit scenario: Technocratic-managerial leader, but no charisma and mass following

- "Erap" scenario: Populist but erratic leadership, combined with sense of impunity/hubris, could lead to political backlash

Strongman Populism

Unique National Figure

- **Strongest among the ABC class**: AB, who seek law and order for better business environment, while C and upper-Ds, the 'aspirational middle class', who resent 'glass ceiling' of mobility and worry about basic safety (moderate-to-high elasticity in political leaning, particularly the NCR-Luzon area)

- **"Populist" charisma**: Folksy persona, informality, anti-elitist rhetoric, accessibility, and perceived "political outsider" image.

- **Strongman**: Limited respect for institutions of checks and balances, micro-manager (still 'mayor' mode), and openly threatening regime change;

- **Key strength**: Perceived as non-corrupt, decisive and single-minded, and a radical "change" from usual mold of national politicians ("*Iba Siya*"); effective and systematic discrediting of alternative politicians ("Oligarchy/Dilaw/Elitista/Trapo/Salita Lang, Walang Gawa").

The Three Duterte's

- **The Showman**: Similar to other emerging market populists such as Hugo Chavez, he can hold long-winding, humor-laded, laid back, and entertaining speeches; cuss words interpreted as 'authenticity';

- **Dirty Harry**: Effective deployment of 'penal populism': I maybe an SOB, but I am your SOB against the real forces of evil (i.e., criminals, drugs users, oligarchy, imperialist powers)

- **The Machiavelli:** Knows how to get things done, mobilize support and build coalitions, ensure loyalty, and combine the Fox (charm) and the Lion (strength) to win over people.

The Populist Wave

- Past decade has seen the rise of populists and/or strongmen around emerging market democracies

- **Recep Tayyip Erdoğan (Turkey) –** Former mayor of Istanbul, who won landslide elections on the back of decisive brand of leadership, mobilizing the priousunderclass and emerging middle class against the laic, Westernized elite;

- **Narendra Mod I (India)**: Former governor of booming Gujarat state, who a landslide elections in India by harnessing Hindu nationalism, anti-elitist rhetoric, and touting his decisive, non-corrupt brand of leadership.

- **Joko Widodo (Indonesia):** Former mayor of small city of Solo, and shortly governor of Jakarta, who won on the back of massive middle class, youth mobilization based on the promise of nationalism, economic protectionism, social justice (redistributive policies) and departure from the national oligarchy;

Policy Ruptures and Political Risk

Opportunity for Positive Change:

1. **Peace negotiations** – more inclusive and committed negotiations with the Reds and Islamist rebels

2. **Anti-Trust Regulation** – Competition Commission (under Balisacan) and less attachment to the oligarchy

3. **Infrastructure development – Dutertenomics,** address 'under-spending' of previous administration, less beholden to 'good governance' redtape, and stronger international support (Japan and China)

4. **Necessary constitutional amendments –** relaxation of restrictions on foreign investments, joint development in PH EEZ, presidential term office.

Political Risk

1. **War on Drugs** – ICC challenge; EU/US legislature; Rule of Law (i.e., WB governance index); Tokhang 2.0

2. **Federalism** – transition could be messy and expensive, strengthening of centrifugal forces (political dynasties), create overlapping regulations and additional offices; few regions capable of sustaining themselves only;

3. **Marcos connection and VP office –** crucial to watch is the SC decision on electoral fraud complaint; how the PET handles the issue, and outcome – and corresponding public perception

4. Foreign policy – correct strategic sensibility, but often amateurish tactics, flip-flopping pronouncements, which could undermine PH's strategic signal's credibility. Trump, though, could help the situation;

5. Civil-military relations – Concerns over Duterte's affinity with the Reds, the direction of peace negotiations and relations with American and China; offer of **bonuses and salary increase** important, plus appointment of 7 AFP chiefs of staff to cabinet/sub-cabinet positions.

6. Fiscal Reform and TRAIN – close loopholes, standardize and update tax rates, improve collection and reduce exemptions; strong counter-lobby, especially among cooperatives, and, lesser degree, real estate/auto industries.

- ## 7. **Marawi and Specter of IS**

Troubling convergence of DAESH' pivot to the East, and the stagnation in the peace process in Mindanao post-Mamasapano in early-2015; risk of contagion, with foreign fighters and hardliners within major rebel groups joining in; post-Marawi reconstruction and grievances

8. **Debt Trap and Dutertenomics** – crucial importance of avoiding fiscal overstretch, overreliance on foreign debt (with high interest rates); and ensuring good governance regulations in place and implemented

- 9. **Factional conflicts, Internal GOT** – neo-liberal "technocratic trio" vs. progressives; Bong Go vs. Evasco; Cayetano vs. Marcos.

Policy Challenges Ahead

What Key Surveys Say...

SATISFACTION WITH THE PERFORMANCE OF THE ADMINISTRATION IN ITS CAMPAIGN AGAINST ILLEGAL DRUGS, SEP AND DEC 2016

% of adults

|	Very satisfied	Somewhat satisfied	Undecided	Somewhat dissatisfied	Very dissatisfied	Net*
Sep 2016	54	30	8	4	4	+76
Dec 2016	53	32	7	5	3	+77

*% Satisfied minus % Dissatisfied correctly rounded.
Note: % Refused is not shown.

Q139: Maaari po bang pakisabi ninyo kung gaano kayo nasisiyahan o hindi nasisiyahan sa kasalukuyang kampanya ng ADMINISTRASYON laban sa illegal na droga. Kayo ba ay... (SHOWCARD) LUBOS NA NASISIYAHAN, MEDYO NASISIYAHAN, HINDI TIYAK KUNG NASISIYAHAN O HINDI, MEDYO HINDI NASISIYAHAN, O LUBOS NA HINDI NASISIYAHAN?
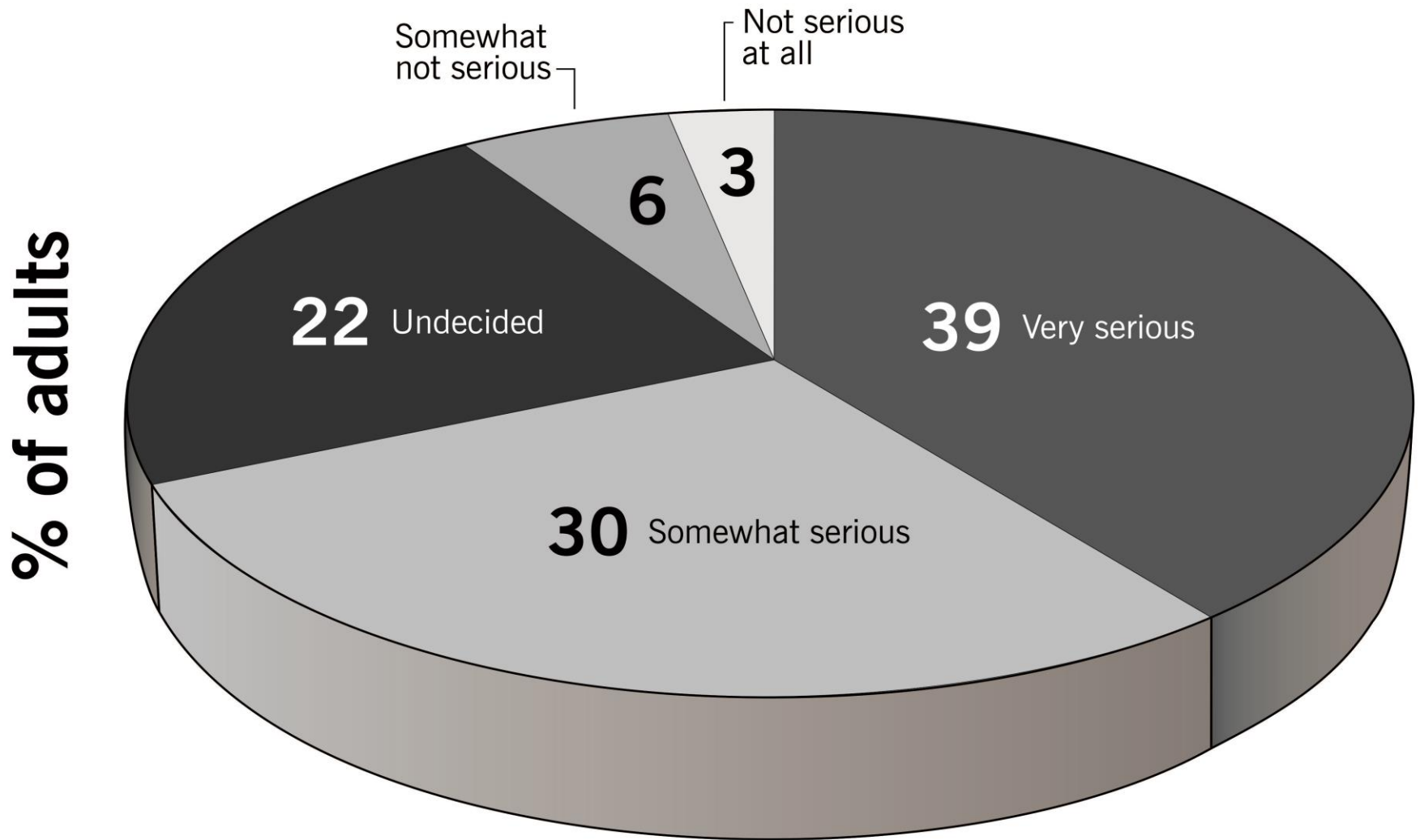
IMPORTANCE OF KEEPING ILLEGAL DRUG TRADE SUSPECTS ALIVE, SEP 2016

Q: In the police's fulfillment of their duty in the campaign against illegal drugs, in your opinion, how important is it that they arrest suspects allegedly involved in the illegal drug trade alive?

Not at all important
Somewhat not important

Somewhat important **23**

5 2

71 Very important

% of adults
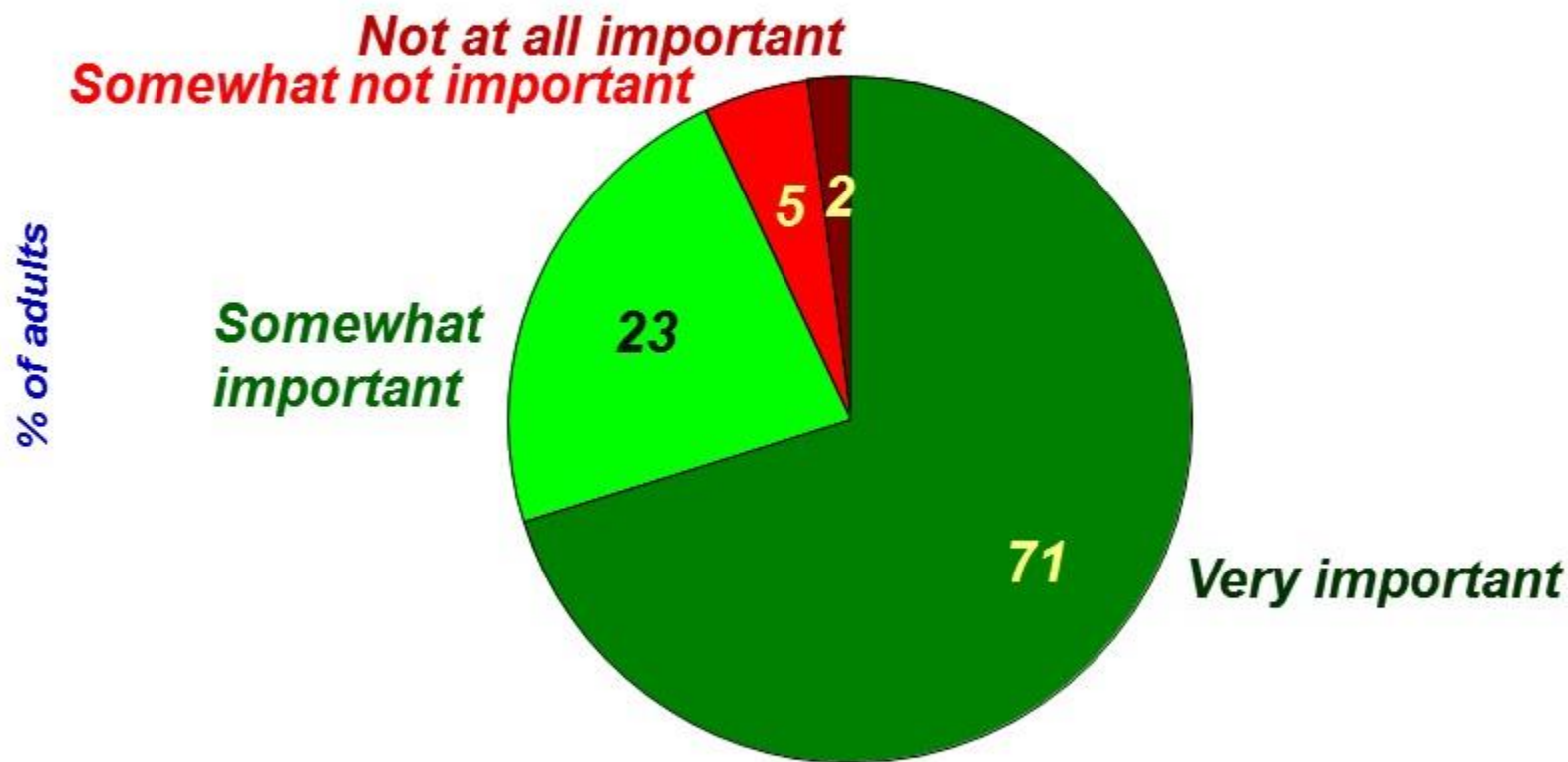
Q151. Sa pagtupad ng kapulisan ng kanilang tungkulin sa kampanya laban sa illegal na droga, sa inyong palagay, gaano ka-importante na mahuli nila nang buhay ang mga taong pinaghihinalaang di-umano'y kasabwat sa bentahan ng illegal na droga? Ito po ba ay... (SHOWCARD) [TALAGANG IMPORTANTE, MEDYO IMPORTANTE, MEDYO HINDI IMPORTANTE, TALAGANG HINDI IMPORTANTE]

Figure 3.3 **PUBLIC CONCERN OF PREVALENCE OF EXTRAJUDICIAL KILLINGS (DECEMBER 2016)**

% of adults

Somewhat not serious

Not serious at all

22 Undecided

6

3

39 Very serious

30 Somewhat serious

Note: Seriousness of the extra-judicial killings or EJK problem in the present administration.

Table 3.2 MOST URGENT NATIONAL CONCERNS

December 2016 and March 2017 / Philippines
(Multiple Response Allowed / In Percent)

National Concerns	Dec16	Mar17	Change*
Improving / Increasing the pay of workers	45	43	– 2
Controlling inflation	34	41	+ 7
Creating more jobs	31	39	+ 8
Fighting graft and corruption in government	31	31	0
Fighting criminality	33	28	– 5
Reducing the poverty of many Filipinos	33	27	– 6
Increasing peace in the country	23	18	– 5
Enforcing the law on all, whether influential or ordinary people	17	16	– 1
Stopping the destruction and abuse of our environment	11	15	+ 4
Controlling fast population growth	8	11	+ 3
Reducing the amount of taxes paid	12	11	– 1
Protecting the welfare of OFWs	10	8	– 2
Defending the integrity of Philippine territory against foreigners	6	6	0
Preparing to face any kind of terrorism	4	3	– 1
Changing the Constitution	4	3	– 1

Source: Pulse Asia

Table 3.1 AWARENESS AND TRUST RATINGS OF SELECTED COUNTRIES AND INTERNATIONAL / REGIONAL ORGANIZATIONS

December 2016 and March 2017 / Philippines
(In Percent)

Countries / Organizations		Aware	Base: Aware of country / organization						Don't Know / Refused
			TRUST			DISTRUST			
			Total	A great deal of trust	A fair amount of trust	Total	Not too much trust	No trust at all	
UNITED STATES OF AMERICA (USA)	Mar 17	100	79	29	50	20	16	4	0.4
	Dec 16	100	76	24	52	23	21	2	1
JAPAN	Mar 17	100	75	20	54	25	21	4	0.5
	Dec 16	99	70	17	53	29	24	5	1
AUSTRALIA	Mar 17	98	69	12	57	30	24	6	1
	Dec 16	—	—	—	—	—	—	—	—
GREAT BRITAIN / UNITED KINGDOM (UK)	Mar 17	95	53	9	44	44	35	9	3
	Dec 16	93	39	5	34	55	42	13	6
RUSSIA	Mar 17	96	42	7	35	56	36	20	2
	Dec 16	95	38	5	33	58	41	17	4
CHINA	Mar 17	99	37	5	31	63	35	28	0.4
	Dec 16	98	38	7	30	61	39	22	1
UNITED NATIONS (UN)	Mar 17	98	82	22	59	17	14	3	1
	Dec 16	98	74	18	56	25	21	3	1
ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)	Mar 17	97	81	22	59	19	16	3	1
	Dec 16	—	—	—	—	—	—	—	—

Source: Pulse Asia

AGREEMENT / DISAGREEMENT WITH TEST STATEMENT:
"Candidly speaking, it may be necessary now to have martial law to solve the many crises of the nation."
December 6 - 11, 2016 / Philippines
(In Percent / BY LOCATION AND SOCIO-ECONOMIC CLASS)

Base: Total Interviews, 100%

TEST STATEMENT: "Candidly speaking, it may be necessary now to have martial law to solve the many crises of the nation."	LOCATION		BAL			CLASS		
	RP	NCR	LUZ	VIS	MIN	ABC	D	E
AGREE	12	7	13	15	11	9	12	14
Very much agree	2	0	1	4	2	0	2	1
Agree	10	7	12	11	9	9	10	13
MAY AGREE/MAY DISAGREE	14	12	13	20	14	16	12	19
DISAGREE	74	81	74	65	75	75	76	67
Disagree	44	57	49	36	35	41	46	40
Very much disagree	29	24	25	29	40	34	29	27

BABASAHIN KO NGAYON SA INYO ANG ILANG M GA PANGUNGUSAP. PAKISABI LAM ANG KUNG KAYO AY
(SHOWCARD) SA BAWAT ISA SA M GA PANGUNGUSAP NA ITO?
Q49. SA TOTOO LANG, M AAARING KAILANGAN NGAYON NA MAGKAROON NG BATAS M ILITAR O
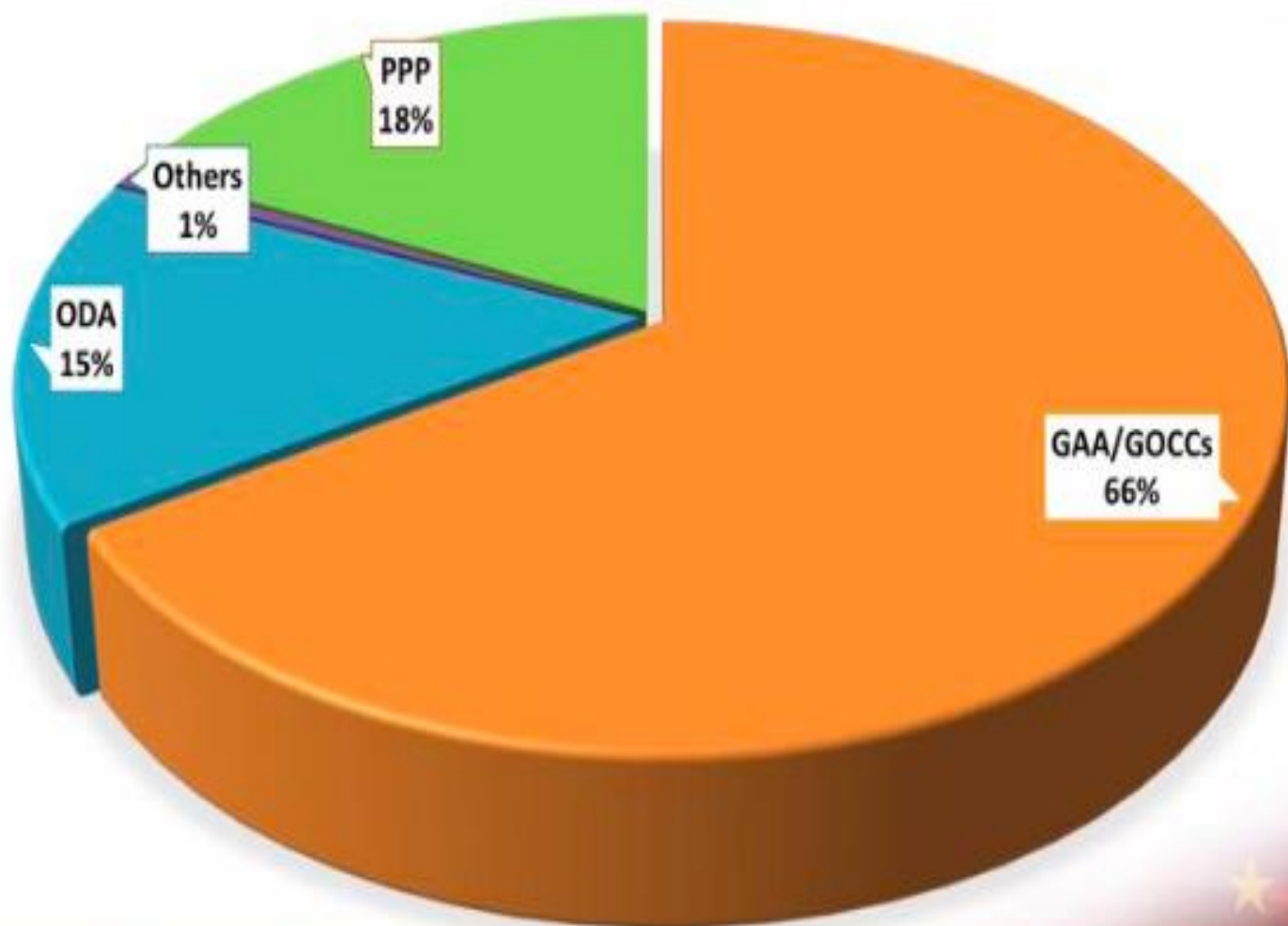MARTIAL LAW PARA MALUTAS ANG M ARAMING KRISIS NG BANSA.

Note: Figures may not add up to 100% due to rounding off or to Don't Know and Refuse responses.

NET TRUST RATINGS OF THE AFP AND PNP: PHILIPPINES, SEP 1988 TO APR 2016
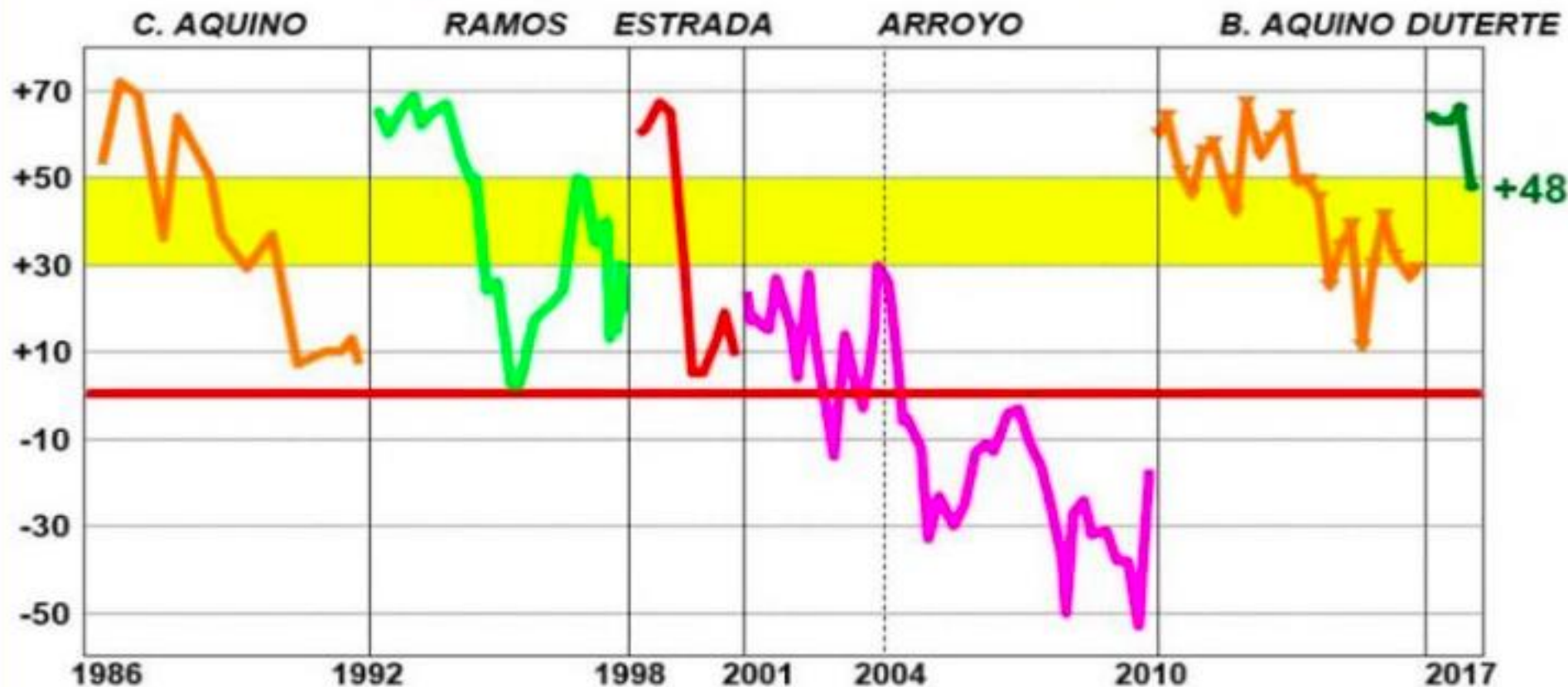
C. AQUINO   RAMOS   ESTRADA   ARROYO   B. AQUINO

Excellent
+70
Very good
+50
Good
+30
Moderate
+10
Neutral

AFP, +66
PNP, +55

1988   1992   1998   2001   2004   2010   2016

* NET trust = % Much trust minus Little trust correctly rounded.

SOCIAL WEATHER STATIONS Founded 1985
Statistics for Advocacy

First Quarter 2016 Social Weather Report
March 30-April 2, 2016 National Survey

2017-2022 PIP Infrastructure Investment Targets by Mode of Implementation

	GAA / GOCCs	ODA	PPP	Others	Total
Investment Target (PhP M)	4,705,065	1,101,487	1,270,050	48,734	7,125,336
US$ billion	94.5	22.12	25.50	0.98	143.01

NET SATISFACTION RATINGS* OF PRESIDENTS: PHILIPPINES, MAY 1986 TO SEP 2017

C. AQUINO   RAMOS   ESTRADA   ARROYO   B. AQUINO   DUTERTE

+70
+50
+30
+10
-10
-30
-50

+48

1986   1992   1998   2001   2004   2010   2017

*% Satisfied minus % Dissatisfied correctly rounded. Ignores Don't Know and Refused to Answer responses.
Question. Please tell me how satisfied or dissatisfied you are in the performance of [NAME] as President of the Philippines. Are you very satisfied, somewhat satisfied, undecided if satisfied or dissatisfied, somewhat
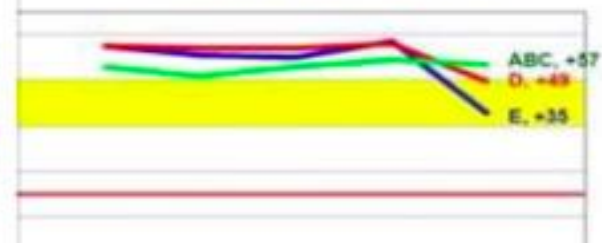
TRUST RATINGS OF RODY DUTERTE: PHILIPPINES, DEC 2015 TO SEP 2017
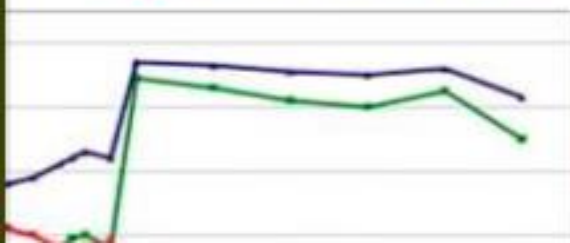
SATISFACTION RATINGS* OF PRES. RODRIGO DUT BY AREA, SEP 2016 TO SEP 2017

Mindanao, +
Muc 73%
Net +60
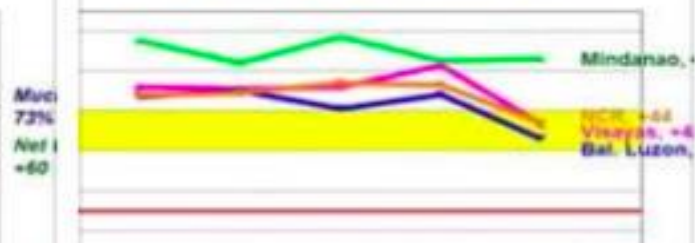
SATISFACTION RATINGS* OF PRES. RODRIGO DUT BY CLASS, SEP 2016 TO SEP 2017

ABC, +57
D, +49
E, +35

Conclusion: *Sub-Optimal Equilibrium*

- Economic growth robust, with DOF and BSP maintaining policy competence, but **greater volatility** in **investment sentiment and policy predictability** Opportunity cost: **Foregone investments** by Western counterparts, particularly EU. (year-on-year investment down by **90%. From $1.44b to $141m**).

- Duterte maintain **robust levels of popularity** (though no counter-historical), but discover **limits of his unilateral decision-making power** on key policies (i.e., SCS; communists rebels; US and counter-terrorism, war on drugs) as aura of invincibility is gradually shattered;

- **Weakening of institutions**, from law enforcement to judiciary and legislative, giving way to **proto-authoritarian system**;

- Specter of **Putin-style crackdown** on free-liberal media

- Opposition weakened, lack of central **leadership and appealing narrative**