

# BTI 2014 | Philippines Country Report

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scale    score    rank    trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. 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	96.7	HDI	0.654	GDP p.c.	\$	4410.3
Pop. growth <sup>1</sup>	% p.a.	1.7	HDI rank of 187	114	Gini Index		43.0
Life expectancy	years	68.4	UN Education Index	0.679	Poverty <sup>3</sup>	%	41.5
Urban population	%	49.1	Gender inequality <sup>2</sup>	0.418	Aid per capita	\$	-1.9

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Since the election of Benigno “Noynoy” Aquino as president in May 2010, the overall development of democracy in the Philippines has regained momentum. However, the corruption and patronage under Gloria Macapagal-Arroyo’s administration left behind a difficult legacy for the current president. In addition to having installed thousands of government officials loyal to her across the country, Macapagal-Arroyo also appointed a Supreme Court that has essentially become the primary veto player to Aquino’s presidency. In a time-consuming and controversial impeachment process, Chief Justice Renato Corona, who blocked several initiatives by Aquino to prosecute the enormous irregularities and human rights violations of the Macapagal-Arroyo administration, was eventually removed from office in May 2012.

Due to the abovementioned resistance but also to deeply entrenched political and socioeconomic problems in the Philippines, the Aquino administration could only meet the high expectations set by his election victory in a very limited way. Primary reform achievements so far have been the peace agreement with the Moro Islamic Liberation Front (MILF) in Mindanao as well as the long-disputed Reproductive Health Act. The latter is intended to reduce the steadily growing overpopulation of the country by providing sex education and facilitating the use of contraceptives. Additionally, several reforms under the late cabinet secretary Jesse Robredo were promising attempts to further stimulate the stagnating decentralization process and to increase the capacities of local governments.

Economic development in the Philippines in the last two years was very promising. The Philippines experienced an economic boom, with GDP growth rates of more than 6%, a sharp increase of foreign direct investment, and relatively low inflation rates. Cuts in interest rates and increased government spending have boosted economic confidence. Furthermore, a relatively stable banking sector and the reduction of foreign debts contributed to the overall positive macroeconomic development of the Philippines. In contrast to previous decades, the country is now regarded by investment bankers and rating agencies as a promising and stable emerging

market. Nevertheless, economic advancement is out of reach for many in the Philippines, and still about one-third of the population lives below the poverty line of \$1.25 per day. The country lacks an effective welfare system and suffers consequently from mass emigration.

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 family clans in both spheres still prevents the reforms necessary for the further deepening of democracy and the transformation to an authentic social market economy.

## History and Characteristics of Transformation

After achieving independence from the United States in 1946, the Philippines adopted a democratic presidential system. The future seemed to be bright. 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 erected a military-backed dictatorship. He drastically reduced civil and political liberties, closed down the congress and many universities, and ordered the arrest of opposition figures. Additionally, he confiscated enterprises and redistributed them among his family, his cronies and the military, whose personnel was quadrupled. The national economy suffered not only from mismanagement due to Marcos's crony capitalism, but also from rampant corruption and a huge increase in foreign debt.

After the assassination of one of the most important opposition figures, Benigno "Ninoy" Aquino (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's authoritarian rule and the reintroduction of democracy.

As the first post-authoritarian president, Corazon "Cory" Aquino (1986 – 1992; widow of Ninoy and mother of Noynoy) presided over the initial phase of the democratic transition, which was devoted to the drafting of a new democratic constitution, the dismantling of the centralized authoritarian power structure, and the restoration of democratic institutions.

Her successor Fidel Ramos (1992 – 1998) implemented a program of liberalization and privatization with the aim of greater competitiveness in the international market. His development program spurred a period of economic growth and political stability, despite the fact that the Philippines was already lagging economically behind other East and Southeast Asian countries. The next two presidents, Joseph "Erap" Estrada and Gloria Macapagal-Arroyo, eroded democratic practices and institutions 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 by the Supreme Court, which inaugurated Macapagal-Arroyo as his successor in 2001. Three years later, despite serious charges of fraud in the course of the 2004

presidential election, Macapagal-Arroyo was reelected to a full six-year term. Macapagal-Arroyo's nine years in office were characterized by creditable economic performance amid a deepening crisis of legitimacy. She presided over 37 consecutive quarters of economic growth and adeptly steered the economy at the height of the global financial crisis in 2008-2009. However, a majority of the population did not benefit from the country's economic growth, since it did not alleviate poverty or reduce unemployment.

The potential political gains associated with economic growth were eroded by a series of massive corruption scandals that rocked 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, a growing number of human rights violations against regime opponents (including extrajudicial killings), and money politics to co-opt potential partners. Macapagal-Arroyo relied increasingly 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 gridlock with the Senate majority, not only on legislation but also on the state budget, and the government ground to a political standstill for several years. Shortly before the end of her term, Macapagal-Arroyo appointed hundreds of her followers, among them Chief Justice Renato Corona, to high positions.

In June 2010, Benigno "Noynoy" Aquino was elected president by a large margin. With that mandate, he now must rebuild the country's damaged political institutions and improve the quality of democracy in the Philippines. Additionally, his supporters have high hopes that he will improve the living conditions of ordinary people and improve the country's socioeconomic situation.

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

The Philippine state claims to have a monopoly on the use of force throughout the entire territory, but in fact it is a weak state compared to other Southeast Asian countries. Due to its vast and archipelagic structure, it is difficult for the central government in Manila to effectively rule the whole country. Local clans and even warlords in some areas, particularly in Mindanao, are the real rulers of their territories. Very often, they employ private armies that take the law into their own hands. A government study in 2010 stated that private armies exist because of widespread disregard for the law in settling disputes and a feudal power structure in which many poor people find themselves relying on a few powerful men. In May 2012, President Aquino ordered the disbanding of 80 private armies in the country, but with limited success. Director General Alan Purisima of the Philippine National Police stated, in December 2012, that about 530,000 guns in private possession were not licensed.

Despite its multiethnic and multilingual composition, the large majority of the citizens adhere to the concept of the nation-state as outlined in the 1987 constitution. Access to citizenship is not denied any particular groups. Nonetheless, resistance still stems from some ethnic and religious minorities, particularly from the Muslims in Mindanao who identify more as Moro (the Spanish word for Moor, the Reconquista-period term used for Muslims) than Filipino. They adhere to the idea of Bangsamoro (Moro nation). In response to their historic grievances, Article X of the Philippine constitution prescribed the creation of an autonomous region in Muslim Mindanao, which was officially inaugurated in 1990.

Due to the Spanish colonial past, the large majority of Filipinos are Roman Catholics. In recent decades, however, the membership and importance of evangelical Christian groups, such as El Shaddai and Jesus is Lord, grew steadily. The indigenous Christian church Iglesia ni Cristo has also increased in influence through the years.

Question

Score

Monopoly on the use of force

7

State identity

7

No interference of religious dogmas

7

Officially, the principle of separation of church and state is stated in Article II, Section 6 of the Philippine constitution. However, the abovementioned Christian churches are supported by millions of Filipino citizens and their political influence cannot be underestimated.

For more than thirteen years, fierce opposition by these Christian groups hindered the passing of the Reproductive Health Bill in Congress. The bill aims to provide contraceptives and information on family planning at public health centers, and introduce a comprehensive reproductive health curriculum in schools. National surveys showed that more than 70% of Filipinos supported the bill, but public pressure by the churches stalled the bill until it was finally passed by Congress and signed into law by President Aquino in December 2012. The president of the Catholic Bishops' Conference threatened several times to excommunicate President Aquino if he supported the bill, while other Christian dignitaries strongly condemned the legislation.

The strong influence of conservative Christian values in the Philippines can also be seen in the issue of abortion and divorce. Apart from Vatican City State, the Philippines is the only country in the world without a divorce law. The speaker of the House of Representatives, Feliciano Belmonte, recently proposed to initiate legislation, but for now divorces are not allowed in the Philippines.

The state's fundamental infrastructure extends throughout the entire territory of the country. Due to the archipelagic structure and vastness of the country, however, its operation is deficient to some extent. The number of civil servants, 1.2 million, is relatively high. However, not all of these have the capacities necessary to fulfill their tasks properly and free of corruption and red tape. With the introduction of the Local Government Code in 1991, some responsibilities were delegated to the provincial and communal 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, health) are usually provided everywhere in the Philippines, but the quality is often quite low, particularly in rural areas.

## 2 | Political Participation

Since 1992, general elections have been held regularly every six years (president) and every three years (governors, mayors, House members, half the senators) in a synchronized manner. The last elections took place on 10 May 2010, and midterm elections are scheduled for 13 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. The electoral management and particularly the vote counting of the Commission on Elections (COMELEC) was previously fraught with manipulations and irregularities. The automated ballot-counting system introduced in 2010 has improved the fairness of general elections. Electoral violence was also lower in 2010, but still high with 180 incidents including 55 fatalities. Particularly in rural areas, where local clans effectively rule, vote-buying and intimidation occur regularly. Despite these deficiencies, general elections in the Philippines can still be regarded as in accordance with democratic standards.

In principle, elected leaders have the power to govern without any restraint. However, the informal veto players are still powerful enough to restrain executive actions. This refers to about 178 very powerful family clans who dominate the countryside – and to some extent also national politics. Another potential veto player is the Armed Forces of the Philippines, whose subordination to civilian authority is only conditional. Some parts of the army leadership still reserve the right to interfere with the elected government if they believe the unity and stability of the nation to be threatened. The government’s power is not impeded by foreign actors.

Effective power to govern

6

Article III of the constitution (the Bill of Rights) guarantees the freedom of association and assembly. These rights are generally accepted; many Filipinos exercise them, and civil society organizations exist to address a wide variety of interests and causes.

Association / assembly rights

9

The current Aquino administration removed restrictions the previous administration imposed on the freedoms of association and assembly. The current government does not make use of intimidation, harassment or threats of retaliation to prevent citizens from exercising the rights to association and assembly. Political marches or rallies, including those by left of center groups, take place almost every week in the Philippines, though some lead to clashes with the police.

Due to relatively weak state structures and powerful non-state actors, violence against people exercising their constitutional right to assemble still occurs, particularly in rural areas and in Muslim Mindanao.

In general, the freedom of opinion is guaranteed in the Philippines. The country enjoys a relatively high degree of media freedom, particularly in comparison with other states in Southeast Asia. Most print and electronic media outlets are privately owned and present a wide range of views. The 2012 Freedom of the Press report by Freedom House ranked the Philippines 88th out of 197 countries. Reporters Without Borders is more critical and ranks the Philippines 140th out of 179 in its latest worldwide index and complains that the “government that took over in July 2010 has not yet responded effectively to the media’s problems. Threats and violence against

Freedom of expression

6

local radio station hosts (including physical attacks and murders) and the culture of impunity represent the biggest obstacles to media freedom.” Indeed, the number of journalists and other media people killed in the Philippines is still among the highest worldwide. However, it is not the state that is responsible for the violence but rather criminal strongmen.

Several provisions of the Cybercrime Prevention Act, which went into effect 3 October 2012, are likely to decrease the freedom of opinion in the Philippines. The law’s libel provisions violate established global norms of free expression. The term “libel” is vaguely defined and could criminalize any speech that criticizes the government or other state authorities. Libel in online media can now be punished by a maximum penalty of 12 years in prison. Journalists, news organizations, and several NGOs have launched protests against the law, and the Supreme Court issued an extended Temporary Restraining Order (TRO) effectively suspending its implementation.

### 3 | Rule of Law

The Philippines has a presidential system of government. In practice, various problems with the system of checks and balances have emerged. Executive-legislative relations, which had been gridlocked the last five years of the Macapagal-Arroyo administration, are now running smoothly. The revitalization of the LEDAC (Legislative-Executive Development Council) as a coordination tool for presidential and congressional activities had a positive effect.

In contrast, the tensions between the president and the chief justice of the Supreme Court heavily influenced national politics in the last two years. Newly elected President Aquino refused to be sworn in by then Chief Justice Renato C. Corona, whom Macapagal-Arroyo had appointed in her last days in office in what Aquino considered an illegal “midnight appointment.” The Supreme Court, of whom 12 out of 15 members had been appointed by Macapagal-Arroyo, in turn, blocked all initiatives by the president to investigate and prosecute corruption and abuse of power by the Macapagal-Arroyo administration.

In December 2011, under pressure by the president, Congress initiated an impeachment process against Corona for partiality in office. In May 2012, the chief justice was impeached after being found guilty of not disclosing to the public his statement of assets, liabilities and net worth.

The judiciary in the Philippines is formally independent. However, in practice, bribes of rich and powerful persons have influenced 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

Separation of powers

7

Independent judiciary

7



the problems of bribery and interference in court proceedings by government officials and military personnel at all levels.

Concerning the Supreme Court, the main critical point for judicial independence is the current appointment practice of judges by the president (after a proposal list of candidates is presented by the Judicial and Bar Council). As demonstrated in the last two years, judges appointed by Macapagal-Arroyo had no interest in investigating power abuses of the former president and blocked several initiatives of the new administration. As explained in more detail above, this led to the impeachment of the chief justice.

The case can be seen from two perspectives. On the one hand, the principle of separation of powers was violated by the interference of the two other branches in judicial autonomy. On the other hand, the removal of Corona improved the independence and quality of the judiciary to a great extent.

The abuse of public office, not only on the national but also at the local level, remains a crucial obstacle to democratic and socioeconomic development in the Philippines. Immediately after resuming office, President Aquino made it a top priority to punish the corruption and abuses of power by his predecessor Macapagal-Arroyo and her cronies. The resistance of the Supreme Court was broken, Chief Justice Corona was removed from office, and the investigations are now underway. Macapagal-Arroyo has been under house arrest since November 2011. In December 2012, President Aquino ordered the suspension of Cebu Governor Gwendolyn Garcia for grave abuse of authority. Despite the prosecution of these high-level cases, the overall number of punishments for corruption and abuse of power is still quite limited. However, Aquino's efforts have improved the overall situation to some extent.

Prosecution of  
office abuse

6

In principle, the protection of personal liberty against state and non-state actors is guaranteed in Article III of the Philippine constitution. In reality, however, there are still a lot of problems, despite the fact that the protection of civil rights has significantly improved since the end of Macapagal-Arroyo presidency. The incidence of extrajudicial killings and other violence against political opposition has decreased significantly. There is no systematic discrimination against women or against ethnic or religious groups in the Philippines.

Civil rights

6

However, the overall civil rights situation is still troublesome. Members of the powerful Ampatuan clan, which allegedly were involved in the so-called Maguindanao massacre in 2009, are still on trial. Six witnesses of this crime, who signaled their willingness to cooperate with state authorities, have been killed since then, and Amnesty International has called for a witness and victim protection program.

#### 4 | Stability of Democratic Institutions

The performance of democratic institutions leaves room for improvement. President Aquino's often rather indecisive leadership style left many political and social problems untouched. Congress is dominated by members of the powerful political clans and has little interest in reforming the 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 ten years. The quantity and quality of legislative output cannot sufficiently address the country's socioeconomic problems.

Performance of democratic institutions

7

The efficacy and efficiency of many local government administrations have improved in recent years. Several recent reforms of the Department of Interior and Local Governance (DILG) under the late Secretary Jesse Robredo helped local government units (LGUs) manage their responsibilities. The introduction of the Local Governance Performance Management System (LGPMS) created new incentives for LGUs. Additionally, a new full disclosure policy for local governments' financial documents and bidding procedures, along with the program Local Governance Watch, have enhanced transparency, citizen participation and good governance at the local level.

In general, all relevant political and social players accept democratic institutions as legitimate. In 2010, newly elected President Aquino challenged the legitimacy of Supreme Court Chief Justice Renato Corona, calling his "midnight appointment" unconstitutional. However, he chose to challenge Corona's financial dealings and the circumstances of his appointment rather than the judicial institution itself.

Commitment to democratic institutions

8

The military leadership seems to accept 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.

#### 5 | Political and Social Integration

Political parties play a subordinate role in Philippine politics. People vote for persons and not for parties. Therefore, the existing parties don't have deep social roots or institutionalized organizational structures. Additionally, they are not grounded in issues, ideologies and party platforms, but rather on personal connections and networks. For these reasons, the political parties are only in a very limited way able to articulate and aggregate societal interests.

Party system

5

In the Philippines, a large number of interest groups 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 administration. Therefore, the relationship between NGOs, social movements and the democratic political system has stabilized in recent years. This has also contributed to a further acceptance of democracy in the middle classes of society.

Interest groups  
7

The approval of democracy and its institutions is quite high in the Philippines. Traditionally, Philippine support for democracy is among the highest in East and Southeast Asia. A recent survey from the leading Philippine social survey institute Social Weather Stations (SWS), from September 2012, revealed the following ratings for the main political institutions: The Senate scored 67 (74% satisfied, 7% dissatisfied), on par with its earlier 2012 ratings. The House of Representatives, meanwhile, scored 42 (55% satisfied, 14% dissatisfied), a slight improvement over previous SWS polls. The cabinet of President Aquino received a rating of 33 (50% satisfied, 17% dissatisfied), up from 19 in May 2012. The Supreme Court improved its rating from before the impeachment of Chief Justice Corona, scoring 35 (52% satisfied, 17% dissatisfied).

Approval of  
democracy  
6

In terms of the approval of democratic performance, President Aquino is held in much higher esteem than his predecessor, Gloria Macapagal-Arroyo. In an SWS opinion poll in April 2013, 59% were satisfied with Aquino's performance. In contrast, Macapagal-Arroyo consistently got a negative score between 2004 and 2010, meaning that more people were dissatisfied with her work as president than satisfied.

Like in other Southeast Asian societies, many elements of social capital, such as mutual networks, trust among people, informal societal structures and volunteerism, are widespread in the Philippines. Particularly close network ties with family and friends are of utmost importance in Philippine society.

Social capital  
6

Utang na loob (reciprocity), meaning the obligation to appropriately repay a favor, is a prized Filipino value, as is 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 a large number of voluntary and autonomous social organizations.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers  
5

According to the latest published information from the National Statistical Coordination Board (data from 2009, published in 2011), 26.5% of Filipinos live below the poverty line. The board defined poverty in these statistics as having an income of less than 16,841 pesos (approximately €310 or \$410) per year. With a value of 0.63, the Philippines reaches a medium human development level in the latest Human Development Index of the United Nations. They rank at position 112 out of 187 countries and below the average of the East Asian and the Pacific countries.

The level of social exclusion due to the poverty is still high, and the gap between rich and poor has widened in recent years. With a value of 45.8, the Philippines is in global comparison on position 37 in the 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 an OFW (Overseas Filipino Worker).

Inequality between genders remains a concern. However, in comparison with other Southeast Asian and developing countries, the discrimination against women is not extreme. More educated women are in high-ranking positions than in many Western countries, though in rural areas violence against women by their husbands is still common. In the most recent Gender Inequality Index of the United Nations (2011), the Philippines is at position 75 and thus above the worldwide average. More women than men have at least a secondary education, but the maternal mortality rate is still quite high.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	168333.5	199589.4	224095.2	<b>250182.0</b>
GDP growth	%	1.1	7.6	3.6	<b>6.8</b>
Inflation (CPI)	%	4.1	3.9	4.6	<b>3.2</b>
Unemployment	%	7.5	7.3	7.0	-

Economic indicators		2009	2010	2011	2012
Foreign direct investment	% of GDP	1.6	0.8	0.8	1.1
Export growth	%	-7.8	21.0	-2.8	8.9
Import growth	%	-8.1	22.5	-1.0	5.3
Current account balance	\$ M	9358.0	8922.0	6970.0	7126.0
Public debt	% of GDP	44.3	43.5	41.9	41.9
External debt	\$ M	64414.3	73720.0	76043.4	-
Total debt service	\$ M	9882.9	12875.5	10912.4	-
Cash surplus or deficit	% of GDP	-3.8	-3.5	-1.8	-
Tax revenue	% of GDP	12.2	12.1	12.4	-
Government consumption	% of GDP	9.9	9.7	9.7	10.5
Public expnd. on edu.	% of GDP	2.7	-	-	-
Public expnd. on health	% of GDP	1.5	1.5	1.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.3	1.2	1.2	1.2

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

For decades, the Philippines' economic output lagged behind its so-called Asian Tiger neighbors and is just about to pick up pace now. Reasons for the lag include the geographic nature of the archipelago and the low quality of the education system. But the major cause often cited is the oligarchic structure of the economy and its lack of competition and investment-driven culture. This is well reflected in the country's investment-to-GDP ratio, low compared to its neighbors, and the high market concentration in several sectors.

The Philippines' economy is probably one of the most liberal 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 legislation and the country's accession to the WTO in 1995, the situation hasn't changed significantly over recent decades. Unfair trade practices can be found especially in the sectors of telecommunications, energy, agriculture and food

Market-based  
competition

6

products, and the cement industry. The informal sector, which employs about 75% of the labor force, is still significant to this medium-developed national economy.

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 suffers from vague formulations in the law, overlapping competencies between several involved agencies, and the strong ties between the economic and political elites. A vivid example of the antimonopoly legislation’s ineffectiveness is the telecommunications sector. The wireless communications sector is dominated by Philippine Long Distance Telephone (PLDT), which extended its market share to 65% after two acquisitions in the last two years. The remaining major competitor, Globe Telecom, has a market share of about 30%. The low penetration and the high cost of broadband Internet stem partially from the lack of competition in the broadband sector, where PLDT controls 60% of the market. Since acquiring Digitel in 2011, PLDT has dominated the fixed-line sector, with as much as an 80% share. Although there has been an antimonopoly law on the books since 1932, it wasn’t applied in this case. The pending Philippine Fair Competition Act 2011 (HB 4845) and Senate Bill 123, patterned after the main antitrust laws in the United States, are about to tackle this situation. The proposed Philippine Fair Competition Commission would be the central body monitoring market competition, determining violations of the law, imposing fines and penalties, and filing criminal complaints to the Department of Justice, to which it is subordinated. The act would consolidate 12 different measures and provide the commission with extensive authority. The independence of the commission is a crucial and unproven element of the proposal.

The Philippines always supported a free-trade and non-protectionist foreign trade policy. President Aquino has reaffirmed this support in recent years. The Philippines’ membership in the ASEAN Free Trade 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 nonagricultural products, with no major changes since 2005.

Liberalization of  
foreign trade  
7

As an ASEAN member, the Philippines has free-trade agreements with major regional trading partners such as China, South Korea, Australia and India. Currently, the Philippines is conducting negotiations with the European Union and the United

States about bilateral free-trade agreements. At the moment, it is not clear if these trade dialogues will be successful.

In the Philippines, foreign investors face several limits to ownership, for example in natural resource exploration, operation and management of public utilities, and education institutions. Sectors of strategic importance, notably agriculture and fisheries, 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 a 20-notch jump in the Global Enabling Trade Report 2012.

The Philippine banking system is well capitalized and resilient toward the stiff headwind in the global economy. At the end of March 2012, the consolidated capital adequacy ratio (CAR), which measures a bank’s risk-weighted credit exposure, averaged at 16.85% – well above the Philippine Central Bank (Bangko Sentral ng Pilipinas, BSP) requirement of 10% and the Basel III standard of 8%. At the end of the third quarter 2012, the nonperforming loan ratio of the major banks improved to 2.03%, 0.41% lower than the prior year. In the first 10 months of 2012, credit growth of the commercial banks expanded by 15.8%. The banking system profits from a booming economy and the BSP’s expansive monetary policy. Due to low inflationary pressures, the central bank had room to cut overnight borrowing rates by 100 basis points, to 3.5% over the year 2012, and lowered the reserve requirements for banks from 21% to 18%. However, the banking system’s exposure to the expanding real estate sector is surging. In June 2012, the major banks reported an 18.9% rise of loan exposure year-on-year, while the whole system’s exposure to the real estate sector reached an all-time high share of about 15% of the total loan portfolio. The BSP announced stricter regulation, in case the share gets closer to its limit of 20% exposure. Nevertheless, in a stress test conducted by the Asian Development Bank in mid-2012, the Philippine banking system showed remarkable resilience toward several exogenous and endogenous shock scenarios. As the global financial crisis did not have a significant impact on the industry, no major reforms were conducted in recent years, except the implementation of the Basel III framework, which will be applied in January 2014.

Banking system

8

## 8 | Currency and Price Stability

The 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 and 3.2% in 2012, bearing in mind that the GDP expanded by an expected 6.3% during this period. In order to stimulate the economic expansion and to take pressure off the appreciating peso, the BSP cut the overnight borrowing rates four times in 2012, for a total of 100 basis points, to 3.5%. However,

Anti-inflation /  
forex policy

8

the free-floating peso appreciated by 6.8% in 2012, being indeed the second-best performing Asian currency after the Korean won, but also hurting the relatively uncompetitive export sector. Due to the BSPs foreign exchange operations and high remittances from overseas Filipino workers, the Philippine forex reserves reached \$84.2 billion at the end of 2012, accounting for 12.1 months of imports, 10.5 times the country's short-term external debt, and 11.8% higher than in 2011, leaving the Philippines in a very comfortable position with respect to external economic shocks.

In 2012, all three major ratings agencies raised their credit rating for the Philippines to one notch below investment grade, with a positive outlook by Standard & Poor's. The agencies approved the country's positive economic outlook, prudent monetary policy, high forex reserves, strong private consumption due to the robust remittances, and continuously improving fiscal conditions. The Aquino administration addressed some bottlenecks of government disbursement, leading to an accelerated realization of infrastructure projects, capital outlays and social transfers. On the revenue side, an improved tax administration as well as the booming economy resulted in a total revenue collection increase of 13% from 2011. Nevertheless, the tax revenue-to-GDP ratio remains low at about 14%. Due to accelerated public spending and increasing revenues, the fiscal deficit for 2012 is expected to account for 2.3% of GDP, up from 2% in 2011. For 2013, the government announced a deficit target of below 2%.

Furthermore, the public debt inherited from the authoritarian Marcos dictatorship was reduced to 49% of GDP, down from 79% in 2005. Also, the interest payments, which accounted for nearly one-third of state spending in 2005, are down to one-fifth in 2012. In order to reduce exchange rate risks and control the peso's appreciation, the government is shifting toward domestic borrowing, reducing the public external debt to 25.6% at the end of 2012, down from 28.4% in 2011.

## 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, arbitrariness and corruption, increased transaction costs and conflicts with informal settlers. In order to resolve this situation and to streamline the process of land registration, the Senate is currently debating the Land Administration Act (Senate Bill 276). 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.

The Philippine Government is committed to a free market economy, and private business is the backbone of the Philippine economy. With the notable exceptions of the oil, railways and postal sector, most business sectors are privatized. The public

Macrostability  
7

Property rights  
6

Private enterprise  
7



expenditure quota of 10 to 15% is one of the lowest worldwide. In the World Bank's Doing Business Report 2013, the Philippines deteriorated slightly in all categories except in Dealing with Construction Permits, Trading Across Borders and Resolving Insolvency. The country ranks 138th out of 185, well below its neighbors (Malaysia is 12th, Thailand 18th, Indonesia 128th). The result is explained by the lagging implementation of regulatory reforms. The economic boom might also have revealed some administrative bottlenecks. 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 undercapitalized enterprises.

The current Aquino government has announced further privatizations in accordance with market principles. Additionally, the government continued to promote public-private-partnerships, in order to attract new investors, more quickly tackle bottlenecks in the infrastructure, and privatize some of the remaining SOEs. However, the government encountered heavy protests when announcing plans to privatize state-owned hospitals, and finally abolished the program.

## 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. After the so-called lost decade under Macapagal-Arroyo, and with the current poverty rate at 26.5%, this appears to be a tough challenge. 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 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, conditioned on their children regularly attending school and receiving preventive health checkups. According to a study by the Asian Development Bank (ADB), the Philippine CCT is one of the most efficient social safety systems, costing less than 0.5% of GDP, yet reaching about 15 million people. A preliminary evaluation by the World Bank shows significantly increased school enrollment and attendance and more frequent health

Social safety nets  
5

visits by pregnant woman and children. The government plans to cover all poor households by 2016.

The Philippines is ranked 8th out of 135 countries in the 2012 Global Gender Gap Index, with a score of 0.776, 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 1.01, enrollment in primary education at 1.02, in secondary education at 1.19 and in tertiary enrollment 1.25, respectively. Nevertheless, the study also reveals that Filipina women just earn 76% of men's income. Less than 30% of medium-sized and less than 20% of large-sized enterprises have female managers. Furthermore, only 23.2% of senior posts in electoral positions are held by women. 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 in effective enforcement of existing women's empowerment laws. As mentioned above under "socioeconomic barriers," large income disparities as well as the high poverty rate constitute severe constraints on social and political participation. However, the government is tackling the worst of these disparities via its quite successful Conditional Cash Transfer (CCT) program. Furthermore, the geographic nature of the archipelago and the underdeveloped rural regions will constitute significant challenges in addressing socioeconomic disparities.

The situation of indigenous groups, which have experienced consistent marginalization and land-grabbing, is critical and has not improved in recent years.

## 11 | Economic Performance

Despite a difficult global environment, the Philippines has become one of the fastest growing economies in East Asia. GDP is expected to grow by 6.3% in 2012, up from 3.7% in 2011. 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, which grew by 5% in 2012 to total about \$21 billion (more than 10% of GDP) boosted domestic consumption. Inflation remained under control at 3.2% in 2012 and 4.6% in 2011. According to the National Statistics Office, 2.763 million Filipinos were unemployed in October 2012, 120,000 more than a year before. The number of underemployed people reached 7.158 million. As of October 2012, a trade deficit of \$831 million was recorded due to high imports of raw materials and intermediate goods, while FDI grew in the first 10 months of 2012 by 32.6%, to \$1.131 billion.

Nevertheless, according to analysts, the Philippine economy is growing faster than its long-term potential of 4.0% – 4.5%. This might lead to higher inflation rates, an

Equal opportunity

6

Output strength

8

increasing interest rate differential toward the low interest rate area of the industrialized countries and thus growing inflows of hot money.

## 12 | Sustainability

In the latest Environmental Performance Index (EPI), the Philippines is ranked as eighth in the Asia-Pacific region and 42nd among all 132 sample countries. Additionally, it is marked as a “strong performer,” which indicates that a country is close to achieving its environmental policy goals. Furthermore, U.N. Special Envoy Margareta Wahlström emphasized that the Philippines’ legal framework on climate change adaptation (Climate Change Act of 2009) and disaster risk reduction (Disaster Risk Reduction and Management Act of 2010) is “the best in the world.” The government’s strong commitment is comprehensible, as the Philippines ranks third in the list of countries most vulnerable to climate change, according to a U.N. report. In addition to those mentioned, a wide range of laws address pollution reduction, sustainable consumption of resources, and biodiversity. Nevertheless, implementation often lacks manned and administrative resources, infrastructure, and sufficient attention to the impact on the economy and the poor, for example in the case of enforcing fishing quotas.

Environmental  
policy

7

In June 2012, the first phase of the K-12 educational system started, with full implementation scheduled for the 2018 – 2019 school year. In addition to an overhauled curriculum, the basic education program will be extended by two years to a compulsory 12-year period for every Filipino child. The reform 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 suffers from skilled workers’ tendency to emigrate to higher-income countries. The Aquino administration has started to bolster the public education funding, but with 2.55% of GDP in 2012, it is well below the East Asian average of 3.6% and the South Asia average of 3.8%, respectively. The government ramped up education funding considerably, planning to increase the number of classrooms and new teachers significantly until 2016. Regarding the R&D environment, the Philippines is ranked in the IT Industry Competitiveness Index of 2011 at last place, with a score of 0.0, below Indonesia (0.1) and Vietnam (0.2). This is largely caused by the low penetration and high cost of broadband Internet, which might be a result of the lack of competition in the IT sector. The latest data for the overall R&D expenditures are from 2009, when R&D account for 0.1% of GDP.

Education policy /  
R&D

4

# Transformation Management

## I. Level of Difficulty

The Philippines is an archipelago consisting of more than 7,000 islands, which stretch about 1,850 kilometers from north to south and more than 1,100 kilometers from west to east. With about 100 million inhabitants (of whom 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 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

6

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 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 3.23 (U.N. statistics), the Philippines is the most rapidly growing country in Southeast Asia after East Timor.

As mentioned above in "Interest groups," 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 (a decentralization law) also provide favorable political incentives for the flourishing of civic associations and interest groups.

Civil society  
traditions

4

The spectrum spans archconservative Christian organizations, specific business associations, civil liberties groups and 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 other forums.

Transparency and frequent public participation result in relatively high social capital. However, this advantage translates too little into politics; 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 landowning family clans, and the large majority of the population, which lives in poverty. So far, Philippine governments have failed to redistribute the nation's wealth in accordance with principles 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.

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 elsewhere in the Philippines is lower than in the troubled region of Muslim Mindanao, but compared to other Southeast Asian countries, the number of conflicts and the use of violence is higher than average.

Conflict intensity

6

## II. Management Performance

### 14 | Steering Capability

Current President Benigno “Noynoy” Aquino and his administration are strong supporters of liberal democracy and a market economy. In the 2010 presidential election, he received a strong mandate, and his political allies control both houses of Congress. In contrast to many other previous presidents, Aquino doesn't face gridlock with the legislature. However, many reform opponents were installed in departments and in the judiciary by former president Macapagal-Arroyo.

Since the Philippine constitution rules out reelection, Aquino has six years with which to concentrate on medium-term reforms, which clearly go beyond immediate concerns of electoral competition. The president has declared his government's

Question  
Score

Prioritization

6

priorities in a 16-point “Social Contract with the Filipino People.” In this reform-oriented platform, he strongly criticizes the previous administration and promises a national leadership of transformational change.

In general, the 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 Filipinos and most foreign advisers wish. Resistance comes from the established clans and dynasties, which fear that their power and wealth could be endangered.

Policy implementation is a major problem in the Philippines. Of his campaign promises, President Aquino has been able to realize only a few projects. He strengthened the campaign against corruption, but measurable results have not yet been achieved.

Implementation  
5

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 products such as alcohol and cigarettes. President Aquino stated that the largest part of these revenues would be used for health care and for the construction and upgrade of hospitals nationwide.

A rather controversial reform measure was the passing of the so called K-12 law in October 2012. It includes a mandatory 12-year basic education program for every Philippine schoolchild. However, the implementation of this project remains doubtful, since government expenditures have not risen accordingly and funding is unclear. As in the abovementioned social and health policies, it remains to be seen if the implementation of education reform matches its ambitions.

In sum, recent years saw some improvements, but expectations were much higher. The Aquino administration was responsible for overall economic progress, but urgent social and political problems remained unsolved.

The Macapagal-Arroyo government and its corrupt, clientelistic and inefficient governance set a negative example for the Aquino administration. He used the opportunity to learn from past experience. He clearly named the prior administration’s wrongdoings and mistakes and tried for a political turnaround. Additionally, he gathered around him many reform-oriented academic experts and practitioners in his efforts to reverse his predecessor’s policies.

Policy learning  
6

The Philippines is generally very open to foreign advice and consultancy, particularly from the United States. However, political and socioeconomic conditions prevent the leadership from innovating in replacing failed policies.

## 15 | Resource Efficiency

The Philippine government could make much better 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  
5

The appointment of public servants is in many cases not in accordance with competitive recruiting procedures but rather a tool of patronage. 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, diminishing the efficient use of government personnel.

The Aquino administration has so far done well in terms of fiscal policy. According to experts such as the Makati Business Club, the administration has maintained fiscal discipline and reasonable state expenditures. Unlike under the Macapagal-Arroyo administration, the state budget was passed by Congress on time. This means that re-negotiations between Congress and the president, prone to pork-barreling and often time consuming, which were typical for the Macapagal-Arroyo presidency (gridlock between Congress and the president), could be avoided.

President Aquino managed to establish a relatively stable political coalition in both houses of Congress. Under his predecessor, gridlock between the executive and the legislative branches was the rule; now it is the exception. There are no major frictions and contradictions between the various state departments.

Policy  
coordination  
6

The national government is also supported by allies in a majority of local governments.

What is problematic in terms of policy coordination is the limited strategic orientation toward innovation in the Philippines, which would 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 Susilo Bambang Yudhoyono, the President Aquino campaigned and won on a strong anticorruption 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 provide an example of integrity. The tax authority BIR (Bureau of Internal Revenue) has pursued many more cases of tax evasion than

Anti-corruption  
policy  
5

in prior years. A Web site and a Facebook page invite all Filipinos to report on tax cheaters, smugglers and officials committing graft or enjoying a suspiciously lavish lifestyle. However, the rate of corruption is still high, particularly in the bureaucracy and the police. The pork barrel system, leading to nontransparent public procurements at the local level, remained untouched. The efforts of the Aquino administration are therefore only a first step in the uphill battle against endemic corruption.

## 16 | Consensus-Building

Democracy and market economy are strongly supported by an overwhelming majority of the country's political and economic elite, but 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 the old elite to fully embrace democratic values instead of merely paying lip service to them.

Consensus on goals  
7

Democracy as a concept is refused completely by only small minorities. This includes the radical left, who strive for a communist order, and radical Islamists in Mindanao, who favor an Islamic Caliphate State. Market economy is criticized by a large spectrum of the political left, ranging from moderate critics of neo-liberalism to radical communists.

Old, established family clans, which care more for their economic and political power than for a liberal democracy, pose an obstacle to 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 position and privilege.

Anti-democratic  
actors  
5

The Armed Forces of the Philippines (AFP) is a potential veto player; elements within the AFP have initiated several coup attempts since the start of the democratization process in 1986. The administration of President Macapagal-Arroyo relied heavily on AFP support due to the administration's low public legitimacy. The current Aquino administration is trying to bring the military more squarely under civilian control. In December 2012, Aquino signed the AFP Modernization Act (RA 10349) and expressed his hope that the AFP shift its focus from internal to external defense capability.

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



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). The peace agreement is a big success for the Philippine government, which was able to save the national integrity and stabilize the troublesome region.

Cleavage /  
conflict  
management  
6

The cleavage between work and capital has not yet been reduced in recent years. As can be seen in many other cases, the main benefits of economic progress went into the pockets of the already wealthy. Since a redistribution of wealth is only weakly implemented in the Philippines, the cleavage will further deepen.

Under Aquino, civil society organizations play a more participatory role in political decision-making than they did under Macapagal-Arroyo. Many of his closest advisers, recently appointed secretaries and other 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 monitor policy implementation. Community-based organizations are also very influential in local political decision-making.

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.”

Reconciliation  
6

Another major reconciliation dealt 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 fled the country. President Aquino launched a manhunt and offered a 2 million peso reward (ca. \$40,000) for information leading to his arrest.

More than 25 years after the end of his authoritarian rule, the victims of widespread atrocities by the military-backed dictatorship of Ferdinand Marcos still have yet to

be reconciled. In 2012, a Marcos Human Rights Victims Compensation Bill was endorsed by President Aquino, and is under consideration by Congress.

## 17 | International Cooperation

Philippine administrations have repeatedly underlined their willingness to receive international loans, grants, and know-how in order to address the country's internal weaknesses in terms of governance and economic development. The net official development assistance received in the Philippines in 2010 was \$531,190,000, according to a World Bank report published in 2012. The most important donor countries are Japan, the United States, and the European Union. Infrastructure reforms and programs on poverty reduction are mainly sponsored by multilateral organizations such as the UNDP, the ADB and the World Bank. Additionally, humanitarian aid is granted by various donors for cases such as the typhoon Washi/Sendong, in December 2012. 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. Within the international donor community, trust of the Philippine administration under Aquino has improved slightly, since he addressed the endemic corruption and patronage of the Macapagal-Arroyo administration.

Effective use of support

6

The Philippines is a generally reliable and well-reputed member of the international community. Traditionally, the country is a close ally of the United States and was declared a major non-NATO ally by the Bush administration in 2003. This underlines a strategic relationship with the U.S. Armed Forces. Accordingly, the Philippines actively supported the United States in the Iraq War and in the War on Terror.

Credibility

8

The Philippines also has good relationships with all other Southeast Asian countries and with multilateral organizations, such as the World Bank, the IMF and the ADB.

The current Philippine administration enjoys a slightly higher international reputation, compared to the previous one, since it has strong popular legitimacy and support from both houses of Congress. Between 2004 and 2010, many international treaties negotiated by the Macapagal-Arroyo administration were blocked by the Senate. This risk is currently much lower.

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

Regional cooperation

9

In 2012, conflict intensified with the People's Republic of China on various land and water territories in the South China Sea. Both claim as part of their national territory

the Scarborough Shoal as well as the Malampaya and Camago gas fields. The conflict led to a rise of anti-Chinese sentiments in the population and among the political elite. Public protests were held in front of the respective embassies, some Philippine politicians called for a boycott of Chinese goods, and most Chinese travel agencies suspended tours to the Philippines.

## Strategic Outlook

In terms of political transformation, the key challenge for the Philippines is the further stabilization of its still-fragile democracy. After nearly a decade of democratic regression under Macapagal-Arroyo, the current administration has so far shored up the country's democratic institutions, but only to some extent. Compared with the expectations of his voters and his own election promises, Noynoy Aquino still has a long way to go to consolidate democracy in the Philippines.

The human rights record of the Philippines is not in accordance with democratic standards. Therefore, the administration should make further efforts in dismantling private armies and in the prosecution of human rights violators. The dominance of entrenched family clans in politics and the economy should 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 and about 80% of the Congress come from these dynasties. A far-reaching step to reduce corruption and improve the system of checks and balances between the executive and legislative branches of government would be to abolish the pork barrel system, which gives congressmen unjustified discretion over public funds and makes them dependent on presidential good will.

The major economic challenge for the Philippines is 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 (e.g. intra-Asian tourism and business process outsourcing). This could also limit the brain drain of skilled workers, who go overseas as labor migrants. In addition, the government should put more emphasis on improving infrastructure and administrative capacities, 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 economic growth to make it more inclusive, with the goal of improving the living conditions of 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. Reformation of the welfare state was one of Aquino's campaign promises; the candidate said existing antipoverty programs instilled a handout mentality and should be transformed to build capacity and create opportunity among the country's poor and marginalized citizens.

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 troubled region. In international affairs, the Philippines should prevent its confrontation with the People's Republic of China from escalating. Negotiations, possibly in international forums, promise to be more helpful than militant nationalism in finding a peaceful solution.