

# BTI 2012 | Philippines Country Report

<b>Status Index</b>	1-10	<b>6.18</b>	# 47 of 128	
Political Transformation	1-10	6.40	# 49 of 128	↗
Economic Transformation	1-10	5.96	# 54 of 128	→
<b>Management Index</b>	1-10	<b>4.92</b>	# 68 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

Please cite as follows: Bertelsmann Stiftung, BTI 2012 – Philippines Country Report. Gütersloh: Bertelsmann Stiftung, 2012.

© 2012 Bertelsmann Stiftung, Gütersloh

### Key Indicators

Population	mn.	93.3	HDI	0.644	GDP p.c.	\$	3969
Pop. growth <sup>1</sup>	% p.a.	1.7	HDI rank of 187	112	Gini Index		44.0
Life expectancy	years	68	UN Education Index	0.684	Poverty <sup>3</sup>	%	45.0
Urban population	%	66.4	Gender inequality <sup>2</sup>	0.427	Aid per capita	\$	3.4

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

## Executive Summary

During the period under review, Philippines again demonstrated the resilience of its democratic system with the successful conduct of its first elections using an automated vote-tallying system, and a credible transfer of power after almost nine years of contested legitimacy under former President Gloria Macapagal Arroyo. Although the constitutional term limit prevented Arroyo from running again, the 2010 presidential election served as a referendum on her nine-year rule. It was also an opportunity to repair the political institutions damaged by the crisis of legitimacy that emerged from the contested 2004 election. Despite earlier fears of possible tampering with the Automated Election System (AES) or even the prospect of a failed elections process, the 2010 automated balloting system proved to be a remarkable success.

In the course of the election, the Liberal Party's Benigno Aquino III, son of former President Corazon C. Aquino and former Senator Benigno S. Aquino Jr., was elected the 15th president of the Republic of the Philippines. He is the fifth president elected since democracy was restored in 1986. Aquino won with a plurality of 15,208,678 votes or 42.08% of the total votes cast – the highest winning percentage since 1986. The official candidate of Arroyo's Lakas Kampi CMD (LKC) party finished fourth, behind even former President Joseph Estrada, who finished second with about a quarter of the total valid vote despite having been removed from office in 2001 on charges of corruption and misconduct.

The presidential election was accompanied by congressional and local elections. After the election, the usual party switching took place, leading to a particularly large number of party defections from former ruling party LKC to parties close to the newly elected president. Though this will certainly help the new president find support for his policies in parliament, the challenges remain high.

The new administration faces weak state capabilities; political institutions which formally concentrate political authority but in reality disperse power and render effective decision-making

difficult; a high level of internal conflict and violence; and persistent problems associated with poverty, inequality, and the dominance of the “wealthy and well-born” (Philippine Center for Investigative Journalism, 2004), who have controlled the economy and politics since the early 20th century. However, the new administration’s biggest challenge is how to translate its huge electoral mandate into public support for its governance agenda. The president campaigned on the theme “kung walang corrupt, walang mahirap” (no corruption, no poverty), and has presented a 16-point Social Contract with the Filipino People, which is focused on the principles of reform, change and good governance. The new administration also needs to manage the public’s high expectations. Fortunately, the public’s confidence in the new president is still very high despite the administration’s series of missteps during its first year in office. The coming years, as Aquino approaches the middle of his term, will prove to be tougher given the rising challenge of the new political opposition led by former President Arroyo, who now sits as an elected member of the House of Representatives. Arroyo has already been partially successful in setting up political roadblocks to Aquino’s effort to investigate allegations of past corruption by appointing her allies to strategic positions within the courts, police, military and civilian bureaucracy. It is critical, therefore, for President Aquino to quickly climb the learning curve of presidential power and rein in the factionalism emerging within the ranks of his political supporters if the hopes of the Filipino people are to be realized.

In the realms of market economic development and socioeconomic management, the new Aquino administration faces five structural problems that have also plagued its predecessors: 1) unemployment, 2) poverty, 3) declining quality within the education system, 4) corruption, and 5) a rate of high population growth. As of April 2010, the number of unemployed stood at 3.1 million, while underemployment totaled 6.3 million. In order to address this massive unemployment, Aquino must create 1.3 million jobs per year for the next five years. The number of people in poverty increased by 3.7 million in 2006. The country’s GDP must continue to grow between 7% and 8% per year in order to reduce poverty effectively. Lastly, high population growth, which averaged 2% annually for the past decade, has dragged down the country’s growth momentum. The government must muster a tremendous amount of political will to confront the Roman Catholic Church’s consistent opposition to the implementation of a rational population management program.

## History and Characteristics of Transformation

The historic peaceful uprising in 1986, which led to the restoration of a democratic government after the 14 years of Ferdinand Marcos’ dictatorial regime, continues to serve as a template for similar transformations in other countries in Asia and around the world. However, it failed to maximize the process of democratic transformation in such a way as to bolster economic change. Despite its sterling democratic credentials, the Philippines continue to lag behind its Southeast Asian neighbors in terms of social and economic development.

Nonetheless, the country has managed to maintain its commitment to a democratic consensus despite the periodic challenges of insurgency, secessionism, terrorism and military adventurism. The post-Marcos democratic transition saw intermittent periods of political and economic stability amid domestic and regional instability. President Corazon Aquino (1986 – 1992) presided over the initial phase of the post-1986 democratic transition, which was devoted to the dismantling of the centralized authoritarian power structure and restoration of pre-martial-law democratic institutions.

President Aquino survived a series of military coup attempts, managed the drafting of a new constitution, and oversaw the peaceful and democratic transition of presidential powers to her successor, Fidel Ramos (1992 – 1998). President Ramos placed into motion an ambitious peace initiative, which sought to resolve internal armed conflicts with various political armed groups such as the communists, military putschists and Muslim secessionists. He recognized the need for political stability in order to further economic development.

President Ramos also concentrated his efforts on transformation toward a market economy by utilizing programs of liberalization and privatization with the aim of greater competitiveness in the international market. His peace and development program provided a period of economic growth and political stability. Nonetheless, the 1997 Asian financial crisis undermined many of the economic gains made by the Ramos administration.

The economic turmoil of the Asian financial crisis was followed by the election of popular movie actor Joseph Estrada (1998 – 2001) to the presidency. Estrada brought new challenges to Philippine democracy. Despite having been elected with the widest electoral margin of the post-1986 period, Estrada was plagued by allegations of abuse of power, a lavish lifestyle and corruption. This led to his impeachment and subsequent ouster in a second people-power uprising in 2001. Vice President Gloria Macapagal Arroyo was then installed as president (2001 – 2010) to serve out Estrada's remaining three-year term.

Despite serious charges of fraud in the course of the 2004 presidential election, Arroyo was reelected to a full six-year term. Arroyo's nine year in office was 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. Nevertheless, the potential gains associated with positive economic growth were eroded by a series of massive corruption scandals that rocked her administration. A lack of transparency, the prevalence of patronage, and poor governance were the primary reasons why economic growth did not alleviate poverty, reduce unemployment or control the deficit. Regime survival drove the tail end of her administration as she faced a wave of massive street protests, four successive impeachment charges in Congress and two failed military uprisings.

The quick and credible results of the country's first elections using an automated ballot-counting system helped to address the lingering issues of legitimacy that had plagued Arroyo's administration. Her successor, Benigno Aquino III, now faces the challenge of rebuilding the

damaged political institutions. The newly elected president also faces the massive task of turning the economy around to push the country finally into a stage of faster growth and development.

Externally, the Philippines has faced the challenge of maintaining the delicate balance between its traditional security and economic partner the United States, and the rising global power of China. To this end, the Philippines' active participation in the Association of Southeast Asian Nations (ASEAN) is one of the bedrocks of its foreign policy. With overseas workers contributing a large part of the domestic economy in the form of dollar remittances, protection of these workers and the promotion of economic diplomacy have also been major foreign policy pillars.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state's monopoly on the use of force continues to be challenged by the communist-led New People's Army (NPA), the secessionist Moro Islamic Liberation Front (MILF), the terrorist Abu Sayyaf group (ASG) and private armed groups employed by local warlords and political clans. In recent years, however, the Armed Forces of the Philippines (AFP) and the Philippine National Police (PNP) have intensified efforts to face the challenges posed by non-state armed groups, terrorist organizations and private armed groups in all parts of the archipelago. According to military estimates in 2006, the size of the NPA had at that time declined to 7,260 members from its peak strength of 25,200 in 1987. In 2009, the NPA further declined from an estimated 5,000 armed guerrillas to about 4,300. Meanwhile, the MILF continues to be the country's biggest non-state armed group with a total strength of 11,769 fighters, based on an official military official estimate in 2007. By contrast, the Philippine Anti-Terrorism Task Force (ATTF) estimated the strength of the ASG to be no more than 350 as of 2005. Lastly, the Department of National Defense (DND) reported in 2009 that there are a total 132 private armed groups controlled by political clans, mostly based in Mindanao and numbering around 10,000 members. The power of these groups was particularly visible in 2009, when members of the infamous Ampatuan political clan ambushed a convoy of media people and killed 59 persons (the "Maguindanao Massacre"). Another challenge to the state's power is represented by several criminal syndicates involved in drug manufacturing, robbery and carjacking. There is also evidence that civilian militias such as the military-controlled CAFGUs (Citizen Armed Force Geographical Units) and police-controlled CVOs (civilian volunteer organizations) are involved in illegal activities and use physical violence in the pursuit of economic interests, thereby further contributing to a weakening of stateness. However, the erosion of state capability by political elites and their private armed groups is not done strategically, but rather in a very organic way – local elites, which have formed the backbone of Philippine politics since the American colonial

Question

Score

Monopoly on the  
use of force

7

period, simply benefit from the weakness of state authority and therefore have no interest in a stronger state monopoly on the use of force. Instead, they are just fine with the status quo.

Strong public optimism over the ascendancy of President Benigno Aquino III has reinforced citizen identification with the Philippine nation-state. According to a Pulse Asia survey conducted during the first 100 days of the new administration, optimism among Filipinos is now at its highest level since the 1997 Asian financial crisis. Moreover, a significant finding in the survey is that Filipinos are becoming more hopeful for the country's future, with 88% of Filipinos disagreeing with the statement: "This country (the Philippines) is hopeless." By contrast, just 4% agreed. However, the challenge for the Aquino administration is to maintain this high level of public optimism, since there is a correlation between public confidence and identification with the state.

State identity

7

Still, the identity and legitimacy of the Philippine nation-state is highly contested among ethno-religious minorities. In addition to indigenous minorities who live in the Cordilleras of the northern main island of Luzon (who fought an unsuccessful insurgency in the 1970s and 1980s), the most pressing problem is the integration of the Muslims, the Moro of southern Mindanao, who constitute approximately 5% of the population. Despite considerable efforts to integrate the Moro and their representatives such as the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF) into the political system, which have gone as far as the establishment of the Autonomous Region of Muslim Mindanao (ARMM) conflict resolution has failed so far. Indeed, the conflict between the national government and the MILF has followed a pronounced cycle of escalation and de-escalation, with no indication that this cycle might be broken any time soon, or that the Moro are willing to be integrated in the predominant conception of the nation-state.

More than 90% of Philippine citizens are Christian. Historically, the Roman Catholic Church and the Catholic priests served as quasi-state authorities under Spanish colonial rule. However, the principle of separation of church and state has constituted a core element of the secular nation-state since independence in 1946, and is also enshrined in the 1987 constitution. Nevertheless, the Roman Catholic Church continues to exercise strong political influence.

No interference of religious dogmas

7

During the period under review, the church maintained its strong opposition to the passage of a reproductive health bill in the Philippine Congress. The bill seeks to provide a comprehensive policy and programmatic framework for addressing the country's burgeoning population by funding and promoting both natural and modern family-planning methods.

Newly elected President Benigno Aquino III has vowed to support the passage of the bill. This clearly indicates that the power of the Catholic clergy to transform its social influence into political influence has eroded since democratization in 1986.

Aside from the Roman Catholic Church, other religious organizations have demonstrated strong political influence, especially during election periods. These groups include the homegrown Church of Christ (Iglesia ni Cristo), the charismatic Catholic group El Shaddai and the evangelical Jesus is Lord movement. As a result, the legal separation of church and state is sometimes (during significant aspects of the policy process) undermined by the strong political influence of religious groups.

The Philippine state has traditionally been highly centralized but weak. The overcentralization of administrative structures was rooted in the legacies of the Spanish and American colonial period, and continued to characterize central-local relationships well into the Third Republic (1946 – 1972) and the years of the Marcos dictatorship. The 1987 constitution mandates decentralization. This was implemented in 1991 with the passing (and implementation) of the Local Governance Code (LGC). Since then, considerable devolution and fiscal decentralization has taken place, contributing to better service provision by local administrations, better cost efficiency and the stronger orientation of administrative processes toward the needs of local populations. At the same time, it has not broken the power of local elites, who have found ways to use decentralization in pursuit of their own economic and political interests.

Basic  
administration  
6

In general, the scope of the state is extensive. More than 1.4 million civil servants are employed in the Philippine bureaucracy. Of this body, 68% are in national government agencies, 25% in local governments and 7% in corporations owned and controlled by the government. Despite this seemingly well-developed and well-differentiated public administration, most observers agree that the country's state administration operates with manifold deficiencies, especially in remote areas such as Mindanao and the Cordilleras. Moreover, there are certain areas of the country that are controlled by the communist and secessionist insurgents rather than by the state. Hence, the Philippine state – although able to provide basic services in most regions – must be considered as highly deficient; there is strong consensus among scholars that low state capacity represents one of the most relevant (and structurally ingrained) problems for the country's democratic and socioeconomic development.

## 2 | Political Participation

The regular conduct of sufficiently free (albeit violent) elections has been a hallmark of political transition in the Philippines. While there is strong agreement among elites and citizens that elections are the only legitimate route to political office, the quality of elections eroded significantly during the past decade. The low

Free and fair  
elections  
7



point was reached in 2004, when simultaneous presidential, congressional and local elections were overshadowed by massive electoral fraud. In order to eliminate electoral quality problems related to use of an outdated, over-complicated and fraud-sensitive electoral procedure, the so-called Automated Election System (AES) was successfully implemented in the synchronized national and local elections of May 2010. Despite fears by some observers that the introduction of an automated ballot-counting process would be vulnerable to deliberate manipulation and fraud, the ease and speed by which the votes were recorded and counted resulted in the legitimate transfer of power to a newly elected president. While the results of the first automated election were generally accepted by the electorate, the remaining deficiencies of the electoral system (i.e., coercion, unlawful campaigns, and vote-buying) still must be addressed. Moreover, there is a need to address the perceived flaws of the automated system, especially in the recording and counting of local election ballots. In the long run, greater efforts at electoral and party financing reforms should be undertaken in order to address the tremendous advantage enjoyed by the socio-political and economic elite in local and national elections.

On a more positive note, the 2010 election was marked by a considerable decrease in the extent of electoral violence employed, a tactic traditionally used mainly by local political clans; while the 2004 elections experienced a total of 249 violent incidents, in which 148 candidates, campaigners and vote canvassers died, there were only 180 incidents with a total of 55 fatalities in 2010.

Newly elected President Benigno C. Aquino III garnered the biggest electoral margin since democracy was restored in the Philippines in 1986. He won with 42.08% of the total votes cast, giving him a margin of almost 6 million votes over his nearest rival, former President Joseph Estrada. President Aquino's approval rating reached a peak of 71% in the Social Weather Stations (SWS) third-quarter survey of 2010. The new administration has also managed to cobble together a majority coalition in both houses of Congress. However, the stability of the Aquino administration is threatened both internally and externally. Internally, the administration is divided into two factions. The first is comprised of supporters of former Senator Manuel Roxas II, President Aquino's losing running mate and fellow member of the Liberal Party; the second of supporters of winning Vice President Jejomar Binay. The president and vice president are elected separately in the Philippines, and Vice President Binay was the running mate of former President Estrada. Externally, former President Gloria Macapagal Arroyo successfully won a seat in the House of Representatives, and has since assumed the leadership of the political opposition. Before transferring power to Aquino, Arroyo successfully appointed her allies to key positions in the executive, judiciary, military and police force, where they have acted as potential veto players with respect to the new administration.

Effective power to govern

6

However, the main constraints on the effective power of elected authorities in the Philippines are related to (1) the de facto veto power of political clans, cliques of notables and their private armed groups on the local level, and (2) the armed forces' reluctance to accept the principle of civilian supremacy. Relations between the state and the military in the Philippines (traditionally characterized by strong acceptance of the principle of civilian supremacy) have since 1986 evolved into a pattern of conditional subordination of the military under civilian authority, within a broader informal arrangement of power-sharing and cooperation. This has prevented the emergence of a strong anti-civilian or anti-democratic coup group within the armed forces; however, it also gives senior military officers considerable autonomy from civilian control, and lends them strong influence on certain decision-making areas, such as domestic security. The Arroyo administration in particular was dependent on the political support of the military in order to survive strong public challenges based on its weak legitimacy.

The first year of the Aquino-administration was marked by strong improvements with regard to the effective guarantees of association and assembly rights, though it is too early to say whether this only is a temporary improvement. All the political restrictions imposed during President Arroyo's terms have been removed, and Aquino has restored the full exercise of the rights to association and assembly. However, in the first nine months of the new administration, more than 20 labor activists, media people and NGO activists were murdered, according to recent press reports. While most observers agree that the government had no hand in these extrajudicial killings, it also demonstrates that the state, despite the new administration, still cannot fully guarantee the constitutional rights of politically active citizens

Association /  
assembly rights  
9

The killing of journalists and other media personalities remains a black eye for the Philippines' human rights record. The National Union of Journalists in the Philippines (NUJP) puts the total number of media deaths at 142 since democracy was restored in 1986. The most blatant and bloodiest incident was the infamous Maguindanao massacre of November 23, 2009, during Arroyo's term in office, in which members of the powerful Ampatuan political clan in Mindanao massacred a total of 58 men and women, 34 of whom were journalists. As of the time of writing, the most recent example was the blatant assassination of Dr. Gerry Ortega, a prominent civic leader and a former radio host of the RGMA Network, who was shot and killed in Puerto Princesa City by a lone gunman on January 24, 2011. Ortega was the second journalist to be killed under the newly installed Aquino administration.

Freedom of  
expression  
5

While it is not fully clear whether the government and state authorities have had a direct hand in the killing of journalists, it is the responsibility of the government to

investigate, prosecute and punish those who inflict harm on media practitioners. It is the state's responsibility not only to maintain the freedom of expression but also to protect those who choose to exercise this freedom. The Philippine state has been extraordinarily delinquent in guaranteeing the physical safety of media practitioners.

### 3 | Rule of Law

The constitutional separation of power with mutual checks and balances among the three branches of government seems to have normalized with the ascension of a new presidential administration. Close cooperation and coordination between the president and Congress have been emphasized with the reintroduction of the Legislative-Executive Development Council (LEDAC) as a mechanism for discussing the president's top-priority bills. Executive relations with the judiciary, however, appear to have taken an adversarial turn with the dominance of Arroyo-appointed justices in the Supreme Court.

Separation of powers

7

Since 1986, the Philippine Congress has become a very active political institution, intruding in the domains of both the executive and judicial branches of government. Hearings within both houses of Congress have been used by a number of legislatures to castigate, intimidate, and humiliate individual members of the cabinet and the Supreme Court. This, in turn, has upset the delicate balance among the three branches of government. It remains to be seen whether the very weak executive-legislative relationship – which has manifested in very low levels of legislative effectiveness – will improve under the newly elected Aquino administration.

Fourteen of the fifteen members of the Supreme Court of the Philippines were appointed by former President Arroyo. This is seen as the reason for the Aquino administration's series of court-related setbacks, which have resulted in the president's first two executive orders being overturned. In a vote of 10 to 5, the Supreme Court declared Executive Order No. 1, creating a Truth Commission tasked with investigating alleged corruption under the Arroyo administration, to be unconstitutional. The majority ruled that the decree "violate(d) the equal protection clause of the constitution," as it singled out reports of graft and corruption specifically under Arroyo for investigation. Moreover, the court also signed a resolution ordering the status quo to be maintained, before Aquino's Executive Order No. 2 could be implemented. This policy had sought the immediate removal of all Arroyo's midnight appointees, arguing that they had violated a constitutional ban on presidential appointments before a national election.

Independent judiciary

7

Aside from appointing the majority of Supreme Court Justices, former President Arroyo also appointed her former Presidential Legal Counsel Renato Corona as chief justice before officially stepping down from office. This has added to the

Prosecution of office abuse

5

perception that the former president's court appointees are protecting her from attempts to investigate and prosecute allegations of corruption committed under her nine-year administration.

Corruption and the abuse of public office remain very significant challenges and obstacles to the further deepening of democratic and socioeconomic development. Certainly, the Aquino administration has promised to improve the situation. The publicity surrounding recent procurement and corruption scandals in the armed forces may be considered a first sign that the political will to prosecute office abuse is emerging. Of course, it could also simply mean that the new administration lacks strong links to the current military leadership, and will use the upheaval within the armed forces to build its own support coalition.

The Aquino administration has taken a strong position on the protection of human rights both in the Philippines and within the country's neighboring region. It has actively campaigned for the release of Myanmar democracy leader and Nobel Peace Prize laureate Aung San Suu Kyi.

Civil rights

5

However, a gap remains between the new president's rhetoric and his action with regard to the promotion and protection of human rights, with the Aquino administration struggling to address human rights violations in practice. As of the time of writing, human rights organizations had reported the killings of three journalists and 16 leftist activists since President Aquino took office on 30 June 2010.

#### 4 | Stability of Democratic Institutions

The credible implementation of the first automated ballot-counting process and the peaceful transfer of power to President Aquino have gone a long way toward rebuilding the institutional damage caused by the crisis of legitimacy that plagued President Arroyo's administration. The Social Weather Stations' (SWS) third-quarter 2010 survey reported that 73% of respondents were satisfied and just 9% dissatisfied with the administration's general performance, resulting in record-high levels of net satisfaction (the percentage of satisfied respondents minus the percentage dissatisfied; in this case, 64%). The Aquino administration has consolidated its support in the two chambers of Congress and at the local government level. Still, the new administration faces the same problems with institutional efficacy and efficiency as did previous administrations. These include legislative gridlock due to weak party discipline, extremely lengthy legislative procedures, and adversarial interest-driven politics in both houses of Congress. In addition, the government has been forced to rely on the same pork-barrel techniques

Performance of democratic institutions

7

used by former presidents to create working legislative coalitions in support of its policies. In addition, it faces critical challenges in the Supreme Court, where the majority of justices were appointed by President Arroyo.

There is a generally strong consensus among elites and citizens that democracy is the only practical alternative for the Philippines. Data from the Social Weather Station, the country's leading opinion survey institute, as well as from the East Asian Barometer Survey, indicate that there is a strong participative political culture and a moderate level of acceptance of and support for democracy. However, trust in political institutions and authorities is low, and citizens are highly skeptical as to the performance of democratic institutions. A majority is dissatisfied with the outcomes of the democratic process. In recent months, a slight increase in trust in the functioning of the country's democratic institutions has been evident. Specifically, three out of four (75%) adult Filipinos are satisfied with the general conduct of the May 2010 elections, and just 15% are dissatisfied. The survey conducted by the Social Weather Stations in the second quarter of 2010 registered a marked improvement in public satisfaction compared to the previous two elections in the country.

Commitment to  
democratic  
institutions

7

Moreover, satisfaction ratings for the country's top political institutions have stabilized, according to the Social Weather Stations' fourth quarter 2010 survey. The Senate received the highest net satisfaction rating at 51% (65% satisfied, 14% dissatisfied); the House of Representatives got a net 33% (51% satisfied, 18% dissatisfied); and the Supreme Court garnered 36% (55% satisfied, 19% dissatisfied). The cabinet scored the lowest net rating with just 20% (41% satisfied, 20% dissatisfied).

## 5 | Political and Social Integration

A multitude of political parties have come and gone in Philippine political history. Party institutionalization in the country today remains weak and underdeveloped. Political parties tend to be personality-based organizations largely organized around dominant local political clans and warlords, anchored by clientelistic, parochial and personal inducements rather than grounded in issues, ideologies and party platforms.

Party system

4

Nonetheless, the country's multiparty system is gradually stabilizing around four major political parties: the Liberal Party (LP), the Lakas Kampi CMD (LKC), the Nationalist People's Coalition (NPC), and the Laban ng Demokratikong Pilipino (LDP). All governing and opposition coalitions since the 1992 national and local elections have been formed around these political parties.

In the 2010 elections, the Liberal Party recaptured the presidency for the first time in 49 years. Founded in 1947, the LP is the second-oldest extant party in the Philippines. In the latest elections, it also won a plurality of seats in the lower house of Congress, and managed to cobble together a majority coalition. In the 2010 election, Lakas lost its dominance in the national and local elections; the LDP failed to exert the political influence it had shown in previous elections; and the NPC again split into two political camps. The seeming resilience of these four parties is largely derived from the electorate's moderate levels of polarization and volatility.

However, the main problems with party politics in the Philippines remain the dominance of vested interests and old elites; the lack of institutionalization and links with voters; and the de facto emergence of two separate party systems. The dominant party system consists of the major political parties (mentioned above). However, a second, supplementary party system consists of so-called party list organizations, which are supposed to represent "marginalized" societal interests, but which are in fact marginalized themselves due to institutional factors and organizational weaknesses.

The Philippines is a nation of joiners. The country has a long and rich tradition of interest groups with intermediary functions, such as trade unions, business associations and NGOs. The traditions of this vibrant associational system reach back into the American colonial period (1900 – 1946) and the democratic Third Republic (1946 – 1972). The country has the largest number of NGOs per capita in Asia. According to the Asian Development Bank (ADB), the number of civil society groups in the Philippines may be as high as 500,000. Additionally, the number of "development-oriented" NGOs is somewhere between 3,000 and 5,000. 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.

Nevertheless, the same caveats applying to many pluralist interest group systems are also relevant in the Philippines – that is, these interest groups have unequal access to financial resources, political influence and organizational means; professional interest groups dominate over "civic associations"; and "bogus NGOs" (non-governmental institutions set up by politicians, entrepreneurs or other individuals for economic or political purposes) are common. Another, controversial feature of the country's political system is the frequent appeal to "people power"; some observers correctly note that street politics and spasmodic incidents of mass mobilization in the 2000s have brought the country close to ungovernability. During the first year of the Aquino presidency, the new administration's approach of reaching out to various social groups, organizations and segments of society has

contributed to the stabilization of the relationship between civic associations, NGOs, social movements and interest groups on the one hand, and the political system on the other.

A majority of Filipinos have signified a strong approval of democratic norms and procedures. According to a Social Weather Stations (SWS) survey conducted in the third quarter of 2009, a near-record high of 69% respondents expressed satisfaction with the way democracy works in the country. This rating is second only to the record 70% registered in 1998. The survey also reported a majority of 56% agreeing with the statement “Democracy is always preferable to any other kind of government,” compared to 27% agreeing that “Under some circumstances, an authoritarian government can be preferable to a democratic one.” An additional 16% agreed that “For people like me, it does not matter whether we have a democratic or a non-democratic regime.”

Approval of  
democracy  
6

Some elements of social capital, including networks, mutual trust and volunteerism, can be found in the Philippines. Indeed, close network ties with family and friends as a form of social capital is widespread in Philippine society. In a Social Weather Stations (SWS) survey conducted in 2001, 91% of respondents strongly agreed with the statement: “You should take care of yourself and your family first, before helping other people.” In the same survey, 88% strongly agreed with the statement: “People who are better off should help friends who are less well off”; while 55% strongly agreed with the statement: “It’s alright to develop friendship with people because you know they can be of use to you.”

Social capital  
6

Despite the strong network ties with family and friends, there is a low amount of bridging social capital in the form of associational ties. Close to half of respondents (47%) to a 2001 SWS survey indicated that they were not members of any organizations. Social capital is also uneven, in the sense that members of the privileged classes tend to trust more and form more bonds. Thus, individuals with comparatively more years of schooling and larger family incomes, and who live in urban areas, are most likely to join and be active in organizations.

Volunteerism is an integral part of social capital. Volunteer work builds and enhances social capital. A 2010 study conducted by the National Statistical Coordination Board (NSCB) noted that Filipino volunteers rendered an estimated 312.3 million hours of volunteer service in 2000. The study also placed the total value of volunteer work at PHP 44.5 billion in 2009. The NSCB study also estimated that volunteer work constituted 0.6% of GDP during the nine-year period.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers  
5

According to the Asian Development Bank (2007), the Philippines is the only country in Southeast Asia where the absolute number of poor people increased between 1990 and 2005. The latest data from the National Statistics Coordinating Board (NSCB) show that the number of poor people in the Philippines increased from 25.47 million in 2000 to 27.6 million in 2006. The third quarter 2010 Social Weather Stations survey found that the proportion of families that had experienced involuntary hunger at least once in the past three months had fallen to 15.9%, or an estimated 3.0 million families, after being over 20% in the previous three quarters. The September 2010 survey also found that 48% (an estimated 9.0 million) of families considered themselves to be poor, a drop of two percentage points from June's level of 50%; in addition, 39% (an estimated 7.1 million families) consider themselves to be "food-poor," a figure unchanged from the previous quarter.

Poverty and the lack of opportunity in the Philippines have driven between 8.2 million and 11 million Filipinos to seek employment overseas. Overseas Filipino workers (OFWs) constitute around 11% of the country's total population.

In the 2007 – 2008 UNDP Human Development Report, the Philippines received a Human Development Index (HDI) value of 0.745, placing it 102nd out of 179 countries. In the Human Poverty Index (HPI), the country received a score of 12.5, ranking it 54th out of 135 developing states. Cognizant of the social exclusion brought about by the high incidence of poverty, the Aquino administration has set aside PHP 21.9 billion for its Conditional Cash Transfer (CCT) Program. However, it remains to be seen whether this program will be any more successful than previous such efforts.

Data from the Asian Development Bank, as well as from national sources, show that income inequality as captured by the Gini index actually increased between the mid-1990s (1994) and the late 2000s (2005). On a positive note, the highly contested (and often criticized) Comprehensive Agrarian Reform Program (CARP), a land reform program, was extended in 2009. This provides the opportunity to distribute about 1 million hectare to landless farmers, and to extend public services to those farmers who benefited from land reform in the 1990s by receiving agricultural land, but did not have access to infrastructure necessary to compete on the markets. The extended program (called CARP Extension with Reforms, or CARPER) will expire in 2014. As of the time of writing, it remained too early to



tell whether the new Aquino administration would have the political capacity or the political will to provide the support necessary to render CARPER a success.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	149359.9	173602.5	168333.5	<b>199589.4</b>
GDP growth	%	6.6	4.2	1.1	<b>7.6</b>
Inflation (CPI)	%	2.8	9.3	3.2	<b>3.8</b>
Unemployment	%	7.4	7.3	7.5	-
Foreign direct investment	% of GDP	2.0	0.9	1.2	<b>0.9</b>
Export growth	%	6.7	-2.7	-7.8	<b>21.0</b>
Import growth	%	1.7	1.6	-8.1	<b>22.5</b>
Current account balance	\$ mn.	7112.0	3627.0	9358.0	<b>8924.0</b>
Public debt	% of GDP	47.8	48.7	49.2	<b>47.3</b>
External debt	\$ mn.	66039.7	64995.1	63116.1	<b>72337.3</b>
Total debt service	\$ mn.	10136.0	12199.3	9879.7	<b>12873.9</b>
Cash surplus or deficit	% of GDP	-1.5	-1.3	-3.9	-
Tax revenue	% of GDP	13.5	13.6	12.2	-
Government consumption	% of GDP	9.3	8.8	9.9	<b>9.7</b>
Public expnd. on edu.	% of GDP	2.7	2.8	-	-
Public expnd. on health	% of GDP	3.5	3.7	3.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.9	0.8	0.8	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

The newly installed Aquino administration has renewed the government's commitment to free market competition by providing investors with protection against regulatory risk. President Aquino has identified investment promotion as the core of his government's economic development program, and has promised to

Market-based  
competition

6

decrease bureaucracy and increase transparency in order to promote an investor-friendly environment.

Cognizant of the lack of resources available to fuel and sustain economic growth, the president has planned to work with the private sector to deliver public infrastructure and/or public services through a public-private partnership strategy. However, market competition operates under a weak institutional framework, with uneven rules for market participants. The legacy of authoritarian crony capitalism remains strong, and the informal sector remains significant.

Underdevelopment in the Philippines can be traced to the lack of competition in the economy. The existence of monopolies and oligopolies impedes competition that might otherwise spur economic growth. Antitrust policy and regulation are the primary economic reform measures available to the government to promote competition. Antitrust regulations have existed in the Philippines for quite some time, with U.S. legal provisions integrated into the country's constitution, as well as its criminal and civil codes. However, recent developments in the global economy necessitate that Philippines institute a new antitrust framework if it is to avoid the pitfalls of the 1997 Asian financial crisis and the 2007 – 2008 global financial crisis.

Anti-monopoly  
policy

5

In his first State of the Nation address on 26 July 2010, President Aquino pushed for the passage of an antitrust Law that would realize the anti-monopoly and anti-cartel provisions of the Philippine Constitution. Members of both houses of Congress have signified their support for the passage of the proposed law, which would advance free and fair business competition across all industries.

Senate President Juan Ponce Enrile introduced Senate Bill 123 entitled “An Act Prohibiting Monopolies, Attempt to Monopolize an Industry or Line of Commerce, Manipulation of Prices of Commodities, Asset Acquisition and Interlocking Memberships in the Board of Directors of Competing Corporate Bodies and Price Discrimination Among Customers, Providing Penalties Therefor, and for other Purposes.” The bill was patterned after the main antitrust laws in the United States, including the Sherman Act (15 USC § 1-7), the Clayton Act of 1914, and the Robinson-Patman Act of 1936 (15 USC § 13).

A study commissioned by the Philippine APEC Studies Center (PASC) noted that “Antitrust laws in the Philippines have been largely ineffective because their enforcement is vested in different agencies ... The effective implementation and enforcement of anti-competition laws should be vested in a centralized agency with sufficient powers to oversee and monitor the competitive climate in the different sectors of the economy.” The successful enforcement of antitrust regulation in other

Asian countries such as Indonesia, Malaysia, Japan, Korea and India provides an appropriate benchmark for the possibility of realizing similar successes in the Philippines.

According to the National Economic and Development Authority (NEDA), the Aquino administration will invest in infrastructure related to electricity, transport, water, irrigation and solid waste management. Following on from the success of past liberalization efforts, particularly in the areas of telecommunications, trade and foreign investments, the government intends to liberalize the aviation sector.

Liberalization of  
foreign trade

7

In March 2011, President Aquino signed two executive orders that will liberalize the country's commercial air space. The first executive order authorizes the Civil Aeronautic Board (CAB) and the panels tasked with negotiating air agreements to adopt an open skies policy in the country. The second executive order reorganizes the negotiating panels themselves. The full liberalization of the country's aviation industry is expected to benefit tourism, trade and industry.

The banking system remains sound and stable, according to the Bangko Sentral ng Pilipinas (Central Bank of the Philippines, BSP), with deposits, lending and profits showing positive growth rates in the first six months of 2010. Moreover, the average capital adequacy ratio of 15.23% is comfortably higher than the BSP's 10% minimum requirement. The share of nonperforming loans remained generally low, at just over 3% of total loans.

Banking system

7

The BSP is committed to full implementation of Basel III banking reform commitments, which include the following: an enhancement of risk-based supervision technologies, improvement of existing macro/micro surveillance tools, the continued alignment of the existing regulatory framework with international standards, harmonization of corporate governance standards with those of other financial regulators, and continued capital market reforms.

According to an International Monetary Fund assessment in 2010, "[t]he banking sector – the core of the Philippine financial system – remains resilient ... Since the Asian crisis of the late 1990s, a benign economic environment, bank restructuring and consolidation, and the shedding of nonperforming assets have all helped improve bank soundness." As a result of this, the Philippines was able to weather the negative effects of the more recent global financial crisis. The 2010 IMF report also noted that "[a]lthough macroeconomic risks remain elevated, the banking system is well-capitalized and liquid, and asset quality is generally high."

## 8 | Currency and Price Stability

Prices remained stable during the period under review, as the central bank managed to keep inflation at a low single-digit level. The average inflation rate was 3.8% during the first 11 months of 2010, well within the government's target of 3.5% to 5.5% for the year. Average inflation in 2011 is also projected to be within this target range, at 3.6%. The BSP has attributed this continued price stability to the implementation of prudent monetary policy since July 2009.

Anti-inflation /  
forex policy  
8

The peso has also maintained its relative competitiveness, with volatility kept well within the middle of the range shown by other Asian currencies. The relative stability of the peso can be attributed to the effective management of foreign exchange inflows by the central bank. However, the BSP must manage peso appreciation properly, as a large influx of foreign exchange from overseas Filipino workers, outsourcing companies and tourism may prove to be a risk to cost competitiveness.

The current government has taken a slightly more proactive debt management strategy than did its predecessor. Showing a renewed commitment to good governance, the Aquino administration has effectively addressed the major concerns that served to undermine the Arroyo administration's sustained fiscal gains. The government's fiscal consolidation program has generated some credibility. With strong governance, an upgrade in the country's sovereign debt rating is now more likely.

Macrostability  
6

The new administration also faces favorable debt dynamics, after successfully extending its debt maturity profile in order to minimize refinancing risk. The government's foreign-held debt is now 100% long term. The yields on new issues of domestic debt have been decreasing, and the country's foreign currency-denominated bonds are now receiving substantial bids from domestic investors. These factors have contributed to reduced rollover risks and increased debt-carrying capacity.

The overall ratio of government debt to GDP has dropped from 78.25% in 2004 to 53.06% in 2010. Total public-sector debt (as a percentage of GDP) has also dramatically declined from 117.6% in 2003 to 71% in 2001. Similarly, foreign debt as a share of GDP has dropped from 72.88% in 2001 to 33.04% in 2009.

## 9 | Private Property

In the 2011 Property Rights Index (PRI), a component of the Heritage Foundation's Index of Economic Freedom, the Philippines scored 30, together with Maldives, Mongolia, Pakistan, Armenia, Cambodia, Indonesia, and Kazakhstan. All land titles

Property rights  
6

are nationally recognized by the government. Land deeds and property generally are clearly protected by the law. The Philippine Real Estate Acquisition and Disposition laws protect the right to private property, thus earning the country high marks for this policy (see McKeever Institute of Economic Policy Analysis, 2005). However, it is also clear that high levels of corruption, the weakness of the state in the countryside, the prominence of local bosses and of course the activities of communist insurgents weaken the de facto protection of private property.

The 1987 constitution recognizes the indispensable role of the private sector as the main engine of growth for national development. Privatization has been a major component of the Philippines' overall development strategy since the restoration of democracy in 1986, with three major waves of privatization implemented.

Private enterprise  
7

The first wave began during a period of economic crisis during the restoration of democracy and the free market economy in 1986. The second wave emerged as a means of mitigating the power crisis of the 1990s, and was also adopted in other areas of infrastructure such as roads, airports, seaports, water and even information technology. The third wave of privatization is expected to peak with the new Aquino administration's policy decision to promote public-private partnerships in order to facilitate optimal private-sector participation in the economy. The National Economic Development Authority (NEDA) has identified an initial list of PPP projects for 2011 with an estimated project cost of \$3.2 million. The priority list involves heavy infrastructure projects that will build highways, airports, and mass railways. The new Aquino administration has also committed to continuing its predecessors' policy of privatizing inefficient state-owned and state-controlled corporations. Shortly before the end of the review period, President Aquino approved the sale of government-controlled broadcast networks RPN 9 and IBC 13.

## 10 | Welfare Regime

The Aquino administration has set aside PHP 21.9 billion for its Conditional Cash Transfer (CCT) program. Patterned after the successful CCT programs in other countries (i.e., Mexico's "Oportunidades" and Brazil's "Bolsa Familia"), the Philippine's "Pantawid Pampamilyang Pilipino Program" is a national poverty-reduction and social-development strategy that provides conditional cash grants to extremely poor households, aimed at improving health, nutrition and access to education, particularly for children aged 0 – 14. The program aims to provide short-term poverty alleviation and break the long-term intergenerational poverty cycle by investing in human capital. It is one of the Aquino administration's flagship policies in seeking to meet the Millennium Development Goals (MDGs). However, it remains unclear whether this will have any significant long-term impact on absolute poverty, a still-critical issue in the Philippines.

Social safety nets  
5

The 1987 constitution extends equality of opportunity to women as well as to ethnic and religious groups. The literacy rate is almost equal among females and males within the 15- to 24 year-old age group. The ratio of females to males at public and private schools is high: 98.3% at the primary level, 109.0% at secondary schools, and 124.0% at the tertiary level. The constitution also places considerable importance on the freedom of religion and equal access to religious groups.

Equal opportunity

7

On the other hand, indigenous groups have experienced marginalization, particularly when their protected lands have become a source of property disputes. Socioeconomic inequality is a longstanding problem. Wealth and resources are highly concentrated in the hands of a few groups that comprise the national elite. The top 5.5% of all landholding families own 44% of all tillable land, and the richest 15% of all families account for 52.5% of the national income. A recent study by the National Statistics Office (NSO) showed the “total incomes of the richest 1% (185,000 families in 2009) to be as large as the total incomes of the poorest 30% (5.5 million families).”

While there is vertical mobility in the social system, the country remains a highly stratified society with unequal distribution of life chances, especially between the “wealthy and well-born” and the middle classes on the one hand, and the lower income groups on the other; to make matters worse, this unequal distribution of opportunities is structurally ingrained and therefore difficult to change in the short-run – especially in a society and political system like the Philippines, where a century-old oligarchy dominates politics and economics.

## 11 | Economic Performance

The Philippine economy has recorded growth despite difficult global conditions. It has posted 37 continuous quarters of economic growth, and has demonstrated resilience in the face of the global economic crisis. The National Economic and Development Authority (NEDA) credited a strong fourth-quarter expansion for the 7.0% to 7.4% growth rate in 2010.

Output strength

6

The economy was shielded from the worst effects of the global financial crisis by the rising inflows of remittances from overseas Filipino workers. According to government statistics, remittances accounted for 8.5% of GDP in 2001 and reached 10.8% of GDP in 2009. However, these remittances are expected to dip given the forced repatriation of overseas workers caught in the political turmoil in the Middle East and the recent natural disaster in Japan.

## 12 | Sustainability

The Philippines ranked 50th out of 163 countries in the 2010 Environmental Performance Index (EPI), with a score of 65.7. The EPI ranks countries on 25 performance indicators tracked across 10 policy categories covering both environmental public health and ecosystem vitality. These indicators provide a gauge at the national government level of how close countries are to meeting established environmental policy goals.

Environmental  
policy  
6

Like most countries in the world, the Philippines is facing the ill effects of climate change-induced natural disasters. According to Albay Governor Joey Salceda, there has been a 175% increase in the number of natural disasters in the past five years compared with the previous five; a rising toll in terms of disaster-related damage (0.6% of GDP, double from 1988); a 10% to 35% decline in rice yields due to strong winds from typhoons; and a reduction in crop yields of up to 30% associated with rising temperatures and flooding.

Climate change adaptation, together with disaster risk management, environmental protection, and climate mitigation are the primary policy options available to the national government. The Intergovernmental Panel on Climate Change (IPCC) defines adaptation as the “adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities.”

The Aquino administration has allocated PHP 271.6 billion for the education sector in 2011. However, this translates to only 2.3% of gross national product (GNP), compared with an average state investment in education of 3.9% in the East Asian region more broadly. Moreover, the Philippines allocates less than 0.10% of GNP to science and technology spending and to research and development.

Education policy /  
R&D  
4

On the other hand, the government has committed to reforming the country’s 10-year educational system by instituting a K-12 program. K-12 means kindergarten, six years of elementary education, four years of junior high school (grades seven to 10) and two years of senior high school (grades 11 to 12). While this sounds impressive, it is not the first time that post-authoritarian governments have promised to deal more effectively with the Philippines’ chronic educational problems and deficiencies. Unfortunately, no government since the mid-1970s has been able (or willing) to develop and education policy in such a way as to halt the erosion of the country’s once-leading position in Southeast Asia. This is especially worrying, because the Philippines’ most valuable resource has always been its relatively well-educated, English-speaking labor force.

# Transformation Management

## I. Level of Difficulty

Historically rooted structural weaknesses perpetuate poverty, impede long-term sustainable growth, and constrain political governance capacities in the Philippines. With a system of government susceptible to political factionalism, reforms do not deliver maximum utility. One of the barriers to development and poverty alleviation is the inability of political leaders to complement economic reforms with social and political reforms. Poverty continues to be a predominantly rural phenomenon, with around three-quarters of the poor living in rural areas. Economic growth for the last 20 years has been at a pace that makes it difficult to lift the country out of poverty.

Structural  
constraints  
6

Occasional natural disasters and unabated population growth continues to place enormous strain on public financial resources and the government's ability to provide basic services and create economic opportunities. Chronically weak state capacity and structurally ingrained social inequality and injustice constrain the potential for future economic and social progress. The Philippines continues to face enduring political conflicts, with a resilient communist insurgency spearheaded by the Communist Party of the Philippines that has been active since 1968, a violent Muslim separatist movement active since 1971, and a network of homegrown terrorists in the country's southern regions that has operated since the 1990s.

The Philippines is home to a number of social movements and a broad range of voluntary associations, NGOs and other manifestations of a relatively vibrant civil society. There is a strong tradition of civil society organizations with effective mobilization and organizational capacities, a long-term record of civic engagement, and a deep reservoir of social capital. A recent study by Swansea University's Center for Development Studies estimates the number of civil society organizations in the Philippines at 115,967. Of this number, 81,436 are classified as non-stock corporations, 14,489 as trade unions, 19,937 as cooperatives and 103 as political parties.

Civil society  
traditions  
4

Despite its long tradition of participation, civil society organizations (CSOs) in the Philippines have been criticized by some sectors as being generally disorganized.



Many are suspected of being controlled by the traditional political elite or the organized left, and many more are dependent on and are driven by foreign funding.

Furthermore, events in the 2000s testify to the potential dangers of deep divisions within Philippine society, which are reflected in and shaped by polarized civil society organizations and the recurring events associated with “People Power” mobilization.

The election of a new government has provided the impetus for the resumption of peace negotiations with the communist insurgents and Muslim separatists. Negotiating panels have been reconstituted to resume peace talks with the Communist Party-led National Democratic Front of the Philippines (NDFP) and the Moro Islamic Liberation Front (MILF). Previous peace negotiations with the two rebel groups broke down under the Arroyo administration. While the MILF and NDFP have demonstrated flexibility in their negotiations with the Aquino administration, there is apparent dissension and widespread opposition to peace negotiations within the ranks of these two armed groups.

Conflict intensity

6

## II. Management Performance

### 14 | Steering Capability

Under the Arroyo government, economic and social policies became secondary priorities, as the political climate necessitated a focus on political survival. Several governmental attempts at social and political reform aimed at curtailing the power of vested interests have been undermined by lack of sustained political will, a legal and regulatory environment laden with corruption, and a politicized and ineffective bureaucracy.

Armed with a strong electoral mandate, the Aquino administration is in a better position to lift the economy into an improved growth path. Poor governance was the primary reason for the Arroyo administration’s failure to translate economic growth into socioeconomic development. Legitimacy was the “missing link” that hounded President Arroyo for the nine years of her term, exacerbated by allegations of fraud in the 2004 elections. With 15.2 million votes, or 41.87% of the total votes cast, President Aquino has the strongest electoral mandate since President Fidel V. Ramos in 1992. Running and winning on a strong anti-corruption and good-governance platform, the new president clearly listed his government’s priorities in his 16-point “Social Contract with the Filipino People.” However, the new administration is faced with the twin challenges of a political opposition led by former President Arroyo and an emerging factionalism within Aquino’s own ruling

Question  
Score

Prioritization

5

coalition. It remains to be seen whether the Aquino administration will be able to maintain the momentum for reform given the current infighting within the ruling coalition and other pressure of other concerns.

Despite some initial missteps during its first 100 days, the new Aquino administration has managed to establish important policy foundations for its six-year term of office. Among its early successes are the \$2.4 billion in U.S. investment pledges and the \$434 million Millennium Challenge Account grant; an increase in conditional cash transfer levels for 2.3 million families; a renewed campaign against large-scale tax evaders; the suspension of bonuses to directors and officers of state-owned corporations; and an increase in transparency and a strengthening in the overall campaign against corruption. On the negative side, the tragic hostage-taking incident in August 23, 2010, leading to the death of eight Hong Kong nationals, revealed the ineptitude of the police force in handling emergency situations. Institutionalized corruption within the police force has also prevented any breakthrough in the fight against the illegal numbers game (popularly known as “jueten”). Lastly, political factionalism has begun to emerge among the close supporters of the president.

Implementation  
5

The new administration is still in a process of transition. However, very high public expectations necessitate that it expedite its learning process and act resolutely on the structural obstacles facing the country. The administration has demonstrated resilience in addressing a series of problems arriving in quick succession: a hostage situation that took on international proportion, natural disasters, and a fresh wave of criminal and terrorist attacks.

Policy learning  
5

## 15 | Resource Efficiency

One of the very first public acts of the new Aquino administration was to rein in excessive government expenditures, seeking bring burgeoning budget deficits under control. It ordered the suspension of huge salaries and benefit packages granted to officers and directors of state-run corporations. It also restructured and shut down impractical and frivolous government agencies. More importantly, it reviewed unreasonable state subsidies and realigned budget allocations to optimize targets in health, education and poverty reduction.

Efficient use of  
assets  
5

The Aquino administration has managed to establish a political coalition in both houses of Congress, and in a majority of local government units. The president has reactivated the Legislative-Executive Development Council (LEDAC) as a mechanism for policy coordination between the two branches of government. The Liberal Party (LP), of which the president and speaker of the House of Representatives are members, holds a majority in the lower legislative house. The LP also belongs to the majority coalition in the Senate. The LP's political strength

Policy  
coordination  
6

has thus allowed the president to pass top-priority legislative measures, such as the 2011 national budget, the Conditional Cash Transfer (CCT) program, and the amnesty offered to soldiers who rebelled against the Arroyo administration. However, it remains to be seen whether President Aquino can maintain his political coalition intact given the challenges stemming from the opposition led by former President Arroyo.

In addition to massive public investment losses, corruption has prevented the country from attracting foreign investment on a scale comparable to that received by the four other original ASEAN members. In 2009, foreign investment in the Philippines stood at \$1.9 billion, compared with over \$2 billion in Thailand, and more than \$7 billion in Malaysia. If these figures are to be improved, the government must address the leaks created by corruption. President Aquino campaigned and won with a strong anti-corruption platform. However, his administration suffered an initial setback when the Supreme Court declared the Truth Commission (a body tasked with investigating allegations of corruption in the previous administration) as unconstitutional. Nonetheless, the United Nations Development Program (UNDP) has recognized the government's anti-corruption campaign. Recently, the government intervened to oppose the plea-bargain agreement entered by former military comptroller Major General Carlos Garcia. The agreement would have allowed Garcia to escape with the PHP 303. 27 million he allegedly stole from government coffers. A review of the case in the Senate has revealed the collusion of high-ranking military officers in an institutionalized practice of corruption in the police and armed forces.

Anti-corruption  
policy  
4

## 16 | Consensus-Building

The legitimate transfer of political power after the 2010 elections served to stabilize democracy and the market economy in the Philippines. According to the Social Weather Stations' third quarter 2010 survey, the proportion of adult Filipinos agreeing with the statement, "democracy is always preferable to any other kind of government," has steadily increased from 49% in June 2008 to 56% in September 2010. Moreover, the fourth quarter 2010 survey reported that 39% of respondents were optimistic that the Philippine economy would get better, and only 8% were pessimistic it would get worse, for a very high net economic optimism score (scores for pessimism subtracted from scores for optimism) of 30%, comparable to the previous quarter's 29%. Net economic optimism had shown double-digit negatives in 30 out of 46 surveys between September 1998 and June 2010, but turned to double-digit positive figures beginning in June 2010.

Consensus on goals  
6

Nevertheless, while there is a general consensus on the importance of both procedural democracy and market economic principles among the relevant elites, this consensus is weakened by 1) the limitation of elite understanding of democracy

to the “logic of electoralism” (Benedict Anderson); 2) die-hard practices of crony capitalism; and (3) the fact that the communist movement (Communist Party of the Philippines/National Democratic Front) and the Muslim insurgencies in Mindanao (Moro Islamic Liberation Front, the Abu Sayyaf Group, and the Moro National Liberation Front) reject the current political regime (in the case of the CPP/NDF) or even the legitimacy of the Philippine nation-state (MILF, ASG).

While a strong wave of reformist sentiments carried President Aquino to electoral victory, reformers must be cautious of veto actors biding their time within and outside governmental institutions. The Supreme Court, currently packed with appointees of former President Arroyo, has demonstrated its veto powers in preventing the investigation of corruption charges against the previous administration. Former President Arroyo herself sits as an elected member of the House of Representatives, and is acknowledged as the leader of the political opposition. Arroyo still has a strong network of supporters within the civilian, police and military bureaucracy, which can effectively block Aquino administration actions. Other de facto veto powers are the Armed Forces of the Philippines (AFP), who only conditionally accept civilian supremacy; the communist movement and its armed wing, the New People’s Army; and local elites who care more about defending their own privileges, power and prerogatives than about democracy and a socially embedded market economy.

Anti-democratic  
actors

4

President Aquino has promised to “revive the peace process on the basis of a comprehensive understanding of the root causes of the conflict, under clear policies that pave the way ahead... to attain a just and lasting peace.” The reconstituted peace panels have met with their respective counterparts to restart peace negotiations: with the communist National Democratic Front of the Philippines (NDFP) in Oslo, Norway, and with the separatist Moro Islamic Liberation Front (MILF) in Kuala Lumpur, Malaysia. Members of the negotiating panels have expressed “restrained optimism” in negotiating a political settlement to conflicts that have resulted in great loss of life and property for decades. The resumption of peace negotiations with the two armed groups began auspiciously, with the two government panels reporting positive developments that augur well for the ability to pursue the negotiations to their logical conclusion.

Cleavage /  
conflict  
management

5

The Philippines has a vibrant civil society, but these groups are loosely coordinated and are sometimes excluded from the decision-making process. In addition, the cycle of civil society mobilization and protests in the 2000s has contributed to problems of governability and political instability.

Civil society  
participation

5

By allowing freedom of organization, the constitution has bred the region’s most dynamic civil society environment. Riding on the crest of reformist support for the victorious Aquino presidency, civil society organizations are expected to play a more participatory role in the new administration. While the constitution has set up

institutional mechanisms for popular participation from below, civil society organizations and nongovernmental organizations are often excluded from formal decision-making. In some instances, the same civil society organizations hinder government from pursuing reforms that would adversely affect the interests of the general public. This often results in the government postponing action in deference to public opinion.

Like his mother, the late former President Corazon Aquino, President Benigno Aquino III extended the hand of national reconciliation as one of his government's first policy commitments. Formal resumption of peace talks with the communist NDFP and the separatist MILF were set for February 2011. In recent years, there has been a growing realization that the attainment of lasting peace in the Philippines should be anchored in two major premises. The first is that major reforms will have to be implemented to address the sources of discontent and create the conditions needed for lasting peace. The second is that armed responses to the insurgencies have not and will not put an end to the rebellion.

Reconciliation

5

## 17 | International Cooperation

The Filipino government has received considerable support from the United States. As a sign of confidence in its good-governance agenda, the Aquino administration received a \$434 million Millennium Challenge Corporation (MCC) grant from the U.S. government. In 2009, the Philippines failed to secure a large-scale grant from the MCC due to the longstanding allegations of corruption under the Arroyo administration. In addition, the president was able to raise \$2.4 billion in investment pledges, which translate to a potential for 43,650 new jobs in the next three years.

Effective use of support

5

In addition, Japanese Prime Minister Naoto Kan pledged the equivalent of PHP 20 billion (JPY 40.8 billion) in official development assistance (ODA) loans for a nationwide road-building and upgrade project, which is Japan's first ODA commitment to the Aquino administration. Japan has been the Philippines' top ODA donor during the past four decades, providing grants and soft loans amounting to more than PHP 900 billion. Between 1967 and 2008, Japan's ODA to Manila totaled over \$20.5 billion. However, the Philippine government should address its weakness in absorbing and utilizing ODA from donor countries, given its lack of the counterpart funds often required by the donor states.

The Aquino administration has enjoyed a tremendous amount of good will from the country's traditional allies, including the United States, Japan and fellow members of ASEAN. The Philippines has continued to play an important role as one of the pillars of ASEAN, adding its voice to the successful calls for the release of democracy-movement leader Aung San Suu Kyi by Myanmar's ruling junta. Unfortunately, the country's relations with rising power China have been strained

Credibility

7

as a result of the tragic August 2010 hostage incident in Manila, which resulted in the death of eight Hong Kong nationals. To placate the Chinese government, the Philippines was pressured to join China's nondemocratic allies in boycotting the awarding of a Nobel Peace Prize to Liu Xiaobao, an imprisoned Chinese dissident. In the long run, the government needs to solve its internal problems, address domestic weaknesses and strengthen the state's capacity to comply with international agreements in order to play a constructive role in the international community.

The Philippines has actively participated in regional multilateral initiatives, and is an active member of ASEAN. President Aquino attended the 17th ASEAN Summit in Hanoi, Vietnam, and has held bilateral meetings with the leaders of Indonesia, New Zealand, Korea, Japan, China, Russia, Brunei and Australia. He has pledged his support for the proposed ASEAN Charter and existing free trade agreements. However, though the Philippines has pledged to strengthen regional cooperation and even integration, it has yet to address its internal structural problems in complying with international agreements the country has signed in the past.

Regional  
cooperation  
9

## Strategic Outlook

Philippine democracy and the country's market economy have exhibited remarkable resilience in the past 24 years. Despite two "people power" revolutions, contested elections, extra-constitutional challenges, natural disasters and two global financial crises, the country has emerged each time with a renewed focus on growth and development. Indeed, the country's experience with democracy and development has been characterized by a recurring boom-bust economic cycle that has paralleled its pattern of political development and decay.

Two trends, however, are today emerging to challenge this conventional wisdom. First, the economy succeeded in showing growth during the period under review, even in harsh global conditions. Thirty-eight quarters of continuous economic growth effectively reverses the boom-bust cycle that used to characterize the Philippine economy. Second, legitimacy in the form of public trust can serve as a booster for economic optimism. Despite the previous administration's creditable management of the economy over the past nine years, net economic optimism only turned to a double-digit positive level at the beginning of the new administration. Moreover, the peso strengthened more in the Aquino administration's first 100 days than was the case under any other post-Marcos president. Other key indicators of business confidence, such as stock-market growth, have also advanced by double digit figures.

Legitimacy was the missing ingredient in the Philippines' sustained economic growth. Barring any major natural or man-made disasters, democracy and good governance under the Aquino administration is likely to secure annual GDP growth of between 7% and 8% over the next five years. The Philippines is ready to achieve high economic growth over the medium term due to a fortuitous mix of global labor demand, policy continuity, emergent industries and political capital.

Two challenges face the Philippines as it again attempts to join the ranks of Asia's "tiger economies." The first challenge involves sustaining the growth trajectory. The Aquino administration must consistently implement its growth template of attracting more investment, enhancing competitiveness, promoting industries with high potential for growth and impact (i.e., tourism and business process outsourcing), and building necessary infrastructure. The second challenge is making democracy work for the poor. Growth must translate to poverty reduction in order to infuse the economy with more productive human capital.

Government must therefore invest both in hard infrastructure (i.e., roads, airports and public works) and soft infrastructure (i.e., health, education and social welfare). The 2011 national budget, the first passed under the Aquino administration, earmarked PHP 21 billion for the Conditional Cash Transfer (CCT) program, and PHP 15 billion for a public-private partnership program. The CCT involves cash handouts of up to PHP 1,400 over 10 months to 1.3 million families considered the country's poorest, as long as the mothers undergo regular medical

checkups and the children continue attending classes. On the other hand, the public-private partnerships represent the government's contribution to projects that it hopes to undertake in conjunction with partners in the private sector. These massive public investments are expected to further boost the country's momentum toward high economic growth.

Two possible threats might derail the Philippines' positive economic trajectory. The first involves external shocks to the economy, such as a relapse of the world economy into recession, a continued rise in the oil prices, regional instability or natural disasters. The second is related to the disruption of internal stability, which could take the form of a breakdown in peace and order, rising criminality, continued insurgencies and terrorist attacks. The Aquino administration must not be caught flat-footed in addressing these potential threats.

On the international front, there is a need to navigate the emerging threats and opportunities provided by a global environment, which is characterized by rapidly changing markets, disruptive technologies and knowledge-based competition. Three emerging international trends will have great impact for the Philippines: China's economic emergence, the consequent emergence of an integrated regional economy (driven primarily by market forces), and the relative decline of the Philippines' traditional economic partners, Japan and the United States.