

BTI 2016 | Philippines Country Report

Status Index	1-10	6.53	# 38 of 129	
Political Transformation	1-10	6.70	# 40 of 129	➔
Economic Transformation	1-10	6.36	# 40 of 129	➔
Management Index	1-10	5.22	# 57 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	99.1	HDI	0.660	GDP p.c., PPP \$	6982.4
Pop. growth ¹	% p.a.	1.6	HDI rank of 187	117	Gini Index	43.0
Life expectancy	years	68.7	UN Education Index	0.610	Poverty ³	% 37.6
Urban population	%	44.5	Gender inequality ²	0.406	Aid per capita \$	1.9

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

In the last two years, the quality of democracy in the Philippines has stagnated or even slightly deteriorated. The Aquino administration which had raised a great deal of hope for a reinvigoration of democracy has not achieved this target, but rather got entangled in homemade political difficulties, particularly in 2014.

In the beginning of his term, the president could rightly blame the legacy of corrupt and patronage-oriented politics by previous administrations, most notably under his predecessor Gloria Macapagal-Arroyo, for the poor state of governance in the country. But after more than four years in office, this excuse is no longer taken seriously. Many of the cronies of the previous administration, such as former Chief Justice Corona, have been removed, and a mostly supportive Congress did not impede the administration's policies excessively.

In 2013 and 2014, the president's political fortunes changed for the worse, as seen in his diminished popularity in surveys. The general public complaints about the lack of inclusive growth and huge delays in infrastructure projects. The Priority Development Assistance Fund (PDAF) scandal, i.e., the large-scale embezzlement of state money by dozens of high-profile legislators, has further eroded the legitimacy of political institutions in the Philippines. According to investigators, more than \$200 million were used for the private profits of politicians, instead of development programs. Three prominent senators were arrested, and to date, are held in detention.

The image of President Aquino was also heavily tarnished when, in July 2014, the Supreme Court declared the presidential Disbursement Acceleration Program (DAP), which comes from the state budget, partially unconstitutional. Opposition politicians accused the president of bribing legislators with DAP money. Budget Secretary Florencio Abad, who was responsible for the spending of the DAP money, offered his resignation, but Aquino refused.

In this context, President Aquino attacked the Supreme Court and put to question the principle of the separation of powers and the budgetary powers of Congress. Additionally, his openness to exploring a second presidential term (which would be not in accordance with the constitution) did not benefit the stabilization of Philippine democracy.

In economic terms, the Philippines fared much better. The country's economy is one of the region's fastest growing, with GDP growth rates of more than 6%. Cuts in interest rates and increased government spending have boosted economic confidence. Furthermore, a relatively stable banking sector and the reduction of foreign debt contributed to the overall positive macro-economic development of the Philippines. In contrast to previous decades, the country is regarded by investment bankers and rating agencies as a promising and stable emerging market.

Nevertheless, the benefits of economic growth remain distant and inaccessible for many people in the Philippines and still about one third of its population lives below the poverty line of \$1.25 per day. Without an effective welfare system, mass emigration remains highly popular.

The democratic and economic transformation of the Philippines is severely hindered by the oligarchic structures of both the political and the economic systems. The long-lasting and entrenched dominance of various political dynasties in both spheres still prevents the reforms necessary for the further deepening of democracy and the transformation to a more just and equitable market economy.

History and Characteristics of Transformation

After achieving independence from the USA in 1946, the Philippines adopted a democratic regime with a presidential system of government. The future seemed to be bright, since in terms of industrialization, economic potential and public education the Philippines was one of the most advanced countries in Asia. In September 1972 then-President Ferdinand Marcos declared martial law and imposed a military-backed personalist dictatorship. He drastically reduced civil and political liberties, destroyed the country's political social institutions, and ordered the arrest of opposition figures. Additionally he confiscated business enterprises and re-distributed them among his family, his cronies and loyal military officers. The armed forces' budget and personnel grew astoundingly under Marcos and performed nontraditional roles in the political and economic spheres. The national economy suffered not only from mismanagement due to Marcos' crony capitalism but also from rampant corruption and a huge increase in foreign debts. His brutal dictatorship found support from Western powers like the USA who saw Marcos as the best safeguard against communism and guarantor of the safety of its large military bases in the country.

After the assassination of one of the most important opposition figures, Benigno "Ninoy" Aquino (the father of the current President) in June 1983, resistance against the authoritarian regime gained

momentum. In early 1986, mass demonstrations in the name of “people power” led to end of Marcos’ authoritarian rule and the re-introduction of democracy.

As the first post-authoritarian president, the widow of “Ninoy” Aquino and mother of the current president, Corazon “Cory” Aquino (1986-1992) presided over the initial phase of the democratic transition, which was devoted to the drafting of a new democratic constitution, the dismantling of authoritarian power structures at the national and local levels and the restoration of pre-martial law political institutions.

Her successor Fidel Ramos (1992-1998) concentrated his efforts on implementing a market-based economy through liberalization and privatization with the aim of improving the country’s competitiveness in the international arena. His policies provided a period of economic growth and political stability, even though the Philippines were already lagging economically behind other East and Southeast Asian countries. He did not, however, implement political reforms to further deepen democracy, particularly reforms that would have challenged the power of Filipino oligarchs. The next two presidents, Joseph “Erap” Estrada and Gloria Macapagal-Arroyo (GMA) eroded the fundamental tenets of democracy in the Philippines. Estrada, whose presidency was troubled by allegations of abuse of power, a lavish lifestyle and corruption, was eventually ousted by mass demonstrations, called “people power II,” and the Supreme Court which inaugurated GMA as his successor in 2001. Three years later, despite serious charges of fraud in the course of the 2004 presidential election, Arroyo was re-elected to a full six-year term. GMA’s nine years in office all together were characterized by creditable economic performance amid a deepening crisis of legitimacy. She presided over 37 quarters of consecutive economic growth and adeptly steered the economy at the height of the global financial crisis in 2007. However, the economic growth did not translate to an improvement in people’s welfare, since it did not contribute to alleviating poverty, reducing unemployment, or addressing widespread inequality.

The potential gains associated with positive economic growth were eroded by a series of massive corruption scandals that plagued her administration. The political system adopted more and more authoritarian features under her administration, such as the prevalence of patronage for all government positions, a lack of transparency for government actions, a growing number of human rights violations against regime opponents (extra-judicial killings), and money politics to co-opt potential partners. GMA more and more relied on the military to stay in power as mass demonstrations against her shook the country and many of the political and economic elites turned away from her. Pure regime survival drove the end of her administration as she faced a permanent gridlock with the Senate majority, not only on legislation but also on the state budget, and a political standstill for several years.

In June 2010, Benigno “Noynoy” Aquino was elected with a large margin of votes for a six-year term as the new president of the Philippines. His presidency so far resulted in stabilization of the democratic system and remarkable macro-economic growth.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The state claims to have a monopoly on the use of force throughout the entire territory, but in fact the Philippines is a rather weak state, at least compared to other Southeast Asian countries. Due to its vast territory and archipelagic structure, it is difficult for the central government in Manila to effectively govern the entire country. The capacity of the armed forces and other law enforcement agencies, such as the national police, is somewhat limited in several areas.

Monopoly on the
use of force

7

Local clans and even warlords in some areas, particularly in Mindanao, are the real rulers of their territories. Very often, they employ private armies, which take the law in their own hands. A similar setup is seen in parts of the country controlled by communist insurgents, who employ their own methods of revolutionary taxation, and during election season, extract money from politicians for permission to campaign in those areas.

Despite appeals from civil society organizations, President Aquino has not revoked Executive Order 546. This directive by former President Gloria Macapagal-Arroyo is often misused as a legal basis for the creation of paramilitary units by powerful local clans. Moreover, a recent law was passed that allowed individuals to easily own weapons. The weak regulatory capacity of the Philippine state makes this law easily susceptible to abuse and provides an atmosphere for private militias and armed criminal gangs.

Despite its multiethnic and multilingual composition, the large majority of citizens of the Philippines stand behind the concept of the nation-state as outlined in the 1987 constitution. Access to citizenship is not denied to any particular group. Resistance stems only from some ethnic and religious minorities, particularly from Muslims in Mindanao who see themselves more as Moro (the Spanish word for Moor, the Reconquista-period term used for Muslims) than Filipinos. Therefore, they adhere to the idea of Bangsamoro (the Moro nation). In March 2014, the government of the

State identity

7

Philippines signed a Comprehensive Peace Agreement (GPH) with the Moro Islamic Liberation Front (MILF) and created an autonomous region with the name Bangsamoro in the western part of the island of Mindanao and smaller nearby islands in the Sulu Archipelago.

Due to the Spanish colonial past, the large majority of Filipinos are Roman Catholics. However, in recent decades the membership and importance of evangelical Christian groups, such Iglesia ni Cristo, El Shaddai and Jesus is Lord, grew steadily.

No interference of religious dogmas
7

Officially, the principle of separation of church and state is stated in Article II, Section 6 of the national constitution. However, the abovementioned Christian churches are supported by millions of Filipino citizens and they wield tremendous political influence.

For over 13 years, fierce opposition by these Christian groups hindered the passing of the Reproductive Health Bill in Congress. The bill aims to provide contraceptives, information on family planning methods at public health centers and comprehensive reproductive health education in schools. National surveys showed that more than 70% of Filipinos supported the bill, but public pressure from the churches stalled the bill for a long time, until it was eventually passed by Congress and signed into law by President Aquino in December 2012. The president of the Catholic Bishops' Conference has several times threatened to excommunicate President Aquino if he supports the bill, while other Christian dignitaries strongly condemned the legislation. After a challenge to its constitutionality, the Supreme Court decided to uphold most of the law's provisions.

The Philippines strong influence of conservative Christian values can also be seen in the issue of divorce. Apart from Vatican City State, the Philippines is the only country in the world without a divorce law. House Bill 4408 allowing divorce under very strict conditions has been debated in Congress for years, but Catholic resistance has so far prevented the bill from passing.

The state's fundamental infrastructure extends throughout the entire territory of the country, but due to the archipelagic structure and vastness of the country, its operation is deficient to some extent. The estimated number of civil servants is 1.2 million, a relatively high figure. However, not all of them have the necessary abilities to fulfill their tasks properly and free of corruption and red tape. With the introduction of the Local Government Code in 1991, some competences were delegated to the provincial and local level.

Basic administration
7

As pointed out above, local clans and other groups further prevent the state apparatus from fulfilling basic state functions. Therefore, the Philippines suffers from weaknesses in taxation and problems in law enforcement. Communications, transport and basic infrastructure (water, education, and health) are usually provided

everywhere in the Philippines, but particularly in rural areas, the quality is often quite low.

2 | Political Participation

Since 1992, general elections are held regularly every six years (president) and every three years (half of the Senate, the House of Representatives, governors and mayors) in a synchronized manner. The last presidential elections took place in May 2010, and the latest mid-term elections for the Senate and the House of Representatives were held in May 2013.

Free and fair
elections

7

The elections are competitive and political posts are filled according to election outcome. All elections are conducted with a plurality (or first-past-the-post) election system which favors well-known and affluent candidates. Additionally, these candidates have far more funds and means to sponsor big election campaigns and access media.

Twenty percent of the seats in the House of Representatives are reserved for marginalized groups elected through a proportional party-list election system with a cap of three seats. However, not all of the party lists do really represent marginalized groups.

The electoral management and particularly vote counting by the Commission on Elections (COMELEC) was previously fraught with manipulation and irregularities. The automated ballot-counting system introduced for the first time in the 2010 elections has improved the fairness of general elections.

Election-related violence is a common feature in the Philippines. According to statements by the Philippine National Police, the 2013 election campaign season was more peaceful than others in recent years. However, 50 people were killed, including elected government officials, police, military, civilians and a candidate – still a high number.

Particularly in rural areas, where local clans effectively rule, vote buying and intimidation occur regularly. It is well known that many poor Filipinos accept money from vote canvassers and other middlemen working for politicians prior to elections. In several areas, the whole election process is marred and distorted by vote-buying irregularities.

However, despite all these deficiencies, general elections in the Philippines can still be regarded as more or less in accordance with democratic standards, in comparison to other fledgling democracies elsewhere.

In principle, elected leaders have the power to govern without any restraint. However, there are some informal veto players, still powerful enough to restrain executive actions. This refers to the about 60 very powerful family clans which dominate the countryside – and, to some extent, national politics as well. Often, they also own private armies and big business enterprises.

Effective power to govern

6

Other potential veto players are the leaders in the Armed Forces of the Philippines whose subordination under civilian authority cannot be completely guaranteed. Some members of the military leadership still reserve the right to interfere with the elected government if they believe the unity and stability of the nation to be threatened.

In conflict zones or in areas controlled by warlords or the NPA, the effective power to govern of elected representatives is limited.

The effectiveness of the government's power is not impeded by foreign actors.

Article III of the constitution (the Bill of Rights) guarantees the freedom of association and assembly. These rights are generally accepted and exercised by many Filipinos. Many organizations with a wide range of interests and causes exist in the country.

Association / assembly rights

9

Under the current Aquino administration, freedom of association and assembly has improved and all restrictions, which were imposed by the previous administration, have been removed. The government does not make use of intimidation, harassment or threats of retaliation to prevent citizens from exercising the rights to association and assembly.

However, due to relatively weak state structures and powerful non-state actors, violence against people who make use of their constitutional right to assembly is still a major problem in the Philippines.

In general, the freedom of opinion is guaranteed in the Philippines. The country enjoys a relatively high degree of media freedom (very little state control or censorship), particularly in comparison with other states in Southeast Asia. Most print and electronic media outlets are privately owned and present a wide variety of views. Mainstream media are often dictated more by corporate considerations than the public interest, since the outlets are owned by powerful oligarchs.

Freedom of expression

6

The 2014 Freedom of the Press report from Freedom House ranked the Philippines 87th out of 197 (in 2012, the country ranked 88th). Reporters without Borders is more critical and ranks the Philippines 149th out of 180 countries in their 2014 worldwide index, stating that the Philippines is second only to Iraq as the deadliest country for journalists and other media people, with 76 work-related killings since 1992. However, it has to be underscored that the state is not directly responsible for the violence, but rather local strongmen/criminals and the weakness of the state

authorities. One must note nevertheless that the inability of the government to hold perpetrators of these crimes accountable speaks of state's failure to provide an atmosphere conducive to the observance of civil liberties.

Several regulations of the so-called Cybercrime Prevention Act, which went into effect on 3 October 2012, are likely to undermine freedom in the Philippines. The provisions of the law referring to libel violate established global norms of free expression. The term libel is vaguely defined in the law and could criminalize any speech which criticizes the government or other state authorities. Libel in online media can now be punished by an exaggerated maximum penalty of 12 years in prison. Journalists, news organizations, and several NGOs have launched protest actions against the law. In February 2014, the Supreme Court ruled that the online libel provision in the controversial Cybercrime Prevention Act is constitutional.

3 | Rule of Law

The Philippines has a presidential system of government with clear separation of powers. In practice, however, various problems with the system of checks and balances have emerged. Executive legislative relations had been in a permanent conflict and gridlock situation in the last five years of the GMA administration. These are now running more smoothly under the Aquino administration, which has a majority in both houses of Congress. This can be attributed to the fact that the revitalization of the Legislative-Executive Development Council (LEDAC) as a coordination tool for presidential and congressional activities has had a positive effect.

Separation of
powers

6

On the other hand, conflict between the president and the Supreme Court indicated weaker checks and balance in 2014 when the Supreme Court declared parts of President Aquino's controversial Disbursement Acceleration Program (DAP) unconstitutional. In a public speech, the president heavily criticized the Supreme Court, currently led by his own political appointee, and even asked the Congress to intervene in the conflict. He also insisted that the Supreme Court's decision on the DAP is a hindrance to his reform agenda. With these statements, the president undermined the legitimacy of the Supreme Court.

The judiciary in the Philippines is formally independent. However, in practice, the sway of rich and powerful entities has frequently influenced the prosecution, conviction, and sentencing in countless civil and criminal cases. Consequently, courts often made decisions in favor of the rich and powerful. Relatively low salaries for judicial officials perpetuate the problems of bribery and interference in court proceedings by government officials and military personnel at all levels.

Independent
judiciary

7

Additionally, court proceedings usually take a very long time so that the whole judicial system is seriously congested.

Concerning the Supreme Court, the main critical point for judicial independence is the current appointment practice of judges by the president (after a short list of candidates is presented by the Judicial and Bar Council). Incrementally, current President Aquino has replaced many of Supreme Court judges appointed by his predecessor Gloria Macapagal-Arroyo and installed new judges, who are seen as more cooperative with his administration. This relatively smooth relationship, however, unraveled when the Supreme Court decided to declare the implementation of DAP partially unconstitutional.

The abuse of public office, not only on the national but also at the local level, remains a crucial obstacle for the further deepening of democratic and socioeconomic development in the Philippines. Immediately after resuming office, President Aquino made it a top priority to punish the power abuses and corruption cases of his predecessor and her cronies.

In November 2011, former President Macapagal-Arroyo was arrested following the filing of criminal charges against her for electoral fraud. Since then, due to medical problems, she remains in custody at the Veterans Memorial Medical Center in Manila.

In 2014, three prominent senators (Jingoy Estrada, Juan Ponce Enrile and Ramon Revilla, Jr.) were arrested for their part in the alleged misuse of more than \$230 million in public money in connection to the P10-billion PDAF scam.

President Aquino supported an anti-corruption crackdown resulting from the PDAF scandal, but opponents have accused him of singling out political adversaries for prosecution and being more lenient towards his allies, who have also been similarly linked to financial irregularities.

Despite the prosecution of these high-level cases, the overall number of punishments for power abuse and corruption is still quite limited.

De jure, the protection of personal liberty against state and non-state actors is guaranteed in Article III of the Philippine Constitution. De facto, there are still a lot of problems, despite the fact that conditions for the protection of civil rights have significantly improved since the end of the Macapagal-Arroyo presidency. The number of extra-judicial killings and violence against political opposition has decreased significantly. There is no systematic discrimination against women, ethnic or religious groups in the Philippines.

However, the overall situation of civil rights is still troublesome. Members of the powerful Ampatuan clan, which allegedly has been involved in the so-called

Prosecution of
office abuse

5

Civil rights

6

Maguindanao massacre in 2009, are still on trial. Many witnesses to this crime, who signaled their willingness to cooperate with state authorities, have been killed since then. Amnesty International therefore demands the establishment and the provision of resources for a specialized program for witness and victim protection, under the national Commission on Human Rights.

A report by Amnesty International from December 2014 criticized a culture of impunity within the Philippine police force. Amnesty International's Secretary General Salil Shetty complained that too many police officers in the Philippines are abusing their power and making a mockery of their duty to protect and serve the people. Additionally, he criticized weak law enforcement and referred to the fact that not a single official has been convicted in the last five years under the anti-torture act.

4 | Stability of Democratic Institutions

The performance of democratic institutions is sub-optimal. President Aquino's often rather indecisive leadership style left many political and social problems untouched. Congress, on the other hand, is dominated by members of the powerful political clans and has little interest in reforming the current political status quo. Both institutions, however, are now less occupied with extensive and counterproductive power struggles than under the previous administration. Nevertheless, extremely time-consuming procedures in Congress hamper governmental effectiveness. Several important bills have been delayed or debated for more than five or 10 years. The volume and quality of legislative output are not sufficient to sufficiently tackle the country's socioeconomic problems.

The efficacy and efficiency of many local government administrations have improved in recent years. The introduction of the Local Governance Performance Management System (LGPMMS) with a Seal of Good Housekeeping resulted in new incentives for LGUs that work efficiently. Additionally, a new Full Disclosure Policy for local governments' financial documents and bidding procedures, as well as the program Local Governance Watch, are promising reform measures to enhance transparency, citizen participation and good governance at the local level.

In general, all relevant political and social players accept democratic institutions as legitimate. No major political parties, associations, interest groups and civic organizations are openly campaigning against democracy. The military leadership seems to accept the democratic institutions, despite not being completely under civilian authority. Several radical Islamist groups from Mindanao reject more or less openly democratic institutions, but they make up only a small minority in the Philippines.

Performance of
democratic
institutions

7

Commitment to
democratic
institutions

8

5 | Political and Social Integration

Not least due to the prevalent presidential system of government with a plurality voting system, all political parties play a subordinate role in Philippine politics. People vote for persons and not for parties. Therefore, the existing parties are not deeply socially rooted or organizationally institutionalized. Additionally, they are not grounded in issues, ideologies and party platforms, but rather on personal connections and networks. Therefore, the level of polarization is relatively low and coalitions among parties are ephemeral.

Party system
5

The country's multiparty system is nevertheless gradually stabilizing and party-switching has become less frequent in recent years. Still, political parties are only able to articulate and aggregate societal interests in a very limited way.

In the Philippines, a huge number of interest groups and organizations work as mediators between society and the political system. Since there are no corporatist structures, all of these groups and organizations compete for political influence. As in all other political systems, access to financial resources is quite unequal between well-off business associations and nonprofit civil liberties groups. The Aquino administration is much better connected to various social groups and organizations than the previous GMA administration. Therefore, the relationship between NGOs, social movements and the democratic political system has stabilized in recent years. This has also contributed in a further acceptance of democracy in the middle classes of society.

Interest groups
7

The approval of the democratic system and democratic institutions is quite high in the Philippines. Traditionally, support for democracy is among the highest in East and Southeast Asia. A recent survey (March 2013) from the leading Philippine social survey institute Social Weather Stations (SWS) found that a majority of 59% surveyed believe that "democracy is always preferable to any other kind of government," as compared to 21% saying "under some circumstances, an authoritarian government can be preferable to a democratic one" and 20% who state, "for people like me, it does not matter whether we have a democratic or a non-democratic regime."

Approval of democracy
6

A December 2014 SWS survey revealed the following levels of support for the main political institutions: The Senate got a net satisfaction rating of +26 (53% satisfied, 27% dissatisfied); the House of Representatives got a +20 (45% satisfied, 25% dissatisfied); the Supreme Court +26 (50% satisfied, 24% dissatisfied); and the Cabinet a relatively low +9 (37% satisfied, 29% dissatisfied).

Like in other Southeast Asian societies, many elements of social capital such as mutual networks, trust among people, informal societal structures and volunteerism

Social capital
6

are widespread in the Philippines. Particularly close network ties with family and friends are of utmost importance in Philippine society.

Utang na loob (reciprocity), meaning the obligation to appropriately repay a person who has done one a favor, is a common Filipino cultural trait as well as pakikisama (togetherness). Pakikisama refers to the ability of a person to get along with others to maintain good and harmonious relationships. This includes offering help to neighbors who are in need.

Social life in the Philippines is structured to a high degree by numerous social organizations, which are mostly voluntary and autonomous. This also refers to the Catholic Church and other religious organizations which foster social capital.

II. Economic Transformation

6 | Level of Socioeconomic Development

According to the latest published information from the National Statistical Coordination Board (data from 2013, published in 2014), 24.9% of Filipinos live below the poverty line. The report used, for the first time, income data from the Annual Poverty Indicators Survey (APIS). The board defined poverty as having an income of less than 16,841 pesos (approximately €310, \$410) per year. A 2014 Social Weather Survey, conducted on 26-29 September, however, found that 55% (an estimated 12.1 million) of families consider themselves as Mahirap or Poor. According to the Philippines Statistics Authority, 93.3% of the Philippine labor force were employed in July 2014, but a high number of them work in the informal sector or the subsistence economy.

With a value of 0.66, the Philippines reaches a medium human development level in the latest U.N. Human Development Index. This rating has increased slightly from 0.63 in 2012. The Philippines ranks 117th out of 187 countries and below average for East Asian and Pacific countries.

The level of social exclusion due to poverty is still high and the gap between rich and poor has not been closing, but getting wider in recent years. With a score of 43.0 (in 2012), the Philippines is in a medium position in the World Bank's Gini index, which measures income disparities worldwide. The chances for people from the lower strata of society to find a good job and to advance socially are very constrained. Therefore, millions of Filipinos choose to migrate temporarily or permanently and to work abroad as OFWs (Overseas Filipino Workers) for years.

Question
Score

Socioeconomic
barriers
5

Inequality based on gender remains a concern. However, in comparison with other Southeast Asian and developing countries, the discrimination against women is not extreme. More educated women have high-ranking positions than in Western countries, whereas in rural areas, violence against women by their husbands is still common. In the most recent Gender Inequality Index of the United Nations (2013), the Philippines have a value of 0.406 and a rank of 78, slightly above the worldwide average. More women than men have at least a secondary education, but the maternal mortality rate is still quite high. There remains widespread discrimination against sexual minorities such as members of LGBT groups.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	103071.6	199590.9	272066.7	284582.0
GDP growth	%	4.8	7.6	7.2	6.1
Inflation (CPI)	%	6.5	3.8	3.0	4.1
Unemployment	%	7.7	7.3	7.1	-
Foreign direct investment	% of GDP	1.6	0.5	1.4	2.2
Export growth	%	5.0	21.0	-1.1	12.1
Import growth	%	3.3	22.5	5.4	5.8
Current account balance	\$ M	1990.4	7179.2	11383.5	12650.3
Public debt	% of GDP	59.2	43.5	39.2	36.4
External debt	\$ M	58692.7	60774.9	60608.6	-
Total debt service	\$ M	9527.7	11460.7	5850.2	-
Cash surplus or deficit	% of GDP	-2.8	-3.5	-	-
Tax revenue	% of GDP	12.4	12.1	-	-
Government consumption	% of GDP	9.0	9.7	11.1	10.7
Public expnd. on education	% of GDP	2.4	-	-	-
Public expnd. on health	% of GDP	1.5	1.6	1.4	-
R&D expenditure	% of GDP	0.11	-	-	-
Military expenditure	% of GDP	1.3	1.2	1.2	1.2

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

For decades, the Philippines' economic output lagged behind many neighboring countries and is just about to pick up pace now. One reason is certainly the geographic nature of the archipelago, but also the quality of the education system, which is often considered low. However, the major cause for the relative underdevelopment of the Philippine economy is its oligarchic structure and inherent lack of competition and investment-driven culture. This is well reflected in the low investment to GDP ratio compared to neighboring countries and the high market concentration in several sectors.

Market-based
competition

6

De jure, the Philippines is probably one of the most liberal economies in Asia. State-owned enterprises do not play a significant role in the national economy, which is dominated by private business. However, there are still conglomerates and cartels owned by the abovementioned clans with strong ties to the political elite. Despite existing antitrust legislature and joining the WTO in 1995, the situation has not changed over the past several decades. Unfair trade practices can be found, especially in the sectors of telecommunications, energy, agriculture and food products and the cement industry. As a medium-developed country, the informal sector, which employs about 75% of the labor force, is still significant to the national economy. According to the ILO, survey data indicate increasing informality and more workers beyond the reach of social protection and labor legislation.

The Philippine administration has a wide range of antitrust regulation at its disposal, going back to 1932. Article 12, Section 19 of the constitution explicitly states that the Philippine State "shall regulate or prohibit monopolies when the public interest so requires." Additionally, "no combinations in restraint of trade or unfair competition shall be allowed."

Anti-monopoly
policy

5

Nevertheless, enforcement lacks decisiveness, due to vague formulations, overlapping competencies between several involved agencies and the strong ties between economic and political elites. This becomes more salient as powerful economic interests fund the electoral campaigns of politicians.

The Philippine Fair Competition Act (House Bill 4845 and Senate Bill 123), patterned after the main antitrust laws in the U.S., is intended to tackle this situation. The proposed Philippine Fair Competition Commission would serve as the central institutional body monitoring competition in the market, determining violations of the law, imposing fines and penalties and filing criminal complaints to the Department of Justice, to which it is subordinated. In the current version, the law consolidates 12 different measures and provides the commission with extensive authorities.

However, the Philippine Fair Competition Act has been pending in Congress for many years and has not yet been passed.

The Philippines always supported a free and non-protectionist foreign trade policy. Current President Aquino from the Liberal Party has underscored the importance of this commitment in recent years. The Philippines' membership in the ASEAN Free Trade Area Agreement eliminated tariffs on approximately 99% of all goods for ASEAN trading partners, with some exceptions for sensitive goods. However, there are still import quotas for rice and some other food products. Aside from bilateral free trade agreements tariffs average 10.2% on agricultural products and 5.8% on non-agricultural products, with no major changes since 2005. The installation of the ASEAN Economic Community (AEC) in 2015 will further liberalize foreign trade.

Liberalization of
foreign trade
8

There are limits to ownership for foreign investors, for instance, in natural resource exploration, operation and management of public utilities and education institutions. Sectors of strategic importance, notably agriculture, fishery and certain services are generally restricted. However, the government encourages foreign investments in manufacturing and established "preferred areas," accompanied by tax and other incentives. Thus, in the category of market access the Philippines achieved position 11 out of 138 countries with a score of 4.6 in the 2014 Global Enabling Trade Report of the World Economic Forum. In the category of domestic market access, the Philippines rank 19 out of 138 countries with a score of 5.6.

The European Parliament in December 2014 completed the last stage in the process to grant the Philippines GSP+ that will provide duty free entry to the EU for some of the most important Philippine exports. The GSP+ preferences cover over 6,200 tariff lines including fruit and foodstuffs, coconut oil, footwear, fish and textiles.

The Philippine banking system presents itself as well-capitalized and resilient against the stiff headwind in the global economy and hence, there is consensus among international observers that the Philippines now has a sound banking system. At the end of June 2014, the consolidated capital adequacy ratio (CAR), which measures a bank's risk-weighted credit exposure, averaged 15.94%. This is well above the Basel III standard of 8% and the Philippine Central Bank (Bangko Sentral ng Pilipinas) even increased the reserve requirements for universal and commercial banks in May 2014.

Banking system
9

At the end of the third quarter of 2014, the Nonperforming Loan Ratio of the major banks improved to 1.4%, 0.4% lower than at the end of 2013. In the first nine months of 2014, credit growth of commercial banks expanded by 22%. The banking system profits from a booming economy and the BSP's expansive monetary policy.

However, exposure of the banking system to an expanding real estate sector is surging. Philippine banks' exposure to real estate expanded by nearly 22% year-on-year in the second quarter of 2014 and by 6% from the preceding quarter.

Nevertheless, in a stress test conducted by the Asian Development Bank in mid-2012, the Philippine banking system showed remarkable resilience towards several exo- and endogenous shock scenarios. The Basel III framework was applied in January 2014.

8 | Currency and Price Stability

The Philippine Central Bank (BSP) pictures the current state of the Philippine economy as “the ideal convergence of high economic growth and low inflation.” After the price hikes in 2008, the BSP managed to keep the annualized inflation rate within its target range of 3-5%, with 4.6% in 2011, 3.2% in 2012, 3% in 2013, and 4.1% in 2014. The GDP expanded by more than 6% during this period.

Anti-inflation /
forex policy

8

In order to stimulate the economic expansion and to take pressure off of the appreciating peso, the BSP cut overnight borrowing rates four times in 2012 for a total of 100 basis points to 3.5%. Since October 2012, the BSP has held its benchmark repurchase rates at record lows of 3.5% for overnight borrowing and 5.5% for overnight lending. With inflationary pressures gaining momentum, the central bank raised policy interest rates by 50 basis points between July and September 2014, to 4.0% for the overnight borrowing rate and 6.0% for the overnight lending rate.

In 2014, the Philippine peso depreciated against the US dollar, which in turn encouraged exporters to increase their shipments and caused a boost in export of goods and services.

At the end of November 2014, Philippine forex reserves reached nearly \$79 billion, accounting for 10.7 months of imports. Though at its lowest level in more than two years, with over \$76.1 billion in June 2012, forex reserves remain adequate.

After a raise in credit rating by all three major rating agencies, the Philippines' investment grade is now undisputed. Partly in recognition of the government's improving revenues, Moody's upgraded the Philippines government's sovereign credit rating to Baa2 in 2014 or two notches above the “junk” status of the country just two years earlier.

Macrostability

7

Standard & Poor's gave the country a similar rating earlier in the year, while Fitch Ratings still has the Philippines at its minimum investment grade.

On the revenue side an improved tax administration, a new implemented sin tax measure (at the beginning of 2013), stronger law enforcement, as well as the booming economy, resulted in a total revenue collection increase of 13% over 2013. Nevertheless, tax revenue to GDP remains low at 13.7%. The fiscal deficit of the GDP is, in the first six months of 2014, at 0.9%, well under the full-year deficit target of 2.0% of GDP that the government announced for 2014. It is likewise well below

the data for the previous year (1.3%). For 2015, the government announced a deficit target of 2.0% of GDP.

Furthermore, the public debt inherited from the authoritarian Marcos dictatorship was reduced to 49.2% of GDP in 2013, down from 79% in 2005. In addition, the interest payments, which accounted for nearly a third of state spending in 2005, are down to one-seventh in 2014. Compared to other countries in the region, the Philippines is not highly indebted.

9 | Private Property

Although the constitution provides a legal framework for private property rights, their enforcement remains complicated. Outdated and conflicting laws result in hindered coordination between administering agencies and a strong propensity for arbitrariness and corruption increase the transaction costs that consistently cause conflicts with informal settlers. In order to resolve this situation and to streamline the process of land registration, the Philippine Congress has been deliberating on a Land Administration Act for many years. According to the present proposal, all administering competencies should be transferred to a single agency, the Land Administration Authority, with quasi-judicial powers to settle private property disputes. However, it remains questionable if the bill will be passed by Congress in the next few years.

Property rights
6

In the World Bank's 2015 Doing Business Report, the Philippines improved slightly in terms of starting a business, dealing with construction permits, getting electricity, and registering property. Additionally, the Philippines simplified the process of paying taxes for firms and improved credit information sharing by guaranteeing borrowers' right to access their data in the country's largest credit bureau. Despite these improvements, the country ranks 95th out of 189, well below its regional neighbors (Malaysia 18th, Thailand 26th, Indonesia 114th).

Private enterprise
7

The result is explained by the lagging implementation of regulatory reforms. The economic boom might have revealed some administrative bottlenecks, too. The major constraint for micro, small and medium enterprises, which employ 98% of the workforce mainly in the agricultural, trade, hotel and restaurant sectors, is to find access to finance. The strong dependency on internal sources of financing hinders investments and expansion plans, thus undermining the competitiveness of the Philippine economy and the transformation of the economy from agriculture to manufacturing. The abovementioned high concentration in several sectors of the economy constitutes an additional barrier to under-capitalized enterprises.

The government continued to promote public-private-partnerships, in order to attract new investors, tackle bottlenecks in the infrastructure at a faster pace and privatize some of the remaining state-owned enterprises.

10 | Welfare Regime

In order to meet the U.N. Millennium Development Goals, the Aquino administration aims to cut the poverty rate to 16.6% in 2015, half the poverty rate of 33.1% in 1991. However, in December 2013, the National Statistical Coordination Board reported that poverty barely improved from 26.3% in 2009 to 25.2% in 2012.

Social safety nets
5

Social safety nets are still considerably underdeveloped. The main instrument next to improved infrastructure, sustained high growth rates and low inflation is the conditional cash transfer (CCT) program (Pantawid Pamilyang Pilipino Program; 4Ps), which was launched by the previous administration in 2007. Current President Aquino continued the CCT program but did not start major new social safety net initiatives.

Currently, the CCT program covers about 3 million of the 5.2 million poor households, granting regular payments of about \$33 to mothers, conditional on their children regularly attending school and receiving preventive health checkups. According to a study by the ADB, the Philippine CCT is one of the most efficient social safety systems, with costs less than 0.5% of GDP, yet reaching about 15 million people. A preliminary evaluation by the World Bank in March 2013 revealed significantly increased school enrollment and attendance and more frequent health visits by pregnant woman and children.

In 2014, however, several politicians from the opposition, as well as some critical development NGOs, questioned the effectiveness of the CCT program.

The Philippines is ranked 9th out of 135 countries in the 2014 Global Gender Gap Index with a score of 0.7814, the highest among Asian countries and close to the leading Scandinavian group. The index covers economic participation and opportunity, educational attainment, health and survival and political empowerment. In categories regarding education, the Philippines even exceeds equality: The literacy ratio is at 1.00, enrollment in primary education at 1.02, in secondary education at 1.19 and in tertiary enrollment 1.24, respectively. Nevertheless, the study also reveals, that Filipina women just earn 68% of the men's income. Despite the remarkable state of gender equality regarding education and health care, there is still room for improvement in the socioeconomic and political context and effective enforcement of existing women's empowerment laws, respectively.

Equal opportunity
6

As mentioned above, large income disparities, as well as a high poverty rate, constitute severe constraints on social and political participation. However, the

government is about to tackle some of the most severe aspects of inequality via its quite successful Conditional Cash Transfer Program. However, the geographic nature of the archipelago, as well as poor infrastructure in rural regions, make the eradication of socioeconomic disparities a significant challenge. The critical situation of indigenous groups, which have experienced consistent marginalization and land-grabbing, continues in recent years.

11 | Economic Performance

Despite a difficult global environment, the Philippines is one of the fastest growing economies in East Asia. GDP is expected to grow by 6.4% in 2014, up from 3.7% in 2011. The World Bank forecasts a 6.7 GDP growth for 2015. Growth was largely driven by robust private and public consumption, the booming business process outsourcing (BPO) industry and a probably overheating construction sector.

Additionally, strong overseas remittances boost domestic consumption. In 2013, overseas remittances reached a record high of \$25.1 billion, 7.6% higher than the previous year's level. Overseas remittances increased by 6.2% to \$12.7 billion in the first half of 2014.

Inflation remained under control at 4.1% in 2014 and 3% in 2013, respectively. According to the National Statistics Office, the employment rate in October 2014 is estimated at 94.0%, with 2.483 million Filipinos unemployed, 120,000 more than a year before. The number of underemployed people reached 7.279 million.

As of October 2014, a (very small) trade deficit of \$5,559,000 was recorded, while foreign direct investments decreased in the first two quarters of 2014 by 32.7% compared to one year earlier. The current account surplus narrowed to \$3.9 billion, or 2.9% of GDP. Net outflows in financial accounts, mainly of portfolio investments, put the balance of payments in deficit by \$4.1 billion.

12 | Sustainability

In the latest (2014) Environmental Performance Index (EPI), the Philippines is ranked 17th in the Asia-Pacific Region and 114th out of 178 countries. The EPI scores and ranks countries on the basis of two areas: environmental health, which measures the protection of human health from environmental harm, and ecosystem vitality, which measures ecosystem protection and resource management.

Over a 10-year period, the Philippines improved slightly according to EPI data. It showed a 20.21% improvement in access to drinking water and sanitation; 11.8% in the reduction of agricultural subsidies; and 10.38% in child mortality. The country also managed to reduce its carbon dioxide (CO₂) emissions. For the period 2000-

Output strength
8

Environmental
policy
6

2010, the country reduced its emissions of CO₂ per kilowatt-hour of electricity produced by 2.35%. Fish stocks, however, declined by 25.63%.

The World Wildlife Found (WWF) also criticizes coastal zone development, which damages the Philippines' marine environment, and results in deforestation and improper waste management.

The Philippines accommodates a wide range of laws regarding environmental protection. This includes the Clean Air Act of 1999, the Ecological Solid Waste Management Act of 2000, the Clean Water Act of 2004, the Environmental Awareness and Education Act of 2008, and the Climate Change Act of 2009. Nevertheless, implementation often lacks human and administrative resources and infrastructure, as well as concern for the impact on the economy and the poor.

Traditionally, the Philippines has a relatively high literacy rate and high overall school enrollment rate as a legacy of American colonial rule. However, the share of functional illiterates and school dropouts at the secondary level is very high. In June 2012, the first phase of the K-12 educational system began, to be fully implemented in the school year 2018-2019. Along with an overhauled curriculum, the basic education program will be extended by two years to a compulsory 12 years for every Filipino child. The reform, which was also in line with requirements associated with the ASEAN Economic Community Blueprint for 2015, is an attempt to counter the vast deficits in the education system, which constitutes a significant constraint for further inclusive growth. According to a study by the World Bank on higher education, there is a significant mismatch between the skills demanded by the economy and those provided by the education system. The Philippines also suffer from a tendency among skilled workers to emigrate to higher-income countries.

Education policy /
R&D
4

The Aquino administration has started to bolster the public education funding. The education budget was raised from 293.32 billion pesos in 2013 to 309.43 billion pesos in 2014. The budget for the Department of Education was again increased to 364.958 billion pesos in 2015. However, public expenditures for education are still too low. With 2.5% of GDP in 2013, it is well below the East Asian average of 3.6% and the South Asia average of 3.8%, respectively.

Philippine investment in R&D remained at a level of around 0.11% to 0.14% of GDP, which is among the lowest in Asia. Socioeconomic Planning Secretary Arsenio Balisacan said in 2013 that the Philippines needs to invest at least 220 billion pesos in science and technology.

Transformation Management

I. Level of Difficulty

The Philippines is an archipelago consisting of more than 7,100 islands, which stretch about 1,850 kilometers from north to south and more than 1,100 kilometers from west to east. With more than 100 million inhabitants (among which number more than 10 million live and work abroad), the Philippines is the 12th most populated state in the world, posing a more difficult challenge for good governance and development than other smaller states. The Philippines is furthermore a mostly mountainous and extremely multiethnic and multilingual country. Additionally, its close location to the Pacific Ring of Fire makes the Philippines prone to relatively frequent natural disasters, such as volcano eruptions, earthquakes and typhoons.

Structural
constraints

7

In past years, the Philippines has witnessed several extremely heavy typhoons. The worst of them, Haiyan (the Philippine name for Yolanda) killed more than 8000 people in November 2013.

It is obvious that under these geographic and demographic conditions, it is difficult for any government to provide adequate infrastructure and public services (health care, education, etc.) for all parts of the country. Weak state capacities and structurally ingrained social inequality further constrain the political leadership's governance capacity.

Despite remarkable GDP growth in recent years, the poverty rate is declining only slowly, in part because of very high population growth. Not least due to the prevalent Roman Catholic moral codex, the Philippine population currently increases with a growth rate of around 1.8 million people per year. With a fertility rate of 3.1 (U.N. statistics), the Philippines is the most rapidly growing country in Southeast Asia (after East Timor).

As mentioned above, the Philippines has a vibrant associational system and the largest number of NGOs per capita in Asia. Institutional factors such as the 1987 constitution and the Local Government Code (the Decentralization Law) also provide favorable political incentives for the flourishing of civic associations and interest groups.

Civil society
traditions

4

The spectrum reaches from archconservative Christian organizations to specific business associations and civil liberty groups to leftist organizations. Many of them are very active and try to let their voice be heard in the public sphere. Additionally, there is a lively Internet community which is very critical and outspoken in numerous blogs and fora.

Transparency and frequent public participation lead to relatively high social capital. However, this advantage translates too little into politics, meaning that the dominance of oligarchic clans has been challenged but not yet broken by civil society.

A variety of serious conflicts plague the Philippine state. The most important cleavage in the Philippines is the sharp division between a small, but extremely powerful upper class, mostly consisting of old, established landowning family clans and the large majority of the population, which lives in poverty. So far, all governments have failed to redistribute the nation's wealth in accordance with the principle of social justice.

Another major cleavage in the extremely multilingual and multiethnic country is that between center and periphery. Urban areas, particularly metropolitan Manila, enjoy a much higher standard of living than rural areas and will continue to do so in the near future.

The conflict in Muslim Mindanao is therefore not only about ethnic and religious reasons. The Eastern parts of Mindanao are the poorest and least developed parts of the country. In addition, local warlords with private armies are responsible for widespread violence. The infamous so-called Maguindanao massacre in November 2009 was most probably caused by members of the locally ruling Ampatuan clan. The crime rate is not everywhere as high as in the troubled regions of Muslim Mindanao, but compared to other Southeast countries, the number of conflicts and the use of violence is clearly above average.

Conflict intensity

6

II. Management Performance

14 | Steering Capability

Incumbent President Benigno “Noynoy” Aquino and his administration are strong supporters of liberal democracy and market economy. They intend to improve current political and economic conditions toward these two goals. In the 2010 presidential elections, he received a strong mandate and his political allies control both houses of Congress. In contrast to many other previous presidents, Aquino does not find himself in a gridlock with the legislature. Gradually, he has been able to replace many

Question

Score

Prioritization

6

reform opponents who were installed in departments and the judiciary by former president Macapagal-Arroyo.

Since the Philippine constitution rules out reelection, Aquino has six years to concentrate on medium-term reforms, which clearly go beyond immediate concerns of electoral competition. The president has declared his government's priorities in his 16-point Social Contract with the Filipino People. In this very reform-oriented platform, he strongly criticized the previous administration and promised a national leadership of transformational change.

In general, the current Aquino administration shows commitment to reform and development by supporting ongoing reform agendas and the adjustment of the economy to international standards. However, the reform process is considerably slow and it is not pushed through as effectively as wished for by many Filipinos and most foreign advisers. Resistance comes from the established clans and dynasties which fear that their power and wealth could be endangered. Critics also argue that Aquino and many of his political allies are also members of the country's oligarchy, and this creates tension between their transformation rhetoric and actual measures taken.

Policy implementation is a major problem in the Philippines. Of his campaign promises, President Aquino could only realize a small number of projects. He strengthened the campaign against corruption, but measurable results have not yet been achieved, and overall there is a public sentiment (supported by scholars) that the ability of the government to implement its own policies has declined over the past two years or so.

Implementation
4

In terms of social, health, and education policies, the Aquino administration could present some reform measures. The passing of the Reproductive Health Bill was among the major successes of the Aquino administration in the fight against poverty and overpopulation.

The so-called Sin Tax Bill, which became law in December 2012, intends to raise additional revenues by increasing taxes on so-called "sin products," such as alcohol and cigarettes. President Aquino stated that the largest part of these additional state revenues would be used for the government's health care program and for the construction and upgrade of hospitals nationwide.

Aquino also massively invested in public-private partnership programs to boost urgently needed infrastructure projects, such as highways and public transport. However, most of these programs have been plagued by huge delays in construction.

As with regards to the abovementioned social and health policies, it has still to be seen whether the implementation of these reform measures will attain their goals.

The previous GMA government and its corrupt, clientelist and inefficient governance set a bad example for the current administration. Aquino has used the opportunity to learn from past experiences. He clearly named the wrongdoings and mistakes from the past and tried for a political turnaround. Additionally, he gathered many reform-oriented academic experts and practitioners around him and tried to alter the policies of his predecessor. However, in 2013 and 2014 many experts raised doubts whether the president's frequent complaints about the previous administration remain justified or if they are not simply an excuse for own mistakes.

Policy learning
6

The Philippines is generally very open to foreign advice and consultancy, particularly from the United States. However, political and socioeconomic conditions make it very difficult for failed policies to be replaced by innovative ones.

15 | Resource Efficiency

The Philippine government could make much more efficient use of available human, financial and organizational resources. A more efficient use of assets would boost economic growth and would give leeway for more state expenditures in the underdeveloped social and education sector.

Efficient use of assets
4

The appointment of public servants is in many cases not in accordance with competitive recruiting procedures but rather a tool of patronage. In particular, the Philippine president can appoint thousands of administrative positions and every president so far has made use of this power. The number of politically motivated dismissals is therefore very high, which reduces the efficient use of government administrative personnel.

The Aquino administration has so far done well in terms of fiscal policy. According to international and national experts, such as the Makati Business Club, the administration has maintained fiscal discipline and reasonable state expenditures. In contrast to the previous GMA administration, the state budget was passed by Congress in time. This means that legislative gridlock between Congress and the president, which were typical for the GMA presidency, could be avoided.

A huge waste of public money, however, is the pork barrel system, a lump-sum discretionary fund granted to members of Congress to spend in their respective constituencies. As has become more and more public in recent years, many Congressmen are active in diverting this public money into their own pockets.

President Aquino managed to establish a relatively stable political coalition in both houses of Congress. Unlike under his predecessor GMA, gridlock between the executive and the legislative branch of government is nowadays rather an exception than the rule. However, the current administration has difficulty coordinating conflicting objectives so as to create a coherent policy. There are rare, irregular

Policy coordination
6

coordination meetings among members of the executive and legislative branches, so that many bills are greatly delayed in the legislation process.

There are no major frictions and contradictions between the various state departments. The national government is also supported by allies in a majority of the local governments.

What is problematic in terms of policy coordination is the limited strategic orientation toward innovation in the Philippines, which is necessary to improve international competitiveness. The coordination between state, private enterprises, and research institutions, such as universities and think tanks sorely needs further improvement.

Like his Indonesian counterpart Joko Widodo, the current Philippine President Aquino campaigned and won with a strong anti-corruption platform. His slogan “kung walang corrupt, walang mahirap” (no corruption, no poverty) indicated his strong will to tackle corruption as a major source of underdevelopment. So far, President Aquino has kept his election promise to give an example of integrity. However, some members of his coalition in Congress and at the local level were involved in corruption.

Anti-corruption
policy

4

In recent years, the Bureau of Internal Revenue (BIR) tax authority has pursued much more cases of tax evasion than previously. A website and a Facebook page invite all Filipinos to report tax cheaters, smugglers and officials guilty of graft or having a suspiciously lavish lifestyle. However, the rate of corruption is still high, particularly in the bureaucracy and the police. The efforts of the Aquino administration are therefore only a first step in the uphill battle against endemic corruption. Some allies of the president were allegedly also involved in the recent PDAF scandal, concerning the misuse of discretionary funds by legislators. This has undermined the credibility of the president’s anti-corruption campaign.

An important step towards greater transparency and accountability in governance would be the introduction of a Freedom of Information (FOI) Law. The bill has been debated for many years, but is yet to be passed by Congress.

16 | Consensus-Building

Democracy and market economy are strongly supported by an overwhelming majority of the Philippines’ political and economic elite, and also by the general public. However, despite their active involvement in democratic institutions, some political clans still ignore some important ingredients of democracy, such as free and fair competition, vertical accountability and government for the people. It is the task of reform-minded political actors to convince these important segments of the old elite to adopt democratic values instead of paying lip service. Democracy as a concept is refused completely by only small minorities. This includes the radical left, who

Consensus on goals

7

strive for a communist order, and radical Islamists in Mindanao, who favor an Islamic Caliphate State.

A market economy is generally accepted by a large majority of the Filipinos. Not least due to the strong American cultural influence, the key principles of market economy such as competition and private enterprise are deeply ingrained in the minds of the elites and ordinary Filipinos. However, free market economy is heavily criticized by a large spectrum of the political left, ranging from moderate critics of neo-liberalism to radical communists. These groups would prefer a more state-oriented economic system.

As explained above, old, established family clans, which care more for their economic and political power than for a liberal democracy, are a danger for a further democratization of the Philippines. They are mostly co-opted within the democratic structures, but show resistance against any substantial reforms that would endanger their positions and privileges.

Anti-democratic
actors

5

The Armed Forces of the Philippines (AFP) is a potential veto player, of which some members have initiated several attempted coup d'états since the start of the democratization process in 1986. The administration of President GMA relied heavily on military support due to its low public legitimacy. The current Aquino administration has tried to bring the military more under civilian control. In December 2012, Aquino signed the AFP Modernization Act (RA 10349) and expressed his hope that the AFP will shift its focus from internal to external defense capability.

The radical left is partly included in the democratic institutions via the party list groups in the House of Representatives, while some factions are excluded and continue their fight for a communist revolution underground.

After several failed attempts by previous presidents, the Aquino administration restarted peace negotiations with the separatist Moro Islamic Liberation Front (MILF) in Kuala Lumpur (Malaysia) and reached a peace agreement in October 2012. The parties agreed on the creation of a new autonomous political entity called Bangsamoro in place of the Autonomous Region in Muslim Mindanao (ARMM). After a series of negotiations using Malaysian Prime Minister Najib Razak as a third-party negotiator, a Comprehensive Agreement on Bangsamoro was signed by leaders of the MILF (Moro Islamic Liberation Front) and the Philippine government on 27 March 2014.

Cleavage /
conflict
management

5

The peace agreement can be rated as a big success for the Philippine government which was able to save the national integrity and stabilize the troublesome region. However, it remains unclear whether the new political entity will truly be accepted by all the political forces in Muslim Mindanao and whether violence can be reduced. In fact, the peace agreement was followed by the Mamasapano Massacre, a failed

police and security operation (called “Oplan Exodus”), in Mamasapano (Maguindanao) in January 2015 in which Philippine special troopers, and police personnel clashed with fighters from MILF and the Bangsamoro Islamic Freedom Fighters (BIFF). While the commanding army officer estimated the number of casualties at around 250 (police personnel, insurgents and civilians combined), the actual number remains disputed because of the lack of an official credible body count by independent observers.

In addition, it is also questionable whether the implementation of the agreement is consistent with provisions in the 1987 Constitution.

The cleavage between work and capital has not yet been reduced in recent years. Trade unions still face a very difficult situation. As can be seen in many other cases, the main benefits of economic progress went into the pockets of already well-off people. Since a redistribution of wealth has only been weakly implemented in the Philippines, the cleavage is likely to grow in the next several years.

Under the current Aquino administration, civil society organizations play a more participatory role in political decision-making than under the previous administration of GMA. Many of the closest advisers of the president, as well as many recently appointed secretaries and government officials, have an NGO background.

Civil society
participation
6

While, civil society organizations and NGOs are usually excluded from formal decision-making, they play an important role in initiating legislation and influencing debates in the Congress. Additionally, a multitude of watchdog organizations closely monitors policy implementation. Community-based organizations are also very influential for political decision-making at the local level.

More than 25 years after the end of the authoritarian and military-backed dictatorship of Ferdinand Marcos, the Congress of the Philippine passed a law rehabilitating victims.

Reconciliation
7

Republic Act No. 10368, the Human Rights Victims Reparation and Recognition Act of 2013 was passed by Congress in February 2013. Victims can address their claims at a Martial Law Victims Claims Board and thousands already received compensation checks in 2014. An amount of 10 billion pesos coming from ill-gotten wealth returned to the Philippine treasury from Marcos’ Swiss deposits has been allocated for the project.

The most important reconciliation process was the signing of a peace agreement between the central government and Muslim insurgents from Mindanao, particularly the MILF (Moro Islamic Liberation Front), on 15 October 2012. In the “Framework Agreement on the Bangsamoro,” the government explicitly acknowledged the “legitimate grievances of the Bangsamoro people arising from any unjust dispossession of their territorial and proprietary rights, customary land tenure or their

marginalization.” President Aquino expressed his hopes that the agreement “can finally seal genuine, lasting peace in Mindanao.”

Another major issue to attain moral justice for past acts of injustice was dealing with the extrajudicial abductions and killings of government critics during the presidency of Gloria Macapagal-Arroyo (2004-2010). Several reports (Melo, Alston) concluded that state security forces, among them most prominently General Jovito Palparan, were responsible for the crimes.

In December 2011, Palparan was finally indicted in connection with the abduction of two still missing student activists from the University of the Philippines. Shortly after that, Palparan left the country and went missing. In August 2014, Palparan was found and arrested in Manila. He awaits trial facing the charges of kidnapping and serious illegal detention.

17 | International Cooperation

Philippine administrations have repeatedly underlined their willingness to learn and to profit from international loans, grants, and know-how in order to alleviate internal weaknesses in terms of governance and economic development.

Effective use of support
6

According to data provided by the National Economic and Development Authority (NEDA), the total ODA of the Philippines amounted to \$12.05 billion consisting of 77 loans (\$9.09 billion) and 503 grants (\$2.97 billion). The most important donor countries are Japan, the U.S., China and the European Union. Infrastructure reforms and programs on poverty reduction are mainly sponsored by multilateral organizations such as the United Nations Development Program (UNDP), the Asian Development Bank (ADB) and the World Bank. Additionally, humanitarian aid is granted by various donors for cases such as the typhoon Haiyan/Yolanda in November 2013.

However, international cooperation is still hampered by an inefficient bureaucratic system and red tape within the implementing organizations. Evaluations of aid programs have in various cases demonstrated misuse of assets by bureaucrats and the organizations in charge of implementation.

The Philippines is a generally reliable and well-reputed member of the international community. Traditionally, the country is a close ally of the U.S. and was declared a major non-NATO ally by the Bush administration in 2003. This underlines the strategic working relationships with the U.S. Armed Forces. In April 2014, both countries signed an Enhanced Defense Cooperation Agreement (EDCA), allowing the United States access to and use of designated areas in AFP-owned and controlled facilities (so-called “Agreed Locations”). So far, the Philippines has refused to allow

Credibility
8

the U.S. to re-establish a permanent military presence or permanent bases in the country.

The Philippines has also good relationships with multilateral organizations, such as the World Bank, the International Monetary Fund and the Asian Development Bank.

As an island state with no land borders to any direct neighbor, the Philippines has good diplomatic relations with all Southeast Asian countries. As one of the few democracies, the Philippines traditionally plays a leading role within the ASEAN community in promoting democracy and open markets.

Regional
cooperation
8

In 2013 and 2014, the conflict with the People's Republic of China over various land and water territories in the South China Sea (or West Philippine Sea in Filipino parlance) intensified. Both claim the Scarborough Shoal as well as other maritime territories such as the Malampaya and Camago gas fields as part of their national territory. The conflict led to a rise of anti-Chinese sentiments in the population and among the political elite.

In January 2014, the Philippines asked the United Nation's Permanent Court of Arbitration to consider its case. China replied that it would not accept the arbitration. In March 2014, the Philippines filed a case in the International Court of Justice in The Hague against China over these competing territorial claims.

Strategic Outlook

The stabilization of democratic order has not made significant progress in the last two years. More and more Filipinos are not satisfied with the policies of President Aquino, which is reflected in decreasing support in public opinion surveys. Due to constitutional restrictions, Aquino cannot seek reelection, and so the race for the presidential elections in May 2016 has already started. The favorite of the current administration, Secretary Manuel “Mar” Roxas, however, only has a slim chance. For a long time, Vice-President Jejomar Binay was leading opinion polls, but his reputation has declined over the last months due to charges he engaged in corruption during his previous position as mayor of Makati. In the meantime, Senator Grace Poe has gained popularity and emerged as a possible presidential candidate for the 2016 elections. None of these candidates are expected to bring about a significant improvement of democratic standards.

The main problem of Philippine politics is the dominance of entrenched family clans in politics and the economy. Their influence must be reduced in order to make politics and economics more transparent and competitive. The anti-dynasty law, which has been debated in Congress since 1987 must be passed. This is, however, highly unrealistic since President Aquino himself, all the serious 2016 presidential candidates and about 80% of members of Congress come from these dynasties. A far-reaching step to reduce corruption and, at the same time, improve the system of checks and balances between the executive and legislative branches of government would be the abolition of the pork barrel system. This gives Congressmen unjustified discretion over public funds and, at the same time, makes them dependent on presidential good will. As a reaction to the PDAF scandal in 2013-2014, President Aquino announced that he has abolished the pork barrel system for the legislators, but critics claim that it has been only modified. Furthermore, he is also silent with regards to transparency in the use of his own pork barrel funds as chief executive.

The major economic challenges for the Philippines are the sustaining of the current positive economic growth trajectory and the reduction of poverty and inequality. The administration should further promote industries with high potential for growth and impact (i.e., intra-Asian tourism and business process outsourcing). This could also limit the “brain drain” of skilled workers who emigrate to higher-income countries.

In addition, the government should put more emphasis on improvement of outdated infrastructure. Some massive programs have been started in recent years, but administrative mismanagement led to huge delays in implementation. In this regard, administrative capacities must be strengthened, particularly out of Luzon. Here, the further promotion of the decentralization process and local autonomy seem to be the most viable solution.

In terms of poverty reduction, the government should transform the current economic growth into a more inclusive growth which contributes to an improvement of the living conditions of the millions of poor Filipinos. Government expenses for health, but particularly for education are still

far below the East Asian average. With a better-educated population, the competitive chances for the Philippines would rise.

Internal and external stability are the basic preconditions for the deepening of democracy and the continuation of economic growth. Therefore, the Philippine government should carefully implement the peace agreement with the MILF in Muslim Mindanao and prevent radical forces from undermining peace in the troublesome region. In international affairs, the Philippines should avoid letting the current confrontation with the People's Republic of China on the South China (West Philippine) Sea escalate into a violent conflict. The strategy of seeking mediation in international fora and courts is correct, even though it was not done with prior consultation with neighbors and ASEAN. However, the country's government should be aware that military support from the United States and the political support of the other ASEAN states is necessary to contain China's expansionism.