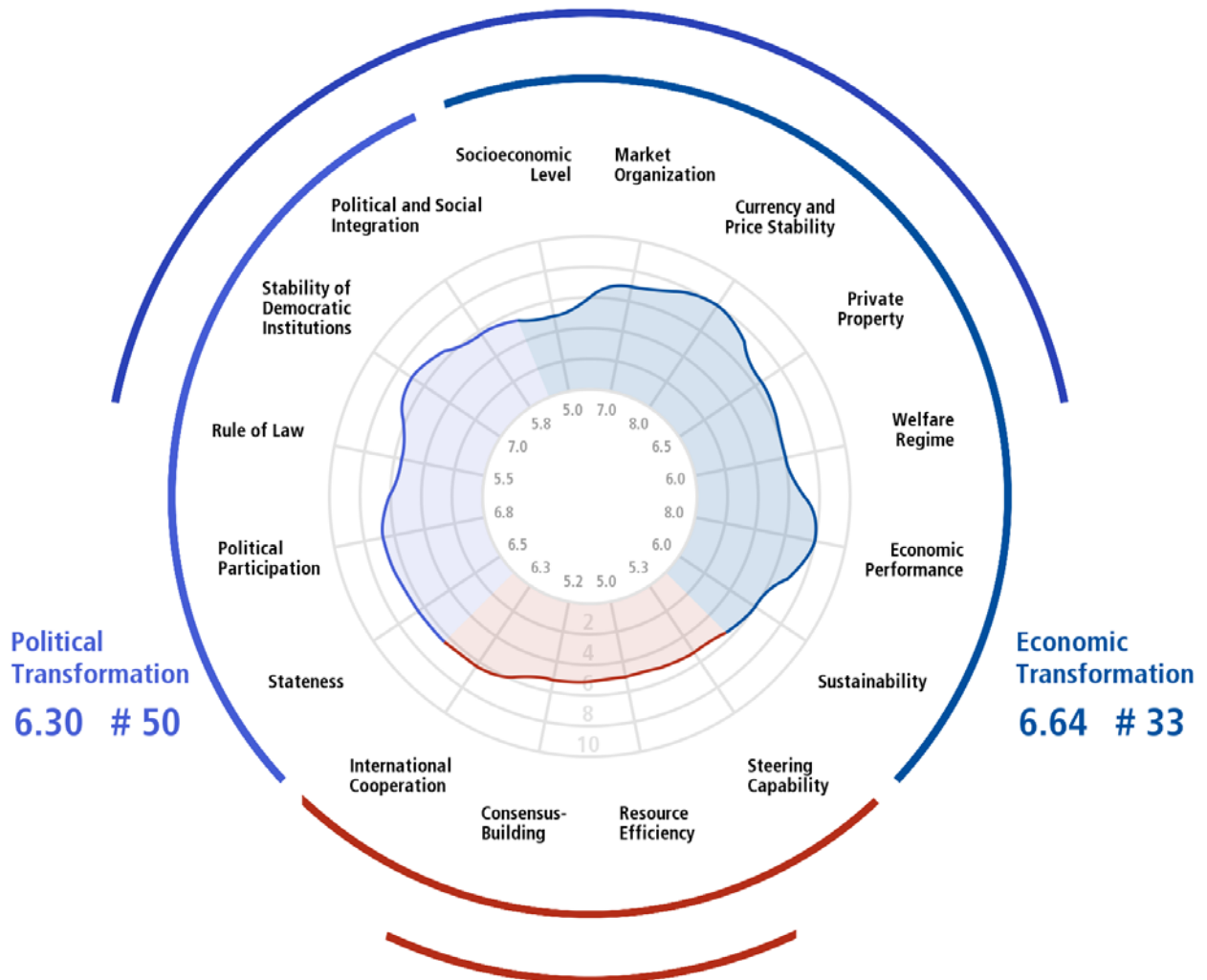


Philippines

Status Index

6.47 # 38

on 1-10 scale out of 129



Governance Index

4.90 # 69

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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	103.3	HDI	0.682	GDP p.c., PPP \$	7806
Pop. growth ¹	% p.a.	1.6	HDI rank of 188	116	Gini Index	40.1
Life expectancy	years	69.0	UN Education Index	0.650	Poverty ³	% 33.7
Urban population	%	44.3	Gender inequality ²	0.436	Aid per capita \$	5.1

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The election of former Davao mayor Rodrigo “Digong” Duterte as president in May 2016 has brought new dynamics into the Philippines’ political system. With a series of drastic reform proposals (e.g., introduction of federalism and a parliamentary system of government, change of foreign policy orientation), he intends to make the country more fit for future challenges. At the same time, human rights and civil liberties declined dramatically as thousands of people have been extra-judicially killed by police units and vigilantes in Duterte’s self-declared war on drugs and criminality. Domestic and foreign critics of these policies were insulted and threatened by the new president. His controversial statements about the introduction of martial law, extra powers for the president and the abolishment of Congress and the Supreme Court (if they are too recalcitrant) are in no way in compliance with values of a liberal democracy. Together with the extending of the powers and the immunity of the military and the police forces, these are clear indicators of a turn toward a more autocratic system.

Prior to President Duterte, the quality of democracy in the Philippines has already stagnated or even slightly deteriorated in the last years of the Aquino administration. Although Benigno “Noynoy” Aquino was widely perceived to be personally honest, a series of scandals and lack of institutional reforms undermined the reformist narrative of his administration. Duterte, who had no previous national-level political experience, was able to build upon his image as a decisive law-and-order strongman in Davao to create a successful campaign based on the merciless fight against criminality and drugs.

Despite all the political turbulence, the economic situation of the Philippines continued to be rather positive. The country’s economy is one of fastest growing in East and Southeast Asia, with GDP growth rates of around 6%. 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 regarded by investment bankers and rating agencies as a promising and stable emerging market.

Nevertheless, economic growth was not feasible for many people in the Philippines, and still about one-third of its population live below the poverty line of \$1.25 per day. Without an effective welfare state system, mass emigration is thus still highly popular.

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

The extent to which Duterte can challenge these structures of economic and political domination will determine the relative stability of his presidency. His critics and political adversaries, propped up by these oligarchic interests, will continue to undermine his government. The result could be pernicious political polarization that will not only dampen the optimism associated with economic success but also political gains achieved so far.

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, since in terms of industrialization, economic potential and public education the Philippines was one of the most advanced countries in Asia. In September 1972 then-President Ferdinand Marcos declared martial law and imposed a military-backed dictatorship. He drastically reduced civil and political liberties, closed down Congress and many universities, and ordered the arrest of opposition figures. Additionally, he confiscated enterprises and re-distributed them among his family, his cronies and the military, whose personnel quadrupled. The national economy suffered not only from mismanagement due to Marcos' crony capitalism but also from rampant corruption and a huge increase in foreign debts.

After the assassination of one of the most important opposition figures, Benigno "Ninoy" Aquino (the father of former president Benigno Simeon Aquino) in June 1983, resistance against the authoritarian regime gained momentum. In early 1986, mass demonstrations in the name of "people power" led to end of Marcos' authoritarian rule and the re-introduction of democracy.

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

Her successor Fidel Ramos (1992-1998) 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 development program provided a period of economic growth and political stability, even though the Philippines were already lagging economically behind other East and Southeast Asian countries. The next two presidents, Joseph “Erap” Estrada and Gloria Macapagal-Arroyo (GMA) eroded the fundamentals of democracy in the Philippines. Estrada, whose presidency was troubled by allegations of abuse of power, a lavish lifestyle and corruption was eventually ousted by mass demonstrations, called “people power II,” and the Supreme Court inaugurated GMA as his successor in 2001. Three years later, despite serious charges of fraud in the course of the 2004 presidential election, Arroyo was re-elected to a full six-year term. GMA’s nine years in office were characterized by creditable economic performance amid a deepening crisis of legitimacy. She presided over 37 quarters of consecutive economic growth and adeptly steered the economy at the height of the global financial crisis in 2007. However, the economic growth did not impact the majority of the people, since it did not contribute to alleviating poverty or reducing unemployment.

The potential gains associated with positive 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 for government actions, a growing number of human rights violations against regime opponents (extrajudicial killings), and money politics to co-opt potential partners. GMA more and more relied on the military to stay in power as mass demonstrations against her shook the country and many of the political and economic elites turned away from her. Pure regime survival drove the end of her administration as she faced a permanent gridlock with the Senate majority, not only on legislation but also on the state budget, and a political standstill for several years.

In June 2010, Benigno “Noynoy” Aquino was elected president, with a six-year term, by a large vote margin. His presidency led to stabilization of the democratic system and remarkable macroeconomic growth. Necessary reforms to improve the living standard of a large part of the fast-growing population, however, were not successful. In May 2016, the mayor of Davao, Rodrigo Duterte, was elected as the new president. He succeeded with a law-and-order campaign with a particular focus on the eradication of drug abuse and dealing. In his first six months in office, Duterte achieved a high level of support among the Philippine population, but his controversial and outspoken style of government raised a lot of criticism inside and outside of the Philippines.

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 state claims to have the monopoly on the use of force in the entire territory, but in fact the Philippines is a rather weak state, at least compared to other Southeast Asian countries. Due to its vast and archipelagic structure, it is difficult for the central government in Manila to effectively govern the whole country. Local clans and in some areas, particularly in Mindanao, even warlords are the de facto rulers in their territories. Very often, they employ private armies which take the law in their own hands. Additionally, there are territories which are under de facto control of communist insurgents and Moro separatist groups.

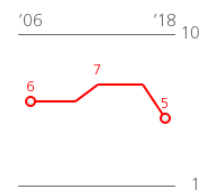
The state's monopoly on the use of force was further eroded after Rodrigo Duterte was elected president in May 2016. Alleged criminals associated with the illegal drug trade were hunted not only by official police units but also by vigilante groups operating outside of the official legal system. By January 2017, more than 6,000 people have been killed as alleged drug dealers or consumers, with many of the perpetrators allegedly corrupt members of the police or vigilante groups. A considerable number of deaths were from legitimate police operations that used lethal force against suspected criminals. The Duterte government refused to investigate these killings and thus contributed to the uncertainty surrounding the perpetrators of the killings.

Despite its multiethnic and multilingual composition, the large majority of citizens stand behind the concept of the nation-state as outlined in the 1987 constitution. Access to citizenship is not denied to any particular group. Resistance stems only from some ethnic and religious minorities, particularly from many Muslims in Mindanao who see themselves more as Moro (the Spanish word for Moor, the Reconquista-period term used for Muslims) than Filipino. Therefore, they adhere to the idea of Bangsamoro (Moro nation). In March 2014, the government of the Philippines signed a Comprehensive Peace Agreement (GPH) with the Moro Islamic Liberation Front (MILF) and created an autonomous region with the name

Question
Score

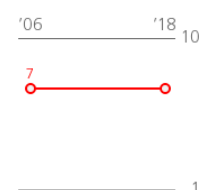
Monopoly on the
use of force

5



State identity

7



“Bangsamoro” on the Western parts of the island of Mindanao and adjoining smaller islands of the Sulu Archipelago. However, Congress did not approve this agreement. At the end of 2016, President Duterte created the so-called Bangsamoro Transition Commission (BTC) in order to negotiate a similar peace agreement with the MILF and other relevant Bangsamoro actors. President Duterte is also planning to amend the constitution in order to introduce a federal system of government. This step, however, will most probably not affect the cohesiveness of the nation-state.

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

Officially, the principle of separation of church and state is stated in Article II, Section 6 of the 1987 constitution. However, the mentioned Christian churches are supported by millions of Philippine citizens and their political influence cannot be underestimated.

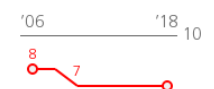
For decades, fierce opposition by most Christian groups hindered the passing of the Reproductive Health Bill in Congress. It aims to provide contraceptives, information on family-planning methods at public health centers and comprehensive reproductive health curriculum in schools. National surveys showed that more than 70% of Filipinos supported the bill, but public pressure from the churches prevented the bill for a long time, until it was eventually passed by Congress and signed into law by ex-President Aquino in December 2012. The president of the Catholic Bishops' Conference has several times threatened to excommunicate Aquino. Current President Duterte supports family planning and got into conflict with representatives of the Catholic church.

The Philippines' strong influence of conservative Christian values can also be seen in the issue of divorce. Apart from the Vatican state, the Philippines is the only country in the world without a divorce law. For many years, House Bill 4408 allowing divorce under very strict conditions has been debated in the Philippine Congress, but Catholic resistance has so far prevented the passing of that bill. President Duterte has expressed willingness to adopt progressive social policies like LGBT rights, divorce and full implementation of the reproductive health (RH) law. He has called the Catholic Church a hypocritical institution.

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

No interference of religious dogmas

7

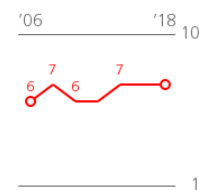


1

Basic administration

7

As pointed out in criterion 1.1, 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. Communication, transport and basic infrastructure (water, education, and health) are usually provided everywhere in the Philippines, but particularly in rural areas the quality is often quite low.

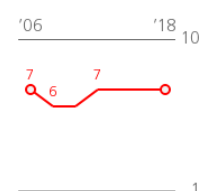


2 | Political Participation

Since 1992, general elections are held regularly every six years (president) and every three years (half of the Senate, House of Representatives, governors and mayors) in a synchronized manner. The last presidential elections took place in May 2016, simultaneously with the elections for the Senate and the House of Representatives and additional provincial and municipal elections.

Free and fair elections

7



The elections are competitive and political posts are filled according to election outcome. Elections are conducted with a plurality (or first-past-the-post) election system which favors well-known and affluent candidates. For generations, political dynasties control their constituencies and, taken together, national politics.

One-fifth of the House of Representatives is elected through a closed party-list proportional representation electoral system. The electoral management and particularly vote counting of the commission on elections (COMELEC) was previously fraught with manipulations and irregularities. The automated ballot-counting system introduced for the first time in the 2010 elections has improved the fairness of the general elections. In the 2016 elections, the automated system allowed a determination of clear winners for the presidential and vice-presidential elections in 24 hours after voting ended.

Election-related violence is a common feature in the Philippines. According to statements of the Philippine National Police the 2016 election campaign season was slightly more violent than that in recent years. More than 50 people were killed, including elected government officials, police, military, civilians and some local candidates.

Particularly in rural areas, where local clans effectively rule, vote-buying and intimidation occur quite often. There are also cases in which polling stations run out of ballots or ballot boxes go missing. There are also allegations that computers have been manipulated to change results. These deficiencies, however, do not have a decisive impact on the overall outcome of election results. Therefore, the 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, there are some informal veto players, still powerful enough to restrain executive actions. This refers to the about 60 very powerful political clans who dominate the local and national political arena. Another potential veto player is the Armed Forces of the Philippines whose subordination under civilian authority is only conditional. Some parts of the army leadership still keep the right to interfere with the elected government if they believe the unity and stability of the nation to be threatened. This is bolstered by powerful networks between active and retired military officials and politicians. The effectiveness of the government's power is not impeded by foreign actors.

Article III of the constitution (bill of rights) guarantees the freedom of association and assembly. These rights are generally accepted and used by many Filipinos. Many organizations working on a huge variety of issues exist. However, due to relatively weak state structures and powerful non-state actors, violence against people who make use of their constitutional right to assemble is still a major problem in the Philippines.

The Aquino administration (2000-2016) has improved the enforcement of freedom of association and removed restrictions, which were imposed by the previous administration of Gloria Macapagal-Arroyo. The current government under President Duterte, however, returned to a more authoritarian style of leadership making use of intimidation, harassment or threats of retaliation. Many NGOs that are critical to the government, particularly on Duterte's human rights violations in the war on drugs, have received death threats and are bullied in public, particularly in social media. In a public statement President Duterte said that human rights defenders are part of the drug problem and as such, human rights advocates should be targeted too.

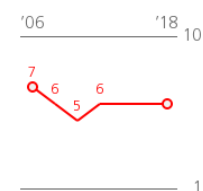
In general, the freedom of opinion is guaranteed in the Philippines. The country enjoys a relatively high degree of media freedom, particularly in comparison to other states in Southeast Asia. Most print and electronic media outlets are privately owned and present a wide variety of views.

The Freedom of the Press report of the year 2016 from Freedom House ranked the Philippines 87 out of 197 (87 in 2014, 88 in 2012). Reporters Without Borders is more critical and ranks the Philippines 138 out of 180 in their 2016 worldwide index (149 out of 180 in 2014) and stated that the Philippines is second only to Iraq as the deadliest country for journalists and other media people, with 76 work-related killings since 1992.

In the 2015 impunity index of the New York-based organization Committee to Protect Journalists (CPJ), the Philippines retained its third-place ranking behind Iraq and Somalia. The index noted that there were 51 unsolved murders of journalists in the Philippines from 2004 to 2013. However, it has to be underlined that it is not the

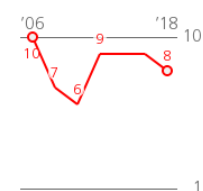
Effective power to govern

6



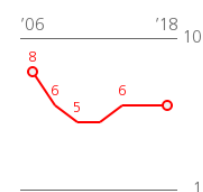
Association / assembly rights

8



Freedom of expression

6



state that is responsible for the violence but rather local strongman and criminals, coupled with the weakness of the state authorities.

A questionable law in the terms of freedom of opinion is the Cybercrime Prevention Act of 2012, which could be used to criminalize any speech critical of the government or other state authorities. In practice, however, the provisions of the Cybercrime Prevention Act have not yet been applied in a major court case.

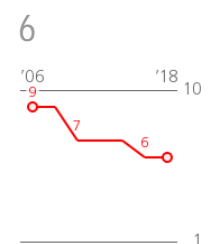
President Duterte has shown an ambiguous stance on media freedom. In June 2016, he told reporters that there was justification for killing journalists who took bribes or engaged in other corrupt activities. In October 2016, he signed Administrative Order No. 1, creating the Presidential Task Force on the violation of the right to life, liberty and security of members of the media. Duterte has also issued an executive decree mandating freedom of information within the executive branch, pending a law that Philippine Congress was unable to pass in previous years.

3 | Rule of Law

The Philippines has a presidential system of government with a clear separation of powers. In practice, however, various problems with the intended system of checks and balances have emerged. The executive-legislative relations, which had been in a permanent conflict and gridlock situation in the last five years of the GMA administration, are now running more smoothly under the Aquino and Duterte administration. The revitalization of the LEDAC (Legislative-Executive Development Council) as a coordination tool for presidential and congressional activities had a positive effect. The main reason, however, for improved cooperation is that both administrations controlled and control a stable majority of both houses in Congress.

In 2014, a clash between the president and the judiciary emerged when the Supreme Court declared parts of ex-President Aquino's controversial Disbursement Acceleration Program (DAP) unconstitutional. Aquino heavily criticized the Supreme Court and thereby undermined its legitimacy. President Duterte made several statements that he needs additional powers and that the legislative and judicial branches of government should not be hindrances for the implementation of his policies. In accordance with his authoritarian tendencies, Duterte threatened at several occasions to abolish Congress if the legislature wants to block his policies. His plans to amend the constitution to include the introduction of a parliamentary system of government which would reduce the separation of powers between executive and legislative. Duterte's political coalition controls both chambers of Congress and will also appoint a considerable number of justices to the Supreme Court. Whether or not this means concentrating de facto power in the executive is something that remains to be seen.

Separation of powers



The judiciary in the Philippines is formally independent. However, in practice, bribes of rich and powerful persons have frequently 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 the problems of bribery and interference in court proceedings by government officials and military personnel at all levels. Another problem is the extremely long time taken for court proceedings. A prominent example is the Maguindanao massacre, which happened in November 2009 and whose court process is still ongoing in early 2017.

Concerning the Supreme Court, the main critical point for judicial independence is the current appointment practice of judges by the president (after a proposed list of candidates is presented by the Judicial and Bar Council).

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

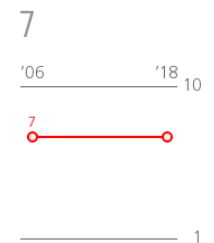
In November 2011, former President Macapagal-Arroyo was arrested following the filing of criminal charges against her for electoral fraud. She was in custody at the Veterans Memorial Medical Center in Manila until 2016 when President Duterte took over and released her.

In 2014, three prominent senators (Jinggoy Estrada, Juan Ponce Enrile and Ramon Revilla Jr.) were arrested for their part in the alleged misuse of more than \$230 million in public money. Despite the prosecution of these high-level cases, the overall number of punishments for power abuse and corruption is still quite limited. The anti-corruption drive of Aquino was seen as selective as some of his party mates implicated in the pork barrel scandal were not held accountable.

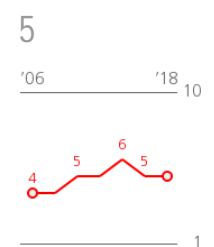
President Duterte promised in his election campaign to take a tough stance on corruption, but so far, no major arrests have taken place. On the contrary, major corruption suspects such as former president Gloria Macapagal-Arroyo, were released from custody. The president also was responsible for giving effective immunity for policemen and vigilante groups involved in the killing of more than 6,000 alleged drug dealers in the second half of 2016.

An exemplary case is the murder of Leyte Mayor Rolando Espinosa who was shot while in police custody in December 2016. President Duterte stated that he could not “sacrifice” the responsible policemen, and investigations into the murder were stopped.

Independent judiciary



Prosecution of office abuse



De jure, the protection of personal liberty against state and non-state actors is guaranteed in Article III of the Philippine constitution. De facto, there are still a lot of problems, particularly with the number of extrajudicial killings and violence against political opposition that has increased significantly after President Duterte took over. There is no systematic discrimination against women, ethnic or religious groups in the Philippines.

However, the overall situation of civil rights is still troublesome. Members of the powerful Ampatuan clan, which allegedly have been involved in the so-called Maguindanao massacre in 2009 are still on trial. Many witnesses of this crime, who signaled their willingness to cooperate with state authorities, have been killed since then. Amnesty International therefore demands the establishment and the provision of resources for a specialized program for witness and victim protection, under the national Commission on Human Rights.

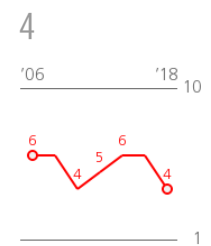
The strengthening of the powers of the national police and their de facto immunity given by the Duterte administration have negative effects for the civil rights. Without improving their professionalism and accountability and imbuing respect for human rights, giving the police free rein to curb criminality will have negative repercussions. On several occasions, President Duterte also threatened human rights group activists who criticized his take-no-prisoner tactic against illegal drugs.

4 | Stability of Democratic Institutions

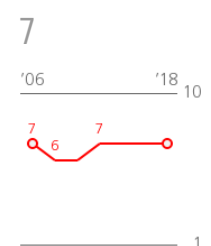
The performance of democratic institutions is sub-optimal. President Duterte's leadership style is rather authoritarian, whereas ex-President Aquino's often rather indecisive leadership style left many political and social problems untouched. Congress on the other hand is dominated by members of the powerful political clans and does not have much interest in reforming the current political status quo. Both institutions, however, are now less occupied with extensive and counterproductive power struggles than in the 1990s and 2000s. Nevertheless, the extremely time-consuming procedures in Congress hamper governmental effectiveness. Several important bills are delayed or debated for more than five or ten years. The number and the quality of legislative outputs are not sufficient to significantly tackle the socioeconomic problems of the country.

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

Civil rights



Performance of democratic institutions



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

President Duterte and many of his followers have a rather formal electoral, rather than libertarian, understanding of what constitutes a democracy. Hence, there are some authoritarian tendencies to observe which include the reduction of civil and political liberties.

5 | Political and Social Integration

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

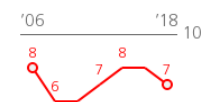
After the 2016 Congressional elections, dozens of members of the previously ruling Liberal Party switched to the party of the new president, the PDP-Laban, whose candidates originally had only three seats but then became the biggest party in the House of Representatives after the huge party-switch. Thus, the political parties are able to articulate and aggregate societal interests in very limited way. They are rather vehicles used by powerful individuals.

In the Philippines, a huge number of interest groups and organizations work as mediators between society and the political system. Since there are no corporatist structures, all of these groups and organizations compete for political influence. As in all other political systems, the access to financial resources is quite unequal between well-off business associations and nonprofit civil liberty groups.

Whereas the Aquino administration had relatively good connections to various social groups and organizations, the relationship between the Duterte administration and NGOs, trade unions and social movements is rather strained. Representatives of business groups but interestingly also the leadership of the radical left enjoy, however, relatively good access to the current president and his administration.

Commitment to democratic institutions

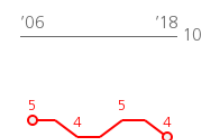
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Party system

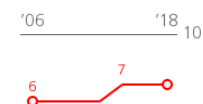
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Interest groups

7



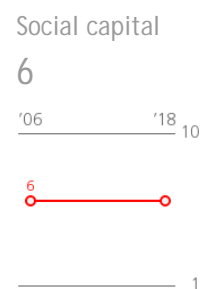
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The approval of the democratic system and that of democratic institutions is quite high in the Philippines. Traditionally, support for democracy is among the highest in democratic East and Southeast Asia. The number of Filipinos who are satisfied with how democracy works in the Philippines has reached a new record-high during the first six-months or so of the Duterte administration, as a survey by the Social Weather Stations (SWS) revealed in December 2016. The survey showed that 86% of Filipinos are satisfied with the democratic setting, six percentage points higher than the previous record-high of 80% in June 2013, and seven percentage points higher than what was recorded during the previous survey in June 2016.



In the same survey, 62% of the respondents said “democracy is always preferable to any other kind of government.” Meanwhile, 19% said they “sometimes prefer authoritarianism” and 18% said “it does not matter whether we have a democratic or a non-democratic regime.” At the same time, several more recent studies show, that the understanding of democracy by Filipinos focuses very much on elections and questions of political performance, and not so much on aspects such as civil and political rights or the rule of law (that is, the liberal ingredients of democracy)

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.



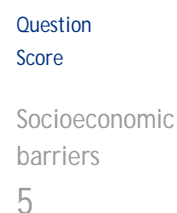
Utang na loob (reciprocity), meaning the obligation to appropriately repay a person who has done one a favor, is a common Filipino cultural trait as well as pakikisama (togetherness). Pakikisama refers to the ability of a person to get along with others to maintain good and harmonious relationships.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

Social life in the Philippines is structured to a high degree by many social organizations which are mostly voluntary and autonomous.

II. Economic Transformation

6 | Level of Socioeconomic Development

According to the latest published information from the National Statistical Coordination Board (data from the first half of 2015, published in March 2016), 26.3% of the Philippine people live below the poverty line. The cited report used, for the first time, income data from the Annual Poverty Indicators Survey (APIS). The subsistence incidence among Filipino families, or the proportion of Filipino families in extreme poverty, was estimated at 9.2% during the first semester of 2015. A 2016



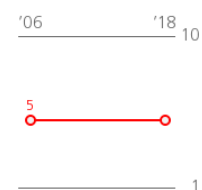
Social Weather Stations Survey, conducted from September 24 to 27, 2016, however, found that 42% (estimated 9.4 million) of families consider themselves as Mahirap or poor. Two years earlier, the numbers were substantially higher with 55% and 12.1 million.

With a value of 0.668, the Philippines reached medium human development level in the latest Human Development Index of the United Nations (2015). In the last three years, the value has increased slightly from 0.63 in 2012. The Philippines are currently ranked 115 out of 188 countries and below the average of the East Asian and the Pacific countries.

The level of social exclusion due to poverty is still high and the gap between rich and poor is not closing but getting wider in recent years. With a value of 43.0 (2012) the Philippines are in a medium position in the Gini index of the World Bank 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 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 Western countries whereas in rural areas, violence against women by their husbands is still common. In the most recent Gender Gap Index (2016) of the World Economic Forum the Philippines reached a remarkable seventh position (top position in Asia and before Germany at position 13, United Kingdom 20, USA 45). In the U.N. Gender Inequality Index (2013), the Philippines, with a value of 0,406 and rank 78, is slightly 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		2013	2014	2015	2016
GDP	\$ M	271836.1	284584.5	292774.1	304905.4
GDP growth	%	7.1	6.1	6.1	6.9
Inflation (CPI)	%	3.0	4.1	1.4	1.8
Unemployment	%	7.1	6.6	6.3	5.9
Foreign direct investment	% of GDP	1.4	2.0	1.9	2.6
Export growth	%	-1.0	12.6	8.5	10.7
Import growth	%	4.4	9.9	14.6	18.5
Current account balance	\$ M	11383.5	10755.9	7265.7	600.7



Economic indicators		2013	2014	2015	2016
Public debt	% of GDP	39.3	36.4	36.2	34.6
External debt	\$ M	66202.0	78558.7	80622.7	77319.2
Total debt service	\$ M	5851.6	6103.9	7922.1	10532.5
Net lending/borrowing	% of GDP	-1.2	-0.5	-1.3	-
Tax revenue	% of GDP	13.3	13.6	13.6	-
Government consumption	% of GDP	10.8	10.6	10.9	11.1
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	1.4	1.6	-	-
R&D expenditure	% of GDP	0.1	-	-	-
Military expenditure	% of GDP	1.2	1.1	1.1	1.3

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

For decades the Philippines' economic output lagged behind its neighbor countries and is just about to pick up pace now. Two reasons are certainly 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 low investment to GDP ratio compared to neighboring countries and the high market concentration in several sectors.

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

One hindrance is the inefficient bureaucracy that regulates and allows investments and business operations in the country. Even if there are legal assurances for

Market-based competition

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competition, bureaucratic red tape and lack of institutional autonomy of its regulatory agencies increases the risk of doing business in the country. Red tape is also a major source of corruption in the country.

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.”

Nevertheless, the enforcement lacks decisiveness, due to vague formulations, overlapping competencies between several involved agencies and the strong ties between the economic and political elites.

The “Philippine Fair Competition Act,” patterned after the main antitrust laws in the United States came into effect in July 2015, is intended to ensure efficient and fair market competition among businesses engaged in trade, industry and all commercial economic activities.

It prohibits anti-competitive agreements, abuse of dominant positions, and mergers and acquisitions that limit, prevent and restrict competition. There is some hope that the Philippine Competition Act is a useful tool to eliminate cartels, as well as penalize anti-competitive agreements and abuses of dominant players in the markets that lead to high prices of goods and services.

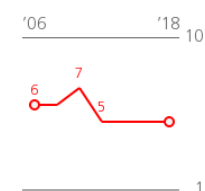
The Duterte administration is willing to open strategic sectors to foreign competition. This requires changing the economic provisions in the 1987 constitution.

The Philippines always supported a free-trade and non-protectionist foreign trade policy. The Duterte administration did not change this old tradition. The Philippines’ membership in the ASEAN Economic Community already eliminated tariffs on approximately 99% of all goods for ASEAN trading partners, with some exceptions for sensitive goods. However, there are still import quotas for rice and some other food products. Aside from bilateral free-trade agreements tariffs average 10.2% on agricultural products and 5.8% on non-agricultural products, with no major changes since 2005

There are several limits to ownership for foreign investors, such as in natural resource exploration, operation and management of public utilities or education institutions. Sectors of strategic importance, notably agriculture, fishery and several services are generally restricted. The Duterte government has announced certain sectors will be slowly opened up for foreign investment, for example in manufacturing and established “preferred areas,” accompanied by tax and other incentives. Thus, in the category of market access the Philippines achieved position 22 out of 138 countries with a score of 5.0 in the Global Enabling Trade Report 2016 of the World Economic Forum (down from 11 with a rating of 4.6 in 2014). In the category domestic market

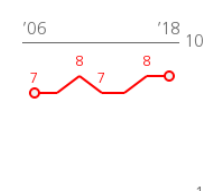
Anti-monopoly
policy

5



Liberalization of
foreign trade

8



access the Philippines rank 22 out of 138 countries with a score of 5.6 (19 and 5.6 in 2014).

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

The Philippine banking system presents itself as well-capitalized and resilient against the stiff headwind in the global economy. At the end of December 2015, the consolidated capital adequacy ratio (CAR), which displays a bank's risk weighted credit exposure, averaged at 14.91%. This is well above the Basel III standard of 8% and the Philippine central bank (Bangko Sentral ng Pilipinas, BSP) even increased the reserve requirements for universal and commercial banks in May 2014 to 10%. The Basel III framework was applied in January 2014.

The Philippine banking system's gross non-performing loan (GNPL) ratio stood at 2.2% as of end-March 2016, an improvement relative to the 2.5% posted a year-ago, but slightly higher than the previous quarter level of 2.1%. Meanwhile, the net non-performing loan ratio increased slightly to 0.8% relative to the 0.7% posted a year – and 0.6% a quarter – ago. Domestic liquidity increased by 8.3%, supported by the sustained expansion in credits of the commercial banks extended to the domestic economy. The banking system profited from a booming economy and the BSP's expansive monetary policy.

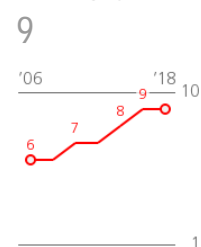
The total resources of the banking system grew by 10.1% to PHP 12.5 trillion as of end-March 2016 from the year-ago level of PHP 11.4 trillion, and by 0.9% from the PHP 12.4 trillion level posted a quarter-ago. As a percentage of GDP, total resources stood at 92.5%.

8 | Currency and Price Stability

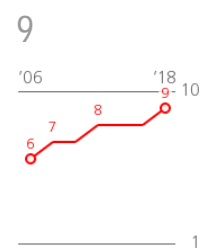
The Philippine central bank, which is considered quite independent from the government, described the current state of the Philippine economy as “the ideal convergence of high economic growth and low inflation.” Between 2010 and 2014 inflation rates between 3-5%, were already relatively low, bearing in mind that the GDP expanded by more than 6% during this period. In 2015 and 2016, the inflation rate was again very low with 1.4% and 1.6%.

In 2016, the Philippine central bank decided to maintain its key policy interest rates at 4% for the overnight borrowing or reverse repurchase agreement (RRP) facility and 6% for the overnight lending or RRP facility. These policy decisions were based on the BSP's assessment of a manageable inflation outlook and robust growth conditions.

Banking system



Anti-inflation / forex policy



Between 2015 and 2016, the Philippine peso depreciated against the U.S. dollar. The weakness of the peso was – according to the Philippine central bank – due to the risk aversion toward emerging market assets arising from concerns on the Chinese economy and declining oil prices. A lower exchange rate, however, encouraged exporters to increase their shipments and boosted Philippine export of goods and services to the United States.

The foreign exchange reserves of the Philippines continued to strengthen, hitting a new all-time high of \$85.9 billion in August 2016.

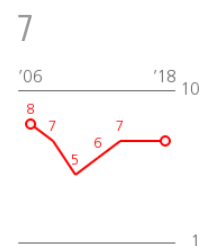
All three major rating agencies recognized improving economic conditions in the Philippines. Moody's upgraded the Philippines government's sovereign credit rating to Baa2 in 2014 or two notches above the "junk" status that the country held just two years ago.

Standard & Poor's gave the country a similar rating in 2014, but cautioned in the second half of 2016 that a higher rating is unlikely in the near future, since the president's policy pronouncements on foreign policy and national security has diminished the stability and predictability of policy-making. Still, S&P chose to affirm the country's credit rating of BBB/A-2, with a stable outlook, judging that the policy unpredictability was offset by the Philippines' strong economic fundamentals and fiscal settings.

On the revenue side, an improved tax administration (introduced by the Aquino administration) as well as the booming economy resulted in 2015 in a total revenue collection increase of 18 % compared to 2013. Nevertheless, the tax revenue to GDP remains low at 14.4%. The Aquino presidency has effectively reduced the fiscal deficit. In 2010, the deficit was at 3.5 % of GDP, but could be reduced to 0.9% in 2015. The Duterte administration has announced that it would set a higher fiscal deficit target (around 3% of the GDP) in 2017 to boost state spending. It also has indicated a desire to restructure the current income tax system by increasing taxes on products like tobacco, soda and other goods considered as unhealthy.

Furthermore, the public debt inherited from the authoritarian Marcos dictatorship was reduced to 45% of GDP in 2015, down from 79% in 2005. Also, interest payments, which accounted for nearly a third of state spending in 2005, are down to a seventh in 2014. Compared to other countries in the region, the Philippines are thus not highly indebted.

Macrostability



9 | Private Property

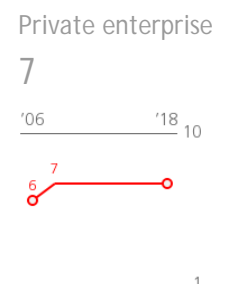
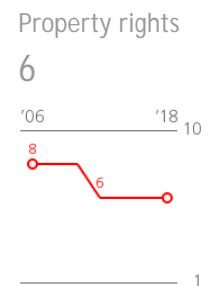
Although the constitution provides a legal framework for private property rights, enforcement remains complicated. Outdated and conflicting laws result in hindered coordination between administering agencies, allow for arbitrariness and corruption, increase transaction costs and consistently lead to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

In the World Bank's Doing Business Report 2017, the Philippines improved slightly, not least due to the reduction of corruption in customs matters. The country could improve its performance as well in the building quality control index by increasing the transparency of building regulations. For example, the Department of Building Official Services of Quezon City updated its website to list the required preapprovals needed to obtain a construction permit. Additionally, it introduced online filing and payment of health contributions in April 2015.

Despite these improvements, the country ranks 99 out of 189 (95 in 2015), well below its regional neighbors (Malaysia 23, Thailand 46, Indonesia 91).

The result is explained by the lagging implementation of regulatory reforms. The economic boom might have revealed some administrative bottlenecks, too. The major constraint for micro, small and medium enterprises, which employ 98% of the workforce mainly in the agricultural, trade, hotel and restaurant sector, 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 mentioned high concentration in several sectors of the economy constitutes an additional barrier to under-capitalized enterprises.

The government continued to promote public-private-partnerships (PPPs), in order to attract new investors, tackle bottlenecks in the infrastructure with a faster pace and privatize some of the remaining state-owned enterprises. The Duterte administration seeks to combine PPPs with purely government projects in order to fast-track infrastructure building.



10 | Welfare Regime

Social safety nets are still considerably underdeveloped.

Most Filipinos rely on support from family (particularly remittances from relatives living overseas) or village structures.

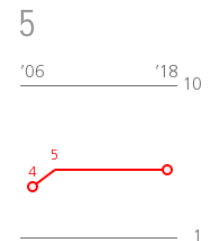
The main instrument of the state's social safety system is the conditional cash transfer (CCT) program (Pantawid Pamilyang Pilipino Program; 4Ps), which was launched by the previous administration in 2007. Ex-President Aquino and current President Duterte continued the CCT program but did not start major new social safety policy initiatives.

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

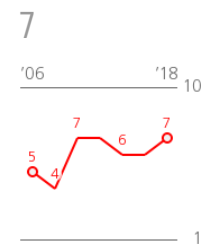
The Philippines is ranked seven out of 135 countries in the 2014 Global Gender Gap Index with a score of 0.786, the highest among Asian countries and close to the leading Scandinavian group. The index covers economic participation and opportunity, educational attainment, health and survival and political empowerment. In categories regarding education the Philippines even exceeds equality: The literacy ratio is at 1.01, enrollment in primary education at 1.04, in secondary education at 1.19 and in tertiary enrollment 1.28, respectively. Women constitute 61% of the country's professional and technical workers. Nevertheless, the study also reveals, that Filipino women earn just 80% of the men's income. Despite the remarkable state of gender equality regarding education and health care, there is still room for improvement in the socioeconomic and political context and effective enforcement of existing women empowerment laws, respectively.

As mentioned under indicator 6.1, large income disparities as well as a high poverty rate constitute severe constraints on the social and political participation. However, the government is about to tackle the worst via its quite successful Conditional Cash Transfer Program. Furthermore, the geographic nature of the archipelago as well as underdeveloped infrastructure in rural regions will remain a significant challenge for socioeconomic disparities. The critical situation of indigenous groups which have

Social safety nets



Equal opportunity



experienced consistent marginalization and land-grabbing has not improved in recent years.

Under the Duterte administration, Republic Act 10911 was passed, which penalizes employers who refuse to hire workers because of their advanced age. This is a significant step in implementing anti-discrimination in employment. A pending bill on anti-discrimination based on SOGIE (sexual orientation or gender identification/expression) is currently filed in Congress.

11 | Economic Performance

Once known as the “sick man of Southeast Asia,” the Filipino economy has performed relatively well since the late 2000s. Despite a difficult global environment, the Philippines were one of the fastest growing economies in East Asia. GDP is expected to grow up to 7% in 2016, after 5.9% in 2015 and 6.2% in 2014. The World Bank forecasts a 6.2% GDP growth for 2017. Growth was largely driven by robust private and public consumption, the booming business process outsourcing (BPO) industry and a probably overheating construction sector.

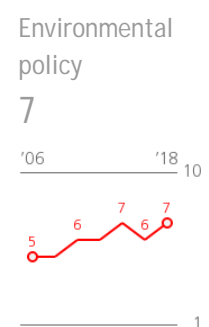
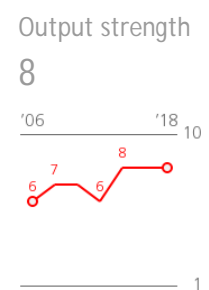
Additionally, strong overseas remittances boosted domestic consumption. In the first half of 2016, Overseas Filipino Workers (OFWs) remitted \$14.6 billion to the country representing a 3.1-% rise year-on-year.

Inflation remained very low at 1.6% in 2016 and 1.4 in 2015, respectively. According to the National Statistics Office the employment rate in December 2016 was estimated at 94.5%. According to the same statistics, 2.367 million Filipinos were unemployed in December 2016, most of them male (62.8%) and between 18 and 24 years old (48.4%). The number of underemployed people reached 18.3 million people of a complete workforce of 68.125 million persons.

12 | Sustainability

In the latest Environmental Performance Index (EPI) 2016 the Philippines made a huge jump from position 114 (2014) to position 66 out of 180 countries in 2016. The EPI scores and ranks countries on the basis of two areas: environmental health, which measures the protection of human health from environmental harm, and ecosystem vitality, which measures ecosystem protection and resource management.

Over a 10-year period between 2004 and 2014, the Philippines improved slightly according to EPI data. It showed a 20.21% improvement in access to drinking water and sanitation; 11.8% in the reduction of agricultural subsidies; and 10.38% in child mortality. The country also managed to reduce its carbon dioxide (CO₂) emissions.



For the period 2000 to 2010, the country reduced its emissions of CO₂ per kilowatt hour of electricity produced by 2.35%. Fish stocks, however, declined by 25.63%.

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

It is remarkable that more than 25% of the Philippines' electrical energy is from renewable energy sources. Particularly, geothermal energy production is one of the highest in the world.

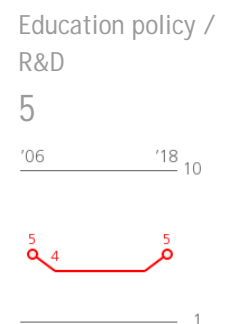
After assuming office, President Duterte appointed the respected environmental activist Gina Lopez as Secretary of Environment and Natural Resources. She has so far played a positive role in protecting the environment, particularly by strictly regulating the extractive mining sector. She has already invalidated several contracts with transnational mining companies who did not comply with environmental standards.

President Duterte has expressed misgivings about the 2015 Paris Accords (COP21) on climate change. He was convinced by his cabinet, however, to honor the commitment made by previous Philippine governments.

In the last years, the Philippines changed its school system. Beside an overhauled curriculum, the basic education program was extended by two years to a compulsory 12-year period for every 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 suffer from the skilled workers' tendency to immigrate to higher-income countries.

The Aquino administration (2010-2016) significantly increased the public education funding. The education budget was raised from PHP 293.32 billion in 2014 to PHP 364.958 billion in 2015. However, the public expenditures for education are still too low. With around 3% of the GDP in 2015, it is well below the U.N.-prescribed 6%, the East Asian average of 3.6% and the South Asia average of 3.8%, respectively. With around 35 students per teacher in high school, the Philippines has one of the worst teacher-student ratio at the secondary level of education in Southeast Asia. Philippine investment in R&D remained at a level of 0.14% (2014) of GDP, which is among the lowest in Asia. Several academics but also parts of the business community, demanded that the Philippines invest more in science and technology in order to sustain the economic growth rates.

As in the previous years the education sector received the highest appropriation in the government's budget in 2017. For the first time in Philippine history, the Duterte government will take over the tuition fees for poorer undergraduate students in state universities in 2017. However, funding for research remains at a low level.



Governance

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 more than 100 million inhabitants (from 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 mostly mountainous and an 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. In the last years, the Philippines witnessed several extremely heavy typhoons. The worst of them, Haiyan (Philippine name Yolanda) killed more than 8,000 people in November 2013.

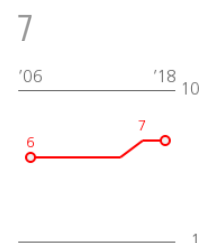
It is obvious that under these geographic and demographic conditions, it is difficult for any government to provide adequate infrastructure and public services (health care, education, etc.) for all parts of the country. Weak state capacity and structurally ingrained social inequality further constrain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

Despite remarkable GDP growth in recent years, the poverty rate is declining only slowly. The very high population growth is one of the reasons. In the last 35 years, the population of the Philippines has doubled from around 50 million in 1982 to more than 100 million in 2016.

Not least due to the prevalent Roman Catholic moral codex, the Philippine population currently increases with a growth rate of around 1.8 million people per year. With a fertility rate of 3.1 (U.N. statistics), the Philippines is the most rapidly growing country in Southeast Asia (except East Timor).

As mentioned in criterion 5.2, the Philippines has a vibrant associational system and the largest number of NGOs per capita in Asia. Institutional factors such as the 1987 constitution and the Local Government Code (the "Decentralization Law") also provide favorable political incentives for the flourishing of civic associations and interest groups.

Structural constraints



Civil society traditions

4

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

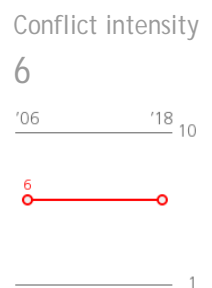
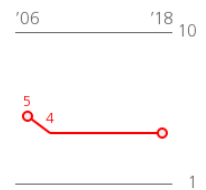
Transparency and frequent public participation lead to relatively high social capital. However, this advantage translates too little into politics, meaning that the dominance of oligarchic clans has been challenged but not yet broken by civil society.

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

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

The conflict in Muslim Mindanao is therefore not only about ethnic and religious reasons. The Eastern parts of Mindanao are the poorest and least developed parts of the country. In addition, local warlords with private armies are responsible for widespread violence. The crime rate is not as high everywhere as in the troubled regions of Muslim Mindanao, but compared to other Southeast countries, the number of conflicts and the use of violence is clearly above average.

The war on drugs and criminality that President Duterte started in 2016 led to extrajudicial killings and human rights abuses, particularly among the poor social classes, and adds another dimension to already existing conflicts.



II. Governance Performance

14 | Steering Capability

Both President Duterte as well as his predecessor Benigno “Noynoy” Aquino prioritized improving the economic conditions and reducing poverty. Both are strong supporters of a market economy. Therefore, President Duterte’s 10-point socioeconomic agenda is not very different to that of his predecessor and includes maintaining current macroeconomic policies to strengthen competitiveness, to advance the infrastructure and to improve the ease of doing business. Both

Question
Score

Prioritization
6

governments set strategic priorities including evidence-based policy-making and working with strategic planning units with the National Economic and Development Authority (NEDA).

President Duterte, however, sees criminality and drug abuse as major hindrances of socioeconomic development in the Philippines. Additionally, he wants to reform existing political structures by introducing a federal and parliamentary system of government.

In general, the current Duterte administration shows a great commitment to reform and has set clear priorities, even if many observers doubt if these priorities are the right ones. The president's missing respect for human rights and his authoritarian leadership style are not compatible with the country's overall strive for deepening democracy.

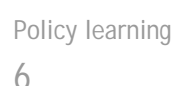
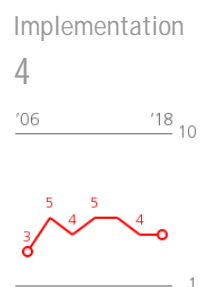
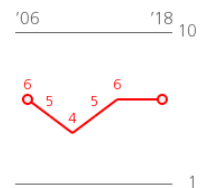
Resistance against some of the reform measures comes from some of the established clans and dynasties which fear that their power and wealth could be endangered. Additionally, resistance against some of the illiberal reform measures of the Duterte administration comes from pro-democratic politicians, civil society organizations and scholars.

Policy implementation is a major problem in the Philippines. Compared to his electoral campaign promises, former President Aquino could only realize a small amount of his projects. For example, the Aquino administration massively invested in public private partnership programs to boost urgently needed infrastructure projects such as highways and public transport between 2010 and 2016. However, most of these programs have been plagued by huge delays in construction.

The passing of the Reproductive Health Bill in 2012 was among the major successes of the Aquino administration in the fight against poverty and overpopulation. This law, however, has not been implemented due to a temporary restraining order issued by the Supreme Court. In January 2017, President Rodrigo Duterte issued Executive Order 12 which is meant to implement the Reproductive Health Act.

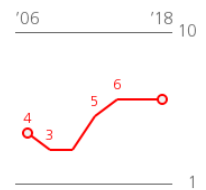
If he does not abolish democracy and the division of power, President Duterte will also have difficulties implementing his ambitious policies with important institutional veto players (such as the Senate and the Supreme Court) and the traditional administrative weaknesses on the ground.

In the rhetoric of leading politicians and technocrats, policy learning is an important part of Philippine policy-making, but the reality is often more sobering. Consequently, it is quite common in Philippine politics that the newly elected administration distances itself from the policies of their predecessors and tries to avoid their mistakes. Ex-president Aquino regarded the GMA government (2001-2010) as corrupt, clientelistic and inefficient. He clearly named the wrongdoings and mistakes from the past and tried a political turnaround. Additionally, he gathered



many reform-oriented academic experts and practitioners around him and tried to alter the policies of his predecessor. Current president Duterte complained about the missing successes and the slow reform pace of his predecessor and tries to speed up the process with questionable means.

The Philippines are generally very open for foreign advice and consultancy. During the previous administrations, the presidents listened particularly to advisers from the United States. This seems to have changed under the Duterte administration which places more emphasis on advice from China and Russia.



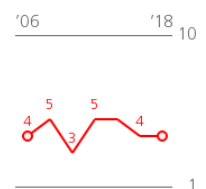
15 | Resource Efficiency

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

Efficient use of assets

4

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



A huge waste of public money is the pork barrel system, a lump-sum discretionary fund granted to each member of Congress to be spent in the respective constituencies. Many Congressmen are active in diverting this public money into their own pockets. Despite being officially abolished by a Supreme Court decision in 2014, there are many indications that this practice continued in the final years of the Aquino administration and in the first year of the Duterte administration. In 2016, members of Congress continued to submit a “list of projects” to the administration that would be funded under the national budget of the Duterte administration.

In the last 10 years, the Philippines did quite well in terms of fiscal policies. According to international and national experts, such as the Asian Development Bank and the World Bank, the administrations maintained fiscal discipline and reasonable state expenditures.

Both ex-President Aquino as well as President Duterte managed to establish a relatively stable political coalition in both houses of Congress. Unlike under the GMA administration (2001-2010), gridlock between the executive and the legislative branch of government is nowadays rather an exception than the rule. There are no major frictions and contradictions between the various state departments.

Policy coordination

7

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

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

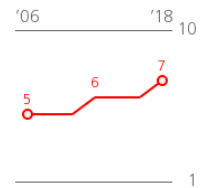
Ex-President Aquino (2010-2016) kept his election promise to be an example of integrity. However, some members of his cabinet as well as some members of his coalition in Congress or at the local level were involved in corruption practices. President Duterte also took a hard position in the fight against corruption. In December 2016, he even threatened to throw corrupt government officials personally from a flying helicopter, as he had “done before.” In July 2016, Duterte signed an executive order mandating full public disclosure of all offices under the executive branch. It must be seen critically, however, that he released ex-President Gloria Macapagal-Arroyo who has been detained for six years on charges of corruption, electoral fraud and plunder.

The Philippines have a special court, the Sandiganbayan, for graft and corrupt practices and committed by public officers and employees, including those in government-owned or controlled corporations. The Commission on Audit has the right to conduct audits of all financial reports of the government including income, expenditure and uses of the governmental resources. In fiscal transparency evaluation of the International Monetary Fund (IMF), the Philippines received “a relatively favorable assessment.”

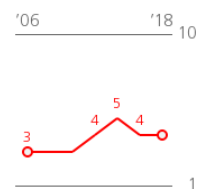
In recent years, the tax authority BIR (Bureau of Internal Revenue) has pursued many more cases of tax evasion than in previous times. A website, phone hotline and a Facebook page invite all Filipinos to report on tax cheaters, smugglers and officials guilty of graft or having a suspiciously lavish lifestyle. However, the rate of corruption is still high, particularly in the bureaucracy and the police.

16 | Consensus-Building

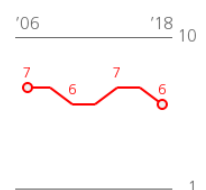
Electoral democracy and market economy are strongly supported by an overwhelming majority of the Filipino political and economic elite, but also by the general public. However, the high numbers of popular and elite support for a leader like President Duterte, who openly disregards basic concepts of human rights and civil liberties, reveals that the widespread support for democracy does not include all ingredients of a full-fledged democracy.



Anti-corruption policy
4



Consensus on goals
6



This also refers to the political clans and their oligarchic and neo-feudal leadership. It is the task of reform-minded political actors to convince these important parts of the old elite to adopt liberal democratic values instead of paying lip-service to electoral democracy.

Democracy as a general 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. President Duterte has made serious efforts to include both of them in the mainstream political decision-making process.

Market economy is generally accepted by a large majority of the Filipinos. Not least due to the strong American cultural influence key principles of market economy such as competition and private enterprise are deeply engrained in the minds of the elites and the ordinary Filipino.

However, free market economy is heavily criticized by a large spectrum of the political left, ranging from moderate critics of neo-liberalism to radical communists. These groups would prefer a more state-oriented economic system. Despite some leftist cabinet members, the current administration of President Duterte is a strong supporter of a market economy.

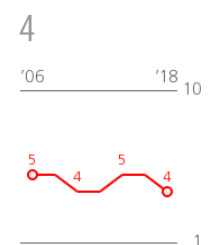
As explained in criterion 16.1, old-established family clans, who care more for their economic and political power than for a liberal democracy, are a danger to deeper democratization in the Philippines. They are mostly co-opted within the democratic structures, but show resistance against any substantial reforms that would endanger their positions and privileges.

The radical left was offered cabinet positions by current president Duterte, and members are thus better included in democratic institutions than previously, when only some representatives via the party list groups entered the House of Representatives.

The Armed Forces of the Philippines (AFP) is a potential veto player, of which some factions initiated several attempted coup d'états since the start of the democratization process in 1986. The administration of President GMA relied heavily on their support due to its low public legitimacy. The Aquino administration (2010-2016) tried to bring the military more under civilian control. Among others, Aquino signed the AFP Modernization Act (RA 10349) and expressed his hope that the AFP shifts its focus from internal to external defense capability. In order to get support, President Duterte has visited major army commanders in the country after assuming office and raised the military's budget.

President Duterte himself can be regarded as an anti-democratic actor since he has authoritarian tendencies as documented in his low regard for human rights and civil liberties. Additionally, he threatened on various occasions to declare martial law

Anti-democratic actors



and/or abolish democratic institutions such as Congress or the Supreme Court if they oppose his policies.

The most important internal conflict in the Philippines is in the Muslim areas of Mindanao (Bangsamoro). In March 2014, the Aquino administration reached a Comprehensive Agreement on Bangsamoro with representatives of the MILF (Moro Islamic Liberation Front). However, the implementation of the Bangsamoro Basic Law was stopped by Congress after 44 Philippine soldiers were killed in the so-called Mamasapano clash in January 2015. The Duterte administration did not continue with the implementation of the Bangsamoro Basic Law, but started a new round of negotiations with the MILF in the Bangsamoro Transition Commission (BTC), which is tasked with drafting an enabling law that will establish and operationalize the envisioned Bangsamoro political entity.

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

So far, the Duterte administration relies on the traditional liberal economic programs (trickle-down effect) of his predecessors and has no focus on addressing poverty in the country and narrowing the socioeconomic cleavage. Altogether, the cleavage-based conflict potential has not changed in recent years.

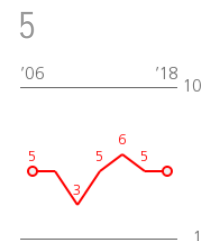
During the Aquino administration (2010-2016), civil society organizations played a more participatory role in political decision-making than under previous administrations. Many of Aquino's advisers and secretaries had an NGO background. This has not changed dramatically when Rodrigo Duterte took over the presidency in May 2016. However, leftist and liberal civil society organizations that promote human rights and civil liberties were sidelined or even put under pressure.

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

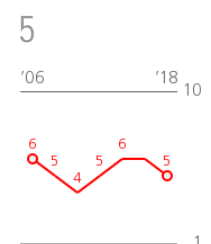
More than 25 years after the end of the authoritarian and military-backed dictatorship of Ferdinand Marcos, the Aquino administration gave financial compensations to the victims when Congress passed a law in February 2013.

In stark contrast, President Duterte allowed the burial of the late dictator Ferdinand Marcos at the Libingan ng mga Bayani (Cemetery of Heroes) shortly after taking power. Anti-Marcos advocates were adamant against "revisionist" claims of Marcos

Cleavage /
conflict
management



Civil society
participation



Reconciliation

6

heroism and staged mass protests of the burial and the government's complicity in it. The burial did thus not contribute to reconciliation between the two different camps.

Another important reconciliation process concerns that between the national government and the Muslim minority (Bangsamoro) in Mindanao. A major step was the signing of a comprehensive peace agreement between the central government and the MILF (Moro Islamic Liberation Front), in March 2014. 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." Since the negotiations of the Bangsamoro Basic Law are still ongoing and violent actors are still active in Bangsamoro, it is too premature to speak of a successful reconciliation.

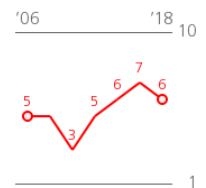
17 | International Cooperation

The Philippine governments have repeatedly underlined their willingness to learn and to profit from international loans, grants and know-how in order to improve its internal weaknesses in terms of governance and economic development. In February 2017, the National Economic and Development Authority (NEDA) officially approved the Philippine Development Plan 2017-2022 targeting socioeconomic improvement of the living conditions for all Filipinos.

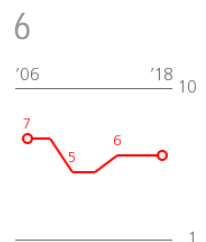
According to data provided OECD, the total ODA (official development assistance) of the Philippines amounted to \$3.568 billion in 2015. The most important donor countries were Japan (\$507.6 million), USA (\$279.6 million) and Australia (\$11.3 million). Infrastructure reforms and programs on poverty reduction were mainly sponsored by multilateral organizations such as the United Nations Development Program (UNDP), the Asian Development Bank (ADB) and the World Bank. Additionally, humanitarian aid is granted by various donors in cases such as the typhoon Haiyan/Yolanda in November 2013.

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

President Duterte's general foreign policy turnaround can also be seen in terms of international development cooperation. He publicly stated that he would rather see the United States and the European Union bring their assistance elsewhere instead of intervening with the Philippine government's war on drugs. In January 2017, China



Effective use of support



declared that it would sponsor 30 poverty-reduction projects in the Philippines with a value of around \$3.7 billion, more than the ODA of all other countries together.

The Philippines is a generally reliable and well-reputed member of the international community. Traditionally, the country was a close ally of the United States and was declared a major non-NATO ally by the Bush administration in 2003 underlining the strategic working relationships with the US Armed Forces. In April 2014, both countries signed a so-called Enhanced Defense Cooperation Agreement (EDCA) allowing the United States to station troops and conduct operations on Philippine territory – but not to establish permanent bases in the country.

Traditional cooperation with the United States and its East Asian allies Japan and South Korea was challenged by President Rodrigo Duterte. Confronting the US administration, Duterte announced that he would forge “new alliances” with China and Russia. Surveys have shown, however, that China and also Russia (in stark contrast to the U.S.) are not very popular among the Filipino population. Additionally, China’s claims on maritime territory of the Philippines are perceived as a threat by most observers. Duterte’s turnaround in the country’s foreign policy has led to a loss of credibility with many Western and East Asian countries.

In the international context, the Philippines have traditionally very good relationships with the other Southeast Asian countries and the multilateral organizations, such as the World Bank, the International Monetary Fund and the Asian Development Bank. The harsh criticism of President Duterte aimed at the United Nations and his threat to leave them, has, however, led to some raised eyebrows in the international organizations.

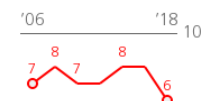
Additionally, Duterte’s “war on drugs” and the resulting deterioration of the human rights situation in the Philippines has diminished international trust in the current government, particularly among Western democracies.

As an island state with no land borders to any direct neighbor, the Philippines has good diplomatic relations with all Southeast Asian countries. As one of the few democracies, the Philippines traditionally plays a leading role within the ASEAN community in promoting democracy and open markets. In 2017, the Philippines took over the ASEAN chairmanship.

In the last years, a major issue of regional cooperation was the conflict with China on various land and water territories in the South China Sea (or West Philippine Sea in Filipino parlance). Both claim the Scarborough Shoal as well as other maritime territories such as the Malampaya and Camago gas fields to be part of their national territory. In July 2016, the International Court of Justice in Den Haag declared the Chinese territorial demands for territories as not justified. Despite Chinese ignorance of this verdict and an ongoing establishment of military structures on artificial islands close to the Philippine territory, the Duterte administration completely turned around

Credibility

6



1

Regional cooperation

7



1

the foreign policy of the previous administration. The Duterte administration now wants to have friendly relations, even military cooperation, with Beijing and intends to solve the conflict in a bilateral way.

In various public statements, President Duterte has made clear that he does not believe in international organizations and their rules. Analogous to the new U.S. President Trump, he prefers bilateral agreements and ad-hoc deal-making with other states.

Strategic Outlook

The policies of Rodrigo Duterte, elected as president of the Philippines in May 2016, led to a decline of the quality of democracy in the Philippines. The use of extrajudicial killings in his war against criminality and drugs led to many human rights abuses and a deterioration of civil liberties. For a return to a more democratic order, it is indispensable that the rule of law is strengthened and the de facto immunity for police and other security forces involved in illegal killings must stop.

The Philippine government should also respect the opinion of his critics and stop insulting and threatening them. President Duterte has already promised to reduce cursing, but a more respectful style of dealing with political opponents could improve the political culture in the country and prevent politically motivated violence. This could also improve relations with other countries and international institutions which felt insulted by Duterte's statements.

More important, however, is to keep up the division of power between the different branches of government, which are a decisive element of liberal democracy. Extra powers for the president and a reduction of powers (or even abolishment) of the Congress and the Supreme Court could lead to a dictatorship and return to an authoritarian order. The announced constitutional amendments to overhaul the 1987 constitution are justified, but it would be good for democracy in the Philippines if the political rights and civil liberties continue to be a major part of the new constitution. The introduction of a parliamentary system of government would have advantages and disadvantages, but it will not completely solve many of the political problems of the Philippines as long as the underlying structural problems are not tackled.

The main structural problem of Philippine politics is the dominance of entrenched family clans in politics and the economy. Their influence must be reduced in order to make politics and economics more transparent and competitive. The anti-dynasty law, which has been debated in Congress since 1987 must eventually be passed.

The major economic challenges for the Philippines are the sustaining of the current positive economic growth trajectory and the reduction of poverty and inequality. The Duterte 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 immigrate to higher-income countries.

In addition, the government should put more emphasis on improving outdated infrastructure. Some massive programs were already started by the Aquino administration, but administrative mismanagement led to huge delays in the implementation process. In this regard, administrative capacities must be strengthened, particularly out of Luzon. Here, the further promotion of the decentralization process and local autonomy, possibly through the introduction of a federal system of government, seem to be the most viable solution.

In terms of poverty reduction, the government should transform the current economic growth into a more inclusive growth which contributes to an improvement of the living conditions of the millions of poor Filipinos. Government expenses for health, but particularly for education are still far below the East Asian average. With a better educated population, the competitive chances for the Philippines would rise.

Internal and external stability are the basic preconditions for the deepening of democracy and the continuation of economic growth. Therefore, the Philippine government should carefully implement the peace agreement with the MILF in Muslim Mindanao and prevent radical forces from undermining peace in the troubled region. In international affairs, the Philippines should carefully consider whether its confrontation with long-term partner the United States and a new alignment with the People's Republic of China and Russia are really beneficial for the stability and security of the country.